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The Impact of EEP Removal on U.S. Week

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The value of animals and products actually approach the value of grains and feeds exports by the end of the period. The value of meat exports—beef, pork, and broilers—will nearly double in ten years. In fact, meat exports will account for more than half of the total $22 billion increase in the value of agricultural exports. This increase in animal exports helps domestic feeding because more than 20 mmnt are fed to exported animals by 2005 compared with 9 mmnt in 1996.

By 1999, U.S. pork exports are projected to surpass those of the European Union, making the United States the world’s largest net exporter of pork. Additionally, in ten years the United States will be exporting almost as much beef as Australia, the country that presently dominates the market. Simply put, the world will be demanding much more meat over the midterm, and the United States is in a good position to supply that meat. These projections are contained in a recent analysis by FAPRI (Food and Agricultural Policy Research Institute) at Iowa State University.

The optimism for agricultural exports stems primarily from new market access opportunities derived from trade agreements and from the remarkably positive macroeconomic situation in developing countries in general, but especially in Asia and Latin America. Several large, emerging markets are demonstrating strength and stability in income growth. This is fundamentally a much different international macroeconomic situation than the optimism for agricultural exports stems primarily we had in the 1970s and 1980s.

The strong export demand outlook bodes well for U.S. farm prices and net farm income over the long run. After modest near-term weakening, corn and soybean prices show continuous increases. This general optimism is, however, tempered by concerns about much greater commodity price volatility in the future, given the current market and policy environment. With steady growth in demand and supply, agricultural commodity prices will become more and more responsive to weather induced yield shocks; and price variability will remain high.

Direct feed-grain exports, led by corn, are projected to increase by 30 million metric tons over the period to more than 80 million metric tons in 2005. The growth in feed-grain demand is also derived from increases in international meat consumption and production. The United States continues to indirectly export corn in the form of meat, with the feed-grain export equivalents of meat exports growing by approximately 12 million metric tons. Together, direct and indirect exports of corn increase by 42 million metric tons.

The combined effect of 1) demand growth in large, emerging markets; 2) additional market access brought about through trade agreements; 3) large reductions in government-funded carry-over stocks; and 4) increasing variability in production implies strength in average farm prices and income. However, this combined effect also implies continued price fluctuations.

The FAPRI analysis indicates that in the next decade, barring a fundamental change in world weather variability or in stockholding behavior, price instability will be above the levels experiences over the past decade.

The Impact of EEP Removal on U.S. Wheat
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The Export Enhancement Program (EEP) was initiated under the Food Security Act of 1985. The purpose of the program was to offset the adverse effects on U.S. exports due to unfair trade practices or subsidies by competing exporters and also to support U.S. prices. Supply restrictions, price supports, and export subsidies together have caused U.S. wheat prices to be above world prices over the past decade.

Since its inception, EEP has played a major role in exports of many agricultural commodities, particularly wheat, which has accounted for 80 percent of the value of all EEP-assisted sales. Over the period 1985/86 to 1995/96 more than 5.5 billion dollars were spent on wheat EEP sales. Figure 1 shows the distribution of expenditures over the ten-year period. During the past decade, EEP has been applied to an average of 50 to 70 percent of U.S. wheat exports.
Eliminating EEP - A Scenario

With the current higher world prices, EEP may have a relatively smaller impact on the quantity of wheat exported and on farm, Gulf, and importer prices. A recent FAPRI/ISU study measured the impacts of elimination of Export Enhancement Program (EEP) on U.S. wheat exports and prices over the coming ten-year period.

A baseline projection was developed for the years 1996/97 to 2005/06 using FAPRI commodity models (see FAPRI 1997 Agricultural Projections in this issue). The impacts of EEP were then determined by running the alternate (No EEP) scenario in which the EEP effects on importers and exporters are removed. The difference between the two scenarios provided the impacts of EEP.

For our baseline projections, maximum EEP expenditures are constrained by the 1996 FAIR Act limits; but minimum EEP expenditures depend on EU export restitutions. For the European Union, the level of export restitution depends on the difference between world price and the EU domestic price. If domestic price is above the world price level, then EU subsidizes, which in turn causes the United States to subsidize its exports through EEP. On the other hand, if world price is higher than EU domestic price, then the European Union need not provide export restitution and, subsequently, EEP subsidy is reduced.

Results

In the baseline projection, average per-unit EEP subsidy is projected to be around $14 per ton for 1997/98 to 1999/00. But after 1999/00, average per-unit subsidy is reduced to $10 per ton and subsequently reduced to $5 per ton by 2003/04 and zero by 2004. Correspondingly, U.S. EEP wheat expenditures are estimated to be $131 million in 1997/98, increasing to $145 million by 2000/01, and declining to $0 for 2004/05. The reduction of EEP subsidy is linked to EU restitution: i.e. after 2000/01, world wheat price exceeds the EU domestic price, enabling EU to export without any subsidy, and U.S. EEP subsidy phases out.

Some of the important analytical results from the baseline and no-EEP scenario are summarized below. The results indicate that elimination of EEP decreases U.S. wheat exports by 1 to 5 percent (4 to 5.6 million bushels) over the projection period (Figure 2). Thus, the export additionality, calculated as a ratio of change in exports due to EEP and quantity of wheat exported through EEP, ranges from 10 to 15 percent during the period 1997/98 to 2003/04 (Figure 3).

In other words, commercial displacement due to EEP is estimated to be 85 to 90 percent. Although the size of the EEP varies over the baseline period, the estimated percentage of additionality remained relatively stable at 10 to 15 percent.

The decline in world wheat trade due to elimination of EEP even further diminishes the impacts of EEP on U.S. share of world wheat trade. Share changes range from a 0.12% to a 1.35% decline. Similarly, average wheat farm price decreases by $0.05 to $0.15 per bushel (Figure 4). The results suggest that removal of EEP during the projection

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period may not increase the price paid by importers to the extent that there would be a significant negative impact on U.S. wheat exports.

In summary, the elimination of EEP is likely to marginally reduce U.S. wheat exports and expand competitors’ market shares. The additionality of the program is projected to be 10 to 15 percent over the projection period. Thus the displacement of commercial exports ranges from 85 to 90 percent. The results also suggest that the ability of the EEP to expand U.S. exports is somewhat limited, mainly due to domestic policies of major wheat importers and exporters that insulate their prices from world price fluctuations. (For more detailed information see CARD Briefing Paper 97-BP 15.)

The Potential Market for U.S. Pork Variety Meats in China

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Chinese consumers view products such as loins and tenderloins as uninteresting and lacking in taste. Chinese dishes call for small pieces of strong-tasting products, and Chinese consumers will pay accordingly.

During a May 1996 visit, Dermot Hayes collected the prices shown in Table 1 for pork and pork variety meats at Chinese wet markets and wholesale markets. (The prices are presented both in U.S. dollars per pound and as the ratio of the meat or variety meat price to the loin price in order to avoid errors due to currency valuation.)

The direct price comparison shown in the table is somewhat suspect because of production subsidies in China, questions about the exchange rate, and the various locations from which the prices were collected. The price ratios are, however, an accurate measure of the taste differences that exist between Chinese and U.S. consumers. For example, pork stomach sells at a 50 percent premium to loins in China, whereas stomach sells at 40 percent of the loin price in the United States. Lungs sell at only 2 percent of the loin price in the United States but at 20 percent of the loin price in China.

The reason these ratios are so different is that, until recently, China has protected its variety meat market. Discussions between Hayes and numerous individuals along the Chinese pork chain indicate that Chinese restrictions on pork variety meat imports are currently under review. One reason for this review is that the market price differences shown in the table

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