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AGRICULTURAL OUTLOOK CONFERENCE 1985

**AGROCON  
LANVOKON**

LANDBOU-VOORUITSKOUINGSKONFERENSIE 1985

**'85**

**PRESENTED BY —**

- Agricultural Economics Association of South Africa
- Co-ordinating Committee of Agricultural Marketing Boards
- Department of Agricultural Economics and Marketing
- Department of Agriculture and Water Supply
- SA Agricultural Union

**CSIR CONFERENCE CENTRE  
Pretoria**

**16 AND 17 JANUARY 1985**



**South African**

**Sugar Association**

8th Floor Norwich Union House  
Durban Club Place, Durban 4001  
P.O. Box 507, Durban 4000  
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Telephone 318952

**19th December 1984**

**ERRATA**

**PAPER SUBMITTED BY THE SOUTH AFRICAN SUGAR ASSOCIATION  
TO THE AGRICULTURAL OUTLOOK CONFERENCE 1985**

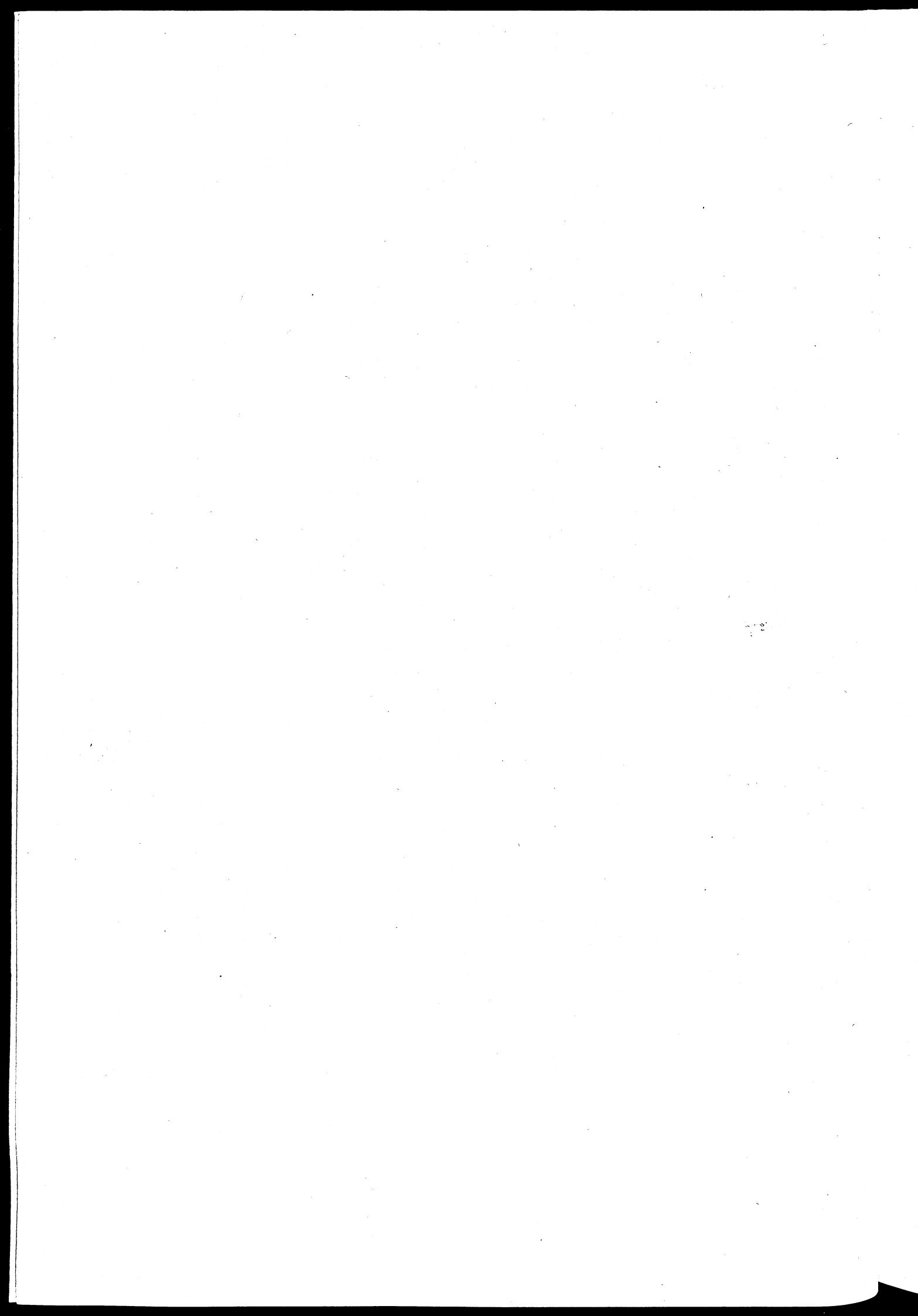
**Page 6.**

**Insertion of first line under heading :**

**"requirement for the season is marginally under R200 million which will result"**

**Page 8**

**The percentage quoted in the third line should read "4,0%" - not 40%.**



A G R O C O N '85  
THE SIXTH AGRICULTURAL OUTLOOK CONFERENCE

D A T E  
WEDNESDAY 16 AND THURSDAY 17 JANUARY 1985

O R G A N I S I N G C O M M I T T E E

Co-ordination Committee of Agricultural Marketing Boards

Mr S P van Wyk (Chairman)  
Mr P E Roux

- S A Wool Board  
- Dairy Board

Agricultural Economics Association of South Africa

Prof J A Groenewald  
Dr C J van Rooyen

- University of Pretoria  
- Development Bank of Southern Africa

Departement of Agricultural Economics and Marketing

Mr H S Hattingh  
Mr R P G Kotzé

- Chief Director: Economics  
- Chairman: National Marketing Council

Department of Agriculture and Water Supply

Dr A J Heyns

- Chief Director: Co-ordination

South African Agricultural Union

Mr P H Swart (Vice-chairman)  
Mr J F van der Merwe (Secretary)

Co-opted Member

Mr G J O Basson

- Sentrachem Limited

T H E M E A N D P U R P O S E

The conference results from a recommendation by the Commission of Enquiry into the Marketing Act that such a conference be held either annually or half-yearly.

The primary aim of AGROCON '85 is to examine thoroughly the position of agricultural price policy, the costs of inputs, the mutual relationships between the various branches of agriculture, as well as the different approaches of the interested parties concerned. The result of this will then be projected on the future so that meaningful forecasts of the different sectors in agriculture can be made. These forecasts may serve as guidelines for agriculture in the future.

A further aim is to make a positive contribution to agricultural economy and the economy in general, as well as to effectuate better co-ordination amongst Organised Agriculture, and between Organised Agriculture and other interested groups.

E N Q U I R I E S

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AAA

TOESPRAAK DEUR SY EDELE G J KOTZÉ, LP, ADJUNK-MINISTER VAN LANDBOU-EKONOMIE EN VAN WATERWESE, BY GELEENTHEID VAN DIE AMPTELIKE OPENING VAN DIE LANDBOU-VOORUITSKOUINGSKONFERENSIE (LANVOKON '85) IN DIE WNNR SE KONFERENSIESENTRUM, PRETORIA, OP 16 JANUARIE 1985

Bedank vir uitnodiging.

By die deurlees van LANVOKON '85 se program, kom 'n mens onder die indruk van die wye spektrum van landbou- en landbouverwante sake wat weer vandag en mōre die aandag van konferensiegangers gaan geniet.

Ewe indrukwekkend is die verskeidenheid van belanggroepe wat hier verteenwoordig is. Soos u seker weet, geskied bywoning van hierdie jaarlikse Landbouvooruitskouingskonferensie streng volgens uitnodiging en poog die organisers dan ook om sover moontlik verteenwoordigers van alle instansies en belang wat direk of indirek betrokke is by die landbou in Suid-Afrika tydens hierdie konferensie saam te trek. Ek weet tewens van geen ander geleentheid in die Republiek waar daar jaarliks soveel "landboubreinkrag" saamgetrek word nie.

Most of you can surely recall a time, not so long ago, when matters proceeded much more easily on the agro-economic front than at present. Until comparatively recently the high interest rates of today were absolutely unthinkable; farm debt not nearly such a pressing problem as it is at present; and, going back a little further in the recent past, our inflation rate was practically at the same level or even lower than those of our principal trading partners. In addition, never since the thirties has there been such a severe economic recession as the world has experienced during the past few years. These occurrences, together with a floodwave of protectionism and other disrupting trade practices at international level, have unmistakably exerted their influences on the economy of South African agriculture, including the marketing of agricultural products.

AA

In the field of physical production circumstances we have also had setbacks. Vast tracks of land in the Republic have been afflicted for the past three years or so by one of the severest droughts in this century, while other parts of the country had to suffer the devastating consequences of cyclones. In this process not only was agricultural production adversely affected, but agricultural land, our principal natural resource, has deteriorated alarmingly.

I have mentioned these occurrences to you without wishing to paint a picture of despair over agriculture and agricultural prospects - there is surely enough reason for confidence in our future. I have merely mentioned these happenings in passing to make all concerned in agriculture once again aware of the continuously changing circumstances in which agricultural products must be conducted. By their very nature these fluctuating circumstances cause a measure of uncertainty amongst agricultural producers and insofar as the profitability of their products is concerned, adjustments in their farming systems and practices are inevitable. Furthermore marketing systems and techniques which worked well in the past, cannot be applied indefinitely and rigidly in their original form. Changing circumstances dictate that these similarly will have to be adapted continuously.

Bewus van sy verantwoordelikheid teenoor die landbou, en gedagting aan die rol wat landbou te vervul het ten opsigte van die optimale ekonomiese, staatkundige en maatskaplike ontwikkeling van die Republiek, het die Regering dit goedgedink om Suid-Afrika se landboubeleid te herformuleer om by veranderde omstandighede aan te pas. Die Witskrif oor die Landboubeleid van die Republiek van Suid-Afrika wat verlede jaar deur die Parlement aanvaar is, is reeds by verskeie geleenthede indringend bespreek en die media het ook breedvoerig daaroor gerapporteer. Ek wil dus nie vandag veel daarop uitbrei nie, behalwe deur te sê dat hierdie beleidsverklaring gesien moet word as 'n herbevestiging van die Owerheid se erkenning van die landbou as een van die sleutelbedrywe in die volkshuishouding asook 'n herbevestiging van die Owerheid se voorneme om deur sy rigtinggewende en regulatoriese rol die landbou so te laat ontwikkel dat daar deurentyd aan die eise van die toekoms voldoen sal kan word.

✓✓✓

Een van die maatreëls wat in die Witskrif uitgespel is, is die struktuur in die Owerheidsektor wat daargestel is om toe te sien dat die gestelde beleidsmikpunte binne die raamwerk van die geformuleerde beleid verwesenlik word. Dit bring my by die nuwe grondwetlike bedeling waарoor ek graag 'n paar opmerkings wil maak. In ooreenstemming met die konsepte Algemene Sake en Eie Sake is die voormalige Departement van Landbou op 1 September 1984 in twee afsonderlike departemente verdeel, naamlik die Departement van Landbouekonomie en -bemarking en die Departement van Landbou en Watervoorsiening, elkeen met sy eie ministerie en afgebakende werksveld. Terselfdertyd is daar afsonderlike portefeuilles geskep waarin landbou-aangeleenthede van die ander betrokke bevolkingsgroepe, naamlik die Kleurlinge en die Indiërs, as Eie Sake behartig kan word. Ofskoon dit verwag kan word dat hierdie nuwe strukture in die nabye toekoms nie 'n wesenlike verandering in die bediening van die landbou sal meebring nie, meen ek dat dit realisties sal wees om te verwag dat Kleurling- en Indiëerlandbou mettertyd sal verstewig om 'n groter bydrae as tans tot die voedsel- en veselbehoeftes van hierdie subkontinent te lewer. Voorsieners van insette aan hierdie subsektore en die afnemers en bemarkers van hul produkte, sal gevolglik kennis van hierdie ontwikkelings moet neem en hul funksies daarby aanpas.

Betreffende voedselvoorsiening het die knellende droogte van die afgelope tyd en die feit dat Suid-Afrika, benewens ander landbouprodukte, noodge- dwonge aansienlike hoeveelhede mielies moes invoer, die noodsaaklikheid beklemtoon om 'n strategie te ontwikkel waardeur die deurlopende voorsiening van voldoende voedsel aan 'n groeiende bevolking verseker kan word. In hierdie verband wil ek noem dat daar in die jaar 2020 na raming slegs 1,5 hektaar landbougrond per kop beskikbaar sal wees vergeleke met 5,5 hektaar in 1970. Die eise wat vorentoe aan die landbou as enigste voorsiener van voedsel gestel gaan word, kan derhalwe nie onderskat word nie en ek is bly om te kan sê dat die Departement van Landbou-ekonomie en -bemarking reeds op hoëvlak besig is om in ooreenstemming met die mikpunte wat in die Witskrif geformuleer is, daadwerklike aandag aan die ontwikkeling van 'n voedselstrategie vir ons land te gee.

Verhoogde landbouproduksie hang vanselfsprekend baie nou saam met die verhoging van die produktiewe vermoë van ons natuurlike hulpbronne wat, soos u weet, aan ernstige beperkings soos betreklik lae en wisselvallige reënval onderhewig is. Oor reënval en die verspreiding daarvan het ons nie beheer nie, maar die instandhouding en bewaring van ons grond rus vierkantig op elkeen se skouers. Die erns hiervan word beklemtoon deur die feit dat slegs ongeveer 12 persent van Suid-Afrika se totale oppervlakte bewerkbaar is. Daarvan kan net vier miljoen hektaar as hoëpotensiaalgrond beskou word, waarvan huidiglik bykans 40 persent vir die totale akkerbou- en tuinbouproduksie verantwoordelik is. Gedaglig aan die erosie van hierdie grond wat voortdurend plaasvind en die aanwending van landbougrond vir gebruik buite die landbou, is dit gebiedend noodsaaklik dat hierdie hoëpotensiaalgrond tot elke prys teen verdere agteruitgang en wanaanwending beskerm moet word. Ook wat natuurlike weiding betref, is die toestand onrusbarend. Tekens van agteruitgang blyk uit die feit dat in die ekstensiewe skaapweiergebiede vasgestel is dat daar oor 'n tydperk van 25 jaar 'n indringing van 70 kilometer Karoo-toestande plaasgevind het. Ander opnames het getoon dat 'n totale oppervlakte van 37 miljoen hektaar grond in die natuurlike bosveldgebiede van Suid-Afrika deur inheemse houtagtige indringerplante bedreig word. In hierdie verband is dit belangrik om daarop te let dat die Wet op die Bewaring van landbouhulpbronne, 1983 (Wet 43 van 1983), wat op 1 Junie verlede jaar in werking getree het, as 'n betekenisvolle hulpmiddel kan dien om die veelvuldige bedreigings van ons natuurlike hulpbronne hok te slaan.

Waar dit in die jare wat voorlê dus toenemend 'n uitdaging gaan wees om uit beperkte hulpbronne genoegsame voedsel en vesel voort te bring om aan stygende vraag te voldoen, mag dit by sommige mense die indruk wek dat ons eerder met 'n produksieprobleem as 'n bemarkingsprobleem te doen sal kry en dat die bemarking van landbouprodukte met die grootste gemak gedoen sal kan word. EK wil my ten sterkste teen so 'n opvatting uitspreek aangesien ek glo dat produksie en bemarking hand aan hand gaan. Ongeag die verhouding wat tussen totale vraag en totale aanbod bestaan, behoort die bemarkings van landbouproduksie steeds die hoogste mate van professionalisme aan die dag te lê deur die mark vir hul produkte te ontleed, die voorkeure van verbruikers te bepaal en elke marksegment tot sy volle potensiaal te ontwikkel;

AA/AA

deur bemarkings- en distribusiekoste so laag moontlik te hou; en bowenal, deur die beste pryse vir die boer se produkte te realiseer. Slegs hierdeur sal aan die boer die nodige aansporing gegee word om met produksie voort te gaan.

Betreffende die bemarking van landbouprodukte en die stelsel van bemarkingsrade kragtens die Bemarkingswet, wil ek laastens dit stel dat hierdie aspek van die landbou, net soos al die ander, van tyd tot tyd aanpassings verg. Die Minister van Landbou-ekonomie en van Waterwese het dan ook verlede jaar die Nasionale Bemarkingsraad versoek om elkeen van die bestaande 21 beheerskemas grondig te ondersoek. Hoewel die resultate van hierdie ondersoek nie vooruit geloop kan word nie, kan vernuwing sekerlik verwag word.

Ten slotte wil ek kortliks verwys na die vraagstuk van landboufinansiering wat in die jongste jare op die spits gedryf is deur misoeste, inflasie, hoë rentekoerse en stygende boerderyskuld. Tensy 'n bevredigende oplossing hiervoor gevind word, 'n oplossing waardeur erkenning verleen word aan die noodsaaklikheid om die landbousektor weens sy eiesoortigheid en riskantheid 'n andersoortige bedeling as ander sektore te gee, sal die bereiking van die produksie- en bemarkingsmikpunte wat in die Witskrif genoem word, ernstig gekortwiek word. Die Regering is deeglik bewus van hierdie knelpunt en die implikasies daarvan, en is reeds besig om in samewerking met die Suid-Afrikaanse Landbou-unie aandag aan 'n paslike finansieringstruktuur te gee.

Waar u as konferensiegangers vandag en mōre die geleentheid sal hê om sommige van die faktore wat gunstig of ongunstig op die landbou inwerk en die implikasies van hierdie invloede van naderby sal beskou, hoop ek dat die insig wat u daaruit sal verkry, in die praktyk aangewend sal kan word om die probleme wat die landbou ondervind, te verminder en die geleenthede wat bestaan ten beste te benut. Ons is dit aan Suid-Afrika en sy mense verskuldig.

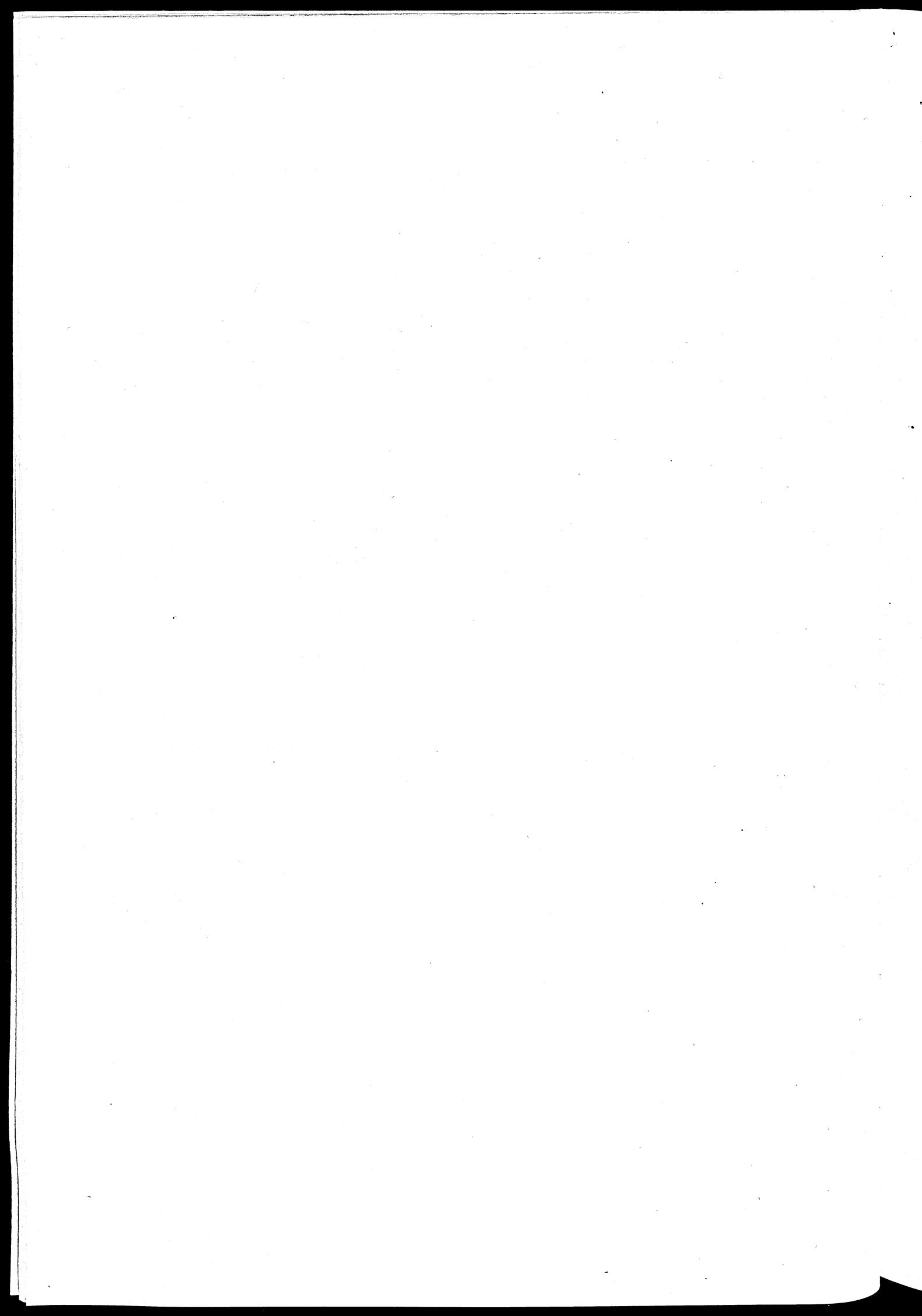
Verklaar konferensie amptelik geopen.

UITGEREIK DEUR DIE DEPARTEMENT VAN LANDBOU-EKONOMIE EN -BEMARKING

PRETORIA  
16 JANUARIE 1985

ISSUED BY THE DEPARTMENT OF AGRICULTURAL ECONOMICS AND MARKETING

PRETORIA  
16 JANUARY 1985



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Address by Mr R J N Abrahamsen, Chief Executive of  
Nedbank Group Limited, at the Agricultural  
Outlook Conference

Pretoria, Wednesday, 16 January 1985

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Meneer die Voorsitter, Dames en Here

Baie dankie vir die uitnodiging om LANVOKON '85 oor die internasionale en nasionale ekonomiese vooruitsigte toe te spreek. As bankier waardeer ek die geleentheid om aan u te kan skets hoe die moeilike ekonomiese tye wat ons beleef, vanuit die banksektor lyk. Finansiële kommentators lei gewoonlik praatjies van hierdie aard in met waarskuwings dat dit onlangs baie moeilik geword het om ekonomiese tendense vooruit te skat. Dit

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was natuurlik nog altyd moeilik, en ek is seker dit sal so bly. Oor 'n jaar mag ek dus heel waarskynlik getel word onder diogene wat 'weer verkeerd was', maar ek dink dat ons in belangrike opsigte tog iets in die afgelope jaar geleer het.

During this past year, Mr Chairman, we discovered again - and the hard way - that South Africa is not an economic island. Even in the best of times we cannot afford rapid increases in Government spending, lack of control over the money supply, high and accelerating inflation, and interest rates which are negative in real terms. But when the situation is almost exactly the opposite in the economies of our main trading partners we can afford such behaviour even less.

Because we were 'out of step' in this sense, our gold and foreign exchange reserves fell by R600m during the first three quarters of 1984 and the weighted average exchange rate of the

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rand fell by over 20 per cent. Over the same period the short-term foreign liabilities of the monetary banking sector rose by 26 per cent and the government's foreign debt by 37 per cent. There can be no doubt that these adverse balance of payments developments came about because of the diverging trends between our economy and those of our major trading partners. Strict monetary policies, successfully applied over the past few years, dramatically reduced inflation rates in the United States and the United Kingdom; and also held inflationary pressures back. This meant that, unlike earlier experience, the international economic upswing was not associated with a rise in commodity prices. After climbing somewhat in 1983, commodity prices generally softened again for much of last year. Commodity exporters, like South Africa, did enjoy an improvement in the volume of their exports, but the prices our exports fetched disappointed.

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The continued conservative monetary policy stance and the rapid fall in inflation in the United States meant high real interest rates and brought restored confidence in the dollar. This, in turn, contributed to a sharp decline in the dollar price of gold.

In the meantime, government spending and a credit-based upswing in consumer spending gave rise to a significant revival of economic activity in South Africa and to a substantial increase in imports. Unfortunately this occurred at a time when our maize crop, for the second year running, was less than half the norm. The reality of our dilemma came clearly to the fore around mid-year, and on 2 August monetary policy was tightened considerably: maximum finance charges were raised, and hire-purchase regulations were made stricter. The Minister of Finance also announced the government's intention to curtail the growth of government spending. For the present fiscal year this

had the effect only of cutting back on envisaged departmental overspending. But in early December, as a sign of what is to come and of the concern with which the rapid rate of government spending is viewed, it was announced that there would be no general increase in public service remuneration in 1985.

Now, at the beginning of 1985, in summary we can say that:

- the monetary policy stance is appropriately restrictive;
- credibility is being restored, to some extent, to the authorities' claim that they can control government spending; and
- the economy is cooling down rapidly, very rapidly indeed, some even say that there is a degree of an overkill.

From this starting point, what will happen in the course of the year will depend crucially both on international economic developments and their impact on our exports, and on the kind of agricultural year we have.

For this reason I turn now to a brief analysis of the economic outlook for the United States and for some of South Africa's other major trading partners.

#### THE UNITED STATES

After increasing very rapidly in the first half of 1984, the real gross national product of the United States grew at an annual rate of only 1,9 per cent in the third quarter of last year, and at an only slightly faster rate in the fourth quarter.

Een van die redes waarom die Amerikaanse ekonomiese in die derde

kwartaal van verlede jaar stoom verloor het, was dat privaatverbruiksbesteding aansienlik verlangsaam het, en dat die groei wat daar was, eerder buitelandse as binnelandse produsente bevoordeel het. Teen die jaareinde het dit egter weer gelyk asof verbruikersbesteding herstel, en ek is redelik vol vertroue dat daar in die nuwe jaar voortgesette groei in verbruikersbesteding sal wees - teen 'n stadiger koers as dié in 1984 van meer as 5 persent, maar steeds bo 3 persent. Verbruikers is steeds in 'n goeie finansiële posisie om die opswaai verder te dra. Persoonlike inkomste styg steeds, verbruikersvertroue het sterk gebly, en die finansiële posisie van verbruikers is steeds goed.

Die skerp daling van rentekoerse laat verlede jaar help ook om die ekonomie gereed te maak vir 'n styging van besteding oor die algemeen, veral in sulke rentekoers-sensitiewe sektore soos

'n Algemene rede waarom 'n resessie nou onwaarskynlik is, is dat die ekonomie feitlik geen van die tekens toon wat gewoonlik die einde van 'n opswaai kenmerk nie. Pryse en salarisste toon feitlik geen tekens van versnelling nie, en die arbeidsmarkte het nie merkbaar vernou nie. Daar is ook genoegsame kapasiteit, want die peil van besetting is slegs 82 persent, wat aansienlik laer is as dié wat aan die einde van die vorige opswaaifasies geheers het.

The Federal Reserve has scope for a further relaxation of monetary policy should it be necessary to ensure that real growth continues in this year. The Administration feels the scope is considerable, since interest rates, adjusted for inflation, are still very high in the United States.

Taking all these pieces of information into account (and before mentioning any provisos), we expect a rebound in the US economy

BB

in the early months of this year, and real gnp growth of around 3 per cent over the very high level of 1984 - when real gnp probably grew by just below 7 per cent.

If this turns out to be the case, we should bear in mind that by late 1985 the upswing would have been going for three years, and that we should then expect most of the typical warning signals that a downswing may be on hand. Among these could be slightly higher inflation, tighter labour markets, higher interest rates, and a further deterioration of the current account of the US balance of payments at the present value of the dollar.

But there are provisos regarding the immediate US economic outlook. The extraordinary expansion over the past two years, at least in part, is a result of a massive fiscal stimulus: taxes were cut, but the government failed to hold down the growth of its spending sufficiently, with the result that the

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budget deficit widened sharply. As the budget deficit has not been financed through money creation, a great strain has been put on the domestic financial markets. Real interest rates have been pushed to extremely high levels. As a result, the interest payments component of total government spending has risen sharply. This problem will become greater in the years immediately ahead. Unless accompanied by a tax reform package that does more than redistribute the incidence of tax (that is, one that actually raises new revenue), even the White House's proposed spending cuts for the next fiscal year would leave the US with a very large budget deficit. This is why there is much concern about the outlook for the budget deficit.

There is also reason for concern about the deficit on the current account of the balance of payments. The high interest rates being generated by the budget deficit have attracted more than enough foreign capital to fund the Americans' current

account deficit, with the result that the external value of the dollar is being pushed up.

Ek dink dat die proses in die afsienbare toekoms beëindig sal word; dat buitelandse beleggers huiverig sal word om steeds die tekort te finansier in die mate wat hulle dit gedoen het, en dat die dollar gevoleklik sal daal. Dit sal op sy beurt 'n ietwat hoër inflasiekfers tot gevolg hê en, miskien, 'n mate van opwaartse druk op die pryse van edelmetale en ander bates wat tipies 'n skans teen inflasie bied.

Met dit gesê, moet ons in Suid-Afrika aanvaar dat nog die ekonomiese beleidmakers van die VSA nog dié in die ander vername nywerheidslande sal toelaat dat inflasie styg op die manier wat dit in 1977 tot 1979 gestyg het. Dus, op sy beste, verwag ek in 1985 'n geringe styging in die goudprys en die pryse van ander edelmetale en diamante.

The outlook for the economies of some of South Africa's other major trading partners can be touched upon very briefly.

#### THE OTHER MAJOR ECONOMIES

The upswing in Europe has not been nearly as strong as that in the United States. In West Germany a recovery had already got under way early in 1983, but by 1984 growth amounted to about 3 per cent only. This is a slower rate of growth for the second year of an economic upswing than the rates Germans are used to, but is part of the reason why growth may continue in 1985.

Economic policy was tightened in France in 1983, at a time when it was becoming possible and prudent for the authorities in other Western countries to start relaxing their policies. The austerity phase produced useful results: inflation and the balance of payments improved, but the government is facing

industrial unrest and severe opposition to its wage restraint programme. At best a moderate recovery can be expected in France only next year. This is a classic example of an economy paying the price for earlier attempts to 'go it alone' against the international business cycle and against the new mainstream conservative thinking in economic policy-making.

The United Kingdom entered its third year of recovery in 1984 with optimism that growth would at least match that of 1983. In the event, the prolonged coalminers' dispute reduced an expected outturn of 3 per cent by nearly 1 percentage point.

Economic activity rebounded strongly in Japan during 1984, as export growth reached nearly 12 per cent. The recovery in exports, in turn, prompted a sharp surge in private investment spending which allowed a surge in real gnp of nearly 6 per cent - almost double the rate of 1983. An impetus from the export

sector is unlikely to be maintained during 1985; most forecasters expect a growth rate of about 4 per cent.

Ter opsomming, verwag ons dat groei in die vernaamste nywerheidslande sal voortduur, en dat werêldhandel en die vraag na Suid-Afrika se uitvoer in 1985 steeds sal toeneem. Ek moet egter hierdie siening kwalifiseer. Die Verenigde State en die Verre Ooste, eerder as Europa (wat Suid-Afrika se vernaamste handelsvennoot is) sal die belangrikste groeikrag bly. In 1985 sal dit waarskynlik ook steeds die nuwe nywerhede en die nuwe tegnologieë wees wat grootliks vir die groei verantwoordelik sal wees.

But there can be little doubt that the present international economic revival will continue to widen, and as it spreads to more countries, South African commodity exports will benefit.

### DIE SUID-AFRIKAANSE EKONOMIESE VOORUITSIGTE

Dit is nou baie duidelik dat die Suid-Afrikaanse konjunktuur in die derde kwartaal beslis afgeswaai het ná vier kwartale van opswaai. Besteding deur verbruikers op veral duursame verbruiksgoedere het skerp gedaal. Daar was gevolglik 'n onbeplande opbou van voorraad in die handel en nywerheid, wat 'n ernstige stremming op die kontantvloei van baie maatskappye plaas. Sommige van hulle moet nou leen om hul renteverpligtings na te kom, en dit is dus geen wonder dat die getal maatskappylikwidasies skerp styg nie.

Before outlining how we, in Nedbank, see 1985 unfolding, I should state clearly the assumptions on which the forecast is based. As is the case with all attempts at economic prediction, this forecast is only as sound as the assumptions on which it is based.

- a) The first major assumption is that South Africa's non-gold exports, which have risen substantially since their lower turning point in the third quarter of 1983, should rise further in 1985. Not at the rate of 22 per cent (in terms of volume) which occurred between the third quarter of 1983 and a year later, but still at a fairly rapid pace. We expect commodity prices to show some improvement this year after the very stable level of last year.
- b) One commodity price I am very wary of making an assumption about is the price of gold. Our best guess is that a slightly higher US inflation rate, and an eventually weakening dollar, will benefit the metal in the course of the year, and that we shall see a year average of \$350 - just below last year's average.

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- c) Another major assumption regarding South Africa's external environment concerns the current disinvestment campaign and renewed calls for sanctions of various kinds. It would be safe to assume that these unfortunate trends will intensify, but should not have a major impact on the economy during 1985.
- d) Turning to the domestic scene, a crucial assumption at this stage is the one we make regarding the rainfall over the next month or so. Rightly or wrongly, for the purposes of the general economic outlook we assumed that the rainfall will be sufficient to salvage part of the maize crop and that it will not be necessary to import maize this year. The rainfall unfortunately, has since disappointed. We shall have to import at least a little maize this year. The b.o.p. current surplus, therefore, will be less than the R1 billion forecast later in this address.

There is at least one more area in which I must make assumptions before turning to the 1985 outlook, and this is economic policy.

- e) Om aannames aangaande fiskale beleid te maak is heelwat vergemaklik deur die aankondiging vroeg in Desember dat daar vanjaar geen algemene verhoging in die vergoeding van staatsamptenare sal wees nie. Dit, en die pogings om die groei van ander aspekte van staatsbesteding aan bande te lê, wek vertroue dat die begrote toename in staatsbesteding vir die 1985/86 fiskale jaar nie veel hoër as 12 persent sal wees nie. Ek glo ook dat die nuwe stelsels wat deur die Minister van Finansies ingestel is, doeltreffend sal wees om te verseker dat die werklike besteding die begrote syfers nie wesenlik oorskry nie.

Na bykans twee jaar waarin die regering lopende uitgawes met geleende fondse gefinansier het, glo ek dat ons nou op 'n punt is waar ons sal terugkeer na meer gesonde finansiering van staatsuitgawes. Daarom aanvaar ek dat die Tesourie sal poog om die grootte van die begrotingstekort

of leningsbehoefte vir die nuwe fiskale jaar min of meer gelyk te hou aan die geprojekteerde grootte van die staat se kapitaalbesteding, wat ek op ongeveer R2 500m raam.

Teen huidige belastingkoerse lyk dit asof min of geen groei in staatsinkomste in 1985/86 verwag kan word nie. Die regering sal versigtig wees om die begroting nie op 'n goudprys hoër as die heersende prys te grond nie, terwyl die resessietoestande vir redelik swak wins in die handel en nywerheid sal sorg. Die kombinasie van die nuwe hantering van die belasting op byvoordele, die toeslag van 5 persent op persoonlike belasting, en die veranderings aan die persoonlike belastingskale, sal in die nuwe fiskale jaar vir die staat geen bykomende inkomste skep nie. Gegee die swak vooruitsigte vir staatsinkomste en met die aanname dat die owerhede lopende besteding nie deur middel van lenings sal wil finansier nie, is 'n relatief klein

verhoging in effektiewe belasting in die Maart-begroting miskien onvermydelik.

f) If the view presented of the likely outturn of fiscal policy this year proves to be correct, the burden which will be placed on monetary policy will be lighter. Until recently monetary policy has had to be used to compensate for an unduly expansionary fiscal policy. This was a major task and one which could not be accomplished completely. It was made the more difficult because, at the same time, a broad process of reform in which the emphasis was being shifted from direct control methods to market-related intervention methods was underway. This complicated the issue. 'Free market', in some senses, became equated with a stringent but not fully effective system of very high interest rates as an indirect way of regulating demand in the economy. It took a while to sort things out. Now,

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however, as fiscal and monetary policy are likely to pull in the same direction, the burden on each will be less.

Regarding the stance of monetary policy, I am assuming that the authorities will retain the present degree of restrictiveness for the next few months. I expect a limited but clear subsequent easing of the monetary policy stance for the following reasons:

- the March budget will show that fiscal policy is on the right track;
- the bank lending and money supply figures will show that the earlier tightening of monetary policy is having the desired effect;

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- imports will decline, the current account will be in surplus, and the gold and foreign exchange reserves will have shown some improvement;
- the inflation rate will not show an underlying rising trend, but will reflect only the impact of administered price increases.

I turn now briefly to the implications of these assumptions for economic growth, inflation, the money supply, the balance of payments, and the financial markets.

#### ECONOMIC GROWTH

The current decline in consumer spending is likely to continue in the first half of this year. The largest decline will occur in the durable goods field, but sales of semi-durable goods will

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also suffer. We shall see further "down-trading" by consumers, even in the typically less cyclically sensitive area of foodstuffs and beverages.

Private sector fixed investment, which edged up a little in real terms in 1983 and early last year, will be declining throughout 1985. There will be hardly any change in the level of the fixed investment of public authorities and public corporations, and we expect a decline in investment in inventories. Total real spending, or gross domestic expenditure, is likely to be about one per cent below the 1984 level, and on a quarter-to-quarter basis may only show an increase by the final quarter of this year.

However, because of the sharp anticipated drop in imports, proportionately more of what spending there will be, will be directed at domestically produced goods. Domestic production

will also benefit from a continued (yet slower than last year) rise in exports, with the result that it is still possible to forecast a small rise - perhaps just over one per cent - in South Africa's gross domestic product for 1985.

#### THE MONEY SUPPLY AND INFLATION

A corollary of the recessionary conditions expected for much of 1985 is a marked weakening in the demand for credit by the private sector. Consumer borrowings have already declined sharply and it seems as if business borrowings have also peaked. This is a major reason for expecting the growth of the money supply to slow down markedly this year.

The inflation rate rose sharply in the second half of last year, and I am afraid that the numbers to be published over the next few months will still show an accelerating trend. Wages and

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salaries are in general rising at rates well below the current inflation rate, and manufacturers, retailers and wholesalers are having to absorb cost increases because the general austerity is fostering widespread price competition. The consumer price index will reflect these developments in the course of 1985 and I shall be surprised if by year-end the inflation rate is not again approaching 10 per cent. Unless the fall of the rand is substantially reversed, this now seems over optimistic.

#### THE BALANCE OF PAYMENTS

The current account of the balance of payments should be in surplus of about R1 billion during 1985. The earlier assumption regarding foreign attitudes towards South Africa, coupled with the prospect of some gold price improvement, does hold out the possibility of net purchases by foreigners of South African gold shares. The public sector will also be a small net foreign borrower, but I do not expect a net long-term capital inflow for 1985.

#### THE FINANCIAL MARKETS

The forecast has a clear implication for the financial markets. The foundations for a marked decline in interest rates this year exist if

- credit demand weakens and the balance of payments strengthens;
- the budget deficit is reduced; and
- the monetary policy stance eases gradually as money supply growth and the inflation rate ease.

The expected strengthening of the balance of payments should also create the scope for some improvement in the external value of the rand.

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But it is likely that by late 1985 or early 1986 the US economy may experience a slowdown which will affect the other major economies and so reduce the strength of the demand for South Africa's exports. To allow stimulation of domestic demand at a time when the external prospects are clouded would be to repeat the mistake of late 1982 and 1983. The upswing which started in mid-1983 did not have a solid base of rising export earnings and so could not be other than short-lived. And it put our business cycle completely out of phase with the economies of our trading partners.

We may have to face relatively slow economic growth until we can hitch our economy onto the next international economic upswing. However, if the present international upswing continues strongly and uninterrupted for the next few years, we can, and should, allow the resulting improvement of our balance of payments to filter through to our financial markets and to domestic

spending. But in neither case can we afford to veer from conservative and consistent monetary and fiscal policies.

The outlook for 1985 is not very bright and we should not pretend otherwise. That adjustment, though, will take us back to a position from which sound economic growth will again be possible. We can look forward to the inflationary pressure being reduced and the external account brought back into a favourable balance. In South Africa, as in the USA, the conservative economic policy to which we are now being subjected, will lay the foundation for the upswing to come.

Thank you

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INTERNATIONAL AGRICULTURAL OUTLOOK

Guy L. Haviland, Jr.  
Agricultural Counselor

Embassy of the United States of America

I have again been asked to present a paper on the world Agricultural Situation. There is not one person here whether he is a farmer, businessman, government employee, housewife or other profession that does not know the gamble a farmer takes in producing his crops and livestock. The variability of weather conditions affects every agricultural producer in the world including the Russian wheat industry, the German dairyman, the American tobacco farmer and the South African maize producer. I will focus on as many commodities as possible as requested by the organization one year ago, but before I start let me say that I have more information on maize than on raisins.

While reading the vast quantity of materials, I found some interesting data from my home office that highlights all the material that follows. The world's top 10 importers of agricultural commodities have remained nearly the same since 1970. The sole exception is China, which is a relatively recent entrant into the list. Together the top 10 buyers imported on average of U.S.\$ 145 billion worth of agricultural products during 1980-82, nearly three-fifths of the world total of U.S.\$247 billion. The U.S. agricultural imports alone accounted for 16.3 percent of the total. Ranked in order the top 10 importers are West Germany, U.S.S.R., United States, Japan, United Kingdom, France, Italy, Netherlands, Belgium-Luxemborg and China.

A greater area is tilled for grain production than other crops so I would like to begin with the coarse grains, however, I used the word tilled as I know there is a larger area in pastures than in grain production.

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Total world grain output for 1984/85 (using the Northern Hemisphere crop year of October 1 - September 30), including milled rice, is projected at a record 1,600 million metric tons. With carry over stocks from previous years, total world grain supply is estimated at 1,795 million metric tons. However, only 233 million tons are expected to move into world trade channels and about 105 million tons are expected to be exported from the United States.

Coarse Grains - Coarse Grain production constitutes approximately half of total grain production for 1984/85 and is estimated at 789 million tons, 100 million tons more than in 1983/84. One of the most important factors in coarse grain concerns the U.S.S.R. supply and demand situation. Grain production prospects for 1984/85 in the U.S.S.R. are forecast at 175 million metric tons down significantly from the previous years production and around 65 million below the Soviet's goal. Soviet grain imports for 1984/85 are estimated at a record 50 million tons, 23 million tons of coarse grains, 26 million tons of wheat and 1 million tons miscellaneous grains and pulses.

Present indications are that coarse grain imports into Southern Africa will be considerably less than in 1983/84. Actual purchases by the Government of Zimbabwe and South Africa were much higher than earlier estimated in 1984 and plantings in 1984 for the 1984/85 crop were very good in late November 1984.

Thailand and Argentina as well as Northern Hemisphere countries produced good coarse grain crops in 1984. Competition from coarse grain exporters will be keen in 1985.

By-product feeds constitute less than 5 percent of feeds fed in the United States. However, they are important in livestock feeding programs in the EC where use of protein meal, manioc (tapioca) and by-product feeds, such as corn gluten, have constituted a growing share of livestock feed rations in the past decade.

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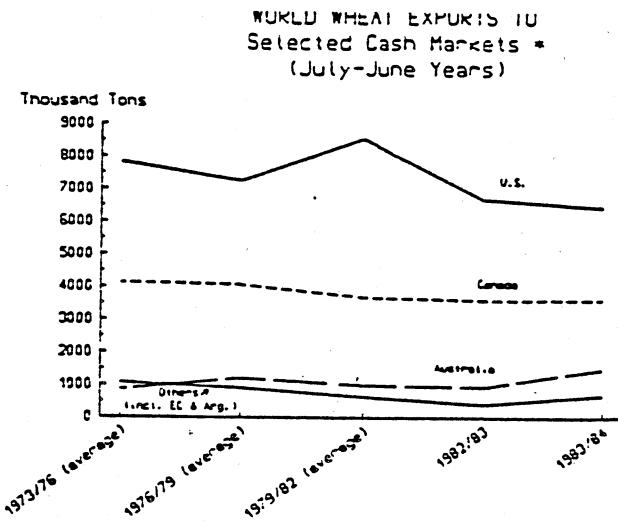
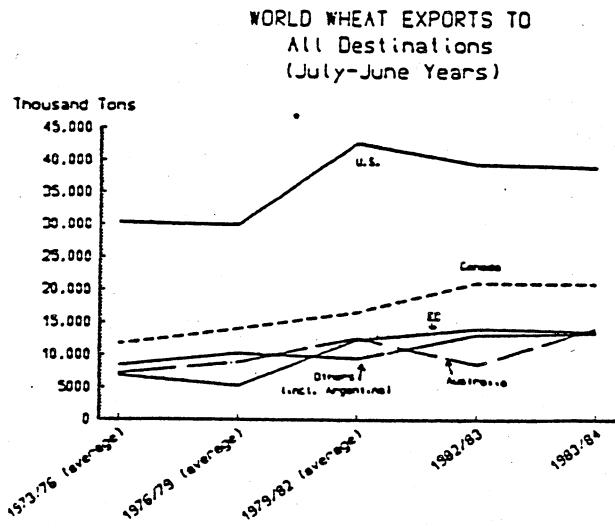
Wheat - World 1984/85 wheat production and supplies are expected to rise by more than 2 percent from last year. Exports are likely to be down both in Canada and Argentina due to poor crops and low beginning stocks. EC output will be up sharply, probably by 13 million metric tons this year. With world import demand forecast higher than last year, the additional exports are likely to come from the EC and the United States. With much greater supplies than expected earlier, the competition is expected to increase. Much will depend on how much the EC decides to export above their self-imposed limit of 14 percent of world trade and whether EC exports can be made without export subsidies. We will await those decisions with great interest.

U.S. exports in 1984/85 are expected to be second only to 1981/82, a turnaround after declines for the last two years. U.S. production is projected to exceed the 1983/84 level. Feed use is anticipated to be lower, though it still is projected to be the second largest on record since World War II. Final U.S. export volume will be influenced heavily by the level of our sales to the U.S.S.R. and China, and by the volume of EC shipments. Total Soviet wheat imports are estimated at 26 million metric tons for 1984/85. U.S. ending stocks are forecast to be lower than the last two years, but still remain over 50 percent of total use.

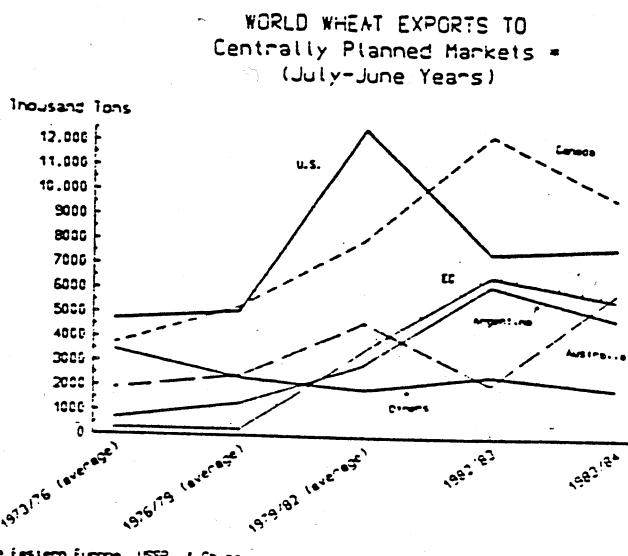
Major points of interest in the 1984/85 marketing year are the sharp increase in EC yields, changes in feed use, and the resulting impact on world wheat trade and market shares. Yields in the EC are forecast at 5.3 million metric tons per hectare, 15 percent higher than the previous record - along with an increase in cultivated area. In contrast the U.S. wheat yield is expected to

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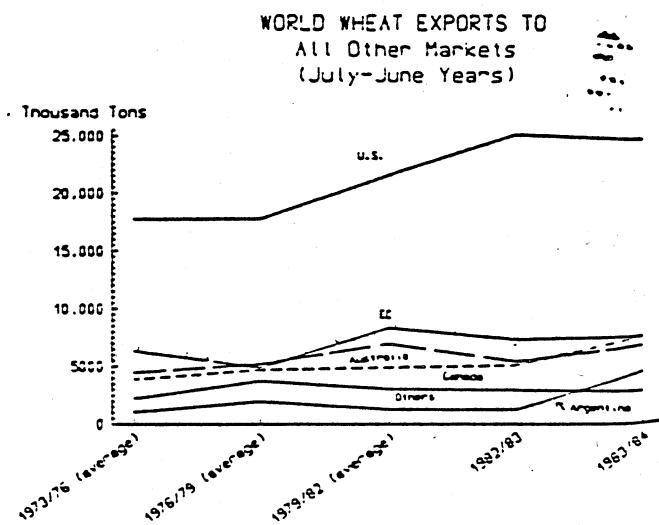
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\* Western Europe (excl. Portugal), Canada, U.S., Japan, South Korea, and South Africa



\* Eastern Europe, USSR, & China



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decline marginally in 1984. With substantially higher supplies, we are projecting EC feed use of wheat to set a new record in 1985. However, with a return to more normal price relationships between wheat and corn, U.S. feed use of wheat will fall after a heavy summer quarter in 1984. A reduced Soviet coarse grain crop in 1984 will likely mean increased use of wheat for feeding from 1983/84's estimated six-year low. However, Soviet wheat feeding will probably continue to remain low in 1984/85 relative to earlier years.

Rice - Although very little rice is grown or consumed in Southern Africa it is a major world food grain and more than half the world's population depend on rice as a major source of food. Global rice production could reach a record in 1984/85. China is expected to have another record crop, while India's crop has benefited from good monsoon activity, an increase in the procurement price, and the increased use of inputs. Both world and U.S. trade prospects in 1984/85 may decline. With P.L. 480 and the special African Assistance Program, U.S. exports rose in 1983/84 while domestic use fell. World ending stocks are projected to be near the levels of the previous two years. U.S. rice output in 1984/85 is substantially above last year's crop which was reduced by an acreage reduction program and other factors. With output exceeding use, U.S. stocks may rise this year and prices will likely remain under pressure. Continued strong competition from Thai rice and a continued stagnant world import demand situation in recent years have hurt U.S. exports. The newly announced 1985 program offers a larger area reduction for rice than other commodities.

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World Supply and Demand Situation for Selected Commodities

	<u>Production</u>	<u>Total Supply</u>	<u>Trade</u>	<u>Consumption</u>	<u>Ending Stocks</u>
	<u>Million Metric Tons</u>				

Coarse Grains

1982/83	778.7	891.01	98.0	752.8	138.2
1983/84 <sup>1)</sup>	689.4	827.6	101.8	759.2	68.4
1984/85 <sup>2)</sup>	789.3	857.7	110.6	771.6	86.1

Wheat

1982/83	478.6	563.9	107.0	467.0	96.9
1983/84	489.1	586.0	109.7	484.8	101.2
1984/85	505.7	606.9	111.4	502.2	104.7

Soybeans

1982/83	93.3	108.2	28.6	91.0	17.1
1983/84	81.9	99.0	26.1	86.5	12.5
1984/85	90.2	102.7	26.7	89.2	13.5

Million 480 lb. bales

Cotton

1982/83	67.4	92.9	19.3	67.9	25.0
1983/84	67.3	92.3	19.3	68.0	24.3
1984/85	80.7	105.0	20.2	69.8	35.2

1) Preliminary

2) Estimate

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Livestock - World meat production in 1984 is expected to total almost 108 million tons, 1 percent above 1983. Another 1 percent increase is likely in 1985. World beef and veal production is likely increased in 1984 - mostly in the EC and U.S.S.R. - but little change is expected in 1985. A new EC dairy program is reducing cow numbers and pushing beef output to record levels. Global pork production is expected to remain relatively stable for both years. Poultry production, up less than 2 percent in 1984, is expected to double that rate in 1985.

Total U.S. red meat and poultry production is expected to decline in the fourth quarter of 1984 and remain below 1984 levels during the first half of 1985. The decrease is due to lower red meat production. Commercial beef production will likely drop about 4 percent from a year earlier through the rest of calendar year 1984, with commercial pork production dropping about 11 percent.

Dairy - Following several years of substantial increases, global milk production is expected to decline in 1984 and 1985 primarily because of new supply control measures introduced by some major producers, particularly the EC and the United States. Milk output in 37 major producing countries is expected to total around 408 million metric tons (900 billion pounds) in 1984, down more than 800,000 tons from 1983. While this is only a 0.2 percent decline, it follows increases of 2 and 4 percent in 1982 and 1983, respectively (a total of 23 million tons).

U.S. milk production in 1984 is expected to decline around 3 percent from 1983's record 63.5 million tons, largely because of reduced marketings by participants in the dairy diversion program, lower milk prices, and higher feed costs. While output per cow will likely decline about 0.6 percent because of reduced concentrate feeding and other management changes, the bulk of the expected drop in production will come from reduced cow numbers, down an average of 2.4 percent.

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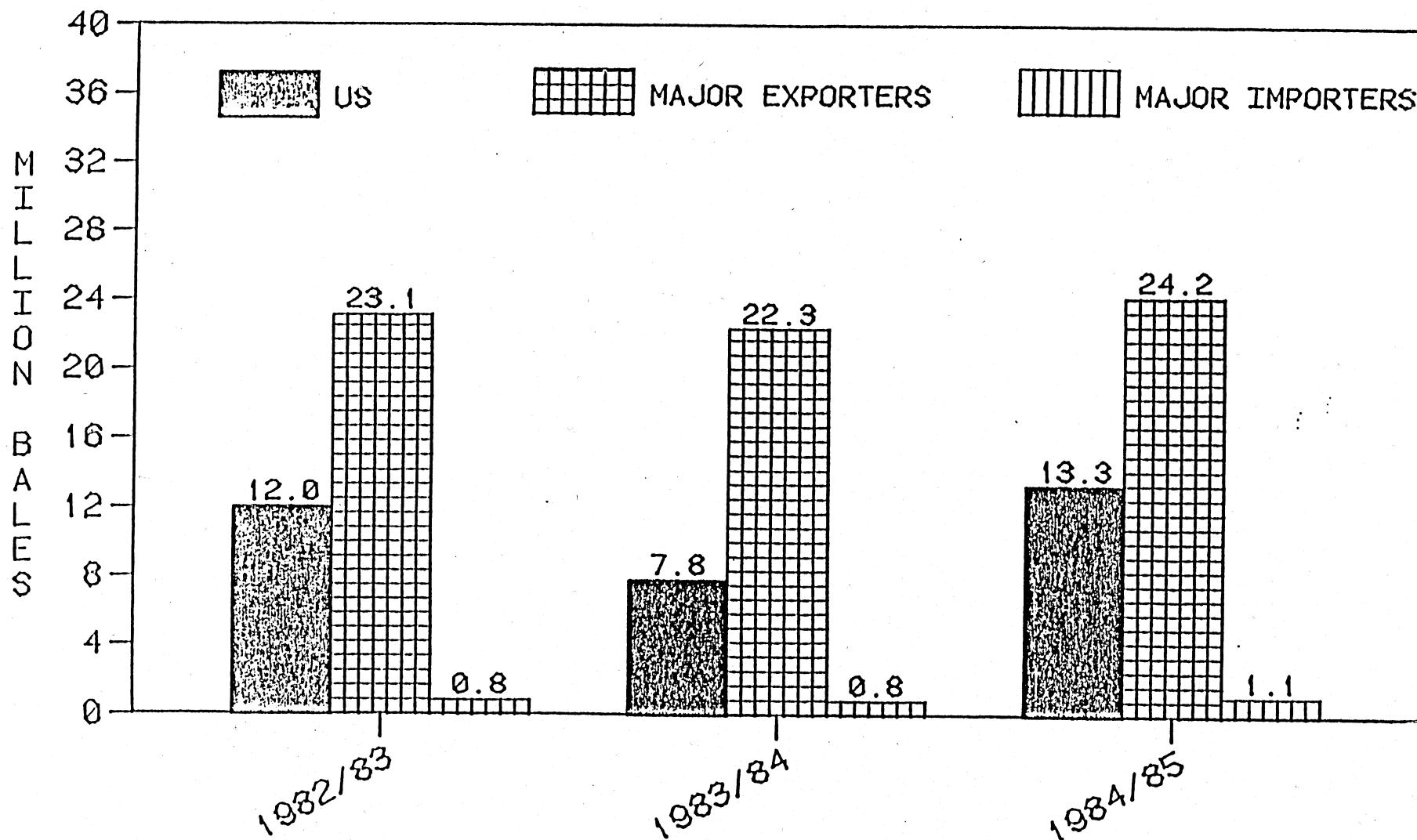
The U.S. dairy herd is forecast to begin 1985 around 3 percent below 1984. Any gains in 1985 will be limited by the prospect of lower support prices. However, lower feed prices may lead to some increase in concentrate feeding. Along with a more productive herd from the culling of less efficient cows, output per cow is expected to be near the 2 percent per year gain experienced during 1980 through 1983. Replacement heifers, on July 1, were at a record high of 45.6 per 100 cows, up from 38.5 five years ago.

Cotton - The 1984/85 world cotton outlook is highlighted by prospects for a significant buildup in stocks, reflecting greater gains in production than in consumption. Record output is forecast at nearly 9 million bales (480 pounds) above 1983/84. Consumption could total about 70.3 million bales, compared with 68.8 million for the previous season. Consequently, stocks are forecast to increase by the end of 1984/85.

With larger supplies, world cotton trade is likely to increase from last season's level. Although down from 1983/84, U.S. exports are still expected to account for about 31 percent of global trade in 1984/85.

U.S. cotton stocks are expected to increase this season. With production at a projected 13.3 million bales, well in excess of anticipated disappearance of 11.6 million, 1984/85 ending stocks are expected to be up almost 2 million bales from the beginning level of 2.7 million bales. Total use in 1984/85 is expected to be nearly one-tenth below the 1983/84 level. Both mill use and exports are expected to be down. Consumption may fall about 7 percent reflecting a projected slowdown in textile activity.

## COTTON PRODUCTION IN SELECTED COUNTRIES



Major Exporters: USSR, C. America, Pakistan, Turkey, Sudan, Egypt, Mexico, Australia

**Major Importers:** W. Europe, E. Europe, Rep. of Korea, Hong Kong, Japan, Taiwan

FPED  
October 1984

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Wool - World wool production reached an estimated 1.816 million tons in 1983/84 and is estimated slightly higher for 1984/85 at 1.864 million tons. Although production is up for the major producing countries, production in the United States has dropped sharply since 1960. In this 24 year period sheep numbers in the U.S. have declined from approximately 33 million to the present 12 million.

The recent stagnation in the world's economy has directly affected wool use. However, economic recovery in the United States, Japan and Canada has improved trade, but sales to Western Europe continue depressed.

The success of manmade fibers with overall acceptance by consumers in easy to clean, drip-dry, free from insects, particularly moths, resulted in a sharp reduction in the more expensive, better looking, longer wearing wool clothing. However, in the U.S. domestic demand for wool and mill use have both strengthened in 1983 and 1984.

Presently the best prospects for wool appears to be in blends and U.S. and Canadian consumers can expect more wool use especially in clothing. This trend is expected to be followed by Western Europe as their economies strengthen and demand for clothing increases.

Mill use of wool in the United States in 1983 was the highest in 10 years. Of major importance to South Africa is U.S. imported wool now takes the major share of mill use.

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Oilseeds - World oilseed production in 1984/85 is forecast to reach a record 186 million tons, as record oilseed crops outside the United States combine with a recovery from 1983's drop in U.S. oilseed output. Production outside the United States has shown steady expansion during the past 5-year period, while U.S. crop output has trended downward from the peak levels reached in 1979/80. Reduced demand, two major droughts, and significant acreage reduction programs for corn and wheat in the United States in the past 5 years have been instrumental in idling acreage and slowing U.S. production expansion of all major crops. This includes soybeans which had been planted on acres that are a part of the program base of other commodities.

At the same time, increased program incentives for oilseed crops in other major importing countries have encouraged expansion in oilseed crops, particularly in rapeseed and sunflowerseed crops. With record world production in 1984/85, total oilseed stocks on October 1 are forecast to recover to more than 18 million metric tons, up 5 million from last year but well below the record 25 million recorded in 1979/80. Much of the increase in stocks is expected to occur in the United States where stock levels could reach 8 million tons, up more than 3 million tons from 1983/84.

The rebound in world and U.S. stocks seen for 1984/85 is attributed not only to the large rise in crop output but also to generally weak demand prospects for seed crush in both the United States and other countries.

Among importing areas some East Asian countries are expected to show good gains in seed crush because of their stronger economic growth prospects, while crush gains elsewhere, primarily in Argentina and Brazil, are mostly related to larger forecast production and increased crushing capacity. Crush gains are forecast to be very slight for the major traditional crushers, namely the EC and the United States.

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Most of the trends in oilseeds and oilseed crush in the past five years are disturbing to the United States because of our loss of overall world market share. The world recession, a strong dollar, and the debt burden of many of the developing countries have been factors in the loss of some relative U.S. competitiveness. However policies by some of competitors, which have led to increased foreign production and processing, along with a slow growth in demand, have been very significant factors.

Soybeans - World soybean prospects point to a total output of 94 million tons in 1984/85, up 17 percent from last year and only marginally below the record 1979/80 crop of 93.7 million tons. U.S. soybean output is forecast to be more than 55 million tons, up sharply from last year's drought reduced crop. But the U.S. crop is still likely to be at least 10 percent below levels reached five years earlier.

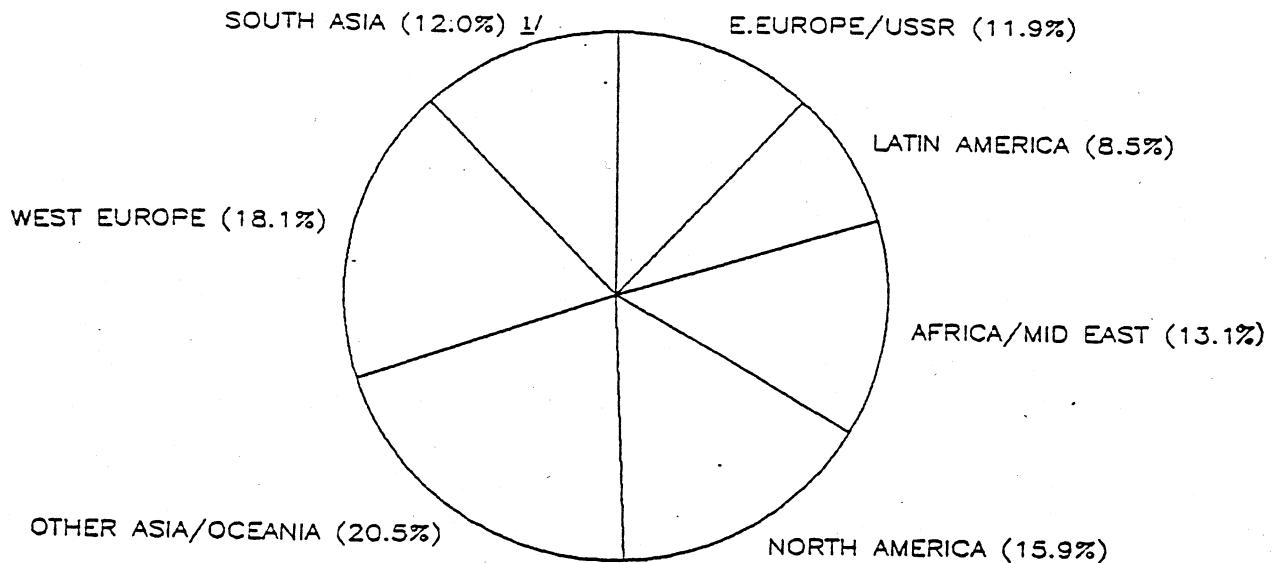
World and U.S. soybean crush is forecast to rise because of larger supplies for soybeans and soybean products. Slow economic growth in many countries is continuing due to weak livestock-feed demand with meal usage growth based on a response mainly to the price relationship between soybean meal and other feedstuffs. This is particularly true in the United States and the EC where soybean meal consumption growth is projected to rise by more than 4 percent, although livestock feeding units are expected to show little if any gain. A drop in EC dairy output is likely to be a factor in cutting EC imports of corn gluten feed and possibly soybean meal. Corn gluten feed is affected more than soybean meal because dairy feeding relies more on corn gluten as a protein source in the EC.

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Most world crush and meal use gains will likely be concentrated in a number of East Asian countries in 1984/85 where strong economic growth is supporting gains in the profitability of livestock feeding. Large crush gains of more than 30 and 7 percent, respectively, also are indicated for Argentina and Brazil, premised on large soybean crops and a significant increase in Argentina crushing capacity during 1984. A differential export tax on soybeans and soybean products in Argentina, similar to Brazil's, has supported relatively favorable crushing margins and provided a strong incentive to invest in more crushing capacity. Argentina, like Brazil, also has used licensing and minimum export prices, among other measures, to frequently adjust the level and mix of exports. In its latest announcement on August 29, Argentina adjusted its export taxes on soybean oil and meal to 10 percent, while maintaining taxes on soybeans at the rate of 26.5 percent established prior to January 4, 1984. This had the effect of increasing domestic crushing margins once again. This should help U.S. soybean export demand but reduce demand for U.S. soybean meal and oil in the years ahead.

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VEGETABLE OIL CONSUMPTION BY REGION  
MARKETING YEARS 1979/80-1983/84 AVERAGE



1/ Includes India, Pakistan, and Bangladesh only.

SOURCE: COUNSELOR AND ATTACHE REPORTS  
OFFICIAL STATISTICS  
USDA ESTIMATES

FOREIGN AGRICULTURAL SERVICE  
OILSEEDS AND PRODUCTS

DATE: OCTOBER, 1984

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Other Oilseeds - Record crops are forecast for sunflowerseed, rapeseed and cottonseed in 1984/85. Many of the gains in the oilseeds although large, are not expected to hurt world trade and prices significantly. Many of the gains are occurring in China, which is not expected to be a major factor in world trade - nor is the sharp rebound in Pakistan cottonseed output. World fishmeal output also is expected to be a record high in 1984/85. Canada's anticipated increase in rapeseed production was sharply curtailed by hot dry conditions in 1984 in the southern growing areas. Significant gains are expected, however, for rapeseed production in France along with increases for sunflowers in Europe and South Africa. France is experiencing unusually good results in 1984, with the rapeseed crop forecast at a record 1.2 million tons, up 300,000 tons from last year. The increase availabilities in both sunflowerseed and rapeseed in the EC have permitted it to become more self-sufficient in these seeds. Larger sunflowerseed output for example, has occurred at the expense of sunflowerseed imports, generally from U.S. sources. In addition, larger sunflowerseed crush and oil availabilities in France have likely reduced peanut import demand with some marginal effect on U.S. peanut export prospects. Because both rapeseed and sunflowerseed are high oilbearing seeds, their expansion possibilities may be limited within the EC.

Tobacco - World tobacco production in 1984 is estimated at 5.92 million tons. This is down 1 percent from 1983, primarily because of a 2.5 percent cutback in planted area. The flue-cured crop may be down 2 percent from the 2.89 million tons in 1983. A small decline to 944,000 tons is expected for oriental leaf. Burly output may rise 12 percent to 723,000 tons.

China's crop is expected to equal 1983's 1.4 million tons. China has restricted output the last 2 years to reduce stocks. Decreases are estimated for India, South Korea, Brazil, U.S.S.R., Turkey and Japan. Leaf tobacco consumption will exceed production in 1984, as it did in 1983.

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U.S. domestic tobacco use is expected to decline from 660,000 tons in 1983 to around 625,000 in 1984 because of declining cigarette sales. In other major exporting countries, consumption is predicted to decline 8 percent, to 2.3 million tons. The major importing countries are expected to increase consumption slightly to 1.2 million tons.

World exports of unmanufactured tobacco in 1984 are expected to be up slightly to 1.4 million tons. Brazil, the world's second largest exporter after the United States, is expected to export 8 percent less because of reduced supplies and weak demand worldwide. Lower exports are forecast for India and Italy, while exports from Greece, Turkey and Zimbabwe are expected to increase.

U.S. exports in 1984 were forecast 1 percent above the previous year's 239,000 tons, with a unit value 3 percent higher than in 1983. Because of flat demand, the U.S. share of the export market was around 17 percent in 1984, compared with 25 in the 1960's.

Sugar - World sugar output of 94.7 million tons in 1983/84 is down 6.1 million from the average of the previous two crops because of poor weather and reduced area harvested in several major producing areas. Production in the EC declined more than 3 million tons; in Asia, nearly 3 million; in Africa, nearly 1 million; and in Oceania, nearly 0.5 million. It increased about 1.3 million tons each in North America and the Soviet Union. Cane sugar output dropped 4.4 million tons, while beet sugar fell only 2.1 million.

Early indications for 1984/85 world centrifugal sugar production are around 99.8 million tons, up around 5 million from the previous poor crop. EC output should increase 1.6 million tons; Asian 2.5 million; and African, about 700,000. Crop prospects are up in Australia and South Africa over drought-reduced 1983/84 production. Output is also expanding in India and China.

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World consumption in 1983/84 is placed at 95.7 million tons, up 4 percent from the previous year. The early estimate of consumption in 1984/85 is 97.3 million tons, up 1.6 percent. Use may increase 1.6 million tons in 1984/85, less than the projected 5.1 million rise in production. This means 1984/85 ending stocks will increase about 2.5 million tons and will exceed 40 percent of estimated consumption. This is far above the stock-to-consumption ratios of 25 to 30 percent considered adequate.

The world's price of raw sugar (f.o.b. Caribbean) moved even lower to under 4 cents a pound in mid-August. The July monthly price of 4.51 cents a pound was down sharply from over 10.5 cents in June-August 1983. The abundant supplies hanging over the global market have tended to keep the price low in recent months. Prices seem likely to stay 3 to 7 cents a pound through mid-1985 when information becomes available about the prospective size of the 1984/85 crop.

The United States is one of the world primary sugar importers with approximately 3.5 million tons annually to meet needs above domestic consumption. Import quota controls protect the domestic industry and allotments are eagerly sought by all sugar surplus producing countries.

The per capita consumption of total sweetners in the U.S. is among the highest in the world with 57 kg. consumed annually. Development in the sugar economy of the U.S. is of vital concern to the world sugar industry.

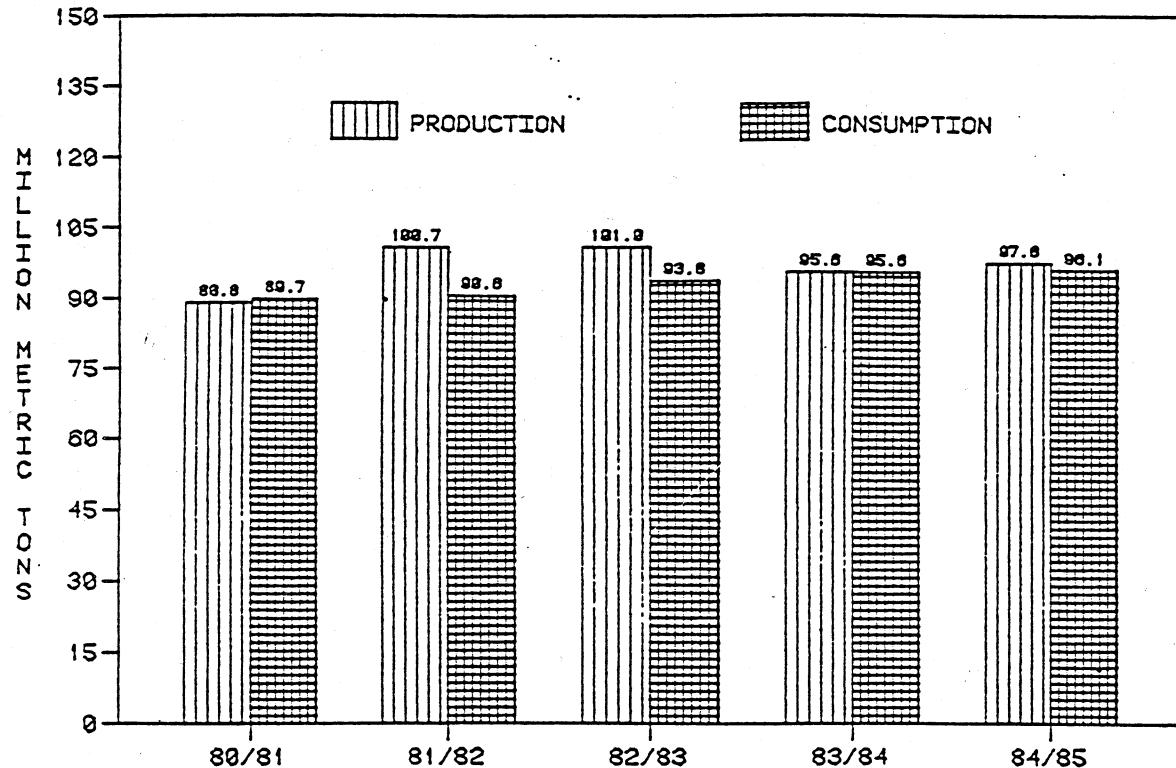
**Sugar Substitutes** - A recent U.S. development affecting the sugar industry has been the rapid increase in the use of High Fructose Corn Syrup (HFCS) as a replacement for cane and beet sugar. The per capita use of centrifugal sugar in the U.S. has steadily declined from 45 kg. in 1970 to 31.95 kg. in 1983 and is expected to decline to 29.25 kg. or less by 1985. This is a 35 percent decline in 15 years.

During this same period the rise of primarily HFCS, increased from less than 9 kg. per capita in 1970 to approximately 27 kg. in 1983. This increase is expected to continue for the next few years. On an equivalent sweetner basis, corn sweetners are 10 to 25 percent lower in cost.

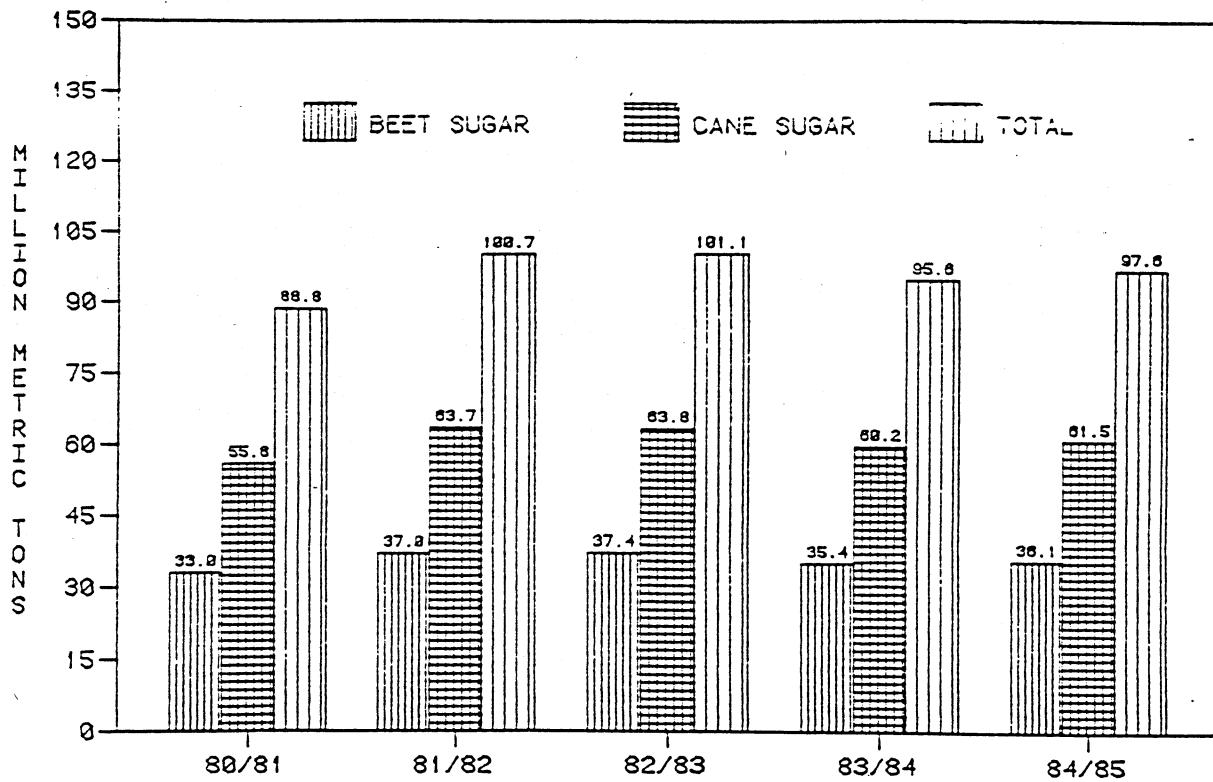
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WORLD CENTRIFUGAL SUGAR PRODUCTION AND CONSUMPTION  
FOR 1980/81-1984/85



WORLD CENTRIFUGAL SUGAR PRODUCTION  
FOR 1980/81-1984/85



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The extent to which HFCS will replace centrifugal sugar is not known. HFCS is a liquid and handling and transportation are more difficult than granulated sugar. A reasonably priced corn is required, and a large volume market for the liquid sugar and animal feed by products. Such conditions do not exist in most areas outside the U.S.

Aspartame (APM), about 200 times as sweet as sugar, was consumed at an average of one kilo per capita in 1983. Despite a relatively high price, APM appears to have been constrained mainly by production capacity. Consumption was expected to rise about 1.5 kg. per person in 1984, a very rapid rise since introduction in 1981.

Raisins - As I mentioned at the beginning of this paper, information on raisins is not readily available, however, I do have some data on world trade in raisins. World raisin trade, excluding currents, grew modestly during the past 3 decades, rising from 270,000 tons in the 1950's to about 380,000 to 400,000 tons in the 1980's.

The European Community (EC) accounted for about 46 percent of world imports in 1983 and is the most important destination for raisins moving in international trade. The United Kingdom and West Germany were the most important markets in 1983, and combined took 63 percent of the EC imports.

Turkey and Greece provided over 60 percent of the EC imports in 1983. These two countries are highly dependent upon the EC for disposal of their raisin crops. Since joining the EC, Greece has sent an increasing portion of it's crop to it's EC partners. Eastern Europe and the U.S.S.R. comprise the second largest importing region for raisins. The U.S.S.R. in recent years has accounted for 60 to 70 percent of this region's raisin imports.

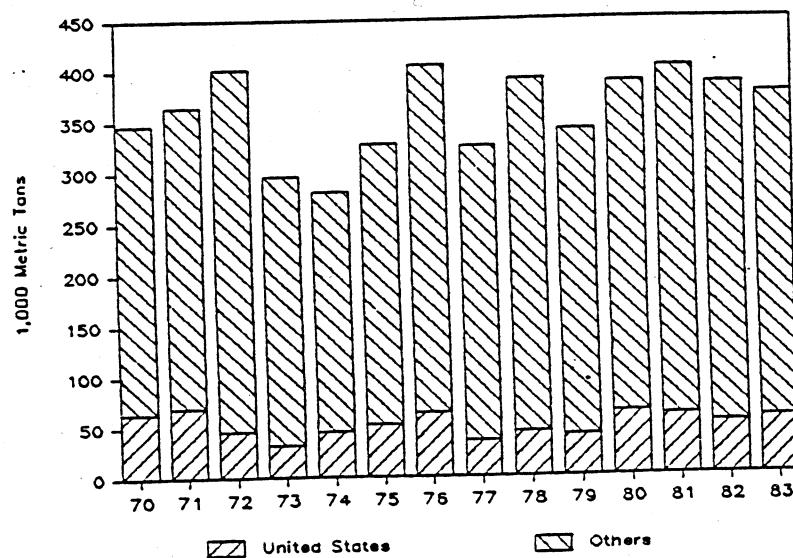
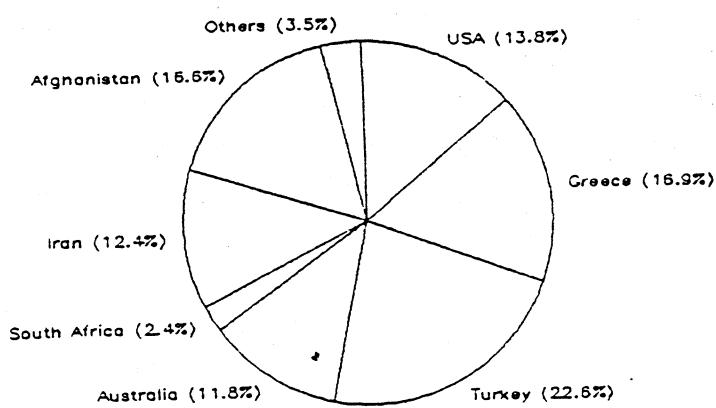
Afghanistan now supplies about three-quarters of Soviet raisin imports. Imports into the rest of the Eastern Europe have declined because of unfavorable economic conditions.

Other West European countries account for a relatively small share of world raisin imports. This group of countries is important to the United States because the U.S. is the largest source of imports.

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RAISINS

## WORLD RAISIN EXPORTS

WORLD RAISIN EXPORTS  
AVERAGE, 1973-82

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### U.S. Agricultural Policy In Transition

I would now like to shift attention from commodity outlook to a perspective of what I believe will be the important agricultural policy issues that will be debated next year as the U.S. consideration of major omnibus farm legislation.

#### Setting for Future Agricultural Policy

As you may know, agricultural policy in the U.S. has a rich history. Since 1933 we have had in place the same general types of policies that are in effect currently.

During the early 1930's and 1940's, the Congress enacted law that requires the Secretary of Agriculture to support the price of several commodities at specified levels through purchases, loans, quotas, allotments, direct payments, acreage reductions, and the like. And more interestingly, they require him to do so without regard to any limit on the appropriations needed to fulfill this legal mandate. Those laws, which we call permanent legislation, contain specific support levels that, for the most part, are out-of-date because of gains in productivity. For example, under permanent legislation our minimum dairy price support level is 75 percent of parity which would be about \$17 per cwt. on October 1 of 1985 (current support is \$12.60 per cwt. and scheduled to go lower if purchases remain high).

Traditionally, what the U.S. has done every four years is to set aside the permanent legislation and enact a farm bill that replaces for four years the provisions of permanent legislation with more current support levels and other modifications. If no new farm bill is implemented, we revert back to permanent legislation - the Secretary of Agriculture has no choice. The 1981 Farm bill expires October 1, 1985. There is always much interest and excitement about producing another four-year bill rather than reverting back to the laws of several decades ago.

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Agriculture is the largest industry in the United States. The U.S. agricultural system accounts for one-fifth of the gross national product and generates 23 million jobs. Agriculture contributed \$20 billion to the U.S. balance of payments in 1983, partially offsetting a large trade deficit in the non-agricultural sector. Thus, agriculture is economically important to the Nation as a whole. It is one of our most efficient and productive sectors, a sector that many of us feel has had a distinct comparative advantage in production efficiency.

U.S. farm prosperity is closely related to global matters. Farmers now depend on international markets where they sell 40 percent of their output, ranging from one-fourth of the corn crop to about one-half of our total soybean, wheat and rice production. However, international markets have been depressed in recent years and U.S. exports have eroded, causing much concern in the U.S. about the future.

U.S. agricultural exports have fallen for four consecutive years. The 141 million metric tons exported for the year that just ended was 14 percent below the 1979/80 peak. The worldwide recession that began in 1981 reduced overall global trade. And because of several factors, including domestic and trade policies of other countries which either restrict U.S. agricultural imports or give their producers an unfair advantage in moving products into international markets, the U.S. share of world trade has been eroding. Moreover, even under conditions of weak world demand and stock buildups, acreage has continued to expand outside the United States. Our major competitors have increased their acreage of wheat, coarse grains, soybeans and cotton from 98.9 million hectares in 1980/81 to 108.6 million hectares in 1984/85, a 9.8 percent increase. Meanwhile, the United States, through its acreage reduction programs, has removed 113 million acres (46 million hectares) from production since 1980.

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Thus, while the U.S. pursues acreage reduction programs, the world expands production, neutralizing any supply/demand or price adjustments and increasing the costs of U.S. programs while reducing our markets. U.S. government outlays for price support activities rose from less than \$3 billion in 1980 to nearly \$19 billion in 1983 before falling back to about \$7 billion in 1984.

In addition, U.S. land values, caught in the inflationary spiral of the late 1970's, triggered a large investment in land that increased capacity to produce for a market that now does not seem to exist. As a result, U.S. land values have fallen because of reduced and general disinflation within the U.S. economy. For highly leveraged farmers, receding land values have led to credit problems.

U.S. agriculture is going through a transition as a result of the previously mentioned points. And the Reagan Administration recognizes that 1985 will be a watershed period for agriculture and food policy. At the President's request, Secretary of Agriculture is conducting a comprehensive review and assessment of current food and agricultural programs. This will better prepare the Administration to participate in the debate on the future of Federal food and farm programs and policies.

#### Major Issues to be Faced in Developing Future Farm Policy

In determining the future course of agricultural policy, it is important to recognize and evaluate the performance of past policies. The basic components of today's U.S. farm programs - commodity loans, target prices, acreage reduction programs and reserves - have essentially been a continuation of farm policies of the past 50 years. Given that today's agriculture has changed so much, since it now depends so heavily on world markets and is increasingly affected by U.S. and world macroeconomic conditions, many are raising serious questions about these basic components and are trying to understand what changes need to be made.

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### Commodity Loans

The authority for commodity loan programs originated from the Agricultural Adjustment Acts of 1933 and 1938. Commodity loan rates or support prices have been used in varying degrees, as a price floors, income support mechanisms, price stabilizers and marketing tools.

As a price floor, commodity loans rates have been used as a safety net to protect farmers from sharp drops in prices due to short-term weather or demand factors. It is argued by some that effective use of price supports can help mute transitory price signals due to weather or abnormal demand factors and benefit all, but reinforce basic structural price signals from the market over the long term. As a marketing tool, it is argued that commodity loans allow farmers to obtain cash while retaining control of the commodity. Rather than sell at depressed prices during the harvest season, the producer stores that commodity until later in the marketing year when prices are usually higher. This evens our marketing and tends to make supplies available at more stable prices throughout the year.

### Acreage Reduction Programs

Production controls became a major feature of agricultural policy as production increased to excessive levels - due to a number of reasons including support prices set above market-clearing levels. The rationale was that production controls would be used to fine-tune supplies in order to help avoid surplus stocks and large government costs.

However, some say that history has shown that voluntary acreage reduction programs have been largely ineffective for several reasons. First, they argue that farmers who choose not to participate in the voluntary acreage reduction programs tend to expand acreage for two reasons: (1) they hope to capitalize on the higher market prices expected to result from the programs; and (2) they wish to increase the size of their base for the purpose of

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future programs. Second, the payment limitation makes participation less attractive to large units, as the benefits to be gained seldom outweighs the potential value of the foregone production. In the U.S. about 10 percent of the largest units produce two-thirds of the output. Third, yields continue to go up on acreage not idled. When an acreage reduction program is in effect, farmers leave their best acreage in production, and intensify cultivation on that acreage. Fourth, the U.S. is the only country that reduces production and it is beginning to show on exports and the health of the industry.

#### Target Prices

The current target price/deficiency payment program grew out of policies set forth in the early 1960's. By 1960, accumulation of commodity stocks had reached record levels - over 50 million metric tons of corn and 41 million metric tons of wheat. This was a direct result of setting price supports above marketclearing levels and the inability to control production through voluntary programs. It was envisioned that separating price and income support objectives of commodity programs would permit reductions in support prices to increase exports, strengthen demand for grain domestically, eliminate surpluses, and reduce the need for often ineffective and complicated production control programs. The loan rate was to provide a price floor and would become operative only with excessively large crops or extremely slack demand. Farmers' incomes were to be supported at minimum levels whenever prices fell below target levels.

In the beginning, target prices provided deficiency payments to farmers when prices fell and they seemed to work fairly well. We were competing in world markets and direct payments were made to supplement incomes. However, most farmers like to get their prices through the marketplace and not the U.S. Treasury. Congress sensed this and started raising target prices. The resulting budget exposure was a lever over the Executive Branch to force production cutbacks, in order to get market prices higher and eliminate direct payments from the U.S. Treasury.

Target prices set above market-clearing levels, such as those mandated in the 1981 Farm Bill, seem to be an effective guarantee that acreage reduction programs will be required. Once faced with large budget exposure and political pressure resulting from spending billions of dollars on deficiency payments, not to mention the costs of CCC loans and purchases, storage payments, and export programs, some say there is little choice but to implement production control programs to ensure that market prices are nearer the announced target levels.

#### Commodity Reserves

The rationale behind a public reserve or stock program is to remove some of the inherent instability associated with commodity supplies and prices. Even so, reserve policies have generated controversy. Proponents of a reserve policy argue that it is this process of adding to government stocks during time of excess and drawing them down when markets are tight that: (1) reduces some of the instability and uncertainty in commodity markets and: (2) enhances our Nation's reliability as a supplier. Others argue that large reserves overhang the market and keep prices continually depressed.

#### Other Policy Issues

Beyond the traditional questions concerning commodity programs, many believe that because agriculture is so intertwined and influenced by outside sources that issues such as soil and water conservation, agricultural credit policy, trade policy, and macroeconomic policy will all be debated in conjunction with the 1985 Farm Bill.

Of these issues, agriculture trade policy is probably of the most interest. While I certainly do not know how such a debate will turn out, it is becoming better understood in the U.S. that it is important to have a farm policy and an agricultural trade policy that is consistent.

American Embassy, Pretoria  
December 19, 1984,