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FEED GRAIN OUTLOOK - FOREIGN PERSPECTIVE

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Mr. Chairman, ladies and gentlemen, I would like to thank the authorities of the United States Department of Agriculture for inviting me to address this distinguished audience today. I appreciate this opportunity to offer you the foreign perspective on feed grains.

I remember that Professor Don Paarlberg, on discussing the 1985 U.S. Farm Bill two years ago, noted that many people in the agricultural sector seem to underrate the connections between their activity and the rest of the economy. The trends observed in the feed grain world market in the past few years show how misguided this unconnected view is. The supply function of these grains has certainly been influenced by the sophisticated agricultural policies of the developed countries, while the demand function has somehow reflected the overall financial conditions which have decisively determined the world's economic evolution.

In relation to this last point, Peter Drucker in his view of the world's changing economy, anticipated two ideas that seem to be validated by facts:
- The primary products economy has come "uncoupled" from the industrial economy.
- Capital movements, rather than trade in both goods and services, have become the driving force of the world economy.

Due to the marked unsteadiness of the financial markets, now highly integrated through technology, stabilization policies agreed upon by the major countries are required with increasing frequency. The growing uncertainty arising from the declining effectiveness of such policies is raising doubts as to the impact of those conditions on the grain market, which has lately shown high stocks/consumption ratios.

We should not rule out a possible acceleration in the effects of macroeconomic phenomena, and a consequent reduction of the available capabilities for negotiating convincing international agreements favoring both the expansion of world demand and a quicker adjustment in farming resource allotment.

When the Club of Rome described and alarming picture of food and energy shortages, the world agricultural sector generally adapted to those prospects

with extraordinary promptness. Scientists, businessmen and even politicians all agreed on both the diagnosis and their expectations. The results did not take long.

The adjustment we need today is substantially different and, probably for that very reason, quite harder to attain. It is, in any case, equally necessary.

The Argentine situation

Within this context and for various reasons, Argentina's agricultural performance has shown a decline particularly in the past two years. The area sown with grains and oilseeds, as shown in Chart 1, reached a peak of nearly 23 million hectares in the 1982/83 and 1983/84 seasons. Since then, there has been a steady fall down to approximately 19 million hectares in 1986/87, that is a similar level to those registered in the early '70s. A reasonably estimate would suggest a very slight increase of this variable in 1987/88.

In feed grains, a downward trend has become evident in the present decade. The area sown with these grains has been largely replaced by oilseeds, given the relatively better prices of the latter. The decline in the area of grain sorghum is, no doubt, the most remarkable fact, although these trends will become more marked in 1987/88 as a result of a fall probably higher than 15% in corn sowings.

The persistent downswing in cattle numbers has helped beef producers' to improve margins during most of 1986 and a little beyond the first half of 1987. As a result, 1987/88 winter sowings have shown an expansion in oats and other minor feed grains, particularly in the south of Buenos Aires Province. Although important, this growth is by no means a compensation for the decrease expected in the area of corn.

The domestic consumption of corn and sorghum for feed and industrial use has grown too, which worsens the decrease of surplus available for export, as shown in Chart 2.

Due to the rapid pace of inflation in the past few months, it is difficult to predict the future returns of beef producers'. We should not forget here the decreasing purchasing power of internal consumption, which now represents about 90% of the overall demand. The improvement of local market conditions and an increase in export sales would favor greater diversification of agricultural activities as well as a future increase in the relative importance of winter feed grains. In this sense, the flexibility of the Argentine farming model gives producers alternative possibilities. However, changes in resource allotment are increasingly limited as a result of the low degree of capitalization shown by farming and other related activities in my country.

Argentine grain production, as shown in Chart 3, has evolved in a rather parallel way to the area sown. Even though climatic factors such as persistent floods partially justify the decrease in average yields in the last two

seasons, little or no profit margins in certain crops have discouraged technological development, and certain technical backsteps in production models can be observed in some regions.

This situation can be only partly explained by lower world prices. The capacity of the Argentine agricultural sector has been adversely affected by the country's difficult economic crisis that results from a high external debt, consequently low investment levels and declining productivity, among other causes.

Despite the authorities' attempt to control them, the recurrency of high inflation levels continues to have negative effects on the Argentine economic system. This is coupled with high positive real interest rates, whose persistence is detrimental to many aspects of agricultural production and marketing systems. At the same time, higher taxes and existing projects for creating new ones of various kinds only tend to override, to a great extent, the positive effects of cutting down on export taxes and the consequent improvement of net exchange rates.

Within the less and less exclusive group of grain exporting countries, Argentina's commercial balance is typically dependent, even now, on ag-industry exports (1). As shown on Chart 4, Argentine exports quadrupled during the '70s, even exceeding the 9 billion dollars in 1981. The agrindustrial sector's contribution was fundamental for these results.

During the 80's, however, the situation has changed. Particularly since 1984, there has been a persistent decline in the hard currencies generated by the ag-industry complex. This has greatly determined significant cutdowns in total exports both in 1986 and in the estimates for the present year. Despite the strict self-imposed limitations as regards imports, the results of the commercial balance have been declining. This has forced our country into additional renegotiations on its external debt, but even so, no significant economic change of this situation can be foreseen in the near future.

The Prospects

Despite the obvious unbalance periods that the feed grain world market goes through, U.S.A.'s emphasis on production controls and the lower levels of production in countries like Argentina contribute to a gradual adjustment of the supply and demand situation. This, among other reasons, has allowed world prices to strenghten in a certain degree. Unfortunately, the economic logic

(1) Ag-industry complex is composed of: grains, oilseeds and by-products. Livestock and products. Dairy products. Poultry, eggs and honey. Fruits, vegetables and other products. Sugar and sweets. Tobacco. Cotton, wool and fibers. Various high-valued processed foods.

of this adjustment has not been adopted by all participating countries to the same extent. It even seems as if a substantial part of the inevitable costs of this situation were expected to be transferred, with different justifications, on to those least capable of affording them.

A distinguished Australian speaker, Mr. Geoff Miller, said in this auditorium last year that the progressive restoration of international equilibrium in these markets is a joint task, stressing that the most important aspect of the necessary process of reducing production incentives is that the burden of adjustment cannot be borne by any one country operating on its own, since the costs would surely be higher for it than the benefits.

In this sense, there are substantial differences in the attitudes of the various nations. This is especially apparent in the study of the proposals submitted to the Forum of the General Agreement in Tariffs and Trade (GATT) on the occasion of the present Uruguay Round. The U.S. proposal could well be considered an ideal one, its fulfillment being extremely difficult under the present circumstances. The Cairns Group is, in my opinion, less ambitious in its methods, although its final aims are similar. Even when a cautious attitude calls for a moderate optimism towards these negotiations, an objective analysis on market responses shows that the international grain business community has not yet incorporated such a view into its behavior.

It has been said before in this auditorium that the crisis has a very important demand side. In the case of feed grains, this feature is particularly outstanding and will surely still influence the evolution of world trade in the next few years. The significant U.S. dollar depreciation as compared to the major currencies has plunged the value of these grains for Europeans and Japanese people down to historically unparalleled levels. Notwithstanding, Japan is satisfactorily meeting its own requirements, and the importance of Europe as an import market has significantly decreased.

The Soviet Union, on the other hand, is still an element of instability and uncertainty. Its imports have been dropping, either because of changes being introduced in feeding criteria or because the persistent attempts at a more efficient organization of its farming activities are yielding their first results.

The fact is, as in the '70s, that the chances for a higher demand still depend on developing countries. For most of these, with the exception of the favorable behavior of the newly industrialized countries, the dollar depreciation has few implications in the face of their serious financial problems. A recent report from USDA's Economic Research Service rightly says that the adjustments derived from the world debt crisis have probably forced developing countries into low-level growth rates, precluding a world trade recovery, particularly in the area of agricultural products.

It is obviously this aspect of the crisis that requires the most attention. Failing to see it this way would only lead developed countries to overburden

the imagination of their agricultural economists in search of new and more sophisticated production control methods, with minimum impact on producers' income, as well as to press politicians to improve their strategies for an appropriate financing of such innovations.

In the meantime, those of our countries which have long been engaged in this activity, closely watch our costs levels and our competitive ability. The Ohio State University produced and interesting analysis of this matter in mid 1986, whose results are shown in Table 1. This report reveals that, in spite of all its difficulties, Argentina still has comparatively low production costs. Such a conclusion should be taken as relative, however, since there are factors which are peculiar to each producing country and far too complex to assess and add to comparative estimates such as this.

Studies based on qualified Argentine sources show, as a matter of fact, that the total cost of producing and marketing corn of that origin was around 73 US dollars per ton by mid 1986 and a little less than 70 US dollars per ton by the same time this year on a FOB basis. Such are the costs of comparatively efficient farms located in the Argentine corn belt. Nevertheless, they may well not include certain elements that should not be overlooked. I refer, specifically, to the deterioration of the agricultural system as a whole, which is especially noticeable in the lack of appropriate levels of reinvestment, both in terms of farm machinery used by producers and in basic infrastructure works as regards grain handling and transportation, which are vital components of an efficient commercial process.

In addition, despite the government's efforts, the problems I have mentioned also involve a progressive wearing down of the structure and fertility of the Pampa's soils in certain regions. Even a relatively less intensive production model as the Argentine one requires certain additions and specific procedures for an appropriate soil conservation.

Mr. Chairman, ladies and gentlemen: Several distinguished speakers informed us yesterday about the commercial challenges of the future. Tomorrow, new ways of adjusting to the reality of world markets will surely be proposed. On the basis of my regular attendance at these meetings, I would like to strongly suggest that a session focusing on this matter be always included in this Outlook Conference. It is advisable to have a constant assessment of the extent to which agricultural policies really interpret the market's changing reality.

The feed grain world trade will gradually recover its potential for growth as long as the changes required by the world economy take place.

As regards Argentina and its farming sector, there are no valid short-term options but to keep trying to produce and to make the most of the subsisting comparative advantages. In this sense, the world price crisis seems to have generated in the Argentine society a greater understanding of how important the agricultural sector is for our country, and this will favor a better economic resource allotment for this activity in the future.

It is my opinion that, either because of economic or climatic factors, Argentina will not cease to be an unstable supplier, that is, a comparatively fluctuating one in terms of the volumes it turns over to world trade. As to the composition of its exportable surplus, it will stay strongly influenced by any changes in the relative prices at world level.

In the last few years, Argentine production has tended to conform to the major trends of the world market, and there are no signs of an emerging change in that respect. On the other hand, in spite of the difficulties encountered in this scenario, it is obviously necessary to continue producing and selling at the lowest possible cost. Thank you.

References

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- Global Trends in the Late 80's - Alternative Perspective, Outlook '87 Proceedings, page 40, Geoff L. Miller.
- The Changed World Economy, Peter Drucker,
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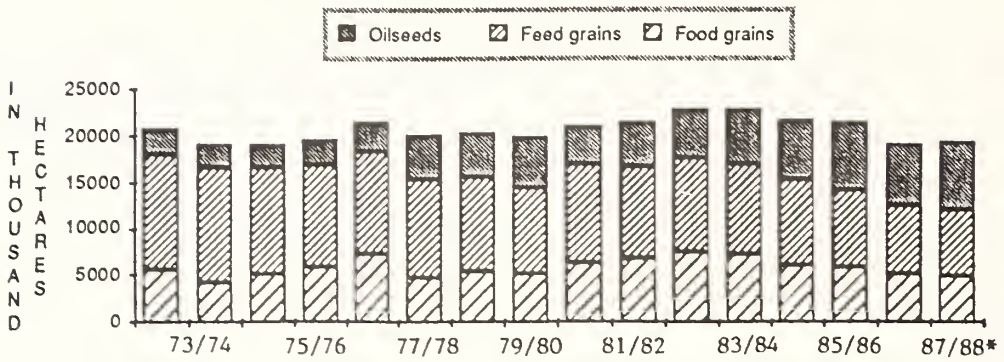
Chart Nº1

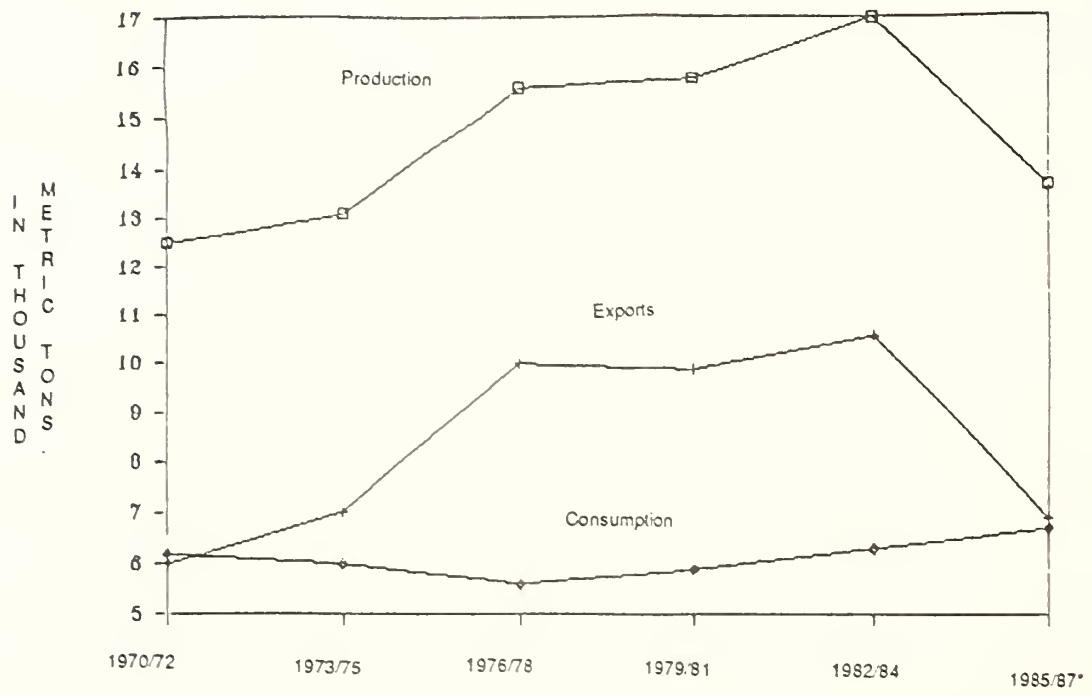
Argentine Planted Area
-Grains and Oilseeds-



* Estimated
Source: Argentine Agriculture, Livestock, and Fishing Secretariat and private estimates

Chart Nº2

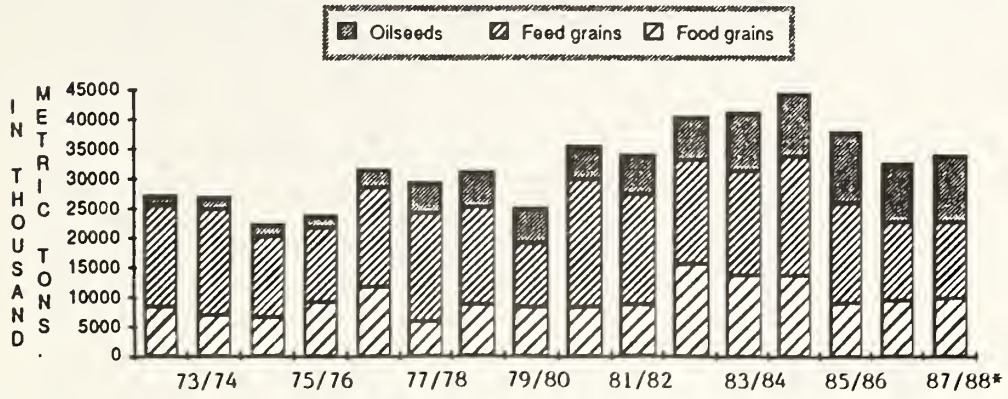
Argentina: Production, domestic consumption and exports of Corn and Grain Sorghum (Three - Year averages)



* Estimated
Source: Argentine Agriculture, Livestock, and Fishing Secretariat; National Grain Board and private estimates

Chart Nº3

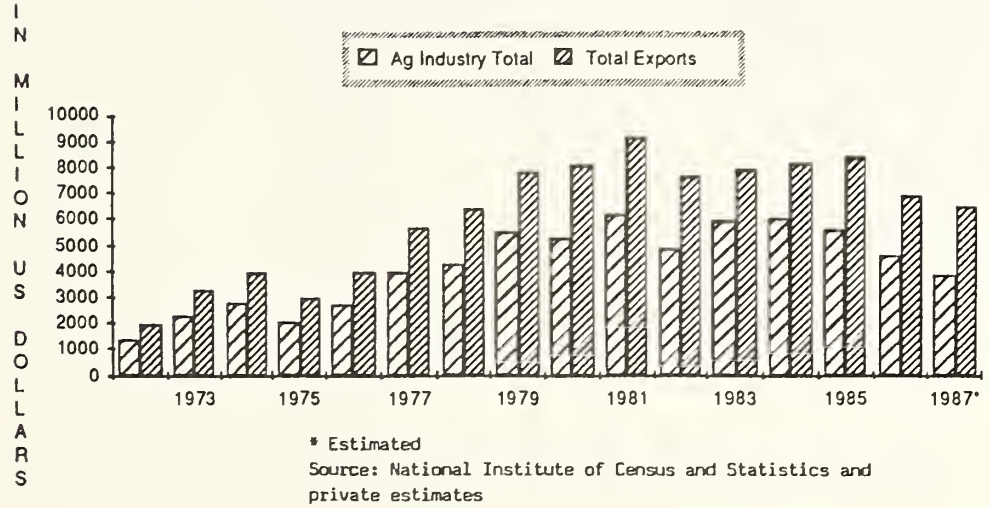
Argentina: Grains and Oilseeds Production



* Estimated
Source: Argentine Agriculture, Livestock, and Fishing Secretariat and private estimates

Chart Nº4

Value of Argentine Exports



* Estimated
Source: National Institute of Census and Statistics and private estimates

Table Nº1

PRODUCTION AND MARKETING COSTS OF CORN IN VARIOUS COUNTRIES
U.S.DOLLARS PER METRIC TON.
(MID-1986 PRICE LEVELS AND EXCHANGE RATES)

	ARGENTINA	BRAZIL	S.AFRICA	THAILAND	U.S.A.
TOTAL VARIABLE COST	45.60	73.28	61.12	43.98	58.70
TOTAL FIXED COST	39.62	75.10	47.02	35.18	60.52
TOTAL PRODUCTION COST	85.22	148.38	108.14	79.16	119.22
MARKETING COST	30.46	37.37	35.60	33.92	25.10
TOTAL COST	115.68	185.75	143.74	113.08	144.32

SOURCE: OHIO STATE UNIVERSITY. SEE REFERENCES