THE OUTLOOK FOR U.S. AGRICULTURAL TRADE

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In any discussion of the outlook for U.S. trade, you have to start with the current setting, which is one of tremendous surpluses, weak demand and, therefore, low farm prices.

We are looking at a likely carryover of more than 147 million tons of grain at the end of this marketing year. That's more than double what it was 2 years ago.

Meanwhile, we are experiencing weak demand from our overseas customers. U.S. agricultural exports in the fiscal year just ended were valued at $39.1 billion, down 11 percent from the record of $43.8 billion in fiscal 1981.

Lower prices for major commodities accounted for most of the total value decline; a depressed global economy, increased grain supplies in the United States as well as in some major importing countries, an appreciated U.S. dollar and foreign exchange constraints limited exports, especially for corn.

In addition, U.S. farm income is down despite huge outlays for domestic farm programs.

Many of the problems that plagued us in fiscal 1982 unfortunately will not go away in fiscal 1983. Lagging economic activity in many countries and only slight expansion in livestock feed requirements continue to weaken global use of agricultural products. Financial constraints facing several importers will continue to be a problem. The dollar continues to be strong, limiting potential expansion in foreign use of U.S. agricultural products despite lower U.S. prices.

Farm exports most likely will not be up in fiscal 1983. They could dip to $37.5 billion.

Weak demand for crops and large supplies point to a significant 1982/83 buildup in world grain, soybean and cotton stocks. Most of this will be in the United States.

Some of the problems we are facing are of our own making. Others are the result of the actions of our competitors.

One of our greatest problems right now is that we have more product around than we can use. The farmer-held grain reserve is bulging. We grew roughly one-third of the world's feed grains this year but we will probably hold close to three-fourths of the world's carryover at the end of the 1982/83 crop year. The buildup in supplies extends to almost every commodity category.

While our supplies are building up at an alarming pace, recession has hit many of our customers. Several countries have slipped into severe financial distress--Poland, Mexico, Romania, Brazil, Peru, Bolivia and other nations. These developments weaken the demand for U.S. farm products as these and other countries are less able to come up with the funds to import agricultural products.

The dollar has appreciated to record levels against certain major convertible currencies, such as the French franc, the Italian lire, and the British pound. This is a sign of increased confidence overseas in the U.S. economy. However, it also means that foreign importers must pay much more in terms of their currencies to purchase a given volume of U.S. farm products. Even though the dollar price of U.S. wheat declined, its price to many foreign buyers in their currencies increased by 35 percent over the past 2 years.

The worldwide tendency toward restrictive trade policies continues to affect us. Two particular problems are Japan and the European Community. Japan is the largest single-country market for U.S. agricultural products, taking about $5.7 billion worth in fiscal 1982. Japan may be a good customer of ours, but it does severely restrict our exports of beef, citrus, and many other products--mostly of the high-value type.

We met with Japan in Honolulu October 20 to initiate discussions that we had hoped would lead to full liberalization of the Japanese market for U.S. beef and citrus. However, the United States broke off talks when it became apparent that Japan was not prepared to offer anything on beef and citrus, products of great potential if we could get free access to the market. We will resume negotiations when there is a better chance of success.

In the meantime, we continue to stress to Japanese officials that agricultural trade liberalization will not damage Japan's agricultural sector, rather that it will make it more efficient and viable in the long run. And we will continue to try to convince policymakers and planners there that agricultural imports must be broadened and that, as a result, farmers both in Japan and in the United States will benefit.

If Japan wants continued free access to U.S. industrial markets, it will need its friends here in U.S. agriculture. It is only fair for them to grant access to products that we produce efficiently.

The EC, on the other hand, started building a trade wall around its member countries 20 years ago. The EC went from being a net importer of grain in the 1960s to a net grain exporter in 1980. The method they have chosen to deal with surplus is to subsidize their excess production. They are subsidizing excess production into exports that compete with American farmers. Our farmers, unfortunately, have been forced to compete against the treasuries of European capitals.

During 1976-80, EC dairy exports tripled; sugar and wheat exports doubled; meat exports increased until the point where the EC is now the second largest beef exporter in the world; and the EC went from the world's largest poultry importer a few years ago to become the world's largest poultry exporter, with 35 percent of the world market, built on export subsidies.

The question is what are we going to do about it?

The U.S. position has been that we are willing and eager to negotiate on these issues--to play by the international trading rules of the General Agreement on Tariffs and Trade (GATT). But at the same time, the United States is not prepared to lets its agricultural trade go by default; if negotiation fails, we will defend our trading rights by whatever means are necessary. The EC must recognize that export subsidies are wrong and take steps to eliminate them. Failure to do this will eventually lead to severe trade problems in the near future.

The message was repeated last week at the GATT Ministerial meeting in Geneva. We intend to stand up for U.S. agricultural interests and do whatever is required to bring about a more responsible attitude on trade from our trading partners.

As Secretary Block told a meeting of the U.S. Agricultural Export Development Council two weeks ago: "They have to be realistic and realize that we do have ammunition on our side if we need to use it. We are not without firepower. We can fire if we have to."

The blended credit program, in which direct interest-free export credit and credit guarantees are used to produce lower interest rates for exports, might be termed a shot across the bow of those who are plunging toward greater protectionism and increased subsidization.

The positive response of importing countries to this program has got the attention of the Community and others, and we are studying options for further use of the limited funds available to help restore the concept of equity in agricultural trade.

It is apparent in dealing with this and other problems facing U.S. agriculture--whether they be domestic or international--that we may have to consider some dramatic and drastic measures that are radical departures from the past. And there are some fundamentals we should keep in mind when making trade policy decisions. These include:

--Government warehouses are not a market for farm commodities;

--Strict acreage and marketing controls should not become franchises for other nations to produce;

--A government that interferes with a free and competitive market interferes with long-term adjustments and hurts the industry and international trade;

--Farm programs that attempt to make farming profitable for everyone create overproduction, which eventually makes farming unprofitable for everyone;

--A guaranteed price that removes risk creates more production than the same price level arrived at on the open market--and encourages excess production. The dairy surplus was caused by support levels that sent signals to dairymen to produce more than the commercial market would take;

--U.S. government support programs cannot ignore international commodity markets for very long or else they may place an umbrella over foreign competition and encourage foreign production, especially when the U.S. dollar is strong;

--The government cannot continue to cut crop production to boost international prices or else it will end up supplying the acreage reduction for the world while others increase their acreage.

What are our alternatives?

We could maintain the status quo and watch our competitors edge us out of even more markets. This is not acceptable. Our farmers depend on exports and it is our job to make sure those markets are there for them.

We could join our competitors in their subsidies and other restrictive trade practices. But we do not believe in such distortions in the marketplace. They only end up making exporting more expensive and no one benefits. But we may be forced to turn to short-term subsidies for our own agricultural products or to take other actions if European, South American, and other nations do not heed our warning.

Or we could work to make our competitors more price responsible. To us, that is by far the best long-term solution. But it will take time, creativity and initiative. Farm policies do not change overnight.

In the meanwhile, we do not intend to just stand back and let our markets erode away. There are some measures we can use.

Market development

I mentioned blended credit, the 3-year, $1.5 billion "blended credit" program announced by Secretary Block on October 20 to expand exports of U.S. agricultural products. These new export credits, being offered principally to developing countries, are directed toward long-term market growth as well as immediate export gains. As of last week, blended credit totaling $440 million had been approved for seven countries, to be used to import more than 2 million tons of U.S. wheat and respectable quantities of U.S. corn, vegetable oil, soybean meal and cotton.

We allocated $100 million of the $175 million-$190 million provided for agricultural export expansion in the Omnibus Budget Reconciliation Act for the first year of blended credit, and that is almost gone.

We are studying ways to use the remainder of the Omnibus funds, with the view to getting the most in export growth from each dollar spent.

We recognize that the first step in restoring farm prosperity must be a sound domestic economy based on control of the federal budget. We do not believe the United States can spend its way to agricultural trade recovery, but we do believe we can make better and more effective use of the funds we have.

We have sent government-industry sales teams to 23 countries as one example. We have developed a pinpoint planning system for the use of market development funds as another. We will open a new U.S. Agricultural Trade Office in Saudi Arabia next year, bringing the number of those offices to 11. We have opened wheat, feed grain, and soybean market development cooperator offices in China.

And we are giving new emphasis to the export of high-value products, already worth $12-13 billion a year. Semi-processed products such as flour and meals figure importantly in the high-value group.

In the next 10 years, world trade in high-value products is projected to rise from the current $120 billion to between $310 billion and $440 billion. The size of this potential increase clearly indicates the opportunity for U.S. processed products that are competitively priced and meet the other requirements of the market.

And we can do more. We have a courageous and capable Secretary of Agriculture, who is undertaking a review of all our our export and domestic commodity programs in full consultation with the leaders of American agriculture, the Congress, and the rest of the Administration--including the White House. I expect some bold new initiatives to grow out of this exercise.

Let's turn now to the outlook for fiscal 1983.

Outlook for fiscal 1983

As I mentioned earlier, in spite of the best of our efforts, the value of U.S. agricultural exports in fiscal 1983 may dip 4 percent. This will occur despite an increase in agricultural export volume to 163 million tons, up 3 percent from 158.4 million in 1982. The likelihood of a continued strong U.S. dollar, a weak global economic recovery, and smaller Soviet grain imports are likely to restrain the volume and value of U.S. exports.

Despite an increase in corn export volume, smaller wheat shipments and lower corn and wheat prices in fiscal 1983 are forecast to result in a drop in total grain and feed export value of 5 percent to $16.7 billion.

Corn export volume is forecast to rise from 49.6 million tons to more than 54 million, because of a gain in shipments to Mexico, a somewhat larger share to some of our traditional markets, and increases in exports to other developing countries.

However, a large buildup in ending stocks is expected to result in a drop in corn prices, resulting in only a small increase in total value to $6.0 billion.

Wheat export volume is forecast to decline slightly from 45.5 million tons to about 44.5 million, primarily because of increased competition from Canadian, Argentine, and EC exports. With a sharp rise in U.S. ending stocks, prices are expected to decline, resulting in a drop in the total value of wheat and flour exports from $7.6 billion to $7.0 billion.

Rice shipments are forecast to drop from 2.9 to 2.7 million tons due to larger foreign rice production and ample stocks in consuming nations. Coupled with low prices, this will result in a decline in the total rice export value from $1.1 to $1.0 billion.

The total value of U.S. exports of oilseeds and products in fiscal 1983 is forecast at $9.0 billion, down 8 percent fom last year, reflecting lower prices for the whole oilseed complex. Soybean export volume is forecast roughly the same at about 25.5 million tons because of stronger competition from Brazilian exports. And lower prices are expected to result in an 11 percent decline in total U.S. export value to $5.8 billion.

Soybean meal export volume is forecast to rise 14 percent to 7.1 million tons, although lower prices are expected to produce little change in total export value. A favorable soybean meal/corn price ratio in the EC is expected to boost meal consumption and imports in this region. Soybean oil export volume is forecast to remain the same, with lower prices yielding a slight decline in total export value.

Cotton and linters export volume in fiscal 1983 is forecast to drop 15 percent to 1.3 million tons because of record 1982 Chinese cotton production, which will sharply reduce their imports. A weakness in cotton demand and imports in major markets will also limit export volume. Total export value is expected to fall from $2.2 to $1.9 billion.

Tobacco export volume in 1983 is forecast to show little change from last year's level of around 255,000 tons. Prices are expected to increase, however, yielding a total export value somewhat below $1.5 billion.

Livestock and product exports are forecast to rise 8 percent in total value to $3.4 billion because of larger shipments of beef and tallow. Higher prices for beef and pork exports are also forecast.

Poultry meat shipments in fiscal 1983 are forecast to decline to about 290,000 tons, hurt by subsidized EC and Brazilian exports, especially to the Middle East. Despite higher prices for most products in the poultry sector, poultry and poultry product shipments in fiscal 1983 are forecast to decline slightly from about $580 million last year.

Dairy exports are forecast to fall sharply to below $300 million because of much smaller butter shipments. This could change, however, if we begin exporting our surplus in response to EC intransigence on export subsidies. After all, if they won't admit that such subsidies are wrong, what basis do they have to complain if we do a little bit of it, too?

The value of sugar and tropical products exports is expected to fall slightly to below $800 million because of a $70-million drop in sugar exports. Exports of flavoring syrups and extracts, however, are expected to reach a record $260 million.

Finally, exports of horticultural products in fiscal 1983 may recover slightly to $2.9 billion. Larger shipments of fresh citrus and higher tree nut prices are expected to account for most of the increase.

U.S. agricultural exports in fiscal 1983 are likely to be restrained due to the three to four quarter lag effect that the appreciated U.S. dollar and slow global economic growth in 1982 will have on exports in 1983. Some of the key factors that will determine whether our outlook at this point will take shape include:

--The world's weather or a significant change in crop prospects next spring and early summer in the United States, major competitors or major importers.

--The value of the U.S. dollar; a further appreciated dollar would likely result in exports dropping even lower, while a decline in the dollar's strength could stimulate U.S. exports above forecasted levels.

--The strength of the U.S. and global economic recovery in 1983.

--The success of efforts to alleviate the debt problems of many developing and East European nations. U.S. exports to developing countries comprised 36 percent of total agricultural exports in fiscal 1982 and these countries will also be affected by foreign exchange constraints in 1983.

--The size of Soviet grain purchases.

--And a change in Soviet grain import policy.

Conclusion

Despite the problems, the overall market outlook for U.S. farmers appears to be improving.

The U.S. economy--farmers' No. 1 market--is turning now and gathering strength. It is headed in the right direction. As employment increases, so will demand for agricultural commodities.

Although the path to higher exports is strewn with obstacles, long-term export prospects are good. The potential market--the world's population--is growing steadily. Despite the current economic recession, economic development overseas is creating demand for more foods and better foods. U.S. farmers--clearly the most efficient producers in the world--are in the best position to supply this demand.

Looking down the road, I am confident that U.S. agricultural exports will start to climb again as the world economy improves. At a conference two weeks ago, the U.S. Agricultural Export Development Council adopted the goal of "75 by 85"--$75 billion in U.S. agricultural exports by 1985. I heartily endorse their enthusiasm and their commitment to work toward that goal. It is achievable. And this Department will do all it can to help.

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