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Central Intelligence Agency



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FILE

Australia: Politics of Wheat Exports to the Soviet Union and China

Summary

Australia's wheat exports to the Soviet Union and China already have reached record volumes this year--3.2 and 2.3 million metric tons respectively--in line with the country's record exports of wheat worldwide. We do not expect Australia to be able to sell more wheat to the Soviet Union before the end of the market year, 30 September, but Australia might be able to sell as much as 200,000 more metric tons of wheat to China during the next two months. Thus Australia could lose as much as \$20 million in revenues if the US Export Enhancement Program enabled the US to capture that sale. [redacted]

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Australian Prime Minister Hawke is probably worried more about the long term effects of the EEP on wheat prices and next year's wheat sales than about immediate sales losses. Moreover, with national elections less than 18 months away, Hawke undoubtedly believes he cannot afford to ignore wheat farmers' pleas to use his claimed "special relationship" with the US administration to win them relief. Wheat farmers have been hardest hit by declining commodity prices of all Australia's agricultural industries. Moreover, wheat farmers are traditionally the most vocal of Australia's "militant farmers" and protest most often in Canberra. Thus they exert more political pressure than their numbers would indicate. [redacted]

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This memorandum was prepared by [redacted] Southeast Asia Division, Office of East Asian Analysis, and [redacted] Economics Division, Office of Global Issues. [redacted] Comments and questions are welcome and should be addressed to Chief, Southeast Asia Division, OEA/[redacted]

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Agriculture and the Economy

Agricultural products provide 37 percent of the country's export income, even though only 7 percent of Australia's workforce is directly employed in agriculture. Wheat is the most important crop in Australian agriculture, involving 45,000 farms and about 25 percent of Australian farmers. Australian agriculture is primarily directed toward the export market--this year, for example, 98 percent of Australia's wheat production was exported--and is almost wholly dependent on factors beyond Australian farmers' control, namely international commodity prices and market access. [redacted]

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The USSR, China, and Egypt are Australia's largest wheat customers. A considerable portion of Soviet wheat imports are high-quality (suitable for breadmaking), and Australian standard white wheat is the closest substitute for high-quality US hard red wheat. China, on the other hand, imports little high-quality wheat. China's demands for intermediate (noodle-making) wheat can be met by US, Canadian, EC, or Argentine medium-quality wheats in addition to Australian standard white wheat. [redacted]

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Table 1

Ranks of Soviet Union and China among Australia's Wheat Customers

	<u>USSR</u>	<u>China</u>
1980/81	1	3
1981/82	1	3
1982/83	3	2
1983/84	2	3
1984/85	3	1
1985/86	1	NA

The US wheat price acts as an umbrella price for the world wheat market. The lowering of our price to China and the Soviet Union would lead to a racheting down of prices by our competitors and a general lowering of the world wheat price. Thus we forecast a \$75 per metric ton price if the Dole Amendment becomes effective. Although we do not believe the Soviet Union will buy more Australian wheat before the 30 September end of the marketing year, China might buy as much as 200,000 more metric tons. In this case, Australia would lose as much as \$20 million in revenues in the next two months. [redacted]

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Table 2

Australian Wheat Exports to the USSR and China

	<u>1985/86 to date</u>			<u>Without EEP July-September 1986</u>			<u>With EEP July-September 1986</u>		
	<u>Vol. (MMT)</u>	<u>Price (\$/MT)</u>	<u>Value (\$mil)</u>	<u>Vol. (MMT)</u>	<u>Price (\$/MT)</u>	<u>Value (\$mil)</u>	<u>Vol. (MMT)</u>	<u>Price (\$/MT)</u>	<u>Value (\$mil)</u>
USSR	3.2	128	410	0.0	100	0	0.0	75	0
China	2.3	133	306	0.2	100	20	0.0	75	0

Prime Minister Hawke, however, is probably worried more about the long term effects of the EEP on wheat prices than about immediate US sales. We believe Australian analysts are correct in saying world wheat prices probably would not rebound to their current level of \$90 per ton after September, because wheat stocks are high worldwide and other grain competitors--the EC, Canada, and Argentina--continue to expand production and aggressively export their surplus. Thus Australia stands to lose as much as \$245 million from wheat exports in 1986/87. It is conceivable that Australia could lose even more revenue--if quantities sold as well as price fall--but Australia so far has competed aggressively with US sales under the EEP--by offering, for example, liberal credit programs or discounts for cash purchases to its customers. For this reason we expect Australia to maintain its current market share.\*

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Table 3

World Wheat Prices

	<u>US (Gulf #2 Hard Red Wheat)</u>	<u>Australia (Standard White)</u>	<u>Canada (Vancouver #1 Western Red Spring)</u>	<u>EC French Soft</u>	<u>Argentina (Buenos Aires)</u>
1985					
I	\$149	\$135	\$128	\$130	\$109
II	146	140	129	130	113
III	130	125	118	128	107
IV	130	130	109	105	92
1986					
I	130	120	110	100	91
II	110	108	101	95	90

\*If the EEP is extended to the USSR, Australia's sales to the Soviets in 1986/87 could fall from an estimated 3.0 million metric tons to 1.5 million metric tons. In this case, revenues from sales to the Soviets would fall by \$155 million.

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Table 4

Possible Revenues to Australia from Wheat Sales 1986/87

1985/86 Volume as Base	Without EEP			With EEP			Revenue Loss (\$mil)
	Vol. (MMT)	Price (\$/MT)	Value (\$mil)	Vol. (MMT)	Price (\$/MT)	Value (\$mil)	
WORLD	16.5	90	1485	16.5	75	1240	245
USSR	3.2	90	290	3.2	75	240	50
CHINA	2.3	90	210	2.3	75	175	35

Political Considerations

For Hawke. Australia's farmers have been hurting the past two years. The value of Australian agricultural production fell 21 percent in 1985, largely because of low commodity prices, and, according to the Australian Bureau of Agricultural Economics, probably will fall another 21 percent in 1986. According to our estimates, average farm income on family farms for the year ending 30 June 1986 fell below \$5000, less than an Australian family can collect from welfare programs. Despite high yields, more than half of the country's grain farms suffered net losses this year. [redacted]

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Farmers do not hesitate to use militant tactics to gain concessions from Hawke. In July 1985, 40,000 farmers marched on Canberra. Five months later a group from New South Wales dumped 30 tons of wheat on the Parliament steps to protest low wheat prices (\$135 a ton then versus \$90 a ton now) and high domestic interest rates. During the first quarter of this year, Hawke granted special tariff rebates on fertilizer imports and tax rebates on farm fuel, primarily to prevent the Labor Party from losing office in several state elections. The Prime Minister is vulnerable to farmers' dissatisfaction because the loss of nine of the Labor Party's rural seats in the House of Representatives would spell defeat in the next national election--which must be held by January 1988. [redacted]

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Hawke is undoubtedly worried about his political future because Australia's recession is spreading to non-farm sectors. Real economic growth is likely to be less than 2.0 percent this year, falling from a high 4.5 percent last year. The current account deficit continues to widen, despite a 27 percent currency depreciation in the last year and a half. Inflation is running over 9 percent annually and unemployment rose slightly in the first half of 1986 to about 8 percent. In addition, after a three-year lull in industrial turmoil--primarily due to the government taking an active part in wage negotiations--Australia's trade unions last month began a series of strikes that we believe is likely to continue until at least September. [redacted]

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For the US. Hawke's April visit to Washington disappointed many Australian farmers, according to domestic press reports, because they believed he achieved no concrete results. Likewise, Australian farmers are skeptical of Hawke's claimed success in focussing discussion at the Tokyo Summit,

together with President Reagan, on the need for reduced agricultural subsidies. Thus Hawke would probably view as a personal affront the President's signature on a bill including the USSR and China in the EEP. In our judgment, the current US Senate proposal, if it becomes law, would confirm Australian farmers' suspicions that Hawke is powerless to win relief from the US government and that Australia's faithfulness to its responsibilities in the ANZUS alliance is meaningless to the US administration. [redacted]

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Although Foreign Minister Hayden stresses that security issues and trade issues will not be linked in talks with the US next month in San Francisco, other members of Hawke's government--echoing widespread Australian sentiments--say that Australia must and should use the US-Australian joint facilities as a bargaining chip in attempts to thwart the Senate proposal. We do not believe threats to close the facilities will be ventured seriously by Australian participants in the San Francisco meeting, but if the Senate proposal becomes law, tensions will be high and thoughts of making such threats will remain just below the surface. Our worst case scenario, on the other hand, would have the Australians refusing to negotiate a new ten-year agreement for the Joint Defense Space Research Facility at Pine Gap near Alice Springs in the Northern Territory (thus the facility would be subject to closure after October 1987 with a year's notice) and ending negotiations on a new lease for the Naval Communications Station Harold E. Holt at North West Cape near Exmouth in Western Australia (the present lease expires in 1988). Even before the issue of the leases came up, a linkage of trade and security issues almost certainly would be apparent. For example, US Embassy officials in Canberra who might try to win a better presentation of the ANZUS alliance in Australia's White Paper on its Armed Forces--to be prepared from the much-touted Dobb Report of Australia's defense needs--are unlikely to be welcomed warmly. [redacted]

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