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Barter And Beyond

Because the Italian government could not meet the Soviet request for a $1 billion direct addition to the $750 million Italian state credit, the USSR agreed to barter natural gas in exchange for Italian goods and services, reported the Jan. 17 *Journal of Commerce.* The Soviets will increase their gas exports to Italy from the present 7 billion cubic meters a year to 10 billion. In exchange, the USSR is to receive plant and equipment from Montedison, ENI, FIAT, and Finsider. Italy has a 20-year gas-supply contract with the USSR which began in 1975, when the Soviets provided 22 per cent of total imports of the fuel.

As for the $7 billion financing question mark, Ossola will follow up the Forlani-Mondello visit and negotiate the final contracts for credit arrangements next month, though this plainly does not mean that his personal preferences on the subject will prevail. Nor, on the other hand, is it at all certain that the use of of the transferable ruble for East-West trade will be introduced to finance the deals. However, the context is precisely the one outlined in the USSR's *International Affairs* article (see International Report) — the use of the ruble as a credit instrument that could in turn provide multilateral financing, e.g., by being further relayed by the Italian government to one of its key Third-World-OPEC trading partners, such as Libya.

If such transactions were formalized by way of Ratti's proposed financial institution, this would be equivalent to a seed-form of the International Development Bank proposed by the U.S. Labor Party in April 1975, and widely discussed among Western European and Third World policymakers since that time. The use of petrodollars to fund such a bank, while clearly less than a consummate break with the bloated world debt structure tied to the dollar, would represent a significant redeployment of OPEC financial resources out of dollar-debt refinancing — a task that Saudi Arabia and others has explicitly repudiated — toward the promotion of international industrial and technological growth.

Farm Policy Fight Shapes Up; Wheatgrowers Demand 'Market Development'

AGRICULTURE

The opening salvo was issued this week in what will be a crucial political fight over the renewal or replacement of the comprehensive 1973 farm legislation which expires this year. On Tuesday, Sen. Talmadge (D-Ga.), chairman of the Senate Agriculture Committee, introduced a bill to extend current basic farm support programs for five years beginning in 1978 and, for the first time, to base grain and cotton supports on actual production cost estimates.

The bill, co-sponsored by a group of conservative senators including senators Dole (R-Kan.), Allen (D-Ala.), Eastland (D-Miss.), Helms (R-NC), and Huddleston, contains no provision for a grain reserve system. Considered anathema by most farm producers, a government grain reserve scheme has been a prominent theme of Democratic think-tank and other Trilateral Commission backers of the Carter regime who view it as an urgent new foreign policy weapon, and is likely to become an explosive issue in the unfolding farm policy debate.

At the same time, this week, National Association of Wheat Growers' president Don Woodward speaking at the organization's annual meeting in Honolulu called for a revitalization of export markets, intensified market development activities, improved export financing, "and an overall policy of expanded U.S. wheat trade." In the same breath, Woodward cautioned wheat producers about grain reserve systems.

While spokesmen for several of the Talmadge bill's sponsors deny that its rapid introduction is part of an attempt to preempt Carter Administration initiatives around government-held or government-accessed grain reserves, they make haste to cite Carter Agriculture Secretary Bergland's stated opposition to government reserves elicited during his recent confirmation hearings — with the obvious intention of holding Mr. Bergland to his word on that matter. The same spokesmen readily acknowledge that the composition of the Carter transition team, especially its foreign policy orientation, together with the consumer lobby that is "much bigger this year" otherwise portend a push for a government reserve and associated schemes on the part of the new Administration.

Presently, supporters of the Talmadge bill — all committed to expand exports and domestic farm production and the expansion of agriculture research and development efforts as the avenue of solution for the dangers facing the American farm sector — have the initiative. A sampling of pro-Carter Administration and Bergland to make a move, insisting that Senators Clark (D-Iowa) and McGovern (D-ND) will offer counter-proposals to the Talmadge bill.

As Woodward emphasized, the problem for wheat producers — among the hardest hit with falling farm prices and incomes as export markets stagnate and contract — is the current existence of large "surplus" de facto reserves, stockpiled on farms and in commercial warehouses across the grain belt. While cost-of-production-based support prices, and related crop loan levels to enable farmers to finance the construction of increased storage capacity, will provide an equitable base-line defense of the farm sector, the Talmadge bill's sponsors correctly emphasize expanded trade as the fundamental issue in line with the "full production" policy orientation established by former Agriculture Secretary Butz.

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Conservative farm policy spokesmen in the Senate have indicated their intention to focus on the concept "market development" in relation to renewing the PL-480 legislation, which also expires this year. In particular, they have opposed the proposal of Sen. McGovern, a proposal publicly advocated by Carter Agriculture Secretary Bergland, to restrict PL-480 shipments to countries with less than $300 per capita annual incomes, plainly identifying the Humphrey-McGovern forces as "anti-market development."

As the experience of the Great Depression demonstrated, the collapse of farm prices and production during the 1930s was neither a problem of "controlling production" nor of devising ever-more-ingenious means to seal off produce from the market (the 1929 Federal Farm Board stockpiled hundreds of millions of dollars worth of grain only to see the price continue to plummet for two years running) — but one of freeing consumption and trade from the stranglehold of world depression conditions.

Steel Industry in Limbo

STEEL

Although current projections by both steel industry sources and steel analysts for U.S. steel shipments in 1977 are ranging anywhere from 95 million to 110 million tons, there is as yet little reason to believe that shipments will surpass the 89.5 million tons shipped in 1976.

The current trend in the U.S. and worldwide has been one of declining orders and shipments. November shipments of only 6.7 million tons were 300,000 tons less than October's total and almost a million tons below September's. Since during December many plants were shut down for the holidarys, it can be expected that shipments will show a further decline. To date, the New Year has not brought with it any significant increase in the demand for steel, but rather has further darkened the picture with extreme cold weather. The gas shortage hoax now in operation has forced many industries to either shut down completely or reduce operations due to cut backs in natural gas supply. The effect on January and possibly February steel shipments as well, will be damaging.

In addition to U.S. Steel's recent announcement that they had been forced by the government to spend $600 million for pollution controls at their Clariton Steel Works, Kaiser Steel Corp., under similar pressure, has announced a $24.3 million plan to clear up coke oven emissions at its works in Fontana, Calif. The controls will increase operating costs by about $2.5 million, just about enough to wipe out additional earnings expected from the flat rolled price increases announced in November. This is according to Kaiser's chief executive William Roesch. The next company expected to follow mandatory pollution expenditures is Inland Steel at its East Chicago works.

The low level of returns on equity already existing in the steel industry due to low prices, combined with government policies unfavorable to new investment programs, and now, expensive pollution control demands are causing U.S. Steel and other producers to reduce their spendings on steel programs and to diversify into such fields as raw materials mining, chemicals, etc. Such conditions are ensuring that the U.S. steel industry will not only be unable to meet this country's demand for steel should a sound economy return but will also lack the necessary funds needed to modernize their productive equipment to maintain competitiveness with imports.

U.S. Steel Industry Announces Counterattack Against Imports

Paul Babb, general sales manager for Armco Steel Corp's Western Division has announced price reductions averaging $40 (15 per cent) per ton. The move, which Babb referred to as part of a program called "foreign fighter," is the first public announcement by a U.S. steel firm that they would reduce prices to fight foreign competition.

It is well known in the industry that discounting below listed prices has been going on quietly for some time. The price reductions are on wide-range structural shapes produced at Armco's Houston works and sold within freight control area, defined as locations having lower freight rates from Houston than competing mills in other areas.

The move is apparently connected to the anti-import drive being conducted by the American Iron and Steel Institute and by independent steel producers such as U.S. Steel and Allegheny Ludlam. Up until this point the attacks have consisted of complaints lodged with different government bodies, and calls for secular talks on steel trade as part of the G.A.T.T. negotiations going on in Geneva.

While it is true that imports have caused a severe hardship to U.S. producers in the Gulf regions, on the whole steel imports into the U.S. were approximately 14 million tons in 1976. This compares to over 18 million tons imported in 1971 when little opposition was voiced. In 1971, U.S. mills were then unable to satisfy domestic demand. Also, in the Southeast, Gulf, and Western regions where steel consumption has been increasing for years, U.S. mills have not invested to create suitable steel-making capacity in these areas, thus leaving them vulnerable to foreign competition.

On the day following Armco's announced increases, U.S. Steel announced that they will lower prices to be competitive in theGulf region. It is apparent that other U.S. steel makers who compete in this market will soon follow suit in what is shaping up as a showdown against importers, especially the Japanese, to force them out of the market. Should the foreign suppliers try to lower their prices, dumping suits will most likely be brought against them.