Surging Imports Of Food Threaten Wider Trade Gap

U.S. Agriculture Exports, Relied on to Ease Deficit, Feel Heat of Competition

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America's appetite for imported food is creating problems for the U.S. economy.

Agriculture, one of the few big sectors of the economy that could be counted on to produce trade surpluses, has recently generated monthly deficits -- a development that could worsen the nation's already significant trade imbalance.

According to the U.S. Department of Agriculture, the U.S. imported more agricultural goods than it exported in June and August, the first monthly trade deficits since 1986, when the Farm Belt was mired in a depression.

"It's very worrisome," said Sung Won Sohn, chief economist of banking giant Wells Fargo & Co. "We need agricultural trade surpluses more than ever because the nonagricultural deficit is ballooning."

What's happening is partly a trade-off for the free-trade agreements signed by Washington. While those pacts, such as the 1994 North American Free Trade Agreement, lowered barriers to U.S. farm exports, they also eased the entry of imported foods.

The availability of imported food clearly benefits consumers, giving them variety as well as new sources of competition that help keep their food costs under control.

But the problem with the widening overall trade deficit is that it is sustainable only as long as foreigners are willing to lend the U.S. large amounts of money. Many economists warn that this isn't likely to continue, and if they're correct, the risks are growing for a market-rattling crash in the value of the dollar.

The overall trade deficit widened to $54 billion in August, the most recent monthly figure available. That was the second-biggest gap on record after June's $55 billion.

During the 1990s, the agriculture sector's ability to single-handedly cut the trade deficit by as much as 16% some years gave it political capital in Washington, helping justify billions of dollars in annual farm subsidies. Now, agriculture's shrinking impact on the trade scene, plus the swelling federal budget deficit, could make it harder for the farm lobby to protect those subsidies.

The U.S. is still the world's biggest agricultural exporter. But the agricultural-trade surplus is evaporating so quickly that some economists in the Bush administration are quietly speculating that the sector might generate an annual trade deficit as soon as the fiscal year ending Sept. 30, 2005. That would be the first since 1959, when postwar Europe re-emerged as a major farm power.

"The way things are going, we could see it cross over in a year or two," said Philip Abbott, an agricultural economist at Purdue University in West Lafayette, Ind. Mr. Abbott and a fellow professor created a stir in farm circles last year with their warning that full-year farm trade deficits could materialize late this decade.

Speculation about the U.S. agricultural trade balance will grow over the next couple of weeks because the USDA is slated to update its forecast on Nov. 22. Currently, the government is projecting a farm trade surplus of $2.5 billion for fiscal 2005. That would be a nearly 75% drop from an estimated trade surplus of $9.5 billion for fiscal 2004.

The farm sector's trade surplus peaked in fiscal 1996 at $27.31 billion, the result of $59.75 billion of exports and $32.44 billion of imports. Since that time, the value of U.S. agricultural imports has climbed 62% to an estimated $52.5 billion in fiscal 2004. The value of U.S. agricultural exports is up only 4% from 1996.

The evaporating farm trade surplus reflects both growing competitive pressure on U.S. farmers and the changing tastes of American consumers.

U.S. agricultural exports have been stagnant for eight years in part because new farm powers are emerging around the world in places where land is cheaper and governments are pumping money into infrastructure such as roads and ports. Brazilian soybean farmers are winning customers away from the U.S., for example, and Russia has transformed itself from a huge customer of U.S. wheat into a wheat-exporting rival. India, which once depended on American aid to fight famine, is an emerging food exporter. China, long a big buyer of U.S. crops, is pushing for food self-sufficiency. Canada is a major exporter of hogs and beef to the U.S. The upshot: The U.S., which controlled half of the world's trade in wheat in the 1980s, now has just one-quarter of the world market.

At the same time, Europe has raised barriers to the import of some U.S. foods containing genetically modified ingredients. Most recently, the discovery of the first U.S. case of "mad cow" disease in December prompted scores of countries to ban billions of dollars of U.S. beef.

On the other side of the trade coin, imported food is one of the fastest-growing categories in many supermarkets. The biggest factor behind it is that more and more American shoppers want crops and food they can't get -- or can't get in sufficient volume -- from U.S. producers.

Even the weakening dollar, which makes foreign goods more expensive, isn't slowing the flood of imported agricultural goods. In August, the value of agricultural imports rose 24% from a year earlier to $4.37 billion, which was $156 million more than August exports.

Many supermarket executives learned about importing during the 1990s, when they turned to Chile, Mexico and Argentina for grapes, tomatoes, asparagus and apples to keep their aisles stocked with fresh produce through the dead of the U.S. winter. Now retail executives are trying their hand at more exotic fare, such as Irish marmalade, Scottish cookies and Japanese horseradish powder.

According to the USDA, 78% of the fish and shellfish consumed in the U.S. are imported, up 10 percentage points from 2000. Imported wine had 27% of the U.S. market last year compared with 21% in 2000. Everything from lamb and avocados to spices, beer, flowers and bell peppers increasingly is imported.

"Shoppers want more and more choices," said Monte Wiese, president of the specialty-foods unit of Hy-Vee Inc., a Midwest supermarket chain.

Hy-Vee is putting olive bars in its stores. As at a salad bar, shoppers can pick from 14 varieties of fresh olives from Greece, Italy and Turkey. Hy-Vee is also importing, among other things, canned coconut milk, cheese from Switzerland and canned artichoke hearts from Spain.

Even U.S. farmers are getting into the act. Sunkist Growers Inc., a citrus cooperative owned by growers in California and Arizona, is making plans to import navel oranges from South Africa for sale under its brand when U.S. oranges are out of season. "We either provide consumers with what they want or we are out of the market," said Jeffrey Gargiulo, Sunkist chief executive.

The growing immigrant population is creating demand for imported foods. General Mills Inc., for example, is beginning to import from India the frozen flat breads roti and nan. U.S. food companies are also using more foreign ingredients in their products. Much of the Pepsi-Cola sold in the U.S. is made with concentrate imported from places such as Ireland, where PepsiCo Inc. says manufacturing costs are cheaper than in the U.S.

About 20% of the beef used by McDonald's Corp. restaurants in the U.S. now is from foreign cattle. A McDonald's spokeswoman said a shortage of lean beef in the U.S. is forcing the company's hamburger suppliers to turn to cattle from Australia and New Zealand.

The import boom is causing a backlash among some U.S. agricultural groups, such as Florida produce farmers. These groups successfully lobbied Congress for a country-of-origin regulation requiring supermarkets to label the birthplace of produce and meat, among other commodities. Opposition from retailers, however, has stalled implementation of the labels.

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