

# COMPETITIVENESS IN THE CANADIAN/U.S./MEXICAN GRAIN-LIVESTOCK SUBSECTOR

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Economics and technological change are primary factors leading to increased trade tensions in the grain and livestock sectors between the United States, Canada and Mexico.

The comparative advantage of Canada in wheat and barley production, combined with changes in policy, have led to increased U.S. imports of wheat and malting barley and the development of an industrialized cattle feeding and hog industry in the Prairie Provinces that is competitive with its U.S. counterparts. Likewise, the advantage of the United States in corn and soybean production, combined with NAFTA-induced policy changes, has led to sharply increased imports of feedgrains and oilseeds into Mexico, leading to industrialization of the Mexican broiler industry. The result, in both cases, has been increased trade tension.

While policy changes, such as NAFTA, WTO and the 1996 Farm Bill, played a role in precipitating these changes, technology and consumer-driven demands may be more important factors leading to structural change.

## **Grain**

In grain, increased imports of wheat and barley into the United States, and corn and soybeans into Mexico, are not temporary. U.S. and Mexican crop farmers, including their political advocates, will need to accommodate this structural change. Wheat and barley production is moving north, being squeezed by the relatively greater profitability of corn, sorghum and soybean production.

## **Livestock**

In livestock, the consumer is a driving force behind structural change. Safety is an over-riding consumer concern, although uniform product quality and reduced costs have been, and continue to be, major concerns.

This article is the author's synopsis of conclusions reached in the fourth in a series of workshops on the origins of trade disputes between the United States, Canada and Mexico. These workshops discuss papers written by leading agricultural economists from the three countries, with agribusiness and farmer interests acting as reactors. The theme of this workshop was "Economic Harmonization in the Canadian/U.S./Mexico Grain-Livestock Subsector."

Papers and discussant comments will be posted as they become available on the following alternative Internet addresses:

<http://afpc1.tamu.edu>

<http://www.farmfoundation.org>

Later in the year, a bound proceedings publication will become available. Previous workshops were on the themes of wheat disputes, dairy disputes and nontariff trade barriers. All proceedings publications are available from the author at AFPC, Department of Agricultural Economics, Texas A&M University, College Station, TX 77843-2124.

Sponsors of this workshop included Farm Foundation; USDA (CSREES, FAS, AMS); Ag Canada; Cargill, Limited; Royal Bank of Canada; and the Saskatchewan Wheat Pool.

These consumer demands can best be met by an industrialized system. Safety in animal agriculture requires managing the supply chain from the input supplier through the consumer. Competitiveness has safety, uniform product quality and cost dimensions.

## **Environment**

Animal agriculture is likely to become increasingly concentrated in areas where it is easiest to manage environmental externalities. This means a movement toward the central, more arid areas, particularly in the United States and Canada. The development of concentrated hog, dairy and beef operations in the Prairie Provinces, Great Plains and the northern Mexican states is consistent with this conclusion. It is fortified by the observation that all politics are local. The exercise of local political options will influence where livestock is produced, but is not likely to have much influence on how it is produced. The resulting changes in structure and location of production will be more environmentally friendly than the current decentralized farm structure.

## **Technology**

Biotechnological developments such as genetically modified organisms (GMOs) are having a major impact throughout the food supply chain. While positive environmental effects can be decisively argued, trade disputes proliferate as the number of GMOs increase. Education and experience will be the keys to creating consumer and political understanding of the benefits of GMOs.

Increased private sector involvement in GMO and supply-chain related research has shifted the balance away from public sector funding and support. Private sector research has become highly concentrated in the hands of a few firms. How intellectual property rights are defined and who holds them has become an important policy issue.

## **Transportation**

Reduced barriers to trade among the NAFTA countries, and many other policy changes have contributed to a breakdown of the transportation system. Modernized/restructured transportation corridors are essential to the competitiveness of the NAFTA countries. In addition to substantial investment and restructuring of transportation infrastructure, the harmonization of regulation among states/provinces and the other countries is essential to achieving the benefits of freer trade.

## **Safety Net**

The safety net for farmers is being lowered. The effect is to expose farmers to greater price and income risk.

Trade would suffer if the safety net was raised by means such as higher loan rates and/or floor prices. Offsetting a higher safety net with export subsidies would exaggerate trade tensions even further.

The commitment of the NAFTA countries to reduced subsidies will be tested in the upcoming months. It should not be assumed that the farm programs of the past have gone away. A return to past policies will likely be debated again whenever farm prices fall to the level where financial stress becomes widespread. Staying the course with Freedom to Farm policies will require political will and determination.

Continued pressure to privatize the Canadian Wheat Board can be anticipated. Multinational grain traders and cooperatives are making grain-handling investments anticipating an end to state trading. The result will be intense competition and structural adjustment.