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Continued Export Expansion Likely for U.S. Food Processors

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Because of record export growth, U.S. food processors posted a trade surplus in 1992 for the first time. The appeal of American brand names and the influence of U.S. multinational firms abroad should strengthen that position in the face of stiff world competition.

U.S. firms sell in a world market where trade in processed foods exceeded \$205 billion in 1990. Two dozen countries supplied 80 percent of that amount. Over half of all shipments originated in Western Europe and North America. The United States accounted for 8.5 percent of world exports of processed foods in 1990, surpassed only by France with 9.8 percent and The Netherlands with 8.9 percent.

The United States Becomes a Net Exporter of Processed Food

Processed foods include farm and seafood products that have undergone varying degrees of manufacturing. U.S. exports of processed foods include products from all

plants located in the United States whether owned by a U.S. company or a foreign firm.

U.S. exports of processed foods exceeded the value of like imports by \$700 million in 1992. Processed food exports from the United States reached \$22.6 billion in 1992 after following a flat, and some-

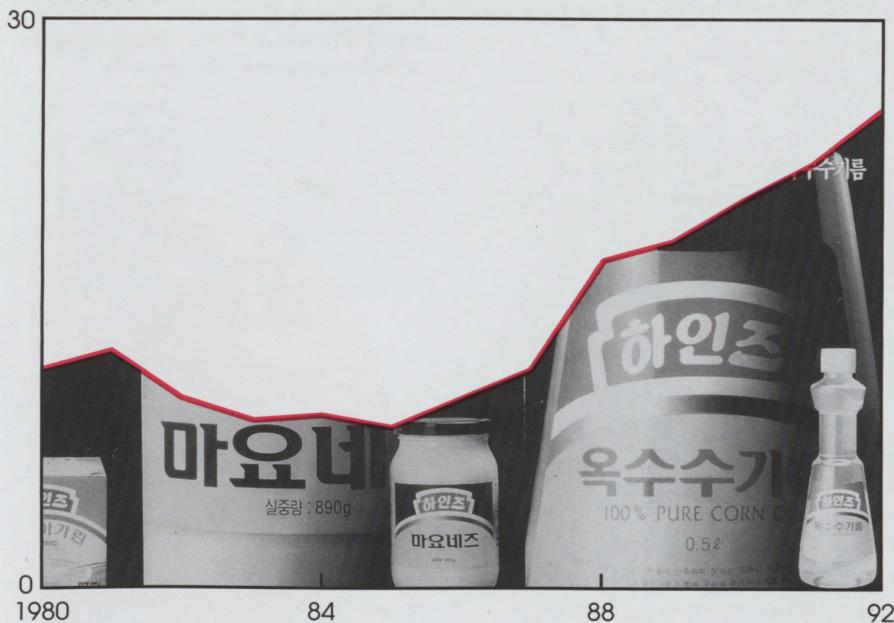
times declining, path over much of the 1980's (fig. 1).

U.S. processed food exports have climbed steadily since 1988, whether valued in current dollars or adjusted for inflation. The surge carried over into 1992, with yearend shipments 38 percent above 1988 levels.

Figure 1

U.S. Exports of Processed Food Have Climbed Steadily Since 1985

Billion dollars



Note: 1992 estimated.

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Several related developments have boosted U.S. exports. A climate of freer trade was fostered when major U.S. trading partners accepted provisions of the General Agreement on Tariffs and Trade (GATT, the international organization which governs trade negotiations and resolves trade disputes) to lower trade barriers. Agreements with important trading partners also helped. For example, Korea lowered barriers to imports of U.S. beef and other foods, and Mexico unilaterally cut tariffs and revised import quotas on a broad range of U.S. products even before formal negotiations began on a North American Free Trade Agreement (NAFTA). Another booster has been the relatively weak dollar, which reduced prices of U.S. exports for importing countries. Government funded export promotions also helped. The Targeted Export Assistance (TEA) and the Market Promotion (MPP) programs provided up to \$200 million annually for overseas promotions—much of which involved processed foods.

To a greater degree than before, domestic manufacturers look abroad to expand existing markets or to enter new markets through exports, direct foreign investment, or various combinations of these strategies. Export efforts assumed added urgency when growth of the domestic food processing sector slowed in the mid-1980's along with the general slowdown in the economy.

A Few Industries Account for Most Exports

The food processing sector contains 44 industries that slaughter animals, can fruit and vegetables, make ice, polish rice, grind coffee, and undertake a host of other activities that involve varying degrees of processing complexity, capital intensity, and energy demands. Twelve food processing in-

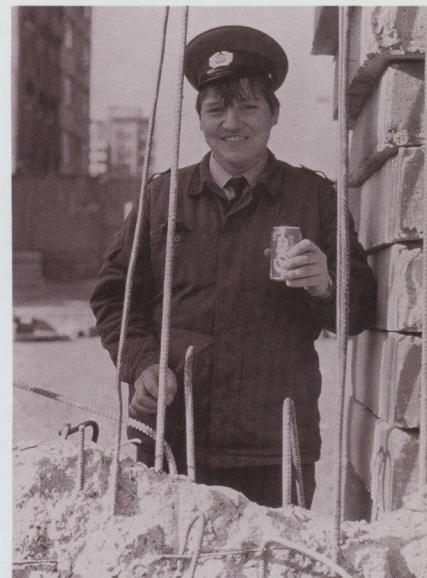
dustries produced nearly three-quarters of the \$20.1 billion of U.S. processed food exports in 1991 (fig. 2).

Four industries accounted for almost half (47 percent) of processed food exports in 1991: meat products, seafood, soybean oil, and wet corn milling.

The meat processing industry, which also includes meat byproducts, accounted for 20 percent of processed food export volume in 1991. Meat processing continued its decades-long role as the bellwether food exporter, shipping over \$4 billion worth of products (table 1). A number of leading products—such as hides, offals, and animal fats and oils—are essentially byproducts of meatpacking with little domestic demand. Foreign markets have been excellent outlets for these.

A strong, expanding market continued for the seafood industry, with over \$2.6 billion in exports. Soybean oil processors and wet corn millers exported over \$1 billion.

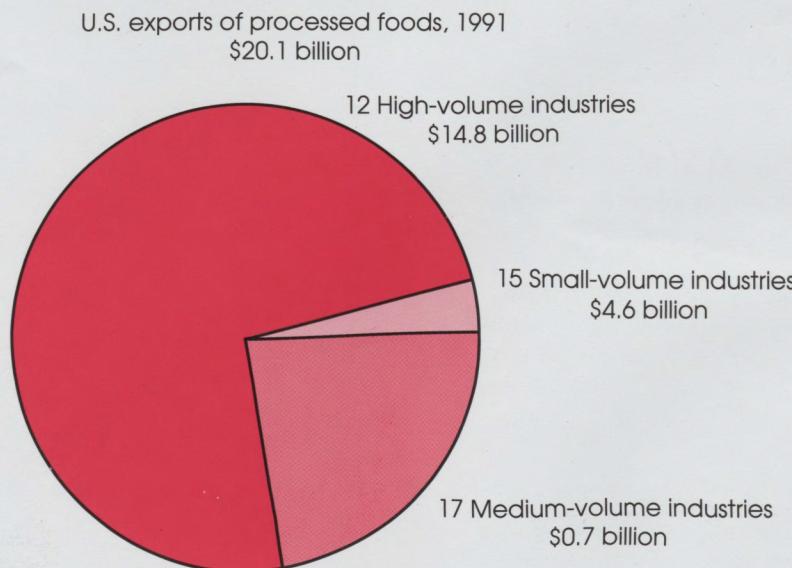
Fewer than a dozen products accounted for over half the ship-



The appeal of American brand names is evident in the expanded foreign sales of U.S. products, such as soft drinks. This guard is sipping a Coke at the Berlin Wall.

ments of the 12 processing industries with the largest exports. Of those, soybean oil and soybean cakes (a component of animal feed), corn gluten feed and meal, and salmon each exceeded \$1 billion in 1991.

Figure 2
Twelve Industries Account for Nearly Three-Quarters of U.S. Processed Food Exports



Other examples of the concentration of exports include cowhides and boneless beef, each averaging 35 percent of meat product exports; cut, frozen chicken, accounting for over 70 percent of poultry product exports; and almonds, constituting about 82 percent of exports of salted and roasted nuts.

Unbranded products headed the list of processed food exports. But brand-name products are growing in importance. For example, 1991 shipments of distilled liquors and beer—highly advertised brand-name products—each exceeded \$500 million. Branded breakfast cereals, wines, and soft drinks each topped \$100 million and together added another \$500 million to export value.

Most Processing Industries Have Expanded Exports

Between 1988 and 1991, most U.S. processed food industries expanded their exports (table 1).

Shipments by food processing industries with the largest export volumes (those shipping \$500 million or more) grew the slowest—up 17 percent. Exports from most industries in this group expanded: poultry grew 71 percent, seafood grew 59 percent, and food preparations (such as spices, vinegar, and baking powder) grew 57 percent.

But exports fell for a few industries. For example, shipments of soybean oil and soybean cakes fell 26 percent, and exports of animal and marine fats, such as tallow and whale oil, fell 22 percent. U.S. exports of soybean, corn, cottonseed, and other vegetable oils have declined since 1988, reflecting a combination of sharp cutbacks in purchases by some leading trading partners, effects of war, and shipment embargoes.

Exports from medium-volume processing industries (those that exported between \$100 million and

Table 1
U.S. Exports of Processed Food Grew Rapidly in 1988-91

Processing industry	Export volume		Change, 1988-91
	1988	1991	
	Million dollars		Percent
All industries	16,414.1	20,084.4	22.4
High-volume industries	12,705.6	14,816.0	16.6
Meatpacking	3,575.1	4,040.3	13.0
Fresh fishery	1,625.6	2,592.1	59.4
Soybean oil and products	2,160.0	1,597.2	-26.1
Wet corn milling	884.8	1,297.4	46.6
Poultry and eggs	506.7	866.4	71.0
Salted and roasted nuts	652.4	737.9	13.1
Milled rice	790.4	704.0	-10.9
Frozen fruit and vegetables	479.4	684.8	42.8
Other food preparations	427.4	671.1	57.0
Dried fruit and vegetables	408.8	570.9	39.7
Animal and marine fats	676.0	528.7	-21.8
Prepared animal feed	519.0	525.8	1.3
Medium-volume industries	3,239.0	4,551.9	40.5
Flavoring extracts	194.3	498.3	156.4
Canned fruit and vegetables	337.6	488.9	44.8
Canned and cured fishery	555.6	470.8	-15.3
Condensed and evaporated milk	426.3	376.5	-11.7
Flour and grain milling	275.3	312.2	13.4
Beet and cane sugar	240.3	305.9	27.3
Distilled spirits	175.8	290.0	65.0
Chocolate and cocoa	147.6	239.6	62.3
Bread and bakery	78.3	233.2	197.8
Dog and cat food	103.3	213.0	106.2
Malt beverages	91.2	206.6	126.5
Vegetable oil	227.0	191.8	-15.5
Wine, brandy, spirits	97.5	164.7	68.9
Sauces and dressings	71.5	164.6	130.2
Breakfast cereals	65.8	151.4	130.1
Soft drinks	79.4	133.6	68.3
Candy	72.5	110.9	52.9
Small-volume industries	469.4	716.0	52.5
Potato chips	25.7	91.2	254.9
Roasted coffee	67.4	88.8	31.7
Cottonseed oil	116.6	71.7	-38.5
Shortening	54.0	57.2	5.9
Canned specialties	21.6	54.6	152.7
Prepared foods	23.0	54.5	137.0
Sausages	43.9	53.1	21.0
Ice cream	8.1	50.3	521.0
Creamery butter	10.5	45.8	336.2
Fluid milk	15.4	42.8	177.9
Cheese	45.9	38.0	-17.2
Malt	17.4	33.1	98.8
Chewing gum	11.5	25.2	119.4
Pasta products	6.6	7.2	8.9
Manufactured ice	1.8	3.0	70.1

\$499 million worth of products) grew 40 percent between 1988 and 1991. In contrast to the high-vol-

ume group, this group contains more industries that produce brand-name products. For exam-

ple, distilled liquor exports rose 65 percent from 1988, reaching \$290 million in 1991. Bread and bakery products also soared to \$233 million in 1991, about double 1988 levels. Breakfast cereal exports also doubled. Processors exported 69 percent more wine in 1991. At the other extreme, other vegetable oils (excluding corn, cottonseed, and soybean oils) dropped 16 percent. Condensed milk and canned and cured fish exports also fell.

Although small-volume industries (exports below \$100 million) shipped only 4 percent of 1991's processed food exports, their exports grew rapidly (53 percent) between 1988 and 1991. Seven of the 15 industries more than doubled their exports. This group also includes a high proportion of industries that produce brand-name products.

The faster growth in exports of brand-name products may foretell a long-term shift in processed food exports from unbranded, bulk products to branded products.

A Few Countries Buy the Bulk of U.S. Exports

Processed food exports from the United States enter 198 countries, but 8 of these trading partners took 68 percent of 1991's processed exports (table 2).

Japan—the largest U.S. market for agricultural products—bought a fourth of all U.S. processed foods shipped abroad, accounting for \$5.3 billion of U.S. processed food exports. Canada followed, importing \$3.1 billion. Mexico (\$1.6 billion) and South Korea (\$1.2 billion) completed the quartet of U.S. customers importing \$1 billion or more of U.S. processed foods. The former Soviet Union, United Kingdom, former West Germany, and The Netherlands each imported over \$500 million worth of U.S. processed foods in 1991.

Table 2
Eight Trading Partners Bought 68 Percent of U.S. Processed Food Exports

Importer	Export volume 1988	Export volume 1991	Change, 1988-91	Share of total exports
	Million dollars		Percent	Percent
\$500 million or more:				
Japan	4,603	5,245	14	26
Canada	1,320	3,065	132	15
Mexico	912	1,572	72	8
South Korea	828	1,181	43	6
The Netherlands	966	803	-17	4
Former Soviet Union	330	664	101	3
United Kingdom	398	523	31	3
Former West Germany	481	500	4	3
Total	9,837	13,554	38	68
\$100 million to \$499 million:				
Taiwan	358	456	27	2
France	390	438	12	2
Hong Kong	226	397	76	2
Saudi Arabia	244	280	15	1
Spain	178	271	52	1
Italy	326	250	-23	1
Australia	115	238	107	1
Belgium	159	178	12	1
Venezuela	317	164	-48	1
Portugal	133	144	8	1
Egypt	285	136	-52	1
Singapore	102	132	29	1
Algeria	194	132	-32	1
Philippines	154	129	-16	1
Ireland	75	124	66	1
Sweden	94	107	14	*
Switzerland	88	107	21	*
Bahamas	107	106	-1	*
Turkey	69	101	47	*
Total	3,613	3,888	8	19
Fewer than \$100 million (all 171 other countries)				
	2,964	2,642	-11	13
All importing countries				
	16,414	20,084	22	100

*Less than 1 percent. Source: U.S. Bureau of the Census.

With Canada doubling its imports from the United States in 1988-91, the eight major trading partners produced most of the growth in processed exports. Products imported by these \$500-million-plus customers were 38 percent higher in 1991 than 3 years earlier (table 3). The former Soviet Union also doubled its purchases. Only The Netherlands' U.S. processed food imports fell below 1988 levels.

An additional 19 countries—10 percent of all U.S. trading partners—imported \$100 million to \$499 million worth of U.S. processed foods in 1991. These countries, over half of which were developing nations, received 19 percent of U.S. processed food exports in 1991. Among the leading importers in this group were Taiwan, Hong Kong, and Saudi Arabia. These compare with imports from 104 countries (53 percent of

Table 3
Large-Volume Importers Had Biggest Percent Increase in U.S. Imports
Between 1988 and 1991

Value of 1991 shipments	Countries		Change, 1988-91
	Number	Percent	
\$500 million or more	8	37.8	
\$100-499 million	19	7.6	
\$50-99 million	19	27.9	
\$10-49 million	48	-6.0	
Under \$10 million	104	-75.0	

Source: U.S. Bureau of the Census.

U.S. customers), which collectively purchased only 1 percent of U.S. exports of processed foods in 1991.

The 19 trading partners who bought between \$100 million and \$499 million of U.S. processed foods in 1991 increased purchases

by 28 percent between 1988 and 1991. Most had double-digit growth.

Imports of the small-volume group of U.S. customers fell from over \$700 million to fewer than \$200 million, resulting mainly from

the war-induced loss of trade with Iraq (which totaled \$487 million in 1988).

Exports by U.S. Multinational Firms Increase

Large U.S. multinational food corporations (MNC's) rely heavily on sales from their foreign subsidiaries, joint ventures, and licensing operations to access foreign markets. Sales from these U.S. food processors' foreign subsidiaries are about nine times larger than their U.S. exports. Nevertheless, U.S. MNC's are increasingly taking advantage of export opportunities.

We have firm-level data on the 34 largest U.S. MNC's, which account for about 37 percent of total sales by all firms in the U.S. food

Table 4
Exports' Share of Total Sales Almost Doubled for the 34 Largest U.S.-Based Multinational Food Corporations

Firm	1988		1991	
	Exports of processed foods	Share of U.S. shipments of processed foods	Exports of processed foods	Share of U.S. shipments of processed foods
	Million dollars	Percent	Million dollars	Percent
Top 15:				
Philip Morris/				
Kraft General Foods	264	1.5	1,325	5.8
Archer Daniels Midland	979	16.5	925	14.0
ConAgra	215	3.0	726	4.5
Anheuser Busch	282	3.5	561	5.9
Chiquita Brands	86	3.6	223	10.6
Tyson Foods	153	4.4	187	4.9
Coca Cola	94	2.6	163	4.0
General Mills	74	2.2	148	2.3
Procter & Gamble	124	4.3	142	4.0
Hershey Foods	39	2.0	128	5.0
Universal Foods	36	5.5	127	17.1
H.J. Heinz	61	2.0	121	3.3
Mars	45	1.0	120	2.0
PepsiCo	21	.4	111	1.2
Sara Lee	38	.7	104	2.2
Remaining 19 firms	401	1.1	700	1.8
Total for 34 U.S. firms	2,912	2.6	5,810	4.1

Source: Company reports and ERS estimates.

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processing industry. A U.S. MNC is a corporation headquartered in the United States that operates a food processing plant in at least one other country.

These large food processors generally rely much more heavily on sales from foreign subsidiaries than on exports from U.S.-based plants to serve foreign markets. For example, the 34 largest U.S. MNC's received an average of 27 percent of their worldwide processed food sales from their foreign subsidiaries in 1991, while exports from their U.S. food processing operations accounted for only 4.1 percent of sales. In comparison, exports as a share of sales of all U.S. food processors averaged 5.2 percent.

However, MNC's are taking a growing role in U.S. processed food exports. Between 1988 and 1991, exports of the 34 MNC's increased 100 percent to \$5.8 billion (table 4). During the same period, total U.S. exports of processed food grew 22 percent. Therefore, the share of U.S. processed food exports generated by these MNC's increased markedly from 18 percent to 29 percent.

At the same time, their share of total industry sales increased only slightly, from 34 to 37 percent. Therefore, the export share of total sales for these large firms increased dramatically from 2.6 to 4.1 percent—just below the 5.2 percent for all U.S. food processors. In 1991, 15 of the 34 firms shipped at least \$100 million in exports, up from 6 in 1988.

Kraft General Foods, a Philip Morris subsidiary, led the charge in processed food export growth from \$264 million to \$1,325 million. Only 1 of the 34 MNC's, second-ranked Archer Daniels Midland, had a decline in exports of processed foods. ConAgra's exports more than tripled, from \$215 mil-

lion to \$726 million. Universal Food's exports as a share of sales grew from 5.5 percent to 17.1 percent—the highest of all 34 firms. While lower trade barriers and a decline in the value of the dollar relative to many other currencies have contributed to export growth, production facilities abroad have also helped U.S. MNC's to identify and take advantage of new export opportunities.

At the other end of the spectrum, 9 of the 34 MNC's exported less than 2 percent of their U.S. processed food sales in 1991. Four firms (Quaker Oats, Campbell Soup, RJR Nabisco, and Clorox) ex-

ported less than 1 percent of their processed food sales.

Continuing Export Expansion Likely

The prospect is bright for continuing expansion of processed food exports in the immediate years ahead. U.S. processors posted a trade surplus in 1992 for the first time ever because of record export growth. Growth in U.S. exports of processed foods precedes signing of broad-based trade pacts, such as NAFTA. Trade treaties, which lower duties and reduce or eliminate import quotas, will lend added impetus to export growth.

While the sheer volume of U.S. exports to major customers assures their key positions in continuing U.S. export growth, a third of U.S. exports of processed foods is spread throughout the globe. This diversification of a large variety of products shipped to many countries helps reduce year-to-year fluctuations in export sales.

Meat and meat byproducts, seafood, grain mill feeds, and oil products should continue to dominate U.S. exports of processed foods as trade barriers are reduced. For example, removal of import quotas which now exist on exports of animal fats to Mexico will strengthen demand for these products.

The appeal of American brand names is evident in the expanded exports of U.S. brand-name products as diverse as soft drinks, wine, ice cream, and pet food. In the past, U.S. processors of brand-name, highly advertised products have entered foreign markets or expanded existing operations primarily through direct investment or through joint ventures with local firms in host countries.

The sharp upswing in exports from domestic plants of U.S. MNC's from 1988 to 1991, however, strongly suggests an enlarged future role for exports from U.S.-based plants of U.S. MNC's. ■