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STATEMENT OF
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BEFORE THE
SUBCOMMITTEE ON DEPARTMENT OPERATIONS, RESEARCH,
AND FOREIGN AGRICULTURE
OF THE
HOUSE COMMITTEE ON AGRICULTURE
ON
ISSUES EFFECTING
U.S. AGRICULTURAL COMPETITIVENESS
IN WORLD MARKETS

Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to discuss with you our work on issues affecting U.S. agricultural markets. We are in the process of reviewing many studies that have been conducted over the last few years concerning ways to enhance U.S. agricultural exports as well as summarizing what the agricultural community is saying about the export situation. Our work has focused on identifying these export issues, and the different viewpoints concerning these issues. Today, we will provide you with some summary comments based on our work to date.

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In the early 1970s global agricultural trade expanded rapidly, ushering in a period of unprecedented growth that continued unabated for nearly a decade. During this period the value of U.S. agricultural exports increased significantly, and by FY 1981 reached an all time high of \$43.8 billion. As a result of this dramatic increase, American farmers depended more than ever before on agricultural exports for a substantial portion of their sales, as almost two out of every five acres of agricultural land were producing for foreign markets.

During the 1980's, however, U.S. agriculture has been experiencing a steady decline in the volume and value of its exports, and a decline in its share of world markets. The value of U.S. exports in FY 1986, for example, is forecast to reach \$26.5 billion, a decline of about 40 percent below the peak FY 1981 level. The volume of U.S. agricultural exports is projected to reach a 6-year low of 108.0 million tons, some 33 percent below its peak level recorded in FY 1980. In terms of volume, the Department of Agriculture's 1986 forecast also calls for a world market share of 25 percent, down from 42 percent recorded in 1980.

Even though the United States remains a major exporter, the downward trend in its farm exports has raised concerns about U.S. agriculture's ability to compete in world markets, and has placed emphasis on formulating agricultural trade policies and programs designed to expand exports. Responding to this challenge, however, has become increasingly difficult as U.S. agriculture has become an integral part of a highly interdependent and changing international environment. The decline in U.S. agricultural exports, for example, is attributed to a variety of complex and interrelated factors including changing global macroeconomic conditions, domestic farm program and international trade policy decisions of the United States and other nations, and foreign competition that has intensified as global agricultural production has increased and world trade has stagnated.

In an attempt to make U.S. agriculture more competitive, the 1985 Food Security Act has made export expansion a primary policy objective. To this end, export expansion programs have been established and/or expanded and various other measures, such as bilateral and multilateral negotiations aimed at reducing trade barriers, have been initiated. Although USDA officials have stated that it is too early to expect these programs to work, U.S. agricultural exports and the U.S. share of the world market have continued to decline.

How well the United States fares in reversing this decline, and at what cost, depends on how successful it is in increasing the foreign demand for its agricultural commodities and in competing against other suppliers. One of the mechanisms available to accomplish this is to make U.S. agricultural exports more price competitive. Suggestions for improving the price competitiveness of U.S. exports have included lowering commodity price support levels, expanding export credit programs, relying more on export subsidies, lowering the value of the dollar, and reducing production costs.

While some of these measures have been implemented in recent years, there exists a broad range of viewpoints on whether they will enhance exports. For example, some critics contend that the reduction in commodity price support levels, authorized under the 1985 Food Security Act, will do little to enhance U.S. exports. They point out that major U.S. competitors will respond by increasing their export subsidies and/or by lowering their export prices just below the U.S. price support levels to protect their markets.

Expanding agricultural exports does not necessarily rest solely with improving U.S. agriculture's ability to compete on a price basis. In fact, studies have suggested that there are several other important ways to increase the demand for U.S. commodities. These non-price proposals include relying on barter

and countertrade arrangements, using long-term bilateral sales agreements, emphasizing the export of processed products, improving market development and promotion efforts, and improving the quality of U.S. grain shipments. While the advantages and disadvantages of these proposals have been debated in recent years, there remains uncertainty as to the extent these alternatives can enhance U.S. agricultural exports and should be addressed in future U.S. agricultural trade policy.

Grain quality, however, has received considerable attention as several bills aimed at toughening U.S. grain standards have been introduced in response to growing concerns that poor quality grain shipments have been a factor contributing to the decline in U.S. agricultural exports. We have also made a number of recommendations in past reports¹ concerning the quality of U.S. grain shipped overseas. Two of these recommendations in particular were adopted in August 1986. In one instance, the Department of Agriculture tightened its standards for dockage content in grain shipments. In the other instance USDA revised its procedures to require that wheat protein content be computed and reported on a standardized moisture basis which makes it consistent with the practices of other grain exporting countries. Other recommendations such as the need for (1) greater uniformity in the quality of grain shipments destined for multiple buyers, (2) zero tolerances for insects in the grain standards, and (3) research to be conducted relative to restricting certain grain blending practices, have not yet been adopted by USDA's Federal Grain Inspection Service.

¹U.S. Grain Exports: Concerns About Quality (GAO/RCED-86-134, May 19, 1986) and Federal Export Grain Inspection and Weighing Programs: Improvements Can Make Them More Effective and Less Costly (CED-80-15, Nov. 30, 1979).

Whether seeking a solution through reducing export prices or by some other demand enhancement action, we believe that it is important to focus on the fact that U.S. agriculture will continue to be affected by a changing world food economy. This means that the United States needs to develop policies that respond to these changes if it hopes to be competitive over the long run. Accomplishing this, however, has become extremely difficult as U.S. agriculture has become subject to a variety of international supply and demand factors over which it has little or no control.

The uncertainty associated with these factors places heavy pressures on the U.S. policy making process to evaluate the need for a cohesive long-term strategy that is flexible and recognizes that agricultural policy is no longer only a domestic or agricultural issue. U.S. agricultural policy choices for the future will have to:

- take macro and international variables explicitly into account,
- recognize that the United States could face any of a number of possible competitive situations, each of which may have different policy implications,
- be designed with maximum flexibility so as to allow U.S. policy to adjust to changing national and world environments; and
- be prepared to accept and cope with substantial world market instability.

There exists, however, several obstacles in developing such a strategy. First of all, not everyone agrees on the institutional arrangements or on the objectives of such a strategy. A step toward resolving these disputes may involve expanding and

improving the capabilities of the United States to conduct effective trade research.

Studies have pointed out that a major impediment in formulating future agricultural trade policies stems from the fact that there is insufficient knowledge and data about social and economic issues and practices in both exporting and importing countries. This information is needed to evaluate the international and political environment.

In a 1984 report, a committee of prominent agricultural economists recognized that because of the increasing importance of international trade to U.S. agriculture, greater knowledge is now needed on trade issues, on the interactions between macro economic policies and domestic commodity policies, and on agriculture policies of other countries.

The Committee stated that a set of general research guidelines could include research on (1) the effect of economic, technical and resource factors on world agricultural demand and production, (2) the impact of economic policies on world agricultural trade, (3) the relationships between domestic agricultural policies and trade policies, (4) understanding who gains from trade and the implications of restrictive trade policies and practices, and (5) understanding the reasons for governments' policy decisions that affect world agricultural trade. It is by gaining a better understanding and an appreciation for the factors that affect world agricultural supply, demand, and trade, that policymakers will be able to more effectively debate issues and possibly formulate a cohesive set of agricultural trade policies and programs that achieve long-term sector wide goals.

I would like to raise one more important point. While increasing U.S. agriculture's ability to compete is necessary if it is to gain a greater world market share, increasing the growth in world trade is equally important if U.S. agriculture expects to

significantly improve its export prospects. As such, a challenge facing the United States and other competing countries is to recognize that our mutual interests are better served by expanding the total market, rather than competing for slightly larger shares of a stagnant or shrinking market. Improving the growth of world trade, however, depends on a healthy global economic environment. Accomplishing this is linked in part to a worldwide reduction in the trade barriers that restrict the free flow of agricultural and other goods from one country to another, and in resolving the international debt crisis that has curtailed the import demand of many developing countries. However, U.S. agriculture's ability to capture a fair share of this growth in world trade, will still depend on its ability to compete in world markets.

In summary, the competitiveness of U.S. agriculture in world trade is very much of a concern to this country, particularly in view of the huge U.S. surpluses. Competitiveness involves many complex interrelated factors ranging from price and product quality factors to governmental and fiscal policies, and there are still many unanswered questions. For example:

1. How cost effective are our expanded export enhancement programs, like Export PIK and credit guarantee programs?
2. Where are our potential markets and how can we best target them?
3. What are the production capabilities of our competitors?
4. What factors led to increased agricultural imports and what are the long-term prospects?

We currently have on-going or are planning to start shortly, a number of assignments involving agricultural trade. We are

addressing world agricultural production trends, evaluating why and how they occurred and the likelihood that they will continue in the future. We also plan to identify the factors that impact on foreign demand for agricultural-products, ascertain how U.S. food exporters target demand in specific markets based on the factors identified, and evaluate the mechanisms that exist to assure successful sales in the marketplace. In addition, we are determining why agricultural imports are increasing and how these imports impact on the U.S. agricultural industry and the economy as a whole. We are also planning further work on the U.S. grain quality standards and the impact of other Department of Agriculture programs on the production and marketing of high-quality grain.

Mr. Chairman, this completes my statement and I would be pleased to answer any questions you may have.