U.S. Farm Policy & World Ag Trade: Implications for U.S. Agriculture

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Introduction

- Why does agriculture have chronic price and income problems?
- What are the implications of 2002 Farm Bill on:
  - Crop price possibilities
  - Winners/losers
- Expectations underlying the change in farm policy direction versus Experience
- What can we realistically expect from world trade

What is the Problem?

- Technology expands output faster than population and exports expand demand
- Market failure: lower prices do not solve the problem
- No self-correction on the demand side
  - People will pay almost anything when food is short
  - Low prices do not induce people to eat more
- No self-correction on the supply side
  - Farmers tend to produce on all their acreage
  - Few alternate uses for most cropland

Traditional Policy Levers

- Government Stock Management
  - Loan rate/support price to set a floor price.
  - Limit price increases by Gov’t & FOR released stocks
- Restrict supply
  - Short-term set-aside
  - Long-term Conservation Reserve Programs
- Expand demand
  - Domestic
  - Foreign
- Government payments
  - Coupled to production
  - Decoupled

Implications of Current Farm Program

- No price floor – Since LDPs effectively replaced non-recourse loans
- No emergency reserves—Since no CCC or FOR buffer stock policy
- No price ceiling—Since Incomes are supported, not prices
- Primary beneficiaries:
  - Livestock producers, importers and other users are subsidized
  - Agribusiness input suppliers and output processors are subsidized

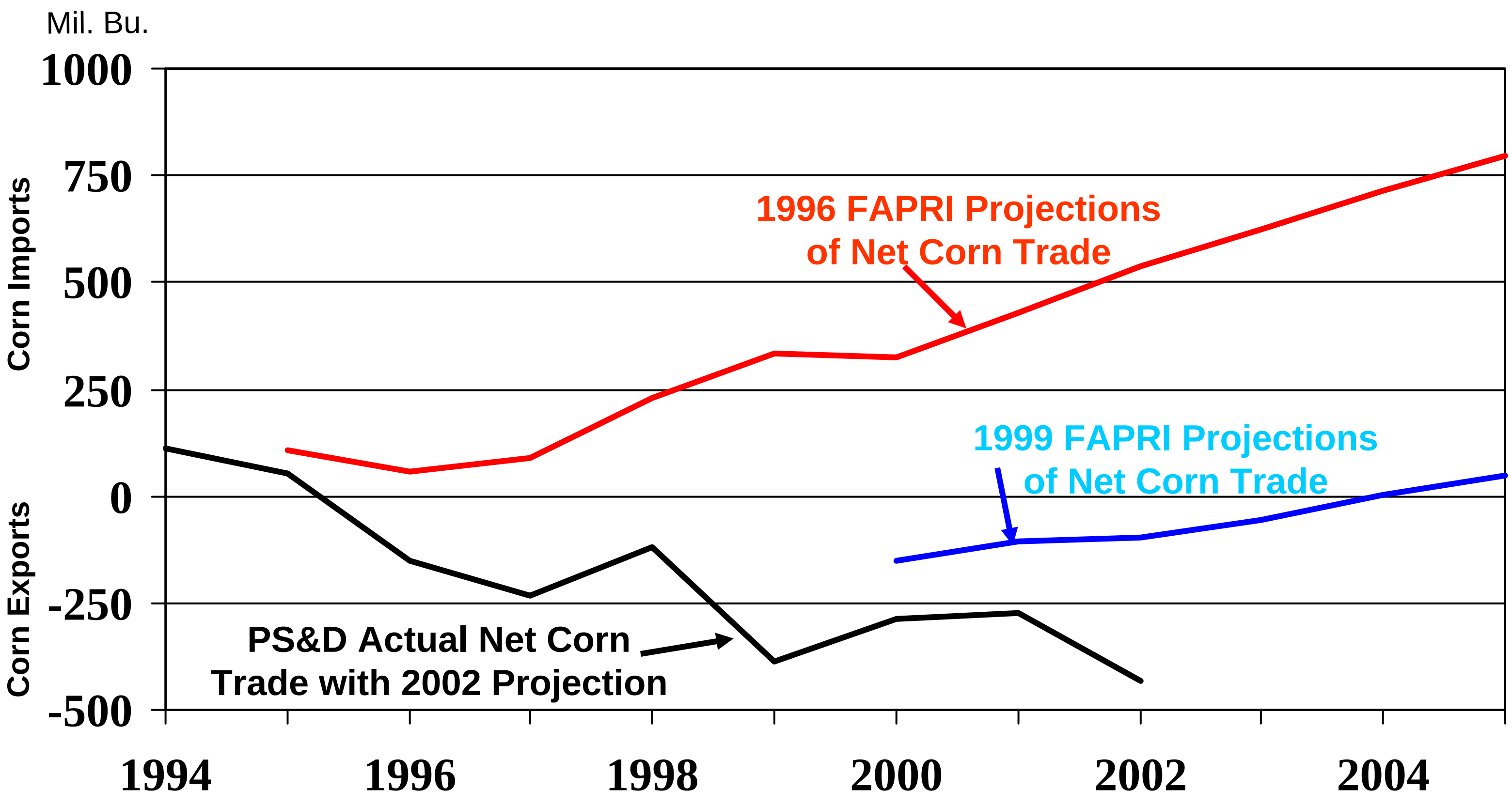
  Not crop farmers (land owners?)

Expectations vs. Experience

Expectation: Rapid growth in China imports, especially corn

China Net Corn Trade

Comparison between 1996 FAPRI projections and
PS&D actual with 2001-2005 using 1999 FAPRI projections



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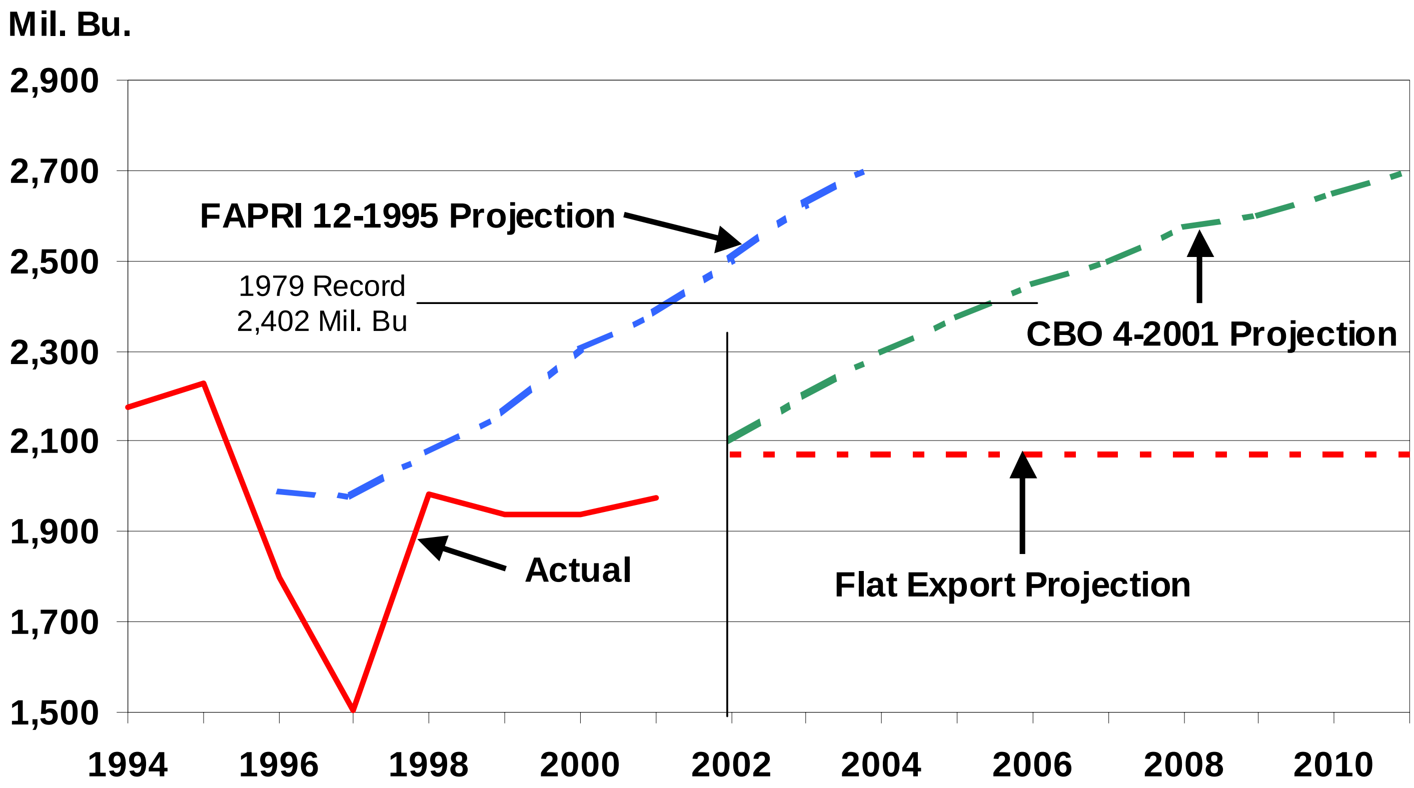
U.S. Corn Exports

Comparison between 1995 FAPRI projection, 2001 CBO projection, 1994-2001 PS&D actual, and 2002-2011 APAC flat export projection



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Expectations vs. Experience

Expectation: Rapid growth in China imports, especially corn

Experience: China continues to be a net exporter—will export nearly 500 million bushels of corn this year

Expectations vs. Experience

Expectation: Export lead farm prosperity just around the corner (been saying this for over 25 years)

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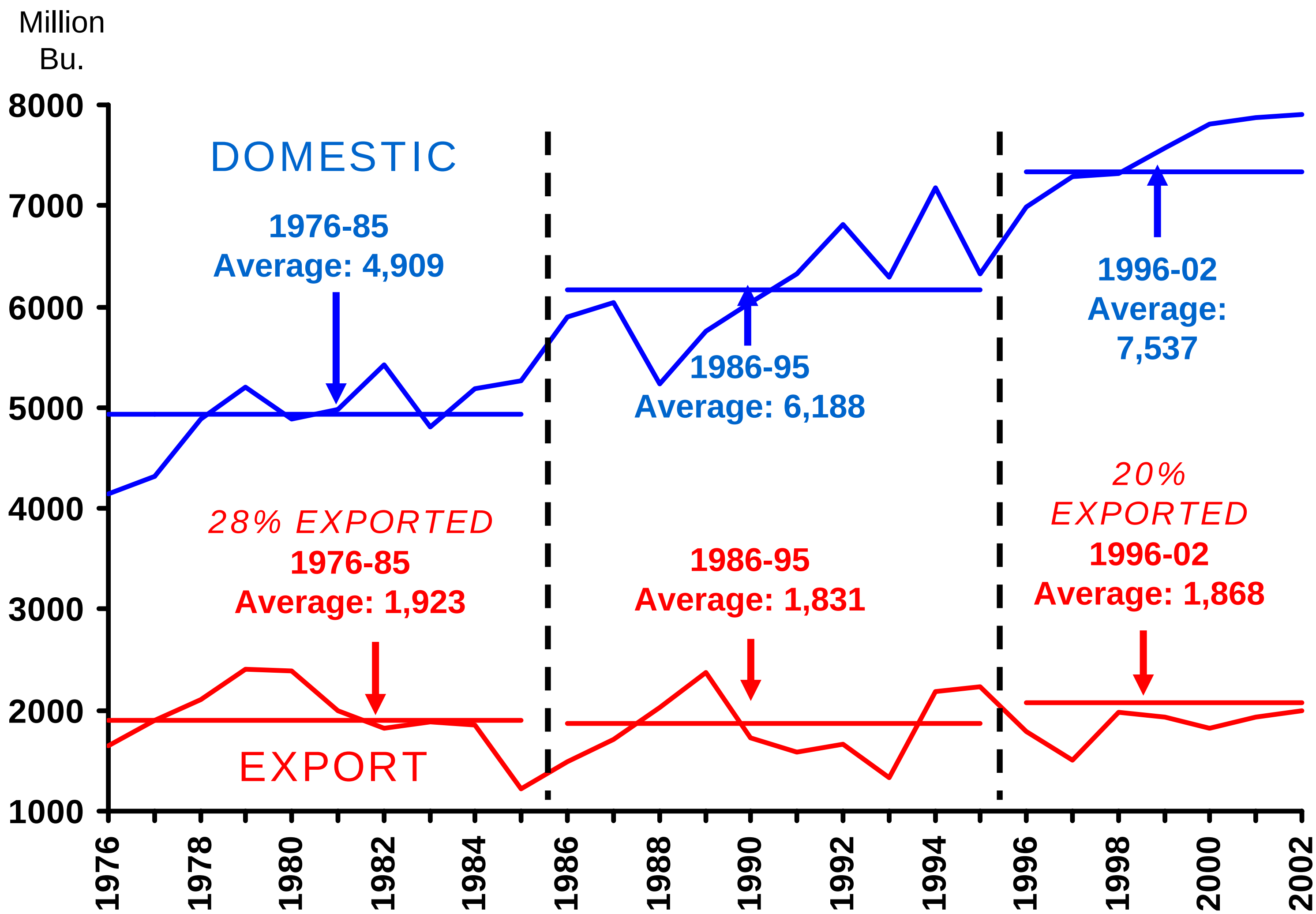
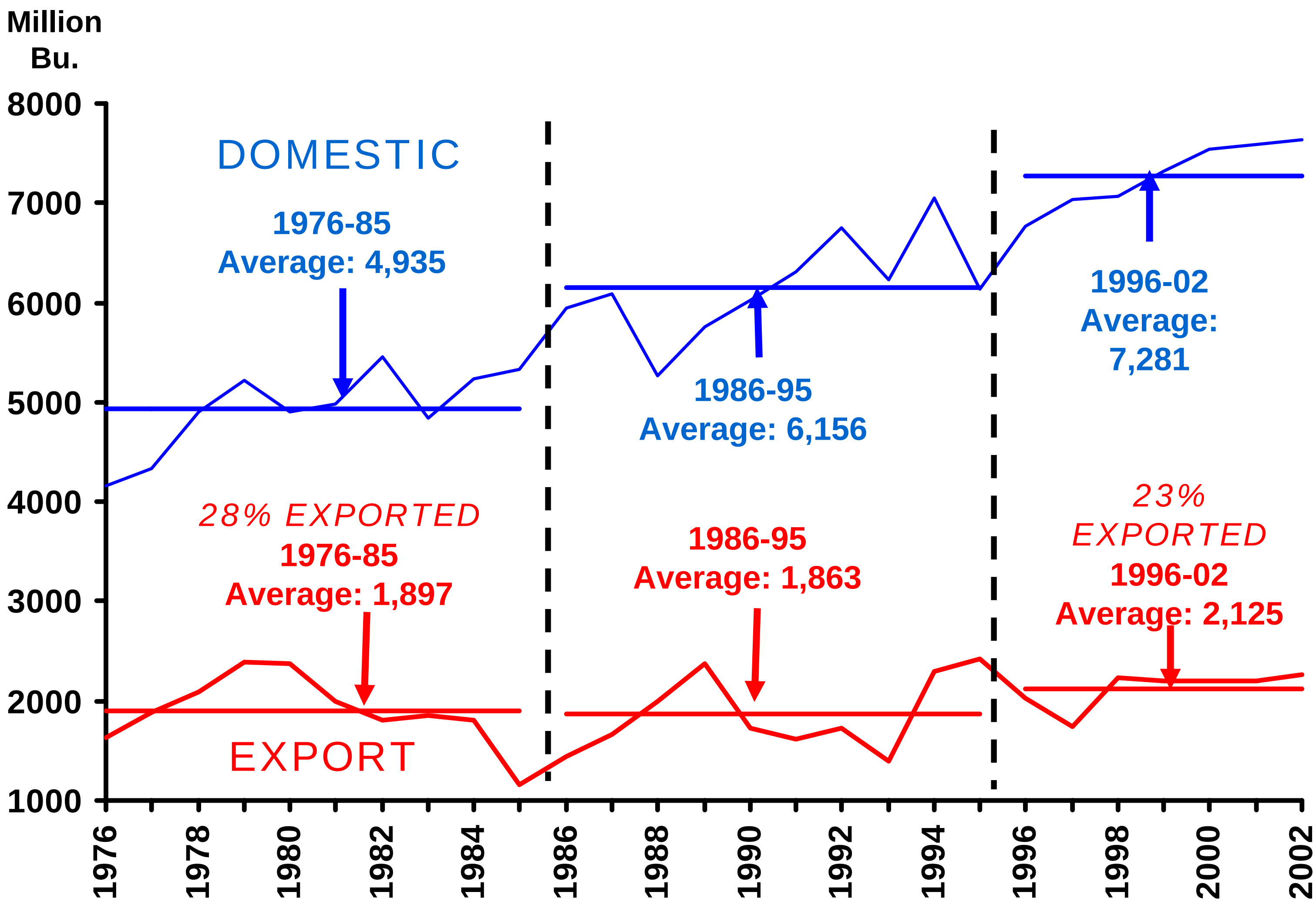
U.S. Domestic and Export Demand



Source: USDA PS&D Database

U.S. Net Domestic and Net Export Demand

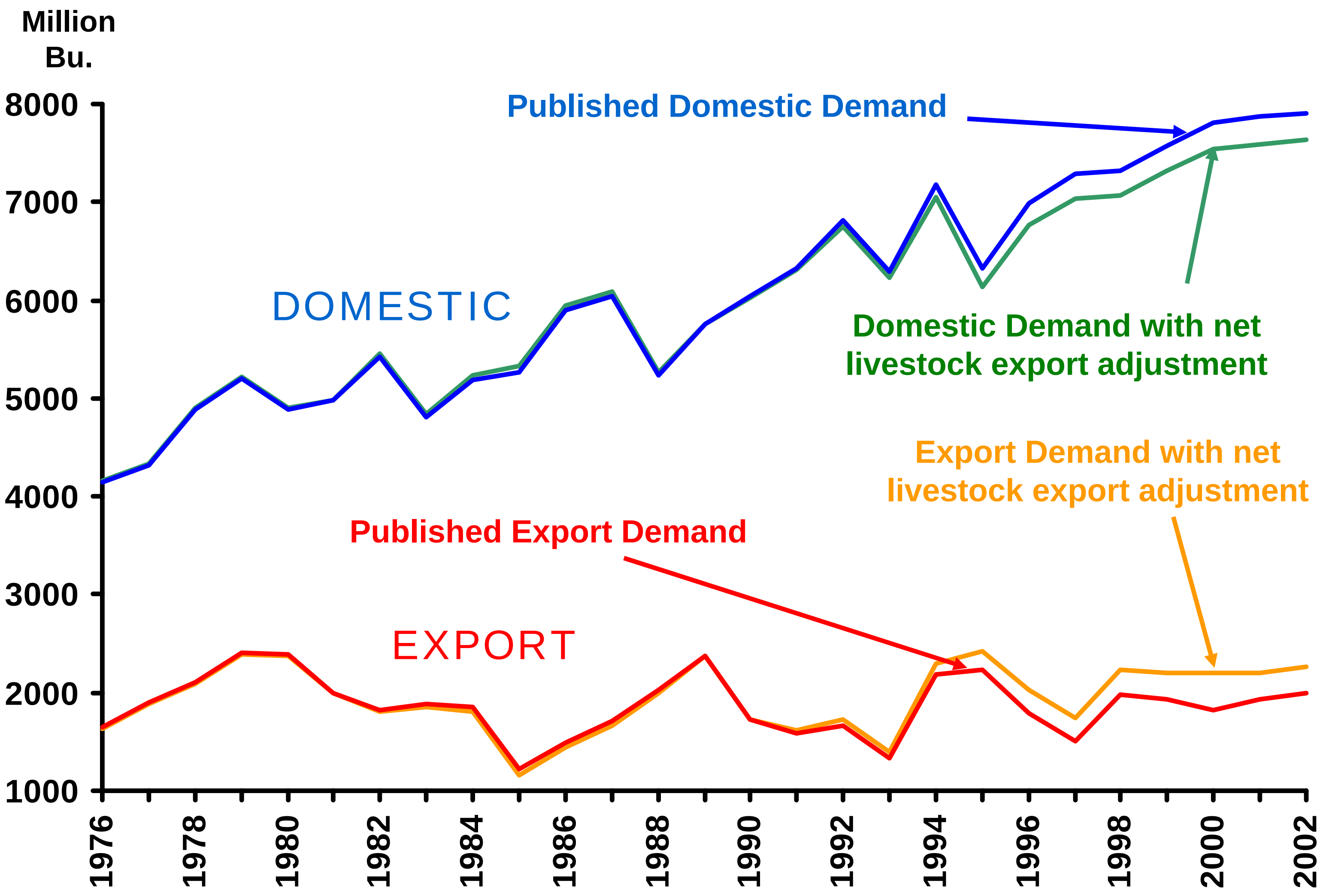
Adjusted for corn fed to import and export beef, pork, and broilers



Source: USDA PS&D Database

U.S. Net Domestic and Net Export Demand

With and without net livestock export adjustment



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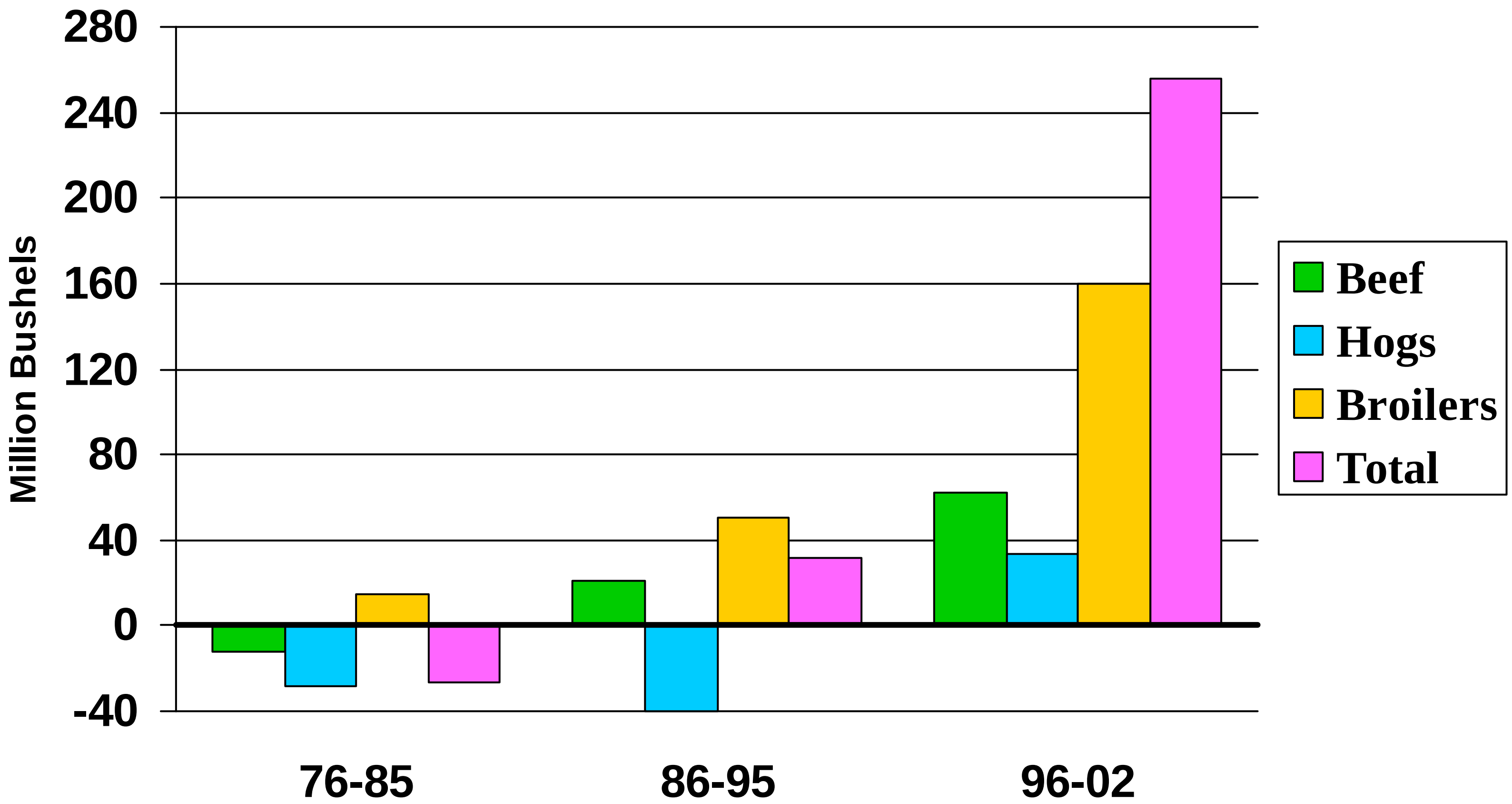
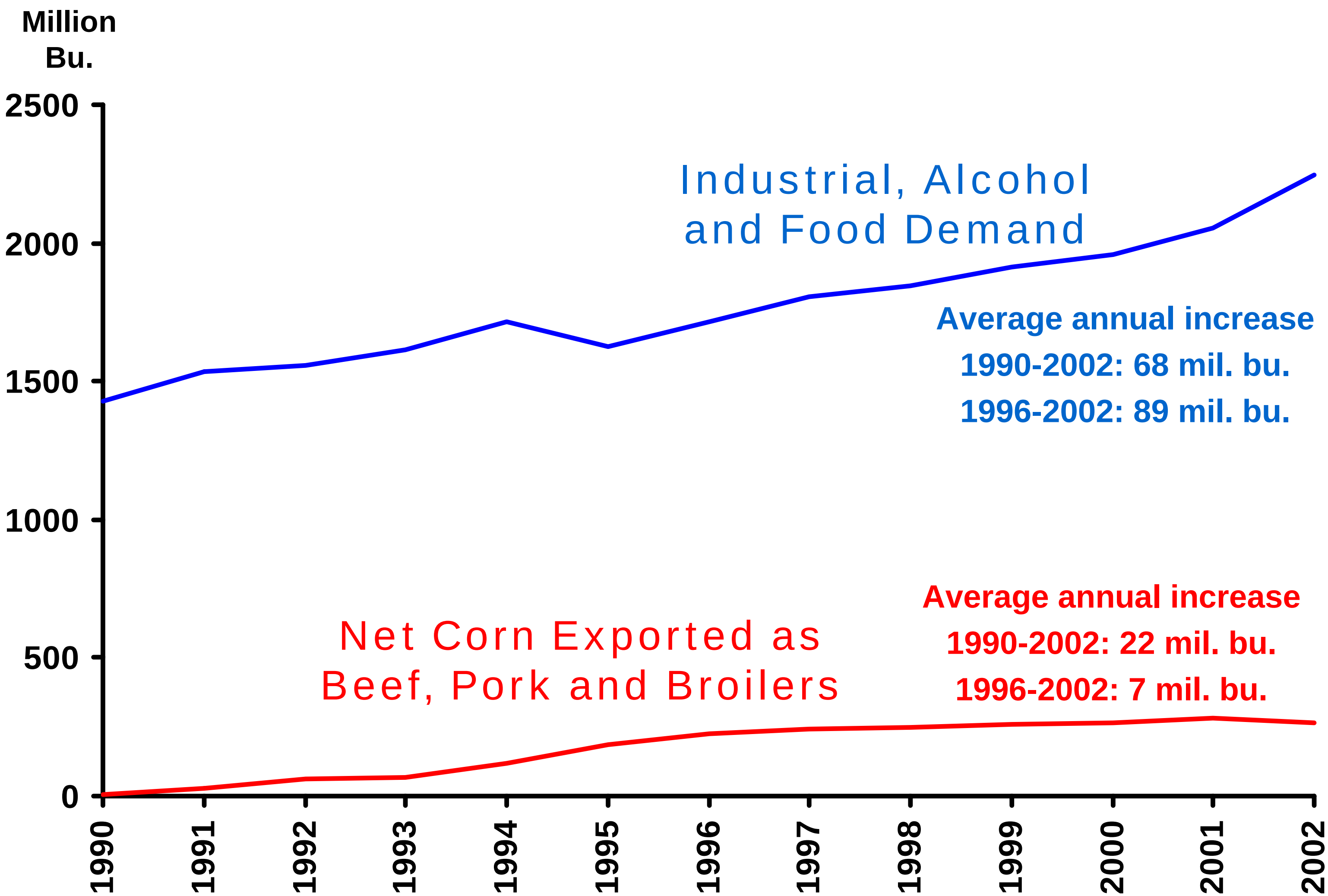
Source: USDA PS&D Database

Net U.S. Corn Exported in Livestock



U.S. Net Corn Exported as Meat and Domestic Industrial, Alcohol and Food Demand

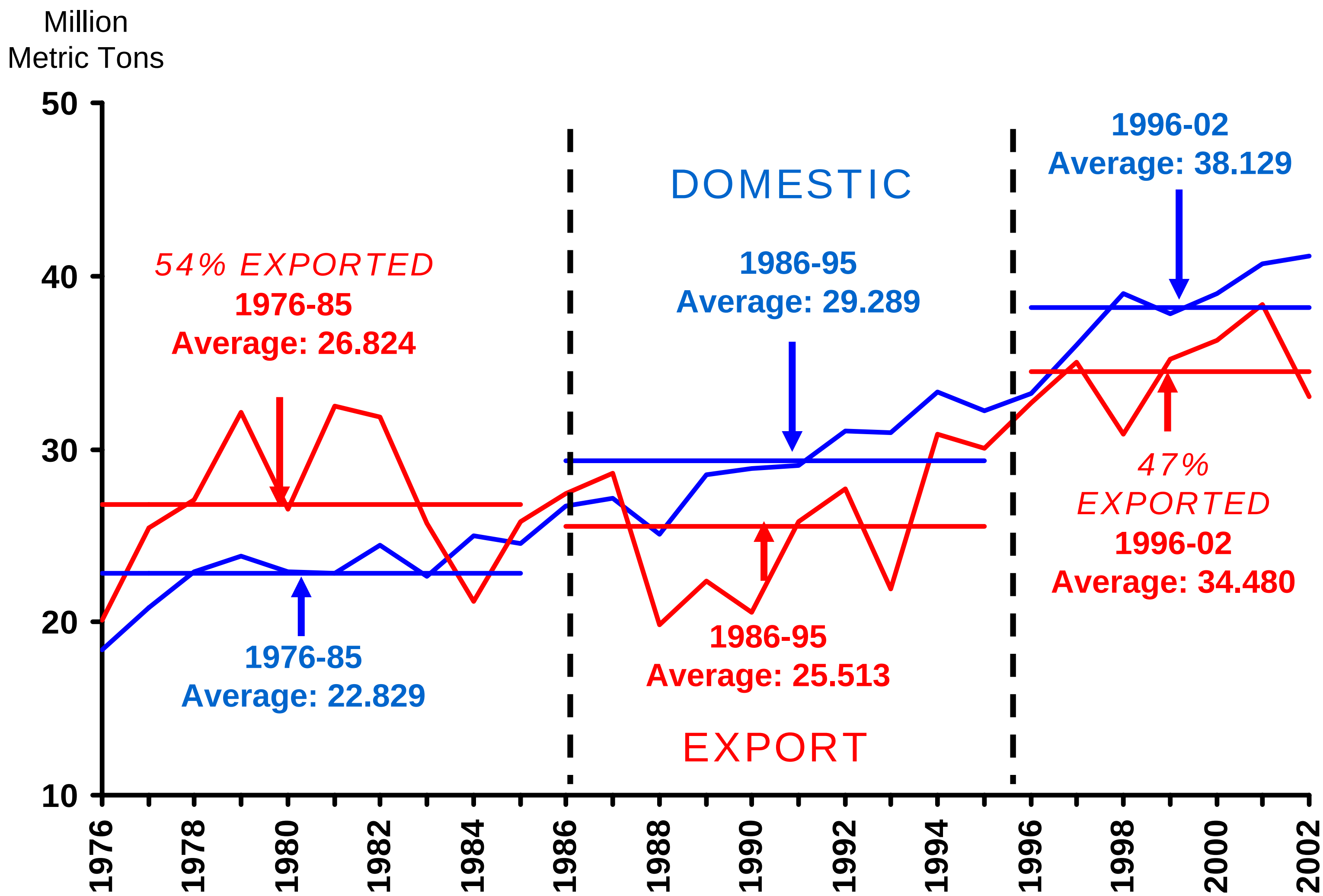


Source: USDA PS&D Database

SOYBEAN COMPLEX

U.S. Net Domestic and Net Export Demand

Adjusted for soy fed to import and export beef, pork, and broilers



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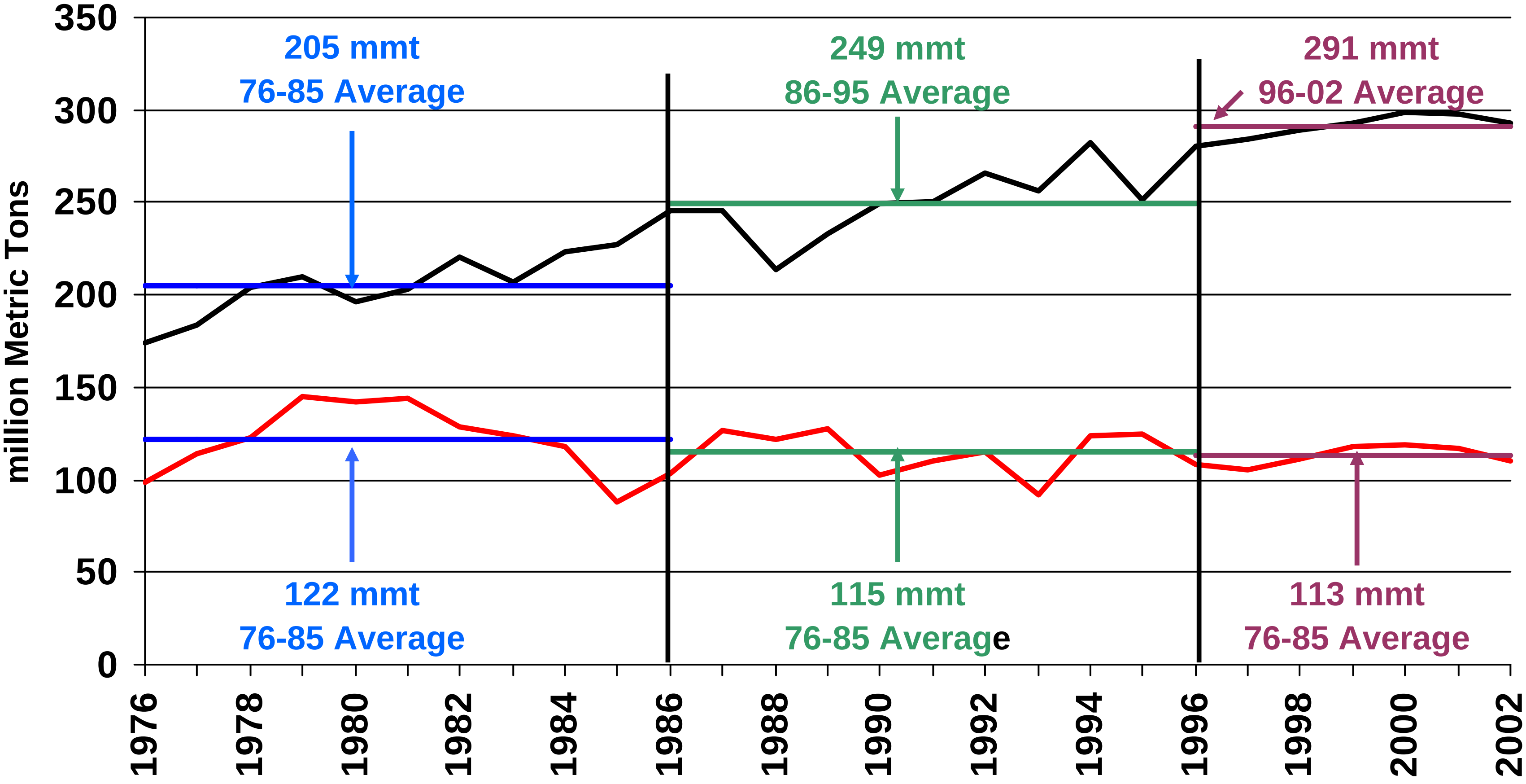
Source: USDA PS&D Database

Net Export and Domestic Demand for 8 Major Crops



Guess which is exports and which is domestic demand

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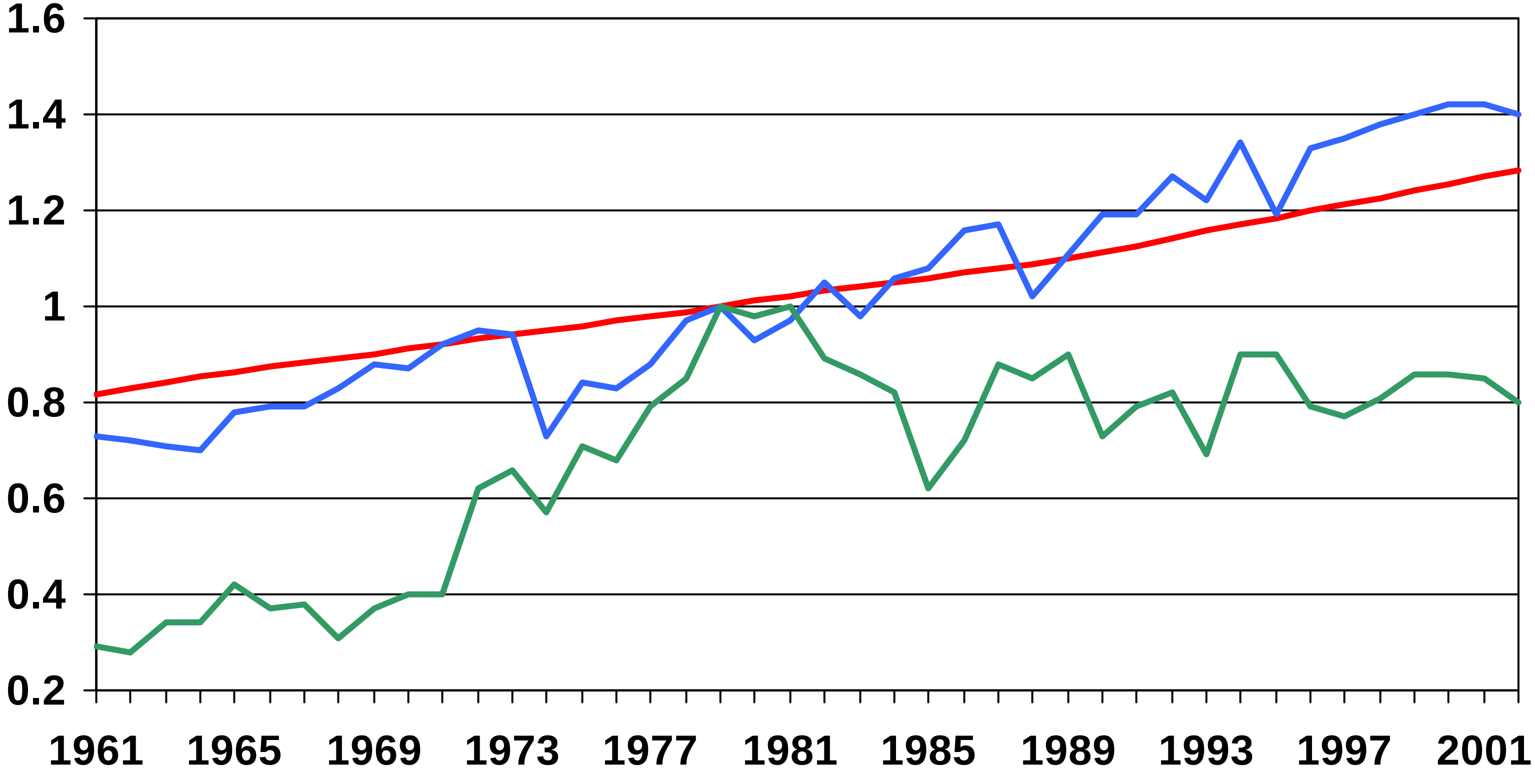
Indexed Growth in U.S. Population, Domestic Demand for 8 Crops, and Exports of 8 Crops, 1961-2002

1979=100



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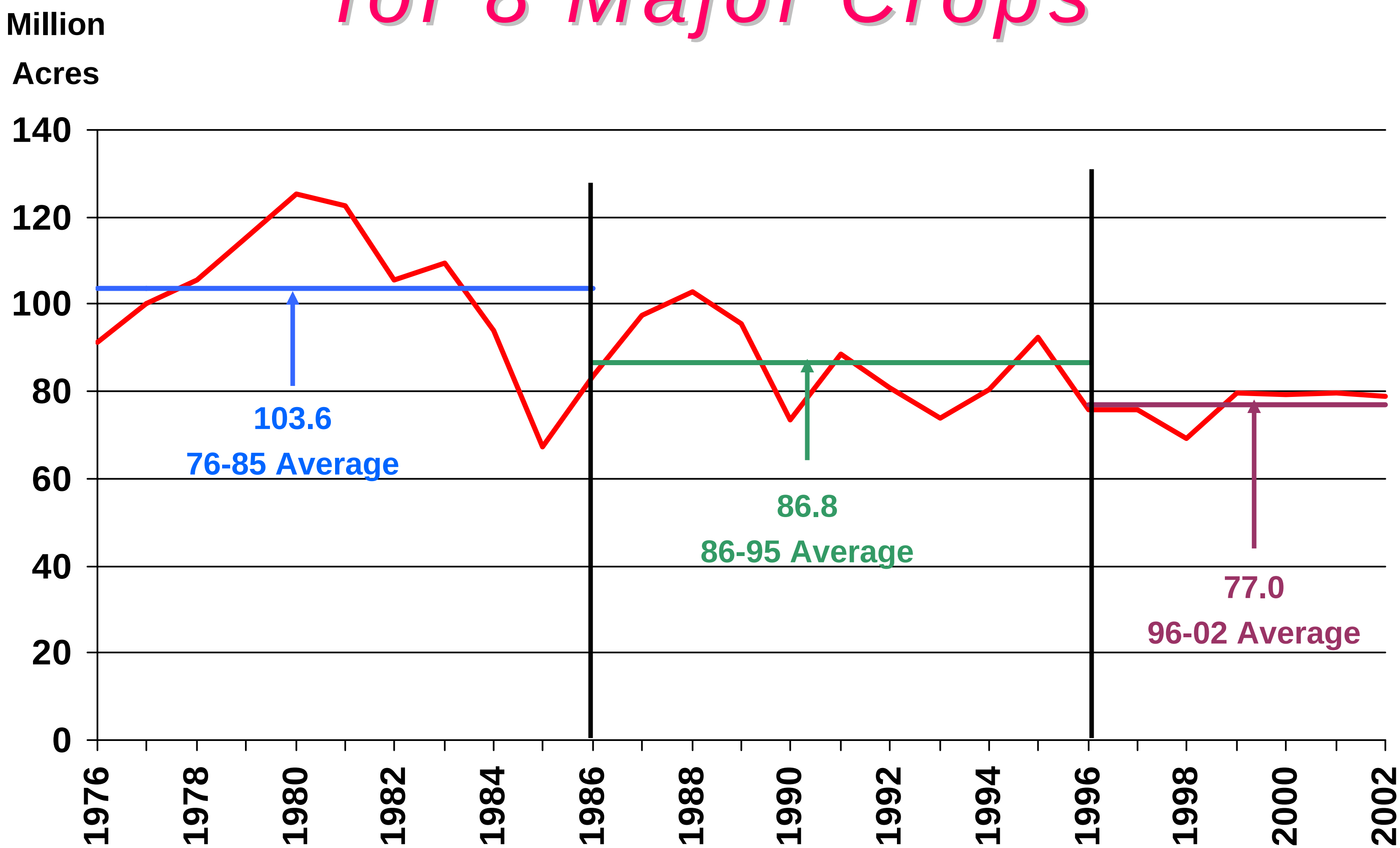
Net Export Acreage for 8 Major Crops



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Expectations vs. Experience

Expectation: Export lead farm prosperity just around the corner (been saying this for over 25 years)

Experience: Crop exports have been flat for years. Exports have not been the driving force of crop utilization

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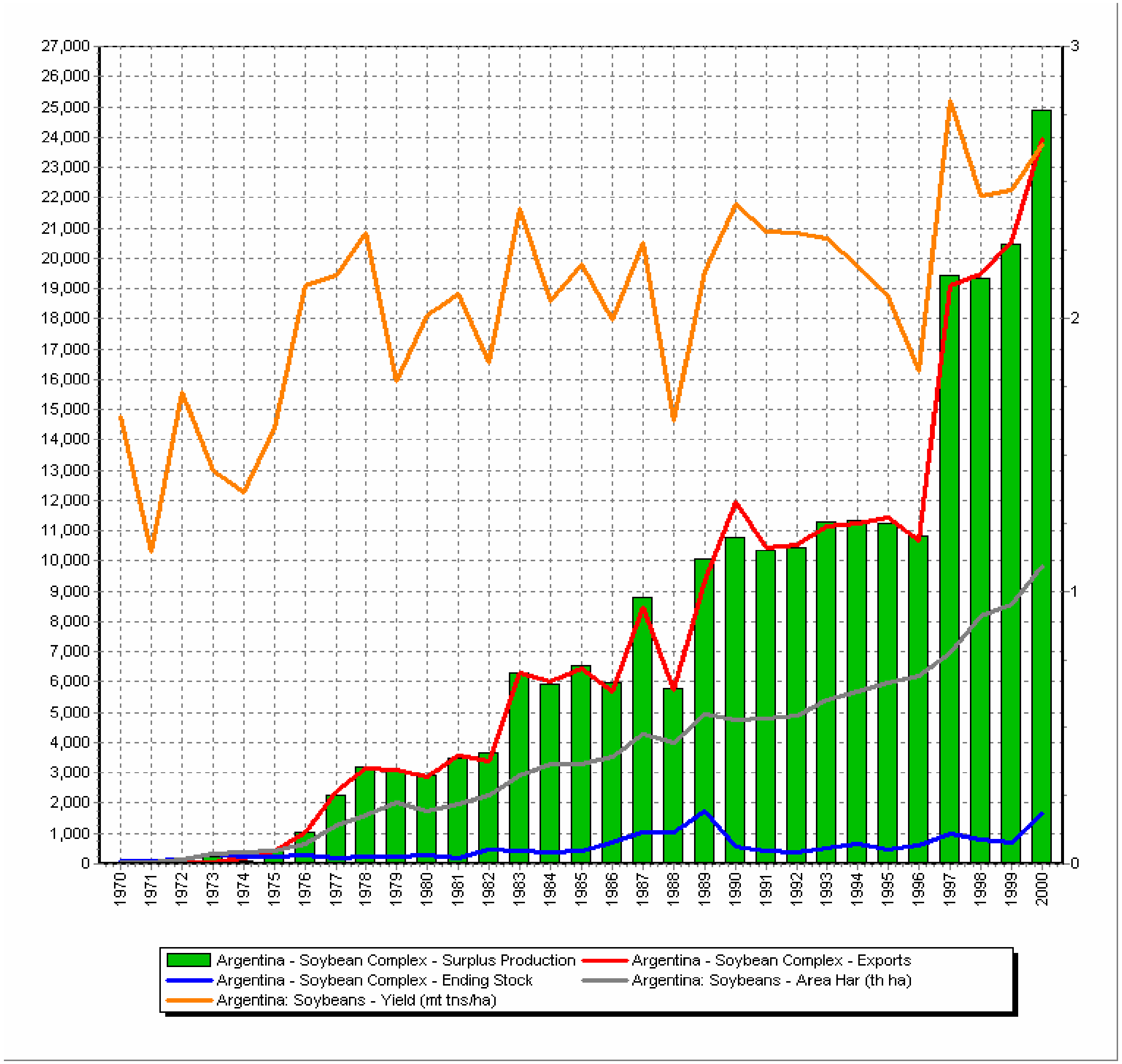
Expectations vs. Experience

Expectation: Export competitors will reduce production in response to lower prices

Argentine Soybean Complex Exports and Surplus Production



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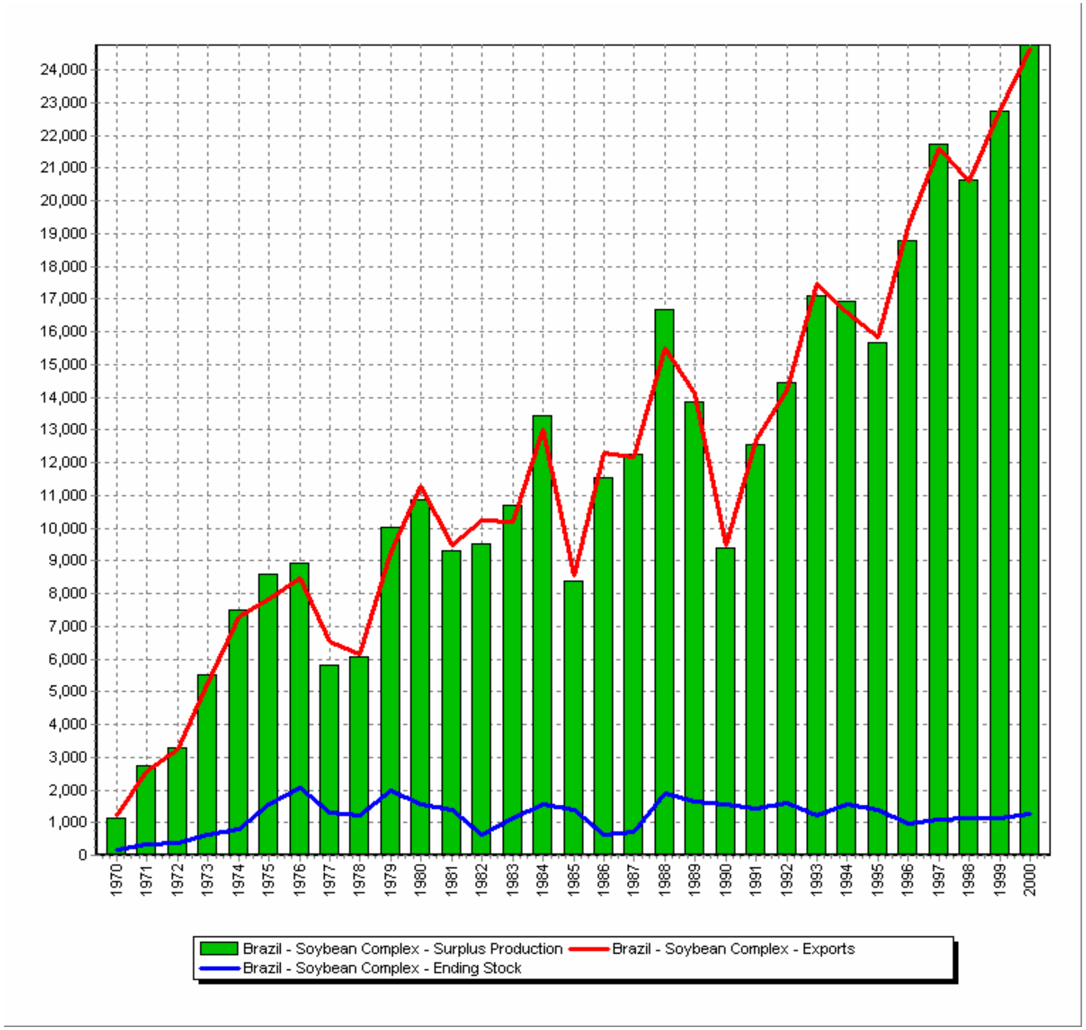
Brazilian Soybean Complex Exports and Surplus Production



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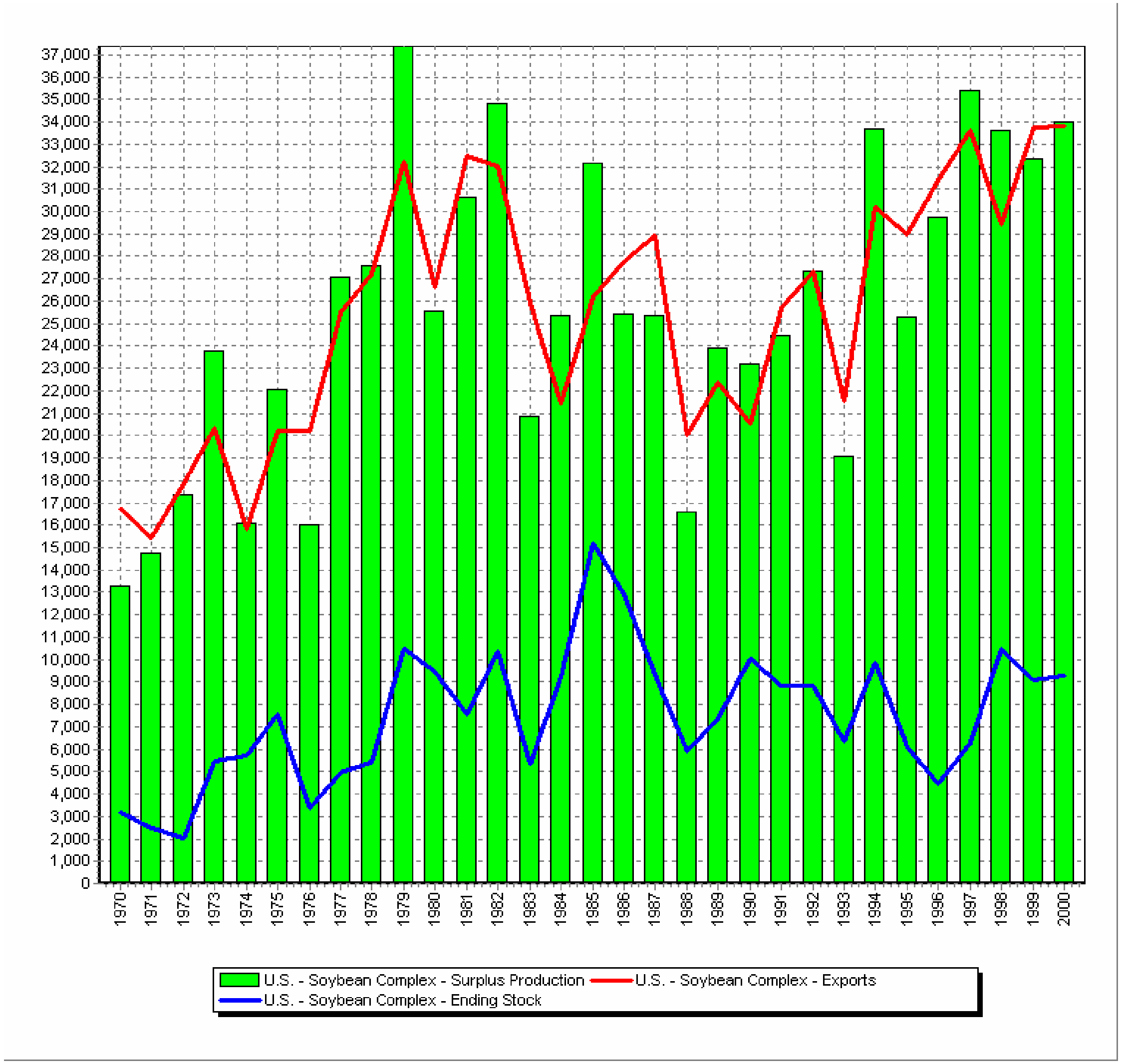
U.S. Soybean Complex Exports and Surplus Production



Expectations vs. Experience

Expectation: Export competitors will reduce production in response to lower prices

Experience:

- Export competitors export all production above domestic demand
- Eliminating set-asides and lower commodity prices did not cause export competitors to reduce acreage

Expectations vs. Experience

Expectation: With Planting Flexibility & Decoupled Payments Farmers Would Plant for the Market – Reduce Production When Needed

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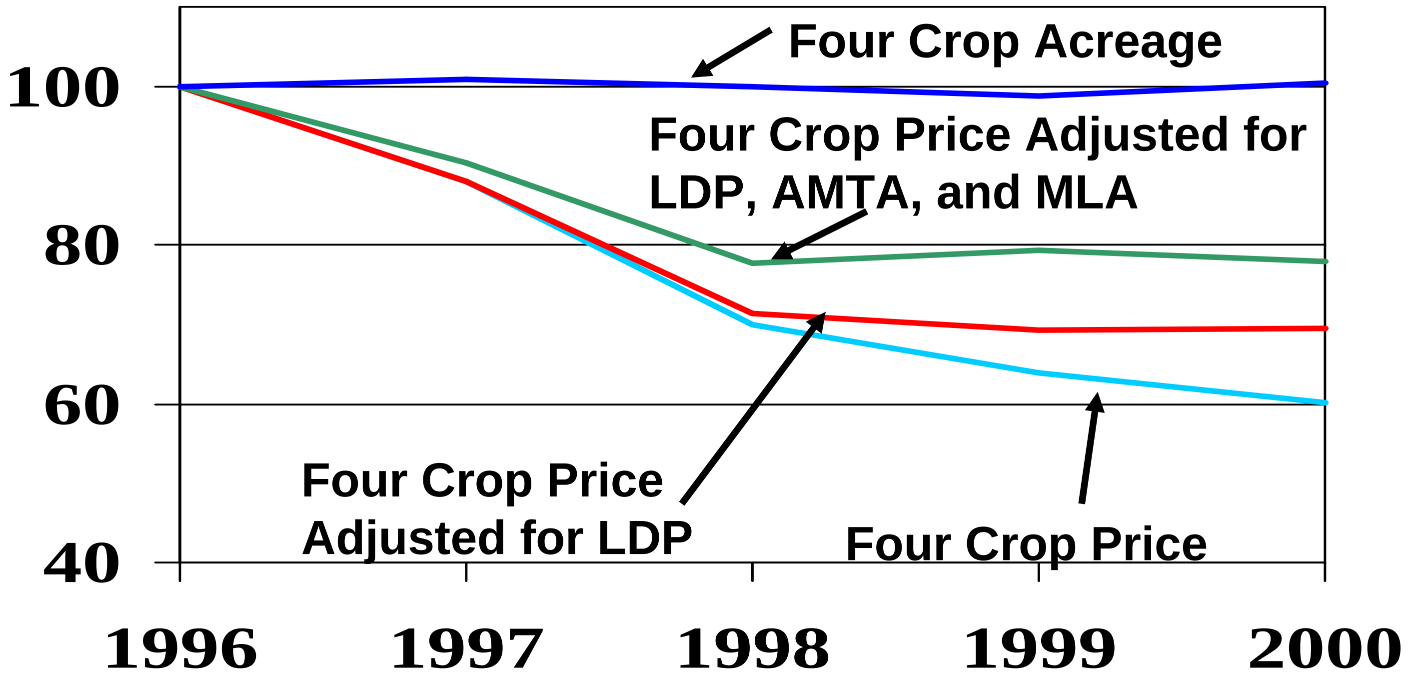
Indexed Four Crop Acreage, Price and Price Adjusted for LDP and Contract Payments



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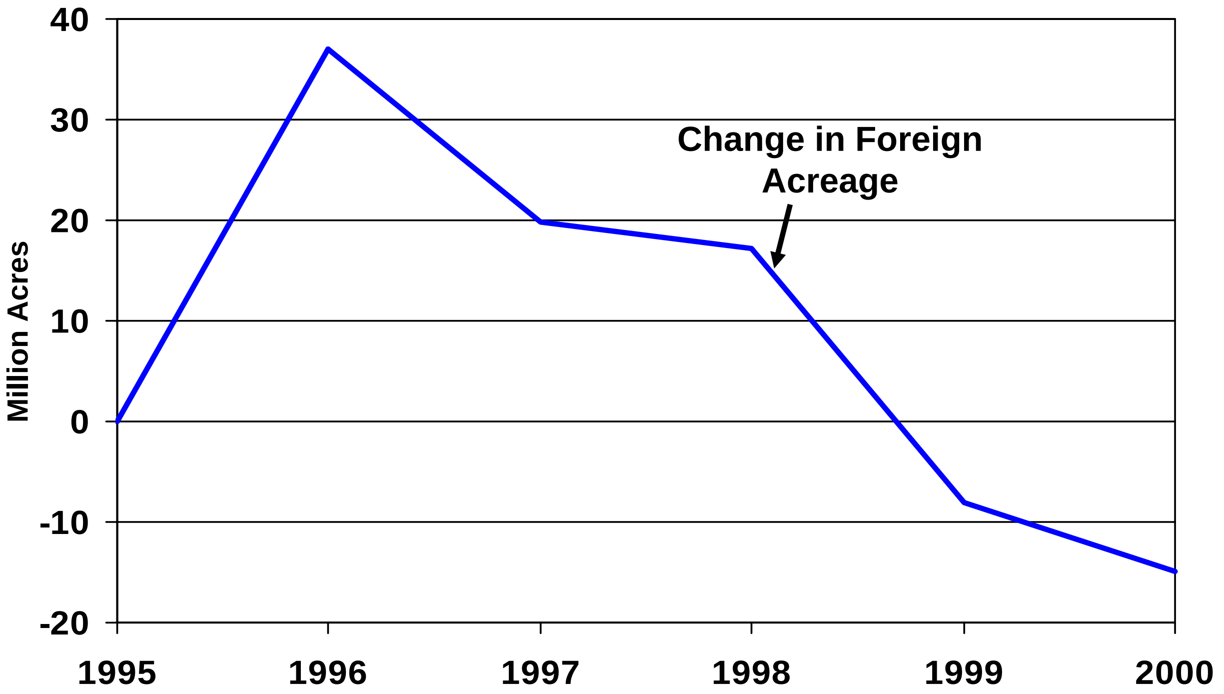
Foreign Crop Acreage



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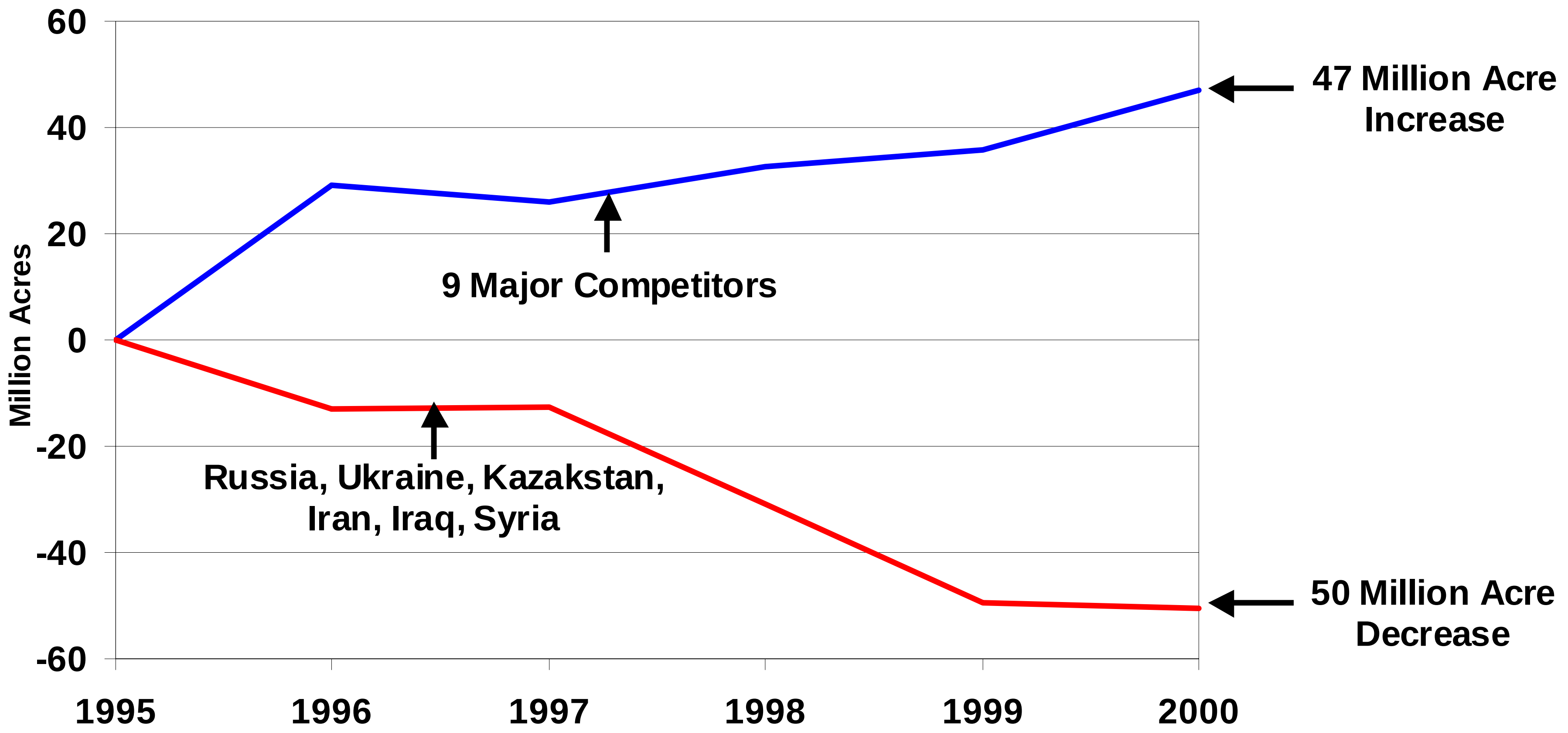
Change in Foreign Crop Acreage



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Points to Ponder

- Since 1985 farm policy has been driven by:
  - Exports, exports, exports (Those are OUR exports! And we'll do ANYTHING to get them back and to make them grow.)
  - Agribusinesses' lobbying ability (We MUST lower prices and maximize output. "If we build it, they will come.")
- Exports have not delivered after two decades of promises
- Agribusiness got everything they wanted (except elimination of the CRP)
  - No bottoms or tops on prices (Increases the value of superior information.)
  - Elimination of annual acreage reduction programs (Volume is everything.)
- Farmers relinquished the farm policy agenda to agribusiness and those that believe agriculture will self-correct with unfettered free markets

Policy Premises

- U.S. and world output will continue to outpace demand
- Aggregate crop agriculture does not self-correct on its own in a timely manner (assuming otherwise is denying the obvious)
  - Total acreage changes too slowly to be of help
  - Consumers will never oscillate between 1 and 5 meals a day depending on prices
- Exports
  - Competitors are as committed to producing for international markets as we are
  - Import customers view food as a national security issue and abhor increased dependence

Policy Implications?

- Farmers have been sold a bill of goods on the elimination of acreage reduction programs
  - Trends in competitors’ acreage and production were unaffected by U.S. elimination of set aside
  - Elimination of set-aside was good for agribusiness but not good for farmers’ market income
  - EVERY other non-farm industry watches demand when deciding output levels
  - Not having supply management is the real reason we are in the current mess

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For More Information …

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