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INTERNATIONAL TRADE

Market-Oriented Strategy  
Would Help Lead U.S.  
Agriculture Into the Future

Statement of Allan I. Mendelowitz, Managing Director  
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General Government Division



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INTERNATIONAL TRADE:  
MARKET-ORIENTED STRATEGY WOULD HELP  
LEAD U.S. AGRICULTURE INTO THE FUTURE

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR  
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The U.S. Department of Agriculture (USDA) and the U.S. agricultural sector face a changing environment for world agricultural trade. The changes feature reduced trade barriers, emerging new markets, and an increasingly competitive marketplace. To help U.S. agriculture compete into the next century, strategic marketing will be essential. Currently, however, USDA has a traditional, production-oriented approach rather than a market-oriented approach.

Strategic marketing would involve devising a long-term market development plan that identifies markets and growth potential and then sets out a strategy that would help U.S. agriculture satisfy consumer needs in those markets. It would seek to ensure that products are competitive, distributed efficiently, and promoted effectively. And it would continually innovate in order to adapt to changing markets and to stay ahead of the competition.

USDA does have a long-term agricultural trade strategy and country marketing plans. However, they do not represent an adequate long-term market development plan, in our opinion. An effective strategic plan would (1) have a strong analytical base, (2) include high-level USDA involvement, (3) be comprehensive in its scope, and (4) set meaningful priorities to guide agency programs and expenditures. USDA's current plans do not meet these criteria, based on our review. An effective strategic plan is especially important in light of USDA's budget pressures.

A strategic marketing approach would involve changes in the operations of the Foreign Agricultural Service (FAS), the export promotion arm of USDA, as well as other USDA agencies. These changes would encompass (1) a worldwide reporting system that focused more on identifying consumer demand and market potential, and that provided this information to the farm production and distribution systems; (2) staff at FAS with increased expertise in marketing; and (3) the placement of overseas posts based primarily on a long-term plan for expanding exports.

Even with a market-oriented export strategy, USDA will still need programs to allow it to combat remaining unfair foreign trade practices, such as nontariff trade barriers and trade-distorting agricultural subsidies. It may also still require programs to overcome market imperfections, such as the inability of some purchasers to access capital, in order to provide the maximum opportunity to export U.S. products.



Mr. Chairman and Members of the Subcommittee:

I am pleased to be here today to testify on a long-term trade strategy and export policies for the U.S. Department of Agriculture (USDA). My testimony will focus on how a shift from a traditional production-oriented approach to a market-oriented approach would help USDA adapt to the increasingly competitive world marketplace. We believe that in making this shift, USDA will find it essential to employ a strategic marketing approach that includes devising a long-term market development plan and changing its approach to information gathering, personnel policies, and resource allocation. Also, USDA will still find it important to emphasize programs to combat unfair foreign trade practices and overcome market imperfections.

Shifting to a market-oriented approach may, however, reduce the size of U.S. carryover stocks of staple grains. Previous oversupplies of these stocks had the side effect of helping to ensure world food security. Without them, the United States and other nations may need to devise a different way of addressing this problem.

MARKET-ORIENTED EXPORT APPROACH WOULD  
RESPOND TO NEW ENVIRONMENT

USDA and the U.S. agricultural sector face a changing environment for world agricultural trade. The new multilateral trade agreement of the General Agreement on Tariffs and Trade (GATT), if approved by Congress, will provide greater market access and thus wider opportunities for increasing U.S. exports. The world agricultural trade environment is changing in other ways as well. Markets are emerging in East Asia, Eastern Europe, and elsewhere that show potential for becoming major consumers of U.S. agricultural products. And high-value products, such as fresh fruit, processed foods, and consumer-ready products, are a growing share of world agricultural trade. At the same time, international agricultural trade has become highly competitive; U.S. agricultural exporters have been increasingly confronted by competitors who have government support for aggressive and sophisticated marketing practices.

In light of these circumstances, USDA programs should shift from a production-oriented approach to a more market-oriented approach. Since the Great Depression, U.S. agricultural policies and programs have primarily been directed at improving the efficiency of the production of agricultural commodities, and many USDA export activities have been aimed at seeking foreign markets for excess production. These programs helped to increase U.S. exports in the days when U.S. and world agricultural trade consisted heavily of trade in a few major bulk commodities, such as corn, wheat, and soybeans. But these programs have not been sufficiently responsive to current shifts in global trade from bulk commodities to profitable market opportunities in high-value products.

STRATEGIC MARKETING ESSENTIAL  
TO COMPETE EFFECTIVELY

In order to adapt to this new trading environment, strategic marketing is essential. A strategic marketing approach consists of a strong long-term market development plan that identifies markets and sets out strategies for increasing exports to those markets. Such an approach would help U.S. agriculture better compete in export markets. For many years, the U.S.' European competitors have employed these practices with great success, particularly in exporting high-value products.

Strategic marketing includes devising a long-term market development plan that identifies markets and growth potential. It provides the needed information to enable producers to satisfy consumer needs or preferences in those markets. It seeks to ensure that products are competitive and that distribution systems are in place to deliver the products efficiently. It also attempts to ensure that consumers are aware of these products through effective promotional activities. Finally, strategic marketing needs continual innovation, adapting to changes as they occur, and seeking to keep ahead of global competition.<sup>1</sup>

USDA NEEDS TO DEVELOP A STRONG  
LONG-TERM MARKET DEVELOPMENT PLAN

A useful strategic plan would need to meet several basic criteria. It would (1) have a strong analytical base for setting priorities, (2) be developed with high-level USDA involvement, (3) be comprehensive in its scope, and (4) set meaningful priorities to guide agency programs and expenditures.<sup>2</sup>

In January 1993, USDA submitted to Congress a long-term agricultural trade strategy (LATS) and prepared individual country plans that were intended to guide USDA in its efforts to expand U.S. agricultural exports. As we have reported,<sup>3</sup> LATS and the country plans do not provide the basis for a long-term market development effort. The key weakness is that LATS sets no priorities. It calls for the "fullest possible use of all export

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<sup>1</sup>See U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade (GAO/RCED-91-22, Jan. 22, 1991); and Dairy Industry: Potential for and Barriers to Market Development (GAO/RCED-94-19, Dec. 21, 1993).

<sup>2</sup>See Export Promotion Strategic Plan: Will it Be a Vehicle for Change? (GAO/T-GGD-93-43, July 26, 1993).

<sup>3</sup>See U.S. Department of Agriculture: Improvements Needed in Foreign Agricultural Service Management (GAO/T-GGD-94-56, Nov. 10, 1993).

assistance programs" without identifying which programs or activities are critical or most important. In our opinion, LATS needs additional work to become a useful management tool to guide program development and resource allocation.

Strategic planning is especially important in light of USDA's budget pressures. Over the past several years, the Foreign Agricultural Service (FAS), the agency that performs USDA's export promotion activities, has faced increasing program responsibilities without commensurate increases in budgets or staff. In view of these pressures, any market-based strategic plan must set priorities for its resources and focus them where they are likely to do the most good.

#### CHANGES IN INFORMATION SYSTEMS, STAFF CAPABILITIES, AND FOREIGN SERVICE POSTINGS NEEDED TO ADAPT TO A MARKET-ORIENTED STRATEGY

If USDA is to move toward a more market-oriented export strategy, changes will be needed in FAS' approach to information gathering, personnel policies, and resource allocation.

FAS maintains a worldwide reporting system that gathers information on agricultural commodities overseas. Despite some recent changes, the reporting system remains fundamentally oriented toward agricultural production. Information gathering under a strategic marketing approach would concentrate more on providing U.S. agricultural producers and distributors with data on consumer demand and market potential. For example, in a recent report<sup>4</sup> we found that many U.S. exporters to East Asian markets desired more practical and detailed data from USDA on such things as market trends, product lines, and the potential of a given product in a given market.

Most of the professional staff at FAS have backgrounds in agricultural economics; few have formal training in marketing. If USDA is to help U.S. agriculture succeed in a sophisticated and competitive world market, it will need staff with strong marketing skills. FAS' recruiting profile and training programs should ensure that it has staff with these necessary skills.

Using its FAS attaché service, USDA maintains an extensive presence throughout the world, with about 75 posts located in about 60 countries. However, FAS does not have an overall long-term strategic plan that guides the location and staffing of its posts. A strategic marketing approach would focus USDA's overseas resources on those countries that are likely to be the most beneficial in terms of increasing U.S. agricultural exports.

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<sup>4</sup>See High-Value Product Exports: Good Potential Exists for More Trade With Taiwan, Malaysia, and Indonesia (GAO/GGD-94-52, Nov. 19, 1993).

EXPORT PROMOTION PROGRAMS AND TRADE POLICY TOOLS AID IN  
COMBATING UNFAIR FOREIGN TRADE PRACTICES AND MARKET IMPERFECTIONS

While the just-completed Uruguay Round of GATT reached agreement to reduce trade-distorting agricultural subsidies and other trade barriers, tariffs and nontariff barriers remain. Even with a market-oriented export strategy, USDA would still find it valuable to have programs and tools that allow it to combat unfair foreign trade practices and trade-distorting subsidies. USDA programs to offset unfair foreign subsidies, and trade policy tools like Section 301 of the Trade Act of 1974 (19 U.S.C. 2411), as amended, which allows retaliation against unfair trading practices, should remain an important component of a U.S. agricultural trade strategy.

In addition, even in a world with reduced barriers, market imperfections will continue to exist. Certain developing countries may be weak credit risks or lack hard currency but still have long-term potential as future cash customers for U.S. agricultural products. To overcome these imperfections, and to provide maximum export opportunity for U.S. producers, USDA may have to continue to use tools such as export credit guarantees in certain markets.

ENSURING FOOD SECURITY

One side effect of the U.S. production-oriented policies of the past was that the United States invariably ended up holding large carryover stocks of staple grains. These inventories contributed to world food security by ensuring that in the event of drought or other natural disaster, stocks would exist that could cover a shortfall in production. If the shift to a market-oriented approach leads to a reduction in surplus U.S. production and related carryover inventories, the United States might not have sufficient inventories to continue to play this food security role. This could happen if either production of certain bulk commodities declined, if exports increased, or if a combination of the two possibilities occurred. Such a change might require the United States to determine, in conjunction with other food-exporting countries, the needed size of carryover stocks to ensure world food security and to decide how the cost of carrying these inventories should be borne.

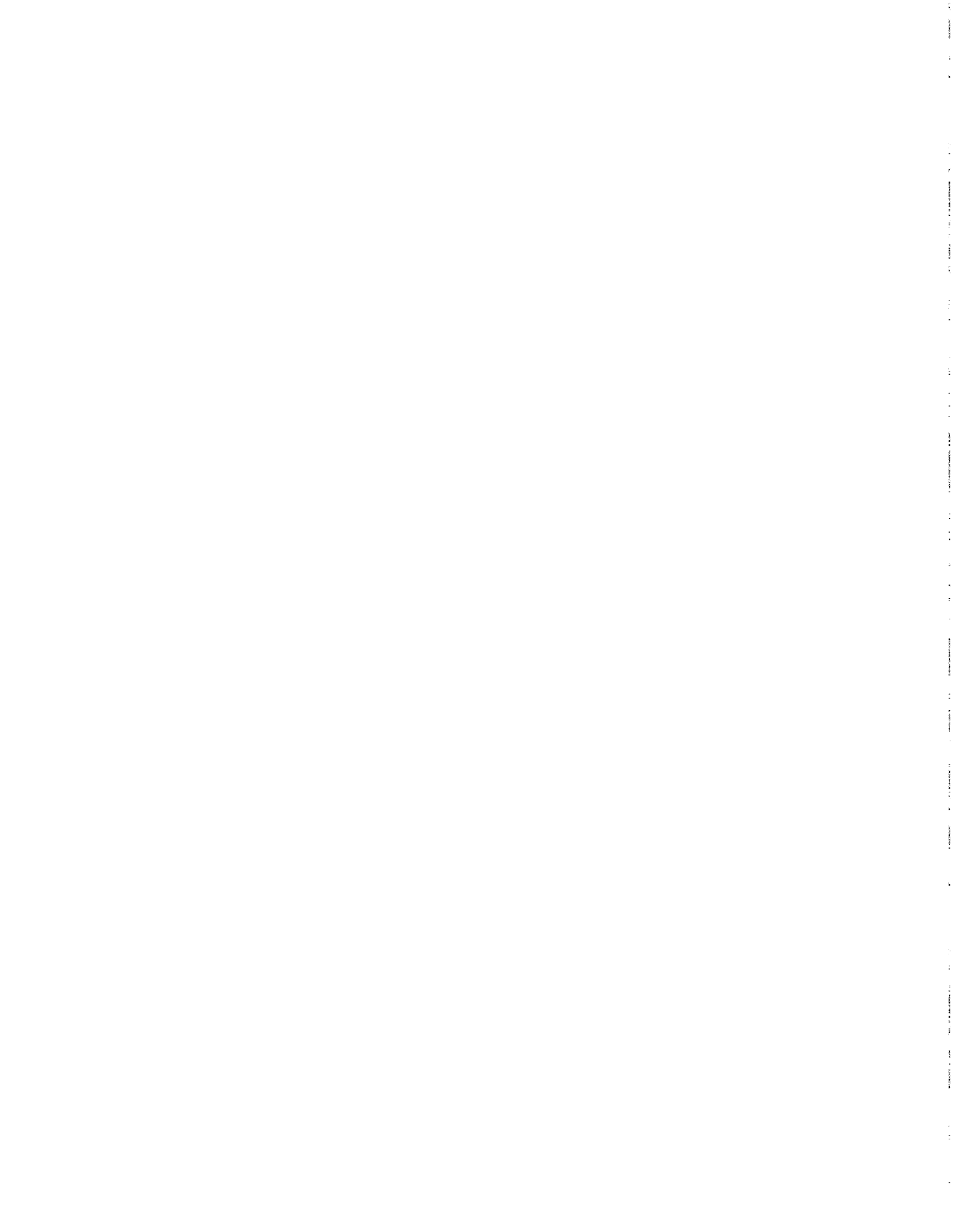


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In conclusion, we believe that a shift from programs and policies that emphasize production to an approach that emphasizes strategic marketing is the type of change needed to help U.S. agriculture increase exports in a dynamic world market and remain competitive into the next century.

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

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