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FARM ORGANIZATION ROUNDTABLE:
"COMPETING IN THE 21ST CENTURY"

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Good afternoon, ladies and gentlemen. As the president of the National Farmers Union, it is my pleasure to be with you this afternoon and have the opportunity to participate in this year's USDA Agricultural Outlook Forum.

Introduction

The topic for this roundtable discussion is "Competing in the 21st Century". The fact that this issue is part of the forum rightly suggests a level of concern about the terms of competition in agriculture and the competitiveness of U.S. agriculture in the domestic and global marketplaces as we know them today or in considering how they may evolve over time.

The U.S. has been blessed with a significant area suitable for the production of a diverse range of crops and livestock. Over the last century we have also made substantial outlays for infrastructure and other agricultural support systems to maintain and expand our production, merchandising and distribution capacity. To a great extent, these investments were initiated through public policies such as the Homestead Act, Capper-Volstead Act, support of a national transportation system; and creation of the publicly financed agricultural research and extension structure.

In addition, because of limited market power and few alternative uses for the available agricultural resource base, individual producers exercise the rational economic behavior of seeking to maximize their production within the constraints imposed by the environment. Although rarely mentioned during policy discussions, this fact has certainly not been lost on the agriculture service sector consisting of input suppliers, processors, merchandisers and retailers, or those who make public policy.

As a result of public investment and programs, adoption of technology by U.S. producers, and their natural desire to maximize production, Americans have received great benefits over the last century. The U.S. agricultural system has reduced the share of personal income expended on food and fiber products, enhanced product quality and safety and increased consumer choice and convenience.

For much of the 20th century, the United States could legitimately assert that U.S. agriculture was the most efficient, productive and competitive system the world had ever known. However, U.S. producers are now witnessing a loss of our competitive position both internationally and domestically. Not only is our comparative production advantage over other producers waning in many commodity sectors, but we are also losing the battle in maintaining a competitive advantage.

The Issues

One definition of "competitive" is provided in Webster's Dictionary as, "produced by, based on, resulting from or capable of existing in rivalry of economic endeavor and without the presence of monopoly or collusion."[1]

In order to define what may be necessary for U.S. agriculture to compete in the 21st century, I believe that, among the many issues that could be discussed, two questions must be examined. These are: 1) what is the effect of concentration within various parts of the food chain on competitiveness; and 2) How does globalization impact agriculture as manifested through domestic objectives and the outcome of trade negotiations? In the end, the answers to these questions will, in large part, determine our ability to compete in the 21st century and at what costs and benefits in terms of consumer interests, producer returns and the future structure of production agriculture and our rural communities.

Concentration

In order to discuss U.S. agriculture's ability to compete in the 21st century, we must recognize that substantial differences exist in the capacity to compete among the different participants in our agricultural system. While competitive distinctions should be established by the characteristics prevailing in different commodity sectors and segments of the food chain, at a minimum the agricultural service industries should be differentiated from that portion of the production sector composed of independent farmers and ranchers.

The National Farmers Union has been concerned about the effect of increased vertical and horizontal integration within agriculture for a long time. The dramatic increase in mergers, acquisitions, consolidations and strategic alliances has a substantial impact on market competition for both producers and consumers. Equally disconcerting has been the general reduction in the regulatory capacity to analyze and ensure consolidations do not conflict with public interests, including those of farmers whose livelihoods are largely dependent upon their access to open, transparent and competitive markets and information.

There has been somewhat of a resurgence in the creation of new processing enterprises that attempt to provide alternatives to traditional markets or seek to produce new food, industrial and energy products from agricultural commodities. However, it must be recognized that many of these new firms, while important locally to their investors and customers, continue to have little impact in the totality of our domestic market and even less weight internationally.

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[1] Webster's Third New International Dictionary, unabridged (Philippines:Merrian-Webster Inc.), p. 464.

Increasingly, the issue of concentration must be viewed in a global context since, for the most part, the firms that are gaining market share and market power through integration and consolidation are multinational in nature.

Beginning in 1999 the National Farmers Union contracted with Drs. William Heffernan and Mary Hendrickson at the University of Missouri, Columbia to analyze the levels of concentration within major agricultural sectors. Recent updates of their work have clearly demonstrated that the levels of concentration within livestock and grain sectors have continued to increase since 1990.

Their analyses may understate the effective market power of these firms because of the impact of what Heffernan and Hendrickson characterize as "food chain clusters."[2] Clusters involve joint ventures or other relationships between companies that extend the level of integration into additional sectors or products. With little fanfare, a handful of private companies have established substantial control over the food chain from input supply and transportation to processing. The concentration ratio of the top four firms in many U.S. sectors now exceeds 60 percent and in the beef packing, soybean crushing and corn exporting sectors the top four firms control more than 80 percent. These same firms have established similar levels of control in foreign countries as well. Even more troubling is the fact that a few companies have a dominant position in several sectors. Hendrickson has suggested that five or six food chain clusters may soon control the world's food supply from genetic development to the grocery store shelf.

In the retail sector, the level of consolidation is no less alarming where five companies, also multi-nationals, increased their control from 24 percent in 1997 to 42 percent in 2000.

The argument generally accepted by the Justice Department, and others involved in the review of mergers in recent years has been that allowing mergers will enhance the efficiency of the consolidated company.

Dr. Robert Taylor, an economist at the Auburn University College of Agriculture, has published a paper on the monopoly and monopsony power in the beef processing industry. His analysis suggests that consolidation in that the sector transferred some of the so-called efficiency gains to other food chain participants consisting of producers, retailers and consumers in the short term. However, in the longer term his analysis of inflation adjusted price spread data clearly suggests that price competition in this sector is being reduced as a result of consolidation and the cost of concentration is increasingly borne by producers and consumers.[3]

I believe it is likely that similar effects of concentration are occurring in other agricultural sectors. This raises the most basic question that was the foundation for our anti-trust and

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[2] Dr. Mary Hendrickson and Dr. William Heffernan, "Concentration in Agriculture Markets," University of Missouri, February 2002.

[3] C. Robert Taylor, "Where's the Beef? Monopoly and Monopsony Power in the Beef Industry," Agriculture and Resource Policy Forum, Auburn University College of Agriculture, March 2002.

competition laws. Why does a company seek monopoly or monopsony power if it does not intend to the use that power in its own self-interest?

Because these issues directly affect the level of competition for farmers' products in the U.S. and abroad I believe we must address this issue both domestically and internationally if U.S. producers are to compete in the 21st century.

Globalization

Over the course of several decades, many economists, policy makers and multi-national agri-business companies have argued that trade is the route to prosperity for U.S. agricultural producers. As efforts are undertaken to modify our domestic agriculture policies or engage in negotiations to establish trade agreements, these proponents of "free trade" provide a plethora of documentation to justify, at least on a theoretical basis, their case.

Generally they claim that: 1) the United States is the most efficient, dependable and lowest-cost producer of a wide range of agricultural products; 2) demand is driven by population and income growth, which is stagnant in the United States but a given in developing countries; 3) it is only the unfair trade practices of others that inhibit our ability to export greater quantities and generate higher producer returns; and 4) in the absence of government intervention the global marketplace will achieve supply and demand equilibrium that will provide adequate returns to U.S. producers.

I fully appreciate the importance of international trade to U.S. farmers and ranchers. Our capacity to produce food and fiber products in excess of our ability to consume these products domestically is well understood, as is the fact that much of world also is dependant upon trade to satisfy at least a portion of their own demand for agricultural products. However, the claims of free trade proponents in supporting our trade agenda not only are wrong, but the excessive claims about the benefits of trade lead to a level of expectation that is unlikely to ever be fulfilled.

If the United States was once the most efficient, lowest cost producer of agricultural commodities; it can no longer make that claim in a number of production sectors. To a great extent this is due to the acceleration of technology transfer globally and a wide range of strongly supported U.S. public policies concerning labor and environment. In addition, macroeconomic and monetary policy considerations continue to severely hamper U.S. agricultural exports and encourage imports due to exchange rate differentials.

Over the last three decades the aggregate farm gate export value for U.S. agricultural products has basically been flat, while domestic demand has continued to rise. Our actual experience directly contradicts trade advocate claims. Also, the individual overseas markets that were expected to provide the greatest stimulation to our exports, such as the Former Soviet Republics, China, Latin America and Southeast Asia, have failed to materialize.

The Uruguay Round disciplines on agricultural trade practices and other free trade agreements have not resulted in improved U.S. agricultural export performance. In fact, as a result of numerous trade agreements, the U.S. has greatly increased its imports of competing agricultural goods.

It is unrealistic to expect governments -- ours and particularly those of food deficit nations -- to curtail intervention in agricultural markets or in areas that directly impact production and distribution. Food safety and security, along with the importance of agriculture to national economies and social structures, ensure that some form of intervention or market management will remain.

If U.S. producers are to be competitive in the 21st century, trade negotiations and agreements must first be viewed as a “means” and not the “end” as many seem to currently believe. It is after this that we may then be able to create an agricultural trade environment and spirit of cooperation that can identify and address the legitimate concerns of consumers for an adequate, affordable and safe food supply and provide a more stable and acceptable economic environment for producers. Attention must be given to not only the traditional trade issues of market access, export subsidies, domestic policy and special and differential treatment but also to issues such as labor and environmental standards and exchange rate fluctuations.

We believe the primary goal of trade negotiations should be to enhance the harmonization of national policies and priorities while fostering greater cooperation in addressing the real problems that concern producers and consumers.

Conclusion

The United States and our trading partners have failed to harmonize, enforce or dismantle much regulatory authority over sectors critical to maintaining competitiveness in agriculture. At the same time, as the agriculture service sector has become more globalized it has also consolidated, concentrating its global influence and control over multilateral negotiations and markets.

In addition, for a variety of reasons, the U.S. has unilaterally disarmed itself in the traditional agricultural trade areas of market access, domestic policies and export subsidies while ignoring the basic issues that affect our future competitiveness.

Unless we find new ways to address these issues, U.S. production agriculture’s ability to engage in economic rivalry without the presence of monopoly or collusion will be relegated to the same mythical status as free trade.