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Foreign
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Service

Miscellaneous 1467

The U.S. Agricultural Trade Book

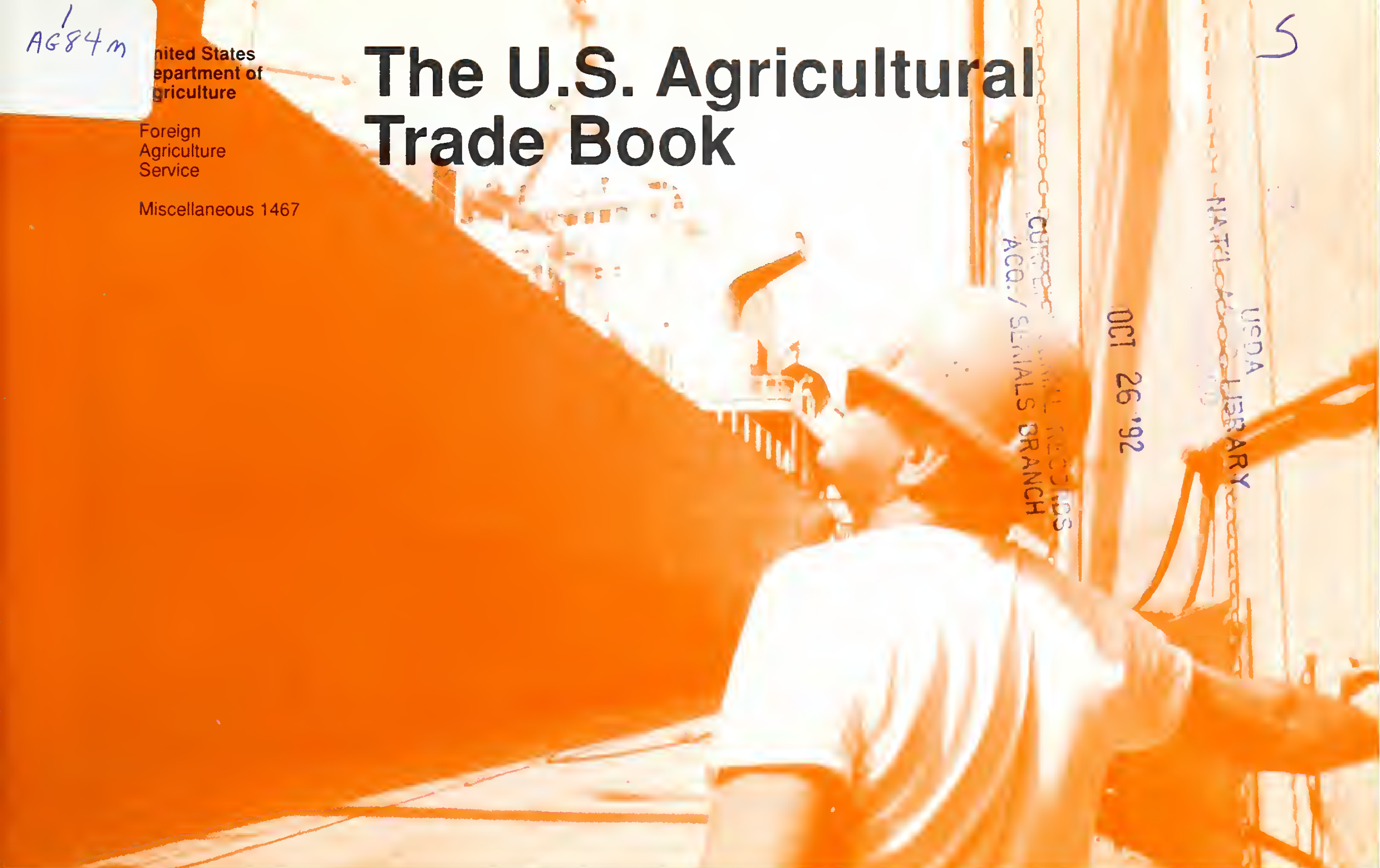

Table of Contents

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Prepared by the Information Division and the Trade and Economic Information Division, Foreign Agricultural Service, U.S. Department of Agriculture

Introduction

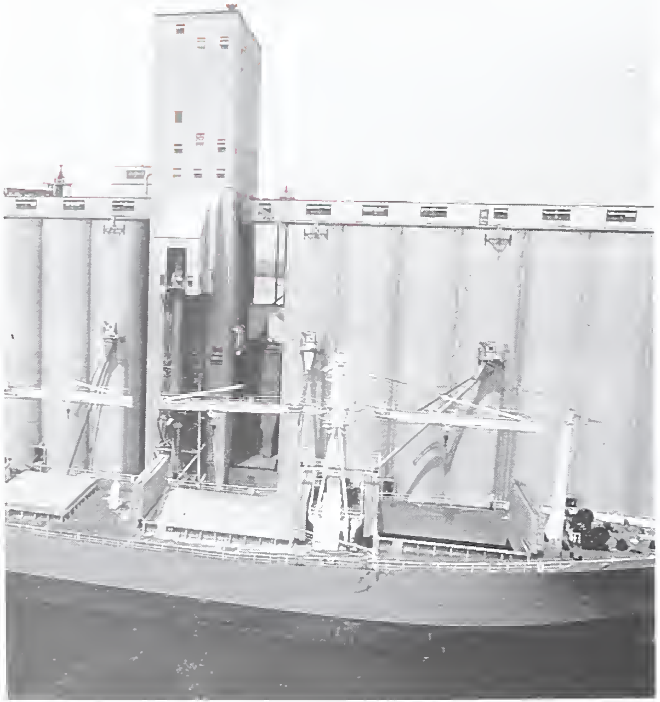
The United States ranks among the world's largest agricultural exporters and importers—making it a critically important trading partner for nations around the globe.

Foreign buyers rely on the United States to supply over three-fifths of the soybeans and feed grains, one-third of the wheat and cotton, and nearly one-fifth of the rice moving in world trade.

U.S. agricultural exports are just as important to the U.S. economy as they are to the rest of the world. Because the domestic market for food and fiber is characterized by slow population growth and stable consumption levels, the world market represents the most vibrant growth sector for the U.S. food and agricultural industry.

U.S. inflation rates, levels of unemployment, and the exchange value of the U.S. dollar relative to foreign currencies are all linked to the exchange of agricultural products between the United States and other nations.

The chapters that follow highlight the importance of agricultural trade to the average American and to U.S. farmers.



Importance to U.S. Economy

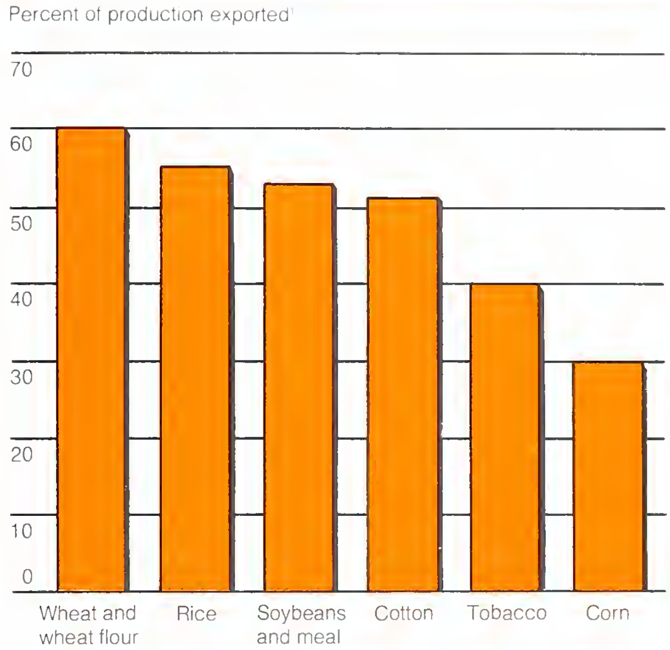
Agricultural exports:

- provide U.S. farmers with a larger market and a better income. Export markets take the produce of over one-fourth of U.S. cropland acres and generate about one-fifth of farmers' cash receipts.
- create nearly half a million off-farm jobs in financing, storage, packaging, processing, merchandising, and shipping. Another half a million jobs are created on the farm to produce food for the overseas market.
- reduce the U.S. trade deficit.
- support U.S. foreign policy goals by contributing to greater economic and political stability throughout the world.

Importance to U.S. Agriculture
U.S. farmers depend on foreign markets because their production far exceeds domestic demand. U.S. farmers produce four times as much wheat and two-thirds more corn than needed for domestic use.

Part of practically every crop grown in the United States is exported, with extremely large shares of some commodities going overseas. In 1989, the output of over two-fifths of the harvested acreage was exported.

Export Market Key Outlet for Many U.S. Farm Products



[1] *1979/80-1988/89 marketing year average.*

Three Decades of Agricultural Exports

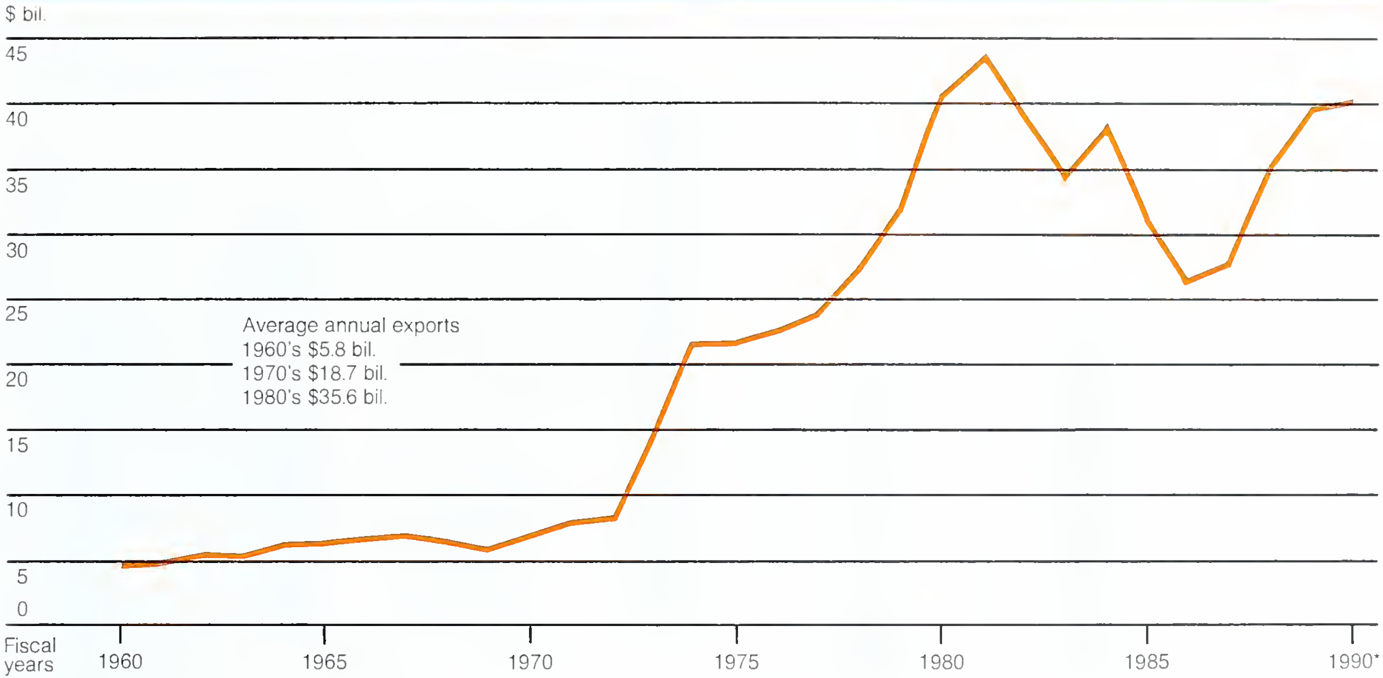
During the 1960's, U.S. agricultural exports showed relatively steady but modest growth. It was a decade when many countries stressed agricultural development and exports. Competition in the world marketplace was tough—and foreign protectionism was a major constraint to larger U.S. sales.

During the 1970's, there was a great surge in agricultural trade—both worldwide and for the United States. U.S. agricultural exports climbed nearly sixfold in value during the decade and more than 2-1/2 times in volume. These spectacular gains were the result of an unprecedented combination of factors which gave a tremendous boost to world demand—an oil price boom, worldwide inflation, easy credit, and weather-related crop shortages (particularly in the Soviet Union) at points during the decade. It was an unusual period, and it generated gains in U.S. agricultural exports much above trend. It also generated a tremendous expansion in agricultural production as many countries attempted to take advantage of the surge in demand.

However, the "boom" in world agricultural trade came to an abrupt end in the early 1980's, when the world economy sank into a recession, oil prices plummeted, monetary and debt problems curtailed the purchasing power of the developing world, and countries sought to solve their economic problems through greater protectionism. U.S. agricultural exports were particularly hard hit because of a combination of a strong dollar, uncompetitive U.S. prices for a number of farm program crops, a partial embargo against trade with the Soviet Union during 1980-81 (as a result of the Soviets' invasion of Afghanistan), and the use by competitor nations of export subsidies and other unfair trade practices.

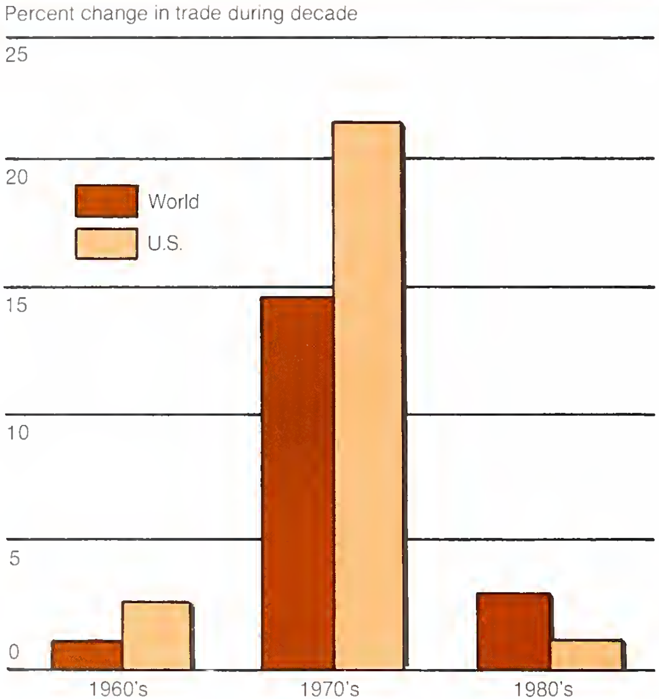
The U.S. agricultural export situation began turning around in the mid-1980's with the implementation of more market-oriented farm programs, a more aggressive export policy, and a decline in the value of the U.S. dollar. These factors helped the United States regain much of the market share which it lost in the early 1980's. By fiscal year 1989, U.S. exports were close to $40 billion.

U.S. Agricultural Exports Resume Upward Trend in Mid-1980's



*Forecast.

World, U.S. Agricultural Trade Both Surge in 1970's



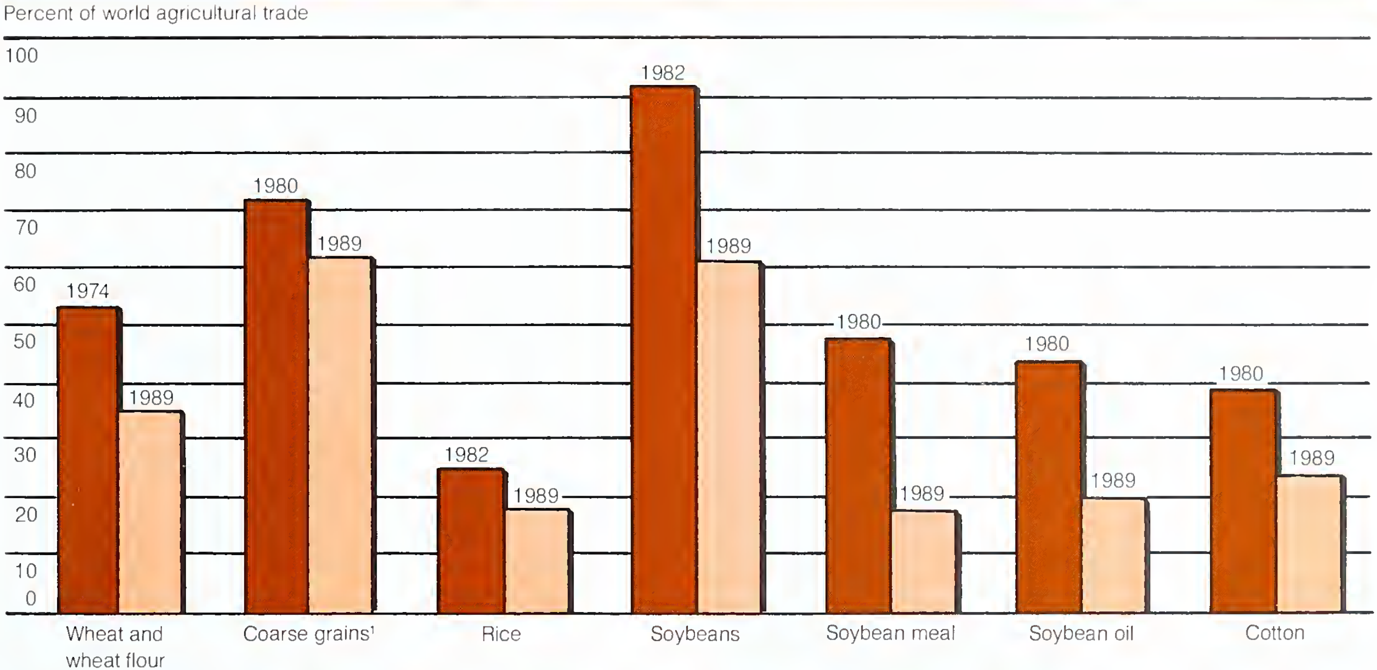
U.S. Share of World Trade

U.S. exports grew even faster than world trade during the 1960's and 1970's—in fact, the volume of U.S. grain and oilseed exports doubled during the 1970's alone. As a result, the United States captured a commanding share of world trade in many key commodities.

Most U.S. commodities reached all-time highs as a percentage of world trade during the early 1980's, following the strong surge in global food demand in the 1970's. For example, U.S. soybean exports commanded a 92-percent share of world trade in 1982 while U.S. corn hit a peak of 79 percent in 1980. Highs for other crops were: soybean meal, 48 percent in 1980; wheat, 46 percent in 1981; soybean oil, 44 percent in 1980; cotton, 39 percent in 1980; and rice, 25 percent in 1982.

In fiscal year 1989, the United States supplied 62 percent of the coarse grains, 61 percent of the soybeans, 35 percent of the wheat and wheat flour, 24 percent of the cotton, and 18 percent of the rice moving in world trade.

U.S. Share of World Trade in Many Commodities Peaks in Early 1980's



[1] *Includes barley, corn, millet, oats, rye, and sorghum.*

Shifts in Exports

During the 1980's, the world's high-value trade grew by 4 percent a year in volume while bulk commodity trade declined. This surge in the demand for high-value products was a consequence of rising incomes in many high- and middle-income countries where foreign debt problems did not significantly impede imports. Increases in demand for high-value products were concentrated in horticultural items, animal feeds, meats, dairy products, beverages, and other food preparations.

The U.S. share of the world's high-value trade remained stable at around 10 percent throughout the 1980's, as contrasted against a sharp drop in its share of the world's bulk commodity trade. In 1988, U.S. shipments of bulk commodities represented only 35 percent of the world total, down from 46 percent at the start of the decade. 1/

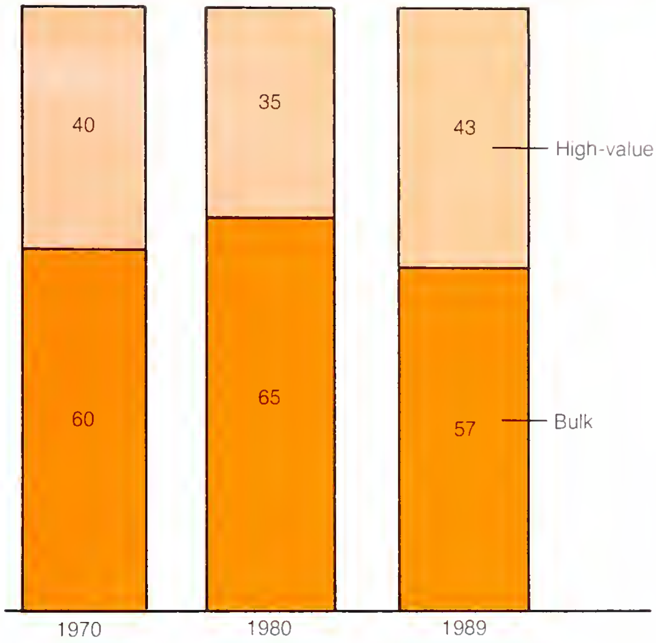
U.S. bulk commodities suffered losses in world markets during the first half of the 1980's for several reasons. Among the more significant were: increasing self-sufficiency in the

European Community as well as in many developing countries that in the past had relied on the United States for food imports; a rapid appreciation of the U.S. dollar which made U.S. farm commodities more expensive to buy; and U.S. prices higher than world market prices for most bulk commodities. When combined with the appreciating dollar, these high prices put U.S. bulk commodities such as wheat and feed grains at a strong disadvantage in the world market. However, modest gains were registered in the U.S. share of the world market for most bulk commodities in the 1988/89 marketing year. A major overhaul of U.S. farm programs in December 1985 with the goal of making them more market-oriented, together with poor crops in several countries and a fall in the value of the U.S. dollar since early 1985, have combined to allow U.S. farmers to compete more effectively in the world bulk commodity market.

1/ Bulk commodities include those commodities free from processing which have low per unit values, such as soybeans, wheat, corn, and barley. They also include commodities free from processing, such as tobacco and cotton, which have relatively high per unit values but do not have the high storage costs associated with high-value products. High-value products are those that have undergone some processing, or are unprocessed commodities that have high transportation or storage costs. For example, fresh fruits are considered high-value items because of their perishable nature and high transportation and storage costs.

High-Value Products Represent Over Two-Fifths Of U.S. Agricultural Exports

Percent of total U.S. agricultural exports



Three U.S. Regions Dominate in Agricultural Exports

Northeast - 2 percent of total
(Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, Delaware, Maryland)

Lake States - 9 percent
(Michigan, Wisconsin, Minnesota)

***Corn Belt** - 26 percent
(Ohio, Indiana, Illinois, Iowa, Missouri)

***Northern Plains** - 18 percent
(North Dakota, South Dakota, Nebraska, Kansas)

Appalachian - 6 percent
(Virginia, West Virginia, North Carolina, Kentucky, Tennessee)

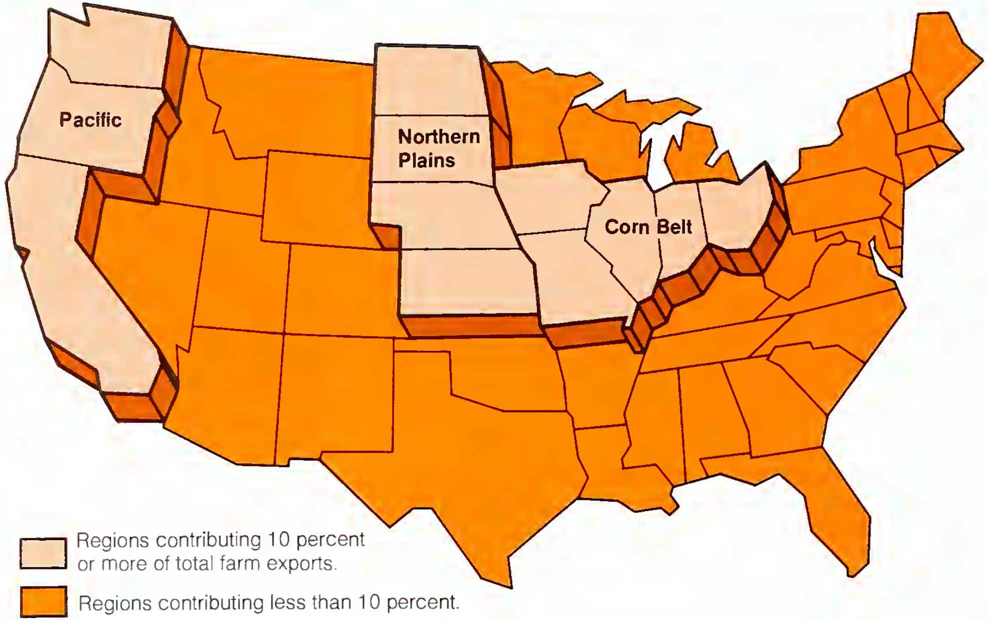
Southeast - 4 percent
(South Carolina, Georgia, Alabama, Florida)

Delta - 5 percent
(Arkansas, Louisiana, Mississippi)

Southern Plains - 8 percent
(Texas, Oklahoma)

Mountain - 6 percent
(Montana, Wyoming, Colorado, Utah, Idaho, Arizona, New Mexico, Nevada)

***Pacific** - 13 percent
(Oregon, Washington, California, Hawaii)



Fiscal year 1988.

Leading Export States and Regions

Agricultural products for export are produced in every region of the country and nearly every farm community, which means the benefits are felt throughout the entire Nation. However, 10 States generally account for nearly three-fifths of the U.S. agricultural export total. In fiscal year 1988 these 10 were, in descending order of importance: California, Iowa, Illinois, Kansas, Texas, Nebraska, Minnesota, Indiana, Ohio, and Missouri.

On a regional basis, the Corn Belt—a major producer of both soybeans and feed grains—accounted for over one-fourth of the total. The Northern Plains—the largest contributor of wheat exports—was next with about 18 percent.

The Nation's 10 Leading Export States

State	Value of Exports $ mil.	Share of U.S. Total Percent
California	3,390	10
Iowa	2,859	8
Illinois	2,618	7
Kansas	2,330	7
Texas	2,248	6
Nebraska	2,118	6
Minnesota	1,811	5
Indiana	1,362	4
Ohio	1,112	3
Missouri	1,097	3
10-State Total	20,945	59

Fiscal year 1988.

Benefits to Nonfarm Economy

Farm exports amounted to roughly $40 billion in calendar year 1989, but they produced more than twice that amount of business for the U.S. economy.

Shipments to overseas markets generate work and business for many groups—including truckers, railroads, shippers, ports, and others involved in handling the export commodity. What is more, the increase in income in these areas means increased demand for consumer goods and services and reinvestment of export earnings into many areas of the economy.

In fact, USDA economists calculate that, at the very least, each dollar received from agricultural exports stimulates another $1.51 worth of business activity for the rest of the economy.

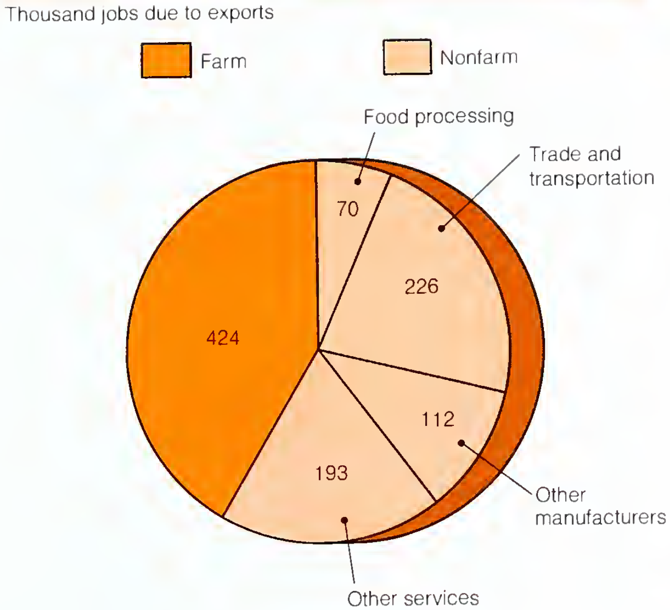
In addition, agricultural exports in 1988 generated an estimated 1 million full-time civilian jobs. Around 42 percent of these jobs are on the farm, producing commodities to be shipped overseas. The rest are related to assembling, processing, and distributing agricultural products for export.

This includes some 70,000 jobs in food processing, 226,000 in trade and transportation, 112,000 in other manufacturing sectors, and 193,000 in other portions of the economy.

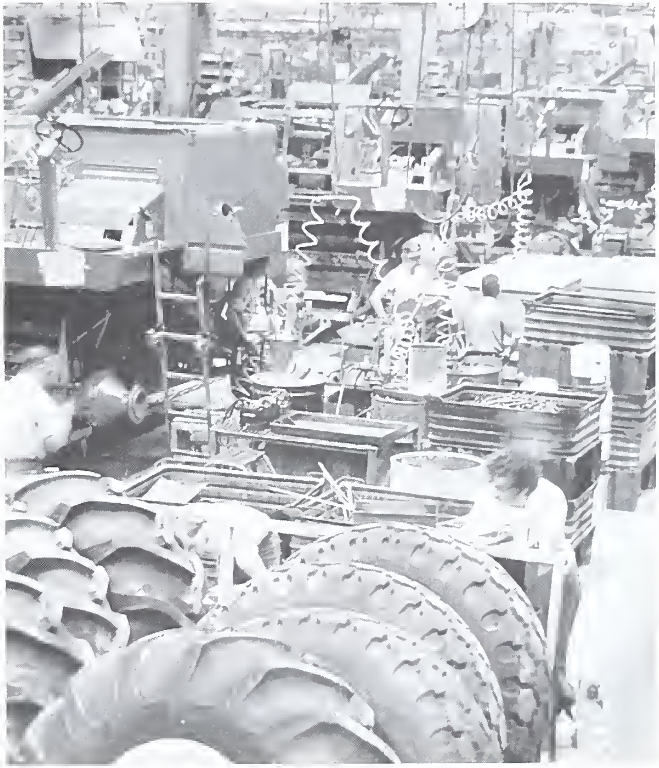
However, the actual employment benefit of agricultural exports is even more pronounced than these totals show. It reaches well past producing and marketing jobs, into the employment structure of the industries that make the supplies and equipment that support production for the export market.

Export earnings also create job opportunities in the towns and cities where U.S. farmers purchase automobiles, household appliances, and other consumer goods.

Agricultural Exports Generate Over 1 Million Jobs



Total 1,025 (1988)



Top Export Commodities

U.S. crop agriculture is export oriented. This is especially true for major bulk commodities such as soybeans, wheat, corn, cotton, and tobacco. In fact, part of practically every crop grown in the United States is exported. Although exports are responsible for only about a fifth of cash farm income, over 30 percent of the land being cropped by U.S. farmers today is cultivated for export markets versus one-fifth of the land a decade ago.

On the livestock side, meat, milk, and poultry are produced mainly for domestic consumption in the United States. In fact, over 80 percent of the cash value of total U.S. agricultural products is purchased and consumed within our own borders. Nevertheless, livestock and poultry products represent an important component of the United States' high-value product trade, registering steady gains in value throughout most of the 1980's.

Most Valuable Export Commodities

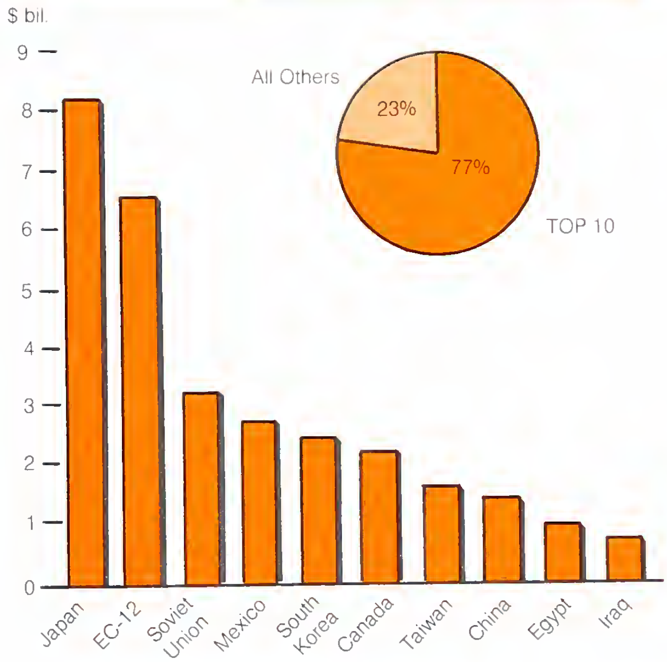
Fiscal Year	1	2	3
1989	Feed grains	Soybeans	Wheat
1988	Soybeans	Feed grains	Wheat
1987	Soybeans	Feed grains	Wheat
1986	Soybeans	Feed grains	Wheat
1985	Feed grains	Wheat	Soybeans
1984	Feed grains	Soybeans	Wheat
1983	Soybeans	Feed grains	Wheat
1982	Soybeans	Wheat	Feed grains
1981	Feed grains	Soybeans	Wheat
1980	Feed grains	Soybeans	Wheat

Top Customers

More than 160 countries receive U.S. agricultural exports, but the top 10 markets accounted for over three-fourths of the $40-billion export total in fiscal year 1989.

Japan was the No. 1 market with purchases of $8.2 billion. The European Community was the next best customer, taking over $6.5 billion. Six other markets bought more than a billion dollars' worth of U.S. agricultural products in 1989. They were, in order of importance: USSR, $3.2 billion; Mexico, $2.8 billion; South Korea, $2.5 billion; Canada, $2.2 billion; Taiwan, $1.6 billion and China, $1.5 billion. Others in the top 10 list were Egypt and Iraq.

Ten Markets Take Three-Fourths of U.S. Exports



Fiscal year 1989

Emerging Markets

During the1980's, the Asian economies which comprise the Pacific Rim—China, Hong Kong, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore, and Thailand—emerged as the world's fastest growing regional market for U.S. agricultural products. In fact, the region has replaced the European Community as the single most important outlet for U.S. agricultural exports.

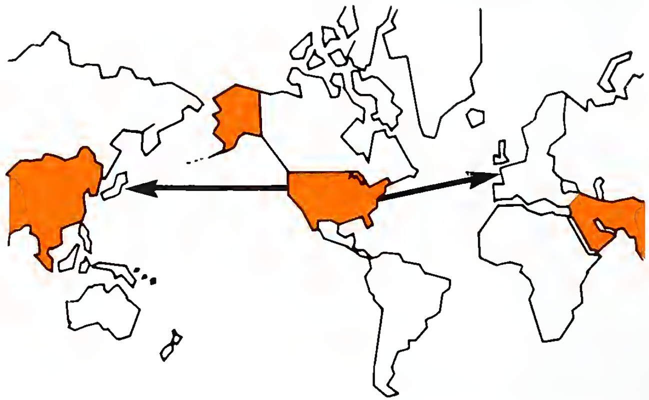
In fiscal year 1989, U.S. agricultural exports to Asia amounted to $19 billion, significantly above the $7.5 billion shipped to Western Europe. With almost 60 percent of the world's population, Asia has vast potential for increased food consumption as its nations succeed in their efforts to accelerate economic growth and to provide improved incomes for their citizens.

Japan was the first Asian nation to emerge as a major U.S. trading partner, becoming the first billion-dollar market for U.S. farm products in 1964. South Korea and Taiwan followed a similar path about a decade later, attaining billion-dollar status in 1978 and 1980, respectively. China has also been a billion-dollar buyer at times since 1980. All four of these countries were among the top 10 markets for U.S. agricultural products in the 1980's.

Asia Represents Largest Regional Market for U.S. Farmers

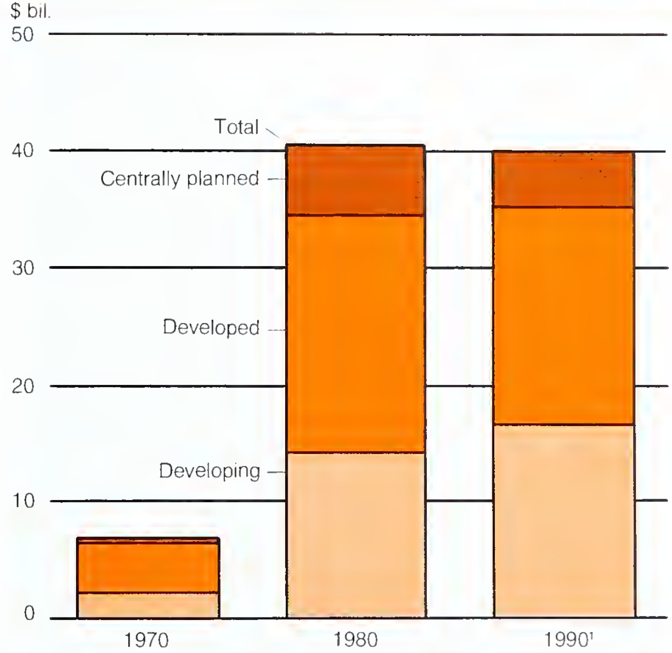
	$ bil.	Percent
Asia[1]	18.524	47
Europe[2]	7.482	19
Latin America	5.451	14
USSR	3.185	8
Canada	2.189	6
Africa	2.201	6
Oceania	0.269	1
Total	39.658	

Fiscal year 1989. [1]Includes the Middle East. [2]Excludes the USSR.



Developing World a Key Customer
Sales to developing and centrally planned economies accounted for over one-half of total U.S. agricultural exports in 1989, a significant increase from the one-third share they accounted for in 1970. Three-fourths of the world's population lives in developing countries, and as their economies grow, their people seek dietary improvements and a better standard of living, which boosts the demand for agricultural products.

Developing World Now Takes Over Two-Fifths of U.S. Agricultural Exports



[1]Forecast.

A Three-Way Partnership

In the United States, farmers, private traders, and the U.S. Government work together in a unique partnership to assure that the needs of America's overseas customers are met.

- U.S. traders—private export firms—compete for business among themselves and with exporters in other producing countries. They have sales representatives around the world.

- U.S. farmers—joined with business and trade organizations in nonprofit commodity organizations—maintain offices around the world to promote sales and serve customers.

- The U.S. Government—represented by the U.S. Department of Agriculture's Foreign Agricultural Service—assists U.S. farmers and U.S. and foreign traders by encouraging trade, trade contacts, and the free flow of commodities and information.

A Market-Oriented System

The United States' market-oriented system of exporting assures overseas buyers access to desired products at competitive prices. In the United States, sales to foreign buyers are almost always made by private sellers—producers and businesses who make their own contacts with customers overseas, conclude their own deals, and arrange for their own financing by the U.S. private banking sector.

Because of the large number of sellers in the United States, there is strong competition. This assures all buyers, domestic and foreign, that they are getting the best price possible. In addition, foreign and domestic buyers have equal access to supplies and qualities desired. Firms selling U.S. agricultural products make no distinction between U.S. and foreign buyers. Finally, profit and competition stimulate exporters to anticipate future needs of customers, try new ideas, and build new facilities—all with the goal of earning the foreign customer's business.

Transportation—The Vital Link

Transportation links buyers and sellers of agricultural commodities throughout the world. The United States has a diversified and extensive storage and transportation system which allows the United States to ship agricultural products through several major ports in all climates. This system includes:

- Over 9 billion bushels of commercial storage capacity and almost 14 billion bushels of storage on farms;
- 13,400 rural elevators and 489 major grain terminals;
- 3.9 million miles of farm-to-market roads and highways (including 3.2 million miles in rural areas and 0.7 million in cities and interstate highways);
- 146,000 miles of railway line; and,
- 25,000 miles of navigable waterways.

All methods of transportation are used to move U.S. agricultural products. Trucks move fruits, vegetables, dairy products, meats, and food preparations from the packaging, processing, or distribution points to the ports. Bulk grains and oilseeds are transported by rail, barge, or ocean vessel to storage, processing, or export facilities. Air cargo service is used for a number of time-sensitive, high-value commodities, such as livestock, cut flowers, and gourmet fruits and vegetables which are shipped great distances.

Transportation represents as much as 30 percent of the total marketing costs for some agricultural and food products. The transportation cost varies, depending on the method used, the handling required, and the value of the product.

Vigorous competition as well as innovations in transportation technology and equipment have helped to moderate cost increases to buyers and sellers. Such innovations, coupled with the benefits of the interstate highway, waterway, and railway systems, have increased the ability of U.S. farmers and ranchers to retain existing markets, to compete for new foreign markets, and to generate important additional farm income.

Nearly half of the value of U.S. agricultural exports goes to markets in Asia. As a consequence, the demand for transportation for some important farm products is shifting to port areas along the Pacific coast of the United States. For example, during the period 1983-87, Pacific coast ports experienced a 54-percent increase in exports of variety meats and hides and skins, a growth rate far above other mainland port areas. Competitive unit freight rates from the western area of the Corn Belt have also contributed to this shift.

The U.S. Government's Role
The U.S. Government plays a significant role in developing markets for U.S. agricultural products, and also in inspecting those products so that foreign buyers can be sure that they are getting the quality and quantity of U.S. goods they are paying for.

The U.S. Department of Agriculture's Foreign Agricultural Service (FAS) has the leading government role in promoting agricultural exports. Basically, its mission over the years has been to:

—provide U.S. agricultural exporters with information and know-how regarding selling in foreign markets,

—help bring foreign buyers and U.S. sellers together,

—share the financial risk in exploring new market opportunities, and

—lend official Government representation in dealing with foreign governments.

Market Development Assistance
FAS works closely with a large number of nonprofit agricultural trade associations, State governments, and export groups in promoting U.S. agricultural products overseas.

Under agreements with USDA, more than 40 nonprofit trade associations and one national along with four regional export organizations are working to promote exports of U.S. farm products on a year-round basis. Another 30 or so groups were cooperating on short-term promotion projects in fiscal year 1990. Virtually all U.S. food and agricultural products are represented in this massive market development effort, which reaches into more than 130 countries around the globe.

Market development activities undertaken with these groups in the past have included trade fairs, in-store promotions, exhibits, demonstrations, seminars, advertising campaigns, trade missions, market surveys, and marketing and utilization research projects, to name only a few.

Even U.S. food aid programs have a market development aspect because they help to introduce U.S. food products into new markets and to familiarize foreign importers with the essentials of the U.S. marketing system. Thus, food aid has frequently been a springboard to commercial trade. Of the top 10 country markets for U.S. agricultural exports in fiscal 1989, all except Canada had at some time received assistance under the program. Major examples are Japan (an $8.2-billion market in fiscal year 1989), Mexico ($2.8 billion), South Korea ($2.5 billion), the Netherlands ($1.8 billion), and Taiwan ($1.6 billion).

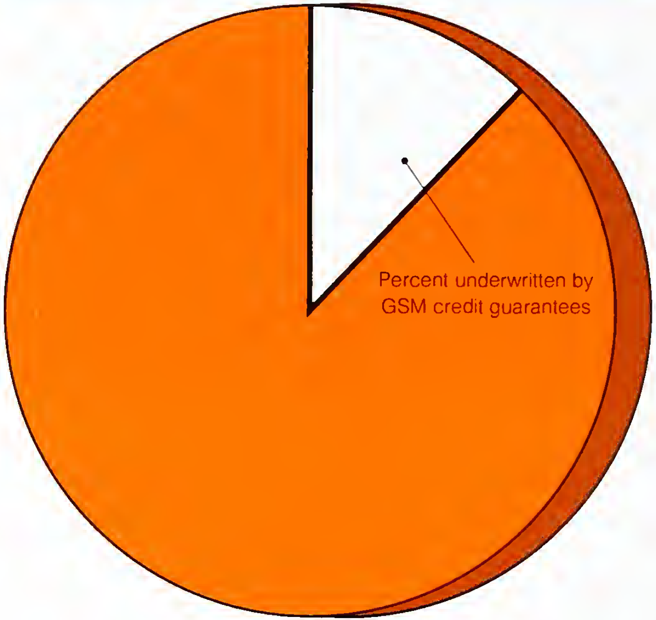
Credit Protection

Financing is a crucial part of every export transaction—and FAS operates several programs designed to increase the willingness of the private U.S. banking system to extend credit for U.S. agricultural exports.

Under these programs, which are known as export credit guarantee programs, the U.S. Government agrees to pay U.S. exporters—or their banks or other lending institutions—in case a foreign buyer's bank breaks its promise to pay. In this way, FAS reduces the risk involved in selling U.S. agricultural products, and makes both exporters and banks more willing to explore new foreign market opportunities.

The U.S. Government is not a lender—it merely provides a backup guarantee for the U.S. exporter and the private U.S. banking community in case of nonpayment by foreign banks.

Twelve Percent of Total U.S. Agricultural Exports Receive Government Credit Backing



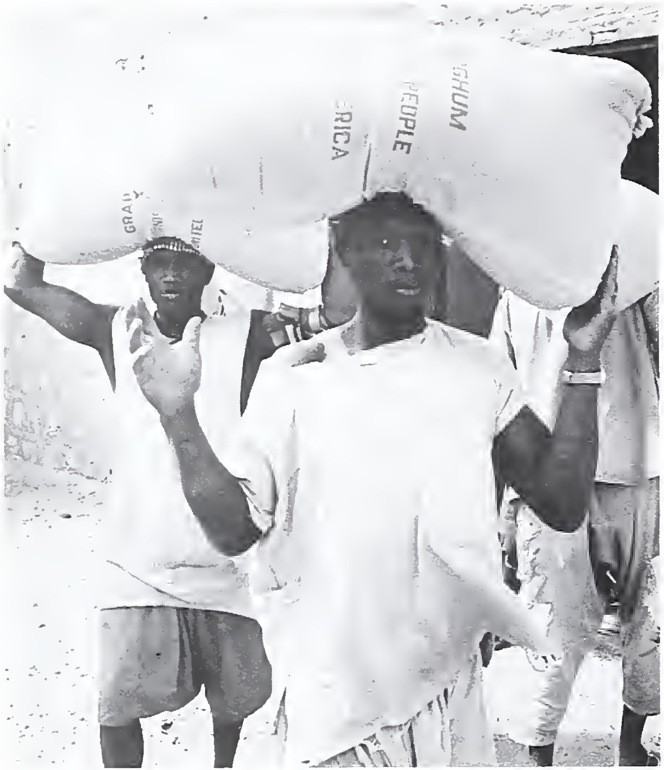
Fiscal year 1989.

Long-Term, Low-Cost Credit

The U.S. Government also makes available long-term, low-cost credits under Title I of the Food for Peace Program (Public Law 480). Credits on repayment terms up to 40 years may be granted to buyers in countries which otherwise could not afford the foreign exchange to buy U.S. agricultural products. Since 1981, the United States has exported agricultural commodities valued at about $7.1 billion on concessional credit terms under P.L. 480's Title I.

Over half of the Food for Peace shipments to date have consisted of wheat and feed grains. Other major exports were soybean oil and cotton.

P.L. 480 shipments constituted one-third of total U.S. agricultural exports in the 1950's, but that proportion has shrunk to less than 4 percent in recent years as developing countries—the chief beneficiaries of the program since the 1960's—have expanded their purchasing power.

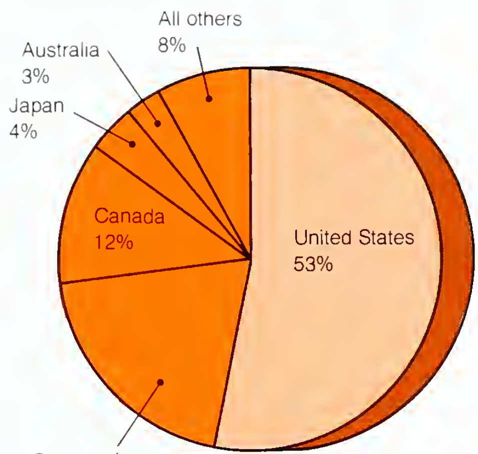


Food Donations

The United States is the world's largest food aid donor, generally providing about half the total. Over the past three decades, the United States has donated more than $10 billion in food aid to over 110 countries and approximately 60 million people. Blended foods, high in protein sources fortified with vitamins (mainly corn-soya and wheat-soya blends) have become increasingly important in recent years.

U.S. food donations are aimed at relieving hunger and malnutrition of people in the poorest countries of the world. Women, infants, preschool children in maternal day-care centers, older children in school feeding programs, and adults in "food for work" programs are the priority recipients of donated U.S. foods.

United States Provides Over One-Half of World Food Aid



Percent of aid provided by major food aid donors

Biggest Recipients of U. S. Food Aid Concentrated in Asia

Roughly 80 percent of the food donations by the United States in the past three decades have gone to the developing world. During the 1950's and 1960's, most U.S. food aid donations were to Asia and Latin America. Sub-Saharan Africa assumed an increasingly prominent role as a recipient of food aid beginning in the 1970's, and during the 1980's Africa has received about as much U.S. food aid as Asia.

Value of U.S. food donations since 1954	
India	$2.2 billion
Morocco	$451 million
Pakistan	$434 million
South Korea	$405 million
Bangladesh	$404 million
Egypt	$366 million

Importance to U.S. Economy

Agricultural Imports:

- Add spice to our daily living—both literally and figuratively. They are our source of many spices and beverages and supply virtually all our coffee, bananas, olives, carpet wools, and silk, and a smaller proportion of other raw and finished goods.

- Create thousands of off-farm jobs in their handling and distribution.

- Provide foreign countries with U.S. dollars, which they can use to buy U.S. products.

Top Import Items

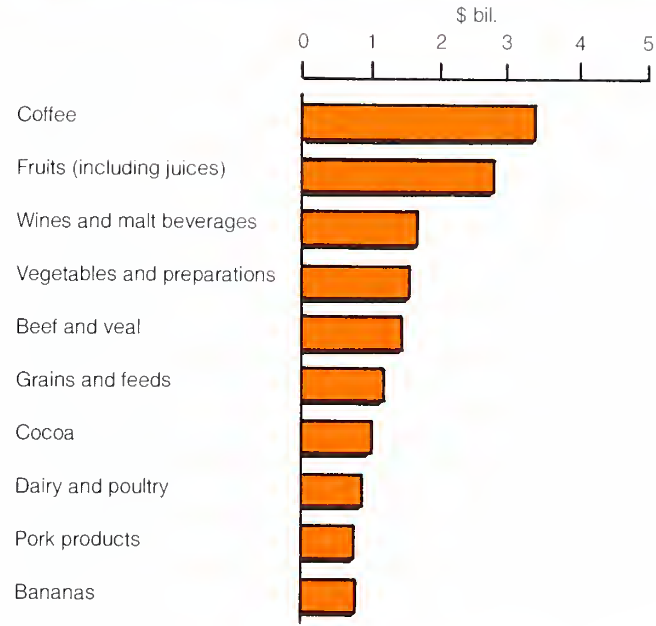
U.S. imports of farm products consist mainly of those items not produced at all in this country (such as coffee), those not produced here in quantity during all seasons of the year (such as fruits and vegetables), or those for which other countries have a competitive advantage (such as sugar).

Over two-thirds of U.S. agricultural imports were at least partially competitive with U.S. farm production in fiscal year 1989. However, many of these items, such as fruits and vegetables, are imported mostly in seasons when U.S. production is small. Others, such as certain specialty cheeses, hides and skins, and oriental tobaccos, are varieties and types not produced in this country in enough volume to meet domestic demand. Competitive imports have been rising steadily during much of the 1980's, reaching a record high of $15.2 billion in fiscal year 1989.

Besides meat and meat products, the leading competitive import items are fruits, nuts, and vegetables, sugar-related products, wines, and malt beverages.

The leading noncompetitive agricultural imports, which totaled $6.2 billion in fiscal year 1989, are coffee, cocoa, crude natural rubber, bananas, spices, and tea.

Coffee Tops List of Imports



Fiscal year 1989

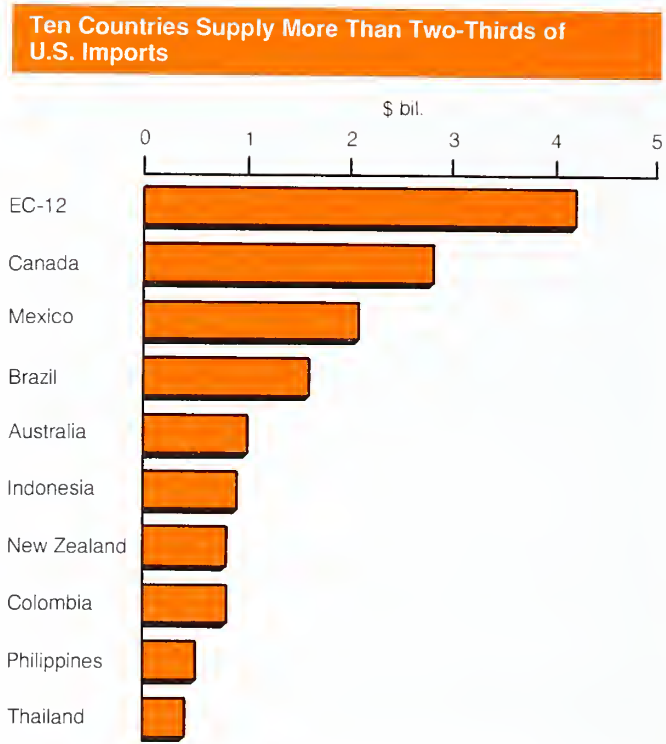
Major Suppliers

While the United States imports agricultural commodities from more than 170 countries, 10 supply more than two-thirds of our imports.

The European Community (EC-12) was the No. 1 supplier with sales totaling $4.2 billion in fiscal year 1989. Major products imported from the EC-12 are wine, beer and ale, pork, cheese, nursery products, olives, processed vegetables, and apple juice.

Canada was the No. 2 supplier to the U.S. market in fiscal year 1989—with sales of $2.8 billion. Shipments consisted chiefly of live cattle, beef and veal, pork, and breads and pastry products. Mexico, with sales of $2.1 billion, ranked third. Major U.S. imports from Mexico were coffee, fresh fruits and vegetables, beer and ale, and live cattle.

The remaining top suppliers include Brazil (coffee, cocoa beans, fruit juices, and tobacco); Australia (meat, wool, and sugar); Indonesia (rubber and coffee); New Zealand (red meat and fresh fruits); Colombia (coffee and bananas); Philippines (tropical oils, fruits and vegetables); and Thailand (fruits, vegetables, and rubber and gums).



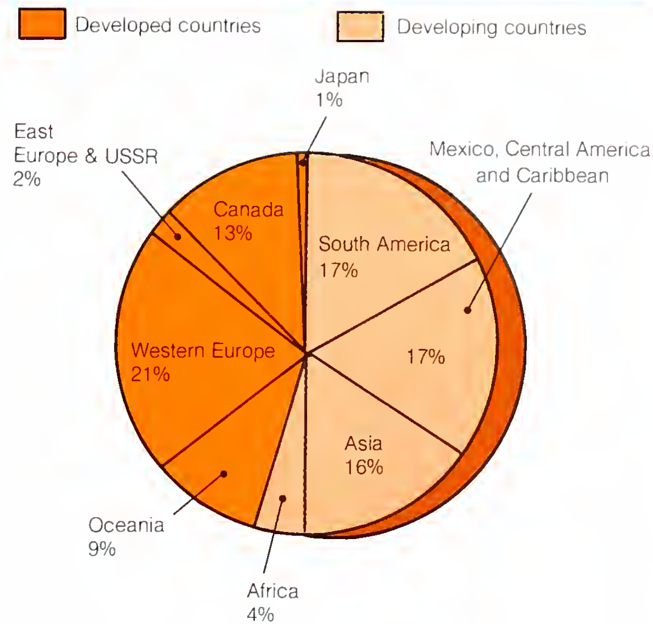
Fiscal year 1989.

Developing World Suppliers

Many of the most important suppliers of agricultural products to the United States are developing nations whose economies are primarily agricultural. These countries depend heavily on sales of their main crops to the United States for foreign exchange earnings.

In fact, imports from developing countries accounted for over half of all U.S. agricultural imports in fiscal year 1989.

Developing World Supplies Over Half of U.S. Imports



Fiscal year 1989.

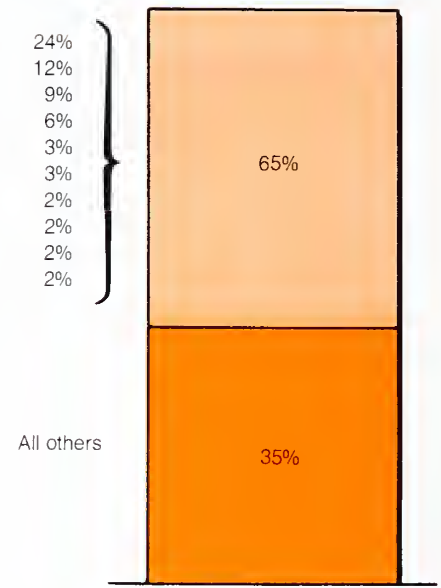
U.S. Share of Global Imports

The United States ranks among the world's largest importers of agricultural products, along with the European Community, Japan, and the Soviet Union. However, our $21.5 billion worth of farm product purchases in fiscal year 1989 accounted for only 5 percent of total U.S. merchandise imports.

Ten Countries Account for Over Three-Fifths of World Agricultural Imports

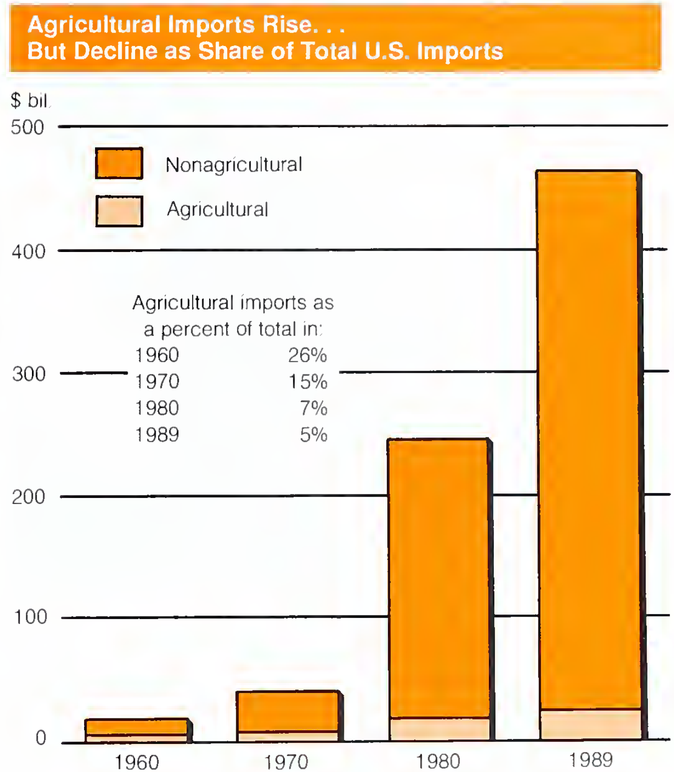
Share Accounted for by
Top 10 Importers

EC-12	24%
Japan	12%
United States	9%
USSR	6%
Hong Kong	3%
Canada	3%
Egypt	2%
South Korea	2%
China	2%
Switzerland	2%



Calendar year 1988.


ANNA MARIA d'AMICO


Agricultural Imports Rise. . .
But Decline as Share of Total U.S. Imports
$ bil.
500
400
300
200
100
0
Nonagricultural
Agricultural
Agricultural imports as
a percent of total in:
1960 26%
1970 15%
1980 7%
1989 5%
1960
1970
1980
1989

Balance of Trade

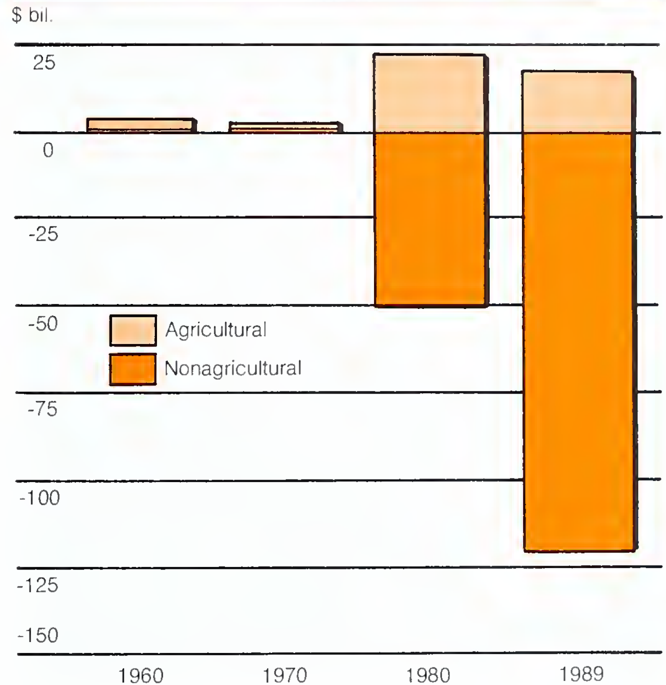
Until 1970, the United States was in the fortunate position of selling more goods abroad than it purchased, and so earned more money than it spent, which means it was running merchandise trade surpluses. Since then, however, U.S. imports of goods and services have outstripped exports and the country has run a substantial trade deficit. In fiscal year 1989, the total U.S. trade deficit amounted to over $121 billion.

Agriculture's Contribution

Agricultural trade contributed a surplus of more than $5 billion to the U.S. trade account each year between 1973 and 1989.

In fact, while the U.S. nonagricultural trade balance has gone from a surplus of roughly $3 billion in 1960 to a deficit of over $121 billion in 1989, agricultural trade went from a surplus of $0.5 billion to a surplus of $18.2 billion. The agricultural surplus was as high as $26.6 billion in fiscal year 1981 when U.S. agricultural exports were at their peak. The surplus narrowed as a result of smaller U.S. exports and increasing demand for imported food items during the mid-1980's. However, it rose in the late 1980's as U.S. exports recovered and import levels stabilized.

Farm Trade Surplus Helps Stem Growing Nonfarm Deficit



Trade's Contribution to World Stability

Agricultural trade makes a crucial contribution to U.S. society in a way that cannot be measured in jobs or dollars and cents, or balance sheets on trade. U.S. farm exports have long been important building stones for a more stable world.

This influence was readily apparent in the post-World War II years, when the export of farm products was the cornerstone of the U.S. policy that helped foreign economies to rebuild and governments to stabilize after years of devastation.

Agricultural exports accounted for as much as 50 percent of all U.S. foreign assistance during the immediate postwar years. These exports went largely to feed the people of Western Europe and Japan. As their own production recovered from the war—and other, more normal sources of food supplies became available—food exports financed by foreign assistance funds declined. But U.S. cash sales of agricultural and industrial products increased. Today Japan and Western Europe rank among the United States' best cash customers for agricultural and industrial goods.

In the 1950's, farm products played a major role in building economic and political stability in the developing world.

Public Law 480—Food for Peace—was enacted in 1954 in order to make America's agricultural bounty available to friendly nations which lacked the dollar resources to buy U.S. products.

Through concessional sales and donations, U.S. farm products helped many countries achieve acceptable dietary standards for the first time. The availability of U.S. foods, and the ability to pay for these foods over a long period of time, also gave their governments breathing room and a measure of political stability while getting their own economic development programs underway.

During the 1970's, the United States' ability to export farm products began to serve a peacemaking function—paving the way for improved relationships with the Communist world.

Certainly the Soviet Union's need for U.S. food and feed grains played a role in the thawing of cold war relationships in the early 1970's. Agriculture is also expected to play a crucial role in the development of Eastern Europe's nascent democracies. Food aid and other technical assistance are expected to pave the way for future commercial sales of both food and feed grains. U.S. assistance is key to the long-term stability of these new governments.

Imports' Role in Agricultural Development

Agricultural imports, too, play a part in foreign policy relationships. U.S. purchases from developing countries help them earn foreign exchange and achieve a higher standard of living. Since poverty and hunger tend to create unstable governments and situations, it is to the United States' advantage to assist development through imports.

Also, the United States' importance as an import market for agricultural products gives our Nation clout in obtaining many minerals critical to the effective functioning of our industrial society.

Fair Trade Philosophy

U.S. trade philosophy is centered on the notion that "Trade is a two-way street." The United States offers global traders one of the most open markets in the world; at the same time, however, it expects equally open access to other important markets around the world.

The U.S. commitment to a liberal trading environment is founded on the principle of economic efficiency. Trade permits each country's consumers to acquire the widest possible range of goods at the lowest possible prices. No country can have a comparative advantage in the production of all products; through trade, each country can specialize in what it does best.

By fostering efficient patterns of consumption and production, liberal, two-way trade maximizes income and spurs global economic growth. International competition prods producers in every country to innovate. Liberal trade is the springboard for new products and processes that make consumers' lives healthier, fuller, and more comfortable.

U.S. Import Policy

For most of its history, the United States has had no tariffs or low tariffs on agricultural imports. The exception was the period from 1921 to 1934, during which three successive, increasingly protective tariff laws were in effect. During this period, nations to which the United States exported retaliated with tariffs on the products they normally imported from us—with the result that U.S. exports plummeted. Since that time, the United States has pursued a policy of encouraging the removal or lowering of trade barriers at home and abroad.

Of course, like other countries, the United States maintains certain health and sanitary barriers in the form of regulations to keep out foreign pests and diseases which are potentially harmful to U.S. agriculture and to keep out adulterated, misbranded, poisonous, or unwholesome foods.

Also, imports of some agricultural products under price support programs—such as peanuts, cotton, most dairy products, sugar and several processed products containing sugar—are subject to quota restriction. Certain other products—such as canned mushrooms—have been subject to temporary quota restrictions at times during the 1980's.

Who Makes U.S. Agricultural Trade Policy

Because agricultural trade touches upon so many important issues—including foreign policy, national security, and not the least, economic growth prospects in the United States—the formulation of U.S. agricultural trade policy is a complex process undertaken by many players.

Within the Executive Branch, the Cabinet-level Economic Policy Council is the principal mechanism for developing and coordinating U.S. Government positions on international trade and investment policy. All the various Federal Government agencies with a stake in trade policy are represented on this Council. Chief among these Government agencies are:

—The U.S. Department of Agriculture, which is the prime focal point for gathering the information and providing the analysis that goes into the establishment of agricultural trade policy. The key agency involved in foreign trade within the Department is the Foreign Agricultural Service. It reports on global production and trade situations, provides analysis on trade competition and other trade policy issues, staffs trade policy negotiations, and administers export financing programs. It also participates when the United States sends teams to international trade negotiations. The Foreign Agricultural Service also monitors trade policy developments overseas which affect United States agriculture. The agency has more than 100 counselors and attaches assigned to 74 embassy posts overseas. Among other tasks, these attaches report back to Washington on local trade policy issues, and represent U.S. agriculture's interests when foreign officials are considering changes in their trade policies.

—The Office of the U.S. Trade Representative, which has the primary responsibility for developing international trade policy and coordinating its implementation. The Trade Representative conducts all international trade negotiations—both bilateral and multilateral; and oversees the development and implementation of policies on export expansion, import protection, bilateral and commodity issues--including East-West trade matters, and international investment related to trade.

—The Commerce Department, which is responsible for the implementation of export controls and foreign boycott provisions, imposition of countervailing duties, and the administration of antidumping import laws.

—The Treasury Department, which oversees international monetary and financial relations, collects duties, taxes, and fees on imported goods, enforces tariff and related laws, administers some navigation laws and treaties, and acts an enforcement agency in cases of smuggling and fraud.

—The Department of Defense, which has an interest in agricultural trade policy because of its relationship to the defense mission and national security. Department representatives are involved in such issues as East-West trade, export controls, and technology transfer.

—The Office of Management and Budget, which is involved with U.S. trade, monetary and investment policy, and deals with specific issues such as international energy policy and international commodity agreements.

The U.S. private sector also participates in the policymaking process. About 200 individuals—including farmers, representatives of farm and commodity organizations, processors, traders and consumers—serve on trade advisory committees for U.S. Government policymakers.

Agricultural Laws Related to Trade

The U.S. Congress has the responsibility for the design and passage of all laws affecting U.S. agricultural trade. Key among the laws which the Secretary of Agriculture has direct responsibility for implementing are:

—Section 22 of the Agricultural Adjustment Act of 1933, as amended, by which the U.S. Department of Agriculture may recommend the imposition of import quotas or fees to prevent imports from interfering with support programs. The President makes the final decision on such subjects, following an investigation by the International Trade Commission.

—The Commodity Credit Corporation (CCC) Charter Act of 1948—by which the U.S. Department of Agriculture supports agricultural commodity prices; buys, sells, and barters commodities; and subsidizes exports. Major CCC decisions, for example, to subsidize or barter exports, are generally subject to interagency review.

—The Agricultural Trade Development and Assistance Act of 1954, which makes U.S. commodities available for concessional export sales, food aid, and other purposes. In general, there is both interagency agreement and international consultation on decisions made under the major provisions of this act.

—Section 204 of the Agricultural Act of 1956, by which the President may negotiate agreements with other governments to limit the quantity of their exports of particular products to the United States. This authority is used especially for restrictions on textiles and meat. Other agencies of the U.S. Government participate in the negotiations.

—The Meat Import Act of 1979, which mandates the imposition of import quotas on fresh, chilled or frozen beef, veal, and mutton if the U.S. Department of Agriculture determines that imports will exceed certain levels. Quotas are usually avoided by negotiated agreements with supplying countries limiting their exports.

—The Food Security Act of 1985, which authorizes the Secretary of Agriculture to lower U.S. support prices to internationally competitive levels, and to undertake export subsidy programs to counter the unfair trade practices of competing nations.

—The Food, Agriculture, Conservation and Trade Act of 1990, which continues the market-oriented approach to farm policy contained in the Food Security Act of 1985 through aggressive export assistance programs, increased research efforts, and added production flexibility.

Multilateral Trade Activities

The United States participates in a wide variety of multilateral groups and arrangements which are involved in agricultural trade issues. Among the most important of these is the General Agreement on Tariffs and Trade (GATT). The GATT is both a set of rules for the conduct of international trade and an organization that administers those rules.

The GATT periodically holds negotiations, or "rounds," to reduce trade barriers and discuss other fundamental issues confronting international trade. Since 1948, the GATT has sponsored eight rounds of trade negotiations. The eighth and current round was launched in September 1986 in Punta del Este, Uruguay. The major U.S. agricultural objectives for the Uruguay Round are to reduce subsidies which directly or indirectly affect agricultural trade; stop the growth of new market access barriers to agricultural trade and reduce the barriers that currently exist; minimize the adverse trade effects of international food, plant, and animal health regulations; and improve the dispute settlement process under GATT, so there can be assurance that GATT rules and disciplines will be applied consistently and dependably.

The United States is also a member of several other multilateral organizations through which countries may consult on international trade issues. Among them are:

—The Organization for Economic Cooperation and Development (OECD), which encourages policy coordination on a broad range of economic issues facing industrialized countries. There are 23 members besides the United States.

—The United Nations Conference on Trade and Development (UNCTAD), which has 159 members including the United States, is focused on encouraging economic growth in developing countries by means of expanded international trade.

The United States also is a member of six international commodity arrangements. Two of these agreements (those covering sugar and natural rubber) contain specific price stabilization mechanisms designed to reduce fluctuations in prices, improve longrun producer earnings, and deliver a steady, adequate, and reasonably priced supply of the commodity to consumers. In contrast, the agreements covering coffee wheat, jute, and tropical timbers seek to promote market research and development.

Bilateral Trade Arrangements

The United States emphasizes multilateral rather than bilateral arrangements for its trade relationships. However, there are some important exceptions, particularly with neighboring Canada, Mexico, and the Caribbean Basin.

On January 1, 1989, the United States and Canada entered into a free trade agreement that will remove all tariff and some nontariff barriers to agricultural trade between the two countries within 10 years.

The United States and Mexico signed a framework agreement on November 6, 1987, which sets up a formal consultative mechanism to resolve bilateral disputes. The pact also established several working groups to discuss trade and investment problems in seven specific trade areas, including agriculture. Mexico and the United States also have proposed negotiations on a free trade agreement. Negotiations could begin as early as the spring of 1991.

Since August 1983, the United States also has accorded duty-free access to the U.S. market to designated countries in the Caribbean Basin. These duty-free benefits may be extended until September 30, 1995, under the terms of the Caribbean Basin Economic Recovery Act (frequently referred to as the Caribbean Basin Initiative or CBI).

The United States also has a free trade arrangement with Israel, one of the largest commercial markets for U.S. agricultural exports in the Middle East. This agreement, which went into effect September 1, 1985, will eliminate most trade barriers between the two countries in the succeeding 10 years.

The United States also has had bilateral trade agreements for grains with the Soviet Union, a monolithic economy with great buying power and huge import requirements that has the potential to disrupt world markets. Trading with the Soviets in free enterprise terms is difficult and can put U.S. businesses at a disadvantage. As a result, the United States has used bilateral agreements for grains to accommodate the differences and minimize the disruptive potential of Soviet buyers.

Bilateral trade agreements will become more important to the United States should there not be a significant reform of world agricultural trade policies during the Uruguay Round.

United States
Department of Agriculture

Washington D.C.

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