



U.S. Grain and Soy Exports Gaining Serious Strength

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On Tuesday, USDA/FGIS reported there were 58 million bushels of U.S. corn inspected for export during the week ending Sept. 1, up about 2 million bushels from the previous week. Soybean volumes were also strong at 45 million bushels versus 34 million bushels a week ago. That's a solid 34 percent increase in volume, week over week. Even more impressive – soy inspections during the same week a year ago were only 3.5 million bushels. Finally, wheat inspections were 23.5 million bushels compared to 17 million bushels last year.

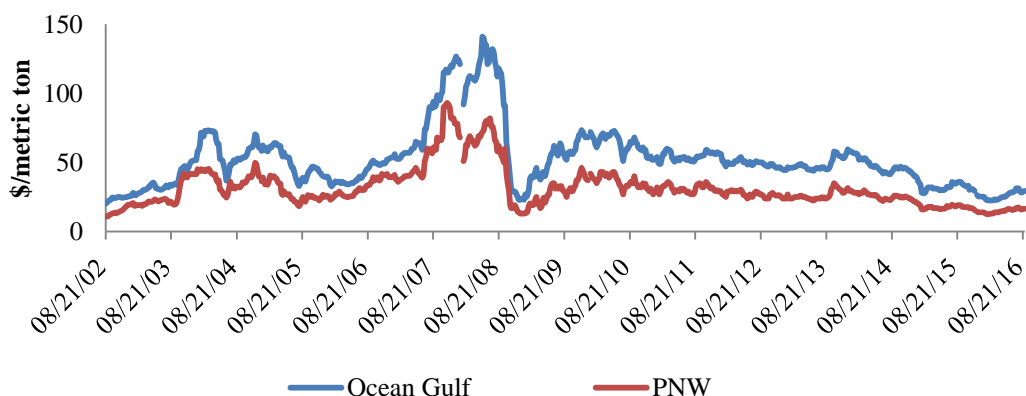
Last week's impressive numbers come after several weeks of strong export inspections among major commodities. The volume numbers clearly show anticipated U.S. grain and soy export strength is a reality. World Perspectives reports that Free on Board (FOB) capacity at Gulf and Pacific Northwest (PNW) export facilities is already becoming tight, and harvesting of the bin-breaking 2016 corn and soybean crops has barely begun.

But You've Gotta Get it There

Production problems for other major exporters (Brazil) and a more stable U.S. dollar have made U.S. grains and soybeans more competitive in world markets. Cheap ocean freight helps too. According to USDA's Grain Transportation Report (GTR), for the week ending August 25, the ocean freight rate for shipping bulk grain from the Gulf to Japan was \$29.50 per metric ton, 1 percent more than the previous week. The cost of shipping from the PNW to Japan was \$16.50 per metric ton, unchanged from the previous week. We haven't seen shipping rates as low as today since 2002-2003 and again during the bottom of Great Recession in 2008-2009.

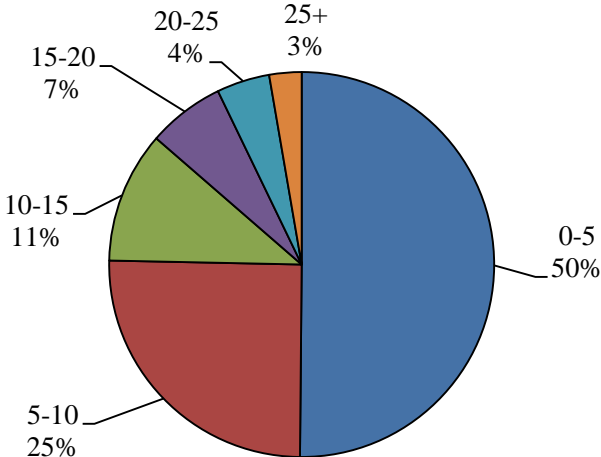
Figure 1. Weekly Grain Transport Cost, \$/metric ton to Japan

Source: USDA's Grain Transportation Report



For those of you who follow shipping rates, you recognize how incredibly far the mighty have fallen. We dug around in GTR's data which goes back to 2002 for a little historical perspective. Shipping rates ran up significantly in the months preceding and during the early weeks of the Great Recession, which officially began in December 2007 and ended in June 2009. Gulf rates reached their high point in May 2008 at \$141.00 per metric ton. PNW rates maxed out at \$93.00 per metric ton in November 2007.

Figure 2. Age of Live Dry Bulk Fleet in Years



The implications of those boom rates in 2006-2008 are now starting to show up in a significant way for the shipping industry. The shipping industry, like agriculture, suffers from a long production lag. By that I mean, shipping companies experience high rates, but it takes them a while to respond to high demand with corresponding increasing supplies of shipping because of the significant time it takes to build a bulk rate ship. Back in 2006-2008, riding on elevated shipping rates, all of the major shipping lines ordered new ships, a lot of new ships. That buying spree can be seen in the average age of the dry bulk fleet – 75 percent of the fleet is less than 10 years old. (The average useful life of a dry bulk ship is 25 years.) This means that there was a lot of “new paint” justified and ordered during high prices, but delivered during a significantly lower price environment.

Given this price environment it shouldn't be terribly surprising that the major shipping companies are feeling the pinch. So much so that, according to the Journal of Commerce (JOC), Hanjin Shipping has decided to file for court protection after losing the support of its South Korean creditor, Korea Development Bank (KDB). Hanjin, South Korea's largest shipping line, has reportedly been operating in the red for 4 of the last 5 years. Recent plans to liquidate assets were deemed insufficient and rejected by KDB on Aug. 26. The JOC further states, “The impact on the liner shipping industry is expected to be significant and will affect Hanjin Shipping's CKYHE Alliance partners, its future THE Alliance partners, slot sharing with other carriers, its charter contractors and

countless shippers with cargo moving on major trades on its 98-ship fleet.” Time will tell if other carriers can weather the storm or if they’ll follow a similar path as Hanjin. Shipping times are a changing.

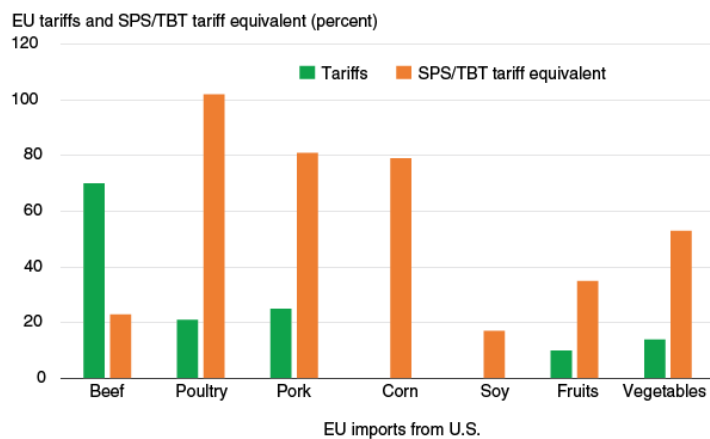
EU SPS Barrier – An Attempt at Estimation

Since the Transatlantic Trade and Investment Partnership (TTIP) negotiations got under way in February 2013, the U.S. agriculture industry has been resolute that a successful TTIP must address long standing non-tariff measures (NTM) levied against U.S. agriculture by the EU-28.

For agriculture, the most frequently cited policy barriers to trade are sanitary and phytosanitary (SPS) measures intended to address food safety and animal or plant health issues and technical barriers to trade (TBT) that set out requirements for a product, such as technical standards and labeling. The list of such barriers is long, but some highlights include GMOs, beef hormones, poultry washes, beta-agonist use in pork and beef production and geographic indicators.

Even though the United States is Europe’s second-largest supplier of agricultural and food products after Brazil, U.S. sales accounted for just 10 percent of Europe’s agricultural imports in 2015, down from 17 percent in 1995. We’ve long known that those NTMs have had a significant dampening effect on U.S. agriculture exports to the EU, but quantifying the extent of protection embodied in these measures and the effects of their removal on trade has been challenging for the USG and private industry alike.

Economic costs of NTMs have exceeded tariffs on many U.S. agricultural exports to the EU



NTM = Nontariff measure. SPS = sanitary and phytosanitary. TBT = technical barrier to trade.
Source: USDA, Economic Research Service estimations using data from UN COMTRADE and MAcMap.

Thankfully, USDA ERS recently released an article that econometrically measures the NTM impediments to U.S.-EU ag trade. The full report, Estimating the Effects of Selected Sanitary and Phytosanitary Measures and Technical Barriers to Trade on

U.S.-EU Agricultural Trade, written by Shawn Arita, Lorraine Mitchell and Jayson Beckman can be found at <http://www.ers.usda.gov/media/1937424/err199.pdf>.

Here are some key findings from the econometric analysis:

- Beef: EU SPS restrictions, such as the ban on growth hormones, impede U.S. beef exports. The ad valorem equivalent (AVE) effects of these measures were estimated to be equivalent to a 23 to 24 percent tariff.
- Pork: EU restrictions on beta-agonists, trichinae and other measures were found to limit U.S. pork exports. The AVE effect of these measures was estimated to be 81 percent. The currently applied EU tariff rate is 25 percent.
- Poultry: The EU pathogen-reduction treatment restriction on poultry is a de facto ban on U.S. products. The estimated effect of the measure was found to be equivalent to a prohibitive 102-percent tariff. The currently applied EU tariff rate is 21 percent.
- Corn and soy: The EU's SPS/TBT measures on genetically engineered (GE) varieties of corn and soy were found to impede U.S. exports. While these commodity products enter the EU largely duty free, the AVE effects of these SPS/TBT measures were estimated to be 79 percent for corn and 17 percent for soy.
- Fruits and vegetables: The EU's maximum-residue limits of pesticide residues and other harmful substances were found to be impediments for U.S. exports of fruit and vegetable products. The AVE effects of EU requirements were estimated to be 35 percent for fruits and 53 percent for vegetables (the average currently applied EU tariff rates are 10 and 14 percent, respectively). The U.S. import approval process for new types of fruit and vegetable products was also found to impede EU fruit and vegetable exports, with estimated AVE effects of 45 and 37 percent (the current average U.S. tariff rates are 2 and 5 percent, respectively).