Export Promotion Programs Help U.S. Products Compete in World Markets

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Global competition for consumer food dollars is fierce. Governments and agricultural producers from many countries fund and implement sophisticated export promotions costing hundreds of millions of dollars. The mix of government and industry involvement differs by country, but the objective remains the same: to increase agricultural exports.

The United States participates in trade negotiations and implements a variety of export programs to develop global markets for U.S. products. Bilateral and multilateral trade agreements help U.S. exporters increase market access to certain foreign markets by reducing import quotas and tariffs. U.S. export market-development programs assist exporters to counter subsidized competition and help importers finance purchases of U.S. agricultural products. The U.S. Government also collaborates with agricultural producers and processors to increase global consumers' awareness of the quality of U.S. products. This last group of programs is categorized as nonprice promotions.

Nonprice Promotions Aim to Broaden Global Interest in U.S. Products

Producer organizations and private firms use a mix of strategies to promote U.S. products overseas. Nonprice export promotions fall into three primary categories: trade servicing, technical assistance, and consumer promotions.

Trade servicing encompasses basic sales activities to acquaint importers and dealers with U.S. product attributes and to help them procure U.S. commodities.

U.S. exporters face a multitude of obstacles in highly competitive world markets, including subsidized prices, tariffs and other import barriers, foreign-exchange constraints, and a lack of awareness of U.S. products.

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Activities include sponsoring visits by potential foreign government and private customers to the United States to learn about U.S. production capability and reliability as a supplier, publishing articles in trade journals, distributing promotional materials to foreign food buyers, and other activities to develop relationships with trade and industry representatives in the importing country. Trade servicing is an ongoing, integral aspect of marketing U.S. agricultural products.

Technical assistance teaches prospective overseas customers about specific uses for U.S. agricultural commodities. Activities include livestock nutrition programs featuring U.S. feeds, training in new milling and baking technologies using U.S. wheat, and instructing butchers about U.S. meat cuts. Technical assistance activities contribute to long-term market-development efforts.

Consumer promotions aim to expand global retail demand for U.S. products. Major activities include instore demonstrations and displays, media advertising, and consumer-related campaigns.

Export promotion activities directed to consumers may promote brand as well as generic products. Generic promotions attempt to expand sales of U.S. commodities (such as beef or raisins), while brand promotions advertise a particular company's product. For some products, U.S. origin is a significant identification for consumers. But for other products, labels bearing U.S. company names and communicating characteristics of U.S. products are needed.

Nonprice export promotion activities are conducted primarily by organizations of commodity producers, State departments of agriculture, and private companies. Producer organizations, such as the National Dairy Board and the Florida Department of Citrus, have had the primary responsibility for generic advertising and promotion in the United States.

USDA Assists Nonprice Market-Development Efforts

The U.S. Government contributes to the funding and operation of nonprice promotion efforts to benefit a wide range of U.S. agricultural producers and processors. Government promotion funds are provided through two major programs—the Foreign Market Development Program (FMDP) and the Market Promotion Program (MPP). In 1993, USDA provided these two programs with over $180 million for export market-development activities for U.S. agricultural products.

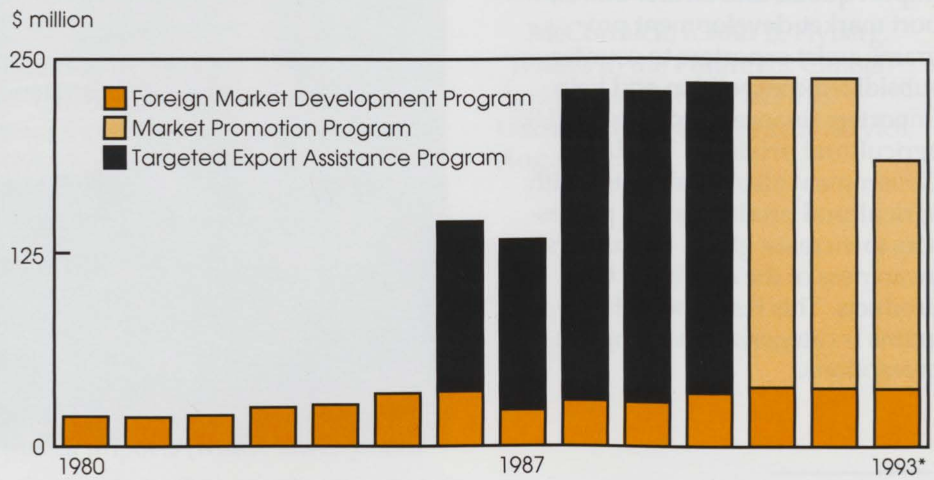
With the advent of the FMDP in 1955, USDA began its unique partnership with industry to develop export markets. The FMDP remains a staple of USDA's market promotion efforts. Federal funding for the FMDP changes little from year to year, averaging over $30 million annually from 1986 through 1993.

Congress approved the Targeted Export Assistance (TEA) program, the first large-scale nonprice export promotion program, in 1985 to counter the adverse effects on U.S. agricultural commodity exports of unfair trade practices by other countries. In 1990, the MPP replaced the TEA program. The MPP emphasizes market development, but gives priority to commodities whose exports have been curbed by other nations' unfair trade practices.

TEA program allocations of $110 million from 1986 through 1988 rose to $200 million in 1989 and 1990. In 1991 and 1992, MPP allocations continued at $200 million, but dipped to $147.7 million in 1993.

Implementation of the TEA and MPP boosted total Federal funding for export market promotion from $35 million in 1985 to more than $235 million in 1992 (fig. 1). With higher Federal funding, more organizations participated in the nonprice promotion programs, and concerns heightened about accountability, industry's share of promotion costs, and allocations to large U.S. companies and foreign firms.

Figure 1
USDA Boosts Funding for Nonprice Promotions



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For fiscal 1994, the President's budget proposal holds MPP funding constant at $147.7 million and lowers FMDP funding by $10 million (almost a third of the current program level).

Producer assessments provide the majority of funds for domestic generic promotions. For export promotions, producer assessments and other industry contributions are combined with Government funding. For the FMDP, USDA's Foreign Agricultural Service (FAS) provides about one-third of the cash and resources used for the program. Producer assessments and industry contributions (including foreign industry) make up the remaining two-thirds. USDA's share of promotion funds is much larger for the MPP. FAS requires producer organizations to contribute a minimum of 5 percent of the funds for MPP generic promotions and to match Federal funding for brand promotions. Some producer organizations contribute much more.

USDA Contributes to Brand and Generic Promotions

Nonprice export promotion programs promote brand as well as generic products. Only a small amount of FMDP funding goes to brand promotion, but 30-40 percent of MPP promotions are for brand products.

Under the MPP, eligible U.S. agricultural cooperatives and companies may be reimbursed for up to 50 percent of approved promotion costs for specific brand products when USDA determines that brand promotion is the most effective promotion strategy.

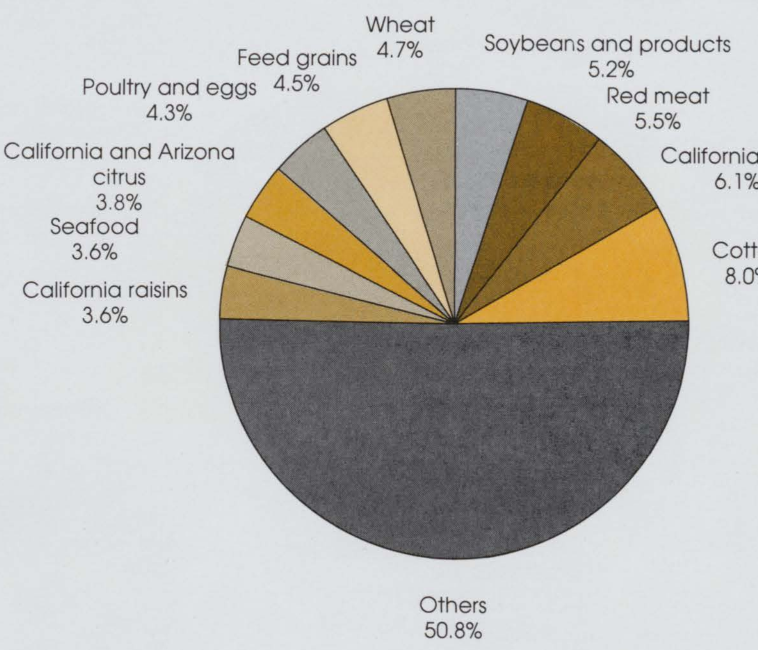
Producer marketing organizations, such as the Raisin Advisory Board, may award portions of their MPP allocations to U.S. companies, such as Sun Maid, for promotions in countries where consumers respond better to the U.S. brand name than to a generic marketing effort. In most cases, these firms must match Federal funds. U.S. producer marketing organizations also may grant funds to a firm in the importing country to market their product under a combination of the firm's brand name and a U.S.-origin label.

A Variety of Products Promoted

USDA's nonprice promotion programs assist marketers of myriad commodities and products. Under the FMDP and MPP, no one commodity received more than 8 percent of fiscal 1992 funding, and the top 10 commodities together accounted for 49 percent of total funding (fig. 2). High-value products—fruit, vegetables, tree nuts, livestock, seafood, packaged grocery items, and other processed products—account for over 80 percent of USDA funding for nonprice promotion.

Cotton is the largest single commodity receiving market promo-

Figure 2
Top 10 Commodities Receive Only Half of Total FMDP and MPP Funds[1]



[1]Based on planned budgets for 1992.
Source: USDA's Foreign Agricultural Service, Planning and Evaluation Staff.

tion funds. Cotton producers participate in both FMDP and MPP promotions. In fiscal 1992, cotton promotions accounted for 8 percent of FMDP and MPP funding combined, or $18.6 million. Cotton promotions advertise high-fashion cotton clothes to consumers in developed countries and educate cotton spinners in importing countries about the qualities of U.S. cotton. Following cotton, other products receiving more than $10 million in fiscal 1992 were California wine, red meat, soybeans, and wheat.

The largest group of products promoted under FMDP and MPP include fruit, vegetables, tree nuts, and wine. These commodities represented 39 percent of the $235 million budgeted for nonprice promotions in 1992 (fig. 3) California wine, Arizona and California citrus, and raisins were 3 of the top 10 products promoted in fiscal 1992.

Red meat, seafood, poultry, dairy products, and livestock received 16 percent of Federal FMDP, MPP, and TEA funds in 1992. Red meat, poultry and eggs, and seafood promoters were among the top 10 promoters under Federal nonprice programs in fiscal 1992.

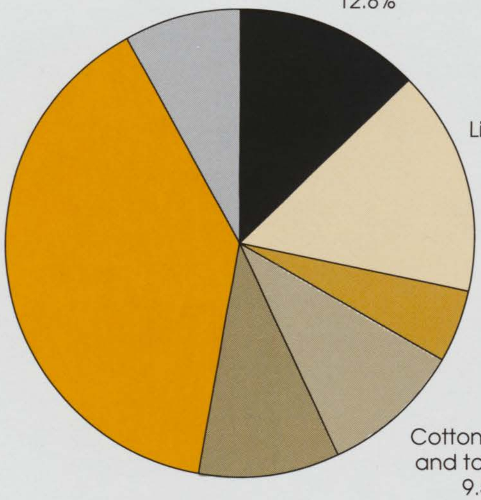
While the MPP has emphasized promoting high-value products, the FMDP has focused primarily on grains and oilseeds. In part because of this, soybeans, wheat, and feed grains were the fourth, fifth, and sixth top commodities promoted under the FMDP and MPP, accounting for about $33 million in fiscal 1992. Soybean promotions under the MPP have highlighted soybean oil and other soy products rather than soybeans and meal.

Grocery items promoted by regional associations of State departments of agriculture have claimed an increasing share of MPP promotions since 1986. These often champion small companies seeking overseas markets. USDA funding for these highly processed, consumer-ready products rose from $4 million in 1986 to $23 million in 1992.

High-value products—fruit, vegetables, tree nuts, livestock, seafood, packaged grocery items, and other processed products—account for over 80 percent of USDA funding for nonprice promotion.

Figure 3

Fruit, Vegetables, Tree Nuts, and Wine are Chief Recipients of FMDP and MPP Funds[1]



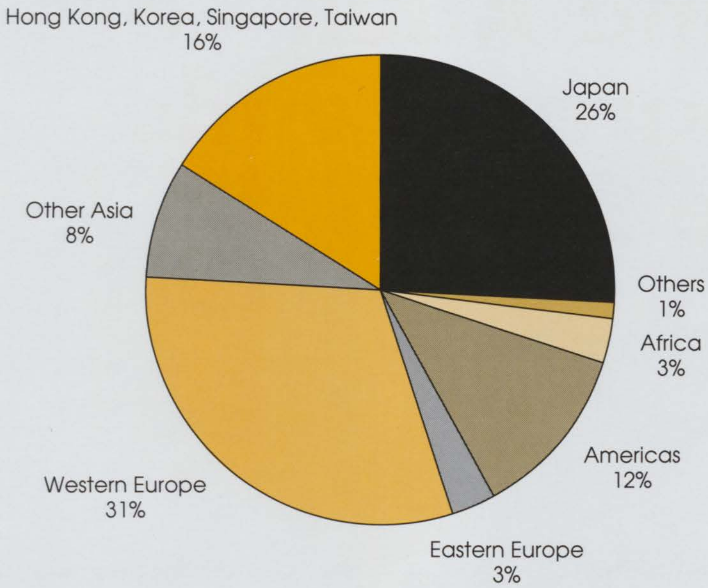
[1]Based on planned budgets for 1992.
Source: USDA's Foreign Agricultural Service, Planning and Evaluation Staff.

USDA also has increased support for the promotion of decorative hardwoods and other wood products. Nonprice promotions of decorative hardwoods rose from $3 million in 1986 to $12 million in 1992. Forest product marketers use the funds to build and show models of wood-frame buildings, wood floors, and furniture demonstrating the characteristics of U.S. wood products.

Promotions Target Growing Consumer Markets

U.S. agricultural products are focused on specific country markets. In 1992, 73 percent of market promotion funds went to promote U.S. products to consumers in Japan, Hong Kong, Korea, Singapore, Taiwan, and the countries of Western Europe (fig. 4). Since 1991, however, promoters have begun to focus on markets closer to home,

Figure 4
Promotions Focus on Developed Asia and Western Europe[1]



[1]Based on planned budgets for 1992.
Source: USDA's Foreign Agricultural Service, Planning and Evaluation Staff.

particularly in Mexico, Canada, South America, and the Caribbean. Other prime targets include middle-income Asian countries, oil-rich Middle Eastern countries, Eastern Europe, and the former Soviet Union.

Promoters of high-value products (such as horticultural products; red meat; poultry; and processed dairy, grain, and oilseed products) and packaged grocery items (such as specialty corn chips) have focused on the developed Western European and Asian countries. Promoters of unprocessed, bulk commodities (such as grains and oilseeds) have directed their efforts toward developing countries, which have the greatest potential for growth.

The FMDP has focused on both developing and developed countries, while TEA and MPP funding has been concentrated in middle-income and developed countries. The bulk of the brand marketing activities went to attract more consumers in developed countries in Western Europe, Asia, and North America. Generic promotions have been spread among developed, middle-income, and developing countries.

Promoters of Agricultural Products Face Marketing Challenges

As growth in U.S. consumer demand levels off, producers and exporters are increasingly focusing on export markets. For example, as trade barriers are reduced in some Asian countries, increasing consumer demand may provide additional long-term markets for some U.S. products, such as red meats, fruit, and vegetables.

USDA's support for nonprice export promotion has benefited U.S. agricultural producers and food processing companies. Exports of high-value products soared in the late 1980's and early 1990's, partially in response to market promotion efforts. Nonprice export promotion programs represent USDA's chief source of assistance for many high-value products.

However, promoters of U.S. agricultural products face changing consumer preferences and growing competition. Educating consumers about the characteristics of U.S. products does not necessarily boost U.S. exports. As in the United States, some marketers have found consumers who prefer their product to all others—and are willing to pay more for it. However, other consumers can be fickle, never attaching to any particular brand or product.

The United States is not alone in its funding of nonprice promotion. Other governments establish marketing firms to promote agricultural products and help companies with market research, advertising, and sale financing. For example, the Société pour l'Expansion des Ventes des Produits Agricoles et Alimentaires (SOPEXA) is a private company funded by the French Government, producer assessments, and French companies to promote French agricultural products in 15 countries. German promotion efforts are spearheaded by a central association of producer organizations, and Australian efforts are financed through both the government and commodity marketing boards (such as the Australian beef, wheat, and wool boards). Most governments support generic promotions, but many help fund brand promotions when shown to be more effective. ■