POLICIES TO MAXIMIZE AGRICULTURAL EXPORTS

by Irwin R. Hedges

The topic I have been asked to discuss with you today is big business.

During the 1962-63 fiscal year, our agricultural exports reached an all-time high of $5.1 billion. This was about one-fourth of the country's total exports.

The effects of our banner export totals reach into every rural community in the United States and are felt all along the distribution pipeline. We had record foreign marketings last year of several commodities, notably wheat and feedgrains. Tobacco exports reached a new high in value. Among the major commodities only cotton showed a drop from the previous year's export levels.

Exports accounted for 15 percent of farmers' cash receipts from marketings in 1962 and provided a market for the output of one in every five harvested acres.

Of the year's total exports, commercial sales for dollars accounted for about $3.5 billion, or 70 percent. We make our strongest market development efforts in that area, with countries that can buy for cash.

The remaining $1.6 billion of our 1962 exports moved under the Food for Peace program and included special concessional programs, such as sales for foreign currencies, donations, barter, and long-term supply and dollar credit sales under Public Law 480 and the Act for International Development.

Not only farmers, but every American has a vital interest in our agricultural exports. Our exports for dollars are one of our major foreign exchange earners. During recent years, the United States has developed a balance of payments problem. Our heavy commitments overseas in the form of defense expenditures and economic assistance have overtaxed our capacity to pay for them. As long as the present deadly struggle with international Communism continues, the prospects of our reducing these obligations are not great. Emphasis must, therefore, be on means to expand our export earnings.

Agricultural exports obviously represent an important means of expanding our foreign exchange earnings and reducing the outflow of gold.

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The agricultural commodities that moved abroad under the Food for Peace program likewise served the interests of every American citizen. Thanks to the productivity of our farms we have an abundance of food and fiber to supply our needs at home and still leave enough to share with the less fortunate around the world. In the long run the foreign policy implications for the United States of this food sharing may be greater than our military assistance to friendly countries.

By giving this food or otherwise making it available on generous terms, we have demonstrated our concern for the welfare of less fortunately situated people. Further, we have shown conclusive proof to the uncommitted nations of the world that our system has the capability of banishing hunger, one of the most ancient of all man's enemies. No amount that the Communists spend on propaganda can conceal the stark contrast of their performance in the field of agricultural production and of our own.

But we cannot rest on past performances. We must look to measures that will assure the maintenance and the expansion of our agricultural exports in the future.

As in the past, this job requires the close cooperation of government and private industry to get it done.

Congress has provided a large kit of tools to work with, and has laid down general policy guidelines to be followed in promoting agricultural exports.

The past session of Congress set up, for example, a list of priorities for the Agricultural Commodity export programs. They are as follows:

- First: Cash dollar sales
- Second: Short term credit dollar sales
- Third: Barter
- Fourth: Long term credit dollar sales
- Fifth: Foreign currency sales
- Sixth: Donations

Access to Markets

Let's look first at the job of building dollar export markets, since this has the number one priority.

Of all the government policies and programs designed to build agricultural exports, perhaps the most basic are those aimed at trade liberalization. We cannot build markets in countries that deny or limit access for our products.

The basic tenet of U.S. trade policy is that the way to build world trade is to conduct it on a multilateral nondiscriminatory basis, at moderate levels of fixed tariffs, thereby giving consumers ready access to products from the most efficient producers. To this end, the United States has joined with 39 other similarly minded nations in the General Agreement on Tariffs and Trade (GATT). These nations account for more than 80 percent of the world's international trade. The GATT participants have on five occasions negotiated multilateral, reciprocal tariff concessions.
Under the most favored nation principle, a concession given or obtained in negotiations with one member of GATT is extended to all other members. Trading arrangements thus tend to become global in character.

The United States has consistently used the GATT forum to press for liberalization—that is, relaxation or removal of non-tariff barriers erected against industrial and agricultural trade. Many of the non-tariff import restrictions that came into existence following World War II have now been eliminated. Those that remain affect principally agricultural products.

Among the commodities for which improved access to markets was obtained in 1961 and 1962 through the GATT framework are canned fruit, fresh citrus fruits, poultry, certain cheeses, vegetable oils, lard, canned beef and meat sausage, corn oats, rye and certain grass seeds.

We have sought under GATT to have trade in the widest possible range of products regulated by moderate, fixed tariffs and nothing else. Moderate or zero duties constitute the simplest non-discriminatory method of regulating trade.

A third guiding principle we have sought to emphasize in international trade discussions is the need for nations and economic groupings to act responsibly in developing national agricultural price support policies to the end that such policies do not jeopardize international trade in agricultural commodities based on the principles of comparative advantage.

We in the United States have tried to develop our national agricultural policies with due regard to this rule and to our international responsibilities. We have been fairly generous in trade negotiations in granting access to our own markets for competing products. Thus, about one-half of our agricultural imports consist of competing products such as fresh and frozen beef and lamb, canned meat products, vegetable oils, fruits and vegetables, tobacco, and even feedgrains. These products are permitted unrestricted entry into the United States and are subject only to moderate fixed duties. Only our imports of sugar, peanuts, cotton, wheat, and certain dairy products are subject to import limitations, and on these, except dairy, we also limit our domestic production and marketing.

Most of our commercial agricultural exports take place without benefit of special government payments. There are, of course, export payments on such commodities as wheat and cotton for which domestic prices are maintained above world levels. Here again, however, we have sought to act responsibly. Export payments have been used only to maintain our fair share of world trade. We have not tried to use them to take markets away from traditional suppliers, and I think the record shows we have met this test. Generally speaking, the U. S. portion of commercial world markets has not been increased beyond its traditional share.

As a second test, export prices of commodities for which special payments have been made have been fairly stable in recent years. For example—wheat. This is in contrast to the wide fluctuations which have occurred in world prices of many primary materials.
As a third test, our policies have led to the accumulation in the United States of large stocks of several staple commodities that conceivably could have been dumped onto world markets. We believe our policy of withholding supplies and regulating the flow of our commodities to world markets has been a stabilizing influence of considerable benefit both to exporting and to importing nations.

The United States cannot go on, however, being internationally minded in developing its agricultural policies if other great trading areas do not do likewise. Right now the agricultural policies of the Common Market pose a big question mark over the future of agricultural trade, and indeed over our largest export outlet for agricultural products.

The Common Market, as you know, comprises six countries of Western Europe—France, Germany, Italy, Belgium, Luxembourg and the Netherlands—which are already well on the road toward forming a single great trading unit, and ultimately perhaps a political federation. These six countries account for a significant fraction of the world’s agricultural imports. They take over a billion dollars of U. S. farm products a year, about one-third of our dollar exports.

If the Common Market is enlarged to include the U. K., it will account for about one-half of our agricultural exports for dollars.

The policies of such a great trading bloc will thus have great influence on the rules of international trade, as Secretary Freeman recently said.

The means by which the Community reaches its goal of a common agricultural policy will be the largest single factor in determining whether the nations of the Free World develop their agricultural policies within an international context, or within the framework of narrow nationalistic interests. On the decisions of the EEC depends not only the course of agricultural trade, but of international trade generally. We do not think it is either in the Community’s own self interests or in the interests of the friendly agricultural exporting countries that the Community sacrifice international trade in achieving a common agricultural policy. Restrictive inward-looking highly protectionist policies would raise food prices to its consumers and encourage resources which could be more productively applied elsewhere to remain in agriculture. In time such policies would constitute a serious drag on the economic growth of the Community.

We are sharply troubled by the mounting evidence that the EEC is leaning toward a highly protectionist, inward-looking trade restrictive policy. In our last round of tariff negotiations the Community refused to give fixed tariff bindings on agricultural imports of most agricultural products that compete with its own production. These include wheat, feedgrains, rice, poultry, dairy and most meat products. These items the Community has indicated will be subjected to variable levies, and for most products also minimum import prices.
A variable levy is simply a device for assuring that imports enter the market at prices somewhat higher than the predetermined level of domestic support prices. Taking wheat as an example, if EEC domestic support prices are at $3.00 a bushel, and imports are offered at the frontier for $2.00 a bushel, then a levy of at least $1.00 and somewhat more would be collected on imports. If import prices dropped to $1.75 a bushel, the variable levy would increase by 25 cents.

Variable levies and minimum import prices, combined with a high level of internal target prices, serve to give domestic producers within the EEC almost unlimited protection. I cannot over-emphasize the seriousness of this situation. The poultry regulations illustrate my point. The poultry regulations combine unreasonably high minimum import or gate prices with variable levies. Germany is our largest poultry market among the Six. The German minimum import price is fixed at 33.31 cents on broilers. Our ready-to-cook broilers are offered at the German frontier at about 30-31 cents a pound. The first duty is simply the difference between the offering price and the minimum import price. Then a series of levies are collected which amount in total to another 9.75 cents a pound. The total import charges thus amount to 12.5 cents a pound—giving German producers a protected price of about 43.5 cents a pound. This system has nearly trebled the import levies collected on American poultry by Germany, our largest poultry market within the EEC.

The internal target prices or support prices to be established for grains by the Community are crucial. The level at which these prices are set will signal the direction which agricultural policies of the Community take. If these price targets are established at unreasonably high levels, then uneconomic production within the Community will be substituted for imports. Consumer prices for animal products within the Community will be unnecessarily increased and imports of feedgrains, dairy and livestock products will wither away. It is absolutely essential, therefore, that these price targets be established at moderate levels in order to assure the U.S. and other agricultural exporting nations continued access to EEC markets.

We would interpret a moderate price level as one at or near the present French level. France is the biggest agricultural producer among the Six and has a great potential for expanding production, particularly of grains. Any substantial increase in prices would trigger a big expansion in grain production. At higher prices French production could replace a substantial fraction of grain imports, even of an expanded EEC that included the United Kingdom.

Only a few weeks ago, Secretary of Agriculture Freeman, in a speech before the Agricultural Committee of the Organization for Economic Cooperation and Development in Paris, laid before the agricultural officialdom of Europe a strong statement of our concern about current Common Market tendencies. He stressed the fact that the nations of the Atlantic Community cannot be internationally minded in the industrial areas of their respective economies and nationally minded and protectionist in the agricultural sectors. Either the two sectors move forward together under the banner of liberal trade, the Secretary said, or both will succumb to protectionism.
To future negotiations with the Common Market and GATT members and with other nations throughout the world, the United States will bring a new tool in the form of the Trade Expansion Act of 1962. This act will provide the framework within which U. S. participation in trade negotiations must take place. It is our mandate to maintain access to export markets for all our products—industrial as well as agricultural.

In enacting this new trade legislation, Congress stated its purposes this way: "Through trade agreements affording mutual trade benefits, to stimulate the economic growth of the United States and maintain and enlarge foreign markets for American products, to strengthen economic relations with foreign countries through the development of open and non-discriminatory trading in the Free World, and to prevent Communist economic penetration."

This new act goes on to give the President broad authority to negotiate tariff reductions of 50 percent and even up to 100 percent, in some cases. There are special provisions which will facilitate negotiating tariff reductions with the EEC in broad categories of products. The reductions negotiated under this authority will continue to be applied on a non-discriminatory basis and will thus benefit all members of GATT. We expect that the broad concessions we are authorized to negotiate by the new Act will bring about a great interlocking system of more liberal trade.

Market Promotion

Market access alone is only the beginning of the answer to our agricultural export problems. With it we need a strong program of market promotion as well, and the Department is carrying out such a program, not only in the Common Market countries but in some 50 other dollar countries.

This work is a joint effort of more than 40 agricultural and trade groups which work with the Foreign Agricultural Service of the Department. Virtually all the U. S. commodities available for export are represented.

Here are the principal guidelines for the program:

1. Export promotion is primarily a trade responsibility; the role of government is to guide, assist, and especially in initial stages assist with financing.

2. Wherever possible, work is undertaken through U. S. trade and agricultural groups.

3. Trade cooperators should, if possible, be non-profit organizations, nationwide in scope.

4. Cooperating trade groups should assume an increasing portion of program costs as results are obtained, particularly in hard-currency countries.
Initially, the government aspects of this program were financed largely with foreign currencies obtained through the sale of farm commodities under Title I of Public Law 480. This was far from satisfactory, since most of these currencies could not be used in the hard-currency countries where market development activities offered the best return. Later, we were able to arrange for conversion of a certain amount of soft currency into hard currencies for use in dollar market development, and greater progress became possible. In 1961, Congress for the first time provided a regular dollar appropriation to be used for agricultural market development, supplemented by certain of the foreign currencies. This gives us more flexibility as to where the money is spent and is the most satisfactory arrangement so far devised.

Since 1954, the Federal Government has spent for agricultural market development about $55 million. Cooperators--both U. S. and foreign--have contributed to the program over $23 million. The portion of program costs paid by industry is increasing every year and for several industry groups exceeds the government cost.

In addition to the increase in total agricultural exports, we can pinpoint some of the specific results of these market promotion efforts. For example, our poultry exports to Western Europe rose from almost nothing in 1955 to 157 million pounds in 1961. Italy, which until a few years ago bought no American wheat, is now our No. 1 dollar customer for wheat, in part at least as the result of intensive promotion work with the Italian trade. Japan has stepped up its purchases of U. S. tobacco substantially on the basis of a major advertising campaign to push Japanese cigarettes that contain American leaf. U. S. cotton, with aggressive promotion, is holding its own around the world in the face of strong competition from man-made fibers.

In our international trade fair exhibit program, our policy is to concentrate on the large international food fairs rather than at the general international fairs where food is sometimes overshadowed by more glamorous machinery and the wonders of the space age. During 1962, we introduced into this program for the first time on a major scale the retail sale to Europeans of U. S. processed foods consigned to the government by American firms. This technique was used successfully at four food fairs this past year, and convincing evidence was developed that substantial untapped markets for processed foods in Western Europe await U. S. firms that go after the business aggressively. In key markets where there are no established food fairs, we hope increasingly to use the technique of the exclusively U. S. food show.

The government has also entered into a program of providing trade centers abroad where U. S. industry representatives can display their wares and deal directly with foreign traders. This program is proving particularly helpful to firms that are new to the export field and need a springboard for becoming established. Four of these trade centers are in operation, and Agriculture is a partner with Commerce in the two largest--those in London and Tokyo.
So far I have talked only about the job of building dollar export markets. Let's next look at export credit sales, since these are closely related.

**CCC Credit**

Short term dollar credit is available under the CCC export credit sales program to finance export sales of commodities in CCC inventory for credit periods up to 3 years provided an assurance of payment is furnished from a bank in the U. S. Sales under this program are made to U. S. exporters who in turn sell and pass on the credit to foreign importers. There are no government-to-government agreements involved and there is almost no red tape involved. Although the program is very conservative and volume has been relatively small, sales are rapidly increasing. In fiscal year 1961 total volume was $18.2 million; in fiscal year 1962 the total rose to $32.9 million and in fiscal year 1963 through November 23 reached $42.4 million. Since the beginning of the program, total credit sales amount to about $150 million. CCC credit arrangements are not approved where the country of export is a cash dollar market such as countries in Western Europe. Recently the interest rate provisions of the CCC credit program were liberalized making the program more attractive to U. S. exporters.

**Title IV Credit**

Title IV of Public Law 480 provides for long-term supply and dollar credit sales of U. S. surplus agricultural commodities. The major objective of this Title is to use such agricultural commodities and the financial resources made available through their sale on a deferred payment basis to assist in the economic development of friendly countries. Also to expand or maintain U. S. dollar exports of such commodities to these countries.

Under Title IV, the U. S. Government may enter into agreements with governments of friendly nations for delivery of U. S. surplus agricultural commodities for periods up to 10 years. Commodities supplied under the agreements are for domestic consumption within the purchasing country. Credit periods of up to 20 years are authorized.

Title IV agreements set forth the commodity composition, financing terms and conditions, general undertakings and other requirements. Adequate safeguards are included with respect to the maintenance of cash dollar imports from the U. S. or commercial purchases from other friendly supplying countries.

Months were required to develop and coordinate with other executive departments workable Title IV agreements. The volume of business done under the program is now picking up. Agreements have now been signed with 10 countries totaling approximately $100 million.

The Congress, at its last Session, added an amendment to Title IV authorizing credit agreements with private members of domestic and foreign trade. Steps are being taken to utilize this authority but to date no agreements have been entered into.
Credit sales often substitute for P. L. 480 Title I sales for local currencies. They thus can provide a useful bridge in shifting a country from Title I sales to commercial purchases for dollars.

Barter

1. Under the barter program, surplus agricultural commodities are traded for items needed by U. S. Government agencies and for metals and minerals to be stockpiled which must be imported to meet our industrial requirements and are less expensive to store. Examples of barter transactions are:

   a. Acquisitions of gear for the missile tracking system at Cape Canaveral with payment in agricultural commodities.

   b. Trading of agricultural commodities to an underdeveloped country for manganese or chrome ore it produces and which is essential to our domestic steel industry.

2. Early in 1962 the President ordered an extensive review of the government's entire stockpile and barter programs. This review revealed excesses in stockpiles of most strategic materials. Accordingly in the barter of agricultural commodities there has been a shift in emphasis away from strategic material barter in favor of transactions where agricultural commodities are exchanged for goods and equipment being actively procured by other U. S. agencies—notably the Department of Defense and the Agency for International Development. Strategic material barters will be continued for items where stockpile objectives are unmet. Barters for materials in excess of objectives are authorized under certain conditions: (a) after consultation with the Departments of State and the Treasury, barter for a useful material is found to be more advantageous than additional sales of agricultural commodities for particular foreign currencies; (b) with the concurrence of the Department of State, it is determined that the foreign policy of the U. S. will be furthered, including economic aid for countries subject to overtures and pressures from undemocratic nations; or (c) it is determined that an existing government obligation to pay dollars can be converted to barter on terms advantageous to the U. S. (after the opinion of the Department of the Treasury is secured regarding balance of payment effects.)

3. From its inception through June 30, 1962, barter accounted for agricultural exports valued at about $1.65 billion, mostly since enactment of P. L. 480 on July 10, 1954. For the fiscal years 1959 through 1961, the annual level of new barter business was about $160 million, but in fiscal 1962, while the program was undergoing study, the value of new business fell to around $112 million. It is anticipated that the revised program to be announced shortly on the basis of the Presidential approval just described will result in an increase over the present volume of barter, but that it will be carefully controlled to protect other national objectives.
Food for Peace

What can the government do to promote exports to the underdeveloped countries of the world that lack foreign exchange—a description that applies to most of the nations of Asia, Africa, and Latin America? Here the answer appears to lie largely in special export programs which are often lumped under the heading of Food for Peace. These programs include primarily sales for foreign currencies, and donations and grants, although barter and long-term credit sales are often lumped under the Food-for-Peace program also. In recent years, Food for Peace outlets have been accounting for some 30 percent of our farm product export total.

These programs have a two-fold advantage for U.S. farmers and the agricultural trade. For the short-term, they boost exports and in many cases meet urgent food needs of the recipient countries. Over the long pull, they help build future markets by supporting economic development in the many countries that we hope will someday be cash markets for our farm products.

The humanitarian role which food can play has long been recognized. The United States has a great tradition of responding to the food needs of hungry people when disaster strikes. Recently, however, we have added a new dimension to food assistance—that of using food as an aid to economic development.

Today Food for Peace is being systematically worked into economic development plans in those countries where we have agreements under the various titles of Public Law 480.

The biggest outlet is still sales for local currencies under Title I. In most cases the bulk of the currency proceeds are made available to the recipient country as loans or grants for economic development purposes.

Recently we have added a new wrinkle to our Food for Peace program—that of using food to finance both capital and labor in works projects such as cropland restoration, irrigation and drainage facilities, and new schools and roads. In the last year, new programs of this kind have been initiated in Bolivia, Brazil, India, Ecuador, Taiwan, Hong Kong, and others. Food for Peace school lunch programs are being used to support health and improve education. Currently, 35 million children in 90 countries are being served by our programs, an increase of about 50 percent over two years ago.

These and other phases of the Food for Peace program can be of invaluable aid in helping countries get on their economic feet and move toward becoming the dollar trading partners of the future. We have already begun to see this happen. To cite just one example, soybean oil was introduced to the Spanish trade through local currency sales in the early years of the Food for Peace program. Today, Spain is one of our good dollar customers for soybean oil. Japan, Italy, and several other countries have "graduated" from Food for Peace to dollar markets.
On the other hand, there are real limitations to such programs. Many nations which most urgently need food aid lack the experience and facilities to distribute it effectively. Also precautions must be taken to prevent disruption of normal commerce or a deterrent effect on local agricultural development.

We have had enough experience with food aid to know that it is no substitute for managed abundance. It is a plain fact that if the productive capacity of American agriculture were unleashed output would exceed our ability effectively to utilize it at home and abroad, in commercial markets and in Food for Peace programs.

We have learned, therefore, that export outlets in all forms, no matter how strenuous an effort we make to expand them, are no substitute for effective supply management.

Finally, there are some activities that service all our export efforts.

**Export Quality Control**

The United States has the safest and most wholesome food supply in the world. We are constantly trying to improve its quality and its image in the eyes of consumers both at home and abroad. Again this is an area in which government and industry work hand-in-hand.

The mark of federal inspection that accompanies every shipment of U. S. poultry abroad is a badge of honor that promotes the role of the product. People abroad are coming to know and to appreciate—just as consumers in the United States do—what this label means in assuring them of a safe wholesome product.

Foreign markets are sometimes special markets, however, and require special efforts to tailor quality and standards to fit their demands. In their market development work our trade groups can often be helpful in doing this.

The time is past when export markets can be viewed as a dumping ground for periodic excesses. Competition is keen, often more so than at home. Sales will go increasingly to the supplier who studies the customers' needs, and adjusts his merchandising accordingly.

If I could cite just one example, it would be wheat. Europe is expanding wheat production. More and more the demand for imports is being limited to high quality strong gluten wheats that supplement their weaker varieties. Certain of our hard red winter wheats can fill this need. Present grades and standards do not accurately reflect the qualities the European buyer is looking for, however. This is why we are encouraging the use of a sedimentation test in addition to the normal protein test to more accurately indicate to the foreign buyer the baking quality of U. S. wheat.
Agricultural Intelligence

Along with programs relating to market access, trade promotion and sale-ability of our agricultural products, our government has long maintained responsibility for helping to provide the type of agricultural intelligence that is essential to sound export operations.

We believe that our Department's agricultural intelligence system is the best in the world. Its keymen are our agricultural attaches stationed in some 50 leading foreign countries. Together with their American and local assistants, they comprise a corps of some 164 overseas agricultural experts whose responsibility is to see that American farmers and agricultural businessmen get the information they need about foreign competition and foreign market opportunities. Under an expanded phase of this program, the Department is now stationing agricultural trade specialists in additional key market areas with particular responsibility for foreign trade contacts and reporting.

To summarize, the main efforts directed at expanding export markets are:

1. Constant effort to gain increased access to foreign markets on a multilateral basis through reductions in trade barriers.

2. Direct market development and promotional activities through the U. S. and foreign trade.

3. Food for Peace programs which expand exports to the less developed countries and assure that there will be demand for our commodities when the shift is made to commercial importing.


5. Research and coordination in the field of quality control.

6. Collecting, analyzing and disseminating information bearing on our current and future position in foreign markets.

This complex job merits the best thought that all of us can bring to it. Farm leaders, federal government workers, trade groups and the private trade all have an indispensable role both in getting the job done and in getting to rural people information about the issues of the day in this vital field.

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