Market Development Programs Help Expand U.S. High-Value Agricultural Exports

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If the legislative bodies of 116 countries follow the recent U.S. congressional approval of the Uruguay Round agreement of the General Agreement on Tariffs and Trade (GATT), agricultural export subsidies will be reduced; import access will be expanded by converting import quotas to tariffs, which would subsequently be reduced; trade-distorting production subsidies will be lowered; and sanitary and phytosanitary standards for agricultural products will be based on scientific evidence. (See also "International Trade Agreement Provides New Framework for Food-Safety Regulation," elsewhere in this issue.)

Under the agreement, price subsidies will be reduced, but other types of export policies—credit guarantees, food aid, and nonprice market promotion—can be continued without reduction. As the European Union (EU) and other nations reduce their export subsidies to comply with the Uruguay Round agreement of the GATT, they also may increase their emphasis on nonprice market-development policies. Competition among exporters will increase for market opportunities created by reductions in import quotas and tariffs.

Market Promotions Are Directed to Foreign Consumers

USDA administers two nonprice export-market promotion programs: the Foreign Market Development Program (FMD) and the Market Promotion Program (MPP). Under the FMD and the MPP, USDA helps eligible nonprofit trade organizations and private firms finance activities to educate foreign consumers and marketers about the qualities of U.S. agricultural products. FMD and MPP funding levels averaged $32 million and $190 million, respectively, from 1989 through 1993, although

The Market Promotion Program is an important USDA export program for high-value and consumer-ready products—particularly fresh and processed fruit, vegetables, and tree nuts. Specialty products promoted by State regional trade organizations reflect USDA's increasing commitment to the promotion of small U.S. businesses' agricultural exports.

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Promoting U.S. Agricultural and Food Exports

USDA provides a variety of programs to help exporters compete in world agricultural and food markets. USDA assists U.S. agricultural exports by providing food aid, credit guarantees, price subsidies, and nonprice market promotion. The food aid, credit, and price-subsidy programs are aimed primarily at foreign governments and private importers, while the nonprice promotion programs are directed to consumers as well.

Food aid programs—including the Public Law 480 (PL 480) program, the Section 416(b) program, and the Food for Progress program—encompass humanitarian donations, long-term (30-year) credit, government-to-government grants to support long-term growth in the least developed countries, and the provision of commodities to support countries' efforts to promote free enterprise in their agricultural economies. In fiscal 1993, food aid programs totaled about $2.3 billion.

USDA's export credit-guarantee programs back commercial loans to importers in countries experiencing constraints on hard currency so they can purchase U.S. agricultural products. Credit guarantees totaling $3.9 billion were approved for agricultural product sales in fiscal 1993.

USDA also operates four price-subsidy programs to help U.S. exporters compete abroad on more equal terms by countering other exporters' subsidized prices in selected export markets: the Export Enhancement Program, Dairy Export Incentive Program, and the Cottonseed and Sunflowerseed Oil Assistance Programs. Price subsidies totaled $1.2 billion in fiscal 1993.

The price subsidy, credit guarantee, and food aid programs primarily assist bulk agricultural commodities. (See other box for a definition of bulk, semiprocessed, and high-value products.) From 1989 through 1992, 85 percent of price subsidy funding was aimed at export markets for wheat, barley, and rice (table 1). The remaining 15 percent assisted exports of semiprocessed and other high-value products, such as dairy products, vegetable oils, flour, frozen poultry, eggs, and barley malt. About one-quarter of credit-guarantee exports were high-value products, mainly vegetable oil and grain products. High-value products accounted for between 35 and 40 percent of food aid exports.

USDA also assists eligible nonprofit producer-funded organizations and private firms to fund and conduct promotions directed at foreign consumers and food processors. Under the Foreign Market Development Program (FMD) and the Market Promotion Program (MPP), USDA supports the efforts of eligible nonprofit trade organizations and private firms to educate foreign consumers and marketers about the qualities of U.S. agricultural products.

Table 1

Export Programs Assist Both Bulk and High-Value Product Exports

Program	High-value products	Bulk products
	Percent of funding	
Market Promotion Program (MPP) and Foreign Market Development Program (FMD)	75	25
Other export programs:		
Food aid	37	63
Credit guarantees	25	75
Price subsidies	15	85

Note: Percentages are calculated from 1989-92 annual funding levels.
Source: USDA, Foreign Agricultural Service, Commodity and Marketing Programs.

the 1995 MPP appropriation of $85.5 million is less than half of the annual MPP appropriations from 1989 through 1992.

Generally, MPP promotions are aimed at foreign consumers. Consumer promotions cover a variety of activities, including media advertising, point-of-purchase materials and demonstrations, cooking schools for consumers, and recipes for food magazine editors. U.S. agricultural promoters also provide educational materials to foreign industry partners, stage special events, and conduct food preparation training sessions for hotel and restaurant chefs, exporters, and food retailers in the potential import markets.

Expenditures for consumer promotions, particularly media advertising, far exceed MPP expenditures for trade servicing and technical assistance. FMD and MPP promotions for grains focus more on foreign industry buyers (such as national governments and private millers). Sixty-five percent of MPP activities and almost all FMD activities promote the high quality of U.S. agricultural products in a generic sense rather than particular brand-name products.

Bulk and High-Value Products Promoted

Agricultural products are classified as bulk or high-value. Bulk products include unprocessed grains and oilseeds, raw cotton, and raw tobacco (although tobacco is not eligible for U.S. market-development programs).

High-value products can be further classified as unprocessed, semiprocessed, and highly processed. Unprocessed products (including fresh fruit, nuts, and vegetables; honey; breeder livestock; and eggs) and highly processed products (such as dairy products, prepared meats, dried fruits, beverages, beer, and wine) can be consumed with little additional processing. High-value semiprocessed products require further processing and include flour; vegetable oil; oilseed meal; fresh, chilled, and frozen meats; hides and skins; and coffee, cocoa, and sugar.

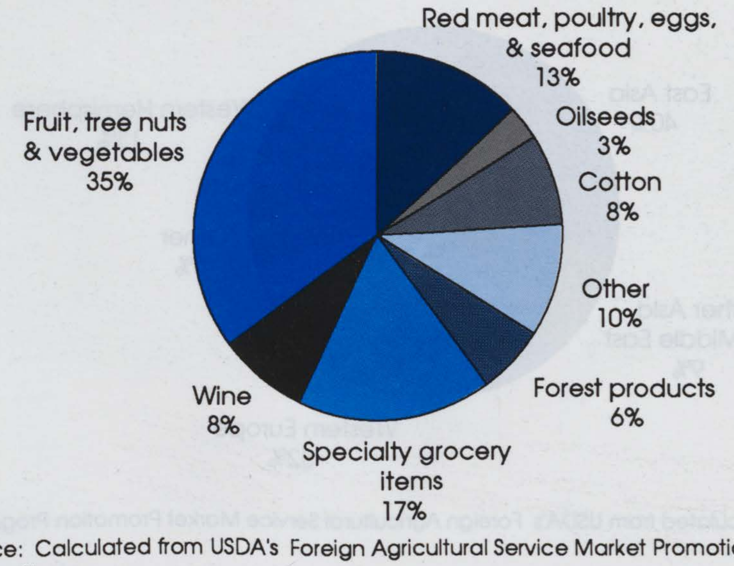
MPP Promotes a Wide Range of High-Value Products

The MPP is an important USDA export program for high-value and consumer-ready products, such as fresh and processed fruit, vegetables, and tree nuts, wine, meats, dairy products, and products promoted through regional trade associations (mainly high-value specialty products). The majority of MPP activities help promote high-value products. In contrast, grains and oilseeds account for about 70 percent of FAS' funding for the other market-development program, the FMD.

Fruit, vegetables, and tree nuts dominate MPP funding, accounting for 35 percent of MPP expenditures in fiscal 1993 (fig. 1). The next largest group of products are consumer-ready grocery items and specialty products promoted by State regional trade organizations, which accounted for 17 percent of MPP expenditures in 1993. Red meat, eggs, poultry, and seafood are also important MPP products, accounting for 13 percent of 1993 expenditures. The only bulk commodity commanding more than a 5-percent share of MPP funds is cotton, which accounted for 8 percent of 1993 expenditures.

MPP expenditures in 1993 reflected some changes in the products promoted under the program. The greatest increase has been in funding for products promoted by State regional trade associations. The share of expenditures for these organizations averaged 10 percent from 1989 through 1993, compared with 17 percent for 1993 alone. The share of expenditures for fruit, tree nuts, and vegetables dropped from an average of 41 percent for the 1989-1993 period to 35 percent in 1993. The higher share of MPP expenditures for specialty products promoted through the regional trade associations reflects USDA's increasing commitment to the pro-

Figure 1
Fruit, Vegetables, and Tree Nuts Received the Bulk of 1993 Market Promotion Funds



Source: Calculated from USDA's Foreign Agricultural Service Market Promotion Program expenditures.

motion of small businesses' agricultural products. The fiscal 1994 agricultural appropriations legislation required USDA to give priority to small-sized entities in the allocation process.

Canadian and Caribbean Consumers Growing Targets of MPP Activities

The FMD and MPP together assist promotions in a variety of markets throughout the world. In particular, the FMD seeks to expand exports of mainly bulk products in developing and developed countries. However, MPP activities are directed more toward consumers of higher-value products in highly-developed and middle-income countries.

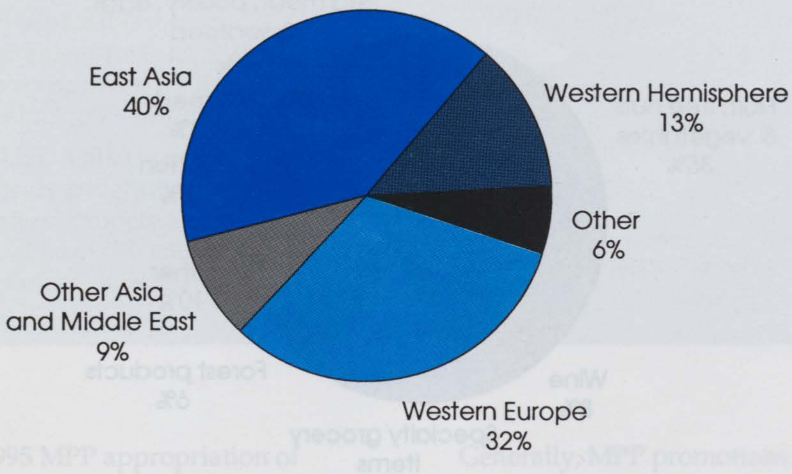
Based on expenditures for fiscal 1993, MPP promotions continue to be concentrated in developed Asian and Western European countries (fig. 2). Japan and other East Asian countries (Hong Kong, South Korea, and Taiwan) account for 40 percent of MPP expenditures. Japan and the United Kingdom continue to be the largest single-country markets for MPP promotions.

Fiscal 1993 expenditures also reveal that MPP participants increasingly are using the funds to compete in Canada, the Caribbean, and particularly Mexico. The share of MPP budgeted expenditures for Western Hemisphere countries in 1993 was almost double the average spent there from 1989 to 1993.

Market Development Programs Help Boost U.S. Exports

Studies of individual agricultural products indicate that nonprice market promotions helped boost U.S. exports. Based on data for 1973 through 1988, Oklahoma State University researchers estimated a short-term increase in export revenues of $5.36 per dollar spent on the promotion of diaphragm (or skirt) beef in Japan. In another study, Texas A & M researchers estimated an increase of $5 in export revenues for fresh grapefruit for every dollar spent on market promotion in Japan, France, and The Netherlands from 1969 through 1988. However, the researchers pointed out that the removal of import quotas for fresh grapefruit and rising incomes in Japan also contributed to expanding U.S. grapefruit exports to Japan. Other studies have found exports are affected by U.S. and competing prices of the exported food and substitute foods.

Figure 2
1993 Market Promotions Targeted Consumers in East Asia and Western Europe



Source: Calculated from USDA's Foreign Agricultural Service Market Promotion Program expenditures.

Support for MPP Assistance to Companies Questioned

Thirty-five percent of MPP budgeted expenditures for 1993 went to promote U.S. brand-name products. Under MPP, eligible U.S. agricultural cooperatives and other private companies may be reimbursed for up to half of approved promotion costs for specific brand products when USDA determines that brand promotion is the most effective promotion strategy.

Almost one-quarter of the 1993 expenditures for brand promotions were garnered by regional trade associations. These associations promote regional specialty products, which are often produced by small firms. (The firms apply for MPP funds through the regional trade associations to operate their own promotion activities.)

California wines accounted for about 12 percent of 1993 MPP expenditures on brand promotions. While European wines are promoted based on origin (regional or estate "appellations," such as Bordeaux), MPP funds are used to promote California wines in general as well as by individual wineries. Other products that received MPP funds for brand-label promotions in 1993 included: almonds, bourbon, brandy, canned corn, chocolate, cotton, citrus, mink, peanuts, poultry, prunes, raisins, red meat, rice, salmon, and walnuts.

Critics of MPP brand promotions express concern about the allocation of MPP funds to large U.S. corporations that could finance such promotions themselves. Many would prefer that MPP funds assist only small firms. MPP participants argue that corporate promotions may be more effective for certain U.S. agricultural products than would generic promotions. Advocates of MPP assistance to corporations contend that brand promotions help firms increase or maintain exports in markets which they might not enter otherwise and, thus, contribute to U.S. economic activity and employment. In many cases, corporations contribute more funds than required to MPP promotions because the MPP funds do not cover expenses, such as travel.

International Competition Heats Up

Major agricultural producers in Australia, Canada, Europe, and New Zealand heavily promote their agricultural and food products throughout the world, including in the United States. According to a 1994 survey by USDA's Foreign Agricultural Service (FAS), the producers and governments of major exporting nations other than the United States spent an estimated $500 million for nonprice promotion activities in 1993. These activities included typical FMD and MPP activities as well as other activities, including manufacturers' and retail discounts, which are not allowed under the U.S. programs.

Seventy percent of the estimated $500 million spent by other nations to promote agricultural exports abroad comes from assessments on producers and food processors, while about 30 percent comes from government appropriations. In addition, European and Asian corporations finance and conduct brand promotions for their agricultural products. Other countries—notably Chile, Israel, Korea, and South Africa—also are promoting their agricultural products in Europe and Asia.

Some trade observers speculate that the governments of European nations may increase their support for nonprice promotions as the Uruguay Round disciplines of the GATT reduce their export subsidies. However, other trade observers believe that EU savings from export subsidies will be paid directly to European farmers for set-aside programs and production aid. ■