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U.S. Farm Economy: Near-Term Weakness

Overall conditions in the farm economy in early 2000 are largely a replay of last year. Markets for major commodities, particularly field crops, are very weak as supplies remain relatively large. Despite the severity of the market downturn for many producers, an overall farm economic crisis has not materialized, due in large part to built-in government support and supplemental emergency economic and disaster assistance. Positive developments in U.S. agriculture this year include higher cattle and hog prices and a fairly strong national farm balance sheet.

Longer term developments, including movement back to sustained global economic growth, will strengthen agricultural trade and income prospects for U.S. farmers, according to USDA's 10-year baseline projections. Economic recovery is underway in most countries affected by the global financial crisis of the late 1990's. Economic growth, especially in developing countries, is providing a foundation for gains in global demand, agricultural trade, and U.S. agricultural exports.

Food Price Rise Expected

The consumer price index for all food is expected to increase 2-3 percent in 2000, following a 2.1-percent increase in 1999, the smallest gain since 1992. The 2000 rise will be closer to the high end of the projected range if energy prices remain at elevated levels for 6 months or more or if demand for meat products is greater than expected.

U.S. Organic Agriculture Gaining Ground

U.S.-certified organic cropland more than doubled during the 1990's, and eggs and dairy grew even faster**.** U.S. producers are turning to organic farming as a way potentially to lower input costs, decrease reliance on nonrenewable resources, capture high-value markets and premium prices, and boost farm income. Markets for organic vegetables, fruits, and herbs

have been developing for decades in the U.S., and organic grain and livestock markets are emerging. Under USDA's new proposal for regulating organic production and handling in the U.S., purchasers of organic foods would be able to rely on uniform and consistent national standards for defining the term "organic."

Free Trade Area of the Americas: Benefits for U.S. Agriculture

Progressive elimination of trade and investment barriers within the Western Hemisphere is the goal of the Free Trade Area of the Americas (FTAA), a regional agreement under negotiation among 34 countries, including the U.S. The FTAA will expand market opportunities for U.S. agricultural products by progressively eliminating tariffs and nontariff barriers, facilitating investment, and helping to lock in the unilateral policy reforms of member countries**.** U.S. agricultural export growth, and the more efficient resource reallocation that follows reduction of trade barriers, will strengthen U.S. farm income. The commitment of the pact to implement and advance WTO disciplines suggests that the FTAA can complement U.S. efforts to liberalize agriculture in a multilateral setting.

Emerging Trade Issues For Developing Countries

Global trade negotiations will involve increasingly significant participation by developing countries. Agriculture often provides a large share of export earnings for developing countries. Key agricultural trade issues for particular countries are determined by the specific commodities they trade, by their economic and trade policies, and by their level of development. Developing countries are recognizing that participation in multilateral negotiations provides an opportunity to enhance their trading position and advance their development goals.

Biotechnology: Implications For U.S. Corn & Soybean Sectors

Uncertainty in marketing bioengineered crops abroad stems in part from potential limitations from government policies and the direction and intensity of consumer preferences. A key factor in assessing potential impacts is export share of use, about 18 percent for U.S. corn in 1998/99 and 42 percent for soybeans. With the U.S. supplying two-thirds of global corn trade, importers cannot easily satisfy demand with alternative sources. Traditional competitive forces (mainly prices) appear to be the main factors behind changes in bilateral trade patterns for soybeans. The biotech issue has potential to influence world trade flows, and consumer preferences may create two potential markets in the future.

Segregation of biotech and nonbiotech commodities could become a consideration for grain handlers. Keeping the commodities separate could be accomplished by "crop segregation" or "identity preservation." These marketing practices to preserve a commodity's unique characteristics are an extension of practices already used to preserve differentiation of value-enhanced commodities such as high-oil corn. USDA's Economic Research Service has developed a scenario indicating that added costs for segregating nonbiotech corn and soybeans could be higher than the added costs of segregating value-enhanced crops.