Commodity Spotlight

Strong Competition & Rising Prices Confront U.S. Soybean Exports

The U.S. soybean crop for 2002 is forecast at 2,628 million bushels, well below last year's record of 2,891 million bushels. The smaller expected crop reflects both a drop in plantings and a drop in expected yield. Crop rotations and improved net returns for corn (because of lower costs for nitrogen fertilizer) created market anticipations earlier this year for much higher corn acreage and the lowest U.S. soybean area since 1998.

While corn planting advanced well in the upper Midwest, delays were acute in the Ohio River Valley. When the optimal planting dates for corn had passed, farmers in Indiana and Ohio planted more acres to soybeans than indicated by the March intentions, because late planting carries a greater risk to corn yields than to soybean yields. Fewer acres planted to cotton also raised soybean area in Mississippi and Louisiana. However, these additional soybean plantings were partially offset by economic and weather conditions in states farther west, encouraging farmers to expand their corn acreage at the expense of soybeans. Overall, actual soybean plantings for the nation dropped from 74.1 million acres in 2001 to 73 million acres this year.

Throughout the summer, drought and high temperatures worsened crop conditions in the heart of the soybean belt. Yields were also curbed by an acreage shift between higher-yielding and lower-yielding states. Average U.S. soybean yield this year is forecast at 36.5 bushels per acre, down from 39.6 last year. Soybean plantings in the high yield states of Illinois, Iowa, Nebraska, and Minnesota are down by a combined 1 million acres, while acreage increased in some states with below-average yields (particularly North Dakota, Mississippi, and Louisiana).

U.S. Exports Forecast Lower

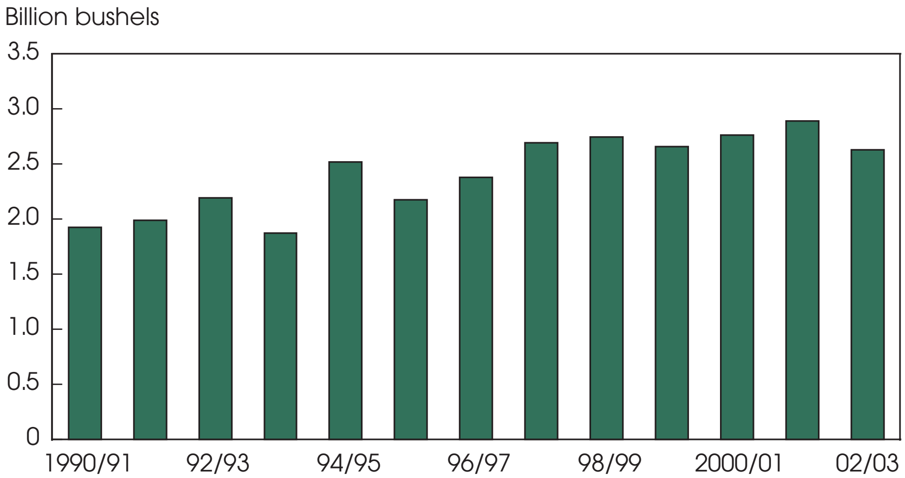
Despite interruptions in trade this year with China over its regulation of biotech crop imports, the overall strength of U.S. soybean export demand endured through 2001/02. Soybean exports rose to a record 1,060 million bushels, which contributed to surprisingly slim carryover stocks of 195 million bushels. For the upcoming marketing year, the brunt of the supply shortfall will be borne by a hard retreat in U.S. soybean exports. Higher prices will erode the ability to keep up with a likely aggressive export campaign by Brazil and Argentina. U.S. soybean exports are forecast plunging to 820 million bushels in 2002/03, which would be the lowest volume in 4 years.

Foreign oilseed production is projected to rise 2 percent in 2002/03 to 237.9 million metric tons (mmt), partly offsetting a 9-percent decline in U.S. output to 82 mmt. World oilseed supplies should shrink as larger soybean harvests for Brazil and Argentina in 2002/03 may only partly compensate for reductions elsewhere. In a repeat of similar circumstances from a year ago, Brazilian farmers are getting favorable returns on their latest soybean harvest (as well as forward sales for the next crop) and are likely to sharply expand plantings again in 2002/03. Argentina's continuing financial crisis is favoring planting proportionately more oilseeds than wheat and feed grains in 2002/03 because oilseeds can be grown with lower input costs.

In addition, Brazil and Argentina together carried over about 3.5 mmt more soybean stocks into 2002/03 than the previous year. Producers in both countries held back marketing of soybeans as they anticipated even higher farm prices following currency depreciations. That temporary deferment supported U.S. exports in 2001/02, but should intensify the competition for sales early in 2002/03. As tight supplies sparked a recovery in China's soybean imports last summer, South American exporters, with their large stock buildup, will compete strongly with U.S. suppliers for that and other markets this fall.

Soybean demand by the European Union (EU), the world's largest import market and U.S. buyer, will likely slow in 2002/03. Larger European oilseed harvests this year should curtail EU soybean meal consumption. A record-large EU wheat supply will expand its use in livestock feeds. Wheat has higher protein than corn, so feeding more wheat would also curb soybean meal demand, as less is needed as a protein supplement in feeds. This slowdown may occur despite a recent strengthening of the euro to near parity with the dollar (which increases the

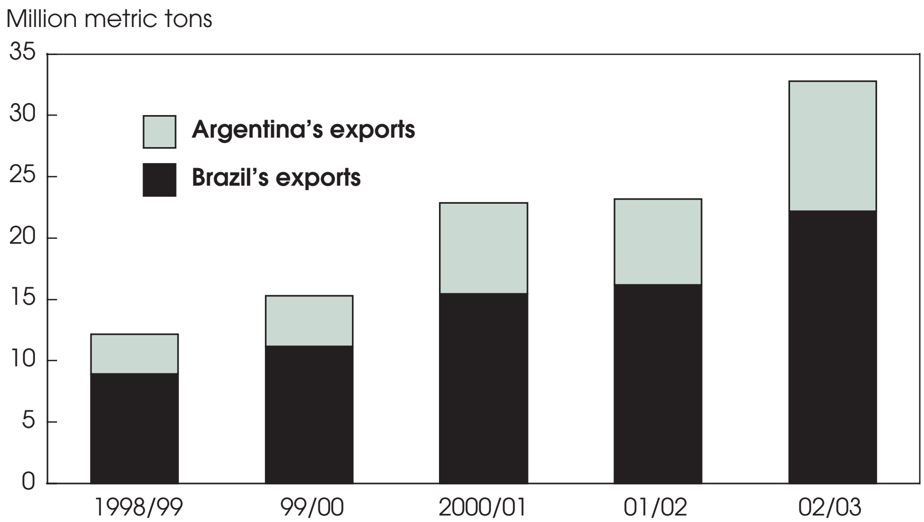
U.S. Soybean Production May Drop from 2001/02 Record



2002/03 forecast.

Economic Research Service, USDA

Brazilian and Argentine Soybean Exports Have Grown Rapidly



2002/03 forecast.
Source: Data from Foreign Agricultural Service, USDA.

Economic Research Service, USDA

purchasing power of foreign importers). In addition, a recovery of Canada's domestic soybean harvest from last year's drought would cut its import needs from the U.S.

The anticipated decline in U.S. soybean supplies is seen paring 2002/03 ending domestic stocks to a scant 155 million bushels. The 2002/03 forecast U.S. average farm price is $5.15-$6.05 per bushel, compared with the 2001/02 average of $4.35. A much higher market price and a lower national soybean loan rate ($5.00 per bushel) enacted in the Farm Security and Rural Investment Act of 2002 may eliminate any marketing loan gains this year, which were approximately $3.5 billion for the 2001 soybean crop.

Domestic soybean crushing is expected to decrease next season to 1,680 million bushels. Weaker export prospects, particularly for soybean meal, and higher soybean costs will temper processing demand. Soybean meal exports are forecast at 6.75 million tons, down sharply from 7.65 million in the current season.

Growth in domestic soybean meal consumption is likely to moderate next year as well, because of a slow expansion of livestock numbers. The U.S. feed outlook has dimmed because a large accumulation of frozen meat stocks has pressured prices for both hogs and poultry, the primary consumers of soybean meal. Domestic disappearance of soybean meal for 2002/03 is forecast up to 33.5 million tons from 33.2 million in 2001/02. Yet, a comparatively stronger market for soybean oil should produce surplus soybean meal supplies and limit any increase in value. Soybean meal prices for 2002/03 are expected to average $170-$200 per ton compared with the 2001/02 average of $166.50 per ton.

Demand Strong For Vegetable Oil

Disappointing foreign harvests of palm oil and oilseeds other than soybeans are tightening the global market for vegetable oil relative to the protein feed market. Even with a modest increase in soybean oil output, large U.S. carryover stocks will sustain steady demand through 2002/03. U.S. soybean oil exports will be competitive with an expected robust pace of South American shipments. In a year that portends a brisk rate for foreign vegetable oil imports, U.S. soybean oil exports may remain relatively high, edging up to a forecast 2,500 million pounds.

Domestic soybean oil consumption in 2002/03, like the previous year, will be supported by negligible supply increases for competing vegetable oils. USDA projects 2002/03 domestic disappearance of soybean oil to rise 2 percent to 17,200 million pounds.

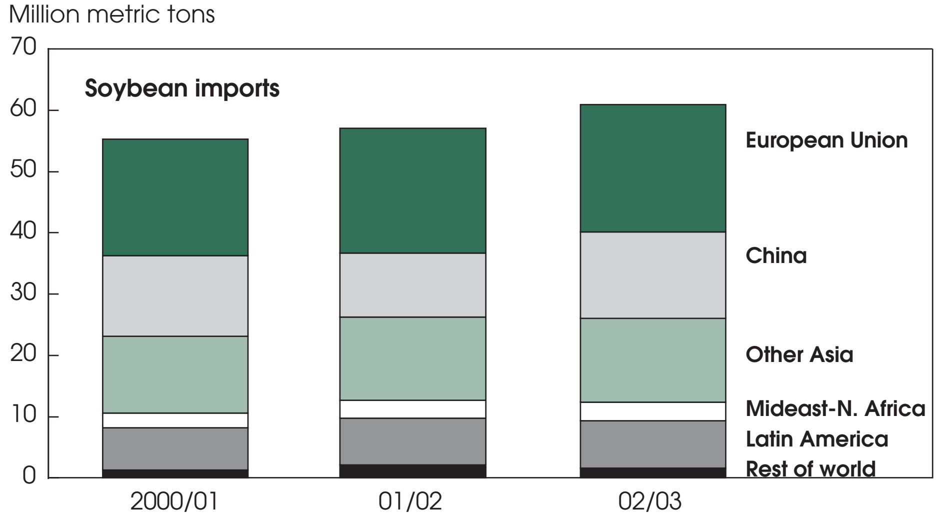
Increased oil use will not be limited to just the edible applications; biodiesel consumption may also begin to expand. In April, Minnesota passed a law mandating that all diesel fuel sold in the state contain a 2-percent biodiesel blend by June 2005. When this law becomes fully implemented, analysts estimate that Minnesota alone may require 120 million pounds of soybean oil annually for biodiesel. Although other fats and recycled oils can be substituted in biodiesel production, initially soybean oil may be the primary material. Other states and the federal government are considering similar legislation. Increased soybean oil use in 2002/03 is expected to cut season-ending oil stocks to 1,990 million pounds. Prices of soybean oil in 2002/03 would strengthen within the forecast average of 18.5-21.5 cents per pound, compared with the 2001/02 average of 16 cents.

Macroeconomic Policies & Biotech Shape World Trade

On January 7, **China** announced new details of its import policies for biotech products that were first issued in 2001. Beginning March 20, 2002, every import shipment of biotech products must have a safety certificate from the Chinese Ministry of Agriculture before it can be sold. Requirements for the certificate include proper product labeling and a statement from the originating country's government indicating that the shipment poses no harm to humans, animals, or the environment. The labeling requirement applies to biotech oilseeds as well as their processed derivatives such as soybean meal, soybean oil, rapeseed meal, and rapeseed oil. Upon arrival, imports are quarantined while inspections are conducted to verify the presence of any genetically engineered material, diseases, and impurities.

Shortly after the January announcement, exports of U.S. soybeans surged as Chinese processors rushed to secure delivery before March 20. Because of the complex and still unclear administration of the new policies, China later agreed to ease implementation of the regulations on biotech crop imports. On a transitional basis through December 20, China is providing interim safety certificates to importers within 30 days of receipt of required documents. Soybean imports resumed in June after many exporters had acquired the interim certificates, but the earlier lapse in obtaining certificates closed the pipeline of foreign shipments for April and May. The shutdown cut China's 2001/02 imports of soybeans to 10.5 mmt from 13.3 mmt the previous year and exhausted stocks held at ports and processing mills.

Rebound in China's Soybean Imports To Drive Global Gains in Soybean Trade



2002/03 forecast.
Source: Data from Foreign Agricultural Service, USDA.
Economic Research Service, USDA

Despite expectations of higher trade, China's imports of soybean oil were also subdued this year. Both China and Taiwan officially joined the World Trade Organization on December 11, 2001. China's accession agreement stipulated that its 2002 tariff-rate quota on soybean oil increase to 2.518 mmt and the within-quota tariff fall from 13 percent to 9 percent. China had originally announced it would issue its vegetable oil import licenses by March 5, but administrative delays prevented distribution until early April. Also, since prices for palm oil imports were generally cheaper, China's importers nearly filled the 2002 palm oil tariff-rate quota (2.4 mmt) first. Consequently, soybean oil imports increased minimally to just 375,000 tons.

Unlike 2001/02, China will not head into the new marketing year with a large cushion of oilseed stocks. These stocks allowed China to maintain consumption this year during the stoppage of soybean imports, but stocks have now been reduced to mere pipeline supplies that are used as fast as they can arrive. Minimal increases in domestic crops of soybeans, peanuts, and sunflowerseed are expected this fall, but will not likely ease the tight oilseed supply situation next year.

The most likely sources for meeting China's mounting domestic needs will be imports of soybeans, soybean oil, and palm oil. China would be a potentially good market for imports of rapeseed next season, but production shortfalls among the major foreign suppliers will raise prices and curtail imports. Soybean imports by China are projected to rise to 14 mmt in 2002/03 from 10.5 mmt in 2001/02. Domestic crushing will still provide most of the protein meal required, but China's vegetable oil deficit could double soybean oil imports to 0.8 mmt and modestly raise palm oil purchases to a record 2.2 mmt in 2002/03.

While China generally favored palm oil imports last season, **India** purchased a large volume of soybean oil because of a comparatively lower import duty. India is expected to import a record large 2 mmt of soybean oil in 2002/03 because poor monsoon rains will substantially reduce its domestic oilseed harvests. Another reason for expected strong gains in soybean oil imports by both India and China is that thinning supplies of palm oil are likely to slow exports by the major Southeast Asian producers.

Robust soybean demand in the rest of the world helped take up the slack left this year by China's import stoppage. However, in 2002/03, China should reclaim its role as the world's fastest growing soybean market. EU oilseed harvests fell by 0.3 mmt in 2001, so a shortfall of vegetable oils increased the profitability of soybean crushing last season. Domestic oilseed harvests are better this year, so EU soybean imports in 2002/03 should moderate. In Japan, higher costs of importing rapeseed and a ban on feeding meat and bone meal promoted consumption of soybean meal, a factor expected to continue into 2002/03. A very dry summer in Canada last year cut soybean production by more than 40 percent and sharply raised imports of soybeans and soybean meal. But, a recovery in this year's Canadian soybean crop should limit import needs in 2002/03.

Argentine farmers in 2002 reaped a bumper soybean harvest, 1.7 mmt larger than last year's, in spite of the many weather and financial obstacles. Even so, a standoff between suppliers and the government curtailed exports to a modest increase in 2001/02.

Argentina's default in December 2001 on its large public debt forced currency devaluation in January. The peso had been pegged at a one-to-one rate to the U.S. dollar since 1991. But in February, the currency was allowed to freely float and has subsequently depreciated to around 3.6 pesos per dollar. By itself, such a large devaluation should benefit agricultural exports in the long run. However, oilseed exports temporarily ceased because of disputes over the government's reluctance to repay about $600 million of value-added taxes owed to agricultural exporters. With international grain companies compelled to finance their own trade, tighter controls on the dollar exchange slowed foreign sales. The government also converted all current dollar-denominated debts in the country (except farm debts) to pesos at a rate of one peso per dollar. Most significantly, the government raised export taxes to 23.5 percent for oilseeds and 20 percent for oilseed products. Argentina had imposed export taxes on agricultural products in the 1980s, but mostly abandoned them by 1991, retaining only a modest 3.5-percent tax on oilseeds.

Although the domestic soybean price in Argentina soared following the January devaluation, unpredictable policy shifts on export taxes, value-added tax refunds, and farm debt squelched the immediate incentives to export. In the current economic climate, producers lack confidence in the banking system and see their dollar-based soybeans as a hard asset with the best store of value. Also, Argentine farmers held on to their crops to protest high export taxes, fuel costs, and inequitable treatment of farm debt. They waited to see whether the peso stabilized or if rising U.S. prices continued. Trucker strikes further complicated transportation of crops.

To encourage soybean deliveries, Argentine exporters offered producers the opportunity to deliver sales immediately after harvest and defer pricing (with no discounts for storage) through August. Still there was only a modicum of farm sales and Argentine exporters had little to sell abroad. Thus, the government was unable to reap tax payments from agricultural exporters, the leading source of tax revenue for the cash-strapped treasury. The International Monetary Fund has yet to restore lending to the country. Having few financial resources, the Argentine government suspended the promised rebates of delinquent value-added tax to exporters. This hurt the ability of processors to expand output and to offer farmers better prices for their crops.

At the same time, demand from Argentina's largest soybean customer (China) had stalled. Thus, most of Argentina's increased 2002/03 supplies will be stocks carried over from the previous year. Argentine farmers have little cash to pay off debts or buy new inputs, so when they start planting new crops this October they should favor planting proportionately more oilseeds than feed grains. If fewer inputs are applied, lowering yield potential, the expansion in 2002/03 soybean output may moderate.

Like Argentina, **Brazilian** soybean producers also had a record-large 2001/02 crop that was sold piecemeal. Farmers locked in relatively high prices last year on a portion of the crop with forward sales and Brazil's soybean area surged 17 percent. Brazilian soybean prices slumped earlier this year when the currency strengthened against the dollar. But, farmers were capitalized well enough to wait for better post-harvest returns, which came by August after a substantial depreciation and a spike in U.S. prices. Low soybean shipments by Argentina and the resumption of import demand by China also subsequently accelerated Brazilian sales. Fortunes should turn in favor of South American soybean exports in 2002/03 as higher U.S. prices, larger South American supplies, and favorable exchange rates cut deeply into the U.S. market share for global exports.

Mark Ash (202) 694-5289
mash@ers.usda.gov

For more information see:
ERS briefing room on soybeans,
www.ers.usda.gov/briefing/soybeans