APAC Agricultural Policy Analysis Center
The University of Tennessee

PolicyPennings by Dr. Daryll E. Ray

Betting the farm on "market access"

One of the most important opportunities the members of the Agricultural Policy Analysis Center (APAC) have is to talk to farm and agriculture-related groups about farm policy issues. In a typical year we make 25 to 30 of these presentations.

We are often struck by the contrast between what our audiences want to be told and what they need to know—or at least what we think they need to know.

One of the things every farmer would like to hear is that exports will make him/her prosperous. For more than 100 years farmers have been hoping for an unending era of export-driven prosperity. We wish that would happen. For if it did, agricultural policy issues would be much simpler.

We are not saying that agricultural exports are not important. They are! The problem is that they have been over-promised time after time, giving farmers a false sense of the market potential.

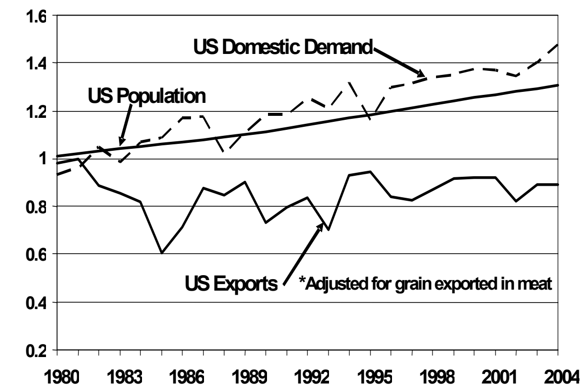

Figure 1. Index of US Population, US Demand for 8 Crops and US Exports of 8 Crops adjusted for grain fed to animals that were exported as meat, 1980-2004, 1979=1.0.

Despite the promises made at the time of the various farm bills from 1985 to the current discussion on the 2007 Farm Bill, US exports for the 8 major crops, adjusted for grain fed to animals that were exported as meat, have hovered around 80 to 85 percent of their 1980 levels (figure 1).

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Loan Deficiency Payments (LDP) were supposed to open up export markets by making the US more price competitive in international markets. Exports did not grow as expected.

The elimination of set-asides was supposed to slow down the rate of growth in our export competitors' productive capacity. They barely blinked.

NOW, we are told that market access is the silver bullet: once we have market access, our exports will zoom ahead and validate the proposed reductions in farm support levels advanced by US trade negotiators and administration officials. That is another message that our audiences want to hear.

What is it that they need to know?

Even with "complete market access," the US may not realize the expected surge in export sales.

Consider this: under the current "state" of international grain market access, total world grain exports have increased from 163 million metric tons to 198 million metric tons over the last 26 years. Figure 2 shows that our developing country competitors (Argentina, Brazil, China, India, Pakistan, Thailand, and Vietnam) have been the ones that have benefited, not the US.

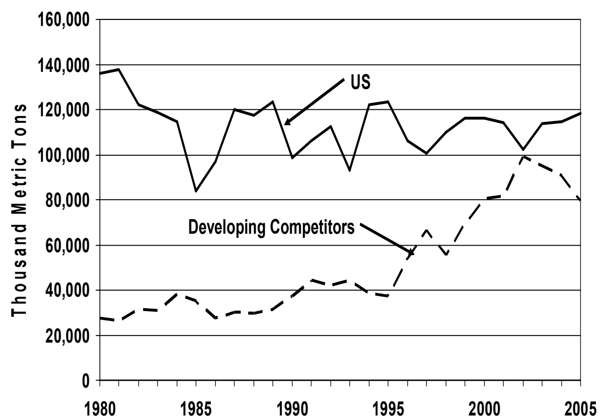

Figure 2. Exports of 15 crops by the US and developing country competitors, 1980-2005. The 15 crops are wheat, corn, rice, sorghum, oats, rye, barley, millet, soybeans, peanuts, cottonseed, rapeseed, sunflower, copra, and palm kernel. The developing country competitors are Argentina, Brazil, China, India, Pakistan, Thailand, and Vietnam.

During that 26 year period, US exports of 15 crops (US crops and their principal international substitutes: wheat, corn, rice, sorghum, oats, rye, barley, millet, soybeans, peanuts, cottonseed, rapeseed, sunflower, copra, and palm kernel) have hovered just under 120 million metric tons, with annual fluctuations but no upward trendline. Exports of our developing country competitors have risen from 27 million metric tons to 80 million metric tons in 2005.

Theoretically, it is possible that the increase in world export demand resulting from a WTO-mandated increase in international market access would substantially benefit US farmers and be large enough to substitute for negotiated-away farm supports.

But, what are the odds?

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