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UNITED STATES DEPARTMENT OF AGRICULTURE
Export Marketing Service

EXPORT PROGRAMS - WHAT THEY ARE AND WHY WE HAVE THEM

Talk by Frank G. McKnight
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You have heard from earlier speakers of the record level of agricultural exports attained last year and the prospects for continued export expansion in the years ahead. I would like to describe how some of the Department's export programs fit into this picture and what the return from these programs means to the farmer.

Our export programs are of two types: commercial and concessional. No doubt most of you are familiar with the concessional programs, which are conducted under the authority of Public Law 480. This was at one time widely known as the Food for Peace Program. Currently we are making less use of that term, because we feel it places too much emphasis on the charitable aspects of the program and too little on its role in trade development.

Less well known than the PL-480 program are the various commercial export programs operated by the Export Marketing Service--programs whose major function is to help us meet the competition of other exporters and thus maintain, and hopefully enlarge the level of our commercial exports. There are four of these programs--CCC short-term credit; barter; export payments; and sale at world prices from CCC inventory.

First, briefly, let me run through current trends in the PL-480 program. It has now been 18 years since this program was established, primarily as an instrument to dispose of the agricultural surpluses of the mid-1950's.

There have been a number of changes in recent years. For one thing, the program now operates under formal budgetary control, rather than as an uncontrolled item of Commodity Credit Corporation expenditures. Because of increased cereal production in developing countries and legislative restrictions on country eligibility, exports have levelled off at approximately $1 billion a year--well below the totals of the mid-1960's.

The soft terms of the early years, when virtually all sales were made for local currency, have been replaced by long-term dollar credit terms, with payment periods ranging from 20 to 40 years. Beginning this year, no sales can be made under traditional local currency agreements, although substantial defense grants and certain other local currency uses can be authorized by the President. Most agreements will continue to provide for some payment in local currency which our Government would otherwise have to purchase for dollars.

In a Latin American country such as Colombia, for example, a typical agreement will call for a 5 to 10 percent payment in local currency, which is used to meet Embassy and other expenses. In a country like Korea, we would probably require a 40 percent payment in local currency, since the U.S. has special defense needs and can readily use that amount of Korean currency.

We have several unusual commodity situations in PL-480 this year. Let's take soybean oil as an example. For many years, soybean oil has been a major PL-480 export, while whole beans and soybean meal move for dollars. We would greatly like to export more oil now to bolster the sluggish U.S. market, but we are having difficulty making sales in sufficient quantity. This is primarily the result of the India-Pakistan situation. India, formerly a major oil buyer, has its entire policy on receipt of foreign aid under review. Pakistan needs oil but the amounts it can take have been limited by the port and internal transportation disruption caused by the war. As to wheat, India has announced that it is now self-sufficient and expects to take no more on concessional terms beginning this year.

We would like to export somewhat more tallow under PL-480 to help strengthen the domestic market, but a survey of eligible countries has revealed little interest. On the other hand, the short 1971 cotton crop forced us to lower our sights on concessional cotton exports. In mid-December we suspended issuance of purchase authorizations for cotton for the remainder of the cotton marketing year. This will cut total PL-480 cotton exports from the 800,000 bales anticipated at the beginning of the year to approximately 600,000 bales.

We are naturally encouraged by the prospect of increased cotton acreage next year, since this year's cutoff placed several of our traditional concessional cotton customers in a difficult position. India, in fact, recently entered into a rather complex bilateral arrangement with Russia, under which Russia will ship cotton to India for processing into textiles. It seems clear that this arrangement will not provide additional cotton goods for use within India. Thus the chief advantage appears to be increased employment in Indian cotton mills.

With the decline of India and Pakistan as PL-480 customers, Korea has taken up some of the slack with increasing purchases of wheat, rice, and corn. South Vietnam and Indonesia remain major customers, as well, although Vietnam is nearing self-sufficiency in rice, which it once imported heavily under PL-480 and Indonesia's requirements are trending downward. Israel is another important buyer under the program, particularly of feed grains, and we had our first concessional sales agreement with Cambodia in 1971.

While about three-fourths of PL-480 commodities are sold under Title I, the remaining one-fourth are granted or donated under Title II for emergency or charitable use abroad. AID has program administration leadership for Title II. The Department of Agriculture determines commodity availability and supplies the commodities, either from CCC inventory or by purchase from private stocks.

There are three general channels for foreign distribution of commodities under Title II. One is through U.S. nonprofit relief agencies; another is through the multi-national World Food Program; and the third is through direct government-to-government arrangements.

One significant trend in the donation program has been the impetus that it has given to the development of new food products, chiefly blended foods. One of these is CSM, which is a blend of corn, soy flour and nonfat dry milk, and another is WSB, a blend of wheat, soy flour and nonfat dry milk. So well received have these products been in the donation programs that there appears to be a possibility that they can be sold, perhaps under Title I or even for cash.

A particular virtue of the blended foods is that they provide a large amount of nutrition at relatively low cost. CSM, for example, contains essentially the same food value, pound for pound, as nonfat dry milk, yet its cost at the U.S. port averages about 8-1/2 cents a pound, less than a third the cost of a pound of nonfat milk. Moreover, the farmer receives about 53 cents for each dollar's worth of CSM sold, compared with only 38 cents per dollar of the cost of the U.S. market basket.

Those are a few highlights of the PL-480 program, as it stands today. In 1970, the Act was extended for three years through the end of 1973, essentially unchanged from the major revision enacted in 1966. So far as we can see at this time, the program is likely to continue at around the present level for some years into the future, but country participation and commodity composition are subject to so many uncertainties it is difficult to make forecasts with any great degree of assurance.

What does PL-480 mean to farmers? For one thing, it means a market outlet for $1 billion worth of their annual crop production--equivalent to the cash receipts from farming of all the farmers in such a state as Oklahoma or South Dakota or Arkansas. And, so far as the farmer is concerned, this is cash business, no different from that which is wholly independent of government programs.

Moreover, while the program now accounts for only about 15 percent of total agricultural exports, it is vastly more important for certain commodities. In record-breaking fiscal 1971, for example, it accounted for more than a third of our total wheat exports, nearly a fourth of the cotton, half the rice, more than 40 percent of the soybean oil, and nearly 90 percent of the nonfat dry milk. So, for many of our farmers, it remains a potent factor in the market.

Apart from these immediate benefits, of course, PL-480 has assisted in the development of some of our excellent cash agricultural markets. Japan is the outstanding example. These represent long-term beneficial effects.

So much for PL-480. Now, let's talk about the commercial programs administered by EMS and funded by CCC.

First, short-term credit. The full name of this program is CCC Export Credit Sales Program. By short-term credit, we mean credit extended to foreign buyers for periods of 6 months to 3 years. The commodities exported are from private stocks.

The purpose of the program, quite simply, is to keep our agricultural products competitive in world markets in the face of the varying credit terms and other export incentives offered by our competitors.

Once a month, we announce a list of commodities eligible for export for credit. At present, 23 commodities are on this list, which includes all the major grains, tobacco, cotton, vegetable oils, tallow, breeding cattle and swine, and dairy products. We have imposed a few limitations as to export destinations. Wheat, for example, cannot be sold for credit to the countries of the European Community.

From a practical standpoint, operations of the program differ considerably between two broad categories of foreign buyers. One group is composed of countries which permit private firms to engage in fairly free import operations. In these cases, our initial contact is usually a U.S. exporter who comes in with an application for credit to finance a specific sale in a given country. If we determine that this is additional business that cannot be done on a cash basis, or with the use of normal commercial credit facilities, we generally approve it. The exporter then completes the sale and receives payment from CCC. CCC, in turn takes over the account receivable and is paid under a letter of credit furnished by the foreign buyer.

The situation is slightly different where countries have state trading organizations and in a few countries having international payment problems. Here, the use of the credit program usually starts with a government-to-government contact, normally between our office and the country's Embassy in Washington. If we determine that the use of credit will help us open up, maintain or enlarge a market for U.S. commodities, we establish a line of credit, usually for repayment over a 3-year period for the specific country naming specified commodities. This line is publicly announced, the importing country tenders in the normal way, and U.S. exporters compete for the business.

The interest rate, by the way, is normally kept at a level that is higher than the cost of money to the government yet low enough to be attractive to buyers in most countries. Currently, the rate is 6-1/8 percent on credit backed by a U.S. bank letter of credit and 7-1/8 percent if a foreign bank is used. In any event, the buyer must provide U.S. bank coverage of not less than 10 percent of the CCC liability.

The program thus has a particular attraction to buyers in countries like Korea and The Philippines where short-term commercial interest rates range from 15 to 25 percent. It is somewhat less attractive in countries like Ireland, and Greece where interest rates range between 8 and 10 percent. It appears to offer little or no attraction in countries like Austria, Switzerland, and Portugal which have relatively low commercial interest rates.

What does the short-term credit program mean to farmers? One measure of this certainly is the volume of exports it accounts for. This has more than tripled in the past three years in support of the government policy on increasing agricultural exports. In fiscal 1971, short-term credit exports totalled almost $400 million, a large percentage of which would not have been shipped if this credit had not been made available. That is more than the total value of crop production in states such as New York or Pennsylvania.

For certain commodities, the program has been even more important than that total would indicate. For instance, it was responsible for about a fourth of the barley exported last year, 15 percent of the soybean oil, 12 percent of the tobacco, and well over 10 percent of the wheat.

In specific cases, it has been a major factor in holding for the American farmer markets which were seriously threatened by competition. One of the most notable of these is the Philippines, which for many years relied almost wholly on the United States for imports of wheat. Two years ago the Philippines let it be known that they were interested in additional credit. Both Canada and Australia came to it with attractive terms in an effort to cut into our wheat market. Through the use of CCC credit, we were able to match those terms and keep our hold in this important market.

Short-term credit has also been important in opening up for the American farmer new markets in Eastern Europe that are extremely promising for the future. Romania, for example, has used the program to make substantial purchases of wheat, feed grains, and cotton, following trade development visits to that country by both the President and the Secretary of Agriculture. It is also promoting business for us in Poland and Yugoslavia.

Because CCC credit is a commercial program, it can be used effectively in certain circumstances to satisfy the usual marketing requirement that must normally be met before commodities are purchased under PL-480. This combination of the two programs--CCC credit and PL-480--is currently helping us, for example, to make our largest wheat sales to Iran in many years.

For the current fiscal year, we expect that the level of the CCC credit program will be about the same as in fiscal 1971. We see a continued important role for it in building exports.

Next barter. Actually, the term barter is a misnomer as the program is operated today. We no longer exchange agricultural commodities for strategic material, as we formerly did. Instead, let's call it, for want of a better term, a "payments arrangement".

Under this arrangement, dollars generated by the export of U.S. agricultural commodities are transferred to other government agencies, chiefly the Department of Defense, to purchase supplies and services abroad for which the agencies would otherwise spend appropriated dollars.

Now I realize that this may sound just like so many words. So let's see what the program really is and what it does. Basically, it is a means of keeping our products competitive in world markets and building dollar exports.

It does this in several ways.

For one thing, a barter payment of between 1 and 2 percent is made to barter contractors as an inducement to participate in the program. For another, barter contractors are eligible to obtain credit from CCC at 6-1/8 percent interest, equal to the value of the commodities that are exported.

This combination--the barter payment and the supplemental credit--is directly reflected in the exporter's cost of doing business. Consequently, he is often able to offer importers competitive prices and make sales that he otherwise could not. The credit aspect of the program can be used by the exporter as a supplement to his working capital requirements or extended to a foreign buyer.

To assure as far as possible that barter business does not displace regular commercial sales, the commodities eligible for export under the program, as well as eligible destinations, remain under a continuing review.

In general, the list of commodities eligible for barter is kept somewhat smaller than for short-term credit. It includes all the major grains, cotton, tobacco, and vegetable oil, but not dairy products or live animals.

As to country eligibility, countries are classified for each eligible commodity. If a country has an excellent record as a cash market for a particular U.S. commodity, barter shipments are not generally permitted. If a country has a history of being a fairly regular customer for a particular U.S. commodity, the exporter must make a showing that barter exports to the country will result in additional business. A country that is recognized as not being a particularly good market for a given U.S. commodity is generally freely eligible to receive barter shipments.

To bring some of these details to life a little more clearly, let me cite an example or two.

During the 1969/70 marketing year the world supply of cotton was large and competition was stiff. After modification of our barter program for cotton in July 1969, sales under the program increased dramatically from 275,000 bales in fiscal 1969 to 687,000 bales in fiscal 1970, and reached 1.9 million bales in fiscal 1971. This year, with our reduced cotton supply, the situation is quite different and several months ago we sharply curtailed the market destinations eligible to receive cotton under the barter program.

There have also been times when our wheat exporting competitors have offered attractive, if not concessional, credit terms to some Latin American countries, or special freight rates to reduce landed costs. To counter this type of competition, barter wheat shipments to such countries have been authorized.

What does the barter program mean to farmers? Well, like short-term credit, this program has risen dramatically in total exports over the past three years. Last year, it was responsible for an alltime high export total of $870 million, which was more than 10 percent of the nation's farm export total. I would be the last to claim that all this is additional business which would not have been done otherwise. However, we are confident that to a large extent it was add-on and a direct contribution to cash exports and balance of payments.

As to how barter has helped individual commodities, I have already mentioned that it accounted for nearly half our cotton exports last year. It also aided more than a fourth of our tobacco exports, almost 40 percent of our soybean and cottonseed oils, and 35 percent of inedible tallow and grease. It may be a matter of interest that our largest barter customer in 1971 was Taiwan, which took commodities valued at $80 million, or almost 10 percent of the program total.

In the present fiscal year, the program is operating at about the same level as last year. Currently we are engaged in a commodity by commodity study designed to give greater assurance that barter exports represent additionality. This will probably have the long range effect of reducing the volume of exports under the program, but it should continue to be useful in special situations for years to come.

Our other commercial export assistance programs are of two types--export payments and sale of commodities from CCC inventory at competitive world prices.

Cash payments to exporters to enable them to meet foreign competition in world-wide markets are made on only three commodities--wheat and flour, rice, and tobacco. The payment rate for wheat and flour is announced every day and that for rice every week.

The principal development in the export payment program this past year has been an approximate doubling in the payment rate for rice. This is the result of steep increases in world rice production that occurred in the late 1960's that led to a sharp drop in the world price level in 1970 and 1971. The Department was reluctant to increase the payment rate but eventually found that it must if we were to maintain rice export markets that had been developed with great effort.

Today, the picture is changing somewhat. Large exports under PL-480 to Korea and Indonesia are helping offset reduced concessional sales to Vietnam, India, and Pakistan, while the increased export payment rate is helping us in our commercial markets.

The other type of assistance to commercial exports is the sale of CCC-owned commodities at world prices. These are the commodities which have been taken over by CCC either in settlement of commodity loans or by purchase.

Quantities exported in this way are normally quite small, but there have been two unusual developments of interest in this area in recent months.

One is a butter sales program which began in May 1971 and is still continuing. It is the first time in five years that the Department has sold butter for export. The program is the outgrowth of a butter shortage that developed rather suddenly in the world after a long period of surplus. The European Community had disposed of its excess butter supplies, and other major exporters, particularly New Zealand, were unable to meet import needs. This posed a particular problem for the United Kingdom, which is the world's largest butter importer.

In response to this demand, we announced a limited butter export program. Initially, shipments were authorized only to the U.K., but the program was later opened up to all countries eligible to import U.S. commodities. The butter was originally priced at 50 cents a pound, but has been raised twice and we are now selling at 54-1/2 cents.

As of February 1, a total of 137 million pounds of butter had been sold. Most of this has gone to the United Kingdom, but some has been taken by Canada and some, quite surprisingly, by Switzerland, which is apparently diverting more of its dairy output to cheese. While the loss to CCC is approximately 15 cents a pound below the support price it paid for the butter, the sales also represent a substantial recovery of funds that would otherwise be lost.

There has been a tapering off of offers to purchase CCC butter of late, and it is difficult to say how much longer the program will continue.

A potentially more far-reaching use of the Department's authority to sell CCC-owned commodities for export at world prices was the feed grain sale to the Soviet Union announced in November.

I am sure that most of you are generally familiar with this transaction, and I will not burden you with details. However, I do think it is important that it be clearly understood that this was not a government-to-government transaction. Two U.S. grain firms made the sales to Russia. They purchased the barley and oats from CCC at world prices, and bought the corn commercially on the domestic market.

As to the outlook for future sales of U.S. grain to Russia, no definite predictions can be made at this time. At any rate, the way has been opened to expansion. When the Russian Minister of Agriculture was in this country in December, he talked of increasing the animal protein level in the Russian diet by 25 percent. Some of its East European neighbors seem to have similar goals. They can scarcely hope to obtain these increases without expanded purchases of feed grains and protein supplements, and we certainly expect to move U.S. products into these markets to the maximum extent possible. Sale from CCC inventory is one of the available techniques for this purpose.

These then are what we refer to as the export programs of the Department. To repeat, we have the two concessional programs--PL-480 sales and PL-480 donations--and the four commercial programs--short-term credit, barter, export payments, and sales from CCC inventory.

Apart from our specific responsibility for the programs I have described, we are also active in other export activities. For example, we have worked closely with the Export-Import Bank in its initiation of new agricultural export programs. Typical of these is the Bank's program to offer 5-year credit on the sale of breeding cattle, which we encouraged because we are limited by law to offering 3-year credit.

We also keep our programs closely in step with the government-industry market development program administered by the

Foreign Agricultural Service. We rely heavily on the Agricultural Attaches for country background and reports on the operations of our programs abroad. And, in selling for export from CCC inventory, we work through the field offices of the Agricultural Stabilization and Conservation Service.

I'm afraid that I haven't supplied you with much of an outlook as to future expectations of the several export programs that I have described. On the other hand, our performance over the past year or two should give a fairly good picture of what we expect to do in the future. Enlargement of our agricultural export markets is vital to both farmers and the national economy.