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PolicyPennings by Dr. Daryll E. Ray

25 years of export competitiveness and what do you get…

The run up in crop exports between the 1972 and 1981 crop years led to a set of expectations that has driven US agricultural policy for the last 25 years—ever increasing exports as the means of bringing about prosperity for the crop sector of agriculture.

Increasing US crop export competitiveness is one of the five often cited reasons for US farm programs. To that end we have seen the institution of lower loan rates, the elimination of the effectiveness of the non-recourse loan, the elimination of setasides, decoupled payments, marketing loans, generic certificates, loan deficiency payments, export loan guarantees and a host of other programs. All of them aimed at increasing exports of bulk commodities.

And what have been the results? Fifteen crop exports—US grain and oilseed crops and their substitutes: wheat, corn, rice, sorghum, oats, rye, barley, millet, soybeans, peanuts, cottonseed, rapeseed, sunflower, copra, and palm kernel—have languished for the last 35 years. From a peak of 138 million tonnes in 1981, exports fell to 122 million tonnes in 1982 and have topped 120 million tonnes only four times since then. Yes, you read that right. And this despite all of the programs dedicated to increasing US crop export competitiveness.

Even though US crop exports have remained flat, world exports have increased during the last 25 years from 243 million tonnes to 314 million tonnes, an increase of 71 million tonnes. The bulk of this increase has been captured by our developing country competitors—Argentina, Brazil, China, India, Pakistan, Thailand, Vietnam—who have increased their 15 crop exports from 25 million tonnes in 1981 to 80 million tonnes in 2005, capturing 55 of the 71 million tonne increase in crop exports over the last 25 years. The US has not been the major beneficiary of the international "market access" that has already been available for all to compete.

When people talk about "increased export competitiveness," what are they talking about? In two words—"lower prices." And, the LOWER, the BETTER! The universal expectation of advocates of increased export competitiveness is that lower prices will trigger a huge increase in demand that will sop up the excess supply in the marketplace and drive prices back up.

Part of this expectation for increased demand comes from the continued increase in world population. While 95 percent of the consumers do live outside the US borders, it is easy to be overly optimistic about the corresponding demand-expansion possibilities in general and for US farmers in particular.

The expectation for increased demand is largely predicated on anticipated growth of the middle class in the developing world. The reasoning begins with the idea that a growing middle class will begin to move from a grain-based diet to a meat-based diet and therefore will need corn and soybeans to feed the animals that will end up as meat on their tables.

The example countries change over time (its China this time around) but the promise is the same today as it was in 1985. The problem is: this appealing scenario has yet to pan out for US grain farmers. Even, including grain used to produce export-bound livestock products does not change the overall trends of US grain and meal exports.

There is another key reason why low prices have not brought the anticipated export-competitiveness results: the US is the oligopoly price leader for corn, soybeans, wheat and their substitutes. Our export competitors price their crop off of US prices, be they high or low. Driving prices down in the US only drives them down worldwide and leaves US farmers no more competitive than they were when they started—just poorer.

In addition, the US is the supplier of last resort for these three crops. The major variation in US crop exports depends on production levels elsewhere in the world. When they have a production shortfall, US exports increase. When they have a boom in production, US exports decrease.

While around 120 million tonnes of crop exports is nothing to sneeze at, it is worth considering the odds as to whether further increasing export competitiveness, either through lower prices or increased market access, will significantly change the flat trend that has dominated US total grain and oilseed exports for the last quarter century.

Daryll E. Ray holds the Blasingame Chair of Excellence in Agricultural Policy, Institute of Agriculture, University of Tennessee, and is the Director of UT's Agricultural Policy Analysis Center (APAC). (865) 974-7407; Fax: (865) 974-7298; dray@utk.edu; http://www.agpolicy.org. Daryll Ray's column is written with the research and assistance of Harwood D. Schaffer, Research Associate with APAC.

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