

# Developing Trends for Agricultural Exports

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Association of Pacific Ports

June 21, 2010



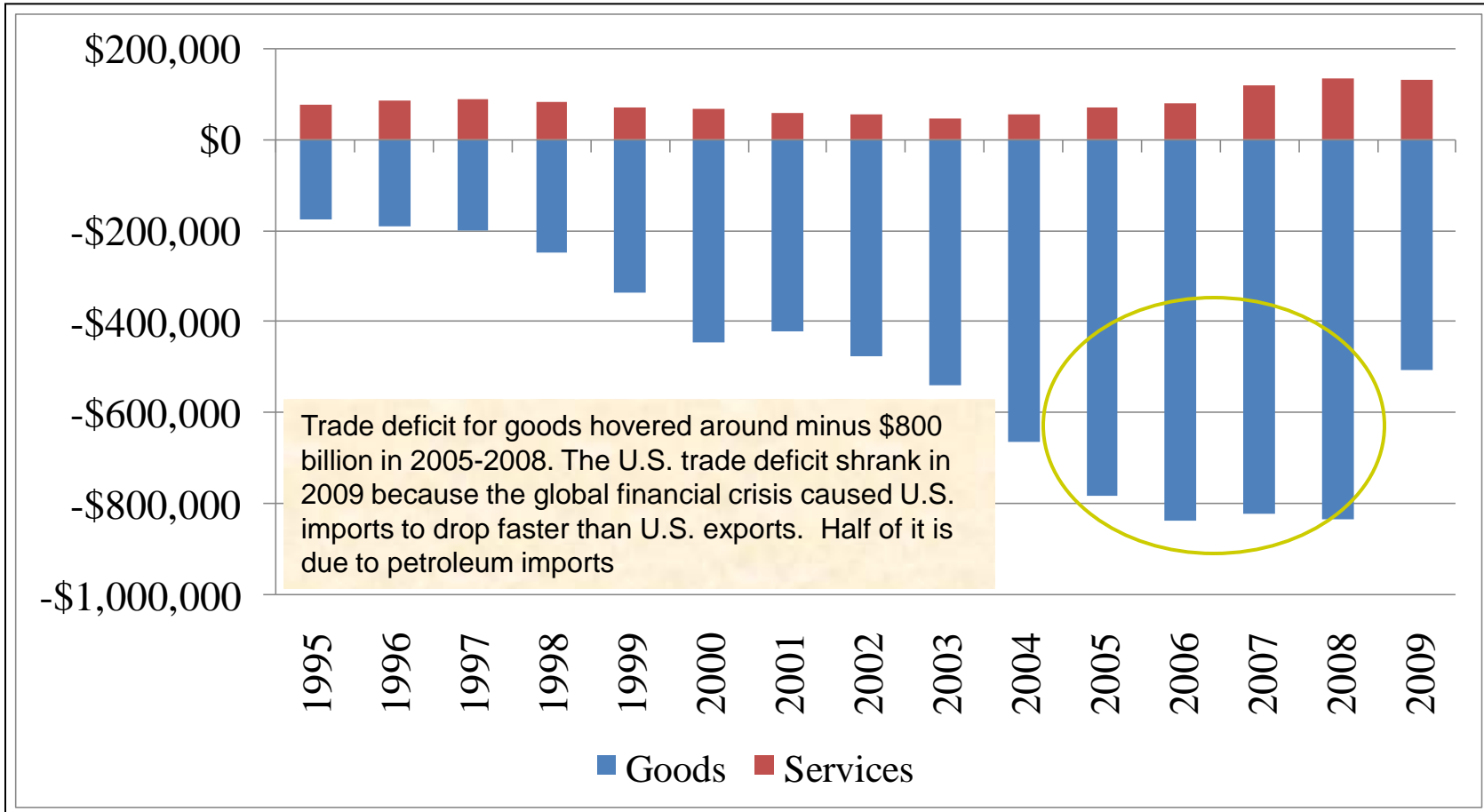
# Agenda

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- Importance of agriculture
- Economic impact of agriculture
- Export Initiatives
- Trans-Pacific container issues

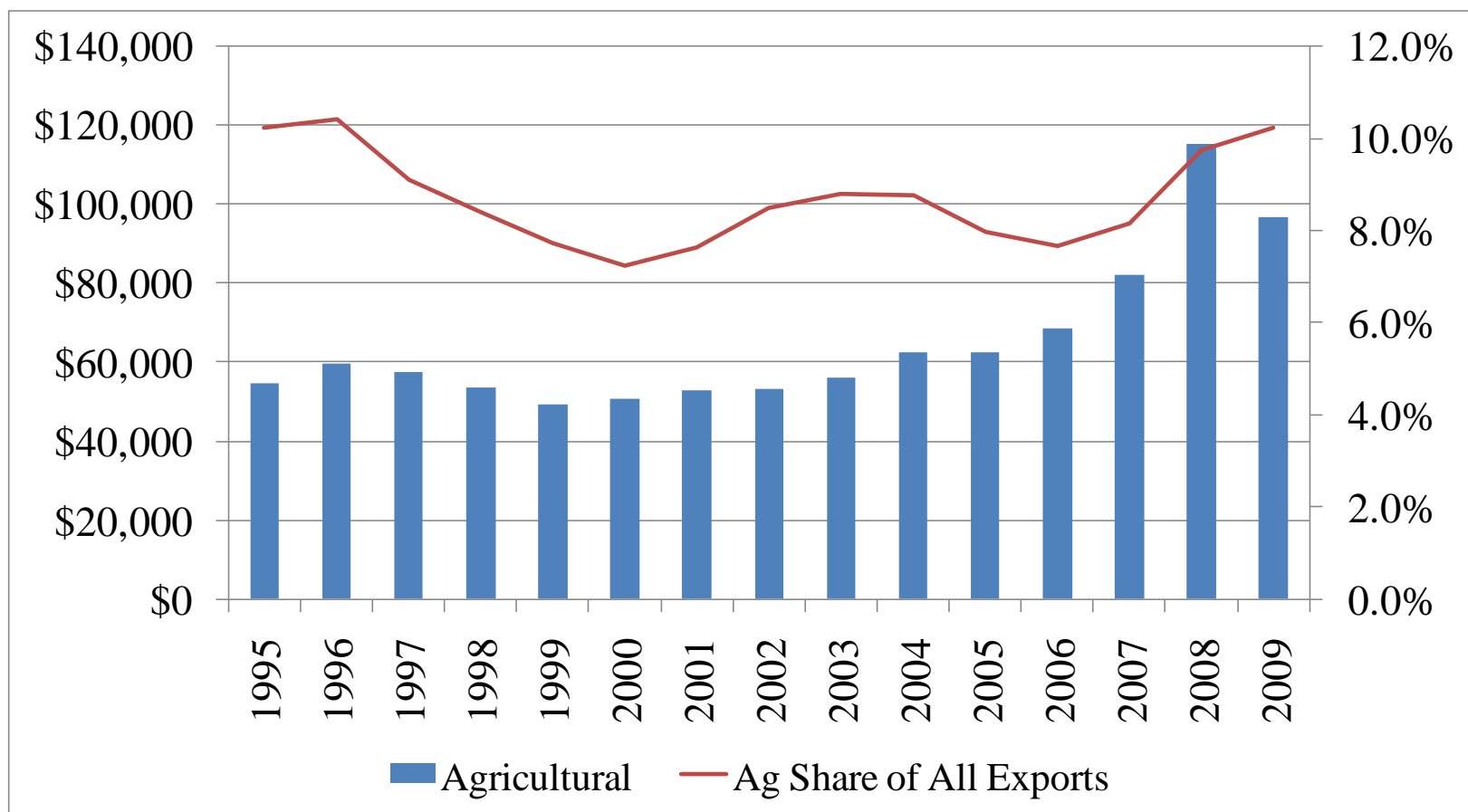
# U.S. Trade Balance

Source: U.S. Census (\$Millions)



# U.S. Exports of Ag Products

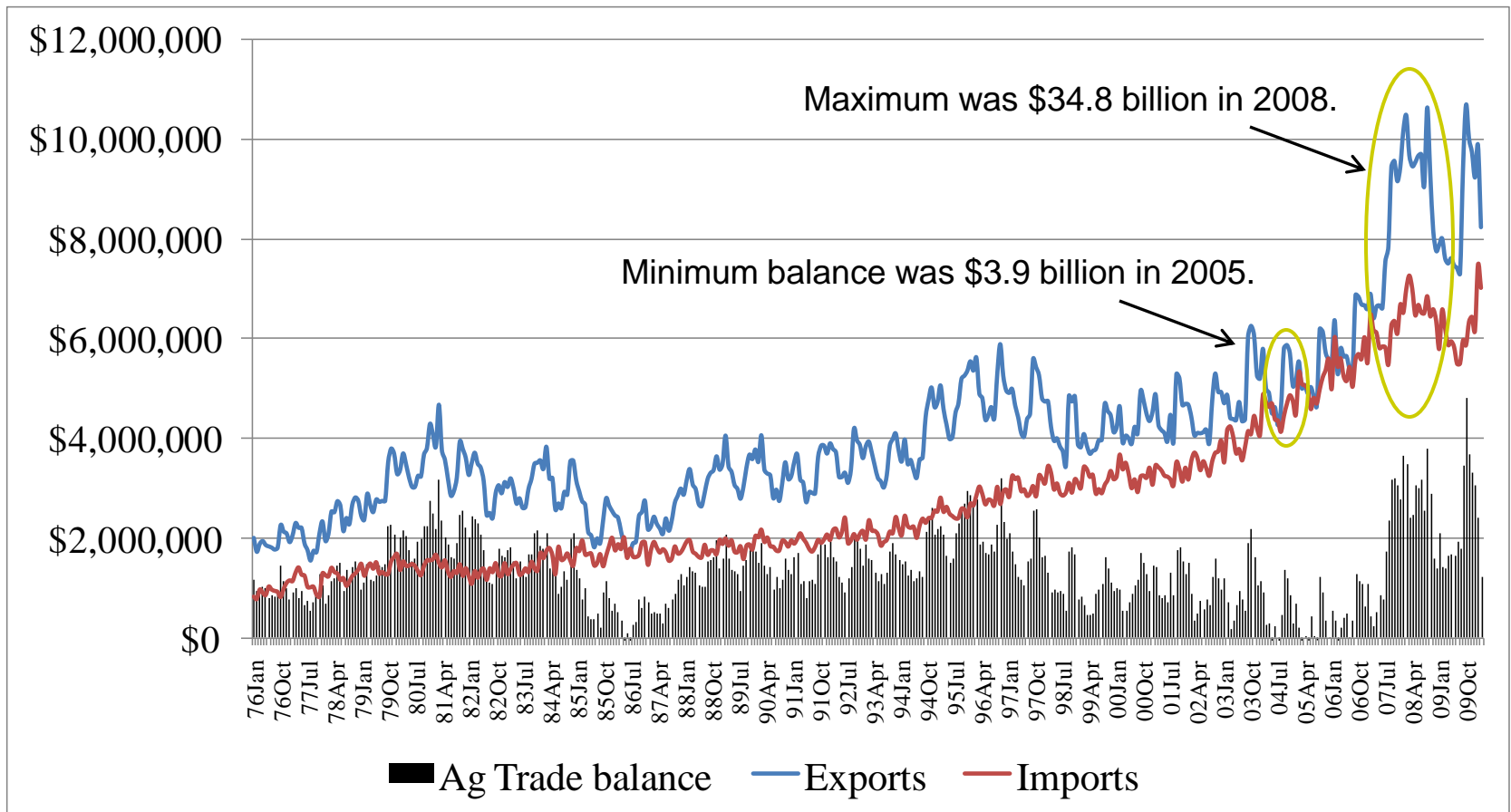
Source: USDA/ERS (\$millions)



Ag exports grew from \$50 billion in 1995 to \$115 billion in 2008, fell to \$99 billion in 2009  
Agriculture has consistently represented around 8% to 10% of total exports.

# U.S. Agriculture Trade Balance

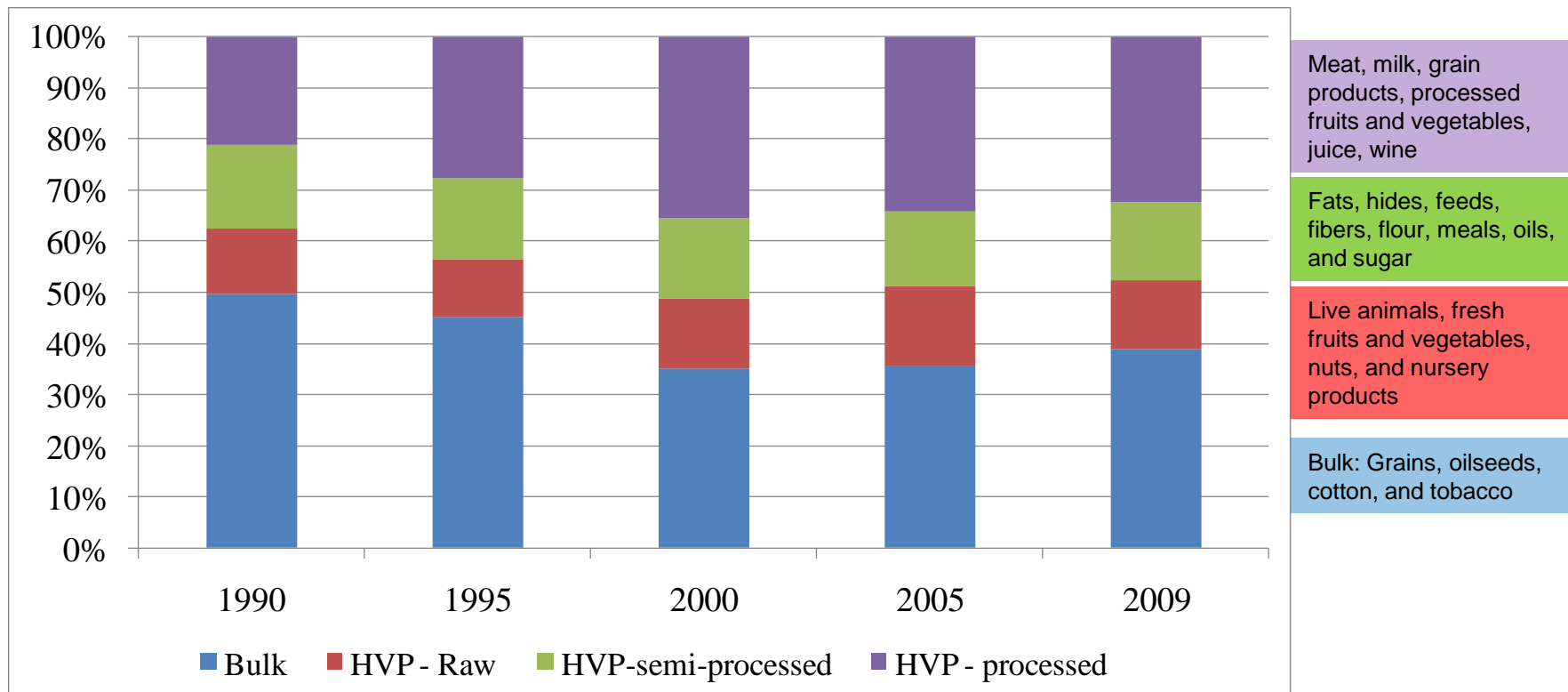
Source: US Census (\$1,000s)



Agriculture has consistently had a positive trade balance.

# U.S. Exports by Product Type

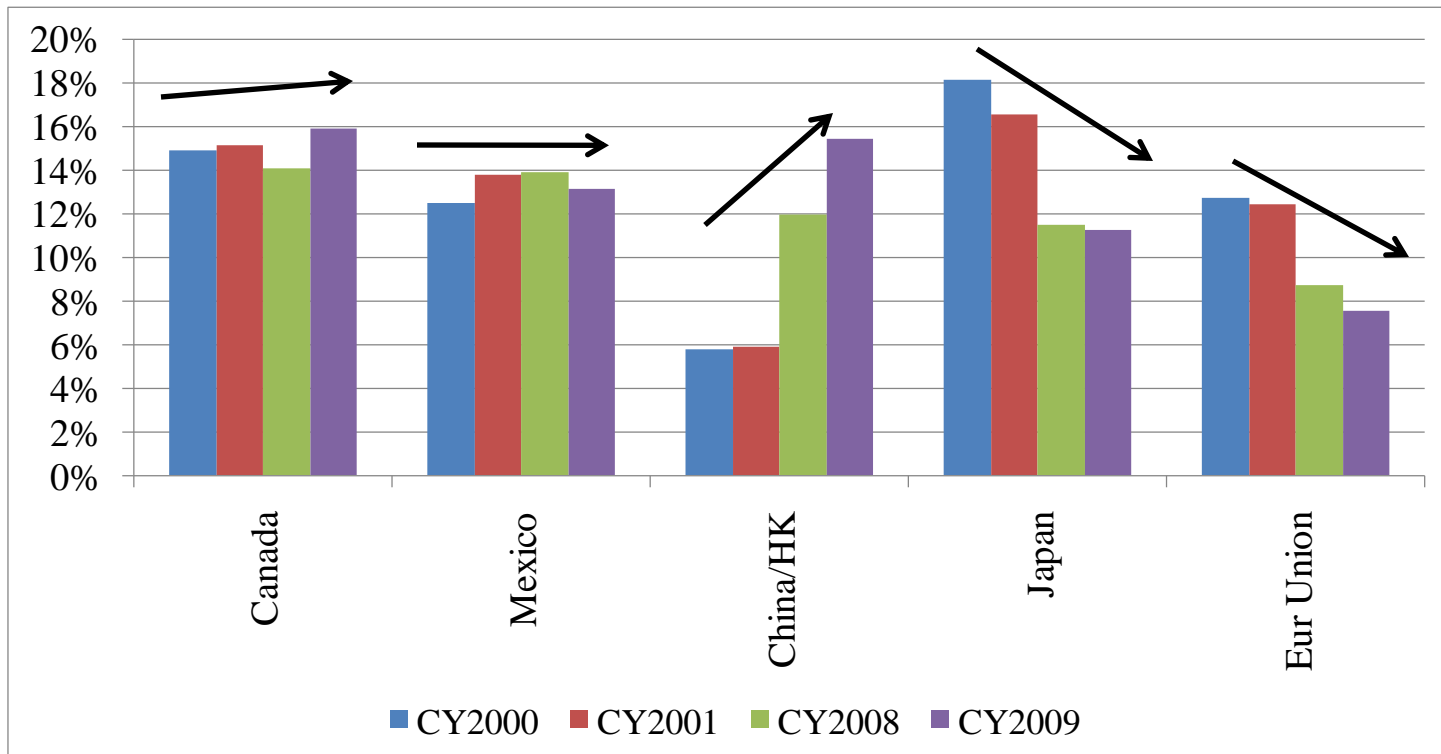
Source: USDA/ERS (% of Dollar Value)



Bulk exports have declined from around 50% to around 40% of total exports by dollar value. Most of the growth has occurred in processed high valued products.

# U.S. Exports by Destination

Source: USDA/ERS



NAFTA (Canada and Mexico) have been relatively consistent partners. Exports to Japan and Europe have dropped significantly. Exports to China have increased from around 6% of the total in 2001 to nearly 16% in 2009. China is now larger than Mexico, Japan and Europe.

# Importance of Exports for U.S. Agriculture

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- Compared to the overall economy, U.S. agriculture is **twice as reliant on overseas markets.**
- USDA estimates that across the nation around **26 to 30 percent** of farm cash receipts comes from exports.
  - ***One-third*** of Washington-grown products are shipped overseas.

## Economic Impacts – U.S. Agriculture

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- Every dollar of exports creates another **\$1.40** in supporting activities to process, package, finance and ship agricultural products.
- U.S. agricultural exports, which in FY 2009 reached \$96.6 billion, generated an additional **\$135 billion** in supporting business activity in transportation, distribution, food processing and manufacturing.
- These exports support approximately **1 million U.S. jobs both on and off the farm.**

# National Export Initiative

March 11, 2010

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- **Facilitate the creation of jobs in the United States through the promotion of exports, and to ensure the effective use of Federal resources in support of these goals,** it is hereby ordered as follows:
  - “We will **double our exports over the next five years,**
  - an increase that will **support two million jobs** in America”.
  - National Export Initiative will **help farmers and small businesses increase their exports,** and reform export controls consistent with national security.
  - **Seek new markets aggressively.**

# Washington State Export Initiative

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- “Washington is the **Gateway to Asia**, and those trading partners have not been hit as hard as other areas around the world.
- Importance of agriculture:
  - In 2008, Washington agricultural exports reached \$14.8 billion, up 60 percent from 2007.
  - In 2008, Washington was the top exporter of apples and the second largest exporter of potatoes, trailing Idaho.
  - Japan buys about 65 percent of the French fries made from Washington potatoes that are exported each year.
  - China, Canada and Japan are the largest export markets for the state, but other markets are emerging in the Middle East and South Asia.



# Washington State Export Initiative

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- **Identify new export opportunities**
  - Pilot state for “field testing” new programs and tools the federal government develops as a part of the National Export Initiative;
- **Funding toward export counseling assistance**
- **Farm-to-Market Initiative**
  - Reward ambitious and achievable proposals to enhance the competitiveness of the state's agricultural enterprises in the global marketplace.



## Washington State Export Initiative (cont.)

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- Enhancing the state's standing as a destination for foreign students
- Strengthen and expand relationships with overseas trading partners;
- Engaging with the federal government to ensure a fully-funded federal transportation re-authorization act that includes a **national freight program aimed at infrastructure investments** that enhance the state's ability to efficiently move goods.



# Impacts – Washington State

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- With 8,000 Washington companies currently exporting, the state is the **largest U.S. exporter on a per capita basis**.
- Approximately **four percent of Washington companies export**, compared to a national average of one percent.
- **One in three jobs in Washington state are tied to trade**, either directly or indirectly.
- Over the next five years, Gov. Gregoire expects the state export initiative to increase the number of Washington state companies **exporting by 30 percent and help 5,000 Washington businesses achieve \$600 million in new export sales**.



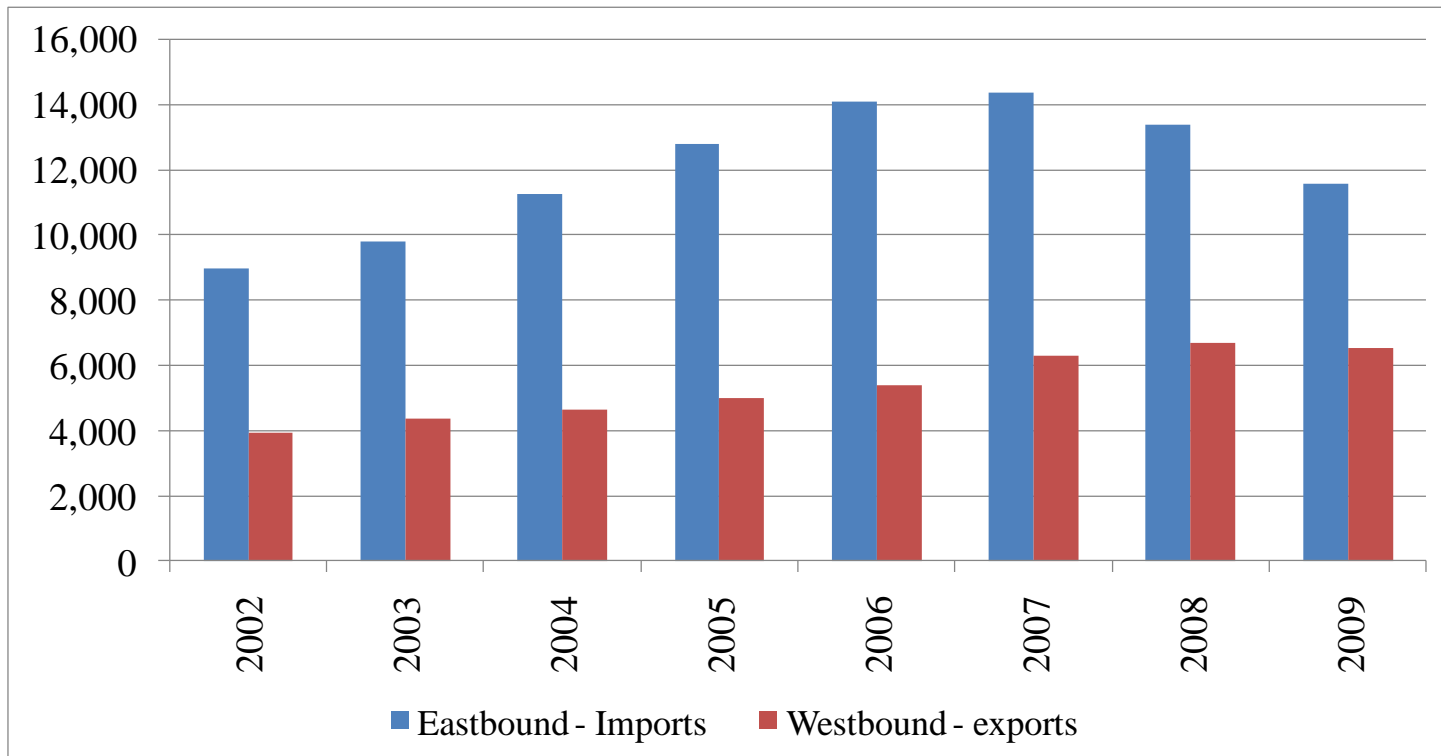
# Importance of Containers For Ag Exporters

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- More than half of U.S. agricultural exports by value move in marine shipping containers.
- Containers haul all types of agricultural products, from bulk grains to frozen beef.
- Agricultural shippers report that container availability is the greatest challenge facing their business.
- The recent decline in import cargo reduces the availability of containers for export cargo, resulting in lost sales and unreliable service to overseas buyers.

# U.S. Trans-Pacific Trade (1,000 TEUs)

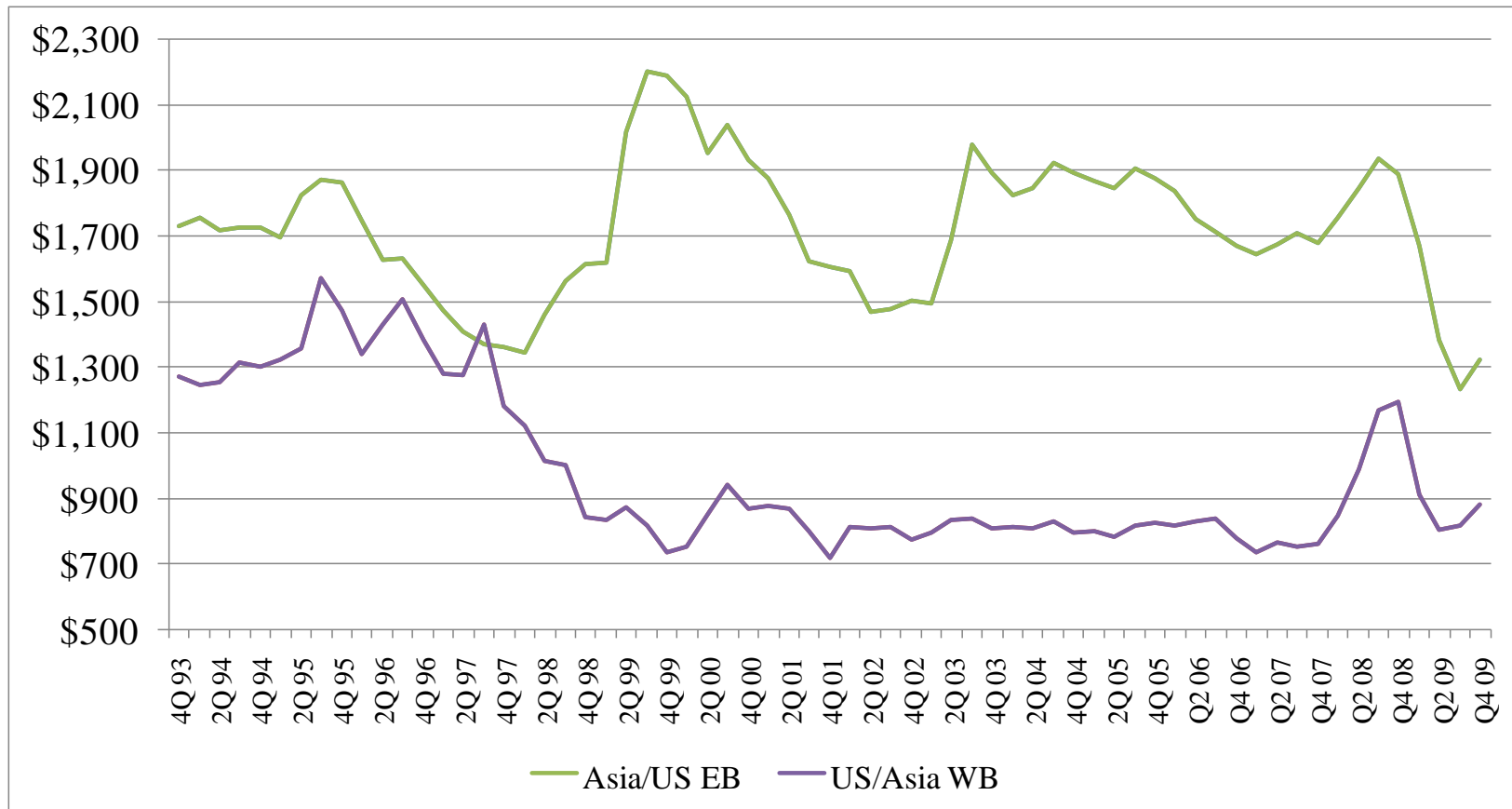
Source: PIERS



Trans-Pacific imports peaked in 2007 and fell dramatically due to the recession. Exports continued to grow. However, imports still greatly outweigh exports which leads to a large number of empty containers.

# TransPacific Container Rates (\$/TEU)

Source: Containerisation International



Except for Q3 1997, eastbound TransPacific rates have always been higher than westbound rates. Eastbound (imports) is headhaul, westbound (exports) is backhaul.



# Financial Difficulties for Carriers

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- Global economic recession
- Vessel supply exceeding demand
- Revenue at below cost levels all Trades
  - Estimated loss of \$22 billion in 2009
  - Uncertainty in 2010
- Financing un-needed new tonnage
- Right sizing deployment networks
- Volatile bunker costs still on the horizon
- Cash Flow

# Carrier Response

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## □ Manage Assets

- Laying up tonnage
- Using larger ships on fewer strings
- Reducing vessel charters/or charter rates
- Slow steaming – more ships per string
- Slot exchange with other carriers
- Delay or cancellation of new buildings
- Scrapping older vessels

## □ Other actions

- Hedging fuel
- Vendor management & re-negotiation
- Avoid repositioning at all times if possible (First Rule)
- Consolidation and downsizing headcount

# Impact for Exporters

Source: USDA Grain Transportation Report 7-1-2010

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- Containerized agricultural exporters are facing some of the most severe container equipment and vessel capacity challenges in recent history.
- Most difficulty in rural Midwest and PNW.
- Problems:
  - Cancelled shipments
  - Foreign buyer customers put in a jam
  - Lost sales due to delivery delays
  - “Just because you get a booking doesn’t mean you’ll get equipment”
  - Cargo frozen at ports with huge penalty costs for shippers, not of their own making
  - Mad scramble triggered



# What to Expect

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- ❑ Shippers expect vessel space and container availability to be constrained during the fall peak season
- ❑ Rates could stay high
- ❑ USDA starting a pilot project to inform shippers of location of containers
- ❑ Communication is the key
- ❑ We need a national freight plan