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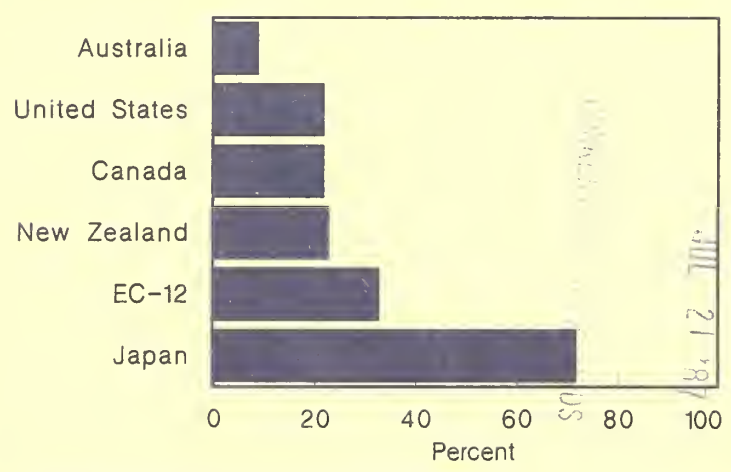
Economic
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World Agriculture

Situation and Outlook Report

**Government Support of Agriculture
Varies Widely**



Government's contribution to producer revenues, 1982-84.

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Situation Coordinators:
Cecil W. Davison (202) 786-1687
Polly Cochran (202) 786-1688

Electronic Word Processing:
Erma McCray

Agriculture and Trade Analysis Division,
Economic Research Service,
U.S. Department of Agriculture, Washington, D.C. 20250

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SUMMARY

Foreign economic growth in 1987 is forecast at 2.4 percent, down from last year's 2.8. Industrial-country growth (excluding the United States and centrally planned countries) is projected at 2.2 percent, down .2 percent, and developing country growth at 1.9 percent, down .9 percent. Inflation may exceed 17 percent, up from 11.6, reflecting a projected 3-percent rate in the developed countries and 60 percent in the developing countries.

Government policies supporting agriculture have become a major international issue. These policies include trade barriers and price and income support programs. They also include other domestic policies designed for national objectives, such as achieving food self-sufficiency, maintaining the family farm as a viable institution, or shielding farmers from price and income instability. Such policies shelter consumers and agricultural producers in many countries from world price movements and international competition, and discourage supply-and-demand adjustments.

Government support of agricultural producers varies by country. Among the industrialized economies, Australia ranked lowest in government assistance, providing only about 10 percent of the revenue of its major agricultural commodity producers in 1982-84. Japan ranked highest, providing around 70 percent. The United States, Canada, and New Zealand were about equal in their overall support, each providing a little over 20 percent, and the European Community (EC) provided one-third.

Heavy subsidies to producers often imply heavy taxes to consumers because many policies that raise producer prices also raise consumer prices. Consumer taxes among developed countries were lowest in Australia, Canada, and New Zealand, and highest in the EC and Japan. The escalating financial crisis of the Common Agricultural Policy (CAP)

continues to press the EC for more CAP reforms.

Commodity price-support policies in industrialized countries, particularly the United States, EC, and Japan, have encouraged excessive grain production, creating surplus stocks and pushing down international grain prices. Consequently, Canada, Australia, the EC, and the United States have lowered grain support prices. Lower U.S. loan rates and the Export Enhancement Program (EEP) have helped the United States increase its share of grain exports from 1986, and continued expansion is expected in 1987/88. The EEP also helped make the United States the leading broiler exporter in 1986, surpassing France and Brazil. Recent U.S. wheat sales to the USSR, under the EEP, were the first since June 1985.

Domestic demand within the industrialized countries has not kept pace with the price-supported grain production, and import demand in the developing countries has been constrained by debt burdens, slow economic growth, and foreign exchange constraints. If their economies prosper, many developing countries could be growing markets for cereal grains. But this requires a dynamic and growing agriculture, so effective strategies for expanding grain exports to developing countries should include support for their agricultural sectors.

Grain surpluses, low grain prices, and attendant problems of storage costs, export subsidies, and producer income support have prompted proposals for discussion in multilateral trade negotiations. For the first time, the 93 members of the General Agreement on Tariffs and Trade may negotiate domestic agricultural policies as they attempt to reduce government intervention in agricultural markets.

EXCHANGE RATE

JUL 14 1987

Global Assessment

At 2.8 percent, foreign economic growth in 1986 was marginally better than expected, but the outlook for 1987, with expected real growth of 2.4 percent, has declined. In addition, continuing concerns over persistent international trade and payments imbalances among the industrialized countries, and export earnings and debt problems among less developed countries (LDC's), lend a significant sense of fragility to the current expansion, leading some analysts to look for still lower growth in 1987.

Prospects for inflation have also worsened in many countries. After slowing for 2 consecutive years, world inflation is now expected to accelerate in 1987. Specifically, non-U.S. world inflation may rise to 17.2 percent, up from 11.6 in 1986.

Developed Country Growth Slows

After more than 2 years of unfulfilled anticipation, the dollar's depreciation may finally be affecting, in price-adjusted terms at least, U.S. net exports. Export growth appears much stronger and import growth is slowing. This, along with the dollar depreciation itself, should prove central to growth for the non-U.S. industrialized countries. These countries face slowing export growth to the United States and other world markets, where U.S. goods are now more competitive. This lost export stimulus, combined with sluggish domestic demand, leads to expected 1987 real growth among the foreign industrial powers of 2.2 percent, down .2 percent from 1986.

If domestic demand weakens in these countries--and the 1-percent contraction of the West German economy in the first quarter of 1987 suggests that it may--then growth may well slip below 2 percent in 1987. Less growth would normally limit U.S. agricultural exports, but significant gains in price competitiveness from dollar devaluation and lower agricultural export prices, combined with production shortfalls in other countries, might lead to a modest increase instead.

The G-7 countries--the United States, Japan, West Germany, France, the United Kingdom, Italy, and Canada--held their annual economic summit in Venice the second week of June. No new initiatives aimed at redressing the trade and payments imbalances in the world's economic system were announced. The status quo established by the Louvre agreement remains in force. This agreement called for Japan and West Germany to adopt expansionary policies, while the United States worked to reduce its federal deficit in an attempt to improve the trade imbalances destabilizing the world economy, through means other than exchange rate adjustment.

While progress is in the right direction, the consensus is that the policies that have been announced (though not necessarily implemented) will not keep world growth expanding acceptably, nor will they significantly affect the trade imbalances facing the world economy. Whether this proves true or not, the policies that are finally implemented will have little chance of affecting trade balances or world growth in 1987.

LDC Growth Will Have Problems

The economic outlook for real growth in the developing countries declined significantly, mostly because of deterioration in Latin America. This year's real economic growth in the developing countries is projected at 1.9 percent, down from 1986's 2.8. Regionally, there is diversity. Asia had a 1986 growth rate of 4.9 percent, which is expected to accelerate to 5.1 in 1987. Africa and the Middle East, in recession in 1986, may just stay even in 1987. Consequently, U.S. agricultural exports to developing countries are not likely to improve greatly in 1987.

The biggest adjustment in the 1987 outlook comes from worsened prospects for Latin America, mainly in Brazil, which accounts for 38 percent of the region's economy. Latin America may grow at 1 percent, down almost 2.5 percentage points from 1986. Because of debt and inflation problems, Brazil is expected to have a

particularly difficult time in 1987. Recession is expected, with real growth contracting .8 percent. Previously, 1987 Brazilian growth was seen in the neighborhood of 3 percent, compared with around 7 in 1986.

LDC Debt Becomes a Bigger Problem

The LDC debt situation deteriorated in 1986, with debt held by the capital importing countries climbing 8 percent to \$1 trillion. These countries had debt service-to-export ratios exceeding 25 percent. The prospects for 1987 show debt rising a further 8 percent. Given the upturn in U.S. interest rates, the debt-burdened developing countries will be in deeper trouble in 1987.

Inflation To Rise

The outlook for world inflation has been revised upward, with significant differences between developed and developing countries. Developed-country inflation, including the United States, is expected to accelerate to 3 percent, from 2.3 in 1986. Inflation in the developing countries in 1987 may reach 60 percent, nearly two-thirds higher than in 1986. Brazil faces the lion's share of the upswing. Before the collapse of the Cruzado plan, 1987 Brazilian inflation was forecast at 42.4 percent, but now it is forecast at 273.4. This may even be on the conservative side, as interest rates are running at an annual rate of 1,000 percent.

Dollar Exchange Rates

Moderate rises in U.S. interest rates, as well as market perception of greater official support for the dollar, warded off major declines in the dollar during April and May. While announcement of a new U.S. Federal Reserve chairman on June 3 undermined the dollar temporarily, a quick recovery is expected. The general consensus would have the dollar remain around its current levels, declining perhaps a further 4 to 5 percent by the end of 1987.

International Cooperation on the Dollar

Finance ministers from the major industrialized nations (G-5 and G-7 countries) held talks preceding the April 9-10 IMF

Foreign currency units per U.S. dollar

Year	Mark	Yen	Pound	Guilder	Can\$
1980	1.818	226.4	.4299	1.987	1.169
1981	2.257	220.2	.4983	2.492	1.198
1982	2.427	248.8	.5722	2.669	1.233
1983	2.554	237.4	.6597	2.853	1.232
1984	2.847	237.6	.7517	3.209	1.295
1985	2.942	238.3	.7790	3.319	1.365
1986	2.170	168.4	.6818	2.447	1.389
Jan.	2.437	199.8	.7014	2.746	1.407
Feb.	2.330	184.8	.6999	2.632	1.404
Mar.	2.276	178.6	.6809	2.565	1.400
Apr.	2.268	174.7	.6671	2.560	1.387
May	2.226	166.9	.6564	2.505	1.375
June	2.232	167.4	.6625	2.513	1.389
July	2.148	158.1	.6631	2.422	1.380
Aug.	2.060	154.1	.6726	2.324	1.388
Sept.	2.041	154.6	.6809	2.303	1.387
Oct.	2.005	156.4	.7006	2.265	1.388
Nov.	2.023	162.8	.7017	2.286	1.386
Dec.	1.988	162.2	.6945	2.248	1.379
1987					
Jan.	1.858	154.7	.6641	2.096	1.360
Feb.	1.823	153.3	.6541	2.058	1.334
Mar.	1.834	151.3	.6278	2.073	1.319
Apr.	1.810	142.8	.6128	2.043	1.319
May	1.787	140.4	.6000	2.014	1.341
June 1/	1.813	143.7	.6101	2.043	1.341

1/ Preliminary.

Interim Committee meeting in Washington. They announced little beyond reaffirming their intent to stabilize foreign exchange rates "around current levels" as stated in the Louvre accord in February. Heavy intervention in foreign exchange markets, followed in mid-May by increases in commercial U.S. interest rates, appears to have supported the dollar consistent with the Louvre accord, although without raising the U.S. Federal Reserve discount rate from its current 5.5 percent.

Foreign interest rates have remained low compared to those in the United States. Official discount rates remain at 3 percent in Germany and 2.5 in Japan. However, an easing of bank financing terms has helped expand commercial lending slightly in Germany, while in Japan the Ministry of Finance has recently cautioned banks about speculating against the dollar. Both announcements have helped quiet currency markets, even achieving a slight firming of the dollar.

While the surprise announcement of a new U.S. Federal Reserve chairman led to some short-lived setbacks for the dollar, a return to its recent position is expected. The G-7

meeting on June 8-10 in Venice, Italy, while not announcing any new initiatives directly in support of the dollar, continued and expanded the close economic consultation begun at the Tokyo summit last year. Greater concerted coordination of the G-7 economies is seen by market traders as the best means over the longer term of righting the large trade imbalances among them, leading to enhanced prospects for stability on foreign exchange markets. [Tim Baxter and Ted Wilson (202) 786-1688]

U.S. AGRICULTURAL TRADE

The United States is expected to increase both the volume and value of its agricultural exports in fiscal 1987. For the first time since 1980, bulk-product exports may rise, and high-value exports should continue growing. After declining for 6 years, sales are forecast to rise from 110 million tons in 1986 to 127.5 million this year. Most of the 18-million-ton increase comes from rising grain exports. Lower U.S. prices will earn this country a larger share of world trade.

Export value is expected to rise more than \$1 billion, as U.S. shipments of cotton, animal products, and horticultural products increase in both volume and value. Falling prices for wheat and coarse grains will completely offset their increased sales volume, but the value of cotton exports will increase more than \$1 billion despite lower prices. Quantities of U.S. high-value exports, such as animal and horticultural products, will rise without price cutting because of the cheaper dollar. A dollar worth fewer units of foreign currency reduces the cost of these products to overseas buyers, without requiring a similar decline in dollar prices.

Nontraditional Exports Near Record

In 1987, exports of animal, horticultural, and other nontraditional products are expected to approach 1981's \$10.4-billion peak. Since 1981, these exports have remained above \$9 billion, and at \$10.3 billion in 1987 are expected to account for their largest share of U.S. agricultural export value since 1969. Generally, these high-value exports have

U.S. agricultural export volume 1/

Commodity	1984	1985	1986	1987 F
Million metric tons				
Wheat	41.7	28.5	25.5	30.0
Wheat flour	1.1	.7	1.1	1.3
Coarse grains	55.5	55.4	36.3	47.2
Rice	2.3	2.0	2.4	2.3
Feeds and fodders	6.8	6.4	8.2	9.7
Soybeans	19.3	16.6	20.1	19.1
Soybean meal	4.9	4.5	5.5	5.9
Soybean oil	.8	.8	.6	.6
Other oilcake and meal	.2	.1	.1	.1
Sunflowerseed	1.0	1.0	.4	.5
Sunflowerseed oil	.2	.1	.2	.2
Cotton, incl. linters	1.5	1.3	.5	1.5
Tobacco	.2	.3	.2	.2
Horticultural prod.	2.9	2.7	2.7	3.0
Beef, pork, and variety meats	.4	.4	.4	.5
Poultry meat	.2	.2	.3	.4
Animal fats	1.4	1.2	1.3	1.2
Other	3.2	3.6	3.7	3.8
Total	143.6	125.7	109.6	127.5

1/ Fiscal year, actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc. F = forecast.

U.S. agricultural export value 1/

Commodity	1984	1985	1986	1987 F
Billion dollars				
Grains and feeds	17.4	13.5	9.6	9.6
Wheat and prod.	6.8	4.4	3.5	3.3
Rice	.9	.7	.6	.6
Feed grains and products	8.2	6.9	3.8	3.7
Oilseeds and prod.	8.8	6.2	6.4	5.8
Soybeans	5.7	3.9	4.2	3.7
Soybean cake and meal	1.2	.8	1.1	1.2
Soybean oil	.6	.6	.3	.3
Livestock prod.	3.5	3.3	3.5	3.7
Poultry prod.	.4	.4	.5	.6
Dairy prod.	.4	.4	.4	.5
Horticultural prod.	2.6	2.6	2.7	3.0
Cotton, incl. linters	2.4	2.0	.7	1.8
Tobacco	1.4	1.6	1.3	1.2
Other	1.1	1.2	1.2	1.2
Total	38.0	31.2	26.3	27.5

1/ Fiscal year. F = forecast.

behaved like U.S. manufactured exports in the timing and degree of their recovery since the early 1980's. While U.S. exports of high-value farm products and manufactured goods steadied and rose after 1983, bulk exports continued sliding through 1986. Similarly, the

U.S. share of world trade in high-value agricultural products contracted only slightly, from 10 percent to 8, during the first half of the 1980's. Meanwhile, the U.S. share of world grain and oilseed trade tumbled. Between 1980 and 1985, the U.S. share of world manufactured exports fell from 13 to 11 percent.

Fiscal 1987 a Transition Year

Following implementation of new U.S. agricultural policies, fiscal 1987 is expected to be a period of transition for U.S. bulk exports. During the previous 5 years, the value of U.S. grain, oilseed, and cotton exports fell 36 percent, and accounted for 96 percent of the total decline in U.S. farm product exports. Fiscal 1987 marks the first full year of exporting under programs authorized by the 1985 Food Security Act. New farm programs include an increased market orientation in setting loan rates and a targeted Export Enhancement Program. Together, they are meant to boost exports and U.S. market share through lower U.S. prices.

In one sense, the policies have succeeded. World grain trade, U.S. world market share, and U.S. export volume are now expected to rise in 1987 after recent annual declines. But since the proportional increase in export volume will be smaller than the required price declines, the value of wheat and coarse grain exports is expected to continue falling in 1987. At \$7 billion, the value of wheat and coarse grain exports is expected to be less than half that exported as recently as 1984, and the lowest since 1973.

Similarly, although cotton sales are expected to rise \$1 billion from 1986 as the export volume triples, the gain from 1985 will be less than \$200 million. In 1986, cotton exports plunged 53 percent, and much of the increase in 1987 represents a rebound rather than secular change in favor of the United States. Pricing and trade policies of major exporters during the first half of the 1980's have left a legacy of high stocks and increased worldwide production capacity for bulk agricultural commodities. Changes in U.S. agricultural policy have set the foundation for recovery from a half-decade decline in U.S. agricultural exports, but it will take and more than a year for world and U.S. trade in the

affected commodities to overcome past distortions.

However, the market distortions that competing bulk product exporters have introduced during past years have not had as great an impact on world trade in high-value agricultural products. As a result, U.S. high-value exports are in a better position to gain from favorable exchange rates and will remain the best-performing U.S. farm product exports at least through 1987. [Stephen MacDonald (202) 786-1621]

WORLD COMMODITY DEVELOPMENTS

Wheat

World wheat trade in 1986/87 (July-June) increased to 90.6 million tons, a 7-percent increase from 1985/86. Still, world trade remained substantially below the 1981/82 to 1984/85 average of 100.6 million tons. Export prices plunged as exporters competed for smaller markets.

While the U.S. share of the wheat market increased from 29 percent in 1985/86 to 31 in 1986/87 with the help of a lower loan rate and the Export Enhancement Program, it is still below the 38-percent average of 1982/83-1984/85. However, export initiatives have allowed the United States to make inroads into markets in North Africa and Eastern Europe, areas which had reduced imports from the United States in recent years in favor of subsidized imports from the EC.

In 1987/88, world trade is forecast to gain 6 million tons to 96.9 million, and the U.S. market share is expected to increase to 35 percent. Low prices continue to stimulate trade, but adverse weather in the Soviet Union and increased demand in China are providing much of the boost to world import demand. An expansion of the EEP, with a 4-million ton sale to the USSR, is the main reason for the projected growth of U.S. sales.

Competitor area will drop slightly in 1987/88. Low world prices are leading to some acreage reductions in Canada and Australia, but are having little impact on planted area in the EC, where farm prices are largely divorced from the international market. Total foreign wheat is expected to

International commodity prices

Year	Wheat				Corn		Soybeans	Soyoil	Soymeal 44%	
	U.S. 1/	Arg. 2/	Can. 3/	Aust. 4/	U.S. 5/	Arg. 2/	U.S. 5/	U.S. 6/	U.S. 6/	Hamburg 7/
Dollars per metric ton										
1980	176	203	192	175	129	159	272	522	217	271
1981	176	190	194	175	135	139	272	464	223	269
1982	161	166	165	160	110	109	233	404	197	233
1983	158	138	167	161	137	133	269	518	222	255
1984	153	135	166	153	138	132	271	678	184	210
1985	137	106	173	141	114	103	214	596	140	171
1986	117	88	161	120	89	83	200	361	174	197
Jan.	133	108	189	140	108	100	210	447	168	197
Feb.	131	102	183	133	105	92	207	404	169	201
Mar.	136	97	189	139	101	87	208	384	180	210
Apr.	138	96	187	137	102	86	205	389	173	205
May	128	90	185	131	106	90	205	391	174	199
June	107	85	169	114	106	90	203	369	175	191
July	103	81	160	104	85	84	200	357	179	193
Aug.	104	80	137	104	74	82	198	312	182	200
Sept.	104	81	133	105	67	78	197	305	183	202
Oct.	105	80	130	108	67	70	188	322	168	197
Nov.	107	79	133	111	74	71	193	323	170	190
Dec.	109	78	133	110	74	68	189	324	165	184
1987										
Jan.	110	82	136	110	70	66	188	341	163	197
Feb.	114	92	138	112	69	66	187	335	169	197
Mar.	116	90	139	115	73	70	189	331	162	194
Apr.	115	88	134	115	76	73	195	331	175	203
May	121	88	136	119	81	82	209	331	194	210

1/ No. 2 hard winter, ordinary protein, f.o.b. Gulf ports. 2/ F.o.b. Buenos Aires. 3/ No. 1 western red spring, 13.5% protein, in store Thunder Bay. 4/ July-June crop year, standard white, f.o.b. selling price. 5/ U.S. No. 3 yellow, f.o.b. Gulf ports. 6/ Decatur. 7/ F.o.b. ex-mill.

Wheat: World production, consumption, and net exports

Country	1985/86			1986/87 P			1987/88 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	66.0	28.5	24.7	56.8	30.9	27.7	58.2	26.4	33.2
Canada	24.3	5.7	16.8	31.9	5.7	21.0	26.8	5.8	21.0
Australia	16.1	2.8	16.0	16.7	3.1	15.0	14.5	3.0	13.5
EC-12	71.7	59.5	13.3	71.7	60.9	13.6	78.9	61.5	14.8
Argentina	8.5	4.4	6.1	9.0	4.5	4.5	9.5	4.5	5.0
Turkey	12.7	13.8	-0.9	14.0	14.0	-0.2	13.0	14.1	-0.7
Major importers									
USSR	78.1	91.6	-15.2	92.3	100.3	-16.0	75.5	93.5	-20.0
China	85.8	92.4	-6.6	90.3	97.8	-7.5	89.0	98.0	-9.0
Eastern Europe	37.1	38.3	-1.0	39.6	40.2	-1.0	38.1	39.4	-1.2
Other W. Europe	4.1	3.5	+0.5	4.3	3.8	+0.6	4.4	3.6	+0.7
Brazil	4.3	6.8	-2.5	5.6	7.8	-2.5	4.0	7.6	-3.0
Mexico	4.4	4.6	-0.1	4.5	5.0	-0.5	3.7	4.3	-0.6
Other Latin Am.	2.4	8.5	-6.6	2.5	9.1	-6.8	2.2	9.5	-7.2
Japan	0.9	6.2	-5.3	0.9	6.1	-5.2	0.9	6.1	-5.2
India	44.1	43.7	+0.4	46.9	45.6	+0.3	47.0	46.8	+0.2
South Korea	--	3.1	-3.0	--	3.7	-3.8	--	3.4	-3.3
Indonesia	0	1.4	-1.4	0	1.6	-1.6	0	1.6	-1.6
Other Asia	17.1	24.2	-7.6	19.3	25.2	-7.0	19.8	26.4	-7.4
Egypt	1.9	8.2	-6.3	1.9	8.2	-6.5	2.3	8.6	-6.7
Morocco	2.1	4.3	-2.0	3.3	4.6	-1.7	2.2	4.7	-2.2
Other N. Afr./ME	14.1	26.1	-11.7	13.7	27.3	-13.8	14.8	28.0	-13.1
Other Africa	3.0	8.1	-4.4	3.7	8.1	-4.8	3.6	8.5	-4.9
Residual	0.1	0.3	-3.2	0.3	0.4	-3.8	0.4	0.4	-2.3
World	498.8	486.0		529.2	513.9		508.8	505.7	

Trade on July-June years. P = preliminary. F = forecast. -- = negligible.

drop 3 percent, and production is likely to decline 4 percent from 1986/87's record 529 million tons.

Canada and Australia Adjust Prices

This year's Canadian wheat crop is expected to fall 16 percent from the 1986/87 record. Area is projected to drop 3 percent in response to the announcement by the Canadian Wheat Board that initial payments will be 15.4 percent below last year. These payments are based on anticipated world prices and constitute the bulk of returns to wheat farmers. The full impact of the reduced price was dampened by other factors. Initial payments for barley, a common competitor for wheat area, were reduced even more, and the weather at planting was excellent. Payments under a \$1-billion program to compensate farmers for low world prices in 1986/87 are based partly on acreage planted. While the Government claims that future support programs will not base payments on production, some farmers hesitate to reduce planted area.

Australia's guaranteed minimum wheat prices, based on a formula which factors in prices of the last 3 years and the expected price of the current year, are expected to drop 6 to 8 percent, according to the Australian Wheat Board. Planted area is projected to decline 5 percent from 1986/87, and production, at 14.5 million tons, may be the lowest in 5 years. The full impact of the price decline is difficult to estimate because, like Canadian farmers, Australian producers have few alternatives to wheat. Moisture levels early in the current planting season have been good, and are encouraging farmers to plant wheat, rather than barley or leaving the land fallow.

Little Area Change in Other Competitors

In the EC, support prices for grains in 1987/88 are expected to be cut slightly, and administrative adjustments to the grain intervention system further reduce effective prices. But farmers are largely insulated from the sharp drop in world market prices, and production incentives for grains remain strong. The main impact is the increase in

budget subsidies required to export grain surpluses. Budget pressures are stimulating debate within the community over proposals to lower support prices, and methods to reduce surpluses, such as tying producer subsidies to acreage reductions.

Harvested area in Argentina has been declining every year since 1982/83, but further decline this year may be limited by the lack of profitable alternatives. Wheat production may increase 7 percent in 1987/88 due to improved yields. Wheat growers have been cushioned from low prices by reductions in export taxes, but they may have to make larger adjustments in the future because of budget-linked changes in support prices.

Rice Output Large

World rice trade in calendar 1987 is forecast at 11.8 million tons, down 8 percent primarily because of Brazil's absence from the import market. World production in 1986/87

Rice: Production, consumption, and net exports

Country	1985/86			1986/87 F		
	Prod.	Cons.	Net exp.	Prod.	Cons.	Net exp.
Million metric tons						
Major exporters						
U.S.	4.3	2.1	2.3	4.3	2.3	2.2
Thailand	13.0	8.8	4.3	11.9	8.6	3.7
Pakistan	2.9	1.9	1.1	3.5	2.3	1.1
China	117.9	117.2	.7	119.8	119.5	.3
India	64.2	62.4	.2	60.0	61.3	.2
Burma	9.3	8.7	.6	9.3	8.7	.6
Japan	10.6	10.2	0	10.6	10.0	0
Italy	.8	.3	.5	.7	.3	.5
Austr.	.5	.1	.4	.4	.1	.3
Major importers						
Indo.	26.5	26.2	+2	26.1	26.6	-.1
S. Korea	5.6	5.8	0	5.6	5.7	0
Bang.	15.0	15.2	-.1	15.4	15.9	-.5
Vietnam	9.8	10.2	-.5	10.1	10.5	-.4
Other						
Asia	18.3	19.2	-1.2	17.9	19.2	-.8
USSR	1.7	1.7	-.1	1.7	1.8	-.1
Brazil	7.0	7.0	-1.3	7.1	7.5	-.1
Other						
Latin Am.	5.0	4.8	-.2	4.6	5.0	0
Iran	.9	1.5	-.5	.9	1.6	-.7
Other N.						
Afr./ME	1.8	3.7	-1.9	2.1	4.0	-2.0
Malagasy	1.4	1.5	-.2	1.4	1.5	-.2
Nigeria	.7	1.0	-.3	.7	1.0	-.3
Other						
Africa	2.2	4.3	-2.2	2.3	4.4	-2.2
Residual	1.0	2.1	-1.8	.8	2.1	-1.5
World	320.4	315.9		317.2	319.9	

Trade on calendar years; calendar 1986 corresponds to 1985/86. F = forecast.

dropped slightly below the 1985/86 record, but assuming normal weather, production is forecast to recover to over 323 million tons in 1987/88. Yield improvements will account for most of the estimated gains. Trade is also forecast to rise slightly, but will stay well below 1986. One factor may be slightly higher demand from traditional importers such as Indonesia, where a rice deficit may develop towards the end of 1987 after 4 years of self-sufficiency.

Government trade policies, the foreign debt situation, and weather will continue to influence the level and direction of trade. Lower loan rates and the marketing loan program have led to an increase in U.S. market share since 1985, particularly in markets such as the EC, where Thailand had been making major inroads over the last 5 years. During the last few months, Thailand has subsidized sales of low quality rice to China, Malaysia, and Iran, but the Government has claimed that these sales are not the beginning of a new policy trend.

Self-sufficiency goals, combined with the gains achieved from the Green Revolution, have reduced rice import demand in Asia. High debt in Africa and Latin America is restricting their imports. Nigeria, which imported an average of 687,000 tons of rice between 1980 and 1982, increased its own production and banned rice imports in 1985 to conserve foreign exchange. Japan continues to ban rice imports to protect the country's rice farmers. The Japanese Government has agreed to discuss liberalizing the industry during the GATT negotiations, but little change is expected in the near future. [Sara Schwartz (202) 786-1691]

Coarse Grains

Global coarse grain production for 1987/88 is projected to decline 3 percent to 810 million tons. U.S. production will drop sharply while foreign output increases to another record. This follows the pattern set in 1986/87, when world coarse grain production is estimated to have fallen 7 million tons to 839 million, with the United States accounting for all of the decline. Foreign production in 1986/87 is estimated at a record 586 million

tons, reflecting notable increases in Brazil, the USSR, China, and Eastern Europe.

Foreign coarse grain area has yet to show any significant response to lower world market prices, and stable area is expected in 1987/88. Competitors, who might be expected to show the most sensitivity to declining prices, will probably show little aggregate change in area. However, it is still early to forecast area, particularly for Southern Hemisphere producers, whose planting is still several months away.

Trade Up Modestly, But U.S. Share Gains

With use growing and production down in 1987/88, world stocks of coarse grains will drop for the first time since 1983/84. The 3-percent gain in foreign use expected in 1987/88 will contribute to a modest expansion of world trade. Global trade in coarse grains, excluding intra-EC trade, is forecast to rise 3 percent to 90 million tons, following a 5-percent increase in 1986/87. Trade has not yet recovered to the higher levels of previous years, despite low world prices. This is explained by a number of factors, including record production and greater self-sufficiency in many countries, sluggish importer economic growth and heavy debt burdens, and competition from feed wheat.

The U.S. share of world coarse grain trade, which is rebounding to 54 percent in 1986/87 from 44 the previous year, is expected to be about 55 percent in 1987/88. The recovery is largely caused by more competitive U.S. export prices, and limited exportable corn and sorghum supplies from other major suppliers. For barley, the Export Enhancement Program accounted for well over 90 percent of total forecast exports in 1986/87, and will continue to play a critical role in 1987/88.

Policies Slow To Adjust to Low Prices

Foreign response to low world coarse grain prices has so far been limited. But many countries that have not yet adjusted trade and pricing policies to fit the current price environment are facing greater costs because of the lower prices.

Coarse grains: World production, consumption, and net exports

Country	1985/86			1986/87 P			1987/88 F		
	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.	Prod.	Cons.	N. exp.
Million metric tons									
Major exporters									
United States	274.9	170.3	35.4	252.9	176.9	46.7	219.5	180.2	49.2
Canada	25.0	19.0	5.3	27.6	19.5	7.0	24.3	20.2	5.0
Australia	7.8	2.8	5.0	6.7	3.1	3.4	7.6	3.3	4.0
Argentina	17.1	7.7	9.7	13.3	7.5	6.5	15.7	7.5	8.0
Thailand	5.7	1.4	4.0	4.4	1.6	3.1	4.7	1.9	2.9
South Africa	8.9	6.9	1.3	9.0	7.1	1.8	9.5	7.4	1.5
Major importers									
USSR	100.0	112.0	-13.5	105.9	115.9	-14.0	105.5	119.5	-14.0
China	82.3	75.7	+6.4	86.6	85.0	+1.6	92.7	91.7	+1.0
Eastern Europe	68.3	72.3	-3.6	73.6	73.5	-1.5	70.4	72.3	-.7
EC-12	88.3	82.5	+3.9	81.4	79.6	+3.0	83.8	78.5	+5.2
Other W. Europe	13.0	12.2	+1.2	12.2	12.0	-.2	12.3	12.5	-.2
Brazil	21.7	23.8	-2.1	27.1	25.0	-1.0	24.6	24.9	+2
Mexico	14.7	18.3	-2.4	14.5	18.3	-4.1	14.7	19.7	-5.1
Venezuela	1.7	2.7	-1.0	1.9	2.8	-.9	2.1	2.9	-.9
Other Latin Am.	8.3	10.2	-1.8	8.4	10.7	-2.2	9.0	11.1	-2.3
Japan	.4	21.5	-21.5	.4	21.8	-21.5	.3	22.2	-21.7
Taiwan	.4	4.7	-4.1	.4	4.9	-4.6	.5	5.1	-4.6
South Korea	.7	4.7	-3.9	.6	4.3	-4.4	.6	6.3	-5.8
Other Asia	41.5	44.4	-1.8	44.7	46.8	-2.1	46.8	48.9	-2.3
Egypt	4.4	6.5	-1.8	4.7	6.8	-2.0	4.9	7.2	-2.3
Iran	1.3	2.8	-1.5	1.5	3.0	-1.3	2.1	3.2	-1.5
Israel	--	1.1	-1.1	--	1.1	-1.0	.1	1.1	-1.1
Other N. Afr./ME	20.4	29.5	-10.9	22.2	32.3	-12.7	19.9	33.2	-13.3
Other Africa	38.0	37.1	--	38.2	39.2	-.2	38.3	38.9	-.4
Residual	.9	.7	-1.2	.9	.4	+6	.5	.4	-.8
World	845.7	770.8		839.1	799.1		810.4	820.1	

Production on crop year basis, trade on October-September year. Includes corn, barley, sorghum, oats, millet, rye, and miscellaneous grains. P = preliminary. F = forecast. -- = negligible.

On the supply side, foreign area is expected to remain stable, and production will be up slightly. However, in a number of instances, governments are reducing prices paid to farmers because of lower world market prices. Of the major coarse grain exporters, Australia, Canada, and South Africa have recently cut producer prices. Only the EC, an important barley exporter, has not yet made any significant price adjustments. But the budgetary costs of maintaining domestic prices above world levels have contributed to the recent intense debate about price reforms. In Thailand, coarse grain prices are not administered and have moved in line with the international market.

On the demand side, continued low prices raise the opportunity cost for countries that could import more cheaply than producing. No dramatic shifts in planting are forecast for 1987/88 among major coarse grain importers or other foreign producers. At least in the short run, many countries are unlikely to make a major adjustment because of other policy

objectives such as rural development, or for political reasons.

Weather Also Affects Competitors

While total foreign acreage is stable, area of Argentine corn, Australian barley, sorghum, and oats, and EC barley is expected to increase in 1987/88. These changes are partly weather related, as dryness cut area the year before. This rebound could counter the effects of low prices in Argentina and Australia. There is considerable uncertainty about Argentine corn area. Low prices have compounded financial stress, and farmers may get better returns by growing more soybeans, increasing pasture, or harvesting less corn for grain because of more favorable livestock prices.

Australian barley area is forecast to rise 13 percent, reflecting better price expectations relative to wheat and better moisture conditions at planting time. But area would still be 700,000 hectares below

1985/86. In Canada, barley producers are forecast to harvest about the same area as in 1987/88, despite a substantial cut in the initial payments. Producers also increased barley area 4 percent in 1986/87, even though initial payments were reduced sharply. Farmers have apparently attempted to offset reduced prices by increasing production, and some may have few profitable alternatives and are willing to absorb losses rather than reduce plantings.

Corn area in Thailand is expected to drop, as farmers respond to more favorable prices for crops such as soybeans and cassava. EC barley area is forecast to drop slightly, largely due to a switch out of spring barley in West Germany following poor yields. South Africa has announced a 10-percent cut in producer prices in reaction to lower world prices, and a slight drop in corn area is projected. The Government is also adjusting domestic pricing policies to stimulate greater domestic consumption and possibly downplay exports. [Peter Riley (202) 786-1691]

Oilseeds

Government policies continued to play a major role in global oilseed production in 1986/87. Record output will exceed 196 million tons. Foreign and U.S. production are moving in opposite directions, with U.S. output declining 4.2 million tons and foreign output rising 5 million. Most of the change is occurring in soybean production. In 1987/88, government policies are likely to continue the divergence between U.S. and foreign oilseed sectors.

Greater South American Competition

In 1986/87 the soybean output of South America's three largest producers, Brazil, Argentina, and Paraguay, is rebounding from the previous year's poor crop. Output of 25.5 million tons is slightly below 1984/85's record 26 million. Brazilian output reached 17 million tons because of record yields, and would likely have been higher if the Government had not reduced incentives for the production of export crops like soybeans. This policy resulted in internal prices favoring grains.

The Brazilian Government is expected to allow greater price transmission between

Soybeans and products: Production, consumption, and net exports

Country	1985/86			1986/87 F		
	Prod.	Cons.	Net exp.	Prod.	Cons.	Net exp.
Million metric tons						
Soybeans						
Major exporters						
U.S.	57.11	28.66	20.14	54.62	31.57	19.05
Brazil	14.10	12.46	.91	17.00	13.40	2.55
Argentina	7.30	4.37	2.54	7.50	4.50	2.50
China	10.50	1.77	1.25	11.55	2.00	1.10
Major importers						
EC-12	.34	12.78	-13.19	.90	13.00	-13.00
Japan	.23	3.91	-4.80	.25	3.85	-4.84
Eastern						
Europe	.58	1.26	-.75	.75	1.28	-.63
Mexico	.71	1.73	-1.00	.61	1.70	-1.10
Taiwan	.02	1.38	-1.61	.02	1.45	-1.70
USSR	.46	2.14	-1.90	.70	1.52	-1.00
Residual	5.53	5.64	-1.59	6.16	6.16	-2.93
World	96.88	76.10		100.06	80.43	
Soybean meal						
Major exporters						
U.S.	22.63	17.32	5.48	24.89	18.51	6.35
Brazil	9.69	2.41	7.38	10.40	2.55	7.85
Argentina	3.49	.38	3.17	3.58	.35	3.20
Major importers						
EC-12	10.20	18.82	-8.81	10.38	19.10	-8.69
Eastern						
Europe	1.01	4.60	-3.63	1.03	4.82	-3.86
USSR	1.67	2.27	-.60	1.20	2.70	-1.50
Japan	3.04	3.21	-.23	2.97	3.25	-.20
Mexico	1.26	1.34	-.07	1.22	1.27	-.08
Residual	7.06	10.33	-2.69	7.72	10.90	-3.07
World	60.05	60.68		63.39	63.45	
Soybean oil						
Major exporters						
U.S.	5.27	4.56	.57	5.74	4.81	.50
Brazil	2.35	1.94	.33	2.52	1.95	.55
Argentina	.73	.11	.63	.75	.09	.67
EC-12	2.24	1.35	.89	2.26	1.38	.92
Major importers						
India	.15	.49	-.25	.17	.52	-.35
Pakistan	0	.22	-.31	0	.24	-.17
Eastern						
Europe	.20	.36	-.17	.21	.34	-.13
Iran	.01	.34	-.32	.01	.34	-.33
Morocco	.01	.07	-.07	.01	.10	-.09
Residual	2.65	3.86	-1.30	2.64	4.10	-1.57
World	13.61	13.30		14.31	13.87	

For soybeans, consumption refers to crush. Trade and consumption on marketing year except for Brazil and Argentina which are on an October-September year. F = forecast.

producers and international commodity markets. The Government is under increased pressure to earn additional export revenues to meet its foreign debt obligations, particularly because of last year's slump in the trade surplus.

Brazilian soybean acreage in 1987/88 is expected to expand in anticipation of higher prices as the United States cuts back soybean acreage. In addition, the Brazilian

Government is devaluing its currency to increase the competitiveness of its exports.

Argentine soybean area is also likely to be up sharply in 1987/88. An anticipated rise in provincial land taxes should induce farmers to shift to higher value agricultural commodities like soybeans. Also, the ratio of soybean exports to soybean meal exports may rise as a result of the Government's plan to eliminate export taxes on soybeans and soybean products. Argentina has taxed soybean exports at a higher rate than soybean meal.

Foreign Markets Meeting More of Own Needs

European Community programs favoring oilseeds have played a crucial role in the sharp increase in EC oilseed production in recent years. Production rose almost 1.2 million tons in 1986/87, with soybeans increasing 565,000 tons, mostly in Italy.

Italy is becoming a major producer of soybeans in 1987/88, with soybean area increasing about one-third and production exceeding 1 million tons. One reason for the expansion is the need for increased crop diversification in the Po Valley region, where corn and sugar producers have experienced disease and pest problems. Adequate storage capacity exists to support higher soybean production. Like all EC producers, Italian farmers receive 2-3 times the world price for soybeans. These prices are more than twice those for corn, even as EC price policies keep internal grain prices above world levels. In addition, Italian farmers favor soybean production because payments are more quickly obtained from oilseed processors than are payments for corn.

A continued EC policy of favoring a shift of acreage into oilseeds from grain production, via costly crushing and production payments, adds to the EC's already heavy budgetary burden. Financial support for oilseeds is several times that for grains. To help relieve some of this burden, the EC has proposed a vegetable oils tax on imported and domestically produced oil. In late May, EC ministers postponed a decision on the tax, which would raise about \$1.8 billion and reduce EC vegetable oil consumption. U.S. soybean exports would likely be adversely affected.

In Eastern Europe, little if any growth in oilseed production is expected after last year's 1.3-million-ton jump in output. Rapeseed output may decline in Poland because of winterkill, and sunflowerseed production could fall in Romania as last year's record yield returns to normal. Oilseed output in the Soviet Union, another important U.S. market, is not expected to improve. Delayed plantings there may reduce crop prospects. Sunflowerseed is the USSR's largest domestic source of vegetable oil and protein meal. Sunflowerseed output is expected to remain far below the mid-1970's level, not only because of the late spring in the USSR but also because Soviet farmers continue to ignore the Government's exhortations to increase sunflowerseed area.

India, a major vegetable oil importer, is expected to show a relatively large increase in domestic oilseed output for the second year in a row. India's Government will resume its general policy of allowing domestic oilseed and vegetable oil prices to rise in real terms to slow demand, stimulate production, and curb expenditures. In 1987/88, Indian oilseed production could rise 6-10 percent.

U.S. Aids Vegetable Oil Sales

In the United States, Government-financed export assistance programs are expected to again play a significant role in U.S. shipments of vegetable oil. PL-480 (Food for Peace) and GSM (Export Credit Guarantee) programs will be tied to more than half of U.S. vegetable oil exports. [Tom Bickerton (202) 786-1691]

Meat

Large swings occurred in world meat trade during 1986 and 1987 as a result of government policies. Brazil, one of the world's largest beef exporters, purchased large quantities of beef from the United States and the EC in 1986, becoming temporarily a major importer. Last year the United States became the largest broiler exporter, rising from third place after France and Brazil. Favorable exchange rates and the Export Enhancement Program were the driving forces behind increased U.S. poultry exports.

Beef Shipments Up

Brazil's purchase of U.S. beef was tied to developments in both countries. The Food Security Act of 1985 mandated that the United States export 200 million pounds of meat to soften the price effects of the Dairy Termination Program. In early 1986, the Brazilian Government instituted measures, including retail price controls, to reduce inflation. Producers in Brazil felt they were not getting a fair return on sales and therefore began withholding cattle from slaughter, reducing beef supplies for domestic consumption and export. The Brazilian Government retaliated by restricting beef exports and contracting to import beef from the United States and the EC.

The EC had already been laboring to export beef from its intervention stocks, which had mushroomed because of efforts to control dairy surpluses. Before the Brazilian sale, the EC's heavily subsidized beef exports had been mainly going to the Middle East.

The U.S. sales to Brazil, together with larger shipments to Japan, the largest U.S. beef market, were the main reason total U.S. exports of beef increased 59 percent to 236,000 tons in 1986. During 1986, the United States shipped 46,000 tons of the 90,000 sold to Brazil. The remainder will be delivered in 1987. Exports to Japan rose 37 percent to 161,000 tons last year. In Japan, imports of U.S. beef were above quota due to reduced domestic supplies of comparable quality beef. Total U.S. beef exports for 1987 are forecast to be about the same as last year's.

U.S. Broiler Exports Rise

In Brazil, as a result of the beef shortage, poultry consumption increased and exports declined. The strengthening of the yen and reduced competition in the Japanese market from Brazil helped boost U.S. exports of broilers to Japan, which rose 70 percent in 1986 to 76,000 tons. The United States announced the Export Enhancement Program in May 1985, to enable U.S. exporters to meet prevailing world prices for targeted commodities and destinations. As a result, U.S. exports of poultry to Egypt increased to

55,000 tons in 1986, up from 3,000 the year before. Sales have now been made under the EEP to Egypt, Iraq, the Dominican Republic, and the Canary Islands.

Total U.S. exports of broilers reached 257,000 tons in 1986, up 36 percent. Exports for 1987 are forecast to increase another 33 percent.

Duties Cut Some Imports

Countervailing duties imposed by the United States against Canadian live hogs have cut U.S. live swine imports from 1.2 million in 1985 to .5 million last year. The duties will continue to limit trade in 1987, when imports are forecast to reach only .3 to .4 million head. However, imports of Canadian pork are increasing, and in 1986 were up 15 percent. For January–March 1987, pork imports from Canada were up 18 percent, while live hog imports were down 31.

Lamb imported from New Zealand increased during 1985, and the final countervailing duty was placed on imports in September 1985. However, total U.S. lamb and mutton imports last year still rose 14 percent. While imports from New Zealand fell 37 percent, lamb and mutton from Australia increased 155 percent to 11,000 tons. U.S. imports of lamb and mutton are forecast to be slightly higher in 1987.

Mexican Quota Limits Cattle Exports

The United States last year imported 1.4 million head of cattle, up 68 percent. Of the total, 1.2 million came from Mexico and .2 from Canada, accounting for 3 percent of the cattle and calves slaughtered in the United States. The Mexican Government regulates the number of cattle exported. Their concern is that not enough cattle will be available for the domestic market, as it is generally more profitable for Mexican producers to ship to the United States. The export quota for September–August is 1.07 million head. Because most of this quota has been filled, U.S. cattle imports from Mexico during May have been low. A new quota for next year will not be set until late this summer. [Linda M. Bailey (202) 786-1691]

Cotton

The world cotton surplus is shrinking in 1986/87. Prices have recovered from a low of 36 cents per pound on the "A Index" in Northern Europe in August 1986 to the current 70-80 cents. World stocks are forecast to drop 13 million bales during the year, and the ratio of ending stocks to use will fall from 60 percent to a near-average 41 percent.

The more normal situation is occurring because weather reduced production in the four largest producers, and lower prices and shifting preferences stimulated consumption, particularly among importers and major producers. Several traditional exporting countries also imported cotton. World production fell 13 percent, but consumption is up 6 percent and exports 15 in 1986/87.

Higher prices and continued strong demand will encourage a significant rebound in world production in 1987/88. Both area and yields are expected to recover. The United States, the Soviet Union, China, and India suffered from poor weather in 1986/87 and likely will show yield gains in 1987/88. Several will raise area as well. Other important producers, such as Australia, Turkey, and Mexico, who reduced area this

year in part because of low prices and excessive world supplies, will restore area in 1987/88. Foreign area next season is forecast to rise 1.1 million hectares, and foreign production is likely to reach 65.5 million bales, 6 million more than this year. World production is projected at 77.5 million.

Consumption will continue strong, but higher prices will likely moderate gains. Continued strong consumer preference for natural fibers in textiles is still stimulating mill buying. Spinners in many countries are already contracting for needs into early 1988, with no signs of reductions in purchasing pace.

World consumption in 1987/88 is forecast at 81 million bales, virtually the same as in 1986/87. China, the largest consumer, will cut total consumption as extra nonmill allocations of the past 2 seasons are discontinued. But the rest of the world should at least equal the historical 2-percent annual average consumption growth. Consumption growth among importers should reach about 3 percent, less than this season but still better than average. As consumption growth among importers slows, world imports are likely to remain approximately stable at 23.3 million bales, equaling 1986/87.

With production rising and imports remaining stable, export competition should intensify. Major U.S. competitors, such as Pakistan, China, and Australia, will strive to retain their market shares and smaller producers will seek to regain theirs. U.S. exports may slip to 6.3 million bales, a market share of 27 percent, compared with 29 this season and an average 31 percent in 1980-1984.

World cotton consumption and import estimates, however, are highly dependent upon a continued favorable world textile export outlook. Since last summer, important textile exporters, such as Taiwan, Hong Kong, and South Korea, have taken an optimistic view of world textile demand, increasing their cotton consumption and imports significantly. They took this view in part because the Multi-Fiber Arrangement was successfully renegotiated with no increase in world trade limitations, and neither the United States nor the EC, the largest textile importers, further restricted imports.

Because the world's major textile exporters are also the most important cotton

Cotton: Production, consumption, and net exports

Country	1985/86			1986/87 F		
	Prod.	Cons.	Net exp.	Prod.	Cons.	Net exp.
Million 480-lb. bales						
Major exporters						
U.S.	13.4	6.4	1.9	9.7	7.3	6.6
USSR	12.1	9.6	2.4	11.2	9.7	1.9
Pakistan	5.7	2.3	3.1	6.1	2.8	3.0
Egypt	2.0	1.6	.5	1.9	1.5	.4
Turkey	2.4	2.1	.3	2.2	2.1	.1
Cent. Amer.	.6	.2	.4	.4	.2	.3
Sudan	.7	.1	.6	.7	.1	.8
Brazil	3.8	3.1	.1	2.9	3.4	.2
Mexico	1.0	.7	.4	.7	.6	.1
India	8.4	7.2	.3	7.4	7.4	.6
China	19.0	19.5	2.9	16.3	21.0	2.3
Major importers						
W. Europe	1.1	5.9	-4.9	1.3	6.2	-4.9
Japan	0	3.1	-3.1	0	3.2	-3.2
E. Europe	.1	3.8	-3.8	.1	3.9	-3.8
S. Korea	--	1.7	-1.7	--	1.8	-1.8
Taiwan	0	1.5	-1.5	0	1.7	-1.7
Hong Kong	0	.8	-.8	0	.9	-.9
Residual	8.6	7.3	+2.9	8.2	7.6	0
World	78.9	76.9		69.1	81.4	

Year beginning August 1. Consumption is mill use.
-- = negligible. F = forecast.

U.S. cotton exports and cotton textile imports

Importers/ exporters	Exports 1/		Imports 2/	
	1986/87	Share	1986	Share
	1,000 bales	Percent	Mil. lb.	Percent
Hong Kong	50	0.8	315.0	16.5
China	0	0	312.7	16.4
Taiwan	900	13.5	204.8	10.7
S. Korea	1325	19.9	157.0	8.2
Pakistan	4	0	84.7	4.4
India	0	0	71.2	3.7
Japan	1725	25.9	68.8	3.6
Brazil	34	.5	65.9	3.5
Indonesia	325	4.9	53.0	2.8
Thailand	225	3.4	52.1	2.7
Turkey	101	1.5	49.6	2.6
Subtotal	4689	70.5	1434.8	75.1
Others	1966	29.5	475.7	24.9
Total	6655	100.0	1910.5	100.0

1/ Marketing year. 2/ Calendar year.

importers, increased textile import restrictions in the United States or EC, such as those again before the U.S. Congress, could alter the outlook for both U.S. exports and world cotton consumption and imports in 1987/88. Fewer textile imports mean reduced foreign textile demand. Lower demand in turn decreases textile exporters' cotton consumption, thereby reducing the need for imports, lowering world cotton exports, and further increasing world export competition.

Many of the important markets for U.S. cotton are also important exporters of textiles to the United States. In 1986, 75 percent of U.S. cotton textile imports came from countries accounting for 70 percent of U.S. cotton exports. Many of these textile exporters, however, actually import little or no U.S. cotton; the cotton in their textiles comes primarily from their own production. USDA estimates that between one-fourth and one-third of the cotton contained in U.S. textile imports has been grown in the United States. [Carolyn L. Whitton (202) 786-1691]

REGIONAL DEVELOPMENTS

Western Hemisphere

Canada

Both Canadian farmers and the Government have responded to the current agricultural environment of low prices and excess supplies. Although Canadian prices

have fallen in tandem with world prices, increased government support has cushioned the impact on incomes.

Canadian wheat and barley prices have declined in response to lower world prices. Initial prices, a guaranteed minimum price to farmers, have fallen 45 percent in the last 2 years. Despite a 25-percent drop in initial prices last year, wheat and barley area shot up significantly, as farmers apparently attempted to offset reduced prices with greater production. Area response was greatly influenced by low stocks following 2 years of drought. According to an early spring report, farmers intended to plant 7 percent less wheat but 10 percent more barley. However, after the Canadian Wheat Board (CWB) announced sharply lower initial prices, farmers switched area from barley to wheat because wheat prices dropped relatively less than barley. Thus, wheat area will likely remain near last year's record.

The CWB, with the approval of the Government, generally sets initial prices at about three-fourths of the expected world price. Producers usually receive a final payment after the end of the marketing year. However, for 1985/86 there was no final payment for wheat or barley. Both accounts, or pools, were in deficit—that is, average export prices were below initial prices. The Government made up the difference—Can\$23 million for wheat and Can\$171 million for barley.

Export prices have continued below initial prices during the 1986/87 marketing year. The CWB has been selling wheat and barley at whatever price is necessary to compete with U.S. and EC prices, and lets the Government make up the difference. Wheat and barley exports for 1986/87 are expected to increase sharply from 1985/86.

Mexico

The Mexican Government has long been involved in all aspects of the country's food system from the farm to retail level. The Government guarantees that it will buy basic crops, including corn, beans, wheat, sorghum, soybeans, rice, safflower, and cottonseed, at support prices through CONASUPO, its marketing agency for agricultural

commodities. Government purchases of covered commodities have maintained average rural prices close to support levels, but have generally failed to provide increases in real producer prices (adjusted for inflation). Mexican support prices have periodically fallen below U.S. and world prices.

The Government has offered numerous and substantial input subsidies to encourage agricultural production and keep food prices low. Input costs (principally fertilizer, improved seed, credit, irrigation, fuel, and crop insurance) rose far less than crop prices over most of the past 30 years.

Agricultural import decisions are made by a committee that includes CONASUPO and other governmental and private industry representatives, but the Government maintains control on the final import decision. For nonbasic commodities that compete with Mexican production, imports require a government-issued permit. As a new member of the GATT, Mexico has begun converting many of its restrictive licensing requirements to tariffs; however, this process is slowest on agricultural products. Mexico continues to use an "official" price system for the purpose of calculating ad valorem duties. In most cases, these prices are substantially higher than actual invoice prices.

Many agricultural exports from Mexico require licenses and are subject to export taxes. Licensing of exports such as coffee, cotton, beef, and live cattle is often used to restrict exports until domestic needs have been met and domestic price objectives obtained. Exported tomatoes must meet quality and grade standards established by U.S. federal marketing orders.

Central America

Agriculture is the primary economic base of every Central American country except Panama. The agricultural sector is the single largest generator of income and employment, the source of most food for consumption, and the supplier of raw materials to the manufacturing sector.

Throughout the region, a relatively small percentage of the land base is suited to intensive agriculture. Most of the area is

subject to seasonal and sometimes erratic rainfall patterns. Substantial areas of marginal land are used for cultivation.

Agricultural policies in the region are concentrated in the areas of pricing policies, import substitution versus export promotion, promotion of nontraditional vs traditional exports, taxation, trade documentation and procedures, and credit.

Caribbean

Depressed prices and markets for Caribbean exports have seriously eroded export earnings and foreign exchange balances of most countries in the Caribbean Basin. Low world market prices for primary agricultural imports, such as grain, oilseed, and livestock products, have relieved the import pressure somewhat, but overall demand for agricultural imports has continued to grow faster than most countries can afford.

Increased availability of concessional sales programs in the United States and other exporting countries has been particularly timely and useful to Caribbean governments attempting to limit inflows of goods and services. U.S. concessional sales and export enhancement programs are being used by governments in the region to finance imports of agricultural and nonagricultural goods and services. Some are needed for consumption and some are needed to maintain both domestic and export production capabilities.

Agriculture has suffered because low market prices have depressed production and increased the demand for imports, the cost of many production inputs has increased, and unusually intensive wet and dry seasons since 1984 have reduced yields.

Total and per capita agricultural production will be down again in 1987, and delays in filling export commitments may become more frequent as the year progresses. The Cubans, for example, are already asking for extensions on shipping dates, and coffee yields are known to be down in Haiti and the Dominican Republic. Yields of some irrigated crops could be higher, but in general output is expected to be lower in nearly all agricultural sectors.

Brazil

Agricultural policy in Brazil has three major priorities: food for domestic consumption, exports for foreign exchange, and alcohol for energy. These priorities conflict with each other, and policies frequently change as one priority becomes more urgent than the others. Agricultural policy tries to maintain farmers' income while providing plentiful supplies of inexpensive food to consumers. Policies have encouraged agricultural exports, but export taxes on agricultural products are a basic source of funding. Since 1975, the alcohol-for-energy program has placed another major demand on Brazilian agriculture.

During 1985 and 1986, foreign exchange constraints were less severe, and economic policies were oriented towards increasing consumption, including food. Income redistribution was also a priority that gave rise to a major land reform program. The "Cruzado Plan" anti-inflation program sought to increase incomes and employment, while eliminating inflation through price controls. Price controls eventually caused enough economic distortions to disrupt the economy and derail exports. In 1987, lack of foreign exchange forced Brazil to suspend payment of interest on its foreign debt. The difficult debt negotiation with the international banks, and the return of record-high inflation since the collapse of the Cruzado Plan, have left Brazilian economic policy in a shambles.

In 1985 and 1986, agricultural policy was consumer oriented. When drought caused crop losses in 1986, the Government used massive imports of food to try to keep consumer prices from increasing. In the future, foreign exchange constraints will likely force agricultural policy to return to export promotion. [*Western Hemisphere Branch* (202) 786-1662]

Western Europe (EC Agricultural Policy)

For almost a decade, EC budget difficulties have generated unfulfilled expectations of Common Agricultural Policy (CAP) reform. The political clout of agriculture in the EC created pressures which prevented even marginal reforms in the CAP

before 1984. Over the last 2 years, reductions in support levels for beef, dairy, and cereals have occurred, although they fall far short of solving the CAP's escalating financial crisis. (See *Western Europe Situation Report*.)

Nevertheless, 1987 appears likely to be a critical year for the CAP, as the conflict intensifies between farm income concerns and the increasing political difficulties of justifying CAP costs and surpluses and of withstanding the intensifying international criticisms of the CAP. The current price package provides a concrete example. Three issues--price setting, reform of the agrimonetary system, and the proposed vegetable oil tax--are bound together in a bargaining process which reflects the difficult tradeoffs among agricultural sector objectives, financial imperatives, and GATT obligations. The outcome of these deliberations, not expected before July, will have significant implications for the United States.

Cereal and Beef Prices Decline

In its price proposals for 1987/88, the Commission has stated its intention to "continue to encourage farmers to respond to the realities of the market and to depend less on intervention and more on proper market outlets for their incomes." These goals would be achieved by increasing farmers' responsibility for the cost of surplus disposal, and by weakening intervention support for the principal agricultural markets.

The Commission proposes moderate price cuts of about 3-5 percent for sugar, rapeseed, soybeans, processing tomatoes, and grains. Adjustments in the grains intervention system would result in a further 5-8 percent price reduction. Monthly increments to intervention prices would begin in March rather than in August. Increments would still be applied from August through May for target and threshold prices. The Commission proposals would also limit obligatory intervention for grains to February through May. The overall effect of these proposals for feed wheat is an effective price cut of 11.5 percent compared with 1986/87. These provisions continue the reduction in the effectiveness of grain intervention support that began in 1983 with intervention payment delays, increased quality

standards, and suspension of intervention for bread wheat. These actions have effectively reduced EC grains prices independently of policy price levels.

For 1987/88, the Commission has proposed no price increases for milk, beef, pigmeat, sheepmeat, sunflowers, and olive oil. However, changes in intervention regulations for beef and dairy should reduce their effective prices. To minimize increases in national-currency support prices, the Commission has proposed only moderate changes in the green rates used to convert EC support prices (stated in ECU) into national currencies. Given the limited green-rate changes proposed, average support price changes in the EC-10 (Spanish and Portuguese prices are not yet fully aligned with the rest of the EC) are $-.5$ percent in ECU and $+.2$ percent in national currencies.

The EC Proposes Tax on Fats and Oils

As part of its 1987/88 price proposals, the EC Commission has proposed a tax of 330 ECU/ton on all vegetable and marine oils and fats for human consumption. This is part of a proposed "stabilization scheme" that would maintain the price of soy oil within the EC at the 1981-85 average. The Commission has attempted to justify the tax as necessary to meet rapidly increasing costs of support for the EC oilseeds sector. Clearly, the EC's principal motive is the additional 2.1 billion ECU in forecast revenues.

The current EC vegetable oil tax proposal is particularly disturbing to the United States and other oilseed and vegetable oil exporters. The United States considers the tax to be directly contradictory to the statement of intent on agricultural protection made by all GATT signatories at the recent meeting in Uruguay.

There are currently enough EC countries opposed to the fats and oils tax to prevent its passage. The opposing countries are the United Kingdom, Germany, the Netherlands, Denmark, and Portugal. Modified proposals to make the tax less objectionable are underway. These include extension of the tax to cover animal fats other than butter and changing the basis for calculating the tax. Most observers agree that Germany's position is critical to

the outcome. Since Germany is opposed to the proposed price supports, the vegetable oil tax, and the proposed agrimonetary changes, there are multiple options for bargaining.

The EC Agrimonetary System

Commission price proposals for 1987/88 also include controversial changes in the complex EC agrimonetary system. The green ECU would be formally retained, but a realignment of EC currencies in the European Monetary System (EMS) under the proposed changes would have the same effects on EC price levels, stated in national currencies, as before 1984. The upward bias to support prices that resulted from the green ECU system would be removed.

The German need for very high prices is the basis of current and historical conflicts. The pre-1984 system required Germany to fight every year to maintain subsidies for its intra-EC exports or for ECU price increases adequate to offset the deutschmark's appreciation relative to the ECU. Current Commission agrimonetary proposals, combined with proposed price reductions, would substantially reduce German farm prices.

New Funding for the CAP

Two-thirds of contributions from member states to the EC are currently based on 1.4 percent of each member's value-added tax (VAT) base. Current Commission proposals would replace those funds with contributions based on Gross National Product (GNP). Until 1992, the proposal would limit contributions to 1.4 percent of GNP, which would provide about 40 percent more resources for the EC. Revenue would still be raised from traditional sources, including customs duties and agricultural levies.

Prospects for CAP Reform

If the EC Commission's resolve to reform the CAP is genuine, the will of the EC Council of Agricultural Ministers, which must formally approve major reforms, remains to be proven. Differing stances on reforms among France, Germany, and the United Kingdom have deadlocked price package deliberations. Such sustained disagreements complicate an already cumbersome process. The recent proposal to

include finance ministers in agricultural policy deliberations represents an attempt to nudge the process toward a more reform-oriented outcome.

Whatever the outcome of the current deliberations, the EC will continue to face pressure for additional CAP reforms. Longer-term options which have been discussed include a cereals set-aside program, increased emphasis on direct income support to poorer farmers, and greater reliance on national-level assistance to agriculture. The latter option--the so-called "renationalization" of the CAP--could well be the outcome of increased financial pressure when major countries cannot agree on a reform agenda. [*Cheryl Christensen and Gene Hasha (202) 786-1718*]

USSR

Soviet grain production in 1987 is expected to decline from 1986's 210 million tons, but will likely exceed the 1981-85 average of 180 million. A drop in wheat production is expected to account for most of the decline. This year's total grain area is estimated down, with substantially reduced winter grain area, the lowest since at least 1955, and a spring grain area about 2 million hectares above last year's.

Spring Seeding Delayed

The unseasonably cold, wet spring delayed fieldwork and the emergence of winter grains from dormancy by about 2-3 weeks on average. While seeding of spring crops was the slowest in at least 16 years, better weather in May spurred fieldwork and crop development. Because of the dry autumn, harsh winter, and delayed spring, weather during the remainder of the season will be more important than usual in determining crop yields.

Plans To Expand Intensive Technology in 1987

In recent years Soviet agricultural policy has emphasized the intensive technology strategy, which calls for better agronomic methods, improved use of high quality inputs, good farm management, and skilled labor. A

major component of intensive technology is increased and better-coordinated application of fertilizers. In 1986, the percentage of small grain area fertilized rose to a record 73 percent. Fertilizer application to small grains increased from 72 to a record 86 kilograms per hectare and is expected to increase further in 1987. Corn for grain, cotton, and potatoes also received more fertilizer in 1986.

In 1987 intensive technology practices on grains are planned to cover about 36 million hectares, up a reported 5 million hectares from 1986 and more 30 percent of total estimated grain area. Since much of the winter grain area has been reseeded, spring grains may benefit from inputs originally allocated to winter grains.

Livestock Sector Remains Strong

The Soviet livestock sector came through the harsh 1986/87 winter in rather good shape. Cattle and hog inventories on state and collective farms were less than 1 percent below record levels as of May 1. Poultry numbers were a record. Between December 1 and May 1, cattle numbers increased less than average for this period, and hog inventory drawdowns were larger than average. The lack of growth in livestock inventories is consistent with medium-term plans, which call for most of the increase in livestock production through 1990 to come from increased animal productivity.

Livestock production for all sectors in 1987 may continue to grow at the same rate as in 1986, about 3 percent. The socialized sector was strong in the first 4 months of the year, with meat production up 8 percent, milk production up 5, and egg production 3. The increase in meat production may be due to slightly higher-than-normal slaughterings in the first quarter. All of the production increases may have been inflated through expanded contract production with the private sector. Under this arrangement, private livestock raisers contract to market their products through the socialized sector, with the output attributed to state and collective farms.

USSR Receives U.S. Bonus Wheat

The combination of anticipated lower grain production in 1987, continued favorable

grain prices, and some recovery in oil and gold prices are projected to result in higher Soviet grain imports in 1987/88 (July/June). USDA estimates total grain imports for 1987/88 at 36 million tons, up 6 million from 1986/87.

By late May, the Soviets had purchased 4 million tons of U.S. wheat, the minimum quantity specified under the U.S.-USSR Grain Agreement. The sales, which began in early May after USDA announced an export bonus offer, were the first to the Soviet Union since June 1985. The price averaged \$80 per ton f.o.b., after a weighted average export bonus of \$41.50 per ton. In 1986, the Soviets rejected a U.S. \$15-per-ton export bonus on wheat offered in August, purportedly because the subsidized price was still considered too high.

U.S. sales of corn to the USSR, which began in late February 1987, continued to climb through May. As of May 21, 1987, U.S. corn sales were over 4 million tons, and could reach 5 million by September 30, 1987. [Carolyn Duff (202) 786-1710]

Eastern Europe

On the whole, 1986 was a pretty good year for Eastern European agriculture. Crop production throughout the region was excellent, with near record grain and oilseed production. Livestock production, however, was uneven, expanding in the northern countries but stagnating in the south. A particularly severe winter in 1986/87 will make it difficult for Eastern Europe to realize similar growth in 1987.

Policies Stress Self-Sufficiency, Increased Efficiency

Agricultural policies in Eastern Europe stress self-sufficiency, in terms of balanced farm trade in the northern countries and increased exports in the southern countries. Since investment funds are tight, these basic goals are to be realized through more efficient use of existing resources. To this end, most countries have introduced reforms aimed at reducing centralized control, increasing enterprise autonomy, and linking wages to productivity. Most governments are relying less on physical, commodity-specific targets for individual farms and more on financial

tools, such as prices and subsidies, to influence production decisions. Thus, there have been substantial rises in producer prices in recent years. However, governments have been reluctant to raise retail food prices to the same extent, and have been forced to increase subsidies as a result.

Grain, Oilseeds Near Record

Total 1986 grain output (excluding Albania) came to 113 million tons, up 7 percent from 1985. The wheat and corn crops, at 39 million tons each, were excellent. These increases came mostly from improved yields, a result not only of more favorable weather, but also of improved grain varieties and greater attention to cultivation practices. Grain imports in calendar 1986 were estimated at 7 million tons, down from 8 million in 1985; net imports were only 2 million tons.

Total 1987 grain production is forecast at 108 million tons. The slight decline is a result of drought last fall, especially in the southern countries, and a cold, wet spring, which delayed sowing and retarded plant development. Losses will be slight, however, as weather has improved. Net grain imports will continue to decline.

Total 1986 oilseed production reached 5.8 million tons, up 26 percent from 1985. Sunflowerseed production showed the greatest increase, 40 percent, thanks largely to Yugoslavia's success in developing a disease-resistant hybrid. Oilseed and meal imports were up substantially in 1986, resulting from a combination of 1985 production shortfalls in the southern countries and moves in many countries to improve feed rations. The region's meal use was up approximately 3 percent.

Little change is expected in 1987 oilseed production. Meal imports will likely rise, since most countries are trying to improve their meal supplies. Soybean imports, however, will be down due to improved 1986 domestic production.

Livestock Performance Uneven

Regional meat production in 1986 was a record, with significant increases in Poland and the GDR. Livestock came under stress in the southern countries, however, because of

drought-reduced feed supplies, rising production costs, and falling world demand for livestock exports. There were declines in all animal numbers except poultry. Only minor increases will occur in 1987. The severe 1986/87 winter reportedly caused significant losses in Bulgaria and Poland, and very likely in other countries as well. Total meat output is forecast up just 1 percent.

*U.S. Exports May Rise
Thanks to EEP*

U.S. agricultural exports to Eastern Europe, after falling to \$433 million in fiscal 1986, are forecast to rise to over \$500 million in fiscal 1987. Wheat exports will be higher, thanks to the EEP and continued below-plan production in Yugoslavia. Coarse grain exports should also see a slight rise. Exports of most other products are likely to decline. The modest recovery projected in most East European livestock sectors will mean higher exports of soybean meal, but these will be offset by lower exports of soybeans. Exports of cotton and hides will continue to be down. [Nancy Cochrane (202) 786-1710]

Australia

Australia is a resource-based economy, with agricultural exports comprising a large share of merchandise exports. Because its foreign exchange earnings are affected by the agricultural export policies of its competitors, Australia has been a catalyst in the formation of a multilateral "agricultural free-trade bloc." In September 1986, Australia hosted the first meeting of what has become known as the Cairns Group in Cairns, Queensland. The 14 participants—including Argentina, Brazil, Chile, Canada, Malaysia, and Thailand—depend heavily on agricultural exports as a source of foreign exchange, have relatively little government subsidization of agricultural exports, and, most importantly, perceive themselves as suffering significant foreign exchange revenue and farm income losses because of U.S., EC, and Japanese agricultural policies.

In May 1987, a second Cairns Group meeting was held in Ottawa, Canada, in time to draft Canadian Prime Minister Mulroney as the Group's representative to the G-7 Venice economic summit in June 1987. The Group's

ultimate aim is expanding the macroeconomic policies under discussion in the summits to include domestic agricultural policies and their effects on the international market.

The 30-percent devaluation of the Australian dollar since 1985 would normally have boosted the incomes of exporters—roughly 80 percent of Australia's wheat crop is exported. However, the sharp decline in wheat export prices has more than offset the devaluation, yielding a net decline in revenue. The decline in wheat prices is blamed, in part, on U.S. and EC export subsidies. Low world wheat prices are expected to trigger the Australian Wheat Board's Guaranteed Minimum Price this year. Support to wheat producers will probably be about \$A15 per ton; this will be the first such payment since 1972/73.

Comparison studies of agricultural policies show that Australia does not subsidize its major exports as heavily as other OECD nations, but, by its own admission, it is hardly without sin. In an effort to present a more credible negotiating position in multilateral trade negotiations, as well as to alleviate its substantial budget and current account deficits, Australia is undertaking further agricultural policy reform. New dairy policies, for example, will encourage more efficient production, and ultimately make domestic production competitive with imports. [David W. Skully (202) 786-1611]

Japan

U.S.-Japan Farm Trade Talks

In mid-April, Agriculture Secretary Lyng and Trade Representative Yeutter went to Tokyo to discuss improved access for U.S. agricultural products. The United States requested the opening of Japan's market for rice, the lifting of import curbs on 12 categories of agricultural products (so-called GATT-12 items), and the removal of beef and citrus import quotas. The 1984 U.S.-Japan agreement which provides the current import framework for beef and citrus will expire at the end of March 1988. Japan did not agree to the U.S. requests, but indicated that import quotas and access to its rice market would be part of talks under the new round of multilateral trade negotiations.

Japan Talks About Reform

A complaint by the U.S. Rice Millers Association last September against Japan's almost total ban on rice imports has sparked debate within Japan on rice policy and agricultural reform. In an address to the Diet (Japanese parliament) in January, Prime Minister Nakasone stated that agricultural reform would be one of the biggest issues in coming years. So far, talk has centered mainly on price policy and structural change.

An advisory report to the Prime Minister, entitled "Basic Direction of Agricultural Policies Toward the 21st Century," (released Nov. 1986) advocates strengthening the agricultural industry, reduction of production costs by concentrating land in the hands of a limited number of efficient farmers, and revision of price policy.

The Government has recently taken steps in this direction. The producer rice price should be reduced in July for the first time in about 30 years, reflecting lower costs. The Government is also revising its price support formulas for wheat, barley, soybeans, and rapeseed, replacing a parity pricing formula with one linked to productivity. The change should lower prices in the long run by encouraging gains in productivity. In addition, the Ministry of Agriculture, Forestry, and Fisheries lowered support prices further for beef, pork, and milk for processing beginning April 1987.

Farm Sector Heavily Assisted

Postwar Japanese farm policy centered on food security and stability of the food supply. This stemmed from memories of severe food shortages during and immediately after World War II, and concern about the nation's ability to provide food for its large population with its limited agricultural resources. These policies have been promoted by the powerful Liberal Democratic Party, in power since 1955, which derives much of its support from rural voters.

The Agricultural Basic Law of 1961 emphasized increasing farm productivity and incomes, to keep resources from shifting out of agriculture into the rapidly growing nonagricultural sectors. This caused Government support for agriculture to

increase rapidly. In the 1970's and 1980's, concerns again shifted toward coping with instability in world commodity markets, although heavy support for agriculture continued.

According to ERS research, overall Japanese assistance to agriculture was the highest among developed countries during 1982-84. Grains and dairy were the most heavily assisted sectors, while poultry and citrus were less so because they are more internationally competitive. Assistance to beef, pork, soybeans, and sugar producers was moderate. [*Lois Caplan (202) 786-1611*]

Middle-Income East Asia (South Korea, Taiwan, Hong Kong)

Food security, parity between farm and urban household incomes, and price stability are the major goals of government agricultural policy in the region. Hong Kong, with a free-trade policy, imports 90-95 percent of its food and raw agricultural material needs without tariff barriers or direct subsidies to producers; the Government's main task is to promote and regulate producer associations and the orderly marketing of farm produce. Korea, and to a much lesser degree Taiwan, pursues agricultural goals through government intervention in both agricultural imports and domestic agricultural marketing.

Despite agricultural protection in Korea and Taiwan, the region imports large quantities of farm products because of limited land area and climatic factors. The region is an important U.S. overseas farm market for wheat, coarse grain, soybeans, cotton, and cattle hides. In fiscal 1987, the region is forecast to import \$3.2 billion worth of U.S. farm products, an increase of 15 percent over the previous year and about 13 percent of total U.S. farm exports.

Agricultural Policy Emphasis Evolves

Although major goals of agricultural policy have remained basically the same over the years, the emphasis of policy has changed some. Throughout the 1950's and much of the 1960's, the Governments of both Korea and Taiwan, sensitive to the effects of food grain prices on urban consumers and the general

price level, placed major emphasis on maintaining price stability. The availability of U.S. grain under P.L. 480 after 1955 helped make it possible for the Korean Government to pursue a low-price policy for staple food grains.

Beginning in the 1970's, agricultural policy underwent a marked change to meet the problems of a growing disparity in rural and urban incomes and increasing foreign exchange expenditures on farm imports. (In Korea, imports under P.L. 480 changed in the late 1960's to cash or credit transactions, thus using more and more of the nation's limited foreign exchange reserves). Policy measures in the 1970's emphasized increasing self-sufficiency and farm income. Recently, the growing prominence of Korea and Taiwan in international trade has drawn attention to their relatively closed markets, including agricultural markets. Thus, trade liberalization has become an important agricultural policy issue in the 1980's.

High Agricultural Protection in Korea

In both Korea and Taiwan, food security has been equated with high levels of self-sufficiency for rice and other farm products. Self-sufficiency and farm income goals have been pursued by imposing restrictive measures on imports. The agricultural policy strategy since the early 1970's, in Korea and to a much lesser degree in Taiwan, has centered on providing strong producer price incentives, partly by restricting trade through tariffs and other means.

Like its Japanese neighbor, Korea heavily assists its farmers and heavily taxes its consumers of farm products. Much of the assistance comes via trade restrictions and at the expense of consumers. Korea bans imports of most high value and processed agricultural products. Despite some similarities in farm structure, Taiwan assists its producers at a lower level. Taiwan is an exporter of pork (which accounts for about 20 percent of gross agricultural income) and many other agricultural commodities such as sugar, vegetables, and fruits. [*Sophia Wu Huang (202) 786-1611*]

No Major Changes in Food Policy in 1986

There were no major food policy changes in 1986 to stimulate agricultural output, although China's officials began to realize that rapid growth in agricultural production was over. As a result, China's total 1986 grain production of 391 million tons was still 16 million below the 1984 record. The 1986 grain output, despite a 12-million-ton increase from the previous year, was not enough for China's leaders to cheer about, particularly when referring to the large annual increases, ranging from 20 to more than 30 million tons, during 1982 to 1984.

The only two policy changes that Chinese planners instituted in 1986 were to hold the line on retail prices of farm products and to reverse the ongoing decline in grain area. Retail prices for food grains were inspected and tightly controlled by the Government, but feed grain prices were allowed to fluctuate, and escalated because of strong demand. A small increase in the procurement price of wheat, and a more significant rise in the procurement price of soybeans resulted in an expansion of areas sown. The expanded areas were important in the grain output increase in 1986.

Procurement Prices, Subsidies, and Investment Increased in 1987

Rapid economic growth, accompanied by commensurate increases in income in both rural and urban areas in the past several years, triggered tremendous growth in demand for agricultural output. The growth largely stemmed from the unexpected rise in food and animal feed consumption, and continuously expanding requirements for raw materials for food processing.

Given the increasing pressure from a greater demand and the slower-paced growth of crop supply, particularly in the last couple of years, Chinese planners are now aware of the importance of increasing both agricultural production and the country's economic well-being and political stability.

This year, government officials are willing to further increase farmers' incentives by raising purchase prices for rice, corn, and other cash crops such as cotton, sugar crops, and tobacco, and resuming bonus programs to provide cash advances and subsidies for inputs such as fertilizer and diesel oil. In addition, central and local governments also expanded agricultural investment for irrigation projects, development of commodity production bases, and land reclamation programs.

These favorable policy adjustments are expected to help China's agricultural sector reach most of its less-ambitious production targets, including 400 to 405 million tons of grain output for 1987. The gains will be made mainly through a return to normal yields for most crops because of increases in input use, and a slight expansion in sown area due to moderate increase in government procurement prices. [*Francis C. Tuan (202) 786-1610*]

South Asia

South Asian Food Price Concerns

Food policy in South Asian countries focuses on maintaining food price stability. Food prices are a key determinant of inflation and many consumers are highly vulnerable to food price increases. Widening budget deficits and inflationary pressures stemming from efforts to invest in development despite low domestic savings, sluggish exports, and rising debt service are resulting in continued concern with food price stability.

Indian Policy Interventions Continue

India's general economic strategy calls for gradual deregulation of some industrial sectors and raw material imports, reduced outlays on subsidies, greater stimulation of investment, stronger promotion of exports, and import substitution in agriculture. Major policy interventions in the agricultural sector include input subsidies, producer price supports, and state control of foreign trade. Estimates of transfers to producers and consumers as a result of these policies indicate that the effects of trade policies tend to dominate.

During 1981/82-1983/84, producers of wheat, rice, and cotton were taxed, and consumers were subsidized by trade

restrictions. Oilseed producers and processors were subsidized by controls on trade, while consumers of edible oils were taxed. Measures to liberalize trade in agricultural commodities are unlikely because of the importance of maintaining consumer price stability.

Pakistan's Deregulation Proceeds

Pakistan's recent economic policies include renouncing nationalization and deregulating or selling industries the Government acquired control of in the 1970's. The Government's efforts to expand exports, now based heavily on cotton and rice, by cutting red tape may not be vigorous enough to avoid balance-of-payments difficulties. Among food crops, highest priority goes to maintaining wheat self-sufficiency, and recent gains are permitting reduced intervention in domestic marketing. Partial deregulation of rice exports, now a government monopoly, is under consideration. Consumer-oriented edible oil policies are now under fire because of a widening gap between supply and demand.

Cotton policy has generally kept the raw material cheap for the important textile industry, with the exportable surplus controlled by the Cotton Export Corporation. Recent dramatic gains in production and exports stem from improved technology, not from higher prices or subsidies. The large increase in exportable surplus may lead to partial restoration of private trading in cotton.

Bangladesh Stabilizes Food Prices

Bangladesh has used food aid and a large-scale ration system to stabilize food grain consumption and prices, and, indirectly, the volatile political economy. Partly because sizable food imports have contributed to rising foreign debt, more emphasis has been given to production and self-sufficiency in the 1980's. Foreign aid is an important component of agricultural development, because low domestic savings and a very small export base have limited the resources available to the Government.

Sri Lanka Reduces Intervention in Rice

Sri Lanka has substantially liberalized foreign trade and investment to stimulate growth and exports. Increasing rice production is still the key agricultural

priority. The general subsidy on rice and wheat consumption has been replaced by a targeted food stamp program, and rice is now marketed almost entirely in the private sector. [Gary Ender (202) 786-1614]

Southeast Asia

Burma's New Paddy Procurement Policy

In the past, a farmer could sell a paddy to private traders after meeting the quota for Agricultural and Farm Produce Trade Corporation (AFPTCO), the sole Government purchaser of rice from the farmers. Private traders engaging in rice trade were often accused of black market activities. In late 1986, new regulations prohibited private traders from handling rice. Instead, cooperative societies were charged with procuring rice directly from farmers. On February 1, 1987, the cooperatives were authorized to handle all rice sold at retail, closing down the private rice shops in urban areas.

Indonesia Plans Self-Sufficiency

The current Indonesian 5-year economic plan, Repelita IV, extending through March 1989, seeks to maintain self-sufficiency in rice and to intensify production of secondary crops: corn, cassava, sweetpotatoes, soybeans, and peanuts. The plan also emphasizes opening up new agricultural land and increasing production of plantation crops such as rubber, palm oil, coffee, and tea. The Government is promoting job creation through industrialization and export of value-added products. Particular emphasis is placed on food processing industries.

Malaysia Focuses on Efficiency

Malaysia's National Agricultural Policy (NAP) through the year 2000 concentrates on developing commercial cash crops, such as palm oil and cocoa, and on increasing farm productivity through mechanization and pooling of land. Policy guidelines emphasize expanding palm oil production through the establishment of well-managed estates and the adoption of improved technology. The NAP has abandoned the long-held goal of self-sufficiency in rice. It is encouraging the development of large-scale beef and dairy production.

Philippines Reform Farm Policy

The Government has taken several steps to encourage agricultural development. Agricultural trade has been turned over to the private sector. Price controls are being phased out. The ban on copra exports has been lifted and new milling facilities are being established. Export taxes are being abolished. Fertilizer is exempted from import duties and the 10-peso-per-50-kilogram bag levy has been discontinued. All agriculturally related agencies have been consolidated under the Department of Agriculture.

Thai Policy Reacts to FSA

Thailand vigorously objected to the rice marketing loan provision of the U.S. Food Security Act (FSA). Thailand contends that it does not use unfair trading practices, which the FSA was designed to counter. In fact, rice and other farm exports have been taxed. However, Thailand recently initiated several programs to support rice farmers. A \$194-million loan scheme was effective in raising farmgate prices. The scheme kept more than 2 million tons of rice off the market by loaning farmers 80 percent of its value. As the harvesting of the main rice crop began in 1986, the Thai Government began buying and selling rice in an effort to support the farm price. [Jitendar S. Mann (202) 786-1614]

The Middle East and North Africa

Policies Emphasize Livestock Products

The policy of importing more feed and less meat and livestock products has been adopted by most countries in the Middle East and North Africa. However, in many cases, the results are not as expected. The region's feed grain imports rose 9 percent to 16.5 million tons in 1986, double the 1980 level. Yet imports of livestock products continue to rise in response to low meat prices and to generous credit terms offered by exporters. Programs to reduce the dairy surplus in Europe and the United States contributed to lower beef and dairy product prices, and response among Mideast importers has been tremendous.

Following the spectacular rise in meat consumption between 1974 and the early

1980's, programs to reduce dependency on imports of livestock products gained momentum after 1983, as oil prices declined and revenues took a sharp dive. While some countries' meat imports declined during 1982-84, they have been rising since 1985. One reason was the greater-than-expected increase in per capita consumption of livestock products during 1973-83, especially poultry meat, eggs, milk, and cheese. These striking gains stemmed largely from higher incomes and rising demand in major urban areas. Recently, wider income distribution and more universal availability of distribution facilities in rural areas allowed sales of livestock products to increase sharply in previously insignificant segments of the market.

Subsidies Encourage Feed Imports

The other side of the livestock development story is imports of feed grains. While meat demand was rising, governments sought to meet the demand by increasing domestic output, which in turn, generated strong demand for feed grains and products. At the same time, export prices of feed grains declined, giving a further impetus to livestock development.

The policy of improving dietary protein resulted in sharply higher feed grain imports, which rose from 4 million tons in 1975 to a forecast 18 million in 1987. The top feed grain importer in the region is Saudi Arabia, with over 7.5 million tons in calendar 1986. Saudi Arabia's policy of providing a 50-percent feed subsidy, as well as many other subsidies supporting construction, transportation, and veterinary services, has resulted in sharp increases in output of poultry products and milk. These have resulted in huge barley imports, which are likely to again top 6.5 million tons in 1987. This policy, combined with the U.S. Export Enhancement Program, is expected to cause U.S. sales of barley to Saudi Arabia to reach 2.5 million tons during the 1986/87 marketing year, accounting for 90 percent of U.S. barley exports. Saudi Arabia is also a big market for other barley exporters, including Canada, with 2 million tons in the 1986/87 season, and Australia and the EC, each with sales of over 1 million tons forecast. Saudi Arabia accounts for 60 percent of the region's barley imports, estimated at 10.5 million tons in 1987.

Egypt's feed grain trade policy recently underwent a long-awaited change. The Government will no longer lose money on feed grain imports, a reason for import restriction in the past. The new policy is to allow the private sector to import freely and for the Government to stop undercutting free-market prices, which limited private trade. As a result, Egypt has become the region's second largest feed grain importer after Saudi Arabia, and output of poultry meat and milk is increasing faster than at any time in the last decade. Feed grain imports for 1987 are therefore forecast to be at least 2.3 million tons.

In other countries, despite policies to raise local output, shortages in Iran and Iraq remain severe and imports of meat and feed grains are both on the rise. Iran's imports of barley from Australia and Europe are rising, and imports of Argentine corn exceed 900,000 tons annually, with a forecast 1.7 million tons for 1987. Iraq has already purchased over 600,000 tons of U.S. corn for 1987 delivery.

Meat Imports at a Record

In 1986, total meat imports by Middle East and North African countries reached a record 1.7 million tons, at \$2.6 billion. This included about 700,000 tons of beef, 560,000 tons of frozen poultry, 300,000 tons of mutton and lamb, and 200,000 tons of meat preparations. U.S. exports of meat and livestock products to the region are increasing sharply, mostly because of special credit sales to Egypt and Iraq. The EC, Brazil, New Zealand, and Australia remain the major suppliers. Competition has intensified because of recent U.S. programs.

The region remains a major importer of live sheep and cattle, although lower prices for meat from major suppliers caused some shift from live animals to meat. Australia provides over half of the approximately 10 million sheep imported annually. Drought and disease problems caused deliveries of cattle and sheep from Ethiopia and the Sudan to the Arabian Peninsula to plummet. As imports of live animals from developing countries dwindled, imports from Europe and Turkey increased sharply.

Intense competition has caused prices for dairy products provided by the EC, Australia,

WORLD TRADE AND FOOD POLICY

GATT Trade Talks on Agriculture

Discussions in the negotiating group on agriculture got underway as part of the Uruguay Round of multilateral trade negotiations (MTN) being held in Geneva, Switzerland, under the auspices of the General Agreement on Tariffs and Trade (GATT). The group's negotiating objective is that adopted in the Punta del Este declaration, with a two-staged negotiating process involving an initial phase during 1987 and a subsequent negotiating process during 1988.

The principal stages of the negotiating process for agriculture are:

Initial Phase

"Identification of major problems and their causes, including all measures affecting directly or indirectly agricultural trade, taking into account, *inter alia*, work done by the CTA [GATT Committee on Trade in Agriculture], and elaboration of an indicative list of issues considered relevant by participants to achieving the Negotiating Objective.

"The concurrent submission of supplementary information on measures and policies affecting trade in the AG/FOR-series, including full notification of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade.

"Consideration of basic principles to govern world trade in agriculture.

"Submission and initial examination of proposals by participants aimed at achieving the Negotiating Objective."

Subsequent Negotiating Process

"Within this process, further examination as appropriate of proposals and initiation of negotiations.

New Zealand, and recently the United States, to decline. The Middle East has been one of the most receptive markets for lower-priced dairy products, with annual imports of about 1 million tons. During 1984-86, the region's cheese imports were double the 1978-80 average, and imports of milk and butter were also up. Saudi Arabia is the leading importer of dairy products, with about 200,000 tons annually, followed by 130,000 for Iran and over 110,000 each by Egypt and Iraq.

Poultry Meat Imports Rising Again

Imports of frozen poultry rebounded from 535,000 tons in 1984 to about 580,000 in 1985, and declined about 3 percent in 1986 because of smaller deliveries by Brazil to Egypt and Iraq. A rebound in Brazilian deliveries, along with EEP-inspired gains in U.S. exports to Egypt and Iraq, may cause the region's poultry meat imports to surpass 600,000 tons in 1987. The region will produce about 80 percent of its poultry meat in 1987, but its importance as an importer has not diminished.

Brazil provided about half the region's imports of frozen chickens in 1985, and the EC 38 percent. The U.S. share of the region's imports of frozen poultry may rise to 20 percent in 1987, up from 5 in 1986. Shipments of 60,000 tons of U.S. frozen chickens to Iraq through EEP and 50,000 to Egypt are underway. Brazil's share is expected to decline again in 1987, possibly to 30 percent with reduced sales to Iraq and Egypt, despite a strong market in the Arabian Peninsula.

Meat Imports Expected To Rise

In 1987, regional meat imports may increase 8 percent to about 1.9 million tons. The EC is again expected to capture half the market. Shortages of beef for export from Brazil might open an opportunity for U.S. sales of beef or variety meats to Egypt and Iraq. In 1987, the U.S. share of regional meat imports should rise to over 10 percent, up from 4 percent in 1986. [John B. Parker (202) 786-1680]

"Negotiations with a view to reaching agreement on (a) comprehensive texts of strengthened and more operationally effective GATT rules and disciplines; (b) the nature and the content of specific multilateral commitments to be undertaken including, as appropriate, implementation programmes and transitional arrangements; (c) any other understandings which should also be deemed necessary for the fulfillment of the Negotiating Objective; and (d) exchange of concessions, as appropriate."

Initial Meetings

The group's first meeting (February 16–18) was devoted to opening position statements, concentrating on identification of major problems affecting trade in agriculture and their causes, as indicated under the initial phase of the negotiating plan. The group also approved the appointment of Mr. Aart de Zeeuw of the Netherlands as chairman of the negotiating group.

The group's second meeting (May 5–6) concentrated on possible basic principles to govern world trade in agriculture, as called for in the negotiating plan. Australia set forth principles for consideration that called for eliminating government intervention in agriculture, exposing domestic markets fully to effective price competition from imports, and ending special provisions for agriculture under the GATT. This last principle would prohibit export subsidies for agriculture as they are now prohibited for manufactures. The United States put forth similar principles that would expand import access for agricultural products and end trade-distorting policies by governments that prevent farmers from competing against one another on the basis of market signals. The European Community (EC) preferred to continue analyzing the nature and causes of problems facing agriculture before considering the principles that should guide agricultural trade. The third meeting will be held July 6–7, when the United States will table its proposals for achieving the objectives set forth in the Punta del Este declaration concerning subsidies and import access in agricultural trade.

Agricultural Policy Reform Meetings

Economic ministers from the 24 industrialized countries comprising the Organization for Economic Cooperation and Development (OECD) held their annual ministerial meeting in Paris, France, on May 12–13. The communique issued following the meeting outlined policy prescriptions to reform national agricultural policies, which would also enhance prospects for improved agricultural trade. Such domestic policy reform will strongly influence the prospects for success of the agricultural trade negotiations taking place in Geneva under the MTN. Moreover, the government leaders of the seven major industrialized countries (G–7) met June 8–10 in Venice, Italy, for their annual summit and issued a strong endorsement of the OECD policy reform for agriculture. The G–7 leaders also called for a review at their next summit of the progress made toward the necessary agricultural policy adjustments.

The OECD communique concerning agriculture notes that policies which prevent adequate transmission of market signals have boosted the large imbalance of agricultural supplies in excess of effective demand. This imposes costs both on government budgets and on consumers, as well as imposing other economic costs that distort the principle of comparative advantage at the root of international trade.

The communique sees the MTN as providing the framework for a progressive reduction of assistance to and protection of agriculture, on a multi-country and multi-commodity basis. The ministers believe that agricultural reform should have the long-term objective of allowing market signals to shape agricultural production, achieved through a concerted reduction of agricultural support. A major point of the policy reform would seek to provide farm income support through direct income support, rather than through price guarantees or other measures linked to production. This approach would be particularly well suited to assisting disadvantaged farmers in low-income regions.

Ministers at the meeting approved a 3-year study entitled "National Policies and Agricultural Trade," which highlights some of the serious imbalances in major agricultural markets. Based on 1979-81 data, the report found that approximately 30 percent of the sales value of the 11 commodities reviewed reflected subsidies. Among OECD countries, dairy and rice were found to be the most subsidized (over 60 percent of sales value) while wool and soybeans had the lowest subsidy element (about 10 percent each). The bulk of the subsidies in the study were accounted for by Japan, the United States, and the EC. [*Ted Wilson (202) 786-1688*]

COUNTRY BRIEFS

The Lebanese Pound Collapses

In 1987, the Lebanese pound declined to record lows against the dollar and other major currencies. Since 1984, the pound has been under constant pressure, but not to the extent that has occurred during the last year. In the first quarter of 1984, the value of the Lebanese pound was 5.41 = \$1. In 1986, it dropped from LL22.52 in the first quarter to LL87.00 in the fourth quarter. By March 1987, it fell to LL112.75 for a dollar.

The dollar and other foreign currencies have appreciated about 21 times against the Lebanese pound from 1984 to 1987. This depreciation reflected a rapid acceleration of money growth, coupled with declining real income, lower real economic growth, and higher expected inflation. In an attempt to stabilize the exchange rate, the Government relied on foreign exchange reserves to buy pounds. Consequently, Lebanon's foreign exchange reserves dropped from \$1,051 million in 1985 to \$462 million at the end of 1986. The Government policy to support the pound also served to finance imports of food and military equipment, and to compensate for reduced transfer payments from Arab countries, the EC, and other foreign sources.

The continued depreciation of the pound is inevitable. While expenditures continue to rise, the Lebanese Government has been unable to collect sufficient revenues to finance the large deficit. [*Fawzi A. Taha (202) 786-1780*]

Turkish Corn Output Expanding

Over the last 4 years, Turkey's corn output has made substantial gains. Production in 1986 was estimated at 2.2 million tons, and the crop currently being planted is expected to yield a record 2.5 million tons. Significant increases in corn yields in recent years are a result of better seed, increased irrigation, and favorable weather, as well as better cultivation practices brought about by attractive farm prices.

Since 1982, Turkey's corn output has made steady progress, after many years of stagnation. Production for the 5 years ending in 1981 averaged 1.3 million tons, while the average output for the 5 years ending in 1986 is 1.7 million tons. Turkey's National Cropping Plan forecasts corn output expanding steadily, doubling over the next 5 years. Total corn area continues to increase because of the double-cropping program implemented by the Ministry of Agriculture. In 1985, 580,000 hectares were planted to corn. For the upcoming crop, to be harvested in the fall, 650,000 hectares have been planted.

While output has expanded, demand by the expanding livestock sector has outstripped supply. Feed consumption for the 1987/88 marketing year is estimated at 1.8 million tons, compared with 1 million only 3 years ago. Turkey has imported small amounts of corn in recent years, some from the United States, Argentina, and the EC, and 200,000 tons are forecast for 1987/88. [*Michael E. Kurtzig (202) 786-1680*]

Iraq Purchases More U.S. Farm Products

Iraq recently accelerated its purchases of U.S. farm products, and a strong showing is expected in coming months. The first purchases of a number of commodities have occurred in the last 2 years, including cattle, dry beans, butter, cotton, wool, almonds, and cattle hides. Iraq recently returned as a major customer for U.S. frozen poultry, with purchases of 60,000 tons through the EEP. Further diversification is expected as purchases of eggs and processed foods increase. During 1986, U.S. agricultural exports to Iraq rebounded 8 percent to \$354 million, following the 39-percent decline in

1985 from the 1984 peak of \$535 million. The 1987 value should surpass the previous peak.

Iraq is buying more farm commodities from the United States for a number of reasons. First, the availability of credit through GSM 102 and 103 is a major factor. Second, favorable prices from the Export Enhancement Program have contributed to recent gains in U.S. sales of wheat, wheat flour, frozen chickens, and dairy cattle to Iraq. A third reason relates to problems Iraq is having with some important traditional suppliers. Iraq is behind in payments to Turkey, and Brazil's supplies have been disrupted by erratic feed supplies and inflation. Fourth, Iraq seeks to sell more petroleum to the United States to gain foreign exchange.

Rice and wheat accounted for 83 percent of the \$184 million of U.S. agricultural exports to Iraq during the first half of fiscal 1986 (October–March), but only 45 percent of the \$206 million for the first half of fiscal 1987, when shipments of cotton, corn, and tobacco were more important. The share for wheat and rice may fall below 33 percent in 1987. [John B. Parker (202) 786–1680]

Iran Loses U.S. Pistachio Market

In 1986, Iran harvested a record 82,000 tons of pistachios. In 1984 and 1985, the

United States bought over half of Iran's pistachio exports, and in 1986, about a fourth of the 15,000 tons exported. From 1985 to 1986, U.S. imports of Iranian pistachios declined from 12,040 tons and \$35 million to only 3,701 tons. In the first quarter of 1987, the United States received no pistachios from Iran, compared with 2,568 tons during first-quarter 1986.

In an antidumping action, the United States sought answers from Iran concerning the cost of producing pistachios, following a 31-percent reduction in their average price to \$2,896 per ton in 1985. No response was received, which resulted in a 249-percent ad valorem U.S. tariff on Iranian pistachios in March 1986. Iran is now struggling to find alternative markets, at a time when U.S. and Turkish exports are rebounding. It appears that Iran will be able to export only half the pistachios it seeks to sell, and that prices may fall to less than \$3,000 per ton. This is because none of the major remaining markets can absorb anything near the volume sent to the United States in 1985.

The 1987 shipments to the EC may be 10,000 tons, or double the 1985 level, but Iran needs to market 40,000 tons. Turkey, Saudi Arabia, India, and Israel are each likely to take over 2,000 tons, with the United Arab Emirates, Oman, and Japan taking about 1,000 tons each. [John B. Parker (202) 786–1680]

DOMESTIC POLICIES YIELD INTERNATIONAL CONSEQUENCES

Gary Vocke
Agricultural and Trade Analysis Division
(202) 786-1705

Abstract: The world has large surpluses of cereal grains in many of the industrial-market countries and low international prices as exporters compete fiercely for markets. Many developing countries could be growing markets for cereal grains if their economies prosper. In most developing countries this will require a dynamic and growing agriculture. Long-range plans to expand developing country imports should include agricultural sector support.

Keywords: Agricultural development, agricultural trade, agricultural policies.

Agriculture is a global industry in which a country's domestic actions have international effects. Agricultural policies, implemented by one country to help solve its domestic agricultural problems, affect not only that nation's own trade, but trade among other countries as well. Broadly speaking, many industrial market countries apply policies to reduce the pain of agricultural adjustment to economic development or other changes, and also to insure a national food supply in an international crisis. These policies have contributed to a buildup of grain stocks in some of these industrial countries and to low grain prices worldwide.

Farm commodity prices are very low in international markets. Surplus stocks have reached records, yet current production for many commodities still exceeds use. Production incentives provided by industrial-market governments, which respond too slowly to changing international markets, are largely the cause of current surpluses. Costs of farm programs in the United States, EC, and Japan have reached very high levels, with rising farm subsidies, storage expenses, and export subsidies.

However, these problems are not caused by agricultural policies alone. Other factors have interacted to make these problems more severe. These factors include a slowdown of imports by centrally planned countries, the world recession of the early 1980's, and the debt crisis in the developing countries.

1/ Numbers in parentheses refer to sources listed at the end of the article.

Much of the current concern about agricultural policy and international trade centers on imbalances between production and demand growth in the industrial-market and developing countries. In many industrial market countries, demand is growing slower than production, creating surpluses. Much of this output is subsidized (1, 8) 1/, keeping excess capacity in production. The developing countries are becoming more dependent on agricultural imports, because rising incomes have allowed consumption to grow more rapidly than production.

Industrial Economies Boost Output

The industrial-market countries commonly use prices and other policy measures to support farmers' incomes and slow the migration of people out of agriculture. When domestic support prices are fixed above international market-clearing prices, excess land, labor, and capital are kept in production, often leading to surpluses. These surpluses have to go into storage (often government-owned) or are exported using subsidies.

Relief from current surpluses in the United States and other industrial market countries is unlikely to come from growth in domestic demand. In the EC, for example, agricultural production has been rising almost 2 percent a year since the late 1960's. However, EC consumption has been rising only about .5 percent (3). During this time, the EC switched from being a major net importer of cereal grains to being a major exporter. This dramatic shift resulted in the loss of a large

market for U.S. farmers and more competition for markets in the developing countries.

In the high-income, industrial-market societies, the output of many basic food commodities increases faster than consumer demand. Their consumers do not want a greater physical quantity of food; increases in consumer expenditures with rising incomes in high-income countries are for variety, improved quality, and more processing and retailing services with food. Agricultural productivity, however, continues to advance with the introduction of new technology.

The cost advantages of this new technology often require larger farms, thus substituting capital for farm labor. This substitution is a long-run characteristic of agriculture under economic growth (4). To slow the exodus of people from agriculture, policymakers in the United States, as well as in the other industrialized countries, have often supported agricultural incomes with price support schemes.

If price supports are set above international prices, import restrictions or tariffs are required when the supports create incentives to import protected commodities (such as sugar in the United States), and export subsidies are needed when production exceeds domestic use and the government does not want to store the surplus (such as wheat in the EC).

Export subsidies directly affect the trade performance of other countries and can force them to adopt offsetting policies. For example, the EC's export subsidies enabled it to take foreign markets away from other exporters. The United States recently modified its policies and programs in an attempt to regain lost market share. The U.S. Food Security Act of 1985 is intended to make U.S. agriculture more competitive by reducing price-supporting loan rates. Also, a variety of export programs are authorized, including the Export Enhancement Program, which uses CCC stocks directly to counter subsidized EC exports in specific markets.

The stagnation of the world grain market since the 1980-82 world recession has led to a

sharp buildup of world and U.S. grain stocks. Ending stocks of the major world wheat exporters for 1986/87 are estimated to be 82.5 million tons, with the United States holding nearly two-thirds. To put this amount in perspective, the U.S. holdings equal about 2 years of U.S. consumption. The United States will have nearly three-fourths of the world's coarse grain stocks by the end of 1986/87, close to 1 year of U.S. consumption, and more than three times the forecast volume of U.S. exports in 1986/87.

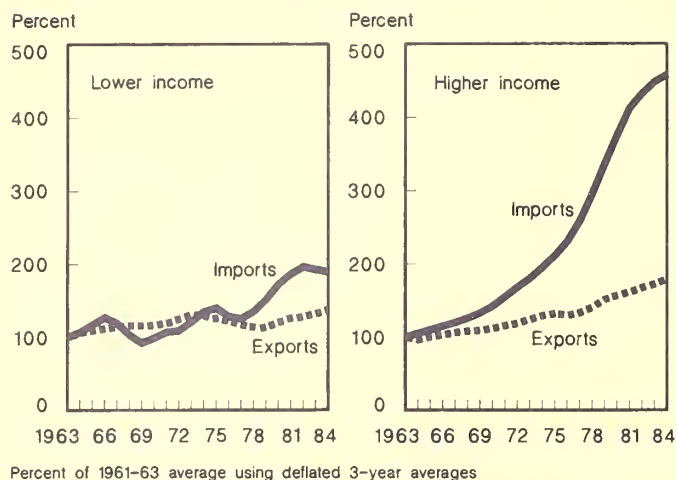
With the buildup of such large stocks, more attention is being given to the factors underlying the rapid growth of the developing countries' agricultural imports during the 1970's and the slowing of this growth during the early 1980's.

Third World Debt Limits Imports

A major source of agricultural import growth during the past two decades has been the developing countries. Developing countries' effective demand for food exceeded their production during the 1970's because of rapid economic growth. The growth in agricultural import markets was especially rapid among the less developed countries (LDC's) with higher incomes. ^{2/} However, agricultural imports by these higher-income developing countries slowed with the 1980-82 world recession and the Third World debt crisis. The debt crisis has placed the economic prospects of many developing countries in jeopardy.

^{2/} The World Bank classifies developing countries into four categories based on annual per capita income: low-income, lower-middle-income, upper-middle-income, and high-income oil-exporters. The low-income and lower-middle-income countries, excluding the People's Republic of China, are considered here as lower-income developing countries and the remaining two categories as higher-income developing countries. The lower-income countries include 2 billion people with per capita incomes ranging from \$100 to \$1,700. The higher-income countries include .5 billion people with per capita incomes greater than \$1,700 (8).

Agricultural Trade in Higher- and Lower-Income LDC's



Foreign debt accumulation in developing countries accelerated in 1973-74 as higher oil prices sharply increased trade deficits in oil-importing developing countries. These deficits were financed through loans with low interest rates as banks recycled the oil earnings of the petroleum-exporting countries. Because of the low interest rates, many developing countries (including some oil exporters such as Mexico and Venezuela) borrowed heavily to finance investments to accelerate their economic growth. Between 1974 and 1979, the economic growth rate of developing countries was double that of industrial countries.

The 1979-80 increase in oil prices, along with a sudden tightening of U.S. monetary policy to combat inflation, contributed to a severe worldwide recession. Industrial countries' demand for developing countries' products dropped, and commodity prices declined. Export earnings of developing countries deteriorated, reducing their ability to pay their debts. Because many developing countries had short-term loans with variable interest rates, the sharply rising interest rates and strengthening value of the dollar of this period compounded their difficulties. The ability of developing countries to pay their debts deteriorated seriously between 1980 and 1982, resulting in the debt crisis (5).

The international banks then curtailed their lending. Developing countries are now paying more on old loans than they are getting in new loans. This trend is most striking in Latin America, where debtor countries have

paid out almost \$100 billion since 1982, about as much as they received in net lending from 1974 to 1981 (2).

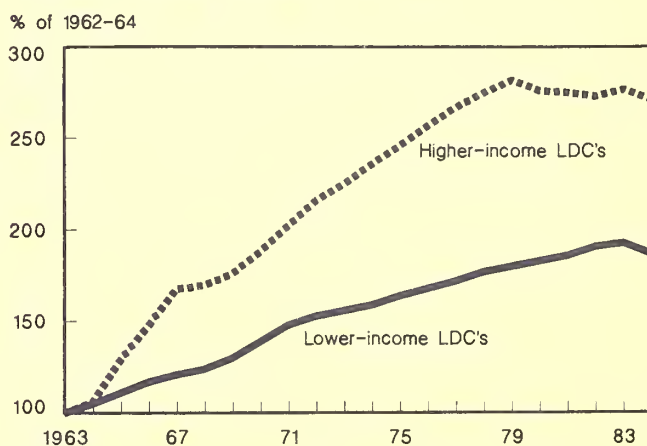
The debt crisis limits agricultural imports in developing countries because debt payments and imports compete for available foreign earnings. Unless countries are able to increase their export earnings or obtain additional long-term loans, they must defer, reschedule, or default on their debts, or else reduce imports. Many countries have reduced their imports. In addition, developing countries that are restructuring their debts are subject to International Monetary Fund conditions that often include policy changes to reduce costly food subsidy programs and realign exchange rates. While these policy changes may reduce food imports in the near term, in the long run they will help countries resume the steady economic growth that leads to increased food demand and imports.

A reduction in trade barriers would help the developing countries export more products to industrial countries and, in turn, buy more agricultural goods. Economic growth due to rising productivity remains the long-term solution to increasing trade, but the debt problems of developing countries will severely limit agricultural imports in the short and medium term unless a way is found to make debt more manageable.

Agricultural Development Boosts Imports

Because agriculture is the largest sector in most developing countries, this sector must

Agricultural GDP Growing Faster in Higher-Income LDC's



Three-year deliated averages centering on dates shown.

be growing if the LDC's national economies are to prosper. For this reason, agricultural incomes and agricultural imports usually rise together in developing countries. In fact, during the 1970's, agricultural GDP was increasing most rapidly among the higher-income developing countries that were increasing their agricultural imports so rapidly. It is this potential for growing export markets that needs to be understood when the United States and other industrial market countries consider their development assistance policies and programs for low-income countries.

Rising productivity increases incomes of farmers and rural laborers. Employment and income in rural and urban areas then rise as farmers spend their higher incomes on goods and services produced off the farm. By increasing the productivity of the land and labor, new agricultural technology can initiate broad-based economic development leading to industrialization and rising per capita incomes. Rising incomes create food demand that eventually outpaces growth in agricultural production, which is why developing countries became more dependent on imports of food grains and coarse grains during the 1970's (7). The increase in trade reliance was not due to declining production; rather, it was due to rising consumption based increasingly on imports supported by rising per capita incomes (6).

The long-run future for agricultural exports of the United States and other countries depends on the prosperity of the low-income developing countries. Development assistance from the United States and other donors should include support for agriculture. While not always successful, improved agricultural technology (and domestic government policies favoring its use) has produced sustained agricultural development in a number of Asian and Latin

American countries, helping them achieve the rapid increases in national growth that lead to increased agricultural imports.

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TRADE LIBERALIZATION IN WORLD AGRICULTURAL MARKETS 1/

Abstract: Some countries subsidize agricultural imports; others subsidize exports. Some tax imports; others tax exports. Most nations try to help their farmers through domestic farm programs. All these influences converge to distort the price signals that would otherwise govern supply and demand in a freer trade environment. The resulting hodgepodge has disadvantaged many producers in the United States and other countries, even though their farm products are among the least expensive to produce. This article highlights the extent of such government intervention in agricultural products for several countries (including the United States) and the European Community.

Keywords: Trade, trade liberalization, government intervention, GATT, producer subsidy, border measures.

This article gives a perspective on the issues and conditions confronting the United States and the other 93 members of the General Agreement on Tariffs and Trade (GATT) as they negotiate a reduction in international market intervention. Agricultural trade negotiations are part of the eighth round of multilateral trade negotiations now taking place under GATT. Broad objectives and principles for these negotiations, called the Uruguay Round, were set forth in a Ministerial declaration signed in Uruguay in September 1986.

The United States and other key players in world markets have ambitious goals for agriculture in the Uruguay Round, including broadly reducing trade barriers imposed by many countries. An environment more responsive to market conditions is needed to expand trade in farm products.

If the talks are successful, efficient agricultural producers will benefit: they will gain better access to many agricultural export markets now virtually closed and face less unfair competition from inefficient suppliers with subsidized exports. Trade liberalization will also help taxpayers in many countries by reducing government costs for farm programs.

However, a more liberal trade environment would not be in the interest of U.S. producers of highly protected commodities, such as dairy products, sugar, peanuts, and tobacco. These producers would have to adjust to a more competitive market where prices are lower than the current supported levels.

Trade barriers, price and income support programs, and other domestic agricultural policies of trading countries contribute significantly to current problems in the agricultural trade environment. Many trade barriers help to ensure the effectiveness of each country's domestic policies, such as achieving food self-sufficiency, maintaining the family farm as a viable institution, or shielding farmers from price and income instability. Such policies shelter agricultural producers in many countries from world price movements and international competition and discourage supply and demand adjustments. World supply consequently has grown faster than demand, pushing world prices down. As agricultural market prices decline, many countries depend still more on market-distorting agricultural policies to protect their farmers. These policies are costly to taxpayers and, often, to consumers.

Weak foreign markets, falling international commodity prices, and growing commodity surpluses in exporting countries have greatly strained agricultural sectors in several countries, including the United States. Competition among agricultural exporters has intensified. Disputes over the use of export

1/ Extracted from two publications: USDA, ERS, *Government Intervention in Agriculture: Measurement, Evaluation, and Implications for Trade Negotiations*, FAER-229, April 1987; and N. Ballenger (202 786-1666), J. Dunmore, and T. Lederer, "Trade Liberalization in World Farm Markets," ERS, AIB-516, May 1987.

subsidies, export credits, and import restrictions abound, and the potential for more intense trade confrontations seems always to be simmering. This widening potential for confrontation is currently threatening to further undermine the operation of world commodity markets.

Same Policies, Different Circumstances

In the early 1980's, growth in foreign production rebounded because of expanded investment in the agricultural sectors of many countries. In addition, a sharp drop in consumption growth accompanied a worldwide slowdown in economic growth. As agricultural trade grew more slowly and excess capacity in global agriculture grew more rapidly, nations tried to protect their farmers and, in some cases, their market shares by more intense government interference in the market process. But the magnitude and types of government intervention are not all new to the 1980's.

Increased insulation of agricultural markets from the world market—the breaking of the link between world price movements and domestic prices—has been underway for several decades. During the 1970's, protection under the EC's Common Agricultural Policy was extended to the United Kingdom, Ireland, and Denmark, further insulating the important European market from world market conditions. In addition, the centrally planned countries, particularly major state traders like the Soviet Union, whose domestic markets are thought to be highly insulated from the world market, were becoming larger players in selected world commodity markets. However, in the growth markets of the 1970's, these increased distortions went largely unnoticed.

Agricultural policies that were started or strengthened in many leading countries in the 1970's are putting additional pressure on falling commodity prices and declining overall world trade levels in the 1980's. These policies, and the trade practices employed to defend them, bring an added level of uncertainty and risk to a country's dependence on trade. Increasing confrontation over the use of protective agricultural policies, and the associated effect on market stability, could make many countries retreat from dependence

on international trade, reversing the trend toward greater trade during much of the postwar period.

No Free Traders

The extent and magnitude of government intervention in agriculture are difficult to assess, particularly when making comparisons across countries. Intervention stems from many policies that affect producers and consumers and includes such actions as explicit payments, implicit taxes, and budget outlays.

USDA's Economic Research Service (ERS) recently measured government intervention for 1982–84 using the notion of producer and consumer subsidy equivalents. The producer (or consumer) subsidy equivalent (PSE or CSE) is an estimate of the subsidy needed to compensate producers (or consumers) for the income likely to be lost if all government support programs were eliminated. For example, an ERS estimate of 58 percent for the Canadian dairy sector means that the Canadian Government's contribution to Canadian dairy producers' revenue is equivalent to 58 percent of the value of dairy production during 1982–84. On the other hand, India subsidizes its wheat consumers an equivalent of 15 percent of the value of total wheat consumption.

A key point in this comparison of government assistance levels is that there are no free traders in the world. All governments intervene in their agricultural sectors in some fashion. What varies is the extent of the intervention.

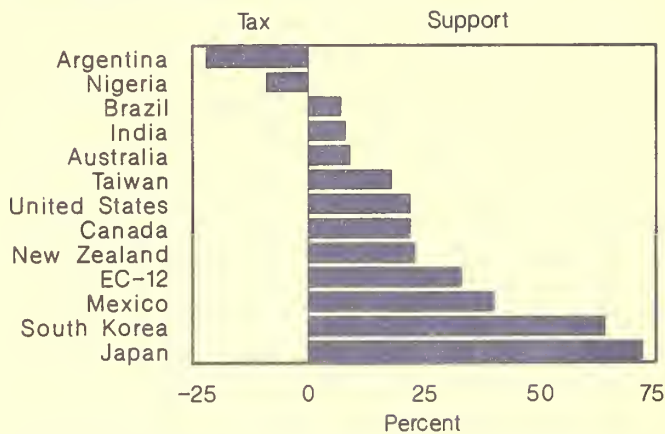
Producer Assistance by Country

Producer assistance levels were compared in several countries. For simplicity and to establish a rough basis for making cross-commodity and cross-country comparisons, the levels of assistance and taxation are summarized with the following ranges:

- o Low: 0–24 percent
- o Moderate: 25–49 percent
- o High: 50 percent or more

Among the developed countries, Australia provided the least assistance to its

Government Intervention in Agriculture, Selected Countries



Government's contribution to producer revenues, 1982-84. The number and type of commodities used to calculate producer subsidy equivalents varied by country.

agricultural sector, with its PSE generally at the bottom end of the low range (9 percent). The export-oriented countries of Canada, the United States, and New Zealand fall in the top end of the low range of producer assistance, with PSE's during 1982-84 at 22-23 percent.

U.S. assistance to producers of soybeans, pork, poultry, and beef is low, while that to producers of grains, dairy products, sugar, and cotton is moderate to high. U.S. producer assistance is usually in the form of direct cash payments or price supports, which result in Government inventory operations through USDA's Commodity Credit Corporation. U.S. protection for beef, dairy products, and sugar takes the form of import restrictions.

Assistance to farmers in the European Community (EC) is mostly in the moderate range. All EC countries apply border measures for nearly all agricultural products. Usually these are in the form of a variable import levy, or policies linked to border measures, such as public intervention buying at guaranteed producer prices that are often higher than world market prices. Soybeans are one of the few major commodities exempt from import restrictions; EC soybean producers receive deficiency payments, however.

Japan maintains the highest levels of Government assistance to producers. Japan also relies on border measures to provide the major component of producer assistance. For example, Japanese beef imports are severely restricted by quotas, tariffs, and surcharges that result in domestic beef prices more than double world prices.

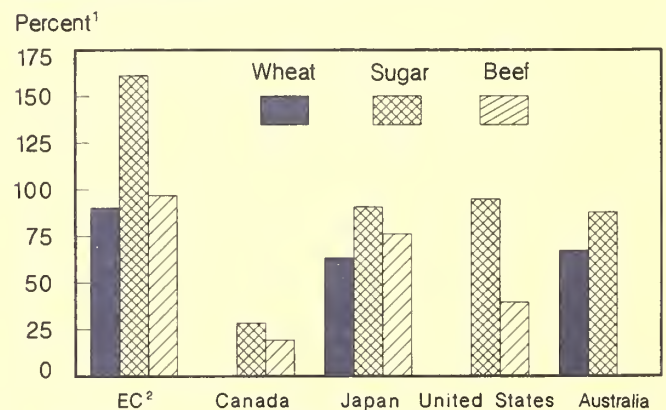
Some of the newly industrialized countries are providing government assistance to agricultural producers. South Korea and, to a lesser extent, Taiwan—both growth markets for U.S. farm products in the 1970's—use strong government intervention in several agricultural markets to protect producers. For example, South Korea supports producer prices for livestock products with strict border restrictions enforced by a state trading agency for beef and complete bans on pork and chicken imports.

Agricultural and economic policies in developing countries sometimes make it possible to transfer income away from producers, usually to generate government revenue, as with Argentina and Nigeria. However, some countries, such as Mexico, assist producers to increase self-sufficiency in staple foods and limit foreign exchange expenditures.

Who Pays for Government Assistance?

Budget outlays are incomplete measures of government support to agricultural sectors. Some policy instruments, such as import quotas or variable levies, permit producers to receive prices higher than world market prices. The cost of these policies, however, is borne by consumers who must pay higher-than-world-market prices. Yet this implicit tax on consumers and the corresponding support received by producers do not appear in the government budget.

Border Measures Vary by Country and Commodity



^{1/} Border measures as a percentage of producer support.

^{2/} For sugar, total PSE is smaller than part attributed to trade measures due to co-responsibility levies.

That, in fact, is one appeal of these types of policies: no direct taxpayer costs are associated with them.

Most of the cost of public assistance to agricultural producers in the EC and Japan is borne by consumers through higher food prices. Most of the budget contribution in the EC represents export refund payments necessary to move high-priced EC commodities onto world markets. Large Japanese budget outlays are used to reduce consumer rice costs. Deficiency payments are also paid to Japanese dairy and oilseed producers.

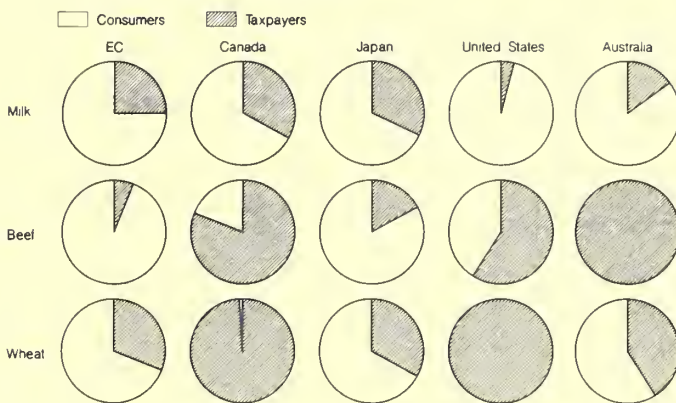
Grain consumers in both Canada and the United States bear virtually none of the cost of farm income support or stabilization policies. The largest portion of support to beef producers in Canada comes from taxpayer contributions. U.S. and Canadian dairy consumers, however, bear the cost of support to dairy producers through higher prices. Australian consumers pay for the high cost of dairy pricing policies but not the cost of supporting beef producers. Consumers in Australia paid nearly 60 percent of the cost of supporting wheat producers.

Consumer subsidies are generally highest in the developing countries. For example, Argentina implicitly subsidizes its consumers through policies that make domestic prices lower than export prices.

Talks on Domestic Policies

The diversity in forms of government assistance and the often relatively minor role of border measures in some countries greatly

Who Pays for Producer Support?¹



complicate efforts to arrive at mutually acceptable ways of liberalizing agricultural trade. For example, the European Community and Japan make heavy use of border measures as a basis for producer supports. However, the United States generally does not rely on border measures as a major source of assistance to its agricultural producers, except to producers of beef, dairy products, and sugar.

The relatively unimportant role of border measures in many countries means that trade liberalization cannot be based solely on modifications to countries' border policies. Importantly, therefore, the Uruguay Round, for the first time, recognizes that the full spectrum of agricultural policies are a legitimate subject of negotiation. These negotiations present an opportunity to better align not only border measures but domestic agricultural policies and world market conditions, creating conditions for future expansion of world agricultural trade.

UNITED STATES DEPARTMENT OF AGRICULTURE
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