104

AGRICULTURE EXPORT PROMOTION PROGRAMS: HOW ARE THE SMALL FARMER AND RANCHER HELPED?

HEARING

BEFORE THE

SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES

OF THE

COMMITTEE ON SMALL BUSINESS HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

WASHINGTON, DC, MAY 17, 1995

Printed for the use of the Committee on Small Business

Serial No. 104–28

U.S. GOVERNMENT PRINTING OFFICE

90–898 CC WASHINGTON : 1995

For sale by the U.S. Government Printing Office
Superintendent of Documents, Congressional Sales Office, Washington, DC 20402
ISBN 0-16-052052-5

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AGRICULTURE EXPORT PROMOTION PROGRAMS: HOW ARE THE SMALL FARMER AND RANCHER HELPED?

WEDNESDAY, MAY 17, 1995

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON PROCUREMENT, EXPORTS,
AND BUSINESS OPPORTUNITIES,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:35 a.m., in room 2359–A, Rayburn House Office Building, Hon. Donald A. Manzullo (chairman of the subcommittee) presiding.

Chairman MANZULLO. Good morning. We are right in the middle of budget wars and that accounts for the fact that we don't have full attendance, but those of you who have testified before Congress in the past recognize that Members come and go over a period of time.

Our goal here is to finish this in an hour and 15 minutes. That means that we are going to allot 5 minutes. In fact, I am going to increase that to 7 minutes per person inasmuch as there is nobody here at this point in time to ask questions. This is what I will do. I will give you a little tap. That means you are at 6 minutes. One minute to go. I will gavel you down. It won't be like the Gong Show. It will just be a very gentle tap in order to give a time for interplay.

One of the things that I do want to encourage debate. Once you have made your presentation, if any of the members of the panel have forgotten to put something in or want to ask a question of another panel member, I will see if there is time to do that. I want to make sure that everybody here has the opportunity to express their news.

Because the Department of Agriculture receives the majority of funding for the Federal export promotion programs and agriculture makes up approximately 10 percent of our total exports, it is appropriate to devote an entire hearing to this section of the budget. Is there any rationale for devoting the lion's share of export promotion program money to agriculture export which makes up approximately 10 percent of U.S. exports? Is there a Government-wide strategy that can justify the continuance of these programs?

I represent the 16th Congressional District of Illinois which represents a microcosm of the United States. The district has a heavily industrialized center in Rockford, Illinois. I represent also the first and second fastest growing counties in Illinois along with all their growing pains.

Our congressional district is also heavily agrarian and one of our counties is number one in hay production and the other county is number one in dairy production. That is because all the cows in the second county eat the hay that comes from the first county. So, I know firsthand the tension facing Congress on determining budgetary priorities in this area.

In fact, in the 16th district, Jo Daviess County, which is on the far western end of the district, has the original Kraft Cheese factory, employing between 300 and 400 people. It buys about 6 million gallons of milk each year, and is the largest bulk Swiss cheese manufacturer in the United States.

At the far east end of the county, Kraft also owns Claussen Pickles which annually produces 100 million tons of refrigerated pickles and has a 75 percent share of refrigerated pickles in this country. So, from pickles to cheese with industry in between is the nature of the congressional district that I represent.

That is one of the reasons I support a one-stop shop for the entire Federal Government on trade matters. We must streamline where there is similar or duplicative functions. We must rationally devise an overall trade strategy that uses precious taxpayer dollars in the most effective and efficient ways possible. We must focus on the programs that create and sustain the most jobs, not simply agreeing on the status quo.

I look forward to the testimony of the witnesses before us this morning. It is not often that we see you outside of the Agricultural Committee. So, I believe this hearing will serve a good purpose in helping educate members of the subcommittee who could not serve on the Agricultural Committee but will vote on farm-related legislation on the floor later this year.

Mrs. Clayton isn't here. So, therefore, Mr. Sisisky, since you just came in, I would give you the opportunity to make an opening statement if you so desire.

[Chairman Manzullo's statement may be found in the appendix.]

Mr. SISISKY. I have no opening statement. I am ready to listen to the witnesses.

Chairman MANZULLO. Thank you very much.

Our first witness is August Schumacher who is the administrator of the foreign agricultural service with the U.S. Department of Agriculture. Mr. Schumacher go ahead and take your 6 or 7 minutes.

TESTIMONY OF AUGUST SCHUMACHER, JR., ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE; ACCOMPANIED BY CHRISTOPHER E. GOLDTHWAIT, GENERAL SALES MANAGER

Mr. SCHUMACHER. I will be very brief, Mr. Chairman. I am delighted to be here with members of your subcommittee. I am joined by Chris Goldthwait who is my general sales manager and who is very knowledgeable about——

Chairman MANZULLO. Could you move that mike?

Mr. SCHUMACHER. Yes.

Chairman MANZULLO. Bring it up.

Mr. SCHUMACHER. I am also delighted to be here with Linda Reinhardt and Dick McGuire, who is an old colleague of mine from my commissioner days in Massachusetts. I notice we are inside the John W. McCormick room, so I feel rather at home here in this committee room, working with John on our left, to talk about small business and export promotion in agriculture.

Most of America's family farmers, Mr. Chairman, are small businesses, certainly well within the definition for the overwhelming part of the small business definition that we have put out.

Over the past decade, we have worked very hard to lay a golden era of export opportunity, particularly, I will come to that in a minute, for small- and medium-sized businesses and farmers. Our investments are paying off. This year we estimate $48.5 billion of American agricultural exports and if you add forestry and fish to that, we are around $55 to $57 billion. This is an all-time high.

Dollar for dollar, we export more corn than coal. More meat than cosmetics. More fruits and vegetables than steel, iron, and aluminum combined. My family farmed in New York years ago. We were in the vegetable business. My father would never have believed, certainly if he were still alive, that the United States would export nearly $10 billion worth of fresh fruits and vegetables around the world. Really an extraordinary record. We believe this growth trend is very sustainable.

One of the fascinating things, in light of all the talk about the trade deficit these days and these issues is that American agriculture has a $20 billion trade surplus. $20 billion trade surplus. That helps us to pay for an awful lot of imports in different areas. A very important issue. We are growing, our trade surplus in agriculture is growing, and this growth is very sustainable. Very different than 1975, 1980, when we basically had governments selling and buying from governments with credit programs.

We are no longer dependent on a few large buyers such as the Soviet Union and the former European Union. Virtually every State is exporting fish, forestry, and agriculture products—and many exports are from smaller companies. Our markets are different than 1975.

This is an era of global change post-GATT, post-NAFTA. We are seeing markets we never saw before. Demand for the European Union now is very flat. We are maintaining market share but that market is not growing. Our Pacific Rim markets are our new growth markets. Dick McGuire with support from our small funds in the market promotion program, Dick McGuire's State—New York—exported a substantial amount of apples to Israel. Just very quickly, very speedily he benefited his State. Apple exports to Israel are not Kansas wheat, but certainly Mr. McGuire can comment on how that impacted his State of New York.

Let me turn to our Agricultural Export Programs, the subject of this hearing, because I believe we have the opportunity to grow agricultural exports and to increase our trade surplus. Exports of $80 billion by the year 2000—that is my personal target. I think we can grow our agricultural surplus of exports over imports from $25 to $30 billion by the year 2000. I would like to share with you very briefly on how we plan to do this.

First, I would like to clarify, you mentioned that the lion's share of export payments go to agriculture. Mr. Chairman, I think I should take 30 seconds to clarify some of those apparent confusions in our letter of invitation regarding this point. Thanks to you informing us earlier, we examined this issue closely and, frankly, we believe our promotional efforts to reach the $80 billion account for about one-quarter of the total promotional effort by the U.S. Government.

This share depends on how you define, "promotions of exports." It can get technical and I would be delighted if you would request us to provide further information for the record on that issue because we do not consider export subsidies in food and food aid as part of our promotional activities. Nor are our export subsidies, which are a direct effort by the U.S. Government to counter unfair trade practices of our competitors.

Food aid expenditures have humanitarian food assistance as their primary focus. Once you account for and delete these expenditures, which serve various objectives other than market development and promotion, expenditures for agricultural trade promotion only account for one-quarter.

Now, why do I believe strongly that we should maintain that one-quarter of the overall effort? Because post-GATT, post-NAFTA is going to be a very hard place to be competitive. As my colleague, John, on the left, said in his concluding paragraph, the U.S. Government should not look to the GATT reforms as an end but as a beginning. Future negotiations should pursue increased market access for U.S. agricultural products and complete removal of both tariff and nontariff import barriers in addition to the total elimination of all export subsidies and trade distorting policies.

Mr. Chairman, we would like to get to that sooner rather than later. However, the question is the timing of the transition and what our competitors are doing to us in the transition period.

Our competitors have put in place multibillion dollar programs to support the production export of their agricultural goods. The European Union has just increased their budget by $10 billion. That is the total amount of money that is being considered for our whole program side of the U.S. Department of Agriculture. They have increased spending to a total amount of $50 billion.

The European Union is the chief subsidizer of agricultural exports and they spend of that $50 billion, $10 billion on export subsidies. I will leave this for the record, as well, I know my commissioner friend from New York is also very keen on wine. I do enjoy a good glass of wine from time to time, but the European Union subsidizes their wine industry by the entire amount of our total market promotional program. They spend about $100 million in wine subsidies alone for export promotion. Our entire market promotional program is only $85 million.

I would like to submit that for the record.

Chairman MANZULLO. I became distracted. Could you repeat that last statement again about the wine?

Mr. SCHUMACHER. Yes. My wife and I do enjoy a glass of wine in the evening.

Chairman MANZULLO. Well, not that statement.

Mr. SCHUMACHER. New York State wine, Massachusetts and New York have pretty nice wines these days. I think Dick will attest to that. But the European Union, and I mentioned they are spending about $50 billion in total exports and total payments to their farmers up $10 billion just this year.

Their market promotion program just for wine on the export side, just for wine, is higher than our entire market promotional program for the entire country of the United States. For everybody. I would very much like to submit this for the record without your objection.

Chairman MANZULLO. Absolutely.

[The information may be found in the appendix.]

Mr. SCHUMACHER. That makes me very nervous when we look at our competitors as we try to reach the objectives of John and others in getting rid of all these subsidies over the next 5 to 7 years. That is a transitional issue to get to the all-agreed objectives.

To unilaterally cut these programs while our overseas competitors are spending five times as much in the United States is in my opinion, shortsighted. Mr. Chairman—we need a transition period. We just need to work together during this transition to meet our competition.

For example, on wheat, wheat the subject of a lot of discussion, but the Canadian Wheat Board shows no indication of becoming more transparent. Certainly no indication of becoming privatized. The Australian Wheat Board shows no indication of moving into the private sector and the Europeans continue to be very aggressive in their export subsidies on their wheat, including subsidies into some of our emerging markets in the Far East.

Now, if I can just conclude a little bit on the efforts on small business which I personally feel very strongly about. I have been here about 11 months now in my department and I am working very hard in our department to target more of our promotional programs to assist medium- and small-businesses and cooperatives, since the 1993 law is very clear. It says, the Department of Agriculture shall give preference to medium- and small-enterprises in carrying out the market promotional programs.

We have also introduced some new regulations to simplify the operation and to further target this to small businesses and to graduate the larger companies from these programs.

I will leave for questioning the issue of the Export Enhancement Program, but I think for the big commodity, wheat, which faces very competitive practices, and nontransparent State trading, if we take that tool away, we have not allowed ourselves to do what John wants to do which is to eliminate these subsidies world-wide. We cannot eliminate U.S. subsidies until we get rid of the Canadian Wheat Board's lack of transparency and move into a level playing field across the board.

Let me just conclude with how we are trying to do more outreach for our developing market promotion. Very important. First of all is to get my people out into the countryside talking to medium and small firms—I have been, myself, to 10 or 12 States, lots of seminars. Small wood companies. We are being very aggressive down in Congressman Clayton's district—talking to firms, visiting with them, and talking about what we are doing.

Second, we are going to do a lot more work in getting small and medium sized businesses into overseas food shows and gaining more trade access. There is no point in promoting beef in Korea when the Koreans say that our beef is not allowed to come into Korea because 14 days has expired. They will only allow a shelf life requirement.

These nontariff trade barriers are going to be increasingly difficult to overcome in the years to come because they are looking to those to kind of keep out our fastest growing exports, including meats, vegetables, and fruits, and even our grains. It is amazing what some of our competitors are putting up in terms of barriers and perhaps Commissioner McGuire can talk about that.

Small- and medium-sized companies benefit from pour programs. In Dundee, Huntley, and Hampshire there is a company called Milk Specialities Co. It employs 180 people. It is a small company. They received market promotion funds from us through the MIATCO. One of its promotions overseas is about 50 percent MPP funded. I should also mention the Rubschlager Baking Corp. in Chicago. I was just in Chicago last week and met representatives of Vienna Sausage, a little company in the poor area of Chicago that is being aggressive in sausages to Hong Kong and doing very well. There are other examples I could give, but I won't take the time here.

For example, TreeTop in Washington State is doing a wonderful job. It is a farmer cooperative. They have really gotten into the export market. TreeTop representatives just came back from Hong Kong and these big warehouses, Price Club, huge, large numbers of containers of TreeTop juices going through Hong Kong into Guangzhou and elsewhere.

I think that to summarize, Mr. Chairman, the market opportunities are there. I think it is a wonderful opportunity to grow American agriculture, to export markets especially as the Congress gets a little rigorous in its examination of our domestic programs that we need to grow agriculture, the export markets are there. We want to work with small- and medium-enterprises. We have the tools to do it now and with the new farm bill, hopefully those tools will be strengthened, but this is not the time because of the competitors practices to unilaterally eliminate these programs during this transition period.

Thank you.

[Mr. Schumacher's statement may be found in the appendix.]

Chairman MANZULLO. I appreciate your testimony. One of the things that we are going to try to do is try to keep within our timeframe so we have plenty of time for questions.

We are joined, in addition to others, by the Chairman of our main committee, Jan Meyers. Jan, if you would want to introduce a fellow Kansan.

Chairwoman MEYERS. I thank you very much, Chairman Manzullo.

I am very pleased that you are having this hearing on export promotion and assistance because I do think it is tremendously important. Certainly it is tremendously important in Kansas with the products that we produce, not only agricultural, but automobiles and airplanes and oil and gas. We are very much tied to the export world and it is tremendously important to us, and of course I have encouraged export promotion for small business, and agriculture in many ways is small business and so I am very pleased to be here today.

It is a pleasure, also, to introduce Linda Reinhardt who is a good friend, and she is chair of the American Farm Bureau's Women's Committee and she has really come up through the ranks because she has been very active in the Kansas Farm Bureau. She has been on the Kansas Farm Bureau board of directors and has served as State Farm Bureau Women's Chairman.

Now, the way that I know Linda is when the Kansas Farm Bureau comes in for meetings, why she and I usually get together and talk. But in addition to that, she has brought groups in from time to time just in an educational way. Then she makes all of the Kansas delegation get up and go to an early breakfast.

She is not just interested in agricultural issues. She will have us talk on a whole wide range of issues and so she is an extremely well-informed woman. She has three children, has been tremendously active and recognized in the State of Kansas. She and her husband have been recognized as master farmer, master homemaker. She is the AGRA woman of the year and has numerous recognitions, and it is a pleasure to have you here today.

TESTIMONY OF LINDA REINHARDT, PRESIDENT, WOMEN'S ASSOCIATION, AMERICAN FARM BUREAU

Mrs. REINHARDT. Well, thank you, Mrs. Meyers. I certainly appreciate that kind introduction. We do go back a long time as far as knowing one another and we both come from the eastern part of the State of Kansas. I come from more down in Southeast Kansas, where Mrs. Meyers is in the Kansas City area.

Well, I do appreciate the opportunity to testify this morning. Mr. Chairman, and distinguished subcommittee members, as you have heard, my name is Linda Reinhardt. I do serve as chair of the American Farm Bureau Women's Committee. My husband and I are farmer stockmen in Southeast Kansas. I grew up on a farm and have used the programs of the USDA ever since my youth when I was active in the 4–H Program and I was very pleased this morning to see the gentleman on my right proudly display his 4–H emblem.

We raise soybeans, milo, alfalfa; and wheat on our farm, as well as we have a cow operation and background some cattle.

My husband did serve on our Kansas State Board of Agriculture for 9 years. We now call that the Department of Agriculture in Kansas.

The American Bureau Federation, which I am representing and very proud of, has a membership of over 4.4 million family members. It is the Nation's largest organization for farmers and ranchers. Farm Bureau is not a cooperator organization under the Foreign Market Development Program of the Foreign Agricultural Service and has received no funding under the Market Promotion Program. However, the Farm Bureau strongly supports FAS export programs as being a vital—as being vital to the future economic health of our producer members and the country's economy.

Like the MPP Program, the Foreign Market Development Program is especially important as farmers become more reliant on the international market for income. The international marketplace for our U.S. farmers will continue to confront substantial subsidies from the European Union and other developed market countries who are expected to utilize all GATT Legal Programs to the fullest. The Federal Market Development and Promotion Programs are at least a partial offset to these continued European Union export subsidies.

Good morning, Mr. Brownback, a fellow Kansan.

Mr. BROWNBACK. Good morning, Mrs. Reinhardt.

Mrs. REINHARDT. The farm community is very proud of its economic contribution to our Nation's economy and especially the opportunity we provide for small businesses.

In today's world, the health and the vitality of small business is more important than ever. Small business is the job-creating engine for our economy and it currently helps create almost 75 percent, 75 percent of all new jobs for Americans.

As farmers, we are part of the small business community and we look forward to working with small businesses to help create new jobs.

Now, given the importance of small business, the majority of these jobs would be created for the types of firms deemed important to this committee. This figure, job figure may not sound like a large number, but just like any other small business in America, when added to other strong programs, the final tally becomes quite significant. In short, we need to continue strong export programs that have proven to be successful. These programs keep rural America and small business growing strong.

Now, I am going to talk about my home State as well as Mrs. Meyers' and Representative Brownback's home State. Agriculture is the number one industry of Kansas and it contributes approximately $7 billion in commodity markets annually. Our industry benefits many of the family farms in Kansas and impacts each of our towns and our small businesses.

The USDA statistics indicate that Kansas ranks sixth nationally for agriculture exports at approximately $2 billion per year for the past 2 years. Food and kindred products which are value-added products is the second largest employment industry group in the State of Kansas.

Our State Market Promotion Program relies on help from the Federal Government to survive. A full 60 percent of the companies responding to a recent market promotion survey are considered small companies reporting sales of 500,000 or less. The FAS and MPP Program has allowed the private sector to partner with the U.S. Government to pursue and to develop new business opportunities in the foreign markets.

MPP embodies the type of cooperative, cost-shared programs the country needs to, first, we need to create jobs here at home; and second, we need to strengthen the economy and help American agriculture and small value-added companies establish the long-term trading relations in the world markets.

Now, during the past 3 fiscal years, the Kansas Department of Agriculture has conducted 47 individual major foreign marketing activities. We have produced more than $7 million in first-time new sales of Kansas food products. This does not include ongoing sales of basic commodities. The success of this program would not have been possible without the help of the USDA export programs.

The use of Federal matching funds has made it possible for Kansas to generate this additional business and has also aided in keeping the price of food products steady. It is estimated that for every dollar invested in the export programs for agriculture, exports rose by $16: $16 to every $1 spent is a solid return on your investment.

Overall, the farm community believes that the higher living standards throughout the world depend on mutually beneficial trade among nations. We urge that trade and economic policies be developed that promote rather than retard growth in world trade.

We support adequate funding for EEP, for MPP, for the Dairy Export Incentive Program, to retain and expand our foreign export markets. All GATT legal export promotion and development programs must be fully funded to enable us to maintain a place in international markets for our products to continue to create jobs here at home.

Strong export programs will keep our economy healthy and provide new jobs for Americans.

As this testimony indicates, the MPP and other Government export programs in the FAS budget are key to the future of agriculture exports and to the growth of small businesses. Thank you for keeping these programs strong. The major benefactors will be small business and the small farmers.

Thank you.

[Mrs. Reinhardt's statement may be found in the appendix.]

Chairman MANZULLO. I appreciate that.

One of the things that I would like to share with the panel, and then I want to give Mrs. Clayton, who is our Ranking Member, an opportunity to make a delayed opening statement.

Please witness, this is not the Appropriations Committee where people come in and try to defend their programs. What I want is some life examples. Everybody can read figures. We all know what investments are. The budget knife is coming and this is not the place for you to plead for the knife not to come across the throat because that is being done by Representatives before the Appropriations Committee, and we are not involved in that.

Our goal here is that because the knife is coming, we are attempting to be part of a leading edge along with Mrs. Clayton, hopefully, somewhere down the line to take all the trade promotion programs and put them under one category or department or one head so that what is left will be more than sufficient to represent all the interests, including agriculture.

So if you would keep that in mind as we continue, it would bring a little bit more focus to the hearing in addition to the excellent testimony that you have already given.

Mrs. Clayton.

Mrs. CLAYTON. Thank you.

I will not give my full opening statement. I want to commend the Chairman. He is correct. Both of us do share a deep interest in trade and want to see that the full knowledge and the value of the trade programs make a point. I would not go so far that we both agree that we are going to put them all under one umbrella. That was news to me.

Chairman MANZULLO. It depends on the size of the umbrella.

Mrs. CLAYTON. But I am also a member of Agriculture so I wear two hats here. I do think, though, that the evidence that you have given will help us sustain our presence in appropriations so I appreciate your comments and will have the opportunity to probe you further for some life events.

I think it is appropriate, Mr. Chairman, for you to have this meeting in light of the fact that we are going through a budgetary process because how best could the value of these programs be articulated. As in other quarters, they are discussing the value of these programs if we don't know them, and to have people come from Kansas, now, I want to tell you, Kansas, Kansas, Kansas, I will tell you what, what is happening?

Mr. BROWNBACK. It is center of the universe.

Mrs. CLAYTON. It must be. Something is happening around here. I have a Kansan who is Chairman of my Small Business. I have a Chairman of Agriculture.

Mr. BROWNBACK. You have got a President-to-be who is going to be from Kansas.

Mrs. CLAYTON. You all want to take over the world, don't you?

I do appreciate that they sent a woman who is active in exporting. I think that is wonderful.

Rather than take up additional time, let me enter my statement, Mr. Chairman, for the record and have the opportunity to ask each person as they complete their testimony and thank them for coming.

[Mrs. Clayton's statement may be found in the appendix.]

Chairman MANZULLO. Thank you, Mrs. Clayton. Along these lines, we are having a field hearing in your congressional district on June 23rd.

Mrs. CLAYTON. In Wilmington.

Chairman MANZULLO. We are going to be taking a considerable period of time down there, and because Mrs. Clayton has a heavy agricultural area, we are going to have the opportunity to get into this more in depth.

The next witness is Richard McGuire who is the commissioner of Department of Agriculture and Markets from the State of New York. He has traveled all the way from Albany to come down here.

Mr. McGuire, thank you very much for coming here. The floor is yours.

TESTIMONY OF RICHARD T. McGUIRE, COMMISSIONER, NEW YORK DEPARTMENT OF AGRICULTURE AND MARKETS, REPRESENTING THE NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE

Mr. MCGUIRE. Thank you very much, Mr. Chairman. I am interested in Mrs. Clayton's comments because Big Jim told me that North Carolina was the center of the universe.

Mrs. CLAYTON. He hasn't heard about Kansas yet.

Mr. MCGUIRE. I am Dick McGuire, commissioner of the New York Department of Agriculture and Markets, chairman of the

Trade Committee at the National Association of State Departments of Agriculture.

Chairman MANZULLO. Could you pull the mike closer to you, Mr. McGuire?

Mr. MCGUIRE. Mr. Chairman, we appreciate the opportunity to testify before your subcommittee today and the rest of the members of the subcommittee.

The Department of Agriculture and Markets of all the States, including all 50 States as well as American Samoa, Guam, Puerto Rico, and the Virgin Islands have worked for many years on exports. I might just start off by saying that in the MPP Program, we are probably the departments that do the best of the small business exports of any of the funds that come through the MPP Program because we deal with all the small businesses in each of our States.

Currently, the U.S. domestic market is not increasing fast enough to utilize the growing productivity made possible by continued advances in production and technology. I think we are very fortunate as a Nation and as a world that that is true because of doubling of the world population, and most of it in the nondomestic areas of the world, away from the United States, is going to increasingly depend on the capability of American farmers to produce food.

The future of American agriculture depends on wise and sustainable use of available resources backed by a solid commitment from the U.S. Government to protect, maintain, and increase the U.S. share of the world market for food and fiber.

With about 1 in every 3 acres of U.S. cropland produced for export, production, and marketing decisions, Government policy must be based on global as well as local and national agricultural conditions.

We are well aware of the discussion that is going on to phase down the various direct payment to farmers programs. We understand why this is being done. It is being driven by, primarily, two things. First, which is major, is the budget concerns of this Nation, but also by the agreements on tariff and trade that we have agreed to as a Nation with other nations of the world to phase down those various support programs to each country's agriculture.

I won't comment on the size of our exports because Mr. Schumacher has already done very well on those figures. USDA and Congress have created export assistance programs designed to accomplish multiple objectives in domestic trade, humanitarian and foreign policies, and USDA uses four basic methods to increase agricultural exports, price reductions through bonus payments. Export credit, food aid, and promotional assistance.

Export assistance programs include Public Law 480 enterprises for the America's Food for Progress Export Credit Programs, the Export Enhancement Program, and the Market Promotion Program.

Let me, Mr. Chairman, expand now to project NASDA which our national association coordinates with the assistance of the Foreign Agricultural Service under the Market Promotion Program. For 3 successive years beginning in 1993, NASDA and FAS have cosponsored a very effective domestic-based international trade event in Chicago called the U.S. Food Export Showcase.

It is held annually in conjunction with the Food Marketing Institute's International Supermarket Industry Convention and Exposition. FMI's Convention and Exposition is the world's premier event for the supermarket industry. NASDA's showcase is specifically designed to provide small- and medium-sized companies with a reasonably priced domestic forum to show their high value food products to some of the world's most important buyers and importers.

This event has attracted a steadily increasing number of international food product buyers. Our independent surveys show that the 1993–1994 export showcase helped out more than 300 exhibitors export more than $400 million worth of American products. This is good evidence that the partnership of NASDA, FAS, and FMI has provided an audience with outstanding purchasing power around the world.

Let me give you an example because there are many spinoffs of this that are not even shown in the figures. New York State recently was invited to attend a food show in Israel. The primary reason is we have one of the largest kosher departments in the world. We have more of the Jewish community in New York City, we have extensive businessmen in the kosher business. We took 14 commercial kosher producers, small business, to Israel to this show. They all did business, are continuing to do business, and are very pleased with it.

One of the things that happened that has been unusual in visiting these major shopping conglomerates in Israel, we left a card of our man from our department that accompanied these businessmen and, within a month, we had a telephone call that they were running out of apples because of a very poor apple crop in the Mediterranean area and asked if we could supply them apples.

In January and February, we put together and shipped to them 900,000 boxes of apples. It took many small business producers of apples in New York State to fill that order. We thought it was going to be strictly a short-term order because of a short supply that they experienced. They were so pleased with the new varieties that we shipped to them that they had never had on their store shelves before, that they have indicated to us that they are going to continue on a year-round purchase of apples. This is the kind of thing that is increasingly happening as a result of our efforts in the MPP Program, shows, and contacts we are making on a worldwide basis.

To ensure that the United States maintains and expands its share of the world market for food and fiber in the 1995 farm bill, Congress should authorize agricultural export promotion and development programs that fund them to the extent allowed under international treaties for the next 5 years.

As I have testified before agricultural committees, let me just point out that as I referred to the probability of phasing down Government direct payments to farmers for production, I recommend that for every dollar saved budget-wise in that phase-down, whatever it is and however rapidly it occurs over the next 5 years, that

25 cents of that dollar at least ought to be allocated to helping farmers sell their products.

If we are not going to help them produce them, and if those programs are phased down, I am sure we are going to have increased production in many areas because of no acreage restrictions and the effort by farmers to maintain their cash-flow by increasing their production capabilities. We have got a hungry world, we have got many commodity growers and many farmers who have no way individually to access those markets. They need help and they need expertise and they need some promotion funds and they need some ways of participating through the business community to sell those products. I think the MPP Program is the most appropriate and has the most demonstration of success.

I think it is also important to make a point here that there be recognition of the reality that programs do assist in expanding exports of high-value food products and must somehow allow for the participation of large food processing companies like Kraft Foods.

Now, the dairy farmers and apple and vegetable growers in New York State, as I have already mentioned, have no way of exporting their product until they are put into a value-added condition and situation. The only people who could do that are the major companies with the technology and expertise to do it and also put into large enough groups to fill orders and do it on a continuous basis.

So the program to help the small farmers, the small business men in our State, 10,000 dairy farmers, 4,000 vegetable and fruit farmers, is to also accommodate the various size of organizations that can move the product the best.

With regard to promotion programs in the farm bill, NASDA has suggested to Congress that the 1995 farm bill should create a new USDA export development program called AG-EXPORT, which will strategically coordinate Federal, State, and private sector efforts to make U.S. farmers and agribusinesses more competitive in international markets.

Through this program which would be GATT legal, the United States would maintain and expand its share of world markets for food and fiber products. We strongly support this concept. We have made that recommendation to all the agricultural committees.

I thank you very much for the opportunity to testify.

Chairman MANZULLO. Thank you very much.

[Mr. McGuire's statement may be found in the appendix.]

Chairman MANZULLO. The next witness is John Frydenlund who was born and raised on the family dairy farm in Minnesota. He presently works in Washington with the Heritage Foundation. John, we appreciate the fact that you are with a noted and respected organization such as Heritage, plus you bring that aspect of being raised on a family dairy farm. I thank you for giving us the opportunity to listen to your testimony this morning. Please.

TESTIMONY OF JOHN FRYDENLUND, DIRECTOR, AGRICULTURE POLICY PROJECT, HERITAGE FOUNDATION

Mr. FRYDENLUND. Thank you, Mr. Chairman, and distinguished members of the subcommittee.

I appreciate this opportunity to discuss the effectiveness of export promotion programs managed by the U.S. Department of Agriculture. Our project at the Heritage Foundation has been examining all aspects of the Federal Government's agricultural commodities policy, particularly the income subsidy and support, supply control and conservation, and export subsidy programs.

We are proposing reforms which will enable U.S. farmers to achieve greater incomes from the marketplace and will also promote the revitalization of these rural economy by taking greater advantage of this Nation's productive and export potential.

It is impossible to fairly examine the effectiveness of U.S. agricultural export programs without recognizing how all of these policies are intertwined with the Federal Government's overall agricultural policies of central planning and supply management. The contradictory Federal policies of providing price supports for U.S. farmers while simultaneously imposing supply controls on production have undercut the ability of U.S. farmers to compete in the international market.

In an effort to counter this effect of its general farm programs, the Federal Government has used two different strategies to address international trade. In line with Washington's planning mentality, the first is to protect U.S. agricultural markets from international competition by restricting the importation of many other commodities. This unfortunately is a strategy employed by many other countries as well. The second, also a product of the planning approach, has been to help U.S. producers compete in the international market by subsidizing the export of certain commodities.

Although the Federal Government has been devoting over $1 billion dollars annually to direct export subsidy programs, and millions more in loan guarantees and marketing assistance, these expenditures have done nothing to correct the underlying lack of international competitiveness that results directly from Government's central planning and curbs on production. Neither these programs nor interference with trade has done anything to reverse the decline in U.S. market share. Instead, they have hindered the ability of farmers and processors of agricultural commodities to compete successfully in the international market.

Although there have been dramatic increases in world consumption of food products, thanks to Government acreage reduction programs, U.S. production of the most managed commodities of wheat, feed grains, cotton, and rice has remained essentially flat over the last 10 years and the United States share of that world market has dropped.

Export subsidies depress world prices relative to the U.S. price, creating a price differential that makes the United States an attractive market for foreign products while further discouraging the export of U.S. products.

EEP was originally initiated to counteract the export subsidies of the European community and to force them to the bargaining table to negotiate restraints on subsidized competition and reduction or elimination of import restrictions. Now that the GATT agreement is about to be implemented, it is an appropriate time to examine the effectiveness of export subsidies, regardless of what the GATT agreement allows or disallows.

A decision on whether or not to continue using export subsidies should be based on what is truly best for American agriculture and rural America. The 1995 farm bill needs to establish policies that provide U.S. agriculture with the ability to reestablish their preeminence in the international market by being the low-cost, reliable supplier for that market.

Originally, the EEP subsidy was provided in the form of bonus commodities which were taken out of Government-stored surpluses. Then, at least the program added to exportable supplies. However, even that marginal benefit has disappeared. So, there has been neither any positive effect from bringing additional supplies of commodities into the marketplace, nor have there been any increases in bulk commodity sales. In fact, in recent years, the United States would have likely sold as much wheat without EEP as it eventually did with EEP. However, without the program, the United States would have been selling its wheat at a higher price.

We have recently proposed agricultural reform policies that will enhance the competitiveness of U.S. agricultural products in the international marketplace. In addition to elimination of EEP and other export subsidy programs, the following proposals are key to restoring that competitiveness: Eliminate all authority for acreage reduction and set-aside programs; phaseout the subsidy and support programs; phaseout the conservation reserve program; and phaseout the farmer-owned reserve.

Such changes would signal to the rest of the world that the United States intends to pursue an aggressively pro-growth agricultural policy. Additional net farm income from the marketplace would exceed $2 billion in 1996 and, by the year 2001, it would be near $4 billion. Even with a phase-out of target prices between 1996 and 2005, farmers would enjoy a net increase in income of $10 billion in excess of the reduction in deficiency payments.

Freeing farmers to produce would ignite even more dynamic growth in the rural economy. Between 1996 and 2001, at least $21 billion would be injected into the rural economy in new spending on farm inputs such as fertilizer and seed. There would be an even greater impact from increased revenues resulting from increased processing, packaging, transportation, and distribution.

This subcommittee's examination of the effectiveness of agricultural export promotion programs obviously will scrutinize additional programs such as the Export Credit Guarantee Programs, which have not been effective in meeting their stated goal of increasing agricultural exports, and the Market Promotion Programs should be considered to be abolished. There is really no reason for the U.S. taxpayer to subsidize the foreign advertising and promotion activities of multinational corporations.

Also, because exports under Titles I and III of Public Law 480 are a small portion of total U.S. agricultural exports and most of the countries currently receiving Public Law 480 commodities are unlikely to become commercial customers, the market development aspect of the program is insignificant and those two titles should be eliminated.

Title II, which provides donations for emergency food relief does warrant continuation. However, regardless of what is done with the different titles of Public Law 480, all cargo preference requirements should be removed from the Public Law 480 Program. These requirements only serve to undermine the competitiveness of U.S. agricultural exports.

I would like to conclude by stressing that in addition to implementing policies that promote growth and competitiveness of U.S. agricultural products, the other key to future export growth is to achieve further reforms in international trading rules.

As I was quoted earlier by Auggie, "the Government should not look at the GATT reforms as an end but as a beginning. Future negotiations should pursue increased market access for U.S. agriculture products and complete removal of both tariff and nontariff import barriers, in addition to the total elimination of all export subsidies and other trade distorting policies."

As Auggie said, we should not unilaterally disarm. But I think that at this point in time it is justifiable to ask whether the EEP Program is indeed arming us at all. In order for it to actually adequately counter European Union subsidies, we would probably have to massively increase the funding for that program. So, the question is: Are there other strategies that should be used rather than the EEP?

I want to thank you again, Mr. Chairman, for the opportunity to present these views and I will be glad to answer any questions and hope that my entire statement can be put in the record.

Chairman MANZULLO. Thank you very much.

[Mr. Frydenlund's statement may be found in the appendix.]

Chairman MANZULLO. Mr. Sisisky.

Mr. SISISKY. Thank you, Mr. Chairman. I thank all of you for being here today. Interesting discussion. Market promotion, did you say, was a billion? What is the figure?

Mr. SCHUMACHER. What I mentioned in my testimony was that the European Union is putting more into their export subsidies for wine—which is about $100 million, than we do in our entire market promotion for the United States to promote the kind of exports that Commissioner McGuire mentioned, moving apples into Israel, for which we are only spending about $85.5 million.

Market promotion is an innovative effort to do exactly as Commissioner McGuire mentioned and——

Mr. SISISKY. What is the budget for marketing promotion?

Mr. SCHUMACHER. $85.5 million only for the Market Promotion Program.

Mr. SISISKY. Is that the one you were talking about with the large companies.

Mr. SCHUMACHER. That is a different program.

Mr. FRYDENLUND. The Market Promotion Program, of course, does go to large multinational companies.

Mr. MCGUIRE. No.

Mr. SCHUMACHER. I could reply if you wish.

Mr. SISISKY. Well, we have some disagreement there. So, I am just as confused as you are.

Mr. MCGUIRE. Could I comment to that?

Mr. SISISKY. Sure.

Mr. MCGUIRE. It is obvious it isn't news to anybody in this room that there is a lot of criticism from Congress on money paid in promotion programs to McDonald's and other large corporations. That has been very much changed in the last 3 or 4 years, particularly the last two, but I would point out that it is not a change in policy from the administration of the thing as it is a change in policy of Congress.

The point being that the program was to move agricultural products and to move volumes of agricultural products. McDonald's could move more cheese than 500 small companies could move cheese because they have access to world markets and they use a lot of cheese. They use a lot of the potatoes. They move more potatoes than a whole lot of other small businesses could move potatoes.

The original input, and the reason Congress passed thise thing, was to move agricultural products not as a program for business so that was the direction of it originally. It has been shifted in the last 2 years, and particularly through the MPP Program funds that Mr. Schumacher spoke about, of accommodating and working through more small businesses and introducing them into export markets that hadn't been there before.

Mr. SISISKY. Well, I would, for McDonald's and other companies, Kraft, in my former life I was with an international company called PepsiCo. I don't think they got too much promotion for going around the world. I mean, they have got their own State Department. These multinational companies know how to do it. They transfer people, just like our State Department, every 3 or 4 years and they have global advertising. They cultivate it.

I am not unhappy with the statement that you made. I don't think we really should be supporting that because they can do that on their own, but the Export Enhancement Program is the one I was really getting at.

You are not opposed to that, are you?

Mr. FRYDENLUND. Yes.

Mr. SISISKY. Tell me why, for small business. Tell me why.

Mr. FRYDENLUND. First, the Export Enhancement Program is not accomplishing anything. It has not increased our market share. It is supposed to be helping agricultural exports. In the time that it has been in place, we have continued to lose market share.

It is counterproductive in that what we accomplish by trying to drive down world prices instead makes the United States a more attractive export market for foreign products and we end up using a billion dollars for that program, while you obviously cannot be affecting every single sale that is made. So, what you do is tell foreign buyers that they should hold out for the subsidized sale. It really makes our unsubsidized sales less attractive.

Mr. SISISKY. But as long as we do have subsidized sales and there is a reason for being there, what does—one of the things I never understood about this Nation, if you take any company that sells product, their first thing is, how to market it.

Marketing is the key to all the growth in any company or any commodity, as far as that goes. The person who is trying overseas goes into a foreign country, he needs some help in that embassy, whether an agricultural person or somebody to enhance that.

They don't know how to do business over there. I am not talking about the large companies. I am not talking about the Krafts or people like that. I am talking about a cooperative in my area that has a cotton gin or have their own peanuts and they want to get into a market.

How do they get into that market without help from the Federal Government?

Mr. McGUIRE. Congressman, I agree with you completely. That is what the MPP Program is doing. It is not a subsidy to business or to farmers either. Let me tell from firsthand information in New York State how it works. They have companies apply, and we say, if you will sell New York State apples and promote New York State apples in the foreign market, we will pay half of that promotion and you pay half of that promotion, rather than them having to market in France and selling French apples and European apples in their markets in France. So, we have increased the sale of New York markets by helping promote New York on a 50/50 basis and they have to qualify for that.

Many of the times they would just not bother spending the money at all. We get them to spend half of the money and we put up the other half of it. That is how we help all of these businesses on a 50/50 basis, and they have to demonstrate that they have the capability of moving agricultural products through their business opportunities and we need the Government to help us in making those kinds of things.

Mr. SISISKY. What is the Federal Government doing now in enhancing that?

Mr. McGUIRE. That is Federal Government money.

Mr. SISISKY. That is Federal Government money.

Mr. SCHUMACHER. A portion. One of the fascinating things about the Foreign Agricultural Service, and I have only been there a little less than a year, is it is a public-private agreement. We share 50 percent and, hopefully, 50 percent is supplied by the company.

That Israeli apple operation that Commissioner McGuire spoke so glowingly of, we put in a very little amount of money, $2,000 or $3,000 for the promotion. It is very important that we cost share for medium- and small-enterprises. I think it was also fascinating, Congressman, you mentioned your relationship formerly with Pepsi Cola. Pepsi owns Pizza Hut, and I am working very closely as this week——

Mr. SISISKY. Don't tell me you supply them with cheese promotion, now.

Mr. SCHUMACHER. No. The important issue, we don't promote and work with Pepsi, but we try and break down trade barriers, as John has said, in our day-to-day negotiations with foreign countries that prevent Kraft Cheese from coming into Poland.

Mozzarella freeze-dried pizza toppings to put on the pizza the Polish people want very badly. The Polish pizza cheese is not quite up to our standards and they have prevented American cheese, by a straight-out ban, from coming into Poland. It is our job in the Foreign Agricultural Service to break down those trade barriers in the hard negotiations to allow American mozzarella topping on Polish pizzas.

Mr. SISISKY. The yellow light is on. I want to follow through on that. You mentioned South Korea which really drives me up. I am on the House National Security Committee and I have been on there for 13 years. Now, is there any credibility for them to say that the shelf life of meat is 14 days and that is why they can import?

Mr. SCHUMACHER. Absolutely not.

Mr. SISISKY. Well, I got news for you. Do you work with othe Agencies of the Government? When they want the Patriot missile sitting over there to protect them from North Korea, maybe w need to tell them we have got a 14-day shelf life for Patriot missiles. I am serious as I can be that we have to pull them out afte 14 days. I just get so sick and tired of this with our friends. Bu use the other agencies.

I happen to agree with the President on trade sanctions against Japan. I tell you. I think it is the hardball that he is doing now that, somewhere along the line, we have to do it. I know it is going to hurt a lot of people and I have heard from my car dealers but, sooner or later, this is the type of thing that we have got to do.

Mrs. CLAYTON. You won't be able to buy a Lexus.

Mr. SISISKY. That is tough. I appreciate you being here.

I happen to believe that when they were doing European Union and getting all this together, I was over in Brussels. Japan had more marketing people in Europe in that one city than we had in all of Europe and probably Asia, too. We wonder why we don't get the business.

We have to remember that in lieu of anything else that we have, only the Government can step in to do certain things, and marketing is the absolute important thing. Without marketing, you are not going to sell product.

Chairman MANZULLO. We appreciate that very much.

I have one follow-up question, then I want to go on to another colleague. My understanding is the USTR has the job to do such things as being able to get our quality cheese into Poland. Are you saying that you are doing the same thing, too?

Mr. SCHUMACHER. We work very, very close with them, very, very closely indeed. I think the U.S. Department of Agriculture is really unique in the extraordinary close relationship we have on trade policy with Mr. Kantor and his colleagues.

Chairman MANZULLO. Mr. Sisisky asked some questions about some numbers here. We are talking about three different programs.

Mr. SCHUMACHER. Yes. There is the Export Enhancement Program which is an export subsidy to counter the unfair dumping on export of the European Union, the lack of transparency of the Canadian Wheat Board, and some of our problems with our treaties.

Chairman MANZULLO. What is the President's request on that this year?

Mr. SCHUMACHER. Up to the GATT legal, the GATT agreed, I think it was about—Chris?

Mr. GOLDTHWAIT. That is the European figure. The U.S. figure.

Mr. SCHUMACHER. I think for 1994, it was $850 million was the authorized amount by Congress. The President's request, I think, was for $914 million. I will provide the correct amount, but in that order.

[Mr. The information may be found in the appendix.]

Chairman MANZULLO. Eighty percent of that, I understand, is going for wheat; is that correct?

Mr. SCHUMACHER. Yes. That is where the——

Chairman MANZULLO. Most of that is going to three companies.

Mr. SCHUMACHER. The EEP, Mr. Chairman, is basically to help the wheat growers of America. The way it works administratively is through our major wheat exporters which are large corporations. But the price benefits the American wheat grower——

Chairman MANZULLO. I understand that. What I would like to do is try to simply extract the amount of money we are spending on these programs and then we can move on from there.

Mr. SCHUMACHER. Mr. Goldthwait runs the EEP Program.

Chairman MANZULLO. Please identify yourself for the record.

Mr. GOLDTHWAIT. My name is Chris Goldthwait. I am the general sales manager working with Mr. Schumacher in the Foreign Agricultural Service.

The President's request for the EEP Program for fiscal year 1996 is about $960 million and that would be augmented by some smaller amounts for dairy and vegetable oil export assistance programs. The total would be a little over $1 billion for fiscal year 1996.

Now, this would give us the authority to achieve the full allowed limit of subsidization according to our GATT commitments. These levels will phase down according to that GATT schedule over a number of years, 6 years, and the funding level over that 6-year period will drop 36 percent.

Chairman MANZULLO. What is the final number for 6 years?

Mr. GOLDTHWAIT. The final number at the end of 6 years will be $594 million for all of the subsidy programs.

Chairman MANZULLO. You mean the EEP?

Mr. GOLDTHWAIT. The EEP the Dairy Export Incentive Program and the Vegetable Oil Export Assistance Programs.

Chairman MANZULLO. OK.

Mrs. Clayton.

Mrs. CLAYTON. I apologize for having to step out on an emergency, but I wanted to get back to the appropriation again, although this is not—it does indicate whether we have resources to do these great things. I gather we are moving up to the maximum level in all three of the programs up to the GATT level. Is that it?

Mr. SCHUMACHER. The President's request to Congress is to fund the export programs at the GATT permissible levels. The President has requested the full authorization for the market promotional program of $110 million.

Mrs. CLAYTON. So over a period of 5 years, going to GATT, you go down; is that right?

Mr. SCHUMACHER. Yes. Under the Uruguay Round, we will cut—the GATT agreement is to cut by more than half the subsidies exports but not the promotional programs. The promotional programs Linda and Dick have mentioned are very, very important to meet our marketing needs overseas for medium- and small-enterprises.

Mrs. CLAYTON. So the promotional programs are not controlled by the GATT limits?

Mr. SCHUMACHER. Right. These programs are legal under GATT.

Mrs. CLAYTON. The other one, the Chairman began to infer or to suggest that maybe the lion's share of the EEP Program was being decreed through, if not to, a limited number of exporters and I get the wheat. Help me understand the distribution of the utilization of the programs so that I get a feel.

Are the exporters the controller of those who get the resources? Is that a point of convenience on how we export? Help me understand the limitations that that may impose on small business as they want to utilize these resources for their opportunities.

Mr. GOLDTHWAIT. The Congressman is correct that, historically, several large firms have done most of the marketing of the commodities that we assist through the export subsidy programs, particularly the grains. This basically mirrors the trade pattern for wheat and other bulk grains where, in effect, the bulk of world trade is conducted regardless of the origin of the commodities by a handful of large companies and——

Mrs. CLAYTON. I am from North Carolina and do soybeans, so the opportunities for our farmers in North Carolina to be able to sell their soybeans, are they constrained because of this?

Mr. GOLDTHWAIT. No, they are not. In fact, we have not had to use export subsidy programs to support soybean exports.

Mrs. CLAYTON. I was trying to give one example and I pulled the wrong example, right? We don't grow wheat, unfortunately. That would have been wrong because that is not indigenous to our area. Is there anything in North Carolina that would be—how about corn?

Mr. GOLDTHWAIT. We don't use this program for corn. We have used it for——

Mrs. CLAYTON. So there is no reason North Carolina should be supporting this. I shouldn't be supporting your program. There is nothing my farmers can do because you are eliminating all my crops now.

Mr. GOLDTHWAIT. We have used it very successfully for exports of pork, including some very large tonnages, like 20,000 tons from North Carolina.

Mrs. CLAYTON. You got my attention there.

Mr. GOLDTHWAIT. In fact this is, I think, an example of how the program was actually used as a market development tool. Because after making some subsidized sales of the pork to Russia and in effect, introducing our product to Russia, what we found was that the exporters, including several firms out of North Carolina, some firms out of Iowa, other States, went and now that they have the contact with Russians, they began to sell the commodity at U.S. market price levels without the need for the subsidy program and now we have ongoing cash, nonsubsidized business to Russia as a result of having used this program to get a beachhead.

If I could add one other example. I think looking at dairy, the subsidy programs have been also very effective in introducing U.S. dairy exporters, including a large number of small firms, into the export market and we now have about 40 or 50 companies that are marketing U.S. dairy products, using DEIP.

The number before we had implemented this program was perhaps a dozen and, again, the dozen tended to be larger companies. So, I think dairy is one area that the export subsidy programs really have gotten more smaller firms involved.

Mrs. CLAYTON. Could you just go through in a descriptive of what the nature of this assistance is, this promotion? How is it that you promote it? Do you provide technical assistance? Do you provide information? Is it hands-on?

Would you just, for the record, share a description of what a businessperson or firm would likely get from you in terms of resources and assistance.

Mr. SCHUMACHER. With pleasure, Congresswoman.

Let me maybe use an example of poultry which I have been quite involved in recently and throughout the country. I will give you an example of a very small poultry company in, Moorefield, West Virginia called Pierce Foods which has received a $50,000 grant from the market promotional program.

What we have done, I visited the plant myself and I was curious to see this is a very small town of 3,000 people. There are over 3,000 people actually working in poultry in that town. So, it is a very important industry and a very small rural village.

Mr. Hester runs the company, asked for a small amount of money to market his new types of poultry on the Japanese market. They redesigned their own product and they use our promotional moneys to go to the shows. It is very, very expensive now to stay in a hotel room in Japan. I think it is $400 a night. It costs you $40 at breakfast.

So for small firms, it is prohibitively expensive to go there, to go to the shows and put their products on display. They got their product in, they are using the Market Promotion Program to promote that small firm's product on the Japanese market with a specialty product just for the Japanese market. It is called Pizzola 705, not something that would grab my attention, but in Tokyo they apparently love it. He is now so busy that they have to stagger the shifts coming into his plant because they only have one stop light.

Mrs. CLAYTON. Very good. Thank you.

I will stop now, Mr. Chairman.

Chairman MANZULLO. Mr. Schumacher, has there been any thought that that company would pay back the $50,000?

Mr. SCHUMACHER. They are paying it back, sir, in the numbers of people they have taken off on the unemployment rolls in West Virginia.

Chairman MANZULLO. I understand the investment theory of economics. But the overwhelming thought that I see as we get involved in this subcommittee and others is the same with student loans where we are simply asking that the students pay back interest starting at the time that the interest—that the money is actually loaned to them. I would I think somewhere along the line we are missing something. Companies benefit from this program, especially a company of 3,000. That is a huge company.

Mr. SCHUMACHER. A thousand employees. There is another company in the town.

Chairman MANZULLO. A thousand. Somewhere along the line, I think that agencies, perhaps in order to salvage some of these programs, ought to start looking for creative solutions. If this program works, and if you actually gain market share, perhaps there should be some at least moral responsibility to reimburse the American taxpayers for helping that company do business overseas. It is just a thought.

Mr. Chrysler.

Mr. CHRYSLER. Yes. As we move toward a balanced budget, a vote on that tomorrow, certainly, and the new farm bill coming out, Ag budget being looked at very closely they are talking about cutting $8 billion in the Senate, maybe $9 billion in the House, I don't know, I look at it and say that if we can get to a balanced budget, Alan Greenspan says that we can cut our interest rates by 1.5 percent, and if you look at agricultural real estate alone, that would mean a $10.65 billion savings on that alone. I think we ought to be looking into those areas.

I think with the interest toward balancing the budget and the importance of balancing a budget for our children, do you have any suggestions for Congress on how we can get a better bang for our buck by cutting out any program or any regulation or any Government roadblock?

Mr. SCHUMACHER. Well, I testified earlier today, Congressman, one of our problems is our competitors. We need to get to what John is asking to eliminate all of the programs over time. I would like to get there sooner. But if we don't meet our competitors, on the interest rate question, for example, some of the Midwestern banks are getting very nervous about the big cuts that are taking place because of the impact they feel it is going to have on land values. It has been written up in some of the press.

So I think we need a transition period to move forward over the next 5 or 6 years and we need, in my agency, to be even more aggressive about dealing with the trade policy issues that are impeding the barriers that we have discussed with our colleague from Virginia on how do we get our beef into South Korea.

I would love to move a lot more of Congressman Brownback's beef into South Korea. I can't. His companies and his neighbors are not allowed to sell beef in South Korea that has longer than a 14-day shelf life.

Mr. CHRYSLER. We have 19 different departments in the Federal Government right now that deal with trade. Do you think there would be any sense in consolidating that into, maybe, one Trade Department that could handle so the right hand knows what the left hand is doing so we can get a more productive effort out of it.

Mr. SCHUMACHER. Well, I come from a small State in Massachusetts and I know Dick is a little larger State. I get real nervous when we start centralizing. I really like to see things kind of coordinated and targeted. The President's farm bill guidance which just came out I think is very innovative in the way it coordinates and is targeted. I work very closely with Mr. Kantor and Mr. Gardner in the State Department and others to carefully coordinate, but to create another big bureaucracy, sir, I would be very nervous.

Mr. CHRYSLER. I think we have the big bureaucracy now. It is certain it is in 19 different places. Certainly Mr. Kantor's remarks and me being from the automobile industry, American automobile industry. I am not promoting Japan or anything but with a demagoguery that goes on from Mr. Kantor about the trade—how we can't sell cars in Japan, the reason we can't sell cars in Japan is we don't build right-hand drive vehicles in this country. That is why we don't sell cars in Japan, pure and simple. Japan is a right-hand drive country.

Mr. SCHUMACHER. Well, I have seen a lot of nice Cherokees 2 weeks ago in Japan. There seems to be a nice demand for the Grand Laredo Cherokee with a right-hand drive.

Mr. CHRYSLER. They are made in China, the Grand Cherokee, for export to Japan. I guess the auto parts thing is a whole other issue. I think if we build right-hand drive cars here, we can sell those in Japan and then I think we will sell a lot more parts, but I don't think we ought to demagogue the issue by saying we can't sell cars in Japan and make the American people believe that the reason that we can't sell American cars in Japan is they won't buy them. We don't put the steering wheel on the right side to them.

Mr. MCGUIRE. Mr. Chairman.

Chairman MANZULLO. We have a vote here in a few minutes.

Mr. Brownback, did you have some questions.

I would like to conclude this and then go on to vote if that is OK with everybody. I am going to hand it over to Mr. Brownback. When we get the second call, that is 10 minutes and then we have got to leave.

Mr. BROWNBACK. Sounds good. I will be brief, other than to quickly say you have got a great line up here. I have served with two of these people as State Agriculture Secretary. Gus is one of the most innovative people I know and Dick, as well, in New York and Linda Reinhardt who is also a constituent also from the center of the universe, Kansas, does a wonderful job, has a great farming operation, has been a great contributor for a long period of time. Good points.

Real quickly, what do you think about, I am kind of encouraged about what Kantor is engaging with the Japanese. I have worked in the trade field. What do you think is the chance that we could get the beef tariff down further from the—is it 50 percent now. It is going to 35 percent in the GATT.

What about us going over to Mickey and saying, why don't you say zero on beef as we are fighting with them through this round on that? Is that being kicked around?

Mr. SCHUMACHER. The whole point that we are going to try to accelerate to as much as possible in the next few years, further reductions in tariffs, but there is reluctance. The agreement is in the GATT.

Mr. BROWNBACK. Now is the time when the big fight is going, really. Are you guys encouraging us to get it?

Mr. SCHUMACHER. I tend to stick to agriculture and my friends stick to cars. I obviously should stick to agriculture.

Mr. BROWNBACK. This is the big chance. Now, we have got a $60 billion trade imbalance with the Japanese and they are going to have to open. They should be forced to open that market up here.

Mr. SCHUMACHER. We are doing actually pretty well in Japan right now with beef and we are starting with beef, pork, and now with chicken. I will take your point under advisement.

Mr. BROWNBACK. We are doing great compared to where we have been. It is a 50 percent tax. Where would we be if it was a zero tax on North Carolina pork or Kansas beef?

Mrs. REINHARDT. Representative Brownback, one of the issues of value-added, the publication from Kansas that I just read did State that we are doing better with beef in Japan and particularly with the prepared process beef. I guess they are no different than we Americans are, we like to have it all ready to come to the table. There was an increase in them buying from us in prepared beef.

Mr. BROWNBACK. They are buying more. If they didn't have a 50 percent tax, I would bet they would buy even a little bit more. Sorry. This is a good panel and I don't want to stretch this past. I really appreciate your comments and us looking at trade promotion policy and how we can do it effectively and how we can open other places up.

Chairman MANZULLO. Real quick, Mr. McGuire.

Mr. MCGUIRE. Yes. I would like to make a generic comment in our concerns about budgets. If the rest of the Government had taken the cuts that the Department of Agriculture and agricultural programs have taken in the last 4 years, we wouldn't have this discussion. We wonder why the public has cut us so severely in the last two farm bills and particularly in the last one and particularly being talked about in this one when we are not part of the problem.

Chairman MANZULLO. We can't answer that because none of us was here when the last farm bill was passed.

Mr. MCGUIRE. I happened to be, so I know.

Chairman MANZULLO. I mean, none of us Members up here.

We want to thank you for coming here. This is a tremendous amount of talent. Each of you has done an excellent job in representing your position. You have traveled here at your own expense and we really appreciate the great concern that you have.

Your written statements will be made part of our permanent record.

[The information may be found in the appendix.]

Chairman MANZULLO. Believe me, we will be looking at this not within the next week or so because we have budget votes, but it is a great desire on my part and Mrs. Clayton's, perhaps, to make all trade promotion programs cost efficient, more economical, and to have some part in the U.S. Government.

Thanks again for coming. The subcommittee is adjourned.

[Whereupon, at 12:02 p.m., the subcommittee was adjourned, subject to the call of the chair.]

APPENDIX

Statement of Representative Eva Clayton
House Small Business Committee
Subcommittee on Procurement, Exports and Business Opportunities
Public Hearing
May 17, 1995

Mr. Chairman, I want to commend you for this second in a series of hearings on trade and the role of federal agencies in the promotion of export opportunities. Today, we focus on Federal Agricultural Export Programs.

This hearing is timely for many reasons. This week, we begin consideration of the Budget Resolution for Fiscal Year 1996. It is important to note that both the House and Senate Budget resolutions, as passed by the Budget Committees in each Chamber, propose radical changes in the way we conduct our export programs.

The irony of these proposals is that this radical change comes at a time when our export promotion programs are producing unprecedented gains. In the area of agricultural, for example, we now export about one-third of the products we produce. Last year, farm and far-related exports generated more than $100 billion in economic activity for America, producing nearly a million jobs here. And, with respect to merchandise trade, farm production actually generates a trade surplus which, this year, is expected to be some $20 billion.

My Congressional District is one of the most sprawling in the state of North Carolina, and includes an extremely diverse agricultural base. Most of the production comes from bulk commodities, with little further processing. Some of the products that have benefitted from the Market Promotion Program and from the Foreign Agricultural Service of the USDA are poultry, peanuts, pork, soybeans, sweet potatoes, seafood and pet food. Poultry constitutes the largest volume of exports, and those companies within my Congressional District have expressed great satisfaction with the Market Promotion Program. Peanut farmers have reported increased sales. And, sweet potato promotion has resulted in an increase in exports of some twenty-five percent, particularly to markets in Canada. In North Carolina, farm and farm-related jobs constitute at least one-fifth of the employment and, on average, twenty-five to thirty percent of the revenue.

It, therefore, greatly concerns me when I see proposals to impose deep cuts in agriculture promotion programs. Indeed, a reduction of $17 billion, over seven years, in my view is not a cut. It is a severance. We should not blindly cut programs in our march towards a balanced budget by the year 2002. We should pass a budget bill that aims at a balanced budget. I support that goal. But, we should also pass a Farm Bill and pass an export promotion program that recognizes the vital role of agriculture in this Nation's economy and life. Agricultural promotion and budget cutting should not be combined.

Yet, that is precisely what the House and Senate Budget Committees have proposed, eliminating important agencies and functions and reducing export financing and trade promotion programs. And, in the Senate, there is a proposal to return us back in time, by combining again the functions of the Foreign Commercial Service with those of the State Department. Each of these proposals would further weaken the United States as we seek to compete in an increasingly competitive global marketplace.

This is not 1946, Mr. Chairman. America no longer maintains the dominant position we once held in the world marketplace. We are being dramatically outspent by other nations whose goal is to promote their products and replace us whenever they can.

Three percent of the people of America feed the remaining ninety-seven percent. Yet, many of those who have chosen farming as a profession are facing difficult times. Further erosion of the very programs designed to assist the farming community in maintaining a competitive edge may well force those on the edge over the brink. Do we really want one percent or fewer of our population to be responsible for feeding all of us? We should be looking at ways to expand and encourage participation in farming, not ways to discourage it. Do we really want to reduce farm income by an average of $5 billion a year over the next ten years? We should be looking at ways to expand farm income. The key to expansion lies in exports. And, the key to exports lies in an effective Market Promotion Program.

I hope out of these hearings, Mr. Chairman, we will come to recognize the continued importance of export promotion. It is an investment in our future.

STATEMENT OF CHAIRMAN DON MANZULLO

SUBCOMMITTEE ON PROCUREMENT, EXPORTS, AND BUSINESS OPPORTUNITIES

SMALL BUSINESS COMMITTEE

MAY 17, 1995

10:30AM ROOM 2359 RHOB

THE SUBCOMMITTEE WILL COME TO ORDER. TODAY THE SUBCOMMITTEE WILL CONTINUE ITS EXAMINATION OF FEDERAL EXPORT PROMOTION PROGRAMS.

BECAUSE THE DEPARTMENT OF AGRICULTURE RECEIVES THE MAJORITY OF FUNDING FOR THESE PROGRAMS AND AGRICULTURE MAKES UP APPROXIMATELY TEN PERCENT OF OUR TOTAL EXPORTS, IT IS APPROPRIATE TO DEVOTE AN ENTIRE HEARING TO THIS SECTION OF THE BUDGET. IS THERE ANY RATIONALE FOR DEVOTING THIS LARGE SLICE OF THE BUDGETARY PIE TO AGRICULTURE EXPORTS? IS THERE A GOVERNMENT-WIDE TRADE STRATEGY THAT CAN JUSTIFY THE CONTINUANCE OF THESE PROGRAMS?

I REPRESENT THE 16TH CONGRESSIONAL DISTRICT OF ILLINOIS, WHICH REPRESENTS A MICROCOSM OF THE UNITED STATES. THE DISTRICT HAS A HEAVILY INDUSTRIALIZED CENTER IN ROCKFORD, ILLINOIS. I REPRESENT ALSO THE FIRST AND SECOND FASTEST GROWING COUNTIES IN ILLINOIS, ALONG WITH ALL ITS GROWING PAINS. AND, I ALSO REPRESENT HEAVILY AGRARIAN, RURAL COUNTIES NEAR THE MISSISSIPPI RIVER. SO, I KNOW FIRST HAND THE TENSION FACING CONGRESS ON DETERMINING BUDGETARY PRIORITIES IN THIS AREA.

THAT'S WHY I SUPPORT ONE-STOP SHOP FOR THE ENTIRE FEDERAL GOVERNMENT ON TRADE MATTERS. WE MUST STREAMLINE WHERE THERE IS SIMILAR OR DUPLICATIVE FUNCTIONS. WE MUST RATIONALLY DEVISE AN OVERALL TRADE STRATEGY THAT USES PRECIOUS TAXPAYER DOLLARS IN THE MOST EFFECTIVE AND EFFICIENT WAYS POSSIBLE. WE MUST FOCUS ON PROGRAMS THAT CREATES AND SUSTAINS THE MOST JOBS -- NOT JUST SIMPLY AGREEING TO THE STATUS QUO.

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I LOOK FORWARD TO THE TESTIMONY OF THE WITNESSES BEFORE US THIS MORNING. IT'S NOT OFTEN THAT WE SEE YOU OUTSIDE OF THE AGRICULTURE COMMITTEE. SO I BELIEVE THIS HEARING WILL SERVE A GOOD PURPOSE IN HELPING EDUCATE MEMBERS OF THE SUBCOMMITTEE WHO DO NOT SERVE ON THE AGRICULTURE COMMITTEE BUT WILL VOTE ON FARM-RELATED LEGISLATION ON THE FLOOR LATER THIS YEAR.

I YIELD TO THE RANKING MEMBER, MRS. CLAYTON, THE ONLY MEMBER OF THIS SUBCOMMITTEE WHO SERVES ON THE AGRICULTURE COMMITTEE, FOR AN OPENING STATEMENT.

The Heritage Foundation

The Heritage Foundation 214 Massachusetts Avenue, N.E. Washington, D.C. 20002-4999 (202) 546-4400

Congressional Testimony

EXPORT PROMOTION PROGRAMS

TESTIMONY

BEFORE THE SUBCOMMITTEE ON PROCUREMENT, EXPORTS AND BUSINESS OPPORTUNITIES

HOUSE COMMITTEE ON SMALL BUSINESS

May 17, 1995

John E. Frydenlund

Senior Fellow and Director of the Agricultural Policy Project

Mr. Chairman, distinguished Members of the Committee, my name is John Frydenlund, a Senior Fellow and Director of the Agricultural Policy Project at The Heritage Foundation. The Heritage Foundation is a non-partisan policy research institute dedicated to the principles of free competitive enterprise, limited government, individual liberty and a strong national defense. The Agricultural Policy Project is aimed at achieving significant free-market reforms of agricultural policy in the 1995 farm bill. My statement does not necessarily reflect the views of The Heritage Foundation.

I appreciate this opportunity to discuss the effectiveness the export promotion programs managed by the United States Department of Agriculture. Our project has been examining all aspects of the federal government's agricultural commodity policies, particularly the income subsidy and support programs, supply control and conservation programs and export subsidy programs. We are proposing reforms which will enable U.S. farmers to achieve greater incomes from the marketplace and will also promote the revitalization of the rural economy by taking greater advantage of this nation's productive and export potential.

Our study has demonstrated that it is impossible to fairly examine the effectiveness of U.S. agricultural export programs without recognizing how these policies are intertwined with the federal government's overall agricultural policies of central planning and supply management. The contradictory federal policies of providing price supports for U.S. farmers while simultaneously imposing supply controls on production have undercut the ability of U.S. farmers to compete in the international market.

In an effort to counter this effect of its general farm programs, the federal government has used two different strategies to address international trade. In line with Washington's planning mentality, the first is to protect U.S. agricultural markets from international competition by restricting the importation of many commodities. This, unfortunately, is a strategy employed by many other nations as well. The second, also a product of the planning approach, has been to help U.S. producers compete in the international market by subsidizing the export of certain commodities.

Although the federal government has been devoting over a billion dollars annually to direct export subsidy programs, such as the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP) and millions more in loan guarantees and marketing assistance, these expenditures have done nothing to correct the underlying lack of international competitiveness that results directly from government central planning and curbs on production. Neither these programs nor interference with trade has done anything to reverse the decline in U.S. market share. Instead, they have hindered the ability of farmers and processors of agricultural commodities to compete successfully in the international market.

We have continued to observe dramatic increases in world consumption of food products. However, thanks to government acreage reduction programs, U.S. production of the most managed commodities of wheat, feed grains, cotton and rice has remained essentially flat over the last 10 years and the U.S. share of the world market has dropped. This trend has been most dramatic for bulk exports of these commodities.

The federal government's efforts to correct this situation have not worked. It relies on export subsidies to "enhance" foreign purchases of U.S. agricultural products and import restrictions to block competition from abroad. However, these policies only make the situation worse: By depressing world prices relative to the U.S. price, they create a price differential that makes the United States an attractive market for foreign products, while further discouraging the export of U.S. products.

Export subsidies serve primarily to depress world grain and oilseed prices directly and to distort buyer-seller relationships between countries. By keeping domestic prices high relative to depressed world prices, they create a price differential that turns the

United States unnecessarily into an importer of some agricultural products. EEP was originally initiated to counteract the export subsidies of the European Community and to force them to the bargaining table to negotiate restraints on subsidized competition and reduction or elimination of import restrictions. Now that the GATT agreement is about to be implemented, it is an appropriate time to examine the effectiveness of export subsidies, regardless of what the GATT agreement allows or disallows.

Although the GATT agreement was historic in bringing agriculture under international trading rules for the first time, it did not go as far in reforming international trade for agriculture as it should have. While leading the negotiations for the United States, Ambassador Clayton Yeutter had stood firm, insisting on greater reforms. However, subsequent administration's representatives took either less firm negotiating positions or were less committed to total reform. This resulted in far less that total and immediate elimination of export subsidies.

Regardless, the decisions that Congress makes this year in regard to what policy to establish on export subsidies should not be based simply on what the weakened GATT agreement allows. Instead, a decision on whether or not to continue using export subsidies should be based on what is best for American agriculture. The 1995 farm bill needs to establish policies that provide U.S. agriculture with the ability to reestablish their preeminence in the international market by being the low-cost, reliable supplier for that market.

When you examine the EEP, it is difficult to see how it benefits U.S. agricultural exports. By creating a two-price market, export subsidies permit foreign buyers of the subsidized product to pay less for the product than either domestic consumers or foreign purchasers of unsubsidized product. Thus, this two price system creates a gap between higher domestic prices in export-subsidizing countries and lower world prices.

What the GATT agreement did accomplish was a reduction in both subsidy volumes and levels. Thus, non-subsidized products will inevitably increase as a share of world trade. However, if the United States continues to subsidize some sales into the shrinking subsidized market, it will be even less competitive in the growing non-subsidized market.

In examining the effectiveness of EEP, it is important to consider whether the program has actually increased the export of American agricultural products. Originally, the EEP subsidy was provided in the form of bonus commodities which were taken out of government-stored surpluses. Then, at least, the program added to exportable supplies. However, since the EEP became a cash rebate program, even that marginal benefit has disappeared. So, there has been neither any positive effect from bringing additional supplies of commodities into the marketplace nor have there been any increases in bulk commodity sales.

In fact, in recent years, the United States would have likely sold as much wheat without EEP as it eventually did with EEP, due to the relative tightness of the wheat market. Significantly, however, without the program, the United States would have been selling its wheat at a higher price.

Because export subsidies tend to insulate U.S. agriculture from the world markets, subsidy programs are not the answer to a lack of competitiveness. With all of the productive advantages that U.S. agriculture possesses in productive resources, advanced infrastructure and well-developed marketing techniques, U.S. agriculture has nothing to gain from being insulated from the world market.

That is why we have recently proposed agricultural reform policies that will enhance the competitiveness of U.S. agricultural products in the international marketplace. In addition to elimination of the EEP and other export subsidy programs, the following proposals are key to restoring that competitiveness:

- First, and foremost, eliminate all authority for acreage reduction and set-aside programs, effective with the 1996 crop. More than any other policies, these supply-control programs have undermined U.S. agricultural productivity and competitiveness. Unilaterally idling massive land resources in this country has limited the amount of farm products available for export. Also, lower production has forced the established network of agricultural supply, servicing and processing industries to operate at reduced capacity, thereby raising handling costs per unit and discouraging maintenance and reinvestment. In the long run, this could result in disintegration of the infrastructure which would be even more detrimental to competitiveness;

- Second, phase out the subsidy and support programs. Not only are these programs now clearly out of date, but they provide the rationale for the government to impose the massive supply control programs, because the government has proven itself incapable of managing U.S. agriculture without resorting to their use;

- Third, phase out the Conservation Reserve Program (CRP) by ceasing to renew expiring contracts. We would encourage the return of the top land capability classes to productive use by providing present CRP participants the option to withdraw from the program prior to their contract expiration date and, in return, receive 33 percent of their contract payments;

- Fourth, phase out the Farmer-Owned Reserve by prohibiting USDA from entering into any new contracts or renewals. The existence of the reserve has served to dampen commodity prices by overhanging the market. The federal government has dumped the surplus on the market to drive down commodity prices and impose a cheap food policy on U.S. farmers. When the reserve is eliminated, U.S. farmers will no longer have to fear that their government will use this surplus as a weapon to drive down commodity prices. And foreign and domestic buyers will no longer have an incentive to hold off entering the market while they wait for the U.S. government to take that price-depressing action.

Such changes would signal to the rest of the world that the United States intends to pursue an aggressively pro-growth agricultural policy. No longer would foreign farmers continue to expand production of the very agricultural commodities which could be produced more economically by farmers in the United States. Nor would potential foreign buyers have to fear for the dependability or reliability of the U.S. supply.

Reestablished as a reliable supplier, the United States would regain its preeminence in world agricultural exports. Farmers would be freed to do what they do best - - out produce the rest of the world - - and this expansion of productive output would mean growth in farm income. Additional net farm income from the marketplace in 1996 would exceed $2 billion and by the year 2001, it would be near $4 billion. Even with a phaseout of target prices, between 1996 and 2005, farmers would enjoy a net increase in income of $10 billion - - in excess of the reduction in deficiency payments.

Freeing farmers to produce would ignite even more dynamic growth in the rural economy - - as industries retooled and reinvested to meet the new demands of a larger farm economy. Agribusiness supply and processing industries would need more employees to keep up with the expanded service needs of the agriculture production industry. Between 1996 and 2001, at least $21 billion would be injected into the rural economy in new spending on farm inputs such as fertilizer and seed. There would be an even greater impact from increased revenues resulting from increased processing, packaging, transportation and distribution.

This Committee's examination of the effectiveness of agricultural export promotion programs should also scrutinize a couple of additional programs. For instance, the Export Credit Guarantee Programs have not been effective in meeting their stated goal of increasing agricultural exports. Because the programs guarantee loans that commercial banks will not back, these tend to be loans for indebted or risky foreign businesses and the result is high default rates. In fact, the General Accounting Office estimates that the program has cost the federal government $4.2 billion because of loan repayment defaults. This money has not gone to help American farmers, but instead ends up in the bank accounts of foreign crooks taking the U.S. government for a ride.

The Market Promotion Program (MPP) also should be abolished. There is no reason for the U.S. taxpayer to subsidize the foreign advertising and promotion activities of multinational-national corporations. The MPP has become a convenient source of free cash for wealthy businesses to help pay for their overseas advertising budgets. To make matters worse, in recent years, some of the biggest recipients of funds have included foreign-owned companies. Whether domestic or foreign, the huge corporations that are the main recipients of the MPP funds are more than capable of carrying out their own advertising and promotion efforts without the taxpayers picking up the tab. Moreover, besides being little more than a corporate welfare program, the MPP has proved to be an ineffective tool to pressure countries to reduce barriers to U.S. food exports.

In addition, the Department of Agriculture provides international food assistance through the P.L. 480 program, which is intended to promote development of new markets, dispose of surplus commodities and to further U.S. foreign policy interests. When the program began over 40 years ago, the inconvertibility of foreign currencies and the lack of foreign exchange held by potential customers limited commercial exports of large domestic surpluses of agricultural commodities. Sales for foreign currencies and concessional credits, as well as grants, provided a useful mechanism to accomplish the aims of the program.

However, because exports under Titles I and III are a small portion of total U.S. agricultural exports and most of the countries currently receiving P.L. 480 commodities are unlikely to become commercial customers, the market development aspect of the program is insignificant. In fact, both the value and the tonnage of shipments under Titles I and III have declined as commercial exports have grown. Plus, the program has been further rendered obsolete by the fact that disposing of surpluses is no longer a primary concern of the program. Title II, which provides donations for emergency food relief, is the only part of P.L. 480 that warrants continuation. Irrespective of what is done with the different titles of P.L. 480, all cargo preference requirements should be removed from the P.L. 480 program. These requirements only serve to undermine the competitiveness of U.S. agricultural exports. Cargo preference requirements, in effect, work as a surtax on U.S. production, thereby increasing the sales cost of the U.S. product, in comparison to other product.

I would like to conclude by stressing that in addition to implementing policies that promote growth and competitiveness of U.S. agricultural products, the other key to future export growth is to achieve further reforms in international trading rules. The U.S. government should not look at the GATT reforms as an end, but as a beginning. Future negotiations should pursue increased market access for U.S. agricultural products and complete removal of both tariff and non-tariff import barriers, in addition to the total elimination of all export subsidies and other trade-distorting policies.

Mr. Chairman, thank you again for this opportunity to present these views to your committee. I will be glad to answer any questions.

THE HERITAGE FOUNDATION FARM INCOME PROJECTION MODEL

HISTORICAL ANALYSIS

Our first objective in developing this econometric model of the program crop farm economy was to analyze the last four years of farm statistics in order to develop a comprehensive picture of farm income and expenditures from 1990 to 1993.

Each year USDA's Economic Research Service publishes statistics enumerating various components of cost of production. While much of the data is at the national level, a certain amount is at the state and regional level. We wanted to conduct an in-depth study at the national and state level, so where state level data were missing we estimated costs of production based on national and/or regional data for that state and crop. ERS indices on prices paid for production were used to project data from 1990 to 1993. For the purposes of our study, we used ERS's definition of "variable" and "fixed" production costs. Variable costs include: seed; fertilizer, lime and gypsum; technical and custom operations; ginning; drying; repairs; hired labor; fuel and electricity; purchased irrigation water. Fixed costs include: loan interest; real estate interest; tax and insurance; farm overhead costs.

After developing per acre variable and fixed production costs we factored in the corresponding acreage for each state and crop. Statistics on acreage in government programs came from the Agriculture Soil and Conservation Service (ASCS). Statistics on acres harvested, planted, yield, harvest prices, and production were provided by ERS, and our analysis of each state included those program crops with significant acreage planted. In order to maintain internal consistency, all national figures are based on the state level statistics, not on separate national figures that are available from ERS. As a result, our national acreage figures, while including most (80 percent) of all program acres planted, tend to underestimate the total amount of planted acreage. This assumption is consistent with our objective to be cautious in our projections of farm income.

The central purpose of this econometric model was to analyze the economic impact of returning government-idled land to production. Thus, we had to determine how much land would be put back into production under the Heritage proposal.

Of the states and crops included in our analysis, we assumed that about 80 percent of the corresponding government-idled land would come back into production. This breaks down roughly to 63 percent of CRP acres and 95 percent of all other idled acreage. Two-thirds of CRP lands are in land classes good enough in terms of soil quality for cultivation, and those are the acres we assume would to come back into production. CRP acres would partially come back in production as a result of their contracts expiring 1995-1996 (and not being renewed). In addition, as our policy proposes, those holding land in the best land classes and whose contracts expire after 1996 may opt out of the CRP to plant on that land. Those farmers would continue to receive 33 percent of CRP payments until their contract expiration date and deficiency payments 2000.

Determining Future Trends

After estimating 1) land farmed from 1990-1993, 2) the costs involved in producing on that land, and 3) what idle acreage would come back into production, we built a "template" of the farm economy based on an average of 1990-93 costs of production, acres planted and harvested, additional acres, yields, and harvest prices. The components of the completed template for each state and crop included in our analysis were: Acres planted, harvested, government idled acres returned to production, yield, production, variable cash expenses, fixed cash expenses, harvest price, and the total 1993 deficiency payment received for that particular crop in the state. This template is for the year 1994, and we projected those numbers to 1995 by applying the PPI for finished goods for that year and holding acreage values constant. In effect, then, our base or "template" year is 1995 and all of our projections start with 1996.

After building this template we were able to carry out the second objective of the econometric analysis, which was to predict future farm income if just over three-quarters of all idled land were put back into production.

To estimate this, the first question we had to answer was "How will this additional land affect total production and production costs?" Land that has been idled for a certain amount of time will not be as productive as land currently being farmed when it first comes back into production. In addition, when a farmer sets land aside, he usually sets aside land that is more difficult to farm. Therefore, we assumed that the new land farmed would yield only 95 percent as much as land currently being farmed, and that it initially (in 1996) it would cost 5 percent more to farm that land. For 1997 we assumed the disparity in cost would be 2.5 percent, and then each subsequent year we assumed that the cost of producing on the additional acreage would be the same as the cost of the inputs on land that already had been in production.

It would be inaccurate to assume that 100 percent of this additional acreage would be harvested. So, in order to determine how much of this land would actually be harvested and by how much it would increase production, we created a "harvest ratio" based on the ratio between actual planted and harvested acres for crops at the state level.

Productivity gains manifest themselves over time in terms of overall yield per acre. We assumed an overall increase in yield of 0.5 percent each year through 2005. In projecting production and production costs through 2005, yield and input costs were the only variables. We held acreage planted constant.

The second question to answer was crucial, namely, "How will the additional acreage affect harvest prices?" The main body of the monograph gives the argument against the current assumption of inelasticity of demand in the age of GATT and growing world markets. A large increase in production actually would have minimal long-term effects on prices, although there would be short-term fluctuations. But for the purposes of our model we assumed the following:

	1995	1996	1997	1998	1999	2000-05
Price Effect Index (1995=100)	100	96	100	102	104	104

In 1996 we assume prices would drop 4 percent, then go back to the base year price. The 2 percent increase in 1998 and the 4 percent increase in prices from 1999-05 do not reflect inflationary increases—they are real price increases relative to the base due to increased world demand.

In order to determine the full effect of putting additional acreage into production while phasing out deficiency payments we needed to determine

- ❶ **what deficiency payments would be at the state-crop level under current law,**
- ❷ **what deficiency payments under the Heritage model at the state-crop level would be, and**
- ❸ **what impact the reduction in deficiency payments would have on farmer net income. Deficiency payments under the Heritage Plan are based on target price reductions of:**

	1996	1997	1998	1999	2000
Target Price Reduction	3%	3%	3%	5%	5%

Target prices for 199600 are based on ERS baseline projections. We based the deficiency payments at the state-crop level under the Heritage model on the general distribution of payments for crops in each state made in 1993, the most recent year for which statistics are available. Under the Heritage plan all deficiency payments are zeroed out by 2001.

ADJUSTING FOR INFLATION

While we applied different formulas to each variable in computing our model, we also applied the appropriate projected PPI index for finished goods to all of these numbers in order to include inflationary effects in our calculations. Believing that most inflation measures overstate real inflation, we estimated rates that are slightly slower than those currently projected. The non-cumulative effect is as follows:

	1996	1997	1998	1999	2000
Non-Cumulative PPI	3.3%	3.4%	3.5%	3.5%	3.5%

DEMAND FOR PRODUCT

Our demand assumptions neither forsee world famine by 2030 nor hold that countries will be self-sufficient. We are taking "middle of the road" approach and are assuming that increases in production as a result of yield gains and technology alone will not be sufficient to meet demand growth resulting from the combined effect of increasing per capita calorie consumption and population growth. In China and the sub-Saharan countries, for example, demand will continue to exceed their ability to produce, even as standards of living rise modestly and per capita calorie consumption increases. Imports will be needed make up the shorfall, and trade as a percentage of total supply will increase as a result. The U.S. needs to be preparing to gain market share by freeing up available cropland for production, and GATT will expedite that process by greatly enhancing our ability to access world markets.

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The State-by-State Analysis: What Farmers Stand to Gain By Planting on Government Idled Acres Under the Heritage Plan

		1996	1997	1998	1999
AL	Additional Gross Income	56,601,0 5	61,268,830	65,004,911	68,942,297
	Additional Cost of Farm Inputs	63,790,923	64,389,343	650 7,531	67,293 45
	Additional Net Income from Added Acres	**-7,189,908**	**-3,120,513**	**-12,620**	**1,649,152**
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	8,716,235	13 73,455	66 5,350	2 ,593,345
	Total Net Farm Income from Added Acres Under the Heritage Plan	**-15,906,143**	**-16,293,968**	**-16,627,970**	**-19,944,193**
AR	Additional Gross Income	116,284,179	125,873,990	133,549,597	141,638,775
	Additional Cost of Farm Inputs	91,374,881	92,232,064	93,131,889	96,391,505
	Additional Net Income from Added Acres	24,909,298	33,641,926	40,417,708	45,247,269
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	68,874,899	93,888,552	114,374,370	149,745,566
	Total Net Farm Income from Added Acres Under the Heritage Plan	-43,965,601	-60,246,627	-73,956,662	-104,498,296
AZ	Additional Gross Income	48,240,637	52,218,982	55,403,217	58,759,022
	Additional Cost of Farm Inputs	43,306,281	43,712,535	44,138,999	45,683,864
	Additional Net Income from Added Acres	4,934,356	8,506,447	11,264,218	13,075,159
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	12,171,557	18,633,330	23,477,196	31,045,355
	Total Net Farm Income from Added Acres Under the Heritage Plan	-7,237,201	-10,126,884	-12,212,978	-17,970,197
CA	Additional Gross Income	223,665,723	242,111,156	256,874,731	272,433,785
	Additional Cost of Farm Inputs	172,028,628	173,642,420	175,336,493	181,473,270
	Additional Net Income from Added Acres	51,637,095	68,468,736	81,538,238	90,960,515
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	56,089,214	79,539,212	97,352,761	127,858,908
	Total Net Farm Income from Added Acres Under the Heritage Plan	-4,452,119	-11,070,476	-15,814,523	-36,898,393
CO	Additional Gross Income	195,805,036	211,952,833	224,877,399	238,498,355
	Additional Cost of Farm Inputs	93,345,582	94,221,252	95,140,484	98,470,401
	Additional Net Income from Added Acres	102,459,455	117,731,581	129,736,915	140,027,954
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	29,624,138	42,866,763	52,752,302	66,740,227
	Total Net Farm Income from Added Acres Under the Heritage Plan	72,835,316	74,864,818	76,984,613	73,287,728
CT	Additional Gross Income	337,260	365,074	387,336	410,797
	Additional Cost of Farm Inputs	262,722	265,186	267,773	277,146
	Additional Net Income from Added Acres	74,539	99,888	119,562	133,651
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	174,344	251,687	313,158	358,701
	Total Net Farm Income from Added Acres Under the Heritage Plan	-99,805	-151,800	-193,596	-225,050
DE	Additional Gross Income	1,442,692	1,561,669	1,656,898	1,757,257
	Additional Cost of Farm Inputs	894,133	902,521	911,326	943,222
	Additional Net Income from Added Acres	548,559	659,149	745,572	814,035
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	865,572	1,260,902	1,527,369	1,778,552
	Total Net Farm Income from Added Acres Under the Heritage Plan	-317,012	-601,754	-781,797	-964,517
FL	Additional Gross Income	11,520,576	12,470,663	13,231, 06	14,032,522
	Additional Cost of Farm Inputs	15,296,209	15,439,702	15,590,333	16, 35,995
	Additional Net Income from Added Acres	-3,775,633	-2,969,038	-2,359,227	-2,103,473
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	1,662,720	2,468,748	3,099,813	3,867,550
	Total Net Farm Income from Added Acres Under the Heritage Plan	-5,438,353	-5,437,787	-5,459,041	-5,971,023
GA	Additional Gross Income	109,440,571	118,465,998	125,689,877	133,302,986
	Additional Cost of Farm Inputs	100,329,665	101,270,853	102,258,862	105,837,922
	Additional Net Income from Added Acres	9,110,905	17,195,145	23,431,015	27,465,065
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	15,258,070	22,607,450	28,353,389	36,130,478
	Total Net Farm Income from Added Acres Under the Heritage Plan	-6,147,164	-5,412,306	-4,922,374	-8,665,413
IA	Additional Gross Income	473,492,905	512,541,273	543,795,271	576,733,270
	Additional Cost of Farm Inputs	318,924,236	321,916,049	325,056,693	336,433,677
	Additional Net Income from Added Acres	154,568,669	190,625,224	218,738,578	240,299,593
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	154,582,569	223,182,404	277,379,718	317,715,813
	Total Net Farm Income from Added Acres Under the Heritage Plan	-13,899	-32,557,179	-58,641,140	-77,416,220
ID	Additional Gross Income	137,492,261	148,831,076	157,906,572	167,471,066
	Additional Cost of Farm Inputs	92,408,232	93,275,109	94,185,110	97,481,589

The State-by-State Analysis: What Farmers Stand to Gain By Planting on Government Idled Acres Under the Heritage Plan

	2000	2001	2002	2003	2004	2005	Total
AL	71,712,054	74,593,086	77,589,863	80,707,036	83,949,441	87,322,110	
	69,648,405	72,086,099	74,609,113	77,220,432	79,923,147	82,720,457	
	2,063,649	**2,506,986**	**2,980,750**	**3,486,604**	**4,026,294**	**4,601,653**	
	22,785,075	21,060,684	18,638,381	15,553,436	12,010,186	7,955,360	
	-20,721,426	**-18,553,698**	**-15,657,631**	**-12,066,832**	**-7,983,892**	**-3,353,707**	**-147,109,459**
AR	147,329,112	153,248,059	159,404,800	165,808,888	172,470,260	179,399,253	
	99,765,208	103,256,990	106,870,985	110,611,469	114,482,871	118,489,771	
	47,563,904	49,991,069	52,533,815	55,197,419	57,987,389	60,909,482	
	180,495,006	205,073,996	184,564,874	165,593,805	145,807,607	124,314,819	
	-132,931,102	-155,082,927	-132,031,059	-110,396,387	-87,820,218	-63,405,338	**-964,334,216**
AZ	61,119,666	63,575,149	66,129,280	68,786,024	71,549,503	74,424,004	
	47,282,799	48,937,697	50,650,516	52,423,284	54,258,099	56,157,133	
	13,836,867	14,637,452	15,478,764	16,362,740	17,291,403	18,266,871	
	33,995,522	32,105,141	29,013,919	24,755,781	19,483,012	13,370,277	
	-20,158,655	-17,467,689	-13,535,155	-8,393,041	-2,191,609	4,896,594	**-104,396,813**
CA	283,378,812	294,763,556	306,605,682	318,923,565	331,736,319	345,063,826	
	187,824,834	194,398,704	201,202,658	208,244,751	215,533,318	223,076,984	
	95,553,978	100,364,852	105,403,023	110,678,814	116,203,002	121,986,842	
	147,911,571	156,248,654	139,610,968	122,437,805	104,560,946	85,029,363	
	-52,357,593	-55,883,801	-34,207,945	-11,758,991	11,642,056	36,957,479	**-173,844,307**
CO	248,080,027	258,046,642	268,413,666	279,197,185	290,413,931	302,081,311	
	101,916,865	105,483,955	109,175,893	112,997,050	116,951,947	121,045,265	
	146,163,162	152,562,687	159,237,772	166,200,135	173,461,985	181,036,047	
	63,626,441	52,076,082	40,380,726	28,816,244	21,265,634	13,688,122	
	82,536,721	100,486,604	118,857,046	137,383,890	152,196,351	167,347,924	**1,056,781,012**
CT	427,300	444,467	462,324	480,898	500,218	520,314	
	286,846	296,885	307,276	318,031	329,162	340,683	
	140,455	147,582	155,047	162,867	171,056	179,631	
	294,681	234,191	172,995	114,153	56,253	0	
	-154,226	-86,609	-17,948	48,713	114,803	179,631	**-585,886**
DE	1,827,855	1,901,289	1,977,673	2,057,126	2,139,771	2,225,736	
	976,235	1,010,403	1,045,767	1,082,369	1,120,252	1,159,461	
	851,620	890,885	931,906	974,757	1,019,519	1,066,275	
	1,529,720	1,231,443	929,623	640,081	381,141	125,969	
	-678,101	-340,557	2,283	334,675	638,378	940,306	**-1,768,095**
FL	14,596,278	15,182,684	15,792,648	16,427,118	17,087,077	17,773,550	
	16,700,755	17,285,281	17,890,266	18,516,425	19,164,500	19,835,257	
	-2,104,476	-2,102,597	-2,097,618	-2,089,307	-2,077,423	-2,061,707	
	3,792,175	3,360,516	2,844,920	2,260,713	1,633,341	958,896	
	-5,896,651	-5,463,113	-4,942,538	-4,350,020	-3,710,764	-3,020,603	**-49,689,893**
GA	138,658,434	144,229,037	150,023,438	156,050,630	162,319,964	168,841,168	
	109,542,249	113,376,228	117,344,396	121,451,450	125,702,250	130,101,829	
	29,116,185	30,852,809	32,679,042	34,599,180	36,617,713	38,739,339	
	36,166,222	31,947,407	26,993,442	21,408,379	16,004,415	10,132,089	
	-7,050,037	-1,094,598	5,685,601	13,190,801	20,613,298	28,607,250	**34,805,058**
IA	599,903,530	624,004,654	649,074,041	675,150,590	702,274,765	730,488,654	
	348,208,856	360,396,166	373,010,032	386,065,383	399,577,671	413,562,890	
	251,694,674	263,608,488	276,064,009	289,085,208	302,697,094	316,925,764	
	260,844,328	207,307,832	153,146,234	101,065,871	49,837,241	66,774	
	-9,149,655	56,300,656	122,917,775	188,019,337	252,859,853	316,858,990	**759,178,517**
ID	174,199,216	181,197,669	188,477,286	196,049,361	203,925,644	212,118,356	
	100,893,444	104,424,715	108,079,580	111,862,365	115,777,548	119,829,762	

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		1996	1997	1998	1999
	Additional Net Income from Added Acres	45,084,029	55,555,967	63,721,462	69,989,477
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	23,234,942	34,349,633	39,728,952	50,615,299
	Total Net Farm Income from Added Acres Under the Heritage Plan	21,849,088	21,206,334	23,992,510	19,374,178
	Additional Gross Income	286,340,989	309,955,173	328,855,774	348,774,762
IL	Additional Cost of Farm Inputs	163,279,947	164,811,668	166,419,587	172,244,273
	Additional Net Income from Added Acres	123,061,043	145,143,505	162,436,187	176,530,490
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	128,670,378	185,693,753	231,101,010	268,093,210
	Total Net Farm Income from Added Acres Under the Heritage Plan	-5,609,336	-40,550,249	-68,664,822	-91,562,720
	Additional Gross Income	146,945,372	159,063,773	168,763,243	178,985,332
IN	Additional Cost of Farm Inputs	83,098,231	83,877,772	84,696,091	87,660,455
	Additional Net Income from Added Acres	63,847,141	75,186,001	84,067,152	91,324,878
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	57,735,142	83,327,644	103,728,731	120,285,436
	Total Net Farm Income from Added Acres Under the Heritage Plan	6,111,999	-8,141,643	-19,661,579	-28,960,558
	Additional Gross Income	532,517,741	576,433,813	611,583,883	648,627,878
KS	Additional Cost of Farm Inputs	229,526,309	231,679,484	233,939,772	242,127,664
	Additional Net Income from Added Acres	302,991,432	344,754,329	377,644,111	406,500,214
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	118,255,527	169,922,386	211,520,124	274,444,300
	Total Net Farm Income from Added Acres Under the Heritage Plan	184,735,905	174,831,943	166,123,987	132,055,915
	Additional Gross Income	79,585,068	86,148,350	91,401,547	96,937,792
KY	Additional Cost of Farm Inputs	62,351,431	62,936,347	63,550,360	65,774,623
	Additional Net Income from Added Acres	17,233,637	23,212,002	27,851,186	31,163,169
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	13,708,582	19,914,206	24,826,828	29,652,453
	Total Net Farm Income from Added Acres Under the Heritage Plan	3,525,055	3,297,796	3,024,358	1,510,716
	Additional Gross Income	86,107,523	93,208,703	98,892,430	104,882,403
LA	Additional Cost of Farm Inputs	71,685,888	72,358,370	73,064,305	75,621,556
	Additional Net Income from Added Acres	14,421,635	20,850,333	25,828,125	29,260,847
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	37,931,466	53,493,651	65,936,476	86,332,429
	Total Net Farm Income from Added Acres Under the Heritage Plan	-23,509,831	-32,643,318	-40,108,352	-57,071,583
	Additional Gross Income	150,726	163,156	173,105	183,591
MA	Additional Cost of Farm Inputs	117,414	118,515	119,672	123,860
	Additional Net Income from Added Acres	33,312	44,641	53,434	59,730
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	58,361	84,252	104,829	120,074
	Total Net Farm Income from Added Acres Under the Heritage Plan	-25,049	-39,611	-51,395	-60,344
	Additional Gross Income	7,867,163	8,515,958	9,035,249	9,582,519
MD	Additional Cost of Farm Inputs	5,816,283	5,870,845	5,928,122	6,135,606
	Additional Net Income from Added Acres	2,050,880	2,645,113	3,107,127	3,446,913
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	2,914,718	4,229,093	5,184,676	5,904,699
	Total Net Farm Income from Added Acres Under the Heritage Plan	-863,839	-1,583,981	-2,077,550	-2,457,787
	Additional Gross Income	1,061,657	1,149,210	1,219,287	1,293,140
ME	Additional Cost of Farm Inputs	1,101,858	1,112,194	1,123,045	1,162,351
	Additional Net Income from Added Acres	-40,201	37,016	96,243	130,789
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	169,703	246,457	287,015	326,403
	Total Net Farm Income from Added Acres Under the Heritage Plan	-209,904	-209,440	-190,773	-195,614
	Additional Gross Income	94,635,005	102,439,436	108,686,039	115,269,216
MI	Additional Cost of Farm Inputs	67,474,012	68,106,983	68,771,441	71,178,442
	Additional Net Income from Added Acres	27,160,993	34,332,453	39,914,598	44,090,775
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	29,604,064	42,725,223	53,082,818	62,360,301
	Total Net Farm Income from Added Acres Under the Heritage Plan	-2,443,071	-8,392,770	-13,168,221	-18,269,527
	Additional Gross Income	286,510,342	310,138,492	329,050,272	348,981,040
MN	Additional Cost of Farm Inputs	176,643,784	178,300,871	180,040,392	186,341,805
	Additional Net Income from Added Acres	109,866,558	131,837,621	149,009,880	162,639,235
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	96,190,194	139,684,613	170,404,527	201,539,123

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	2000	2001	2002	2003	2004	2005	Total
	73,305,771	76,772,954	80,397,706	84,186,995	88,148,096	92,288,594	
	50,622,553	42,047,872	33,354,664	24,881,226	20,077,177	15,178,804	
	22,683,218	34,725,082	47,043,042	59,305,769	68,070,919	77,109,790	**395,359,930**
	362,786,788	377,361,747	392,522,256	408,291,837	424,694,962	441,757,082	
IL	178,272,822	184,512,371	190,970,304	197,654,265	204,572,164	211,732,190	
	184,513,966	192,849,377	201,551,952	210,637,573	220,122,798	230,024,892	
	224,635,797	179,239,832	133,310,841	88,954,722	47,301,812	6,699,833	
	-40,121,830	13,609,545	68,241,111	121,682,850	172,820,986	223,325,059	**353,170,595**
	186,176,068	193,655,692	201,435,809	209,528,493	217,946,300	226,702,292	
IN	90,728,570	93,904,070	97,190,713	100,592,388	104,113,121	107,757,081	
	95,447,498	99,751,621	104,245,096	108,936,105	113,833,178	118,945,212	
	100,781,561	80,415,241	59,804,213	39,903,525	21,119,260	2,888,422	
	-5,334,064	19,336,380	44,440,883	69,032,580	92,713,918	116,056,789	**285,594,705**
	674,686,503	701,792,034	729,986,528	759,313,737	789,819,167	821,550,152	
KS	250,602,132	259,373,207	268,451,269	277,847,063	287,571,711	297,636,721	
	424,084,371	442,418,827	461,535,259	481,466,674	502,247,456	523,913,431	
	265,374,012	217,216,749	168,785,047	120,313,501	95,484,200	65,675,635	
	158,710,359	225,202,078	292,750,212	361,153,173	406,763,256	458,237,796	**2,560,564,624**
	100,832,268	104,883,204	109,096,887	113,479,854	118,038,908	122,781,121	
KY	68,076,735	70,459,421	72,925,500	75,477,893	78,119,619	80,853,806	
	32,755,533	34,423,784	36,171,387	38,001,962	39,919,289	41,927,315	
	26,354,568	21,726,073	16,895,557	12,054,267	7,543,082	3,046,563	
	6,400,965	12,697,710	19,275,830	25,947,694	32,376,207	38,880,752	**146,937,084**
	109,096,053	113,478,987	118,038,006	122,780,183	127,712,876	132,843,741	
LA	78,268,310	81,007,701	83,842,971	86,777,475	89,814,687	92,958,201	
	30,827,743	32,471,286	34,195,035	36,002,708	37,898,190	39,885,541	
	100,801,567	109,060,842	98,345,297	87,191,478	74,611,964	60,537,062	
	-69,973,824	-76,589,556	-64,150,262	-51,188,770	-36,713,774	-20,651,521	**-472,600,791**
	190,966	198,638	206,619	214,920	223,554	232,535	
MA	128,195	132,682	137,326	142,132	147,107	152,256	
	62,771	65,956	69,293	72,787	76,447	80,280	
	98,644	78,395	57,910	38,213	18,831	0	
	-35,873	-12,439	11,383	34,575	57,617	80,280	**-40,856**
	9,967,497	10,367,941	10,784,473	11,217,739	11,668,412	12,137,190	
MD	6,350,352	6,572,615	6,802,656	7,040,749	7,287,176	7,542,227	
	3,617,144	3,795,326	3,981,816	4,176,990	4,381,236	4,594,963	
	4,857,730	3,869,798	2,870,631	1,915,856	976,062	55,541	
	-1,240,586	-74,472	1,111,186	2,261,133	3,405,174	4,539,423	**3,018,702**
	1,345,092	1,399,131	1,455,341	1,513,810	1,574,627	1,637,888	
ME	1,203,034	1,245,140	1,288,720	1,333,825	1,380,509	1,428,826	
	142,059	153,992	166,622	179,985	194,118	209,061	
	254,855	202,540	149,615	98,726	48,650	0	
	-112,796	-48,549	17,006	81,259	145,468	209,061	**-514,281**
	119,900,157	124,717,146	129,727,657	134,939,466	140,360,659	145,999,648	
MI	73,669,687	76,248,126	78,916,811	81,678,899	84,537,661	87,496,479	
	46,230,470	48,469,020	50,810,847	53,260,567	55,822,998	58,503,170	
	53,242,512	42,656,853	31,940,174	21,547,579	12,174,535	3,088,429	
	-7,012,042	5,812,167	18,870,673	31,712,988	43,648,463	55,414,741	**106,173,401**
	363,001,354	377,584,933	392,754,408	408,533,316	424,946,142	442,018,353	
MN	192,863,769	199,614,000	206,600,490	213,831,508	221,315,610	229,061,657	
	170,137,585	177,970,933	186,153,917	194,701,808	203,630,532	212,956,697	
	176,052,386	142,013,990	107,553,697	74,231,860	45,680,144	17,726,213	

The State-by-State Analysis: What Farmers Stand to Gain By Planting on Government Idled Acres Under the Heritage Plan

		1996	1997	1998	1999
	Total Net Farm Income from Added Acres Under the Heritage Plan	13,676,364	-7,846,992	-21,394,647	-38,899,887
	Additional Gross Income	206,244,000	223,252,685	236,866,299	251,213,430
MO	Additional Cost of Farm Inputs	119,664,145	120,786,709	121,965,116	126,233,895
	Additional Net Income from Added Acres	86,579,855	102,465,976	114,901,183	124,979,535
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	41,929,024	60,204,600	74,906,566	92,557,597
	Total Net Farm Income from Added Acres Under the Heritage Plan	44,650,831	42,261,376	39,994,617	32,421,938
	Additional Gross Income	152,442,880	165,014,653	175,076,999	185,681,516
MS	Additional Cost of Farm Inputs	120,315,700	121,444,375	122,629,199	126,921,221
	Additional Net Income from Added Acres	32,127,180	43,570,278	52,447,801	58,760,296
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	36,455,795	53,484,836	66,819,743	87,987,199
	Total Net Farm Income from Added Acres Under the Heritage Plan	-4,328,615	-9,914,558	-14,371,942	-29,226,904
	Additional Gross Income	245,898,959	266,177,939	282,409,070	299,514,754
MT	Additional Cost of Farm Inputs	144,535,619	145,891,501	147,314,833	152,470,852
	Additional Net Income from Added Acres	101,363,340	120,286,438	135,094,238	147,043,902
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	47,081,373	69,678,546	80,222,562	102,043,934
	Total Net Farm Income from Added Acres Under the Heritage Plan	54,281,967	50,607,892	54,871,676	44,999,968
	Additional Gross Income	55,576,573	60,159,904	63,828,365	67,694,486
NC	Additional Cost of Farm Inputs	53,548,987	54,051,327	54,578,657	56,488,910
	Additional Net Income from Added Acres	2,027,587	6,108,577	9,249,707	11,205,576
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	14,116,650	20,729,871	25,878,099	31,597,720
	Total Net Farm Income from Added Acres Under the Heritage Plan	-12,089,063	-14,621,294	-16,628,392	-20,392,144
	Additional Gross Income	296,473,925	320,923,759	340,493,208	361,117,082
ND	Additional Cost of Farm Inputs	169,919,608	171,513,616	173,186,919	179,248,461
	Additional Net Income from Added Acres	126,554,317	149,410,143	167,306,289	181,868,621
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	94,437,442	139,007,840	162,215,878	206,629,940
	Total Net Farm Income from Added Acres Under the Heritage Plan	32,116,874	10,402,304	5,090,410	-24,761,319
	Additional Gross Income	357,620,216	387,112,708	410,718,260	435,595,707
NE	Additional Cost of Farm Inputs	194,841,546	196,669,346	198,588,071	205,538,653
	Additional Net Income from Added Acres	162,778,670	190,443,363	212,130,189	230,057,054
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	118,377,728	170,602,161	211,859,538	250,439,144
	Total Net Farm Income from Added Acres Under the Heritage Plan	44,400,941	19,841,201	270,651	-20,382,090
	Additional Gross Income	177,190	191,802	203,498	215,824
NH	Additional Cost of Farm Inputs	138,029	139,323	140,683	145,607
	Additional Net Income from Added Acres	39,161	52,479	62,815	70,218
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	43,324	62,544	77,820	89,137
	Total Net Farm Income from Added Acres Under the Heritage Plan	-4,163	-10,066	-15,004	-18,920
	Additional Gross Income	2,724,063	2,948,713	3,128,521	3,318,017
NJ	Additional Cost of Farm Inputs	2,044,212	2,063,389	2,083,520	2,156,443
	Additional Net Income from Added Acres	679,850	885,324	1,045,001	1,161,574
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	694,856	1,005,963	1,241,386	1,417,379
	Total Net Farm Income from Added Acres Under the Heritage Plan	-15,006	-120,640	-196,385	-255,804
	Additional Gross Income	63,008,735	68,204,987	72,364,025	76,747,156
NM	Additional Cost of Farm Inputs	40,460,013	40,839,566	41,238,001	42,681,331
	Additional Net Income from Added Acres	22,548,723	27,365,421	31,126,024	34,065,826
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	5,593,145	8,128,295	10,162,835	12,995,612
	Total Net Farm Income from Added Acres Under the Heritage Plan	16,955,578	19,237,126	20,963,189	21,070,213
	Additional Gross Income	581,961	629,955	668,369	708,852
NV	Additional Cost of Farm Inputs	319,889	322,890	326,040	337,452
	Additional Net Income from Added Acres	262,072	307,065	342,328	371,400
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	60,305	96,223	86,714	84,720
	Total Net Farm Income from Added Acres Under the Heritage Plan	201,767	210,842	255,615	286,680

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	2000	2001	2002	2003	2004	2005	Total
	5,914,801	35,956,942	78,600,221	120,469,948	157,950,387	195,230,484	**527,828,018**
	261,305,929	271,803,895	282,723,617	294,082,038	305,896,784	318,186,187	
MO	130,652,081	135,224,904	139,957,775	144,856,298	149,926,268	155,173,687	
	130,653,849	136,578,991	142,765,841	149,225,740	155,970,516	163,012,500	
	87,712,282	76,518,576	61,438,202	46,420,636	34,499,834	21,550,158	
	42,941,566	60,060,415	81,327,639	102,805,104	121,470,682	141,462,342	**709,396,512**
	193,141,271	200,900,722	208,971,908	217,367,355	226,100,088	235,183,659	
MS	131,363,463	135,961,185	140,719,826	145,645,020	150,742,596	156,018,586	
	61,777,808	64,939,537	68,252,082	71,722,335	75,357,493	79,165,073	
	99,233,411	100,350,829	90,449,506	78,646,651	64,801,932	48,992,057	
	-37,455,603	-35,411,291	-22,197,423	-6,924,317	10,555,561	30,173,016	**-119,102,077**
	311,547,759	324,064,190	337,083,469	350,625,798	364,712,189	379,364,501	
MT	157,807,332	163,330,588	169,047,159	174,963,809	181,087,543	187,425,607	
	153,740,428	160,733,602	168,036,310	175,661,988	183,624,646	191,938,895	
	101,971,074	84,730,836	67,253,255	50,237,899	40,611,875	30,768,343	
	51,769,354	76,002,766	100,783,056	125,424,089	143,012,772	161,170,552	**862,924,091**
	70,414,112	73,242,999	76,185,537	79,246,291	82,430,010	85,741,636	
NC	58,466,022	60,512,333	62,630,265	64,822,324	67,091,105	69,439,294	
	11,948,090	12,730,666	13,555,272	14,423,967	15,338,905	16,302,342	
	29,543,296	25,305,401	20,622,852	15,658,474	10,747,039	5,621,951	
	-17,595,206	-12,574,735	-7,067,580	-1,234,507	4,591,866	10,680,391	**-86,930,663**
	375,624,961	390,715,694	406,412,697	422,740,327	439,723,919	457,389,828	
ND	185,522,158	192,015,433	198,735,973	205,691,732	212,890,943	220,342,126	
	190,102,803	198,700,261	207,676,723	217,048,594	226,832,976	237,047,702	
	204,376,259	169,306,966	133,748,128	98,949,758	78,579,635	58,080,274	
	-14,273,455	29,393,295	73,928,596	118,098,836	148,253,341	178,967,428	**557,216,310**
	453,095,765	471,298,887	490,233,320	509,928,443	530,414,819	551,724,234	
NE	212,732,506	220,178,144	227,884,379	235,860,332	244,115,444	252,659,485	
	240,363,258	251,120,743	262,348,941	274,068,111	286,299,375	299,064,749	
	214,377,438	171,693,340	128,700,345	86,868,258	52,703,162	16,484,577	
	25,985,820	79,427,403	133,648,596	187,199,853	233,596,212	282,580,173	**986,568,760**
	224,495	233,514	242,895	252,654	262,804	273,362	
NH	150,703	155,977	161,437	167,087	172,935	178,988	
	73,792	77,537	81,459	85,567	89,869	94,375	
	73,228	58,197	42,989	28,367	13,979	0	
	564	19,340	38,469	57,200	75,890	94,375	**237,684**
	3,451,319	3,589,975	3,734,203	3,884,224	4,040,273	4,202,591	
NJ	2,231,918	2,310,035	2,390,887	2,474,568	2,561,178	2,650,819	
	1,219,400	1,279,940	1,343,316	1,409,656	1,479,095	1,551,772	
	1,165,391	927,405	686,681	456,014	228,998	7,441	
	54,009	352,535	656,635	953,643	1,250,097	1,544,331	**4,223,416**
	79,830,473	83,037,663	86,373,701	89,843,764	93,453,237	97,207,721	
NM	44,175,177	45,721,309	47,321,554	48,977,809	50,692,032	52,466,253	
	35,655,296	37,316,354	39,052,146	40,865,955	42,761,205	44,741,468	
	12,545,575	10,615,239	8,571,905	6,420,247	5,052,036	3,250,975	
	23,109,721	26,701,115	30,480,242	34,445,708	37,709,170	41,490,493	**272,162,555**
	737,330	766,953	797,765	829,815	863,153	897,830	
NV	349,263	361,487	374,139	387,234	400,787	414,814	
	388,068	405,466	423,626	442,581	462,366	483,016	
	72,760	61,796	50,832	42,859	34,885	23,921	
	315,308	343,670	372,794	399,723	427,481	459,095	**3,272,973**

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		1996	1997	1998	1999
	Additional Gross Income	24,224,972	26,222,776	27,821,801	29,5[illegible]6,984
NY	Additional Cost of Farm Inputs	26,738,659	26,989,493	27,252,805	28,206,653
	Additional Net Income from Added Acres	-2,513,687	-766,718	568,996	300,330
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	8,914,712	12,872,428	5,922,665	8,587,758
	Total Net Farm Income from Added Acres Under the Heritage Plan	-11,428,399	-13,639,145	-5,353,670	-[illegible]287,4[illegible]7
	Additional Gross Income	103,330,801	111,852,363	118,672,952	125,861,042
OH	Additional Cost of Farm Inputs	67,121,197	67,750,858	68,411,842	70,806,256
	Additional Net Income from Added Acres	36,209,604	44,101,505	50,261,110	55,054,786
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	40,506,391	58,445,178	72,758,739	85,811,766
	Total Net Farm Income from Added Acres Under the Heritage Plan	-4,296,788	-14,343,674	-22,497,628	-30,756,980
	Additional Gross Income	146,371,498	158,442,572	168,104,162	178,286,330
OK	Additional Cost of Farm Inputs	101,866,869	102,822,477	103,825,624	107,459,520
	Additional Net Income from Added Acres	44,504,628	55,620,095	64,278,539	70,826,810
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	45,383,773	65,615,733	82,233,450	110,697,261
	Total Net Farm Income from Added Acres Under the Heritage Plan	-879,144	-9,995,639	-17,954,911	-39,870,451
	Additional Gross Income	90,025,520	97,449,812	103,392,156	109,654,679
OR	Additional Cost of Farm Inputs	44,891,785	45,312,913	45,754,990	47,356,415
	Additional Net Income from Added Acres	45,133,735	52,136,900	57,637,166	62,298,265
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	11,391,075	16,588,664	20,041,169	26,441,317
	Total Net Farm Income from Added Acres Under the Heritage Plan	33,742,660	35,548,236	37,595,997	35,856,948
	Additional Gross Income	17,982,405	19,465,392	20,652,362	21,903,288
PA	Additional Cost of Farm Inputs	15,232,224	15,375,117	15,525,118	16,068,497
	Additional Net Income from Added Acres	2,750,181	4,090,275	5,127,244	5,834,790
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	5,235,846	7,570,823	9,326,731	10,786,909
	Total Net Farm Income from Added Acres Under the Heritage Plan	-2,485,666	-3,480,549	-4,199,487	-4,952,1[illegible]8
	Additional Gross Income	1,490	1,612	1,711	1,814
RI	Additional Cost of Farm Inputs	1,160	1,171	1,183	1,224
	Additional Net Income from Added Acres	329	441	528	590
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	882	1,273	1,584	1,814
	Total Net Farm Income from Added Acres Under the Heritage Plan	-553	-832	-1,056	-1,224
	Additional Gross Income	49,820,196	53,928,805	57,217,303	60,682,988
SC	Additional Cost of Farm Inputs	58,202,312	58,748,305	59,321,460	61,397,711
	Additional Net Income from Added Acres	-8,382,116	-4,819,500	-2,104,157	-714,722
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	8,728,345	12,836,574	16,063,121	20,108,418
	Total Net Farm Income from Added Acres Under the Heritage Plan	-17,110,461	-17,656,074	-18,167,278	-20,823,140
	Additional Gross Income	212,124,938	229,618,617	243,620,416	258,376,648
SD	Additional Cost of Farm Inputs	136,129,751	137,406,778	138,747,332	143,603,489
	Additional Net Income from Added Acres	75,995,187	92,211,839	104,873,084	114,773,159
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	50,503,863	73,286,318	88,754,973	108,518,845
	Total Net Farm Income from Added Acres Under the Heritage Plan	25,491,324	18,925,521	16,118,110	6,254,314
	Additional Gross Income	67,526,239	73,095,043	77,552,270	82,249,656
TN	Additional Cost of Farm Inputs	50,624,301	51,099,205	51,597,734	53,403,654
	Additional Net Income from Added Acres	16,901,938	21,995,839	25,954,536	28,846,002
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	13,365,670	19,934,604	25,072,315	31,925,212
	Total Net Farm Income from Added Acres Under the Heritage Plan	3,536,269	2,061,234	882,221	-3,079,2[illegible]0
	Additional Gross Income	814,241,137	881,390,586	935,136,461	991,778,227
TX	Additional Cost of Farm Inputs	625,768,943	631,639,252	637,801,586	660,124,642
	Additional Net Income from Added Acres	188,472,194	249,751,334	297,334,875	331,653,585
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	136,781,929	199,600,714	249,049,119	321,783,365
	Total Net Farm Income from Added Acres Under the Heritage Plan	51,690,265	50,150,620	48,285,756	9,870,221
	Additional Gross Income	19,048,702	20,619,625	21,876,978	23,202,080
UT	Additional Cost of Farm Inputs	13,835,095	13,964,88[illegible]	14,101,[illegible]24	14,594,663

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	2000	2001	2002	2003	2004	2005	Total
	30,692,427	31,925,495	33,208,102	34,542,237	35,929,972	37,[illegible]73,459	
NY	29,193,886	30,215,672	31,273,221	32,367,784	33,500,656	34,[illegible]73,179	
	1,498,541	1,709,823	1,934,881	2,174,454	2,429,316	2,700,279	
	15,682,073	12,542,061	9,363,680	6,287,265	3 456,483	710,906	
	-14,183,533	-10,832,238	-7,428,799	-4,112,812	-1,027,167	1,989,373	**-93,303,815**
	130,917,510	136,177,121	141,648,036	147,338,746	153,258,080	159,415,224	
OH	73,284,475	75,849,432	78,504,162	81,251,807	84,095,621	87,038,967	
	57,633,035	60,327,689	63,143,875	66,086,939	69,162,460	72,376,256	
	73,773,308	59,170,590	44,385,680	30,030,718	17,248,861	4,862,558	
	-16,140,273	1,157,099	18,758,195	36,056,221	51,913,599	67,513,698	**87,363,470**
	185,448,984	192,899,397	200,649,130	208,710,209	217,095,141	225,816,939	
OK	111,220,604	115,113,325	119,142,291	123,312,271	127,628,201	132,095,188	
	74,228,380	77,786,072	81,506,839	85,397,937	89,466,941	93,721,751	
	113,696,868	95,260,727	76,186,356	56,569,796	45,517,898	34,213,978	
	-39,468,488	-17,474,655	5,320,483	28,828,141	43,949,043	59,507,773	**11,962,151**
	114,060,056	118,642,419	123,408,878	128,366,830	133,523,967	138,888,293	
OR	49,013,889	50,729,375	52,504,903	54,342,575	56,244,565	58,213,125	
	65,046,167	67,913,044	70,903,975	74,024,255	77,279,402	80,675,168	
	26,844,166	22,247,757	17,582,420	12,938,380	10,426,392	7,966,342	
	38,202,001	45,665,287	53,321,555	61,085,875	66,853,010	72,708,826	**480,580,396**
	22,783,252	23,698,570	24,650,660	25,641,000	26,671,127	27,742,640	
PA	16,630,895	17,212,976	17,815,430	18,436,970	19,084,334	19,752,286	
	6,152,358	6,485,593	6,835,229	7,202,029	7,586,793	7,990,354	
	8,989,488	7,175,688	5,340,245	3,570,897	1,898,108	271,332	
	-2,837,130	-690,094	1,494,984	3,631,132	5,688,685	7,719,022	**-111,222**
	1,887	1,963	2,042	2,124	2,209	2,298	
RI	1,267	1,311	1,357	1,405	1,454	1,505	
	620	652	685	719	755	793	
	1,490	1,184	875	577	284	0	
	-870	-533	-190	142	471	793	**-3,850**
	63,120,928	65,656,811	68,294,573	71,038,308	73,892,272	76,860,894	
SC	63,546,630	65,770,763	68,072,739	70,455,285	72,921,220	75,473,463	
	-425,703	-113,952	221,834	583,023	971,052	1,387,431	
	19,461,793	16,826,064	13,877,171	10,694,091	7,704,329	4,562,942	
	-19,887,496	-16,940,016	-13,655,337	-10,111,069	-6,733,278	-3,175,511	**-144,259,660**
	268,756,929	279,554,239	290,785,331	302,467,631	314,619,268	327,259,097	
SD	148,629,611	153,831,647	159,215,755	164,788,306	170,555,897	176,525,353	
	120,127,319	125,722,592	131,569,576	137,679,325	144,063,371	150,733,744	
	98,589,612	80,163,279	61,519,935	43,276,837	29,826,368	16,314,548	
	21,537,707	45,559,313	70,049,640	94,402,488	114,237,004	134,419,196	**546,994,617**
	85,554,036	88,991,169	92,566,390	96,285,244	100,153,504	104,177,171	
TN	55,272,782	57,207,330	59,209,586	61,281,922	63,426,789	65,646,727	
	30,281,254	31,783,840	33,356,804	35,003,323	36,726,715	38,530,445	
	32,282,773	28,979,560	24,893,902	20,112,996	15,089,387	9,512,893	
	-2,001,520	2,804,280	8,462,901	14,890,327	21,637,328	29,017,551	**78,211,383**
	1,031,622,917	1,073,068,368	1,116,178,890	1,161,021,377	1,207,665,410	1,256,183,368	
TX	683,229,004	707,142,019	731,891,990	757,508,209	784,020,997	811,461,732	
	348,393,913	365,926,349	384,286,900	403,513,167	423,644,414	444,721,637	
	335,201,774	313,670,879	270,235,246	222,162,284	179,706,050	128,236,667	
	13,192,139	52,255,470	114,051,654	181,350,883	243,938,364	316,484,970	**1,081,270,340**
	24,134,223	25,103,816	26,112,362	27,161,426	28,252,636	29,387,686	
UT	15,105,476	15,634,168	16,181,364	16,747,712	17,333,862	17,940,568	

The State-by-State Analysis: What Farmers Stand to Gain By Planting on Government Idled Acres Under the Heritage Plan

		1996	1997	1998	1999
	Additional Net Income from Added Acres	5,213,607	6,654,743	7,775 854	8 607,417
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	2,006,213	2,992,665	3,365,117	4,199,634
	Total Net Farm Income from Added Acres Under the Heritage Plan	3,207,394	3,662,078	4,410,738	4,407,783
	Additional Gross Income	16,527,458	17,890,457	18,981,390	20 131,104
VA	Additional Cost of Farm Inputs	16,200,607	16,352,584	16,512,121	17,090,045
	Additional Net Income from Added Acres	326,852	1,537,874	2,469,269	3,041,059
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	4,504,552	6,507,561	8,116,931	9,765 184
	Total Net Farm Income from Added Acres Under the Heritage Plan	-4,177,700	-4,969,688	-5,647,662	-6,724,125
	Additional Gross Income	481,231	520,917	552,682	586,158
VT	Additional Cost of Farm Inputs	374,873	378,390	382,081	395,454
	Additional Net Income from Added Acres	106,358	142,528	170,601	190,704
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	152,425	220,045	273,788	313,605
	Total Net Farm Income from Added Acres Under the Heritage Plan	-46,067	-77,517	-103,187	-122,901
	Additional Gross Income	134,265,483	145,338,190	154,200,695	163,540,721
WA	Additional Cost of Farm Inputs	72,241,752	72,919,448	73,630,857	76,207,937
	Additional Net Income from Added Acres	62,023,732	72,418,742	80,569,837	87,332,784
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	32,590,295	47,809,260	56,590,093	73,423,746
	Total Net Farm Income from Added Acres Under the Heritage Plan	29,433,436	24,609,482	23,979,744	13,909,038
	Additional Gross Income	104,561,807	113,184,888	120,086,733	127,360,457
WI	Additional Cost of Farm Inputs	78,126,748	78,859,651	79,629,014	82,416,029
	Additional Net Income from Added Acres	26,435,059	34,325,237	40,457,719	44,944,428
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	32,308,803	46,682,949	57,715,289	66,26 ,308
	Total Net Farm Income from Added Acres Under the Heritage Plan	-5,873,744	-12,357,712	-17,257,569	-21,316,880
	Additional Gross Income	1,205,400	1,304,808	1,384,373	1,468,226
WV	Additional Cost of Farm Inputs	1,592,848	1,607,790	1,623,476	1,680,298
	Additional Net Income from Added Acres	-387,448	-302,982	-239,103	-212,072
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	470,803	679,602	844,776	978,264
	Total Net Farm Income from Added Acres Under the Heritage Plan	-858,251	-982,585	-1,083,879	-1,190,337
	Additional Gross Income	14,087,663	15,249,455	16,179,344	17,159,336
WY	Additional Cost of Farm Inputs	6,792,038	6,855,754	6,922,640	7,164,932
	Additional Net Income from Added Acres	7,295,624	8,393,701	9,256,704	9,994,404
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	2,380,812	3,505,384	4,093,412	5,090,120
	Total Net Farm Income from Added Acres Under the Heritage Plan	4,914,812	4,888,316	5,163,292	-4,904,284
	U.S. New Net Income Under the Heritage Proposal				
	Additional Gross Income	4,014,585,558	4,052,246,194	4,091,780,303	4,234,992,614
	Additional Cost of Farm Inputs	2,078,034,328	2,542 824,438	2,905,447,843	3,186,061,758
	Additional Net Income from Added Acres	8,856,671 468	11,333,601,264	13,037,600,432	14,752 350,876
	Cost of Reduction in Deficiency Payments Under the Heritage Plan	1,610,508 428	2,329,694,074	2,864,845,828	3,537 045,131
	Total Net Farm Income from Added Acres Under the Heritage Plan	467,525,900	213,130,364	40,602,015	-350,983,373
	Note Numbers may not add up due to rounding				

The State-by-State Analysis: What Farmers Stand to Gain By Planting on Government Idled Acres Under the Heritage Plan

	2000	2001	2002	2003	2004	2005	Total
	9,028,747	9,469,648	9,930,998	10,413,714	10,918,754	11,447,118	
	4,163,961	3,465,308	2,757,525	2,077,324	1,683,202	1,270,626	
	4,864,786	6,004,339	7,173,473	8,336,390	9,235,553	10,176,492	**61,479,025**
	20,939,872	21,781,131	22,656,188	23,566,400	24,513,180	25,497,997	
VA	17,688,197	18,307,284	18,948,039	19,611,220	20,297,613	21,008,029	
	3,251,675	3,473,847	3,708,149	3,955,180	4,215,568	4,489,968	
	8,677,313	7,041,112	5,371,634	3,729,254	2,332,088	970,025	
	-5,425,638	-3,567,265	-1,663,484	225,926	1,883,479	3,519,943	**-26,546,214**
	609,707	634,202	659,681	686,184	713,751	742,426	
VT	409,295	423,620	438,447	453,793	469,675	486,114	
	200,412	210,582	221,234	232,391	244,076	256,312	
	257,634	204,749	151,247	99,802	49,181	0	
	-57,221	5,833	69,988	132,589	194,895	256,312	**252,724**
	170,110,970	176,945,178	184,053,951	191,448,318	199,139,754	207,140,194	
WA	78,875,215	81,635,848	84,493,102	87,450,361	90,511,124	93,679,013	
	91,235,755	95,309,330	99,560,848	103,997,957	108,628,631	113,461,181	
	74,036,931	61,421,153	48,623,142	36,007,643	29,025,456	22,054,914	
	17,198,824	33,888,177	50,937,706	67,990,314	79,603,174	91,406,267	**432,956,163**
	132,477,163	137,799,433	143,335,526	149,094,030	155,083,883	161,314,378	
WI	85,300,590	88,286,111	91,376,125	94,574,289	97,884,389	101,310,343	
	47,176,573	49,513,323	51,959,401	54,519,741	57,199,494	60,004,035	
	54,538,837	43,401,761	32,133,930	21,293,127	10,746,445	495,049	
	-7,362,263	6,111,562	19,825,471	33,226,614	46,453,049	59,508,986	**100,957,513**
	1,527,212	1,588,567	1,652,388	1,718,773	1,787,824	1,859,650	
WV	1,739,108	1,799,977	1,862,976	1,928,180	1,995,667	2,065,515	
	-211,897	-211,410	-210,588	-209,408	-207,842	-205,865	
	817,255	651,848	484,459	322,905	169,779	21,148	
	-1,029,152	-863,258	-695,047	-532,313	-377,621	-227,013	**-7,839,454**
	17,848,712	18,565,784	19,311,665	20,087,511	20,894,527	21,733,964	
WY	7,415,705	7,675,254	7,943,888	8,221,924	8,509,692	8,807,531	
	10,433,008	10,890,530	11,367,776	11,865,587	12,384,835	12,926,433	
	4,891,547	4,033,565	3,164,132	2,319,716	1,770,821	1,218,203	
	5,541,461	6,856,965	8,203,644	9,545,871	10,614,014	11,708,230	**72,340,888**
	4,383,217,356	4,536,629,963	4,695,412,012	4,859,751,432	5,029,842,732	5,205,887,228	
	3,335,977,875	3,492,683,936	3,656,479,574	3,827,677,398	4,006,603,551	4,193,598,285	
	15,538,792,624	16,363,611,480	17,228,586,610	18,135,576,961	19,086,524,766	20,083,459,184	
	3,377,494,462	2,945,000,000	2,377,000,000	1,809,000,000	1,340,000,000	848,000,000	
	-41,516,586	547,683,936	1,279,479,574	2,018,677,398	2,666,603,551	3,345,598,285	

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POSITION STATEMENT

Testimony of
Richard T. McGuire, Commissioner
New York Department of Agriculture and Markets
on behalf of the
National Association of State Departments of Agriculture
before the
House Small Business Subcommittee on
Procurement, Exports and Business Opportunities
U.S. House of Representatives
May 17, 1995

re: Small Business Exports & Federal Agricultural Export Programs

Good morning. Thank you, Mr. Chairman, and members of the Subcommittee. I am Richard T. McGuire, Commissioner of the New York Department of Agriculture and Markets and Chairman of the Trade Committee of the National Association of State Departments of Agriculture (NASDA). It is a pleasure to appear before this Subcommittee on behalf of NASDA to discuss how federal agricultural export programs provide opportunities for increased exports by small businesses in the United States. NASDA is the nonprofit association of public officials representing the Commissioners, Secretaries and Directors of Agriculture in the fifty states and the territories of American Samoa, Guam, Puerto Rico, and the Virgin Islands. As the chief state agriculture officials, NASDA's members are keenly aware of the importance of agricultural exports to their state's and the nation's economy.

SUMMARY

Currently, the U.S. domestic market is not increasing fast enough to utilize the growing productivity made possible by continued advances in production technology and support the economy of scale necessary to keep farmers and ranchers fiscally viable. The future of American agriculture depends on wise and sustainable use of available resources, backed by a solid commitment from the United States government to protect, maintain and increase the U.S. share of the world market for food and fiber. With about one in every three acres of U.S. cropland producing for export, production and marketing decisions and government policy must be based on global as well as local and national agricultural conditions.

The U.S. is one of the world's largest food exporters. In 1993, U.S. exports totaled $42.5 billion, second only to the record set in 1981. In 1993, 20 percent of U.S. agricultural exports went to markets that impose some form of nontariff trade barrier. Almost 60 percent of U.S. agricultural exports in 1993 faced subsidized export competition. Many markets remain inaccessible to U.S. agricultural exports.

Finding and maintaining export markets requires careful planning, expert and timely information, and a high quality product from a reliable source. Even with all production and market variables met, U.S. producers are often denied access to foreign markets by trade barriers, licensing schemes, complicated internal systems, or simply, trade politics.

Passage of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) has already and will continue to expand trade opportunities. Some members of the GATT have indicated they are committed to considering further liberalization. GATT will impose much needed discipline on member countries which might otherwise close markets, initiate internal subsidies and subsidize exports. Even with these multinational agreements, however, help is needed to increase and maintain the U.S. agricultural market presence. Other countries are stepping up their efforts to gain and expand current foreign market shares, utilizing all possible provisions in these agreements.

Even with the signing of NAFTA and GATT, U.S. agriculture commodities face export challenges throughout the world and at home. Bulk commodities have traditionally dominated U.S. exports. In 1992 high-value or value-added products (HVP) exceeded bulk exports. It is advantageous, from both a political and economic point, to process greater quantities of bulk commodities within the U.S. Creating high-value products results in increased demand for farmers, more processing, packaging and transportation jobs, and more stable rural communities. The General Accounting Office (GAO) has found that significant barriers exist to expanding HVP trade under existing program designs. Changes in export programs and new incentives must be found if U.S. agricultural exports are to survive at the current level or increase.

Current Export Programs

USDA and Congress have created export and assistance programs designed to accomplish multiple objectives in domestic, trade, humanitarian and foreign policies. USDA uses four basic methods to increase agricultural exports: price reductions through bonus payments; export credit; food aid; and promotional assistance. Export assistance programs include:

- *P.L. 480*, also known as the Food For Peace program, primarily provides food aid.

- *Enterprises for the Americas*, established within the Department of the Treasury, allows the President to reduce Title I debt for Latin American and Caribbean nations that meet certain conditions.

- *Food for Progress* allows the U.S. to enter into agreements with private voluntary organizations, nonprofits, cooperatives and emerging democracies. Funds can be used for private sector development.

- *Export Credit Programs* includes GSM-102 which guarantees repayment with up to three years to finance export sales of privately owned stock and GSM-103 which guarantees repayment of loans between three and ten years that directly benefit U.S. farmers and credit guarantees to promote agricultural exports to emerging democracies.

- *The Export Enhancement Program* (EEP) initiated in 1985 enables U.S. exporters to meet prevailing world prices for "targeted" agricultural commodities in markets lost to heavily subsidized exports from the European Community.

- *The Market Promotion Program* (MPP) assists eligible organizations to expand export sales and combat unfair foreign trade actions. Cost of the program is shared by the organizations and USDA.

- *Barter* allows USDA to provide Commodity Credit Corporation (CCC) commodities in exchange for foreign products.

U.S. Food Export Showcase

For three successive years beginning in 1993, NASDA and FAS have co-sponsored a very effective domestically based international trade event in Chicago. The U.S. Food Export Showcase (USFES) is held annually in conjunction with the Food Marketing Institute's (FMI) International Supermarket Industry Convention and Exposition in Chicago. (FMI is a nonprofit association conducting programs in research, education, industry relations, and public affairs on behalf of its 1,500 members — food retailers and wholesalers and their customers in the U.S. and around the world.) FMI's convention and exposition are the world's premier event for the supermarket industry. NASDA's USFES is specifically designed to provide small and medium sized companies with a reasonably priced domestic forum to show their high value food products to some of the world's most important buyers and importers. The supermarket industry focus of FMI has proven to be the perfect partner for our efforts to provide USFES exhibitors with an international audience which includes strength in numbers and in purchasing power.

In 1992, the last year FMI held their convention and exposition without a USFES component, international attendance totaled about 4,000. In 1993 and 1994 international attendance at the combined event increased to 5,000 and 5,500 respectively. (The numbers are even higher if we count international traders with domestic addresses.) We expect that the numbers for the just completed 1995 event will be higher.

More importantly, independent surveys show that the 1993 and 1994 USFES events helped our more than 300 exhibitors export more than $400 million of American products including: grains and cereals, confections, snack foods, fruits and vegetables, dairy products, meat, poultry, fish, seasonings, pet food, bakery products and many more. This is good evidence that the partnership of NASDA, FAS and FMI has provided an audience with outstanding purchasing power. Our surveys indicate that the buying influence of our international visitors is extraordinarily high — 82 percent in 1993 and 88 percent in 1994.

One of the most important aspects of the USFES has been our success in making it accessible to small companies interested in exporting. This access would not be possible without a program like MPP providing the federal funds to help small and medium size companies participate. FMI's world class event has been painstakingly constructed on the backs of large company exhibitors eager to stay in touch with their supermarket buyers. The cost of a minimum sized exhibit space at FMI is about $5,000 unfurnished. The cost of the completed project would be out of reach to many small companies.

USFES exhibit space with basic furnishings is available to our smaller exhibitors for less than half the basic FMI cost. The following tables show that most of our participants are small in terms of employees and revenues.

NUMBER of EMPLOYEES	1993, %	1994, %
1-19	29	25
20-49	10	14
50-99	10	11
100-249	21	16
250-499	9	10
500 or more	16	19
undefined	5	5

ANNUAL SALES	1993, %	1994, %
Less than $500,000	5	6
$500,000 to $999.999	6	5
$1,000,000 to $4,999,999	12	17
$5,000,000 to $9,999,999	11	6
$10,000,000 to $24,999,999	12	14
$25,000,000 to $49,999,999	6	7
$50,000,000 to $99,999,999	10	8
$100,000,000 or more	18	17
Undefined	20	20

We are pleased with the effectiveness of our partnership with FAS and with FMI, with the success of efforts to attract a growing international audience, with the export sales generated, and with the fact that many of these sales are enjoyed by small and mid-sized companies.

The partnership of NASDA and FAS has enabled an entirely new group of exhibitors to enjoy the benefits of FMI's world class supermarket industry event. In addition to the cost saving opportunity, many of the USFES exhibitors receive direct assistance through the efforts of state department of agriculture international marketing personnel. My state of New York is one of many which has organized a pavilion and provided a variety of services to our exhibitors.

To put the value of this small company opportunity in perspective, consider the following figures from the Exhibit Surveys report on the 1994 U.S. Food Export Showcase.

> *"Thirty-eight percent of the exhibitors expect to generate export sales as a result of the show (54% in 1993). The average expected sale is nearly $1 million and the median is $200,000. Using the mean, a projection of the total export sales generated as a result of the show is about $122 million."*

We believe that the future of exporting will be in the hands of a wide variety of energetic American companies. We're particularly proud that our USFES event is able to provide a first or additional exporting opportunity for many small American companies.

1995 Farm Bill

To ensure that the U.S. maintains and expands its share of the world market for food and fiber, in the 1995 Farm Bill Congress should authorize agricultural export promotion and development programs and fund them to the extent allowed under international treaties for the next five years.

AG-EXPORT

NASDA has suggested to Congress that the 1995 Farm Bill should create a new USDA export development program — called AG-EXPORT — which will strategically coordinate federal, state and private-sector efforts to make U.S. farmers and agribusinesses more competitive in international markets. Through this program, the U.S. would maintain and expand its share of world markets for food and fiber products. The AG-EXPORT program is designed to replace the Market Promotion Program (MPP). Congress has raised a number of concerns with the MPP program — one of which is assuring that small businesses are the companies using the program — which we have been addressed in the AG-EXPORT proposal.

The goal of AG-EXPORT should be to increase annual U.S. food and agricultural exports to $60 billion by the year 2000. With an emphasis on value-added products, these expanded exports will create 500,000 new jobs by the turn of the century. Federal tax revenues will grow with more high-value exports and jobs in rural and urban communities, resulting in low overall costs to the federal treasury and the U.S. taxpayers.

Industries, companies, and state/regional trade groups who successfully apply to the Foreign Agricultural Service (FAS) should be able to utilize AG-EXPORT resources to carry out market research, industry seminars, technical assistance, trade missions, trade shows (including overseas and domestic shows with export themes), distributor development, trade and consumer promotions, information networks, and other activities that will contribute to export market expansion. Multi-year marketing plans should be encouraged. Once a marketing plan has been approved, however, participants should have the option of reallocating resources among eligible categories to meet changing market conditions.

The focus of AG-EXPORT branded programs must be to assist small and new-to-export businesses and grower cooperatives. There should also be a 50/50 match requirement (cash and in-kind) for participants in any branded program. To provide a proper definition of a small agricultural business, the Small Business Administration's definitions of small firms should be reviewed and adjusted, if necessary, to reflect current conditions in U.S. agricultural production, food processing and other export-related sectors of agribusiness.

Participants should be asked to make a five-year commitment to export development in target markets, at which time they should graduate from the program. Participant associations should be required to certify that AG-EXPORT funds will supplement, not replace, private-sector expenditures.

AG-EXPORT programs should be closely coordinated with FAS overseas posts. Joint strategic planning of marketing programs among FAS posts and AG-EXPORT participants should be encouraged. AG-EXPORT programs will complement the trade policy and export finance programs of USDA and other federal agencies. State regional trade groups would be in a position to coordinate export programs with the one-stop export centers in their respective regions.

Congress should fund the AG-EXPORT program at a level of $200 million per year for five years for all food and agricultural products and commodities, including seafood, forest products, and processed foods and beverages. Three-fourths of this annual appropriation shall be devoted to export programs for high-value food and agricultural products and services. There may also be an opportunity to provide an umbrella approach combining the AG-EXPORT program and the Foreign Market Development (FMD) cooperator program under the same appropriations line item as long as a certain percent of the funds are committed to the FMD program.

Renewed FAS Focus

The 1995 Farm Bill should require the Secretary of Agriculture to develop a renewed focus for FAS activities on the export of food and fiber through the development of a strategic long-range plan that requires the involvement of the production and processing industries. There should be an emphasis on matching products with potential foreign markets and on moving value-added products into new export markets. Export development plans should recognize and encourage use of new technologies and encourage their use to match products with targeted markets. Every effort should be made to expand technological growth and incorporate new technologies into production and processing industries. The Secretary should establish an industry-interagency working group, that includes the production and processing industries, to focus on export market development. The interagency working group should be directed to develop a world wide strategic plan for finding, financing and matching products to market needs.

CONCLUSION

Modification and continuation of these important export programs will allow American agriculture to maintain and increase its role in international marketing of food and fiber. With access to the tools to reach international markets, the American farmer will remain viable and the American public will be assured of the continuation of a reasonably priced food supply. World market demand will be more accurately and efficiently met by American producers using the most modern technology and information available to service world markets. As the American farmer and rancher becomes more economically stable and income is in line with production there will be more, inexpensive food available to feed a hungry world.

STATEMENT OF
THE AMERICAN FARM BUREAU FEDERATION
TO THE
SMALL BUSINESS COMMITTEE
SUBCOMMITTEE ON
PROCUREMENT, EXPORTS AND BUSINESS OPPORTUNITIES
Representative Donald Manzullo, Chairman

Presented by
Linda Reinhardt
Chairman AFBF Women's Committee

May 17, 1995

Thank you for this opportunity to testify. Mr. Chairman and distinguished subcommittee members, my name is Linda Reinhardt. I am chair of the American Farm Bureau Women's Committee. My husband and I are farmers/stockmen in southeast,Kansas. I grew up on a farm and have used the programs and services of the USDA ever since my youth, as a 4-H Club member through the Extension program.

We raise soybeans, milo, wheat, and alfalfa. We have a small cow herd and background cattle. My husband served on the Kansas State Board of Agriculture for nine years. We now call this the Dept. of Agriculture in Kansas.

The American Farm Bureau Federation, with a membership of over 4.4 million family members, is the nation's largest organization representing farmers and ranchers. Farm Bureau is not a cooperator organization under the Foreign Market Development program (FMD) of the Foreign Agricultural Service (FAS) and receives no funding under the Market Promotion Program (MPP). However, the Farm Bureau strongly supports the FAS export programs as being vital to the future economic health of our producer members and the country's economy.

Like the MPP program, the Foreign Market Development program is especially important as farmers become more reliant on the international market for income. In the international marketplace, U.S. farmers will continue to confront substantial subsidies from the European Union and other developed market countries who are expected to utilize all GATT legal programs to the fullest. The federal market development and promotion programs are at least a partial offset to these continued EU export subsidies.

The farm community is very proud of its economic contribution to our nation's economy and especially the opportunity we provide for small businesses. In today's world, the health and vitality of small businesses is more important than ever. Small business is the job creating engine of our economy and currently helps create almost 75% of all new jobs for Americans. As farmers we are part of the small business community and look forward to working with small businesses to help create new jobs.

The Chamber of Commerce calculates that each $50,000 of revenue provided by a successful state or federal export program creates one new American job. For example, the current Market Promotion Program (MPP), administered by the Foreign Agricultural Service of the Department of Agriculture, is responsible for the direct creation of approximately 2,000 jobs and the indirect creation of another 3,000 for a grand total of 5,000 American jobs.

Given the importance of small business, the majority of these jobs would be created for the types of firms deemed important by this committee. This jobs figure may not sound like a gigantic number, but just like each small business in America, when added to other strong programs the final tally becomes quite significant. In short, we need to continue strong export programs that have proven to be successful. These programs keep rural America and small business growing and strong.

In my home state of Kansas, agriculture is the number one industry and contributes approximately $7 billion in commodity marketings annually. Our industry benefits many of the family farms in Kansas and impacts each of our towns and small businesses.

USDA statistics indicate that Kansas ranks sixth nationally for agricultural exports at approximately $2 billion per year for the past two years. Food and kindred product processing (value-added) is the second largest employment industry group in the state. Our state Market Promotion Program (MPP) relies on help from the federal government to survive. A full 60% of the companies responding to a recent market promotion survey are considered small companies reporting sales of $500,000 or less. The FAS/MPP program has allowed the private sector to partner with the U.S. government to pursue and develop new business opportunities in foreign markets.

MPP embodies the type of cooperative, cost shared programs the country needs to create jobs here at home, strengthen the economy and help American agriculture and small value-adding companies establish long-term trading relations in world markets.

During the past three fiscal years (1992-1994), the Kansas Department of Agriculture has conducted 47 individual major foreign marketing activities which have produced more than $7 million in first time new sales for Kansas food products. This does not include ongoing sales of basic commodities. The success of this program would not have been possible without the help of USDA export programs. The use of federal matching funds has made it possible for Kansas to generate this additional business and has also aided in keeping the price of food products steady. It is estimated that for every dollar invested in the export programs for agriculture, exports rose by $16. Sixteen dollars for every $1 spent is a solid return on your investment!

We are confident our strategy in Kansas and the future direction of enhancing these programs is correct. Last fiscal year, four Kansas companies were provided assistance in developing their applications and marketing plans for the MPP program. Allocations ranged from $150,000 to $35,000; the company size included a small business with just 220 employees. Based on this experience the Department significantly expanded our assistance to help more companies access the MPP program. We will continue to develop state export market development projects that work with other government and private programs. Alone, we may fail. But together, we will succeed.

Overall, the farm community believes that higher living standards throughout the world depend on mutually beneficial trade among nations. We urge that trade and other economic policies be developed that promote rather than retard the growth in world trade. We support adequate funding for the Export Enhancement program (EEP), Market Promotion Program (MPP) and Dairy Export Incentive Program (DEIP) to retain and expand our foreign export markets. All GATT legal export promotion and development programs must be fully funded to enable us to maintain a place in international markets for our products and to continue to create jobs here at home. Strong export programs will keep our economy healthy and provide new jobs for Americans.

According to the World Trade Organization (WTO) total world exports rose by 9 percent during 1994. This is the largest percent gain in almost 20 years and increased the value of world trade to over $4 trillion for the year. Current export figures tell us that the export programs administered by the Department of Agriculture are working. Total exports of agriculture products from the United States rose from $42.5 billion in 1993 to $43.5 in fiscal 1994. Led by GATT and NAFTA, U.S. exports of agricultural products are projected by USDA to rise from $43.5 billion in fiscal 1994 to $68 billion by 2005 - a gain of 56.6 percent. By 2005, the U.S. will be running a $25 billion ag trade <u>surplus</u> with the rest of the world. We do not believe any other segment of the economy can show such positive returns for investment of our dollars.

Your commitment to continue investment in USDA's export programs will benefit not only the agricultural industry, but also the American economy and the small business community. In 1994, the year the Foreign Agricultural Service (FAS) began the small business preference, over 500 small companies benefitted from the government's investment in FAS programs. According to the USDA, the number of jobs created per billion dollars of agricultural exports is about 18,000. Many of these jobs are created in small businesses.

Export programs are an investment in the future of the U.S. and create jobs at home both on the farm and for small businesses. The programs run both here at home and abroad through the attache and trade offices of USDA are critical to the continued growth in agricultural exports. I have had the opportunity to visit numerous Trade Offices in the Asian and European Countries. I have participated in one USDA Asian Trade Mission and one American Farm Bureau women's trade mission to Europe. The USDA Trade Offices have been very helpful to us as we have gathered information about agriculture in the country and how promotion of U.S. products is conducted.

Five years ago I attended the Gastronord Trade Show in Stockholm, Sweden. I had a first hand experience of seeing American product promotions at a foreign trade show. I

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particularly remember the rice, popcorn and Cajun spice promotion.

Visiting USDA offices and seeing firsthand how USDA programs are working to promote American products around the world made me proud of these programs that help promote my farm products. These programs must remain within the Department of Agriculture where they are free of the political overtones of State Department activities. Even more importantly, I believe the industry is best served by those individuals working for USDA whose main focus is market development. The FAS employees in these posts also have a knowledge of agriculture and its unique market needs and advantages. FAS, through USDA, is best positioned to help us promote the highest quality, safest food in the world.

As this testimony indicates, the MPP and other government export programs in the FAS budget are a key to the future of agricultural exports and to the growth of jobs in small businesses. Thank you for keeping these programs strong. The major benefactors well be the small businesses and small farmers of America.

Additional factors to consider:

The branded export programs play a vital role in foreign market development. These programs help companies enter new markets and allows them to introduce new products in existing markets where company resources are limited. In many cases, the branded program has meant the difference between a successful U.S. company reaching out to foreign trade or simply staying home.

Over seventeen percent of U.S. jobs are food related. The U.S. consumer spends less than 10 percent of their income on food. America produces more agricultural products (food and fiber) than she can consume. To protect the availability of low cost food and clothing for our people, new export markets must be developed and current markets expanded.

Exporting is the key to profitability for American agriculture and related small businesses, and to maintaining a safe and secure food supply for the nation.

Responding to the administration's commitment to streamline government programs, new MPP regulations were published on February 1, that increased flexibility and simplified and clarified program requirements for the participants. The new rule reflects public comment and changes required by the Omnibus Budget Reconciliation Act of 1993. Specific changes in the final rule include:

Small businesses seeking MPP funds will receive priority assistance;

U.S. exporters no longer need to show that a U.S. agricultural commodity faces an unfair trade practice in an overseas market;

The application process is explained in step-by-step detail;

Application and allocation approval criteria are clarified;

Paperwork requirements are reduced;

Procedures for appealing compliance findings are added; and

Program evaluation requirements are clarified and simplified.

In response to GAO and OMB, the regulations have also been tightened with regards to funding and additionality and evaluation (export additionality). For funding and additionality, requirements have been added for the participant to provide justification, upon request, to demonstrate "additionality". For evaluation, reference was added to the Government Performance and Results Act (GPRA) in the activity plan and evaluation sections. The critical point is that language now appears in the rule which states that "a participant that can demonstrate additional sales compared to a representative base period,...will have met the overall objective of the GPRA and the need for evaluation."

Statement by August Schumacher Jr.
Administrator
Foreign Agricultural Service
U.S. Department of Agriculture
Before the
Subcommittee on Procurement, Exports and Business Opportunities
House Small Business Committee
May 17, 1995

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to discuss the Department of Agriculture's (USDA) export assistance efforts for small businesses. Today's topic combines two top priorities of USDA's Foreign Agricultural Service -- increasing exports of U.S. agricultural products and the involvement of small businesses, in both rural and urban areas, in the export market.

Before I discuss the programs of FAS and how we work with small businesses, let me address the issue of federal support for agricultural export promotion programs. Because "food security" has long been an issue of vital interest to most governments, the agricultural sectors of virtually every nation of the world have received special attention. Ensuring an abundant food supply for U.S. consumers has long been an objective of our government policy as well. Consequently, virtually all of the domestic support and export promotion programs for U.S. agriculture are an outgrowth of, and are directly linked to, maintaining a strong agricultural and food sector which, comprising 16% of our Gross-Domestic Product (GDP), is the largest sector of our nation's economy.

A major component of maintaining a strong agricultural sector is maintaining strong commodity prices. Agricultural export promotion helps to increase the price farmers receive for their products, and thus reduces the cost of domestic commodity price and income support programs. For example, one very general rule of thumb is that for each one cent increase in the U.S. price of corn, Commodity Credit Corporation (CCC) outlays for the domestic support program for corn can decrease by as much as $50 million. For wheat, a similar price increase can lower CCC outlays by as much as $20 million. Thus, agricultural exports can help reduce domestic program outlays.

Our competitors have put in place multi-billion dollar programs to support the production and export of their agricultural goods. The countries of the European Union (EU) will spend nearly $50 billion this year in domestic and export support payments for agriculture (including $1.6 billion in charges from last year's budget). In contrast, the President's February budget projected total CCC outlays in 1995 at $10.6 billion, and then declining to $9.1 billion in 1996. The EU is the chief subsidizer of agricultural exports, with estimated spending of $11.5 billion in 1993 and appropriations of $9.3 billion for 1994 and 1995. To unilaterally cut farm program spending when our overseas competitors are spending five times as much as we are here in the United States is short sighted. President Clinton emphasized this point when he said that he has worked too hard on the GATT agreement to "unilaterally disarm" on farm programs.

I should also point out that USDA expenditures to develop markets for U.S. agricultural goods are not out of line with similar expenditures for other domestic sectors. Over half of the fiscal year 1994 trade promotion activities budget listed for agriculture in the October 1994 report of the Trade Promotion Coordinating Committee (TPCC), is used to combat foreign subsidies. This is comprised of CCC expenditures for the Export Enhancement Program and the Dairy Export Incentive Program. These programs are integrally related to the U.S. domestic price-support programs. Other funding includes international food assistance (P.L.-480, Title I), and export credit guarantee programs that are used to meet the agricultural credits offered by other exporters and to facilitate export trade to developing countries. Once you account for these expenditures, which serve various objectives other than market development, expenditures for agricultural trade promotion fall well below the 50 percent level cited in the Subcommittee's letter of invitation. The TPCC Report correctly states that USDA expenditures for developing markets for U.S. agricultural goods and for providing international counseling and export assistance services totalled about $160 million in 1994, with the 1995 request totalling about $140 million.

Importance of Agricultural Exports

Now let me turn to our efforts on behalf of small businesses. The Department, through FAS, is working diligently to help small-scale U.S. producers, processors, and exporters compete in world agricultural trade.

Agricultural exports contribute to farmer income and create employment both on and off farm. Let me cite just a few statistics to show the importance of agricultural trade to U.S. farmers and the economy as a whole.

Production from more than a third of U.S. cropland is exported. Last year, U.S. agricultural exports generated more than three-quarters of a million jobs and generated an additional $60 billion in support services to harvest, process, package, store, transport, and market the products. That adds up to over $100 billion of U.S. economic activity related to farm exports. Dollar for dollar, we export more corn than coal, more meat than cosmetics, more fruits and vegetables than steel, iron, and aluminum combined. Among the major U.S. industries, agriculture is the second largest positive contributor to the U.S. merchandise trade balance, generating a trade surplus projected at $20 billion this year.

One area where we are seeing particularly strong growth is in the export of high-value products. "High-value products" refers to those agricultural products with value added through processing, (such as soybean and other processed oils and many consumer-ready products) and those that require special handling or shipping (such as fresh fruit.) This is also the area where the number of small businesses participating in our programs is blossoming. High-value products today represent two-thirds of total world agricultural trade, up from 54 percent in 1985, and this share is projected to climb to 75 percent by 1998. This is the growth sector in world agricultural trade -- the future for U.S. agricultural exports. High-value product exports generate income for farmers who produce the raw materials, as well as generate farm employment. In addition, high-value product exports also support thousands of off-farm jobs, such as jobs in processing and shipping.

Future Prospects and Current Activities

The future for U.S. agricultural exports will be made even brighter as countries implement the Uruguay Round Agreement under the GATT. Studies suggest that the increase in world income as a result of this agreement could be as much as $5 trillion over 10 years. This income growth will increase the demand for agricultural products, particularly for income-sensitive, high-value products like meat, fruits, vegetables, and other specialty crops, thereby improving prospects for U.S. exports.

We expect American agriculture to benefit greatly from the Uruguay Round's disciplines on export subsidies as well. The export subsidy limits will help us to get at hidden European Union processing subsidies that give them an unfair edge in the high-value area. However, U.S. market development programs, the Market Promotion Program (MPP) and the Foreign Market Development Cooperator Program (FMD), are not export subsidies that are required to be reduced under the Uruguay Round Agreement, and, therefore, are not subject to the export subsidy reductions required by the Agreement. The President's budget for FY 1996 fulfills the Administrations's commitment to Congress to increase program levels for "greenbox" and other GATT-consistent export promotion and related programs.

Assistance for Small and New-to-Market Companies

The Market Promotion Program (MPP) plays an instrumental role in our effort to assist American agriculture and our processors in competing internationally. We are increasing our assistance to small-size and new-to market export companies. Most of these small companies receive funding from FAS on a cost-share basis through nonprofit trade organizations and four State-Regional Trade Groups comprised of State Departments of Agriculture.

The four State-Regional Trade Groups -- Mid-America International Agri-Trade Council (MIATCO), the Eastern U.S. Agricultural and Food Export Council (EUSAFEC), the Western U.S. Agricultural Trade Association (WUSATA) and the Southern U.S. Trade Association (SUSTA) -- support FAS' efforts to coordinate international marketing programs for processed foods and other regional agricultural products. These partnerships combine the resources of the private sector and State Departments of Agriculture with program and financial resources of FAS and the CCC to expand exports of U.S. agricultural products and to educate companies in export marketing. Working with trade and regional organizations helps us reach those that can benefit most from export promotion assistance--namely, small business.

In addition, many agricultural cooperatives comprised of small-sized growers participate in the program. Without these cooperatives, many growers would not otherwise be able to compete in the marketplace and would not participate in any international market promotion effort. Some 20,000 family farm members of these cooperatives benefit from MPP assistance.

Another aspect of MPP that I would like to mention are the recent changes in program regulations made by this Administration. These changes are an example of this Administration's commitment to streamlining government programs, helping U.S. exporters particularly small businesses, break into and hold onto export markets. These new regulations include a greater emphasis on assisting small businesses and cooperatives, reducing paperwork requirements and simplifying application procedures. At the same time, we have listened carefully to the program's critics and established performance measurements for the program. We have also imposed new standards aimed at limiting the time that MPP may be used to promote a single product in a particular market.

MPP funds have also been used to expand outreach efforts. Since 1992, FAS has approved the use of MPP funds for educational seminars targeting small and economically disadvantaged businesses. This on-going effort is being conducted in coordination with the four State Regional Trade Groups.

Last year, the State Regional Trade Groups conducted over 25 educational seminars targeting small and economically disadvantaged businesses. Among the hundreds of businesses in all regions of the United States and Puerto Rico that were reached by the seminars, about 100 companies were projected to become new MPP applicants. Over 100 export seminars have been conducted in 45 states as a result of this program.

CCC's export credit guarantee programs, as well as our export subsidy programs, are open to businesses of any size; there are no minimum levels for export transactions. Under our Dairy Export Incentive Program (DEIP), we have worked closely with the U.S. dairy industry to encourage participation in the program. We have made presentations at industry meetings and conferences and have conducted numerous one-on-one meetings with potential participants. As a result of this effort, the number of exporters who have participated in the program has grown from eight in 1991 to 57 in May 1995.

We have also just announced changes in the eligibility requirements for U.S. companies to participate in the Export Enhancement Program and DEIP. Effective May 31, interested parties will no longer have to demonstrate prior export experience in order to participate. This will assist companies new to export trade in using these programs, we anticipate that most of these new companies will be small businesses.

<u>Increasing Outreach</u>

During my tenure as the FAS Administrator, I have worked diligently to expand our outreach efforts. If we are serious about the role that exports must play in the health of the U.S. agricultural, fish and forest products industries, then we must work harder to assist current and potential exporters.

In my first eight months on the job, we have held export seminars across the country to reach out to small and medium-size firms with the potential to enter the export market. I have been impressed by the level of interest in the export market that I have seen from Vermont to Georgia, from West Virginia to Washington. Clearly, small businesses are strong advocates for continued export market development and a perfect example of how the economic benefits of exports reach deep into local communities.

<u>Conclusion</u>

I think I can best highlight USDA-FAS export assistance by giving you a few examples of how USDA's export promotion programs help small businesses and the communities where they are located.

Milk Specialties Company employs 180 people at Dundee, Huntley, and Hampshire, Illinois. They participate in the MPP through one of the State Regional Trading Groups. In the four years that they have received MPP funds, the company has doubled its export sales. According to the firm's director of International Sales and Marketing, these additional export sales have provided more job security to current employees, and the firm has hired eight additional employees. The company has purchased additional input supplies, benefiting U.S. agricultural producers and decreasing their reliance on domestic programs. The company has spent $4 of its own money for every MPP dollar received.

Hill's Pet Nutrition, a pet food manufacturer in Topeka, Kansas, has seen its export sales rise to nearly half of its annual sales with the help of MPP funds. Hill's has participated in the MPP since 1990. In 1993, the company spent just over $132,000 in MPP funds to advertise its products in Japan. As a result of that advertising campaign, Hill's export sales to Japan jumped 11 percent in one year. Hill's employs 297 people in its Kansas plant and expects to hire at least eight new employees because of its MPP success. In addition, Hill's purchase of agricultural inputs, most of which originate from Kansas or other Midwestern states, will increase in response to the increase in export sales. `For example, half of the $5 million in Hill's yearly soy meal purchases originates from Kansas.

Of course, not all small businesses are located in rural areas. Rubschlager Baking Corporation, a wholesale bakery in Chicago, has achieved a 56 percent increase in its export sales while participating in the MPP. In 1993, Rubschlager used $2,200 in MPP funding and an equal amount of its own funds to market a line of cocktail breads in the Canadian retail market. The funds were used to attend Canadian food trade shows and to organize retail store demonstrations. As a result of these activities, Rubschlager's export sales to Canada have climbed from $91,000 in 1992 to over $142,000 in 1994. The firm expects to hire an additional 2 to 3 employees. The company estimates that its yearly purchases of flour and other agricultural inputs will grow 10 percent to almost $1 million by the end of 1995.

Ontario International is a wholesale vegetable broker located in Syracuse, New York. The firm has used MPP funds to promote the sale of green cauliflower, celery and broccoli to Sweden. The company works with local supermarkets to have in-store displays with tastings and point-of-sale materials containing recipes. From 1992 to 1993, Ontario's export sales increased 88 percent to over half a million dollars.

TreeTop, Incorporated, of Saleh, Washington, is a farmer cooperative that has used the MPP to successfully expand its export markets. In 1993, TreeTop used $55,000 in MPP matching funds to promote its products in China. Sales rose from $186,000 in 1992 to nearly $408,000 in 1993, a 119 percent increase. In the same year, $37,000 in MPP matching funds were used for promotion in Mexico. Sales to Mexico rose from about $30,000 in 1992 to $482,000 in 1993, a one-year gain equal to 12 times the amount of MPP expenditures.

Mr. Chairman, these examples illustrate how U.S. agriculture is inextricably linked to the global economy. Today, events around the world -- weather in China, consumer demand in Russia, a trade policy difference with Canada, the dollar's fall against the yen or the Mexican peso's fall against the U.S. dollar -- can have as much impact on a company in Dundee, Illinois as events in Washington, D.C.

In just the next 60 minutes, around $5-1/2 million in U.S. agricultural products -- grains, oilseeds, cotton, meats, vegetables, snack foods, you name it -- will be consigned for export to foreign markets. That's what this nation's producers and processors export, on average, every hour, 24 hours a day, 365 days a year to more than 180 countries around the world. And a growing proportion of that is coming from our nation's small businesses.

When workers in a small Shenandoah, Virginia, processing plant separate chicken parts, the breast meat may be heading to Baltimore, the leg quarters to Moscow, the chicken feet (paws) to Hong Kong, and other parts for premium pet food to Mexico. Agriculture is a global market.

As small businesses spring up and look to the growing export market in addition to the mature domestic market, we must make sure the opportunities to take advantage of these markets are there. It is clear that some of the greatest and most promising opportunities today and in the years ahead are in exports.

Mr. Chairman, that concludes my testimony. I would be happy to answer any questions.

DONALD A. MANZULLO
CHAIRMAN

EVA CLAYTON, NORTH CAROLINA
RANKING MINORITY MEMBER

Congress of the United States
House of Representatives
104th Congress
Committee on Small Business
Subcommittee on Procurement, Exports, and Business Opportunities
B-363 Rayburn House Office Building
Washington, DC 20515

May 18, 1995

The Honorable August Schumacher, Jr.
Administrator
Foreign Agricultural Service
Room 5071, South Agriculture Building
14th Street & Independence Avenue, S.W.
Washington, D.C. 20250

Dear Mr. Schumacher:

Thank you for taking the time out of your busy schedule to testify yesterday before the House Small Business Subcommittee on Procurement, Exports, and Business Opportunities. I would like to take this opportunity to ask several additional questions that will be submitted for the record.

1) Can you please describe to the Subcommittee how the FAS came up with its 1996 budget request for agriculture export promotion programs.

a) Did you meet with your counterparts from the Trade Promotion Coordinating Committee (TPCC) as you developed your budget request?

b) If yes, did the TPCC come up with an overall budget figure and the 19 members of the TPCC divide up that amount?

c) If no, did each member of the TPCC devise its own budget request through regular departmental channels to OMB outside of the TPCC framework?

2) In general, how often do you meet with the TPCC? When was the last TPCC meeting you attended?

3) In your oral testimony, you suggested that the Subcommittee should not count taxpayer dollars set aside to combat foreign export subsidies as part of export promotion. Yet, when comparing the 1996 budget request (source: pages 163 and 164 of the Analytical Perspectives volume) for the USDA under the

classification of "Providing Information, Counseling, and Export-Assistance Services;" and "Developing Foreign Markets," with those agencies serving the non-agriculture, commercial sector (Department of Commerce, the Export-Import Bank, the Small Business Administration, and the Trade Development Agency), they are very similar (agriculture requested $201.865 million; commercial agencies requested $222.045 million).

a) How did the TPCC come up with this budget request where agriculture, accounting for nearly 10 percent of total U.S. exports receives 47.6 percent of the export promotion funding while other agencies, accounting for the other 90 percent of total U.S. exports, receives only 52.3 percent of the federal government's export promotion funding?

4) The Congressional Research Service reports that wheat receives 80 percent of the EPP bonus payments; three large agri-business firms receive 49 percent of all EPP bonuses; and EEP sales have primarily gone to only four countries. Would you recommend any changes in this area to help small farmers, especially those who grow a commodity other than wheat who wish to sell beyond the former Soviet Union, Egypt, China, and Algeria?

Thank you for your kind attention to the questions of the Subcommittee. Please forward your response to my staff director, Phil Eskeland, in Room B363 of the Rayburn House Office Building, by June 9.

Sincerely yours,

Donald Manzullo
Chairman

United States Department of Agriculture | Foreign Agricultural Service | Office of the Administrator | Washington, D.C. 20250-1000

JUN 13 1995

Honorable Donald Manzullo
Chairman
Subcommittee on Procurement, Exports, and
Business Opportunities
Committee on Small Business
B-363 Rayburn House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for giving me an opportunity to testify before the House Small Business Subcommittee on Procurement, Exports, and Business Opportunities on May 17. The Foreign Agricultural Service is pleased to have had an opportunity to contribute to your hearings.

We are also pleased to provide the enclosed answers to your followup questions which you posed in your letter of May 18.

Sincerely,

August Schumacher, Jr.
Administrator

Enclosure

Foreign Agricultural Service
is an Agency of the
United States Department of Agriculture

QUESTIONS FROM THE HOUSE SMALL BUSINESS SUBCOMMITTEE HEARING

QUESTION: Can you describe to the Subcommittee how the FAS came up with its 1996 budget request for agriculture export promotion programs. Did you meet with your counterparts from the Trade Promotion Coordinating Committee (TPCC) as you developed your budget request?

ANSWER: USDA has been very active in the TPCC process in developing uniform information on the trade promotion budgets of numerous government agencies. This information in turn was published in the October, 1994 TPCC report to Congress. USDA participated in all of the TPCC budget-related sessions, insuring the inclusion and accuracy of agency export promotion budgets in such categories as "Information, Counseling, and Export-Assistance Services".

QUESTION: If yes, did the TPCC come up with an overall budget figure and the 19 members of the TPCC divide up that amount?

ANSWER: The TPCC found that while the concept of a unified federal budget for trade promotion activities proved quite interesting, there are presently technical and budgetary difficulties in developing and implementing such a budget. A select TPCC budget working group is now trying to address at least one of these issues - the development of government-wide uniform performance measures for the export promotion programs.

QUESTION: If no, did each member of the TPCC devise its own budget request through regular departmental channels to OMB outside of the TPCC framework?

ANSWER: The Department's budget submission to OMB was the culmination of a comprehensive review and decision-making process within the Department which reflects the Secretary of Agriculture's priorities for funding in FY 1996. It represents numerous decisions and tradeoffs among the many, diverse programs which the Department administers and reflects the Secretary's priorities and objectives within the funding levels established for USDA in FY 1996. USDA's recommendations also reflect the unique characteristics of the agriculture sector, such as the high proportion of domestic production which is exported and the close linkages between the operational and costs of the domestic agriculture programs and exports.

__QUESTION:__ In general, how often do you meet with the TPCC? When was the last meeting you attended?

__ANSWER:__ USDA representatives, ranging from the Secretary to related FAS support staff, have attended all of the TPCC budget meetings pertaining to USDA's export promotion interests. There are now over 15 on-going TPCC working groups requiring some level of agency participation, and at least one meets weekly. I have taken the opportunity to attend select TPCC budget sessions during the past few months, and will attend more as the issues dictate.

__QUESTION:__ In your oral testimony you suggested that the Subcommittee should not count taxpayer dollars set aside to combat foreign export subsidies as part of export promotion. Yet when comparing the 1996 budget request for the USDA under the classification of "Providing Information, Counseling, and Export-Assistance Services;" and "Developing Foreign Markets," with those agencies serving non-agriculture, commercial sector....... they are very similar......

How did the TPCC come up with this budget request where agriculture, accounting for nearly 10 percent of total U.S. exports receives 47.6 percent of the export promotion funding while other agencies, accounting for the other 90 percent of total U.S. exports, receives only 52.3 percent of the federal government's export promotion funding?

__ANSWER:__ The inclusion of export subsidies under the TPCC definition of trade promotion, resulted, we feel, in an over-representation of USDA programs in the TPCC budget summary. In the process of developing the unified budget information, it became clear that the trade promotion budgets for different agencies focus on activities designed to counter market imperfections specific to their sectors. The bulk of USDA's trade promotion budget is used to combat foreign export subsidies which had skewed trade patterns. Unlike manufactured goods, agricultural products were effectively excluded from GATT disciplines affecting trade until the recent Uruguay Round. In light of this situation, our competitors had put in place multibillion dollar programs to support the export of their agricultural goods. Therefore, over half of the trade promotion expenditures listed for U.S. agriculture ($1.2 billion of the approximately $2 billion) are used to combat foreign subsidies particularly those of the European Union.

Under the TPCC approach, a program was classified as promoting trade and included in the unified budget if the program's primary or secondary mission was to facilitate the development, maintenance, or increase of U.S. exports of goods and services.

The "trade promotion" definition used for the FY 1996 TPCC budget submission is much more narrow than the term "export related" used in FY 1995. The USDA argued that many USDA programs such as EEP and PL 480 Title 1 serve multiple objectives such as trade policy and humanitarian assistance respectively in addition to export development, and should not be counted as totally "trade promotion" activities. The end result was the inclusion of a footnote on page 106 of the October, 1994 TPCC Report to Congress which denotes that "...while USDA spends approximately $2 billion on "trade promotion"....it is important to acknowledge the complexity of these programs, especially their other multiple objectives (domestic policy, export development, and humanitarian assistance).

QUESTION: The Congressional Research Service reports that wheat receives 80 percent of the EEP bonus payments; three large agri-business firms receive 49 percent of all EEP bonuses; and EEP sales have primarily gone to only four countries. Would you recommend any changes in this area to help small farmers, especially those who grow a commodity other than wheat who wish to sell beyond the former Soviet Union, Egypt, China and Algeria?

ANSWER: Under GATT, the United States is required to reduce all subsidized commodity exports from a historical base. Thus, it is not possible for the United States to start subsidizing exports of one commodity at a greater rate than in the past. Even if there were no expenditures on wheat subsidies, the money saved could not be spent on greater subsidized exports of other commodities.

The reason a large percentage of EEP subsidies have been used for wheat is because it is one of the commodities most heavily subsidized by our competitors and has generally suffered the largest reduction in export volume due to subsidized competition.

Furthermore, although there have been large EEP sales to four or five markets, there have been many sales to over thirty other markets. It has simply been the case that four or five of the largest markets in the world have also been among the markets most difficult to compete in because of subsidized competition; thus they have required a larger proportion of EEP subsidies.

The benefit from the EEP bonuses really goes to the farmers and not to individual exporters. As evidence of this, producer groups, representing individual farmers, have strongly supported EEP, while exporter association groups have generally tended to oppose the EEP. The reason individual US farmers benefit is because EEP facilitates US exports, thereby maintaining demand and supporting domestic price levels. Without EEP, exports would decrease and prices for all farmers, big or small, would fall.

One of the reasons exporters have not always favored EEP is because bonuses only make up the difference between US costs and world costs, leaving little room for profit, especially with competitive bidding procedures under EEP. In fact, one of the three companies who have received a large portion of EEP subsidies recently sold its huge network of grain elevators in the United States due mainly to low profits on exports. Since exporters generally bid competitively under the EEP program, an individual company's share of US exports is not greatly different than without subsidies, where the lowest cost companies would export the largest amounts.

95-388 ENR

CRS Report for Congress

Export Enhancement Program: Background and Current Issues

Lenore Sek
Specialist in International Trade and Finance
Environment and Natural Resources Policy Division

March 15, 1995

CRS

Congressional Research Service • The Library of Congress

Export Enhancement Program: Background and Current Issues

SUMMARY

The Export Enhancement Program (EEP) was established in 1985 with the purpose of countering unfair foreign trade practices. Under EEP, the Commodity Credit Corporation (CCC) of the U.S. Department of Agriculture (USDA) offers "bonuses" to exporters to help U.S. agricultural exports compete with subsidized exports of foreign countries. Bonuses were in the form of certificates for CCC-owned commodities at first, but have been paid out in cash since the 1990 farm bill allowed cash payments.

The benefits of the EEP program are somewhat concentrated regarding commodity, exporter, and country of import. Wheat sales receive about four-fifths of EEP bonus payments. Three U.S. exporting firms account for about half of all EEP bonuses. And in recent years, most program sales have been to the same four countries.

The most important recent development affecting EEP was the negotiation of limits on export subsidies as part of the Uruguay Round multilateral trade agreement. The trade agreement places limits on the financial assistance that governments can provide for exports and on the quantity of exports that can receive such assistance. Based on the agreement, subsidy outlays must drop 36 percent and the quantity subsidized must drop by 21 percent over six years. These commitments will require substantial cuts by the Congress in the EEP program over the six-year period.

Whether the EEP program should be cut more than required by the trade agreement or even be terminated is a topic of debate as Congress faces a 1995 farm bill and pressure for deficit reduction. On February 15, 1995, Senator Richard Lugar, Chairman of the Senate Agriculture, Nutrition, and Forestry Committee, proposed ending the program. He said that if reduced Federal spending was the goal of Congress, then ending the EEP program would be a step toward this goal.

President Clinton supports continuation of the EEP program in his FY 1996 budget proposal. He put forward a funding level of $958.7 million in FY 1996, which is the maximum allowed under the Uruguay Round trade agreement and is actually an increase over the FY 1995 appropriation of $800 million.

The 104th Congress will consider the question of whether the EEP program will continue, and if so, at what funding level within the context of the budget and omnibus farm legislation. Several other questions might be considered as well. For example, should the EEP program be restructured to focus on markets with long-term potential? Should EEP and the other export subsidy programs be reorganized, perhaps into one, comprehensive export subsidy program? As EEP funding decreases under the Uruguay Round commitments, should funds be shifted into other, permitted export programs such as the USDA Market Promotion Program?

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Export Enhancement Program: Background and Current Issues[1]

THE EXPORT ENHANCEMENT PROGRAM

The Export Enhancement Program (EEP) was established under the Food Security Act of 1985 (P.L. 99-198; the 1985 Farm Bill) with the principal purpose of helping U.S. agricultural commodities compete in the world marketplace. U.S. agricultural exports had peaked around 1980 and were declining. The U.S. share of world agricultural exports was becoming smaller.

This decline was due in part to U.S. monetary and agricultural policies. The U.S. Federal Reserve Board acted to raise U.S. interest rates, which caused the dollar to appreciate. The higher value for the dollar relative to foreign currencies made U.S. agricultural exports more expensive relative to other countries' exports. A second policy that hurt U.S. exports was the high price-support levels set in 1981 legislation. Those support levels pushed domestic prices well above world prices and allowed foreign suppliers to underbid U.S. suppliers.

The decline of U.S. agricultural exports also was due to developments overseas. Developing countries were reducing imports because of severe debt problems. The European Community (now the European Union) was pursuing an agricultural policy that promoted production beyond domestic consumption, causing it to move from a net importer of agricultural goods to a net exporter.

A result of these changes was growth in the stock of Government-owned commodities. Thus, with a large stockpile on hand and domestic producers complaining about foreign subsidies, the Government decided to offer commodities to U.S. exporters at a relatively low cost to enhance sales.

The 1985 Farm Bill directed the U.S. Department of Agriculture (USDA) to provide commodities owned by the Commodity Credit Corporation (CCC) to U.S. exporters as bonuses for the purpose of developing export markets. (Bonuses are now in the form of cash.) The 1985 legislation stated that the program was to offset: (1) the adverse affects of foreign subsidies; (2) the adverse effects of U.S. price support levels that were above prices of competitors; and (3) fluctuations in the dollar exchange rate. Some analysts also say that the export subsidy program was a bargaining tool to compel the Europeans to participate more seriously in multilateral trade negotiations.

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[1] David M. Bearden, Environment and Natural Resources Policy Division, provided both production and research assistance in the preparation of this report.

Administration of the program is somewhat complicated.[2] Industry representatives, USDA personnel, and others make recommendations to the USDA Foreign Agricultural Service (FAS) concerning commodities and countries to target under the EEP program. FAS specialists examine the recommendations in light of market data and legal requirements. An interagency body then reviews the recommendations. FAS issues invitations to exporters to "bid" for bonuses: exporters negotiate sales and prices with importers, calculate how much bonus is necessary to meet that price, and submit the bonus and price to FAS. FAS awards bonuses based on the most competitive bids and on the amount of funding available.

When the EEP program was established in 1985, it was authorized for five years at a level of no less than $325 million annually. The Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624; the 1990 Farm Bill) reauthorized the program for five more years and raised the minimum level to $500 million annually. Last year, the program was reauthorized through the year 2001 as part of legislation implementing the Uruguay Round trade agreements (P.L. 103-456). When the program first began, bonuses were available only in the form of certificates redeemable for CCC commodities. By 1990, however, CCC stocks had dropped significantly. The 1990 Farm Act provided that the CCC could give bonuses in the form of agricultural commodities *or* cash payments. Bonus payments shifted completely to cash soon after.

Table 1 and figure 1, on page 3, show EEP program levels since the program began. Program levels generally have been in the range of $800 million to $1.15 billion, except for the start of the program and a dip in 1989-90. The current (FY 1995) appropriation is $800 million. Future funding, however, is expected to fall because of commitments under the Uruguay Round trade agreement (see next section).

Subsidies on exports of the EEP program accrue principally to the wheat sector. Wheat represented 77 percent of all EEP bonus payments in FY 1994 and represented even higher proportions in preceding years (see table 2 and figure 2 on page 4). In distant second, third, and fourth places were feed grains, wheat flour, and vegetable oil, respectively. Other commodities that were subsidized since FY 1991 were rice, frozen poultry, eggs, barley malt, canned peaches, and frozen pork.

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[2] This paragraph draws from U.S. General Accounting Office. *High-Value Product Sales are Limited in Export Enhancement Program*; Report to the Honorable Dan Glickman, House of Representatives. GAO/RCED-93-101, April 1993. Washington, 1993. p. 3-5.

Table 1. Program Levels for the Export Enhancement Program from Fiscal Years 1985 to 1995 (Appropriation)	
Fiscal Year	**Program Levels ($)**
1985	22,500,000
1986	256,300,000
1987	927,800,000
1988	1,013,700,000
1989	338,800,000
1990	311,800,000
1991	916,600,000
1992	968,200,000
1993	967,300,000
1994	1,149,700,000
1995 (Appropriation)	800,000,000

Source: Data for FY 1985-1994 provided by the U.S. Department of Agriculture, Foreign Agricultural Service, CCC Operations Division. Data for FY 1995 appropriations is from P.L. 103-330, section 721.

Figure 1

Program Levels for the Export Enhancement Program from Fiscal Years 1985 to 1995 (Appropriation)

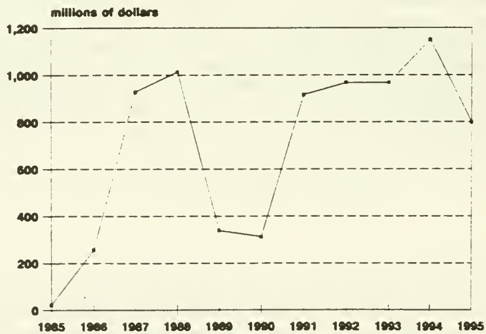


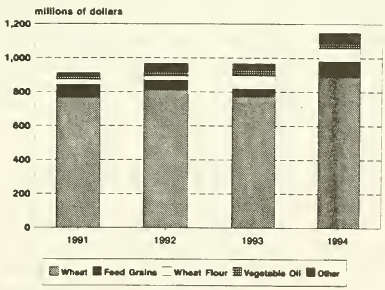
Table 2. Bonus Payments Under the Export Enhancement Program, by Commodity from Fiscal Years 1991 to 1994

Commodity	FY 1991		FY 1992		FY 1993		FY 1994	
	Amount ($)	%	Amount ($)	%	Amount ($)	%	Amount ($)	%
Wheat	767,702,185	83.76	813,192,598	83.99	774,825,767	80 10	890,511,305	77.46
Feed Grains	74,414,097	8 12	54,319,688	5.61	43,324,191	4.48	90,170,309	7 84
Wheat Flour	38,223,888	4 17	25,428,457	2 63	78,212,885	8 09	78,068,564	6.79
Vegetable Oil	14,195,641	1 55	30,212,213	3.12	35,747,107	3.70	29,805,449	2.59
Rice	4,091,380	0.45	23,438,097	2.42	13,308,374	1.38	2,309,215	0.20
Frozen Poultry	10,405,223	1.14	14,406,096	1 49	4,456,808	0.46	20,661,730	1.80
Eggs	4,811,701	0.52	4,885,634	0.50	12,683,587	1.31	14,972,147	1.30
Barley Malt	2,755,116	0.30	2,093,500	0.22	4,373,005	0 45	9,550,260	0.83
Canned Peaches	0	0.00	209,679	0.02	346,198	0 04	0	0 00
Frozen Pork	0	0.00	0	0.00	0	0.00	13,630,247	1.19
Total	916,599,231	100.00	968,198,566	100.00	967,277,923	100.00	1,149,694,225	100.00

Source. U.S Department of Agriculture, Foreign Agricultural Service, CCC Operations Division.

Figure 2

Bonus Payments Under the Export Enhancement Program, by Commodity, from Fiscal Years 1991 to 1994



The EEP bonuses are a sizeable portion of the total value of all overseas sales made with EEP assistance. They were an average of 26 percent of the total value of sales made with EEP assistance in FY 1993 and 27 percent the year before. (FY 1993 data are the most recent available. USDA no longer reports the value of total sales under EEP.)[3] The size of the bonus relative to sales value varies by commodity. In FY 1993, bonuses for flour and frozen poultry were each 44 percent of total sales value, while in contrast, bonuses for canned peaches, rice, and vegetable oil were 12 percent, 16 percent, and 19 percent of total sales value. These same commodities were on the high and low ends the previous year as well. Bonuses for wheat, the major EEP commodity, were 25 percent of total sales value in FY 1993 and 27 percent in FY 1992. Bonuses are higher for value-added, or more processed, commodities than for bulk commodities.

A high percent of total exports of individual commodities are sometimes exported under the EEP program. A few selected cases will illustrate. In FY 1994, exports under EEP were 61 percent of total exports for wheat, 54 percent for wheat flour, and 22 percent for vegetable oil.

Not only have EEP bonuses and sales been concentrated among a few commodities, they also have been used by a small number of exporters. Last year, an appropriations subcommittee asked USDA officials to rank exporters by amount awarded since the start of the EEP program.[4] The USDA reported that three large exporters -- Cargill Inc., Continental Grain Company, and Louis Dreyfus Corporation -- were the leading recipients, accounting for 19 percent, 16 percent, and 14 percent of EEP bonuses, respectively, or combined, nearly half of all EEP bonuses ever awarded. The USDA also reported that another 131 companies had received bonus awards under EEP, but none accounted for more than 4 percent of EEP bonuses.

EEP sales are made to a large number of countries, but four -- the former Soviet Union (FSU), Egypt, China, and Algeria -- have accounted for major shares of EEP bonus payments in recent years (see table 3 and figure 3 on page 6). During the FY 1991 to FY 1994 period, these four countries accounted for 43 percent to 74 percent of annual sales under the EEP program. Their individual shares varied from year to year. In FY 1991, China accounted for the largest share (26 percent); in FY 1992, the FSU had the largest share (38 percent, more than 32 "other countries" combined); in FY 1993, three of the four countries had almost the same share (12 percent); and in FY 1994, Egypt had the largest share (23 percent).

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[3] Bonuses were 30% of the total value of sales under EEP from 1985 to 1992. See U.S. General Accounting Office. *High-Value Sales are Limited in Export Enhancement Program.* p. 23.

[4] House. Committee on Appropriations. Subcommittee on Agriculture, Rural Development, Food and Drug Administration, and Related Agencies. *Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations for 1995*. Hearings, March 24, 1994. 103d Congress, 2d session. Washington, U.S. Govt. Print. Off., 1994. pgs. 209-214.

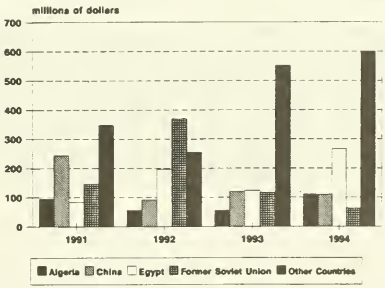
Table 3. Bonus Payments Under the Export Enhancement Program, by Country of Sale from Fiscal Years 1991 to 1994

Country	FY 1991		FY 1992		FY 1993		FY 1994	
	Amount ($)	%	Amount ($)	%	Amount ($)	%	Amount ($)	%
Algeria	94,885,404	10.35	56,350,972	5 82	55,695,116	5 76	110,571,500	9 62
China	244,410,712	26.66	91,632,534	9 46	119,194,832	12.32	109,457,202	9 52
Egypt	83,798,723	9 14	196,766,380	20.32	123,307,806	12 75	266,718,995	23 20
FSU	146,461,786	15.98	369,171,145	38 13	117,069,916	12 10	62,462,351	5 43
Subtotal	569,556,625	62 14	713,921,031	73.74	415,267,670	42.93	549,210,048	47.77
Other Countries	347,042,806	37.86	254,277,535	26.26	552,010,253	57.07	600,484,177	52.23
Grand Total	916,599,231	100.00	968,198,566	100.00	967,277,923	100.00	1,149,694,225	100.00

Source. U.S. Department of Agriculture, Foreign Agricultural Service, CCC Operations Division.

Figure 3

Bonus Payments Under the Export Enhancement Program, by Country of Sale from Fiscal Years 1991 to 1994



THE URUGUAY ROUND AGRICULTURE AGREEMENT AND THE EEP PROGRAM

The Trade Agreement

In April 1994, after many years of negotiation, over 100 countries signed a comprehensive package of trade agreements to lower trade barriers and reduce discriminatory practices. Those negotiations, called the Uruguay Round, covered a broad range of issues. One of the most important, and a priority of the United States, was reform of trade practices that distort agricultural trade.

When the negotiations began in 1986, the United States had pressed for the elimination of all agricultural export subsidies and import barriers. The result fell short of this ambitious goal, but it did place definite limits on agricultural trade-distorting practices.[5] For export subsidies, the agreement prescribed that over a six-year period, outlays for export subsidies must fall by 36 percent and the quantity of subsidized exports must fall by 21 percent.[6] Cuts will be made by commodity. The base for calculating the cuts will be the 1986-90 average; however, the starting point for the cuts can be either the 1986-1990 average or the 1991-92 average, whichever is higher.

Table 4, on page 8, illustrates the U.S. export subsidy reduction commitment for wheat, the major EEP-assisted commodity. (Note that the wheat commodity group includes wheat flour.) The starting point for the reductions is the 1991-92 average of $845.8 million because it is higher than the 1986-90 average.[7] At the end of six years, *budget outlays* to subsidize wheat exports can be no higher than $363.8 million (the 1986-90 average of $568.5 million less 36 percent). The maximum outlay for wheat export subsidies the first year of reduction will be $765.5 million and outlays for wheat will decrease by $80.3 million each year until year 6.

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[5] For information on the agricultural provisions, see U.S. Library of Congress. Congressional Research Service. *Agriculture in the Uruguay Round: An Assessment*, by Charles E. Hanrahan. CRS Report 94-582 S. July 19, 1994. 10 p.

[6] Developing countries are given different treatment. They must reduce such outlays by 24% and output by 14% over a ten-year period.

[7] In the United States, budget outlay commitments for all commodities will be implemented by fiscal year beginning October 1 1995. Quantitative commitments will be implemented by marketing year beginning July 1 1995.

Table 4. U.S. Commitments for Wheat/Flour Under the Uruguay Round							
Budget Outlays ($ million)				Quantity (million metric tons)			
Base		Commitment		Base		Commitment	
1986-90	1991-92	Year 1	Year 6	1986-90	1991-92	Year 1	Year 6
$568.5	$845.8	$765.5	$363.8	18.4	21.4	20.2	14.5

Source: Message from President Clinton. *Uruguay Round Trade Agreements, Texts of Agreements, Implementing Bill Statement of Administrative Action, and Required Supporting Statements*. House Document 103-316, vol. 2. 103rd Congress, 2nd Session. September 27, 1994. pp. 3845 and 3929.

Table 4 also includes the commitments for the *quantity* of subsidized wheat exports. The starting level for reductions will be the 1991-92 average of 21.4 million metric tons. The final level will be 14.5 million metric tons (the 1986-1990 average of 18.4 million metric tons less 21 percent). The annual reduction is 1.1 million metric tons, so the United States will be limited to a maximum of 20.2 million metric tons in subsidized exports of wheat in year 1.

The trade agreement includes further provisions that place limits on export subsidies. First, the agreement stipulates that governments may not provide export subsidies that are not in conformance with the agreement and national commitments. Thus, governments may not begin new subsidy programs. Second, the agreement asserts that governments may not circumvent the restrictions on export subsidies, nor may they use noncommercial transactions to circumvent the rules. In other words, countries may not shift subsidies into food aid or other programs to get around the export subsidy restrictions.

The Uruguay Round agreement also provides for continuing talks on agricultural reform. Countries agreed that beginning one year before the implementation period is over (or, in five years), they would initiate negotiations to continue the process of reducing agricultural support. The long-term objective of such talks is "substantial progressive reductions in support and protection resulting in fundamental reform."

The Implementing Legislation

Legislation to implement the Uruguay Round trade agreements was enacted late in 1994 as the Uruguay Round Agreements Act (P.L. 103-465). The legislation made statutory changes that were necessary for the agreements to take effect and included other, related provisions.

Title IV of the Act (Agriculture-Related Provisions) reauthorized the EEP program through the year 2001 and continued program authority at the current level of at least $500 million annually. It directed the CCC to carry out the EEP program "...to encourage the commercial sale of United States agricultural commodities in world markets at competitive prices" and specified that program activities "...shall not be limited to responses to unfair trade practices." It directed the CCC to administer the program in a manner consistent with the obligations of the Uruguay Round agreements. Among these obligations were the ceilings on export subsidy programs.

The Senate Committee on Agriculture, Nutrition, and Forestry stated in its report on the implementing bill that it expects the Administration to fully utilize export programs to benefit agriculture producers.[8] One reason the Committee gave for this mandate was that the European Union (EU) had higher ceilings than the United States, and thus U.S. exporters had a continuing need for protection from subsidized competition. Another reason was that the agreement stipulated that further negotiations would begin in five years and the United States should continue to use subsidies to induce the EU to agree on further reductions.

LEGISLATIVE ISSUES RELATED TO THE EEP PROGRAM

The leading issue related to EEP is whether the program will continue, and if so, at what level of funding. On February 15, 1995, Senate Agriculture Committee Chairman Richard Lugar proposed terminating the EEP program. He estimated that this action would save $3.4 billion over five years. That saving is based on the maximum but declining outlays allowed under the Uruguay Round trade agreement. Chairman Lugar said that these cuts, plus other savings from reducing target prices for crop programs, would save almost $15 billion from agricultural programs over five years. USDA officials and some Members who represent farm States responded that ending the program would have harmful effects. For example, Senator Kent Conrad of North Dakota predicted that such reductions would cause a decrease in farm output and disastrously low prices.[9]

President Clinton proposed continuing the EEP program at the maximum allowed level in his FY 1996 budget package. He proposed a funding level of $958.7 million in FY 1996, which is higher than the FY 1995 appropriation of $800 million. The strikingly different proposals of Senator Lugar and President Clinton suggest that funding for the EEP program will be controversial.

Apart from funding, another important issue is whether the EEP program should be restructured. Any restructuring probably would be considered during

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[8] U.S. Congress. Committee on Finance. Committee on Agriculture, Nutrition, and Forestry. Committee on Governmental Affairs. *Uruguay Round Agreements Act.* Joint report to accompany S. 2467. November 22, 1994. Report 103-412. 103d Congress, 2d session. p. 212-213. The House Committee on Agriculture did not report the implementing bill.

[9] Abbott, Charles. Farm Cuts Too Steep for Safety, US Official Says. *Reuters*, February 16, 1995. 5:27 PET.

debate on the 1995 farm bill.[10] First, should the program itself be restructured? The Uruguay Round bill eliminated the requirement that the EEP program be used to discourage unfair foreign practices. It also directed that the implementation of the program should be sensitive to markets. Greater flexibility could improve the program in some respects. The program might be directed to emerging markets or to foreign markets with strong growth potential.

Second, should EEP and the other export programs be reorganized completely? One suggestion is to roll EEP and the other export subsidy programs[11] into one super subsidy program with an improved strategy to meet foreign competition.

Third, should funds be shifted among the export support programs? Many agriculture groups have argued that future cuts in export subsidies should be offset with increases in allowed programs. These allowed, or "greenbox," programs include export credits and market-promotion programs. In the FY 1996 proposal, President Clinton proposed increasing funds for "greenbox" activities by $600 million over 5 years.

A final issue is the relationship between the EEP program and foreign relations policy. Some critics have claimed that EEP funds are used to gain political influence in other countries. The Congress might consider the merits of this claim and the relative effectiveness of agricultural export subsidies for this purpose.

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[10] For further information on the 1995 farm bill, see U.S. Library of Congress. Congressional Research Service. *1995 Farm Bill Issues*, coordinated by Jean Yavis Jones. CRS Report 95-219. January 31, 1994. 65 p.

[11] Other export programs include the Dairy Export Incentive Program (DEIP), the Cottonseed Oil Assistance Program (COAP), and the Sunflowerseed Oil Assistance Program (SOAP).

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TABLE 10–1. U.S. GOVERNMENT TRADE PROMOTION EXPENDITURES BY CLASSIFICATION [1]

(Budget authority in thousands)

Activity	Actual 1993	Actual 1994	Actual 1995	1996 Budget
Negotiating Open Markets and Lowering/Removing Trade Barriers	**132,227**	**149,910**	**147,835**	**147,207**
Department of Commerce	39,218	43,443	42,386	38,905
Trade Development Agency	....	....	....	....
Export-Import Bank	....	....	....	....
Overseas Private Investment Corporation	....	....	....	....
Small Business Administration	....	....	....	....
Department of State	62,114	74,312	72,906	74,687
U.S. Information Agency	....	....	....	....
Department of Agriculture	6,524	6,585	6,673	7,530
U.S. Trade Representative	20,492	21,150	20,949	20,949
Department of Transportation	....	....	....	....
Department of Treasury	2,000	2,000	2,000	1,400
Environmental Protection Agency	....	....	....	....
Department of Energy	248	704	1,116	1,868
Department of Labor	1,631	1,716	1,805	1,868
Combating Foreign Export Subsidies	**1,135,326**	**1,423,072**	**1,123,740**	**1,323,829**
Department of Commerce	....	....	....	....
Trade Development Agency	1,092	1,307	1,350	....
Export-Import Bank	110,504	212,300	208,286	245,903
Overseas Private Investment Corporation	....	....	....	....
Small Business Administration	....	....	....	....
Department of State	....	....	....	....
U.S. Information Agency	....	....	....	....
Department of Agriculture	1,023,730	1,209,465	914,104	1,077,926
U.S. Trade Representative	....	....	....	....
Department of Transportation	....	....	....	....
Department of Treasury	....	....	....	....
Environmental Protection Agency	....	....	....	....
Department of Energy	....	....	....	....
Department of Labor	....	....	....	....
Financing and Insuring U.S Trade and In Commerce	**1,341,213**	**1,489,418**	**1,190,066**	**1,207,701**
Department of Commerce	....	....	....	....
Trade Development Agency	....	....	....	....
Export-Import Bank	562,259	766,845	563,142	664,848
Overseas Private Investment Corporation (Not included in Totals)	−132,000	−98,000	−115,000	−96,500
Small Business Administration	13,618	8,385	11,508	9,300
Department of State	....	....	....	....
U.S. Information Agency	....	....	....	....
Department of Agriculture	755,189	696,302	592,532	511,675
U.S. Trade Representative	....	....	....	....
Department of Transportation	....	16,000	21,000	20,000
Department of Treasury	....	....	....	....
Environmental Protection Agency	....	....	....	....
Department of Energy	10,147	1,886	1,884	1,878
Department of Labor	....	....	....	....
Providing Information/Counseling/Export-Assistance Services	**196,058**	**228,937**	**248,173**	**275,951**
Department of Commerce	138,178	165,613	182,866	197,195
Trade Development Agency	....	....	....	....
Export-Import Bank	2,450	2,450	2,450	2,450
Overseas Private Investment Corporation	....	....	....	....
Small Business Administration	....	....	3,200	3,200
Department of State	....	....	....	....
U.S. Information Agency	25,689	28,618	28,432	28,069
Department of Agriculture	28,288	29,905	30,619	36,398
U.S. Trade Representative	....	....	....	....
Department of Transportation	....	....	....	....
Department of Treasury	....	....	....	....
Environmental Protection Agency	....	....	....	....
Department of Energy	1,453	2,351	606	8,639

TABLE 10–1. U.S. GOVERNMENT TRADE PROMOTION EXPENDITURES BY CLASSIFICATION [1]—Continued

(Budget authority in thousands)

Activity	Actual 1993	Actual 1994	Actual 1995	1996 Budget
Department of Labor				
Providing Government-to-Government Advocacy on behalf of U.S. Business	26,859	34,108	36,471	37,958
Department of Commerce	14,844	15,780	17,969	18,950
Trade Development Agency				
Export-Import Bank				
Overseas Private Investment Corporation				
Small Business Administration				
Department of State	12,015	18,328	18,502	19,008
U.S. Information Agency				
Department of Agriculture				
U.S. Trade Representative				
Department of Transportation				
Department of Treasury				
Environmental Protection Agency				
Department of Energy				
Department of Labor				
Funding Feasibility Studies on Major Infrastructure and Development Projects	32,439	40,717	33,750	41,000
Department of Commerce				
Trade Development Agency	32,439	40,717	33,750	41,000
Export-Import Bank				
Overseas Private Investment Corporation				
Small Business Administration				
Department of State				
U.S. Information Agency				
Department of Agriculture				
U.S. Trade Representative				
Department of Transportation				
Department of Treasury				
Environmental Protection Agency				
Department of Energy				
Department of Labor				
Developing Foreign Markets	257,434	233,928	190,714	206,570
Department of Commerce	8,796	8,533	9,282	10,200
Trade Development Agency	9,210	11,990	9,900	9,000
Export-Import Bank				
Overseas Private Investment Corporation				
Small Business Administration				
Department of State				
U.S. Information Agency				
Department of Agriculture	237,975	210,255	163,144	165,467
U.S. Trade Representative				
Department of Transportation				
Department of Treasury				
Environmental Protection Agency				
Department of Energy	1,453	3,150	8,388	21,903
Department of Labor				
Total [2]	3,121,556	3,600,090	2,970,749	3,240,216
Department of Commerce	201,036	233,369	252,503	265,250
Trade Development Agency	42,741	54,014	45,000	50,000
Export-Import Bank	675,213	981,595	773,878	913,201
Overseas Private Investment Corporation	−132,000	−98,000	−115,000	−96,500
Small Business Administration	13,618	8,385	14,708	12,500
Department of State	74,129	92,640	91,408	93,695
U.S. Information Agency	25,689	28,618	28,432	28,069
Department of Agriculture	2,051,706	2,152,512	1,707,072	1,798,996
U.S. Trade Representative	20,492	21,150	20,949	20,949
Department of Transportation		16,000	21,000	20,000
Department of Treasury	2,000	2,000	2,000	1,400
Environmental Protection Agency				
Department of Energy	13,301	8,091	11,994	34,288
Department of Labor	1,631	1,716	1,805	1,868

[1] Figures include administrative expenses.
[2] Totals exclude OPIC.

European Union Agricultural Spending by Commodity and Economic Type 1990-1995									$/ECU rate 5 May '95
Commodity	1990 Expenditure $ Millions 1/	1991 Expenditure $ Millions 2/	1992 Expenditure $ Millions 3/	1993 Expenditure $ Millions 4/	1994 Appropriation $ Millions 5/	1994 ECU 1.211	1995 Appropriation $ Millions 6/	1995 ECU	1995 Appropriation $ Millions 7/
Grains	4,946	6,440	7,107	7,772	9,941	8,210	12,616	9,780	13,154
Export Subsidies	3,148	4,566	4,142	3,339	2,118	1,749	1,678	1,301	1,750
Intervention	1,797	1,874	2,965	4,434	7,823	6,461	10,938	8,479	11,404
Sugar	1,768	2,252	2,483	2,566	2,627	2,170	2,512	1,947	2,619
Export Subsidies	1,179	1,552	1,674	1,795	1,771	1,463	1,805	1,399	1,882
Intervention	588	700	810	770	856	707	707	548	737
Oilseeds and Products	5,913	6,731	7,546	7,142	5,732	4,734	4,225	3,275	4,405
Export Subsidies	173	139	62	81	86	71	94	73	98
Intervention	5,740	6,592	7,484	7,061	5,646	4,663	4,131	3,202	4,307
Dairy	6,309	6,996	5,137	6,109	5,260	4,344	5,236	4,059	5,459
Export Subsidies	2,458	2,791	2,636	2,682	2,388	1,972	2,505	1,942	2,612
Intervention	3,851	4,205	2,501	3,428	2,872	2,372	2,731	2,117	2,847
Meat, poultry, and eggs	5,997	8,075	8,338	7,518	7,835	6,471	8,982	6,963	9,365
Export Subsidies	1,862	2,049	2,124	2,574	1,762	1,455	2,042	1,583	2,129
Intervention	4,135	6,026	6,368	4,945	6,073	5,016	6,940	5,380	7,236
Fruit and vegetables	1,595	1,374	1,618	1,951	2,016	1,665	2,313	1,793	2,412
Export Subsidies	103	118	150	219	207	171	214	166	223
Intervention	1,492	1,256	1,468	1,731	1,809	1,494	2,099	1,627	2,188
Other products	5,107	5,779	6,395	5,891	6,030	4,980	6,571	5,094	6,851
Export Subsidies	799	1,024	1,072	1,033	930	768	808	626	842
Intervention	4,308	4,756	5,323	4,858	5,100	4,212	5,764	4,468	6,009
Total Market Org.	31,634	37,644	38,624	38,947	39,439	32,573	42,454	32,910	44,264
									0
Monetary Support	391	197	37	169	4	3	0	0	0
Other compensation	372	1,061	1,087	1,375	1,311	1,083	3,082	2,389	3,213
Depreciation of stocks	1,732	990	0	–	–		–		0
Set-aside	27	95	366	386	2,028	1,675	2,715	2,105	2,831
Clearance of accounts	(481)	(543)	101	(451)	(695)	(574)	(680)	(527)	(709)
Carryover (previous yr.)	–	747	–	–	–	–	–	–	0
									0
Guarantee Section	33,676	40,191	40,215	40,426	42,086	34,759	47,571	36,877	49,600
Guidance Section	2,513	2,861	3,825	3,967	4,555	3,762	0	0	0
									0
Total EU Export Subsidies	9,723	12,239	11,860	11,723	9,261	7,649	9,418	7,301	9,820
Total European Union									0
Agricultural Spending ($ Mil)	36,189	43,053	44,041	44,393	46,641	38,521	47,571	36,877	49,600
United States' Agricultural	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994		FY 1995		
Export Subsidies	333	917	1,104	1,171	1,131		N/A		
Total United States'									
Agricultural Spending ($ Mil)	6,471	10,110	9,738	16,047	10,336		10,623		

Note: The dollar-denominated columns for 1995 reflect the dollar to ECU exchange rates as of 20 March 1995 and 5 May 1995.
Totals may not add in some cases due to rounding. Totals do not include export subsidies used for food aid.
1/ 1 ECU = $1.273, budget year 1990 (10/16/89-10/15/90)
2/ 1 ECU = $1.240, budget year 1991 (10/16/90-10/15/91)
3/ 1 ECU = $1.283, budget year 1992 (10/16/91-10/15/92)
4/ 1 ECU = $1.1723, budget year 1993 (10/1/92-9/30/93)
5/ 1 ECU = $1.2108, budget year 1994 (10/1/93-9/30/94)
6/ 1 ECU = $1.29, budget year (10/1/94-9/30/95) Rate estimate for budget year average as of 20 March 1995. Figure is preliminary.
7/ 1 ECU = $1.345. Rate as of 5 May 1995. Figure is preliminary
Source: Official Journal of the EC (OJ L24, 1/29/90, OJ L26, 2/3/92, OJ L31, 2/8/93; OJ L34, 2/7/94, OJ L362, 12/31/94, OJ L369, 12/31/94)
revised 11May1995

European Union Agricultural Export Subsidies by Commodity
1990-1995

Commodity	1990 Expenditure $ Millions 1/	1991 Expenditure $ Millions 2/	1992 Expenditure $ Millions 3/	1993 Expenditure $ Millions 4/	1994 Approp. $ Millions 5/	1994 ECU 1.211	1995 Approp. $ Millions 6/	1995 ECU 1.345	1995 Approp. $ Millions 7/
wheat/flour	1,531	2,225	1,871	1,581	1,085	*896*	778	*603*	811
barley/malt	941	1,275	1,181	695	648	535	481	373	502
durum	271	485	539	474	119	*98*	148	*115*	155
other cereals	367	480	434	520	241	*199*	222	*172*	231
rice	37	96	118	70	25	*21*	49	*38*	51
Total Grains	**3,148**	**4,562**	**4,143**	**3,339**	**2,117**	***1749***	**1,678**	***1301***	**1,750**
sugar	1,179	1,551	1,674	1,795	1,771	*1463*	1,805	*1399*	1,882
olive oil	172	139	62	81	86	*71*	94	*73*	98
oilseeds	1	1	0	0	0	*0*	0	*0*	0
fresh fruit & vegs.	85	95	117	183	171	*141*	181	*140*	188
prcssd fruit & vegs.	17	22	32	36	36	*30*	34	*26*	35
vine products	70	69	99	117	98	*81*	90	*70*	94
tobacco	79	81	74	42	61	*50*	27	*21*	28
Total Hort. Products	**1,603**	**1,958**	**2,058**	**2,256**	**2,223**	***1836***	**2,230**	***1729***	**2,326**
butter/butteroil	564	757	395	504	297	*245*	481	373	502
skim milk powder	259	154	307	226	149	*123*	350	*271*	364
cheese	660	661	726	730	729	*602*	600	*465*	625
other milk products	974	1,217	1,208	1,221	1,213	*1002*	1,075	*833*	1,120
Total Dairy Products	**2,458**	**2,789**	**2,638**	**2,682**	**2,388**	***1972***	**2,505**	***1942***	**2,612**
beef/veal	1,413	1,590	1,708	2,006	1,332	*1100*	1,743	*1351*	1,817
pigmeat	222	247	167	227	199	*164*	126	*98*	132
eggs	42	44	42	48	35	*29*	26	*20*	27
poultry meat	185	166	206	293	196	*162*	147	*114*	153
Total Meat Products	**1,862**	**2,047**	**2,123**	**2,573**	**1,762**	***1,455***	**2,042**	***1,583***	**2,129**
grain(distilled spirits)	54	91	73	50	46	*38*	58	*45*	61
Processed products	**597**	**782**	**824**	**574**	**725**	***599***	**904**	***701***	**942**
fish	0	0	2	1	0	*0*	0	*0*	0
wine alcohol 9/	896	0	0	0	0		0		0
Total Subsidies	**9,721**	**12,230**	**11,859**	**11,723**	**9,261**	***7,649***	**9,418**	***7,301***	**9,819**

Note: The dollar-denominated columns for 1995 reflect the dollar to ECU exchange rates as of 20 March 1995 and 5 May 1995.
Totals may not add in some cases due to rounding. Totals do not include export subsidies used for food aid.
1/ 1 ECU = $1.273, budget year 1990 (10/16/89-10/15/90)
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revised 11May1995


EU Wine Assistance Rises
1,200
1,000
800
600
400
200
0
330.8
735.
1990
1991
1992
1993
1994
Acreage
Reduction
Production
Intervention
Refunds

EU WINE ASSISTANCE RISES

-- The U.S. Provides very little support to the U.S. wine sector

-- In contrast, the European Union provides massive support for the wine industry through an array of subsidies, including:

-- Product intervention

-- Aid for the use of must

-- Acreage reduction, and

-- Export refunds.


The EU Led the World in Wine
Production for 1993/94
million hectoliters
EU-12
NIS
E.Europe
U.S.A.
Latin America 10%
Source: FAO, USDA

THE EU LED THE WORLD IN WINE PRODUCTION FOR 1993/94

-- The European Union accounts for 62 percent (or about 161 million hectoliters) of world wine production

-- The U.S., on the other hand, accounts for only 6 percent


And World Wine Exports in
1993/94
U.S.A.
E.Europe
EU-12
Source: FAO

AND WORLD WINE EXPORTS IN 1993/94

-- It is no surprise that the EU led the world in exports, accounting for 87 percent of world trade

-- The U.S. only accounted for 3 percent

-- The challenge to the U.S. Wine industry is clear; and MPP offers the only means to change the odds

LONG-TERM AGRICULTURAL TRADE STRATEGY

FY 1996

U.S. Department of Agriculture

USDA International Agricultural Trade Mission

- Open, expand, and maintain global market opportunities through international trade, cooperation, and sustainable development activities which secure the long-term economic vitality and global competitiveness of America's rural communities and related food and agricultural enterprises.

USDA Export Goal 2000

- Assist American Agriculture to increase the value of farm, food, fish, and forestry exports 50 percent over 1994 levels by the year 2000.

LATS* OUTLINE

I. INTRODUCTION: The Global Trade and Competitive Environment

- Strategic Shift: From Surplus Disposal to Market Demand Responsiveness
- Historical Context
- After the Uruguay Round: New Global Trade Environment
- Global Competitive Environment

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- Mission
- Export Goal 2000

III. STRATEGY DRIVERS

STRATEGIC OUTREACH AND MARKET INTELLIGENCE

- Increase Domestic Awareness of Export Opportunities
- Raise Domestic Awareness of Global Consumer Quality and Safety Expectations
- Fully Activate Strategic Intelligence Network Linking Constituencies to Markets
- Strategically Link Domestic Outreach Initiatives with Overseas Market Development

MARKET DEVELOPMENT AND PROMOTION

- Strengthen Overseas Market Channel Outreach and Strategic Alliances
- Recognize Market Life Cycles: Emerging, Growth, Maintenance
- Emphasize Market Segments with High Return to Mission
- Enter Early: Establish Competitive Advantages
- Shift Consumer Preference with Brand Power, Easing Entry for Smaller Enterprises
- Exploit Emerging Demand for Private Label Products
- Leverage Burgeoning Consumer Demand to Gain Market Access
- Exploit Market Access Gains with Timely Market Development Initiatives

* Revised as of 10/25/95

MARKET ACCESS

- Monitor, Negotiate, and Assist Full Implementation of Trade Agreements
- Intensify Pressure for Science-Based Sanitary and Phytosanitary Standards
- Aggressively Open and Expand Markets through Trade Negotiations
- Expand Regional Trade Agreements
- Monitor and Address Competitive Impact of State Trading
- Coordinate Trade Policies, including Import Policies, with Other Strategic Objectives

PRICE/CREDIT AND RISK ASSISTANCE

- Emphasize Market Expansion
- Emphasize Private Sector versus Government-to-Government Participation
- Maximize GATT Permissible Export Assistance
- Increase Price/Risk Assistance Programmatic Flexibility
- Target High Growth Emerging Markets
- Seek to Expand Assistance for High-Value Products
- Coordinate Price/Credit and Risk Assistance with Market Access Objectives

LONG-TERM DEVELOPMENT

- Build Sustainable Export Markets: Technical Assistance and Economic Development
- Monitor and Assess International Food Security
- Focus on Emerging Markets
- Leverage the Trade/Investment Nexus through International Financial Institutions
- Guide and Support Research Priorities
- Coordinate Long-term Development with Market Access Objectives

IV. COUNTRY MARKET STRATEGY ANALYSIS

COUNTRY MARKET STRATEGY RECONCILIATION PROCESS

- Country Market Segmentation
- Country Team Approach to Market Strategy Analysis

V. CONCLUSION: UNIFIED STRATEGIC MANAGEMENT

- The National Performance Review and the Government Performance and Results Act
- Trade Promotion Coordinating Committee (TPCC)
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ADDENDUM: STRATEGIC PROFILES

A. *OUTLOOK FOR U.S. AGRICULTURAL EXPORTS TO THE 21ST CENTURY*

B. *COUNTRY MARKET HIGHLIGHTS[1]: THE PACIFIC RIM*

C. *COMMODITY SPECIFIC COUNTRY MARKET ANALYSIS*

- Forest Products Example: Combined
- Horticultural and Tropical Products Example: Apples

D. *COMMODITY CATEGORY ANALYSIS*

- Consumer Foods Example : The Frozen Foods Market
- Bulk Commodity Example: The China Market

E. *CROSS-COMMODITY ANALYSIS*

- Grain and Meal Shipments in the Form of Meat

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[1]As provided by Title VI of the 1990 Food, Agriculture, Conservation, and Trade Act, portions of Addendum section B have been designated as "market sensitive", hence confidential within the meaning of the statute. The designation of market sensitivity is limited to this section, and the market sensitive portions are included in the version of the LATS submitted, for review as appropriate, to Congressional Intelligence Committees. The statute states that the *"Secretary may designate parts of the report . . . as confidential and [that] such parts shall not be released to the general public, if -- a) the Secretary determines that the release of such information would disadvantage the United States with respect to its competitors in specific foreign markets; or b) the Secretary determines that such information is confidential business information."*

I. INTRODUCTION: The Global Trade and Competitive Environment

The recently concluded Uruguay Round of multilateral trade negotiations ushers in an era of unprecedented long-term market potential, with new and burgeoning consumer demand worldwide for our food and agricultural exports. USDA maintains a dynamic Long-term Agricultural Trade Strategy (LATS) designed to assist rural communities and related food and agricultural enterprises to exploit profitably rapidly changing global market forces, free from unfair risks.

Strategic Shift: From Surplus Disposal to Market Demand Responsiveness

The Administration's commitment to the Uruguay Round and its trade-liberalizing effects offer great promise for future export success. The large, government-held commodity stocks, so characteristic of the past, have disappeared in recent years as export demand has risen. In response, USDA's export strategy has shifted from a surplus-management focus to a market-oriented, demand-driven approach. Global consumer demand drives the strategy, as market demand pulls through the entire agribusiness commodity system, ultimately manifested in public and private production decisions. Shifts in demand at the consumer level drive demand for all types of agricultural products ranging from raw bulk and semifinished inputs to high-value food and fiber products. The productivity, diversity and competitiveness of the U.S. food and agricultural private sector give the United States its global comparative advantage.

Historical Context

Since its founding in 1862, USDA has been at the side of U.S. farmers, assisting in their contributions to the nation's economic development. Numerous congressional actions have proven instrumental in making U.S. agriculture the most productive and competitive in the world. Resulting USDA programs have enabled the United States to feed not only itself but also countries around the globe. USDA's current export strategy is a continuation of that tradition, helping U.S. agriculture to compete successfully in the increasingly dynamic global competitive environment towards the 21st century.

The Food Security Act of 1985 was designed to address domestic and international marketing conditions that were adversely affecting U.S. farm product exports and the U.S. farm economy. Competitor export subsidies, particularly those of the European Union (EU), displaced and reduced U.S. agricultural exports. U.S. exports peaked in 1980 and 1981, then declined to levels of the early 1970's, reaching a low point of $25 billion in 1985.

U.S. Government stocks of grains and other commodities reached record high levels and land values declined. The rural economy was undergoing severe economic stress and the Food Security Act of 1985 aimed at correcting the situation by adopting more export-oriented policies. The strategy was to make U.S. agriculture more competitive by reducing support prices, by working down record government stocks through acreage reduction programs, and through actions to counter unfair foreign trade practices. In the short run, this reduced government storage costs, rekindled the rural economy, and enhanced the competitiveness of U.S. agricultural exports. In the longer term, the strategy was to use the tools authorized by the Food Security Act of 1985 to bring subsidizing competitors to the negotiating table in the Uruguay Round.

After the Uruguay Round: New Global Trade Environment

The previously described trade strategy was successful in accomplishing its objectives. Commodity Credit Corporation (CCC) commodity stocks were reduced; subsidizing competitors were brought to the negotiating table; and the Uruguay Round Agreements were achieved in 1994. Since 1985, the rural economic situation reversed, international competitiveness of U.S. agriculture improved, and the overall U.S. market share of agricultural trade increased steadily. There were other major changes in the trading environment over the same period. These include negotiation of the NAFTA and the increasing privatization of international agricultural trade. The latter is an especially important factor affecting our trade relations with countries of Eastern Europe, and increasingly of the former Soviet Union.

Until recently, trading relationships with these countries tended to be on a government-to-government basis. The U.S. Government entered into grain agreements and similar trading arrangements with centralized governmental trading entities of these countries. A key element of these previous trading relationships was the ability to deal with a single purchasing agent. That simplified the task of assuring that certain minimum amounts of U.S. farm products would move into international markets.

In contrast, with the privatization of these markets, it is now necessary to gear USDA's efforts in these markets toward assisting the private sector in more traditional marketing efforts with overseas buyers. This trend to decentralized marketing is unlikely to change in the foreseeable future and is taken into account in USDA's trade strategy, LATS.

Other key changes in the trading environment include the continued shift in trade toward consumer-oriented and high-value products and rapid growth in Asia/Pacific Rim markets. The shift in trade toward consumer-oriented and high-value products results both from rising incomes and limitations in overseas production and processing capacity. Capacity limitations result in part from increasing populations and limited land availabilities and are taken into account in the LATS.

When increased budgetary constraints are also considered, it becomes clear that the current trade environment is very different from the situation as recently as 10 years ago, as summarized in the following table:

USDA Long-term Agricultural Trade Strategy
FY 1996

MARKET CHARACTERISTIC	*PREVIOUS ENVIRONMENT*	*NEW ENVIRONMENT*
State Trading	Overt	Persistent
Growth Determinants	Supply-driven: Product Push	Demand-driven: Consumer Pull
Dominant Markets	Japan, Europe, Russia	Japan, Asia/Pacific Rim
Budgetary Constraints	Moderate	Extreme
Trade Agreements	Pre-Uruguay Round: FTA/NAFTA, Multilateral Negotiations	Post-Uruguay Round FTA/NAFTA, Implementation, Accession, Bilateral Negotiations, Regionalization
U.S Government Stocks	Large	Very Small

The future of American Agriculture will be increasingly dependent on developments in the Asia/Pacific Rim. The fastest growing economies are in this part of the world. This is the fundamental reason USDA will increasingly focus its export assistance efforts increasingly in the Asia/Pacific Rim. Increases in U.S. agricultural exports are sustainable over the longer term due in part to the growth of other emerging markets worldwide, especially in Latin America.

Export expansion will also be spurred by the increasing diversity and high quality of U.S. products. High-value products will continue to comprise a large and growing share of world agricultural trade and today comprises over two-thirds of total world agricultural trade, up from 54 percent in 1985. This share is expected to climb to 75 percent by the year 2000. Aided by an aggressive export promotion program and favorable exchange rates, U.S. market share of global high-value products trade has increased from 10 percent in 1985 to 16 percent today. The outlook is for further gains to the year 2000 and beyond.

The Uruguay Round Agreements will be particularly important in spurring exports of U.S. high-value products as they reduce tariffs, remove nontariff barriers, and cut export subsidies on a number of products, helping to increase U.S. exports.

Likewise, the requirement in the Uruguay Round Agreements that sanitary and phytosanitary (SPS) measures be based on sound scientific principles will help to assure that barriers to high-value trade are not erected under the guise of protecting animal, plant, or human health. SPS measures will be a key implementation focus.

Increases in world income and economic growth will promote an expanded demand for U.S. agricultural products. Experience has shown that the first thing that consumers in developing countries do when their incomes grow is to improve their diets. Consumers will demand a wide array of fruit, vegetable, and other specialty and high-value products.

Finally, the outlook for U.S. bulk agricultural exports also is very favorable. There is growing demand, less competition from traditional competitors, and import liberalization in the wake of the Uruguay Round negotiations and the NAFTA. Economic growth in China is stimulating demand for bulk products, and its reduced role as a competitor with the United States in other Pacific Rim markets is creating opportunities for U.S. exports.

Global Competitive Environment

With improving trade access and fewer restrictions, the competition will inevitably intensify. Subsidizing exporters will continue to use export subsidies at Uruguay Round-disciplined levels and will conduct "green box" activities such as credit and credit guarantee programs and non-price export promotion programs. The United States also must compete against the monopolistic marketing boards of Australia, Canada, and New Zealand.

U.S. export subsidy programs give U.S. producers the ability to counter the export subsidies of the EU and the discriminatory pricing power of the marketing boards of Australia, Canada, and New Zealand. Credit guarantees allow U.S. exporters to compete with sales terms offered by Australia, Canada, and the member states of the EU. USDA's market development programs assist U.S. producers and firms to promote their products in world markets.

The EU is the chief subsidizer of agricultural exports. The EU supports its domestic producers at high internal prices while subsidizing agricultural export prices to compete in world markets. EU export subsidies in 1995 are expected to top $9 billion, $1.3 billion of which is estimated for grains alone. The EU will spend nearly as much to subsidize its wine exports this year--$93 million--as USDA will spend on the entire Market Promotion Program (MPP). Several other countries such as the Czech and Slovak Republics, Hungary, and Sweden also subsidize their exports in years of bountiful harvests.

As discussed, many competitors such as Australia, Canada, and New Zealand market their agricultural products through marketing monopolies (marketing boards). Marketing boards practice discriminatory pricing, allowing them to undercut prices in some competitive markets. Marketing boards participate in a range of activities, from sales to promotion to joint ventures. For example, the Australian Wheat Board invested in a flour mill in Shenzhen, China, and helped to finance a flour mill to be built by the government of Vietnam.

Credit is a key instrument of competition in world agricultural trade. Most major agricultural exporters offer some sort of export credit program. The French Compagnie Française des Assurances pour le Commerce Extérieur (COFACE) provides a wide range of financing services, including export credit guarantees, for a variety of agricultural products and manufactured goods. For agricultural products, COFACE provides credit insurance for marketing campaigns, short-term credit and trade financing, and longer term loans for grains. The Australian and Canadian Wheat Boards provide direct credits to importers.

Most agricultural exporting nations such as Australia, Canada, the European countries, and New Zealand heavily promote their agricultural and food products throughout the world. In many countries, such as France and the Netherlands, marketing organizations are financed by governments and by assessments on agricultural production and marketing. Producer and industry assessments are mandated by law. The national and regional governments of Italy and Spain finance market development costs for their chief agricultural products. The government of Australia continues to increase its funding of agricultural product promotions through its Export Market Development Grants. Australia is targeting expansion in Asia.

The improved trade outlook will lead to new opportunities, not guarantees, for U.S. exporters. Competitor governments will continue to support their agricultural sectors, and a few countries have proposed increased funding for "green box" activities.

Eighteen major exporting countries other than the United States spent an estimated $660 million for non-price promotion activities, activities similar to those under MPP and the Foreign Market Development Program (FMD) in 1994, with direct government allocations for promotions comprising 30%. In its 1996 budget, the Canadian government announced a new program of up to $732 million in additional credit guarantees for agricultural products, including $513 million for wheat and barley through the Canadian Wheat Board. Recently, Danish hog producers and processors sought increased EU support for market development activities in high-value, third-country markets (Japan and the United States) as compensation for Uruguay Round reductions in export subsidies. Even less traditional exporters are becoming more aggressive. For example, Chile plans to increase its funding for export market promotion to approximately $21 million in 1995 from $3 million in 1993.

The LATS takes into account competitors' initiatives such as these. If these initiatives are effectively and aggressively countered, U.S. exports will be enhanced to the benefit of the farm and rural economy.

II. GLOBAL TRADE STRATEGY

Mission

USDA's international agricultural trade mission is to open, expand, and maintain global market opportunities through international trade, cooperation, and sustainable development activities which secure the long-term economic vitality and global competitiveness of America's rural communities and related food and agricultural enterprises.

Export Goal 2000

USDA is fulfilling its mission by assisting American Agriculture to increase the value of farm, food, fish, and forestry exports 50 percent over 1994 levels by the year 2000. To meet this goal, USDA conducts a demand-driven export strategy, deploying five policy instruments ("drivers") to execute strategy while integrating commodity and country market priorities for allocating scarce export assistance resources. The strategy drivers are:

- Strategic Outreach and Market Intelligence
- Market Development and Promotion
- Market Access
- Price/Credit and Risk Assistance
- Long-term Development

In pursuing its mission and goal, USDA is uniquely positioned to assist in improving the economic well-being of U.S. rural and agricultural communities. USDA's role is to ensure that rural communities and related food and agricultural enterprises reap the benefits of the nation's full export potential while assisting American Agriculture to conserve its natural resources and comparative advantages for posterity and long-term prosperity.

Market access issues affect the entire agricultural community and can only be resolved through government-to-government negotiations. USDA's export market intelligence, market promotion, risk mitigation, and outreach functions provide scale economy and efficiency benefits to the private sector, reflecting an economic pooling of resources to meet increasingly formidable global competition. USDA can provide a consistent, long-term trade perspective with respect to these market access issues. USDA's mission and role ensure the long-term economic growth and stability of the U.S. agricultural sector, particularly benefitting the rural community and related smaller and mid-sized food and agricultural enterprises.

III. STRATEGY DRIVERS

STRATEGIC OUTREACH AND MARKET INTELLIGENCE

Driven in large measure by Asia/Pacific Rim prospects and buttressed by the success of recent multilateral negotiations, the unrelenting and burgeoning growth of global consumer demand for high value products -- high quality, high margin -- bodes well for both high-value and commodity exports. Yet, today, one of the biggest trade obstacles for U.S. food and farm exports is the lack of timely awareness of export opportunities.

Many U.S. farms and companies are satisfied with the domestic market, have an exaggerated perception of export "hassles", or remain unaware of emerging overseas market growth opportunities. This domestic condition allows competitor nations to establish early entry advantages overseas, prohibitively raising costs to late entrants. Oligopolistic competitor nations with a private sector characterized by a few large firms exercise significant advantages in their ability to quickly disseminate new market information and to rapidly respond to critical moments of new growth opportunities globally. In contrast, the more decentralized, less oligopolistic structure of the U.S. business sector, as a whole, results in a greater lag time between the emergence of new market opportunities overseas and awareness domestically. This competitive challenge leaves, untapped, significant potential among innovative, high-value smaller and medium-sized U.S. agricultural producers and related enterprises.

USDA will address this important limitation on U.S. competitiveness through initiatives focusing on strengthening domestic and overseas outreach and market intelligence.

- *Increase Domestic Awareness of Export Opportunities*

USDA will increase domestic awareness of export opportunities through outreach activities, strategically leveraging and activating public outreach capabilities among: 1) USDA's program participants; 2) other U.S. private-sector associations and other centers of influence, including those positioned to address the needs of export-ready and new-to-export smaller and medium-sized farms, cooperatives, and related enterprises; and 3) USDA's nationwide network of agricultural public-sector cooperation and public/private partnerships.

- *Educate and Energize*

    USDA will facilitate export readiness and help link both export ready and new-to-export firms to market entry opportunities, including innovative high-value differentiated producers, processors, and cooperatives. USDA will first work to energize the U.S. food and fiber sectors to adopt an export mindset through established networks, such as current USDA program participants, state/regional groups, and state departments of agriculture. It will then begin to reach out to new, untapped networks. This requires systematic contact through industry liaisons, a presence at annual/regional meetings, trade teams, and involvement at food shows.

- *Expand the Export Network*

  Expanding the export network among traditional customers and adding new players is critical. Traditional customers include program participants, such as cooperators, state departments of agriculture, and state/regional groups. Potential new players include grower and processor cooperatives, food industry associations, and universities.

- *Develop a Domestic Export Presence*

  USDA will place personnel in key areas of the country to provide hands-on information and expertise. USDA's domestic state offices, linked with community-based program activities, will facilitate regional coverage.

▸ ***Raise Domestic Awareness of Global Consumer Quality and Safety Expectations***

Rapidly increasing sophistication of consumer buying behavior worldwide results in commensurate elevation of expectations for a reliable, high quality and safe supply of agricultural products. Competitors often reserve the highest quality product for high-growth export markets. USDA will work with its strategic partners nationwide to alert new-to-market and export-ready agricultural enterprises to quality and safety expectations underlying burgeoning global consumer demand.

▸ ***Fully Activate Strategic Intelligence Network Linking Constituencies to Markets***

Accordingly, USDA's global strategic intelligence network alerts the U.S. private sector to export opportunities and market expectations, identifying trade and marketing barriers, and gathering information on U.S. competitors. This network provides an early warning to the private sector, linking domestic constituencies to export market opportunities. This capability is critical for the United States to compete effectively in the global marketplace, particularly for smaller and medium-sized enterprises. USDA is in the best position to deliver market intelligence to the entire U.S. agricultural sector in order to develop sustainable export sales.

- *Strengthen Overseas Market Intelligence on Competitors*

  Market intelligence regarding competitor export programs, practices, and products has become increasingly important in a post-Uruguay Round global competitive environment. Such competitor intelligence is critical in keeping U.S. farmers, producers, and processors competitive in a dynamic trading environment. USDA's overseas presence, including diplomatic posts, trade offices, and the USDA network of public/private partnerships ("cooperators") is the principal source of such market intelligence about competitor activities.

- *Generate and Coordinate Strategic Analyses through Public/Private Partnerships*

  USDA will help to identify the best post-Uruguay Round market opportunities for U.S. farms and agribusiness exporters, assess threats from export competition, and manage the optimal allocation of USDA program and human resources. USDA is focusing increased interest in strategic planning tools widely used by the private sector, such as portfolio, growth-share, industry/competitor, and agribusiness commodity systems analyses. USDA will refine its analyses, leveraging resources within its network of business and academic public/private partnerships, for purposes of providing constituencies with timely, effective strategic market intelligence and operations.

- *Increase Effectiveness of Strategic Communications via Multimedia Technologies*

  USDA will form a proactive outreach team and tap into the latest communication technologies to spread the export message. This involves information dissemination through an "export opportunities" computer-based information network leveraging the "global information superhighway", USDA county office newsletters, and media targets, such as industry journals, national/local press, and the USDA radio/television network.

- ***Strategically Link Domestic Outreach Initiatives with Overseas Market Development***

In order to provide American Agriculture with the best and most timely market intelligence in times of rapid and dramatic strategic change, USDA will integrate domestic outreach initiatives with overseas market development activities, leveraging information technologies and USDA's overseas network of human and institutional resources.

MARKET DEVELOPMENT AND PROMOTION

- *Strengthen Overseas Market Channel Outreach and Strategic Alliances*

  - *Penetrate New Consumer Market Channels*

    New overseas marketing channels are rapidly developing to service the unprecedented global consumer demand for food products. Western-style restaurants, hotels, supermarkets, and new super-retailers overseas are critical entry points for the introduction and spread of tastes and preferences for U.S. food products to foreign consumers. Successful penetration of these new channels requires that new-to-export and export-ready U.S. producers adapt to local tastes and preferences, including increasingly demanding consumer expectations for product quality, food safety, and distinctive packaging. USDA will cultivate these and other new consumer channels through which U.S. food and agricultural products can be marketed.

  - *Cultivate Strategic Alliances with New Distributors and Other Intermediaries*

    American Agriculture must reach out to new distributor channels, emerging in connection with burgeoning global consumer demand, particularly in the Asia/Pacific Rim. USDA's overseas distributor development will include cultivating and maintaining close relationships with emerging new players within local markets, including fast-growing super-retailers, which are bypassing and flattening traditional distribution channel hierarchies by importing products directly from U.S. producers. USDA will also assist U.S. agriculture to strengthen relationships with traditional local wholesalers, agents, and other import intermediaries. USDA will pay particular attention to serving the needs of export-ready and new-to-export smaller and medium-sized cooperatives and agribusiness enterprises within and related to America's rural communities.

  - *Target Key Centers of Influence*

    Market channel outreach will also focus on key centers of influence to generate awareness and acceptance of U.S. food products. These groups will include emerging super-retailers, leading enterprises, foreign trade associations, consumer advocacy groups, mass media, popular/cultural leaders, and trade publications/events, among other key market forces with the potential to shift consumer preferences and primary demand for U.S. food products.

- *Recognize Market Life Cycles: Emerging, Growth, Maintenance*

Program development and resource allocation decisionmaking will recognize the need to cultivate emerging markets with long-term growth potential while investing in existing growth markets and protecting mature markets. Strategic analysis will assist in prioritizing resource allocations to reflect long-term contributions generated by each segment of the USDA mission relative to resource requirements.

- *Emphasize Market Segments with High Return to Mission*

USDA is committed to identifying market segments with high return to its mission of securing the economic vitality and long-term global competitiveness of America's rural communities and related food and agricultural enterprises. This is not limited to countries but also includes large, highly intense market opportunities in segments of countries that may be underpenetrated relative to the potential value that can be returned to the U.S. economy.

- *Enter Early: Establish Competitive Advantages*

Another component of the market development and promotion strategy is an early entry approach in which USDA's market promotion programs assist in lowering the risk of market entry for U.S. firms by mitigating their export marketing costs. The recent convergence of burgeoning consumer demand and trade negotiation successes create a window of opportunity for the early entrant. Failure to respond to early entry opportunities will concede U.S. market share to global competitors. Benefits of being the early entrant include:

- accelerating the development of a sustainable export market;
- deterring third-country competition by raising entry costs for competitors; and
- giving U.S. companies a competitive advantage within the market.

Through its overseas presence and services, USDA seeks to mitigate the negative impact of high marketing costs in strong currency markets, particularly for high-value exports and for the benefit of smaller and medium-sized agricultural enterprises and cooperatives seeking to gain early entry advantages.

USDA seeks to assist domestic constituencies to get ahead of the competition and firmly establish distribution for U.S. foods in key growth and emerging markets. Distributor development strategies will be implemented for groups of products that have particularly high potential in specific markets.

- *Shift Consumer Preference with Brand Power, Easing Entry for Smaller Enterprises*

Sustained consumer demand is built on qualitative product differentiation through brand-style marketing. Branded products are an inherent strength of the U.S. food sector. Therefore, brand recognition and market power of established U.S. food companies are often deployed initially to penetrate new market segments, generating primary demand for U.S. products. Once a market for U.S. food products is established, initial participants in USDA's export promotion programs are graduated, and resources shift towards smaller and medium-sized U.S. companies now positioned for further market development.

- *Exploit Emerging Demand for Private Label Products*

Growing foreign demand for private label products, notably in European and Asia/Pacific Rim markets (especially Japan), is a window of opportunity for smaller and medium-sized U.S. enterprises to gain market entry. It is a natural fit for many U.S. firms without an international marketing and distribution capability to supply processed products to foreign retailers and distributors who already have their own established distribution and marketing channels but who lack a production capability. Market entry afforded by a private label market penetration strategy yields market experience, leading to the ultimate establishment of direct brand presence.

- *Leverage Burgeoning Consumer Demand to Gain Market Access*

Branded and generic promotions encourage international consumers to develop preferences for U.S. food products. Greater strategic opportunities to reach consumers through market development activities have resulted from and support recent market access negotiations. For example, the consumer power of the Japanese housewife is widely credited for pressuring the Japanese government into opening the Japanese rice market to imports.

- *Exploit Market Access Gains with Timely Market Development Initiatives*

The convergence of consumer demand and trade negotiation successes creates immediate and unprecedented windows of opportunity. However, these windows are available to U.S. and competing forces alike, presenting the spectre of "tackling for the opposition." USDA will assist American Agriculture to adroitly exploit negotiated market access gains with strategically targeted commitment of market development efforts.

MARKET ACCESS

- *Monitor, Negotiate, and Assist Full Implementation of Trade Agreements*

The recent completion of the Uruguay Round negotiations marks the conclusion of an historic market access agreement, but this is merely the beginning of its implementation. USDA is committed to making the Uruguay Round Agreements work. For the U.S. agricultural sector to realize the potential benefits of the Uruguay Round, it is critical that USDA track the implementation of each trading partner's obligations. In a post-Uruguay Round environment, implementation and enforcement activities for trade agreements will be more labor-intensive than obtaining the agreements, requiring case by case investigations. The LATS calls for securing the fruits of hard-won trade policy victories, in the face of aggressive export expansion efforts by competitors. Now is not the time to reduce unilaterally USDA's capacity to address this competitive challenge.

- *Intensify Pressure for Science-based Sanitary and Phytosanitary Standards*

In the face of Uruguay Round successes in addressing issues such as de facto import bans and discretionary import licensing, some countries are turning to pseudoscientific and other unfair SPS measures to restrict market access. American Agriculture continues to lose export opportunities because of these barriers, and USDA must put itself in a position to respond to them quickly and effectively. Estimates of the value of SPS barriers range as high as nearly $2 billion annually.

Earlier this year, the Secretary formed an interagency action team within USDA whose mission is to identify and respond to trade-distorting SPS regulations employed by countries seeking unfair trade advantages. USDA's ability to remove other countries' trade-restricting SPS measures is critical if U.S. agriculture is to reap the full benefit of the concessions negotiated in the Uruguay Round. Recognizing the increasing worldwide consumer sensitivity to quality and food-safety issues, USDA has centered its SPS activities and initiatives in four general areas:

- *Increasing Awareness of Uruguay Round SPS Obligations*

    Many countries are not yet aware of their obligations in this area. Before countries can fully implement their commitments under the Agreement on the Application of Sanitary and Phytosanitary Measures, it is critical that they understand these commitments. USDA will intensify pressure on its trading partners for transparent SPS requirements, confirming that the rules apply equally to domestic and foreign suppliers. The SPS Agreement tries to facilitate transparency by requiring countries to notify the World Trade Organization (WTO) of any proposed rule that might affect trade. This will require increased resources and close cooperation between the U.S. regulatory bodies to assure that the rules being proposed are based on sound science.

- *Support for International Standard-setting Bodies*

  Three international standard-setting bodies have increased in importance as a result of the Uruguay Round. The Codex Alimentarus (CODEX), the International Organization of Epizootics (OIE), and the International Plant Protection Convention (IPPC) were cited in the SPS Agreement as the official reference bodies for international standards. USDA supports CODEX, OIE, and IPPC with direct funding and through active participation in meetings and forums organized by these bodies. USDA has been a strong and vocal supporter of the WTO and the international standard-setting bodies.

- *Technical Assistance*

  USDA has a long history of providing technical assistance and training in animal and plant health and food safety. A wide range of programs for foreign visitors offered by USDA brings countless regulatory officials and private-sector participants brought to the United States to learn more about the U.S. food safety regime.

- *Bilateral Technical Trade Talks*

  USDA currently conducts annual bilateral technical trade talks with four emerging market economies: Mexico, South Korea, Taiwan, and China. These talks are essential for clarifying SPS trade-related issues and resolving them outside the context of the WTO wherever possible.

▸ ***Aggressively Open and Expand Markets through International Trade Negotiations***

Bilateral and multilateral negotiations are crucial in USDA's efforts to expand opportunities for U.S. agriculture in a post-Uruguay Round competitive environment. WTO accessions will provide an important opportunity to obtain and protect access to numerous emerging markets, including China, Taiwan, and Russia.

- *Expand Regional Trade Agreements*

The expansion of regional trade agreements presents opportunities to expand trade liberalization beyond the Uruguay Round on a regional basis. The possible expansion of NAFTA to include Chile and other Western Hemisphere countries is a prime example. In the Summit of the Americas, the leaders of 34 countries in the Western Hemisphere committed to complete a Free Trade Area of the Americas (FTAA) by 2005. USDA will monitor potentially exclusionary trading blocks, such as Mercado del Sur (MERCOSUR), the Andean Pact, the Caribbean Community Common Market (CARICOM), and the Central American Common Market (CACM).

In the Pacific Rim, the Asian Pacific Economic Council (APEC) presents many opportunities for facilitating trade by improving regional coordination in the areas of standards, regulatory transparency, technical exchange, and information dissemination to the private sector. APEC also offers the possibility of full-scale trade negotiations at some date in the future as APEC moves toward the goal of free trade in the region by the years 2010 and 2020.

- *Monitor and Address Competitive Impact of State Trading*

State trading continues to be a major barrier to free trade through monopoly import and export licenses administered by foreign government-controlled organizations. USDA will monitor the state trading activities of competitor governments and address ways to reduce their impact on U.S. competitiveness.

- *Coordinate Trade Policies, including Import Policies, with Other Strategic Objectives*

USDA will coordinate its market access program priorities with other trade program priorities to maximize the effectiveness of international trade policy activities. Demand analysis will be an important tool for maximizing the effectiveness of market access negotiations. Coordination of trade policies includes the development of objective technical standards affecting trade, taking into account import policies or other domestic obligations, such as the protection of U.S. public, animal, and plant health.

PRICE/CREDIT AND RISK ASSISTANCE

- ***Emphasize Market Expansion***

The strategy for use of export assistance programs including the Export Enhancement Program (EEP), and the Dairy Export Incentive Program (DEIP) will be adjusted to reflect the post-Uruguay Round trading environment. Their use as export tools was shaped largely by the past trading environment and focused on markets with an EU presence. These markets, however, are not uniformly the ones with the best overall potential for U.S. export expansion. The export price/credit strategy considers shifting emphasis away from these markets and toward those with the best expansion potential.

- ***Emphasize Private Sector versus Government-to-Government Participation***

USDA's export credit guarantee programs will focus on meeting the expanded initiatives of competitors in the post-Uruguay Round environment. In addition, the strategy calls for a shift away from government-to-government transactions in favor of private sector participation. These credit guarantees increase the availability of credit at lower interest rates because the Commodity Credit Corporation assumes most of the risk of nonpayment.

- ***Maximize GATT Permissible Export Assistance***

Under the Uruguay Round Agreement on Agriculture, the United States must reduce export subsidies by 21 percent in volume and 36 percent in value compared to the 1986-90 base period. By 2001, export subsidies will be limited to $594 million. USDA's strategy will be consistent with these commitments to the fullest extent permissible under the General Agreement on Tariffs and Trade (GATT). In addition, Congress has authorized the use of EEP both to encourage the commercial sale of U.S. agricultural commodities in world markets at competitive prices as well as to discourage unfair trade practices.

- ***Increase Price/Credit and Risk Assistance Programmatic Flexibility***

In order to make price/credit and risk assistance programs more responsive to changes in world market conditions, USDA will explore options to increase its flexibility in operations and procedures. This will increase the programs' efficiency and effectiveness.

Consistent with Uruguay Round value and volume reduction commitments, USDA will seek to:

- increase the cost-effectiveness of export subsidy programs by encouraging the lowest possible subsidies to achieve the maximum level of subsidized volume;
- increase the exporter's flexibility to respond to changing market conditions;
- reduce administrative complexity and cost;
- provide safeguards against fraud and exports of non-U.S. products; and
- be consistent with U.S. trade policy goals.

▸ *Target High Growth Emerging Markets*

Export credit guarantees could do more to increase agricultural exports by targeting higher credit risk emerging markets. For some countries, economic and political reforms result in potentially high market growth, but the countries may still present higher short-term credit risk, albeit balanced with an acceptable long-term risk outlook. USDA's export credit guarantee programs will be made more effective for market promotion by assisting in the provision of credit for potential high-growth emerging markets with acceptable risks for medium-term repayment. Greater programming flexibility to target export credit guarantees to such emerging markets could also be achieved by authority to consider the longer term economic growth and development potential of a country when evaluating creditworthiness in making credit allocations. Economic policy reforms in developing countries that promote market-oriented and long-term economic development indicate the potential for future growth and market development. These reforms would be carried out in conjunction with international financial institutions such as the International Monetary Fund and World Bank.

▸ *Seek to Expand Assistance for High-Value Products*

Export credit guarantee programs will be more effective in promoting sales of U.S. high-value and value-added products if products with limited non-U.S. content could be covered under the programs. At present, in nearly all instances, only products with 100 percent U.S. content are eligible for guarantee coverage. Therefore, many high-value products with only minimal non-U.S. components, such as imported sugar and spices, are ordinarily not eligible. Many of the export opportunities in the current trading environment are in the consumer-oriented and high-value product area. Given that such products, including processed foods, contain non-U.S.-origin content as part of the final product, the origin restriction impedes the ability to take advantage of export opportunities and the achievement of USDA export expansion goals.

▸ *Coordinate Price/Credit and Risk Assistance with Market Access Objectives*

USDA will coordinate its price/credit and risk assistance program priorities with its market access priorities to maximize the effectiveness of international trade policy activities.

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LONG-TERM DEVELOPMENT

- ***Build Sustainable Export Markets: Technical Assistance and Economic Development***

The linkage between sustainable development and trade is based upon the premise that U.S. efforts to share technical expertise with developing countries will provide the tools to help build stable and more prosperous economies which ultimately will stimulate overseas demand for U.S. farm products. As less developed nations surmount the barriers of hunger and poverty, they develop a positive identification with U.S. institutions, products, and services. When agricultural production and incomes increase, diets and nutrition improve. Rising incomes permit developing countries to increase their food imports to help meet their growing demands for more and different foods. Experience has shown that countries evolving from low to middle income status have become the largest growth markets for U.S. agricultural exports.

USDA participates with international organizations in global efforts on environmental and economic sustainability, genetic resource protection and development, and technology diffusion, including pest and disease control. USDA will apply expertise derived from its longstanding commitment to enhancing the nutritional status of U.S. communities, toward enhancing nutrition standards in developing countries and emerging markets, thereby cultivating the long-term potential of U.S. agricultural exports. USDA's food aid and technical assistance programming will follow in sequence with nutrition activities as developing markets mature and demand elevates.

- ***Monitor and Assess International Food Security***

USDA will monitor and assess international food security in relation to global food aid needs. The majority of USDA's foreign food assistance is currently provided through the P.L. 480 program. Food aid needs could double over the next decade, even with reasonably optimistic assumptions about recipient countries' ability to produce their own food or to have the financial capacity to commercially import food. USDA is examining several possible scenarios of the projected increasing gap between food aid needs and availabilities caused primarily by the rapid growth in food aid needs and secondarily by constrained food aid budgets in donor countries. USDA will approach rising food aid needs with the goal that the least developed among recipient countries can graduate from grant aid to concessional aid, ultimately taking their place as full partners in the marketplace.

- **Focus on Emerging Markets**

The Food, Agriculture, Conservation, and Trade Act of 1990, as amended, provides for the implementation of programs to develop, maintain, or expand markets for United States agricultural exports by developing and enhancing agricultural systems in emerging democracies through the administration of an "Emerging Democracies Program." USDA is considering a shift in its focus to "Emerging Markets."

USDA seeks new and innovative ways to integrate the emerging markets program with other USDA initiatives. For example, the Cochran Fellowship Program could be more closely linked to USDA's trade strategy efforts by including emerging markets among the countries eligible to participate.

- ***Leverage the Trade/Investment Nexus through International Financial Institutions***

USDA seeks to strengthen linkages with international financial institutions and international organizations to assist U.S. and foreign agricultural businesses in developing mutually beneficial trade and investment relationships. A pilot program for USDA employees is being implemented to facilitate such partnerships and to provide USDA employees with opportunities to gain requisite experience.

- ***Guide and Support Research Priorities***

USDA will guide and support research priorities which promote the long-term growth and competitiveness of U.S. agricultural exports. USDA will take a leading role in expanding markets for value-added U.S. exports through research on commodity transformation and quality enhancement by means of novel bioprocessing systems, value-added "green" technologies, and sustainable agricultural and forestry practices. Research, technology development, and commercialization to ensure biodiversity and also to expand the product portfolio of domestic U.S. agriculture is critical to maintaining the long-term competitive strength of the U.S. agricultural sector globally.

USDA will maintain and build U.S. strengths in high-technology areas through international strategic alliances designed to accelerate U.S. technology developments. USDA will track emerging technology developments worldwide through technology surveillance and use these technologies to supplement U.S. developments.

To increase the competitiveness of U.S. agriculture further, USDA will support basic research in order to continue to expand the knowledge base available to the U.S. food and agriculture sector as a foundation for applied research and science-based policy decisions. The next generation of scientists will be trained to use and further expand this knowledge base. USDA will also increase U.S. competitiveness through the development of systems that:

- reduce the cost of production and/or increase yields;
- reduce the risk of crop failures to improve reliability of supply; and
- improve the quality and value of the end-use product as necessary to meet the ever changing, more informed, and sophisticated expectations of foreign customers.

▸ *Coordinate Long-term Development with Market Access Objectives*

USDA will coordinate its long-term development program priorities with its market access priorities.

IV. COUNTRY MARKET STRATEGY ANALYSIS

COUNTRY MARKET STRATEGY RECONCILIATION PROCESS

Priority growth markets for U.S. agricultural exports are cited below for purposes of guiding department operations, which tend to focus on agricultural commodity systems. USDA recognizes the increasing influence of global consumer markets in driving international market demand for all U.S. agribusiness commodity exports. This development places a commensurate priority on the assessment of global geographic market factors, on a *country market-oriented, cross-commodity basis* to be reconciled against traditional product-focused analyses. USDA uses a reconciliation process to resolve potentially conflicting resource allocation priorities between country market and commodity market strategies. Quantitative and qualitative analyses assist in reconciling global geographic market priorities with commodity market priorities, moderated by risk considerations. The portfolio of country priorities is currently under review and will continue to be analyzed in the strategy reconciliation.

- *Country Market Segmentation*

USDA has identified country markets in the Asia Pacific, NAFTA and emerging market regions as currently having the greatest growth and development potential for U.S. agricultural exports. USDA will focus its trade and market development resources on these regions. The following countries currently represent more than 80 percent of U.S. agricultural, fish, and forest product exports globally.

- *Leading Growth Markets*

Japan	Thailand	United Kingdom
China	Philippines	Italy
Hong Kong	Australia	Former Soviet Union
Taiwan	Canada	Saudi Arabia
South Korea	Mexico	Egypt
Singapore	Brazil	Algeria
Indonesia	Germany	Turkey
Malaysia	France	

- *Emerging Growth Markets*

Southern Africa	Vietnam
India	Central America

- *Operationalizing Strategy: A Country Team Approach*

  - *Country, Commodity, and Cross-Functional Management Integration*

    The USDA has developed a country team approach to deal efficiently with country and regional issues. This approach institutionalizes country-based issues management, integrating USDA-wide analyses and experience which contribute towards an ongoing, dynamic trade strategy. Country Teams will also enhance strategic communications between USDA resources and expertise overseas and in Washington, better supporting resource allocation decisionmaking.

    Applying the LATS, the Country Team approach will facilitate strategic communications throughout the USDA network, reconciling country market analyses with traditional commodity systems analyses. This approach provides a basis for integrating strategic decisionmaking across program areas and among commodity groups. Through this process, USDA is refining its global agribusiness commodity systems approach to strategy analyses, focusing on international consumer demand as the engine driving the value chain linking agricultural production with target markets.

  - *Country Market and Competitive Analysis Tools*

    Widely accepted international strategic business and competitive analysis tools, derived from the private sector, have been adapted towards developing and updating USDA's international agricultural trade strategy. USDA will apply these analytical tools through the Country Teams, supported by a Strategic Operations analytical unit. The attached graphs and country market analyses illustrate applications of these tools: multivariate portfolio, growth-share matrix, and industry/competitive analyses.

    Multivariate portfolio analysis helps to evaluate export markets and to suggest resource allocation decision parameters within which to consider the applicability of the strategy drivers outlined above. The following graphs compare the top 20 markets for U.S. agricultural exports by juxtaposing market attractiveness through the year 2000 (suggested by quantitative forecasts of import demand adjusted by trade policy prognoses) against the present competitiveness of U.S. agriculture (measured by current relative market share). As country market rankings and strategy implications vary by commodity, the portfolio analysis is being conducted on both global and commodity-specific bases.

Complementing the portfolio analysis, growth-share matrix analysis lends itself to evaluating the relative competitive position of U.S. agriculture in specific country and commodity markets. In addition to informing the portolio analysis with regard to competitive considerations, the growth-share analysis lends insight into commodity reporting requirements suggested by assessments of competitive threat.

Industry and competitive analyses formalize field-derived, local strategic information regarding factors of competition and competitive behavior, suggesting strategic options. USDA overseas offices will contribute towards industry and competitive analyses as active members of the Country Teams.

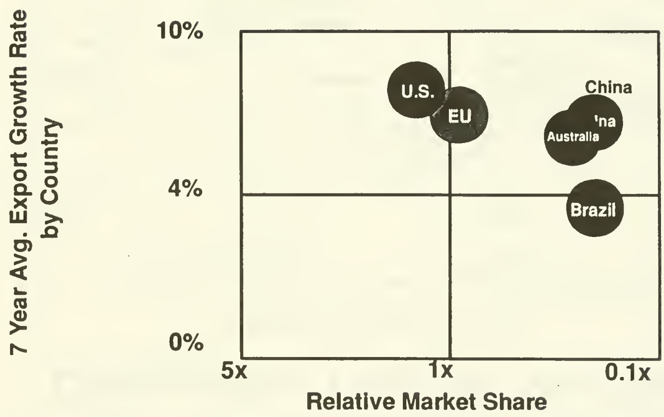
OPERATIONALIZING STRATEGY:
A Country Team Approach Towards Unified Strategic Management

FAS Strategic Operations

Global U.S. Competitive Position

Pre-Uruguay Round

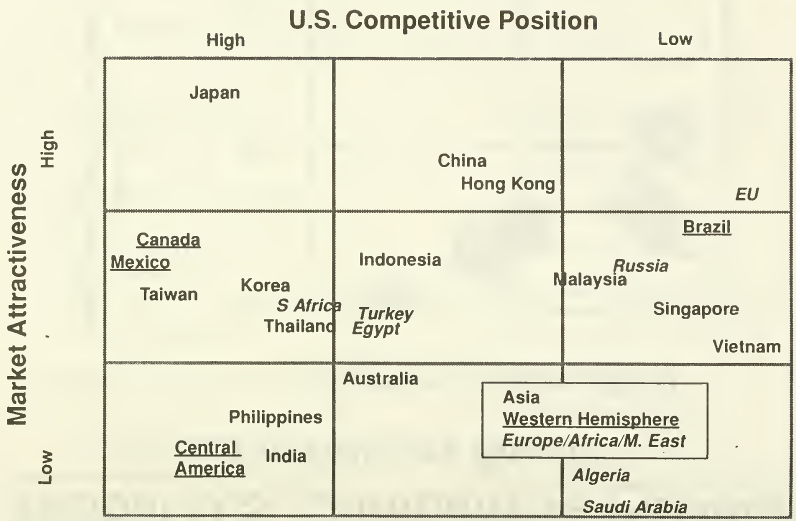
Competitive Position Matrix



Source: FAO
1986-93

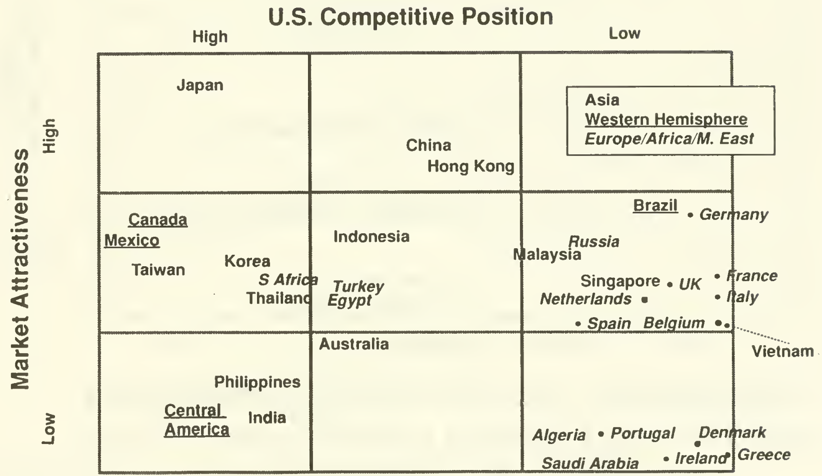
* Avg. Annual Export Growth Rate = 4%

Global Market Attractiveness and Competitive Position Portfolio



Note: Based on total agriculture.

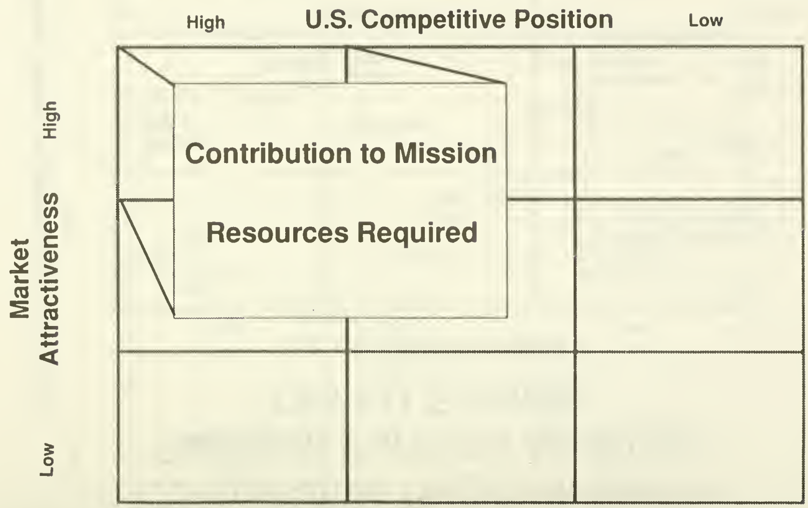
Comparative Regional Market Segment Portfolio Analysis: The EU Example



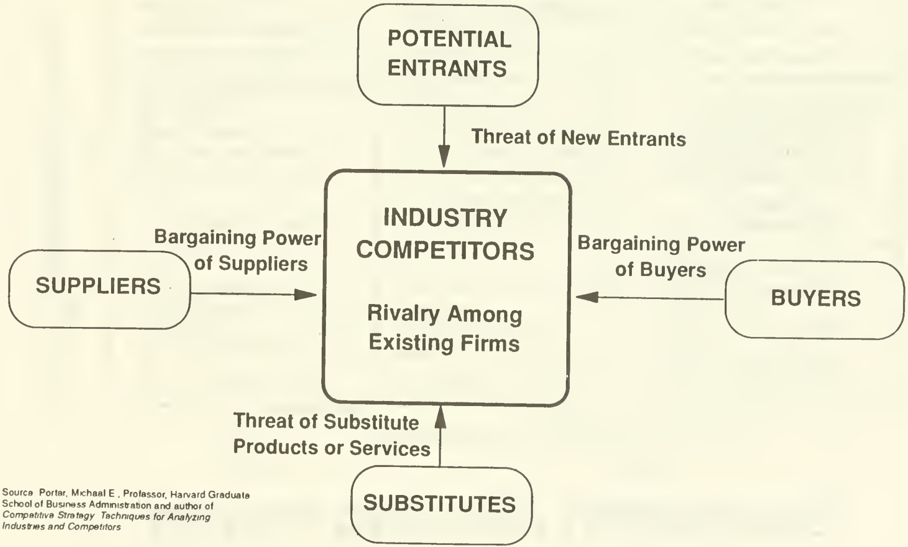
Note: Based on total agriculture.
EU data includes intra-trade. Chart excluding intra-trade available on request.

Yield Sensitivity Analysis

Tool for Developing a Viable Fit Between the Department's Resources and Trade Mission



Industry and Competitive Analysis: Forces Driving Industry Competition



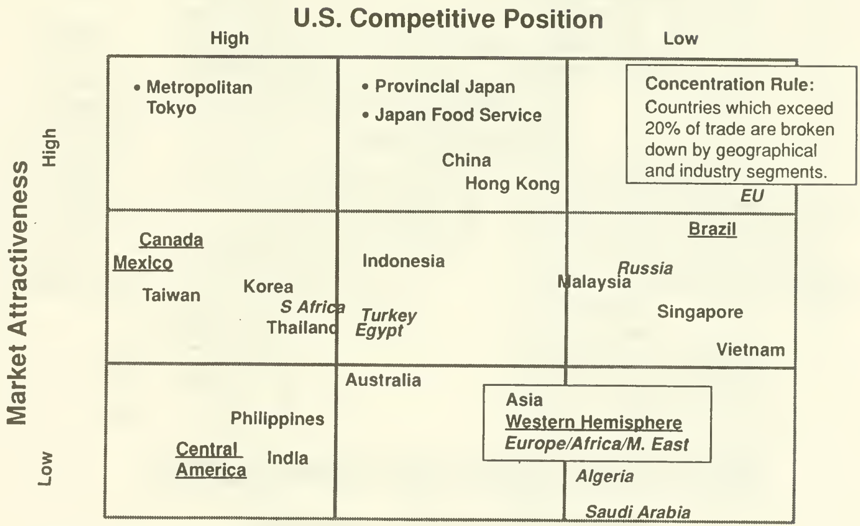
Source Portar, Michaal E., Professor, Harvard Graduate School of Business Administration and author of *Competitive Strategy Techniques for Analyzing Industries and Competitors*

Market Strategy Guidelines

Market Attractiveness \ Competitive Position	High		Low
High	**PROTECT POSITION** • invest to grow at maximum digestible rate • concentrate effort on maintaining strength	**INVEST TO BUILD** • challenge for leadership • build selectively on strengths • reinforce vulnerable areas	**BUILD SELECTIVELY** • specialize around limited strengths • seeks ways to overcome weaknesses • withdraw if indications of • sustainable growth are lacking
	BUILD SELECTIVELY • invest heavily in most attractive segments • build up ability to counter competition • emphasize yield to mission	**SELECTIVELY MANAGE FOR EARNINGS** • protect existing programs • concentrate investments in segments where yield is good and risk is relatively low	**LIMITED EXPANSION OR HARVEST** • look for ways to expand without high risk • or, minimize investment and rationalize operations
Low	**PROTECT AND REFOCUS** • concentrate on attractive segments • defend strengths • manage current market	**MANAGE FOR EARNINGS** • protect position in segments with greatest yield/ exports • upgrade product line • minimize investment	**DIVEST AND REFOCUS** • reallocate resources • cut fixed costs • focus on longer-term priorities, or • refocus on competitor intelligence and reporting

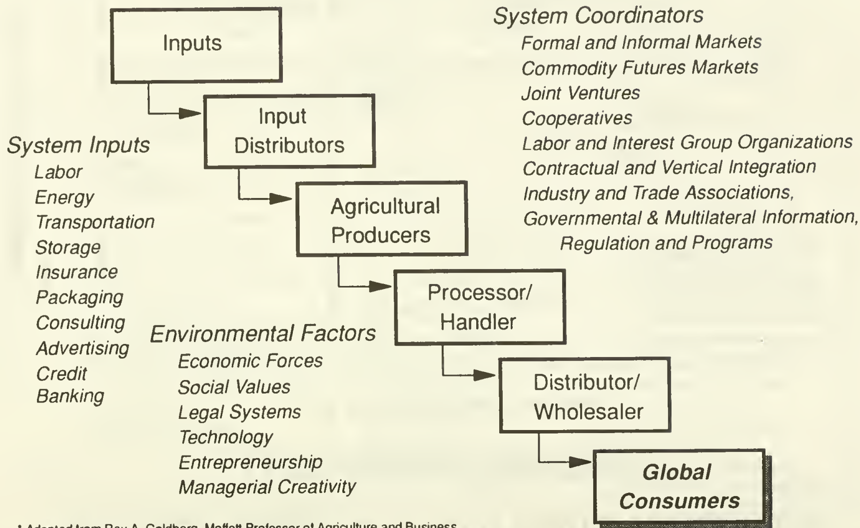
* Adapted from GE/McKinsey portfolio analysis model

Market Segment Portfolio Analysis: The Japan Example



Note: Based on total agriculture.

Global Agribusiness
Commodity Systems Analysis



* Adopted from Ray A. Goldberg, Moffett Professor of Agriculture and Business, Harvard Graduate School of Business Administration

V. CONCLUSION: UNIFIED STRATEGIC MANAGEMENT

Export growth is vital to U.S. agriculture's future, and a sound export strategy is critical to securing the nation's competitiveness in the global marketplace. USDA has responded with a dynamic, not static, agricultural trade strategy designed to adjust flexibly to a rapidly changing international trade environment. This kind of effort requires a coordinated, USDA-wide, and constantly updated strategic management process.

The USDA international trade strategy draws upon contributions from all agencies of USDA that have a potential role to play in assisting in U.S. export growth. It helps to set priorities and focus resources.

The international trade strategy management process is not designed to pick winners and losers, or to direct the private sector in its export endeavors. Instead, it is meant to provide cost-effective assistance in partnership with the private sector in a period of increasingly tight resources. Accordingly, USDA's international trade strategy management process integrates and unifies various strategic management initiatives, under the bipartisan direction of the Administration and Congress, including:

- the National Performance Review,
- the Government Performance and Results Act,
- the Trade Promotion Coordinating Committee, and
- the Farm Bill.

The National Performance Review and the Government Performance and Results Act

Under Vice President Gore's National Performance Review and the Government Performance and Results Act, USDA is focusing our efforts to achieve the mission, goal, and objectives, outlined in this strategy presentation. All USDA agencies are in the process of developing performance standards to measure and account for progress on specific programs, including all of USDA export and trade-related activities. This initiative recognizes that the programs and activities that were successful yesterday may not be so tomorrow. USDA recognizes that fact and is committed to responding to the changing needs of America's agricultural community.

Trade Promotion Coordinating Committee (TPCC)

USDA is committed to strengthening multi-agency mechanisms, incentives, and decisionmaking that will better focus government talents and programs on maintaining and increasing exports. To this end, USDA is an active participant in the Administration's government-wide Trade Promotion Coordinating Committee (TPCC). In formulating USDA's overall strategy to increase U.S. agricultural exports, it is essential that its efforts be coordinated with those of the many other agencies involved in the TPCC.

Global Competitiveness of American Agriculture: Role of the Farm Bill

The export successes unfolding today are the first harvest of years of bipartisan, patient and determined efforts at trade liberalization and strong U.S. market development activities overseas. The 1985 farm bill was the most export-oriented farm legislation in history and the Food, Agriculture, Conservation, and Trade Act of 1990 followed along the same guidelines. It is encouraging that this great boost in U.S. agricultural exports comes as Congress begins to fashion a new farm bill.

The expanded opportunities opened up by the Uruguay Round Agreements and NAFTA also bring a whole new set of challenges. These new market opportunities are also available to other producers throughout the world, and the United States' competitors are gearing up to take advantage of the growing global trade. This is not the time to withdraw support for U.S. agricultural exports.

U.S. agriculture must meet this competition head on. Otherwise, the United States will relinquish hard-won market opportunities, as the nation's competitors aggressively expand their export efforts and retool their programs for the new global trade environment.

U.S. agriculture's competitors are not standing still. Longstanding competitors like the EU and Canada are using market promotion and credit programs as well as monopoly marketing boards to compete aggressively for international markets. As discussed, the EU spent nearly as much to subsidize its wine exports in fiscal year 1995 -- $93 million -- as USDA spends on the entire MPP. In its 1996 budget, Canada announced a new program for up to $732 million in additional credit guarantees for agricultural products, including $513 million for wheat and barley through the Canadian Wheat Board. Even less traditional exporters are becoming more aggressive. For example, Chile plans to increase its funding for export market promotion to approximately $21 million in 1995 from $3 million in 1993.

USDA's marketing programs can help position producers to excel as strong independent participants in the global marketplace. Market development and promotion efforts to assist the private sector in its export activities, such as the MPP and the FMD Program, remain important in the post-Uruguay Round trading environment. The Administration is committed to making these programs more effective in promoting U.S. agricultural exports.

The Uruguay Round Agreements offers unprecedented new opportunities for U.S. agriculture, and market development and promotion programs can help the farm sector take advantage of these opportunities. The United States must not unilaterally eliminate export assistance to U.S. agriculture at a time when the competition is increasing its investments in these areas. By identifying new customers for producers and facilitating efforts to meet the needs of those customers, we also strengthen rural economies.

Reductions in market development and market promotion resources would force hard decisions in the choice of markets and commodities towards which to focus export expansion efforts. Such reductions have been ongoing for the past several years. The United States risks retrenching agricultural market promotion and export assistance endeavors at a time when the competition is increasing its efforts and funding for comparable programs. In an extreme budgetary scenario, American Agriculture would face significant disadvantages posed by increasingly aggressive, promotion-sensitive and government-supported global competition approaching the 21st century. Now is not the time for unilateral disarmament.

USDA will continue to work closely with the Congress to assure that everyone is fully aware of the implications of such retrenchment. Reduced export assistance resources could be detrimental not only to U.S. agricultural producers and the agricultural economy but also to the U.S. economy and employment as a whole. With exports expected to represent a growing share of farm and rural income, the agricultural industry's future will hinge on our successes in the emerging international marketplace.

U.S. agriculture's increasing successes in the international marketplace to date reflect a decade of bipartisan efforts to put American agriculture on a level playing field in the international marketplace. Recent free-trade agreements are landmark accomplishments. The continuing profitability, viability, and future of American agriculture depends on the ability to be competitive in the world market. In the face of unprecedented opportunities and challenges, continuing collaboration between the Administration and Congress towards a bold, comprehensive export strategy will ensure America's leadership in the global food and agricultural markets of the future.

ACKNOWLEDGEMENTS

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USDA Agricultural Technical Advisory Committees for Trade
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ADDENDUM: STRATEGIC PROFILES

A. *OUTLOOK FOR U.S. AGRICULTURAL EXPORTS TO THE 21ST CENTURY*

B. *COUNTRY MARKET HIGHLIGHTS[1]: THE PACIFIC RIM*

- JAPAN
- CHINA
- SOUTH KOREA
- INDONESIA
- VIETNAM

C. *COMMODITY SPECIFIC COUNTRY MARKET ANALYSIS*

- FOREST PRODUCTS EXAMPLE: COMBINED
- HORTICULTURAL AND TROPICAL PRODUCTS EXAMPLE: APPLES

D. *COMMODITY CATEGORY ANALYSIS*

- CONSUMER FOODS EXAMPLE : THE FROZEN FOODS MARKET
- BULK COMMODITY EXAMPLE: THE CHINA MARKET

E. *CROSS-COMMODITY ANALYSIS*

- GRAIN AND MEAL SHIPMENTS IN THE FORM OF MEAT

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[1] As provided by Title VI of the 1990 Food, Agriculture, Conservation, and Trade Act, portions of Addendum section B have been designated as "market sensitive", hence confidential within the meaning of the statute. The designation of market sensitivity is limited to this section, and the market sensitive portions are included in the version of the LATS submitted, for review as appropriate, to Congressional Intelligence Committees. The statute states that the *"Secretary may designate parts of the report . . . as confidential and [that] such parts shall not be released to the general public, if -- a) the Secretary determines that the release of such information would disadvantage the United States with respect to its competitors in specific foreign markets; or b) the Secretary determines that such information is confidential business information."*

OUTLOOK FOR U.S. AGRICULTURAL EXPORTS TO THE 21ST CENTURY

Outlook for U.S. Agricultural Exports to the 21st Century

Outlook for Fiscal Years 1995 and 1996

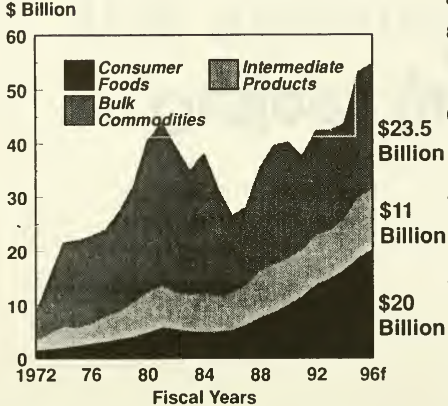
U.S. Agricultural Exports to Reach Record

$54.5 Billion in '96 -- Up $11 Billion in 2 Years

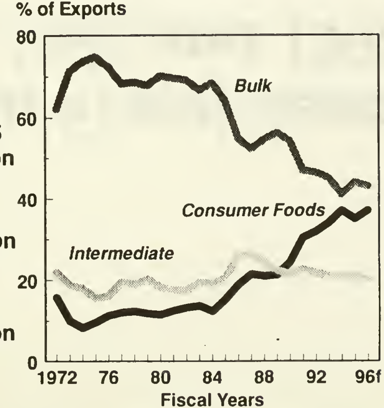
Fish and forest products could add another $10.8 billion in '96

All cylinders now firing but consumer foods have been U.S. agriculture's engine of growth ... Will reach 10th record in a row and account for all ag's growth in 96

'96 consumer food exports could reach $20 billion



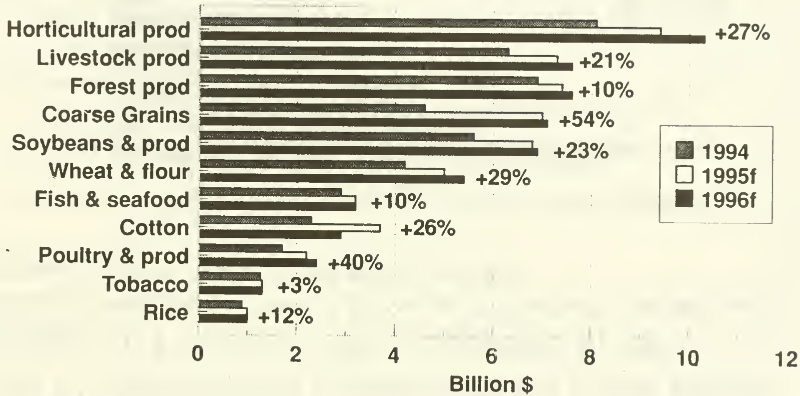
... and account for almost 40 percent of sales in 1996



Since 1994, Double Digit U.S. Export Gains Common For Major Agricultural, Fish & Forest Products

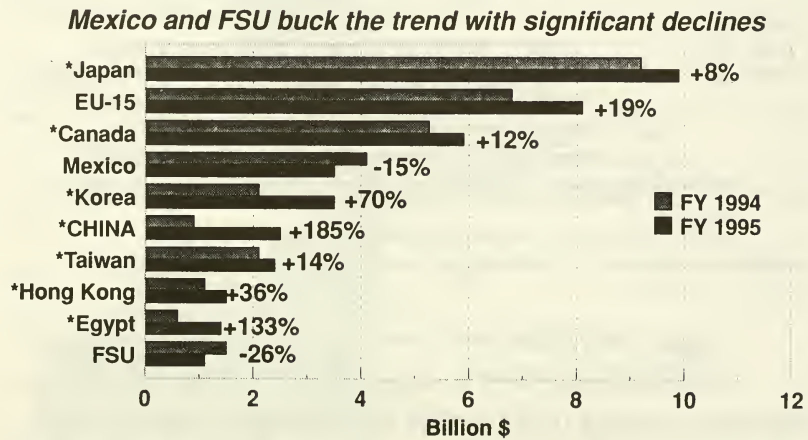
(Percentage change figures cover 2 year period 1994-1996)

Reduced exports of cotton offset by increases in horticultural products, wheat, soybeans, livestock products, and poultry meat



"Top 10" Agricultural Export Markets Show Broad Strength in FY 1995 -- More Expected in '96

Exports to Asia, led by China & Korea, up $5.8 billion from last year ...
Accounts for 60% of worldwide gain from 1994

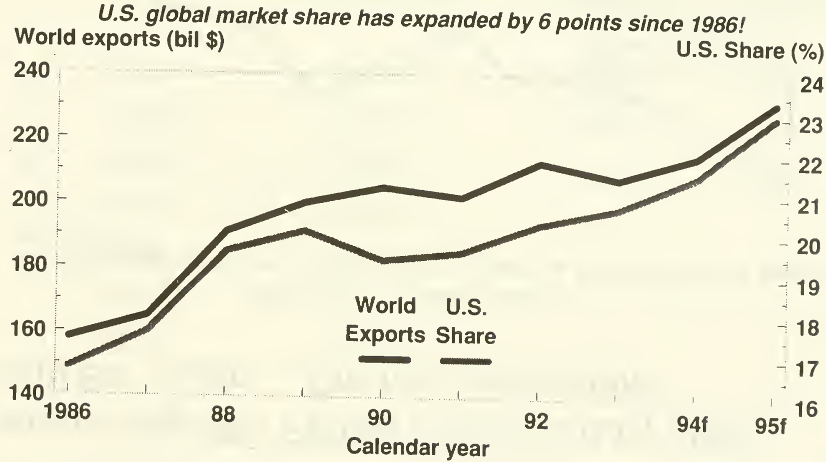


* denotes record highs projected for FY 1995

Recent Export Success the Result of Improved U.S. Competitiveness In an Expanding World Market

World agricultural trade has grown 50% since 1985 Farm Bill

U.S. is world's leading exporter AND most improved competitor

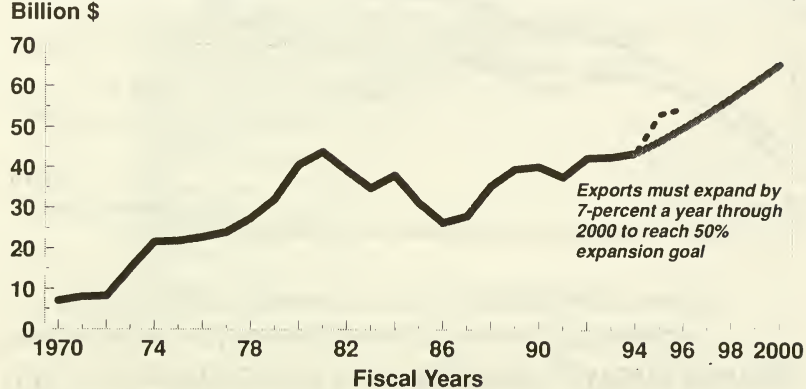


World trade excludes EU intratrade

Achieving 50% Export Expansion by 2000 Will Be Tough ... *But Not Impossible!*

We're off to a GOOD start ...

Strong global demand, USDA export programs & GATT/NAFTA helps



Performance Benchmarks for *Export Vision 2000*

(in billions of dollars)

Year	Benchmark	Forecast	Status
1994*	$43.5	$43.5	0.0
1995**	$46.5	$53.0	+ $6.0
1996**	$49.8	$54.5	+ $4.7
1997	$53.2	-	
1998	$57.0	-	
1999	$61.0	-	
2000	$65.2	-	

* Actual export level

** USDA forecast from *Export Outlook*, Aug 31, 1995

Highlights of 1996 Export Forecast

- Export value projected to grow to $54.5 billion, up $1.5 billion from 1995 levels as higher prices offset lower expected export volume.

- Export volume projected to decline 6.6 million tons due to lower U.S. production for grains and oilseeds. U.S. prices are expected higher due to a tight global supply-demand situation.

- An $800 million reduction in cotton exports will be more than offset by higher export value for horticultural products, wheat, soybeans, livestock products, and poultry meat.

USDA's Export Vision 2000

Can U.S. Agriculture Continue to Dominate the Emerging Global Marketplace to the 21st Century?

90-898 O - 95 - 6

The Benefits of Success: *A 50 Percent Increase in Agricultural Exports Will Mean Growth in Farm Income, Economic Activity and Jobs*

The whole U.S. economy would benefit. Specific benefits include:

- 13% gain in annual net farm income worth $6.5 billion each year

- $50 billion gain in total U.S. economic activity, of which:
  - $21 billion would come from exports
  - $29 billion would come from supporting economic activity

- 378,000 additional U.S. jobs, of which:
  - 150,000 would be on-farm jobs (40% of total)
  - 228,000 would be off-farm jobs (60% of total)
    - 68,000 in processing & manufacturing
    - 85,000 in trade & transportation
    - 75,000 in other services (i.e. financial)

These impacts are based on current USDA estimates of export multipliers regarding farm income, supporting economic activity, and employment. They do not account for future gains in productivity.

Best Growth Markets for U.S. Agricultural Exports 1995-2000

List dominated by Pacific Rim markets

- Japan
- China
- Korea
- Hong Kong
- Taiwan
- Indonesia
- Philippines
- Thailand
- Malaysia
- Singapore
- Australia

- <u>Canada</u>
- <u>Mexico</u>
- <u>Brazil</u>
- *EU-15*
- *Russia*
- *Turkey*
- *Saudi Arabia*
- *Algeria*
- *Egypt*

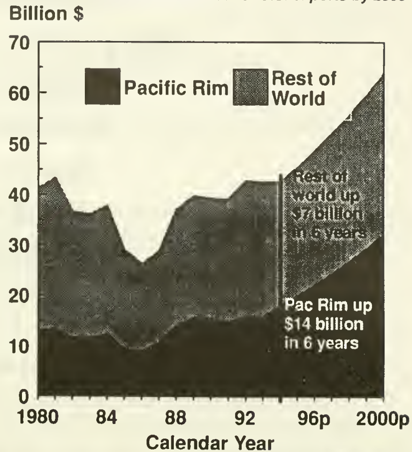
NOTE: Countries not listed in any particular order other than geographically

Setting The Export Goal: How Important is the Pacific Rim to Achieving USDA's Global Export Vision by 2000?

Answer: PLENTY! Realizing our global vision hinges on big gains to this market

- FAS officers in the Pacific Rim believe U.S. agricultural exports to region could expand *$14 billion by the year 2000*, or two-thirds of USDA's global expansion goal.
- $3 billion of the $14 billion will come from GATT implementation.
- The other $11 billion will come from growth in market demand as strong income growth continues and middle class expands.
- By 2000, Pac Rim would account for 50% of total U.S. agricultural exports.
- *High-value, consumer food products* will lead the way, especially in Japan, Korea, Taiwan, Hong Kong & Singapore. Great outlook for processed foods.
- Exports of *bulk commodities* look most promising in China, Indonesia, Philippines, Malaysia & Thailand.

Pac Rim could account for 50% of U.S. exports by 2000



Why We Are So Optimistic On Future Of Pacific Rim

- *World's fastest economic growth.* Strong growth will create millions of new jobs in region By 2000, there will be 1 billion middle class Pac Rim consumers, with 400 million having purchasing power equal to world's wealthiest countries, up three-fold from present.

- *Large & growing populations.* With a combined population expected to reach 2 billion people by 2000 (1/3 of world total) and limited arable land, Pac Rim is now a net agricultural importer & will become more reliant on imported food & fiber in the future.

- *Changing dietary patterns.* Growth in fast food and family-style restaurants, satellite TV and U.S. travel are increasing demand for U.S.-style foods. Increasing incomes are spurring demand for meat & poultry products, fruits & vegetables, and processed foods and beverages.

- *Growth in Western-style supermarkets.* Modern supermarkets stock a wider variety of imported foods and permit in-store promotions for U.S. foods. New food discount warehouses are increasingly looking to U.S. suppliers for quality products at competitive prices.

Why We Are So Optimistic On Future Of Pacific Rim

- ***Trade liberalization.*** Uruguay Round (UR) and WTO accession for China & Taiwan will lower barriers & boost food import demand by stimulating economic growth. UR could boost U.S. exports to Pac Rim by $3 billion by 2000.

- ***Weaker U.S. dollar.*** Dollar is down sharply since 1985. This creates opportunities for U.S. since it boosts purchasing power of importers & makes U.S. competitive versus other exporters. Substantial rise would be cause for concern.

- ***Declining role of agriculture in most of Asia.*** Most of region's new investment has gone to profitable manufacturing sector. Local food supplies not likely to keep pace with growing food demand.

- ***Increasing food & fiber consumption and decline in Asian agriculture means less export competition*** for U.S. in third country markets; especially in bulk commodities, such as grain and cotton. Examples: Chinese corn, wheat, cotton; Thai corn.

Why We Are So Optimistic On Future Of Pacific Rim

- *Rapidly increasing urbanization, especially in developing Asia.* More people are moving from rural areas to urban areas in search of more and higher paying jobs. *Benefit of urbanization to U.S. exporters:* Region's most affluent consumers are now more localized and easier to reach with market promotion activities.

- *Improvements in transportation and port facilities.* Improvements in shipping times, port capacities, air transport facilities, and refrigeration technology help assure the quality and timely arrival of U.S. products to Asia.

- *Growth in Asian food processing industry.* Asia's food processors will look to the U.S. for low cost, high quality ingredients to maintain their profitability. This will benefit U.S. bulk and intermediate product exporters.

Three Major Threats That Could Prevent Realization of Export Vision 2000

Same three that caused the U.S. export decline in the early 1980s

- **Worldwide economic recession**
- **Substantial appreciation in value of U.S. dollar**
- **Farm Bill that leaves U.S. producers uncompetitive in world market (includes changes in domestic and export programs)**

COUNTRY MARKET HIGHLIGHTS: THE PACIFIC RIM

JAPAN

CHINA

SOUTH KOREA

INDONESIA

VIETNAM

COUNTRY MARKET HIGHLIGHTS: THE PACIFIC RIM

USDA's strategic approach to the Pacific Rim exemplifies a sequential entry strategy and serves to illustrate the relationship between emerging and growth markets, some of which are graphically highlighted.

The Pacific Rim can be divided along geographical lines into two sectors: North Asia and Southeast Asia. North Asia consists of Japan, South Korea, China, Hong Kong, Taiwan, and Eastern Siberia. Southeast Asia consists of Singapore, Indonesia, Malaysia, Thailand, the Philippines, Vietnam, Australia, and New Zealand. This market segmentation of the region lends itself to the application of a market development strategy.

Japan is the largest market for U.S. agricultural exports and is expected to be the leading market for new U.S. export sales through the year 2000. It is also the most advanced market in terms of the level of consumer and retailing sophistication. During the last several decades, Hong Kong, Taiwan, South Korea, and Singapore have emerged as the second tier of developing markets in the Pacific Rim. Commonly known as the four Asian tigers, these countries experienced similar economic growth and industrial "take-offs" during the late 1970s and early 1980s.

The third tier of developing markets is located in Southeast Asia. These are the ASEAN countries of Indonesia, Malaysia, Thailand, and the Philippines, whose economies have been rapidly growing in the last decade. Long in the shadow of more established trade with other Pacific Rim countries, these markets are only now beginning to be seriously recognized for their near-term opportunities. Vietnam's adaptation of successful economic policies of its Asian neighbors is making it the next market opportunity in the region over the longer-term.

The China market is the hardest to predict of all Pacific Rim markets. While its sheer size has made it an important player in the global marketplace for the last 20 years, economic reforms in the last decade are generating the country's true market potential.

COUNTRY MARKET HIGHLIGHTS

JAPAN

Japan Will Remain Top U.S. Export Market

1995 Sales to Reach $15.5 Billion, $20 Billion Seen by 2000

- Japan is, by far, the *largest export market in the world for U.S. agricultural, fish, & forestry products* -- accounts for 20% of agricultural exports, 44% of forestry exports and 62% of seafood exports.

- In fact, Japan is no. 1 or 2 market for over half of all 46 major export categories.

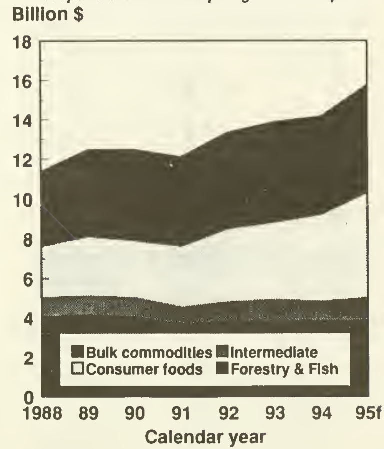
- 1995 exports projected to exceed $15.5 billion, up 36%, or $4.2 billion, since 1988. Exports projected to reach $20 billion by 2000 as U.S. responds to new opportunities.

- U.S. is Japan's largest supplier. U.S. share of Japan's imports projected at 38-40% in 1995, up from 37% in 1993 and 34% in 1987.

- Since '88, *all growth has been in consumer foods, fish, and forestry products.* This is expected to continue for the rest of the decade.

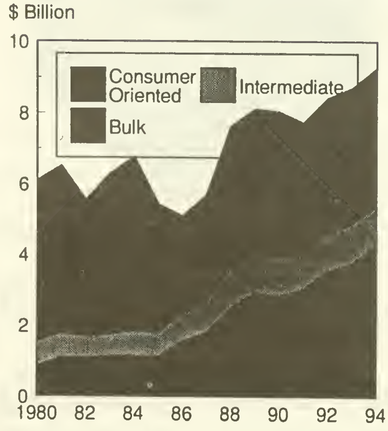
- Growth due to trade policy successes, MPP activities, and lower value of U.S. dollar. Japan leading market for MPP activities with 25% of total expenditures.

High value consumer foods, forestry & fish products responsible for U.S. export growth to Japan

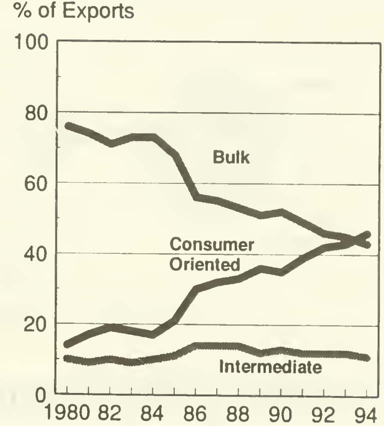


U.S. Agricultural Exports to Japan Expanding as Product Mix Diversifies

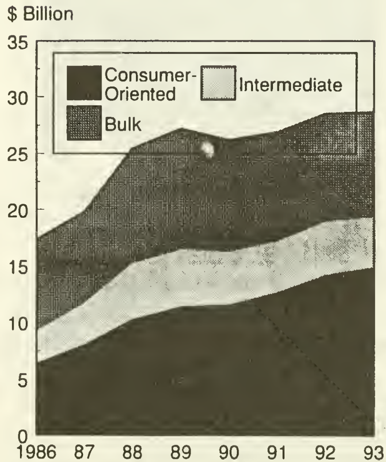
Consumer Foods Reach Record $4.3 Billion

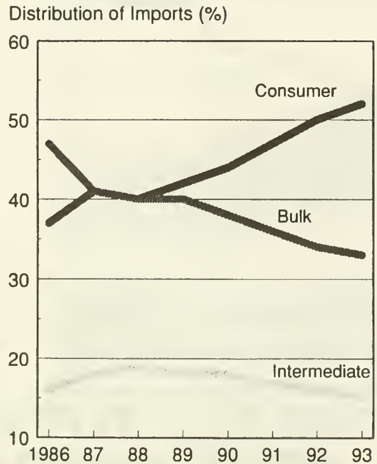


and Now Account for 46% of Sales



Consumer Foods Are Japan's Largest and Fastest Growing Agricultural Import Sector



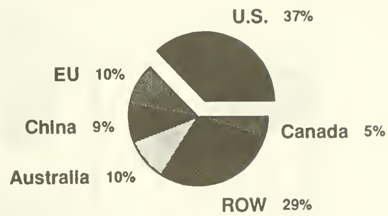


Source: UN

U.S. Competitive Position: Japan

- U.S. accounts for more than one-third of Japan's agricultural imports - nearly four times greater share than the next largest competitor
- Export growth rates to Japan of U.S. and major competitors have averaged 7-11% from 1986-93
- U.S. export growth to Japan (8%) lags slightly behind EU and China, but off a much larger base

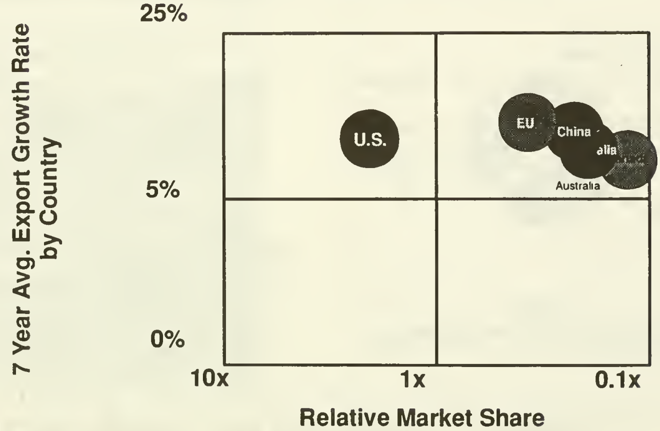
Competitor Market Shares (1993)



Total Japanese Agricultural Imports
Source: UN

U.S. Competitive Position: Japan

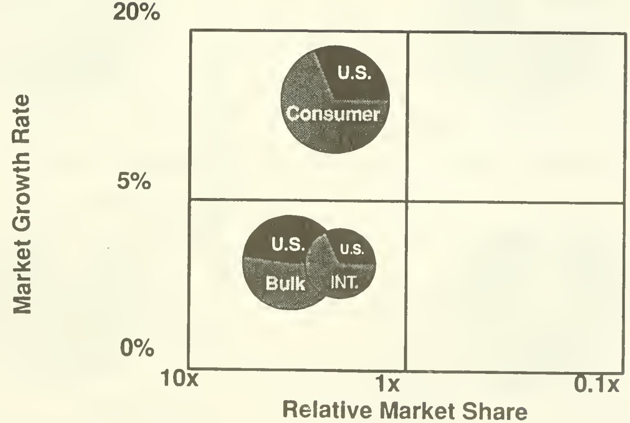
Competitive Position Matrix



Source: UN

U.S. Competitive Position: Japan

U.S. Growth Share Matrix

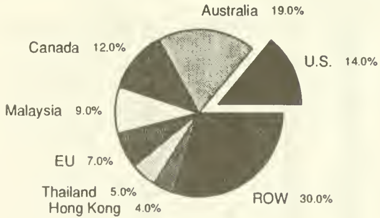


Source: UN

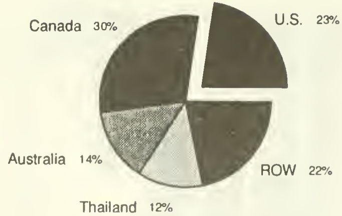
COUNTRY MARKET HIGHLIGHTS

CHINA

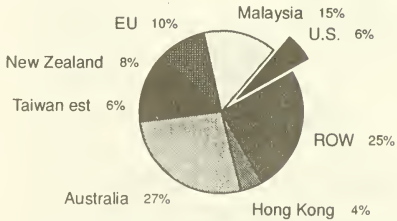
U.S. Among China's Largest Suppliers of Bulk Grains, Cotton & Consumer Foods



Total Agricultural Imports

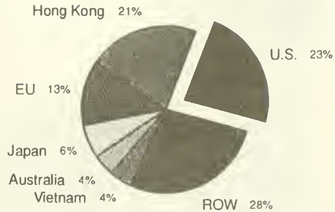


Bulk Imports



Intermediate Imports

Source Based on 1993 United Nations Trade Data for Market Shares

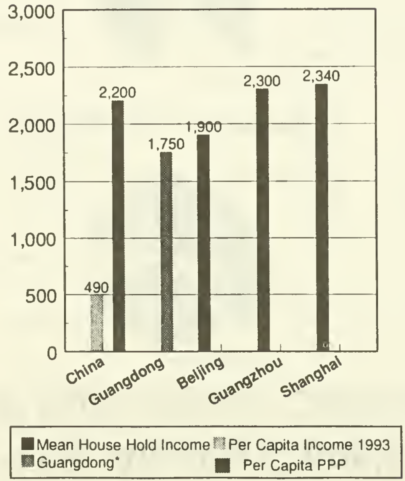


Consumer-Oriented Imports

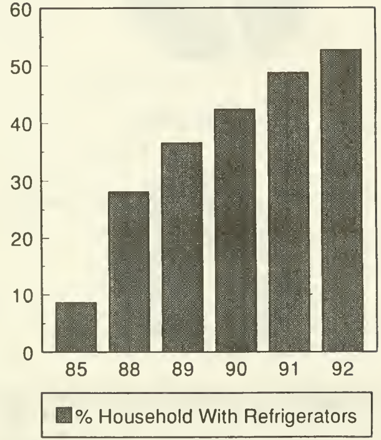
China: Targeting the Middle Class

Urban Areas Have Highest Income but Spread of Refrigerators Better Gauge of Rising Affluence

Actual Income Higher Than Official Figures



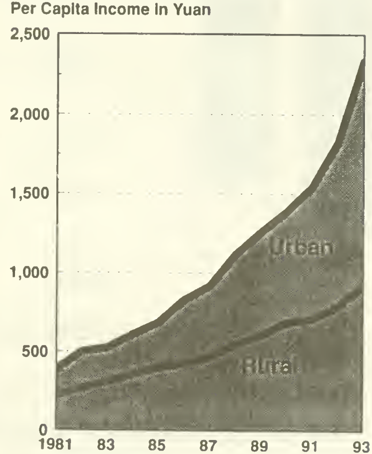
Most Coastal Urban Households Now Have Refrigerators



China: Best Prospects *WILD CARD*

- Direct U.S. Exports of Consumer Foods Reach $50 Million in '94; Another $240 Million Transshipped Thru Hong Kong
- Expanding Urban Middle Class Driving Demand
- Urban Population of Over 300 Million
- Potential Customers Estimated at 200 Million; 83 Million Earn 10-40K/yr (PPP-Adjusted)
- Target Markets: Guangdong Province, Shanghai, Beijing, Dalian, Wuhan
- Popularity of Fast Food Restaurants and Supermarkets

Rising Urban Income Drives Demand

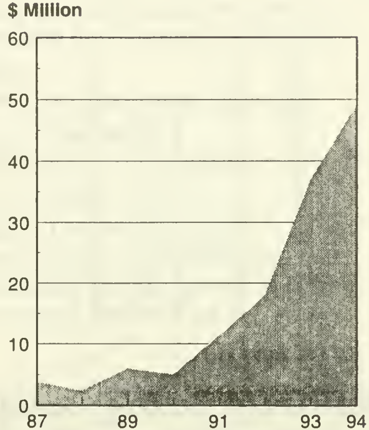


Source: ERS

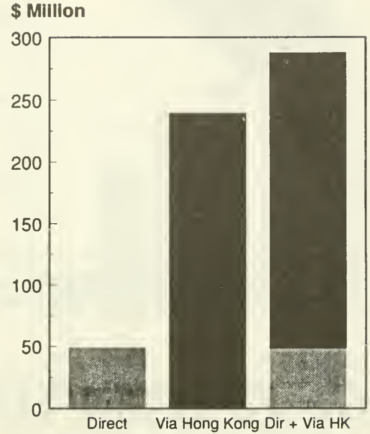
Total U.S. Consumer Food Shipments Makes China 10th Largest Market

Most Shipments Enter Via Hong Kong

Hong Kong is Gateway into China

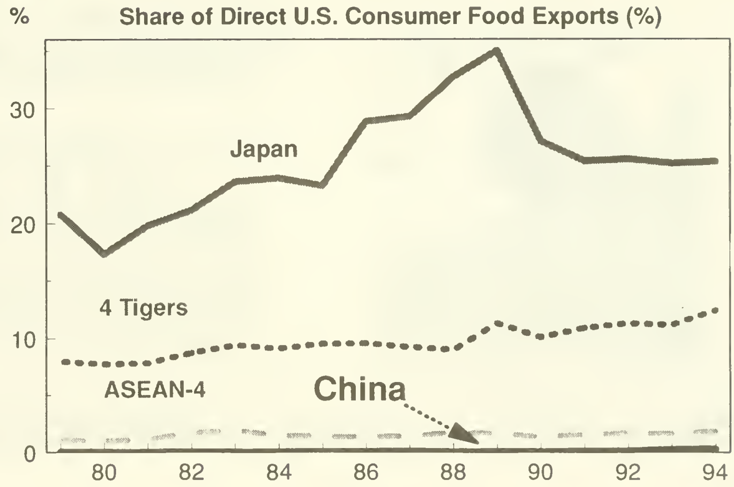


Direct U.S. Consumer Food Exports



1994 U.S. Consumer Food Exports

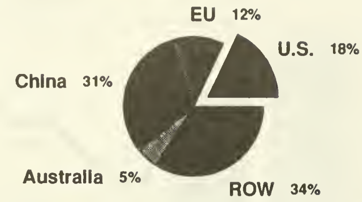
China's Small Share of U.S. Consumer Food Exports Understates Potential



U.S. Competitive Position: Hong Kong

- U.S. accounts for nearly one-fifth of Hong Kong's agricultural imports
- China is the market share leader, with nearly a one-third share
- U.S. is the export growth leader to the market with an average growth rate of 14% from 1986-93
- EU is the next fastest growing competitor

Competitor Market Shares
(1993)



Total Hong Kong Agricultural Imports
Source: UN

U.S. Exports to *Hong Kong* Accelerating ... Will Exceed Record $1.5 Billion in 1995

- U.S. exports of agricultural, fish, and forestry products to Hong Kong totaled a record $1.3 billion in 1994, our 8th largest market worldwide.

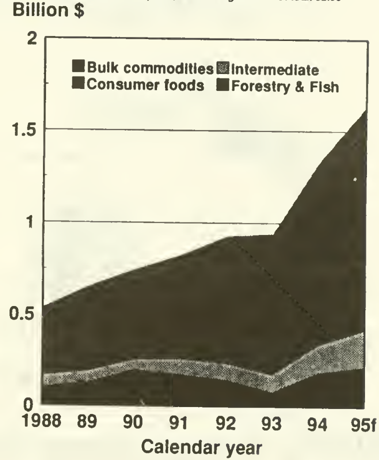
- For 1995, exports are projected to reach a new high of $1.5 billion. Why? Strong gains in high value consumer foods such as poultry meat, red meats, and horticultural products.

- U.S. second leading supplier to HK after China. U.S. market share projected to reach 20% in 1995, up from 18% in 1993 and only 14% in 1987.

- Factors behind growth: _1) strong economic growth (averaging 4-6% a year) and a growing middle class_ ; 2) _large and growing levels of transshipments of U.S. high value products to southern China_ fueled by booming incomes and food demand in those provinces. 25-33% of all U.S. exports to H.K. transshipped to China; and 3) _increasing level of MPP promotions._

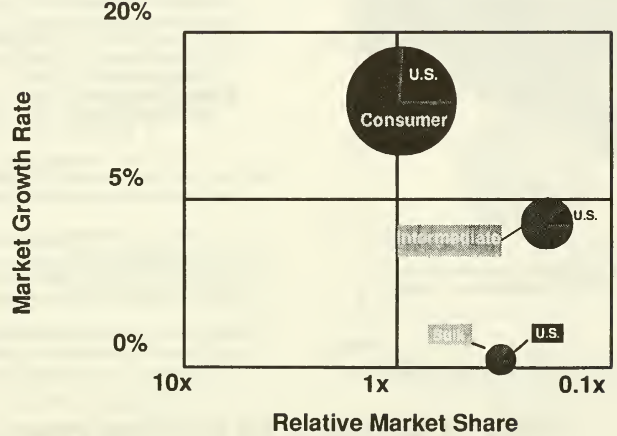
- _Near term outlook_:: bright est for consumer foods as incomes grow, diets improve and transshipments escalate. _Longer term:_ favorable but more uncertain as China may import more directly from U.S.

Consumer foods like poultry, horticultural products, and processed foods dominate U.S. exports, accounting for 73% of total sales



U.S. Competitive Position: Hong Kong

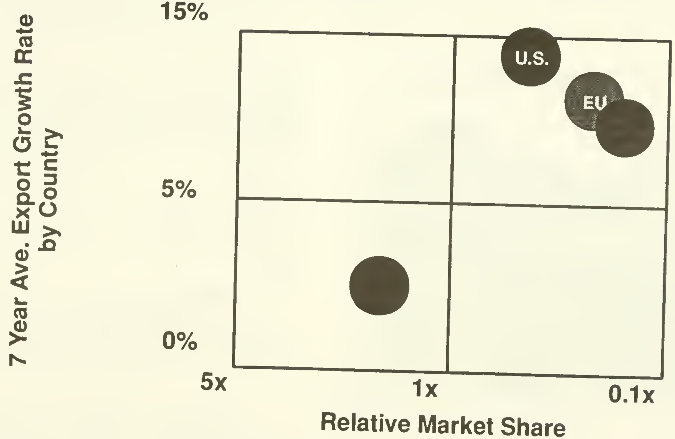
U.S. Growth Share Matrix



Source: UN

U.S. Competitive Position: Hong Kong

Competitive Position Matrix



Source: UN

COUNTRY MARKET HIGHLIGHTS

SOUTH KOREA

U.S. Exports to *Korea* to Reach Record $3.5 Billion in 1995 -- Rebounds $1 Billion in Last 2 Years

- U.S. exports of agricultural, fish, and forestry products to Korea totaled $2.75 billion in 1994, making it our 5th largest market overall.

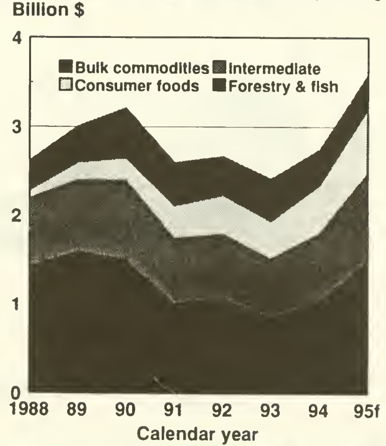
- For 1995, exports are projected to reach a new high of $3.5 billion due mostly to gains in corn, cotton, hides & skins, and consumer foods (esp beef) and horticultural products). 1995's strong performance will move Korea up to our 4th largest market in the world.

- U.S. is Korea's largest foreign supplier with a projected market share of 38-40% in 1995, up from 34% in 1993.

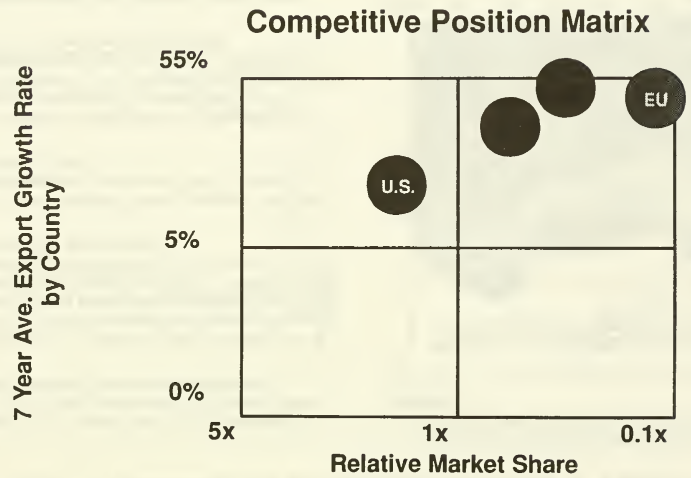
- Factors behind recent growth: *1) resurgent economic growth (6-8% a year) and* boosts import demand for all products and *2) less corn competition from China this year*. Both factors expected to continue through 2000.

- *Near term outlook*: brightest for corn, hides, beef and soybeans. *Longer term outlook:* favorable for broad range of high value products due to trade liberalization from GATT, growth in incomes, market promotions via MPP.

1995 results to boost Korea to 4th largest market ...
as corn, hides & skins, and consumer foods exports surge



U.S. Competitive Position: South Korea



Source: UN

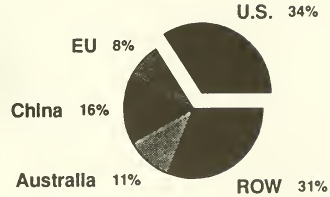
U.S. Competitive Position: Korea

- U.S. is the market share leader in Korea, with roughly one-third of the total agricultural import market

- China is the next largest competitor with a 16% share

- Major competitor export growth rates to Korea (40-50%) have outpaced the U.S. (17%) from 1986-93
  - Australia and China growth rates reflect volatile commodity exports during the period

Competitor Market Shares (1993)



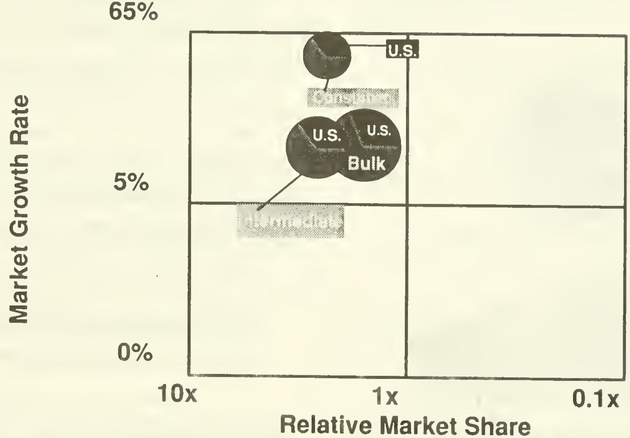
Total Korean Agricultural Imports
Source: UN

COUNTRY MARKET HIGHLIGHTS

INDONESIA

U.S. Competitive Position: South Korea

U.S. Growth Share Matrix

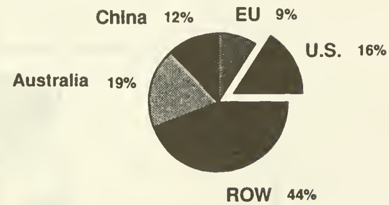


Source: UN

U.S. Competitive Position: Indonesia

- U.S. accounts for 16% of Indonesia's agricultural imports
- Australia holds the largest share of the market, but no competitor has a dominant position
- While the EU has only a 9% market share, it is the fastest growing competitor. EU export growth has averaged 36% from 1986-93, followed by Australia (29%), US (15%), and China (10%)

Competitor Market Shares
(1993)



Total Indonesian Agricultural Imports
Source: UN

U.S. Exports to *Indonesia* Growing Rapidly ...
13th Largest U.S. Market May Soon Enter Top 10

- U.S. exports of agricultural, fish, and forestry products to Indonesia totaled a record $504 million in 1994, our 13th largest global market.

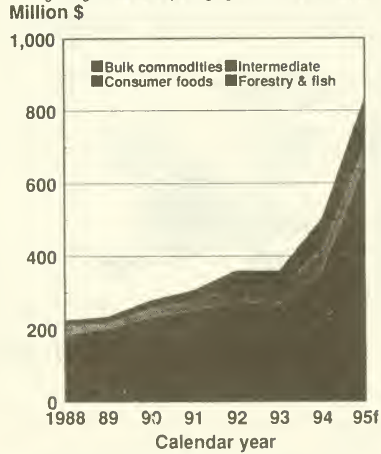
- For 1995, exports to Indonesia are projected to reach a new high of $800 million due to gains in cotton, corn, wheat, consumer foods, & forestry shipments. It is our largest ASEAN market.

- U.S. share of Indonesia's imports projected at 18-19% in 1995, up from 16% in 1993.

- Factors behind growth: *1) strong income growth and growing middle class* boosts demand for all products, *2) a globally competitive textile industry* fuels local demand for U.S. cotton, 3) *strong import demand for grains* to supply domestic milling and poultry industries, and 4) gradual trade liberalization.

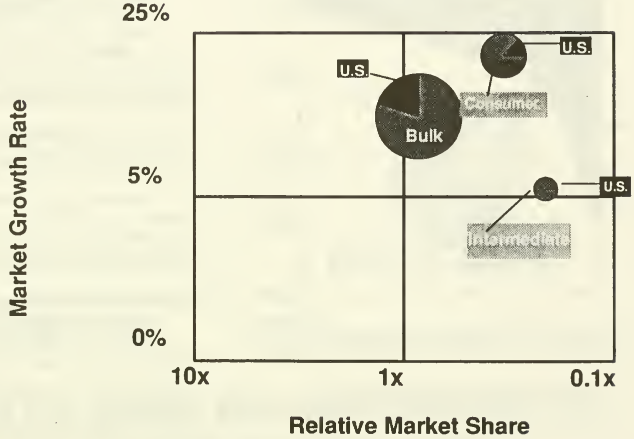
- *Near term outlook:* brightest for bulk commodities like cotton and grains. *Longer term outlook:* favorable for consumer foods as trade barriers are reduced, incomes rise, and U.S. market promotions take hold.

Bulk commodities, led by cotton, most responsible for recent growth but growing middle class sparking higher consumer food sales



U.S. Competitive Position: Indonesia

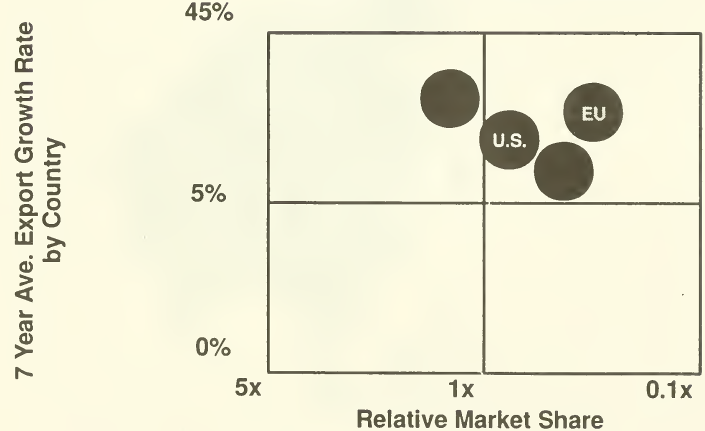
U.S. Growth Share Matrix



Source: UN

U.S. Competitive Position: Indonesia

Competitive Position Matrix



Source: UN

COUNTRY MARKET HIGHLIGHTS

VIETNAM

Vietnam: A Question of Timing

Where Are We on the Market Development Curve?

Current Barriers on the Road to Increased Trade

Economic

- Low Per Capita GDP $210 v. Thailand $2000
- Weak Transportation Infrastructure
- Lack of Trade Financing
- Lack of Contract Law
- Compare Vietnam to Opportunities Elsewhere in Asia
- "If the Vietnamese want to be even as well-off as the Thais are now ... they need to make their economy grow by 10% a year for the next 15 years." *The Economist* July 8, 1995

Trade Policy and Market Access Issues Must Be Dealt With First

- Basic Commercial Trade Treaties Not Yet Established
- Non Transparent Trade Regulations and Tariff System
- Phytosanitary Regulations
- Labeling Regulations
- WTO Accession

Vietnam: The Next Asian Tiger ?

- Second Highest GDP Growth in Asia *8 Percent*
- $7.6 Billion in Foreign Investments
- Rapid Growth of Light Industry ... Textiles, Shoes ...
- Rising Tourism
- Off Shore Oil Reserves
- Economic Reform *Doi Moi*
- World's Third Largest Rice Exporter
- Popularity of U.S. Culture
- Vietnamese Agricultural Trade (1993)
  Exports $709 Million
  imports $163 Million
- Export Opportunities
- Wheat & Flour
- Cotton
- Processed Foods
- Feed Grains
- U.S. Agricultural Exports 1994: $17 Million

COMMODITY SPECIFIC COUNTRY MARKET ANALYSIS

THE FOREST PRODUCTS EXAMPLE

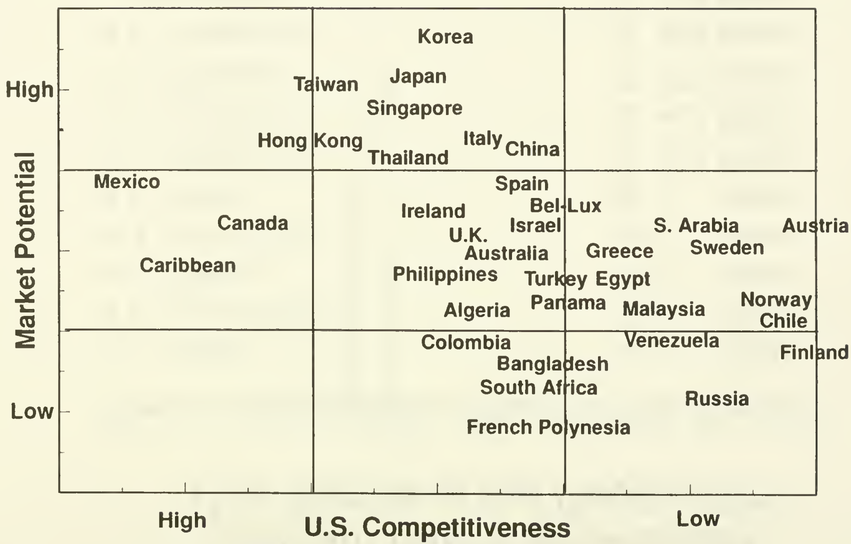
Vietnam Ranks as Smallest U.S. Market in the Pacific Rim

Vietnam Compared to Other Pac Rim Markets

• 1	Japan	$9.3	Billion
• 2	South Korea	$2.3	Billion
• 3	Taiwan	$2.1	Billion
• 4	Hong Kong	$1.2	Billion
• 5	China	$1.1	Billion
• 6	Philippines	$ 567	Million
• 7	Indonesia	$ 481	Million
• 8	Thailand	$ 384	Million
• 9	Singapore	$ 262	Million
• 10	Malaysia	$ 231	Million
• 11	**Vietnam**	**$ 17**	**Million**

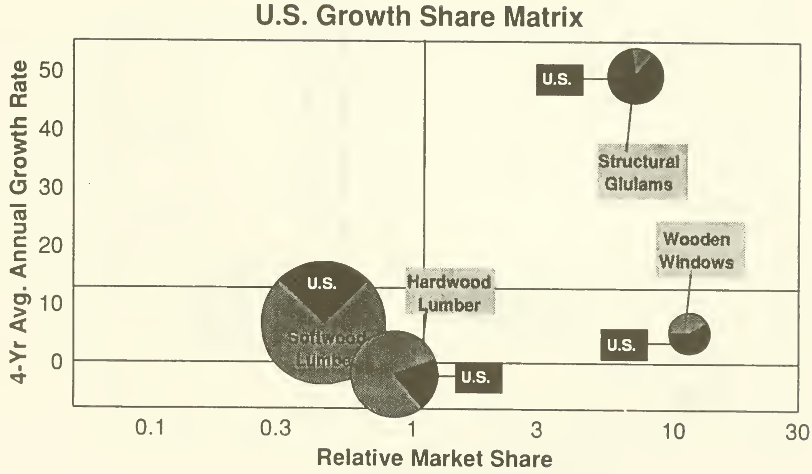
1994 U.S. Exports
Source: U.S.Bureau of the Census

Total Forest Products Market Matrix



Note: Chart is for illustrative purposes only, not all priority markets have been included

U.S. Competitive Position in Japan: Selected Forest Products

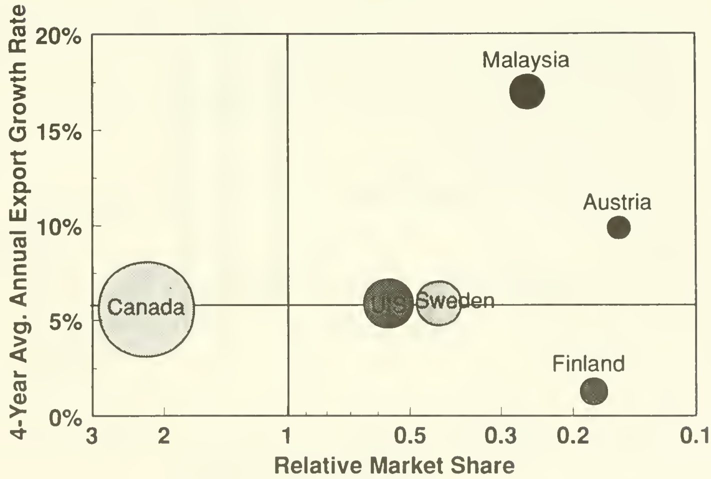


* Data spans 1989 - 1993

COMMODITY SPECIFIC COUNTRY MARKET ANALYSIS

THE HORTICULTURAL AND TROPICAL PRODUCTS EXAMPLE

Relative Position of World Lumber Exporters



* Data spans 1989 - 1993

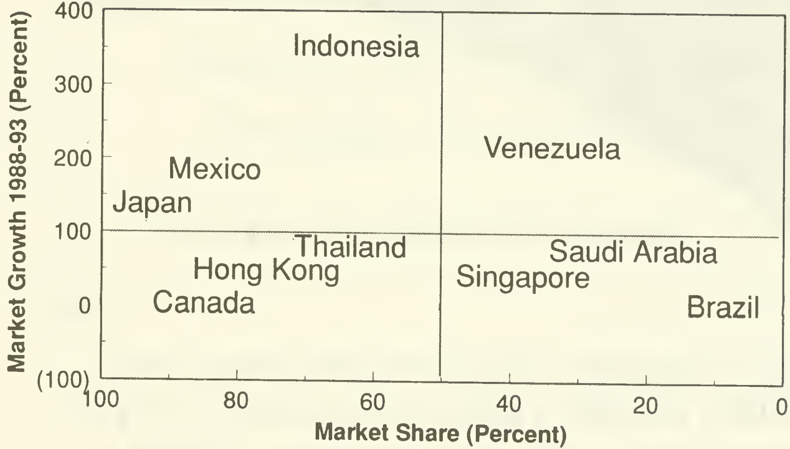
COMMODITY CATEGORY ANALYSIS

GLOBAL MARKETS FOR U.S. FROZEN FOODS:

THE CONSUMER FOODS EXAMPLE

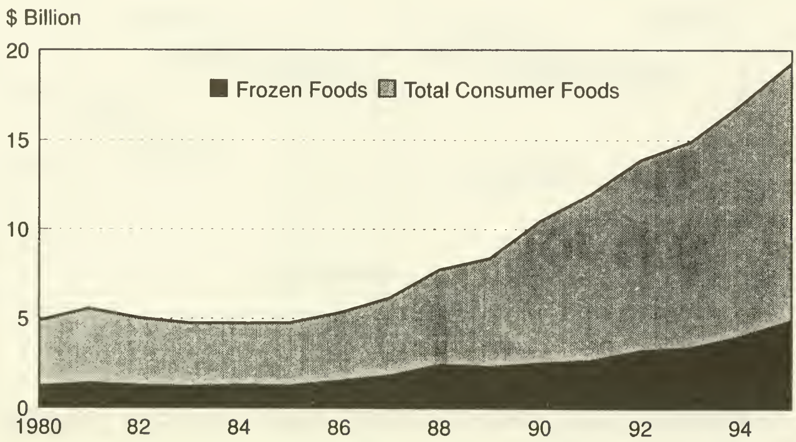
Relative Position of U.S. Apple Exports

Market Opportunity Scale Using Two Variables



Frozen Foods Account for One-Quarter of U.S. Consumer Food Exports Globally

Could Reach New Record High of $5 Billion in 1995



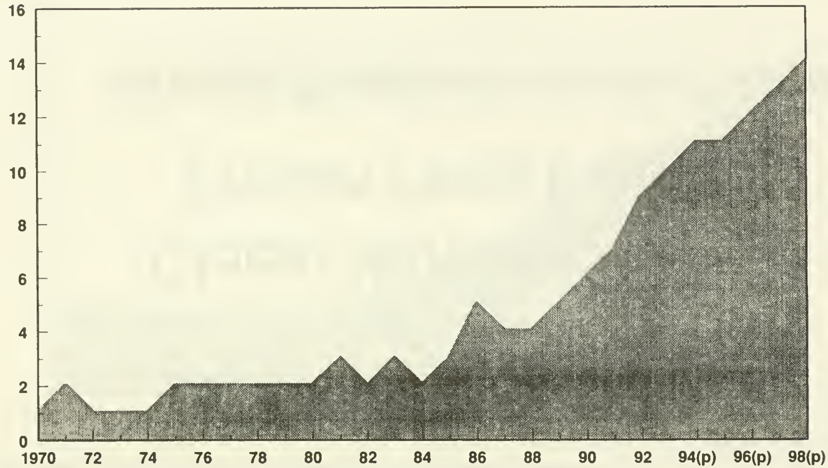
Note: 1995 projection based on current trend analysis. Not official USDA forecast
Legend denotes frozen foods including meats and total consumer foods excluding frozen foods.

Global Markets for U.S. Frozen Food Exports

Growth Prospects for the Future

Grain Equivalent of Meat

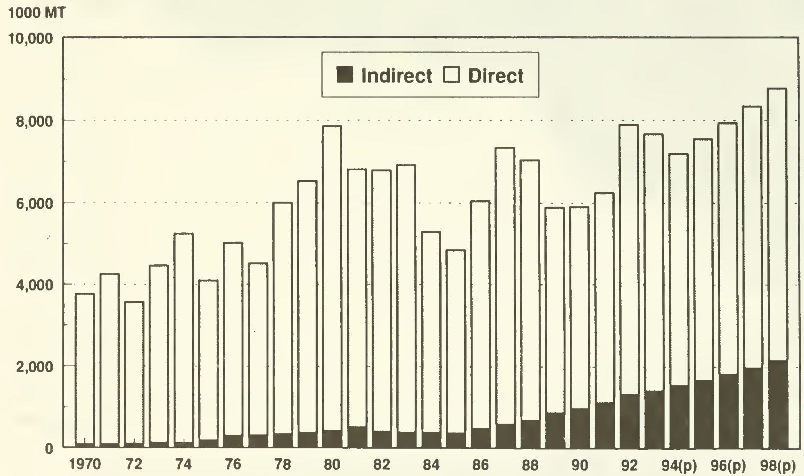
Share of Total U.S. Coarse Grain Exports



Note: (p) denotes unofficial trend projection

Based on Volume

Total U.S. Exports of Oilseed Meal

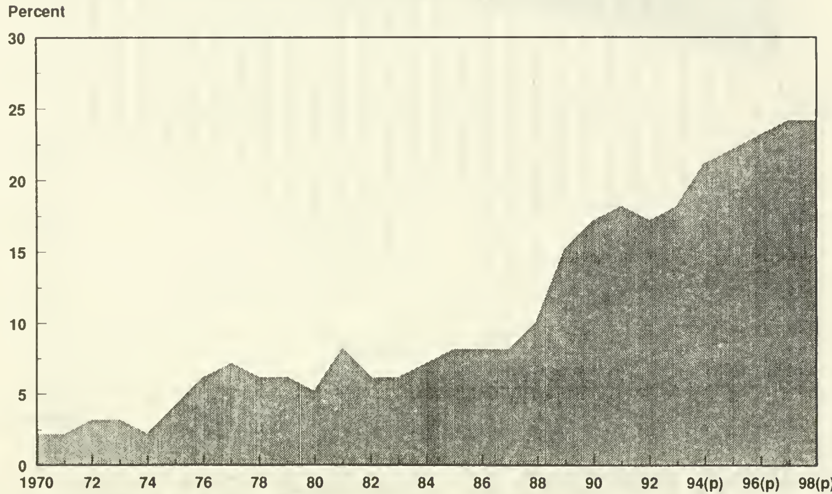


Note: (p) denotes unofficial trend projection

Total Oilseed Meal Exports = Direct + Indirect in the form of meat

Oilseed Meal Equivalent of Meat

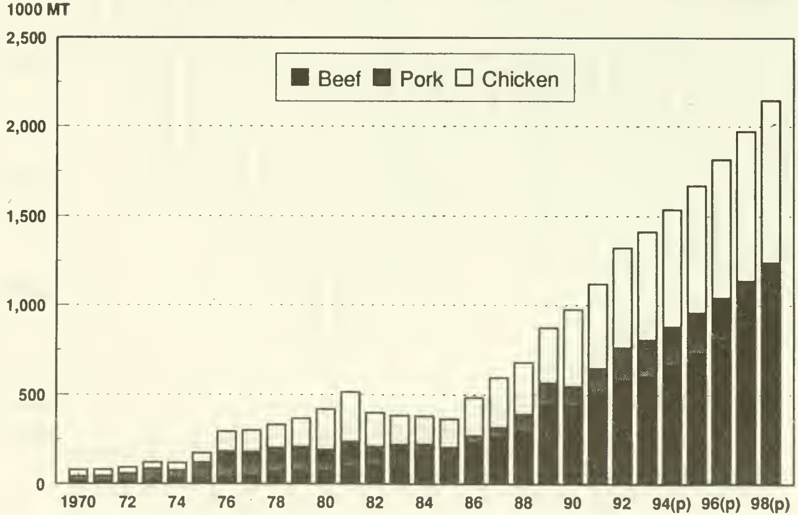
Share of Total U.S. Oilseed Meal Exports



Note: (p) denotes unofficial trend projection

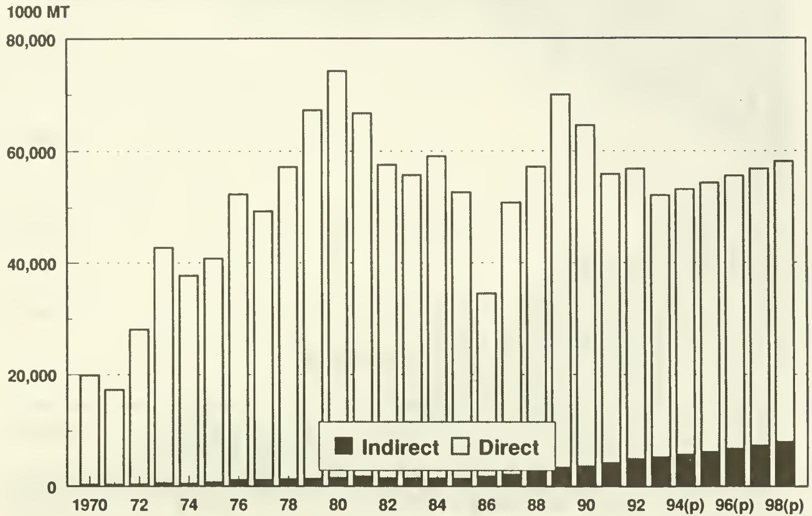
Based on Volume

U.S. Meat Exports in Their Oilseed Meal Equivalent



Note: (p) denotes unofficial trend projection

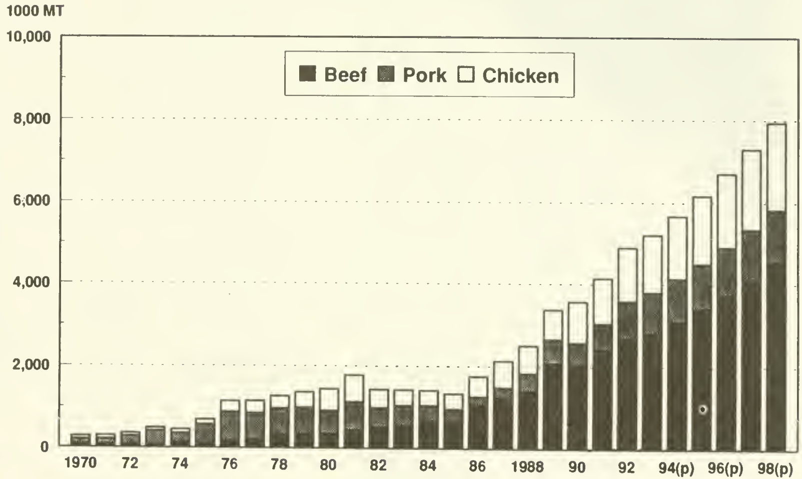
Total U.S. Coarse Grain Exports



Note: (p) denotes unofficial trend projection

Total Coarse Grain Exports = Direct + Indirect in the form of meat

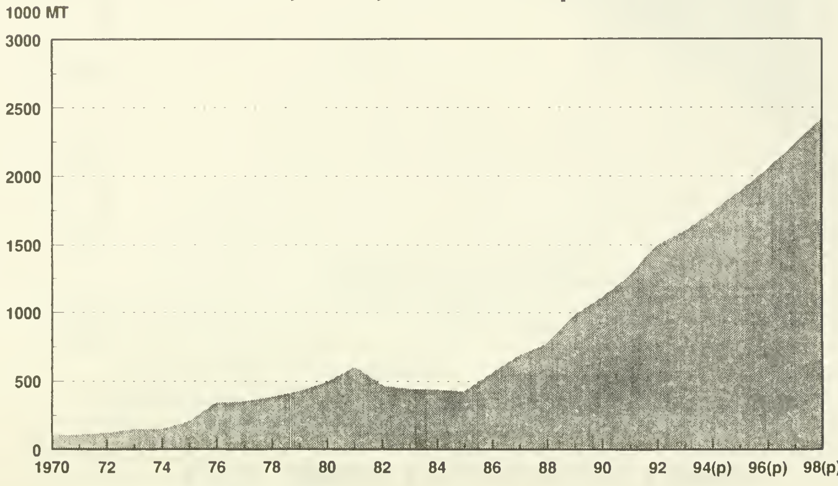
U.S. Meat Exports in Their Coarse Grain Equivalent



Note: (p) denotes unofficial trend projection

Direct U.S. Exports of Meat Rising Sharply

Beef, Pork, Chicken Exports



Note: (p) denotes unofficial trend projection

Changes Favoring the Expansion of U.S. Meat Exports

Countries may choose to import the inputs such as feed grains to produce high-value foods (such as meat), or they can import high-value foods directly. In a market economy, the consumer end product will be obtained at the lowest cost. Since the mid 1980s, economic, trade liberalization, and technology developments have favored the export of meat relative to feed grains.

Long distance shipments of chilled meat have become feasible through technological developments, such as the reduction of microbial contamination in slaughter houses and the development of vacuum packing and refrigerated shipping containers used in the processing and transportation of chilled meat. These developments also reduced the cost of shipping meat and poultry relative to shipping feed grains. Dr. Dermot Hayes of Iowa State University estimates the transportation cost of shipping boxed pork to Japan is now about equal to the transportation cost of its feed grain equivalent. No comparable technological change has lowered the cost of shipping bulk grains.

Widespread trade liberalization is the second development favoring the overseas shipment of meat. The Beef-Citrus Agreement with Japan and a similar liberalization with South Korea opened the two markets for U.S. meat exports and lowered the cost of U.S. meat through lower tariffs. Similarly, trade liberalization occurred in other new markets such as Mexico. The trend toward more open trade is expected to continue in the other growing economies of Asia and Latin America, especially as the political influence of the consumption-oriented urban middle class continues to grow. The recent political changes in Japan are an example of the rising influence of prosperous, urban middle-class consumers.

The Third Reason Favoring Meat Shipments is Economic in Nature

Sustained rapid economic growth in Asia, and more recently in Mexico, is creating a growing middle class with rising income. Rising per capita income throughout Asia is resulting in diets changing from grain-based staples such as rice to substantially greater consumption of meat, fresh fruit, and vegetables. This rising consumer demand for meat could be met through the development of domestic meat production. However, limits to the intensive use of land and rising environmental costs are major constraints to boosting domestic meat production in many densely populated countries. In contrast, economic factors favoring greater U.S. exports of meat are: (1) the huge scale economies of the U.S. meat industry; and (2) technological developments that make long distance shipment of chilled meat feasible and cost competitive with a meat importing country's domestic meat production. These developments encourage increased indirect exports of grain in the form of meat rather than direct exports of feed grain to produce meat in meat deficit countries.

Continued Growth of U.S. Meat Exports Expected

Greater meat consumption abroad and the shift toward the indirect export of U.S. feed grains in the form of meat are expected to continue. Continued rising U.S. meat exports and flat direct exports of coarse grains and oilseed meal could mean that the coarse grain equivalent of meat exports share of total coarse grain exports will rise more than 50 percent to a 14-percent share of total coarse grain exports. Similarly, the percentage of the oilseed meal equivalent of meat exports could rise more than 40 percent to a 24-percent share of total oilseed meal exports by the end of this century.

The Cargill study calculated the corn and soybean meal equivalent of meat, poultry, and dairy product exports. It concluded that the indirect export of grain and meal grew faster than direct exports. According to Cargill, the corn and soybean meal equivalent of meat, poultry, and dairy product share of corn and soybean meal exports grew from 16 to 20 percent for corn, and from 32 to 36 percent for soybean meal between 1985 and 1991.

Benefits of High-Value Exports: 200,000 More Rural Jobs

The shift toward greater exports of high-value foods such as meat instead of feed grain has major beneficial implications for the U.S. rural economy. First, expanding exports of red meat and poultry expands domestic demand for feed grain and oilseed meal. Second, the income multiplier effect from high-value exports is greater than from bulk commodity exports (2.88 versus 1.86). This means dollar-for-dollar, high-value exports generate more jobs than exports of bulk commodities.

Based on the different multiplier effects, Dr. Hayes concludes that if the U.S. exported meat instead of the feed grains used to produce meat in foreign markets, U.S. agricultural employment would increase by approximately 50 percent. According to the Cargill study, U.S. meat exports already generate approximately 200,000 jobs. This represents 10.5 percent of all jobs in the meat, poultry, and dairy industries. Finally, Cargill estimates the continued growth of U.S. meat exports will create 20-30 thousand new jobs each year. Because the meat and poultry processing industry is located in rural areas throughout the United States, these additional jobs have a major positive impact on U.S. rural communities.

In summary, "expanding meat, poultry, and dairy product exports increases exports of grain and oilseed ... meal, but in a different form. They are embodied in the livestock and poultry products that are exported." [Cargill Study: April 1993 p, IV 12] Indirect exports of coarse grain in the form of meat and poultry expanded from a two percent share of total coarse grain in the 1970s to 9 percent in 1992, and are projected to reach 14 percent by the end of this century.

Indirect exports of oilseed meal make up an even greater proportion of total oilseed meal exports rising from 3 to 8 percent in the 1970s to 17 percent in 1992. They are expected to reach 24 percent by the end of this century.

United States agricultural exports are changing in form from bulk grain and meal commodities to high-value foods such as meat and poultry. Or as Dr. Hayes states, "[beef, poultry, and] hogs can be viewed as opportunities for repackaging corn [and meal] as meat." These repackaged coarse grains and meal form a growing segment of total U.S. grain and meal exports.

GRAIN AND MEAL SHIPMENTS IN THE FORM OF MEAT

U.S. exports of grain and meal shipped in the form of beef, pork and poultry meat continue to grow, reaching more than 10 percent of total direct and indirect grain and meal exports in 1992. Recent analyses by FAS and the agribusiness community conclude that indirect sales are the fastest growing segment of bulk commodity exports and will become even more important through the end of this century. This article investigates the reasons behind this changing composition of the U.S. grain and meal trade.

Indirect U.S. grain and meal exports in the form of beef, pork and chicken account for a rising share of total (direct and indirect) grain and meal exports. Since 1985, exports of coarse grains in the form of meat tripled their share of total coarse grain exports, rising to 9 percent in 1992. Exports of oilseed meal in the form of meat is even larger, accounting for 17 percent of total meal exports last year. Rising indirect exports of coarse grains and meal could reach 14 and 24 percent of total shipments, respectively, by 1998. Recent analyses by FAS, Cargill Inc., and Dr. Dermot Hayes of Iowa State University indicate indirect shipments are the fastest growing segment of bulk commodity exports and that the failure to include these sales increasingly underestimates the total value of grain and meal exports.[1]

The rise of grain exports in the form of meat reflects revolutionary changes in the profile of U.S. agricultural exports. For nearly a decade, the composition of U.S. agricultural exports has been shifting toward high-value consumer foods. The consumer food segment of U.S. overseas shipments is growing faster than either bulk or intermediate exports, such as coarse grains and oilseed meal. In 1992 consumer foods accounted for 32 percent of all U.S. agricultural exports--up from 12 percent in 1980. Since 1985, consumer food exports grew an average of 16 percent each year. In 1993, the value of consumer food exports is expected to set another record for the seventh consecutive year. Based on current trends, consumer food exports should continue to account for most of the growth in U.S. agricultural exports and could be equal to bulk exports in value by the end of this decade.

This shift toward high-value exports has important implications for U.S. agricultural exports and its rural economy. High-value exports such as meat are not increasing at the expense of feed grains and meal. Instead, this development means the composition of U.S. agricultural exports is changing from bulk grain inputs used to produce high-value foods to the direct export of high-value foods such as meat and poultry.

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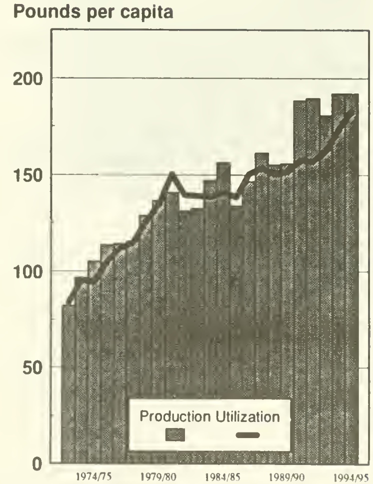
[1]For purposes of this analysis the grain equivalent of meat exports was determined by using the following conversion ratios: Coarse grain (Beef: 4.43 lbs of grain for 1 lb of beef) (pork: 4.8) (chicken: 1.89); Oilseed meal (Beef: 0.965 lbs of oilseed meal for 1 lbs of beef) (pork: 0.987) (chicken: 0.812). Sources for these ratios are the Economic Research Service of USDA, Texas Cattle Feeders Association, and the agricultural economics departments of Purdue and Oklahoma State universities.

GRAIN AND MEAL SHIPMENTS IN THE FORM OF MEAT

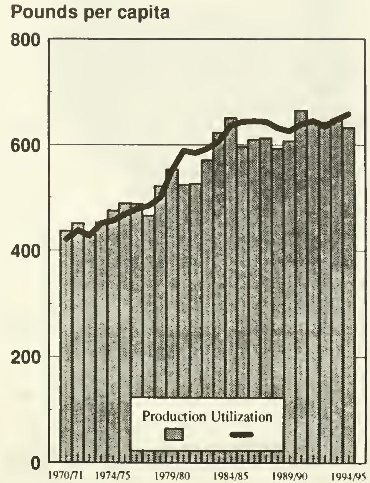
China Per Capita Corn Utilization Surges

- Domestic corn use expanded more than 3 MMT annually in the 1990's
- Production gains in early 1990's fueled export growth
- Corn "surpluses" going increasingly to meet domestic needs



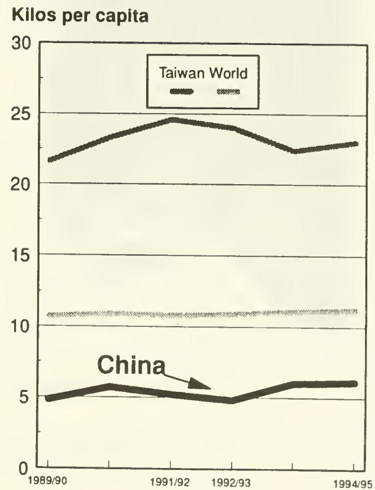
China Per Capita Grain Utilization has not Grown for Ten Years

- Population growth is offsetting gains in grain production
- 10% economic growth rate is driving demand for meat and poultry products
- Population reaches 1.2 billion, expanding more rapidly than China had projected



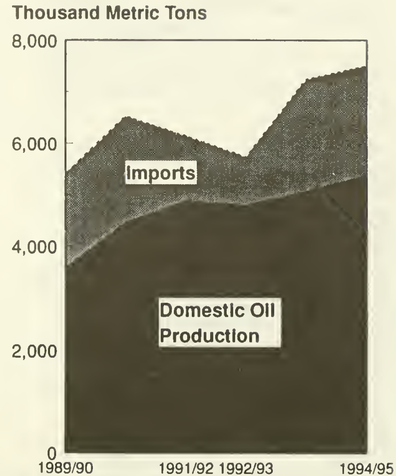
China Per Capita Edible Oil Consumption...
...Lowest in Asia

- Only half the world average
- Twenty percent of population consumes eighty percent of total
- Rationing system dropped in 1993
- Prices rise, but urban demand expands



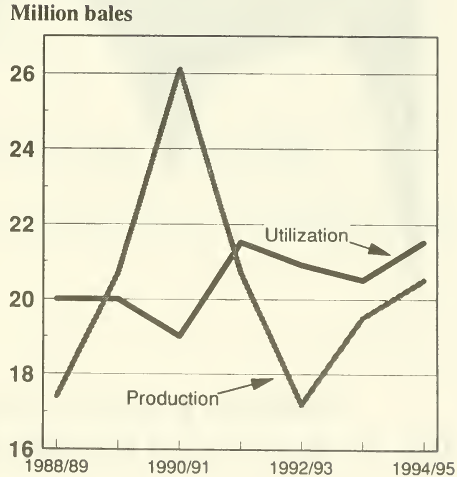
China Oil Production Deficit Grows

- Further expansion of oilseeds area limited
  - recent increases at expense of cotton
- China is world's largest vegetable oil importer at 2.4 MMT
- Accelerating urban incomes boosting oil use



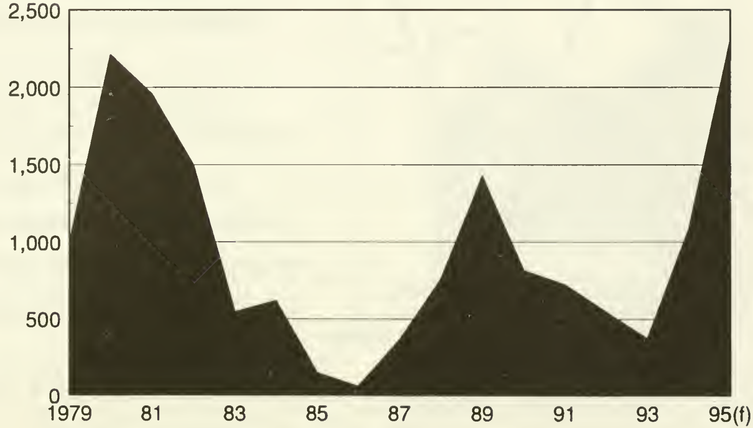
China Cotton Utilization Exceeds Production

- Strong domestic and export demand for textile products
- Crop substitution limiting area devoted to cotton
- Record U.S. cotton exports to China of $900 million during 1994/95
  - Capture three-quarters of China's imports
  - Account for one-quarter of total U.S. exports



Sharp Rebound for U.S. Agricultural Exports to China in '95

Led by Cotton, Grains & Oilseeds



Direct U.S. Exports to China
1995 Forecast is for Fiscal Year

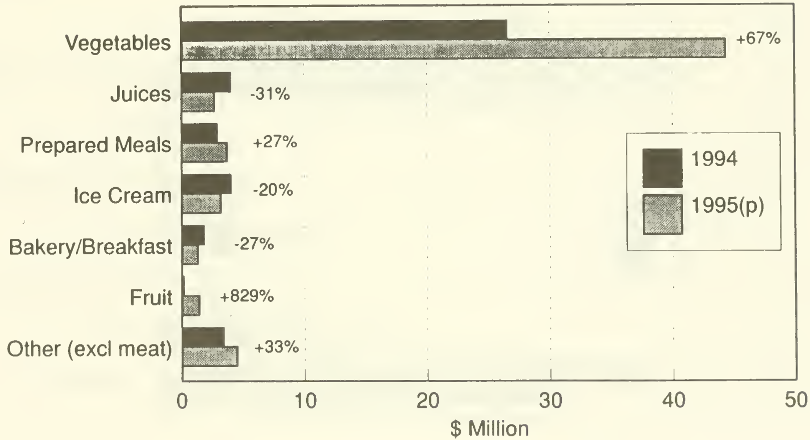
The Chinese Market for U.S. Commodity Products

COMMODITY CATEGORY ANALYSIS

THE CHINESE MARKET FOR U.S. COMMODITY PRODUCTS:

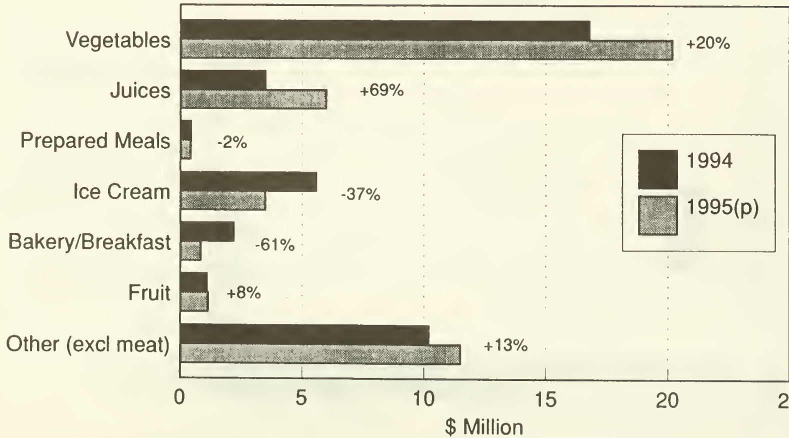
THE BULK COMMODITY EXAMPLE

Frozen Food Market: ASEAN



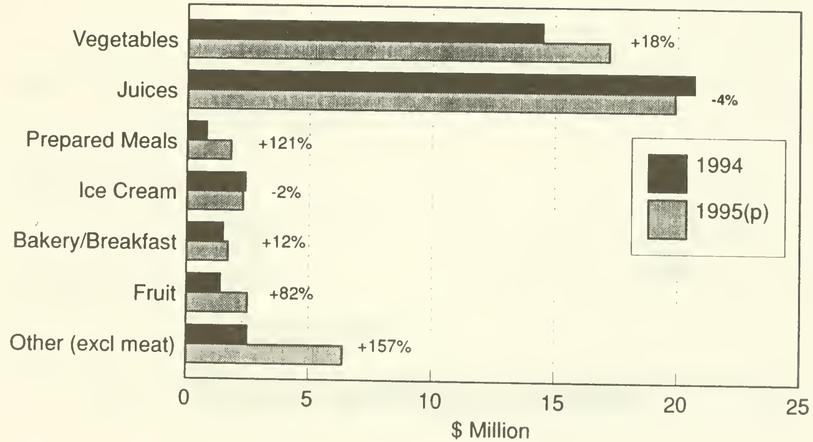
Note: 1995 projection based on current trend analysis Not official USDA forecast.
For purposes of this presentation, ASEAN region includes Singapore, Indonesia, Malaysia, Thailand, and Philippines.

Frozen Food Market: Hong Kong/China



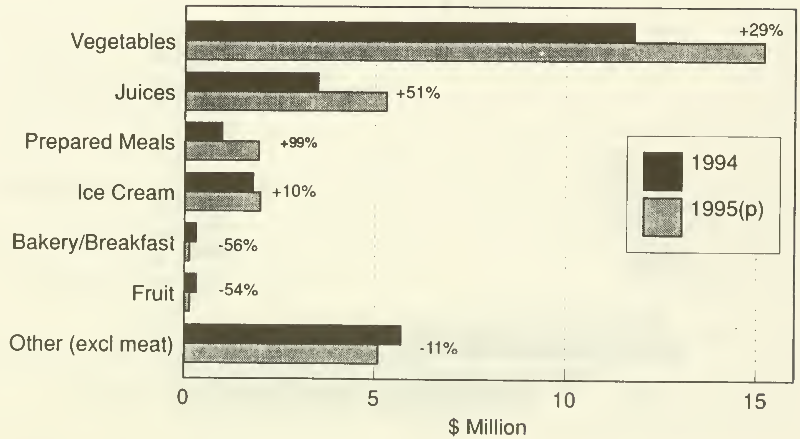
Note: 1995 projection based on current trend analysis. Not official USDA forecast

Frozen Food Market: South Korea



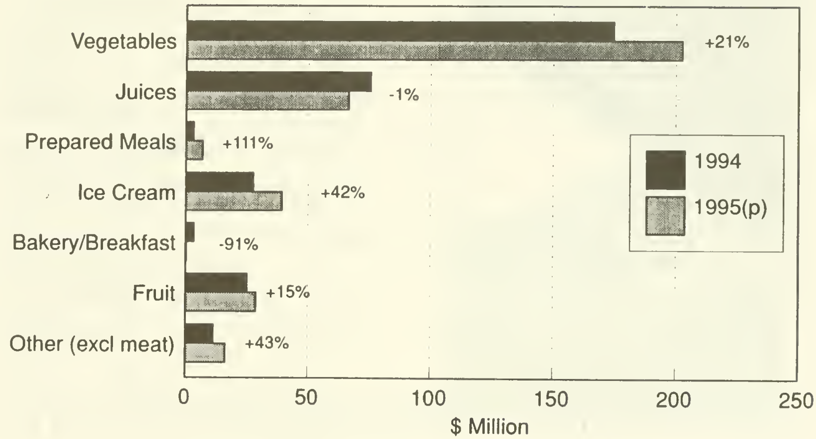
Note: 1995 projection based on current trend analysis. Not official USDA forecast

Frozen Food Market: Taiwan



Note: 1995 projection based on current trend analysis. Not official USDA forecast

Frozen Food Market: Japan

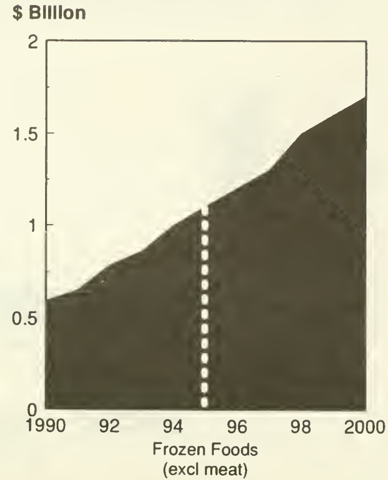


Note: 1995 projection based on current trend analysis. Not official USDA forecast

Best Market Prospects for Frozen Foods

U.S. Exports Could Reach $1.7 Billion by 2000

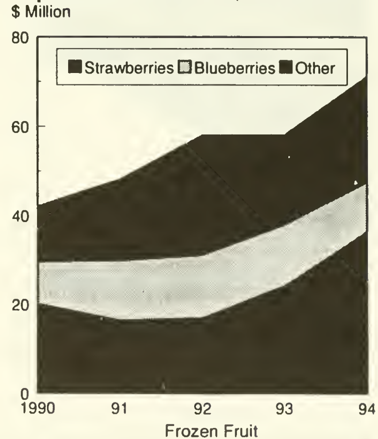
- Japan
- Canada
- Mexico
- South Korea
- Hong Kong
- Taiwan
- *EU*
- Singapore
- Australia
- ASEAN-4
- *Wild Card*: China



Frozen Food Highlights: *Fruit*

- Strawberries are the largest item in the category, accounting for 50 percent of frozen fruit sales in '94. Exports reached a record $36 million in 1994, a 50-percent increase over 1993. Japan is the largest market, accounting for half of global frozen strawberry sales. Other markets setting records in 1994 were Canada, the EU and South Korea.
- At $11 million in 1994, frozen blueberry shipments represented 15 percent of frozen fruit exports. However, shipments were off 19 percent from 1993, largely due to a sharp drop in sales to Germany. Brighter spots were record sales to Australia, UK, Italy and Mexico.

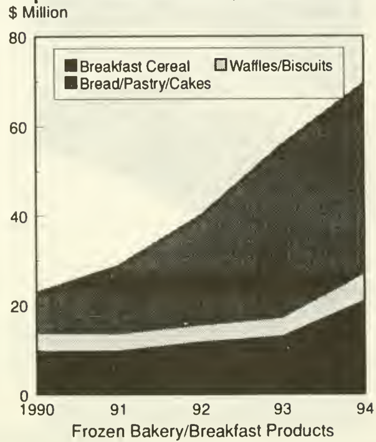
Exports Reach Record $71 Million in '94



Frozen Food Highlights: *Bakery/Breakfast*

- Frozen bakery/breakfast exports have more than tripled since 1990. Canada is the major market accounting for 60 percent of the total. Other growing new markets are Japan, EU and Hong Kong.
  - Nearly two thirds of the category is frozen bread, pastry and cakes.
- Bread, pastry, and cake exports have more than tripled during the past five years, boosted by supermarkets and growing acceptance of frozen desserts in Mexico, Japan, & Korea.
- Frozen waffles and biscuits set export records to Mexico (the top market), the EU, South Korea, and Hong Kong. This reflects the spread of convenient, western style breakfasts

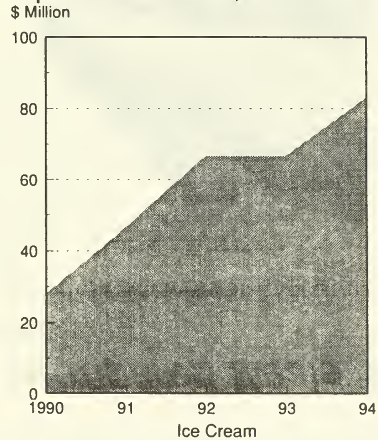
Exports Reach Record $69 Million in '94



Frozen Food Highlights: *Ice Cream*

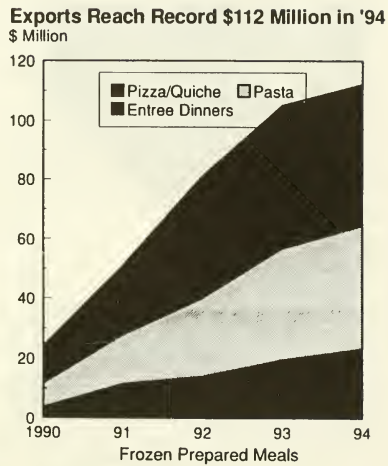
- Global U.S. ice cream exports have nearly tripled during the last five years
- Japan is leading market, accounting for one-third of total sales. Exports grew 33 percent in 1994 to a record $28 million.
- Despite local production, exports to Mexico reached a record $14 million in 1994, more than five times the level of five years ago
- Other record-setting markets in 1994 include Singapore, South Korea, Taiwan, and Malaysia
- The superior quality of dairy in the U.S. relative to Asia has been cited as a reason to import ice cream products from the U.S.

Exports Reach Record $83 Million in '94



Frozen Food Highlights: *Prepared Meals*

- Canada accounts for roughly two-thirds of total prepared meal exports. Sales were a record $78 million in '94
  - brisk sales of pizza and quiche, mostly to Canada
- Nearly twelvefold increase in exports to Mexico during last five years. Growth due largely to rapid expansion of large supermarkets and discount warehouse outlets in urban areas, '87 trade liberalization, and expanding middle class - 13 million Mexicans with annual income > $18,000 were best target before the peso crisis
- Other smaller-based high-growth markets which set new records in 1994 include Japan, UK, & Singapore

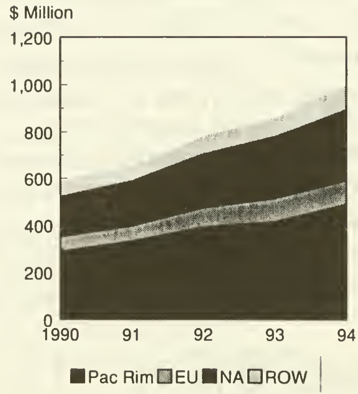


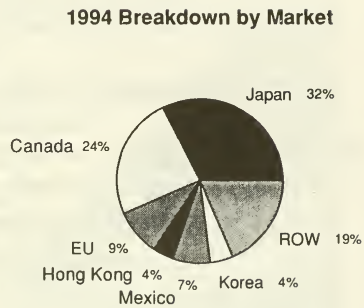
Reasons Driving Global Demand for U.S. Consumer Foods

- *Strong Income Growth*, especially in Asia
  -- rising economic prosperity is broadly-based
- *Global Consumerism and the Expanding Middle Class*
  -- food consumption patterns, marketing channels respond to changing tastes and demographics
  -- Westernization of diets spurred by increased travel and education in the United States
- *Trade Liberalization* -- opens markets and boosts demand
- *Weaker U.S. Dollar* -- down sharply since 1985
- *Higher Labor Productivity* in U.S. food manufacturing sector vs. competitors
- *Increased U.S. Government Involvement* in export promotion for high-value consumer foods, i.e. MPP program
- *Increased Interest in Exporting* by U.S. firms

Frozen Food Exports Excluding Meats Approach $1 Billion Record in 1994

Pacific Rim Represents Half of Global Sales

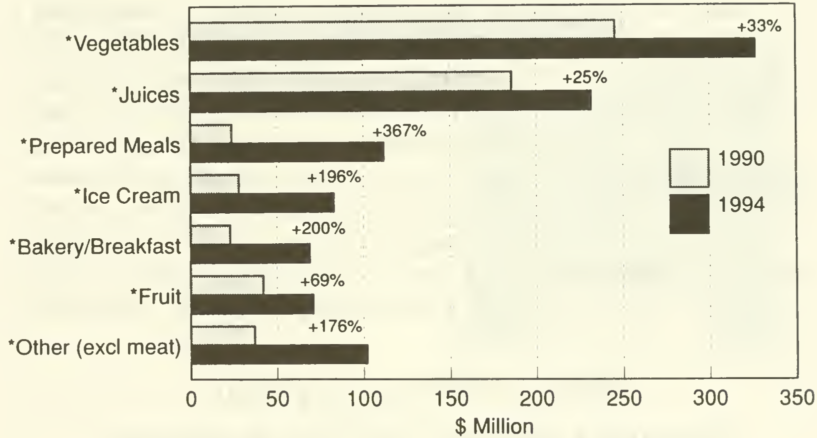




Note: EU denotes European Union, NA denotes North America, and ROW denotes Rest of World

Triple-Digit Growth for Prepared Meals, Bakery/Breakfast Products & Ice Cream

All Categories Reach New Records in '94



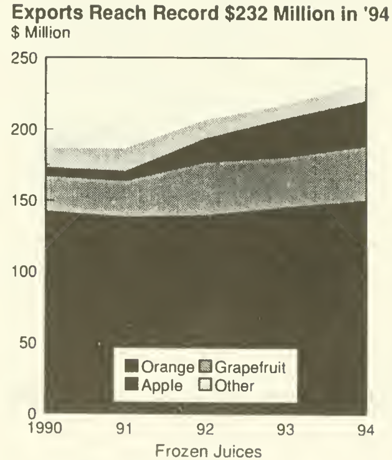
Note: * indicates record exports in 1994

Reasons Driving Global Demand for U.S. Frozen Foods

- *Increased Number of American Style Restaurants* - entry point for introducing U.S. foods. Frozen food inputs require fewer food service staff to prepare
- *Growth in Modern Western Style Supermarkets* - stock wide variety of imported frozen foods, open later more convenient hours. Hypermarkets are latest development
- *More Working Women* - means higher household income and less time to prepare traditional meals
- *Growing Popularity of Microwave Ovens* - ownership is indication of lifestyle change towards convenience and willingness to consume new, western-style frozen products
- *Smaller Household Sizes* - particularly in Japan and Europe Less focus on quantity, more on quality and convenience.
- *Growing Health Consciousness* - low-fat & organic products

Frozen Food Highlights: *Juices*

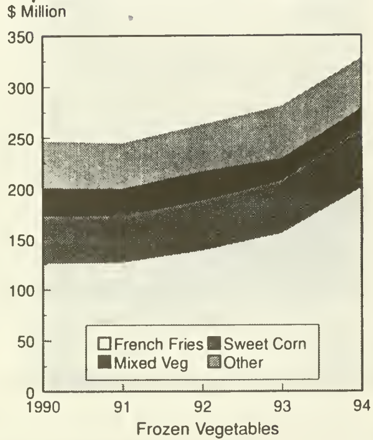
- Orange juice accounts for nearly two-thirds of frozen juice exports, but has shown relatively slow growth
  - Canada is the largest market, accounting for one-third of sales
  - Japan is the second largest market, with sales totaling $27 million in 1994
- Frozen grapefruit juice exports reached a record $38 million in 1994, up 9 percent from 1993 and led by sales to Japan and Canada
- Apple juice has been the fastest growing component of frozen juice exports, with record sales of $32 million, up 400 percent since 1990
  - Japan accounts for more than half of all sales, but Korea and Singapore registered double-digit growth in '94



Frozen Food Highlights: *Vegetables*

- Exports of frozen french fries totaled a record $199 million in 1994, up 29 percent from the previous year
  - Records were set in 10 of top 12 markets, with the majority in Asia
  - Japan accounts for just over half of global sales
  - Growth has been driven by the spread of American fast food and family-style restaurants and rapid expansion of the middle class
- Frozen sweet corn exports totaled a record $57 million in 1994, up 11 percent from 1993
  - While Japan accounts for nearly two-thirds of global sales, Hong Kong, Taiwan, and Canada have also been growing markets

Exports Reach Record $327 Million in '94



ISBN 0-16-052052-5
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