

Chapter 5

# **U.S. Trade in High-Value Agricultural Products**

# U.S. Trade in High-Value Agricultural Products

World trade in low value-per-unit commodities, such as grains and oilseeds, doubled during the 1970s; the United States capitalized on this trend by increasing corn, wheat, and soybean exports. However, the rapid rise in trade of processed and high-value agricultural products (HVPS) represents another significant trend. In fact, the value of HVP trade now surpasses that of the lower value bulk commodities. The United States has not performed impressively within this dynamic arena of world agriculture. In 1980, the United States retained roughly the same 10 percent share of world trade in HVPS that it had held in 1970. Other countries, particularly those of the European Economic Community (EEC), have taken greater advantage of the growing HVP market (see table 5-1 for a listing of the major HVP exporters, their commodities, and their markets).

Increasing affluence and efforts to upgrade diets fueled the expansion of HVP trade in the 1970s. Despite the global recession of the early 1980s, world trade in HVPS continues to be strong, while a slowdown has occurred in trade of low-value products. In theory, the United States could benefit from an expansion of HVP exports. According to one U.S. Department of Agriculture (USDA) analysis, the world HVP market may grow by \$15

billion per year in the 1990s, and "expanding the U.S. share of the world market in high value products by just 5 percentage points—a rise from 10 to 15 percent—could give the country up to a million new jobs, add \$50 billion to the gross national product (GNP), and increase government revenues by \$10 billion per year by the early 1990s."<sup>1</sup> In addition, world HVP markets appear to be less erratic, and may provide a more stable and diversified source of earnings for U.S. agriculture.<sup>2</sup>

Can the United States expand its share of the HVP trade, as some policymakers propose? What are the barriers to such expansion? Which high-value products and markets show the greatest promise? This chapter attempts to answer these questions by reviewing overall trends in world and U.S. HVP trade, and by examining recent trends for leading U.S. high-value products that accounted for over \$8 billion in 1985 export sales. The evidence suggests that opportunities exist for expanded U. S. trade in a number of HVP markets, but that significant, sustained expansion will not come easily.

<sup>1</sup>Kathryn L. Lipton and Patrick O'Brien, "Expanding the U.S. Share of High-Value Agricultural Exports," *National Food Review*, summer 1985.

<sup>2</sup>Ibid.

## FACTORS INFLUENCING HVP TRADE<sup>3</sup>

### The Significance of HVP Exports

In this chapter, the term "high-value products" refers to certain unprocessed commodities—gen-

erally horticultural crops—and to semiprocessed and highly processed products, which involve capital- or labor-intensive production relative to raw agricultural commodities. HVPS have higher unit values than do such agricultural commodities as grain or soybeans. In comparison with raw agricultural commodities, export of HVPS is associated with high levels of employment, gross economic output, personal income, and government tax revenues. It is clear that when the United States exports highly processed products, it reaps

<sup>3</sup>Unless otherwise noted, the material in this section of chapter 5 was drawn from two sources: Michael Dwyer, et al., "Value-Added U.S. Agricultural Exports, 1967- 1981: An Analysis of the Distribution and Structure Of Exports by Commodity and Regional Destination," U.S. Department of Agriculture, Foreign Agriculture Service, staff paper, 1983; and U.S. Department of Agriculture, Economic Research Service, "High-Value Agricultural Exports: U.S. Opportunities in the 1980s," Foreign Agricultural Economic Report No. 188, 1983.

**Table 5.1.— Major HVP Exporters: Leading Commodities and Major Markets, 1980**

| Exporter                | Leading commodities             | Value<br>(1980, \$ billions) | Major markets        |
|-------------------------|---------------------------------|------------------------------|----------------------|
| EEC-9 . . . . .         | Dairy products                  | \$53.5                       | EEC (internal trade) |
|                         | Meats                           | (total)                      | Middle East          |
|                         | Beverages                       | \$19.9                       | Western Europe       |
|                         | Fruits and vegetables           | (extra-EEC)                  | U.S.S.R.             |
|                         | Grain products                  |                              | Japan                |
|                         | Sugar products                  |                              |                      |
| United States . . . . . | Vegetable oils and meals        | \$11.4                       | EEC-9                |
|                         | Tobacco and cigarettes          |                              | United States        |
|                         | Meats and livestock products    |                              | Western Europe       |
|                         | Fruits and vegetables           |                              | Far East             |
|                         | Processed grains and feeds      |                              | Middle East          |
| Brazil . . . . .        | Coffee                          | \$ 5.8                       | EEC-9                |
|                         | Soybean oil and meal            |                              | United States        |
|                         | Cocoa                           |                              | Western Europe       |
|                         | Processed fruits                |                              | Far East             |
|                         | Meats                           |                              | Middle East          |
|                         | Fresh fruits                    |                              |                      |
| Spain . . . . .         | Fresh fruits, especially citrus | \$ 3.3                       | EEC-9                |
|                         | Vegetable oils                  |                              | Middle East          |
|                         | Beverages                       |                              | United States        |
| Australia . . . . .     | Meats and livestock products    | \$ 2.8                       | United States        |
|                         | Dairy products                  |                              | Japan                |
|                         | Grain products                  |                              | Middle East          |
|                         | Fruits and vegetables           |                              |                      |
| New Zealand . . . . .   | Meats and livestock products    | \$ 2.3                       | EEC-9                |
|                         | Dairy products                  |                              | United States        |
|                         |                                 |                              | Middle East          |
|                         |                                 |                              | Japan                |
| Canada . . . . .        | Meats                           | \$ 1.9                       | United States        |
|                         | Beverages                       |                              | EEC-9                |
|                         | Fresh vegetables                |                              | Japan                |
| Argentina . . . . .     | Meats                           | \$ 1.8                       | EEC-9                |
|                         | Fruits and vegetables           |                              | Middle East          |
|                         | Vegetable oils                  |                              | Western Europe       |
|                         |                                 |                              | United States        |
|                         |                                 |                              | Japan                |
| Mexico . . . . .        | Coffee                          | \$ 1.05                      | United States        |
|                         | Fresh vegetables                |                              | EEC-9                |
|                         | Preserved fruit                 |                              |                      |
| Greece . . . . .        | Fresh fruit                     | \$ 1.04                      | EEC-9                |
|                         | Dried fruit                     |                              | Middle East          |
|                         | Preserved vegetables            |                              |                      |

SOURCE: U.S. Department of Agriculture, Economic Research Service, "High Value Agricultural Exports" U.S. Opportunities in the 1980s, Foreign Agricultural Economic Report No. 188, 1983

the benefits of added employment, economic output, and government revenue that are associated with processing.<sup>4</sup>

Higher unit prices of HVPS, relative to bulk commodities, imply that modest increases in HVP export volume would have a greater economic effect than would corn, wheat, or other bulk commodities. Also, this price structure makes HVP prices less likely to have an unfavorable relationship with the overall inflation rate. While average nominal prices for U.S. farm exports during

the 1970s doubled, they failed to keep pace with inflation; postinflation prices for "low-value" agricultural products actually declined by 1 to 2 percent per year during the 1970s. In contrast, HVP prices showed an inflation-adjusted annual increase of 2 to 3 percent over that period. Since 1980, LVP trade prices have fallen in current as well as real terms, further widening the imbalance between LVP volume-dominated growth and HVP price-dominated gains.

<sup>4</sup>Lipton and O'Brien, op. cit.

<sup>5</sup>Ibid.

In terms of volume, the United States attained a 39 percent share of world agricultural trade between 1979 and 1981, compared to a 23 percent share between 1969 and 1971. In terms of value, however, the average 14 percent share for the earlier period rose to only 18 percent from 1979 to 1981,<sup>6</sup> due to the predominance of low-value products in U.S. exports. Furthermore, the average value of world agricultural exports rose from \$520 to \$530 per ton between 1979 and 1984, while falling prices for raw commodities over the same period caused the average price of U.S. agricultural exports to decline by almost 12 percent—from \$260 to \$230 per ton. As a result, the United States accounted for one-third of world agricultural trade volume by 1984, and 13 percent of trade value. Both figures are below the 1979 to 1981 average.<sup>7</sup>

Another advantage of HVP exports is the relatively steady growth of HVP markets over the past decade. Even during the world recession of the early 1980s, growth of HVP trade did not decrease as severely as trade in raw commodities. As a result, the bulk-dominated agricultural trade of the United States has been subject to substantial year-to-year swings in value; the value of U.S. trade fluctuated 14 percent between 1979 and 1981, compared to an average 8 percent fluctuation in HVP-dominated world trade. The instability of international agricultural trade has become more pronounced than that of the 1960s, when average annual world market prices fluctuated by 5 percent, and U.S. prices by 9 percent.

International trade in HVPS holds other benefits as well. Saturation in some domestic markets could make the export market more attractive for some U.S. processors. Processing industries can adjust production more easily than farmers; exporting processed goods may hold fewer risks for U.S. agricultural trade. Also, many agricultural processing activities, particularly those up to the semiprocessed stage, occur close to the site of raw commodity production. In the future, rising energy costs may encourage even greater onsite processing, in order to reduce product weight

prior to shipment. Since many farm communities are associated with processing industries, these areas could benefit from an expansion of HVP trade.

## **Barriers to Expanding U.S. Trade in HVPS**

Although international HVP trade may appear attractive, it will be difficult for the United States to sustain a rapid expansion in many HVP markets. Many of the macroeconomic forces working against U.S. trade in raw agricultural commodities, including both the relative strength of the U.S. dollar in the early 1980s and debt repayment problems in developing countries, have dampened near-term prospects in HVP markets as well.

Another set of barriers concerns the role of food processing industries in international economic development, especially within the Third World. As was the case in the United States, food processing industries are important in the early phases of industrial growth. Many developing and middle-income countries seek to expand or protect their own processing sectors, to generate employment and to achieve a greater measure of food security. In fact, developing countries may have stronger incentives to establish their own processing industries than to import HVPS. This trend is encouraged through import barriers in South Korea, Taiwan, Hong Kong, Western Europe, and Brazil, and more recently in the Middle East and in newly industrializing and oil exporting countries. National goals of self-reliance in food supply may create a market for raw or semiprocessed U.S. exports, but not necessarily for highly processed products. Some developing countries discourage food imports, viewing them as luxury goods that siphon scarce foreign exchange away from more important investments.

These long-term trends give an ephemeral character to international markets for processed agricultural products. As demand may change over time, expansion of U.S. exports of high-value products may not have lasting effects. Soybean meal is a case in point. In conjunction with its nascent poultry industry in the 1970s, the EEC was a major importer of soybean meal. While the EEC

<sup>6</sup>U.S. Department of Agriculture, Economic Research Service, unpublished data.

<sup>7</sup>Lipton and O'Brien, *op. cit.*

remains a large regional consumer, it has developed a domestic processing capacity. Current growth markets for soybean meal lie in the industrializing countries of the Far East and Latin America, but these markets will change as production capacity develops. Other commodities likely to be affected by similar trends include unrefined vegetable oils and fresh meats, particularly poultry. In some cases, U.S. environmental controls encourage processing overseas. Leather tanning, for example, produces toxic chromium wastes that are strictly regulated in this country.

Import barriers are especially formidable in the EEC, which would otherwise represent a logical market for U.S. HVPS. The EEC'S Common Agricultural Policy (CAP) imposes tariffs and levies that "severely restrict many U.S. food exports, including most meat, dairy products, poultry, flour, baked goods, lard, sugar, and many fruits and vegetables."<sup>8</sup> Food and agricultural products are traded within the EEC without price penalties, giving these countries "a decisive price advantage over U.S. products. Food from Mediterranean and developing countries outside the EEC also frequently benefit from preferential tariff treatment." Since the United States imposes fewer tariffs or levies on food imports, this country possesses few direct bargaining chips in HVP trade negotiations; efforts to liberalize EEC-U. S. trade in HVPS would probably invite European demands to liberalize many other U.S. import policies.

Despite the EEC import barriers and the Community's favorable balance of HVP trade with the United States, heavy EEC imports of raw and semiprocessed agricultural commodities have given the United States a positive agricultural trade balance with Europe. A similar situation exists in Japan. Although the Japanese make widespread use of both quotas and insect/disease quarantines to prevent entry of a number of U.S. HVPS—especially fruits and vegetables—Japan stands as another large importer of overall U.S. agricultural products.

Another force that negates the potential for U.S. HVP exports is the subsidizing of HVP proc-

essing and exports by such competitors as the EEC and Brazil. Among the principle HVP traders, the EEC maintains the most complete range of export support policies for the broadest spectrum of products. Within the Community, variable levies maintain price competitiveness, while export subsidies are designed to remove HVP surpluses that result from high price supports. EEC actions have contributed to the U.S. withdrawal from the Middle Eastern whole-broiler trade, the erosion of the U.S. share of world wheat flour markets, and the reduction the U.S. presence in markets for oilseed meals and oils, processed fruit, vegetables, and cereal products. Brazil, the third largest HVP exporter—after the EEC and the United States—subsidizes the processing and export of soybean products, poultry, and orange juice; Brazilian policies have crippled U.S. performance in several world markets.

Attributes of certain HVPS, such as perishability, pose other trade barriers. High perishability of particular fruits, vegetables, and meats may raise freight costs significantly, as with the case of U.S. vegetables in the Far East. In this market, stiff competition is posed by nearby producers and by Australia and New Zealand, as these nations can airfreight their produce. Because of its proximity to the United States, Canada has represented the traditional market for U.S. produce, but saturation of Canadian markets suggests a need for more aggressive U.S. efforts in the Far East. Technological advances in packaging and food preservation may enhance export competitiveness for perishable U.S. products.

Many of the difficulties that the United States encounters in HVP markets are attributable to a lack of acumen or interest in international trade on the part of domestic companies. Also, U. S.-based multinational companies may choose to penetrate foreign markets through acquisition or development of foreign production and distribution facilities, instead of through exports. Eventually, foreign subsidiaries or joint ventures with foreign firms actually may benefit from import barriers, as well as from low-cost overseas labor and materials. As U.S. companies increase the number of their overseas ventures, however, benefits to this country become more difficult to as-

<sup>8</sup>Harold A. McNitt, "U.S. Food Exports to the United Kingdom: Opportunities and Obstacles," *National Food Review*, summer 1985.  
<sup>9</sup>Ibid.

sess, depending on the extent of profit repatriation.

While U.S. grain and soybean production has been geared to world markets for decades—due largely to government programs and subsidies—U.S. HVP producers must acclimate themselves to international trade. In contrast to EEC firms, whose food manufacturing and marketing operations are oriented toward export, U.S. HVP producers primarily serve homogeneous domestic markets, placing these firms at a marketing disadvantage. High-value products demand careful attention to labeling, health certification, advertising, packaging, and other service activities that involve additional costs. Many aspects of the current U.S. transportation system center around bulk commodities; costs of refrigeration, security, and other transport modifications will need to be factored into the HVP export decision as well. In addition to tailoring U.S. products to foreign market niches, U.S. exporters must give more consideration to smaller HVP markets, rather than to larger markets for bulk commodities.

## World and U.S. Trends in HVPS

In recent years, world trade in semiprocessed agricultural products has not grown as quickly as trade in highly processed goods. In contrast with global trends, the United States' HVP exports are dominated by semiprocessed products. Of a total of \$11 billion in U.S. HVP exports in 1980, over one-half, or \$6.1 billion, were semiprocessed goods; 28 percent, or \$3.1 billion, were highly processed; and 17 percent, or \$2.2 billion, were unprocessed products. By contrast, highly processed products dominated the \$19.9 billion of 1980 EEC exports in HVPS—59 percent, or \$11.7 billion, were highly processed; 35 percent, or \$7 billion, were semiprocessed; and 6 percent, or \$1.3 billion, were unprocessed.<sup>20</sup>

Along with fresh fruits, semiprocessed oilseed meals were the fastest growing U.S. HVP exports during the 1970s. Other semiprocessed items among the top U.S. HVP exports have included cattle hides, corn gluten feed, beef, tallow, wheat flour, soybean oil, and brown rice. Further proc-

essing for leather goods, high-quality greases, pastas, bakery products, and fully refined and hydrogenated oils has generally occurred overseas with foreign government support. Also, of the top U.S. semiprocessed export items, several—such as cattle hides, corn gluten feed, and tallow—are byproducts of primary industries.

In certain cases, U.S. market characteristics have encouraged the export of highly processed goods. The low U.S. demand for dark poultry, for example, coupled with subsidized competition from the EEC and Brazil in the whole-broiler trade, has resulted in increased exports of cut chicken pieces to the Far East and the Caribbean. This contrasts with beef, since retail beef cuts are taken after export, from subprimal boxed beef. The United States exports only a small fraction of its fully processed meat. Still, while value gains from processing are negligible, weight reduction remains an important concern, and processing operations may take place within the United States; transportation costs have encouraged pre-export tobacco stemming, almond shelling, and rice milling. For reasons of technical capability, the parboiling of rice also occurs in the United States. Finally, perishable high-value products, like vegetables, have created the need to export larger processed product shares relative to HVPS, like fresh fruit.

## International HVP Markets

Historically, international trade in HVPS has been carried out among both developed and fast-growing, middle-income countries. The United States and the EEC are the leading importers of HVPS, followed by Japan and Canada. Although the relatively high value of the U.S. dollar between 1981 and 1985 stimulated growth in U.S. HVP imports, the general trend over the past decade has been one of slow growth in U. S., EEC, and Canadian markets; newly industrializing nations have assumed greater importance as growth markets. Over the next 10 to 15 years, developed and middle income countries are likely to remain large importers, but—with the exception of Japan—these nations should continue to be slow-growth markets for the United States. Market saturation in the developed regions and emphasis on local processing in the middle income

<sup>20</sup>Lipton and O'Brien, *op. cit.*

areas is expected to decrease overall growth in HVP trade.

Currently, the Middle East and the Pacific Rim represent the fastest-growing regional HVP importers, and the United Arab Emirates, Singapore, and Hong Kong are the largest per capita importers. During the 1970s, dramatic expansion of HVP imports occurred in the OPEC countries, where growth in population and income was complemented by a preference for Western food. Annual HVP imports rose by 30 percent, particularly for meats, vegetable oils, and beverages. Debt problems and falling OPEC oil revenues have reduced overall imports in the 1980s; declining expatriate labor forces have closed some HVP markets altogether. Japan, Hong Kong, Singapore, Malaysia, and Taiwan stand out as prospective markets in the Pacific Rim, with exceptional growth potential in meats and fresh fruits. Japan's HVP imports, for example, have grown at an average rate of **20** percent per year since **1970**, mainly for meats, coffees, and fresh fruits.

In fact, the fastest growing markets for the majority of top U.S. HVP export items lie in the Far East. The movement of U.S. agricultural attaches from Europe to the Far East reflects the importance of that region to future U.S. success in HVP and overall agricultural trade. As noted previously, long-term U.S. export success will depend on aggressive marketing efforts. Competition from established Far Eastern producers is growing, and the potential emergence of China as a major HVP exporter may diminish U.S. opportunities in the Pacific Rim.

## Marketing Programs

An effective marketing program for HVPS could include two basic elements: product pro-

motion, and trade servicing. U.S. promotional efforts for HVPS have decreased over the last 10 years. While foreign exporters typically spend 1 to 5 percent of HVP trade value on promotion, U.S. promotional expenditures have decreased from **0.4** percent of HVP export value in **1970** to **0.2** percent in 1980.<sup>11</sup>

In 1985, USDA established a Processed Products Division, devoted to statistics and market analysis for processed products. In addition, the agency has increased its trade servicing activities through the development of its Agricultural Information and Marketing Service (AIMS). AIMS serves as a liaison between domestic producers and foreign importers of agricultural products, particularly for HVPS. The AIMS database includes current information on domestic prices and product availability, as well as foreign market information provided by overseas attaches. Program managers have reported significant increases in sales of HVPS by U.S. firms that participate in AIMS.

Of course, without an increase in overall marketing funds, greater promotion of HVP exports may diminish the funding available to promote bulk commodities. Promoting HVPS also entails a shift in benefits; manufacturing and processing interests outside the farm sector generally receive **70** to **80** percent of the returns on HVP exports.<sup>12</sup> Accordingly, increased support of HVP promotion should be measured against the concurrent interest in marketing bulk commodity exports.

<sup>11</sup>U.S. Department of Agriculture, "New Uses for Farm Products, " *Challenge Forum*, Oct. 11-12, 1984.

<sup>12</sup>Lipton and O'Brien, *op. cit.*

## LEADING U.S. HVP EXPORT COMMODITIES<sup>1,3</sup>

This section of the study examines leading high-value export commodities in the United States (see table 5-2). Trends in world and U.S. trade, competitors, and policy issues are presented for each high-value product.

### Oilseed Products

#### Background

Oilseed products include soybean meals and cakes used for livestock feeds, refined oils for industrial purposes, and further-processed refined and hydrogenated oils for cooking. The processing of soybeans and other oilseeds is a sizable U.S. industry, and exports grew in both volume and value during the 1970s and early 1980s. Over the same time period, however, the U.S. share of the world market declined, the result of a slowdown in demand, increased competition, and the availability of substitute products. The U.S. Government and U.S. trade associations are now turning away from stagnating markets in the developed countries, and toward higher-income developing countries in Latin America, the Middle East, and South Asia.

Trends in the processed oilseed trade reflect the ephemeral nature of value-added product markets. Processed oilseed products are imported when countries wish to upgrade diets or expand

<sup>1</sup>The material in this section of chapter 5 is based on four sources. Comparisons of world and U.S. trade in various commodities between 1970 and 1984 were drawn from the Food and Agriculture Organization of the United Nations, *FAO Trade Yearbook*, vols. 32-38, Rome, Italy; comparisons of U.S. production and U.S. exports of various commodities were drawn from Food and Agriculture Organization of the United Nations, 1984 *FAO Trade Yearbook* and 1984 *FAO Production Yearbook*, Food and Agriculture Organization of the United Nations, Rome, Italy, 1985; updated U.S. export figures for 1985 were drawn from U.S. Department of Agriculture, Foreign Agricultural Service, "U.S. Agricultural Exports Oct 1980 -Sept. 1985," Washington, DC, August 1986, and information on the destination of U.S. export commodities was drawn from U.S. Department of Commerce, Bureau of the Census, "U.S. Exports: Schedule E Commodity Groupings, Commodity by Country," FT-4 10 reports, Washington, DC, 1984.

Table 5-2.—U.S. Leading HVP Export Commodities, 1985

|                            | Volume<br>(MT thousands) | Value<br>(\$ millions) |
|----------------------------|--------------------------|------------------------|
| 1. Tobacco ... ..          | 257                      | 1,587.9                |
| 2. Cigarettes ... ..       | 47 <sup>a</sup>          | 1,180.0                |
| 3. Cattle hides, ... ..    | 673 <sup>a</sup>         | 1,035.0                |
| 4. Soybean meal ... ..     | 4,460                    | 833.6                  |
| 5. Rice ... ..             | 1,972                    | 677.1                  |
| 6. Soybean oil ... ..      | 752                      | 558.0                  |
| 7. Tallow ... ..           | 1,129                    | 542.9                  |
| 8. Beef ... ..             | 112                      | 477.5                  |
| 9. Corn gluten feed ... .. | 3,383                    | 458.8                  |
| 10. Shelled almonds ... .. | 125                      | 316.7                  |
| 11. Poultry meat ... ..    | 234                      | 257.0                  |
| 12. Oranges ... ..         | 385                      | 230.0                  |
| 13. Wheat flour ... ..     | 727                      | 155.1                  |
| 14. Cottonseed oil ... ..  | 196                      | 137.5                  |
| 15. Apples ... ..          | 205                      | 108.7                  |
| 16. Grapefruit ... ..      | 199                      | 86.7                   |
| 17. Pork ... ..            | 43                       | 73.1                   |

|                             | Unit dollars, 1985<br>(dollars/MT) |
|-----------------------------|------------------------------------|
| 1. Cigarettes ... ..        | 25,106.4 <sup>a</sup>              |
| 2. Tobacco ... ..           | 6,175.0                            |
| 3. Beef ... ..              | 4,263.4                            |
| 4. Shelled almonds ... ..   | 2,533.6                            |
| 5. Pork ... ..              | 1,700.0                            |
| 6. Cattle hides, ... ..     | 1,538.2a                           |
| 7. Poultry meat ... ..      | 1,098.3                            |
| 8. Soybean oil ... ..       | 742.0                              |
| 9. Cottonseed oil ... ..    | 701.5                              |
| 10. Oranges ... ..          | 597.4                              |
| 11. Apples ... ..           | 530.2                              |
| 12. Tallow ... ..           | 480.9                              |
| 13. Grapefruit ... ..       | 435.7                              |
| 14. Rice ... ..             | 343.7                              |
| 15. Wheat flour ... ..      | 213.3                              |
| 16. Soybean meal ... ..     | 186.7                              |
| 17. Corn gluten feed ... .. | 135.6                              |

<sup>a</sup>Figures are approximate Commodity Information provided by Foreign Agriculture Service, U.S. Department of Agriculture

SOURCE U.S. Department of Agriculture Foreign Agricultural Service, U.S. Agricultural Exports Oct 1980-Sept 1985 " August 1986

livestock industries; when demand rises to a certain level, however, domestic processing facilities are developed. Imports shift toward new commodities.

During the 1970s, world vegetable oil prices doubled. With \$8 billion in world exports in 1980, trade in vegetable oils nearly matched that in beef.



World trade in soybean meal reached over \$5.5 billion in 1980; growth in meal prices, coupled with volume increases during the 1970s, resulted in an almost sixfold increase in world trade value. Since 1980, the world level has hovered about \$5 billion.

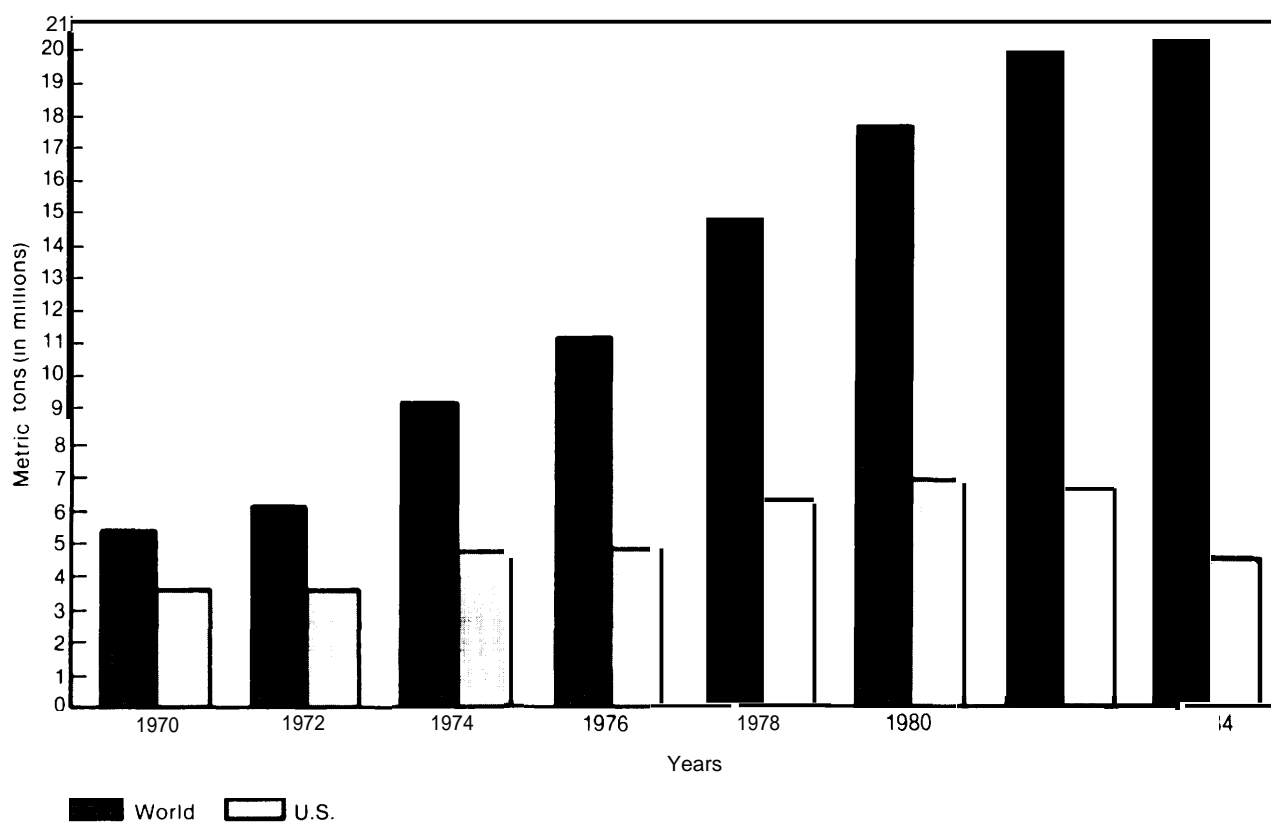
#### U.S. Trade

Although U.S. soybean oilcake, and meal exports fell from \$1.65 billion in 1980 to \$833 million in 1985, the United States remains second to Brazil as an international supplier of this commodity. The United States follows Malaysia in world vegetable oil exports; leading U.S. vegetable oil export commodities for 1985 include soybean oil at \$558 million and sunflowerseed oil at \$301 million. Sunflowerseed oil and linseed oil, while small in volume compared to other vegetable oils, have been the fastest growing U.S. oilseed export products in recent years.

In terms of volume, U.S. soybean cake and meal exports nearly doubled between 1970 and 1980 (see figure 5-1), but have since fallen by approximately 40 percent. Similarly, soybean oil exports rose by about one-third during the 1970s, but have since fluctuated considerably while decreasing overall. However, even the actual U.S. increases of the 1970s did not match the rapid growth of world exports. Between 1970 and 1984, the U.S. world soybean meal volume market share fell from 68 to 21 percent, while the U.S. share of the soybean oil market decreased by 33 percent. Foreign processing, import barriers, and export subsidies combined to bring down the total value-added proportion of U.S. oilseed exports from 35 percent of all oilseed products in 1972 to 17 percent in 1981.

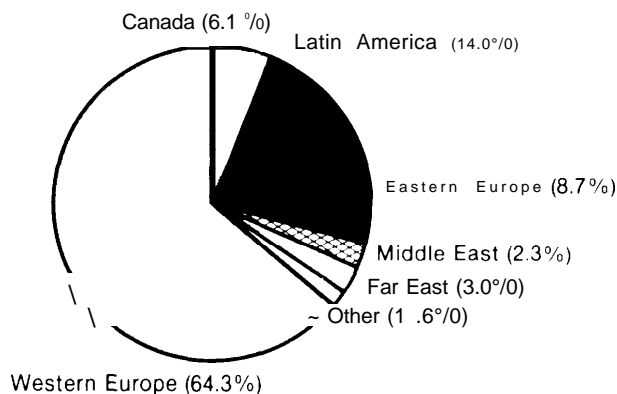
Western Europe stands as the world's largest importer of U.S. oilseed products, purchasing 64.3 percent of U.S. soybean meal exports in 1983 (see

Figure 5.1.—World and U.S. Soybean Meal Exports



SOURCE FAO Trade Yearbook, Food and Agriculture Organization of the United Nations, vols. 32-38, 1970-1984, Rome, Italy

**Figure 5-2.—U.S. Soybean Meal Exports by Destination, 1983**

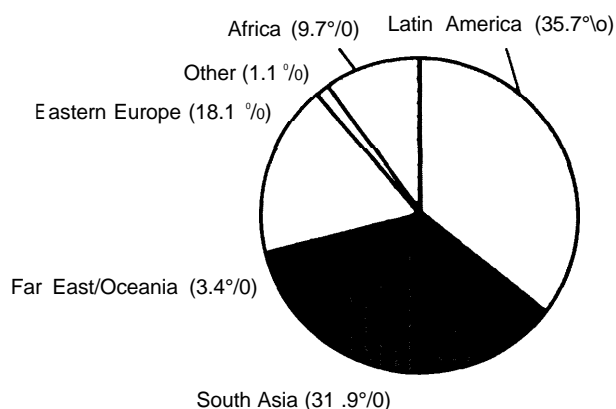


SOURCE: "U.S. Exports Schedule E. Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984

figure 5-2). The Community, however, is not a growth market. Oil imports are regulated, and policies are directed toward increased importation of raw soybeans. For soybean meal, top U.S. export country markets in 1983 were The Netherlands, West Germany, Venezuela, Canada, Italy, the Philippines, Poland, and Iraq. In general, exports of value-added oilseed products to the developed world, such as the EEC, Canada, and Japan, are slowing, the result of reduced population and income growth. Eastern Europe and the U.S.S.R. represent potential markets, contingent on balance of trade and development considerations, and on political relations with the United States. China may develop into a large potential market as it modernizes its livestock industry, which would increase per capita vegetable oil consumption.

The fastest growth markets for U.S. oilseed products are likely to lie in the higher income industrializing countries of the Middle East, the Far East, and Latin America; currently, Latin America and South Asia dominate U.S. export markets (see figure 5-3). Many of these nations lack the capital, infrastructure, and technical capability to process oilseeds. Five countries—India, Pakistan, Iran, Morocco, and Turkey—accounted for 55 percent of world soybean oil import growth between 1976 and 1984,

**Figure 5-3.—U.S. Soybean Oil Exports by Destination, 1983**



SOURCE: "U.S. Exports Schedule E. Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984

### Competitors

Brazil, the United States, and Argentina are the world's largest exporters of soybean meal, followed by The Netherlands and West Germany. Of course, Brazil's high-protein, pelletized form of meal is somewhat different than the U.S. product; nevertheless, the rapid decline in the U.S. processed oilseed market share during the 1970s can be attributed to aggressive competition from Argentina and Brazil in world meal and oil trade, and from Spain in the Mediterranean oil markets. Also, a dramatic increase in production of Malaysian palm oil has displaced some of the demand for soybean and cottonseed oil.

### Issues

Several factors have slowed the growth of U.S. oilseed exports in recent years:

- As with most other high-value and value-added commodities, policies of other nations have been a major impediment. In fact, the U.S. soybean processing industry has filed two pending petitions under Section 301 of the Trade Act of 1974: one that charges Brazil, Argentina, Spain, Portugal, Malaysia, and Canada with subsidization of soybean crushing industries and soybean exports; and

one that charges Argentina with imposing a differential soybean export tax.

- The premiums associated with U.S. products, especially oils, are prohibitive for some importing countries. Developing nations can buy cheaper palm oil, lard, or tallow from Asia.
- Demand slowed during the early 1980s, due to worldwide recession. Although this factor has abated, growth is not projected to reach the level of soybean meal demand seen in Europe during the 1970s, where infrastructure for livestock production and transport was already in place.

To date, U.S. promotional efforts have focused on exports of raw soybeans, rather than meals and oils. The \$6.5 million allocated annually to USDA has been directed primarily to trade servicing—support for current trade—and to technical assistance for foreign processing industries. Recently, however, domestic interest groups have become more active in promotion of processed products. For example, while its efforts have not yet been reflected in trade performance, the Export Processing Industry Coalition (EPIC), an industry-labor alliance, has articulated processors' concerns. EPIC hopes to double the size of Public Law 480 grant-in-aid programs, in order to include more semiprocessed and processed goods.

## Tobacco and Cigarettes

### Background

U.S. tobacco export volume has declined slightly in recent years, the result of a strong dollar through early 1985, relatively high U.S. prices, the availability of competitive overseas supplies, and stagnant world cigarette demand. Former growth markets for cigarettes in the developed countries have declined due to health concerns and large cigarette tax increases. Analysts expect greater export growth for cigarettes relative to leaf tobacco. American blended cigarettes are unique in taste and are considered status items overseas, particularly in newly industrializing countries.

A steady increase in world tobacco exports between 1964 and 1984 can be attributed to the rapid income and population growth in developing

countries during this period. In 1984, world trade in tobacco stood at 1.4 million metric tons (MT) (see figure 5-4), and was valued at \$4.2 billion. Future long-term trends in U.S. tobacco and cigarette exports are difficult to predict, and the degree of optimism varies among analysts. Still, the reduction of price supports for U.S. tobacco in 1985, along with the weakening of the U.S. dollar, is likely to increase the international competitiveness of U.S. tobacco in the near term.

### U.S. Trade

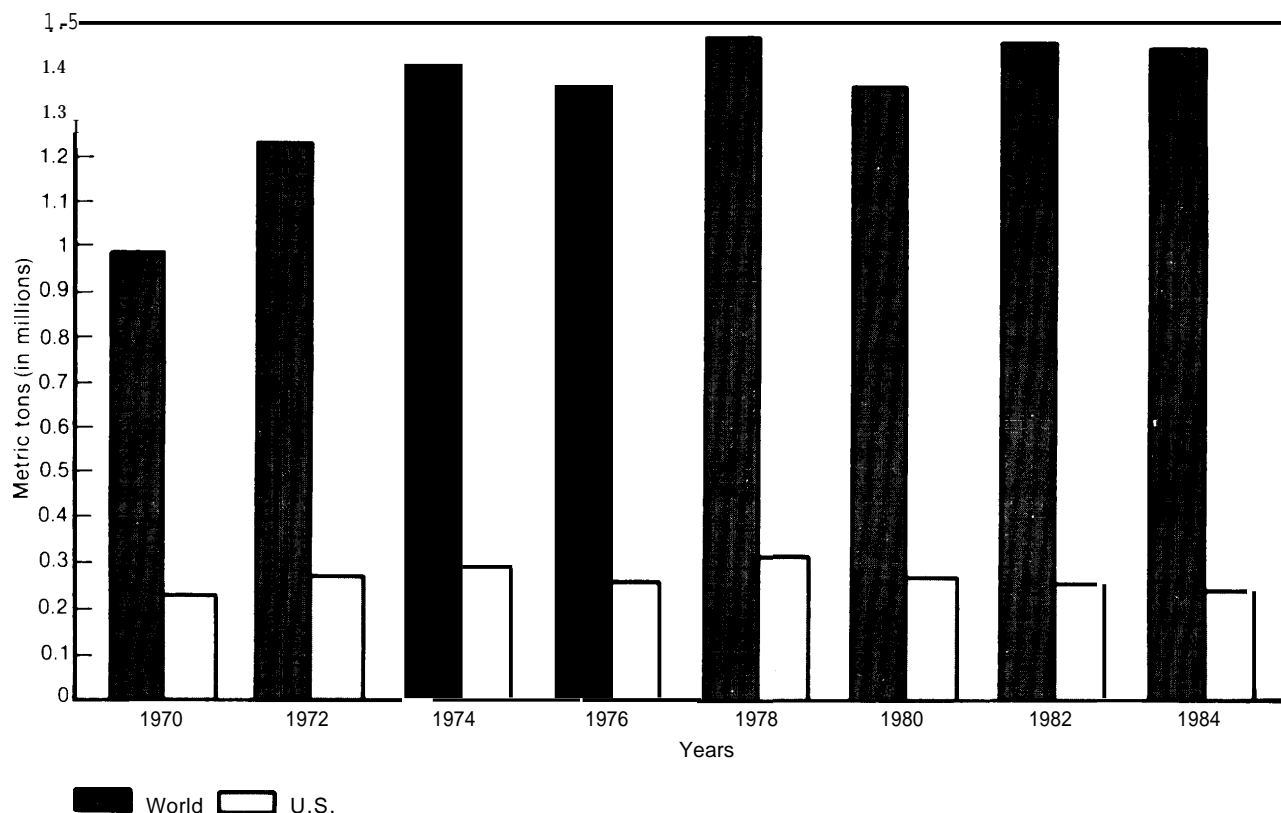
The United States is the world's leading tobacco exporter, shipping over 256,000 MT in 1985, valued at \$1.59 billion. Flue-cured tobacco is the leading export commodity, valued at \$1.06 billion and comprising two-thirds of 1985 exports. Burley tobacco, the next most-traded commodity, held a 21 percent export share. U.S. cigarette exports stood at 58.9 billion pieces, or approximately 47,000 MT, in 1985, for a value of \$1.1 billion; in terms of unit value, cigarettes are easily the highest value commodity mentioned in this study (see table 5-2)—approximately four times the value of tobacco as a whole, the second highest item.

In contrast to tobacco production, six major firms dominate U.S. cigarette manufacturing, including the multinationals Phillip Morris and R.J. Reynolds. Since a large percentage of U.S. production occurs overseas, only 9 percent of domestically produced cigarettes were exported in 1983. In the same year, total exports of U.S. tobacco represented 36 percent of domestic production.

Although price increases drove the value of U.S. tobacco exports up by an average of 13 percent per year, export volume showed little change; at 256,000 MT, the 1985 volume was only 10 percent greater than the 234,000 total of 1970. Total world trade, on the other hand, grew from 986,000 MT in 1970 to 1.4 million MT in 1984, an increase of 43 percent. During this period, the U.S. share of the world market fell from 23 to 17 percent (see figure 5-4). Twenty years ago, the United States held a 30 percent share.

Since 1960, the use of cheaper foreign tobaccos in U.S. cigarettes has increased, particularly in flue-cured and burley tobacco. In 1982, imports

Figure 5-4.—World and U.S. Exports of Tobacco  
(unmanufactured)



SOURCE: FAO *Trade Yearbook*, Food and Agriculture Organization of the United Nations, Vols 32-38, 1970-1984, Rome, Italy

of flue-cured tobacco from Brazil, Zimbabwe, and Korea represented 18 percent of total U.S. flue-cured use. These escalated imports have complemented the established trend of importing air-cured "Oriental" tobaccos from Mediterranean areas like Greece and Turkey. In addition, longer filters, reduced cigarette circumference, and the increased use of sheet tobacco, stems, and puffed tobacco, have all contributed to a decline in the volume of tobacco per cigarette.

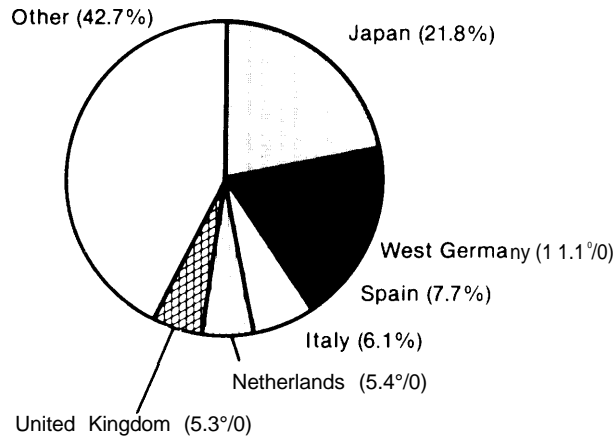
Although demand continues to fall, Western Europe remains the world's largest regional market for tobacco, followed by Japan. West Germany took 11 percent of U.S. tobacco exports in 1983, followed by Spain, Italy, The Netherlands, and the United Kingdom (see figure 5-5).

U.S. cigarettes have enjoyed faster export growth than tobacco. Increased cigarette consumption is directly related to rising incomes in

developing countries. Between 1970 and 1980, average annual U.S. cigarette exports grew 10 percent in volume, and 20 percent in value; however, the United States' market share held relatively steady (see figure 5-6). Subsequently, exports fell; the United States held 17 percent of the world market in 1983,

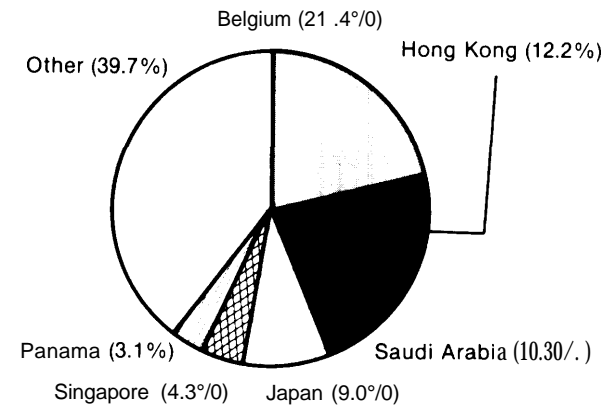
The fastest growing markets for cigarettes are the middle-income, oil-exporting, and newly industrializing countries of the Middle East, the Far East, and parts of Latin America. North Africa is also a growth region, and West Africa is expected to grow with future petroleum development. Belgium receives the largest shipments of U.S. cigarettes, but this nation is a transshipment point, not a major market. Hong Kong is the largest importer of U.S. cigarettes, followed by Saudi Arabia, Japan, Lebanon, and Singapore (see figure 5-7).

**Figure 5-5.—U.S. Unmanufactured Tobacco Exports by Destination, 1983**



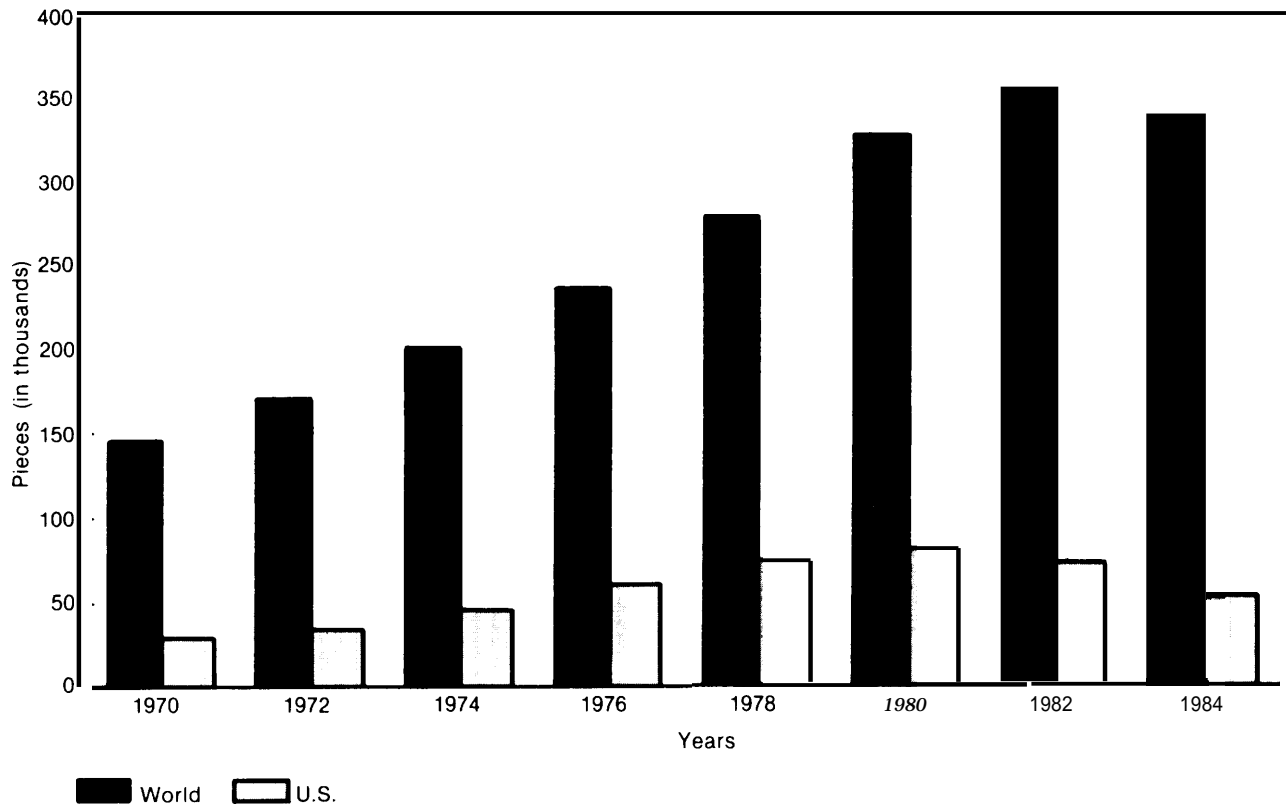
SOURCE: "U.S. Exports: Schedule E. Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984.

**Figure 5-7.—U.S. Cigarette Exports by Destination, 1983**



SOURCE: "U. S Exports: Schedule E. Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984.

**Figure 5-6.—World and U.S. Exports of Cigarettes**



SOURCE: FAO Trade Yearbook, Food and Agriculture Organization of the United Nations, Vols. 32-38, 1970-1984, Rome, Italy

## Competitors

The United States is the world's largest exporter of tobacco, followed by Brazil, Italy, Greece, and Zimbabwe. Brazil, Zimbabwe, Malawi, Korea, Italy, and Greece are the top competitors with the United States in major markets. As U.S. exports fell during the last decade, quality improvements by foreign exporters allowed these countries to become increasingly competitive, and at lower prices. In the cigarette trade, the United States faces export competition from the United Kingdom and West Germany. Bulgaria supplies the U. S. S. R., and is expected to capture the growth markets of Eastern Europe.

## Issues

Although the United States produces a high-quality tobacco, high U.S. prices have reduced the country's international competitiveness. Because tobacco exports constitute a large percentage of total production, domestic price supports for tobacco have both domestic and international ramifications. Since 1982, U.S. price support levels have been frozen in an attempt to make U.S. tobacco more competitive. The "no net cost" Tobacco Fund reduced the cost of farm sector supports by requiring contributions from tobacco manufacturers and exporters to supplement farmers' contributions. The Tobacco Program Improvements of 1985, attached to the 1985 Budget Reconciliation Act, have reduced price supports by 25 percent.<sup>14</sup> These lower price supports, combined with a declining U.S. dollar, should enhance U.S. competitiveness. In addition, the USDA's GSM-102 Export Credit Guarantee Program boosted exports, from \$30.4 million in 1983 to \$82.5 million in 1984. Iraq, Egypt, and Jamaica participated in this program.

Finally, many countries maintain government control over tobacco and cigarette production, and collect major revenues from cigarette taxes. Promotional efforts by U.S. trade associations in these nations have focused on advertising campaigns, especially in the Far East.

<sup>14</sup>Dan Stevens, Foreign Agricultural Service, U.S. Department of Agriculture, personal communication, 1986.

## Cattle Hides

### Background

U.S. cattle hides are considered to be of superior quality to those of foreign producers. U.S. cattle hide exports have grown steadily in volume and spectacularly in value since 1970, and continued growth is expected. However, while cattle hides represent one of the most dependable U.S. value-added livestock exports, this country annually imports over three times their value in finished leather products.

The world market for hides and skins grew at an average of 10 percent per year between 1975 and 1982, reaching a record high of \$4 billion in 1982. Although most U.S. value-added commodities are subject to foreign import restrictions designed to protect local industries, cattle hides are an exception. Importing nations generally convert these hides to fully processed leather goods.

### U.S. Trade

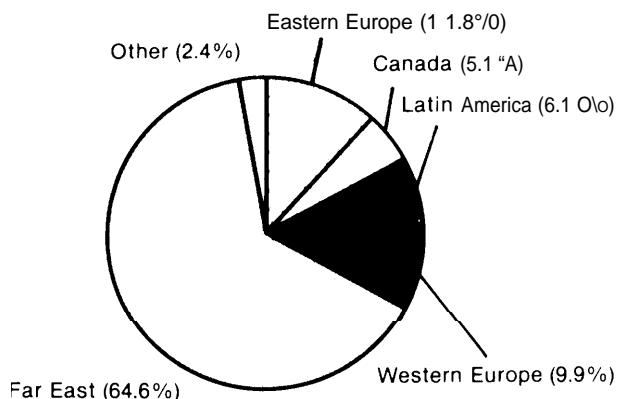
The United States is the world's leading exporter of hides and skins, followed by the EEC, Canada, Australia, New Zealand, and South Africa. The United States supplies over one-third of the world's hide and skin products, and—excluding inter-EEC trade, which is cloistered from the international market—approximately 60 percent of the world hide trade. Cattle hides, which brought the United States \$1.035 billion in export revenue in 1985, constitute over 90 percent of all U.S. hides and skins exports, followed by calf skins and sheep skins.

Italy, Japan, and South Korea are the world's largest importers of hides and skins. The Far East and Eastern Europe represent the largest regional markets for U.S. cattle hides (see figure 5-8); Japan, Korea, and Taiwan accounted for over 60 percent of U.S. cattle hide exports in 1983. Other significant country markets include Romania, Mexico, Italy, Canada, Spain, West Germany, France, Czechoslovakia, Yugoslavia, the United Kingdom, and the U.S.S.R.

### Competitors

Australia, New Zealand, and the EEC are the principal competitors in the hides trade, par-

**Figure 5-8.—U.S. Cattle Hide Exports by Destination, 1983**



SOURCE: "U.S. Exports: Schedule E. Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984.

ticularly in Far Eastern markets. Within competitive markets, submarkets for foreign range-fed hides and more expensive U.S. hides remain segmented.

#### Issues

In recent years, several developing countries that had been exporters of raw hides have become net importers, processing these into leather goods for export. Licenses, taxes, and quotas restricting hide exports have been complemented by rebates, grants, and subsidies that encourage processing and leather goods exports. Argentina, Uruguay, Paraguay, Brazil, Colombia, India, Pakistan, and Morocco have all implemented such policies.

Aside from USDA activities, there are no commercially sponsored promotional programs for U.S. cattle hide exports. Trade analysts believe that if exports are maintained at the current level of two-thirds of domestic production, sufficient hides will remain to satisfy domestic demand.

However, domestic leather industry trade associations support the upgrading of hides to semi-finished and finished leather products. Increased foreign imports, especially of shoes, have accentuated declines in the tanning and shoemaking industries of the Northeast and Midwest. Negotiations are underway between the Leather Industry of America and the Footwear Industry of America on the one hand, and Japan, Korea, and Tai-

wan on the other, to decrease imports of further-processed leather products. Although a Section 201 Trade Act case filed by the Footwear Industry of America in early 1984—calling for restricted imports of shoes from Korea, Taiwan, and Brazil—was later rejected by the Reagan Administration, the Textile and Apparel Trade and Enforcement Act of 1986 (HR 1562) includes import quotas on footwear.

On the other hand, there are significant environmental costs associated with leather production. The net expenditure of increased leather production and tanning in the United States includes the cost of managing or eliminating toxic chromium wastes and other pollutants.

## Rice

### Background

U.S. rice exports increased in volume and value throughout the 1970s, but have declined since 1981 except for a slight rise between 1983 and 1984. Although the United States maintains a top quality rice product, upgraded quality from competing nations has diminished overseas interest in paying the premiums associated with U.S. rice. Furthermore, decreasing oil revenues in oil-exporting markets have slowed the growth of global rice imports.

The four major rice commodities, in order of processing stage, include rough wild rice, brown rice, milled white rice, and parboiled rice. The parboiling process involves a sealing of nutrients, and can be applied to rough, brown, or milled rice. White rice is the end product of complete milling. If exports in parboiled, milled, and brown rice decrease in the future, increased attention may be given to "luxury" submarkets for instant and wild rice.

Recent domestic policy developments may brighten prospects for U.S. rice exports. The "marketing loan rate" system, introduced in the 1985 Farm Bill, allows U.S. rice farmers to repay government loans at international market prices, which are often substantially lower than domestic loan rates. As a result, farmers can sell rice at reduced prices in order to compete in international markets. USDA reports that this program

has begun to improve U.S. export performance, but that such changes may not appear statistically until 1987.<sup>15</sup>

Due to an expansion of harvested area, coupled with the "green revolution" that has produced large yield increases, world rice production has nearly doubled since 1970. The global crop of 1984 amounted to approximately 470 million MT of rough rice, over 90 percent of which was produced in Asia. World rice exports constitute only 3 percent of total production. As only one-half of Asian acreage is irrigated, Asian production depends on the timing of the monsoon, and is subject to wide variations. This makes the international rice market highly volatile, which is aggravated by government controls on imports in many countries, and a by limited number of exporters.

#### U.S. Trade

Thailand and the United States supply about one-half of the world rice trade. In 1985, the United States exported 1.97 million MT of rice, valued at \$677.1 million, down considerably from the 1981 peak level of over 3 million MT and over \$1.5 billion. This has resulted from noncompetitive U.S. prices, which—coupled with quality upgrading of the Thai commodity—have led to a loss in market share to Thailand. With labor-intensive Thai harvesting and production methods, rough rice can be produced at \$75 per ton, well below the U.S. cost of production. Unlike Thai rice, however, the U.S. crop is irrigated, allowing for stable production; also, integration of U.S. harvesting, processing, and marketing permits more efficient quality control.

Parboiled and milled white rice have been the two major U.S. export items, with 42 and 37 percent of the 1983 export share, respectively. Brown rice follows with 10 to 19 percent, and rough wild rice constitutes about 2 percent. U.S. overseas sales of parboiled rice have made the largest gains of any rice commodity in the past 10 years, particularly in value.

<sup>15</sup>U.S. Department of Agriculture, Economic Research Service, unpublished data.

Compared to 1.7 million MT of rice exports in 1970, the 1985 level represents an increase of 16 percent. Exports comprised about 34 percent of 1984 domestic production. World rice exports totaled 12.5 million MT in 1984, compared to 8.8 million MT in 1970, for an increase of 42 percent; U.S. world market share fell slightly during this period, from 20 to 17 percent (see figure 5-9). In terms of value, this country has increased exports by 121 percent, from \$306.2 million in 1970 to \$677.1 million in 1985, despite the post-1981 decline. About 20 percent of U.S. exports consisted of food aid to developing countries; Public Law 480 grants accounted for approximately three-fourths of these shipments, and GSM 102 extended credit for the remainder.

The Middle East, Africa, and Western Europe are the largest markets for U.S. rice exports (see figure 5-10). Other growth markets may develop for U.S. specialty products, such as instant rice and wild rice mixtures. While the United States dominates production of these commodities, neither instant nor wild rice stands as a significant export item.

#### Competitors

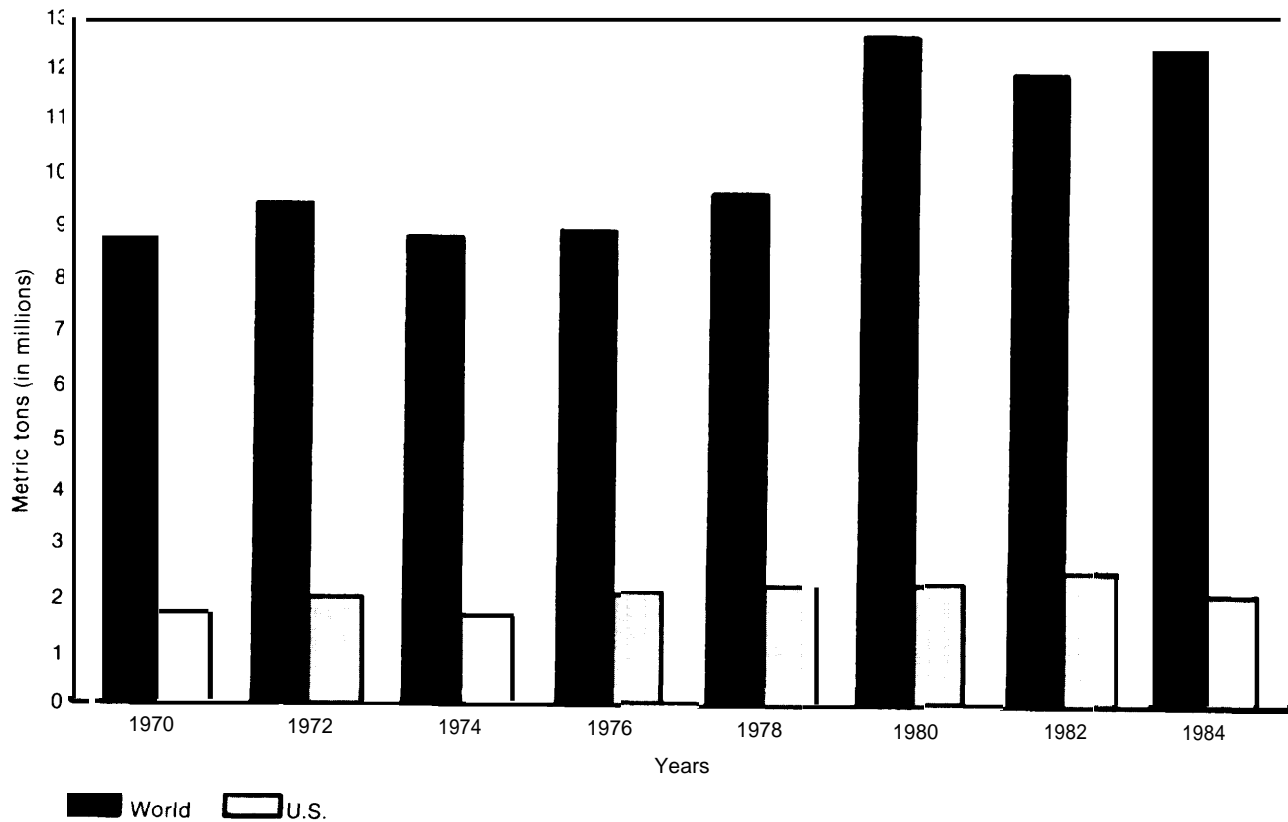
Thailand, the United States, Pakistan, China, and Burma supply three-quarters of the world rice trade. Thailand outcompetes the United States in most Asian markets, competes aggressively in Europe and the Middle East, and has captured most of the South American market, excluding U.S. aid to Peru and some exports to Bolivia.

#### Issues

High domestic producer prices have been the primary obstacle to U.S. export growth, and the principal cause of large domestic surpluses. Price support levels for rice, established in the 1981 Farm Bill, created a wide differential between domestic and international prices. The 1985 Farm Bill includes provisions that may reduce this problem, such as the new "marketing loan rate," described previously. However, this program has received extensive criticism from competitors, particularly from Thailand.

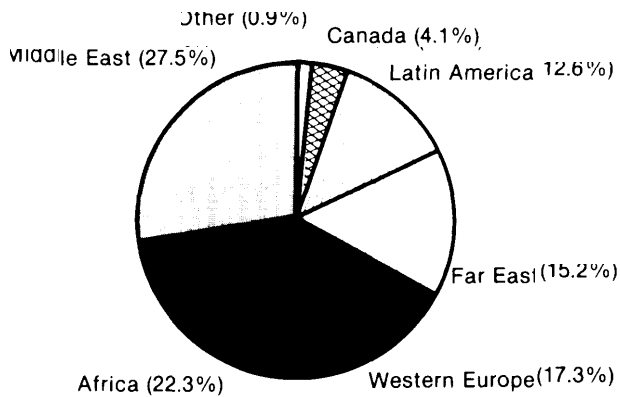


Figure 5-9.—World and U.S. Rice Exports



SOURCE: *FAO Trade Yearbook*, Food and Agriculture Organization of the United Nations, vols. 32-38, 1970-1984, Rome, Italy.

Figure 5-10.—U.S. Rice Exports by Destination, 1983



SOURCE: "U.S. Exports. Schedule E. Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984.

## Corn Gluten Feed

### Background

The rising world demand for meat products and meat processing has led to increased imports of coarse grains for feed. Highly processed feeds have enjoyed dramatic export growth in the last decade, under liberal trade conditions. Corn gluten feed, a byproduct of the wet milling process used to produce alcohol fuel, cornstarch, corn syrup, dextrose, and high-fructose syrup, is the most successful U.S. grain-derived export feed. Although the United States has no competitors in the world corn gluten feed market, this product faces competition from other types of high-protein feeds,

The United States is the world's leading exporter of high protein feeds excluding soybean meal, receiving \$909 million for sales in 1985. The most heavily exported U.S. processed feed commodities are corn gluten feed and meal, other corn products and byproducts, citrus pulp pellets, dried beet pulp, livestock feed preparations, alfalfa hay cubes, and poultry feeds. U.S. feedstuff exports have increased in volume and value over the last decade, and constituted approximately 13 percent of 1985 U.S. coarse grain exports.

The expansion of the EEC's high-yield dairy industry during the 1970s, coupled with high EEC grain support prices, caused dairy producers to look overseas for inexpensive high-protein feeds. This development was synchronous with the growth of the U.S. high-fructose corn sweetener industry; corn gluten feed has entered duty-free into the EEC since the 1960s. However, shipments to the EEC are expected to decrease throughout the current decade, due to a recent decision to de-emphasize high-yield dairy production, and to a new EEC proposal to place a tariff quota on imported gluten feed.

Because corn gluten feed is a byproduct, some analysts argue that a plateau and possible slowdown in the high-fructose corn sweetener industry would cause an overall decline in wet milling, and a concurrent decrease in corn gluten feed production. Others believe that a plateau in the high-fructose industry will be offset by growth in other industries that require wet milling and produce corn gluten feed as a byproduct. The recent EPA ban on leaded gasoline is expected to foster growth in alcohol fuel use, which should lead to an increase in wet milling. In addition, production of corn syrup and cornstarch is expected to remain healthy. Finally, while high-fructose corn sweetener production has reached a natural peak, it has done so at a high level.

## U.S. Trade

In 1985, the United States exported 3.4 million MT of corn gluten feed, valued at \$458.8 million. Between 1972 and 1985, exports of corn gluten feed grew nearly 400 percent in volume, or an average annual rate of approximately 30 percent.

In 1983, the United States produced 3.7 million MT of corn gluten feed; exports, which stood at 3.5 million MT, represented over 90 percent of total production. Prices were strongest for this commodity between 1976 and 1981, when competitive bidding by the EEC increased its value. Since then, prices have plummeted as a result of reduced EEC demand and price declines in other feeds.

Most U.S. corn gluten feed exports go to the European Community; a small percentage goes to the Caribbean. U.S. producers have begun to seek new markets in Eastern Europe, the U. S. S. R., and the Far East, but no substantial sales to these areas have been made to date. There has also been discussion of sending corn gluten in the form of food aid, to encourage livestock production overseas. The benefits of such efforts should be weighed against potential setbacks to the U.S. livestock export industry.

## Issues

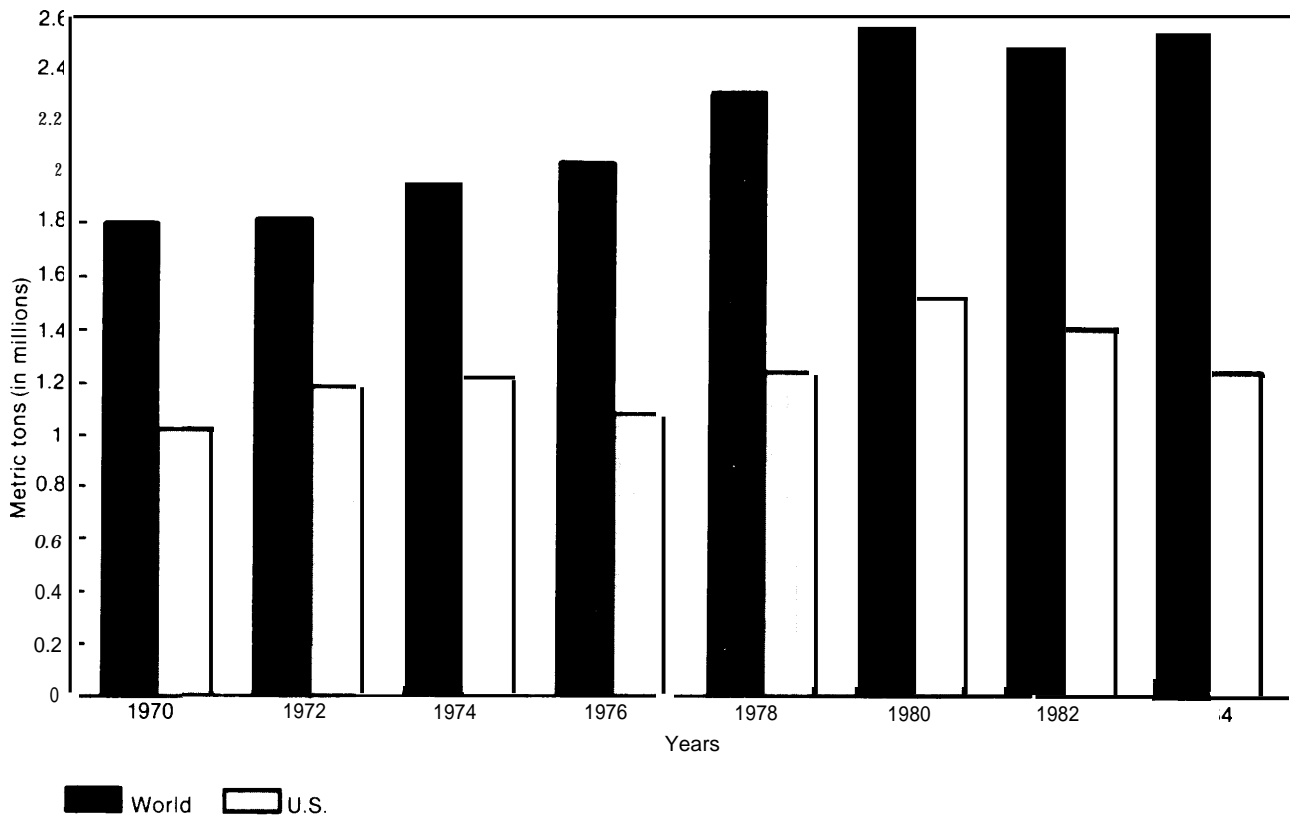
The EEC has recently proposed to cancel the no-tariff GATT agreement regarding corn gluten feed, requesting a "tariff -quota," or a restrictive tariff on annual imports of over 3.4 million metric tons. The quota and tariff-free status of corn gluten feed were agreed on under confessional terms during GATT negotiations during the 1960s. The EEC has not met with success in its proposal, and the situation is unlikely to change without major renegotiations.

## Tallow

### Background

The United States is the leading exporter of tallow, holding at least one-half of the world market share for the past 15 years, although the 1980s have witnessed slight declines (see figure 5-11). However, while U.S. exports have increased in volume with the growth of soap industries in the developing countries of Asia and the Middle East, tallow prices have plummeted. This is primarily a function of substitutability by vegetable oils and petroleum products. U.S. exporters must explore new agricultural and industrial uses for tallow and its derivatives to offset recent declines in export volume.

Figure 5-11.—World and U.S. Exports of Animal Fats  
(including oils, excluding lard)



SOURCE: *FAO Trade Yearbook*, Food and Agriculture Organization of the United Nations, Vols. 32-38, 1970-1984, Rome, Italy.

Supply of world tallow, a byproduct of beef and other meat industries, depends on trends in world meat production. Trade in animal fats and oils is vulnerable to competition from both natural and synthetic substitutes. Substitution of Malaysian palm oil for soap, and a gradual trend from tallow-based bar soaps to petroleum-based detergents, have combined to depress international tallow and oil prices. Average world prices for tallow, currently 10.5 to 12.5 cents per pound, are the lowest in 10 years.

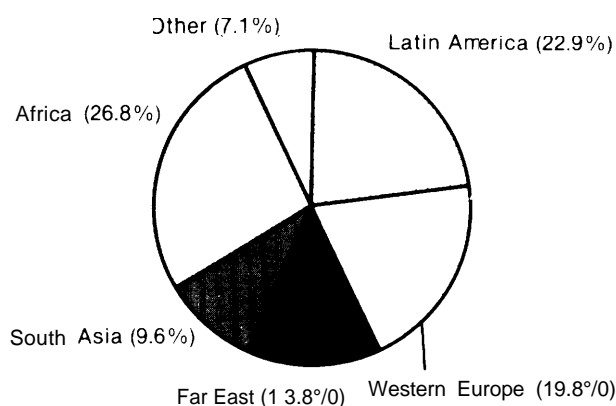
Huge stocks of palm oil, primarily from Malaysia, represent the driving force behind the international price drop. Competition from palm oil is strongest in the developing countries, where foreign exchange considerations encourage the importation of lower cost oils. Moreover, soybean oil competes with tallow in its use as an animal feed enhancer.

#### U.S. Trade

U.S. exports of tallow, the second most important U. S.- livestock export product after cattle hides, were valued at \$542.9 million for 61 million MT in 1985. As noted above, volume increases during the 1970s were associated with expansion of soap industries in developing and newly industrialized countries. Limited overseas supplies have resulted in minimal import restrictions for tallow. Since 1980, however, U.S. volume exports have decreased.

The largest markets for U.S. exports of tallow are found in the newly industrialized countries; top country markets in 1983 included Egypt, Mexico, Pakistan, Korea, Japan, and Colombia. Other markets with high-volume imports include the U. S. S. R., India, Spain, Taiwan, Nigeria, West Germany, Algeria, and El Salvador. As a region,

**Figure 5-12.—U.S. Inedible Tallow Exports by Destination, 1983**



SOURCE "U S Exports Schedule E Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984

the Far East is the fastest growing market for U.S. feed tallow (see figure 5-12 for 1983 regional export shares),

### Competitors

West Germany, Australia, and Canada follow the United States in the tallow trade, but these and other competitors hold relatively small world market shares,

### Issues

Cattle hides and tallow have enjoyed free access to world markets, with some exceptions. There have been problems in India and Pakistan, where Muslim religious practices mandate the omission of lard from tallow; the EEC has imposed a 2-year quota on tallow, in retaliation for U.S. steel import quotas; and certain countries with fishmeal and other significant protein feed industries have restricted tallow imports.

Only a small amount of tallow is included in U.S. food aid. Programs in 40 countries are currently underway to reduce barriers to U.S. tallow exports, and to promote the diverse uses of tallow. As with cattle hides, the possibilities of further processing of tallow for export are being explored; further-processed products include refined greases and fatty acids. Though some fatty acids are exported from the United States, the majority of developed and newly industrialized

countries already possess a domestic production capacity. Tallow as a detergent ingredient may be attractive to developing countries who wish to make the transition from bar to detergent soaps; China has shown some interest in this type of product. A research foundation supported by National Renderers Federation is currently testing new uses of tallow, including the development of emulsions which will reduce evaporation from seed crops and soil.

## Beef

### Background

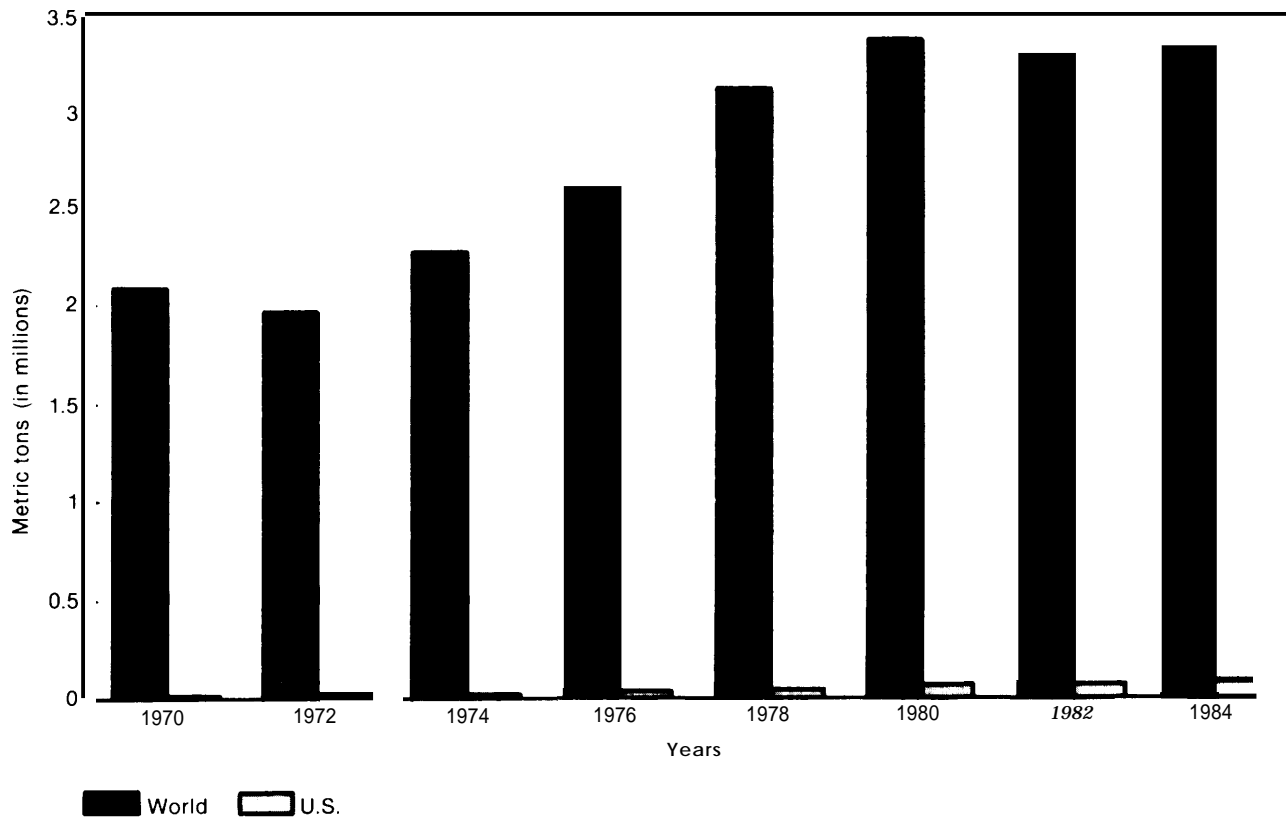
The United States produces a corn-fed, high-quality, marbled beef that is popular in the Far East, and is sought by hotel and restaurant industries in other regions. However, most countries prefer the range-fed, lean beef produced in Australia, New Zealand, the EEC, and South America; this product is gaining popularity in the United States as well. While U.S. exports of beef have risen dramatically over the last decade, the U.S. world market share has remained small. Declining growth in GNP in the developed countries has encouraged imports of poultry and leaner, less expensive beef.

World trade in red meats grew more slowly than that of poultry or feeds during the 1970s, and this trend is expected to continue due to the efficiency and mobility of poultry production. Beef packing is labor-intensive, relative to poultry, although both products are highly perishable.

### U.S. Trade

The United States is the sixth largest exporter of beef, following the EEC, Australia, New Zealand, Argentina, and Brazil. In 1985, the United States exported 111,500 MT of beef and veal, valued at \$477.5 million. Interestingly, while this country is the leading exporter of high-quality, high-priced, grain-fed beef, it remains the top importer of less-expensive range-fed beef. In 1985, the United States imported \$1.3 billion in foreign beef, three times the value of U.S. exports, although the trade balance for beef and veal has improved in recent years,

Figure 5-13.—World and U.S. Beef Exports



SOURCE: *FAO Trade Yearbook*, Food and Agriculture Organization of the United Nations, Vols. 32-38, 1970-1984, Rome, Italy.

In 1970, the United States exported 8,500 MT of beef, including veal, valued at \$20 million (see figure 5-13). As evidenced by the 1985 figures, exports have risen dramatically. In terms of market share, U.S. exports constituted 2.9 percent of 1984 world beef trade, compared to 0.4 percent in 1970, representing a 625 percent gain in world market share.

The Far East is the most important regional market for U.S. beef exports, taking 74 percent of the total in 1983 (see figure 5-14). Fifty-seven percent of U.S. exports went to Japan alone in 1983, followed by France at 10 percent, and Canada at 7 percent.

#### Competitors

The world's major beef producers hold relatively small market shares, although Argentina and New Zealand have more than doubled their

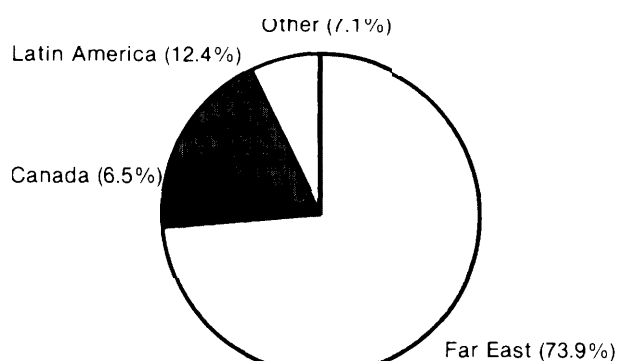
beef exports over the last 20 years. These countries, along with Australia and Brazil, are the principal competitors in the major U.S. export markets.

#### Issues

Cordwooding—the export of lower value items, rather than more highly processed ones—is an important issue in beef trade. “U.S. exports of feed grains, and even of high-value feeds, support livestock production and processing industries in other countries; the United States receives much smaller benefits in economic activity by exporting feed products than would be gained through greater exports of animal products, including beef. Unlike poultry, where successful U.S. exports are

<sup>16</sup>Kenneth C. Clayton and Gerald Schluter, “Cordwooding—What's It Costing Us?” paper prepared for the Southern Regional Association Science Meetings, Knoxville, TN, 1982.

**Figure 5-14.—U.S. Beef Exports by Destination, 1983**



SOURCE "U S Exports Schedule E Commodity Groupings, Commodity by Country." Bureau of the Census, Department of Commerce, FT-410 reports, 1984

typically in retail cut parts, most U.S. beef is exported at lower stages of processing. Both Japanese and Western European importers prefer to pay the added freight rates associated with unfinished cuts, so as to break the subprimal pieces into retail or "portion control" cuts domestically. Indeed, job protection and the capturing of the resultant value added is an issue for importing countries; beef value nearly doubles between the subprimal and retail stage. Several nations maintain 3.3 kilogram minimums on their imported cuts of beef, to maintain domestic jobs and to capture the economic benefits of retail meat-cutting.

Some nations without substantial beef industries, such as Saudi Arabia and several Caribbean countries, import larger shares of retail cuts. Retail cuts are also marketed to restaurants in Canada, Europe, and the Far East.

The EEC'S CAP for beef and veal involves price supports and subsidies, as well as import protection in the form of health and sanitation regulations. In Japan, prices are stabilized and beef imports are controlled through quotas established by the Livestock Industry Promotion Corp.; Japanese import quotas have expanded since 1978. The next round of formal beef trade negotiations between the United States and Japan are not scheduled to begin until 1988.

## Pork

Of the 6.7 million MT of pork produced in the United States in 1984, exports represented less than 1 percent of total production. The potential

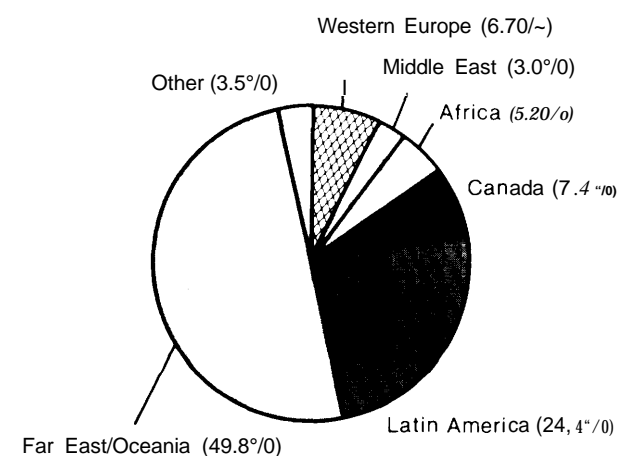
for future growth appears to be weak; in 1985, exports dropped even more, from 60,100 MT valued at 137.8 million to 42,600 MT valued at \$73.1 million. Japan, Canada, and Mexico represent the top foreign markets for U.S. pork. The United States imported \$847 million in pork in 1985, over 10 times the value of exports.

## Poultry

### Background

The U.S. export picture for poultry in the 1980s bears little similarity to that of the 1970s. In the past few years, the United States has lost much of its share of the Middle Eastern market for whole broilers, which had been the largest market for U.S. poultry exports as recently as 1981. Two factors have contributed to this development: competition from the EEC and Brazil, and increased poultry production in the Middle East. If U.S. overseas sales are to return to former levels, marketing efforts could be directed toward export of chicken parts to the Far East and the Caribbean, where transport advantages can be maintained over the EEC. In 1983, 50 percent of U.S. poultry exports were sent to the Far East, 28 percent to Japan alone (see figure 5-15). However, producers in Brazil, the EEC, and Asia are rapidly increasing shares in the parts trade.

**Figure 5-15.—U.S. Poultry Meat Exports by Destination, 1983**



SOURCE "U S Exports Schedule E Commodity Groupings, Commodity by Country." Bureau of the Census, Department of Commerce, FT-410 reports, 1984

Poultry is the third most traded meat in the world, after beef and pork. In 1984, world trade in poultry stood at 1.57 million MT, valued at \$1.94 billion. Four-fifths of the 1983 world poultry trade was supplied by five countries: France, Brazil, the United States, Hungary, and The Netherlands. Finally, although the value of the world beef trade is about four times that of poultry, the growth rate of poultry trade has outpaced that of any other meat.

#### U.S. Trade

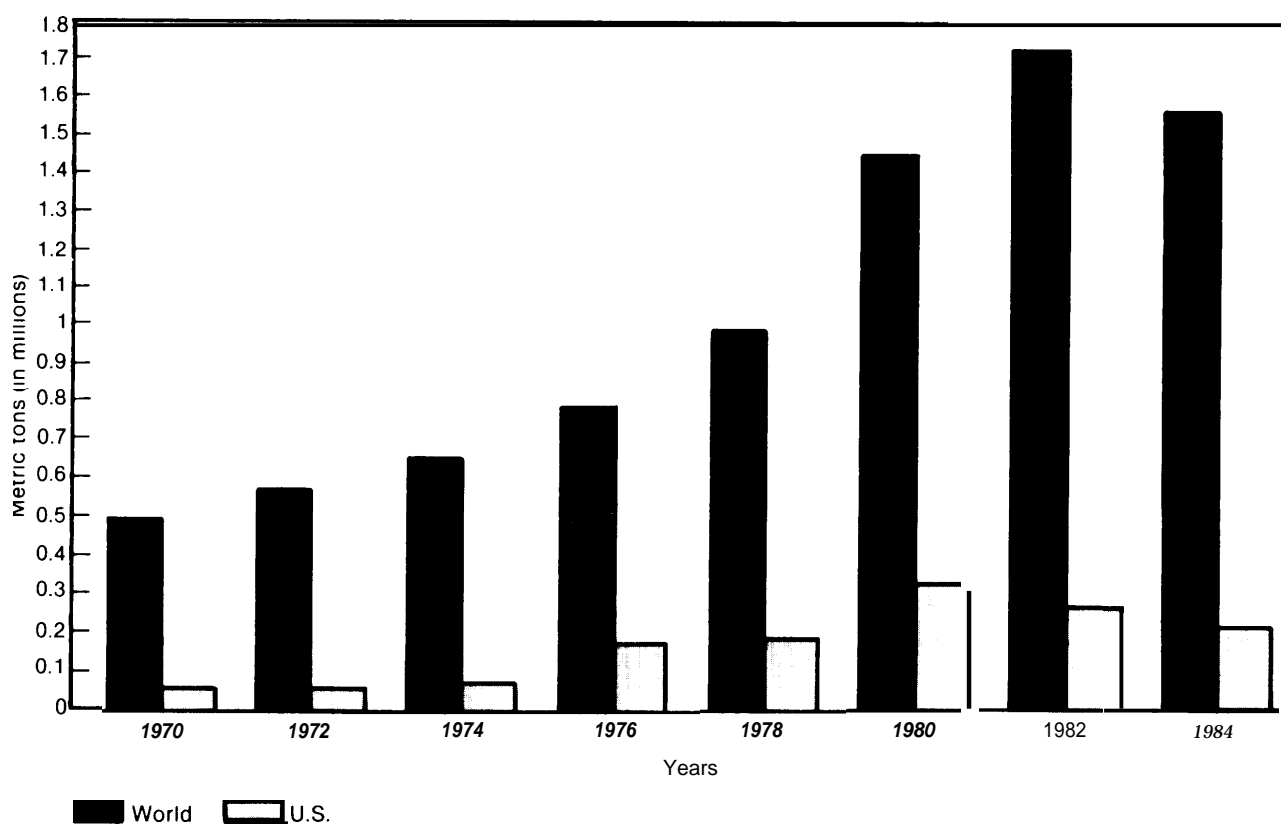
The U.S. poultry production process is highly efficient; technological competence in feed production and feed conversion make this industry, in the absence of foreign subsidies, competitive with that of France or Brazil. Still, exports represented only 3 percent of total U.S. poultry production in 1984, which was estimated at 7.5 million MT. Due to the volatile international poultry

market, no processing facilities have been built solely for export purposes.

In 1985, the United States exported 234,000 MT of poultry meat, valued at \$257.1 million. Cut chickens accounted for 71 percent of export value, followed by whole chickens at 10 percent, cut turkeys at 4 percent, and whole turkeys at 2.5 percent. The United States is the third largest poultry exporter, after France and Brazil. Current statistics may be misleading, however, because the U.S. market share is declining. Poultry exports by U.S. competitors increased at high rates during the late 1970s and early 1980s, while in recent years the entire world market has contracted. Future U.S. export success will depend on its ability to influence policies of other countries, or to develop more successful marketing strategies.

As can be seen in figure 5-16, U.S. poultry exports grew slowly in the early 1970s, but then increased rapidly-by 135 percent between 1974 and

Figure 5-16.—World and U.S. Poultry Meat Exports



SOURCE: FAO Trade Yearbook, Food and Agriculture Organization of the United Nations, Vols. 32-38, 1970-1984, Rome, Italy.

1976, and by 73 percent between 1978 and 1980. Between 1970 and 1981, total U.S. export volume increased by over 400 percent. However, export volume dropped considerably after 1981, from **395,500 MT** to **233,900 MT** in 1985. And even during the high-growth years of the 1970s, the U.S. world market share declined. This can be attributed to the rapid rise of Brazil and France to major world export status.

The huge poultry export gains made by this country in the late **1970s** resulted primarily from exports of whole broilers to the Middle East; particularly high volume sales to Egypt occurred in **1981**. Although a decrease in exports to the Middle East is projected for the latter part of the 1980s, almost one-half of current world poultry exports are directed to this region. Since 1981, however, the EEC and Brazil have penetrated the Middle Eastern market, virtually excluding American opportunities. As can be seen in figure 5-15, only 3 percent of U.S. poultry exports were sent to the Middle East in 1983.

The best prospects for future growth lie in exports of cut parts to the Far East, where large market size and fast growth exist in tandem. Between **1972** and **1983**, the Far Eastern share of the U.S. poultry export market jumped from 27 to almost 50 percent. Although growth is expected to continue, rates will slow, largely as a result of persistent export competition from Thailand, China, and Brazil.

The United States exports cheaper parts, including backs, tails, and necks, to developing countries. Caribbean countries represent the largest markets for U.S. chicken parts, while **24** percent of all **1983** poultry exports were destined for Latin America.

### Competitors

During the 1970s, Brazil grew from a poultry importer to the world's second leading exporter after France. The Brazilian drive toward the production and export of HVPS was one facet of an attempt to reduce its balance of payments problems; subsidies for shipping and production have allowed Brazil to become increasingly competitive in the Far East and Middle East. In **1973**, Brazil exported only **30 MT** of poultry meat; by 1982,

exports had jumped to **297,000 MT**, although this figure fell to **281,000** in 1985. Still, between 1979 and 1983, Brazil's exports grew at an average annual rate of 88 percent in value. The Brazilian industry was parented by the United States during the 1970s, through exports of both breeding stock and processing technology.

France and Brazil dominate the Middle Eastern market, having taken over the whole-broiler trade in Iraq, Egypt, and the Arabian Gulf. Principal competitors in Far Eastern markets include Denmark, China, and Thailand, with Brazil gaining strength. Thai poultry exports to the Far East are growing at a rate of 94 percent per year, and Brazilian sales of chicken legs to this region are already having an impact on U.S. sales.

### Issues

Foreign subsidization is the primary cause of the U.S. market losses during the late 1970s. Most of France's poultry subsidies under CAP have taken the form of capital investments, which amortize over a long period and cannot be easily retracted through policy initiatives. These investments have been enhanced by capital grants to governments in the Middle East for whole-broiler imports.

Many regions of the world have become self-sufficient in poultry production in recent years. High feed conversion ratios, relative to beef or pork, make poultry one of the most efficient sources of livestock protein. Generally speaking, poultry production is the first livestock-producing enterprise that a newly industrialized country will undertake; many former importers developed into exporters during the preceding decade.

In 1981, the National Broiler Council filed a Section **301** petition with the U.S. Trade Representative, who consequently filed a complaint with GATT under the subsidies code, alleging that subsidized EEC exports of whole broilers preempted the United States from participating in important markets. Subsequently, Brazil was charged by the petition as well. The United States maintained that poultry producers in the EEC and Brazil benefited from preferential credit terms, exemptions from income taxes, rural credit loans at reduced rates, and subsidized feed corn for poul-



try produced for export. Furthermore, the EEC and Brazil employed export subsidies to occupy a "more than equitable share" of the market. By 1983, Brazilian exporters were underbidding U.S. exporters in the Middle East, particularly in Egypt, by \$350 to \$400 per metric ton, although the United States contends that costs of production are comparable in the two countries. Today, the Section 301 trade petition is still pending.

Both the EEC and Brazil maintain that their policies are necessary to maintain domestic production through managing surpluses, and as a result do not fall under GATT's purview. USDA analysts do not expect a favorable resolution of the case, due to weaknesses in the GATT process regarding the gathering of sufficient litigation data.

The USA Poultry and Egg Export Council is currently matching funds with the USDA for market development, market maintenance, and trade servicing for poultry parts exports. Three out of the five overseas cooperator offices are located in the Far East, reflecting the importance of these markets.

## Wheat Flour

### Background

Wheat flour is unique in that it is a bag commodity and yet is not produced at port; as a result, the economic benefits of flour exports are particularly high. In 1961, the United States supplied 50 percent of the world's wheat flour exports. The U.S. market share has since fallen, due to subsidized EEC competition and to increased flour production capability in developing and newly industrialized countries. In 1984, the United States held only 15 percent of the world market share, with the EEC capturing nearly 60 percent. While the United States benefits from efficient wheat flour production, a significant proportion of current U.S. wheat flour exports are shipped as relief, under Titles I and 11 of Public Law 480.

Global wheat flour exports are not expected to increase, since most purchasers have the milling capacity to convert wheat to flour themselves. Still, world trade has remained steady over the past 20 years, as production capacity has generally kept pace with population growth.

### U.S. Trade

U.S. wheat flour exports have decreased in volume and in world market share over the past 15 years. The United States exported **727,000** MT of wheat flour in 1985, valued at \$155.1 million. This represented approximately 3.4 percent of the value of total U.S. exports of raw wheat. In 1970, the United States exported 1.2 million MT of wheat flour (see figure 5-17). Compared to the 1985 figure, exports have decreased by 39 percent over the last 15 years, an average annual decrease of over 2 percent. World trade in wheat flour, on the other hand, increased from 5 million MT in 1970 to 6.7 million MT in 1984, an increase of 26 percent (see figure 5-17). The United States lost over one-half of its world market share between **1970** and **1984**, holding 11 percent in **1984**, compared to 24 percent in 1970.

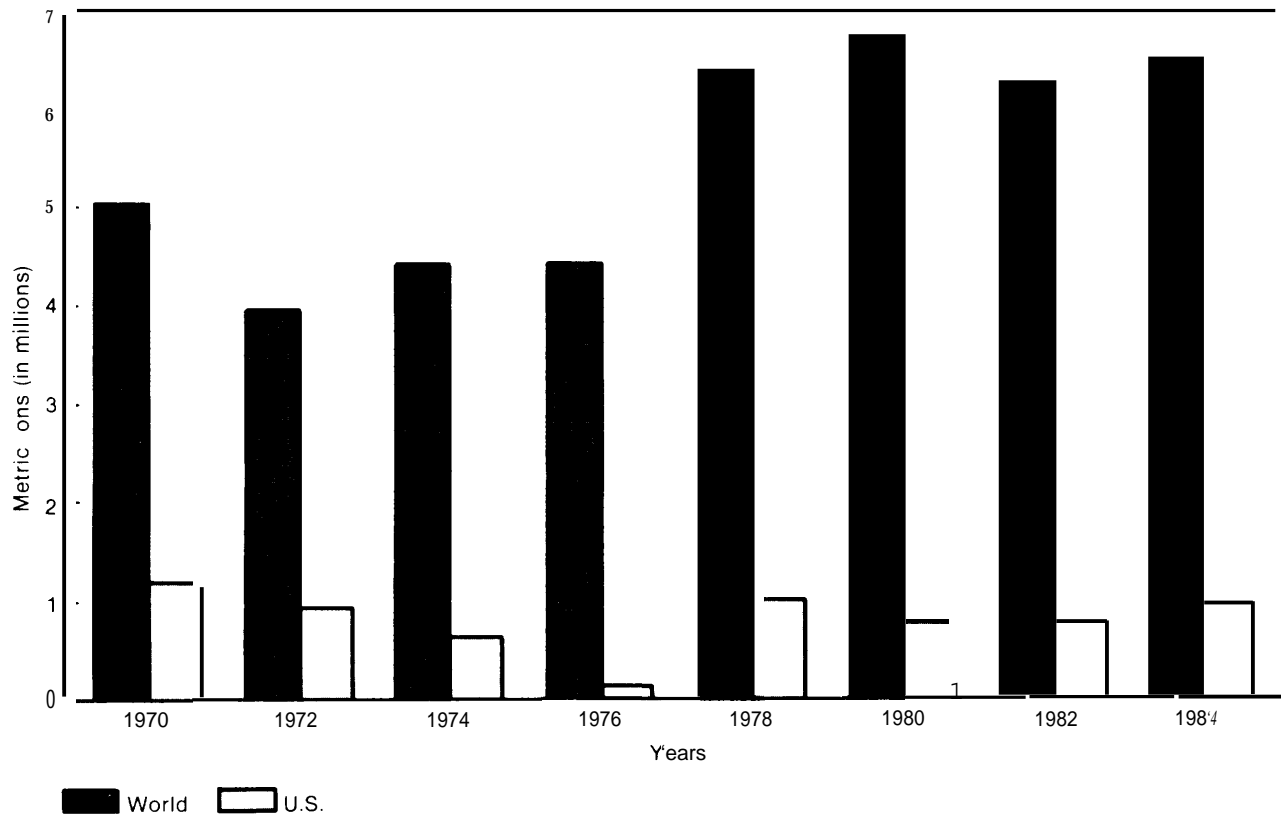
The largest growth markets for wheat flour are developing countries with growing populations that have not yet established milling capacity. The excess capacity available in the developed countries has worked to keep the return on milling small, and in some cases negative; as a result, many developing countries have chosen not to mill. In 1983, 88 percent of U.S. wheat flour exports were destined for Africa, primarily Egypt (see figure 5-18).

North Africa and India are expected to be the major growth markets for U.S. flour exports in the future. In addition, China promises to be a major wheat flour importer, with growing instant noodle and cookie industries in South China and no regional mills to serve them. Japan, however, has gained early entry into this market.

### Competitors

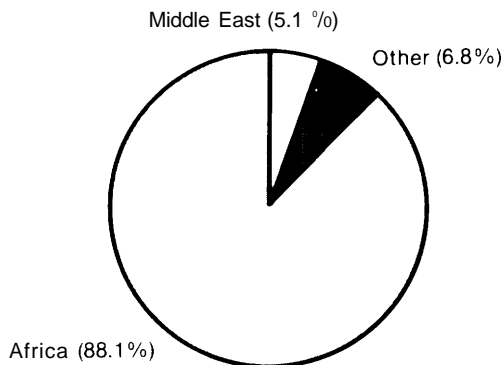
The United States, Canada, France, and Australia are the major exporters of wheat flour, followed by Argentina, West Germany, and the United Kingdom. Processing subsidies along with CAP have allowed the EEC to penetrate most of the world market, although the Egyptian market is a battleground for U.S. and EEC exporters; both countries have employed subsidies to gain shares in Egypt. Also, Japan, which holds only 3 percent of the global flour trade, subsidizes exports and is increasing shares in Far Eastern markets.

Figure 5-17.—World and U.S. Wheat Flour Exports



SOURCE: FAO *Trade Yearbook*, Food and Agriculture Organization of the United Nations, Vols. 32-38, 1970-1984, Rome, Italy

Figure 5-18.—U.S. Wheat Flour Exports by Destination, 1983



SOURCE "U S Exports Schedule E Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984

### Issues

Except for trade servicing, U.S. promotional efforts for wheat flour are limited. Blended credit incentives have been rendered inoperative by recent cargo preference rules, which add approximately \$60 per ton to agricultural products financed with government support; effectively, this leaves only Public Law 480 programs intact. Export subsidies-in-kind, or "export PIKs" were applied to flour exports to Egypt for 8 months in 1983, during which time U.S. producers were competitive with the EEC. The Export Enhancement Program (EEP), formalized in the 1985 Farm Bill, has continued this policy, although to a lesser degree; U.S. performance now matches that of

most other competitors in world markets, with the prominent exception of France.

## Horticultural Products

This section summarizes trade information on major horticultural products, including wine. U.S. exports of horticultural products reached approximately \$2.8 billion in 1983, representing a four-fold increase over sales levels of 1972; by 1985, however, horticultural product exports fell to **\$2.6 billion** (see table 5-2). Markets for most horticultural products reflect the diminishing dominance of the developed economies, and the growing importance of the oil-exporting and newly industrialized economies.

Fresh fruits represent the major U.S. horticultural export products, accounting for 28 percent of total horticultural export value in 1985. These were followed by tree nuts at 20 percent, fresh vegetables at 9 percent, fruit juice at 8 percent, dried fruits at 6 percent, and canned vegetables at 4 percent (see table s-3).

Foreign buyers rarely buy fresh horticultural products with the intent of further processing, due to the high premium involved in maintaining product integrity during transport. Horticultural products are considered to be "quality goods," and can only be imported by nations with compara-

tively high GNPs and sufficient discretionary incomes. However, as incomes and marketing infrastructure develop in some of the oil-exporting nations and in the newly industrialized countries of the Far East, these nations have become markets of high growth as well.

### Fresh Citrus Fruit

**Background.**—While oranges dominate U.S. fresh citrus fruit exports, the U.S. share of the world orange market has not grown in the past 15 years. The Far East is the largest and fastest growing regional market for U.S. fresh citrus (see figure 5-19); Japan alone received 67 percent of U.S. exports in 1983. Extensive citrus production by Mediterranean growers has reduced the Western European market for U.S. citrus fruit to the status of a low-volume, seasonal importer. Mediterranean production also blocks the United States from Middle Eastern markets.

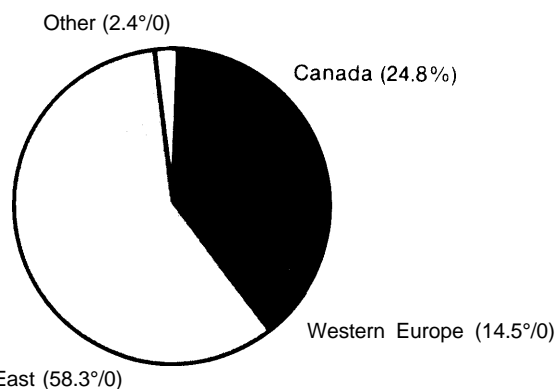
**U.S. Trade.**—The U.S. share of total world citrus exports has held steady over the past decade, at approximately 12 percent. In 1985, this country exported 768,000 MT of fresh citrus fruits, valued at \$426 million; in terms of value, citrus fruit exports represented 59 percent of total fresh fruit exports. Fresh oranges are the leading U.S. citrus export commodity, with 385,000 MT exported in 1985, valued at \$230 million. Fresh oranges ac-

**Table 5-3.—U.S. Horticultural Exports, 1985**  
(thousands of dollars)

|  |           |
|--|-----------|
| Total horticultural products. . . . .            | 2,606,668 |
| Total fruits and prepared, excluding juice . . . | 1,002,858 |
| Fresh fruits . . . . .                           | 725,191   |
| Fresh citrus . . . . .                           | 425,679   |
| Fresh noncitrus (including melon) . . . . .      | 299,512   |
| Dried fruits . . . . .                           | 164,146   |
| Other prepared fruit . . . . .                   | 113,521   |
| Fruit juice, including frozen . . . . .          | 199,590   |
| Nuts and prep . . . . .                          | 511,999   |
| Almonds, shelled . . . . .                       | 316,742   |
| Other nuts . . . . .                             | 195,257   |
| Vegetables and prep, total . . . . .             | 710,721   |
| Fresh vegetables . . . . .                       | 231,694   |
| Frozen vegetables . . . . .                      | 91,984    |
| Canned vegetables . . . . .                      | 99,054    |
| Other, including dried . . . . .                 | 287,989   |
| Alcoholic beverages . . . . .                    | 70,445    |
| Wine . . . . .                                   | 23,407    |
| Other . . . . .                                  | 111,055   |

SOURCE: U.S. Department of Agriculture, Foreign Agricultural Service, "U.S. Agricultural Exports, Oct 1980-Sept 1985," August 1988

**Figure 5-19.—U.S. Citrus Fruit Exports by Destination, 1983**



SOURCE: "U.S. Exports, Schedule E, Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984

counted for 54 percent of the U.S. citrus export volume trade. Lemons and limes accounted for 21 percent of U.S. export sales in 1985. Grapefruit is also an important export commodity, with \$87 million in 1985 exports, or 20 percent of the value of the U.S. citrus trade; however, grapefruit export share has dropped from its 1983 peak of 26 percent. It is important to note that citrus exports comprise only a small percentage of total domestic production.

In 1983, 58 percent of U.S. fresh citrus exports were destined for the Far East, compared to 44 percent in 1972 (see figure 5-19). Today, the Far East receives about two-thirds of U.S. citrus exports. Japan is the top market for U.S. fresh citrus products, receiving almost 40 percent of total U.S. fresh citrus exports. Canada is currently the second major country market, holding 25 percent of total U.S. exports in 1983. Trade to the EEC is hampered by the proximity of Mediterranean producers, and by preferential tariffs granted by the EEC to these suppliers. Spain, Italy, South Africa, and Morocco are the principal suppliers of fresh citrus to the EEC.

**Competitors.**—Spain, Morocco, Israel, and the United States are the world's principal orange suppliers, followed by South Africa, Cuba, Egypt, Italy, and Cyprus. The above countries supply approximately three-quarters of world orange and tangerine exports. The United States is the world's leading exporter of grapefruit, followed by Israel; these two countries supply over 80 percent of the world grapefruit trade. Other significant exporters include South Africa, Cuba, and Cyprus. The United States is the second largest lemon exporter, after Spain.

**Issues.** —Current U.S. promotional efforts for citrus fruit are concentrated in the Far East, where restrictive trade practices still prevail. Japan and Korea maintain quotas on fresh oranges, and high duties are applied to citrus fruit in Japan, Korea, and Taiwan. In fact, Japanese orange quotas have increased over time. Japanese imports primarily occur during the summer, which creates inventory problems for U.S. exporters—cold treatment and fumigation procedures are required for several categories of citrus fruit exports, which are controlled in the Far East through insect and disease quarantines.

## Fresh Noncitrus Fruit

**Background.**—U. S. noncitrus fruit exports comprise almost one-half of total fresh fruit exports; apples and table grapes are the major export commodities (see table 5-4). In 1985, the United States exported 408,000 MT of fresh noncitrus fruit, valued at \$319 million.

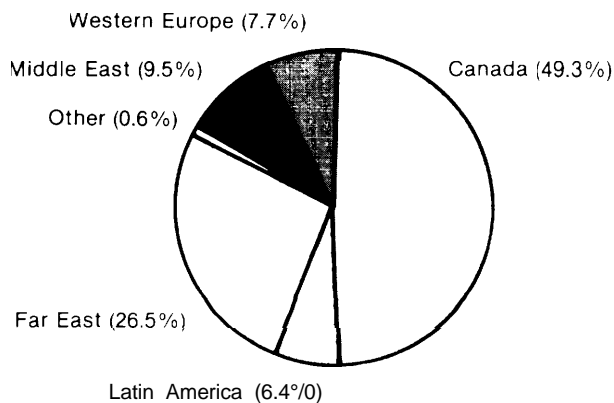
After Canada, the Far East is the major regional growth market for U.S. noncitrus horticultural products (see figure 5-20). Exports to the Far East have almost tripled between 1972 and 1981. Latin America, once a major market for U.S. apples, has fallen off as a result of import restrictions to reduce foreign debt problems. The remaining Latin American importers have turned to South-

**Table 5-4.—U.S. Fresh Noncitrus Fruit Exports, 1985 Value (in millions of dollars)**

|   |       |         |
|---|-------|---------|
| Industry  | total | \$319.0 |
| Apples  | ...   | 108.7   |
| Grapes  | ...   | 73.2    |
| Strawberries                                    | ...   | 18.5    |
| Prunes and plums                                | ...   | 17.1    |
| Pears   | ...   | 15.4    |
| Peaches   | ...   | 14.4    |
| Kiwi fruit                                      | ...   | 13.6    |
| Cherries  | ...   | 13.3    |
| Melons (not including watermelons, cantaloupes) | ...   | 10.3    |
| Avocados  | ...   | 8.9     |
| Other   | ...   | 25.6    |

SOURCE U S Department of Agriculture, Foreign Agricultural Service U S Agricultural Exports, Oct 1980 -Sept 1985, August 1986

**Figure 5-20.—U.S. Fresh Noncitrus Fruit Exports by Destination, 1983**



SOURCE "U S Exports Schedule E Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce FT-410 reports, 1984

ern Hemisphere exporters for inexpensive apples. U.S. apple exports to the EEC, while facing increased competition from the Southern Hemisphere as well, have held steady due to increased U.S. promotional programs.

**Competitors.**—The United States faces heavy competition in the Far Eastern fruit markets from Australia, New Zealand, Israel, Chile, and the EEC, in addition to Far Eastern producers which include Thailand, Taiwan, and China. Grape exports to Canada have faced increased competition from Chile.

**Issues.**—Import barriers constitute the major obstacles facing entry of U.S. fresh noncitrus horticultural products to the Far East. A high import duty structure constrains the expansion of the Taiwanese market for U.S. products, although duties have been reduced in recent years. Japan uses insect and disease quarantines to limit U.S. fruit imports, particularly of apples and pears. Cherries are permitted limited entry, subject to fumigation requirements. While Korea still imposes heavy restraints, this market is opening slowly. Hong Kong is one of the largest markets for U.S. apples and table grapes. Finally, future technological advances in China may stimulate increased exports, expanding competition in fresh fruit markets in the Far East.

#### Shelled Almonds

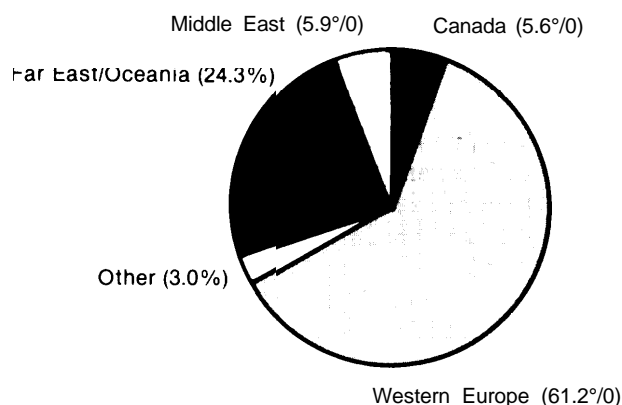
**Background.**—Shelled almonds are the top U.S. tree nut export, and are among the four highest unit value items described in this study. The United States is the world's top almond producer, followed by Spain; future export growth looks promising. The Far East, though a fast-growth region, holds only a small share of the U.S. export market. In contrast to developments in other U.S. horticultural product markets, the EEC has remained the most significant market for U.S. shelled almonds over the past decade. Spain's entry into the Community, however, may offset U.S. dominance in Europe, forcing the United States to look for new markets in the Far East, the Middle East, and the Caribbean. In terms of value, shelled almonds are the world's leading horticultural export commodity.

**U.S. Trade .**—Since entering the tree nut export trade in 1971, the United States has become the world's largest exporter, followed by Turkey, Brazil, Italy, and Spain; Brazil and the United States are the fastest growing suppliers. Between 1972 and 1981, U.S. tree nut exports increased annually on average by 20 percent in value and 13 percent in volume. After a brief decline between 1981 and 1983, new peaks were reached in 1985, when the United States exported 222,000 MT of tree nuts, valued at \$512 million. Exports of tree nuts have increased faster than any other horticultural export product. Shelled almonds enjoyed continuous export growth between 1970 and 1980, from 27,000 to 81,000 MT—an increase of 200 percent, or average annual volume increase of over 16 percent. Sales fell off to 56,000 MT in 1983, a decrease of 41 percent, but since then this commodity has rebounded to an all-time export high of **185,000 MT in 1985**.

The majority of U.S. tree nut exports are destined for developed economies, and Western Europe is the largest regional market (see figure 5-21). The leading country markets for U.S. shelled almond exports are West Germany, Japan, the United Kingdom, Canada, France, and The Netherlands.

**Competitors.**—Spain is the second largest exporter of shelled almonds, followed by Italy, Portugal, Morocco, and Turkey. Turkey and Spain

**Figure 5-21 .—U.S. Shelled Almond Exports by Destination, 1983**



SOURCE: "U.S. Exports: Schedule E. Commodity Groupings, Commodity by Country," Bureau of the Census, Department of Commerce, FT-410 reports, 1984.

are the principal competitors for U.S. almond markets in France and West Germany.

**Issues.**—The Western European market for U.S. tree nuts is expected to decline with the inclusion of Spain, the world's second largest almond producer, into the EEC. Assuming that Spanish almonds will be included in CAP, tariff protection may bring about increased almond acreage and more intensive, higher yielding production. The Spanish presence could also hurt U.S. almond exports to non-EEC Europe, the United States' third largest regional market; surpluses generated from expanded EEC production may enter these countries at reduced prices. In light of these possibilities, the United States has commenced serious efforts to maintain its European almond export market. A recently concluded U.S.-Italian trade agreement, for example, calls for relaxed import duties on almonds, pending approval from the governments of both countries.

The potential decline of the EEC market has directed U.S. promotional efforts to the Far East, and to other smaller growth markets in the Middle East and the Caribbean. U.S. attempts to develop a market for almonds in the Far East have been successful. The United States is the only supplier of almonds to Japan, and the outlook is good for markets in Hong Kong, Singapore, and Taiwan.

## Vegetables

While total U.S. fresh and processed vegetable exports approached 1985 fruit export levels in value, there are no single vegetable commodities which match the importance of the leading fruit and nut items. Total U.S. fresh and processed vegetable exports reached \$710 million in 1985, compared to \$1.1 billion for fruit; the two leading vegetable export commodities, canned corn and frozen french-fried potatoes, were valued at \$44.8 million and \$40.5 million, respectively (see table 5-5).

Certain vegetable commodities show export promise. For several reasons, however, U.S. vegetables and vegetable products have less potential than do other HVPS. Fresh vegetables, considered luxury foods, are shipped almost entirely to developed countries. These countries are gen-

**Table 5-5.—Leading Vegetable Exports, 1985 Value  
(in millions of dollars)**

|                              |        |
|------------------------------|--------|
| <b>Fresh vegetables:</b>     |        |
| Lettuce .....                | \$36.2 |
| Tomatoes .....               | 36.0   |
| Onions .....                 | 27.7   |
| Celery .....                 | 15.0   |
| Potatoes .....               | 13.7   |
| Broccoli .....               | 13.6   |
| Asparagus .....              | 13.5   |
| Carrots .....                | 10.9   |
| <b>Processed vegetables:</b> |        |
| Canned corn .....            | \$44.8 |
| French-fried potatoes .....  | 40.5   |
| Dehydrated onions .....      | 32.7   |
| Frozen corn .....            | 21.9   |
| Potato flakes .....          | 10.2   |

SOURCE U S Department of Agriculture, Foreign Agricultural Service "U S Agricultural Exports, Oct 1980 Sept 1985, August 1986

erally located in the Northern Hemisphere, where the climate is comparable to that of the United States. As a result, competition from local or nearby producers is intense, increasing the importance of marketing. In contrast, there are many fruits that cannot be produced in or near major markets.

The development of fast food industries, particularly in the Far East, has stimulated some growth in U.S. exports of processed vegetables. U.S. frozen french-fried potatoes show more promise for export growth than any other U.S. vegetable or vegetable product.

## Wine

U.S. exports of wine comprise less than 2 percent of total production. Nevertheless, U.S. wines have attained a foothold in the world market over the past decade. Assuming continued success for promotional programs, wine may become an increasingly important agricultural export commodity.

U.S. exports grew exponentially during the 1970s, but have slowed since 1981. Several factors contributed to this development. For example, the high value of the U.S. dollar was synchronous with the introduction of new, inexpensive wines from Italy and France. U.S. wines are not price competitive with these new labels.

Although several forces continue to impede U.S. wine exports, positive developments are oc-

curing as well. Large crushes in the United States have raised industry concerns about high import percentages, and have increased pressures to export. These concerns have translated into government policy directives; promotional programs have been instituted in high potential growth markets. The Wine Equity Act, which mandates a Presidential investigation of foreign tariffs, was recently incorporated into the Trade Bill and passed by Congress. EEC barriers to imports of U.S. wines were reduced through an agreement signed by the United States and the European Commission in July **1985**. The recent Provincial government of Quebec has also reduced barriers.

Canada accounts for one-half of U.S. wine exports. The United Kingdom is the second major market, with a 15 percent share that grew throughout the 1970s, but has since remained constant. The third major market, Japan, promises to be the most significant growth market for U.S. wines. Exports to Japan have grown steadily since 1974, with no slowdowns since 1981; 1983 exports totaled 1.5 million liters, or \$2.4 million. Singapore and Hong Kong are among the fastest growing countries for world wine imports.