POLICY PENNINGS By Daryll E. Ray

Globalization of world markets increases reach of multinational ag suppliers

"It's a free country." This phrase means different things to different people. But it usually encompasses the idea of freedom to make one's own decisions and choices from among a multitude of available options.

As it relates to farmers' business decisions, it means the economic freedom to buy Case International or Kubota tractors, sell grain to the coop or Cargill, buy seed from Delta Pine or Pioneer, borrow operating capital from the local bank or an input supplier and so on and so on.

In the past, farmers in many countries did not have such freedom of economic decision-making. In some countries, seed, fertilizer, credit, machinery and replacement parts were managed centrally with little opportunity for choice or entrepreneurial innovation. In other—mostly less-developed—countries farm managers also operated with few agribusiness alternatives. Generally, multinational agribusinesses had little or no presence in these countries.

But two events have helped increase the presence of multinational agribusinesses in many of these countries. One is the transition of several countries from centrally-planned to more market-oriented economies. The other is the increased globalization of the world's economies and the movement toward freer international trade. Not that multinational agribusinesses have not been active internationally before these events¾they have. But these events either opened up formerly unavailable markets or permitted greater access to existing markets.

This increased presence of multinational agribusinesses and the infrastructure investment, logistics expertise, and technology transfer that they bring to a country's agriculture is the stealth of economic globalization and freer trade. That is, it was not seen as an important consideration during analyses of freer trade on the world's agriculture economies and still little attention seems to be paid to it. It is not that multinational agribusinesses are trying to hide their increased involvement in the agricultures of the world. In fact, they often trumpet it. Some recent examples of multinational agribusiness' investments and allegiances are:

· On August 21, 2000, John Deere inked a deal with the Tianjin Tractor Manufacturing Company to form a joint tractor manufacturing operation¾John Deere Tiantuo (JDT). John Deere will hold a 51% stake in the new operation. The expected annual production is 9,000 55 to 80 hp tractors. In a company press release, Robert W. Lane, President and Chief Executive Officer of John Deere & Company is quoted as saying, "JDT will make a significant contribution to China's agricultural productivity and continued economic development."

· John Deere has recently entered into a joint venture with India of the manufacture of 55-horsepower tractors. The factory has the capacity to manufacture 30,000 tractors per year which Deere expects to attain in four years.

· China Food and Agricultural Service (cnfas.com) recently posted the following: "Cargill has reportedly signed a joint venture agreement with the Yunnan Phosphate Fertilizer Factory, a deal valued at $30 million that will be used to upgrade existing manufacturing capacity. Eventual DAP [diammonium phosphate] production from the new venture is expected to reach 600,000 metric tones. Cargill also operates several other projects in China including feed mills and a domestic agricultural commodity distribution operation in partnership with Chinese and Japanese companies."

· On August 28, Reuters reported, "U.S. agribusiness powerhouse Cargill will invest $8 million to double the capacity of its fertilizer plant in Argentina's chief port complex in Rosario, Santa Fe, the firm announced. The fertilizer storage facility will be the largest in Argentina, with a capacity of 120,000 tonnes complemented by state-of-the-art equipment for handling and mixing products." The Reuters report highlights Cargill's long-term commitment to world-wide agricultural production saying, "The U.S. company established itself in Argentina in 1947 and in 1990 became the country's leading agro-industrial exporter, with yearly sales of $1.8 billion, 75 percent of which are exports." Minneapolis, Minnesota based Cargill has activities in more than 60 countries and has annual sales of more than $50 billion.

· This past summer India's Economic Times reported that Pepsi Foods, Ltd. (PFL) is undertaking contract agricultural production near Bangalore. The Economic Times goes on to report, "Under its groundnut contract farming programme, farmers in Punjab have been able to obtain average yields of about 1.5 tonnes per acre compared to the national average of about 0.4 tonnes per acre."

· On September 26, Duluth, Georgia based AGCO announced that it has entered into an extensive agreement with the Russian Ministry of Agriculture to manufacture agricultural equipment in Russia. According to Robert J. Ratliff, Executive Chairman of AGCO Corporation, "This agreement represents AGCO's commitment to maintaining a long-term presence in Russia. AGCO's technical expertise, extensive experience in transferring technology, vast product offering, and global strength makes us an ideal partner for this venture."

· In November, 2000 AGCO entered into an agreement to acquire Ag-Chem Equipment Company. The primary focus of Ag-Chem is agricultural machinery designed for the application of fertilizer and chemicals to farm fields. Ag-Chem is also the leading provider of unique, site-specific technology for farm management with a division known as SOILTEQ. "The acquisition of Ag-Chem provides AGCO with significant opportunities to expand its market presence in two major growth segments of the agricultural industry and to introduce quality products to new markets throughout the world," said John M. Shumejda, President and Chief Executive Officer of AGCO. "The worldwide distribution strength of

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AGCO will allow sales to expand for Ag-Chem products and to utilize the equipment technology to develop new products for the emerging needs throughout the world."

Future discussion of agricultural policy has to take into account the massive investment by multinational agribusiness firms in countries around the world. In many cases it would appear that these investments result in significantly improved productivity and lower per unit cost of production. Farm policy takes place in an dynamic context where one has to keep an eye on a large number of balls all at the same time. No longer are we jugglers with just three balls, U.S. production, U.S. government policy and the traditional way we have thought of U.S. exports.

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