

## U.S. Proposal to the WTO: Selected Results from the FAPRI Analysis

### Grains and Coarse Grains

#### Corn

U.S. corn exports and feed consumption both increase, contributing to a modest increase in U.S. corn prices (less than 3 percent), driven by larger net imports by the E.U. and South Korea. E.U. tariff reductions induce larger E.U. corn imports. Lower target prices and loan rates and a demand-driven increase in corn prices almost offset each other. U.S. corn use for ethanol and other industrial purposes falls, as do corn ending stocks. Higher U.S. corn prices contribute to an increase in prices for substitute feed grains.

#### Wheat

U.S. wheat prices increase moderately (almost 3 percent) because of increased export demand from Japan and China and reduced export supplies of Canada, Russia, and Ukraine. Higher prices result in a slight increase in wheat production, limited by the increase in returns for feed grains. Food use and stocks decline slightly in response to higher prices. In E.U. wheat markets, the livestock sector decreases feed use considerably, which leads to a fall in E.U. wheat prices.

#### Rice

World prices for long-grain rice increase by 8 percent. Medium-grain rice prices increase by 25 percent. These price increases are driven by greater market access in Japan and South Korea. Additional imports by Philippines, Indonesia, and the E.U. also increase long-grain rice trade. China, the U.S., Australia, and Egypt gain market shares in medium-grain rice trade. Long-grain rice exports increase for India, Myanmar, Pakistan, Thailand, the U.S., and Vietnam.

### Oilseeds and Products

In oilseed markets, changes are moderate. Higher prices for grain and reduced loan rates and target prices contribute to a slight reduction in U.S. soybean production in most years and slightly higher prices (up 1 percent). Reduced livestock production in Japan and the E.U. causes a reduction in U.S. soybean meal exports. This is offset by an increase in domestic soybean meal consumption driven by larger U.S. livestock production. The policy changes include tariff cuts for oilseeds and oilseed products in China, the E.U., India, Japan, Mexico, South Korea, Taiwan, and Thailand. The world price of soybean oil increases by 4 percent by 2014 following these tariff cuts. The elimination of differential export taxes in Argentina results in increased export demand for soybean products relative to soybeans, contrib-

uting to improved crushing margins. Crush increases slightly, as improved crushing margins more than offset the effect of reduced soybean production. World consumption of all protein meal declines in tandem with animal production.

### Meat

U.S. meat exports increase, driven by expanding Japanese import demand following lower duties. Japan is historically a large consumer of U.S. beef and pork. The elimination of export subsidies and increased market access open E.U. meat markets. World prices of pork and beef products increase significantly while poultry price changes are moderate. World trade of pork, beef, and poultry products increases by 7, 6, and 3 percent, respectively. The E.U. eliminates its beef export subsidy, which affects 76 percent of its total beef exports. These policy changes increase the E.U.'s net beef imports and depress its domestic beef price by 13 percent. In many importing countries, lower domestic prices resulting from tariff reduction are more than offset by higher world meat prices. Brazil, Argentina, Australia, Canada, and the U.S. expand their exports.

### Dairy

Major dairy changes occur in the E.U., Canada, and Japan. Most other countries increase their dairy herds and milk production, but less fluid milk is consumed as it is diverted into manufacturing use because world prices of dairy products increase. In the U.S., dairy production and milk prices increase. U.S. butter imports increase, but cheese imports decline and nonfat dry (NFD) milk exports increase. Without an export subsidy and with reduced intervention prices, E.U. production and exports decrease substantially. Domestic E.U. consumption increases because of lower domestic prices. The E.U. becomes a marginal player in NFD and butter world markets. Australia, New Zealand, Argentina, Ukraine, and India partially compensate for the decline in E.U. exports, which leads to higher world prices for butter, cheese, NFD, and whole milk powder (average increases of 34, 16, 7, and 18 percent, respectively). Canada becomes a net importer of NFD, as export subsidies disappear and tariffs are lowered.

### Sugar

U.S. sugar imports increase with the much larger TRQ, resulting in a 12 percent price decline for raw cane sugar. Domestic sugar production falls and consumption increases. The E.U. would declare sugar as sensitive, which would result in a larger TRQ and reduced



tariff. The world sugar price increases by 24 percent on average, driven by proposed E.U. sugar reforms. The E.U. imports over 4 million metric tons of sugar. Net exporting countries, such as Brazil, Australia, Colombia, Argentina, and Cuba, would respond to the higher world price with increased sugar production, lower sugar consumption, and increased exports.

#### Cotton

Cotton prices increase by about 2 percent in world markets. Given the modest foreign adjustments in the sector, the primary impact is through the reduction in domestic supports, which lowers U.S. production and exports. After the reduction in U.S. trade, the resulting higher world prices push other exporters to ship out more while importers decrease their net demand on world markets. There is an overall reduction in world trade. Larger exports out of Africa, Brazil,

Pakistan, and Central Asia partially offset the lower U.S. cotton exports.

#### U.S. Net Farm Income

The reduction in U.S. target prices and loan rates reduces crop returns to producers. For some crops, this effect is more than offset by higher prices. Between 2012/13 and 2014/15 under this deterministic analysis, average returns, including all payments, increase for grains and most oilseeds but fall for cotton, peanuts, and sugar. Stochastic analysis led by FAPRI economists at the University of Missouri considers a range of possible market outcomes and yields slightly different average results. Considering a broader range of outcomes leads to circumstances in which the increase in prices may not be adequate to compensate producers for reduced loan program benefits and countercyclical payments, even for grain and oilseeds. ♦

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