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“Meeting the Challenge of Agricultural Exporting”

Good morning. I’m delighted to be here today and to have this opportunity to share with you my thoughts about “Meeting the Challenge of Agricultural Exporting.”

It is always a pleasure to speak at USDA’s Agricultural Outlook Conference. It is especially rewarding for me to be sharing the podium with our Chief Economist and my good friend Keith Collins this year.

Keith once told me that he enjoyed being an economist because it is the one profession where you can gain great prominence without ever being right. Actually, I think someone else (George Meany) coined that phrase and we are quite fortunate to have Keith with us—he does seem to be right more often than not, or at least more often than the rest of us!

There are many challenges facing American agriculture in today’s global economy. Successful exporters learn to “expect the unexpected.” One need only look at the current financial situation in Asia as an example.

Certainly, as today’s somewhat lower export forecast illustrates, the Asian financial crisis is having an impact on U.S. agricultural exports. The forecast decline of $2.1 billion in our exports to Asia is noteworthy, but whereas ten years ago, such a decline as this might have been quite significant, it is manageable today.

For us in the United States and for those from overseas here today, agriculture is a critical element of our economy. Eight million people live on farms in the United States, or 3 percent of our population. Those here from the European Union, 15 million people of your populace live on farms, or 4 percent of the population. But in the rest of the world, one out of every two people--or 2.6 billion people--live on a farm.

While we may have fewer people living on farms in the United States than other countries do, the American food system (from inputs to farm to processor to stores) is our nation’s largest employer. American agriculture is also the leading positive contributor to the U.S. balance of trade (averaging a net $24.5 billion over the past 3 years). Today, U.S. agricultural exports support about 1 million U.S. jobs--with about one third of them in the farm sector. The asset base of farming alone is more than $1 trillion.

The importance of trade to agriculture cannot be downplayed. Consider the Marshall Plan.
Recovery of Europe’s agriculture was critical to its post-war economic recovery. Soon after the Marshall Plan began rebuilding European economies, GATT was born. The U.S. Food for Peace program followed close behind.

**U.S. agricultural exports have reached a new plateau**

In the United States, this Marshall Plan-led, post-war, outward-looking farm policy is paying significant dividends for American farmers.

Since General Marshall’s Plan was enacted in 1948, our global agri-environment has changed quite dramatically. Outdated and regressive policies of self-sufficiency, protectionism, and government control of markets are being challenged, reformed, or dismantled.

This is largely due to the fact that, for a variety of reasons that I will discuss in a moment, our exports are on a different plateau today than in years past. In the mid-1980's, U.S. agricultural exports were pretty steady, bubbling along at around $30 billion from 1985 through 1988.

In 1989, they reached a new plateau of roughly $40 billion and exports remained relatively steady at $41 billion on average until 1995. In 1995, U.S. agricultural exports reached yet another plateau of sustained growth. If the projected level of exports for 1998 is realized, 1998 will mark the _fourth year in a row_ where exports have topped $54 billion, with exports _averaging_ $57 billion since 1995. Equally important, the average trade surplus in agriculture as I mentioned earlier has averaged $24.5 billion during this same time period.

What is so fascinating is that exports remain so solid:

- _despite_ the financial situation in Asia,
- _despite_ the fact that China is for all intents and purposes out of the market,
- _despite_ the record crops in the Southern Hemisphere, and
- _despite_ the strength of the U.S. dollar.

What has happened is that trade reforms are kicking in, incomes continue to grow in developing countries and irreversible changes are taking place in marketing and distribution channels. _These changes will continue to lead to a sustained growth in U.S. agricultural exports_ by making it difficult for countries to turn off the spigot for consumers who clearly have demonstrated a demand for U.S. agricultural products.

While Asia has been the catalyst of growth for U.S. agricultural exports, solid growth continues in other regions of the world as well. The USDA baseline calls for robust growth in global import demand, driven primarily by income growth in developing countries and an increasingly open trade environment. The outlook for relatively strong economic growth in Latin America, North Africa, and the Middle East differentiates the 1997-2005 outlook from the past 10-15 years. Restoration of positive economic growth in the transition economies of the
Former Soviet Union (FSU) and, particularly, Central and Eastern Europe (CEE) should halt declines in food demand and stabilize trade in those regions as well.

This is beginning to show up in our exports. Exports to countries in the Western Hemisphere, for instance, now account for nearly 32 percent of all U.S. agricultural exports. In Latin America, our exports are projected to reach another high in 1998, totaling $10.8 billion—8 percent above last year’s record level. U.S. agricultural exports are up to countries throughout Latin America, with the most striking growth coming from Mexico. U.S. agricultural exports to Mexico are projected to total $5.8 billion this year which is 14 percent above the previous record set just last year.

What is interesting to note is that one of the reasons exports to Mexico are up is because when you consider the effects of differential exchange rates, the Mexican peso is appreciating against the U.S. dollar and this appears to be driving import demand. On the other hand, in Canada, the opposite is true. In part because the Canadian economy is much more dependent on exports of commodities (raw metals, timber, wheat, etc.), the Canadian dollar is taking a stronger beating than the U.S. dollar as a result of the situation in Asia, and the Canadian dollar is depreciating against the U.S. dollar. Yet U.S. agricultural exports to Canada continue to rise to record levels! In 1998 they are projected to total $6.9 billion—up 5 percent over 1997's record level. And yes, that is 6.9 billion U.S. dollars! Go figure!

Mexico is an example of why there is hope to believe that—because of the IMF reforms—the crisis in Asia will be short lived and exports may rebound sooner than some might anticipate. In 1995, U.S. agricultural exports to Mexico were severely affected by the devaluation of the Mexican peso. American agricultural exports declined to $3.7 billion. Even though the peso did not recover all of its value, the peso did strengthen and in just one year, U.S. agricultural exports to Mexico rebounded and our exports to Mexico have set new records every year since.

I am not going to predict that the IMF reforms will necessarily have the same degree of success in Asia as in Mexico. Certainly having NAFTA in place helped Mexico stabilize relatively quickly. But other factors, such as rapidly modernizing marketing and distribution channels are not unique to Mexico, and these factors are an important catalyst for continued market growth.

Changes are taking place in food distribution and marketing channels

In 1931, when the Empire State Building was built in New York City, it was the tallest building in the world. It took more than 40 years before a taller building was built—first, the World Trade Center in New York and then the Sears Tower in Chicago. It took more than 23 years for the title to be passed once again, but now a new “World’s Tallest Building” is being built practically every year. I have been told that the next World’s Tallest Building is already under construction in Shanghai, China.

Similar changes are taking place in food distribution and marketing channels in practically every country. Just a few years ago, “mom and pop” retail outlets dominated the landscape over much of the globe. There were no wholesale clubs, chains or discounters in Latin America or Asia. But a lot has changed in the last five years or so.
Today, there are supermarkets in Sao Paulo, Brazil with 75 checkout counters and clerks on roller blades doing price checks. Wal-Marts, Gold Clubs, and other discounters are springing up in Mexico, Hong Kong, China, and elsewhere and in a very short period of time have become a major market force. In some instances, companies are better off going to Wal-Mart than to Shanghai to make contact with overseas retailers. There is also a tremendous revolution under way in the food service sector, to meet a growing demand for western-style food.

These changes help explain why U.S. exports of high value products continue to be strong and why they will continue to account for a growing share of U.S. farm exports. Despite only moderate economic growth overseas, U.S. exports of high value agricultural products continue to set records.

The world is changing rapidly, and we are focusing our energies on helping U.S. exporters keep up with these changes. As the world’s premiere food exporter, we must be aware of what consumers want and be tied into new distribution channels. We have asked our attaches across the globe to pay more attention to these changes, and now they regularly report on new players, new channels of distribution, and factors that affect the competitive landscape.

We know it is not always good enough any more to just show up with the right product at the right price. As competition increases, you have to be able to help retailers improve their margins as well. Much of our effort is geared toward helping American agriculture combine their strategic marketing efforts with American innovations like category management and inventory control systems to strengthen ties with retailers.

**Competitive Pressures and Challenges Facing U.S. Agriculture**

There is no question that the competition is fierce. The outlook for U.S. agricultural exports is heavily influenced by competitive pressures that differ by commodity and can affect price and/or quantity of sales. One of the primary sources of this pressure is the rising value of the U.S. dollar, especially against the currencies of our major competitors. This has the effect of making U.S. exports more expensive to our customers, relative to those of our competitors. Unfortunately, the dollar has been rising against the currencies of all our competitors.

There are commodity-specific competitive pressures that pose challenges to U.S. exports as well. Record production of soybeans in South America will continue to pressure prices in 1998. In the longer term, these pressures will continue. We expect South American production of grains and oilseeds to continue to exert competitive pressures, offering increased competition to U.S. suppliers in third country markets. Likewise, Chinese corn and East European corn and feed wheat when available for export also have been and will be market factors.

In addition, we will continue to face stiff competition in markets around the globe. Our annual review of the export promotion activities of the 22 countries that account for our major competition found that just like the United States, many of our competitors have ambitious export goals.

We aren’t the only country focusing our efforts on market intelligence, and market promotion. The EU and other countries assist their producers and small business to develop
foreign markets through activities similar to our Market Access Program and Foreign Market Development Program. Market promotion by EU countries is estimated at $400 million in 1995/96, with about one-half of that amount provided by EU-member governments. The rest of the funds come from producer-funded organizations and other fees.

Australia, Canada, and New Zealand have strong national government promotion agencies and rely heavily on their statutory marketing boards to carry out market development activities for producers of specific agricultural products.

In addition to market promotion activities, the EU also carries out an extensive subsidy program. Of the $7.2 billion budgeted by the EU in 1997 for export subsidies, over 85 percent was for exports of high-value products such as fresh and processed fruits and vegetables, wine, dairy products, and meat and meat products.

Trade reform

Some of our competitor’s practices such as the uses and abuses of export subsidies, unfair, trade distorting practices of state trading enterprises, and unabashed manipulation of imports through the administration of tariff rate quotas underscore the need for further trade reform.

The Uruguay Round and the World Trade Organization (WTO) are just the beginning of a new era in trade relations that will move the world toward freer trade. All members of the WTO must continue to work together to move along the path toward increased trade liberalization. This multilateral process is the best way to ensure fair trade, to open new markets, and to resolve subsidy or access problems. The United States intends to meet its WTO commitments fully and we expect other nations to do so as well.

We look forward to continuing the trade reform process when the next round of multilateral trade negotiations on agriculture under the WTO starts in late 1999. The United States is examining very carefully what is and is not working. First and foremost is to identify problems related to implementation of the current Uruguay Round Agreement.

Tariffs

High tariffs shield producers from the realities of the marketplace, and fuel the need for expensive subsidies and price supports. For example, U.S. farm and food products can face tariffs of 100, 200, and 300 percent or more in some markets. Our own import duties average less than 5 percent, while bound agricultural tariffs worldwide average around 56 percent. While we have made good progress in reducing tariffs, we need to get these high bound tariffs down further.

Tariff-Rate Quotas

The establishment of a tariff-rate quota (TRQ) will not result in new access opportunities if it is implemented in a restrictive manner. Therefore, TRQ administration is one of the topics already identified by the Committee on Agriculture as an area for further discussion.
State Trading Enterprises

The United States also believes that state trading enterprises should not be allowed to circumvent export subsidy limits. Therefore we are seeking greater transparency in the operation of these entities through the WTO Working Party on State Trading Enterprises. We believe this effort will help identify practices that may need to be disciplined in future negotiations, both for export and import monopolies.

Export Taxes

From the U.S. perspective, export taxes are just as trade distorting as subsidies. Many export taxes hurt our competitive position in the export of value-added products. They shield foreign processors from fair competition in export markets by artificially subsidizing raw inputs. In the long run, they hurt all of us because they convince developing countries that the world market is not reliable and encourage inefficient internal farm policies aimed at artificial self-sufficiency.

With our new farm policy, the United States is continuing its commitment not to restrict grain exports when global supplies are tight. As you know, we upheld that commitment last year. Foreign buyers are guaranteed the same access to our supplies as domestic users, especially livestock. In addition, we have shown extraordinary restraint in the use of export subsidies on grains. The EU has not shown the same restraint. The recent global supply situation simply does not warrant the use of subsidies. World grain stock levels, measured as a percent of total use, have remained at or near historic lows.

Non-Tariff Barriers to Trade

In addition, we will continue to work to prevent unjustified non-tariff barriers to trade, especially sanitary and phytosanitary measures. Too often these measures are merely a guise to protect domestic agriculture from import competition and fail to adhere to the WTO principle that such measures be grounded in sound science. We will work through the WTO to encourage the adoption of international standards that facilitate trade while giving full protection to consumers’ health and safety. Consumers have the right to insist on such safeguards. As we know from the painful food scares of recent years, agriculture is quick to feel the blow if consumers lose confidence in the safety of what they eat.

As Peter Scher, Special Trade Ambassador for Agriculture in the office of the U.S. Trade Representative said in a recent speech, “In order to maintain public confidence in the U.S., Europe and elsewhere, in our handling of health and safety issues, it is absolutely vital to retain the [SPS] agreement’s fundamental reliance on science and risk assessment. That is the only way to successfully address ‘consumer concerns.’ I can not imagine a system which relies on non-scientific, non-transparent factors as one which instills confidence in the public in the safety of their food supply.”

When one looks at the major agricultural issues currently causing tension in the U.S.-EU relationship—beef hormones, specified risk materials, and EU approvals for new biotech products—it is clear that they all relate in some way to the need for a science-based approach to
health-related trade issues. In fact, the science-based principle as embodied in the WTO rules, and even the credibility of the WTO itself, now faces a crucial test with the beef hormone issue. It is critical that the EU does the right thing here--comply with the WTO dispute settlement finding and remove the scientifically unjustified ban on imports of our beef.

In 1997, USDA took a leadership role to ensure that farmers and consumers around the world have access to approved products of modern biotechnology. We have worked tirelessly in EU countries, Japan and elsewhere to convince policy makers of the need for food safety decisions to be based on sound science. Sound science must prevail in every case, not simply when it is convenient.

In the future, health-related agricultural trade problems will probably be more numerous and more varied than we can imagine, and it is vital for all of us that the principle of science as the basis for resolving them is firmly established now.

Asia Impact on U.S. Agricultural Exports

Right now, the number one question mark for this year and probably next year as well--for the United States and for our competitors--is Asia. As many of you know, last month, I along with Lon Hatamiya, Administrator of the Foreign Agricultural Service, and Christopher Goldthwait, USDA’s General Sales Manager, traveled to a number of Asian countries on a fact finding mission.

• Our first goal was to get a better assessment of the situation and to see what we could do to stabilize the critical trade in food, cotton and hides to these important countries.

• Second, we wanted to evaluate these countries’ use of the $2 billion in Commodity Credit Corporation (CCC) export credit guarantees, and

• Our third objective was to analyze the effect of the currency problems on the domestic food situation of the most heavily affected countries, especially South Korea and Indonesia.

The Asian financial situation has taught us that ours is indeed a global economy. East Asia is an important market for America’s farmers. Overall, it accounts for 40 percent of our agricultural exports, or $23 billion annually. During 1991-97, Asia accounted for 45 percent of our export growth. But as I said earlier, I believe the crisis is manageable.

In our analysis, the current Asian market can be divided into three tiers based on financial stability: Countries in the first tier, Taiwan, Japan, China, and Singapore, will continue to show stability in most products with some softness in higher value consumer products and limited impact of the strong dollar. These countries accounted for 75 percent of our exports to Asia and 30 percent of our agricultural exports world-wide in fiscal year 1997.

The second tier countries, Malaysia, Thailand, the Philippines, and South Korea, account for 9 percent of our exports. We expect a softening in exports to these markets and we have targeted them through export credit guarantee initiatives totaling $2.1 billion. Of this,
$1.1 billion is for Korea and $1 billion is divided among the other countries.

*Indonesia*, which we put into the third tier, imported $767 million of U.S. agricultural products in fiscal 1997. It will be the most seriously affected in the short term. We expect little use of GSM programming here until the effects of the stabilization program begin to take hold.

**Supporting The International Effort**

The situation is manageable, but it is crucial that we support the international effort, led by the International Monetary Fund (IMF), to help countries in the region help themselves. That is very much in the interest of America’s farmers and the American people in general.

The IMF, whose mission is to promote financial stability, trade, and economic growth, is the right institution to lead the effort to help the affected Asian economies. Only if these countries have stable, growth-oriented economies will we see global trade, including agricultural trade, recover and reach new heights.

The stakes are too high for inaction. USDA is working with the Department of the Treasury, the IMF, and the World Bank to maintain the flow of U.S. agricultural products to Southeast Asia and to help our Asian customers weather their financial storms. The IMF-led financial assistance plans in Thailand, Indonesia, and South Korea are critical to our efforts. The recovery of U.S. agricultural exports will depend on the success of IMF-led efforts to stabilize the Asian economies and bring about structural reforms and trade liberalization.

In the *short term*, the IMF-supported trade and investment reforms are helping to steady the uncertain financial environment, which is critical to commercial trade. In the *long term*, IMF-supported trade liberalizing measures will benefit U.S. agriculture by ensuring that structural reforms will allow our products greater access to these markets. Together, the IMF plans and the GSM export credit guarantees will help ensure that the United States remains a reliable supplier of agricultural products to the region.

It is important to keep in mind that despite financial problems, *Asia remains an important market with much potential*. The factors that made Asia strong economically in the past will fuel its recovery in the future. These include a high rate of savings, low inflation, a well-educated population, and economies that, for the most part, are still growing. The medium-term fundamentals will become sound with the elimination of financial restrictions, reductions in government directed investment, and elimination of monopolistic trade agencies. Ultimately, the IMF-led reforms in these countries will lead to more transparent, freer markets in which U.S. agricultural products will find it easier to compete.

This somewhat optimistic outlook depends on these governments continuing their reforms and making some difficult changes on how the business of government and the private sector is conducted. Most of the Asian officials with whom we met seem ready to grapple with this challenge. But only a few of the difficult steps have been taken.

*Long-term trade prospects*
In closing, the strong performance of U.S. agriculture exports over this last decade, and especially the last few years has been supported by many factors and developments within the U.S. and around the world. Many of these should continue to support growth, certainly over the longer term.

The Department’s baseline projections for U.S. agricultural exports remains basically the same. The total value of U.S. agricultural exports is projected to rise from $57.3 billion in 1997 to $62.6 billion in 2000, and approach $85 billion by 2007. USDA’s Economic Research Service estimates that exports may grow 3.9 percent annually from 1997 to 2007.

Despite prospects for slowed demand in Southeast Asia over the next couple of years, projected U.S. trade gains over the next decade are driven by relatively strong economic growth in most developing regions, including China, South and Southeast Asia, Latin America, North Africa, and the Middle East.

The projections are based on our belief that the current global movement toward trade reform underway in many developing countries will continue. Similarly, the development and use of agricultural technology and changes in consumer preferences are assumed to continue to evolve based on past performance.

But the Asian situation affecting some of our fastest growing markets and the steady appreciation of the U.S. dollar over the last year poses a challenge and provides a warning. We have limited control over many of the key economic factors affecting trade. We can’t always count on conditions to be favorable to economic and trade growth at any given time. What we can do is keep our sights set on growth opportunities wherever they arise.

Thank you for listening. Keith and I would be pleased to take your questions.