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AGRICULTURAL COMPETITIVENESS

An Overview of the Challenge to Enhance Exports



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The Honorable Patrick J. Leahy
Chairman, Committee on Agriculture,
Nutrition, and Forestry
United States Senate

The Honorable E. (Kika) de la Garza
Chairman, Committee on Agriculture
House of Representatives

This report discusses issues related to U.S. agricultural export competitiveness. We initiated this review because the continuing decline in U.S. agricultural exports has raised concerns that current farm programs and policies may need to be reevaluated in the context of a changing global environment.

The overall purpose of this report is to highlight what the federal government is doing to increase U.S. agricultural exports and to present alternative considerations. We are sending copies of this report to the Director, Office of Management and Budget, the Secretary of Agriculture, appropriate congressional committees and Members of Congress, and other interested parties.

Major contributors to this report are listed in appendix I.

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Executive Summary

Purpose

During the 1980s U.S. agricultural exports have declined steadily. The U.S. share of world agricultural trade has also diminished. These trends have contributed to worsening the financial crisis in agriculture, to substantially increasing federal farm program outlays, and to reducing the U.S. agricultural trade balance. Coupled with excess production capacity, declining agricultural exports have also contributed to a huge buildup of surplus stocks.

Although the United States remains a major exporter of agricultural commodities, downward trends in exports have raised concerns about the competitiveness of U.S. agriculture in world markets. U.S. policy-makers face a difficult challenge in formulating agricultural trade policies and programs designed to expand exports. Responding to this challenge has become increasingly difficult as U.S. agriculture has become an integral part of a highly interdependent and changing world environment.

The purpose of this report is to discuss (1) the growth and decline in U.S. agricultural exports, (2) factors affecting the competitiveness of U.S. agricultural exports, (3) the consequences of a declining export market, (4) alternatives for enhancing exports, and (5) concerns policy-makers face in formulating future policy.

Background

In the early 1970s global agricultural trade expanded rapidly, ushering in a period of unprecedented growth that continued for nearly a decade. During this period U.S. agricultural exports increased dramatically and by fiscal year 1981 reached an all-time high of \$43.8 billion. In fiscal year 1982, U.S. agricultural exports began a downward trend that resulted in exports falling to \$26.3 billion in fiscal year 1986, a decline of 40 percent. This decline is attributed to a variety of complex and highly interrelated factors, including changing global macroeconomic conditions and domestic farm programs and international trade policy decisions of this and other nations. Additionally, foreign competition has intensified as global agricultural production has increased and world trade has stagnated.

In an attempt to make U.S. agriculture more competitive, the Food Security Act of 1985 made export expansion a primary policy objective. The act established and/or expanded export promotion programs. Other measures, such as reductions in U.S. commodity price support levels and international negotiations aimed at reducing trade barriers, were also initiated. High price support levels contribute to the problem of

declining exports because U.S. farmers will not export crops for less than the support levels and foreign competitors use the support levels as a basis for pricing their exports and in deciding production levels. However, because total farm exports did not increase in fiscal year 1986, serious concerns have been raised as to whether current farm programs and policies are the most effective alternatives for improving the competitiveness of U.S. agriculture. USDA's position is that it is too early to expect these programs to reverse the downward trend in U.S. exports and that the act must be allowed to run its course if it is to be effective.

Results in Brief

U.S. success in reversing the downward trend in its farm exports partially depends on whether this country can increase foreign demand for its agricultural commodities and compete against other suppliers. This will require ensuring not only that adequate supplies of high quality products are available, but also that these products are priced competitively and marketed aggressively. There exist, however, differing viewpoints concerning which policies and programs would be the most effective. From a long-term perspective, U.S. policymakers are faced with the challenging task of expanding total world agricultural trade and formulating future U.S. agricultural policies that are based on sound research, are flexible, and are geared toward achieving long-term goals.

GAO's Analysis

The competitive challenge facing U.S. agriculture in world markets involves a variety of issues and options aimed at regaining lost market share and capturing a fair share of any future growth in world trade. These issues include improving the price competitiveness of U.S. exports, increasing the demand for U.S. exports, and stimulating total world agricultural trade.

Improving Export Competitiveness and Increasing Demand

The options available in addressing these issues range from modifying current programs and policies to adopting new ones. There have been many suggestions for improving the price competitiveness of U.S. agricultural exports including, for example, lowering commodity price support levels, expanding export credit programs, relying on export subsidies, and reducing production and marketing costs. Other options for increasing the demand for U.S. farm exports include assisting countries with limited dollar reserves through barter and countertrade arrangements, increasing the use of long-term bilateral sales agreements, emphasizing the export of processed food products, improving market development and promotion efforts, and improving the quality

of U.S. grain shipments. Exempting agricultural programs from statutory requirements that food supplied to other countries under certain foreign assistance programs be shipped on higher cost U.S. commercial vessels has also been raised as a competitiveness issue. To some extent, the effectiveness of any of these efforts will be subject to factors, such as the value of the dollar, which are external to agricultural policy concerns. (See chapter 3.)

Global Trade Growth

While increasing U.S. agriculture's ability to compete is necessary to gain world market share, stimulating world trade growth is also important if U.S. agriculture expects to improve its export prospects significantly. The United States and other major trading nations will have to work together to reduce trade barriers and help resolve the international debt crisis of many developing countries. (See chapter 3)

Flexible Policies

Improving U.S. agricultural exports will also require that new agricultural policies recognize that policy choices no longer involve only domestic agricultural issues. U.S. agriculture's involvement in the world food economy has subjected it to a variety of international supply and demand factors over which it has little or no control. Past agricultural policies have not only failed to recognize many of these factors, they have also lacked the administrative flexibility necessary to respond rapidly and effectively. For example, price support levels have been set by law for several years at a time and, as a result, are not easy to adjust in response to changing economic conditions. It therefore is important for the United States to formulate policies that take foreign policies and world economic conditions into account and recognize that the United States could face any of a number of possible competitive situations. These policies, moreover, should be designed so as to allow maximum flexibility in adjusting to changes in the international environment and in recognizing that not only price options but also other options may be available to improve U.S. agricultural competitiveness. Ultimately, the long-term success of U.S. agriculture in world markets may depend on our ability to identify what each importer needs and have the flexibility to satisfy that need. (See chapter 4.)

Trade Research and Analysis

Effective trade research and market analysis can play an important role in helping to formulate a flexible long-term trade policy. Because of the increasing importance of international trade to U.S. agriculture, greater knowledge is needed on the factors that affect world agricultural

supply, demand, and trade, and on the long-term implications of various policy options. By gaining a better understanding of these factors, policymakers will be able to debate the issues more effectively and formulate new policy directions for U.S. agriculture. New policy directions should also reflect long-term goals concerning what U.S. agriculture can realistically expect in terms of future world market share. A thorough analysis of the factors affecting the global agricultural trade environment will be an important component in developing these expectations. (See chapter 4.)

Recommendations

This report is a general overview of agricultural export issues and policy options for increasing U.S. agricultural competitiveness in world markets; it contains no recommendations.

Agency Comments

This report has been discussed with U.S. Department of Agriculture officials, who said it represented a thorough and accurate overview of the issues and challenges to increase U.S. agricultural exports. Their suggestions were incorporated where appropriate. Because of the informational nature of this report, GAO did not obtain official agency comments.

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Abbreviations

ASCS	Agricultural Stabilization and Conservation Service
CCC	Commodity Credit Corporation
EC	European Community
EEP	Export Enhancement Program
ERS	Economic Research Service
FAS	Foreign Agricultural Service
GAO	General Accounting Office
GATT	General Agreement on Tariffs and Trade
USDA	United States Department of Agriculture

Introduction

U.S. agricultural exports fell from an all-time high of \$43.8 billion in fiscal year 1981 to \$26.3 billion in fiscal year 1986, a decline of 40 percent. Given the significant impact U.S. agricultural exports have on the farm sector and the U.S. economy, this decline has raised considerable concern about the competitiveness of U.S. agriculture in the international marketplace.

The decline in U.S. agricultural exports has also created a serious challenge to farm programs and policymakers to expand exports. Responding to this challenge has become increasingly complex as U.S. agriculture has become an integral part of an international agricultural environment that has been recognized by government and industry officials as the most competitive in the history of modern agricultural trade

The Importance of U.S. Agricultural Exports

As one of the largest exporters of agricultural products in the world, the United States helps fulfill the food requirements of many foreign countries which are either unable to produce sufficient quantities to satisfy domestic demand or are unable to produce it at a price lower than the cost of imports. The United States is also the largest single contributor of food aid, donating hundreds of millions of dollars worth of agricultural commodities each year toward feeding millions of undernourished people throughout the world.

The increased linkage of U.S. agriculture to world markets that has evolved since the early 1970s has a number of important effects. Foreign markets have become basic to the future growth of U.S. agriculture and to economic health on the farm. U.S. agricultural exports contribute to the U.S. balance of payments and create employment throughout the food and fiber system, which supplies farm production inputs and purchases, stores, transports, processes, and sells agricultural products.¹

The U.S. agricultural trade balance, for example, has added a surplus to the U.S. trade account in every year since 1960 and reached an all-time high of \$26.6 billion in fiscal year 1981. Despite a decline in the U.S. agricultural trade balance in recent years, agricultural exports remain important, particularly in view of the accelerating U.S. trade deficit, which reached a record \$169.8 billion in 1986.

¹Agricultural Overview U.S. Food/Agriculture in a Volatile World Economy (GAO/RCED-86-3BR, Nov 1985)

Agricultural exports have also played an increasingly important role in contributing to farm income. Agricultural exports as a percentage of total farm cash receipts, for example, increased from approximately 13 percent of total farm income during the 1960s to well over 25 percent during the 1980s. As such, more than one out of every four dollars earned by U.S. farmers in 1985 came from export sales. Wheat, coarse grains (corn, oats, barley, sorghum and rye), and soybeans accounted for the bulk of this increase. As a percentage of total crop receipts, crop exports climbed from around 27 percent in the late 1960s to 53 percent by 1981, although this percentage has decreased in recent years.

The Export Challenge

Since 1981 a variety of domestic and international events have increased foreign competition and leveled world agricultural demand, resulting in a sharp and continuous decline in U.S. agricultural exports. This decline provided evidence that the agricultural sector has come to rely on exports as a source of income, and that reversing the downward trend in exports is needed if the current level of U.S. agricultural activity in this country is to grow and prosper without substantial financial assistance from the federal government.

Short of a large-scale acreage/production control program that may be instituted by the U.S. government to control commodity surpluses, U.S. farmers are expected to continue producing greater quantities of agricultural commodities than will be consumed domestically. This raises the question of what the United States can do to improve its competitiveness and increase agricultural exports.

How competitive the United States will be depends upon a broad range of factors, including the formulation of agricultural policies and programs that effectively respond to a highly competitive and changing world agricultural market. There exists a broad range of interests and differing viewpoints concerning which policies and programs would be the most effective. From a long-term perspective, U.S. policymakers face the challenging and difficult task of assessing the world agricultural trade environment and deducing its implications for future U.S. agricultural trade policy.

Objectives, Scope, and Methodology

The overall objective of this report is to provide a general understanding of recent changes that have affected U.S. agricultural exports and the need to reevaluate current policies and programs in response to these changes. Specifically, this report addresses

-
- the growth and decline in U.S. agricultural exports,
 - factors affecting the competitiveness of U.S. agricultural exports,
 - the consequences of a declining export market,
 - alternatives for enhancing exports, and
 - issues concerning the formulation of future policy.

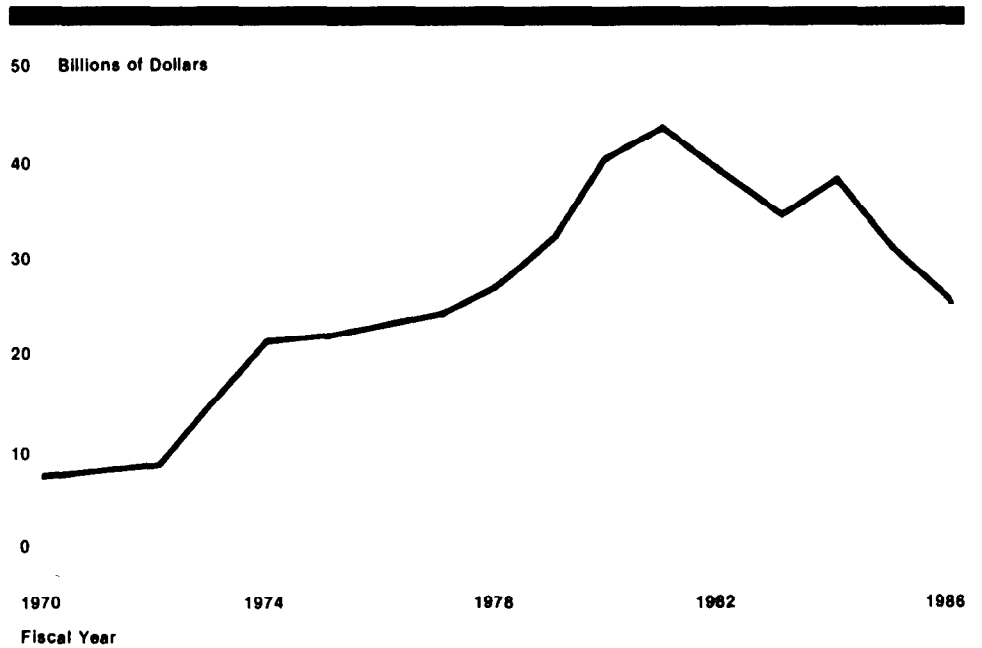
In conducting this assignment we interviewed officials of, or reviewed studies by, USDA's Economic Research Service, Foreign Agricultural Service, and Agricultural Stabilization and Conservation Service; the Congressional Research Service; the Congressional Budget Office, the Office of Technological Assessment; the International Trade Commission, the Department of State; and the Office of the U.S. Trade Representative. We attended congressional hearings and numerous conferences sponsored by the National Commission on Agricultural Trade and Export Policy.² We interviewed members of the Commission and numerous other governmental, public, and private sector representatives from various trade and commodity organizations, state Departments of Agriculture, banking institutions, and multinational grain exporting companies. In addition, we reviewed reports prepared by several academic institutions, agricultural associations, consulting firms, and other private and public institutions, such as the National Center for Food and Agriculture Policy, Resources for the Future. Other information sources we used in this study included private research papers and publications presented at national trade symposiums, as well as previous GAO work.

²Pursuant to Public Law 98-417, this commission reported to the President and the Congress on matters pertaining to U.S. agricultural trade and export policy

What Has Happened to U.S. Agricultural Exports?

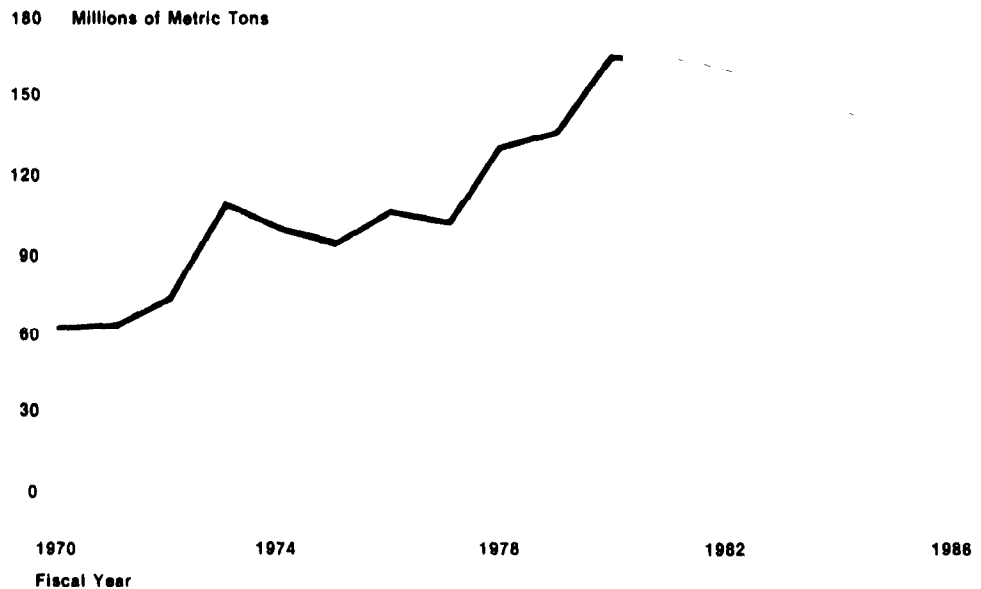
Prior to the 1970s, U.S. agricultural export sales were relatively small, averaging \$3.7 billion per year in the 1950s and \$5.8 billion annually in the 1960s. In the early 1970s, however, global agricultural trade expanded rapidly, ushering in a period of unprecedented growth in U.S. agricultural exports that continued for nearly a decade. The value of U.S. agricultural exports increased from \$7 billion in fiscal year 1970 to \$40.5 billion in fiscal year 1980, averaging \$20.7 billion annually. As indicated in figure 2.1, U.S. agricultural exports reached their peak value in fiscal year 1981 at \$43.8 billion. The volume of U.S. agricultural exports had peaked at almost 164 million metric tons (mmt) a year earlier, two and one-half times the fiscal year 1970 level of 64.3 mmt (see figure 2.2).

Figure 2.1: Value of U.S. Agricultural Exports, 1970-86



Source: USDA, Economic Research Service

Figure 2.2: Volume of U.S. Agriculture Exports, 1970-86



Source: USDA, Economic Research Service

The commodities whose exports grew most rapidly during the export boom years were corn, wheat, and soybeans, although rice and cotton also experienced notable gains. As indicated in table 2.1, corn exports realized the largest gain with a four-fold increase in volume between fiscal years 1970-1980. In the 1970s and early 1980s, corn, wheat, and soybeans consistently accounted for more than half of the value of U.S. agricultural exports and three-quarters of the volume.

The 1980s, however, gave way to a reversal of the explosive growth in U.S. agricultural exports that had prevailed throughout the 1970s. The dramatic turnabout occurred in fiscal year 1982 when agricultural exports dropped \$4.7 billion in value and 4.4 mmt in volume.¹ Since then, U.S. agricultural exports have continued a downward trend.

The decline in U.S. agricultural exports affected some commodities more than others. Wheat, for example, was one of the crops hurt most. In fiscal year 1986, U.S. wheat exports were 64 percent below their peak

¹ Removing the effects of inflation to isolate the real impact of exports on farmers' purchasing power would show that the improvement in the 1970s was not as large as it appears and the decline in the 1980s was even greater than nominal values suggest.

level, with a value of approximately \$3.5 billion as compared with \$6.5 billion recorded in fiscal year 1981. Similarly, coarse grain exports valued at \$3.8 billion in fiscal year 1986 were significantly below their fiscal year 1981 peak level of \$10.4 billion. Soybean exports have also decreased in value in recent years, although soybean exports increased in fiscal year 1986 from fiscal year 1985 due to drought-reduced production levels in Brazil and large USSR purchases. Rice exports also increased due to lower U.S. export prices brought on by increased government subsidy levels allowed for under USDA's new marketing loan program (see page 27).

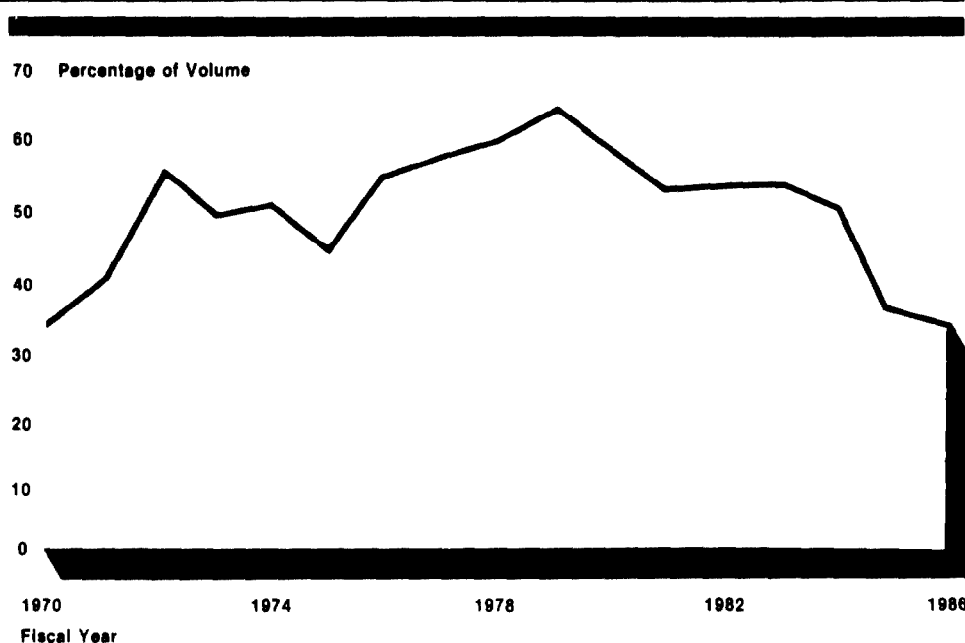
Table 2.1: U.S. Agricultural Export Volume for Selected Commodities, Fiscal Years 1970-1986

Million metric tons					
Fiscal year	Wheat	Corn	Rice	Soybeans	Cotton
1970	15.7	15.2	1.8	12.2	6
1971	18.2	12.7	1.6	11.8	10
1972	17.1	19.9	1.9	11.0	7
1973	35.9	31.5	1.7	12.8	13
1974	26.8	31.0	1.7	15.1	13
1975	29.3	28.8	2.2	11.5	9
1976	29.9	43.1	2.0	15.1	8
1977	23.8	42.5	2.3	15.2	10
1978	31.8	49.1	2.3	19.7	14
1979	31.3	53.9	2.4	20.2	14
1980	36.1	61.4	3.0	23.8	20
1981	42.2	59.4	3.2	20.0	13
1982	44.6	49.6	2.9	25.5	16
1983	36.7	47.1	2.3	24.5	12
1984	41.7	47.0	2.3	19.2	15
1985	28.5	46.3	1.9	16.6	13
1986	25.5	31.1	2.0	20.7	5

Source: USDA, Foreign Agricultural Service

From 1970 to 1979 the United States increased its share of the world grain market from 34.3 to 66.3 percent. However, as illustrated in figure 2.3, this country's share has declined steadily in terms of volume since 1980.

Figure 2.3: U.S. Share of World Grain Trade, 1970-86



Source: USDA, Economic Research Service

The decline in market share has not been equally distributed among all commodities. Cotton, for example, has declined the most with a 39 percent loss in market share from its peak year in 1980 to the 1985/86 crop year. During the same period, U.S. agriculture's world market share for rice, soybeans, wheat, and coarse grains also declined 36, 30, 28, and 24 percent, respectively.

Why Did U.S. Agricultural Exports Decline in the 1980s?

The decline in U.S. agricultural exports has been 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 which has intensified as global agricultural production increased and world trade stagnated. A discussion of the key factors frequently cited as reasons for the decline in exports and U.S. agricultural competitiveness follows ²

²An expanded discussion of these factors can be found in U.S. Agricultural Exports: Factors Affecting Competitiveness in World Markets (GAO/RCED-87-35BR, Oct. 9, 1986)

U.S. Commodity Support Programs

In an attempt to stabilize farm prices and enhance farm income, the federal government administers a price support program for selected agricultural commodities. Prices are supported at levels specified by the Congress or determined by the Secretary of Agriculture within legislative limits. Price support levels are announced in farm bills that have historically been debated and signed into law every four years or so. The Agriculture and Food Act of 1981, for example, set price support levels for 1982 through 1985.

In order to maintain commodity support prices, USDA administers, through the Commodity Credit Corporation (CCC), a nonrecourse loan program under which participating farmers may obtain loans (at the price support level) from the federal government, using their commodities as collateral. Farmers may redeem their commodities by paying off the loans with interest. The loans are nonrecourse because if the farmer cannot profitably repay the loan before it matures (usually 9 to 12 months), the CCC has no recourse but to take title to the stored commodity as full payment of the loan. Nonrecourse loans support prices by guaranteeing farmers they can receive the loan rate (or price support level) no matter how low the market price falls.

An unintended result of the U.S. price support program was that price support levels became benchmarks to foreign competitors in setting their export prices. Foreign competitors soon realized that by pricing their exports just under the U.S. price support level, U.S. farmers would end up forfeiting their stocks to the CCC as opposed to competing in the world market at the lower price.

Another unintended result of the U.S. price support program occurred when the federal government set price support levels at all-time highs in the 1981 act. These high price support levels not only put foreign competitors in a better position to undercut U.S. prices, it also sent signals to foreign competitors to increase production (exportable supplies) so as to take advantage of the higher returns brought on by higher world prices. The result was that the United States faced increased competition and lost market share.

Appreciation of the U.S. Dollar

Between 1980 and 1985, the U.S. exchange rate rose sharply. This increase has been cited by many analysts and policymakers as one of the primary factors affecting the competitiveness of U.S. agricultural exports. For example, in its 1985 interim report to the President and the Congress, the National Commission on Agricultural Trade and Export

Policy stated that the rise in the value of the dollar had a more serious impact on U.S. agricultural trade than many of the other factors it considered.

Changes in the value of the U.S. dollar have affected agricultural trade, in general, and U.S. agricultural exports, in particular, in three ways. First, since prices of many commodities traded internationally are denominated in dollars, a rise in the value of the dollar raises the cost of importing these commodities in terms of foreign currencies. Second, since much of the accumulated debt of developing countries is also denominated in U.S. dollars, an increase in the value of the dollar raises the cost of debt service and reduces the financial ability of these countries to purchase agricultural imports. Third, increases in the value of the dollar raise the expected returns to agricultural producers outside the United States, whose prices are denominated in currencies other than the U.S. dollar, thus increasing their incentives to produce agricultural commodities for export.

The World Economy

During the latter part of the 1970s and early 1980s, the developing countries provided the fastest growing market for U.S. agricultural exports. The world economic recession of 1981-1983, however, brought this growth in export sales to an abrupt halt, with the greatest contraction in purchases occurring in those nations with serious external debt repayment problems.

During 1972-1982 the external debts of developing countries grew approximately 20 percent annually. The total debt outstanding of the developing countries by 1984 was around \$850 billion, compared with a \$156 billion debt in 1973. The worldwide slowdown in economic activity, created as several developed countries tightened money supplies and raised interest rates in the late 1970s in an effort to reduce inflation in their economies, contributed to a sharp drop in the export earnings of many developing countries, severely hindering their ability to service their debt obligations. In order to generate foreign exchange earnings to help pay these debts, the developing countries had to increase their exports and cut back on their imports. Since many of these countries were major purchasers of U.S. agricultural commodities, the demand for U.S. farm exports declined dramatically.

**Increased Foreign
Production**

Another factor contributing to the decline in U.S. agricultural exports has been increased foreign production.³ From fiscal year 1980 through fiscal year 1986, for example, world grain production increased about 15 percent while consumption increased 8 percent. A number of foreign markets may have been lost forever as gains in output have meant greater availability of stocks for domestic consumption in the case of importing countries, which has reduced their need to import. Within competing nations increased agricultural production has meant greater amounts of exportable supplies.

India, for example, which in the past encountered food shortages and relied heavily on U.S. agricultural exports, has increased production to the point where it is now a competitor in the agricultural export market. Even China, once a major importer of U.S. grain, is producing record crops of wheat, coarse grain, rice, oilseeds, and cotton. Other countries, such as Argentina, Australia, Brazil, Canada, and Thailand, have also emerged as major competitors through significant increases in their agricultural production. Also, according to the International Wheat Council, the Soviet Union could be self sufficient in grains in the 1990s and become an exporter of wheat. This, however, would require major changes in the structure of the Soviet farm sector.

**Foreign Agricultural
Policies**

Many importing and exporting countries attempt to control and influence the production and consumption of food in order to protect their agricultural industry. Such agricultural policies generally include trade barriers that restrict the free flow of goods from country to country, such as tariffs and import quotas. They also include policies designed to expand exports.

The most notable example of an agricultural policy designed to expand exports is the European Community's (EC) use of export subsidies. Shortly after the inception of its Common Agricultural Policy in 1962, the EC adopted a system of guaranteed prices for most of the major agricultural commodities it produces. Prices of most commodities covered by the Common Agricultural Policy are set well above world prices, thereby necessitating highly protective measures against cheap imports and subsidies to facilitate exports. Because the EC's system of high price supports has generated surpluses for most of the commodities involved and

³To some extent, increased foreign production would be expected to occur in response to higher U.S. support prices and the appreciation of the dollar. We discuss increased foreign production as a separate factor because some of the increase is due to technological improvements and other causes distinct from price effects.

because it is also EC policy to export its surpluses, the EC has had to subsidize its exports to effectively compete with the United States and other exporting nations.

Other examples of countries that have been following policies aimed at maximizing their exports include Canada and Australia, which rely on marketing boards to manage wheat exports in an effort to increase export volume and get the best price. As a result, foreign agricultural policies have frequently been cited as a factor contributing to the decline in U.S. agricultural exports.

Other Factors

Additional factors commonly cited as reasons for the decline in U.S. agricultural exports include

- U.S.-imposed agricultural embargoes, which have cast the United States as an unreliable supplier in world markets, and
- poor quality U.S. grain shipments.

Consequences of Increased Foreign Competition and a Declining Agricultural Export Market

The downward trend in U.S. agricultural exports has contributed to serious repercussions for the U.S. farmer and the U.S. economy. The U.S. agricultural trade balance, for example, has been dramatically affected by the decline in exports. Excess productive capacity, coupled with declining exports, has also resulted in a huge buildup of surplus stocks. USDA's price support programs to enhance farm income and stabilize farm prices could result in unexpected federal outlays of many billions of dollars during fiscal years 1986-1988 because of continuing excess supply and low exports. Despite record farm program outlays during recent years, a significant number of farmers continue to experience declining incomes and an inability to repay operating and land investment debts.

U.S. Agricultural Trade Balance

Even though the United States still enjoys a favorable agricultural trade balance, that balance has declined significantly in recent years. This has resulted from both a drop in U.S. agricultural exports and a rise in U.S. agricultural imports. In fiscal year 1986, the U.S. agricultural trade balance declined to its lowest level since fiscal year 1972. This has raised considerable concern since the U.S. agricultural trade surplus has played an important role in providing needed foreign exchange to help pay for growing imports. Table 2.2 illustrates the U.S. agricultural trade balance in recent years.

Table 2.2: U.S. Agricultural Trade Balance, Fiscal Years 1970-1986

Dollars in billions			
Fiscal year	Agricultural exports	Agricultural imports	Agricultural trade balance
1970	7.0	5.7	1.3
1971	8.0	6.1	1.8
1972	8.2	5.9	2.3
1973	15.0	7.7	7.2
1974	21.6	10.0	11.5
1975	21.8	9.4	12.4
1976	22.7	10.5	12.3
1977	24.0	13.4	10.6
1978	27.3	13.9	13.4
1979	32.0	16.2	15.8
1980	40.5	17.3	23.2
1981	43.8	17.2	26.6
1982	39.1	15.5	23.6
1983	34.8	16.3	18.5
1984	38.0	18.9	19.1
1985	31.2	19.7	11.5
1986	26.3	20.9	5.5

Source: USDA, Economic Research Service

Surplus U.S. Agricultural Commodities

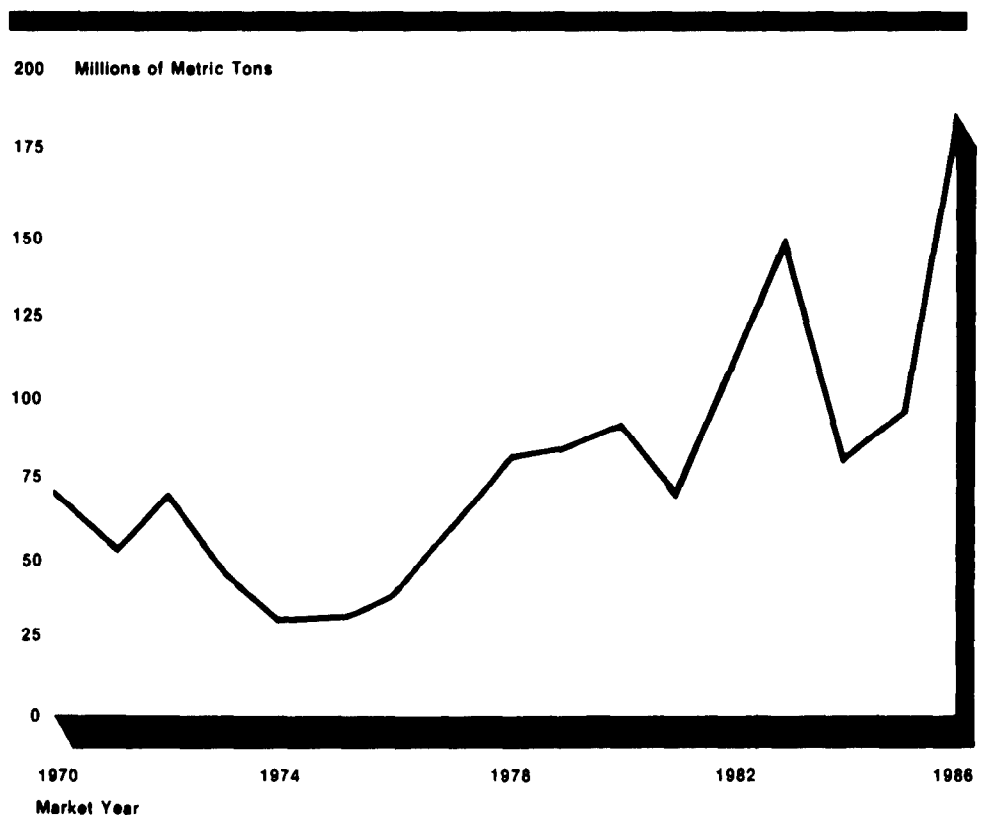
U.S. farmers produce greater quantities of agricultural commodities than are consumed domestically. This excess productive capacity, coupled with declining exports, has resulted in a buildup of surplus stocks. While a large proportion of this surplus remains as free stocks under the control of farmers, the U.S. government acquires much of it through its price support operations.

The cost of maintaining government-owned stocks can be significant. For example, storage, handling, and transportation expenses for all government-owned commodities between fiscal years 1970-1985 have totaled about \$3 billion. This does not include federal storage payments made to farmers for placing surplus commodities in the Farmer-Owned Reserve, which had cost an additional \$2.5 billion from fiscal year 1977 through fiscal year 1985.

U.S. government efforts to reduce agricultural surpluses have also been extremely expensive. Under the 1983 Payment-In-Kind Program,

farmers who agreed to drastically cut back on production received government-acquired commodities with an estimated value of \$9.7 billion. Despite this program and other efforts to reduce surpluses, the United States is once again faced with mounting surpluses, as indicated in figure 2.4.

Figure 2.4: Surplus U.S. Agricultural Commodities, 1970-86



Source: USDA, Economic Research Service

Federal Farm Program Outlays

In recent years federal farm program outlays have increased to record levels and have continually exceeded program estimates. In fiscal year 1982, for example, USDA proposed a budget of \$3.1 billion for agricultural support programs but spent \$13.3 billion, a 330 percent increase. In fiscal year 1983, farm program outlays were estimated to be \$2.9 billion; however, farmers received \$20.6 billion, for a 610 percent increase. The fiscal year 1985 budget outlay estimate was \$12.6 billion compared with actual expenditures of \$23.7 billion. Federal farm program outlays totaled about \$69 billion for fiscal years 1982-1985.

Projections for the first 3 fiscal years (1986-1988) of the Food Security Act of 1985 indicate a continuing trend. Experts, for example, are saying that spending on agricultural price supports during these 3 fiscal years will eventually cost considerably more than the \$52 billion originally estimated by USDA. According to a USDA official, the fiscal year 1986 cost estimate of \$10.5 billion ended up costing \$25.8 billion. (Figure 2.5 indicates U.S. price/income support outlays for fiscal years 1970 through 1986.)

Figure 2.5: Agricultural Support Outlays, 1970-86



Source: USDA, Agricultural Stabilization and Conservation Service

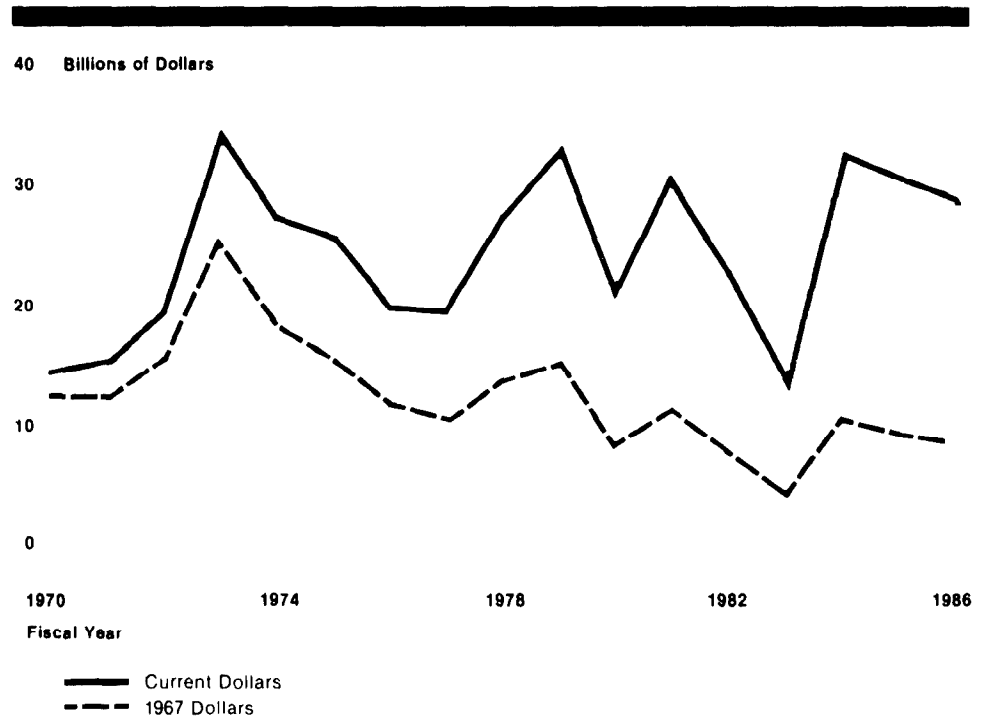
The Farm Crisis

The increased demand for U.S. agricultural commodities during the 1970s and early 1980s, together with spiraling inflation, caused farmland values to increase as much as 16 percent a year and over 300 percent from 1971 to 1981. Many farmers took advantage of this newly acquired wealth by borrowing heavily on the equity of their land to buy more land and new equipment to expand their operations.

After years of heavy borrowing, U.S. farmers found themselves overextended by the early 1980s, as many of the favorable conditions of the 1970s began to reverse themselves, causing a substantial and continuous

decline in U.S. agricultural exports and, subsequently, farmer incomes. According to a USDA official, one of the primary reasons that farm income has remained as high as it has is because of the significant increase in federal farm support payments. Figure 2.6 shows net farm income in both current and 1967 dollars.

Figure 2.6: Net Farm Income, 1970-86



Source: USDA, Economic Research Service

U.S. farmland values peaked in fiscal year 1981 and began to decline primarily because the income producing value of U.S. farmland dropped as world agricultural prices, U.S. exports, and farm income declined. Several states and regions have been particularly hard hit as the average value of an acre of farmland dropped as much as 50 percent during 1981-1985. Such a large decline adversely affects farm producers by reducing their wealth and borrowing capacity.

Issues Concerning Efforts to Enhance U.S. Agricultural Exports

How well the United States fares in reversing the decline in its agricultural exports partially depends on how successful it is in increasing the foreign demand for its commodities and in competing against other suppliers. To this end numerous export enhancement measures such as export promotion, export credit, and export subsidy programs have been established. Other measures, such as negotiating long-term bilateral sales agreements and participating in international negotiations aimed at reducing trade barriers have been initiated. To some extent, however, U.S. agriculture's ability to successfully compete in world markets will continue to be affected by factors external to agricultural policy concerns, e.g., the value of the U.S. dollar

With passage of the Food Security Act of 1985, efforts have also included a reduction in U.S. price support rates in an attempt to price U.S. farm commodities competitively in world markets. In addition, the act is considered by many to represent a turning point in U.S. farm policy in that for the first time such legislation emphasizes export expansion as a primary objective.

Title XI of the 1985 act defines the goals of U.S. agricultural trade policy as to

- provide through all means possible agricultural commodities and products for export at competitive prices, with full assurance of quality and reliability of supply;
- support the principle of free trade and the promotion of fairer agricultural trade;
- cooperate fully in all efforts to negotiate reductions in barriers to fair trade;
- aggressively counter unfair trade practices;
- remove foreign policy constraints to maximize U.S. economic interests through agricultural trade; and
- provide for consideration of U.S. agricultural trade interests in the design of national fiscal and monetary policy that may foster continued strength of the dollar.

Other impediments to expanding exports, such as the high valued dollar, have changed as the U.S. dollar's value dropped substantially during 1986. These changes had not turned the situation around as U.S. agricultural exports and the U.S. share of the world market continued to decline. USDA officials stated that it is too soon to expect U.S. exports to turn around and that the Food Security Act, which sets U.S. farm policy through fiscal year 1990, must be allowed to run its course if it is to be

effective. Several agricultural associations, however, are expressing disappointment with the current inability of the 1985 act to make U.S. farmers more competitive. This disappointment has not only raised questions concerning the effectiveness of current programs and policies, but has also resulted in proposals to change the 1985 act.

Because of these concerns and proposals, congressional debate over farm legislation is expected to receive high priority during 1987. According to USDA officials, export competitiveness will be a central theme in this debate. As such, the purpose of this chapter is to identify the key concerns policymakers can be expected to face in debating alternatives for improving the prospects and export performance of U.S. agriculture.

The immediate concerns facing U.S. agriculture are two-fold. One is an erosion in the U.S. share of world agricultural trade. The other is a stagnation in total world trade. As a result, the challenge to increase U.S. agricultural exports involves several issues concerned with improving U.S. agricultural competitiveness in order to regain lost market share and capturing a fair share of any future growth in world trade. These issues include improving the price competitiveness of U.S. exports, increasing the demand for U.S. exports irrespective of price, and stimulating total world agricultural trade. There exists a broad range of differing viewpoints concerning which policies and programs would be the most effective in addressing these issues. In light of these differences, this chapter also presents alternative policy and program considerations as expressed by several prominent agricultural economists and others having an interest in the formulation of export expansion programs and policies.

Improving the Price Competitiveness of U.S. Agricultural Exports

One of the mechanisms available to improve U.S. agricultural competitiveness and to increase U.S. exports is to cut prices. Lower U.S. export prices should (1) stimulate consumption in those regions where consumer decisions are based on price, (2) increase the export subsidy expense of competing exporters who wish to remain competitive, and (3) reduce the production incentives in other exporting regions. All of these factors combined should increase U.S. exports.

Suggestions for improving the price competitiveness of U.S. agricultural exports include lowering commodity price support levels, expanding export credit programs, relying more on export subsidies, and reducing production costs. While some of these measures have been implemented

in recent years, there exists skepticism as to whether or not they will sufficiently enhance exports. Following is a discussion of the issues, efforts, and concerns associated with improving the price competitiveness of U.S. agricultural exports.

Concerns About the Current Price Support Program

USDA announced sizeable cutbacks in federal price support levels for some major crops for 1986, using the full amount of reduction authority provided by the Food Security Act of 1985. For example, the loan rate for wheat was reduced from \$3.30 to \$2.30 a bushel, and corn was reduced from \$2.55 a bushel to \$1.84. While these reductions are designed to lower U.S. export prices, making U.S. commodities more competitive in world markets, concerns were expressed that exports did not increase in fiscal year 1986. While USDA officials stated that it is too soon to expect the lower loan rates to take effect, some private sector economists contend that a set reduction in loan rates will do little to enhance the demand for U.S. exports. These economists point out that the EC has responded by increasing its export subsidies in order to lower its export prices just below the U.S. price support level to protect its markets. Such retaliatory practices can be extremely expensive for the EC and, over the long run, can create budgetary pressure to reduce production and discontinue subsidizing surpluses. While eliminating subsidies through increased budgetary pressure seems a logical goal from an economic standpoint, achieving it depends on how low U.S. price support levels have to go, and for how long, before sufficient pressure can be expected to encourage policy changes. A related issue is what price the United States is willing to pay to accomplish this goal.

Alternative Price Support Considerations

Several alternatives to the current U.S. price support program have been suggested. One alternative that has received much attention is the concept of allowing loan rates to fluctuate. This flexibility can be achieved by using an annual market clearing price where loan rates would fluctuate with prevailing world prices. An argument in support of this concept is that it would reduce the incentives for production by our competitors because the United States would no longer provide the rigid floor price that many foreign competitors use in making their production and export pricing decisions (see page 16). Concerns over this proposal, however, focus on the uncertainty associated with government outlays and the possible decline in price stability. This uncertainty arises because the amount of deficiency payments made to farmers participating in the price support program will be based upon the difference

between the target price and a loan rate that could fluctuate widely based on market conditions.¹

A market-oriented approach, known as the marketing loan concept, has already been used to increase exports. Marketing loans were first authorized in the Food Security Act of 1985, and while optional for wheat, feed grains, soybeans, and honey, they are mandatory for rice and cotton when the world market price for these commodities is below the loan rate. Under the marketing loan program, farmers can repay their nonrecourse loans at levels lower than the loan rate, essentially offering farmers more flexibility to sell at competitive world prices. The loan repayment rate differs by commodity and is determined by the world market price or at a level specified in the 1985 act. For example, the repayment discount for rice is limited to 50 percent of the loan rate for the 1986-87 crop.

Because of increased exports in rice during fiscal year 1986, several major farm commodity groups have proposed mandating marketing loans for wheat, coarse grains, and soybeans. USDA opposes such action, arguing it would add too much to already soaring farm program costs and not do much to increase exports as the prices of these commodities are at low enough levels to be competitive.

Export Credit Program Benefits Uncertain

The availability of credit and the terms offered can ultimately determine how much countries will import. In recent years a number of credit programs have been administered through the Commodity Credit Corporation to help finance the sale of U.S. farm commodities.

The CCC's primary credit program for increasing agricultural competitiveness is the Export Credit Guarantee Program. Commonly referred to as GSM 102, this program, funded at \$4.8 billion in fiscal year 1986, is designed to assist U.S. exporters of agricultural commodities by offering loan guarantees to private U.S. financial institutions who finance export credit sales of three years or less. This program encourages U.S. financial institutions to provide financing in those cases where they would otherwise be unwilling to provide financing.

¹USDA's price/income support programs consist primarily of nonrecourse loans to farm producers, government purchases of commodities, and payments to producers. Government loans and purchases protect farm income indirectly by supporting commodity prices, while payments to farmers support farm income directly. These direct payments, commonly known as deficiency payments, are based on the difference between the target price and the higher of the price support level or the average market price. Target prices are established by law and announced in the farm bills in much the same way as commodity price support levels.

The Food for Peace Program, commonly referred to as Public Law 480, has also been an important export credit mechanism. Under Title I of this program, the CCC provides long-term credit to eligible countries at highly concessional interest rates, thereby allowing developing countries to purchase U.S. agricultural exports which they otherwise could not afford to purchase.

The National Commission on Agricultural Trade and Export Policy supports using a wide variety of credit options to offer more flexibility in meeting the different financing needs of importers. These options include direct credit, blended credit, and interest buy-down programs. Direct export credit provides interest free financing to countries and/or foreign buyers unable to secure credit and without which the sale of U.S. agricultural commodities would not be made. Blended credit combines direct export credits and credit guarantees in a single package to reduce the effective interest rate. An interest rate buy-down involves an interest rate reduction on existing loans with the government paying a portion of the costs.

Federal loan guarantees, direct loans, and subsidized interest rates are all used on the premise that easier and/or cheaper credit will stimulate agricultural exports. In the absence of federal export credit extension, it is presumed that a country would not buy a specific commodity or would buy less from the United States and more from a competing supplier offering more favorable terms.

An issue concerning export credit programs involves additionality—the ability to add to total agricultural exports rather than simply displace commercial transactions that would have occurred anyway. Unfortunately, additionality or displacement cannot be tested in any systematic way. Agricultural exports are subject to so many influences that the impact of export credit cannot usually be isolated from the other factors. Even where past additionality may be demonstrated in a particular situation, such evidence usually cannot be extrapolated into the future with any confidence.

In our 1979 report on export credit programs, we concluded that USDA's efforts to determine whether such programs resulted in additional

exports of agricultural commodities or merely replaced other commercial sales had been limited.² While this review did not attempt to measure or quantify additionality, it indicated that sufficient information existed to suggest that credit programs possibly replaced cash sales. Accurately quantifying the effect that credit programs have on agricultural exports is difficult because commodity costs and political factors also affect sales.

In addition, because competitors also use export credits, they might substantially negate any effect that U.S. export credits would have in existing markets. Even if export credits increased U.S. exports in a particular country at the expense of a foreign competitor, the competition might be intensified elsewhere. Ultimately, competitive credit availability might only result in reallocating supplies within existing markets.

Export Subsidy Programs Regain Popularity

Prior to the export boom of 1972, CCC relied heavily on export subsidies to increase U.S. agricultural exports. These subsidies were used mainly because government price supports were far above international prices. During this period, three types of export subsidies were used. First, a direct dollar subsidy per unit for wheat exports was used to make dollar payments directly to foreign importers for each bushel of wheat they purchased. Second, for coarse grains, cotton, rice, and nonfat dry milk, there was an export payment-in-kind program whereby exporters who showed proof of sales were given certificates which were redeemable for additional government-owned commodities. These additional commodities had to be exported. Finally, for coarse grains and cotton, CCC occasionally engaged in direct sales at world market prices. Under this process, CCC acquired the commodities at loan rates and exported them at lower world prices. In essence, the difference in the prices (i.e., CCC's acquisition price versus CCC's export price) was the amount of CCC's export subsidy.

From 1955 through 1971, an average of 20 percent of the value of U.S. exports was exported under subsidy programs. The proportion of exports assisted each year ranged from a high of 40 percent in 1962 to a low of 12 percent in 1969.

The CCC export subsidy programs ultimately aroused adverse public opinion in 1972 when subsidies were paid on exports to the Soviet

²Stronger Emphasis on Market Development Needed in Agriculture's Export Credit Sales Program (ID-80-01, Oct. 26, 1979)

Union, while at the same time, a surge in demand for grain was pushing world market prices above U.S. support prices. CCC's export subsidy programs were discontinued and did not return as a policy instrument to boost sales until a 1983 export payment-in-kind program was used to increase the quantity of U.S. flour shipped to Egypt. Under this program, CCC provided a wheat bonus from government-owned stocks to millers filling Egyptian orders. The bonus allowed millers to sell more wheat at a reduced price, making U.S. wheat exports more competitive in the world market.

Current Efforts and Concerns

While export subsidies can make U.S. exports more competitive when U.S. price support levels are above world prices or when competing suppliers also subsidize their exports, export subsidies run the risk of setting off price wars. Export subsidies also raise claims from foreign competitors that the United States is dumping its surpluses, which weakens the bargaining position of the United States in convincing competing nations, especially the EC, to reduce its export subsidies. Also, export subsidies can be very expensive because they require huge government outlays to make up the difference between U.S. prices and the lower world market price.

Despite these concerns, using export subsidies to reduce the net cost to foreign buyers of U.S. agricultural exports regained new life in 1985 when the Secretary of Agriculture announced the Export Enhancement Program (EEP). As designed, CCC offers government-owned commodities as a bonus to U.S. exporters to expand the sales of U.S. commodities. The subsidy is targeted at specific countries in hopes of regaining lost markets. This action was in response to the EC's use of direct export subsidies, which has enabled the EC to increase its share of the world market at the expense of the United States.

Industry and congressional officials have expressed concern that the EEP may be counterproductive because traditional U.S. customers, such as the Soviet Union, which had not been targeted and therefore not made eligible for the subsidized commodities, were charging discrimination and were subsequently purchasing from foreign competitors. On August 1, 1986, however, the Soviet Union was informed that it could purchase 4 million tons of U.S. wheat under the program. Despite a \$15-a-ton subsidy offer, the Soviet Union let the 60-day proposal expire. According to Soviet trade officials, the primary reason they did not purchase the U.S. wheat was that they could buy subsidized EC wheat for less than the U.S. subsidized price.

In a recent review of the Export Enhancement Program, we concluded that exports of wheat and wheat flour have increased for several markets targeted under the EEP, but these have been offset by decreased exports to other markets, especially the Soviet Union.³ We also concluded that broadening the EEP to other markets by making it an across-the-board program would eliminate charges of discrimination by traditional buyers and would increase competition and pressure on the EC.

Herein lies the problem with export subsidy programs in today's world market. As countries are willing to increase their subsidy levels in order to remain competitive, the question becomes which nation has the deepest pockets? According to a 1986 Resources for the Future report, the costs of any subsidy contest will fall disproportionately on the U.S. budget because the United States, under its present price support program, subsidizes its entire production whereas the EC, for example, subsidizes only its exports out of its budget. According to a 1986 Resources for the Future publication, for every additional dollar the EC spends when market prices drop, the United States spends ten.

Productivity and
Production Cost
Considerations in
Expanding Agricultural
Exports

Productivity and production cost considerations have become increasingly important factors in the export performance of U.S. farm commodities in recent years. According to a major U.S. agricultural trading company, the United States may no longer have a production cost advantage for selected commodities, and productivity yields in some competitor countries have surpassed those of the United States. Such a position supports policy initiatives aimed at reducing production, transportation, and marketing costs, as well as increasing U.S. investment in agricultural research and development efforts. According to USDA's Economic Research Service (ERS), lowering production and marketing costs may be the best long-term solution to increasing U.S. agricultural exports.

Before such initiatives are undertaken, however, additional research may be warranted to determine the degree to which U.S. agriculture's lack of competitiveness has been affected by U.S. production costs compared with competitor costs. According to ERS, it is extremely difficult to compare production costs among competing countries

Even within the United States, cost of production estimates are subject to collection and measurement problems. USDA's collection of production

³Review of Agricultural Export Enhancement Program (GAO/NSIAD 87-74BR, Mar 17, 1987)

cost data is subject to sampling errors and incomplete farmer-maintained records. Several measurement issues that affect estimates of costs of production include the pricing of family labor, allocating farm overhead, and allocating land costs.

Comparing cost of production data among countries offers even more problems. First, since costs from various countries must be converted to a common currency such as the U.S. dollar for comparison, the exchange rate itself may affect apparent costs. Another problem is that foreign data in the detail to which USDA is accustomed to collecting are generally unavailable, and what data do exist are subject to the same measurement and conceptual problems as those for the United States. Furthermore, production cost data rarely reflect differences in technology and in the storage transportation and marketing systems, which are more likely to differ among countries and can have a great deal of influence on the cost of getting crops to market.

Price competitiveness is not only determined by a production cost advantage, but also by government policies, both domestic and trade. An export subsidy or price support policy can turn a country for which it would be cheaper to import into an exporter. Thus, production efficiency and competitiveness are not always the same. It is extremely important to know if your competitors are underselling you because they are more efficient producers or because they are subsidizing their exports. This information would help policymakers decide on an appropriate course of action and on areas in which to invest government resources. Such information would also help clarify if the competitive problems facing U.S. agriculture are more structural in nature, requiring longer-term domestic solutions, such as investing in agricultural research and development. For example, applications of new technologies have allowed countries, such as India, China, and France, to increase their agricultural production significantly.

U.S. crop production yields started a sustained rise in the 1940s which still continues today. Many foreign countries, however, have outpaced the productivity growth rate of the United States in recent years. At one time the United States was the chief investor in agricultural research and development—one of the reasons why the United States has tended to be the world's number one exporter of agricultural products. Presently, the U.S. predominance in agricultural research and development investments is eroding. In recent years, for example, Brazil has been spending about as much as the United States has on a per capita basis.

This explains in part how Brazil and other countries have shifted from being large net importers of food grains to being exporters.

The development of new production technology can alter production cost advantages and change trade flows. Some leading agricultural economists have suggested that the United States sustain and perhaps increase investments in agricultural research and development and keep abreast of possible shifts in production cost advantages. These shifts may be the key to sustaining or opening market opportunities for some producers, while creating the need for adjustments on the part of others.

It is important to keep in mind that lowering the production cost of agriculture will not necessarily help the United States become more competitive as long as U.S. prices are maintained under a price support program. According to an ERS agricultural economist, lower production costs would only improve U.S. competitiveness if world prices would be allowed to fluctuate in a free market.

Other Considerations for Increasing the Demand for U.S. Agricultural Exports

Expanding agricultural exports does not necessarily rest solely with improving U.S. agriculture's ability to compete on a price basis. Numerous studies have suggested that there are several other important ways to increase the demand for U.S. commodities. These proposals include relying on barter and countertrade arrangements, using long-term bilateral sales agreements, emphasizing the export of value-added products, improving market development and promotion efforts, improving the quality of U.S. grain shipments, and exempting agricultural programs from cargo preference requirements.

Barter and Countertrade Arrangements Have Become Effective Trade Tools

In attempting to expand agricultural export trade, the U.S. faces a serious challenge presented by the rising use of barter and countertrade arrangements in global commerce. Barter—the direct exchange of goods between trading parties—is one form of countertrade, an arrangement in which the sale of goods to one party is linked to the purchase of goods from the same party. For example, a U.S. firm may enter into an agreement to sell computers to Columbia and accept a specified amount of coffee as direct payment for the computers (barter), or more generally, agree to purchase some quantity of pepper as a condition of the sale (countertrade).

In today's international market, countertrade is more common than barter arrangements. Determining the extent of countertrade in world

trade, however, is very difficult because it is not as well-documented as conventional trading. Because of this difficulty, estimations of the extent of countertrade vary considerably, although there seems to be a general consensus that the level of countertrade will increase substantially by the turn of the century. A primary factor contributing to this increase, and one U.S. policymakers especially need to be aware of, is that developing countries are employing countertrade arrangements as a means of bypassing foreign exchange limitations and continuing trade in face of their present economic recession and debt crisis.

Countertrade arrangements pose new problems for the United States because they tend to inhibit the development of free trade, especially when they are made a condition of trade. Such requirements make it much more difficult for U.S. exporters to negotiate trading terms because of the complexities involved in reaching and implementing countertrade agreements and because of the extra costs and risks to U.S. firms which agree to purchase products with which they have limited experience or for which they have little need. On the other hand, these arrangements give advantage to large conglomerates and state trading organizations which are capable of marketing a wide range of products.

Past U.S. policy did not encourage countertrade arrangements. However, Section 1129 of the Food Security Act of 1985 provides a pilot barter program to be carried out during fiscal years 1986 and 1987. The program, to be carried out with at least two nations which have food and currency reserve shortages, calls for the barter of surplus CCC commodities for strategic or other materials the United States does not produce domestically in amounts sufficient for its requirements and for which national stockpile reserves or goals established by law are unmet. Normal commercial trade channels must be used to the maximum extent practicable, and commercial marketings must not be disrupted. As reported to the Congress on January 2, 1987, by the Secretary of Agriculture, no agreements have been concluded for the pilot barter program, but USDA intends to continue discussions with several countries.

The Pros and Cons of Using Long-Term Bilateral Sales Agreements

A long-term bilateral trade agreement is a contract between two countries specifying the quantity of a commodity to be traded over a certain period of time, usually 3 to 5 years. Generally, exporters employ long-term bilateral sales agreements to assure product demand, minimize market disruptions caused by abrupt and unexpected demand shifts, and maximize export volume and market control. Importers use these agreements to enhance product supply and reliability, minimize import

costs, and maximize buyer control. Major U.S. competitors are increasingly using long-term bilateral sales agreements.

The advantages associated with using these agreements in efforts to expand U.S. agricultural exports under present marketing conditions include the following:

- A long-term agreement may improve access to market information.
- An agreement could contribute to the maintenance or expansion of U.S. market share in a market vulnerable to short supplies and where long-term agreements are offered by competitors.
- The access to credit may be more important than access to commodities for some countries, particularly in today's market. An agreement including an intent to supply Public Law 480 or CCC credit could result in an increased market share and/or expansion of total imports in some countries.
- An agreement may advance a number of U.S. objectives including market development activities, reduction of trade barriers, and expansion of imports outside the agreement.

On the other hand, there are also several disadvantages associated with relying on bilateral sales agreements as a tool enhance exports.

- Expansion of U.S. agreements could lead competitors to seek additional agreements. Increasing the number of agreements would tie up a larger proportion of world trade resulting in increased competition for a smaller residual market.
- Past experience with a variety of commodity agreements suggest importing countries will try to avoid keeping terms of the agreement during periods when prices are falling, and exporting countries will attempt to avoid contractual obligations in periods of rising prices. In sum, long-term agreements are difficult to enforce and can place additional stress on political relationships.

Historically, the United States has opposed long-term bilateral sales agreements on the grounds that they run counter to free trade policies and represent a significant non-competitive trade practice. The exception to this policy has been U.S. agreements with the Soviet Union and the People's Republic of China. According to our 1987 report on alternative grain trading practices, the central purposes of these agreements were to (1) establish a mechanism for close communication on agricultural trade with these countries; (2) minimize the occurrence of large,

unexpected, erratic, and disruptive sales; (3) stabilize domestic prices; and (4) develop an expanding agricultural export market.⁴

Expanding U.S. Exports of Value-Added Farm Products

U.S. agricultural exports have historically involved mainly raw agricultural products, such as wheat, coarse grains, and cotton. As world production increases and trade for these commodities levels off, increased attention has been given to the need to do more in marketing value-added products abroad.⁵ Many nations in both the industrial and developing worlds rely heavily on the economic benefit derived from expanded levels of value-added exports. Currently, the rate of growth for value-added exports is rapidly outstripping the rate of growth of raw commodity exports as a percentage of total worldwide agricultural trade. The percentage of value-added exports from some countries was as high as 74 percent of total agricultural exports in 1985. By contrast, U.S. exports of these products accounted for roughly one-third of total value of agricultural exports in recent years. Many experts believe that the United States needs to do more to promote the export of value-added products. In the Food Security Act of 1985, the Congress also encouraged greater funding for promotion of value-added products.

Before the U.S. government invests in promoting value-added products, certain factors should be considered. First of all, the United States has done little in the way of determining the processed products that might be the most marketable. While current U.S. prepackaged foods, frozen meals, and branded products are likely choices, the U.S. exporters are faced with such impediments as country-specific food preferences about which most exporters know little, according to a 1985 survey conducted by Agricultural Research Extension Cooperatives. In addition, the United States has imported many new processed food lines in recent years, raising the question of whether U.S. value-added products can match foreign competition. Another concern is that many countries with excess capacity in processing agricultural products prefer to buy raw materials and add the processed value themselves.

Expanding the export of value-added farm products will benefit U.S. trade. Whether or not these benefits will trickle down to the U.S. farmer is uncertain. Since the potential contribution of such exports involves adding labor and other materials and services to agricultural products

⁴Alternative Trading Practices for International Grain Trade (GAO/NSIAD 87-90BR, Mar 17, 1987)

⁵According to USDA's Foreign Agricultural Service, value-added products are considered to be any product that is at least one processing step removed from the basic agricultural commodity

and exporting them, the processing industry is most likely to reap the benefits. While there seems to be strong support that additional emphasis should be given to the export of value-added products, it may not provide benefits, per dollar of effort, equal to other programs designed to enhance the exports of bulk commodities.

Expanding Exports Through Improved Market Development and Promotion Efforts

Another factor inhibiting U.S. agricultural exports is the adequacy of marketing practices of many American firms. Among people knowledgeable about trading practices, there is a belief that U.S. firms are less astute or sensitive to the needs of importing countries than their foreign counterparts. Concerns which have been cited include:

- insufficient knowledge of foreign consumer preferences;
- marketing skills inferior to those of competitors;
- language barriers and inexperience with negotiating in an international environment; and
- product sizes, quantities, and packaging which do not meet the needs of the market.

For the most part, private firms and farmer-owned marketing cooperatives arrange for exports of U.S. agricultural products. Although the U.S. government does not usually become directly involved in export sales, FAS administers the cooperator foreign market development program, aimed at developing, maintaining, and expanding long-term commercial markets for U.S. agricultural commodities. To accomplish this, FAS and cooperators—private, non-profit trade associations representing farmers, producers, and other farm related interests—work together, sharing funds and expertise and undertaking activities designed to familiarize potential foreign customers with U.S. farm products in an attempt to create or stimulate the demand for U.S. commodities.

The market development cooperator program is a joint government-industry funded venture. In fiscal year 1986, FAS had contractual agreements with 53 cooperators to carry out 5,573 market development activities which involve identifying market opportunities, introducing new products and processes, expanding the market, and servicing the trade (i.e., dealing with customers' special needs and monitoring the competition) in 132 foreign countries.

As U.S. exports have declined during the 1980s, questions have arisen about the effectiveness of these market development programs and the continued need to support them. USDA points out that the United States

has done well to maintain its export position, given the problems of worldwide recession, the strong dollar, high domestic price supports, increased world supplies, and aggressive export policies by competitors; and that the cooperator foreign market development program has played an important role in accomplishing this. However, based on our review of the cooperator program, we concluded that FAS has not established criteria for the review and evaluation of the cooperator market development plans and activities, and that FAS continues to fund the cooperators' programs without assessing how well or what results are achieved.⁶

A criticism of FAS' overall market development efforts is that they are not centralized. To remedy this, a private consulting firm suggested consolidating the existing expertise within USDA (i.e., FAS, ERS, ASCS) to provide expanded country expertise and make this expertise more readily available to cooperators. This expertise, according to the consulting firm, should provide cooperators with an understanding of the agricultural needs of individual countries, as well as knowledge concerning production, consumption, and trade patterns for different commodities within each of these countries. Information concerning the strategies of competing exporters in supplying each market is also valuable in U.S. market development efforts.

Concerns About Quality in U.S. Grain Exports

In recent years there has been increased industry and congressional concern about whether poor quality grain (i.e., grain shipments containing an unacceptable level of moisture, non-grain debris, and broken kernels) has reduced the demand for U.S. exports and increased the demand for our competitors' grain. Although no studies are available to document the degree to which poor quality grain has been a factor contributing to the decline in U.S. agricultural exports, several bills aimed at toughening U.S. grain standards have been introduced.

Some export industry opposition to the tightening of U.S. grain standards exists on the grounds that a May 1986 study released by USDA concluded that 1985 export shipments of U.S. wheat, corn, and soybeans, met or exceeded requirements for the grade of grain specified by buyers. Officials of a large U.S. private grain trading firm told us that the United States should not rush into changes in grain standards on what might prove to be short-term considerations. They also said that

⁶Review of Management and Effectiveness of FAS' Foreign Market Development Cooperator Program (GAO/NSIAD 87-89, Mar 17, 1987)

the quality issue has been grossly exaggerated as a factor in declining overseas sales.

In recent years the number of complaints received by USDA concerning the quality of U.S. grain shipments has increased. Although such complaints may be small in proportion to total shipments, some within the U.S. grain industry believe U.S. grain shipments are of a lower quality than grain exported by foreign competitors and that this has affected the demand for U.S. exports.

In August 1986 testimony before the Subcommittee on Wheat, Soybeans, and Feed grains of the House Committee on Agriculture and the Subcommittee on Department Operations, Research, and Foreign Agriculture of the House Committee on Agriculture, we stated that a number of recommendations we have made in past reports concerning the quality of U.S. grain shipped overseas have not been implemented because of what USDA's Federal Grain Inspection Service considered a lack of majority support within the industry to change the grain standards.⁷ During the past year, this mood seems to have changed, as two of these recommendations were adopted in August 1986. In one instance, USDA tightened its standards for debris 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 the Federal Grain Inspection Service. In November 1986, the Futures Trading Act was signed. Title III, Section 304 of this act requires the Federal Grain Inspection Service to revise grain inspection procedures and standards to reflect levels of insect infestation more accurately.

⁷Specifically, there have been three reports: Assessment of the National Grain Inspection System (RCED-76-71, Feb. 12, 1976), Federal Export Grain Inspection and Weighing Programs: Improvements Can Make Them More Effective and Less Costly (RCED-80-15, Nov. 30, 1979), and U.S. Grain Exports: Concerns About Quality (GAO/RCED-86-134, May 19, 1986).

Exempting Agricultural Programs From Cargo Preference Has Been Raised as a Competitiveness Issue

The Merchant Marine Act of 1936 provided that at least 50 percent of all agricultural commodities shipped to foreign nations on concessional terms (Public Law 480) shall be transported on U.S.-flag commercial vessels. Shipping on U.S. vessels, however, has been more costly than transport on foreign flag vessels, amounting to as much as 40 percent of the selling price for some commodities, according to a leading U.S. agricultural exporting firm.

Under Title I, Public Law 480, the U.S. government pays the difference between the cost of transportation on U.S. vessels and the cost on foreign vessels. According to USDA, these ocean freight differential costs have escalated from less than 1 percent of total Title 1 sales in 1955 to over 10 percent in 1985 or \$97.4 million. USDA estimates the ocean freight differential for cargo preference will increase in fiscal years 1987 and 1988. This increase will come as a result of provisions in the Food Security Act of 1985, which call for incrementally increasing the cargo preference requirement from 50 percent to 75 percent by 1988, further reducing the percentage of funds available to purchase commodities that are financed and sold under foreign food assistance programs. This reduction, however, assumes that the funds spent on the cost differential would be available to purchase and export additional commodities. Also, whether or not removing the cargo preference requirement would result in increased exports in the future depends on whether the Congress would continue budgeting Public Law 480 at its present level, or at a lower level to reflect the reduction in costs associated with no longer having to pay or budget for the transportation cost differential through agricultural programs.

Reducing overall ocean freight differential costs would also provide additional funds for purchasing and exporting agricultural commodities. In a 1985 report we concluded that USDA may be paying substantially higher ocean freight differential than necessary because the Maritime Administration does not verify whether the data used in calculating the guideline rate (the maximum transportation rate that a U.S. vessel may receive) is accurate, and that Maritime does not calculate guideline rates on U.S. flag liners which carry a substantial portion of Public Law 480 commodities.⁸

There is also some uncertainty about the extent to which cargo preference provisions apply to other USDA programs. For example, according to

⁸Transportation of Public Law 480 Commodities—Efforts Needed to Eliminate Unnecessary Costs (GAO/NSIAD-85-74, June 18, 1985)

a USDA official, a lawsuit brought against the CCC because USDA determined that cargo preference did not apply to its Blended Credit Program eventually contributed to the program's termination. In the case of the Egyptian wheat flour sale, it was first decided that cargo preference did not apply, but due to strong opposition to this decision, USDA agreed to ship half of the grain on U.S. flag vessels. This added more than \$26 million to the cost of transporting the flour. While the 1985 act exempted several export activities of the Secretary of Agriculture and CCC from cargo preference requirements, cargo preference still remains central to concessional agricultural export programs.

Expanding World Agriculture Trade

World trade in agricultural commodities rose rapidly during the 1970s partially due to a sharp increase in world demand resulting from strong global economic growth. Due to a worldwide economic recession and a heavy debt repayment situation in many developing countries, world demand and agricultural trade subsequently declined. This decline, coupled with increased foreign competition, has resulted in the United States ending up with a smaller share of a smaller market

While increasing U.S. agriculture's competitiveness is necessary if it is to gain world market share, increasing the growth in world agricultural trade may be more important if U.S. agriculture expects to significantly improve its export prospects. According to a 1983 presidential task force study on agricultural trade and development, it is by expanding the total market, rather than obtaining slightly larger shares of a stagnant or shrinking market, that U.S. agriculture's economic interest are best served.

Improving the growth of world trade depends on a healthy global economic environment. Accomplishing this is linked in part to a worldwide reduction in trade barriers that restrict the free flow of agricultural goods and an increase in the import demand of many developing countries.

Increasing Demand Within Developing Nations

The major growth potential for expanding world agricultural trade exists within many developing nations although the debt repayment problems currently being experienced by these countries have seriously curtailed their ability to import. The International Monetary Fund and several major financial institutions have assisted many of these countries in rescheduling their debt in order to avert outright defaults, but the debt situation is expected to continue for some time to come.

According to an official of the World Bank, no significant increase in U.S. agricultural exports can be expected unless fundamental solutions are found and aggressive action is taken to overcome this debt situation. Overcoming the burdensome financial debt servicing problems being experienced within many developing countries will help increase their demand for imports, but this by itself will not generate long-term market growth. To accomplish this the World Bank official said developing countries will also need to stimulate sustained economic growth.

Expanding World Trade Through Reductions in Trade Barriers

As U.S. world market share in agriculture has fallen, U.S. industry representatives and policymakers have become more concerned about the level and extent of protectionism and its impact on world and U.S. agricultural exports. During the 1980s several complaints of unfair trading practices were filed under the General Agreement on Tariffs and Trade (GATT), the principal international body concerned with negotiating the reduction of trade barriers

Results of the attempts by the United States to resolve some of these complaints within the GATT have not been satisfactory.⁹ For example, several complaints concerning the EC's use of export subsidies with wheat flour, citrus, poultry, pasta, soybean oil and meal, and sugar have not been fully resolved. GATT's inability to effectively resolve these complaints is partially due to weaknesses in the GATT Subsidies Code. Although the code prohibits export subsidies on non-primary products, it retains complex standards for determining the acceptability of export subsidies on primary products, the category into which agricultural trade falls.¹⁰

The export subsidy problem is also part of a much larger issue concerning the widespread reliance of many foreign countries on nontariff barriers to protect domestic markets by restricting agricultural imports. Nontariff barriers include a variety of mechanisms such as variable levies, licensing schemes, quotas, minimum pricing, and seasonable restrictions to name a few. Even though GATT's multilateral trade negotiations have included efforts to limit the use of nontariff barriers, it has been difficult to negotiate a reduction or elimination of these kinds of barriers. Such barriers are not as transparent as tariffs and are not as

⁹Current Issues in U.S. Participation in the Multilateral Trading Systems (GAO/NSIAD-85-118, Sept 23, 1985)

¹⁰Benefits of International Agreement on Trade Distorting Subsidies Not Yet Realized (GAO/NSIAD-83-10, Aug 15, 1983)

readily subject to the traditional GATT negotiations concerning reductions in trade barriers. In addition, GATT's Article XI allows nontariff measures for grading and marketing standards and for protecting farm support programs that restrict domestic production or are designed to remove temporary surpluses. As a result, many countries do not consider their use of nontariff barriers in violation of GATT.

The apparent inability of GATT to stem the rise in nontariff trade barriers and to fully resolve agricultural trade disputes has placed these issues high on the agenda of the current round of multilateral trade negotiations which began in September 1986. During these negotiations the United States seeks commitments to (1) improve market access through, among other things, the commitment to apply no new import restrictions and to phase out existing nontariff barriers, (2) improve the competitive environment by commitments to freeze the present level of export subsidies and eventually to phase them out, and (3) minimize the adverse effects that sanitary regulations and barriers can have on trade. This round of multilateral trade negotiations is planned to be concluded within four years.

Obtaining these commitments may involve addressing several important underlying agricultural trade issues, such as whether domestic agricultural policies should be subject to the disciplines of international trade, and whether importing nations should be able to shield their markets from disruptions in the international arena. Disagreement on these fundamental issues has persisted in past multinational trade negotiations. Whether the current GATT round can improve its effectiveness in dealing with these issues is dependent upon whether the countries concerned are willing to negotiate change to the satisfaction of all concerned. In testimony before the House Committee on Agriculture, we stated that major changes in national agriculture trading practices or in the GATT principles guiding them are unlikely in the near term.¹¹ We also pointed out that the present trade regime, with its lack of discipline, reflects the consensus among contracting parties that the success of domestic agricultural programs is more important than international trade liberalization, and as long as the parties retain this ordering of priorities, trade barriers and fierce competition for export markets will continue to distort world agricultural trade.

¹¹"United States Participation in the Multilateral Trading System and Related Agricultural Trade Policy Issues " Testimony before the House Committee on Agriculture, Apr 15, 1986

Alternative Considerations

Several basic policy options exist for further promoting trade liberalization. The United States could, for example, continue to use strategic export subsidies under the Export Enhancement Program to maintain budgetary pressure aimed at EC policy reform. The potential success of this option improved recently as the combination of reduced commodity loan rates and a declining U.S. dollar increased budgetary outlays under the EC export subsidy scheme.

The United States could also engage in an all-out open confrontation where the government would shift from its limited, targeted export subsidization of a few products to a large-scale subsidization of a broader range of products to all buyers. This stance assumes that budget pressure is still the most effective tool available to lobby for EC reform, but that budget pressure would have to be substantially greater to force the issue. For this proposal to be successful, however, it would be necessary to ensure that U.S. inroads into EC markets were not offset by losses elsewhere due to EC retaliation or the loss of unsubsidized commercial sales. Depending on how the EC responds, such a program could require many billions of dollars in U.S. government outlays, and since the United States is the largest single exporting nation of agricultural products in the world, some economists argue it has the most to lose. The United States could also expect repercussions from trading allies such as Canada, as a full-scale export subsidy program would most likely affect Canada's and other countries' exports as well.

Another alternative, and one that does not rely on confrontation, is a coordinated effort on the parts of both the United States and the EC to scale down agricultural production, thus removing much of the surpluses that have spurred the export subsidy issue in recent years. While the United States has relied somewhat on production controls to limit the buildup of surpluses, the EC continues to encourage production through high internal price supports. Attempts to convince the EC to change or modify its price support program could be expected to generate EC resistance. Options aside, resolving the current U.S./EC confrontation may ultimately depend on the recognition that both the United States and the EC are partners in the world market and their vested interest in the long term will be to defuse the current confrontation.

Issues in Formulating a Flexible Long-Term U.S. Agricultural Trade Policy

A key question for U.S. policymakers in assessing trade policy options is what will the agricultural trade environment look like in the future. Answering this question, however, has become increasingly difficult as U.S. agriculture's reliance on exports has subjected it to a variety of uncertainties. These uncertainties stem primarily from unexpected changes in foreign policies and in international economic conditions. Therefore, the United States must have agriculture policies that are flexible enough to respond to such changes. Effective trade analysis and market research can play a role in accomplishing this.

Trade Research and Market Analysis

U.S. agricultural exports in the decade ahead will be influenced by many of the same factors that affected U.S. exports during the past decade. Understanding how changes in these factors will affect future agricultural trading patterns is important to formulating domestic farm and trade policies

In general, studies we reviewed pointed out that a major impediment in formulating effective policies stems from a lack of research in the United States on agricultural trade issues, problems, and opportunities. This should not imply that agricultural trade research does not exist. In fact, the volume of such activity has increased substantially in the last ten years. However, according to a 1984 academic research paper, the problem is that much of the research being conducted in both the public and private sector is limited in scope.¹ USDA's research efforts, for example, are heavily skewed toward short-term policy analysis and long-term projections. Research efforts in the private sector are usually ad hoc, scattered throughout the industry, and self-serving

The 1984 research paper recognized that because of the importance of international trade to U.S. agriculture, greater knowledge was needed on trade issues, on the interactions between macroeconomic policies and domestic commodity policies, and on agricultural policies of other countries if the United States is to formulate policies aimed at effectively increasing exports. The 1984 report suggested the following set of general research guidelines as a starting point in conducting effective trade research

¹Research and Agricultural Trade, Communication Resources and the University of Minnesota Agricultural Experiment Station, St. Paul, Minnesota. Prepared for the Experiment Station Committee on Organization and Policy, 1984

- Assessing the impact of changes in economic and technical factors and resource endowments on import demand, availability of export supplies, and comparative advantage in agricultural production.
- Analyzing the impact of economic policies on world agricultural trade patterns.
- Identifying and analyzing monetary linkages among countries and assessing the implications of exchange rate adjustments on trade flows, and the functioning of financial, commodity, and international capital markets.
- Identifying trade-offs and linkages between domestic agricultural and trade policies.
- Assessing and evaluating the gains from trade and the implications of restrictive trade policies and practices in terms of who gains and who loses; what benefits and costs will arise from policy changes, and what adjustments might be warranted.
- Understanding why governments make the kinds of policy decisions they do.
- Assessing institutional relationships (i.e., state trading and government involvement in international agreements) and their impact on performance of international markets.
- Improving the conceptual framework of international agricultural trade research and improving data collection practices.
- Developing and using improved empirical models for policy analyses.

Formulating Future Policies

By gaining a better understanding and appreciation for the factors that affect world agricultural supply, demand, and trade, policymakers should be able to debate issues more effectively and evaluate the need for formulating a cohesive set of agricultural trade policies and programs that achieve long-term goals, a concept that has gained increased acceptance in recent years.

The formulation of a coherent agricultural trade policy is an attempt to make decisions that are based on the recognition that agricultural policy is no longer only a domestic or agricultural issue. It is a recognition that U.S. agricultural policy choices for the future will have to

- take macroeconomic 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.

Not everyone agrees on the institutional arrangement or on the objectives of such a policy. Following is a discussion for and against several institutional arrangements.

- Establishing a cabinet-level international trade office to consolidate and coordinate the trade activities now performed by various government agencies

Arguments for such a department are often based on the grounds that current trade policy decisions made by one government agency, such as USDA, sometimes conflict with decisions made in other agencies. For example, attempts to increase U.S. beef exports to Japan may be affected by U.S. efforts to place import quotas on Japanese cars. It is argued that a Department of International Trade could make U.S. trade policy, both agricultural and non-agricultural, more coherent and forceful and give it greater visibility and increased importance. Such a department may also be in a position to obtain compromises from individual groups whose interests must be reconciled in negotiations involving comprehensive trade policies.

Those opposed to developing a Department of International Trade point out that although some conflicting trade policies currently are implemented, there is no guarantee that a new institution would correct the problem. Instead, efforts should concentrate on making existing institutions more effective. Some observers also contend that the new department might be unduly protectionist and may overwhelm the open trade philosophy that has traditionally been the basis of U.S. trade policy. A consolidated international trade office would also be subject to the same broad range of special interest groups that currently have different, and sometimes opposing, criteria concerning policy actions that should be taken.

- Establishing one government grain board to handle all grain exports rather than having several private exporting firms.

A government grain marketing board would have authority over all export sales of grain. The rationale behind establishing a grain board is to have one centralized source controlling the volume of grain exports in order to achieve the highest possible price for all exported grain.

One argument in favor of a centralized government grain board is that it would give the United States more bargaining power to realize a larger share of the potential gains from trade. A government grain board could also implement trade policy decisions better than several private exporting firms making decisions independently. For example, if the goal is to increase farm revenues by restricting the quantity of exports and raising international price, this goal could be implemented centrally through a grain board

An argument against a grain marketing board is that price enhancement rather than increased exports has been the primary goal of most grain board proposals. With regard to price enhancement, the U.S. government must be ready to support the higher price through payments to farmers, a situation which has proven costly in recent years as federal price support payments have reached record levels.

- Establishing a two-priced commodity support program, which sets a relatively high farm price on commodities sold domestically and a lower price on commodities going into the export market to increase U.S. agricultural exports.

A two-price program would increase the competitiveness of U.S. agriculture by lowering the effective price of U.S. commodities in world markets, thereby expanding U.S. exports and placing additional pressure on competitors to reform their agricultural policies. In addition, since the domestic market for U.S. agricultural commodities is less sensitive to changes in price than the international market, a two-priced program could be used to increase the net returns to U.S. farmers and reduce government outlays for price and income support.

On the other hand, a two-price system has several shortcomings. U.S. consumers, for example, would pay higher prices for domestically consumed commodities while exports to the Soviet Union, for example, would be at subsidized levels. Such a program would be very difficult to administer due to its complexity, and import restrictions would be necessary to prevent the subsidized exports from coming back into the United States. A two-price system could bring charges by competing foreign nations that the United States is dumping surpluses in the international market. Some nations would likely view such a program as a major effort by the United States to restrict free trade. Such countries might retaliate by increasing their use of export subsidies or by instituting import and other trade barriers. At a minimum, the United States could

likely lose much of its ability to pressure other countries to reduce their unfair trade practices.

The above discussions on the pros and cons of various institutional arrangements are only some of the issues facing U.S. policymakers. Other key questions that need to be addressed include:

- What should be the long-term goals of the United States concerning agricultural trade policy?
- What will the United States gain or lose by engaging in a trade war?
- Can international institutions for resolving trade disputes among nations be strengthened, or are new institutions needed?
- Where are our potential markets and how can we best target them?
- What are the production capabilities of our competitors, and what impact will this have on future markets?
- In terms of government payments and resource allocation, what are the costs of increasing the U.S. world market share in international agricultural trade?
- What are the potential long-term changes in the structure of U.S. agriculture assuming the pattern of world agricultural trade remains relatively unchanged?

As far as assessing future policy and program alternatives are concerned, the above questions provide some insight into the problems. These questions suggest that changing and reforming trade policy and developing a more vital trade strategy require the consideration of a variety of domestic and international factors. Thoroughly analyzing and researching these factors will be helpful in answering these questions and formulating new policy directions.

An important component of any new policy direction should be the formulation of long-term goals. These goals should reflect a realistic viewpoint of what U.S. agriculture can expect in terms of future world market share. A key issue in developing these expectations is determining whether the trend in export growth that occurred during the 1970s and early 1980s represents a realistic long-term indication of the strength of the world agricultural market, or whether that period was an aberration. If the trend is indeed upward and the present decline in exports merely a cyclical downturn due to temporary conditions, then U.S. agricultural exports may be awaiting the return of better times. At the other extreme, if the strength in world demand for agricultural commodities that occurred from 1972 to 1981 was an anomaly, and the current level a more normal expectation of long-term trend, then any

attempt to regain past momentum in export growth may be extremely expensive. This should not imply that U.S. agriculture should not expect growth in its export market or that it cannot become more competitive. Rather, it implies that policies and programs should reflect realistic expectations based on a thorough analysis and understanding of the factors affecting the global agricultural trade environment. No matter what the outlook for the growth in world demand for agricultural commodities is, the United States will want to be in a position to compete aggressively for market share. To the extent that future world demand for U.S. agricultural exports is not sufficient to absorb excess productive capacity, export promotion may have to be implemented in conjunction with adjustments in the agricultural sector that encourage the development of new enterprises that can use some of the extra agriculture resources currently available.

In conclusion, U.S. agriculture has become inextricably linked to a volatile world market where changes in world economic conditions and/or domestic and international policies can affect our ability to compete. These changes require that flexibility be a dominant character of U.S. agricultural policy. While this flexibility involves the United States having to make policy decisions that react to current events, it must be recognized that short-term policy responses can have long-term implications. Therefore, it is important that research be directed at understanding these implications so policy decisions can be directed toward achieving long-term realistic goals.

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