

PolicyPennings by Dr. Daryll E. Ray

## Corn producers in other countries also respond to \$4.00 corn

Farmers, policy makers, and grain marketers are waiting for the March 31 “Prospective Plantings” report with bated breath. If planting intentions come in under market expectations, prices will likely move upwards. While the 2007 USDA baseline shows an increase of 7.4 million acres in corn production for a total 86 million acres, others project corn acreage might be as high as 90-92 million acres. In the absence of countervailing news, corn acreage in the high range would put a downward pressure on \$4.00 plus corn prices.

As we think about the nature of corn markets in an ethanol era, we need to remember that US farmers are not the only farmers to respond to the current prices—the highest they have been in a decade. Farmers in Brazil, Argentina, Mexico, and on the continent of Africa have all taken note of the current price levels.

A March 2, 2007 DTN report, “Brazil to plant more corn” by Kieran Gartlan said, “Higher prices are leading Brazilian farmers to plant more second crop corn this year, and the country’s modest corn exports are expected to expand.” The article estimates that Brazil’s corn production will increase from 42 million tonnes to 48 million tonnes, an increase of 230 million bushels. The article also noted that, if approved, improvements in seed technology could “easily add 10 to 20 percent to yields” in the years ahead.

In an earlier article, February 13, 2007, “Brazil Technology Embrapa,” Gartlan reported that Brazil has an additional 220 million Cerrado acres that can be brought into production. The article also stated that “Venezuela, Guiana and the Caribbean have over 200 million acres of Cerrado-like soils currently used for grazing cattle. In addition, the Brazilian agricultural research agency has opened an office in Ghana to “help African nations boost their agricultural

production. How much of this will go to corn remains to be seen, but in a time of \$4.00 per bushel corn, don’t count corn out.

According to a February 19 Associated Press story, high corn prices could bring an additional 4.3 million acres in Mexico into production this year and farmers “also want the government to fund the irrigation of another 1.9 million acres, said Carlos Salazar of the National Confederation of Corn Growers.” If those 6.20 million acres were to yield 70 bushels per acre, Mexican corn production would increase by over 400 million bushels.

Increases in international production, like those noted above, could have a significant impact on US corn exports and thus the level of US ending stocks and the season average corn price received by US farmers. The USDA baseline projects a 2007 season average corn price of \$3.50 based on a year ending stock level of 660 million bushels—4.9% stocks-to-use ratio. A couple of million bushels here and a couple of million bushels there and US corn stocks could top 1 billion bushels. What would happen to prices then?

Why do we share this kind of information with our readers? We point it out because we believe it is prudent to remind everyone that despite the present “ethanol euphoria” that has lifted corn prices to \$4.00 per bushel, there are economic forces out there that could turn the price the other way. Developing a farm bill based on \$3.30+ corn could lead to disastrous consequences if other countries rapidly expand their production of corn and other crops.

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