Cooperative Extension Service

WEEKLY OUTLOOK

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EXPORT CREDITS FOR THE SOVIET UNION

On December 12, President Bush announced a 6-month waiver of the Jackson-Vanik amendment of the 1974 Trade Act. That amendment placed restrictions on trade with the USSR until emigration practices were changed. The long awaited announcement stopped short of the granting of most favored nation status7 to the USSR. Most favored nation status requires that the granting country extend the same treatment to the recipient country as it would to its most preferred trading partner. President Bush indicated that the passage of the USSR emigration law would allow more progress toward normalization of U.S.-USSR economic relationships. Most favored nation status will likely be granted to the USSR in the near future.

Lifting of the trade restrictions allows the U.S. to respond to requests from the USSR for agricultural export credit guarantees. The amount of credit will be between $500 million and $1 billion. Secretary of State Baker indicated that the credit would be primarily for the purchase of grain. That statement is interpreted to include soybeans and soybean meal. It is expected that some processed products will be included in the credit package. Those products will most likely be chicken parts.

The decision to extend export credits was in response to threats of food shortages in the USSR this winter and in response to a very slow export pace for U.S. grain commodities. Under terms of the long term trade agreement the USSR is still required to buy 600,000 tons of U.S. corn and 1.2 million tons of U.S. wheat by the end of December. The USSR has indicated it would not be able to meet those requirements without credit. In addition, USSR had not responded to a long standing offer of 2 million tons of U.S. wheat under the export bonus program. The U.S. also has an outstanding offer of 453,000 tons of wheat flour under that program. The risk of export credits were also recognized. The Commodity Credit Corporation is sensitive to credit repayment problems as it may have to absorb $2 billion of loans to Iraq. The administration is also aware of food distribution problems in the USSR.

The details of the export credit program are expected to be negotiated by the end of the month. Commodities in the program are expected to be shipped within 2 months after an agreement is reached. Purchases will apparently be made centrally and not by individual republics in the USSR.

For the most part, those in the grain industry were disappointed with the magnitude of export credits being extended to the USSR. Expectations were for a package of $1.5 to $2 billion. There were also earlier reports that the USSR would ask for $3.5 billion in credit. As a result, corn and soybean prices turned sharply lower following the announcement. The relatively small credit allotment fueled concerns that corn exports would not reach the USDA projection. Tuesday's *Supply and Demand* report maintained a corn export projection of 2.025 billion bushels, down 14 percent from exports of a year ago. After 14 weeks of the 1990-91 marketing year, corn exports are 36 percent smaller than a year ago. Total export commitments are down nearly 42 percent.

The USDA revised its soybean export projection to 590 million bushels, 20 million below last month's projection and 33 million bushels, or 5 percent, below last year's exports. Exports are currently running 26 percent less than a year ago. Commitments are off 16 percent. Soybean exports during the last half of the marketing year will be influenced by the size of the South American crop. The USDA now projects that crop at 1.106 billion bushels, about 50 million bushels less than last year's crop. The crop there is being planted so that growing conditions over the next several weeks will be important to production prospects.

Typically, grain and soybean prices remain relatively stable during the winter months. That pattern is expected again this year. The potential does exist for additional trade concessions for the USSR as the marketing year develops. An improvement in the export pace, a high rate of domestic use, and weather uncertainties are expected to result in modest price improvements by spring. If current premiums for next year's corn and soybean crops are maintained, a spring rally would offer good forward pricing opportunities for those crops.

Note: Weekly outlook will not be published for the next two weeks. The next issue will be dated January 7, 1991.

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