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Montana State University
Bozeman

The Economics of World Wheat Markets: Implications for North America

May 29–June 1, 1997

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Objective Analysis
for Informed
Decision Making

Conference Proceedings

October 1997

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Published by the Trade Research Center at Montana State University-Bozeman

October, 1997



THE TRADE RESEARCH CENTER AT MONTANA STATE UNIVERSITY-BOZEMAN

The Northern Plains and Rockies Center for the Study of Western Hemisphere Trade, publicly known as the Trade Research Center, was created at Montana State University-Bozeman in early 1996 by the Regents of the Montana University System. The purpose 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 does this by sponsoring research on agriculture and natural resource trade policies and their economic effects and by communicating this information to the public through various media.

*The Economics of World Wheat Markets:
Implications for North America*

Conference Highlights

- ◆ **Grain producers in North America should not hold unattainable expectations concerning the future economic environment – *D. Gale Johnson***
- ◆ **Russia is not likely to re-enter the wheat market as a major importer – *Barry Goodwin***
- ◆ **Biotechnology will not play a major role in determining the future of global grain markets – *Robert Herdt***

CONFERENCE SUMMARY

John M. Antle and Vincent H. Smith

Agriculture is the most important sector in the economies of the Northern Plains and Rockies region, and wheat is the most important crop produced in the region. The Trade Research Center at Montana State University sponsored a research symposium on "The Economics of World Wheat Markets: Implications for North America," May 29–June 1, 1997. The purpose of this symposium was to assemble leading agricultural economists in the field from the United States, Canada, and Europe to present and discuss current research on the world wheat market and implications for the wheat economy of the Northern Plains and Rockies region.

The material presented at the symposium is being disseminated in a variety of ways. This summary proceedings contains the list of participants and an overview of each of the papers presented at the symposium. Each of the papers presented is available from the Trade Research Center as a Research Discussion Paper; single copies can be obtained free of charge by calling or writing the Center. In addition, these research papers will be published as part of an edited book at a later date.

The research symposium began with the keynote address presented by D. Gale Johnson, current president-elect of the American Economic Association and past president of the American Agricultural Economics Association. Professor Johnson's address provided a detailed overview of the key economic and technological issues concerning the future of world wheat markets. At the heart of these concerns lies the sixty-four thousand dollar question: *Where are world wheat prices headed over the next five to twenty years, up or down?* Dr. Johnson's answer is that they are probably headed down.

In the first session of the conference, the paper by John Antle et al., *Long-Term Supply and Demand Trends: Whither the Real Price of Wheat*, reached the same conclusion as Professor Johnson about the long-term prospects for the real price of wheat. In this paper the authors evaluated economic factors affecting long-term prices, and compared predictions of future wheat prices from a variety of medium and long-term forecast models of world agriculture under several optimistic and pessimistic world market scenarios. In the same session, Eugenio Bobenreith and Brian Wright explored the effects of stocks on short-run movements in the price of wheat.

The second session of the conference focused on state trading in major importing countries. Scott Rozelle and Jikun Huang provided a detailed institutional and statistical assessment of likely future developments in China. Somewhat controversially, they argued that China is not likely to increase wheat imports over the medium to long term and may reduce its imports from current levels. In the same session, Barry Goodwin and Thomas Grennes examined the Former Soviet Union, presenting evidence that Russia is unlikely to be a major net importer of wheat in the near future and that it may eventually revert to its nineteenth century role as a net exporter of wheat. Tigran Melkonian and Stan Johnson investigated the behavior of state trading enterprises in general, arguing that countries with state trading enterprises do not always pursue policies that enhance the economic welfare of the countries they serve.

The third session evaluated the effects of the GATT process for world wheat markets, giving particular attention to GATT's impacts and other recent developments on three major exporting regions: Australia, Canada, and the European Union. Colin Carter and William Wilson provided evidence that, for a variety of reasons, the Australian Wheat Board has changed more radically than the Canadian Wheat Board and that, as a result, the Australian grain marketing system has become more efficient. Tony Rayner and Tim Lloyd showed that the European Union is likely to have to reduce subsidies for wheat and expand set-aside programs if it is to continue to meet its wheat export subsidy obligations under the GATT.

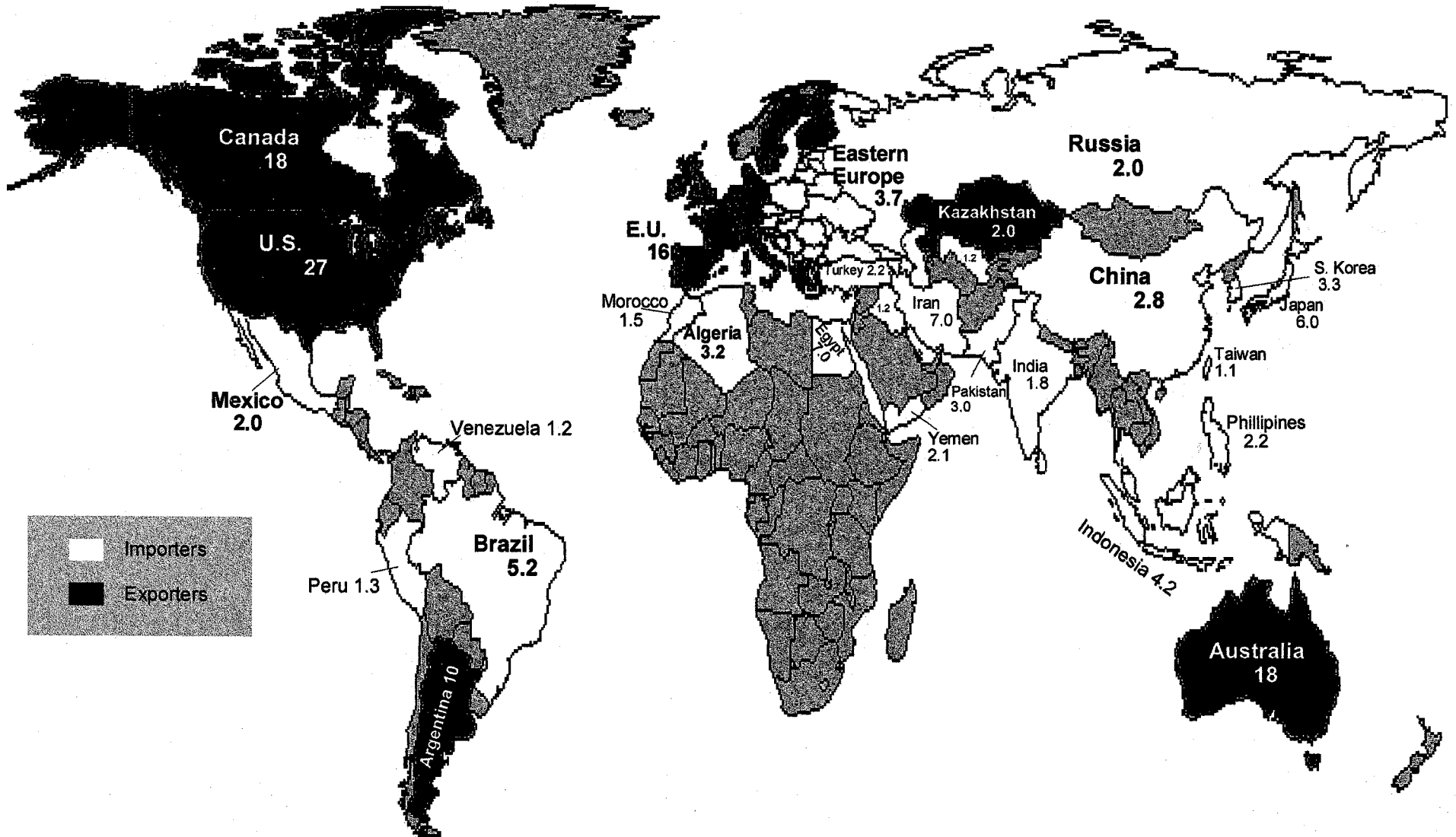
Session four of the symposium examined issues for world wheat and U.S. markets associated with Western Hemisphere integration. Bruce Gardner, previous Assistant Secretary for Agriculture, investigated the degree to which recent changes in U.S. and Canadian agricultural policies are facilitating the creation of a single North American grain market. In the second paper, Eugenio Diaz-Bonilla evaluated the implications of economic integration in Latin America and the MERCOSUR agreement for wheat markets in South America.

The fifth session was concerned with trade issues and their implications for the Northern Plains and Rockies region of the United States. Murray Fulton and Richard Gray investigated the implications of alternative Canadian rail policies for the movement of grain and grain prices in Canada. William Wilson and Bruce Dahl examined recent developments in international markets with respect to grain quality and implications for producers in the Northern Plains and Rockies region. The papers presented by John Antle et al. and Won Koo explored methods for estimating the implications of changes in international market conditions and domestic policies for wheat producers and agricultural sustainability both at the farm and regional levels. These papers present findings of analysis on the impact of policies and price trends at the farm level for Montana and North Dakota.

Finally, Robert Herdt, director of Agricultural Sciences at the Rockefeller Foundation, presented the invited lecture on the future of the green revolution and its implications for international grain markets. Dr. Herdt examined the potential implications of future innovations in biotechnology for world grain markets, especially in the context of developing countries.

The overall picture of the future of world wheat markets presented at the Symposium is optimistic about the potential of wheat producers to meet future increases in world demands at prices that, in real terms, are more likely to fall than to rise. However, significant challenges confront wheat producers in the United States with respect to access to many potential import markets and competition from other exporting countries. These challenges, in large part, involve negotiating changes in other countries' international trade policies, probably in the context of multi-commodity international trade agreements. Other important future policy-related issues for U.S. wheat producers include rail transportation, the integration of North American wheat markets, and the expansion of NAFTA to include South American countries such as Chile and other members of MERCOSUR.

Major World Wheat Importers & Exporters, with 1996-97 Import & Export Volumes (million metric tons)



Importers
 Exporters

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