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The Export Market for U. S. Wheat

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The United States has served as an important world source of wheat throughout the 1900's. During the first 31 years of this century, U.S. exports of wheat ranged from 100 to 250 million bushels during most years. They were even higher immediately after World War I. They fell off dramatically during the depression years and remained under 100 million bushels most of the period before and during World War II.

Heavy rehabilitation demands came into play immediately following World War II. Exports climbed rapidly to over 300 million bushels per year during the period 1946-52. Exports dropped rather sharply in 1952-53, but this was the low point of the last 30 years (Fig. 1). They fluctuated somewhat during the 1950's and 1960's, but were generally maintained at much higher levels than at any previous time in our history. They took another sharp jump in 1972 and, except for 1976-77, have remained at levels around 1.1 billion bushels since. Commercial exports (exports for dollars) increased dramatically in recent years. Government assisted exports have declined, both in absolute amounts and as a proportion of the total.

Factors Contributing to Export Growth

Several factors account for the sharply increased exports of wheat during the post-World War II period. (1) The world situation has changed dramatically during the post-World War II period. Population has grown steadily. Greater industrialization in many parts of the world has resulted in better incomes and a demand for improved diets. Wheat has shared in this growth in demand. (2) The U.S. Government has been heavily involved both from the standpoint of supply-management and of encouraging and assisting increased exports through various aid programs. (3) More recently we have seen changing policies on the part of many of the centrally planned economies to provide their citizens with more adequate food and higher protein diets. (4) Various wheat-growing states have promoted activities to expand the export market

for wheat and they have worked hand-in-hand with grower groups across state lines. These groups have been instrumental in a great deal of the expansion in wheat demand.

The World Situation

World population growth, estimated at about 2% per year for the period 1963 to 1978, has contributed to increased demand for wheat. Wheat consumption during that same period, however, rose at about a 3% annual rate. The more rapid rate of increase in wheat consumption can probably be explained, in part, by industrialization that has taken place in many parts of the world, especially in the lesser developed countries. With industrialization has come improved income. Normally better incomes lead to an upgrading of diets. A traditional pattern is to evolve from a rice diet to one that includes bread and on to poultry, then pork, and finally beef. Wheat demand has, therefore, grown as a result of the greater industrialization.

Many parts of the world have only begun to industrialize. This includes most of Africa, a substantial part of Asia, and much of South America and Central America. These are also the parts of the world where population is growing most rapidly. This suggests a vast potential for continued expansion of world wheat export markets. A key element in their development rests on devising policies that result in improved incomes so that these nations may generate the exchange needed to buy wheat.

U.S. Government Policies

Policies pursued by the U.S. Government have had an important impact on the growth of wheat exports. During the 1930's policies were directed to improving farm incomes primarily through supported prices. Price supports have continued to the present and are embodied in the "target price" concept of the 1977 Food and Agriculture Act. Participating farmers are thus assured that their income from wheat will not

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fall below a specified price. Mandatory, now voluntary, acreage restrictions have sought to limit production, but excess supplies have existed through most of the post-World War II period, except for a brief respite in 1966 and again in 1972-76.

Traditional American peace-time policy had been one of avoiding foreign entanglements. Exports to foreign countries tended to be somewhat discouraged, particularly where credits of one sort or another were involved. But a rather dramatic change in U.S. policy occurred after World War II. Lend-lease programs adopted during the War resulted in considerable wheat being exported to the so-called friendly nations, particularly in Western Europe, to aid the war-ravaged populations. Extensive exports were made immediately following the war in the form of rehabilitation grants to the European nations, and were continued under the Marshall plan. By 1952, however, many of these countries had staged rather dramatic recoveries. France, for one, was in a position to export wheat itself. The formation of the European Economic Community has, over time, also contributed to a greater degree of self-sufficiency among the Common Market countries in Europe. U.S. exports fell off dramatically and year-end supplies in the United States mounted substantially. U.S. producers had become tooled to the high production resulting from the

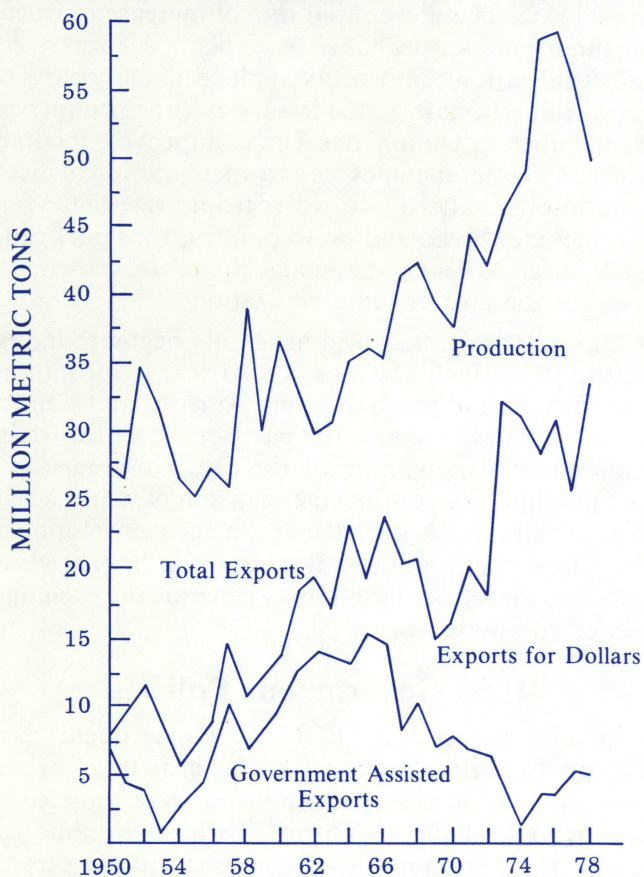


Fig. 1. U. S. wheat production and exports, 1950-1978.

Source: See Table 1.

significant exports of the post-World War II period. Carryovers climbed dramatically in 1953 and 1954.

Public Law 480. Various forms of economic assistance including the rehabilitation programs and the Marshall plan had proven quite successful in bringing the more developed countries of the world into the cash market. Many of the lesser developed countries (LDC's), though short on food supplies, did not have enough exports themselves to earn the dollars needed to import wheat from the United States. The success of the rehabilitation programs, combined with the humanitarian needs of lesser-developed countries, prompted Congress to enact the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) on July 10, 1954. Basically the Act sought to expand international trade, to develop and expand export markets for U.S. agricultural commodities, to combat hunger and malnutrition and to encourage economic development in LDC's through technical assistance, and to promote the foreign policy of the U.S.

Table 1. U.S. wheat production and exports, 1950-1978.

Year	Production ¹	Exports ²		
		Gov't programs	For dollars	Total
		(thousand metric tons)		
1950	27,741	6,989	1,255	8,244
1951	26,894	4,708	5,250	9,958
1952	35,554	4,335	8,592	12,927
1953	31,927	806	7,835	8,641
1954	26,777	2,735	3,162	5,898
1955	25,504	4,300	3,157	7,457
1956	27,363	6,492	2,920	9,412
1957	26,010	10,382	4,568	14,950
1958	39,664	6,940	4,044	10,984
1959	30,419	8,394	3,703	12,097
1960	36,869	10,284	3,604	13,888
1961	33,540	12,876	5,147	18,023
1962	29,719	13,741	5,841	19,582
1963	31,211	13,576	3,792	17,368
1964	34,928	13,442	9,675	23,117
1965	35,805	15,369	4,208	19,577
1966	35,699	14,725	8,900	23,625
1967	41,432	8,387	11,844	20,231
1968	42,898	10,754	10,036	20,790
1969	39,740	6,933	7,886	14,819
1970	37,291	7,629	8,892	16,521
1971	44,030	6,646	13,430	20,076
1972	42,047	6,469	10,735	17,204
1973	46,577	4,166	28,230	32,396
1974	48,885	1,746	29,512	31,258
1975	58,074	3,484	24,819	28,303
1976	58,307	3,584	28,103	31,687
1977	55,134	5,117	20,267	25,384
1978	49,010	4,791	28,835	33,627

(preliminary)

¹Sources: 1950-1962 calendar years, Ag. Statistics, USDA 1963-1978 calendar years, UN FAO Production Yearbook.

²Sources: 1950-1955 calendar years, Ag. Statistics, USDA 1956-1978 fiscal years, FATUS, USDA, ESCS.

Another example is the U.S.-U.S.S.R. Maritime Agreement. First signed in 1972 and extended for 6 years in 1975, the agreement provides for shipment in U.S. flag vessels of one third of the grain the U.S.S.R. plans to purchase each year. Maritime interests had argued for one-half when the agreement was renegotiated in 1975, but even with the continued one-third provision, the Soviets have found the arrangement a bitter pill. The agreement imposed a shipping rate floor of \$16 per ton on grain shipped in U.S. vessels (actually in 1977, 3,283,000 tons of grain were negotiated to move at \$16.47 per ton, and more recently the rate has been increased to around \$18). The Soviets have objected that this rate far exceeds rates they could obtain from third-flag carriers.

In addition to the \$16-per-ton floor rate imposed on the Soviets, American vessel operators received \$11.24 per ton operating differential subsidies in 1977 on the basis that higher wages, etc., cost them this much in excess of the \$16 to ship the grain. The implication is that American-flag carriers required over \$27 per ton, 2 to 3 times the competitive world freight rate, to cover their costs in 1977. From 1972 through September 1976, the U.S. Government paid to American companies carrying grain to Russia a total of \$103.4 million in operational differential subsidies in addition to the \$16-per-ton paid by the Soviets.

The Maritime Administration is currently studying legislative packages to increase the share of grain and other dry bulk commodities carried in U.S. flag vessels. If the U.S.-U.S.S.R. Maritime Agreement is the type of package that is eventually adopted for the total grain trade, the consequences for U.S. grain interests and taxpayers could be extremely serious. Thus, cargo preference potentially could become an even more contentious issue for the U.S. grain export sector than it has been in the past.

Activities by States in the U.S.

Several of the important wheat-growing states have enacted legislation during the post-World War II period to promote exports of wheat. This legislation has taken several different forms including participation with the FAS in foreign visits to prospective markets by important growers, grower groups, and industry representatives in the various states. They have also formed wheat commissions which are charged with responsibility for expanding the export markets for their wheat and wheat products along with other responsibilities.

Several of the states or state wheat commissions have sought improved transportation rates and promoted improvement of facilities for transporting their grain to the port outlets.

Wheat Industry Group Activities

Many of the state groups found that they simply did not have the resources nor the know-how necessary to proceed in export market development as individual state groups. Consequently several state groups have merged into three dominant organizations: Western Wheat Associates, Great Plains Wheat, and the National Association of Wheat Growers. These three organizations often find it advantageous to present a united front in promoting their programs and activities. These industry groups have worked closely with the Foreign Agricultural Service and other USDA agencies in promoting overseas export development.

Western Wheat Associates originally encompassed activities primarily from the three Pacific Northwest States, Washington, Oregon, and Idaho. They have since expanded into the hard wheat areas east of the Rockies. Their first thrust was to develop the Japanese market. Their market promotion and development activities continue to focus on the Asian market.

Great Plains Wheat, on the other hand, has been more active with the Plains States organizations and their principal thrust has been the European, African, and South American markets. Both Western Wheat Associates and Great Plains Wheat maintain offices in Washington, D.C. This enables them to keep in close contact with the Foreign Agricultural Service and the USDA and the coordinate programs.

The National Association of Wheat Growers plays an active role in foreign market development and activities to encourage exports of wheat. The association maintains close relations with the U.S. Congress and through these contacts encourages legislation to expand exports of wheat and wheat products. It also works closely with state grower groups to encourage production of quality products that will fit the needs and desires of present and prospective foreign customers. In addition, the association seeks to maintain or improve transportation service both in this country and on the ocean so wheat may be delivered to its destination reasonably and expeditiously. This entails work to avoid transportation hang-ups and to maintain rates that will assist in holding favorable prices for its farmer members.

Summary and Conclusions

The joint efforts of the government, grower groups, brokers, and other segments of the wheat industry have been successful in expanding the export market for wheat and wheat products over the post-World War II period. Wheat exports have nearly tripled. These efforts have been aided by changing circumstances in many of the overseas markets. Growing populations, greater industrialization, and better incomes have worked together to improve the consump-

directly to the U.S.S.R. In the late '60s and '70s, relaxation of political restraints on trade with the Soviet Union, Eastern Europe, and more recently the Peoples Republic of China has enabled the U.S. grain industry to directly pursue trade with these economies. The Russian wheat production shortfalls in 1972, 1974, and 1977 ushered that wheat export market into the limelight.

Commercial and political considerations of wheat trade with the centrally planned economies precludes discussing them separately. The inseparability of these considerations is due, in part, to the history of relations between the U.S. and communist nations. However, even if the legacy of the cold war era did not exist, it is almost inevitable that U.S. government involvement would be greater in trade dealings with communist nations than with the non-communist countries. This derives from the peculiarities of trading with centrally planned economies.

Communist countries typically handle imports through state-controlled enterprises and organizations. Foreign trade organizations (FTO's) are the operational entities most directly concerned with importing, but their decisions are influenced heavily by official decisions regarding trading priorities in higher organs of the policy and planning apparatus. These unique international trade institutions present a host of questions and problems relating to the potential monopsonistic power of a large state buying agency to exploit traders and the peculiarities of how decisions to import are made.

Priorities established in official 5-year plans, inflexibilities of a central plan, and problems resulting from inadequate foreign exchange reserves have greatly influenced the trading policies of the communist countries with noncommunist nations. Because of these considerations, the communist countries have strongly preferred bilateral trade agreements.

The centrally planned economies preference for bilateral trade agreements has posed a unique problem to our own approach to conducting trade, where private firms usually perform this function with minimal government intervention. Official State Department policy has been to shun arrangements that directly bring the U.S. government into commercial export transactions. Thus, the 1975 bilateral agreement with the Soviet Union and the understanding signed with Poland represented sharp departures from the past policy. Part of the motivation for the new policy appears to have been to ease consumer concern that domestic markets would be disrupted by unexpected large purchases by the communist countries. Producers, on the other hand, viewed the agreements as shackles on a rising export market.

Perhaps it is time now to consider the pros and cons of these arrangements in the context of the most

advantageous marketing strategy to trade with centrally planned economies. In recent times, wheat sales to communist countries have almost become an economic imperative to producers in the U.S. More than 20% of annual U.S. wheat exports went to these nations during the period 1973-77.

To date, trading with communist countries via formal bilateral agreements has been at best an ad hoc reaction. There are a number of fundamental questions that remain to be resolved. Are these agreements necessary if trade is to thrive between the U.S. and the communist countries over a continued period? Past experience indicates a definite tendency for the communist countries to select import sources that will sign such agreements. Trade agreements restrict opportunities to select the most favorable world markets in times of tight supplies. On the other hand, hesitancy on our part to sign such agreements might give Canada, Australia, and other exporters an opportunity to capitalize on the communist market at U.S. expense. Historically, Canada and Australia have apparently been more willing to negotiate such agreements than the U.S. The exporting country that is not included in such arrangements becomes merely a residual supplier except in years of short supply.

Cargo Preference and U.S. Wheat Exports

Except where legislation requires that U.S. grain exports must be carried in U.S. flag ships, grain moves primarily in tramp vessels registered under foreign flags of conveyance. U.S. flag vessels carry less than 2% of U.S. foreign trade shipments of dry bulk cargos including wheat. The reason is simple — U.S. flag vessels are not competitive in the world ocean freight market. Numerous efforts have been made to coerce grain shippers to use U.S. vessels in spite of this fact. National security arguments are raised in favor of requiring our shipments to go in U.S. registered vessels along with protecting U.S. maritime jobs and alleged balance of payment benefits. This leads to a sensitive issue for U.S. wheat export interests. If our wheat export shipments are coerced to move in uncompetitive U.S. vessels, the U.S. maritime sector's inability to compete in world markets is in effect transferred to the U.S. grain export sector, thus inhibiting that sector's competitive strength in world markets.

Cargo preference legislation requiring carriage in U.S. flagships already exists for some U.S. grain exports. At least 50% of concessional wheat sales and donations under P.L. 480 are required to be shipped in U.S. flag vessels. The impact has been transferred to the U.S. taxpayer by a provision under the Act for the CCC to reimburse the importer for the amount that the U.S. flag vessel requirement exceeds the freight bill for foreign flag vessels. This excess is commonly referred to as the "ocean freight differential."

P.L. 480 provides for: (1) concessional sales, (2) donations and disaster relief, and (3) barter. Briefly:

"Title I is by far the most important in terms of commodities exported under P.L. 480. Just over 70 percent of all commodities shipped have been under this title. This includes: (1) local currency (LC) sales, (2) long-term dollar credit (DC) sales to foreign governments and private trade entities, and (3) convertible local currency credit (CLCC) sales . . .

Under Title II, agricultural commodities can be donated to: (1) meet famine or other ordinary relief requirements, (2) combat malnutrition, especially in children, (3) promote economic and community development in friendly developing areas outside of the United States, and (4) for needy persons and non-profit school lunch and preschool feeding programs outside the United States . . .

Title III provides for the barter or exchange of CCC-owned agricultural commodities for: (1) strategic or other materials which are not produced by the United States in sufficient quantities to meet U.S. needs, (2) materials, goods, or equipment required in connection with foreign economic and military aid and assistance programs, and (3) materials or equipment required in substantial quantities for offshore construction programs. As much as is practicable, transactions under Title III are carried out through usual private trade channels."¹

The Act has been further modified over the years. It has served important humanitarian objectives and has helped some recipients become cash customers, as can be noted in Fig. 1.

A measure of the importance of the Act to U.S. wheat growers can be gained from the magnitude of shipments. From July 1954 through December 1969, 4.8 billion bushels of wheat worth \$8 billion had been shipped. This is from a total of \$18.2 billion expended for all commodities under the program for that period. Viewed in a different way, this represents nearly 4 years total U.S. wheat production at the rates of the 15-year period represented.

Foreign Agricultural Service (FAS) market development activities. Along with these various food aid programs, P.L. 480 authorized the use of foreign currencies received from these sales to "develop new markets for U.S. agricultural commodities." It did not say how these markets were to be developed, or by whom, so the Foreign Agricultural Service worked out the plans for cooperative effort by industry and government. The program for export market development involves two basic approaches. The first is by industry organizations on behalf of their own products with each group planning, organizing, and executing a campaign to promote its commodity to an overseas

customer. Second, the Foreign Agricultural Service sponsors, guides, shares in financing each group effort, and provides services and facilities to aid them in their promotion efforts through such activities as the trade fairs, trade center exhibits, and retail promotion campaigns.

The International Trade Fairs have served as a means of bringing mass exposure of American wheat food products to consumers as well as foreign food tradesmen who come to buy. They have served as a means for displaying, demonstrating, and sampling of wide varieties of wheat products and food for prospective foreign buyers.

Trade centers are also maintained in a variety of key areas. They operate on a year-around basis for special promotions and are open by invitation only to foreign food trade, that is, buyers, brokers, processors, and retailers. These trade centers are operated jointly with the U.S. Department of Commerce in London, Tokyo, and Milan. FAS provides a year-around staff in each center to handle farm product exhibits, organize retail promotions, and arrange special shows and seminars to get American sellers together with foreign buyers. U.S. food shows are also held from time to time at Trade Centers in Stockholm, Frankfurt, and Bangkok.

A third promotion tool in the market development program is called the Point of Purchase promotion. Here special sales events are sponsored by market development organizations in foreign retail stores. The Point of Purchase promotions serve as a means of getting wheat products into retail outlets for much broader mass exposure. They involved a 3-way partnership between the FAS, the U.S. food trade and commodity cooperators, and owners of retail stores.

FAS has served as an important liaison between U.S. exporters and the importing countries. The market profile studies in which they have aided have been very important in determining some of the marketing opportunities, trade restrictions that will be faced, an analysis of who's selling in those markets now, and the needs and buying habits of the people as well as their ability to buy.

Trade with Centrally Planned Economies

U.S. wheat exports to the centrally planned countries have presented unprecedented prospects and problems from both commercial and political points of view. In the first two decades following World War II, the communist trading area was virtually "off limits" to U.S. exporters. Nevertheless, the poor grain harvests in the Soviet Union in 1963 and 1965, which forced them into large imports, opened other markets for the United States. U.S. exports increased sharply in these two years, even though only limited amounts went

¹Goolsby, O.H., Krueger, G.R., and Santmyer, C., P.L. 480 Concessional Sales, USDA, Foreign Ag. Econ. Rep. No. 65, Sept. 1970, p. 4.

tion and demand for wheat and wheat products in most if not all of the foreign markets. Evidence suggests that these markets will continue to expand, and strong promotional and development efforts by the U.S. Wheat Industry can assure that this country will maintain its share of these foreign markets. At the same time we must recognize that there is competition for these markets and aggressive efforts must be continued if the United States is to maintain the share it has had.

To maintain or expand present markets, the U.S. wheat industry will have to offer assured supplies of high quality wheat at favorable prices. It will also have to continue educational efforts to inform prospective customers of the merits and uses of wheat and wheat products. Some of the greatest potential for wheat export market expansion may rest in encouraging and aiding economic development in the lesser developed countries.

Addendum

President Carter, on Jan. 4, 1980, declared an embargo on shipments of grains to the U.S.S.R. beyond the 8 million tons included in the 1975 bilateral agreement. Earlier in the marketing year the U.S. had agreed to sell up to a total of 25 million tons of wheat and corn to the Soviet Union. The embargo constituted part of the action taken by the administration in response to the U.S.S.R.'s December invasion of Afghanistan. It is still too early to determine the total impact of the embargo. Obviously, though, the U.S. has elected to honor the earlier bilateral agreement. The impact on possible negotiation of a new bilateral agreement (the present one expires in 1981) cannot be determined at this time.

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