

Trade and Trade Policy Prospects for California Agriculture

Daniel A. Sumner and
William A. Matthews

California farms and allied industries supply food and other farm products to consumers all over the United States and the world. At the same time California agriculture relies on equipment, supplies and technology imported from many sources, while California consumers rely on imported foods, flowers, and other farm products. International connections permeate economic relationships in California agriculture. While new agreements can achieve additional gains from trade, there is also much to lose from destabilizing current agreements.

News and speculation about international trade prospects and policy have been everywhere for the past year or so, especially in the context of the Presidential election. This brief article highlights the role of international trade in the economics of California agriculture.

Given its unique set of commodities, much of what is produced in California seeks markets elsewhere. About 20% to 25% of the quantity of California farm production is exported, often in the form of processed products. About 60% to 65% of California production is shipped to the rest of the United States. The share exported varies from year to year, but differs even more from product to product. For example, essentially all cotton and most almonds are exported, whereas almost all the lettuce and other leafy greens, which are highly perishable, are destined for the United States (and to some extent Canada).

Export values and destinations for products from California farms and ranches are estimated every year by UC Agricultural Issues Center (as a part of an annual project with the California Department of Food and Agriculture) for more than 20 years. AIC uses Federal export data by detailed product code, port of export, and destination. Official data from Canada provide some information on the state of farm origin for U.S. products shipped there. USDA reports information on product compositions, which allows estimation of farm commodity inputs into processed products and mixtures. California agricultural industries supplement data from public sources. Table 1 provides some summary export data for ten major California farm products.

Many factors determine agricultural trade flows including crop yields, local and global market prices, exchange rates and consumer incomes and income growth. In addition, trade policy, including trade agreements, is vital for California agricultural trade. Every major export destination and every major source of imports have lower trade barriers and improved

access to the U.S. market because of membership in the World Trade Organization and often bilateral and multilateral agreements. Often these agreements allow trade to cross national boundaries without taxes added at the border, which benefits both producers and consumers. Membership in trade agreements also allows an enforceable legal framework for dispute settlement and to head off potential trade conflicts before a dispute is formalized.

Of course, benefits of trade are not distributed uniformly across companies, workers or customers. As with most other economic activities, access to trade provides benefits to competitive suppliers and local customers who patronize efficient firms with access to the local market. Trade barriers that keep out competition can benefit farms and ranches that have higher costs, but penalize consumers of those products even more. Similarly, when California farm products gain better access to outside markets, local consumers often must pay more. Net benefits of open market access are often realized in the form of a more innovative and dynamic economy that

Table 1: California Agricultural Export Values and Ratio of Export Quantity to Farm Production, Top Export Commodities in 2015

Rank	Commodity	Export Value (in \$millions)	Ratio of Exports to Production
1	Almonds	5,144	0.65
2	All Grapes	2,581	0.21
3	Dairy and products	1,632	0.29
4	Walnuts	1,485	0.60
5	Pistachios	848	0.90
6	Tomatoes, processed	813	0.27
7	Rice	751	0.51
8	Oranges and products	582	0.37
9	Strawberries	390	0.10
10	Seeds	340	— ¹
Total of all agricultural exports		\$20,687	0.39 ²

¹ Ratio of seed exports to production is not available.

² Ratio of total exports to production is an average of 53 principal commodities.

adapts to those productive activities to which it is best suited. But that does not mean that all producers, workers or consumers gain, especially during a period of intense adjustment.

For California, the most important “free trade agreement” has been that among the states of the United States. The U.S. Constitution prohibits states or local governments from enacting undue barriers to free flow of goods and services across jurisdictions. Such flow has allowed California agriculture access to 300 million customers and also allowed access to farm inputs and consumer products.

The most important international trade agreements for the United States were implemented many years ago and no new agreements have been successfully negotiated for almost a decade. Support in Congress dissipated to such an extent that both the Trans-Pacific Partnership (TPP) and the Transatlantic Trade and Investment Partnership (TTIP) lost support for implementation many months ago. These agreements would have been mildly positive for California agriculture and the California economy as were prior agreements.

The United States has now begun a new era of trade negotiations, with proposals for modifying existing agreements such as NAFTA and entering into new bilateral agreements. Four points are useful to understand prospects for California agriculture in this context.

First, no agreement is perfect in hindsight, and certainly each party to an agreement has a list of items that they would like to change ex post. That is true of NAFTA and all the other agreements. But finding overlaps and tradeoffs among the proposed changes is difficult. Successful renegotiations require that both parties benefit, which is why major amendments to agreements are rare. The exception is the

multiple rounds of negotiations of the largest of multilateral trade deals, the General Agreements on Tariffs and Trade (GATT), which progressively opened markets globally over eight agreements from 1947 to 1995. Importantly, and to highlight recent difficulties, consensus to significantly amend the GATT has largely evaporated over the past 22 years, and there are few prospects for renewing those negotiations.

Second, new bilateral agreements, for example with Japan, the United Kingdom, and the growing economies of Southeast Asia, could be economically significant for California agriculture. The U.S. government would serve agriculture well by searching for ways to undertake such negotiations.

Third, threat of unilateral trade actions invites retaliation that raises the potential risk of severely damaging market access for California agriculture. For example, Mexico is the major export buyer of California dry milk powder, among other products, and is a major source of off-season fruits and vegetables. Besides affecting trade relationships, unilateral trade actions, including unilateral “renegotiations,” reduces the prospects for successful negotiations of new agreements if unilateral actions cause trade partners to question U.S. reliability.

Finally, one of the most important principles of trade economics is that nations benefit from strong economies among their trading partners. Successful trade agreements stimulate economic growth among all partners and growth in one benefits the others. California does better when the rest of the U.S. economy does well and when major trading partners such as Canada, the EU, Japan, China, and Mexico do well. Actions that damage the economies of our trading partners are bad news for exports and even for imports.

In summary, there are opportunities for improving economic prospects for California agriculture. Improving export and import access are among those opportunities. Maximizing the value of access hinges on opening markets and growing markets among our trading partners.

AUTHORS' BIOS

Daniel Sumner is the Frank H. Buck, Jr. Professor in the ARE department at UC Davis. Dan is the director and William Matthews is a project scientist at the UC Agricultural Issues Center on the Davis campus. They can be contacted by email at dasumner@ucdavis.edu and wamatthews@ucdavis.edu, respectively.

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For additional information, the authors recommend:

California Agricultural Exports, AIC, 2015. <http://aic.ucdavis.edu/california-agricultural-exports-year-2000-through-latest-available>.

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