# Agricultural Commodity Promotion Policies and Programs in the Global Agri-Food System

Proceedings from the NEC-63 Conference
Fiesta Americana❖Cancun, Mexico❖May 26-27, 1996

*Edited by:*


Jennifer L. Ferrero
Karen Z. Ackerman
John P. Nichols



*Sponsored by and published with the support of:*
The Research Committee on Commodity Promotion (NEC-63)
and
The National Institute for Commodity Promotion Research and Evaluation (NICPRE)


# The U.S. Approach to Export Market Development

*James V. Parker*

Good morning. Thank you for the opportunity to participate on this panel to discuss the very important issue of the U.S. government's role in export promotion. Today, the business of international agricultural trade is characterized by dramatic change. That change is reflected in our current agricultural situation with its extremely low stocks, strong demand, and high prices in a changing world trade environment where trade barriers are falling and market liberalization is sweeping the globe.

The United States agricultural situation has shifted from surplus management to market-oriented policies. Newly privatized markets are emerging from the collapse of socialist economies. Outdated policies of self-sufficiency, protectionism, and government-controlled markets are being challenged, reformed, or dismantled in Latin America, Asia, and even Europe.

As a result, U.S. agricultural exports are booming. Ag exports reached $54.1 billion in FY1995, up 25 percent from 1994 with the largest dollar-value increase ($10.7 billion) ever recorded in a single year. We are looking forward to an extremely good year for American farm exports -- $60 billion is currently forecast. In other words, our farm sector should enjoy another record-breaking year, building on last year's sterling performance.

Agriculture took first place as the largest contributor to the U.S. merchandise trade balance in 1995. Only four of 11 industries registered trade surpluses; the remaining seven suffered deficits. Agriculture has achieved trade surpluses for more than 30 years. In 1995, agriculture's surplus of $25.8 billion offset 80 percent of Japanese vehicle imports -- $31.3 billion -- or half of the bill for oil imports -- $52.6 billion.

## What's Behind the U.S. Agricultural Export Boom?

The boom in U.S. agricultural exports is fueled by:

- Strong income growth in most major markets
- Rising consumerism and an expanding middle class
- Trade liberalization
- A lower-value U.S. dollar
- Comparative advantage in food production
- Increased consumer promotions of U.S. foods
- Increasing food and fiber consumption
- Rapidly increasing urbanization in developing countries
- Improvement in transportation technology and port facilities
- Growth in world food processing industry

The composition of U.S. agricultural exports is changing. In 1985, bulk commodities accounted for 64 percent of U.S. agricultural exports, compared with 15 percent for consumer food exports. Consumer foods' share of U.S. agricultural exports more than doubled to 34 percent in 1995. It is interesting to note that bulk export growth has exceeded the growth of high-value product exports in the past two years. However, high-value products now account for more than half of U.S. agricultural exports, and this share is expected to approach 60 percent by 2000.

Asian Pacific Rim nations and NAFTA partners are assuming an increasingly important role in the U.S. export picture. Two of the major markets of the past, Europe and the former Soviet Union, are no longer as important to U.S. exports as they were in the past. Asia's Pacific Rim is the largest and fastest growing regional market for U.S. agricultural exports. The region accounted for 44 percent of the total value of U.S. agricultural exports in 1995. Of the $10.7 billion increase in U.S. exports in 1995, nearly $6 billion came from the Pacific Rim. Canada and Mexico have also become increasingly important to U.S. agriculture.

## U.S. Export Vision 2000 and its Benefits

Reaching these export levels has not been quick or easy. It has required a concerted, continued, government/private industry effort. We are now working to lay the groundwork for continuing these positive trends into the future.

In November 1995, the United States Department of Agriculture (USDA) announced Export Vision 2000, also known as LATS, a Long-term Agricultural Trade Strategy to reaffirm our goal to increase the value of farm, food, fish, and forestry exports by 50 percent over 1994 levels -- or $21 billion -- by the year 2000. Achieving that goal will be tough, but not impossible, and will mean:

-- A projected 13 percent increase in net farm income;
-- Tens of thousands of more jobs on the farm and in surrounding rural communities that need those jobs;
-- Good jobs in processing, packaging, transportation; and
-- Increased dependence on exports to ensure our prosperity.

Improving productivity, slow growth in domestic demand, and the likelihood of reduced government supports will enhance agriculture's dependency on the export market. Today, agriculture's overall dependence on exports as measured in terms of gross cash receipts is estimated at 23 percent and rising. Our goal of a 50 percent increase in exports would have exports account for 31 cents of each farm dollar.

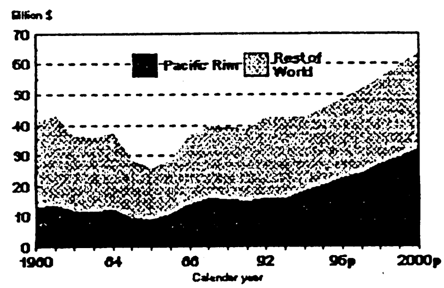
This makes agriculture one of the most export-sensitive industries in America. While the overall economy's reliance on export markets is also growing, it is far less dependent on exports than agriculture. In 1994, overall exports accounted for only 11 percent of the nation's gross domestic product. By 2000, this figure is projected to reach 13 percent.

Agriculture's future prosperity clearly lies with an expanding export market. U.S. agricultural exports are growing four times as fast as domestic market sales and if this trend continues, the pace of export sales of consumer products will accelerate. Here at home, we have roughly 260 million consumers and a relatively mature market that is already dominated by U.S. producers and food firms. Beyond our borders are another 5.5 billion consumers, including hundreds of millions who are not only attracted to U.S. products but have the incomes to afford them. World population is growing by 90-95 million a year -- every three years that equals more new mouths to feed than the entire U.S. population.

## Important Markets for U.S. Agricultural Exports

What are the markets that will provide U.S. agriculture with the growing sales opportunities of the future? Clearly, the Pacific Rim will be a critical region. Foreign Agriculture Service (FAS) officers in the Pacific Rim believe that U.S. agricultural exports there could expand by $14 billion by the year 2000, or two-thirds of the USDA's global expansion goal. Three billion dollars of this will come from GATT implementation; the other $11 billion will come from growth in market demand as incomes increase and the middle class expands.

Pacific Rim Essential To Achieving USDA's Global Export Vision by 2000




By 2000, the Pacific Rim will account for 50 percent of total U.S. agricultural exports. High-value consumer foods will lead the way, particularly in

Japan, Taiwan, Hong Kong, and Singapore. Exports of bulk commodities look most promising in China, Indonesia, the Philippines, Malaysia, and Thailand.

We are bullish on the future of the Pacific Rim because the region is characterized by:

- The world's fastest economic growth;
- A large and growing population;
- Changing dietary patterns;
- Growth in Western-style supermarkets;
- Trade liberalization;
- A competitive U.S. dollar;
- A declining role for agriculture;
- Rapid urbanization;
- Improved transportation and port facilities;
- Growing food processing industries.

## Long-term Agricultural Trade Strategy and the USDA International Trade Mission

The Long-term Agricultural Trade Strategy (LATS) focuses on the USDA's international agricultural trade mission. That mission is to open, expand, and maintain global market opportunities through international trade, cooperation, and sustainable development activities. The strategy focuses on high-growth and emerging markets through the implementation of regional and country market strategies. The LATS emphasizes:

- New outreach efforts to provide strategic market information to agriculture;
- Trade policy initiatives to open new markets, improve access, and ensure compliance with new trade rules; and
- Innovative public/private sector partnerships in executing export strategies.

## Outreach

Outreach is particularly important. There is a definite lack of awareness of export markets within the U.S. food industry. Farmers, ranchers, cooperatives, and food firms need to be thinking about exports and looking into emerging opportunities.

The FAS continues to operate several programs through AgExport Services to facilitate export readiness and to help link export-ready and new-to-export firms to market entry opportunities. The FAS' greatest outreach achievement this year was the development of a home page on the Internet to provide on-line information about FAS programs, data, and analysis.

The FAS traditionally worked with U.S. producer organizations and state departments of agriculture. This year, the FAS began strengthening its ties with institutions throughout the country to disseminate the service's substantial knowledge of overseas markets to a larger number of potential exporters. The FAS has developed collaborations with state offices of the U.S. Department of Agriculture's Farm Services Agency, the National Association of Counties, and the Department of Commerce. The FAS also plans to expand its ties to land grant universities.

The FAS will begin posting attaches in U.S. cities to provide export counseling to businesses. Many businesses look for information on foreign consumers and food industries as well as for technical information needed to export agricultural products overseas. The first postings will be in Des Moines, Iowa and in Portland, Oregon.

The FAS has also proposed two new initiatives for fiscal year 1997 to expand its outreach activities. The first, a proposed Distributor Development Program, will develop strategies for groups of products that have high potential in specific markets to get ahead of our competition and to firmly establish distribution for U.S. foods in key growth and emerging markets. This multi-year strategy would include market research and an educational campaign for U.S. exporters in the first year; marketing workshops and buying missions in the second; and joint promotions by Cooperators using MPP funds supplemented by Distributor Development funds. Total funding requested is $1.5 million for the first phase of the program.

The second initiative is through the Federal/State Market Improvement Program (FSMIP). Under the proposal, the FAS will develop projects with state departments of agriculture designed to expand the predominately domestic focus of producers to the international marketplace. Project activities will include development of innovative marketing techniques to seek outlets for farm products in the international marketplace, and improving state expertise in providing services to encourage marketers into the export market.

In addition, the FAS is beginning to implement staffing changes for a new Country Market System which will strengthen the service's country-based analysis.

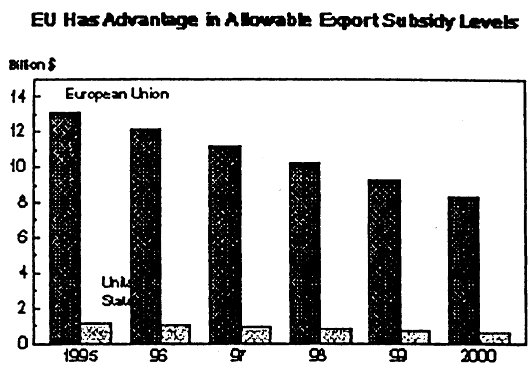
## Trade Policy: Opportunities and Challenges

The USDA has significant responsibilities in seeing that America's agricultural export growth potential is realized. The GATT agreement and the new World Trade Organization (WTO) represent important first steps in reforming the global trading system, opening markets, and establishing new rules for fair trade -- building new institutions to support and encourage cooperation and growth in trade for the next century. We believe that trade reform is the key to improving economic growth. Free trade stimulates competition, helps gear production to demand, increases employment, boosts investment, and bolsters economic growth.

We will be working to ensure that all members of the WTO fully implement their commitments and faithfully observe the new disciplines. One area of increasing concern is sanitary and phytosanitary restrictions. The relative importance of technical barriers has increased in view of the reductions in other barriers achieved by the Uruguay Round Agreement on agriculture. We intend to continue working with our trading partners both through the WTO and bilaterally to address these concerns and to ensure that such import restrictions are based on sound science.

Producers in other nations also seek market opportunities offered by trade agreements and improved worldwide consumer demand. Just about anywhere you look around the globe, our competitors are gearing up to take advantage of growing global trade and we need to meet this competition head on.

Under the Uruguay Round Agreement, for example, export subsidies were disciplined. The United States and the European Union (EU) must reduce their export subsidies by 36 percent of a 1986-90 base period subsidy value and 21 percent of base period volume.




However, the EU retains a very significant advantage in its budgetary ceiling for export subsidies. Neither the EU nor the U.S. plan extensive use of subsidies while world grain prices remain high. However, in the 1996 Farm Bill, Congress reduced funding levels for the (EEP) far below the allowable levels negotiated in the Uruguay Round.

It's not just export subsidies. In the EU and around the world, many of our competitors are retooling their export efforts and putting more resources into GATT-permitted market development and promotion. Within the FAS, we're taking a closer look at the competition in different markets. Last fall, we completed work on a survey and study of market promotion expenditures and activities by 18 major agricultural exporting countries. In brief, the study told us what we already knew, but in greater detail.

Our competitors have agricultural market promotion programs in place to compete in the new trading environment. The study found that the governments of some countries are the primary supporters of market promotion while in other countries, producers fund quasi-government boards to conduct market promotions.

Governments play a major role in funding market promotion in France, Italy, Spain, and Australia. Australian marketing and promotion boards also fund market promotions from sales revenues and producer assessments. Producer assessments also are the primary source of funding for Danish, Dutch, German, French, and New Zealand market promotions. The study shows that our competitors are not standing still in their efforts.

## Public/Private Sector Partnerships

Our trade policy efforts focus on achieving and maintaining market access for our products. Once that access is achieved, our export assistance activities, the Market Access Program (MAP) -- the newly-renamed Market Promotion Program (MPP) -- and the Foreign Market Development Cooperator program, FAS trade shows, and product promotion activities are designed to maintain and increase sales while introducing new U.S. product lines into developed markets to solidify that demand.

The MAP and its predecessor, the MPP, are cost-share partnerships and have been invaluable in helping boost sales of high-value food products, which have become the United States' strongest agricultural export performers in the past decade. Increasingly, the MAP is being used in all types of markets to help U.S. exporters take advantage of the world's seemingly insatiable appetite for high-value food products.

The Market Development Cooperator Program is also a partnership between U.S. farmer organizations and the USDA that allows us to combine forces and pool our technical and financial resources to initiate and carry out a variety of foreign market development projects. Federal support focuses on participant expansion into areas of the world where the greatest market development potential exists. Both the MAP and the Cooperator program are operated on a cost-share basis with the U.S. export community.

During fiscal 1996, $90 million was allocated to 66 nonprofit commodity groups to promote agricultural products under the MAP. The 1996 funding level for the MAP, authorized in the 1996 farm bill, is $20 million less than in 1995 and less than half the FY1992 level of $200 million. The drop in MAP funding has caused some program participants to curtail ongoing marketing programs and forced others to scale back their plans to expand marketing activities in emerging markets just as new opportunities are arising in the wake of market opening trade pacts such as the Uruguay Round Agreements.

The 1996 MAP allocations reflect the changes announced in new regulations that broaden the program to give priority assistance to small businesses; reduce paperwork requirements; clarify and simplify terms; explain the application process in step-by-step detail; and add procedures for appealing compliance findings. Program regulations have also been tightened with regard to funding additionality -- participants must demonstrate that the funds they receive are in addition to those they would spend themselves.

The 1996 MAP allocations also reflect the direction of a larger share of program funds to small and new-to-export companies, thus expanding MAP access to a larger group of potential exporters. In 1996, small-sized entities accounted for 56 percent of the funds allocated for MAP brand promotion, up from 41 percent in 1994. An additional 20 percent of MAP funding went to cooperatives.

The MPP has been a vital component in helping many small companies get into the export market. For example, Simply Delicious Inc., a small North Carolina company with eight employees, used $60,000 in MPP funds to attend trade shows, and to translate company brochures and public relations materials. As a result, Simply Delicious, Inc., has established a distribution network in health food stores in eastern provinces of Canada. And there are many other examples.

## Conclusion

No sector of the U.S. economy faces greater challenges or greater opportunities than agriculture. As the global economy expands, U.S. agriculture can benefit from substantial opportunities overseas or retreat in the face of growing world market competition. Forecast growth in overseas demand for agricultural products significantly outpaces growth in domestic demand. If we do not strive to take advantage of new market opportunities, we will lose market share.

The opportunities are out there and they promise great rewards for our farmers, our agribusinesses, our exporters, and our economy. Agricultural programs that support our global trade strategy will continue to be vital in helping the U.S. private sector reap those rewards.