

Foreign Demand and Export Potential For U.S. Farm Products

Howard W. Hjort*

A general improvement in world economic conditions, coupled to efforts by many nations to improve their people's diets, has resulted in a rapid expansion in world demand for agricultural products. This has translated into a growing demand for American-produced farm products and a rapid expansion in exports.

U.S. agricultural exports have increased faster than domestic **consumption**—increasing the proportion of total domestic production shipped overseas. While the world turns even more to the United States for its food supplies — the U.S. farmer has become more dependent upon foreign markets as a source of income.

In a world made more interdependent by rapid economic growth, the welfare of the U.S. farm economy has been irreversibly linked to events in foreign markets, including production variability, economic growth, and trade policies. Wide fluctuations in world food supplies and prices during the 1970's have focused attention on a number of longer term issues that relate to future growth and stability of U.S. exports:

- Will the developing world continue to rely on the developed countries for food imports?
- What will the future relationship be between grain used for food versus grain used for feed?
- Do the major exporters have the long term capacity to meet growing world demand?
- What institutional factors will help or hinder export expansion?

For background purposes let's look first at where the United States is and who the principal actors are in the growth in U.S. exports.

*Director of Economics, Policy Analysis, and Budget, US Department of Agriculture

World Economic Growth and Composition of U.S. and World Agricultural Trade

The changing nature of world import demand for agricultural products has greatly altered the commodity composition of world agricultural trade and the market potential for some products.

The most significant change in the commodity composition of world agricultural imports over time has been the relative increase in importance of food and feed imports at the expense of raw agricultural materials. The value of world imports of food products (primarily animal products and foodgrains) increased \$54 billion from 1965 to 1976, while the import value of agricultural raw materials increased only about \$8.5 billion (Table 1).

The structural changes in U.S. agricultural exports paralleled these shifts in demand. During 1960-64 cotton and tobacco accounted for 21 per cent of U.S. agricultural exports; today they account for only 11 per cent. Food exports have remained at about 50 per cent of the total value of U.S. agricultural exports. The principal factors underlying the change in commodity composition of U.S. exports have been (1) the rapid rise in feedgrains — from 13 per cent of total agricultural exports in 1960-64 to over 20 per cent currently — and (2) the rapid rise in soybean exports — from 8 per cent of total exports in 1960-64 to 17 per cent currently. Growth in these two commodities has accounted for 46 per cent of the \$17.6 billion growth in value of U.S. exports since 1960-64 (Table 2).

Currently, sales to developed countries account for about 60 per cent of all U.S. agricultural exports, while the developing countries account for about 30 per cent. The Centrally Planned Countries account for the remaining 10 per cent (Table 3). Developed and Centrally Planned countries primarily import feedgrains and oilseeds, while the developing countries emphasize foodgrain imports.

Let's take a moment to examine the top markets for U.S. agricultural exports (Figure 1). Japan, with nearly \$4 billion worth of U.S. farm products imports annually, is by far the 'largest single country market for U.S. farm exports. Agricultural exports to Japan have increased at an annual rate of about 15 per cent in the past 15 years. This country is our top market for soybeans, feedgrains, hides, and skins. It is also a very important market for our wheat, cotton, fruits, nuts, and vegetables and many other products (Table 4).

West Germany follows as the second best market for U.S. farm products; it is only about half as large as the Japanese market. West Germany, as you know, is a member of the European Community (EC). The EC protects its agriculture by the Common Agricultural Policy (CAP), which has hampered the demand for our grains and other products, but has improved our position for soybeans and some feedstuffs not covered by CAP. Other members of the EC — especially the Netherlands, Belgium, the United Kingdom, Italy, and France, are also important markets.

Table 1

ORIGIN OF GROWTH IN WORLD AGRICULTURAL IMPORTS, 1965-76

Import Commodity Group	Increase in World Imports 1965-76	Developed		Importing Regions	
		Total	U.S.	Less Developed Total	Centrally Planned Total
	Billions of Dollars	-----	-----	-----Per Cent-----	-----
Food Products	54.09	61.00	8.3	25.5	13.5
Animal	15.77	75.7	6.9	20.7	3.6
Food grains	10.44	25.4	—	55.8	18.8
Fruits and nuts	3.06	69.3	4.3	17.6	13.1
Vegetables	2.30	76.5	2.6	16.5	7.0
Sugar and honey	7.29	41.8	9.7	25.1	33.1
Beverages and spices	9.17	83.2	23.2	7.2	10.0
Vegetable oils*	3.69	59.6	0.8	28.7	11.7
Wine and beer	2.37	68.4	15.6	10.1	22.0
Feed Products	19.72	65.9	0.6	8.8	25.3
Feeding stuff	3.02	69.2	-0.7	7.3	23.5
Feed grains	9.46	54.9	-1.9	11.6	33.5
Oilseedst	7.24	79.0	4.3	5.7	15.3
Agricultural Raw Material	8.41	63.4	9.8	16.8	19.9
Tobacco	1.87	76.5	14.4	12.8	10.7
Rubber	1.18	79.7	30.5	—	20.3
Fibers	4.11	50.1	-2.9	22.6	27.3
Vegetable oils‡	1.25	72.0	24.8	19.2	8.8
Total of above commodities	82.22	62.4	6.6	20.6	17.0
Residuals	15.20	73.4	8.7	21.3	5.6
World agricultural trade	97.42	64.1	6.9	20.7	15.2

*Includes SITC 421, 091 4, and 1/2 of 221.4.

†Includes all of SITC 221 except for 1/2 of 221.4

‡Includes all of SITC 422

§Includes commodities not separately listed and/or whose individual value is less than \$5 million

SOURCE: FAO Trade Yearbook, 1971-76

Table 2

COMMODITY COMPOSITION OF U.S. AGRICULTURAL EXPORTS, 1925-77

Commodity	1925-32	1933-40	1940-44	1945-49	1950-54	1955-59	1960-64	1965-69	1970-74	1975	1976	1977
	Millions of Dollars											
Food	577	216	1,003	2,147	1,549	2,010	2,819	3,114	6,187	11,108	10,318	10,434
Wheat and flour	190	42	46	926	689	736	1,266	1,172	2,479	5,293	4,040	2,883
Rice	9	6	25	74	120	114	160	297	470	858	629	731
Other food grains and preps.												
N.E.C.	33	7	38	76	37	51	67	80	153	211	212	233
Meat and animals	72	28	325	179	54	95	157	182	340	584	878	847
Dairy and eggs	17	8	295	339	111	229	172	143	133	153	150	203
Lard	87	19	81	86	84	68	54	31	31	24	35	39
Fruits, nuts, vegetables and prep.	124	87	130	278	224	358	420	476	723	1,469	1,685	1,875
Other food and beverages	27	13	39	126	92	72	92	162	379	423	378	469
Food oils and oilseeds*	18	6	4	63	138	287	431	571	1,479	2,093	2,311	3,155
Feed and Farm Input	71	41	33	247	366	623	1,100	1,868	4,367	7,852	9,222	8,866
Feed grains	40	26	16	188	275	412	693	1,059	2,353	5,246	5,993	4,874
Feeds and fodder	23	9	3	18	24	63	138	343	838	987	1,361	1,565
Soybeans*	0	2	1	12	46	106	213	382	1,036	1,433	1,658	2,197
Seeds and breed animals	8	4	13	29	21	42	56	84	140	186	210	230
Raw Materials	864	454	271	895	1,337	1,304	1,448	1,352	2,251	2,924	3,457	4,371
Cotton	695	322	139	525	871	675	737	431	753	1,001	1,057	1,538
Tobacco	132	111	92	265	294	350	392	485	657	877	940	1,109
Tallow	0	0	1	11	58	101	113	145	267	299	377	504
Hides and skins	8	5	2	14	27	61	83	132	261	291	518	577
Ess. oils, starch	8	5	15	22	15	18	22	41	77	101	131	132
Vegetable products	21	11	22	58	72	99	101	118	236	355	434	511
Total exports	1,512	711	1,307	3,289	3,252	3,937	5,367	6,334	12,805	21,884	22,997	23,671
	Per Cent Composition											
Food	38	30	76	65	48	51	53	49	48	51	45	44
Feed	5	6	3	8	11	16	20	30	34	36	40	37
Raw materials	57	64	21	27	41	33	27	21	18	13	15	19

*one-half of soybeans is recorded as beans and one-half is recorded as oil for food consumption

SOURCE: U. S. Department of Commerce. "U. S. Exports and Imports Classified by OBE Ed-use commodity categories 1923-1968, OBE-SUP 70-01; U. S. Department of Agriculture Foreign Agricultural Trade of the United States, Statistical Reports, Annuals 1969-77

Table 3

DESTINATION OF U.S. AGRICULTURAL EXPORTS, 1975-77

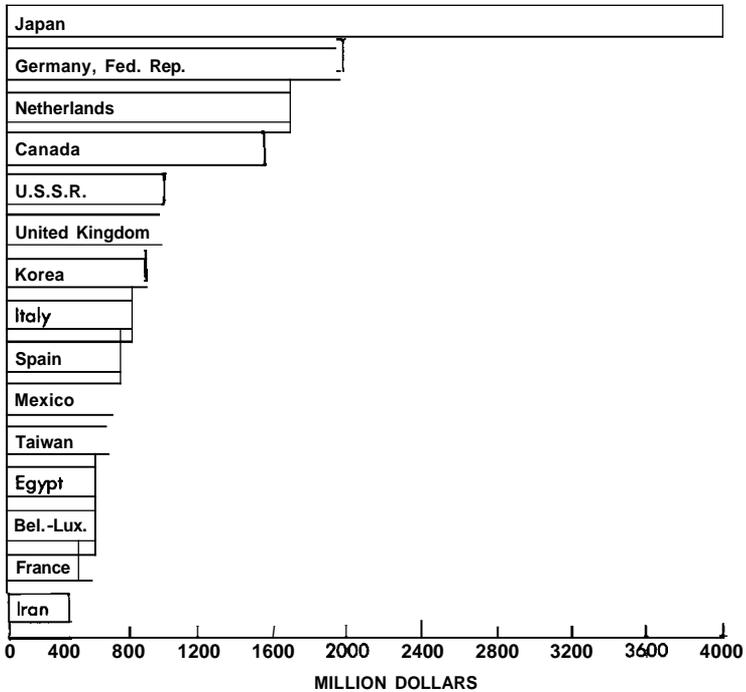
Commodity and Year	Developed Countries	Developing Countries	Centrally Planned	World
		Per Cent		
All agricultural products				
1975	57	35	8	100
1976	60	30	11	100
1977	62	31	7	100
All cereals				
1975	46	42	13	100
1976	48	35	18	100
1977	50	37	13	100
Wheat and products				
1975	26	60	14	100
1976	25	64	10	100
1977	25	58	17	100
Rice				
1975	17	82	2	100
1976	29	68	3	100
1977	22	74	4	100
Feedgrains				
1975	78	17	13	100
1976	65	11	25	100
1977	70	18	12	100
Soybeans				
1975	90	9	1	100
1976	86	9	6	100
1977	84	11	5	100

SOURCE. Arthur B. Mackie, "World Economic Growth and Demand for U S Farm Products," WEC-12. ERS, USDA. August 1977

The Centrally Planned countries have become increasingly important outlets for our grains and oilseeds. This year the Soviet Union will buy about \$1.8 billion worth of our food and fiber products; Eastern Europe, \$1.2 billion; and the People's Republic of China, over \$300 million. In the past these countries have accounted for much of the variability in U.S. exports, with sales ranging from over \$3 billion in FY 1977/78, compared with slightly over \$400 million in 1972.

The other important component of our top fifteen markets is the developing countries. With the exception of Egypt, these markets are nearly all cash commercial markets — not P.L. 480 recipients. South Korea and Taiwan are our fastest growing export-oriented markets in East Asia. These markets were developed from concessional P.L. 480 markets to major commercial markets in the last two decades.

Figure 1
FIFTEEN TOP MARKETS FOR
U.S. AGRICULTURAL EXPORTS, 1977



USDA/ESCS

MARCH 1978

The large petroleum exports of Iran and, to a limited degree Mexico, have provided the means for the expansion in our exports to these countries and to other OPEC members. Our exports to OPEC increased to \$1.7 billion in 1977 from \$440 million in 1972.

IMPORTANCE OF U.S. AGRICULTURAL EXPORTS

U.S. agricultural exports have increased 600 per cent during the past 20 years (\$3.3 billion in 1951-55 to \$23.33 billion in 1976-77), and almost half of the increase has been since 1966-70 (Table 5).

Table 4

**GROWTH OF U.S. COMMODITY EXPORTS BY DESTINATION,
FISCAL YEARS 1972 TO 1977***

Destination	Oilseeds and Products	Feed- groins	Wheat and Products	Animal and Animal Products	Cotton	Fruits and Vegetables	Tobacco
	----- Per Cent -----						
Europe	57	56	28	32	13	30	38
EC-9	42	38	1	24	5	24	25
Other Western							
Europe	8	10	2	5	8	5	11
U.S.S.R.	5	3	21	—	—	—	—
Other Eastern							
Europe	2	5	4	3	—	1	2
Asia	26	30	37	35	80	26	38
Japan	15	21	12	18	21	14	21
People's Republic of China	—	—	—	—	—	—	—
Other	11	9	25	17	59	12	17
Latin America	8	9	13	12	—	10	5
Mexico	4	5	—	3	—	1	—
Other	4	3	13	9	—	9	5
Africa	2	3	19	7	5	3	15
Oceania	1	—	—	1	—	1	4
North America (Canada)	4	—	1	13	2	30	—
Other	2	3	2	—	—	—	—
World	100	100	100	100	100	100	100

*Based on annual October-September U.S. agricultural export statistics as summarized from U.S. Bureau of Census data.

Table 5
U.S. MARKET SHARE OF WORLD TOTAL AND AGRICULTURAL EXPORTS
BY FIVE YEAR AVERAGES, 1951-77

Year	Total Exports			Agricultural*			Share Agricultural of Total Trade in	
	World	U.S.	U.S. Share	World	U.S.	U.S. Share	World	U.S.
	<u>Billion U.S. Dollars</u>		<u>Per Cent</u>	<u>Billion U.S. Dollars</u>			<u>-----PerCent-----</u>	
1951-55	84.82	15.20	17.9	26.80	3.30	12.3	31.6	21.7
1956-60	113.32	19.06	16.8	31.62	4.26	13.4	27.9	22.3
1961-65	157.52	23.76	15.1	38.67	5.64	14.6	24.5	23.7
1966-70	248.00	35.05	14.1	47.60	6.54	13.7	19.2	18.7
1971-75	610.09	73.22	12.0	96.11	15.73	16.4	15.9	21.5
1976 Prel.	991.07	113.13	11.4	138.00	22.99	16.7	13.9	20.3
1977 Est.	1100.00	117.90	10.7	146.00	23.67	16.2	13.3	20.1

*World agricultural exports include SITC Sections 0, 1, 2, and 4, but exclude Divisions 03, 24, 25, 27, and 28

SOURCE Arthur B Mackie, Foreign Economic Growth and Demand for U S Farm Products, WEC-12, August 1977, pp. 23-34

Table 6

U.S. CROP ACREAGE HARVESTED, TOTAL AND FOR EXPORT

Year	Food Grains	Feed-Grains'	For export			Total	Total Harvested†	Acreage Diverted*
			Oil Crops	Cotton	Other Crops			
				Million acres				
1951-55	19	9	4	6	4	42	5	—
1956-60	23	13	9	7	3	55	324	24
1961-65	31	21	13	4	3	72	298	57
1966-70	25	14	18	4	4	65	297	54
1971-75	35	20	26	5	4	90	317	24
1975	39	26	26	4	5	100	336	0
1976	32	26	31	5	8	102	338	0
1977 Prel.	39	26	30	4	5	104	342	0

*Includes feed required to produce livestock products exported.

†Area in 59 principal crops harvested as reported by USDA's Statistical Reporting Service plus acreages in fruits, tree nuts, and farm gardens

‡Total diverted or set aside under various programs, Agricultural Stabilization and Conservation Service, including limited acreage devoted to substitute crops

The U.S. share of world agricultural exports has increased from 12.3 per cent in the early 1950's to 16.5 per cent in 1976-77. Consequently, during this period U.S. agricultural exports increased faster than world agricultural exports — increasing about 9.0 per cent per year, while world agricultural trade grew at about 7.0 per cent per year.

U.S. domestic consumption increased at about 4.5 per cent per year during the same period. As a result, an increasingly important share of many farm commodities is exported.

During the 1972-76 period over half of U.S. wheat production (59 per cent), soybean production (51 per cent), and rice production (51 per cent) was exported. More than a third of U.S. cotton and tobacco production (36 per cent each) was exported in 1972-76. More than a fifth of U.S. corn (21 per cent) and grain sorghum production (25 per cent) was exported in 1972-76 — primarily for use as animal feeds in developed countries.

Since 1975, production from about 100 million acres (almost one of each three acres harvested) was exported, compared to one in four in 1961-65 (Table 6). Last year about 40 per cent of the 104 million acres harvested for exports were wheat and rice, while feedgrains (primarily corn) accounted for 26 per cent and oilseeds (primarily soybeans) for 30 per cent.

Table 7

**U.S. MERCHANDISE TRADE, AGRICULTURAL AND NONAGRICULTURAL,
BY FIVE YEAR AVERAGES, FY 1951-77**

Fiscal Year*	Exports			Imports			Trade balances		
	Total	Agri-cultural	Nonagri-cultural	Total	Agri-cultural	Nonagri-cultural	Total	Agri-cultural	Nonagri-cultural
	Billions of Dollars								
1951-55	14.68	3.26	11.42	10.58	4.42	6.16	4.10	-1.16	5.26
1956-60	18.52	4.10	14.42	13.40	4.00	9.40	5.12	0.10	5.02
1961-65	22.90	5.46	17.44	16.74	3.88	12.86	6.16	1.58	4.58
1966-70	33.62	6.50	27.12	30.34	4.88	25.46	3.28	1.62	1.66
1971-75	69.19	14.93	54.26	70.72	7.87	62.85	-1.53	7.06	-8.59
1976	111.28	22.76	88.52	114.51	10.51	104.00	-3.23	12.25	-15.48
1977	118.23	24.01	94.22	143.47	13.38	130.09	-25.24	10.63	-35.87

*Year ending June 30 for data 1951-70, year ending September 30 for data 1971-77

SOURCE U S Foreign Agricultural Trade Statistical Report, fiscal year 1977, FDIC, ESCS, USDA

Farm product exports have benefited both farm and nonfarm sectors by generating additional employment and income. With additional income earned from exports, U.S. farmers can purchase needed goods and services. For example, farmers' purchases of fuel, fertilizer, and other inputs to produce commodities for export require additional economic activity by U.S. manufacturing, trade, and transportation sectors. As a result, the purchasing power is spread throughout the total economy. It is estimated *that for each dollar* of agricultural exports about *two dollars* of domestic economic activity is generated.

Agriculture's contribution to our balance of trade has increased substantially in recent years. Net exports of U.S. farm products increased from about \$2 billion in the 5-year 1966-70 period to about \$12 billion in 1976 and \$11 billion in FY 1977 (Table 7).

Currently net exports of agricultural commodities have been large enough to offset a large portion of deficits in nonfarm items. In 1976, for example, agricultural exports offset all but \$3.23 billion of our trade deficit. This is a reversal from the early 1950's when agricultural trade was in a deficit position and non-agricultural trade brought about a positive trade balance. In those years, non-agricultural items posted a \$5 billion positive trade balance while agriculture was running a deficit of about \$1 billion. Over the years steady increases in agricultural exports, along with growth of nonfarm imports, have turned that situation around.

There is no doubt that the American farmer and our total domestic economy will benefit from expanded agricultural export sales. Let us now consider the potential for expansion and factors that will influence world trade in the future.

Export Potential

Besides year to year variation due to weather, future levels of U.S. agricultural exports will depend upon a number of factors. These are the rate of economic growth in both the developed and less-developed countries, the production and trade policies of other nations, and the national and international trade policies affecting production, imports, and trade between countries.

ECONOMIC GROWTH

The expansion of U.S. exports to developed countries may be relatively *modest* in the years ahead. Any increases will be due primarily to increased demand resulting from shifts in consumer demand to higher quality foods, such as meats and meat products. Most of the expected growth in food demand will occur in less developed countries. In these countries the income elasticity of demand is still high and greatly accelerates the growth in total demand for food when per capita income rises.

The ability of countries to meet their growth in demand through increased agricultural production varies greatly from country to country, depending upon the supply of agricultural land resources and capital. For example, Japan, with a limited supply of agricultural land available for production of feedgrains and feeds, has relied heavily upon imports to meet its demands. This dependence on imports has increased Japanese imports nearly in direct proportion to increases in total demand for feeds.

Conversely, in Western Europe available land resources for feeds and feed-grain production are comparatively more abundant, enabling these countries to have a greater reliance on domestic production for a larger proportion of their total feed consumption.

The Soviet Union has an abundant land base. However, their production is subject to major yield variability. This translates into a highly variable import demand. The Soviet import demand for grains has ranged from a low of less than 6 million tons in 1974-75 to a high of over 26 million tons in 1975-76. During the past two years grain imports have averaged 15 million tons.

FOREIGN AGRICULTURAL PRODUCTION AND TRADE POLICIES

Policies of major agricultural exporting and importing countries can have as much impact on future production and consumption patterns of food as the in-

teractions of economic variables. Almost all of the major grain producing and exporting countries have agricultural policies that support internal prices above the levels prevailing on the world market. For these policies to succeed it has been necessary for most countries to establish import barriers of some type — quotas, state trading, or variable levies. In addition, many countries use domestic production subsidies and high price supports, rather than import controls, to encourage domestic production.

In the grains area, the major trade policy affecting U.S. exports is the European Community's variable levy system, which prevents U.S. grains from entering Western European nations at competitive prices. And, because of high price supports, surplus grains are exported to other countries with the help of indirect and direct export subsidies. While the EC does not impose any levies or direct restrictions on imports of soybeans and soybean meal, there is a growing body of indirect restrictions having market impacts.

It is assumed that the EC will continue to use variable levies and export subsidies to control the flow of imports and exports. Price policies of non-EC countries in Western Europe will continue to be influenced by the price level of the community.

Japan does not have specific import levies, however, its internal price and marketing structure are such that the effect is the same. Japan controls its food grain trade to protect its rice industry. It pays producers high support prices on wheat and rice. It directly administers the wholesale price of rice and wheat flour to discourage increased wheat consumption. This in turn limits the growth of wheat imports. U.S. feed and soybean exports to Japan are free of direct import restrictions, although domestic food prices are influenced by government policies. Several U.S. products are affected directly by Japanese tariffs and quotas. Beef exports to Japan are restricted by an import quota system. Poultry and swine are subject to import duties. It is expected that the current import policies will be continued into the 1980's with every effort being made to manage the import growth of agricultural products.

Other major world traders such as Argentina, Australia, Canada, and the U.S.S.R. either use marketing boards or state trading agencies to market their commodities. As a consequence, the exports of these countries are often sold at prices below the competitive prices in the world market and, thereby, directly affect U.S. grain exports to countries without import barriers or trading restrictions.

Soviet foreign trade policy has generally emphasized self-sufficiency. Foreign trade policy in the U.S.S.R. is controlled by the Soviet leadership through centralized economic planning and regulatory organizations under the direction of the Council of Ministers. While the U.S.S.R. generally prefers bilateral trade within the eastern trading bloc, the Soviet Union has stepped up its imports of capital goods, technology, and agricultural products, especially grains, from the

developed market economies.

Soviet grain purchases in the early 1970's jolted the U.S. and world markets and led to a 5-year U.S.-U.S.S.R. Grains Purchase Agreement to help smooth out their sporadic import demand.

Future U.S.S.R. imports of grains are likely to increase, yet continue to be variable. The policy decision in the U.S.S.R. made in the early 1970's to make up crop shortfalls with imports to maintain livestock production and meat consumption levels is likely to continue and affect the actual level of U.S. exports in coming years.

The world's soybean market is dominated by a limited number of producer/exporter countries, primarily the United States and Brazil. Brazil's agricultural policy has been to expand soybean production and its export position in world markets since 1970. Soybean production increased from about one million metric tons in 1970 to about 12 million tons in 1977. Despite this year's poor crop, Brazilian soybean production will probably continue to expand so that it will increase another 50 per cent primarily by bringing more land into cultivation and substituting soybeans for wheat on existing acres. The substitution of soybeans for wheat production in Brazil has been under way since 1970 but was greatly accelerated in 1973 when the world price for soybeans reached \$392 per metric ton. Favorable price ratios for soybeans are expected to continue and add to increased export availabilities in Brazil and to some extent in Argentina.

Projections under different income growth and import demand alternatives for the world by 1985 indicate that the United States is likely to play an increasingly important role in the world's grain-oilseed-livestock economy. The United States is projected to continue to produce at least one-fifth of the world's grain, over one-third of the world's commercial output of meat, and approximately half of the world's commercial output of oil meal (FAER 146). It is projected that the U.S. share of the world grain and oil meal exports will be 50 to 60 per cent.

U.S. FARM POLICY IN TRANSITION

There has been a marked change in the food and agricultural policies of this nation since January 1977. In part, the policy changes are the consequence of events and circumstances; they are also due to our perception of the role and responsibility of our Government with respect to the United States and world food and agriculture system.

World weather patterns of 1972-75 were adverse to crop production in three of the four years. World and U.S. grain stocks, previously characterized as massive surpluses, were soon depleted. By the summer of 1974 it became evident that for the first time in modern history world consumption could not be maintained at the previous year's level.

The consequences of these years were:

- Food aid was reduced just when it was needed the most; and the poorer nations of the world could not afford to buy enough even to maintain inadequate diets;
- At home, food price inflation led the inflationary spiral; Crop producers enjoyed record prices and incomes, but livestock producers, faced with high feed costs, were forced into liquidation that, for cattle producers is only now beginning to slow. Grain fed to livestock declined sharply and today remains well below the level reached in the early 1970's; and Exports of agricultural products were controlled and for the first time our reputation as a reliable supplier of food in world markets was placed in jeopardy.

U.S. Export Policy – Expansion of U.S. export markets is an essential element of this administration's food and agriculture policies. At the same time we must be concerned about export stability. Sustained growth in farm income for U.S. producers has become increasingly difficult to achieve without continued expansion and lessening the instability in export markets.

World supply and price instability during recent years for a number of major agricultural commodities have pointed up the need to reassess U.S. export policies and promotion programs. Our export promotion programs are aimed at stimulating foreign demand, and a credit thrust designed to strengthen buying power in foreign countries with limited financial resources.

The success of any export promotion program depends to a large degree on a favorable policy environment here and abroad. The major components of the overall U.S. export strategy to provide this favorable environment include efforts to (1) improve the international trade climate, (2) meet foreign food assistance needs, and (3) develop foreign country information systems. Actions in these broader policy areas serve as the general guidelines for the design and operation of specific export promotion programs such as market development credit arrangements.

The United States continues to have strong interests in establishing a more liberal world trading environment that would permit our efficient agricultural producers to **expand** exports at reasonable prices, to give U.S. consumers access to a broader range of commodities at reasonable prices, and contribute to the growth of the developing countries.

Improve Trade Climate – In the Multilateral Trade Negotiations the United States has sought to secure greater access in foreign markets for agricultural exports through various measures, including tariff reduction or elimination and codes to govern the use of export subsidies and product safeguards. Progress is slow on these proposals because of differences between the United States and trading partners over agricultural negotiation objectives and procedures.

We remain modestly optimistic that there will be meaningful results for agricultural trade. It is our hope that the way will be cleared for participating coun-

tries to negotiate trade concessions and to improve GATT rules under which trade can move more freely in response to market conditions. One of the U.S. objectives is to maintain existing trade accessibility for agricultural products, with top priority to continued duty-free access for soybeans to the European Community.

Provide Stability – This factor is as crucial as any to successful agricultural policies. To achieve greater stability:

- The United States will be a reliable supplier of food and fiber products to those in **other lands** who depend upon our farm products.
- The United States will support a minimum 10 million ton food aid program and will provide up to one-half this amount no matter how tight our supplies might become nor how high our prices are.
- The United States will hold its share of world grain, oilseeds and cotton stocks, but we will not be the storehouse for the world.
- The United States will place commodities in excess of market requirements in reserve to prevent disaster prices to producers or consumers.
- The United States will encourage farmers to maintain ownership of stocks and reserves, instead of the government, except for our share for international emergency food needs.
- The United States will continue to encourage other nations to share the costs and benefits of commodity reserves.
- When our stocks and reserves are adequate, the United States will remove land from production, and encourage other nations to share in the costs.
- The United States will not impose export controls on agricultural products on the basis of an inadequate supply.
- The United States will take measures necessary to insure that excess commodities are placed in reserve instead of on the markets at depressed prices.
- The United States will not sell our agricultural products in world markets at subsidized prices or prices disastrous to producers.
- The United States will produce and sell only quality products at home and abroad.

With these tools, it becomes evident that there are methods to lessen the impact of cyclical and erratic fluctuations in world grain supplies and trade. The farmer-owned and farmer-controlled reserve program will help protect U.S. farmers and consumers from worldwide crop shortfalls or surpluses that bring damaging fluctuations in food prices upon the U.S. economy. With at least 670 million bushels of feedgrains and 330 million bushels of wheat in reserve, the United States can contribute to greater world stability.

Creation of this reserve supply of wheat and feedgrains in this country, however, does not deal directly with another critical problem facing many developing countries which must import grain — their lack of purchasing power, particularly in periods of world grain shortage. Since 1974, there has been an effort to deal with this problem through negotiation of an internationally coordinated system of nationally held reserve stocks. Too little progress has been made in these discussions.

Farm and trade policies of many countries taking part in the discussions are a major cause of world price volatility. Moreover, the size of an international reserve and the terms under which it is held could be greatly influenced by the outcome of these negotiations.

In the meantime, something needs to be done to assure the developing countries that their emergency needs will be met in periods of general scarcity. There is broad agreement that their longer term food security requires that they act now to increase their own food production. Their willingness to change traditional systems of production depends on their confidence that, if these efforts falter, they will have the resources to meet emergency needs by purchases in world markets.

The United States has agreed to increase its food aid commitment under the new Food Aid Convention (FAC) to 4.47 million tons of grain annually, up from 1.89 million tons since 1967. If other FAC donor countries collectively contribute more than the minimum U.S. pledge, then the United States will increase its contribution on a matching ton-for-ton basis. The United States will also propose special FAC provisions designed to increase food assistance to meet extraordinary situations in developing countries.

In addition to meeting minimum annual requirements under the Food Aid Convention, there are times when additional quantities of food aid are required. Historically, the United States and other exporters have been expected to respond to such special needs. A more equitable arrangement, however, would be to establish certain rules for sharing the responsibility for such increased food aid among present and potential donors in a new Food Aid Convention. In general, the United States proposes that, whenever food grain production in the low income developing countries is more than an agreed percentage below normal, all donor countries will consider a joint increase in food aid by up to an agreed percentage of each donor country's basic contribution under the Convention. The United States recommends up to a 20 per cent increase. If we meet our goal of a minimum 10 million tons of grains, this will provide up to an additional 2 million tons of aid during special emergencies.

Market Development – the Foreign Market Promotion Program is aimed at (1) maintaining and /or expanding demand for U.S. products in established markets, (2) developing demand for products — particularly U.S. commodities — in emerging markets, and (3) introducing new U.S. products into both established and emerging markets. Promotional activities are designed to supplement other factors such as price, quality, supply availability, and financing to give the U.S. product a competitive edge.

I believe that the plans this administration has will expand our exports, both in the short and long term. We know that stable growth in exports is a long range project that can't be accomplished over night.

Future promotion programs will have to blend demand stimulants, credit incentives, quality controls, and technology transfers into a well coordinated export

strategy if the U.S. international competitive advantage is to be exploited to the fullest.

Longer term planning, more detailed research, and a more flexible mix of export promotion and credit programs are needed. Creation of American agricultural trade offices in selected markets will allow greater coordination of the expanded government and private activities. Modifying market promotion programs to provide for multi-year market development plans with a wider assortment of countries and activities, and expanding credit programs to provide for intermediate financing could improve the effectiveness of these two basic programs substantially. Another method that we cannot ignore is the use of bilateral trade arrangements which offer expanded market opportunities for U.S. farm products in return for an assured supply over time. These arrangements have proved effective, notably with Japan, the Soviet Union, and Taiwan.

More effective export promotion will also require expanded and upgraded complementary programs in several areas including stronger quality controls. Effort is also needed to help develop or expand the processing and marketing infrastructure handling U.S. products in many of the more promising emerging markets of North Africa and the Middle East, parts of Latin America and Asia, and Eastern Europe. Greater efforts are also needed to coordinate export promotion programs with domestic farm, food, and overall balance of payment policies and other related foreign policy programs.

Without question the task before us is to take full advantage of the potential for increased exports through the continued implementation of reasoned and effective food and agricultural policies.