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AGRICULTURAL TRADE OUTLOOK AND ISSUES

Ann Veneman
Deputy Under Secretary, International Affairs and Commodity Programs
U.S. Department of Agriculture

It is a tradition here that we release the first USDA export forecast for the new season at our annual Conference. Presenting this forecast must have been a great pleasure -- a privilege much coveted by speakers -- during the soaring 70's. The 1980's, as you know, haven't been nearly as kind to U.S. exports.

I wish I could say, on the opening day of this Conference, that we have saved the best news of the afternoon for last.

I am pleased to report that fiscal year 1989 ended with the highest U.S. agricultural export value since the record 1981 season -- nearly $40 billion worth of U.S. farm products going to other nations. I can tell you that since 1986, the low point for this decade, our export value has climbed an impressive 51 percent.

Export volume for 1989 was just under 148 million metric tons. This is about a half-million tons lower than the 1988 figure. Even so, we have seen our export tonnage recover rather dramatically over the last few years. Total volume of agricultural exports shipped in 1989 was up 38 million tons from the depressed level of 1986.

Our agricultural trade surplus (exports minus imports) topped $18 billion in 1989, the highest in 4 years and more than triple the surplus recorded back in 1986.

Fiscal 1990, the first year of the new decade, began on October 1. Our forecasters say we'll probably see a slight decline in export value this year, following 3 consecutive years of gains. Season-average prices for coarse grains and oilseeds will be down from the drought-inflated levels we experienced during the 1988/89 season. These lower prices will trim the value of U.S. agricultural exports.

Export volume may also be somewhat lower, held down mainly by a recovery in wheat production abroad and an overall reduction in world wheat trade.

In general, our bulk products will tend to dampen U.S. export earnings this year. By contrast, our high-value agricultural exports are expected to set still another record.

For the longer term, the decade before us seems to offer much promise. That promise, however, can only be realized if we, together with our trading partners, choose wisely. Here and abroad, we must choose policies that maximize the potential for economic growth and expanded trade. As the old Chinese proverb reminds us, opportunity may knock, but we have to answer the door, greet it, and make it feel welcome.

Outlook by Commodities

I will talk a little bit more about the choices and opportunities ahead. But, first, let me share some of the highlights of our 1990 export outlook at this early point in the season. I'll start with the major commodities.

In **coarse grains**, we have experienced growth of more than 13 percent in the total volume of world trade over the last 4 years. The new year is expected to bring another increase. World trade volume is forecast to rise around 5 percent. The United States may get close to half of that growth, perhaps about 2-1/2 million tons on top of the 61 million we exported in 1989. This would result in the largest U.S. export volume for coarse grains since 1981.

The Soviet Union is driving much of the trade growth. Soviet corn imports from all sources are projected to rise another 2 million tons this year, despite a larger Soviet crop. China is back in the corn import market, its position as a major corn exporter having diminished considerably since 1985/86.

South Korea will remain one of the strongest growth markets for coarse grains, corn particularly. Meanwhile, the European Community's (EC's) corn imports from suppliers outside the EC will continue to fall.

Healthy world demand notwithstanding, prices are likely to be down from last season's drought levels. Our forecasts call for a 49-percent increase in U.S. coarse grain production and a 1-percent increase in foreign production. At this point, it appears that lower prices will offset the higher export volume, resulting in a decline of up to 10 percent in the value for U.S. coarse grain exports.

Turning to **wheat**, world trade volume is likely to be steady to down slightly. With stagnant demand, U.S. wheat exports may drop about 4-3/4 million tons, as Canadian and Argentine exports rise. For the second straight year, the EC is expected to be our largest export competitor.

With the U.S. wheat crop up an estimated 13 percent and foreign output up 5 to 6 percent, we're looking at record world production. Among major markets, significant production increases are expected in India, China, and the USSR. Among competitors, sharp output increases are projected for Canada, Argentina, and the EC. Larger Soviet production is expected to result in total wheat imports of only 12 million tons, the lowest purchase volume since 1979/80.

A further drawdown in U.S. and world stocks during the current crop year will give some support to wheat prices in 1990. Nevertheless, lower U.S. sales volume is expected to trim the value of our wheat exports by around 14 percent from fiscal 1989's $6.3 billion.

For **oilseeds**, a very large Southern Hemisphere soybean crop is likely to limit exports of U.S. soybeans and soymeal. We'll see a recovery in the Argentine soybean crop after last year's drought and another good crop in Brazil. U.S. soybean exports may rise about 11 percent in volume, but South American producers will record a bigger increase.

U.S. soybean production is up about 25 percent, and foreign production is up a forecast 4 percent. The recovery in production and stocks will likely mean sharply lower prices compared with last season -- and the lower prices will bring down the value of U.S. soybean exports, even as sales volume expands. Overall, U.S. oilseed exports may decline more than a billion dollars from 1989's $6.8 billion, based on current prospects.

The outlook for **cotton** exports is very encouraging. Our November projections suggest that U.S. export volume may rise 10-15% in fiscal 1990, despite the much smaller U.S. harvest compared with last year. At the same time, foreign export volume will decline. As a result, the U.S. share of world cotton exports during the marketing year could jump to 31 percent, well above last season's 24-percent share. Prices will be held up by the tight global supply-demand balance, meaning a very sharp increase in U.S. export value in fiscal 1990.

However, competition will heighten considerably next spring, as Southern Hemisphere producers harvest larger cotton crops to take advantage of the strong market.

In the **high-value** category, U.S. livestock, dairy, and poultry exports are expected to match last year's record $6.6 billion. Increased beef exports to Japan take much of the credit. Likewise, horticultural product exports are projected at a record $4.4 billion, bolstered by larger sales of fruits, vegetables, tree nuts, and wine to the Pacific Rim nations.

Even with several successive records, the United States continues to lag well behind the European Community in exports of high-value and consumer-ready products. The United States accounts for a third of world trade in bulk agricultural products, but our share is less than 10 percent for consumer-ready foods and beverages.

Outlook for Major Markets

Let me say just a few words about our forecasts for major markets.

The **USSR** is the world's largest importer of grains. The U.S. share of total Soviet grain imports -- at 18 percent just 3 years ago -- was close to 60 percent in 1988/89. As bilateral relations have improved, the Soviets have turned to the United States for a larger proportion of their imports.

U.S. agricultural exports to the Soviet Union reached an all-time high in fiscal 1989 -- $3.3 billion. This made the USSR our second largest single-country market after Japan. In 1990, we may nearly match this sales level. A decline in the export value of U.S. grains and oilseeds will probably be balanced by record U.S. sales of meat and dairy products.

Large imports reflect the Soviet government's commitment, as part of its reform program, to meet consumer demands for improved food quality, variety, and availability. Grains are needed to sustain large livestock herds, so meat and dairy supplies can be increased. Although wheat imports will be down in 1990, the USSR is expected to account for 24 percent of total world coarse grain imports in 1990. U.S. corn exports will probably equal last year's record volume of 16.3 million tons.

Our current long-term grain agreement with the USSR was originally set to expire in 1988. Last year, both countries agreed to extend it for an additional 27 months, until the end of 1990. Bilateral talks aimed at a new long-term agreement for 1991-1995 are scheduled to begin next week in Moscow.

A few other country forecasts may interest you --

o After more than doubling in fiscal 1989, U.S. agricultural exports to **China** may decline to perhaps $1.2 billion -- still the second-largest U.S. sales figure to China in more than a decade.

o **Japan**, our largest market, is expected to hold fairly steady this year, with U.S. agricultural export value forecast at around $8.2 billion. U.S. beef exports, which rose nearly 60 percent in fiscal 1989, are expected to continue expanding in line with the terms of the beef-citrus agreement. U.S. pork and poultry exports are also likely to grow.

o U.S. exports to **South Korea** are projected to increase for the fourth straight year in 1990, perhaps reaching a record $2.5 billion. Beef is one of our fastest growing exports to this country, rising nearly 600 percent in 1989 as Korea began to open up its market to beef.

o Our exports to the **European Community** are likely to decline by a half-billion dollars this year. Some of that decline is the result of reduced opportunities for meat sales because of the EC hormone ban. This issue has not yet been resolved to our satisfaction.

o In the year that just ended, U.S. agricultural exports to **Eastern Europe** slumped to their lowest level in a decade--$422 million. We expect to see a moderate increase this year. Much of it will be in food assistance to Poland under P.L. 480 and other concessional programs. Commodities include corn, sorghum, rice, butter, soybean oil, pork bellies, and cotton.

Some of you may remember that U.S. agricultural exports to Eastern Europe exceeded $2 billion back in the early 1980's, when large amounts of credit were extended. Debt and lack of hard-currency earnings are now a barrier to trade, but the latent demand is still there.

Later this evening, I'll be boarding a flight to Poland as part of a government-private sector team led by Secretary Yeutter. Our mission is to provide the President with recommendations as to the most effective use of U.S. assistance to Poland, and to assist the Poles in developing their own economic restructuring program.

Looking Ahead to the 1990's

I said, at the beginning of this presentation, that the 1990's hold much promise for export growth.

We are witnessing dramatic reforms sweeping across the Soviet Union and Eastern Europe. In the less developed countries, rapid population growth should translate into growing demand for food, if their economies can improve.

In 1979, Asia replaced Western Europe as the leading regional market for U.S. agricultural products. Since then, the percentage of U.S. farm exports going to Asia has steadily increased -- from 32 percent in fiscal 1980 to 41 percent in 1989. Asia will continue to be a growth market -- especially for high-value, consumer-ready products -- as industrialization proceeds and income continues to rise.

However, we all learned a valuable lesson in the 1980's: We cannot assume that export growth is inevitable.

In my judgment, the greatest potential obstacle to expansion in agricultural trade is the protectionist policies pursued by governments around the world. I know the importance of trade reform under the GATT was covered in some detail this afternoon, and I won't get into this.

Let me just say that, not long ago, much of the world lived with barriers preventing the free flow of ideas, people, and commerce. We have seen walls being broken open, to one degree or another, in the Soviet Union, China, and now Eastern Europe. It would be a sad irony if the industrialized democracies were unable to dismantle the walls they have erected -- walls to the free flow of food and fiber products, based on comparative advantage.

For many developing countries, debt remains a major constraint on imports. They, too, need access to the markets of the industrialized nations, so they can increase their export earnings. The best strategy to increase the future potential for U.S. agricultural exports is to encourage and promote policies that foster rising incomes in the developing countries. These are the growth markets for farm products, the markets where diets are improving and will continue to improve as incomes increase.

Free and open markets, and assistance for economic and agricultural development, is a sound investment in the long-term growth of the foreign markets on which U.S. agriculture is so dependent.

From the U.S. perspective, I must say that all signs point to a very challenging trade environment in the 1990's. We took some major steps to re-establish our competitiveness with the 1985 farm bill, but we need to remain vigilant to ensure that U.S. agriculture can compete in the years ahead.

To sell at competitive prices, we have to keep our production costs down. Fertile soil and a generally favorable climate account for only part of our comparative advantage. Much more rests on the investments we have made in agricultural research and development over the past half century. These investments have given American agriculture one of the fastest productivity growth rates of any sector of the U.S. economy.

A nation that does not maintain its investment in research and science is gambling with its future and its competitive position. Modern U.S. agriculture is a high-tech industry, an industry that requires a constant infusion of new ideas and technologies to maintain its edge.

Conclusion

To briefly recap the export outlook for 1990, we are expecting U.S. agricultural exports this fiscal year to total around $38 billion, down about $1.7 billion from 1989. Export volume should remain close to the 1989 level -- within about 2 million tons.

Clearly, we haven't yet recovered to the 1980-81 peaks in export volume and value. On the other hand, we're starting the new decade in a far better position than we were in the mid-1980's, at the bottom of our export slump.

In short, export prospects are fraught with uncertainties as well as opportunities. As the bearer of this mixed message, I am reminded of an old *New Yorker* cartoon. A messenger had just delivered news from the battle front to the king. The king's guards were wondering whether they should drag the messenger outside and execute him.

"The news was neither good nor bad," said the King. "Just take him out and rough him up a little."

Thank you for treating this messenger more courteously.

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