INTERNATIONAL AGRICULTURAL COMMODITIES TRADE

—An Exporter's Perspective

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This paper is based on my experience with Cargill, including a variety of positions across the country involving most aspects of grain merchandising. Currently, my responsibility is that of manager of the southeastern region office in Chattanooga, Tennessee. As you might expect, this keeps me very interested in the current agricultural situation. Cargill's southeast region has responsibility for monitoring grain production from the Ohio River portion of the corn- soybean- and wheat-producing belt through Florida. The company operates barge-loading terminals on the Ohio River and inland rail terminals in Indiana and Illinois. Cargill owns two unloading facilities on the Tennessee River and two country elevators in Georgia. The company maintains contact with consumers throughout the region on a daily basis. Ultimately, the role of management is to make decisions on the movement of grain into domestic or export markets. Analysis of grain production and demand plays an essential role in choosing our markets.

Grain exports are increasing in importance to U.S. farmers. In 1960, grain from one in 10 acres in the U.S. went for export. By the early 1980s, one acre in three found its way to an overseas buyer. Georgia is more closely attuned to domestic consumption than are many other states, but no state with a significant farm economy can isolate itself from world markets. Nor can any state ignore the problems and challenges confronting U.S. agriculture. Those problems and challenges are as important to Georgia and Southeast U.S. farmers and merchandisers as they are to others across the U.S.

No matter where each of us fits in the grain marketing system, we face similar and interrelated problems that will require hard work and clear thinking in the years ahead. Some of the market conditions in the near future are not as bright as we would like. And frankly, there are a lot of questions we simply can't answer at this time. But to quote another American with a demonstrated interest in this country -- a fellow by the name of Mark Twain -- "When in doubt, tell the truth." And if all of us are going to survive and prosper, we must confront some unpleasant truths.

The most painful truth we face is this: the demand for U.S. agricultural exports is not likely to resume the rapid-growth rates seen in the 1970s for some time to come. Rebuilding that demand -- and the robust economy it helped generate for all facets of U.S. agriculture -- will be a long, tough road, and will require some substantial adjustments, many of them painful. Current circumstances in the agricultural economies differs from past expectations. This paper will examine potential supply and demand for agricultural exports and wrap up with a few thoughts on some of the problems we still have to overcome, and opportunities for exports.

The Booming 70s

Grain shipments are important to U.S. agriculture and agribusiness. In 1978, for example, nearly 44 million tons of grain and grain products were shipped on U.S. inland waterways, nearly 8 million of which traveled on the Ohio and Tennessee rivers. Most of this grain was destined for foreign markets. U.S. exporters shipped about 113 million tons of grain and oilseeds to foreign customers.

About 1978, the United States was approaching the crest of the export wave of the 1970s. We now look back on those as the good old days, and for good reason -- it was a seller's market. The global economy was booming. New customers were clamoring for more food imports, and the United States was far ahead of the pack in supplying that demand. In 1972-73, world grain and oilseed trade stood at about 140 million metric tons. By the 1979-80 marketing year, world demand had jumped to 231 million tons. The United States captured better than two-thirds of this increase.

During the rapid growth of the 70s, the grain industry built its annual handling capacity to cover 7 billion bushels. The Gulf of Mexico ports alone have the capability of handling 50 million bushels per week. However, export growth failed to match that build-up in facilities. Exports averaged around 4.9 billion to 5.3 billion bushels over the 1978-81 era, and 1982-83 exports probably will total only 4.65 billion bushels. Even the Gulf of Mexico facilities are operating at well below capacity, at roughly 42 million bushels per week.

Exports through the Gulf of Mexico ports have a substantial impact on the Southeast U.S. Ports such as Mobile, Savannah, and Charleston function best when local supplies are good and the Louisiana Gulf approaches capacity. The combined effect of reduced production and stagnant demand has a staggering impact on the utility of grain-loading ports in and near Georgia.

Demand for U.S. grain has decreased since the heady days of the 1970s. Exports have stagnated. The U.S. share of world grain, particularly coarse-grain, declined. Agricultural stocks were at record-high levels in late 1982. The seller's market of the 1970s became the buyer's market of the 1980s.

Let me give you one concrete example of how this slowdown has affected one segment of our industry -- the transportation sector. Rising demand for energy-related cargoes and other raw materials in the 1970s signaled good times for the industry. In mid-decade, there was great hue and cry about the so-called "transportation shortage" in the United States. However, it's unlikely a transportation shortage ever existed, despite the increased demand. Granted, there was not enough transportation to move all the grain shippers wanted to move when they wanted to move it.

But the response to the perceived shortage contributed to the plight of the 1980s. Construction of new carrying equipment in the face of declining demand led to massive surplus capacity. The numbers on carrier capacity are significant to the overall situation today. The covered barge fleet in 1983 consisted of about 11,000 to 12,000 units, up from 7,000 in 1978.

New, more powerful barge tows have come on stream. This build-up was not limited to the barge industry, however. In 1980, more than 29,000 rail cars were built, compared with only 18,000 just two years before. In other words, the industry is stuck with equipment surpluses and demand shortage.

The Downturn in Demand

What happened to get us in this mess? It is not possible in a short paper to chronicle all the reasons. But a few of the more important factors behind the plight can be addressed.

One of the major reasons for the decline in U.S. exports is the global economic downturn. Many customers for U.S. grain -- especially the centrally planned economies and the developing nations that provided the bulk of the growth in the 1970s -- simply cannot afford to pay for food import needs in the 1980s. Many nations are saddled with debt burdens that make it impossible for them to finance anything but the most essential of import needs.

Developing nations currently have outstanding debts to western banks of over $600 billion. Nations with centrally planned economies no longer can afford the substantial food subsidies begun and expanded in the 1970s. At the same time, a strong U.S. dollar made U.S. goods relatively more expensive than similar or identical commodities from other suppliers. It is no wonder then that world grain trade stagnated in the 1980s.

Another major factor in the decline in the U.S. grain export trade has been the intervention of the U.S. government in private business. If the past few years has taught us anything, it's that "food is not a weapon." Embargoes of farm products simply are not effective foreign-policy tools. The 1980s Russian grain embargo is a case in point. The U.S. Department of Agriculture's own statistics show that the U.S. share of the Soviet market peaked in 1978-79 at 78 percent. In plain English, that means that U.S. farmers were selling the world's largest single food importer nearly four of every five tons of its grain imports. But by 1982-83, the U.S. share had been cut to 19 percent. Note that we lost this market share while the Soviets were experiencing tough times on the farm. Over the 1973-83 decade, Soviet farm production averaged about 189 million tons. During 1981 and 1982, the average was closer to 170 million. Soviet imports exceeded 35 million tons in some years. The Soviet crop was a good deal better in 1983, in the range of 200 million tons, but Soviet import needs still were expected to average about 30 million tons a year in the 1980s decade.

If that example isn't enough, ask a wheat farmer about U.S. sales to the People's Republic of China (PRC). After years of market cultivation, the PRC became the single largest market for U.S. wheat in the world. But a dispute over an acceptable level of U.S. imports of PRC textiles placed the relationship in jeopardy. Initially, the PRC cut off purchases of U.S. farm commodities worth over half a billion dollars in a battle over imports worth less than a tenth of that amount. It appears that the impasse' has ended, at long last. But in today's agricultural market conditions, one thing we do not need is a totally unnecessary governmental roadblock to U.S. farm exports.

While the United States was busy creating roadblocks to trade, other nations were more than willing to take the steps necessary to acquire a larger share of world trade. For example, Argentina, Canada and the European Economic Community acquired most of the Soviet market share abdicated by the United States. And when the United States has not erected its own roadblocks to trade, other competitors sometimes have resorted to subsidies and other unfair trade practices to displace U.S. sales.

What does all this mean? Just this -- the future of U.S. agriculture and the U.S. agricultural export industry are inextricably tied together. And my message is equally simple. We can look forward to better days if we work together. We may not see days like those of the 1970s, but we can build a brighter future.

Future Trade Conditions

What is the short-term outlook for U.S. agricultural exports? Will demand for farm exports increase appreciably in 1984-85? The short answer is no, demand isn't likely to surge back of its own volition to levels anticipated in the 1970s. One of the first lessons learned in agriculture, however, is never say never. Adverse weather conditions around the globe, for example, could change the outlook significantly. But from all the available evidence to date, it appears world trade in grain and oilseeds will remain stagnant in the range of 200-217 million tons during 1984-85.

After a period of remarkable growth in the 1970s, world trade in coarse grains is likely to remain flat. Total world trade actually has declined from a high of 105.5 million tons in 1980-81 to only 87 million tons in 1982-83. And more important from the U.S. exporters' perspective, the U.S. share of that declining trade also has been declining. After peaking near 71 percent at the end of the 1970s, the U.S. share of world coarse-grain markets dipped to only 63 percent in 1982-83. In essence, the United States has borne the brunt of the decline in world coarse-grain trade. And unfortunately, there is nothing to indicate this is changing. Coarse-grain trade in the mid 1980s is expected to remain in the range of 87 to 94 million tons.

The story is similar for wheat, an export commodity very import to the Southeast. World trade has contracted slightly from peak years to near 100 million tons, and the U.S. share of that trade has declined from a high of over 52 percent to 41 percent.

The brightest spot in the world trade outlook is for oilseeds. World trade in oilseeds and products has grown steadily since 1972. Trade during 1983-84 is projected to be 50 to 52 million tons, up 10 percent from 1982-83. Trade may increase by another 5 percent during 1984-85. And, the United States continues to hold roughly two-thirds of this trade.

Despite the relatively favorable conditions for oilseeds, world grain trade has its problems. Trade is stagnant. The U.S. share of that trade is declining. And perhaps equally important, U.S. production has remained high, resulting in rapid and sizeable increases in U.S. stocks, as well as governmental efforts to manage supply. Look at corn production in the U.S. as an example. Production in 1982 hit a record 8.3 billion bushels, even though U.S. export markets were declining and domestic demand showed no major change. Total supplies reached 10.7 billion bushels. The carryover from this situation reached over 3.5 billion bushels -- 3.2 billion of which are owned by the government. That carryover represents about half of U.S. total annual utilization.

Total world coarse-grain stocks is around 114 million tons, representing over 20 percent of utilization. During 1976, the percentage was 9 and, in my opinion, ideally should stand at around 12 percent. The outlook into 1985-86 suggests that coarse-grain trade will not recover above the range of 103 to 104 million tons. To counter this situation, the government embarked on the now-famous payment-in-kind program. PIK is a commendable effort to deal with a complex and potentially devastating stocks situation. But it is not a long-term solution to the larger problem of declining demand.

United States farm policies have succeeded in building a wall around the U.S. producer, insulating him from the realities of the world marketplace. Producers are not planting for markets, rather they are planting for government programs. The high cost of these programs -- including the high cost of PIK -- are likely to create substantial pressures to revise U.S. farm programs significantly. Some favor strict acreage controls as a means of getting a handle on farm programs. I contend that is a fundamental mistake. Each acre taken out of production in the U.S., while artificial support rates are maintained, simple stimulates production elsewhere. A better alternative would be a commitment to active participation in world grain markets.

What Can The United States Do?

Since the marketplace will not provide any dramatic short-term relief from stagnant market, what can be done? First, we can work for a U.S. trade policy that recognizes the importance of agricultural trade and the futility of trying to use food exports as some sort of lever for our foreign-policy goals. This means that agricultural interests should support legislation in the Congress that would preserve the "contract sanctity" guarantees won in 1982 legislation extending the Commodity Futures Trading Commission.

Contract sanctity was under attack by some members of Congress during renewal of the Export Administration Act. One very important senator even has an amendment specifically targeted at agricultural contract sanctity. U.S. contract sanctity must be maintained. The best response is one that communicates U.S. commitment to civilized international behavior and commitment to rational, sound trade and economic policy for this nation's farmers. Asking the farm community to pay for the Soviet's actions by giving up contract sanctity will not accomplish either goal.

Also, we can support market-oriented farm policies that work to revitalize the U.S commitment to competing in world markets. That means realistic commodity support rates and expanded credit programs, for two examples. As I noted earlier, U.S. farm policy today is centered on short-term supply management, and pressures are building in some circles to make supply management the centerpiece of future farm policy.

That would be a very serious mistake. The immediate challenge is to rekindle demand for U.S. farm exports abroad, to get the export pie growing once more. Supply-management programs do nothing in this regard and can only prolong the problem and, probably, make it worse. At the same time, the United States must reaffirm its commitment to take all appropriate steps to counter the unfair trade practices of competing nations. Free trade means fair trade, whether the export pie is growing or contracting.

The most recent challenge in the trade arena involves the European Community. The EC Commission has proposed some lengthy changes to its Common Agricultural Policy, including limits on imports of non-grain feed ingredients and new taxes on consumption of fats and oils. These proposed changes fly in the face of existing EC commitments made under the General Agreement on Tariffs and Trade. The EC's trade partners accepted its high price support system in past trade negotiations, but only after the EC agreed to certain low duties on imports of other farm goods, including non-grain feed ingredients and soybeans. But while the EC now wants to change those rules, it has not offered any corresponding changes in its support programs or its export subsidy programs.

If approved, the EC's proposal would have serious effects on U.S. exports of non-grain feed ingredients and soybeans. The issue involved here is most complex. But the main point is simple. The United States faces a number of serious challenges to the retention of its position in world markets. We must be aware of them, and we must fight against policies and practices that impair the world grain marketing system's ability to function freely, efficiently and economically.

And finally, the United States can take the lead in the global economic recovery. U.S. export problems attributed to a strong dollar cannot be entirely cured until the world economy is back on its feet. Credit programs could be a valuable tool in revitalizing the world economy. New and expanded uses of the GSM-5 and GSM-102 programs administered by USDA, together with PL 480, could be of major value in this regard. These aren't the only steps the United States can take, but they are important ones.

Georgia and the Southeast, and the Agricultural Economy

To this point, this paper focuses on the big picture. It's always easier to address the big picture, because you can use so many generalities. Now for the specifics for Georgia the Southeast. And true to form, this part of the paper is the most difficult.

The Region cannot divide itself from the big picture kinds of problems facing U.S. agriculture. And those big picture problems are more than enough to keep anyone busy. But Southeast farmers and marketers face many additional problems that simply are a fact of life.

In the first place, Georgia has had problems maintaining consistent levels of production. The state has produced 120 million bushels of corn, 66 million bushels of soybeans and 48 million bushels of wheat. That's a potential production of 210 million bushels. Unfortunately, there also are years -- like 1983 -- when the total is more like 110 million bushels.

Much of the problem can be traced to the climate, which can bring excessive heat in key periods of the corn and soybean plant life cycle. Improved production techniques, including greater use of irrigation, better fertilizers and seeds, are helping combat this natural disadvantage. Recent market prices, have not provided a lot of financial incentive to maintain and expand these efforts, so perhaps it is safe to conclude that Georgia producers have a double stake in renewing demand for all U.S. farm exports.

The administration's payment-in-kind program already cut nearly 80 million acres from U.S. production in 1983, and record high temperatures and dry conditions have cut yields dramatically on the planted area. Unfortunately, Georgia was among the states hardest hit by the hot, dry conditions of 1983 and prior years.

However, exports have not been Georgia's principal agricultural focus. Georgia is not a primary grain-producing state. Even in the best of years, the demand for grain from within the state exceeds Georgia's total production. As a result, the state's agricultural transportation and handling system has been oriented around meeting the state's grain needs, not those of the export market.

During the 1983-84 crop year, Georgia will consume more than twice as much feed grains and protein ingredients than the state produces. This creates enormous handling problems for the industry. To complicate the problem, most of the consumption is concentrated toward the northern part of the state, while production is concentrated in the south. But rail transportation rates function from north to south, or just the opposite direction of the commodity flow.

Even with this enormous local demand for grain, Georgia still has a major stake in exports. Soft red winter wheat production in Georgia is an excellent example. The poultry industry and bread-flour manufacturers increasingly are accepting soft red winter wheat. But it still remains an export commodity. I could make a similar argument on the growing importance of export markets for feed grain and soybean producers as well. Despite the domestic demand, the importance of exports to the Georgia's agricultural well-being cannot be ignored. There will be times when the economics of the marketplace make export markets the best alternative for Georgia producers.

If Georgia is to take full advantage of these marketing opportunities, it also has to meet some challenges in grain quality. Grain quality is of the utmost importance in export markets. Importers have rigid standards and will change suppliers without notice if those standards are not met. But when I first bought grain in Georgia eight years ago, it was not uncommon for corn to travel from the farm through the country elevator into a hopper car and onto a feedmill without being examined or regraded. Times have changed and, in an era of intense competition for every market, we have to pay close attention to every facet of marketing -- especially grain quality.

Grain quality is not established in the export elevator. Grain quality is determined by careful attention and proper handling at every stage in the marketing chain. It begins on the farm. It continues at the country elevator. It continues through every step of the marketing process, right up to the export customer's door. If this was not challenge enough for the Georgia elevator operator, there also are some legislative hurdles to overcome. If there is one more responsibility the elevator operator does not need, it's the task of knowing whether or not the grain he purchases has a prior lien against it.

Country elevators exist to market grain, not serve as clearinghouses for the financial commitments of producers and banks. Major grain-producing states such as Iowa, Kentucky, Ohio and Indiana have passed legislation aimed at making it easier for grain dealers to deal with this issue. This legislation has helped reduce a risk that otherwise has to be priced into operating margins. Obviously, this has to affect the competitiveness of the grain elevator in both domestic and export trade. I hope Georgia can find a way to take the same sort of legislative action. Everyone involved in the marketing system would benefit.

These challenges and problems aren't insurmountable. Georgia has proven to be capable and resourceful, in both practical and political terms. If you need any proof of that, just look at the success with the peanut program. This program has proven remarkably adept at tailoring production to the nation's domestic needs and the economic interests of its producers as well. If that same diligence is applied to the problems facing grains and other oilseeds, Georgia has nothing to worry about.

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