

Briefs

Field Crops

U.S. Farmers Curtail Feed Grain & Wheat Plantings in 1999

On the eve of planting decisions for major field crops in 1999, U.S. farmers faced lower prices across the board, down 15 percent or more for most crops from a year earlier. They responded by reducing planting intentions 5.4 million acres from last year's planted acreage. A net increase of 1-1.5 million acres enrolled in the Conservation Reserve Program (CRP) also played a role in the decline.

Planting intentions for the eight major U.S. field crops (corn, soybeans, wheat, barley, sorghum, oats, cotton, and rice) total 250.7 million acres in 1999, down 2.1 percent from last year's planted area and down 3.9 percent from the most recent peak in 1996. Farmers intend to reduce corn plantings to the lowest level in 4 years and cut back other feed grain area as well, and to plant the fewest wheat acres in 26 years. In contrast, farmers intend to boost cotton and rice area and will plant more acres to soybeans in 1999, the eighth straight increase. Planting intentions and trend yields suggest a very large U.S. soybean crop and a slightly reduced but still large corn crop in 1999. If yields approximate the average for the last 3 years, wheat production will decline by 10 percent.

Until this year, both soybean and corn plantings had increased each year since implementation of the 1996 Farm Act, legislation which allows farmers more flexibility in their planting decisions to respond to market signals. Unlike earlier U.S. farm law, the 1996 Farm Act no longer ties producers' participation in farm programs to base acreage planting requirements for a specific program crop nor restricts production through acreage reduction programs. As a result, corn and soybean acreage expanded into the wheat-dominated Central and Northern Plains since 1996 because of relatively higher net returns for these crops. Corn and soybean acreage also rose in traditional cotton land in the Southeast in 1997 and 1998.

Meanwhile, wheat acreage in the Northern Plains has declined as more land traditionally planted to wheat was switched to minor oilseeds, such as sunflower and canola, or summer fallow. For example, sunflower planted acreage in North Dakota increased from 1.2 million acres in 1996 to 2 million in 1998 and 1999.

Intended *soybean* acreage for 1999 is 73.1 million acres, 1 percent higher than last year's planted acreage despite sharply lower prices. Large U.S. and Brazilian soybean supplies and weak export demand have pushed soybean prices at planting about 25 percent lower than 1998.

Intended soybean plantings increased in the Corn Belt (especially Iowa and Wisconsin) and in the Central and Northern Plains (e.g., Nebraska and South Dakota) for several reasons. Soybean yields have grown faster than corn yields, and adoption of genetically modified herbicide-tolerant soybeans has reduced input costs for many farmers. Prices of competing crops have also declined, and the loan rate for soybeans has augmented expected market returns this year (under the nonrecourse marketing loan program). Farmers in the Delta and Southeast (especially Louisiana and Mississippi) intend to decrease their

plantings of soybeans for the second year after a spike in 1997. An attractive marketing loan program has helped make cotton a more profitable alternative this year.

Corn growers intend to plant 78.2 million acres in 1999, down 2 percent from last year's planted acreage because of lower expected corn prices, concerns in the South about aflatoxin—a fungus byproduct which prevents the use of the corn for human consumption and sharply limits the use of the corn in livestock feeding—and unusual dryness in the Southern Plains. Most of the decline in intended corn acreage—1.4 million acres of the total—is in the Southern Plains, Delta, and Southeast regions, driven by acreage shifts to cotton and, to a lesser extent, sorghum. A part of these corn acres probably will be left fallow as well.

States in this area showing the largest declines in acreage are Texas, Mississippi, Louisiana, North Carolina, Arkansas, and Georgia. Several major corn producing states—Iowa, Nebraska, Minnesota, and Wisconsin—also show a decrease in planting intentions for corn as farmers switch to soybeans or minor oilseeds, such as canola. Corn planting intentions are up slightly in the Central Corn Belt (Illinois and Indiana), largely due to rotation with soybeans.

Among other feed grains, *barley* planting intentions show the largest percentage decline—17 percent from last year's planted acreage. Intended barley plantings are down 500,000 and 190,000 acres in

Planting Intentions for Corn and Wheat Are Down from Last Year's Plantings

	1998		1999	
	Intended acreage	Planted acreage	Harvested acreage	intended acreage
<i>Million acres</i>				
Corn	80.8	80.2	72.6	78.2
Soybeans	72.0	72.4	70.8	73.1
Wheat	67.0	65.9	59.0	63.0
Sorghum	9.0	9.6	7.7	8.8
Barley	6.8	6.3	5.9	5.3
Oats	5.2	4.9	2.8	4.7
Rice	3.1	3.3	3.3	3.6
Cotton	13.2	13.4	10.7	13.9
Total	257.1	256.1	232.8	250.7

Economic Research Service, USDA

With Soybean Prices Falling, Why Are Planting Intentions Up?

U.S. farmers' intentions to plant a record 73.1 million acres of soybeans in 1999, as reported in USDA's March 1999 *Prospective Plantings*, continue a steady upward trend in soybean acreage since implementation of the 1996 Farm Act. For farmers participating in Federal commodity programs, the legislation provides nearly full planting flexibility to respond to the relatively higher market returns for soybeans in recent years.

But this year, the market price for soybeans is much lower. On March 15, new-crop soybean futures (November contract) settled at \$4.90 per bushel, down 25 percent from a year earlier. So why is soybean acreage continuing to expand when farmers face a dramatic price decline?

USDA's Economic Research Service recently completed a study to quantify farmers' planting decision response to prices. These acreage-price relationships can be used to isolate the effects of commodity prices on field crop plantings. In the case of soybeans, this year's increase in planting intentions from 72 million acres in 1998 to 73.1 in 1999 can be accounted for by four factors, with the soybean loan rate (under the nonrecourse marketing loan program) pulling up the total.

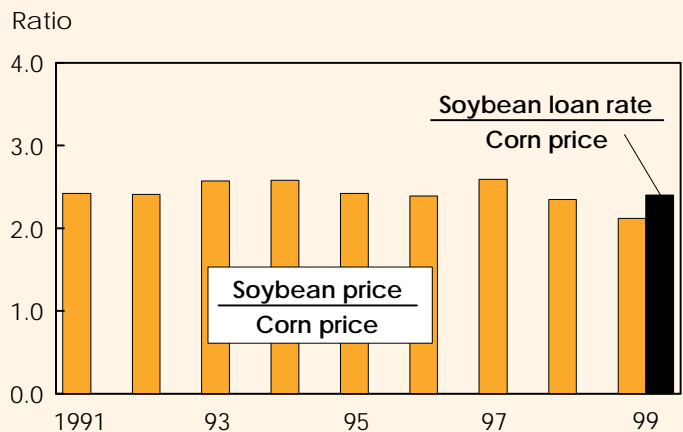
ERS research indicates that this year's decline in the *expected soybean price* by itself would reduce soybean plantings by 4.84 million acres from last year's level. Research indicates soybean intended plantings decline 0.265 percent for each 1-percent decline in the expected soybean farm price.

Partially offsetting this decline is the effect of lower *expected prices for competing crops*, which encourages soybean plantings. Considered in isolation from soybean prices, lower prices for corn (down 15.3 percent), wheat (down 15.6 percent), sorghum (down 15.3), and cotton (down 11.3) result in an increase of 2.76 million acres in soybean plantings in 1999. The expected corn price has the biggest impact (nearly 2.5 million acres), with research showing that soybean plantings rise 0.225 percent for each 1-percent decline in the price of corn.

Another increase in intended soybean plantings—amounting to 1.7 million acres—can be attributed to additional acreage shifting out of winter wheat due to changing *costs and returns*. This increase is in addition to the increase accounted for by the price response for wheat described above, and is based on a comparison of expected net returns among winter wheat's main competing crops, including soybeans. Most of the acreage not planted to winter wheat will be switched to soybeans, and *not* to other crops such as corn, partly because cost savings in input use have been greater for biotech soybeans.

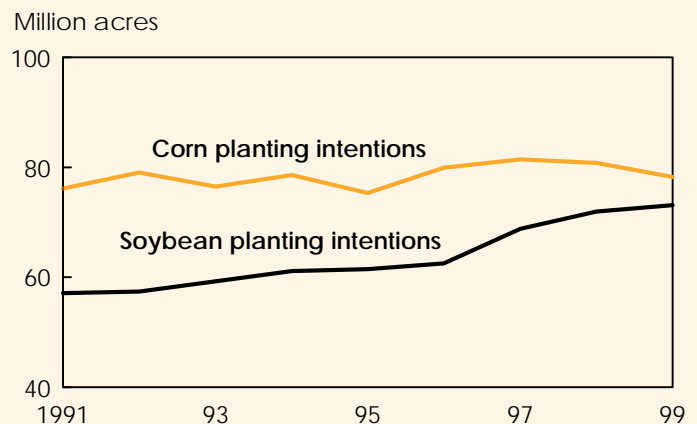
A fourth factor—the *soybean loan program*, which guarantees farmers at least \$5.26 per bushel—pushes planting intentions up another 1.7 million acres. As a per-unit rev-

Loan Rate Makes Soybeans More Attractive Than Market Prices Suggest...



New-crop futures prices (November for soybeans and December for corn) in mid-March, adjusted to U.S. farm-level equivalent.

...and Soybean Planting Intentions Continue Rising



Economic Research Service, USDA

enue guarantee, the program essentially reduces the expected decline in the soybean farm price from 25.3 percent to 16.5 percent.

Combining the effects of these four factors results in a net increase of 1.3 million acres in soybean planting intentions. The 0.2-million-acre discrepancy between the calculated amount and reported planting intentions reflects differences between actual and predicted outcomes inherent in the analysis.

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This analysis is based on information in a forthcoming ERS report that examines acreage-price relationships for major field crops.

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North Dakota, the largest producing state, and Minnesota, the fifth largest producing state. Contributing factors are the current low price of barley relative to other crops and concerns over scab disease outbreaks.

Planting intentions for *sorghum* are 9 percent lower than last year's planted acreage. The bulk of the acreage decline comes from Texas, where sorghum area is down 0.9 million acres, a 24-percent decline. Intended *oat* acreage is down 3 percent from last year's planted acreage, with more than half of that decline in North Dakota.

Total *wheat* area intentions for 1999—at 63 million acres—are down 4 percent from last year's planted area. The USDA *Winter Wheat and Rye Seedings* report indicated in January that farmers planted 43.4 million acres of winter wheat for harvest in 1999, the lowest since 1972. Responding to lower prices and unfavorable planting conditions, particularly in the Southern Plains, farmers reduced winter wheat plantings last fall by 7 percent from the year earlier. A 20-percent decline in the expected price for soft red winter wheat contributed to a 0.8-million-acre decline in winter wheat acreage in the Corn Belt as acreage shifted to soybeans. Similarly, low prices for hard red winter wheat (HRW) led to a 1-million-acre decline in HRW wheat acreage in the Central and Northern Plains region (Kansas, Nebraska, and South Dakota). In Montana, winter wheat acreage was down 0.4 million acre from the previous year as acreage shifted to spring wheat.

In 1999, farmers intend to increase spring wheat (including durum) plantings to 19.6 million acres, up 0.2 million from last year's planted area. Driving the increase is 4.3 million acres of prospective durum wheat plantings, a 12-percent jump from last year and the largest plantings since

1982. The intentions indicate a shift from spring wheat to durum wheat in North Dakota, where an attractive insurance policy overwhelmed market signals to reduce durum plantings. Farmers intend to reduce "other spring" (i.e., non-durum) wheat plantings 2 percent to 15.4 million acres in 1999, due mainly to a small decline in the expected price for hard red spring wheat.

Cotton planting intentions total 13.9 million acres, nearly 4 percent higher than last year's planted acreage, with the increase coming mostly from Mississippi and Georgia. While market prices for cotton have declined more than 18 percent, the decline in expected per-unit return is only 11 percent, in part because of the cotton marketing loan program. In comparison, expected returns for competing crops, such as corn, wheat, sorghum, and soybeans, show an even greater decline. In the South, planting intentions indicate corn acreage will likely switch to cotton instead of soybeans. Cotton has higher expected net returns than soybeans, reflecting a soybean-to-cotton price ratio at the planting decision point of less than 10—an estimated break-even price ratio between these two competing crops.

Rice growers intend to plant 3.6 million acres, a 7-percent increase from 1998, with long grain and medium grain plantings indicated up 6 percent and 13 percent from last year. Planting intentions are higher this year in all six major producing states, with Mississippi and California indicating the largest percentage increases. U.S. rice prices during the 1998/99 crop year, though showing a modest decline from last year, are expected to decline less than prices for competing crops such as soybeans. **AO**

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May Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 pm (ET) unless otherwise indicated.

May

- 3 *Crop Progress* (4 p.m.)
- 4 *Dairy Products*
Egg Products
Poultry Slaughter
- 5 *Broiler Hatchery*
Basic Formula Milk Price
(Wisconsin State Report)
- 7 *Dairy Products Prices*
(8:30 a.m.)
- 10 *Crop Progress* (4 p.m.)
- 12 *Cotton Ginnings- Annual*
(8:30 a.m.)
- Crop Production* (8:30 a.m.)
- Broiler Hatchery*
- 14 *Dairy Products Prices*
(8:30 a.m.)
Potato Stocks
Turkey Hatchery
- 17 *Milk Production*
Crop Progress (4 p.m.)
- 19 *Ag. Chem. Usage -Field Crops*
Broiler Hatchery
- 20 *Catfish Processing*
- 21 *Dairy Products* (8:30 a.m.)
Cattle on Feed
Cold Storage
Farm Labor
Livestock Slaughter
Meat Animals—P D I
Milk—P D I
- 24 *Chicken and Eggs*
Crop Progress (4 p.m.)
NASS Facts Newsletter (4 p.m.)
- 26 *Broiler Hatchery*
- 28 *Dairy Products Prices*
(8:30 a.m.)
Agricultural Prices
Peanut Stocks and Processing

These estimates are based on farmer surveys conducted during the first 2 weeks of March. USDA's *Prospective Plantings* report for 1999, released on March 31, provides the first indication of farmers' spring planting intentions for major field crops. With adverse weather or significant changes in crop prices, actual plantings could vary from intentions. For example, persistent wet conditions in spring could delay corn plantings and cause a switch from corn to soybeans. USDA will release acreage estimates (in a survey completed around June 1) in its June 30 *Acreage* report, after crops have been planted or when planting intentions are more definite.

Livestock, Dairy, & Poultry

Cattle Inventory Expansion Likely Delayed Yet Another Year

A series of indicators strongly suggests that the anticipated cattle herd expansion will be delayed yet again. The number of cattle and calves (beef and dairy) on farms and ranches on January 1, 1999 declined for the third consecutive year, down 1 percent from a year earlier and 5 percent from the 1996 cyclical peak of 103.5 million. The beef cow herd is down over 5 percent from 1996, and the number of cows and heifers that have calved (heifers are counted as cows after their first calving) declined 1 percent from a year ago and nearly 3 percent from 1997.

Most important for future production, the number of heifers being retained on January 1 for possible breeding herd replacement was down 4 percent from a year earlier. The 1998 calf crop, though above expectations, was 1 percent below a year earlier, and with the inventory of breeding and replacement cattle also down, the 1999 calf crop will almost certainly decline, virtually assuring that the cattle herd inventory will decline again in 1999.

Heifer slaughter in 1997 and 1998 was extremely large, leaving the number of heifers available to enter the breeding herd in 1999 likely to be very low. Most of these heifers will not be bred until late-spring to summer, to calve in 2000. If the number of heifers retained and bred this summer remains relatively low, as it has for the last several years, the calf crop, and thus feeder cattle supplies, will be down again in 2000, delaying any rise until 2001. At such a low rate of heifer retention, even with reduced cow slaughter in 1999, beef cow inventories on January 1, 2000 may be below the most recent low of 32.5 million recorded in 1990, and could be the lowest since the mid-1960's.

First-quarter cow slaughter and feedlot statistics on heifers provide an early view of herd rebuilding dynamics. Commercial cattle slaughter is expected to decline 1-2 percent from 1998, and cow slaughter to decline about 7 percent, as more are retained in the breeding herd. First-quarter

cow slaughter has already shown a 4-percent decrease from a year earlier; however, most of the decline was from dairy cows. Dairy calves remain an important source of feedlot placements. Beef cow slaughter was down less than 1 percent from a year earlier, but down 17 percent from first-quarter 1997. In 1996, the strongest year of breeding herd liquidation, cows comprised nearly 20 percent of the slaughter mix, and over 16 percent of the cow herd was slaughtered. In 1999, cow slaughter is expected to drop to 16 percent of the commercial slaughter total.

Although heifers on feed in feedlots with a capacity of over 1,000 head were down 4 percent on January 1, 1999 from a year earlier, first-quarter feedlot placements of heifers were up sharply, with the number of heifers on feed up 6 percent on April 1, indicating that strong heifer retention for the breeding herd would likely be delayed for another year. These feedlot placements were likely of heifers that had been intended for breeding in late spring-early summer, but instead were sent to feedlots when drought impact from last summer and other financial pressures convinced producers they could not yet afford to expand their herds. Midyear figures on heifer retention will confirm whether this is indeed the case, which would delay the expected turnaround in cattle inventories until 2002.

The supply of feeder cattle outside feedlots and available to go on feed was 1 percent below a year earlier on January 1, 1999. On April 1 the supply was down 5 percent. Feeder cattle supplies and feedlot placements should begin to decline this spring, as fewer heifers are available to be placed on feed, and as steer placements continue to reflect the declining calf crops. Cattle-on-feed inventories will likely be down 10-12 percent by the beginning of 2000. Feedlot placements are likely to remain low through at least mid-2000, and given the large number of heifers currently on feed, probably will not increase until after the expected

increased heifer retention in 2000 results in a larger calf crop in 2001.

Increased competition for a reduced cattle inventory will result in stronger cattle prices beginning in late 1999, with larger increases for female stock and for stocker-feeder cattle as interest in rebuilding climbs. Cull cow prices are expected to show the largest gains as cow slaughter declines fairly sharply. As herd rebuilding begins, demand for replacement cows will strengthen, and cows that may have gone to slaughter in the past 3 years are likely to be sold for breeding until more replacement heifers enter the herd. Utility boning cows are likely to average in the low \$40's per cwt, up from \$36 in 1998 and \$30 in 1996 when slaughter was high.

Fed-cattle price gains will be limited, however, by the still-large beef supplies and the very large and expanding supplies of competing meats. Fed-cattle prices averaged \$61.50 per cwt in 1998 and may average \$63 to \$66 this year. Prices are expected to remain under pressure from large feedlot inventories through summer, but removal of supplies through food aid to Russia will begin to siphon off excess product. Averages may reach the upper \$60's in late 1999, but further supply reductions in 2000 will be necessary before prices move up into the \$70 range.

Yearling feeder-cattle prices are likely to average in the mid-\$70's in 1999, up several dollars from last year, and nearly \$15 above 1996's low prices. Competition from pork and poultry will hold down price increases for fed cattle and consequently, for feeder cattle. Unless the beef export market strengthens more than presently expected, price strength will be largely dependent on how well beef competes at retail against lower priced meats.

Large feedlot inventories of heifers this winter not only will set back herd rebuilding, but also will push up 1999 beef production estimates. Declining production and stronger beef prices will not begin until late 1999, and then only if feeding costs and pasture conditions, primarily adequate moisture, continue to be favorable for herd expansion. **AO**

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Specialty Crops

U.S. to Remain Net Importer of Vegetables in 1999

In 1999, the U.S. is expected to be a net importer of vegetables, melons, and pulses for the fourth consecutive year. This year's trade deficit will likely remain near 1998's level of \$600 million as growth rates decline for both imports and exports. Larger domestic supplies along with lower prices are expected to limit import increases, while a strong dollar and larger foreign supplies of items like dry beans will hobble export gains. In spite of the strong dollar and reduced fresh vegetable supplies in 1998, total vegetable exports amounted to \$3.2 billion, up 6 percent from 1997. The value of imports jumped 22 percent to \$3.8 billion, with much of the increase attributable to higher prices for fresh-market commodities.

The *import share* of U.S. vegetable and melon consumption is rising, climbing from 7 percent in 1990 to 11 percent in 1998. Rising imports have led to trade tensions in some segments of the industry (e.g., fresh tomatoes, canned mushrooms, frozen potatoes) as domestic growers cite unfair competition from lower import prices. Nevertheless, imports are likely to continue rising over the next several years, with strong "off-season" demand, continued interest in tropical and other specialty vegetables, and lower import barriers as a result of NAFTA and the Uruguay Round Agreement.

With the advantage of lower transportation costs, Mexico and Canada have historically been the top two U.S. suppliers, accounting for 50 and 19 percent of U.S. vegetable imports. Rounding out the top five import sources are the Netherlands (4 percent), China (3.7 percent), and Spain (3.5 percent). About three-fourths of imports from the Netherlands are fresh-market greenhouse-grown vegetables, while 60 percent of imports from Spain are canned artichokes and pimientos. China primarily supplies products like canned mushrooms, canned bamboo shoots, and dried vegetable products.

As the leading U.S. vegetable supplier, Mexico tends to receive the most attention from market observers. The value of vegetable imports from Mexico has risen 63 percent since 1994 to \$1.9 billion in 1998. However, U.S. vegetable imports from Canada have climbed even faster, jumping 152 percent to \$700 million in 1998—the largest increase among the top five suppliers. Factors behind the increase include the reduced value of the Canadian dollar, removal of import tariffs, the existence of multinational corporations operating in both countries, and rising interest in greenhouse-grown vegetables.

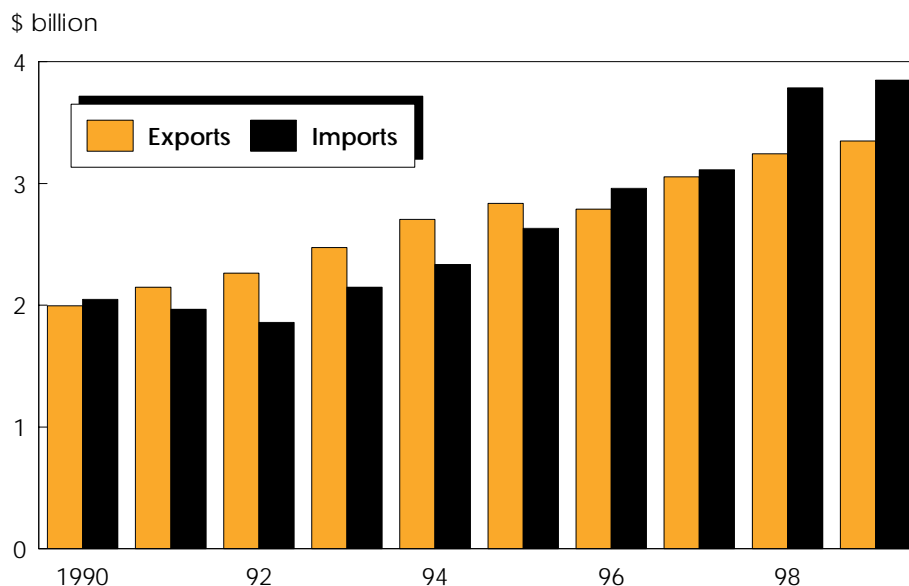
Growth in imports from Canada has been similar among the top three market segments (fresh, canned, frozen) since 1994, with shares of total imports relatively unchanged. U.S. fresh-market imports from Canada have risen 154 percent since 1994 to \$320 million in 1998. A rapidly expanding specialty market in the U.S. for greenhouse/hydroponic vegetables is a major factor behind the increase, and Canada has the largest greenhouse

vegetable acreage in North America (about 700 acres). Frozen vegetable imports from Canada have risen 162 percent to \$295 million, with three-fourths of the total in french fried potatoes. Most french fries enter under contract with fast-food firms. Canada also appears to be shipping the ketchup to go with those fries. Ketchup exports to the U.S. increased from a minute amount in 1993 to \$19 million last year.

U.S. vegetable and melon *exports* claimed 9 percent of the 160 billion pounds in total U.S. vegetable supplies during 1998—up from 6 percent in 1990. With mature domestic markets for many vegetables (e.g., canned vegetables, potatoes), exports provide an avenue for market expansion. Export growth is expected to continue as the elimination of impediments to free trade (e.g., questionable phytosanitary rules and labeling requirements) continues to open world markets for U.S. vegetables. With quality products and aggressive pricing, many U.S. vegetable market segments are highly competitive in world markets.

Export dependence varies among vegetables, led by onions for dehydration (66 percent of supplies), dry edible peas and lentils (51 percent), fresh-market

U.S. Vegetable Import Growth to Slow in 1999



Includes vegetables, melons, pulses, mushrooms, and seed. 1999 forecast.
Economic Research Service, USDA

cauliflower (34 percent), dry edible beans (24 percent), and fresh-market broccoli (19 percent). But there is amazingly little variation of export dependence across the three major market segments (fresh, canned, and frozen), with exports accounting for 8-9 percent of supplies for each group.

Fresh-market vegetables and melons claimed the largest share of total vegetable exports at about \$1.1 billion for

each of the past 5 years. Lettuce (all types) was the largest fresh export in 1998 (\$167 million), followed by tomatoes (\$120 million). Exports remove 8 and 6 percent of domestic supplies, respectively, for these two commodities. These shares have remained fairly constant for several decades as growth in domestic consumption has matched rising exports. **AO**

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Foreign Ag Policy

EU's Agenda 2000 to Revise Farm Policy

On March 26, 1999, the European Council—heads of state of European Union (EU) member countries—reached an agreement on Agenda 2000, a 7-year (2000-06) financial package that includes agricultural policy reforms, as well as provisions for easing the expansion of the EU into Central and Eastern Europe (CEE). Though the agricultural policy reforms are considerably less substantial than those originally proposed by the European Commission in July 1997, Agenda 2000—aimed at the arable crops (grains and oilseeds), dairy, and beef sectors—will shift the EU slightly further from price supports and toward direct payments and supply control.

EU representatives have stated that provisions of Agenda 2000 will be the basis for the EU's position in the upcoming World Trade Organization (WTO) round on agriculture, expecting that agreement on Agenda 2000 will improve the EU's negotiating position on export subsidies and import duties. However, preliminary analysis of the revised Agenda 2000 proposals suggests that when the current package is implemented, the EU will have to continue subsidizing most agricultural exports.

Over the past few years, the EU has accepted membership applications from 10 Central and Eastern European countries and from Cyprus. As the implications of expanding the EU became more apparent, it became clear that the EU would have to change existing policies in order to accommodate new alliances.

EU membership for CEE countries—most of which have not had the means to provide much financial support to farmers—would increase their commodity prices, stimulating agricultural production and increasing their reliance on export subsidies. Applying current Common Agricultural Policy (CAP) mechanisms to CEE countries would be very costly to the EU, and an enlarged EU would certainly exceed its export subsidy commitments. The EU is already close to reaching its WTO limits on permitted volume and value of export subsidies, which will continue to decline until 2000. The next WTO round of agricultural negotiations—scheduled to begin in December 1999—is likely to bring further cuts.

EU expansion is not the only force driving agricultural policy reform. The European Commission has published analyses suggesting that under the current CAP, the EU would build significant stocks across all major agricultural sectors, and these stocks would not be exportable because of WTO export subsidy constraints. The buildup of intervention stocks—government purchases from farmers at relatively high support prices—would be large and costly to EU countries.

Until the EU's 1992 reform of the CAP, high internal prices, protected by import restrictions, provided the majority of income support to farmers. The 1992 reform lowered internal prices, supplemented farmers' income with direct payments, and established a land set-aside—with a base rate of 17.5 percent but actu-

ally ranging between 5 and 15 percent—for supply control. Agenda 2000 was designed to build on the 1992 reforms by further reducing prices for some commodities and partially compensating producers through additional direct payments.

Originally proposed in July 1997 by the EU Farm Commissioner, Agenda 2000 was revised by the European Commission in March 1998. Proposals by member countries' farm ministers on March 11, 1999, were less ambitious—e.g., phasing in price cuts—than those made by the Commission, and the package finally approved by the European Council was watered down further, calling for smaller cuts in support prices and delaying the implementation of dairy reforms.

The final Agenda 2000 agreement calls for:

- a 15-percent reduction in grains support prices—down from the original 20 percent—to be phased in over 2 years and partially offset by increased direct payments;
- a 33-percent reduction in direct payments to oilseed producers over 3 years to equal the grains payment in 2002—no phase-in was originally proposed;
- a 10-percent base rate for required land set-aside for arable crops during 2000-06;
- a 20-percent reduction in the support price for beef—compared with 30 percent in the original proposal—to be phased in over 3 years and partially offset by increased direct payments;
- a 2.4-percent increase in the dairy production quota—1.2 percent to be allotted to selected countries over the first 2 years and 1.2 percent to be allotted to the remaining countries over 3 years beginning in 2005;
- a delay in dairy price reform until 2005/06—formerly a 15-percent price decline to be in place by 2003.

For current EU members, the overall impact of Agenda 2000 on *grains* is contingent on world grain prices when the reforms are implemented. The 15-percent cut in support prices is likely to increase grain feeding and make EU wheat com-

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petitive on world markets, eliminating the need for export subsidies. But the proposed grains support price is well above USDA projected world prices for coarse grains. The EU currently has large stocks of coarse grains, and Agenda 2000 is not likely to help significantly reduce them. The reduction in EU *oilseed* payments is likely to cause a slight shift out of oilseed production.

With the *dairy* quota increased 1.2 percent and dairy price reductions postponed until 2005, milk production will increase and the EU will have to continue subsidizing dairy product exports. This could lead to difficulty in exporting cheese, due to the EU's subsidized export limits under the

WTO's 1994 Uruguay Round Agreement on Agriculture.

Despite the reduction in the beef support price, Agenda 2000 is unlikely to cause a significant drop in **beef** production. This is because of the proposed dairy quota increase (much EU beef is a by-product of the dairy herd), and because of the increase in direct payments for beef, which will partially offset the support price decline of 556-euros/ton or about 40 percent of the recent average subsidy. If the support price decline lowers retail beef prices, domestic consumption could increase. With the EU's current support price for beef so far above world market prices, all EU beef exports are subsidized, and proposed beef reforms are not likely

to reduce the EU beef price enough to permit exports above the WTO bound.

Preliminary analysis of the European Commission's Agenda 2000 package indicates that the EU will have to continue export subsidies for most commodities. While the reforms will continue to move the EU away from price support mechanisms, they will not eliminate the EU's surplus production problems. Agenda 2000 is unlikely to have much impact on the U.S. farm sector, but it may cause difficulties for U.S. negotiators in the next round of WTO trade talks. **AO**

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In upcoming issues of *Agricultural Outlook*

Russia

— *the economic crisis and its implications for agriculture*

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— *how state trading enterprises control the flow of grain*