

Farm Policy Perspectives and Possibilities

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**North Dakota Farm Bureau District Representatives
Bismarck, North Dakota
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From My Perspective...

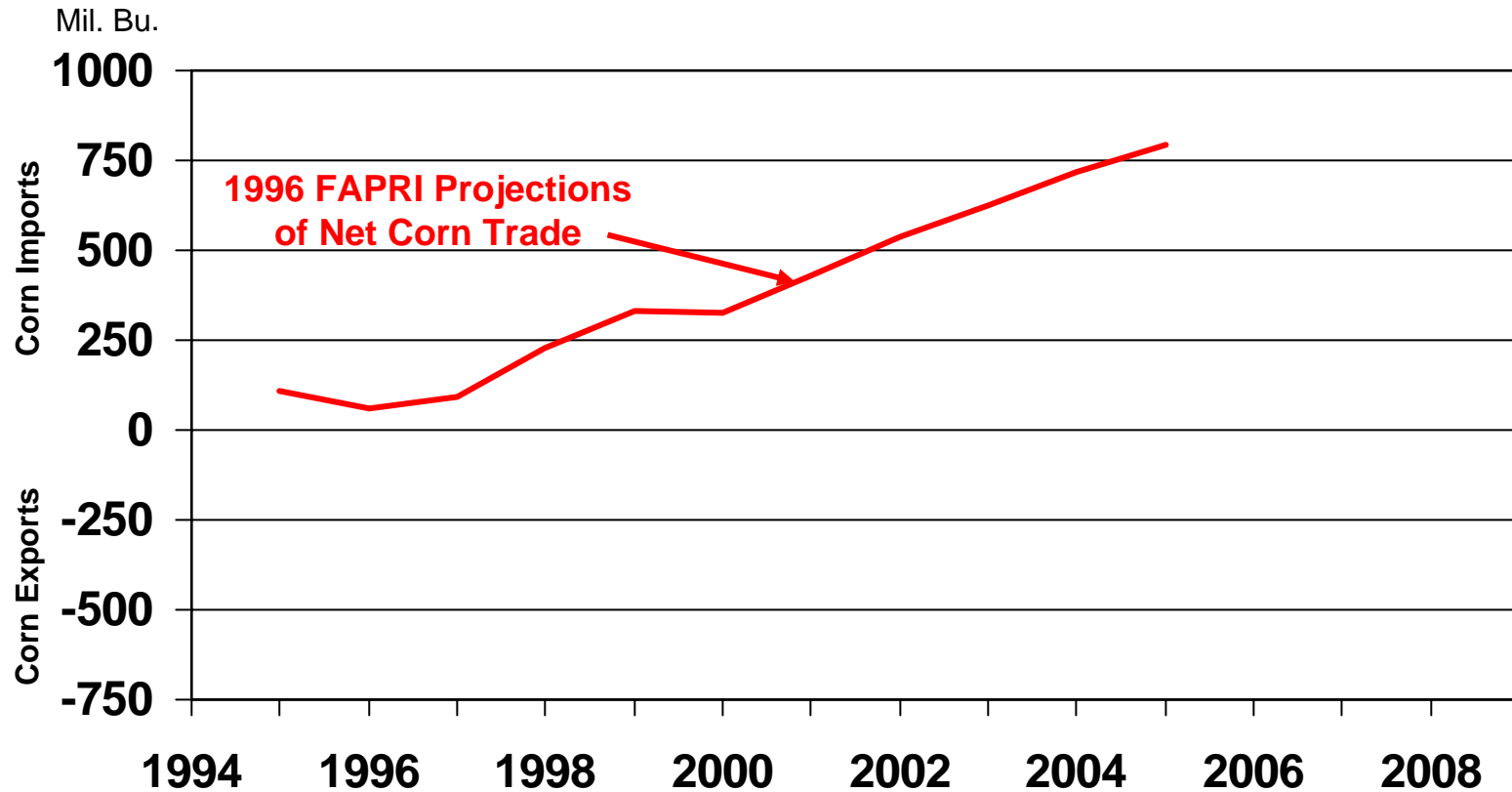
- **Crop exports did not deliver—will not deliver**
- **For total-crop agriculture, timely free—market self-correction is a fantasy**
- **Emerging agricultural powerhouses: Excess capacity will be a worldwide creation in the future**
- **Farmers version of the “Concentration” game: Buy inputs from few suppliers and sell output to few buyers**
- **Current US farm programs are not sustainable**
- **US policy alternatives: The preferable (well, preferable in my opinion), the possible, and the likely**

From My Perspective...

- **Crop exports did not deliver—will not deliver**

China Net Corn Trade

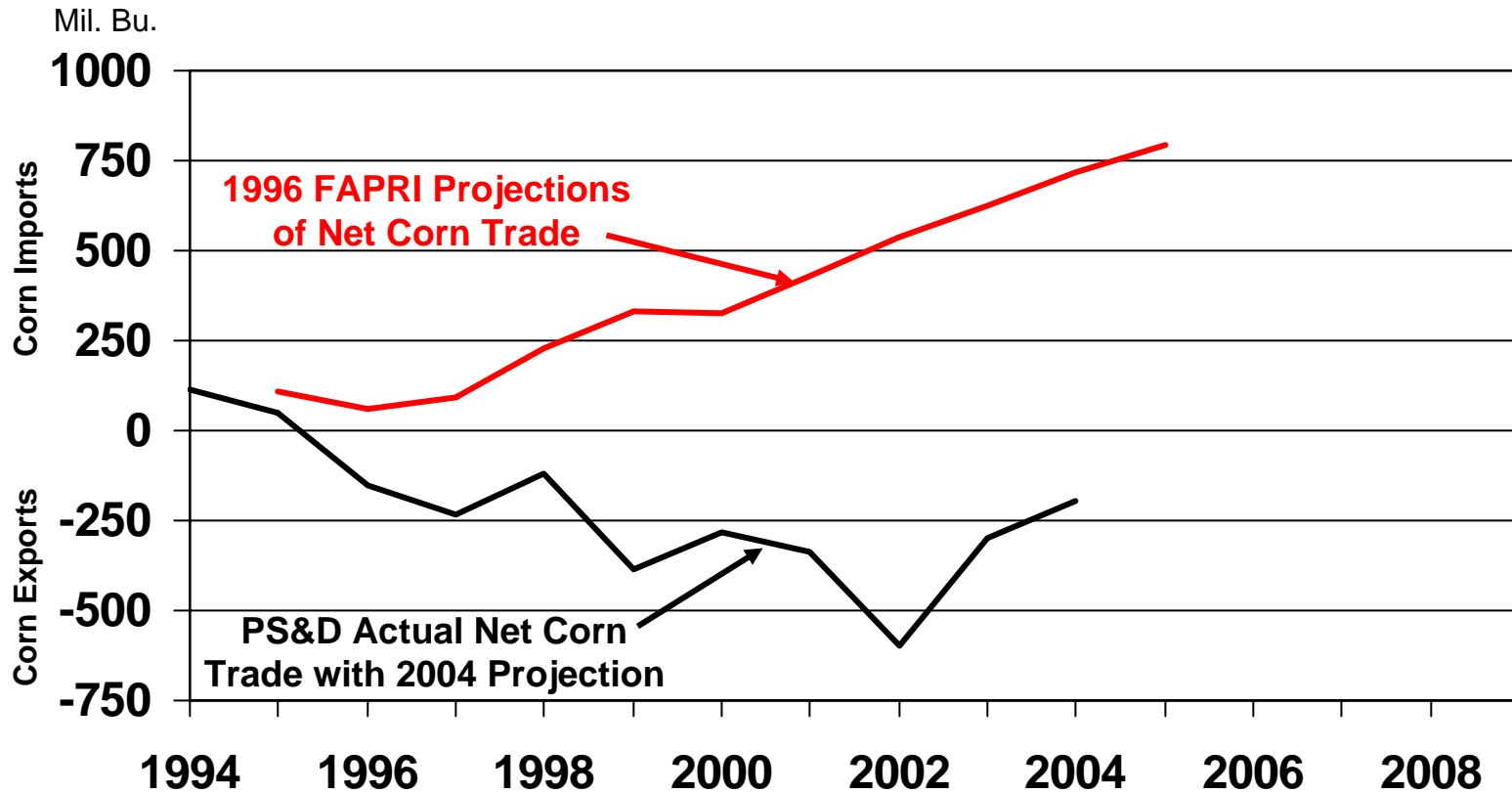
What We Expected:



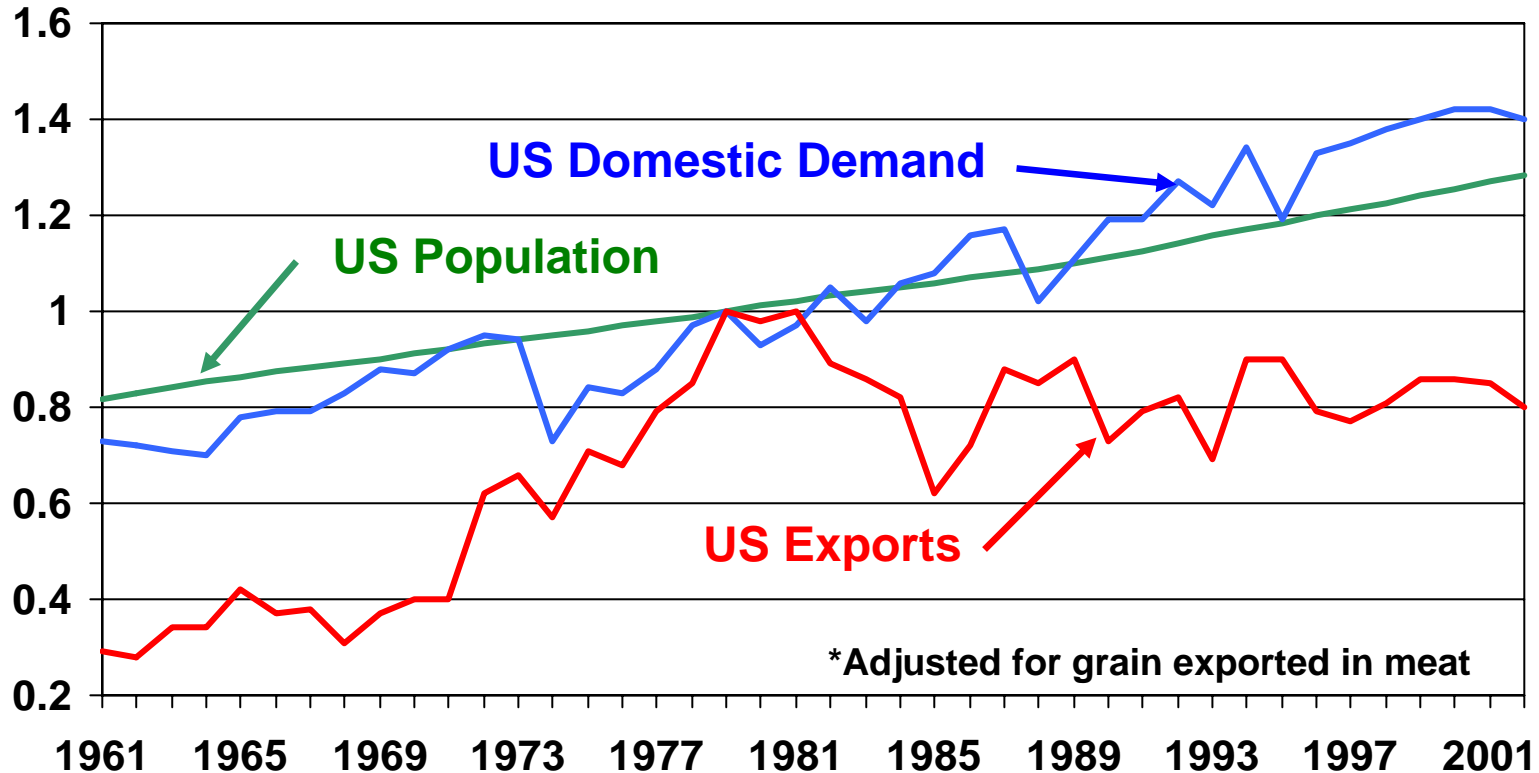
1996 FAPRI Projections

China Net Corn Trade

What We Got:



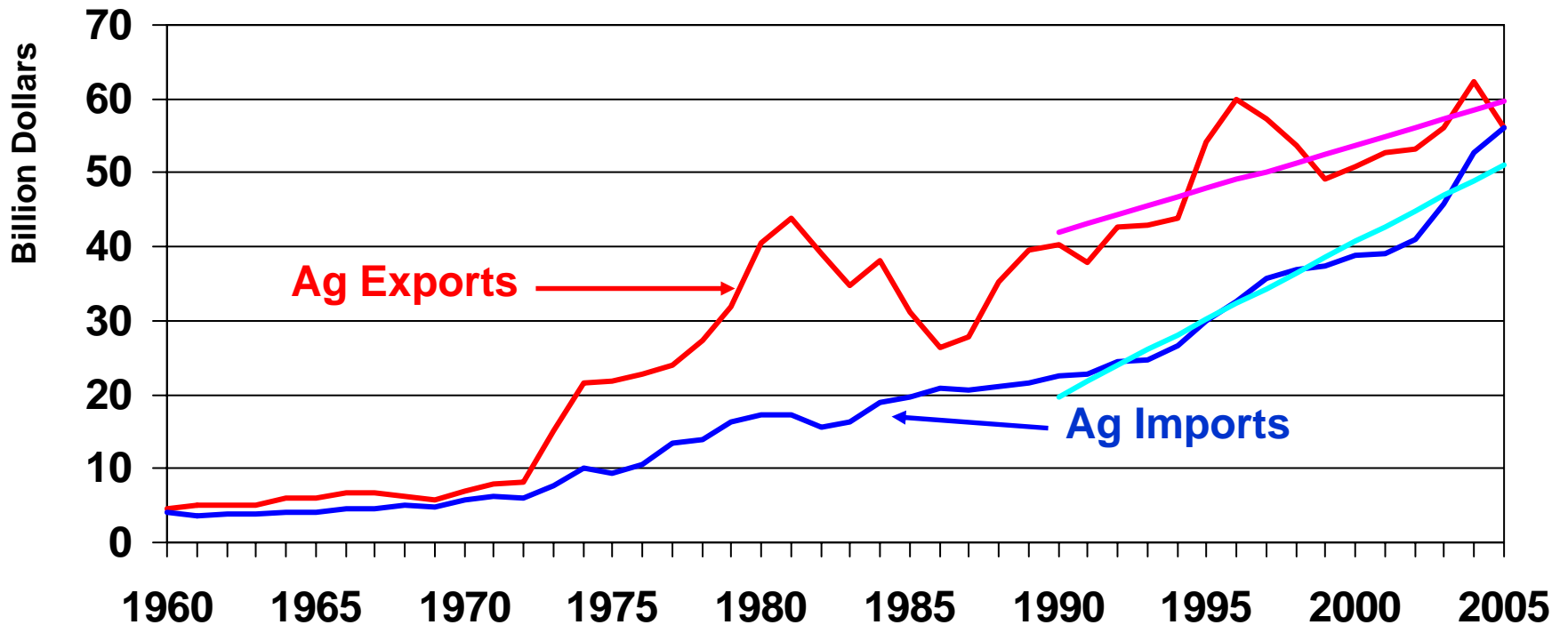
Exports Did Not Deliver



Index of US Population, US Demand for 8 Crops and US Exports* of 8 Crops
1979=1.0

- Exports down to flat for last two decades
- Domestic demand increases steadily
- Since 1979, exports have **NOT** been the driving force in US crop markets

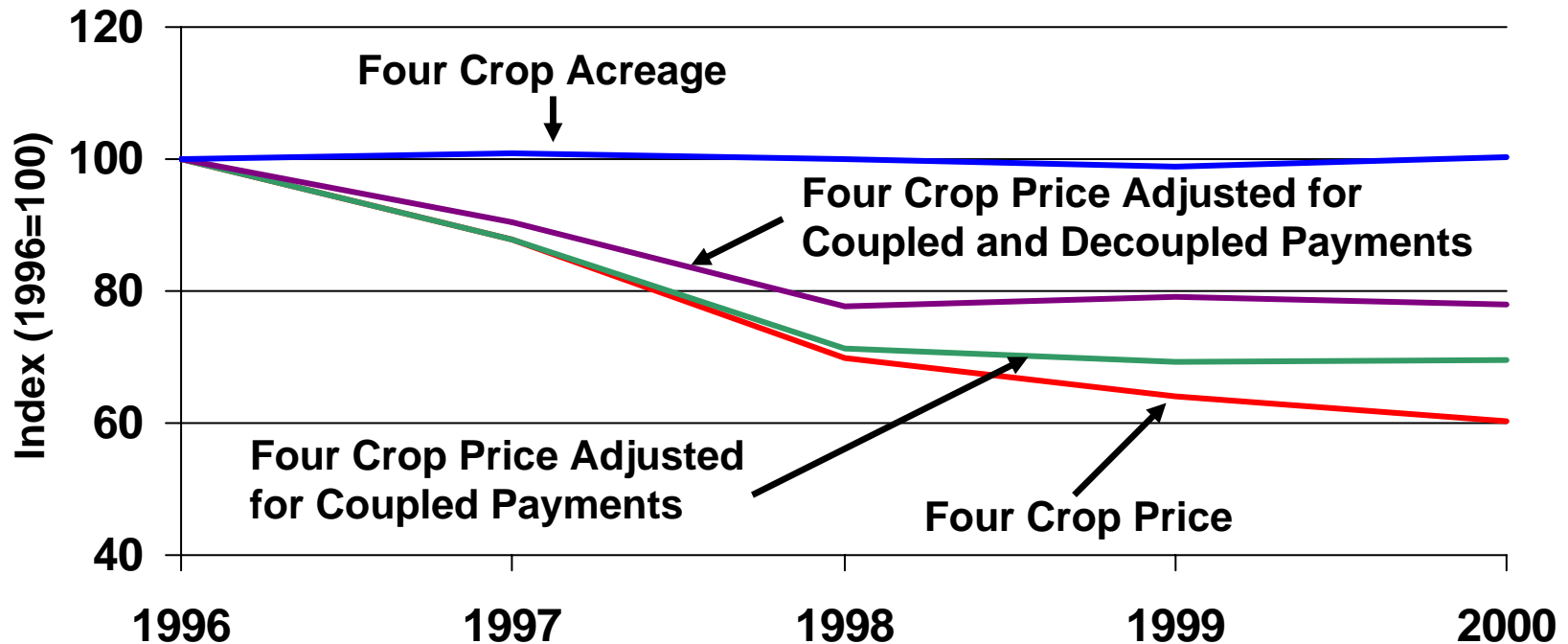
U.S. Total Ag Exports Have Grown Slower Than Total Ag Imports



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- **For crop agriculture, timely free—market self-correction is a fantasy**

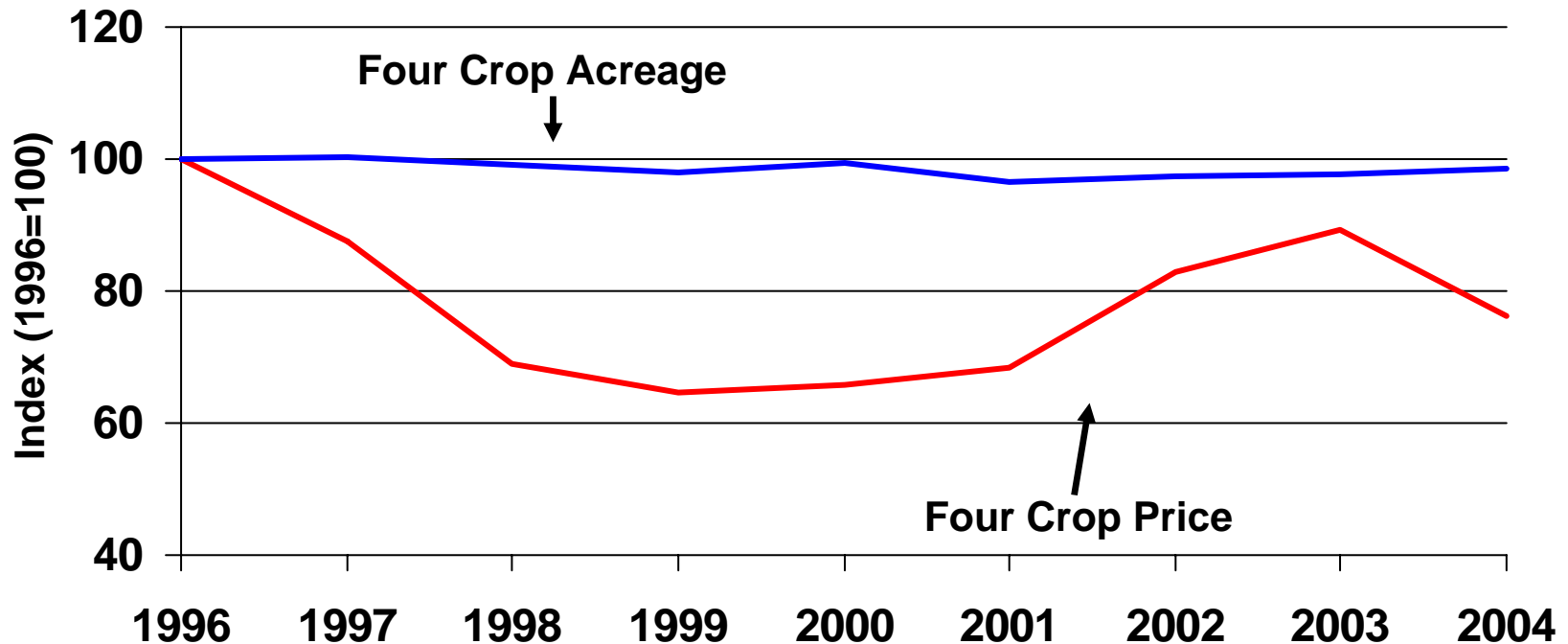
Acreage Response to Lower Prices?



Between 1996 and 2000

- *Aggregate US corn, wheat, soybean, and cotton acreage changed little*
- *While “prices” (take your pick) dropped by 40, 30 or 22%*

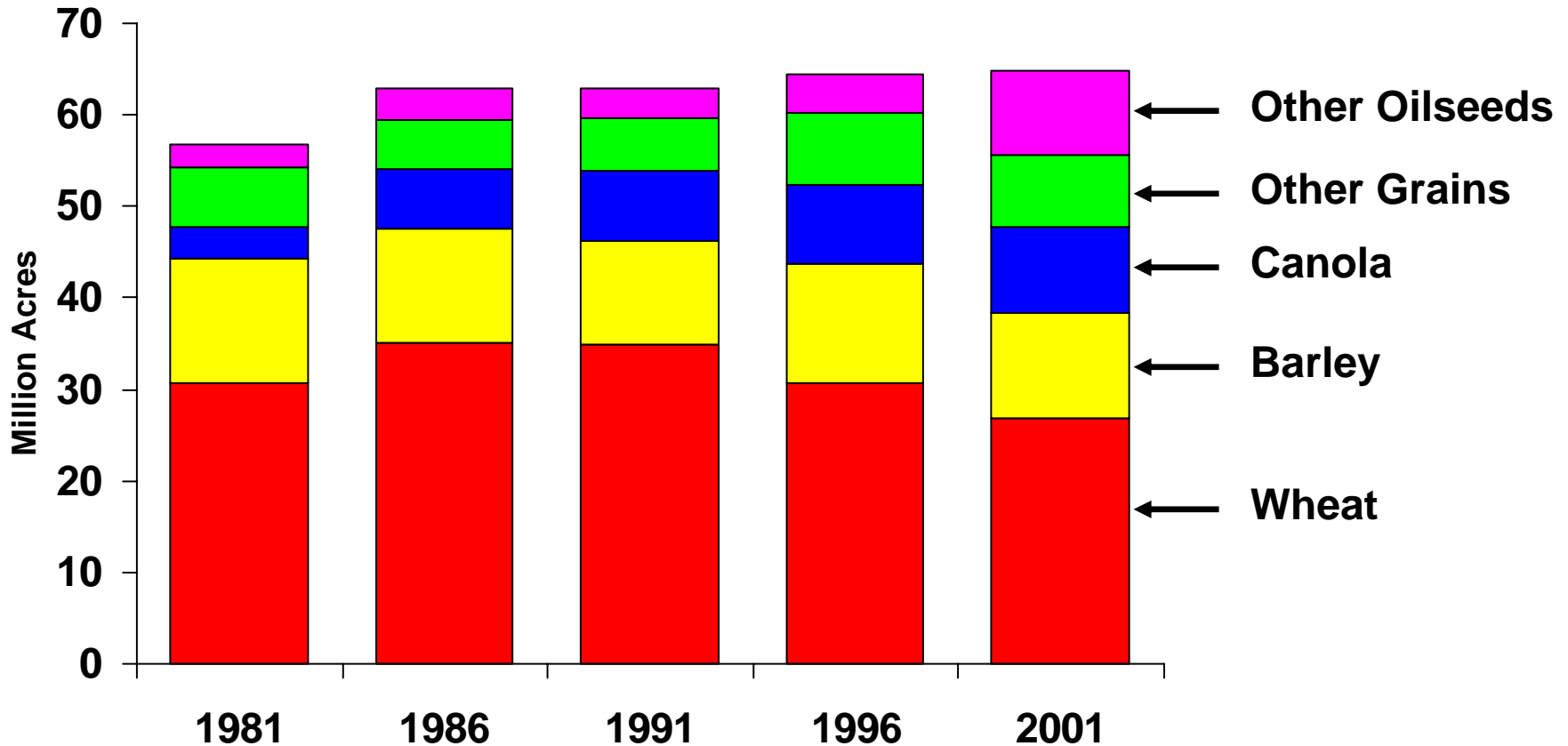
Acreage Response to Lower Prices?



Since 1996 "Freedom to Farm"

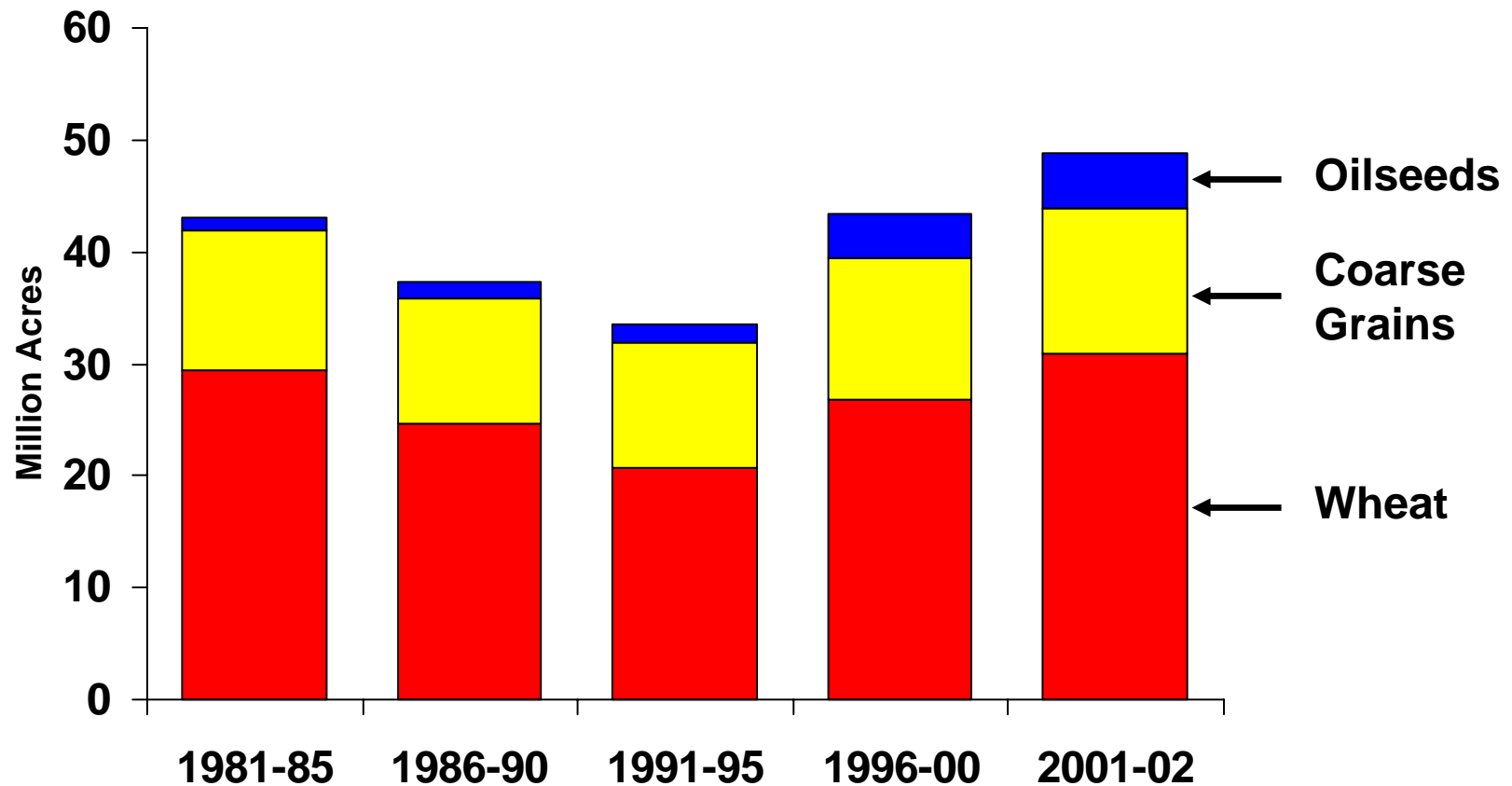
- *Aggregate US corn, wheat, soybean, and cotton acreage changed little despite a wide fluctuation in price*

Canada: Farmland Planted



- Canada reduced subsidies in 1990s
- Eliminated grain transportation subsidies in 1995
- Crop mix changed, total acreage remained flat

Australia: Farmland Planted



- Australia dramatically reduced wool subsidies in 1991
- Acreage shifted from pasture to crops
- All the while, prices declined

Agriculture Has Chronic Price and Income Problems Because It Does Not Self-Correct Quickly

The Logic is Straight Forward

- **Technology expands output faster than population and exports expand demand**
- **Market failure: lower prices do not solve the problem**
- **Little self-correction on the demand side**
 - People will pay almost anything when food is short
 - Low prices do not induce people to eat more
- **Little self-correction on the supply side**
 - Farmers tend to produce on all their acreage
 - Few alternate uses for most cropland

From My Perspective...

- Crop exports did not deliver—will not deliver
- For crop agriculture, timely free—market self-correction is a fantasy
- **Emerging agricultural powerhouses: Excess capacity will be a worldwide creation in the future**

Worldwide Excess Capacity Will Be The Long-run Problem

- **Dramatic yield increases in other countries**
 - Cargill, Monsanto, John Deere, etc., etc., etc.
- **Acreage once in production will be brought back in**
 - Russia, Ukraine and others
- **New Acreage**
 - Brazil
 - China

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What Agribusinesses Want

- Volume (**paid flat per bushel rate**)
- Low Prices (**low cost of ingredients**)
- Price instability (**superior information systems provide profit opportunities**)
- Reduced regulation of production and marketing practices (**seller-to and buyer-from beware**)
- More market power over competitors and their customers/suppliers (**Want everyone at a competitive disadvantage**)

Monsanto's Control of Crop Genetics

- **In 2004, Monsanto's technology accounts for:**
 - **85% of all U.S. soybean acreage**
 - **45% of all U.S. corn acreage**
 - **76% of all U.S. cotton acreage**
- **84% of all U.S. canola acreage was genetically modified**

Source: Center for Food Safety

Control of U.S. Grains and Oilseeds

- Cargill, ADM, and Zen-Noh export **81%** of U.S. **corn**
- ADM, Cargill, Bunge, and AGP control **80%** of the U.S. **soybean crush**
- Horizon (Cargill and CHS), ConAgra, Cargill, and Cereal Food Processors control **63%** of **flour milling** in the U.S.

Source: Mary Hendrickson

Control of Argentinean Exports in 2002

- Cargill, Toepfer, Bunge, and ADM export **63%** of **corn**
- ACA, Toepfer, Cargill and Prodsudam export **88%** of **grain sorghum**
- Toepfer, Cargill, Bunge, and Dreyfus export **62%** of **wheat**
- Cargill, Toepfer, ADM, and Bunge, export **62%** of **rice**

Source: Alejandro Dellachiesa

Control of U.S. Meat Production and Processing

- Tyson, Cargill, Swift, and National Beef Packing control **84%** of the **beef processing**
- Smithfield, Tyson, Swift, and Hormel control **64%** of the **pork processing**
- Smithfield, Premium Standard Farms, Seaboard, and Prestage Farms control **49%** of **pork production**
- Tyson, Pilgrim's Pride, Gold Kist, and Perdue control **84%** of **broiler production**

Source: Mary Hendrickson

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- **Current US farm programs are not sustainable**

The US Can't Go On Like This...

- **The current farm programs are too expensive**
 - **Budget boogie man**
 - \$422 billion current-year deficit—\$2.29 trillion over 10 years (with tax-rates expiring as scheduled; likely twice that otherwise)
 - Cuts in Farm Programs almost certain
- **GAO report is likely to curtail Payment-Limitation-“Winking”**
- **WTO ruling may put LDPs and Counter-Cyclical Payments in jeopardy**
 - Removes ability to compensate for low prices even less than in 1996 FB

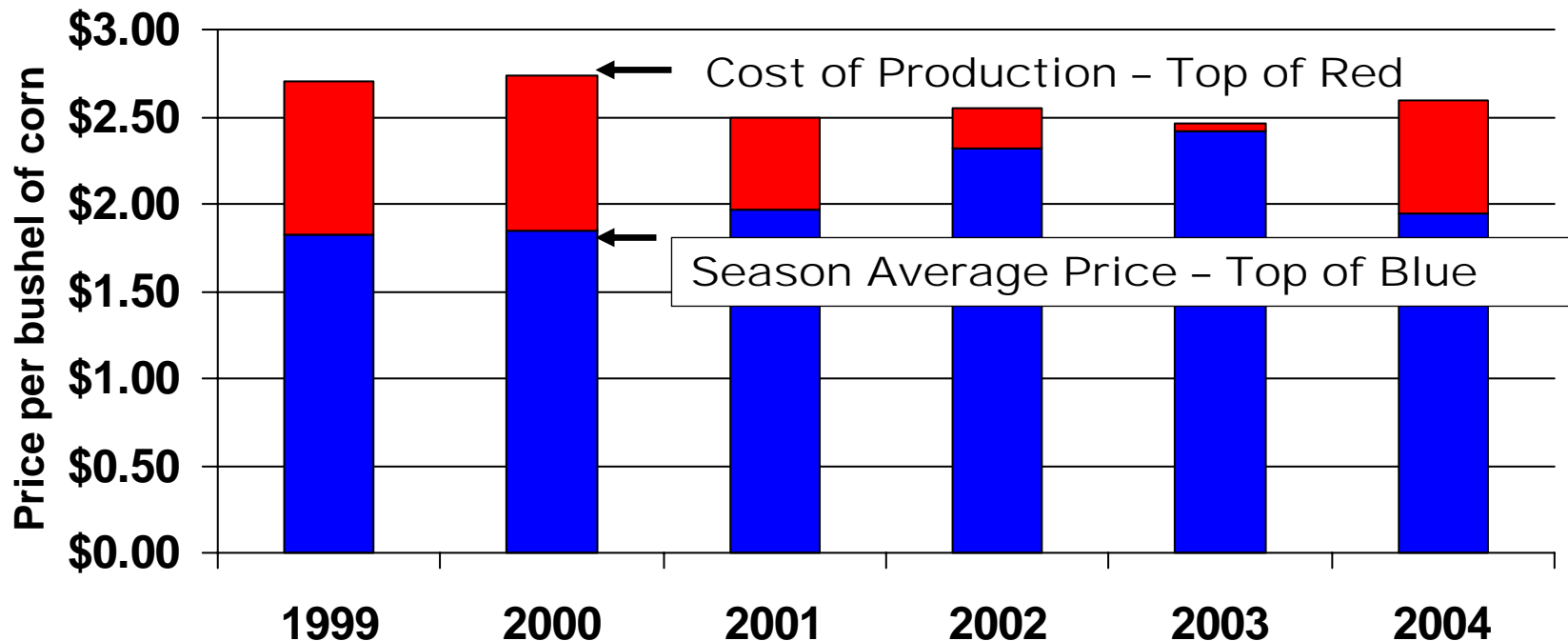
The US Can't Go On Like This...

- **Continued WTO negotiations that further neuter ability to set domestic farm policy in this and other countries**
 - **What is good for General Motors (agribusiness)... syndrome**
 - **The whole WTO process shows a complete lack of understanding of the unique characteristics of food and agriculture**
 - **It is a clear case of not understanding that, as important as economics is, it can be trumped by food security and other social objectives in the case of food and agriculture**

My Question to US Farmers Is: What Are You Going to Do About It?

- **One alternative is passively sit by, be co-opted, and let others commandeer the policy agenda**
 - That is exactly what producers have increasingly done since the mid-eighties!!!
 - Crop producers get subsidy-tarred while real subsidy beneficiaries (integrated livestock producers and other users, sellers of inputs and marketers of output) remain above the fray

U.S. Corn Cost of Production: Who Pays?



Who benefits from subsidies?

- With the season average price paid to farmers ranging from 4 cents to 89 cents a bushel below the cost of production, it is not the producer who is benefiting from farm payments.

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 - Crop producers get subsidy-tarred while real subsidy beneficiaries (integrated livestock producers and other users, sellers of inputs and marketers of output) remain above the fray
 - **Advocating unfettered free markets, promising export growth, or claiming a level playing field as farmers' magic bullet, etc., ain't workin.**
 - **And, given the realities of agriculture discussed so far, they hold little promise for the future.**

My Question to US Farmers Is: What Are You Going to Do About It?

- **Must be a mindset change**
 - Producers and farm and commodity organizations must refuse to carry water
 - Must design policies based on “the realities” not hope or wishful thinking
 - Must be willing to energetically embrace other groups that genuinely share identical or complementary objectives
 - Work as hard to become independent as we have “worked” to become subservient in the past

My Question to US Farmers Is: What Are You Going to Do About It?

- **Did I mention that there must be a mindset change?**
- **Everything should be on the table. Take nothing for granted.**
 - **Previous programs: DNA testing (seeing what happens when most of them are eliminated) have exonerated most of the “failed programs of the past”**
 - **In all cases, do not contradict or ignore any of “the realities” when developing policy**

My Question to US Farmers Is: What Are You Going to Do About It?

- **Create a fresh, bold policy vision that catches people's imagination and is farmer-centered**
- **The challenge is yours—but as for me:**
 - I think the time is right for a merging of agricultural and energy policy
 - Energy could/should be the next soybeans
 - Formerly 30-50 percent of land was dedicated to energy production (horse feed, wood fuel, etc.)
 - More than ethanol and biodiesel

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Merge Ag and Energy Policy

- **Biofuels recycle atmospheric, not fossil, carbon**
- **Look at crops not in food equation & NOT internationally traded**
- **Switchgrass (as an illustrative example only)**
 - **Perennial**
 - **Reduced inputs**
 - **Multi-year setaside**
 - **Burned in boilers for electricity**
 - **Converted to ethanol**
 - **Less costly than present ag programs**

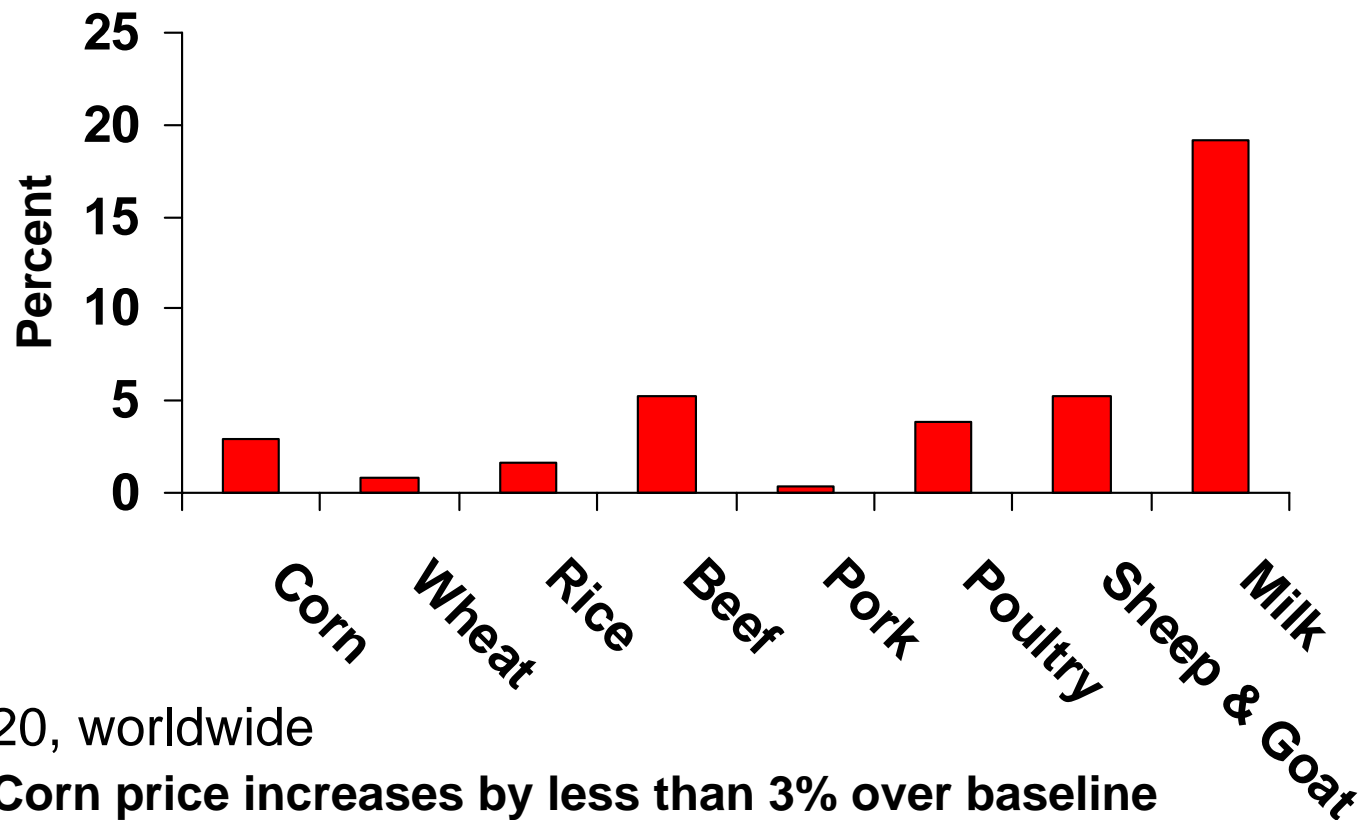
Other Possibilities

- **Stay the Course**
- **Intensify the Free Market Prescription**
- **Switch to green payments**
- **Bring back some traditional farm policy instruments**
- **Enlist multinational cooperation**

Stay the Course

- **More of the same**
- **Can expect:**
 - Continued low prices: \$2 corn; \$3 wheat \$5 soybeans
 - Continued scheduled large government payments in US and developed world
 - Continued accusations of dumping
 - Continued benefits to livestock, importers and agribusinesses

Intensify Free Markets in Developed Countries



In 2020, worldwide

- Corn price increases by less than 3% over baseline
- Wheat price increases by less than 1% over baseline
- Rice price increases by less than 2% over baseline

IFPRI IMPACT

Switch to Green Payments

- **Decoupled and WTO proof**
- **Payments are payments** (to some extent)
- **Ignores the root causes of farm price and income problems**
- **Not sure that farmers believe that their problems are environmental and conservation problems**
- **Congress has cut conservation programs in recent years**

A More “Managed”

Alternative means of managing crop production could be considered

- Adding to existing CRP acreage
- Creating a shorter-term CRP-like program
- Reinstating:
 - Annual Set-asides
 - Inventory/price support program

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What Was That Again?

- **Crop exports did not deliver—will not deliver**
- **For crop agriculture, timely free- market self-correction is a fantasy**
- **Excess capacity is crop agriculture's future peppered with periods of production-shortfalls**
- **Carrying water for agribusinesses typically works against farmers' best interests**
- **Current farm programs are not sustainable**

The Vision Thing

- Policy vision **MUST** be premised on realities
- Seize the moment—may be one of those rare opportunities for fundamental change
- A possibility: Coalesce agricultural and energy interests to shape a Win, Win, Win Comprehensive Agricultural/Energy Policy

Thank You

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