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Cornhusker Economics

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Multifunctionality and Trade

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 Department of Agricultural Economics
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Multifunctionality and Trade

Market Report	Yr Ago	4 Wks Ago	6/7/02
<u>Livestock and Products,</u> <u>Average Prices for Week Ending</u>			
Slaughter Steers, Ch. 204, 1100-1300 lb			
Omaha, cwt	\$76.50	\$68.72	\$63.01
Feeder Steers, Med. Frame, 600-650 lb			
Dodge City, KS, cwt	102.75	90.46	*
Feeder Steers, Med. Frame 600-650 lb, Nebraska Auction Wght. Avg	106.73	90.29	89.16
Carcass Price, Ch. 1-3, 550-700 lb			
Cent. US, Equiv. Index Value, cwt	120.78	106.85	101.89
Hogs, US 1-2, 220-230 lb			
Sioux Falls, SD, cwt	51.50	36.00	*
Feeder Pigs, US 1-2, 40-45 lb			
Sioux Falls, SD, hd	*	35.84	24.71
Vacuum Packed Pork Loins, Wholesale, 13-19 lb, 1/4" Trim, Cent. US, cwt	127.20	97.20	99.03
Slaughter Lambs, Ch. & Pr., 115-125 lb			
Sioux Falls, SD, cwt	*	*	78.75
Carcass Lambs, Ch. & Pr., 1-4, 55-65 lb			
FOB Midwest, cwt	168.75	145.10	145.71
<u>Crops,</u> <u>Cash Truck Prices for Date Shown</u>			
Wheat, No. 1, H.W.			
Omaha, bu	3.18	2.91	3.03
Corn, No. 2, Yellow			
Omaha, bu	1.75	1.98	1.91
Soybeans, No. 1, Yellow			
Omaha, bu	4.51	4.63	4.89
Grain Sorghum, No. 2, Yellow			
Kansas City, cwt	3.37	3.56	3.44
Oats, No. 2, Heavy			
Minneapolis, MN, bu	1.50	1.97	2.31
<u>Hay,</u> <u>First Day of Week Pile Prices</u>			
Alfalfa, Sm. Square, RFV 150 or better			
Platte Valley, ton	105.00	105.00	107.50
Alfalfa, Lg. Round, Good			
Northeast Nebraska, ton	67.50	60.00	62.50
Prairie, Sm. Square, Good			
Northeast Nebraska, ton	112.50	90.00	90.00

* No market.

Agricultural production results in a large number of joint products. Many are obvious: wheat and straw, corn and stalk grazing, etc. Many are somewhat less obvious: agricultural production results in open, usually attractive rural landscapes; agricultural income maintains local communities and provides rural employment; it maintains cultural values; and it provides food security. These are among the benefits often cited as spillover effects of agricultural production which are valued by society above and beyond the monetary value of the agricultural products themselves. Many have also noted that agricultural production frequently has negative spillover effects also. Among those cited are ground and surface water pollution resulting from cultivation, erosion, fertilizer and chemical use; livestock odor, dust, runoff and insects associated with feedlots and other concentrations of animals; and increased flooding caused by drainage and channelization of waterways. The recognition of the generally positive externalities or spillover effects are commonly referred to as "multifunctionality." It is argued by some that agriculture must be supported to assure the production of the spillover effects in addition to the direct value of what is produced.

The European Union (EU), Japan and Korea have long histories of supporting agricultural prices at levels that exceed world prices and domestic markets from foreign competition using a host of devices. Trade negotiations extending over most of the last quarter century have gradually, though unevenly, attempted to reduce barriers to trade between nations for both agricultural and non-agricultural commodities. In general, both the U.S. and the EU have conceded the



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political and social necessity for supporting agricultural income, but have agreed that policies that do so should be non-trade distorting in nature. These are referred to as "green box" policies (though no environmental implications are intended). Green box policies are generally income enhancing measures which do not distort output such as decoupled income support, payment for relief from natural disasters, payments for participation in some environmental programs, etc. Policies that do distort markets are referred to as "amber box" policies and include generalized price supports above world market levels and measures that support income in a fashion that increases output simultaneously.

The green box policies that have resulted in the most contentious debates between the U.S. and the EU is in the environmental programs and regional assistance measures. Strict criteria have been established regarding acceptable policies, including requirements that such programs involve specific environmental or conservation objectives and that payments be limited to the extra cost or loss of income from compliance. The EU has argued that the joint product nature of agriculture and nonagricultural "multifunctional" outputs justifies production-linked payments so as to produce the socially optimum level of nonagricultural products.

Critics of the EU's agricultural policies have argued that it has been able to shift support expenditures from the constrained amber box to the more permissible green box by virtue of payments made for conservation and regional assistance, and environmental amenities justified on the basis of the "multi-functional" nature of agricultural production. Such policies are said to alter EU farmers' wealth and assessment of risk, and thus lead to trade distorting results. They further argue that the provision of the spillover benefits of agricultural production can be provided less expensively in a non-trade distorting fashion with properly chosen policies. To cite a somewhat simplistic example, if society desires being able to look at green fields with cows grazing, policies could be devised to provide the amenity without directly supporting the prices of meat or milk.

What kinds of policies could be implemented to provide "multifunctional" amenities without trade distorting effects? Examples include preserving rural landscapes by purchasing development rights instead of subsidizing production at levels that maintain

agricultural use. Rural community viability might be maintained or enhanced by developing infrastructure that supports the creation of both agricultural and non-agricultural jobs rather than policies linked to agricultural production that raise both output and income to levels that would not be otherwise achieved. Assuring an adequate domestic food supply can be achieved by developing a sufficient food stock rather than by supporting agricultural prices at a level that achieves domestic self-sufficiency.

Are the proponents of "multifunctionality" using the concept simply as a means of justifying trade distorting price support and other policies as a means of supporting their non-competitive agriculture? The answer is probably yes, though our trading partners do not have a monopoly on developing disingenuous ways of supporting domestic agriculture, or a corner on hypocrisy. In general, the proponents of the "multifunctionality" arguments for support of trade distorting agricultural policies have been those who are generally considered to be less competitive (the EU, Japan and Korea). The U.S. and much of the lesser developed world have argued that "multi-functional" benefits should generally be provided by policies that target the specific objectives desired rather than policies that support agriculture in general. They further argue that trade distorting policies which provide non-food objective indirectly themselves create other distortions. They finally argue that non-food objectives can be more efficiently provided with non-trade distorting policies.

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