

Agricultural Commodities

Wheat

Domestic Situation

United States' wheat production in 1998/99 reached 69.6 million tons, the highest level in nearly ten years. Prices have been historically low due to the bumper harvest and ample carry-in stocks. The season average farm price range is estimated \$2.55 - 2.75 per bushel, down nearly 80 cents from 1997/98. While the level of global trade is projected nearly 3 million tons below last year, U.S. exports are expected to be 9 percent higher due to lower exportable supplies in our competitors. Despite more exports and the continuation of strong domestic utilization, United States ending stocks will be at the highest level in recent years.

World Supply and Trade

Global wheat trade in 1998/99 is projected at 97.7 million tons, over 2 million tons lower than the 1997/98 level. World production is forecast to be 588 million tons, down 23 million tons from last year's record. A decrease of 4 million tons is expected in Argentina, while Canada's crop is forecast nearly 1 million tons below the previous year's level. A record harvest (over 103 million tons) is expected in the European Union while Australia's crop is projected up 3 million tons and production in the United States is forecast to exceed last year's bumper harvest by over 1 million tons. Lower import demand is mostly attributed to higher production in several key import markets, including most of North Africa, Iran, and Pakistan. Global consumption is forecast to reach record levels and for the first time in three years, is projected to exceed production, drawing down ending stocks by 13 million tons. The global stocks-to-use ratio at 20.6 is down 3 percentage points from a year earlier.

Course Grains

Domestic Situation

The United States' forecast production of coarse grains is increased in 1998/99 to 273.7 million tons, up 8.2 million from the previous year. Domestic consumption is expected to increase by 4.0 million tons to 215.9 million over the same period. 1998/99 U.S. stocks are expected to finish the year at 50.2 million tons, an increase of 12.0 million. Coarse grains exports are forecast to recover from a downward trend, rising 800,000 tons in 1998/99 to 48.2 million tons.

World Supply and Trade

World coarse grain production in 1998/99 is forecast to be 883.9 million tons, declining almost 2.0 million tons from the previous year. Despite the forecast decrease in production, stock estimates are expected to rise in 1998/99, up 4.3 million tons from the 1997/98 estimate. Global consumption is expected to reach 879.6 million tons in 1998/99 surpassing the 1997/98 level of 877.2 million tons.

Global coarse grains trade is predicted to rise to 87.7 million tons in 1998/99, nearly 1 million tons higher than the 1997/98 trade levels. The increase is due in part to increased exports of barley by the EU resulting from an increased demand for barley by Saudi Arabia. Increased imports of 500,000 tons of corn by Russia as part of U.S. concessional sales also boosts the coarse grains trade estimate.

Top U.S. competitors' are forecast to suffer coarse grain export declines in 1998/99. Argentina corn exports are projected lower by 2.7 million tons to 11.9 million tons to reflect expected reductions in planted acreage for corn. Canadian barley exports are forecast to decline to 1.6 million tons in 1998/99, down 300,000 tons from the previous year's estimate, due to strong domestic demand. Similarly, the Australian barley exports are estimated to fall by 300,000 tons to 2.7 million tons in 1998/99 due to a weather-related decline in production and quality.

Rice

Domestic Situation

United States area devoted to rice production grew by over eight percent in 1997/98, boosting U.S. rice production (rough basis) by 345,000 tons over the previous year, to 8.1 million tons. Domestic utilization and exports (milled basis) also grew, reaching 3.3 million tons, and 2.8 million tons, respectively. Despite the growth in total use, carryout stocks increased to 903,000 tons, a 36,000 ton year-to-year increase.

World Supply and Trade

Despite crop shortfalls in Indonesia, the Philippines, Bangladesh, and much of Latin America, world rice production (rough basis) reached a record 569 million tons in 1997/98. The surge in production was due to record crops in Thailand, India, and China. Vietnam and the United States also had large crops, ensuring that sufficient exportable supplies were available to meet record import demand and still allow for modest stock-building. World trade in calendar year 1997 declined 500,000 tons from the 1996 level, but surged in 1998 as Indonesia and the Philippines entered the market for record quantities. Trade is expected to reach 25.5 million tons by the end of the calendar year, a 6.5 million ton increase over 1997, and 4.5 million tons more than the previous record. Thailand

maintained its position as the top rice exporter in the world in 1997, followed by Vietnam, India, and the United States. The top exporters in 1998 are expected to remain the same, with the exception of China displacing the United States as the fourth largest exporter. Japan emerged as a major exporter in 1998 by taking the opportunity to reduce its burdensome stockpile by sending a large quantity of rice as food aid to Indonesia.

Soybeans and Products

Domestic Situation

U.S. soybean production increased 8.7 million tons in 1997 to a record 73.55 million tons due to record planted acreage and above average yields. Favorable returns for soybeans, vis-a-vis other crops resulted in the acreage gain. Above average yields of 38.8 bu/acre helped make the record crop. Low beginning stocks helped speed the disappearance of the record crop. The domestic crush increased 11 percent to 43.46 million tons and U.S. soybean exports at 23.9 million tons neared the record of 24 million tons exported in 1996/97. U.S. ending stocks of soybeans also rebounded from twenty-year lows to reach 5.44 million tons.

Total soybean meal production in the United States reached a record 34.63 million tons in 1997/98 due to strong domestic and export demand. Domestic consumption and exports grew 5.7 and 33.5 percent respectively, each to new highs. A larger U.S. soybean crush in 1997/98 also led to an expansion of soybean oil production. Record soybean oil exports and domestic disappearance led to a reduction in United States ending soybean oil stocks.

U.S. soybean prices for 1997/98 declined 12 percent to \$237/metric ton as United States and world production relieved the tight supply situation. Due to larger world availabilities, soybean meal average prices declined over 30 percent to \$205/metric ton, stimulating domestic and overseas consumption. The average soybean oil price increased 15 percent to reach \$570/metric ton following strong demand and gains in other key oil prices due to a reduction in global palm oil production.

World Oilseeds and Products Supply and Trade

Total world oilseed production increased 10 percent to nearly 287 million tons, with most gains driven by large increases in North and South American soybean production. World soybean production increased nearly 19 percent to 156 million tons after record crops were harvested in the United States, Brazil, Argentina and Paraguay. The United States shipped 60 percent of the world's soybean exports followed by Brazil, Argentina and Paraguay which combined for 35 percent of world soybean exports.

World rapeseed production also rebounded in 1997/98 by 2.4 million tons to reach 34.28 million tons, just shy of the record level set in 1995/96. Rapeseed production gains of

over a million tons in each the European Union and Canada account for most of the gains while India produced a million tons less rapeseed in 1997/98. Trade in rapeseed grew 13 percent in 1997/98 as Canada and the EU - the world's leading rapeseed exporters - expanded exports by a combined 533,000 tons. The EU and Japan remain the world's largest importers of rapeseed.

World cottonseed production remained virtually unchanged as production gains in China were offset by reductions in India and the United States. Cottonseed trade expanded in 1997/98 behind growth in U.S. and Australian exports. Japan, the EU and Mexico combine to account for over 50 percent of world cottonseed imports.

Sunflower-seed production in 1997/98 was at a normal level as a weather related production decline in Argentina was offset by larger crops in the EU and FSU. World sunflower trade shrank in 1997/98 largely due to reduced exports from the FSU. The EU remains the world's largest importer of sunflower-seed.

World peanut production declined by 1.3 million tons in 1997/98 due largely to reductions in India and China. Net trade in peanuts grew to 1.64 million tons as a large reduction in exports out of China was more than offset by an increase in exports from Argentina. The EU remains the world's largest peanut importer.

World protein meal consumption expanded to 155.9 million tons as a 8 million ton increase in soybean meal production and a 1 million ton increase in rapeseed meal production more than offset reductions in peanut, cottonseed and sunflower-seed meal production. Drastically reduced availabilities of fishmeal, as the result of El Nino, increased the demand for vegetable protein meals and led to large gains in world soybean meal consumption and trade. China emerged as one of the world's leading soybean meal importers - second to only the EU - while soybean meal consumption slowed in the rest of Asia. The EU, as a region, imported 45 percent of world soybean meal imports in 1997/98.

World total vegetable and marine oil production increased in 1997/98 to 76.5 million tons despite significant reductions in the availability of palm oil and fish oil; each of which was negatively affected by El Nino. Increased availabilities of over 2 million tons of soybean oil and 800,000 tons of rapeseed oil contributed to a net increase in total vegetable oil consumption in 1997/98. Despite the increase in total world vegetable and marine oil production, there was a larger expansion of consumption and total vegetable and marine oil ending stocks fell nearly 500,000 tons in 1997/98 to 6.85 million tons. The increase in consumption of rapeseed and soybean oil was met largely through trade. Argentina was the world's leading exporter of soybean oil in 1997/98 shipping 2.1 million tons. The U.S. exported 1.4 million tons to surpass Brazil which shipped 1.3 million tons. The United States is the world's leading consumer of soybean oil while China remains the world's leading soybean oil importer, importing 1.65 million tons.

Cotton

Domestic Situation

Cotton production in MY 1997/98 was 18.79 million bales, down less than 1 percent from the previous season. Upland cotton production, at 18.25 million bales, was 168 thousand bales above the 1996/97 level. American Pima production totaled 548 thousand bales, up 4 percent from 1996/97.

The area planted to all cotton totaled 13.81 million acres, a 6% percent decrease from the previous year. Harvested area, at 13.27 million acres, was down 3 percent up the previous year. Abandonment of upland cotton acreage during 1997/98 totaled 4 percent, down from 12 percent a year earlier. Upland yields averaged 673 pounds per acre, 28 pounds below yields realized the previous year.

Total cotton mill use during 1997/98 was 11.3 million bales, up from 11.1 million the previous year. Upland cotton use, at 11.2 million bales, was up 2 percent. American Pima consumption was estimated at 114 thousand bales. Total marketing year 1997/98 exports are estimated at 7.5 million bales, up 9 percent from the previous season. According to FAS data, the top six markets during 1997/98 and 1996/97 were Mexico, Korea, China, Japan, Turkey, and Indonesia. Ending stocks for 1997/98 were estimated at 3.9 million bales, down 1.0 million bales from the previous year.

International cotton prices in 1997/98 were lower than the previous season, with the Cotlook A-Index (average of 5 lowest CIF North Europe quotes) average of 72.17 cents per pound. The A-Index reached its highest monthly level in August 1997 with a monthly average of 81.28 cents per pound, while the season's lowest prices were in May 1998 when the A-Index averaged 64.37 cents per pound.

World Supply and Trade

World 1997/98 cotton production is estimated at 91.1 million bales, up 2 percent from the previous season. Foreign production is estimated at 72.3 million bales, up about 3 percent. The 1997/98 season was characterized by a higher crop in China and Uzbekistan, which more than offset decreased production in the United States, India, Pakistan and Turkey. World consumption for 1997/98 is estimated at 88.24 million bales, down slightly from the previous year. The major decrease in consumption was in China and Southeast Asia, which more than offset modest increases in the United States, India, Pakistan, the European Union, and Turkey. Exports for 1997/98 totaled 26.3 million bales, down 2 percent from the previous year. Increased exports from the United States, Francophone Africa, Pakistan and Australia, more than offset decreased exports from Uzbekistan, India and Argentina.

World ending stocks for 1997/98 are estimated at 40.13 million bales, 9 percent higher than the previous year. China increased stocks by 2.1 million bales, accounting for most of the world increase, while stocks were drawn down slightly in the United States, Pakistan, and India.

Hides and Skins

Domestic Situation

U.S. production of bovine hides in 1998 is forecast at 984,000 tons, up slightly from 1997. Although hide production in pieces declined approximately 3 percent in 1998, production by weight remained unchanged due to the 2.2 percent increase in the average slaughter weight for U.S. cattle to 545 kg/head. For 1999, the combined effect of reduced slaughter and lower slaughter weights is projected to result in a 7.5 percent fall in production to 910,000 tons. This would be the lowest U.S. production since 1993. The United States continues to dominate the world hide market, exporting almost 50 percent of its production—mostly in the form of whole cattle hides. According to the U.S. Bureau of the Census, exports during 1997 totaled 19 million whole cattle hides. Although this reflected a drop of over 6 percent from 1996, the value of exports increased by almost one percent to approximately \$1,134 million as hide prices were relatively high most of the year. With hide prices down in 1998, the value of exports is about 24 percent lower through July at \$540 million compared to \$710 million during the same period last year.

World Supply and Trade

Production of hides and skins among those countries tracked by the USDA declined for the second successive year in 1998. Production gains in the United States, Brazil and China were more than offset by lower production in the European Union, Argentina, Australia and Russia. Production is forecast still lower in 1999 as cattle slaughter is expected to decline 2 percent, most significantly in North America and the European Union.

Wood Products

Domestic Situation

In 1998, the inflation adjusted value of new construction put in place is expected to increase by 4 percent from \$520 billion in 1997 to a record level of \$540 billion. New residential construction, which generally accounts for more than one-third of the softwood lumber and structural panel products and a substantial portion of other wood products consumed annually in the United States, is expected to be up by a record 5 percent in 1998 on an inflation-adjusted basis. Residential housing starts are expected to total 1.58 million units in 1998 as compared to 1.48 million units in 1997.

Prices of softwood products were significantly lower in 1998 because of the near disappearance of softwood log, lumber and panel products export markets in Japan and Korea. The Asian market crisis and strong U.S. dollar also prevented the growth of new demand in other markets, including Southeast Asia and Taiwan. The weakened Canadian dollar and a contracting world market also pushed U.S. softwood imports to record levels, depressing domestic prices still further, especially for higher grades of product. Softwood product prices are expected to remain low or soften further in 1999 as new housing demand is expected to undergo a slight contraction and as Asian construction may be slow to rally.

In contrast, prices of hardwood products remained strong in 1998 due to strong domestic housing demand and the need for the requisite paneling, flooring, and furniture products. Exports of hardwood lumber were also very strong, with hardwood lumber overtaking softwood logs as the number one export commodity in 1997. The U.S. also faces far less overseas competition in hardwood products. Major Southeast Asian hardwood suppliers, suffering from the significant loss of income from sales to Japan and Korea, are unable to shift resources to expand other markets due to major internal political changes.

The United States and Canada entered into an agreement in 1996 that caps Canadian tax-free exports to the United States at 14.7 billion board feet annually. Under the terms of the Agreement, 14.7 BBF of softwood lumber (and certain other softwood lumber products, such as molding) from British Columbia, Alberta, Ontario and Quebec can be exported annually to the United States tax-free. The quota is allocated to individual firms. Softwood lumber volumes in excess of 14.7 BBF and up to 15.35 BBF are assessed an export tax of U.S. \$50 per thousand board feet (MBF), while volumes in excess of 15.35 BBF are assessed U.S. \$100/MBF. The maritime provinces, Manitoba, and Saskatchewan are exempt from the export tax. U.S. imports of Canadian softwood lumber reached 17.24 BBF in 1997, down slightly from the 17.59 BBF imported in 1996. Imports from Canada in 1997 accounted for a 94 percent share of the U.S. softwood lumber imports and a 33 percent share of U.S. softwood lumber consumption. Imports in 1998 are expected to increase to 17.87 BBF as strong U.S. housing demand and a weak Canadian dollar propels trade.

U.S. wood products exports, following a small decline in 1997, are estimated at \$6.2 billion in 1998 due to the severe impact of the Asian financial crisis and represent a further decline of 14 percent. Throughout the decade, Asia has received the lion's share of U.S. solid wood exports, with Japan alone receiving 45 percent or \$3.0 billion annually. Sales to Asia, however, are expected to remain well below their historic levels for the remainder of 1998 and into 1999 due to low demand, credit restructuring, a strong dollar and a lack of consumer confidence. U.S. exports to Japan in 1998 will hit a ten-year low. Hardest hit will be softwood logs and lumber because of continuing economic problems in Japan, coupled with a sluggish market, with starts at 1.1 million units in 1998, well below the near-record level of 1.6 million units in 1996. U.S. exports to other Asian countries also slowed

in 1998, with housing demand throughout most of Asia expected to remain low through the year 2000 due to excessive housing supplies, poor income growth and the financial crisis.

On the upside, U.S. exports of value-added wood products to the North American region and the European Union are expected to remain strong in 1998. U.S. exports to Canada are expected to remain close to the record levels achieved in 1997; the U.S. furnishes no less than 87 percent of Canada's solid wood import needs. In contrast to Japan, Canadian demand grew three percent from \$858 million in the first half of 1997 to \$888 million for the same period in 1998. According to Canadian import data, product from the U.S. increased by \$5 million to a record \$775 million in the first half of 1998.

U.S. exports to Mexico are projected to post strong gains and exceed \$300 million, and exports to the Caribbean may post a record \$300 million this year. The Europe Union (EU) is also feeling the effects of the Asian crisis, although not to the same degree as North American producers. Exports are expected to remain near record levels to this market, though the 20 percent growth achieved in 1997 is not expected for 1998. Total U.S. solid wood exports to the EU are projected to reach \$1.3 billion in 1998, just \$100 million shy of the record \$1.4 billion sold in 1997.

Softwood log exports fell sharply in 1998, falling from \$1.4 billion in 1997 to a projected \$870 million for 1998. Loss of sales to Japan, Korea and Taiwan, our three largest markets, were all in excess of 50 percent. The decline in softwood log exports on a volume basis was not as sharp, with sales down 26 percent through the first eight months of 1998. Hardwood logs exports, on the other hand, remained steady and are projected to reach \$310 million in 1998, virtually unchanged from the record \$307 million shipped in 1997. U.S. hardwood log exports on a volume basis are also expected to remain unchanged.

U.S. wood product imports hit an estimated record \$13.3 billion in 1998 and marked the sixth increase in almost as many years. The United States also became the world's largest importer of solid wood products. For the first time in recent history, total U.S. solid wood imports will exceed those of Japan because of the continued soft housing market in Japan and an increase in the level of U.S. imports as a result of an extremely robust U.S. housing market. Strong domestic demand has resulted in record high demand for molding, veneer, builders' carpentry and many other value-added products. Softwood lumber imports, which historically account for over one-half of total wood products imports on a value basis, were down by an estimated 11 percent in 1998 as slow sales to Japan depressed domestic softwood lumber prices to three-year lows. Import demand for the two unprocessed commodities, logs and chips, remained unchanged. One other impact of the record U.S. demand and the decline in Japanese demand is that Canada is now the world's largest solid wood products exporter, overtaking the United States. For many years, however, nearly 90 percent of Canada's exports has arrived on U.S. shores.

World Supply and Trade

Given the sharp decline in Asian demand and the strong rise in U.S. consumption and the U.S. dollar, the U.S. share of the global solid wood export market will fall slightly in 1998. With the trends expected to continue, the U.S. share of global solid wood products trade is expected to remain under pressure over the next one to two years, especially as supplies from Canada, Scandinavia, New Zealand and Chile continue to increase, and, Federal, State and local regulations reduce harvests from public and private land holdings in the United States in order meet environmental management criteria.

Last November in Vancouver, President Clinton and the other APEC leaders endorsed 15 sectors, including forest products, for early trade liberalization beginning in 1999. There were several rounds of senior-level meetings this past year to define product coverage and the timetable for tariff elimination, but, as of early November, an agreement had not been reached, in part, because of Japan's refusal to eliminate tariffs in the forest products sector or even cut tariffs beyond the level agreed to in the Uruguay Round. The forest products initiative is co-sponsored by Canada, Indonesia, New Zealand, and the United States and covers wood products, certain rattan products, pulp and paper, printed material, wood furniture and pre-fabricated housing. The proposal calls for the elimination of tariffs on products covered by no later than 2002-2004.

Disagreements continued this past year over several issues relating to the implementation of the 1996 U.S.-Canada Softwood Lumber Agreement. On June 22, 1998, the United States requested consultations under the terms of the Agreement. The request came in response to British Columbia's (BC) decision to lower stumpage rates (the price for standing timber) on June 1, 1998, by an average of C\$8.10 per cubic meter on the coast and C\$3.50 in the interior. Canada subsequently rejected the U.S. proposal (that the quota allocations to BC exporters be considered as a BC-wide quota, and that this overall quota be reduced) for resolving the dispute, and the United States formally requested arbitration. The panel is in the process of being formed and a decision is expected before the end of the year.

In related actions, Canada, on July 6, requested consultations on U.S. Customs' decision to reverse an earlier ruling and reclassify lumber with pre-drilled holes into the same tariff category as other lumber products, making Canadian exports of these products subject to the terms of the Agreement. On August 17, American Bayridge Corporation filed a complaint in the Court of International Trade after Customs classified a shipment of its pre-drilled studs as lumber. In early September, the Government of Canada asked the World Customs Organization (WCO) to decide whether U.S. Customs' decision to classify pre-drilled studs as lumber was correct.

Actions Taken by Other Nations in 1997/98

On February 1, 1998, the Indonesian plywood marketing board APKINDO was

dissolved under an agreement with the IMF. Indonesia also agreed to reduce export taxes on logs and sawn timber to 20 percent by end-December 1998; 15 percent by end-December 1998; and 10 percent by end-December 2000. The full impact of the reduction, however, is being offset by the Government's utilization of a "Check Price System." Export taxes are applied against "Check Prices," not the actual international export price. Currently, the Check Prices are significantly above the international prices, leading to export taxes that are in effect double or triple the announced rate, which continue to constrain exports of these products.

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