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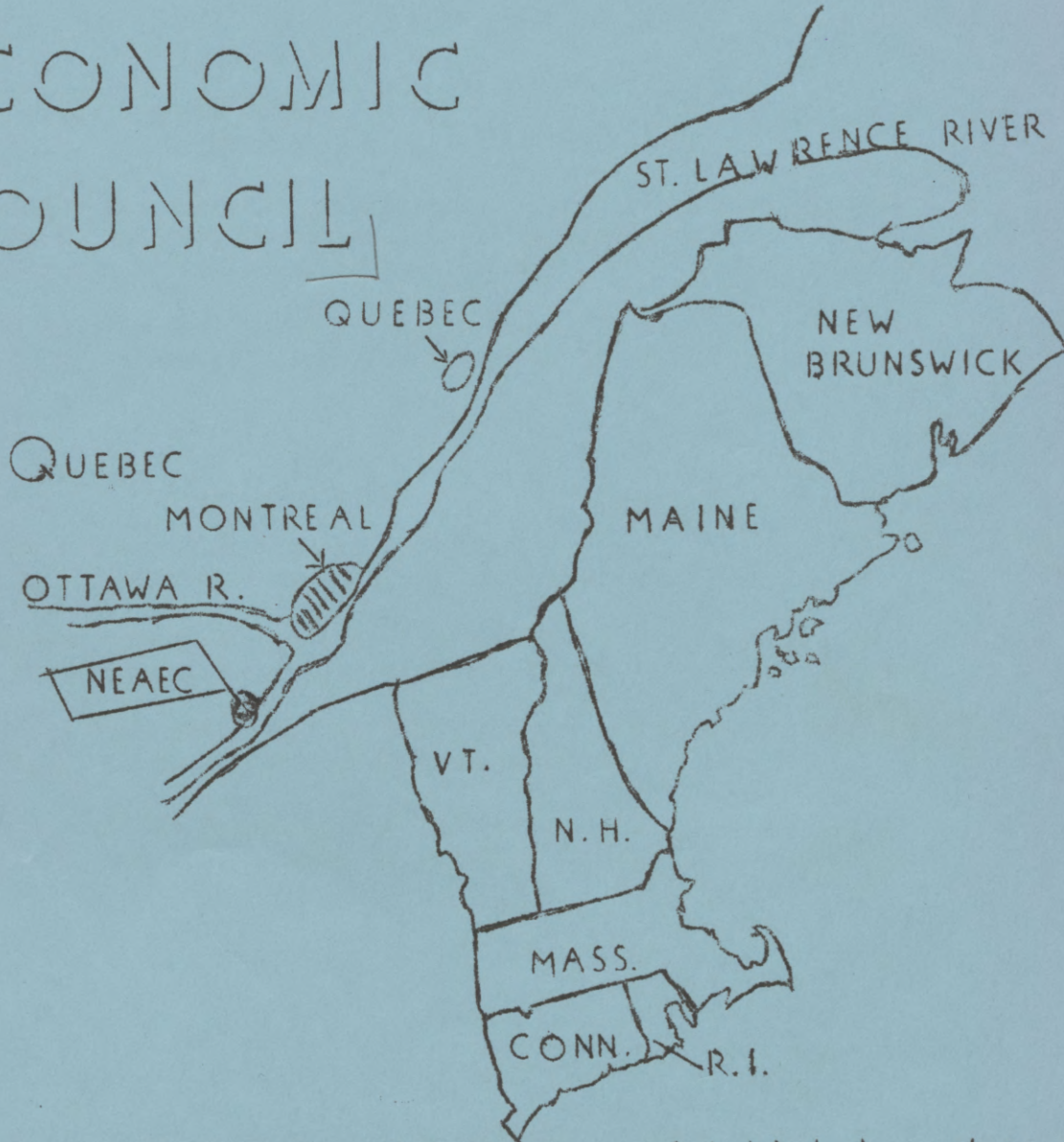
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# NEW ENGLAND AGRICULTURAL ECONOMIC COUNCIL

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## PROCEEDINGS, JUNE 1960

AT  
MACDONALD COLLEGE - MCGILL UNIVERSITY  
STE. ANNE DE BELLEVUE, MONTREAL, QUEBEC, CANADA

## OPPORTUNITIES FOR INCREASING FOREIGN TRADE IN AGRICULTURAL PRODUCTS

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The title for this session seeks to show the current and prospective opportunities for increasing trade. This means trade which is in the mutual interest of not only the U. S. and Canada but also in the interest of other exporting nations and even of importing nations, both present and potential.

The kind of trade we are discussing, therefore, is the exchange of goods and services on a mutually advantageous basis through modern financial methods among all who conduct it by means that are considered to be fair and equitable.

In this way the subject rules out any means which would seek for a nation more than a fair portion of world trade. In the same way, the title excludes stronger ways to compete with other exporting countries except those which result in more total trade.

The phrase "fair share" is avoided because so many discussants look at the mechanics of deciding fair shares as properly being to take the total of a recent period and divide it up on a percentage basis. Then, if any country this year achieves more than its recent percentage, it presumably has obtained more of the market than is justifiable.

How important is foreign trade today in agriculture? In Canada its importance is not often underestimated mainly because of the significance of wheat exports. Exports of wheat and flour account for more than half of an average wheat crop in Canada. They account for nearly half of the value of Canada's total agricultural exports and for about 10 percent of the country's total exports of all commodities. Roughly one-seventh of the gross national product of Canada is covered by the country's exports.

In the U. S., however, the importance of our agricultural exports is often underestimated. Some people ask, for example, why we do not just pull out of the export market and price our crops at certain levels and then regiment production and marketings so that there will be no cost to the Federal Treasury in guaranteeing the fixed price support level. The recent volume of our surplus disposals and the strong desire to make food work for peace are helping overcome the impression, even of a small minority, that U. S. exports are not very important to our agriculture.

Foreign outlets are presently taking about 17 percent of U. S. total farm production. They are taking roughly half our cotton and rice, two-fifths of our wheat and tallow, one-third of our tobacco and soybeans (counting the oil too). Exports take substantial amounts of fruits in fresh, dried and canned forms. The U. S. is the most important source of the world's trade in lard and other animal fats. The U. S. has for many years been a large exporter of evaporated and dried whole milk. The foreign market for poultry, eggs, hides, and many other raw and processed agricultural products is becoming more significant in the total outlets for additional U. S. commodities.



Not such a large portion of these U. S. exports as many people think is attributable to government programs. The total exports of U. S. agricultural commodities in the current year ending this month is roughly  $4\frac{1}{2}$  billion dollars. It is the second highest of record, exceeded once before, only slightly, three years ago. It is a large figure in itself, but the point I want to emphasize is that 70 percent of that amount is cash dollar sales.

Special government programs are accounting for only about  $1\frac{1}{4}$  billion dollars and about  $3\frac{1}{4}$  billion dollars is regular cash sales.

However, the full importance of foreign trade is not even covered by these proportions. Evaluation is also needed from the point of view of the even greater benefits which foreign trade provides as an extra market. Export outlets often may provide several times as much in net returns as is represented by the bare percent of exports to total value.

Recognizing the practical importance of cash sales, the bulk of our discussion should be on the point of how foreign trade may be expanded as cash sales -- for hard currency exchange on current account.

Where is the most fruitful field? Over the long run it may be in increasing efficiency and reducing costs. Any price support programs or government production policies or other interferences in the market place that retard increases in efficiency and reductions in costs obviously hamper an expansion of foreign trade. They especially decrease the effectiveness of competition with other exporters in the world's markets.

In the current situation one of the most fruitful fields is the traditional point of barriers to international trade. This is the border of the importing country -- the gateway of customs. It is the half-way point between the farmer in the exporting country and the consumer in the importing country.

Here is the No. 1 opportunity -- trade liberalization applied to the traditional barriers. Here we have many old barriers which have been on the books for years -- in the laws enacted by parliaments, in the regulations and interpretations by administrators, in the decisions of courts from the lowest to the highest, in the established procedures of doing business and banking, in the profits of great cartels, and in the incomes of small and large entrepreneurs.

Here too are the incentives for new protectionist measures. Here are the old excuses that everybody knows are no longer valid -- like shortage of foreign exchange, balance of payments difficulties -- but mainly the same old protectionist incentives to keep the old barriers and to wheedle new ones out of the politics of today and tomorrow.

Let's scan the list. In these protectionist measures there are real practical opportunities where a major breakthrough is possible.

- (1) Import duties can be lowered if trade interests are organized to make an effective impact.

- (2) Import quotas can be broken open with a similar approach. Here government agencies operating as exclusive importers often take a large profit to finance pet projects like subsidies to domestic producers of another crop. Also, whether as a licensing operation or a government agency actually doing the importing, the barriers to trade often have the backing of major processing and trading firms. These firms are doing well under existing conditions and might not do so well competitively if trade were opened up more.
- (3) Import license requirements, even without quantitative limits, often result in substantial delays in allowing imports and are outstanding as examples of a vast array of simplifications which can be achieved in the customs of many countries. A current example of improving treatment is in Japan. Japan is the largest cattle hide market for the U. S. and there has been some concern over its import regulations. Japan has two systems, "A.A." or Automatic Approval, and "F.A." or Foreign Exchange Allocation. Imports of hides from the U. S. and Canada have been falling under the more restrictive allocation system, whereas imports from Australia and New Zealand have been on the automatic system which has given them a competitive advantage. Japan recently announced, however, that imports of hides and skins from all countries will be placed on the automatic list by the end of August.
- (4) Bi-lateral barter often are a basic means of over-pricing both import and export items to the exclusion of other trading partners. Thereby, like most protectionist measures, they force buyers -- whether consumers or manufacturers -- to pay more than the market warrants.
- (5) Inspection regulations have been recently acquiring a new importance as protectionist measures. There are opportunities for increasing trade by breaking through those which have inadequate scientific basis.
- (6) Mixing regulations are a traditional technique for cutting across the consumer preferences for imported materials of better quality. By breaking down those not justified, new trade opportunities will arise.

The traditional barriers to international trade are also receiving new emphasis in the recent measures for liberalizing on a regional basis. The European Common Market will continue to be the subject of pulling and hauling between liberalization forces and protectionist forces.

Customs treatment for intra-regional materials and products, with a common tariff for external products, provide inherent discrimination against the goods of outside suppliers.

In theory the averaging of rates of duties might afford a start in establishing the common tariff barriers against imports. But this averaging can produce greater barriers against imports than existed before the creation of the regional arrangement. The lower duties of countries that import substantial quantities might be averaged on an equal basis with the higher duties of countries that take little or no imports. The result would obviously be higher tariff walls.

Even more troublesome than the inherent nature of this trade regionalism is the special treatment provided for agriculture. This is defended on the generalization that special provisions are always made for agriculture in every country, and always have been therefore always will be. Here again, the best opportunities for expanding rather than choking down foreign trade will be by organizing the right interests at the most effective stages of regional efforts. This can be done in several ways:

- (a) Government agencies can be effective through responsible international bodies like GATT. Under this type of multilateral agreement, protectionist measures may be thoroughly discussed. Decisions can be taken not to provide exceptions for measures which are inadequately justified as to terms of trade.
- (b) A most effective approach also is exposure. Publicity itself will often do the job if it is not too generalized -- is used on the right interest groups with the types of details that will be effective.
- (c) Representations made to individual national government agencies constitute another effective approach. Depending on the situation, these need to involve approaches frequently to the permanent official bureaucracies, the cabinet ministers, and the influential members and bodies in parliaments. It is often surprising what liberalization actions can be achieved by keeping in the minds of permanent or policy officials the interests of friendly government or business groups.
- (d) This leads to the importance of organizing economic interests to do the effective work through all channels. Whether the approach is backing up national government efforts in international bodies, or representations to other national governments, or publicity exposures, or gathering and circulating special information, it can not be done effectively without organization of the groups with complementary economic interests. They need to provide sufficient funds and staff to dig out the facts and to circularize them through the groups which can be influential both within the country and in other countries.

Now, look at the opportunities in some individual countries.

The best opportunities for cash markets are illustrated by Canada, the U. S., Western Europe, Japan, Australia and New Zealand. Here the markets will depend mainly on liberalization actions and relative prices.

A group of in-between countries is illustrated by some local areas in Southern Europe, Mexico, Caribbean areas and Central and South America. In these countries, substantial volumes of agricultural products are being imported for hard currency exchange, but there are also large steps in economic development under way and further development effort needed so they may begin to close the gap. In this respect, many of these areas can become much better customers for cash trade if larger credits are provided by private and public sources for their expanded general economic development.

India and Pakistan exemplify great opportunities for economic development and broad capacity for absorbing large quantities of surplus agricultural products to assist in development. Other areas which fall in this category include countries of Southeast Asia, Africa and the Middle East. Countries now in even less favorable position to carry out the development needed include Korea, Formosa, South Viet Nam, Laos and Cambodia.

Finally, in the countries back of the Iron Curtain foreign trade opportunities at the present time are strictly limited, mainly by their own initiative. Internal development of productive resources is progressing in varying degrees among the European satellites, Russia and Communist China, but the opportunities for increasing foreign trade do not appear bright. About the only exception develops when adverse conditions bring about a sudden emergency opening on special government arrangements, as in case weather creates a shortage of food grains or oils.

Many countries have to be viewed very differently from one agricultural product to another.

Take cotton. Its trade depends in large degree upon the fluctuating markets for textile products in industrialized countries. The large increase in cotton trade during the current year and the favorable prospects for the coming season are evidence of prosperous conditions that increase the demand in the processing industries. New opportunities which may be opened up with further economic development and special financing arrangements are illustrated by the large gap between the number of pounds of cotton consumed in the industrialized countries and those in the Middle East. In many of the desert areas, as little as five pounds of cotton is consumed per capita each year, as compared with five to six times that amount in the U. S. Other underdeveloped areas of the world, particularly tropical and semi-tropical, also have very low per capita consumption of cotton. General economic development in prospect for future years seems to offer the best opportunity for increasing the quantities of cotton these underdeveloped areas will use as they progress to become better trading partners.

Products of the tropical areas, like rubber, hard fibers, coffee, cocoa, sugar and spices, offer broad opportunities for expanded trade among countries in many stages of development. Progress in these commodities will depend on economic development but new opportunities can also be opened by sellers through promotion techniques.

Tobacco trade presents special problems. In many areas, production has been increasing as international trade has been restricted by government monopolies and controls. With rising incomes, demand continues upward. The opportunities for increases in trade depend to a considerable degree on special promotion activities combined with achieving a willingness on the part of national governments to permit consumer preference to be expressed in the types imported.

Fruits and vegetables. Trade liberalization and rising incomes are broadening the markets, especially for citrus fruits. From the tropics, bananas are finding larger markets.

Meats. The demand for more trade is developing. Specialty items such as frozen livers and variety meats are of significant interest to the U. S. and the outlets continue to expand.

Poultry. In 1955 the U. S. was selling practically no frozen poultry in Switzerland and none in Germany. Then an Agricultural Department poultry marketing specialist called on the head of a large Swiss retail grocery concern. This specialist had an idea that the high quality broiler chickens produced in the U. S. were tailor made for the Swiss demand. His enthusiasm was contagious and the firm placed a trial order. Swiss consumers liked the U. S. broilers and asked for more. The firm reordered and before long other food importers climbed on the band wagon. It has turned out to be a real marketing breakthrough. Marketings to Switzerland were over 20 million pounds last year and larger quantities are expected this year. Trade promotion in West Germany also has produced most gratifying results as sales have moved up from none five years ago to 50 million pounds. A further natural expansion in trade is impeded by government control over imports.

Livestock trade has usually been across nearby borders but new developments are taking place. More breeding animals are being sold for long distance delivery by air. Australian entrepreneurs have been trying to demonstrate they can practically operate a lamb feeding lot afloat for the 7,000 mile journey to the States.

Fats, oils and oilseeds show favorable prospects. In the edible oils large increases in consumer demand and in shipments between countries can be achieved with development of many of the underdeveloped areas. The consumption of food-fats and oils in many of the underdeveloped areas is far below the levels of the industrialized countries. As economic progress occurs, the consumer demand for food fats and oils is likely to expand to higher rates in newly developing areas. As to oilseeds, the tendency of many countries to encourage local processing industries and the increasing demand for oilseed cake and meal as livestock feeding expands are enlarging the international movement of the seeds and oil-bearing materials. The degree of preference provided for local processing industries will greatly influence the proportions of imports taken in the form of oilseeds or product. The opportunities to increase trade through marketing measures taken in the export trade are shown in one case by the progress made by U. S. soybean sellers in the Japanese market by guaranteeing the varieties the Japanese processors prefer. The opportunities through new technical research are shown by the achievements in Western European countries in eliminating an unfavorable flavor in margarine and shortening.

The opportunities for increasing foreign trade require mention of other techniques that will make the opportunities useful. Trade fairs have been highly effective in showing off the wide variety and excellent quality of U. S. farm products to millions of people over the world. There are public appearances of commodity beauty queens to advertise individual commodities. There are merchandising clinics, advertising campaigns, nutrition and sanitary courses, cooking demonstrations and other techniques for reaching potential customers.

The U. S. Foreign Agricultural Service encourages these activities through cooperative arrangements with private commodity associations. In Italy, for example, the U. S. Soybean Council has worked with feed cooperatives, arranged seminars distributed information to farmers and shown movies. Last year they also worked with the Grain Sorghum Producers Association in sponsoring a mobile exhibit which was taken to various areas to demonstrate the value of balanced feeding of livestock. This promotion activity has helped to raise use of U. S. soybeans in Italy from half a million bushels in 1954 to about 5½ million this year.



In the coarse grains, expansion of consumer demand for livestock products will be the main basis for increased trade. Those agricultural exporting areas of the world where feed grain production is already highly efficient on an extensive basis may be expected to increase their comparative advantage as the demand in international trade rises. The more populous areas where consumer demand is increasing do not have sufficient land area to expand such extensive farm crops. Here is a case where internal agricultural price and production policies and accompanying restrictions against imports will greatly influence the rate of expansion of consumer demand for the end product and the proportions of the end product, as well as the feed ingredients, that will come from imports.

Among the food grains, wheat has recently provided the greatest opportunities for expanded foreign trade despite the traditional inelasticities in its demand. While nearly all the world's rice and rye are consumed in areas near their production, wheat moves in large volumes throughout the world. Most of the rice and rye go into commercial markets consisting of the populations living at the lowest economic levels. Areas like Japan which have normally provided the largest import markets for rice have more recently been expanding production at home and taking less imports. The cash markets for wheat have been continuing fairly stable, but the large surplus available from the U. S. on favorable terms have opened up vast new avenues of expanded consumption in underdeveloped areas.

The recent India PL 480 agreement so widely publicized warrants special consideration as a new expansion of trade.

Some U. S. agriculture people have been describing the difference between the cash sale markets and the underdeveloped countries as two worlds. It has become recognized that the U. S. and other agricultural exporting countries have a real commercial self-interest in promoting the economic development of underdeveloped areas.

As countries speed up their development and reach higher stages of development, they become better customers as commercial traders. It is only when millions more of their people can be brought out of the bush and out of the mud that they can become commercial customers.

It is on this basis that the developed commercial agricultural trading countries find it is good business to assist with the loans being provided to increase economic development around the world. The international lending by such agencies as the World Bank and the bilateral aid of the type provided under the Colombo Plan and through various U. S. agencies have been assisting greatly and apparently will be continued at high levels.

One of the best opportunities for increasing exports is to get people in the habit of eating larger amounts of the export commodities. Since some of the same commodities have become surplus in the U. S. and in a number of other exporting countries, the availability of the surpluses opens up an avenue for cashing in on this opportunity. In many of the underdeveloped countries of the world, it has become apparent that the most effective commercial market promotion for the time being, while these countries are short of purchasing power in terms of foreign exchange, is to furnish surpluses in a volume that will move them into consumption at increasing rates.

The question is often raised about donations being furnished through the voluntary relief agencies such as CARE and the church groups. Commercial interests ask whether these donations are effective in building future commercial export markets. It should be expected that eventually these needy families receiving the donated commodities will progress economically to the point where they will have better earnings and more purchasing power. When they do, if they have developed a steady habit of consuming larger quantities of commodities, such as those received as gifts, they can be expected to be better commercial customers than if they had been barely getting along on much smaller amounts of locally available foods.

School lunch programs also have generated interest as to their effectiveness in developing commercial export market opportunities. Certainly it is easier to develop different habits of food consumption among children than the older elements of a country. It is most difficult, however, to evaluate the extent to which the school lunch food habits carried over into the children's families at home and carried into their own consumption habits as they grow up, leave school, start work and begin their own families. The weight of evidence seems to indicate that considerable is achieved in the way of permanent commercial market development, but it is also well known that there is considerable slipping back. As long as the surplus foods are available and funds are available for market promotion, it appears that the school lunch will continue to be one of the mechanisms for market promotion as well as improvement in health and education.

To give away commodities free, it is necessary to have a special distribution system. An underdeveloped country or isolated area usually has a commercial system of marketing and distribution for some kinds of food items even if only on a barter or partial monetary basis. New foods or expanded supplies help enlarge these distribution mechanisms, increase the flow of money, and raise the level of efficiency of the commercial facilities and procedures. India and a number of areas of North Africa and Middle Eastern Asia have definite preferences for commercial purchasing of imports and for distribution through internal commercial channels instead of receiving donations and grants. They do not want increased numbers of people to develop a habit of obtaining essential commodities on a dole or have an incentive to press their own Governments for donations. Those countries know their economic development is dependent upon increases in employment by which people earn wages and buy their necessities commercially. They do not feel donation systems should be permitted to compete on a broad scale with their need for economic development. Therefore, they want to import and distribute through commercial mechanisms even though they negotiate to save a large part of the real costs.

The Wheat Utilization Mission on which I served in the Far East early this year found a rising outlet for wheat. The Mission consisted of two Canadians, one Australian, three Americans and one Indian representing FAO as advisor-observer. It found there are much greater elasticities in the demand for wheat at the stage of development in India than in our western exporting countries. Many unusual wheat foods, prepared by recipes not familiar in the western world, are used in different parts of India. They are popular, fit the local conditions, and appeal to the tastes. But the same ones are not used throughout the country. As some of these recipes are collected and publicized throughout the country, they will be effective in increasing the amounts of wheat consumed.

The opportunities for increased exports would be broadened if action were taken to free up export sales from more of the government determinations still being used in many exporting countries. Export prices must be competitive in international markets in order to make sales. In some countries where farm prices are supported above international market levels, this makes it necessary to set export prices below domestic levels. This has often resulted in such inflexibility of export prices as to fail to keep up fully with market conditions. For this problem it is not an adequate answer to suggest that market prices should be permitted to seek their own level and that incomes should be supported by cash payments to farmers. This has been given a good deal of consideration, but generally has not been found to have enough relative advantages and appeal. The most practical approach developed over the last several years for U. S. conditions seems to be to try to achieve the desirable flexibility through daily or weekly announcements of export payments or of acceptance of offers from export traders.

This leads to the question of government agencies' doing the export selling. In the U. S., the sales move out of government stocks through private export traders or out of private trade stocks on the basis of export payments in kind to the private traders. In Canada and some other countries, a government or semi-government agency is the funnel through which all export sales must move. Either way involves determinations by government-type bureaucracies. These determinations either result in freezing inflexibilities into the system or in competition between national government for export markets. When the rate of export selling depends upon bureaucratic-type determinations, a government is setting terms of sales that will be competitive in stronger or weaker degrees. To reduce the effect of government determinations on the volume of export sales made would enable market influences to reach a balance within known general terms of trading.

International commodity agreements are often suggested as the most desirable way to hold price fluctuations within reasonable bounds. The obvious objective is to place some limits on violent price fluctuations, but it is most important to avoid inflexibilities which may reduce total market opportunities.

In a message to Congress on March 17, President Eisenhower announced a program to promote the growth of our U. S. export trade. The Secretary of Agriculture issued a statement on April 12 about his Department's plans. At the end of May he announced a top level Department committee to develop activities. In the next two weeks the FAS is holding meetings with five main U. S. commodity groups to consult on steps in trade liberalization. In the meantime, we are developing recommendations for future efforts on the export drive.

The President's message placed particular emphasis on the importance of exports to full employment. In agriculture this could imply putting emphasis on export opportunities for those commodities in which we are economically the most competitive in foreign markets. This would mean relatively more effort on promotion of exports for non-price support commodities--those in which the price over the last 15 post war years has been permitted to level off at the point which will clear the market.

The surpluses, of course, have been developing almost entirely in commodities where price supports have been applied. Accumulation of surpluses has brought most of the pressures on these commodities to push their exports. However, if a shift in emphasis now develops, this would be most in line with the dictates of economic efficiencies. It would help avoid production of further surpluses. The greater outlets for the more competitive commodities should attract more of the total productive resources into growing these commodities.

In general, in the U. S. we feel the opportunities for increasing trade in agricultural products are optimistic enough to warrant a good deal of promotion effort but not so optimistic as to warrant a slackening of our efforts.