Open Markets, Economic Growth and Shared Prosperity

“The Luckiest Generation”

Al Ambrose
Vice President, Risk Management
Oilseed Processing
CHS

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A Remarkable Sequence of Events Leads Global Transformation

- **1979 - 1990** Margaret Thatcher as U.K. Prime Minister privatizes 2/3 U.K. state-run industries, deregulates, cuts taxes (basic rate of 33% to 25%, top wage rate of 98% cut to 40%)

- **1980 - 1988** Ronald Reagan as U.S. President cuts taxes (top tax of 78% cut to 35% [was 91% in 1961], promotes deregulation, S.D.I.

- U.S./U.K. economies lead global economic recovery (S&P 500 & U.K. FTSE triple '82 -'87)

- **1983/84** Deng Xiaoping introduces “market socialism”, de-collectivizes state-run farms, promotes individual property rights through long-term land leases
A Remarkable Sequence of Events, continued

- 1986/87 - Gorbachev introduces reforms
- June 4, 1989 - Tiananmen Square
- June 5, 1989 - Solidarity wins 99% in Poland
- Nov ’89 Berlin Wall falls, Cold War ends, global shift from “guns to butter”
- 1992/93 Uruguay Round (GATT) completed
- Global trade reform. China “free-trade zones”
- 1994 - “NAFTA” signed
- “Globalization” takes root
- Widespread “sustainable prosperity” ensues
A Formula for Prosperity

- Rule of Law
- Capitalism (individual opportunity)
- Competition (creative destruction)
- Trade (comparative advantage)
- Property rights (i.e. limited taxation)
- Sensible immigration policy
- Democracy? In America, capitalism predated democracy by hundreds of years
This “Luckiest Generation” enjoys…

- Greater wealth
- Greater longevity
- Better health
- More abundant food supply
- Wider freedoms
- Greater opportunity
- More comfort
- More hope
All price charts as of
C.O.B. February 27, 2007

14-fold expansion over 18 years

1,553 (Mar’00)
107 (Jul’82)
Keynesian economic theory dominated public policy: 1945 - 1980

(onerous taxation, central planning, government regulation and programs, socialism, collectivism...)

Laski, Marx, Keynes, Galbraith, P. Samuelson, Krugman

“The State is wiser than the individual...”

386 (1929)
570 (1974)
Monetarist ("Chicago School") approach replaced Keynesian policies circa 1981…
(tax-reform, privatization, deregulation, free enterprise, capitalism, individualism…)

Adam Smith, Von Misses, Hayek, Friedman, Reagan, Thatcher, Greenspan, Bernanke

“Individuals and markets allocate resources better than governments…”
**Dow Jones Industrial Index - Quarterly - 105 years**

- **11,750 (Mar’00)**
- **15-fold expansion in 18 years…**
- **1200 (Aug’82)**
- ***Dow 183,000 by 2025?***
- (**Note: This is a rhetorical question, not a forecast!)**
U.S. Household Net Worth
(trillion dollars)

- 1950  1.0
- 1960  1.8
- 1970  3.4
- 1980  9.4
- 1990  20.2
- 2000  42.0
- 2006 (Q3)  54.1

Expanded 6-fold in 26 years!

Up 29% past five...

Note: 54 trillion seconds is 1.7 million years...

Source: U.S. Federal Reserve Statistical Release
Flow of Funds Accounts - Dec 7, 2006
All this growth despite...

- U.S./global equity market collapse’00-02
- September 11
- Enron, WorldCom, Tyco, etc.
- Three-year global economic slump
- Afghanistan and Iraq wars
- SARS, BSE, Avian flu
- Global war on terror
- Katrina/ Rita
- Real-estate “bubble”
Greenspan’s conundrum...

Productivity growth, massive wealth creation, Asian savings rate, equity-risk aversion, “housing bubble”, “Boomer” safe haven,

21.5% prime rate (12/80)

4% prime rate (6/03)
### U.S. Life Expectancy at Birth (years)

<table>
<thead>
<tr>
<th>Year</th>
<th>Female</th>
<th>Male</th>
<th>Both Sexes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1900</td>
<td>48.3</td>
<td>46.3</td>
<td>47.3</td>
</tr>
<tr>
<td>1935*</td>
<td>63.9</td>
<td>59.9</td>
<td>61.7</td>
</tr>
<tr>
<td>1945</td>
<td>68.2</td>
<td>63.2</td>
<td>65.5</td>
</tr>
<tr>
<td>1970</td>
<td>74.7</td>
<td>67.1</td>
<td>70.8</td>
</tr>
<tr>
<td>2000</td>
<td>79.7</td>
<td>74.3</td>
<td>77.0</td>
</tr>
</tbody>
</table>

**2000 v 1900**  
+65%  
+60%  
+64%

**2000 v 1935**  
+25%  
+24%  
+25%

*Social Security Act signed*

Source: National Center for Health Statistics
Sep 18, 2003
Financially and Physically Healthier?

• U.S Unemployment: 4.6% in January 2007
• Over 7.4 million jobs created since August 2003
• Roughly 70 % of Americans own their homes
• Nearly 60% of Americans own stock shares
  * Proportion of Americans 65 and over in poverty 10% (2003) versus 35% (1959)
  * Percent of Americans completing high school 71.5% (2003) versus 17% (1950)
  * Age group 85 and older fastest growing segment of US

*Sources: National Institute on Aging*
The Farm Sector
US Net Farm Income
(Billions of Dollars)

Source: USDA – Nov 2006
US Average Farm vs. Non-Farm Household Income
(Percentage)

Source: USDA – Nov 2006
US Farm Sector Debt to Equity Ratio (Percentage)

Source: USDA – Nov 2006
Average Farm Equity
(Thousands of Dollars)

Source: USDA – Nov 2006
Food Supply
Soy Consumption and Global Prosperity

- As the very poor advance economically, they move from grains to vegetable oils to meat.
- Per capita vegetable oil consumption in the poorest countries is used by IMF as measure of changing living standards.
- Very poor people do not purchase meat.
- In many developing countries, massive job creation and rapidly advancing incomes spur improved dietary intake.
- The result? An unprecedented expansion of vegetable oil and protein consumption.
World Soybean Production 1996-2007
(Million Metric Tons)

Total production up 103 MMT (82%) in 11 years
China usage grew 31 MMT (30%)

Source: USDA – Feb 2007
Soybean Harvest - Mato Grosso, Brazil

Soybean harvest followed by planting of double crop corn
(31 combines & 12 planters)

Tomorrow: A Necessity...

Today: A Threat...
Malaysian, Indonesian, Other World Palm Oil Production
(Million Metric Tons)

**Average: Up 2.1 MMT past 10 years**

**Eight-fold in 26 years!**

Source: USDA FAS – Feb 2007
### World Vegetable Oil Production
(Million Metric Tons)

<table>
<thead>
<tr>
<th></th>
<th>80/81</th>
<th>06/07</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Palm</td>
<td>4.9</td>
<td>39.0</td>
<td>+696%</td>
</tr>
<tr>
<td>Soybean</td>
<td>9.8</td>
<td>35.7</td>
<td>+265%</td>
</tr>
<tr>
<td>Rape</td>
<td>3.9</td>
<td>18.0</td>
<td>+362%</td>
</tr>
<tr>
<td>Sun seed</td>
<td>4.6</td>
<td>10.8</td>
<td>+135%</td>
</tr>
<tr>
<td>Groundnut</td>
<td>2.3</td>
<td>4.9</td>
<td>+109%</td>
</tr>
<tr>
<td>Cotton</td>
<td>2.9</td>
<td>4.7</td>
<td>+62%</td>
</tr>
<tr>
<td>Palm Kernel</td>
<td>0.5</td>
<td>4.7</td>
<td>+840%</td>
</tr>
<tr>
<td>Olive</td>
<td>1.9</td>
<td>3.0</td>
<td>+58%</td>
</tr>
<tr>
<td>Coconut</td>
<td>2.8</td>
<td>3.3</td>
<td>+18%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>33.6</td>
<td>124.0</td>
<td>+269%</td>
</tr>
</tbody>
</table>

**World production more than triples in 26 years! (5.7X)**

(World Population + 47% same period)

Source: USDA FAS - Feb 2007
World Production vs. Year-end Stocks-to-Use Ratios
(Combined Palm oil, Rape oil, Soy oil, Sun oil)

*This prior to recent bio-fuels phenomenon…

Source: USDA FAS – Feb 2007
## Chinese and U.S. GDP Growth - 16 years

<table>
<thead>
<tr>
<th>China GDP</th>
<th>U.S. GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>14.2%</td>
</tr>
<tr>
<td>1993</td>
<td>13.5%</td>
</tr>
<tr>
<td>1994</td>
<td>12.8%</td>
</tr>
<tr>
<td>1995</td>
<td>10.5%</td>
</tr>
<tr>
<td>1996</td>
<td>9.6%</td>
</tr>
<tr>
<td>1997</td>
<td>8.8%</td>
</tr>
<tr>
<td>1998</td>
<td>7.8%</td>
</tr>
<tr>
<td>1999</td>
<td>7.1%</td>
</tr>
<tr>
<td>2000</td>
<td>8.0%</td>
</tr>
<tr>
<td>2001</td>
<td>7.5%</td>
</tr>
<tr>
<td>2002</td>
<td>8.3%</td>
</tr>
<tr>
<td>2003</td>
<td>9.3%</td>
</tr>
<tr>
<td>2004</td>
<td>9.5%</td>
</tr>
<tr>
<td>2005</td>
<td>9.9%</td>
</tr>
<tr>
<td>2006</td>
<td>10.6% E.</td>
</tr>
<tr>
<td>2007</td>
<td>9.6% E.</td>
</tr>
</tbody>
</table>

Source: ERS/ USDA – Jan 2007
Chinese Soybean Oil Consumption (Million Metric Tons)

42-fold expansion over 23 years...

Source: USDA – Feb 2007
Chinese Soybean Meal Consumption
(Million Metric Tons)

2600% increase 1990 to 2005

15% population growth same period

Protein consumption outgrew population by 173X past 15 years

Source: USDA – Feb 2007
Chinese Soybean Meal Consumption
(Million Metric Tons)

Says law: “supply creates its own demand”

Supply-side economics, at it’s best!

Source: USDA – Feb 2007
Trade-generated prosperity is **not** a zero-sum game!
Chinese Soybean Imports (MMT)

\[ \begin{array}{cccccccccccc}
\end{array} \]

Source: USDA – Feb 2007

*8 year average gain of 3.5 MMT

*Rose 197 - fold over 12 years...*
Chinese Vegetable Oil Imports
(Million Metric Tons)

Record palm oil imports
7 straight years

Soy oil imports average
1.9 MMT - 5 yrs...

Source: USDA – Feb 2007
Vegetable Oil Disappearance
(KG P/ C)

U.S. 38, Canada 26.3, EU-25 27.8

China  
Cuba  
FSU-12  
India  
North Korea  
Mexico

Source: FAS – Feb 2007

*Trade Sanctions Reform Export Enhancement Act of 2000
The Trend Is Clear…

An Interdependent World

Thirteen Selected Equity Markets
1995-2007
U.S. Standard & Poor’s 500 - Monthly

Mar’00

+90%

Mar’03
Prosperity is not a zero-sum game!
Nikkei, F.T.S.E., DAX, CAC

+139%

+97%

+222%

+140%
Singapore, Taiwan, Korea, Hong Kong

+182%

+112%

+198%

+196%
Dow Jones Ireland Index - Monthly

- 12.5% corporate tax rate (from 50%)
- 20% capital gains rate
- 42% personal rate

*P/C GNP(2004), 6th highest in world…
Real Annual GDP growth 6.93% (’99 – ’04)
versus 2% average other EU countries

+187%

Unemployment drops from 17% to 5%…

12.5% corporate tax rate (from 50%)
20% capital gains rate
42% personal rate

*Source: National Competitiveness Council, Sep 2005
## Global Electoral Democracies

<table>
<thead>
<tr>
<th>Year</th>
<th>Total countries</th>
<th>Free</th>
<th>Partly Free</th>
<th>Pct.</th>
<th>Not Free</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975</td>
<td>158</td>
<td>40</td>
<td>53</td>
<td>59%</td>
<td>65</td>
</tr>
<tr>
<td>1985</td>
<td>167</td>
<td>56</td>
<td>56</td>
<td>67%</td>
<td>55</td>
</tr>
<tr>
<td>1995</td>
<td>191</td>
<td>76</td>
<td>62</td>
<td>72%</td>
<td>53</td>
</tr>
<tr>
<td>2005</td>
<td>192</td>
<td>89</td>
<td>58</td>
<td>77%</td>
<td>45</td>
</tr>
</tbody>
</table>

+123%  +9%  +31%  -31%

In 2002, the GDP of Free countries stood at $26.8 trillion, while the GDP of Not Free countries was $1.7 trillion.

*Not free because prosperous; rather, prosperous because free.*

Source: Freedom House 2006
The Outlook...

- Pervasive spread of **freedom, capitalism, and optimism** trump terrorism
- The forward march of global prosperity continues
- Food-demand growth rate accelerating
- Free-market principles, progressive policies, and the indomitable human spirit combine to advance human condition
- One caveat... protectionism, isolationism, and overt nationalism pose greater threats to broadening prosperity than does terrorism
The Next Great Opportunity?

Global Agricultural Trade Reform

Global industrial tariffs average: 4% (20%)

Global agricultural tariffs average: 40%

Support the Doha Development Round
World Night Picture

Energy,
Activity,
Warmth,
Prosperity,
Hope…

Truth…

Count your blessings…
Open Markets, Economic Growth and Shared Prosperity

“The Luckiest Generation”

Thank you!

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