Biofuels: Market Integration & Farm Policy

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The Question at Hand

• Is the exploding demand for biofuels is so great that:
  – The rationale for traditional farm programs is no longer relevant
  – Farm programs as we have known them are not needed
  – Biofuel-driven high prices eliminate agricultural subsidies a barrier to greater market integration
High Prices Are the Future

Projected ethanol demand is the driving force behind the recent surge in US corn prices
High Prices Are the Future

• The 2007 USDA Baseline projects:
  – Ethanol demand for corn increasing from 1.6 billion bu. in 2005 to 4.4 billion bu. In 2016
  – A ten year corn price range of $3.30 to $3.75
  – Very low stock levels by historical standards
Under These Conditions

- Subsidies for program crops
  - Are fully replaced by market receipts
  - Cease to be a budgetary problem for the Federal Government
    - We might even be able to transition the AMTA payments like 1996 intentions
  - Will cease to be a stumbling block in trade negotiations and greater market integration in agricultural products
Short-Term Considerations

- US supply response
  - Increased US production
  - Arbitrage of crop acres in US to corn
    - March Crop Intentions?
      - 7 million additional acres, 10? 11?
    - Less soybeans, wheat, and cotton and more corn
Short-Term Considerations

• International supply response
  – Increased international production
    • Mexican crop response: 4 million ac.
    • Argentina, Brazil, Africa
      – All have indicated that $4.00 corn may alter planting response
  – Decreased need for corn imports from the US
  – The market could be awash with corn
**Short-Term Considerations**

- **Weather event in the US**
  - 2007 US corn carry-in projected to be 7.9%
    - Historic carry-in range has been 10% to 20%
    - This has been adequate to cover a possible 10% corn production shortfall
  - What would happen if 2007 was a bad weather year?
  - $6.00 + + corn?
Short-Term Impact

• Of weather event in the US
  – And $6.00 + + corn
    • Additional US acres would come into production
    • Trigger significant response in Brazil, Argentina, Mexico and elsewhere
  – High prices bring acres in quickly
  – Low prices wring out excess acres slowly resulting in a long period of low prices
Long-Term Considerations

• US supply response
  – Conversion of pasture and grassland to crop production
  – Investment in yield enhancing technology
  – Conversion of land to cellulosic feedstocks, some of which will not be current cropland
Long-Term Considerations

• International supply response
  – Development of drought resistant crops
  – Land availability for these crops
    • 250 mil. ac. of savannah land in Brazil
    • 200 mil. ac. of savannah land in Venezuela, Guyana, and Peru
    • 100 mil. ac. in former Soviet Union
    • 250 mil. ac. in China’s west
    • 300 mil. ac. of savannah land in Sub-Saharan Africa
Thank You

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