

Year in review: Our export competitors increased acreage despite elimination of U.S. acreage set-asides

In last week's review we saw that one could not blame crop agriculture's price and income problem on a worldwide slackening of demand for total grains and seeds brought about by the Asian Crisis. A look at the data reveals that non-US demand for total grains and seeds grew at a faster pace during the Asian Crisis years than it did in the previous five years. The factor that brought about the price and income problems we are experiencing is that world production increased at a rate .4 percent faster than world demand.

This week we want to shift our focus from looking at the behavior of our export customers to looking at the behavior of our export competitors - countries like Argentina, Australia, Brazil, Canada, EU-15, and even India, Pakistan, Thailand and Vietnam. In the period leading up to the adoption of the 1996 Farm Bill, those who argued for the elimination of set-asides asserted, "If we don't plant it, someone else will." The unspoken assumption was that if the US did not divert acreage from crop production, our export competitors would be compelled to cut back on their production or at least reduce their rate of acreage expansion.

Early this year, some farm leaders declared that since the US eliminated set-asides as a part of the 1996 Farm Bill, worldwide acreage had dropped by 4 million acres. Knowing that Brazilian acreage was increasing we were somewhat skeptical, but indeed the data revealed that 1999 world harvested acres for total grains and seeds were down by 4 million acres from the 1995 levels.

When we looked further we made an interesting discovery. The change in acreage was not uniform across all countries. Six countries, Russia, Ukraine, Kazakstan, Iran, Iraq, and Syria reduced their harvested acreage by a whopping 50 million acres and, I think most would agree, the reasons for their reduction had virtually nothing to do with US farm policy. On the other hand, our competitors (the countries where we wanted to see acreage declines) actually increased their acreage significantly. Argentina, Australia, Brazil, Canada and EU-15 increased their harvested acreage by 21 million acres and India, Pakistan, Thailand, and Vietnam increased their harvested acres by 15 million acres. As a group our competitors, new and old, increased their production capacity by 36 million acres. Clearly elimination of acreage set-asides did not cause our competitors to reduce their acreage of major crops.

A further look at the activities of our competitors revealed that both Argentina and Brazil maintain minimal carryover levels of soybeans. They export all of their soybean production in excess of a steadily growing domestic demand. The export levels of those two competitors are virtually identical to their exportable surplus re-

gardless of exchange rates, US set-aside levels, or anything else. At the time the 1996 Farm Bill was adopted, the expectations were that the use of LDPs would allow the US price to be competitive with other major players in the world market and force them to increase their carryover levels in years of excess production. It did not happen.

It's the US that continues to see inventories vary depending on how much export demand is left over for the US. If yields are low in our export competitors' countries more export demand is left over for the US and vice versa. So while many have talked about the effect of changes in our competitors' exchange rates on US soybean exports, we have found little evidence and virtually no data to support this contention. If one looks at corn exports over the last seven years, the story is the same. Each year Argentina exported all if its surplus corn production over domestic demand while the US saw its carryover levels fluctuate widely. This is particularly instructive because one cannot attribute the differences in export competitiveness between the US and Argentina to exchange rates. The Argentine currency was pegged one-to-one to the US dollar during those years.

In the early 1960s, the US was the major soybean exporter in the world accounting for 52 percent of all oilseed, oilmeal and oil exports. By the 1990s that share had fallen to 25 percent with Argentina and Brazil gaining some of the share formerly held by the US. By the 90s Brazil had captured 14 percent of the world market and Argentina had captured 15 percent. Their internal economic development plans were partly based on significant developments in the crop agriculture sector. For Argentina and Brazil it was not simply a matter of growing more soybeans for export. They used soybeans as a means of industrial development as well, establishing plants to extract soy meal and soy oil from the beans. While 20 percent of US soybean exports are in the form of soy meal and soy oil, the Argentines export 82 percent of their soybeans as meal and oil. For Brazilians, meal and oil account for 65 percent of their soybean complex exports.

Looking at the export markets for corn and soybeans, it becomes clear that the United States is the world's residual supplier and with the exception of China, the holder of the world's reserve stocks. As a residual supplier of corn and soybeans it becomes apparent the programs to enhance the exports of these commodities will have little effect on US export levels.

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