

# US Corporate Agribusiness and Farms: A Comparative Analysis of Agricultural Policy

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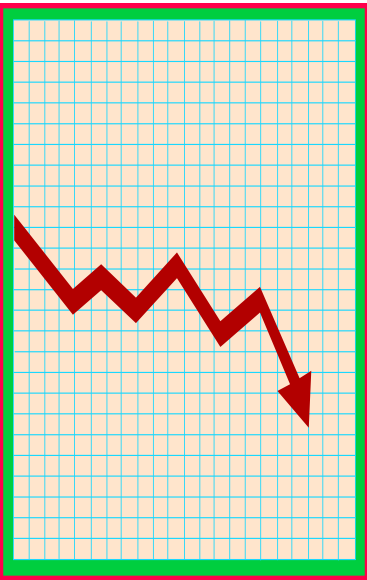
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“Domestic and Trade Impacts of US  
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# *Claims of Economists & Politicians & A simple Question*

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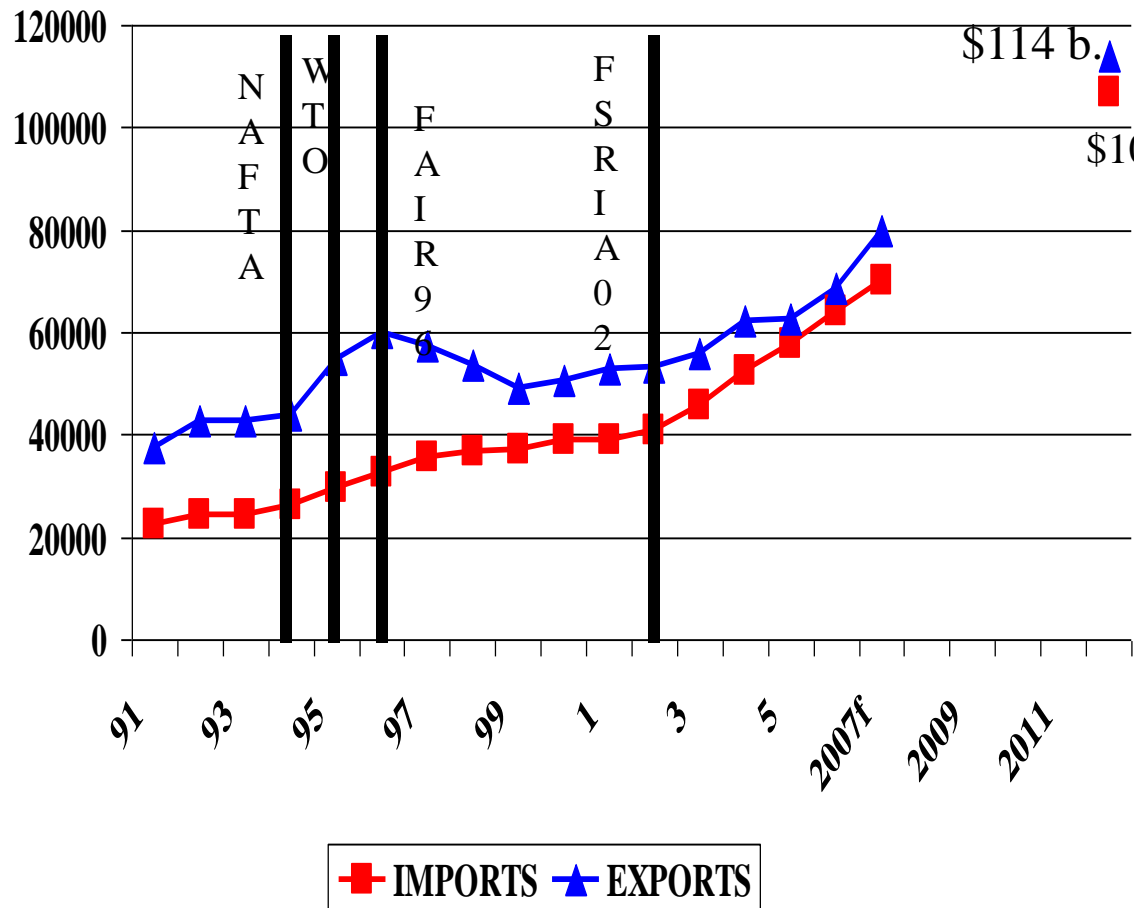
“Trade is good;  
protection is bad;  
trade agreements  
that reduce  
protection are  
good.”

“For whom?”



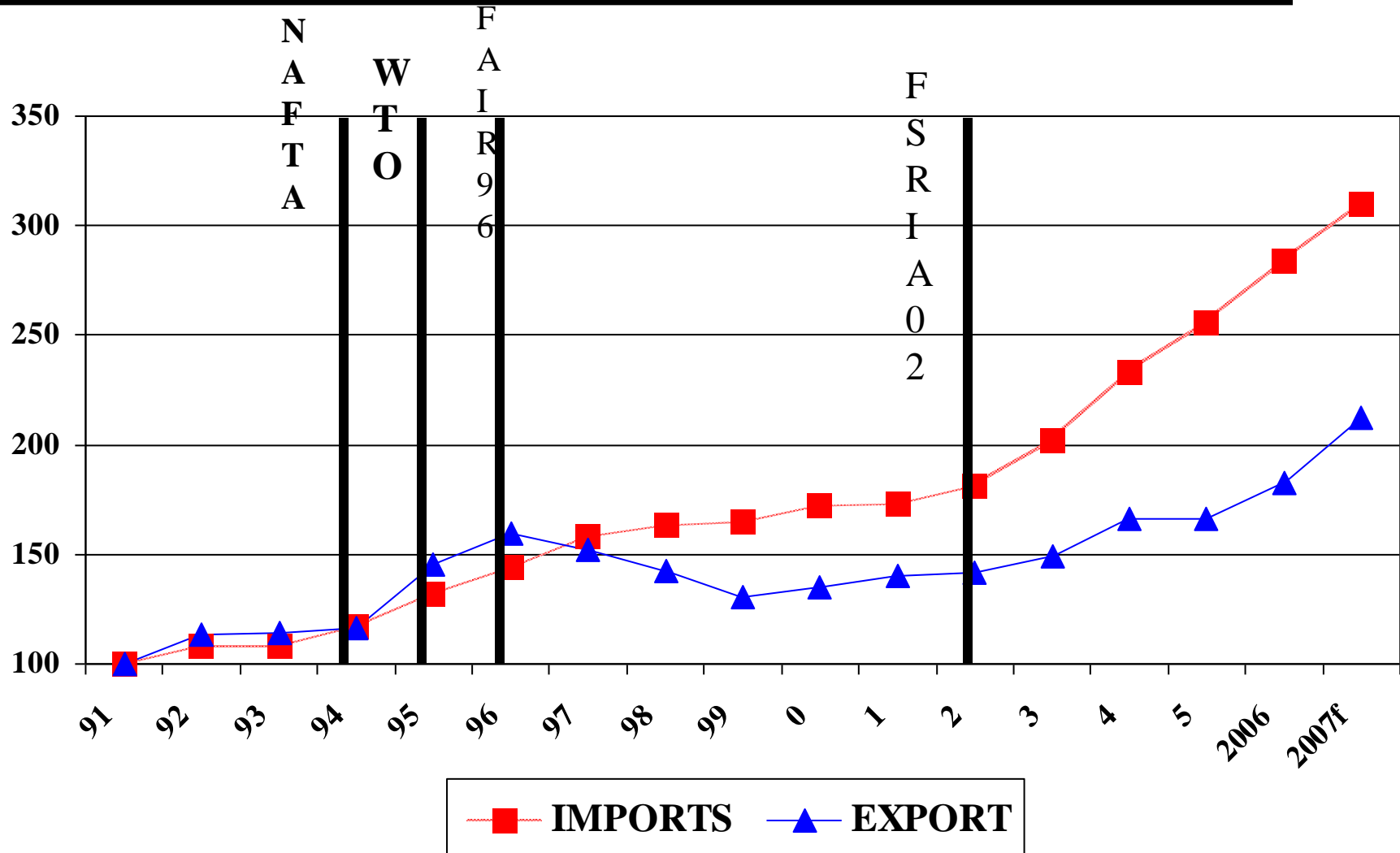
# How has the mix of US domestic and trade policy affected Farmers and Agribusiness?

**US Agricultural Trade Balance, 1991-2007f ;  
2012 projection (\$mil/FY; agricultural  
product only)**

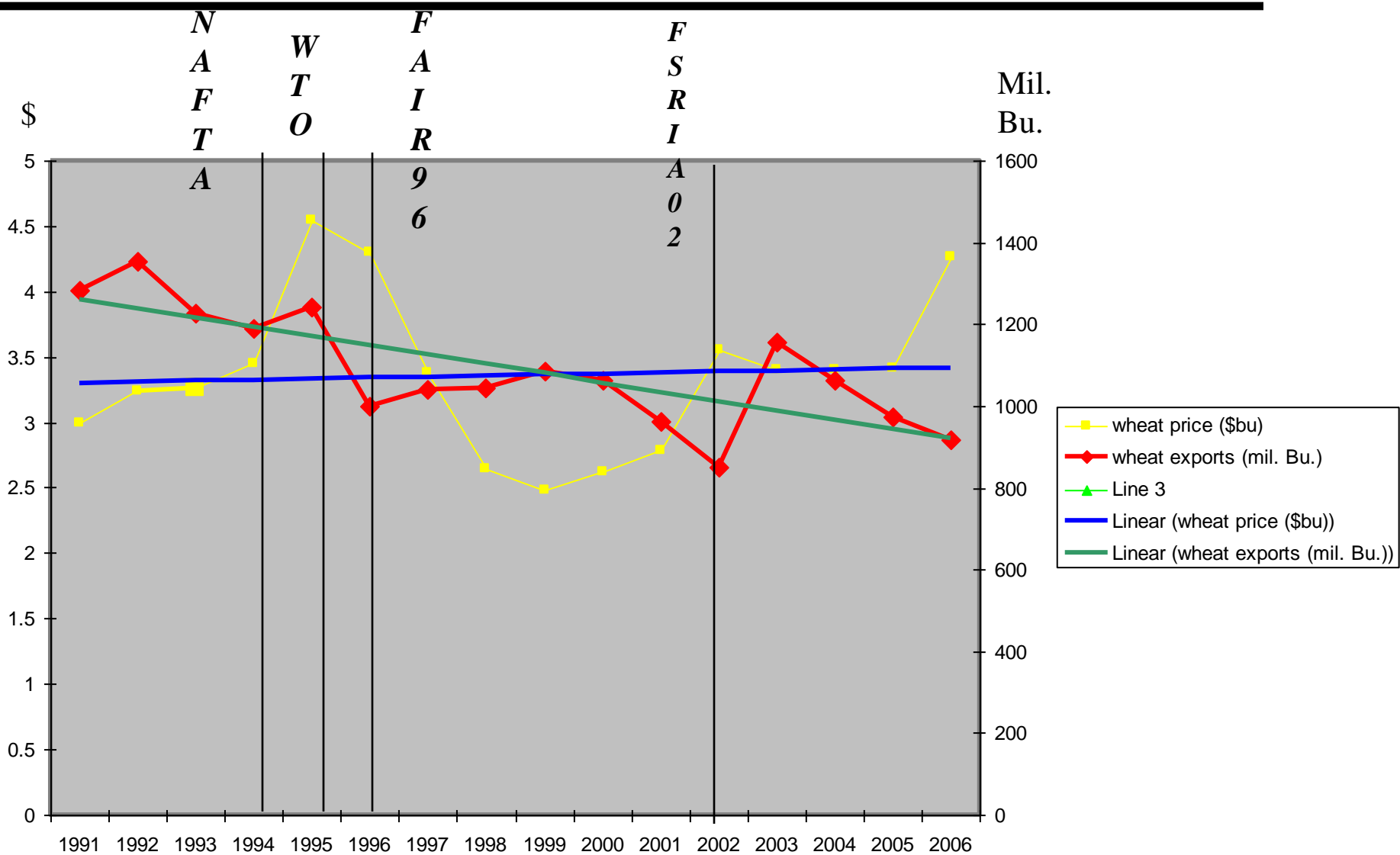


- ◆ Long term generally positive for sector
- ◆ More volatility in both agriculture and agribusiness
- ◆ Distributional inequity and concentration continue
- ◆ Consumers have benefited w/price and diversity
- ◆ Federal budget has worsened
- ◆ Ag trade surplus has narrowed
- ◆ General trade deficit has worsened

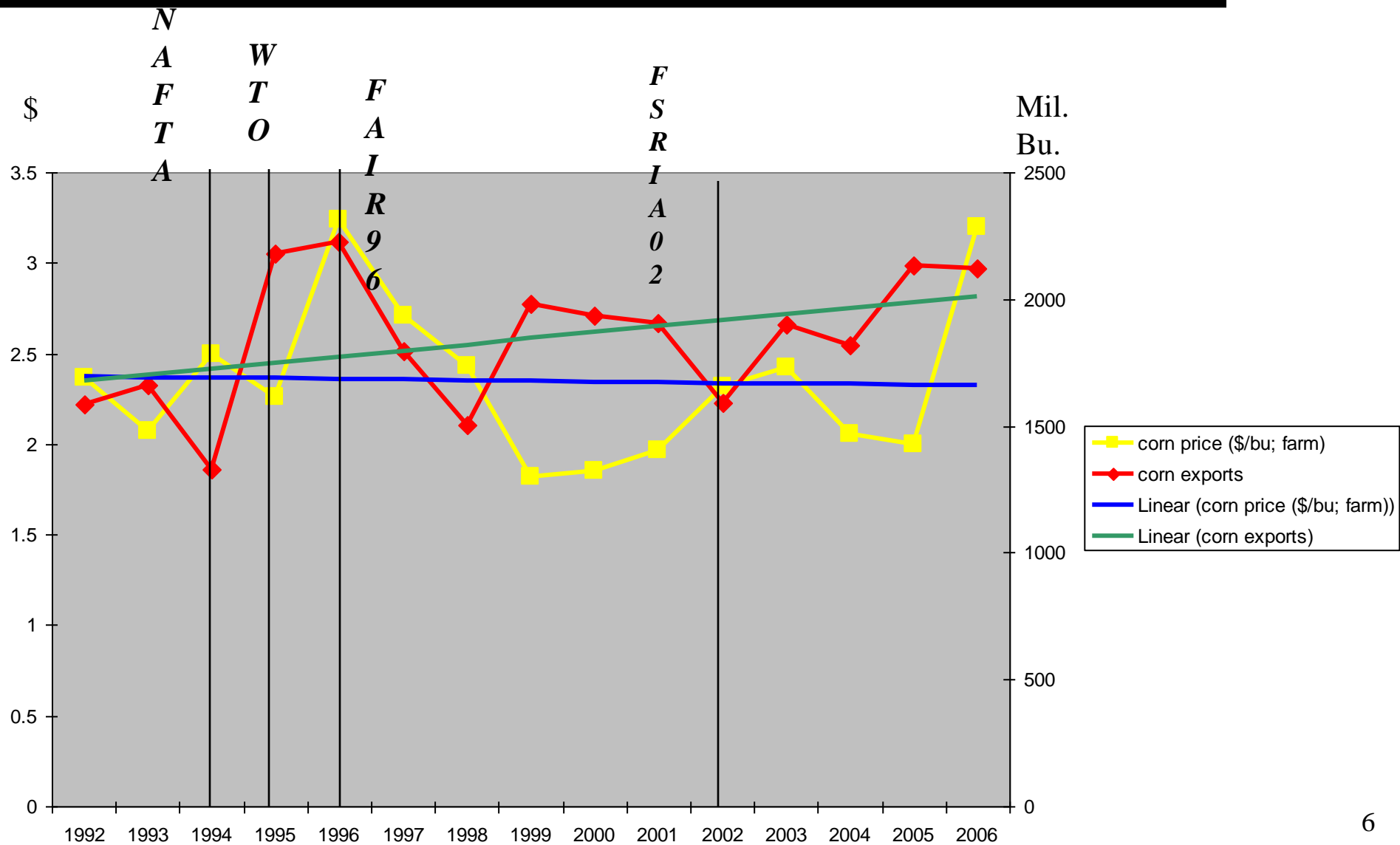
# Index of US Agricultural Trade Balance, 1991-2007f (1991=100; FY; agricultural product only)\*



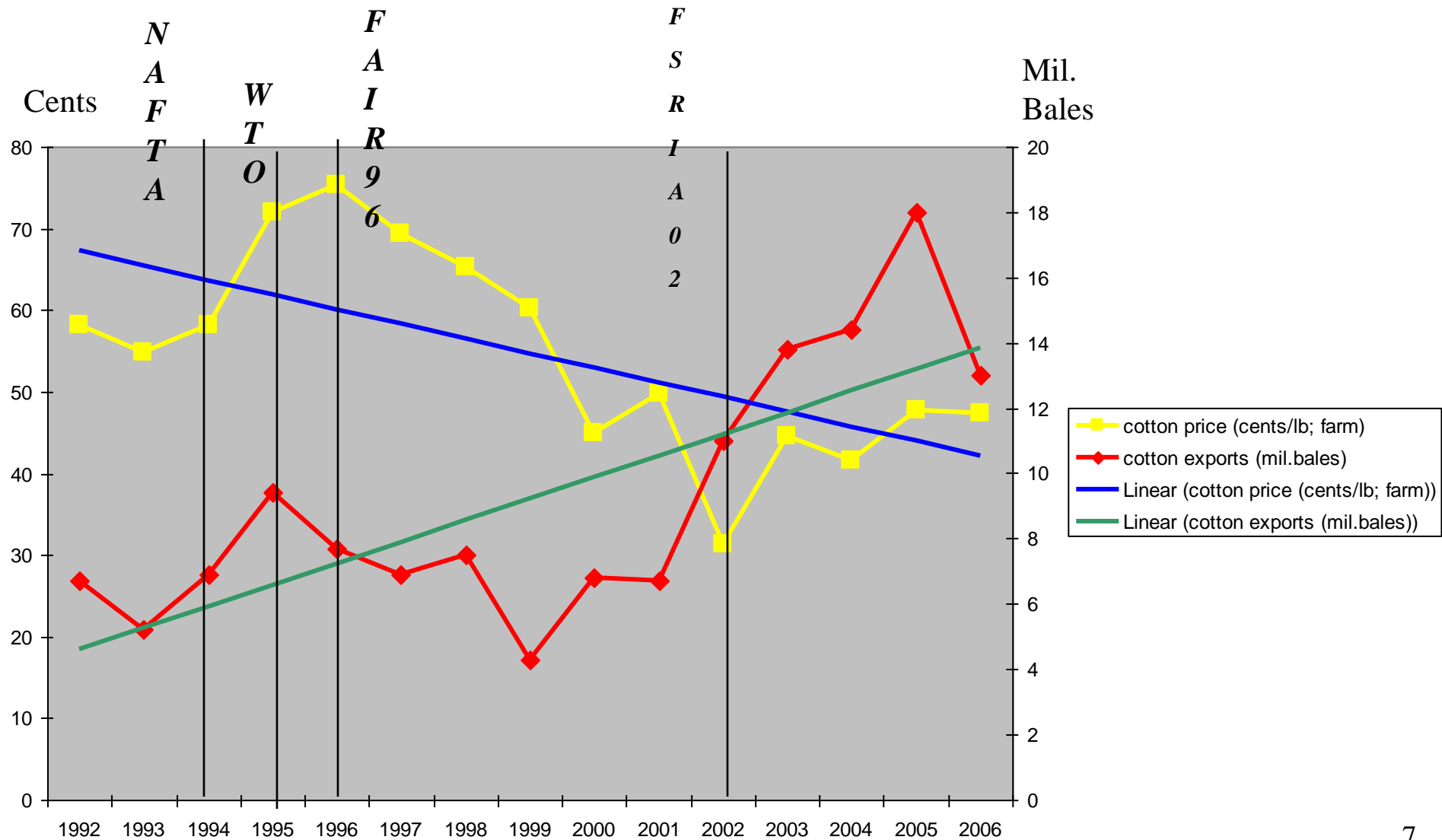
# US Wheat price & exports, 1991-2006



# US Corn price & exports, 1992-2006



# US Cotton price & exports, 1992-2006



# Predictions & Reality: Agriculture

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- ◆ Early/mid-1990s— Sets stage for market-oriented policy
  - Market improving
- ◆ 1996 Farm Act— A triumph of the free market?
  - Planned for market to continue up and govt to be reduced
- ◆ Late 1990s— Reality check
  - Prices down, markets down, govt support up



# Predictions & Reality: Agriculture

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- ◆ 2002 Farm Act
  - Increased government support
- ◆ Reality in 2007
  - Government support & market up
- ◆ 2007 (?) farm bill proposals
  - Generally continues government support to farmers w/little reform

# How will the next farm bill (2007 or later?) likely affect Agriculture, Agribusiness & future trade talks?

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## ◆ House & Senate versions

- Generally status quo w/commodity provisions
- Options for revenue programs provide similar or even large support levels (varies by commodity and region)
- Modestly increased funding for conservation
- Generally ignores WTO reform & cases

## ◆ Agricultural impact

- Similar to 2002 act: NFI continues hi/up; govt support steady; exports likely up...largely due to supply and demand.

## ◆ Agribusiness impact

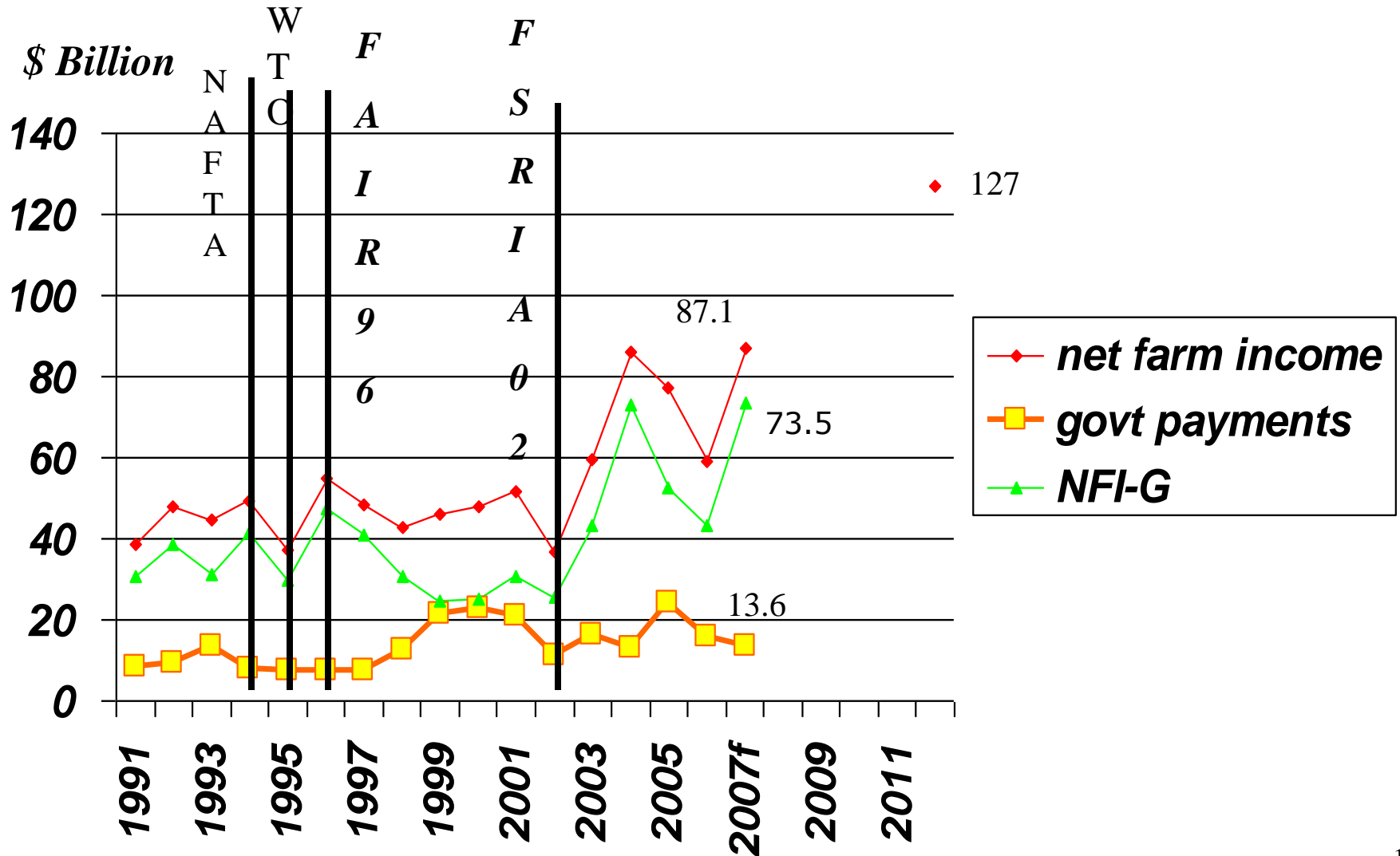
- Financial indicators positive, with returns tightening

## ◆ Future trade talks

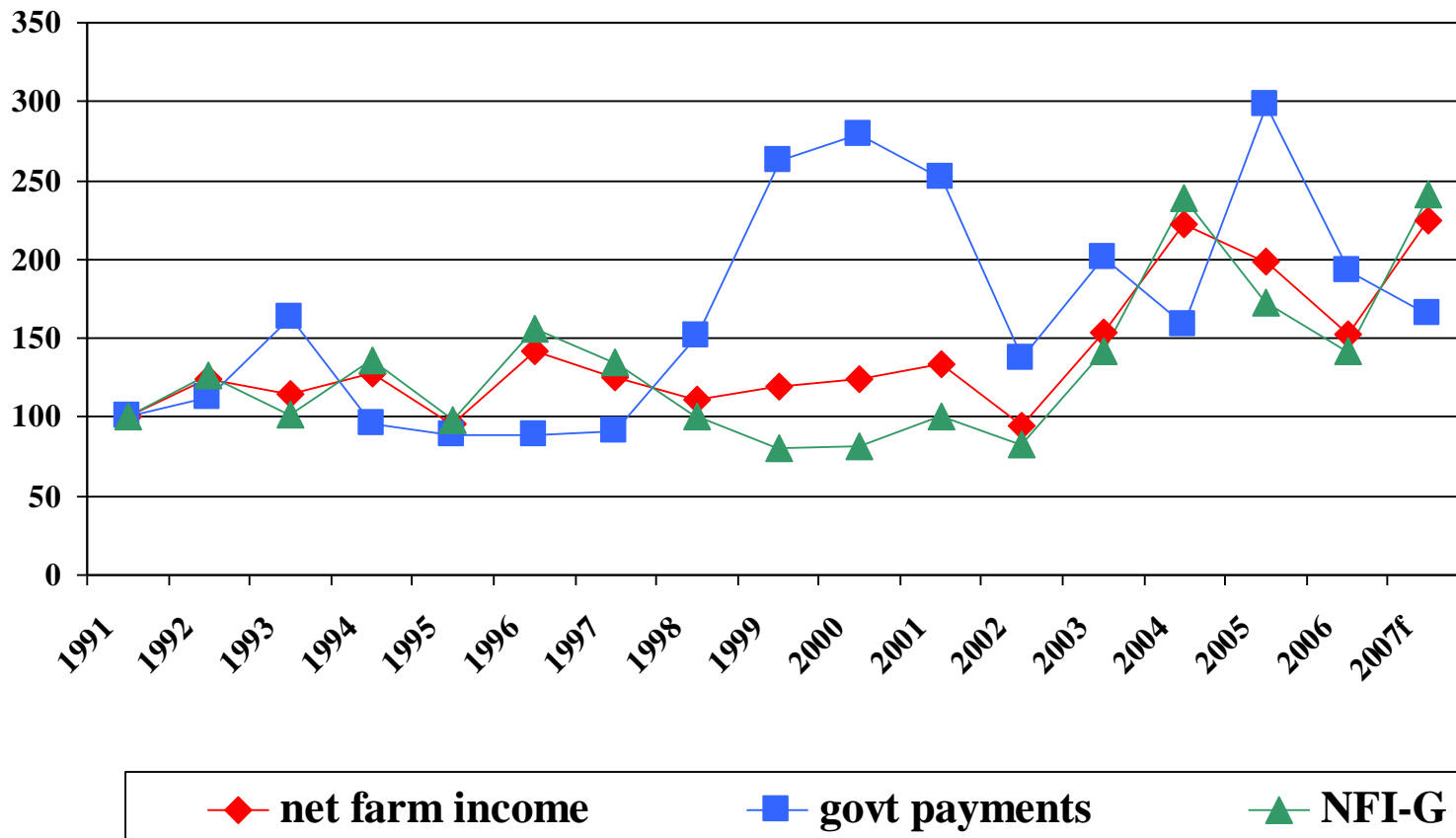
- Little interest until new President and Congress; then may be limited

# Net Farm Income & Direct Government Payments

(\$bil., 1991-2007f); 2012 projection of NFI



# Index of Net Farm Income and Government Payments, 1991-2007f (1991=100)



# Net Farm Income & Government Payments: Trends 1990s-present

	Average (\$bil/yr)		
	1991-95	96-02	03-07
NFI	43.5	46.9	73.8
Dir. G.	9.2	14.8	16.7
NFI-G	34.3	32.2	57.1
(G/NFI)%	21	32	22
Range (G/NFI)%	16-30	13-48	15-32

Note: Estimates suggest about 2/3 of Government payments go to support top 10% of producers. Further, top 10-15% of producers produce about 80% of gross sales. Further, government payments tend to be capitalized into land rents. Research studies indicate that, for every \$1 of crop subsidy tied to cropland, the cash rent increases by about \$1.

# Predictions & Reality: Agribusiness

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- ◆ Early/mid-1990s— Sets stage for market-oriented policy
  - Indicators generally up
  - ROA, ROE steady to lower
- ◆ 1996 Farm Act— A triumph of the free market
  - Agribusiness hopes for expanded markets, lower prices, less G
- ◆ Late 1990s— Reality check
  - Earnings down; volatility increasing
  - Profits mixed; ROA, ROE generally lower
  - Exports generally down (contrary to hope)
  - Government support had greatly increased (contrary to plan; 32% average)
  - The market contribution to net farm income had declined (contrary to hope)

# Predictions & Reality: Agribusiness

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## ◆ 2002 Farm Act

- Re-commitment to increased gov't protection

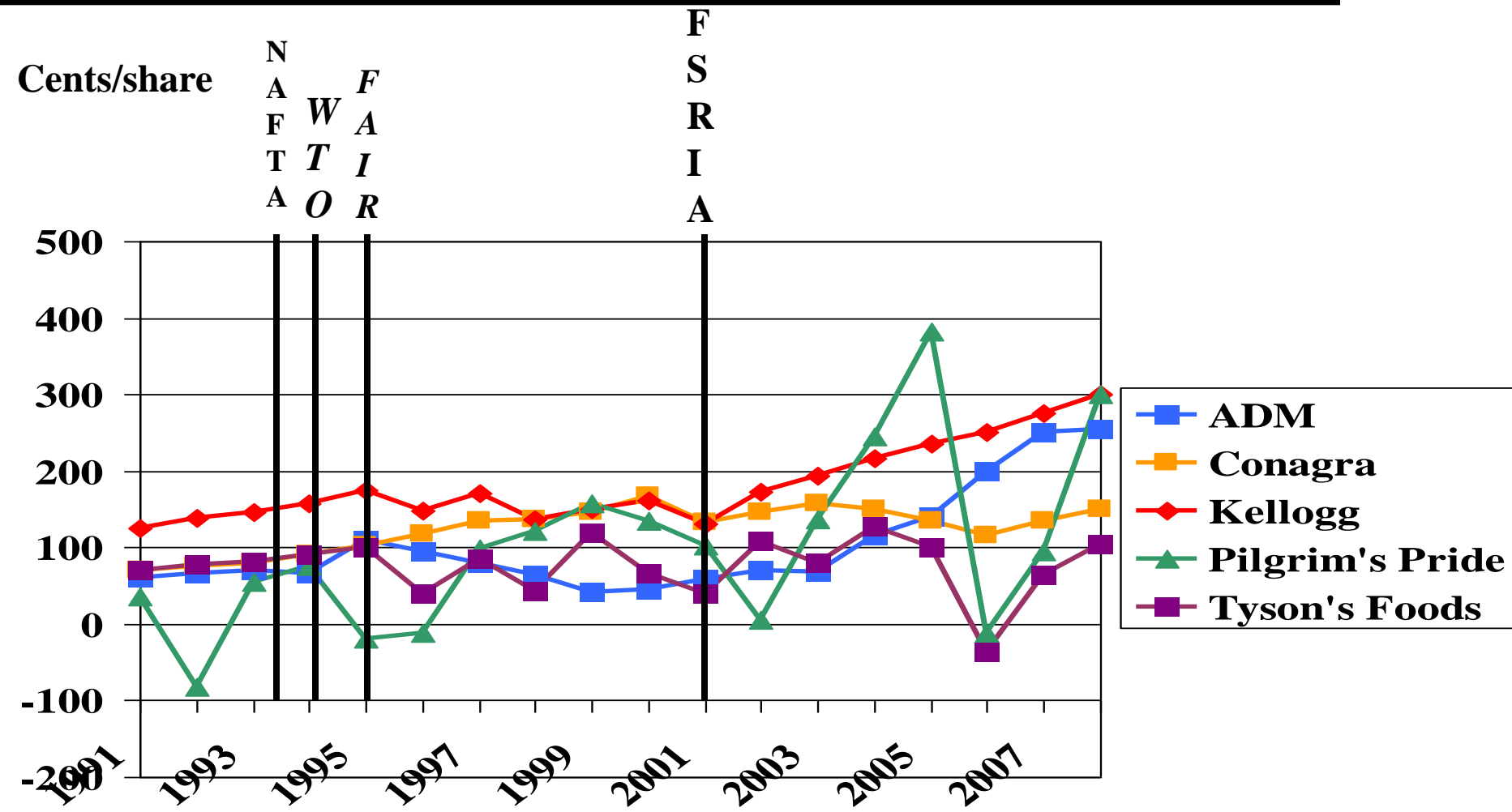
## ◆ Reality in 2007

- Globalized markets/concentration
- Volatility increases...politics, energy costs, competition, etc.,
- Financial indicators generally up but stagnating
- WTO negotiations stagnant...however bilateral/regional agreements progressing.
- Increased WTO claims against US, w/US losing

## ◆ 2007 (?) farm bill proposals

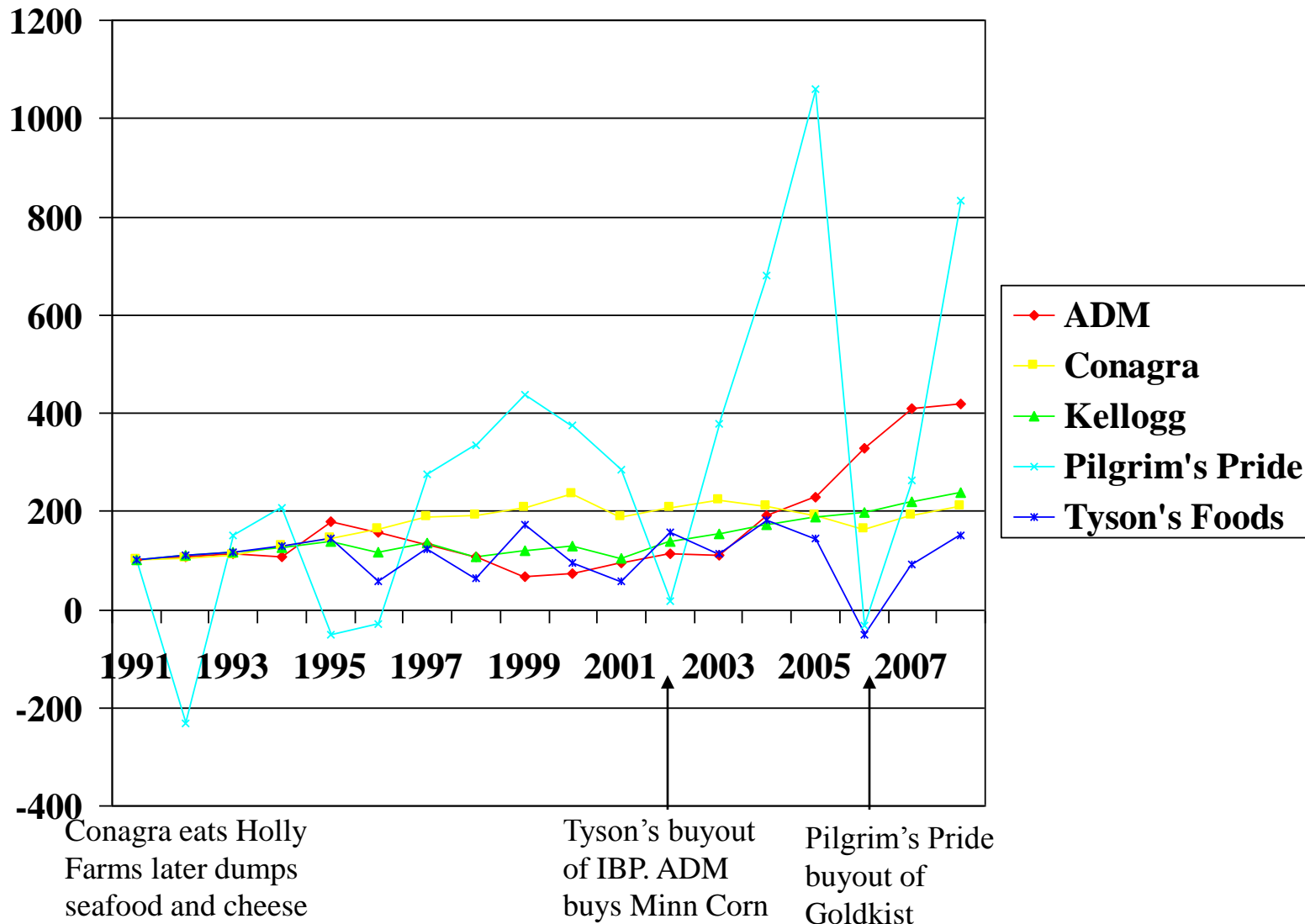
- Agribusiness continues to promote “free-er” market w/less govt support, less taxes and intervention for US and WTO
- Congress generally ignores WTO cases
- Little support from Admin, less from Congress for WTO reform

# Food Industry Financial Indicators, selected crops, 1991-2008\*: Earnings/share (cents/share)

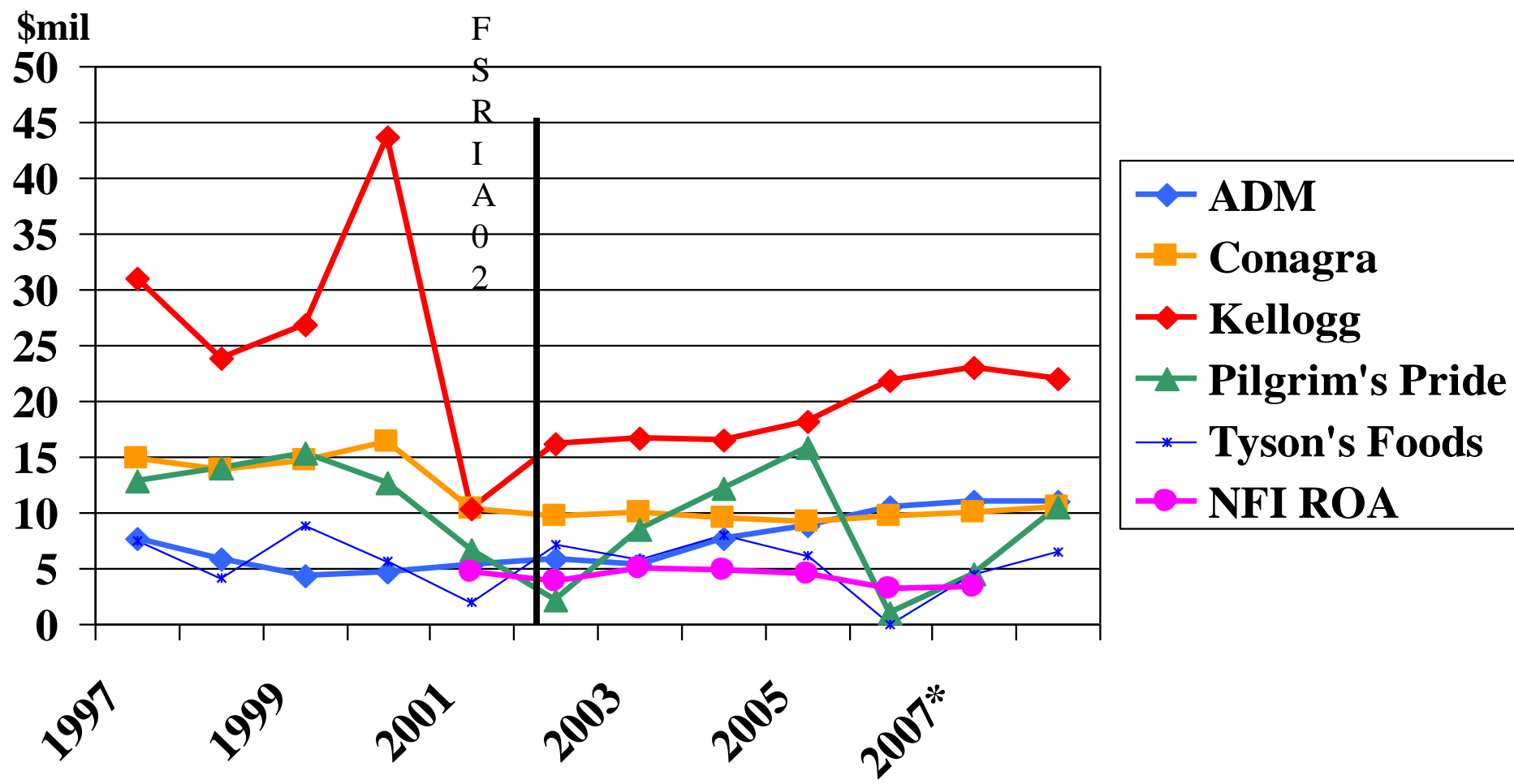




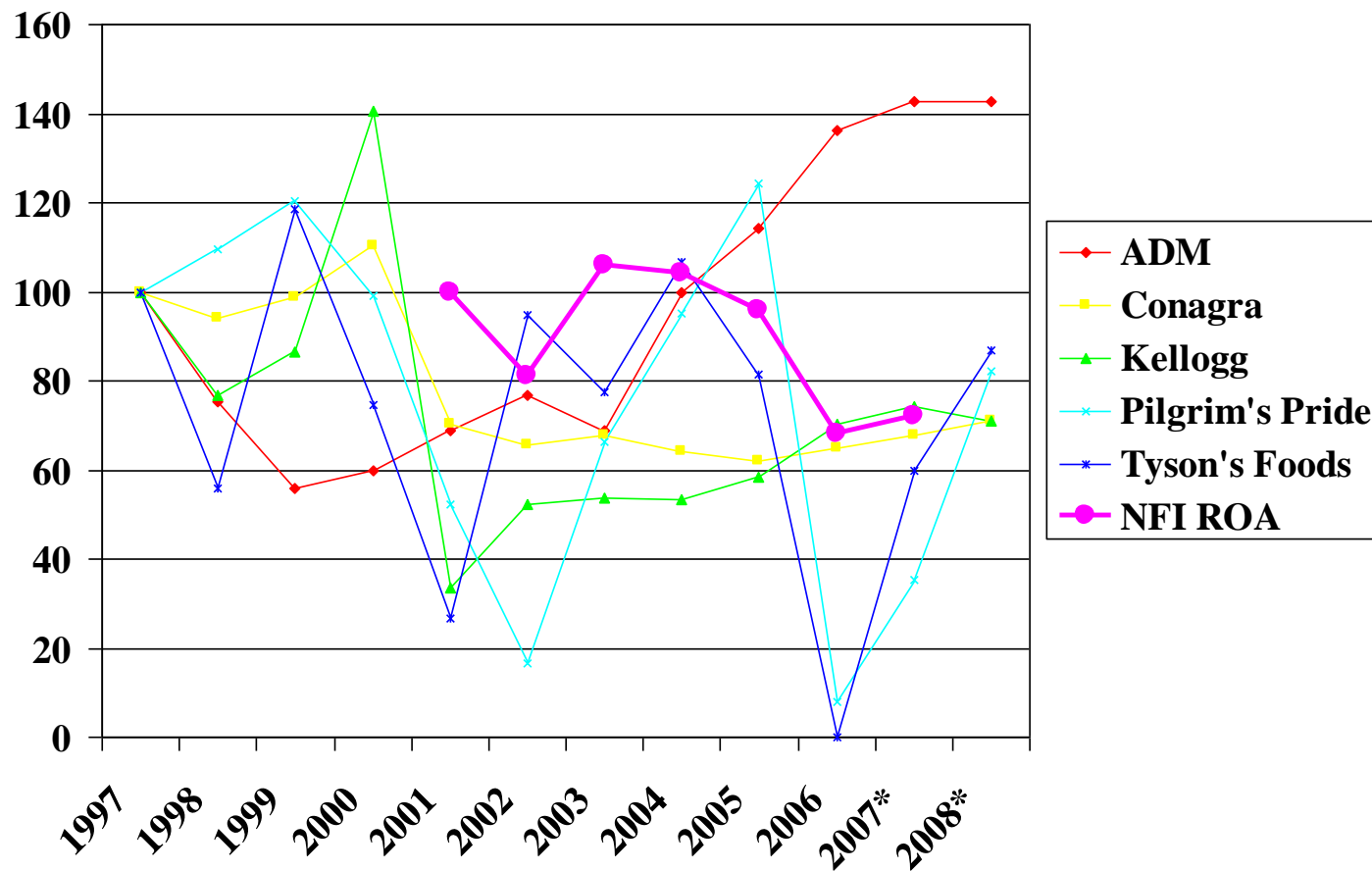
# Index of Food Industry Financial Indicators, selected crops, 1991-2008\*: Earnings/share (1991=100)



# Food Industry Financial Indicators, selected crops, 1997-2008: Return on Assets (% after tax)

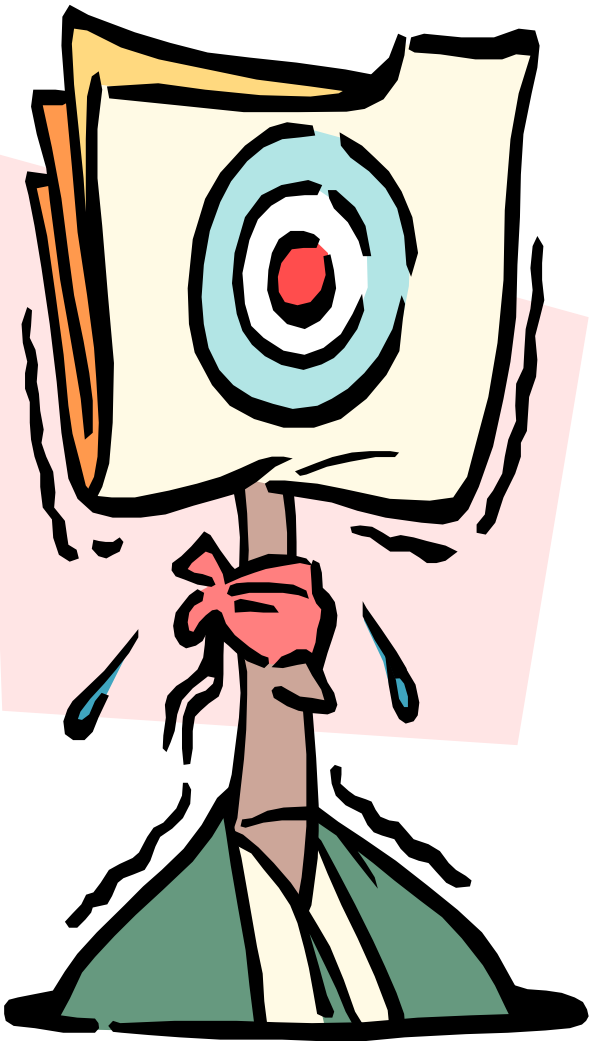


# Index of Food Industry Financial Indicators, selected crops, 1997-2008\*: Return on Assets (1991=100)



# Some Tentative Conclusions Since NAFTA, WTO, FAIR96 & FSRIA02: Is this what we expected?

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1. Trade has improved, with both imports & exports up.
2. Net Farm Income has improved.
3. Distributional inequality increased.
4. Selected major agribusinesses have done relatively well.
5. Concentration has continued, perhaps accelerating.
6. Rent-seeking by agriculture and agribusiness has increased & been successful.

# Summary of US Agricultural Exports & Net Farm Income, 1991-2007f

- ◆ Trade & trade agreements are an integral part of the farm profit picture.
- ◆ However, farm bill subsidies are too.
- ◆ Farm interests will continue to rent-seek for trade and subsidy opportunities.
- ◆ Agribusiness will too.
- ◆ It's part of gaming the system.

