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THE OUTLOOK FOR U.S. AGRICULTURAL TRADE

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In November, the U.S. Department of Agriculture released, as it does every month, its estimate of world crop production. It forecast:

--A record foreign wheat crop of 457.1 million metric tons.

--A record foreign coarse grain crop of 579.6 million metric tons.

--A record foreign oilseed crop of 136.5 million tons.

The November report, and its litany of records for foreign growers, produced no great reaction in the commodity markets. Most traders were already anticipating these bumper crops. But this steady climb in foreign production to new highs almost every year is of profound significance to the outlook for U.S. agricultural trade. It means a continuation of the supply/demand balances that have existed for the past five years. It means that again in 1986/87 our agricultural export trade is not going to be conducted in a world of scarcity, but in a world of surpluses. It means that we are going to continue to face competition for a dwindling number of markets. And it means, as we have said before, that the steep climb we saw in our exports during the 1970's is not likely to be repeated--at least in the foreseeable future.

The new realities of the world's agricultural situation mean we cannot base our forecasts of future export performance on the trend lines established in the past. Instead, we must go "back to basics" and examine the fundamentals of world agricultural supply and demand in order to get a feel for what we can realistically expect in the way of growth in our agricultural exports in 1986/87 as well as for the next few years.

The Supply Situation

As I mentioned earlier, good-to-excellent world output was recorded for most commodities in 1986, with new records chalked up for wheat and oilseeds. These bumper crops are following on the heels of a succession of record or near-record crops produced earlier during the 1980's--and they promise to augment an already serious surplus problem for many commodities.

It used to be that the United States was the only country with an agricultural surplus. Today 25 nations have surpluses. The United States is holding 200 million tons of grain and 15 million tons of soybeans. The European Community has 20 million tons of surplus cereals, 800,000 tons of meat, and over a million tons of butter. China is holding a huge cotton surplus. Taiwan is paying its farmers to feed its surplus rice to hogs. Even Finland and Saudi Arabia now have grain surpluses.

In all, world stocks of wheat now amount to almost 1-1/4 years worth of typical consumption. The world also is carrying stocks amounting to 1 year and 10 months' worth of coarse grain use and 8 months' of soybean consumption.

The Demand Outlook

World demand for agricultural products can be expected to make modest growth in the years ahead. We are still seeing increases of about 1.7 percent a year in the world's population--and world economic growth is projected to expand at perhaps 3 percent a year over the next five years. That's a little higher than the rate expected to be achieved during 1986, when growth in the world's economies were constrained by declines in raw commodity prices and the drop in the value of the dollar.

The most rapid economic growth--perhaps averaging more than 5 percent a year--is expected to occur in the newly industrialized countries of the Pacific Rim. Their export sectors are benefitting from their currencies' link to the U.S. dollar. With the dollar declining, they have gained an edge in the U.S. market over Japan, their chief competitor.

Korea, in particular, is enjoying a surge in its economy. Growth in its gross national product ranged between 13 and 14 percent, on an annualized basis, during the third quarter of this year. The strength of Korea's economy coupled with that country's trade surplus of over $5 billion with the United States offer good opportunities for U.S. exporters. However, to expand sales substantially will require effective market promotion activities and trade policy actions that improve access to this $3-billion agricultural market.

In the major industrial countries, economic growth is expected to be fairly sluggish, which will have negative impact on the expansion of world trade. In Japan, the rapid appreciation of the yen since September 1985 from just below 240 to 156 per dollar on average during October 1986 is dampening the business activity among Japan's small- and medium-size industries.

The 12 economies of the European Community are among those expected to show the slowest growth in the industrialized world in the coming year. Unemployment is expected to continue high--around 10 percent for the four major industrialized nations of Germany, France, the United Kingdom and Italy. However, unemployment in Spain, one of the newest members of the European Community, was expected to exceed 22 percent in 1986. In addition, a slack rate of growth in the demand for goods and services and the slow pickup in the pace of imports in response to the declining dollar are likely to restrain the region's demand for agricultural products, particularly livestock products and imported feed ingredients.

For developing countries, economic growth will continued to be restricted by large debt service obligations. Real interest rates remain historically high, but it is possible they may decline over the next several years. Such a decline will reduce some of the debt service payments on variable rate debt and thus tend to ease the debt payment pressure on the developing countries. In addition, as the recent International Monetary Fund agreement with Mexico demonstrates, new loans and credit are available to reduce debt burdens. If they can get such loans, it will help indebted countries to continue to import priority products while growing domestically and repaying their debts.

One special case in the developing world is Brazil. Recent monetary reform in that country has released a great deal of pentup demand for food products and other consumer items. As a result, that country is exporting somewhat fewer agricultural products and it has stepped up its imports of food items, particularly meats, as well as wheat and soybeans. This is very likely a short-term phenomenon, but it is one that will offer opportunities for U.S. exporters.

A general point to keep in mind about developing country markets is that many are being hurt by the price pressure exerted by the huge agricultural surpluses in the world today. Virtually all commodity prices are depressed--and many of these countries rely heavily on sales of agricultural commodities for their economic growth potential and to generate foreign currency for debt repayment.

The oil-exporting nations will have smaller revenues with which to finance imports in 1986/87, as a result of the continued weakness in world oil prices. The 50-percent decline in oil export prices since 1985 is expected to result in an immediate loss in real income for oil exporting countries equal to 6 or 7 percent of their gross domestic product.

The centrally planned economies of Eastern Europe and the Soviet Union are striving for growth rates of 4 percent annually in their net material products, according to their 1985-90 five-year plan. However, these goals are generally more amibitious than anything that can be realistically obtained. Growth rates so far in 1986 suggest the expansion rate in Eastern Europe will be about 2 percent, and only a slight improvement over that level is expected for 1987. In the Soviet Union, an expansion rate of 3 percent seems likely this year with the rate slowing to 2 percent next year.

In contrast to the growth sought in Eastern Europe and the Soviet Union, China is trying to slow its economy down after achieving growth rates of nearly 14 percent in 1984 and 12.5 percent in 1985. China's gross national product appears likely to expand by only 6 percent in 1986 and hold at about that level next year.

To sum up, there is nothing on the economic horizon that provides a basis for anything more than modest increases in world demand for agricultural products over the next year.

The U.S. Agricultural Export Outlook

While U.S. agricultural exports will have to take place in an atmosphere of intense competition in 1987, as we vie with other suppliers for the available markets, our export position is the best it has been for several years. Declines in the U.S. dollar have made U.S. products less expensive for foreign buyers. This is particularly beneficial to our specialty crops and products. In addition, the lower loan rates provided for by the Food Security Act of 1985--and consequent lower prices--mean we are capable of becoming a fully competitive player in world trade.

The high prices associated with U.S. commodities under the previous farm bill had put us in the position of being only a residual supplier in the world marketplace. Foreign buyers came to us only after they had bought all they could from competitors who could offer them lower prices. Now, at least, U.S. exporters have a chance to be more competitive on the basis of price.

In fact, since June of this year, when the new price levels set by the 1985 farm bill first went into effect, we have seen a steady increase in the volume of our agricultural exports. Since August, these exports have topped year-earlier levels. We are currently projecting further--albeit modest--increases in the volume of our sales during fiscal 1987. We foresee gains of 3 percent for soybeans, 4 percent for wheat, 11 percent for coarse grains, 18 percent for rice, and more than a tripling in sales of cotton. In all, we are projecting export volume for the year will reach 116.5 million metric tons. This will be a gain of 6 percent over last year's level--and a sign that the 1985 farm bill is working, that we are seeing a turnaround in our agricultural export situation.

However, as I mentioned earlier, there is nothing on the economic horizon to suggest anything more than a gradual increase in our export volume. On the supply side, the situation remains very competitive--and the world's largest grain importer, the Soviet Union--has harvested the biggest grain crop it has had in many years.

As for export values, the lower prices that are helping us to achieve larger sales in the world marketplace will restrain any increase in the dollar value of U.S. agricultural exports during fiscal 1987. In fact, at this point we are projecting an export value of about $26 billion, little changed from the 1986 level of $26.3 billion to perhaps $26.0 billion.

We will continue to run a surplus in our agricultural trade--however, it will be down from the levels of the early 1980's. Our current projection indicates the U.S. agricultural trade balance in fiscal 1987 will be about $6.0 billion, versus $5.4 billion in fiscal 1986.

The Years Ahead

U.S. agricultural export prospects for the rest of this decade will be greatly dependent on what is achieved during the Uruguay Round of Multilateral Trade Negotiations, which was launched under the auspices of the General Agreement on Tariffs and Trade last September.

Most of the world has yet to realize and adjust to the dramatic changes which have taken place in the world's supply situation. We still see many countries providing incentives to their farmers to step up their production of commodities when the world already has mountainous stocks of these items.

The notion that surpluses, rather than scarcity, are threatening the international order is simply too revolutionary for many countries to grasp. I suspect many of them would also like to cling to the simpler past, when their domestic agricultural policies did not always have to be weighed and measured in light of the international consequences.

The United States sees the Uruguay Round as the best hope of producing a global solution to the problems now besetting world agriculture, a solution that will benefit agricultural systems in all nations.

This Administration has three specific goals for the new round:

--To freeze the present level of direct and indirect subsidies that directly or indirectly impact on trade and eventually phase them out;

--To apply no new import barriers and to phase out existing barriers; and
--To harmonize food, plant and animal health regulations.

In addition, the United States wants improvement in general GATT dispute settlement procedures so that once trading nations have agreed on better rules, we can be assured these rules will be applied consistently and dependably. As it stands now, procedures are too easily blocked by the parties to a dispute when they believe the rules have been interpreted to their disadvantage.

Resolving the subsidy question is essential if the world is not to sink under the burden of massive oversupplies. The United States has no export future, nor do any of our competitors, if agricultural production continues to spiral upward unchecked by any market realities. World prices are already reeling as a result of export subsidy programs carried out by the European Community and the United States. In truth, our participation in the subsidy game has been forced on us by our competitors. We realize this is a game where, ultimately, the only real winners are the buyers, never the sellers. Thus, for the stability of the international trading order, the subsidy issue must be resolved.

Equally important to the future of U.S. agricultural export prospects is the reduction of import barriers. The increasing trend toward protectionism is a threat to all nations who rely heavily on trade, but it is particularly damaging to developing country economies.

The developing world accounts for three-fourths of the world's population, and as these countries grow economically, their people seek dietary improvements and a better standard of living. Thus, a key to resurgence of U.S. agricultural exports will be to foster policies--in the multialteral trade negotiations and also unilaterally--that will help less developed economies grow.

Admittedly, these nations will end up competing for some of the same markets supplied by U.S. producers. But as their economies improve, they will become bigger and more reliable customers for U.S. farm products--which is to our long term advantage.

Conclusion

To sum up the agricultural trade outlook, then:

o We anticipate some upturn in the volume of U.S. agricultural exports during fiscal 1987. Population increases and improvement in some sectors of the world economy--especially in the Pacific Rim--should bolster world demand. And because of the 1985 farm bill, U.S. exporters are now in a position where they can compete more successfully for world markets.

o Export values will remain near last year's level as lower prices for program commodities offset the larger sales volume.

o Imports are expected to show very little change from last year's level of $20.9 billion.

o We will continue to run a positive balance of about $6 billion in our agricultural trade.

o While we are unlikely to see a return to the steep growth rates of the 1970's, modest increases in agricultural exports are possible now that the United States is once again more price-competitive. However, much will depend on developments during the Uruguay Round of Multilateral Trade Negotiations--and whether we are successful in controlling the use of subsidies and checking the increase in protectionism around the world.

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