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UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

CURRENT DEVELOPMENTS IN U.S. FOREIGN TRADE IN FARM PRODUCTS

Talk by Raymond A. Ioanes
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What we said here last year is even more true today -- "These are exciting times in the foreign trade field."

Since we met a year ago, we have seen at least 10 big headlines take shape in agricultural foreign trade:

The biggest event of all was our dramatic expansion to a new plateau of $6 billion annual agricultural exports. We achieved this four years ahead of our projections that had been set up a few years ago.

A series of headlines came out of the preparations, frustrations, and eventual postponement in the agricultural sector of the GATT negotiations.

Since we met a year ago we've seen an unexpected world shortage of red meat develop and now we're importing less and even exporting some beef.

Also, we've seen the world dairy surplus shrink sharply, and I think we're still asking ourselves what became of it.

We've had some classic examples of what world weather can do to trade. Last year we picked up additional export sales because of bad harvests abroad; this year the world's weather generally has been good and we're not getting this extra demand.

We're finding the bars coming down on agricultural trade with the communist countries -- not so much as far as the United States is concerned but for a number of other Western countries.

During the year we turned the spotlight more than ever before on the need for international agreement on food laws that aid rather than impede world trade in food products.

The Congress authorized continuation of the Public Law 480 (Food for Peace) program for two more years and placed new emphasis on greater returns to the United States.

A new trade policy Bloc emerged during the year, made up of the less developed nations who are getting organized and are seeking more favorable terms of trade with the developed nations.

And, finally, we are finding that our own export expansion programs overseas are running head-on into similar promotion efforts by our competitors, sometimes even more intensified than our own.

We can't examine all 10 of these headline developments at this time but I think four of them are particularly significant and should be explored: The Kennedy Round of GATT negotiations, world beef trade, East-West trade, and our new high-level export plateau.

GATT negotiations. Today, November 16, major participants in the Kennedy Round were to have deposited their exceptions lists, on both agricultural and industrial products, and with these on the table the scope of the negotiations would have been clearly defined.

But the EEC served notice that it was not ready to participate in agricultural negotiations, due to internal disagreement over grain price levels. The agricultural exceptions lists are not being deposited today and the agricultural part of the negotiations has been postponed, we hope for no more than a few weeks.

The question as I see it is not whether there will be negotiations that include agriculture but when. There has been no change in basic U.S. policy regarding these negotiations. This policy which was stated last spring by President Johnson still stands:

> "I look forward with a certain amount of prudent optimism to the round of negotiations which the 1962 (Trade Expansion) Act, by our Congress, has made possible. Of course, we will need to be patient and persistent. We will need at all times, of course, to be firm. We are willing to offer our free world friends access to American markets, but we expect and we must have access to their markets also. That applies to our agricultural as well as our industrial exports.
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> "The United States will enter into no ultimate agreement unless progress is registered toward trade liberalization on the products of our farms as well as our factories."

The immediate reason for delay in the agricultural sector of negotiations is the Common Market's insistence that it must achieve internal agreement on grain prices before it can negotiate successfully. We do not agree that this is necessary but the EEC has stood firm.

The French are trying to get agreement on grain prices within EEC by December 15, and their main dispute is with West Germany over price levels -- the Germans wanting higher prices, the French wanting lower prices, but both wanting prices high enough that unquestionably total EEC grain production would be stimulated and imports from outside suppliers such as the U. S. would shrink in the years ahead.

In view of the outlook for declining grain sales to the Common Market under its variable levy system, we have sought to work out with the EEC a market sharing formula. A useful precedent for this is our grains agreement with the United Kingdom, concluded last April. The U.K. has adopted new policies on imports of grains, which could be restrictive, but in so doing also has recognized the access rights of its traditional suppliers, including the United States. The access assurances given by the British include a commitment by the Government to take corrective action if total grain imports show an appreciable decline below the average of the three years ending July 1, this year.

We would all be happier if the GATT negotiations were going forward today as scheduled, without this postponement in agriculture. It is a complex problem in which grain prices are only part of the issue. The basic purpose of the Kennedy Round is to remove trade impediments and encourage the flow of trade. We and a number of our trading partners seek agreement on rules which would permit negotiation of access for variable levy items and reductions in fixed tariffs, both. The Common Market proposes a system for negotiation which would measure existing levels of protection and would undertake to freeze these levels, a philosophy which is contrary to the basic purpose of the negotiations since it contains no element of liberalization.

In our own approach to the GATT negotiations, we are well reinforced by the evidence that a liberal trade policy has consistently helped American farmers to capitalize on their export market potential. Since the Reciprocal Trade Agreements Act of 1934 was put on the books, there has been a marked increase in our agricultural exports for dollars as compared with imports of competitive agricultural products. During the first five years after the Act was passed, our agricultural dollar exports exceeded competitive imports by one-fifth. During the last 5 years of the 1950's, dollar exports exceeded competitive imports by one-half. During these most recent five years, our dollar agricultural exports exceeded competitive imports by three-fourths. The average favorable balance grew from $132 million a year in 1935-39, to $784 million a year in 1955-59, to $1,568 million a year in 1960-64.

The basic trade issue today, as it has been all along, is liberalism versus protectionism. This basic trade issue is further complicated by other ramifications of a military and foreign affairs nature, including NATO and MLF. The weeks immediately ahead will be critical ones in our Atlantic relationships.

World beef trade. Beef consumption goes up with rising standards of living, and for the world as a whole there is a steady uptrend in beef production and consumption. During the last 10 years, world beef output in 44 major producing countries has increased 40 percent and beef trade has increased 60 percent.

Since a year ago, however, we have seen an abrupt change -- a temporary change -- in the direction of world beef trade. As dramatic evidence of this, cattle boats are running again from the United States for the first time in about 50 years and so far this year they have carried about 5500 head of live feeder cattle to Italy. Veal is in such demand in Italy that in recent weeks over 6500 head of our veal calves have been flown there by air transport to supply this new market.

Although world demand for beef is up, particularly in Europe and Japan, production outside the United States has temporarily declined. Europe is rebuilding herds to make up for the heavy slaughter that followed the severe 1962-63 winter, and Argentina is rebuilding herds to make up for the slaughter that followed its 1962-63 drought.

Our own beef trade is benefiting from the current world beef shortage. Our imports of beef, which were unduly large in 1963, are expected to be down about 25 percent for 1964. Our exports of cattle and beef, though not large in terms of our total supply, are expected to increase about threefold.

The beef shortage is particularly acute in Western Europe. Like rising costs of other foods, high prices of beef are contributing to inflationary pressures -- and causing considerable worry to consumers and governments. In January of this year, food costs in the U.S. were only 6 percent above the 1958 level, but in France they were up 26 percent, Italy 21 percent, the Netherlands 19 percent, and West Germany 14 percent. Currently the French housewife is paying $1.50 a pound for strip loin, $1.40 for round steak, and 94 cents for hamburger.

With market trends like this, we are doing our best to move in with supplies to help meet the demand. In the large SIAL food exhibition that closes today in Paris, we have had a 9-day promotion of American beef directed both at consumers and the meat trade. French meat officials and buyers have been in the U.S. looking at our supplies. There is good prospect of exporting beef to France in some volume. Such exports are made possible by the fact that the French, in order to make up for short domestic production, had lowered their duty on beef to 6 percent in June and now have it at 12 percent, in place of the 20 percent that might be expected under their variable levy system.

France's imports of fresh and frozen beef from the U.S., I might add, will be in addition to its steady demand for such variety meats as beef livers and tongues which during January-September had reached a value of $8.7 million.

We are glad to sell France or any other country increased amounts of our beef. We are glad to see them reduce their duties, even though temporarily, to make such sales possible. But isn't there also a moral here? Aren't we seeing now that countries that are in and out of world beef trade -- lowering their duties when supplies are short, raising their duties when supplies are long -- are contributing to world beef trade problems rather than providing solutions?

I think it is fair also to ask the question: Was it our low duties that attracted so much beef into the United States last year, or was it the high duties and other barriers of so many other countries which deflected beef to us because it couldn't get into their markets?

If we could get uniformly reasonable and stable duties on beef in major markets of the world, I think we would have no problems with our own low duties. But none of us expects to get such action through normal developments and that is why, through the GATT, we are pressing strongly for a beef agreement that will help establish orderly flows of beef in world trade. The Congress enacted new legislation during this past session aimed at preventing any abnormally large influx of foreign beef in the future, and we look on this as helpful stand-by authority for use if needed as we try to get greater international understanding and agreement.

East-West trade. One of the important trade developments has been the large-scale buying of wheat by communist countries from the capitalist countries, particularly the purchases last year by the Soviet Union and since 1960 by Communist China. The United States has participated in this development -- mainly the 65 million bushels of wheat that our grain trade sold this past fiscal year to the Soviet Union.

But the very fact that Canada and Australia, particularly, and to a lesser extent, France and Argentina, have been selling to the Soviet Union and Communist China has drained large amounts of wheat from regular market competition. This would be more of a plus for our own marketing position except that this communist demand has also stimulated expanded wheat production among our wheat competitors.

The Soviet Union has a good crop and is not buying much wheat this year, although Communist China is. It is not safe to count on Russia as a wheat importer except in years of exceptionally bad crops. The Soviet Union has the largest wheat acreage in the world -- over 160 million acres -- and even though yields are low, especially on the marginal new lands, reasonably good weather produces a lot of wheat. The Soviet Government is trying to expand agricultural production by substantially more manufacture and use of chemical fertilizers and through better farming practices. Also, as diets slowly improve in Russia, heavy breadgrain consumption is likely to decrease -- which means wheat produced will go further in satisfying consumer demand (although this trend also will increase demand for feed grains for livestock). Despite restraints of climate and the collectivized system with its management problems and insufficient incentives, an increase in wheat production in the Soviet Union is likely over the next few years. Not all this wheat will necessarily show up in the market. Soviet officials would like to build up a large stockpile of wheat as a cushion against future bad crops and thereby reduce need for large imports in bad years.

Khrushchev once said he had in mind stocks amounting to half a year's or even a full year's requirements.

From 1958 to 1962 the Soviet Union was an exporter of wheat, from 4 to 6 million metric tons a year mainly to other communist countries. No doubt she would like to get back into this position. If Eastern European countries become more oriented toward the West, this would be a factor against such trade -- but this sort of development is highly uncertain. The principle of bilateralism on which the trade between communist countries is based and the inconvertibility of their currencies favor trade between the communist countries.

As part of our changing times it is interesting to note how Eastern Europe has moved from a grain exporter before the war to a grain importer. The area continues to export livestock products and, if satisfactory trading arrangements are developed, there may be an opportunity for a small increase in our grain exports.

Communist China continues to be a major factor in the world grain market. Since 1960 it has bought over 22 million metric tons of grain at an estimated cost of more than $1.5 billion. Purchases for delivery this year are the biggest to date and probably will total about 7 million tons. Canada and Argentina have some forward delivery commitments for 1965 and 1966. We expect France and Australia will make some forward commitments, too. We think purchases at this level will need to continue unless the Chinese downgrade their already low diets.

Communist China's official line is that they plan to continue importing cheaper grains, such as wheat and feed grains, and export the higher priced rice and soybeans. It is true that we have seen a return to fairly substantial exports of soybeans but so far there is not much evidence of rice coming out in any quantity.

<u>The export outlook.</u> In Outlook Conference tradition, I'd like to conclude with some thought about where we are in agricultural exports and where we seem to be going.

We have a number of export expansion activities underway that we did not have 10 years ago. These are having a favorable impact and they will continue to do so. For example, we have our cooperative market development program in which the Department of Agriculture and 47 U. S. agricultural and trade groups have pooled money and talent to carry out export sales efforts in 67 different countries. The sale of every major American agricultural product is actively being promoted abroad.

We have asked ourselves how far we can justifiably go in such promotion -- and have concluded there is no statistical answer to this, for it is a matter of judgment. We find some of our foreign competitors are spending much more on export promotion, in comparison to the size of their exports, than we are. In fiscal year 1963 the U. S. spent about $15.8 million promoting sales of agricultural products abroad. In relation to the size of exports, Israel and Denmark spent at a rate 5 times greater than ours, and the rate of activity of New Zealand and Australia also was ahead of ours.

The International Wool Secretariat has embarked on a greatly expanded program to promote the use of wool by consumers everywhere, and the wool-growers of Australia, New Zealand, and South Africa are providing an annual promotion budget of over $36 million -- which is further augmented by contributions from a number of other countries, including 12 in Europe. By comparison what we are doing to promote sales of cotton -- $2.3 million last fiscal year -- is small indeed.

This is not by way of apologizing for our agricultural export accomplishments however, for the $6.1 billion record attained last year put us up to a new level never attained before. We're equally proud of the fact that the $1 billion increase in exports over the previous year was practically all in increased sales for dollars.

During the current fiscal year 1965, we look for a slight drop in the export total -- perhaps down to $5.9 billion. Most of last year's record was solid enterprise and will be maintained. The drop will reflect the fact that Western and Eastern Europe have good crops and are not expected to turn to us for extra supplies, as they did last year. I look on this drop as only temporary.

Our agricultural exports seem to go in a series of plateaus. I recall a few years ago when we got onto a $3 billion export plateau for a few years -- then went up to a $4 billion plateau -- then up to a $5 billion plateau. Now I think we're more or less on a new $6 billion plateau and will be there for the next several years.

By 1970, I fully expect we will move on to a new $7 billion export plateau. We have the supplies and the export market will be needing them. Some years ago an export figure of $7 billion for one year would have sounded fantastic -- but all we have to do is look back over the trend of this recent period and it begins to look like a very reasonable goal.

I have been speaking specifically of exports. Since foreign trade is a two-way street, I also should comment on imports.

In contrast to our agricultural exports, which have been rising dramatically, our agricultural imports are remaining rather constant. Last year's exports of farm products for dollars came to $4.5 billion. This was more than twice the size of our competitive imports. Therefore it is fair to say that in our commercial agricultural trade we had a favorable ratio of 2 to 1 -- which, as Secretary Freeman recently said in the context of liberal trade policy, is something like having your cake and eating it too.