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UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service

CURRENT OUTLOOK FOR U. S. TRADE IN FARM PRODUCTS

Talk by Raymond A. Ioanes
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at the 50th National Agricultural Outlook Conference 1972
Washington, D. C., 11:00 A.M., Tuesday, February 22, 1972

All of us who work in the trade field are pleased about the program that has been arranged for this 1972 Outlook Conference. Trade prospects have always had a place on Outlook programs, but this is the first time I can recall that trade has been made the dominant theme of the Conference. A thorough review is highly appropriate at this time. With trade playing a more and more important part in the agricultural situation, a close look at the international scene now can help us evaluate developments that will be occurring in the period ahead.

It has been my privilege in previous years to present the outlook for agricultural trade in the fiscal year then current, together with comments on certain factors having longer-range significance. I will hold to that format today. However, because we have other speakers who will discuss areas I usually have touched upon, I will go into new territory, so to speak, and cover two topics of increasing importance--the integrated nature of the market development process and new trends in the Communist countries.

The agricultural trade outlook

The job of estimating the agricultural export total has been tougher than usual this year. There have been dock strikes that have had both

immediate and long-range effects on our shipments. There is the government's New Economic Program, some phases of which--for example, currency realignments and short-term trade discussions--have introduced new variables. There have been the new sales of feed grain to the Soviet Union. There was the conflict between India and Pakistan--countries that have been large recipients under Public Law 480. And there have been some significant changes in the crop picture around the world.

Nevertheless, we have made an estimate. We now estimate--assuming disruptions of transportation are ended promptly--that U. S. agricultural exports will hit about \$7.4 billion for the full fiscal year 1972. That total would be about \$400 million less than the record \$7.8 billion shipped in fiscal year 1971.

In examining the situation commodity by commodity it is apparent that reduced exports of wheat and feed grains account for most of the decline expected in shipments this year.

Wheat: Exports for the 12 months are estimated at 575 million bushels, as compared with 739 million last year. The dock strikes figure in this decrease, of course. But there also has been some weakening of demand. This traces primarily to increased supplies in Western Europe, where the wheat harvest set an all-time high record. Increased wheat production in Brazil, India, and Turkey also has reduced their import requirements.

The price of wheat exported this year is expected to average somewhat higher than last year. This year a substantial share of exports has been of high quality, relatively high-priced hard wheats exported primarily

for milling. Last year there was a larger-than-usual quantity of low-priced, "ordinary" hard wheats exported. Much of this wheat, used abroad as a feed, was substituted for corn.

Both Canada and Australia are having good export years.

Canada's exports are expected to total over 500 million bushels--100 million bushels more than a year earlier. The Canadian situation has been helped greatly by sales of about 110 million bushels to the Soviet Union and about 118 million bushels to Mainland China. Canada also picked up some business we could not supply in the Far East because of the dock strike. By the end of the 1971-72 crop year, Canada's stocks of wheat will have been brought below the 600-million bushel mark--still a very comfortable reserve. Canada, incidentally, has just announced that it is increasing its guaranteed return to its producers for milling quality wheat used domestically to \$3.00 Canadian per bushel. Furthermore, the increase in the guarantee of about \$1.00 will now be paid by the Canadian treasury.

Australia's wheat shipments are expected to total 300 million bushels, which is well above average although down from the 342 million bushels of the previous year. Australia has sold substantial quantities of wheat to the Soviet Union, East Germany, and Egypt. Australia also has picked up business in Japan, South Korea, and Taiwan because U. S. dock strikes have kept those countries from obtaining usual quantities of wheat from the United States.

Australia has brought its wheat stocks to a low level. The supply

situation has improved so much, as a matter of fact, that the Australian Government has increased the delivery quota from 339 million bushels last year to 407 million bushels for the 1972-73 harvest.

Feed grains: U. S. shipments are estimated at 18.7 million metric tons--down 1.0 million from last year. The value of exports will be down even more. "New" feed grain exports of about 2.0 million tons to the Soviet Union in this fiscal year will be more than offset by reduced shipments to other markets, mainly Western Europe and Japan. As in the case of wheat, the dock strikes have been responsible in part for the reduced shipments.

The Russian purchase undoubtedly was the top feed grain export story in this current year. The importance of this deal can hardly be over-emphasized. It opens up a new market for U. S. feed grains--and new markets are always welcome. It paves the way for expanded future trade following President Nixon's reversal of the earlier policy that gave special preferences to U. S. flag vessels on shipments to the Soviet Union and to certain other East European countries.

Canada and Australia have been moving strongly to expand feed grain production. In these two countries the increase in feed grain output has been about 50 percent above the 1969 level. With favorable weather in the European Community in 1971, coarse grain production rose to a record 43.0 million metric tons.

Despite the production gains that I have mentioned in Australia, Canada, and the European Community for the current season, I have a feeling that we have the potential for a substantial gain in our feed grain exports for next

year. It now appears that production of corn and sorghum grain in Argentina from the current harvest may be down as much as 3.0 to 4.0 million metric tons. We look for Brazil, notwithstanding an expected production increase, to have less new-crop corn available for export because of low stocks and a continuing increase in domestic consumption.

On the demand side this year, we are seeing a much bigger net gain in import requirements emerging for the Soviet Union and Eastern Europe than was apparent earlier in the season. Although our analysis is incomplete, it appears that this important area of the world will have an increase in net grain imports of at least 8 million metric tons this year as compared with last year. A large volume of U. S. grain we had thought was being consumed in Western Europe is being transshipped to Eastern Europe. We are beginning to think that this same demand situation will continue in 1972-73.

Rice: Exports of rice, in fiscal year 1972, at 37.5 million hundredweight, milled basis, will approximate the previous year's total. An expected small decrease in the price reflects not only the reduction in commercial sales but also depressed world rice prices. Despite greater reliance on export payments, the United States is feeling increased competition on commercial sales from Argentina, Italy, and Thailand in our markets in Western Europe, Canada, and the Middle East.

A significant shift from commercial sales of rice to Public Law 480 exports has taken place. Of the 37.5 million hundredweight estimated for this year, 13.0 million, or 35 percent, represent commercial sales. A

few years ago 57 percent of our rice sales were commercial.

Oilseeds and products: It is getting to be a habit--but a pleasant habit--to report that shipments of oilseeds and products will set another record. The figure for fiscal year 1972 is estimated at \$2,124 million as compared with \$2,065 million last year. Soybeans and products account for about 90 percent of this category.

The performance of oilseeds and products is very good, considering that the hog cycle is in its down phase around the world. Growth in meal requirements, therefore, is substantially less than a year earlier--and less than it will be in the period immediately ahead. But the basis for further growth in requirements is still there. We continue to be optimistic about the future of oilseeds and meal, but the outlook for vegetable oil exports is less favorable.

The continued strong foreign demand for soybeans has contributed to the expected increase in the price of soybeans this year. Farmer returns would have been higher had we not experienced work stoppages at our sea-ports, particularly at harvest time.

Cotton: Exports of cotton are estimated at near or slightly more than 3.0 million bales, down from 3.7 million bales last year despite a strong export demand. Scarce supplies, especially of the shorter staples, largely explain the 20-percent drop in shipments. It is regrettable to know that we could ship more cotton if we only had it to ship. However, we are heartened by the Prospective Plantings Report which shows that upland cotton plantings are expected to be 7 percent higher in 1972.

Tobacco: Exports of unmanufactured tobacco are expected to drop to 550 million pounds from 584 million last year. But despite this decrease, the export volume is pretty good when we consider the price of U. S. leaf in comparison with prices of competing suppliers. Our export price in fiscal year 1972 is expected to average slightly over \$1 per pound, up 3 percent from last year. But although we are doing fairly well on our exports, we must expect increasing competition from low-priced tobaccos down the road.

Fruit and vegetable exports, on a dollar basis, will increase about 4 percent. There will be expanded shipments of deciduous fruits, fresh citrus fruits, and tree nuts, but reduced exports of processed citrus, dried fruits, and canned fruits.

Livestock and meat product shipments are estimated at an aggregate of \$677 million--7 percent below the \$728 million shipped in fiscal year 1971. Reduced exports of tallow to Japan, of lard to the United Kingdom, and of live slaughter cattle to Canada account for much of the decline.

Dairy product exports will be up almost 65 percent in the 12 months. The star performer has been butter. This product has not been available this year in the usual export quantities from regular suppliers, such as New Zealand and Australia. And supplies in the European Community are in much better balance than they were a few years ago. To help meet the demand, the Commodity Credit Corporation sold in the first half of the fiscal year over 125 million pounds of U. S. butter for export, most of it to the United Kingdom.

Poultry: U. S. poultry exports, including breeding stock, are expected to increase by about 5 percent to \$80 million. This strong export performance shows that our poultry has great competitive strength despite the many restrictions on trade it has encountered as well as the heavy use of subsidies by some competing exporters.

Those are the commodity highlights.

Now I want to make some observations about certain phases of our market development work.

The integrated nature of market development

American farmers have come to have an increasing awareness of the importance of foreign markets. And over the past twenty years they have become active participants in the foreign market development effort. Today I want to analyze that development process and describe its scope in broad terms, because in recent months our long-time market-building effort has had a serious setback. I refer to work stoppages on our docks which have tended to nullify a major advantage that we have in building export markets, namely our reliability as a supplier--a reliability based largely on our productive ability and our sound delivery system.

For many years we have thought that the greatest challenge we had to meet in market development was improved access to foreign markets for our farm commodities. I think all of us who have been working in this field now agree that continued interruptions in our delivery system are an equal challenge to the attainment of our goals.

Market development is a time-consuming, complex, and integrated process. A breakdown in any segment of the process will frustrate the whole effort. There may not be enough understanding of how much work has been done to develop foreign markets. Therefore, I'd like to take a few minutes to give you the background of one successful market development effort: the attainment of a hundred million bushel wheat market in Japan.

The market development effort in that country got off to a strong start when General MacArthur, in the late 1940's, helped to initiate a limited school lunch program utilizing American wheat and nonfat dry milk solids. You may recall that Japan had been traditionally a rice-eating country. At that time wheat was relatively unknown in Japan and its introduction to the youth of that country was a helpful beginning. As time went by, the market development program moved to a broader base of consumer education.. In cooperation with agencies of the Japanese Government and U. S. wheat producer groups, demonstrations were held for housewives. Touring kitchen buses were used so that housewives could learn how to prepare wheat foods in the home. Another part of this program was aimed at nutrition education among the home economists of this island country. Also, with U. S. Government help, the Japanese school lunch program was expanded.

A second phase of the program involved a combination of education and promotion. As part of the effort, work was undertaken with Japanese baking groups to set up training schools. Cooperative relationships were established with twelve different groups in Japan--millers, noodle makers, pasta

manufacturers, confectionery manufacturers, in addition to the baking groups. Joint promotion programs were developed with them to introduce new wheat foods into Japanese diets--doughnuts, pancakes, pizza, macaroni, and other noodle products. Exchanges of people and technical information helped. Japanese milling, and baking, and purchasing teams visited the United States. U. S. technical experts have been to Japan many times. This was all part of the market development process. We were not only building a market for our products but we were building important trade partnerships with the business community in Japan.

Quality problems had to be faced. Perhaps some of you may recall the work that was done to introduce our hard wheats into Japan--our durumms and our springs. You may also recall the strong action we had to take some years ago to make sure that our future shipments would meet Japanese requirements after our experience with sprout damage in the Far West.

And we found that market development also calls for modification and improvement of our delivery system. Japanese trade routes and buying preferences suggested that we would be at a disadvantage if we could not position our different qualities of wheat on the West Coast. That positioning was accomplished. Along the line we also found that internal rail rates needed adjustment and with the cooperation of many groups rates on westward movements were reduced.

Market development also implies the ability to make deliveries to foreign buyers at competitive prices and reaching this objective called for adjustments in domestic U. S. programs. This has also been done. In recent

years domestic programs have been changed to set price support levels at or near world market levels. This has helped to facilitate export sales.

This is a program involving people. And speaking of people, I want to express appreciation to the wheat producer groups, Western Wheat Associates and Great Plains Wheat, which have been our partners in the wheat market development program. Through them, U. S. farmers have been active participants in the process. They know what happens to their product after it leaves the farm gate.

So, after twenty years of hard work and in cooperation with many individuals and groups in this country and Japan, we have built a hundred million bushel market. But we didn't reach that goal except through a patient, step-by-step building process, working on each problem as it arose so that the whole system could function smoothly. You can understand why, today, we feel frustration when disruption of one part of this system built over the years negates the whole effort.

We know that there have been substantial losses of exports to Japan this year because of the dock strikes. If the strikes end soon, we have a chance to regain some of the lost ground. If we can resume deliveries promptly, we can, perhaps, ship 75 to 80 million bushels of wheat to Japan this season. But we still will have lost millions of dollars in export sales that we didn't need to lose. Canada and Australia have moved in to fill the breach. We face the real threat of losing the fruits of an effort that took years to build. It is imperative, therefore, that we find a solution--a permanent solution--to the problem of work stoppages in our export delivery system.

Trends in the Communist countries

I want to turn now to developments in the Communist countries.

Every bit of evidence points to a drive by the Soviet Union and Eastern Europe to upgrade the diets of their people by providing them with more meat and other animal proteins. This drive involves, as in most other parts of the world, expanded use of grain and stepped-up livestock production.

The Soviet Union harvested a large grain crop in 1971 for the second year in a row. Its livestock production also made good gains for the second successive year. Meat output rose 7 percent to a record level and egg production climbed 10 percent, also to a record high. Despite these increases consumers want more. Demand has stayed ahead of availabilities.

This demand is not new. In trying to meet it, the Soviet Union has supplemented its own production by purchasing red meat from Australia and New Zealand and poultry from Western Europe. It also has bought breeding cattle from the United States, Canada, and other Western countries as a start toward a long-range program to upgrade cattle herds.

In observing these efforts to increase agricultural production, many of us have asked ourselves this question, "When will the Soviet Union increase its use of grain concentrates?" The USSR tried to expand production of corn some years ago--an effort that was given major emphasis by Premier Nikita Khrushchev. But as the Russians now acknowledge, the Soviet Union is not well adapted to corn production. And overall production of

feedstuffs apparently cannot be brought along on the scale or as rapidly as is desired. So last fall the Soviet Union bought \$135 million worth of U. S. feed grains. We hope they buy more--and there are signs in that direction. When Soviet Minister of Agriculture Matskevich visited the United States a few weeks ago he expressed particular interest in long-term agreements to purchase American corn and soybeans. He also showed interest in U. S. breeding stock to improve Russia's beef production and in our livestock feeding systems.

Eastern Europe also is trying to upgrade diets. Last fall, as one member of a feed grain team that visited Czechoslovakia, Poland, Romania, and Hungary, I found a determination on the part of government officials to improve living standards by making more meat and other protein foods available to consumers. Government officials seemed sincere and determined on this point.

Eastern Europe has placed a high priority on livestock expansion over the next 5 years. The goals range from an increase of 18 percent in Hungary and Czechoslovakia to 100 percent in Romania. The heaviest emphasis is on hogs, which require high-energy, high-protein rations. The planned targets are far in excess of the results achieved by these countries in recent years. Poland, for example, hopes to increase its per capita availability of meat in 5 years by the same amount that availability rose in the last decade.

There are already some signs of progress. Hog production is increasing.

Fewer calves are being marketed by Eastern Europe to Western Europe, which is feeling what it refers to as a "calf crisis." Prices have been increased to producers, grants and loans are being widely employed, and the use of modern technology is being encouraged.

What is happening in the Soviet Union and Eastern Europe strikes me as having special significance in terms of human values. While the demand for an improved standard of living is not new in these countries, the seeming determination of governments to meet that demand is new. This determination means, I think, that people count for more in these countries than they once did. If this is a development that will expand and grow, it has great implications for the future. Continued pursuit of an improved living standard by the Soviet Union and Eastern Europe--a pursuit based in part on an expansion in farm product trade--would open up a whole new vista of trade possibilities between East and West.

In conclusion

In conclusion, I would like to make this point: Despite our gains in agricultural exports, we still are not shipping as much as we should.

The record agricultural exports in fiscal year 1971 and the next-to-record shipments in prospect for fiscal year 1972 represent encouraging progress. But we still are far short of reaching the export totals that our comparative advantage in many commodities indicates that we should reach.

The principal limiting factor in this situation is, of course, the protectionism of importing countries. But as I indicated earlier, export expansion is a job that also involves production, reliable delivery, certainly, market promotion, and many related activities all along the marketing chain.

Only when the job is done properly at all stages can we realize the full potential. That's the challenge that faces us.

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