

Current World Supply Situation

The United States, as Chair of the G-20 Agricultural Market Information System (AMIS) group, consulted with G-20 and other experts at the October 3-4 regularly scheduled AMIS meeting in Rome. The U.S. concurs in the judgment of the G-20 AMIS representatives that, in light of the currently available information, agricultural commodity markets are functioning and a meeting of the Rapid Response Forum is not necessary at this time.

Governments around the world, including large agricultural exporters in the G-20, have exercised prudence and responsibility in policy-making, including by avoiding export bans that exacerbated volatility in 2007-2008 and 2010-2011.

World corn exports are down from last year's record, but in line with previous years. Record exports from Brazil and robust shipments from Argentina and Ukraine are making up part of the U.S. shortfall. Elevated corn prices in recent years have driven area expansion in the United States and other countries. Brazil, Ukraine, and Argentina together boosted corn production by over 30 million tons in just five years. U.S. soybean supplies are not as tight as previously thought. Furthermore, it is important to note that world soybean production is forecast up 11 percent from last year, as current high prices are expected to lead to record plantings in South America.

U.S. wheat production and exports are up from last year, and stocks remain abundant. World wheat supplies are tight but remain sufficient. Global rice prices have remained relatively stable due to abundant exportable supplies in major exporting countries. -Despite tighter supplies of corn and soybeans, the United States will continue to be a reliable supplier. Promoting free trade is our consistent goal. The value of U.S. agricultural exports in FY 2012 is still expected to be the second largest in history.

Impact in FEWS NET Countries

Transmission of high world prices has been limited in FEWS NET countries, most of which have seen staple food prices following their typical seasonal trends in recent months.

Open Markets

Higher prices are a catalyst for increased production, but only if producers around the world receive accurate price signals from the global marketplace. We anticipate the global agricultural community will respond to the high prices by expanding production. Countries can reduce the risk of a food price crisis by increasing transparency and sharing information on stocks and production; abstaining from food export restrictions; avoiding panic buying and hoarding; reducing import tariffs and taxes, and creating targeted safety nets for their most vulnerable citizens. In the short term, these measures will help get food to the people who need it most, smooth price spikes, develop and strengthen local markets, and encourage farmers and ranchers to increase production.

Producers who effectively manage production and price volatility risks often make larger investments in agricultural inputs, leading to higher yields. Commodity markets play an important role in helping producers manage these risks, and the United States supports efforts to expand access to market-based risk management tools in developing countries. In the long term, sustainable agricultural growth, agricultural research, the use of new technologies, investment in distribution infrastructure, and improved access to local, regional, and global markets will make the global food system more productive and efficient, and will reduce vulnerability to price shocks.

Food Aid

Despite somewhat tight supplies, the United States will continue to meet all of its food assistance commitments. Where affordable access to food is severely threatened, the U.S. government is actively working with partners in the international community, as it has done historically, to assist people in need. The United States is committed to continuing its long tradition of providing nutritious, timely food assistance to those most in need. The United States currently provides approximately half of the world's emergency food aid, and U.S.-grown food plays a primary role in meeting global emergency food needs.

Food Security

Food security is a top priority for the Obama Administration. President Obama has called leading the fight against hunger and malnutrition a "moral imperative, an economic imperative, and a security imperative" for the United States. In terms of global prices, we understand the destabilizing impact that rising prices and price volatility have on vulnerable populations, and we are watching food prices closely and working with the international community to respond appropriately.

The United States will continue to be the world's largest donor of food aid, but true development involves not only delivering aid, but also promoting economic growth - broad-based, inclusive growth that helps nations develop and lifts people out of poverty. The whole purpose of development is to create the conditions where assistance is no longer needed. Feed the Future is the United States' contribution to a collaborative global effort that supports country-owned processes and plans for improving food security. Sustainable agriculture growth, agriculture research, the use of new technologies, investment in distribution infrastructure, and improved access to local, regional, and global markets will make the global food system more productive and efficient, and will reduce vulnerability to price shocks. At the 2012 G8 Summit held at Camp David, President Obama announced the launching of the "New Alliance for Food Security and Nutrition," a commitment by G8 nations, African countries, and private sector partners to lift 50 million people out of poverty over the next 10 years through inclusive and sustained agricultural growth.

Biofuels Production

No single commodity drives retail food prices and many factors affect them, including commodity, labor, transportation, energy costs, processing, and marketing costs. Any of these

factors that affect one or more of the underlying costs of food may produce higher domestic and/or world food prices. The United States' Renewable Fuel Standard has built in flexibility to help ensure that ethanol production does not have a significant impact on food prices. Two forms of policy support to the U.S. biofuels industry, the blenders' tax credit and import tariffs, were already eliminated in December 2011. In addition, the process to consider an RFS Waiver began on August 13, 2012. The EPA, in consultation with USDA and DOE, has up to 90 days to determine whether the economic data warrants a waiver of the corn ethanol mandate. -It is important to note that ethanol producers are already responding to market prices on their own accord. Compared to last year, U.S. corn used for ethanol production is expected to drop by 10 percent. The U.S. can meet about one quarter of its current RFS mandate without the production of any new ethanol or other renewable energy this year, as there are a billion gallons of ethanol in storage today. In addition, there are 2.64 billion gallons of Renewable Identification Numbers (RIN) available for purchase, which provides a cushion to ethanol blenders. Biofuel production will (all else equal) lower liquid fuel prices.

Transportation fuel markets are global, so any reduction in fuel prices will benefit fuel importing countries. -Biofuel production emits fewer green house gases (GHG) relative to fossil fuels. The benefits from limiting GHG emissions through biofuel use are global and benefit all countries.

Additional Resources: For further information on current climatic conditions, global supply and demand, the RFS, and global food security please go to the following sites:

www.usda.gov/drought

<http://www.usda.gov/oce/commodity/wasde/>

<http://www.ers.usda.gov/newsroom/us-drought-2012-farm-and-food-impacts.aspx>

www.feedthefuture.gov/

www.fews.net/Pages/default.aspx

<http://www.whitehouse.gov/the-press-office/2012/08/07/fact-sheet-president-obama-leading-administration-wide-drought-response>

Fact-Sheet-President-Obama-Leading-Administration-Wide-Drought-Response-