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Agricultural Competitiveness and Change under Globalization

October 11-12, 2004

Conference Highlights

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edited by Jeremy W. Mattson and Won W. Koo[*]

INTRODUCTION

Dr. Won W. Koo, Professor and Director of the Center for Agricultural Policy and Trade Studies, North Dakota State University, and Dr. G. Edward Schuh, Professor and Director of the Freeman Center for International Economic Policy, University of Minnesota, organized a conference, *Agricultural Competitiveness and Change under Globalization*, held October 11-12, 2004, at the Ramada Plaza Suites and Conference Center in Fargo, North Dakota. Speakers included Senators Byron Dorgan and Kent Conrad of North Dakota, leaders from agribusinesses and farm groups, government officials, and top economists from universities across the country. The conference focused on the effects of globalization on U.S. agriculture, with attention given to trade negotiations and the issues and challenges facing U.S. agriculture. U.S. competitiveness and the emergence of Brazil and Argentina as major agricultural exporters was discussed, as were other emerging issues such as agro-terrorism and border protection, the impact of globalization on the environment, and commodity and energy policies. Sponsors of this conference included Farm Foundation; the Department of Agribusiness and Applied Economics, North Dakota State University; the Center for North American Studies, Louisiana State University and Texas A&M University; North Dakota Farm Bureau; and North Dakota Farmers Union.

Ronald Jones, Economist from the University of Rochester, began the conference with a presentation on the civil and cultural conflicts resulting from globalization. Jones discussed how the increasing degree of globalization has led to production processes that were originally vertically integrated in one place and one time becoming fragmented, with separate production blocks being outsourced both within and especially between countries. The civil conflict that results is a conflict between the public sector (government) and the private sector as the public sector loses control over the activities of private companies. Cultural conflicts occur in less developed countries as their cultural norms and regulations favoring the older generation are threatened.

U.S. Senators Kent Conrad and Byron Dorgan from North Dakota gave keynote addresses at the conference. U.S. agriculture, according to Conrad, faces the challenges of the high level of support given by the European Union (EU) and the increase in competition from countries that use indirect subsidies and devalue their currency. Other issues of concern are the Doha Round of World Trade Organization (WTO) negotiations, the WTO ruling for Brazil on cotton issues, and the EU's Common Agricultural Policy (CAP) reform. Conrad stressed the need to develop a new, modern agricultural policy that responds to these challenges and supports a prosperous

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rural economy. Dorgan argued that the current trade agreements are undercutting the ability of U.S. producers to compete. He said that the United States can remain competitive if trade policy is hard-nosed economic policy, if trade negotiators stand up for what is good for the United States, and if those trade agreements are enforced. Dorgan remarked that expanded trade is helpful as long as the rules of trade keep pace with globalization, but he contended that the rules are not keeping pace.

Other sessions during the first day of the conference focused on globalization and structural change in the U.S. agricultural sector, market structure and the international competitiveness of agribusinesses, and the competitiveness of U.S. agriculture. The first of these sessions included presentations from Agricultural Economists Andrew Schmitz, University of Florida, and Abner Womack, University of Missouri, and USDA Economist Debra Henke.

Henke gave an overview of the progress and the positions of the United States in WTO and free trade agreement (FTA) negotiations. Schmitz stressed that there is a strong link between international trade policy and farm policy, and he noted the important questions that remain: how is the United States to respond to the WTO ruling? will the United States revamp its farm program? and are U.S. and EU farm programs decoupled? He remarked that the WTO must also address hidden subsidies, such as the hidden sugar subsidies in Brazil, and he contended that the border disputes between the United States and Canada will never go away. Schmitz discussed the high level of subsidies given to producers in the United States and the EU, and Womack presented data showing the importance of these farm payments to U.S. farms. Womack discussed how federal support has been and continues to be an integral component associated with the economic viability of U.S. crop farmers. According to Womack, the economics at the farm level makes it likely that significant payment cuts would be highly disruptive for many of these large-scale family operations.

The next session focused on agribusinesses, with presentations from Robbin Johnson, Senior Vice President of Cargill; James Horvath, President of American Crystal Sugar Company; and Jean Kinsey, Economist from the University of Minnesota. The effects of globalization on farm input supply and distribution were discussed by dinner speaker George Thornton, President and CEO of Agriliance.

The issues challenging U.S. agribusinesses, according to Johnson, include regulatory changes, consumer concerns, intensifying global competition, and new technologies. The U.S. sugar industry, according to Horvath, faces a challenge from declining consumption, which can be contributed to slower economic growth, rising imports of sugar-containing products, and a low-carb diet craze. Johnson argued that the growing role trade is playing in the world's economy should be good for U.S. agriculture, provided we invest in the education needed to equip ourselves and our children to succeed in a more global world. He also suggested that the U.S. commodity-based approach to farm policy may be giving way to a broader rural development strategy. The U.S. sugar industry supports free trade in sugar, but only if it is conducted as part of the WTO negotiations involving all countries and all practices. Horvath argued that since there is a high level of government intervention in each country for sugar, it needs to be addressed globally in the WTO, and he contended that it is ineffective and dangerous to address these issues in bilateral or regional free trade agreements. Kinsey discussed how agribusiness retailing around the world is changing with globalization.

In the final session of the first day of the conference, Robert Young, Chief Economist from the American Farm Bureau; Joe Logan, President of the Ohio Farmers Union; and Don Loeslie, a farmer from Minnesota, discussed how U.S. producers can stay competitive. Factors affecting farmer competitiveness, according to Loeslie, include exchange rates, tariffs, the infrastructure farmers use, and research. According to Young, uncertainties for U.S. agriculture result from competition from rapidly expanding production in South America, the potential for policy reform here and abroad, environmental and regulatory challenges, and changing dietary preferences here at home, but Young argued that the potential for market opportunities also exists. He stressed the importance of increased market access and the reduction of tariffs.

Joe Logan expressed the belief held by the National Farmers Union that the current U.S. trade agenda is not in the best interest of U.S. producers. They believe that the WTO framework agreement may set the United States up for greater sacrifices, and that this framework does not create a level playing field for labor or environmental standards or for exchange rates. The National Farmers Union believes that a new approach is needed. This new approach would include a global commitment to balance supply and demand, it would address food security and global hunger issues, and it would allow each country to define its own agricultural and food policies while recognizing interdependence with other countries.

Other emerging issues under globalization were discussed during the first session of the second day of the conference. Robert Trotter, Director of Field Operations, Houston, in the Bureau of Customs and Border Protection (CBP), gave a presentation on security issues at the border. The job of CBP is to secure the borders while keeping the flow of trade and traffic across the border going. Verel Benson, agricultural economist from the University of Missouri, discussed the impact of globalization on the environment. Benson suggested that the United States could lose agricultural industries to other parts of the world because they are simultaneously adjusting to new environmental requirements and being subjected to litigation. He concluded that programs that spread the costs of environmental enhancement across all beneficiaries may allow these agricultural industries to meet environmental goals and compete globally. Daniel G. De La Torre Ugarte, agricultural economist from the University of Tennessee, gave a presentation on commodity and energy policies. He contended that agriculture is well positioned to become an important component in the strategy to develop and use alternative energy sources, and his presentation focused on the possibility of growing switchgrass as a dedicated energy crop.

The second day of the conference featured addresses from economists M. Ali Kahn and G. Edward Schuh from Johns Hopkins University and the University of Minnesota, respectively. Kahn discussed the ethics of globalization, asking the following questions: to what extent does a ‘free’ market sustain or (structurally) disrupt an economy, a polity, a society, or a community? to what extent is a reflection on globalization simply a reflection on the market? and to what extent is ‘ethics’, and the meaning that is given to the term, implicated in the way that the above three questions are framed and answered? Schuh's presentation focused on the increased competition faced by U.S. agriculture from Brazil and Argentina. Schuh remarked that when we think about competitiveness we need to think about currency values and technology. Technological breakthroughs in Brazil facilitated the rapid expansion in soybean production, and weak currency values in Brazil and Argentina have made exports from those two countries more competitive.

The final session of the conference was a panel discussion featuring M. Ali Kahn, Don Loeslie, G. Edward Schuh, and Robert Young as panelists.

The following sections in this report contain abstracts and summaries of the presentation at the conference.

FEATURED ADDRESS

Globalization: Civil and Cultural Conflicts

Ronald Jones - Xerox Professor of Economics, University of Rochester

An important feature of the structure of production is characteristic of the increasing degree of globalization: production processes that were originally vertically integrated in one place and one time are becoming fragmented, with separate production blocks being outsourced both within and especially between countries. This process is being encouraged by a steady stream of innovations in providing the service links (transportation, communication, financial services) necessary to support such outsourcing as well as deregulation and a lowering of international barriers to service trade. These changes threaten the public sector (government) in many countries with an increasing loss of control over their national agents. As well, less developed countries find that their cultural norms, enforced by many regulations, are threatened by the increased availability of worldwide sources of information and commercial contacts to their younger generation. Such cultural conflicts may well encourage greater development and growth.

There are conflicting issues that cause troubles in globalization. Globalization creates losers as well as winners. This can be said about anything that challenges the status quo. Not everyone benefits. Income distribution within countries and among countries is a serious issue with globalization. Within countries, income distribution between particular kinds of labor is an issue, while income distribution between developed and developing countries is also an issue.

An important result of globalization is fragmentation. Increasing returns are obtained by separating different parts of the production process. Different regions may be better suited for different production processes because of factors such as climate, labor, etc. Different relative factor prices between regions make some regions better than others for certain production processes. Fragmentation leads to a lower marginal cost, although there are costs for service links between the different regions. The growth in fragmentation is reflected in the fact that trade in parts and components is the fastest-growing type of trade. Fragmentation can take place within a multinational company, but that does not need to be the case. With globalization there is less uncertainty when relying on other firms for certain processes. The growth in output leads to a growth in fragmentation.

With globalization, there are both civil and cultural conflicts. The civil conflicts are between public and private sector activities, or between the government and private companies. One possible motivation of the public sector is to do things that are good for the country as a whole. This is partly true, though it is also a bit naive. Special interests often influence the public sector. There have been instances in trade policy, such as the softwood lumber case, where private sector interests overrode the interests the country as a whole.

Another motivation for the public sector is to regulate, control, and monitor activities of the private sector. Under globalization, however, it is easier for private companies to avoid the jurisdiction of the government, and these companies can take advantage of better tax rates, regulations, etc. in other countries. Public sectors object to this situation because they do not like competition. Instead of governments competing with other governments, they reach out and make deals with the governments of the other countries when private sector companies flee their jurisdiction. The European Union is an example of public sectors making deals with each other. A buzzword in trade policy is “harmonization.” It could be argued that harmonization is no different than collusion. Harmonization disallows firms from shopping around in world markets and from taking advantage of situations in different countries.

The cultural conflicts under globalization occur mostly in less developed countries that are experiencing low or no growth. The regulations and cultural traditions in these countries were formed with the motivation of supporting the material position of the older generation. The older generation defends its position against two threats: foreigners and the younger generation. The threat from the younger generation is that they may do things differently. This situation leads to difficulties for the younger generation in obtaining capital and establishing businesses. These regulations are counterproductive for growth. The cultural conflict occurs mostly in the least developed countries, but it also occurs, to some extent, in some developed countries. The younger generation in developing countries is going abroad and getting training: one advantage they have over the older generation is greater human capital, and human capital is increasing in value.

KEYNOTE ADDRESSES

Kent Conrad - U.S. Senator (ND)

U.S. domestic agricultural policy is increasingly being shaped by what is happening internationally. Two challenges for the United States include the high level of support given by the European Union (EU) and the increase in competition from countries that use indirect subsidies and devalue their currency.

The EU floods the world with export subsidies, outspending the United States by a substantial margin, and they outspend the United States on domestic support by 5 to 1. Their strategy in the World Trade Organization (WTO) is to propose equal percentage reductions in support so that they maintain their 5 to 1 advantage. This is unfair to U.S. producers. We must level the playing field and eliminate distortions.

The United States is facing increased competition from Brazil. Brazil uses indirect subsidies that do not count under WTO rules, and they devalue their currency to make their goods cheaper. Brazil also continues to claim developing country status to take advantage of special rules under the WTO for developing countries. The story for Argentina and China is similar. We need to address currency devaluation and indirect subsidies in trade negotiations, and countries with developed agricultural sectors, such as Brazil, should not take advantage of special and differential treatment intended for developing economies.

The Doha Round of WTO negotiations, the WTO ruling for Brazil on cotton issues, and the EU's Common Agricultural Policy (CAP) reform are additional challenges. The Doha Round could severely restrict what the United States can do with agricultural policy. It is important to get the details of this agreement right. The Amber Box payments are under attack and the ceiling on farm payments has been lowered, yet there has not yet been an agreement for an increase in market access. The Doha Round framework agreement falls short of creating a level playing field with the EU and it preserves the special and differential treatment of developing countries such as Brazil. Currency manipulation and hidden indirect subsidies are not addressed.

The WTO ruled in favor of Brazil, ruling U.S. cotton subsidies illegal. The United States needs to change its program or face sanctions. As a result of this ruling, the United States must be very careful to make sure programs fall under WTO rules.

The EU CAP reform does not reduce EU spending. It moves many Amber Box payments to the Green Box. Trade rules are favoring Green Box payments and the scaling back of other programs. The implication is a sharp restraint in support related to production.

There are a number of issues to consider when formulating U.S. agricultural policy. Record budget deficits are putting budget pressure on farm programs. The United States must develop policies to maintain competitiveness with the EU and respond to challenges from Brazil and other countries. There is a need to develop a new, modern agricultural policy that responds to these challenges and supports a prosperous rural economy.

Byron Dorgan - U.S. Senator (ND)

In the years after World War II, U.S. trade policy was foreign policy rather than economic policy. In recent years, however, other countries have become more competitive, eroding U.S. market share. As the agricultural trade surplus continues to fall, the United States cannot afford to remain concessional with regard to trade policy. There is an endless list of challenges that U.S. exporters face, including high tariffs and state trading enterprises (STEs).

As the economy becomes increasingly globalized, the question remains as to whether the rules will keep pace with globalization and whether those rules will be sufficient. Rules in China, for example, are different than rules in the United States. Included among these differences is labor standards. The labor standards that are important in the United States do not exist in China and other countries. While it makes economic sense for trade to occur due to comparative advantage, these rules differences are not a comparative advantage; they are a political advantage. Expanded trade is helpful as long as the rules of trade keep pace with globalization, but the rules are not keeping pace.

The United States can remain competitive if trade policy is hard-nosed economic policy, if trade negotiators stand up for what is good for the United States, and if those trade agreements are enforced. Current trade agreements are undercutting the ability of U.S. producers to compete. The North American Free Trade Agreement (NAFTA) was harmful to U.S. producers as grain imports from Canada increased and the Canadian Wheat Board engaged in secret pricing.

The United States needs to stop negotiating new agreements and fix the ones that are in place. When new agreements are negotiated, it needs to be done in a way that gets foreign policy and the interests of the State Department out of the agreement. U.S. agriculture will be immeasurably weakened if the current policy is continued. There is a danger that the growing trade deficit will weaken the U.S. standard of living.

GLOBALIZATION AND STRUCTURAL ADJUSTMENTS IN THE U.S. AGRICULTURAL SECTOR

Competitiveness in the U.S. Farm Sector under Globalization: Are We Less Competitive?

Andrew Schmitz - Eminent Scholar and Ben Hill Griffin, Jr. Chair in Agricultural Economics Marketing, University of Florida

Can U.S. agriculture compete under globalization? According to Cargill's president, the United States must choose to compete in a more competitive world: the United States may no longer be the most efficient producer of wheat and soybeans; Brazil, Argentina, China, and Ukraine are seizing market opportunities that used to belong to the United States; Brazil is investing $40 billion in roads, ports, and infrastructure to support soybean and grain producers; U.S. production advantage has evaporated because of inflated land values due to farm program payments; and U.S. transportation is becoming outdated.

Subsidies given to both U.S. and EU farmers far exceed those given to farmers in many countries, including Canada. Market prices, as of the first week of September 2004, are well below target prices set under the 2002/03 farm bill. Real commodity prices have fallen dramatically over time. Because of the low prices, it appears that the main benefactor from research and development in agriculture has been the consumer.

According to one study, the United States ranked eighth among wheat exporting countries in export competitiveness. Meanwhile, the United States has lost market share for wheat over the last decade.

There is a strong link between international trade policy and farm policy. Most farm payments are not decoupled from production. Brazil alleged that U.S. cotton policy significantly depressed world cotton prices, and the WTO ruled in favor of Brazil. These important questions remain: how is the United States to respond to the WTO ruling? will the United States revamp its farm program? and are U.S. and EU farm programs decoupled? The WTO must also address hidden subsidies such as the hidden sugar subsidies in Brazil.

Border disputes between the United States and Canada will never go away. The BSE cases broke the desire for true free trade between the United States and Canada. Market integration between the two countries is difficult because of the Canadian Wheat Board, U.S.-Canadian farm policy differences, policy under uncertainty (for example, BSE), and the role of rent-seeking.

Canadian wheat exports to the United States increased dramatically in the early 1990s but have since leveled off. U.S. corn exports to Canada did not increase immediately under the free trade agreement, but they have increased significantly over the last five years. When considering both wheat and corn, the United States actually exported more grain to Canada in 2002, when Canada had a small crop, than Canada exported to the United States. This shows that free trade between the two countries does work.

Agricultural Policy and Competitiveness under Globalization

Abner Womack - Professor of Agricultural Economics and Director of Food and Agricultural Policy Institute (FAPRI), University of Missouri

Federal support has been and continues to be an integral component associated with the economic viability of U.S. crop farmers. Recently, the 2002 Farm Bill has been criticized as being too generous, resulting in distortions in land prices and leasing agreements. Also, real concern exists over additional program cuts. These concerns are associated with recent rulings by the WTO on the Brazilian cotton case, the possibility of budget cuts given current deficit pressure, and the lingering possibility of payment limitations. Others go further and suggest that the government pie should be reallocated, with the majority of support going to smaller family farm units.

Moderate cuts in support, similar to previous budget adjustments that occurred in the late 1980s and early 1990s, could possibly be sustained. However, slashes of the magnitude associated with the 1996 Farm Bill, or other strategies that significantly reduce support to the agricultural industry, will create substantial financial pressure for many large family farms during low income or low price periods.

So, the question associated with agricultural policy and competitiveness has a great deal to do with the level of market prices and the corresponding magnitude of government support. Why? Our panel-representative farm data tends to indicate that these fairly large family operations are structured such that government support has been and continues to be a significant component of net farm income. Economics at the farm level makes it likely that significant payments cuts would be highly disruptive for many of these large-scale family operations.

U.S. Position in Globalization: Progress in the WTO and Free Trade Agreement Negotiations

Debra Henke - Economist, Foreign Agricultural Service, USDA

The WTO framework agreement adopted on August 1, 2004, moves negotiations forward toward meeting the following U.S. objectives for agriculture in the Doha Round: elimination of export subsidies, reduction and harmonization of trade-distorting domestic support, and reduction of tariffs and tariff disparities. Negotiations are likely to restart in Fall 2004 or early 2005. The sixth ministerial meeting is scheduled for December 2005 in Hong Kong, extending the deadline for the Doha agreement.

There are three pillars to WTO negotiations with respect to agriculture: market access, domestic support, and export competition. Substantial improvements in market access will be achieved for all agricultural products under the WTO agreement. Tariffs will be cut and harmonized. Sensitive products will be subject to a combination of tariff quota expansion and tariff reduction. Developing countries will be part of the reform process, but they will be subject to lesser tariff reduction commitments. Tariff caps, tariff escalation, tariff simplification, and special safeguards are all to be negotiated.

Trade-distorting domestic support will be cut substantially. Higher allowed levels of domestic support will be subject to deeper cuts, resulting in a harmonization of countries' domestic support levels. The framework agreement calls for a 20 percent reduction in overall support allowed in the first year of implementation. Green Box support will be reviewed and clarified. Domestic support is classified into the Green, Blue, or Amber Box. Green Box payments are decoupled from production, and prices and are non-trade distorting. Amber Box payments are coupled to production and prices, and are the most trade distorting. In between are the Blue Box payments, which are decoupled from production, but coupled to prices, and are less-trade distorting than the Amber Box payments. New provisions in the Blue Box will allow for U.S. counter-cyclical payments and will allow Members to shift support from the most trade-distorting forms to less trade-distorting forms.

Regarding export competition, export subsidies, export credits, and STEs will be affected. Export subsidies and export credits with repayment periods of more than 180 days are to be eliminated by an end date yet to be negotiated. The agreement calls for trade-distorting practices of exporting STEs to be eliminated, and future use of monopoly powers are subject to negotiation.

The United States has also negotiated, or is in the process of negotiating, a number of bilateral or regional free trade agreements. These FTAs mostly address market access and border issues and do not usually address export competition and domestic support. FTAs have been signed with Australia and Morocco. Negotiations for the Central American Free Trade Agreement (CAFTA) and an agreement with Bahrain have been completed and are waiting for Congressional approval. Negotiations have been launched for FTAs with the South African Customs Union (including five South African countries), Panama, the Andean countries (Colombia, Ecuador, and Peru), and Thailand. Progress on the Free Trade Area of the America, an FTA including 34 western hemisphere countries, has stalled but is expected to resume.

MARKET STRUCTURE AND INTERNATIONAL COMPETITION OF AGRIBUSINESS

Emerging Challenges Facing U.S. Agribusinesses

Robbin Johnson - Senior Vice President, Cargill

A wide range of issues will challenge U.S. agribusiness in the foreseeable future, including regulatory changes, consumer concerns, intensifying global competition, and new technologies. Any one of these areas could be the subject of a lengthy paper, and there is not enough time to do justice to them all. Discussing these issues in the agricultural arena is made more difficult because they can become emotionally charged. Things that look one way in the abstract take on a different meaning when they touch us individually. But the forces driving change seem to come together in the roles of trade and farm policy in U.S. agriculture's future.

There are three broad developments in this trade/farm policy intersection. First, the growing role of trade in the world's economy should be good for U.S. agriculture, provided we as individuals and as a society invest in the education needed to equip ourselves and our children to succeed in a more global world. Second, U.S. agriculture should more vigorously support current efforts to reform agricultural policies in the Doha Development Round because any losses in farm program benefits should largely be offset by adjustments in land prices to keep U.S. farming competitive, and because income growth in developing countries should stimulate trade and expand demand in the grains, oilseeds, and livestock sectors. Finally, the United States' traditional, commodity-based approach to farm policy may be giving way to a broader rural development strategy as the U.S. farming population continues to decline and attacks on commodity policies from non-government organizations (NGOs) and developing countries intensify. The United States should invest in rural infrastructure, support non-farm rural job creation, and free commercial farmers to serve consumers rather than program officers.

Though all of this spells a lot of change, it also means a lot of opportunity. Trade is good for Cargill because it means growth, predictability, and new opportunities, provided that we reinvest, train our people, and reinvent our products. Trade is good for consumers because it expands choice, lowers cost, and promotes competition, and trade is good for producers because it raises productivity and expands value, provided that we invest in education to remain competitive. The benefits of the WTO negotiations for U.S. agriculture are that it reduces poverty, increases demand, creates a larger market, and creates better trade rules and enforcement.

Issues and Challenges in the U.S. Sugar Industry

James Horvath - President, American Crystal Sugar Company

The United States is the world's fifth-largest sugar producer, behind Brazil, the EU, India, and China. U.S. production is about 7.8 million metric tons per year, and world production is 146 million metric tons. The United States is also the world's fifth-largest sugar consumer, with annual consumption at about 8.7 million metric tons. The difference between consumption and production is obtained from imports. U.S. imports, which are limited through the use of tariff-rate quotas (TRQs), come from 41 quota-holding countries. The United States ranks as one of the top five sugar importers. Brazil, the EU, Thailand, and Australia are the major exporters, and Russia is the leading importer. The sugar price in the United States falls below the prices in most developed countries. The average refined sugar price in other developed countries is 54 cents per pound, while it is 22 percent lower in the United States at 42 cents per pound.

The U.S. sugar industry is a large, competitive industry. It employs 146 thousand workers in 19 states and generates $10 billion in economic activity. The industry faces a challenge from declining real prices. Nominal prices have been relatively stable over time, indicating that the price when adjusted for inflation has been dropping. Yields per acre, though, have been rising due to major advances over the last 20 years, and costs remain competitive. The United States can compete on a cost basis with other sugar-producing countries. Cost of production for U.S. sugarbeets is the 3rd lowest among the 41 sugarbeet-producing countries, and the United States ranks 26th out of the 64 sugarcane-producing countries in cost of production.

The U.S. sugar industry faces a challenge from declining consumption, which can be contributed to slower economic growth, rising imports of sugar-containing products, and a low-carb diet craze. U.S. sugar sales for food use declined in 2002 and 2003, but the figure is rebounding in 2004. The popular low-carb diet could be fading, but the imports of sugar-containing products remains a challenge. U.S. net imports of sugar in sugar-containing products has increased fourfold in the last ten years, and it now represents 5 percent of U.S. sugar consumption.

Because of the high levels of government intervention in each country for sugar, the world sugar price is a dump price that is barely more than half of the world average cost of production. The most significant cause for low world prices is Brazil's increase in exports from 2 million tons to 17 million tons.

U.S. sugar producers endorse genuine global free trade in sugar. Producers in the United States are efficient and can compete with producers from other countries. Since government intervention in sugar is a global problem, it needs to be addressed globally in the WTO. It is ineffective and dangerous to address these issues in bilateral or regional free trade agreements. The appropriate approach to making real progress in eliminating distortions in the world sugar market is comprehensive, sector-specific negotiations involving all countries and all practices. Developing countries need to be included, and non-transparent or indirect support also needs to be addressed. Non-transparent or indirect subsidies include state ownership; income support;

debt financing; and subsidies for research and development, infrastructure and inputs, ethanol, and environmental standards and enforcement. These subsidies have not been addressed in traditional WTO negotiations.

The U.S. sugar industry opposes FTAs because these agreements negotiate away sugar's only form of support. FTAs address only market access issues. Other commodities have price supports that are not addressed in these FTAs. For sugar, however, market access is the only form of support. This support must not be negotiated away without worldwide WTO reforms. The United States is holding discussions with 21 sugar exporting countries that export 27 million tons of sugar per year. The Australia FTA excluded sugar, and this should be the model for all U.S. FTAs. CAFTA increases U.S. market access for Central American sugar producers by 111 percent over 15 years. Imports are also likely to increase from Mexico.

The U.S. sugar industry is well positioned to deal with challenges. It continues to reduce costs to cope with declining real prices. In the highly protectionist sugar world, partial liberalization equals death for the few who do liberalize. The challenge for all sugar-producing countries is to pursue sector-specific negotiations in the WTO involving all countries and all programs.

Changes in Agribusiness Retailing under Globalization

Jean Kinsey - Professor, University of Minnesota

As global food retailers establish large stores and distribution channels in newly developing countries, the opportunities and threats to local producers change dramatically. Some will join the supply chain for the modern grocery stores and solidify their businesses, while others will cease to exist as their ability to sell small quantities of local products in local markets dries up. Consumers will be exposed to new products, generally safer products, and a more reliable supply of food. Retail merchandising varies to match the local shopping habits and environments, but the procurement of food products by these new retailers demands a steady supply of consistently high quality food. New agribusinesses are formed to meet this demand and change traditional marketing channels.

HOW CAN WE STAY COMPETITIVE?

Challenges to American Agricultural Trade

Robert Young - Chief Economist, American Farm Bureau

Agricultural production in the United States is facing a plethora of challenges. Competition from rapidly expanding production in South America, the potential for policy reform here and abroad, environmental and regulatory challenges, as well as the possibility of rapidly shifting dietary preferences here at home all contribute to considerable uncertainty for the sector.

At the same time, however, there are a number of signals that suggest the potential for market opportunities also exists. Growing domestic utilization of feed grain for energy collection, strong global demand for meats and possible breakthroughs on foreign government use of export subsidies point to the potential for strong demand for the sector. Two examples of this potential are seen in corn and hogs. Despite producing better than a 10 billion bushel crop in 2003, ending stocks of corn actually dropped during the 03/04 marketing year. Despite nearly record high pig slaughter numbers in August and September of 2004, barrow and gilt prices remained fairly firm.

It is this almost razor's edge problem facing producers which represents the real challenge to U.S. agriculture today: the ability to get through the difficult times and to get to those opportunities. Flexibility and an ability to take action quickly will be keys to success in this environment.

The United States needs significant tariff reductions in other countries to be more competitive, and there needs to be a reduction in applied tariffs. Reductions are usually made on binding tariffs rather than the actual applied tariffs, and these are often different. When the applied tariff is below the bound tariff rate, reducing the bound tariff rate will not help. Increasing market access in other countries is a difficult process. Tariffs are very important to many countries because they are a source of revenue and they protect domestic industries. It is hard to convince countries to give this up. Increased market access under CAFTA would create benefits for the United States, but there is one sector–the sugar industry–that has huge problems with this agreement.

An issue that needs to be addressed in the WTO negotiations is the definition of a developing country. Under the WTO's special and differential treatment, developing countries are allowed to keep some subsidies. How should Brazil be treated? Brazil has a developed agricultural sector but is considered a developing country. This issue needs to be monitored.

Other critical issues that need strategies include the WTO ruling on cotton subsidies and the use of technology. Biotechnology would have huge effects on production if it was allowed. The American Farm Bureau is pro-trade because export markets are important. It is key for the U.S. trade negotiating position to be strong.

A New Direction for Food and Farm Policy

Joe Logan - President, Ohio Farmers Union

The National Farmers Union (NFU) is concerned about the overall direction of trade agreements. There is increasing skepticism among farmers for free trade. There needs to be a rules-based system to ensure fairness. Trade negotiations fail to address competitiveness issues such as exchange rates and labor standards. Farmers also need solidarity rather than to be split up among different groups with their own interests.

The WTO framework may set the United States up for greater sacrifices. This framework does not create a level playing field for labor or environmental standards or for exchange rates. The United States gave up 20 percent of domestic support and has not yet gotten anything in return other than a promise to keep talking. The NFU opposes CAFTA because it is unproductive, over-promising, and underperforming. It could establish a precedent for other agreements. The current U.S. trade agenda is not in the best interest of U.S. producers. A new approach is needed.

The NFU supports an approach developed by University of Tennessee agricultural economist Daryll Ray. According to this approach, food and agricultural policy should address reasonable returns for the producers, food and nutrition security, and the multifunction of agriculture. The multifunction of agriculture includes the friendly social dynamics of family farms and rural communities. Under the policy of food security or food sovereignty, each country defines its own agricultural and food policies, recognizes its interdependence with other countries, protects itself from dumping, and does not cause dumping.

The development and maintenance of an excess capacity to provide food is a desirable public policy goal, but the agricultural output must be managed. Low prices result when output increases faster than demand. Other industries self-correct when prices are low: consumers buy more and producers produce less. This does not occur in agriculture, however, because cropland changes too slowly in response to lower prices and consumers do not eat more when prices drop. To restore farm profitability, there needs to be an expansion in demand, with attention given to society priorities; an increase in reserves such as humanitarian relief and food security stocks; and an effort to address global capacity issues to balance supply and demand. A global commitment to balance supply and demand is needed because significant productive capacity is being brought online in several countries around the world, technological advances now increase yields worldwide, and it is politically impossible for a country to balance supply and demand unilaterally.

A new food/farm policy is needed because farmers must join together to stop the race to the bottom in commodity prices. The structure of the agricultural marketplace pits farmers against one another. A new policy should recognize the need for cooperative solutions. A new policy should also address food security and global hunger issues because 800 million people lack adequate nutrition. An international humanitarian relief reserve should be established and made available to meet food emergencies. The release of food from this reserve should be based only on need and not a desire to clear storage.

Factors Affecting the Competitiveness of U.S. Farmers

Don Loeslie - Minnesota Farmer

Are U.S. farmers competitive? This depends on a number of things, and many of these factors are beyond the farmers' control. It is important that the infrastructure farmers use, such as railroads and chemicals, be competitive. Currency exchange is an important factor that needs to be addressed in trade negotiations. While it is important to reduce tariffs worldwide to increase market access for U.S. farmers, currency exchange rates can change and negate the decrease in tariffs. Another issue that needs to be dealt with is the enormous debt in foreign countries. The United States cannot engage in significant trade with countries that have enormous debt. There is no question that trade will go forward, but there are some concerns about the bilateral trade agreements that need to be addressed, and the WTO process is cumbersome. One key for the United States to remain competitive is to invest in research.

DINNER SPEAKER

Impact of Globalization on Farm Input Supply and Distribution

George Thornton - President and CEO, Agriliance

Agricultural supply companies and retail dealers have experienced a profound shift in how they procure and market crop protection products and crop nutrients. Serious market devaluation, due to the influence of biotechnology and rising costs of fuel and natural gas, has forever changed the way products are created and marketed along the supply chain, all the way to the farm gate. To survive, manufacturers, distributors, and retailers alike have retooled, realigned, and rebuilt companies to remain competitive.

Increasingly, crop producers are relying on genetic traits bioengineered into the seed to control weed and disease pressure (Roundup Ready). While this seed technology offers distinct advantages to growers, it limits the sales potential and margins of dealers serving these growers. In addition, marketing program rebates historically provided to dealers by the crop protection companies have dropped dramatically, further reducing dealer income. And in some instances, the rebates are going directly to the growers, by-passing the dealer.

On the crop nutrients side, the rising cost of natural gas, the feedstock for all nitrogen fertilizer production, has greatly influenced the price of all nitrogen fertilizers. The nitrogen fertilizer price-cost squeeze began in late December 1999, when natural gas prices sky-rocketed, forcing domestic nitrogen producers into severe financial distress. During the four years since, we have seen a domestic fertilizer industry shakeout. Fertilizer imports are one way for distributors (like Agriliance) to supply customers at competitive prices. However, rural infrastructure must be improved to effectively handle large shipments of dry fertilizer products in order to gain full supply chain efficiencies.

Retailers across the country continue to find innovative ways to survive, through consolidation or a variety of joint venture agreements. Traditional business models are being replaced with strategies and tactics providing retailers distinct service advantages, enabling them to continue operating as viable and vital rural businesses.

OTHER EMERGING ISSUES UNDER GLOBALIZATION

Agro-terrorism and Border Protection

Robert Trotter - Director of Field Operations, Houston, Bureau of Customs and Border Protection

On a typical day, Customs and Border Protection (CBP) processes 1.1 million passengers, 92,605 trucks/containers, 580 vessels, 2,459 aircraft, and 327,542 vehicles. The job of CBP is to secure the borders while keeping the flow of trade and traffic across the border going. They have the challenge of making the country secure and, at the same time, making foreigners feel welcome when they come here.

CBP is pursuing a security strategy of pushing out the borders. This security strategy includes Advance Electronic Information, the Container Security Initiative (CSI), the Customs-Trade Partnership Against Terrorism (C-TPAT), and the Automated Targeting System. The key elements of CSI include establishing criteria for identifying high-risk containers, pre-screening containers at the earliest possible point, using technology to pre-screen high-risk containers, and developing secure and “smart” containers. The purpose of C-TPAT is to initiate cooperation between Customs and industry leaders to ensure national security at the U.S. border and beyond, to strengthen the supply chain, to exchange ideas, and to facilitate legitimate trade.

Legislation has been passed to address the threat of bioterrorism. The Bioterrorism Act is intended to protect the health and safety of the people in the United States from an intended or actual terrorist attack on the nation’s food supply. The FDA must now receive prior notice on all food imported or offered for import into the United States. The Agricultural Bioterrorism Protection Act of 2002 prohibits access to certain biological agents and toxins unless the individual receives a permit from the USDA.

Issues that are of a specific concern to North Dakota and the upper Midwest include the porous border with Canada and the threat of agro-terrorism. Agro-terrorism is the use of a biological agent against crops, livestock, or poultry.

Globalization and its Impact on the Environment

Verel Benson - Economist, Food and Agricultural Policy Research Institute (FAPRI), University of Missouri

Globalization impacts on the environment are mixed. Global competition makes it difficult for agricultural industries to pass on the costs of environmental regulations designed to reduce erosion, maintain or improve water quality, and maintain the productivity of natural resources for future generations. The recognition of those external costs of production has become the basis for green payment programs that maintain productivity and water quality. In addition, global environmental goals may result in pollutant trading opportunities for agricultural producers. The immediate question is "What is the potential for agriculture to sequester carbon, produce energy from biomass, and perhaps simultaneously improve the environment?"

The following impacts of global agriculture competition on the environment are hypothesized: U.S. technological advances will be difficult to maintain, U.S. agriculture will encounter large reductions in returns to investment as it internalizes Clean Water Act costs, litigation and the threat of litigation will further lower expected returns on investment, and some relocations and terminations will take place without environmental remediation.

Multinational agricultural corporations will and should be expected to move agricultural input production, product production, and processing to wherever the expected return to investment is highest. But what are the environmental impacts that accrue to the movement and concentration of agricultural industries? Environmental costs were often not recognized initially because of thresholds of pollutant concentration to be reached before the problems are visible. The benefits of eliminating environmental pollution often accrue to parties other than the agricultural producer.

With globalization, there will be little incentive for an industry to remain in a location for the long-run because lawsuits and threats of lawsuits will lower the expected return to investment. Ultimately, the United States could lose agricultural industries to other parts of the world unless we can develop systems that spread the costs of environmental enhancement across all beneficiaries. Globalization complicates changes in comparative advantage due to environmental regulations. The Clear Water Act does not apply to other countries, and environmental litigation may not apply in other countries. As a result, expected returns may encourage global production shifts.

In the 21st century, we must find a way to recapture the sense of community that existed early in the 20th Century without losing the technological efficiency necessary to feed and clothe our people and to compete in the markets of the world. As fossil fuel supplies are depleted, the solution will likely revolve around alternative sources of energy.

Globalization may severely test the survivability of some agricultural industries in the United States because they are simultaneously adjusting to new environmental requirements and being subjected to litigation. The communities and consumers need to recognize the benefits that have accrued to them over the last 50 years and the adjustments that will take place as industries relocate or succumb to global market pressure. Programs that share the costs of internalizing environmental costs may allow these agricultural industries to meet environmental goals and compete globally.

Commodity and Energy Policies under Globalization

Daniel G. De La Torre Ugarte - Associate Director, Agricultural Policy Analysis Center, University of Tennessee

Since 1996, the U.S. government's official policy has been to encourage a free fall in domestic farm prices while simultaneously promoting rapid liberal trade measures which seek to open new markets for U.S. products. U.S. farmers, the intended beneficiaries of these policies, have languished, despite official rhetoric to the contrary. Agriculture is well positioned to become an important component in the strategy to develop and use alternative energy sources. The corn-based ethanol industry was practically born as a result of the energy policy objective. The increased use of agricultural commodities -corn or others- and their by-products for energy production results in resources moving away from feed and food production.

The link between the energy and agricultural sectors takes a new dimension in the case of a dedicated energy crop, like switchgrass. There are three basic advantages of switchgrass as a feedstock: 1) it competes for land with traditional crops, thereby raising prices and reducing government payments; 2) it does not compete for final product use of traditional crops; and 3) it is perennial and therefore lessens soil erosion. The objective of this analysis is to analyze the synergisms between agricultural and energy polices and to establish a baseline supply curve of switchgrass production. The results indicate that at the price of $40 per dry ton, U.S. agriculture could place 12.1 million acres into switchgrass and produce 52 million dry tons by 2013. Additionally, land competition would raise traditional commodity prices, reduce government payments, and increase net returns. At $40 per dry ton, U.S. switchgrass production which is transformed into ethanol could displace 1.9 percent of all domestic gasoline consumption.

FEATURED ADDRESSES

Sustainability, Structural Change, and Ethics of Globalization

M. Ali Kahn - Abram Hutzler Professor of Economics, Johns Hopkins University

To what extent does a 'free' market sustain or (structurally) disrupt an economy, a polity, a society, or a community? To what extent is a reflection on globalization simply a reflection on the market? To what extent is 'ethics', and the meaning that is given to the term, implicated in the way that the above three questions are framed and answered? In this essay, I consider these three questions in the light of four disparate sets of texts. First, I read the two classical accounts of general competitive analysis (Debreu's 1959 *Theory of Value* and McKenzie's 2002 *Classical General Equilibrium Theory*) in the light of three essays (Hayek's 1936 and 1945 articles on *Economics and Knowledge* and on the *Use of Knowledge in Society* as well as Arrow's 1986 article on the *Rationality of Self and Others in an Economic System*) – all in all, seventy years of meditation on markets. I use these classics of neo-liberal resurgence, for want of a better term, to consider what I see as its 'other' (1987 accounts of the economic literature connected with the terms "structure" and "structural change"). I use all of this reading as a necessary background for the considered appreciation of Singer's enterprise as represented by his recent book on *One World: The Ethics of Globalization*.

Argentina and Brazil as the Bread Basket of the World

G. Edward Schuh - Regent Professor of Economics, Freeman Center for International Economic Policy, University of Minnesota

Throughout the world there have been dynamic and dramatic changes in response to technological breakthroughs, economic policy reforms, the need to reduce trade-distorting domestic support, and an increase in per capita income in countries such as China and India. Agricultural production in Argentina and Brazil has increased substantially in recent years, creating increased competition for the United States. Argentina has a small population and a huge agricultural endowment. Previous policy in Argentina discriminated against the country's agricultural resources, making it difficult to take advantage of those resources. Brazil is a large country that has had a significant opportunity for agriculture to grow.

Brazil's soybean industry grew because of help from government programs and technological breakthroughs. Government programs helped get soybeans started in Brazil. The subsidization of wheat led to the use of soybeans as a second crop, and export subsidies for manufactured products, which included soybean products, encouraged the production of soybean meal and soybean oil.

Soybean production started in the temperate southern region of Brazil, but was limited to that region because of low-yield tropical soils to the north. An important technological breakthrough allowed soybeans to move north when scientists learned how to use the tropical soils. Technological developments also led to soybean varieties adapted to the Brazilian climate. These advances substantially increased the capacity of Brazil to produce soybeans.

Brazil also has a monetary policy which makes it more competitive. Brazil and Argentina have a large external debt, which the United States wants them to pay. In order to service this debt, these countries allowed their currencies to decline. Brazil and Argentina will need a weak currency for many years to service their debt. Their weak currencies give exporters from Brazil and Argentina an advantage over U.S. exporters. Domestic demand in Brazil and Argentina could absorb much of the increase in production if per capita income increases, but this is difficult with weak currencies and a high debt.

When we think about competitiveness, we need to think about currency values and technology. Technology affects productivity, and investment in agricultural research is an important issue for competitiveness. Brazil has the research capacity to improve varieties. In the United States, however, the decline in support for agricultural research is significant. Argentina has climate and soil conditions that are similar to those in the United States, which means that they can adopt U.S. technologies.

Brazil’s victory on cotton will likely be repeated for other commodities. The United States and the EU play an important role in driving down world prices because of their subsidies. These subsidies benefit consumers in developing countries but harm producers in those countries.

PANEL DISCUSSION

The final session of the conference was a panel discussion involving Don Loeslie, Robert Young, G. Edward Schuh, and M. Ali Kahn. Schuh commented on the prevalence of economic isolationism. He said that the trade deficit can get too large, but it has not yet reached that point, and the U.S. economy needs the inflow of capital from abroad. Schuh remarked that the technological revolution has dramatically reduced transaction costs and increased the scope of markets. This benefits consumers, and Schuh believes we should want to take advantage of this. He also stated that international trade especially benefits small economies.

Young, Loeslie, and Schuh all stressed the importance of rural development and rural infrastructure. Schuh and Young agreed that it is important to develop rural economies and increase the number of off-farm jobs available in rural communities, especially since farm households increasingly rely on off-farm income. Rural non-farm development was stressed as an important issue.

Young and Loeslie remarked that more funding is needed for public education institutions and for research. The panel members gave a number of different areas where research is needed. Loeslie stated that research is needed to increase productivity and reduce costs. Young said that research could be conducted to make the livestock sector more environmentally benign, and that research on energy production and biomass is important. Schuh suggested research on social policies, poverty alleviation, how markets work, international issues, and determining who has comparative advantage.

With regards to trade negotiations, Schuh stated that adjustment policies are needed. Adjustment policies could help address the problem of there being both winners and losers from trade agreements, and they could help those who do not benefit from free trade. It was Schuh's belief, though, that there is a lot of political difficulty in enacting these adjustment policies. Loeslie said that currency exchanges also need to be addressed in trade agreements. Kahn suggested that with regard to the WTO and the trade negotiations, it may be unclear what the rules are for making the rules.