
Addressing the Competitiveness Crisis in Wheat

National Association of Wheat Growers

North American Millers' Association

U.S. Wheat Associates

Wheat Export Trade Education Committee

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Introduction

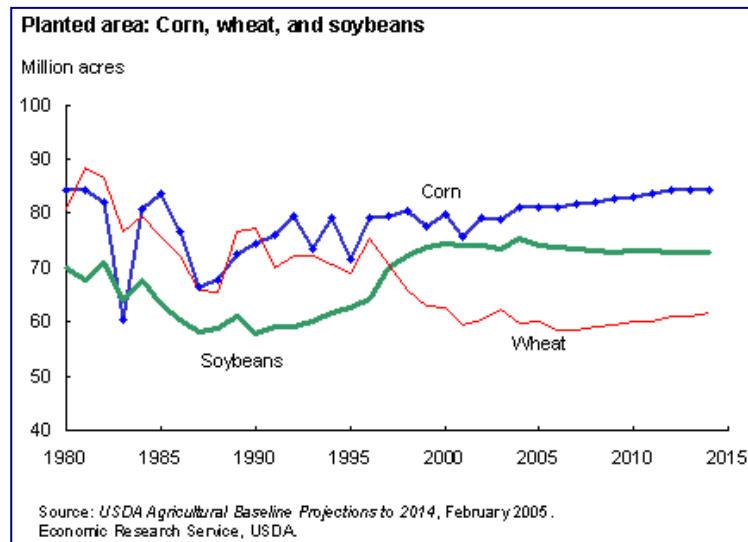
U.S. wheat production is suffering from a crisis of competitiveness. Export growth is flat, planted acreage is declining and domestic use has suffered from a proliferation of challenges. Farmers are choosing options other than wheat in their rotations because those alternatives are more profitable. If these trends are not reversed, the wheat chain that relies on domestic sources of wheat will face supply challenges that will ultimately impact consumers.

This paper is intended to briefly outline the current situation and ways to change the paradigm. Following further discussion with organizations within the wheat chain it is also expected to become an action paper with clear goals and strategies for reversing the trend. This will be an evolving document that will be updated to reflect new information and ideas.

USDA's Viewpoint

The US Department of Agriculture's baseline projections for wheat from 2005-2014 opens with the following commentary:

"The U.S. wheat sector is facing challenges to its long-term profitability. Planted area in the United States has dropped as wheat loses its competitiveness to other U.S. crops, particularly soybeans and corn. Domestic food use of wheat has declined in recent years as a result of changing consumer preferences and improved bread preservation technology. Ukraine and Russia are competitive with the United States in foreign markets in years when their production is high."



USDA's paper identifies the following challenges facing the domestic wheat industry, which must be addressed by the wheat chain.

- Planted area in wheat is trending downward.
- Crop rotations increasingly favor crops other than wheat.
- Wheat diseases are impacting wheat farmers' profitability.
- Wheat's genetic improvements, and, therefore, its yield increases, lag behind other crops.
- U.S. food demand appears to have peaked.
- Preservation of bread has improved, reducing demand for wheat flour.
- Global competition for wheat export markets is on the rise.

Recommendations

In order to reverse these trends, relative returns from producing wheat must be improved in comparison to other cropping alternatives, and ways must be found to expand demand for wheat and wheat products. Wheat industry organizations and their allies need to focus their energies on the following activities.

- *Domestic farm policies:* Continuation of commodity farm programs should be guided by the fundamental principle of commodity neutrality. Free markets should give producers clear signals on future planting decisions and individual commodity loan rates or other farm programs should not interfere with those signals. Programs that make one commodity more financially attractive than another create artificial demand and supply signals that have dramatic and far-reaching effects in domestic and international food markets.
- *Technology adoption:* Biotechnology and other advanced genetic technologies have great promise to increase the value proposition to the wheat industry by reducing input costs and increasing quality and value, including nutritional value. Conversely, the adoption of traits like drought tolerance in corn could exacerbate the downward trend in wheat plantings. Concerted effort should be directed toward commercializing advanced traits in wheat at the earliest possible opportunity in order to improve its competitiveness and productivity. Simultaneously, efforts need to be made to ensure marketing systems are in place to assure customers who desire conventional wheat. This will include regulatory systems that account for adventitious presence of biotech grains in non-biotech shipments.

- *USDA research:* Expanded investments in genetic improvements and more efficient production systems must be made. Unlike other crops, wheat has very little private sector research investment due to markets segmented by climatic region and wheat class, technical challenges in hybridization, and the lack of a commercial path for biotechnology traits. Therefore, wheat is more reliant on public sector scientific initiatives for research. Annual growth in wheat yields is four times lower than comparable yield growth in corn. Increasing the trajectory for wheat will require more research investment, but combined private and public investment for wheat variety improvement lags far behind major competing crops.
- *Conservation programs:* Federal conservation programs should place more emphasis on working lands conservation rather than land retirement. Land retirement programs such as CRP should focus on highly erodible, marginal or environmentally sensitive lands and avoid moving highly productive land out of production through artificial incentives. Idling productive resources raises production costs and has a detrimental impact on competitiveness.
- *Domestic demand expansion:* The wheat industry must continue its efforts to communicate the nutritional benefits of wheat and combat misinformation from fad diet promoters. USDA's MyPyramid recommends daily consumption of six ounces of grains, half from whole grain products; this provides the industry with a solid platform on which to promote grain-based products. Efforts should be expanded to communicate the antioxidant benefits of wheat for consumers. References like NAWG's 2002 *New Uses Audit* and other resources should be utilized more fully to develop new sources of demand for wheat.
- *Export demand expansion:* Wheat producers have a 50-year history of investment in export market promotion, in cooperation with USDA. These market development efforts need to be continued with whatever refinements are necessary to match market opportunities with increased U.S. wheat supplies.
- *Communication:* We must foster communication and cooperation between segments of the wheat food chain and alignment of the various interests when common ground exists. This document is one example of this principle in action.

Domestic Production Competitiveness

According to the USDA/ERS, wheat's share of U.S. field crop receipts has fallen from 20 percent in the early 1980s to about 11 percent in recent years. This is a result of declining plantings caused by a loss of yield competitiveness, federal income support programs that are perceived to favor other crops and Conservation Reserve Program impacts.

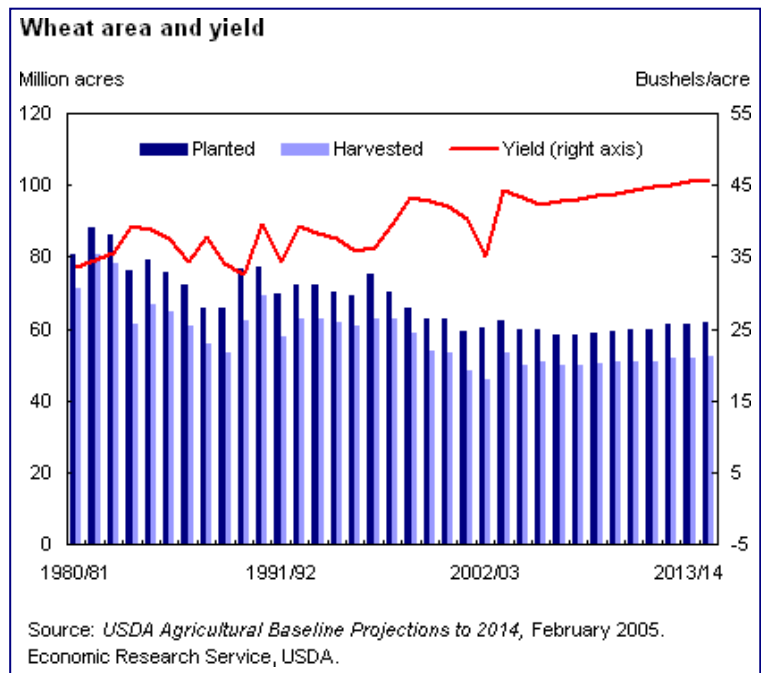
Competition for Land

Each year, acreage of corn and soybeans and, to a lesser extent, cotton, spread further north and further west, displacing acres that used to be in wheat. USDA data show North Dakota wheat plantings have declined 19 percent in 5 years and 29 percent in the last 10 years. That trend is accelerating; North Dakota lost more than 450,000 wheat acres in 2003 and another 435,000 acres in 2004 - a 10 percent acreage decline in just two years. Further, Kansas – “the Wheat State” – produced 18 percent more corn than wheat last year. It is no coincidence that crops moving in are those using advanced traits from biotechnology. Yield increases in drought tolerant crops from biotechnology breakthroughs are sure to worsen this situation in the future.

Wheat diseases, particularly infestations of *fusarium* in the Upper Midwest, have had a dramatic impact on profitability. They have been responsible in large part for acreage reductions in North Dakota and Minnesota further weakening wheat’s position in the competition for acreage. Such infestations could be reduced by commercialization of a biotech trait in wheat that has been developed and evaluated in field trials.

Wheat has also been falling behind in yield growth compared to other U.S. commodities. According to a December 2003 report¹

prepared by World Perspectives, U.S. corn yields increased by 15.5 percent in the 1990s and soybean yields increased 11.7 percent; but wheat yields grew only 6.3 percent in the same period. The adoption of biotechnology has contributed significantly to these yield increases in competing crops.



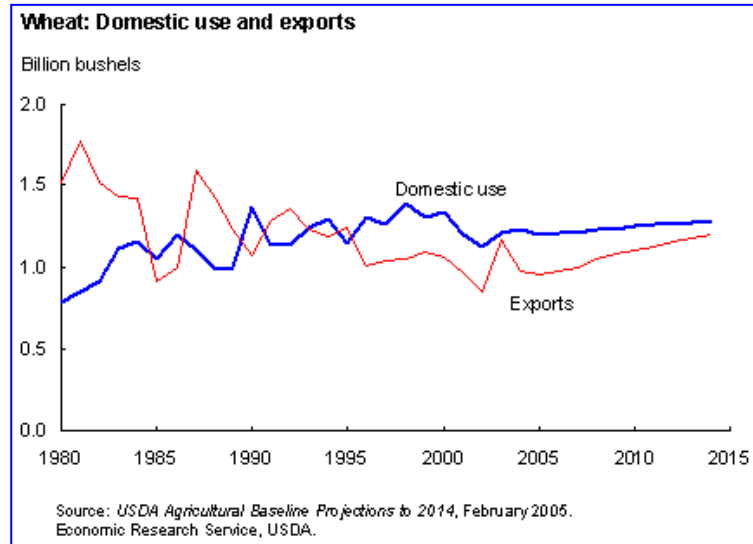
Conservation Reserve Program

ERS also points out that more than 85 percent of land enrolled in the CRP is located in the Plains States, consuming more traditional wheat acres than any other crop. A conservative estimate is that more than 9 million acres of CRP was planted in wheat prior to enrollment in the program.

¹ Technology And The Future Of North American Wheat, World Perspectives Inc., December 18, 2003.

Demand Picture is
Lackluster

As noted in the accompanying chart, wheat demand has been fairly static in the last 25 years. Reductions in exports were somewhat offset by growing domestic consumption, but this growth was tempered by fad, low-carb diets in the early 2000's and by increased adoption of extended shelf life technology in baked goods.



There is market share to be won back with the passing of the low-carb diets and rising global population. The industry has devoted substantial resources to combating the Atkins Diet and its spin-offs, and those efforts are beginning to bear fruit. The dietary guidelines still recommend wheat foods consumption but have been altered to encourage 'whole grain' consumption.

This increasing focus on nutritional benefits from whole grain foods does present an opportunity to the traditional wheat consumption patterns in the U.S. The industry is still evaluating the effects of that on domestic demand for wheat foods. A new market class of hard white wheat is being established but has not yet achieved critical mass.

Extended Shelf Life (ESL) technology allows bread to remain fresher longer. While this is a benefit to bakers and retailers, it also results in less wheat consumption.

On the export side, competition for overseas markets is growing and coming from a number of sources. These include the advent of new competitors in the Black Sea region and Indian subcontinent, market manipulation by state trading monopoly exporters, European trade policies allowing protections and cross-subsidization, and aggressive competition from other exporters.

Conclusion

It is time for the wheat chain to take action to reverse the downward trends in domestic wheat production. A Wheat Summit has been called for the fall for members of all parts of the wheat chain to come together to develop ideas and policies to address this trend.