TRENDS IN COMPETITIVENESS OF U.S. AND GLOBAL AGRICULTURE AND IMPACTS ON MS DELTA AGRICULTURE

DARREN HUDSON, COMBEST ENDOWED CHAIR

TEXAS TECH UNIVERSITY

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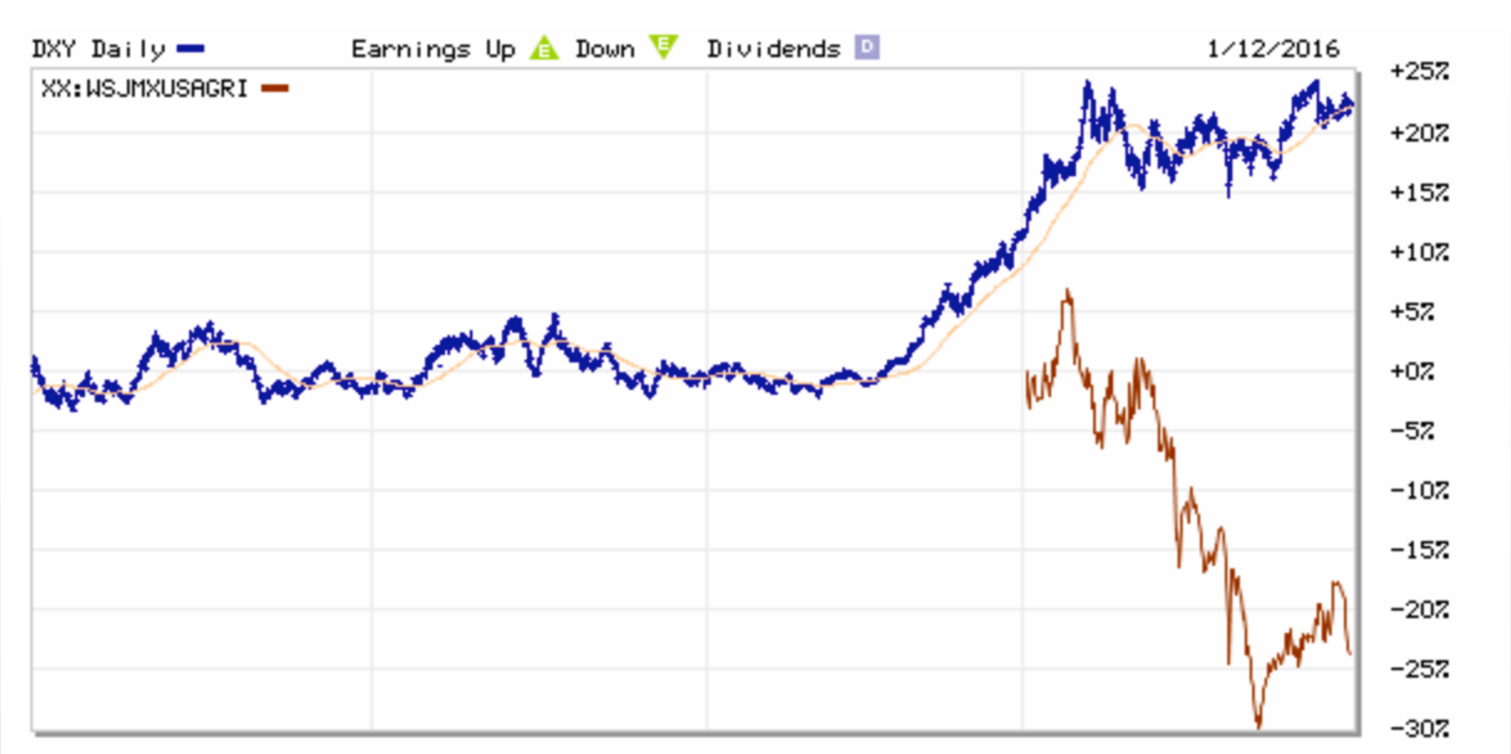
LET'S START WITH A QUESTION

- WHAT DO YOU THINK IS THE SINGLE MOST CRITICAL ISSUE FACING AGRICULTURE TODAY AND OVER THE NEXT 10 YEARS?

OVERVIEW

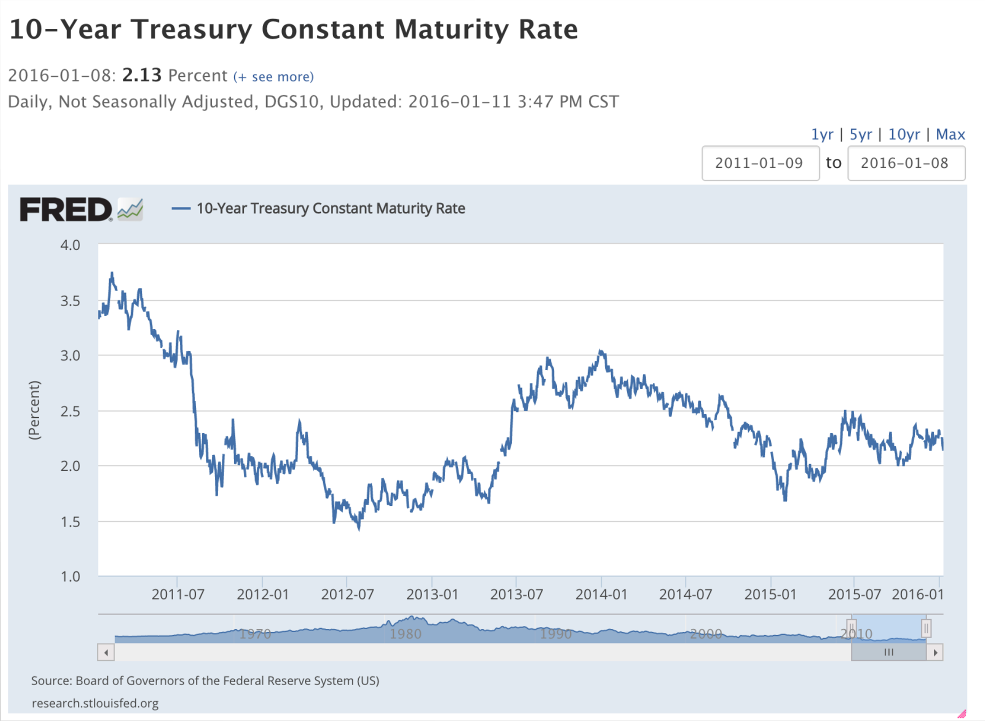
- MACROECONOMICS
  - DOLLAR APPRECIATION
  - INTEREST RATE INCREASES
  - ENERGY PRICES
  - GENERAL ECONOMIC CHANGES
- FOREIGN AGRICULTURAL SUBSIDIES
  - TRENDS IN PROTECTION AND EFFECTIVE PRICES IN MAJOR PRODUCERS
- REGULATORY ISSUES
  - EPA AND WATERS OF THE US
  - PESTICIDE APPROVALS AND RESTRICTIONS
  - CARBON POLICIES
- FARM POLICY

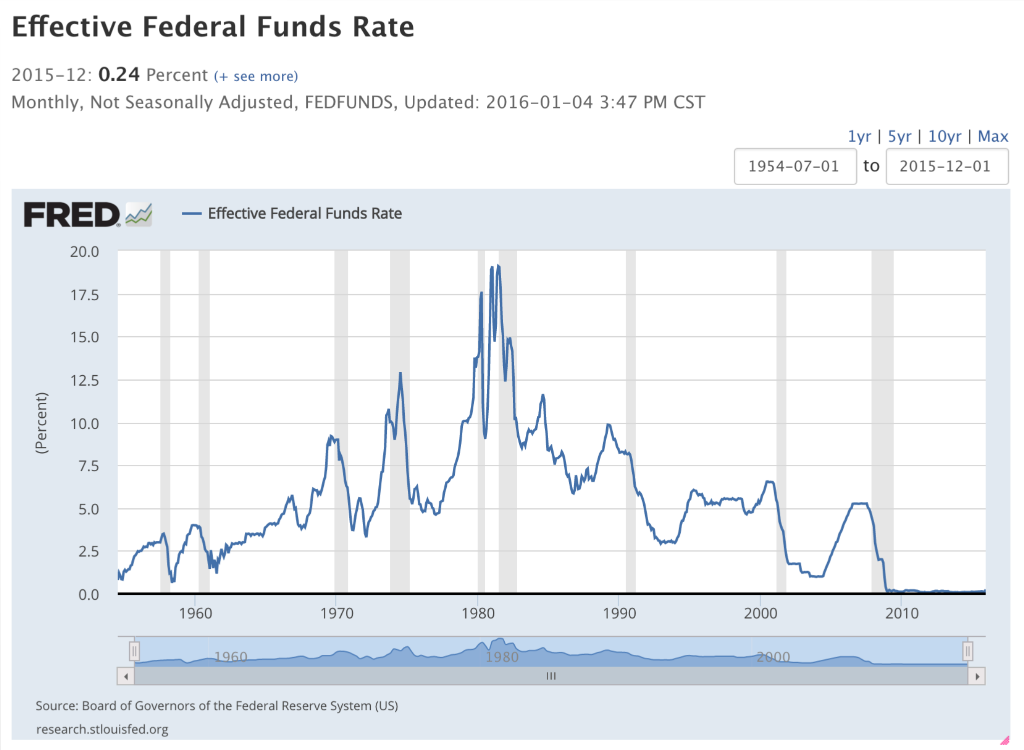
DOLLAR APPRECIATION



The dollar value index over the last 4 years compared with the commodity price index over the last year.

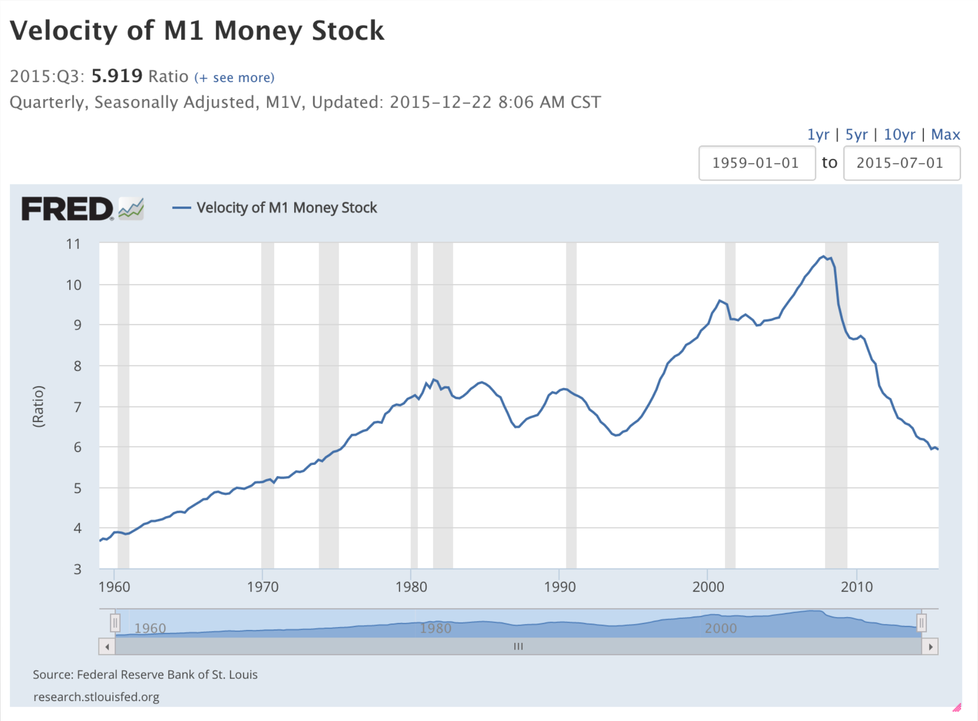
INTEREST RATES

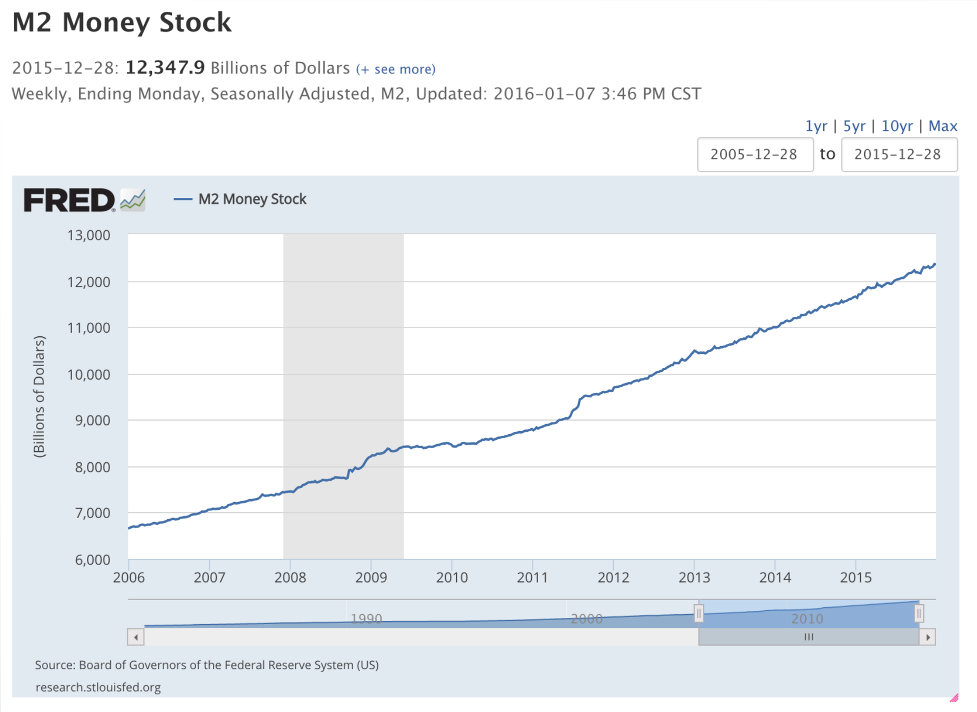




A long way to go to pre-recession levels…but, borrowing decisions are made “at the margin,” not the level of interest rates.

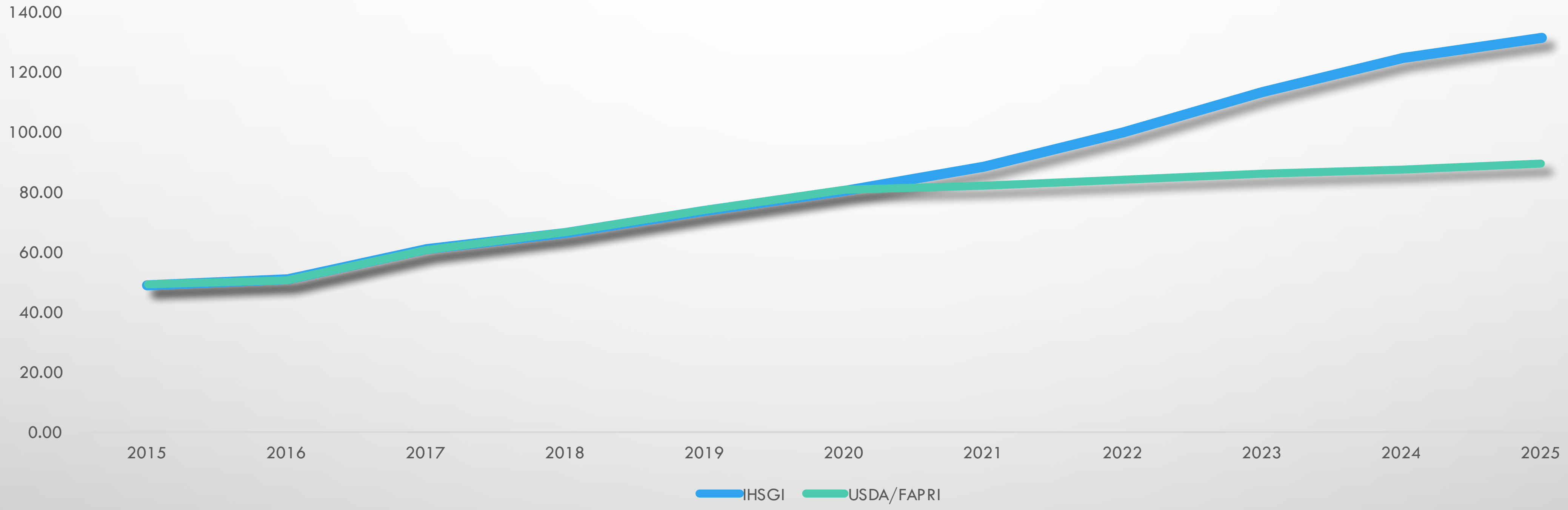
MONEY VELOCITY AND SUPPLY





MV=PY; why we have no substantial inflation

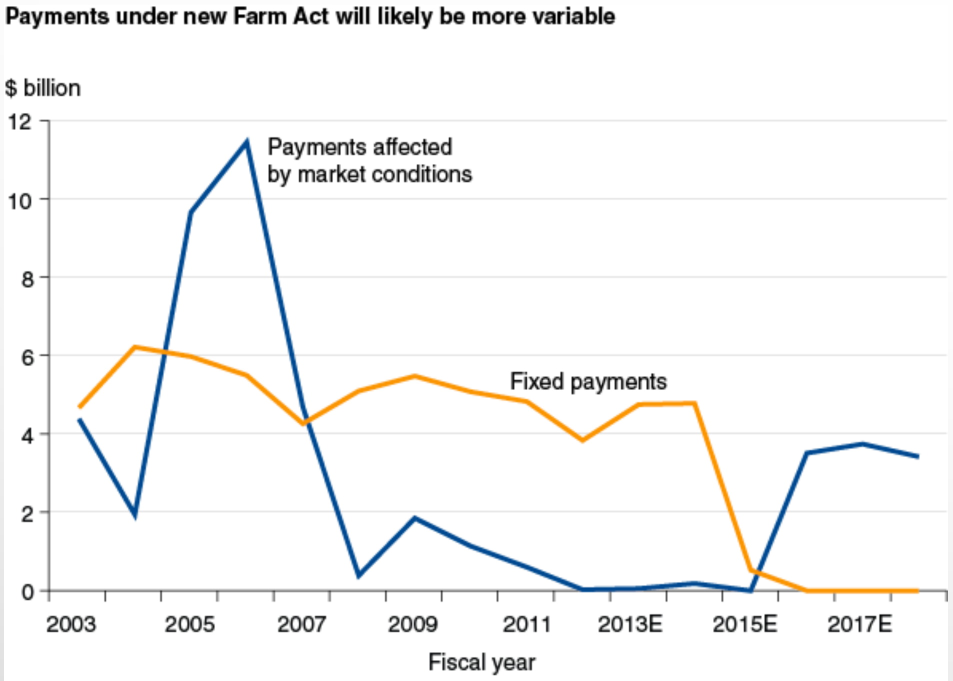
OIL PRICE ASSUMPTION GOING FORWARD



TAKE-AWAY FROM MACRO ENVIRONMENT

- CURRENCY APPRECIATION WILL FAVOR WEAKER COMMODITY PRICES IN THE U.S., OTHER THINGS EQUAL
- INTEREST RATES (AND SO BORROWING COSTS) WILL RISE…BUT HOW FAST? WITH LOWER COMMODITY PRICES AND WEAKER FARM POLICY, BORROWING CAPACITY WILL BE CURTAILED; PRODUCERS WILL ALSO BE LOOKING TO SAVE DOLLAR WHERE THEY CAN ON INPUTS
- IF THE SQUEEZE CONTINUES, THERE WILL BE EXITS FROM FARMING; SOME OF YOUR PATRONS WILL PROBABLY NOT BE HERE IN 5 YEARS
- TO EXACERBATE THE ISSUE, ENERGY COSTS, WHICH HAVE BEEN A COST SAVINGS OF LATE, WILL SLOWLY RISE AGAIN

FOREIGN AGRICULTURAL SUBSIDIES



Note: Payments in constant 2012 dollars, assuming 2 percent inflation per year for 2014-2018.
E = estimated.
Source: USDA, Economic Research Service using USDA, Farm Service Agency, Commodity Credit Corporation Net Outlays (Table 35) and Commodity Estimates Book and Congressional Budget Office, *Cost Estimates for the Agricultural Act of 2014*, Jan 2014.

Just to begin the comparison, it is important to note that U.S. farm program payments have been on a downward trend for quite some time.

FOREIGN AGRICULTURAL SUBSIDIES

The U.S. is really just in the middle of the pack of subsidizers. The producer subsidy equivalent (PSE) here only accounts for items directly attributable to agriculture. Other major issues like credit subsidies, energy subsidies, etc., are not included, which are major subsidy items in places like Brazil.

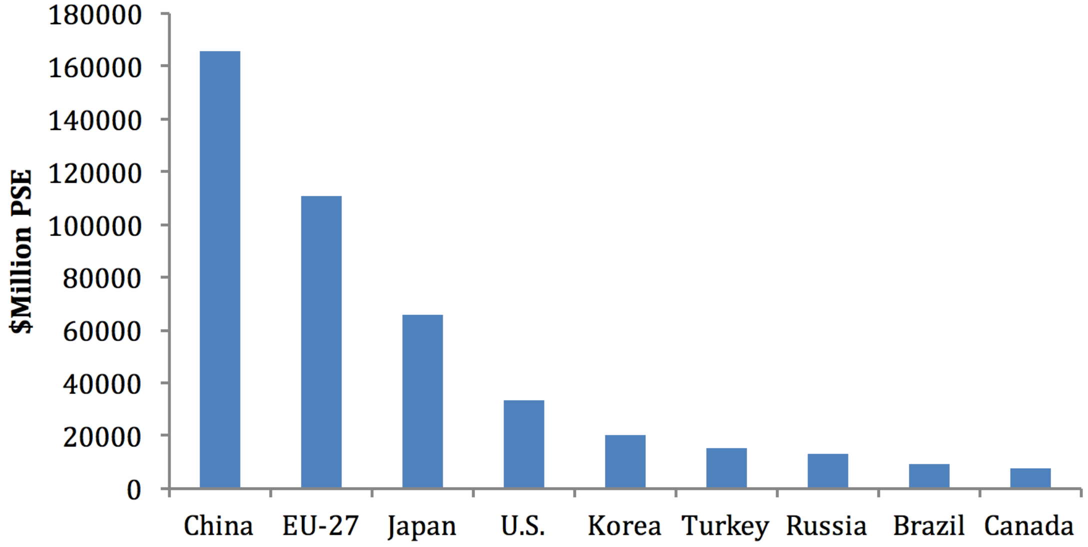


Figure 1. PSE Data for Major OECD Agricultural Producing Countries and Select Non-OECD Countries, 2012.

FOREIGN AGRICULTURAL SUBSIDIES

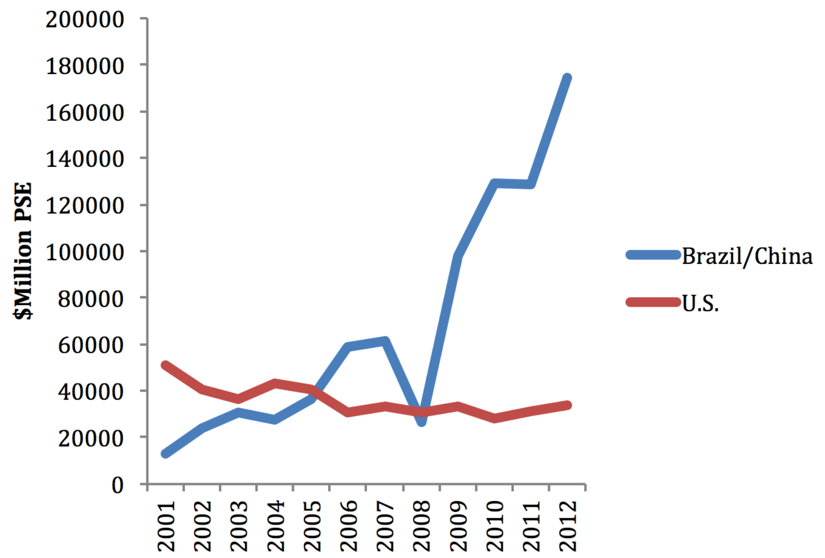


Figure 2. Trends in PSE for Brazil+China Versus the U.S., 2001-2012. Source: OECD.

And the trends in subsidization are clearly moving in opposite directions. In fact, subsidies are increasing in most of the developing world, in spite of having **commitments of zero subsidies** under the World Trade Organization.

FOREIGN AGRICULTURAL SUBSIDIES

Let's put this in perspective based on the minimum support prices for cotton. Based on just minimum support prices, the U.S. is at the bottom of the list of major producer (excluding Australia). Even if we consider additional program benefits (POP payments), the net effective price is still far below China, Pakistan, and India and only consistent with Brazil. Ergo, U.S. producers are at a price disadvantage based solely on foreign policies.

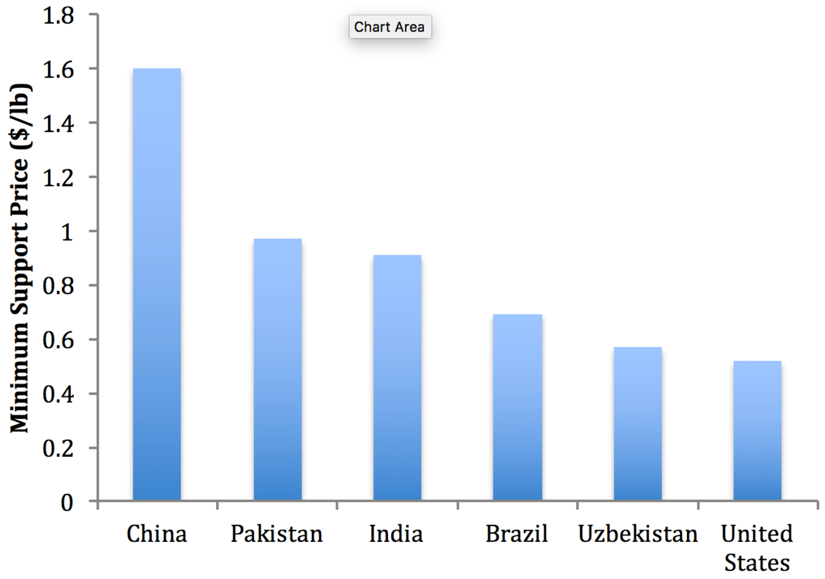


Figure 5. Minimum Stated Support Prices for Major Cotton Producing Countries, 2015.[5]

TAKE AWAYS FROM FOREIGN SUBSIDIES

- OTHER COUNTRIES AROUND THE WORLD ARE USING POLICY TO SUPPORT THEIR OWN INDUSTRIES AND ALTER THE COMPETITIVE RELATIONSHIP WITH THE US AT THE SAME TIME THE US IS REDUCING SUPPORT FOR US AGRICULTURE
- THAT TREND IS NOT LIKELY TO CHANGE AS DEVELOPING COUNTRIES SEEK TO DEVELOP THEIR OWN AGRICULTURAL SECTORS AND THE US AND EU ARE UNWILLING TO CHALLENGE THEIR COMMITMENTS TO THE WTO
- OVERALL, US AGRICULTURE WILL SEE ITS COMPETITIVE POSITION RELATIVELY UNDERMINED BASED SOLELY ON POLICY, NOT PRODUCTIVE FACTORS; **BUT**, PRODUCTIVE FACTORS (TECHNOLOGY) IS SPREADING AND PROVIDING FOREIGN PRODUCERS WITH IMPROVED COMPETITIVENESS AS WELL

REGULATORY BURDEN AND THE COST OF AVOIDANCE

GAO FINDS EPA VIOLATED LAW ON WOTUS

On Dec. 14, the GAO found that the Environmental Protection Agency broke the law with its social media and grassroots lobbying campaign advocating for its own Waters of the U.S. rule. It has become clear that the agency used illegal tactics to manufacture ill-informed support for the rule.

Facts About the Waters of the U.S. Proposal

For more information: www.epa.gov/uswaters

The EPA and the Army Corps are NOT going to have greater power over water on farms and ranches.

- The Clean Water Act and its regulations have multiple exclusions and exemptions from jurisdiction and permit requirements. The proposed rule does not change or limit any of them.
- The agencies also worked with USDA to develop and publish through an interpretive rule, a list of NRCS agricultural conservation practices that will not be subject to CWA section 404 permitting requirements. These practices encourage conservation while protecting and improving water quality.

POLITICS

E.P.A.'s Proposed Rules on Water Worry Farmers

By RON NIXON MARCH 12, 2014

Dean Lemke is concerned that rules the E.P.A. is set to issue may require him to begin getting permits for certain types of work. Jenn Ackerman for The New York Times

THE COSTS

- THE DIRECT COSTS OF REGULATION ARE, OF COURSE, SUBSTANTIAL. WOTUS, EPA AIR QUALITY, OSHA, IRS, EEO, ETC.
  - WE SPEND SUBSTANTIAL AMOUNTS BRINGING BUSINESSES INTO COMPLIANCE
  - WE ALSO SPEND SUBSTANTIAL AMOUNTS TRYING TO PREVENT, REVERSE, OR CHANGE RULES
- THESE COSTS OF COMPLIANCE ARE NOT GOING AWAY—THEY WILL LIKELY ONLY INCREASE NO MATTER THE POLITICAL PARTY IN POWER

FARM POLICY

- WE ALL KNOW THERE HAS A BEEN A SUBSTANTIAL CHANGE IN THE FARM SAFETY NET
  - A GREATER EMPHASIS ON RISK MANAGEMENT
  - THE GOVERNMENT LOWERED COSTS BY MOVING TO AREA INSURANCE PRODUCTS
  - LITTLE GUARANTEED INCOME FOR CASH FLOW BUDGETING/CREDIT DECISIONS TO RELY
- ARE WE LIKELY TO GO BACK?
  - NO. IT WILL BE INCREASINGLY HARD TO JUSTIFY FARM PROGRAMS TO EVER MORE CONSERVATIVE REPUBLICAN MEMBERS AND EVER MORE URBAN DEMOCRATIC MEMBERS