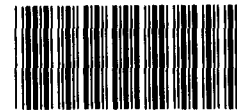


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U.S. Efforts to Increase Exports of High Value
Agricultural Products

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Before
Subcommittee on Department Operations,
Research, and Foreign Agriculture
Committee on Agriculture
House of Representatives



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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to discuss the United States Department of Agriculture's approach to high value product marketing and the approaches taken by our major competitors. My presentation is based largely on two recent GAO reports on the subject. In our January 1990 report¹, we concluded that although major foreign competitors spend less on high value market development than does the United States, they spend their funds in a highly targeted manner and use them as part of highly integrated marketing strategies. In our January 1991 report, we concluded that USDA agencies rarely employ strategic marketing and that a Department-wide approach is needed.

The United States has a competitive advantage in the production of bulk commodities (wheat, corn, feed grains, etc.), and its agricultural policy has historically emphasized these products. Because of the growing market share of HVPs it is important that the USDA give greater attention to how best to market HVPs.

In addition, the ability of the United States to expand HVP exports will be strongly influenced by the success or failure of the Uruguay Round negotiations. Tariff and nontariff barriers

¹Foreign Market Development for High Value Agricultural Products, (GAO/NSIAD-90-47, Jan. 1990) and U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade, (GAO/RCED-91-22, Jan. 1991). Attachment 6 is a list of related GAO reports.

restrict the ability of the United States to export HVPs to many markets. Success in efforts to liberalize world trade in agricultural products would present important opportunities for U.S. exporters.

BACKGROUND

High value agricultural products (HVPs) are generally classified into three groups: semiprocessed products (e.g., flour, oilseed meal, and animal fats); highly processed consumer-oriented products (e.g., processed meats and dairy products); and high value unprocessed consumer-oriented products (e.g., fresh fruit, eggs, and nuts).

During the 1970s and 1980s, world trade in HVPs was the fastest growing component of international agricultural trade, and HVP export growth is expected to continue. Foreign competition is strong in HVP markets. The European Community and several other developed nations captured a large share of the expanding HVP market in the 1970s and 1980s. (Attachments 1-5 provide data on world trade in agricultural products.)

COMPETITORS' HVP ACTIVITIES

We reviewed the marketing activities of 12 foreign countries, representing 65 percent of worldwide HVP exports. As a result, we

found that most foreign competitors spend less on high value market development than does the United States. However, they spend their funds in a highly targeted manner, using an integrated marketing approach. Their approach begins by identifying customer needs and orienting their production accordingly. This contrasts with the historical U.S. approach which attempts to find markets for what has already been produced. Foreign competitors also have a close working relationship between the public and private sectors; however, they use a variety of organizational structures to implement their marketing strategies.

Some foreign competitors have more experience in marketing high value products than does the United States. These competitors have traditionally specialized in promoting processed foods, which require more sophisticated marketing techniques. Foreign competitors have created institutions managed by both public and private sector representatives to coordinate market development activities, including product research, development, production, and delivery. A greater acceptance of government involvement in the marketplace exists in competitor countries, explaining in part the choice of single marketing organizations funded either by special taxation (e.g., production levies in Germany and France) or by general government funds (e.g., Italy, the United Kingdom, and Spain).

In France, Denmark, and Israel, marketing organizations use market research to identify consumer demand and then develop appropriate marketing strategies. Sometimes they redesign products or change packaging to meet consumer preferences; sometimes they develop new products.

In addition, some foreign marketing organizations promote virtually all agricultural products (France's SOPEXA and West Germany's CMA²) and are thus in a unique position to develop specific marketing plans based on overall market conditions and opportunities. Moreover, France and Germany benefit from membership in the European Community which provides preferential treatment to members while applying a common set of trade barriers to imports from nonmember countries.

U.S. APPROACH TO HVP MARKETING

In the United States, nonprofit trade associations assume primary responsibility for marketing activities in foreign markets. These associations serve producers, farmers, and farm-related interests, and generally promote a single commodity or group of related commodities, e.g., livestock. They assess market conditions and choose to engage in activities consistent with their products and export objectives.

²Societe pour l'Expansion des Ventes des Produits Agricoles et Alimentaires (SOPEXA) and Centrale Marketinggesellschaft der deutschen Agrarwirtschaft (CMA).

These U.S. marketing organizations assume that their products are marketable and use market research to find likely markets; consumer preferences are less likely to influence the development of the product itself. Some U.S. producers are resistant to adapting their product for a specific foreign market. For example, U.S. association representatives stated that U.S. producers lost the Japanese pork market to Danish producers because U.S. producers were unwilling to reduce their portion sizes to suit Japanese preferences.

According to some U.S. and foreign marketing representatives, some U.S. producers appear to lack commitment to nurturing foreign markets. They have easy access to the large U.S. market and during periods of strong domestic demand may not be able to supply foreign customers. This apparent lack of commitment raises questions about the reliability and dependability of U.S. supply, according to foreign officials we consulted. Some U.S. officials acknowledge this problem but doubt that the government can change this business practice.

ROLES OF THE U.S. PUBLIC AND PRIVATE SECTORS

While U.S. trade associations have primary responsibility for U.S. government-funded trade promotion, the USDA's Foreign Agricultural Service facilitates and oversees these activities. The U.S.

government collects and disseminates market information and participates in the Cooperator Foreign Market Development and the Targeted Export Assistance³ (TEA) programs, which are cooperatively funded by the federal government and private nonprofit trade associations. FAS programs are subject to oversight by the Department of Agriculture and the Congress.

While the traditional relationship between the U.S. private and public sectors is marked by separation, the Cooperator and TEA programs have departed from this relationship. These programs are a joint effort of the government and private associations to carry out foreign market development activities for U.S. agricultural products. The Foreign Agricultural Service administers the Cooperator Foreign Market Development Program and the TEA program (the major source of support for U.S. HVP market development), through its seven divisions. One of these divisions --the High Value Products Services Division--is tasked with developing and implementing policies, services, and programs for HVPs. FAS is responsible for assuring that the programs work to the equal benefit of all potential U.S. exporters and that no single firm gains an unfair advantage.

The governments of U.S. foreign competitors have less oversight of their export program operations due possibly to their

³The TEA program was modified and renamed the Market Promotion Program by the Food, Agriculture, Conservation, and Trade Act of 1990.

organizational structure and the traditional relationship between the public and private sectors. The boards of their marketing organizations frequently include both government and private sector representatives. Several foreign representatives told us that they had selectively informed exporters of market opportunities on occasion without worrying about equal access complaints from other exporters. They view this selective information-sharing as an appropriate use of their professional expertise. These representatives believe that uniform dissemination of information is preferable but not always practical.

STRATEGIC MARKETING

The United States spends significantly more on promoting high value agricultural products than most of its competitors. Yet, these competitors appear to receive a greater return on their marketing investment. Many of our competitors--EC nations in particular--have developed significant expertise in identifying markets and promoting products to serve those markets.

At USDA, marketing coordination has traditionally involved ad hoc information-sharing and lacked organized interagency planning. As a result clients may not be well served because USDA marketing-related agencies may not always have available the latest marketing information. For example, the Agricultural Research

Service developed and patented a new citrus fruit process that makes peeling and sectioning easier, but it took at least 5 years for the citrus industry and for other USDA agencies to become aware of the innovation and realize its marketing potential.

By developing a market-oriented trade policy and refocusing USDA programs and policies on strategic marketing practices, USDA can assist U.S. agribusiness in competing more effectively worldwide. However, USDA agencies are not well positioned to provide this kind of support to agribusiness.

In a recent GAO report we noted that four agencies--the Agricultural Marketing Service, the Agricultural Research Service, the Extension Service, and the Foreign Agricultural Service--differ sharply in their missions, management approaches, and preparedness for working in a market-oriented economy. These differences affect their strategic marketing perspectives, marketing skills, and degree of interagency coordination. Moreover, we stated that neither these agencies nor top USDA management had moved to develop a Department-wide strategic marketing plan to help agencies support targeted marketing.

STRATEGIC MARKETING PERSPECTIVES

Principally as a result of their respective strategic planning processes, the Agricultural Research Service and Extension Service

place a greater management emphasis on strategic marketing than do FAS or the Agricultural Marketing Service. Both the Agricultural Research Service and Extension Service have produced long range plans that update traditional agency missions. The plans set clear objectives that match agency staff and resources with emerging national agricultural concerns. These objectives are framed as broad, national agricultural issues.

In contrast, neither FAS nor the Agricultural Marketing Service have produced plans that we believe would help guide agency management through future market-oriented challenges. Both FAS and the Agricultural Marketing Service rely on their traditional, production-oriented philosophies of program management in describing their mission and objectives. However, USDA has recently reported that the Agricultural Marketing Service and FAS are in the final stages of developing new strategic plans to (1) adapt their programs to changing conditions, (2) ensure the most effective use of resources, and (3) strengthen the integration of strategic marketing activities and specifically to expand international trade-oriented programs. In addition, FAS has been appointed as the lead agency to prepare the multi-year agricultural trade strategy to promote exports required by the 1990 Farm Bill.

NEED FOR STRATEGIC MARKETING SKILLS

USDA's ability to lead the U.S. agribusiness response to global market changes depends on the knowledge, administrative expertise, and creativity of its managers and staff. According to a report by the National Agribusiness Education Commission, an agribusiness and USDA-sponsored group, shifting market imperatives have created the need for a new kind of agribusiness professional.

Consequently FAS has modified its hiring program in response to internal reports recommending greater marketing and management skills. The new hiring program includes a revised hiring profile and recruitment strategy. According to the FAS Chief of Personnel Operations, it expands the 1983 profile to add candidates with general or international economics backgrounds for foreign service positions and candidates with experience in other areas, including marketing, for specialist positions.

Although FAS has adjusted its hiring profile, it has not dealt with the training needs of its existing staff. For example, even though a 1984 poll of USDA's private industry clients identified export marketing as the FAS training need with the highest priority, no marketing training programs have been developed. Several FAS officials told us that the need for marketing training has been discussed for years, but no courses have ever been provided. Another FAS official told us that he is trying to

enhance marketing within the training program by asking agribusiness to sponsor and conduct marketing seminars for FAS junior professional staff.

INADEQUATE INTERAGENCY COORDINATION OF MARKETING ISSUES

USDA has not made interagency coordination of cross-cutting issues, including marketing, a high priority. USDA has traditionally relied on informal information-sharing rather than on organized planning activities. As a result, USDA marketing-related agencies may not be focused on common marketing-oriented issues; may not always have the latest marketing information available; may duplicate efforts; and may cause client service to suffer.

In particular, FAS recognizes the need for increased interagency coordination. However, according to a 1986 FAS task force report, without assistance from other USDA agencies, FAS cannot adequately support ongoing U.S. agricultural trade activities while initiating new programs for high value products. If FAS were to coordinate a variety of USDA agency activities, the report noted, FAS might develop new products with Agricultural Research Service; facilitate transportation of exports with the Office of Transportation; improve market access with Animal Plant and Health Inspection Service and others; and enhance market promotion.

FAS officials are willing to increase coordination with other USDA agencies, however, they note that FAS has less than 1 percent of the Department's staff and resources yet is responsible for the output of about 30 percent of the U.S. harvested acreage that is destined for export markets.

In a move to work with other groups, FAS has invited related agencies to participate in FAS regional strategic planning conferences as observers. Although the participation of related agencies has improved working relationships, FAS' heavy work load has precluded interagency strategic planning conferences for the foreseeable future. According to one FAS official, new demands on FAS' time and staff have reduced the agency's ability to devote much attention to agency coordination.

POLICY CHANGES REQUIRE CONSIDERATION OF MANY FACTORS

Trade liberalization is another important issue for increasing HVP exports. Nontariff barriers, the reduction of which is currently under negotiation in the Uruguay round, tend to be particularly troublesome for HVPs, and marketing strategies alone will not overcome them. The EC market unification scheduled for 1992 also provides some incentive for foreign firms to locate production facilities within EC borders rather than to face the EC's trade barriers. Therefore, the success of the Uruguay Round negotiations is especially relevant to the marketing of HVPs.

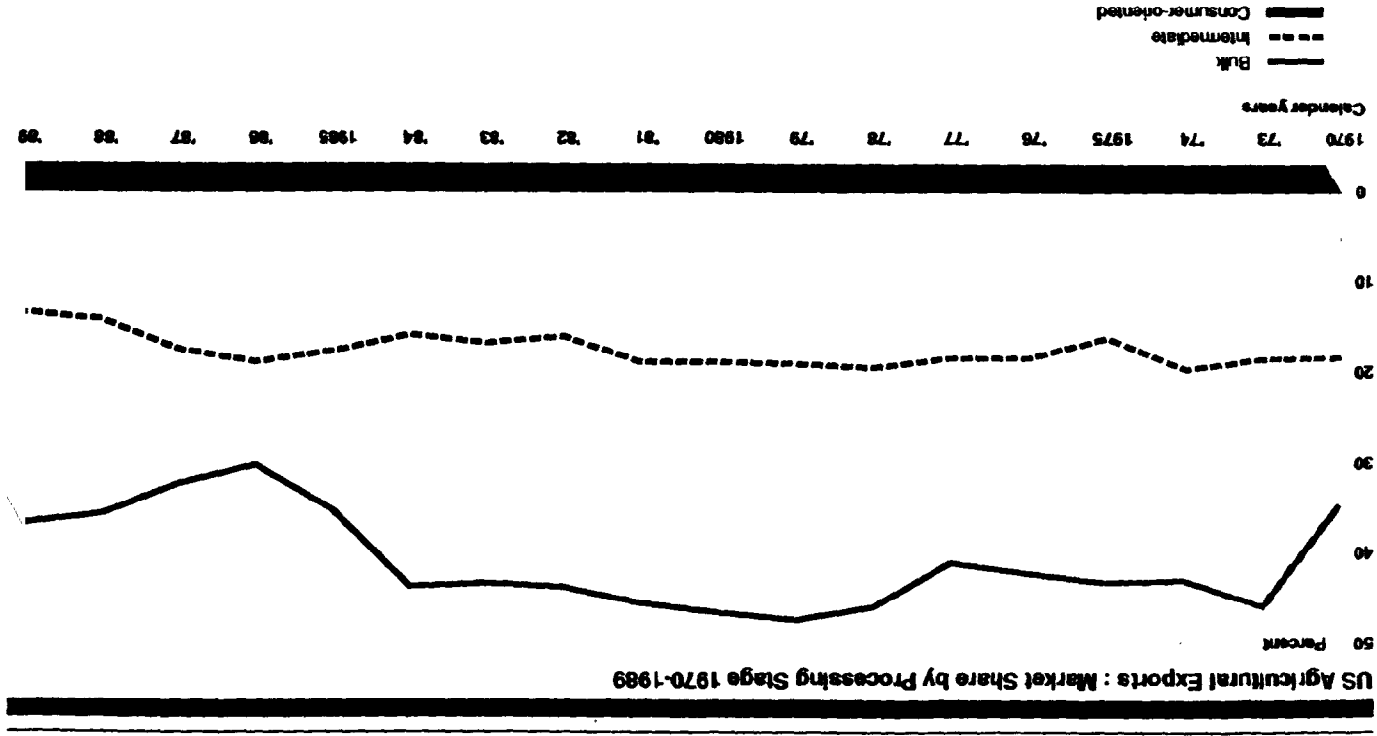
The competitive advantage of the United States in bulk commodities is the basis on which some challenge the shifting of market development resources to HVPs. Because the United States has a competitive advantage in producing bulk commodities, U.S. agricultural policy has historically emphasized these products and the structure of FAS's marketing divisions still appear to be oriented towards their promotion. In recent years, the United States has faced increased competition from other countries, especially in the EC nations which have increased bulk commodity exports by using extensive subsidies. In such circumstances, some question the diversion of resources to HVP marketing.

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

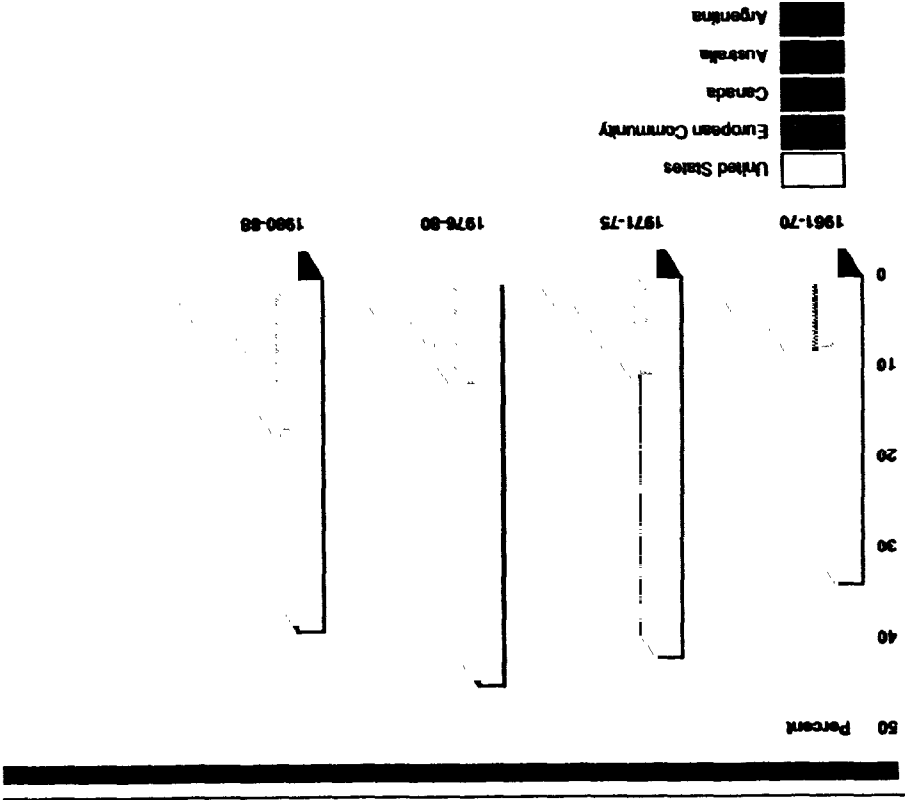
U.S. and World Agricultural Exports by Processing Stage 1970-1990
 (billions U.S. dollars)

	1970-1990									
	1970	'71	'72	'73	'74	1975	'76	'77	'78	1980
Bulk										
United States	4.6	4.8	6.1	12.8	15.9	16.2	16	15.6	20	23.6
World	13.3	14.6	17	28	37.1	37.6	38	38.1	43.7	50
US. Market Share (%)	34.59	32.88	35.88	45.71	42.86	43.09	42.11	40.94	45.77	47.20
Intermediate										
United States	1.7	1.8	2.1	3.3	4.3	3.4	4.2	5	5.9	7.2
World	9.3	9.9	11.9	17.9	22	22.9	27.3	27.3	30.4	38
US. Market Share (%)	18.28	18.18	17.65	18.44	19.55	16.11	18.34	18.32	19.41	18.95
Consumer oriented										
United States	1	1.1	1.2	1.6	1.7	2.3	2.8	3	3.5	3.9
World	20.9	23.4	28.4	37.9	42.2	46	51	59.7	70.9	86
US. Market Share (%)	4.78	4.70	4.23	4.22	4.03	5.00	5.49	5.03	4.94	4.53
United States										
United States	29.9	24.7	24.1	25.7	17.7	13.6	15	20.1	22.6	20
World	65.9	56.6	55.8	59	50.4	45.2	46.6	56.5	61.7	N/R
US. Market Share (%)	45.37	43.64	43.19	43.56	35.12	30.09	32.19	35.58	36.63	N/R
Intermediate										
United States	8	6	6.3	6.5	6.7	7.4	7.7	9.3	9.1	9.1
World	42.6	37.6	37.8	41.2	38.1	39.4	44.3	66	68.2	N/R
US. Market Share (%)	18.78	15.96	16.67	15.78	17.59	18.78	17.38	14.09	13.34	N/R
Consumer Oriented										
United States	5.4	4.9	4.7	4.6	4.6	5.2	6	7.6	8.1	10.1
World	95.5	91.7	87.1	89.3	89.7	108.7	127	137.4	148.7	N/R
US. Market Share (%)	5.65	5.34	5.40	5.15	5.13	4.78	4.72	5.53	5.45	N/R



The market shares indicated are calculated from exports data in dollars
Source: USDA, Foreign Agricultural Service

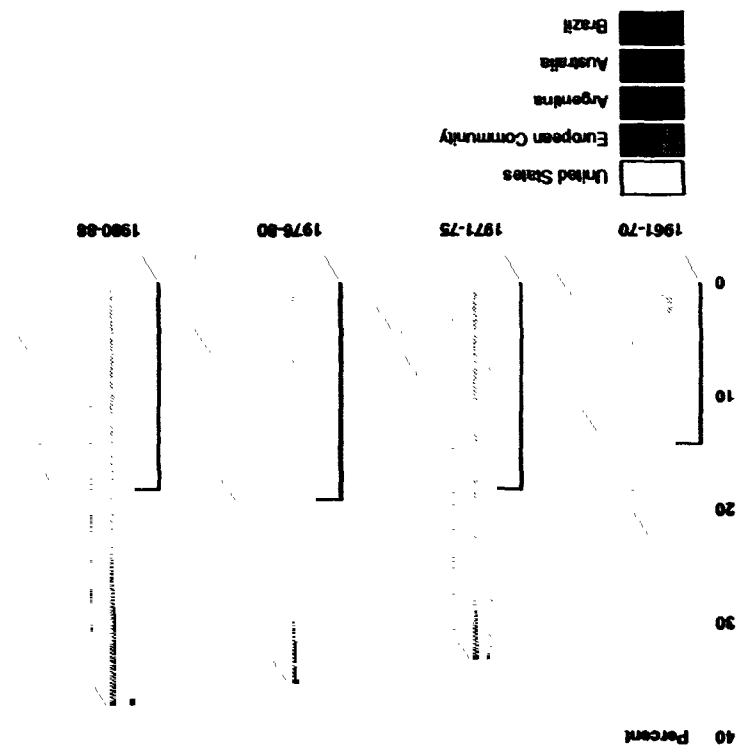
**Bulk Agricultural Exports :
Competitors' Share 1961-1988**



bulk tropical products (green coffee, cocoa and rubber) are excluded to approximate world trade in commodities that the U.S. is a competitor

Source: USDA, Foreign Agricultural Service

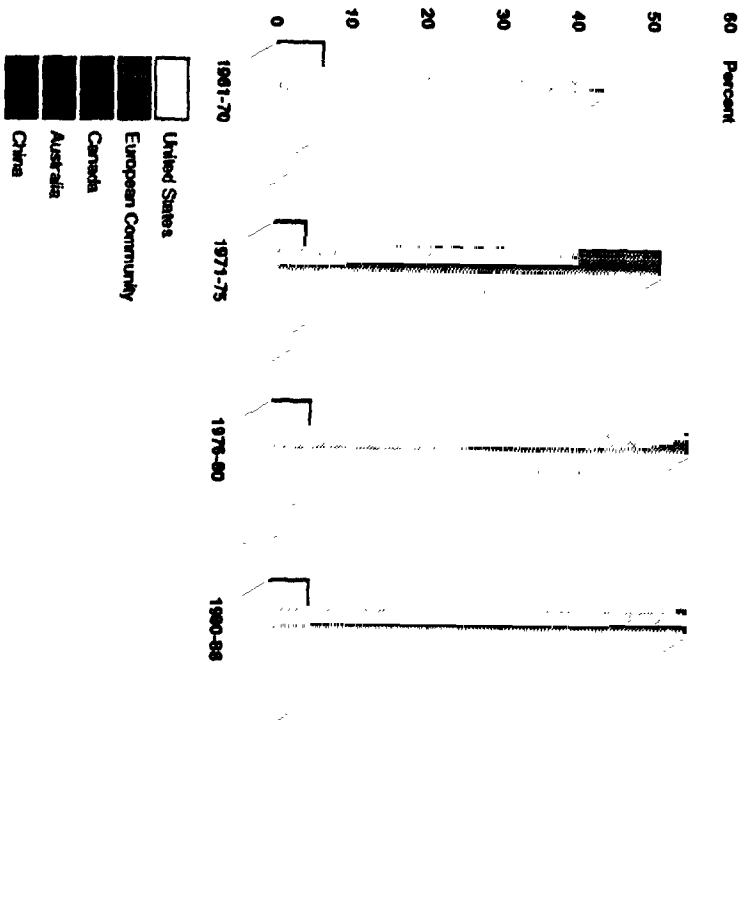
Intermediate Agricultural Exports : Competitors' Share 1961-1988



Intermediate products are principally semiprocessed products such as Wheat flour, feeds, vegetable oils, hides and skins, wool & live animals.

Source: USDA, Foreign Agricultural Service

Consumer-oriented Agricultural Exports : Competitors' Share 1961-1988



Consumer-oriented products are end-products that require little or no additional processing.
 Source: USDA, Foreign Agricultural Service

REPORTS RELATED TO THE PROMOTION OF HIGH VALUE PRODUCTS ISSUED
INTERNATIONAL TRADE, ENERGY, AND FINANCE, NSIAD

<u>REPORT NUMBER</u>	<u>TITLE</u>	<u>DATE</u>
GAO/NSIAD-91-129	AGRICULTURAL TRADE NEGOTIATIONS: Stalemate in the Uruguay Round	02/91
GAO/RCED-91-22	US DEPARTMENT OF AGRICULTURE: Strategic Marketing Needed to Lead Agribusiness in International Trade	01/91
GAO/NSIAD-90-225	AGRICULTURAL TRADE - Improvements Needed in Management of Targeted Export Program	06/90
GAO/NSIAD-90-204	INTERNATIONAL TRADE - Export Enhancement Program's Recent Changes and Future Role	06/90
GAO/NSIAD-90-134	INTERNATIONAL TRADE - Competition for Japan's High Value Agricultural Market	03/90
GAO/NSIAD-90-47	INTERNATIONAL TRADE - Foreign Market Development for High Value Agricultural Products	01/90
GAO/NSIAD-89-73	INTERNATIONAL TRADE - Review of FAS Attache Service	02/89
GAO/NSIAD-88-194	INTERNATIONAL TRADE - Commodity Credit Corporation's Export Credit Guarantee Programs	06/88
GAO/NSIAD-88-193	AGRICULTURAL TRADE - Review of Targeted Export Assistance Program	05/88
GAO/NSIAD-87-89	INTERNATIONAL TRADE - Review of Effectiveness FAS Cooperator Market Development Program	03/87