UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

AGRICULTURE'S TRADE PROSPECTS FOR 1970

Talk by Raymond A. Ioanes
Administrator, Foreign Agricultural Service
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This year there'll be a moderate upturn in agricultural exports. But a gain of any proportion is welcome after 1969--a rather discouraging export year marked by a longshore strike, the temporary withdrawal of Japan from our wheat market, and increased competition abroad.

We now estimate agricultural exports for fiscal 1970 at $6.1 billion--somewhat above last year's $5.7 billion. This year's figure is about midway between the $6.8 billion record established a few years back and the 1961-65 average of $5.5 billion.

Let's look at the commodities responsible for the improved outlook.

At the top of the list, certainly, are soybeans and products. Like Ol' Man River, soybeans keep rollin' along to foreign markets. The "export strength" of soybeans is simply phenomenal.

In an earlier speech I summarized five factors bearing on this unparalleled export performance. I'll repeat them today because they illustrate some basic trade principles.

1. As the world's most efficient producer of soybeans we can make available to foreign users very large quantities of a high quality product--and on a sustained basis. Other countries produce soybeans but their efforts have been limited.

2. Increasing prosperity around the world has helped us move ever-larger soybean crops into consumption. With increased purchasing power, foreign consumers have greatly stepped up consumption of meat and poultry. Soybeans not only supply protein meal required to feed expanded herds and flocks but also are a source of edible vegetable oil.

3. Soybeans have duty-free entry to the world's largest market--the European Community--and to several other countries, including Canada, the United Kingdom, Denmark, Norway, and Israel. We also sell substantial quantities to other countries, including Japan and the Republic of China, where duties are relatively low.

4. Our responsible soybean export policies have helped us gain and maintain access to these important markets. Except for some shipments of oil under P. L. 480, U. S. soybeans have stood on their own feet. We have not dumped soybeans on the world market when supplies were large, nor have we used export subsidies as a market penetration device. Instead, we have stored our soybeans when necessary to keep them from glutting world markets.

5. Department of Agriculture action last year to reduce the support price has made our soybeans more attractive to foreign buyers and has reduced competition from other products.

Exports of soybeans are expected to rise from 287 million bushels last year to 340 million or more this year. An increase of this size would be the largest in our history.

Shipments of wheat and flour equivalent are expected to pick up from 544 million bushels last year to about 600 million this season. Although big supplies still clog world markets, we are benefiting from an improved price relationship with competing wheats, reduced competitive supplies of hard wheats, and food-aid exports, mainly to India, Pakistan, and Turkey, at least as large as a year earlier.

Exports of fruits and vegetables are expected to increase from $461 million to $507 million this year. Substantially expanded shipments of almonds and cling peaches, plus larger exports of citrus juices, figure in the improved prospects.

Export gains also are expected for poultry products, pork, and animal fats.

On some commodities the changes will be relatively small, one way or the other.

The feed grain export situation looks a little less favorable today than it did early this month, when the Feed Situation was released. At that time we still looked for 1969-70 marketing year shipments to run somewhat ahead of last year's 18.4 million short tons. Now it appears that Argentina will have big corn and sorghum crops and South Africa a large corn harvest. These improved prospects could mean that some 50 million more bushels of feed grains from these countries will flow into world markets in the April - September period than had been expected earlier. If that happens, U. S. feed grain exports may no more than approximate last year's total.

Tobacco exports are expected to stay close to last year's level of 577 million pounds--which was the third largest of record. The total would be higher this year except for increased competition from other suppliers, notably Mainland China, South Korea, and India, which is cutting into our sales to the United Kingdom and Western Germany. Also the proposed regulation on tobacco in the European Community may have led major importers there to hold off on purchases of U. S. leaf.

Exports of rice, despite an increase in world supplies, should stay close to last year's 1,735,000 metric tons, milled basis.

Cotton is an exception to the generally improved picture. Cotton has many troubles. Shipments this season are not expected to exceed 2.5 million bales--the lowest since the 1955-56 season, when we shipped 2.2 million bales.

Not the least of cotton's problems has been the greatly increased use of manmade fibers. While mill use of cotton has varied relatively little from year to year, consumption of manmades has soared. Ten years ago the volume of manmades used by our industry was about half the amount of cotton used. In 1968, however, use of manmades exceeded use of cotton for the first time. The gap widened further in 1969. About the same thing is happening abroad, although the rates of change are not so rapid.

Another problem has to do with our very low production levels, which can't be attributed entirely to bad weather. If we want to export--and we do--we've got to produce more cotton. We've missed out on numerous market opportunities in recent years because we haven't had enough of the qualities of cotton that buyers have been seeking at prices that encouraged purchases.

That brings up the third problem--pricing. We must price our cotton more competitively, just as we've priced our soybeans more competitively. Although some of you folks from cotton producing areas may find it hard to believe, our export prices have all too often been too high. That not only has discouraged export sales of our fiber but also has encouraged expanded output by our competitors.

A fourth problem involves research and promotion. I know the promotion side best because the Foreign Agricultural Service has been in it with cotton people for a number of years. Although cotton research and promotion have been expanded greatly, these activities still lag far behind the efforts of cotton's competitors.

Still another problem is the complex matter of textile imports, which is being dealt with by the United States in international negotiations.

Foreign producers already are half-way convinced that we are retreating from the world cotton market. More than that, many major importing areas have the same belief. It's an unfortunate impression, because we really needn't get out of the market, nor do we have any such intention. But one thing is certain: Unless we deal directly and forcefully with the problems just described, we'll keep on losing our foreign market.

This is the basic outlook as we see it. For the remainder of the time allotted to me I want to discuss a few of the broad world trends that are shaping the U. S. agricultural export situation.

World Agricultural Output at New High Point

One of the most significant trends has been the increase in world agricultural production.

Total world agricultural output in the past 3 years has ranged from 28 to 33 percent above the 1957-59 average. On a per capita basis the gains have ranged from 7 to 9 percent. The rate of growth in total output has been about equal for industrial nations and for less developed countries, but on a per capita basis output of the industrial nations has far outstripped that of the developing countries.

U. S. agriculture has felt the effects in terms of reduced exports.

On the one hand, we've had to contend with larger supplies of some products in countries that compete with us for world markets. For example, Australia, Canada, and the European Community now have record supplies of grain--much of it wheat. Brazil is coming on as a corn producer. Production of rice reached a record level in Thailand, and increased in Burma and Cambodia. So it goes.

On the other hand, we've had to buck increased supplies in some countries that usually are good customers. These nations have stepped up production as a result of good weather, improving technology, high-yielding seeds, protected prices, and other factors. The European Community, for example, not only will import less grain this year than at any other time in recent history, but also has become a major factor in the grain export trade. Japan, which was a rice importer only a few years ago, has now become an exporter. In Spain, a major market for U. S. feed grain, corn production has risen and Spanish farmers also are using more of their own wheat and barley for feed. Heavy output of wheat and rice in India, Pakistan, and some other developing countries--reflecting the impact of high-yielding varieties and increased inputs to agriculture--have reduced substantially the need for food-aid shipments from this country.

It's hard to say how long the trend toward increased production will continue. Although some factors are irreversible--I'm thinking of improved technology, high-yielding varieties, expanded inputs of fertilizer, and the like--the attitudes of governments also must be considered. For example, will the European Community continue to expand production indefinitely when the cost of that expansion is so onerous? Will the less-developed countries that have had good success in increasing agricultural output maintain their investment in agriculture--or will they tend to think their job is done? And there's always the weather. It gives and it takes away. Good weather has been a major factor in the production gains of recent years. But the percentages are increasingly on the side of less favorable growing conditions.

Demand for Meat Continues Strong

I want to turn now to an examination of trends in world meat production and trade. We're seeing some unusual but interesting developments with respect to both beef and pork.

Combined production of beef and veal in the three major importing areas--the United States, Great Britain, and the European Community--has tended to level off in recent years. But the rate of increase in the major exporting countries--Argentina, Australia, and New Zealand--has been sharply upward, especially in Argentina.

In 1969 beef exports by major suppliers increased by 1.1 billion pounds over the previous year. This trade was the largest in history. This increased trade volume is being absorbed by the world market without adverse effects on prices. The ease with which beef is moving into consumption is all the more remarkable in view of the fact that exports to the United States, the largest importer, are being restrained by the supplying countries. Also, the European Community is operating at full levies on block beef and three-quarter levies on boneless beef. The answer lies in larger imports by a number of other countries, including Canada, Switzerland, Spain, Portugal, and Japan, among others. By sharply increasing their beef imports, these customers have lent strength to the international beef market.

This widespread demand for beef comes from increased purchasing power, which is being bolstered by continued economic growth. The growth rate, in terms of per capita gross national product, is about 4.3 percent per year in the developed nations as a whole, and a strong 3.2 percent even in the less developed countries.

Let's look at some of the country situations.

The most amazing performance was Argentina's, which in 1969 shipped over 800 million pounds more than it did the previous year. It is true that in 1968 Argentina had problems with its sales to Great Britain, which was contending with an epidemic of foot and mouth disease. Nevertheless, in 1969 Argentina not only recovered the lost ground, but found many new customers able and eager to buy beef.

Australia and New Zealand have also increased their beef exports, much of which is going to the United States, and Canada. The United States will import about 1.0 billion pounds of beef and veal in 1970 out of the announced total of 1,062 million pounds that will be brought in under the restraint program. It should be noted that in the absence of the restraint program, U. S. beef and veal imports this year would be substantially larger. Our prices are attractive and our import system has less protection in it than any other major system in the world. Canada, where production is down and demand up, will import a considerable volume of beef in 1970--an unusual situation for a country which only a few years ago was a net exporter.

The Soviet Union is experiencing shortages of livestock products, including poultry. This situation surfaced in mid-January when Pravda came out with an editorial scoring agricultural shortcomings and urging strong corrective measures. Admitting for the first time in this crop year that select foods are in short supply--meat, eggs, and milk--the editorial criticized the Ministry of Agriculture as well as republic farm programs.

The Russian government has queried Australia about the possible purchase of 60,000 metric tons of beef, and also has made inquiry in Argentina. The Government has approached New Zealand about delivery of 20,000 to 30,000 tons of mutton. As near as could be determined last week, actual purchases included 30,000 tons of beef and mutton from Australia and 7,000 tons from New Zealand. Also, the Soviet Union has bought 28,000 tons of poultry from Western Europe and is reported to be in the market for a sizeable quantity of eggs.

Soviet purchasing of livestock products from the West is unusual, to say the least. In 1965 the Soviet Union imported 252,000 tons of meat from Mainland China and Eastern Europe. While we can understand why the Russians aren't turning to Communist China for supplies, their failure to purchase meat in Eastern Europe is not so apparent. Perhaps their abstention from the Eastern European market confirms other indications that that area also is having problems with livestock products.

Eastern Europe's meat production in 1969 failed to increase--the first time in a number of years that that has happened. Cattle and hog numbers were down at the beginning of 1970. The sharpest reduction in 1969 meat output was in Yugoslavia, which felt the effects of reduced animal numbers. Czechoslovakia had a drop of about 5 percent in production. Hungary's beef production rose in 1969 but pork output dropped sharply. All in all, Eastern Europe seems to be in a belt-tightening period with respect to meat and apparently is not in a position to meet all of the Soviet Union's requirements. So Russia is turning to the West for supplies.

At this point it does not appear that Russian purchases will affect the movement of beef to the United States. Poultry may be a different story. Russian buying of poultry in Western Europe should tend to reduce the volume of subsidized poultry now flowing into third country markets in which the United States has an interest.

While the beef situation has occupied the center of the stage, there also have been some important developments with respect to pork.

A general pork shortage has developed around the world, accompanied by an increase in prices. Some of the developments have been highly unusual. Denmark and Holland, for example, haven't been producing enough pork to take care of their trade with traditional customers. Japan and Canada have been importing substantial quantities from the United States, although we ourselves continue to import pork.

An important question for U. S. agriculture is this: What's going to be the response of the world's pork producers to the current demand situation? Either way the United States is in a strategic position. If the response is to import, we have, or should have, the largest pork producing capacity in the world. If the response is self-sufficiency, we have the feed grains that can help any country produce all the hogs it can slaughter.

World Feed Grain Trends

A lot of things have been happening to U. S. feed grains in recent years, some favorable, some otherwise.

World trade in feed grains rose sharply between 1960 and 1966. World exports of corn, sorghum grain, barley, and oats rose from a little over 22 million metric tons to almost 44 million--just about double.

Two factors stood out in this expansion: (1) The demand for livestock products, called for a rapid build-up of herds and flocks--an expansion that in many countries couldn't be supported completely by domestic feed production, and (2) relatively good access to markets for exporting countries.

It looked for a time as though the upswing in world feed grain trade would go on indefinitely. But in the past 3 years the situation has changed rather drastically. World trade in feed grains dropped off in 1969 to 39.9 million tons from the 1966 peak of 43.8 million--a decline of 10 percent. U. S. exports in the same period dropped from 25.8 million tons to 16.5 million--a decrease of about 35 percent.

What accounts for the moderate decrease in world feed grain trade and the much sharper decline in U. S. feed grain exports?

One thing is certain: World livestock production has continued to increase and is still a strong supporting factor in the feed situation. But there have been changes in other directions.

First of all, the European Community--a major market for our feed grains--is producing more of the feeds it used to import from the United States and elsewhere.

Here are some figures: In the past 3 years total imports of feed grains into the Community declined from 16.2 million metric tons to about 12.3 million--and imports from the United States declined from 9.6 million tons to 6.2 million. At the same time, the area stepped up use of its own feed grains by 6.9 million tons, and use of feed wheat by 2.7 million. We have benefited in only one way: Protectionism has encouraged increased use of some other feeding materials that we can supply--such as soybean meal.

Second, the United Kingdom, a major feed grain importing country, also has been following policies aimed at stimulating greater self-sufficiency in feed, notably barley and feed wheat. The United Kingdom has been trying to keep British pounds at home. It also is attempting to bring its agricultural production and trade policies more in line with those of the European Community, which it hopes to join. Spain, like the United Kingdom, has raised grain support prices to raise home production to meet expanding needs.

Third, competition of other producing areas has increased. Thailand, for example, which has special contractual relationships with Japan, has increased corn output from 544,000 tons in 1960 to 1.7 million in 1969--over a three-fold gain. Exports of feeds from Argentina and South Africa, though variable, have been major factors in world feed grains markets. Brazil is coming up as a feed grain shipper.

Certainly there's no room for complacency as we look ahead. Protectionism guaranteed markets, regionalism, and other arrangements that interfere with the functioning of comparative advantage will continue to plague us. The most hopeful feature of the longterm outlook is the strong world livestock situation.

Protectionism

I have discussed the difficulties we've had with respect to feed grains in the European Community. Most of you also have heard us talk in other years about the overall protectionist policy of this area, which is the largest U. S. export market for farm products. For almost a decade you've heard us say that we couldn't work constructively for liberalized trade because the Community has been busy with internal farm matters--its common agricultural policy, its guidance and guarantee fund, monetary problems, surpluses. You've heard us mention the fact that the Community's example has created new protectionist problems for us in other countries. You have heard us express concern about the agricultural trade we are losing in the Community itself, as well as in traditional markets where we compete with Community subsidized grains, poultry, lard, and other products.

In other talks here you have heard us mention the voices of moderation that have been raised in the Community against protectionism--which is pushing up food costs to the Community's consumers, increasing the load borne by its taxpayers, creating unmanageable surpluses, and eroding the good will of the Community's trading partners. These voices are still heard in the Community--but are they loud enough?

At any rate, some new things are happening.

Last December the Community's Council of Ministers held a summit meeting at

The Hague at which they asked the member governments to "pursue without delay" efforts to control agricultural surpluses. They also agreed, provided definitive financial regulations for agriculture could be worked out, to the opening of negotiations for the entry to the Community of four European Free Trade Association members--Great Britain, Ireland, Denmark, and Norway.

There are two important things for us to watch with respect to these developments:

First, we'll want to see whether the Community really does come to grips with its surplus problems as it said it would last December. Community officials unquestionably are concerned about the mounting cost of the farm program, so the incentive for action is there. But the financial regulation that has been formulated puts no limit on expenditures. Neither it nor any other proposal which has been accepted thus far puts curbs on surpluses, either through meaningful reductions in farm prices or controls over farm output. So we are still looking for those moves that the Community has said it will make to stem the tide of its agricultural surpluses.

Second, we'll want to keep a sharp eye on the negotiations between the Community and the EFTA applicants for membership. It would be unthinkable for Great Britain and its partners to join the Community and embrace the area's existing farm policies, which are costly, and which threaten to be even more costly, not only to member countries but to the whole agricultural trading world. I hardly need to add that this matter is of great concern to American agriculture. An enlarged Community following protectionist agricultural policies could only mean further trade losses for our farmers.

Let me cite a few figures to illustrate the cause for this concern:

The European Community in the current year apparently will have the lowest net imports of grain in modern history. We estimate the net imports will be only 4 million tons. This comes about because total imports of grain this year will be in the neighborhood of 15 million tons, and their exports will be up to about 11 million tons. Last year the net import figure was almost 7½ million tons, and the year before that 10 million tons. This clearly shows the rapid growth toward self-sufficiency of the Community and its tremendous impact on world trade.

The United Kingdom is a net importer of 8 million tons of grain. We don't want to lose that market to the Community.

Time flies for the United States and all suppliers to the European Community. U. S. agriculture, certainly, cannot live with this kind of protectionism for another decade. We must press the Community more strongly than ever before for fundamental changes that will give traditional suppliers reasonable market access, curb surplus production, and discourage costly exports to third country markets. Unless the Community changes its policies--and the rest of us will have to make some changes too--protectionism will engulf us all. That would be a tragedy for the entire free world. It would be tragedy because the logical pull of rational men is in the other direction--the direction of liberal trade.

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