~~74-0156~~
095947

Impact Of Soybean Exports On Domestic Supplies And Prices

B-178753

Department of Agriculture

BY THE COMPTROLLER GENERAL OF THE UNITED STATES

MARCH ??, 1974

~~701896~~/095947

COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

B-178753

The Honorable Robert H. Steele
House of Representatives

Dear Mr. Steele:

In response to your request, we examined the impact of U.S. export policy on the supply and price of U.S. soybeans and soybean products. You also asked that we examine the extent of executive branch awareness of the short-supply problems and, if possible, suggest ways to mitigate the effects of these problems.

This report covers the results of our examination of these matters. As your office requested, we did not follow our customary practice of obtaining formal agency comments. However, informal discussions on the content of the report were held with agency officials and their comments were considered in the final report.

We believe this report would be of interest to committees and other members of Congress because of the need for availability of commodities critical to the domestic economy on the one hand and the need to increase balance of payments benefits through exports on the other. However, it will be released only if you agree or publicly announce its contents.

We are separately reviewing the Government's system for examining into short-supply situations, the adequacy of the recently required export reporting system, and the regulatory activities of the Commodity Exchange Authority. We will be pleased to advise you on the results of these examinations when completed.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

Contents

Page

APPENDIX

ABBREVIATIONS

CEA	Commodity Exchange Authority
ERS	Economic Research Service
GAO	General Accounting Office

COMPTROLLER GENERAL'S REPORT TO
CONGRESSMAN ROBERT H. STEELE
HOUSE OF REPRESENTATIVES

IMPACT OF SOYBEAN EXPORTS ON
DOMESTIC SUPPLIES AND PRICES
Department of Agriculture
B-178753

DIGEST

WHY THE REVIEW WAS MADE

Representative Steele asked GAO (1) to examine the effect of U.S. policy on the supply and price of U.S. soybeans and soybean products, (2) to examine the extent of executive branch awareness of the short-supply problems with soybeans, and (3) to suggest ways to mitigate the effects of these problems.

FINDINGS AND CONCLUSIONS

A combination of factors, including increased foreign demand, caused sharp increases during the early part of 1973 in the price of U.S. soybeans, soybean meal, and soybean substitutes.

--Parts of the country could not obtain needed feedgrains because of rail service disruptions.

--Some farmers were reported unable to raise poultry and livestock because of high feed costs.

--Other domestic factors such as the late grain harvest contributed also to the supply problem.

--International demand for high-protein meal expanded as people in many parts of the world sought to improve their diets.

--Devaluation of the U.S. dollar in fiscal year 1973 intensified foreign demand at a time when world supplies were low.

--Production of fishmeal and other soybean substitutes declined.

Effect on prices

Despite production increases, the cash price of soybeans rose from $3.43 a bushel in June 1972 to $11.20 a bushel a year later.

Soybean meal prices increased 300 percent, from $94 a ton in May 1972 to $390 a ton in May 1973, due partly to reduced supplies of soybean substitutes.

The price of corn, which became an important substitute because of insufficient soybean supplies, rose from $1.28 a bushel in May 1972 to $2.32 a bushel in May 1973.

An Economic Research Service study concluded that, although domestic production increased in 1973, the increases were not sufficient to satisfy increases in foreign and domestic demand without substantial increases in the price of soybeans.

This study provided some insights into the causes of price increases at the farm level but did not explain the difference between the $4.75 a bushel season-average price that many farmers received for their crops and the higher prices soybeans sold for on the commodity exchanges. Neither did the study fully explain the relationship between increased soybean prices and higher consumer prices for eggs, poultry, and beef. (See pp. 9 to 12.)

Executive branch awareness

The problem of constrained supplies and high prices which developed in mid-1973 were forecast by the Department of Agriculture's Economic Research Service in September 1972. Dairy and poultry industry representatives, as early as October 1972, asked for Government intervention in the form of price controls and/or export restrictions.

Agriculture for some time opposed such actions. Officials said curtailing exports would encourage foreign buyers to seek alternate supply sources. With encouragement from the Council of Economic Advisers, the Cost of Living Council and the Office of Management and Budget, Agriculture took many steps to increase domestic supplies of soybeans and other commodities, including formulating farm programs to bring about increased production. In June 1973, the Secretary concurred in placing export controls on soybeans and soybean substitutes in an attempt to insure adequate domestic supplies. (See pp. 13 to 17.)

Causes of the soybean situation

Although the domestic and international factors listed above helped to precipitate the soybean problem, major causes were the great foreign demand for soybeans and the continuation of Agriculture's policy of increasing exports. Additional factors also influencing the market in 1973 included

--fuel shortages,

--transportation inadequacies,

--currency devaluations, and

--scarcity of substitutes.

Agriculture's commodity management concept

The soybean problem might have been ameliorated had Agriculture acted more decisively at an earlier date to develop a strategy for coping with the many contributing factors. Agriculture could have considered

--consulting with major importers to possibly limit their purchases;

--holding discussions with exporters about limiting foreign sales or about deferring fulfillment of existing contracts, and

--establishing a reporting system to provide more precise information on the extent of export commitments.

Failure to act earlier was due, in part, to Agriculture's commodity management emphasis on minimizing government involvement in a free market economy.

The United States has no commodity management program to insure that it will have at all times adequate domestic supplies of soybeans and soybean meal at reasonable prices. (See pp. 20 to 23.)

Inadequate export reporting system

In the past, Agriculture had no system for monitoring exports of soybeans, soybean meal, and other critical agricultural commodities. Agriculture had not required exporters to report their export sales on a current and future basis so that it could assess the possible impact of exports on domestic supplies and take action to avoid future shortages.

At the President's direction, Commerce, with Agriculture's assistance, initiated an export reporting system in June 1973. Reports submitted under the system showed soybeans committed for export were much above Agriculture's estimates. (See pp. 24 to 27.)

RECOMMENDATIONS AND SUGGESTIONS

GAO is not making any recommendations in this report. However, several matters emerged during the course of its review. GAO is presenting the following suggestions to the Congressman for congressional and executive branch agencies' consideration because they can possibly alleviate or minimize the impact of another soybean problem such as developed this past year.

GAO did not fully examine the feasibility of these suggestions; they are presented to add to the body of knowledge about the soybean situation so that appropriate actions can be considered to avoid recurrence of the 1973 problems.

1. *Strengthening control over futures market activities*

Many commodities subject to price fluctuation can be traded for future delivery. Such transactions take place on commodity markets regulated by the Commodity Exchange Authority, Department of Agriculture.

Soybean prices increased from about $3 to $12 a bushel in 1 year. Trade rumors alleged that much of the increase resulted from market speculators. Many soybean farmers received about $4.75 a bushel when they sold in the fall of 1972. Yet, there has been inadequate analysis of the price differential. (See pp. 9 and 10.)

Recent events suggest the need to strengthen control over futures market transactions and because of these concerns, GAO and the Congress are examining activities of the Commodity Exchange Authority. (See p. 29.)

2. *Establishing a better reporting system*

Agriculture, in conjunction with Commerce, could develop and maintain a system whereby contracts for export would be reported on accurately, promptly, and reliably. The system must provide Agriculture with the information needed to make responsive, export-related decisions and to carry out those decisions promptly to help insure an adequate domestic supply at reasonable prices.

The mandatory reporting system implemented in June 1973 provides the mechanism for accomplishing these objectives, provided it is used in a future-oriented rather than a crisis-oriented manner. However, it should be coordinated with information on probable foreign and domestic production and demand and used by Agriculture in assessing the possible impact on the domestic economy. (See pp. 29 to 31.)

3. *Adopting a flexible export policy for critical commodities*

Although there were early indications soybeans would be in short supply, Agriculture delayed action to avert the soybean problem because it opposed Government intervention in the marketplace. Agriculture plans to continue its aggressive export policy to achieve balance-of-payments benefits and increase farm income. These important objectives, however, should be assessed in a broader, national context.

If Agriculture adopted a more flexible export policy, it would be able to respond early to reports of unanticipated supply and demand conditions. With such a policy, it could consider milder, less disruptive control actions than export restrictions. (See pp. 31 and 32.)

4. *Implementing a comprehensive reserve program*

The propriety of instituting a reserve program is a complex matter. A comprehensive reserve program responsive to consumer, farmer, and exporter needs could provide some insurance against the recurrence of tight supply situations in soybeans and other essential grains in the future. Establishing a commodity reserve program could satisfy basic domestic and international supply commitments. It could also prevent the United States from periodically considering imposing export controls on agricultural commodities, which disrupt trading relationships with regular importers of U.S. farm products. (See pp. 33 to 36.)

On the other hand, opponents contend the cost of establishing and maintaining such a supply system would constitute a heavy financial burden to the taxpayer, be too complicated to administer, depress farm prices, and discourage production.

AGENCY ACTIONS AND UNRESOLVED ISSUES

As requested by Congressman Steele's office, GAO did not follow its customary practice of obtaining formal agency comments. However, informal discussions on the content of the report were held with agency officials, and their comments were considered in the final report.

CHAPTER 1

INTRODUCTION

The United States produces about 73 percent of the world soybean crop, and its exports constitute 90 percent of world trade in this commodity. In fiscal year 1973 soybean exports increased by about 75 million bushels to a record 506 million bushels, representing the sixth consecutive year of record volume. U.S. soybean exports in the past decade grew 10 percent annually, with most of the gain attributable to purchases by the European community, the United Kingdom, Russia, Spain, Poland, Israel, Japan, and South Korea. Over half of the U.S. soybean crop was exported as meal or soybeans and in fiscal year 1973 accounted for over 75 percent of all world meal exports, in either the oilseed or meal form. (Apps. II and III show soybean production and exports.)

In early 1973 a combination of factors, including increased foreign demand for U.S. grains, fueled by successive currency devaluations, caused the price of soybeans and soybean substitutes to rise. Soybean meal, the main source of protein in feed for both poultry and livestock, was one of the factors in increased consumer costs for beef, poultry, eggs, and dairy products as meal exports contributed to higher domestic soybean prices. Consequences of these increases and the scarcity of supplies were pervasive.

Some farmers, unable to absorb increased production costs, reportedly found it more economical to reduce the size of their poultry flocks and livestock and dairy herds, rather than try to raise them to maturity. The flow of meat products to the marketplace slackened as producers reportedly sold their stocks into export markets because of a price freeze which limited the extent to which increased production costs could be passed on to domestic consumers. The Northeast, Southeast, and Alaska were unable to obtain needed soybean products because of disruptions in rail service caused, in part, by the movement of large amounts of grain sold into other markets in 1972.

Reports of soybeans committed for export showed foreign demand would continue strong into the crop-year beginning September 1973, and prices on commodity exchanges rose amid concerns that speculation was a major cause. Members of Congress and private industry representatives petitioned the executive branch to take some action to control the price and availability of feedgrains. In June and July 1973 the Secretary of Commerce declared that an inadequate domestic supply of soybeans existed and limited the export of soybeans and soybean substitutes. A chronology of these events is presented in appendix I.

Against this background and at the request of Representative Robert H. Steele, we examined the impact of U.S. export policy on the supply and price of U.S. soybeans and soybean products. We also were asked to examine the extent of executive branch awareness of the short-supply problems, and, if possible, to suggest ways of mitigating the effects of those problems.

CHAPTER 2

REASONS FOR SOYBEAN PRICE EFFECTS

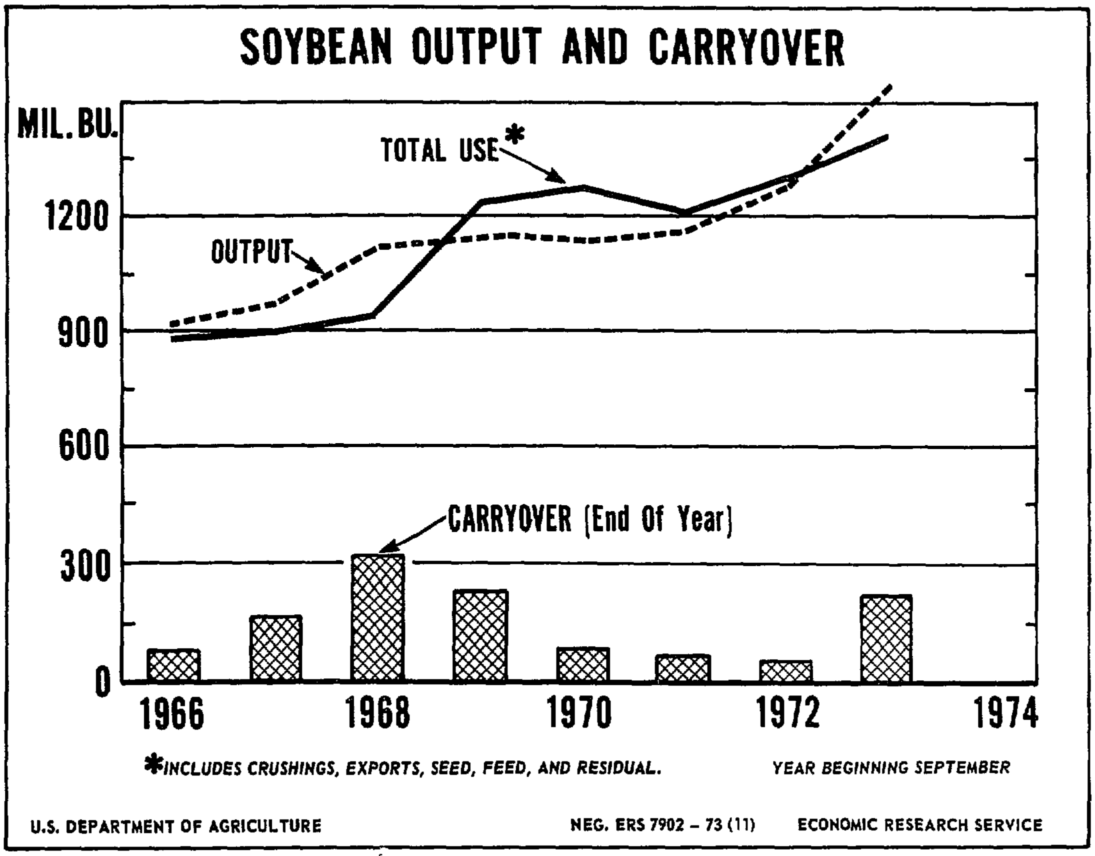
AND EXECUTIVE BRANCH AWARENESS

International demand for high-protein meal, intensified by devaluation of the U.S. dollar, grew in 1973 as people in many parts of the world sought to improve their diets by eating more red meat, poultry, and dairy products. Despite higher prices, demand for U.S. soybeans escalated, with continued rises in livestock production in West European countries, Japan, Canada, and other developed countries.

Internationally and domestically, soybeans and soybean substitutes were scarce. Peru, the largest fishmeal exporter, had sharply reduced supplies because a change in ocean currents caused the fish to move out into deeper water and minimized catches. Peru exported only about 25 percent of its normal exports of 1.8 million tons of fishmeal. Other soybean substitutes ran into problems. Peanut-meal output in Africa and Asia declined as did peanut production in India and West Africa. Sunflower production was down in Russia and in Eastern Europe.

Domestic factors also played a large role in the shortage. U.S. grains were harvested late, due to wet weather and a shortage of fuels to dry grain before storage. This created a heavy demand for railcars which were already in short supply because of grain sales to Russia in mid-1972 and because of increased agricultural exports.

The combined effect of increased domestic and international demand and the scarcity of substitutes pushed U.S. soybean use to a record 1.3 billion bushels in 1973. The following table shows soybean output and use.



Agriculture's Economic Research Service (ERS) assessed the situation in its June 1973 study entitled "Conditional Market Forecasts and Implications for the U.S. Soybean Economy." The study acknowledged that a diverse set of circumstances had an unprecedented effect on the U.S. soybean economy causing many forecasters to be caught by surprise. This led to considerable disagreement and uncertainty regarding the future impact of such events on domestic soybean prices.

The study stated that important factors in explaining changes in the U.S. soybean economy included

--growth in livestock numbers, both foreign and domestic;

--livestock prices;

--availability of supplies of competing oilseed crops;

--consumer expenditures;

--price of feedgrains;

--domestic feedgrain programs;

--variable levies imposed on U.S. feedgrains entering the Common Market countries;

--the dollar devaluation in soybean-importing countries; and

--entry of Russia as a new buyer of soybeans and soybean products.

EFFECT ON PRICES

Despite increased U.S. soybean production during the 1972-73 crop-year, the cash price of soybeans rose from $3.43 a bushel on June 19, 1972, to $11.20 a bushel a year later. Soybean meal, purchased by livestock producers during the first week of May 1972 for $94 per ton (free on board (f.o.b.) Decatur, Illinois), was quoted on May 30, 1973, at $390 per ton. Other feed prices also escalated. Corn was quoted at $2.32 a bushel on May 30, 1973 (f.o.b., Chicago, #2 corn), compared to $1.28 on the same day in 1972. A June 1973 study by ERS showed that the season-average price of soybeans received by farmers at that time had risen from $3.03 a bushel for crop-year 1971-72 to an estimated $4.23 a bushel for crop-year 1972-73.

ERS determined that foreign demand precipitated $1 of the $1.20 net increase in the prices farmers received and that the remaining 20 cents of the price rise was caused by domestic demand. Fifteen cents of the $1.20 increase was attributed to Soviet soybean purchases in the United States; 56 cents to depreciation of the dollar; 15 cents to the expansion of livestock economies in countries importing U.S. soybeans; and 14 cents to reduced world availability of competing oilseed crops, including the decline in production of Peruvian fishmeal. The remaining 20-cent increase was attributed to higher livestock prices in the United States, which increased the demand for soybean meal.

ERS concluded that the domestic supply of soybeans in 1972 and 1973 was not adequate to satisfy increases in foreign and domestic demand without substantially higher prices.

The ERS analysis provided some insight into the causes of increases at the farm level, but it did not explain why prices on the commodity market rose to $12.90 a bushel in June 1973, considering farmers sold their crop at a season-average price of $4.75 a bushel.

Season-Average Price Per Bushel Received by Farmers

State and area	1970	1971	1972	1973 (note a)
North Carolina	$2.90	$2.88	$3.90	$6.35
South Carolina	2.89	2.97	4.05	-
Georgia	2.95	2.86	4.10	-
Alabama	2.82	2.92	3.70	6.25
Total Southeast	2.89	2.91	3.94	6.30
Kentucky	2.85	2.96	4.00	5.75
Tennessee	2.79	2.88	3.80	5.95
Mississippi	2.92	3.04	4.00	5.80
Arkansas	2.83	3.00	4.00	5.90
Louisiana	2.87	3.03	3.70	6.20
Total South Central	2.86	2.98	3.90	5.92
Ohio	2.84	3.08	4.00	5.60
Indiana	2.85	2.97	3.90	5.85
Illinois	2.90	3.09	4.30	5.85
Iowa	2.82	3.07	4.50	5.75
Missouri	2.84	3.01	3.85	5.80
Minnesota	2.79	3.08	4.40	5.65
Total eastern corn belt	2.84	3.05	4.16	6.90
North Dakota	2.72	2.87	4.25	5.80
South Dakota	2.72	3.04	4.25	5.85
Nebraska	2.78	2.99	4.10	5.40
Kansas	2.74	2.95	3.90	6.10
Total western corn belt	2.74	2.96	4.12	5.73
All others	2.80	2.90	3.73	5.88
United States	2.85	3.03	4.75	5.81

[a] September 1973 average.

Source: ERS report entitled, "Fats and Oils Situation," Oct. 1973.

Some Agriculture officials claimed that continuing uncertainty over the value of the dollar may have contributed significantly to the unprecedented price increases. Others claimed that speculation in the futures market had triggered sharp price increases. The Chicago Board of Trade, the Nation's largest commodity futures market, made an effort to explain the increases in a September 20, 1973, report citing a myriad of supply and demand developments as causes. The board, however, discounted speculation in soybean futures as a cause. ERS concluded in October 1973 that "a tight world supply situation and record shattering, worldwide demand for high-protein feedstuffs shot soybean prices and utilization to record levels." In another effort to explain the increases, the Administrator of the Commodity Exchange Authority informed the Congress on October 3, 1973:

> "The price adjustment in soybeans over the 1972-73 season is primarily the product of world-wide shortages of protein, resulting from major production declines coupled with a sharp rise in demand. * * *
>
> "The major conclusion of the analyses of commitments and other related information is that speculation in the soybean and grain markets has not been a major contributor to the rapid increase in prices of those commodities since the beginning of the year."

The above analyses explained to some extent the causes of soybean price increases in 1973. No analysis to date, however, explains the relationship between exports and increased domestic prices for products which depend on soybeans. Clearly, consumers who must pay higher prices for these products should be provided better explanations of such price increases.

One agricultural economist was concerned about the effect of exports on domestic prices at hearings in early spring 1973 before the Subcommittee on Foreign Agricultural Policy, Senate Committee on Agriculture and Forestry.

> "A second policy issue that has arisen as a result of the recent surge in export sales is how the

United States can manage domestic production and foreign sales to reduce the domestic impact of variation and change that may occur. At the present time U.S. domestic food markets are being strongly influenced by worldwide shortage of beef due to rapidly expanding demand relative to supply. * * * The combination of a shortage of beef and the reduced grain output has had a major impact on U.S. farm prices and on food costs."

Agriculture did not analyze in detail the impact of increased soybean exports on domestic prices but did identify and isolate some variables considered instrumental in precipitating general increases in domestic food prices. These included:

1. Uncertainty concerning actual farm output until crop harvests were completed and livestock products marketed.

2. Advance buying of foods and feeds thus reducing freely available supplies.

3. Reported disruption of producers' supply responses and marketing patterns caused by rising input prices, finished-product price ceilings, and other unusual market conditions.

4. Continued demand in export markets for farm commodities following recordbreaking foreign sales during the past year.

5. Reduction of stocks, both of major farm commodities and inventories of many processed food products.

6. Continued increases in domestic demand resulting from increasing consumer incomes, rising employment levels, and population growth.

EXECUTIVE BRANCH AWARENESS

The problems of constrained supplies and high prices which came to the fore in mid-1973 were known well beforehand.

Agriculture recognized in September 1972 that a tight domestic supply situation for soybeans would prevail throughout the remainder of the 1972-73 crop-year. Warnings received from its Commodity Estimates Committee and from dairy and poultry industry representatives about tight supplies were acknowledged in February 1973 by the Agriculture Stabilization and Conservation Service. Its Soybeans and Products Situation and Outlook Report said:

> "In spite of a 1972 United States crop of soybeans currently estimated as 100 million bushels greater than the 1971 crop, a world-wide protein supply shortage has developed. At the same time, a more than normal increase in world requirements has developed. Consequently, <u>in the 1972-73 marketing year, demand for U.S. soybeans and meal is far out-running supply</u>. This imbalance has been accentuated by the delay in harvesting the crop because of continuing rain and snow. The carry-over is expected to be minimal in the United States and around the world." (Underscoring supplied.)

Agriculture received complaints as early as October 1972 from consumers and representatives of the poultry and dairy industries over the high price of soybean meal, dairy products, and poultry. Although complaints varied in tone, some urgently requested Government intervention in the form of price controls and/or export restrictions. Agriculture officials, however, opposed export controls because they feared curtailed export markets would encourage foreign buyers to search for alternative sources of supply, including substitutes. Agriculture maintained that export controls would adversely affect the U.S. competitive position throughout the globe.

In response to an inquiry from a concerned taxpayer, an Agriculture representative explained Agriculture's position on export restrictions in March 1973:

> "Putting an embargo on exports of soybeans and soybean meal is not considered feasible for several reasons. In the first place, a large volume of the soybeans and soybean meal now being exported was bought earlier in the season under forward contracts with private firms. Cutting off these exports to our customers now would cause a loss of confidence in our commitments to deliver and create a host of legal and international problems. Also, the health of American agriculture and indeed the country, depends to a large extent upon our ability to sell our farm commodities overseas. Any loss of these overseas markets would hurt our balance of payments position and our own domestic prosperity."

Agriculture officials advised us that they had no authority to intervene in the existing market situation because there was no Government program controlling the production and exportation of soybeans. Section 304 of the Agriculture Adjustment Act of 1938 (7 U.S.C. 1304), however, seems to provide the authority and the responsibility for Agriculture to intervene, saying:

> "* * * it shall be the duty of the Secretary to give due regard to the maintenance of a continuous and stable supply of agricultural commodities from domestic production adequate to meet consumer demand at prices fair to both producers and consumers."

By not responding to early indications of impending market instability, Agriculture's options were limited as time passed, and more drastic and disruptive actions (i.e., an embargo, export controls, and a price freeze) were imposed later to insure adequate domestic supplies.

<u>Imposing controls on soybean exports</u>

The Export Administration Act of 1969 (section 3) states that it is U.S. policy to use export controls to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand.

The Secretary of Commerce administers the act, but his authority to impose export controls cannot be exercised without approval of the Secretary of Agriculture. The act (section 4e) states that the Secretary of Agriculture shall not approve the exercise of such authority during any period for which he determines that the supply exceeds the requirements of the domestic economy, except to the extent that the President determines that such exercise is required.

Agriculture officials assured consumers, farmers, and poultry and dairy producers that action consistent with its authority and policy would be taken to insure suffcient domestic supplies of soybeans and other related commodities at reasonable prices. With encouragement from the Council of Economic Advisers, the Cost of Living Council, and the Office of Management and Budget, Agriculture took measures in 1973, including:

1. Not extending prior support loans on grains beyond current maturity dates, increasing market supplies by some 330 million bushels of wheat and over a billion bushels of feedgrains.

2. Moving Government-owned stocks of grains into the market. Under this policy the Commodity Credit Corporation sold 278 million bushels of wheat and 200 million bushels of feedgrains.

3. Designing 1973 farm programs to bring about increased acreages of grains and soybeans.

   --The required set-aside for wheat was eliminated to bring an additional 7.5 million acres into production.

   --The feedgrain set-aside was limited to 25 percent, with no additional set-aside required, increasing planted acreage by 11.6 million acres.

   --The cotton set-aside requirement was eliminated, freeing about 2 million additional acres.

4. Allowing livestock forage to be grazed or harvested from acreage set aside under the wheat and feedgrains programs to help producers meet demands for livestock products.

5. Deemphasizing concessional export programs, including reductions in government-to-government, barter, and credit sales.

According to the Assistant Secretary for International Affairs and Commodity Programs, these measures would add nearly 40 million more productive acres from the 61.5 million set aside under 1972 programs. This would result in 225 million more bushels of wheat and 20.6 million more tons of corn. Changes in the feedgrain and wheat programs would help expand the soybean crop by some 7 million acres, or 237 million bushels to about 1.588 billion bushels.

Although Agriculture increased the supply of soybeans and feedgrains for the 1973-74 crop-year, the short-term soybean supply problem continued to exist through the remainder of the crop-year.

The Secretary of Commerce, acting on the Secretary of Agriculture's agreement that an inadequate domestic supply existed, imposed an embargo on soybean exports on June 27, 1973. The embargo was lifted 1 week later on July 2, 1973, and replaced by a system under which Commerce controlled exports by granting licenses for shipments. The objective was to insure adequate domestic supplies and to reduce domestic prices with a minimum disruption of foreign contracts. Agriculture officials advised us they were concerned that breeding stocks were being seriously diminished because soybean supplies were flowing into the higher priced export market.

An interagency working group consisting of representatives from the Council on Economic Policy; the Council on International Economic Policy; the National Security Council; the Cost of Living Council; the Council of Economic Advisors; and the Departments of State, Commerce, and Agriculture developed the licensing system. The need for licensing controls was determined largely on the basis of reports of anticipated exports which revealed tight supplies of soybeans, cottonseed, and certain related products for the duration of the respective crop-years.

Commerce established allocation percentages for export licensing consistent with available export supplies and domestic requirements. Licenses for soybeans and soybean products were issued on a contract-by-contract basis with each contract reduced to 50 percent of the quantity originally scheduled for delivery. Each contract for soybean oil-cake and meal was reduced to 40 percent of the original quantity.

On July 5, 1973, Commerce also imposed export controls on 41 categories of agricultural commodities--including edible oils, animal fats, and livestock protein feed--as unsatisfied foreign demand substantially increased for various soybean substitutes and the raw materials for those substitutes. (See app. V for complete list of commodities.) Because of this transferability of demand, Agriculture determined that the supply of these substitutes would not be adequate to meet domestic requirements until soybeans became available from the new crop. The Secretary of Commerce removed all controls on exports of soybean and substitutes effective October 1, 1973.

CHAPTER 3

UNDERLYING CAUSES OF THE SOYBEAN PROBLEMS

Until mid-1973 export controls on soybeans and other scarce commodities were considered neither necessary nor desirable. U.S. international economic policy was guided by the concept of a free-market economy and minimum Government intervention, with export controls a policy of last resort. Agriculture officials contended that past commodity shortages and distortions in market activity resulted from Government intervention in the production, marketing, and pricing of agricultural commodities and that such intervention impaired the effectiveness and efficiency of a free-market economy.

From October 1972 through May 1973, Agriculture continued its policy of nonintervention in the marketplace as domestic and foreign buyers competed for available supplies. Agriculture's responses to public inquiries on high soybean prices showed no great concern about the impact of increased exports on domestic supplies and prices. Although there was evidence of a worldwide protein shortage, Agriculture did not see a need to establish a reserve program to insure supplies for domestic usage nor, until June 1973, a reporting system to provide adequate information on exports under contracts.

AGRICULTURE'S EXPORT OBJECTIVES

The Secretary of Agriculture, in March 1973 before the Senate Agriculture and Forestry Committee, projected a goal of $15 billion in agricultural exports by 1975 or 1976--an increase of 36 percent over the 1972 level of $11 billion in exports. Soybean exports are expected to play a significant role in attaining the Department's export goal.

A major cause of the soybean problem was the great foreign demand for U.S. soybeans--a reflection, in part, of Agriculture's aggressive policy of increased exports and of the decrease in Peruvian fishmeal. In fiscal year 1974 Agriculture planned to continue supporting private cooperators' promotional efforts to export agricultural commodities. About $5 million was budgeted for 1974 market development support in such commodities as soybeans and other grains.

The Secretary indicated the Department's export policy in a speech before the U.S. Agricultural Attache Conference in Washington, D.C., in August 1973 when he described the value of increased exports.

> "The more we export, the more our farmers can produce. Since we have the farm capacity to produce far in excess of domestic demand, exports are the only possible way we can fully utilize our farm resources. Farm exports benefit consumers. This economic fact is not clearly understood.
>
> "The consumers' first concern is an adequate supply of good food. This is the concern of every American. There is only one effective way to get the food consumers want. That is for farmers to be able to make money producing food."

The Secretary emphasized that increased farm exports benefited the domestic economy by creating more jobs and contributing substantially to our balance of payments and the international stability of the U.S. dollar.

> "For fiscal 1973, we will have a positive balance of agricultural trade of about $5.6 billion. Our total trade deficit as a Nation will be between $3 and $3.6 billion for fiscal 1973. In other words, without our very favorable trade balance in agriculture, the country's overall trade deficit would have been three times as large as it is.
>
> "Continued sizable farm exports will strengthen the dollar in the international money markets and enable this Nation to continue to import those items which we want and which are vital to our well-being."

According to another high-ranking Agriculture official, increased soybean exports have benefited the domestic economy because, without exports, U.S. soybean production would have to be cut in half. He also said that, for every $100 million worth of soybeans sold abroad, an estimated 4,200 jobs were generated in warehousing, transportation, and other industries and that the return of virtually all set-aside acreage to production in 1973 and 1974 would save the U.S. taxpayer substantial amounts in set-aside payments.

In the foreign policy area, the Secretary stated that increased farm exports were crucial to world peace and that trade in farm products had been an important means of strengthening bonds with U.S. allies and easing tensions with the Soviet Union and the Peoples' Republic of China.

Agriculture officials maintain that adequate production incentives are crucial to eliminating current commodity shortages. They emphasize that exports are a major component in the incentives perceived by wheat, feedgrain, and soybean farmers. Agriculture officials also indicated that, as domestic production increased through diversion of acreage to soybean production, sufficient supplies would be available at reasonable prices. However, there was no way to predict the possible disruptive short-term effects on the domestic economy of a variety of factors which influenced the market in 1973. These factors included fuel shortages, large-volume foreign sales, adverse weather conditions, transportation inadequacies, currency devaluations, and scarcities in substitutes. Any one or a combination of these factors injects a tremendous amount of uncertainty into future market situations.

AGRICULTURE'S COMMODITY MANAGEMENT CONCEPT

The problems with soybeans conceivably could have been ameliorated if Agriculture had acted more decisively sooner. The tight supply of soybeans which existed through crop-year 1972-73 continued into the next crop-year partly because of Agriculture's commodity management concept of minimizing involvement in a free-market economy.

Although Agriculture recognized the many factors contributing to the soybean problem, it did not develop a strategy to cope with these uncertainties. Agriculture could have considered (1) consultations with major soybean importers to limit their purchases, (2) discussions with exporters to limit foreign sales or to defer fulfilling existing contracts, and (3) establishing a reporting system to provide more precise information on the extent of export commitments.

Consistent with Agriculture's posture that domestic users should compete with foreign buyers for available soybean supplies, a coherent and comprehensive commodity reserve program was lacking. Some soybeans were held under a Commodity Credit Corporation loan program, but no Government program insured that the United States would at all times have adequate domestic supplies of soybeans and soybean meal. The Soybean Estimates Committee, which provides overall guidance to Department policymakers, derives its carryover, or reserve figures, by subtracting the amount of soybeans projected for domestic use and export from the amount of estimated total production. In essence, Agriculture backs into the amount that could be considered the Nation's soybean reserves.

Our review was not in sufficient depth to reach a conclusion on this point, but some Government officials claimed that a well-planned carryover program could have provided the United States with adequate reserves to avert a shortage and the need to impose export controls. Such a program seemed necessary, in view of Agriculture's obligations under the Agriculture Adjustment Act of 1938, to maintain a continuous supply of agricultural commodities at prices fair to both producers and consumers.

Although Agriculture is required to maintain some minimal amounts in a disaster reserve under the Agriculture and Consumer Protection Act of 1973, these stocks can only be released to alleviate shortages resulting from natural disasters. Domestic shortages caused by increased exports do not qualify for relief under the program, although great hardships may exist under such conditions.

The Congress expressed concern over the need for a program that insured adequate domestic supplies. In a statement on August 1, 1973, the Chairman of the Subcommittee on Foreign Agricultural Policy, Senate Committee on Agriculture and Forestry, said:

> "I want to suggest that there has been no systematic plan to develop adequate food reserves, domestically and worldwide, needed to meet the uncertainties of weather, production, and market conditions.* * * The Government has lacked any coherent policy: it has made no long range

plans; it has lived as a Government by what we call ad hoc or day-to-day reaction rather than plan and act in accordance with our Nation's and the World's long term food needs * * *."

Expressions of concern emanated from private farm groups as well. In hearings held by the Senate Subcommittee on Foreign Agricultural Policy in April 1973, the national secretary of the National Farmers Union observed:

"Serious failures have become evident in other aspects also of the Administration's grain marketing policies and operations. These are attributable mainly to the lack of adequate and effectively managed reserves."

Appearing before the same Committee, the past president of the National Association of Wheat Growers said:

"This past year's experience illustrates how quickly the world's grain supply situation can change because of bad weather in major producing areas. This fact points out the need for some sort of international stock holding policy to protect consumer interests, in time of international crop disasters."

Not all affected parties favored a reserve program. The executive vice president of the American Soybean Association testified before the same Subcommittee and expressed opposition to a commodity reserve program.

"Our association is opposed to having soybeans included in any national grain reserves. We feel that the Commodity Credit Corporation offers the insurance that is needed in this type effort. We do not think that we need national soybean reserves. * * *

"Our farmers feel, regardless of whatever protection might be, as long as you have x number of bushels sitting in reserve it tends to have a depressive effect on the market. We would rather have it completely free in an open market. We do support the need for a reasonable carry-over to keep the pipeline filled."

Other opponents of a minimum mandatory reserve program contend the cost of establishing and maintaining such a supply system would constitute a heavy financial burden to the taxpayer. In addition, a reserve program might prove to be too complicated to administer effectively and efficiently. Some farmers feared it would depress farm prices and adversely affect farm income, while some Agriculture officials were concerned that a reserve program would discourage farmers from increasing crop production. These officials insisted that shortages were short term and resisted suggestions of developing a planned long-term reserve program. Others feared that a Government-controlled reserve program would represent unnecessary Government intervention in activities traditionally limited to the private sector.

In the final analysis, it will have to be determined whether the benefits derived from a Government-controlled reserve program outweigh the costs of developing such a program.

INADEQUATE EXPORT REPORTING SYSTEM

Agriculture's Interagency Commodity Estimates Committees were responsible for estimating total crop production, domestic use, exportation, and carryover. Agriculture, until 1973, compiled export data on an after-the-fact basis from export shipment information provided by the Bureau of the Census and the Agricultural Marketing Service.

To provide more timely, accurate, and reliable information on export commitments, the President authorized the Department of Commerce to establish a weekly mandatory export reporting system on June 13, 1973. Agriculture assisted in developing the system, under which exporters were required to report sales contracted for shipment in the coming crop-year for soybeans, cottonseed, and their products.

The first bulletin, issued by Commerce on June 27, revealed differences with Agriculture's previous estimates of expected soybean exports. Commerce's reported soybean exports of 519 million bushels were about 6 percent above Agriculture's estimate of 490 million bushels. Exports of soybean meal were 6 million short tons, or about 27 percent above Agriculture's estimate of 4.7 million short tons. On the basis of these figures, the Secretary of Agriculture concurred in imposing export controls on soybeans and substitutes.

On July 10, 1973, Agriculture's Commodity Estimates Committee estimated that total 1973-74 crop-year soybean exports would be about 610 million bushels and soybean meal exports would be about 5 million short tons. Commerce's monitoring system showed that, as of July 13, 1973, however, forward sales of soybeans for delivery in the 1973-74 crop-year already totaled 508 million bushels with soybean meal sales totaling about 5.6 million short tons. Thus, according to reports submitted to Commerce in July 1973, 83 percent of the estimated soybean exports and over 100 percent of the estimated soybean meal exports for the 1973-74 crop-year had already been committed for future delivery. We could not tell whether the advance commitment of such large quantities of soybeans and meal was unusual because, in the past, forward sales information was not collected and, therefore, no basis existed for gaging the significance of the situation. However, the reported export commitments indicated little room for additional export activity from July 1973 for the remainder of the 1974 crop-year.

Although Agriculture, under the Agriculture and Consumer Protection Act of 1973, established an export-reporting system on October 14, 1973, Commerce was primarily responsible for collecting and publishing soybean export information from June 20 through November 20, 1973.

Since the first Commerce bulletin there have been continuing important differences in the expected 1974 soybean crop exports as obtained from Commerce's reporting system and estimates of Agriculture's Commodity Estimates Committee. The dates of the information shown below vary but are close enough for comparison.

	July		August		September		October	
Exports	13 Commerce	10 Agriculture	3 Commerce	1 Agriculture	7 Commerce	1 Agriculture	5 Commerce	1 Agriculture
Soybeans (millions of bushels)	508	610	626	600	654	600	636	550
Soybean carryover	-	125	-	125	-	200	-	240
Soybean meal (millions of short tons)	5.6	5	6.7	5.6	7.6	5.6	7.8	5.8
Soybean meal carryover	-	.167	-	.167	-	.182	-	.162

(See app. III for supply and disappearance amounts.)

With respect to the above differences, some Agriculture officials claimed that Commerce's statistics were unrealistic and inflated because foreign importers were overbuying in anticipation of having their contracts cut by export controls. These officials also contended that grain exporters were registering grain for export which would eventually be resold to the domestic market. Such export statistics represent an exaggeration of foreign demand. However, in an August 1973 meeting involving Commerce, Agriculture, and the grain trade, exporters insisted that all export sales reported were bonafide contracts that would be fulfilled. It was not possible to determine the extent of distortion in export reports caused by anxiety over the possible imposition of export controls for the crop-year, but some exaggeration of foreign demand could have been present. Nevertheless, the differences remained unresolved and the debate over expected export amounts continued. (See pp. 30 and 31.

During past years of domestic surplus, the accuracy of crop estimates, including export reporting and projected carryover stocks, did not receive much attention. An Agriculture spokesman said that, as long as surpluses were adequate, inaccuracies in crop estimates and statistical reporting were acceptable. However, with reduced reserve stocks, increased prices, and domestic shortages, the need for accurate statistical reporting becomes crucial. A July 5, 1973, study of the impact of expanded agricultural exports on the domestic economy by the Congressional Research Service concluded:

> "The current crisis situation might have been avoided, or could have been eased, if exporters had been required to report their export sales on a current basis and if the administration had not been so reluctant to moderate the free market in the face of widespread crop failure and instability in international currencies."

The Chairman of the Senate Subcommittee on Foreign Agricultural Policy commented that:

> "* * * the system of monitoring, estimating and reporting food supply on a worldwide basis is totally inadequate and obsolete for modern marketing needs.
>
> "In light of the food situation today, we ought to have every week the most up-to-date reporting on food supplies, crop production, movement of crops, utilization, where the shortages are appearing. Our system is out of date. No modern business would be caught with such obsolescence."

After Commerce initiated its reporting system, the Congress passed the Agriculture and Consumer Protection Act of 1973. The act required Agriculture to also implement a reporting system to effectively monitor export commitments so that commodities in short supply could be detected, to monitor foreign demand for certain commodities, and to inform the public.

Commerce discontinued monitoring agricultural exports effective November 20, 1973, because Agriculture's system, which was implemented in October 1973, was adequately fufilling the Government's requirement for such information.

CHAPTER 4

SUGGESTIONS CONCERNING THE SOYBEAN PROBLEM

Government and private economists expect that pressure on U.S. supplies could continue to intensify as world demand for soybeans, corn, wheat, and other feedgrains escalates due to:

--Population growth at home and abroad.

--Wider use of available food supplies.

--Growing prosperity and affluence in Western countries and Japan, which has meant wider and more intensive use of protein products.

--Periodic and unpredictable periods of bad weather which seriously affect grain production.

--Continued failure of the Peruvian fish catch in the immediate future.

--Russia's decision to upgrade the quality of its people's diets and its continued importation of large quantities of feedgrains and protein meals for producing animal products.

Perhaps the most crucial of these factors is the relationship between population growth and food production. In a recent appearance before the Subcommittee on Foreign Agricultural Policy, the former Administrator of the Agency for International Development declared:

> "In looking to the future, we in AID and other development agencies around the world recognize that the developing countries must double their food production in the next two decades merely to stay ahead of population growth. We in the developed countries should stand ready to help."

The expected continued strong demand for U.S. soybeans indicates that the shortage may be a long-term problem.

The suggestions presented below could help prevent recurrence of the shortage. (We did not fully examine the feasibility of these suggestions.) They do not represent firm evaluations or conclusions but are presented so that appropriate actions by congressional and executive branch agencies can be considered.

STRENGTHENING CONTROL OVER FUTURES MARKET ACTIVITIES

Futures trading is the buying and selling of contracts for future delivery of commodities. Many commodities subject to price fluctuation can be traded for future delivery. Such transactions take place on futures markets regulated by Agriculture's Commodity Exchange Authority (CEA).

In a 1965 report on CEA's effectiveness in administering market activities, we concluded that:

--CEA investigations of trade practices were insufficient.

--CEA did not exercise its regulatory authority to independently examine operations of contract markets.

--CEA needed to determine whether certain floor trading affects futures markets.

Congressional concern over CEA's ability to effectively monitor trading activities resulted in our being asked to again review its operations. The House Small Business Committee also examined CEA activities in 1973, and legislation was considered to establish a separate regulatory agency to govern commodity trading. Other congressional committees considered hearings in an effort to determine the advisability of broadening CEA's regulatory authority. These events suggested the need to strengthen control over futures market transactions. The nature, extent, and form of such controls will likely be determined from these reviews.

ESTABLISHING A BETTER EXPORT REPORTING SYSTEM

Agriculture could develop and maintain a system whereby contracts for export would be reported accurately, promptly, and reliably. The system must provide Agriculture officials with sufficient information to make management decisions and to be able to execute those decisions in a minimum of time to insure adequate domestic supplies. The Agriculture and Consumer Protection Act of 1973 requires exporters to report weekly the following information to the Secretary of Agriculture

--type, class, and quantity of commodity sought to be exported;

--the marketing year of the shipment; and

--destination, if known.

The above reporting system provides a mechanism for accomplishing the desired objectives in a future-oriented rather than an ad hoc, crisis-oriented fashion. For Agriculture to be able to effectively assess the possible impact of exports on domestic supplies and prices, the information produced by the reporting system must be supplemented with information on export shipments and with accurate forecasts of domestic production and consumption and foreign production and demand. The system could provide the concrete information necessary to minimize uncertainty over supply conditions and to make export programs respond to actual conditions.

Although the reporting requirement provides an element of specificity, it does not resolve some problems that have been cited as causes of inflated or distorted export reports. These unresolved problems include:

--Failure to adequately clarify export agreements entered into between parent companies located in the United States and affiliates in foreign countries in which the ultimate destination is not disclosed, possibly resulting in misleading interpretations of foreign demand.

--Lack of specific information to identify the actual exporters and to avoid possible double counting resulting from a lack of such specific information.

--Overbuying by foreign importers and inflated export statistics due to anticipation of Government imposition of export control.

--Purchasing of grain by U.S. exporters for export purposes which is eventually resold to the domestic market, resulting in exaggeration of foreign demand and of export statistics.

To insure that its reporting system was acceptable to exporters and the public, Agriculture solicited comments from interested individuals and held a public meeting on September 19, 1973, to discuss the proposed system. Individuals and/or companies who could not attend were invited to provide written comments. Agriculture has since evaluated the comments and made several modifications to its proposed system.

Since Commerce's ad hoc system was established in June 1973, Agriculture and Commerce officials have met with grain trade members on the mechanics of export reporting. These conferences could be continued and broadened to include representatives from farm organizations, transportation companies, and consumer interest groups. Such meetings could benefit both the private sector and Government if the forum is used for information purposes to formulate responsive commodity management policies.

ADOPTING A FLEXIBLE EXPORT POLICY FOR CRITICAL COMMODITIES

Despite warnings about the short supply of soybeans, Agriculture opposed Government intervention in the marketplace. Clearly, an export reporting system will be limited in its ability to foster appropriate governmental action if it functions in an environment where the policy is to seek unrestrained export levels for the specific commodities being monitored. Agriculture could adopt a more flexible export policy which is responsive to unusual supply and demand situations. In periods of greatly increased foreign demand, Agriculture would be in a position to take milder, less disruptive actions than past export restrictions, such as allocating U.S. exports, seeking voluntary restraining agreements with foreign governments, and deferring existing commitments. On the other hand, in periods of diminished foreign demand, Agriculture could increase its promotional efforts to sell U.S. commodities.

Decisions--such as establishing grain reserves, limiting exports, and establishing formulas for allocating exports by country--can have an impact on U.S. foreign policy considerations. We recognize Agriculture cannot fully control export policy. However, decisions concerning allowable export levels should include an assessment of the domestic and international consequences of the anticipated exports. Consideration could be given to answering the questions of how, and at what level of government, the impact should be assessed in terms of foreign policy, economic consequences, monetary consequences, and available supplies.

IMPLEMENTING A COMPREHENSIVE RESERVE PROGRAM

A reserve program, responsive to consumer, farmer, and exporter needs (1) could insure against the future recurrence of serious supply problems in soybeans and other essential grains, (2) could satisfy basic domestic and international supply commitments, and (3) could also prevent the United States from periodically considering imposing export controls, which disrupt trading relationships with regular importers of U.S. farm products. Agriculture officials, however, expressed opposition to the concept of establishing a reserve program on the basis that, over the long run, market forces were the best determinants of supply and demand levels.

Before a reserve program can be considered, key questions need to be addressed. Are reserves necessary to provide adequate domestic supplies at stable price levels? Would reserves adversely affect U.S. soybean exports? In essence, what are the costs and benefits of establishing and administering a comprehensive reserve program?

In an era of increased foreign demand, with decreased domestic reserves and increased domestic prices, these questions become crucial. Since farmers, businessmen, and consumers are harmed by violent swings in market supplies and prices, all three groups could benefit from a properly planned and well executed supply and use program.

This was alluded to in fiscal year 1974 when the Chairman of the Senate Subcommittee on Foreign Agricultural Policy introduced the Consumer and Marketing Reserve bill (S. 2005). The bill called upon Agriculture, in cooperation with farmers and the private grain trade, to maintain at all times a reserve supply of wheat, corn, and soybeans at specified amounts. According to the bill the reserve would be:

--Available in times of shortage and be used to meet domestic needs and international export commitments.

--Used to maintain a stable price structure for the consumer and to insure reliable delivery on U.S. export commitments.

--Acquired during times of market surplus and when farm prices were below target levels, thereby assuring the farm producer that he would not be the victim of a depressed market but rather would have a system by which the Government, through the Commodity Credit Corporation, would purchase supplies and seal them off from the regular, normal market as part of the strategic reserve.

SOME OTHER VIEWS ON RESERVES

A variety of spokesmen have expressed concern regarding the lack of a comprehensive reserve policy. In hearings held by the Subcommittee on Foreign Agricultural Policy in the spring of 1973, a professor of agricultural economics at Michigan State University said:

> "* * * consideration needs to be given to a combination of sales management, stock management, and production management programs at least to the extent of providing and retaining standby measures that will permit orderly marketing of American farm products in international markets."

A program advisor in Agriculture, International Division, Ford Foundation, testified that:

> "* * * the U.S. Government should have a grain stock policy--not as unwitting adjunct to a support program, but for the purpose of domestic and international supply and price stability. It is not reasonable to expect farmers or the private trade to carry sufficient stocks to maintain our position as an exporting Nation in an industry subject to huge year-to-year variations in export demand. You have to meet the demands of your regular customers or lose them, and when there are unanticipated increases in demands, some go unmet in the absence of adequate stocks. Moreover, sharp and violent grain price fluctuations are highly destabilizing to our livestock economy and to our domestic price system, as we are now seeing."

Grain trade representatives supported a free market economy which provided the incentives to encourage increased production and allowed price to determine the purchasers. However, the recent shortages in soybean and other grains prompted some representatives to modify their position and advocate some form of a commodity reserve program. One large exporter in August 1973 proposed that:

> "The United States should adopt a conscious reserves policy for wheat, feed grains and oilseeds. This would help spread the shock of supply shortfalls over longer periods of time, reinforce America's reputation as a reliable supplier and provide another tool with which to provide farmers incentives to expand output. If legislation achieving this goal is not forthcoming, the Department of Agriculture ought to study what administrative actions could be taken to ensure both an adequate aggregate supply of grains and oilseeds and an appropriate balance among different grains and oilseeds.* * *
>
> "For all of these reasons, we believe it is imperative that this proposed program be announced as soon as possible. In addition to achieving these national policy objectives, it would bring order and greater confidence to the marketplace, reducing risks and exposures presently facing private entities--whether U.S. sellers, foreign buyers or ultimate consumers."

Consideration has been given to United States participation in an international grain reserves program. The Secretary of State expressed concern over the reduced levels of world food reserves and the possibility that even bumper crops might not be adequate to replenish them in this decade in a September 24, 1973, speech before the United Nations General Assembly. He proposed that a world food conference be organized in 1974 under United Nations auspices to discuss ways of maintaining adequate food supplies. Similarly, the Secretary of Agriculture in a December 1973 speech before a regional farm group stated there was an urgent need to develop an effective multi-national system of reserves to meet food crises, lessen hardships, and prevent starvation.

In line with the thinking expressed by business and Government leaders, Agriculture could consider devising a commodity reserve program. The basic question that must be answered is whether it is in the country's long-range interest to develop such a program. If it is, important questions that could be considered include:

1. What should be the composition of the reserve?

2. How should allocations from the reserve be made?

3. Where should the reserve be held?

4. Should withdrawals be purchased by the recipient, or should grain be given free or on soft terms?

5. How should storage and transportation be financed?

6. Should the reserve be in addition to presently held stocks or simply a scheme to coordinate them?

7. Should additional grains needed for the reserve be purchased commercially, or should Government plan to expand acreage to meet these requirements?

Other related problems needing analysis include (1) optimal timing of inventory adjustments, (2) least-cost distribution of Government versus privately owned stocks, and (3) the type of pricing policy that should govern the acquisition and disposal of reserve stocks.

An Agriculture task force in September 1973 completed for its management an analysis of the considerations involved in establishing a grains reserve program. At the time we completed our fieldwork, Agriculture was still examining the feasibility of establishing reserves.

CHAPTER 5

SCOPE OF REVIEW

Our review basically covered October 1972 to October 1973, during which we examined records of the Departments of Agriculture and Commerce. We also interviewed officials of the Departments of Agriculture and Commerce, the Council on International Economic Policy, the Cost of Living Council, and the grain trade and other representatives of the private sector concerning the causes and effects of the soybean crisis.

We did not review the Commodity Exchange Authority nor analyze the export controls imposed on soybeans in June 1973.

MAJOR EVENTS OF THE 1972/73 SEASON

A series of unusual national and international events influenced the soybean and fats and oils industries during 1972/73.

Soviet Grain and Soybean Purchases Set the Stage

Crop failure in the Soviet Union in the summer of 1972 set the stage for the unprecedented rise in prices and demand for soybeans, soybean meal, and other vegetable oilseeds and products. The Soviets made huge purchases of food grains, feed grains, and soybeans. Prices began rising. It was apparent early in the season that the entire 1972 soybean crop in the United States would be fully utilized.

Reduced Oil Crops in Other Countries

The failure of the Monsoon in India, the drought in West Africa and Australia, and weather difficulties in North Mainland China sharply reduced 1972 output of oilseed crops in these countries.

Peruvian Fishing Disaster Shorted World Protein Supplies

By the autumn of 1972, it dawned on everybody that world fish meal supplies would be down sharply, due to failure of the Peruvian anchovy catch. This touched off a worldwide scramble for other high-protein supplements which focused primarily on U.S. soybean and soybean meal availabilities.

Wet U.S. Harvest Season Damaged 1972 Oilseed Crops

The unfavorable harvesting season last fall damaged the 1972 oilseed crops and brought harvesting operations to a virtual standstill in many parts of the country. Soybean production was reduced from an estimated 1,351 million bushels in November 1972 to 1,283 million in March. Prices of soybeans, soybean meal, and other protein meals skyrocketed to a peak in early June.

USDA Eased Acreage Restrictions For 1973

In January 1973, USDA relaxed restrictions for 1973 feed grain set-aside and allowed plantings on wheat set-aside land in a move to increase production of food grains, feed grains, and soybeans.

February 1973 Dollar Devaluation Spurred Exports

The devaluation of the dollar on February 15, 1973—the second in 14 months—and the subsequent downward float of the dollar generally made U.S. goods more attractive to foreign buyers and tended to increase the already strong demand for soybeans and oilseed meals despite the sharply higher prices.

Wet Spring Raised Anxiety Over 1973 Plantings

The wet spring and flooding in many parts of the country caused concern about 1973 plantings of feed grains, soybeans, and cotton.

Feed Grain Set-Aside Requirements Reduced Further

In late March, an estimated additional 13½ million acres of feed grain set-aside land was released for planting to feed grains or soybeans in order to boost production of these commodities.

USDA Stopped Exporting Vegetable Oil Under CCC and Barter Programs

On April 6, the USDA suspended exports of vegetables oils under the CCC Export Credit Sales Program and the Barter Program because of the tightening supply situation and sharp increases in vegetable oil prices. At the same time it announced curtailment of the quantities of edible oils which would be programmed under Titles I and II of P.L. 480.

Price Ceilings Clamped on Processed Foods

The imposition of price ceilings on all retail and wholesale prices on June 13 froze prices pending Phase IV. Ceilings were imposed following a continued runup in farm and food prices and widespread speculation in agricultural markets.

Chicago Board of Trade Limited Trading

On June 2[illegible] the Chicago Board of Trade limited trading of s[illegible]ans and soybean meal futures for July, August, and September to liquidation of contracts only, except in those cases where traders had physical ownership of these commodities available for delivery.

Source: Department of Agriculture, Fats and Oils Report, October 1973.

Export Sales Data Revealed Surprisingly Heavy Demand

On June 27, the U.S. Department of Commerce released data based on reports from exporters of heavy export demand for food grains, feed grains, soybeans, cottonseed, and soybean and cottonseed meals.

Export Embargoes Slapped On Soybeans, Cottonseed and Products

On June 27, the U.S. Department of Commerce imposed an export embargo on soybeans, cottonseed, and various meal and oil products from these commodities because of the large volumes that were scheduled for export.

Validated Licensing Procedure Replaced Embargo

On July 2, the Department of Commerce replaced the June 27 embargo with a system of validated licenses for soybeans, cottonseed, soybean meal, and cottonseed meal. The embargo was terminated for soybean and cottonseed oils.

More Commodities Subjected to Export Controls

On July 5, the Commerce Department placed 41 categories of agricultural commodities under export control. *** These included edible oils (including soybean and cottonseed oils), animal fats, and livestock protein feeds. This action was necessitated because of the tight supply and strong demand for oilseeds, vegetable oils, and oilseed meals.

Phase IV Began

On July 18, Stage A of Phase IV permitted pass-through of cost increases of raw agricultural products incurred since June 8 except for beef, which was continued under ceiling until September 10.

USDA Opens Up 1974 Acreage; Soybean Loan Unchanged

On July 20, USDA announced that there would be no set-aside of land in 1974 for feed grains, wheat, or cotton in order to insure adequate production of these crops. On August 29, it was announced that the 1974 soybean crop support price would be $2.25 per bushel, the same as the previous 5 years.

Soybean Export Policy Eased for September

On August 1, the Department of Commerce announced that licenses for soybean exports for shipment during September would be issued on the basis of 100% of the unfilled balance of orders which had been accepted by the exporter on or before June 13, 1973, and previously reported to the Department.

—Soybeans: Exports from specified countries, annual 1966–72

Country	1966	1967	1968	1969	1970	1971	1972 1/
	(In 1,000 metric tons)						
Canada	89	65	42	20	29	34	41
United States	6,752	7,169	8,015	8,469	11,955	11,539	11,975
Brazil	121	305	66	310	290	213	1,037
Nigeria	12	6	14	7	10	5	2
Tanzania	(2/)	(2/)	0	(2/)	(2/)	(2/)	(2/)
Uganda	(2/)	1	(2/)	1	0	0	0
Cambodia	1	0	6	3/ 5	3/ 5	3/ 5	(4/)
China, People's Rep. of 5/	561	569	564	479	424	460	370
Indonesia	0	7	8	1	3	1	3
Hong Kong	8	4	3	2	4	4	2
Singapore	7	9	8	7	5	8	7
Thailand	6	6	3	5	6	6	7
Turkey	0	0	0	0	0	0	0
Total	7,557	8,141	8,729	9,306	12,731	12,275	13,444
	(In 1,000 bushels)						
United States	248,071	263,418	294,478	311,180	439,254	423,967	439,989
Total	277,672	299,130	320,736	341,937	467,784	451,029	493,982

1/ Preliminary. 2/ Less than 500 tons. 3/ Estimated. 4/ Data not available. 5/ Unofficial estimates.

Source: Foreign Agriculture Circular, "Fats & Oils," FFO 18-73, Nov. 1973, p. 27.

APPENDIX III

SOYBEANS

Item	1972-73	1973-74 based on Sept. 1 indications	1973-74 based on Oct. 1 indications	Projected 1974-75
ACREAGE:				
Planted (mil. A)	47.0	57.2	57.2	54.0
Harvested (mil. A)	45.8	56.2	56.2	53.0
YIELD PER HARVEST:				
Acre (bu.)	28.0	28.5	28.3	29.0
	(million bushels)			
SUPPLY:				
Carryin, Sept. 1	72.0	65	60	240
Production	1,282.9	1,599	1,588	1,535
Total	1,354.9	1,664	1,648	1,775
DISAPPEARANCE:				
Crushings	722	775	775	825
Exports	400	600	550	600
Seed, feed, and residual	93	89	83	85
Total	1,295	1,464	1,408	1,510
Carryover, Aug. 31	60	200	240	265

Source: Outlook and Situation Board, Economic Research Service, Oct. 17, 1973.

SOYBEAN MEAL

Item	1972-73 estimated	1973-74 based on Sept. 1 indications	1973-74 based on Oct. 1 indications	Projected 1974-75
	(1,000 short tons)			
SUPPLY:				
Carryin, Oct. 1	192	212	192	162
Production	16,750	18,370	18,370	19,550
Total	16,942	10,502	18,562	19,712
DISAPPEARANCE:				
Domestic	11,900	12,800	12,600	13,550
Exports	4,850	5,600	5,800	6,000
Total	16,750	18,400	18,400	19,550
Carryover, Sept. 30	192	182	162	162

Source: Outlook and Situation Board, Economic Research Service, Oct. 17, 1973.

APPENDIX IV

AGRICULTURAL COMMODITIES PLACED UNDER EXPORT CONTROLS ON JULY 5, 1973

Corn gluten feed

Linseed oilcake and meal

Sunflower and safflower oilcake and meal

Peanut meal

Peanut oilcake

Meat meal and tankage

Fishmeal

Feather meal

Poultry feeds, prepared

Dairy cattle feeds, prepared

Livestock feeds (except dairy cattle) including supplements, prepared

Alfalfa meal, dehydrated

Alfalfa meal, sun cured

Lard and other rendered pig fat, except grease

Choice white grease

Safflower seed

Sunflower seed

Peanuts (groundnuts), shelled, green

Peanuts (groundnuts), unshelled, green

Flaxseed (linseed)

Bonemeal

Blood flour and blood meal

Tallow, edible

Tallow, inedible

Soybean oil, crude, including degummed

Soybean oil, once refined

Soybean salad oil, refined and further processed by bleaching, deodorizing, or winterizing (except hydrogenated), not donated for relief or charity by individuals or private agencies

Cottonseed oil, crude

Cottonseed oil, once refined

Cottonseed salad oil, refined and further processed by bleaching, deodorizing, or winterizing (except hydrogenated), not donated for relief or charity by individuals or private agencies

Peanut oil, crude

Peanut oil, except crude or hydrogenated

Sunflower seed oil, crude

Sunflower seed oil, once refined (after alkali or caustic wash, but before bleaching, deodorization, or winterization)

Sunflower seed oil, including all mixed or blended soft salad oils, bleached, deodorized, or winterized (except hydrogenated), not donated for relief or charity by individuals or private agencies

Linseed oil, raw

Linseed oil, boiled, oxidized, dehydrated, sulphurized, blown, or polymerized

Corn oil

APPENDIX IV

Safflower seed oil, fixed

Soybean oil, hydrogenated

Cottonseed oil, hydrogenated

Cottonseed and soybean oil mixture, hydrogenated corn oil, hydrogenated

Fish oil, hydrogenated

Maize oil, hydrogenated

Peanut oil, hydrogenated

Soybean lecithin

Source: Department of Commerce News Release.

PRINCIPAL OFFICIALS OF THE DEPARTMENT OF AGRICULTURE RESPONSIBLE FOR ADMINISTRATION OF ACTIVITIES DISCUSSED IN THIS REPORT

	Tenure of office	
	From	To
SECRETARY OF AGRICULTURE:		
Earl L. Butz	Dec. 1971	Present
Clifford M. Hardin	Jan. 1969	Nov. 1971
ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS:		
Carroll G. Brunthaver	June 1972	Present
Clarence D. Palmby	Jan. 1969	June 1972
EXPORT MARKETING SERVICE:		
Laurel C. Meade, General Sales Manager	July 1972	Present
Frank G. McKnight, Associate General Sales Manager	Mar. 1969	Present
George S. Shanklin, Assistant Sales Manager (Commodity Exports)	Jan. 1972	Present
ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE:		
David L. Hume	Aug. 1973	Present
Raymond A. Ioanes	Apr. 1962	Aug. 1973
ADMINISTRATOR, ECONOMIC RESEARCH SERVICE:		
Quentin M. West	Jan. 1972	Present