LONG-TERM TRADE STRATEGY AND EXPORT POLICIES

HEARING

BEFORE THE

SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER

OF THE

COMMITTEE ON AGRICULTURE
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

JUNE 23, 1994

Serial No. 103–73

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LONG-TERM TRADE STRATEGY AND EXPORT POLICIES

THURSDAY, JUNE 23, 1994

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER,
COMMITTEE ON AGRICULTURE,
Washington, DC.

The subcommittee met, pursuant to call, at 9:35 a.m., in room 1302, Longworth House Office Building, Hon. Timothy J. Penny (chairman of the subcommittee) presiding.

Present: Representatives Barlow, Stenholm, Allard, Doolittle, and Canady.

Staff present: Joseph Muldoon, associate counsel; Glenda L. Temple, clerk; Jane Shey, Bruce White, Anita R. Brown, James A. Davis, and Lynn Gallagher.

OPENING STATEMENT OF HON. TIMOTHY J. PENNY, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MINNESOTA

Mr. PENNY. Today's hearing will come to order.

This is part of a series of hearings in which the subcommittee has focused on trade issues. We are anxious to continue this process in preparation for the 1995 farm bill.

The subcommittee has explored issues such as high value exports and their contribution to rural economies. Last month, we looked at the implications of agricultural trade with Cuba, and we have also explored the potential for alternative crops. Now we are going to focus on the direction of U.S. agricultural trade policy for the future.

Since the 1995 farm bill authorizes programs for a 5-year period, next year's deliberations will set the tone as agriculture moves into the 21st century. The question is, how best to respond to a world which has changed greatly since the last major farm bill in 1990, and the last major trade bill of that same timeframe.

We are interested in learning more about the composition of future markets, the countries which will be our major trading partners, the products they will purchase, and the mechanisms necessary to access these markets. We want to explore today whether current policies assist the United States as we trade in a very competitive world. Do we have the flexibility we need in export programs? Do we have the personnel and the expertise in the fastest growing markets in order to help us secure these markets? Or should we consider new programs or policies to utilize the compara-

tive advantage that the United States has in production and processing?

And as long as we now have the GATT agreement concluded and ready for ratification by the Congress, we may want to look as well at the requirements under the GATT agreement, their effect on existing export programs and how we might fare in a new GATT regime, and whether or not we will want to consider new GATT legal policies to help us compete under this new regime.

With that, I want to call forward the first panel of witnesses, Chris Goldthwait, a familiar face to us. He is General Manager and Associate Administrator, Foreign Ag Service. Mr. Allan Mendelowitz, Managing Director, International Trade, Finance, and Competitiveness, the U.S. General Accounting Office. He will be accompanied by Mr. Phillip Thomas, Assistant Director, International Trade and Finance Issues at the General Accounting Office, and Mr. Kendall Graffam, Evaluator, General Accounting Office.

We appreciate your presence this morning. We will start with you, Chris, and then we will hear from Allan. It seems like this is a familiar duo to this subcommittee, and we welcome you both back.

STATEMENT OF CHRISTOPHER E. GOLDTHWAIT, GENERAL SALES MANAGER AND ASSOCIATE ADMINISTRATOR, FOREIGN AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. GOLDTHWAIT. Thank you very much, Mr. Chairman. With your permission, I will give a very brief summary of my testimony and ask that it be entered in full into the record.

I would like to start by saying that I personally, and I think all of our FAS personnel, are very much excited by the prospects that we see for U.S. agricultural products over the coming decade, from now to the year 2000 and beyond. I have had the opportunity this week to meet with a number of our overseas staff who are in town and what they are telling me about the prospects in markets as far from each other geographically as Japan and Eastern Europe is very exciting.

In order to capitalize on these opportunities, however, we are going to have to have a very active and concerted strategy to maximize utilization of all of the resources that we have at our disposal, in a concerted and efficient way. And I would like to summarize just three or four points that will help you to understand how we are planning to do this.

First of all, I will identify the four strategic planning efforts that we have ongoing at the present time. I will talk briefly about the goals that we are setting for ourselves. I will identify some of the elements that will work their way into the eventual strategy that we will implement.

Last, I will offer a few suggestions about some changes that we are looking at in some of our tools, tools that we have at our own disposal already, but things that perhaps we can do a little differently to capitalize on the rapidly changing market environment we see around us.

FAS participates in four strategic planning exercises.

First of all, we have a legislatively mandated long-term agricultural trade strategy, which is due for renewal this year. In addition, we are beginning the process of participation in the mandated requirements of the Government Performance and Results Act. And beyond that, of course, we have the Trade Promotion Coordinating Committee, the so-called TPCC process, in which we are an active player.

And last, we have a strategic planning exercise, at least I view it as such, which is somewhat unique for agriculture, and that is of course our own farm bill process. And as you know, we are beginning to work on some ideas with respect to the direction the administration's farm bill proposal will take.

I have the privilege of cochairing with our Acting Administrator the international trade subgroup, which is looking at this initially on an in-house basis, and we look forward a little later to exploring ideas, some of what we come up with, with you, and with our various clients and producers.

The goals that we set for ourselves are ambitious, but I think they are reachable. We have established a benchmark of increasing U.S. agricultural exports by 50 percent between now and the year 2000. In order to do that, we will develop an integrated strategic plan that maximizes the use of all of our resources and focuses them.

Last, we will develop individual country strategies that are offshoots of that strategic plan and support it. They support the achievements, so to speak, that involve expertise from our overseas staff, our Washington staff, our USDA cooperators, and many others that are in a position to contribute.

What are going to be some of the elements in this strategy? It is first of all going to have to be an ongoing, kind of a living process as opposed to a paper statement that dictates where you go over a 6-year period. But I think we can identify some things that need to be addressed.

First of all, we have to focus an awful lot in this strategy on emerging markets. And emerging markets, of course, can be any number of things, as I have suggested before. It can be newly growing country markets, it can be new markets for products that we have not introduced into the export arena previously, or it can be as I think Japan is clearly demonstrating, new opportunities in existing markets that have been strong markets for us over the years.

Next, I think we must very carefully integrate our trade policy work with our marketing strategy. For the past several years, of course, the focus of our trade policy work has been the two great international negotiations, NAFTA and the MTN. Now that we have those accomplishments behind us, we need to work in a very focused way at how we implement them and how we merge and coordinate the implementation with our marketing strategy.

Next, of course, we must look at all of the tools that are in our work box, and we must see if some of them need changing and augmentation, and I will return to this at the end.

I think that we need to focus in this strategy on both the high value and the bulk commodity markets. Clearly, when we talked about emerging markets, much of the focus there is on the high-value sector. But we also need to look at the bulk markets, where

in point of fact we have been losing market share and we have seen some of the big important markets stagnate or decline. We have to look further and broader at some of the growth markets for bulk commodities also.

A very important concept here which has emerged from many of the Secretary's discussions with leaders of emerging markets and emerging democracies, is the broader agricultural relationship. And this is where the merger of former OICD and former FAS into a new agency is extremely critical. Many of these countries are viewing their future trading partners as those that help them in their other agricultural needs, research, infrastructure development, et cetera, today. This is something that is extremely important.

Equally important is what we call a multiagency approach. We are looking at our export efforts not just as a FAS effort, but we are looking at them as an USDA-wide effort and as a U.S. Government effort. We are bringing together agencies from throughout the Department that have ways of helping us in our export goals as we try to reach them through our efforts.

For example, the phytosanitary sector is one where we in this country have some of the best expertise in the world, if not the very best in the world, in agricultural areas. We can share this expertise and get other countries to develop and adopt systems that are similar to our own, enormously easing the problems of access for American agricultural products. And we also have ways, as I testified not too long ago before this subcommittee, to use our export efforts in reaching the other missions of the Department, for example, rural development. But this is not just a Department question, it is also a U.S. Government question.

I referred a little while ago to the TPCC process. I think there are some very creative ways in which we can work together with other agencies in the credit area, for example, with Eximbank and OPIC, to tackle problems of joint interest. And we are going to be looking at things like that.

Let me close, if I may, by saying just a word or two about three or four of the current tools that we have, and some of the things that we are looking at to augment these tools, to bring them into line with the demands of the current environment. Let me speak first about credit and our credit programs.

The GSM–102 and 103 programs, work very well for categories of countries that are currently participating. There may be other areas in the international trade environment where an infusion of extra liquidity would help to grow markets for U.S. agricultural products more quickly. And I am thinking in particular of two groups of traders.

I am thinking, one, of that area of trade which is not done on a letter of credit basis, which is the basis of GSM–102, but which is done on more of a supplier's credit basis. We are looking at ways that we can augment the current supplier's credit that is being provided, and perhaps develop a credit program that will work either directly with importers or directly with U.S. exporters, to augment supplier's credit, to infuse extra liquidity into the system.

Similarly, we are looking at a group of countries which are potential markets which on the basis of today's rather short-term payment standards, may not be creditworthy enough to qualify for

the GSM–102 program, but which over a longer term may in fact be creditworthy for a commercial credit program over perhaps a 10-year period. This might involve a very careful individually tailored structuring of any credit we might advance to meet terms of rescheduling and IMF agreements that these particular countries have in place.

Let me turn from credit to speak about our commodity analysis for just a moment. Our commodity analysis data base is the accepted data base worldwide for trade data. However, there is one area where we think it needs to be augmented. We do not have yet sufficient data on what our competitors are doing in markets around the world. This is an important new focus for our commodity analysis, and one where the TPCC process is going to be very helpful to us as well.

Let me close by talking for a moment about technical assistance. FAS has now a number of technical assistance programs that we operate, for one, the emerging democracies program. We think this needs to be an emerging markets program, a somewhat broader focus, if it is to have maximum value for U.S. agricultural exports.

Next, let me talk a little bit about whether or not a new kind of technical assistance program needs to be developed for U.S. agriculture, one that would be carefully delineated from the responsibilities of AID, but which might do it from the nucleus of the Kiki de la Garza program and become an expanded technical assistance program that would serve U.S. agriculture more broadly in exchanges, in research, possibly in other ways.

These are just a few of the ideas that we have developed as we have begun our internal processes on these various planning exercises. Obviously, these are ideas we want to share with our various clients, with this subcommittee, and other committees here in the Congress. I had the privilege of talking about some of them yesterday at a seminar organized for participants of GSM–102 program, and out of that meeting as well, we got some very important suggestions about how we can make that program more user friendly.

So I look forward, Mr. Chairman, to continuing the work that we are undertaking with this subcommittee, to develop some really creative approaches over the coming year to how we better serve and reach our goal of increasing agricultural exports.

Thank you very much.

[The prepared statement of Mr. Goldthwait appears at the conclusion of the hearing:]

Mr. PENNY. Thank you. Next, Mr. Mendelowitz.

STATEMENT OF ALLAN I. MENDELOWITZ, MANAGING DIRECTOR, INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS, GENERAL GOVERNMENT DIVISION, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY PHILLIP J. THOMAS, ASSISTANT DIRECTOR, INTERNATIONAL TRADE AND FINANCE ISSUES; AND KENDALL C. GRAFFAM, EVALUATOR

Mr. MENDELOWITZ. Thank you, Mr. Chairman. As you pointed out, Chris and I have appeared together at a number of your hearings. But I have to say that this is the first hearing we have appeared together since Chris was promoted to General Sales Manager and Associate Administrator of FAS.

I wanted to extend my congratulations, wish him good luck, and tell him that I look forward to working together.

Mr. GOLDTHWAIT. Thank you.

Mr. MENDELOWITZ. Second, I think we are very much encouraged by FAS's statement about interest in looking creatively at ways of increasing exports and we look forward to working collaboratively in that effort.

In that light, I am pleased to be here today to testify on the importance of strategic marketing as an approach to increasing exports and improving income in the farm sector. My testimony will focus on how a shift from the traditional production-oriented approach to a market-oriented approach would help USDA adapt to an increasingly competitive world marketplace.

We believe that in making the shift, USDA will find it essential to employ a strategic marketing approach that includes devising a long-term market development plan, and changing its approach in information gathering, personnel policies, and resource allocation. Also, while this is taking place, USDA will still find it important to emphasize programs to combat unfair foreign trade practices and overcome market imperfections.

USDA and the U.S. agricultural sector face a changing environment for world agricultural trade. The new multilateral trade agreement, GATT, if approved by Congress, will provide greater market access and wider opportunities for increasing U.S. exports.

The world agricultural trade environment is changing in other ways as well. Markets are emerging in East Asia, Eastern Europe, and elsewhere that show potential for becoming major consumers of United States agricultural products. And high-value products such as fresh fruit, processed foods, and consumer-ready products, are a growing share of world agricultural trade.

At the same time, international agricultural trade has become highly competitive; U.S. agricultural exporters have been increasingly confronted by competitors who have government support for aggressive and sophisticated marketing practices. In light of these circumstances, USDA programs should shift from a production-oriented approach to a more market-oriented approach.

Since the Great Depression, U.S. agricultural policies and programs have primarily been directed at improving the efficiency of the production of agricultural commodities. And I have to say that this has been an extraordinarily successful program. U.S. agriculture is the world leader in efficient production. And many USDA export activities have been aimed at seeking foreign markets for excess production.

These programs helped increase U.S. exports in the days when United States and world agricultural trade consisted heavily of trade in a few major bulk commodities, such as corn, wheat, and soybeans. But these programs have not been sufficiently responsive to current shifts in global trade from bulk commodities to profitable market opportunities in high value products.

In order to adapt to this new trading environment, strategic marketing is essential. For many years, the United States' European competitors have employed these practices with great success, particularly in exporting high-value products. Strategic marketing in-

cludes devising a long-term market development plan that identifies markets and growth potential.

It really starts with the customer and trying to figure out what in fact the customer wants. It provides the needed information to enable producers to satisfy consumer needs or preferences in those markets. It seeks to ensure that products are competitive and that distribution systems are in place to deliver the products efficiently. It also attempts to ensure that consumers are aware of these products through effective promotional activities.

Finally, strategic marketing needs continuous innovation, adapting to changes as they occur, and seeking to keep ahead of global competition. A useful strategic plan would need to meet several basic criteria. It should have a strong analytical base for setting priorities; it should be developed with high level USDA involvement because, for it to really work, it is going to involve the collaborative efforts of a large number of USDA agencies, not just FAS, be comprehensive in its scope, and set meaningful priorities to guide agency programs and expenditures.

As we reported in the past, agriculture's long-term agricultural strategy and country plans do not yet provide the basis for long-term market development efforts. The key weakness is that the LATS sets no priorities. It calls for the, "fullest possible use of all export assistance programs," without identifying which programs or activities are critical and most important.

In our opinion, I think the revision to LATS Chris talked about will be a good step forward if it makes a greater effort to identify priorities. Strategic planning and setting priorities is especially important with USDA's budget pressures. Over the past several years, FAS, the agency that performs the export promotion activities at USDA, has faced increasing program responsibilities without commensurate increases in budgets or staff.

In view of these pressures, any market-based strategic plan must set priorities for its resources and focus them where they are likely to do the most good. If USDA is to move toward a more market-oriented export strategy, changes will also need to be made in FAS's approach to information gathering, personnel policies, and resource allocation.

FAS maintains a worldwide reporting system that gathers information on agricultural commodities overseas. Despite some recent changes, the reporting system remains fundamentally oriented toward agricultural production. Information gathering under a strategic marketing approach would concentrate more on providing U.S. agricultural producers and distributors with data on consumer demand and market potential.

For example, in a recent report we found that many United States exporters to East Asian markets desired more practical and detailed data from the USDA on such things as market trends, product lines, and the potential of a given product in a given market.

Most of the professional staff at FAS have backgrounds in agricultural economics, few have formal training in marketing. If USDA is to help U.S. agriculture succeed in a sophisticated and competitive world market, it will need to develop staff expertise in

marketing skills. FAS's recruiting profile and training programs should ensure that it has staff with these necessary skills.

Using the FAS attaché service, USDA maintains an extensive presence throughout the world, with about 75 posts located in about 60 countries. However, FAS does not have an overall long-term strategic plan that guides the location and staffing of its posts. A strategic marketing approach would focus USDA's overseas resources in those countries that are likely to be the most beneficial in terms of increasing U.S. agricultural exports.

While the just completed Uruguay Round of GATT reached agreement to reduce trade distorting agricultural subsidies and other trade barriers, tariffs and nontariff barriers remain. Even with a market-oriented export strategy, USDA will still find it valuable to have programs and tools that allow it to combat unfair foreign trade practices and trade-distorting subsidies and help provide pressure to bring our trading partners to the negotiating table as foreseen in the coming 4-year period to negotiate further reductions in trade distorting subsidies and barriers.

In addition, even in a world with reduced barriers, market imperfections continue to exist. Certain developing countries may be weak credit risks or lack hard currency but still have long-term potential as future cash customers for U.S. agricultural products. To overcome these imperfections, and provide maximum export opportunities for U.S. producers, USDA may still have to continue to use tools such as export credit guarantees in certain markets.

One side effect of the U.S. production-oriented policies of the past was that the United States invariably ended up holding large carryover stocks of staple grains. These inventories contributed to world food security by ensuring that in the event of drought or other natural disasters, stocks would exist that could cover a shortfall in production.

If the shift to a market-oriented approach leads to a reduction in surplus U.S. production and related carryover inventories, the United States might not have sufficient inventories to continue to play this food security role. This could happen if production of certain bulk commodities declined, if exports increased, or if a combination of the two possibilities occurred.

Such a change might require the United States to determine, in conjunction with other food exporting countries, the needed size of carryover stocks to ensure world food security and to decide how the costs of carrying these inventories should be borne.

In conclusion, we believe that a shift from programs and policies that emphasize production to an approach that emphasizes strategic marketing is the type of change needed to help U.S. agriculture increase exports in a dynamic world market and remain competitive into the next century. And we look forward to working with Chris and FAS in efforts to make this transition.

Mr. Chairman, this concludes my oral statement and I will be happy to answer any questions you or the members of the subcommittee may have.

[The prepared statement of Mr. Mendelowitz appears at the conclusion of the hearing.]

Mr. PENNY. Thank you for your presentation. Chris, in your testimony, you made reference to sales to Russia, totaling $345 million

in 1993 and reaching $126 million in the first 3 months of 1994. You indicate that that is a sizable, almost threefold increase over the same period 1 year ago.

Are these credit sales?

Mr. GOLDTHWAIT. That statement refers to cash sales, largely of consumer-oriented products. We have been greatly surprised. The only person who is not surprised is our agricultural counsel in Moscow who saw this coming, at the enormous emergence of this market in Russia for these consumer-oriented products.

Mr. PENNY. That is amazing. What is the status of credit sales to Russia?

Mr. GOLDTHWAIT. As you know, we recently reached an agreement on a rescheduling arrangement for Russian payments on debt obligations falling due this year. That included a good portion that are subject to our credit guarantees. That rescheduling in effect removed the arrearages that had accumulated during the May, early June period. And now Russia is technically once more eligible for the allocation of credit guarantees.

We are in the process of reviewing whether or not we believe under the current circumstances Russia meets the creditworthiness criterion of GSM–102. I am looking at this from two standpoints: First, from the standpoint of a private sector oriented credit guarantee program that would be based on individual bank lines that we would establish, and second, from the more traditional standpoint of a Government guarantee, GSM–102 credit guarantee line. I can't yet tell you the results of those analyses, but they are ongoing.

Mr. PENNY. What requests are on file at present and what quantities and what commodities are we talking about?

Mr. GOLDTHWAIT. Well, with respect to, shall we say, an official request, there isn't really a specific request on file. There is sort of a general expression of interest in purchasing on a relatively near-term basis, 2 to 3 million tons. This message was conveyed by the delegation that was in town here in early May. But it was a rather generally stated request.

We talked not specifically about meeting it entirely through credit guarantees, but through sort of a combination of approaches. At that time, the arrearages wouldn't let us know whether or not credit guarantees could be made available. There are, I know, a couple of specific requests on the commercial credit side that would probably lead to some immediate business under a private sector program, but we are talking much smaller volumes.

Mr. PENNY. On page 3 of your testimony, you speak to the changing situation with Mexico and the scheduled reduction in tariffs on corn. What volume are we projecting? What volume of sale are we projecting as these tariffs come down?

Mr. GOLDTHWAIT. I cannot give you the specific projections that we have. I can produce those for the record. But in the coming several years, we are looking at a growth in the Mexican market for feed grains and corn of, I would say, several million tons.

Mr. PENNY. Annually?

Mr. GOLDTHWAIT. At least a couple million tons annually. I can get the precise numbers for you.

Mr. PENNY. Please send that to my office.

You also speak about the potential in the Korean market. Is that much of a market for us, and if so, what commodities?

Mr. GOLDTHWAIT. The Korean market is, I think, one of our best prospects. It is on our list of the 15 markets with the greatest potential for U.S. agriculture, and I think there we are talking about opportunities really across the board. There are opportunities for the growth of exports of wheat, of cotton. In the feed grains area, it depends on what happens with Chinese corn exports.

Turning to the high value or consumer ready sector, we see opportunities for practically any product where we can reach agreement on access on a phytosanitary basis. We are working with the core reasons, we have some reductions that we referred to in the testimony on some of the tariffs. And we just think that is a tremendous market across the board.

Mr. PENNY. You indicate that the European Community has subsidies. I assume you are talking export subsidies, they will be reduced by more than 2.6 million tons annually. Is that over the course of the GATT agreement?

Mr. GOLDTHWAIT. That is over the implementation period.

Mr. PENNY. And just a reduction in subsidies doesn't automatically mean a bushel-for-bushel or ton-for-ton increase in our exports, but what do you think the opportunity is for the United States to pick up market share as those subsidies are scaled back? What is the range that we are projecting?

Mr. GOLDTHWAIT. Again, I can't give you a precise range. We think we will recover some market share. I would think we will recover, particularly some of the recent erosion we have seen in the Western Hemisphere, where previous subsidies have been a very important factor over the past year.

There are a number of other factors here that are going to be extremely important that make it difficult to make precise estimates. You referred in your opening remarks to the trade distorting practices that are not addressed in the Uruguay Round. We are looking at those, of course. And where of course the adjustment within the EU's internal production system may also enable it to be somewhat more competitive in its geographic, particularly proximate markets in the absence of subsidies.

Mr. PENNY. You mention the strategic planning efforts at the Department, and among those, the long-term ag trade strategy report. In the testimony from GAO, they cite a key weakness being that the LATS sets no priorities. It calls for the fullest possible use of all export assistance programs without identifying which programs—activities—are critical or most important.

In the opinion of GAO, LATS needs additional work to become a useful management tool to guide program development and resource allocation. How do you respond to those criticisms?

Mr. GOLDTHWAIT. I think in the revision of the LATS, you will see a somewhat different approach. And I think you will see a much more concerted effort to focus on individual markets and produce descriptions of what mix of resources seems to be necessary to reach growth targets in those specific markets. And this work, of course, will be done using input from our various program users, as well as our own ideas and those of our field staff.

Mr. PENNY. This may be—in setting goals, you suggest that Under Secretary Moos has established a 50-percent increase in ag exports by the year 2000 as a priority for the Department. Where do we go in terms of the 1995 farm bill to facilitate that objective?

Mr. GOLDTHWAIT. Well, we are only beginning our work on the farm bill, and on an in-house basis. We will want of course to get a lot of suggestions from this and other committees as well as from our various program users and producers groups. But already we have at least a few ideas, some of which I referred to earlier, in terms of shall we say the gaps, the things that our programs are not addressing today in terms of activities that we could undertake to further support exports.

Some of these areas are likely to be things that need legislative action in the farm bill. Some of them may be things that we can do on the basis of existing legislative authorities. But I think the direction we are going is trying to look more comprehensively at starting with the mission of export expansion and all the categories of activities that we have that support that goal and try to think about what we are doing well with current authorities and current initiatives and what kinds of things we need to be doing in addition to that. That is the general approach that we are starting with.

Mr. PENNY. You indicate that in order to, in your testimony, "In order to achieve a 50-percent increase in agricultural exports, we will need to return exports of bulk and intermediate products to the roughly $30 billion level of 1989 and 1990." I mean, there certainly were factors that led to our loss of market since then.

How realistic is it that we can return to that goal in the bulk and intermediate categories?

Mr. GOLDTHWAIT. There are, I think, some important factors as we look ahead to the end of this decade that are probably going to support a recovery of those bulk exports. First of all, I think that some of the competitive features that are in the market today, particularly on the feed grains side, say Chinese corn exports, will be considerably smaller by that time. I think if you look at some of the traditional bulk markets, China, Russia, there could be some recovery by that time.

We are also looking at growth in demand for bulk commodities in many of the other countries of Southeast Asia. At our morning staff meeting yesterday we had the experience of having five of our representatives from Southeast Asian countries who are here on home leave go through what they saw as the opportunities in their markets, Thailand, Malaysia, Japan, Hong Kong, and Singapore.

And each of them indicated, first of all, just an overwhelming opportunity for the high value products, but also interestingly in each of the cases they referred to opportunities for the recovery of growth of bulk commodities as well. So I think that is a very key area.

Obviously, a lot of the achievement of that is going to also depend on our own competitiveness and addressing some of those other unfair trade practices that are still out there. And that is, again, why I agree with one of the statements that Mr. Mendelowitz made about the importance of continuing our trade policy work on—a very much priority basis, too. I don't think that is an impossible goal.

Mr. PENNY. Likewise, is it unrealistic to think that we can continue the pace of 15-percent increases in our value-added exports over the next number of years?

Mr. GOLDTHWAIT. I think that is something we can achieve as well. One of the points that was made by our Counselor, Minister Counselor from Japan who was with us, was that we are only beginning in that market to get to the areas outside of Tokyo. The retailing and distribution structures within Japan are changing, and while the Tokyo region has been well-developed with respect to United States exports for a long time, it, first of all, continues to grow, we have a very good presence there, we are now getting into the rest of Japan. We are now getting U.S. products out into retail distribution in many other regions of that country.

If you look at the rates of growth in markets like Mexico, the Russian example that you had referred to, other Southeast Asian countries, even potential in Europe where the fact that the Europeans themselves are standardizing their phytosanitary regimes and their import regimes as one market, will make access for United States exporters to all parts of the European market much easier, particularly for high value product.

Previously they had to adapt their products to the requirements of each of the individual member states. Now there will be one standard that governs all. So I think there are reasons for optimism all over. And it is going to take a lot of hard work to be sure that we do all we can to achieve those goals. But I think there is—I don't think they are beyond reach by any means.

Mr. PENNY. It appears to me that we are in need of some bilateral agreements to tackle some of these problems that GATT doesn't solve for us. Where do we need to target our efforts in terms of bilateral arrangements?

Mr. GOLDTHWAIT. Well, we could start close to home. The Secretary, as you know, will be meeting again on Monday with the Canadian Minister to discuss some of the very difficult issues that have developed with that close trading partner, a very important trading partner. We clearly need to work on those issues. I think many of the other issues revolve around the implementation and oversight of the implementation of the achievements of the MTN.

I think, also, we need in a more proactive way to explain our own phytosanitary and food safety measures to other countries.

Mr. PENNY. You think it is simply a matter of explaining this to them? We have been trying to explain this to Japan for decades now.

Mr. GOLDTHWAIT. Well, in many cases, it is actual negotiation of specific issues. That has to continue, obviously, as well. But what I was thinking was, some of the countries which in fact are some of the better market prospects where the regimes are not so solidified, where as we have recently done in Indonesia, sending out a team that represented the expertise of a variety of agencies within the Department, we were able to help Indonesian officials understand our systems and adopt, make some decisions about adopting similar approaches that will make it much easier for our products to have access over the long term.

But you are absolutely right, there are going to continue to be any number of trade policy issues. Over the past few months, many

have suggested that now that the major negotiations are over, there is going to be an opportunity to divert some staff from our trade policy work into some other areas. I don't believe that. I believe we are going to have, if anything, increased workload there.

Mr. PENNY. It seems to me that in establishing your LATS strategy, that prioritizing certain countries and certain disputes would be a very effective use of your resources. We can't solve every problem, but I think we ought to be targeting the most important problems and the markets that represent the greatest opportunities and focus our bilateral efforts in that direction.

You mention as well some concerns about title I, Public Law 480. You describe it as increasingly unattractive. Do you want to elaborate on that?

Mr. GOLDTHWAIT. I think one of our recent accomplishments in title I is graduating a number of countries that have in effect got to the point where they can finance their imports through other programing that we can support, commercial programing.

Mr. PENNY. Is that going to be part of your strategic planning effort as well, to specify those countries and identify them for commercial sales?

Mr. GOLDTHWAIT. Yes, very much so. In Egypt, perhaps the prime example, what we have done is reallocated those resources to program countries, many of the emerging democracies. And what we have found is that while they very much welcome the support of the program for a year or two, when they were absolutely desperate for any way of bringing commodities into their countries, as they have begun to recover a little bit and as their economies have begun to change a little bit, the pressure is off just a bit.

And while title I should still be attractive to them, they don't understand the concessionality. They are bothered by the discrepancy between purchasing at U.S. domestic prices and purchasing at world market prices. And the cumbersome nature of the requirements of the program also discourage them. They can't make all of the same choices they could make if they were making a purely commercial purchase.

Mr. PENNY. Given these developments, should we consider downsizing the title I allocation?

Mr. GOLDTHWAIT. I wouldn't say necessarily downsizing. I think perhaps, though, we can look at using the current title I resource in some different ways.

I don't have a lot of specifics that I can offer yet, but this is one of the areas of concern we are looking into.

Mr. PENNY. I think we would like to help you look into it. We have some ideas about those programs as well and while we will not, at least I don't expect we will process legislation this year, we are at least trying to get something on the table as we review this program next year as part of the farm bill debate.

Mr. GOLDTHWAIT. I have had the opportunity already to meet with your staff on this, and we have exchanged some thoughts. I look forward to that process continuing, because I think over the next month or two, our own ideas may go a little further here.

Mr. PENNY. You see, as we look at basic farm policy, would there be a relationship between the attractiveness of title I and other programs, and a reduction in subsidized neighbors? I mean, what

I am thinking is, let's say we have 30 percent of our corn, 40 percent of our wheat, that is now in the export market. Maybe we should only subsidize 70 percent of our corn acres and 60 percent of our wheat acres and flex, do a flex acre program on the rest of the base.

In that way, it gives you the potential for a lot more production that is not at a subsidized price. And that would basically be corn and wheat that would be readily available at the world price. Is that too fanciful or is there something to that?

Mr. GOLDTHWAIT. That is difficult for me to comment on, because to be quite honest, I haven't looked in depth at the structures of our domestic programs.

Mr. PENNY. But the point is that we ought to be thinking about how our domestic program relates to our export goals. And I am not sure that this is, this is a cure-all, but it does strike me that when we subsidize virtually all of our production, it creates complications for our export strategy, it requires us to do EEP, it requires us to do a lot of things.

And maybe we should be subsidizing only that portion of our crop that is sold domestically and should free up the remaining acres in a way that would allow farmers some planting options, but if they choose to plant the traditional crop, wheat and corn, they produce that for the export market.

Mr. GOLDTHWAIT. I certainly think that those kinds of things need to be looked at, and one of the things that we will be focusing on is the interrelationship between the domestic and the international programs. In fact, we have representatives of the domestic agencies sitting in our international task force and vice versa. And I think one of the next steps in our process will be to contrast our ideas and see where this linkage needs to be addressed.

Mr. PENNY. Could I ask you specifically about EEP and the scheduled cutbacks in the EEP program due to the GATT agreement? Where does that leave us?

Mr. GOLDTHWAIT. Well, it leaves us hopefully, because the other subsidizers will also be cutting back, in a somewhat better-off position. We believe that at the end of the period when there is considerably less subsidized commodity in world markets, there will be some increase in prices, and we will have a larger market share.

Mr. PENNY. So you think on balance, even though these EEP reductions are sizeable, that we are going to come out ahead?

Mr. GOLDTHWAIT. I believe so, yes.

Mr. PENNY. I am hearing from soybean producers and other oilseed producers that they don't view it quite the same way. What is the Department's posture on the implications of the elimination—not the elimination, but the dramatic cutback in SOAP and COAP and how that affects our export market for those oilseeds?

Mr. GOLDTHWAIT. I think you are correct, that the oilseed sector is a more difficult one than the grains sector with respect to these cutbacks. I can't give you quantification of that, but it is clearly an area where——

Mr. PENNY. In general terms, is it your view that we may have to do something to ease the transition for the oilseed sector?

Mr. GOLDTHWAIT. Well, certainly the phase down provides some ease, easing some transition. We may need to look at something else.

Mr. PENNY. Last, I want to pursue a question related to market promotion programs. You have the MPP. You also have what is called the foreign market development program. As you know, MPP was under fire the last few years. I think we put most of the fire out last year. There may still be some glowing embers.

We do note that last week's ag appropriations bill took another $10 million slice out of MPP. But at least we didn't face a floor amendment to gut the program. And we trust that the reforms we have implemented are helping to focus that program more effectively.

What do you view as the future of that program and the need for that program and would you suggest that maybe the foreign market development program is to be preferred if we had to pick between the two?

Mr. GOLDTHWAIT. Two points. First of all, with respect to the need for the MPP, it is our principal tool for supporting the promotion of the high value products. We very much believe that it is going to continue to be useful and necessary in order to achieve the growth rate that we were talking about a few minutes ago.

With respect to preferring one program over the other, we looked at that question in terms of our internal MPP task force, and we concluded really that the focus of the market development program and the market promotion program is distinct enough so that we really need both programs and the resources of both programs to address different needs in the trade environment.

Mr. PENNY. Can you give an example what you mean by that?

Mr. GOLDTHWAIT. One example would be the way in which much of the work of the market development program is focused on trade servicing activity as opposed to direct promotional activity. We find it is very useful for us to be able to provide through that program a certain level of technical support to the users of the commodities in country.

Mr. PENNY. So the two programs go hand in hand in certain instances?

Mr. GOLDTHWAIT. Yes.

Mr. PENNY. Where you have MPP promoting a particular commodity, but then you have technical support coming through the market development program?

Mr. GOLDTHWAIT. Correct.

Mr. PENNY. And neither alone would get the job done?

Mr. GOLDTHWAIT. We feel that we need both.

Mr. PENNY. Thank you. Mr. Mendelowitz, I haven't forgotten about you. I was reading the portion of your testimony where you talked about the credit programs, GSM programs, and as you know from our previous discussions on this matter, I share your concern about the use of that program.

On page 2 of your testimony, you state, "But these programs have not been sufficiently responsive to current shifts in global trade from bulk commodities to profitable market opportunities in high value products."

If it is true that these GSM programs can be used for value-added sales, and if it is true there this flexibility in the law to use these programs for value-added sales, why is it we have been so slow to move in that direction?

Mr. MENDELOWITZ. I think that the flexibility that you have identified is there. But for a number of reasons, including program regulations, U.S. content requirements, it has been more difficult to use the GSM program for high value-added products.

But I think that the problem——

Mr. PENNY. Before you move on to the problem, and I want you to get to that point, is there something we could do about the content requirement that would not create other criticisms? Could we change that content requirement in some way and still defend the integrity of the program?

Mr. MENDELOWITZ. I think that if the committee were to arrive at a consensus on that, it would be quite easy to do. If you look at the U.S. content requirements for exports that benefit from credit programs at the Eximbank, you will find that only 50 percent of an item eligible to receive an Eximbank guarantee or loan for its export must be U.S. origin.

So there are precedents for that.

Mr. PENNY. Now, go on to discuss the real problem.

Mr. MENDELOWITZ. I really wanted to focus a little bit on the broader problem, and that is you were highlighting some of the problems with MPP. You were talking about some of the problems with GSM and its application to high value products.

These are all symptomatic of what happens when you try to take a program which is in all aspects production-oriented and, again, graft on patches to try to redirect the program. It is very hard to do.

I think it was Dr. Edwards Demming who said insanity is doing something the same way every day and expecting a different outcome. And I think that that in a sense captures the problem, because I think we need to look at the issue in a very fundamental, systemic way.

We have an Extension Service, which over the years, has proved extremely successful in bringing to the U.S. farmer the best technology with respect to new seeds, new ways of growing crops, new ways of tillage. And the result is that we get highly efficient production.

Until we begin to think of the Extension Service as part of an integrated system for helping the farmer decide what to produce in terms of what the market really wants, in addition to how to produce it efficiently, we are still working under the old system. And so if we think systematically about how to reorient the whole operation toward identifying where the markets are and then getting the whole system to think in terms of serving that market, in terms of what to produce, quality, distribution systems and so on, I think we will move more quickly in the direction that you would like to go.

Given the dramatically rising importance of HVP in world agricultural trade, it is inevitable that a system that is market-oriented will begin to think in a much more creative way about how we can better serve the HVP market. And that, when you carry it to all

the aspects of an integrated system, I think, should serve the farm community well.

Mr. PENNY. Part of that system is the Foreign Agricultural Service. And you cite in your testimony over the past several years, "the Foreign Agricultural Service, the agency that performs USDA's export promotion activities, has faced increasing program responsibilities without commensurate increases in budgets or staff."

I think the fact is that we are not going to see increasing resources. So what do you suggest we do?

Maybe better asked: What are some of the responsibilities we don't need to lay on FAS, and in what ways could we use technology to achieve some of the objectives that we now maybe spend on space and rent and you name it, or what are some of the ways we can target our personnel differently than we are today?

Mr. MENDELOWITZ. I think that when we talk about limited resources, the most important and valuable resource that FAS has is its people. The greatest restraint that they have in terms of effective operation is the number of hours a week their existing staff can put in. And I think FAS needs to look with a very hard eye at priorities in terms of what needs to be done. And I have highlighted that.

But second, not just in terms of what needs to be done, but what needs to be done by Government. There has been an explosion in information available about a whole host of markets. Modern telecommunications and modern reporting on markets has made a lot of information available, and what is happening overall in markets, prices, volumes, things like that.

The extent to which FAS reporting on production overseas is redundant with what the private sector is already doing and is readily available, to the extent to which we validated that perception when we talked to operators in different markets, FAS should move away from that kind of broad production reporting.

In the study we did on how to increase HVP exports in the Pacific Rim for Mr. Roberts, one of the things that U.S. exporters told us is they want more specific, detailed information that really helps them get into a market. What are the prospects for their products, how do their products have to be modified to meet local needs.

And thinking in terms of moving away from general information that is available in the broader market to providing the type of information that is really needed by the export community is the type of change that should take place.

Mr. PENNY. Are there any examples of where we are doing that with our FAS offices?

Mr. MENDELOWITZ. Well, FAS did a scrub of its reporting requirements, for example, recently, and it reduced some reporting, increased other reporting. But we think that that really was a shift at the margin. I think there is an opportunity——

Mr. PENNY. A more dramatic shift in this area. That shift also requires recruitment and placement of a different type of FAS employee, doesn't it? And how can the Department of Agriculture do that? It is not easy to move these people around with all of our civil service requirements.

Mr. MENDELOWITZ. I think that given the fact that the number of officers in FAS, as you indicated, are unlikely to increase, the

emphasis has to move toward retraining in a very rigorous way for the people in place. FAS has made the argument over the years that agricultural economists were very flexible, bright staff to recruit, that they could be trained to do all sorts of different things. I, myself, am an economist, so I am sympathetic to that argument. And I really think that given the fact that recruitment, replacement and recruitment is going to be—represent relatively few people, just changing the recruitment profile won't have a dramatic impact in the short run.

I think FAS really needs to think in terms of a very concerted effort on marketing management to sort of change the capabilities of its staff.

Mr. PENNY. And how about the rotation policies? Do they need to be addressed?

Mr. MENDELOWITZ. I think within the Foreign Service rules, I think there is a lot of flexibility in terms of moving folks around. If you are in the Foreign Service, one of the commitments you make is you make a commitment to serve—to be ready and willing to serve in any location. So I think the issue is not so much restrictions on the ability to move Foreign Service officers around. I think the real problem has been thinking strategically about optimal location for these folks, and, second, the problem is dealing with the State Department, quite honestly.

All the non-State Department Foreign Services have to work with the State Department in getting approval for shifting their resources around. That is no small undertaking.

My understanding is FAS, the Foreign Agricultural Service, all the other folks overseas, have great difficulty renegotiating deployment of their Foreign Service folks overseas with the State Department.

Mr. PENNY. And what about the potential for technology? Instead of moving people around, is there some potential that we can use that technology to provide some of the information we need in certain countries?

Mr. MENDELOWITZ. There is no question that modern information technology should be a boon to providing timely information about market opportunities, agents, distributors and so on. I know that FAS has made some movement in this direction, to provide automated—I think they can do it in a way that is useful to the trade, if it is provided via modern computerized communications systems.

Mr. PENNY. Thank you. Mr. Allard, then Mr. Stenholm then Mr. Barlow.

Mr. ALLARD. Thank you, Mr. Chairman. Again, I want to thank the panel for being with us this morning. And I have a few questions I would like to initially address to the Department of Agriculture and Mr. Goldthwait.

With the 1990 farm bill, you were required to prepare a long-term trade strategy periodically. As I look at what is happening in the Department of Agriculture, you look basically in terms of a long-term trade strategy as it applies strictly to the USDA. You don't look at the total market and sort of leave out the private sector.

Do you think that—and actually we will get into that agricultural exports, private sector is a big share of what we do

exportwise. Do you think that you can put together a plan that would also bring in the private sector and not just focus on what the USDA is doing?

Mr. GOLDTHWAIT. I think FAS's strategic planning must be developed in close consultation with the private sector, with a very broad range of clients of our activities and our programs, with the input from Congress, with the input from GAO, who is with us here today. I think it must be a broad-reaching effort. I don't think it would be one that is confined just to the Department.

Mr. ALLARD. But that wasn't the real focus of my question. I understand you have an outreach function as far as your own programs are concerned, and you can define that in your long-term trade strategy. But we have a lot of private sector out here that is doing international trade. Do you think that you can do that appropriately? Maybe that is more appropriately done in the private sector and let these individuals look at not only what is happening in the private sector, but also what is happening with the USDA.

Perhaps we can get a more complete picture of long-term trade strategies this committee can develop.

Mr. GOLDTHWAIT. The purpose of all of our activities is to enable the private sector to do a better job of identifying markets and selling into them. So clearly I think that their ideas and their input needs to be a big part of our strategic planning in terms of where we go with our resources.

Mr. ALLARD. Would you agree that your long-term strategy plan really doesn't reflect U.S. trade strategy as a complete picture, just reflects pretty much on the Department's efforts and not what is also happening in the private sector?

Mr. GOLDTHWAIT. I think that since we wrote the initial strategy, we have become much more cognizant of that broader environment that you are referring to. I think that you will see we are going to be looking not only at our own activities, but we are going to be looking at the activities—the resources of other Government agencies. We are going to be looking at ways that perhaps we can better leverage the resources that are at our disposal by focusing more on the private sector.

Let me give you an example. And this is a narrow example, but I think it is an important one. One thing that we are looking at in terms of our credit guarantee program is trying to make it more user-friendly and trying to make it really respond to what we are hearing from exporters and banks, is the need for credit.

One of the things we are hearing is that it may be a shorter term credit is what is needed to support some segments of trade. We are getting this from the users of the program, the exporters. If we make a credit available for a shorter time period, you can do enormously more over the course of a 3-year period with the same amount of budget subsidy.

So, I mean, these are the kinds of ideas that we are hearing from the private sector, and as we look at them we are finding other advantages in how we might apply them.

Mr. ALLARD. You mentioned the GSM loan program or your guarantee programs, the USDA, in your answer. Do you think it can do more to promote U.S. agricultural exports, and you talked about the short-term loans, are there other things that could be

done to enhance U.S. trade exports? And maybe you can share those with the committee.

Mr. GOLDTHWAIT. We are looking at a variety of different things. One thing, for example, is whether there is a whole segment of the trade finance system which is not being addressed by our current GSM–102 program. I referred a little earlier to the need perhaps to find ways that we can augment the liquidity available to the exporter or importer without use of the standard letter of credit financing mechanism, which for smaller transactions in particular is sometimes expensive.

So we are looking at ways in which we can perhaps leverage suppliers' credit or apply credit directly to importers. We may still want to work through financial institutions to do that, because they can help us identify which of those exporters and importers are creditworthy.

But still, this would be a really different approach to trying to put extra liquidity into that trading system than what was traditionally used.

Again, getting back to your earlier question, the ideas for addressing this particular need came out of a number of trips that several of us took, including Ms. Hale, who is with me today, to different foreign markets, where what we heard from the importers was, they have a need for more finance than their suppliers in the United States are providing to them, but they didn't really want to use the traditional letter of credit system, either because for the period of credit they were interested in that was very expensive, has fees attached to it, or because it was overly complicated for the size of transaction that they were dealing with.

So that is just kind of an example of what we are looking at.

Mr. ALLARD. From an outside observer, and many people in the export-import business in agriculture, indicated it is a very rapidly changing market, what with the North American Free-Trade Agreement, GATT discussions, and whatnot. As a Department, do you think you can respond to the rapid changes that are occurring in exports and imports in agriculture?

Mr. GOLDTHWAIT. I think we have to. I don't think we have any choice about it. I think we can. What it may mean is developing tools or changing our existing tools in ways to make them a little more flexible than they have been in the past. I don't think we have any choice about that.

Mr. ALLARD. I would like to address the next question to Mr. Mendelowitz, along the same line, a question that I did have. I would assume that you would agree with both of us that long-term strategy needs to incorporate more than just the U.S. Department of Agriculture. We need to look at the total picture.

Do you think it is reasonable to expect private organizations to participate in long-term planning, particularly if it could affect their own personal competitive edge?

Mr. MENDELOWITZ. That is an interesting question. I think that in the most fundamental sense the answer to your question requires the Government to think very carefully about what is it that is appropriate for the Government to do versus what is it that is appropriate for the private sector to do.

I think that there is a consensus with respect to a recognition that U.S. interest is served when competitive U.S. products that are not being exported now in fact start to be exported. Employment is higher, income is higher, national well-being is improved.

And to the extent to which competitive U.S. products are not being exported because of a whole host of reasons, the Government has, I think, a worthwhile function to undertake, and that is to promote those exports. The problem we have heard over and over again when we have talked to the business community is that for the most part U.S. companies generally lack a firm commitment to exporting, and that while the Government doesn't make exports, other—Public Law 480 or specific Government programs, only the private sector makes exports—the Government does have a role with respect to figuring out how to get the private sector to export more of their competitive products.

To the extent we think of the export problem as that, I don't think we will run afoul of the concern that you raised. But I think it is certainly a legitimate concern. But as long as we focus on the effort to get U.S. firms who are disinclined to export because it is harder, it is more complex, it requires a longer-term effort, products have to be modified, you have to learn about all sorts of things that you don't have to deal with if you only sell in the United States. Shipping is more complex, paperwork is more complex, customs, health regulations make it more difficult, distribution systems are more complex.

To the extent that we can help the private sector sort of be willing to overcome those added difficulties of exporting, I don't think we will run into your problem.

Mr. ALLARD. Thank you, Mr. Chairman. I have completed the line of questioning along this line here, and if we have time I will come back later with some additional questions.

Mr. PENNY. Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman. I want to pursue that last line of questioning, including, Mr. Chairman, your statement a moment ago. As we look forward to the 1995 farm bill, it is going to be absolutely critical that we identify markets. We have been clearly moving our agricultural policy in a market-oriented direction.

The first question I want to ask, in a general way, as of today, on a scale of 1 to 10, in which 10 would be a perfect, free world market in which producers in America could produce with the technology and produce for an efficient market and have a reasonable chance of competing, versus zero being the other way, where are we today, and where will we be after GATT is signed, in your opinion?

Mr. GOLDTHWAIT. The question is a very difficult one——

Mr. STENHOLM. Let me interrupt you here, because everyone begins to hesitate when we start quantifying, but the language just starts flowing around the dome over here when we start talking about farmers competing in a free market, getting the Government out of our business, let's get on with the market system. If you folks can't give me a range in your opinion of how free that market is, then we better go back to the drawing board and find somebody else that can, because if you can't tell me as a policymaker what

is the target within a 20 or 30 percent range of error, I have problems, don't I?

Mr. GOLDTHWAIT. I was going to give you a range. I was simply going to introduce it by noting, as you have referred to, that it is a range, not a particular point on the continuum of 1 to 10.

I would say that today's market is somewhat more free than restricted. I would say we are at sort of six or seven today. And I would say that the accomplishments we have reached are in MTN and our NAFTA is going to take us at least one digit higher, maybe two, somewhere in the area of seven or eight.

Again, there are going to remain some very serious obstacles to world trade. We are going to have to continue to address them. One of the uncertainties is going to be the smoothness of implementing the requirements of GATT and NAFTA, because we know that there are going to be some very difficult implementation issues, issues of interpretation of the agreements we have reached.

But I think that those agreements take us a step or more than a step in the correct direction. And I think that over the implementation period, we will begin to see some of the benefits in concrete ways in export commerce.

Mr. STENHOLM. Mr. Mendelowitz.

Mr. MENDELOWITZ. My personal guess is we are probably at a four or five now and maybe with the GATT agreement we are at a five or six. With that said, I have to say that while there are still a lot of barriers out there, an equal problem from the U.S. perspective is that the U.S. business community hasn't taken anywhere near full advantage of the level of openness that is there.

Mr. STENHOLM. I totally agree with that and for the record, my own estimate is four to five. I think we will be at five to six. That is where I personally would put it. That is the challenge we have in policymaking, when we start saying let's identify the markets, let's identify who the buyers are and let's put together a strategy and a policy. If we don't try for the markets we are not going to have them.

But if we do try and do not have the proper tools, we are not going to make it.

So it is going to be very critical for us to identify what our competition is doing. We have one idea that is circulating in another committee right now that is, I think, a giant step in the right direction, and that is self-help dairy program, in which we are trying to discuss how producers of milk can compete in that market system. And then identify the middlemen that will, in fact, make them rich to go for the market. But we have had a great reluctance around here to compete in those markets, and for very good reasons.

So often we get there and find our Government is not standing shoulder to shoulder with us when we get there and it is very frustrating. That is the challenge we have in the policy, to eliminate that frustration.

The idea that the chairman put forward about subsidizing domestic and not subsidizing export is not an original idea. I get the credit for the flex acres and the triple base and implementing it in the 1990 farm bill, but the idea came up a lot before I thought of it. It makes good sense.

As you have stated here in your written testimony, at least, we ought not to be producing for production's sake. And how often we still do that, that we just produce and think volume. Well, most producers that are surviving are learning that production is not the key. It is efficient production.

If you can't make a profit on what you are producing, why produce it? That is the bottom line.

So efficient production, utilization of technology, are going to be critical to us. How do we plug the hungry, who have no money, into a market-oriented production strategy? Look at what has happened in the United States today, as we have gone market-oriented, and I use the dairy policy for an example, surpluses that used to go to hungry people are no longer there, and now we are confronted with feeding people in a different way.

How do we plug in the hungry into an equation of a market-oriented agricultural policy, both foreign and domestic? Any ideas?

If not, don't embarrass me and you both publicly, but if you have some ideas, I would like to hear them.

Mr. GOLDTHWAIT. I am certainly not an expert on the domestic nutrition programs which attempt to do this.

Mr. STENHOLM. How about world?

Mr. GOLDTHWAIT. But on the world basis, I think you can say two or three things. I think you can look at the changing nature of the need for food aid, which we are looking at. What we are finding is that food aid needs around the world are significantly less predictable. They are increasingly due not to natural disasters, but to man-made circumstances caused by political events. We are trying very hard to develop some ideas.

I can't give you specifics today, but we are trying as we look at our food assistance programs to develop some ideas about how we can, in fact, make our food assistance more flexible. Are there ways in which we can have resources under our food aid programs that can perhaps be used for one kind of programming, in emergency programming, for example, if emergencies develop during a particular year, but in the event those emergencies do not take all of those resources, could that resource be used for food aid to support other kinds of food aid needs, perhaps in monetization for development.

I think that is kind of the direction our thinking is going, trying to look at our food aid resources and make them more flexible so we can respond to needs as they develop rather than try to predict those needs when we start our budget process 18 months before a fiscal year begins.

That is sort of the direction our thinking is going on the international side. That really doesn't address your concern about the market orientation, but maybe that is helpful in a small way.

Mr. MENDELOWITZ. What drives a market-oriented system is consumers who, one, have certain preferences, and two, have the resources to turn those preferences into purchases. When you are dealing with countries or people who don't have the resources to purchase, you are not dealing with a market phenomenon. And maybe one of the problems we face in some food aid programs, we try to serve too many interests with the food aid programs. And if we recognize in the beginning that we are dealing with people who

don't have the resources to purchase the food, we are outside of the market system, and the design of those programs should really focus around, I think, coming up with program design that most effectively serve the objective of feeding hungry people.

Mr. STENHOLM. Mr. Chairman, thank you for the indulgence of time. I have one other comment. It seems to me that we have to get more producer interest in exporting products. And the best way to do that is have producers in a position in which they can be a credible part of a market-oriented world. Therefore, programs that increase producer financing, programs that allow more direct producer involvement in financing that which producers have grown, would seem to be a giant step in the right direction as far as our overall policy thoughts are concerned.

Your heads are shaking yes. I will leave it at that. Thank you, Mr. Chairman.

Mr. PENNY. Thank you. With that we thank this panel for their participation in this morning's hearing. And we will call forward the second panel, which includes Ms. Carol Brookins, president, World Perspectives, Incorporated; Mr. Eugene Bovee, senior vice president, international banking division, National Bank for Cooperatives; and Ms. Stephanie Patrick, assistant vice president, Cargill.

Mr. ALLARD. Mr. Chairman.

Mr. PENNY. Mr. Allard.

Mr. ALLARD. While they are coming forward, I would like to ask unanimous consent to submit my statement in the record.

Mr. PENNY. Without objection.

[The prepared statement of Mr. Allard follows:]

STATEMENT OF THE HONORABLE WAYNE ALLARD
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER
REVIEW OF LONG-TERM TRADE STRATEGY AND EXPORT POLICIES
JUNE 23, 1994

THANK YOU MR. CHAIRMAN. I APPRECIATE YOUR SCHEDULING THIS HEARING TO REVIEW THE LONG-TERM TRADE STRATEGY AND EXPORT POLICIES OF THE DEPARTMENT OF AGRICULTURE. IN THIS AREA, MORE THAN ANY OTHER, IT IS ESSENTIAL THAT WE LOOK TO WHAT THE FUTURE WILL BRING FOR AGRICULTURE EXPORTS. EXPORTS ARE VITAL TO THE GROWTH OF AMERICAN AGRICULTURAL AND TO AMERICAN JOBS. IT IS ESSENTIAL FOR U.S. POLICIES TO PROMOTE WHAT OUR FARMERS DO BEST: PROVIDE FOOD AND FIBER THAT ARE PROCESSED, PACKAGED, SHIPPED AND MARKETED AT REASONABLE PRICES TO CONSUMERS AROUND THE WORLD.

AN INCREASED U.S. SHARE OF THE WORLD MARKET IN THE EXPORT OF FARM GOODS IS THE KEY TO PROSPERITY IN AGRICULTURE. BY USING OUR EXPORT PROGRAMS AGGRESSIVELY, WE WILL CREATE JOBS FOR AMERICAN WORKERS NOW WHILE INCREASING MARKETS FOR AMERICAN FARMERS WELL INTO THE FUTURE. ADDITIONALLY, TAX REVENUES AND THE NATIONAL GROSS DOMESTIC PRODUCT WILL BE INCREASED.

THE ECONOMIC VITALITY OF RURAL AMERICA IS LINKED TO INCREASED TRADE, IN AGRICULTURE AND OTHER PRODUCTS. THROUGH INCREASED TRADE WE CAN PROVIDE JOBS AND A BETTER FUTURE FOR THE AMERICAN PEOPLE. EVERY ADDITIONAL BILLION DOLLARS OF NEW EXPORTS MEANS 20,000 NEW JOBS. AGRICULTURAL EXPORTS ALONE PROVIDE ONE

BILLION JOBS ON THE FARM AND IN PRODUCTION, PROCESSING, PACKAGING AND SHIPPING THESE PRODUCTS AROUND THE WORLD.

FOR THESE REASONS AND OTHERS IT IS IMPORTANT TO LOOK AHEAD, TO PLAN, AND TO EVALUATE THE WORLD MARKET FOR AGRICULTURE. I LOOK FORWARD TO HEARING FROM OUR WITNESSES, THOSE FROM THE DEPARTMENT OF AGRICULTURE AND FROM THE PRIVATE SECTOR.

THANK YOU MR. CHAIRMAN.

Mr. PENNY. Again, welcome to the committee. Ms. Brookins, we will start with you.

STATEMENT OF CAROL L. BROOKINS, PRESIDENT, WORLD PERSPECTIVES, INC.

Ms. BROOKINS. Thank you, Mr. Chairman. I think we have the rose between two thorns. I would like to submit my testimony for the record.

Mr. PENNY. Without objection.

Ms. BROOKINS. My name is Carol Brookins. I have been deeply engaged in the issues affecting agricultural trade strategies and export policies since 1972.

Mr. Chairman, you were right on target as always in calling this hearing. Agricultural trade today is entering an entirely new world, a new era, as we move into a truly globalized marketplace, due to both politics and technologies. Agricultural markets, I believe, have a potential to expand substantially as we move toward the 21st century for several reasons. But we must: Identify the markets; identify the buyers; determine useful policies; and execute an effective strategy.

Different countries and different product markets will require different policies and different strategies. Not only is the context of our markets changing in terms of Government policies. State trading monopolies are tumbling like dominoes. Private trading, marketing, and distributing companies are replacing large State exporters. Their purchases will be smaller; market intelligence will be more difficult to obtain; and financing needs will be far different.

To be successful in this rapidly changing marketplace, the United States needs to build on our strengths and be willing to discard outmoded programs, operating structures, and policies.

First and foremost, we need to build our export mission in a way to market the asset of our tremendously powerful food system, and not view our potential in a limited or narrow product focus or strictly agricultural or farm focus. The U.S. food system is a high technology leader and winner for the United States in the global marketplace.

We need to shift and leverage existing resources to target our long-term mission objectives. We need to be flexible and able to respond to specific requirements in individual country markets. We need to use technological advances to enhance cooperation and streamline our market development promotion operations that involve both the public and private sectors.

What kind of policies and strategies do we need to respond effectively? I have several specific program suggestions to make in brief.

First, food system growth in developing country markets calls for greater coordination in our policies, not only those programs in the Department of Agriculture that move bulk and high value commodities.

Second, export credit guarantee programs must be made more flexible and commercially relevant to meet changing needs of buyers and markets. We should be developing programs for private buyers that have shorter term maturities. We should be considering supplier credit guarantees, as Chris Goldthwait discussed. We

should be considering a multiyear revolving fund allocation to marketers which would provide a more stable business environment.

Third, it is time to retarget the intermediate GSM–103 credit guarantee. GSM–103 should be refocused as a credit guarantee program directed to service economies in transition, be they states of the former Soviet Union or countries in Africa, Asia, or Latin America, making the very difficult conversion from state ownership to private markets, and determine in this case that creditworthiness for these countries be so determined if they are in compliance with G–7 and IMF restructuring programs and guidelines.

Fourth, our private-public cooperation. Our cooperator program needs to be revitalized and refocused in order to leverage our resources and maximize our penetration of markets throughout the world and emerging economies. We need to maximize our presence in those countries in particular, and with these newly privatized businesses in those countries who will be the leaders in expanding their food systems and in determining the food products that will be purchased, produced, processed, distributed, and consumed.

We then need to look further at building a team concept for cooperators which would include coservicing and resource pooling, creating central regional bases or staging areas for specialists and smaller in-country service teams.

Fifth, as export subsidies are first capped and then reduced under the Uruguay Round, the EEP operation should be restructured to enhance commercial flexibility in using permitted subsidy levels to maximize the permitted trade effect.

Sixth, the market promotion program needs to be maintained, but be restructured on a multiyear formula. MPP can be very important in particular as a market development tool in building a United States presence in countries under minimum access provisions required by the Uruguay Round agreement. Also, with many of these developing countries and countries that are privatizing in working with the private sector.

Seventh, we must link our foreign trade objectives with our own domestic farm programs and policies. I have long believed there should be a trade impact statement required on any piece of domestic policy legislation relating to agriculture. So often in the past, without meaningfully doing it, our farm programs have undercut, eroded or even seriously harmed our trade potential, and we cannot afford for that to continue in the future, especially with funding so limited.

And eighth, implementation of the Uruguay Round's terms that reduce subsidies open markets is crucial to a successful expansion of agricultural trade. The United States should undertake an aggressive proactive strategy over the next 12 to 24 months as the Uruguay Round is implemented and as we deal with bilateral problems that occur as a result of this. We should challenge under the GATT, and under the new rapid dispute settlement procedures of the GATT, any country that is not properly implementing its agricultural commitments or is attempting to circumvent the competitive trade objective.

In closing, Mr. Chairman, no country has a better potential than the United States to be a winner in the global agricultural trading system—if we commit to a long-term strategy and we direct our

unmatchable resources and our abilities to that mission. Thank you very much.

[The prepared statement of Ms. Brookins appears at the conclusion of the hearing.]

Mr. PENNY. Thank you. Next, Mr. Bovee.

STATEMENT OF EUGENE L. BOVEE, SENIOR VICE PRESIDENT AND SENIOR CREDIT AND ADMINISTRATIVE OFFICER, INTERNATIONAL BANKING GROUP, CO-BANK—NATIONAL BANK FOR COOPERATIVES

Mr. BOVEE. Mr. Chairman and members of the subcommittee, my name is Gene Bovee. I am senior vice president in CoBank's International Banking Group. CoBank is part of the Farm Credit System and provides financial services to farmer-owned cooperatives, rural utility systems, and facilitates the export of U.S. agricultural products. With $14 billion in assets and customers doing business throughout rural America, we are keenly interested in Federal policy issues that affect agriculture, agricultural exports and rural communities.

I am pleased and honored to have the opportunity to testify before you today on long-term trade strategy and export policies. We are all affected by the changes taking place in the new global economy. Our challenge is to find ways to help American agriculture and rural communities better compete therein.

We believe the U.S. Government needs to develop sound, economically viable strategies for maintaining and developing new export markets over the long term. Key components of this strategy must involve marketing and financing.

It is important that exporters, financial institutions, the USDA and other interested parties work together to develop the means to participate in this growing market. Agriculture is an obvious area in which the United States can compete globally and contribute to a healthy U.S. trade balance.

In addition, and perhaps more importantly, agricultural exports are critical to the health of our farming sector and rural America. We urge the administration and Congress not to underestimate the importance of expanded foreign markets for our farm products and to continue to support commercial programs such as GSM, Eximbank, and Public Law 480 and to work to make them more efficient. It is important that export finance and the promotion of U.S. exports not be seen as being contrary to present initiatives for free trade.

Such programs can support and facilitate free trade, particularly when done on commercial terms. We at CoBank believe the key to many U.S. agricultural products remaining competitive in world markets will continue to be the successful implementation of the export credit guarantee programs, GSM–102 and GSM–103. The purpose of these programs should be purely and simply to increase the amount of agricultural products exported from the United States.

GSM markets are changing dramatically, moving from public to private sector. It is therefore necessary to look at ways to which the CCC's export credit guarantee programs may be amended or complemented to assure significant exports in the future. These

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programs have been effective vehicles for moving U.S. agricultural commodities into the export market.

Some distorted and unwarranted criticism has been directed toward these programs. However, they have generally been effective and positive in furthering trade.

They facilitate commercial transactions on a competitive basis, are well understood and received by foreign banks and buyers, and can be handled with minimal expense and risk to the U.S. Government and the exporting and banking communities. There is, however, a growing concern about a shift in focus from an emphasis on promoting U.S. agricultural exports toward a greater emphasis on avoiding risk in the world marketplace and promoting private sector development in foreign countries.

Reduced usage of the programs available under the CCC's GSM program is an example.

More specific requirements have been imposed on the CCC relative to creditworthiness, and in recent years management seems to have been directed toward a conservative position with little inclination to make adjustments or modifications to improve the usage and the movement of commodities.

We believe a better balance can be achieved between market development, trade enhancement and foreign policy issues on the one hand and creditworthiness issues on the other hand. We would encourage the development of a partnership between commercial lenders, exporters and the USDA in establishing creditworthiness guidelines for prospective buyers in importing countries, given consideration for utilizing expertise in lenders in this area. There is an effort underway within the CCC to evaluate existing programs and the need for new programs and approaches to support agricultural export transactions.

They should be encouraged and supported whenever possible to provide more flexibility and better linkage of guarantee programs to commercial transactions. A reevaluation of the real potential for ultimate loss in public sector versus private sector programs seems to be needed, along with the reaffirmation of the purpose and objective of the GSM and other CCC programs, which should primarily be conducted to support U.S. exports and maintain and expand export markets.

Mr. Chairman, I would be remiss if I did not take this opportunity to thank you for your support of H.R. 4379, the Farm Credit System Agricultural Export and Risk Management Act. That legislation, which has been endorsed by a broad array of agricultural groups, will assure access to financing of exports and international business operations for U.S. agricultural interests at a time when global markets are the key to the success of the rural economy.

Mr. Chairman, I appreciate the opportunity to appear here today, and would be pleased to try to respond to any questions.

[The prepared statement of Mr. Bovee appears at the conclusion of the hearing.]

Mr. PENNY. Thank you for your testimony. Next, Ms. Patrick.

STATEMENT OF ROBBIN JOHNSON, CARGILL, INC., PRESENTED BY M. STEPHANIE PATRICK, ASSISTANT VICE PRESIDENT

Ms. PATRICK. My name is Stephanie Patrick. I am appearing on behalf of Robbin Johnson. I am an assistant vice president of Cargill, Inc. I have with me a detailed written statement and I ask it be made part of the record.

Mr. PENNY. Without objection.

Ms. PATRICK. There are a number of powerful forces shaping the global marketplace between now and the end of the century. The conclusion and the implementation of the GATT, no doubt, is one of the most significant. Trade liberalization has been proven to propel economic growth, and that alone is significant for agricultural producers. When liberalization is coupled with the Uruguay Round's market access and subsidy disciplines, American agriculture is handed an opportunity to compete on terms that are not perfect, but far better than in recent history.

The written statement considers the past 25 years of agricultural trade. The 1970's were boom years. The 1980's were the bust. The situation started to improve in the latter part of the 1980's with policies focusing on assistance to farmers and initiatives to make products more competitive.

The first four years of the 1990's seem to be following that same path. Most American farm goods, once again, are trading competitively in world markets, but many in striking new forms. Bulk grains and oilseeds no longer account for the majority of export returns. Higher value products have moved to the top of the list. This is a noteworthy trend. U.S. sales of high value animal products have more than tripled in the past 10 years, allowing the United States to pick up larger shares in a growing marketplace.

The trend in bulk exports is also noteworthy for the contrast it shows with high value sales. There, too, the world market has grown at a healthy pace, but without the participation of the United States. In no category has the United States picked up market share in recent years.

Some of the reasons for the poor performance have been well beyond the control of policymakers or exporters or producers. There have been weather shocks, there was the collapse of demand from Eastern Europe and the former Soviet Union, and there have been trade rules that were too weak to discipline unfair competition. But some of the problem has been policy driven: Excessive reliance on acreage controls, misguided export policies, and inattention to effective market development.

Looking ahead, we see the next 5 years giving more significant change than we have had recently, and it reflects a number of fundamental shifts. I am going to focus on four today. They are structural, macroeconomic, environmental, and technological.

Structural. The structural changes are many, and they are quite complex. Each deserves substantial analysis to capture all of its nuances, but here are several, and what might be their implications. Subsidized exports of competitors will decline both in volume and as a share of global grains and oilseeds trade, falling to less than 5 percent of the global marketplace by the year 2000. This de-

cline is explicit in the Uruguay Round text and is often read to mean that the GATT agreement legalizes export subsidies.

That is a relatively narrow reading of a very large agreement. The Uruguay Round is also explicit in granting to those who signed it the right to seek redress from unfair trade practices. Today, roughly 40 nations have implemented the countervailing duty and antidumping laws. Those laws give individuals the right to file cases against their governments. That list was considerably shorter in 1985 when many of our export programs were designed, but the list is growing.

Domestic producers in any nation do not want, nor do they have to accept, unfair competition. The Uruguay Round recognizes that right, and it may lead to a more rapid decline in export subsidies than envisioned in the Dunkel text.

It may also reign in less visible but unfair practices to which the United States has objected. We have also seen a more privatized global economy developing. Private importers buy differently than monolithic buying boards. Their focus often includes quality and other terms of sale, as well as price.

Asia and Latin America are the high growth areas. They are the likely sources of new demand for American products.

As trade barriers are capped and progressively reduced, future expansion in production and trade increasingly is going to reflect cost and comparative advantage. This should be particularly positive for resource-rich, technologically productive U.S. agriculture.

These structural changes suggest that global grains, oilseeds, and livestock trade should expand, especially to the West and South. The United States is uniquely positioned to capture the lion's share of this new trade. That is not true for any of our competitors.

Macroeconomic considerations. A foundation for growth in exports is solidifying.

Environmental considerations. The choices between demand approaches which put agriculture in a straitjacket, or more flexible market-oriented approaches. We believe producers have a better opportunity to enhance competitiveness.

The market also is being shaped or, excuse me, reshaped by computers, software, and communication features. The result can be increased efficiency, lower cost, better product, less resource stress. The technological leadership of U.S. producers and agribusiness should give us a competitive edge.

American agriculture will need policy shifts to respond to the changing marketplace. As an exporter and major investor in rural America, with employees and customers throughout the Nation, we believe the policy should focus on three major objectives: Economic opportunity, environmental responsibility, and technology leadership.

In the area of economic opportunity, we think that full-time commercial farmers need tools to cope with the business risks they face, without distorting their production or marketing practices. Another idea is to build opportunities for those who live on farms or in rural areas whose incomes predominantly come from off-farm sources. In the area of environmental responsibility, there should

be an effort to maximize productive use of inputs and minimize losses to the environment.

Policies should encourage responsible use of land by realigning incentives to reward producers for environmentally sound yet productive practices.

In the area of technology leadership, we believe this is a vastly important area and it should be stressed in future policy.

A public role is needed to finance basic research to enhance agricultural, productivity, to improve profitability, to make needed products available to more people, and to find new uses for basic materials.

An explicit export policy fits within that matrix I just described. Technological leadership, for example, is part of an export policy, because it will expand export opportunities by lowering cost, expanding markets, and opening new uses. Environmental responsibility in a global context supports exports because it means using American resources and knowledge to feed people without overtaxing fragile lands. And economic opportunity initiatives support exports by fostering a healthy, diversified economy.

Focusing on those three areas will feed market growth more adequately, if it is reinforced by explicit export policy initiatives as well. Supply insurance, market access, market development are areas that need attention. Sales development is another.

A different package of export assistance programs might be developed to help foreign markets mature and to reach their import potential more quickly. Thus, they would translate more reliably into real export growth that can be sustained. We suggest three.

For the poorest countries, funds might be earmarked for merchant marine operating expenses or food aid might be exempted from market preference.

Second, promising markets trying to make the transition from aid to commercial status might be offered direct export credit through a multiyear revolving fund. And a third would be to create an investment revolving fund to loan money to private U.S. entities willing to make investments in developing countries to increase consumption of importable products.

Capitalizing on growth potential in a proactive, market building effort can position U.S. agriculture to build and serve the markets it is uniquely positioned to serve—that is for the full range of bulk and higher value products that people want to buy and that American agriculture can deliver competitively.

Thank you.

[The prepared statement of Mr. Johnson appears at the conclusion of the hearing.]

Mr. ALLARD [assuming chair]. Thank you very much for your comments. We are between votes on the House floor, and that is why some members of the subcommittee are not here, and that is why I am the only one here, because I left earlier to go vote. There will be other members joining us, so please don't be offended by anybody's absence. We will all be back to ask you questions.

I would like to pose a general question to the panel. Actually, three general questions. First of all, I would like to have you list for me those programs that you have used the most in expanding

exports, not just exporting, but expanding exports and trade as far as agricultural products are concerned.

Mr. Bovee, would you like to start?

Mr. BOVEE. I guess in the case of CoBank we have been very active for the past 12 years in financing exports, primarily under the GSM–102 program, although we have done a considerable amount of GSM–103 as well as Public Law 480 during that period. And those programs have, we believe, been very necessary to the expansion of exports in the market during that period of time.

Mr. ALLARD. So if you had to rank those you would go, first, GSM–102, then GSM–103, and then the Public Law 480?

Mr. BOVEE. That is correct.

Mr. ALLARD. Thank you. Ms. Brookins.

Ms. BROOKINS. I think what Mr. Bovee has said is absolutely correct, in the sense that without credits, and credits are going to be the new battleground or they are already the battleground of competition, that without export credits many countries in the world would not be able to finance the products at a reasonable rate in commercial markets. This helps them to purchase commercially. It helps them to maximize their own financial capabilities to buy products.

Mr. ALLARD. So you would rate them the same as Mr. Bovee?

Ms. BROOKINS. And I also think the whole bundle of foreign market development policies and the information provided by the Foreign Agricultural Service is critically important in defining market opportunities to the general public, whereas large corporations have their own ability to track and seek intelligence on market opportunities.

I think the role of the Foreign Agricultural Service and the role of our agricultural attachés and counselors around the world has been extremely important to permit everyone in agriculture to have access to real intelligence of what is happening in the marketplace and be responsive to both development involving production and developments involving demand.

Mr. ALLARD. Where would you place them, fourth?

Ms. BROOKINS. I would place them probably No. 1 in terms of providing a general basis for people in agribusiness and agriculture in this country to have equal share, access to information.

Mr. ALLARD. So you think that would be more important than GSM——

Ms. BROOKINS. GSM is where you go to finance the exports, but you have to know what is out there.

Mr. ALLARD. Then you think GSM–103 would be third?

Ms. BROOKINS. Yes. GSM–103, Congressman, I think we have never used in the way that I think some people like myself have proposed it, have hoped it would be used. When it was originally proposed, it was supposed to be the link or the bridge between Public Law 480 and GSM–102. It was conceived of in the early 1980's, at the time of the major debt crisis in Mexico and Latin America, and throughout much of Asia, including Indonesia, and it was viewed at that time as being a program for countries that were going through restructurings. To lend money on a 3-year basis didn't really make sense because they were on a multiyear rescheduling and restructuring, and yet they didn't need aid.

So it was viewed as a bridge to help move them through this period, and we have never used it in that way. And that is why I am proposing that we up-date it to work with economies in transition. So GSM–103 has only been grudgingly, I believe, used by the Department.

Mr. ALLARD. Would you even move GSM–103 below Public Law 480 then in priorities?

Ms. BROOKINS. I think it is a bigger priority, but it needs to be refocused to make sure it does become a priority. What I would do is take the $5 billion minimum in GSM–102 and the $500 million minimum funding in GSM–103 and bundle those together and have the flexibility to move the money within those, from 6-month or 3-month, to up to a 10-year context.

Mr. ALLARD. I see. Ms. Patrick, how about——

Ms. PATRICK. I don't think there is any doubt that we would agree that GSM–102 is the premier program, as far as American agricultural exports are concerned. Financing is absolutely critical. I am going to answer a little differently than my two colleagues here on the panel. I am going to suggest that Public Law 480 is a terribly important program, in a strategic sense.

When the program was first envisioned, it provided food aid to a number of countries, and those countries moved up the ladder from aid categories into a transitional category. From there, they became commercial buyers. We continue to need a ladder of assistance, an assistance that provides aid to the poor, that also addresses humanitarian needs, but does move countries up the ladder toward commercial abilities. We suggest revolving funds in that.

These can provide an ability for the borrower to decide on the terms in which he repays. He may be able to turn over that money much more rapidly than a 1- or 3-year category is concerned. But there are a lot of ideas that can create the kind of stair-step approach to developed markets. I don't want to give short attention to market development. It is terribly important.

Mr. ALLARD. You have all kind of listed to me pretty much your priorities. Let me complete your priority list, Ms. Patrick. So you've got GSM–102, then you like Public Law 480, GSM–103, move that down to the last. Where do you think the information systems, if we get through the FAS system, where does that fall? Would you put that last or would you put GSM–103 last in your priorities?

Ms. PATRICK. I think they fit together. When you say priorities, I worry that maybe we are talking about where the bulk of the money goes versus another.

Mr. ALLARD. Well, the reason I am asking this question is not from an appropriator standpoint, but from a standpoint of which programs are doing you the best good, the most good.

Ms. PATRICK. GSM is of critical importance. Programs that move countries up the ladder from aid to commercial abilities are very important as well.

Mr. ALLARD. I have asked you the question on those that you use the most. Are there programs out there that you don't use at all, that we have in place that you are aware are there, but you don't use them because maybe the paperwork associated with the program never is going to match the benefit?

Do we have any of those programs out there? Ms. Brookins, maybe you want to start off, the programs that you are not using at all.

Ms. BROOKINS. We work closely with the Department and have to many times reprocess or repackage the information that comes out. I just recently chaired a meeting in Asia, in Singapore, of 21 countries, the Food and Agriculture Industry Forum for the Pacific Rim. And lo and behold, this is an example, I discovered that there is a lot of information from, let's say, ERS coming out on countries and on specific market or commodity developments and everything, in countries that are on a data base that none of the commercial or business people in the whole room from the United States even knew existed.

Mr. ALLARD. I see.

Ms. BROOKINS. That is one good example of information that may be very good, but is not readily available or is not in the form that people could use. So I think what we need to be looking at is this volume of information that is produced by ERS, by FAS, by people out in the field, much of it extremely high quality, and see how we can better coordinate that information and work with the commercial sector and say what do you need? Do you need this or do you need that?

And as I said, we have to be very careful because we can't shortchange smaller companies. We can't shortchange farmers in terms of their access to this. Larger companies have their own battalions of lawyers to deal with customs regulations, they have their own battalion of analysts to find out what is going on in offices around the world. So we have to be sure if we are changing the way we put together our information, that we make it available so that smaller farmers and smaller exporters can have access.

Mr. ALLARD. I would assume that if you weren't aware of this, there is probably a lot of economic development agencies within States that are trying to get into the international trade that probably aren't aware of this information either.

Ms. BROOKINS. I would imagine you are absolutely right, sir, yes.

Mr. ALLARD. Mr. Bovee.

Mr. BOVEE. I don't really have any comment to make on that. I guess the one issue that I would continue to address are issues that come out of the GSM–102 program, areas in which we are having discussions, and as Mr. Goldthwait mentioned, yesterday we had a meeting of banks involved, both foreign banks, U.S. banks, as well as exporters, to discuss a number of areas in which we can work to hopefully make those programs more flexible, more user friendly, and try to get the trend that we have seen in the last couple of years, i.e., a decline in utilization of those programs for exports, pick up again.

Mr. ALLARD. Can you share those areas with this subcommittee that you talked about that they need to be improved upon so that you can better utilize them?

Mr. BOVEE. Some of the things that Chris already mentioned previously, looking at different programs, shorter terms that may or may not be accommodated by the current regulations. I believe a number of the issues that we discussed yesterday as to how to utilize the programs can be accomplished with the current regula-

tions. Some of the other programs that they are looking at, like supplier credit without a bank, would have to be developed.

But there is a demand for credit in different areas and the program doesn't always fit with the requirements of what the demand for credit is. And so I think this process has started and has been going on. We had a formal meeting to exchange ideas, to get started. The GSM threw out some of their thinking, asked us to respond to that, and as a group we plan to do that.

Mr. ALLARD. Ms. Patrick.

Ms. PATRICK. I would have to agree with one of the comments that Carol made, and that was that large companies have resources that are available to them. We can do analysis. We can do any number of activities to develop markets, but smaller exporters don't have the same resources that we have. And farmers don't necessarily have access to the same kinds of commercial services that we do. Therefore, what FAS does is very important.

There are a few vestiges of old policies, though, that are left on the books that I might throw out that aren't necessary anymore. Do we make use of them? Yes, they are available. Do we need them? Probably not. For example, we continue to report large export sales to the Department of Agriculture on a timely basis. Those kinds of regulations went into place back in the boom years of the 1970's, the latter part of the 1970's.

Do we have large sales that are occurring in the same way, are they booming and busting the market the way they used to? No, they are not. Is it necessary to keep it in place? Probably not. So there are information requirements, there are regulatory requirements, that were created in a completely different environment that probably aren't particularly well suited to the 1990's.

Mr. ALLARD. Thank you very much. And I appreciate your forthright answer on that, because we can't help make this a better process unless you are straightforward and let us know what needs to be done to correct these.

I think you all make some very good points in your comments. So I think you began to lay out some things that this subcommittee can think about in trying to make these programs more responsive to your needs.

Let me go ahead and recognize Mr. Stenholm.

Mr. STENHOLM. Same question to the three of you, to get a baseline of where we are. On a scale of 1 to 10, how free is the world market today, and how much will it be freer after GATT and NAFTA are implemented?

Ms. Brookins.

Ms. BROOKINS. I am going to answer it a little differently than just looking at the Uruguay Round, Congressman. I think what we have to be looking at, the freedom of the world market, in a macro sense, in the fact that countries around the world who have been living under, individuals who have been living under state trading, under communism, under state monopoly structures which totally impeded the growth of those markets, and kept those countries really out of the global trading system, that this is probably a development that is going to swamp the effect over time of the Uruguay Round and efforts we took in the Uruguay Round.

And I think the combination of the two at this moment in history, which I am sure trade negotiators didn't think about in 1986, is probably going to be one of the biggest benefits of the Uruguay Round. Because as you begin to develop a viable private sector in countries and you begin to use resources effectively and efficiently, and capital efficiently, you are going to start to see economic growth pulling demand for products and pulling greater opportunity to trade our product. And we certainly know that agriculture is one of the primary beneficiaries as countries move up the economic scale.

So I think once we get through these hardships of countries in transition, be they in the former Soviet Union, in North Africa—Algeria is starting to adopt a market system—Sub-Saharan Africa, parts of Latin America, Asia, this is where it is happening—China, Vietnam—that we are going to see a big draw. So I would say we are probably at—I would agree with you that we are probably at a four today, four to five, but depending how rapidly, there are two factors that are going to determine how much the Uruguay Round is effective.

I think we could jump up to a seven if we can get real economic growth going in countries around the world and sustain these policies, and at the same time enforce with a whip the real implementing provisions of the Uruguay Round in agriculture and make sure that we set a precedent that the Uruguay Round is to liberalize markets, that we go after countries one after another that don't follow the spirit as well as the letter of the agreement.

So I think we could jump up to a seven by the end of this century if we can get both those things happening.

Mr. STENHOLM. Mr. Bovee.

Mr. BOVEE. I believe we are probably at somewhere around a four, in that area. Difficult to quantify. But one of the challenges, I believe, that we have and that we are seeing is not only in selling commodities but how we market them, how we finance them, the demand for credit. There are a number of viable markets that are just coming out of severe problems such as Russia where they do not have a viable infrastructure to take advantage and really be able to buy on a credit basis as we envision that.

So I think there is a challenge and somehow the exporting community needs to help develop that, however they may, to help us long term in the financing and further sale of exports and agricultural commodities into those types of markets.

Ms. PATRICK. I don't think there is any doubt that if you look across different sectors of the economy and where we are as far as free trade is concerned, agriculture is lagging in a lot of areas. So the number that I would assign at the present time would be somewhere below five. Four would probably be as good as any.

It is absolutely critical how we go about the implementation of the Uruguay Round. There may be a new avenue of trade barriers that are imposed. We want to make certain that whatever kinds of programs that we structure, that we don't make ourselves victims of what, in fact, are legitimate barriers.

There is also the question of whether the European Community lives up to its part of the bargain in the Andre Edison agreement. So the U.S. negotiators have a job to do as well. Trade policy is

very important. We can bump up, though, by the end of the century and be in a far better position than we are now.

Mr. STENHOLM. Carol, I would agree with your bringing in these other questionable countries, for example, where the former Soviet Union is going, obviously what happens in China. The North Korean conflict, there are a lot of things that can change this overnight. But for long-term planning purposes, you have to look at that as an opportunity.

And my final question to you is this: I long believed that the critical point, part of our 1995 farm bill, is going to be making certain that we give our producers, and not just agricultural producers, but for this committee, primarily agricultural producers and those that produce agricultural goods and services, the technological tools to compete in this world marketplace as it is. Not as we wished it were.

So often the rhetoric here is how we wish it would be when we talk about free market. But many things come to mind right now of the kind of tools that we should be thinking about putting in the farm bill that will give our producers of agricultural commodities. Also, Carol, as you say on page 5, we can sell not only agricultural products, we can finance the transfer of U.S. food processing technology.

I think all of this is critical to the long-term development of a world market in which American producers can look forward to participating in, in a profitable way. What are some of the tools that we need to be thinking about giving our producers to make certain whatever the Europeans do, we are able to do with them, to do that which is in the best interest of our producers. We need to give us that level playing field that we all talk about, some policies, anything?

Ms. PATRICK. We would like to see far greater emphasis put on the technology side, on research in the kinds of areas that increase profitability to producers, that expand new uses for products, that make products available to a wider range of people. These are very important and they are important in an export sense, because they instill the kinds of faith that producers need to go on. And it does level the playing field. It creates opportunity and it is very important.

Mr. STENHOLM. Before the others answer, there has been one project that I have taken on in the Department of Operation and Nutrition Subcommittee in visiting with the hunger community, both domestic and foreign, is making this observation, that if you are hungry, you could care less whether your food supply is 98 percent safe or 98.2. You are interested in volume, and you could care less how it gets there.

Markets do not matter to a person who is hungry and has no money, regardless of the circumstances of how they get there. And it has seemed to me that we need to be more careful, particularly if you come from the hunger and nutrition community, need to be more careful how we attack technology in the United States. Because where we can produce food at higher prices for a limited number of people by eliminating technology, we cannot feed the hungry in America or certainly in the world if we eliminate technology.

So I believe we are both on the same wavelength in saying be careful regarding our rules surrounding technology, not only as they apply to us but as some would have them apply to the entire world, of seeing that the world does not have access to the technology that has made us the greatest food country of the world.

Ms. PATRICK. Technology also has a great bearing on how you end up measuring up environmentally. If you solely look at U.S. agriculture as U.S. agriculture and you forget it is in a global context, you may in fact be straining at gnats here and swallowing camels elsewhere.

The United States has the capability of using technology to produce abundant quantities at far less degradation to the environmental base than primitive agriculture can. And very often that gets lost in the discussion.

Mr. STENHOLM. We are really going to have to work on that one. Any other suggestions of policy tools that this committee should be looking at as we prepare the debate?

Ms. BROOKINS. I agree with Stephanie totally. I think we do have the lead in technology and we do certainly have a lead, we have a higher productivity lead in our food processing industry over Germany and Japan, for example, than any other manufacturing industry comparatively in the countries. And it is something we haven't thought about, we haven't viewed our talents and our strengths in terms of our food system.

I think that we do need to change the way we operate our credit programs; commercial credits are going to be negotiated over the next few years, with a new consensus in the OECD, which is part of the Uruguay Round and people haven't really focused on that. But we have to be going to those negotiations with a very strong export credit package that we have adopted. Because otherwise we will be swamped by what other people might be doing in these negotiations and within the OECD for credit consensus there.

I think, also, that we need to focus tremendously on leveraging our private and public sector resources. The chairman had a meeting a few weeks ago in Minneapolis, and was looking at the globalization of business and the globalization of the economy and what it meant. And I was privileged to address the meeting.

And at that time, Senator Bradley was speaking about the fact that the GATT or the Uruguay Round was going to produce 200 billion dollars' worth of economic activity, GDP, a year than would otherwise be the case. And I thought about that, and I realized it is not the Uruguay Round that is going to produce it. It is hard working men and women out there producing goods and services and trying to get around Government policy to trade or trying to find ways to use Government policy to trade.

And I think in this respect, we have to really truly work in private-public cooperation more. And this has to do with research and technology. In a way, it is good that budgets are being cut in the Federal Government because it is going to force some technological institutions and universities to become more commercially relevant in terms of the technologies that they are studying and working on.

I think it certainly is going to affect the way we structure our cooperator program, and I very much believe we need to have a cooperator program, a much bigger cooperator team and pool, to work

in a general way and a very specific way in specific markets, to be able to provide the intelligence, the trade servicing, and the market promotion. And those are just a few suggestions that I have.

Mr. STENHOLM. Go ahead.

Mr. BOVEE. I don't have any comments on this.

Mr. STENHOLM. I could not agree more. One of the first areas, one of the first lobbying efforts that was put on me when I got here in 1979 came from our international market consultants, pointing out how weak our Government private cooperation policies and programs were. And you know it ain't got much better in 15 years. That is sad. And part of it is philosophical. That is why I am asking the question of where we are in free trade. Because those who believe in free trade believe in market oriented trade, believe in less government, have to be willing to vote for some government that works in a positive way.

If our producers are going to compete with other governments, our Government has to stand shoulder to shoulder. And yet philosophically, this committee gets divided now about what role Government shall play. And if we get into that same argument in policy, we are going to guarantee that we will not be a player because our producers won't have the tools because somebody's philosophy is going to say Government is bad. And that is a danger that I hope we can overcome.

Mr. PENNY. Thank you, Mr. Stenholm.

I want to pursue a few questions with this panel before we call forward the final witnesses for this morning. Mr. Bovee, the bank cooperatives are involved in about 50 percent of all the guaranteed credit sales presently?

Mr. BOVEE. Yes, sir.

Mr. PENNY [resuming chair]. I would like to discuss the use of the credit programs for value-added exports and whether, as a financial institution, you have an interest or a role to play in steering that program more in the direction of value-added exports.

Mr. BOVEE. Well, our customer base depends on—or the value added that our customers are involved in are kind of in the semi-processed, not real consumer-oriented products. And we believe that there is probably a potential for those types of commodities under the programs. They are not used currently to a great extent because of the content that I believe Chris previously talked about, the foreign content, the more value added you get, the more we run into a problem with foreign content.

Mr. PENNY. There are restrictions on your ability to offer support for value-added exports, given the customers you work with?

Mr. BOVEE. It is difficult for us because of the unique legislation that we have that restricts us to financing commodities that are originated by our owners. And as you get into value added, you get different types of commodities coming from a wider variety of sources. It is very difficult for us.

Mr. PENNY. So by and large, the value added, if we use GSM credits to a greater extent to facilitate the sale of value-added items into the world market, we are not going to be working with Cobank to get that done.

Mr. BOVEE. Not at the present.

Mr. PENNY. By and large?

Mr. BOVEE. By and large.

Mr. PENNY. Is there any indication that your member groups or member entities are going to be doing more processing in the near term?

Mr. BOVEE. With certain commodities, meat products, but in other types of shelf items which we believe that there is a demand and a market for, we would probably be restricted from that market.

Mr. PENNY. Carol, we discussed with the previous panel the need for some bilateral agreements to deal with phytosanitary problems, other sort of narrow trade impediments that aren't necessarily addressed in the General Agreement on Tariffs and Trade. Where do you see the greatest need for us to focus those bilateral trade efforts?

Ms. BROOKINS. I think that we are going to have to focus them in several areas. One, the sanitary and phytosanitary implementation under the Uruguay Round in terms of sound science, I think we are going to have to be willing to bring trade cases if we need to, if countries—for example, if the Europeans try to keep out our dairy products where we have just negotiated access, because of bST. If we cannot resolve the hormone issue in terms of meats into Europe, we are going to have to do that.

And I think for countries, having negotiated more open trade and are being forced to bring down those trade barriers, the phytosanitary area is going to be a very key area. We are going to have to establish a whole body of precedent in international law.

Two, I think we have a big problem on our hands in an unaddressed subject, which is causing a hullabaloo right now across the border. And that has to do with state trading and state trading monopolies. There was an attempt in the Uruguay Round to try to create some control over the way state trading monopolies operate.

If somebody wants to have a state trading monopoly or a Government board or whatever, they should be able to have it. But it was really trying to put some constraints on the way they operate. And I think that is at the heart of our current problem with Canada.

I think we are going to have to negotiate in this area in the future, because as we start bringing down our export subsidies in a transparent way with the United States and European Union, countries that operate state trading with pooling practices or state import monopolies where they buy our product at world market prices and then sell it in the domestic market at 10 times world market prices which limits demand growth, I think we are going to have to really tackle that issue in the area of competition policy.

I think we are going to have to be particularly mindful in Asia. And certainly a third area would be as the European Union gets bigger—there are going to be four countries added to it at the end of this year and they are also working on negotiating—they have already negotiated—kind of—preferential agreements with many countries in Eastern Europe; they are talking about FTA's with Eastern Europe and North Africa—we are going to have to make very sure that they have to pay due compensation in any areas that they are keeping us out.

Mr. PENNY. You also spoke in your testimony about the need to conform U.S. farm policy with our export objectives. Do you want to outline your farm bill for me?

Ms. BROOKINS. Oh, my farm bill. I don't think you are ready for my farm bill, Mr. Chairman. I really do believe we need to get away from per unit price supports as the way to support farming in this country. It was a quick fix in 1933 to transfer income to farmers in a way that ag economists could easily do, because they could go out and hand out a check per unit.

I think it is time to really look at a more creative approach which would be an insurance-type of program in which we would be insuring gross receipts—especially as we go to flex acres and you begin to have program crop producers then being able to make money off of nonprogram crops while they are still getting the other. Then you are going to be pushing the balloon out in that area where the nonprogram crop producer is saying, just a minute, my market was a good market and now, all of a sudden, I have these people growing my crops and therefore I need support.

So I think we really have to look at it as a whole farm and whole farmer approach. And I would suggest we seriously look at, at least have a commission set up or a pilot program set up to look at a more comprehensive insurance approach to gross receipts for farm product sales. That is my view.

Importantly, too, I think we can't look at the ideas we have in the past that if we cut production in this country, that we are going to raise prices, because we are part of this globalized market. And certainly we have learned our hard lessons of that.

So I think we have to be very careful in terms of our year-to-year targeting of cutting acreage because prices have gone down or crops have gone up. And I think we have to get away from this year-to-year mentality of trying to target production in a fixed way. It didn't work in Russia and it is not working very well here either.

Mr. PENNY. I suggested earlier today that while it may create the problem that you alluded to, and that is demands by other commodity groups, that they be afforded some protection if flex acres are used to grow alternate crops, but my question of the earlier panel was what about the notion of increasing the flex acres to correspond to that share of our total production in corn or wheat that goes into the export market?

That is a halfway step, it is not sort of an income-based or a total farm-based approach as you suggested, but it does more directly link our domestic subsidy policy to the world market.

Is there any potential for that?

Ms. BROOKINS. I think it could be a useful interim step if it is applied in a way that makes sense in terms of the market. I like the idea and I think that you could link into that and begin to phase in an insurance-type program which would provide some type of risk management—allow the producer to take out some insurance not on income but on his gross receipts from his farm product sales.

And I think the key that we have to be looking at as we move forward, 1995 moving toward the year 2000, we need to be recognizing there are going to be budget cuts and there needs—yet we

need to have a real safety net for a dynamic, growing agricultural sector. And so the way we do it is very important.

And if we can do it on the basis of real sharing of risk and sharing of the cost of risk management, which could be through insurance or something like that, we can make that transition. So I don't see your concept at all in conflict with what I am thinking of, which would be a transitional program.

Maybe on those 30 or 40 percent of your acres you could begin to provide some level of insurance that farmers could have in case there was a sharp increase in production of a nonprogram crop or whatever. Then it would be up to the farmer to determine how much he wanted to pay to manage his risk or her risk.

Mr. PENNY. Ms. Patrick, any thoughts you might share about the coordination of domestic crop programs with international trade prerogatives or objectives?

Ms. PATRICK. I think that as we look at export policy, we have to look at the very beginning of the system, and that is on farms or farms here in the United States. It is directly a part of our export policy. Producers need access to the technologies that let them export with confidence, to take the risks that are necessary. They need access to programs that keep them competitive in world markets. So we see it as more or less a seamless approach.

One thing, that if you look at some of the structural changes that are occurring in the marketplace today, you find that producers are ever closer to the end user. The technologies are making it, the information is guiding it, producers should be in a position that they can respond to what that end user really needs.

We talked about market orientation, but we need a much more seamless system in this regard. We don't need programs that get in the way of producers being able to serve the guy who actually is going to use his product.

Mr. PENNY. I also am curious about the degree to which Cargill's exports are benefited by GSM credits, what share of your exports are facilitated by credit sales and what portion are not. Do you have numbers on——

Ms. PATRICK. I have no idea. I can find out for you. I will provide it for the record.

[The material follows:]

CARGILL

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M. Stephanie Patrick
Assistant Vice President

September 9, 1994

Jane Shey
House Committee on Agriculture,
Subcommittee on Foreign Agriculture
and Hunger
1336 Longworth House Office Building
Washington, D.C. 20515

Dear Jane,

Thank you for the extra time you allowed me in trying to respond to Mr. Penny's questions at the June 23 hearing. I have tried to answer both questions in a meaningful way but stay within the bounds of our public disclosures.

I suspect that USDA has actual numbers that they could call up on Cargill's GSM registrations, perhaps even broken down by commodities. To date, we cannot do that in house. However, our merchants believe our profile in the program aligns with the aggregates. In trying to impute what that might be, I must tell you that I was surprised to learn just how much U.S. business is conducted each year under GSM. I had expected a far larger percentage of total U.S. agricultural exports were financed under the programs. In fact, some years it is as low as 5 percent.

As for volumes of export business, the United States still remains the dominant supplier of bulk products in world markets. While volumes of higher value products are substantially less, the growth trends for higher value products make them a force that business people and policymakers must consider. Cargill is positioned to sell both bulk and higher value products. In some areas, there may be trade-offs between sales of the two. However, their fates are closely related. Both bulk and higher value products share a common interest in policies that promote efficiencies and competitiveness that will let U.S. products trade in world markets.

I hope that we have responded in a manner that addresses Mr. Penny's questions. If we have failed, I'll refer you to the enclosure. Everything you wanted to know about Cargill is right here. We don't do annual reports, but roughly 100 years of company history are covered here in great detail.

Best wishes,

Steph

Stephanie Patrick
Assistant Vice President

CARGILL IN GSM

It is difficult to be precise in answering this question since we do not account for sales by financing source. However, it is likely that Cargill has exported more U.S. commodities in both value and volume among exporters participating in GSM programs. This reflects the company's many years of trading, its diverse product lines and its extensive long-term efforts to develop and sustain markets for U.S. agricultural products.

Programming decisions by the U.S. Department of Agriculture determine which products are exported with credit assistance and to which markets. Cargill's sales thus are only of the commodities selected by USDA, only to USDA-approved destinations and within the dollars made available for such transactions.

USDA numbers show that a relatively small portion of total U.S. agricultural exports are financed with GSM credit assistance. In recent years, less than 20 percent of U.S. total annual agricultural sales value of was sold with GSM credit financing. Our own sales are of roughly the same proportion.

However, it is important to consider these numbers in the context of market development. GSM-financing facilitates sales to developing markets that may prove to be long-term customers for U.S. agricultural commodities. As such GSM-financed business may convey special strategic benefits to overall U.S. market development efforts.

Mr. PENNY. And to what extent has Cargill been moving in the direction of processed commodities for the export market?

Ms. PATRICK. Cargill is generally thought of as a grain handling business. I think that the name is generic for grain elevator. Today, if you looked at Cargill, the grain handling business probably represents less than 20 percent of Cargill. We are involved in a range of intermediate value and high value products and we keep moving higher and higher up the ladder of products that we are producing and processing.

Mr. PENNY. And is that reflected in your export volume, that most of the exports then would be in the value-added area?

Ms. PATRICK. Certainly as far as trends are concerned, yes. The growth has occurred in the higher value areas.

Mr. PENNY. OK. You must have some sort of annual report that speaks to that. No?

Ms. PATRICK. Mr. Chairman, I will be happy to find you a piece of information.

Mr. PENNY. That would be useful. I appreciate your indulgence and look forward to that information.

[The information follows:]

CARGILL HISTORY AND GROWTH

In its early years, Cargill functioned as a regional trader and merchandiser of grains. Today the company trades vegetable oils and meal, cotton, wool, coffee, cocoa, sugar. molasses, rubber, petroleum, financial instruments and other commodities. Cargill has grown from a small, regionally based grain trader to become a major participant in global commodity markets. Over the years, our trading businesses led us to serve other needs in closely related activities -- barge transportation and later ocean freight, feed manufacturing and sales, seed research and sales and fertilizer distribution.

We also process many of the raw products that we handle. We mill corn, wheat and rice; process and refine soybeans and other oilseeds; produce malt, and process oranges and cocoa. Trading and processing skills also have been applied to the meat business. We slaughter and process beef, pork, chickens and turkeys.

Trading and processing skills have provided a platform for our participation in a number of industrial businesses. For instance, we produce nitrogen and phosphate fertilizer, salt and steel products.

Cargill has grown from a simple grain store at the end of rail line in Conover, Iowa, to a business with nearly 50 product lines related by the use of similar processes, service to common customers or reliance on the same raw material inputs. We operate close to 800 offices and facilities in 58 countries and employ more than 67,000 people worldwide. We serve both local and global markets, responding to a growing demand for basic goods and services important to human well-being.

The profile of Cargill's exports reflect general trends in world trade, as well as the profile of our businesses. Raw commodities dominated U.S. exports for many years in both value and volume; they dominated the company's business, as well.

However, in 1986, the value of world trade in consumer-oriented food products exceeded raw agricultural commodity trade for the first time. The United States was somewhat slow in responding to that surge in higher value trade, but today, higher value/consumer-oriented export sales account for two-thirds of the value of U.S. agricultural export sales. These exports are growing at a much faster rate than bulk exports. Cargill's export sales of higher-value products, like beef, pork, processed grains, oils, meals, feeds and other food products show a similar trend.

The trend for bulk exports has not been as bright: the market for raw commodity export sales is substantially below the peak of the early 1980s. U.S. market share also has declined. However, we still remain the major exporter of bulk commodities, and Cargill is a major trader in that realm.

Mr. PENNY. With that, I think we are going to move on to the last panel and wrap things up for the day. I appreciate your participation in today's hearing.

The final panel will include Terry Barr, chief economist, vice president for agricultural and trade policy, the National Council of Farmer Cooperatives; Christian Schlect, president, Northwest Horticultural Council; and Arthur Brown, Jr., secretary of the New Jersey Department of Agriculture.

Mr. Brown, I understand you have a train connection that requires you to move along.

Mr. BROWN. Yes, sir, I already missed one. I am waiting on the second.

Mr. PENNY. We will proceed with you first, and then move on to the other two individuals.

STATEMENT OF ARTHUR R. BROWN, JR., SECRETARY, NEW JERSEY DEPARTMENT OF AGRICULTURE, ON BEHALF OF THE NATIONAL ASSOCIATION OF STATE DEPARTMENTS OF AGRICULTURE, ACCOMPANIED BY BARBARA R. SPANGLER, MANAGER, LEGISLATIVE AND REGULATORY AFFAIRS

Mr. BROWN. Thank you. Good afternoon, Mr. Chairman and members of the subcommittee. I am Art Brown. I am the secretary of agriculture from the Garden State, New Jersey.

I would request that my written response that has been distributed be also entered into the official record. I also would request that I leave as soon as I give testimony and I would leave Barbara Spangler, an associate of mine, to answer any questions.

Thank you.

I appear before you today on behalf of the National Association of State Departments of Agriculture, NASDA, the nonprofit association of commissioners, secretaries, and directors of agriculture in the 50 States and the territories of American Samoa, Guam, Puerto Rico, and the Virgin Islands. NASDA's members are keenly aware of the importance of developing and maintaining a viable long-term export trade strategy, not only to safeguard the future of America's agricultural producers and processors, but also to keep the Nation's economy healthy.

You are seeking some very specific information through these hearings. In the interest of brevity, I offer you some very short, direct answers which are more fully elaborated in the written testimony I have submitted.

First of all, you have asked where our markets will be in the years ahead, what they will look like and what products they will purchase, and what mechanisms are necessary to access those markets. I can assure you that the market for raw and value-added American agricultural products will be worldwide. GATT and NAFTA will provide unlimited growth potential for high-value agricultural products.

According to a recent FAS study, four areas will be especially important over the next several years. They are: The Pacific Rim countries—especially Japan, Hong Kong, South Korea and Taiwan—Canada, Mexico, and the remainder of Central America; the European Union; and Russia and China.

Why these areas? Because they are rapidly Westernizing. More women are entering the workplace, reducing the amount of time available for meal preparation. Household size is smaller, allowing consumer emphasis to focus on quality and variety, rather than on quantity. The middleclass is growing rapidly, creating more disposable income, and focusing attention on healthier, more convenient foods.

What products will these countries be looking for that we can supply? They are: Fresh produce; frozen foods of all kinds, especially heat-and-eat microwaveable products—very important—processed meats; dairy products; and snack and gourmet foods.

What do we need to do to access these markets? We need good market research, pinpointing consumer trends, and aggressive preplanning before entering markets in developing nations. We need technical assistance for those companies that export and for those countries that import to help both sides overcome artificial barriers of language, custom and business practices which vary so widely from one country to another.

We also need strong support of flexible financial programs that will help American companies maintain a strong presence long enough to build product demand in new markets and meet the economic needs of developing countries. The second area of concern today is with our own trade policies as they relate to agricultural exports.

Are they sufficient? What initiatives should be undertaken? First, I must emphasize that American agriculture did not put 42.5 billion dollars' worth of product in foreign markets last year because the system is broke. NASDA believes that there are sufficient programs in place to access these markets if they are adequately funded, properly directed and managed, and better planned to meet future needs.

I will give you just a few examples of what we mean. Budgets for agri-industry export promotion and development programs and staff are continually being reduced in the face of increasingly stiffer and better funded foreign competition. As a result, American farmers, ranchers, and food processors are losing part of the international market to countries with heavily subsidized export programs. Both Congress and the American public have lost sight of the fact that agriculture goes beyond the farmgate.

Farm products generate important economic benefits to factories, to transportation, packaging, marketing, and related industries. It all plays an important role in the Nation's economy. As a result, the agricultural portion of the Federal budget is continually shrinking. The Federal market promotion program, a very effective marketing tool, should be revitalized to help participants meet new global challenges aggressively, instead of cutting MPP and similar programs or eliminating them completely.

Among the policy actions we need, NASDA suggests several, including a renewed focus on the development of a strategic long-range plan for FAS activities to increase the export of food and fiber, with special emphasis on matching products with potential markets and on moving value-added products.

A streamlining of administrative procedures for program cooperators that will provide participants with timely responses to market-

ing plans and allocate funding on schedule. A better use should be made of regional trade groups such as SUSTA, MIATCO, WUSATA, EUSAFEC. They all represent regional trade groups of NASDA and their State members for distributing and managing export programs for small to midsize companies.

Staff the overseas offices which provide on-site export assistance with personnel better trained in business, marketing, and economics, and with a better understanding of the agricultural industry they serve. A lot of what I am saying has been already mentioned prior to today, and I am glad that we are all thinking along the same lines.

These offices must have and be able to provide accurate assessments of potential markets and provide the market reports, consumer preference studies and so on, necessary to match products to markets. Establish a rapid response unit within USDA that combines expertise from AMS, APHIS, and FIS.

Also, lending institutions must be able to serve all off-farm agricultural infrastructures and buyers of agricultural products. We must have streamlined, clarified, simplified, user-friendly financial programs backed by dynamic fully funded Federal trade financing programs. Current programs to encourage corporate investment in foreign markets should be strengthened.

Simplify U.S. grading, inspection, and regulatory programs so that sanitary and phytosanitary requirements do not artificially prohibit the movement of agricultural products into export markets when there is no health or safety issue. Improve interagency cooperation right here at home by establishing agricultural liaisons between USDA and the Departments of Commerce, State, Labor, Interior, Treasury, GAO, and the White House.

NASDA would also support the establishment of an interagency working group, including both production and processing industries, to focus on export market development and prepare a global strategy for funding, financing, and matching products to market needs.

Over the years, agriculture has been the only industry to maintain a positive position in our Nation's balance of payments. With about one-third of our harvested cropland producing for export, a long-term strategy is critical to planning and marketing decisions.

As mentioned earlier, U.S. agricultural exports was $42.5 billion in fiscal 1993. This is a total that must continue to grow if American agricultural is to survive and maintain its place in the world market. Government agricultural policies must be based on a sound knowledge of global markets and lay a foundation that will support the United States in these markets.

Mr. Chairman, I certainly appreciate the opportunity to come before you today. And my associate will answer any questions. Again, thank you very much.

[The prepared statement of Mr. Brown appears at the conclusion of the hearing.]

Mr. PENNY. No problem. Thank you. We appreciate your testimony. Next, Mr. Barr.

STATEMENT OF TERRY N. BARR, CHIEF ECONOMIST AND VICE PRESIDENT, AGRICULTURE AND TRADE POLICY, NATIONAL COUNCIL OF FARMER COOPERATIVES

Mr. BARR. Thank you, Mr. Chairman. My name is Terry Barr and I am vice president for agriculture and trade policy for the National Council of Farmer Cooperatives. I would like to submit my testimony for the record and make a few comments.

The members of the National Council of Farmer Cooperatives recognize that if agriculture is to be a growth industry in the 21st century, it must be viable and competitive in a global economy. This will require Government policies that ensure the competitiveness of agriculture is felt in the marketplace.

The coming transition under the terms of the recently signed GATT agreement is a case in point. This agreement does not eliminate existing trade distorting policies. It does reduce subsidies, but it does not eliminate them. It allows expansion of green box programs such as export promotion and development, export credit, and food assistance.

Competitors have already indicated that they will shift into green box programs to maintain market share, primarily a shifting into the export credit programs particularly. U.S. policies must be responsive to this reality.

The reports that the administration may seek substantial spending cuts for agriculture as part of the GATT implementing legislation is reason for concern. Such proposals would severely damage our market position in the near term and are grossly unfair since agriculture only accounts for less than 5 percent of the $10 to $14 billion revenue losses currently attributable to the GATT implementations. Additional spending cuts, when our competitors shift funds into green box programs, is a unilateral forfeiture of markets.

For these reasons, the National Council has joined with a broad-based coalition of food and agricultural interests to stress our concerns. I would like to submit, as an attachment to my prepared statement, for the record, the letter from the coalition to the Secretary of Agriculture, Mike Espy, outlining such concerns in more detail.

I know many members of this committee have expressed similar concerns and the coalition appreciates your continued leadership on this issue. The coalition has urged the following action: Maintain funding for domestic and export programs as allowed by GATT, ensuring that the export programs are aggressively utilized, EEP, DEIP, COAP, and SOAP; require that funds not used for export subsidies under GATT be redirected for green box programs; market development promotion, export credit, food assistance or other programs authorized.

I understand that Representatives Jill Long, Jack Kingston, Bill Emerson, and Earl Pomeroy have indicated they plan to introduce legislation reflecting these recommendations. We would like to take this opportunity to strongly endorse such legislation and urge that it be part of the GATT implementing legislation. Such legislation would require no additional outlays and would ensure agriculture's ability to compete and capitalize on potential market opportunities.

Beyond the GATT transition, I would like to make some additional observations about the longer term. First, the global market is undergoing a dynamic change. The market economy comprised about 1 billion people prior to the emerging markets in the former Soviet Union and China. The challenge now becomes one of integrating the 4 billion people currently outside the existing commercial marketplace into a new global marketplace.

This integration will be difficult and unpredictable. Presumptions of a steady progress on free trade are simply not realistic. The privatization process occurring in all of the formally centrally planned economies is dramatically altering the structure of the marketing channels.

The days of mega sales to single buyers are clearly gone. Marketing channels will replace Government-to-Government negotiations and Government will need to retool its staff and programs in recognition of the change, and perhaps change their role.

We have been amending 1930's programs for over 60 years in the farm program area. Perhaps it is time we stopped trying to modify and rethink some of our approaches. Government will never be absent from the food and agricultural marketplace because of a strategic role in domestic, economic, and political stability. Each Government will define a role for itself in each market and U.S. policies must respond to that type of competition.

Infrastructure investment in emerging markets will have to be viewed as a precursor to realizing the benefits of expanded markets. This includes information technology as well as infrastructure.

The markets cannot expand without this basic investment and it represents an opportunity for the establishment of a U.S. presence. The evolution of each marketplace will be distinctly different due to cultural, political, and economic realities unique to each marketplace.

Generic market development programs will be as obsolete as Government-to-Government trading programs. Trade strategies will have to evolve for each market. U.S. agriculture and agribusiness will need to establish a presence in markets where its competitors have a much longer history and in many cases well-established commodity identities. Establishing the linkage between the desired product characteristics and the U.S. label is crucial to market success.

Finally, about two-thirds of the population, about 2.5 billion people, that will be integrated into this global marketplace, reside in regions of the world that account for only about 15 percent of the world's economic activity. And as the world's population doubles by the middle of the 21st century, 90 percent of the population growth will occur in these regions.

As we seek to make agriculture more responsive to market signals, we should not forget that these people do not have the dollars to send signals. In both the domestic and foreign markets, there must be mechanisms that allow those who cannot send market signals to be recognized.

The conclusion from all of these observations is that the future marketplace structure is very uncertain. Focus must be on flexibility, not rigid programs. It is absolutely essential to maintain the

full complement of export and food program initiatives if agriculture is to be a growth industry in the future and to meet its market humanitarian commitments. Agriculture can be competitive in the marketplace as long as Government policies are also competitive with those of the competition.

Let me conclude my testimony by complimenting the chairman and the committee for their leadership in opening a dialog on these important issues. I will be happy to answer any questions you may have.

[The prepared statement of Mr. Barr appears at the conclusion of the hearing.]

Mr. PENNY. Thank you. Next, Mr. Schlect.

STATEMENT OF CHRISTIAN SCHLECT, PRESIDENT, NORTHWEST HORTICULTURAL COUNCIL

Mr. SCHLECT. Yes, thank you. My testimony is, I think, before the committee and I won't read it, unless you request it be read.

Mr. PENNY. Without objection.

Mr. SCHLECT. As the last witness of a long day, I will kind of paraphrase a lot of ideas, with your permission. One is, I have been involved in this type of activity for about 14 years. I am from outside this immediate area, Yakima, Washington, and worked in the fruit industry for those years. And prior to that, I grew up in an apple orchard. So I may bring a perspective of how it impacts a specific crop.

I think our crop is representative of a lot of high value, value-added products. And maybe that is why I was invited here today. In our case, the market promotion program is one of the best, if not the best programs, contained in the last farm bill, and we would hope it would be extended into the new farm bill.

It has allowed us and I think a lot of other people in commodities throughout the Nation to work with Government and promote a product in an effective way. And I think one of the things in the debate over the new farm bill that shouldn't be lost and has been mentioned before is the cooperation between the private sector and USDA, specifically the Foreign Agricultural Service. It is important, it is alive, it is out there, and it needs to be nurtured.

I think we have a program that a lot of countries around the world envy, and I think that having the private sector involved adds a lot to the effectiveness of the Government programs.

The one area that Chris Goldthwait mentioned that I believe and I hope is carried out right now even prior to the farm bill is the coordinated effort. I think Congress probably recognizes, but it should be emphasized that in our types of agricultural initiatives, oftentimes it will be technical expertise required from APHIS, from ARS, and other agencies of USDA.

We have the sanitary and phytosanitary—entire area that I think will be of increased importance. FAS can no longer work alone in these areas. FAS should be the lead agency and should do the coordination, but other agencies of USDA and in fact Government, such as EPA and FDA, need to be involved and Congress needs to let them know that that is an important function, that these agricultural issues just aren't something on the side to their agencies. They should be fully participating when called upon.

Just one point and then I will stop. My written testimony reflects what I have to say. But the GAO representatives were in earlier on the first panel and indicated their belief in the need for strategic marketing planning.

There has been a lot of talk about strategic marketing. I, frankly, am kind of a contrarian. I think the goal has been set out and it is a good one, by Under Secretary Moos, Secretary Espy, of increasing exports by 50 percent by the year 2000. The way you get to that goal, I think ought to be largely the domain of the Department of Agriculture and the expertise that is contained down there.

And we should have people and we do have people who are competent professionals, and who can react quickly to changed circumstances. And I note in my testimony one example just within the last month is China.

Unless MFN status had been extended for China, our industry would not have the ability to ship apples, which Secretary Espy is going to be, I think, next week helping inaugurate some of the first shipments of United States apples to China next week. It was a result of coordinated work between FAS over a 3-year period of time with APHIS, with private industry. But if the Government decision had gone the other way, it would have been a dead market and no strategic plan whatsoever.

So I caution against overloading FAS with requirements for strategic plans that take them away from their immediate business, which is to move product and working with the private sector.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Schlect appears at the conclusion of the hearing.]

Mr. PENNY. Thank you. We appreciate your patience this morning. I know it was a long hearing. Typically, the hearing is busted up by votes on the House floor. We at least tried to keep things moving so that we shortened your day somewhat.

I think your testimony is pretty straightforward. I did read the entire testimony before you delivered it. I appreciate the summary. I don't think we have any questions at this time, but we do have a vote that is going to require Mr. Allard and I to leave, so I think it is probably a good break point.

Thank you again for being with us this morning.

The subcommittee stands adjourned.

[Whereupon, at 12:35 p.m., the subcommittee was adjourned, to reconvene subject to the call of the Chair.]

[Material submitted for inclusion in the record follows:]

Statement by Christopher Goldthwait
General Sales Manager
Foreign Agricultural Service
U.S. Department of Agriculture
Before the House Agriculture Subcommittee on
Foreign Agriculture and Hunger

June 23, 1994

Mr. Chairman and members of the Subcommittee, I appreciate this opportunity to discuss the U.S. Department of Agriculture's long-term trade strategy and U.S. agricultural export prospects. Before I discuss our export goals and outline our strategy for reaching those goals, I would like to spend a few moments talking about markets for U.S. agricultural products and what these markets will look like in the year 2000.

Agricultural Markets in the Year 2000

With the implementation of the North American Free Trade Agreement (NAFTA) and the conclusion of the Uruguay Round GATT Agreement, we believe the future is bright, offering real opportunity for expanding U.S. agricultural exports, strengthening our ability to compete globally, and increasing farm income for America's farmers and ranchers.

While we cannot be certain as to what the future will be, there are clear trends we can point to in international agricultural trade and in U.S. agricultural exports that we are confident will continue through the end of the century. Given these trends, we have a pretty good idea how the markets of the year 2000 will look.

High-Value Exports

High-value products will continue to comprise a large and growing share of world trade in agricultural products. High-value products today represent over two-thirds of total world agricultural trade, up from 54 percent in 1985. This share is expected to climb to 75 percent by 1998.

In 1993, record sales were made to each of our top six markets. And Russia is emerging as one of our largest markets. 1993 sales to Russia totalled $345.5 million and in the first three months of 1994, exports have already reached $126.5 million--a 277% increase over exports for the same period last year!

By the year 2000, the *Uruguay Round Agreement on Agriculture will be fully implemented,* reducing tariffs, removing non-tariff barriers, and limiting export subsidies on a number of products. These changes can only help U.S. exports increase. For example, Japan, our largest export market, will reduce its tariffs on a variety of high value products including candies, canned peaches, fruit cocktail, canned sweet corn, not to mention our achievement of access for rice.

And let us not forget the increase in world income and economic growth that will be realized. We have seen over and over again, that the first thing a developing country does when its income grows is improve its diet. Developing countries diversify their diets. More people will demand fruit, vegetables, and other high-value products. The Uruguay Round requirement that sanitary and phytosanitary measures be based upon sound scientific principles is likely to play a significant role in assuring that barriers to trade are not erected under the guise of protecting animal, plant or human health. So called "S&P" will be a key implementation focus.

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Intermediate and Bulk Exports

By the year 2000, we foresee *some recovery in the former Soviet Union (FSU),* which has traditionally been a major market for U.S. sales of bulk commodities. Although the FSU will likely remain a smaller than historical market, growth from currents levels bodes well for U.S. bulk exports. Although it will take years for trade patterns with the FSU to emerge, notable near term improvement includes a 432% increase in exports of intermediate products to Russia so far this year.

Other markets for bulk commodities are opening, and growing: Under NAFTA, Mexico's 215% tariff on corn will be eliminated, as will duties on all other coarse grains. Exports of corn, grain sorghum, and other coarse grains to Mexico are expected to rise significantly under NAFTA. Also, openings in the Korean market and restrictions on European Union export subsidy programs will open market opportunities for U.S. feed grain exports. EU subsidy reductions will total more than 2.6 million tons annually from 1986-1990 levels.

Regional Market Opportunities

The Pacific Rim will remain the largest and fastest growing region for U.S. agricultural exports. In 1993, the countries that make up the Pacific Rim accounted for over 37 percent of total U.S. agricultural exports. Since 1987, U.S. exports to these countries have increased over 49 percent, with consumer-oriented foods the fastest growing category. The United States is the region's largest supplier of consumer-ready

products, with a 24-percent market share. During the Uruguay Round, the United States obtained significant concessions from Pacific Rim countries. The astonishing rates of economic growth in many of these countries will result in tremendous food, feed, and fiber demand.

FAS Commitment to Strategic Planning

In order to take full advantage of the positive factors I have outlined, FAS needs to use all its tools in a concerted, maximally efficient way. To do this, stronger efforts at strategic planning are key. Looking toward the year 2000 is appropriate in this planning process.

FAS and the Department have four strategic planning efforts that guide our export efforts and shape our export policies: preparation of the Department's Long-term Agricultural Trade Strategy Report (LATS); the establishment and review of performance standards to measure and account for progress made by each of our programs, which we will do in conformity with the Government Performance and Results Act; the Department's participation in the Trade Promotion Coordinating Committee (TPCC) planning discussions and delivery of services; and last, but certainly not least, the consultation and cooperation involved in working with you and your colleagues in both houses of Congress periodically draft new farm legislation

Long-term Agricultural Trade Strategy Report (LATS)

The LATS is a statutorily-mandated report intended "to guide the Secretary in the implementation of Federal programs designed to promote the export of United States

agricultural commodities." This report is developed through a cooperative effort between all of the agencies that comprise the U.S. Department of Agriculture. Those agencies that play a particularly important role in shaping this report include:

Agricultural Marketing Service
Agricultural Research Service
Agricultural Stabilization and Conservation Service
Animal and Plant Health Inspection Service
Cooperative State Research Service
Economic Research Service
Extension Service
Federal Grain Inspection Service
Food Safety and Inspection Service
Foreign Agricultural Service
Forest Service
World Agricultural Outlook Board

LATS helps us to set priorities and focus our resources. This becomes increasingly important as we face the pressures of fiscal constraints and dwindling budgets. We have begun reviewing and redrafting our LATS. As before, we will draw upon all parts of the Department that have a potential contribution to export growth.

The Government Performance and Results Act

As is required by the Government Performance and Results Act, FAS will develop performance standards to measure and account for progress on specific programs. We recognize the need to be responsive to the changing needs of America's agricultural community. And we know that the programs that were successful yesterday may not be so tomorrow.

Trade Promotion and Coordinating Committee

USDA takes very seriously its commitment to the TPCC. In formulating our overall strategy to increase U.S. agricultural exports, it is essential that our efforts be coordinated with those of the many other agencies involved in the TPCC. Agricultural Counsellors and Attaches in each country have developed strategic commercial marketing plans for their respective countries in cooperation with their commercial counterparts. Our overseas teams are also finalizing *Country Commercial Guides*--a comprehensive reference on all trade-related information for individual countries.

Other advantages of the TPCC include distribution of information about FAS services and market analysis information prepared by USDA through four pilot U.S. Export Assistance Centers--in Baltimore, Chicago, Long Beach, and Miami.

We are participating in other ways as well. Agricultural trade information is made available on public bulletin boards, via facsimile, and via mail on a subscription basis. Soon we hope to have many of USDA's reports available on the National Trade Databank. And our *Agxport trade shows,* which generated more than 5,600 promising trade contacts for exhibitors last year, are becoming even more successful through our TPCC activity.

The "Farm Bill"

Unlike most other government agencies, USDA has a unique comprehensive planning opportunity to work with Congress and our clients in the formulation of an export policy that expands U.S. agricultural exports, provides income stabilization for our producers, and stimulates economic activity in our rural areas. We accomplish this through the consideration and enactment of omnibus farm legislation, commonly known

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as the "Farm Bill." Meeting this objective is ever more challenging to USDA and FAS as we prepare for a post-GATT trading environment in the 21st century. Not to be overlooked are the budget realities of our times and the constraints under which all federal programs are operating.

Secretary Espy has asked us to begin planning for the 1995 Farm Bill. Each mission area within USDA is developing its list of topics that we would like to see addressed during the Farm Bill debate. The international trade sub-group, which I am co-chairing, has identified its priorities for the 1995 bill, and has begun working to further define the issues. We will deal with every aspect of the Department's international work, and look for ways to strengthen the contribution of exports to other Department missions.

Setting Export Goals

Setting goals is the starting place for any strategic planning effort. Under Secretary for International Affairs and Commodity Programs, Eugene Moos, has set a goal for the Department of a 50 percent increase in agricultural exports by the year 2000.

In order to achieve a 50 percent increase in agricultural exports, we will need to return exports of bulk and intermediate products to the roughly $30 billion level of 1989 and 1990. It is unlikely that our largest traditional markets for bulk commodities will return to their historical high level, so we must learn to compete successfully in those markets opened through our trade policy negotiating efforts. And we will need to continue the growth in exports of consumer-oriented high-value products by 15-17 percent annually, which is the rate achieved in the early 1990s.

A second goal is to develop an integrated strategic plan -- a plan that is fundamentally the same for all four processes that I just outlined. This plan must not be a static document dictating our actions, but a living document able to adapt constantly to the changing nature of international trade.

Our third goal is to develop country plans that will cut across program lines to bring all of our resources together in a unified way to reach specific objectives in growth markets. These key-market efforts must support our overall strategic plan by identifying the mix of resources needed to achieve maximum gains in our fastest growing markets.

Elements in an Interim Strategy

Mr. Chairman, back in November, I testified before this Subcommittee and outlined our thoughts as we began to develop a coherent agricultural export strategy in the first year of the new Administration. Now, seven months later, I'd like to bring you up to date on our progress in this ongoing planning and program review exercise by briefly describing six essential elements we have identified for success in growing agricultural exports:

1. **Focus on emerging markets.** We need to identify and target resources at the best growth prospects. We are expanding our vocabulary, so to speak, by utilizing three definitions of emerging markets: new country markets--including those in Africa, and much of the Pacific Rim; new opportunities in already significant markets like Mexico and Japan; and markets for new products.

2. **Integrate trade policy and market strategy.** With key negotiations behind us, we need to closely relate policy work--implementation of these agreements--with marketing efforts. And we must focus our future negotiating efforts--including potential future free trade negotiations; discussions with China, Vietnam, and other countries wishing to accede to the GATT; and eventual negotiations of further reforms in the GATT trading system--toward furthering our marketing goals.

3. **Augment current tools.** We must consider whether our tools for today will meet our needs tomorrow. I will expand on this in a later section.

4. **Rebuild bulk commodity markets.** Bulk commodity markets continue to comprise a major share of the U.S. farmer's opportunity. Achieving record exports will depend on increasing bulk and high-value exports from current levels. Trade negotiations have provided opportunities for market expansion. Now we must learn to seize these opportunities.

5. **Strengthen the broader agricultural relationship.** The Secretary's trip to China and his visits with many ministers from emerging democracies have made clear the important role strengthened agricultural cooperation can play in creating a proclivity for trade with the United States and an overall favorable bilateral relationship. The merger of FAS and the Office of International Cooperation and Development (OICD) is important in strengthening our ability to support this relationship.

6. **Use a multi-agency approach.** This element, too, has three components.

   a. **Outreach within the Department** by maximizing use of Department expertise on phytosanitary issues, for example.

b. **Contributing to other Department missions**, like rural development. After all, the ultimate goal of our efforts is to assure a better life for everyone in rural America.

c. **Proactive use of the TPCC**, for example where a multi-agency approach will help us tackle barriers to import growth in a country, such as infrastructure.

We will be fleshing out this skeleton plan--including potential legislative and program changes-- through the four parallel processes identified above over the next few months.

Agency Structures

As we look at these ambitious plans, we must continually ask ourselves whether we have the most efficient agency structure to enable us to reach our goals. Certainly the merger of FAS and OICD is a big plus in broadening our concept of how to boost exports and how to help American agriculture more generally. But we continue to review how we operate and consider ways to do what we do even better. In our final reorganization plan, FAS has proposed relocating our Planning and Evaluation Staff into the Office of the Administrator to emphasize the importance of the strategic planning mechanism. In addition, FAS has an ongoing review of its field staffing so we will be able to concentrate our resources where opportunities exist. At some point in the not too distant future, we will need to review the overall organization and structure of the Agency.

Tools for Today and the Future

Adjusting to a changing market environment is necessary for FAS, just as it is for USDA and the rest of our federal government. This ability to change is the essence of what the Administration means when we say we are "reinventing government." We are fortunate to have the Farm Bill process--particularly the 1995 Farm Bill debate--to afford us the opportunity to thoroughly review each of our programs in light of such change. Let me briefly summarize some of the options at which we are looking with respect to each of our export tools.

Food assistance

Food assistance programs under Title I of Public Law 480, the Food for Progress Act, and Section 416 (b) of the Agricultural Act of 1949 are all under review. In the case of Title I of P.L. 480, we are finding that this program is increasingly unattractive to participant countries because of its cumbersome procedures and the increasing divergence between U.S. domestic and international price levels (Title I commodities must be sold at domestic price levels and are subject to cargo preference requirements). One option we are studying is whether we should develop a commercial program that targets the same category of countries that currently participate in Title I. A multi-year, commercial interest rate program with a grace period might prove a better use of resources, and a better way to lay the foundations for future markets.

Credit

We are looking at our existing credit programs, and assessing the need for new efforts. For example, visits to Mexico and Russia revealed the need for a mechanism to supply very short-term (3-6 months) credit to importers either directly, or through

augmenting suppliers' credit they currently receive. For administrative simplicity, we are analyzing whether such credit might be made available through banks (foreign banks for importers, domestic banks for exporters), but not on the letter of credit basis familiar from GSM-102.

Export subsidies

We will continue the aggressive use of the Export Enhancement Program wherever we face subsidized competition until mandated cutbacks kick in. In addition, we are looking at ways we can maximize the results of our subsidy programs in the new world trading environment that will be created by the Uruguay Round Agreement.

Promotion programs

We have already made significant changes in the Market Promotion Program. We will work with cooperators and other participants in the Market Promotion Program and the Foreign Market Development Program to develop ways to target the resources of these programs on emerging markets, and review perceived shortcomings in these programs.

Commodity analysis

Timely, accurate reporting of the foreign agricultural situation and outlook is the key to effective planning. In addition to re-targeting the commodity/coverage matrix of our reporting as we have recently done, we are looking at a new initiative -- developing a data base covering competitors' practices and activities. Such information compiled in an efficient manner remains a missing link in our ability to know what we're up against, and how to compete most effectively. Efficiency is a key, as we are asked to do more with less.

Trade policy negotiations

Our trade policy workload will not relax. Implementation of the NAFTA and GATT agreements, as well as work on bilateral issues, are high priorities. But we also are exploring the idea of developing country lists, targeting key trade barriers to tackle bilaterally in key markets. This approach would be an integral part of the country strategies that I mentioned earlier. Future multilateral negotiations will remain at the fore, and talks with China, Vietnam, and others who hope to join the GATT trading system will be key.

Technical assistance

Currently, our technical assistance efforts are carried out under the authority of the Emerging Democracies program. We believe this will likely need to be broadened to be an Emerging Markets Program, given changes since enactment of the Food, Agriculture, Conservation, and Trade Act of 1990. Another option we are analyzing is the development of a strict technical assistance program in areas of USDA expertise where there is not an immediate market benefit as required by the Emerging Democracies program, but where longer-term benefits to U.S. agriculture may exist. Such an authority would need to be clearly differentiated from the Agency for International Development (A.I.D) authority by clearly targeting activities where USDA or its contacts have the predominant expertise.

Conclusion

Mr. Chairman, as you can see, our review is thorough and our goals are ambitious. Some may question whether we are being too ambitious in today's budget

environment. But I would argue that now is not the time to be conservative and observe business as usual. We owe it to American farmers and ranchers to meet the challenge of increasing U.S. agricultural exports. And a bold, comprehensive strategy will go a long way toward helping us meet that challenge. That concludes my statement, Mr. Chairman. I would be happy to answer any questions.

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Foreign Agriculture and Hunger, Committee on Agriculture, House of Representatives

For Release on Delivery
Expected at
9:30 a.m., EDT
Thursday,
June 23, 1994

INTERNATIONAL TRADE

Market-Oriented Strategy Would Help Lead U.S. Agriculture Into the Future

Statement of Allan I. Mendelowitz, Managing Director
International Trade, Finance, and Competitiveness
General Government Division

GAO/T-GGD-94-177

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on a long-term trade strategy and export policies for the U.S. Department of Agriculture (USDA). My testimony will focus on how a shift from a traditional production-oriented approach to a market-oriented approach would help USDA adapt to the increasingly competitive world marketplace. We believe that in making this shift, USDA will find it essential to employ a strategic marketing approach that includes devising a long-term market development plan and changing its approach to information gathering, personnel policies, and resource allocation. Also, USDA will still find it important to emphasize programs to combat unfair foreign trade practices and overcome market imperfections.

Shifting to a market-oriented approach may, however, reduce the size of U.S. carryover stocks of staple grains. Previous oversupplies of these stocks had the side effect of helping to ensure world food security. Without them, the United States and other nations may need to devise a different way of addressing this problem.

MARKET-ORIENTED EXPORT APPROACH WOULD RESPOND TO NEW ENVIRONMENT

USDA and the U.S. agricultural sector face a changing environment for world agricultural trade. The new multilateral trade agreement

of the General Agreement on Tariffs and Trade (GATT), if approved by Congress, will provide greater market access and thus wider opportunities for increasing U.S. exports. The world agricultural trade environment is changing in other ways as well. Markets are emerging in East Asia, Eastern Europe, and elsewhere that show potential for becoming major consumers of U.S. agricultural products. And high-value products, such as fresh fruit, processed foods, and consumer-ready products, are a growing share of world agricultural trade. At the same time, international agricultural trade has become highly competitive; U.S. agricultural exporters have been increasingly confronted by competitors who have government support for aggressive and sophisticated marketing practices.

In light of these circumstances, USDA programs should shift from a production-oriented approach to a more market-oriented approach. Since the Great Depression, U.S. agricultural policies and programs have primarily been directed at improving the efficiency of the production of agricultural commodities, and many USDA export activities have been aimed at seeking foreign markets for excess production. These programs helped to increase U.S. exports in the days when U.S. and world agricultural trade consisted heavily of trade in a few major bulk commodities, such as corn, wheat, and soybeans. But these programs have not been sufficiently responsive to current shifts in global trade from bulk commodities to profitable market opportunities in high-value products.

STRATEGIC MARKETING ESSENTIAL
TO COMPETE EFFECTIVELY

In order to adapt to this new trading environment, strategic marketing is essential. A strategic marketing approach consists of a strong long-term market development plan that identifies markets and sets out strategies for increasing exports to those markets. Such an approach would help U.S. agriculture better compete in export markets. For many years, the U.S.' European competitors have employed these practices with great success, particularly in exporting high-value products.

Strategic marketing includes devising a long-term market development plan that identifies markets and growth potential. It provides the needed information to enable producers to satisfy consumer needs or preferences in those markets. It seeks to ensure that products are competitive and that distribution systems are in place to deliver the products efficiently. It also attempts to ensure that consumers are aware of these products through effective promotional activities. Finally, strategic marketing needs continual innovation, adapting to changes as they occur, and seeking to keep ahead of global competition.[1]

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[1]See U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade (GAO/RCED-91-22, Jan. 22, 1991); and Dairy Industry: Potential for and Barriers to Market Development (GAO/RCED-94-19, Dec. 21, 1993).

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USDA NEEDS TO DEVELOP A STRONG LONG-TERM MARKET DEVELOPMENT PLAN

A useful strategic plan would need to meet several basic criteria. It would (1) have a strong analytical base for setting priorities, (2) be developed with high-level USDA involvement, (3) be comprehensive in its scope, and (4) set meaningful priorities to guide agency programs and expenditures.[2]

In January 1993, USDA submitted to Congress a long-term agricultural trade strategy (LATS) and prepared individual country plans that were intended to guide USDA in its efforts to expand U.S. agricultural exports. As we have reported,[3] LATS and the country plans do not provide the basis for a long-term market development effort. The key weakness is that LATS sets no priorities. It calls for the "fullest possible use of all export assistance programs" without identifying which programs or activities are critical or most important. In our opinion, LATS needs additional work to become a useful management tool to guide program development and resource allocation.

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[2]See Export Promotion Strategic Plan: Will it Be a Vehicle for Change? (GAO/T-GGD-93-43, July 26, 1993).

[3]See U.S. Department of Agriculture: Improvements Needed in Foreign Agricultural Service Management (GAO/T-GGD-94-56, Nov. 10, 1993).

Strategic planning is especially important in light of USDA's budget pressures. Over the past several years, the Foreign Agricultural Service (FAS), the agency that performs USDA's export promotion activities, has faced increasing program responsibilities without commensurate increases in budgets or staff. In view of these pressures, any market-based strategic plan must set priorities for its resources and focus them where they are likely to do the most good.

CHANGES IN INFORMATION SYSTEMS, STAFF CAPABILITIES, AND FOREIGN SERVICE POSTINGS NEEDED TO ADAPT TO A MARKET-ORIENTED STRATEGY

If USDA is to move toward a more market-oriented export strategy, changes will be needed in FAS' approach to information gathering, personnel policies, and resource allocation.

FAS maintains a worldwide reporting system that gathers information on agricultural commodities overseas. Despite some recent changes, the reporting system remains fundamentally oriented toward agricultural production. Information gathering under a strategic marketing approach would concentrate more on providing U.S. agricultural producers and distributors with data on consumer demand and market potential. For example, in a recent report[4] we found that many U.S. exporters to East Asian markets desired more

[4]See High Value Product Exports: Good Potential Exists for More Trade With Taiwan, Malaysia, and Indonesia (GAO/GGD-94-52, Nov. 19, 1993).

practical and detailed data from USDA on such things as market trends, product lines, and the potential of a given product in a given market.

Most of the professional staff at FAS have backgrounds in agricultural economics; few have formal training in marketing. If USDA is to help U.S. agriculture succeed in a sophisticated and competitive world market, it will need staff with strong marketing skills. FAS' recruiting profile and training programs should ensure that it has staff with these necessary skills.

Using its FAS attaché service, USDA maintains an extensive presence throughout the world, with about 75 posts located in about 60 countries. However, FAS does not have an overall long-term strategic plan that guides the location and staffing of its posts. A strategic marketing approach would focus USDA's overseas resources on those countries that are likely to be the most beneficial in terms of increasing U.S. agricultural exports.

EXPORT PROMOTION PROGRAMS AND TRADE POLICY TOOLS AID IN COMBATING UNFAIR FOREIGN TRADE PRACTICES AND MARKET IMPERFECTIONS

While the just-completed Uruguay Round of GATT reached agreement to reduce trade-distorting agricultural subsidies and other trade barriers, tariffs and nontariff barriers remain. Even with a market-oriented export strategy, USDA would still find it valuable

to have programs and tools that allow it to combat unfair foreign trade practices and trade-distorting subsidies. USDA programs to offset unfair foreign subsidies, and trade policy tools like Section 301 of the Trade Act of 1974 (19 U.S.C. 2411), as amended, which allows retaliation against unfair trading practices, should remain an important component of a U.S. agricultural trade strategy.

In addition, even in a world with reduced barriers, market imperfections will continue to exist. Certain developing countries may be weak credit risks or lack hard currency but still have long-term potential as future cash customers for U.S. agricultural products. To overcome these imperfections, and to provide maximum export opportunity for U.S. producers, USDA may have to continue to use tools such as export credit guarantees in certain markets.

ENSURING FOOD SECURITY

One side effect of the U.S. production-oriented policies of the past was that the United States invariably ended up holding large carryover stocks of staple grains. These inventories contributed to world food security by ensuring that in the event of drought or other natural disaster, stocks would exist that could cover a shortfall in production. If the shift to a market-oriented approach leads to a reduction in surplus U.S. production and related carryover inventories, the United States might not have

sufficient inventories to continue to play this food security role. This could happen if either production of certain bulk commodities declined, if exports increased, or if a combination of the two possibilities occurred. Such a change might require the United States to determine, in conjunction with other food-exporting countries, the needed size of carryover stocks to ensure world food security and to decide how the cost of carrying these inventories should be borne.

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In conclusion, we believe that a shift from programs and policies that emphasize production to an approach that emphasizes strategic marketing is the type of change needed to help U.S. agriculture increase exports in a dynamic world market and remain competitive into the next century.

Mr. Chairman, this concludes my prepared statement. I will be happy to answer any questions you or other members of the Subcommittee may have.

(280102)

Testimony on Long-Term Trade Strategy and Export Policies

House Agriculture Committee

Subcommittee on Foreign Agriculture and Hunger

Washington, D.C.

June 23, 1994

Carol L. Brookins, President

World Perspectives, Incorporated

Washington, D.C.

Mr. Chairman, Members of the Committee, I want to thank you for the privilege of appearing before you today to assess the implications of Long-Term Trade Strategy and Export Policies for U.S. agriculture.

My name is Carol Brookins. I am founder and President of World Perspectives, Incorporated, a Washington-based analytical and consulting company that focuses on the political, economic, and trade factors affecting agricultural markets and the global food system. World Perspectives works with private and public sector enterprises and organizations around the world. I have been deeply engaged in the issues affecting agricultural trade strategies and export policies since 1972.

Agricultural trade today is entering an entirely new era as the world becomes a truly globalized marketplace. This is due both to the political and economic liberalization of former centrally-planned economies and to technology--the second industrial revolution that has transformed the global economy, particularly telecommunications and transportation.

Agricultural markets have the potential to expand substantially as we move toward the 21st century for several reasons:

--The Uruguay Round of multilateral trade negotiations (MTN) which was completed last year, will bring agriculture under GATT rules and disciplines for the first time in history. Substantial cuts in subsidies and expanded market access will improve opportunities for U.S. agricultural exports, IF we are able to successfully implement the agreement.

--Countries that operated for nearly half a century under state socialism have collapsed and many of their governments are on the path to establishing dynamic private market economies. This is affecting not only the former centrally-planned states in Central and East Europe, but also developing countries throughout Asia, Africa and Latin America.

--Developing countries by the turn of the century will have 80 percent of the world's population, and as they allow private capitalism into their economies, their purchasing power will rise and stimulate demand for food products.

--The phenomenol success of the East Asian "Tigers" is spreading throughout the Pacific, led by China which now has an economy that measured in purchasing power parity is second only to the U.S. In fact, by the middle of the next century Asia will have half of global GDP--double Asia's share today. Substantial demand for food products and limited production growth potential will spur trade.

The U.S. can take advantage of these developments to improve its position in the world trading system if U.S. policy is responsive to the real conditions and opportunities that exist today.

We must:

1. Identify the Markets;

2. Identify the Buyers;

3. Determine the Policies; and

3. Execute an Effective Strategy.

Different countries and different product markets will require different policies and strategies.

For example, mature industrial country markets in general will require trade servicing and diligent trade policy; however, markets for specialized or niche value added and high value products will require market promotion.

Developing country markets will require market development programs, financing of imports and infrastructure, and trade policy actions.

Not only are the context of our markets changing in terms of government policies. The spread of economic liberalization is changing the context of our buyers around the world. State monopolies are tumbling like dominoes, as wave upon wave of privatization are sweeping across the world.

This means that private trading, marketing and distributing companies are replacing large state importers. Purchases will be smaller, market intelligence more difficult to obtain and financing needs will be different.

To be successful in this rapidly changing marketplace, the U.S. needs to build on our strengths and discard outmoded programs, operating structures and policies.

* We need to build our export mission in a way to market the asset of our tremendously powerful "Food System," and not view our potential in a limited or narrow product focus. The U.S. food system is a high technology leader and winner for the U.S. in the global marketplace.

* We need to build a long-term strategy and develop programs to succeed in that objective, but a long-term strategy should include a funding reserve that would permit a ready response to any unexpected or unprogrammed market opportunity.

* We need to shift and leverage existing resources to target our long-term mission objectives.

* We need to be flexible and able to respond to specific requirements in individual country markets.

* We need to use technological advances to enhance cooperation, build teamwork and streamline our market development operations that involve both the public and private sectors.

What kind of policies are strategies do we need to respond effectively? I have several suggestions to make:

First, food system growth in developing country markets calls for greater coordination in our policies, not only those programs that move bulk commodities.

--We should examine coordinating our food aid, commercial credit guarantees, OPIC and ExIm. We must remember that goods often follow investment. We can sell not only our agricultural products; we can finance the transfer of U.S. food processing technologies and ensure that U.S. companies are in key positions throughout the world.

(Note: The U.S. has a higher productivity lead in food processing over Germany and Japan than any other manufacturing industry.)

Second, export credit guarantee programs must be made more flexible and relevant to meet changing needs of buyers and markets.

--Customers for GSM 102 used to be primarily state trading entities. Now that private buyers are an increasing share of the importers, GSM 102 needs to adapt its terms and policies to meet their needs.

For example, we should be providing terms more commercially relevant and similar to those granted by the Export Import Bank (ExIm). This could include floating rate guarantee coverage, the ability of the exporter to build into the cost of the product the uncovered portion of the loan, as well as pricing the cash fee or payment into the contract price.

We should be developing programs for private buyers that have shorter term maturities; we should be considering supplier credit guarantees; and we should be considering multi-year revolving fund allocations to buyers which would provide a more stable business environment.

Third, it is time to re-target the intermediate--GSM 103--credit guarantee. GSM 103 should be re-focused as a credit guarantee program directed to service "Economies in Transition"--be they states of the former Soviet Union (FSU) or countries in Africa, Asia or Latin America making the difficult conversion from state ownership to private markets.

--We must focus eligibility for this program on those economies in transition that are undergoing restructuring programs sanctioned and endorsed by the G 7 and/or the International Monetary Fund (IMF). Under this program, countries that have negotiated rescheduling of their debt and are fulfilling those obligations should also be considered eligible for intermediate credits.

A country would be deemed "creditworthy" under this GSM 103 program if it is in compliance with an approved restructuring program determined by the IMF and with rescheduling terms established by the Paris Club of official creditors (if applicable).

Just as commercial banks finance longer term restructuring for companies, intermediate term official credit guarantees can help economies in transition successfully build sustainable private market systems.

This program would encourage the right direction of reforms and it would fit into the general program that the U.S. advocates to help countries to develop commercially viable economies.

Fourth, our cooperator program needs to be revitalized and refocused in order to leverage our resources and maximize our penetration of markets throughout the developing world and emerging economies.

--U.S. cooperators have a special role to play in building business links with newly-privatized companies throughout the developing and former centrally-planned economies. Those companies will be the leaders in expanding their food systems and in determining the food products that will be purchased, processed, distributed and consumed.

We need to maximize our presence in those countries and this will require reallocation of our human and capital resources.

To achieve these marketing objectives, there should be "co-location" of the individual cooperator offices at a minimum. This is not only a budget-driven proposal, but also a recognition of the structure of markets and buyers today. Many buyers are clients of multiple products, for example.

We then need to look further at building a "team" concept for cooperators which would include co-servicing and resource- pooling, creating central regional bases or staging areas for specialists and smaller in-country service teams.

Fifth, as export subsidies are first capped and then reduced under the Uruguay Round terms, the Export Enhancement Program (EEP) operations should be re-structured to enhance commercial flexibility in using permitted subsidy levels to maximize the trade effect.

As permitted subsidies are reduced as a share of total trade, they become a "scarce commodity" that can leverage our trade potential in a competitive marketplace.

Sixth, the Market Promotion Program (MPP) can be very important as a market development tool in building a U.S. presence in countries under minimum access provisions required by the Uruguay Round agreement.

--Market development is not a one-year commitment. MPP should be programmed on a multi-year basis. It should be a true private:public partnership, with individual project terms that include cost sharing, graduation and sunset. The role of government should be to provide the "seed" capital" with the private sector taking an increasing share of the financing over the life of the multi-year contract.

Seventh, we must link our foreign trade objectives with our own domestic farm programs and policies.

--Often in the past, our farm programs have undercut, eroded or even seriously harmed our trade potential. Our domestic policies must enhance our position globally as a competitive supplier to diverse global markets in terms of product volume, price, and quality.

Eighth, implementation of the Uruguay Round's terms that reduces subsidies and open markets is crucial to a successful expansion of agricultural trade.

--The U.S. must take the leadership to ensure that "de jure" commitments become "de facto" and operationally acceptable commitments.

The U.S. should undertake an aggressive pro-active strategy over the next 12-24 months as the Uruguay Round is implemented. We should challenge under the GATT any country that is not properly implementing its agricultural commitments, or is attempting to circumvent the competitive trade objective.

History has shown us time and again that countries negotiate agreements, but then they seek to "interpret" them in ways to maximize their benefits and minimize their potential costs.
We cannot permit this to happen again, or we will have won the war but lost the victory.

In closing, Mr. Chairman, no country has a better potential than the U.S. to be a winner in the global agricultural trading system if we are committed to a long-term strategy and direct our unmatchable resources and abilities to that mission.

Thank you.

TESTIMONY OF

EUGENE L. BOVEE
SENIOR VICE PRESIDENT
AND SENIOR CREDIT AND ADMINISTRATIVE OFFICER

of

CoBANK--NATIONAL BANK FOR COOPERATIVES

Mr. Chairman and members of the committee, my name is Gene Bovee. I am a senior vice president and senior credit and administrative officer for CoBank's International Banking Group. CoBank is part of the Farm Credit System. CoBank provides financial services to farmer-owned cooperatives; rural utility systems; and facilitates the export of U.S. agricultural products. With $14 billion in assets and customers doing business throughout rural America, we are keenly interested in federal policy issues that affect agriculture, agricultural exports and rural communities.

Since 1982, CoBank has provided over $18.5 billion in financing to support export sales of some 30 agricultural products to over 40 countries. This financing is provided through an extensive network of correspondent banks located in some 65 countries. CoBank has a unique role in promoting U.S. agricultural exports as we are the only financial institution in the world that markets U.S. agricultural products in conjunction with our lending program. CoBank is the most active participant in the Department of Agriculture's Export Loan Guarantee Program's, GSM-102 and GSM-103, accounting for nearly 50 percent of all guarantees issued in recent years. For the past several years, CoBank has been the only U.S. bank consistently active in these programs.

I am pleased and honored to have the opportunity to testify before you today on "Long-Term Trade Strategy and Export Policies." We are all affected by the changes taking place in the new global economy. Our challenge is to find ways to help American agriculture and rural communities better compete therein.

We believe the U.S. government needs to develop sound, economically viable strategies for maintaining and developing new export markets over the long-term. Key components of this strategy must involve marketing and financing.

It appears the world market place is going to demand more value-added food products. As incomes increase, demand for higher protein foods increases in developing countries. In developed countries, demand for convenient, lower-fat and more specialty foods is increasing. The implications are that farmers, ranchers, cooperatives, and agribusiness may need to change the types or mix of products they produce and market. High value products are the future for the export market. The U.S. is uniquely situated to take advantage of these high-value opportunities but also to profit from continued demand for bulk agricultural commodities in a number of traditional markets.

The financial industry is also becoming more global in scope. Lenders must be flexible and form strategic alliances to be of maximum service to their customers. As bankers, we no longer operate in merely a U.S. economy. Today's economic issues all have global implications, and the risk and capacity to accept risk are also global. It is a global economy. It is more competitive than ever. Trade agreements will facilitate freer trade and provide more opportunities in the long-term, especially for U.S. agricultural exports. It is important that exporters, financial institutions, the USDA and other interested parties work together to develop the means to participate in this growing market.

Exporting requires an ongoing, long-term commitment. It is not a short-term, sporadic solution to selling excess supply, nor should it be viewed as a politically correct and popular business venture to fix a problem in the home territory.

An interesting concept has been developed by the Department of Commerce, the Big Emerging Markets (BEMS), in which the Commerce Department is spearheading the export promotion program in cooperation with other government agencies and institutions. We believe the same should be done by the USDA relative to export markets which have been traditional buyers of U.S. bulk, as well as value-added commodities. In addition, USDA should identify those markets that are going to provide continued growth and demand. This should be done in partnership with private sector parties including exporters and financial institutions.

An important component to the strength of our economy as a whole is international trade. Agriculture is an obvious area in which the U.S. can compete globally and contribute to a healthy U.S. trade balance. In addition, and perhaps more importantly, agricultural exports are critical to the health of our farming sector and rural America.

Our research, based on USDA data, indicates a high correlation between the level of U.S. agricultural exports and farm income. We urge the administration and Congress not to underestimate the importance of expanding foreign markets for our farm products and to continue to support commercial programs such as GSM, Eximbank and PL-480 and to work to make them more efficient. These programs are important to our agriculture and to global competitiveness. Similar programs exist in other countries and often operate with more flexibility and as a part of a better coordinated overall trade program.

It is important that export finance and the promotion of U.S. exports not be seen as being contrary to present initiatives for free trade. Such programs can support and facilitate free trade, particularly when done on commercial terms. Use of initiatives, such as EEP, will

continue to be necessary to combat unfair trade practices and agricultural subsidies around the world as long as such practices occur. Everyone hopes that GATT will result ultimately in eliminating the need for such practices, but, until that occurs, the U.S. should be aggressive in protecting its markets and promoting trade by these and other available means.

We at CoBank believe the key to many U.S. agricultural products remaining competitive in world markets will continue to be the successful implementation of the Export Credit Guarantee Programs, GSM-102 and GSM-103.

The purpose of these programs should be purely and simply to increase the amount of agricultural products exported from the Unites States. This is emphasized by the CCC repeatedly in its prefaces to the Commodity Credit Corporation's regulations; i.e., "these programs...are intended to:

1. Facilitate exportation;
2. Forestall or limit decline of exports;
3. Permit exporters to meet competition of other countries;
4. Increase commercial exports of U.S. agricultural commodities."

This is also emphasized by Congress in the 1990 Trade Act: i.e., "...the long-term agricultural strategy...shall be designed to ensure - 1) the growth of exports of the United States agricultural commodities; 2) the efficient, coordinated use of federal programs designed to promote the export of United States agricultural commodities;..." CoBank believes the export credit guarantee programs have been highly successful and cost effective in helping to move U.S. agricultural products into world markets.

In the current situation it is worthwhile to look back in history at how these programs have been utilized. Congress has essentially mandated $5 billion per year be made available for GSM-102 credits and $500 million per year for GSM-103 credits. The CCC annually approves allocations of these amounts to various countries. As exporters make sales, they register for guarantees under these allocations. In only two years, 1991 and 1992, did the allocations for the GSM-102 program exceed the $5 billion mark, and only in 1992 did the registrations exceed that when they approached $5.595 billion. In the years 1988-1992 there was a high registration of guarantees relative to allocations. During this period of time, approximately 90 percent of all dollar amounts allocated were registered as guarantees. The following is a schedule which breaks out the year-to-year comparison of allocation and registrations for both the 102 and 103 programs.

GSM-102

($ Millions)

FISCAL YEAR	ALLOCATIONS	REGISTRATIONS	PERCENTAGE
Thru May 6, 1994	$ 3,646.50	$ 1,932.71	53%
Thru May 7, 1993	4,224.00	2,575.10	75.1%
1993	4,592.00	3,643.20	79.3%
1992	6,074.45	5,595.60	92.11%
1991	5,034.90	4,438.91	88.16%
1990	4,610.70	3,964.40	86.0%
1989	4,965.20	4,769.78	96.1%
1988	4,792.00	4,141.42	86.4%
1987	3,821.40	2,622.53	68.6%
1986	4,175.30	2,522.41	60.4%

GSM-103

($ Millions)

FISCAL YEAR	ALLOCATIONS	REGISTRATIONS	%	MAJOR USERS ($)
5/94	$ 290.00	$ 96.3	33.2$	Algeria: $30.9 Morocco: $63.4
5/93	318.50	185.70	58.3%	0
1993	318.50	236.86	74.4%	Algeria: $30.06 Tunisia: $14.2 Morocco: $16.9
1992	229.00	88.00	38.4%	Algeria: $27.3 Tunisia: $22.8 Morocco: $18.1
1991	338.00	83.03	24.6%	Algeria: $22.3 Tunisia: $18.6 Jordan: $24.5

GSM-103

($ Millions)

FISCAL YEAR	ALLOCATIONS	REGISTRATIONS	%	MAJOR USERS ($)
1990	468.30	322.05	68.8%	Algeria: $109.5
				Jordan: $94.2
				Morocco: $35.0
				Sri Lanka: $53.6
				Tunisia: $38.4
1989	485.30	425.53	87.7%	Mexico: $121.8
				Sri Lanka: $33.0
				Morocco: $121.0
				Iraq: $38.4
1988	504.40	362.90	71.9%	Yemen: $25.4
				Morocco: $147.1
				Iraq: $83.3
				Bangladesh: $35.7
				Tunisia: $32.6

GSM-103

($ Millions)

FISCAL YEAR	ALLOCATIONS	REGISTRATIONS	%	MAJOR USERS ($)
1987	410.90	250.35	60.9%	Morocco: $91.7 Iraq: $85.1 Jordan: $17.3
1986	377.00	12.65	3.4%	Iraq: $9.7

It is interesting to note the decline in 1993 in both allocations and registrations, which has continued through May 6, 1994. The registration of guarantees relative to allocations has declined significantly as above evidenced. This recent decline obviously is a result of the way the programs are being utilized and moving from public sector buying to more private sector buying. The period 1988 through 1992 was marked by large allocations and registrations where foreign government buying entities financed the importation of foodstuffs under these programs through government banks with a CGA (contract guarantee assurance) provided to the Commodity Credit Corporation by the foreign government, effectively guaranteeing repayments to the CCC by the foreign government. Principal users of the program with CGAs during this period of time were Algeria and Mexico on a

consistently large basis, and others where the consistency was not always there, but in various years the utilization was high: i.e., Morocco, Tunisia, the Former Soviet Union and Russia.

I previously mentioned the large drop-off through May 6, 1994 of registrations relative to allocations. It would appear that a significant reason for this dramatic change has been the problems experienced in certain public sector markets such as Russia, which in 1994 has no program and in 1993 had low utilization. Other issues have arisen such as in Venezuela where a private sector borrower defaulted and the program was shut down for all other users. This caused a cancellation of credit sales that would otherwise have taken place with viable banks in that market place. Also Algeria, a large user, is currently rescheduling its debt through the Paris Club and will probably not be able to satisfy all of its food import needs due to the GSM programs being suspended for Algeria, pending a successful rescheduling. It is interesting to note that 15 percent of total registrations through May 6, 1994 came from South Korea--$284.5 million. This is a market which will probably be disappearing or at least shifting its buying requirements eventually. Another issue which may affect usage strongly is what happens in Mexico, which has now privatized the banks, and the Mexican government may no longer provide a CGA. This will most likely reduce the total amount of allocations, and thereby the support for actual exports.

The purpose of the preceding discussion was to show that the markets are changing dramatically--moving from public to private sector purchasers. Many of the public sector markets are experiencing problems such as in Russia and Algeria, the two biggest allocations along side Mexico, who will more than likely be undergoing a transition to a private sector program. In the near future, all this will have major implications for the continued

utilization of the programs to successfully move agricultural commodity exports. It is, therefore, necessary to look at ways in which the programs may be amended or complemented in order to assure significant exports facilitated by these programs in the future.

The CCC's export credit guarantee programs have been effective vehicles for moving U.S. agricultural commodities into the export market. Despite some distorted and unwarranted criticism that has been directed toward the programs, they have generally been effective and positive in furthering trade. Rather than consider significantly different approaches, CoBank believes the GSM programs need some improvements, refinements, and expanded uses. They facilitate commercial transactions on a competitive basis, are well understood and received by foreign banks and buyers and can be handled with minimal expense and acceptable risk to the U.S. government and the exporting and banking communities.

There is, however, a growing concern about a shift in focus from an emphasis on promoting U.S. agricultural exports toward greater emphasis on avoiding risk in the world market place and promoting private sector development in foreign countries as a philosophical objective. Reduced usage of the programs available under the CCC's GSM program is an example as indicated in the charts above. More specific requirements have been imposed on the CCC relative to creditworthiness, and in recent years management seems to have been directed toward a conservative position with little inclination to make adjustments or modifications to improve usage and the movement of commodities.

An obvious emphasis has been placed on private sector programs, without sovereign guarantees, developed around credit limits for individual foreign banks. Much time and effort has been expended in performing credit reviews of foreign banks to avoid public sector programs, even in situations where the foreign country does not as yet have a developed banking system. In some cases this approach may have been appropriate, while in others, the shift to private sector programs has been too radical causing the U.S. to lose sales.

We believe a better balance can be achieved between the market development, trade enhancement and foreign policy issues on the one hand and creditworthiness issues and requirements on the other hand. In this regard, we would encourage the development of a partnership between commercial lenders, exporters and the USDA in establishing creditworthiness guidelines for prospective buyers and importing countries, given consideration for utilizing the expertise and experience of lenders in this area.

As previously mentioned, there is an effort underway within the CCC to evaluate existing programs and the need for new programs and approaches to support agricultural export transactions. They should be encouraged and supported whenever possible to provide more flexibility and better linkage of guarantee programs to commercial transactions. To this end, CCC agreed to participate in a meeting yesterday with exporters and bankers to listen to concerns and discuss ways in which to make these programs more effective in their support of U.S. exports. A reevaluation of the real potential for ultimate loss in public sector vs. private sector programs seems to be needed along with the reaffirmation of the purpose and objective of the GSM and other CCC programs, which should primarily be conducted to promote and support U.S. exports and maintain and expand export markets.

Mr. Chairman, I would be remiss if I did not take this opportunity to thank you for your support of H.R. 4379, the Farm Credit System Agricultural Export and Risk Management Act. That legislation, which has been endorsed by a broad array of agricultural groups, will assure access to financing of exports and international business operations for U.S. agricultural interests at a time when global markets are the key to the success of the rural economy.

Mr. Chairman and members of the committee, I appreciate the opportunity to have appeared here today. I would be pleased to try to respond to any questions.

TESTIMONY
OF
ROBBIN S. JOHNSON,
CARGILL, INCORPORATED
BEFORE THE
HOUSE COMMITTEE ON AGRICULTURE
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER
JUNE 23, 1994

Good morning. I appreciate the invitation to appear before the committee today. The committee's questions are central to the United States being prepared for future challenges and opportunities in agricultural trade. With American agricultural growth and prosperity tied to U.S. performance in export markets, this subcommittee's ability to understand trade opportunities can be translated into policies and programs that leave the sector prepared for emerging opportunities. If this panel can accurately define trends and likely developments in production, consumption and marketing, it may confidently guide public assistance to American agriculture.

There are a number of powerful forces shaping the global marketplace between now and the end of the century. The conclusion and implementation of the GATT, no doubt, is one of the most significant. Trade liberalization has been proven to propel economic growth, and that alone is significant for agricultural producers. When liberalization is coupled with the Uruguay Round's (UR) market access and subsidy disciplines, American agriculture is handed an opportunity to compete on terms that are not perfect, but far better than in recent history.

In the 1970s, we witnessed what economic growth could mean to U.S. agriculture. Then, economic growth and the emergence of the Soviet Union as a major importer coincided with a competitively valued dollar and abundant U.S. supplies to produce an export surge -- the likes of which have never been repeated. Throughout the 1970s, the issue for policymakers was managing scarcity and controlling sales -- through embargoes and long-range trade agreements.

The situation was nearly opposite in the 1980s. Much of the 1970's economic growth was false, premised on an abundance of petro-dollars and it could not be sustained; a worldwide recession took hold. The dollar increased in value relative to other currencies; that eroded competitiveness of American goods and services. New competitors came into world markets with attractive products at attractive prices. American grain supplies were abundant, but they were not available to the marketplace at prices the world would pay. The sector was plunged into a recession. The issue for policymakers was getting American agriculture back on its feet, recrafting

policies and programs that would make farming prosperous in an intensely competitive marketplace.

These first four years of the 1990s seem to follow a similar path to the 1980s. Aggregate farm income has stabilized and grown. There are fewer bankruptcies in the farming community, although many of the businesses which buy from and sell to farmers still continue to struggle. For them, the agricultural crisis of the 1980s persists.

Most American farm goods once again are trading competitively in world markets but many in striking new forms. No longer are bulk grains and oilseeds bringing in the majority of export returns; higher value products -- meats, prepared foods, and other goods -- have moved to the top of the list in both growth potential and financial prospects.

Higher-value exports have helped explain the phenomenal growth that has occurred in domestic consumption -- a growth so strong that imports have been called on when domestic supplies fell short. Higher-value exports mean that Americans are transforming basic agricultural commodities into desirable products that the world wants to buy. Since processing industries are often located in or adjacent to production areas, the people who are adding value are people who live on farms themselves, or they are their neighbors.

The rapid growth in value-added exports is a noteworthy trend. In particular, U.S. sales of high-value animal products has more than tripled in the past 10 years, allowing the United States to pick up larger shares in a growing world market.

The trend in bulk exports also is noteworthy for the contrast it poses to high value sales. There too, the world market has grown at a healthy pace, but the United States has not participated in that growth. In the fast growing oilseeds and products markets, U.S. exports have exhibited a declining trend in market share since about 1980. In feed grains, the trend has been down since 1989. Export sales of wheat also have been lackluster and market share has been on a declining path since the beginning of the decade.

Some of the reasons for poor U.S. export performance have been beyond control of farmers, exporters or policymakers -- several weather shocks, the collapse of demand in Eastern Europe and the former Soviet Union and trade rules too weak to discipline unfair competition. But some of the problem has been policy driven -- excessive reliance on supply controls, misguided export policies and inattention to effective market development.

Looking Ahead

The next five years are likely to see more significant change, reflecting a number of fundamental shifts. Four I will focus on are structural, macroeconomic, environmental and technological.

Structural. Structural changes are many and they are complex. Each deserves substantial analysis to capture all of its nuances. But here are some key shifts and what may be their implications:

o Subsidized exports of competitors will decline in both volume and as a share of global grains and oilseeds trade, falling to less than 5 percent of the global marketplace by the year 2000. This decline is explicit in the UR text and often, it is read to mean that the GATT agreement "legalizes" export subsidies. That is a narrow perspective on a large agreement. The UR also is explicit in granting those who signed it the right to seek redress from unfair trade practices. Today, roughly 40 nations have implemented countervailing duty and anti-dumping laws that give individuals the right to file cases with their governments against unfair imports and the list is growing. Domestic producers in any nation do not want -- not should they have to accept -- unfair competition. The UR recognizes that right. And, it may lead to a more rapid decline in export subsidies than envisioned in the Dunkel text. It may also rein in less visible, but unfair, practices to which the United States has objected.

o A more privatized global agricultural economy will develop as governments retreat from control of agricultural production and trade in the face of mounting costs, and falling performance. Private importers buy differently than monolithic buying boards. Their focus often includes quality and other terms of sale, as well as price.

o The populous, rapidly developing economies of Asia will experience income-driven improvements in their diets, supporting steady and significant growth in imports of grains, oilseeds and livestock products. Growth also is projected throughout the Western Hemisphere. Unlike growth we saw 20 years ago, this seems founded on solid economics -- not borrowed dollars.

o As trade barriers are capped and progressively reduced, future expansion in production and trade increasingly will reflect cost and comparative advantages. This should be particularly positive for resource-rich, technologically productive U.S. agriculture.

Taken together, these major structural changes suggest that global grains, oilseeds and livestock trade should expand. Trade flows from North America will tend to decline further going East, and to expand more rapidly West and South. The United States is uniquely positioned to capture the lion's share of this new trade, for there is substantial handling capacity in place to accommodate both growth and redirection in export flows. That is not so true for any of our competitors.

Macroeconomic. U.S. agriculture has learned the roller coaster effects macroeconomic shifts can have on its vitality and growth. Generally inflationary fiscal policies and a declining dollar in the 1970s artificially boosted commodity export volumes and values that already were rising because of crop problems and geopolitical shifts.

Tight monetary policies and an appreciating dollar in the 1980s aggravated an agricultural slowdown occurring because developing countries were constraining their purchasing power. Inappropriate farm policy decisions accentuated the decline. In the second half of the decade, mounting budget pressures put tightening constraints on farm program outlays and produced an excessive reliance on supply controls to contain costs.

The 1990s will continue to see budgetary pressures. However, as the recession bottoms out and the economic "free fall" of the former Soviet Republics is slowed, a foundation for growth will solidify. The decade also shows prospects for a more stable dollar and more balanced fiscal and monetary policies. This should enable U.S. agriculture and agribusiness to capitalize on heightened efficiency and productivity that recent tough times encouraged.

Environmental. Changes occurring on the environmental front also are important. Domestically, the challenge will be whether society's rising environmental expectations of agriculture will be met through mandates and taxes, or through incentives and market-based regulation.

Command/control approaches threaten to put American agriculture in a straight-jacket of rising costs and declining prospects. More flexible market-based approaches offer producers the opportunity to align productivity and stewardship and enhance competitiveness.

How much American agriculture is viewed in a global context will significantly affect how this policy debate resolves itself. World food needs continue to grow. Constraining U.S. agriculture's ability to serve those needs will result in both a hungrier and a dirtier globe as unscientific agricultural systems in developing countries are pushing onto more fragile areas to meet pressing food needs. Empowering U.S.

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agriculture to use technology, education and incentives to produce more food better can enhance global food security and ecological preservation.

Technological. The widespread and rapid introduction of technology and advances from research has been proven a significant advantage to U.S. agriculture. This will be true as we enter the 21st century, even though the "information highway" is stretching around the globe.

Since passage of the last major piece of farm legislation in 1990, the number of computers on farm and in agricultural businesses has increased exponentially, offering software and communication features that already are shaping the marketplace. Software is offering producers both economic and scientific analyses that let them make better purchasing, production and marketing decisions.

Computer communication is linking the farm ever closer to the customer. The result can be increased efficiency, lower costs, better product and less resource stress. The technological leadership of U.S. producers and agribusiness will give the United States a competitive edge, if we nurture and use that leadership effectively.

Policies for the 21st Century

Significant change is occurring in the marketplace. The policies written by this committee will profoundly affect how American agriculture responds to them. Speaking as an exporter and as a major investor and employer in rural America with customers throughout the nation, we believe American policies should build upon U.S. agriculture's strengths -- its abundant land resources, its technological leadership, its efficient infrastructure and its educated resource base of farmers and workers.

The foundation for that policy might be built around three policy goals: economic opportunity, environmental responsibility, and technological leadership.

Economic Opportunity. Several policy goals could be identified. One is to give full-time commercial farmers the tools they need to cope with business risks they face, without distorting their production or marketing decisions. A second goal is to build opportunities for those living on farms or in rural areas whose incomes predominantly come from off-farm sources; this may require better education and training opportunities and employment assistance. A third goal is to strengthen rural communities as centers of both commercial opportunity and social services.

Environmental Responsibility. Support for curbing pollution from agricultural activities is growing. So is the recognition that broad initiatives such as the Conservation Reserve Program cannot effectively target fragile lands or address the most pressing environmental issues.

There have been significant strides, however, that hold potential for maximizing productive use of inputs and minimizing losses to the environment. These suggest a two-tracked approach to carefully target lands that should be withdrawn from row cropping -- and to pay for it with public funds -- and to use productive land better and more carefully -- and achieve it by realigning incentives to reward producers for environmentally sound, yet productive, practices.

Technological Leadership. The ability of U.S. agriculture to sustain its competitive advantage lies in its ability to develop more productive technologies and to diffuse them rapidly through a highly educated producer base. There is therefore, a significant public role to be played in financing basic research to enhance agricultural productivity to improve profitability and to make needed products accessible to more people. Another is to find new uses for basic materials, creating new job opportunities. There is also a public/private partnership to be forged to sustain and improve the dissemination of information throughout the agricultural community.

Export policy. An explicit export policy fits within the policy matrix I have described. Technological leadership, for example, is a part of an export policy because it will expand export opportunities by lowering costs, expanding marketings and opening new uses. Environmental responsibility in a global context also supports exports and trade because it means using American resources and knowledge to feed people without overtaxing fragile lands or less advanced cropping practices elsewhere. Economic opportunity initiatives support exports by fostering a healthy, diversified, growing rural economy.

The implicit export policy described above will feed market growth even more rapidly, if it is reinforced by some explicit export policy initiatives as well. The rationale for such an export focus rests on several considerations:

- that U.S. productivity is growing at twice the rate of domestic consumption; markets are needed for these goods, access to them opened and development accelerated.

- that U.S. agriculture is cost-competitive in a broad range of products; those underlying advantages should be rewarded in a global marketplace.

o that world food and fiber needs exceed demand. To translate needs into commercial demand more quickly should be a central objective of foreign assistance.

This suggests an export policy built around:

Supply assurance. Agricultural exports should be exempted from trade or economic sanctions except to protect national security. This will enable importers to depend on imports with more confidence.

Market access. Improved market access for agricultural products should be a priority in trade negotiations, including bilateral talks with Japan, plurilateral efforts to open or expand regional trading arrangements and multilateral initiatives such as the admission of China to the GATT.

Market development. Funding for FAS and cooperator programs has been cut in recent years. It should be expanded and resources focused on key growth markets. Market development should be coordinated with negotiating efforts.

Sales development. A different package of export assistance programs should be developed to help foreign markets mature and to reach their import potential more quickly. Thus, they would translate more reliably into real export growth that can be sustained. Here are three ideas for consideration:

o For the poorest countries, funds might be earmarked for merchant marine operating expenses or food aid might be exempted from cargo preference requirements.

o Promising markets trying to make the transition from aid to commercial status might be offered direct export credits through a multi-year revolving fund. Repayment terms could be varied by level of need, and repayments would automatically replenish the country's credit line, giving it both the incentive to repay and the confidence to open up greater imports.

o An investment revolving fund also might be established to loan money to private U.S. entities willing to make investments in developing countries to increase consumption of importable commodities. Repayment terms could be structured to fit the level of development of the country or the economic sector involved, which should accelerate the process of development of the local economy and its transformation to a higher quality diet.

Capitalizing on growth potential with a proactive, market building effort can position U.S. agriculture to build and serve the markets it is uniquely positioned to serve -- that is for the full range of bulk and higher value products that people want to buy.

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POSITION STATEMENT

Testimony of
Arthur R. Brown, Jr., Secretary
New Jersey Department of Agriculture
for the
National Association of State Departments of Agriculture
before the
Agriculture Subcommittee on Foreign Agriculture and Hunger
U.S. House of Representatives
June 23, 1994

re: "Long Term Trade Strategy and Export Policies"

Good morning, Mr. Chairman, and members of the Subcommittee. I am Art Brown, Secretary of the New Jersey Department of Agriculture.

I appear before you today on behalf of the National Association of State Departments of Agriculture (NASDA), an organization for which I have served as President. NASDA is the nonprofit association of public officials representing the Commissioners, Secretaries and Directors of Agriculture in the fifty states and 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 developing and maintaining a viable, long-term export trade strategy not only for safeguarding the future of America's agricultural producers and processors but also for the nation's economy.

BACKGROUND

The future of American agriculture depends on using every available export trade avenue and resource, backed by a solid commitment from the United States government, to protect, maintain and increase our share of the world market for food and fiber. In fact, exports use the production of one of every three acres of U.S. cropland. Almost 20% of U.S. agricultural production is exported.

Seventeen percent of jobs in the U.S. are food related. Consumers spend less than 10 percent of their income for food. America produces more than she can consume, to the advantage of our consumers. To protect the availability of low cost food for our people, new export markets must be developed and current markets expanded.

Export is the key to profitability for American agriculture and to maintaining an inexpensive, safe and secure food supply for our nation.

OVERVIEW

U.S. growers produce incredible amounts of safe, wholesome and cheap food and fiber. U.S. consumers pay little in comparison to the rest of the world for our food. This situation can only exist if excess production is exported. There is a growing world population that must be fed.

Food will determine the political power of the future. The world economy is growing. Initial economic growth focuses on improving citizens' diets. The United States dominates the world in production of most foods, fiber, and new uses of agricultural products. The future of America's farmers and agricultural infrastructure depends on expanding into export markets to meet the needs of food and fiber for the hungry of the world. Creation of food and fiber uses renewable resources, protects the environment while creating wealth and not depleting natural resources.

In response to your question on what the market will look like and which countries will the U.S. be trading, with I will venture to say the markets of the very near future will be many. The United States has a strong role to play in providing for the demands of both developed market economies with our high-quality food and fiber products and those of less-developed weaker economies.

I can assure you that the market for raw and value-added American agricultural products will be worldwide. GATT and NAFTA will provide unlimited growth potential for high-value agricultural products.

According to a recent FAS study, four areas will be especially important over the next several years. They are:

- The Pacific Rim countries, especially Japan, Hong Kong, South Korea and Taiwan;
- Canada, Mexico and the remainder of Central America;
- The European Union; and
- Russia and China.

Why these areas? Because they are rapidly westernizing.

- More women are entering the workplace, reducing the amount of time available for meal preparation.
- Household size is smaller, allowing consumer emphasis to focus on quality and variety rather than quantity.
- The middleclass is growing rapidly, creating more disposable income and focusing attention on healthier, more convenient foods.

What products will these countries be looking for that we can supply?

- Fresh produce.
- Frozen foods of all kinds, especially heat-and-eat, microwaveable products.
- Processed meats.
- Dairy products.
- Snack and gourmet foods.

What do we need to access these markets?

- Good market research, pinpointing consumer trends, and aggressive pre-planning before entering markets in developing nations.
- Technical assistance for those companies that export and for those countries that import to help both sides overcome artificial barriers of language, custom and business practices which vary so widely from one country to another.
- Strong, supportive flexible financial programs that will help American companies maintain a strong presence long enough to build product demand in new markets and meet the economic needs of developing countries.

The developed market economies must be courted, developed and maintained. The competition for these markets is fierce and will become even more so with the enactment of GATT and other policies to open world trade. Economically strong markets are critical as outlets of our value-added products that allow growth not only on the farm but in our rural and urban communities as we do value-adding here at home.

We must be aggressive about planning and entering markets in developing nations. We must be sure we have the funding and loan programs that have enough flexibility to meet the economic needs of growing economies. American food and fiber must have the chance to be experienced. We must have the resources to go into these areas and develop a demand for American products. Long term planning must give us the ability to stay in a developing market until we have been able to create a demand for our products.

NASDA believes that there are no countries that are not potential trading partners for America's agricultural products.

NASDA believes that there are sufficient programs in place to access these markets if adequately funded, properly directed and managed and with improved planning and scope of vision. The programs are there, too often the vision and a belief in 'the possible' have prevented us from reaching our potential. But American agriculture did not put $42.5 billion worth of product in foreign markets in 1993 because the system is broken. American agriculture, in fact, had a balance of trade surplus of $18 billion in 1992.

WHAT ARE SOME OF THE SPECIFIC PROBLEMS

Agri-industry export programs are continually losing federal funding, personnel and acceptance in Congress. The industry has the capability to increase production and to create new jobs. Export barriers and foreign competition, however, continue to grow and limit these capabilities.

America's farmers and ranchers are losing international market share to countries with heavily subsidized export programs.

Agriculture has lost its numerical advantage in Congress and its support, recognition and acceptance as a critical component of the American economy. Lawmakers and the public as a whole have lost sight of the fact that agriculture goes beyond the farm gate to the factory, to the transportation, packaging, marketing and other industries that play an important role in the American economy.

The agricultural portion of the federal budget is continually shrinking.

Agricultural export promotion and development program authorizations will expire in 1995.

Funding for agricultural export programs has been drastically reduced.

Dispute mechanisms (NAFTA and CUSTA) are not fully implemented to protect U.S. producers.

FAS marketing programs such as MPP, FMD and EEP are due to expire in 1995. Many of these programs have been heavily criticized and face drastic cuts or the possibility of elimination.

The federal Market Promotion Program (MPP), a very effective marketing tool, should be revitalized to help participants meet new global challenges aggressively instead of cutting MPP and similar funding programs or eliminating them completely.

SOLUTIONS FOR THE LONG TERM

Agricultural export promotion and development programs, PL480, GSM, CCC, MPP, FMD and EEP, must be renewed and funding expanded for the next five years and planning in place for much longer.

- If not resolved prior to the 1995 Farm Bill, there must be a strong effort to prevent GATT offset implementation from taking a disproportionate share of revenue loss from agriculture programs.

- Any phasing back on farm program payments should be transferred to export market development programs.

- There should be a renewed focus and increased importance on 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 must be an emphasis on matching products with potential markets and on moving value added products.

- There should be a streamlining of administrative procedures for program cooperators that requires information that accurately focuses on the participants use of funding. This streamlining shall focus on providing participants timely responses to marketing plans and making funding allocations on schedule.

- Regional trade groups (SUSTA, MIATCO, WUSATA, EUSAFEC) and their state members should be recognized as truly effective vehicleS in distributing and managing these programs for small to midsized companies.

- Export programs need increased support in additional overseas offices and personnel. Personnel need to be better equipped with training in business as well as marketing and economics and an understanding of the industry.

- Value added processes must be matched with programs that allow enough flexibility that U.S. companies can use them overseas to position themselves equally with foreign competition.

- Export development programs need to be accurately focused on those entities that have the ability and or potential for meeting the requirements and demands of servicing export markets.
    - Education and market matching programs must be expanded.
    - Education is needed in international finance and specific marketing tools such as joint ventures as used in China.

- USDA should establish a rapid response unit that combines expertise from within AMS, APHIS and FAS.

- Export development plans must recognize and encourage use of new technologies and encourage their use to match products with export markets. Every effort must be made to expand technological growth and incorporate new technologies into production and processing industries. (Bryce: Give an example here if possible.)

- New technological processes must not be inhibited by non scientific restrictions. New production tools such as bST must be available to help feed the hungry of the world.

- Development of dairy export programs and products has tremendous potential for world markets. USDA should work with dairy producers and processors to enhance export promotion.

- USDA should provide accurate assessments of potential markets and provide the necessary tools (market reports, consumer preference studies, etc.) to match products to markets.

- GAO should produce reports showing the increased market value of value-added processing for current high value products and for the potential export market value of further processing commodity crops.

- Reports should be requested from GAO and ERS that will show the value to the industry and to the U.S. economy of current commodity programs vs. expanded export marketing of agricultural commodities. These reports should also measure the reduction in both sectors if these programs are reduced or eliminated.

- Reports should be required from USDA that will show the economic importance of these programs in urban areas as they contribute to employment in value-added processing.

- Value-adding to agricultural products must be expanded in our rural communities and not exported.

- Value-adding processes must be designed to match the taste and needs of export markets.
    - Current market research (federal/state/university/private when possible) must be expanded and/or made more readily available to potential producers and exporters.
    - The Secretary of Agriculture must work with traditional bulk commodity producers to develop domestic value added processing and is designed to meet foreign requirements. (To keep the value added dollars at home.)

- Lending institutions, such as the Farm Credit System, need to be able to service all off-farm agriculture infrastructures and buyers of agricultural products and finance the export sector.
    - Financial programs must be streamlined, clarified, simplified — to be made more user friendly.
    - Trade financing programs must be in place for foreign buyers.

- Such programs as PL480, GSM, CCC, MPP, FMD, and EEP must be (reauthorized) protected and strengthened to facilitate the movement of American agricultural products into foreign markets.

- USDA must develop or improve current export programs to encourage corporate investment in foreign markets.

- USDA must ensure that U.S. grading, inspection and regulatory programs (sanitary and phytosanitary requirements) do not artificially prohibit the movement of agricultural products into export markets. U.S. requirements must not conflict with international requirements when there is no health or safety issue.

- The Secretary must strongly oppose any efforts of foreign markets to use sanitary/phytosanitary restrictions to unjustly restrict the entry of U.S. products.

While recognizing that food will always be used as a foreign policy tool, any attempt to use food or fiber to cause political change must be done in such a way as to create a positive effect on agricultural trade. Food should be used to gain political favor not to punish a political system.

- All offshore political and USAID-type funded development programs must have a USDA component, to review programs for potential inclusion of agricultural programs or products, (i.e., any infrastructural, product or equipment components of foreign development for food processing or production related programs must be able to process and utilize U.S. agriculture products or equipment.)
    - Agencies affected by these restrictions include USAID, the armed and uniformed services, the Department of Commerce, USDA, and any other federally funded assistance program.

- The Secretary of Agriculture must work more closely with industry and fully utilize all available dispute resolution mechanisms, in a timely manner, to resolve trade disputes between the U.S. and Canada and Mexico or any other foreign entity.

- The Secretary should form an agency/industry task force to review Canadian and Mexican trade disputes. This task force shall include representation from the National Association of State Departments of Agriculture. The task force will use the communication mechanisms afforded through the States-Provinces Agricultural Accord as a first approach to dispute settlement.

USTR must have a USDA export market presence in all programs. It must recognize that the world does have money to buy our products and the first priority is always in upgrading the people's diets (outside of military conflict).

USDA must have an Agricultural Liaison in the departments of Commerce, State, Interior, Treasury, GAO, the White House.

The Secretary of Agriculture must establish an interagency working group, that includes the production and processing industries, to focus on export market development. Export trade development must have the same level of focus at USDA as environmental issues. The interagency working group would be directed to develop a world wide strategic plan for finding, financing and matching products to market needs.

WHAT HAPPENS IF WE ARE ABLE TO DEVELOP A LONG TERM STRATEGY THAT ADDRESSES THESE CONCERNS?

AMERICAN AGRICULTURE WILL MAINTAIN AND INCREASE ITS ROLE IN INTERNATIONAL MARKETING OF FOOD AND FIBER

The American farmer will remain viable.

The American public will be assured the continuation of a reasonably priced food supply.

World market demand will be more accurately and efficiently met by American producers

There will be more and less expensive food available to feed the hungry.

The increased level of value-added products that are exported will increase "growing and processing" jobs in urban and rural areas.

Agriculture is one of only four industries to achieve a trade surplus in 1993. With about one-third of the U.S. harvested cropland producing for export, a long-term strategy is critical to making planting and market decisions.

Government farm policies must be based on a sound knowledge of global markets and policies and how the U.S. can best function in these markets. According to USDA, U.S. agricultural exports totaled $42.5 billion in fiscal 1993. This is a total that must continue to grow if American agriculture is to survive and maintain its place in the world market. (See attachments.)

NASDA will be happy to work with the subcommittee as you move forward to create a long-term trade strategy and export policy. Thank you for the opportunity to provide input into this process.

(Attachments follow:)

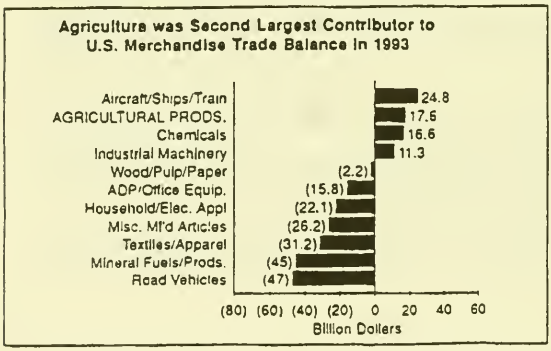
Feature Story: Agriculture's Trade Balance Retains Second Place Among Eleven Major U.S. Industries in 1993

Agriculture continues its unbroken 30-year record of trade surpluses. In 1993, it retained its position as the second largest positive contributor to the total U.S. merchandise trade balance with a surplus of $17.6 billion, and was one of only four industries to achieve a positive trade balance. With 1994 agricultural exports expected to rise roughly the same amount as imports, FAS projects agriculture's trade surplus to remain relatively unchanged and continue as a bright spot in the nation's balance of trade picture.

For several years, the Foreign Agricultural Service has tracked and reported on the trade performance of 11 major U.S. industries. Agriculture recorded a trade surplus of $17.6 billion in calendar year 1993. This placed agriculture behind top-ranked aircraft/ships/trains ($24.8 billion) and ahead of chemicals ($16.6 billion) and industrial machinery ($11.3 billion). The remaining seven industries tracked by FAS all recorded trade deficits. The industries which continued to record the largest trade deficits were road vehicles, mineral fuels and products and textiles/apparel.

In 1993, agriculture retained its ranking as the second largest positive contributor to the U.S. merchandise trade balance. The total U.S. merchandise trade deficit grew $35.5 billion to $135.6 billion in 1993, a 35-percent increase from the previous year. Agriculture's net positive contribution fell $600 million while the non-agricultural portion of the trade balance deteriorated $34.9 billion to - $153.2 billion.

Compared to the previous year, total U.S. merchandise exports rose 3 percent to $439.3 billion in 1993. Six industries accounted for two-thirds of all exports, with industrial machinery clearly in the lead at $59.5 billion. Seven of the 11 industries recorded sales gains from the previous year. Although agricultural exports fell to $42.5 billion, down $300 million from 1992, agriculture maintained its rank as the fifth largest export industry accounting for 10 percent of total U.S. merchandise exports. Of the four industries ranked ahead of agriculture in export value, only industrial machinery and chemicals registered trade surpluses.



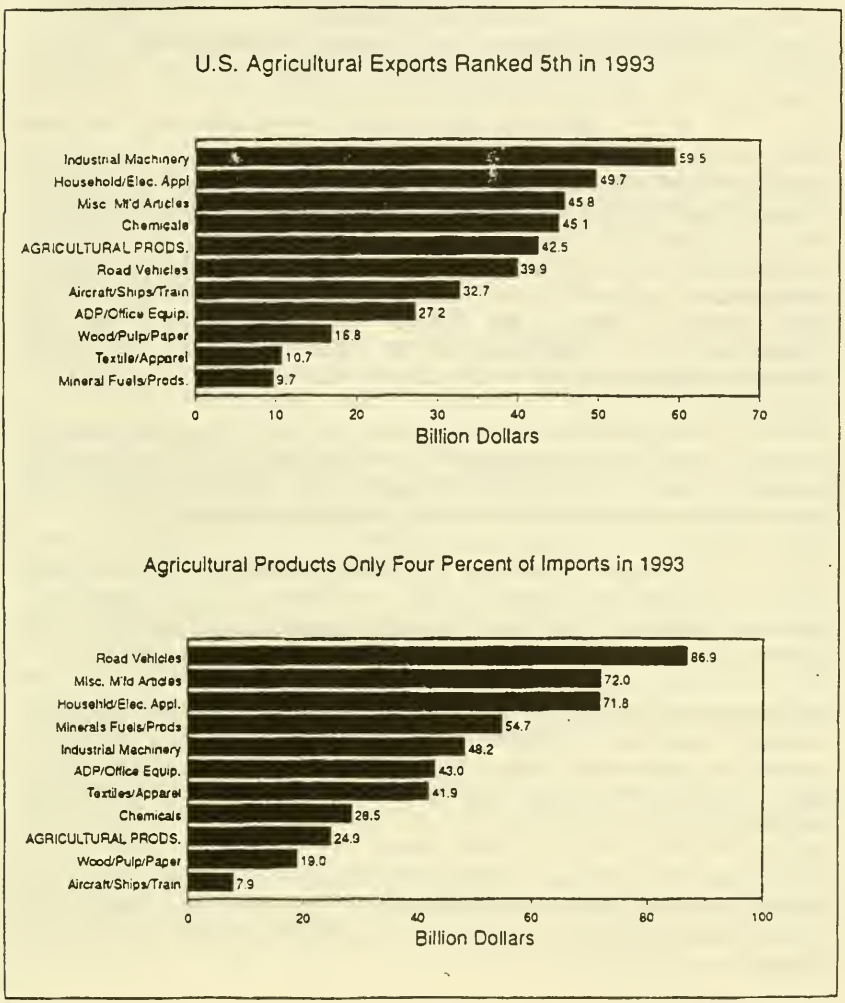
Turning to the other half of the equation, total U.S. merchandise imports reached $574.9 billion, up 9 percent from 1992. Road vehicle imports were clearly in the lead at $86.9 billion, but imports of miscellaneous manufactured articles and household/electrical appliances were also significant at $72 billion and $71.8 billion, respectively. All industries, with the exception of aircraft/ships/trains, recorded higher imports in 1993. Agricultural imports rose $300 million to $24.9 billion, up 1 percent from the previous year. Agriculture remained the third smallest import industry, accounting for only 4 percent of total U.S. merchandise imports.

The total U.S. merchandise trade deficit stood at $135.6 billion in 1993. Without agriculture, the total trade deficit would have risen to $153.2 billion, a 13-percent increase over the actual figure. Although a relatively open import regime and rising consumer demand for imported foods are expected to fuel the long-term growth in U.S. agricultural imports, agricultural export gains should continue outpacing the growth in imports over the next several years.

This article summarizes the U.S. trade balance using trade in goods only. Beginning in 1994, the Department of Commerce will expand its reports to include trade in both goods and services. This new, more complete method of measuring international trade will reduce the current trade deficit figure, because the United States now enjoys a positive trade balance in the services sector. Services recorded a trade surplus of $55.7 billion in 1993.

For more information contact Ernest Carter at (202) 720-2922.

...Trade Balance



TESTIMONY OF DR. TERRY N. BARR
BEFORE THE
HOUSE AGRICULTURE COMMITTEE
SUBCOMMITTEE ON FOREIGN AGRICULTURE AND HUNGER
ON BEHALF OF THE
NATIONAL COUNCIL OF FARMER COOPERATIVES
THURSDAY, JUNE 23, 1994

Thank you, Mr. Chairman. My name is Terry Barr and I am Vice President for Agriculture and Trade Policy for the National Council of Farmer Cooperatives. We appreciate very much this opportunity to appear before your Subcommittee.

We believe the long term strategy of the U.S. should have as its basic objective maintaining the ability of U.S. agriculture to remain viable and competitive in a global economy. Achieving this objective will depend in part on the U.S. government's level of commitment and the extent to which U.S. policies and programs are equally competitive with those of other countries.

This is especially critical between now and the year 2000, during which time the provisions of the Uruguay Round agreement will be implemented. The agreement, it should be noted, does not eliminate existing trade distortions, or the use of export subsidies and trade barriers. It only reduces their overall level.

Further, the agreement provides that countries may maintain and even increase support and funding for programs which are considered non-trade distorting or "green box" programs. These include programs relating to market development and promotion, export credit, and food assistance, among other programs.

Without question, our foreign competitors, including the European Union, will continue to utilize such programs to the maximum extent allowed in order to maintain and expand their share of the world market. This includes the use of export subsidies and shifting available resources into so-called "green box" programs.

For this reason, we continue to be concerned over reports the Administration may propose substantial additional agriculture-related spending cuts as part of the Uruguay Round implementing legislation to help offset as much as one-third of the estimated cost of GATT.

Such proposals are not only contrary to past assurances, but grossly unfair - since agriculture accounts for less than 5% of the estimated $10-14 billion in revenue losses due to tariff reductions required under the agreement.

More importantly, however, is the fact that our foreign competitors would not be required to make similar reductions in their programs. The effect of such unilateral reductions, therefore, would be to place U.S. agriculture at a substantial competitive disadvantage, and to make it difficult to capitalize on any of the market opportunities afforded by the Uruguay Round agreement.

For this reason, we have joined with a broad-based coalition of food and agriculture interests, as highlighted in the attached letter to Secretary Espy, in expressing concern over such proposals. We know that many of you have expressed similar concerns, and we appreciate your continued leadership and support on this important issue.

As a member of the coalition, we have also urged the following actions. First, that funding be maintained for both domestic and international programs as allowed under GATT, and that such programs continue to be aggressively implemented.

Second, that any funds for programs subject to reduction under GATT (such as those used for EEP, DEIP, COAP and SOAP) be redirected and utilized as allowed under GATT for such "green box" programs as market development and promotion, export credit and food assistance, including P.L. 480 and TEFAP (The Emergency Food Assistance Program).

In this regard, we understand that Representatives Jill Long, Jack Kingston, Bill Emerson and Earl Pomeroy have indicated they plan to introduce related legislation, reflecting these recommendations. Accordingly, we would like to take this opportunity to strongly endorse such legislation and to urge that it be included as part of the Uruguay Round implementing legislation.

Such legislation would help ensure U.S. policies and programs are equally competitive with those of other countries, help capitalize on potential new market opportunities as a result of the Uruguay Round agreement, minimize potential outlays under other farm programs, and promote economic growth, jobs and an expanding tax base. Further, it would not require any new outlays since it involves only the use of existing funds.

In a longer term context, the nature and scope of the current export and food assistance programs will be dramatically altered by several factors:

1) The global market is undergoing a dynamic change. The market economy comprised about 1 billion people prior to the emerging markets in the Former Soviet Union and China. The challenge now becomes one of integrating the 4 billion people currently outside the existing commercial marketplace into a new global marketplace. This integration will be difficult and unpredictable.

2) The privatization process occurring in all of the formerly centrally planned economies is dramatically altering the structure of the marketing channels. The days of the "mega-sales" to single buyers are clearly gone. Marketing channels will replace government-to-government negotiations and government will need to retool its staff and programs in recognition of the change. Agriculture and agribusiness will also have to alter its approach to the marketplace and develop new strategies.

3) Government will never be absent from the food and agriculture marketplace because of its strategic role in domestic economic and political stability. However, in a global environment, domestic policies have external implications. Each government will define a role for itself in each market and U.S. policies must respond to that type of competition.

4) Infrastructure investment in emerging markets will have to be viewed as a precursor to realizing the benefits of expanded markets. The markets cannot expand without this basic investment and it represents an opportunity for the establishment of a U.S. presence.

5) The evolution of each of the marketplaces will be distinctly different due to cultural, political and economic realities unique to each marketplace. Generic market development programs are as obsolete as government-to-government trading programs. Trade strategies will have to evolve for each market.

6) As markets evolve, the products demanded will be more selectively defined. Value-added will permeate the bulk as well as high value product lines. Contract specification and enforcement will become greater issues.

7) U.S. agriculture and agribusiness will need to establish a presence in markets where its competitors have a much longer history and in many cases well established commodity identities. Establishing the linkage between desired product characteristics and the U.S. label is crucial to market success.

8) About two-thirds of the population (about 2.5 billion people) that will be integrated into this global marketplace reside in regions of the world that account for only about 15 percent of the world's economic activity. And as the world's population doubles by the middle of the 21st century (going from five billion to 10 billion people) 90 percent of the population growth will occur in those regions. As we seek to make agriculture more responsive to market signals we should not forget that these people do not have the dollars to send signals. In both domestic and foreign markets, there must be mechanisms that allow those who cannot send market signals to be recognized.

The conclusion from all of these observations is that the future marketplace structure is very uncertain. The focus will be on flexibility not rigid programs. If you combine this extreme uncertainty with the absolute certainty of the budget and deficit reduction reality in this country, one conclusion is clear. It is absolutely essential to maintain the full complement of export and food program initiatives if agriculture is to be a growth industry in the future and the U.S. is to meet its market and humanitarian commitments in both the domestic and emerging global markets. Agriculture can be competitive in the marketplace as long as government policies are also competitive with those of the competition.

(Attachment follows:)

June 10, 1994

The Honorable Mike Espy
U S Department of Agriculture
Room 200-A Administration Building
14th and Independence Avenue, SW
Washington, D C 20250

Dear Mr Secretary

We, the undersigned organizations, continue to be extremely concerned over reports the Administration may propose substantial additional agriculture-related spending cuts as part of the Uruguay Round implementing legislation to help offset potential revenue losses resulting from tariff reductions.

As we outlined in our earlier letter to the President, such a proposal would be completely contrary to past assurances that the Uruguay Round agreement would not require further reductions in agriculture programs. It would also be grossly unfair, since U S agriculture accounts for less than 5 percent of the estimated revenue losses due to tariff reductions required under the agreement.

More importantly, however, is the fact that our foreign competitors would not be required to make similar reductions in their agriculture-related programs The effect of such unilateral reductions, therefore, would be to place U.S. agriculture at a substantial competitive disadvantage and make it difficult to capitalize on any of the market opportunities afforded by the Uruguay Round agreement.

Clearly, as history has shown, our foreign competitors will continue to utilize every available weapon to maintain and increase their share of the world market If U S agriculture is going to remain viable and competitive, it must have a similar commitment on the part of the U.S. government.

For these reasons, we believe the following actions are needed First, funding should be maintained for both domestic and international programs as allowed under GATT and they should continue to be aggressively implemented Second, any funds subject to reduction under GATT (such as those used for direct export subsidies) should be redirected and utilized as allowed under GATT for such programs as market development and promotion, export credit, food assistance and other so-called "green box" programs which are considered non-trade distorting.

Unless these concerns are addressed, it is hard to envision how U S agriculture stands to gain as a result of the Uruguay Round agreement

Sincerely,

American Farm Bureau Federation
American Meat Institute
American Sheep Industry Association
American Soybean Association
Coalition For Food Aid
National Association of State Departments of Agriculture
National Association of Wheat Growers
National Barley Growers Association
National Cattlemen's Association
National Corn Growers Association
National Cotton Council
National Council of Farmer Cooperatives
National Farmers Union
National Grange
National Milk Producers Federation
National Pork Producers Council
National Potato Council
National Sunflower Association
National Turkey Federation
Rice Millers Association
United Fresh Fruit and Vegetable Association
United Egg Association
United Egg Producers
U.S. Rice Producers Group

BEFORE THE SUBCOMMITTEE ON
FOREIGN AGRICULTURE AND HUNGER
OF THE HOUSE COMMITTEE ON AGRICULTURE

HEARING ON
"LONG TERM TRADE STRATEGY AND EXPORT POLICIES"

June 23, 1994

Christian Schlect
President
Northwest Horticultural Council
Post Office Box 570
Yakima, Washington 98907
(509) 453-3193

Thank you Chairman Penny for inviting me to testify before the Subcommittee on Foreign Agriculture and Hunger on the subject of "Long-Term Trade Strategy and Export Policies."

By way of background, I am the President of the Northwest Horticultural Council located in Yakima, Washington. The Council represents growers and shippers of apples, pears, cherries and other deciduous fruits grown in Idaho, Oregon and Washington on a number of policy issues including those related to international trade. I am immediate past chairman of the United States Agricultural Export Development Council and current chairman of the Coalition to Promote U.S. Agricultural Exports. In addition, for the past twelve years, I have served as a private sector advisor either on the Agricultural Trade Advisory Committee (ATAC) for Fruits and Vegetables or, its sister organization, the Agricultural Policy Advisory Committee for Trade (APAC).

I applaud the Subcommittee on Foreign Agriculture and Hunger for initiating an early discussion on general trade policy prior to crafting specific legislation for inclusion in the next Farm Bill.

You have asked for two broad areas of discussion. I will address them in the order raised and then add a few additional comments with your permission.

What will the markets look like, which countries will the U.S. be trading with, what products will they purchase and what mechanisms are necessary to access these markets?

In answering this question, I need to quickly point out that I am not knowledgeable about markets for our bulk commodities. Other witnesses before you today will certainly provide their viewpoint covering these crops. In terms of fruits and vegetables and a number of other high value or value

added crops, I think our major markets over the next five year will be worldwide, but greatest growth will be concentrated in Asia.

Our hemisphere should also provide outstanding growth. Mexico alone, with the passage of NAFTA, has developed into an outstanding market for a number of agricultural products, including those I represent. It is interesting to note that Mexico has jumped from being an insignificant or non-existent market five years ago to being the number one export market for both U.S. apples and pears this past year. When the 1990 Farm Bill was debated, I would not have guessed that this dramatic shift would have occurred. Perhaps an unexpected country or region will develop over the next five years. In my opinion, Mexico is a good example of why U.S. trade policy should be as flexible as possible.

Other current examples for the need of flexibility are Vietnam and China. Had MFN status not been extended in May for China, we would be faced with a much different agricultural trade situation than we have today. As it happens, Secretary Espy on June 10 announced a major market access opening for our apples. Similarly, Vietnam provides a marketing opportunity for U.S. agriculture that six months ago did not exist.

We simply cannot always predict which country or region will develop the critical combination of market demand, purchasing power and access that will allow U.S. agricultural exporters to thrive. For this reason, I believe Congress should provide the tools that will allow the Department of Agriculture the latitude to make quick and decisive actions in support of agricultural exports as time and circumstances demand. The goal should be to expand U.S. agricultural export opportunities to the benefit of the U.S. producer, domestic jobs and our nation's balance of trade. The goal should

not be to achieve this by rigidly directing sales efforts toward country X or country Y without consideration of ever changing circumstances.

I would like to stress to the committee that markets differ given the individual commodity involved. For some commodities, Europe is a mature or declining market. For others, it is a new opportunity with extensive potential given its large population and strong consumer buying power. The point is that we must have an agricultural trade policy flexible enough to handle changing circumstances based on individual commodity needs.

In terms of successfully marketing a product to foreign countries, often times the key component is simple market access. While the Uruguay Rounds should greatly assist in gaining access, it by no means solves the problem. I envision that U.S. agricultural exports will be faced with a large number of new technical barriers now that tariffs and quotas are to be reduced or eliminated. For this reason, I advocate greater recognition by Congress of the need for a coordinated approach on technical issues under the leadership of the Secretary of Agriculture. A strong and cooperative working relationship must exist between the various agencies and departments with expertise needed to overcome trade barriers. These include the Animal Plant Health Inspection Service, the Agricultural Research Service and the Foreign Agricultural Service. In addition, other agencies of the government, including the Environmental Protection Agency and the Food and Drug Administration, need to be made aware that Congress expects them to work cooperatively in expanding agricultural trade opportunities for U.S. producers. Congress should place greater priority on these technical areas involving trade barriers and fund agencies accordingly.

Both the office of the United States Trade Representative and the Foreign Agricultural Service are doing outstanding work in regard to trade policy initiatives aimed at opening markets. It is vital that

these relatively small agencies of government be given the financial and personnel support necessary to continue doing the job needed to be done. Policy initiatves will fail if resources and morale are low.

In conclusion to this question, I would again point out that the developing world, especially Asia, will be the primary area of expansion for high value and value added products to the year 2000. However, we must not forget our traditional markets, nor lose sight of the fact that market opportunities are largely individual to the product involved. Finally, flexibility is needed to meet the demands and opportunities as they arise. Our best bet would be to have a well staffed and aggressive Foreign Agricultural Service working in a close, cooperative fashion with private industry toward obtaining the greatest overseas market share possible.

Do current policies assist U.S. agriculture as we trade in a very competitive world, do we have the flexibility we need in export programs, overseas offices and personnel in the fastest growing markets, and must we consider new programs and polices to utilize the comparative advantage the U.S. has in agricultural production and processing?

Current policies are largely beneficial to the high value and value added products I am most familiar with. Again, I will leave the discussion of the traditional bulk commodity programs to other panelists.

I especially commend to the committee the views of the National Council of Farmer Cooperatives as expressed to you today on the issue of general GATT disciplines on programs distorting international

markets and appropriate U.S. policy in response to these disciplines in terms of funding GATT-legal farm programs.

The key program that is of benefit to many commodities, of which I am familiar, is the Market Promotion Program (MPP). It is important to realize that this program has been effective even though criticized. In my opinion, Congress should reauthorize MPP and allow for funding at least at the $200 million level contained in the Food, Agriculture, Conservation and Trade Act of 1990. Furthermore, the traditional Foreign Market Development (FMD) program should be retained and separately funded at the $40 million level. A good argument could be made that even more money should be put into both of these programs. Given that they are both "GATT-legal" under the Uruguay Round, we anticipate other countries will be utilizing similar programs in a greater way over the next five years. These types of cooperative promotion programs do not encourage distortions in production nor do they send false market signals. They are aimed at expanding sales by means of promotion and market development. In my mind, these cooperative programs, which have their antecedents in the early 1950's, should be endorsed by Congress as the type of joint private industry government initiative necessary if we are to be competitive in the new international climate. Specific program criticisms of MPP have been answered or are in the process of being answered through either Congressional action or rule making by the Secretary of Agriculture. We should not lose sight of the fundamental fact that these programs work and should be encouraged.

Beyond the obvious benefit to commodity groups and companies involved in the MPP and FMD programs, is the often underestimated benefit to the U.S. government of having a close working relationship with the private sector in terms of the whole range of issues related to agricultural exports. With a joint promotion program between USDA and a private commodity group, the government gains knowledge of the commodity that it would otherwise not have, and is, therefore,

more successful in its work in assisting U.S. agriculture. With a cooperative relationship both government and the private sector can informally agree upon the proper market initiatives and trade access work that, if successful, will result in real returns to growers and the U.S. economy.

Turning to the Foreign Agricultural Service, I would suggest that Congress reemphasize its leading role in working towards expanded agricultural trade opportunities. U.S. agriculture does not want to become part of some overall coordinated approach such as through the U.S. Department of Commerce.

Before moving on, I would like to state the importance of the name "Foreign Agricultural Service." FAS, as it is more commonly designated, is known worldwide as the official representative of U.S. agriculture. The private sector in this country know it as FAS and foreign governments know it as FAS. To change its name as is currently being considered, is without sound logic. Staff morale would suffer and confusion would flourish.

In regard to overseas offices and personnel in the fastest growing markets, I would suggest that this should be left to the Secretary of Agriculture with the advice and professional judgement of FAS. While it is obvious that our country cannot afford to have agricultural offices in every country and market worldwide, it is less obvious where those offices should be located. To me, decision making should reside with those closest to the problem and not be hampered or directed with specific requirements in legislation. I hasten to emphasize that Congress should adequately fund overseas offices in general because of the importance of on-site work related to market intelligence, trade promotion and trade policy. The importance of these offices overseas to the U.S. agricultural export community cannot be overestimated.

In conclusion, I would support the continuation of the Market Promotion Program and the Foreign Market Development Program at levels much higher than currently exist. While subject to improvement, these programs have proved their value and have the necessary flexibility to meet changing conditions to the year 2000. Furthermore, I recommend that the Foreign Agricultural Service name be retained and that strong Congressional support be given to its activities both in Washington, D.C. and overseas.

Other Comments

1. The Cochran Fellowship Program which was established in the 1990 Farm Bill has been quite useful. I would suggest that language be added by Congress instructing that this program give priority to bringing foreign visitors to the United States who may facilitate U.S. agricultural export opportunities. For example, I think it would be beneficial to bring over food safety officials from developing countries to learn of the U.S. system so that upon their return U.S. agricultural exporters might deal with more knowledgeable people in the destination market.

2. I believe Congress should restate the importance of the private sector advisory committee system. Having been an active participant for several years, I believe that interaction between the private sector and public policy makers in the agricultural trade policy area has been beneficial to both.

3. One area of savings I would point out to this committee would be a restraint on the number of reports demanded by Congress in the next Farm Bill. In my opinion, these Congressionally

mandated reports tend to be at the initiative of a specific industry and rarely are that useful. While it is easy to include a requirement for a report in Farm Bill legislation, it nonetheless imposes a workload and resource demand which should be recognized.

Conclusion

Thank you Chairman Penny for allowing me to share my views with the Subcommittee on Foreign Agriculture and Hunger as policy debate begins over the next Farm Bill.

The Honorable Jill Long

Mr. Chairman, thank you for the opportunity to testify for the record regarding agricultural trade and the 1995 Farm Bill. I appreciate this opportunity and commend you for holding this important hearing.

Prior to the 1995 Farm Bill we have some important decisions to make with regard to agriculture -- specifically I believe the most important issue is whether we will continue to expand our markets abroad.

We have set the standard for quality by having the most abundant and safest food supply in the world. It is imperative that the United States continue to lead the world in terms of agriculture. However, I am concerned that under the GATT agreement, agriculture may be severely handicapped. Currently, the Europeans are able to outspend us in agriculture programs 3 to 1. Therefore, I hope that the administration will recognize that additional spending cuts to offset the major share of the estimated cost of GATT unfairly impacts agriculture. In addition to this, it gives an unfair advantage to foreign competitors, reduces ability to capitalize on new market opportunities and, is also, contrary to past assurances from the Administration.

To maintain our current leadership position, I believe that it is essential to maintain funding for domestic and export programs as allowed under the Uruguay Round Agreement, to ensure that export programs are aggressively utilized as allowed (such as EEP, DEIP, COAP and SOAP). In addition I believe that any fund that may not be used for export subsidies be redirected for the "green box" programs. Just as a reminder, the "green box" programs encompass a plethora of programs such as market development/promotion, export credit guarantees, food assistance (mainly P.L. 480 and TEFAP), and any other program as authorized.

This proposal is completely consistent with the U.S. commitments under the Uruguay Round. In addition it is entirely budget neutral. Because it only redirects the use of existing funds; provides needed program flexibility to meet foreign competition and U.S. food aid commitments at home and abroad; and helps ensure that funding for such programs is maintained as allowed under GATT. It is just not fair that agriculture is being asked to carry the majority of costs assoicated with the funding of GATT.

Thank you again for the opportunity to testify.

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