

TITLE: In Fight Against Farm Subsidies, Even Farmers are Joining Foes

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DATE: Mar 14, 2006

PAGE: A1

LINK: http://online.wsj.com/article_print/SB114230602645097413.html

TOPICS: Efficiency, Fairness, Regulation

SUMMARY: The article reports on recent opposition and economic effects of the federal government's agriculture policy. "The current anti-subsidy sentiment, rising over the last year in the U.S., is stirring attention because it is unusually broad. Students for Social Justice at Baylor University in Texas have dumped cotton balls on the ground to protest cotton subsidies. The foundation of late Nascar legend Dale Earnhardt has teamed up with rock star Bono, whose movement wants to overhaul Western agriculture policies to boost African development. In Washington, D.C., the Alliance for Sensible Agricultural Policies is meeting to share ideas about changing the farm bill. Participants in Oxfam and Environmental Defense from the left, the National Taxpayers Union on the right and the libertarian Cato Institute. Prominent philanthropic organizations, including the William and Flora Hewlett Foundation, are financing some of this advocacy." The article offers four economic effects of the farm subsidies. First, the subsidies depress the price of food, which in turn harms farmers in the developing world. Second, the subsidies inflate the price of farmland. Third, with the subsidies targeted for certain crops, farmers have shifted production into those crops. Fourth, the subsidies, which are production-based, have increased the farmers' incentives to get bigger. One interesting note is that most subsidies go to farmers who are wealthier than the typical U.S. taxpayer

QUESTIONS:

- 1.) Do farm subsidies introduce economic inefficiency?
- 2.) How do farm subsidies affect obesity rates?
- 3.) How do U.S. farm subsidies affect the well-being of African farmers?
- 4.) How do U.S. farm subsidies affect the price of farmland?

Reviewed By: James Dearden, Lehigh University

Grain Drain

* by Roger Thurow, Scott Kilman and Gregory L. White
Wall Street Journal - June 18, 2004

* New Farm Powers Sow the Seeds of America's Agricultural Woes*

On a vast, windy plain, a farmer swells with optimism as he surveys a carpet of wheat stretching toward the horizon. Bankers are throwing money at him to reap bigger harvests. Grain traders are elbowing their way to his front door, eager to export his wheat. Last year, he marvels, "they sold it to the Arab Emirates."

This tableau has long been a trademark of the American Great Plains, which flourished for more than a century on an export economy fueled by amber waves of grain. But this farmer, Yuri Bogomolov, is on the opposite side of the world. His tractor was made in Minsk. His seed variety is Don 95, named for a river that nurtured his Cossack ancestors. The nearest town is Zernograd -- Grainville, in Russian.

Meanwhile, in Eureka, S.D., Greg Grenz is retreating from wheat. Seven years ago, he sowed 2,000 acres. This season he planted only 975. On the same spring day that Mr. Bogomolov was admiring his realm, Mr. Grenz was preparing to plant soybeans, which, at least for now, are more profitable. "You just can't make a living growing wheat anymore," he said from behind the wheel of his pickup truck.

America's run as a wheat powerhouse, and the dominant player in global agriculture, is under attack from a crop of newly emboldened, low-cost international rivals who are striking at one of the main pillars of American economic might: food exports. U.S. farmers are increasingly under pressure as they compete with commodities including Brazilian soybeans, Indian wheat, Chinese apples, Mexican tomatoes and Caribbean sugar. This "farms race" has implications beyond agriculture. America's influence on issues such as international trade owes much to its domination of food.

"The U.S. has been the superpower of agriculture," says Ben Percy, director of Eastern Europe operations for commodity processing giant Bunge Ltd. "Now it faces a number of new powers."

The shift is shaking a foundation of America's economic might. About two-thirds of the land in the 48 contiguous states is tied up in agriculture. Farming and related businesses account for about 12% of

U.S. gross domestic product and about 17% of American jobs, according to the U.S. Department of Agriculture. America currently exports more agricultural goods than it imports, a rare bright spot in the nation's trade balance. Half of America's annual wheat harvest is sold overseas, a trade that's expected to fetch \$5 billion this year.

There's a strong link between agricultural and political power, and the new farming players are feeling their oats. During trade negotiations last year, Brazil, India and China rallied opposition to agricultural subsidies handed out by the U.S. and European Union to their own farmers. That set back a critical round of trade talks.

Wheat is at the vanguard of this change. In the 1980s, America controlled half the world's trade in the hardy grain, competing with Europe, Canada and Australia. Now more than 90 countries grow wheat and many have lower costs and closer proximity to key markets. China, in a drive for self-sufficiency, has become the world's top wheat producer and is nurturing a sophisticated biotechnology program. India, a land long-associated with hunger, became an important exporter three years ago when it released part of its huge wheat reserves onto the world market.

But it's the return of the Black Sea wheat belt, home to Mr. Bogomolov, that stands as one of the great turnarounds in global agriculture. In the early 19th century, Russia was an important grain producer, but it stumbled midcentury amid war in the Crimea. The U.S., with the help of Russian immigrants, took advantage and built a thriving agricultural economy. American supremacy was cemented in the 20th century as the Soviet Union's collectivized farm system faltered. The communist government imported so much U.S. wheat that by 1988 it was buying 18% of America's total production.

Now, wheat is once again pouring out of Russia in volumes rarely seen since the days of the czars. Long a sleeping giant with an abundant supply of cheap, fertile soil, Russia is now putting that land to work through political and market reforms. Combined with neighbors Ukraine and Kazakhstan, Russia will supply 11% of the world's wheat exports over the next 12 months, according to the USDA. Some economists see the region controlling 20% in about a decade. Using mostly American equipment, a farm in Ukraine set the record last year for the most acres of grain planted in a day (1,413).

Meanwhile, American wheat acreage has shrunk to its smallest size since the Nixon administration. The U.S. now claims just one quarter of the world export market, as other nations with cheaper land and labor become better at farming and take advantage of falling trade barriers. Some economists predict that within 20 years America may no longer be a net

exporter. Terry Zetterlund, the loan officer at Great Plains Bank in Eureka, advises clients to get out of wheat if they want to stay in business. "We aren't the big player anymore," he says.

America's agricultural balance of trade is being pressured by the country's growing appetite for largely imported foods such as olives and avocados. The Bush administration forecasts that farming's trade surplus will drop to \$10 billion for the fiscal year ending Sept. 30, about a third of the record \$27.3 billion surplus logged in 1996. If current trends continue, the U.S. might run an agriculture trade deficit by the end of the decade, according to calculations by economists at Purdue University in West Lafayette, Ind.

It will be difficult for the U.S. farm belt to regain its momentum. Despite subsidies from Washington, America's advantages as a farming power are slipping. Emerging food powers are pumping money into infrastructure such as ports and river navigation. In the U.S., new land is hard to come by and farming and environmental groups are fighting over whether to modernize the aging system of locks and dams that let grain barges use the Mississippi River.

Many American farmers are finding it difficult to squeeze more out of their land every year. Wheat's average per-acre yield has been flat for several years, agronomists say. Improvements in biotechnology enable U.S. farmers to better deal with weeds and bugs, but companies such as Monsanto Co. and DuPont Co. will export that technology anywhere in the world.

In perhaps the sharpest sign that American agriculture is stagnating, the combined acreage dedicated to the nation's major crops slipped this spring despite the broadest rally of farm commodity prices in decades.

On the southern Russian steppe, just outside Zernograd, 49-year-old Mr. Bogomolov points to a field beyond a line of trees. It belonged to his grandfather, who Mr. Bogomolov says was shot by the Bolsheviks in 1923 for resisting their increasing control over farming regions.

The Bogomolovs nonetheless continued to toil on collectivized farms. After the Soviet Union collapsed in 1991 Mr. Bogomolov decided to become an independent farmer and began to accumulate land distributed by the government as part of a privatization process. From his original 170 acres, he's expanded to 2,470, including his grandfather's confiscated field. This season, he planted about 700 acres of wheat and plans to double that as fast as he can.

"Freedom," he says, inhaling deeply on a cool spring day. "You're

working for yourself." Mr. Bogomolov won't divulge his earnings but says he makes a "comfortable" income.

The tortured history of the Bogomolovs mirrors the saga of the Black Sea wheat belt. In the 19th century, imperial Russia was a titan on the world grain market, with the vastness of its fields making up for farming techniques that hadn't advanced since the Middle Ages. It took the Crimean war of the 1850s to block Russian exports to Europe. That was one of a series of events that gave American wheat farmers their chance to expand overseas.

The Black Sea business collapsed after the 1917 revolution as the Bolsheviks tried to harness Russia's peasant farms to power the country's crash industrialization. The numbers are disputed, but historians believe as many as 10 million people died in famines in the 1920s and 1930s. When communism collapsed in 1991, so did its big, state-run industrial farms. By late that decade, cities such as Moscow and St. Petersburg imported more than half their food, according to the USDA.

Russian agriculture's comeback was sparked by the 1998 global financial crisis, during which Russia defaulted on its foreign debt and devalued its currency. Consumers suddenly found locally grown farm produce, priced in rubles, much cheaper than imports. Russia's wheat harvest grew every year from 27 million tons in 1998 to 50.6 million tons in 2002. With markets around the world increasingly open to international trade, the Russians found plenty of willing takers for their inexpensive surplus.

Last year, bad weather hurt production and the harvest declined by about one third. Black Sea farms are more than most vulnerable to changing weather patterns and their supplies to world markets are sometimes erratic.

Nonetheless, as the market boomed, farmers and trading companies that scraped for cash during the 1990s started spending their newfound revenue on fertilizer, equipment and land. They found plenty of room for expansion. A third of Russia's arable land lies fallow and production costs are one-third lower than those for American wheat farmers. The government, which wants to bolster Russia's reputation as a wheat exporter, has supported farmers with reforms such as lifting restrictions on land ownership.

The farm belt's renaissance has attracted the attention of Moscow's millionaire magnates, many of whom made fortunes in currency speculation, metals and oil. In 2001, the Interros banking and metals group acquired a company that was once the Soviet Ministry of Bread for an undisclosed price. Interros spent an additional \$20 million buying

farms and replacing dilapidated equipment.

Interros found itself butting heads with some Soviet-era habits; managers go house to house after weekends to get workers back on the job. But the company is nevertheless pushing into new markets. In March, it touted a contract to supply grain to Iran. Russia's proximity allowed the company to undercut firms from Canada and Australia, Tehran's traditional suppliers. U.S. wheat shipments to Iran dried up after Washington imposed a series of trade sanctions.

In Rostov, the region's key town, Vadim Vikoulov ships Russian wheat to southern Europe, the Middle East and North Africa. He smiles at his change of career. "I carried U.S. grain to Russia from 1985 to 1991," he says. In the past six years, his company, Aston Agro-Industrial Corp., has invested \$75 million in grain exporting.

In 1994, Aston took over a bankrupt and abandoned shipyard on the Don River. Three years later, it built its first grain terminal in Rostov with a 40,000-ton capacity. When the 2002 bumper wheat harvest arrived, Aston's silos overflowed. It has now completed construction that increased capacity to 100,000 tons.

Awaiting the coming harvest, the new complex glistens in the sun, as does a shiny Mercedes sedan and an SUV, badges of success for Russian businessmen. "We can fill and empty the silos five times a month," Mr. Vikoulov boasts.

An hour's drive from Rostov, vast wheat fields welcome visitors to Zernograd, as do a couple of relics of the old Soviet days: a hammer-and-sickle monument and a statue of Lenin. Zernograd became a showpiece of the Soviet collectivized farm system with help from American sympathizers who arrived in the 1920s with U.S. tractors and combines. Now, the town is again in the vanguard of Russian agriculture.

Yegveny Semikov, an agronomist who works in the town for the Kalinenko All-Russian Scientific Research Institute for Sorghum and Other Grains, walks through one of the center's test fields and likes what he sees. "Better crop varieties, better technology, better management of fertilizer and pesticide and growing techniques," he says. "The law of agriculture economics is the same now, here and in the U.S."

In America, few wheat farmers understand the challenges posed by Russia's rebirth as a food power better than Mr. Grenz and the farmers around Eureka, population 1,100. Eureka lies on a similar latitude to Rostov close to the 45th parallel. Both towns have fashioned icons to the local economy. Zernograd's museum doubles as a Hall of Fame for its

wheat farmers; Eureka has a monument to wheat in front of its museum.

"We never thought Russia could come back," says Mr. Grenz. "We always looked at them as our customer. Now, out of the clear blue sky, they are producing crops we didn't dream they could."

It wasn't long ago that Eureka's families worked the Black Sea soil. Many of their great-grandfathers were part of a tide of wheat farmers that moved to the plains from the Russian steppes in the 1880s, fleeing conscription in Russia's imperial military. The U.S. federal government offered 160 acres of land for homesteaders on the harsh fringe of the American breadbasket, where blizzards rule the winter and drought haunts the summer.

Based on their experience in Russia, the new arrivals knew how to grow the one crop hardy enough to survive. By 1892, the fledgling town was booming. Eureka produced so much wheat that to transport it in one shipment would have required a train 30 miles long. Farmers piled wheat in the streets until it could be transported elsewhere and with hotels jammed, many slept on store floors or patronized all-night saloons.

America's "amber waves of grain," enshrined in the second line of the late-19th century anthem "America the Beautiful," became an instrument of foreign policy. The U.K. didn't side with the Confederacy during the Civil War in part because it needed the North's wheat more than the South's cotton.

After the Russian revolution, when the country's farm belt declined, generations of farmers across the Great Plains prospered by shipping their crops there and wheat again became intertwined with politics. After the 1979 Soviet invasion of Afghanistan, the Carter administration embargoed U.S. grain exports to the Soviet Union. President Reagan scrapped the ban in 1981 after farm groups complained that competing exporters were simply filling the void.

Two years ago, the U.S. wheat harvest was stunted by drought. At the same time, the Black Sea region -- comprising Russia, Ukraine and Kazakhstan -- stunned the American farm belt by temporarily surpassing the U.S. as a wheat exporter. It hasn't repeated that feat but USDA economists say Russia's wheat production could soar 30% within a decade if it adopts further reforms. That would pressure U.S. exports in places like the Middle East.

Growing wheat is now a riskier proposition for American farmers. In the past, the U.S. controlled such a large chunk of the world's exports that the quality of its harvest had a big influence on prices. A drought in

the U.S., for example, would create a world-wide shortage and push up the cost of wheat, mitigating losses for U.S farmers. Now, they don't have as much leverage.

Some farmers in Eureka are switching to corn and soybeans. These crops are harder to grow, requiring more money, water and skill. They are also not immune to foreign competition. The U.S.'s corn industry is healthy, but Brazilian soybean sales are rising fast and will likely overtake U.S. exports in a few years. Fertile land is so cheap in Brazil that some American farmers are migrating there.

This spring, Dean N. Schumacher, 54, planted the smallest amount of wheat ever on his farm. "The wheat belt is dying," says the fourth-generation descendant of Russian 鮡gr鱈 as he stands near his idling tractor. Banking on China's growing appetite, he's growing 746 acres of soybeans this year, compared with just 358 acres of wheat. For now, an acre of soybeans could generate twice as much revenue as wheat.

For some local merchants, the initial flush of spending by farmers making the switch is good business. DeWayne Weiszhaar, owner of Haberer's Implement Inc. in nearby Bowdle, says he has sold 12 tractors so far this year compared with just one tractor in all of 2003. He's also selling machine parts to harvest corn and soybeans and figures only about 25% of his business is tied to wheat.

For others, the winnowing of the wheat economy is creating hard choices. Farmer Jim Fischer, 48, grows and sells wheat seed around Eureka. He cut his wheat acreage by 20% this spring and is traveling farther to find customers. Some companies are getting out of the wheat business entirely. Monsanto, the St. Louis crop biotechnology company, cited the drop in wheat acreage as a big factor in its decision to shelve plans to introduce the world's first genetically modified wheat plant.

Towns giving up on wheat will be more vulnerable to fickle weather patterns. Mr. Schumacher's farm, for example, usually averages just 17 inches of rain annually, barely enough for a crop of soybeans. There isn't a river or underground aquifer for irrigation water. Last year, when Eureka suffered through a dry August, farmers ended up with a soybean crop a quarter of the size they anticipated.

To husband a thirsty crop in an arid climate, Mr. Schumacher practices no-till farming, which means he doesn't turn over the soil for planting. Instead, he plants directly into last year's stubble. The old plants hold the dirt in place and prevent the wind from taking the topsoil, retaining moisture. Mr. Schumacher figures that stretches out his annual rainfall by the equivalent of another two to three inches.

How far will the American wheat belt shrink? Some parts of the Great Plains will continue to plant wheat simply because nothing else will grow. Regions including eastern Montana and western Kansas face a future of lower prices and thinner profits.

By shifting away from wheat to more weather-sensitive crops, farmers are taking bigger risks to stay on the land. As a result, farmers are becoming wedded to federal aid, such as subsidized crop insurance, at a time when Washington is under pressure to cut farm assistance.

Mr. Grenz, who figures he reaps as much as 40% of his income from government farm programs, talks proudly about his 26-year-old son, a data programmer who has worked for International Business Machines Corp. He doesn't mind that his son's career choice will likely end a bloodline of farmers stretching back four generations to Russia.

"Farming is only getting riskier," says Mr. Grenz, 56, as he scouts the progress of his fields in his pickup truck. "I don't have any romantic notions about it."