Western Agri-Food Institute

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The question we have been asked to address is what will agriculture and its associated industries look like with genuine free trade within the NAFTA region. Consolidation within agriculture has been proceeding in spite of inadequate freer trade rules and huge government subsidies intended to stabilize the farm sector.

The decline in numbers of farmers in Canada has been dramatic: they represented 33 percent of total population in 1931 and less than 2.5 percent today. Approximately 70 percent of beef processing in Canada is done by 2 firms; three companies control 70 percent of fertilizer output; and five companies dominate food retailing. The trend to more concentrated processing and sales in agricultural and food markets has been accelerating.

In the United States, forty percent of the farms have been lost in the last three decades, despite immense public support to farmers. Four firms dominate the food and the drug sectors. In the EU over the last decade, forty-two percent of farms have been lost despite government largess and free trade within the EU borders. In Europe five firms control 80 percent of fertilizer sales, 70 percent of agricultural chemical sales and, 90 percent of tractor sales.

The trend toward large specialized farms continues. Modern farms tend to be dependent on movement of their output across international borders. Unlike multinational corporations, most farms are individually owned and are unable to offset risk of border closures. As a result, having well-defined and effective rules on trade is essential as farms grow in size and specialization.

Common sense and economics say that agriculture will continue to consolidate as long as technology is cheaper than labour. Subsidies and free trade have not subdued this relationship, nor are they likely to. The trend may be slowed or postponed but it is almost certain to continue. The use of ‘green’ payments under international trade rules appears to be no more than a guise for shielding or mollifying the impacts of one country's industry at the expense of another's. This process will likely continue unless clear rules on "free trade" are established.

I see three distinct paths unfolding:

- commodity based, mass production farm units with standardized products capturing economies of scale. With truly free trade, competitive advantage should determine the most cost efficient regions and producers. This model of production would occur under conditions of thin margins and will require high level, sophisticated risk management;
- consumer driven, identity preserved products which will be delivered from medium sized farms using a high level of management. This production will be organized from the farm level upwards, and tends to exclude large farms because of limited volume requirements of the markets; and
- a "life science, top-down driven economy." The companies that control patents and technology will likely contract their requirements from farmers, providing an assured return but little payoff to the true entrepreneurs. This model implies considerable diversification in products and methods of production.

Just how the industry will eventually unfold will depend on a number of factors:

- how much influence the rural sector and farmers have on lawmakers;
- competition laws and their application to politically manage consolidation, and at the same time provide confidence to individuals that their entrepreneurship is afforded competitive terms of trade; and
- public concerns driven by scientific fact, perception, and by fear will play a very large part in the future structure of agriculture, with or without free trade.

In closing, I want to be clear that I am convinced that free trade will have little effect on the structure of the industry. However, competition laws will have a huge impact on structure of the industry. I suggest that there will be many debates about how these laws are to be written if free trade is realized.