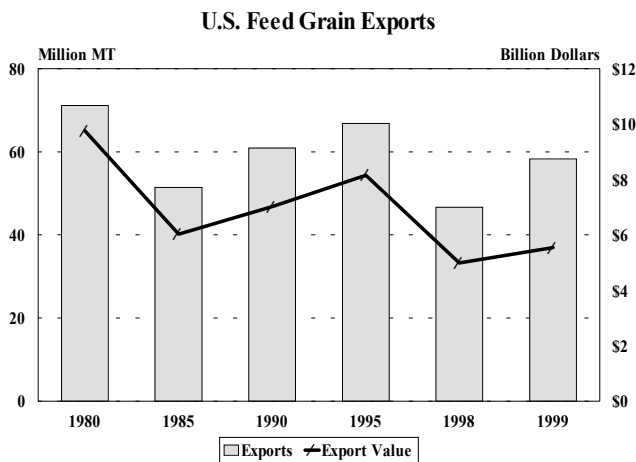


Leaflet 6. Feed Grains, Soybeans and the World Trade Organization

Albert Allen, Department of Agricultural Economics, Mississippi State University

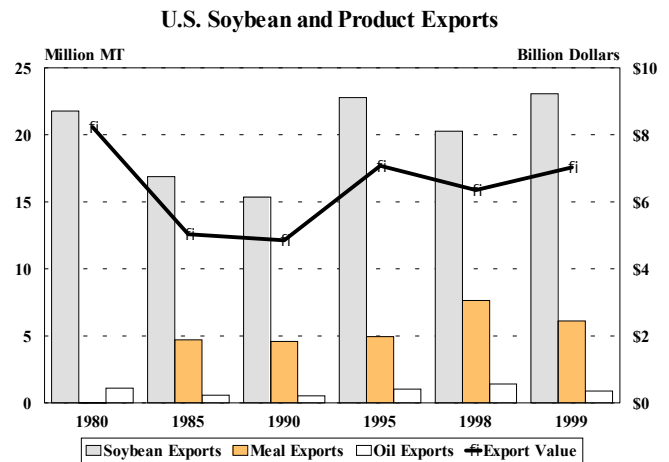
Trade Situation and Outlook

The purpose of this commodity fact sheet is to identify the major exporters and importers of corn, soybeans, soybean meal, soybean oil, grain sorghum, and oats and to provide an overview of issues that are currently affecting trade in the feed grains and soybean sectors. There are several key issues that will affect these areas. Major issues include, export subsidies, domestic subsidies, genetically modified organism (GMO) products, and regional economic integration agreements.



Subsidies. Export subsidies are generally considered one of the most distorting trade tools used by governments to interfere with commercial markets. Export subsidies allow a government to determine the level and direction of trade solely on the basis of government subsidies, lowering world prices and denying sales for other, more competitive exporters. Not only are export subsidies unfair commercial tools, but they also encourage surplus production, encourage the use of non-environmentally friendly chemicals, waste government budgets through

the increase of taxpayer's costs, and in many cases may delay the needed restructuring of domestic industries. Several forms of export subsidies will be addressed by World Trade Organization (WTO), including government financing of exports, export promotion programs, and tax benefits.



Domestic subsidies are another major issue that could distort soybean and feedgrain trade. Domestic subsidies that increase domestic prices above world prices can only be maintained consistently over time by keeping out competitive imports. In general, when domestic prices are above world prices, over production of feed grains and soybeans are encouraged in the countries that utilize domestic subsidies, increase the use of inputs, and encourage imports. However, imports are usually discouraged by imposing very high import taxes or import quotas.

The main results of the use of domestic subsidies is the increase in the use of export subsidies and the decline of world prices as non-subsidized soybeans and feed grains become relatively more expensive. WTO will work to reduce domestic subsidies.

Major Trade Issues

Genetically Modified Organisms. GMO products have had and will likely have a major impact on the feedgrain and soybean sectors. Advances in biotechnology in the production of grains and grain products have become increasingly important in world trade of food products. One of the main issues concerning world trade of GMO products is the concern of consumers for food safety. Many consumers fear that GMO products will adversely affect their health. Due to this concern, consumers in the European Union and Japan are increasingly demanding products that are non-GMO enhanced or labeled that GMOs are present. This could reduce the demand and export of GMO products from the U.S., Argentina, Canada, Spain, France, and others.

If exporters do not deliver the type of products that consumers demand, this could lead to a decline in the customer base for biotechnologically enhanced products. WTO members could consider the coordination, testing, and education of consumers about the benefits and health risks that might be associated GMO products. This would enable consumers to be better informed so that they can make better decisions.

Although scientists agree that GMO products are safe, consumer groups, environmentalists, political leaders, doctors, and others are increasingly debating the health, environmental and ethical issues

surrounding these products. In European countries, governments have delayed the acceptance of corn varieties that are GMO enhanced. This could lead to world wide delays in the marketing of these products to consumers.

Another issue that is important is the regional economic integration agreements such as CUSTA, NAFTA, MERCOSUR, and others that provide free trade within an area that likely expands intro-area trade at the expense of trade with outside nations. The test of trade enhancement versus displacement to outsiders depends on how protectionist the area becomes to non-members and how internal trade is affected. In theory, world free trade is preferred to regional free trade. A serious shortcoming of regionalism is that it can lead to intense and predatory economic (and perhaps military) confrontation among regional economic integration agreement areas.

Although, free trade is a long term objective WTO members will continue to monitor regional economic integration groups for any adverse effects on non members trade and economic prosperity. In order for countries to have free trade, the regional economic integration groups should be eliminated. Regional economic integration may even detract from “free trade” in the world.