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A REVIEW OF THE INTERNATIONAL WHEAT SITUATION.

by

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The present unsettled state of the international wheat market is of particular consequence to Australia. Not only is Australia one of the four major wheat exporting countries, but wheat (and flour) is still of major importance in the Australian economy as a source of overseas funds.

The international wheat market was particularly buoyant in the early post-war period, and this buoyancy continued until almost the end of the 1952-53 international wheat year. However, by mid-1953, it was apparent that, as the result of several factors, heavy stocks of wheat were accumulating in exporting countries. Since then, stocks have continued to rise and prices on world markets have declined fairly continuously, but not spectacularly.

The accumulation of stocks, accompanied by a gradual decline in prices, has resulted in an atmosphere of uncertainty in the wheat industry in this country which is, in some respects, similar to that of the 'thirties and early war-years, but is in complete contrast to the confidence which has characterized the industry during the past decade. In Australia, as in North America, anxiety over future wheat prospects has been heightened by doubts as to whether storage capacity, existing and in prospect, will be adequate to allow of efficient handling of the 1954 and subsequent crops. However, despite the uncertain future, it appeared at the time of writing (mid-May) that Australian sowings in 1954 would not differ greatly from those of the previous year.

Despite some similarity between the present position and the depressed condition of the industry in the 'thirties and early 'forties, there are marked differences in circumstances. The most important of these is the fact that wheat prices remain at reasonable levels, and wheat production, in this country at least, continues to be a profitable occupation.

However, a detailed examination of recent trends and future prospects for world wheat production and trade suggests that in the absence of severe droughts in the major exporting countries, the solution of the present disposal problem will be by no means easy. The imposition of further restrictions on wheat production in the United States appears to offer the only practicable means of controlling the situation—a situation which calls for action designed to obtain a better balance between supply and demand at or near current price levels, if the wheat industry is to remain reasonably prosperous.¹

The immediate problem is one of considerable magnitude. "Surplus" supplies of wheat in the four major wheat exporting countries alone, exceed the total annual volume of wheat normally entering world trade. It is apparent also that, given reasonable seasonable conditions, world wheat production is likely to continue at a level in excess of immediate needs unless further reductions are made in areas sown in the United States. The imposition of physical production restrictions in other major exporting countries appears unlikely at present.

¹ Since this was written additional reductions on sowings in the United States in the 1954-55 season have been announced.

The problem facing exporters is one of attempting to place record supplies of wheat on world markets without depressing prices to the extent that wheat production becomes unprofitable, or, alternatively, of attempting temporarily to store a large part of the surplus with a view to its placement on world markets at a later stage. This latter policy can be successful only if there is a subsequent reduction in wheat output. Either course of action poses considerable problems. However, the position is simplified somewhat by the fact that in two of the four major exporting countries, Canada and Australia, export wheat is marketed by monopolistic grower-controlled organizations, while the U.S. Commodity Credit Corporation exercises considerable control over exports from the United States. In the Argentine, too, export sales are largely controlled by the Argentine Trade Promotion Institute, a State trading organization.

That four organizations control the marketing of about 80 per cent. of the wheat currently available for export no doubt accounts for the fact that, despite heavy surpluses, wheat prices have been maintained at relatively high levels. Prices have fallen appreciably in the past year, but there can be little doubt that the decline would have been substantially greater and more sudden had marketing conditions been similar to those existing in the pre-war era. Recent export sales have been made by the Australian Wheat Board at from 14s. 6d. to 16s. per bushel, bulk basis f.o.b. ports, according to destination. These prices compare with a local sale price of 14s. 1½d. per bushel, and an officially determined cost of production for the season of 12s. 7d. per bushel, bulk basis, f.o.r., principal ports. Average Australian export prices in recent years are shown in Table I.

Despite the fall in wheat prices since the beginning of the present international wheat year, national marketing organizations have so far resisted the temptation to engage in *drastic* price-cutting in an attempt to clear stocks. They prefer to store wheat, despite the physical and financial difficulties involved, in anticipation of either a recovery in world trade in wheat or the possibility of a significant reduction in production levels in the near future. In fact, the Chairman of the Australian Wheat Board (Sir John Teasdale) has stated that not only is that Board strongly opposed to price cutting as a means of disposing of surplus stocks, but the Board does not consider that marked price reductions would result in any significant increase in sales. This view may be correct in so far as the immediate future is concerned, but it cannot be valid in the longer term. Admittedly, in countries where living standards are high, the demand for wheat for human consumption is highly inelastic, but in great areas of the world, where living standards are low, the demand is by no means inelastic, while in countries such as Australia, the demand for wheat for use as stock feed is quite elastic. In the longer term lower prices would undoubtedly induce greater consumption, and in all probability would also tend to discourage wheat production in some of the high-cost producing areas, particularly in Europe; this in turn would eventually lead to a higher level of international trade in wheat.

It remains to be seen whether wheat prices can be held at or near present levels, or whether the fall in prices, apparent since last June, will continue further. Fortunately there is still a fair margin between current production costs and world wheat prices; fortunately, too,

Australia can produce wheat more cheaply than most other major wheat growing areas, and probably more cheaply than any other major exporter.

An assessment of the existing problem and an examination of the reasons for the rather sudden change which has occurred on international wheat markets is essential to any consideration of future prospects.

TABLE I.
Average Export Wheat Prices—Australia.

Year.	I.W.A. Wheat.	" Free " Wheat.
	s. d.	s. d.
1938-39*	.....	2 5
1949-50†	15 5	18 6
1950-51†	16 1	18 8
1951-52†	16 4	20 9
1952-53†	16 6	21 2
August, 1953‡	18 3	18 3
April, 1954‡	15 9	15 9

Source.—Commonwealth Bureau of Census and Statistics, Australian Wheat Board.

* Weighted average shippers' limits, f.o.r., ports for growers' bagged and bulk lots.

† Australian Wheat Board selling price for f.a.q. bulk wheat, f.o.b. basis.

‡ Australian Wheat Board basic selling price for f.a.q. bulk wheat, f.o.b. basis.

SURPLUS STOCKS.

Wheat exporters are currently faced with the problem of disposing of record stocks of wheat on a market which has contracted from the record levels of recent years. The stocks are held largely in North America, but Australian stocks at the end of the present (1953-54) crop year are likely to be substantial.

In one year (1952-53) the carry-over stocks of the four major exporters—United States, Canada, Argentina and Australia—more than doubled, the increase being approximately 550 million bushels. It is anticipated that stocks in these four countries at the end of their present crop years² will show a further increase of over 400 million bushels. It appears certain that, collectively, carry-over stocks of the four major exporters at the end of their 1953-54 crop years will be the highest on record, and almost three times as great as they were just two years

² Crop years differ from country to country according to seasons. The crop years of the four major exporters are as follows:

U.S.A., July to June; Canada, August to July; Australia, December to November; Argentina, December to November.

While the practice adopted here of assessing the position in each country according to its recognized crop year does not provide any assessment of stocks at a particular point in time, it does provide a clearer picture of the carry-over position, and of supplies available for export, than if the position is considered as at one specific date for all countries.

previously. Total stocks are likely to amount to over 1,400 million bushels; whereas year-end stocks of little more than 400 million bushels are generally regarded as sufficient to provide for normal contingencies.

What might be termed "surplus" supplies, therefore, amount to approximately 1,000 million bushels, which is roughly equivalent to the total annual volume of international trade in wheat at its peak level.

The present stocks of wheat in North America have accumulated as the result of two distinct sets of factors. In the first place, crops in both the major exporting countries and in many areas which are normally net importers of wheat have been exceptionally heavy in the past two seasons (1952-53 and 1953-54). The 1952-53 crop in the four major exporting countries was 2,452 million bushels by comparison with an average crop in the previous four seasons of 1,858 million bushels. The 1953-54 crop in the same four countries is estimated at 2,212 million bushels. The heavy world crops of the past two seasons have been the outcome, primarily, of good seasonal conditions (which have resulted in average yields well above normal) rather than of increased sowings. In some countries there have been marked increases in areas sown, but in the overall picture these are relatively insignificant, and they were certainly not the major factor contributing to the high level of production in the period concerned.

Secondly, the exceptionally high level of wheat production in the past two seasons has coincided with a marked decline in world trade in wheat. This decline was in part the direct result of increased production in importing areas, but other factors also were responsible. World trade in wheat reached a peak in 1951-52, when it is estimated that approximately 1,000 million bushels were traded on international markets. The volume of trade declined by nearly 10 per cent. in 1952-53, while the level of trading in the present year is likely to be from 10-20 per cent. below that of the previous season. The quantity of wheat entering world trade this season will certainly be the lowest since 1949-50, and may be less than in any year since the end of World War II. Nevertheless, it will be substantially in excess of the pre-war level. World trade in wheat in recent years is shown in more detail in Table II.

The reduction in international trade in wheat, which has been particularly severe in the past ten months, was due, as has already been indicated, partly to increased production in certain traditional importing areas, notably India and several European countries, including the United Kingdom. Other factors which also contributed to the decline included a marked increase in Asiatic rice production, the reversion to free trading in wheat by the United Kingdom, and the fact that in some continental European countries stock-piles of wheat have been

drastically reduced. Stocks have been drawn on to provide current needs, with the result that imports have fallen temporarily. It must be remembered also that the level of wheat exports in 1951-52 was quite exceptional, being the highest on record. Rising stocks in the exporting countries have probably also caused many importers to delay purchases, as far as possible, in anticipation of further price reductions.

TABLE II.
World-Trade in Wheat.

Year.	Australia.	Four Major Exporters.	Whole World.
	Million bushels.	Million bushels.	Million bushels.
Average pre-war (5 years)*	107	446	576
1938-39*	96	479	643
1939-40*	86	502	620†
1940-41*	76	434	485†
1941-42*	41	378	425†
1942-43*	38	355	370†
1943-44*	65	507	535†
1948-49	118	925	975‡
1949-50	120	742	810‡
1950-51	128	817	900‡
1951-52	81	878	1,000‡
1952-53	101	850	925§
Average last 5 years	110	842	920

* *World Grain Review and Outlook*, 1945. Food Research Institute, Stanford University.

† Excluding exports of Poland and Czechoslovakia.

‡ Estimate by *The Wheat Situation* (U.S.D.A.), Jan.-Feb.-March, 1953.

§ Estimate quoted in *The Wheat Review* (Canada), October, 1953.

The Level of Trade.

International trade in wheat in the past five seasons has averaged approximately 920 million bushels annually, of which 842 million bushels, 92 per cent., was supplied by the four major exporters. In the immediate pre-war period (five years) the average volume of world trade in wheat amounted to 576 million bushels, of which 446 million bushels, or 77 per cent., was supplied by the four major exporters.

The marked increase in international trade in wheat between the pre-war period and the last five years—an increase of about 60 per cent—was the result of several factors which must be taken into account in assessing the likely future level of trade. Between 1934-38 and 1952-53 the world population increased by 17 per cent., and world production of wheat increased by approximately the same percentage figure. However, production of the other main food grain, rice, increased by only approximately 11 per cent. in the same period. Wheat has therefore replaced rice to some extent in the diets of many Asiatic peoples. A large part of the increase in rice production occurred during the past two seasons and, as a result of this relatively sudden increase, there is now a rice surplus despite the fact that production per capita is still below pre-war levels.

While total wheat production has kept pace with population increases, the expansion in production has been most uneven. North American wheat output in the past three seasons has averaged 80 per cent. higher than pre-war, whereas Argentine production in the last three years averaged less than in the pre-war period, and Australian crops were only 20 per cent. in excess of the pre-war level. In the net importing areas of Europe and Asia the increase in wheat production has been only about 10 and 9 per cent. respectively. These circumstances, coupled with reduced rice production in Asia, were largely responsible for the marked increase in international wheat trade which took place in the post-war period. Despite the recent expansion in rice production, the position is such that there is every reason to believe that trade in wheat will continue at a level considerably in excess of the pre-war average figure of 576 million bushels annually.

Several European countries have emerged as small exporters in the past year or two; Turkish production has increased substantially, providing moderate export surpluses, while the U.S.S.R. is also spasmodically exporting in moderate quantities. Nevertheless, total European wheat areas (excluding the U.S.S.R.) in 1953 were below the pre-war average, while sowings in Asia were estimated by F.A.O. to have increased by less than 9 per cent. between the pre-war period and 1953.

While the longer term prospects for international trade in wheat appear reasonably bright, it seems unlikely that the level of trade will return to the peak reached in 1951-52 during the next few years. The record trade in wheat that season was due to exceptional circumstances, including stock-piling activities following on the Korean conflict.

The problem of disposing of existing surplus stocks remains. These stocks are held almost exclusively in three of the four major exporting countries, and their disposal can best be considered in the light of a detailed examination of the wheat position in the countries concerned.

THE SITUATION IN THE FOUR MAJOR EXPORTING COUNTRIES.

Table III gives details of crops and disposals in the four major exporting countries in the pre-war period and during the last six seasons. It will be observed that not only was there a marked increase in both overall production and exports between pre-war and the present, but there has also been a major change in the relative importance of the four countries as exporters. Pre-war, the United States was a relatively minor exporter, whereas in recent years exports from the United States have, on more than one occasion, exceeded the total volume of exports from the other three countries combined; 1952-53 was the only season since the end of World War II in which the United States was not the world's largest exporter of wheat.

TABLE III.
Wheat Supplies and Disposition. Four Major Exporters.
(Million bushels.)

Country.	Opening Stocks.	Crop.	Total Supplies.	Home Consumption.	Available for Export or Carry-over.	Exports.	Closing Stocks.
Average Pre-war (Five years).							
U.S.A.	159	716	875	687	188	34	154
Canada	121	263	384	110	274	173	101
Argentina*	76	244	320	100	220	122	98
Australia*	55	154	209	54	155	107	48
Total	411	1,377	1,788	951	837	436	401
1948-49.							
U.S.A.	196	1,314	1,510	701	809	501	308
Canada	78	386	464	130	334	232	102
Argentina	75	190	265	147	118	74	44
Australia	26	191	217	80	137	118	19
Total	375	2,081	2,456	1,058	1,398	925	473
1949-50.							
U.S.A.	308	1,141	1,449	726	723	296	427
Canada	102	371	473	136	337	225	112
Argentina	44	189	233	125	108	101	7
Australia	19	218	237	73	164	120	44
Total	473	1,919	2,392	1,060	1,332	742	590
1950-51.							
U.S.A.	427	1,027	1,454	705	749	353	396
Canada	112	462	574	144	430	241	189
Argentina	7	213	220	107	113	95	18
Australia	44	184	228	81	147	128	19
Total	590	1,886	2,476	1,037	1,439	817	622
1951-52.							
U.S.A.	396	981	1,377	678	699	443	256
Canada	189	553	742	169	573	356	217
Argentina	18	75	93	96	(-) 3	(-) 5	2†
Australia	19	160	179	81	98	81	17
Total	622	1,769	2,391	1,024	1,370	880	492
1952-53.							
U.S.A.	256	1,291	1,547	692	855	293	562
Canada	217	688	905	156	749	386	363
Argentina	2	278†	280	125	155	82	73
Australia	17	195	212	75	137	101	38
Total	492	2,452	2,944	1,048	1,896	862	1,036
1953-54.¶							
U.S.A.	562	1,169†	1,731**	690††	1,043	...	...
Canada	363	614†	977	160††	817	...	...
Argentina	73	230†	303	130†	173	...	...
Australia	38	199	235	75†	160	...	...
Total	1,036	2,212	3,246	1,055	2,193	...	...

Source: The Commonwealth Bureau of Census and Statistics, except where otherwise stated.

* August-July.

† The Wheat Review (Canada).

** Excluding small volume of imports from Canada.

‡ Forecast.

¶ Subject to revision.

Note: Figures are for individual crop years (see text).

Australian wheat exports in the post-war period have averaged about the same level as pre-war. It will be noted also that although the total crop in the four countries averaged 55 per cent. higher in the last three years by comparison with the pre-war period (2,144 million bushels by comparison with 1,377 million bushels), domestic utilization increased by only 9 per cent. in the same period. However, the average domestic utilization of 1,037 million bushels in the past three years (1950-51 to 1952-53) tends to give a slightly unrealistic picture of the likely future demand, as an exceptionally poor crop in Argentina in 1951-52 necessitated a drastic temporary reduction in domestic utilization in that country. In the absence of any special measures designed to reduce surpluses by providing cheap wheat for livestock, domestic utilization in the four countries is likely to range from 1,060 to 1,100 million bushels annually in the more immediate future.

Future Volume of Trade.

It has already been suggested that in the next few years world trade in wheat is likely to be substantially in excess of the pre-war level, but below the peak level of 1951-52. The volume of trade might reasonably be expected to range between 800 and 900 million bushels in most years (in the absence of any special measures designed to dispose of large quantities of surplus wheat at substantially reduced prices or as gifts, and provided a serious recession is not experienced). Of this, probably between 80 and 90 per cent. will be provided by the four major exporters. That is, exports from these four countries are likely to range from about 640 to 810 million bushels annually in the more immediate future. If it is assumed that exports will average 750 million bushels, and local consumption will average 1,080 million bushels, total annual disposals in the four countries will average 1,830 million bushels.

It must be admitted that the foregoing analysis of the future position is rather hypothetical in so far as exports are concerned, but it does suggest that, provided the total crop in the four exporting countries does not average more than about 1,800 to 1,850 million bushels during the next five years or so, the longer-term disposal problem will not present difficulties once the present excessive level of stocks is reduced to more moderate levels. However, unless special measures can be devised which will result in the successful disposal of about 500 million bushels over and above normal trade levels in the next two or three seasons, it will probably be necessary to reduce average production levels for some years to less than 1,700 million bushels annually if wheat growing is to remain profitable.

Before examining this aspect of the problem, it is worth looking at the production picture. Pre-war crops averaged 1,377 million bushels annually; in the three years 1948-49 to 1950-51 the average output was 1,962 million bushels, while in the past three seasons crops have averaged 2,144 million bushels. The substantial increase over the pre-war level is due entirely to increased production in North America, primarily in the United States, although in the past three years Canadian crops have been particularly heavy also, owing to favourable seasonal conditions.

Production expansion since pre-war has been far greater in the United States than elsewhere. This increase in production has been fostered very largely by the implementation of a price support policy

which has had the effect of encouraging high cost production. In the pre-war period, surpluses over and above domestic needs were exported by the United States, but United States' production policy did not aim at a high volume of wheat exports. It is unlikely that there will be a return to the pre-war policy in the foreseeable future, but it does appear that the only practicable solution of the present problem, the fundamental cause of which is that exportable surpluses are in excess of world demand, lies in the further reduction of wheat production in the United States. This, of course, would result in an eventual reduced rate of export from that country. Legislative machinery for the imposition of restrictions on production already exists, and in fact was availed of to reduce 1954 sowings. In view of the importance of the United States in the present situation, recent price support and associated policies in that country are discussed in some detail later.

In Australia and Argentina recent Government policy has been to encourage an expansion in wheat production, and it is most unlikely that action will be taken in the near future to discourage or restrict wheat sowings. In so far as Australia is concerned, there appears to be little justification for the imposition of any immediate production restrictions. Less is known of the position in Argentina, or of her particular trade prospects.

Canadian trade prospects are particularly unsatisfactory, and stocks in that country are much higher relative to annual production levels than elsewhere. However, there has been, as far as is known, no serious suggestion to date that restrictive measures should be imposed there. However, recent reports indicate that 1954 sowings are somewhat lower than in the previous year. It should be noted that the particularly heavy crops of recent years have been due largely to exceptionally high average yields rather than to increased sowings. The average Canadian crop in the past three seasons has been 619 million bushels, whereas previously it rarely exceeded 500 million bushels.

In the absence of measures designed to effect a reduction in wheat output, it may reasonably be assumed that production in Australia and Argentina combined will average about 400 million bushels annually, in the immediate future, with Canadian production somewhat greater and perhaps as high as 500 million bushels. If production in the United States averages substantially in excess of 900 million bushels annually, disposal problems are likely to remain acute.

The Problem of Existing Stocks.

While it may well be that adjustments in production levels in the United States will bring future exportable supplies more into line with likely demand than has been the case in the past two seasons, the problem of disposing of the "surplus" stocks of 1,000 million bushels, which have accumulated since 1952, remains.

Two broad alternative lines of action suggest themselves. Either an attempt can be made to adjust supplies by reducing production for two or three seasons in the exporting countries below the level needed to balance supply and demand at the existing level of price; existing stocks being used to meet the deficiency between supply and demand. This would probably mean in effect more drastic restrictions in the United States than have yet been contemplated.

Alternatively, steps may be taken to stimulate demand either on world markets or in the exporters' domestic markets. The United States is already attempting to stimulate demand for its wheat by making it available under the Mutual Security Act. However, whether this action will result in any substantial overall increase in wheat consumption is doubtful; it is more likely to prejudice other sellers' chances of disposing of stocks on world markets.

Domestic utilization of wheat as stock feed in the exporting countries could no doubt be stimulated, but this would involve substantial price reductions on domestic markets and/or heavy Government subsidies on such wheat. It is doubtful whether this expedient will be resorted to unless stocks rise well above present levels.

At this stage it is by no means clear what steps will be taken to dispose of existing surpluses. It may be that grain-handling authorities are hoping that seasonal conditions, which have been exceptionally favourable for a considerable period in all wheat exporting areas other than the Argentine, will prove relatively unfavourable during the next season or two, thereby providing an easy solution to the problem. One thing is clear: exporters will not, at the present stage, cut prices drastically in an endeavour to stimulate export sales, if this can be avoided.

The International Wheat Agreement.

The world wheat situation has been discussed so far without reference to the current International Wheat Agreement, operative from August 1st, 1953, for a period of three years. In the present market situation the I.W.A. is of relatively little significance. The quantity of wheat originally covered by the agreement was 421 million bushels, of which Australia's quota was 48 million bushels. (Compared with 581 million bushels and an Australian quota of 88.7 million bushels in the previous agreement.) Three importers have not ratified the agreement, and two, including Italy with a quota of over 31 million bushels, do not intend to do so. As a result, the total quantity of wheat involved will be only 389 million bushels annually; considerably less than half the current reduced volume of international trade in wheat. Australia's quota will probably also have to be reduced below the original 48 million bushels. It is expected that exporters' quotas will be adjusted by the International Wheat Council at its session, scheduled for the latter part of June.

The importance of the agreement in the present crop year has been further reduced by the fact that India, one of the major importing parties to the agreement, has declined to take up her quota in the current year, due to an abnormally high level of domestic production. The agreement provides that importers must take up their quotas only when wheat is offered at the minimum price. (Exporters are required to supply only when prices are at the maximum level.) Prices under the agreement are currently well below the maximum level, but they remain above the minimum level. Under these circumstances it seems likely that total I.W.A. sales in the current international wheat year will be substantially below the guaranteed quantities. As long as "free" market prices fluctuate between the maximum and the minimum levels provided for in the I.W.A., the agreement is likely to have little influence on international trade in wheat.

However, should prices fall to the minimum level, as they may well do in 1954-55, exporters could call on importing parties to the agreement to take up their full quotas at that price. Such circumstances would provide a real test of the efficacy of the agreement.

THE POSITION IN THE UNITED STATES.

As has already been suggested, future policy in the United States is likely to provide the key to the existing disposal problem. The production and marketing situation in the United States is of particular importance because:

- (a) Both the area sown and production have increased since pre-war to a greater degree than in any other major producing area.
- (b) The United States' role as an exporter has changed from that of a minor exporter, pre-war, to the world's largest exporter in most recent years.
- (c) Surplus stocks are higher in the United States than in any other country (although relative to the crop level Canadian stocks are much heavier).
- (d) The increase in area and production has, to a considerable extent, been the result of a price support programme which has maintained, and continues to maintain, wheat prices at artificially high levels, thus tending to encourage high cost production.
- (e) Legislative provision exists for the restriction of wheat areas, and the application of marketing quotas, and this legislation was implemented to reduce wheat production this season.

Wheat areas in the United States increased from an average level of 57 million acres pre-war to 74 million acres in 1953. This increase was due in large part to the artificially high support prices paid to growers under the Agricultural Adjustment Act of 1938. The average yield per acre also increased in the same period from 13.2 bushels to approximately 17 bushels. However, the pre-war average yield was adversely affected by a series of severe droughts.

To obtain a proper appreciation of the existing position in the United States, it is necessary to examine the price support programme and the acreage allotments and marketing quotas associated with it. The wheatgrower in the United States has a reasonable assurance that he will obtain a guaranteed minimum price for all or most of his wheat—a price based on "parity" and known as the *support price*. For wheat the support price is currently 90 per cent. of parity. The national average price support rate for wheat for the 1953-54 crop was \$2.21 per bushel on farms, which was equivalent to an effective support price at principal markets of about \$2.42.³

³ *The Wheat Situation*, January, 1954 (p. 14), Bureau of Agricultural Economics, Canberra.

Wheat prices are maintained at or near the support price by a system of loans without recourse, which are made to wheat growers by the Commodity Credit Corporation (C.C.C.). The grower may sell his wheat freely if he so desires, but naturally he will only sell on the open market when domestic prices are at or in excess of the support price. Otherwise he will pledge his wheat at the support price to the C.C.C., who then require that it be stored in approved conditions. If market prices rise above the loan level prior to the redemption of the loan, the farmer is free to sell his wheat and repay the loan; on the other hand, if prices remain below the loan level, the farmer will retain his wheat until it passes into C.C.C. possession at the date of redemption of the loan. Domestic wheat prices, then, will rarely fall more than a few cents below the support price except under special circumstances—for instance, lack of adequate approved storage capacity.

Except under certain special circumstances, wheat cannot be sold by the C.C.C. below current support price levels, and while domestic wheat prices do fall below the current support price, only a small proportion of the crop is likely to be available for domestic consumption or export below the support price.

The major exception, whereby the C.C.C. may dispose of wheat below the support price, is in the case of wheat exported against the United States' I.W.A. quota. The export of this wheat is subsidized by the U.S. Government. The second important exception relates to sales under the Mutual Security Act of 1953. Some significant sales to Japan, Spain and other countries have been made under this Act recently. These sales are causing some alarm amongst other wheat exporters.

The price support programme makes provision for the proclamation of a national acreage allotment, and, under certain circumstances, the imposition of marketing quotas when supplies get out of line with demand. The following details, reproduced from the U.S. Department of Agriculture's *The Wheat Situation*, June, 1953, will explain the existing situation:—

A. Acreage Allotment for Wheat.

1. The Secretary of Agriculture "proclaims" the national acreage allotment for the next crop of wheat not later than July 15 each year, under the provisions of the Agricultural Adjustment Act, 1938, as amended.
2. The size of the national wheat acreage allotment must be large enough to produce a crop which, together with the carryover and imports, will make available a supply equal to a normal year's domestic consumption and exports plus 30 per cent. of such consumption and exports. The national acreage allotment, however, cannot be less than 55 million acres under existing legislation. [The minimum acreage allotment has since been increased to 62 million bushels.]
3. The national acreage allotment is apportioned to States, to counties, and finally to individual farms. The apportionments to States, and to counties within States, are made on the basis of the acreage seeded for production of wheat during the preceding ten calendar years, with adjustments for abnormal weather conditions and trends in acreage during the ten-year period. The county acreage is apportioned to individual farms on the basis of tillable acres, crop-rotation practices, type of soil, and topography.
4. Producers are not penalized for failure to comply with acreage allotments when marketing quotas are not in effect, except that the producer who is not a co-operator is entitled to only such support as the Secretary, in his discretion, may make available to such non-co-operators.

B. Marketing Quotas for Wheat.

1. The Secretary is required under the A.A. Act to follow certain legal formulas in determining whether quotas are required. He must proclaim quotas when (1) the *total supply* of wheat for the next marketing year will be more than 20 per cent. larger than the *normal supply*, or (2) when the total supply for the current marketing year is not less than the normal supply, and the average farm price for three consecutive months of the current marketing year has not exceeded 66 per cent. of the parity price.
2. When the Secretary of Agriculture determines that wheat marketing quotas are required, he must proclaim such fact not later than July 1, 1953, for the marketing year that begins on July 1, 1954.
3. Producers have a voice in determining whether the marketing quota program shall be put into effect. The A.A. Act provides that the Secretary shall conduct a referendum, by secret ballot, of farmers who will be subject to the quota to determine whether such farmers favour or oppose such a quota program. If more than one-third of the farmers voting in the referendum oppose the quota program, the Secretary shall, prior to the effective date of such quotas, by proclamation suspend the operation of the marketing quota program.
4. Individual marketing quotas are based on acres—not bushels. Generally speaking, the marketing quota for an individual farm is the quantity of wheat produced on the farm acreage allotment.
5. If the farm acreage allotment is exceeded, the "farm marketing excess" must be determined. This is computed, in terms of bushels, on the basis of the normal production of the excess acreage.
6. The "farm marketing excess" may be marketed by the producer. But the producer is subject to penalty per bushel equal to 50 per cent. of the basic loan rate.

Producers may postpone or avoid the penalty by storing the farm marketing excess in accordance with regulations issued by the Secretary; or he may deliver such excess to the Secretary for disposal. Until the farm marketing excess is stored, delivered, or the penalty paid, the entire crop of wheat is subject to a lien in favour of the United States for the payment of the penalty. The purchaser is required to pay the penalty, although he may deduct an amount equivalent to the penalty from the price paid to the producer.

7. The price support level would be reduced if producers should disapprove marketing quotas for wheat. The Agricultural Act of 1949 provides that "the level of price support to co-operators for any crop of a basic agricultural commodity, except tobacco, for which marketing quotas have been disapproved by producers shall be 50 per cent. of the parity price of such commodity . . .".

C. Differences between Acreage Allotment and Marketing Quota Programs for Wheat.

1. In the absence of a national emergency, a national acreage allotment must be proclaimed by the Secretary each year, even though the supply situation is such as not to require the proclamation of marketing quotas. A marketing quota program, on the other hand, can be proclaimed only when the supply or price level reaches a certain point, as specified in the A.A. Act.
2. Acreage allotment programs as such need not be approved by producers, whereas marketing quota programs must be.
3. No "penalties" are invoked by non-compliance with an acreage allotment program when marketing quotas are not in effect. However, overplanting the farm acreage allotment affects the producer's eligibility for price support. As pointed out earlier, the producer is not eligible for price support as a Co-operator. "Penalties" are assessed on excess marketing when quotas are in effect, and non-co-operators are ineligible for price support at the level applicable to co-operators.

The acreage allotment for 1954 was set at 62 million bushels, and marketing quotas were imposed following a referendum of growers. Although existing legislation provides that 62 million bushels is the minimum acreage allotment which can be imposed, it is possible that the legislation will be amended to provide for a lower allotment in 1955, in view of the heavy increase in stocks which has occurred during the past twelve months.

Stocks of wheat and a number of other commodities have increased to such an extent, as a result of the price support programme, that serious consideration is being given to the modification of the whole programme "to allow American agriculture to operate on a flexible, rather than a rigid basis". However, it is apparent that there is influential opposition to any change in the existing rigid price support system. It does not seem likely that early changes will be made in the programme in so far as wheat is concerned. However, this does not preclude the possibility of a further reduction in acreage allotments for 1955; such action will require minor amending legislation.

The 1954 crop in the United States is expected to be one of the smallest since 1943, partly as the result of the compulsory reduction in sowings, and partly due to adverse seasonal conditions in large parts of the wheat belt. Information available at the time of writing suggested a harvest of about 1,000 million bushels. This would indicate an average yield of about 15 bushels per acre, or two bushels per acre less than the average of recent years.

It has already been suggested that unless *average* U.S. production falls to about 900 million bushels in the more immediate future, disposal problems are likely to remain acute. On the basis of a 17-bushel average this would involve a further reduction in area of nine million acres. A reduction in sowings of such magnitude does not seem likely; on the other hand, the 17-bushel average of recent years has been achieved in the absence of serious drought. A further reduction of ten per cent. in the United States' sowings, from 62 to 56 million acres, bringing areas back to approximately the pre-war level, would undoubtedly go a long way towards solving the existing disposal problem (provided, of course, wheat areas elsewhere are not increased to any significant extent).⁴

The Situation in Australia.

Wheat remains Australia's second most important earner of overseas funds. The value of Australian wheat and flour exports has averaged over £90 million per annum in recent years, the figure for the last complete year (1952-53) being £89,464,000. This represented just over ten per cent. of the total value of exports (by comparison with an average of 14.3 per cent. in the immediate pre-war period).

In the current season wheat and flour exports may amount to less than £60 million, owing to the reduced rate of export and lower prices; however, even at this figure they will exceed in value any other single commodity or group of associated commodities (such as meat or dairy products) with the major exception of wool.

⁴It was announced late in June that the acreage allotment for the 1954-55 season would be 55 million acres.

Carry-over Stocks.

Australia's likely carry-over at the end of the present crop year (November 30th) has been variously forecast at from 80-100 million bushels, by comparison with 38 million bushels at the end of the 1952-53 season. Much can happen by 30th November, but even if the carry-over reaches 100 million bushels, the figure is small by comparison with a likely carry-over in the United States of over 700 million bushels and Canadian year-end stocks of probably 500 million bushels (equal to a normal Canadian crop). Nevertheless, a carry-over of even 80 million bushels in this country will present some storage difficulties, particularly if the 1954 crop reaches the high levels achieved in recent years. However, the storage problem will become really difficult only if surpluses continue to mount in later years. Action is being taken to increase storage capacity in New South Wales, Victoria and South Australia by the States themselves, assisted financially by a Commonwealth Government loan of £3.5 million.

Wheat is now handled and stored largely in bulk in three of the four main producing States, namely, New South Wales, Victoria and Western Australia. In South Australia and Queensland it is still handled almost entirely in bags. If existing and projected storage facilities prove insufficient to handle the crop and carry-over this year, it will be necessary to store wheat in bags in the bulk handling States. This will not be difficult, as not only are bags now readily available, but they are much cheaper than they have been for many years—at 31s. 6d. per dozen the present cost is less than half that of 1951. Large quantities of wheat have been stored in bags on previous occasions with reasonable efficiency. Nevertheless, bag storage is a relatively inefficient method of handling wheat. Losses and deterioration in quality are likely to be considerably greater than in bulk-stored wheat, while growers who are accustomed to bulk-handling do not generally favour bag storage.

Sterling Wheat.

Despite mounting world surpluses, Australia, as the only important supplier of sterling wheat, has appeared to be in a relatively strong position as a wheat exporter, nevertheless, Australian exports have declined severely. Australia's major traditional markets for wheat and/or flour are: the United Kingdom, India, Ceylon and New Zealand, while some continental European countries also purchase quite large quantities from time to time. The improvement in the domestic supply situation in India in the current season, which is probably only temporary, and the marked reduction in United Kingdom purchases in recent months—again a temporary expedient—have been two particular factors seriously affecting Australia's ability to make export sales. Reduced buying by European importers has also contributed to the difficulty.

Another recent development which may affect Australia's ability to develop new markets or expand existing minor market outlets is the sale of wheat by the United States under the Mutual Security Act. Quite important sales have been made under the provisions of this Act in recent months—notably, to Japan and Spain. No doubt the United States will attempt to dispose of additional C.C.C. stocks under the provisions of this Act, whereby the purchaser may pay in local

currency. Theoretically these sales are supposed to be negotiated in such a way as to "avoid substitution or displacement of usual marketings of the U.S. and friendly countries". In practice this will be difficult to achieve, and there is considerable concern in wheat marketing circles in Australia over the effect of such sales on this country's ability to export to soft currency areas. If further sales of a substantial nature are made, it is likely that Australia's export prospects will be prejudiced in some degree.

A further factor affecting Australia's export prospects is the quality of our wheat. Australian wheat is generally a soft wheat of low protein content. It is normally blended by importers with stronger Canadian or United States' wheats in order to produce a satisfactory bread. The low protein content of Australian wheat cannot be increased easily or quickly. It is closely associated with the climatic conditions and soil types in which most of our wheat is grown, and in the foreseeable future there is no likelihood of any marked improvement. Consequently, major importers such as the United Kingdom will have to continue to purchase substantial quantities of Northern American wheat, using Australian wheat in restricted quantities. However, despite quality problems, and in the more immediate future the possible impact of U.S. Mutual Security Act sales on Australian export prospects, the fact that this country is the only major sterling supplier of wheat does confer an important trading advantage.

Australian wheat exports in recent years have averaged a little over 100 million bushels annually, which was also the average level of export in the immediate pre-war period. Australia did not share in the marked expansion in world wheat trade which followed World War II. It has already been suggested that the present contraction in world wheat trade from the extremely high level of the past few years is in part temporary, but it is likely that, for some years at least, and in the absence of any major recession, the level of trade will be lower than in recent years by from perhaps 10 to 20 per cent.

In view of Australia's apparent currency and cost advantages, it may be reasonable to assume that, on average, Australian exports will not fall proportionately to the fall in overall world trade in wheat. And, although prices are likely to be somewhat lower than in the recent past, there are reasonable prospects that Australia will be able to continue to export from 80 to 100 million bushels of wheat annually, except perhaps in the next season or two. Australian wheat areas in recent years have ranged from 10 to 11 million acres, and yields have averaged 17 bushels per acre. On the basis of this average yield, 10-11 million acres would provide from 170 to about 190 million bushels, which, after providing for local needs of 75 to 80 million bushels, would leave from 90 to 125 million bushels for export.

An export surplus of such magnitude is perhaps a little high in view of trade prospects. On the other hand, seasonal conditions in recent years have proved exceptional. There has not been a major drought in the wheat-growing areas of the Commonwealth since 1946, and consequently average yields for the past five years are likely to be misleading in so far as future prospects are concerned. It is probable that as a result of several factors, including better varieties, improved cultural methods and the elimination of so-called "marginal" areas, average yields will remain permanently above the pre-war level of 12 bushels per acre, but, as already indicated, they may not continue at the high level of recent years. If this view proves correct, the recent level of sowings should be satisfactory.

However, the position will need to be re-assessed from time to time. If stocks in Australia continue to rise, action may be necessary in 1955, or subsequently, to implement a policy designed to reduce wheat sowings.