U.S. Agricultural Trade Update – March 2010
Department of Economic Analysis

Can the United States Double Its Agricultural Exports?

In his State of the Union address on January 27, 2010, President Barack Obama made a few "trade" headlines when he said,

> [W]e need to export more of our goods. Because the more products we make and sell to other countries, the more jobs we support right here in America. So tonight, we set a new goal: We will double our exports over the next five years, an increase that will support two million jobs in America. To help meet this goal, we're launching a National Export Initiative that will help farmers and small businesses increase their exports, and reform export controls consistent with national security.

Secretary Vilsack later backtracked from the President's statement, saying that the President "was not suggesting by referring to agriculture that there was going to be a doubling of agriculture exports." But the President's comment in the State of the Union got folks wondering, "Can the United States double its agricultural exports in five years?"

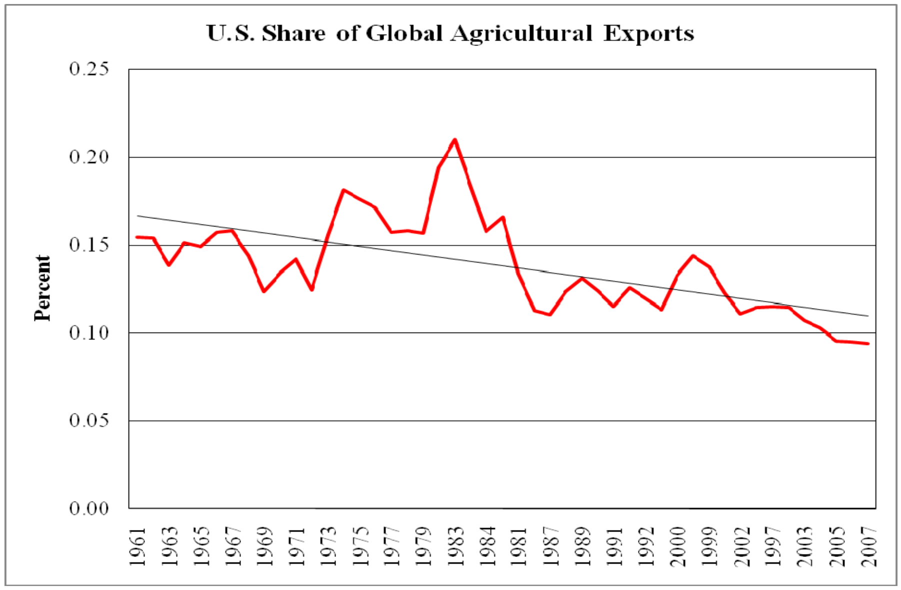
Since 1935, the United States has doubled its agricultural exports six times. The shortest time it took to double agricultural exports was the three years between 1971 and 1974. There, the Russia grain deal, coupled with a series of bad harvests around the world that significantly raised global commodity prices, caused U.S. agricultural exports to jump substantially in a short period of time. The typical time period for doubling exports has been 10 years.

Doubling of U.S. Ag Exports

Year	Value of Ag Exports	Years to Double
1935	$0.7	-
1943	$1.5	8 years
1947	$3.6	4 years
1971	$8.0	24 years
1974	$21.6	3 years
1981	$43.8	7 years
2008	$115.3	27 years
2015	*$200.0*	*5 years*

This relatively slow growth rate illustrates what we already know: agricultural exports are limited by foreign demand. And for agricultural products, there is only so much food a consumer can eat, only so many clothes a consumer can wear, and only so much fuel a consumer can use. Unfortunately for America's farmers and ranchers, there's not much we can do about population or income growth.

But, there is another area where the United States can work to expand exports: by leveling the playing field and allowing America's farmers and ranchers to compete equally with other producers around the world. For the last 50 years, the United States has consistently maintained between 10 and 15 percent of the global agricultural export market. However, as the black line in the graph shows, the U.S. share of global agricultural exports has been trending down.



While passing three free trade agreements and completing a WTO agreement might not be enough to double U.S. agricultural exports in five years, they would certainly increase agricultural exports and farm incomes considerably.

2010 Outlook for U.S. Agricultural Exports

The U.S. Department of Agriculture (USDA) is estimating that fiscal year (FY) 2010 agricultural exports will come in at $100 billion, an increase of $2 billion from the November forecast and an increase of $3.4 billion from the final FY 2009 export value. Although the forecast is below the record level of $115.3 billion set it 2008, FY 2010 exports still are expected to be the second highest ever. A recovering global economy, coupled with "healthy" commodity prices, is expected to boost demand for high-value American products, according to USDA.

Exports by Commodity

The projected $2 billion increase in agricultural exports over last quarter's estimates is spread across commodities. Soybean exports are the main driver of the increase, as record domestic production, reduced production from South American competitors, and very strong demand from China have all led to record export sales recently. Cotton exports were also boosted from last quarter's estimates because of stronger prices, greater global demand, and less competition from foreign suppliers. Dairy and livestock exports are forecast to increase, as well, which is offsetting a decline from last month's estimate for poultry exports.

Forecasted Agricultural Exports

By Commodity Group

	FY 2008	FY 2009	FY 2010F
Grains and Feeds	$38.3	$26.3	$24.9
Oilseeds and Products	$22.8	$21.0	$23.0
Livestock, Poultry, and Dairy	$22.2	$18.8	$20.1
Horticultural Products	$20.8	$20.6	$21.5
Other	$11.2	$9.9	$10.5
Total Exports	$115.3	$96.6	$100.0

A few commodities exports are predicted to decline from the November estimates. Corn is forecast to come in lower due to greater competition from other feed supplies. This is most notably competition from distillers dried grains (DDGs), which are experiencing record-high export numbers due to rocketing demand from China, Mexico, and Canada. Wheat exports are also down from the last estimates because of greater competition from Canada and Mexico.

Exports by Region

Looking at the destination of U.S. agricultural exports, year-over-year increases in total export value will likely be concentrated in Asia, where exports are forecast to rise by $1.2 billion over FY 2009 levels. Exports to North America also are expected to increase by $300 million from FY 2009. Increases are also expected in East Asia, the Caribbean, South America, and European Union.

Forecasted Agricultural Exports

By Region

	FY 2008	FY 2009	FY 2010F
East Asia	$34.9	$30.9	$31.9
Southeast Asia	$7.1	$5.7	$5.9
North America	$31.8	$29.0	$30.2
Latin America	$12.0	$9.3	$9.8
Europe/Eurasia	$13.5	$9.9	$10.2
Africa	$6.4	$4.3	$4.5
Total Exports	$115.3	$96.6	$100.0

Canada and Mexico are expected to remain the top export markets for U.S. agricultural products in FY 2010. Japan is expected to lose its third-placed destination to China. China is expected to import $11.7 billion, just topping Japan's expected $11.2 billion in agricultural imports. The European Union remains the fifth-largest export destination for U.S. agricultural products, estimated at $7.8 billion next year.

2010 Outlook for U.S. Agricultural Imports

U.S. agricultural imports are forecasted to gradually rebound to $77.5 billion in FY 2010, which is unchanged from the November estimates. This is up from the estimated $73.4 billion in agricultural imports in FY 2009, which had *declined* 7 percent from 2008. The 5.5-percent projected gain is based partly on a global recovery in spending by consumers over the next year. Another factor that is expected to raise agricultural import value is world price inflation for some high-value commodities such as sugar, cocoa and coffee beans, olive oil, and rubber.

Although the volume of U.S. farm imports fell by 3 percent in 2009, which is the first volume drop since 1995, USDA said that a further retreat is *not* forecasted in FY 2010. However, the lower exchange rate of the dollar likely will prevent imports from posting significant volume gains in 2010, even if the domestic economy moderately recovers.

Imports by Commodity

FY 2009 imports fell a record $5.9 billion from FY 2008 due to falling demand driven by our weak domestic economy. However, FY 2010 agricultural imports are forecast to be up $4.1 billion to $77.5 billion. The increase consists of an additional $400 million in livestock and meats, $200 million in dairy products, $200 million in grains and feeds, $650 million in oilseed products, $1.4 billion in horticulture, and $1.2 billion in sugar and tropical products.

Forecasted Agricultural Imports

By Commodity Group

	FY 2008	FY 2009	FY 2010F
Grains and Feeds	$7.9	$7.4	$7.6
Oilseeds and Products	$6.6	$5.4	$6.0
Livestock, Poultry, and Dairy	$12.2	$10.7	$11.3
Horticultural Products	$34.7	$33.0	$34.4
Sugar and Tropical Products	$16.4	$15.3	$16.5
Total Imports	$79.3	$73.4	$77.5

However, USDA's import estimates are reduced from their previous quarterly estimate by $4.5 billion, which USDA says was "prematurely optimistic." Imported livestock and products, for example, were reduced by $400 million due to a decline in beef imports, mostly from Australia and New Zealand. Imports of swine from Canada are also expected to decrease from last quarter's estimate. And dairy imports, though higher than FY 2009, were lowered from last quarter's estimate due to a slower import pace. And lower import prices of processed fruits and wines lowered the estimated value of horticultural imports in FY 2010.

Imports by Region

The major U.S. agricultural import sources are expected to ship more agricultural products to the United States in FY 2010 than they did in FY 2009. Asia is expected to continue gaining market share from Europe, especially as the dollar depreciates. Imports of higher-valued products, particularly from the European Union, are more sensitive to weak income growth in the United States, which impacts the trade flow from those countries.

Forecasted Agricultural Imports

By Commodity Group

	FY 2008	FY 2009	FY 2010F
East Asia	$4.5	$3.9	$4.1
Southeast Asia	$8.0	$6.6	$7.4
North America	$28.7	$26.6	$28.0
Latin America	$13.2	$13.5	$14.2
Europe/Eurasia	$16.6	$14.5	$15.1
Africa	$1.7	$1.7	$1.1
Total Imports	$79.3	$73.4	$77.5

Happenings Around the Globe

Lots of things have been happening around the world over the last few months, too. Highlighted below are some of the top headlines affecting American agriculture.

Brazil Government Gets Power to Suspend IP Rights in WTO Cotton Dispute

On February 11, Brazil moved one step closer to retaliating against the United States in its lengthy dispute over U.S. cotton subsidies, as the government issued a decree giving it the authority to suspend intellectual property rights in retaliation for illegal trade measures adopted by other countries. Although the decree did not specifically mention the cotton case, officials said that it was designed to be used if Brazil opts to apply sanctions against the United States. The decree includes a wide range of options, including ignoring foreign patents, reducing the validity of domestic patents, delaying the approval of brand licensing requests, and suspending remittances for the payment of royalties.

Chairman Peterson Introduces Legislation to Expand Agriculture Exports to Cuba

The Travel Restriction Reform and Export Enhancement Act would eliminate both the need to go through banks in other countries to conduct agricultural trades and the accompanying fees those banks charge. The bill would also require agricultural exports to Cuba to meet the same payment requirements as exports to other countries, which means payment would be required when the title of the shipment changes hands, not in advance. Finally, the bill would allow U.S. citizens to travel to Cuba, reducing the bureaucratic red tape currently required for individuals to travel to Cuba to facilitate new agriculture sales.

EU to Increase Sugar Exports, While Sugar Exporters Hint at Action to Challenge EU Exports

On January 27, the European Commission announced that it would propose that EU producers be allowed to export an additional 500,000 metric tons of sugar in 2010. "World [sugar] prices are at a record level and there is a shortage of sugar which is affecting importing developing countries," the EU said. "We do not expect these market conditions to last beyond the 2009/2010 season," the EU added.

However, a group of major sugar exporters, including Australia, Brazil, and Thailand, have slammed the EU for its decision to increase sugar exports, accusing the EU of providing no evidence to support its claims that the exports would not be illegally subsidized. The countries claim that the move would violate the EU's WTO commitment to limit its annual exports of subsidized sugar to 1.273 million tons per year. The three countries have, thus far, refrained from threatening WTO dispute settlement actions to uphold their claim.

World Trade in 2009 Registers Sharpest Decline since WWII, Illustrates need for WTO Agreement

Global trade contracted, in volume terms, by roughly 12 percent in 2009, which marks the sharpest decline since the end of the Second World War. The main explanation for this "freefall" in trade has been the "simultaneous reduction in aggregate demand across all major world economies." In a speech, WTO Director General Lamy said that, one year from the onset of the financial crisis, "the multilateral trading system has proven its sturdiness as a bulwark against runaway protectionism." Lamy further stress that today there is "economic imperative" to conclude the Doha Round."

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