



DTN Ag Business Benchmark

Russians (and Others) Are Coming

Marcia Zarley Taylor DTN Executive Editor

Wed Mar 19, 2014 02:48 PM CDT

HADDONFIELD, N.J. (DTN) -- Don't look now, but the windfalls from corn production since 2008 lured global competitors into the business. Low-cost production could overhang the market for years -- provided politics and military strife don't interfere.

High corn yields and profits outside the U.S. could be one of the shockers that mean foreign competitors won't retreat just because prices have slipped, a preliminary study of 2012 sample farm returns by Purdue University economist Michael Langemeier found.

Langemeier is conducting a multi-year benchmarking study in conjunction with colleagues from dozens of countries around the world, organized by the von Thunen Institute of Farm Economics in Braunschweig, Germany. In 2012 alone, top corn-yield honors went to well-managed dryland farms in France, China, South Africa and Iowa, as well as an irrigated farm in northwest Kansas.

All of those contenders topped 150 bushels per acre (see chart), with the French farm averaging more than 200 bpa. Because of the historic 2012 drought, however, sample Midwest corn farms produced a fraction of their normal yields. So Langemeier hopes to study financial performance across at least a three-year period to get a better reckoning on normal yields, cost comparisons and overall profitability of the globe's top corn growers. The farm sizes ranged from 1 hectare (less than 2.5 acres) in China, to 6,700 hectares (16,550 acres) in Ukraine.

Despite 2012's yield constraints, five farms in the study ranked as highly efficient -- two from Argentina, one from the Czech Republic, one from France and the irrigated farm in northwest Kansas, Langemeier found.

"I was surprised to see Kansas on the frontier of most efficient farms," he said, but it's clear that irrigated growers in parts of Kansas and western Nebraska have figured out how to manage their costs and resources on a world-class basis.

Americans hold a huge competitive advantage because capital remains inexpensive here, so growers have been able to invest in technologies -- auto steer, irrigation, drainage for example -- that help them maximize production, Langemeier said. In contrast, China relies on cheap labor for its competitive advantage, "but probably uses too much of it to be efficient."

Ukraine and Russia had also been emerging as formidable and consistent corn threats, observes the von Thunen Institute's Yelto Zimmer. The FSU's yields remain subpar, fertilizer is underused and workers are less productive, he said, but their land costs run about one tenth of what the rest of the world pays in major grain-producing regions.

Zimmer's separate analysis of Black Sea grain and oilseed farms shows corn has been the most profitable crop in that region, returning an average of about \$129 per acre gross margins between 2008 and 2011 for a typical 16,550-acre Ukrainian corn farm. That's more than twice the profit margin the same farms would have earned on winter wheat most years, Zimmer found. What's more, the growing disparity between advances in corn yields versus lags in wheat advances will only continue to encourage more corn production in the former states of the USSR, he said.

Thanks largely to Ukraine's contributions, USDA had projected in February that FSU would overtake Argentina as the world's second-largest corn exporter this year.

However, with Russia's annexation of Crimea, "political instability is still an issue," Langemeier said.

Ukraine's UkrAgroConsult reported this week that up to 20% of the country's arable land might not be sown this spring, mainly because of "the absence of any financing in connection with the difficult economic and political situation" in the region. The country's currency has dropped more than 10% since early 2014 and forced some banks to curb lending, it adds.

"You've got to keep in mind the risks of farming there," said Zimmer. Both Russia and Ukraine imposed export restrictions due to short crops in three of the last six years. When Ukraine's policymakers decided to close the harbors and impose a de facto grain embargo on exports in 2010, "corn prices went from \$120 a ton to \$70 a ton

overnight," Zimmer said.

Read and comment on all DTN Ag Business Benchmarks on the Minding Ag Business blog.

Follow Marcia Taylor on [Twitter@MarciaZTaylor](#).

(AG/SK)

© Copyright 2014 DTN/The Progressive Farmer. All rights reserved.

© Copyright 2014 DTN/The Progressive Farmer. All rights reserved