The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

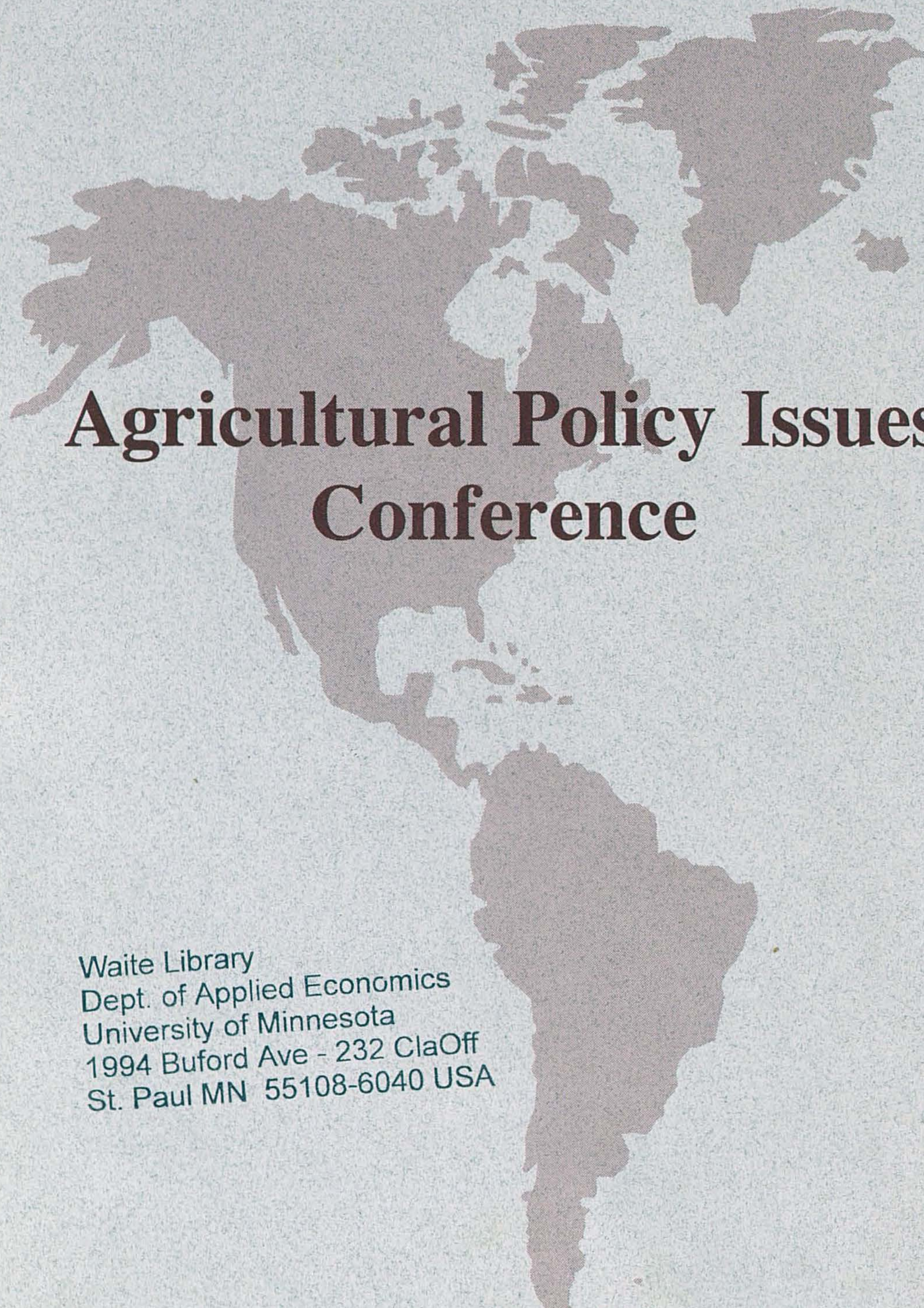
Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
http://ageconsearch.umn.edu
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

378.786
T73
A47



Agricultural Policy Issues Conference

Waite Library
Dept. of Applied Economics
University of Minnesota
1994 Buford Ave - 232 ClaOff
St. Paul MN 55108-6040 USA

June 12-13, 1996

Northern Plains and Rockies Center
for the Study of Western Hemisphere Trade

378.786
T73
A47

Conference Highlights

- The Trade Research Center received a major grant from the U.S. Customs Service
- Industry leaders identified their research and education priorities
- The Trade Research Center will provide analysis and education about trade, trade policies, and their regional economic effects
- Analyses of trade and trade policies need to identify who benefits and who loses as a result of trade
- A challenge to the Trade Research Center will be to maintain the needed data and analytical capacity for timely analysis

Table of Contents

About the Trade Research Center i

Conference Summary ii

Livestock Issues 1

Wheat Issues 7

Sweeteners and Feedgrains Issues 14

Other Trade Issues 21

Waite Library
Dept. of Applied Economics
University of Minnesota
1994 Buford Ave - 232 ClaOff
St. Paul MN 55108-6040 USA

About the Trade Research Center

Objective analysis for informed decision making

The Northern Plains and Rockies Center for the Study of Western Hemisphere Trade (the Trade Research Center) was established at Montana State University in early 1996. The Trade Research Center responds to the urgent and growing need for information about the local and regional impacts that national and international trade policies are having on the crop and livestock industries and rural economies of the Northern Plains and inter-mountain region of the western United States.

Agriculture in this region is an export-driven industry, and trade policy is as important to the economy of the region as it is to the world economy. The policies of Canada, Mexico, and the United States and the North American Free Trade Agreement play an important role in the region. The policies of the major North American trading partners, such as the European Union and Japan, the General Agreement on Tariffs and Trade, and the evolving policies of the newly formed World Trade Organization, also affect agriculture in the region.

The mandate of the Trade Research Center is to support informed public and private decision making related to agricultural and natural resource trade policies and their economic effects in the Northern Plains and Rockies region. The Center will do this by conducting research on agricultural and natural resource trade policies and their economic effects and by communicating research findings and related policy information to producers, industry groups, leaders of rural communities, government officials, and the general public.

The Trade Research Center's role is analysis, not advocacy. It advocates neither the trade liberalization policies of NAFTA and GATT, nor the protectionist policies of some industry and consumer groups. Rather, the purpose of the Center is to provide objective information about the effects that policies may have on various segments of society so that citizens may make more informed decisions.

Conference Summary

John Antle

Director, Trade Research Center
Professor, Department of Agricultural Economics and Economics
Montana State University

The Northern Plains and Rockies Center for the Study of Western Hemisphere Trade is pleased to present in this publication the proceedings of a conference held at the 320 Ranch near Big Sky, Montana, in June 1996. The purpose of this conference was to explore the policy issues affecting agriculture in the Northern Plains and Rockies. An important goal of the Conference was for the Trade Research Center to obtain information from industry, government, and academic perspectives that would help the Center set priorities for its research and education programs. These programs will be funded by a grant from the U.S. Customs Service, obtained with the assistance of Senator Conrad Burns of Montana.

Since the inception of the Trade Research Center, we have been concerned about obtaining input from the public to help us set priorities for our research and education programs. Accordingly, we organized the conference to focus on broad areas of potential importance, including those related to the livestock, grains, and sugar beet industries, and regional transportation and market integration issues.

The conference format was informal in order to encourage discussion among the participants. Each session consisted of presentations representing an industry perspective and a research perspective, followed by a Round Table discussion by individuals from industry, government, and the university. Participants were also encouraged to discuss their views on any other policy or market issue they felt was important to the region and to address how the Trade Research Center's work could contribute to public understanding of trade and policy issues.

Several themes emerged from the conference that have important implications for the research and education programs of the Trade Research Center. Most importantly, conference participants validated the need for the Center to provide objective analysis and education about trade and trade policy and their economic effects in the region.

Participants noted the widely differing perceptions among those in the industry of the impact that livestock imports have on the market. Many ranchers believe, for example, that Canadian imports are having a substantial negative impact on the price of beef cattle in the

United States. However, research presented at the conference suggests that the impacts of Canadian imports are quite small and that such impacts must be weighed against the substantial positive impact that livestock exports have on U.S. prices.

Several presentations and comments by participants emphasized the importance of analysis that objectively quantifies who benefits and who loses as a result of changes in trade policy. These discussions echoed my opening comments, when I noted that every policy change results in those who gain and those who lose. Some farm organization representatives were particularly concerned about the potential adverse impacts of trade policy liberalization on producers in the region.

The discussions about who gains and who loses from policy change illustrate the need for education about the impacts of trade and trade policy. Opinions were expressed that "good" or "fair" trade should benefit all parties involved. But in fact we know that changes in trade policy, such as the liberalizations brought about by NAFTA and GATT, will not benefit everyone. Those U.S. producers who are exposed to greater international competition through policy liberalization may see their profitability decline. Those who obtain increased access to foreign markets are likely to benefit from increased exports and higher prices.

The issue of who benefits from trade also raises important research questions. Research now being conducted at MSU, sponsored by the Trade Research Center and by a grant from the USDA, will analyze the farm-level economic impacts of changes in the farm programs and trade policy. This research is based on a statewide survey of grain producers' cropping practices. Trade Center researchers will be able to assess differences in economic impacts for different areas of the state and for different size farms.

This kind of region-specific analysis should help the Trade Research Center respond to the need expressed at the conference for more information about the economic impacts of policy changes. Indeed, conference participants emphasized that timely policy analyses, specific to the region, are needed by industries when they assess proposed changes in domestic farm policy or proposals made in trade negotiations. Clearly, for policy analysis to be provided in a timely manner, data collection and analysis must be conducted on an ongoing basis. An important challenge for the Center, therefore, is to maintain needed data and analytical capacity so that analyses can be conducted and disseminated in a timely manner.

Participants also emphasized the importance of grain quality to the international competitiveness of the wheat and barley industries. The Trade Research Center is planning a research program on Agricultural Research Policy and International Competitiveness that will address this issue. Working with the Wheat and Barley Committee, the Trade Research Center should be able to facilitate the collaboration between biologists and economists that is needed to further our understanding of the role that grain quality plays in international trade.

Jim Johnson, coordinator of the Trade Research Center's Public Education Program, organized the conference. The content of these proceedings was edited for clarity and brevity by Jim Johnson, Linda Young, and myself. Amanda Cater, the Trade Research Center's administrative assistant, coordinated the design and production of these proceedings, which we believe are an accurate record of the ideas expressed at the conference. We hope they will contribute to a constructive debate about these issues in the region.

LIVESTOCK ISSUES

VIEWPOINT FROM THE INDUSTRY

Jim Peterson
Montana Stockgrowers Association

Trade is a concern of the Montana Stockgrowers Association (MSGA). Some of the members would opt to build a fence around the U.S. Others view trade as an integral part of the industry's future. Amazingly, both groups of members are arguing their positions using the same information.

Because of the MSGA's concern over trade-related issues, a Trade and Audit Subcommittee of the Marketing Committee was formed. Some highlights from this subcommittee report of June, 1996, entitled the *U.S. Beef and Cattle Trade Report,* are provided for this conference.

When livestock trade is discussed, the usual reference is to tonnages of beef imports and exports and numbers of cattle imports and exports. Seldom has there been any discussion of a combination of flows. In this report, trade in live cattle numbers was converted to beef equivalents using average annual carcass weights for each year from 1985 through 1995. The implicit assumption is that feeder animals imported were actually carcass beef ranging from 656 pounds in 1985 to 717 pounds in 1995. Using this common denominator for beef and live cattle, imports have exceeded exports from the U.S. each year from 1985 through 1995. This import/export differential has ranged from a high of 12.09 percent of U.S. beef production in 1990 to a low of 8.55 percent in 1994, with a 1995 estimated differential of 8.81 percent. This differential was relatively low in 1994 and 1995, a period of low U.S. beef prices. Furthermore, the level of this differential is overstated because a high percentage of cattle imports consists of feeder cattle.

Remember that one thing remains on the minds of beef producers: price!

Remember that one thing remains on the minds of beef producers: price! Price is impacted by the psychology or emotion in the market, as well as by supply and demand. Trade analyses which exclude the recognition of emotion in these markets will miss their mark.

NAFTA and GATT provisions specific to cattle trade are minimal. Sanitary and phytosanitary measures are of particular interest to border state livestock producers, as these measures impact trade between Montana and Canada. These measures need to be based on science, as required by the GATT agreement. The MSGA is engaged in a pilot program to address these sanitary concerns with Canada.

GATT and NAFTA do not wipe out the 1979 U.S. Meat Import Act, as amended under the Canadian-U.S. Free Trade Agreement. This Act established a countercyclical formula to determine the quota for imports of fresh, chilled or frozen beef, veal, goat, and sheep meat.

During late 1994 and early 1995, the Mexican peso lost as much as 45 percent of its value relative to the U.S. dollar. Furthermore, January 1995 beef exports to Mexico fell by 55 percent from 1994 levels. However, live cattle exports from Mexico to the U.S. were up during the same period due to devaluation and drought.

The North American trade picture is the most visible to U.S. producers. Producers see truckloads of Mexican and Albertan cattle entering the U.S. However, current low U.S. beef prices cannot be attributed solely to trade agreements. Because of these beef price and trade concerns, the MSGA developed a nine-point action plan. Most of the action points are applicable to the following trade concerns:

1) require mandatory price reporting of live cattle and beef products (sales) in all areas;
2) ask Congress to require the appropriate federal agency or perhaps contract with private industry to report weekly all live cattle and beef imports/exports including price, volume, and country of origin;
3) evaluate the requirement of equal access (for producers) to USDA grading services, slaughter, and processing services within the beef industry;
4) place restrictions on the packer feeding of cattle;
5) identify a threshold for the U.S. Department of Justice to use in switching from a *monitoring* mode to an *investigative* mode to determine if current antitrust laws are being violated (in the packing industry);
6) request that Congress strengthen the regulatory power of the Grain Inspection, Packers and Stockyards Administration to deal specifically with concerns that exist due to concentration in our industry;
7) require labeling of imported live cattle and beef at producers' and consumers' sectors;
8) obtain credit assurances; and
9) place a moratorium on mergers, consolidations, and acquisitions (in the packing industry).

In summary, the MSGA is actively pursuing these action points. Presentations have been made and are scheduled to be presented before appropriate Congressional committees.

POLICY ISSUES PRESENTATION

John Marsh
Montana State University

The U.S. Beef and Live Cattle Trade: Effects on Domestic Feeder Cattle Prices

The implementation of NAFTA and GATT has produced mixed reactions among U.S. beef producers. On the one hand, the more negative views have focused on likely price reductions arising from potentially increasing meat and live cattle imports. On the other hand, the more positive views have focused on NAFTA and GATT as facilitating agreements conducive to expanding U.S. beef exports (e.g., fewer trade restrictions), hence likely increasing cattle prices. In essence, the two views must be balanced in order to put into perspective the likely costs and benefits of expanding total U.S. beef and live cattle trade.

U.S. beef and live cattle trade has changed considerably since the decade of the 1980s. U.S. beef exports and U.S. live cattle imports have both increased. U.S. beef exports are primarily high quality (choice grade or better) boxed beef cuts. Live cattle imports are from Canada and Mexico. Canadian imports consist of breeding stock and feeder and slaughter cattle, while Mexican imports consist primarily of stocker/feeder cattle. In the early 1980s, U.S. beef exports accounted for about one percent of domestic beef production, and U.S. live cattle imports accounted for about two to three percent of domestic cattle slaughter. By 1995, U.S. beef exports had increased to seven to eight percent of domestic beef production, while live cattle imports had increased to seven to eight percent of domestic cattle slaughter. The largest share (80 percent) of the beef export growth has been to the Asia-Pacific region, due primarily to rapid economic growth, an increasing desire for meat consumption, and reductions in trade barriers. Increases in live cattle imports (from Canada and Mexico) can be attributed to demand by U.S. cattle feeding and meat packing, favorable exchange rates and U.S. cattle prices, and lower trade restrictions.

The implementation of NAFTA did not materially change meat and live cattle trade between the U.S. and Canada, due primarily to the liberalization of trade established in the 1989 Canadian-U.S. Free Trade Agreement. NAFTA also reinforced prior tariff reductions on beef and live cattle negotiated between the U.S. and Mexico. Currently, beef and live cattle move duty-free among the North American trading partners.

Health and quality regulations continue to restrict trade among the countries, however, and are subject to changes based on scientific evidence. GATT amends the 1979 U.S. Meat Import Law with a tariff-quota provision, also reducing the 31.1 percent tariff for meat (beyond the trigger level) by 15 percent in equal annual installments to 26.4 percent by the year 2000. This applies to fresh, chilled or frozen beef.

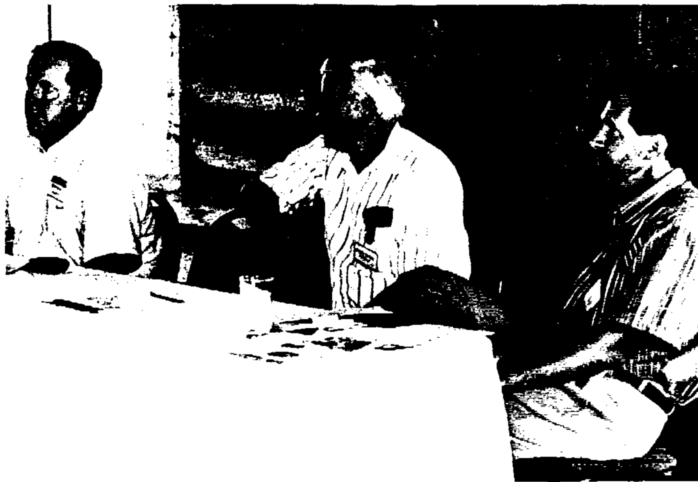
The significant growth in U.S. beef

exports and live cattle imports has implications for U.S. beef prices. A dynamic multiplier analysis was employed to estimate the annual effects of beef trade (1987 to 1995) on prices in the feeder cattle market. Specifically, the change in the net trade position was related to prices. Results indicate an average annual gain of $2.18 per hundredweight from trade with all countries; that gain was primarily due to expanding export demand in the Asia-Pacific region and increasing fed beef exports to Canada and Mexico. Increasing by-product exports and reductions in nonfed beef imports also played important roles. Mixed results appeared to occur specific to the separate price effects of trade with Canada and Mexico. The U.S. price effect with respect to trade with Canada averaged a negative $.94 per hundredweight, while with respect to trade with Mexico, it averaged a positive $.44 per hundredweight. These numbers are averages which display considerable variation over the entire period.

...negative views have focused on price reductions from increasing meat and live cattle imports... positive views have focused on agreements which are conducive to expanding U.S. beef exports...likely increasing U.S. cattle prices.

The Canadian and Mexican price impacts reflect, in part, differences in growth in U.S. beef exports versus corresponding growth in U.S. live cattle imports. Annually, from 1987 to 1995, U.S. net beef exports to Canada and Mexico decreased by 20 percent and increased by 59 percent, respectively, while corresponding net live cattle imports increased by 28 and 16 percent. Overall, the most positive aspect of the U.S. beef trade picture has been exports to the Pacific Rim.

For a more complete discussion, see Departmental Special Report #18 titled *The US beef and Live Cattle Trade: Effects on Domestic Feeder Cattle Prices* by John Marsh and Clint Peck. This report is available from the Department of Agricultural Economics and Economics at Montana State University, Bozeman, MT 59717.



ROUND TABLE DISCUSSION

Clyde Greer
Bozeman, Montana

Nick Giordano
National Pork Producer's Council

Dermot Hayes
Iowa State University

Clyde Greer

With prices at current relatively low levels, a lot of emotion exists in the livestock industry. There is considerable stress among ranchers and cattle feeders, which has led to a focus on the quantity of output rather than on the value of output or on relative values.

In the information prepared for the Montana Stockgrowers Association, live cattle were converted to beef equivalents by multiplying live cattle numbers by average carcass weights. The only rationale for this type of conversion is the argument that this beef would not have reached slaughter in the U.S. had it not been imported. This conversion disregards the value added to the product and employment generated through finishing activities in the U.S.

With the current relatively low cattle prices, the industry is seeking someone to blame. Perhaps the industry could more effectively focus on those issues to which NAFTA and GATT are directed. For instance, due to the recent change in grain policy, the U.S. livestock producer may now face feed grain prices that could be more variable than they have been historically. With the long planning period required for production in the livestock sector, how should the greater input price variability be incorporated?

The livestock industry is changing from a commodity market to a product market. With expanded, geographically dispersed, and culturally diverse markets, producers need to direct efforts to the most suitable markets for their products. These management issues need to be addressed.

Nick Giordano

In 1987, less than one percent of U.S. pork production was exported, while about nine percent of U.S. production was imported. In 1995, the U.S. exported 4.4 percent and imported 3.7 percent of the total U.S. pork production. For the first time in 43 years, the U.S. became a net exporter of pork. The major export markets for pork in order of economic importance are Japan, Russia, Mexico, Canada, Korea, and Hong Kong. Russia and Korea are new markets for U.S. pork.

There are several reasons for this expansion in U.S. pork exports. Production

costs are substantially lower than those of other major exporters. Additionally, the quality has improved because U.S. pork has become a much leaner product. Part of the industry's check-off funds has been expended on a quality assurance program.

For the first time in 43 years, the U.S. became a net exporter of pork.

The U.S. pork industry has been aggressive in trying to export. Trade liberalization under GATT facilitated market access. The industry has worked with the office of the U.S. Trade Representative on issues including shelf-life standards in the Korean market and various impediments to trade with Japan. As a major consumer of pork, China will receive considerable attention because it has applied for membership in the World Trade Organization.

There has been substantial trade in pork with the other NAFTA countries. Pork exports to Mexico increased after NAFTA was signed, although currently exports are hampered by the devalued peso. Canada will now accept swine from U.S. pseudorabies free states. An increasing percentage of Canadian swine imports are feeder pigs.

Dermot Hayes

A good place to start when evaluating free trade is to imagine how the North American market would have looked if there had been free trade among the U.S., Canada, and Mexico from the beginning. The U.S. midwest states would have fed the Canadian east coast, and the U.S. beef, pork, and poultry industries would have fed many Mexican consumers.

Cow-calf producers in northern Mexico would have exported feeder calves to feedlots in the southern plains of the U.S. Of course, many cow-calf producers in this part of the U.S. are currently selling feeder cattle to these feedlots.

Think about what NAFTA really did: it added some marginal land in Canada and Mexico to the U.S. that is similar to land in Montana. Returns to land in these states, which compete with production from similar land in certain parts of Mexico and Canada, may be reduced; however, there is a reason to be very optimistic about trade when the focus is on the explosive growth in meat trade. Currently U.S. red meat exports account for about $4 billion annually, and U.S. poultry exports account for $2 billion annually.

The U.S. is competitive in the world meat export market for three primary reasons:

1) The increase in export demand for value-added products is greater than for raw products during periods when the seller's currency devalues;

2) The U.S. packing and transportation industries' margins are smaller than those of U.S. competitors; and

3) New technologies in the shipment of meat have substantially increased transportation efficiency.

The future for U.S. meat exports is very bright. Many meat products with minimal demand in the U.S. are in high demand in importing countries. Such products can be exported without substantially increasing prices to U.S. consumers.

However, increased exports of U.S. meat products do not necessarily mean long-term enhanced profits to U.S. producers. The usual response to improved prices is increased production, which often leads to downward price adjustments.

WHEAT ISSUES

VIEWPOINT FROM THE INDUSTRY

Chuck Merja
National Association of Wheat Growers

Regardless of ideological preferences, politics plays a heavy role in trade policy. European agricultural production and exports have increased dramatically over the past 20 years due to government policies. This expansion in production has not occurred because European farmers are the most efficient producers, but because their production has been more heavily subsidized than production in other parts of the world.

From the point of view of trade policy and politics, academic research should focus on trade agreements and how countries behave in international markets. China used TCK smut as an excuse to cancel wheat purchases. These cancellations may be related more to the current intellectual property rights dispute than to any real concern over TCK smut.

Most favored nation status for China is coming up for review. This annual renewal process may need to be changed since it is obvious that China is a country with whom the U.S. is going to continue to trade. Issues with regard to China, who is not a member of WTO, should be researched.

There are several issues of particular interest with regard to NAFTA that should be examined. Much has already been written about the virtues and detriments of state trading enterprises. Such enterprises ought to be placed on the radar screen for future discussions in trade negotiations.

It is unfair to ask U.S. producers to compete with foreign governments. What happens if Canada moves to a dual marketing system? What does that mean for those farmers close to the border? Perhaps a dual system would be beneficial, because it would make the Canadian Wheat Board (CWB) more responsive to price. This year, Canadian farmers are selling their wheat to feedlots because they get a higher

price than they would receive from the CWB, and they are paid immediately.

Research should focus on trade agreements and how countries behave in international markets...

With the GATT in place, sanitary and phytosanitary issues are becoming interesting and difficult. Twenty-one countries now refuse to receive wheat from places known to have karnal bunt. When karnal bunt was recently discovered in the U.S., the USDA was very responsive in getting new phytosanitary certificates in place so that commerce was not disrupted. This was constructive for the wheat market. But would this whole situation have blown up if there had been significant wheat surpluses around the world?

Europeans have placed an export tax on wheat. When their stock levels increase and the tax is eliminated, there will be fierce competition in world markets. The U.S. export enhancement program has shrunk considerably. Perhaps the world is entering a new era as far as export bonuses are concerned. As wheat farmers respond to the increase in price and wheat supply increases, competition in the export market will increase.

Following are examples of specific trade issues that need to be addressed:

1) *How products come into the U.S.* Gluten is a by-product of the starch industry, and Europe sells gluten to the United States market. This affects the value of our protein wheats. How products are classified is an issue.

2) *The availability of agricultural chemicals at comparable prices.* U.S. farmers must be able to maintain competitiveness by having access to chemicals allowed in other countries at prices that prevail in those countries. For example, Roundup is used in the fallow areas of the U.S. high plains where much wheat is produced. In Canada, Roundup sells for $34-35 /gal., or about $25/gal in U.S. dollars. Currently, Roundup sells for $35/gal. in the U.S.

Both the active and inactive ingredients must be identical for an agricultural chemical to be purchased in Canada and brought into the U.S. If the $10 per gallon disparity for Roundup were eliminated, it would make a second spray more economical and move more high plains wheat producers towards no-till in the summer fallow period with anticipated environmental benefits.

Such trade-related issues must be resolved to maintain U.S. competitiveness in the world wheat market.

POLICY ISSUES PRESENTATION

Vince Smith
Montana State University

The Impact of NAFTA and the Uruguay Round Agreement on International Grain Markets

Over the past thirty-five years, total world wheat production and consumption have increased substantially from about 230 million metric tons per year to about 550 million metric tons per year. Inventories (year ending stocks) have also increased. But since 1986, because of major droughts in the U.S. and elsewhere and changes in government policies, stocks have declined and the ratio of stocks to world consumption, currently about 15 percent, is unusually low.

Wheat is produced in substantial quantities both by major exporting and major importing countries. The United States, the European Union, Canada, Australia, and Argentina are major wheat exporters, jointly exporting about 85 percent of all internationally traded wheat. However, as was the case in 1994/95, they produce only 36 percent of the total world wheat output. The U.S. maintains a 30 percent share of the world wheat export market but produces only 11 percent of world output. Even more pointedly, Canada holds a 20 percent share of the world wheat export market but produces less than 5 percent of world wheat production. On the other hand, China and the former Soviet Union (FSU), both countries which are large importers of wheat, also produce substantial quantities domestically. In 1994/95, China produced 11.5 percent and the FSU 11.7 percent of total world production. However, consumption of wheat both in China and the FSU is substantially greater than domestic output.

The world wheat market is complex. On the export side, the market is dominated by five countries. In addition to the export shares maintained by the U.S. and Canada, the European Union maintains 16 percent, Australia provides 12 percent, and Argentina provides 5 percent of world exports. The dominance of these exporting countries means there is some potential for monopoly behavior.

Some economists have suggested that Canada, through its Canadian Wheat Board, may act as a price discriminator and price leader in the market. Similar concerns have also been expressed about the Australian Wheat Board. Certainly, both Australian and Canadian wheat exports are managed by state trading enterprises (STEs) whose operations are subject to regulation under the GATT.

On the import side, the market is much less concentrated. In 1994/95, China, the largest importing country, purchased only 10 percent of all wheat exports. The second largest, the FSU, purchased about 9 percent. Other major wheat importers, such as Japan and Egypt, each imported only 6 percent of total world exports.

Many importing countries also purchase wheat through the operations of STEs, whose actions may limit the size of wheat imports and create implicit trade barriers.

Importing STEs are also subject to regulation under the GATT.

International markets matter for U.S. wheat producers. In a typical year, they produce 65 to 70 million metric tons of wheat, of which over 40 percent is exported. Therefore, future developments in international wheat markets are of interest and concern to U.S. producers.

Emerging issues relative to international trade in wheat concern both future developments in the multilateral trade agree-ments in which the U.S. government participates--the North American Free Trade Agreement, the Canadian-U.S. Free Trade Agreement (CUSTA), and the General Agreement of Tariffs and Trade (GATT)--and general changes in supply and demand conditions. These issues include the follow-ing concerns:

1) Will increases in wheat consumption in importing countries rise faster than wheat production?
2) What qualities of wheat will be in greater demand by importing countries, and should the U.S. develop higher quality grain?
3) Will transhipment opportunities for U.S. producers through Canada improve (and vice versa), and what are the implications for freight rates?
4) How will the state trading exporters--Australia and Canada--be handled under the next round of the GATT?
5) How will export subsidy polices be handled under the next round of the GATT?
6) How will the sanitary and phytosanitary provisions of the 1994 GATT agreement be implemented?
7) Are importing countries complying with current GATT market access provisions for wheat?

Will wheat consumption in importing countries rise faster than wheat production?

8) How will the trade restricting impacts of importing countries' state trading enterprises be handled in the next GATT round?
9) What changes in market access provisions will be negotiated in the next GATT round?
10) How will export credit guarantee programs, market promotion programs, and food aid (PL 480) programs be negotiated in the next GATT round?

These issues form the starting point for the Trade Research Center's research program on the future of world wheat markets.

ROUND TABLE DISCUSSION

Al Bergman
North Dakota Farmers Union

Rick Sampsen
U.S. Wheat Producers

Karen Fegley
Wheat Export Trade Education Committee

Al Bergman

With the world moving towards limiting government intervention in the trading of grains, the United States and Canada are under pressure to change their marketing systems. The structural change being proposed, if implemented, would greatly impact the producers in these countries.

GATT, CUSTA, and NAFTA were built on the theme that the world is one economy and that opening that economy to free trade would be the most advantageous strategy. GATT drafters focused on two interrelated concepts: specialization and comparative advantage. Accordingly, each country should specialize in those activities wherein it has the greatest comparative advantage.

No longer can the United States impose supply controls to influence domestic grain prices. U.S. farm policy limits government intervention in grain markets. Likewise, the Canadian Wheat Board's system of exclusive procurement of wheat and barley is under debate by Canadian producers.

The growth of transnational corporations in the trade and production of commodities such as meat causes concern. Three large firms control 80 percent of the U.S. livestock slaughter, weakening the price discovery mechanism. Grain producers are also concerned about future market viability.

The quest for lower cost production methods may cause environmental degradation in an economy that is solely market oriented. The pressure to maintain a comparative advantage may cause producers to shift their priority from environmental enhancement to increased production. Additionally, recent rulings by the World Trade Organization (WTO) would seem to indicate that the WTO is using trade rules to override domestic environmental standards.

Producers from the center of the U.S. and Canada face a near monopoly situation in grain transportation. Currently, the most common mode for moving bulk commodities is rail. Apparently there has been little incentive for intermodal coordination, which might improve efficiency.

Agricultural producers have moved to mutually beneficial arrangements, including the following approaches:

1) long-term contracting with processors;
2) forward contracting to protect the current year's price;
3) focusing on product quality as producers become conscious of consumer wants,
4) investing in value-added cooperatives to control production further into the market; and
5) entering collective marketing arrangements to merchandize their products.

Producers are expressing an interest in

a marketing agency or co-operative which can provide longer term markets and price stability. One approach would be an international marketing agency that would provide producers with a single marketing agency, thereby giving U.S. and Canadian farmers the infrastructure to collect and ship pooled grain. The agency, which could be called the North American Marketing Board (NAMB), should be quasi-governmental. Agency status would aid greatly in demonstrating the financial strength and credibility so necessary for success.

Producers are expressing an interest in a marketing agency or cooperative which can provide longer-term markets and price stability.

Rick Sampsen

The primary function of U.S. Wheat Associates is to improve demand in traditional wheat eating cultures and to create new demand in nontraditional wheat consuming cultures. This is totally a foreign market promotion development effort.

U.S. wheat farmers realized several decades ago that price was the most important component affecting their survival in the wheat business. During the decade of the 1950s when foreign market development started, U.S. wheat farmers were producing more wheat than annual domestic consumption, resulting in low prices. Therefore, farm program subsidies were necessary to keep farmers economically viable. Economists emphasized to farm organizations that higher wheat prices could only be achieved by reducing carry-over. Subsequently, a combination of aggressive government subsidized export programs and stepped-up market development activities by groups such as U.S. Wheat Associates went to work to reduce burdensome wheat stocks. Since 1985, wheat stocks have been reduced six-fold, from 1.8 billion bushels to the current 300 million bushels.

Over the last three years, world consumption of wheat has outpaced world production due to increases in population, to strong economic growth (particularly in Asia), to some weather-related growing problems worldwide, and to aggressive overseas market programs conducted by U.S. Wheat Associates.

It should not be expected that the above stated scenario will result in high wheat prices indefinitely. The world will attempt to respond to these improved wheat prices with larger production, and the market will still undergo price volatility with large swings between highs and lows. The fact that the U.S. has reduced wheat stocks to manageable levels accompanied by strong world demand for a highly inelastic commodity has allowed wheat farmers to be cautiously optimistic about the future.

Karen Fegley

After the negotiations of the Canadian-U.S. Free Trade Agreement, there was a heyday for free trade. As the details became clear, people became disenchanted by the gulf between what was promised and what was delivered. The focus shifted to getting what was missing in the negotiations and improving the implementation of the agreement.

The trade policy environment has changed since the 1994 election. There are no new trade negotiations pending in Congress because of the different interests of new members and the disappearance of free trade Democrats. There is now substantial uncertainty about how trade will be viewed. Free trade has been replaced by fair trade, which is purely subjective.

Trade agreements present opportunities and challenges. There have been changes from centralized buying in importing countries to greater privatization. Buyers are becoming more sophisticated, and customers have a growing appreciation for certain quantities and qualities of wheats. The focus is now on how producers can meet this changing and growing demand.

The exporting state trading enterprises have become a problem subsequent to the recent GATT agreement. The focus is on transparency with an attempt to get each county to cooperate by explaining what its state trading enterprise does and how it operates. How can these agencies be disciplined? Pricing is a key issue. The desire is to discipline the activities of these agencies in the U.S. market and in Third World markets. Hopefully, state trading enterprises will be on the Singapore agenda for WTO.

Another issue is the definition of science regarding sanitary and phytosanitary measures. The current situation is somewhat like the one that prevailed after the Tokyo round of GATT, where implementation proceeded by trial and error. The Wheat Export Trade Education Committee has been working with other commodity groups and the administration to heighten the profile of this problem. There is a need for a technical barrier sanitary-phytosanitary office in the USDA. The U.S. needs to set international standards by developing a risk assessment procedure and protocols for the purpose of trade negotiations and dispute settlement.

The trade policy environment has changed since the 1994 election.

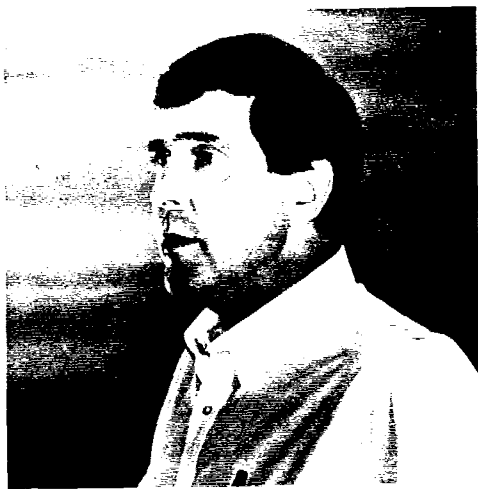
China and the former Soviet Union continue to be problems. The question is how China and the former Soviet Union are going to adopt practices compatible with those necessary to join the WTO.

Changes in world buying patterns have brought about changes in the export credit guarantee programs. Shorter terms are available for higher value products. Competitors are complaining about the U.S. credit guarantee programs and have made an effort to get rid of them in the Organization for Economic Cooperation and Development (OECD). No changes are anticipated at this time. Very likely, changes in the marketplace will overtake the traditional nature of the credit program.

Currently, four percent of U.S. wheat exports are food aid. Many African countries now use the Export Enhancement Program rather than food aid.

The way the farm bill debate evolved, much emphasis was placed on preserving the baseline budget and entitlements. There was little emphasis on the future of agricultural and trade research. It is not clear how producer groups are going to address this issue.

SWEETENERS and FEEDGRAINS ISSUES



VIEWPOINT FROM THE INDUSTRY

Sweeteners Issues

Rick Dorn
American Sugarbeet Growers Association

To understand the need for a U.S. sugar policy and a sound international trade policy, it is necessary to understand the importance of sugar, the uniqueness of its production and processing, and the components and dynamics of the domestic and international sugar markets. Following are six different perspectives:

From a consumer perspective, sugar is an essential ingredient in the food supply of the nation and the world. Most foods contain sugar or corn sweetener. Americans consume over 19 million tons of sweeteners annually, so it is extremely important that the U.S. has a policy in place to assure a reliable supply of sweeteners.

From a production perspective, the U.S. sweetener industry creates 420,000 jobs and generates $26.2 billion in economic activity in 42 states each year. Over half of the sugar produced in the world is produced at higher cost than in the U. S. Due to substantial farmer and processor investments, higher risk, a longer period for return on investment, and dependence on having enough production to sustain a factory, the sweetener industry clearly requires market stability.

From the U.S. sweetener market perspective, there have been dramatic changes since the mid-1970s. Over half of the sugar market has switched to lower-cost corn sweetener. For the sugar industry, this meant closing 60 sugarbeet factories, sugarcane mills, and raw cane sugar refineries; reducing imports; and forcing all companies to increase efficiency. Sweeteners have become the most important industrial use for corn, consuming 7 to 10 percent of the corn sold on the cash market each year.

From the world sugar market perspective, 110 countries in the world produce at least some sugar. According to

In the absence of a domestic sugar policy, U.S. consumers would face fluctuating world sugar supplies and prices.

the USDA, all of those 110 countries subsidize their sugar production, consumption, and/or trade in some way. This makes sugar one of the most heavily subsidized and distorted markets in the world. This dump market is historically the most price-volatile of all commodity markets.

In the absence of a domestic sugar policy, U.S. consumers would face fluctuating world sugar supplies and prices. U.S. farmers would compete in a market dominated by exporting nations that are dumping government subsidized excess supplies.

From the U.S. sugar policy perspective, there were several reforms included in the recently-passed farm bill:
1) Domestic stand-by marketing controls have been eliminated;
2) The guaranteed minimum price safety net has been removed;
3) The minimum level for imports has been increased by 20 percent;
4) A forfeiture penalty of one cent per pound will be imposed, which effectively reduces the loan rate by one cent;
5) A no-cost program will be maintained; and
6) The marketing assessment has increased by 25 percent.

From the international trade policy perspective, American sugar farmers have specific concerns about trade agreements as follows:
1) Twenty percent of world sugar is produced by countries that are not members of the World Trade Organization;
2) Export subsidies must be eliminated on an accelerated basis. To do so will require unilateral changes in the internal support programs of countries now dumping surpluses;
3) Import tariffs are a reaction to export subsidies of foreign producers and may be reduced as export subsidies are eliminated. Import tariffs on sugar and sugar-containing products will be reduced by 15 percent over the six-year transition period;
4) Developing countries are granted special and deferential treatment and do not have to immediately comply with the rules required of the developed nations;
5) Developing countries have fewer government requirements in the area of environment, safety, health, labor, and social standards;
6) Countries like Brazil and Australia have state trading enterprises, which means they can avoid formal transparent government policies;
7) Advantages for competitors also come from access to long-term, low-interest World Bank loans for developing countries;
8) Rules-of-origin requirements must be monitored to limit the transshipment or substitution of raw material like sugar or the re-export of reconfigured component products using sugar;
9) The effect of currency fluctuations, such as the dramatic devaluation of the Mexican peso, has a significant impact on trade, but this problem is not being addressed or resolved; and
10) The Uruguay Round eliminates anti-dumping and countervailing duties at the end of the six-year transition period. These duties may be continued as a response to foreign dumping, but the burden of proof is placed on the U.S. industry to show injury.

If trade rules are properly administered and enforced, the U.S. sugar and sweetener industry is and will continue to be a strong world competitor.

VIEWPOINT FROM THE INDUSTRY

Barley Issues

Herb Karst
National Barley Growers

Barley is produced for malt and for livestock feed. Until recently, barley was among the most unprofitable of grains to grow. However, last fall and winter, barley began selling at a premium to corn and was aggressively sought by Japan, China, and Saudi Arabia, three of the world's leading cash importing countries.

What is the future for barley in world trade? Will it continue to be a leader in export demand and producer profitability? Was 1995 an aberration? Key policy decisions may hold the answer.

To understand the future of barley trade, barley must first be viewed as a feed grain. Lighter in density than corn, and usually trading at a slight discount, it is a high bulk, relatively low value commodity which makes production near its point of use essential to its economic viability.

Much of the world trade in barley is for malt production. Malting barley is a relatively high value commodity with no substitute, which may make it react to very different economic signals than feed barley.

The mid-1980s saw barley trade become increasingly competitive. Saudi Arabia needed barley to satisfy its livestock feeding industry. The EU encouraged barley production with high intervention prices and then exported barley with export restitutions. The United States followed by aggressively using the Export Enhancement Program (EEP) to reduce its large inventories of barley, much of which was held by the Commodity Credit Corporation because of the relatively high loan rates offered to U.S. farmers. Canada attempted to maintain its market share by discounting barley into these subsidized markets. What developed was a deeply discounted world market.

These distortions led to a world trade war in 1993. Exports from Canada into the United States skyrocketed. The U.S., which continued its policy of limiting production and subsidizing exports, was importing more than it exported. In Canada, there existed an ongoing struggle between those who wanted to export their own barley and those who favored the continuation of a single desk selling agency, the Canadian Wheat Board (CWB). Beginning in August of 1993 and continuing for six weeks, a dual barley market was allowed, with each side scrambling to take advantage of this window to prove its marketing skills. Another event in the U.S. barley trade was the overselling of the 1994 Canadian crop into the California and Japanese feed markets by the CWB and the CWB's later inability to attract enough production to satisfy these contracts.

The growth area in malting barley

trade has been China. Because of the TCK smut issue, the U.S. remains unable to ship the two-row variety of barley which the Chinese desire. The resolution of the TCK smut issue and most favored trade status with China will play a huge role in barley exports from Pacific Northwest ports.

The new farm program is expected to cause greater fluctuation in barley acreage. More production will be concentrated in malt producing areas and less in arid feed barley regions. Furthermore, the reduction in EEP spending will keep U.S. prices consistent with world prices. Given the lack of program incentive to plant barley in riskier areas or when prices are low, maltsters will be expected to use forward contracts to bid for acres. This trend is evident in 1996 with major malting companies and other grain companies issuing pre-season contracts to growers.

Barley will be profitable if acreages adjust to market realities. Otherwise, barley will barely be a viable cash crop.

The actions of the Canadian and Australian Wheat Boards and the EU's commitment to its set-aside and reduced intervention stocks programs may determine to what extent price will drive production. Barley producers are concerned about state trading enterprises. First is the ability of state trading enterprises to give away full freight charges, the time value of money, the cost of the risk of forward contracting, and the quality on a routine basis because of their commitment to equity for their producers, and the fact that each year they are so "long" in the market from the beginning of their marketing year until the last bushel is sold.

The second area of concern is the ongoing fight for the right to export Canadian grain. The National Barley Growers organization feels that the future of the CWB is a Canadian issue, provided it operates in a manner consistent with the disciplines just outlined. But there is much concern that Canadian farmers will be able to sell outside the pool only into the U.S. This could occur, but U.S. producers still might not be allowed to access Canadian markets. Proper price arbitrage could be stymied and the political battles of the Canadian marketing authority might take place in overcrowded elevators in northern tier states.

With fewer trade restrictions, these not-so-obvious distortions need to be faced rationally and objectively by exporting countries. For a low value/high bulk product to be profitable to producers, it must reach its consumer in an efficient way. If the United States, Canada, Australia, and the EU can recognize this fact, barley trade should continue to be profitable as acreages adjust to market realities. Lacking such discipline, barley may barely be a viable cash crop in the U.S.

ROUND TABLE DISCUSSION

Ed Kuntz
Mountain States Beet Growers

Stephen Devadoss
University of Idaho

Randy Johnson
Montana Grain Growers

Ed Kuntz

The $26 billion sweetener industry is vital to the rural towns of this country, and it has a substantial economic impact in the Northern Plains and Rocky Mountain states. In Montana, more than 500 farmers produce 54,000 acres of beets, which are processed by Western Sugar Company in Billings and Holly Sugar in Sidney.

In Wyoming, more than 580 farms produce 62,000 acres of beets. Western and Holly Sugar operate factories in Torrington, Worland, and Lovell. Approximately 470 Colorado farms produce 43,000 acres of beets that are processed by Western Sugar in Greeley and Fort Morgan. In Nebraska, approximately 550 farmers produce over 74,000 acres of beets which are processed by Western Sugar in Bayard and Scottsbluff.

Corn growers in these states also benefit from the U.S. domestic sugar policy. More than $281 million are added to the value of the corn crop in these four states as a result of purchases by the corn refining industry for corn sweeteners. The sugarbeet and corn industries purchase goods and services from local businesses and provide a significant tax base to the states. In rural and agriculture-based economies, the prices of major commodities depend on the existence of alternative value-added commodities like sugar. Without a viable domestic sugar program, beet acres in 14 states would be dedicated to the production of other crops.

The message from American sugar farmers to Congress is to let the sugar provisions in the newly-signed farm bill work. During the farm bill debate, sugar producers had to accept substantial reform to the sugar program. Congress accepted these reforms in February and made them part of the 1996 farm bill.

For farmers, the farm bill is a seven-year contract with rural America. Producers planted their sugarbeet crop and made financial commitments based on the provisions of that contract. Now there are efforts in Congress to nullify that contract. Using the Fiscal Year 1997 Agricultural Appropriations Act as its vehicle, the opposition wants the government to impose price controls on raw sugar.

This can only be achieved by importing more foreign sugar, which will depress refined sugar prices and may reduce the value of the crop just planted by 10 percent. Cane refiners want to cap the price of the raw sugar they buy so that their profit margins will increase. Consumers will not benefit from this process, and sugar growers could see the value of this year's crop

reduced by about $750 million.

Price controls would also transform a no-cost program into a cost to the government of about $35 million in beet sugar forfeitures during FY 1997--a transfer of income from the pockets of farmers to the pockets of refiners and food companies.

How can a Congress that wants to move government out of the marketplace consider government price controls? Even the USDA, which would have to micro-manage sugar prices, doesn't think that such a plan can be implemented. No other commodity has a government-imposed price cap on its raw product. Price caps would be a terrible precedent for American agriculture; Congress should leave well enough alone.

Stephen Devadoss

The elimination of Canadian transport subsidies has limited Canadian exports of feed grains and resulted in a larger supply of feed grains and lower prices in Canada. Consequently, Canadian feedlots are buying feeder cattle from the western U.S. These feeder cattle were bought in previous years by feedlots in midwestern states. It remains to be seen whether the fed cattle will be slaughtered and processed in Canada or sent to the U.S. for slaughter.

Farmers in Idaho are concerned that as a result of the larger supply and lower feed grain prices in Canada, Canadian feed grains may move into the U.S. market and compete with U.S. feed grains. This concern parallels the situation two years ago, when some Canadian wheat was exported from U.S. western ports under the Export Enhancement Program (EEP).

Continued economic reforms and expanding economic growth in the Asian countries (China, Korea, Malaysia, India), Eastern European countries (Poland, the former Soviet Union), and Mexico will help increase the exports of feed grains to these countries.

Feed grain producers need to make prudent farming decisions by taking into account not only the current market conditions and U.S. farm programs but also future economic events. The current outlook for the feed grains market is very bright given higher grain prices, better crops, expected farm program payments, and drought in the southern and plains states. But in two or three years, the picture may not be so bright. Farm program payments are scheduled to decline irrespective of feed grain prices. Such a decline may impose a considerable strain on feed grain producers. It is important that producers make prudent investments with the incomes they may receive in this crop year.

One only has to look back to the 1980s for the bad times that followed economic booms in the farming sector. The mid-1980s farm financial crisis was a direct result of farmers over-investing following the high grain prices of the 1970s.

While the initial impact of NAFTA and the Uruguay Round on the U.S. sugar market is relatively small, after the transition period, the impact may be substantial. This will depend on the increase in Mexico's sugarcane productivity and the modernization of sugar factories.

The future of the U.S. sugar market depends largely on the support it receives from domestic farm policies and to what extent future trade reforms will require changes in U.S. domestic and trade policies.

The Uruguay Round of GATT merely introduced agriculture into the negotiation process. Consequently, the impacts of these reforms are fairly small. The next round of trade reforms, which will be conducted under the auspices of the WTO, will make a deeper cut in the agricultural trade barriers, which may be of some concern to sugar beet producers.

Macroeconomic factors such as interest rates and exchange rate changes will continue to play a crucial role. For example, peso devaluation put a big dent in U.S. exports to Mexico.

Randy Johnson

One essential question to address is why people usually seem disappointed with the outcomes of trade negotiations. It's a matter of perception. They set idealistic goals for the outcomes of trade agreements. Expected outcomes of CUSTA, GATT, and NAFTA were grandiose, so now there is disappointment. Comparisons of conditions before an agreement with conditions after have been lacking.

Trade negotiations and trade policies are nothing more than rules to govern trade between countries or groups of countries. Ideally, totally open free trade without any restrictions would make everyone a winner. Unfortunately, trade restrictions cost someone something, e.g., the consumer pays more for goods and services.

How trade agreements are viewed must be changed. They must be seen as ongoing, pragmatic, and incremental processes and not as vehicles to get to an ideal world. The U.S. is not worse off today than before GATT, contrary to popular opinion.

Trade agreements must be depoliticized. One vital thing this Trade Research Center can do is to take trade negotiations and agreements out of the realm of politics. When an idea comes up to improve the rules for trade, the proposed rule changes need to be quickly and objectively analyzed. Such analyses would be of great service to producers and others impacted by trade rules.

Trade agreements must be de-policitcized. One vital thing this Trade Research Center can do is to take trade negotiations and agreements out of the realm of politics.

OTHER TRADE ISSUES

VIEWPOINT FROM THE INDUSTRY

Jim Christianson
Montana Wheat and Barley Committee

Quality issues are becoming increasingly important in the grain trade. The Japanese are lowering the dockage specifications to a maximum of 0.5 percent and are asking if Montana can meet those specifications. Montana has never had a spring wheat crop with such a low 0.5 percent dockage.

What is affecting the business of exporting wheat is not GATT or NAFTA, but rather a shift within importing countries away from centralized purchasing. Many countries have turned import decisions over to flour mills. They can now buy what they want on terms they set, and they are much more particular than buyers from centralized purchasing agencies. Previously the U.S. had 100 percent of the Philippine, Korean, and Taiwanese wheat markets. As these countries moved away from centralized purchasing, the U.S. lost market share.

Will the U.S. remain competitive as trade agreements remove barriers to trade? Has the U.S. overcome the idea that it is necessarily going to be the best supplier under free trade or fair trade? This question hasn't really been evaluated in the U.S.

Japan buys one-third of Montana's wheat. Dockage measured by the Japanese Wheat Flour Institute shows that the average dockage for wheat from Canada is 0.14 percent, whereas Australian wheat has 0.33 percent dockage. The U.S. has 0.77 percent dockage. A flour miller sourcing for the same price would not buy U.S. wheat.

Another issue is protein. The U.S. delivers what is paid for and no more. For 14 percent protein wheat for the years 1980-1994, the U.S. delivered 13.98 percent protein. Canada, on the other hand, delivered more than an extra 0.5 percent protein for 13.5 percent wheat. Is that good

or bad marketing? From whom would a flour miller in Japan buy?

In Japan a food agency does all the buying. If flour millers in Japan are allowed to source their own wheat, it is likely that the U.S. market share would decline from 60 to 40 percent instantly. Almost all of this 20 percent market share loss would be borne by Montana. Montana ships almost as much wheat to Japan as Canada does.

Every single project that the Wheat and Barley Committee funds should probably have an economics component.

Where does this information enter into a conference on free trade? Perhaps the U.S. should evaluate how competitive it is on quality issues.

I wish that researchers could give us some practical suggestions as well. Every single project that the Wheat and Barley Committee funds should probably have an economics component, but virtually none do. The wheat and barley producers of Montana have put hundreds of thousands of dollars into sawfly issues, but that research has never had an economic component. Millions of dollars have been invested in research on variety development, but there has never been an economics component.

The U.S. may have the most inconsistent product of any wheat exporter in the world. Inconsistent quality is the number two problem of the U.S. wheat industry, right behind wheat cleanliness. Part of the quality problem is because the U.S. produces hundreds of varieties of wheat. Additionally, the U.S. marketing system describes everything except end use quality. Wheat is separated by class, protein, and moisture, but not by any descriptor of end use quality.

For decades in the U.S., flour millers determined which wheat varieties were grown, and they worked with the land grant universities to determine which varieties were suitable for release. The domestic flour millers took what they wanted from domestic wheat production, and the resi-dual was available for export. As the economies of importing nations have grown and the demand for quality wheat has expanded, the volume of quality wheat produced in the U.S. has increased. Today, it does not appear that the supply of quality wheat in the U.S. is great enough to fulfill export demands; however, it could be. The Trade Research Center has some responsibility to address this issue.

How, then, can the U.S. increase its production of quality wheat? Should the U.S. try to restrict the number of varieties of wheat? How might this process be approached in a free enterprise system?

There should be a major emphasis on what the U.S. produces in terms of what buyers in the world wheat market demand. The U.S. is not knowledgeable about the needs of its buyers. For instance, some 70 percent of the winter wheat in Montana is exported, and most of it is used for making noodles. What is known about the needs of noodle makers?

The U.S. wheat industry, at all levels, should put more emphasis on how to develop and deliver wheat in the terms of the desired end product. The bottom line is that to be competitive in the world export market for wheat, the U.S. must focus its wheat production on buyers' needs.

Policy Issues Presentation

Bill Wilson
North Dakota State University

U.S. and Canadian Marketing and Trade Issues

The U.S. and Canadian marketing systems, including mechanisms related to pricing, transport, handling, and quality control, are very different. Some convergence is expected in the long run as there is movement toward a more open trade environment. Following are specific observations and concerns about the longer term:

Marketing cost differentials: A transition is underway which should cause marketing costs in the two countries to converge. The rate of convergence depends largely upon marketing policies adopted in Canada. Competition from prairie-border-crossing trade will provide added impetus to reduce marketing costs in Canada.

Changes in the Western Grain Transportation Act (WGTA): WGTA reform has occurred and will provide apparent relief to some of the trade friction. It is critical for U.S. interests to recognize that changes in the WGTA will ultimately induce a greater flow of grain into the United States. New problems will arise as trade shifts to north and south from historical east and west patterns.

Although the WGTA may appear to be removing some apparent inequities, differences persist. Two important issues will continue to plague these systems. One issue is that even at the full WGTA level, rates from the Canadian prairies will still be less than comparable rates for movements from the northern great plains of the U.S. If everything else were the same (but it is not), this situation would confer a continued advantage on Canadian producers, while institutional restrictions would continue to prevent U.S. producers from shipping in the Canadian marketing system.

The second fundamental issue is the relative flexibility of U.S. railroads for pricing and car allocation, compared to the proposed changes in Canada. This issue would not be important except during times of capacity constraints in the Canadian marketing system. U.S. railroads stand to benefit in terms of increased movements from the inflexibility of the Canadian system.

Price transparency and discrimination: These are innate problems associated with single seller agencies, and in fact are frequently used as a means to legitimize the existence of those agencies. Problems related to transparency will likely persist as long as the Canadian Wheat Board (CWB) has a monopoly on procurement.

Though it is not the role of U.S. analysts to suggest a means of resolving this apparent Canadian problem, simple solutions could be proposed. One would be for the CWB to regularly offer, via a sealed bid auction for sale within North America, specified qualities of grain for forward delivery positions. These offerings would only have to consist of a small proportion of

sales. Reporting of results would not completely eliminate the transparency problem but would certainly reduce the informational uncertainties that confront industry participants.

It is instructive that the South African Maize Board, whose powers are similar to the CWB, has not been burdened with issues related to transparency. The reason is that, as part of its sales regime, it holds weekly tenders for forward cargoes for both white and yellow maize. Results are reported to the trade. Other sales mechanisms are also used to supplement sales of those standardized grades.

Numerous agricultural and trade policies also exacerbate trade problems and tensions. Trade policymakers and negotiators on both sides of the border must recognize the effects of these policies. The Export Enhancement Program (EEP), the WGTA, the Conservation Reserve Program (CRP,) and the CWB all impact these problems in unique ways. U.S. interests must recognize that the EEP contributes to the problem, but Canadian interests must recognize that the EEP is not the sole source of the problem. In the case of barley, even if the EEP were removed, Canadian barley would replace U.S. barley in some markets. Both the U.S. EEP and the former supply control programs, as they were conventionally administered, provided Canadians with "free-ride" benefits.

Canadians must admit that features of the CWB system provide them with legislated advantages not shared by U.S. trading firms. Ultimately this process yields competitive advantages relative to firms operating in more transparent environments.

Numerous agricultural and trade policies also exacerbate trade problems and tensions. Trade policymakers and negotiators on both sides of the border must recognize the effects of these policies.

A full paper entitled *U.S. and Canadian Marketing and Trade Issues* is available upon request from the Trade Research Center. Likewise, Agricultural Economics Report #314 entitled *North American Barley Trade and Competition* is available from Bill Wilson or Demcey Johnson at North Dakota State University.

Round Table Discussion

Won Koo
North Dakota State University
Linda M. Young
Montana State University
Ralph Peck
Montana Department of Agriculture

Won Koo

NAFTA is a positive agreement for the U.S., Mexico, and Canada. Since the Canadian-U.S. Trade Agreement, trade volume has increased 40 percent, from 180 billion dollars to 235 billion dollars. However, NAFTA tried to eliminate border barriers without the harmonization of domestic policies. Since agriculture is subsidized in these countries, eliminating trade barriers without the harmonization of domestic policies has created trade disputes between the U.S. and Canada. Without policy harmonization, the achievement of freer trade will be limited.

In terms of macroeconomic policy issues, exchange rates are more important for agricultural products than for industrial products. The U.S. agricultural sector provides a small percentage of the U.S. gross national product and only three percent of the total value of trade between U.S. and Canada is from trade in agricultural products. Exchange rates and macroeconomic policy will dictate the conditions under which agricultural trade will occur.

Research on trade with China is underway. As a result of economic progress, China has seen double digit economic growth annually. China's demand for food has been increasing rapidly. Chinese consumers want to improve their diets. They want to eat more meat, wheat-based products, and Western-oriented food.

On the supply side in China, arable land is predicted to decrease about eight percent over the next ten years as manufacturing increases. Multiple cropping may decrease by six percent. However, yields are expected to increase substantially over that period.

Research indicates that in China, the demand for food may grow much faster than the domestic supply. By the year 2005, Chinese agricultural imports may reach 50 million metric tons. Wheat imports may be double or triple current levels.

Increased trade with China raises many issues. China is not a member of the World Trade Organization, and many concerns are unresolved around its entry into the WTO. Also, there are logistical problems. At this time, China is ill-equipped to handle additional grain imports. China is fully utilizing its port facilities and trying to expand its grain handling facilities. However, industrial growth has overtaken this expansion.

Lastly, it is useful to remind ourselves that wheat is not a homogenous crop. The five classes of wheat have different end uses. This is important when analyzing

wheat policy. Australian government policy will affect the U.S. soft wheat industry more than others. Canada's wheat policy will impact the U.S. spring and durum wheat industries substantially.

Linda M. Young

The Uruguay Round Agreement, which was the eighth trade agreement under the General Agreement on Tariffs and Trade (GATT), was signed by 122 countries. This agreement strengthens previous ones by continuing to reduce barriers to trade and is the first to include specific provisions for agricultural trade. It strengthens and clarifies the rules governing sanitary and phytosanitary regulations that restrict trade. Sanitary and phytosanitary regulations are those that

- protect human or animal life from risks from additives, contaminants, toxins or disease-causing organisms in food
- protect human life from plant or animal carried diseases
- protect plant and animal life from pests, disease or disease-causing organisms
- prevent or limit damage to a country from the entry, establishment or spread of pests.

The agreement lays out three criteria for the imposition of trade restricting sanitary and phytosanitary regulations. These regulations must be based on science and must be consistent and transparent.

The agreement tries to strike a balance between the goal of harmonizing the sanitary and phytosanitary regulations of members of the World Trade Organization (WTO) and respecting the rights of different countries to impose their own standards. Procedures for risk assessment and a large number of standards have been developed since the 1960s by the Codex Alimentarius Commission of the World Health Organization. Standards for animal and plant disease have been developed by the International Office of Epizootics and the International Plant Protection Convention.

A country can also impose standards more stringent than those endorsed by the WTO based on its own assessment of an acceptable degree of risk and its own social concerns. However, these standards can be challenged by other members of the WTO. If a complaint is initiated, the country maintaining the more stringent standard has to demonstrate that its standards are based on science and that the procedures for risk assessment meet internationally accepted criteria. If there are different ways of achieving a specified level of risk--for example, by inspection, quarantine or treatment--then countries must choose the least trade distorting alternative.

If a transparency regulation is challenged, a country must make public the criteria, including the acceptable level of risk, that were used in the development of a particular regulation. Regulations that restrict trade require publication. New regulations are to be published to give exporters time to adjust, if possible. An office must be set up in each country to answer inquiries, and the addresses of these offices must be available to the public from the Foreign Agricultural Service of the USDA.

Considering the long-term premise underlying GATT, restrictions should be the same for imports and commodities produced in the home country. In addition, with one important exception, restrictions should be the same for all importers. The exception is that restrictions can diverge due to differences in climate, existing pests or disease, or food safety conditions of exporters, including pest-free or disease-free areas.

Ralph Peck

Marketing, to the Montana Department of Agriculture (MDA), is the promotion of someone's idea, concept or dream. People come in to the MDA and say, "I can do this, I want to do this, and I will do this and by the way, give me all the information you can to help me succeed. And I need some money to get going." Clearly, these people have dreams based on the idea that they can get some kind of economic return to better their own and the state's economic situation.

The capacity to conduct economic evaluations of trade issues to assist people in the region with economic development is crucial, keeping in the forefront the goal of maintaining Montana's competitiveness as a world trader.

In Montana, the words "value added" are used frequently. All producers want to add value to their raw agricultural products. Often however, there is no economic evaluation of the process or the objective of that value added product. At the state level, no one has identified a strategic plan with a set of goals and then established a road map to accomplish that plan.

Perhaps there also needs to be a strategic plan for research, especially research on trade issues. There are some exciting research issues to examine, including GATT and NAFTA. Often, the most popular and easiest issues are the ones that receive evaluation.

Nevertheless, research should not be conducted just for the sake of research. In Alberta, to get funding for agricultural research, a proposal must be tied into an economic development strategy. Those seeking funding must go before a board to see how well the proposed research corresponds to the proposed economic development strategy. While that approach is controversial, it puts some parameters on research in order to achieve an ultimate economic goal.

Furthermore, there should be economic evaluations of biological research. Some biologists spend a lifetime trying to develop a new variety of wheat or barley. What is the economic return for the investment in such research?

Information transfer is often the weakest link in the research and education chain. As the Trade Research Center continues to integrate its activities with the people who need its services, those activities will have to be constantly redefined and evaluated. Will the Trade Research Center place some focus on grassroots types of work? For example, will it look at the potential for high-value crop production in eastern Montana? Currently, a group in Sidney wants to look at irrigated agriculture. What is the market demand for the proposed products? Research to evaluate the economic potential of such a proposal is needed.

A strategic plan for the Trade Research Center should be defined and developed. The capacity to conduct economic evaluations of trade issues to assist people in the region with economic development is crucial, keeping in the forefront the goal of maintaining Montana's competitiveness as a world trader.

For information or copies of this document, please contact the

Northern Plains and Rockies Center
for the Study of Western Hemisphere Trade
Linfield Hall
Montana State University
Bozeman, Mt 59717-2920
Phone: 406.994.3705 Fax: 406.994.4838
E-mail: rtcac@montana.edu

The programs of Montana State University are available to all people regardless of race, creed, color, sex, handicap, or national origin.