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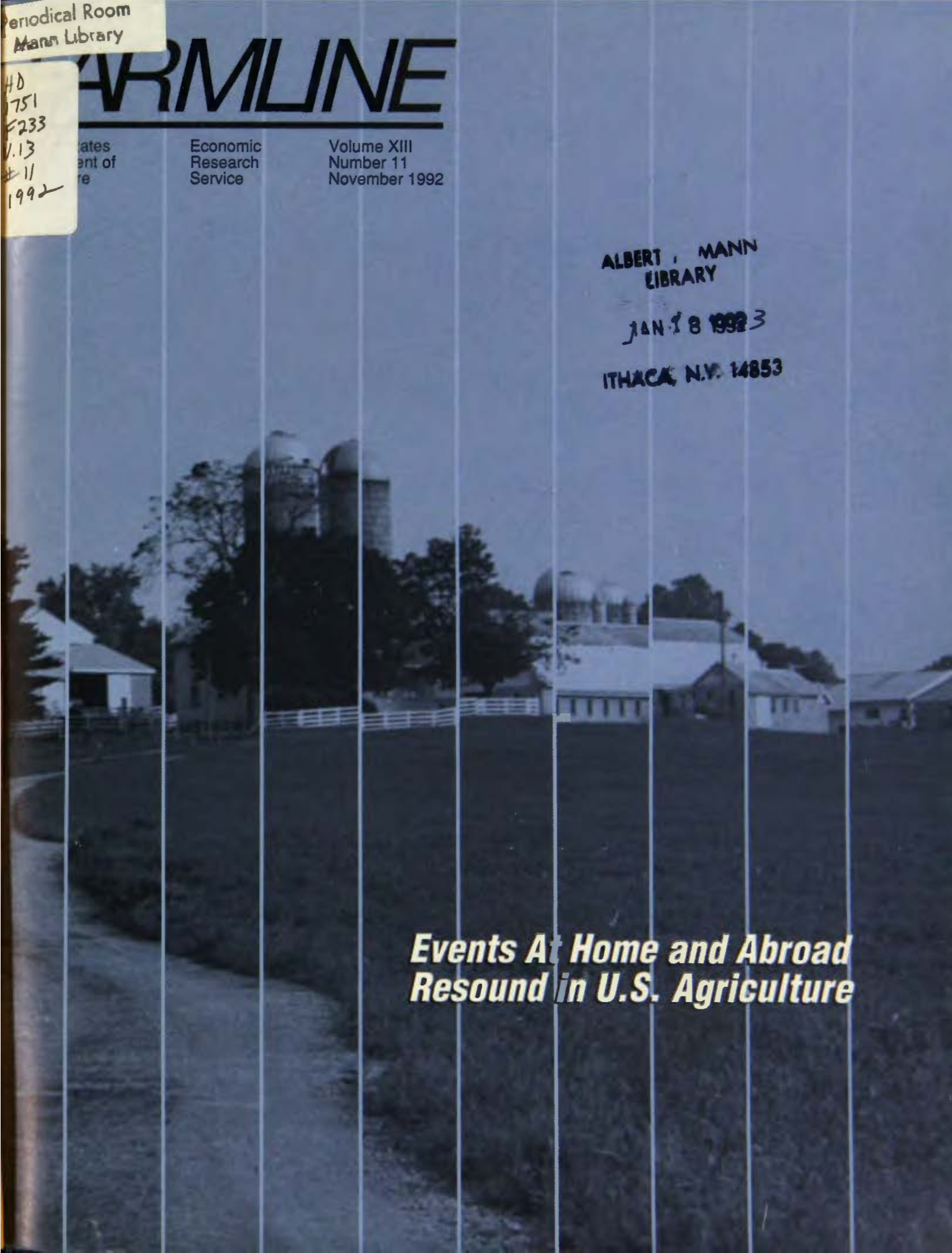

Events At Home and Abroad Resound in U.S. Agriculture

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PERSPECTIVES

The value of U.S. agricultural exports in fiscal year 1993 (October 1992-September 1993) is forecast to be within 2 percent of fiscal 1992's $42.3 billion value. The forecast decline of about $800 million between fiscal 1992 and 1993 contrasts with a 13-percent rise in export value between fiscal 1991 and 1992.

"The slight forecast decline in 1993 export value is expected primarily because high corn and soybean production has trimmed prices for these commodities, and because cotton exports will likely decrease," explains economist Stephen MacDonald of USDA's Economic Research Service. The total export value for grains and related products, oilseeds and related products, and cotton will likely fall by $1.3 billion.

Japan remained the number one market for U.S. agricultural exports in fiscal 1992: its total purchases exceeded $8.3 billion. Canada and Mexico followed with $4.8 and $3.7 billion, respectively. The Commonwealth of Independent States (made up of some of the republics that once comprised the Soviet Union), with purchases of $2.7 billion, displaced South Korea for fourth place.

The volume of U.S. agricultural exports is forecast to remain unchanged in fiscal 1993 at 144 million tons. In contrast, export volume surged to 143.6 million tons in fiscal 1992 from 129.4 million the previous year.

Exports of high value products (HVP's, usually defined as all commodities other than bulk products) are forecast to rise for the eighth consecutive year in fiscal 1993. "Both horticultural and animal product exports will likely set new records this year, reaching $7.2 billion and $8.1 billion, respectively," says MacDonald. "But they will grow at a slower rate than in fiscal 1992."

Together, exports in these two HVP categories amounted to $14.73 billion in fiscal 1992, up $1.8 billion from the previous year. In the current fiscal year, their combined total may increase by $600 million.

U.S. imports of agricultural products are forecast at $24 billion for fiscal 1993, down slightly from 1992's record $24.3 billion. "Lower tobacco imports will likely more than offset minimal gains in imports of other products," MacDonald explains.

With exports declining more than imports, the U.S. agricultural trade surplus is forecast at $17.5 billion in fiscal 1993, down $500 million from the previous year. ■

FARMLINE

AGRICULTURE...NATURAL RESOURCES...RURAL DEVELOPMENT
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FEATURES

DEPARTMENTS

SPECIAL IN THIS ISSUE

Events At Home and Abroad Resound In U.S. Agriculture

Over 2 years have elapsed since the Food, Agriculture, Conservation, and Trade Act (popularly known as the 1990 Farm Act) was passed, and more than 1 1/2 years since it was implemented. Together with the agricultural provisions of the Omnibus Budget Reconciliation Act of 1990, the 1990 Farm Act made some important changes in U.S. agricultural policy. In this article, economist Susan Pollack of USDA's Economic Research Service examines how the provisions of this legislation, combined with changes in the former Soviet Union, have affected the U.S. agricultural scene.

In a major change from previous agricultural policy, the Omnibus Reconciliation Act amended the 1990 Farm Act to mandate a new planting flexibility feature. This provision divides the crop acreage base of producers participating in crop programs into four categories:

- acreage idled under the acreage reduction program (ARP),
- normal flex acres (15 percent of the crop base),
- optional flex acres (10 percent of the crop base), and
- remaining crop base.

Agricultural markets will exert greater influence on individual planting decisions.

With the exception of fruit, vegetables, and other crops designated annually by the Secretary of Agriculture, a farmer may plant any crop on the flexible acreage without losing crop base. However, normal flex acres are not eligible for deficiency payments, and optional flex acres are eligible for deficiency payments only if the original program crop is planted.

More Planting Decisions

The flexibility provision was designed to achieve two goals. First, it would help trim Government spending during a time of budget constraints. Second, it would enhance farmers' ability to respond to—and take advantage of—commodity price changes and economic forces by allowing them to plant crops currently in demand in domestic and world markets. Agricultural markets will therefore exert a greater impact on an individual farmer's planting decisions than in the past.

Before passage of the 1990 legislation, farmers who participated in a crop program could plant only the designated program crop on their crop acreage base. (An exception to this rule occurred in 1989 and 1990, when wheat and feed grain producers were permitted to plant up to 25 percent of their base to soybeans or minor oilseeds because soybean stocks were low and export demand was high.)

Despite its advantages, the flexibility provision means that farmers face certain obstacles in deciding what crops to plant. For example, the climate or soil conditions of an individual producer's farm may be unsuitable for crops in demand, or the producer may have to master different technologies

Mary Ahearn

in order to plant, cultivate, harvest, and store certain crops.

When making planting decisions on flexible acres, farmers also need to consider the price supports (loan rates) of the various program crops, which might make it more financially advantageous to plant some program crops than others.

In 1991 there was only a small shift away from original program crops under the flexibility provision. Farmers' inexperience with the provision may have constrained their willingness to experiment with new planting options. In addition, winter wheat producers, who had already planted their 1991 crop when the legislation was passed, were accorded the option of not using the flexibility provision that year.

If all of the program crop acreage base had been enrolled in crop programs in 1991, producers could have flexed a total of about 53 million acres. However, only 79 percent of the program crop base was actually enrolled that year, and only about 7.3 million acres were flexed to other crops. About 5 million of those acres were flexed to non-program crops, primarily soybeans. The remaining acres were flexed to program crops other than the crop under which the base acreage was enrolled.

In 1992, more farmers planted alternative crops on their flexible acreage. They are now more familiar with the flexibility provision and have had time to form decisions based on conditions prevailing in both the domestic and international agricultural markets. They have also begun to feel the effects of the decrease in their deficiency payments caused by the flexibility provision—and may need the income from other crops to make up the loss.

Preliminary results for the 1992 commodity programs show that participating farmers have planted 8.3 million acres—or about 20 percent of the estimated maximum flex acreage—to other crops. Oats, rice, and barley program participants have shown the most interest in planting different crops on the flex acres.

Producers were also aware that their deficiency payment losses would be offset somewhat by the decrease in acreage they were required to set aside in 1992 to conserving uses as part of the ARP.

ARP levels for 1992 were set lower than those of the previous year for all program crops except upland cotton. Wheat had the sharpest decline in its ARP level, dropping from 15 percent in 1991 to 5 percent in 1992.

The 1992 reductions in set-asides were prompted by a number of factors, including:

- commodity stock levels that were low because of the 1988 and 1989 droughts,
- low production relative to demand to rebuild stocks in 1990 and 1991,
- a reduction in the amount of acreage being planted to program crops in response to the flexibility provision, and
- more acreage being taken out of production and placed in the Conservation Reserve Program (CRP), a voluntary program wherein USDA pays farmers to retire cropland that is highly erodible or otherwise environmentally sensitive from agricultural production for 10 to 15 years.

Because of lower U.S. wheat stocks, supplies will be reduced this year, a circumstance that could help boost world prices. These higher prices could have a particularly significant impact on those countries that depend on imported wheat for livestock feed—many of these countries are turning to less expensive grains, such as corn, to feed their livestock this year.

New Conservation Provisions

The 1990 Farm Act mandates that a total of no less than 39 million nor more than 44 million acres be enrolled in the CRP from 1986 through 1995, including the nearly 36 million acres enrolled to date. The legislation extended the enrollment period by 5 years from that specified under the Food Security Act of 1985 (popularly known as the 1985 Farm Bill.)

The 1990 Farm Act emphasizes enrolling watersheds (land subject to water erosion) in the CRP to maximize water quality and wildlife habitat benefits. Therefore, more of the corn base, which is often vulnerable to water erosion, was accepted into the CRP during the three signups (held in March 1991, July 1991, and June 1992) that have taken place since enactment of the legislation. This represents a change from previous CRP enrollments, which consisted primarily of wheat acreage vulnerable to wind erosion.

Changes in Export Programs

Agricultural export programs are designed to boost sales of U.S. commodities. Export credit guarantee programs (GSM-102 and GSM-103) assist countries with foreign exchange constraints in obtaining private credit to purchase U.S. agricultural commodities. The Export Enhancement Program (EEP) helps U.S. exporters compete for sales of specific commodities in markets where competitors subsidize their exports. The Agricultural Trade Development and Assistance Act of 1954 (commonly referred to as PL 480) provides commodities to developing countries, with the ultimate goal that these countries will eventually become commercial buyers of U.S. agricultural goods.

Events on the international scene brought about some major changes in U.S. agricultural export programs in 1991—changes precipitated largely by the collapse of the Soviet Union.

One key development was the extension of USDA's Commodity Credit Corporation (CCC) export credit guarantees to the Commonwealth of Independent States (CIS, made up of some of the republics that once comprised the Soviet Union).

Before 1991, the Soviet Union purchased U.S. commodities on a cash basis—without the aid of U.S. Government programs that are used to assist exports to other markets. In 1991, for the first time, the CIS was allocated GSM-102 credit guarantees to buy U.S. agricultural products, and became the largest participant in that program. This

step helped the United States maintain its share of world grain markets, and did not affect the amounts of credit guarantees going to other countries.

The credit arrangements were modified to assist the CIS. Under the GSM-102 program, the CCC ordinarily guarantees repayment of 98 percent of the principal and a set amount of interest on private credit extended to certain countries to enable them to buy specific U.S. commodities. Since September 1991, the CCC has guaranteed 100 percent of the principal and a variable amount of interest rate coverage to encourage banks to participate in the program and to promote agricultural exports to the CIS.

Moreover, GSM-102 exports to the CIS of barley, rice, vegetable oil, wheat, and wheat flour also benefited from EEP bonuses, because the bonuses allowed U.S. exporters to make sales to the CIS at competitive prices.

Under the EEP for fiscal year 1991 (Oct. 1, 1990-Sept. 31, 1991), a total of $916.6 million in generic commodity certificates was awarded to exporters of wheat, wheat flour, barley malt, barley, frozen poultry, rice, table eggs, and vegetable oil. (EEP bonuses are usually awarded in the form of such certificates, which exporters may resell or redeem for any commodity in the CCC's inventory.)

This total was almost three times as high as that of fiscal 1989 or 1990, but still lower than the $1 billion awarded in fiscal 1988. Much of the rise in EEP bonuses has been attributed to increased wheat sales prompted by the large supplies in crop year 1990/91 (June 1-May 31). Wheat, traditionally the major EEP commodity, accounted for 84 percent of total bonuses in fiscal 1991.

For fiscal 1992, no limit was set for EEP spending, and bonuses have been awarded in cash since November 1991 due to reduced CCC inventories. Fiscal 1992 EEP bonuses totaled $968.2 million, higher that the previous year, but still lower than in fiscal 1988. In addition, two new items—canned peaches and pork—were added to the usual complement of EEP commodities.

In fiscal 1992, food aid was provided to the CIS and the Baltic States (Estonia, Latvia, and Lithuania). The emergency-based assistance, valued at $165 million, included such commodities as butter, nonfat dry milk, vegetable oil, green peas, and beans, as well as transportation support. This assistance has not affected regular recipients of PL 480 aid.

Nearly $1.7 billion has been appropriated for PL 480 in fiscal 1993. This amount is $91.4 million more than that allocated in fiscal 1992, and is expected to provide a greater amount of food because of the increased funding and lower projected commodity costs. ■

New Cotton Competitors Emerge, But U.S. Holds Share

During the 1980's, several countries emerged as new competitors for the United States in cotton exports. They included China, India, Pakistan, Australia, Paraguay, and the nine French-speaking nations of West Africa.

The United States did, however, slightly increase its share of the world cotton market, averaging 27.5 percent for the decade, as exports by some other competitors decreased.

The emergence of the new competitors can be attributed to three main factors—world prices, policy changes, and economic development—according to economist Carolyn Whitton of USDA's Economic Research Service.

"These factors are likely to remain important in the next few years," Whitton says. "And a new factor, trade liberalization, bears watching closely for its possible effects on world cotton markets as well as textile markets."

U.S. cotton use has risen in the past decade, and production remains controlled, but the U.S. cotton industry still relies heavily on export earnings, the economist notes.

In the 1960's and 1970's, about 40 percent of U.S. production was exported. In the 1980's, that proportion rose to more than 50 percent.

U.S. exports averaged 6 million bales annually in the 1980's, up from an average of 4.7 million bales in the 1960's and 1970's. Cotton accounted for 6 percent of U.S. agricultural exports in the 1980's, earning the United States about $2 billion per year.

"The world market also relies heavily on U.S. cotton," Whitton says. No other country exports as much cotton as the United States. In years of exceptional demand, the United States is usually the primary residual supplier—that is, the country others would turn to first if normal sources could not meet demand.

More Competitive Prices

U.S. cotton prices have had to become more competitive in order to maintain market share in the face of the new competition, the economist says.

World cotton production has doubled, but most growth has come through better yields.

"Except in marketing year 1985/86 (August 1-July 31), when the U.S. farm program kept the U.S. price high while world prices fell, U.S. prices were generally competitive in the 1980's," Whitton says.

Since 1960, world cotton production has been trending upward at a rate of about 2 percent a year. Production doubled in about 30 years, from 45.1 million bales in 1960 to 95.2 million bales in marketing year 1991/92.

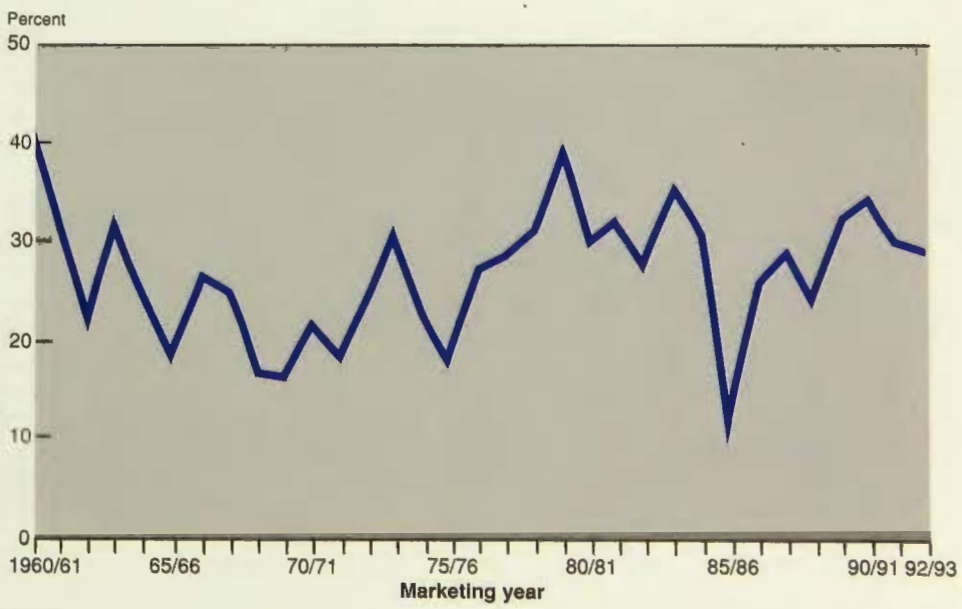
Most of the growth in production has been achieved through better yields, since acreage has increased only slightly.

Although 75 countries produce cotton, 50 are very small producers, accounting for no more than 2 percent of world production. The remaining 25 include the "big 3" (the United States, China, and 6 Central Asian Republics of the former Soviet Union—considered as a unit here). Next on the list are 11 medium-sized producers, followed by 11 minor producers.

The top 3 usually produce 55-60 percent of the total world cotton supply, the 11 medium-sized producers account for another 35-40 percent, and the 11 minor producers add about 5 percent. The composition of the latter two groups has varied over time.

South Asia—mainly India and Pakistan—is a significant cotton producing area, as is the Middle East. In South America, Brazil, Argentina, Paraguay, Peru, and Colombia are important. Egypt, the Sudan, and Mexico

U.S. Share of World Cotton Exports, 1960/61-1992/93



1992/93 forecast.

remain fairly large producers. In the European Community (EC), Greece and Spain produce cotton.

The United States was the world's leading cotton producer during the 1960's and 1970's. But China moved from third to first place during the 1980's, setting the single-country production record of 28.7 million bales in 1984. China's production has dropped somewhat since then.

In the 1960's and 1970's, the countries ranked 4th through 14th in production were generally India, Egypt, Mexico, Brazil, Pakistan, Turkey, Argentina, Peru, the Sudan, Syria, and Iran.

But by 1991, Peru, the Sudan, Syria, and Iran had dropped out of that group. They were replaced by the nine French-speaking countries of West Africa (considered a unit), Australia, Paraguay, and Greece. (The African countries are Benin, Burkina Faso, Cameroon, Chad, the Central African Republic, the Ivory Coast, Mali, Senegal, and Togo.) Egypt and Mexico slipped down in the rankings but remained among the 11 medium-sized producers. Each of these countries produced 700,000 or more bales in marketing year 1991/92.

Area Stable, But Yields Improve

Global average yields increased from 277 pounds per acre in 1960 to an estimated 535 pounds for 1991. Area has not changed much: 79.3 million acres were harvested in 1960 and 86.0 million in 1991.

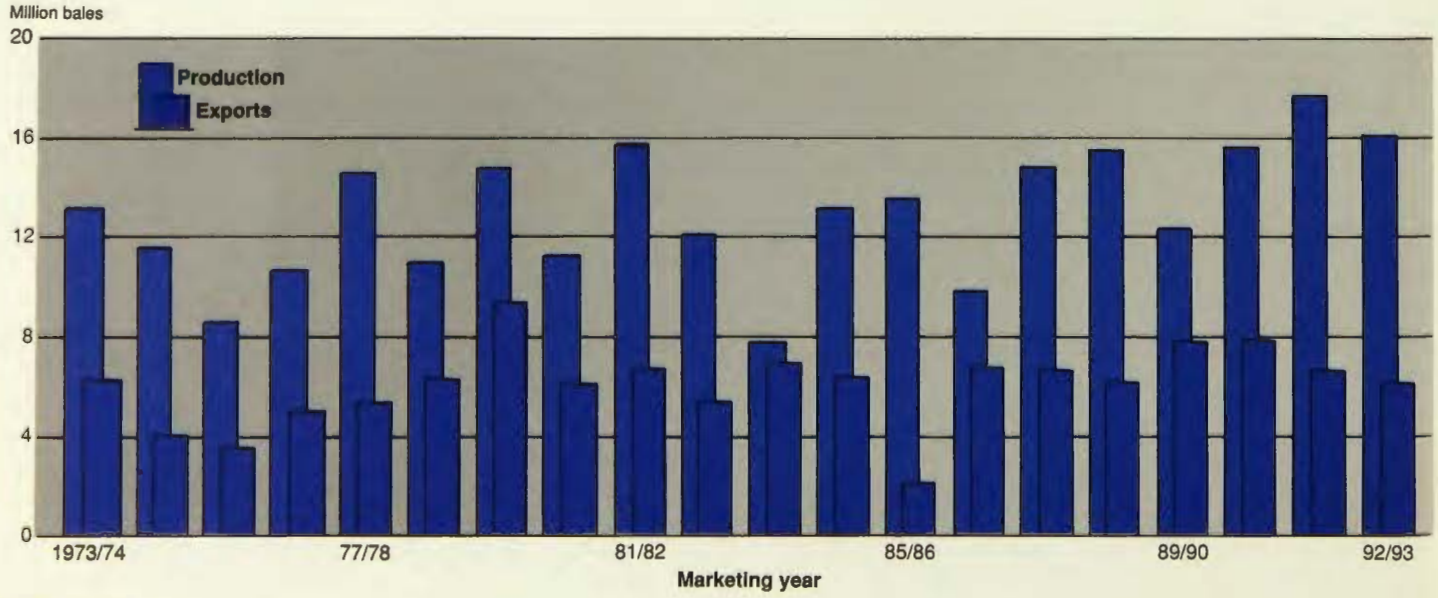
Some countries have expanded cotton area, while others have reduced area. The United States removed acreage from production in order to maintain price stability, Whitton says. India, Mexico, Egypt, the Sudan, and Peru were among countries shifting area from cotton to other crops as priorities changed or cotton yields rose. "But much of the world's cotton area is in desert regions, where increasing cotton acreage is difficult because of the high cost of expanding irrigation facilities," she says.

The new major producers also tended to become significant exporters. Foreign exports increased by 2.7 percent annually in the 1980's, compared with a 1.1-percent annual growth rate in the two preceding decades.

U.S. exports also grew more rapidly—at a rate of 2.3 percent per year in the 1980's, compared with 1.5 percent in the 1960's and 1970's.

Some countries, such as Australia and Paraguay, expanded production specifically to increase exports, Whitton says. Australia exported virtually no cotton in the early 1960's, but in the 1980's sold 84 percent of its production on the world market. Others, like China and India, expanded production in the 1980's mainly to keep pace with soaring domestic demand. Their exports grew, too, but still accounted for only about 6 percent of their production during the decade.

U.S. Cotton Production and Exports, 1973/74-1992/93



1992/93 forecast.

Prices are a major factor contributing to the emergence of the new export competitors, Whitton explains. After peaking in 1980, world cotton prices dropped sharply between 1980 and 1985, then rose again to relatively high levels in 1989 and 1990. The new highs for world prices set in 1980 resulted from unusual import demand by China and the lowest world stocks-to-use ratio since World War II.

The high prices encouraged foreign production growth and the new competitors emerged, Whitton says. Then, in the middle of the decade, the price cycle reversed. However, the new producers held onto their shares of the market, forcing the United States to become more price competitive.

Several Countries Alter Policies

"As for policy changes, China and Australia are the two most important countries that made significant adjustments in the late 1970's, which contributed to their emergence as U.S. competitors in the 1980's," Whitton says.

Australian farmers were encouraged to grow more cotton after returns for wheat and wool, the country's most important export commodities, fell in the mid-1970's, Whitton says. Australia's output of cotton tripled between 1977 and 1981, and increased more than ninefold between 1977 and 1990.

In 1978, China took steps to introduce market forces into its centrally planned economy. Collective farming was discontinued, and cotton prices were raised. China became the world's largest cotton producer, increasing production from 9.9 million bales in 1978 to 28.7 million in 1984.

Economic development also played an important role in enlarging cotton export competition in the 1980's, Whitton says. She cites the following examples:

Paraguay and the nine French-speaking West African countries were typical of the initial development phase. They began exporting cotton to earn foreign exchange to finance development. China in the 1980's is an example of further progress, increasing production incentives to meet rising domestic demand. That demand was created when the foreign exchange earned in the first phase was invested in development of labor-intensive industries, such as textiles, raising employment and incomes.

Pakistan and India in the 1980's illustrate a further phase, characterized by textile production growth exceeding domestic textile demand growth, leading to exports of surplus cotton and the need for marketing reforms or privatization to export cotton more efficiently. Fortunately for U.S. exports, still later stages of development reached by former export competitors such as Brazil, Mexico, and Turkey led these countries to begin reducing cotton exports, at least partly counterbalancing gains in the export competitiveness of emerging producers.

"These same factors—prices, policy, and development—will continue to influence cotton trade in the 1990's," Whitton says.

Policy changes present the greatest uncertainty for the 1990's, especially in the former Communist countries, Whitton says.

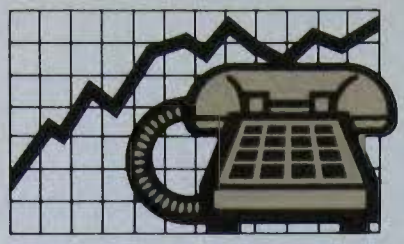
Continuing development will mean the emergence of new producers and exporters, she adds. But some of the traditional exporting countries may progress into textiles and even cotton importing.

More cotton exporting countries are loosening government controls, especially over marketing. "This means that producers and traders will respond more directly to economic forces and world prices in future years," Whitton says.

"U.S. cotton exports will continue to face new and challenging competition in the 1990's, but should be able to maintain market share as long as prices are kept competitive," she concludes. ■

Based primarily on information provided by economist Carolyn Whitton, Commodity Economics Division, Economic Research Service.

Dialing Up Economic Information



Need economic information or data on today's or even yesterday's agriculture? Listed below are economists, statisticians, and other specialists of the Economic Research Service and the National Agricultural Statistics Service. Generally, those listed with an "S" (for "Statistics") can give you data on acreage, yields, production, livestock numbers, and stocks. Those identified with an "E" (for "Economics") can help with supply-demand-price questions and other economic issues. All telephone numbers can be reached by dialing area code 202.

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U.S. Rice Growers Harvest Bumper Crop

The second largest rice harvest in U.S. history is estimated for marketing year 1992/93 (August 1-July 31), says economist Nathan Childs of USDA's Economic Research Service (ERS).

U.S. rice production for 1992/93 is expected to rise about 9 percent from a year earlier to 168.2 million hundredweight (cwt). "The previous U.S. record was 182.7 million cwt, set in 1981, when growers planted record acreage in response to strong export demand and relatively high prices," Childs says.

"The big crop and lower prices should improve competitiveness of U.S. exports."

Supplies for 1992/93 will likely total 201.1 million cwt, up about 9 percent from a year ago, according to USDA's November *World Agricultural Supply and Demand Estimates*. Roughly 80 percent of the expected supply increase can be attributed to the estimated rise in production, 16 percent to larger beginning stocks, and the remainder to higher imports.

"The main reason for the anticipated increase in domestic production is the expected rise in acreage," says Childs. "Harvested acreage is estimated at 2.97 million acres in 1992/93, up 218,000 acres from a year earlier."

Childs attributes the rise in acreage to the following factors:

- a zero-percent acreage reduction program (ARP), compared with a 5-percent ARP in 1991,
- favorable weather,
- relatively high prices at planting time, and
- greater supplies of water available in California (a major rice producing State) compared with a year earlier.

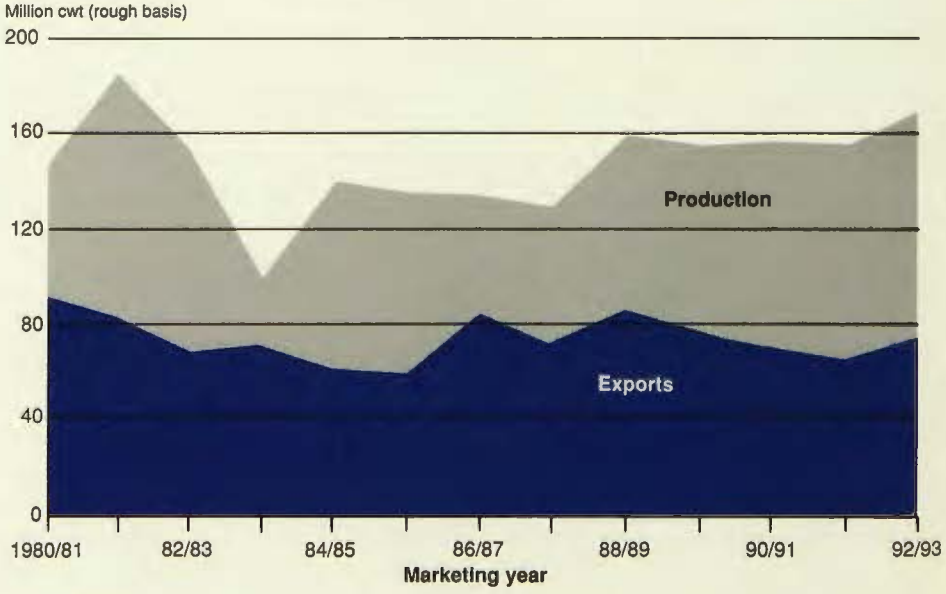
Increases in harvested acreage are expected in all rice producing States, he adds. However, production will be moderately lower in Texas due to smaller yields than in 1991/92. More than 95 percent of rice acreage and production is located in Arkansas,

Americans Are Consuming More Rice

ERS economist Nathan Childs says Americans are consuming more rice for the following reasons:

- A large variety of rice dishes are available, such as parboiled rice, numerous flavored packaged mixes, and a wide array of processed food products. Rice is also used in beer and pet food.
- The population of high rice-consuming ethnic groups, such as Asian- and Hispanic-Americans, is growing faster than the population as a whole.
- Rice offers advantages to health-conscious consumers: it's high in complex carbohydrates, low in calories, sodium-free, cholesterol-free, and virtually fat-free.
- Rice can be prepared quickly and easily, and has a long shelf life.

U.S. Rice Production and Exports, 1980/81-1992/93



1992/93 preliminary.

California, Louisiana, Mississippi, and Texas. Missouri and Florida also produce rice.

Imports Gain in U.S. Market

Imports are estimated to make up only 5.7 million cwt of the total U.S. rice supply for 1992/93. But a comparison of the growth patterns of imports and domestic use shows that imports have become especially important in satisfying a growing segment of the U.S. market, Childs says.

The share of imports in the domestic rice food market has risen from about 0.5 percent in 1980/81 to 8 percent in 1990/91. Moreover, Childs estimates that between 1988/89 and 1992/93, almost one-fifth of the increase in domestic food use of rice was filled by imports.

"Since the 1988/89 marketing year, consumption of imported rice has grown at a rate nearly three times that of total food and brewers' consumption of rice," Childs says.

"Imported rice is most often consumed by Asian-Americans—primarily Filipinos, Chinese, Taiwanese, Thais, Cambodians, Laotians, and Vietnamese," he explains. "About 90 percent of imported rice is jasmine rice from Thailand, and most of the rest is basmati from India and Pakistan."

Exports Expected To Grow

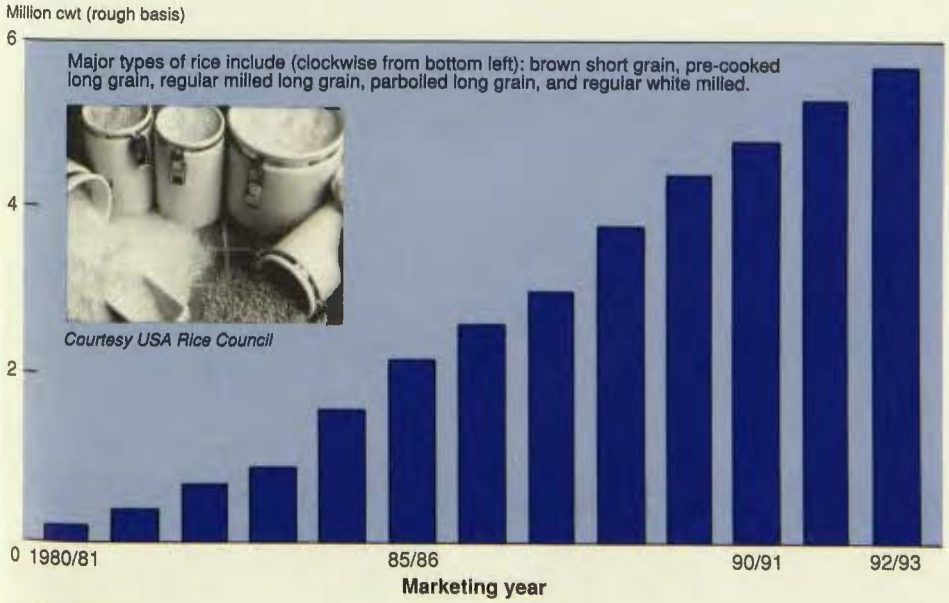
The United States is one of the world's largest exporters of rice, ranking second only to Thailand in export volume in most years. The U.S. share of world rice trade has hovered around 17 percent since the late 1980's, Childs says. Exports for 1992/93 are projected at 74 million cwt, up 11.5 percent from the reduced level of the previous year.

"The big domestic rice crop and resultant lower prices will likely improve U.S. export competitiveness in markets for high-quality rice, particularly in Europe, the Middle East, and Latin America," he says.

Larger supplies and lower prices will likely increase the amount of rice available for export to Latin America and African countries under the Agricultural Trade Development and Assistance Act of 1954 (commonly referred to as PL 480). Among other measures to help less developed countries, PL 480 seeks to expand foreign markets for U.S. agricultural products. ■

Based primarily on information provided by economist Nathan Childs, Commodity Economics Division, Economic Research Service.

U.S. Rice Imports, 1980/81-1992/93



1992/93 preliminary.

Major types of rice include (clockwise from bottom left): brown short grain, pre-cooked long grain, regular milled long grain, parboiled long grain, and regular white milled.

Courtesy USA Rice Council

U.S. Growers Seeking To Compete With Imports

U.S. producers are attempting to grow aromatic varieties of rice to compete with imported varieties.

U.S. production of one jasmine variety—Jasmine 85—was recently introduced to Southern States, and accounted for about 50 percent (10,000 acres) of land planted to special varieties in 1990.

But Asian-Americans tend to favor Thai imports rather than Jasmine 85 and other U.S.-grown varieties, according to a recent study published by Texas Agricultural & Mechanical University.

Dr. Bill Webb, a chemist with USDA's Agricultural Research Service, notes that study participants objected mainly to the color and aroma of Jasmine 85. A new study is under way at Texas A&M to develop jasmine varieties that can be successfully grown and marketed in the United States.

U.S., EC Investments in Food Processing Flow Both Ways

European Community-based companies invested billions of dollars in U.S. agribusiness during the 1980's, but they still own less than 1 percent of U.S. farmland and about 10 percent of the assets of food processing firms in the United States.

"EC corporations are the leading foreign owners of U.S. agribusinesses, particularly in the food processing sector," says economist Christine Bolling of USDA's Economic Research Service. "They have invested in leading U.S. name brand food products and beverages, fast-food chains, retail food stores, and grain storage facilities."

She notes that the value of these investments is nearly $30 billion, compared with $12 billion of U.S. investment in European agribusiness.

EC corporations' investments comprise about 10 percent of the total assets in the U.S. food processing industry. But Europeans own less than 1 percent of the total agricultural land base in the United States. European investment in the United States is balanced by U.S. investment in the EC.

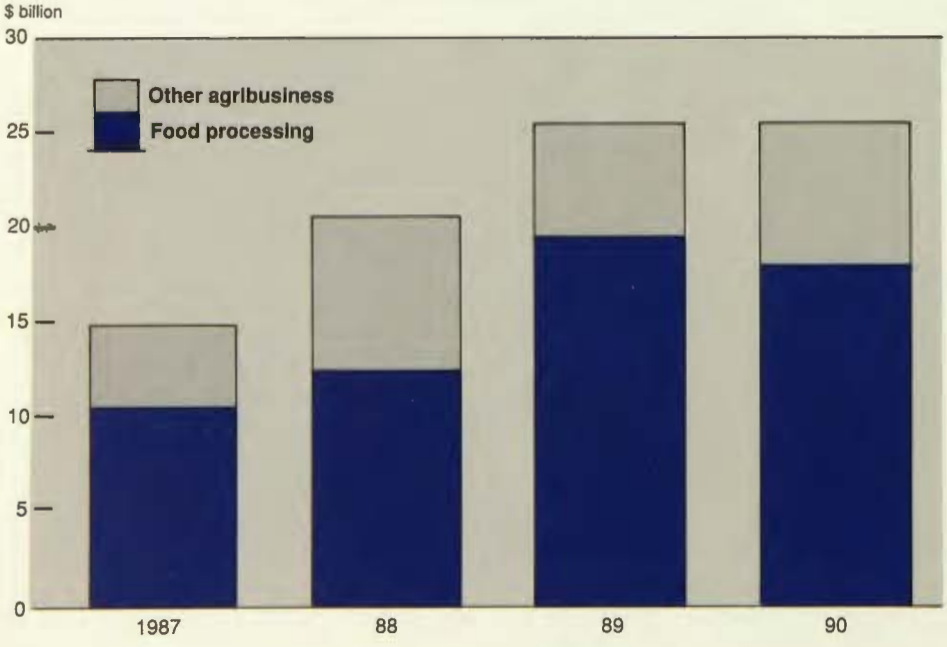
EC companies have invested in U.S. agribusiness for a variety of reasons.

While U.S. investment in the EC is considerable, sales from U.S. food processing companies in the EC are greater than EC sales in the United States.

Many of the 1980's investments were made by large EC conglomerates as they expanded their presence in the U.S. market. One of the biggest acquisitions of the decade, for example, was made by Grand Metropolitan of the United Kingdom, which purchased Pillsbury for $5.8 billion.

"With this investment, Grand Metropolitan acquired many brands, with products ranging from wine to pet foods," says Bolling.

EC Investments in U.S. Agribusiness, 1987-90



And when Tate & Lyle, a British-based sugar refiner, paid $1.5 billion for corn sweetener producer Staley Continental, Inc., in 1988, Tate & Lyle gained a leading role in the world corn sweetener market. Also in 1988, Tate & Lyle bought Amstar Sugar Corporation, the largest cane sugar refiner in the United States.

"Another EC conglomerate, Unilever, has a long-standing presence in the U.S. food industry," says Bolling. "Unilever's holdings include Lever Brothers, a highly diversified company that sells many different items, from ice cream to soap."

Looking to the U.S.

EC companies had a number of reasons to look to the United States as a good place to invest.

"The 1980's saw corporate mergers and acquisitions in Europe as well as in the United States, as multinational companies extended their domestic and international interests," Bolling says. She adds that the U.S. food industry was as caught up in mergers in that decade as were many other industries.

"The U.S. economic climate of the 1980's encouraged foreign investment," says Bolling. "The U.S. Economic Recovery and Tax Act of 1981 legislated a phased liberalization of business taxes over several years."

Investment in the United States was unusually strong during the 1983-84 expansion of the U.S. economy. And passage of the Tax Reform Act of 1986 spurred investment in the late 1980's. This law tightened up some of the liberalized tax provisions of the 1981 tax law by lengthening the period for depreciation, but lowered general tax rates to offset this disadvantage.

Moreover, tax laws regarding multinational corporations were changed in several key States. The unitary corporate income tax method was repealed in a number of States (including California, Utah, Idaho, and New Hampshire) between 1984 and 1986, and replaced by the "water's edge" system.

Under the unitary tax method, taxes are determined by a percentage of a company's worldwide profits. The unitary tax method was originally designed to prevent multi-State and multinational corporations from shifting profits from a high-tax State or country to a low-tax one. Under the water's edge system, only the income earned in the particular State is taxed. The adopted water's edge method also opened up opportunities for expansion in the United States.

Conditions in Europe

"Economic conditions in Europe also favored investment in the United States," says Bolling. "The United Kingdom, the Netherlands, and Germany went through an affluent period during most of the 1980's. Foreign reserves for all three countries grew to unprecedented levels during the latter half of the decade."

Another factor pushing investment in the United States in the late 1980's was a cheaper dollar in relation to European currencies.

"After strengthening with respect to the British pound, the Dutch guilder, and the German mark from 1980 to 1985, the dollar weakened until 1988," says Bolling. "Since 1988, the dollar has fluctuated, but did not ever regain the strength it had in the mid-1980's."

In addition, the United States attracted investors during the decade because many other countries that had been hosts for European investments suffered from foreign debt and general economic crises.

"In contrast, the U.S. market was affluent and growing," says Bolling. "Relatively strong growth in the United States provided an incentive for European investors to shift funds from developing countries in Latin America, Asia, and Africa to the United States."

Assessing Impact

"Affiliates of EC companies located in the United States have employed 120,000 persons in the U.S. food and beverage industry and another 204,000 persons in retail food stores and other retail trade," says Bolling. "Textile manufacturing, wholesale grocery business, farm products trade, and agriculture, forestry, and fisheries also provided job opportunities. Salaries and benefits from this employment amounted to $9 billion in 1990."

"Gains have been made in U.S. employment and in labor income," she continues. "But the addition of jobs is limited to EC investment in building new capacity, and new manufacturing plants represent only 5 to 10 percent of total EC investment."

"In these new plants," Bolling says, "European brand name breads, cookies, biscuits, yogurt, cheese, spaghetti sauces, candy bars, dried soups, soft drinks, and liquor are produced in the United States rather than imported. The development of these industries has added to employment—as well as to the diversity of foods available to U.S. consumers."

Most of the agribusiness products made by EC affiliates are consumed in the United States. In fact, the exports of these affiliates declined from $11 billion in 1980 to $7 billion in 1990. "Of that $7 billion, $4 billion consisted of farm products, mainly lumber, exported by French companies," she says.

EC investment in the U.S. food processing industry grew from $1.7 billion in 1980 to nearly $18 billion by 1990.

"From 1987 to 1989, EC companies' stake in U.S. agribusiness grew from $15 billion to $25 billion," says Bolling, "accounting for 80 percent of the total foreign investment in U.S. agribusiness in each year." And EC investment in food processing nearly doubled between 1987 and 1989. In these same years, U.S. investment in the EC food processing industry increased from $6 billion to $7 billion, and U.S. investment in EC agribusiness grew from $8 billion to $12 billion.

"EC interests also own several well-known fast-food and retail grocery chains, such as Burger King, Hardee's, and Food Lion," she continues. "Investments in textiles started from a lower base but grew rapidly to reach $2 billion in 1990."

Change in the 1990's

Until 1990, Bolling adds, EC investors brought new capital into U.S. agribusiness.

At that time, however, the total EC investment in U.S. agribusiness stagnated, says Bolling. EC companies withdrew $1.3 billion from the U.S. food industry, trimming their investment in that industry by 9 percent. Germany and the United Kingdom were the main ones taking investment funds out of the U.S. food processing industry. The United Kingdom sold some holdings, but Germany did not.

She goes on to say that German investors' presence in U.S. agribusiness has declined since 1989.

"Initially, a German affiliate of another European company provided financing for an acquisition in the United States," says Bolling. "The decline in investment in the U.S. food processing sector in 1990 from $589 million to $91 million represents the payment of loans to the German affiliate, rather than a sale of a food manufacturing company in the United States. But German investments in wholesale groceries and retail food stores rose."

And while Dutch companies increased investments in the U.S. food industry from $6.7 billion in 1989 to $7.3 billion in 1990, their investments in retail food stores declined from a high of $639 million in 1987 to $537 million by 1989. However, Dutch-owned Ahold, the 13th largest food retailer in the United States, kept its standing. A large portion of Dutch investment in U.S. agribusiness is concentrated in the food processing sector. And Dutch companies have substantial holdings in U.S. food retailing ($4.4 billion in sales in 1990).

"Companies headquartered in the United Kingdom also invested very heavily in the U.S. food processing sector," says Bolling, "with their investments increasing from $4 billion in 1987 to $10 billion in 1989. Also in 1989, the United Kingdom surpassed the Netherlands as the leading single country

source of foreign investment in U.S. agribusiness."

But in 1990, United Kingdom companies' investments in the U.S. food processing sector declined to $9 billion. Grand Metropolitan's sale of some companies after its large purchases of 1989 is responsible for much of the decline.

Farmland Investments

EC investors have put a lot less money into buying U.S. agricultural land. The agricultural land owned by EC investors was valued at $4 billion in 1990.

The 1980's were a decade of realignment of EC companies' investments in U.S. agriculture. However, EC investors' ownership of U.S. agricultural land increased only slightly—from 5.7 million acres in 1981 to 6.1 million in 1990—says analyst Peter DeBraal, also of ERS. And this represents less than 1 percent of total U.S. agricultural land in both years.

Canada owns more land in the United States than any other single foreign country does, but the holdings of the EC collectively exceed those of Canada.

The most notable changes from 1981 to 1990 include a large increase in U.S.-UK and U.S.-Dutch holdings, and a sharp decline in U.S.-French agricultural properties, says DeBraal. Most of this land is held by U.S.-EC corporations, rather than by EC investors not associated with a U.S. corporation. In 1990, 1.5 million acres were held by sole EC interests, compared with 4 million in U.S.-EC corporations.

German investors were the largest EC sole proprietors, followed by UK investors. The United Kingdom and France led other EC countries in joint ownership with U.S. corporations. U.S.-UK holdings made up 43 percent of all the direct investment in agricultural land by EC interests.

Forest land is the principal type of land investment, says DeBraal. It comprises 53 percent of EC investment in U.S. agricultural land, followed by pastureland (25 percent) and cropland (15 percent).

U.S.-UK holdings of large lumber and paper companies constitute the largest share of forest land owned by EC investors, followed by U.S.-French holdings.

Some corporations may have bought forest land as an investment because of their import requirements for forest products and paper, says DeBraal. Other companies may have bought forest land to balance their holdings when they purchased already existing U.S. forest products companies.

U.S.-UK, U.S.-Dutch, and U.S.-German corporations are the largest EC owners of pastureland. German interests hold the bulk of the EC-owned cropland in the United States.

Companies headquartered in France, Germany, Greece, Ireland, the Netherlands, and the United Kingdom invested heavily during the early 1980's, while companies in Portugal and Denmark invested during the latter half of the decade. Companies headquartered in Belgium, Luxembourg, and Italy invested more heavily in U.S. agricultural land during the 1970's.

EC investors have purchased land in nearly every State. Most investments are scattered, amounting to fewer than 1,000 acres per county. Fifteen States have counties with over 10,000 acres owned by EC investors, and only five States have counties with over 100,000 acres. Most of the larger investments consist of forest land.

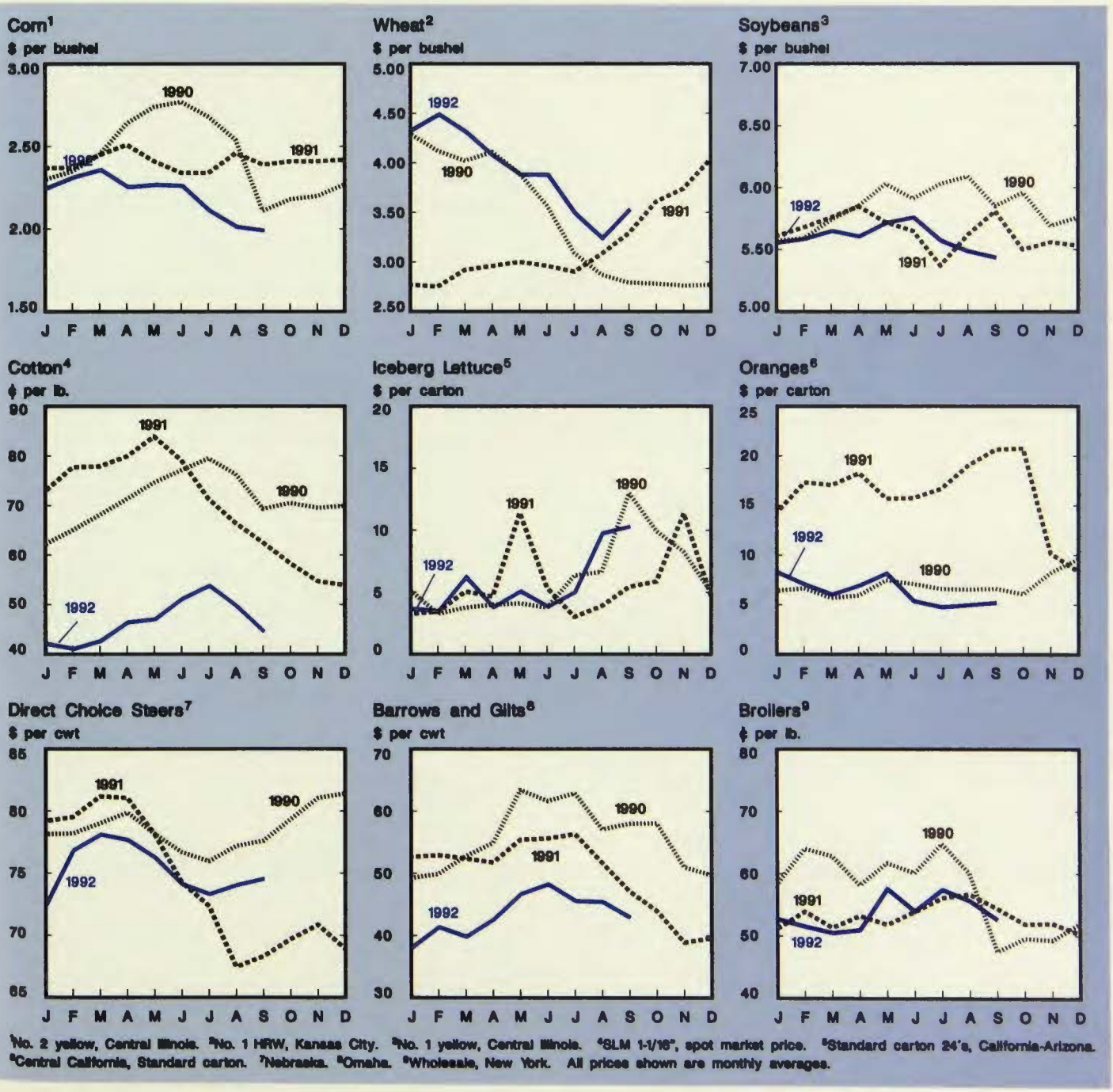
"Many States have investments from several countries," says Bolling. "California, Colorado, Nebraska, Pennsylvania, New Mexico, and Georgia all have land owned by the United Kingdom, Germany, and the Netherlands." ■

Based primarily on information provided by economist Christine Bolling, Agriculture and Trade Analysis Division, and Peter DeBraal, Resource and Technology Division, Economic Research Service.

EC corporations have invested in U.S. food processing and retail stores.

Monthly Price Monitor

USDA's September 1992 inflation-adjusted index of farm prices, from the National Agricultural Statistics Service's Agricultural Prices report, was unchanged from August, but 5.4% below a year earlier. Wholesale market prices follow. Corn declined slightly to $2.15 per bushel, the lowest price since September 1990. Wheat rose 29¢ to $3.53 per bushel. Soybeans dropped to $5.38 per bushel, the lowest level since July 1991. Cotton prices declined to 53.5¢ per pound, the lowest level since last March. Lettuce rose to $10.29 per carton, its highest level since November 1991. Oranges increased by 24¢ to $5.26 per carton. Prices for direct choice steers increased by 51¢ to $74.47 per cwt. Barrows and gilts, at $42.87 per cwt, dropped to their lowest level since last April. Broilers declined 3¢ to 52.7¢ per pound.



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

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