Monthly News Report on Grains

MNR Issue 100 - February 2014

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About the MNR:

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The main purpose of the MNR is to establish a communication vehicle for closer dialogue between the FAO Secretariat and the Members of the Intergovernmental Group (IGG) on Grains as well as the general public.

The MNRs are dispatched electronically on the last working day of the month except in July and December.

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Market News:

China sues Ukraine for breach of US$3b loan-for-grain agreement

27 February 2014 South China Morning Post

China is seeking compensation of US$3 billion from Ukraine for the breach of a loans-for-grain contract signed in 2012, Russian media reported yesterday.

Under the deal, the Export-Import Bank of China provided the loan to Kiev in exchange for supplies of grain.

Citing a Ukrainian parliament official, the ITAR-TASS news agency reported that the State Food and Grain Corporation of Ukraine has used part of the US$3 billion Chinese loan to instead provide crops for other countries and parties, including Ethiopia, Iran, Kenya and Syrian opposition groups.

So far, Chinese importers have only received US$153 million worth of Ukrainian grain, or 180,000 tonnes, the report said.

The report was carried by the Chinese-language service of The Voice of Russia radio. There has been no official comment from China Exim Bank on the report.

The Ukrainian parliamentary official said China has already lodged a case against Ukraine at the London Court of International Arbitration. The report did not mention the date or any further details on the case.

In March, the Worldwide News Ukraine news agency reported that the first half of the Chinese loan was delivered to Kiev, and Ukraine planned then to export four million tonnes of grain last year.

The loan contract stipulated the supply of Ukrainian grain over 15 years. The annual volume of grain exports would vary but would not exceed six million tonnes a year.

The Ukrainian parliament would provide state guarantees for the loan-for-grain contract, the report added.

China has stepped up agricultural co-operation with Ukraine in recent years. The Xinjiang Production and Construction Corps said last year it had reached an agreement with KSG Agro, a leading Ukraine agricultural company, on a 50-year programme to secure produce from three million hectares of Ukrainian farmland for Chinese consumers.

But KSG later denied it was "selling" any land to any Chinese companies, and that the agreement was a "letter of intent" concerning a transfer of irrigation technology from Xinjiang.

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Ukraine crisis poses threat to grains harvest

26 February 2014 Black Sea Grain

Ukraine's political stability, for now, has not ended the fallout to agriculture markets from the unrest which prompted the ousting of President Viktor Yanukovych, Macquarie said, forecasting that the country's grains harvest may fall well short of official hopes.

The appointment of an interim government in Ukraine, and pledges by the likes of the International Monetary Fund of conditional financial support, will resolve problems such as a rise in grain export prices, as exporters remove risk premium and farmers resume crop sales, Macquarie said.

Ukraine growers have, aping Argentine peers, hoarded grains during the crisis as a dollar-denominated hedge against a tumbling local currency.

However, fob prices of corn, Ukraine's main crop export, have "come back since the beginning of the week", analysis group Agritel said, fallings up to $6 a tonne to $222 a tonne in Odessa.

Last week, farmgate corn prices rose by some 100 hryvnia a tonne, about $11, with soybean values gaining 100-200 hryvnia as farmers "fearing exchange rate fluctuations" withheld sales, Agritel said.

Such trends, which have underpinned higher-than-expected export demand for US corn, "are mostly of a short-term nature", Macquarie said.

However, the bank warned the crisis would wreak longer-term damage to Ukraine agriculture through a weaker hryvnia, which would lift the cost of imported fertilizers, such as potash, and agrichemicals.

"In the short run, devaluation of the hryvnia has a positive impact on the competitiveness of Ukrainian origin agricultural crop exports in the international market.

"However, longer-term, we believe that rising production costs will offset this advantage… due to rising domestic inflation and the fact that the majority of crop protection, fertilisers and other inputs, along with machinery, are imported."

The country lacks the potash reserves of neighbouring Russia, but does possess a substantial nitrogen fertilizer industry.

Furthermore, the financial pressures caused by Ukraine's crisis could squeeze the availability of state support for farmers.

"The access to loans for the Ukrainian agri sector will be tougher as the squeeze in the financial market in Ukraine makes loans more expensive," Macquarie said.

The bank forecast Ukraine's grains output falling by nearly 16% to 44.5m tonnes in 2014-15 – well below the 51.4m tonnes that the agriculture ministry has forecast, and reflecting in particular a lower forecast for corn production.

Macquarie pegged the Ukraine corn crop this year at 25m tonnes, 5.2m tonnes below the farm ministry forecast, reflecting in part ideas of a return to average yields after "perfect weather" boosted last year's output.

Also, low international corn prices will reduce the appeal of the crop, and encourage farmers to plant spring sown oilseeds such as sunflowers, rapeseed and soybeans instead.

The comments come as farmers are beginning spring sowings in the southern Crimea region.

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Canadian government might act to boost grain movement on railways

24 February 2014 Agweek

Canada’s two big railways are ramping up to provide thousands more cars per week to transport grain to ports, government officials said on Monday, aiming to work through a backlog of orders after last year’s record harvest.

But Canadian Agriculture Minister Gerry Ritz warned that he is considering all options, including new rail regulations, to smooth the flow of grain.

Record Canadian crops of wheat and canola, along with frigid weather, have overwhelmed Canadian National Railway Co. and Canadian Pacific Railway Ltd., resulting in a backlog of orders for tens of thousands of grain cars.

Saskatchewan Economy Minister Bill Boyd said in a statement that both railways assured the government of Saskatchewan last week that they are working to deploy thousands more grain cars per week, and would sustain that pace until at least December 2014.

Saskatchewan produces more wheat and canola than any other Canadian province. Grain companies also told the provincial government that they could move to 24-hour handling service, Boyd said.

CP spokesman Ed Greenberg confirmed that Boyd's comments are accurate.

Ritz, who met Monday with the railways and grain companies, said grain companies told him they can best run with service of 13,000 rail cars per week, nearly three times what railways currently provide.

But Ritz left the meeting unimpressed and told reporters he is considering all options, including new regulations, to speed the flow of grain from western farm regions to ports. In some areas, rail cars are sitting on track awaiting locomotives and crews, he told reporters.

"That seems to be the problem in capacity, not necessarily cars, but the ability to move them from where they should be spotted to the port."

Ritz said railway officials "fudged" their commitment to dedicating more grain cars when he spoke with them, by saying it depended on factors like where the grain was headed.

The railways are also only delivering grain to the British Columbia ports of Vancouver and Prince Rupert for the short term, Ritz said, and not to Thunder Bay, Ontario or the United States.

"Unfortunately, the railways have decided arbitrarily that no cars will be going into the U.S. (for grain)," Ritz said. "That's really not their role. There are some consequences to be faced when they make arbitrary decisions like that."

A spokesman for Canadian National could not be reached.

Ritz said he is also considering ways to make sure grain companies honor contracts with farmers, possibly making the companies pay interest for storage of grain they do not accept within a reasonable amount of time, as per their contracts.

Dean O'Harris, commodities manager at Winnipeg-based grain handler Parrish & Heimbecker Inc, doesn't see a quick solution to the backlog.

"We're doing our best to get this thing moved here, but we just can't," O'Harris said in a presentation at the Wild Oats Grainworld conference in Winnipeg. "... How long will logistical problems continue? I don't see an end to it."

Agrium Inc said last week the railway backlog has caused the Canadian fertilizer company to lose production, but that movement has slightly improved this month.

Boyd said the Saskatchewan government will closely monitor the difference between the cash prices grain companies pay farmers and the futures price, as transportation improves.

Earlier on Monday, Ritz said he wants to see rail companies develop more surge capacity to handle big crops, including more access to locomotives and cars.

Ritz said he is not in favor of scrapping the grain revenue cap that Ottawa imposes on railways, but said the cap system needs changes.

Canadian farmers, meanwhile, will plant more canola and less wheat this year, a market analyst said. Farmers will plant 23.3 million acres of all-wheat, down 10 percent from last year, Jonathon Driedger, risk management portfolio manager at FarmLink Marketing Solutions, told the Grainworld conference.

He forecast 21 million acres of canola seedings, up 5 percent.

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Australian cattle eating into wheat exports

21 February 2014 The Western Producer

Soaring demand for Australian wheat to feed cattle is diverting grain away from export markets.

Embattled ranchers have been forced to send tens of thousands more animals than usual to feedlots to fatten them up before slaughter.

A scorching drought that is withering pastures in Queensland state, which is home to half of Australia's 28 million strong herd, is also forcing producers to transport cows huge distances because feedlots are full to bursting with underweight cows.

Queensland has recorded less than half of the normal rainfall in the last three months, stunting grass in pastures in an area double the size of France and curbing grain production.

Australia is the world's second-biggest wheat exporter, and extra feed consumption means Asian buyers, such as China, will have to buy more cargoes from other suppliers in North America or Europe.

Wheat prices have already shot up in Australia's drought-hit areas, and the premium over global prices is three times the normal level.

The tightening supply could also increase pressure on benchmark U.S. prices, which have risen on concerns of crop damage in the U.S. because of icy conditions.

"If it doesn't rain in the next few weeks, there will be a lot more cattle going to feedlots, assuming the feedlots can fit them in," said Ross Fraser, co-owner of Frasers Livestock Transport, one of the biggest cattle transporters in Queensland.

Feedlots use wheat and other grain such as sorghum.

However, Australian sorghum production is forecast to fall more than one-third to 1.278 million tonnes this crop year, meaning extra wheat will be needed to fatten cattle.

More than half of Australia's feed yards are in Queensland, but with little room remaining, farmers are sending cattle as far away as 1,500 kilometres to Victoria state.

Animals in Australia's remote cattle country have to be driven across land in herds or transported using road trains, which can be more than 50 metres long and carry up to 130 head of cattle in multiple trailers.

Typically, cows go to feedlots for 90 to 100 days to certify them as grain-fed before culling, but animals are now being sent earlier and kept there longer because of the drought.

"The priority of late is to send cows to feed yards because there simply is no grass left on many properties to feed them," said Simon Quilty, meat and cattle analyst at FCStone Australia.

About 2.5 million tonnes of wheat are used in an average year for feed in Australia's 450 feedlots, which have a capacity to hold 1.1 million cows. Most of the herd relies on pasture.

There were 787,487 cows in feedlots at the end of September, according to the latest data from the Australian Lot Feeders Association, but feedlots in Queensland were nearly 90 percent full even before drought worsened at the end of last year.

Traders said grain is being diverted from exports to feed cattle.

"We are already seeing exports go down from Queensland and New South Wales," said a Sydney-based grains trader. "This is directly resulting from lower production and higher consumption by the livestock industry due to the drought."

The trader estimated that exports from these two states would fall to 1.5 million tonnes this year from the normal 2.5 million tonnes.

Australia's overall wheat production is expected to top 27 million tonnes in 2013-14, the third highest on record, but this is mainly because of a big crop in Western Australia, while Queensland and northern New South Wales suffer from drought.

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El Nino threatens to return, hit global food production

21 February 2014 The Indian Express

The El Nino weather pattern that can trigger drought in some parts of the world while causing flooding in others is increasingly likely to return this year, hitting production of key foods such as rice, wheat and sugar.

El Nino – the Spanish word for boy – is a warming of sea-surface temperatures in the Pacific that occurs every four to 12 years. The worst on record in the late 1990s killed more than 2,000 people and caused billions of dollars in damage.

A strong El Nino can wither crops in Australia, Southeast Asia, India and Africa when other parts of the globe such as the U.S. Midwest and Brazil are drenched in rains. While scientists are still debating the intensity of a potential El Nino, Australia's Bureau of Meteorology and the U.S. Climate Prediction Center have warned of increased chances one will strike this year.

Last month, the United Nations' World Meteorological Organization said there was an "enhanced possibility" of a weak El Nino by the middle of 2014.

"The world is bracing for El Nino, which if confirmed, could wreak havoc on supply and cause prices of some commodities to shoot up," said Vanessa Tan, investment analyst at Phillip Futures in Singapore.

Any disruption to supply would come as many crops have already been hit by adverse weather, with the northern hemisphere in the grip of a savage winter.

The spectre of El Nino has driven global cocoa prices to 2-1/2 year peaks this month on fears that dry weather in the key growing regions of Africa and Asia would stoke a global deficit. Other agricultural commodities could follow that lead higher if El Nino conditions are confirmed.

"Production estimates for several crops which are already under stress will have to be revised downwards," said Phillip Futures' Tan. ”Wheat in Australia may be affected by El Nino and also sugar in India."

In India, the world's No.2 producer of sugar, rice and wheat, a strong El Nino could reduce the monsoon rains that are key to its agriculture, curbing production.

“If a strong El Nino occurs during the second half of the monsoon season, then it could adversely impact the production size of summer crops,” said Sudhir Panwar, president of farmers’ lobby group Kishan Jagriti Manch.

El Nino in 2009 turned India’s monsoon patchy, leading to the worst drought in nearly four decades and helping push global sugar prices to their highest in nearly 30 years.

Elsewhere in Asia, which grows more than 90 percent of the world’s rice and is its main producer of coffee and corn, a drought-inducing El Nino could hit crops in Thailand, Indonesia, Vietnam, the Philippines and China. And it could deal another blow to wheat production in Australia, the world’s second-largest exporter of the grain, which has already been grappling with drought in the last few months.

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ADM refuses Syngenta genetically modified corn

21 February 2014 Bloomberg

Archer-Daniels-Midland Co. (ADM), the world’s largest corn processor, won’t accept a genetically modified version of the crop developed by Syngenta AG (SYNN) until its use has been approved by China and other major export markets.

The curb applies to grain containing the Agrisure Duracade genetic trait, which helps control rootworm. Decatur, Illinois-based ADM may test deliveries and said it’s advising farmers to check the seeds they will plant this spring.

“Wide-scale planting of traits that aren’t approved by key importing countries would diminish the competitiveness of American grain and feed exports,” Jackie Anderson, an ADM spokeswoman, said in an e-mailed statement today.

Corn imports into China, the second-biggest consumer of the grain, slumped 21 percent in January compared with the prior month after some shipments were rejected. In November Chinese inspectors started halting shipments of grain containing Viptera.

Staci Monson, a spokeswoman for Syngenta in the U.S., didn’t immediately respond to a voicemail seeking comment. Basel, Switzerland-based Syngenta said Feb. 5 it won’t halt sales of Duracade and Agrisure Viptera. The Viptera trait helps control a range of pests.

ADM said today it’s reserving the right to test deliveries and decline those that contain Duracade. It’s also asking producers and suppliers to provide advance notification if they’re intending to deliver products with Agrisure Viptera to the company’s U.S. interior elevators.

ADM is asking farmers to confirm that the seeds they intend to plant this spring are approved for all major export markets, including China. If not, ADM is encouraging them to check with their sales representative if their order can be exchanged for seeds that are approved for global use, Anderson said.

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Looking deeper into the world's wheat crop

20 February 2014 U.S. Wheat Associates

Today, a quick glance at world wheat supply and demand might indicate that supplies are abundant, prices are trending down and the world’s importers can be somewhat relaxed about meeting their near-term needs. However, well-informed buyers can see that the real picture of today’s wheat market has more depth than the snapshot reveals – with potential impact on import strategies.

No doubt, the macro supply numbers are large and impressive. In its February WASDE report (see story above), USDA places global wheat supplies for the 2013/14 marketing year at 888.1 MMT, including record total wheat production of 711.9 MMT.

Looking deeper, though, beginning stocks in the six traditional wheat-exporting regions are on a four-year trend down, from 84.0 MMT in 2009/10 to 53.0 MMT in 2013/14. That is the lowest carry-in for major exporters since 2008/09, the year following the supply crisis of 2007/08. World wheat use, on the other hand, is trending up. USDA estimated that the world will consume a record 696.6 MMT of wheat and world wheat trade will reach a record 159.4 MMT. Not surprisingly, global stocks-to-use ratios are also falling, from 31 percent in 2008/09 to 26 percent projected for this marketing year.

Following is an overview of supply and demand situations in other major exporters that add detail to the supply and demand picture.

Russian wheat production bounced back from a drought in 2012/13, reaching 52.1 MMT, up 38 percent compared to last year and the fourth largest crop since the dissolution of the Soviet Union. However, heavy rainfall during harvest resulted in a crop with lower protein and weaker gluten than normal. Russian farmers responded by holding back their better quality supplies in anticipation of higher prices. In turn, higher prices later in the year affected Russian wheat's competitive position on the world market. USDA's first estimate of Russian wheat exports in July was 17.0 MMT. The estimate is currently at 16.5 MMT.

Ukraine's wheat situation is similar. While estimated production of 22.3 MMT is up from last year, quality suffered with harvest rains. In addition to quality issues, farmers are choosing to plant corn (maize) over wheat. High winterkill in winter wheat and the greater profit potential of corn is spurring the increase in corn planted area and production the past three years. In fact, Ukraine has produced more corn than wheat for the past three years and exported more corn than wheat for the past four years.

USDA estimates wheat production in the European Union (EU) at 142.9 MMT, the third largest crop ever, and expects exports to reach a record 27.5 MMT. What the numbers do not show is that a large part of the production increase is taking place in Eastern Europe, a region noted for growing lower quality wheat. EU feed wheat usage has been declining, replaced by higher corn production and increasing corn imports from Ukraine. This forces countries like Romania to find other markets for their increasing wheat supplies, creating new competition for Russia and France in North Africa and the Middle East.

France itself is not immune to quality challenges. News outlets reported French farm groups are voicing concerns over wheat varieties bred more for yield than quality. In addition, a cold wet spring in 2013 resulted in a crop with below-average protein and above-average moisture; prices had to come down before that wheat would move to market. Moreover, just a few weeks ago, Egypt, the world's largest wheat importer, lowered its moisture specification from 13.5 to 13.0 percent.

That new requirement will likely exclude higher-moisture French wheat from the Egyptian market.

Logistical issues have pushed availability of Canadian wheat well into the future (see the Jan. 23 Wheat Letter) in part because the spring wheat crop is so large. There are similar, though less disruptive, logistical issues in the United States. U.S. exporters are bidding and delivering wheat reliably, but farmers in the northern United States have reacted to a very large basis by storing much of their wheat up country. This affects another issue: exportable supplies of high protein spring wheat.

The average protein levels for Canadian Western Red Spring (CWRS) and U.S. hard red spring (HRS) classes are an entire percentage point lower than last year. This has resulted in the highest premium for 14.0 percent over 13.0 percent protein since 2010/11. Large carry-over stocks of high protein HRS and record CWRS production have kept the premium in check. If next year's HRS and CWRS protein levels are lower than average again, the looming shortage of high protein wheat could be a big challenge for the world's millers and bakers.

Moving to the Southern Hemisphere, Argentina’s wheat farmers have little economic incentive to grow more wheat because of disruptive government policies. And, for the second year in a row, Argentina had a poor crop and Brazil will need to source much of its bread wheat from other sources (including a reliable supplier to their north).

Australia has also harvested its third largest crop ever at 26.5 MMT, but supplies of the higher protein wheat classes, Australian Hard and Australian Prime Hard, likely will be limited. Farmers in Western Australia, South Australia and Victoria are reaping bumper crops, but a drought has restricted supplies in Queensland and New South Wales. The drought did help raise wheat protein levels but also cut short supplies of grass and feed grains for the majority of Australia’s cattle herd. The result has been high protein wheat moving away from the export market into domestic feed channels.

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Indian wheat exports to fall, despite record crop

19 February 2014 Agrimoney

India's rise as a major wheat exporter will go into reverse despite the prospect of a record harvest, with weak prices and a wish to avoid an international trade row, and internal political disputes, keeping a lid on volumes.

Indian farmers are poised for a record wheat harvest this year of 96.0m tonnes, up some 3.5m tonnes year on year and beating the previous record of 94.9m tonnes set in 2012, the US Department of Agriculture's New Delhi bureau said.

While the average yield looks like easing to 3.0 tonnes per hectare, down 0.2 tonnes per hectare from last year, sowings showed an "unprecedented increase" of 6% to a record 31.5m acres, boosted by benign weather and rising government support prices.

The prospect of elections in April has encouraged some states, such as Rajasthan and Madhya Pradesh, to offer bonuses of 1,500 rupees ($24 per tonne) on top of the government mandated minimum support price, the bureau said.

However, the bigger harvest will not translate into stronger exports thanks to the high level of the government's price guarantee, which the bureau said had risen to the equivalent to $225-250 per tonne.

Getting shot of this wheat on export markets would require India raising support for wheat exports, for which it currently has a floor price of $260 a tonne for shipments from state supplies – implying a subsidy once storage and administration costs are included.

"With international prices expected to remain depressed during the upcoming marketing year, it will be very difficult for the government to export wheat with $260-per-tonne floor price," the bureau said.

"Due to the increase in the procurement price for the upcoming season, the government will have to raise the subsidy significantly higher to off load any wheat in the export market."

However, India's wheat export regime has already prompted rival exporters Canada and the US to raise questions at the World Trade Organization.

"The increasing implied subsidisation of government wheat exports is a major concern for the government on meeting its WTO commitments," the bureau said, adding this meant that India looked "unlikely to lower the export floor price below $260 per tonne".

US soft red winter wheat, the type traded in Chicago, the world's benchmark wheat futures market, was being offered at $266.50 a tonne in Gulf of Mexico ports at the end of last week.

A lower floor price for exports would also likely provoke opposition within India, given that domestic users are offered subsidised sales through the so-called Open Market Sales Scheme at $248-281 per tonne.

The USDA bureau forecast India's exports slumping 45% to 3.0m tonnes in 2014-15, well below the record 8.65m tonnes reached in 2012-13, when the country eclipsed the likes of Argentina, Kazakhstan and Ukraine as a wheat shipper.

A fall in the rupee, improving the competitiveness of Indian shipments, or a jump in world prices would be needed to improve prospects.

India's rise as an exporter since August 2012, when it opened government stocks to shipments, has been a large concern to rivals, given the country's huge supplies – it is expected to close this season with some 20m tonnes in stocks – besides the large level of government subsidies.

Separately, Jaime Nolan Miralles at broker FCStone noted on Wednesday that "Indian wheat is starting to displace Aussie wheat into the Indonesian market".

However, the USDA bureau noted some long-term challenges to India maintaining its growing wheat production, one being "unscientific irrigation practices and overexploitation of ground water", which is increasing soil salinity besides reducing moisture reserves.

"The depletion of irrigation water resources is likely to put pressure on wheat cultivation in north India in the next few years, forcing farmers to explore less water-intensive crops, like corn, pulses and oilseeds."

The bureau also noted a "growing concern among policy makers and researchers about the vulnerability of the wheat crop to global warming and changing climatic conditions.

"According to some local research, a 1-degree Celsius rise in temperature during the growing season can result in a 3-7%decrease in grain yields."

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China dumps grain policy to boost meat production

18 February 2014 Los Angeles Times

For decades, China’s rulers deemed grain production a linchpin to its national security. The policy of self-sufficiency was a legacy of its planned economy from the days of Mao when China was increasingly isolated from the outside world.

But China’s communist founders couldn’t have predicted the nation’s dizzying rise in meat consumption, which has grown nearly ten-fold to 71 million metric tons since 1975.

That’s why China has been increasingly importing grains such as soybeans and corn from the U.S. and Brazil to boost its livestock population. Grain self-sufficiency was becoming like communist dogma in China: more a theory than a practice.

Then last week, Beijing called it quits by announcing it was scaling back its annual grain production targets to put a greater emphasis on quality rather than quantity.

The decision frees up precious little arable land for more high value crops such as fruit and vegetables. And it could help ease the pressure on food inflation, an issue linked to social stability and driven largely by the price of pork.

The shift in grain policy was the clearest signal that policymakers had decided meat production was paramount, a pivot that will ripple across the globe and probably intensify China’s quest for foreign sources of meat, grain and dairy.

“The decision last week signals a clear intent by the Chinese government to facilitate more and cheaper imports of corn, wheat and other grains for its meat industry,” said Shefali Sharma, director of agricultural commodities at the Washington-based Institute of Agriculture and Trade Policy (IATP).

China has become a critical actor in the global industrial meat complex, a move that carries significant weight for global grain and meat production.”

The nonprofit group, which advocates sustainable food policy, said China’s struggle with food safety may be exacerbated by its attempt to expand its meat industry. The effort could expose China to some of the pitfalls industrialized farming in the U.S. has faced, namely large-scale contamination, antibiotic resistance and environmental damage, it said.

The IATP examines the many challenges of feeding China in a research report released Tuesday titled “Global Meat Complex: The China Series.” The study looks at the country’s rising dairy demand, its massive pork industry and attempts to modernize its poultry production.

One reason to pay attention: China’s meat consumption is far from peaking. Though Chinese per capita meat consumption has doubled since 1992 to 52.5 kilograms, the average American still eats twice as much meat each year. That suggests there’s still much more room to grow in China, where incomes are rising and appetites for ever richer diets steadily growing.

“Understanding how Chinese companies are ‘going out’ to develop their supply chains, and how major U.S. and other international livestock and dairy companies are ‘going in’ to China, better prepares us to address the global nature of this industrial complex and its impacts both domestically and globally,” Sharma said.

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New U.S. Farm Bill reaffirms support to producers

6 February 2014 IFPRI Food Security Portal

After more than three years of oft-times tumultuous positioning, posturing, and negotiations, the U.S. Congress has passed a new five-year Farm Bill: the Agricultural Act of 2014. The bill, which the President will sign into law on February 7, reaffirms the government’s longstanding support to farmers through 2018.

In terms of the support programs, the new law offers several options farmers sought; as a result, farm operators will need to decide which programs to opt for, crop by crop, as program parameters and operational rules become clear. However, the complexity can be boiled down to a few basic points. Essentially, the new law eliminates about $4.5 billion annually in fixed direct payments to farmers; such payments have been made since 1996. In place of these payments, greater protection against low prices or declining revenue will be offered. This is a trade-off that farm producers largely accepted and promoted early in the farm bill debate. The new programs offer support that is less certain from year to year, but that provides more downside risk protection. Current budget scoring assesses that this shift, along with other support policy changes, will somewhat reduce the expected cost of farm subsidies over the next ten years (if the law continues that long). But in reality, anything can happen—from substantially lower spending to much higher support costs depending on how market prices and farm revenue turn out.

The new Farm Bill’s default crop support option is a Price Loss Coverage program in which farmers receive higher target prices for key commodities than were included in the 2002 and 2008 farm bills. For example, the corn target price is increased from $2.63 to $3.70 per bushel. If market prices fall below this target, farmers receive a payment of the difference on a “base” quantity of their output. While the new level is still below today’s market prices, the increased target price raises the probability of farmers receiving a payment. The new law allows farmers to update both the base acreage for specific crops and base yields per acre according to production in the past five years. Thus, while not a payment guarantee on every bushel, the updated target price links future payments to recent production decisions.

The alternative crop support option that farmers can select is an Agricultural Risk Coverage (ARC) program. Under this option, there is a cushioning guarantee against declining revenue, not a fixed target price guarantee. With recent high prices, the revenue guarantee works out to a higher implied price guarantee in the coming year for some crops. For example, for corn, ARC payments would be triggered (assuming yields at typical levels) by prices below $4.55 per bushel. But the ARC guarantee adjusts according to a rolling average of revenue over five previous years. Thus, if prices fall and stay low for multiple years, the revenue guarantee declines. Hence the calculus facing producers in deciding which support option to select.

The new Farm Bill also reinforces recent years' increased support through subsidized within-year yield and revenue crop insurance programs. These increases have been due both to policy decisions that increased coverage and subsidization levels and to the higher prices seen since 2008, which increased premiums with the higher value of insured output. With these increases, the insurance premium subsidies have exceeded direct fixed payments each year since 2008. In the 2014 Farm Bill, a new insurance program is available to farmers opting for Price Loss Coverage. The Supplemental Coverage Option allows farmers to purchase subsidized insurance for yield or revenue losses greater than 14 percent up to the level of losses met by their other insurance coverage. Farmers choosing the ARC are ineligible because its revenue guarantee covers similar downside risk.

Reliance on insurance programs is also extended in two additional ways: through the elimination of past support programs for cotton and their replacement by subsidized within-year insurance and through the introduction of a new voluntary Margin Protection Program for Dairy Producers, which replaces the traditional dairy price and income support programs. The shift to insurance for cotton, another change supported by producers quite early on in the farm bill debate, is intended to circumvent the WTO dispute settlement ruling against previous cotton support programs and bring the U.S. into compliance with WTO requirements under that case.

Under the new dairy program, participating dairy farmers receive a payment without incurring any insurance premiums if the margin between average national milk prices and representative feed costs falls below $4 per hundred pounds over two consecutive months, with an option to insure a margin up to $8 per hundred pounds by paying a premium. A proposal to incorporate dairy supply controls designed to keep prices above the minimum fixed margin proved controversial and is not included in the law. Instead, the Secretary of Agriculture has been directed to increase government purchases of dairy products for distribution through domestic food programs whenever prices fall low enough to trigger margin guarantee payments.

What is the political economy of this new Farm Bill? For all the delays and difficulty achieving it, the final outcome fits the old adage that the more things change, the more they stay the same. U.S. farm programs have historically been countercyclical in character, providing the most support in times of falling or low prices, as the new programs will do. The new Farm Bill passed with overwhelming bipartisan majorities in both the House of Representatives and the Senate; the bill provides benefits to numerous constituencies. While controversy swirled around reducing expenditures for food-based support to low-income consumers, the new bill reauthorizes these programs with only a 1 percent reduction in anticipated expenditures. Farm groups receive the various support options they proposed. In a divided Congress (Democratic control of the Senate; Republican control of the House) where little legislation is being enacted, the farm lobby once again prevailed. The Depression-era permanent legislation that each new farm bill temporarily supplants is retained, setting the stage for another farm bill before the end of the decade: next time with the stronger protection against downside risks already enshrined in the law to be reconsidered.

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Reports

Global Food Price Monitor

February 2014 FAO

This short report describes current food prices at world, regional and country level with focusing on developing countries.

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Press release

Launching of the MED-AMIN

February 2014 CIHEAM

The new network aims at fostering cooperation and experience sharing among the national information systems on agricultural markets, following the request of CIHEAM Member States' ministers made at their 9th meeting in Malta in September 2012.

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Crop Monitoring in Europe

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