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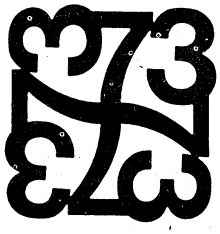

UNITED STATES DEPARTMENT OF AGRICULTURE
Economic Research Service

TRENDS IN FOREIGN TRADE IN FARM PRODUCTS

Talk by Joseph W. Willett
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Export markets have always been important to the agriculture of the United States. During the last half of the 1960's exports contributed nearly a fifth of farm cash receipts. For many farm commodities exports supplied a much larger share of receipts. In fiscal 1972 more than 70 percent of cash receipts for rice came from exports; for both soybeans and wheat it was more than 50 percent. Under present farm programs, exports help reduce government costs. Agriculture has also been making a substantial contribution to our balance-of-payments.

The pattern of our farm exports is changing as world economic relations evolve. The richer or "developed" countries are each other's best customers for farm products. These countries supply more than half of world agricultural exports and take nearly three-fourths of the imports. As the largest exporter of farm products in the world, the United States supplies about a sixth of the world's trade. The European Economic Community takes about a third of the total imports. The developed countries have most readily adjusted to changing world market demands for farm products--especially the rapid growth in demand for feed grains, oilcake and meal, soybeans and other feeds.

The less-developed countries supply about a third of the agricultural exports, but take only about a sixth of the imports. Thus far, the expanding world feed grains market has not provided much opportunity for the less-developed countries because of their low productivity in these products. Their share of world farm trade is declining, in part because demand is not growing rapidly for the kinds of agricultural raw materials, and the cocoa, coffee, and tea which they export.

Also, the less-developed nations have necessarily put first priority on feeding their rapidly growing populations, which has limited their effectiveness in export markets.

Although our farm exports are growing, they are becoming a smaller share of our total trade, which also is part of a world pattern. In the 1920's and 1930's farm products accounted for about half of total world trade, but decreased to about a third by 1955 and to about 17 or 18 percent last year.

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Historically, there have been very great changes in the amount of our farm exports, the commodity composition, and the size of different country markets. For 300 years, from the first shipment of tobacco from Jamestown to England, until World War I, farm products accounted for a large share of our exports. However, our farm exports fell drastically in the 1920's and 1930's as the European countries emphasized agricultural self-sufficiency, and as we increased our tariffs and other barriers to imports, which made it hard for foreign countries to earn dollars to buy from us. Not until World War II did our agricultural exports again rise significantly. They again declined somewhat in the early 1950's, but moved upward rather steadily during most of the 1960's and the early 1970's.

For the 20 years from 1953 through 1972 our agricultural exports increased an average of about a quarter of a billion dollars per year. There were considerable fluctuations around this trend, to some extent arising because the United States held large reserves of some commodities, withheld to avoid unduly depressing markets in times of abundant supplies, but made available in periods of international shortages. Despite the fluctuations, the trend "explains" about 90 percent of the variations in the exports. The deviations of exports from the trend were generally less than half a billion dollars.

Most of the overall increase was the result of greater quantities exported, although changes in prices contributed to fluctuations in values of exports.

The commodity composition of our farm exports has changed radically. In the 1920's and 1930's, about 60 percent of our agricultural exports were raw materials for industrial use. However, during World War II, this composition changed drastically as exports of food to Western Europe increased. After the war, the share of food in our exports remained high but decreased to less than half by 1964. During the 1960's world trade in feed grains and feed products

grew because of the rapid expansion of livestock production in Japan and Western Europe. Feeds and feed grain exports increased from only 6 percent of our total farm exports in the early 1930's to more than 20 percent in the early 1970's. In the last 20 years exports of soybeans and products grew most rapidly, followed by feed grains, and meat and meat products. On the other hand, cotton exports have declined.

The direction of our exports with respect to markets has also changed rapidly. During the 1960's the South Korean market grew at the fastest rate, followed by Japan, Taiwan, and Mexico. Exports to the United Kingdom and India declined during this period.

The United States is also one of the world's largest importers of farm products. During the 1960's and early 1970's our imports of agricultural products increased an average of about a quarter of a billion dollars per year. Our agricultural imports have tended to fluctuate in value less than our agricultural exports; the deviations from the trend have generally been less than $230 million. In fiscal 1972 we imported about $6 billion of agricultural products.

Although the trend provides a fair description of the growth of our total farm exports for 20 years, in fiscal 1973 our exports will be far above the trend, and it's impossible to judge whether or not the trend is a good indicator of the level of exports some years ahead. A number of developments have brought unusually large elements of uncertainty into longer-run forecasts of our farm trade. These developments include: (1) New trade relations with the Soviet Union. (2) New trade relations with the People's Republic of China. (3) The expansion of the European Economic Community to include the U.K., Ireland, and Denmark. (4) The realignment of currencies resulting from the Smithsonian Agreement in December 1971 and the additional realignments currently underway. (5) The "Green Revolution," underlying the growth of production of grains and other crops in a number of less-developed countries. (6) Growing wealth and the possibility of decisions by some petroleum-producing countries of Latin America and West Asia to produce or import more animal products. (7) Coming international negotiations, with the possibility of substantial progress in reducing barriers to agricultural trade. (8) Unprecedented rates of economic growth in a number of countries, with the possibility of new patterns of food consumption.

Each of these developments could have substantial impact on our agricultural exports in the next decade or so but in no case is the probable size of the impact clear.

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Let us look briefly at why the longer-run effects of these developments are uncertain, with respect to our future farm exports.

1. New Trade Relations with the Soviet Union

The sales of U.S. wheat to the Soviet Union in fiscal 1973 resulted mainly from large shortfalls in the quantity and quality of the Soviet wheat crop. While we also sold feeds to the Soviet Union, and the outlook seems favorable for some substantial sales of feeds in the future, there is little basis for confidence about the probable magnitude and timing of such sales in the longer-run. The Soviet leaders seem to have decided to make more livestock products available to consumers, and they seem to need imported feed, at least for several years. However, we know very little about how they determine "demand" for livestock products and feeds within their system of administered prices and controlled supplies. Although we have some information about planned increases in supplies, it is difficult to judge the degree of commitment to fulfill agricultural plans. In the past the achievements in agriculture have often fallen short of plans.

Other factors add doubt to estimates of the future grain supply and demand situation in the Soviet Union. The weather effects on production there are very large, but are hard to estimate, and impossible to predict. We know essentially nothing about the level of Soviet grain stocks or about policies with regard to stocks. We are even uncertain as to the amount of "usable" grain produced in the Soviet Union after appropriate deductions for excess moisture, trash, losses, and occasional biases in the reported figures. We also know very little about their use of grain; for example, we are unsure about the amount of grain used for seed, the amount of wheat fed to livestock, etc.

The level of our farm exports to the Soviet Union probably will be greatly affected by the overall level of trade between our two countries. If Soviet sales to the United States should expand rapidly, the Soviets may be inclined to import much more of our farm products. However, the highly-publicized possible purchase of natural gas, even if it comes to fruition, may involve large U.S. investment in the production and processing facilities in the USSR. Repayment of the debt on those investments might leave the Soviet Union with little left over from gas sales to buy other things for many years.

2. New Trade Relations with the People's Republic of China

In most recent years, the imports of the People's Republic of China's (PRC) have been made up mainly of nonagricultural products. Although the agricultural share of total imports increased to more than half in 1962-64, it fell to about one-third by 1971.

Grain, especially wheat, was their main commodity import throughout most of the 1960's. They probably will continue to import some wheat, and wheat seems to be the U.S. agricultural commodity with the best opportunity for sales to them.

The United States reportedly has recently made a sale of a substantial amount of cotton to China and may be able to continue to sell some cotton there. Cotton was a leading U.S. export to China in the late 1940's. The United States might break into the market on a regular basis, especially if China's textile exports expand--which appears likely--or if the domestic cloth ration is increased.

There is little basis for quantitative forecasts of our exports of grain and cotton to China, and apart from these commodities the possibilities for our agricultural sales in the near future may be limited to small quantities of a scattered selection of products. However, it is too early to anticipate changes in China's import trade structure which could provide opportunities for the United States in years ahead.

3. The Expansion of the European Economic Community

Beginning February 1, 1973, the United Kingdom, Ireland, and Denmark began to put into effect the European Community's (EC's) Common Agricultural Policy involving guaranteed prices, price-support buying, variable levies on imports, and export subsidies, for major farm products. These countries are to adjust in six stages to EC farm prices, by December 31, 1977.

These countries have agreed to grant duty-free or preferential treatment to imports from the areas to which the EC extends such treatment, including Greece, Turkey, Spain, Israel, Malta, most of Africa, Malagasy, Surinam, Guyana, and the French Pacific areas. The EC and the applicants have also agreed to offer a similar option of preferential or special trade arrangements

to most developing areas of the British Commonwealth on a comparable basis. Thus, the new preferential trading area will be very large, and will encompass a large share of the U.S. markets for farm exports.

The switchover to EC price levels will bring large increases in border protection (in the form of variable levies) applying to imports from the United States and other outside countries. U.S. exports of feed grains, wheat, rice unmanufactured tobacco, fresh citrus, apples and pears, canned fruits, canned asparagus, citrus juice, prunes and perhaps other commodities appear to be seriously threatened. For example, owing to much higher prices, feed grain consumption in the U.K. will be less than it would be under the previous U.K. deficiency payments system. Large increases in U.K. production of feed grains are also likely with a significant rise in the rate of self-sufficiency.

The expanded EC, will be obligated under rules of the General Agreement on Tariffs and Trade (GATT) to renegotiate with the United States and other GATT members on the proposed duties and other regulations of commerce which affect the trade of the GATT members outside the enlarged Community. The results of such negotiations could have important effects on farm trade. In addition, considering the dynamic aspects of the EC as an organization, it is of course possible that it may modify its agricultural protection in years to come.

4. The Realignment of Currencies

Another uncertainty in the outlook for U.S. agricultural exports arises from the impact of the 1971 dollar devaluation and current changes in international monetary relations.

Devaluation helps exports, but nearly a third of our exports go to countries that offset the 1971 dollar devaluation by devaluing along with us, and in some other countries there are non-tariff barriers that impede the effects of currency realignment. Consequently only about 40 percent of U.S. farm exports could benefit. Even for this 40 percent, doubt arises about the impact of currency realignment because some of our competitors in farm commodity exports also devalued, and because of the uncertainty of (1) the effects of lower prices on consumer demand and (2) the extent to which some markets allow price decreases resulting from dollar devaluation to be passed on to consumers.

5. The "Green Revolution" and the Food Situation in the Less-Developed Countries

A few years ago serious concern about the food situation of many less-developed countries arose from examination of their food production records, and also from study of patterns of world grain trade. It appeared that a number of these countries were becoming increasingly dependent on external sources of food, especially grains. Thus, it was feared that they were losing the capacity to feed themselves, with serious implications, not only for nutrition, but also for trade and aid policies. To a considerable extent this concern was allayed by the success of some countries for several years (especially from 1968 to 1971) with higher yielding varieties of crops, especially wheat and rice.

Recently there have been reports of a number of problems associated with the implementation of the new technology in the less-developed countries. These problems include:

1. The need for better water control systems.
2. Salinity and water logging.
3. Inadequate pest control.
4. Inadequate food storage.
5. Excessive reservoir siltation.

Some headline writers and doomsday prophets seem to think that these difficulties indicate that the "Green Revolution" has failed. I don't think so. There are real problems, but I think that most of them can be alleviated by better management, appropriate policies, and improved technology. Our food production indices indicate that there has been an overall, long-run improvement in the world food situation and our projections still indicate that per capita nutritional levels in the less-developed countries are likely to continue to improve.

6. Possible Decisions by the Petroleum-Producing Countries

The export of petroleum seems likely to produce very large amounts of foreign exchange for some of the less-developed countries. As oil revenues and foreign exchanges reserves rise, the governments of these countries may encourage investment in enterprises producing broilers or feeding cattle. If they do, there will be rising demand for grains and oilseeds for livestock feeds in countries which have heretofore been very small markets.

Some oil exporting countries already have large foreign exchange holdings and a liberal import policy. Libya's imports of agricultural products quadrupled from 1962 to 1969, as imports of both meat and livestock feeds rose rapidly. On the other hand, Venezuela and Trinidad show downtrends for meat imports but uptrends for animal feedstuffs.

7. Possible Substantial Progress in Liberalization of World Agricultural Trade

In 1973 it is planned that a new round of international negotiations will be started to reduce barriers to trade, with special attention to agricultural trade. If substantial progress could be made in this direction, the impact on U.S. agricultural trade could be large. The comparative advantage, or disadvantage, of U.S. agriculture varies widely among commodities, and free trade would necessitate substantial adjustments, but there is little doubt that our overall agricultural trade would benefit greatly.

8. Possible New Patterns of Food Consumption

Recent rates of economic growth in a number of countries are unprecedented. It has been suggested that the very rapid rates of growth of incomes, together with rapid urbanization, social changes and improved communications, may be changing the demand for foods much faster than would be expected from looking at past patterns of change. This issue is important, but unfortunately the evidence is very limited.

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This catalogue of uncertainties suggests that one is not justified in having much confidence in forecasts of U.S. agricultural exports for the rest of this decade. Some of the developments discussed above are so new that they have had little effects on trends, and others will be largely determined by political decisions, which are not quantifiable, at least not by mere economists. However, it is important to try to peer into the future, so we try.

The Food and Agricultural Organization of the U.N. and the Economic Research Service of the USDA have each prepared long-run projections of world production, utilization, and trade of agricultural commodities.

In 1971, FAO published a set of agricultural commodity projections for 1970-80. This study was a continuation of previous FAO studies of the outlook for agricultural commodities. The data used generally extended through 1969 or 1970.

FAO's projections suggest that:

* World agricultural trade will expand by about 2.5 percent a year.

* The tendency for the less-developed countries to provide a declining share of world agricultural exports will cease and perhaps be reversed.

* The share of food and feed in world agricultural trade will rise, that of beverages and tobacco as a group will remain unchanged, while the share of agricultural raw materials will continue to decline.

* Substantial surpluses (or surplus capacity or downward pressures on prices) will grow for coarse grains, wheat, rice and oilseed products, with smaller surpluses for tea, citrus fruit, bananas, textile fibers and rubber.

In 1970 the Economic Research Service published projections of production, use, and trade of agricultural commodities to 1980. We are revising and extending these to 1985. I have some preliminary results. Our projections generally assume no significant change in government policies and continuing rapid growth of the world economy. These projections are based largely on the analysis of trends, and they abstract from cyclical phenomena. They also assume normal weather conditions, and thus have discounted years such as 1972, which brought poor weather to a number of countries, or some of the exceptionally good weather years of the past.

Our projections also suggest that under normal weather conditions the world's capacity for production of cereals will increase faster than consumption and that thus there will likely to a rebuilding of wheat stocks, or downward pressure on some prices, or programs to restrict production in the major grain exporting nations, or some combination of these. We expect consumption and trade of wheat and rice to grow less rapidly than that of coarse grains. The growing need for feed for livestock and poultry improves the outlook for coarse grains.

Our projections suggest that countries in the developed and in the centrally-planned parts of the world will continue to be the major producers and consumers of wheat and coarse grains. Grain exports will continue to flow mainly from the five or six major developed country exporters. We expect the less-developed countries as a group will continue to import wheat, rice, and coarse grains despite substantial increases in their grain production. China will probably import wheat and export rice.

We have made two alternative projections of grain imports by the Soviet Union and Eastern Europe and the less-developed countries. One set suggests that the Soviet Union and Eastern Europe will be close to self-sufficiency in grains in 1985. Policy decisions and trade relations could change this, and so we have made another set with substantial net imports of grains by those countries. At the same time, for this set we have assumed a more rapid expansion of livestock and poultry production in the less-developed countries, and therefore a greater need for imports of feed. Decisions regarding levels of stocks needed and the amount of animal products to be produced, or a series of years with bad weather could significantly change this picture.

The growth in world demand for animal products, especially meat, will also be reflected in continued growth in demand for high-protein feeds. Our analysis indicates that supplies of fishmeal will not expand as rapidly as demand. Thus, our projections indicate considerable potential for expansion of soybean meal exports. The relative price ratios and trade regulations will determine whether the protein is shipped in the form of beans or meal, but recent rapid increases in crushing capacity in major importing regions make it logical to assume most of the growth in exports will be in the form of beans.

Our projections indicate that meat will continue its strong growth and we expect the upward trend in meat prices of the last decade to continue. World meat demand will remain concentrated in North America and Western Europe. These regions produce most of their own meat but with Japan they will remain the markets toward which meat in international trade will tend to flow. We expect the bulk of supplies for the long-distance international trade in meat to continue

to be generated by Oceania and Argentina. U.S. imports will continue to rise, but EC's net imports probably will decline as a result of stimulated production by the new members. Consumption and imports are likely to rise rapidly in Japan.

Ample supplies and relatively low world prices for dairy products are projected to continue to 1985. However, there probably will be significant changes in trade patterns. The enlarged European Community will have net exports of about a million tons in milk equivalents, and will close off the United Kingdom as a market for Australia and New Zealand. Due to the loss of the U.K. market and the increase in world demand for beef, Australia will probably shift some resources from dairy to beef production, and by 1985 Australia may cease to be an important exporter of dairy products. New Zealand's production will increase slightly due to yield increases, but dairy cow numbers will decline. Japan and non-EC Western Europe will be the major importers of dairy products.

We have summarized our projections for U.S. exports in terms of the percentage increase by 1985, and in terms of average annual compound growth rates, using the average levels of fiscal 1970 through 1972 as a base. A summary table is attached to copies of this speech.

Our two alternate sets of U.S. feed grain exports imply quantity increases of either 33 percent or 101 percent. We are, however, projecting some price increases, so the value of these exports would grow faster than the quantity. Under the higher set, the U.S. share of world markets would grow.

We project that the quantity of U.S. soybean exports will be nearly 85 percent greater than base period levels, with a large increase in prices (although lower prices than at present). Our projected exports for the quantity of oilcake and meal are up about 40 percent and for oil, about 20 percent. For vegetable oils, our projections indicate relative price stability.

We expect cotton exports to increase about 25 percent in quantity, wheat also about 25 percent, and rice about 40 percent.

When we add up all our commodity projections, and multiply them by the higher prices we expect, we find we have projected total exports of about $13 billion or $14 billion of farm exports in 1985. This is more than would be achieved by mere extension of the 20 year trend in our total agricultural exports, which I mentioned earlier. Extended to 1985, that trend would reach a

value of about $11 billion, which we seem to be attaining this year. Of course, as I mentioned earlier, this long-term trend shows little or no price increase, and it also does not reflect the possibility of a substantial market in the Soviet Union

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Let me end with some warnings, especially to anyone who may not have been listening when I referred to the various situations which necessarily make projections or forecasts of our farm trade very uncertain at this time. In concept there are two important facets of such projections. The level of the projection and the confidence which one has that actuality will fall within a specified range around that level. I have given you the former facet, and have only warned you about the latter. That's the best I can do for you today, but I hope I have made clear my belief. Combinations of developments in the situations I have discussed could make actual trade very different indeed from these projections.

U.S. agricultural exports, 1969/70-1971/72 average and projected 1985

Commodity	Quantity		Value						
			Projected 1985			Percent change 1970-85			
						Total		Annual rate	
	1969/70-1971/72 average	Projected 1985	1969/70-1971/72 average	At 1970 prices	Projected 1985	At 1970 prices	Projected prices	At 1970 prices	Projected prices
	Million metric tons		Million dollars			Percent			
Wheat	17.5	22.0	1,064	1,338	1,584	26	49	1.5	2.7
Feed grains	20.0		1,094						
Low		26.6		1,457	1,609	33	47	1.9	2.6
High		40.1		2,195	2,586	101	136	4.7	5.9
Rice	1.7	2.3	305	430	517	41	70	[illegible]	3.6
Soybeans	11.4	20.9	1,245	2,274	3,187	83	156	4.1	6.5
Oilcake and meal	3.9	5.5	338	481	798	42	136	2.4	5.9
Vegetable oils	1.0	1.2	295	350	356	19	21	1.1	1.3
Cotton, ex. linters	.7	.9	456	571	635	25	39	1.5	2.2
Livestock and meat products	--	--	674	1,005	1,100	49	63	2.7	3.3
Other	--	--	2,039	3,020	3,300	48	62	2.7	3.3
Total	--		7,510						
Low		--		10,925	13,086	45	74	2.4	3.5
High		--		11,664	14,063	55	87	2.8	4.3