United States
Department of
Agriculture

Agricultural
Economic
Report
Number 715

An Economic Research Service Report

Oilseeds

Background for 1995 Farm Legislation

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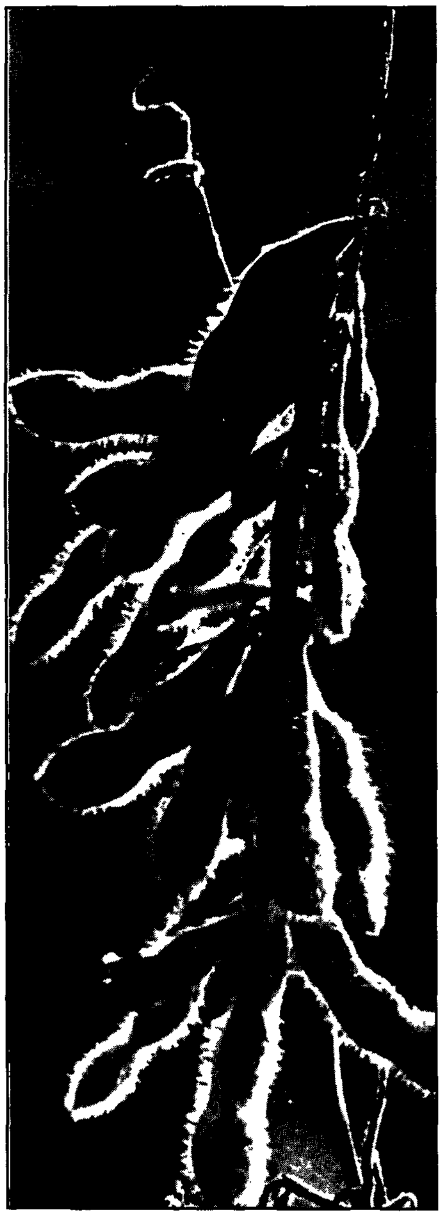

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Oilseeds: Background for 1995 Farm Legislation. By Mark Ash, George Douvelis, Jaime Castaneda, and Nancy Morgan. Commercial Agriculture Division, Economic Research Service, U.S. Department of Agriculture. Agricultural Economic Report No. 715.

Abstract

International trade agreements and greater acreage flexibility have improved the outlook for U.S. oilseed production and trade. Issues for 1995 farm legislation that will affect oilseeds will include: setting marketing loans and loan rates; determining payment acres for program crops; extension of acreage-idling policies; resumption of the Export Enhancement Program for vegetable oils; continued funding for the Conservation Reserve Program and other land use policies; and revenue assurance.

Keywords: Soybeans, soybean meal, soybean oil, sunflowerseed, canola, agricultural policy, agricultural trade, farm characteristics, production costs.

Foreword

Congress will soon consider new farm legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying legislation to see what lessons can be learned that are applicable to the 1990's and beyond. This report updates *Soybeans: Background for 1990 Farm Legislation* (AGES #89-41), by Brad Crowder and Cecil Davison. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize the experiences with various farm programs and the key characteristics of the commodities and the industries that produce them. For more information, see Additional Readings at the end of the text.

Washington, DC 20005-4788 May 1995

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Summary

The 1990's will be remembered as a period of market opening for U.S. oilseeds. That is one important element in the current policy climate as policymakers take a look at all commodity programs. Since the 1980's, the U.S. oilseed industry has been much influenced by government programs and foreign trade policies directed toward other commodities. Acreage-idling policies restrict the ability to plant nonprogram crops such as oilseeds. The Conservation Reserve Program (CRP) has removed millions of acres from production.

In the 1970's, the European Union (EU) began heavily subsidizing oilseed production and vegetable oil exports, restricting major markets for the United States. Competition from South American soybean growers and Asian palm oil producers also increased. A strong dollar further complicated U.S. trade competitiveness in the 1980's. Soybean acreage plunged throughout the southern United States.

The 1990 Farm Act gave U.S. oilseed producers the incentive to plant the crop with the best market return on a portion of their base acres. However, gains in production and export share have been modest. In 1992, U.S. and EU negotiators finally agreed to settle the U.S. trade complaint against the EU's oilseed policy, which had unfairly discouraged soybean imports.

This accord cleared a hurdle for a wider agreement in 1994 for the Uruguay Round reforms of the General Agreement on Tariffs and Trade (GATT). The new GATT agreement will lower import barriers and encourage demand worldwide. The North American Free Trade Agreement (NAFTA) was implemented in 1994, reinforcing Mexico's status as a major U.S. trading partner in oilseeds and products.

One of the most important U.S. farm policy questions affecting oilseeds in 1995 relates to planting flexibility on farmers' program crop acreage bases.

Other questions facing policymakers include:

Can government program payments be scaled back without slashing farm incomes? How can farmers be protected from catastrophic price and yield risks without adding to the Federal budget deficit? Can policy be reoriented from support for farm commodities to conservation of resources and environmental protection?

This year's policy issues that will affect domestic oilseeds include: setting oilseed marketing loans and loan rates, determining target prices and payment acres for program crops, extension of acreage-idling policies, continued funding for the CRP and other land-use programs, resumption of the Export Enhancement Program (EEP) for vegetable oils, export credits, promotion of industrial uses of vegetable oils, agricultural research priorities, soybean quality, and revenue assurance.

Soybeans are by far the leading oilseed and in fact are the second-highest valued U.S. crop, trailing only corn. The farm value of soybean production was $12 billion in 1993/94. U.S. soybean acreage planted fell from 71.4 million acres in 1979 (the peak year) to 61.9 million in 1994. Increasing yields have somewhat offset the loss of acreage, resulting in relatively steady production since the early 1980's. Average U.S. yields rose from 32 bushels per acre in 1979 to a record 41.9 bushels in 1994.

In 1992, about 380,000 U.S. farms (20 percent of the total) grew soybeans. That number was down from 511,000 in 1982. More than half of the U.S. soybean farms and production are in the five Corn Belt States (Illinois, Iowa, Indiana, Ohio, and Missouri).

The soybean production area has been expanding north and west into Wisconsin, Michigan, Minnesota, and the Dakotas. New high-yielding, short-season soybean varieties have displaced acreage from flax, oats, sunflowers, dry beans, and alfalfa.

The leading U.S. minor oilseed, sunflowers, accounted for 3.6 million acres in 1994. Another 750,000 acres was planted to other oilseeds: safflower, flaxseed, canola, rapeseed, and mustard seed.

World soybean exports account for about 25 percent of production. This compares with 18 percent for wheat, 11 percent for corn, and 4 percent for rice. Soybeans make up about 75 percent of world trade in oilseeds.

More than 90 percent of world soybean exports come from the Western Hemisphere, where the United States is the clear leader, with Brazil and Argentina next in line.