

The Business Merits of Agricultural Trade

Agriculture in a Global Economy

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Who am I?



Hard to prepare for this talk and not think about a trade war

- The Economist magazine (2018), citing Bindiya Vakil, CEO of Resilinc which is a supply chain analytics and management firm, writes that “most companies are unable to quantify the risk of a serious trade war.”
- We could not feed nutritional and varied diets for 330+ million people in USA without trade
- Remember there is a human dimension in all of this
 - Farm Bill contains five programs for trade missions, etc. Farmers, commodity employees, other stakeholders have visited / hosted

Why have supply and value chains developed?

- Improved communication systems allowing for better monitoring of quality, tracking of shipments, and coordinating of steps through the marketing chain of time-sensitive food products.
- Greater use of intermodal systems and the reefer box, a mobile refrigerated warehouse, from the point of production to the point of consumption combined with modern container terminals, allow for quicker turnaround in ports and faster delivery of product over greater distances.
- Improvements in refrigeration and controlled atmospheric packaging and humidity control occurred that reduce spoilage and allow the substitution of cheaper ocean shipping for air transport.
- Many packaging innovations have occurred including fruit and vegetable coatings, bioengineering, and other techniques that reduce deterioration of food products and help shippers extend the shelf life.
- There has been an increase in the use and size of crane capacity in ports, adequate storage space, and ready access to highway and rail connections.
- Customs and inspection services have improved to become more efficient and timely.

Agricultural Production

- Annual crops
 - Perennial crops
 - Meat and Poultry
 - Dairy
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- Many producers want to the opportunities presented by export markets through being part of the origination process in the supply or value chain – must be aware of the risks
 - Some producers may not want to participate by not being part of the origination process and complying with what the Supply Chain Captains desire.

Trade Agreements

- How many of you have actually read a free trade agreement?
 - Do it sometime to educate yourself
 - It has become in vogue to criticize these without ever having read them
- In most cases, we (United States) are imposing our food safety, risk assessment, notifications, etc. on signees to these arrangements
 - Even labor, environmental, etc.
- Many, many, many, many benefits to food consumers and producers
- Free trade is an idea
 - The reality is that trade is a series of negotiations with rules

Current issues that impact supply and value chains in global agricultural trade

- Global Trademarks, Certification Marks, and Geographic Indications
- Food brands – brand value in general
- Animal of Origin vs. Farm of Origin and Country-of-Origin
- Timely Resolution of SPS Issues
- Management of Global Price Risk in a Supply Chain
- Compliance and Enforcement of Buy American in School Nutrition Programs
- Organizational Structural Issues
- Implementation of Food Safety Modernization Act (FSMA)
- Unforeseen Policy Decisions

Implications for Lenders

- Lenders financing production agriculture assets that are contingent upon exports have a degree of risk that is not readily understood.
- Fluctuations in exchange rates, lack of transparent information on future supplies in the United States and in export markets, lack of understanding of forecasted demand and what is happening in export markets, and political risk due to changes in policy. Likewise, firms strategy can be an issue. Firms practicing transfer-pricing methods can choose to declare where to declare profits, which can disguise where the profits really originated with an integrated supply or value chain.
- Loans made for fruit, nut, and vineyards (that is, olive and wine) that are long-term investments relative to annual crops deserve scrutiny especially if the products are designed for the export market.

Implications for Lenders

- Consider last five years
 - Dairy industry and eastern European countries
 - Corn – ethanol and exports
 - Dairy industry and eastern Asian countries
- Risk we do not know.
 - Plant-based meat
 - Growth in aquaculture
 - Geographic diversification of fruits and nuts
 - Electric cars and similar technologies
- Economic obsolescence and stranded capital assets in global supply and value chains
 - Fixed factors of production