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REPORT BY THE

Comptroller General

OF THE UNITED STATES

Promoting Agricultural Exports To Latin America

The Department of Agriculture's Foreign Agricultural Service uses relatively little of its resources to promote agricultural exports to Latin America. Additional promotion efforts could assist in tapping the potential of this market.

The Service relies heavily on private trade organizations and on its judgments, based on past export performance, to allocate market development resources. Allocations are not based on a system which compares export opportunities among different country markets.

The Service has begun to develop country marketing plans to better allocate its promotional resources. This is a step in the right direction; but planning needs to be accelerated to increase its usefulness in making judgments as to whether or not the Service's limited resources should be redirected to Latin American markets.

UNITED STATES GENERAL ACCOUNTING OFFICE

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INTERNATIONAL DIVISION

B-201285

The Honorable Richard Stone, Chairman
Subcommittee on Foreign Agricultural Policy
Committee on Agriculture, Nutrition, and
Forestry
United States Senate

Dear Mr. Chairman:

This report is in response to your request and discusses what the Department of Agriculture has done to promote exports to Latin America and what potential exists for increasing such exports. We could not determine whether the Foreign Agricultural Service should increase export promotion activities in Latin America because we could not weigh market opportunities there against those which may exist in other areas of the world.

As arranged with your office, we are releasing this report to the Department of Agriculture, appropriate congressional committees, and other interested parties.

Sincerely yours,

Elmer B. Staats

Comptroller General
of the United States

REPORT BY THE
COMPTROLLER GENERAL
OF THE UNITED STATES

PROMOTING AGRICULTURAL EXPORTS TO LATIN AMERICA

D I G E S T

Latin America is an important market for U.S. agricultural products and commodities. In fiscal year 1979, U.S. agricultural exports to Latin America amounted to $3.4 billion, about one-tenth of total U.S. agricultural exports.

Foreign Agricultural Service (FAS) export promotion programs are intended to increase U.S. agricultural exports worldwide. It has not been demonstrated that exports result directly from promotional expenditures. Nevertheless, promotion is considered an important ingredient. Presently, FAS uses relatively little of its resources to promote agricultural exports to Latin America.

FAS has promoted exports to Latin America primarily through (1) market development activities carried out by private organizations, (2) periodic FAS-sponsored activities, such as trade fairs, product displays, and sales team visits, and (3) Commodity Credit Corporation and Public Law 480 financing assistance in selected countries. FAS representatives stationed at 14 posts in 12 Latin American countries support and/or conduct these activities and programs.

FAS lacks exact data showing how much money has been spent to develop Latin American markets as opposed to other markets. However, based on available budget and expenditure information, GAO estimates that FAS targets only about 5 percent of its market development funds for Latin America. Use of other marketing tools, such as attache support and financial assistance, is also not extensive. (See p. 12.)

OPPORTUNITIES FOR INCREASING EXPORT PROMOTION EFFORTS

Despite market limitations, export opportunities exist in Latin America. Attaches in the four countries GAO visited suggested increased activities in conjunction with marketing associations (cooperators) for several commodities. The attaches also said that they were unable to devote sufficient time to export promotion. With additional staff resources, they could better anticipate export opportunities, support cooperators and visiting U.S. exporters, and represent U.S. agricultural interests through contacts with host-country governments and private officials. In addition, expanded financing assistance is needed to expand market opportunities in at least two Latin American countries. (See p. 14.)

To better expand the Latin American market for U.S. agricultural exports, more promotional resources are needed. This will require additional marketing resources or redirecting existing resources away from other areas of the world.

FAS NEEDS A SYSTEM TO ASSURE OPTIMAL USE OF MARKETING RESOURCES

To assure optimal use of export promotion resources, FAS should be able to compare export opportunities in one country or geographical region, such as Latin America, with opportunities in other world markets. Presently, it does not allocate its resources this way.

Instead, FAS relies heavily on the private sector as well as judgments based on past export performance to decide where and how FAS export promotion resources will be used, without any assurance that Latin American markets have been adequately considered. (See p. 17.)

BUDGET CONSTRAINTS AND PERSONNEL CEILINGS RESTRICT FAS ABILITY TO PROMOTE EXPORTS

Budget limitations and personnel ceilings have limited the marketing tools available to FAS to promote U.S. exports throughout the world. Market development funds have declined in purchasing power and budget constraints have caused recent cutbacks in export financing programs. In addition, FAS staff resources have not increased in many years despite the opening of new posts and increased attache workloads. Due to the current economic situation and fiscal climate, it does not appear that there will be any increases soon. (See p. 21.)

FAS HAS BEGUN A STRATEGIC PLANNING EFFORT

Recognizing the need for a more systematic approach to guide marketing resource allocation, FAS has initiated a strategic planning process. This planning initiative may in the future enable FAS to better allocate its limited resources to develop, expand, and maintain U.S. export markets. However, unless FAS accelerates the rate of progress and completes country plans faster, the strategic planning will have only limited usefulness in assisting FAS's allocation of resources worldwide. (See p. 26.)

CONCLUSIONS

FAS needs to strengthen its resource allocation system to assure that export markets in Latin America and elsewhere are receiving promotional attention commensurate with export sales opportunities. The strategic planning process, while a step in this direction, needs to be accelerated.

AGENCY COMMENTS

FAS said it was in essential agreement with the main points in the report and that the observations were reasonable.

The FAS comments and those of Agriculture's Economic, Statistics, and Cooperatives Service are contained in appendixes II and III. GAO's evaluations are discussed on pages 16 and 29.

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ABBREVIATIONS

CCC	Commodity Credit Corporation
EIP	Export Incentive Program
ESCS	Economics, Statistics, and Cooperative Service
FAS	Foreign Agricultural Service
GAO	General Accounting Office
OGSM	Office of the General Sales Manager
TORS	Trade Opportunity Referral Service

CHAPTER 1

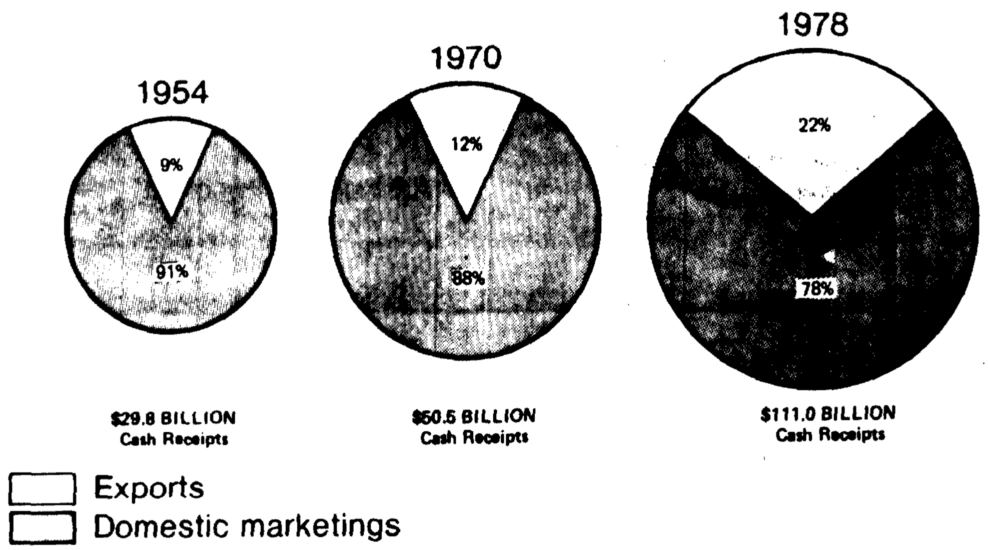
INTRODUCTION

Expanding overseas markets has long been an important element of U.S. agricultural policy. In the early 1950s large agricultural commodity surpluses provided the impetus for increasing agricultural exports. Since then, the Government's domestic agricultural commodity programs have been predicated on strong support of export markets.

Exports have become increasingly important to the agricultural sector in the last 3 decades. U.S. agricultural producers receive almost 25 percent of their agricultural income from foreign markets. Exports also account for the production from one of every three acres that U.S. producers harvest. For some crops, the ratio is even higher. Wheat and soybean farmers must look to foreign markets for more than half their sales.

Chart 1

Farm Income from Exports
(as a share of cash receipts from marketings)

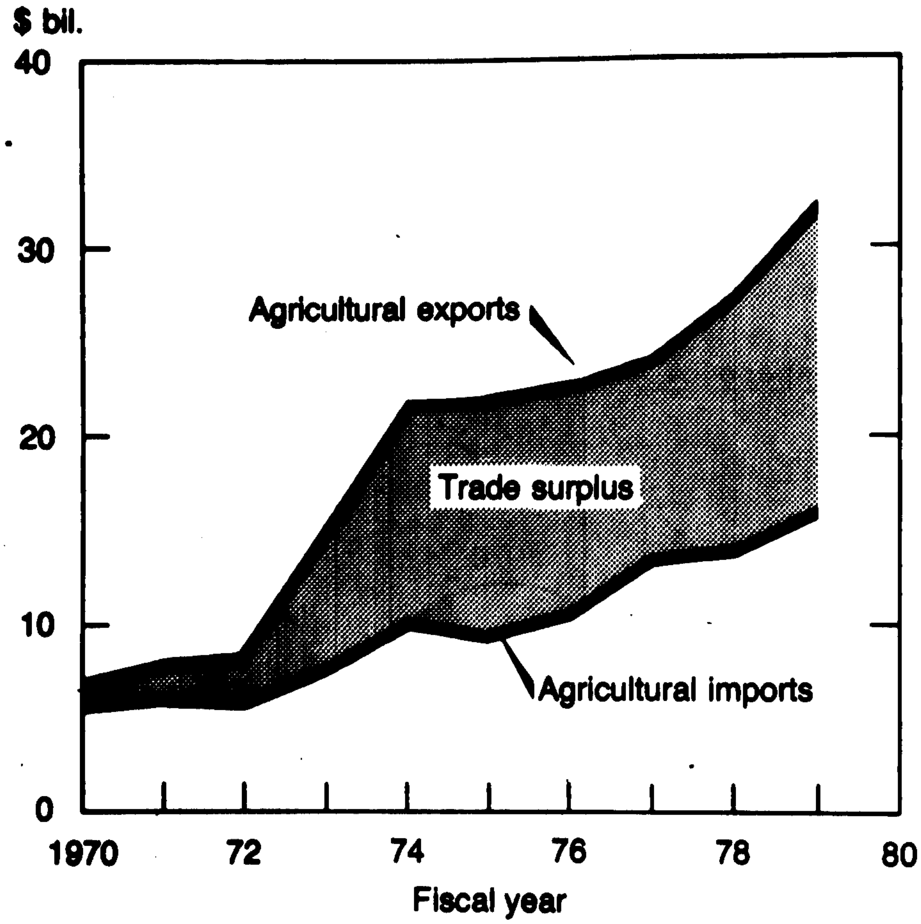


Source: Foreign Agricultural Service.

Not only are exports crucial to the farmer, exports are crucial to the U.S. economy as a whole. Fiscal year 1979 farm exports of $32 billion were twice that of agricultural imports of $16 billion, leaving a net favorable balance of about $16 billion.

Chart 2

U.S. Agricultural Trade Balance



October-September years. 1978/79 partially estimated.

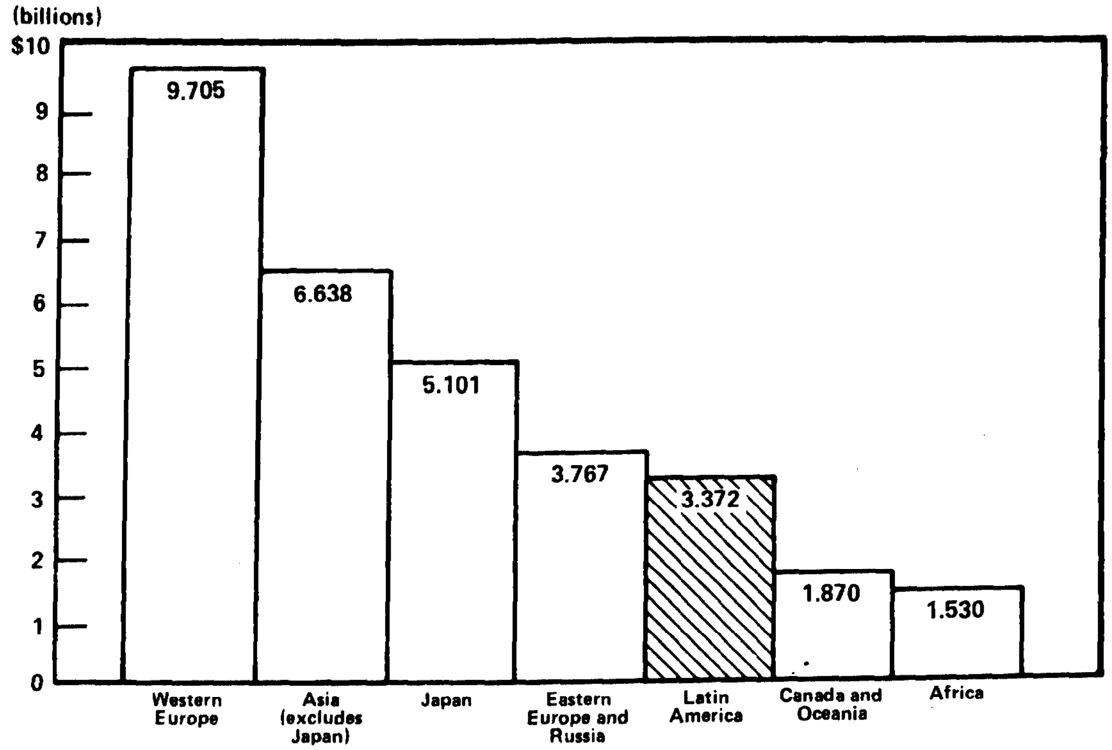
Source: Foreign Agricultural Service.

LATIN AMERICAN EXPORT MARKET

Latin America is a relatively small market for U.S. agricultural exports, accounting for $3.4 billion in fiscal year 1979, about 10 percent of total U.S. agricultural exports. By comparison, Western Europe accounted for $9.7 billion and Japan alone accounted for $5.1 billion.

Chart 3

U.S. Agricultural Exports
Value by region--(note a)
fiscal year 1979



a/Adjusted for transhipments through Canada and Western Europe

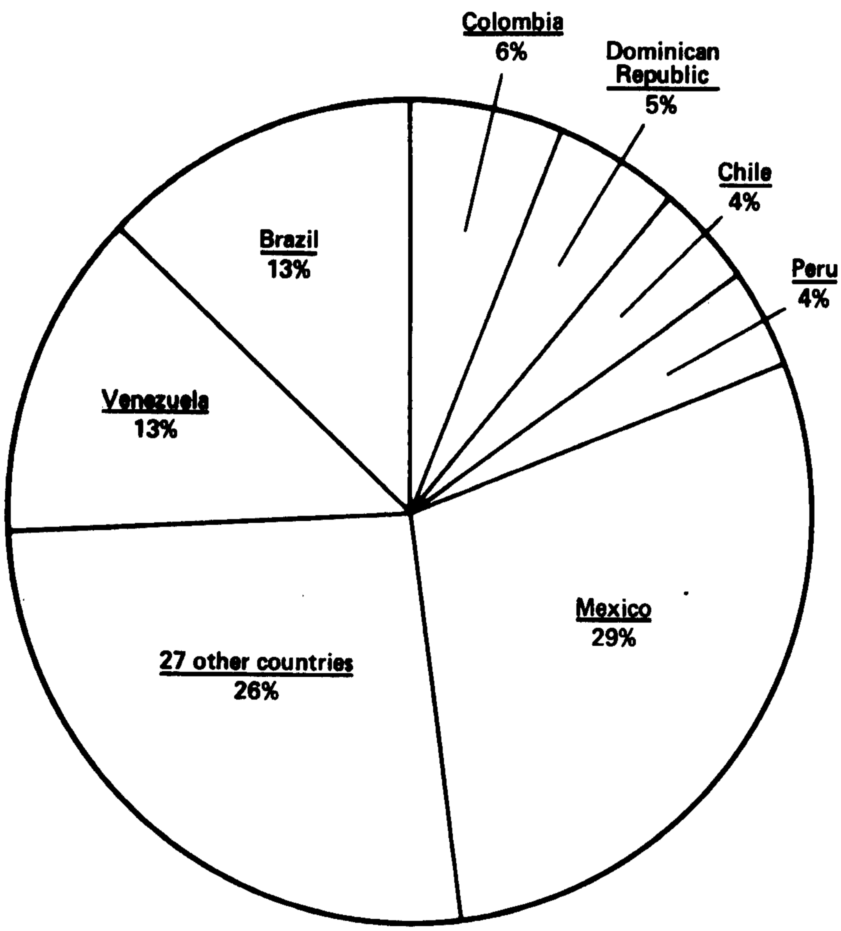
Source: Chart developed from Foreign Agricultural Service data.

However, the Latin American market for U.S. agricultural exports is important; the value of such exports increased by 58 percent between 1977-79 and should continue to grow as Latin American purchasing power and population increase.

Mexico, Brazil, and Venezuela account for over 50 percent of U.S. agricultural exports to Latin America. Exports to Mexico were about $1 billion in fiscal year 1979 and exports to Brazil and Venezuela were about $450 million each.

Chart 4

Destination of U.S. Agricultural Exports to Latin America fiscal year 1979



Source: Chart developed from Foreign Agricultural Service data.

FOREIGN AGRICULTURAL SERVICE

The U.S. Department of Agriculture serves as the focus for Government assistance to the agricultural sector in exporting its products. Within Agriculture, the Foreign Agricultural Service (FAS) has primary responsibility for planning and administering export promotion and financing programs. FAS, using the services of State agencies, regional associations, and private organizations, has established an export promotion network designed to stimulate foreign demand for U.S. agricultural products and to assist firms in exporting. In fiscal year 1980, FAS budgeted $22 million for market activities to promote exports, including a reserve for trade offices. The Office of the General Sales Manager (OGSM), which was integrated with FAS in late 1979, shares responsibility for market development programs and administers export financing programs.

FAS export promotion programs are intended to increase the level of U.S. agricultural exports worldwide. It has not been demonstrated in most cases, however, that exports result directly from promotional expenditures. Promotion, although important, is only one of many variables that affect a sale; price, quality, product availability, and foreign market characteristics are more important than promotion. Nevertheless, promotion is believed important to increase demand for U.S. agricultural products and at times may be instrumental in gaining a market advantage.

In choosing markets and selecting the appropriate mix of export promotion tools, FAS has many marketing resources to consider, as described below.

Agricultural Attaches

Agricultural Attaches posted overseas have a primary role in the FAS export promotion program. Attaches coordinate and supervise market development activities in assigned countries and notify U.S. exporters of marketing opportunities and competition. Attaches also help to establish contacts between U.S. businesses and foreign government officials and businessmen and to organize and manage food exhibits.

Trade offices

Under the Agricultural Trade Act of 1978, Agriculture is authorized to open between 6 and 25 overseas agricultural trade offices to provide services and facilities for foreign buyers and visiting U.S. trade representatives and to coordinate market development activities sponsored by the Department of Agriculture. FAS planned to spend $1.9 million in fiscal year 1980 to operate trade offices in London, Warsaw, Bahrain, Singapore, Seoul, Hamburg, and Miami. Proposed offices include Caracas, Abidjan, Tunis, and Beijing (Peking).

Cooperator programs

In fiscal year 1980, FAS planned to spend $16.9 million (76 percent of its market development budget) on cooperator programs. FAS works with 53 U.S. cooperators, which are agricultural marketing associations for bulk commodities, livestock, dairy products, poultry, and fruits and vegetables. The cooperators, assisted by the Agricultural Attaches, help the export of U.S. agricultural products by undertaking foreign market analyses, trade servicing, and consumer promotions.

Cooperator market development projects are financed by the U.S. cooperators, FAS, and third-parties, which include foreign governments and private organizations. FAS funds about 29 percent of the total market development costs; this funding serves as an incentive for private organizations to devote staff and money to foreign market development. Generally, FAS funding is provided for overseas market development activities, including staffing and maintenance of cooperator offices abroad. With few exceptions, cooperators pay for all domestic costs.

Export Incentive Program

The Export Incentive Program (EIP) is similar to the cooperator program. Under the EIP, FAS contracts with individual firms or cooperatives to develop export markets for their products and provides financial assistance on a reimbursable basis. FAS planned to spend about $1.6 million in fiscal year 1980 on this program, in which 34 organizations will participate.

Export trade services

FAS also promotes exports by providing export trade services, which include sponsoring trade shows, food exhibits, and sales team visits and operating a trade opportunity referral service. FAS planned to spend about $1.8 million on these activities in fiscal year 1980.

State agencies

In implementing its programs, FAS receives assistance from State agriculture and trade promotion agencies. Four regional groupings, representing 45 States, receive FAS funds to coordinate State export efforts. State agencies maintain contact with U.S. producers, processors, and exporters and solicit firms to participate in the export programs for items produced in their States.

Financing programs

FAS, through the OGSM, administers Agriculture's export credit and insurance programs. These include the Commodity Credit Corporation's (CCC) non-concessional, short-term and intermediate export credits, Public Law 480 1/ concessional credit programs, and the Non-Commercial Risk Assurance Program. By enabling foreign buyers to purchase U.S. agricultural commodities, these programs also help to promote U.S. agricultural exports. For fiscal year 1980, $725 million was available for CCC export credits, $876.3 million for Public Law 480 export credits and about $1.0 billion for insurance for noncommercial risks, i.e., war, foreign exchange inconvertibility, and expropriations.

OBJECTIVE, SCOPE, AND METHODOLOGY

The Chairman, Subcommittee on Foreign Agricultural Policy, Senate Committee on Agriculture, Nutrition, and Forestry, asked GAO to review Federal Government efforts to promote agricultural exports to Latin America. The Chairman wanted to know (1) what the Department of Agriculture has done to promote exports to Latin America, (2) what potential exists for increasing exports, and (3) whether FAS should be doing more in Latin America. To answer these questions, we needed to know what programs were being used in Latin America, how much money had been spent on them, and what potential exists to increase sales of U.S. agricultural commodities.

We were able to determine what programs are being used in Latin America, but it was difficult to determine exactly how much money had been spent in each country because FAS records do not permit such an exact accounting. Some cooperator and contractor activities are funded on a regional, multicountry, or worldwide basis and may not be reported by individual activity or country. Using FAS information, however, we were able to estimate the funds spent in Latin America as a whole.

1/Agricultural Trade Development and Assistance Act of 1954, as amended.

We learned through interviews with attaches, agency officials, and private sector individuals that potential exists for increasing exports to Latin America which may justify additional export promotion efforts. But, since our work was restricted to one geographical area and FAS has limited country marketing plans, we could not weigh opportunities there against those which may exist in other areas of the world. Therefore, we could not determine whether FAS should devote additional resources to Latin America.

We reviewed Agriculture's programs to increase U.S. agricultural exports through credit, insurance, and market promotion activities. In Washington, D.C., we examined program regulations and records and interviewed officials responsible for planning and administering the

--export development activities of private trade associations and companies which are partially funded by the Department of Agriculture;

--FAS-conducted promotional activities;

--Title I, Public Law 480 concessional sales;

--short-term and intermediate credits; and

--noncommercial risk assurance.

We reviewed Agriculture's market promotion activities in Latin America, including those of the U.S. Agricultural Trade Office in Miami. We discussed report issues with 15 U.S. cooperators and EIP contractors, 11 of which, including the major ones, had active programs in Latin America. We visited Mexico, Brazil, Venezuela, and Chile, which collectively receive over half of U.S. agricultural exports to Latin America. We held extensive interviews in these countries concerning export promotion activities and general market potential with Agriculture Counselors and Attaches, foreign government officials, private officials of U.S. groups, and officials of firms promoting U.S. agricultural products.

The four countries were selected for more detailed review because they are among the top six Latin American markets for U.S. agricultural exports, FAS officials suggested they would be representative of Latin America as a whole, and Mexico and Chile have resident cooperator offices.

CHAPTER 2

OPPORTUNITIES FOR EXPANDING FAS EXPORT

PROMOTION EFFORTS IN LATIN AMERICA

Existing FAS activities for promoting agricultural exports to Latin America are not extensive compared with its promotional efforts worldwide. Nevertheless, Government and industry officials believe that opportunities exist to expand exports to Latin America through expanding market development activities, providing more financial assistance, and stationing additional staff in Latin American countries.

CURRENT FAS EXPORT PROMOTION EFFORTS

FAS has promoted exports to Latin America primarily through (1) market development activities carried out by cooperators, (2) trade fairs, product displays, and sales team visits, and (3) CCC and Public Law 480 financing assistance in selected countries. FAS representatives stationed at 14 posts in 12 Latin American countries support and/or conduct these activities and programs. This section summarizes export promotional efforts in Latin America; a more detailed description is included in appendix I.

FAS Expenditures for Market Development

	Fiscal Years		
	1977	1978	1979
	-----(000 omitted)------		
Cooperator Program	$558	$652	$802
Export Incentive Program	-	-	15
FAS-sponsored activities	23	72	54
Total	$581	$724	$871

In fiscal year 1979, FAS spent about $802,000 for promotional activities carried out by 19 cooperators in Latin America; 86 percent of the funds financed the activities of Great Plains Wheat 1/ and the American Soybean Association, which

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1/Great Plains Wheat merged with Western Wheat Associates on January 12, 1980, to become U.S. Wheat Associates, Inc.

have offices in Latin America and have actively promoted their commodities there for many years. Limited sales activities were conducted by 17 other cooperators in various Latin American countries.

In the last 3 years, cooperators have conducted activities in most of the Latin American countries. The most extensive activities were in Mexico, Latin America's largest market for U.S. agricultural exports.

Under the Export Incentive Program, FAS spent $15,287 in fiscal year 1979 for limited promotional activities in three countries; this Program was not used in Latin America during the 2 previous years.

In addition to FAS-funded activities conducted by the private sector, FAS itself sponsors other activities to promote U.S. agricultural food products and commodities overseas. FAS-sponsored activities often vary from year to year in each country, with some countries having no activities, depending on market conditions at the time. In fiscal year 1979, FAS spent $54,000 on trade fairs, food exhibits, sales teams, and other activities in 14 Latin American countries, and it planned to spend $107,000 in fiscal year 1980, almost double the amount spent in 1979.

Financing has been an important factor assisting U.S. agricultural exports. Selected Latin American countries that could not afford cash purchases have purchased U.S. commodities financed by Public Law 480 and/or CCC credits. 1/ Importers and foreign government officials in several countries said that in past years export credit was the deciding factor in

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1/Public Law 480 provides for U.S. Government concessional financing of U.S. agricultural commodities to friendly countries. Repayment under the Dollar Credit program can be made over periods of up to 20 years, with a maximum grace period of 2 years. Repayment under the Convertible Local Currency Credit program can be made over periods of up to 40 years, with a maximum grace period of 10 years. Minimum interest rates under both programs are 2 percent during grace periods and 3 percent during the subsequent amortization period. CCC has provided financing at rates above its cost of borrowing through the Export Credit Sales Program (6 months to 3 years), the Intermediate Credit Program for Breeding Animals (over 3 and up to 10 years), and the the Non-Commercial Risk Assurance Program (6 months to 3 years).

purchasing large quantities of bulk commodities from the United States. In fiscal year 1979, three Latin American countries received CCC credits totaling $134.6 million and seven received Public Law 480 credits totaling $80.3 million.

Agricultural Attaches, in addition to other responsibilities, coordinate and supervise cooperator activities, support FAS-sponsored trade shows and sales team visits, and provide assistance and advice to U.S. exporters and State export groups. They also provide sales leads, which resulted in reported 1979 sales of $2.4 million, and distribute periodic publications informing potential buyers of the availability of U.S. agricultural products.

At the time of our review, FAS had 20 U.S. attaches and assistant attaches and 32 foreign national employees stationed in Latin America. On the average, they spend about 15 percent of their time on market development activities.

To supplement attache export promotion efforts, FAS opened an Agricultural Trade Office in Miami, Florida, in September 1979 staffed by an Agricultural Trade Officer and one secretary. The Trade Officer has visited Panama, Costa Rica, Mexico, Nassau, Bahamas, the Dominican Republic, and Haiti and also attended the Carib-USA Food Exhibit in Puerto Rico and the SUSTA 1/ food show in New Orleans to acquaint himself with the markets and attaches, make his role and availability known to importers, and assist exporters by providing information. Many individuals have phoned or visited the office seeking information and assistance on suppliers and foreign markets.

FAS export promotion efforts in Latin America are small compared to its worldwide promotion program; only about 5 percent of its market development funds are targeted to Latin America, less than the share of U.S. agricultural exports purchased by Latin America.

The FAS records do not permit an exact accounting of market promotion funds spent in each country because some activities are funded on a regional, multicountry, or worldwide basis. We were, however, able to estimate the level of market promotion activity in Latin America and compare it with that in other areas of the world.

1/Southern United States Trade Association.

The following table compares FAS market development expenditures in Latin America with other geographical areas in past years.

Geographical Area	Fiscal year 1971	1973	1975	1977	1978
	(percent)				
Japan	25.3	26.5	24.0	22.1	24.7
Western Europe	55.3	49.7	49.3	44.4	41.6
Southeast Asia	11.9	16.1	14.1	18.7	18.1
Eastern Europe	(a)	0	1.2	2.8	2.6
Latin America	3.3	3.4	5.5	5.3	4.8
Africa	1.5	1.1	1.7	1.6	2.7
Near East	0.2	0.6	1.5	2.6	2.6
Other	2.5	2.6	2.7	2.5	2.9
Total	100.0	100.0	100.0	100.0	100.0

a/Less than one-tenth of one percent.

Additional comparisons also show that FAS export promotion in Latin America is not extensive. For example:

--Only about one-third of the cooperators receiving FAS funds had activities in Latin America during fiscal years 1977-79.

--Only 2 cooperators maintain offices in Latin America, whereas 13 cooperators have overseas offices in other geographical areas.

--Of 34 Export Incentive Program agreements, only 6 provide for marketing activity in Latin America. In fiscal years 1977 and 1978, no promotions occurred under this program in Latin America. Only one EIP contractor had any activity in fiscal year 1979; this promotion occurred in three countries.

--Attaches in Latin America are lower-graded and spend less time on market development than do attaches stationed in most other overseas posts.

OPPORTUNITIES FOR INCREASED PROMOTION OF EXPORTS

Attaches at the posts we visited, FAS headquarters officials, and private-sector officials believe that exports to Latin America could be increased if export promotion efforts were expanded. Despite trade barriers and high levels of domestic production in Latin America, there are opportunities to increase exports to Latin America which may justify additional export promotion efforts.

Factors limiting exports

Potential for increasing exports to Latin America is somewhat constrained by two factors. First, Latin America grows many of the same basic agricultural commodities that the United States does and exports large quantities of agricultural products to the United States and other countries. In fact, Mexico and Brazil export more agricultural products to the United States than they import from it. This means that U.S. exports often replace domestic crop failures in the importing nation.

Second, most Latin American countries have trade barriers to discourage agricultural imports. Imports are restricted through stringent licensing restrictions, prohibited commodity lists, and decisions made by central government buying organizations. These actions are based on a desire to become self-sufficient in agricultural production and on balance-of-payments and credit problems, which have led governments to impose strict import controls. In addition, common market organizations, such as the Latin American Free Trade Association, give member nations preferential import duties, thereby penalizing imports from nonmember countries, such as the United States.

These two factors have combined to discourage private-sector promotion of exports to Latin America. FAS told us that some cooperators and business officials are reluctant to invest promotional effort in Latin American markets because of the trade barriers. Further, one cooperator was directed by a Latin American government to suspend promotional efforts aimed at increasing wheat consumption.

Expanded market development efforts

Attaches in the four countries we visited said that increased market development activities were needed to fully tap the potential for U.S. exports to Latin America. They said that additional cooperators should be represented in Latin America and that those already represented should conduct more activities.

Attaches and host-country officials told us that:

--The U.S. Feed Grains Council's recent visits to Chile and Venezuela had been overdue and that it must make more regular visits to these markets to effectively represent U.S. export interests.

--Cooperators representing tobacco, long-grain rice, and swine breeding stock should consider promotions in Chile.

--The Poultry and Egg Institute should have on-site representation in Venezuela; poultry exports to Venezuela total over $25 million, and there is potential for expansion.

--Past Holstein-Friesian Association attention to the Brazilian market has been insufficient to compete effectively with Canadian exporters.

--Mexico presently has a shortage of oilseeds and foresees a shortage of vegetable oils for the next 10 years; thus, there are opportunities for sales of U.S. oilseeds to Mexico.

Attaches also said that some agricultural products could be promoted through the Export Incentive Program's trade show activities.

Additional financing assistance

Some Latin American countries have severe balance-of-payments and credit difficulties and cannot easily pay cash for imports. Credit, through the CCC 1/ or Public Law 480 programs, could provide financing assistance needed by these countries.

Peru and Brazil, for example, would be better markets for wheat if good credit terms were available because both have financial problems which inhibit large cash purchases. Without additional credits, Peru would probably not purchase sufficient wheat to satisfy domestic demand and Brazil would buy wheat from other suppliers who would provide attractive credit terms. In Brazil, the United States recently lost a 2-million-ton wheat sale to Canada because the United States would offer CCC credit on only 1 million tons if Brazil also purchased an additional 1.5 million tons for cash. Canada agreed to finance the entire 2 million tons.

1/CCC credit programs have been suspended for fiscal year 1981.

Additional attache emphasis on export promotion

According to FAS data, attaches in Latin America spend about 85 percent of their time on other than market development activities, such as gathering and reporting domestic agricultural data for the Department of Agriculture and performing administrative duties. At some posts, attaches seldom leave their offices to conduct market development activities and have insufficient time to fulfill even their reporting responsibilities. In the four countries we visited, attaches said that their inability to devote sufficient time to market development was hurting U.S. agricultural exports. For example:

--An assistant attache prepared an exhibit for a livestock show which he described as poorly representing U.S. agricultural interests.

--Representational contacts with host-government decisionmakers have been insufficient at two posts to anticipate major government agricultural purchases.

--Market development contacts with the private sector at three posts are not actively pursued.

--Attaches at one post did not have time available to provide requested logistical support and business contacts for visiting cooperators.

These attaches said that if they had more time they could better anticipate sales opportunities, determine the marketing actions needed, and conduct or assist the U.S. private sector in carrying out appropriate export promotion activities. Unless work priorities are changed or additional FAS staff stationed in Latin America, attaches will remain unable to more actively promote U.S. agricultural exports.

CONCLUSION

FAS could do more to promote exports to Latin America by (1) expanding market development activities, (2) increasing financing assistance, and (3) stationing more overseas staff in Latin America. Any of these actions would require additional marketing resources or redirecting existing resources away from other areas of the world.

AGENCY COMMENTS AND OUR EVALUATION

The Foreign Agricultural Service was in essential agreement with the main points of our report. (See app. II.) On the whole, it believes that our observations were reasonable and will serve to strengthen the market development programs in Latin America. However, it stated that:

> " * * * throughout its report, the GAO repeats the recommendation that FAS immediately funnel increased financial support to programs in the Latin American region on the apparent, and in our opinion erroneous, assumption that program activity levels and achievements can always be directly equated with resources expended."

On the contrary, although we were convinced that opportunities exist, we did not recommend that FAS increase its export promotion efforts in Latin America. We stated on page 8 that:

> " * * * since our work was restricted to one geographical area and FAS has limited country marketing plans, we could not weigh opportunties there against those which may exist in other areas of the world. Therefore, we could not determine whether FAS should devote additional resources to Latin America."

Furthermore, we explictly recognize that promotional activities and exports cannot be directly linked, stating on page 5 that it has not been demonstrated

> " * * * that exports result directly from promotional expenditures. Promotion, although important, is only one of many variables that affect a sale; * * *."

Agriculture's Economics, Statistics, and Cooperative Service 1/ commented that our draft report seems to suggest the United States has not adequately tapped the Latin American market as compared with other regions of the world. (See app. II.) Our report makes clear, as noted above that such a comparison was not part of this review.

1/Effective October 1, 1980, the agency was reorganized into two separate agencies--the Economics and Statistics Service and the Agricultural Cooperative Service.

CHAPTER 3

PLANS NEEDED TO ASSIST COUNTRY

ALLOCATIONS OF SCARCE RESOURCES

FAS's allocation of market development resources is not based on a system which compares export opportunities among different country markets. Rather, FAS relies heavily on the private sector and on judgments based on past export performance to decide where and how to use its export promotion resources. Thus, FAS has no assurance that Latin American markets receive promotional attention commensurate with export sales opportunities.

FAS has begun a strategic planning effort to more systematically allocate scarce resources. However, unless FAS accelerates this process and completes country plans faster, strategic planning will have only limited usefulness.

FAS NEEDS A SYSTEM TO ASSURE OPTIMAL USE OF MARKETING RESOURCES

To assure optimal use of its limited export promotion resources, FAS should be able to compare export opportunities in one country or geographical region, such as Latin America, with opportunities in other world markets. Presently FAS does not allocate its resources this way.

Market development program

Because commodities represented by cooperator groups account for the vast majority of U.S. agricultural exports, FAS has allocated about 88 percent of its market development budget to cooperator activities during the last 2 years. Although FAS sponsors, guides, and partially funds the programs, the cooperators plan market development projects and are responsible for carrying them out. Cooperators study the use or lack of use of a commodity in a particular market, potential capability for the country to produce the commodity on its own, competition from other suppliers, and the economic situation and prospects for the future that could have a bearing on the ability of the country to import the commodity. Cooperator organizations also assess their own available resources and the U.S. ability to produce sufficient quantities to meet demand. After this basic research is done, cooperators develop marketing plans that set forth specific activities to promote export sales. FAS relies on a collective review of cooperator plans by attaches, commodity specialists, and others to determine whether the activities planned are appropriate.

FAS officials told us that they rely on cooperators to target FAS resources because FAS lacks staff to adequately study all potential markets and cooperators spend their own money for programed activities, indicating that the cooperators themselves believe their planned activities are worthwhile.

FAS pointed out that it can and does suggest new markets to encourage cooperator activities. For example, FAS does not normally pay the salaries of directors of overseas cooperator offices but may pay such costs for a period of time at new offices. However, if the cooperators are not willing to conduct an activity in a less-developed market, FAS can exert control only by threatening to withhold funding for other markets. It took 2 years to persuade one cooperator to make a market survey in Latin America; as a result of the survey, this cooperator is now planning some activities there.

FAS believes that its approach to allocating promotional resources has not necessarily resulted in adequate attention to new, relatively undeveloped markets. In an attempt to increase promotion in underdeveloped markets, FAS plans to redirect some marketing resources away from developed markets in Western Europe and Japan to markets elsewhere. It has told cooperators who have had programs in Japan and Western Europe for over 10 years that they must reduce their budgets in these countries by 5 percent for fiscal year 1981. Funds obtained from the 5-percent reduction are not lost to the cooperators but can be used for activities in emerging markets, such as Latin America, Southeast Asia, and Africa.

The decision to reduce FAS funds spent in Western Europe and Japan was not based on any studies or analyses showing that the money could be better used elsewhere. In fact, the level of reduction, 5 percent, was determined arbitrarily and FAS does not even know how much money the cutback represents nor does it have any intention of calculating the amount.

The cooperators objected to this policy and appealed it to the Department of Agriculture. As a result of a meeting between Agriculture and the cooperators, although the policy remains in effect, any cooperator who is affected may appeal. These requests will then be examined on a case-by-case basis by FAS. Thus, there is even less of a basis for knowing what this policy change will mean for developing markets, such as Latin America. Not only does FAS not know how much money will be available, but it is also not even sure who will be subject to the policy.

We believe the primary responsibility for planning and implementing foreign market development activities should rest with the private sector. FAS, however, to better fulfill its responsibilities for cooperator activities, needs to know more about the market potential in all countries and to develop a system to weigh export opportunities worldwide.

Overseas staff assignments

FAS assigns the overseas staff to posts on the basis of market size, number of reports to be filed, and a periodic evaluation of posts. It believes Latin America is well staffed compared with other parts of the world but that an onsite attache in the Southern Caribbean is needed.

Given overall staff constraints, FAS believes it has done a good job in assigning its attaches to meet current needs but lacks comprehensive information on the long-range potential of world markets which would help to more effectively staff overseas posts.

Financing programs

OGSM credit programs and FAS export expansion efforts have not been sufficiently coordinated. OGSM was integrated into FAS in November 1979 so that all Agriculture export promotion activities would be under one authority, thereby permitting better coordination.

Under the Export Credit Sales Program, 1/ lines of credit are established by country. OGSM responds to requests for lines of credit from foreign countries, importers, U.S. exporters, or attaches. No specific criteria have been developed but, in determining whether or not a line of credit should be approved, OGSM considers the (1) need for protecting or increasing the U.S. market share, (2) probability that U.S. cash sales will decrease, (3) financial ability of the country to repay the credits, and (4) availability of the commodities sought by the country. In making decisions, OGSM asks the Agricultural Attaches for information and reports concerning countries' interests in and needs for credits, foreign exchange earnings, balance-of-payments positions, and total financial and debt structures.

1/For more details, see GAO report, "Stronger Emphasis on Market Development Needed in Agriculture's Export Credit Sales Program" (ID-80-01, Oct. 26, 1979).

Instead of actively managing the program according to established priorities and goals, OGSM passively reviews credit requests on a case-by-case basis. Virtually any credit can be justified on the broad objective of maintaining and developing markets. The absence of specific priorities and goals makes the program more vulnerable to the influence of secondary economic and political considerations. 1/

Recognizing the importance of promoting exports, Congress passed the Agricultural Trade Act of 1978, which augments credit tools available for export promotion. The act authorized financing for farm commodities, with repayment terms in excess of 3 years and up to 10 years, to

--finance export sales of breeding animals,

--finance facility construction to increase import potential of foreign markets,

--meet credit competition from other exporting countries, and

--establish reserve stocks in the importing country.

An intermediate credit program for breeding animals became effective in fiscal year 1979 and an intermediate credit program for foreign market development facilities became effective late in fiscal year 1980. Like the Export Credit Sales Program, these programs are allocated on a case-by-case basis. All three programs have been suspended for fiscal year 1981.

OGSM also administers the Public Law 480 program. According to an FAS study, this program has become less effective as a marketing tool because 75 percent of all food commodities are required by law to be allocated to countries whose gross national product per capita meets the poverty criterion for International Development Association financing. Most countries meeting that criterion have relatively little immediate potential as commercial markets. The remaining 25 percent is often allocated on the basis of political or other objectives unrelated to U.S. agricultural interests or to the establishment of commercial markets overseas.

The recent integration of OGSM within FAS should allow FAS to better coordinate export promotion by giving it more control over all the marketing tools available. Still needed, however, are priorities for market development activities.

1/See footnote 1, p. 19.

BUDGET CONSTRAINTS AND PERSONNEL CEILINGS RESTRICT FAS ABILITY TO PROMOTE EXPORTS

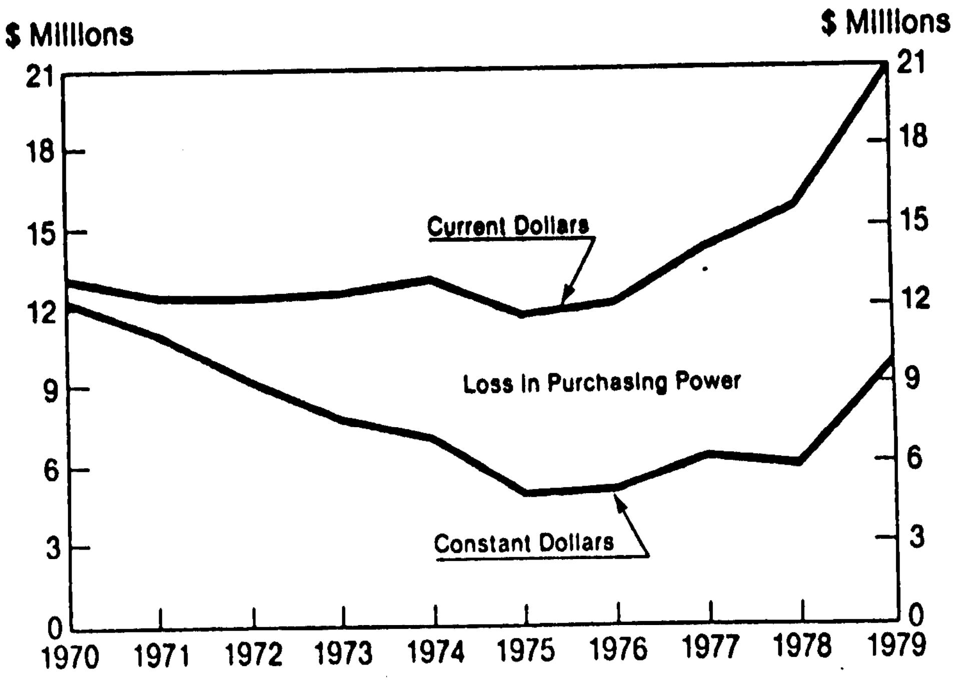
Budget and personnel ceilings have limited the marketing tools available to FAS to promote U.S. exports throughout the world. Market development funds have declined in purchasing power, and budget constraints have caused recent cutbacks in export financing programs. In addition, FAS overseas staff resources have not increased in many years despite the opening of new posts and trade offices and increased attache workloads. Due to the current economic situation and fiscal climate, it does not appear that there will be any increases soon.

Market development resources have decreased in real purchasing power

From 1970 to 1979, FAS's overseas market development budget increased by 65 percent, to about $21 million. However, the actual buying power of FAS marketing funds declined 20 percent when adjusted for the effects of wage and price inflation.

Chart 5

FAS Market Development Activities in Current and Constant Dollars



Source: Foreign Agricultural Service.

The FAS budget request is basically designed to maintain existing program levels. According to FAS, its fiscal year 1981 budget request provides for an increase of about $4 million for market development activities: $761,000 (19 percent) for program expansion and the rest to offset lost purchasing power in the last year. FAS originally proposed that $5 million be requested for program expansion, but due to budget constraints, the request was revised downward to about 15 percent of the original request.

Direct Credit programs curtailed

Budget constraints have caused FAS to curtail programs to finance exports. FAS does not intend to make loans during fiscal year 1981 for direct CCC credits. Instead, it intends to replace direct credit programs with loan guarantees which require budget outlays only in the event of loss. It is uncertain whether the loan guarantees alone will provide FAS with the financing tools needed to effectively promote exports.

The Export Credit Sales Program has been Agriculture's foremost export promotion program. Loans are made at interest rates generally higher than the cost of borrowing from the U.S. Treasury. Since interest rates are higher than the cost of money to the CCC and there have been no bad debt losses in its 24 year history, the program has been self-sustaining.

FAS has not budgeted funds in fiscal year 1981 to continue the program. In fiscal year 1979, $1.5 billion was loaned to 21 countries under this program. For fiscal year 1980, Agriculture initially planned $1.6 billion for this program; however, to help reduce the Federal budget deficit, this was revised to $725 million. The fiscal year 1981 budget includes no funds for this program, again because of overall budget constraints.

Through the intermediate credit program for breeding animals, Agriculture has made loans of $1 million as of July 1980. On September 26, 1980, the FAS intermediate credit program for foreign market development facilities became effective. Under this new program, one project agreement was signed on September 29, 1980, involving $17.5 million from fiscal year 1980 funds. However, like the Export Credit Sales Program, funds were not budgeted in 1981 for these programs in order to reduce the Federal budget deficit.

Agricultural trade associations and some FAS officials have expressed concern and opposition to the nonfunding of credit programs. For example, one cooperator official said that availability of direct credits is the major factor in competing in Latin American markets. FAS officials in the livestock division said that credits for sales of breeding animals could help to expand sales. These officials were surprised that credits would no longer be available. FAS officials also said that credits to improve port and commodity handling facilities in importing countries could help to increase future U.S. exports.

To replace CCC direct credit programs, FAS plans to provide loan guarantees against both commercial and political risks through the Export Credit Guarantee Program in addition to its existing Non-Commercial Risk Assurance Program. By operating risk insurance programs, FAS will not have to make budget outlays and will insure loans made by banks at commercial rates of interest. Commitments for loan guarantees are projected to be about $2 billion in fiscal year 1981.

FAS is not sure whether loan guarantees alone can replace direct credits without detracting from its ability to promote exports. Importer acceptance of the loan guarantee program is uncertain and there is concern that the program will put the United States at a disadvantage in competing for world markets.

Promoting exports through financial assistance requires a variety of financing mechanisms that can be tailored to the importing country's needs. Regardless of how successful the loan guarantee program is, the nonfunding of direct credit programs removes one of FAS's export marketing tools and detracts from its ability to offer alternative financing terms.

Other duties and personnel ceilings limit marketing efforts

The number of posts and the workload handled by the attaches have expanded over the years, but the number of authorized overseas personnel has not changed appreciably during the last decade. Additional overseas personnel to supplement current staff would permit FAS to expand export promotion activities. But, in light of budget constraints and the President's ceiling on the official U.S. presence overseas, it does not appear that additional staff will be made available.

Agricultural Attaches coordinate and supervise market development activities in assigned countries and notify U.S. exporters of foreign marketing opportunities and competition. They also help to establish contacts for U.S. businessmen and organize and manage food exhibits.

Attaches also perform onsite commodity reporting and analysis, serve as representatives of the Secretary of Agriculture, represent U.S. agriculture trade policy interests, provide technical guidance to U.S. development assistance programs, and coordinate Agriculture programs in their respective countries. FAS considers commodity analysis and reporting to be one of the most important attache functions. Therefore, attaches worldwide devote much of their time to this function, as shown in the FAS data below.

Activity	Average percent of time spent
Commodity analysis and reporting	39
Market development	20
Trade policy	4
Services to other Agriculture organizations	7
Embassy cooperation and representation	6
Administration and management	10
Leave and other	14
Total	100

The number of reports that attaches jointly file has grown from about 3,300 in 1973 to 4,800 in 1979 and the scope of these reports has also been broadened. In addition, Attaches worldwide annually provide over 2,000 trade leads, respond to more than 15,000 inquiries, and assist almost 30,000 visitors. The number of posts staffed with FAS personnel has increased from 63 to 74, 1/ causing overseas personnel to be thinly spread. Still, some attaches are required to cover more than one country from their posts, such as the attache in Venezuela who is also responsible for the Southern Caribbean area.

In December 1969, 274 full-time permanent attache positions were authorized, compared with 268 in December 1979. Requested budget increases of $2.3 million for fiscal year 1981 will enable FAS to maintain existing overseas personnel but will not permit increases.

FAS said it needs additional overseas personnel, but restrictive personnel ceilings continue due to budget constraints and the President's ceiling on the official U.S. presence overseas. Therefore, it appears unlikely that FAS will receive any additional overseas personnel to increase its market development activities.

Future use of Agricultural Trade Offices limited

The intended purpose of Agricultural Trade Offices is to develop, maintain, and expand international markets for U.S. agricultural commodities. The Trade Offices are to focus additional resources on the market development function and allow more time for market development activity. The trade officers are to perform indepth trade services and relieve the Agricultural Attache of this duty. The same factors, however, which limit attache market development efforts--personnel ceilings and other duties--also limit Trade Office impact on expanding export promotion.

A Trade Office is usually staffed by one American Trade officer, one foreign national marketing specialist, and one local clerical/support person. Some Trade Offices may have additional staff, depending on the number of activities and needs. Since FAS has received no additional positions overseas, they have had to shift personnel from other posts to staff the Trade Offices. Some posts have been eliminated in order to accommodate these shifts; for example, FAS intends to close its attache offices in Turkey and Zaire and to open Trade Offices in Tunisia and the Ivory Coast.

1/Includes the seven Agricultural Trade Offices opened as of June 1980.

Trade Offices at several locations will be unable to devote all of their time to market development as originally planned. Offices in Bahrain and Singapore will also perform traditional attache duties and the office in Hamburg will have some reporting duties previously performed by other FAS overseas offices. As a result, these Trade Offices will not be able to focus additional resources on market development to the extent envisioned in the Agricultural Trade Act of 1978.

The Miami Trade Office, which is responsible for Mexico, Central America, and Northern Caribbean, is staffed by a Trade Officer and a secretary, with the position of Assistant Trade Officer served by someone from Washington on an "as needed" basis. A second Trade Office was operational at the end of September 1980 in Caracas, covering northern South America and the Southern Caribbean area. FAS reassigned the Assistant Agricultural Attache from the Caracas Agricultural Counselor's office to be Agricultural Trade Officer and has authorized him to hire one local professional and one secretary.

After the other four Trade Offices are opened, there will be a freeze through at least fiscal year 1982 on the opening of additional offices. The Office of Management and Budget asked that FAS not open any Trade Offices during fiscal year 1981 for budget reasons and to evaluate the ones already opened. FAS intends to extend the freeze another year to sufficiently evaluate the effectiveness and usefulness of Trade Offices.

The geographic area covered by existing and planned Trade Offices in Latin America is quite large, as is their mandate. Due to an already tight staffing situation and a freeze on additional Trade Offices, it is not clear if these limited operations can effectively accomplish their mission.

FAS STRATEGIC PLANNING EFFORT

FAS has begun a strategic planning effort which may in the future enable it to better allocate its resources to develop, expand, and maintain markets for U.S. products. But, unless FAS accelerates its current effort and completes country plans faster, strategic planning will have only limited usefulness in helping it to allocate resources worldwide.

Since 1973 we have issued several reports 1/ urging FAS to undertake strategic planning. Agriculture has repeatedly spoken of its commitment to planning. In congressional testimony in early 1978, the General Sales Manager said that FAS staff would be developing country-by-country strategic market plans to establish the most effective combination of direct private sales, Government credits, and market promotion activities. Draft plans for Poland and Indonesia were prepared in the fall of 1977 but were never finalized. Plans for Sri Lanka and Romania were drafted in 1979. We were told that, while the plans were good, they were not exactly what FAS wanted. The country outline described below, is closer to what FAS believes should be included in these plans. During hearings in March 1979, the General Sales Manager again stated the need for commodity and country goals or priorities. In February 1980, during congressional hearings, FAS reported that it had identified the objectives, strategies, and goals of the planning effort; addressed the issue of information requirements; and identified countries with important market opportunities. FAS said that its planning staff would be meeting with various groups to acquaint them with these activities and to establish information channels.

FAS announced the establishment of a Strategic Planning Unit in March 1978. Staffing for the Unit was to include five professionals, but by July 1979 FAS had assigned only two. FAS provided three additional analysts by late 1979, stating that personnel ceilings had prevented it from fully staffing the Unit earlier. As of July 1980, only three staff members were working full time on the country plans, one had been assigned to another group, and another was working on a different project.

For selected countries, the Unit will (1) consolidate into a single document the important facts concerning a country's future demand for food and agricultural commodities, production potential, and trade situation, (2) examine the impact of U.S. resources used to improve the U.S. market position, (3) identify and discuss market potentials, (4) identify and discuss constraints to marketing opportunities, (5) discuss

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1/"Ways to Improve U.S. Foreign Trade Strategies" (B-172255, Nov. 23, 1973); "The Agricultural Attache Role Overseas: What He Does and How He Can Be More Effective for the United States" (ID-75-40, Apr. 11, 1975); and "Stronger Emphasis on Market Development Needed in Agriculture's Export Credit Sales Program" (ID-80-01, Oct. 26, 1979).

competition and marketing strategy of other exporting countries, (6) make recommendations for the use of U.S. resources, and (7) provide an objective basis for long-term U.S. market strategy to increase exports of U.S. agricultural commodities.

FAS will not fully realize the value from the country strategic plans until sufficient plans are completed. FAS needs enough plans to permit comparison of export opportunities in markets and to allocate resources based on the comparisons. One of the first plans to be completed is the market in Venezuela; it will recommend activities and financing to achieve certain export goals. However, without comparable plans for Mexico, Brazil, and other countries in Latin America and the rest of the world, FAS will be unable to make the comparisons of export opportunities needed to better allocate promotion resources.

The Unit staff plans to rely on a variety of information sources to develop the country plans. The cooperation received from units within FAS and from the Economics, Statistics, and Cooperatives Services (ESCS) will determine how quickly the staff will complete the plans.

Among its many responsibilities, ESCS is responsible for analyzing supply and demand for farm products in foreign countries and their effect on prospects for U.S. exports. Since ESCS is organized on a country basis, it will be able to provide the Unit with information in a form it can use. However, ESCS is not part of FAS and FAS has found that the level of commitment to this project has not been transmitted to the ESCS staff. In fact, some of its employees were not even aware of the Strategic Planning Unit when the Unit staff approached them. In addition, many of the ESCS staff are new and have limited experience. The Unit staff believes it will have to be more involved in the ESCS information-gathering process than it had anticipated, which will result in delays. ESCS was scheduled to provide FAS with the requested information at the beginning of September. ESCS has provided some information to the Unit but not the complete packages the Unit had anticipated. (The information is being provided piecemeal.)

FAS hopes to issue two plans per analyst per year. Of course, it will be necessary to review each of the issued plans to modify and update them. In addition, the staff will work on other projects that affect the planning process as necessary. FAS said that the Unit does not have sufficient staff to complete many plans quickly nor does the Unit intend to prepare market plans for all countries. Its intention is to prepare market plans for countries where they believe FAS can influence the market situation. Better data on where FAS market development funds are being used would help the Unit to accelerate its planning activities. Presently, FAS maintains records of payments to each cooperator but lacks complete data detailing market development expenditures by country.

FAS officials told us that they are unable to accurately record cooperators' and export incentive program contractors' use of FAS funds on a country basis because some activities are funded on a regional, multicountry, or worldwide basis. FAS acknowledged that it needs better data showing where the funds are being used, but it is reluctant to require that such data be provided because of the increased administrative burden this would place on cooperators and contractors. Nevertheless, FAS should have better information on where its resources are being used in order to evaluate individual country programs.

CONCLUSIONS

Because of serious resource constraints, FAS should carefully weigh options and alternatives concerning where it will spend its resources and on what types of activities. The country plans developed by the new Strategic Planning Unit should provide a better basis for allocating FAS marketing resources. However, the first country studies will not be ready for some time and it will be even longer before enough studies are completed to allow FAS to weigh alternatives among different countries. Unless FAS accelerates the process and completes country plans faster, strategic planning will have only limited usefulness.

AGENCY COMMENTS AND OUR EVALUATION

FAS did not comment on our conclusion that the strategic planning process needed to be accelerated or on the discussion of the ESCS role in the new planning effort.

The management of ESCS objected to the discussion of its involvement with the planning effort. Specifically, ESCS said it was untrue that "FAS has found that the level of commitment to this project has not been transmitted to the working levels of ESCS". As indicated, this statement represents an assessment of the situation by FAS officials, not us.

In its comments, FAS took exception to our statements on loan guarantees, construing them as criticism "that guarantees are already recognized as deficient, or at least as having a doubtful future." In our work, we found that there was a general concern, even among Agriculture officials, that replacement of credit programs with guarantee programs would "put the United States at a disadvantage in competing for world markets." (See p. 23.) We are not attempting to prejudge the Export Credit Guarantee Program which just became effective for fiscal year 1981. We are merely reporting the concerns that result from the suspension of direct CCC credits and sole reliance on guarantees.

FAS EXPORT PROMOTION

EFFORTS IN LATIN AMERICA

Promotional activities in Latin America for fiscal year 1980 were planned by 17 cooperators. The U.S. Wheat Associates and the American Soybean Association were planning the most extensive activities, and the 15 other cooperators planned visits to various Latin American countries to attend livestock shows, and/or conduct limited sales activities. FAS said that after it approved cooperator plans, activities could be added or deleted according to changing market conditions and that additional cooperators could schedule limited activities that do not appear in the marketing plans. According to the 1980 cooperator marketing plans, U.S. Wheat Associates will:

1. Conduct seminars on baking techniques, U.S. wheat grading and handling procedures, pasta production, flour handling, and wheat crop quality.

2. Provide consultants for milling, sweet goods, pasta, cookies, and biscuit production techniques.

3. Support local baking publications and publish U.S. wheat trade information in Spanish.

4. Sponsor Latin American government and business officials' visits to the United States to learn about the U.S. wheat trade.

5. Conduct market surveys.

6. Maintain offices in Santiago and Guatemala City.

The American Soybean Association will:

1. Sponsor visits by Latin American officials to the United States to learn about poultry and swine feeding, oilseed crushing, and food technology.

2. Sponsor consultant visits to assist with poultry nutrition, swine technology, and soy usage in meat products.

3. Sponsor promotions and seminars on use of soy in infant diets, full-fat feeding of poultry broilers and swine, and replacing milk for animal feeding.

4. Conduct courses and symposiums on quality control of feed rations and grain and meal storage, publish soy information, open a home economics/nutrition soy center in Mexico, and conduct a soy workshop.

5. Maintain an office in Mexico City.

The other cooperators plan one or more of the following market development activities in fiscal year 1980.

1. Sponsor sales team visits.

2. Advertise in trade publications.

3. Provide classifiers and judges for livestock shows.

4. Conduct other types of market development in selected countries.

Although FAS does not have exact cooperator expenditures for each Latin American country, FAS said that the cooperator marketing plans provide the best available data. Because this data is planned rather than actual expense and excludes administrative expenses funded by FAS, it does not represent total FAS expenditures for cooperator activities in Latin America. In addition, cooperator activities vary from year to year, with little or no activity in some years and a great amount of activity in other years. However, we used the plans to develop estimates for the following table.

FAS Expenditures for Cooperator Activities in Latin America

Cooperator	Fiscal year 1977	1978	1979
Poultry and Egg Institute of America	$ 0	$ 0	$ 0
American Soybean Association	111,623	171,986	213,190
Florida Citrus Commission	31,270	26,956	0
Northwest Horticultural Council	783	0	0
Great Plains Wheat	322,646	358,163	478,072
Rice Council for Market Development	11,496	7,756	7,695
American Seed Trade Association	0	180	25,075
Protein Grain Products International	0	0	1,500
Santa Gertrudis Breeders International	3,609	9,210	0
American Brahman Breeders Association	7,735	7,002	4,094
American Herford Association	8,529	6,209	0
American Polled Hereford Association	0	14,214	3,520
American Angus Association	3,264	13,581	6,825
International Brangus Breeders Association	8,910	1,299	1,537
Holstein-Friesian Association of America	39,979	17,192	34,346
American Quarter Horse Association	2,290	3,440	3,077
Brown Swiss Cattle Breeders Association	5,370	4,148	2,882
National Association of Animal Breeders	499	0	610
National Potato Promotion Board	0	7,792	6,336
National Day Bean Council	0	1,593	0
MIATCO (note a)	0	655	750
EUSAFEC (note b)	0	923	1,499
California Cling Peach Board	0	0	8,255
Miller National Federation	0	0	1,387
Beefmaster Breeders Universal	0	0	1,582
Total for Latin America	$ 558,003	$ 652,299	$ 802,232
Worldwide Expenditures by Cooperators	$9,441,912	$12,571,851	$13,587,087
Expenditures in Latin America as percent of worldwide expenditures	5.9	5.1	5.9

a/Mid-America International Agri-Trade Council (State organization).

b/Eastern U.S. Agricultural and Food Export Council, Inc. (State organization).

FAS Budgets for Cooperator Activities in Selected Latin American Countries

Country	Fiscal year 1977	1978	1979	Total
Mexico	$ 47,607	$ 40,403	$ 92,929	$ 180,939
Chile	29,691	20,523	49,208	99,422
Brazil	26,597	41,267	21,029	88,893
Peru	20,749	19,633	29,245	69,627
Colombia	21,024	26,402	15,366	62,792
Venezuela	11,692	29,051	20,710	61,453
Guatemala	4,933	9,823	34,023	48,779
Ecuador	21,457	11,471	8,766	41,694
Argentina	5,570	13,638	19,723	38,931
Dominican Republic	10,845	1,589	17,978	30,412
Costa Rica	11,217	5,656	6,578	23,451
Jamaica	13,225	219	2,017	15,461
Uruguay	1,061	7,646	4,898	13,605
Trinidad	1,391	5,409	3,666	10,466

GAO note: Countries not listed had total activity budgets of less than $10,000.

Export incentive program

Only one contractor has had any Export Incentive Program activites in Latin America in the last 3 years. FAS reimbursed funds for point-of-sales materials, TV advertising, and product demonstrations which included taste testing. All of these activities occurred in fiscal year 1979 and were carried out in three countries, as the following table shows.

FAS Reimbursement for Contractor Activities

Country	Fiscal year 1977	Fiscal year 1978	Fiscal year 1979
Panama	-	-	$7,903
Trinidad-Tobago	-	-	5,525
Netherland Antilles	-	-	1,859
Total	-	-	$15,287
Worldwide expenditures	$1,158,110	$910,908	$544,343
Latin American expenditures as a percent of worldwide expenditures	0	0	2.8

FAS-sponsored activities

FAS-sponsored activities vary from year to year in each country, with some countries having no activities, depending on market conditions at the time. In fiscal year 1980, FAS planned to spend about $107,000 in 12 countries 1/ for sales team visits to promote U.S. processed foods information booths at national livestock shows and fairs and food exhibits.

The following table shows FAS expenditures for fiscal years 1977-79.

Country	Fiscal year 1977	1978	1979	1977-1979
Barbados	(a)	-	$ 1,000	$ 1,000
Brazil	$ 1,000	$24,000	9,000	34,000
Chile	-	11,000	7,000	7,000
Colombia	1,000	-	1,000	13,000
Curacao	8,000	11,000	19,000	27,000
Dominican R.	1,000	1,000	1,000	3,000
Ecuador	-	-	1,000	1,000
El Salvador	(a)	2,000	1,000	3,000
Guatemala	-	8,000	(a)	8,000
Haiti	1,000	-	-	1,000
Honduras	-	5,000	(a)	5,000
Jamaica	-	-	1,000	1,000
Martinque	-	-	3,000	3,000
Mexico	-	2,000	4,000	6,000
Nicaragua	4,000	1,000	-	5,000
Surinam	-	-	1,000	1,000
Trinidad-Tobago	5,000	(a)	3,000	8,000
Venezuela	2,000	18,000	2,000	22,000
Total (note b)	$23,000	$73,000	$54,000	$149,000

a/Less than $500--not counted in totals
b/Rounded to the nearest $1,000.

1/Antigua, Bahamas, Brazil, Costa Rica, Dominican Republic, Ecuador, Guadeloupe, Guatemala, Honduras, Martinique, Mexico, and Venezuela.

Financing programs for agricultural exports

Financing has been an important factor in assisting U.S. agricultural exports to selected Latin American countries that could not afford cash purchases. These countries purchased U.S. commodities financed by Public Law 480 and/or CCC credits. Importers and government officials in several countries said that export credit was the deciding factor in purchasing large quantities of bulk commodities from the United States in past years. The following table shows Latin American countries that have received Public Law 480 and CCC credits to finance U.S. agricultural imports for fiscal years 1977-79.

Country	Public Law 480 Title I			CCC		
	Fiscal year					
	1977	1978	1979	1977	1978	1979
	(000 omitted)					
Honduras	-	-	$ 1,966	-	-	-
Costa Rica	-	-	-	$ 82	$ 71	-
Jamaica	$ 3,082	$12,851	15,156	495	-	-
Haiti	11,067	6,487	8,058	-	-	-
Domincan Rep.	-	1,500	13,005	-	-	$ 24,465
Guyana	-	1,996	2,220	-	-	-
Peru	-	11,100	26,664	74,096	74,223	62,779
Bolivia	-	8,863	13,228	8,978	12,019	-
Chile	-	-	-	-	45,788	-
Brazil	-	-	-	-	-	47,344
Total	$14,149	$42,797	$80,297	$83,651	$132,101	$134,588

Agricultural attaches in Latin America spend about one-sixth of their time on market development, according to FAS data. As shown in the following table, the amount of time that attaches spend on market development differs from post to post.

Time Spent by FAS Personnel on Market Development in Latin America

Country/post	Fiscal year 1977	1978	1979
	----(percent)-----		
Santo Domingo, Dominican Republic	14	14	16
San Jose, Costa Rica	32	15	13
Quito, Ecuador	9	17	15
Bogota, Colombia	17	33	30
Lima, Peru	25	19	18
Guatemala City, Guatemala	17	22	19
Montevideo, Uruguay	8	4	5
Buenos Aires, Argentina	5	5	5
Caracas, Venezuela	25	44	37
Mexico City, Mexico	20	17	18
Rio de Janeiro, Brazil	2	8	8
Brasilia, Brazil	11	13	8
Port-of-Spain, Trinidad	17	a/	a/
Sao Paulo, Brazil	9	18	12
San Salvador, El Salvador	14	23	a/
Santiago, Chile	15	13	17
Average	15	18	16

a/Post has been closed.

In Mexico and Brazil, attaches' market development activity was limited, in part because of trade barriers, to assisting cooperators and other visitors and representing U.S. agriculture at host-country national shows. In Chile, where imports are not restricted, the attache also regularly visited Chilean importer/ user contacts. The attache office in Venezuela performed the most extensive market development program, in part because of Venezuela's favorable acceptance of U.S. products and close proximity to the United States. For example, the attache's office sponsored trade shows in Caracas and sales team visits to several islands under its jurisdiction and actively assisted with cooperator activities.

Attaches at each of the four posts visited had solicited and/or processed trade leads through the Trade Opportunity Referral Service (TORS), a computerized system for referring foreign sales leads to U.S. suppliers. Sales leads are furnished by the agricultural attaches to FAS, which provides them to potential suppliers. In fiscal year 1979, 18 such leads were furnished for Mexico, 20 for Chile, 5 for Brazil, and 68 for Venezuela.

Attaches reported the following sales in 1979 based on spot checks of trade leads reported through the TORS program in 1979.

Country	Commodity	Amount of reported sale
Venezuela	Yellow/green peas	$1,983,985
	White soft wheat	27,120
	Strawberry plants	4,000
Chile	Turkeys	18,000
	Variety meats	200,000
	Raspberry plants	100
Mexico	Dried milk	133,530
	Sheep	30,000
Argentina	Aberdeen angus cattle	50,000
	Frozen semen	2,000
Guatemala	Grocery items	17,000
	Apples	500
Bolivia	Confectionery	$ 4,500
Total		$2,470,735

United States Department of Agriculture
Foreign Agricultural Service
Washington, D.C. 20250

OCT 3 1980

Mr. J. K. Fasick
Director
International Division
United States General Accounting Office
Washington, D.C. 20548

Dear Mr. Fasick:

The Foreign Agricultural Service (FAS) has reviewed the GAO draft audit report entitled, "Promoting Agricultural Exports to Latin America," and appreciates the opportunity to comment on the various findings and recommendations presented. As the report recognizes, FAS, working with cooperator trade organizations, has played an important role in the growth of foreign markets for U.S. agricultural commodities worldwide, which are now expected to reach a new record total of $40 billion in fiscal year 1980. The market development program in Latin America is relatively new and there is a continuing need for further strengthening and improving as experience is gained. For this reason, FAS welcomes constructive inquiry and discussion with respect to its activities on the part of GAO at all times. As the following comments will indicate, the Foreign Agricultural Service is in essential agreement with the main points of the GAO report. The areas of disagreement, where they do occur, deal not so much with basic matters of principle as with specific points of interpretation or implementation. In fact, on the whole, the Foreign Agricultural Service believes that the GAO's observations and recommendations are reasonable and will serve to strenghen the market development program in Latin America.

I. COMMENTS -- Cooperator and FAS Programs

Throughout its report, the GAO repeats the recommendation that FAS immediately funnel increased financial support to programs in the Latin American region on the apparent, and in our opinion erroneous, assumption that program activity levels and achievements can always be directly equated with resources expended. It has been our experience that the successful development of a new market area for U.S. agricultural products requires a coordinated and systematic approach which, in the initial stages, often involves great amounts of time and effort but not necessarily funds. It would be precipitous and ineffective, in our opinion, to commit project funds for full-fledged promotion activities without first thoroughly investigating the market potential, trends, barriers, competition and other characteristics unique to the subject market area that would obviously play a role in determining the most effective types of promotion that should be undertaken. While such background research is essential to an effective market development effort, its value is not necessarily reflected in the relatively low level of funds needed for its completion.

Presently in Latin America, activities are heavily weighted in these early phases of market development. Specific types of activities include meeting with government and trade leaders, marketing research, product testing, product demonstrations, and educational activities. Once a decision is made as to the approach to take in developing a market, then the more expensive activities would be launched, i.e., advertising, office overhead costs, team travel, etc.

Page 23, Paragraph 3. -- One of the greatest threats to a program, as successful as the market development program, is complacency. Therefore in FY 1979, to insure vitality and innovation in the program, FAS announced a mandatory cooperator-wide redirection of five percent of project funds away from established markets towards those less developed areas such as Latin America. The five percent figure is not as "arbitrary" as it might appear. It is large enough to force each cooperator to seriously consider a realignment of program priorities without severely disrupting or forcing curtailment of necessary ongoing activities elsewhere. For the time being the exact dollar figures involved in the shift are not as important as the fact that each of the affected cooperators, when allocating total program resources worldwide must now redirect at least five percent to less developed market areas. Furthermore, there is presently no need for FAS to know precisely what amount of money a five percent cutback in established markets represents because, at this point, FAS does not know the specific market approaches that will be approved for Latin America or how much they will cost. When FAS has determined the types of activities to be implemented in the various commodity areas in Latin America, we will then conduct an indepth analysis of funds redirected from established markets to serve this purpose.

II. COMMENTS -- CCC & P.L. 480 Financing

Following are comments, identified by page.

Page 5, Line 6. -- The last sentence in this paragraph does not accurately reflect the somewhat subtle lines of authority that existed between FAS and OGSM prior to our reorganization. It might be more accurate to say that OGSM "has shared responsibility for market development programs..."

Page 8, Line 12 -- In listing the agencies participating in P.L. 480 decisionmaking, the report ought to identify IDCA and AID. A reader may think these agencies are part of State, but the three not infrequently adopt and argue for different viewpoints in the program development process.

Page 13, Footnote -- The footnote's description of Title I terms is misleading in that it implies all agreements are either 20- or 40-year terms, with two and three percent interest rates. Those are simply the limits of program's terms. Terms are also slightly misstated for the CCC programs. The footnote should be revised as follows:

GAO note: The FAS suggestions for this section have been generally accepted. Comments about page 29 of the draft are discussed on pp. 29 and 30 of this report.

"Repayment under the Dollar Credit program can be made over periods of up to 20 years, with a maximum grace period of two years. Repayment under the Convertible Local Currency Credit program can be made over periods of up to 40 years, with a maximum grace period of 10 years. Minimum interest rates under both programs are two percent during grace periods, and three percent during the subsequent amortization period. The Commodity Credit Corporation has provided financing at rates above its cost of borrowing through the Export Credit Sales Program (6 months to 3 years), the Intermediate Credit Program for Breeding Animals (over 3 and up to 10 years), and the Non-Commercial Risk Assurance Program (6 months to 3 years)."

Page 18, Last Paragraph -- This paragraph should be modified--presence or absence of credit is not the only consideration, by any means, in Peru and Brazil's wheat purchases. In recent years, at the start of each year, Peru, using their equivalent of an executive order, has decreed a maximum wheat import quantity. Offering them credit has only meant that they promptly cut down their estimates of cash sales, as was found in 1978 when we started up Title I programming. The GOP calculated the minimum amount of wheat imports they thought they could get by with and that was it. In June 1979 one flour mill manager indicated he wasn't able to build a product inventory larger than one and one-half day's sales. With a new civilian government and a slowly-improving economic situation, things may loosen up in the future, but the GAO's assessment of recent Peruvian import practices is too simplistic. As to Brazil, the U.S. has had an average market share of about 50 percent for some years. We tried to enlarge it last year by offering credit if the Brazilians would promise to maintain cash sales, but that approach failed to meet their wishes. As best we can tell, although the GOB did get financing from Canada, the United States has been able to maintain its market share, using $35 million in GSM-5 credits.

Page 25, Second Complete Paragraph -- It should be noted that one goal of the FAS/OGSM reorganization is to try to implement a more activist attitude in the management of CCC programs. Some steps are being taken in connection with FY 1981 programming to establish priorities and goals, in line with the report's comment. On the same page, delete the last word in the regular text, "surplus." The Act makes no such reference.

Page 26, Penultimate Line -- The description of the 75/25 requirement is both inaccurate and misleading; it implies there is some other allocation choice. The 75/25 ratio food allocation is a legal requirement and is based on the poverty criterion established for International Development Association financing and relates to the allocation of tonnages and not funds under the program. We recommend the second half of the sentence be revised to read, "...because 75 percent of all food commodities are required by law to be allocated to countries whose GNP per capita meets the poverty criterion for International Development Association financing. Most countries meeting that criterion have relatively little immediate potential as commercial markets." It should also be noted that current Administration policy is to use P.L. 480 to stiumulate long-term agricultural and economic development, and thereby build a solid economic base for U.S. market expansion. Thus under Title I programming, immediate market development objectives, though not ignored, are subordinate to economic development.

Page 27, First Full Paragraph -- The juxtaposition of the first two sentences of this paragraph implies that OGSM did not believe, at least as fervently as FAS, that financing programs could be used as marketing tools. While we have no quarrel with the balance of this paragraph, we believe the second sentence is unnecessary.

Page 29 -- Although the first paragraph on page 29 states that "it is uncertain" that loan guarantees will serve U.S. agriculture as well as did direct credits, the thrust of the pages following is that guarantees are already recognized as deficient, or at least as having a doubtful future. This is unwarranted, inasmuch as credit guarantees are a major and successful tool in the programs of the Export-Import Bank and OPIC. To suggest their future in the CCC program is any less auspicious is to adopt a questionable position, particularly in light of the relatively large volume coverage issued in a rather short period ($893 million since August 1979).

The total export credit sales program may possibly be enhanced if some direct credits financing were available, as stated on page 31, however, at this early stage of the All-Risk Guarantee Assurance program it would be unreasonable to suggest that without such direct financing the program would be less effective. There is nothing inherently defective in the All-Risk Guarantee Financing programs that disqualifies them as mainstays of the CCC Export Credit Sales Program. Financing programs to assist exports have not been curtailed. CCC commercial financing in FY 1980 is expected to be $1.6 billion and will increase to the largest level ever in FY 1981 of $2.0 billion in All-Risk Guarantees. The heading on page 29 should be re-examined.

Page 30, First Full Paragraph, Last Sentence -- Funds have now been earmarked, therefore the sentence could be corrected. Suggest changing the last clause to read "...but only one program involving use of $17 million from FY 1980 funds has been planned."

III. COMMENTS -- Attaches/Counselors Responsibilities

We conclude from the report that attache efforts in the market development area have been hampered by a lack of manpower and budgetary resources. We concur with this view. A request to put an additional American officer in both Brazil and Mexico--two of the three major markets in the area--has been recently initiated. Also, the opening of the trade office in Caracas will increase our total resources devoted to market development in the other large market in the area.

GAO note: The FAS suggestions for this section have been generally accepted.

The following are keyed to specific statements in the report:

Page 16, Paragraph 1 -- The report states, "Attaches stationed in Latin America are lower graded......" Attache rank is related more to size of post than geography. Most Latin American posts are one-man posts which are normally staffed at the GS-14/15 level. The fact that a few are staffed at the GS-13 level is largely happenstance--and a reflection of the fact that the smaller posts are used as proving ground for young attaches that may not have sufficient time in grade to warrant a GS-14. Of the four larger posts in Latin America, two are filled at the SES level and one by a GS-15.

Page 17, Paragraph 2 -- The statement "These actions...necessitate strict import control" implies our acceptance that these controls are necessary. In lieu of "necessitate," we suggest "...credit problems have led governments to impose strict import control."

Page 24, Paragraph 2 -- The report states, "an on-site attache in the southern Caribbean is needed." There are no plans at present to increase our staff in the southern Caribbean. In fact, the post in Trinidad was closed in 1978, and we would not anticipate reopening it soon. However, note the opening of an ATO in Caracas where this area is now covered.

Page 32, Last Paragraph -- We suggest the sentence, "FAS considers commodity anaysis and reporting the most important attache function" be changed to read, "The primary function of the attache is to assist in the expansion of commercial markets for U.S. agricultural products overseas."

IV. COMMENTS -- ECONOMICS, STATISTICS, AND COOPERATIVES SERVICE

See the enclosed memorandum from Wade F. Gregory, ESCS, to John Hudgins, FAS, for ESCS comments.

Sincerely,

Tom R Hughes

Enclosure

U.S. DEPARTMENT OF AGRICULTURE
ECONOMICS, STATISTICS, and COOPERATIVES SERVICE
WASHINGTON, D.C. 20250

September 22, 1980

SUBJECT: GAO Draft Report Entitled "Promoting Agricultural Exports to Latin America"

TO: John S. Hudgins
Assistant to the Administrator
Foreign Agricultural Service

THROUGH: T. Kelley White
Director, International Economics Division

TKW

The tone of the report seems to suggest that the United States has not adequately tapped the Latin American market for agricultural products compared to other regions of the world. We would think the data support a somewhat different conclusion. One example of this is illustrated by the text on page 3:

"In fiscal year 1979, exports to Latin America amounted to $3.4 billion--about one-tenth of total U.S. agricultural exports. By comparison, Western Europe accounted for $9.7 billion of U.S. agricultural exports, and Japan alone accounted for $5.1 billion.

"However the Latin America market for U.S. agricultural exports is important. Exports to Latin America increased by 58 percent (should be 62 percent)1/ in value between 1977 and 1979 and should continue to grow as Latin American purchasing power and population increase."

The conclusion one draws from the above statement might be considerably different if the following additional information were provided. U.S. agricultural exports to Latin America, which had been increasing at about 17 percent a year for the past five years, rose 52 percent in FY 1980 to an estimated $5.1 billion. Estimates for the 1977 and 1979 comparison used in the report follows:

Value of U.S. agricultural exports

	Latin America	World
	billion dollars	
1977	2.1	24.0
1979	3.4	32.0
Percent increase	62	33

These data indicate much greater market expansion in Latin America from 1977 to 1979 than occurred worldwide, in contrast to the impression one may get from the general conclusions of the draft report.

1/The 58 was calculated from unrounded numbers.

John S. Hudgins

ESCS would like to know the basis for the following section on page 16:

> "Attaches at the posts visited, FAS headquarters officials, and private sector officials all believe that exports to Latin America could be increased if export promotion efforts were expanded. Despite Latin American market conditions which limit U.S. export growth--trade barriers and high levels of domestic production--there are opportunities to increase exports to Latin America which may justify additional export promotion efforts."

We agree that any region with rates of population and income growth as high as those projected for Latin America will surely be importing more agricultural products, especially when agricultural production in some countries is not expected to increase as rapidly as demand. If this is the principal basis for the above quotation from the draft report, we have no problems; if the statement is based on other data, we would like to see them included.

Two concerns of particular interest to ESCS relate to the use of attaches' time and the Strategic Planning Effort.

Attaches are reported to "spend about 85 percent of their time on nonmarket development activities, such as gathering and reporting domestic agricultural data for USDA and performing administrative duties." (page 19) On page 32, the statement is made that "FAS considers commodity analysis and reporting to be the most important attache function. Therefore, attaches devote much of their time to this function as the following table shows."

	Percent of total time
Commodity analysis and reporting	39
Market development	20
Trade policy	4
Services to other USDA organizations	7
Embassy cooperation, administration, leave, other	30
Total	100

Based on their contacts with attaches, ESCS personnel have the impression (perhaps incorrect) that the attaches' primary responsibility is export orientated whether called market development, market maintenance, or however expressed. We, likewise, are under the impression that a great deal of the commodity analysis and reporting is specifically for the purpose of tracking levels of imports of U.S. goods, evaluating potential new and expanded markets, and evaluating the effectiveness of promotion activities. We think further clarification of this section would be useful.

John S. Hudgins

The section on the Strategic Planning Effort also causes us some concern, particularly with the relative importance that seems to be attached to this effort. More appears to be expected from the preparation of country reports than is likely to result, given the existing resources FAS has assigned to this project and the current outlines being followed.

ESCS particularly objects to some of the statements on page 39. For example, completely false conclusions can be inferred from the following statements:

> "However, since ESCS is not part of FAS, cooperation and assistance from ESCS is not completely within FAS control."

> "FAS has found that the level of commitment to this project has not been transmitted to the working levels of ESCS."

The management of ESCS objects to this statement as untrue. Working level technicians in the International Economics Division, where the work is being done in ESCS, have been instructed to fully cooperate with FAS technicians and to give this project the time required to meet FAS goals. To the best of our knowledge, ESCS technicians have fully cooperated with their FAS counterparts.

It may be true, as stated, that some ESCS people "were not even aware of the (Strategic Planning) Unit when its staff approached them", but knowledge of the functional creation of this unit by FAS is irrelevant in this case, and lack of this knowledge did not interfere with or prevent full cooperation on the part of ESCS technicians.

It is true that "many of the ESCS staff are new and have limited experience." This is the result of ESCS having recently expanded the size of its staff in the international area, thus there are many new people. However a solid core of experienced people remains.

The events that have occurred since the formation of the Strategic Planning Unit have varied sufficiently from the original intent to cause a delay in the date ESCS will deliver the requested information to FAS. (The GAO report indicates this was to have been done in early September.) If this is important, I think it may be desirable for GAO to review the original plan and the revisions that have been made.

We would be happy to discuss these comments and the overall report in fuller detail, if this is thought to be desirable.

Wade F. Gregory

WADE F. GREGORY
Chief, Latin America Branch
International Economics Division

(483200)

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