

WORLD MARKETING of FEED GRAINS

INTERNATIONAL MARKETING is a complex subject, conditioned as it is by political and social factors as well as economic criteria. Present policymakers are attempting to balance international nonagricultural economic goals with domestic food needs, at the same time that cereal inventories are at low levels. This situation suggests the need for contingency planning, with a thorough evaluation of the risks in the management alternatives available in the U.S. and other countries. Each strategy has advantages and limitations in terms of administrative capability, flexibility, and cost.

Historically, our government has used production controls coupled with government or privately-owned storage capacity to manage surpluses. The experience of the Agricultural Stabilization and Conservation Service has proven that such programs are administratively feasible. The Canadian Wheat Marketing Board has operated production control programs by awarding wheat allotments to producers. A basic difference between the two programs has been that the government has borne the cost of storing in the U. S., while in Canada this cost has been borne by the producer.

These programs have been oriented toward price support rather than marketing management. Producers have demon-

strated the willingness to store surpluses in periods of low prices, but past experience indicates they would not be interested in bearing these costs, and instead would choose to sell during high price periods. A program of this type is less effective, therefore, when resources are being used at nearly full capacity. Conversely, public costs become high in periods of product surplus.

Export quotas

Most trading countries have import or export quotas in some form. Generally, emphasis has been on import quotas in order to protect domestic industries from outside competition. However, quotas can be used to delay marketings until stocks are rebuilt after harvest or until sufficient stocks for domestic needs are generated. Although quotas are relatively easy to administer, flexible and seemingly inexpensive, they have a history of becoming instruments of retaliatory protectionist policy.

Embargoes involve reneging on the obligation to deliver prior-contracted goods and services abroad. The United States used embargoes early in 1973 to curtail delivery of contracted soybeans and meal. International repercussions were severe, particularly in our relations with Japan. Since soybeans are a staple in the Japa-

nese diet, the embargo was viewed as a direct threat to the Japanese food supply. The embargo was replaced in a few days with quotas, but may have affected our credibility as spokesmen for free trade.

Embargoes, although obviously flexible, are viewed as blunt protectionist instruments. They are generally instituted only when large errors in estimated demand or supply occur, or when unusually severe weather may threaten the food supply. Since estimates of crops and potential marketings are now more generally available and more accurate than in the past, quotas can usually be instituted before resorting to embargoes.

Inventory management

Countries hampered by lack of foreign exchange or natural resources have little choice but to undergo a "belt tightening" procedure during periods of food shortages. Generally, livestock inventories are reduced, with some breeding livestock and livestock feed used for human consumption. Although this form of rationing is fairly common throughout the world, it has not happened recently in the United States. Americans are presently faced with world food competition and the effect of general inflation on the size of their food budget, but otherwise, cereal shortages have little meaning for the U.S. consumer.

Current drawdowns on reserve stocks suggest that one more year of poor weather and crops will bring about either drastic adjustments in the composition of the U.S. food supply, or even higher consumer prices for pork, poultry, and beef. A system of allocating grain production among food, feed, seed, and foreign uses has so far been unnecessary, because U.S. food production capacity has been sufficient to supply both local and foreign markets.

Contingency stocks

Contingency stocks could be accumulated during periods of surplus produc-

TOTAL FEED GRAINS SUPPLY—DISPOSITION
ESTIMATE, 1974-75

	1973-74	1974-75	
		low feed high exports	high feed low exports
—Million tons—			
Supply			
Stocks (beginning)	32.4	20.6	20.6
Production	205.0	169.3	169.3
Imports	.3	.3	.3
Total	237.7	190.2	190.2
Disappearance			
Feed	155.9	132.3	140.3
Food, seed, etc.	17.5	17.5	17.5
Exports	43.7	30.0	26.2
Total disappearance	217.1	180.1	184.0
Stocks (ending)	20.6	10.1	6.2

EXPECTED REDUCTIONS IN MARKETING
IN SIX SELECTED LIVESTOCK INDUSTRIES

Industry	Percent
Milk production	- 1.5
Fed cattle	- 5.0
Eggs produced	- 8.0
Broilers	-20.0
Turkeys	- 5.0
Pig crop	-10.0

EXPECTED REDUCTIONS IN FEED USE
IN SIX SELECTED LIVESTOCK INDUSTRIES

Industry	Percent
Milk production	- 1.5
Fed cattle	-16.9
Eggs produced	- 8.0
Broilers	-20.0
Turkeys	- 5.0
Pig crop	-10.0

MANAGEMENT

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tion, but these stocks would need to be purchased by some agency or group. We would need to establish minimum prices below which grain would be purchased, maximum prices above which grain would be sold, maximum and minimum levels of stocks to be maintained, and conditions of trade. A quasi-public agency other than CCC and USDA but similar to TVA or the Federal Land Bank has been suggested as an administering agency, and is a promising idea.

Costs involved in maintaining a reserve program are difficult to determine. Direct subsidies paid to growers in 1972 of about \$4 billion caused a great deal of public consternation. A Federal study, simulating maintenance of a stock level equal to 10 per cent of U.S. trend line grain production from 1950-69 indicates stocks would have grown to about 20 million tons and storage would have cost \$1.3 billion over the period.

It is argued that contingency stock plans are oriented toward users rather than producers. In the sense that a contingency stock plan would eliminate violent market swings, the statement is probably correct. In reality, most producers favor upward swings in prices, but look for government aid when profits disappear or real income diminishes. Specula-

tion has increased land costs considerably. By adding this factor to production costs, it becomes apparent that farm product prices, considered high by recent standards, might result in economic hardship at the farm level. In view of this, individual farmers can be victimized by the price-cost squeeze if farm prices should tumble. Stock acquisitions at lower prices could bolster farm incomes in periods of overproduction.

U. S. problems

Current carryover of feed grains stocks are at minimum levels of about 20 million tons. Compulsory inventory allocations are unlikely, yet current forecasts indicate that domestic livestock use and foreign use will have to be reduced from last year by about 15 to 20% and 30 to 40%, respectively. If exports are not trimmed 30 to 40%, domestic livestock use will need to be reduced even more. Producers' plans indicate some reduction in livestock marketings for 1975, which would lead to a probable 15% reduction in feed use, a necessary but not sufficient carryover into the 1975-76 marketing year. In addition, exports must be contained to a level of about 30 million tons in order to insure minimum feed grain stocks to start the next year.

The current outlook for feed supplies is not encouraging, for several reasons. First, the Nixon administration bet heavily on a record national corn crop

to greatly augment the low carryover from last year and to build up current inventories. But drought, early frost, and the energy shortage have greatly dampened those optimistic forecasts.

Second, actual versus anticipated 1974-75 exports even now are difficult to determine. Grain companies are required to report prospective exports. However, these may not accurately reflect actual deliveries, because of reselling or cancellation. While higher cereal prices would certainly inhibit exports, no one really seems to know by how much. Advance bookings remain relatively high.

Third, even though two-thirds of the U.S. oil requirements are produced internally, the high cost of imported oil has forced even more reliance on dollar agricultural exports to offset dollar outflow.

Fourth, and closely related to the previous argument, has been the general advocacy of free trade by U.S. policymakers. Weakening the free trade mechanism through export quotas would damage this traditional position. Liberalizing trade with the USSR in particular has until recently been inhibited by a rider attached to the Trade Reform Act, a bill designed to give the administration more flexibility in eliminating tariff and non-tariff barriers to trade.

Fifth, the administration has established a restrictive system by monitoring exports, a process designed to limit large sales, but still relatively new and untested. It remains to be seen whether this program will be viewed by U.S. customers as another protectionist ploy.

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