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FOREIGN TRADE, POLICY, AND DEVELOPMENTS

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As a conference theme, the future structure of American agriculture is certainly a worthy one. I am glad to see that subject considered in such depth by this distinguished annual gathering.

One fact that has come home most sharply to all of us this year is that our agricultural future cannot be appraised within a strictly domestic context. We must attack the question: What is happening in other countries, and what does this mean to the future of our own agriculture?

U.S. wheat exports in this marketing year are equivalent to three-fourths of the 1972 crop. Soybean exports exceed one-half of last year's crop. Feed grain exports will total over a billion bushels.

With overseas customers making up those proportions of our commodity markets, it is obvious that we have to take careful account of developments in other countries. The way other people live, and want to live, becomes basic to our production and marketing strategy -- almost as essential to planning as are trends in our own country.

It is apparent that the growth in world demand is more than just a demand for food. It's a change in the nature and quality of that demand. You might call it the protein principle -- the idea that as incomes rise people will demand more and better quality proteins.

It is still a fact that some five-sixths of the world's population cannot yet afford poultry, meat, or dairy products. Their grains and vegetable proteins must go directly into human consumption. But things are changing -- and there is ample evidence of what happens when a people can afford the beginnings of an animal protein diet.

May I take a few moments to detail food and agriculture developments in a few key countries -- developments that affect American agriculture, present and future. Then I would like to talk about some of the things we are doing -- and will do -- to assure growth in U.S. agricultural trade.

The Soviet Union

Again, in the Soviet Union this year, winter crop conditions seem to be far from ideal. Last fall's winter grain plantings in the USSR are estimated at 67 million acres -- which is 20 percent or 17 million acres below the acreage planned. This shortfall was due to summer drought followed by too much rain and some other problems.

Moreover, much of this smaller planting seems to be vulnerable to winterkill due to the fact that snow cover is unusually light in key areas. No winterkill has yet been reported by the Soviets, but the next few weeks should tell the story. Normally winterkill in the USSR seems to be about 10 to 15 percent; last year's winterkill was 30 percent, which was the beginning of the Soviets' grain problem last year.

This spring, the Soviets will need to plant enough spring grains to make up the shortfall in winter grain plantings and the possible winterkill. This is not an impossible task, but it will be difficult. And spring weather will be an important factor. Last spring, the USSR planted 200 million acres, but the crop was cut short by drought. Drought, not winterkill, caused most of the USSR's grain reduction in 1972.

The USSR's 1972 grain crop is estimated at 122 million tons on a usable basis, including wheat, rye, barley, oats, and corn, which compares with 140 million tons in 1971. The Soviet grain goal for 1973, on a comparable basis, is about 150 million tons. Total domestic requirements are projected at about the same level. Moreover, even if the production goal should be attained, the USSR would probably need to import some grain anyway to permit normal exports or some stock buildup. We believe it will take better than average weather to attain the Soviet goals.

We believe it is significant that, despite their grain production problems, the Soviets have chosen to try to maintain their livestock base. Year-end hog numbers were down 7 percent -- a small drop compared with a decline 6 times that large following the poor crop in 1963. Sheep and goat numbers were up more than 1 percent. We believe this means the Soviets are still very serious about attaining their livestock goals in the 1975 plan.

People's Republic of China

The People's Republic of China, like India, is a country of such size and population growth, that even small per capita changes assume enormous magnitude when multipled by well over 700 million people. The potential of the Chinese market has tantalized Westerners ever since the days of Marco Polo -- a potential that has never been fully realized. But again, there is a mighty stirring, as the Chinese move to establish more normal trade relations with the West. The question arises: What does this mean to American agriculture and trade?

Mainland China is itself an agricultural nation, historically more likely to export farm products than to import them. Still, the Chinese have for several years been customers for Canadian and Australian wheat, and this year they have turned West for substantial quantities -- including purchases from the United States of about 22 million bushels. The Chinese in most years have imported about 150 million bushels of wheat.

In addition to American wheat, the People's Republic of China has bought at least 24 million bushels of corn from this country. It has also taken about 22 million pounds of soybean oil and a similar amount of linseed oil.

Finally, it appears that about 500,000 bales of U.S. cotton have been sold to the People's Republic of China. Part of this may be attributed to increased consumption, but a production deficit appears to be the main factor. China's 1972-73 cotton crop may be a million bales or more below last year's production of about 7-1/2 million bales.

U.S. agricultural sales to the People's Republic of China in the year ending June 30 are likely to exceed $175 million.

India

There has been great hope for the Green Revolution in India, and there can be no doubt that improved grain varieties have made a tremendous contribution to food supplies in the past few years. This year, however, has brought the realization that India's ancient and chronic food problem has not been completely solved.

After 5 years of favorable monsoons and steadily rising food production, India this year was hit once again by the drought that periodically strikes it agriculture. The result was India's smallest grain crop since 1968 -- representing an estimated decline of 7 million tons from a 1971 crop of 91.2 million metric tons. For the average Indian, this could mean significant decline in per capita food supplies.

India's rising grain production in the 1968-71 period not only made possible a reduction in imports, it increased per capita supplies of grains even in the face of rising population. In order to maintain satisfactory consumption levels, India will need to import grain in 1972-73. In fact, purchases have already been made for an estimated 1.5 to 2 million tons.

Japan

Much of the emphasis on our agriculture's foreign markets this year has been on the new ones -- the Soviet Union and the People's Republic of China. It is important to remember, however, that Western Europe and Japan are still our two big markets. We have done well in both of them this year.

It is in Japan, however, where our market footing is more sure. We are well on our way to obtaining a $2 billion market for U.S. farm products in Japan. This year we will sell the Japanese nearly 10 million metric tons of grains plus 3 million tons of soybeans.

Japan is an island with a modern industrialized economy that must import about one-quarter of its food needs. More than half of these imports come from the United States. The welfare of the American farmer and that of the Japanese consumer are inextricably bound together.

Per capita meat consumption in Japan has doubled in the past decade but is still low by Western standards. Meat consumption per capita is expected to double again in the coming decade. Milk consumption will also rise but by a lesser amount. Per capita egg consumption is now high and cannot be expected to increase much more.

These expected increases, however, all spell opportunity for American agriculture, particularly for the producers of those commodities needed for livestock feed. We hope to double our feed grain exports to Japan during the 1970's. We expect our soybean sales to grow at an annual rate of 7 percent. .The growth in wheat exports will be slower but we expect to continue to hold our 50 percent share of the market.

Republic of China

Nowhere has the impact of foreign incomes on demand for U.S. grains and soybeans been more dramatic than on the Republic of China. Not many years ago, the 15 million people on Taiwan were a PL-480 market for U.S. grains. Today Taiwan is one of our leading cash customers for both grains and soybeans. We see even greater potential in the future.

Taiwan will import more than 2.5 million metric tons of grains and oilseeds in 1972/73. Next year we expect Taiwan to import nearly 3 million tons. Three-fourths of these exports are from the United States.

Taiwan's demand for imported grains and soybeans has mushroomed during the past several years. There are several reasons for this growth. The most important one is the rapid rise in per capita incomes which in turn is associated with industrialization and the trend toward urbanization.

Industrial production on Taiwan has been expanding at a rapid rate. This has been creating more jobs which have generated more income. Consequently, the people have more money to spend on consumer goods, including food. The higher incomes have increased the demand for more wheat foods, more vegetable oil and more animal proteins--more eggs, poultry meat and pork.

Not only has the industrialization and urbanization caused an increase in overall demand for more expensive foods, they have also had an impact on production technologies on Taiwan farms--especially in livestock production. Taiwan farmers no longer feed their pigs only sweet potatoes. Sweet potato production requires too much labor. It is more economical to take a part time job in industry and buy mixed feeds to feed the pigs. The mixed feed is, of course, comprised of imported grains and soybeans--much of which is from the United States.

Thus far the demand for feeds in Taiwan has been mostly related to the hog industry. Per capita consumption of pork on Taiwan is high by Asian standards. It is about 60 pounds per capita. It has increased 50 percent during the past decade and is triple the per capita level in Japn.

The increase in the feed demand for hog production on Taiwan is being further spurred by a joint venture opened last year between a local Taiwan company and an American company. This operation is producing pork on a large feedlot basis and is creating further demand for imported feedstuffs.

Taiwan's future in livestock production may not be restricted to hogs. The island has large acreages of productive grasslands that may provide the basis for a modern beef industry. These possibilities are now under study by the government as well as private interests. The explosion in feed demand on Taiwan may just be beginning.

Korea

The economic situation in South Korea is in many respects similar to that on Taiwan. The people are ambitious and achievement-oriented. They are driving hard toward industrialization which in turn is leading to higher per capita incomes and more urbanization.

The industrialization process, the trend toward urbanization and the rise in per capita incomes are again creating a strong demand for U.S. farm products. Wheat foods are becoming more important in Korean diets. The people are eating more eggs and poultry meat. Pork and beef industries are being started.

This year, South Korea will import nearly 3 million tons of grains--wheat, rice, barley and corn. Most of these imports will be from the

United States. The first crushing plant for soybeans opened in Korea about a year ago. At least three American firms have feed operations in Korea. A modern grain silo is being built at the port of Inchon.

All systems in Korea are on "go." In the longer-term, we see even a greater potential in Korea than on Taiwan--the main factor being the many more potential consumers--over 30 million already.

If there is a common thread that runs through the foregoing discussion of developments in key countries, it is this: Population expansion, technological advancement, and income growth are resulting in a definite rise in demand around the world -- and in some countries this increase is spectacular. Associated is a rise in expectations resulting in part from developments in communications, transportation, and tourism. The result is that in most countries there is a definite rise in per capita consumption of the foods that we identify with rising incomes.

Trends in per capita consumption of red meat in the past decade are virtually a mirror of income growth. Between 1961 and 1971, all of the East European countries expanded consumption of red meat, and the Soviet Union increased its per capita use from 63 pounds to 89 pounds.

Every country in Western Europe expanded its per capita consumption except for Denmark and the United Kingdom, which remained about constant. Italy, Portugal and Spain each increased per person consumption on the order of 50 percent, starting at relatively low levels. Greece jumped its use of red meat from 45 pounds to 87 pounds per person.

Japan's per capita consumption increased by 2½ times in the ten years. Taiwan's people upped their average use of red meat by almost one-half. In the Middle East, Israel stood out as a gainer, increasing its per capita meat consumption by about half.

With a continued rise in incomes in those countries -- and with the opportunity for a takeoff in production technology in some of them -- the opportunity for expanded sales of U.S. feedstuffs would seem to be extremely promising. Some of the European countries, for example, might well find that "American style" feeding systems could do much to expand their meat production, to the benefit of their consumers and our grain and soybean producers.

All of this seems to indicate a bright future for agricultural exports--especially of those commodities where we have a sizeable natural advantage. It assumes, however, that we do the things necessary to continue expanding markets and producing for those markets.

Others have spoken at this Outlook Conference of the growth of farm exports this year to another record high. I might add that in just four years our commercial sales for dollars have doubled!

Growth like this requires a commitment on our part to produce for market needs and to provide the kinds and qualities of products required. In the Agricultural Act of 1970, Congress and the Administration agreed that farmers should have additional freedom to produce for the market, and that the farm programs should work in such a way as to encourage, not discourage, the marketing of U.S. commodities overseas. This policy has worked well.

Because of the flexibility available to us in the present act, we have been able in recent months to make a number of adjustments in programs and in the handling of stocks. These changes have helped to move additional grains to market during a period of high demand. They have helped to expand expected plantings of grains and soybeans in 1973.

* We announced that price support loans on grains will not be extended beyond current maturity dates. This has the effect of increasing market supplies by some 330 million bushels of wheat and over a billion bushels of feed grains.

* We have taken action to move government-owned stocks of grains into the market. Under this policy, the Commodity Credit Corporation has sold 278 million bushels of wheat and 200 million bushels of feed grains.

* We have announced farm programs for 1973 designed to bring about increased acreages of grains and soybeans. The required set-aside for wheat was eliminated in order to bring an additional 7.5 million acres into production. The feed grain set-aside was limited to 25 percent, with no additional set-aside required, which will increase planted acreage by 11.6 million acres. The cotton set-aside requirement was eliminated, freeing about 2 million additional acres for any crops that producers want to plant.

* Finally, the Department announced that livestock forage can be grazed or harvested from acreage set aside under the wheat and feed grain programs this year. This will further add to the livestock feed supply, helping producers to meet the oncoming demands for livestock products.

As a result of these changes in the 1973 programs for cotton, wheat and feed grains, it is anticipated that there will be nearly 40 million fewer acres set-aside than the 61½ million acres set aside in the 1972 programs. It is estimated that this will result in an additional 225 million bushels of wheat and 20.6 million tons of corn. In addition, changes in the feed grain and wheat programs will assist in expanding the soybean crop by some 7 million acres or an estimated 237 million bushels.

This implies a continued policy favoring farm policies geared to the satisfaction of human needs and desires -- in other words to a market agriculture. This policy -- of utilizing the market rather than Government as the primary guide to production decisions -- will be up for renewal in this calendar year.

To summarize the Administration's views on farm legislation, we favor extension of the Agricultural Act of 1970, with some variations.

We favor retention of the mechanism for setting aside a part of agriculture's excess capacity as the supply-demand situation in agriculture dictates. We favor a continuation of the principle of farmer freedom -- that is, the freedom for a producer to adjust his operation as he determines to be to his best advantage. We favor a continuation of the ban mechanism whereby loans provide an emergency floor under prices and a credit tool for farmers.

We favor changes that would phase down supplemental income payments, especially at a time when farmers have been able to increase their income from the market place. Other recommendations call for changes in the base and allotment structure: We recognize that the wheat, feed grain and cotton bases and allotments established over a decade ago are increasingly out of

date, and we favor a transition to a cropland base for individual farms.

The Balance of Trade Problem

Let me emphasize that the decision for an export-oriented agriculture has already been made. It is already being implemented, and has been for some time.

The machine is rolling, and we are not going to throw it into reverse. One reason is that this policy satisfies human needs and desires in many countries. Secondly, our farmers are benefitting from this trade expansion and have already made many of their expansion investments. Thirdly, our yields and our productice capacity are still growing. The final reason we are not going to reverse it is our balance of trade.

We do have a balance of trade problems, and its serious.

Ten years ago the United States had a balance of trade surplus running from $5 to $7 billion a year. In 1971 this nation had the first trade balance deficit of this century, and in 1972 we ran into the red by a startling $6.4 billion.

The reason is that the competitive situation in the world market has changed dramatically. Usually in the past, the United States, even with higher wages , had such a lead in the industrial and scientific revolutions that it could produce and distribute more goods than anybody else.

But now many countries have mastered the arts of the computer age, and are maintaining high levels of productivity. with lower labor costs.

The result has been two devaluations of the dollar in the last year and a half.

Agriculture's Role in Balancing Trade

As we face the problem of correcting our balance of trade, agriculture stands out as one of the top export industries in the American economy, and one of the primary areas where our trade earning can be increased.

Agriculture can earn more export dollars, and here's why:

Commercial markets for farm products are growing fast around the world. More people with more money are trying to improve their standards of living--and eating--today than at any previous time in history.

American farmers are the most productive and efficient in the world. With the technology and management skills of the American farmer, yields per acre have risen dramatically. Output per man-hour has tripled since 1950, rising some 6 percent per farmer per year (compared with 2.6 percent in our off-farm industries). Farmers have twice as much investment per farm worker as off-farm industries, indicating the high level of capitalization and technology in the industry.

We have spent more than a hundred years building an agricultural support system for education,research and extension that has given us the best-educated and most highly skilled corps of farm managers in the world. We are now in position to make full use of this groundwork to build our agricultural potential.

We have the world's best agricultural infrastructure. We have the farm supply industries to provide new machinery, seeds, chemicals and other inputs; and the marketing and transportation systems to get the farm products to market after they are produced.

America's farmers have a comparative advantage in producing grains and oilseeds -- the hottest items in the world's growing agricultural trade. World feed grain trade has been growing 9 percent a year for the past 3 years. World oilseed trade has been jumping 8 to 10 percent a year since 1960. The United States is already the world's leading producer of these items, and in most recent years we have also held millions of acres out of crops under government programs.

It would make pitiful economics for the world to invest huge sums of development capital bringing raw land into soybean production in Brazil, for example, when the United States was spending large sums of public money to hold soybean acres out of production here.

We have already made major adjustments in American agriculture to enable it to meet the growing demand for farm products around the world.

We have enacted a market-oriented farm law, the Agricultural Act of 1970, under which we have taken several major steps to adjust our agriculture to the market. We have freed farmers from the historical straight-jacket of allotments and bases. Farmers have used their management freedom to change the cropping patterns on millions of acres across the country. They have shifted these cropping patterns to meet market demand for particular farm products and to cut their production costs. American agriculture is even stronger and more competitive today as a result.

U.S. farmers have also made major investments in equipment and land in response to the strong world food demand reflected in high world market prices.

To foster straightforward competition we have also suspended our export subsidies on wheat and tobacco, and cut back drastically on barter agreements. We have opposed international commodity agreements aimed at market-sharing and price-fixing.

This year we are freeing an additional 40 million acres of cropland -- which were retired under government set-aside programs last year.-- to produce crops needed in the world market.

All of these investments and commitments have been made with the hope that U.S. agriculture will now get the opportunity to make its full contribution to our economy and to solving the nation's balance of trade problem.

U.S. Agriculture is already one of the major contributors to the U.S. balance of trade. This year our exports of farm products will total some $11 billion. To put that in perspective, let's note that it is about the same total as our exports of all industrial machinery last year. It is more than three times our total chemical exports, and four times the total of our consumer goods exports.

Let's note also that last year we imported $3.7 billion worth of fuel and lubricants, $7.9 billion worth of automobiles and parts, and $8.6 billion worth of consumer goods. Our farmers more than offset all our imports on TV sets, cameras, lace handkerchiefs and so forth.

Obviously, agriculture is already playing an important part in keeping this nation solvent, and making it possible to buy the items we want from overseas. The decision for a market-oriented U.S. agriculture is already paying off -- for the nation and for our farmers.

We believe that American agriculture can do even more in the future, however -- if we can compete freely for markets.

Trade barriers are one of the keys, however, to effective use of the world's resources.

Our trading partners around the world have a number of trade barriers that are keeping U.S. products from competing effectively. Other trade barriers have the effect of forcing exports from their countries into the U.S. market.

In Western Europe, for example, the Common Agricultural Policy has frustrated our efforts to increase our farm exports.

The Common Market countries are particularly important to the United States for several reasons. First the EC is a large market -- people with high incomes and tremendous spending power. Secondly, the EC is private-trade oriented; we can count more heavily on their business than we can a centrally-planned economy where one government decision could suddenly cut off a market. Finally, the EC is important because it now runs a trade surplus with the United States.

In addition to agricultural barriers, the EC restricts much of the goods Japan would like to export to it -- which is one reason why so much of the Japanese output pressures the U.S. market.

Japan, in its turn, unduly protects itself against a whole range of American industrial and agricultural goods by tariffs and other means. These have been reduced over the years, and we hope they can be reduced further in the future.

We are seeking multi-lateral negotiations as a means of achieving progress toward our goal. First, we are preparing for talks, beginning next month, aimed at protecting the trading rights of our agriculture in relation to the enlarged EC. Second, we are preparing for general negotiations toward world-wide liberalization of trade -- negotiations that we hope can get under way this fall.

With or without trade negotiations, however, we must balance our trade if the American economy is to remain viable. We know that we have a big comparative advantage in agriculture which could go a long way toward solving the balance of trade problem. We have made the basic investments and commitments to permit this agriculture to expand and contribute.

Having taken these steps we must increasingly put pressure on barriers which prevent one of our most efficient industries from assisting in the balance of payments improvement which is really in the interest of our trading partners too.

We would prefer to solve the balance of trade problem through trade liberalization. If each country lowered its trade barriers so that goods and services could flow freely, then the principle of comparative advantage would work to even out trade balances.

However, if we cannot solve the trade balance problem through trade liberalization then we may have to take more direct action.