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## **A Note on Wheat Growers' Trade Priorities**

by  
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One of the most basic messages of economics is that the price is determined by supply and demand. Since more than 50% of U.S. wheat must be exported, the price of our wheat is determined by supply and demand in the world wheat market. Raising the price of wheat involves either increasing demand or reducing supply. The best (maybe the only) way to do this is to negotiate a new WTO agreement to ban government programs that distort trade. Government programs that reduce demand include tariffs, quotas, and high price supports in importing countries. Supply is artificially increased by production-stimulating price supports in exporting countries and their associated export subsidies.

Near the top of most lists of wheat growers' trade priorities are objectives that have little effect on either supply or demand. These include

1. Ending unilateral U.S. embargoes on wheat exports.
2. Negotiating effective disciplines on the unfair practices of the Canadian and Australian Wheat Boards.
3. Guaranteeing that Sanitary and Phytosanitary Measures will be based on sound science and not used as a trade barrier or a negotiating tool.

In this note, I will argue that achieving any of these three objectives may allow U.S. wheat to be sold in more desirable markets. They are all worthy objectives. However, none is likely to lead to a significant increase in U.S. exports or in the price received by U.S. wheat growers.

Suppose that the U.S. embargo on Iran is eliminated and Iran begins buying 50 million bushels of U.S. white wheat. That would be good news. However, to evaluate its impact, we must ask whether Iran's purchases are additional imports or whether the purchases are simply replacing wheat that Iran has been buying from Australia. If (as is likely the case) the new U.S. exports are replacing Australian exports, Australia will have 50 million bushels of wheat that it was selling to Iran and that it now needs to sell in other markets. Unfortunately, the wheat that Australia was selling to Iran does not vanish. Australia will sell this wheat to Egypt or Pakistan, reducing U.S. exports to those markets. Since lifting the embargo does not affect total supply and demand in the world market, it is unlikely to increase total U.S. exports.

Even though lifting the embargo is unlikely to increase the volume of U.S. exports, it may still be beneficial to U.S. wheat farmers. Iran had a strong preference for white wheat and is likely to be willing to pay at least a small premium. Iran may be a better place to sell white wheat than is Egypt. If the effect of removing the embargo is to shift U.S. white wheat exports from a price buyer to a preference buyer, there may be a small increase in the price received by U.S. wheat farmers.

A similar argument can be made about the effects of removing China's ban on wheat containing TCK smut spores. If new U.S. wheat sales to China merely replace sales that would have been made by Australia and Canada, these exporters will have more wheat to sell in other U.S. markets and the increased competition in these markets will largely offset the increased sales to China.

Since eliminating the Canadian Wheat Board (CWB) is unlikely to reduce total Canadian wheat production or exports, the effect of negotiating WTO disciplines on the STEs will also be disappointing. For example, suppose that the CWB is using its position as the monopoly seller of Canadian wheat to sell an extra 10 million bushels of wheat each year to the Philippines. The CWB does this by offering to sell Canadian wheat for \$7 per metric ton below U.S. offers, no matter what price the U.S. offers. If the U.S. was successful in negotiating WTO rules outlawing the CWB, U.S. exports to the Philippines may increase by 10 million bushels. However, what would happen to the 10 million bushels of Canadian wheat that was going to the Philippines? Unfortunately, it would not vanish. Very likely, it would be sold in other U.S. markets so total U.S. exports will increase by much less than 10 million bushels.

In summary, ending unilateral U.S. embargoes, eliminating exporting STEs, and outlawing phony SPS restrictions may shift U.S. wheat sales to more desirable markets. However, since world supply and demand is unaffected, there will be only a small increase in the price received by U.S. farmers.