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Structural Change Under Free Trade

Structural Change Under Free Trade: Hogs/Pork

Environmental Concerns. The principal problem of the hog industry is that it has lost favor with the general public and environmental groups. It appears that environmentalists simply do not want hog production. Environmental groups are very efficient and effective in communication including extensive use of the Internet. The hog industry cannot afford to let these issues go unanswered. Answers need to be factual and based on NAFTA. A third party audit system is being developed to deal with environmental issues. It is difficult to move into new areas of production within both Canada and the United States, and production could be driven out of the United States to Mexico and, potentially, to Brazil. The Mexican hog industry is growing very rapidly. Brazil is the lowest cost producer in the world but has animal health problems.

Structural Concerns. It is not generally recognized how integrated the hog industry has become. Less than 20 percent of the pork in the United States is traded on the spot market and 57 percent is tied to the spot market. This means that about 75 percent of the hogs are priced on 20 percent of the market. Another basis for pricing must be found.

Displacement of small hog producers is substantial. Older farmers are simply retiring. Another segment is moving into larger integrated operations as laborers. This turns out to be good skilled laborers who do better economically in this capacity than as hog producers. The remainder simply will drop hog production and become grain producers.

Structural Change Under Free Trade: Beef/Meat

The transformations that have occurred and are occurring in the beef industry have not been caused by NAFTA. They are the result of basic economic forces that are occurring throughout the agriculture sector. But NAFTA has allowed these changes to take place in a relatively unimpeded manner.

However, free trade has not yet been achieved. There are specific persistent impediments, including no harmonized grading system, no free two-way exchange of disease-free animals across the borders, and trade actions resulting from claims of dumping. In reaction the following observations were made:

- It is anticipated that private branding will displace USDA beef grades.
- Mexico's beef/meat sector is highly influenced by climate and consumer preference. The Mexicans raise cattle and cut meat differently than either the United States or Canada. This results in differences in concentration, marketing, and pricing.
- Disease-free animals will continue to be a major goal since food safety is a priority concern, yet there is a need to be able to move disease-free animals both ways.
- U.S. feed subsidies contribute to a significant unlevel playing field in livestock production.
- An interesting additional trade barrier involves the requirement that U.S. school lunch components or major ingredients must be of U.S. origin.

There were supposed to be an ongoing process for negotiating removal of such continuing problems. These objectives have not been realized. Again the point was made that antidumping actions make no sense in agriculture where sales of raw commodities frequently are made below costs when prices are very low. The only remaining defense ends in these actions is the issue of economic harm, which frequently ends up being a political call.

Country of Origin Labeling. There was considerable discussion of whether country-of- origin labeling was a positive or negative factor. The consensus was that it was a negative strategy. The added cost was viewed as being a major concern. In addition, there was a concern that a constant process of policing would occur over whether the origin, in fact, was as specified. This is particularly the case since live animals move back and forth across borders.

Future of Research. The expectation was that private sector animal science research will gradually replace public sector research.

Structural Change Under Free Trade: Crops

There appear to be differences across the three countries regarding the impacts of NAFTA on structure of crop farms. Related observations include:

- The United States impacts have probably been relatively small partly due to the size of the U.S. crops sector and partly due to the level of subsidization since 1996.
- The Canadian impacts have been substantially larger because of major reductions in crop subsidies. The big change is in terms of diversification, with major changes occurring in consolidation as well.
- In Mexico the big adjustments have been in terms of shifts from crops to fruits and vegetables, and from livestock to crops in marginal areas.
- Privatization of railroads (realized in Canada and potentially in Mexico) has major importance from a trade perspective.

NAFTA gets the blame for many economic adversities and adjustments for which it is not responsible. Consolidation within agriculture is the long-term phenomenon resulting in reduced farm numbers. The root of the problem may not be with NAFTA, however, it is an excuse repeatedly used. If there were full free trade (without distortive subsidies) under NAFTA, greater specialization within countries should be anticipated. For example, Canada could be expected to produce a larger share of the wheat, the United States a larger share of the corn and soybeans, and Mexico a larger share of the fruits and vegetables.

There is need to include analyses of the costs associated with externalities in the effects of NAFTA. For example, displacement of farms is clearly a cost. There has been substantial displacement, but there is a big issue of how much is due to NAFTA.

Conflict Resolution. Going to full free trade would be expected to lead to a number of unanticipated consequences. For example, it is quite possible that freer trade gives an advantage to larger producers and to large and multinational corporations. It was pointed out that resolving conflict “is 80 percent process and 20 percent content”. More attention needs to be given to the process, an important component of which is involvement of the stakeholders.

Section 5

Role of Government In Facilitating Change

*This section examines policies
and programs in relation to
consistency with full free trade,
and changes required to
achieve that objective*