

Political-Economic Realism — Agricultural products in World Trade

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"World Food Supply and Demand: How the Two can be Linked" is a phenomenon that defies precise thinking.

Both supply and demand (but particularly demand) are subject to political-economic decisions. This is the new dimension affecting demand which I wish to discuss today — political decisions having unpredictable economic impact.

U.S. officials decided in June of 1971 to no longer allow gold to move overseas for settlement of accounts at \$35.00 an ounce. Was this decision political? Or was it economic? I think it was a political-economic action.

The members of the Oil Producing Exporting Countries (OPEC) have increased the price of their petroleum for export about 300 per cent. This too, in my opinion, is a political-economic decision.

Government rulers in several countries decided a few years ago to "freeze" or not increase the price of food to consumers — even after world prices of products being imported to produce food items ballooned. I identify this action as also being political-economic.

How do these "new dimension" actions of governments relate to the activities of a company operating in a global grain market? I shall attempt to illustrate the importance of recognizing the forces at work in the world influencing supply-demand projections with emphasis on demand, the more mercurial of the two imponderables.

The involvement of the "private sector" in the export of grain, oilseeds, and their products from the United States is a relatively new development.

Following World War II and until 1948-49 during the Truman era, the U.S. government allocated and sold grain to our allies and engaged in food assistance programs with our World War II adversaries. In late 1948 the private trade was authorized to enter into export contracts with overseas buyers, to the extent buyers were prepared to deal with private sellers offering U.S. grain.

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Some of my experienced friends advise that the grain export capability of the United States in 1948 was about 12 to 15 million metric tons per year. The capability today is perhaps nearly 10 times what it was 30 years ago.

The significance of political decisions and the influence of such decisions on "real demand" for food within a nation were factors then and are even more critical now.

Let's analyze this history briefly:

When were the seeds for massive trade in farm products sown?

"In the 1940's — during and immediately following World War II." At that time the United States was called upon to supply huge amounts of food for starving Europeans and Japanese.

During and following the war, farming in the United States was changing rapidly. Commercialization was becoming commonplace. Specialization in the production of grains, livestock, and poultry was replacing the diversified operator.

A good example of specialization and mass production was the poultry industry, most importantly the broiler segment. Large production enterprises replaced hundreds of diversified farm flocks. Feed conversion rates were lowered. Disease control was greatly improved. Cost of "chicken" meat to consumers was reduced. Fried chicken became an everyday possibility to those who desired it.

Layer flocks also became fewer in number and highly efficient, replacing sideline diversified farming-type egg producers.

Specialization and production concentration in hog production has moved much more slowly in the United States for reasons well known to this audience. I mention this class of livestock because swine production constitutes a part of my story as I later discuss capital and financial requirements of our overseas customers.

Our cattle feedlot industry must be recognized as an extremely important development in the United States. An enterprise quite peculiar to our nation and the envy of many of our trading partners, it is this industry which has made possible a dependable cereal reserve for our overseas customers. The volume of grain and other concentrates utilized in cattle feedlot operations is highly influenced by price. Because of this, grains ordinarily utilized by feedlot operators become available for human consumption "at a price." Level of grain use by U.S. cattle feeders fluctuates year by year as determined by price and availability in relation to other feed ingredients. This industry has performed a great service in utilizing large amounts of grain in times of abundant supply and retrenching during periods of lower grain availability. I am afraid this fact is not well understood by nonagricultural groups. On the other hand, I find a growing number of overseas agricultural professionals do understand the economics of our grain utilization.

With this capsule review as backdrop I now wish to discuss agricultural production developments as they have changed in other countries — our trading partners.

Agricultural policy — and in turn, emphasis on food in Japan — has evolved

with great consideration for animal proteins and vegetable oils. That nation moved through an egg production expansion period into commercial swine production and then into a period of integrated broiler production. All three developments reflect rapidly expanded uses of concentrates for production of eggs, pork, and poultry meat. This development in Japan — perhaps more than any other — has been the linchpin of the huge trade between the United States and Japan.

As an aside, perhaps U.S. interests might have been more aggressive in capitalizing on consumer ferment in Japan. The move to a change in diet created a climate of openness which could well have been exploited by some U.S. makers of consumer products.

Many will say changing food requirements were automatic in Japan (and other countries). There is **truth** to this observation but do not underestimate the persuasiveness of U.S. agriculture as a catalyst in world food policy. In fact, some believe our trading partners should *not* be following U.S. agricultural production trends.

A number of thoughtful students are of the opinion that high levels of animal protein and vegetable oils in our diet are not desirable. And some criticize the U.S. fondness to overuse automobiles as being selfish and short-sighted. This is not the theme of this paper except to recognize the fact that "gas in our cars" is closely related to broilers, eggs, swine, and vegetable oils (which make food more tasty and nourishing).

Now to my central theme.

Supply-demand figures of the world grain situation are of great importance to government planners, processors, users, producers, and merchandisers in our country and trading partner nations.

Supply-demand figures therefore are subject to what I choose to call governmental or political-economic pressures and decisions. This is particularly true as regards real demand for food or raw material, such as grain to be utilized for the production of livestock and poultry within a country or countries.

To fulfill their needs foreign exchange availability is a prime requirement for importing countries. Trading companies must assess this matter with caution.

Globally there is also another — almost equally important — factor, not well understood and impossible at times to predict — namely governmental or political decisions, leading to political-economic judgments within nations.

For example: As late as six years ago, even after the United States had shut the gold window, some of our most noted international trade students expounded that demand for and volume of U.S. grain imports would be severely limited by foreign exchange earning capability on the part of some major nations, including developing countries. Because of decisions by those in power in countries such as the Soviet Union, several East European nations, and India to place higher priority on food for their people, foreign exchange earning capability became of lesser importance.

In the case of Eastern European countries and the Soviet Union, swine, laying hens, and broilers were becoming increasingly important in governmental-economic decisionmaking. In the case of India "cereals for survival" was receiving greater consideration by political leaders.

To further illustrate, let me share what appears to be a development in the use of credits from the West by Bloc countries and other nations. I hesitate to get deeply involved in this subject of finance and credits with so many money men in the audience. On the other hand I wish to refer to a current situation and analyze its meaning.

Case in point. The U.S. government has greatly expanded the use of Commodity Credit Corporation (CCC) export credits. This is generally known as the G.S.M. - 5 credit program. In recent years the volume of U.S. farm products financed under this authority did not exceed \$1 billion per year and in most years the volume was considerably below this figure. In this fiscal year the total authorization is \$1.7 billion. Credit under this program is extended for a maximum of three years at a nonconcessional rate of interest.

Congress, at the present time, is considering further expansion of the CCC export credit program. Many agricultural associations and organizations recommend up to 10-year credits be authorized.

In times past, government administrators have hesitated to expand this credit program because once the wheat, vegetable oil, or feed grains were exported and consumed within a recipient country the collateral was gone. Grain, being consumed within a relatively short space of time, does not lend itself to periods of financing which are peculiar to capital goods, and typical periods of private financing might be six months, or one year at the most. Elementary banking prudence would dictate that these terms not be exceeded by the private sector.

I now detect some change in the thinking of our own government officials. Perhaps, more importantly, I detect a change in the views of government policy-makers in recipient countries.

As CCC funds have become more readily available to finance U.S. agricultural exports, government officials in borrowing countries have come to look upon this program as simply another source of credit. I am not saying this is good or bad. The attitude only illustrates the increasing demand for "credits." It further shows the manner in which the development is related to the political decisionmaking process in determining priorities.

Should the further development of broilers, swine, and commercial layer flocks in some countries be high priority items? This question becomes a political-economic matter.

If Congress decides to authorize CCC to finance agricultural exports over three years, U.S. government agencies and policy makers will also become more deeply involved with the decision related to granting credits to specific countries. Of necessity our "money managers" will become more important in the deci-

sionmaking process, including specific commodities to be financed as well as with the question of the total U.S. credit package offered to recipient countries:

This prediction is not a criticism; it is only a judgment statement.

To relate the matter of export credit to our own business of grain export, the private trade is able to offer only limited financing terms.

The domestic grain industry requires enormous infusions of capital, to acquire and maintain elevators, rail cars, barges, and all the fixed assets required to move grain from interior points to U.S. or foreign ports, to condition the grain, etc. Further, huge sums of money must be invested in grain inventories.

There is but little financing which the exporter himself is able to provide to his buyers; consider, for example, that a single cargo of some 25,000 tons of soybeans is worth about \$7 million F.O.B. vessel U.S. port.

The extension of credit naturally involves some risk taking; yet, paradoxically, these risks are not compensated for by an increase in the sale price commensurate with the risk. This factor, combined with the narrow profit margins typical of our business, give but little encouragement to the trade to sell on credit, unless the risk can be shifted to someone else.

This means that the exporter is left to his own devices in the very cases where the job is most difficult. We have already said the exporter's own resources cannot generally be committed to this task. The exporter turns to banking institutions in order to obtain nonrecourse financing, that is to say, a transfer of risks from himself.

These risks are basically two-fold. The first one is, of course, that the obligation may not be paid at maturity; the second one, that the interest rate being charged to the buyer will prove insufficient over the term of the financing, to cover the seller's cost. Both of these risks may be covered with a bank, if one can be found willing to do so.

The number of cases in which private industry is called upon to arrange for credit terms is relatively small, and nonrecourse financing is seldom extended. If foreign buyers are unable to get financing, they will eventually commit hard currency reserves to what is an acquisition of essential commodities. Cash will somehow be found to prevent critical shortages of food and feed.

When the United States builds up large surpluses of grain, it is necessary for the private sector as well as our government to exercise all their ingenuity and to offer grain on terms which are required by buyers.

I did not discuss in detail the significance of the changing value of the dollar in relation to a few other major currencies nor to gold as compared to a few years ago.

For instance: do you remember when U.S. #2 hard red winter wheat at the Gulf was pegged at about \$60.00 per ton? This approximate selling price was maintained through government subsidies (which at times were zero). Do you realize that during the time of heavy wheat export selling nearly six years ago U.S. wheat at the pegged price was about equal in value to one ounce of gold. Today, a ton of the

same class of wheat is available for export at the Gulf for about three-fourths of an ounce of gold. Prior to June, 1971, one ton of wheat traded for about 1.65 ounces of gold.

What is the meaning?

World price of wheat is cheaper today in terms of the major products that some countries have to exchange for our wheat. While the dollar is still the key currency in the world there are other commodity-price relationships that have changed. Overriding these are economic-political policy considerations of governments responsible for the welfare of their people.

And perhaps of still greater significance the age-old and important matter of "rulers maintaining the power to govern."

I wish to conclude these remarks with a repeat of my opening comments.

Prices of items and products keep changing in the world. This trend will continue.

Some products are renewable each year or over a period of time. Others are not!

Expectations of people continue to become "real" for more "things" including the demand for more calories, more eggs, more meat, and more fats and oils. Political leaders, be they elected, self proclaimed, or otherwise elevated to power are keenly aware of this ferment.

This realism more than any other leads me to believe we are living through the last round of multilateral trade negotiations under GATT. Even today, in my opinion the present Tokyo Round would not be commenced as it was only four years ago. World political-economic forces are moving that rapidly.

This then is my contribution to a consideration of: "World Food Supply and Demand: How the Two Can be Linked."

Putting it concisely: "The world moves on."