US Farm Policy and WTO Implications

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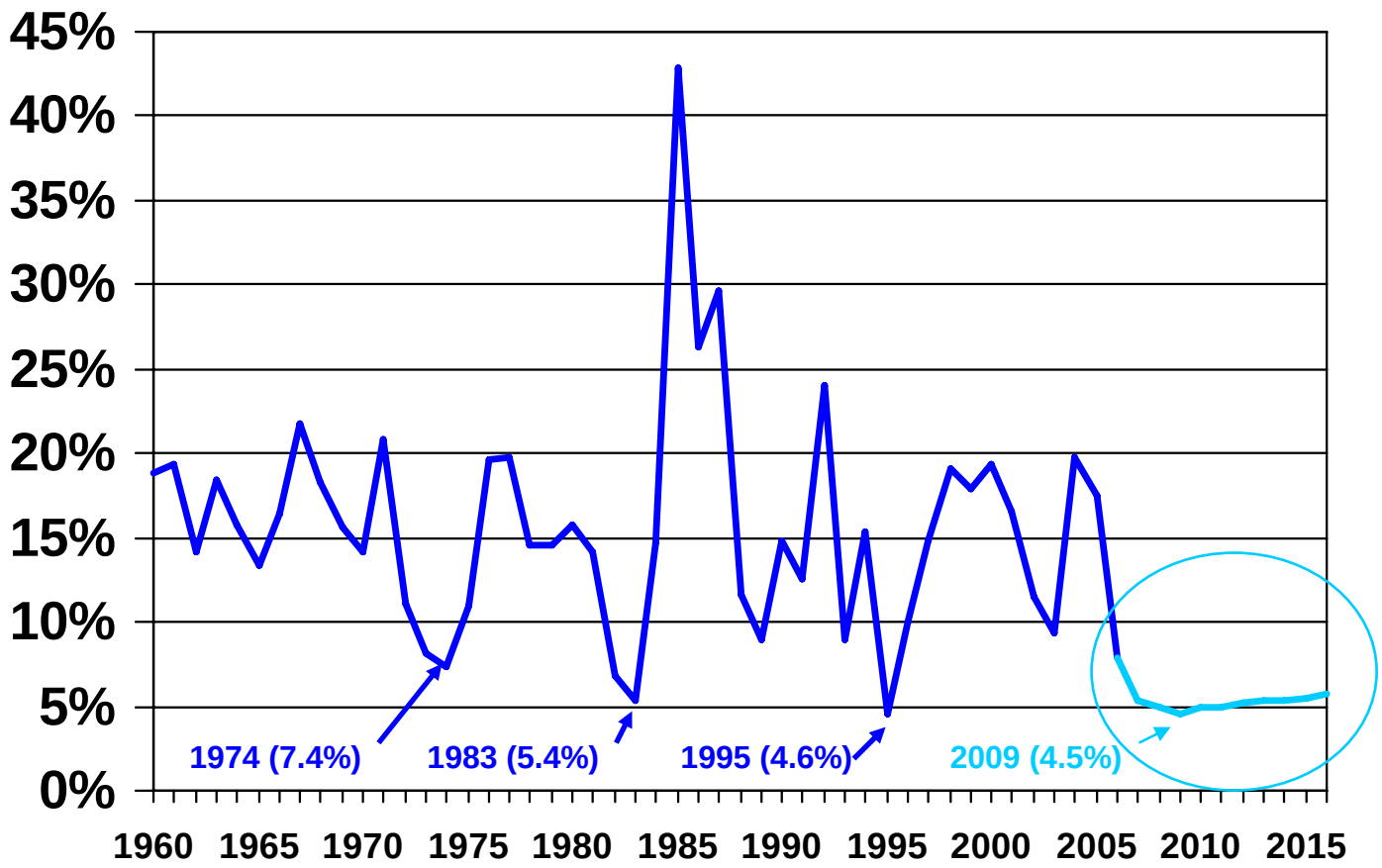
Policy Context

- **Near-term policy context**
  - **Tight crop markets**

Uncharted Territory



Year ending commercial stocks-to-use ratio for US corn

1960-2005 (actual), 2006-2016 (2007 USDA Baseline)

APAC

Policy Context

- **Near-term policy context**
  - **Tight crop markets**
    - **Corn, beans, wheat**
  - **Furious competition for acreage**
  - **High prices for all crops**
  - **Increased risk of production shortfalls**

Greatest Short-Term Risk

- **Weather event**
  - **The 2007 USDA baseline shows a string of years in which corn carry-out stocks are projected to be below 6 percent of utilization**
    - Recent historic range has been 10% to 20%
  - **In five of the last 10 years, we have seen production fall by 300 mil. bu. from the previous year**
  - **A shortfall of that magnitude in an era of tight supplies would trigger skyrocketing prices**
    - **$6 or more per bushel**

In Times of Exploding Demand

- **The current program will work**
- **Any farm program will work**
- **NO farm program will work**
  - **The KEY question is "Are high prices the future"**

Policy Context

- **Longer-term policy context**
  - **Production will respond to price signals**
    - **Yield gains in corn and soybeans**
    - **Acreage in Argentina, Brazil and Savannah land countries**

Greatest Long-Term Risk

- **Acreage and yields greatly increase worldwide—just a question of how fast**
  - **With $6 per bushel corn**
    - **Acreage shifts in the short-run**
    - **Longer-run investments that increase acreage and yields**
  - **With $3 to $4 corn or somewhat lower**
    - **Increases in acreage & yields but at slower rate**
- **Lower prices return**
  - **Recreate problems for farmers worldwide and for the US treasury**

Production Considerations

- **International corn supply response**
  - **Increased international production**
    - Mexico: 4 million ac. increase
    - Argentina: 20 percent increase in acreage
    - Brazil: 230 million bushels more “second season corn—80 million to be exported
    - Canada: 10-20 percent increase in acreage
  - **Internationally there may be a decreased need for corn imports from the US**

Policy Context

- **Longer-term policy context**
  - **Production will respond to price signals**
    - **Yield gains in corn and soybeans**
    - **Acreage in Argentina, Brazil and Savannah land countries**
  - **Chronic overproduction will return**
    - **Excess acreage will wring out extremely slowly**

Characteristics of Ag Sector

- **Agriculture is different from other economic sectors.**
  On the demand side:
  - **With low food prices—**
    - **People don't eat more meals a day**
    - **They may change mix of foods**
    - **Aggregate intake remains relatively stable**

Characteristics of Ag Sector

- **Agriculture is different from other economic sectors.**
  On the supply side:
  - **With low crop prices—**
    - **Farmers continue to plant all their acres**
    - **Farmers don't and "can't afford to" reduce their application of fertilizer and other major yield-determining inputs**
    - **Who farms land may change**
    - **Essential resource—land—remains in production in short- to medium-run**

Why Chronic Problems In Ag?

- **Technology typically expands output faster than population and exports expand demand**
  - **Much of this technology has been paid for by US taxpayers**
- **The growth in supply now is being additionally fueled by**
  - **increased acreages in Brazil, etc.**
  - **technological advance worldwide**

Why Chronic Problems In Ag?

- **Lower prices should automatically correct itself**
  - **Consumers buy more**
  - **Producers produce less**
  - **Prices recover—problem solved!**
- **But in agriculture lower prices do not solve the problem**
  - **Little self-correction on the demand side**
    - **People do not consume significantly more food**
  - **Little self-correction on the supply side**
    - **Farmers do not produce significantly less output**

WTO Issues

- **Role of US subsidies**
- **Impact of market access**
- **Food security**

Role of US Subsidies

- **Present form of payments has driven prices down**
  - **We have been dumping**
- **Impact of subsidies on aggregate crop production is minimal**
  - **Subsidies were the result of low prices not the other way around**

Role of US Subsidies

- **Crops where we do not have subsidies have low price problems similar to those of program crops**
  - **Coffee, cacao, tea, tropical fruits**
- **Common factor is low elasticity on both supply and demand sides**

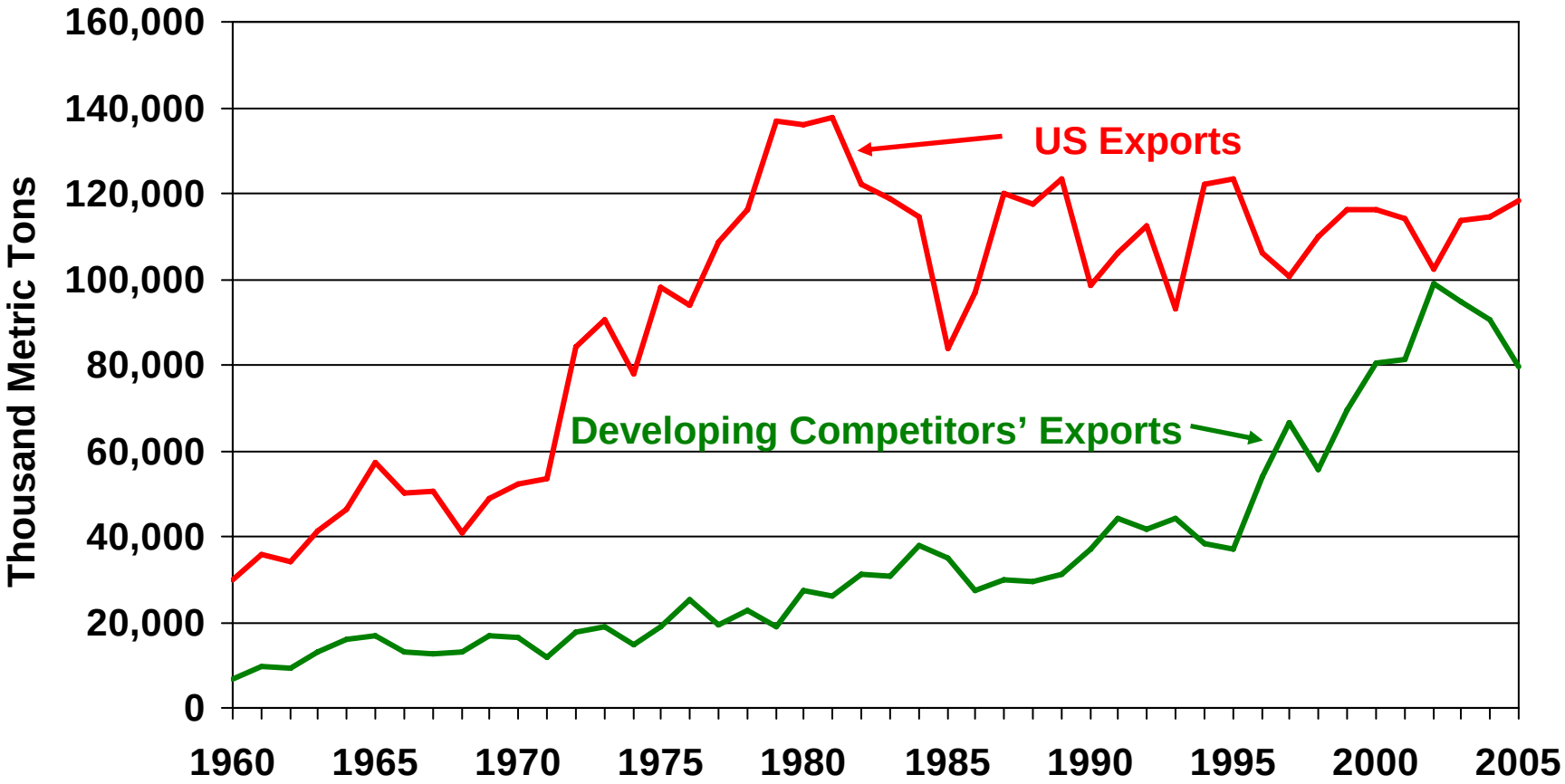
Role of US Subsidies

- **"Green Box" program money may have more direct impact on supply expansion than subsidies**
  - **Teaching**
  - **Research**
  - **Extension**

Impact of Market Access

- **US is the residual supplier of crops**
  - **We are the seller when others run out**

Impact of Market Access



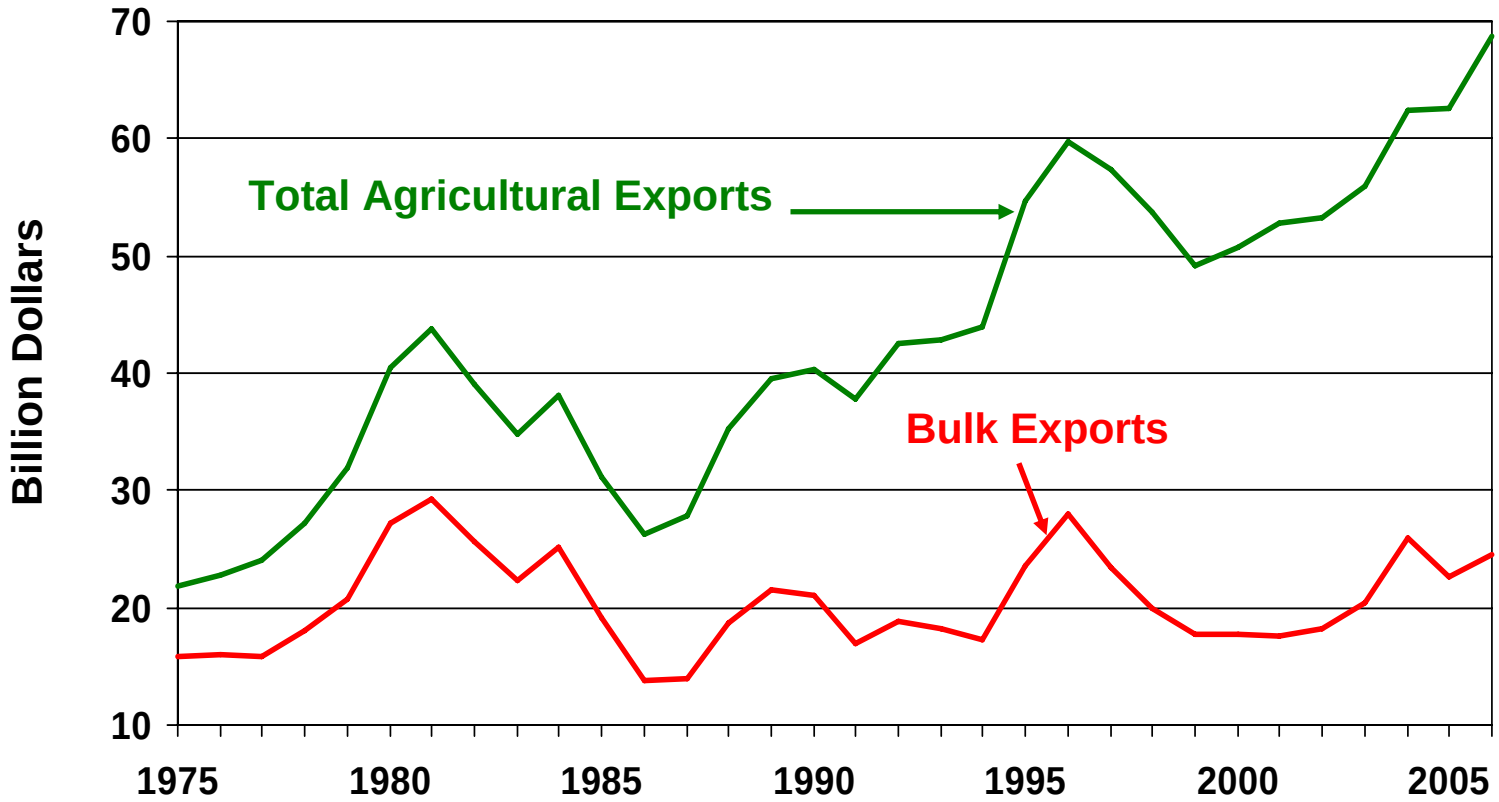
Developing competitors: Argentina, Brazil, China, India, Pakistan, Thailand, Vietnam

15 Crops: Wheat, Corn, Rice, Sorghum, Oats, Rye, Barley, Millet, Soybeans, Peanuts, Cottonseed, Rapeseed, Sunflower, Copra, and Palm Kernel

Impact of Market Access

- **The US may not be the residual supplier for some agricultural products**
  - **Animal protein**
  - **Specialty, high-quality fruits, nuts and seeds**
  - **Some processed agricultural products**

Impact of Market Access



Food Security

- **Many countries view food like the US does armaments**
  - **It is a matter of national security**

Conclusion

- **The WTO proposals probably will not meet the ultimate needs of farmers elsewhere in the world nor US crop farmers**
- **Agriculture is different from CDs, Gucci shoes, and Dell computers**

Thank You

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