

International trade and the road ahead for California agriculture

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Setting the scene:

Globalization is a threat to California agriculture

International Forum on Globalization

- Due to international trade and investment agreements, California's agriculture sector is under attack ... California growers must compete with commodities grown in countries where land, labor, energy, and water are much cheaper than in California, as well as the rest of the U.S. And it's only expected to get worse.

California Farm Bureau

- California's regulations drive up production costs, making it difficult if not impossible, to compete with cheaper produced and frequently subsidized foreign product. This imbalance highlights the critical need for fair-trade policies that equal the playing field for U.S. producers.

Globalization presents opportunities to California agriculture?

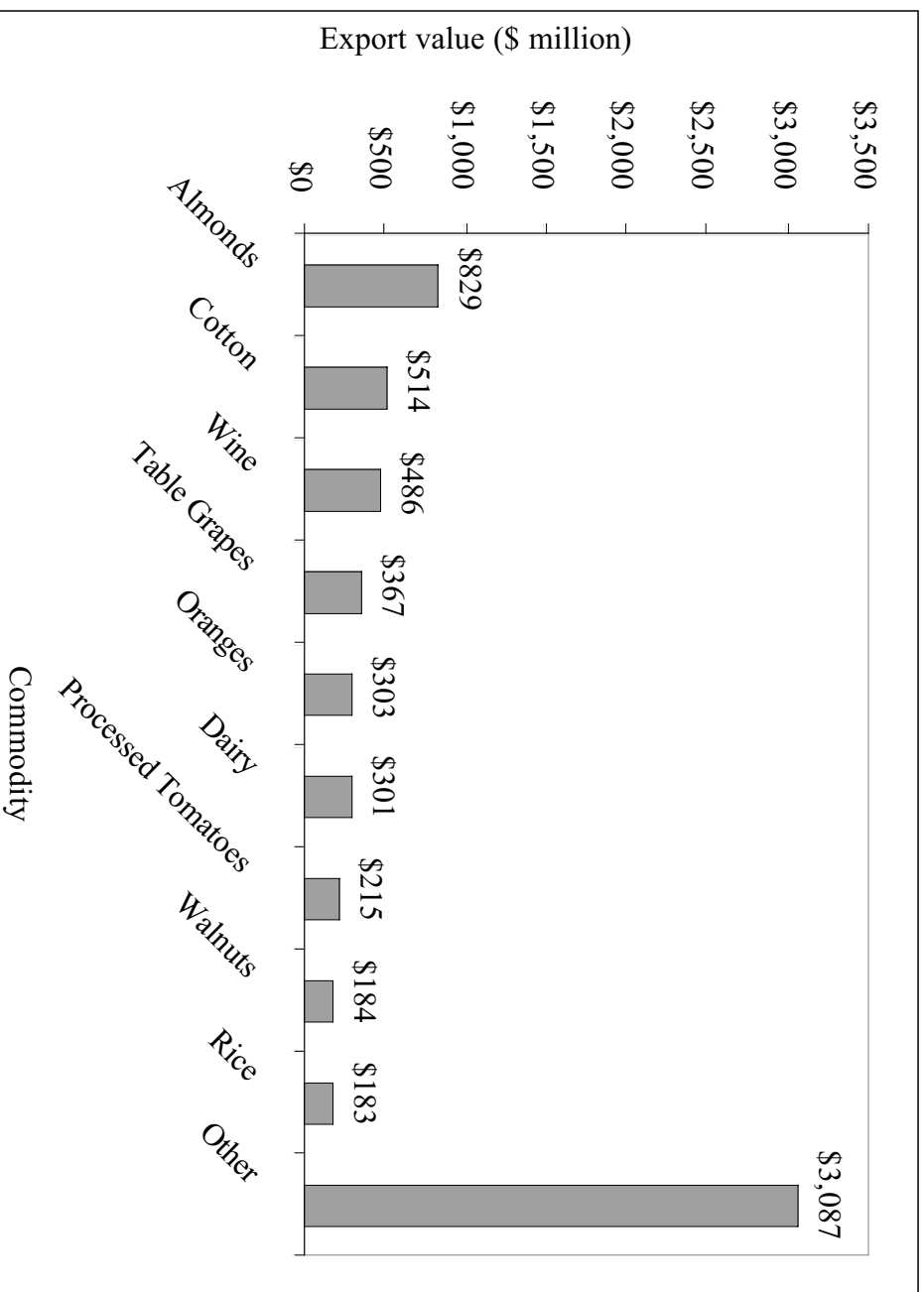
Cato Institute

- For exporters, trade expands markets abroad, making possible larger production runs and cost savings through economies of scale. Two sectors with the most to gain from liberalization are agriculture and services. In 1998 American farmers exported \$54 billion in products, accounting for about a quarter of their cash receipts, despite relatively high trade barriers against farm imports worldwide.

Foreign markets are critical for California

- The value of California agricultural exports totaled about \$6.5 billion in 2002, or about 20 percent of the value of agricultural commodities produced in California
- While California accounts for 12 percent of national farm cash receipts (USDA/NASS 1997), it accounts for an estimated 15 percent of total US agricultural export revenue

California's main agricultural exports, 2002



California's wealthy, protected markets

- Wine – EU, Canada, and Japan
- Almonds- EU, Japan, Canada
- Dairy- Mexico, Japan, China/ HK
- Grapes- Canada, China/ HK
- Walnuts- EU and Japan

Responding to competition and market barriers

- Export subsidy programs
 - DEFP
- Export promotion programs
 - MAP/ FMID/TASC
- Erecting new barriers to trade
 - Labeling- COOL and GM
 - “Branding” by Geographic Indicators
- Improving market access
 - WTO or bilateral agreements?

Dairy Export Incentive Program

- Direct federal subsidies for dairy exports to support high domestic prices for dairy products
- Costly to taxpayers and low-income consumers
- Identical to the sort of EU policies that US growers criticize
- CFBF calls for phase-out
- Feedback effects to the hay, alfalfa and cattle sectors

Export promotion programs

- Federal funds used to share foreign market development costs
 - Market Access Program- branded products
 - Foreign Market Development Program- generics
 - Technical assistance for Specialty Crops
- Studies suggest programs help assisted products to the detriment of unassisted products
- Why should the government assist companies in advertising brand-name products?

New barriers to trade?

- ***Country-of-origin labeling***
- ***GM labeling***
- ***Geographic Indicators***

Improving market access

- California agricultural producers cannot all win from increased trade liberalization but beware of pessimism:
 - Capital can substitute for labor
 - Standards are increasingly internationalized
 - Production choices are dynamic
 - Current foreign markets are highly protected
 - Rising incomes are generally accompanied by increasing demand for value-added agricultural products

Bilateral vs. multilateral agreements

- Bilateral or regional trading agreements may be less beneficial to California agriculture than multilateral liberalization
- It not realistic to expect significant trading partners such as the EU or Japan to unilaterally remove their barriers to market access
- Agreements with more minor partners (e.g., Australia and Chile) will bring few substantive economic gains

Where we stand at the WTO

- California's natural allies at the WTO are the Cairns Group countries
- California growers may have less in common with EU producers and growers in the Midwest or Florida
- Cotton, rice, and dairy producers may be the exception to this conclusion
- The breakdown in talks in September was largely a result of disagreements over government support to agriculture- what signals should California send to Washington for further negotiations?