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# International Marketing Systems

Herbert H. Hadley, Dennis R. Henderson,  
and Ronald D. Knutson

Many farmers ask, "Is there a better way to sell our products in world markets?" They hear about giant international marketing combines, government traders, commodity agreements, marketing boards, international cartels, etc. How do these systems compare with the way America's farm products are marketed internationally today? There is a choice. Farmers, agricultural leaders, policy makers, and others need to learn more about these alternatives to make intelligent choices. This publication describes and analyzes some of the alternative international marketing systems that could be adopted by the U.S. farm community and presents important public policy considerations for each. None of the alternatives discussed are new; each has been tried or is being used somewhere as a means of influencing world trade.

## GOALS FOR INTERNATIONAL MARKETING POLICY

Marketing methods may be chosen for numerous reasons. Reasons that appear to be particularly important to the U.S. farm community, and that provide a common basis for evaluating alternatives, include:

(1) **Demand Expansion.** Expansion of export demand continues to be a primary goal of U.S. international marketing policy. Export demand expansion is a way of strengthening producer prices. It is also critical to general economic goals such as maintaining a favorable balance of trade and stabilizing the value of the dollar.

(2) **Market Assurance.** The desire to assure export markets strengthens as world food supply and demand slips between deficit and surplus conditions. Farmers in exporting countries want stable markets even in years of surplus production while importing countries desire assured supply even if deficit production exists.

(3) **Producer Prices.** For the producer the bottom line is price. Policies that raise and stabilize price are viewed favorably. Those that reduce price, such as embargoes, are unpopular.

(4) **Rationing Available Supplies.** The years 1972-74 taught the world that our food supply cannot be taken for granted. A means must exist for rationing commodities when shortages occur. Consumption priorities, food reserves, and the distribution of food-aid dollars have become important issues.

## ALTERNATIVE 1: THE CURRENT U.S. SYSTEM

The most logical starting point for evaluating alternative international marketing methods is the current export marketing system for U.S. farm products. This can be described as a competitive, free enter-



## SPEAKING OF TRADE

prise system with relatively little centralized control or direction at the hands of either government or producer groups. As such, the system generally is consistent with the way domestic business is done in the

Herbert H. Hadley and Dennis R. Henderson are at Ohio State University. Ronald D. Knutson is Professor and Extension Economist, Policy and Marketing, Texas A and M University.

U.S., but it is an anomaly in international trade where centralized decisionmaking by the world's trading nations is common. It is this disparity between the "American way" and methods of international marketing used by numerous other countries that often generates criticism, perhaps unfair, of the existing system.

Much of the worldwide marketing of U.S. farm products is done by a relatively small number of private firms such as Cargill Incorporated, Continental Grain Company, and Louis Dreyfus Corporation. Smaller firms and farmer-owned cooperatives also do some international merchandising, particularly of fruits, vegetables, and nuts, and are key parts of the system that assembles all farm products and prepares them for international shipment. For the most part, U.S. firms are free to deal with world customers on business terms, subject mainly to the general trade policies of the U.S. such as tariffs, quotas, embargoes, and preferential trading agreements with certain foreign nations.

The U.S. government does perform numerous functions, however, which generally facilitate the international trade of American firms, but which do not substitute for private enterprise and decisionmaking. Considerable intermediate- and long-term credit is provided to foreign customers who do not have commercial borrowing power. Federal grading and inspection services help assure accurate description and high quality of exported products. Agricultural attaches and others collect considerable foreign market information and make it available to American firms. Technical assistance in the use of products is provided in many foreign countries which helps create future demand for U.S. farm products. Government, producers, and industry jointly sponsor numerous programs to promote and merchandise U.S. farm products abroad. And, federally financed grain reserve programs help maintain a supply of exportable commodities.

These various activities may be viewed as a partnership between government and industry to develop and expand foreign markets. But, most of the basic marketing decisions — to whom to sell, what to sell, at what price, when, etc. — are private decisions with few if any central or industry-wide directions.

### Impacts

The analysis of the performance of the current U.S. system for agricultural export marketing is relatively straightforward, because considerable experience exists.

**Demand Expansion.** The profit-motivated, free enterprise system puts considerable incentive on successful market expansion. This incentive to expand markets is probably greater than with any other system. Additionally, the joint private industry-government market development program is generally considered the most aggressive program in world markets. This has been a key factor in maintaining and expanding exports of U.S. farm products without initiating the sharp price-cutting tactics often used by other

exporting nations. At the same time, the general lack of central control allows price flexibility necessary to remain competitive in the international market.

**Market Assurance.** The incentive for exporters to expand their market helps maintain marketing opportunities for farmers. However, the U.S. often becomes a residual supplier in world markets, given the relatively small use of long-term trade agreements in the current system. Thus, nothing inherent in this system guarantees that producers will find a ready market for all or even a specified portion of their output, particularly when world market supplies are plentiful. When supplies are tight, producers are likewise threatened by the possibility of export embargoes if government officials perceive domestic prices to be "too high."

**Producer Prices.** In a competitive, open market system, U.S. prices and world trade prices for commodities tend to be jointly determined. However, because the U.S. is the only major "decentralized" trading nation, it typically experiences greater price fluctuation and uncertainty than exists within many other countries that operate in international markets. This can result in high prices when world market supplies are tight but provide no price floor at other times.

**Rationing Available Supplies.** The current exports system depends on market-determined prices to ration short supplies among alternative customers and market shares among alternative sellers. The price system works pretty well as a rationing mechanism as long as we are willing to accept the principle that buyers with the most money get the biggest share of the supply and sellers with the lowest costs get the most business.

### Policy Implications

Little direct change in public policy is necessary to maintain the existing system for export marketing. The U.S. could be an even more aggressive competitor with an expanded joint industry-government foreign market development program. New federal legislation facilitating producer check-off programs to help finance such joint efforts is one possibility. Prohibiting export embargoes would remove the uncertainty of untoward government intervention. Also, the present international marketing system is benefited by a policy of economic assistance to less developed countries (LDC's)<sup>1</sup> which helps create long-term demand for U.S. farm products.

### ALTERNATIVE 2: LONG-TERM, BILATERAL TRADE AGREEMENTS

A long-term, bilateral trade agreement is a contract between two traders and/or governments to purchase and supply specified farm products. Long-term agreements are distinguished from export sales within a crop year or from one crop year into the next.

<sup>1</sup> Countries where the gross national product is low — generally below \$500 to \$600 per capita.

While emphasizing the quantity of commodities to be traded, long-term agreements also frequently contain provisions for exchange of information on crop conditions as well as anticipated changes in product needs throughout the crop year. This facilitates more orderly marketing and price movements.

Probably the most widely recognized example of a long-term, bilateral trade agreement is the U.S.-U.S.S.R. grain agreement. It provides that each year for 5 years the U.S.S.R. will purchase at least 6 million tons of grain from the U.S. and that the U.S. stands ready to supply up to 8 million tons with price to be negotiated between the Soviet government and the U.S. trading firm handling the sales. Larger quantities may be purchased depending on U.S. supply conditions. It also provides for exchange of information on crop conditions and anticipated import needs on a regular basis. Government-to-government agreements also exist between the U.S. and Japan as well as the U.S. and Poland. A similar agreement has been negotiated with the People's Republic of China.

Such trade agreements need not be limited to governments. For example, a U.S. grain cooperative and a Japanese cooperative have a multiyear trade agreement on the sale of grain.

Opportunities for expansion of long-term, bilateral trade agreements may increase in the future. Governments, private firms, or combinations thereof may participate in such agreements. Performance on agreements is likely to be enhanced when governments either participate directly or stand behind private agreements. Performance may, however, be affected by the status of foreign relations between the countries involved. For example, a return to a cold war policy between the U.S. and the U.S.S.R. would jeopardize the current long-term grain agreement that exists between these nations.

### Impacts

Because of both the current involvement of the U.S. in long-term agreements and the considerable interest that surfaces periodically in the farm community, the results of such agreements deserve careful consideration.

**Demand Expansion.** Although not the primary purpose, long-term trade agreements can expand export demand over time. Demand expansion occurs because of the trading relationships established during a long-term agreement.

**Marketing Assurance.** The main benefit of a long-term trade agreement is assurance for the buyer of a source of supply and for the seller of a market outlet. Agreements thus tend to create a specific set of trading patterns. Although this has advantages to both the buyer and seller, markets may be foreclosed to those who are not parties to the agreement.

**Producer Prices.** Long-term agreements are not primarily a tool of price enhancement. However, more stable prices may result from a more stable and predictable demand during the period of the agreement.

**Rationing Available Supplies.** Long-term trade agreements provide food to those countries that are in a position to negotiate an agreement. They may deny it to those that are not. It would seem that those buying countries in the best position to negotiate a long-term trade agreement are the relatively wealthy nations with adequate hard currency exchange. On the other hand, several LDC's are parties to such agreements.

### Policy Implications

Long-term agreements result from a need by importing and exporting nations. Interest by importing countries logically increases when supplies are short. The Trade Act of 1974 and its predecessors provides authority for the U.S. to enter into long-term trade agreements. Despite this authority, policy questions continue to arise, particularly in periods of short supply. These questions usually relate to which countries receive priority access to available U.S. supplies. Once an agreement is made with one country, the desire by other countries for similar agreements tends to increase.

### ALTERNATIVE 3: INTERNATIONAL COMMODITY AGREEMENTS

International commodity agreements are multi-lateral accords among governments affecting international terms of trade. Commodity agreements generally have one or more of three basic objectives: (a) stabilizing price, (b) raising price, and/or (c) assuring supplies. To accomplish these objectives, three provisions often are part of an agreement:

- (1) Provision for a price range within which transactions may occur. This establishes a minimum price at which buyers may buy and a maximum price at which sellers may sell. The crucial variables are the level and range of the price corridor within which transactions may occur.
- (2) Provision for the holding and release of buffer stocks, frequently referred to as an international reserve. In such agreements, parties hold stocks at agreed-upon levels. Costs of holding such buffer stocks may be shared in proportion to the stocks held by each country or allocated among the participating countries.
- (3) Provision for control of production in accordance with market needs and price objectives. Effectiveness in controlling production requires joint participation and coordination of domestic production policies, such as the set-aside in the U.S., on the part of all major exporting countries. In the case of wheat, for example, this would include at least the U.S., Canada, Australia, Argentina, and France. These countries would be required to agree on the total quantity of wheat desired as well as the appropriate market shares for each country. Although such agreement is discussed frequently, enforceable production con-

control provisions are extremely difficult to develop and maintain.

Interest in international commodity agreements increases when substantial surpluses lead to low prices. The thrust then becomes one of finding a way to establish price floors and spread the burden of adjustment among the major exporting countries. Thus, at least until recently, commodity agreements appeared to be largely of interest to the major agricultural exporting countries.

The interest of Third World countries in commodity agreements has been fostered by United Nations Conference on Trade and Development (UNCTAD). Active promotion of agreements in commodities produced by Third World countries has been an integral part of UNCTAD policies since the early 1970's.

### Impacts

Commodity agreements are, in part, a way to reduce competition among the major exporters and importers of the commodity subject to the agreement. Specific impacts reflect this overall purpose.

**Demand Expansion.** Demand expansion is not a major consideration in these agreements. If prices are increased, demand may actually decline particularly where good substitute products are available. If the thrust of the agreement is toward buffer stocks, increased stability of price and food security may expand demand modestly.

**Market Assurance.** Commodity agreements do not explicitly provide assured markets for particular countries. However, with reduced price competition provided by price floors and ceilings and the forum provided for increased contact among exporters, the basis for division of markets among exporting countries may be enhanced.

**Producer Prices.** Historically, the prime objective of commodity agreements has been the negotiation of a floor price above that which would exist in the free market during times of surpluses. However, tight supplies in the early 1970's shifted the attention of importing countries to the issue of ceiling prices. In addition, there is concern that the floor price not be raised so high as to curtail demand.

The success of international commodity agreements in enhancing price is much debated. International wheat agreements negotiated between wheat exporting and importing nations were successful as long as supplies were not overly burdensome and the price that would exist in the free market was close to the specified range. However, when substantial surpluses accumulated, incentives for countries to reduce price began to build and the agreements frequently broke down.

**Rationing Available Supplies.** In the early 1970's, buffer stocks became a central issue in commodity agreement discussions. However, exporting countries never really became serious about the buffer stock demands of importing countries until surpluses began to accumulate. Government stocks then became an acceptable means of supporting sagging world prices.

### Policy Implications

As in the case of long-term trade agreements, the Trade Act of 1974 provides authority for the President to enter into international commodity agreements. The agreements themselves are the product of negotiation among exporting and importing countries. Policies to implement effective agreements must, however, be broader than the 1974 Act. Domestic policies such as those affecting export prices, production, and stocks must be coordinated with the provisions of the agreement in each participating country. Such international policy coordination makes implementation particularly difficult.

### ALTERNATIVE 4: INTERNATIONAL CARTELS

Since the oil producing nations increased world prices through OPEC, interest has grown in agriculture for developing an OPEC strategy or cartel among the major grain exporting countries. Such a cartel could be viewed as an international commodity agreement involving only exporting countries.

Four factors are necessary for the success of such a strategy:

- (1) Agreement among exporters on the price level and adherence to the established level.
- (2) Provision for sharing markets in the distribution of sales among nations.
- (3) Provisions for gearing production in the participating countries to sales levels and market shares.
- (4) The long run absence of, or control by the cartel of, production in other nonmember countries.

The incentive for entering such a cartel is clearly one of price enhancement. Canada, Australia, and certain U.S. producer segments have charged that U.S. policies needlessly hold down the world price as part of a "cheap food" policy. They contend that the U.S. is the major price leader in world agricultural markets, thus, if the U.S. only would raise its price, other exporting governments would follow. Realistically, however, the U.S. probably would price itself out of the market unless the other countries made an explicit agreement to follow the U.S. price lead.

All major exporting countries would have to participate in a cartel to make it effective. In addition, domestic policies of these countries would have to be coordinated to accomplish the agreed-upon price levels, trade patterns, and production controls. In the case of wheat, for example, this would require agreement among at least the U.S., Canada, Australia, Argentina, and France. France's participation raises some interesting questions. It currently enjoys a near-monopoly position on wheat sales to other countries within the European Community (EC). If allowed to retain that position as well as enjoy the cartel benefits, it would have the best of both worlds. If required to give up its favorable EC connection, France likely would not participate which could render the cartel ineffective.

## Impacts

Evaluations of the impacts of an international agricultural cartel turn on its basic concept as a worldwide selling monopoly. Recent experiences with the world oil monopoly (OPEC) are helpful in understanding cartel behavior, however impacts in agriculture will differ somewhat because food is produced in substantial quantity virtually everywhere.

**Demand Expansion.** If commodity agreements were effective in raising price, the quantity demanded would be reduced. Substitution of other food or feed grains for which a cartel did not exist would probably occur.

**Market Assurance.** The market-sharing feature of commodity agreements would divide the available market among exporting countries. This division would need to be formalized within the cartel agreement.

**Producer Prices.** The prime objective of a cartel policy is to raise price. While a reduction in exports would be expected to result from the higher price, producer returns would increase. However, the long-run effects are more difficult to determine. Higher prices create an incentive in importing countries to seek alternative supply sources. They may do this either by substituting other products or by creating an alternative supply source. Japanese assistance in the development of soybean production potential in Brazil is illustrative of an importing country trying to develop alternative supply sources. The ability to develop such alternatives will influence directly the long-run effectiveness of the cartel.

**Rationing Available Supplies.** A cartel allocates supplies to those with the greatest ability to pay. This can affect the domestic as well as foreign markets. Several interesting questions can be raised: Would the U.S. consumer be willing to pay the price associated with a cartel policy? Would the general public accept the concept of raising farm prices to the detriment of the less developed countries? Would the U.S. producer accept the regimentation of production and marketing programs involved in a cartel policy?

## Policy Implications

Participation in a cartel would force major changes in U.S. policy about agricultural exports. Effective U.S. participation would require centralization of export decisions, as well as production decisions, in a single agency such as a marketing board. That agency would need control over virtually all supply-, price-, and demand-related farm programs affecting the cartel commodity. In addition, an international organization of countries exporting the cartel commodity would be needed to make cartel decisions, and the U.S. would have to adopt a policy of subservience to that organization.

## ALTERNATIVE 5: MARKETING BOARDS AND ORDERS

Conceptually, marketing boards and marketing orders are similar. They both are means of establish-

ing compulsory industry-wide or market-wide control over market activities. They differ in where they have been used and in the way mandatory control is exercised.

No current legal framework exists in the United States for marketing boards. Boards are used extensively for agricultural export marketing in other countries, including Canada, Australia, and South Africa. On the other hand, marketing orders are a uniquely American institution. Federal orders have been authorized for fresh and dried fruits and vegetables, nuts, and milk since enactment of the Agricultural Marketing Agreement Act of 1937, and numerous orders have been implemented. These have not been used for export marketing but as domestic market control devices.

With market orders, market-wide control is exercised through cooperation between the federal government and producers of the regulated commodity. Generally, both producers and the government participate in a government-supervised decisionmaking process. Once a recommended decision has the majority support of both producers and the governmental overseeing agency, the Secretary of Agriculture orders the related action for all participants in the market. The process is different for marketing boards. Boards typically are composed of farmers who are chosen by all producers of a specified commodity, usually in accordance with a government-specified selection procedure. Nonproducer representatives may be included. Generally board decisions are final and binding upon all market participants, perhaps subject to governmental override in some instances.

Because of the lack of existing legislation, U.S. farmers can use neither marketing boards nor orders to appreciably influence their export market (orders, because existing authority generally does not extend to the export market and is limited to commodities which do not constitute the bulk of U.S. farm exports, and boards, since no authorizing legislation exists). However, given appropriate legislation, both are feasible means for U.S. farmers to gain greater collective influence over the export marketing of their products.

Although not unique to the order or board mechanism, numerous functions can be accomplished which can have significant impact upon the international marketing of U.S. farm products. Information on the worldwide supply situations and other market conditions can be collected, analyzed, and disseminated to the U.S. industry. Promotion and other foreign market development activities can be financed and implemented. Research can be commissioned that could lead to greater utilization of U.S. farm products abroad. Uniform standards for product identification, quality classification, weighing, packaging, and so on could be instituted industry-wide to help gain broader acceptance of U.S. products in world markets. Seasonal or multiyear pools could be engaged to reduce price variations received by producers relative to variations in world market prices. Production or marketing quotas could be



established for individual producers to reduce the negative impact of large, uncontrolled market supplies on prices. Buffer stocks could be maintained to smooth out available supplies from year to year. Price-setting authority could be granted to the board or order. Combined with quota authority, price-setting could be used to significantly alter farmers' receipts from export marketing.

In essence, just about any action affecting farmers' export market could be made collectively through boards and/or orders. Experience in several nations has shown that virtually any commodity group or industry could find a means to use the market-wide control features of these mechanisms relative to their export market. For example, the Australian Wheat Board markets all Australian-produced wheat, both domestically and internationally. The Canadian Wheat Board has authority for all export marketing, pools sales receipts, and can allocate marketing quotas to individual farmers. The Australian Meat Board regulates meat exports through export licenses and engages in market development and promotion. The South Africa Maize Board is the sole buyer of corn in that country and conducts all export marketing. In reality, a large share of the world's major agricultural exporting nations uses these types of control mechanisms.

### Impacts

It is useful to examine the most likely impacts of using the board or order approach to international marketing to help decide whether it is in the best interest of the U.S. in general and U.S. farmers in particular to adapt these mechanisms for export purposes.

**Demand Expansion.** The primary function of international marketing boards or orders is to sell available supplies at the best price. Market expansion itself is often of secondary concern; efforts made to sell in large volume more frequently focus on price-cutting than on long-term market development. More emphasis also tends to be placed upon control of supplies to coordinate marketings with anticipated or negotiated demand. Although these mechanisms can be used to facilitate long-term market expansion, experiences in other countries suggest that the results of such efforts tend to be modest.

**Market Assurance.** By regulating the flow of farm commodities to foreign markets and through supply management practices such as buffer stocks and production coordination, foreign buyers could get supply assurances. Boards could make long-term export agreements, or orders could be used to provide the domestic supply management necessary to fulfill government-negotiated commitments. To the extent that long-term agreements result, U.S. producers would gain certainty of future sales opportunities.

**Producer Prices.** These mechanisms offer considerable potential to improve producer prices. Coordinated industry-wide sales decisions mean that sales can be timed more easily to correspond with periods of strong prices. By careful use of marketing or

production quotas, burdensome surpluses can be reduced, limiting their downward impact on prices. By pooling returns, individual producers gain protection against regularly hitting the market on the downside. Of course, producers who market regularly on the price peaks probably would not fare quite as well.

**Rationing Available Supplies.** These marketing mechanisms generally mean less individual control over production, marketing, and supply availability and more collective, industry-wide decisionmaking. This reduces reliance upon market prices for allocating products among alternative buyers and makes it easier to distribute available supplies among more users, both rich and poor, in periods of short supply. However, the tendency is often to shorten supplies over time to enhance prices rather than to expand supplies when commercial sales opportunities are uncertain.

### Policy Implications

Implementation of either the marketing board or order option in agricultural export markets can occur only with a change in U.S. agricultural marketing policy. Substantial extensions would be required to the Agricultural Marketing Agreement Act of 1937 to make marketing orders applicable to the major U.S. farm exports. Totally new legislation would be needed to establish marketing boards for controlling industry-wide export marketing decisions. This legislation would have to specify the type of authority and control that the board could exercise and provide a procedure for farmers to request organization of a board and rules to assure representation and fair conduct.

### ALTERNATIVE 6: BARTER

Barter is the exchange of one product for another. It is the primary means of trade in primitive societies and the antithesis of our modern monetary exchange system for both domestic and international trade. Yet, interest in the barter of agricultural commodities for other products, particularly "food for crude," continues to surface. Furthermore, federal laws facilitating barter suggest that it is a matter of public policy to encourage the international barter of U.S. farm products.

The basic arguments for barter focus on the idea of obtaining strategic materials (such as crude oil) that are in short supply in the U.S. and high-priced on world markets in exchange for farm products that are abundant in the U.S., relatively low priced on world markets, and perhaps in short supply in countries producing oil and other strategic products. Some also argue that barter offers a means of disposing of surpluses without unduly depressing world market prices or of avoiding some of the uncertainties associated with rapid changes in international currency exchange rates.

A key flaw in such arguments, however, is the small probability of finding mutually advantageous barter situations, that is, another country which has a

"double coincidence of wants" with U.S. agricultural exporters. First, most oil-producing nations have relatively small populations and thus need only small amounts of U.S. farm products, and second, some countries with a great need for food have little of value to offer in exchange.

### Impacts

At best export barter is a marginal marketing tool with perhaps some potential to generate exports not generated by commercial sales.

**Demand Expansion.** Barter arrangements are used mainly where commercial sales have limited opportunity. Thus, barter generally represents new marketings. The potential to expand agricultural exports by barter, however, is limited by the infrequent occurrence of "double coincidence of wants."

**Market Assurance.** Barter can, at best, provide only marginal market assurance to producers. However, because the federal government is authorized to barter surplus agricultural commodities for "strategic" materials, this may help facilitate Commodity Credit Corporation operations that indirectly provide some degree of market guarantee.

**Producer Prices.** It is not realistic to anticipate any impact on prices, because barter sales do not occur on a monetary basis. It is not the draw of attractive prices that creates such barter sales.

**Rationing Available Supplies.** Barter is not an effective rationing mechanism.

### Policy Implications

Federal laws, such as the Strategic and Critical Material Stockpiling Act, the Commodity Credit Corporation Act, and the Agricultural Development and Assistance Act, currently authorize barter of agricultural commodities in international trade. However, little evidence of an effective barter policy can be found currently in the federal government. Interest tends to surface during periods of burdensome agricultural surpluses. However, the likelihood of any major impact is clearly remote.

## ALTERNATIVE 7: EXPORT COOPERATIVES

Even though cooperatives originate a large share of U.S. grain, the four largest cooperative U.S. grain exporters have a combined market share of only 9 percent of total U.S. exports. The largest has just 3 percent. Except for a few specialty products such as almonds, cooperatives are not a significant factor in the export market.

The export cooperative alternative would involve a serious attempt by producers, existing cooperatives, and government to put cooperatives on par with other major trading companies in the agricultural export market. This would likely require one of the following:

- (1) Consolidation of domestic cooperative export activities into the hands of a single cooperative for major commodity groups, such as grains, including food and feed grains as well

as oilseeds. This would not require a merger of existing regional grain cooperatives but only a consolidation of their export operations.

- (2) Establishment of trade agreements between cooperatives located in the U.S. and foreign countries. Such agreements already exist on a small scale between U.S. and Japanese cooperatives in feed grains and oilseeds.
- (3) Establishment of a central sales agency owned and operated by cooperative importers and exporters located in different countries. Such an agency would operate sales contact offices and an international market information service in major exporting and importing countries. The agency would coordinate sales to both cooperative and noncooperative customers throughout the world. It would deal in products from all exporting countries that had cooperatives as members of the central sales agency.
- (4) Establishment of a multinational export cooperative owned by cooperatives in different countries. Such a cooperative would take direct title to the products handled and be responsible for the entire sales effort. It would deal in products of all countries as a multinational, corporate trading firm.

Any U.S. cooperative handling grain, oilseeds, or other products could participate in a consolidated export organization. Present cooperatives controlling a sufficient volume of grain could establish trading relations with cooperatives in other countries.

Any importing or exporting cooperative could become a member of either a central sales desk or a multinational cooperative. The main barrier to such a development likely would be conflicts of interest in operating the combined venture among or between exporting and importing cooperatives.

### Impacts

The impacts of the export cooperative alternative are somewhat tentative, because they would vary depending upon which organizational options are chosen. Nonetheless, some general insights are possible.

**Demand Expansion.** Export cooperatives have as one principal objective the expansion of their market share. Accomplishing this can come by either competition with noncooperative trading firms or market development activities. Market development would appear to hold particular potential in feed grains through expansion and improvement of livestock and poultry production in foreign nations.

**Market Assurance.** Increased cooperative-to-cooperative trading, through either trade agreements between cooperatives, a central sales agent, or a multinational cooperative, would provide increased market assurance for those producers who are cooperative members.

**Producer Prices.** Increased producer returns could be obtained if the cooperative is operated efficiently. However, such returns, while yielding a

satisfactory return on investment, would not likely substantially increase prices. A greater benefit to producers could come in terms of spreading risk of price changes through pooling of returns, improved information, and more rapid reflection of international market conditions back to the producer. This would happen if the cooperative had a good foreign market information system and reflected that information back to the producer in more responsive prices. Pursuing a price enhancement objective would require unprecedented cooperation between exporting cooperatives and the marketing boards of various countries.

**Rationing Available Supplies.** Supplies could be rationed to give preference to members of the international cooperatives. Such commitments could, however, still be subject to government interruption such as embargoes. In addition, as a business operation that must compete in the market place, any system of preferences must be economically viable.

### Policy Implications

If cooperatives are going to effectively penetrate export markets, they must be permitted to grow to a size and market share where they can compete with noncooperative trading firms as well as deal with large international buyers, such as governments. Strong legislation protecting cooperatives' right to grow will be essential. Increased technical assistance as well as readily available credit also will be required.

## IMPLEMENTATION OF INTERNATIONAL MARKETING ALTERNATIVES

International agricultural marketing policy affects producers, consumers, governments, and business. Producers are interested in a policy's effect upon prices and export sales. Consumer interest arises from increased food and fiber prices that might result from certain specific market policies and the availability of supplies. Business interest arises from the desire to expand sales and prevent further encroachment by government in export sales. Government interest arises from the desire to assure supplies domestically, improve the balance of payments, control inflation, and control the cost of domestic programs. Equally important is the realization that international trade policy is part of our foreign policy. For example, a factor favoring the government's decision to support a long-term trade agreement with the U.S.S.R. likely was the detente foreign policy of both nations.

The alternatives discussed cover a spectrum from those involving only facilitative government action to those involving considerably higher levels of government involvement than currently exists in U.S. agricultural production and international trade. Likewise, the ability of U.S. producers to achieve implementation of the alternatives also varies. One method of classifying the alternatives from the standpoint of imple-

mentation is in terms of the type of actions required. Such actions may be either unilateral, bilateral, or multilateral.

### Unilateral

Unilateral action in international trade can be initiated by an individual, firm, or government. Much of the current system of trading involves unilateral action by private trading companies and by governments. Unilateral action of U.S. grain cooperatives could expand export cooperatives.

Unilateral action by government could establish a marketing board policy. Private grain trade, possibly including the grain cooperatives, probably would resist such a policy. Each would see its position in the market changed. It is also difficult to visualize a marketing board policy being adopted without consumer representation.

### Bilateral

Bilateral action involves action by two nations or entities thereof. Trade agreements and barter fall in this category. Bilateral action generally is more difficult to achieve than unilateral action because both governments must receive benefits and be convinced of the need and both must establish supporting policies. In the case of trade agreements, this might be accomplished with relative ease in times of shortages, but would be considerably more difficult if long-term surpluses develop again.

### Multilateral

Commodity agreements, cartels, and multinational cooperatives involve multilateral action by numerous entities. Agreement is reached largely by the act of compromise and common interest. Meaningful agreements are difficult to achieve. They require rigid controls and centralization of power if they are to be effective. The agreements are always subject to the effects of changes in international tensions, alliances, and policies. Yet, the potential for enhancing the position of producers in domestic and international markets is probably the greatest in those alternatives that are the most difficult to achieve and maintain.

These options put substantial additional economic power in the collective hands of agricultural producers. At the same time they reduce the individual farmer's power to make production and marketing decisions. Thus, two fundamental policy questions are involved:

- (a) Will the public, through the legislative process, be willing to grant agricultural producers the authority to engage industry-wide control over their export marketing activities? and
- (b) Will farmers, if facilitating legislation is enacted, be willing to elect a market-wide control mechanism and thus transfer individual control over many economic decisions to a group of their representatives?

# Expanding Trade

Joseph R. Corley, N. Eugene Engel, and B.F. Stanton

Each year since 1969 the value of U.S. agricultural exports has increased above the preceding year. In fact, the trend since World War II has been upward. Like most other sectors of the U.S. economy, trade expansion has occurred in terms of increased sales for dollars, more and larger markets for a greater range of farm products, and a rising value because of increased demand. In the years following World War II, various assistance programs ranging from the Marshall Plan which provided aid to war-torn nations to the P.L. 480 program which assists developing nations around the globe have contributed to trade expansion.

Subsidized and concessionary food assistance programs were essential during the years after the devastation caused by World War II. Most national economies of the world were near collapse. Rebuilding was the first priority; food and fiber were an immediate need. Most of war-torn Europe and the Far East needed resources to expand agricultural production.

Time, assistance, and a strong effort turned the tide in Western Europe. Mining, manufacturing, merchandising, and financial industries produced jobs, which in turn provided the basis for increased demand. Concessionary U.S. food and fiber exports gave way to exports for dollars.

U.S. agriculture can produce much more than we can consume at home, and considerable efforts have been directed to expanding sales of farm products around the world. These efforts were directed, for the most part, to making trade more desirable and more economical and to making consumers in foreign markets more aware of the varieties of foods and fibers available to them. Even before the end of World War II, negotiations were started to ease trade restrictions and lower tariffs.

During the early 1950's, world production of many commodities continued to increase, buying power of many countries increased, and competition became keen. Leaders in the various commodity organizations became aware of the need to expand demand in the world markets for basic U.S. farm commodities. These commodity organizations, cooperating with the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture, aggressively sought to expand the demand for their products in many developed countries and in some developing countries where their products were unknown. Market development expenditures have been substantial. Although no specific measure of the results of market development has been determined, much of the increase in agricultural exports since World War II has corresponded with the specific efforts to expand trade through market development activities.



## SPEAKING OF TRADE

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Joseph R. Corley is Economist-International Trade and Transportation, SEA Extension, USDA. N. Eugene Engel is Extension Economist and Professor of Food and Resource Economics, University of Massachusetts. B.F. Stanton is Professor of Agricultural Economics, Cornell University.

## WHAT IS MARKET DEVELOPMENT?

Even though it may include product promotion, market development more often results in introducing new products to areas where they were not found or used before. Market development may introduce ways to more efficiently use a product already in use to increase its demand. Market development also includes working with foreign buyers, who represent the processing and marketing industries of their countries, and to strengthen the long-run demand of farm products in foreign markets.

Emphasis on market development programs also has helped American farmers to better understand the importance of foreign markets and the importance of providing these markets with reliable supplies. The strengths of a good market development program are (1) the reliability and integrity of the farmers and exporters providing the products and (2) the government's role in maintaining good trade relations.

## ESSENTIALS FOR MARKET DEVELOPMENT

American farmers know the importance of responding to the demands for their farm products. Their ability to provide dependable supplies for the market is essential to market development. Other factors include acceptable pricing and financial arrangements, quality, dependability, and integrity.

### Dependable Supplies and Quality

Export marketing for farm products is not an occasional thing. If American producers and exporters plan to sell their products in foreign markets, they also must plan to provide the markets with an adequate supply of quality products of the variety desired by foreign buyers. Just as American consumers are selective in their purchases of food products at the

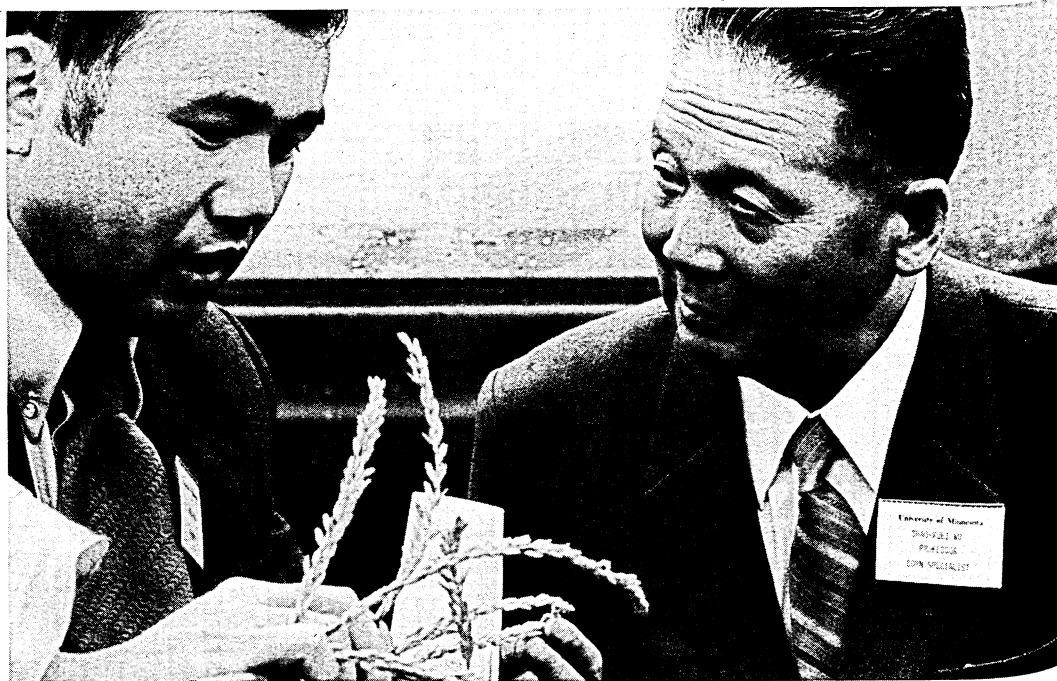
supermarket, Europeans, Asians, and others are equally selective of their food products. Special market needs must be met if U.S. farm products are to be marketed successfully in foreign markets.

### Financing Agricultural Export Sales

**Commodity Credit Corporation Export Sales.** The availability of credit arrangements for foreign markets also contributes to larger export sales. Credit sales programs financed through the Commodity Credit Corporation (CCC) provide a means to expand sales of U.S. farm products to countries that cannot pay immediately for the purchase. Many countries that use CCC credit to purchase U.S. agricultural products could not make such purchases or would purchase less without credit arrangements. CCC credit is not intended to displace cash sales, rather it is oriented to support, maintain, expand, and develop new overseas markets for U.S. agricultural commodities.

Through the CCC's Export Credit Sales Program, commercial agricultural exports eligible for such assistance may be financed for periods ranging from 6 to 36 months. The CCC charges commercial rates of interest and requires an acceptable irrevocable letter of credit. The specific agricultural products eligible for CCC export financing vary, but are essentially commodities that are in more than adequate supply and whose exports effectively utilize CCC credit to expand exports.

The Agricultural Trade Act of 1978 authorizes a new program regarding the use of intermediate credit for commercial export sales. The Secretary of Agriculture can approve CCC financing that will develop, expand, or maintain the importing nation as a foreign market on a long-term basis without displacing normal commercial sales. Under this arrangement, the CCC may finance commodity exports for 3 to 10 years. The intermediate credit financing may be made available to



establish reserve stocks consistent with international trade agreements, the export sales of breeding stock, and facilities to improve handling and marketing of U.S. agricultural products by the importing nation and to meet credit competition for agricultural export sales.

Under the provisions of the U.S. Trade Act of 1974, the U.S. government is prevented from extending export credit to any country that does not provide freedom of emigration to its citizens. However, countries with most-favored-nation (MFN)<sup>1</sup> status are exempt from the Trade Act restriction. Among the socialist countries, for instance, Poland, Yugoslavia, Romania, and Hungary have MFN status.

The Agricultural Trade Act of 1978 provides for CCC financing of up to 3 years for commercial sales of agricultural commodities from private stocks to the People's Republic of China. These financing arrangements may be provided under the short-term export credit sales program or the new deferred payment sales program for exporters. Under the deferred payment arrangement, exporters may provide deferred payment terms (up to 3 years) to foreign buyers to meet sales competition from other nations or make additional export sales.

Under the provisions of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 480), the United States encourages economic development in developing countries, the combating of hunger and malnutrition, the expansion and development of export markets for U.S. agricultural products, and the facilitation of U.S. foreign policy abroad. The principal programs of this Act are Title I agreements with developing countries to provide for the sale of agricultural products under long-term dollar or convertible local currency credit sales for up to 40 years. Title II programs provide for donations of food in about 80 countries mainly through U.S. private voluntary organizations and the world food program through school lunches and similar programs, and for food needs resulting from natural disasters such as floods and earthquakes.

As the United States continues to emphasize growth in export sales, it also has had to emphasize the availability of financial arrangements for increased agricultural sales. Successful bilateral trade hinges on adequate financing and credit. For example, the increased agricultural trade between the United States and Eastern Europe has resulted in not only a substantial increase in the sales of agricultural products to these countries, but a corresponding increase in outstanding credits to these countries because of financial arrangements.

In 1977 the countries of Eastern Europe and the USSR imported almost \$2 billion worth of U.S. agricultural products, compared with less than \$300 million before 1970. At the same time, CCC credit programs to these Eastern European countries have ex-

panded substantially. For instance, Poland, the second largest recipient of credit among countries in the CCC program, has purchased U.S. farm products under CCC credit programs from 1962 to 1977 totaling \$582.3 million. All credit lines were extended on 3-year repayment terms.

Until recently, CCC credit was not available to Hungary. However, before the passage of the 1974 Trade Act (1966 to 1974), Hungary received a \$5.8 million line of credit for purchasing \$1.4 million in breeder animals and \$4.4 million in grain sorghum. Credit terms arranged were from 12 to 36 months. The President recently declared Hungary eligible for CCC credit, and as of July 7, 1978, the country also enjoys MFN status.

Because the United States has extended credit to these particular nations, the agricultural export volume has expanded substantially. The consensus of both the United States government and the bankers of the United States and Western Europe appears to express confidence in the Eastern European governments to continue to meet their financial commitments. On the whole, commercial bankers continue to give Eastern Europe a good credit rating.

**The Export-Import Bank**, an entirely U.S. government-financed banking operation, finances and facilitates U.S. exports. It supplements and encourages but does not compete with private banks in promoting export trade or engage in financing agricultural exports, except \$75 million of credit to Japan for its annual purchase of U.S. cotton and some financing of cattle.

#### **Ability to Respond to Competition in the Market**

The U.S. farmer has been highly successful in exporting agricultural products in the past, but this does not assure continued success in the future. Although much work has been done to expand U.S. agricultural exports, much more needs to be done to continue to expand these markets. Three steps are important to consider, even as market development efforts continue:

- (1) U.S. farm products must be sold in the world market at the going price.
- (2) Production must be geared to world demand to avoid a need for embargoes.
- (3) The quality products demanded by the foreign buyers must be produced and delivered.

#### **Cooperation Among Commodity Organizations, FAS, and Private Firms**

U.S. farmers, through their commodity organizations, benefit directly from market development efforts. Most commodity organizations involved in exporting cooperate with the Foreign Agricultural Service (FAS), U.S. Department of Agriculture, in a variety of market development and product promotion activities.

FAS is and has been involved in many market development and other export activities, but almost

<sup>1</sup> Most favored nation status means that the U.S. extends the same trading privileges (including tariff concessions) to these countries that it does to its regular trading partners.

always works with one of the cooperator commodity organizations. Small and beginning export firms also rely largely upon FAS assistance to promote their products and to assist them in developing export markets for their products.

FAS assists U.S. businesses in promoting foods and other agricultural products in foreign markets. To facilitate these efforts FAS has a staff of agricultural attaches and officers in 61 American Embassies and Consulates around the world. They are a key link in gathering information on agricultural production, trade, and market opportunities. They assist U.S. business groups and individuals traveling abroad to research possible foreign markets.

About 40 U.S. agricultural trade or commodity associations cooperate with FAS to help develop or expand overseas markets for their respective products. In programs sponsored, guided, and partially funded by FAS, these cooperators provide basic initiative and direction in undertaking a wide range of marketing and promotional activities aimed at potential customers in many foreign countries. The main goal of such a program is to expand the market for the specific commodity in a specific country or area, but most often the promotional effort benefits the entire commodity industry in the United States and other producing countries as well.

The cooperating association conducts certain specified market development activities aimed at specific target groups. These groups may include wholesalers, processors, retailers, and consumers. The FAS agricultural attaches work with members of similar associations or buyer groups in the foreign country or area. Together they develop programs and measure the effectiveness of the market development and product promotion activities.

FAS supplies some of the initial funding for the promotion of products designed to expand the export sales. As the commodity organization develops international cooperation and assistance and is able to maintain its own funding, FAS assistance is reduced.

The export market can be a dependable, profitable sales outlet for U.S. agricultural commodities and products. Quality products accompanied with effective overseas promotion, market development, and continuing sales representation and follow-up can build a permanent market for U.S. agricultural products and a dependable source of farm income to help support rural America's economy and the nation's balance of trade.

## POSSIBILITIES OF TRADE ARRANGEMENTS

Trading occurs when both parties to a trade gain or think they gain. If an individual or a country wants to expand trade, all parties to the trade must hope that they will be better off than they would without it. It might not have been necessary to repeat that basic point before discussing (1) **commodity agreements**, (2) **bilateral and multilateral trade negotiation**, and (3) **food aid and concessionary exports**. But, clearly, if any of these mechanisms is to work in expanding

agricultural trade, the forces that lead to protectionism must be pushed aside politically or economically by expected gains.

## Commodity Agreements

The success of the Organization of Petroleum Exporting Countries (OPEC) in raising crude oil prices and influencing petroleum supply in world trade has focused worldwide attention on commodity agreements. This is the most spectacular example of how an agreement among producers can influence price and income to the advantage of one group at the expense of another. Trade continues in this case because importers have no obvious short-run alternatives that are better. The success of OPEC over time, however, will remain dependent on world supply-demand conditions and how well gains from belonging to OPEC relate to the potential of individual trading arrangements made outside that system.

A successful commodity agreement requires a number of important things to occur simultaneously:

- (1) The number of producers must be small or concentrated so that supplies can be controlled.
- (2) Leadership among producers must be effective and generally acknowledged.
- (3) Substitutes for the commodity must be few so that demand is not eroded.
- (4) The commodity must be storable without important losses in quality.
- (5) Consuming nations agree that a less competitive market with reduced price swings is acceptable or in their own interest.
- (6) Funding for the buffer stocks program and for the manager of the agreement and his staff is secure.

This list, incomplete as it is, suggests some of the reasons why international commodity agreements are easier to talk about than to practice. Effective leadership and assured funding are requirements. If major producers do not participate, the underlying mechanisms will not work. Respect for market forces is a necessity; otherwise the gains from trading outside the agreement become very large. At some price, new production will be encouraged and substitutes will appear. Cheating by parties to the agreement, often precipitated by shortfalls in production or oversupplies, can be a substantial problem.

International commodity agreements for wheat, coffee, cocoa, and sugar have been tried during the last 30 years with mixed success. All these commodities are important to the United States. If an international agreement is to work, this nation, as a major buyer or seller or both, must be a party to the program.

Agricultural commodities add a biological dimension to the functioning of an international agreement. The weather, new technology, and disease and insect problems all increase the likelihood that supplies available for international trade may fluctuate widely. A series of international wheat agreements were put together between 1949 and 1970. An International Wheat Council, based in London, was established to

carry out operations, collect market information, and keep communications flowing between exporters and importers. A price range was established annually within which importing and exporting nations agreed to buy and sell negotiated quantities of wheat each crop year. No buffer stocks program was developed, because the United States and Canada in effect accepted responsibility for this function through their own national support program. When supplies became so great that the international floor price could not be maintained in 1969-70, exporters went their separate ways.

A wheat agreement negotiated in 1971 keeps the International Wheat Council alive as a market information and communications defice for the 50 member nations. No agreement has been reached yet by participants on price ceilings and floors or for a means for handling buffer stocks or national stockpiles. With so many nations involved and with such divergent national interests to consider, the basis for any binding production controls is some time away. Trading information and keeping communications open between members are the current common denominators. Leadership for a larger agreement has not emerged among either exporters or importers.

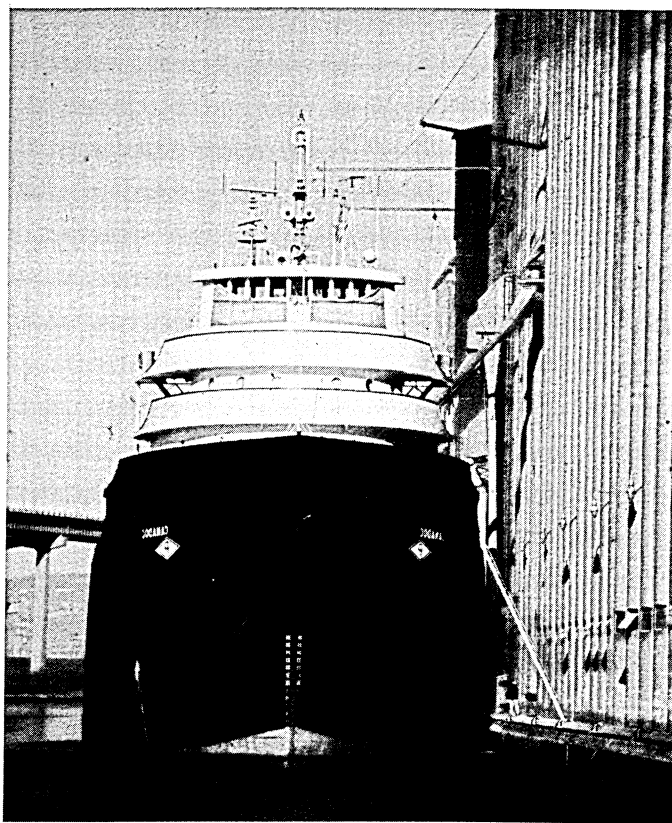
Commodity agreements by their very nature are not effective, direct mechanisms to expand trade of American agricultural products. The agreements may have important indirect effects, however. Because we are major buyers of many different commodities in world markets, our stance on commodity agreements of all kinds is always of interest to other countries. If we appear to favor restricting supplies to raise prices in the name of "market stabilization," some compensating restriction or quota may well appear in a desired market as a natural response. Participation in efforts to obtain commodity agreements may be a necessary part of America's overall trade policy, particularly to reduce the range of price fluctuation. Direct efforts to expand trading possibilities are more likely to come through other mechanisms.

### Bilateral and Multilateral Trade Negotiation

In the last 40 years, U.S. trade policy has developed around three major mechanisms:

- (1) The Reciprocal Trade Agreements Act of 1934.
- (2) The General Agreement on Tariffs and Trade (GATT), negotiated and ratified by the Senate in 1948.
- (3) The Trade Expansion Acts of 1962 and 1974.

These instruments authorize the executive branch to negotiate with trading partners to reduce trade barriers. Substantial progress has been made since the 1930's when high tariffs, export and import quotas, and agricultural protectionism dominated. Reciprocal trade agreements were a major breakthrough in the 1930's. In country after country we bargained to open our markets to their goods in return for opportunities to sell our products to them. In agriculture it was easiest to start with noncompeting products where there were advantages from trade to both sides. With communication barriers broken and greater trust



established, the range of goods was widened so that trade flows, particularly with Latin America, were increased substantially before World War II.

The GATT was established immediately after World War II to encourage increased world trade. It set up an international code of behavior and actions designed to give individual countries equal access to markets. This General Agreement on Tariffs and Trade encouraged nations to negotiate with each other to reduce tariff barriers and quotas or other trade restrictions.

The basic principles are widely acclaimed but are difficult to practice. Domestic policy and pressure from producers in a number of countries have led to violations of the basic agreement, particularly with agricultural products.

The GATT continues to provide a public forum for reexamining existing trading arrangements and discussing restrictive actions when they are taken. Most of the hard currency markets for agricultural products, including the European Community and Japan, are participants. The Europeans and Japanese protect their own agricultural producers through a complex system of trade barriers including variable levies, quotas, export subsidies, and government purchasing agencies. U.S. representatives at GATT in Geneva, Switzerland, continue to negotiate to reduce these barriers or discover ways to circumvent them.

The Trade Expansion Acts of 1962 and 1974 provide new initiatives to U.S. participation in GATT. The "Kennedy Round" of trade talks with the European Community after the 1962 Act was established sought to break some of the long-standing deadlocks between





us and the Europeans. The same initiatives were fostered by the Act in 1974 with an important focus on Japan. Although the President can initiate these direct negotiations with our principal, hard currency, trading partners, Congress must approve any final agreement. These Acts specifically provide for relief or compensation if additional imports to the United States cause "serious injury" to domestic producers. They also increase types of retaliatory actions which the United States can take in response to "unfair trade practices."

It is difficult to evaluate the impact of GATT and the legislation designed to reduce barriers to trade because we don't know what would have happened without these initiatives. It is clear that barriers to trade in manufactured goods and industrial products are much less than they were in the first half of this century. It is also clear that removing additional barriers to trade in agricultural products is very difficult at present. Domestic food security and protected markets for their farmers have high priority in Western Europe and Japan. Support for domestic protection from North American competition is widespread. The greatest opportunities for expanding sales of agricultural products in hard currency markets are the production and delivery of non-competitive items. Soybeans, for example, have essentially no barriers to entry in Europe or Japan because the capacity to produce oilseeds and vegetable protein locally is so modest. Trade negotiations will help us to

keep the markets we have, but we should not expect dramatic breakthroughs in the near future. Modest gains may be made in greater penetration into Japan's market for additional commodity groups because of its chronic export surplus with the United States.

#### **Food Aid and Concessionary Exports to LDC's**

During most of the years since World War II, the United States has provided various combinations of technical assistance and food aid to a wide range of poorer countries. With a wide range of motives behind them, these programs were and are supported because Congress and the American people think they are in our own best interests.

Public Law 480 has provided the principal authorization for most of these programs since it was enacted in 1954. More than \$25 billion of commodities have been exported under these programs. There are outright grants and donations through government agencies and voluntary organizations. There have been concessionary sales for foreign currencies which are then loaned to businesspeople or made available to the government within the country for technical assistance and other programs. Direct sales have increased but with long-term, low-interest loans financed by special agencies in the United States. All of these expand the physical volume of our agricultural exports. In many years during the 1950's and 1960's, these efforts helped to reduce government stocks acquired through Com-

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modity Credit Corporation operations. In some cases as developing countries could develop their own market economies, concessionary sales and food aid developed into hard currency transactions. Taiwan, South Korea, Greece, Turkey, and a number of Latin American countries are examples of how this kind of market has developed because of P.L. 480.

We should consider technical assistance and concessionary exports to developing countries on their own merits, not as an important means to expand our access to foreign markets for agricultural products. Clearly, exports of wheat, rice, feed grains, and animal protein have important effects on prices and quantities moving in trade. The ways in which food aid is used in individual countries also have important effects on local incentives to increase production, use new technology, and develop agricultural distribution systems.

The primary concern of American producers and agricultural exporters is for a known and reasonably consistent policy with respect to P.L. 480 programs, food aid, and disaster relief. These programs should not be looked upon as ways to "unload surpluses" in years when stocks are accumulated and to stay out of the market when stocks are short. At the margin, regular export of these commodities has a positive effect on prices. In years when reserves throughout the world are large, the net price increase is probably quite small. In years when world stocks are small, the marginal impact on price is important.

The preceding review suggests that expanding markets for American agricultural products through international agreements, trade negotiations, and food aid programs is not easy, but all these efforts are collectively critical. We must maintain the markets we have and create the best trading climate and attitude possible to foster new opportunities that will benefit both our own producers and consumers.

## OPPORTUNITIES TO MAINTAIN AND EXPAND EXPORTS

Total world trade amounted to \$991 billion in 1976. World trade in agricultural products was \$138 billion, or 14 percent. The U.S. share of world agricultural exports in that year was 16.9 percent, or \$22 billion. In fiscal 1977, world trade in agricultural products was \$118 billion. The U.S. share was \$24 billion, or 20 percent.

Opportunities exist to expand U.S. agricultural trade exports, but knowing which agricultural products are exported to which countries will help to set the stage for understanding export markets.

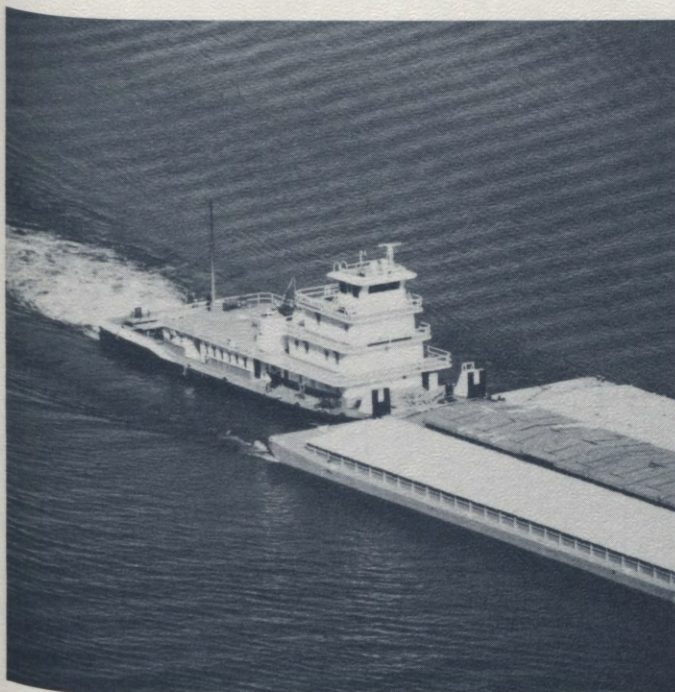
Agricultural exports are sold through commercial markets and through markets existing under U.S. government-assisted programs. In fiscal 1977, commercial exports were \$22.5 billion, or 94 percent of total U.S. agricultural exports. Those markets identified as commercial or hard currency markets fall into four general groups: (1) the developed countries, including Canada, Japan, and Western European countries, (2) the Communist group, including China and the COMECON countries, which are Russia and Eastern Europe, (3) the Organization of Petroleum Exporting Countries (OPEC), and (4) those cash markets in the Third World or developing countries.

Sixty-five percent of U.S. exports went to the developed countries in 1977 and 21 percent to the developing countries. Approximately 7 percent of U.S. commercial agricultural exports went to centrally planned economies including Russia and China and the remaining 7 percent to the 13 OPEC members.

The principal export products are grains and feeds followed by oilseeds and products, livestock and products, cotton, fruits, nuts, vegetables, unmanufactured tobacco, and miscellaneous other products. The major specific commodities exported are corn, wheat, soybeans, and cotton. Table 1 shows the export value according to area of destination. The major export markets are Western Europe, Japan, the U.S.S.R., and Canada.

Nearly all countries in the world have policies of attempting to achieve self-sufficiency in food production. The United States is one of a comparatively small number of countries with a food surplus and a strong interest in exporting agricultural products. Expansion of exports to many of these countries will be affected by their efforts to achieve greater food self-sufficiency.

On the positive side, increases in income and population plus changes in food preferences offer a potential for increasing exports. As income increases, the demand for meat products and luxury foods probably will increase. Export expansion in feed grains to produce meat is possible. As retail food distribution changes, the prepared food export market might improve. The market for high quality prepared foods is expected to expand in the developed countries and OPEC, except Japan and Taiwan which tend to import raw materials and complete the processing domestically. Expansion of exports to the U.S.S.R. and China will be highly dependent on weather conditions and the political situation.



## SUMMARY

Market development includes product promotion, introduction of new products, and new ways of using products. Essentials of market development involve supplying products of consistent quality along with credit arrangements with the capability of cooperation among commodity organizations, Foreign Agricultural

Service, and private firms. Trade expansion may be accomplished through commodity agreements, bilateral and multilateral trade negotiation, and food aid and concessionary exports. Opportunities to expand exports depends upon trade needs of recipient countries as well as the political and economic situations. The domestic food and trade policies of recipient nations may be the major variables in expanding U.S. agricultural exports.

**TABLE 1. U.S. Agricultural Exports, value by area and country, fiscal year 1977\***

	1977 Value (1,000 Dollars)	
<b>Developed countries</b>		
Western Europe .....	\$8,697,249	
Japan .....	3,773,466	
Canada .....	1,586,300	
Destination unknown .....	323,225	
Israel .....	-28,753	
Australia .....	93,520	
Republic of South Africa .....	58,560	
New Zealand .....	28,891	
<b>AREA TOTAL</b>		<b>\$14,532,458</b>
<b>Less developed countries</b>		
<b>AREA TOTAL</b>		<b>\$ 4,804,681</b>
<b>OPEC</b>		
Venezuela .....	\$ 305,206	
Algeria .....	100,528	
Saudi Arabia .....	145,732	
Iran .....	452,929	
Indonesia .....	107,111	
Nigeria .....	221,673	
Iraq .....	61,648	
Libya .....	12,736	
Kuwait .....	13,908	
United Arab Emirates .....	12,413	
Ecuador .....	72,135	
Gabon .....	242	
Qatar .....	1,684	
<b>AREA TOTAL</b>		<b>\$ 1,507,945</b>
<b>COMECON, USSR, China</b>		
USSR .....	\$1,063,418	
Poland .....	311,770	
Romania .....	117,545	
Czechoslovakia .....	88,136	
German Democratic Republic .....	35,154	
Bulgaria .....	3,952	
Hungary .....	26,019	
China .....	1,152	
<b>AREA TOTAL</b>		<b>\$ 1,647,156</b>
<b>WORLD TOTAL</b>		<b>\$22,492,240</b>

\*Summarized from data in table 8, pp. 22-26, U.S. Foreign Agricultural Trade Statistical Report, Fiscal Year 1977, Economics, Statistics, and Cooperatives Service, U.S. Dept. of Agriculture, Washington, D.C., April 1978.