UNITED STATES DEPARTMENT OF AGRICULTURE

PROBLEMS AFFECTING AGRICULTURAL TRADE

by Clarence L. Miller
Assistant Secretary for Marketing
and Foreign Agriculture

This is another good export year. We expect the volume of U.S. agricultural products exported during the 1959-60 year to be the second highest in history.

You have all heard a lot about the special Government export programs, especially Public Law 480, but to keep the record straight we should note that two-thirds of this year's agricultural exports are expected to be commercial sales for dollars.

When Public Law 480 was enacted in 1954, some people were fearful that its special features -- i.e., sales for foreign currencies, barter, and donations -- might cut into and seriously displace our regular commercial exports for dollars. A high degree of caution has been exercised to try to prevent this from happening. I think the results speak for themselves. In 1954-55, our exports of farm products for dollars were valued at $2.3 billion; this year we expect a value of $2.7 billion.

I mention this matter of protecting and expanding dollar exports because it is our foremost export objective. It has been said many times, but bears repeating, that our basic purpose must be, and is, to use the special export programs only as a temporary bridge between our abundant supplies and the great number of consumers in less developed countries who lack dollar finances. The permanent commercial bridge will come as these people forge ahead, build up their industry and commerce, and become active cash customers.

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We should not overlook the potential dollar market that these emerging nations represent. Today most of our dollar sales of agricultural exports go to the one-third of the world's people who live in the industrialized countries. Although substantial exports also go to the remaining two-thirds of the world's people, a comparatively small part is sold for dollars But these people, who are nearly two billion in number, represent a potential market so vast as to stagger the imagination. In the years ahead, one of the big marketing challenges will be how to work with such nations so as to help them develop, emerge, and become real customers with real ability to buy.

The subject assigned to me is "Problems Affecting Agricultural Trade." I find five specific problems that agricultural people have to cope with as they participate in world marketing, and this matter of ability to buy is only one of them. As prologue to discussing these five specific issues, however, I want to mention one general, overriding problem, one that is largely psychological. It is the fact that American agriculture, by and large, is not export-minded. I think we need to recognize this fact because it has much bearing on how we try to meet the five specific export problems.

There are some reasons why we as a nation are not especially export-minded. The main one is that nine-tenths of our farm production stays at home, feeding and clothing our own people. Our big emphasis is on servicing our big, remunerative, and stable home market. We tend to look on the foreign market -- which takes one-tenth of our farm production -- as a disposal outlet.

There are some exceptions to this general statement, and to some extent these include our tobacco, cotton, and fruit industries Our tobacco and cotton growers have been exporting since Colonial times and have always had an awareness of the foreign market. Our fruit people, too, have been exporting for a long time; in fact, some segments of our fruit industry were largely built to service the foreign market. Nevertheless, outside of these industries -- and sometimes within them -- there is not always a full appreciation of the importance of foreign consumers.

The actual importance of the foreign market is apparent in the export statistics. For some commodities, it is not one-tenth but a substantial part of our production that is exported. This is a big help in relieving supply pressures and an important source of farm income. Based on the last three year average, our exports are the equivalent of about half of our cotton and rice crops, two fifths of our wheat and tallow production; and about one-third of our tobacco and soybeans (including the bean equivalent of soybean oil).

Any successful merchant knows that he cannot set up his merchandising system to serve only part of his customers. The overlooked customers can mean the difference between profit and loss.

In contrast to our own approach, we find countries like Denmark which exports two-thirds of its food production and has built large parts of its agriculture specifically to service foreign markets. A reputation for quality products has carefully been built, and export standards are enforced to protect that reputation. Many of our competitors are similarly export-minded -- Canada with its wheat, New Zealand with its dairy products, South Africa and Israel with their citrus, and others that we could name.

These facts are mentioned not in criticism but as something to be recognized as we face up to our broad problems of exporting. Foreign competition is increasing. Foreign customers have become more demanding. If American agriculture is to retain and expand its foreign markets, it will need to give its foreign buyers a quality of service equal to that traditionally given to buyers here at home.

Fortunately, considerable progress is being made in this direction. Although there's still a long way to go, many U.S. agricultural trade groups are making a more determined effort than ever before to tailor their products and services to foreign needs. Every major U.S. agricultural commodity group is involved to some extent in foreign market development. They are carrying out a wide variety of foreign marketing projects, including studies and promotions, broadly similar to the familiar approaches to our home market. In this work, the Department is pleased that it can be a partner, using finances made available under the Public Law 480 program. Indicating the extent of this activity, 317 such projects have been undertaken in 39 countries since the joint foreign market development activity got under way in 1955.

After this rather lengthy prologue, I would now like to get down to the five basic problems that affect international trade in agricultural products. I have listed them as (1) Availability of Product, (2) Price, (3) Means to Buy, (4) Quality, and (5) Trade Restrictions. All of these are interrelated, all need to be tackled together.

Availability of Product.

It is a truism, of course, that the first problem in exporting is to have something to export. One of the difficulties of the underdeveloped countries is that they lack the excess productive capacity that enables them to participate extensively in world trade, or where they do export they supply only a limited range of goods and commodities, thereby being highly vulnerable to changes in demand.

We are generally fortunate in this regard, as shown by the fact that the United States not only is the world's largest exporter of agricultural products but also we export the widest variety. In the broad sense, we have little supply problem for those commodities that we export in greatest volume -- grains, cotton, tobacco, fats and oils, citrus, etc. The supply problem is most frequent for some of the commodities that we export in limited volume, and the one that currently comes to mind is dairy products. In recent years, we have been in and out of the world market with respect to some of the dairy products, which is not the way that you build a permanent market. At the moment, there is little butter, cheese, or non-fat dried milk available for export. If it is our intention to build a solid market overseas for our dairy products, this matter of continuity of supply is something that we need to consider seriously.

Ample supplies are a good thing for us to have; however, when foreign producers have them, it means competition. Of the 15 principal kinds of farm commodities that we export, foreign producers have been expanding their production of them even more rapidly than we have. From 1950 to 1958 foreign production of competitive commodities increased 36 percent, whereas our own production of such commodities increased 26 percent. By comparison, world population during this period increased 14 percent.

Some dips show up occasionally in the foreign production curve, mainly due to weather, and when they do there's more opportunity for our own supplies to move out. A current example is the expected increased demand for livestock feeds in Europe, due to drought hurting pastures and fodder crops. But by and large, the world agricultural supply situation is greatly expanded and we face real competition in today's buyers' markets.

Price.

Another obvious requirement in world trade is to be competitive in price. This doesn't signify cutting prices under those of the other fellow. Price-cutting doesn't necessarily give any advantage for many countries depend so heavily on exports as a source of revenue that they are forced to meet any and all prices. The main problem is to price our products so as to be on equal footing.

By and large, the most solid trade is based on price competition arising out of law of supply and demand. We have a long list of commodities that we sell in the world market in which our price is fully competitive -- soybeans, vegetable oils, lard, tallow, variety meats, poultry, fruits, and others. Due to the price support program on some other commodities, in some instances our domestic prices are above world prices and we are able to meet world prices only through export subsidy payments. Currently we are paying 8 cents a pound on cotton and 50 to 60 cents a bushel on all wheat exported. The fact that we expect to export about twice as much cotton this year as we did last year is due in part to a new program which makes U.S. cotton prices more fully competitive with foreign growths, as well as to the ending of a worldwide textile recession.

Export subsidies, however, are not the preferred answer to meeting competition. We are in the strongest position when our industry competes on a basis of efficiency. As a matter of fact, over three-fifths of our dollar exports of farm products are moving without any subsidy.

But this matter of price is something with which you are thoroughly familiar and I don't need to dwell on it further. I'd like to move on to the question of buying power.

Means to Buy

Another rather obvious fact is that you can't sell to a foreign consumer unless he has the means to buy. Our best foreign customers are in the countries that are in the best foreign exchange position -- and these are mainly the industrialized countries of Western Europe, the U.K., Canada, and Japan. Since 1949, Western Europe, the U.K., and Japan have nearly tripled their foreign reserves. They have risen from depending largely on U.S. financing to buying largely with dollar earnings. In contrast to our limited trade with the less developed countries, we do an active commercial business with the industrialized countries such as these, both buying from them and selling to them.

The ability of a foreign country to buy from us is indicated by its foreign exchange earnings and its gold and dollar holdings. As said previously in this Conference, the gold and dollar position of the industrialized countries has improved so markedly in recent years that for the greater part their currencies have become freely convertible, and reasons for such countries to discriminate against our agricultural products for balance of payments have largely disappeared. This is a healthy situation, one toward which the United States has worked ever since the days of the Marshall Plan. The problem now is to get remaining restrictions removed.

What's good for the industrialized countries also can be good for the less developed ones. What's being done under Public Law 480 to help countries develop their economies, and similar assistance envisioned under the Food for Peace concept, with other developed countries helping to share the load, add up to helping the less developed areas become better cash customers.

Whether we're dealing with the developed or the underdeveloped countries, it's axiomatic that we have to buy foreign products if we expect other countries to buy from us. This is the way that foreign customers acquire the dollars that they use in buying our products. In this regard, our agricultural imports are important dollar earners for our foreign customers. Our import market is stable and it is large. Only the United Kingdom imports more agricultural products than we do. Of all the non-competitive agricultural products entering world trade, such as coffee, cocoa, and rubber, the United States buys almost one-half. Our purchases of competitive products, such as sugar and livestock products, make up about 40 percent of our agricultural imports.

As the countries that are now underdeveloped are able to industrialize, they will be moving more products -- not necessarily agricultural -- into world trade. The degree that we are able to sell to such countries will be pretty well governed by our willingness to buy such products from them.

Quality.

Another problem we must meet in world trade is quality. At some time or other we have all heard criticism that some of our exported farm products do not measure up in this respect. As far back as 1954 when a series of four White House agricultural trade missions made their studies, they reported picking up "complaints about the quality, grades, deliveries, and packaging of certain United States agricultural products." Some of the adverse reaction, they noted, especially with regard to commodities sold on a bulk basis, "may be due to a failure on the part of some importers to purchase on the basis of Federal grades and to require Federal grade certificates and certificated weights."

When you do a $4 billion export business, some criticism of some part of your exports is inevitable. Every exporting country encounters it. In today's highly competitive market, however, it is important that there be minimum real cause for criticism.

Probably the main cause for criticism of our exported farm products arises from misunderstanding of U.S. selling practices and contract specifications. It is an oversimplification to criticize a shipment because it happens to be low quality; we export a wide range of quality, based on demand for that range, just as we consume a wide range of quality in the home market The important thing is to make sure that the foreign buyer understands clearly what he is buying and orders what he actually wants, whether it's high quality, low quality, or in between

In some cases, what's needed is more education of foreign buyers. A good start in this has been made by some of the agricultural trade groups, under our cooperative projects. Foreign buyers of tobacco, wheat, and soybeans, for example, have been brought to the U.S. so they can become better informed of our production and marketing methods. U.S. marketing specialists and trade groups are actively working abroad toward the same end.

Also we need to exert more effort to meet special requirements. The Extension Service team that made a cooperative study of the European market earlier this year phrased it this way: "There are opportunities to improve the competitive position of the United States by being sensitive to the unique specifications to meet market requirements."

The problem of quality has several aspects. Sanitary requirements is one. The British don't let our live or uncooked poultry come in because of Newcastle disease. Several markets have excluded our unprocessed pork because of VE (vesicular exanthema) -- a disease which the Department was able to announce a few days ago finally has been eradicated from every State.

Foreign health regulations touch on other commodities, too. Fruit, for example There tends to be delayed recognition and acceptance in some importing countries of some of the pesticides and preservatives that we use in modern production and marketing of fruit, and this is sometimes an export limiting factor.

When problems of quality arise, the best approach is to bring them out in the open and try to resolve them mutually. A recent example of success in doing this involves exports of lard to Germany. Our lard did not match German import standards; after consultations, including bringing German veterinarians here to inspect our processing methods, we have been able to arrive at a mutually satisfactory agreement.

Trade Restrictions.

Trade restrictions are among the most difficult of problems that we encounter. It is frustrating to have a good product in plentiful supply, offered at a competitive price, only to find it excluded from a market by reason of import quotas or other restrictions.

The removal of trade restrictions against U.S. products, including our farm products, is today one of our Government's major policy issues. Appeals are being made and arguments are being advanced at highest levels in our foreign relationships in the cause of trade liberalization.

Trade restrictions have been with us for a long time and exist for a number of reasons. Many countries are trying to be more self-sufficient in agricultural products. They may limit or exclude imports for reasons of defense, or to save dollars, or to favor home producers, regardless of whether or not the home production is economic. Secondly, and probably just as important, many countries practice bilateralism -- a "you buy from me and I'll buy from you" proposition that excludes other traders.

The biggest trade liberalization effort today is directed primarily at removing those lingering restrictions that are hold-overs from the days of dollar shortages after the war. Many countries were left destitute by the war and for a period they were forced to limit purchases from us to protect their scanty gold and dollar supplies But the financial recovery of many of them has been remarkably successful. The postwar dollar problem has practically disappeared During the past year, 29 countries of Western Europe and the sterling and French franc area were able to make their currencies convertible to non-residents

Unfortunately, convertibility and plentiful purchasing power do not in themselves guarantee the removal of trade barriers That is why the United States is pressing today for liberalizing action that we know many countries are capable of taking. The position of the International Monetary Fund -- that discriminations on balance-of-payments grounds generally are no longer justifiable -- was heartily endorsed at the recent GATT (General Agreement on Tariffs and Trade) session in Tokyo by Under Secretary of State C. Douglas Dillon. In his opening statement at this 37-nation meeting, Mr. Dillon expressed the strong belief that the time has come to do away with discriminatory restrictions altogether, and that the task should be completed during the next few months.

I do not mean to minimize the progress already made in liberalization The success to date is heartening. But major restrictions remain that cannot be justified on grounds of dollar shortages. Many of them are directed specifically against our farm products Our success in getting such restrictions lifted will have immediate beneficial effects. We must make substantial further progress in erasing these restrictions in order to permit our agriculture to share fully in the world's improved trade possibilities

Situation by Commodities.

The test of our ability to cope with the problems of world trade comes when we review the status of the individual commodities

COTTON: Since the war there has been a build-up of foreign cotton production, which has increased our competition. At the same time, there has been an increase in production and use of competing man-made fibers. Under the current export program, our cotton export prices appear to be fully competitive, and supplies available for export will be larger. U. S. cotton exports in the year ending next July 31 are expected to total at least $5\frac{1}{2}$ million bales, approximately double last year's low volume.

GRAINS AND FEEDS: For wheat and wheat flour, we expect 1959-60 exports to be 410 million bushels, which is 33 million under last year. It would be possible to substantially increase our wheat exports if the purchasing power of people in less developed areas was raised, if these people had a better acquaintance with the nutritional values of wheat as a food, and if wheat could be made more readily available through expanded storage and distribution facilities abroad.

In the case of rice, we expect a substantial increase in exports despite the fact that rice production in the Far East has reemerged and we no longer have the outlet there that we have had in some recent years under Government programs. In selling to European customers we have a problem in that competitors offer rice for delivery throughout the marketing season at established prices, whereas we generally do not. Forward contracting and delivery arrangements are needed in meeting this competition.

In the case of feed grains, the upward trend in exports in recent years should continue for several more years because of expanding livestock and poultry production abroad. Drought in Europe indicates a probable further marked increase in our feed grain exports in the current marketing year. The interest in grain sorghums as a mixed feed component makes its export future particularly favorable.

TOBACCO: U.S. prices for the principal export types of tobacco are above those for similar tobaccos produced abroad, which strengthens the position of our competitors. Also, in many countries discrimination against "dollar" tobacco continues. On the brighter side, the U.S. still has the largest supplies of good quality cigarette tobacco, there is a steady rise in cigarette consumption abroad, and there is considerable improvement in the gold and dollar reserves of the most important tobacco markets abroad.

FATS AND OILS: Combined exports of U.S. soybeans and edible vegetable oils are expected to set a new high record in 1959-60. This reflects reduced supplies in other areas and continued strong foreign demand. But this big movement has its problems, the greatest involving the question of our domestic soybean crush. Soybeans, as we know, are split two ways -- into oil and into meal. The meal market indicates a greater crush than the oil market. These two pulls are difficult to reconcile.

FRUITS: Prospects for exports of most fruits appear better than in 1958-59. But three major problems continue to be encountered. Most worrisome is the discrimination against U.S. fruits on the part of countries wanting to protect local, colonial, or bilateral sources of supply. Another is the slowness of some importing countries to change their food regulations so as to accept modern practices of fruit production and marketing. And another is that foreign growers are producing more fruit, improving their quality, and providing stiffer competition.

ANIMAL PRODUCTS: A big problem in exporting animal products is price. We produce for the home market and our export prices in general are not competitive with foreign suppliers. Exceptions are poultry and some of the excess products of our livestock industry, such as lard, tallow, and variety meats. As mentioned earlier, our dairy exports also are handicapped currently by problems of supply. In countries trying to conserve foreign exchange, animal products commonly are placed in the luxury category and their importation is restricted. Whatever is achieved by way of liberalized trade and improving economies should react favorably on our exports of animal products.

Conclusion.

On an over-all basis, we are making progress in coping with the problems of foreign agricultural trade. We are doing better in some cases than in others. In all cases we are trying to do something about them.

Some of these problems can best be met by private trade. Some require the help or the special handling of Government. For most of them the job can best be done through combined effort.

We have made an excellent start in this private industry-Government sort of combination, and we expect to do much more in the period ahead. And when I say Government, let me use the term in the broadest sense so as to include not only Federal (including the many participating agencies of the Department of Agriculture) but also State Governments. Wherever we Washington people are teamed up with you State Extension people in the area of marketing, a better job gets done than we could possibly do alone. There's a lot that needs doing. We look for you continued help in doing it.