Political Impact on Global Agriculture
Impacts: Economy | Markets | Policy

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Senior VP, Farm and Trade Policy
Informa Economics, Inc.
Russian Imports & '73 & '79 Energy Crises

Drought & Growing Demand

Biofuels, Per Capita Income Growth, Higher Energy Costs & Drought
## Agriculture Growth in the Past 50 Years

### Grain Political Driven Demand Centers

<table>
<thead>
<tr>
<th>Region</th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
<th>Growth (MMT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>90</td>
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<tr>
<td>Japan</td>
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<tr>
<td>Mex.&amp; S.Am</td>
<td></td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>Middle East</td>
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<td>41</td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>142</td>
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<tr>
<td>U.S. Ethanol</td>
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<td></td>
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</table>

### Grain Export Supply Hubs

<table>
<thead>
<tr>
<th>Region</th>
<th>1960s</th>
<th>1970s</th>
<th>1980s</th>
<th>1990s</th>
<th>2000s</th>
<th>2010s</th>
<th>Growth (MMT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>North America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>204</td>
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<tr>
<td>South America</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>106</td>
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<tr>
<td>Black Sea</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>49</td>
</tr>
</tbody>
</table>

### Grain Self Sufficiency Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Growth (MMT)</th>
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</thead>
<tbody>
<tr>
<td>China</td>
<td>90</td>
</tr>
<tr>
<td>India</td>
<td>74</td>
</tr>
</tbody>
</table>

**Political demand shocks with economic consequences for global grain complex**

*Source: DuPont Pioneer*
Income changes in the developing world are improving people’s diets on a global basis.

Source: DuPont Pioneer
China’s Middle Class Impact

China is an example of an economy that is improving dramatically. As more of their population moves to the middle class, the world commodity sectors have been changed forever.

Source: DuPont Pioneer
China’s Middle Class Impact – Moving from Exporter to Importer on Beans, Crude Oil

Policy changes in the mid 1990s changed China from a net exporter to importer of crude oil and soybeans.

Source: DuPont Pioneer
## China’s Economic Growth from 2000-2010
### Driving Agricultural Demand

<table>
<thead>
<tr>
<th>Population</th>
<th>Income (Real GDP)</th>
<th>Per Cap Income (Real GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>+5.8%</td>
<td>+174%</td>
<td>+159%</td>
</tr>
<tr>
<td>1.27 bil to 1.34 bil</td>
<td>$1.4 tril to $3.9 tril (Indexed to 2005)</td>
<td>$1,118 to $2,890 (Indexed to 2005)</td>
</tr>
</tbody>
</table>

### Per Cap Meat Consumption
- +21%
  - 43 kg/yr to 52 kg/yr (Beef, Pork, Chicken)

### Per Cap Dairy Consumption
- +212%
  - 7 kg/yr to 22 kg/yr (Fluid and Manufacturing)

### Crop Consumption
- +26%
  - Soybeans +191%, Corn+50%, Wheat +0.2%, Rice+1%, Cotton +96%

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**Magnitude of growth on a per capita basis is phenomenal!**

*Source: DuPont Pioneer*
Value of Dollar to Ease Further…Keeping Upward Pressure on Commodity Prices, But…

Indexed Value of U.S. Dollar (2005=100)

Source: USDA, Economic Research Service; Foreign Agricultural Service
Takeaway: Strong growth in food demand from emerging markets, keeping global prices and profitability strong

- Global growth and rise of “middle class” in developing countries
- Value of U.S. dollar
- Worldwide biofuels production
- Role of trade and trade liberalization – and transportation
- Energy and agricultural input prices
- Biotech and other yield/precision developments
- Additional crop land – Brazil – Ukraine – Africa
- Weather
- Politics and policy
Policy What Ifs…

- If Washington doesn’t deal with debt, spending
  *If Europe’s economy goes into severe recession*

- If U.S. economy grows more than expected
  *Impact on the dollar and trade*

- If U.S., Eastern Europe has another drought
  *Ethanol/RFS | Livestock | Food prices | Export policy*

- If China starts importing corn to any significant degree

- If US corn yields exceed trend-line levels

- If there is a major Israel-Iran skirmish/war

- If means testing comes to crop insurance
Issue: Crop Insurance

- Record indemnities for 2012 crops: $12.347 bil.
- Total premiums at $11.05 bil. mean loss ratio at 1.12
- Prior record payout year 2011 - $10.839 bil. w/loss ratio 0.91
- Loss ratio hasn’t been above 1.0 since 2002
- Record net insured acres at 281.717 million
- 2012 indemnities:
  
  Corn - $7.848 bil. (nearly 64% of total payouts)
  Soybeans: 1.618 bil.
  Cotton: $917 mil.
  Wheat: $722 mil.
## Issue: Crop Insurance

<table>
<thead>
<tr>
<th>Crop</th>
<th>2012 Indemnities (billion dollars)</th>
<th>2011 Indemnities (billion dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$7.848</td>
<td>$3.225</td>
</tr>
<tr>
<td>Cotton</td>
<td>$0.917</td>
<td>$2.375</td>
</tr>
<tr>
<td>Pasture &amp; rangeland</td>
<td>$0.117</td>
<td>$0.182</td>
</tr>
<tr>
<td>Peanuts</td>
<td>$0.018</td>
<td>$0.074</td>
</tr>
<tr>
<td>Rice</td>
<td>$0.039</td>
<td>$0.090</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$1.618</td>
<td>$1.566</td>
</tr>
<tr>
<td>Wheat</td>
<td>$0.722</td>
<td>$1.769</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$12.347</strong></td>
<td><strong>$10.843</strong></td>
</tr>
</tbody>
</table>
# Issue: Crop Insurance

<table>
<thead>
<tr>
<th>State</th>
<th>Corn (billion dollars)</th>
<th>Soybeans (billion dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>$1.643</td>
<td>$0.148</td>
</tr>
<tr>
<td>Indiana</td>
<td>$0.556</td>
<td>$0.090</td>
</tr>
<tr>
<td>Iowa</td>
<td>$1.280</td>
<td>$0.202</td>
</tr>
<tr>
<td>Kansas</td>
<td>$0.654</td>
<td>$0.194</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$0.152</td>
<td>$0.047</td>
</tr>
<tr>
<td>Missouri</td>
<td>$0.600</td>
<td>$0.206</td>
</tr>
<tr>
<td>Nebraska</td>
<td>$0.934</td>
<td>$0.249</td>
</tr>
<tr>
<td>North Dakota</td>
<td>$0.042</td>
<td>$0.033</td>
</tr>
<tr>
<td>Ohio</td>
<td>$0.205</td>
<td>$0.046</td>
</tr>
<tr>
<td>South Dakota</td>
<td>$0.701</td>
<td>$0.243</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$7.848</strong></td>
<td><strong>$1.618</strong></td>
</tr>
</tbody>
</table>
A Changed Tone in Washington

*Key:* Obama far more engaged, focusing on history

- ‘Cliff’ averted… mini-cliffs ahead … Impact on dollar, economy
- Washington timeline
- Election results and what they mean
- Looking ahead – House, Senate in 2014 – President in 2016
- US farm bill extension & new bill ahead
- Takeaways – What’s it all mean?
A Cliff Fix?

FISCAL CLIFF FIX
US Cliff Averted

Sen. McConnel, VP Biden key players in deal

- **Taxes**: Permanent extension of 2001 & 2003 cuts for those with incomes under $400K, couples under $450K

  *Payroll tax cut not continued – Impact on US GDP*

  *Taxes will rise for 75% of households*

- **AMT**: Permanent patch

- **Dividends and cap gains** at 20% for those over $400k/$450k threshold – 15% for all others
US Estate Taxes

- **Estate tax**: $5.250 mil. exemption (double for spouse) but tax rate on estates above rises to 40% vs prior 35%

  *Gift tax exemption rises to $14,000 a year per donee*

  *Spousal portability of estate tax exemption revived, along with discount of up to $1,070,000 on farm or business realty valuation*
50% bonus depreciation plus expensing of up to $500,000 of assets for 2013 (retroactively for 2012, too)

$500,000 ceiling on expensing is reduced dollar for dollar after more than $2 million of assets are put in service
US Cliff Averted

Different viewpoints on deficit impact of package

- **Biodiesel incentive**: Retroactive for 2012 and extended thru 2013
  
  *Cellulosic biofuel credit continued*

- **Sequester cuts**: Delayed to March 1

- **One year farm bill extension**... for many programs
US Mini-Cliffs Ahead

Major showdown on spending, revenue

- **Debt limit hike**: Needed by mid- to late-Feb.
  
  *GOP leaders counter and issue delayed into mid-May*

- **Sequester cuts**: Delayed to March 1

  *GOP may let across-the-board cuts occur*

- **FY 2013 spending**: CR expires March 27
U.S. National Debt

Big increase since 2009

- Jan. 20, 2009: $10.6 trillion
- Jan. 1, 2013: $16.4 trillion
- Jan. 2016: $18.4 trillion (98% of GDP)
Clinton:  +$1.6 trillion
Bush:   +$4.4 trillion
Obama:  +$8.4 trillion
### FY 2012 Federal Budget

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>$770 billion</td>
</tr>
<tr>
<td>Defense</td>
<td>$670 billion</td>
</tr>
<tr>
<td>Medicare</td>
<td>$560 billion</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$260 billion</td>
</tr>
<tr>
<td>Interest on the Debt</td>
<td>$445 billion</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>$2.7 trillion</td>
</tr>
<tr>
<td>Total FY 2012 Revenues</td>
<td>$2.5 trillion</td>
</tr>
<tr>
<td>Total FY 2012 Budget Outlays</td>
<td>$3.6 trillion</td>
</tr>
</tbody>
</table>
Mandatory vs Discretionary Spending

$Billion

- Mandatory
- Defense Discretionary
- Non-Defense Discretionary

- 2012 Outlays
- 2022 Outlays
Mandatory Spending: 2012 vs 2022

$Billion

2012 Outlays
2022 Outlays

Medicaid
Interest
Medicare
SS
If U.S. Doesn’t Get Control of Spending...
Political Update

Polarization → Disunity
A House Divided: 113th Congress

• House – 233 R’s vs. 200 D’s
  – 94% of R’s will hold seats Romney won
  – 96% of D’s will hold seats Obama won
  – 50% won by at least 20 points (record level)

• Senate – 55 D’s vs. 45 R’s
  – 80% of D’s are from states that Obama won
  – 78% of R’s are from states that Romney won
Polarization of the Electorate

• U.S. has become more polarized
  – Regionally/geographically
  – Race, ethnicity

• Result: Dysfunction in governing
  (primarily in the House)
2012 Rural vs. Urban Vote

• Rural America supported Mitt Romney by 20 points

• Urban America supported President Obama by 24 points

• Obama carried 27/30 largest cities
Polarizing by Ethnicity/Race

• Whites:
  – 89% of all votes Romney received were white
  – 56% for Obama

• Minority groups gave Obama 80% of their vote
  – African-Americans: 93%
  – Latinos: 71%
  – Asians: 73%
## Future Demographics

<table>
<thead>
<tr>
<th></th>
<th>2012*</th>
<th>2060**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Whites</td>
<td>63%</td>
<td>43%</td>
</tr>
<tr>
<td>Hispanics</td>
<td>17%</td>
<td>33%</td>
</tr>
<tr>
<td>African-Americans</td>
<td>13%</td>
<td>15%</td>
</tr>
<tr>
<td>Asian-Americans</td>
<td>5%</td>
<td>8%</td>
</tr>
</tbody>
</table>

* U.S. population of **312 million** in 2012
** U.S. Census Bureau projection -- U.S. population of **420 million** by 2060
Latino vote for Dems has changed atmosphere of issue

Timeline: next 18 months

Final package will likely address

1. border security
2. verification systems
3. seasonal farm workers
4. more permanent program for children of illegal immigrants

And most important…

5. how to handle 10 to 12 million illegal immigrants in U.S.
Issue: Regulations

- Will Obama return to aggressive regulatory tone, or…

- More emphasis on cost/benefits? New EPA leadership

- Ag Secretary Vilsack: Be proactive, not reactive

- Water becoming major issue in some U.S. states, other countries

- Animal welfare – food labeling – biotech food labeling

- Other countries: As middle class grows, so do regulations
Higher Energy Prices Contribute to Higher Food and Agricultural Commodity Prices

Increasing costs all along the supply chain

Source: International Monetary Fund: International Financial Statistics
Issue: Energy Policy

- **White House:** Will not push for carbon tax
  
  *Climate change bill may arise in Senate, dead in House*
  
  *EPA will attempt to use Clean Air Act Authority*

- **Renewable fuels:** No major changes, but **debate coming**
  
  *Cellulosic mandate will be reviewed*
  
  *Budget deficits will limit funding on green-energy projects*

- **Regulations:** Less access to federal lands and water
  
  *Coming: Emissions rules for new power plants*
Issue: Energy Policy

- Effort to roll back some US subsidies for oil companies

  *Part of coming comprehensive tax reform*

- Issue: How aggressive to export US shale oil, natural gas

  *IEA: U.S. to surpass S. Arabia as largest oil producer by 2020*

  *IEA: Within a decade, U.S. oil imports will fall by more than half, to four million barrels a day from current 10 million barrels a day*

- Keystone Pipeline – US and Canada issue
US Farm Groups’ Focus
Proposed Farm Bill: CBO Projected Cost

10-yr Costs - $970 Billion

Nutrition - 772
Crop Insurance - 90
Conservation - 65
Commodities - 62
Trade - 3.4
Horticulture/Organic - 1.1
Energy - 0.4

Nutrition 78%

Source: CBO, based on January 2012 baseline
Issues: New Farm Bill

- Farm bill keys
  - Markup timeline murky
  - Budget savings
  - Farmer safety net
    - Shallow loss questions rising
    - Will producer choice be in final bill?
    - Separate program (STAX) for cotton
  - Crop insurance
  - Food stamps
  - Maximum CRP acres
  - Dairy policy: Major changes proposed
  - Trade policy implications – Brazil cotton case
Takeaways

- Will Obama, or Republicans, overreach?
- Most second terms not robust in accomplishments
- Watch use of executive orders if partisan discord returns
- Foreign policy issues usually prevail in president’s second term
- Major US tax reform coming... big impacts for business/farmers
- Changing U.S., world energy sector to have major implications
- US Immigration reform coming
- US crop insurance to come under focus – means testing ahead?
- Rise of middle class in developing countries will bolster world ag
- Remember those what ifs...
THANK YOU