

Japanese earthquake & tsunami effects



Exports may take off

In the aftermath of the tragic earthquake and tsunami in Japan on March 11, food exports to that country are likely to grow substantially. As one of the largest global importers of beef, pork, and grains, shipments to Japan are estimated to remain at high levels, although it will take some time to evaluate Japan's domestic production and how it will be affected by the disasters. Add to this the dangers of radioactivity in domestic production and fishing, and the equation results in an unknown future for Japan's export and domestic agricultural market.

In terms of export value, Japan is the largest market for U.S. pork and the third largest beef export market.

Demand for meat

"Japan is far and away our largest value market for pork exports, \$1.6 billion for last year, and for beef its third largest, about \$640 million last year," says Joe Schuele, communications director for the U.S. Meat Export Federation.

Based on this, analysts predict that beef purchases by Japan will probably climb as radiation leaks from the stricken Fukushima nuclear plant hurt consumption of local foods. According to Susumu Harada, senior director at the Tokyo office of the U.S. Meat Export Federation, Japan is likely to boost imports of beef, pork and chicken.

The disaster caused damage in prefectures including Iwate, Fukushima and Miyagi, which account for about 17 percent of the nation's broiler chickens, 10 percent of its beef cattle, and 9 percent of the hog herd, U.S. Meat Export Federation has said.

By late March, cattle for June delivery on the Chicago Mercantile Exchange reached its highest level in more than a week on signs of rising demand for U.S. beef from overseas buyers.

However, Schuele cautions that he doesn't foresee a big impact on U.S. meat exports to that country. He states that while the devastation along the northeast-





ern coastline is tremendous, the major population centers of Japan have been much less impacted.

Despite this moderate view, JBS SA, the world's largest beef producer, reports that prices for export to Japan rose about 10 percent in two weeks as consumers boosted stocks following the tsunami, according to Chief Executive Officer Wesley Batista.

"U.S. pork exports may particularly benefit from increased import demand for protein in Japan," said Tim McRae, an economist with Meat & Livestock Australia.

Wheat & corn market

Another market that may see gains is wheat as Japan is the world's fifth-largest wheat importer. Wheat and corn rose on speculation that food contamination in Japan from a damaged nuclear power plant may worsen, boosting the Asian nation's grain imports, and as dry weather in the U.S. threatened wheat yields.

Japan, the world's largest corn buyer, was forecast by the USDA to import 16.1 million tons of the grain this year.

Seafood demand

Higher exports will most likely be in seafood. Japan consumes about 9 million metric tons of seafood a year, second behind China, which has more than 1.3 billion people. According to the UN Food and Agriculture Organization, it's the world's largest fish importer.

Cobalt, iodine and cesium have all been detected in the sea near the crippled nuclear plant north of Tokyo. Shoppers have been avoiding most fresh fish. And although the extent of contamination remains unclear, the damage to farms and livelihoods is spreading. At one of Japan's busiest fish markets, Yasumichi Tanaka said the daily catch is dwindling. "Fish supplies from the radiation contaminated regions have been totally halted."

Is contamination a real threat?

Inspectors around the world are keeping a close eye on food imports from Japan, and some countries have ordered special inspections or even outright bans on fish coming from areas near the plant. Both the United States and the European Union are screening food samples from radiation-affected areas of Japan and are regularly monitoring radioactivity in imported seafood and crops. Singapore widened its ban on Japanese-produced foods after finding radioactive contamination in Japanese vegetables.

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Japan normally produces a slight surplus of rice but imports large quantities of wheat, corn, sorghum, and soybeans, primarily from the United States. Japan is the third-largest market for U.S. agricultural exports, and is the largest market for EU agricultural exports.

Japan's small agricultural sector is highly subsidized and protected, with government regulations that favor small-scale cultivation instead of large-scale agriculture as practiced in North America.

U.S. AgBank and CoBank merge

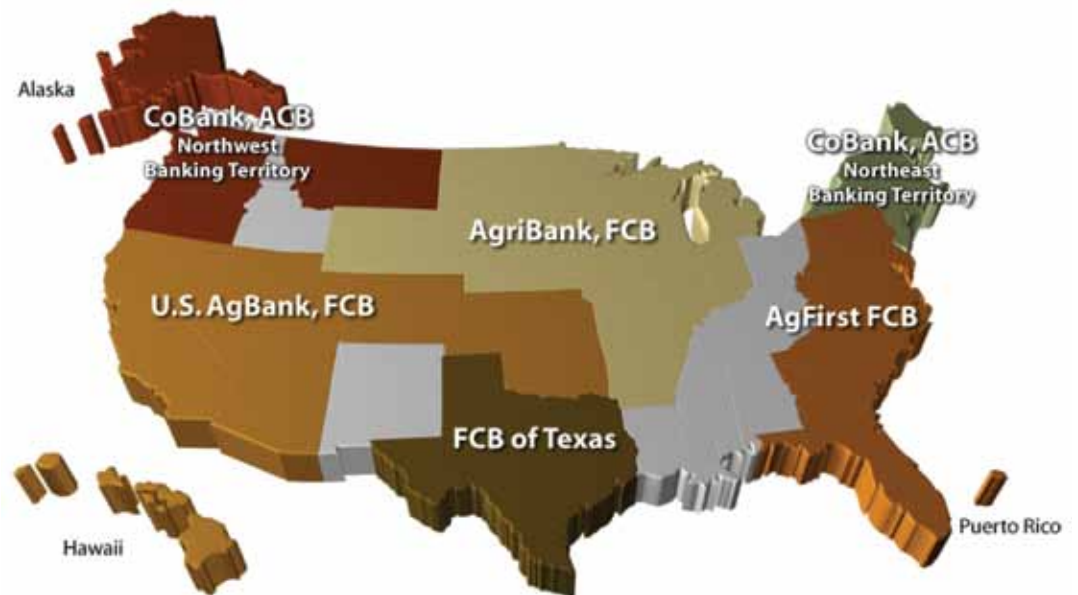
Signaling a shift in funding for the Western Region of the Farm Credit System, U.S. AgBank and CoBank, two of the five banks in the Farm Credit System, announced in December their intention to merge.

Currently, American AgCredit's funding bank is U.S. AgBank, however, there has been an increasing involvement with CoBank, including participation of large volume loans, adaptation of CoBank's online banking system, incorporation of CoBank's Cash Management System, and an alliance partnership involving marketing, public relations and other outreach efforts.

"We welcome the merger and believe it's in the best interests of the Farm Credit System as a whole," said American AgCredit CEO Ron Carli. "Much like our recent merger, the geographic and market diversity this merger brings is substantial and critical to the future success of the system."

The merged entity will be called CoBank. Robert B. Engel, CoBank's president & chief executive officer, will be the chief executive of the combined entity. Darryl Rhodes, chief executive of U.S. AgBank, will retire after the merger.

"The merged bank will enjoy substantial diversification benefits through the combination of two highly complemen-



tary loan portfolios, enhancing its ability to withstand risk," CoBank President and Chief Executive Robert B. Engel said.

According to current U.S. AgBank CEO Darryl Rhodes, the merger would create a larger pool of capital over which to spread risk and create a portfolio in which wholesale loan risk is well balanced with retail loan risk. "In addition, the merger would strengthen human capital by combining the AgBank staff expertise in wholesale lending services with the wholesale and retail lending expertise of CoBank," he said.

As a financial entity, the bank will con-

tinue to operate as a borrower-owned cooperative, just as it does now. No staff reductions are planned as part of the merger. "This merger is all about strengthening the organization for the future and not about cost reductions," Rhodes said.

The merger application was submitted to the FCA on March 31 following unanimous votes by the boards of the two banks. If approved by the FCA and the stockholders, the merger is expected to close on October 1, 2011.

For more information, log on to <http://usagbankcobankmerger.com/>

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But according to Charles Ebinger of the Brookings Institution, the danger of radiation-contaminated foods is greatly exaggerated. "An average adult would have to drink a quart of contaminated milk each day for one year to receive the same radiation as one CAT scan."

The latest fish radiation readings are above background levels, but still nowhere near the safety limits. The highest radiation reading for fish from the Japanese port of Choshi was 3 becquerels per kilogram of cesium-137 — far below Japan's limit of 500 becquerels per kilogram, or Bq/kg.

Scientists also support this limited radia-

tion theory, as radiation is dispersed differently in water than on land. The concept: The greater the volume of water, the higher the dilution, and the lower the impact. It's dispersed in a much deeper three-dimensional space.

All this at the moment is theoretical since very little data is coming directly out of Japan. As of late March 26, some 99 products were found to be contaminated in Tokyo and five other prefectures.

While it is still too early to tell, "Radioactive contamination in food in Japan is likely to rise," says Taku Ohhara, an official at Japan's Ministry of Health, Labor and Welfare,

which will lead to higher food exports.

Ultimately, the biggest factor, according to Schuele, will be how well Japan's economy absorbs the economic blow from the disaster — and whether that eventually affects consumer spending on meat products.

According to Florida State University oceanographer William Burnett, an expert on the environmental effects of radioactivity, "That particular part of Japan is deeply dependent on agriculture and fish, so I think inside the Japanese economy, we'll see pockets of areas that have been exposed to contamination, see their economy hurt very much."