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THE IMPACT OF THE OIL CRISIS ON THE UNITED STATES' AGRICULTURAL EXPORTS

Since 1970, agricultural exports from the United States have more than tripled in value. In 1974 we exported $21 billion worth of farm products. It is estimated that the production from almost one-third of United States cropland is sold in export markets.

Part of the increased "value" of agricultural exports over the years has been caused by higher commodity prices. But a portion of the increase is also based on a greater total volume in world trade and an increasing U.S. market share of world agricultural exports.

Reasons for Growth in Exports

There are several reasons for this recent growth in agricultural exports. The dollar devaluations of 1972 and 1973 caused U.S. products to be relatively cheaper for foreign buyers. A general improvement in world-wide economic conditions gave consumers greater purchasing power. Population growth has increased the need for food. Finally, unfavorable weather in many countries caused poor crops with a resulting need for importing food from countries that had surpluses.

Because American agriculture is so important at home and abroad, any factors which cause significant changes in the structure of world trade are of great concern. The sudden change in energy policy of the Organization of Petroleum Exporting Countries (OPEC) in October, 1973 led to an increase in the world's oil import bill of $75 billion for 1974. This represents an extraordinary change in the distribution of the world's wealth. The repercussions and implications of the oil crisis are still not clear and won't be for some years to come. Many uncertainties about the future exist, nevertheless projections are made based on what we know today.

Incentives for Continued Growth

Some governments will find it particularly difficult to curtail imports of U.S. farm products. First, because they are facing rising inflation in their own countries which would only be worsened by such action. Second, many countries have built up a dependency on imported agricultural products and will not be able to do without U.S. exports.

To help conserve foreign exchange reserves, some countries are trying to become more self-sufficient in livestock products by importing more feed grains to feed animals in their own countries. This could increase their need for imported feed grains.

Since many synthetic fibers are petroleum-based products, the higher oil prices have caused higher prices for those man-made fibers. As a result, natural fibers, such as cotton, have become more competitive on the basis of price, in the short run. In the longer run, however, reduced levels of economic activity and higher costs are expected to adversely affect the world demand for all textiles, including cotton.

Many countries will have difficulty producing the food and feed grains they need because of shortages of fer-
Nitrogen fertilizer production is directly dependent on natural gas and other petroleum products. In some countries, fertilizer shortages may very well increase their needs for importing food and feed grains.

Possible Deterrents to Growth

High oil prices seem to be a major cause of a slowdown in the world economy with a resulting decrease in consumer disposable income. Although people will use their available resources to purchase the food they need, some relatively high-priced goods—meats in particular—are likely to see a decrease in demand.

The dollar devaluations had the effect of lowering the prices of U.S. farm products to foreign buyers. Since the oil crisis, however, higher oil prices have diminished the foreign exchange reserves of many Western European countries as well as Japan. The result is considerable devaluation pressure on the currencies of those countries, with U.S. exports becoming relatively more expensive.

One of the most obvious impacts of the higher level of oil prices is the higher fuel costs associated with the production and marketing of agricultural products. The result is that higher costs, in effect, increase the prices of agricultural products. This, in turn, may decrease the demand for exports.

A final implication of the oil crisis stems from the fact that some countries are heavily dependent on imported oil. To control their balance of payments deficits they may be forced to reduce imports of some goods including food exports from the U.S.

Further Consideration

The total effect of the oil crisis will still depend on some unanswered questions such as: How will the demand for U.S. farm commodities be affected by price increases? What adjustments will oil importing countries make to cope with higher fuel prices? Will special credit programs be formed to cover balance of payments deficits? Where and how will the petroleum exporting countries invest their oil earnings? Can the OPEC cartel continue to effectively hold world oil prices at the current high levels?

The answers to these and other questions will only be known as the future unfolds. For now the estimate for agricultural exports in 1975 is just under $21 billion, with increased prices nearly making up a slight decrease in volume.

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