

WEEKLY OUTLOOK



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GROWING CRITICISM OF EXPORT SUBSIDIES

The United States has a number of programs which subsidize the export of some agricultural products. These programs include concessional sales, credit guarantee programs, and the Export Enhancement Program (EEP). Of the major commodities exported by the United States, wheat is the most highly subsidized. During the 1990-91 marketing year, about 80 percent of U.S. wheat exports were sold with some subsidization. That compares to about 15 percent 10 years ago. The largest of the export subsidy programs is the EEP, although the credit guarantee program has increased with the recent initiative for the former Soviet Union. There is also some overlap of these programs. The Export Enhancement Program was created in the spring of 1985. Its purpose was to help support declining U.S. export sales and to counter existing export subsidies in the European Community (EC). Over the past five years, 52 percent of U.S. wheat exports have been shipped under EEP. The major importers of EEP wheat have been the former Soviet Union, China, and the North African countries of Algeria, Egypt, and Morocco. In total nearly 40 countries have received some wheat from the United States under EEP.

Current concerns about export subsidies can be grouped into three categories -- declining stocks of grain in the United States, effectiveness of the subsidies, and market distortions created by the subsidies. Combined carryover stocks of corn, wheat and soybeans at the end of the 1985-86 marketing years totaled 6.48 billion bushels. That total grew to 7.14 billion by the end of the following year. Ending stocks in both those years represented about 62 percent of the annual use. Projections for the current marketing year show combined carryover stocks of those three commodities at 1.81 billion bushels. Stocks represent less than 15 percent of annual use of those commodities. Winter wheat acreage is down from last year and there is considerable uncertainty about midwestern weather this spring and summer. Low carryover stocks and a small harvest in 1992 would force grain prices sharply higher. In light of that possibility, some argue that export subsidies should be trimmed.

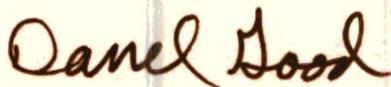
A related concern is the trend toward increased grain and oilseed imports into the United States. Imports are still a very small percentage of U.S. consumption, but are increasing rapidly. During the 1982-83 marketing year imports of feedgrains, wheat, and soybeans totaled about 23.5 million bushels. Imports grew to 122 million bushels in 1990-91 and are projected at 140 million bushels during the current marketing year. Projected imports by commodity are: oats-60 million, wheat-35 million, corn-20 million, barley-20 million and soybeans-5 million bushels. Projected imports

represent less than 2 percent of domestic consumption, yet the wisdom of subsidizing grain exports while importing larger quantities is questioned.

The effectiveness of export subsidy programs is difficult to assess. Analysis of the EEP for wheat suggests that U.S. export volume has benefitted from the subsidies. The most benefit was reaped in the 1986-87 marketing year, although that performance may be reviled during the current marketing year. In terms of countering the effects of EC export subsidies, the jury is still out. Wheat production continues to expand in the EC and exports from that area have expanded by about 40 percent since the 1987-88 marketing year. The EC's share of world wheat trade has grown from 14 percent to over 20 percent since 1987-88. The real winners of the subsidy war have been wheat importers. It could be argued that other exporters (Canada, Argentina, and Australia) have lost market share since U.S. subsidies were increased.

As with any other policy that changes the rules of the market place, export subsidies have likely resulted in market distortions. Because export subsidies cannot be analyzed in the absence of other market-influencing events, impacts are difficult to isolate. One potential impact is the contribution toward the trend of substituting wheat for corn in livestock feed rations around the world. Since 1985-86, corn feeding outside of the United States has increased by 6 percent while wheat feeding has increased 32 percent.

The most obvious market distortion created by export subsidy programs is the current high domestic price of wheat in relation to other grains and oilseeds. To some extent those relationships over the next few months will be affected by changes, if any, in the export subsidy programs.



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