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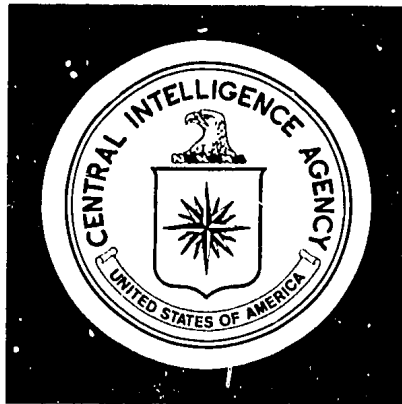
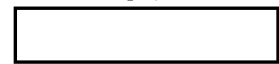
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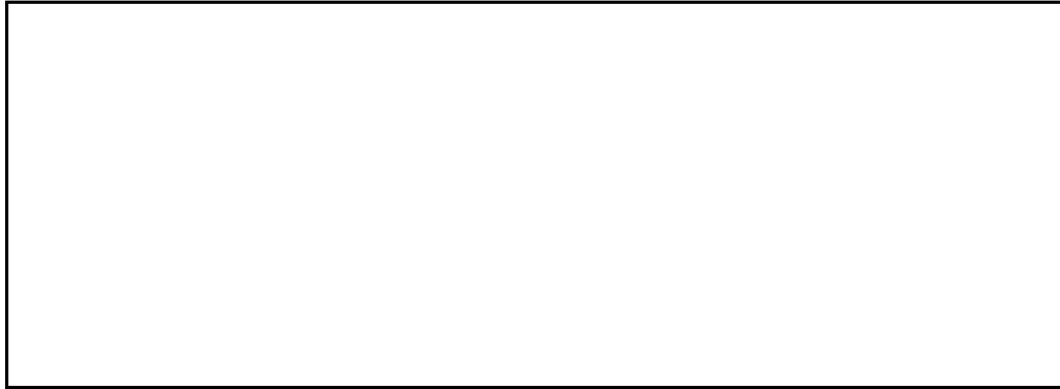
Note: Comments and queries on the contents of this publication are welcomed. They may be directed to [Redacted]

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ECONOMIC INTELLIGENCE WEEKLY

Notes



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Debate over CAP Price Proposals for 1973-74

Bonn's Minister for Agriculture Ertl wants larger grain price increases and labels as premature the Commission's proposal to limit all increases in Germany in an effort to reunify EC agricultural prices. French, Belgian, and Irish officials also are insisting on larger price increases for some products, while British and Italian officials want agricultural prices frozen. Britain's Minister of Agriculture Godber has even hinted that the United Kingdom might use a veto to block price increases. The agricultural ministers will meet to discuss the Commission's recommendations at the EC Council meetings scheduled to start on 9 April. [REDACTED]

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Japan's Gold Imports to Rise Steeply

Private Japanese interests are importing gold for the first time since World War II, following the government's 1 April liberalization of gold import regulations. As a result, imports this year are expected to reach 130-150 tons, roughly double the 1972 level. [REDACTED]

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[REDACTED] The new measures, designed to meet industrial needs, also permit individuals to import the equivalent of \$3,000 in gold at any one time without government approval. Japanese department stores already are selling small gold bars. The international gold markets already have discounted the Japanese move. Rumors of the change in import laws contributed to the substantial rise in the international gold price earlier this year. [REDACTED]

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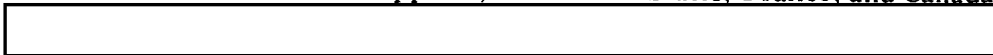
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Tunisia May Seek More US Wheat

Heavy flooding in Tunisia's most fertile agricultural area may prompt requests for increased PL-480 wheat shipments in FY 1974. (PL-480 commitments in FY 1973 amount to 10,000 tons.) Preliminary assessment of crop damage indicates that at least 20% of this year's cereal crop is lost. Such losses could double wheat import requirements in FY 1974 to more than 450,000 tons. Tunisia almost certainly would seek any additional wheat from its traditional suppliers, the United States, France, and Canada.



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US May Be Excluded from Mexico's Tractor Market

Mexico is offering exclusive access to its track-type tractor market to a foreign firm willing to set up a new plant to manufacture one small model in Mexico domestically. Caterpillar Tractor, presently holding 50% of the market, apparently is out of the running because of unwillingness to accept managerial control by Mexicans. A Japanese firm now is the leading candidate over two other US firms. If the Japanese firm wins, the exclusive access clause will close the door on US exports amounting to some \$20 million next year. However, a compromise solution involving a Japanese firm and a US firm is possible.



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Moscow May Make Sales Pitch in the United States

The USSR apparently is laying the groundwork for a major sales effort in the United States while awaiting Congressional approval for MFN. Moscow has requested a US advertising firm to study market conditions for the possible sale of Soviet machine tools, welding equipment, textile machinery, hydrofoils, and YAK-40 transports. The firm also will act as an adviser for contracting out additional studies to other US advertising agencies and will prepare formats for three Soviet marketing publications promoting US-Soviet trade. January 1974 is the target completion date for the studies and for initial publication of the Soviet periodicals.



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Abu Dhabi Investigates Alternatives to Dollar Holdings

The government is re-evaluating its use of dollars for foreign commercial transactions in light of the recent dollar devaluation. [redacted]

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[redacted] The small Persian Gulf states, including Abu Dhabi, are estimated to hold the equivalent of about \$1 billion in foreign currencies – largely dollars – in government and private accounts. While most Arab oil interests still respect the dollar, they apparently believe they can no longer place complete confidence in any single currency. [redacted]

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Articles

Agricultural Developments in Eastern Europe

Good agricultural results throughout Eastern Europe last year permitted the region to reduce grain imports, boost livestock production, and improve domestic food supplies. Current prospects for the 1973 winter grain harvest are mediocre, however, and grain imports, mainly from the West, may have to be increased next year.

In 1972, East European agricultural output (excluding Yugoslavia) grew by an estimated 7.5% to a record level. As a result of last year's bumper grain harvest (73 million tons) and improved output of potatoes in the northern countries, East European grain imports fell by 2 million tons, to about 7 million tons. Grain imports from the West, however, remain at a high level (4 million tons) because of reduced imports from the USSR. US sales of more than 1.5 million tons to the region in FY 1973 are the highest in a decade.

Prospects for 1973 indicate a smaller harvest of winter grain -- normally 50% of total production -- than last year.

- In early March, most countries reported that the condition of winter wheat was no better than average.
- March snows and sudden thaws in Bulgaria and Romania have caused some flooding of winter grain fields.
- Below-normal soil moisture reserves in the northern countries and Hungary have reduced chances of good spring growth needed to optimize yields.

A decline in grain output in the northern countries would boost demand for imports in FY 1974 because of an estimated drawdown in grain stocks this year and a need for feed grain to support high-priority livestock programs. Any increased import demand would have to be filled largely by Western exporters because the USSR is not likely to expand grain exports next year.

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Soviets Interested in Still More Grain?

Soviet shipping arrangements suggest that Moscow intends to buy large quantities of grain in addition to the 5 million tons of corn it evidently purchased from the United States recently.

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[redacted] If this tonnage were used exclusively for grain, it would be sufficient to move almost 10 million tons annually from North American ports to the Black Sea.

Soviet-owned ships employed in carrying grain from the United States could handle another 9 million to 10 million tons a year on a full-time basis. In addition, the USSR is required by its maritime agreement with the United States to give US-flag ships, to the extent they are available, the opportunity to carry at least one-third of US-Soviet trade. However, because of more attractive rates in other trades, US ships have carried only 7% of the US grain shipped to the USSR since 1 July 1972.

With time and voyage charter rates at very high levels and with suitable ships hard to find, the Soviets apparently want to be in a position to handle expeditiously any grain contracts negotiated over the next several months.

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[redacted] The extent of chartering in June and beyond will probably depend on a Soviet appraisal of the size of their domestic grain crop. In the case of an above-average grain harvest, the Soviets may well forgo further contracts for time charters.

The tonnage now being lined up by Moscow is suitable for carrying grain from most potential suppliers, [redacted] which sold the Soviets an unspecified quantity of wheat in February.

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Brazil's Soybean Potential: An Emerging Threat to US Exports

The United States continues to dominate the soybean market, but Brazil's output and exports have been skyrocketing. Brazil's share of world exports has jumped from 3% to 13% during the past four years, while the US share slipped from 92% to 86%. Prospects are for a continuing rapid rise in Brazilian sales.

Brazil's soybean output has soared from 650,000 tons in 1968 to a likely current harvest of 4.7 million tons, partly because suitable land is plentiful and the government actively promotes the crop. Most important, Brazil produces soybeans much more efficiently than most other annual crops. Soybean yields are approaching US levels, whereas yields for alternative crops such as corn are only about one-third those in the United States. This comparative advantage over other crops is so pronounced that Brazilian farmers would profit from soybeans even at greatly reduced prices.

Brazilian soybean exports have not yet cut into the sales volume of the largest US agricultural export, but they threaten future gains. Both the United States and Brazil have benefited from an extraordinary spurt in world demand that has boosted current soybean prices to a historic high. Because of the record current harvest and continuing high prices, Brazil's soybean exports in 1973 could reach \$600 million – more than double last year's. Prices, however, should fall by the end of the year; the United States also expects a bumper harvest this fall, and Peru's fishmeal supplies – a close substitute in livestock feed – should partly recover by then.

Brazil is almost certain to gain a larger share of world soybean exports in the long run, especially if its competition pushes the price below the historic norm of a little more than twice that of corn. At lower prices, some US farmers probably would switch land to other crops such as corn, but Brazilian farmers probably would continue to find soybeans most profitable. Should Brazil achieve its 1980 output goal of 20 million tons, it could satisfy about half of the projected world import demand.

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East Asia Export Boom Planned to Continue

Exports from Taiwan, South Korea, and Hong Kong are expected to grow rapidly through the mid-1970s, and much of the increase will be aimed at the US market.

- Taiwan and South Korea project a combined export growth through 1976 of about 25% annually.
- Hong Kong's export prospects also are excellent, and -- barring major new restraints -- the three countries' sales probably will reach at least \$16 billion in 1976, compared with \$7.4 billion in 1972.
- These projections suggest that exports to the United States will at least double by 1976, reaching \$6.5 billion or more.
- Further penetration of the US market will be aided by the countries' improved ability to compete with Japan following the yen's recent revaluation.

The three countries probably will increase their share of US imports of various consumer products.

- They already account for about one-fifth of US consumer electronics imports and are in a good position to raise sales substantially.
- Exports of footwear, bicycles, and electrical appliances also promise to grow rapidly.
- In addition, the countries probably will be able to export more heavy industrial products. South Korea, for example, is building a steel industry with an eye toward exporting any surplus production to the US market.

Although US sales to East Asia will increase, the trade deficit with the region seems likely to expand.

- US sales to Taiwan, South Korea, and Hong Kong have not kept pace with US purchases in recent years, and the \$1.4 billion trade deficit with the three in 1972 was more than twice that of 1971.

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- A key factor has been growing competition from Japan, which expanded sales to the three countries by 18% annually during 1969-72, compared with 11% gains by the United States.
- US sales in East Asia will benefit from the latest currency realignments, but Japan nevertheless will remain a very strong competitor.

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The Economic Situation in South Vietnam (Monthly Report for March)
(CIA ER IM 73-38, March 1973, [redacted])

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Although major supply shortages due to road interdiction have been alleviated, prices increased during March and are now up 11% for the year. The government has imposed further restriction to conserve foreign exchange. The land reform program, now ending its third year, has achieved its goal of distributing 1 million hectares of land to former tenant farmers. Business investments were negligible in 1972, but development loan approvals increased as investors continued to plan for future projects.

France: Balance-of-Payments Developments Since the Smithsonian Agreement
(CIA ER IM 73-36, April 1973, [redacted])

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France's balance-of-payments position is likely to remain strong because of French price competitiveness in world markets. Booming exports pushed the trade surplus well past \$1 billion in 1972. A large net outflow of transfer payments, however, held down the current account surplus, and the basic balance was roughly in equilibrium. The substantial official settlement surplus thus was due mainly to short-term capital inflows.

The Soviet Grain Situation in Fiscal Year 1974: A Preliminary View
(CIA ER WP 73-3, 2 April 1973, [redacted])

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The Soviets will probably need again to import large amounts of Western grain in FY 1974. Assuming normal weather and average yields, the USSR can anticipate a grain crop of 153 million tons, 12 million to 17 million tons below expected domestic demand. This probable deficit can be compared with Soviet purchases of 26 million tons of grain in FY 1973. Imports could rise above 17 million tons if the USSR attempts to rebuild depleted buffer stocks.