Policy Changes, Trade Tensions & Disputes: Focus on Grains & Pulses

Policy Disputes Information Consortium
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Overview

- Grain & Pulse Trade: Focus on World & North American Trends
- Farm Program Provisions Related to Pulses
- Potential for Trade Disputes
  - Corn
  - Pulses
  - Dry Beans
- Conclusions & Implications
Intra-NAFTA Share of Total NAFTA Grain & Pulse Trade, 1993 & 2002

Grains

- 1993: 8.8%
- 2002: 17.8%

Pulses

- 1993: 9.6%
- 2002: 10.7%
Intra-NAFTA & ROW Grain Trade

1,000 Metric Tons

1993:
- NAFTA: 10.9
- ROW: 112.3
- Total: 123.2

2002:
- NAFTA: 20.7
- ROW: 95.3
- Total: 116.0
Intra-NAFTA Grain Trade, 1993

- Corn: 26%
- Wheat: 14%
- Barley: 6%
- Oats: 9%
- Rice: 2%
- Grain Sorghum: 34%
Intra-NAFTA Grain Trade, 2002

<table>
<thead>
<tr>
<th>Grain Type</th>
<th>Percent</th>
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</thead>
<tbody>
<tr>
<td>Corn</td>
<td>44</td>
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<tr>
<td>Wheat</td>
<td>11</td>
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<tr>
<td>Grain Sorghum</td>
<td>20</td>
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<td>Rice</td>
<td>4</td>
</tr>
<tr>
<td>Oats</td>
<td>4</td>
</tr>
<tr>
<td>Barley</td>
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Mexican Corn Production

Million Metric Tons

<table>
<thead>
<tr>
<th>Year</th>
<th>Rainfed</th>
<th>Irrigated</th>
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<tr>
<td>1990</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>1995</td>
<td>12</td>
<td>6</td>
</tr>
<tr>
<td>2000</td>
<td>12</td>
<td>5</td>
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</tbody>
</table>
Intra-NAFTA & ROW Pulse Trade

1,000 Metric Tons

NAFTA | ROW | Total
---|---|---
144 | 1359 | 1503 1993
350 | 2910 | 3260 2002
U.S. Corn Exports to Mexico

Zahniser and Link, ERS, USDA and U. S. Census Bureau.

Million Metric Tons

TRQ Imports

0.0  1.0  2.0  3.0  4.0  5.0  6.0  7.0


3.5  1.3  2.1  2.6  2.9  2.8  2.6  5.2  5.1  5.2  5.7  5.3

Zahniser and Link, ERS, USDA and U. S. Census Bureau.
U.S. Corn Exports to Canada

Million Metric Tons


0.7 0.8 0.7 1.0 1.5 4.1

US Census Bureau
Intra-NAFTA Pulse Trade, 1993

- Dry Beans: 50.4%
- Dry Peas: 41.2%
- Lentils: 8.4%
Intra-NAFTA Pulse Trade, 2002

- Dry Beans: 65.6%
- Dry Peas: 24.8%
- Lentils: 9.6%
World Pulse Production, 2002

Top 10 Countries

Source: FAO, FAOSTAT 2002
World Pulse Trade & Output

• Canada Dominates World Pulse Exports, Volumes Nearly Triple Australia, Myanmar

• India Dominates Imports, EU, Middle East, United States

• China, France, United States Are Second Tier Exporters

• India Dominates Production, Triple China, Four Times Brazil
NAFTA Pulse Yields

Source: FAO, FAOSTAT Database
NAFTA Pulse Production

Source: FAO, FAOSTAT Database
NAFTA Yields & Output

• Pulse Yields in Canada & U.S. Double Yields in Mexico

• Influences of *Ejidatarios* on Technology Adoption, Productivity

• Inelastic Supply Response Hypothesis for Mexico

• Role of Mexico’s Farm Policy
  – $43/acre payment for < 5 hectares
NAFTA Pulse Imports

Source: FAO, FAOSTAT Database
NAFTA Pulse Exports

1000 Metric Tons

Canada  Mexico  USA

Source: FAO, FAOSTAT Database
NAFTA Pulse Trade

• Canada Dominates Trade: 80% of Exports
• U.S. & Mexico Growing as Importers
• U.S. Prices on Downward Trend Over Most of 1990s
• Drought in Canada & Stronger Export Demand Stimulated Recent Price Increases
U.S. Farm Price for Pulses, 1994-03

ERS, USDA, Vegetables/Melons Outlook, VGS-295, Feb. 25, 2003
U.S. Lentil Prices and Loan Rates, 2002-03 and 2004-07

US $/CWT

Farm Price Loan Rate

2002: $13.10, $11.94
2003: $14.33, $11.94
2004: $11.72
2007: $11.72
### U.S. Dry Pea Prices and Loan Rates, 2002-03 and 2004-07

<table>
<thead>
<tr>
<th>Year</th>
<th>Farm Price</th>
<th>Loan Rate</th>
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<tr>
<td>2002</td>
<td>$8.13</td>
<td>$6.33</td>
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<tr>
<td>2003</td>
<td>$8.43</td>
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<td>2004</td>
<td>$6.22</td>
<td>$6.22</td>
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<tr>
<td>2007</td>
<td>$6.22</td>
<td>$6.22</td>
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</tbody>
</table>
U.S. Pea & Lentil Planted Area, 1995-2003f

ERS, USDA
U.S. Lentil/Pea and Dry Bean Area

ERS, USDA, 4/17/03 & FAOSTAT: Dry Beans are Planted Area, others are Harvested Area.
Farm Programs & Pulse Area

- U.S. Farm Prices Above Loan Rates for Lentils & Peas in 2002 & 2003
- Dry Peas & Lentils Area Up 22% Since 2001/03, Follows Price Increase of 80%
- Dry Bean Area Up 55% Since 2001/02 and 22% 2001/03, After Price Increase of 40%
- Green Pea Prices Up 66% Same Period
- Expansion in Area Began Prior to 2002
Potential for Trade Disputes

• Corn in Mexico: NAFTA Ten Year Anniversary
  – U.S. Corn Exports Up 5 Fold since early 1990s
  – Social Unrest, But Duties Still 90.8%
  – Mexican Corn Output Down 6% Since 1993
  – Rainfed Corn Up 22%
  – Irrigated Corn Down 37%

• Prices in Mexico Down 38% since 1993

• 30% of Rainfed Corn is Grown on Ejidos
  – Rainfed Corn Represents 70-80% of Total

• 20% Tax on Soft Drinks Made w/HFCS
Corn Trade Issues

• Highly Sensitive Issue for Mexico
  – Calls to Renegotiate NAFTA
  – Spawned ‘Agricultural Armor’ Program
  – Permanent Import Limits Being Considered
  – Impacts of Imports of Hybrids & GMOs on Traditional Corn Varieties

• Corn in Canada: U.S. Exports Up 4 Fold since mid-1990s, AD Duty Case, StarLink Concerns

• Concerns Focus on Price Impacts & GMOs
Pulse Crops in Farm Program

• U.S. Loan Rates Below Market
• Most of Area Expansion Driven by Higher Market Prices
• Drought in Canada & Increased Exports Stimulated Output
• Dry Beans & Peas Traded Most
• Situation Could Change Rapidly
Pulse Trade Issues

- Crop Substitution or Rotation Appear Most Likely if Pulse Area Expands

- Limiting Factors:
  - High Market Prices for Pulses & Program Crops
  - Loan Rates for U.S. No. 1 Quality
  - Specialized Handling & Market Information
  - Cultural Practices

- Positive Factors:
  - Loan Rates Set Lower Limit
  - Pulses Fix Nitrogen, so Used in Rotation
  - Cattle Prices

- No Immediate Expansion, Long Term More Difficult to Predict
Dry Beans

• Mexico Has Doubled Dry Bean Imports
  – NAFTA Primary Source: 60-70%
• Prices Down 10-25%
• Expanding World Output Placed Downward Pressure on Prices
• Mexico Supports Dry Beans with Area Payments: $38/acre or $43/acre
Dry Bean Trade Issues

• Dry Beans Used in Rotation to Fix Nitrogen, Improve Soil Structure

• If Wheat, Corn Area Expand Due to U.S. Farm Programs, Will that Stimulate Dry Bean Area?

• Phytosanitary Issues & Under Invoicing by Exporters Noted As Problems by Mexico
Conclusions & Implications

• Extent of Trade Disputes/Disruptions
  – Crop Substitution
  – Cattle Production Cycles, Herd Rebuilding & More Normal Weather
  – Uses of Pulses in Rotation & as Animal Feeds

• Farm Program Changes in Mexico & Canada May Mitigate Whatever Impacts Occur

• Can’t Ignore World Supply/Demand Balance
Conclusions & Implications

- Environmental Issues Important
  - GMO Concerns
  - Maintaining Traditional Mexican Corn Varieties

- Protectionist Sentiment is Growing in NAFTA

- Farm Programs But One Factor
  - Weather, SPS, Exchange Rates

- Very Surprised If Trade Disputes Don’t Increase in Frequency