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Specialty Soybeans: New Markets for Iowa

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Special Articles

Specialty Soybeans: New Markets for Iowa
(Dermot J. Hayes, Associate Professor of Economics, 515/294-6185)

Imagine what would happen to U.S. car sales if U.S. automakers offered only one model in one color. In all likelihood, car sales would fall as low-end customers turned to motorbikes and high-end customers purchased expensive imports. This would occur even if there were economies associated with producing only a single model.

Now consider how U.S. corn and soybeans are marketed. In order to capture storage and transportation economies, beans from different farms and states are commingled before sale. If this system were to change so that individual customers could purchase exactly the characteristics they require, it would create a revolution in Iowa agriculture with particular importance to the emerging biotechnology industry.

Think of corn and beans as packets of ingredients, some of which are useful to particular industries and some of which are not. Thanks to biotechnology, we will have the ability to enhance the characteristics of interest through gene manipulation. Under the right circumstances, both corn and beans will serve as foodstock for the biotechnology industry, and because of Iowa’s dominance in these crops, the state will become a prime business location for biotechnology firms, much as it is for seed companies today.

The key to the success of these new marketing opportunities is for the marketing system to evolve so that the identity of a particular variety is maintained from planting all the way to the final customer. This has been slow to occur because it costs at least $0.50/bushel to preserve the identity of a particular load of beans. Also, because of the risks associated with creating and growing new varieties, contracts have been required between the grower and the seed company or soybean buyer.

Many producers are wary of contract production. They believe that it involves some loss of freedom and some legal involvement.

CARD Studies Soybean Industry

The Center for Agricultural and Rural Development (CARD) recently completed two projects dealing with specialty soybeans for the Iowa Soybean Promotion Board (ISPB). In the report “The Future of Iowa Soybean Industry,” we examined the advantages and disadvantages of contracting. Benefits include:

1. Specialty soybean production requires the voluntary participation of farmers. This means that those farmers who grow beans under contract will be better off than would otherwise be the case.

2. Because it costs at least $0.50/bushel to maintain the identity of soybeans through the marketing process, specialty soybeans will not compete with commodity soybeans. This means that specialty beans will be sold only into new or niche markets. Increases in specialty soybean production will then mean increases in demand for soybeans.

3. Unlike hog or chicken production, specialty crop production requires large tracts of land, and this land is already owned by Iowa’s corn and soybean farmers. This means that specialty soybean production will not drive existing producers out of business. Any expansion in specialty soybean business will simply drive up land prices.

4. Optimally, specialty soybean production requires a dense concentration of producers near a central elevator. Iowa is therefore an ideal location for this industry.

5. The extra costs associated with specialty crop production are a form of added value that will increase economic activity within the state.

6. Specialty crop production allows customers to transfer market signals directly to producers, thereby increasing the efficiency of the free market process.

These advantages mean that most, if not all, Iowans will benefit as the commodity marketing system becomes more specialized.

CARD Directory Locates Specialty Industry

The second CARD soybean project evolved naturally from the first. We wanted to know whether the soybean industry saw a future in specialty production, and we also wanted to do whatever we could to expand knowledge among producers and soybean buyers about the structure of the existing industry within the state.

First, we mailed a preliminary survey to all seed companies and elevators within the state asking if they
were currently involved in the specialty soybean market, if they were interested in becoming involved, and where they thought the industry would be by the year 2000.

We received an enthusiastic response, in part because all the respondents expected continued strong gains in the share of soybeans sent into specialty markets. (The average participant predicted that 20 percent of all soybean sales would be identity preserved by the year 2000.)

We then sent out a much more detailed survey asking those companies already in the specialty business to document their involvement in each of the specialty markets we had identified. This information has been published in a 128-page specialty soybean directory. Call Dermot Hayes, CARD, at 515/294-6185, or Greg Ehm, ISPB, at 515/223-1423, to inquire about receiving a free copy.

Where Do We Go from Here?

While creating the specialty soybean directory we discovered that the specialty soybean business is already important and is growing rapidly. As the marketing system undergoes the transformation from a commodity-based system to a system that competes on characteristics, the Iowa soybean sector will be able to offer new customers exactly those characteristics they want. Our sense is that Iowa is at the forefront of the transition, and that Iowans will receive much of the reward.

Many of the new customers for Iowa's specialty soybeans and corn will locate near the source of production. These companies will employ geneticists, molecular biologists, and engineers to create products that we cannot begin to describe today. With some luck and continued managerial attention, the state could become home to an industry that will create as many uses for corn and soybeans as the computer industry has for the silicone chip.

Emerging Issues

Hard Choices
(William H. Meyers, 515/294-1184)
(Darnell B. Smith, 515/294-1184)

As we go to press, both the Senate and House are acting on proposals to put the federal budget on a path to be balanced by 2002. The budget cuts proposed by both bodies are substantial but those proposed by the House are larger, since the Senate has rejected the tax cuts adopted by the House. Although the budget debates in the House and Senate and between the House and Senate are far from over, the expectation is that the Agriculture Committees will be asked to reduce farm program spending by $1.5 billion to $2 billion per year over the next seven years.

Spending caps are also being considered. Although it is not clear whether credit would be granted for years in which actual expenditures are below projections, Congressional focus is now on constraining actual expenditures in any given year as well as on changes in total expenditures over the budget period.

As the budget amounts and rules are being resolved, debate will focus on alternative ways of changing programs to reduce farm program spending and possibly to reduce the year-to-year variability of spending. These will be hard choices, as cuts of this magnitude are difficult to achieve without reducing farm income. Moreover, the different ways to achieve the proposed reductions involve a broad range of distributional impacts by commodity, region, and type of farm.

Budget Cut Options

As of this writing, FAPRI has not yet analyzed specific options to achieve a particular budget target. However, studies that have been done can be used to gain some insight into likely impacts. The cost and net farm income impacts of several options are summarized and compared below:

1. 25 percent Flex. Increasing flex acres reduces payment acres and reduces participant returns and participation rates, while giving farmers more flexibility in using base acres for other crops. An analysis of increasing flex acres from the current 15 percent to 25 percent estimates a budget savings of $1.28 billion per year and a net farm income loss of $1.1 billion per year (FAPRI Report 3-95). This implies that net farm income declines $85 for each $100 of budget savings. It also indicates that an increase to 25 percent flex is not sufficient to meet current budget targets, so this approach would require higher flex rates and/or other program cuts.

2. Elimination of 0-50/85 Program. The 0-50/85 Program pays farmers 85 percent of deficiency payments on base area where less than 85 percent of permitted plantings are actually planted. For rice, 50 percent of base acres must be planted to qualify.