U.S. Agricultural Trade Update – June 2010
Department of Economic Analysis

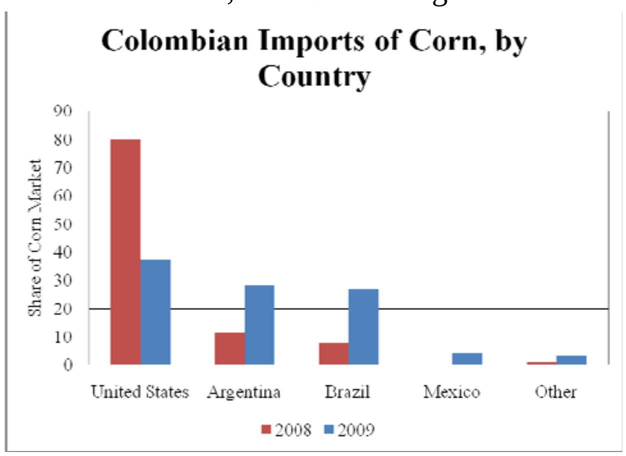
Missing FTA Opportunities

By the end of 2010, there will be more than 600 bilateral and regional trade agreements in place worldwide. These agreements are effectively replacing global agreements, such as the World Trade Organization's (WTO) Uruguay Round Agreement on Agriculture, as the engine of growth in world trade. The United States is engaged in fewer than 20 of these trade agreements.

WTO members are required to notify trade agreements in which they participate to the Organization. Nearly all of the WTO's 153 members have notified participation in one or more trade agreements; some members are party to 20 or more agreements. As of February 2010, 462 trade agreements had been notified to the World Trade Organization. Between 1948 and 1994, the WTO (then the GATT) received 123 notifications of trade agreements. Since 1995, more than 300 additional agreements covering trade in goods and services have been notified. More than 100 trade agreements are under negotiation around the world now. This illustrates the rapid expansion of bilateral and regional trade agreements; a rapid expansion of which the United States is not a part.

The United States signed free trade agreements with Colombia (the Colombia Trade Promotion Agreement or CTPA) on November 22, 2006; Panama (the Panama Trade Promotion Agreement or PTPA) on June 28, 2007; and South Korea (the KORUS FTA) on June 30 2007. Congress has not yet taken up any of these agreements. Our competitors, however, are not waiting for passage of these preferential U.S. agreements and are in the process of negotiating their own agreements with Colombia, Panama, and Korea.

Looking at one specific example, Colombian President Uribe signed a law that ratified a free trade agreement between Colombia and Mercosur (a South American regional trade group that includes Argentina, Brazil, Paraguay, and Uruguay) on December 30, 2005. That agreement came into full force this year and allows Colombia to import agricultural products and other goods from Mercosur at lower costs due to reduced tariffs resulting from the agreement. For example, Mercusor partners are now able to export corn to Colombia at a tariff rate of 7 percent; the United States currently is assessed a tariff of 15 percent. Under the CTPA, U.S. corn exports would immediately face a tariff of 0 percent, putting U.S. farmers and exporters at an advantage over other South American suppliers. And as the graph shows, our competitors are taking advantage of their position by taking U.S. market share in Colombia.



While negotiations through the WTO and its 153 members offer the greatest opportunity to expand agricultural exports, those negotiations appear to be stalled. In the mean time, bilateral and regional free trade agreements offer an opportunity to expand agricultural exports. Other countries around the world see that opportunity and are seizing it. The United States, unfortunately, is not.

2010 Outlook for U.S. Agricultural Exports

U.S. agricultural exports for fiscal year 2010 are expected to reach a value of $104.5 billion – an increase of $4.5 billion from last quarter's estimate and an increase of $7.9 billion over last year. This will be the second highest export level in history. This increase is based on a historic six-month pace for U.S. agricultural exports, which shattered records with $59 billion in sales in the first half of the fiscal year and generated a 14 percent increase over the same period last year. Strong oilseed and grain shipments generated the main boost in exports so far this year.

World and U.S. gross domestic product (GDP) are expected to grow in 2010, which has acted to raise global export demand. The U.S. GDP should see real growth of 3.1 percent in 2010; world GDP growth is expected to be between 3.1 and 3.3 percent; developing country GDP growth is forecasted to be between 4 and 4.3 percent. Based on this growth, world trade volume is expected to increase in 2010, growing by 8 percent this year.

Exports by Commodity

The soybean export forecast contributed most to the improved overall trade forecast, with exports spurred by record U.S. soybean production and record early season exports to China. Grain exports are up due to higher demand for feeds, fodders, and high-quality wheat. Cotton exports are also forecasted to increase due to higher prices, coupled with tighter supplies among competing exporters. The forecast for horticultural exports is up due to strong exports to Canada of fresh fruits and vegetables so far this year, along with surging tree nut exports to both China and Hong Kong. However, dairy, livestock, and poultry exports are forecasted up only slightly as gains in broiler meat and hides and skins outweigh reduced exports of beef and pork.

Forecasted Agricultural Exports

By Commodity Group

	FY 2008	FY 2009	FY 2010F
Grains and Feeds	$38.3	$26.3	$26.0
Oilseeds and Products	$22.8	$21.0	$24.4
Livestock, Poultry, and Dairy	$22.2	$18.8	$20.3
Horticultural Products	$20.8	$20.6	$22.5
Other	$11.2	$9.9	$11.3
Total Exports	$115.3	$96.6	$104.5

Exports by Region

Perhaps the most notable change in this quarter's *Outlook* is that USDA is predicting Asia will surpass the Western Hemisphere as the largest regional market for U.S. agricultural exports in 2010. This was led by agricultural exports to China that grew by nearly $3 billion during the first half of the fiscal year to $10.6 billion, making China the top U.S. market for this period. And these numbers do *not* include the U.S. corn Beijing started buying last month. In total, exports to Asia have reached record highs, led by strong increases in both China and Southeast Asia. Our NAFTA trading partners of Canada and Mexico remain strong markets for U.S. agricultural exports.

Forecasted Agricultural Exports

By Region

	FY 2008	FY 2009	FY 2010F
East Asia	$34.9	$30.9	$34.8
Southeast Asia	$7.1	$5.7	$6.5
North America	$31.8	$29.0	$30.5
Latin America	$12.0	$9.3	$9.7
Europe/Eurasia	$13.5	$9.9	$10.6
Africa	$6.4	$4.3	$4.7
Total Exports	$115.3	$96.6	$104.5

2010 Outlook for U.S. Agricultural Imports

USDA is predicting that agricultural imports will be $76.5 billion in fiscal year 2010, a drop of $1 billion from last quarter's forecast but an increase of $3.1 billion from last year. U.S. agricultural imports during the first quarter of fiscal year 2010 were 8.6 percent lower than the same period in 2009; however, imports in the second quarter of the fiscal year were 7 percent higher than 2009. USDA expects this "healthy growth" to continue for the remainder of the fiscal year, putting total 2010 agricultural imports about 5 percent higher than last year.

Imports by Commodity

The main reason for $1 billion drop in expected agricultural imports in 2010 from last quarter's estimates was due to a decline in the import of oilseeds and products. The prices of tropical oils (palm, coconut, and palm kernel) and olive oil remain close to their lows after collapsing in 2009. The recent price gains are not expected to have a significant impact on the importation of the vegetable oils, as 56 percent is generally shipped to the United States in the first half of the fiscal year.

Forecasted Agricultural Imports

By Commodity Group

	FY 2008	FY 2009	FY 2010F
Grains and Feeds	$7.9	$7.4	$7.4
Oilseeds and Products	$6.6	$5.4	$4.7
Livestock, Poultry, and Dairy	$12.2	$10.7	$10.6
Horticultural Products	$34.7	$33.0	$35.0
Sugar and Tropical Products	$16.4	$15.3	$17.3
Total Imports	$79.3	$73.4	$76.5

While the forecasted values of vegetable oils, bulk grains, dairy products, and beef were lowered in this quarter's forecast. USDA's projections for imports of horticultural crops and tropical products were up from both last quarter's forecast and from their 2009 levels. USDA anticipates that the major agricultural import products will continue to be horticultural products and oilseed products.

Imports by Region

The United States traditionally imports more agricultural products from Canada than from Mexico. However, since 2009, the Canadian currency has strengthened against the dollar, which explains the stronger U.S. demand for Mexican produce and other food products. The formerly large gap between the value of U.S. agricultural imports from Canada and those from Mexico is closing and is expected to amount to only $2 billion this year, down from $4 billion in 2009 and $7 billion in 2008.

Forecasted Agricultural Imports

By Commodity Group

	FY 2008	FY 2009	FY 2010F
East Asia	$4.5	$3.9	$4.3
Southeast Asia	$8.0	$6.6	$7.0
North America	$28.7	$26.6	$27.3
Latin America	$13.2	$13.5	$14.6
Europe/Eurasia	$16.6	$14.5	$15.0
Africa	$1.7	$1.7	$2.4
Total Imports	$79.3	$73.4	$76.5

And while the U.S. economic downturn in 2009 reduced imports from Asia and Europe by more than $2 billion each, the value of imports from these two regions is expected to rebound this year. Imports from Europe are expected to recover faster than from Asia, due in part to the low prices of tropical oils from Southeast Asia. In addition, imports from Australia, New Zealand, and India have slowed significantly. Forecasts for Oceania show sharp declines in their shipments of livestock and horticultural products to the U.S. in 2010 as Asian markets absorb more of them.

Happenings Around the Globe

Lots of things have been happening around the world over the last few months, too. Highlighted below are some of the top headlines affecting American agriculture.

Senate Calls for Resumption of Beef Trade – By unanimous consent, the Senate adopted S. Res. 544, which calls for the Asian countries and Mexico to fully reopen their markets to U.S. beef exports. Introduced by Senate Finance Committee Chairman Max Baucus (D-Mont.), Senate Agriculture Chair Blanche Lincoln (D-Ark.), and Sen. Mike Johanns (R-Neb.), the resolution identifies Japan, China, Hong Kong, Korea, Taiwan, Vietnam, and Mexico as having restricted their markets to U.S. beef. A joint statement said that between 2004 and 2009, annual U.S. beef exports to Japan and South Korea averaged less than 15 percent of their 2003 levels before fears of bovine spongiform encephalopathy (BSE) promoted closures of various markets around the world to U.S. beef exports. The resolution notes that the different markets restrict U.S. beef in various ways, with China prohibiting all U.S. beef imports, Japan opening its market to U.S. beef from cattle only 21 months old or less, and Korea opening its market to beef from cattle of 30 months old or less.

WTO Dispute Settlement System at Record Level of Activity – The dispute settlement system of the World Trade Organization is currently at a record level of activity, with 19 original panel proceedings under way. The recent surge in proceedings involve technical barriers to trade and sanitary and phytosanitary (SPS) issues. Part of the increase in the number of cases is being attributed to the average lengthening of time it takes a panel to process reports, which is due to increased complexity, more claims per proceedings, and bigger records.

Panelists to Rule on U.S. COOL Labeling Requirements Appointed – Pascal Lamy, the Director-General of the World Trade Organization, has appointed a three-member panel to rule on a complaint filed by Canada and Mexico against U.S. country-of-origin labeling (COOL) requirements for meat and perishable commodities. The appointment comes almost 6 months after the panel was established on the request of the two complaining countries. Canada and Mexico claim the COOL labeling requirements lead to discrimination against their meat producers within the U.S. market, in violation of WTO rules requiring fair treatment between imported and domestic goods.

Cuba Update – Chairman Collin Peterson (D-Minn.) continues to signal that he plans a House Agriculture Committee mark-up of H.R. 4645, the *Travel Restriction Reform and Export Enhancement Act*, soon. While the mark-up has not yet been scheduled, he has said he plans to hold the mark-up before the Fourth of July recess. It is the expectation that once mark-up is completed the bill will move directly to the floor for full House consideration. H.R. 4645 would (1) clarify the definition of "cash payment in advance" and revert to the means of doing business with Cuba under terms in place prior to the redefinition by the Office of Foreign Asset Control in 2005, (2) eliminate the need to have Cuba go through a third-country bank to pay for U.S. product, and (3) remove all travel restrictions on Cuba.

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