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Trading High-Value Products

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World trade in high value agricultural products (HVP's) increased rapidly during the 1970's. But between 1980 and 1985 world exports of HVP's declined, following the trend of all agricultural exports.

High value products range from highly processed, value-added goods to unprocessed but relatively expensive foods such as eggs and fresh fruit and vegetables (see sidebar). The two largest exporters of these products during 1980-85 were the European Community (EC)¹ and the United States. Together they accounted for 59 percent of world HVP exports in 1985. The EC, however, was far ahead with a 39-percent share of the total. The United States held 20 percent.

Trends in World HVP's Exports

The EC's high-value exports contain a higher percentage of highly processed products than those from the United States. In 1985, exports of highly processed products, such as wine and dairy products, comprised 62 percent of total EC HVP shipments. This compared with 35 percent for the United States. In contrast, 18 percent of all U.S. high-value exports were unprocessed HVP's like fruits, vegetables, and nuts. These types of commodities comprised only 6 percent of the HVP's exported by the EC.

Brazil exports a high percentage of semi-processed HVP's such as coffee, cocoa, and oilseed cake and meal. India, on the other hand, has a greater diversity among its

High-Value Products

What exactly are high-value products? What distinguishes them from the more traditional low-value products like wheat, corn, and soybeans that are so important to U.S. agricultural trade? The dividing line is rather arbitrary. The degree of processing or services added to the raw product, its relative per unit value, its bulkiness and weight are important considerations. Some typical groupings and the common products in each are listed below.

Highly Processed Products

Prepared and preserved meats, milk, butter, cheese, cereal preparations, dried fruits, preserved or prepared vegetables, nonchocolate sugar preparations, chocolate, spices, beverages, and cigarettes.

Semiprocessed Products

Fresh, chilled, and frozen meat, wheat flour, refined sugar, coffee, cocoa, tea, animal feed, oilseed cake and meal, and vegetable oil.

Unprocessed High-Value Products

Eggs, fruits, nuts, and fresh vegetables.



Brand and label acceptability helps countries capture a large share of the HVP market.

¹Belgium, France, Italy, Luxembourg, Netherlands, West Germany, Denmark, Ireland, United Kingdom, and Greece. Portugal and Spain joined the EC in 1986.

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major high value exports. They not only include coffee, tea, spices, oilseed cake and meal, but also fruits and nuts (fresh, dried, and processed) and a higher percentage of processed products.

The decline in world trade of HVP's since 1980 has occurred across commodity groups (table 1). Both temperate zone and tropical products shared in the decline. The sharp drop in the value of tropical products has adversely affected several of the less developed countries in Latin America. Declining coffee prices reflect rapidly rising Brazilian production, following severe frosts in 1975 and 1978-79 that destroyed many coffee trees. Because export earnings have decreased, many tropical countries have had to curtail imports and, in some cases, debt repayments. This has had a direct effect on U.S. agricultural exports since these countries were considered growth markets for U.S. products during the 1970's.

Looking at the U.S. Share

Traditionally, the United States has focused on shipping low-value bulk products (LVP's) which usually require little processing, packaging, or merchandising. We also ship a substantial amount of fruits, vegetables, and nuts but these exports are somewhat negated since we import these products when they are out of season.

The value of U.S. HVP exports steadily increased from \$5 billion in 1975 to \$12.3 billion in 1981, but has since declined to \$9.7 billion in 1985 (figure 1). The value of LVP exports also increased from \$17.3 billion in 1975 to \$32.3 billion in 1981. Since then the value of LVP's has dropped even more sharply than the value of HVP's, primarily because world prices for the high-value products have not fallen as sharply.

A review of world and U.S. trade in HVP's suggests:

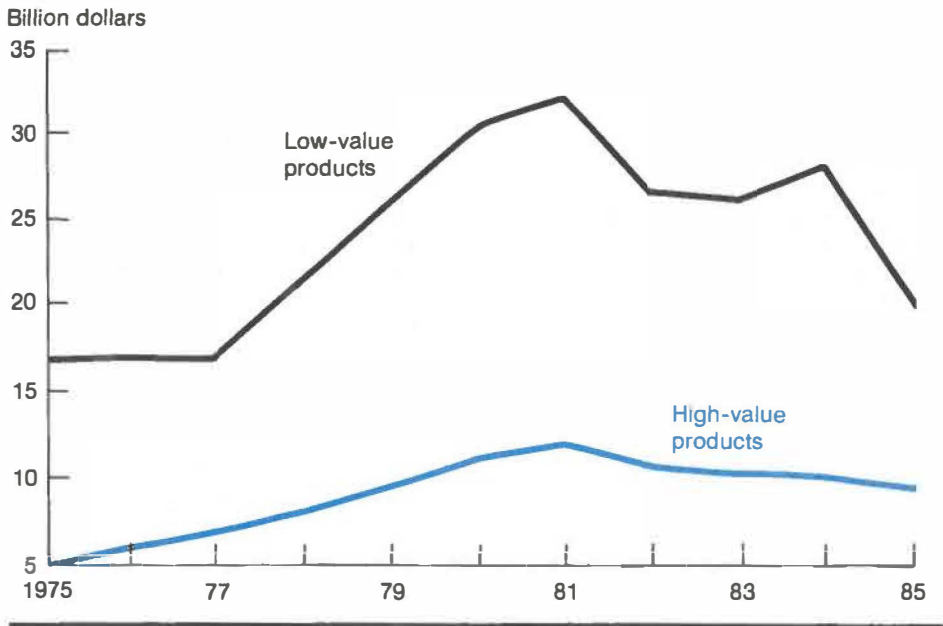
- The EC has fared better than the United States in maintaining or increasing market shares in HVP's.

Table 1. World Trade of High Value Products Has Declined Since 1980^{1 2}

Commodity	1980	1981	1982	1983	1984	1985
	<i>Billion dollars</i>					
Livestock products	34.6	34.8	33.3	30.5	28.2	26.6
Meat products (canned, frozen, dried, etc.)	19.1	19.1	18.0	16.8	14.8	14.0
Milk and cream	4.9	5.0	5.0	4.5	4.4	4.4
Butter	3.3	3.7	3.5	2.8	2.4	2.1
Cheese	4.0	4.0	4.0	3.8	3.8	3.8
Eggs	1.0	1.0	0.9	0.8	0.8	0.6
Animal oils and fats	1.3	1.2	1.1	1.0	1.2	1.1
Fish and fish meal	1.0	0.8	0.8	0.8	0.8	0.5
Fruits and vegetables	20.5	20.6	19.8	17.8	17.2	14.5
Fruits and nuts (fresh)	8.1	7.9	7.7	6.6	6.0	5.4
Fruits (canned)	1.3	1.4	1.3	1.1	1.1	1.1
Fruit juices	1.4	1.8	1.7	1.7	1.2	0.9
Vegetables	9.7	9.5	9.1	8.4	8.9	7.1
Tropical products	19.4	16.2	15.4	13.7	10.8	8.2
Refined sugar and preparations	4.4	4.7	3.3	3.0	2.5	2.1
Coffee, green or roasted	9.1	5.8	6.6	5.6	3.4	1.6
Cocoa beans, raw or roasted	0.9	1.3	1.2	0.9	0.4	0.8
Chocolate and products	3.2	2.9	2.8	2.7	2.6	3.0
Tea	1.1	0.8	0.9	1.0	1.3	0.4
Selected spices	0.7	0.7	0.6	0.5	0.7	0.4
Oilseed products	12.5	12.8	11.0	10.8	11.5	6.4
Vegetable oils	7.5	7.0	6.0	5.2	8.3	4.4
Oilseed cake and meal	5.0	5.8	5.0	5.6	3.1	2.0
Cereal products	5.3	5.6	4.9	4.6	4.9	4.6
Wheat flour	1.7	1.9	1.4	1.1	1.3	1.2
Cereal preparations	3.2	3.3	3.2	3.1	3.2	3.2
Bran	0.4	0.4	0.3	0.4	0.4	0.2
Miscellaneous products	8.7	8.5	8.5	8.1	8.2	8.7
Lard, fat, and margarine	0.7	0.7	0.6	0.5	0.6	0.6
Wine and beer	5.1	4.7	4.8	4.6	4.7	5.0
Cigarettes	2.9	3.1	3.1	3.0	2.9	3.1
Total	101.0	98.5	92.9	85.5	80.8	69.0

¹Includes trade among EC member countries. ²Totals may not add due to rounding. Source: United Nations Trade Data.

Figure 1. Bulk Products Constitute Largest Share of U.S. Agricultural Exports



- The U.S. market for tea, coffee, spices, and tropical products is a major outlet for many exporters, especially developing countries.

- The prospect of the United States capturing a greater share of the HVP market will likely depend on U.S. competitiveness, foreign agricultural policies, and changing economic conditions such as exchange rates and growth in foreign economies.

Strategies for Expanding U.S. Exports of HVP's

Successful marketing of HVP's depends on choosing products which can be profitably produced and marketed and have a potential for growth in foreign markets. More liberal trade policies and better access

to major world markets play an equally important role.

The U.S. Government offers domestic processors and exporters a number of tools to compete for market shares. The Export Enhancement Program provides bonuses—in the form of commodities owned by the Commodity Credit Corporation—to help exporters meet competitors' prices in specific markets. In 1986, bonuses averaged almost \$80 per ton on wheat flour. Other HVP's benefiting from this program include frozen poultry, poultry feed, eggs, and vegetable oils.

Other Federal programs provide short and medium-term commercial export credit guarantees and food aid. Export promotion is provided through the Targeted Export Assistance Program and support of organi-

zations representing producers and trade associations.

The United States has the potential to expand its high-value exports. Major factors in its favor are an abundant supply of high-quality, relatively low-priced raw bulk products, and the large U.S. domestic market that includes a well developed and technologically advanced processing sector. Therefore, the additional investment necessary to expand the production of high-value products for export would be minimal.

There are, however, limitations. First of all, the necessary port-to-port marketing system for HVP's is not as highly developed as for bulk products. In addition, ocean transportation costs from the United States to major European and African markets are relatively high compared to our EC competitors. The EC is closer to these markets, and distance and volume of traffic are key factors in setting ocean freight rates.

Secondly, other major HVP exporters, such as the EC, Australia, Canada, Brazil, Argentina, Mexico, and Greece, export well known and well established products. Danish hams, French and German wines, and Belgian chocolates are examples. This brand and label acceptability has helped them capture a large share of HVP markets

Many of these countries also have very aggressive export marketing programs, many of which include export subsidies. The EC offers export and processing subsidies that directly lower the prices of their commodities on world markets. At the same time, many importing countries are protecting their domestic industries with subsidies and trade restrictions. The Japa-

nese protect their domestic rice and beef industries using these methods. These actions effectively bar entry or raise the cost of U.S. products.

Potential HVP Exports

According to ERS analysis, there are several groups of products that may offer the greatest export potential. They are:

- Semiprocessed and processed meats, especially poultry and pork to less developed countries. U.S. poultry feeding technology is very efficient and supplies of relatively cheap feed are abundant. Opportunities for large-scale beef exports are more limited because of differences between U.S. and foreign tastes, the costs of producing the leaner meat preferred abroad, and import restrictions by several major importers. However, beef exports could grow, particularly if import restrictions such as those imposed by Japan can be eased.
- Semiprocessed oilseed products. The United States has an abundant supply of oilseeds and the processing capacity that should give U.S. products a competitive edge in the meals and oils markets.
- Highly processed beverages. The increasingly high quality and relatively low cost of U.S. wine should improve competitiveness, particularly in the table wine market. An ample supply of raw materials and processing capacity should also provide profitable opportunities for exporting fruit juices.
- Cereal products, including whole-wheat flour, corn meal, pasta, and crackers. Growth in these markets is possible, particularly flour, if other nations reduce their protective subsidies.
- Fresh and processed fruits, vegetables, and nuts. Fresh fruits, vegetables, and nuts—such as deciduous and citrus fruits, pecans, and peanuts—are plentiful and of excellent quality in the United States.
- Improved and hybrid seeds. The U.S. investment in agricultural research and seed development should provide a clear cost and

quality advantage over many foreign suppliers.

- Tobacco products. Cigarettes and related items, where the quality of U.S. tobacco and processing provides a singular but not fully exploited market advantage, could be another opportunity.
- High-fructose corn sweetener. While the long-term potential for market penetration is unclear, the expanded use of this sweetener in U.S. products holds promise for foreign sales.

The United States will have difficulty increasing sales of the following:

- Most highly processed, consumer-ready products. Many foreign goods already have established brand names or quality advantages, making it more difficult for U.S. exports to break into these markets. American products will have to compete with established European wines and cheeses, and French and Swiss chocolates. An extended and costly market development campaign with questionable payoff potential would be involved in developing these markets.
- Tropical products, such as coffee and sugar. The United States is heavily dependent on imports of unprocessed or semi-processed forms of these products. While there is some potential for importing, processing, and re-exporting, it would be difficult to be competitive without direct access to low-cost raw products. The rigid structure of the world coffee and sugar markets would also be prohibitive. Coffee is traded based on one multinational trade agreement. Sugar, on the other hand, is governed by many domestic programs and bilateral treaties.
- Dairy products. Because the Federal dairy program supports U.S. prices above world levels, our products are not very competitive. While many other exporters would also be less competitive if they sold at domestic support levels, they are heavily subsidized, and therefore able to move their products on the world market.

Future HVP Trade

The international market for HVP's is large. Foreign competition is strong and protection of domestic markets is widespread. Yet, the expansion of U.S. high-value exports should be possible, especially for agricultural products that are currently exported in lower valued bulk forms. The profitability of converting bulk products to HVP's for export depends greatly on the international trade environment and joint government/business strategies for marketing and promoting U.S. products.

The general levels of world economic growth and exchange rates are also important in determining the level of HVP trade. Recent trends in both worldwide economic activity and the relative value of the U.S. dollar could stimulate growth in both total HVP trade and the U.S. share of total trade.

U.S. exports of HVP's still depend greatly on effective marketing strategies. In most cases, U.S. agribusinesses will need to use both price and non-price competition to successfully promote U.S. high-value exports. Aggressive advertising and promotion may be effective in convincing foreign buyers that the United States can provide quality products at fair and competitive prices.

Finally, the international market for HVP's also depends on successfully liberalizing world trade policies and reducing domestic subsidies. The United States is a major party to the current multilateral trade negotiations. With our abundant supplies of high-quality bulk agricultural products and modern processing capacity, we should benefit on the whole from less restrictive international trade practices. □

Reference

- O'Brien, Patrick and others. *High Value Agricultural Exports: U.S. Opportunities in the 1980's*. FAER-188. USDA, ERS. September 1983.