



The Future of North American Market Integration *A U.S. Perspective*

USDA Agricultural Outlook
Forum

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World Perspectives, Inc.



Components of this Outlook



1. **Trade Policy:** Without significant multilateral market access gains, regionalism will expand.
2. **Asset Inventory:** North American agriculture currently has dominant agricultural assets, but competitors threaten.
3. **Case Study:** The livestock sector has advantages that warrant a focus on deepened integration.
4. **Maximizing Strengths:** The complete North American package.



A Hedge on Doha

Importance of NAFTA



Doha Trade Negotiations



Preface:

- Every major macroeconomic study shows that commodity prices rise under trade liberalization.
- Free, flexible economies prosper in a market driven environment.



Doha Development Agenda



- **Demographics:** Three-quarters of the world is comprised of poor people; over half in agriculture.
- **Leadership:** Their leaders contend that rich country agricultural support and protection makes and keeps them poor.
- **Reality:** Poor governance, lack of rule of law, corruption, etc. stifles economic diversification.



Policy Goals of the Doha Majority



- **Rich Countries:** Eliminate Support and Protection
- **Developing Countries:**
 - Special and Differential Treatment
 - Special Products/Sensitive Products
- **Suggested Result:** 2.5 Bil. poor farmers working 0.3 ha. apiece out-compete American farmers (for example) currently feeding 144 people on average, and get rich.



Regionalism Expands



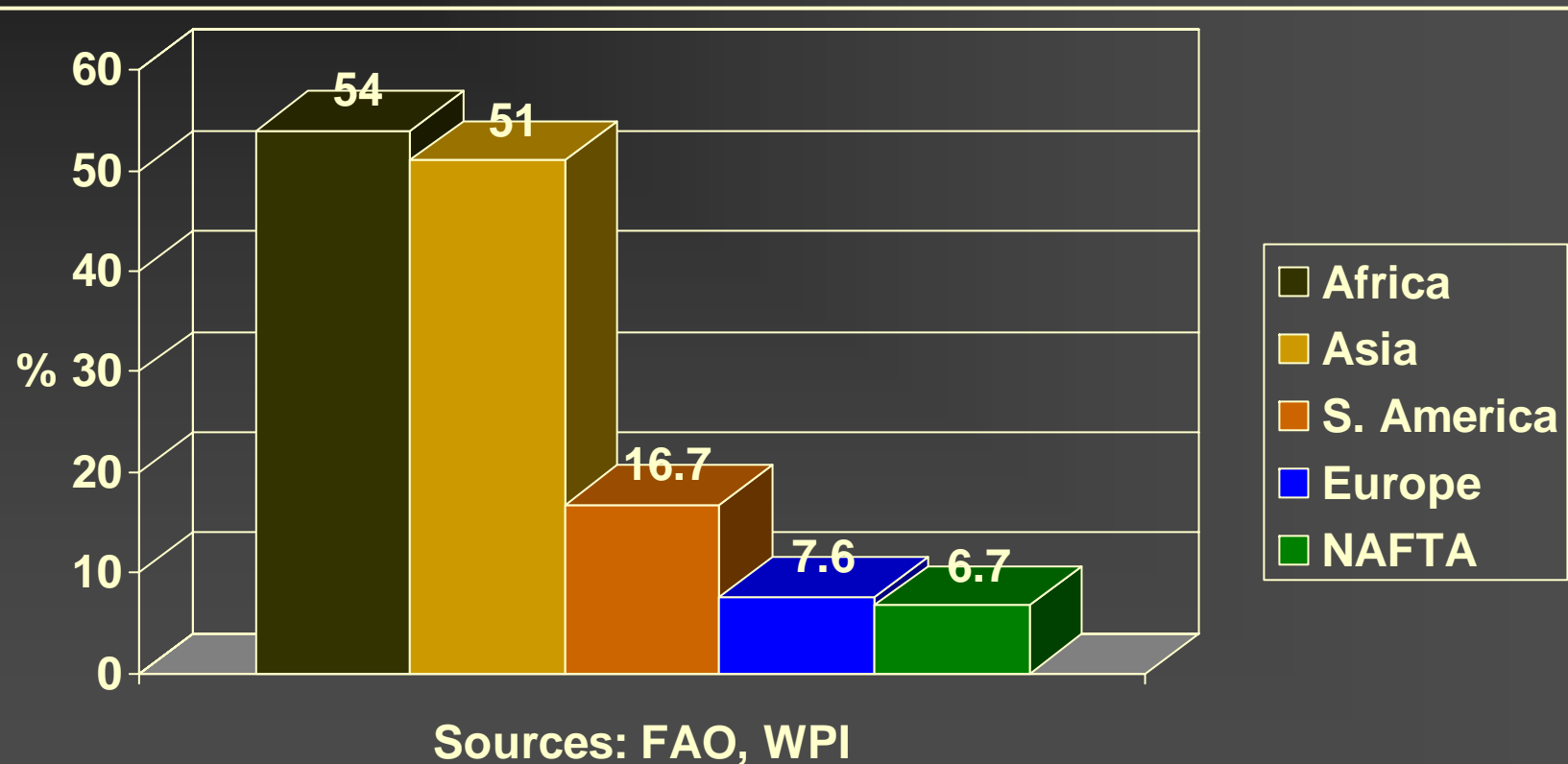
*Until and Unless there is movement by
the G-10, the G-20, the G-90, etc.*



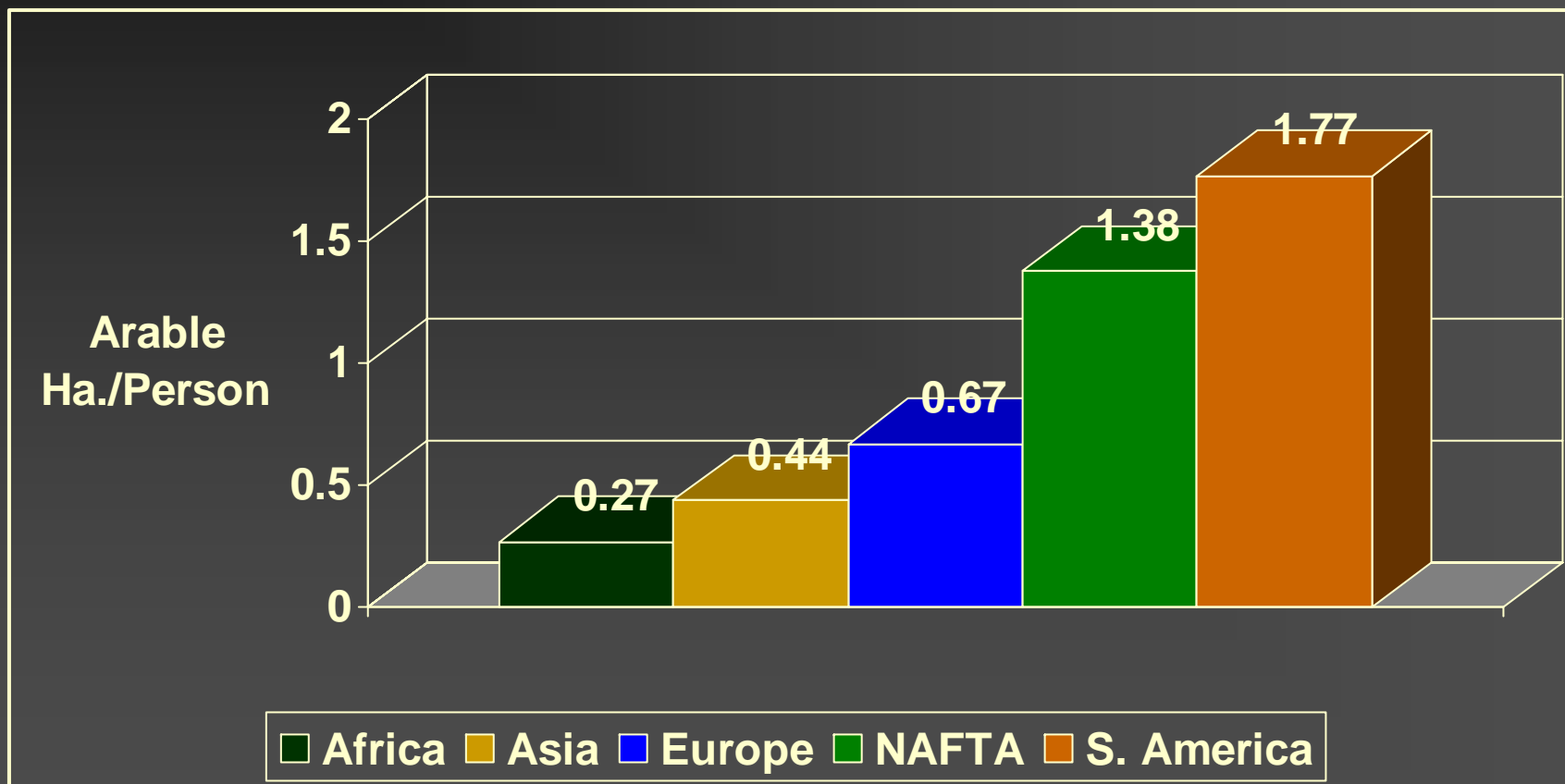
How to compete in a regionalized world.

North American Advantages

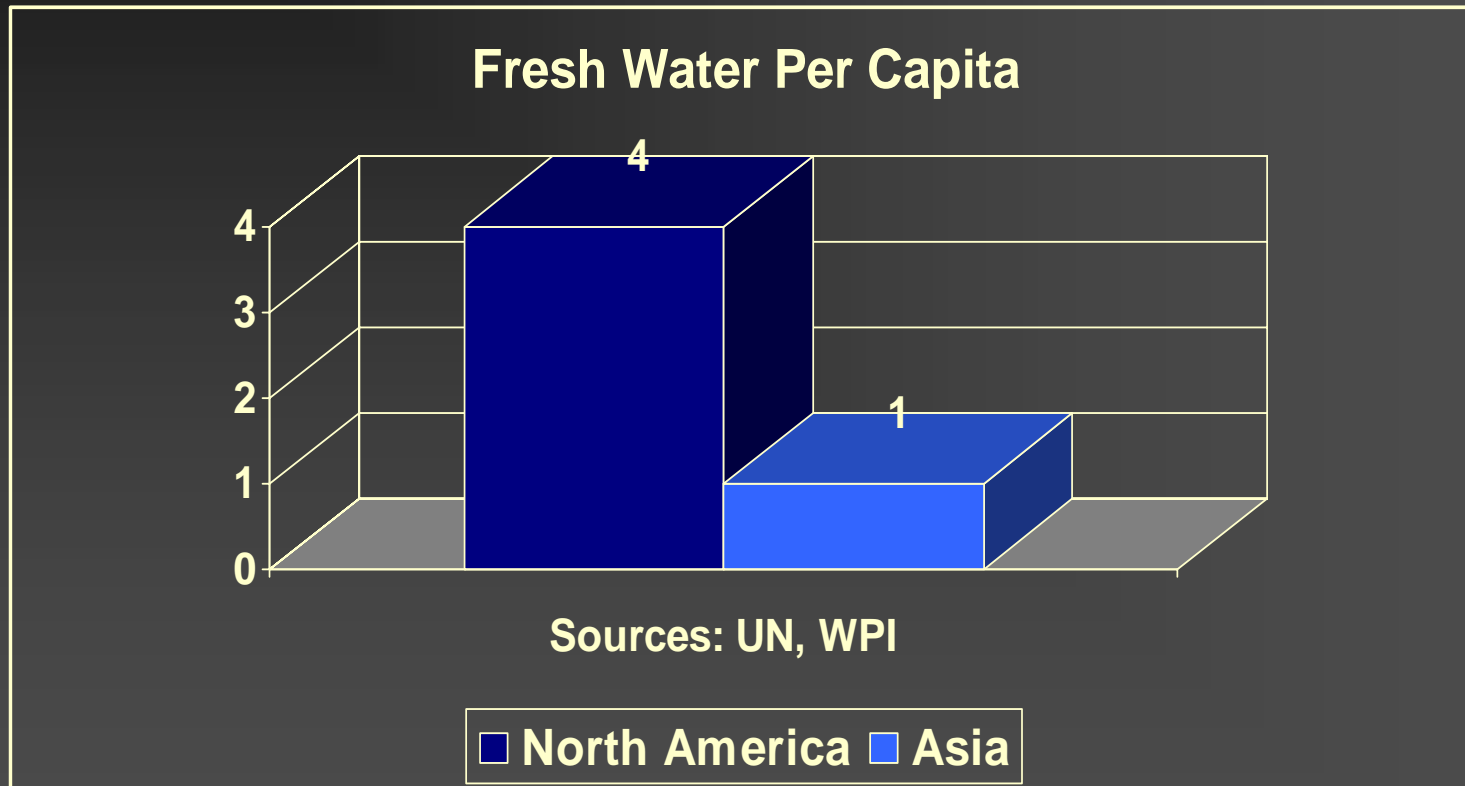
Share of Population Engaged in Agriculture



Land: Resource Advantage for Americas

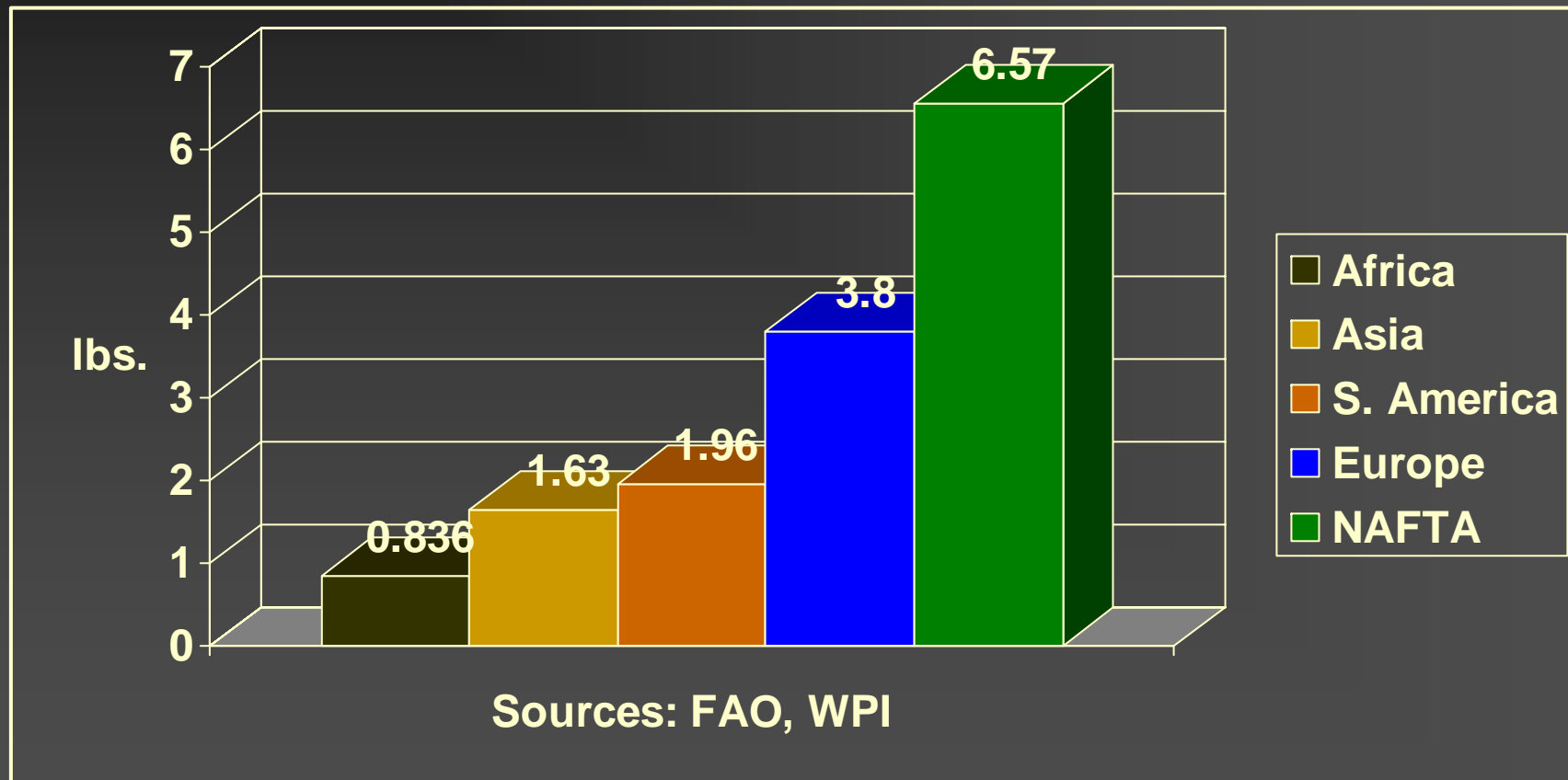


Water: issue of 21st century—

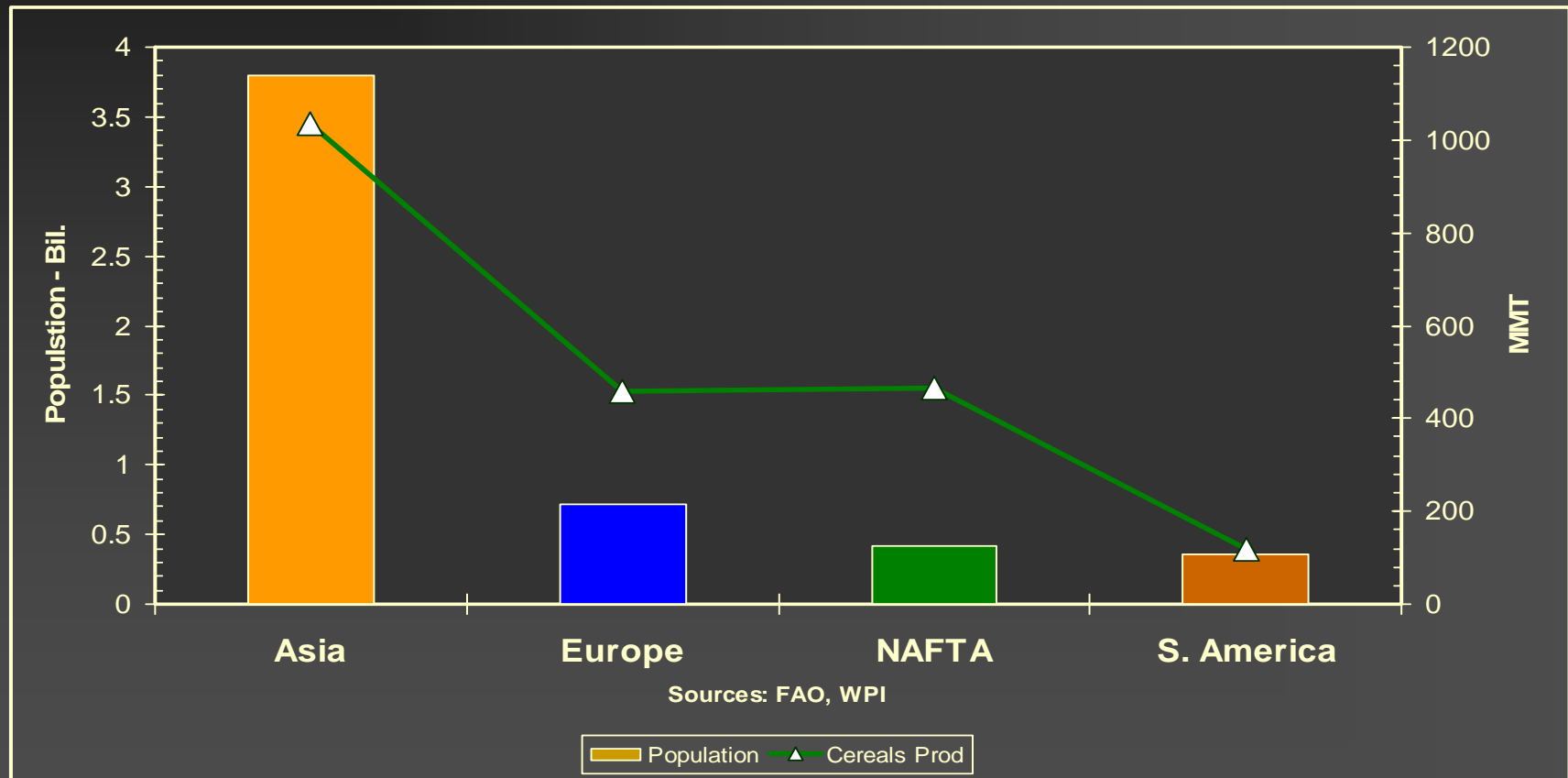


North America has the most (90,000 km³)

Cereal Production Per Person Per Day

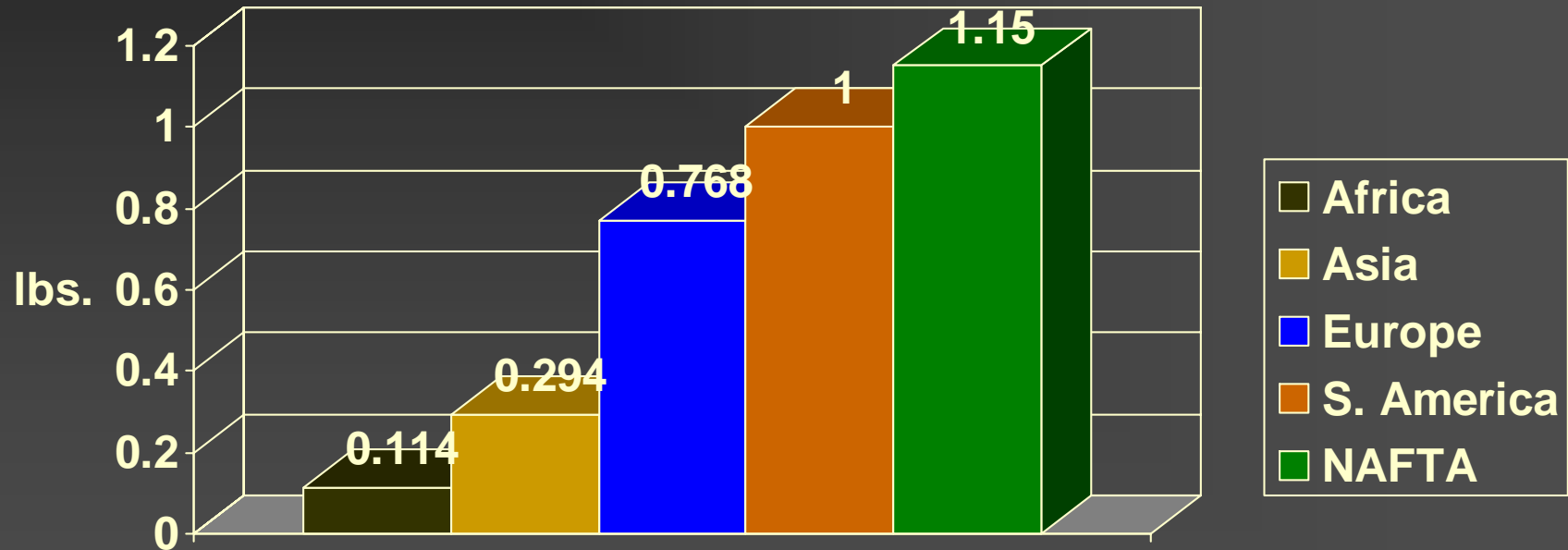


Cereal Production and Population



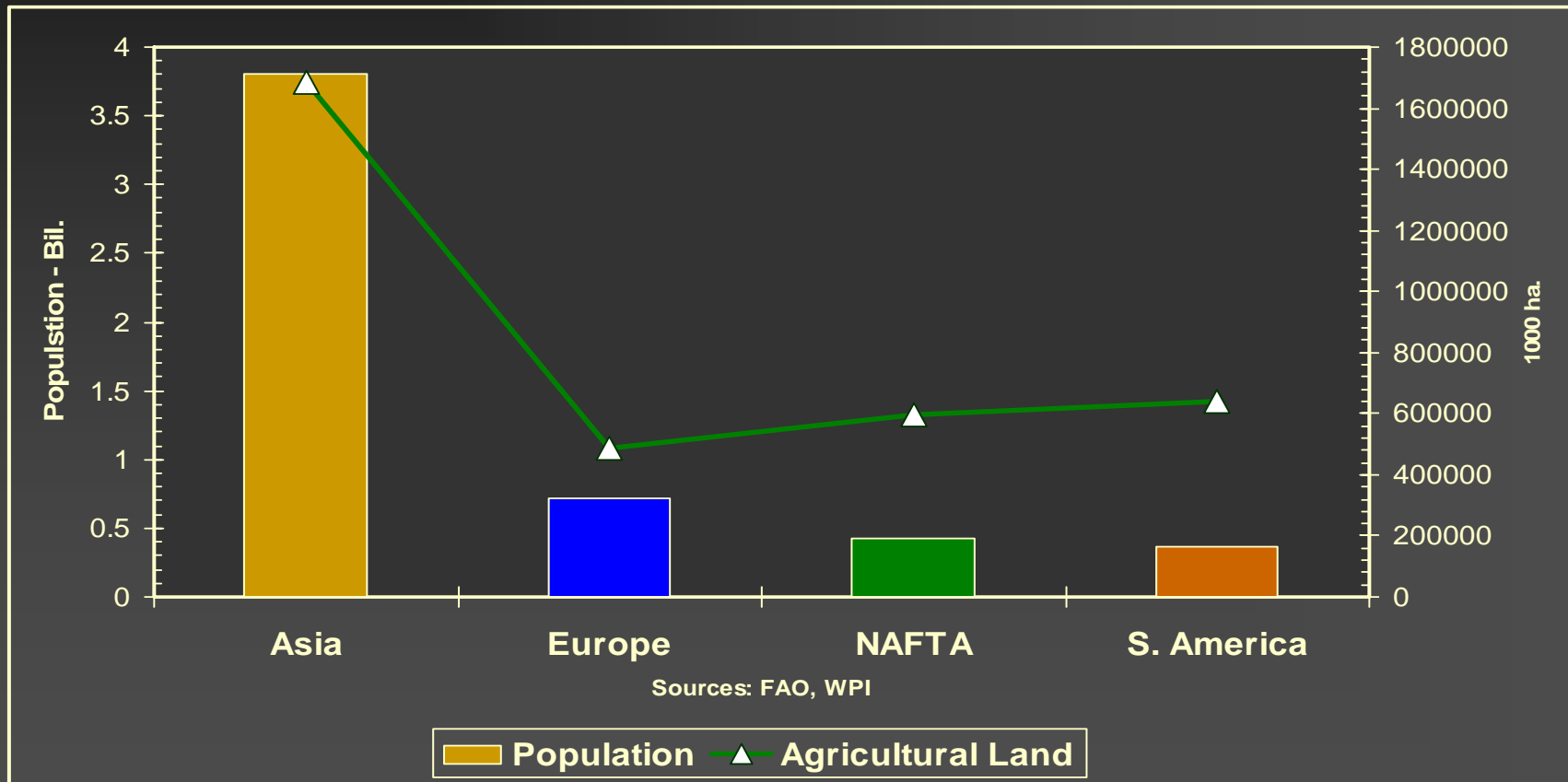
Meat Production Per Person Per Day

Meat + Poultry + Pigmeat



Sources: FAO, WPI

Surplus Cereal Production Potential





Livestock Production Growth 2004 – to 2014



- **Pork:** Brazil +100kmt/yr.
- **Poultry:** Argentina +40%;
Brazil +60%
- **Beef:** Non-U.S. +22%



Brazilian Livestock Exports



Since 1997, ...

- Broiler meat +190%
- Beef +273%
- Pork +490%

Brazil becoming #1 exporter.



Case Study

Maximizing the North American
Livestock Industry



Optimal Livestock Production is Regional



- Canadian Prairies = Montana and Wyoming = Mexico's Plateau Region (less some water)
All three areas are optimal for cow-calf operations.
- Economics and agronomics creates an efficient circuit of then moving feeders to Midwest grain supplies.



Competitive Risks and Opportunities



- **Risk:** Under regionalism, the competition to North America feeding animal protein to a hungry world is South America.
- **Opportunity:** Because of FMD, infrastructure limits and politics – S. America lacks an optimal circuit.
- **Risk:** Politics in N. America interferes with its efficient circuit, and consequently detracts from North American competitiveness.



SPS Pilot Project



- Major animal protein companies moving product within NAFTA.
- Industry optimizes under consistent, objective, timely regulation.
- Harmonization: SPS Agreement, BSE, Africa FDA.
- Formalize effort at a North American standard for meat and livestock.



North American Competitive Advantages



1. Capital/Resource Base
2. Technology
3. Management Capacity

Capital

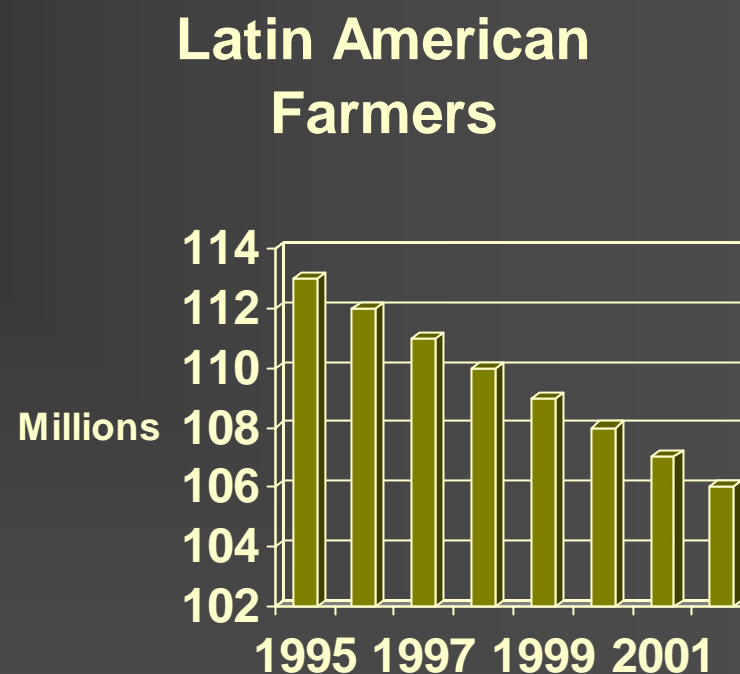
- 25% of Global GDP
- McKinsey: U.S. food
- Safer investment – Lower return

Science/Technology

- Rabobank Study: Labor + Machinery
-- U.S. is 25-45% less expensive than Brazil and Argentina respectively; technologies eclipse labor.
- GIS, GPS, remote sensing, auto-steering
- Biotechnology

Management Capacity

- Readily Transferable Skill
- Culture



Source: FAO



Thank you.