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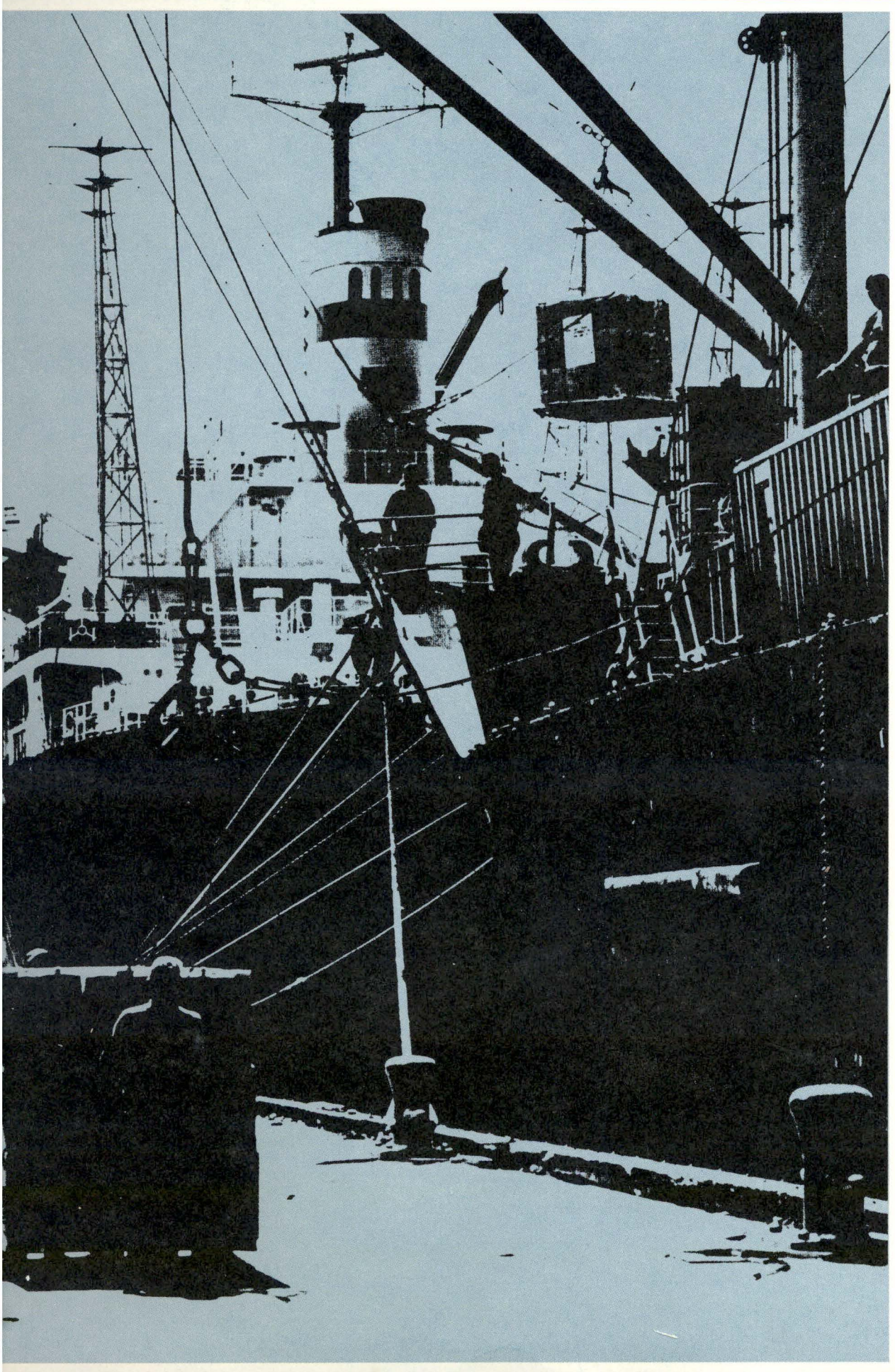
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SPEAKING OF TRADE

Key Issues for Agriculture



Expanding Trade

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

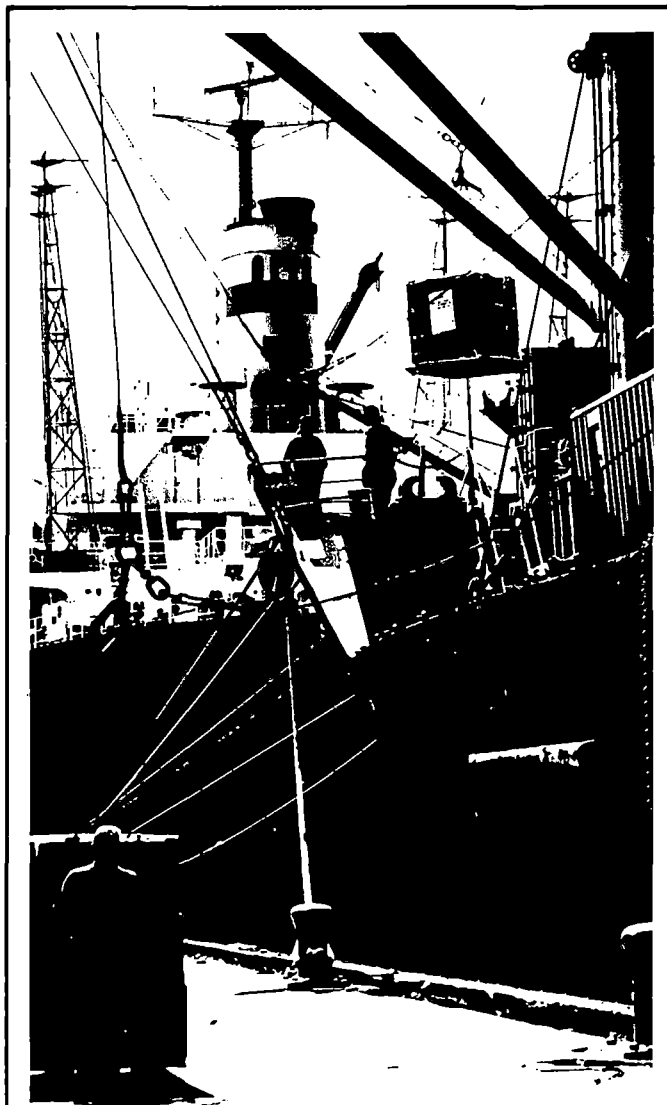
Each year since 1969 the value of U.S. agricultural exports has increased above the preceding year. In fact, the trend since World War II has been upward. Like most other sectors of the U.S. economy, trade expansion has occurred in terms of increased sales for dollars, more and larger markets for a greater 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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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)¹ 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 concensus 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

¹Most 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.

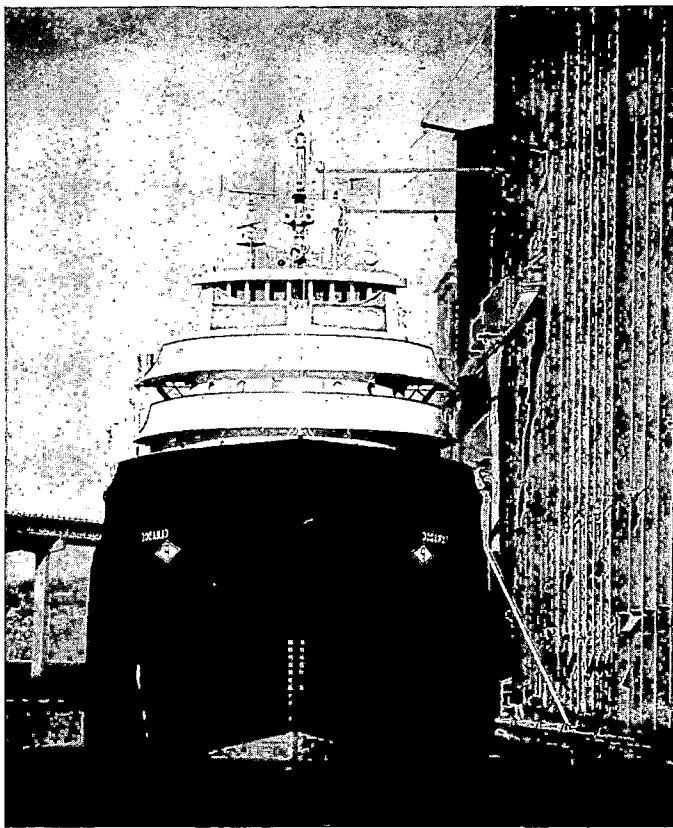
Commodity agreements by their very nature are not effective, direct mechanisms to expand trade of American agricultural products. The agreements may have important *indirect* effects, however. Because we are major buyers of many different commodities in world markets, our stance on commodity agreements 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-

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.

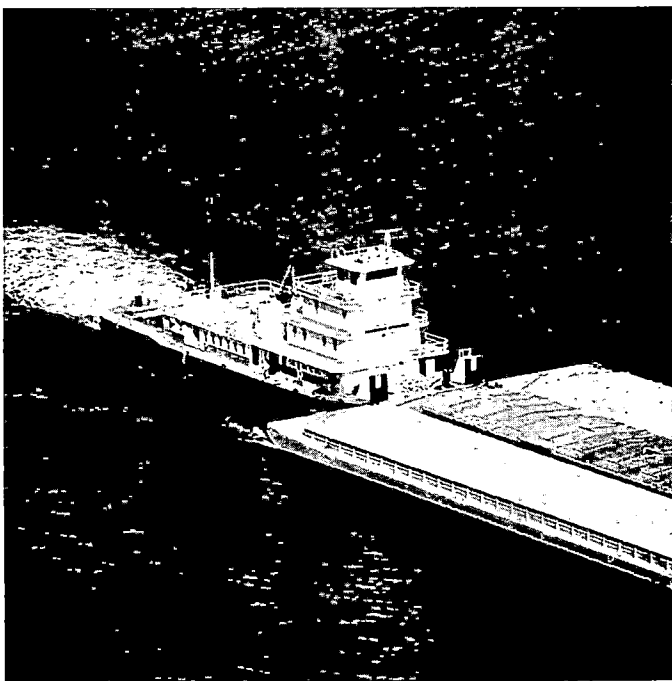
Agricultural exports are sold through commercial markets and through markets existing under U.S. government-assisted programs. In fiscal 1977, commercial exports were \$22.5 billion, or 94 percent of total U.S. agricultural exports. Those markets identified as commercial or hard currency markets fall 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)	
Developed countries		
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	
AREA TOTAL		\$14,532,458
Less developed countries		
AREA TOTAL		\$ 4,804,681
OPEC		
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	
AREA TOTAL		\$ 1,507,945
COMECON, USSR, China		
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	
AREA TOTAL		\$ 1,647,156
WORLD TOTAL		\$22,492,240

*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.

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Reference Handbook Available:

Speaking of Trade: Its Effect on Agriculture, National Public Policy Education Committee Publication Number 6, may be obtained from your state Cooperative Extension Service. Single copies are available for \$1.50 per copy and may be ordered from the Agricultural Extension Service, University of Minnesota, Room 3 Coffey Hall, 1420 Eckles Avenue, St. Paul, Minnesota 55108. Order Special Report No. 72. Prices for quantity orders are available upon request.

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