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High-Value and Value-Added Exports
A Challenge To Transportation Interests

The export of value-added and high-value agricultural products is an important part of our farm and national economy. In recent years, studies by the Department of Agriculture and other organizations have demonstrated the immense effect that exports of these processed and higher value products have had on employment, personal income, generation of tax revenues, and our economy in general. At a time when the total value of agriculture exports is substantially reduced from previous years, value-added and high-value exports take on even greater significance.

Marketing Value-Added Products - Transportation Considerations

However, increasing the level of exports in these product areas is not easy. World marketing conditions vary greatly; few markets are continually consistent in their size and duration; many value-added and high-value products are subject to subsidized foreign competition; and last but not least, transportation factors relating to such exports are extremely critical. In fact, the transportation of such products, which often makes the difference in a successful exporting effort, presents both problems and challenges. In a world situation which combines commodity marketing difficulties and high dollar values with a depressed freight market and a changing transportation scene, the effect of transport factors on the export of high-value and value-added commodities is considerable.

In this context, it is of utmost importance that commodity and transportation factors be considered together in the marketing and promotion process. All too often, market development efforts for such products tend to focus on the commodity itself, its characteristics, its quality, product specifications, commodity price and other commodity-specific attributes. Indeed, such marketing efforts often neglect to take into consideration the unique aspects of transport requirements or they simply assume that transportation will be available after the commodity sale is accomplished. Many such marketing efforts are frustrated when the exporter learns that cost and time considerations, which relate to transportation and which have not been taken into account, either negate any profit on the sale or are sufficient to cancel the entire transaction.

Both land and waterborne transportation of high-value and value-added products involves a number of specific considerations. For example, practically all of such cargoes involve packaged products either in liquid form, in bags or in specialty packaging. Further, while many such products are dry-packed in bags, or are packaged as canned goods, others require temperature controlled conditions or refrigerated transport. For ocean transportation, these factors translate into serious cost considerations, such as vessel suitability, product stowage capability, shelf life of the commodity in transit, resistance to moisture, domestic and foreign port handling facilities, hourly load and discharge rate capabilities and the experience of the stevedore or longshore handling organization.

In addition, such cargoes often do not, in themselves, make up full vessel loads; consequently, their destinations must be matched with those of other general cargo parcels in order to minimize transport time and expense. Refrigerated cargoes require either refrigerated vessels or reefer containers and the scheduling of such vessels is critical. This is an especially important factor in the export of frozen meats and poultry, where the cost of refrigeration and the timing of vessel availability is a major element in the total delivered price.

Intermodal Shipments

For existing and potential U.S. exporters of such products, intermodal transport is often necessary. Transport links from a packing or processing plant to truck or rail transport, on through to ocean transport, is becoming more and more commonplace in the export of value-added and high-value products.

Often, such movements are covered under a single Bill of Lading, which provides for lifting the product at the point of production and for final delivery at destination. Such intermodal Bills of Lading often limit rail or ocean carrier liability to the individual stages of the shipment. The result can be an especially confusing or formidable process for existing or potential exporters.

In addition, some ocean carriers limit their land-based intermodal movements to leased rolling stock or unit trains, which pick up container cargo at specific consolidation or "bridge" points in order to connect

with ocean transport at specific load ports. This service, can be efficient to those along the rail network and of advantage to those who are selling to countries serviced by the vessels in the system. However, it can also be a limitation in terms of market outreach and geographic range, since container movement is often port specific -- both in terms of U.S. load-ports and ultimate destinations.

Special Role of Government Exports

In recent years, the export of high-value and value-added commodities through government programs has taken on growing significance. Financing such exports has been a major advantage of the CCC loan guarantee program, known as GSM 102, and which accounts for approximately \$5 billion worth of agricultural exports annually. The use of processed and value-added products in programs such as P.L. 480 has been extremely significant and is of growing importance. This program uses processed grain products, dairy products, edible oils, and high-value commodities. In addition, expanded authorities for exports under Section 416 of the Agriculture Act, the establishment of a new intermediate credit program, the use of export incentive programs, and continuing direct sales of CCC-held stocks, all contribute to a significant government market for value-added and high-value products.

Even in this growing government export market for high-value and value-added commodities, transportation considerations are essential. In some programs, the U.S. government may pay all freight expenses; in other

programs, the U.S. may be able to finance the cost of freight, and in other programs, the receiving country or importer must pay all or part of freight expenses. In still other programs, there is no allowance for U.S. government payment of freight. Added to these considerations, is the fact that many of these same programs may be subject to cargo preference, which requires 50% use of U.S. flag vessels, and which, in turn, may affect both cost and vessel availabilities.

There is also the possibility of transportation-related technical problems which can arise in government shipments of value-added and high-value products. For example, the export of some processed grain products requires fumigation at least 30 days prior to export. Yet, most exports of such products involve several small to medium parcels lifted at multiple load ports. Consequently, the first parcel, which may have been fumigated 25 days prior to loading, will be well past the 30 day limitation by the time the last parcel is lifted, thus running the risk of infesting the entire shipload. What are the appropriate responsibilities and liabilities in this situation?

Packaging and purchasing procedures also affect the transportation of these products. A recent change from 50 lb. to 50 kg. bags for some products and new bagging material for others, may be causing problems in stacking and storage, slinging aboard vessels and in rail transport. Added to this, is the fact that the government buys in pounds, but exports in kilograms for some of these products. All of these factors affect transport costs and services.

In other instances, the specifics of government commodity contracts may conflict with the specifics of government shipping contracts. If a commodity supplier has ten free days of port storage prior to vessel lifting and the vessel does not arrive for 15 days, and both entities are under separate contracts to the U.S. government, who pays the extra storage costs? Or, conversely, what if a vessel is delayed by the terms of a commodity delivery contract? Thus, transportation is also a critical element in government exports of value-added and high-value products and its impact can be significant, particularly in terms of cost and budget availabilities.

Solving Value-Added Transport Problems

Transportation problems associated with the export of high-value and value-added products, either through commercial exports or government programs, can be difficult, confusing and often, seemingly insurmountable. However, they are manageable, since the expertise does exist to analyze such factors in advance, take them into account when considering a potential export sale or commodity movement, and for planning market development activities.

For any potential exporter or supplier of high-value and value-added products, either for commercial or government markets, the following suggestions may be helpful:

First, consider commodity marketing requirements and transportation factors as one. While there are specific cost components associated with commodity processing and packaging, just as there are specific expense elements in transportation, such as rail freight, stevedoring costs, and ocean rates, these components must be reviewed simultaneously. Concentration simply on commodity marketing without considering freight and transportation as part of that process, will rarely lead to success.

Second, with transportation being the critical element that it is, commercial exporters of processed products should avail themselves of the services of knowledgeable and reliable agents, freight forwarders or brokers. In most instances, these are the individuals who know how to match freight parcels; who have dealt with intermodal movements, who know commodities and who are familiar with trade routes and freight rates; and who, in general, have the experience which a new or potential exporter of value-added and high-value products badly needs.

Third, it is important to remember that most transportation problems can be solved -- at least to the point of knowing in advance whether or not to proceed -- with proper information. The importance of advance knowledge of marketing information, including transportation information, cannot be understated. While some of this data can be obtained through the use of brokers, forwarders, and agents, there are other sources available. These include commercial trade leads, marketing services, and government programs.

One example of an excellent government trade lead and data source is the Agricultural Information Marketing Service (AIMS) of USDA's Foreign Agricultural Service. Information from these sources can help considerably in making transportation decisions.

Fourth, participants in government export programs of value-added and high-value products should do everything possible to assure full attention to the importance of transportation in these programs, both in terms of addressing technical problems, and in terms of assuring full or partial payment of transportation costs. Moving value-added products through government programs may well require more resources for transportation, either in terms of direct payments or financing, and this approach must be an integral part of the planning process for these programs.

Finally, it is important to be receptive to innovations in order to assure prompt, efficient, and cost effective transportation of these products. The relatively recent examples of improved containerization and break bulk movements, intermodal transport, and improved port and vessel capabilities, all indicate that continuing innovations in the transport of these products are both possible and likely. In particular, with packaging, in one form or another, being a common denominator in high-value and value-added exports, the opportunities for different cargo mixes, different vessels uses, intermodal links, and other innovations are considerable. In short, innovations should be sought and not awaited.

In conclusion, the changing world market situation for agricultural exports places value-added and high-value products in a unique position, reflecting both opportunities and problems. To the extent that problems are overcome and opportunities are realized, the effective utilization of transport facilities may well be the deciding factor.