

## International Trade Digest: March 2009

agricultural trade news highlights for the Iowa Farm Bureau Board of Directors

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compiled by Joel Severinghaus, IFBF international trade analyst & Carol Robinson, administrative assistant

### Quotes of the month

**“The IMF expects global growth to slow below zero this year, the worst performance in most of our lifetimes.”**

– International Monetary Fund chief Dominique Strauss-Kahn (*Bridges Weekly Trade News Digest* 3/11/09)

**“There is no convincing evidence that consumers truly care about the country of origin of their meat products, that they are willing to pay more for products from a particular country, or that they are willing to bear the additional costs of such a system... The fact is, the real purpose of COOL is it serves as a non-tariff trade barrier, making it more expensive to import animals or meat products from abroad.”**

– American Meat Institute spokesman Dave Ray (*meatpoultry.com* 3/13/09)

**“The sky is not going to fall... We do not have the WTO challenge idling at the curb ready to go.”**

– Canada Minister of Agriculture and Agri-Food Gerry Ritz, on COOL (*thepoultrysite.com* 3/16/09)

**“Whatever the action of the United States will be – even in front of the WTO – our complaint and our case is well grounded. There is no logical explanation for why biodiesel sold in Europe could be cheaper than its raw materials.”**

– European Biodiesel Board secretary-general Raffaello Garofalo, on EU antidumping duties on US biodiesel (*New York Times* 3/4/09)

**“It defies logic that the US would risk a trade war during a recession with our third-largest trading partner just because we refuse to allow less than 100 trucks from Mexico into the country.”**

– Rep. Jeff Flake, R-Ariz. (*Congressional Quarterly* 3/22/09)

**“The leaders must continue to meet and feign hope, and analysts must continue to remind that US domestic politics are so rubbed raw by trade policy that the Obama Administration can concede very little, and must demand far more than other nations would be willing to give.”**

– Analyst Gary Blumenthal, on the WTO Doha Round (*Ag Perspectives* 3/20/09)

**“Our consensus to advance international trade is frayed. Our faith in the international trading system is badly shaken.”**

– Sen. Max Baucus, D-Mont., at USTR Ron Kirk’s confirmation hearing (*Washington Post* 3/10/09)

**“It is true that cheaper foreign products help squeezed American families stretch their dollars, and the sale of our goods and services abroad support American families. But it is also true that the overarching benefits of trade are difficult to appreciate when a plant closes in a small community because of increased foreign competition.”**

– US Trade Representative Ron Kirk, at his confirmation hearing (*Washington Post* 3/10/09)

### Iowa Interstate Railroad to close Newton intermodal

Despite the best efforts of local businesses, state legislators and economic development groups, the Iowa Interstate Railroad has plans to shut down the intermodal facility in Newton. For the past several years, the facility has been a center for loading and unloading containerized cargo for rail shipments to destinations both domestic and international. Richard Stoeckly, Iowa Interstate Railroad’s senior vice-president of sales and marketing, cited the recent economic downturn and the demise of Maytag as reasons for the closure, set for May 1.

Sen. Dennis Black, who has been instrumental in forging ties in foreign markets for local goods, said he was very angry with Iowa Interstate’s decision to close the facility. “This is disastrous for the vision many have had for the future of Newton and central Iowa, for an intermodal is an essential ingredient in the foreign trade emanating from our region,” Black said. Black noted several businesses that are utilizing the intermodal facility at the present time, including Alliance Minerals from India, B&B Bedding, Spal, May May Ng and Realm.

Alliance imports marble and granite from India and Vietnam and shipped 110 inbound loads last year, with projected inbound loads to Newton this year at 180 and 360 loads by 2011.

B&B from Oskaloosa brings in cypress mulch from Florida, and Realm picks up the loads at the Newton facility to deliver to their warehouse. That company has had 119 loads since the beginning of the year. Without the Newton ramp, Black said, B&B will lose their competitive advantage in servicing the Menard’s stores, and, in turn, Realm will lose the warehouse business.

Spal is an importer of car components in Des Moines. They had 96 inbound loads to the Newton ramp last year.

May May Ng currently utilizes the Newton ramp for exporting pigskins to China and Vietnam. For the past few months, Realm has been performing the trans-load function, transferring the pigskins from flatbeds to 20-foot containers. Ng said she was upset when she heard the facility is closing, but was not surprised. "Service has not been very consistent," Ng said. She added that in her opinion, the facility has not been well-advertised to potential customers. "The facility can be a very busy place with a marketing effort," she said. "I know of several businesses in Des Moines who could use the intermodal."

Chris Barton, owner of Realm, processors of designer mulch, has been perhaps the biggest user, as well as promoter, of the intermodal facility. He said he has had numerous e-mail correspondence with Iowa Interstate officials, with no luck in changing their mind to close the facility.

"This closure is going to force us to come up with another solution," Barton said, agreeing with Ng that the promotion of the Newton facility by Iowa Interstate has been lacking. "I have done my best to promote it, but I'm not sure I can say the same about Iowa Interstate," Barton said. But he emphasized that he owes it to his customers to come up with an alternate shipping plan when the intermodal closes.

Other opportunities at the facility, Black said, included Wieland & Sons of Winthrop, exporters of lumber and logs; Harrison Cooper of Lynnville, who currently exports four containers per day via a Chicago facility; Hunters Specialty of Cedar Rapids, currently in the process of shipping 35 to 40 containers from India to the Newton ramp; and Embracco of Brazil, importing compressors for Amana Refrigeration.

Hardly any of that matters, though, since Iowa Interstate officials

have apparently made up their minds to close the facility. "We have spent hours and hours of discussion with local officials," Stoeckly said [March 19] "Discussions are over."

Black said he could not imagine Iowa Interstate closing the Newton facility at this time. "They (Iowa Interstate) have ridden through the tough times, but now is the time that the entrepreneurial spirit comes to play," Black said. "I am seeking advice from the executive and legislative branches of state government to become a player in the process of retaining and creating more jobs and commerce out of Newton by investing some of our stimulus money in this endeavor," he added. "An intermodal in the center of the US, and adjacent to the two major east/west and north/south transportation routes, is a distinct advantage." (*Newton Daily News* 3/20/09)

### US trade deficit narrows for record sixth month

The US trade deficit narrowed sharply in January to its smallest in more than six years as imports plunged on weak domestic demand, swamping a big drop in exports, government data showed on [March 13]. The monthly trade gap fell 9.7 percent to \$36 billion, compared to the \$38 billion gap Wall Street expected, Commerce Department data showed. The deficit has now narrowed for a record six consecutive months, the longest previous run being from April through August 2007.

"The narrowing reflects the ongoing economic downturn. US consumers are pulling back and that's resulting in fewer imports while exports are falling," said Mark Zandi, chief economist at Moody's... "It reflects how bad economic conditions are everywhere."

US exports of goods and services fell 5.7 percent from December to the lowest since September 2006 and imports tumbled 6.7 percent to the lowest since March 2005. (*Reuters* 3/13/09)

### Senate, administration weigh \$40 million cut to MAP funds

A \$40 million cut in funding for the Market Access Program (MAP) – equal to 20 percent of the MAP budget – is being proposed by Senate Budget Committee Chairman Kent Conrad (D-N.D.) with support from the Obama Administration.

MAP funds, which are utilized to support market access efforts and promotional programs for US agricultural products overseas, play a significant role in financing the programs of USMEF. MAP funds account for \$16 million, or more than half, of USMEF funding in the current fiscal year.

US beef and pork exports alone accounted for \$8.5 billion in revenue for the United States during 2008. The export of 4.5 billion pounds of pork valued at nearly \$4.9 billion was a 57 percent increase in volume and a 55 percent increase in value over 2007. International markets purchased 24.4 percent all US pork production last year, and that export value equated to \$42.31 per head for each hog processed.

US beef exports in 2008 totaled nearly 2.2 billion pounds valued at \$3.6 billion – an increase of 28 percent in volume and 38 percent in value over 2007 totals. The recovery of US beef exports in 2008 enabled the United States to become a net exporter of beef, with exports outweighing imports by \$453 million compared to net imports of \$780 million in 2007. Exports added \$133.84 to the value of each US steer and heifer processed in 2008.

"While the term 'stimulus spending' is in vogue this year, MAP funding has traditionally been viewed as providing a stimulus for US exports and the balance of trade," said Philip Seng, USMEF president and CEO. "With domestic consumption of beef and pork remaining fairly static in recent years, the US beef and pork industries have become increasingly dependent on international markets to sustain production levels and

employment. Pork exports have jumped from 5.6 percent of total US production in 1995 to 24.4 percent last year, while beef exports, which fell to 3.6 percent of US production after BSE was found in the US in 2003, rebounded to 11.6 percent last year.”

Seng noted that MAP funding was designed as a tool to open, maintain and sustain access to international markets for US agricultural exports, and to help overcome duties and other barriers to trade. In the current economic climate of protectionism, he believes that MAP-funded programs are more timely and critical than ever.

In a bipartisan effort in defense of MAP funding to support US agriculture exports, Senators Maria Cantwell (D-WA) and Mike Crapo (R-ID) have drafted letters to President Obama seeking his support for MAP. A number of key senators have added their names in support of preserving current MAP funding levels: John Barrasso (R-WY), Barbara Boxer (D-CA), Saxby Chambliss (R-GA), Susan Collins (R-ME), Michael Enzi (R-WY), Kirsten Gillibrand (D-NY), Johnny Isakson (R-GA), Mike Johanns (R-NE), Carl Levin (D-MI), James Risch (R-ID), Pat Roberts (R-KS), Olympia Snowe (R-ME), Debbie Stabenow (D-MI), David Vitter (R-LA) and Ron Wyden (D-OR).

“While we are acutely aware of the economic crisis that is affecting the United States as well as our trading partners around the globe, we are hopeful that our legislators will see the benefits of a vigorous international marketing program for US agricultural exports,” said Seng. “It is a challenge to create new jobs in a slumping economy, so we believe MAP funds are an excellent investment in preserving jobs in the key agriculture sector and maintaining our positive balance of trade.” (*USMEF Export Newswire 3/30/09*)

### The DDGS export market

Only 15 percent of DDGS are exported. The number of states with

dry-mill plants is expected to double from 13 in 2004 to 26 in 2010, making DDGS production more geographically disperse. However, ethanol production remains concentrated in the Corn Belt with eight states in 2007 producing a DDGS surplus. By 2010, 14 states are expected to be producing surpluses totaling 25 million tons, 10 million of which are expected to be absorbed domestically. During the 2007-08 marketing year, DDGS exports were 3.9 million tons, according to the U.S. Grains Council. DDGS exports for 2008-09 are projected at 5.4 million tons.

Historically, DDGS prices have tracked corn... but DDGS should be valued slightly higher, although still lower than soybean meal. “Ethanol producers need to consider the benefits of developing export markets to enhance demand for the DDGS they produce,” [Univ. of IL agronomist Nicholas] Paulson says. Expanding global demand for meat, higher feed grain prices and relatively low tariff rates for DDGS will help... But there are strong competitors.

“One of the main challenges that I’ve seen with getting DDGS overseas is stiff competition from wheat and soybean meal around the world,” says Ryan LeGrand, export marketing manager for Hawkeye Gold LLC, a subsidiary of Hawkeye Energy Holdings LLC. Hawkeye Gold markets DDGS for Hawkeye plants throughout Iowa. LeGrand says DDGS is a harder sell in the current market against Black Sea wheat and Indian soybean meal. On the other hand, when wheat growers recently had a bad year, “we were seeing demand [for DDGS] coming out of the woodwork from all over the world,” he says.

Historically, the EU has been an important export market for DDGS. The EU imported 53 percent of US DDGS exports in 2005... However, EU restrictions on imports of genetically modified crops have hurt. “The European Union has, for all practical purposes, been eliminated as

an export market”...

Canada and Mexico remain strong markets... with Canada’s potential at 3.8 million tons and Mexico at 3.1 million. Because Japan, Taiwan and South Korea rely heavily on imported feed, exports to those countries have increased. They potentially could import 5.4 million tons.

Recently, smaller international markets have developed that each year account for a larger share of exports, Paulson says. The export share to small markets in Central and South America, the Caribbean, Southeast Asia, and Africa increased to nearly 25 percent in 2007. Even conservative estimates say potential demand in small international markets might be more than 16 million tons, Paulson says.

All together, potential domestic and international demand could absorb the anticipated increase in DDGS production... but the U.S. Grains Council needs to continue to educate foreign buyers about DDGS.

“The Grains Council has done a lot of good work in developing markets overseas,” says Bruce Abbe, executive director for the Midwest Shippers’ Association, a state-funded cooperative in Eden Prairie, Minn., that promotes and facilitates direct sales of Midwest agricultural commodities from producers to end users, both domestic and international. “This past year, we saw significant demand,” he says. “There is interest from China, in particular.”

To expand export markets, the ethanol industry needs to address product variability issues... One way to do that is to sell DDGS as a branded product.

“We sell the Hawkeye Gold brand as a consistent product across our entire network of plants,” LeGrand says, “and we try to promote value and quality above others on that basis. It takes some time to get a brand established. We’re going down that path and it is working well.”

But branding and the promise of consistency is not enough for all international buyers. “In particular, the

Asian customers seem to like to go and see things first hand: the plant, the production and all of that type of thing,” says Sean Broderick, senior merchandiser for CHS Inc., an Inver Grove Heights, Minn., company with DDGS marketing agreements at 28 ethanol facilities. “[Asian customers] have made a lot of visits over here,” Broderick says. “They have seen a lot of different plants and I think they are just more comfortable trading with you if they have seen the product.”

The industry must also address product flowability issues... DDGS that has moisture content higher than 10 percent can solidify during shipment, forcing load operators to hammer the sides and bottoms of hoppers to induce flow. This has led railroads to require DDGS to be shipped in hopper cars owned or leased by the shipper. (There was a 25,000-unit increase in demand for jumbo hoppers between 2005 and 2007...) “They did that because the cars were being beaten up,” says Broderick, who has been marketing DDGS since 1991. “There were a lot of plants that were just sort of loading it haphazardly. They weren’t letting it cool [and] loaded it right out of the spout.”

“Over the years, it has gotten a lot better,” says Paul Lundequam, transportation manager for the Arcadia Cooperative Association in Arcadia, Wis. The co-op has a transloading facility for moving DDGS and other grains from hopper cars to containers that have been used to import supplies for Ashley Furniture Industries Inc. in Arcadia.

“Five years ago, if the truck didn’t come straight from the distillers plant within six hours, it was a good hour to an hour-and-a-half to unload the truck, just beating on the trailer,” Lundequam says. “But now, most times [we] don’t ever hit the trailer anymore with a hammer until it’s just to clean out the last little bit.”

“[Change] in the industry has been two-fold,” Broderick says. “One is the knowledge that the plants have themselves about the best ways to

load. The other side of it is the acceptance of the customers and the unloaders that DDGS is not shelled corn – it takes a little bit of extra creativeness, or effort, to unload the product.”

Shipping DDGS to international markets includes using a combination of rail, containers and barge... Both Canada and Mexico are well-served by rail, and the absence of tariffs under the North American Free Trade Agreement only makes exports by rail more likely... The anticipated rise in exports means by 2010, shipments are expected to nearly triple to 251,000 carloads.

To get DDGS to ports, a combination of rail and barge might be used. Because much of DDGS is produced in states along the Mississippi River, barge transportation might be competitive with rail... However, ethanol plants in the north can utilize 1,500-ton barges only four or five times per year before the river closes for winter.

Smaller than truckloads by 25 percent, 20-foot shipping containers hold only 18 tons of DDGS, but they are increasingly being used to ship to Asia from inland ports near Chicago, Kansas City, Memphis and Columbus... “A lot of the transportation systems are shifting to that method,” Abbe says. “The new major ports in China are all intermodal container-based ports.”

Shipping by container eliminates the transloading of DDGS multiple times. “A container can be shipped all the way to the end destination [where] people can unload it,” Abbe says. “It’s much, much more tailor-made for DDGS.”

DDGS marketers began using containers at just the right time, Broderick says. “The good thing about containers is that they came on at the time when we were really expanding the industry, and a number of export customers could try [DDGS] in pretty small increments without the commitment to infrastructure that you might have if you’re buying in bulk,” he says.

Shipping by container has also assisted marketers with selling DDGS as a branded product. After containers are sealed at the source, “they can be sent all the way to the end market and [they don’t] even have to be opened [along the way],” Abbe says. “It is ideal for identity preservation.”

But containers create more overhead for the ethanol producer. “The downside is that you have documentation on each one of those containers that you have to look after,” Broderick says.

Will the ethanol industry produce more DDGS than the domestic livestock feed market and the fledgling DDGS export market will bear? “I’ve been hearing that since 1991 when having three trucks a day was a lot of product,” Broderick says. “In the end, the market takes care of things. Price kind of solves everything in the end.” (*Ethanol Producer Magazine 3/09*)

## **USDA urged to increase sugar imports**

In a letter earlier this week 13 US senators urged US Department of Agriculture Secretary Tom Vilsack to increase tariff rate quotas (TRQs) for raw and refined sugar to relieve tight US sugar supplies.

“A confluence of factors, including production shortfalls, strong demand, and the continued closure of a major domestic refinery following a tragic accident last year, have contributed to a tight US sugar market,” the March 23 letter said. “By increasing current sugar TRQs for raw and refined sugar, USDA can help ensure that confectioners, bakers, ice cream makers and other US food producers have access to an adequate supply of sugar at a reasonable cost.”

The TRQs, or import quotas, were set in September 2008 for the 2008-09 (October-September) sugar marketing year. At that time the USDA said the domestic market likely would need additional sugar supply. In its March World Agricultural Supply and Demand Estimates, the USDA

projected a sugar stocks-to-use ratio of 9% on Sept. 30, 2009, historically low compared with a typical ratio near 15%.

“We hope that the Department will review current market conditions and make appropriate adjustments to ensure an adequate supply of sugar for the domestic market,” the senators said...

“The letter demonstrates strong bipartisan support for taking steps to ensure that the US sugar market remains adequately supplied,” said Fred Hensler, chairman of the Sweetener Users Association (S.U.A.). “The sweetener user, consumer and trade communities are appreciative of the support from members on this important issue.”

The S.U.A. added, “Because of the lead time to purchase, ship and refine raw sugar, a TRQ increase must occur in the very near future in order to avoid supply disruptions later this year.” The S.U.A. estimated an additional 750,000 tons of sugar was needed this year.

Domestic sugar producers noted that although domestic sugar supply will be short of projected demand, large shipments from Mexico have filled the void so far. Mexican sugar may enter the United States unrestricted under the North American Free Trade Agreement. In similar situations in the past, producers have indicated such requests for increased imports were more a matter of domestic users not wanting to pay current prices than of actual shortages. Most US sugar producers have indicated they still have supply available for 2008-09.

As of March 11 the USDA projected 2008-09 total sugar supply at 11,821,000 tons, raw value, consisting of 1,660,000 tons carried over from the previous year, 7,630,000 tons of domestic beet and cane sugar production and 2,531,000 tons of imports. Total sugar use for the year was projected at 10,840,000 tons, with an ending balance of 981,000 tons on Sept. 30, 2009.

Under current legislation, the

USDA, which administers the US sugar program, could not adjust TRQ levels until April 1. (*Bakingbusiness.com* 3/25/09)

## US to toughen its stance on trade

The Obama administration is aggressively reworking US trade policy to more strongly emphasize domestic and social issues, from the displacement of American workers to climate change.

Even as world trade takes its steepest drop in 80 years amid the global economic crisis, the administration is preparing to take a harder line with America’s trading partners. It will seek new benchmarks before supporting already-written trade agreements with Colombia and South Korea and is suggesting that it will dig in its heels on global trade talks, demanding that other countries make broader concessions first.

“I believe in trade and will work to expand it, but I also know that not all Americans are winning from it and that our trading partners are not always playing by the rules,” Ron Kirk, President Obama’s nominee as US trade representative, said in confirmation hearing testimony [March 9] before the Senate Finance Committee.

The shift underscores the mounting pressures confronting any effort to expand trade during the economic crisis. Even before the global economy went code red late last year, talks aimed at expanding global trade stalled as Western countries warred with emerging giants like China and India over how to further open markets.

Those divides appear to be more unbreachable than ever as world leaders move to protect their domestic industries from the ravages of the financial crisis, embracing new trade barriers aimed at imported goods and other measures meant to restrict the flow of capital outside their borders. In the United States, more Americans are blaming cheap imports for job

losses at home and congressional leaders pressed successfully to include a “buy American” provision in the \$787 billion stimulus program to give an edge to US-made products.

“Our consensus to advance international trade is frayed,” Sen. Max Baucus (D-Mont.) said at Kirk’s hearing yesterday. “Our faith in the international trading system is badly shaken.”

During the campaign, Obama said he generally supports free-trade policies but also signaled a tougher approach that is only now beginning to be outlined. Both in Kirk’s testimony yesterday and in a policy statement issued by new Obama appointees at the Office of the US Trade Representative, the administration vowed to make tougher labor and environmental standards prerequisites for trade deals. Rather than stressing the signing of new agreements, the administration indicated that it will instead prioritize stricter enforcement of existing ones before the World Trade Organization, the Geneva-based body that arbitrates global trade.

In what appeared to be a jab at the Bush administration’s zealous pursuit of free-trade agreements, Kirk, a former mayor of Dallas, said: “I do not come to this job... with deal fever. We’re not going to do deals just for doing so.”

The administration, he said, is conducting a review of trade agreements signed by the previous administration with South Korea, Colombia and Panama. He said outright that the deal with South Korea, as currently written, “is simply unfair.” He added that “we are prepared to step away from that” if it is not reworked.

The new administration policy statement, released by the trade representative’s office last week, said Obama would seek new benchmarks for the passage of the agreements with South Korea and Colombia. South Korea has come under fire for its hurdles for US automakers, while US unions have said Colombia has not

done enough to combat violence against labor leaders there. Though Kirk declined to detail what those benchmarks may be, analysts have suggested that they might involve, for instance, a US insistence that murders of union leaders be sharply reduced in Colombia before lending support to the deal.

The trade representative's office also stated that trade policy must now contain a new element of "social accountability," including on issues such as climate change. "We should aim to make trade a part of the tool kit of solutions for addressing international environmental challenges," the statement said.

"The result will be a complete rethink on what US priorities are on trade and what trade agreements look like in the future," said Randall Soderquist, senior trade program associate at the Center for Global Development. "This could mean starting from scratch versus just taking the baton from the Bush administration."

Yet the administration still appears to be toeing a line, saying it will move to address the concerns of American workers while also carefully avoiding words and deeds that directly smack of protectionism.

Though Obama said before the elections that he would seek to renegotiate the North American Free Trade Agreement, he has since backed away from that statement, vowing during his recent trip to Canada to avoid protectionism. Obama's opposition to a stronger version of the "buy American" provisions added to the stimulus bill last month by congressional Democrats is also viewed as a major reason it was eventually watered down before the bill reached his desk for signing.

In addition, Kirk – who appears headed for confirmation despite an admission that he mistakenly underpaid his taxes by \$10,000 – is viewed by many as a pragmatist who in the past has supported the notion of free trade.

Yet the administration, analysts

say, is also up against an American public that is increasingly blaming the open US trade policies of the past as part of the toxic mix at the root of the nation's economic problems. Kirk suggested as much yesterday.

"It is true that cheaper foreign products helped squeezed American families stretch their dollars, and the sale of our goods and services abroad support American families," he said. "But it is also true that the overarching benefits of trade are difficult to appreciate when a plant closes in a small community because of increased foreign competition." (*Washington Post* 3/10/09)

### **Opinion: Trading up to global recovery**

President Obama faces two immediate challenges: restoring economic growth and renewing global faith in America's judgment. A robust trade policy is essential to both.

Over the past 40 years, the share of trade in the US economy has tripled, to 30 percent of gross domestic product. The benefits are clear in significant income gains, record pre-crisis manufacturing output and exports, and robust services and farm trade. Exports, which support 20 percent of US manufacturing jobs, are now our only significant source of private-sector growth.

As the Senate considers the president's choice for US trade representative, former Dallas mayor Ron Kirk, lawmakers should keep in mind that trade spurs development, building alliances and security as economic integration creates shared interests. It is critical that, as Obama suggested last month in his speech to Congress, the United States avoid trade restrictions during this economic crisis. From this base, a three-pronged agenda can promote growth, and support foreign policy and global stability. It should:

- Do what counts. Economic expansion is key. Instead of small agreements with small countries, and rounding-error results for our

economy, finish the Doha round of global trade talks on acceptable terms, then pivot to the big partners and fastest-growing industries. A model free-trade agreement among the United States, Europe and Japan covering the largest, newest sectors of our economies – services trade, emerging technologies such as "green" infrastructure, energy and medical services – could be negotiated under the auspices of the World Trade Organization and opened to all countries wishing to join.

Meanwhile, we should focus on Asia, which remains the world's most dynamic region, starting with the pending US-South Korea free-trade agreement. Obama should put his stamp on the pact by obtaining additional commitments to liberalize the Korean auto market, followed by a guaranteed up-or-down vote in Congress. Repudiating South Korea – an ally and Asia's third-largest economy – is not desirable. This agreement, along with existing bilateral pacts with Singapore, Chile and Australia, and last year's transpacific initiative, should push a revitalized Asia-Pacific Economic Cooperation forum toward Pacific integration with the United States as a full partner rather than a marginal player. Robust engagement with China is also vital, with a sharpened emphasis on macroeconomic policy (including exchange rates), energy, climate change, nonproliferation and rogue states.

- Support development and security. We can do more for the world's poor and our national security by reforming our own trade regime. For example, the highest US manufacturing tariff is the 48 percent tax on cheap sneakers. The United States makes no cheap sneakers; they are produced in very poor countries such as Cambodia and in large Muslim states such as Pakistan. The same goes for many cheap clothes and household goods. Why tax these countries' meager profitability and the American pocketbook? It is similarly sensible to make permanent our

programs offering duty-free access for the least-developed countries.

US security concerns center on the Middle East, from the Maghreb to Central Asia. That area includes some of the world's poorest regions, with high unemployment rates that further radicalize young populations. Attempts to solve its political problems without addressing economic stagnation have not worked. A better option, modeled on the duty-free program for Africa, would be to waive tariffs for reforming Muslim countries that cooperate with US efforts to fight terrorism.

Development and security also require a new strategy on Latin America. The pending free-trade agreements with Colombia and Panama should be passed, with an added provision in the Colombia pact for joint oversight of targeted union violence and extra assistance for police, courts and other institutions to ensure the full enforcement of laws. The United States should then seek to combine and modernize the four existing Latin American free-trade agreements, including NAFTA, into a single pact that would include disciplines on labor and the environment. This modernization would also provide a process in which to productively engage Brazil.

– Foster common action. The global system serves America's interests and aspirations. The more we adjust to new economic realities and demand constructive engagement from the developing world – India, China and others – on international economic governance, the more stable that system will become. These countries should have enhanced voting rights in the International Monetary Fund, the World Bank and other organizations, but they must accept more responsibility for stewardship of the global order from which they benefit. In combating today's economic crisis, that includes providing additional liquidity, coordinated stimulus and assistance to the poorest countries as well as cooperation toward a global system of regulation.

To be sure, sensible domestic policies must accompany an effective trade policy. Progressive tax policies, portable pensions, comprehensive health care and other measures are necessary to help spread the benefits of globalization more equitably. But a comprehensive trade policy is as essential as these domestic policies.

Trade policy is challenging. Some may be tempted to view it as too politically taxing given an already crowded agenda. It is imperative for growth and American leadership, however, that Obama and Congress confound the skeptics and move forward on a robust trade agenda.

*The writer, Charlene Barshefsky, was the US trade representative from 1997 to 2001. (Washington Post 3/10/09)*

### **World Bank predicts steepest drop in trade in 80 years**

World trade is set to register its first drop since 1982 and its biggest decline in 80 years, the World Bank said in a report released this week. Thus far, some of the sectors that have been most affected include urban-based exporters, construction, mining and manufacturing. The sharpest losses are expected to be felt in East Asia.

The crisis will have significant and long-lasting implications in poorer parts of the world. Indeed, developing countries face a 'financing gap' of between US\$ 270 billion and US\$ 700 billion, the World Bank said, stressing that levels of funding that have been pledged by international financial institutions would not be able to meet poor countries' needs this year. If the ongoing economic crisis meets some of the more pessimistic predictions, "unmet financing needs will be enormous."

Such an outcome could have long-term implications for developing countries. The economic slowdown is likely to push people who are hovering on the brink of poverty into a more serious degree of deprivation, the report warned, and developing

countries will struggle to cope with the increased numbers of their citizens who need government support.

Out of the world's 116 developing countries, 94 have experienced a slowdown in economic growth.

"Preventing an economic catastrophe in developing countries is important for global efforts to overcome this crisis. We need investments in safety nets, infrastructure, and small and medium size companies to create jobs and to avoid social and political unrest," World Bank President Robert Zoellick said upon the release of the report. (*Bridges Weekly Trade News Digest 3/11/09*)

### **WTO predicts world trade will drop 9% in 2009**

World trade flows will fall by roughly 9 percent this year – the biggest drop in more than 60 years – thanks to the ongoing economic downturn, the WTO said [March 23].

Global trade grew by just 2 percent in 2008, not the 4.5 percent that was forecasted a year ago, the WTO said, attributing the over-estimation to the unexpected and very sharp drop in global production in the final quarter of 2008.

The marked drop in trade has been triggered in part by a rapid contraction in the availability of credit to finance the movement of imports and exports, the report concluded. A decline in asset prices, weakened demand, and decreased production also contributed to the decline.

"Production for many products is sourced around the world so there is a multiplier effect – as demand falls sharply overall, trade will fall even further. The depleted pool of funds available for trade finance has contributed to the significant decline in trade flows, in particular in developing countries," said WTO Director-General Pascal Lamy.

Growth in real global output amounted to 1.7 percent last year, down from 3.5 percent the year

before. In 2009, the WTO predicts world production will fall by between 1 percent and 2 percent, marking the first decline in global output since the 1930s. WTO Director-General Pascal Lamy warned that as demand falls sharply overall, trade will tumble even further.

“Trade can be a potent tool in lifting the world from these economic doldrums. In London G20 leaders will have a unique opportunity to unite in moving from pledges to action and refrain from any further protectionist measure which will render global recovery efforts less effective,” said Lamy, referring to a gathering of key heads of state that is set for 2 April.

Many government-led programs aim to address the economic crisis through policies such as bank bailouts and mortgage assistance for homeowners. But, the WTO reports warned, conventional monetary policy may be reaching the limits of its effectiveness, with interest rates in the United States and elsewhere approaching zero. Economic recovery may now depend on the effectiveness of proposed fiscal stimulus plans. (*Bridges Weekly Trade News Digest 3/25/09*)

### **USDA predicts drop in world ag output**

The total world agricultural output is expected to fall in fiscal year 2009 between 1.5% and 1.8%, while the US Gross Domestic Product is forecasted to decline 2.2% to 2.8%, according to USDA’s Economic Research Service’s recently released annual FY 2009 Agricultural Trade Outlook.

Farmers can expect less credit and higher interest rates, the report states, although they will be subject to less credit rationing as seen throughout the United States. Economic growth is expected to decline due to reduced spending as a result of weak housing construction, higher long-term market interest rates, deteriorating household and business balance sheets, increased unemployment and decreased personal

income.

The Western Hemisphere remains the top regional destination for US agricultural exports... Such exports, however, are forecasted to decline to Europe, Africa and the Middle East. US agricultural exports are projected at \$98.5 billion in November 2009 but will decrease by \$3 billion in February.

Grain and feed exports are expected to decrease due to a drop in export volume and unit values. Oilseeds and products will essentially remain unchanged because of a high demand from China and few supplies from South America.

The economic crisis is expected to result in a weaker demand for livestock, poultry and dairy and a slower growth in horticulture exports value. (*meatpoultry.com 3/9/09*)

### **Trade barriers could threaten global economy**

At least 17 of the 20 major nations that vowed at a November summit to avoid protectionist steps that could spark a global trade war have violated that promise, with countries from Russia to the United States to China enacting measures aimed at limiting the flow of imported goods, according to a World Bank report unveiled [March 17].

The report underscores a “worrying” trend toward protectionism as countries rush to shield their ailing domestic industries during the global economic crisis. It comes one day after Mexico vowed to slap new restrictions on 90 US products. That action is being taken in retaliation against Washington for canceling a program that allowed Mexican truck drivers the right to transport goods across the United States, illustrating the tit-for-tat responses that experts fear could grow in coming months.

The report comes ahead of an April 2 summit in London in which the heads of state from those 20 industrialized and developing economies will seek to shape a

coordinated response to the economic crisis. Their inability to keep their November promises is another indication of how difficult it will be to implement any agreement reached next month on a global scale.

Protectionist measures may also sharply worsen the collapse of global trade, which the World Bank said is facing its steepest decline in 80 years as global demand dries up.

“Leaders must not heed the siren-song of protectionist fixes, whether for trade, stimulus packages or bailouts,” said World Bank Group President Robert Zoellick. Noting that protectionism is widely viewed as having deepened and prolonged the Great Depression, he added, “economic isolationism can lead to a negative spiral of events such as those we saw in the 1930s, which made a bad situation much, much worse.”

The Bank said that, since last November, a host of nations has imposed a total of 47 measures that restrict trade at the expense of other countries. The most obvious trade restrictions – raising tariffs, or taxes on imports – represent only about a third of all measures taken. Some countries are taking a direct approach. Ecuador, for instance, has raised tariffs on more than 600 items. But most are taking more creative steps that fall into the gray area of what is considered legal under international trade law.

Argentina, for example, has put new licensing requirements on auto parts, textiles, televisions, toys, shoes and leather goods that create a new layer of bureaucracy for overseas exporters. The European Union announced new export subsidies on butter, cheese and milk powder. China and India have increased the tax rebates for domestic exporters, seen by critics as providing a stealth subsidy that makes their products unfairly cheaper abroad.

Some measures, the report concludes, may distort global production for products like cars and trucks. National bailouts and subsidies proposed worldwide for the auto

industry, the World Bank said, now total some \$48 billion globally, with aid pouring out from governments including the United States, France, Canada, Germany, Britain, China, Argentina and Brazil. That could prevent the natural readjustment of the industry, which many experts say is greatly overcapacity, allowing automakers to continue to produce more cars than consumers need.

The report noted that current trade laws, however, make it tougher for nations to take the more sweeping measures that triggered the trade wars of the 1930s. The era of globalization has made countries more interdependent than ever before, with supply chains for a single car made in China or a plane made in the United States now often relying on components manufactured in many other nations. That has led to a new measure of caution when putting up trade barriers. Additionally, global treaties have made it more difficult to enact draconian barriers. (*Washington Post* 3/18/09)

### **Agriculture: Green shoots**

At a time when much of the global economy is falling apart and demand both for consumer goods and the firms that make and finance them is collapsing, the notoriously cyclical world of agriculture is holding up remarkably well. Prices for grains and meat are down from the peaks of mid-2008, but are 30-50% above their averages over the past decade. There is reason to believe that this strength is more than just another of the many bubbles that have recently inflated, only to pop.

Higher prices are hardly a universal blessing: they are good for farmers, many of whom are poor, but bad for consumers. Some of the increase can be blamed on the shift of crops from food to fuel, prompted by wildly inefficient subsidies. But high prices are also a sign of progress because their single largest cause is the steady increase in demand from poorer countries, as people there eat

more food – especially more protein. More people are better nourished thanks to a bit more grain, a lot more meat, and much more milk.

China's role has been profound, reflecting its enormous economic progress and huge population. In the past decade, says Carlo Caiani of Caiani & Company, an investment-advisory firm based in Melbourne, the consumption of milk has grown seven-fold, and that of olive oil six-fold. China is consuming twice as much vegetable oil (instead of less healthy pork fat), 60% more poultry, 30% more beef and 25% more wheat, and these are merely the obvious foods. Scores of niches have expanded dramatically: people are drinking four times as much wine, for example.

And yet even with all this growth, people in China still, on average, consume only one-third as much milk and meat as people in wealthy countries such as Australia, America and Britain. The gap is even larger with India, which is also growing fast. Overall, protein intake in Europe and America is unlikely to expand much, but a combination of rising incomes and population in developing countries could increase demand by more than 5% annually for years to come. "Once people are accustomed to eating more protein, they won't take it out of their diet," says Mr. Caiani.

Expanding supply at the same rate will be difficult, because the amount of arable land under cultivation is growing by only a fraction of a percentage point each year. In China and India many of the most fertile areas are the ones being developed for roads and factories. That means existing land is becoming more valuable, and must become more productive.

The consequences stretch from one end of the food chain to the other, as higher food prices prompt a response. BASF, one of the world's largest producers of agro-chemicals, saw 9% growth last year in agricultural sales, including 16% growth in Asia. It expects the industry to grow by 17% this year, which has

begun well, the global economic tumult notwithstanding.

Its competitors are also prospering. The share prices of Agrium, CF Industries, Bunge and Syngenta spiked last year along with food prices, then tumbled (along with the shares of nearly every other company), but then stabilised, even as the rest of the stockmarket continued to tank. Monsanto, which a decade ago had been praised and then trashed for selling highly efficient genetically modified seeds, has seen its popularity restored for exactly the same reason. After years of strong growth, and with the prospect of more to come, its shares are valued at 20 times trailing earnings, nearly double the market average.

Interest in the industry is still growing. A conference for fund managers tied to agriculture held annually in Sydney by Austock, an Australian broker, attracted a few dozen contrarian souls three years ago. This year's event, which began on March 16th, had to be restricted to several hundred ticket-holders, with many others turned away. Deals are also being done. On March 13th Terra Firma, a private-equity firm based in London, announced it would buy 90% of Consolidated Pastoral Company, the vast Australian cattle holdings of the Packer family, which encompass 5m hectares (12m acres) of land.

In February Nufarm, an Australian agrochemical maker, won approval for its acquisition of AH Marks, one of Britain's oldest chemical companies, which has a valuable portfolio of herbicides. Nufarm itself only barely avoided being acquired in 2007 in a joint bid by an American private-equity firm and a Chinese state-owned company. Shares of Mosaic, a maker of fertiliser, have been swept by one acquisition rumour after another. Last year COFCO, China's state-controlled food conglomerate, bought 5% of Smithfield, the world's largest pork producer. Al Qudra, an Abu Dhabi-based investment company, said it had bought big tracts of farmland in

Morocco and Algeria, and was closing in on purchases in Pakistan, Syria, Vietnam, Thailand, Sudan and India.

In November China Agri-Industries, a subsidiary of COFCO, established a partnership with Wilmar, the world's largest trader in palm oil. Landkom, listed on London's AIM market, and Black Earth Farming, listed in Stockholm, have each made big investments in farming in Ukraine. And reports are circulating in China about local investors buying 50,000 hectares of farmland in Argentina, and considering other investments in Argentina and Brazil.

Even China is finally opening up to private agricultural investment, in part because new laws allow farmers to lease land, thus making possible economies of scale. Asian Bamboo, a company that is listed in Frankfurt, leases 27,000 hectares in Fujian province. It announced profits for 2008 of €21m (\$30.4m) on sales of €44m, reflecting how, at least for the moment, agriculture can be an extraordinarily high-margin business.

There are limits to what can be done, however. By far the most ambitious of all the land deals in the past year was Daewoo Logistics' contract with the government of Madagascar to lease 1.3m hectares, almost half the country's arable land, to produce corn for Daewoo's home country, South Korea. But after riots and a coup in Madagascar, the deal is off. These tensions are not unique. In response to local concerns about the loss of critical food supplies, several governments have imposed taxes or other restrictions on exports: on a key ingredient of fertiliser in China, on grain in Argentina, on rice in India. That sort of meddling undermines some investments and businesses. But in a strong market, it makes the businesses that can operate freely all the more lucrative and valuable. (*The Economist* 3/21/09)

## Canada pursues Colombia, Peru free-trade agreements

Legislation has been introduced in Canada's House of Commons for the free-trade agreements Canada recently signed with Colombia and Peru, announced Stockwell Day, Minister of International Trade and Minister for the Asia-Pacific Gateway. These agreements will expand market access in key sectors including agriculture.

"Canada is taking action during these difficult economic times by reaching out to our trading partners and reducing the barriers that undermine our mutual prosperity," Mr. Day said. "This is another example of the government's efforts to deepen Canada's presence in Latin America."

In 2008, two-way merchandise trade between Canada and Colombia totaled more than C\$1.3 billion, while two-way merchandise trade between Canada and Peru reached C\$2.8 billion.

Colombia will immediately, in some cases, or over a 5- to-10-year period in others, eliminate tariffs on virtually all Canadian exports. Once the agreement is implemented, products that will enjoy immediate duty-free access to Colombia include beef. Colombia will also eliminate the use of their price-band mechanism on selected products including pork.

By implementing the FTA, Peru will eliminate tariffs on virtually all Canadian exports, with most remaining tariffs to be eliminated over a 5- to 10-year period. Products that will enjoy immediate duty-free access to Peru include selected boneless beef cuts. Canada will immediately eliminate its tariffs on almost all Peruvian imports. The rest will be eliminated over 3- or 7-year periods. Over-quota tariffs on dairy, poultry, eggs and refined sugar are excluded from tariff reductions. (*meatpoultry.com* 3/26/09)

## Mexico may be growing GMO corn by 2012

Mexico's agriculture secretary says the country could be growing genetically modified corn by 2012. Agriculture Secretary Alberto Cardenas says GM varieties could boost production by 30 percent. GM corn had been banned completely until last week when Mexico reformed its law to allow experimental plots of the crop.

Mexico is the birthplace of corn and has more than 200 varieties. Opponents warn that modified corn could contaminate fields and threaten the crop's genetic diversity. Cardenas said [March 10] that the government will carefully protect its native varieties. The government so far has received 25 requests for permission to plant GM corn in experimental plots, government official Ariel Alvarez said. (*AP* 3/10/09)

## Editorial: The Teamsters' war

President Obama often campaigned as a trade warrior, and now he's getting his wish. Mexico announced yesterday that it will raise tariffs on 90 US products, affecting some \$2.4 billion in goods across 40 states. The move was retaliation for the recent decision by Congress, signed into law by Mr. Obama, to close the southern US border to Mexican trucks.

Proponents cloaked the decision in safety language, insisting that the Mexican trucks are a road hazard. However, a federal pilot program has shown that Mexican trucks actually have fewer violations than do American. The real hazard here is the new Administration's obeisance to the Teamsters, who endorsed Mr. Obama early in the 2008 Democratic primaries and demanded the trucking shutdown.

Before Mexico's retaliation, Teamsters spokesman Bret Caldwell told the Los Angeles Times, "We've already lost the trade war with Mexico... there is nothing more that Mexico could do to us that is worse

than what they've already done." We're not sure the US makers of (so far unspecified) farm and industrial products now facing Mexican tariffs will look at this protectionist outbreak so cheerfully.

By rejecting Mexican trucks, the Administration violated the North American Free Trade Agreement and picked a needless fight with a good neighbor. The White House scrambled yesterday in the wake of the Mexican announcement, saying it wants to work with Mexico to come up with a new trucking plan. But unilateral treaty violations aren't the way to get other nations to negotiate concessions.

President Obama may think 90 products is no big deal, but from such little tariff fights do larger trade wars sometimes develop. Especially in a time of economic hardship, populist and nationalist passions are dangerous and can be hard to control. Mark this episode as another early example in which Mr. Obama has refused to stand up to a powerful Democratic interest group, with damaging consequences. (*The Wall Street Journal* 3/17/09)

### **Editorial: A small and dangerous spat**

President Obama has been warning that tit-for-tat protectionism could drive the world into an even worse economic slump than it is already in. He is right. Unfortunately, Congress doesn't seem to be listening.

The \$410 billion spending bill that Mr. Obama signed into law last week cuts off financing for a pilot program that allows Mexican trucks to deliver goods across the United States. The move clearly violates the North American Free Trade Agreement, which promised – starting in 2000 – to open cargo transport throughout the United States, Mexico and Canada to carriers from all three countries. This week, Mexico retaliated, leveling tariffs against \$2.4 billion worth of American imports.

Both the United States and Mexico must be careful. A full-fledged fight could threaten more than

\$350 billion in annual commerce between the two countries. That is clearly in nobody's interest.

An arbitration panel ruled in 2001 that the United States was in breach of its NAFTA obligations on Mexican trucks. But thanks to the Teamsters union and its allies in Congress, all but a small number of Mexican carriers are restricted to operating within a 25-mile band from the border.

The truck drivers' argument that Mexican trucks are unsafe is spurious – a flimsy cover for protectionism. Data from the Department of Transportation show that Mexican trucks and drivers operating in the United States – along the border and in the pilot program – have a better inspection record, with fewer violations, than their American counterparts.

President Obama has so far shown a worrying ambivalence about trade. He has called for renegotiating NAFTA, creating anxiety in both Ottawa and Mexico City – claiming that this can somehow be done without harming trade. While he managed to persuade Congressional Democrats to water down a "Buy American" provision in the fiscal stimulus package, he did not get them to pull it altogether.

We understand the White House did not want to threaten the passage of the spending bill by raising a ruckus over Mexican trucking, a comparatively minor issue. But it is time for Mr. Obama to put some political muscle behind his declared support for open trade.

He can start by persuading Congress to revive the truck pilot program or start a new one. And he must make clear that – sometime soon – all properly inspected Mexican trucks must be able to work throughout the country, as NAFTA requires. That would not only solve this trade spat, but it would provide the world with needed reassurance that the United States will stand by its trade agreements in these difficult times. (*New York Times* 3/19/09)

### **Editorial: Trade war over trucks? No way**

Buried in last year's overdue federal spending bill was a provision that could start an altogether unnecessary trade war with Mexico – with big effects on California.

Fifteen years ago, the United States pledged in the North American Free Trade Agreement to allow the free flow of commerce with Canada and Mexico. A big hangup has continued to be long-haul trucking between the United States and Mexico. Before NAFTA, Mexican trucks could cross the border, but the cargo had to be offloaded and sit around until a US driver and truck could pick it up – a cumbersome, time-consuming process that cost a lot of money. NAFTA was supposed to change that.

But the Teamsters union complained that Mexican trucks didn't meet US safety standards. So cross-border trucking that was supposed to begin with California, Arizona, New Mexico and Texas in 1995 was delayed until stringent safety and security programs could be established.

Those safety and security measures are now in place – and a successful 18-month pilot program with 100 Mexican carriers and 1,000 trucks has shown that they work. Trucks and drivers from Mexico must meet US safety requirements. They pay the same fuel taxes and registration fees as US truckers. They must be insured by a US-licensed insurance company. The trucks have been manufactured to meet both US and Mexican emissions standards.

The drivers must have a valid commercial driver's license, understand and respond in English, and undergo drug and alcohol testing.

The trucks are inspected first in Mexico. When they reach the border, they undergo additional inspections and license checks. They are fitted with GPS monitoring devices that track their location every 30 minutes. The result: The safety record of these

trucks, according to an independent evaluation commissioned by the US Department of Transportation, is “better than that of the US trucking fleet.”

But now Congress has pulled the plug on the whole thing – banning Mexican truck traffic in the United States in violation of our NAFTA treaty obligations. In retaliation, Mexico has imposed punitive tariffs on \$2.4 billion worth of American goods.

Mexico is California’s largest trading partner; California agriculture is especially hard-hit. The state’s fruit and vegetable growers face stiff tariffs on exports to Mexico. For example, fresh grapes face a 45 percent tariff. California wines will be hit, too.

And if this first round of retaliatory tariffs doesn’t work, Mexico plans to add more products to the list. Gov. Arnold Schwarzenegger has written a letter to California’s congressional delegation, urging them not to allow safety “to serve as a smoke screen for protectionist measures.” Is House Speaker Nancy Pelosi paying attention? Senators Dianne Feinstein and Barbara Boxer?

President Barack Obama needs to persuade Congress to reverse the cross-border trucking ban immediately. Our economic problems are deep enough without adding protectionist trade wars to them. (*Sacramento Bee* 3/26/09)

## **Mexico slaps tariffs on US goods in trucking spat**

Mexico has imposed retaliatory tariffs on US\$ 2.4 billion worth of US exports in response to Washington’s recent termination of a pilot programme that allowed Mexican long-haul trucks to cross into US territory. The tariffs took effect 19 March, just one day after Mexico City announced the measures.

“We believe the United States is wrong in this action as it is protectionist and clearly violates NAFTA. To protect their carriers, the US has decided to influence

competition and competitiveness of our countries and the region, impacting many other sectors,” said the Mexican Secretary of Economy, Gerardo Ruiz Mateos.

The retaliatory actions were prompted by a measure in the omnibus spending bill, signed into law by US President Barack Obama on 11 March, that terminates funding for a pilot programme intended to gradually open the US market to Mexican trucks.

According to the terms of the North American Free Trade Agreement, which took effect in 1994, the US was to give full access to Mexican trucks by 2000. Washington failed to meet that commitment and Mexico brought a challenge to a NAFTA arbitration panel in 2001. The panel backed the Mexican complaint, and thus the country won the right, as laid out in NAFTA Article 2019, to suspend “benefits of equivalent effect until such time as [the parties concerned] have reached agreement on a resolution of the dispute.”

Mexico says that the US’ refusal to honour its NAFTA commitments has a strong impact on its exports, since nearly 70 percent of Mexican goods that go to the US, Mexico’s largest trading partner, are transported by road. Mexican officials say that the retaliatory tariffs are intended to inflict losses roughly equal to the US\$ 500 million in losses they claim to have suffered thanks to Washington’s refusal to allow Mexican trucks on its territory. Those losses were calculated according to a formula that took into account the value of trade that Mexican trucks would transport, the distance of travel, as well as the expected market shares that Mexico would capture in the US if its trucks had full access, Mexican officials said.

Washington has claimed that it maintains the restrictions because it wants to keep unsafe vehicles off US highways. But others say that the measure is simply intended to protect US truckers, noting that the pilot programme, which was launched by the Bush administration, had demonstrated that Mexican trucks

perform just as well as their US counterparts on safety tests.

“This isn’t about the safety of American roads. This is protectionism,” said Mexican Ambassador to the US Arturo Sarukhan.

Sarukhan is not alone in taking that view. In an editorial titled “Bad Example,” *The Washington Post* reprimanded the Obama administration earlier this week for terminating the pilot programme, saying that “almost everyone was happy with the deal” except for US truckers, “for whom economic turf rather than safety has always been paramount.”

The US farm lobby also spoke out against Congress’ nixing of the programme. Bob Stallman, president of the American Farm Bureau Federation, urged President Obama “to find a resolution that will honour our obligations under NAFTA, eliminating any cause for Mexico to halt US trade.”

“This action by Congress has come at a cost to US agriculture and our exports to one of our top markets,” Stallman said in a letter dated 23 March. “The retaliation will affect hundreds of millions of dollars worth of fruit, vegetable, nut, juice, wine, processed foods and oilcake exports to Mexico.”

Targeted products include agricultural goods such as onions, pears, frozen potatoes, Christmas trees and almonds, as well as manufactured items like carpets, home appliances, cordless phones, sunglasses and jewelry. Roughly half of the products have been slapped with tariffs of between 10 percent and 20 percent, while some, like fresh grapes, are now being taxed at a 45 percent rate. The retaliation is expected to affect 40 US states, primarily Texas, California, Michigan, Washington and Oregon.

But the list of goods slated for retaliation steers clear of agricultural products like corn, beans, rice, wheat and meat, of which the US is a substantial supplier. However, Beatriz Leycegui Gardoqui, Mexico’s

Undersecretary for the Economy, warned that retaliation would be extended to other goods if the Obama administration persists in violating its NAFTA obligations. (*Bridges Weekly Trade News Digest 3/25/09*)

### **Cuba opening could boost US soy demand**

It appears the Obama Administration and Congress will soon eliminate the requirement that Cuba pay cash up front for any food and agricultural commodities imported from the US. Legislation in Congress also would make it far easier for Americans to travel to Cuba for agricultural product sales and marketing. Many in Congress want to completely eliminate restrictions on Americans traveling to Cuba, but that is unlikely to occur anytime soon.

The US soybean sector already has a sizable market in Cuba. Data from the Census Bureau indicates the US exported soybeans and soybean products to Cuba in 2007/08 worth \$128.5 million. However, Cuba imported 130,000 mt of Brazilian soybean meal in 2008 that likely would have come from the US were it not for the cash purchase requirement currently in effect. If the ban on Americans traveling to Cuba is lifted in the future, US soy exports to Cuba most likely will grow substantially to supply the tourist industry. It will also grow from greater demand from Cubans who will benefit from the influx of American travelers.

A problem for the US soybean industry is that current laws and regulations prohibit commodity checkoff funds from being spent for travel to Cuba, marketing activities in Cuba, and even the salaries and benefits of personnel while they are in Cuba. This effectively has prevented the US Soybean Export Council from doing any marketing of US soy in Cuba. Hopefully, the Administration and Congress will remove these restrictions. (*Ag Perspectives 3/10/09*)

### **Obama caves on Cuba**

The news headlines blared – Obama reverses Bush on Cuba policy. The US Congress had written into an omnibus appropriations package language that was supposed to increase American travel to the island, and prohibit Treasury from enforcing a Bush era requirement that Cuba pay in advance of shipment for any food products it buys, instead of the customary release of funds upon actual delivery. But alas, Treasury Secretary Timothy Geithner immediately gave written assurance to Florida's two senators that cash in advance remains the law that must be followed, and that travelers would still face a huge hurdle of paperwork if they go to Cuba. As French novelist Alphonse Karr said, the more things change the more they stay the same. (*Ag Perspectives 3/13/09*)

### **AFBF calls for removal of ban on Cuba travel**

American Farm Bureau Federation President Bob Stallman joined congressional members [March 31] on Capitol Hill to advocate the removal of travel restrictions to Cuba. Stallman spoke in support of S. 428, which opens Cuba to travel by US citizens and gives the US president authority to restrict travel to Cuba only in times of war or imminent danger.

"This legislation is an important step in easing trade restrictions on Cuba," Stallman said. "Allowing unrestricted travel to Cuba will increase US agricultural sales and boost tourism."

US agricultural sales to Cuba have been on average \$400 million annually since 2000, with top commodity sales including poultry, wheat, soybeans, rice and dairy. With passage of S. 428, AFBF expects sales to increase.

In addition, language in the omnibus appropriations bill further aids US agriculture by allowing travel on a general license for those making agricultural sales to Cuba rather than

the specific license currently needed. This would ease delays that significantly impact the ability to transact commercial sales with Cuba, which in some cases, have been lost to US competitors because of the restriction.

Other priorities for AFBF in regard to Cuba include commercially defining "cash payments in advance" as intended by Congress in the 2000 Trade Sanctions and Reform Act; allowing the country to directly wire payment to US banks instead of going through a third-country bank as it does now; and issuing visas for Cuban inspectors to travel to the US to meet with suppliers, inspect facilities and verify procedures and standards associated with the sale of US food and agricultural exports to Cuba. (*AFBF 3/31/09*)

### **Cuba revamps food distribution**

Cuba has begun a major overhaul of its food distribution system as part of an effort to increase production and tackle inefficiency, farmers and cooperative producers said. The vast state network responsible for purchasing and distributing 90 percent of farm output has been moved from the agriculture ministry to the domestic trade ministry, the sources said.

Their comments confirmed a brief report on state-run television last week saying the transfer was underway and that "agriculture will be left with what has to do with production." The report said the number of state produce markets in the country would be almost doubled from 156 to 300. So far, government officials have not spoken publicly of the moves, nor have official decrees been published.

But farmers are praising the steps because they say they will allow agricultural officials to concentrate on getting more food produced while leaving distribution to another ministry. "It is a good measure linked to others they are taking. Agriculture should not be diverted from producing

by other tasks,” farmer Alfredo Rodriguez said in a telephone interview from the central province of Camaguey.

President Raul Castro has made increasing food production a priority since taking over for his ailing brother Fidel Castro just over a year ago. The cash-strapped country imports some 60 percent of the food it consumes, spending nearly \$2 billion last year.

Raul Castro has moved to decentralize control of agriculture, once centered in Havana, and to increase farm supplies. He has begun the massive leasing of fallow state lands to those interested in tilling it and has as much as tripled amounts the state pays for most agricultural products. Local economists have applauded the measures, but say they fall short of the market mechanisms needed to improve output.

The latest move followed a government reshuffle earlier this month that replaced eight ministers and several top officials and brought armed forces generals, former officers and middle-aged Communist Party officials into the cabinet.

Acopio is the name of the huge state-run purchasing and distribution system that has come under fire for being grossly inefficient. There have been numerous reports in the local media this year of how part of a bumper tomato harvest rotted in the fields for lack of containers and transport to cart it away. “Acopio functions as an intermediary between farmers and consumers and has no business being part of the agriculture ministry,” farm cooperative member Diego Cosme said in a telephone interview from eastern Holguin province.

Raul Castro has promised to reorganize and downsize the government to make it and the state-run economy more efficient.

Cuba has around 250,000 family farms and 1,100 private cooperatives, which together produce about 70 percent of the country’s food on less than one-third of the cultivated land. The remainder of the land is owned by

the state, and half of that lies fallow.

Some 90 percent of the food is purchased by the state and shipped to institutions ranging from hospitals and schools to work place lunchrooms, and also sold at state markets, with the remainder sold by farmers on the open market. (*Reuters 3/30/09*)

### **Venezuela seizes Cargill rice mill**

President Hugo Chavez seized a unit of American food giant Cargill on [March 4] and threatened to take over Venezuela’s largest private company, renewing a nationalization drive as the OPEC nation’s oil income plunges.

Chavez’s clash with the food companies, demanding they produce cheaper rice, came less than three weeks after he won a referendum on allowing him to run for reelection and marked his first nationalization in seven months. “I warn you this revolution means business,” said Chavez, whose government has struggled with lower oil income and minor food shortages this year.

The anti-US president, who has nationalized swaths of the economy, is popular among the poor for pressuring companies to produce cheap goods and for government programs that provide subsidized food in city slums.

The moves to tighten the government’s grip over the food supply were criticized by the private sector and many economists who say the state distorts the supply chain and contributes to food shortages.

Chavez, an ally of communist Cuba, recently seized some rice mills belonging to Polar, Venezuela’s largest private business, after accusing the food industry of skirting his price controls and failing to produce enough cheap rice. US company Cargill, which operates one rice mill in Venezuela, said earlier in the week it was expecting a visit from officials even though it does not produce the type of rice that is at the center of the dispute.

Chavez said he ordered the takeover because Cargill – one of the

largest privately owned U.S. companies – avoids producing basic rice that is subject to government price controls. “Prepare the decree, we are going to expropriate Cargill. We are not going to tolerate this,” Chavez said. It was not clear if Cargill’s other Venezuelan food units would be affected. Cargill in Venezuela did not answer calls to their offices seeking comment.

Polar, one of Venezuela’s best-known companies that produces many its most popular food and drink brands – including its top-selling beer – has vowed to take legal action over the rice mill takeovers. Chavez has often followed through on his nationalization threats, taking over oil, electricity, steel, cement and telecommunications companies. Sometimes, however, threatened companies have averted seizures by bowing to Chavez’s demands. On [March 4], he warned Polar to back down. “If they get funny with us we will go for expropriation and pay them with debt bonds,” Chavez said during a televised Cabinet meeting.

Chavez has typically paid companies adequately after ordering their takeover. But several nationalizations last year have not been implemented and this year Chavez has said he would only pay for seizures with government debt paper.

While Chavez’s nationalizations tend to be widely supported, periodic shortages of basic goods have hurt his popularity in recent years. Venezuelan shoppers have faced shortages of white rice sold at a low government-set price in recent weeks, while stores have ample supplies of parboiled rice which is not subject to price controls.

Venezuela’s rice millers association blames the shortages on insufficient supplies of the grain, while the government says the mills are deliberately producing small quantities of white rice to skirt price controls. (*Reuters 3/4/09*)

## Argentina ponders grain trade board, not nationalization

Argentina is studying the creation of a new government entity to control the trade of grain and beef, allowing it to dominate the market, but stopping short of the full nationalization which the local press last week said was in the pipeline.

A source at the Production Ministry said that a full monopolization of farm trade was not planned, but that something similar to the plan outlined in local daily Pagina 12 over the weekend was being considered.

According to Pagina 12, officials at the Production Ministry said that the government was considering a plan to remove export taxes on grain and create a new trade agency to buy local crops and manage exports.

However, export ports and storage silos would remain independent. Traders would continue acting in the market "buying raw materials to be processed and later exported with added value," Pagina 12 said.

A Production Ministry official told Pagina 12 that the new agency would be "inspired by the entities... in Canada and Australia," with a focus on ensuring domestic supply and promoting domestic processing.

The Australian Wheat Board, of AWB, was privatized in 2001, but the government grants the AWB a near monopoly to make export sales. The AWB has veto power over any other prospective exporter of wheat, effectively eliminating competition. The AWB is designed to prevent Australian farmers from being played off against each other and taken advantage of by large buyers and traders.

The Canadian Wheat Board, or CWB, is governed by a 15-person Board of Directors, 10 elected by grain farmers and four appointed by the federal Minister of Agriculture. The CWB is the mandatory marketing agent for non-feed wheat and barley

grown in the central provinces, in effect a forced pooled selling system. On the other hand, the government also guarantees a minimum price for farmers.

In Argentina, talk of the new agency comes amid tense negotiations between the farmers and the government to avoid a repeat of last year's crippling farm strikes.

There was speculation [Feb. 28] that talk of a complete nationalization reported in local newspapers earlier in the day, was floated to pressure farmers into backing down from their demand for a reduction in soy export taxes before a key meeting with Production Minister Debora Giorgi on [March 3]. Farmers quickly responded, flatly rejecting a move to nationalize the grain trade.

The Rural Society, one of the four leading farm groups, called the proposal "a new attempt to muddy the playing field" and "prevent advances in the current talks." It said past attempts to centrally control grains trade had "culminated in a series of complete failures, inefficiency and corruption."

The Buenos Aires Cereals Exchange published a statement in leading papers over the weekend signed by all the regional exchanges, agricultural chambers and farm groups slamming the possibility of a nationalization of grain trade. "The nationalization of grain trade will push society to the edge of another unnecessary conflict with unpredictable consequences," the statement said. (*Dow Jones 3/2/09*)

### Confusion in Argentina

It appears the duo of Argentine President Cristina Fernandez and her husband, former President Nestor Kirchner, are at it again in attempting to grab money from Argentina's farmers. In need of more tax money and upset Argentina's farmers are holding on to their stocks of soybeans and grains rather than selling them, President Fernandez has surfaced the idea of establishing a grain board to

handle all of the country's exports. However, few details have been released about what the President has in mind. As a result the agricultural sector in Argentina is in a state of confusion,

From what is known it appears the Argentine government intends to propose the establishment of an Argentine Grain Export Board similar to the Australian Wheat Board and the Canadian Wheat Board. Evidently the government would own a controlling stake in the board and the board would control all exports of grains from the country. Unlike with the Australian and Canadian wheat boards, the objective of the proposed Argentine grain board appears to be aimed at maximizing the government's revenues rather than that of Argentina's farmers. The board presumably would buy grains and oilseeds from farmers at a price below the world price and then sell them in the export market for as much as possible, with the government keeping all or part of the difference.

Right now there is no clarity on exactly what the Argentine government will propose and whether it is enacted by decree or will require legislative approval. Presumably the export taxes on grains and oilseeds that exist now would be abolished. However, it is not clear how the country's grain and oilseed exporters and processors would operate under the proposal and how much export revenue the government would seize. It also is not clear how the new grain board would be successful in forcing farmers to sell their grains and oilseeds rather than holding on to them as they are doing now.

What is clear is that President Fernandez is desperate to get more money to fund subsidies to the constituency groups she needs to support the Peronists in elections scheduled for this October. Ms. Kirchner's popularity among the middle class has been declining and several prominent Peronists have recently broken with her to boost their chances of reelection in October.

Opposition to her policies is building in the legislature. Nevertheless, Ms. Kirchner seems willing to continue her assault on the nation's farmers and agribusinesses even as the country suffers a severe drought and the agricultural sector struggles to survive. Apparently to Ms. Fernandez and her husband, maintaining political power justifies any action regardless of the consequences to the country. (*Ag Perspectives 3/3/09*)

### **Argentine government versus farmers**

Politics in Argentina seems like a never-ending story. This particular one began a year ago when the government (decided by ex-president Nestor Kirchner) announced a hike on export duties for most grains, including soybeans, sparking a riot in the country's interior and several blockades of roads and ports. The country was paralyzed, perhaps anticipating the global economic crisis to come.

Ministers attempted to reach several different agreements but negotiations always got nixed and were sent back to start from scratch. Nestor Kirchner has acted in ways to destroy any possible alliance with the sector. He sent his ministers to stop beef exports, to pressure trading houses to reduce purchasing prices on cereals, and institute all kind of measures to control internal prices, all at the expense of farms.

Politicians in favor of the government are now having hard time campaigning in the interior of the country. Elections are coming, and they need to attract more votes, which is turning out to be a difficult task. The current hatred of farmers for government is damaging the government's image all over the country. Whispers of new blockades are starting and hopes for agreements are fading.

Farmers would like several measures put in place, like the reopening of beef and wheat exports, reduction of the export duties of

commodities, especially soybeans, and a more pro-farmer policy overall. Their position on wheat is that farmers are getting very low prices for their production while there is a very important margin out there in fobbing. We have mentioned this in several reports and it has been happening for 3 years. Farmers are very disappointed that they were never able to take advantage of the attractive international prices due to in-country policies and regulations. For beef, the government's obsession with guaranteeing in-country beef supply at low prices has killed the industry. Farmers are quitting and feedlots and being dismantled. With soybeans farmers are demanding a reduction of export duties. This claim is a critical one for the government since it reduces an important source of income and it is not ready to give up. Nevertheless this issue is starting to be the rallying cry farmer's claims.

For the past three weeks farm entities have been meeting with ministers, without any successful results. The only thing obtained was a 5% reduction in export duties of dairy products. The government announced a normalization of the wheat market, but this never happened. Only a substantial reduction of export duties for this product would calm farmers down, but the government has repeatedly said that these duties will not be touched. There is no middle ground; either you are with farmers or with the government.

[On March 13] ex-president Kirchner decided to move parliamentary elections forward. The law states they should be held in October, but Kirchner suddenly decided that they are too far away considering the present economic crisis and is now organizing them for June 28th. The real reason for this shift is to have a better public image at the elections, and to use available cash more efficiently. He foresees that the economic situation is getting worse and it will not improve by October, so why wait?

The opposition was caught by

surprise with the new date and was unprepared, immediately rejecting the proposal. The date change needs to be approved by the chambers so there is a lot of work to do for this to occur.

The ag market's reaction to the date change? Well, the soybean market was empty of sellers. Farmer selling was very light during the past few days and it is expected that farmers will hold onto their stocks as much as possible and wait for the new political environment after the elections. (*Ag Perspectives 3/19/09*)

### **Argentina to share soy export taxes with provinces**

In a major change to the way the Argentine government treats its highly contentious soy export tax, President Cristina Fernandez announced [March 19] that some of that revenue would be shared with provincial governments. Speaking at the presidential residence, Fernandez said a fund to administer the sharing of the tax on soybean exports would be established via an emergency decree. In this way, there will be no need for congressional approval.

At current international prices, the president said, the provinces stand to receive \$1.775 billion annually in additional funding. Under the new fund's administration, soy export taxes will in effect become part of Argentina's co-participation tax regime, which transfers 30% of all federal government revenue on value-added, income and other federal taxes.

Up until now, all export duties – on various grains and other commodities as well as on crude oil and fuel – had been exempt from this constitutionally enshrined co-participation system, a factor that contributed to farmers' anger over the 35% duty on soy, Argentina's biggest export. They've argued that the government was unfairly building up a pool of cash while the provinces slipped into deficit, all so they could use it for discretionary political spending when the need arose.

Farmers, who have been calling

for a reduction in the tax to compensate for a severe drought and a sharp drop in international prices for their crops, have often argued that the export tax's exemption from co-participation was a breach of the country's federalist principles. As recently as [March 19] protesting farm leaders had tried to introduce a bill to Congress to end the export duties but while opposition parties backed it, the measure failed to achieve a quorum of lawmakers and it couldn't proceed to a vote.

Fernandez's surprise creation of a de facto co-participation system for the soy tax will inevitably be seen as a strategic blow against that move by the farmers, who have been drawing public support for their cause. It seems aimed at provincial governors and lawmakers who were leaning toward backing the farmers, a move that would greatly weaken Fernandez and her husband and predecessor, Nestor Kirchner, as they head into critical legislative elections.

It comes alongside other drastic, election-focused maneuvers from Fernandez, whose popularity is low and who is trying to avoid having the fallout from a weakening economy undermine her allies' poll results. Most importantly, it coincides with her bid to bring forward the vote by four months to June 28 – a move that is thought to be aimed at sparing them the political damage from an economic downturn that is expected to worsen as the year progresses. The government-allied majority in the Lower House easily passed the measure [March 18] and the Senate is expected to do the same in the days ahead. (*Dow Jones 3/19/09*)

### **Blocked crop report riles Argentine traders, farmers**

In what would appear to be a blatant effort to restrict information to the public, the Government of Argentina has failed to release a report on estimated crop production in that country which was scheduled for March 18. The government claims the

delay is a result of a change in methodology in compiling the report following the removal of the head of the office that produces the report. However, farmers and traders feel the report's release was blocked by other officials who either want to pressure the agricultural sector to reach a settlement with the government on export taxes or an effort to manipulate crop production data. The crop production report is very important this year because of the severe drought the country has experienced.

The government headed by President Cristiana Fernandez and her husband, former President Nestor Kirchner, has long been accused of manipulating statistics on inflation, industrial output and economic growth to make things look better than they really are. Many believe inflation has been much higher than the government has indicated in economic reports.

This is not the first report the government has blocked. It quit releasing information on grain and oilseed stocks, export commitments, wheat milling and soy crushing. The last stocks report was issued in October and soy crush data have not been published since the report for September 2008. In the absence of the reports farmers, traders, and exporters mostly are in the dark about how much of various commodities remain in the country and now much will be available in the next marketing year. This leaves the trade very vulnerable to sudden policy moves by the government to restrict exports. One can imagine how farmers, traders, exporters, and users would react in the US if the USDA and the Census Bureau quit issuing their normal reports on commodity production, stocks, exports, and usage. (*Ag Perspectives 3/26/09*)

### **Argentina soy prospects dim; output seen way down**

Argentina's Agriculture Secretariat confirmed [March 30] what the farm sector had long feared.

The 2008-09 soy crop, the backbone of farmers' income, looks to be the worst outcome in four years due to a brutal drought, rising input costs and a lingering conflict with the government over export taxes.

In a report delayed by almost two weeks, the secretariat pegged this year's soy crop at 37 to 39 million metric tons, down sharply from the initial expectations of about 50 million tons, and well under the current USDA forecast of 43 million tons. But with over 80% of the crop still waiting to be harvested, many local analysts see the secretariat's forecast as overly optimistic.

AgriPac Consultores analyst Pablo Adreani said that after an extensive tour of the drought-stricken Pampas, production is unlikely to top 34 million tons this season.

Granar analyst Adrian Seltzer is a bit more optimistic, pegging output at 37 million to 39 million tons. Yields are likely to be low despite beneficial rainfall in February, as the hot, dry weather in March is taking its toll, Seltzer said.

Lartirigoyen S.A. analyst Francisco Mariani said that final output will likely come in at 36 million tons to 38 million tons, but an even lower crop is possible. Traders are estimating as little as 30 million tons and as much as 40 million tons, with an average forecast of 35 million tons, Mariani said. In addition to the low output, the crop quality is poor, which will have a significant effect on soybean exports, Mariani said. (*Dow Jones 3/30/09*)

### **JBS continues growth in Brazil**

JBS S.A. recently announced it has not observed any reduction in margins in its activities in Brazil during the first two months of 2009. Furthermore, it is performing a study in March to evaluate which of its plants will have production increased, which could result in the hiring of up to 5,000 new workers during the first half of 2009, it said in a news release.

“As a manner of compensating possible losses to ranchers, the company is also reducing the discount for cash payment for the purchase of cattle from 4% to up to 2% per month,” the company added. “These actions serve to contribute towards an orderly off-take of cattle, as well as to maintain a balanced consumer market, resulting in the preservation of jobs, the strengthening of the beef production chain and the expansion of the market share of the company in the beef sector.”

JBS S.A. is the world’s largest beef producer and exporter with a daily slaughtering capacity of 65.2 thousand head of cattle and is the largest global exporter of processed beef. (*meatpoultry.com 3/30/09*)

### **Brazil expects beef exports to double in a decade**

The Brazilian Ministry of Agriculture is forecasting a 93 percent increase in beef exports during the next 10 years (to 2018-19), totaling 4.63 million tonnes cwt (accounting for 61 per cent of total world beef trade from the current 31 per cent), with a 49 per cent increase in production to 15.5 million tonnes cwt, according to Meat and Livestock Australia analysts.

In the domestic market, beef is projected to be the second fastest growing meat consumed with a 2.2 per cent annual growth in total consumption after chicken’s 2.6 per cent, reports Meat and Livestock Australia. Beef is projected to have the slowest export growth with an annual average growth of 3 per cent after chicken’s 5.6 per cent and pork’s 4.9 per cent growth.

Cropping area for the 10 major products is forecast to increase by 19 per cent to 60.7 million ha, with rice, soybeans and wheat being the fastest growing crops. Soybeans are expected to account for 44 per cent of the planted area, followed by corn with 27 per cent.

As a result of the large increase in land used for more profitable crops,

cattle raising is expected to continue its displacement to less productive areas, especially in the north and west of the country – raising doubts about the forecast beef production growth. (*TheBeefSite 3/13/09*)

### **Brazil wants help lifting US ethanol tariffs**

Brazil’s President Luiz Inacio Lula da Silva on [March 16] implored American businessmen to help convince the United States to lift the 54-cent-per-gallon import tariff it places on his country’s ethanol fuel.

Speaking at a Wall Street Journal-sponsored investor forum [March 16], Silva defended the gasoline alternative as a cheap and easy way to end dependence on foreign oil and help reduce global poverty.

“I’ve spoken (about the tariffs) so many times with President Bush and certainly I will speak about it many times with President Obama,” Silva said. “That’s why I’m asking for your help.”

Brazil is a world leader in biofuels and the world’s largest exporter of ethanol.

But Silva, who met with President Barack Obama on [March 15], has made little progress persuading the US to reduce the tariffs, which are in place to protect American farmers who make ethanol from corn. Brazil makes ethanol from sugar, in a process that is much more efficient and costs less.

“One thing that leaves me perplexed, is in the same world where we invest in environmental policy capable of avoiding global warming ... many countries still don’t place any tariff on polluting fuels while they place absurd tariffs on ethanol,” Silva said, pointing out the ethanol burns relatively cleanly compared to gasoline. (*AP 3/16/09*)

### **Obama says no quick end to ethanol dispute**

Barack Obama on [March 15] said there would be no quick

resolution to a dispute with Brazil over restricting ethanol imports to the US, following his first meeting with President Luiz Inacio Lula da Silva.

The Brazilian president, in his first visit to Washington since Mr. Obama took office, said it was wrong for the US continued to levy import tariffs on Brazilian sugarcane ethanol, which is more environmentally friendly than the maize ethanol produced in the US.

“I also can’t understand [why] while the world is concerned with climate change and with carbon emissions, clean fuel also gets tariffs,” Mr. da Silva said.

The issue has become a bone of contention between the two countries, with Brazil threatening litigation at the World Trade Organisation over the US’s 54 cent per gallon import tariff.

Brazil has also used the issue to counter US demands for it to cut to zero its own tariffs on so-called “environmental goods” such as renewable energy technology, accusing Washington of hypocrisy.

Mr. Obama paid tribute to Brazil’s leadership in biofuel production and said that his administration would continue to work with Brazil on the issue. But he added: “It’s not going to change overnight.” (*Financial Times 3/31/09*)

### **Senators introduce bill to cut tariff on imported ethanol**

US Senators Dianne Feinstein (D-Calif.), Judd Gregg (R-N.H.), Jeff Bingaman (D-N.M.), Susan Collins (R-Maine), Maria Cantwell (D-Wash.) and Mel Martinez (R-Fla.) have introduced a bipartisan measure to reduce the tariffs on imported ethanol. This would enable US refiners to purchase cheaper and more environmentally-friendly ethanol from foreign sources.

Here’s why this legislation is necessary: the enacted 2008 Farm Bill lowered the ethanol blender subsidy from 51 cents to 45 cents per gallon. At the same time, the Farm Bill left in place two tariffs on imported ethanol;

a primary tariff set at 2.5 percent of the transaction price; and a secondary tariff, fixed at 54 cents per gallon. This change created a real barrier to trade on foreign ethanol imports, ranging between 11-13 cents per gallon, depending on the wholesale price of ethanol on a given day. This means that gasoline imports are favored over ethanol imports.

The measure (S.622) would ensure parity between the ethanol blender subsidy and the two tariffs on imported ethanol. Specifically, it would require the President to lower the ethanol tariff at least 11 cents per gallon within 30 days of enactment.

Senator Feinstein said: "The current real trade barrier on sugar-based ethanol imported from Brazil and other foreign sources gives gasoline imports a competitive advantage. I believe this makes no sense – particularly given our nation's continued addiction to oil imported from the Middle East and other hot spots, as well as the volatility of global markets for the fuels we put in our cars. This legislation provides a sensible policy fix. It lowers the tariffs on imported ethanol to a level at or below the 45 cent ethanol blender credit – while ensuring that foreign ethanol suppliers neither benefit from the ethanol subsidy nor are penalized by artificial barriers to trade."

Senator Gregg stated, "Our nation faces significant challenges as we look to meet our current energy needs, while at the same time, search for alternatives to help boost domestic supplies and become more energy independent. Renewable fuels and ethanol can be part of this solution. Unfortunately, the 54 cent per gallon tariff on imported ethanol puts states outside the Midwest, especially New Hampshire and other coastal states, at a disadvantage since ethanol cannot be shipped through the country's existing pipelines. At a time when we are transferring billions of US dollars to Venezuela and other hostile parts of the world that supply us oil, expanding access to inexpensive, plentiful ethanol from Brazil and other friendly

nations is a better alternative. This bipartisan legislation offers a reasonable solution that lowers the tariff on ethanol, keeping prices more affordable for American consumers and steering us in the direction of more affordable energy alternatives."

Senator Collins said: "The tariff on imported ethanol is an unfair barrier to affordable, environmentally-friendly alternative fuels. Since passage of the 2008 Farm Bill, the imported ethanol tariff is now higher than the domestic blender credit it is meant to compensate for. Second, the tariff creates a trade barrier to ethanol produced from sources like sugarcane, which is less greenhouse-gas intensive than ethanol produced from corn."

Senator Martinez said: "We don't put tariffs on oil from OPEC, why do we do it for ethanol? This is about lowering trade barriers and lowering fuel costs for US consumers. In my state of Florida, making ethanol more affordable will help us expand the infrastructure for transporting the product, paving the way for increased domestic ethanol production." (*Feinstein.senate.gov 3/18/09*)

### **Credit shortage scares Mato Grosso grain farmers**

Despite favorable weather and near record output this season, growers in Brazil's No. 1 soybean producing state of Mato Grosso are worried about the effects of the global crisis on sales and profits. Producers now fear that if the credit constraints continue in the coming months, demand for beans will remain slack and they will face problems buying inputs for planting next season.

"We haven't seen any big forward selling of soy this season. It has been a war," Silvesio de Oliveira, a soy producer in Tapurah in the north of Mato Grosso, said. He sold forward only 30 percent of his crop, down sharply from 80 percent a year ago.

Multinational companies like Bunge, ADM, Cargill and Louis Dreyfus account for nearly 90 percent of soy financing in Brazil's center-

west. They usually buy soy from farmers around planting season in exchange for inputs such as fertilizers or money, depending on the contract. But as these companies have had a hard time raising resources on the international market, interest in buying has remained weak, farmers said. They estimate forward sales totaled about half of the expected crop, sharply down from about 80 percent a year earlier.

Buying interest rose a little in the past weeks as the availability of soy grew, but prices offered were too low to stimulate wide producer selling, said Marcelo Duarte, executive director at the state Soybean Growers Association (Aprosoja). In the Sorriso area, soy was traded at 34 reais per bag (\$14.50), down 10 percent from January.

"During the planting season, when soy prices were higher, exporters couldn't find credit to pay margins (to hedge prices in the futures market), so they didn't buy much," Duarte said. "This lack of liquidity could press down prices in the coming months. Trading houses may pay less and producers may have to sell their soy because it's harvested already," Duarte said.

A big producer in Lucas do Rio Verde said he had sold soy for March delivery to a trading house but the company took days to take the product and to pay for it after the scheduled date. "I had to call them and insist to them to take that soy away," he said. "In 25 years, I've never seen such a slow season. Nobody wants to do business; everyone seems afraid." (*Reuters 3/16/09*)

### **Banco do Brasil may increase farm credit in 2009**

Brazil's largest public-sector bank, Banco do Brasil, may increase credit available to Brazil's agricultural sector by as much as 25% for the 2009-10 crop season from 2008-09, a Banco do Brasil press officer confirmed [March 25].

Banco do Brasil's current

estimate is that 30.8 billion Brazilian real (\$13.7 million) of credit will be issued to farmers for the 2008-09 crop season. This credit for 2009-10 should be finalized in May, he said.

Brazilian farmers have complained that lower crop prices and higher costs, for example, for fertilizers, were slashing their margins. At the same time, large trading companies have tightened lending to farmers.

Banco do Brasil's increase in credit would be in line with the government's expected increase of 25% to BRL100 billion in agricultural credit in 2009-10, local news service Estado reported.

Jose Carlos Vaz, director of agribusiness at Banco do Brasil, said that around 15%-20% of the credit in 2008-09 will go to farmers in Parana state, where there are more small-scale farm holdings.

Mato Grosso, the No. 1 soy producing state, should receive only around 5% of the credit, as many of the producers are above the BRL800,000 income threshold to get loans.

He said that small and medium-scale farmers have been helped by increasing prices for soy and corn so far this year. "We can see many difference between farmers, but the expectation is for good income from the 2008-09 crop," Vaz said. Soybeans were being sold for around BRL48.50 per 60-kilogram bag at Paranagua port [March 25].

Vaz also said that large trading companies are beginning to lend again due to better crop prices. (*Dow Jones 3/25/09*)

### **Brazil soy exports strong on China demand**

Brazilian soybean exports remain at robust levels, despite the international financial crisis, due to strong oilseed demand from China, the world's largest importer of soy, the Brazilian Agribusiness Association Abag said on [March 25].

"China is importing an insane

amount," said Abag President Carlo Lovatelli, speaking about the effects of the crisis on Brazilian agribusiness. "It's importing 37 million tonnes of soybeans this year, beyond the 16 million tonnes it produces."

The US Department of Agriculture expects China to import 36 million tonnes of soybeans this season, down from 37.7 million tonnes in the 2007/08 year.

Brazil is the world's No. 2 soybean producer and exporter after the United States.

Lovatelli said that Brazilian soy exports were going well this season in terms of volume. In local currency terms, revenues from soy exports were roughly on par with last year, but in dollar terms they were down 15 to 20 percent.

According to Abiove, the Vegetable Oils Industry Association for which Lovatelli is also president, Brazil exported 24.5 million tonnes of soybeans in 2008, just under the record 24.7 million tonnes exported in 2007.

Lovatelli said that production costs had fallen from record highs in 2008, which should stimulate planting in the 2009/10 crop that will begin planting in September. Lovatelli said the international credit problems affecting the agricultural sector were likely to subside in six months to a year.

Brazil is in the midst of harvesting its current soy crop, which Abiove sees at 57.7 million tonnes, down from the 59.9 million tonnes harvested from the 2007/08 crop.

"Not as much capital as last year is required to produce the same volume (of soy), so we're off and running again," said Lovatelli. (*Reuters 3/25/09*)

### **Green polyethylene from sugarcane ethanol**

Brazil is the world's top sugarcane-based ethanol producer. According to the Renewable Fuels Association, the country produced more than 5 billion gallons in 2007. A

new project being undertaken by Braskem, a Brazilian thermoplastic resin producer, will seek to convert a portion of that ethanol into green polyethylene.

Braskem's board of directors recently approved the Green Polyethylene Project, which will produce ethylene and polyethylene from sugarcane-based ethanol. An investment of 500 million reais (\$211 million) has been allotted for the project, located at the Southern Petrochemical Complex in the state of Rio Grande do Sul.

According to Braskem spokesman Nelson Lataif, the process of producing polyethylene from sugarcane is simple in concept. "Sugar in the form of sucrose is extracted from the sugarcane and fermented to produce ethanol," he said. "This is dehydrogenated to ethylene, which is subsequently polymerized to polyethylene. The challenge is achieving the level of purity required."

Braskem plans to manufacture polyethylene from sugarcane-based ethanol. The facility will have the capacity to produce 200,000 tons of ethylene and polyethylene on an annual basis. The project won't be integrated with an ethanol plant. "Braskem will purchase [ethanol] as a commodity," Lataif said. The process will utilize approximately 400,000 tons of ethanol each year, producing one ton of ethylene from every 1.8 tons of ethanol.

According to information released by Braskem, the design of the project is complete. The detailing phase and construction are expected to begin in 2009, and operational start-up is scheduled for 2011. Braskem has also reserved the project's critical equipment, such as the feed gas and refrigeration compressors. To finance the operation, the company plans to pay 30 percent with its own funds and is seeking financing for the remaining 70 percent.

The company has identified demand for 600,000 tons of green polyethylene and estimates the chemical will command a price

premium of 15 percent to 30 percent over the price of polyethylene made from nonrenewable materials. The project could be the first of additional larger-scale projects being analyzed by the company. (*Ethanol Producer Magazine 3/09*)

## EU approves duties on US biodiesel imports

Looking to support their struggling biodiesel producers, European governments voted [March 3] to impose temporary anti-dumping and anti-subsidy tariffs on imports of US biodiesel.

Twenty of the 27 EU governments that took part in the informal vote on [March 3] supported the anti-subsidy duties, while 17 governments voted in favour of the anti-dumping tariffs. Only Belgium, Denmark and Sweden voted against the anti-subsidy duties; other countries abstained from the votes. "It went through with no problem," a source close to the meeting told Reuters.

Starting 13 March, imports of US biodiesel will be slapped with tariffs ranging from 26 euros to 41 euros per 100 kilograms. Once the duties have been in place for six months, the European Commission can propose that the tariffs be made permanent. Such a move would have to be approved by EU governments.

The approval of the import duties was welcomed by EU biodiesel producers, who claim that the support the US provides its biofuels industry has made their products much less competitive in the European market.

"This will re-establish a level playing field and put an end to unacceptable and artificial prices created by US biodiesel producers," said Raffaello Garofalo, secretary general of the European Biodiesel Board, Reuters reported.

"Whatever the action of the United States will be – even in front of the WTO – our complaint and our case is well grounded," Garofalo said. (*Bridges Weekly Trade News Digest 3/4/09*)

## EU offers beef export pilot program to stop carousel

The EU last week proposed a pilot project that would grant additional market access for US exporters into the EU market for [non-hormone treated] beef. Under the plan, the US would have to drop – in layers or stages – the sanctions it has on various EU products, and NOT change the list of products under the so-called carousel agreement. The new list is expected in about two weeks; implementation of tariffs on those products would negate the deal from the EU.

The bottom line is that, 1) carousel brought the EU to the table; 2) the US cattle herd is the smallest in 50 years, and beef production is down 6 percent. The EU is not negotiating from a position of strength on this issue, and the real thing that the US has set out as a top priority for meat trade with Europe is the EU recognition of anti-microbial washes [chlorine rinses on chicken]. That component is what this deal will likely boil down to. (*Ag Perspectives 3/12/09*)

## US delays trade action in EU beef hormones dispute

The Office of the US Trade Representative announced on March 12 that it is delaying imposing additional duties on a modified list of EU products by one month. The duties were in connection with World Trade Organization dispute settlement rulings in the EU beef hormones dispute.

Under a determination announced on Jan. 15, the additional duties were to go into effect on March 23. Under the delay just announced, the additional duties are now scheduled to go into effect on April 23.

"The purpose of the modified-trade action announced earlier this year was to encourage a resolution of the longstanding beef-hormones dispute that would offer a fair outcome for the US beef industry,

while also addressing the economic impact of the prior trade action on US interests," said Nefeterius McPherson, USTR spokesperson. "USTR is currently in discussions with the European Commission on a possible interim solution that would provide benefits for US beef producers. These discussions have made progress, although several important issues remain to be resolved. USTR has decided to delay the trade action in order to give this process every possibility of success." (*meatpoultry.com 3/13/09*)

## EU likely to reduce soybean imports

The European Union is likely to reduce its soybean imports in coming months as oilseed crushers switch to rapeseed and sunflower seed, Hamburg-based oilseeds analysts Oil World forecast on [March 10]. EU Sept 2008/Aug 2009 soybean imports are forecast to fall to 13.75 million tonnes from 15.18 million tonnes in 2007/08, it estimated.

Brazil is likely to be a major loser, with its 2008/09 soybean exports to the EU likely to fall to 8.70 million tonnes from 9.09 million tonnes in 2007/09.

US 2008/09 exports to the EU are forecast to drop to 2.90 million tonnes from 3.60 million tonnes, Paraguay's to 850,000 tonnes from 965,000 tonnes, and Argentina's to 260,000 tonnes from 375,000 tonnes, Oil World forecast.

"In the EU-27 (countries) there is a clear-cut shift in crushings from soybeans to rapeseed in 2008/09," it said. It estimates combined EU Oct 2008/Sept 2009 crushings of the major oilseeds in the EU will rise to a record 39.6 million tonnes, up by 0.5 million tonnes on the year. (*Reuters 3/10/09*)

## Rising food prices hit Eastern Europe

The global financial crisis that has triggered bank losses and sent currencies tumbling across Eastern Europe now is taking a toll on the region's real economy and hitting consumers with higher food prices.

Food inflation in many of Europe's emerging economies accelerated this year, according to government statistics. In Hungary, monthly food inflation jumped to 2.7% in January from 0.2% in December, according to Eurostat, the statistical office of the European Commission.

Food prices edged up in Poland and the Ukraine and this week the Czech Republic's central bank said overall inflation in February was higher than expected because the country's plunging currency is driving up food prices.

Plunging currencies are at the root of the problem. Currencies have declined as investors have lost confidence and moved capital elsewhere. Falling currencies mean shoppers have less purchasing power – a handicap that hasn't been offset by falling commodity prices and cheap oil, which normally translate into benefits for consumers.

In recent months, the global financial crisis has hit hard in Eastern Europe, where the economies have declined more than their weakened Western European counterparts. Abrupt currency declines have spurred calls in some Eastern European capitals to weigh adopting the euro.

Falling currencies across Eastern Europe are making it more expensive to import food and consumer goods – and can drive up the price of locally made food. Some producers look to sell their goods abroad, where they are likely to draw higher prices.

In a supermarket near Budapest's Western railroad station, Gabriella Erdélyi lamented that Hungarian produce was scarce. "You can't find Hungarian tomatoes, or good Hungarian apples," she said,

complaining that much of the country's bounty is exported. Hence shoppers are stuck with imported goods – increasingly expensive as Hungary's forint spirals down. Ms. Erdélyi fingered an orange, from Cyprus, that was going for 439 forints (\$1.87) a kilo. That is twice what it was several weeks ago, she said.

Although consumers are feeling the pinch, rising food prices haven't reached a crisis point, analysts say. "Food prices globally have been falling and a lot of the impact has been put aside [in Eastern Europe] by the currency devaluation," says Ivailo Vesselinov, an economist at Dresdner Kleinwort. "The increases are not large [but] it may turn out to be a huge problem along the line."

J.P. Morgan Chase food analyst Pablo Zuanic estimates the costs of commodities used by Europe's biggest food companies will fall by as much as 20% this year. Yet reductions in retail food prices are "unlikely," especially in countries with falling currencies, he says, because some food producers locked in higher costs through contracts known as hedges when prices were high.

At the same time, food-industry analysts say producers can use currency shifts as a cover for increasing prices more than costs, giving profits a boost. "Currency depreciation in emerging markets might make it easier for companies to take prices up in countries like Poland and Russia," J.P. Morgan's Mr. Zuanic said a recent report. It is too soon to tell if this is happening.

The situation has prompted some consumers to change their habits. In Poland, the zloty has fallen 25% against the euro in the past four months. That has made Polish food seem inexpensive to residents of neighboring Lithuania – where the currency is tied to the euro. Some Lithuanians have started crossing the border to buy Polish groceries, according to Frank Gill, a credit analyst at ratings agency Standard & Poor's. (*Wall Street Journal* 3/12/09)

## EU dairy unrest grows

More than 8,000 Czech dairy farmers protested and dumped milk in the streets of Prague where EU Farm Commissioner Mariann Fisher Boel was meeting with the bloc's ag ministers. It was the latest, but not likely the last, in a series of protests aimed at boosting farmgate prices, setting a minimum purchase price, raising dairy subsidies and revising the EU's plan to eliminate milk quotas in 2015.

Czech farmers called for a minimum milk price of 0.40 euros per liter and greater direct subsidies. The demand was echoed by German farmers, who reportedly are considering a milk delivery boycott similar to the one they mounted in May and June of 2008, unless conditions improved.

Both Germany and France called for the EU to reassess its November CAP Health Check agreement for four 1 percent quota hikes prior to their 2015 abolition. Germany, France and other EU nations also called for the bloc to delay changes to milkfat rules that would alter fat calculations and ultimately allow farmers to boost deliveries without exceeding existing quotas.

Many EU members blame last year's quota hike for the steep decline in farmgate prices over the past eight months. Fisher Boel denied such claims. "The quota system does not work to maintain prices," she said, noting that production was below quota in most member states – "a logical response to low prices."

The European Commission's just-released "Prospects for Agricultural Markets and Income in the EU" predicts that the 2008/2009 year "could finish with a record level of net undershoot" for EU milk deliveries. And in 2009/2010, underutilization could increase even further.

The European Commission ruled out renegotiating the Health Check agreement, a decision backed by dairy organizations in Denmark and Britain, but Fisher Boel said the EU might

increase intervention levels, particularly for butter. She also said that \$1.95 billion in unspent agricultural cash could be used to help the dairy sector, but only if Members of the European Parliament lobbied their governments to make it happen. (*USDEC Facts on Dairy Exports 3/19/09*)

### **Ukraine files poultry dumping petition against US, Brazil**

Poultry producers in Ukraine have petitioned the Ukrainian government to initiate a dumping investigation against poultry imports from the US and Brazil, USAPEEC has learned. The complaint filed by the producers cites a surge in poultry imports from the US and Brazil between September and November of last year, which producers say overloaded the market and brought prices down.

A letter outlining the producers' case was signed by a deputy minister in the Ministry of Economy, but has yet to be delivered to the US Embassy in Kiev.

Although details of the letter have not been released, the first phase of the investigation has begun, and will last about a month. In this phase, an interagency group from the ministries of agrarian policy, economy and foreign affairs will review and evaluate the complaint. Also, Ukrainian officials can be expected to contact US producers or trading companies for information.

The second round of the investigation could include the imposition of punitive anti-dumping duties on poultry imports, depending on the findings from phase one. (*USAPEEC MondayLine 3/9/09*)

### **Moratorium on Ukraine farmland sales postponed**

The moratorium for farmland sales has been postponed until January 2010 since Parliament overruled a presidential veto. Also, the National Bank of Ukraine is authorized to refinance commercial banks.

Parliament made two attempts to pass this law back in December 2008 and in early February 2009 but in both cases it was vetoed by the President. As of January 1, 2009 Ukraine has 42,000 private farmers who own 11% of farmland and produce 4% of all agricultural commodities. They own this land but they cannot sell it.

Agricultural cooperatives produce 54% of all agricultural commodities including 12% of grain, 14% of sugar beets, 50% of meat and 72% of milk. As of January 1, 2009 there were 936 agricultural cooperatives. During the past 5 years the number of large scale farming operations with 100,000+ ha increased dramatically, however the world financial crisis is likely to lead to some M&A in this sector in the near future. (*Ag Perspectives 3/11/09*)

### **Putin surprises industry with new ag minister**

The recent appointment of Elena Skrynnik as Russian Minister of Agriculture came as quite a surprise to an industry that was anticipated vice-premier Zubkov to be appointed to the post. Skrynnik was formerly the head of RosAgroLeasing company and understands issues related to credit in the farming sector, which is presumably why she was chosen. Interestingly, she was nominated by the Communist Party for this position in the Parliament.

The short term goals of the new minister under conditions of crisis are likely to be credit availability for farmers and increased exports. She is believed to be a good economist and will most likely build a new team able to boost the domestic farm machinery industry, animal production and the development of rural economies. (*Ag Perspectives 3/18/09*)

### **Egypt to offer dairy subsidies**

Egypt's Ministry of Agriculture agreed to set a minimum milk price to subsidize dairy farmers and encourage local processors to use domestically produced fresh milk rather than

imported milk powder. Farmers claimed that processors were threatening to switch to imported milk powder due to the steep decline in international commodity prices. The ministry agreed to pay the difference between the import price and the cost of production for fresh milk, but the plan has yet to be finalized. (*USDEC Facts on Dairy Exports 3/19/09*)

### **Foreign forays into African farming**

A move by Madagascar's army-backed leader to nix a huge South Korean farming deal has exposed the risks of such ventures in Africa. South Korean firm Daewoo Logistics had planned to lease a million hectares of Madagascar – equivalent to the size of Qatar – to grow food, reducing the Asian country's dependence on US or South American imports.

Following are some of the agricultural deals involving foreign companies or governments elsewhere in Africa:

- The China Development Bank has granted loans worth several hundred million dollars to agricultural processing firms, mostly in East Africa. Governor Chen Yuan told African finance ministers in August the bank planned further investments and urged Africans to grow cereals as well as cash crops.

- Beijing has granted Angola a \$1 billion agriculture loan, and is thinking about lending more to rebuild the sector after decades of war, Angolan state media said this month.

- In February, Chinese President Hu Jintao went on a four-nation African tour to cement ties beyond the oil and mining sectors. In Senegal, he signed a deal to buy 10,000 tonnes of groundnut oil, government media reported.

- Saudi Arabia's Hail Agricultural Development Co. said in February it would develop 9,200 hectares of land in Sudan to grow food in a deal that could be worth \$45 million. Riyadh would pay for 60 percent of the cost of the project,

Saudi's first such move into the continent, the company said.

– Investor Philippe Heilberg's New York-based firm Jarch Capital said in January it was involved in a deal to lease approximately 400,000 hectares in Mayom county, southern Sudan. South Sudan's semi-autonomous government said it was looking into the deal, involving a senior local army commander.

– British energy firm CAMS Group said last year it had bought 45,000 hectares in Tanzania to produce 240 million litres of ethanol a year from sweet sorghum.

– Swedish firm Sekab, one of Europe's biggest biofuels producers, plans to establish several plantations in Tanzania in the next 10-15 years, and is negotiating with Mozambique over 100,000 hectares.

– Germany's Flora EcoPower is investing \$77 million in Ethiopia's Oromia state as part of a purchase of over 13,000 hectares for biofuel production.

– India has invested nearly \$4 billion in Ethiopia, including in agriculture, flower growing and sugar estates. The country's Tendaho Sugar Enterprise is being built using a \$640 million loan from a state-owned Indian bank.

– Private equity fund Agri-Vie is raising up to \$100 million to invest in agricultural projects in South Africa, Kenya, Tanzania, Uganda, Ghana and Nigeria. Agri-Vie's backers include South Africa's Development Bank of Southern Africa and Industrial Development Corp, and private entities such as the W.K. Kellogg Foundation, started in 1930 by the breakfast cereal pioneer.

– Abu Dhabi announced plans in July to develop over 28,000 hectares in Sudan to grow alfalfa, used in animal feed, and probably corn, beans and potatoes.

– The United Arab Emirates has farms in several Sudanese provinces, including a 17,000 hectare farm for wheat and corn.

– US-based Dole Food Co. and Chiquita Brands International are

talking with Angola to help rebuild the once prosperous banana industry in Vale do Cavaco. Brazilian building giant Odebrecht has also announced plans to invest in Angola's sugar and ethanol sector.

– Britain's Sun Biofuels plans to grow about 5,500 hectares of jatropha in Tanzania. The company also grows jatropha in Ethiopia and has similar projects in Mozambique. (*Reuters* 3/31/09)

### **Saudis invest \$1.3 billion in Indonesian agriculture**

Saudi investors launched agricultural projects in Indonesia worth \$1.3 billion last year, a top business official said on [March 23], as the world's top oil exporter seeks to secure food supplies from abroad. Mohamed Abdulkader al-Fadel, who chairs Saudi Arabia's Commerce and Industry Chambers Council, made the remarks during a meeting with Indonesia's ambassador, state news agency SPA reported.

Alwi Shihab, the Indonesian president's special envoy to the Middle East, said last week the Asian archipelago would allocate at least 2 million hectares (4.94 million acres) of farmland to joint ventures with Saudi investors to be used mainly to cultivate rice. The move would turn Indonesia into the world's top rice exporter in 2009, Shihab said.

Saudi BinLadin Group plans to invest at least \$4.3 billion in Indonesia's rice-farming sector on 500,000 hectares of land in the Papua province, Shihab said last year.

Indonesia is among countries prospected by Saudi investors under a government-sponsored push for agricultural investment outside the kingdom to secure food supplies. The countries also include Sudan, Ethiopia, Egypt, the Philippines and Turkey.

Under the plan, Saudi Arabia would import a "reasonable amount" of commodities, provide support for those investments and sign bilateral agreements with relevant

governments, the government said.

Saudi Arabia, among the world's top ten rice importers, said in January it had received the first batch of rice produced abroad by local investors.

Three listed Saudi firms have already announced plans to invest in either farming or agri-business projects abroad.

A food security panel, affiliated to Riyadh's Chamber of Commerce and Industry, has identified wheat, barley, corn, soybean, maize, rice and sugar among strategic crops that should constitute priorities for foreign investments. (*Reuters* 3/23/09)

### **Food processing is India's next big thing**

With its availability of raw materials and low cost of production, India is strategically poised to capitalize on the processed foods market, provided steps are taken to promote the sector. It could be the next big thing after the IT and biotechnology sector in India.

According to the "India Food Report 2008," the Indian food industry is estimated at over \$182 billion and accounts for about two-thirds of the country's total retail sector. The sector has the potential to attract over \$20 billion in investments. While other sectors are declining, the food processing sector is growing at 13.7% as per the Ministry of Food Processing Industries (MoFPI). The sector grew at 6% in 2003/04.

Automatic approval is granted for foreign investment of up to 51% in high priority industries, which include all food processing industries (except milk food, malted foods and flour) and all items of packaging for food processing industries. Companies like Tyson from the US (poultry), Rocket from France (starch), Danone from France (cheese), cookies and candies etc. have invested in the sector and more will follow.

The meat sector, particularly poultry processing, is growing rapidly and investments are being made. Forward linkages by processors and

marketers are being strengthened. Two new chicken processing plants have begun production in the third quarter of 2008/09 in Northern India and another three are likely to start operations in the last quarter of 2008/09 in Southern India. Two more in have been announced and possibly will be operational by end of 2009 or early 2010 in West and South India. Capital grants in all cases have been availed from MoFPI. Even though the overall capacities are small (10000-12000 chickens per day) in the plants, the impact on the market will be strong due to consumer preference for safe meat and promotions being carried out by the Ministry to create awareness.

Expansion in the restaurant business will also give a boost to the food processing and investments by US companies have been increasing. TGI Fridays, Ruby Tuesday's, KFC and Pizza Hut are expanding operations in India, so the demand for value added products is expected to grow substantially. There are discussions that a Taco Bell chain will soon be launched in India. (*Ag Perspectives 3/2/09*)

### **India to be net exporter of oilseeds and products**

India may become a net exporter of vegetable oil seeds and products for the first time as the country expects to ship items worth Rs 12,000 crore this fiscal, an estimated Rs 1,300 crore higher than the imports of the commodities.

"The export of oilseed and oil products will be more, compared with the import. While we are exporting items worth Rs 12,000 crore [crore = 10 million], we are importing worth less than Rs 11,000 crore. For the first time, we are exporting more," the Indian Council of Agricultural Research Director General Mangala Rai told PTL.

Rai, who is also the Secretary of the Department of Agricultural Research and Education, said the gap between the exports and imports this

fiscal will be as high as Rs 1,300 crore.

India, the second-largest buyer of vegetable oils in the world, has imported 5.60 million tonnes in 2007-08. The country needs about 12.5 million tonnes of edible oils for its domestic consumption. Edible oils account for the bulk of the country's total oilseeds and oil products imports.

India had earlier banned the export of edible oils to contain domestic price rise, though in November last year, it allowed the shipment of such oils in branded consumer packs of up to 5 kg, subject to a limit of 10,000 tonnes till October 31 this year. However, oilseed shipment has not been curbed. Asked if a ban on oilseeds will finally reduce India's dependence on the imports of oil products, Rai said some oilseeds are better exported as they are not consumed widely in the country.

"In oilseeds, there are nine crops. In castor, if you ban the export, what would you do with it in the country as it's a technical oil and is not consumed?" he said. (*The Press Trust of India 3/8/09*)

### **Soyoil demand falling outside of US**

US domestic demand for soyoil has declined sharply in the last 3 months as the recession cuts into demand by restaurants and the biodiesel industry. US soyoil consumption for edible and inedible products in January 2009 was 23.1% below consumption in January 2008, and 5% below consumption in December 2008. Demand for corn oil and canola oil also was down from a year earlier.

Soyoil demand outside of the US also is declining. Most notable is India, where a 20% tariff on crude soyoil imports is sharply cutting soyoil imports in favor of more sunoil and palm oil imports. Presently there is no tariff on palm oil and sunoil imports. This makes the two vegoils significantly less expensive than

soyoil. Officials in India now expect India to import as much as 600,000 mt of sunoil in the current marketing year versus only about 18,000 mt in 2007/08. India's palm oil imports currently are forecasted by USDA to reach 4.8 mmt in 2008/09 versus 4.53 mmt last year, but its imports probably will be greater if India does not raise the palm oil tariff level to at least that of soyoil.

India's domestic soyoil output also is lower this year because farmers are holding onto their soybeans. Because of the high Indian soybean prices, India's crushers are unable to make a profit selling their soyoil on the domestic market and their soymeal in the export market. Indian soymeal exports were down by 42% in February compared to a year earlier. Therefore, the soybean crush volume in the country is down sharply. To help out, India's crushers are asking the government to increase the export subsidies they receive under the VKGUY program. India is within its rights to apply the discriminatory 20% tariff on crude soyoil, but it is accomplishing very little in doing so because of the zero tariffs on palm oil and sunoil. The governments of the US, Argentina, and Europe should be protesting the unjustified higher tariff rate for soyoil as their exporters are the main losers from it.

Chinese soyoil demand also is expected to fall this year because of large soybean imports for crushing and a substantial increase in palm oil imports. USDA currently is projecting Chinese soyoil imports in 2008/09 to be 2.37 mmt versus 2.727 mmt in 2007/08. Chinese soyoil consumption is expected to fall from 9.693 mmt in 2007/08 to 9,477 mmt this year.

Soyoil demand also is expected to fall sharply this year in the EU-27 as a result of a big crop of rapeseed and sunseed and reduced soybean imports. USDA currently is forecasting soyoil demand in 2008/09 will be 514,000 mt less than in 2007/08, and it may be even less unless there is a rapid recovery in the European biodiesel sector. Soyoil currently traded on par

with rapeseed oil in northern Europe, but was recently trading at a premium. (*Ag Perspectives 3/10/09*)

### India scraps soyoil import tax

Indian Trade Secretary G. K. Pillai said [March 19] that the import tax on soyoil has been cut to zero from 20%.

The cut will even the playing field between imported palm oil and soyoil, sparking a shift toward more consumption of the latter by reducing local prices of soyoil, brokers said. Imports of sunflower oil will also fall sharply, they said.

Indian rapeseed oil prices are also likely to decline following the government's decision, local trade officials said. "The elimination of the duty on soybean oil will have a direct impact on the price of (local) rapeseed and rapeseed oil, and (prices of) the two may go down further," said B.V. Mehta, executive director of the Solvent Extractors' Association of India. "It will affect the interests of the farmer," he added.

Mehta said prices of some of the locally produced oilseed crop were already down by 30% to 40% over the same period last year. "Currently, rapeseed is under harvest and is being sold just above the minimum support price," he said. "The current prices are already at bottom." Official notification of the tax cut will be forthcoming, Pillai told reporters.

The benchmark June contract of crude palm oil futures on Malaysia's derivatives exchange gave up all its intraday gains and fell into negative territory on the news, while prices of soyoil in electronic trading of Chicago Board of Trade futures rose as much 2.9%.

Trade officials said the cut in the import tax will boost consumption of soyoil across the country, instead of restricting its consumption to coastal areas close to ports. "This (cut) will boost the consumption of soyoil as palm oil is not good for health," Ashok Dodeja, a Raipur-based broker said. Palm oil contains higher levels of

saturated fats.

Local soybean prices are about INR23,100 (\$457) a metric ton, much higher than the state-set purchase price of INR13,900/ton. The government buys commodities at state-set prices when local market prices fall below those levels.

Local soyoil prices are expected to come down by INR3 a kilogram from about INR45.50/kg, Suresh Maheshwari, an Indore-based broker said. "Imports of soyoil from Argentina will rise sharply," Maheshwari said. (*Dow Jones 3/19/09*)

### Bt eggplant controversy in India

Consumer groups, indigenous cultures and even Bollywood movie stars are united in blocking the approval of Bt brinjal (eggplant). Clearing this first vegetable is being considered by the Genetic Engineering Approval Committee (GEAC), the national regulatory authority for GM foods. According to reports from Mahyco-Monsanto, the biotech crop will increase yields for farmers, reduce the need for pesticide use by 70% and pose no health or safety hazards.

A French study released in January 2009 has poked a few holes in the Mahyco biosafety data, prompting the creation of the GEAC committee. Groups opposed to the introduction of GM foods want an independent study to verify the results of the Mahyco submission to GEAC, since they believe that there are many other risks associated with the crop that have not been brought forward.

Mumbai-based filmmakers have released a 30-minute documentary called "Poison on the Platter," which will be circulated to make a case against the clearance of GM products in India.

The United Coalition Against Genetic Engineering (UNCAGE) staged a protest rally against Bt brinjal and Bt cotton in the Bhubaneswar, Orissa in East India. Although Bt

eggplant is currently in the spotlight, Bt cotton has been a runaway success with almost 70% of planted cotton acres going to GM varieties. One of the reasons cited for its success is its limited use in the food chain (cotton seed oil) or as a raw material to feed animals (milking animals).

The company is optimistic that it will obtain final clearance for the eggplant, and has started working on Bt varieties of staple crops such as rice, wheat, and some vegetables like okra, chilies and tomatoes. (*Ag Perspectives 3/23/09*)

### The next Great Wall

Politicians in Europe and America have been especially vocal about the dangers of protectionism in recent months. Even so, many Asian firms feel that barriers are gradually rising against them. Tighter environmental laws, "place of origin" rules and other new regulations are being introduced in America and Europe, they complain. The costs of complying with these regulations make Asian rice, furniture and toys less competitive. As Asian exports continue to collapse, the region is responding in kind.

This week Vietnam increased import tariffs on dairy products, after raising duties on paper last month. India has upped tariffs on some types of steel. Malaysia's prime minister has issued a plea on his website to "buy local products in large quantities". The Indonesian government will introduce regulations this month to penalise 4m officials if they do not buy locally produced food, drinks, shoes, clothes, music and films. New rules which favour local steelmakers are also likely to cut Indonesian steel imports to 1.5m tonnes this year, down from 9m tonnes in 2008. Such measures are not protectionist, the Indonesian trade minister claims, but are merely "branding campaigns".

Perhaps the loudest anti-protectionist calls in the region have come from China. Hours before Hillary Clinton's visit last month,

Zhong Shan, the vice-minister of commerce, said that China “strongly opposes protectionism” and gave warning that it could make the financial crisis worse. Just as America watered down the buy-local clause in its own financial bail-out package, China quietly removed one from its own industry-support bill a few weeks ago. This had instructed “governments of different levels to give priority to home-grown light-industry products”.

But the mere mention of the clause seems to have been enough to make local governments comply. Although Beijing publicly continues to rally against protectionism, China’s provinces are busily erecting internal barriers.

Farmers in the city of Hangzhou now get a 13% subsidy if they buy Hangzhou-made refrigerators, televisions, mobile phones and washing machines. Officials in the provinces of Henan and Hubei must give priority to local suppliers of buses, cars, farming equipment, software and medicines. In the province of Anhui, publicly funded infrastructure projects must use Anhui-made steel, concrete, doors and windows, glass, wiring and electrical equipment. Appliance-makers and two carmakers based in the province, Chery and Jianghuai Automobile, must buy locally made steel. In return, state-owned businesses, taxi operators and government officials will buy their cars. From next month, power plants will also have to buy locally mined coal.

Similarly, in Changchun, capital of the north-eastern province of Jilin, inspection fees for new vehicles made by First Auto Works (FAW), a local carmaker, are being waived, giving the company a price advantage over rivals. Government officials have been told to consider FAW vehicles first; farmers will get a 10% discount on locally made tractors. At least 50% of the equipment for officially sanctioned “large projects” must be bought locally, too.

Such policies carry risks, especially in Asia. In Vietnam,

Thailand and Malaysia exports account for more than 50% of the economy, and for more than one-third in Indonesia and China. Retaliatory barriers would hit these countries hard – hence the politicians’ public claims that they remain deeply opposed to protectionism. Yet halting its rise in Asia, as elsewhere, will be difficult. Most of the recent policy changes and buy-local pronouncements can be fudged under existing trade agreements. Politicians everywhere are torn between what they say in public about the evils of trade barriers – and the desire to protect special interests, taxes or votes at home. (*The Economist* 3/14/09)

### **China tries to boost use of domestic soybeans**

China’s Ministry of Agriculture has been meeting this week with representatives of Chinese-owned soybean crushing companies looking for ways to boost consumption of domestic soybeans by crushers. The actions are being driven by Chinese farmers holding out for higher-than-domestic prices for their soybeans.

The problem with Chinese soybeans was created by the Chinese government’s purchasing of 6 mmt of soybeans at very high prices. Last fall the government started buying 6 mmt of domestic soybeans from farmers at the equivalent of over \$14/bushel (\$514.36/MT) as a way of boosting farmer’s incomes at a time of great concern that job losses from the recession would lead to political unrest. The price paid for purchases for the reserve was far above the landed cost of imported soybeans. This caused China’s crushers to shift their purchases to imported soybeans, mostly from the US.

The problem now is that farmers in China are left with a lot of soybeans they cannot sell to the government for the reserve because of quality problems. Yet, they are unwilling to sell the soybeans to crushers because the price is well below that paid by the government for the reserves. Farmers

want a higher price before they will sell and are upset with the government for not helping them out. Therefore, the government is seeking some way to pacify them.

One suggestion being made is for crushers to buy the Chinese soybeans at a higher price that satisfies farmers, with the government making up the difference between that price and the price of imported soybeans. Crushers have suggested the government simply impose a higher tariff on soybean imports in order to raise domestic prices.

Both actions would appear to contravene China’s WTO obligations. It is not permitted under the WTO to provide subsidies to domestic users to buy domestic commodities as a way of displacing imports. And higher tariffs would exceed China’s bound tariffs. However, that does not mean China will not take either action although it is doubtful it will raise its tariffs. What China could do is make payments directly to farmers to reimburse them for the difference between a set price and the price crushers would agree to pay them for their soybeans. It will be interesting to see how the government’s problem is addressed. (*Ag Perspectives* 3/26/09)

### **China will take US to WTO over chicken ban**

China said on [March 11] that it plans to file a complaint against the United States at the World Trade Organisation over US rules it says are blocking it from exporting poultry to that market.

The Chinese Commerce Ministry said it took issue with a section in the spending bill approved by the US Congress on [March 10] which states that no funds under it may be used to establish or implement a rule allowing poultry imports from China.

The US rules were “clearly unfair and malicious”, Commerce Ministry spokesman Yao Jian said in a statement on the ministry’s website. “China will file a case at the WTO and reserves the right to take further

measures," Yao said. (*Reuters* 3/11/09)

### **China is largest egg producer, consumer**

As important as it is, the egg sector actually gets very little attention as a supplier of wholesome food or as a major consumer of grains and soymeal. Somehow the industry manages to float below the radar of most publications. USDA publishes data on egg production here in the US, but very little about production outside of the US. For that reason it is not easy to collect reliable, consistent information on the global eggs sector...

The US is no longer the world's largest egg producer. That distinction is now held by China. USDA's Agricultural Counselor estimated Chinese egg production in 2008 at approximately 26.7 mmt and forecasted production in 2009 will increase 5% to 28 mmt. That compares with egg production in the US of only about 6 mmt. China's egg output has increased by about 1725% since 1970 when it produced only 1.533 mmt. Now China produces about 43% of the world's eggs and is a net exporter of fresh eggs. Using a common conversion of metric tons of eggs to the number of eggs suggests that China will produce about 465 billion eggs in 2009.

That works out to about 340 eggs for each person in China. Obviously more than a small share of the corn and soymeal consumed in China is used to produce eggs.

India is either the world's third-largest or fourth-largest egg producer depending on which data source is used. Some say Japan has a higher level of production. Nevertheless, India produced approximately 48.3 billion eggs in 2008. That was 16% higher than the 41.6 billion eggs produced in 2004. Approximately 5% of India's eggs are exported. That means that the average person in India consumes only about 42 eggs per year. Human nutritionists recommend that

Indians need to consume an egg on average every 2 days. This suggests the country needs to be producing 180 billion eggs to meet the dietary recommendation. To that end India's National Egg Coordination Committee has set a goal of producing that many eggs by 2015. However, industry trends suggest the country will only be consuming 106 billion eggs by 2020. In either case it likely will take most of the soymeal India is now exporting to produce that many eggs. Even more soymeal will be required if India's egg producers raise the soymeal inclusion rate in their feeds from today's average of about 11% to the recommended level of about 22% for highly efficient operations. Some industry sources indicate India now is using about 1 mmt of soymeal annually for layer feeds.

China has usurped Mexico to become the higher per capita egg consumer in the world. Mexico was long the number one consumer. Depending on the data source used Mexico's egg production in 2005 was between 32.8 billion eggs and 39.3 billion eggs, with a mid-point of 36.1 billion eggs. This made Mexico the sixth largest egg producer in the world. Undoubtedly its production has increased since then, but most likely no one knows just how many eggs it produces. (*Ag Perspective* 3/24/09)

### **Chinese foodservice market growth will continue**

USDA released a 52-page report detailing the Chinese hotel, resort, restaurant and institutional foodservice markets in light of the global economic crisis.

Despite slower projected growth in 2009, long-term prospects for out-of-home dining in China remain bright, the report said. As growth spreads from the coasts, the consumer boom will continue, even with the current economic slowdown, USDA noted. The number of urban households in China with yearly incomes greater than \$5,000 is expected to grow by nearly 25 percent

annually over the next 10 years, potentially creating tens of millions of new middle-class Chinese consumers interested in Western-style foods and restaurants. (*USDEC Facts on Dairy Exports* 3/12/09)

### **China's plan to end the dollar era**

Zhou Xiaochuan, China's central bank governor, has delivered a powerful message to the world this week. He wants an end to the dollar era. This is not sabre-rattling. He has made serious proposals for a reserve currency to rival the greenback and he deserves a hearing.

During the 1997 crisis, Asia's emerging market economies learnt a painful lesson: do not run out of foreign reserves. China, in common with many other Asian emerging market economies, built up towering mounds of foreign assets to give itself a backstop against future emergencies.

The People's Republic has, however, over-exposed itself to the US, piling up dollar-denominated securities. In January, its stock of US Treasuries was about \$739bn – a startling leap from \$535bn in June last year. Yet Washington puts domestic economic needs before its creditors; the Beijing authorities now worry that possible future inflation could cost them dearly.

Chinese attempts to diversify into other currencies lost them money and efforts to buy higher-yielding US assets ended badly. It would be in China's interests to have another safe reserve asset – but this does not mean that it would be against America's. It would, of course, make it more difficult for the US to finance its deficits. But America should not want the world to be yoked so tightly to its willingness to generate demand. Such imbalances are at the root of this crisis.

As Mr. Zhou says, a reserve supercurrency could be created through further issuance of the International Monetary Fund's Special Drawing Rights – the IMF's in-house

reserve asset. To enable and encourage take-up, he proposes wider uses for the SDR and giving some surplus countries' reserves to the IMF for it to manage. Married with other necessary reforms, this plan would also empower the IMF to act more flexibly. Good.

But China's dollar-heavy reserve accumulation was not just insurance – it supported an aggressive, mercantilist trade policy. Beijing kept its currency weak to bolster exports and measured success in terms of how export-dependent it became. Mr. Zhou's proposal is useful and constructive – but China should still raise domestic consumption. It must not just replace its mountain of dollar assets with heaps of other currencies.

China has acted wisely in the recession, expanding demand with government spending. Beijing now wants to play an active role in reshaping the world monetary order. This outward-looking view should be welcomed. But China still has work to do at home. (*Financial Times* 3/24/09)

### **China says it's not pushing to expand farming overseas**

China is not pushing to expand overseas farming and Chinese companies are less active in their investment abroad because of concerns of potential political risks, a senior Agriculture Ministry official said on [March 4].

To meet a perennial shortfall in soybean supply, China, the world's largest soy importer, will continue to import from major growing countries such as the United States, the largest exporter, rather than seeking to buy up farmland outside China, said Qian Keming, market economics director at the ministry.

"There are misunderstandings from some countries about Chinese companies' overseas farming," Qian told reporters on the sidelines of the meeting of parliament's advisory body. "The Chinese government is not pushing for it. If there are requests by some countries, we would like to

assist," said Qian.

He said Chinese companies growing grains overseas were doing so just to make money and without official encouragement, not to ship them back to China because of food security concerns. As well as soybeans, he said China would keep importing some high-quality wheat which it can't grow domestically.

Qian, formerly head of the ministry's Agricultural Trade Promotion Centre, said some Chinese companies engaged in farming overseas had encountered opposition from local politicians and local society. "Chinese companies are less active now. There are huge political risks."

Qian said the Chinese government had helped less-developed countries in Africa, South America and Southeast Asia with its technology and knowhow in growing grains. "We use our experience, technology and talented people to help these countries to boost grain production for mutual benefits," said Qian.

He said China, which aims at 95 percent self-sufficiency in its grain supply, would like to import some crops which it lacks. "We will keep normal trade with major exporting countries and continue to import soybeans from the United States, Brazil and Argentina," he said. "It does not make sense to grow soybeans in Africa or elsewhere and then ship them back home. It is cheaper to buy from these major exporting countries," he said. (*Reuters* 3/4/09)

### **Korea remains against re-do of US free trade deal**

South Korea said [March 10] it remains opposed to renegotiating a free trade agreement with the United States after hawkish comments on the landmark deal by the man nominated to be President Barack Obama's top trade official.

Ron Kirk, Obama's pick to be US trade representative, told a Senate hearing [March 9] that the agreement with South Korea "simply isn't fair."

He added that if problems cannot be rectified Washington was ready to "step away" from it.

South Korea and the United States reached the accord nearly two years ago, with both governments touting it as a boon not only to trade but as a further cementing of close ties between key security allies.

But the deal, the biggest for the US since the North American Free Trade Agreement in the 1990s, has since languished amid political changes in both countries and the global financial crisis. It requires ratification by lawmakers in both countries to take effect.

South Korea has said repeatedly that there is no need for renegotiation and reiterated that position [March 10]. Choi Kyong-lim, director-general for free trade agreement policy at South Korea's Ministry of Foreign Affairs and Trade, said the country remains opposed to revisiting the deal, which he said would be "like opening a Pandora's box."

He also suggested, however, that Kirk's comments should not be taken too seriously. "We do not believe it represents the official position of the US government," Choi said.

Criticism of the proposed deal in the US has centered on an imbalance in bilateral auto trade. Figures compiled by auto industry groups in South Korea show that the country exported 598,126 vehicles to the US last year, while South Koreans purchased 6,980 vehicles made by American manufacturers.

Those figures do not include the 237,042 vehicles produced in the United States last year by South Korea's Hyundai Motor Co. nor the 820,000 made in South Korea by GM Daewoo Auto & Technology Co., the South Korean unit of General Motors Corp.

The trade ministry's Choi said that the US has even bigger deficits in autos with other trade partners, including Japan, and emphasized that bilateral farm trade between South Korea and the US heavily favors Washington.

Kim Eun-hye, a spokeswoman for President Lee Myung-bak, said that once Kirk is confirmed and assumes his duties, South Korea “will actively explain” to the US that implementing the free trade deal will prove mutually beneficial “under the current economic difficulties.”

The agreement has ignited passions in South Korea, sparking street protests during the 10 months of negotiations and a major brawl in the National Assembly in December. The main opposition Democratic Party has accused the government of failing to ensure measures are in place to help farmers and others seen as vulnerable to a surge in US imports.

Bilateral trade totaled \$84.8 billion in 2008, making the US South Korea’s fourth- biggest trading partner after China, the European Union and Japan. (AP 3/10/09)

### Japan’s exports fall by half in February

Japan’s exports fell by nearly half in February from a year earlier – a record drop – the government said [March 25], dragged down by plunging auto shipments to the US and Europe. Exports tumbled 49.4 percent, the sharpest decline since the Ministry of Finance began compiling comparable data in 1980 but generally in line with economists’ expectations.

Demand plunged in all regions of the world, particularly North America, Europe and Russia. The dismal figures highlight the grim outlook for Japan’s export-oriented economy, the world’s second-largest.

Japan, which had relied foreign sales of its cars and gadgets to drive economic growth, now finds itself mired in its deepest recession since the end of World War II. The International Monetary Fund expects the economy to contract 5.8 percent for the 2009 calendar year, though many economists predict it could be far worse.

The slowdown has also sapped demand for imports, which fell 43 percent in February from a year

earlier.

As a result, Japan posted its first trade surplus in five months, breaking a run of four straight months in the red. The surplus was 82.4 billion yen (\$841 million), down 91 percent from last year.

Exports to the rest of Asia retreated 46 percent, and exports to EU countries were down 55 percent. Shipments of automobiles plummeted 64 percent, with those to the US down 71 percent. Overall exports to the United States fell 58 percent. (AP 3/25/09)

### US maintains access to Philippine pork market

In what is being called a victory for US pork producers, the Philippine government indicated last week it will maintain current rules for the administration of its tariff rate quota for pork, preserving US access to a fast-growing market for US pork exports, according to the National Pork Producers Council (NPPC).

In recent months, the Philippine government had threatened to severely restrict pork imports by denying to legitimate Philippine importers the licenses they need to import pork within the country’s 54,210 metric ton pork TRQ. Amounts of imported pork below the TRQ are subject to a lower, or in-quota, tariff rate. Once imports reach the TRQ threshold, a higher tariff rate kicks in, NPPC explained.

Responding to that threat, the National Pork Producers Council filed a petition in December 2008 with the Office of the US Trade Representative, requesting removal of the Philippines from the US Generalized System of Preferences. NPPC noted in filing that petition that the Philippine action would have violated World Trade Organization rules and a 1999 Memorandum of Understanding between the United States and the Philippines.

GSP is a program designed to provide developing countries, such as the Philippines, with preferential duty access to the US market. In 2007, the

Philippines exported \$1.1 billion worth of products to the United States under the GSP program.

“We are delighted the Philippine government has lived up to its international obligations and given Philippine importers full access to the pork TRQ,” said Bryan Black, NPPC president and a pork producer from Canal Winchester, Ohio. “In light of that, we have withdrawn our GSP petition. However, we will remain vigilant to ensure the Philippine government continues to give the US pork industry full access to its pork market.”

NPPC said the Philippine decision to maintain its current TRQ administration rules preserves a growing market for US pork exports. US pork sales to the Philippines in 2008 increased by 360% to 25,300 metric tons valued at \$46 million. (meatpoultry.com 3/3/09)

### Processor woes as shrimp runs short in Vietnam

Although the Cuu Long River Delta has entered a new shrimp hatchery crop, seafood processing workshops have been running perfunctorily with just 20-30 per cent of capacity.

Tran Thien Hai, Chairman of the Vietnam Association of Seafood Exporters and Producers (VASEP), said that most processing workshops are seriously lacking material shrimp. Meanwhile, Nguyen Thong Nhan, Deputy Director of Ca Mau Seafood Department, said that workshops are running at 25 per cent of their capacity, which should be seen as abnormal.

There are 39 shrimp processing enterprises in Ca Mau province. Leading enterprises in provinces like Minh Phu, Phu Cuong and Camimex are now running perfunctorily. Director of Camimex Nguyen Thi Tuyet said that at the same time of the previous year, the company had to work additional shifts, while it is now running at an indifferent level due to the material shortage.

Nguyen Viet Cuong, Chairman of Phu Cuong Corporation, complained that he cannot find enough materials to fulfill export orders. Phu Cuong has 15 member companies, using 10,000 workers.

It is even difficult to find shrimp materials now in Soc Trang and Bac Lieu shrimp growing areas, which always provides high output, thanks to the hatchery in the industrial and semi-industrial way.

According to the Ca Mau Department for Agriculture and Rural Development, in February 2009, only 300 out of 1,300 ha (23 per cent) of the water area reserved for shrimp hatchery in the industrial way were seen to have shrimp, while the other areas have been either left idle or are farming other kinds of aquatic products.

In Bac Lieu province, Duyen Hai Company has left 500 ha idle in Hiep Thanh commune. Local authorities of Vinh Hau A commune said that there is 1,100 ha reserved for shrimp hatchery in the commune, but only 10 households here have resumed farming. In 2009, the province plans to have 11,000 ha of shrimp, but only 1,300 ha have been farmed with shrimp hatcheries (11.8 per cent).

In Soc Trang province, according to Nguyen Van Khoi, Deputy Director of the province's Department for Agriculture and Rural Development, 40 per cent of shrimp farming households in My Xuyen, Long Phu and Vinh Chau districts do not have capital for reinvestment after the incurrence in previous shrimp crops. The dirt cheap shrimp material price in 2008 made farmers suffer heavy losses. (*TheFishSite.com* 3/3/09)

### **Asia's biofuel push to cut long-term sugar exports**

As Asian countries increasingly turn to biofuels to cut their reliance on imported crude oil, the shift in crop use could crimp the region's sugar exports over the next five to ten years. A strong push from governments to use more crops such as sugarcane for

fuel rather than food means Asia's main sugar exporters, Thailand and the Philippines, will likely export less.

The impact of the change on prices isn't clear, given the complex interaction among oil, ethanol and commodities generally, but the trend could portend shifts in global trade as sugar-importing countries look elsewhere.

"The basic feedstock for ethanol will be sugarcane, and the ethanol program will absorb whatever production might otherwise go to sugar exports" from the Philippines, said Rafael Coscolluela, chairman of the country's Sugar Regulatory Administration and vice chairman of the National Biofuels Board.

Governments worldwide have mandated increased use of ethanol in a bid to curb greenhouse-gas emissions, win the votes of farmers and reduce countries' dependence on foreign oil. This demand has to some extent decoupled the prices of biofuels and crude oil.

"Ethanol demand in Asian countries is basically determined by government energy policies," said Ratneswary Balasingam, an analyst with the Frost & Sullivan consultancy. "The difference in crude oil price has the least impact on the ethanol demand..."

Most Asian countries are heavy oil importers – Thailand imports 64% of the oil it consumes, for example, with oil representing the single largest item in the country's import bill.

But given government policies promoting ethanol use, demand for it "seems to be getting de-linked from oil prices, and we're projecting continuing demand for agricultural commodities for biofuel production this year," said Mahesh Uniyal, a consultant at the Asia-Pacific regional office of the Food and Agriculture Organization of the United Nations.

Asia's ethanol industry itself isn't immune from the downturn, which, along with relatively low crude oil prices, is alleviating the urgency for the use of biofuels and slowing investment in the sector. Still, thanks

to government support, biofuel demand remains more robust in Asia than in the US, where it seems to be going downhill along with the economy, Balasingam said.

In the Philippines, the Biofuels Act has since last month mandated that gasoline contain at least 5% ethanol, rising to a 10% blend in 2011. Thailand, Asia's largest sugar exporter, plans to more than double the country's daily ethanol consumption to 2.4 million liters in three years from 1.04 million liters, by pricing it lower than refined-petroleum fuels.

A liter of ethanol requires 14.3 kilograms of sugarcane, or 3.85 kilograms of molasses, to produce, according to Thailand's Office of the Cane and Sugar Board. In the crop year ended in September, Thailand produced 3.2 million tons of molasses, of which some 1.3 million tons was used to make ethanol. The country is expected to produce around 7 million tons of sugar this crop year; exports last year totaled 4.88 million tons.

"If the crude oil price spikes up, and I personally believe it will, we might need more sugarcane if the molasses is used up," said Rangsit Hiangrat, an official with the Office of the Cane and Sugar Board. (*Dow Jones* 3/25/09)

### **New Zealand dairy farms face income crisis**

New Zealand banks are reportedly taking action against some "under stress" dairy farms, as milk producers are finding it difficult to keep up with loan payments while adapting to Fonterra Cooperative Group's significantly lower 2008/2009 payout forecast. Farms that borrowed to expand or invest in equipment early in the season are the most effected.

The average farmer's income (after expenses, mortgage repayments and tax) dropped from US\$60,000 per year to just US\$9,000, as Fonterra's payout forecast fell from NZ\$7 per kg of milk solids (about US\$3.70) to NZ\$5.10 per kg of milk solids (about

US\$2.70), according to industry group DairyNZ. Reports suggest as many as 40 percent of the country's dairy farmers would either break even or post a loss this year. The "severity of the volatility" caught dairy producers by surprise, said Federated Farmers Chairman Lachlan McKenzie. "We're used to payout forecasts going up and down, but to go from \$7 at the start of the season to \$5 now is a big shock."

Payouts will bounce back, New Zealand dairy analysts said, but no one knows when. Economic models used to predict conditions were not working, they said, and it was hard to know what would happen internationally. New Zealand's Westpac Bank projected the 2009-2010 Fonterra payout would be even lower, at NZ\$4.50 per kg of milk solids. The bank said that weak outlook for international growth would translate into soft demand for dairy products for the next two years. (*USDEC Facts on Dairy Exports 3/19/09*)

### **Lamy hopes to conclude Doha deal this summer**

World trade ministers could gather to conclude the Doha Round of trade talks before the WTO's summer holiday, which starts 1 August, WTO Director-General Pascal Lamy said during a visit to Australia on [March 4]. "What I hope is that before the summer break there will be a window of opportunity to bring them back," Lamy said, referring to trade ministers. Lamy said that he thought this schedule would accommodate upcoming elections in India and allow new US President Barack Obama's trade team enough time to get on its feet.

Last year, an end-of-July gathering of ministers sought to achieve the same goal, but that meeting collapsed when ministers proved unable to overcome their differences on an agricultural safeguard mechanism. Several controversial issues, including cotton subsidies and sector-specific

liberalisation initiatives in the industrial sector, also remained unresolved after the meeting.

"These subjects would have gained steam had we been successful last year but, to our great dismay, agreement proved elusive," said Lamy, although he remained optimistic about future prospects for a deal. "What remains to be coped with is a small portion of the big list we had to cope with last July. A large part of that is already stabilised, so normally with a bit more political energy on a smaller number of topics, normally it should work," Lamy said.

Echoing recent statements from Lamy, Brazilian President Luiz Inacio Lula da Silva recently called for a speedy conclusion to the Doha Round of trade talks.

"If the United States, Europe, Brazil close themselves, the crisis could become much bigger and produce chaos instead of a solution," Brazilian President Lula told industry leaders in Sao Paulo last week, Reuters reported.

"The Doha round was almost finished but we had elections in the United States and then India and politics dominated. Now, nothing stands in the way," said Lula. "The Doha round is more of a political than a financial decision." (*Bridges Weekly Trade News Digest 3/4/09*)

### **Brazil says stick to current package in Doha talks**

Brazil called on [March 9] for current proposals under negotiation to be the basis of a deal in the World Trade Organisation's (WTO) long-running Doha round.

The call, by Brazil's WTO ambassador Roberto Azevedo, was an apparent rebuff to the United States, which said last week an imbalance in the current negotiations must be corrected by other countries opening their markets more to US businesses.

"We are of the view that the package on the table is a good basis for the resumption of the negotiations. In light of the ongoing economic

crisis, the gains that we could obtain from the package on the table are not to be thrown away," Azevedo told WTO members during a regular review of Brazil's trade policy.

WTO members are now conducting technical negotiations on the basis of revised negotiating texts in agriculture, industrial goods and some other key areas that were produced in December.

The WTO had been considering holding a meeting of ministers that month to seek a breakthrough in the Doha talks, launched in late 2001 to free up world trade and help developing countries export their way out of poverty. But WTO Director-General Pascal Lamy decided the gaps between members were still too wide for a meeting, not least because the United States felt big emerging countries such as China, India and Brazil were not opening their markets enough to US goods.

Major US business groups have told President Barack Obama they are unhappy with other countries' offers. They say the Doha talks should not simply pick up where they left off in 2008, a view reflected in the annual US trade agenda report issued last week.

Azevedo said last week Brazil could not allow the current package, based on years of give and take, to be reopened. (*Reuters 3/9/09*)

### **WTO ag chair to step down**

Crawford Falconer will step down as the WTO's ag negotiations chairman in April to take over as deputy secretary of New Zealand's Ministry of Foreign Affairs and Trade. David Walker, the trade negotiator who helped forge the China-New Zealand FTA, will take over Falconer's position as the country's Geneva representative. WTO membership will select a new ag chairman. New Zealand said it would allow Walker to assume the chairmanship should the WTO desire it. (*USDEC Facts on Dairy Exports 3/26/09*)

## Obama signals tough stance on Doha

Barack Obama's administration signalled it would take a tough line in global trade negotiations on [March 2], saying the Doha round of talks was tilted against the US...

The USTR report said it would seek to push forward a trade pact with Panama, one of the three pending bilateral agreements left by the administration of George W. Bush. But it expressed unhappiness with the state of the Doha talks, which failed to establish an outline deal last year in spite of a promise to do so at the Group of 20 summit in November.

The report said the administration would continue to work for a deal in the round but it added: "It will be necessary to correct the imbalance in the current negotiations in which the value of what the United States would be expected to give is well-known and easily calculable, whereas the broad flexibilities available to others leaves unclear the value of new opportunities for our workers, farmers and businesses."

Trade analysts said the rhetoric largely echoed or even strengthened the tone taken by the Bush administration, which was accused by trading partners of demanding too much access to the markets of developing countries in return for agreeing to cut farm subsidies.

"The more the administration raises the bar for what it will accept, the more it pushes a resolution of Doha into 2010 or beyond," said Gary Hufbauer at the Peterson Institute for International Economics. (*Financial times.com* 3/2/09)

## Vilsack: US needs more new exports for Doha deal

The United States cannot support a proposed world trade deal to cut the spending cap on US farm subsidies until developing countries make better offers to open their markets to US farm exports, US Agriculture Secretary Tom Vilsack said on [March

27]. "What I do know is the administration is very concerned about all aspects of the Doha discussion," Vilsack told Reuters in an interview.

"What the United States is being asked to do has been quite succinctly, and with some degree of specificity, laid out in the framework... There's less clarity and less predictability in what developing nations are being asked to do in market access," Vilsack said.

The long-running Doha round of world trade talks was launched in November 2001 with the goal of helping poor countries prosper through trade. Negotiators came close to a deal last year and many countries in Europe, Asia and Latin America are eager to finish the talks based on a set of texts proposed by World Trade Organization negotiating chairmen in December.

But US farm and business groups say those texts require too many politically painful farm subsidy and manufacturing tariff cuts for the United States without enough new export opportunities to make the deal acceptable. The December text would cap annual US spending on trade-distorting farm subsidies at \$14.5 billion, down from \$48.2 billion now allowed under existing WTO rules.

Vilsack, who met this week with WTO Director General Pascal Lamy, said it was "impossible" for him to say whether that was an acceptable number until the United States has a concrete idea of what it would gain.

"\$14 billion could be a great number if the market access is x. It could be a horrible number if the market access is y." Vilsack said.

The United States also is concerned that many markets around the world remained closed to genetically modified crops and other biotechnology products, Vilsack said he told Lamy. (*Reuters* 3/27/09) 