

TRADE MATTERS

TO ILLINOIS CORN FARMERS

What happens when
trade agreements are
renegotiated?

Red meat puts corn
growers in the black

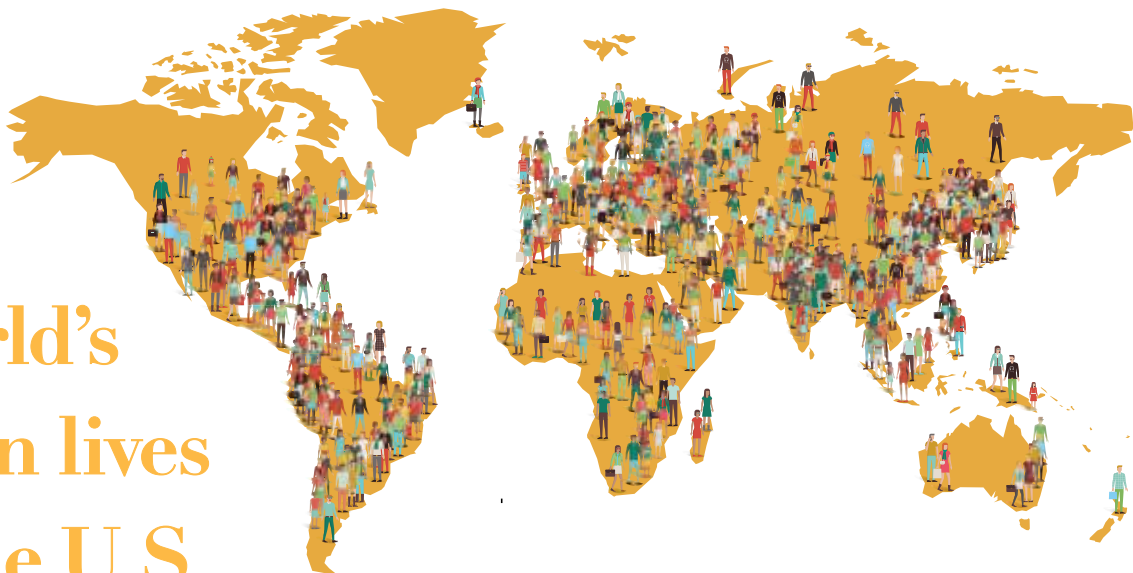
Illinois' Mexican connection

International organizations
creating global demand

a publication of your ILLINOIS CORN GROWERS ASSOCIATION & CORN MARKETING BOARD



95%
of the world's
population lives
outside the U.S.



That's why trade matters to Illinois' ag economy.

With U.S. agricultural productivity growing faster than domestic demand, U.S. farmers and agricultural firms rely heavily on export markets to sustain prices and revenues. And while some corn grown in Illinois stays in the state to be processed through livestock or ethanol plants, exports remain a critical factor in the economic success of Illinois' corn farmers.

"At the end of the day, a bushel of corn that leaves the U.S. for a foreign marketplace is a bushel of corn that adds value to the corn we grow and process right here in Illinois," said Paul Jeschke, Illinois Corn Marketing Board Chairman. "About 1 in 3 bushels of U.S. corn is exported in some form. Without exports, that corn would stay here, further depressing prices all around the country, including here in Illinois. That would take a toll on profitability."

IL Corn participates in a variety of livestock programming to try to grow the industry in Illinois. Through the Illinois Livestock Development Group coalition, IL Corn has been able to make a difference helping farmers site or expand their livestock farms in Illinois. IL Corn also funds the U.S. Meat Export Federation and the USA Poultry and Egg Export Council.

"The global marketplace gives us a great opportunity to define our future and the future of this industry," Jeschke said. "But adaptation is the key to survival, and we must address these market access setbacks and other emerging issues that have become increasingly important to our consumers in overseas markets."

North American trade is particularly crucial: Mexico is the U.S.' largest corn export market, taking 534.4 million bushels (13.3 million metric tons) of corn worth \$2.5 billion last marketing year.

Mexico is also a top market for U.S. distiller's dried grains with solubles (DDGS). Canada is the top export market for U.S. ethanol. Mexico and Canada are the No. 2 and No. 4 markets for U.S. pork. Mexico is the top export market for U.S. dairy.

"In short, trade is critical for Illinois corn farmers, regardless of what form the grain takes when it crosses our borders," said Tom Sleight, U.S. Grains Council CEO.

Overall, Illinois is the largest exporting state in the Midwest, and the fifth largest exporting state in the nation. Illinois Gov. Bruce Rauner maintained "Illinois has the best location, the best people, and the best infrastructure of any other state in the nation."

Aron Carlson, Illinois Corn Growers Association president, says that advocacy efforts in support of trade agreements are a top priority in 2018.

"NAFTA is vital component of Illinois corn farmer profitability," Carlson said. "We are supportive of the efforts underway to improve and modernize NAFTA, but that cannot come at the cost of the agreement in total. NAFTA needs to stay on the books, and we're hopeful to see other agreements solidified, too."



Paul Jeschke



Aron Carlson

13%
of U.S. beef is exported

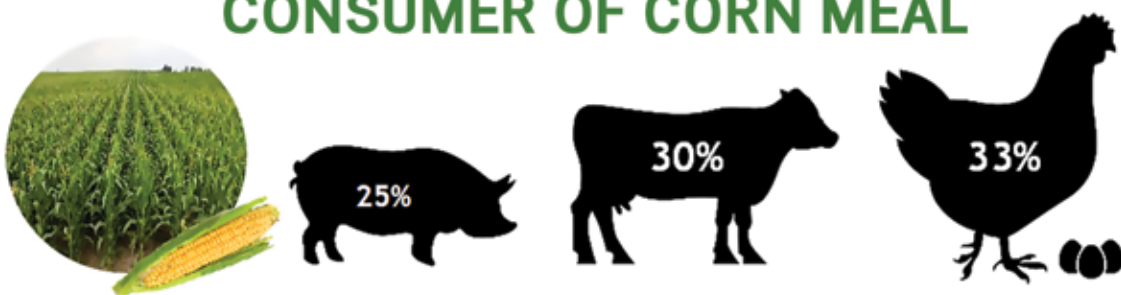
28%
of U.S. pork is exported

Red meat exports help put corn farmers in the black.

In 2015, beef and pork exports accounted for:

- 355 million bushels of corn
- \$1.3 billion in value to corn
- 1.48 million tons of DDGS (169 million-bushel equivalent)
- \$205.4 million in value to DDGS
- 2.1 million acres of corn
- 11.7 million tons of combined corn and DDGS fed
- 3.1 million acres total for corn and DDGS production

**POULTRY IS THE LARGEST LIVESTOCK
CONSUMER OF CORN MEAL**



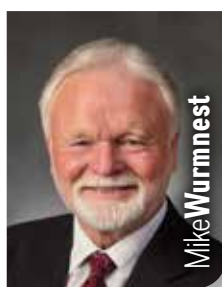


How important is North American trade to Illinois agriculture?



The North American Free Trade Agreement (NAFTA) is a trilateral trade agreement between the U.S., Canada, and Mexico implemented in 1994. “Exports are huge for us,” said Illinois Corn Marketing Board Exports Committee Chairman Mike Wurmnest. NAFTA in particular “has been a winner” for Illinois, he said.

Since 1994, U.S. corn exports to NAFTA partners have increased by a factor of seven!



Mike Wurmnest

“Hands down, the U.S., and Illinois in particular, have a logistical advantage in terms of delivering corn and other corn market-related products like meat and dairy to the Mexican market,” Wurmnest said. “We have the trifecta of shipping methods – truck, rail, and river – and our location as the country next door provides for lower

transportation costs.”

A key multimodal hub, Illinois is well-positioned to serve the Mexico market. Elevator/co-op shuttle trains move grain directly to livestock producers and food processors.



Reportedly about half the corn exported to Mexico is grown in Illinois and arrives in Mexico via rail or river via the Gulf. That brings the total for Illinois-originated corn in at something like 225 million bushels.

WITHOUT NAFTA...

...all three North American countries revert to their WTO-bound MFN duty rates (pre-NAFTA tariffs). This means Mexico would be able to apply up to a 37 percent tax on corn, annihilating any competitive advantage we now hold over competitors.

...U.S. corn production falls by an average of 150 million bushels annually, erasing \$800 million dollars in value or about \$6/acre. Total U.S. grain production falls by \$1.2 billion.

...farm program payments increase by an annual average of \$1.2 billion to compensate farmers for lost revenue.

...loss to U.S. farm sector GDP would be \$13 billion.

Top 5

Illinois Ag Exports to Mexico

1. CORN

[\$2.6 billion]

2. SOYBEANS &

[\$1.5 billion]

3. PORK

[\$1.3 billion]

4. DAIRY

[\$1.2 billion]

5. PREPARED FOODS

[\$1 billion]

Source: USDA Economic Research Service

KEY U.S. EXPORT MARKETS

Corn

- **58 million** metric tons of corn
- **1 out of every 3** planted corn acres is exported.
- **WORTH \$10.1 BILLION**

TOP BUYERS

- Mexico
- Japan
- Korea



Ethanol

- **1.37 billion** gallons of ethanol
- **1 out of every 12** gallons produced in the U.S. is exported.
- **WORTH \$2.4 BILLION**

TOP BUYERS

- Brazil
- Canada
- India



DDGS

- **11.1 million** metric tons of DDGS
- **WORTH \$1.88 BILLION**

TOP BUYERS

- Mexico
- Turkey
- Korea



Source: USDA Economic Research Service and Global Agricultural Trade System (GATS)

In addition to high-quality yellow field corn, distillers grains and beef, Illinois is one of the U.S.' top producers of food-grade white corn used extensively in Mexico.



NAFTA:

Too much at stake



For the past 23 years, NAFTA has been a resounding success for U.S. agriculture and has underpinned development of the most successful grain value chain in the world.

Since NAFTA's implementation, U.S. agriculture sales to Mexico have quintupled. Last year, U.S. corn farmers sold more than \$2.5 billion worth of their product (13 million metric tons, or 523 million bushels) to Mexico.

Terminating NAFTA would devastate U.S. corn farmers and the American rural economy.

Economic models cannot fully capture the systemic and immediate market shocks from a withdrawal.

For U.S. corn farmers, no single market could replace Mexico, which bought 25 percent of U.S. corn exports last year. Corn prices are currently below the cost of production. A global oversupply of corn is pressuring prices even as the new crop of corn is harvested.

Farmers would be left with serious basis challenges, impacting their bottom lines immediately. Local elevators would also feel these shocks, and transportation facilities like rail shuttle facilities built specifically to serve the Mexican mar-

ket would face immediate business losses.

To compensate for lost market share, the grains industry will seek other markets. However, a lack of new free trade agreements and a plethora of new trade policy challenges brought by



partners concerned with the trustworthiness of U.S. trade policy would stymie these efforts. The reversal of NAFTA would lead to 256,000 unemployed low-skilled workers in the U.S. in the short to medium run (3-5 years), with thousands more workers having to relocate to other sectors to find employment.

If skilled workers are also assumed vulnerable to reversing NAFTA, then U.S. unemployment rises by over 1.2 million. Important American industries such as meat, textiles, motor vehicles, and services would be hardest hit by these declines.

In addition to the losses in American jobs, nearly one million unskilled jobs are lost in Mexico, undoing one of the original intentions of NAFTA -- to improve employment prospects in Mexico and thus help reduce migration flows into the U.S.

**MEXICO: TOP U.S. CORN CUSTOMER
2015-16 MARKETING YEAR**



**[13.321 million metric tons/
\$2.52 billion in value]**

FROM PLATE TO TANK: Corn meets needs for clean air and meat

After more than a decade of blocking U.S. beef imports, China announced earlier this year that they would once again allow U.S. beef into their market. That has significant implications for U.S. grain and livestock farmers.

U.S. beef had already experienced a very strong quarter, up 15 percent in volume and 19 percent in value, according to the U.S. Meat Export Federation.

Meanwhile, IL Corn and the ethanol industry hailed the announcement by Mexico's Energy Regulatory Commission to boost maximum levels of ethanol that can be blended into Mexican gas supplies to 10 percent. While the largest cities are exempted for now, IL Corn expects that early in 2018 we'll see E10 blends available throughout Mexico.

Mexican motorists will soon see how embracing corn-based ethanol will help clear the air and lead to better human health and a cleaner environment overall, as ethanol replaces the toxic fuel additive MTBE.

One last thing. Late in 2017, on his trip to Asia, President Trump successfully persuaded the Chinese president to do away with the

antidumping claims against U.S. ethanol producers, including DDGS coming from Illinois, clearing the way for more corn-based exports to one of our largest customers.



Let's clear the air.
From Tokyo
to Mexico City
to Rio de Janeiro
and beyond,
ethanol
alone will
help improve
global air quality,
human health,
and the environment...

...while improving your bottom line.

Corn-based ethanol exports were up 85% in 2016, year over year.

The world is looking for renewable solutions to environmental challenges like poor air quality and your checkoff is working to ensure those countries focus on U.S. Corn-based ethanol for answers.

For example, IL Corn-based ethanol will help Japan meet its 10% greenhouse gas reduction threshold. The exploding economy in India is demanding new fuel blending mandates. Canada, the United Arab Emirates, and Mexico are on the verge of adopting ethanol blending fuel mandates. And even our friends in Brazil are looking to the U.S. for renewable answers.

It's a world of ethanol export possibilities, but it doesn't come without your investment of checkoff dollars. Your corn checkoff funded research is reaping worldwide recognition, demonstrating the sustainable benefits of choosing U.S. Corn-based ethanol.

Your partners at the U.S. Grains Council are leveraging the checkoff dollars with international marketing efforts around the world. And your checkoff continues to educate policymakers and other stakeholders on the need to improve our transportation infrastructure so that we can, indeed, fuel the world with U.S. Corn-based ethanol.

Renewable. Sustainable. Profitable. Definitely Exportable.
IL Corn-based ethanol. It's clearing the world's air.

According to the U.S. Grains Council, key markets with significant promise for U.S. ethanol exports include China, Mexico, India, and Japan.

Q If we don't have a trade agreement in place, can we still sell ag products to other countries?

A Not having a trade agreement in place does not totally shut out the U.S. from doing business with a nation. But if there is no trade agreement, countries can establish quotas on the amount of product they import from any single country or impose duties and tariffs. If the U.S. has to pay a duty or tariff to ship its corn into a country — and a competitor such as Brazil, for example, does not — that puts the U.S. at a price disadvantage.

Key International Cooperators Promote Illinois in Global Markets

Through their corn checkoff, Illinois corn farmers support the international activities of three major cooperators focused on developing export markets. Illinois checkoff funds are leveraged with those from other states and

stakeholders to obtain funding from the U.S. Department of Agriculture through its Market Access Program (MAP) and Foreign Market Development (FMD) program.

A recent study concluded that the return on investment in these export promotion programs is

28 to 1!



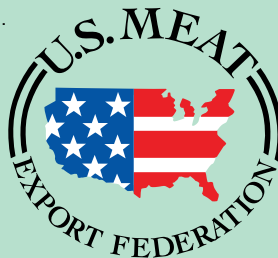
Founded in 1960, the Council is a private, non-profit corporation with 10 international offices and programs in more than 50 countries. Its unique membership includes producer organizations and agribusinesses with a common interest in developing export markets. The U.S. Grains Council develops export markets for U.S. barley, corn, grain sorghum and related products, including ethanol and distillers dried grains with solubles (DDGS).

The U.S. Grains Council Mission:
Developing Markets • Enabling Trade • Improving Lives

grains.org

The mission of USMEF is to increase the value and profitability of the U.S. beef, pork and lamb industries by enhancing demand for their products in export markets through a dynamic partnership of all stakeholders.

USMEF is a unique collaboration of meat export stakeholders working together to implement successful international marketing programs. Through its network of international offices on four continents, USMEF is working to put U.S. meat on the world's table.



usmef.org

USAPEEC's reach is far-ranging. Through its network of international offices and consultants in key markets around the globe, USAPEEC keeps current on issues that have a direct impact on U.S. poultry and egg exports.



USAPEEC has good working relationships with other industry and agricultural trade associations, both foreign and domestic, such as the National Chicken Council, National Turkey Federation, United

Egg Association, the U.S. Poultry & Egg Association, the U.S. Agricultural Export Development Council, and the American Farm Bureau Federation.

usapec.org

TRADE MATTERS TO ILLINOIS CORN FARMERS

FIND OUT WHY @



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