



**Directorate of
Intelligence**

Secret

25X1

World Grain Market: The Worsening Glut

25X1

An Intelligence Assessment

ON FILE DEPARTMENT OF
AGRICULTURE RELEASE

Secret

*GI 82-10257
December 1982*

Copy **484**

Page Denied



**Directorate of
Intelligence**

Secret
[Redacted]

25X1

World Grain Market: The Worsening Glut [Redacted]

25X1

An Intelligence Assessment

This paper was prepared by [Redacted]
[Redacted] Office of Global Issues.
Comments and queries are welcome and should be
directed to the Chief, Commodity Markets Branch,
OGI [Redacted]

25X1

25X1

25X1

Secret
GI 82-10257
December 1982

Secret
[Redacted]

25X1

**World Grain Market:
The Worsening Glut** [Redacted]

25X1

Key Judgments

*Information available
as of 29 November 1982
was used in this report.*

World grain markets during the marketing year ending 30 June 1983 (MY 1983) will be characterized by sluggish demand, depressed prices, and mammoth additions to already record stocks. This year's potential record harvest, coupled with the inability of some key importers to finance purchases, will flood world markets with grain. Fierce competition, increasingly incorporating attractive finance packages and concessionary repayment terms, is already generating acrimony among producers.

Under these conditions, the USSR should be able to choose among sellers. The Soviets may already have as much as 27 million tons of grain lined up from all sources for delivery in MY 1983, and we believe that imports from non-US suppliers may reach 32 million tons. Any reduction in imports below 42 million tons will probably decrease the 10.5 million tons of grain we currently expect Moscow to take from the United States.

[Redacted]

25X1

Secret

25X1

Table 1
Estimated Changes
in Wheat and Coarse Grain Production,
MY 1983

Million tons

	Change From MY 1982		MY 1983 Total Grain Production ^a
	Wheat	Coarse Grains	
Total	15.8	14.6	1,242
United States	0.5	4.1	329
Total non-US	15.3	10.5	913
Argentina	3.2	-1.0	29
Australia	-7.9	-2.6	13
Canada	2.0	-0.4	52
EC	3.7	1.5	128
Eastern Europe	3.4	4.2	100
USSR	-9.0	5.0	165
China	1.0	1.0	143
Other	18.9	2.8	283

^a Estimated.

25X1

Secret

iv

Secret

25X1

**World Grain Market:
The Worsening Glut**

25X1

A Bumper Harvest

World grain production this year will be about 1.24 billion tons, up slightly from last year's record level. Despite weather-plagued crops in Australia and the Soviet Union, world-wheat production will be about 460 million tons according to US Department of Agriculture (USDA) estimates, about 4 percent more than last year's near-record level. Coarse grain output, however, may soar to a record 780 million tons, largely because of a massive US harvest (table 1). Among the major exporters:

- Only the United States, with its acreage reduction program, has acted to reduce output in the face of low prices and glutted markets. Nevertheless, grain production is expected to set another record because of exceptionally high yields and farmer indifference to the set-aside program. Of particular interest, the US corn crop may reach 210 million tons—equal to nearly half of this year's global corn crop.
- Canadian farmers increased wheat acreage by almost 15 percent, while coarse grain acreage declined slightly as relative prices encouraged rape-seed plantings at the expense of corn and barley. Ideal weather during the growing season resulted in a record crop of nearly 27 million tons, which could allow wheat exports to exceed 19 million tons this year.
- Australia had hoped for a record wheat harvest of 17 million tons, but we currently estimate this year's crop at 8.5 million tons. Rainfall has remained at 20 to 30 percent of normal levels since March, devastating most of the crop in the key eastern states.
- European Community (EC) wheat production has set a new record because of high support prices that encouraged both a 2-percent increase in acreage and the adoption of higher yielding, albeit more costly, varieties. Production of corn may set a new record, but barley production is expected to fall slightly.

- Argentina's important coarse grains crop is now being planted. Argentine farmers, despite heightened financial difficulties brought on by the Falklands war, increased wheat sowings by 15 percent this year. Ideal growing conditions could result in a 10- to 11-million-ton harvest. Coarse grain acreage will also probably increase from last year's levels. Weather, as always, will play a decisive role. A crop failure would substantially alter conditions in world coarse grain markets, increasing opportunities for US grain exports and limiting Moscow's choices in buying grain.

25X1

Major importing nations have had mixed success in expanding grain output. Some, such as Japan, simply lack the resources to significantly boost production. Others, most importantly the USSR, find it difficult to boost output because of the uncertainties associated with harsh climate. We estimate that because of poor weather this year's Soviet crop will approximate 165 million tons, well below amounts needed to maintain livestock production and rebuild stocks.¹ We expect China's wheat harvest to remain at last year's level, while Eastern Europe's wheat crop, although large, will still be lower than levels reached in the late 1970s. Mexico's coarse grain crop is expected to be less than last year's, necessitating stock drawdowns.

25X1

Prices and Stocks

Although we expect global grain consumption to increase by nearly 34 million tons in marketing year (MY) 1983, it will be inadequate to prevent record-ending stocks of roughly 234 million tons (figure 1). The US coarse grain crop is responsible for all of the increase, with stocks elsewhere declining marginally. US grain stocks will rise to about 146 million tons—more than double the level of two years ago. This will

25X1

Secret

Soviet Harvest

The Soviet grain harvest is now complete; our best estimate is that the crop approximates 165 million tons. There is margin for error in this estimate, although over the past four years improvements in the collection and processing of weather data, grain model algorithms, [redacted]

[redacted] have enabled us to forecast Soviet grain production with increasing accuracy. During this period CIA estimates have averaged within 4 percent of the actual crop. Errors ranged from 0.5 percent to about 8 percent. Allowing for this error range, then, the current Soviet crop could be as much as 166 to 178 million tons. [redacted]

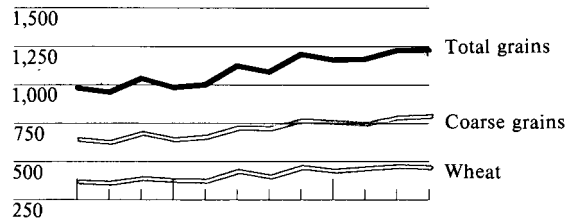
have a bearish influence on prices, particularly for coarse grains, which make up more than two-thirds of the total. The USDA estimates US corn carry-in stocks at 88 million tons, nearly 30 percent greater than one year's global trade. US export prices recently fell below prices of three years ago, and we expect prices to remain depressed well into 1983 (figure 2). [redacted]

Low prices are plaguing the major exporters as they seek to maintain farm income. In the United States, where farmers participating in the set-aside program are paid the difference between target and market prices, deficiency payments are already estimated at \$1.2 billion by USDA. Canada and the EC will also increase budget outlays. Low prices will do little to discourage production, however, both because government programs universally help insulate producers from the market and because producers typically respond to low prices by trying to increase revenues through increased plantings. [redacted]

**Figure 1
World Grain Statistics**

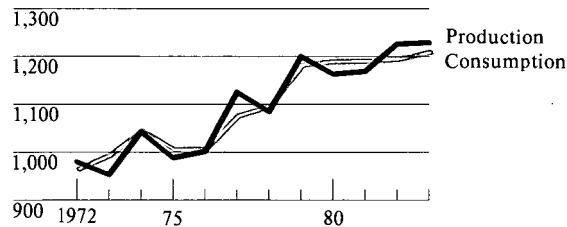
Million Metric Tons (note change in scales)

World Grain Production



25X1

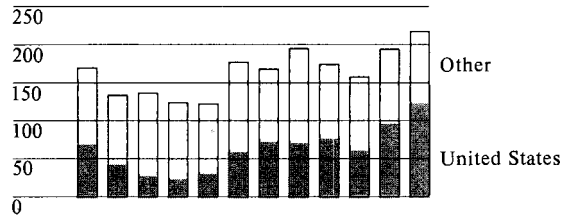
World Grain Supplies



25X1

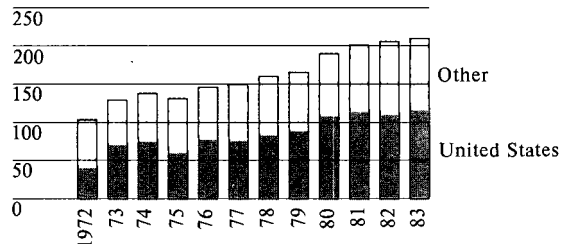
25X1

World Grain Stocks



25X1

World Grain Exports



25X1

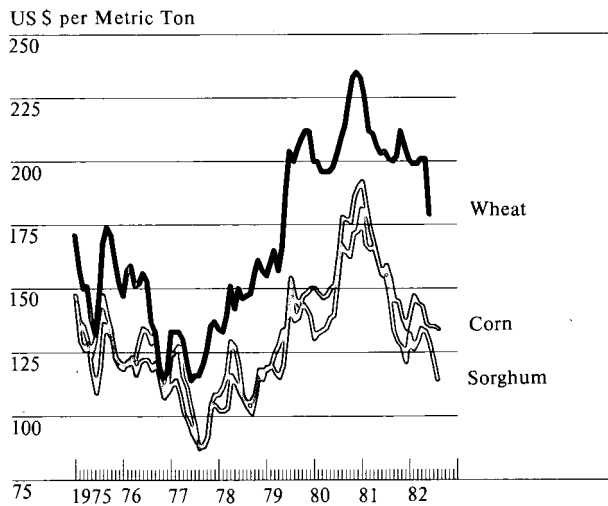
[redacted]

25X1

Secret

Secret

Figure 2
United States: Grain Export Prices^a



^a Monthly average price c.i.f. Rotterdam.

25X1

25X1

588197 11-82

Global Trade Outlook

This year's bumper harvests are meeting lethargic demand from the major importing nations (table 2). With the exception of China and Mexico, buyer activity is expected to be at about last year's levels (table 3). A combination of factors, including improved domestic harvests, credit and foreign currency constraints, and policy decisions to reduce import costs caused this restraint. [redacted]

25X1

Soviet Purchases. We cannot pinpoint the amount of grain the USSR will actually purchase in MY 1983. Purchasing patterns have not been consistent with the imports of 42 million tons that we believe are needed to support current levels of meat and dairy production; maintain livestock inventories; and cover requirements for seed, food, and industrial use. Unless Moscow increases its orders from the United States, total imports will be substantially below this level, [redacted]

[redacted]

25X1

25X1

If our forecast of the Soviet grain crop is correct, the lower purchases could reflect increased flexibility in handling grain, political considerations, or even a policy shift in the Politburo:

- Grain supplies on hand are sufficient to last through the winter. If Soviet logistic capacity is better than we estimate, the Soviets could postpone large imports (5 million tons or more per month) until early next spring.
- Political considerations may also be affecting Soviet grain buying strategy. [redacted] Soviet leaders realize that the Soviet Union's absence from the market is creating uncertainty about US export prospects—uncertainty they hope will be translated into stepped-up domestic pressures in the United States to normalize Soviet-US trade relations.

25X1

- A key question is whether the new leadership is willing to continue the upward spiral of imports of foreign grain. Some in the leadership may have questioned the wisdom of this policy, arguing that less emphasis should be placed on meat as a major element in the Soviet diet. The lull in purchases could reflect a decision to reduce dependence now and accept the consequences of more pervasive shortages of high-quality foods. [redacted]

25X1

Combining various long-term agreement (LTA) obligations and purchases outside these agreements, the Soviets have lined up 27 million tons of grain from all sources for delivery in MY 1983 (table 4). We believe that they can secure another 11 million tons of grain from non-US suppliers for delivery before the end of June. The remaining 4 million tons of grain, which the USSR would need to put imports at 42 million tons, however, would have to come from US stocks.² With July-October shipments already on the books, the

² This calculation is based on actual deliveries of 7 million tons during July-October 1982 and our estimate that Soviet ports can handle a maximum of 15 million tons during April-June 1983. [redacted]

Secret

Table 2

Million tons

**Major Exporters:
Estimated Production of Wheat and Coarse Grains,
July 1982-June 1983**

	Production	Domestic Consumption	Exports	Ending Stocks ^a
Total	1,242.0	1,203.7	198.7	234.3
United States	329.5	184.2	106.5	145.8
Argentina	28.7	7.8	17.5	0.7
Australia	12.7	6.1	9.3	0.8
Canada	52.4	12.5	26.5	16.6
EC ^b	127.5	120.5	21.7	15.1
Other	691.2	872.6	17.2	55.3

^a Stock figures coincide with respective countries' marketing years.

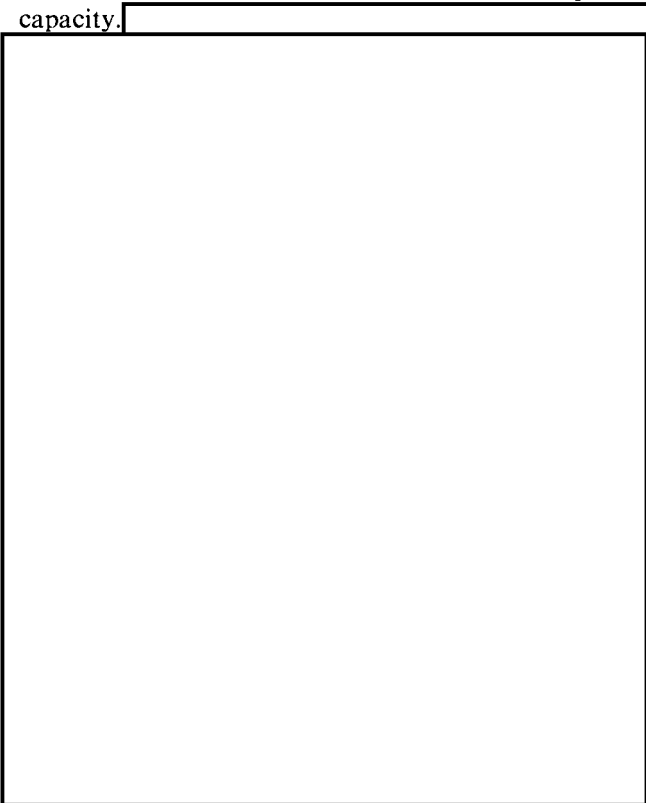
^b Excludes intra-EC trade.



25X1

25X1

USSR would have to import 4.4 million tons of grain monthly during November-June to reach 42 million tons. Although this rate is more than twice the July-October pace, it is within our estimate of Soviet port capacity.



25X1

- Argentina currently has only about 1 million tons of coarse grain available for export until January, when the new wheat crop will be ready for shipping. Moreover, high domestic Argentine grain prices have driven up export prices to \$130 per ton for corn and \$120 per ton for sorghum, while US export prices are about \$100 for each.
- France has nearly 8 million tons of old crop wheat available for export; however, we believe 3 million tons may be the upper limit of Soviet purchases for quality and logistic reasons. Of this amount, we expect 2 million tons to be shipped during the next six months.

25X1

Secret

Table 3
Major Countries: Grain Trade ^a

Million tons

	Wheat		Coarse Grains	
	1981/82	1982/83 ^b	1981/82	1982/83 ^b
Total Exports	101.8	99.9	103.7	98.8
United States	49.1	45.0	61.4	61.5
Argentina	4.3	5.5	13.6	12.0
Australia	11.0	7.5	3.1	1.8
Canada	17.8	19.5	7.6	7.0
EC	15.5	16.5	5.0	5.2
Other	4.1	5.9	13.0	11.3
Total Imports	101.8	99.9	103.7	98.8
USSR	19.5	20.0	25.5	22.0
China	13.2	14.0	1.3	2.0
Eastern Europe	6.4	4.6	6.9	4.8
Egypt	6.1	6.5	1.2	1.6
EC	4.7	4.4	10.0	9.5
Japan	5.6	5.7	18.3	18.5
Taiwan	0.7	0.7	3.7	3.9
Other	45.7	44.0	36.8	36.5

^a Market year, July through June.

^b Estimated.

25X1

[Redacted]

25X1

Australia will be able to send only about 1 million tons during the winter to the USSR because of this year's drought-reduced harvest. The Wheat Board has successfully petitioned Canberra to amend the Wheat Marketing Act of 1979 to permit grain imports for domestic use [Redacted]

25X1

[Redacted] The situation eliminates Australia as an alternative grain supplier for Moscow until December 1983. [Redacted]

25X1

Soviet Leverage. Although the potential for shipping from alternate sources is limited in the short run, current grain surpluses do permit Moscow to choose among offers. The choices Moscow makes will determine the pattern of world trade this year. Unlike

other major importers who have well-established trading patterns, the Soviets have highly variable purchasing patterns because of disruptions created by the US-led embargo of grain sales in 1980. Thus, an exporter who fails to court Soviet sales will be forced to compete in well-entrenched markets [Redacted]

Soviet leverage differs widely among exporters. Canada, Australia, and the EC—all with highly developed and well-served markets—look to the USSR as an escape valve for surplus grains. Argentina, on the other hand, has become heavily dependent on Soviet purchases [Redacted]

25X1

[Redacted]

25X1

Secret

Table 4
Soviet Grain Imports

Million tons

	1981/82 ^a Actual Purchases	1982/83 ^a		
		Estimated Requirements	Purchases to Date	Additional Commitments
Total	45.0	41.5	22.0	5.2
United States	15.4	10.5	3.5	3.0
Argentina	13.2	14.0	5.5 ^b	2.2
Australia	2.5	1.0		
Canada	9.2	10.5	9.7	
Eastern Europe	1.5	1.5	1.5	
EC	2.7	3.0	1.1	
Other	0.5	1.0	0.7	

^a 1 July-30 June.

^b Including 1.95 million tons under negotiation.

25X1

[redacted]
[redacted]
[redacted] The extension of the LTA between the United States and the USSR commits the Soviets to purchase 6 million tons of US grain during October 1982-September 1983, and the United States has offered 23 million tons. Although the United States possesses natural advantages in terms of quantities and types of grains, shipping flexibility, and potential private credit arrangements, sales probably will not reach last year's estimated 15.4 million tons. [redacted]

world import demand this year is due to bumper crops and reductions by the other major importers—none of which can expand production to meet growing populations and domestic demands for improved diets. The current buyer's market may evaporate, leaving the USSR as only one of several vigorous competitors for world grain supplies [redacted]

In the absence of a US grain embargo, Argentina may have to trim prices substantially to move its grain. The country has limited storage capacity. Argentina's precarious financial condition has made Buenos Aires reluctant to offer credit, a disadvantage in trying to compete for Soviet sales because Moscow has been demanding credit to finance grain purchases. Argentina will also find it difficult to reenter markets it abandoned last year to sell to the Soviets. [redacted]

Other Buyers. We believe China's wheat imports may rise by about 1 million tons, with the actual level heavily dependent on credit availability and crop size. We estimate that East European imports of both wheat and coarse grains will be only about three-fourths of last year's level because of foreign currency constraints and record grain harvests. Japan's wheat purchases will decline slightly, reflecting the government's continuing policy of diverting rice land to wheat production, while coarse grain imports will be virtually unchanged from the preceding three years. [redacted]

How long the Soviets will have this kind of leverage is difficult to measure. We believe they will continue to be a major grain importer for the near future. Slack

We believe that EC grain imports—primarily corn and hard wheat—will also be stagnant because of a potential record crop. Mexico's poor coarse grain crop

25X1

25X1

Secret

25X1


Soviet Avenues of Credit


Although the USSR apparently has the resources to pay cash for most of its grain imports, Moscow is likely to continue using credit to finance some purchases. Three major sources of credit are open to Moscow:

- *International grain trading companies can provide financing because of their longstanding credit relations with major banks. By extending short-term credit to purchasers using the firm's line of credit, the trader can profit from both the sale and the credit arrangement. The companies can also help arrange direct credit between banks and grain buyers.*
- *Commercial banks will independently provide short-term, unsecured loans to grain-buying countries that are deemed creditworthy. Interest on loans is pegged to the US prime rate or the London Interbank Offered Rate (LIBOR) on most US-financed grain. Both prime and LIBOR rates had exceeded 15 percent for most of the past year but have now declined to 12 and 11 percent, respectively.*
- *Government financial assistance is available from some exporters to promote grain sales. Support can take a variety of forms, from providing direct credit to guaranteeing private loans. Canada and Australia both have offered government-guaranteed loans.*



relative to last year may necessitate a 2-million-ton increase in coarse grain imports. We do not expect Mexico's financial difficulties to affect grain import

volume, largely because of \$1 billion in credit guarantees from the United States for the purchase of agricultural goods. Brazil's efforts to dampen demand by dismantling consumer subsidies on wheat should enable it to reduce imports by about 800,000 tons. 

Increased Competition for Exports. Despite sluggish demand, Canada and the EC will be able to increase wheat exports by about 1-2 million tons each this year. US wheat exports probably will decline 4.1 million tons, and coarse grain exports, although the same as last year, still will be below levels reached in MY 1980. 

25X1



Fierce market competition, increasingly incorporating attractive finance packages and concessionary repayment terms, is generating acrimony among grain-producing nations. Much of these nations' anger is focused on the EC's Common Agricultural Policy with high tariff barriers, wheat support prices three times the US level, and generous export subsidies that are being blamed for two consecutive years of grain surplus. EC attempts to expand sales in North Africa and the Middle East and to enter markets in Asia and South America are receiving sharp press and diplomatic criticism from the United States, Canada, and Australia. Moreover, EC efforts to stimulate domestic grain consumption by proposing import restrictions on feed substitutes, such as corn gluten feed, are angering US farmers and corn processors. The EC cites US

25X1

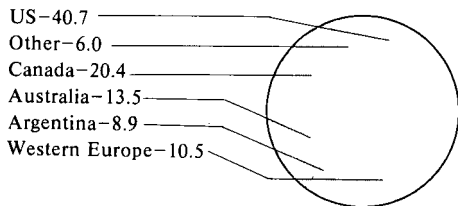
25X1

Secret

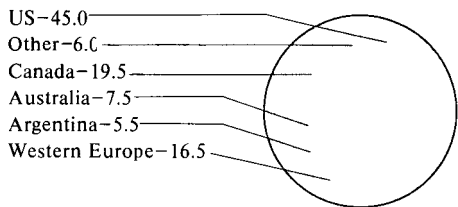
Figure 3
Major Grain Exporters: Share of World Exports

Percent

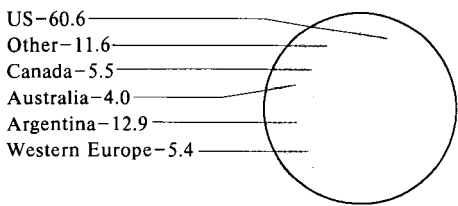
1976/77 Wheat



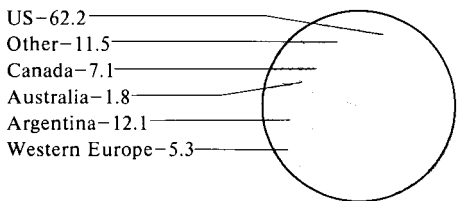
1982/83 Wheat



1976/77 Coarse Grains



1982/83 Coarse Grains



farm programs and price supports as unfair competition. The head of the EC Grain Commission recently claimed that the United States was pushing the EC out of its traditional markets in Morocco, Tunisia, and Egypt and was forcing the EC into the Soviet and East European markets. At a conference of major grain exporters in Ottawa last summer, Australia accused the United States of using political clout to monopolize the wheat markets of South Korea and the Philippines. [redacted]

25X1

Some Implications for the United States

Larger US exports will have to await improvement in world economic conditions, especially in developed nations. The United States can expect no cooperation from other exporters, who are under intense domestic pressure to maximize output and expand exports. Enough latent demand exists in the major importing nations to significantly increase grain imports, if economic conditions improve and demand for meat picks up. It will also be difficult for the United States, Canada, and the EC to duplicate this year's yields. Thus, present surpluses could disappear relatively quickly, and the world could experience a general scarcity as in 1972. Many USDA economists believe that an extended grain scarcity may characterize the late 1980s. Until import demand picks up, however, surpluses will continue. [redacted]

25X1

25X1

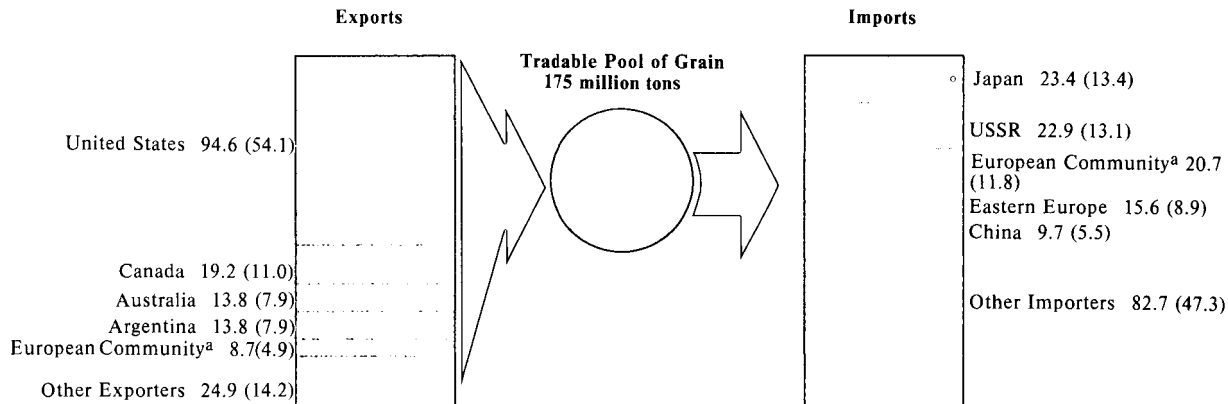
[redacted]

588198 11-82

Secret

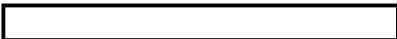
Figure 4
World Grain Trade Flows, Average 1976/77-1980/81

Million Tons (Percent of Total)



^a European Community figures exclude intra-EC trade.

25X1



588199 11-82

Page Denied

Next 1 Page(s) In Document Denied

Secret

1
1

1
1

Secret

Page Denied

Next 7 Page(s) In Document Denied