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**Japan Still the Top Customer
For U.S. Farm Products**

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PERSPECTIVES

U.S. agricultural exports are forecast to reach \$41 billion in fiscal 1992 (October 1991-September 1992). Although the fiscal 1992 export value is forecast to rebound from the \$37.5 billion of last year, it's only moderately higher than the \$40.1 billion of 2 years ago, reports economist Stephen MacDonald of USDA's Economic Research Service.

"The outlook has improved recently for U.S. exports of soybeans, coarse grains, livestock products, and horticultural products," he observes. "Wheat, soybeans and soy products, and horticultural products are expected to account for nearly all of the forecast \$3.5 billion increase over fiscal 1991."

MacDonald explains that exports of bulk products, such as raw grains and oilseeds, are rebounding from fiscal 1991 levels, and that high value product (HVP) exports, usually defined as all commodities other than bulk products, are continuing to grow. "Export value gains are split fairly evenly between the two categories," he notes.

U.S. wheat exports to the republics of the former Soviet Union are on the rise. Soybean exports are increasing because supplies in Brazil and Argentina, two major producers, are relatively low.

During the first half of fiscal 1992, export value reached a near-record \$22.5 billion for the period. "October-March exports exceeded year-earlier levels by \$2.5 billion," says MacDonald.

October-March wheat exports, which climbed about \$900 million, rose the most compared with 1991 figures. Soybean exports rose \$690 million, and horticultural exports rose \$500 million. On the other hand, exports of corn and cotton fell.

Agricultural imports are expected to hit a record \$23 billion this year, up \$400 million from fiscal 1991. "Imports have been picking up as U.S. economic growth resumes," MacDonald explains.

Agricultural imports for the first half of fiscal 1992 reached their highest total ever—\$11.9 billion, up \$460 million from the same period a year earlier.

The U.S. agricultural trade surplus for the first half of fiscal 1992 stood at \$10.7 billion, \$2 billion higher than a year earlier but only slightly higher than the \$10.3 billion of 1990.

But with exports rising substantially more than imports, MacDonald reports, the U.S. agricultural trade surplus is expected to widen more than \$3 billion in fiscal 1992 to \$18 billion.

— Priscilla B. Glynn

FARMLINE

AGRICULTURE. NATURAL RESOURCES. RURAL DEVELOPMENT
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FEATURES

Japan Still the Top Customer for U.S. Farm Products *Doug Martinez* **4**

Farm trade from the United States to Japan constitutes the largest flow of agricultural products between any two nations. Despite recent tensions surrounding agricultural trade issues, the Japanese market is of great importance to U.S. farmers, and the outlook for its further liberalization is promising.

U.S. Beef Exports Climbing Steadily *Carol Lee Morgan* **8**

Since 1990, U.S. beef exports have jumped 18 percent, and are expected to surge 14 percent this year. Shipments to some key markets have been expanding, and Japan will likely import more U.S. beef in 1992.

CAP Reform Could Mean Big Changes in U.S.-EC Trade *Carol Lee Morgan* **12**

The European Community (EC) recently adopted major reforms to its Common Agricultural Policy (CAP), paving the way for cuts in agricultural subsidies. These reforms could have significant impacts on U.S.-EC farm trade, and may reflect the extent to which the EC is willing to compromise in multi-lateral agricultural negotiations.

Sugar Industry Confronts Changing Global Market *Jack Harrison* **15**

Political and economic transitions occurring in former Soviet bloc nations are causing considerable upheaval in the world sugar market, particularly for Cuba's sugar-dependent economy. Trade negotiations could lead to reductions in sugar price supports and increase the exposure of consumers and producers around the world to supply and demand movements.



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This is your handy guide to summer and fall release dates for situation and outlook reports of the Economic Research Service, crop and livestock reports of the National Agricultural Statistics Service, and supply and demand estimates of the World Agricultural Outlook Board.

Japan Still the Top Customer For U.S. Farm Products

U.S.-Japanese farm trade represents the largest flow of agricultural products between any two nations in the world.

That's sometimes easy to forget in the face of the often testy trade relationship between the two nations.

But despite some difficult issues (in agriculture and other sectors), "the importance of Japan to American farmers has been a fact for many years," says economist William Coyle of USDA's Economic Research Service.

"Agriculture is also one area of trade in which the United States runs a consistent surplus with Japan, helping to offset deficits in other sectors," Coyle notes.

For the 1992 fiscal year, he says, USDA estimates that Japan will buy \$8 billion worth of U.S. agricultural exports. This compares with a projected \$6.9 billion for the 12 nations of the European Community, \$4.7 billion for Canada, \$3 billion for Mex-

"Millions of Japanese depend on us every day for part of their diet."

ico, and \$2 billion for the former Soviet republics.

"In fact, one-fifth of all our agricultural exports go to Japan, and Japan is a leading market for many U.S. commodities—taking 51 percent of citrus exports, 29 percent of feed grain exports, and 34 percent of meat exports in 1991," says Coyle.

Moreover, about one-fifth of Japan's food supply comes from the United States.

"Ours is an important, complementary relationship," says Coyle. "We're talking about food, sustenance, and the fact that 125

million Japanese depend on us every day for a part of their diet."

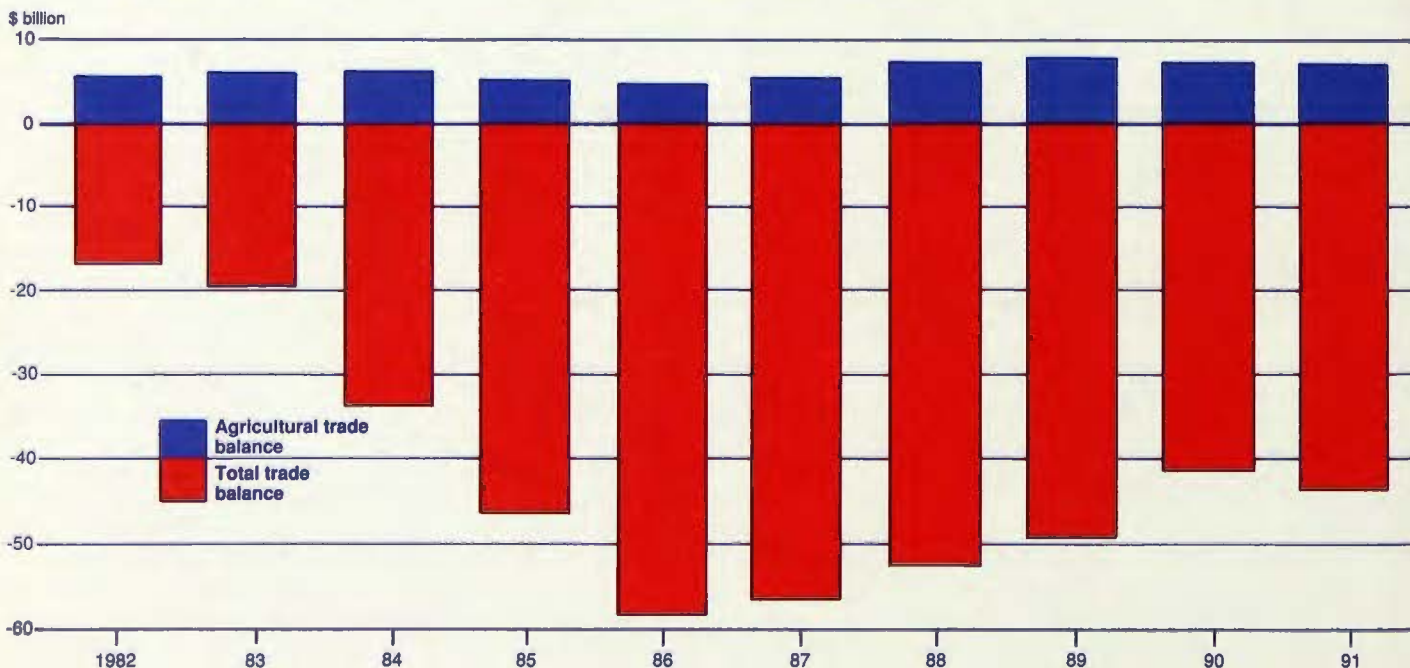
Said another way, the average Japanese relies on U.S. farmers for about 500 calories of the 2,600 calories in his or her daily diet.

"This trade has arisen because of our comparative advantage in agriculture," says Coyle. "The United States exports those goods which make intensive use of its abundant resources—and arable land is such a resource."

Of course, he adds, there is an important historical dimension to our agricultural trade relationship that is sometimes overlooked.

Right after World War II, the loss of Japan's colonial empire, plus the forced repatriation of Japanese nationals formerly living abroad, created large food shortages: Per capita food consumption averaged 1,700

The U.S. Trade Deficit With Japan Is Partly Offset By U.S. Agricultural Exports



calories from 1946 to 1950 and dropped as low as 1,448 calories in 1946.

The United States helped with sizable shipments of food aid, and also had an important role through the Occupation Administration in promoting land reform (Japanese officials of the nation's Ministry of Agriculture and Fisheries had drafted a land redistribution measure in the early years of the war). Reforms carried out from 1946 to 1950 led to large transfers of land from absentee owners to producers and the emergence of an agriculture dominated by the small owner-operated farms that predominate today (the average farm is 2.5 acres).

"These reforms enfranchised landless farmers in the interests of assuring political stability in rural areas and also led to a rise in agricultural productivity in the 1950's which helped improve Japan's food supply situation," says Coyle. "The irony now is that the small owner-operated farm structure that the United States helped promote more than 40 years ago is the root cause of Japan's agricultural inefficiency and the main reason for its protectionist policies."

Today, according to the Organization for Economic Cooperation and Development (an international group that monitors global economic issues), the Japanese agricultural sector is one of the most heavily protected in the world. Not surprisingly, many U.S. farmers (and other foreign producers) maintain that this protectionism limits export opportunities in the Japanese market.

Some of the specific problems in U.S. agricultural trade with Japan include access to Japan's rice market, the reform of certain policies that limit U.S. grain sales to Japan, and food safety and animal and plant health regulations that are considered too strict by exporters.

Japan protects its rice producers by banning imports and supporting producer prices at a level five to six times the world price. American rice industry groups filed two "section 301 cases" under the Trade Act of 1974—one in 1986 and another in 1988—with the U.S. Government against

Japan, calling for the lifting of Japan's ban on rice imports. (Under the 1974 Trade Act, such petitions seek redress for action taken by a foreign country that is "unjustifiable, unreasonable, or discriminatory," and burdens or restricts U.S. commerce.)

Both cases were rejected by the U.S. Government on grounds that Japan's rice ban should be discussed at meetings of the General Agreement on Tariffs and Trade (GATT), an international organization that governs most global trade. (GATT Article 11, one of 38 articles that make up the GATT "treaty" among member nations, does not provide for exceptions that eliminate foreign competition—only ones that limit foreign competition.)

The Dunkel Proposal

Currently, a proposal drafted by Arthur Dunkel, Director-General of the GATT, would require that Japan import 300,000 tons of rice in 1994 and expand that to 500,000 tons by 1999. In addition, Japan would have to replace its ban on rice imports with a tariff of about 500 percent that would be reduced by at least 15 percent over a 6-year period.

"U.S. rice interests feel strongly that they could sell in a liberalized Japanese market," says Coyle. "According to studies done in and outside of USDA, no controls at all on the Japanese rice market eventually could lead to an increase in Japanese rice imports of 4 to 5 million tons."

This would be worth \$1 to \$2 billion overall each year, with a goodly share going to California rice growers who produce japonica rice, a variety popular with Japanese consumers.

"Japan has resisted lifting its ban on rice on food security grounds, since rice is a staple in the Japanese diet," says Coyle. "The Japanese say they are also acting to protect their rural communities because rice production is a mainstay of Japanese agriculture."

Certainly, says Coyle, the United States needs to respect Japan's concern for food security—a concern rooted in the suffering

and privation that the Japanese people experienced during and immediately after World War II.

"We overlooked Japanese concerns in 1973 when we embargoed shipments of soybeans for about a week and restricted exports for a longer period," says Coyle. "While Japan imported a record volume of soybeans in 1973, the incident had an enduring psychological effect on Japan—as have instances where food has been used as a tool of foreign diplomacy."

Since then the United States has tried to ensure that such a supply disruption will never happen again. The two countries signed a supply/purchase agreement (the Butz-Abe agreement of 1976-78) for grains and oilseeds, initiated bilateral consultations on agriculture (the Carter and Ohira communiqué of 1979), and announced a long-term policy on farm exports in 1982. This policy provides for no restrictions on the exportation of farm products in the case of rising domestic prices and a commitment not to use an embargo of agricultural products as an instrument of foreign policy except in extreme situations and as part of a broader embargo.

Japanese politicians, on the other hand, have used legitimate public concern about food security to galvanize support for protectionist agricultural policies, Coyle says.

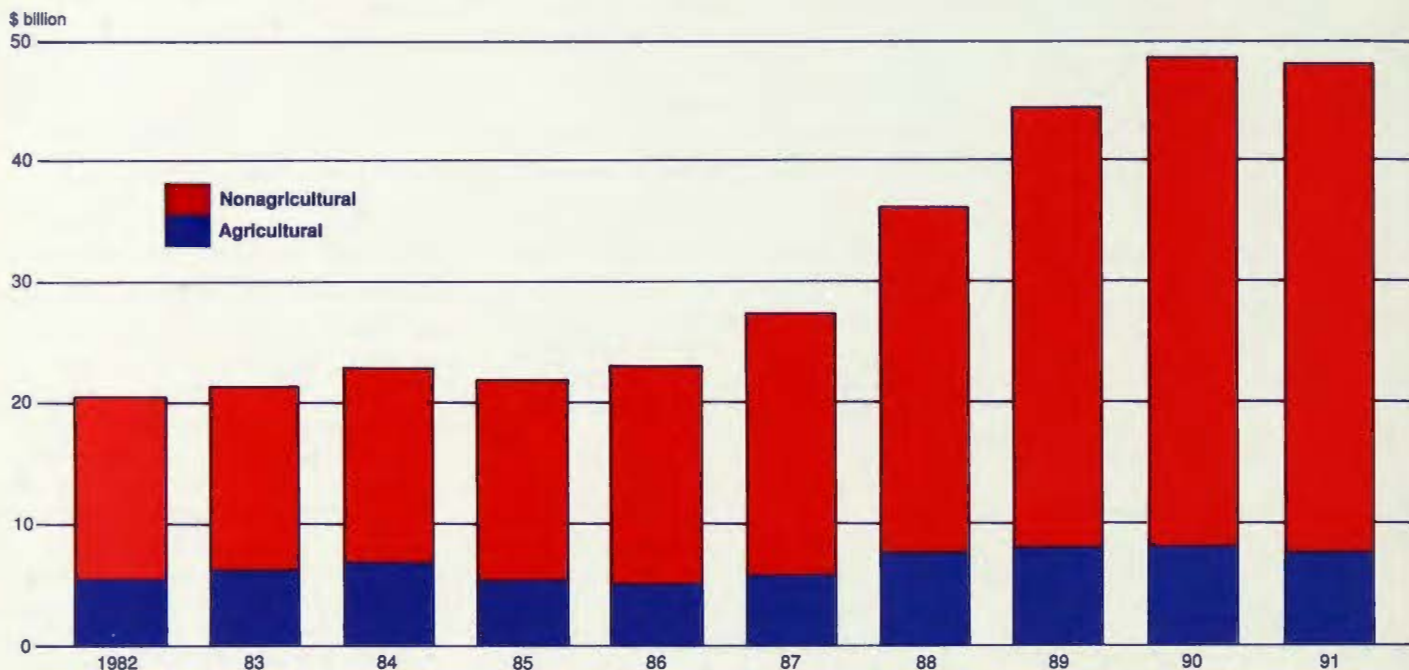
"This is a tactic which may serve farmers and those who serve them, but not necessarily the broader public in providing low-cost food security," he says. "And there are flaws in the argument that rice self-sufficiency equals food security."

A More Varied Diet

For one thing, he says, it puts too much emphasis on rice, which is much less important in the Japanese diet than it was 30 years ago. It represents just over one-fourth of per capita caloric intake today, compared with about 50 percent in 1960: The average Japanese diet has become much more diversified.

The argument about self-sufficiency also overemphasizes production. Can rice self-

U.S. Exports to Japan Have Generally Risen Since 1982



sufficiency really provide true food security for Japan?

"In the unlikely event that Japan were cut off from trade and put all available land into rice production, it could not produce enough total calories to sustain human activity," says Coyle. "And if imported inputs were unavailable, that production would be even less. The fact is that trade—not domestic production—is the key to Japanese food security."

Protecting Japanese rice producers on food security grounds, he says, has negative consequences for other segments of Japan's population by taking away land (and water resources) from more financially rewarding economic activities.

In addition to the food security rationale, protecting Japan's rice market is defended as a way of preserving rural communities: High rice prices help keep resources and people in agriculture.

"But this notion is misleading also," Coyle says. "Most producers of rice and other commodities in Japan are part-time farmers who derive most of their household income—85 percent—from off-farm employment."

The stability of rural Japanese communities is no longer tied to rice prices the way it once was, he says. Instead, rural industrialization and the availability of nonfarm employment sustain rural communities.

"It is a myth that elimination of agricultural price supports for rice and other farm activities would lead to massive social and economic dislocation in rural Japan," says Coyle. "Many farm households could adjust to the loss of the farm component of their income. They could not, however, adjust to the loss of the nonfarm component."

"It is in Japan's interest to advocate global liberalization of agricultural trade, and to invest in agricultural development in the Third World and elsewhere to expand the world's food-producing capacity," he adds.

Feed Sector Issue

The feed sector issue is a complicated one involving regulations, high Japanese feed prices, and constraints on Japanese livestock producers, who are major buyers of U.S. grain.

"This issue is very different from rice," says Coyle. "While Japan imposes a near ban on rice, it is the world's leading importer of feed grain."

So what's the problem? According to the U.S. Feed Grains Council—an organization that promotes U.S. grain exports—future growth in the Japanese market is threatened by a web of regulations that raises feed prices, hurts Japanese livestock producers' ability to compete with meat imports, and limits their use of feed.

The Japanese policies that are being criticized include:

- mill licensing which has led to a feed industry dominated by the farm cooperative organization Zennoh,

- restrictions on direct on-farm feeding of corn,
- a 15-percent tariff on imported mixed feed,
- monopoly control of feed barley imports by the Food Agency, and
- a tariff quota on industrial corn with a prohibitively high tariff on imports that exceed the quota.

"The official justification for many of these restrictions is to prevent the illegal flow of imported corn into Japan's starch industry," says Coyle. "The Government is trying to protect a few Japanese potato and sweet potato producers by ensuring that their higher priced products are used in starch production."

While the U.S. Feed Grains Council has been concerned about the lack of growth in Japan's feed grain imports over the past 5 years, Japanese meat imports have risen sharply due to market-opening measures in the 1980's—among them the Beef and Citrus Understanding of 1988, which allowed for greatly expanded Japanese imports between 1989 and 1991, and tariff reductions for poultry meat and other livestock products.

"The United States has done quite well in expanding meat exports, capturing 44 percent of Japan's beef imports, 85 percent of its beef offal imports, and 33 percent of its poultry meat imports," says Coyle. "From a different perspective, while we are having problems expanding the grain sales, we are succeeding in exporting meats, or 'processed grain.'"

Coyle adds that Japan might well consider the benefits that could accrue to its livestock industry from removal of some of the impediments that increase producers' feed costs. "Such a course could help sustain the livestock industry over the long run, in the face of increasing competition from imported meat and poultry," he says. "The United States would like to expand its sales of both grains and meat to Japan, but let the market—not government intervention—de-

cide what the appropriate balance between the two should be."

Food Safety

A third major issue in agricultural trade involves restrictive food safety regulations.

"The Japanese are very concerned about food safety—as all consumers should be," says Coyle. "But their regulations on food additives and chemical residues, as well as on phytosanitary requirements, make access difficult for some processed products and fresh produce."

Then, too, negative campaigns about the safety of imported foods periodically surface in Japan, posing a potential threat to U.S. exports.

"For example, in 1988 the leading Japanese farm organization, Zenchu, produced and distributed a video about imported agricultural products that featured pictures of such things as spoiled lemons," Coyle says. "Yet despite Japan's expressed concern about additives and other food safety issues, Japanese agriculture is far more chemically intensive than ours." According to the United Nations' Food and Agriculture Organization, fertilizer use per acre in Japan is about five times that of the United States, and pesticide use is seven times as high.

The responsibility on both sides, he says, is to ensure that legitimate concerns about food safety and sanitary matters be dealt with on a scientific basis and remain outside of the political arena. This is the objective of the U.S.-Japan Food Safety Subcommittee which meets regularly throughout the year. The subcommittee is an official bilateral group, and is composed of government officials and scientists from both nations.

These problems shouldn't affect the overall agricultural trade relationship, Coyle says.

"What we must not overlook is the profound and vital trade link in farm products between our two nations," he says. "This relationship will continue because it is mutually beneficial."

Coyle also says the focus over the next 10 years should shift from the irritants in the trade relationship to the changes in the Japanese economy and market.

"Economic growth in Japan will have an important influence on the Japanese diet and the growth in consumption of livestock products," he says. "The United States will continue to supply Japan's growing demand—either for feedstuffs to support local livestock production or the finished livestock products themselves."

The outlook for the further opening of Japan's agricultural market continues to be promising.

"Policy reform in Japan will result more from internal forces than external pressure," Coyle says. Changes in agricultural policy, for example, will be nudged along by the emergence of an equity issue regarding the heavy Government subsidies that go to farmers and not to city dwellers. "City dwellers must cope with cramped living conditions and a more frenetic lifestyle and will increasingly ask why farm households should continue to get Government subsidies when average farm household income surpassed urban household income some time ago," he explains.

The part-time farming phenomenon will reduce the political cost of agricultural reform, Coyle says, by assuring that producers and rural areas will have an "income buffer" allowing them to adjust more easily to farm sector changes. And the food security argument used to justify protection of Japan's rice sector will resonate less among the Japanese as the number of people who can remember the food shortages of the 1940's declines.

"Finally, there is the matter of environmental constraints in Japan," Coyle says. "High population density and animal inventories are putting a great deal of stress on the land base, and raise the question of how much Japan can continue to expand livestock production." ■

Based primarily on information provided by economist William Coyle, Agriculture and Trade Analysis Division, Economic Research Service.

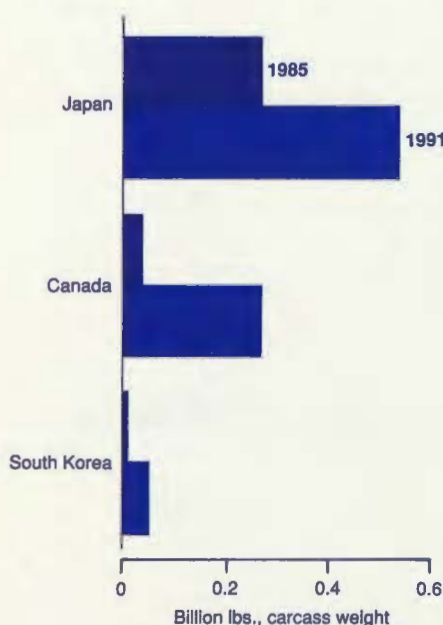
U.S. Beef Exports Climbing Steadily

In 1989, the United States soared to third place as a world beef exporter, trailing only the European Community and Australia, according to economist Linda Bailey of USDA's Economic Research Service. Only a year earlier, the United States enjoyed a more typical rank—sixth among world exporters.

The recent surge in beef exports is part of a trend, Bailey says. Since 1990, U.S. beef exports have risen 18 percent.

Over the past few years, U.S. beef and veal exports to South Korea, Mexico, and Canada have been expanding. "For the next year or so, the United States should remain a net exporter to these countries," Bailey notes. She anticipates a 14-percent rise in beef exports this year.

U.S. Beef and Veal Exports to Japan, Canada, and South Korea Have Soared



Exports to South Korea, Mexico, and Canada have been expanding.

Meanwhile, Japan remains the largest U.S. market for beef, and over the long term its imports will rise, Bailey says.

Reasons for Increased Exports

In 1991, U.S. beef and veal exports to South Korea soared 53 percent above those of 1990. The export gain can be attributed to the fact that South Korea increased its minimum beef import quota from 86,000 to 160,000 metric tons (carcass weight) in the middle of the year.

In late 1991, South Korea again slightly increased its import quota and announced it would import some of its 1992 quota early. The minimum for 1992 is set at 185,000 metric tons.

Bailey emphasizes that since beef prices in South Korea have been high, the government has stepped up imports to control inflation. Under the terms of the U.S.-Korean Beef Agreement of April 1990, South Korea will eliminate beef restrictions before July 1997.

U.S. beef and veal exports to Mexico have climbed also, as the number of cattle were reduced (in 1988-89) and Mexican beef packing plants were restructured (from 1990 to the present). "New slaughter facilities are being built near the major cattle producing areas," Bailey explains.

"The closure of Mexico City's main slaughterhouse at the end of the year has been delayed," she continues. "If it does close, it will be used only for distribution and cold storage."

This relocation will lower transportation costs by locating slaughterhouses closer to production centers. In the meantime, imports from the United States have been increasing. In 1992, they will again rise as

Mexico's economy grows and producers there rebuild cattle herds to boost supplies.

Beyond 1992, however, Bailey anticipates slower growth in U.S. beef exports to Mexico as that country's own output rises.

U.S. exports to Canada rose rapidly because of demand from the foodservice industry in the eastern part of the country. Canadian beef production declined in 1991 from the year before, but is forecast to increase slightly in 1992.

However, as the country adopts meat import inspection procedures similar to those used in the United States—as well as a new grading system—trade could fall off. Trucks from the United States would have to go to specific locations across the Canadian border for meat inspection, which could cause delays and increase prices.

U.S. beef exports to Japan fell in 1991, but are anticipated to increase this year. On April 1, 1992, the 70-percent beef tariff dropped to 60 percent. Also, stocks of frozen beef that were depressing the Japanese market for most of 1991 are being used. Japan's beef production declined in 1989 and 1990, but rose in 1991 and is expected to keep on rising for 1992, mainly for Wagyu beef.

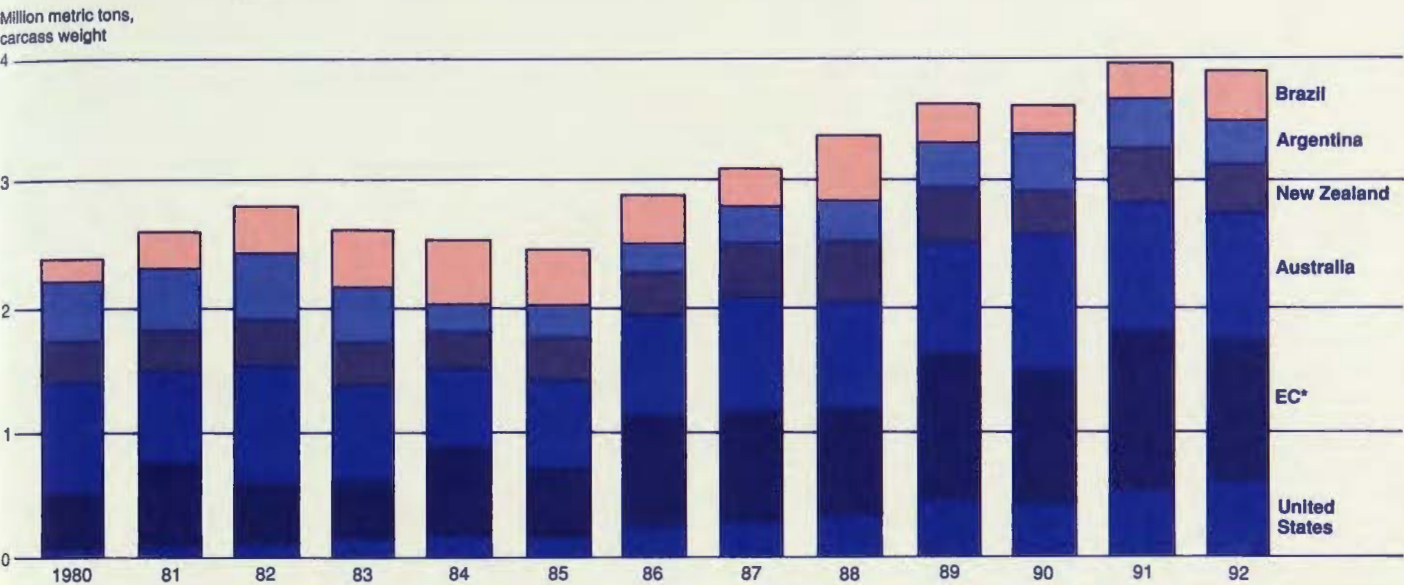
Wagyu is a breed that produces well-marbled beef that is firmer than usual and highly prized by Japanese consumers. In general, U.S. beef competes with the middle grades of beef in Japan, primarily from Holstein dairy breeds, says Bailey. Japanese beef comes from both Wagyu and Holstein dairy breeds.

Japan a Long-Term Customer

Despite the growth of beef exports to South Korea, Mexico, and Canada, Bailey notes that Japan remains the United States' most important customer.

In 1988, the United States shipped more than 227,000 metric tons, carcass weight, of high-quality beef to Japan, or more than 74 percent of the volume of beef and veal exported from the United States in that year. "The total grew to 242,000 metric tons

The United States Has Gradually Become a Leading Beef and Veal Exporter



*Excludes intra-EC trade.
1991 data preliminary, 1992 forecast.
Source: Foreign Agricultural Service, USDA.

in 1991, although it represented only 45 percent of exports," Bailey says.

The Japanese have been investing in beef production in both the United States and in Australia. Grain-fed beef from the United States fills a demand that Australian grass-fed beef does not. Japan's importance as an importer should continue to grow.

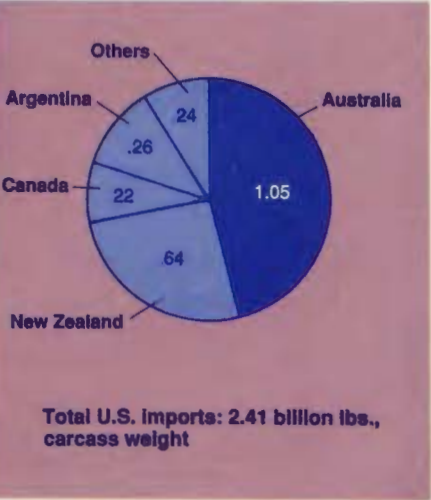
The Australians have the advantage of a longer shelf life of their chilled beef—100 days, compared with 60 days for U.S. beef. They are also closer to Japan. But Australian beef is not as well-marbled as that from the United States.

"There are small numbers of feedlots in Australia producing mainly for the Japanese market, but there is not much demand for grain-fed beef in Australia," Bailey says. U.S. producers can sell selected cuts to the Japanese and dispose of the rest on the domestic market.

"Analysts are unsure about which country's trade with Japan will grow faster," says Bailey. ■

Based primarily on information provided by economist Linda Bailey, Commodity Economics Division, Economic Research Service.

In 1991, the United States Imported More Beef and Veal From Australia Than from Any Other Country



1992 Reports Calendar

July-December

Titles of Situation-Outlook and other periodic reports issued by the Economic Research Service are printed in red. Summaries of reports are released at 3 p.m. ET on the dates shown. Copies of complete reports are due off press about a week later.

The World Agricultural Demand Estimates reports, the World Agricultural Demand Estimates are also shown in red. They are issued in their entirety on the indicated dates.

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20 U.S. Agricultural Trade Update	21 Dairy Catfish	22 Rice Yearbook Cold Storage	23 Oil Crops Yearbook Eggs, Chickens, & Turkeys Mink	24 Livestock & Poultry Update Cattle Cattle on Feed Livestock Slaughter
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19 Agricultural Outlook U.S. Agricultural Trade Update	20	21 Rice Catfish	22 Dairy	23 Oil Crops Livestock & Poultry Update Cattle on Feed Cold Storage Eggs, Chickens, & Turkeys Livestock Slaughter
26 Cotton Ginnings	27	28 Catfish Production	29 Peanut Stocks & Processing	30 Agricultural Prices Rice Stocks

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23 Cotton & Wool U.S. Agricultural Trade Update Catfish Eggs, Chickens, & Turkeys	24 Feed	25 Cotton Ginnings
30 Agricultural Prices Peanut Stocks & Processing		

¹The Agricultural Resources report focuses on Cropland, Water, & Conservation September 3, and Inputs October 15.

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DAY	THURSDAY	FRIDAY
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	26	27 Food Review

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CAP Reform Could Mean Big Changes in U.S.-EC Trade

Prompted by a budget crisis, large commodity surpluses, inadequate distribution of income, and environmental damage, the European Community (EC) has begun reforming its agricultural policy.

"Changes in the internal farm policy of the EC could significantly affect trade," says economist Mary Lisa Madell of USDA's Economic Research Service (ERS). A few years ago, the EC and the United States were each other's largest agricultural trading partners. Today, Japan ranks as the largest export market for U.S. farm products.

In fiscal 1990, U.S. agricultural exports to the EC totaled \$6.9 billion; EC agricultural exports to the United States were \$4.4 billion.

In value, oilseeds rank highest among U.S. agricultural exports to the EC; wine and beer top the list of agricultural imports from the EC to the United States.

Major Reforms

In May 1992, the EC adopted some major reforms to its Common Agricultural Policy (CAP), based on proposals recommended by Ray MacSharry, Agriculture Commissioner of the European Commission, the EC's executive body. The Commission envisions phasing in the reforms over several years.

CAP reform could lower EC production of commodities that compete with U.S. exports.

EC farm ministers agreed to overhaul EC farm policy, paving the way for cuts in agricultural subsidies. The new policy would cut by about one-third the price EC farmers are guaranteed for cereal grains.

Small producers will be exempt from set-asides, but large ones will receive at least partial compensation payments for land they set aside. "For example, larger farmers will be compensated for cereal grains losses, providing they limit output by retiring 15 percent of their land from cereals production," Madell says.

Madell notes that some of MacSharry's original CAP reform proposals were modified, and others were not adopted. "For example, the butter price was reduced by only 5 percent, and there was no cut in the skim milk powder price," she says.

No modifications to existing CAP provisions for olive oil, sugar, fruits and vegetables, or wine were proposed or adopted.

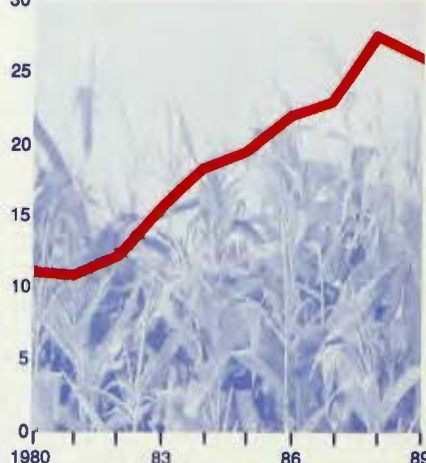
The CAP reform provisions also include curtailing use of pesticides and other chemical inputs, and otherwise protecting the environment. Early retirement for farmers would be encouraged, according to Madell, to promote consolidation of small farms and improvement of agricultural structures.

In effect since 1967, the CAP recognizes agriculture as a key element in the 12-country Community's social structure and its overall economy. The CAP sets support prices, import levies, and export subsidies. "One of the CAP's most important objectives is to ensure a fair standard of living for people in agriculture—in other words, to make farm income more comparable with nonfarm income," Madell explains.

The mechanisms of the CAP strongly encouraged investment in agriculture, leading in turn to greater productivity. At the same time, high EC prices slowed consumption in many countries as food prices rose for consumers.

EC Spending for Common Agricultural Policy Programs Has Soared

Billion ECU's*



*The ECU, or European Currency Unit, is a weighted average of all EC currencies (except those of Spain and Portugal). Common farm prices, subsidies, and import levies are established in ECU's.

F. Stanley Glynn



Harvesting grain in northern France

EC 1992: The Road to Economic Reform

Another force for change in Europe is EC 1992, the EC's plan to eliminate impediments to the free movement of goods, people, capital, and services among the member countries. It is scheduled to go into effect on January 1, 1993.

Basically, EC 1992 is designed to reduce trade barriers among its members and sharpen the EC's competitive edge. While the initiative is not directed at the CAP per se or internal trade, it may affect trade both within and outside the EC.

The agreement harmonizes trade product standards, removes internal barriers to trade, harmonizes barriers to external trade, and may establish a single currency, the European Currency Unit, by the end of the decade.

Under the plan, rules to promote plant and animal health and food safety would be standardized across all EC countries. The net effect is intended to be a reduction in the significance of nationality and regionality in internal EC trade.

ERS economist David Kelch notes advantages and disadvantages for

U.S. agriculture with respect to EC 1992. Import restrictions, for example, could be extended from 2 or 3 EC countries to all 12. Also, the United States now may no longer be able to distinguish products by country of origin within the EC, since all products may bear the EC label.

On the other hand, U.S. processed food exporters to the EC may find their job easier because they will have to satisfy one EC standard, rather than one for each member state.

Kelch also foresees that the farm lobby supporting the CAP will lose strength. "Many other groups will be in Brussels to influence the European Commission, the EC's executive body," he explains. "Agriculture will no longer be the number-one focus of the Commission's work, but will have to compete for attention with such issues as foreign policy."

More than a third of the 282 directives for EC 1992 will affect barriers in the food and drink trade. Many national laws governing the production, consumption, and trade of food and agricultural products must also conform to new EC-wide laws. Other EC directives for transportation,

financial services, and harmonization of value-added and excise taxes will also affect the EC's processed food and agriculture sectors.

The creation of a European Economic Area between the EC and the European Free Trade Association (EFTA) countries is designed to extend EC 1992 legislation to EFTA. (The EFTA nations are Austria, Finland, Iceland, Liechtenstein, Norway, Sweden, and Switzerland.)

The area would not substantially affect U.S. agricultural trade, Kelch says, but it is considered a large step toward EC membership for some countries. A number of EFTA countries, including Austria, Switzerland, Sweden, and Finland, have applied or are preparing applications for EC membership.

Kelch expects that both EC producers and consumers will see lower prices, which he attributes to the loss of power of the farm lobby and to lower per-unit costs that result from marketing larger volumes. Income will grow, which should lead to higher food consumption and lower net exports. U.S. bulk commodities, such as grains, should gain a larger share of world markets.

The EC became self-sufficient in grains and meat, changing from a net importer to one of the world's largest net exporters of those commodities. "But with this achievement came a high price," says Madell.

Production grew faster than consumption for most commodities, and surpluses were created.

Under the CAP, severe problems in several European countries resulted from pesticides and livestock effluent leaching into

ground and surface water, according to economist James A. Tobey, also of ERS.

Possible Effects of the Reforms

Madell notes that one major result of CAP reform could be the EC producing reduced amounts of commodities (such as grains) that compete with U.S. goods on international markets.

With the adoption of CAP reform, EC stocks and exports are expected to decline in line with lower production and higher consump-

tion. "The EC will retain its position as a major agricultural exporter for some grains and meat, but at a somewhat reduced level," Madell says.

The reforms depart radically from the past in that farmers, previously supported by high prices, are now supposed to receive direct government payments. In other words, Madell says, the burden in the EC will shift from the consumers to all taxpayers. "EC consumers are used to high prices and don't see how much support is provided to farmers," Madell adds. "Direct pay-

ments from tax revenues reveal the extent of support to farmers."

Certain aspects of the reforms, such as set-asides and deficiency payments, resemble U.S. mechanisms. However, the import levies and export subsidies have been retained and will continue to insulate producers and consumers from world price movements.

"Consumers in the EC will benefit the most from the reforms because of lower prices,"

The European Community

The EC, also known as the Common Market, was formed by the Treaty of Rome in 1957 in an attempt to unify the economies of various countries. It began with six members—Belgium, France, Italy, Luxembourg, the Netherlands, and the former West Germany.

Its membership expanded to include Denmark, Ireland, and the United Kingdom in 1973, Greece in 1981, and Portugal and Spain in 1986. The former East Germany was allowed to join upon its reunification with the former West Germany in 1990.

says Madell. Consequently, demand is expected to rise moderately. But the sharp cut in cereal prices will make EC grains more competitive with oilseeds and nongrain feeds, and therefore reduce demand for some imported feeds. Lower feed costs will also help reduce the costs of livestock production and food prices.

Now that reforms have been adopted, the Commission expects spending to total \$44.67 billion by 1997, a saving of \$6.21 billion. (Without the reforms, spending would total \$50.88 billion.)

GATT Negotiations Continue

Madell points out that for the first time, agriculture has become the "most central" issue of the Uruguay Round of negotiations being conducted under the auspices of General Agreement on Tariffs and Trade (GATT), the international organization that oversees world trade. The Uruguay Round has been under way since 1986.

The EC has been under widespread international pressure from other agricultural exporters to lower supports to its farmers. "Fundamental changes in the CAP could have far-reaching effects in the Uruguay Round," says Madell. "Its recent CAP re-

form could be an indication of how far it is willing to go in GATT negotiations."

Throughout the Uruguay Round, delegates from such key countries as the United States and the EC have been meeting in Geneva to negotiate commitments on reductions of internal support, import protection, and export subsidies.

The Round was originally scheduled to conclude in December 1990. But no agreement was reached in the agriculture talks by that deadline, due in part to the EC's reluctance to negotiate separately on export subsidies. However, the parties did agree to continue the negotiations.

On December 20, 1991, GATT Director-General Arthur Dunkel released a draft final agreement covering all of the negotiating areas of the Uruguay Round, including agriculture. This document is the focus of the current negotiations of the Round.

The Trade Negotiations Committee, composed of representatives from all of the participating countries, met in Geneva on January 13, 1992, to report their general reactions to the draft agreement. While many countries, including the United States, voiced concerns over specific provisions, comments were generally positive.

However, refusal by some countries—including those of the EC—to accept the Dunkel text without significant modifications remains a major obstacle to reaching an agreement.

Madell emphasizes that in recent years the U.S. agricultural trade surplus with the EC has been declining. A decade ago, the United States enjoyed a trade surplus 73 percent higher than the \$2.4 billion of 1990. "The EC used to be our biggest market," Madell says. "A successful outcome in the GATT negotiations could reverse the recent trend in our trade with the EC." ■

Based primarily on information provided by economist Mary Lisa Madell, Agriculture and Trade Analysis Division, Economic Research Service.

Courtesy European
Community Delegation



Dairy farm in Belgium

Sugar Industry Confronts Changing Global Market



Once again, historically volatile world sugar market is facing great uncertainties.

The main factor? Political and economic upheavals in the former Soviet Union, Cuba, and the Central and Eastern European countries (CEE's), according to economist Ron Lord of USDA's Economic Research Service.

Cuba had been supplying 3 to 4 million metric tons of sugar annually to the former Soviet Union and another 1 million tons to the CEE's. In return, Cuba received subsidized inputs and guaranteed high prices for its sugar. But that arrangement has ended, and the new government entities in the former Soviet Union are strapped for cash and will be hard pressed to buy large quantities of sugar.

Without Soviet assistance, the Cuban sugar industry is facing shortages of petroleum, fertilizer, and spare parts.

This year's Cuban sugar crop is forecast at 6.0 million tons, down sharply from the 7.8-million-ton average of the previous 2 years. Lord says the reduction is due to reduced supplies of fuel oil, a 2-month delay in starting the harvest, and a fall-off in yields that reflects the lack of fertilizers and fuel.

Emerging market economies in former Soviet bloc nations are having significant impacts on world sugar trade.

Because former markets are not able to take the amounts of sugar purchased in recent years, much of Cuba's sugar may be traded at world market prices—currently 8 to 10 cents a pound.

Cuba's sugar exports to Eastern Europe fell from 1.2 million metric tons in 1989 to 68,000 metric tons in 1991. This trade had been dictated more by political than economic imperatives, Lord says. Poland, Hungary, and the Czech and Slovak Federal Republic (CSFR) have all ceased importing sugar from Cuba.

A Highly Protected Commodity

Governments throughout the world have traditionally protected their national sugar industries. However, current developments could alter the levels of intervention.

"Sugar is politically a key commodity, in which many countries have long tried to ensure self-sufficiency," Lord says.

Poland, Hungary, and the CSFR have declared their intentions to move their economic systems toward private control of resources, but have also been implementing policies that continue a significant degree of government control over sugar prices, Lord says.

In the CEE's, a number of factors can influence the goal of creating market economies, Lord says. Other industries also face fierce competition, especially from overseas, so sugar producers may not succeed in justifying unique treatment. Severe budget constraints have reduced the producer support options available to governments. However, consumers could be forced to pay for producer support through higher prices, if quantities are restricted.

The former centrally planned economies have been moving toward political freedom and economic openness. But if they adopt the Western model for sugar policies, which involves restricted supplies and higher consumer prices, production efficiency and incentives would rise and consumption would likely be depressed, the economist says.

U.S. Sugar Production on an Upward Trend

In the United States, both production and consumption of sugar have increased over the past 6 years, after previous decreases.

Fiscal 1992 production is forecast at 7.2 million tons (raw value), up 4.1 percent from the previous year. The increase will be limited by lower-than-expected yields of sugar per ton of beets and cane, says ERS economist Ron Lord. Weather problems also affected the three previous crops.

U.S. beet sugar production for 1992 is forecast at 3.75 million tons, down 3 percent from the previous year. Cane sugar production this year is expected to total 3.5 million tons, up about 390,000 tons from a year earlier. Louisiana accounts for nearly all of that rise, after a freeze-damaged crop the previous year.

Beet sugar provides about 43 percent of U.S. sugar consumption, up from about 30 percent in 1981. The four leading sugarbeet States (Minnesota, California, North Dakota, and Idaho) have accounted for about 70 percent of production in recent years. Florida,

Hawaii, Louisiana, and Texas grow sugarcane.

After a low of 7.8 million tons in 1986, U.S. sugar consumption rose by about 1 million tons over the next 5 years—an annual average increase of 2.5 percent. In the past 2 years, the rate of increase in sugar consumption has exceeded that of high fructose corn syrup (HFCS).

Fiscal 1992 sugar consumption is forecast to rise 0.9 percent, a rate slightly below that of the past few years, to 8.85 million tons. HFCS use is expected to total 6.3 million tons, up about 1.6 percent from the previous year. Imported sugar will account for about 1.5 million tons of U.S. consumption this year.

Annual per capita sugar consumption has increased in the past 5 years from about 60 to 65 pounds, Lord says. Factors that could affect the future trend of per capita consumption include dietary practices (such as the popularity of sweet vs. salty snacks), the public image of sugar compared with other such basic foods as fats and oils, and development of

price-competitive substitute sweeteners.

Deliveries of refined sugar for domestic consumption peaked in 1977 at 10.4 million tons and then declined for a decade as HFCS displaced sugar in liquid industrial uses,

primarily for beverages. Then sugar consumption began rising again.

U.S. sugar imports for consumption fell from 5 million tons in 1979-81 to about 1 million tons in 1988. Weather-related production shortfalls and rising consumption have kept sugar import quotas at higher levels since then. Import quotas have been in force since May 1982 to keep prices at the U.S. sugar program's required levels.

In 1990, U.S. farm cash receipts totaled \$1.16 billion for sugarbeets and \$860 million for sugarcane, putting these commodities among the top dozen or so field crops. U.S. sales of processed sugar totaled about \$4.4 billion in 1987. The value of corn-based and low-calorie sweeteners, with which sugar competes, exceeded \$2.5 billion that year.

U.S. ending stocks of sugar next September 30 are forecast at 1.4 million tons, down about 100,000 tons from a year earlier. That would put the stocks-to-use ratio at 15.5 percent, compared with the previous year's 16 percent.

U.S. raw sugar prices averaged 21.57 cents a pound in calendar 1991, down from 23.26 cents the year before.

The number of U.S. sugarcane mills declined in the 1980's, but daily grinding capacity increased. Sugarbeet factories also declined in number, but capacity per factory rose more than 16 percent during the decade. The factories also became more efficient, increasing the percentage of sugar extracted from the beets.



Sugarbeets are a major source of U.S. production

Sugar Market Intervention Has a Long History

U.S. Government intervention in the sugar market has a 200-year history, though the reasons for intervention have changed.

The Government sugar program exists in the context of a world sugar market that has historically displayed unusual price volatility and long periods of low prices.

In the colonial period of U.S. history and into the 19th century, tariffs on sugar were imposed as a revenue-raising measure. Near the end of the century, the rationale for sugar tariffs shifted from revenue generation to protection of a domestic industry.

Sugarcane has been cultivated in the United States since the Louisiana Purchase of 1803. Sugarbeet production and processing began in the late 19th century.

Forty years of comprehensive regulation of production, imports, and prices under the U.S. Sugar Act ended in 1974. Since then, support programs have been put into operation whenever the world price has been deemed low enough to threaten the viability of the domestic sugar industry, according to ERS economist Ron Lord.

Over the past 18 years, U.S. Government support has been in effect each year except in 1975-76 and 1980-81, when world prices reached cyclical highs.

High world sugar prices in 1974 helped to make high fructose corn syrup (HFCS) more competitive in the U.S. market. Rapid investment in the sugar industry then occurred in many

countries, usually at government-protected prices. The European Community expanded production to the extent that it became the world's second-largest sugar exporter.

In the 1980's, the U.S. and world sugar markets changed significantly due to the advent of substitute sweeteners, new technologies, and revised Government policies. Production expanded worldwide in the early 1980's, resulting in historic lows for real prices in 1985.

While increases in supply contributed to the low prices, another major factor was the sharp decline in U.S. imports, caused largely by greater use of HFCS.

Under the 1990 Farm Act, the U.S. price is supported through nonrecourse loans at not less than 18 cents a pound for raw cane sugar. (The sugarbeet loan rate is usually about 3 cents above the sugarcane level.)

To keep U.S. prices up, USDA estimates domestic demand for sugar and then limits imports with a tariff-rate quota. Although no limit is placed on domestic production, standby marketing allotments could limit it in the future. The 1990 Farm Act introduced a new statutory minimum import level of 1.25 million tons. However, the quota can be altered to accommodate changing conditions, such as unusual weather. There is a nominal duty on imports within the low-duty quota, and a prohibitive duty of 16 cents per pound on additional imports.



HFCS and other sweeteners have replaced sugar in many products

Allocation of the quota to individual countries is generally based on their share of the U.S. market during 1975-81, when imports were relatively unrestricted. Nearly 40 countries have quotas.

Federal law stipulates that the sugar program be operated at no cost to the Government. Therefore, consumers bear the cost of supporting prices. In recent years, all Commodity Credit Corporation (CCC) sugar loans have been repaid to the Government because market prices were high enough to encourage the sale of all sugar on the market.

The controversy over U.S. sugar policy, which impacts diverse interest groups affected by the program, has increased recently. These groups include growers, processors, consumers, industrial sweetener users, refiners, foreign suppliers, and the corn wet milling industry.

U.S. sugar prices averaged 21.28 cents a pound between 1982 and 1988, compared with the world average of 7.01 cents.

Sugar programs often have strong foreign policy aspects, Lord says. Many developing countries depend on sugar as a significant source of revenue and employment. Sugar has therefore long been involved in trade issues between developed and developing countries.

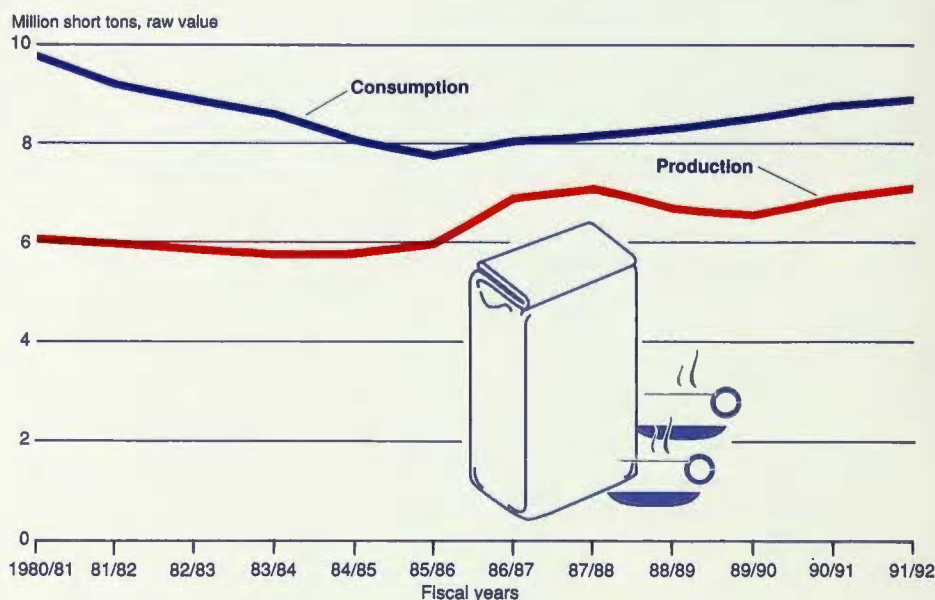
"Special arrangements"—imports from specific countries—were once a significant component of world sugar trade, but with the breakup of the Soviet Union and the Soviet bloc, the only major special arrangements remaining are the quotas of the United States and the European Community (EC). EC and U.S. quotas are assigned by countries. Most EC quota sugar comes from former colonies.

"Those two quotas account for about 3 million metric tons of the approximately 27 million metric tons of sugar traded annually worldwide," Lord says. At least 110 countries produce sugar.

Multilateral trade negotiations could prompt further change. Reductions in sugar price supports, currently being considered in the Uruguay Round of the General Agreement on Tariffs and Trade, should increase the exposure of consumers and producers around the world to supply and demand movements, Lord says.

World sugar production is expected to fall in the 1991/92 marketing year (September-August) from 113.2 to 111.4 million tons, raw value. Among major producers, increases in output are expected this year in India, Brazil, China, and Thailand, as well as the United States, and decreases are expected in Cuba, the former Soviet Union, Australia, and Mexico.

U.S. Sugar Production and Consumption Have Been Increasing In Recent Years



1990/91 estimated, 1991/92 forecast.

World consumption is forecast up about 0.8 million metric tons to about 110 million tons, an increase of less than 1 percent over the previous year.

World sugar production for 1991/92 is expected to exceed consumption by about 1.2 million metric tons. That would make the

third consecutive season that production outpaced use, allowing stocks to be further replenished after several years of draw-downs. ■

Based primarily on information provided by economist Ron Lord, Commodity Economics Division, Economic Research Service.

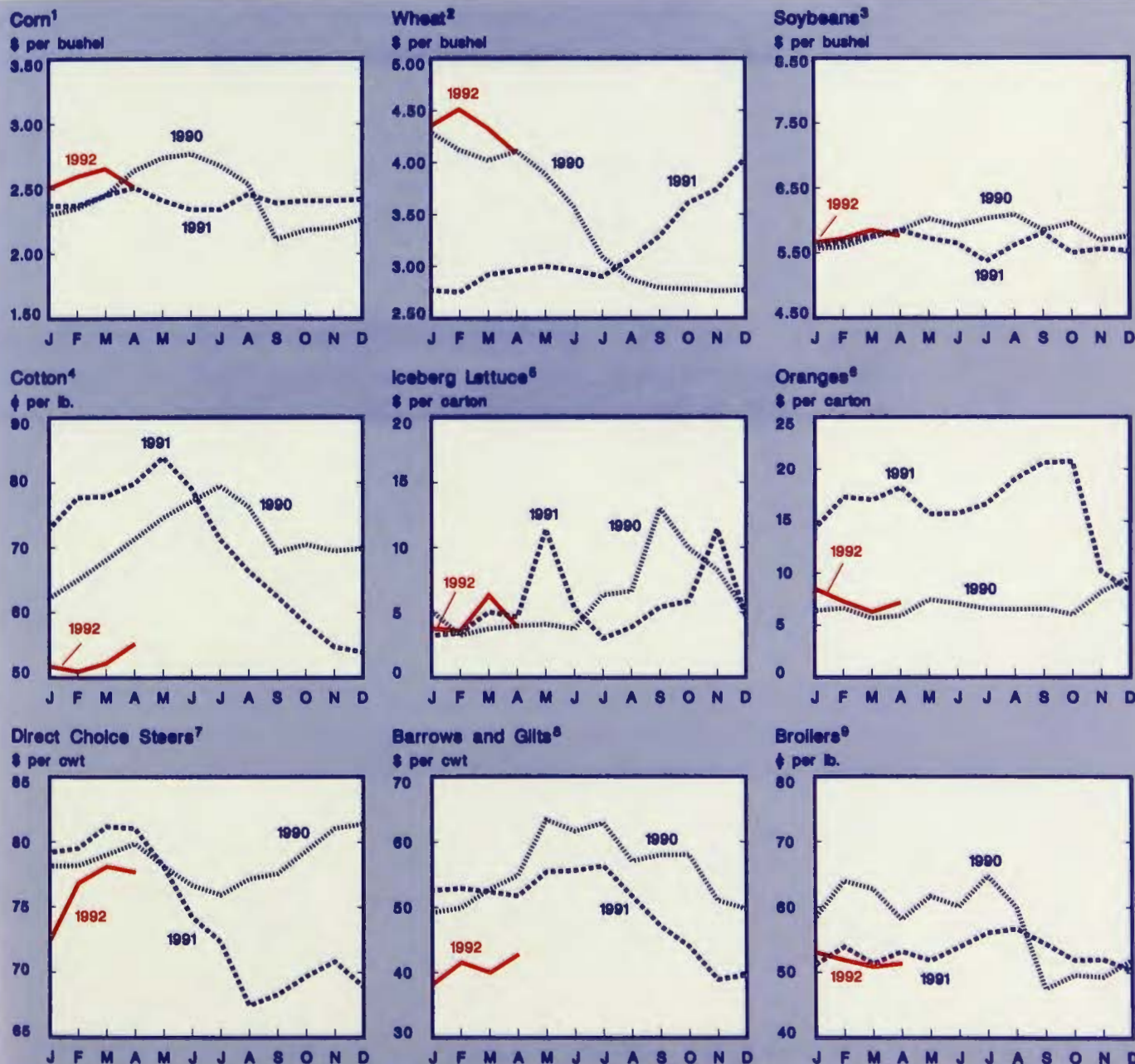
FARMLINE TRENDS

Monthly Price Monitor

USDA's April 1992 inflation-adjusted index of farm prices, from the National Agricultural Statistics Service's Agricultural Prices report, was 0.7% below March and was 4.1% below a year earlier. Wholesale market prices follow. Prices of most major commodities were down, with increases for

three of the nine commodities charted below. Corn fell 14¢ to \$2.50 per bushel, while wheat decreased by 24¢ to \$4.07 per bushel. Soybeans were down by 9¢ to \$5.72 per bushel. Cotton increased 3¢ to 55¢ per pound. Iceberg lettuce dropped \$2.44 to \$3.74 per carton. Oranges gained

90¢ to \$6.96 per carton. Of the meat animals charted, only direct choice steers declined, dropping 45¢ to \$77.58 per cwt. Barrows and gilts rose \$2.81 to \$42.53 per cwt. Broilers increased slightly to 51¢ per pound.



¹No. 2 yellow, Central Illinois. ²No. 1 HRW, Kansas City. ³No. 1 yellow, Central Illinois. ⁴SLM 1-1/16", spot market price. ⁵Standard carton 24's, California-Arizona. ⁶Central California, Standard carton. ⁷Nebraska. ⁸Omaha. ⁹Wholesale, New York. All prices shown are monthly averages.

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