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17 October 1974

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MEMORANDUM FOR: [redacted]

SUBJECT : Impact of Further Rises in Grain Prices on Latin America

Attached is the assessment you requested. It is based on the highest possible prices for wheat ($7/bushel) and corn ($5.50/bushel), as you requested. In reality, prices probably would not exceed $6 and $5, respectively. More importantly, the volume of trade likely at such prices would be small since substantial quantities of grain have already been contracted for at prevailing prices and many buyers would leave the market. As a result, international prices of $7/bushel for wheat and $5.50/bushel for corn would probably affect less than 10% of total Latin American imports of these commodities in FY1975.

[redacted]

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Attachment:
as stated.

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Attachment
17 October 1974

Impact of Further Rises in Grain Prices on Latin America

Most Latin American nations would face higher import bills if world demand for wheat and corn remained high while supplies declined. The institution of US export controls for these commodities could boost world prices for wheat from about $5/bushel to $7/bushel, depending on the volume of Soviet purchases. Corn prices could rise from about $3.70/bushel to $5.50/bushel. The cost of a metric ton of wheat and corn on international markets would thus increase about $73 and $70, respectively. Table 1 shows estimated total imports, the proportion from the United States, and the estimated increased cost of wheat and corn imports under the assumption that the higher prices would affect half of each country's imports during FY1975. The implications for individual countries are discussed briefly below.

Argentina

A major exporter of grains, Argentina would experience a significant boost in foreign exchange earnings and a healthy balance of payments surplus under higher prices.

Bolivia

Bolivia would not be seriously affected by higher wheat prices. Foreign exchange reserves will be about $194 million at year end. Under present assumptions purchases would not need to be reduced.

Brazil

Brazil, already suffering from higher oil prices and declining reserves would be hard hit by an estimated $100 million increase in its wheat import bill. Brazil, however, is a major producer of soybeans. Prices for this product probably would be pushed from $8.50/bushel to around $10.50 if corn prices advanced as stipulated. In this case, export earnings increases from Brazilian soybeans could easily exceed $200 million -- more than twice the increased outlays for imported wheat.

Chile

Chile will find it difficult to finance wheat and corn imports if costs rise substantially. Foreign exchange earnings are falling because of the sharp drop in international copper prices. Corn imports could be cut most easily because Chile had a good crop this year. Reducing wheat imports would require further sacrifice by low and middle class Chileans already hit hard by strict austerity measures. The problem could be eased if Santiago succeeds in obtaining PL-480 credits covering 10% of its estimated FY1975 wheat requirements.

Colombia

Colombia would be able to handle additional outlays for grain with little trouble. Net capital inflow will be about $49 million this year and net foreign exchange reserves will be between $500-$765 million. Thus, a $14 million increase in grain imports will not be significant.

Ecuador

An increase in grain prices would have no significant impact on Ecuador, since Quito now has more petrodollars than it can spend.

Paraguay

If Paraguay again receives generous credits from its traditional supplier, Argentina, the impact of higher prices will be minimal. The price rise can also be offset by increases in Paraguay's exportable supplies of soybeans and soybean oil.

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Peru

An increase in wheat prices would aggravate the government's expected budget deficit because of Lima's wheat subsidy program. This would, in turn, accelerate the inflation rate. Peru is currently seeking credits for its wheat imports. If these efforts are unsuccessful, the government probably will have to cut imports between 150,000 and 200,000 tons. These import limitations would create shortages.

Uruguay

Uruguay, already strapped by the high cost of oil imports, would be hurt by increased grain prices. Import limits would be unlikely, however, and Uruguay probably will seek credits and loans to pay for the increased cost of grain.

Venezuela

Venezuela could easily handle increased prices for grain out of present surpluses of petrodollars.

Central America

Increased grain costs pose only a moderate problem for most Central American countries, except Costa Rica and Honduras. Costa Rica's reserve situation is poor and any addition to an already large deficit would pose problems. Honduras, which could have handled increased costs, was recently devastated by a hurricane. The rise in wheat and corn prices will be dwarfed by other food and reconstruction costs, however. Panama, El Salvador, Guatemala, and Belize have adequate reserves to meet increased grains costs even though they are running deficits. Nicaragua will have no problems.

Caribbean

While some Caribbean countries would feel no effects from even a large increase in grain prices, other countries are already strained to their limits by recently inflated import prices and stagnant foreign exchange earnings. The hardest hit countries would include Haiti, Barbados, and the British Leeward and Windward Islands. Countries which have balance of payments deficits but could finance increased export costs with loans include the Dominican Republic, the Bahamas, the Netherlands Antilles, Surinam, and Guyana. Trinidad and Jamaica can easily handle increased costs with their large commodity export earnings. The French West Indies receives its grain imports from Europe and will have increased costs subsidized by France.

Cuba

The impact of higher grain prices on Cuba would be moderate. Because Cuba buys most of its grain from the USSR or from Canada on Soviet account, any increase in its grain bill would most likely be reflected in an increased trade deficit with Moscow rather than a cutback in imports. With Havana's sharply increased sugar revenue this year, the relatively small amounts of grain imported from other sources could probably be handled readily.

Mexico

Mexico could easily absorb increased costs for corn and wheat imports. Mexico expects no problem financing a projected trade deficit of $2.4 billion in 1974 with loans and service payments. An additional $108 million for grain imports would not be a significant factor in their balance of payments position. Even with a greater increase, the government would not curtail grain imports because of the politically sensitive nature of food availability.

Table 1

Estimated Demand for Wheat and Corn and the Impact of Higher Prices in FY1975

	Wheat and Flour			Corn		
	Total Imports (1000 MT)	Imports From US (1000 MT)	Estimated Added Cost of Imports (Million $)	Total Imports (1000 MT)	Imports From US (1000 MT)	Estimated Added Cost of Imports (Million $)
South America						
Argentina	Exporter	--	--	Exporter	--	--
Bolivia	200	60	7.3	--	--	--
Brazil	2,540	1,300	92.7	--	--	--
Chile	1,000	500	36.5	250	150	8.8
Colombia	380	340	13.9	5	5	0.2
Ecuador	175	130	6.4	--	--	--
French Guyana	--	--	--	--	--	--
Guyana	49	45	1.8	3	3	0.1
Paraguay	100	--	3.6	--	--	--
Peru	900	645	32.9	300	300	10.5
Surinam	10	10	0.4	--	--	--
Uruguay	130	--	4.7	--	--	--
Venezuela	650	635	23.7	300	--	10.5
Sub-total	6,134	3,665	223.9	858	458	30.0

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Table 1

Estimated Demand for Wheat and Corn and the Impact of Higher Prices in FY1975 (Continued)

	Wheat and Flour			Corn		
	Total Imports (1000 MT)	Imports From US (1000 MT)	Estimated Added Cost of Imports (Million $)	Total Imports (1000 MT)	Imports From US (1000 MT)	Estimated Added Cost of Imports (Million $)
Other Latin America						
Bahamas	24	17	0.9	3	3	0.1
Barbados	13	neg.	0.5	1	--	neg.
British Honduras	3	2	0.1	--	--	--
Costa Rica	78	75	2.8	45	35	1.6
Cuba	900	--	32.9	175	--	6.1
Dominican Republic	110	100	4.0	35	35	1.2
El Salvador	57	57	2.1	95	90	3.3
Guadeloupe	neg.	neg.	--	2	--	0.1
Guatemala	70	70	2.6	50	50	1.8
Haiti	70	70	2.6	1	1	neg.
Honduras	50	50	1.8	--	--	--
Jamaica	170	50	6.2	100	100	3.5

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Table 1

Estimated Demand for Wheat and Corn and the Impact of Higher Prices in FY1975 (Continued)

	Wheat and Flour			Corn		
	Total Imports (1000 MT)	Imports From US (1000 MT)	Estimated Added Cost of Imports (Million $)	Total Imports (1000 MT)	Imports From US (1000 MT)	Estimated Added Cost of Imports (Million $)
Leeward and Windward Islands	24	4	0.9	2	2	0.1
Martinique	40	neg.	1.5	3	--	--
Mexico	850	800	31.0	1,300	1,200	77.0*
Netherlands Antilles	15	10	0.5	4	4	0.1
Nicaragua	45	45	1.6	15	10	0.5
Panama	45	45	1.6	16	16	0.6
Trinidad and Tobago	110	78	4.0	94	89	3.3
Sub-total	2,674	1,473	97.6	1,941	1,635	99.4
Total	8,808	5,138	321.5	2,799	2,093	129.4

* Mexico - assumes 1.1 million metric tons of corn imports at the higher price because of late entry into the market.

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