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# High-value Exports Surpassed Traditional Bulk Products

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**H**igh-value product (HVP) exports exceeded bulk exports in fiscal 1991, something virtually unprecedented for U.S. agricultural trade. Rising by \$1.1 billion, HVP exports reached a record \$20.4 billion due to favorable exchange rates, continued growth in industrialized countries, and U.S. industry marketing efforts.

With world grain trade contracting, exports of bulk products fell \$3.7 billion, causing overall U.S. agricultural exports to fall \$2.6 billion, the first decline in 5 years.

U.S. agricultural production that is exported as an HVP has been processed (such as flour), receives specialized handling (such as fresh fruit and vegetables), or meets specific needs through higher than average quality or preserved identity in a niche market (such as animal and plant breeding stock). Generally, HVP's are agricultural products other than raw grains, oilseeds, cotton, and tobacco.

For example, wheat is a bulk export unless it is processed into flour or seeds, which are HVP's. Processing at packing plants gives meat and animal byproducts HVP

status. Further, since a substantial proportion of U.S. livestock consumes grains and processed feed rather than pasture, U.S. animal product exports are considered HVP's because of the value added by feeding.

## Bulk Commodities Long Dominated U.S. Farm Trade

While the first agricultural exports from North America included indigo, furs, and other HVP's, further settlement brought tobacco and cotton exports to domi-

nate U.S. farm trade. In particular, cotton predominated during the first half of the 19th century. During the second half of the century, improvements in transportation catapulted grain into the forefront of agricultural exports. Continually increasing production as a result of American innovation and mechanization kept grain at the top of the agricultural export list well into the 1980's.

However, during this time, real prices (after adjusting for inflation) of bulk products generally fell, with the exception of the 1970's and early 1980's. For example, dur-



*In fiscal 1991, the value of U.S. HVP exports exceeded that of bulk commodities, continuing their upward trend of the past several years.*

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ing the last 20 years, U.S. prices for both bulk and HVP agricultural exports have risen about 130 percent, while U.S. consumer and nonfarm-export prices have risen more than 200 percent. As a result, cash receipts from farm marketings slid from equating as much as 7 percent of gross national product (GNP) during the early 1960's to 3 percent since 1985.

The purchasing power of farm products has been declining for three primary reasons. Historically, food consumption has increased more slowly than income once a certain level of industrialization and development has been achieved. Additionally, prices of manufactured goods tend to rise more quickly than raw materials. Finally, widespread government intervention in agriculture has increased production in regions of the world otherwise lacking a natural comparative advantage in producing farm products, resulting in lower world prices of bulk farm products (particularly grains). ERS has calculated that global agricultural supports averaged nearly \$100 billion annually during 1982-86.

### Grains Led Worldwide Fall in Bulk Exports

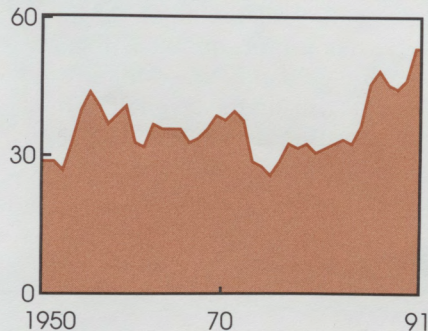
Grains led the decline in bulk exports, which fell from \$21 billion in fiscal 1990 to \$17 billion in fiscal 1991, following a world record wheat crop, record grain production in China, and a near record grain crop in the former Soviet Union.

High production in the former Soviet Union, coupled with its reduced solvency during fiscal 1991, lowered the Soviet's coarse grain imports from all sources by an estimated 9 million tons. This in turn led to a worldwide reduction in coarse grain trade. China's record grain production resulted in re-

Figure 1

### U.S. HVP Exports Surpassed Bulk Products

HVP share of U.S. export value



duced imports and a 5-year high in coarse grain exports.

With world trade shrinking and competitor exports rising, U.S. coarse grain exports fell 17 million tons, or \$2.3 billion, in fiscal 1991.

Volume changed less for U.S. wheat exports during fiscal 1991 than for coarse grains, but prices fell substantially on world markets. The volume of U.S. wheat exports fell only 1 million tons to 27 million tons, but export value fell \$1.4 billion.

Importers overseas paid \$43 per ton less for U.S. wheat than they did in fiscal 1990 as increased world supplies drove prices down. And, as world prices fell further below the European Community's (EC) domestic prices, EC export subsidies rose sharply, driving world wheat prices still lower.

### HVP Exports Up

HVP exports accounted for 54 percent of all U.S. agricultural export value in fiscal 1991. This was up from 47 percent in fiscal 1990. Except during the two world wars, U.S. bulk exports have almost never accounted for less than 50 percent of U.S. farm product exports since at least the middle of the 19th century. The long-term changes in relative prices and recent government intervention in

world markets cited earlier account for much of this shift in favor of HVP's.

The HVP share of U.S. agricultural exports has risen steeply since fiscal 1985 (fig.1). The increase was driven by gains in HVP shipments and the relative sluggishness of bulk exports. In fiscal 1970-84, before the increase occurred, HVP's were accounting for about a third of the value of U.S. agricultural exports.

### Record-keeping Changes Affect HVP Exports to Canada

In fiscal 1991, Canada chalked up the largest gain in HVP exports from the United States, \$752 million. However, much of this apparent growth reflects improved export reporting during fiscal 1991 rather than increased sales. In January 1990, the U.S. Government began using Canadian import statistics due to extensive undercounting for reported U.S. exports to Canada.

In fiscal 1990, these new accounting methods were partially responsible for much of an even larger apparent increase—\$1.5 billion—in U.S. agricultural exports to Canada.

In fiscal 1991, a comparison between the flawed statistics from fiscal 1989 and the last 3 months in fiscal 1990 again inflated the reported export gains. If the \$300-\$400 million error from fiscal 1990 that occurred before the change in accounting methods is excluded, then U.S. agricultural HVP exports to Canada in fiscal 1991 were only about \$400 million higher than a year earlier rather than \$752 million.

### HVP Exports Higher to Europe and Mexico

The largest increases elsewhere for U.S. HVP exports came in shipments to Mexico, which rose \$472

million, and Western Europe, which rose \$404 million. In fact, Western Europe overtook Japan to recover its position as the largest market for U.S. HVP exports. U.S. HVP exports to East Asian countries other than Japan rose \$138 million. This was the sixth consecutive annual increase to these rapidly developing countries.

### HVP Exports to Japan Steady

For the second consecutive year, fiscal 1991 HVP exports to Japan slid, but the declines were so slight that fiscal 1991's exports were only 2 percent below their fiscal 1989 peak. Between fiscal 1985 and 1989, HVP exports to Japan more than doubled, as Japan surpassed Western Europe as the largest market for U.S. HVP's in fiscal 1989 and fiscal 1990.

Meat exports accounted for more than half of the \$2-billion gain between fiscal 1985 and fiscal 1989, but meat exports fell slightly in fiscal 1990 and failed to rebound in fiscal 1991. Partially responsible for the expansion was an increasingly strong Japanese yen, which reduced the cost of importing.

Furthermore, the 1988 Beef and Citrus Agreement with the United States led to progressively higher Japanese import quotas for beef. Beef stocks grew in Japan but retail

prices remained high, stunting consumption. As a result, imports weakened in fiscal 1990 while stocks remained high in fiscal 1991. In April 1991, Japan replaced its system of import quotas with a 70-percent tariff, which led to reduced imports during the last half of fiscal 1991. But, the tariff will be reduced in future years, brightening the prospects for imports.

### HVP Exports Down Elsewhere

U.S. soybean oil exports to Pakistan were off sharply during fiscal 1991, largely because there were no shipments under Public Law (P.L.) 480. U.S. legislation precluded P.L. 480 assistance for Pakistan in fiscal 1991, because of concerns with Pakistan's nuclear energy research. In addition, Pakistan raised its soybean oil tariff and lowered its palm oil tariff, which encouraged a shift to palm oil.

U.S. HVP exports to the former Soviet Union have risen in recent years due to improving relations and to declining procurements from Soviet farmers. (As domestic procurements fell, the former Soviet Union increased imports to maintain supplies.)

While constraints on foreign exchange and credit led to a \$38-million decline in U.S. HVP exports to the former Soviet Union in fiscal

1991, they were still the second highest on record at \$523 million. Butter, which fell \$68 million to zero in fiscal 1991, was the largest single change in HVP exports to the former Soviet Union.

Due to the United Nations embargo on trade with Iraq, U.S. HVP exports to the Middle East fell \$253 million, a much larger decline than those to the former Soviet Union. U.S. HVP exports to North Africa fell \$89 million due to reduced flour and soybean meal exports.

### Outlook

The greatest growth in U.S. HVP exports began after the weakening of the U.S. dollar was well underway. In addition to favorable exchange rates, the export gains depended on strong economic growth in overseas markets—both in absolute terms and also relative to U.S. economic growth.

Preliminary data for 1992 suggest that U.S. HVP exports continued growing to another record high in fiscal 1992, and maintained their lead over bulk products.

While the weakness of the U.S. dollar on foreign exchange markets during much of fiscal 1992 bodes well for continued export growth in fiscal 1993, less than robust economic growth in industrialized foreign markets suggests some weaker, offsetting prospects. ■