

The North American Agricultural Market: How Integrated Is It?

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Presentation Outline

- I. Overview Comments on Knutson *et al*'s Status Report
- II. Extent of Continental Market Integration in Agriculture
- III. The Farm Security and Rural Investment Act of 2002
- IV. Summary observations

Overview Comments on Knutson *et al*'s Status Report

- Primary purpose of paper is to draw conclusions about the progress made under NAFTA in bringing together the national agricultural economies of the NAFTA countries
- To tie the analysis together, use is made of three commonly used terms: 1) harmonization, 2) convergence, 3) compatibility

Definitions and Analytical Framework

- Knutson *et al* contend that the concept of harmonization is not necessary
 - Authors make no distinction between harmonization and compatibility
 - Harmonization, convergence, and compatibility are distinct mechanisms that can be used to diagnose and/or promote institutional change
 - Josling uses the term harmonization to refer to decisions whether to enact and/or adopt common instruments and policies (i.e., Canadian adoption of “fat-free” standards)

Aggregate Levels of Intervention: 1995-2001

- Knutson *et al* use PSE's as benchmarks of how support differs across countries and commodities
 - But adjustments needed in PSE calculations to purge them of border effects that do not exist in NAFTA
 - Yes, Canadian PSE's have been flat
 - No, Canada's PSEs are not the lowest in NAFTA

Policy/Program Changes

- Domestic farm policy objectives in Canada too narrowly defined by Canadian Ag Minister
 - focuses on income problems of prairie farmers
 - pays no attention to Canada's supply-management policies in dairy, poultry, egg producers
 - ignores buyer monopoly and single-desk seller of marketing boards
 - focuses on safety-net feature of NISA; disregards retirement feature of NISA
 - ignores "safety nets" provided by CIP and CFIP

Policy/Program Changes

- Paper overstates Canada's commitment to the WTO and the CAIRNS Group in pursuit of trade- and production-distorting subsidies
 - glosses over the fact that Canada's WTO market-access proposal falls far short of The CAIRNS Group proposal
 - ignores the fact that Canada explicitly aims to maintain high protection for its supply management commodities

Evaluation of Major Conflict Areas

- Knutson *et al* incorrectly maintain that pressure to eliminate Canada's single-desk selling has subsided
 - Currently, there are four AD/CVD cases being investigated by the U.S. against Canadian wheat
 - the United States has requested that a WTO panel be formed to determine whether CWB practices are consistent with STE disciplines
 - Canada continues to requires the segregation of imported grain in its handling system

Evaluation of Major Conflict Areas

- Knutson *et al* contend that AD/CVDs are counter-productive.
 - Yet, trade-remedy laws were crucial to agreement's passage by the U.S. Congress
 - Moreover, NAFTA created a dispute-resolution mechanism to permit challenges to these laws

Implications

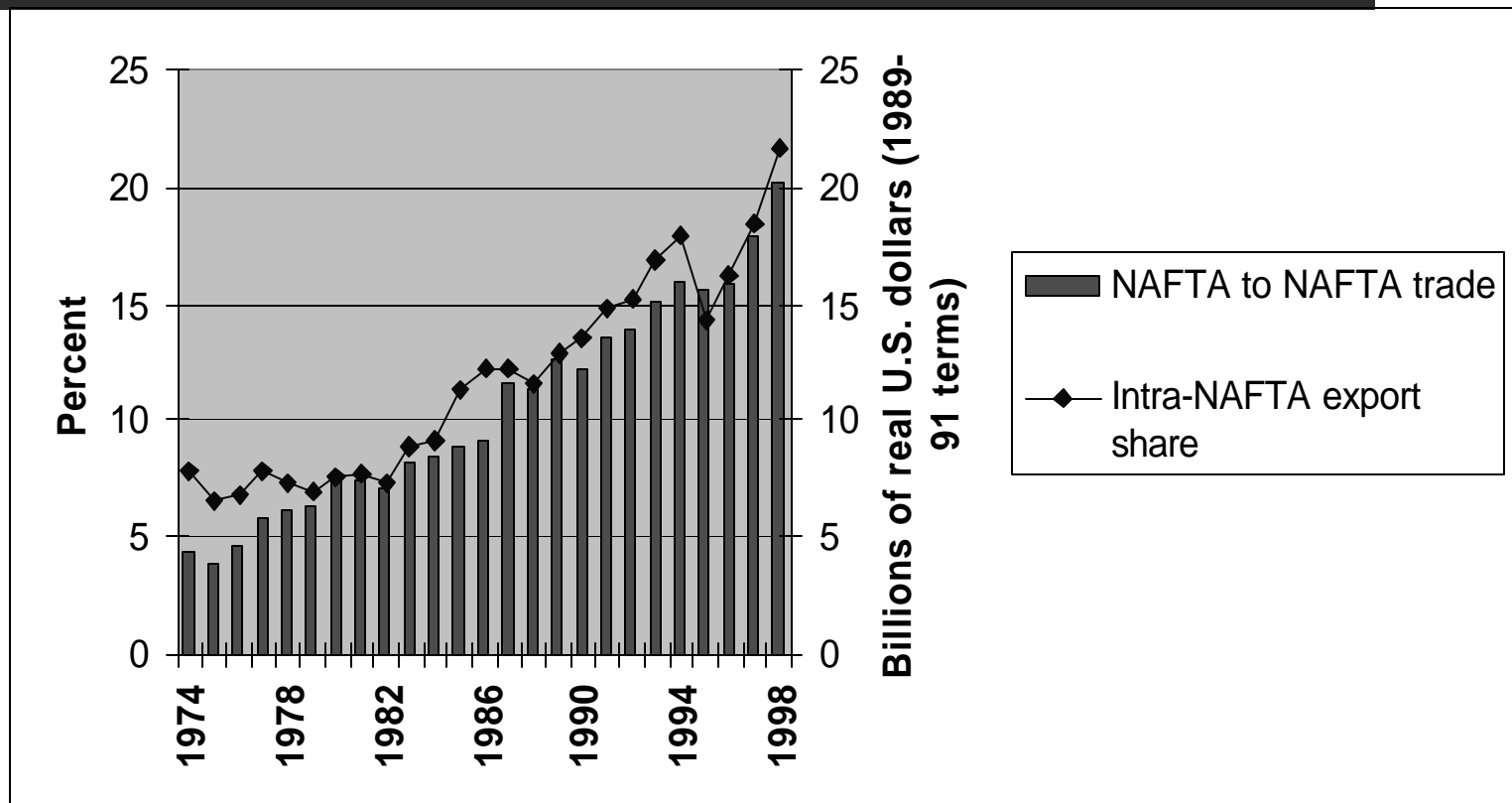
- Knutson *et al* contend that it is hard to find examples of converging *government programs*
 - This ignores other elements needed for more harmonized trading relations (ie changing commercial practices and business conventions).
- Authors point out that agriculture in North America is not yet completely free and open
 - Granted, much remains to be done
 - But lets recognize the progress made integrating continental markets in agriculture under NAFTA

Extent of Continental Market Integration in Agriculture

- Quantitative Evidence

- Trade patterns show a deepening of integration within the North American agricultural market and the growing importance of neighborly trade
- Growth in foreign direct investment (FDI) within the NAFTA region also shows increased continental integration of agricultural food and fiber markets
- The degree of market integration in North America, as indicated by price analyses, varies across commodities and products

Intra-NAFTA agricultural trade grew faster than NAFTA trade with the rest of the world



Extent of Continental Market Integration in Agriculture

- Enlarged and more open agricultural markets in North America generated substantial benefits to society
 - Recent shifts in policy and changes in technology have facilitated structural unification within certain industries
 - The increased flow of Mexican immigrants into the United States points to greater integration and greater payoffs of both countries

Extent of Continental Market Integration in Agriculture

- More could be done to deepen market integration within North America
 - Governments can advance the cause of market integration across national borders in North America by broadening the CUSTA/NAFTA agenda to include institutional reform

The Farm Security and Rural Investment Act of 2002

- Continues direct “decoupled” payments
- Creates new system of counter-cyclical payments
- Revises and rebalances loan rates
- Expands conservation funding and programs
- Contains first ever energy title
- Invests more in research, animal and plant disease protection, food safety, and rural development.

The Farm Security and Rural Investment Act of 2002

- Generated unusual criticism – around the world
- Much of the criticism is unfounded – used by others to support their agenda or deflect criticism
- Critics should look toward U.S. WTO proposal for leadership

The Farm Security and Rural Investment Act of 2002

- Major Criticisms:
 - Will stimulate output and depress prices to the detriment of global farmers
 - Little change from previous 4-year avg. funding: \$7.5B vs \$7.4B
 - Actually less directed to production agriculture
 - So, no supply response surprises – marginal output changes, at most

The Farm Security and Rural Investment Act of 2002

- Major Criticisms:
 - Is protectionistic
 - Not so - changes no tariffs, quotas, market access whatsoever
 - US market already relatively open
 - USA 12%
 - Global 62%
 - Japan 50%
 - Cairns 32%
 - EU 30%
 - One-half US imports from developing countries – 90% enter duty free!

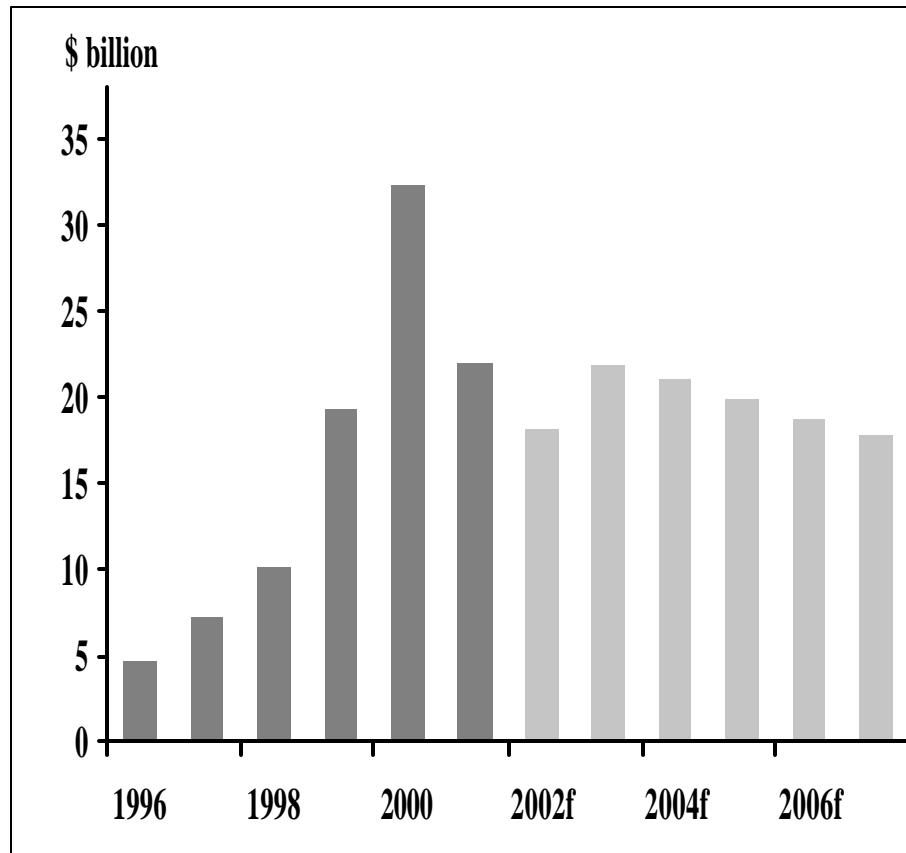
The Farm Security and Rural Investment Act of 2002

- Major Criticisms:
 - Violates URAA WTO Agreement
 - Not so! Stays within allowable limit – US limit relatively low
 - US \$19B
 - Japan \$32B
 - EU \$62B
 - “Circuit Breaker”

The Farm Security and Rural Investment Act of 2002

1996 Farm Act

2002 Farm Act



- **Production impacts are mostly from**
 - Marketing loan changes
 - Larger Conservation Reserve Program
- **Agricultural spending similar to recent years**
- **Production response is small, less than 1996 continued**

The Farm Security and Rural Investment Act of 2002

- The real concern
 - Would the US still be able to provide strong leadership for Doha Round? Would we be compromised – have we lost our zeal for reform?
 - U.S. remains a strong leader. New US WTO proposal is evidence enough!

IV. Summary Observations

- U.S., Canada, and Mexico still adjusting to NAFTA competitive advantages
- U.S. Farm Bill will not adversely impact U.S./Canadian and U.S./Mexican trade
- Market forces will accelerate structural change
- Consumers will benefit greater choice and from lower food prices
- The three NAFTA countries share goals for increased market access, greater equity, and reduction in subsidies
- Opportunities are still great for more a more integrated North American food chain