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Biofuels: Market Integration & Farm Policy

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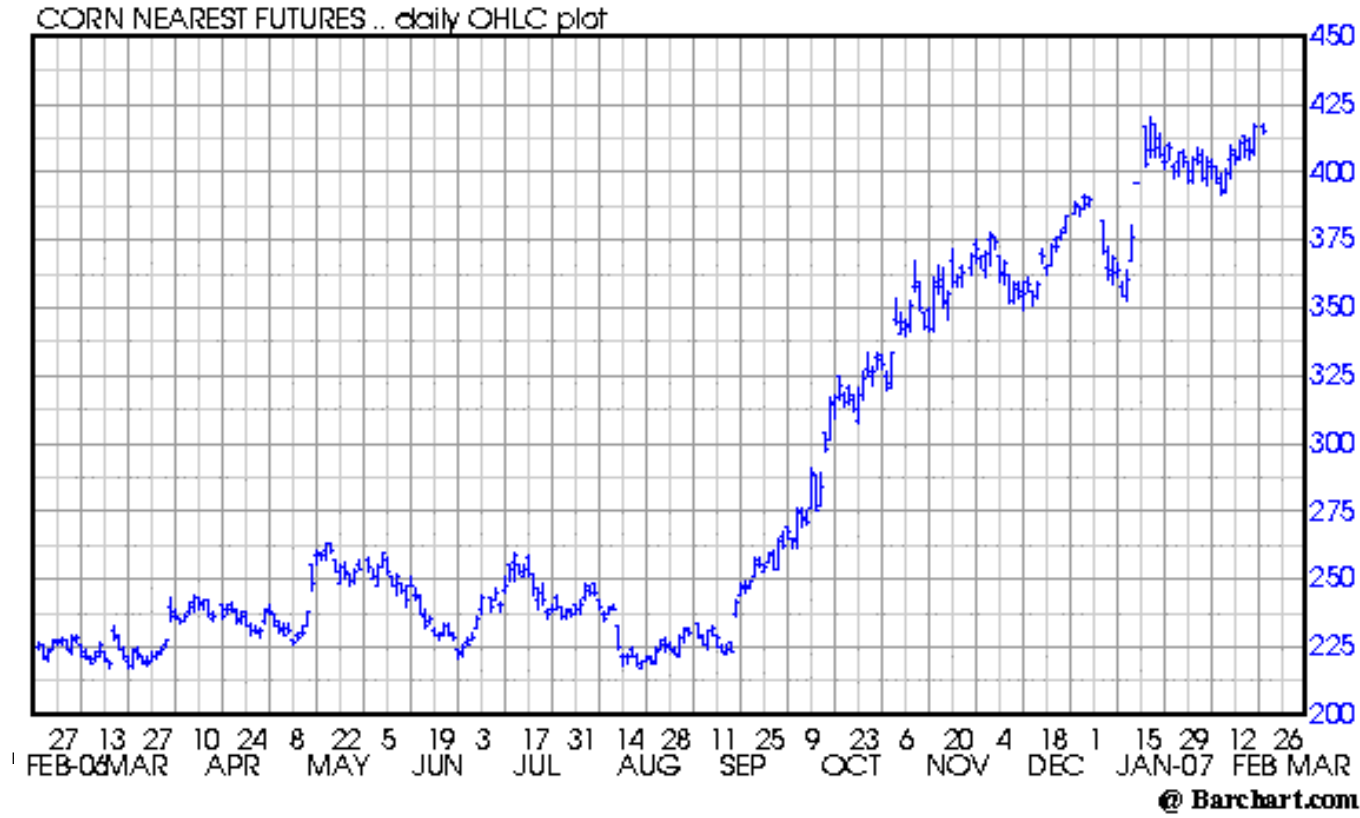
University of Tennessee
Agricultural Policy Analysis Center

Agricultural Outlook Conference
Arlington, VA????
March 1, 2007

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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