United States General Accounting Office

GAO

Report to Congressional Requesters

February 2000

PORK INDUSTRY

Trade Barriers and Other Factors Limit Federal Programs' Potential to Increase Exports

G A O

Accountability * Integrity * Reliability

GAO/RCED-00-41

Contents

Abbreviations

AID	U.S. Agency for International Development
EMP	Emerging Markets Program
GSM	General Sales Manager
PRRS	Porcine Respiratory and Reproductive Syndrome
USDA	U.S. Department of Agriculture
USTR	U.S. Trade Representative
WTO	World Trade Organization

GAO
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

B-284236

February 1, 2000

The Honorable Blanche L. Lincoln
United States Senate

The Honorable Marion Berry
House of Representatives

The Honorable David Minge
House of Representatives

By the end of 1998, hog producers had increased production by over 700,000 metric tons over the prior year, resulting in a surplus of pork products. As a result, the prices they received for their hogs sold in the open market declined 36 percent, from an average of $54 per hundredweight in 1997 to an average of $35 per hundredweight.[1] At the same time, the overall value of pork products declined from about $13 billion in 1997 to $9 billion in 1998. In response, the U.S. Department of Agriculture (USDA) instituted several programs designed to provide assistance to pork producers, especially those with small operations. For the most part, these efforts have centered on some form of direct federal payment to producers.

[1]The reasons for the decrease in hog prices in 1998 are discussed in *Pork Industry: USDA's Reported Prices Have Not Reflected Actual Sales* (GAO/RCED-00-26, Dec. 14, 1999).

According to USDA, current federal export assistance programs are principally designed to increase exports over the long term or to respond to humanitarian needs; nonetheless, industry trade officials and others have suggested that these programs might have the potential to increase exports and thus improve producer prices and strengthen the agricultural trade balance. There are four types of federal export programs that could be used to help increase agricultural exports, including pork: (1) export credit guarantee programs, which offer loan guarantees to buyers in certain countries where credit markets are not fully developed; (2) humanitarian food aid programs, which ship U.S. agricultural products to countries where hunger is a major problem; (3) export subsidy programs, which are used to make U.S. agricultural products more competitive in world markets; and (4) export promotion programs, which are intended to develop, maintain, and improve access to foreign markets for U.S. agricultural products through activities such as agricultural trade shows.[2] Concerns have been raised that the U.S. cargo preference laws—which require that 75 percent of humanitarian food aid be shipped under U.S.-flagged carriers—may increase the cost of exporting pork through food aid programs, thereby limiting the volume of pork exports through these programs.

In this context, you asked us to review the (1) extent to which other countries' trade practices and the U.S. cargo preference laws are impediments to exporting more pork products;[3] (2) extent to which existing federal programs could be used to increase the export of pork products; and (3) potential for increased pork exports to strengthen the U.S. agricultural trade balance and improve producer prices.

Results in Brief

Other countries' trade practices are among several important factors that impede increased U.S. pork exports. Among the trade practices constraining U.S. pork exports are various types of import tariffs, which raise the price of imported products, and nontariff barriers, such as import quotas, which prevent or limit imports. Export subsidies paid by other

[2] See *U.S. Agricultural Exports: Strong Growth Likely but U.S. Export Assistance Programs' Contribution Uncertain* (GAO/NSIAD-97-260, Apr. 5, 1999) and *Commitments by the European Union and the United States to Reduce Agricultural Export Subsidies* (GAO/NSIAD-99-198R, June 18, 1999).

[3] For the purposes of this report, pork products include live hogs.

countries to their pork exporters also make U.S. pork less price-competitive in world markets. As a result of the Uruguay Round of negotiations on the General Agreement on Tariffs and Trade, completed in 1994, some reductions in these trade barriers and export subsidies have occurred, which helps to increase U.S. pork exports. The Office of the U.S. Trade Representative and USDA strongly supported these reductions in trade barriers and export subsidies and continue to work for further reductions during ongoing international trade negotiations within the World Trade Organization. The U.S. cargo preference laws, while affecting agricultural commodities used in food aid programs and representing a potential obstacle to trade, have generally not been an impediment to exporting pork because pork has seldom been used as food aid.

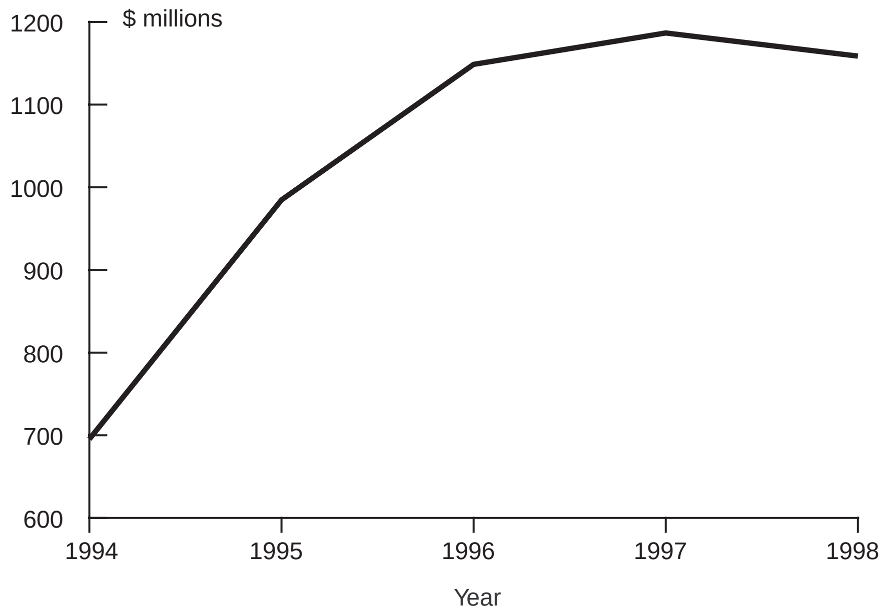
The four principal types of federal export programs offer limited potential for increasing pork exports. Specifically, the $3 billion in export credit guarantees that were not used in fiscal year 1999 could have been used, at least in part, for pork exports. However, a number of factors limit the use of credit guarantees, including the program’s administrative fees, which reduce pork exporters’ profit margins, according to officials in the meat-exporting industry. Similarly, humanitarian food aid programs could be used to export pork, but these programs’ potential usefulness for pork is limited by, among other things, insufficient infrastructure in receiving countries to safely handle and efficiently distribute meat products. Export subsidy programs offer even less potential for pork exports because of limits imposed by the Agreement on Agriculture, an international trade agreement administered by the World Trade Organization. The Agreement on Agriculture bases allowable export subsidies on 1986 through 1990 levels, thereby limiting the United States’ and other qualified countries’ current pork export subsidies. As a result, in the July to June 2000 year of the agreement, the United States is limited to subsidizing only 413 metric tons, less than 0.1 percent of total U.S. pork exports. According to USDA, pork exporters in the United States did not use any of this subsidy allowance. Finally, evidence is mixed regarding the impact of federal export promotion programs on U.S. pork exports. While these programs are currently used to promote U.S. pork products in other countries, it is difficult to estimate the effects of these programs on pork exports.

Even large increases in pork exports, while perhaps beneficial to the pork industry, would not have a major impact on the overall agricultural trade balance because the pork export trade surplus (the excess of exports over imports) averaged less than 1 percent of the value of the overall agricultural trade surplus from 1995 through 1998. For example, even if pork trade tripled—which is unlikely—the effect on the agricultural trade balance would be small. Furthermore, increases in pork exports may result in some reductions in exports for other agricultural commodities, such as poultry or beef. Such substitution could offset to some extent increases in the agricultural trade balance from pork exports. Finally, while increases in pork exports would increase the demand for U.S. pork, which could benefit the pork industry, research indicates that large, sudden 1-year increases in pork exports would be needed to significantly increase domestic pork prices.

Background

The United States is one of the world's leading pork-producing countries and the second largest exporter of pork products—only Denmark exports more. The value of pork exports has increased steadily in the last 5 years, from $696 million in 1994 to $1.15 billion in 1998.

Figure 1: The Value of U.S. Pork Exports, Calendar Years 1994-98



1998 dollars in millions

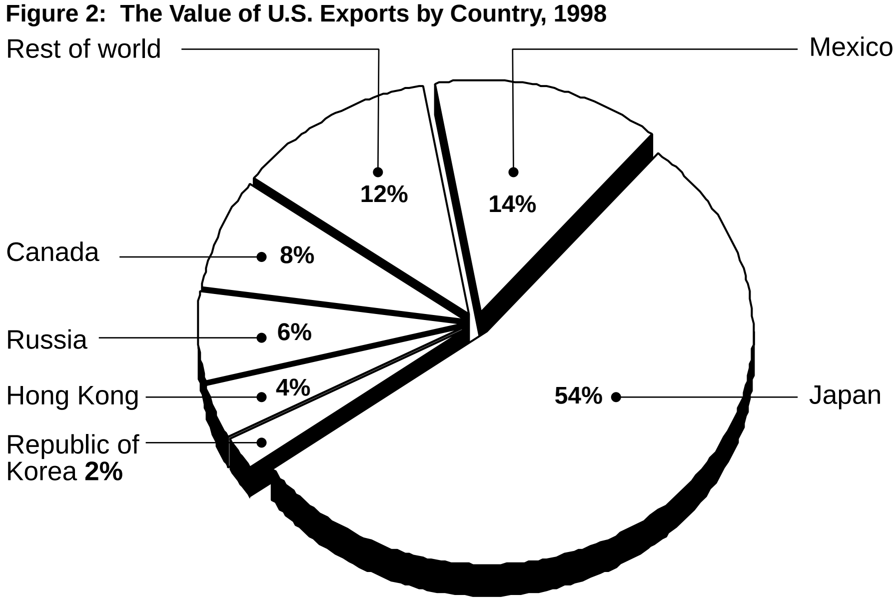
Source: GAO's analysis of USDA's data.

In 1998, U.S. pork production was 8.6 million tons. The quantity of pork and variety meat being exported each year increased from about 248,000 tons in

1994 to about 557,000 tons in 1998. Although the quantity of pork exports increased, as figure 1 indicates, the value of U.S. pork exports leveled off from 1996 to 1997 and declined slightly in 1998. USDA, pork industry, and other analysts have suggested that economic problems in Russia and Asia, as well as an overall decrease in pork prices in 1998, account for this decline in value. While Asian economies have recovered to some extent—Japanese and Korean imports of U.S. pork have begun to climb again—the Russian economy continues to falter. For example, in 1998, Russia imported about $74 million in U.S. pork; as of August 1999, this total had dropped to almost zero. In response to Russia's economic problems, the United States was to donate 50,000 metric tons of pork, valued at about $88 million, as part of a food aid package to Russia that was scheduled for delivery in the fourth quarter of 1999. According to USDA, pork shipments began arriving in Russia during November 1999. As of January 2000, the majority of the donated pork had arrived or was en-route.

Figure 2 shows the countries to which the United States exports pork. As shown in the figure, in terms of export value, more than half of U.S. exports go to Japan; these exports consist mainly of high-value cuts of meat such as pork loins.

Figure 2: The Value of U.S. Exports by Country, 1998



Source: GAO's analysis of USDA's data.

The United States also imports pork. The value of imports has increased from $857 million in 1994 to $981 million in 1998, an average annual increase of about 3 percent. Imports came primarily from Canada—live hogs and pork—and from Denmark—specialty pork.

The U.S. net pork trade balance is the difference between the value of U.S. pork exports and imports. In 1995, the value of pork exports exceeded the value of pork imports, and the United States became a net exporter of pork with a pork trade surplus. That same year, the quantity of exports exceeded imports for the first time since 1953. Since then, the value of net pork exports has increased at an average annual rate of 20 percent.

The Agreement on Agriculture sets out disciplines for international trade in pork and all other agricultural products. The World Trade Organization (WTO) administers member countries' compliance with the multiple WTO agreements that govern trade between WTO member countries, including the Agreement on Agriculture.[4] The WTO also provides a dispute settlement process to resolve trade disputes between member countries. The Agreement on Agriculture requires member countries to make specific reductions in three types of trade barriers: (1) market access restrictions, (2) export subsidies, and (3) domestic support programs. Developed members are committed to "phasing in" these reductions over a 6-year period, while developing members are committed to an 11-year phase-in period.

The Agreement on Agriculture commits WTO members to enter into negotiations by 2000. The U.S. goals for upcoming agricultural trade negotiations include cutting the tariffs facing U.S. agricultural exports, totally eliminating export subsidies, and decreasing trade-distorting agricultural programs.

[4]The WTO was formed during the Uruguay Round of the General Agreement on Tariffs and Trade–from 1986 through 1994. The WTO officially replaced the General Agreement on Tariffs and Trade, which was also a multilateral framework agreement to govern trade practices. The Agreement on Agriculture is a WTO agreement.

Other Countries' Trade Practices Are Impediments to Increasing Pork Exports

Other countries' trade practices are among several important factors impeding increases in U.S. pork exports.[5] These trade practices include various types of import tariffs (tariffs), which raise the price of imported products; nontariff barriers, which prevent or limit imports; and other trade countries' export subsidies, which make U.S. pork less price-competitive in world markets. The Agreement on Agriculture produced many reductions in these trade barriers and export subsidies, helping to increase U.S. pork exports. The Office of the U.S. Trade Representative and USDA strongly supported these reductions in trade barriers and export subsidies and continue to work for further reductions. For example, they plan to propose reducing trade barriers and eliminating export subsidies in future WTO negotiations. Unlike trade barriers and export subsidies, the U.S. cargo preference laws have generally not been an impediment to exporting pork, although they affect some agricultural commodities used as food aid and represent a potential obstacle to pork exports.

Trade Barriers and Export Subsidies Impede Additional U.S. Pork Exports

According to USDA officials and pork industry representatives, U.S. pork exports could increase significantly beyond the current level if other countries' trade barriers to market access, such as Japan's restrictions on pork imports, and export subsidies, such as the European Union's pork export subsidies, were reduced or removed. A market access barrier generally has the effect of protecting domestic producers from foreign competition by making foreign products more expensive for potential importers or restricting the quantity of the product imported. As a result, less of the protected product is imported than would be without the barrier. For example, according to USDA representatives, Japan's pork import rules can increase the price of imported pork substantially, making it less competitive with Japanese-produced pork. Although Japan is currently the leading importer of U.S. pork, according to industry analysts, it has the potential to import an even more significant amount. During future WTO negotiations, the United States plans to propose that import restrictions, such as Japan's, be reduced.

USDA officials noted, however, that the Uruguay Round helped to reduce many trade barriers, which, according to a pork industry analysis, resulted in an 80-percent increase in the value of U.S. pork exports from 1994

[5]Other important factors include exchange rates, income, cultural issues, and the prices of competing products in pork-importing countries.

through 1998. The types of barriers to market access that affect U.S. pork exports and related WTO requirements are described in table 1.

Table 1: Types of Barriers to Market Access Affecting U.S. Pork Exports and Related WTO Requirements

Barrier	Definition	WTO member requirements
Tariff	Tax on the imported product that increases its price so that the product costs the same as or more than a similar domestically produced product.	The Agreement on Agriculture requires tariff reductions from 1995 through 2000 for developed countries and from 1995 through 2005 for developing countries, using 1986 through1988 as a base period. For developed countries, the average reduction is to be 36%, with a minimum per product reduction of 15%; for developing countries, these requirements are 24% and 10%, respectively.
Nontariff barrier	According to USDA's definition, a border measure, regulation, or other government action other than a tariff used by a government to restrict imports from other countries. Examples include import quotas (that is, quantitative limits on imports), licensing restrictions, and restrictions based on nonscientific food safety and animal health standards.	The Agreement on Agriculture prohibits countries from using nontariff barriers and generally required the conversion of nontariff barriers to tariff equivalents by January 1, 1995. Furthermore, the Agreement prevents countries from using arbitrary and unjustifiable food safety and animal health standards to prevent trade in agricultural products. Sanitary and phytosanitary standards are to be based on scientifically based assessments of risk.
Tariff-rate quota	A two-level tariff that uses a quota to limit the amount of a product that can be imported at the lower tariff rate. Imports above this limit are assessed the higher tariff rate, which can make them prohibitively expensive.	The tariff-rate reductions required by the Uruguay Round—described above—also apply to both the lower and higher tariff rates used in tariff-rate quotas.

Unlike barriers to market access, which prevent exporters from competing in other countries, export subsidies make a country's products more price-competitive in world markets. Generally, an export subsidy is a government payment that confers a benefit on the production, manufacture, or distribution of an exported product. Government export subsidies include direct cash payments. The Uruguay Round committed countries to lowering the value and volume of their subsidies.[6] During the 1995-2000 implementation period, developed countries are to reduce their budgetary expenditures for export subsidies by at least 36 percent and their

[6]Article 16 of the General Agreement on Tariffs and Trade generally prohibits the use of export subsidies. However, this article has allowed export subsidies on agricultural products, provided such subsidies do not allow a country to acquire more than an equitable share of world export trade in the subsidized product.

volume of subsidized exports by at least 21 percent, using 1986 to 1990 as the base period. For developing countries, these reductions are to be 24 percent of the budgetary expenditures and 14 percent of the volume of subsidized exports during the 1995-2005 implementation period. According to USDA research and pork industry representatives, the European Union's use of export subsidies for pork has made U.S. pork less price-competitive in world markets and made the volume of U.S. pork exports lower than it would have been in the absence of these subsidies.

Appendix I describes in more detail trade practices affecting U. S. pork exports.

U.S. Cargo Preference Laws Have Had a Small Effect on Pork Exports

Cargo preference laws[7]—intended to promote a strong U.S. merchant marine industry—require that at least 75 percent of U.S. food aid, as measured by tonnage, be shipped on U.S.-flagged ships rather than on generally less expensive foreign-flagged vessels. Thus, to the extent additional funds are not appropriated to cover higher transportation costs, cargo preference requirements may adversely affect food aid programs.[8] Because the funds not spent on transportation may, in some instances, be used to purchase food, using U.S.-flagged ships may reduce the funds available to purchase commodities.

Despite their potential as an obstacle to trade, cargo preference laws have had little impact on pork exports because the United States has seldom used pork as food aid. However, in 1999, the United States donated 50,000 metric tons of pork to Russia as part of the 1998-99 Russian food aid package. Cargo preference requirements did not affect the amount of pork USDA purchased for this donation because, under an agreement with Russia, USDA was to purchase a fixed quantity—50,000 metric tons—of pork at the best possible price.

[7]Provisions of the Merchant Marine Act of 1936 (ch. 858, 49 Stat. 1985, June 29, 1936), as amended by the Cargo Preference Act of 1954 (ch. 936, 68 Stat. 832, Aug. 26, 1954) and the Food Security Act of 1985 (P.L. 99-198, Dec. 23, 1985).

[8]See *Maritime Industry: Cargo Preference Laws—Estimated Costs and Effects* (GAO/RCED-95-34, Nov. 30, 1994), which found that cargo preference laws increased the federal government's cost of transporting food aid provided through USDA and the U.S. Agency for International Development programs by an estimated $200 million per year for fiscal years 1989 through 1993.

Existing Federal Programs Have Limited Potential to Increase Pork Exports

Of the four principal types of federal export programs, export credit guarantee and food aid programs appear to have limited potential for increasing pork exports in the near future. Export subsidy programs have even less potential. However, evidence is mixed regarding the impact of federal export promotion programs on U.S. pork exports.

Export Credit Guarantee Programs Have Limited Potential for Increasing Pork Exports

Four export credit programs—GSM-102, GSM-103, Supplier Credit, and Facility Guarantee—offer loan guarantees to foreign buyers in countries where credit is necessary to maintain or increase U.S. agricultural sales, including sales of pork products, but where financing might not be available without USDA guarantees.[9] Generally, loan guarantee programs enable U.S. banks or exporters to extend credit to foreign banks or importers and have USDA guarantee repayment to the U.S. bank or exporter in the event of default by the foreign borrower. In fiscal year 1999, these programs offered guarantees for the sale of agricultural products and facilities to 97 countries, including nations such as Korea, Mexico, and Turkey. In fiscal year 1999, USDA's allocations to these programs totaled about $6 billion for loan guarantees and actual guaranteed exports were valued at about $3 billion. Roughly $164 million of this amount was used to guarantee loans for the purchase of meat, with about $32 million of the meat total used for pork. Although about $3 billion in credit guarantees were not used in fiscal year 1999, industry officials believe that the potential of these programs to increase pork exports over the short term is limited because, among other things, the programs' administrative fees are a disincentive to many pork exporters.

Table 2 shows the different terms under which these four programs operate and their potential for increased support for pork exports.

[9] The main differences between these programs are in the length of time borrowers have to repay the loan and in the agricultural products financed. For example, in GSM-102, which borrowers use primarily to finance consumables, loans are guaranteed for up to 3 years. In GSM-103, which is used mostly for livestock, borrowers have from 3 to 10 years to repay their loan.

Table 2: Comparison of Export Credit Guarantee Programs

	Export credit guarantee program			
	GSM-102	GSM-103	Supplier Credit	Facility Guarantee
Borrower	Foreign bank	Foreign bank	Importer	Foreign bank
Financial instrument	Letter of credit	Letter of credit	Promissory note	Letter of credit
Length of loan guarantee	Maximum of 3 years	3 to 10 years	Maximum of 180 days	1 to 10 years
Coverage of guarantee	98% of principal and a portion of interest	98% of principal and a portion of interest	Prior to Nov. 1999, 50% of principal and no interest. Since then, 65% of principal and no interest.	95% of principal and a portion of interest
Administrative fee charged to exporter	Varies. Based on dollar amount guaranteed and length of credit period.	Varies. Based on dollar amount guaranteed and length of credit period.	Prior to Nov. 1999, $0.45 to $0.90 per hundred dollars of coverage. Since then, $0.40 per hundred dollars of coverage.	$200 application fee and a variable fee based on USDA's assessment of transaction's risk
Credit guarantees available (fy 1999)	$5.1 billion	$377 million	$361 million	$190 million
Credit guarantees used (fy 1999)	$3.0 billion	$44 million	$46 million	0
Potential to increase pork exports	Small	Almost none	Small	Small

Source: GAO's analysis of USDA's data.

As the table shows, each of these programs had credit guarantees available at the end of fiscal year 1999. According to USDA officials, in theory, these unused credit guarantees could have been used to help increase pork exports. However, these officials said that several constraints limit the use of credit guarantees to increase pork exports over the short term. These constraints include the following:

- **Credit guarantees work only in limited circumstances**. According to USDA officials, GSM programs are designed to assist "mid-tier" countries, such as Bolivia, Egypt, and South Korea, where a demand exists but the credit to finance commodity purchases may not be readily available. These officials emphasized that USDA evaluates the ability of each country to service USDA-guaranteed debt prior to making loan guarantees. Critical factors in this evaluation include the risk of default on the debt by the importing country's banks or importers as well as changes in the exchange rates. Thus, using credit guarantees to increase pork exports makes sense only if the importing country has a (1) shortage of available credit and therefore needs USDA's guarantee, (2) reasonably strong credit history, and (3) demand for pork products. According to GSM program managers, only a handful of countries meet these criteria, and only the Republic of South Korea has used GSM-102 to finance pork imports. Overwhelmingly, foreign countries that have used credit guarantees have used them to support grain purchases, in large part because their demand for grain is much greater than their demand for pork.

- **Programs' administrative fees hinder U.S. pork exporters' participation**. Pork exporters, who contend that they operate with narrow profit margins, have noted that the GSM programs' administrative fees further limit their profits. Thus, they prefer to market their products in countries that do not need credit guarantees.
- **Foreign banks' participation is limited**. According to GSM program officials, foreign banks' limited participation in credit guarantee programs represents a large hurdle in using these programs to increase pork exports. Participation in some countries is limited because of a number of factors, including: (1) the lack of approved (creditworthy) foreign banks, (2) a sometimes greater cost to foreign banks of GSM-guaranteed financing than the cost of unguaranteed lines of credit for trade, and/or (3) the inability of importers to establish lines of credit with foreign banks. In other cases, according to USDA, even when foreign banks are approved for participation in GSM programs, importers do not use the programs because the banks do not pass on enough of the programs' benefits to make the GSM programs advantageous.

Relative to the size of the loan guarantee programs, none of these programs has been used to any great extent for pork products. For example, GSM-102 has been used mainly to guarantee the purchase of bulk grains. In fiscal year 1999, only 5 percent of all GSM-102 guarantees ($152 million of $3 billion) was used for meat purchases. Of the amount used for meat purchases, about $32 million, 1 percent of all GSM-102 guarantees, was used for pork products. According to program managers, GSM-103 is not designed to assist in the sale of perishable commodities because it does not make sense to finance such items for up to 10 years. As a result, GSM-103 is not used for perishable food products, such as meat, and is not a viable option for increasing pork exports.

Similarly, according to USDA officials, the Supplier Credit Guarantee Program has not been used for pork products. However, it offers limited potential for increasing pork exports. Over the past 3 years the use of this program has increased. In fiscal year 1997, $3.74 million in credit guarantees was made available to exports in the program; $18.2 million was made available in fiscal year 1998; and $46.0 million was made available in fiscal year 1999.

In fiscal year 1999, U.S. exporters used the program for about $12 million in meat exports, but none of this total was for pork. However, the fact that exporters of other meat products have had limited success in the program suggests that pork exporters might also have limited success. Several factors constrain this program's ability to achieve even this limited potential to increase meat exports. For example, according to a USDA official, supplier credit fees are nearly triple the fees in the GSM-102 program.[10] In addition, according to USDA, some exporters are not aware of the program, and many that are aware believe that the rules for participation are too complicated.

Finally, no sales were guaranteed through the Facility Guarantee Program in fiscal year 1999. This program provides payment guarantees intended to help finance the construction or improvement of agriculture-related infrastructure facilities in emerging markets. The intent of the program is to enhance sales of U.S. agricultural commodities and products to emerging markets where the demand for such commodities and products may be limited by inadequate storage, processing, or handling capabilities. According to USDA officials, this program may offer potential to improve infrastructure in some emerging markets, but it has not been used for meat products.

Food Aid Programs Have Little Potential for Increasing Pork Exports

Generally, food assistance programs provide little potential to increase pork exports. Three food assistance programs—P.L. 480,[11] section 416(b) of the Agricultural Act of 1949, and Food for Progress—provide U.S. agricultural commodities to countries needing food assistance through long-term credit arrangements with favorable terms or through food donations for humanitarian assistance or market development. Typically,

[10]Prior to Nov. 1999, the exporter's fee for the first 90 days of financing was $.45 per $100 guaranteed, and $.90 per $100 for days 91 through 180. In Nov. 1999, USDA reduced the fee to $.40 per $100 guaranteed.

[11]The Agricultural Trade Development and Assistance Act of 1954 (P.L. 83-480, July 10, 1954), commonly known as P.L. 480.

these programs have provided grain and other bulk commodities, rather than meat. In fiscal year 1998, these programs together provided a total of $1.21 billion in assistance—none of it for meat. However, in fiscal year 1999, the Russian food aid effort, funded by Food for Progress, donated 50,000 metric tons of pork, valued at $88 million.

According to program managers at USDA and the U.S. Agency for International Development (AID), as well as representatives of private voluntary organizations, these programs offer little potential to increase pork exports; in addition, there are significant constraints that could ultimately outweigh the potential. For example:

- **Cost-efficiency/nutrition issues**. According to officials at USDA, AID, and private voluntary organizations, it is more cost-effective to use grain as a food source than meat. The executive director of one private voluntary organization stated that his organization attempts to provide the highest nutritional value and the most calories for the lowest possible cost. According to this official, grain better maximizes his resources because, for a given number of dollars, many more people can be fed with grain than with meat. For example, P.L. 480 program managers estimated that commodities such as beans, corn, and wheat cost hundreds of dollars per ton, while the cost of meat could easily be thousands of dollars per ton.
- **Religious prohibitions**. In some countries, particularly Islamic nations, pork is generally not consumed because of religious prohibitions. Obviously, pork is not likely to be heavily imported into these countries as food aid. Of the 67 countries receiving U.S. food assistance in fiscal year 1998, about one-third were predominantly Islamic.
- **Infrastructure limits**. Fresh or frozen pork exports require refrigeration throughout the distribution chain. In many countries, refrigerated warehouses, trucks, and local distribution centers are not available. According to officials in two private voluntary organizations, although many of the poorer countries that their organizations service lack adequate refrigeration facilities for fresh or frozen pork, canned pork would overcome this shortcoming. These officials said that there is limited potential to use canned pork in feeding programs; more likely, they noted, canned pork could be sold on the open market and the proceeds used to help pay for feeding programs.

Appendix II describes in more detail the purposes and means of delivering food assistance programs.

Export Subsidy Program's Potential for Increasing Pork Exports Is Limited

The Export Enhancement Program is designed to help expand U.S. agricultural exports and to challenge other nations' subsidies for agricultural exports. Under this program, USDA determines which U.S. commodities at a competitive disadvantage when other countries use subsidies or pay bonuses to exporters of these same commodities. These bonuses allow the exporters to sell agricultural products at prices below the prices they paid to acquire the commodities. In fiscal year 1999, the program had a maximum funding level of $550 million, but none was used for pork products.

Even if the subsidies had been used for pork, they would have had little effect on pork exports because of the terms established in the Agreement on Agriculture. The Agreement established subsidy ceilings for its member nations using 1986 through 1990 as the base period, a time when the United States rarely subsidized pork exports while the European Union heavily subsidized its pork exports. Thus, between July 1, 1999, and June 30, 2000, because of these subsidy ceilings, the United States is limited to 413 metric tons of subsidized pork exports. In contrast, for the same period, the European Union is authorized to subsidize over 900,000 metric tons of pork. Pork industry officials and other analysts agree that as long as such a great disparity in authorized subsidy levels exists, it effectively precludes the U.S. subsidy program from having a strong role in increasing pork exports.

Export Promotion Programs' Potential for Increasing Pork Exports Is Unclear

Three export promotion programs—the Foreign Market Development Program, the Market Access Program, and the Emerging Markets Program—attempt to develop, maintain, and expand foreign markets for U.S. agricultural products by funding advertising and other market promotions. However, according to USDA and pork industry officials, only a small portion of these programs' funding levels—$550,000 of $33.6 million, of the Foreign Market Development Program; $2.7 million, of $90 million, in the Market Access Program; and none of $10 million in the Emerging Markets Program—were used to promote pork exports in fiscal year 1999. USDA and industry officials believe strongly that these three programs help develop and maintain export markets, thereby increasing agricultural and pork exports. However, existing research is unable to demonstrate the programs' specific impact. For example, the Market Access Program requires producers, exporters, and others to fund some of the program's activities. Thus, the program's direct influence on increasing exports is difficult to isolate.[12]

The Foreign Market Development Cooperator Program—also known as the Cooperator program—attempts to promote trade by fostering long-term partnerships between USDA and U.S. agricultural producers and processors through their nonprofit associations. USDA and these "cooperators" pool their technical and financial resources to conduct market development activities outside the United States. Generally, these activities fall into one of three categories: (1) market research, (2) trade servicing—activities such as advertising or trade conferences—to develop or improve relationships with foreign importers, distributors, and government officials; and (3) technical assistance—activities such as food processing or storage—to expand the foreign country's capability for using U.S. commodities. In established markets, such as in Western Europe and Japan, the Cooperator program often emphasizes the quality of U.S. products. In newer markets, greater emphasis may be placed on market research, educational activities aimed at potential importers, and meetings with government and trade officials to improve market access. However, according to USDA officials, the Cooperator program's main mission is to assist in exporting bulk commodities.

[12]GAO found USDA's claims of the Market Access Program's economic impact are generally overstated and studies of the impact on specific products revealed mixed results. *See Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact* (GAO/NSIAD-99-38, Apr. 5, 1999) *and International Trade: Effectiveness of Market Promotion Program Remains Unclear* (GAO/GGD-93-103, June 4, 1993).

In the Market Access Program, which emphasizes value-added products, USDA helps U.S. agricultural producers, exporters, private companies, and other trade organizations finance promotional activities for U.S. agricultural products. Typical activities include market research, technical assistance, consumer promotions, and trade servicing. These activities are designed to achieve long-term access in foreign markets. Participants in the Market Access Program promote a variety of U.S. agricultural commodities, including apples, cherries, dairy products, eggs, feed grains, meat, poultry, and soybeans. In fiscal year 1999, the U.S. Meat Export Federation received $8.3 million through the Market Access Program, of which about $2.7 million was used for pork promotions. Because the Market Access Program requires producers, exporters, and others to fund similar types of promotion activities, it is difficult to isolate the program's direct influence.

The Emerging Markets Program provides technical assistance in worldwide "emerging markets" as a way to promote U.S. agricultural products over the long term. According to the Food, Agriculture, Improvement and Reform Act of 1996, an emerging market is any country that is taking steps toward becoming a market-oriented economy and has the potential to provide a viable and significant market for U.S. commodities or the products of U.S. commodities. The overall goals of the program are to develop, maintain, or expand markets for U.S. agricultural exports; to improve the effectiveness of food and agribusiness systems in these countries, which includes reducing trade barriers; and to increase prospects for U.S. trade and investment in these markets. According to a program manager, this program awards grants on a competitive, project-by-project basis to conduct activities such as market research and feasibility studies and food safety workshops. Furthermore, the U.S. Meat Federation received several grants through the Emerging Markets Program in fiscal year 1999 to provide assistance to exports, but did not receive any applications specifically for pork export assistance. As with the other export promotion programs, it is difficult to isolate this program's specific impact. Additionally, according to a senior USDA official, the program is limited in its usefulness for increasing pork exports because it (1) has a small budget—$10 million—so individual awards are small; and (2) is limited to emerging markets that have a high demand for pork, of which there are currently few outside China.

Increased Pork Trade Would Not Have a Large Impact on the U.S. Agricultural Trade Balance or Lead to Significantly Higher Producer Prices

Even large increases in pork exports, while perhaps beneficial to the pork industry, would not have a major impact on the overall agricultural trade balance and would not lead to significantly higher producer prices. From 1995 through 1998, the U.S. agricultural trade balance had an average surplus of $23 billion (the excess of exports over imports). The average pork trade surplus–$119 million—accounted for less than 1 percent of this total. Therefore, for example, if the pork trade surplus increased substantially—even a hypothetical tripling—which is unlikely, the effect on the overall agricultural trade balance would be small.[13] From 1985 through 1998–the average annual rate of increase in the pork trade surplus was 20 percent. Other factors and variables outside the agricultural sector, such as U.S. and foreign policies affecting inflation, interest rates, exchange rates, and economic growth are more likely to have important effects.

Furthermore, increases in pork exports may come at the expense of other agricultural commodities. For example, pork exports could be substituted to some extent for exports of other meat products, such as beef and poultry. In addition, increased pork exports could negatively impact grain exports, if importing nations chose to import U.S. pork instead of producing their own hogs with imported U.S. grain. Such substitution could partially offset the effect of increases in pork exports on the overall U.S. agricultural trade balance.

[13]This assumes that net trade in pork triples while trade in other agricultural products remains constant at 1985 through 1998 average levels.

Finally, likely increases in the pork trade surplus would not result in significantly higher producer prices for two reasons: (1) pork trade accounts for only a small portion of the total demand for U.S. pork–averaging about 1 percent of sales from 1995 through 1998 and (2) increases in pork prices in the United States resulting from greater export demand could be dampened by potential increases in pork imports. Therefore, according to research, large increases in pork exports would be needed in order to have a significant impact on domestic prices for hogs.[14] For example, according to a study by the Food and Agricultural Policy Research Institute, a 75-percent increase in the quantity of pork exports in the short term would be needed to raise hog prices by 10 percent.[15] Given the recent history of pork exports, this type of short-term increase is not likely. In addition, according to USDA officials, this price increase could be offset by a decline in the quantity of pork demanded domestically and increased imports of hogs and pork products. Nonetheless, in the short term, increased exports would be beneficial to the U.S. pork industry to the extent that they increased demand for U.S. pork.

Agency Comments

We provided a draft copy of this report to the U.S. Agency for International Development, USDA, and the Office of the U.S. Trade Representative for their review and comment. We met with officials from the U.S. Agency for International Development, including the Chief of Program Operations, and from the Office of the U.S. Trade Representative, including the Director of Agricultural Affairs and Technical Barriers to Trade. These officials generally agreed with the draft report and provided technical comments, which we incorporated as appropriate.

USDA agreed that credit guarantee and market development programs offer limited potential to alleviate the price impacts of short-term domestic surpluses through increased exports. However, the Department expressed major concerns over what it considered to be limitations in the scope of our analysis—focusing on 4 to 5 years of program and industry data instead

[14]Several other studies we reviewed attempted to measure the effect of pork exports on producer prices. In reviewing the econometric models on which these studies were based, however, we found among other things, that the variable measuring the effect of pork exports on hog prices was not statistically significant and therefore did not include them in our analysis.

[15]This assumes that import and domestic demand are held constant so all change is due to changes in exports.

of 10 to 15 years of data. In particular, USDA stated that the report failed to give appropriate credit for the positive role its market development programs have had in increasing pork exports over the long term. Furthermore, USDA noted that this longer view would show that increases in pork exports (1) have had a major impact on the overall agricultural trade balance and (2) resulted in significantly higher producer prices.

We continue to believe that the scope of our analysis was appropriate. We were requested to examine the extent to which federal programs offer potential for enhancing pork exports and to identify barriers to fully using these programs. Consequently, we focused on the current industry and trade environments, which are substantially different than they were 10 to 15 years ago. However, on the basis of USDA's concerns, we revised the report to better highlight the fact that (1) USDA's programs are designed for achieving long-term market improvements and (2) we did not evaluate the long-term effectiveness of USDA's export assistance programs.

Appendix III presents USDA's comments on the report and our detailed response.

Scope and Methodology

To evaluate the extent to which other countries' trade policies and extenuating U.S. federal laws, such as the cargo preference laws, are impediments to exporting more pork products, we interviewed officials from the Office of the U.S. Trade Representative and USDA. We also discussed the issue with U.S. pork industry officials, meat exporters, farm groups, and academic experts. We also reviewed various studies and analyses regarding pork exports and the factors that could assist or hinder such exports.

To evaluate the extent to which existing federal programs could be used to increase pork exports, we interviewed USDA officials, including the program managers for the Department's export assistance and food assistance programs, as well as other officials responsible for the day-to-day implementation of these programs. We also reviewed departmental documentation of these programs, such as program descriptions, evaluations, budgets, and legislative authority. We also contacted AID officials to discuss the potential of food assistance programs to help increase pork exports. We also discussed the efficacy of federal export assistance programs with representatives of the U.S. pork industry, pork producers, meat exporters, an official of the Japanese Embassy's agricultural economics division, and the Russian Embassy's chief agricultural counsel. While recognizing that federal export assistance programs are principally designed to increase exports over the long term, we nevertheless, consistent with our requesters' concerns, evaluated the extent to which these programs could be used to help alleviate short-term problems such as those occurring during late 1998. We did not attempt to evaluate the historical effectiveness of USDA's export assistance programs, nor did we address the general long-term potential of federal export assistance programs to increase exports.

To evaluate the potential for increased pork exports to further strengthen the U.S. agricultural trade balance and to improve producer prices, we obtained data from USDA on pork and hog imports and exports, and the overall agricultural trade balance. We interviewed USDA officials, Food and Agriculture Policy Research Institute officials, and representatives of pork producers for information on studies conducted examining the impact of pork trade on pork prices. We also interviewed pork industry experts at Iowa State University and the University of Missouri regarding the market for pork. We adjusted trade data in this report to 1998 dollars to more accurately compare prices and costs over time. Unless otherwise indicated, trade data are for the calendar year.

We conducted our review from June 1999 through January 2000 in accordance with generally accepted government auditing standards.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies to congressional committees with jurisdiction over agricultural trade issues; the Honorable Dan Glickman, Secretary of Agriculture; Ambassador Charlene Barshevsky, the U.S. Trade Representative; the Honorable J. Brian Atwood, Administrator, U.S. Agency for International Development; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested parties. We will also make copies available upon request.

If you or your staff have any questions about this report, please contact me at (202) 512-5138. Key contributors to this report were Robert C. Summers, Carol Bray, Gary Brown, and Eugene Wisnoski.

Robert E. Robertson

Associate Director, Food and Agriculture Issues

Illustrations of Other Countries' Trade Practices That Are Impediments to Increasing U.S. Pork Exports

Examples of country-specific trade barriers that are impediments to U.S. pork exports include the following:

- **China's tariff**. China imposes a 20-percent tariff on imported pork products, raising the prices of these imports and generally making them noncompetitive with its domestically produced pork, according to the U.S. Meat Export Federation. However, the United States and China have negotiated an agreement—contingent on China's joining the World Trade Organization (WTO)—whereby China will reduce its tariff on pork to 12 percent by 2004. According to USDA, such a reduction in China's tariff on U.S. pork could result in a substantial increase in U.S. pork exports to China, the world's leading nation in pork consumption. In fact, the U.S. Meat Export Federation forecasts U.S. pork exports to China and Hong Kong will increase to over 120,000 metric tons by 2004, almost tripling the 1998 level.
- **The European Union's tariff-rate quota**. According to the Meat Export Federation, the European Union has a tariff-rate quota for pork that reduces U.S. pork's competitiveness in European Union countries. The European Union's tariffs range from about 7 percent to about 10 percent on the first 75,000 metric tons of pork imported per year. The tariff rate on pork imports beyond this 75,000-ton limit is 31 percent. During future WTO negotiations, the United States plans to propose that tariff rates on agricultural products, including pork, be reduced.
- **Japan's minimum import price and tariff rules**. Japan has import rules that apply minimum import prices and tariffs to its pork imports. Under these rules, minimum import prices and tariffs increase if import volume exceeds certain levels within specified periods. According to USDA representatives, these rules can increase the price of pork imported to Japan substantially, making it less competitive with domestically produced pork. While Japan is currently the leading importer of U.S. pork, according to industry analysts, it has the potential for being an even more significant importer of U.S. pork. The United States plans to propose that Japan's barriers be reduced during future WTO negotiations.
- **Argentina's animal health standards**. Argentina does not allow U.S. pork imports because it asserts that a disease present in some of the U.S. hog population, Porcine Respiratory and Reproductive Syndrome (PRRS), could be spread to hogs in Argentina by pork imported from the United States. According to USDA, there are no documented cases of PRRS transmission by meat. Thus, USDA considers this reason for barring U.S. pork exports be nonscientific. Discussions regarding this

matter are ongoing between USDA and Argentina's agriculture department.

The European Union's export subsidies for pork are also a deterrent to U.S. pork exports. According to USDA, in 1998 and 1999, European Union export subsidies for pork were partially responsible for U.S. pork producers' and exporters' losses in price competitiveness, market share, and potential market growth. For example, in Russia, a country in which the European Union has used export subsidies for pork, the U.S. share of the pork import market decreased from 11 percent during the 12 months from July 1997 to June 1998 to 3 percent during the following 12 months, from July 1998 to June 1999. Meanwhile, during the same 2 years, the European Union's market share in Russia increased from 72 percent to 85 percent.

Although the WTO Agreement on Agriculture requires members to reduce the amount of export subsidies paid and the quantity of products subsidized, the European Union is allowed to subsidize its pork exports to a much larger extent than the United States. This is because WTO members agreed to cut their export subsidies from the average level that existed in each country during a base period—between 1986 and 1990. During this base period, the European Union subsidized a larger quantity of pork exports than did the United States. Therefore, the volume of pork exports the United States is allowed to subsidize between July 1, 1999, and June 30, 2000—413 metric tons—is much smaller than the volume of pork exports the European Union is allowed to subsidize in the same period—over 900,000 metric tons. Additional WTO negotiations on agriculture are scheduled to begin in early 2000. While the U.S. aim is to eliminate export subsidies, the European Union thus far has opposed totally eliminating these export subsidies.

Description of Federal Food Assistance Programs

Three federal programs—P.L. 480; section 416(b) of the Agricultural Act of 1949; and Food for Progress—provide U.S. agricultural commodities to countries needing food assistance.

P.L. 480 is designed to, among other things, combat hunger and malnutrition and develop and expand export markets for U.S. agricultural commodities. The program has three separate titles—each with different objectives and target countries. Table 3 shows the purpose and means of delivering assistance provided for each title.

Table 3: Purposes and Means of Delivering Assistance Under P.L. 480 Programs

Program title (administrating agency)	Purpose	How assistance is delivered
Title I (U.S. Department of Agriculture–USDA)	Provides long-term, extension of credit to developing countries to purchase U.S. commodities	Importing country contracts with U.S. exporters to deliver specified commodity; USDA pays suppliers upon proof of delivery.[a]
Title II (U.S. Agency for International Development—AID)	Donates U.S. commodities to meet humanitarian food needs; used for U.S. responses to emergencies and disasters worldwide	In emergencies, foreign governments may request food aid directly. In all situations, including emergencies, private relief organizations and international organizations may request food aid. AID purchases commodities on the open market for title II assistance. AID pays ocean transportation and some other transportation costs.
Title III (AID)	Provides grants of agricultural commodities to the poorest, most food-deficient nations to improve their food security and to promote agricultural policy reforms that encourage food production	Recipient country requests assistance through AID. USDA purchases the food, and AID facilitates the transportation. Donated commodities are sold domestically, and sales revenues are used to support economic development

[a]Contract may also require importing country to maintain agricultural imports from commercial sources in order to not unduly disrupt world agricultural trade.

In addition to the P.L. 480 programs, the Agricultural Act of 1949—commonly referred to as the section 416(b) program—allows USDA to donate surplus commodities acquired through price-support operations to foreign governments, private voluntary organizations, and the World Food Program. However, such donations may be made only if (1) the commodities cannot be sold at competitive world prices or (2) their disposal does not disrupt existing price support programs. USDA also cannot make section 416(b) donations if these donations reduce the amount of commodities that is traditionally donated to domestic feeding programs, prevent the fulfillment of any agreement entered into under a payment-in-kind program, or disrupt normal commercial sales. For fiscal year 1999, section 416(b) exports consisted mostly of wheat, wheat flour, corn, and nonfat dry milk. According to USDA officials, no pork has been exported under the section 416(b) program.

Finally, Food for Progress authorizes USDA to finance the sale and export of U.S. agricultural commodities through loans or grants to countries in the process of developing free-market economies. By providing food to these countries, the program is designed to create a more stable political climate and produce economic activity through the purchase and distribution of commodities. This activity, in turn, is expected to help these nations expand private enterprise so that the resulting stronger economies may become markets for U.S. agricultural commodities. USDA can implement Food for Progress through agreements with governments, private voluntary organizations, agricultural organizations, cooperatives, intergovernmental organizations, or other private entities. USDA offers a variety of commodities under the program, including wheat, wheat flour, rice, soybeans, dry beans, and yellow peas. However, according to USDA officials, high-valued items such as frozen meat have not usually been provided because of its relatively high cost. One notable exception, however, occurred in 1998-99 when USDA used the Food for Progress program to donate 50,000 metric tons of pork and 122,000 metric tons of other meat to Russia.

According to a USDA official, USDA was able to add meat—including pork—to Russia's food assistance package because of several conditions that are not usually present in countries needing food assistance. First, Russia had a strong preexisting demand for pork. According to Russian agricultural officials, pork sausage is an important component of the Russian diet, and its manufacture and distribution fuels other economic activity in Russia. Second, Russia has an adequate infrastructure to accommodate refrigeration needs, and finally, the inclusion of pork in a food assistance package was not likely to disrupt commercial sales in Russia. According to the USDA official, food assistance to other countries with similar characteristics could also offer potential to include pork, however, this official noted that few nations meet these criteria.

Comments From the U.S. Department of Agriculture

Note: GAO's comments supplementing those in the report text appear at the end of this appendix.

In USDA's letter, the references to page numbers refer to GAO's draft report. When useful, we have updated the page numbers in the margin.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

JAN 21 2000

Mr. Lawrence Dyckman
Director
Food and Agriculture Issues
United States General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Dyckman:

Thank you for providing the Foreign Agricultural Service (FAS) with the opportunity to comment on the GAO Draft Report, RCED-00-41, "PORK INDUSTRY: Trade Barriers and Other Factors Limit Federal Program's Potential to Increase Exports". We set out in the enclosed document our detailed comments. I will only summarize them here.

See comment 1.

In FAS' view, U.S. pork represents one of the single greatest success stories in U.S. agricultural trade over the past decade. As recently as the late 1980's, pork trade accounted for a $900 million annual deficit in the U.S. agricultural trade balance. By 1998, pork trade contributed more than $175 million to the U.S. agricultural trade surplus; a turnaround in the U.S. agricultural trade balance of more than $1 billion. By way of comparison, the total U.S. agricultural trade surplus was $15 billion in 1998.

See comment 2.

As a general matter, FAS believes the draft report does not adequately describe the context of GAO's study or derive appropriate conclusions. FAS understands the study was largely to determine whether Federal programs, specifically export credit and market development programs, are able to alleviate the price impact of a domestic surplus situation in the hog/pork sector by increasing pork exports. The impetus for the investigation was extremely low U.S. hog prices in late 1998 and into 1999. In 1998, U.S. pork production increased 788,000 tons and an additional increase was anticipated in 1999. The increase alone significantly exceeded total U.S. pork exports, which averaged about 490,000 tons annually from 1996 to 1998. FAS programs to improve market access, facilitate commercial sales through export credit guarantees, and develop markets are designed to be effective over a longer term. Their purpose has never been to address a situation like the short-term domestic surplus of hogs and pork that existed in late 1998. In this context, FAS would agree that these programs offer limited potential to alleviate the price impacts of a short-term domestic surplus through increased exports.

See comment 3.

Although USDA programs are not well-suited to deal with the particular problem under study in the report, FAS does not agree with the draft report's conclusions about the overall value of federal programs to increase pork exports. For example, the GAO report appears to dismiss opportunities offered by the export credit guarantee and food aid programs, often with simplified explanations. We believe it is clear, for example, that during the last two years, export credits

AN EQUAL OPPORTUNITY EMPLOYER

Mr. Lawrence Dyckman
Page 2

and food aid programs have played a critical role in maintaining pork movement into markets such as Korea and Russia when financial conditions would have otherwise reversed longer term market development gains in those countries. Although these programs did not alleviate the domestic oversupply situation that coincided with these financial developments overseas, the programs did forestall a decline in exports and helped safeguard U.S. market shares in contracting export markets.

Now on p. 18.
See comment 4.

FAS also believes the draft report fails to give appropriate credit to the positive role of FAS market development programs such as the Market Access Program (MAP) and the Foreign Market Development (FMD) Program in increasing exports of pork over the longer term. While GAO states on page 16 of the draft report that "existing research is unable to demonstrate the programs specific impact," FAS believes the impressive growth in pork exports over the last 15 years is in no small part the result of an effective and sustained government-private industry partnership in market development. This view is buttressed by an independent study of the MAP program by Deloitte & Touche, which came to the general conclusion that MAP funds support increased exports of U.S. agricultural products and that most of the MAP-supported promotional programs they examined had increased sales.

See comment 5.

We also recommend that GAO take a longer view, at least 10-15 years, in assessing the impact of pork exports on the U.S. economy and the pork industry than the 4 or 5 year period used in the study. We believe such an approach would materially change conclusions that increases in pork exports "would not have a major impact on the overall agricultural trade balance." The $1 billion turnaround in pork trade over the last decade indicates that pork has already had a major impact on the U.S. agricultural trade balance.

See comment 6.

A longer view of the industry's export performance also leads us to disagree with the conclusion that exports "would not result in significantly higher producer prices." GAO bases its conclusion on the fact that the pork trade surplus accounts for a small portion of the value of U.S. pork sales. However, this again ignores the dramatic change in the trade landscape for U.S. pork in the last 10-15 years. U.S. pork exports have increased 7-fold since 1984, while imports have remained relatively constant. This is precisely the kind of "large increases in pork exports needed to have a significant impact on domestic hog prices" referred to in the GAO report. Neither do GAO's conclusions make intuitive sense. In 1998, for example, exports accounted for 12 percent of the industry's cash receipts. Clearly if that product were to have remained on the domestic market, producer prices would have been even lower and more producers would have had to exit the industry.

See comment 7.

There are many factors contributing to the U.S. pork industry's trade success. The industry has maintained a strong and sustained commitment to exports for more than a decade. In today's global economy, the U.S. pork industry understands--as do our foreign competitors--that it can not and should not turn exports on and off like a faucet depending on domestic factors. Growing incomes around the world, enhanced market access opportunities resulting from the Uruguay

Mr. Lawrence Dyckman
Page 3

Round, the North American Free Trade Agreement, and other trade agreements, and technological advances in meat trade are part of the formula. The industry's long standing partnership with USDA and its programs have also contributed to its success.

We ask that our comments and this letter be included in your final report when it is published.

Sincerely,

Tim Galvin

Timothy J. Galvin
Administrator

Enclosures

FAS COMMENTS ON GAO DRAFT REPORT, RCED-00-41, "PORK INDUSTRY: TRADE BARRIERS AND OTHER FACTORS LIMIT FEDERAL PROGRAMS' POTENTIAL TO INCREASE EXPORTS"

GENERAL COMMENTS:

See comment 8.

U.S. pork represents one of the single greatest success stories in U.S. agricultural trade over the past decade. As recently as the late 1980's, pork trade accounted for a $900 million annual deficit in the U.S. agricultural trade balance. By 1998, pork trade contributed more than $175 million to the U.S. agricultural trade surplus; a turnaround in the U.S. agricultural trade balance of more than $1 billion. By way of comparison, the total U.S. agricultural trade surplus was $15 billion in 1998.

See comment 9.

As a general matter, FAS believes the draft report does not adequately describe the context of GAO's study or derive appropriate conclusions. FAS understands the study was largely to determine whether Federal programs, specifically export credit and market development programs, are able to alleviate the price impact of a domestic surplus situation in the hog/pork sector by increasing pork exports. The impetus for the investigation was extremely low U.S. hog prices in late 1998 and into 1999. In 1998, U.S. pork production increased 788,000 tons and an additional increase was anticipated in 1999. The increase alone significantly exceeded total U.S. pork exports, which averaged about 490,000 tons annually from 1996 to 1998. FAS programs to improve market access, facilitate commercial sales through export credit guarantees, and develop markets are designed to be effective over a longer term. Their purpose has never been to address a situation like the short-term domestic surplus of hogs and pork that existed in late 1998. In this context, FAS would agree that these programs offer limited potential to alleviate the price impacts of a short-term domestic surplus through increased exports.

See comment 10.

Although USDA programs are not well-suited to deal with the particular problem under study in the report, FAS does not agree with the draft report's conclusions on the overall value of Federal export programs to increase pork exports. For example, the GAO report apparently dismisses opportunities offered by the export credits guarantee and food aid programs, often with simplified explanations. We feel it is clear, for example, that during the last two years, export credits and food aid programs have played a critical role in maintaining pork movement into markets such as Korea and Russia when financial conditions would have otherwise reversed longer term market development gains in those countries.

See comment 11.

FAS also believes the draft report fails to give appropriate credit to the positive role of FAS market development programs such as the Market Access Program (MAP) and the Foreign Market Development (FMD) Program in increasing exports of pork over the longer term. This view is supported by an independent study of the MAP program by Deloitte & Touche, which came to the general conclusion that MAP funds support increased exports of U.S. agricultural products and that most of the MAP-supported promotional programs they had examined had increased sales.

See comment 12.

In its macroeconomic analysis, FAS believes the draft report's time frame is too limited and the analytic methodology is too imprecise to fully account for the pork industry's trade turnaround and thus results in a set of conclusions about the impact of pork exports on the pork industry, the value of pork trade, and about the effect of U.S. government programs that are misleading.

See comment 13.

In this regard, FAS recommends that GAO use a longer time frame, at least 10-15 years, in assessing the impact of pork exports on the U.S. economy and the pork industry and on the role of U.S. government programs to assist pork exports. In confining its analysis to the 1994-1998 period, GAO selected a time period which encompasses three major economic disruptions to U.S. exports: Mexico's peso devaluation (December 1994), the Asian financial crisis (1997), and Russia's economic collapse (1998). Mexico, Korea, and Russia were among the top 5 markets for U.S. pork at the time of these financial downturns. It is thus all the more impressive that the volume of pork exports more than doubled over the period despite these major impediments.

See comment 14.

FAS also believes the draft report's focus on net pork trade as a proportion of the total U.S. agricultural trade balance is misplaced. It is not clear why live hogs are included in the pork trade calculation (footnote 3) and, clearly, the emphasis on the total U.S. agricultural trade balance diminishes the importance of pork exports to the U.S. pork industry. To better understand the importance of exports to the pork industry (which includes U.S. pork producers), GAO should look at pork export volume as a proportion of production or pork export value as a proportion of cash receipts. In looking at the changes in these proportions over a 10-15 year period, it quickly becomes clear why exports are vital to the industry. The volume of U.S. pork exports as a proportion of production increased from 1.6 percent in 1990 to almost 6.5 percent in 1999, while the value of U.S. pork exports as a proportion of cash receipts increased from 3 percent to 12 percent over the same period.

<u>SPECIFIC COMMENTS:</u>

Now on p. 5.

<u>Page 2, Results in Brief</u>

See comment 15.

Last paragraph: FAS does not agree with the statement "The four principal types of federal export programs offer only limited potential for increasing pork exports." By not explicitly recognizing the specific context of the study, this broad and overly negative statement does not properly recognize the benefits of FAS market development programs such as MAP and FMD, which FAS believes have been particularly valuable in building overseas market demand for U.S. pork over the years. It also discounts the positive role that export credit and food aid programs have played in developing and maintaining pork exports to specific markets.

Now on p. 5.

<u>Page 2, Results in Brief</u>

See comment 16.

Last paragraph, last sentence: The report states " However, a number of factors limit the use of credit guarantees, including the program's administrative fees, which reduce pork exporters' profit margins." This is somewhat misleading as credit guarantees increase the value of the transaction and as such, the administrative costs are typically carried in the sales price. It boils down to the transaction either needing credit or not. If credit is needed, there is always a cost. In those cases where commercial trade financing is not available or carries a large risk premium, using credit guarantees should reduce the risk and the cost of the transaction and therefore increase the potential margin.

See comment 17.

The report omitted several factors that limit use of credit guarantees. Administrative fees affect the usage of guarantees, but this factor's impact may be less than other factors. A critical factor is the risk of the importing country, its banks, and importers. According to the GAO, pork exporters are most active in Japan, Mexico, and other industrialized or middle-income countries. Guarantees for import transactions in these countries are not needed in many cases, either due to the low risk of default or the financing that is already provided by suppliers. Application fees would result in lower profit margins when the exporter has a strong expectation of repayment for the export.

Now on p. 5.

Page 3, Results in Brief

See comment 18.

Midway through first paragraph: The report reads "As a result, in fiscal year 1999, the United States was limited to subsidizing only 413 metric tons, less than 0.1 percent of total U.S. Pork exports."

This should be corrected to read - "As a result, in ~~fiscal year 1999~~ **the July June 2000 year**, the United States is limited to subsidizing only 413 metric tons, less than 0.1 percent of total U.S. Pork exports."

Now on p. 8.

Page 6, Background Section

See comment 19.

15 lines down. There is a fourth element to the WTO rules applicable to agriculture: 4) Place disciplines on trade distorting forms of domestic support.

Now on p. 12-13

Page 9-10, Existing Federal Programs Have Little Potential to Increase Pork Exports

See comment 20.

As was stated in the cover letter, FAS does not agree with the draft report's conclusion about the overall value of Federal programs to increase pork exports. The GAO report dismisses opportunities offered by the export credit guarantee and food aid programs, often with simplified explanations. We feel it is clear, for example, that during the last two years, export credits and food aid programs have played a critical role in maintaining pork movement into markets such as Korea and Russia when financial conditions would have otherwise reversed longer term market development gains in those countries.

See comment 21.

FAS also believes the draft report fails to give appropriate credit to the positive role of FAS market development programs such as MAP and FMD in increasing exports of pork over the longer term. While GAO states on page 16 of the draft report that "existing research is unable to demonstrate the programs specific impact," FAS believes the impressive growth in pork exports over the last 10-15 years is in no small part the result of an effective and sustained government-private industry partnership in market development.

This view is buttressed by an independent study of the MAP program recently completed by

Deloitte & Touche, which came to the general conclusion that MAP funds support increased exports of U.S. agricultural products and that most of the MAP-supported promotional programs they had examined had increased sales.

See comment 22.

We would also point out the inconsistent logic employed in reaching the conclusion in the first sentence of the last paragraph on page 9, which states that "only export credit guarantee and food aid programs appear to have even limited potential for increasing pork exports." With respect to export promotion programs, the last sentence of the paragraph says "the extent to which export promotion programs can boost pork exports is largely unclear." If GAO feels it is unclear how much export promotion program contribute to increased exports, then it can not be concluded that they have no potential for increasing pork exports, as is stated in the first sentence of the paragraph.

Now on p.11.

Page 9, Cargo Preference Laws Have Had a Small Effect on Pork Exports

See comment 23.

Paragraph 4, last line: The report states that "USDA was to purchase 50,000 tons of pork, regardless of cost." USDA did commit to provide 50,000 tons of pork to Russia but would not have bought this at any cost. USDA considered the cuts being provided and estimated the total cost. During the process of purchasing the commodities, USDA rejected two rounds of offers from suppliers because the purchase cost was deemed excessive.

Now on p. 12-13.

Pages 10-12, Export Credit Guarantee Programs Have Limited Potential for Increasing Pork Exports

See comment 24.

FAS believes that GAO's description oversimplifies in explaining why the credit guarantees are not used to support additional pork sales. Administrative fees can limit the use of the guarantees, if the exporter believes the fees outweigh the benefits of the guarantees. In lower risk countries, exporters may not expect many defaults and therefore may not see many benefits in using GSM guarantees. Potential markets in Eastern Europe and the Former Soviet Union are limited by creditworthiness concerns and banking issues. GSM credit guarantees are not currently available to exporters interested in Russia. The GSM program was shut down in August 1998 following loan defaults by the Russian government, bank failures, and the devaluation. The programs remain on hold because of creditworthiness concerns, in accordance with restrictions in the authorizing law. Banks throughout Eastern Europe and the Former Soviet Union rarely pass on the benefits of the GSM program. Importers are frequently asked to provide full collateralization or payment up front before the bank will open the letter of credit. The reason for these requirements is because the bank must undertake the foreign exchange risk and may determine that the importer's financial condition does not meet the bank's financial standards.

See comment 25.

Use of the export credit guarantee programs depends on the trading patterns established by the market. Actual use will depend on the economics of each sale.

USDA provides substantial flexibility to the market in making a large number of commodities available for the program and letting exporters respond to the options. USDA offers coverage for pork products in all but two of the fiscal 2000 GSM programs.

See comment 26.

USDA recently increased the level of coverage available under the Supplier Credit Guarantee

Program. Exporters can now seek coverage for 65 percent of the value of the export transaction. The fees charged by USDA are unchanged from the previous levels, which has lowered the cost of the program per dollar of risk covered.

Now on p. 13.

Page 11 Chart

See comment 27.

Supplier Credit administrative fees should read "$.45 - .90/ 100 coverage"

Page 12, Foreign Bank participation

See comments 28 and 29.

The report's description of the limited participation of foreign banks is confusing. The wording implies that the limiting factors are the size of the transaction and a decision by the importing country to not accept financial risk. In fact, some countries have few qualified banks, i.e. the banks may not meet requirements to participate in the programs, while other banks may simply choose not to participate.

In the most successful GSM programs, foreign banks are a critical partner in the program. These banks have sufficient limits, market the GSM program, and pass on a reasonable share of the benefits of the program (i.e. longer term or lower interest rate for the importer's loan). In some countries, banks lack sufficient limits. In other countries banks have sufficient limits but do not use the program because of the financial condition of the importer which may cause the bank to require the importer to make an up front deposit.

See comment 30.

Footnote 8: This is misleading and we recommend that it be deleted. These are not single but multiple transactions with multiple letters of credit.

Now on p.14-15.

Page 13

See comment 31.

The Facility Guarantee and the Supplier Credit Guarantee Programs are new to exporters and importers. USDA is conducting educational efforts to explain the programs and bolster their use. These efforts are providing results as registrations and interest in the programs grow.

The Supplier Credit Guarantee program may be especially useful in countries where the foreign banks have insufficient limits or are unwilling to take the importer risk.

Now on p. 15-16

Page 13-14, Pork in Food Aid Programs

See comment 32.

USDA will always consider requests for any agricultural commodity that is produced in the United States. In evaluating requests for any commodity, USDA will consider the cost of the product, the cost of transporting the product, perishability, and the ability of the recipient to handle the commodity. USDA emphasizes that canned meat would receive more favorable consideration than frozen meat in most situations.

Now on p. 16

Page 14

See comment 33.

First paragraph, last sentence: The value of the pork provided to Russia was approximately $88 million.

Now on p.17.

Export Subsidy Program's Potential for Increasing Pork Exports is Severely Limited:

See comment 34.

Page 15, last paragraph: Because of their greater use of subsidized exports during the Uruguay Round base period of 1986 - 1990, the European Union's export subsidy commitment for pork was set at higher levels than the United States. Until recently, the EU used only about 30 percent of its annual WTO pork export subsidy commitment resulting in an unused balance, or accumulated roll-over. The EU has a 462,000 ton export subsidy commitment level for pork in 1999/2000, with an additional 450,000 tons of available roll-over.

Now on p. 18.

Page 16, Export Promotion Programs' Potential for Increasing Pork Exports is Unclear

See comment 35.

The singular focus on advertising in the first sentence is misleading, particularly as these programs relate to pork. The sentence should be revised to indicate the following general types of activities that are funded under the three different programs: consumer promotions, market research, technical assistance and trade servicing.

See comment 36.

The first paragraph mentions that "only a small portion" of the overall program funding for MAP, FMD and EMP programs were used for pork promotion. However, we feel the amount of government funds devoted to pork promotion, coupled with over $6 million of industry funding from the pork and soybean sectors in 1999, provides the foundation for a significant and highly effective global pork promotion effort.

See comment 37.

It is not correct to state that none of the $10 million of Emerging Markets Program funding assists the pork industry. There have been a number of EMP projects in countries such as China, Mexico, Singapore, Russia and other countries that focused on technical assistance for red meat or more general issues. We would expect benefits from these projects to assist pork exports over the longer term.

In the last two sentences of this paragraph, the report states "However, existing research is unable to demonstrate the programs' specific impact. For example, if producers, exporters and others conducted even some of the programs' activities without government assistance, the programs' influence on increasing exports would be difficult to isolate." A similar statement is repeated on the next page in reference to the Market Access Program.

See comment 38.

While FAS recognizes the difficulties in measuring the impact of market promotion programs, this fact does not in any way lead to the conclusion that the programs are not effective. We do not agree with the assertion that producers, exporters and others would conduct the activities without government assistance and, therefore, the overall influence of the program is diminished. And while it is true that FAS and industry are often funding similar types of programs, the net result is that FAS-cooperator partnership leads to a larger and more robust promotion program.

Page 17

Second Paragraph: The report cites the limited demand for high value cuts outside of the United States, Europe, and Japan, as a major market factor limiting the effectiveness of the MAP program. This statement indicates a lack of understanding of the international market for pork and the product mix exported by the United States. Although high value cuts are exported to markets such as Japan, the majority of pork exported by the U.S. is low value items used for processing by overseas buyers. We do not understand the sentence in lines 13-14 of the paragraph, which refers to high value cuts, such as hams and loins, as a staple of the U.S. pork industry. It is a biological fact that when a pig is slaughtered the result is a combination of higher value items and lower value cuts such as bellies and shoulder cuts. The U.S. Meat Export Federation promotion strategy for pork has included building demand for both high value cuts and lower value processing items, but most of the export volume is in the second category.

See comment 39.

Page 17, second paragraph: While we agree with GAO's conclusion that EU export subsidies place U.S. pork at a competitive disadvantage, especially in subsidized markets, history does not support GAO's blanket claim that market access efforts can have only modest success until EU export subsidies are reduced or eliminated. An obvious example is Mexico where the NAFTA has greatly benefitted U.S. exports, giving the United States a market share of 90+ percent, despite the EU's continuing use of export subsidies to that market. Enhanced market access into Japan and Korea because of the Uruguay Round agreements has fueled much of the growth in U.S. pork exports since 1994. The prospective accessions of China and Taiwan also bode well for U.S. pork exports.

See comment 40.

Increased Pork Trade Would Not Have a Large Impact on the U.S. Agricultural Trade Balance or Perceptibly Increase Producer Prices

Now on p. 20.

Page 18, second paragraph: FAS firmly disagrees with GAO's conclusion that increases in pork exports "would not have a major impact on the overall agricultural trade balance". The $1 billion turnaround that made the U.S. a net pork exporter means pork exports have already had a major impact on the aggregate U.S. agricultural trade balance. Moreover, as noted above, focusing on the overall agricultural trade balance diminishes the importance of pork exports to the pork industry.

See comment 41.

Page 18, third paragraph: GAO's conclusion that pork exports occur at the expense of other agricultural commodities is not supported by research or trade data. Trade is not a zero sum game, and most certainly not for U.S. agriculture. In the last ten years, U.S. pork, beef, and poultry exports have grown 214 percent, 47 percent, and 270 percent, respectively. Exports of all three meats to individual export markets such as Korea, Japan, Mexico, and Hong Kong have increased simultaneously. There is no evidence we are aware of to indicate that exports of one U.S. meat product comes at the expense of another U.S. meat product.

See comment 42.

Now on p. 21.

Page 19, top: To state that pork exports could substitute for grain exports is again conjecture that is not supported by either research or experience. In fact, there is an entire body of research that looks at the trade-offs between exporting feed inputs versus "high-value products". When the United States exports pork, it is essentially exporting feedgrains, via the meat, as well as capturing the value added by the American pork producer and the U.S. pork processing industry.

See comment 43.

This value-added is lost when only the feed inputs, in the form of grain, are exported. The basic premise in the draft report overlooks the positive economic impact on U.S. employment and wage rates from increased domestic processing and handling of high value agricultural exports. Soybean growers, through their financial contributions to the U.S. Meat Export Federation's export programs, are actively showing their support for this positive development.

See comment 44.

Page 19, second paragraph: The draft report's conclusion ignores the dramatic change in the U.S. pork trade landscape over the last 10-15 years. If the report looked at pork exports over the longer term and considered the volume or value of exports as a proportion of production or cash receipts, one would have to conclude that exports have an impact on producer prices.

Annex II

See comment 45.

The Food for Progress program authorizes USDA to provide commodities to governments or private entities through grants or on a credit basis. In most situations, USDA supplies these commodities on a grant basis.

See comment 46.

The description of title I, P.L. 480 in table II.1 of Appendix II is inaccurate. The third column should read: "The importing country contracts with U.S. exporters to purchase specified commodities and USDA pays the suppliers upon proof of delivery."

Also, as regards title II, P.L. 480, we suggest it would be clearer to state that the U.S. Agency for International Development (USAID) pays ocean transportation and some other transportation costs rather than finances these costs.

2. The report should not use the terms "loan" when referring to GSM and title I. These are "extensions of credit" that are guaranteed or offered rather than loans.

See comment 47.

2. On page 17, the Emerging Markets program's authorizing legislation is the Food, Agriculture, Conservation, and Trade Act of 1990, although the 1996 added the definition.

GAO's Comments

1. We agree that the pork trade balance has improved dramatically over the past 10 to 15 years, even in the face of many international and domestic challenges.

2. We believe that the context of the review is clearly and appropriately stated. However, in recognition of USDA's comments, we added language to the report clarify the fact that USDA's export assistance programs are designed to achieve long-term effectiveness, rather than to realize short-term gain. In addition, we revised the scope, and methodology section of our report to further clarify that we did not attempt to evaluate the historical effectiveness of USDA's export assistance programs, nor did we address the long-term potential of federal export assistance programs to increase exports.

3. We agree that USDA's export credit guarantee and food aid programs can help to bring pork into countries such as Korea and Russia, and we noted the assistance provided by the GSM-102 program in maintaining commercial sales in Korea. In contrast, the Food Aid program, which supplied pork to in Russia, may have been counterproductive in maintaining commercial markets. For example, the value of U.S. commercial sales of pork to Russia dropped from about $74 million in 1998 to nearly zero in 1999. According to meat-packing industry representatives, the donated pork may have supplanted some commercial sales that could have otherwise occurred.

4. We agree that programs such as the Market Access Program and Foreign Market Development Program may well be important in developing and maintaining such partnerships over the long term. However, USDA's comments provide an incomplete portrayal of the Deloitte & Touche study. For example, according to the study, market share—which Deloitte and Touche used as a proxy for exports—increased for 46 percent of the agricultural products analyzed. We do not believe this represents sufficient evidence of the program's efficacy. The study also states that it was "not able to determine the total dollar value of exports resulting directly from MAP expenditures." This view is consistent with the available research we reviewed for our report. Without adequate research findings that isolate the impacts of these programs' efforts, we remain reluctant to ascribe specific beneficial aspects to them.

5. We disagree. We were asked to focus on the future, not the past—for enhancing present and future exports and for identifying current

impediments to increasing pork exports. Even after taking into account recent economic problems in international pork markets, we believe that the recent past (1994 through 1999) offers a valid window through which to view present and future opportunities for export growth. In this context, we believe that the scope of our work is appropriate and leads to accurate conclusions. Thus, we still maintain that increases in pork exports would not have a major impact on the overall agriculture trade balance. According to USDA data, the pork trade balance is still a very small portion of the total agricultural trade balance—$175 million of a $15 billion surplus, or about 1 percent. Thus, even a tripling of pork exports would not significantly affect the overall agriculture trade balance.

6. We agree that pork exports are clearly a major contributor to the pork industry's cash receipts. However, as we noted in the report, according to a study by the Farm and Agriculture Policy Research Institute, pork exports would have to experience a 1-year increase of 75 percent in order to result in a 10-percent increase in producer prices. We did not examine what would happen to producer prices in the absence of all exports.

7. We agree that many factors contribute to trade success in the pork industry.

8. See comment 1.

9. See comment 2.

10. See comment 3.

11. See comment 4.

12. See comments 5 and 6.

13. See comments 4, 5, and 6.

14. We disagree. We focused on net pork trade because a focus solely on pork exports represents only one side of the overall trade picture. That is, while increased pork exports increase demand and ultimately pork prices, imports, including live hogs, have the opposite effect—increasing supply and reducing prices. Because the United States imports a significant amount of pork, an assessment of the impact of trade on the domestic market requires us to consider the effect of imports as well as exports.

When imports are taken into consideration, as they are in our report, pork trade accounts for a small proportion of the agricultural trade balance.

15. We remain convinced that opening export markets by reducing trade barriers offers the greatest opportunity for raising pork exports. With more open markets, these programs could better assist in increasing pork exports. Under current conditions however, they offer limited potential to increase pork exports.

16. The assessment of the usefulness of the export guarantee programs, including the administrative fees, was provided by pork exporters. We revised our report to clarify that they viewed these fees as a deterrent.

17. We modified our report to reflect additional factors that limit the use of export credit guarantees, including the risk of default by foreign countries' banks and importers as well as changes in the exchange rates.

18. We revised the report to reflect this technical correction.

19. The report already includes this information.

20. See comments 3 and 16.

21. See comment 4.

22. We revised our report to further clarify our position.

23. We revised the report to reflect the fact that the quantity to be supplied did take cost into account.

24. See comments 16 and 17.

25. We agree that use of the export credit guarantee programs depends on market forces, but we believe our draft report recognizes the overriding role of market forces in determining the use of these programs. For example, we state that that demand for pork products is a prerequisite for the use of export credit guarantees.

26. We revised the report to reflect this change.

27. See comment 26.

28. We agree and note that the report has been revised to reflect this change.

29. We revised the report to include additional factors limiting foreign banks' participation in the GSM programs.

30. We deleted the footnote.

31. We agree and note that the report already reflects these ideas.

32. We agree and note that the report already includes this information.

33. We revised the report to include this information.

34. We agree. But as noted in our report, under WTO rules, the European Union is allowed a much greater level of subsidized pork exports, placing the United States at a competitive disadvantage.

35. We disagree that the sentence is misleading. The report includes information on consumer promotions, market research, technical assistance, and trade servicing.

36. Funding for pork promotion in fiscal year 1999 was small relative to total funding for market development—1.7 percent for the Foreign Market Development Program, 3 percent for the Market Access Program, and no funding for the Emerging Markets Program (EMP). Furthermore, as we have previously stated, we were not able to determine the total value of pork exports resulting directly from these programs.

37. The report does not state that "none of the $10 million of EMP funding assists the pork industry." We noted that the U.S. Meat Exporters Federation received several EMP grants, but none of these grants was specifically for pork. We do not necessarily dispute the assertion that Meat Exporters Federation's activities may indirectly help the pork industry. However, our focus is to assess the potential of EMP to further increase pork exports. That potential is likely to be limited if pork is not receiving direct assistance. We agree that some general benefits may result over the long term.

38. Our report does not conclude that market development/access programs are ineffective. We did not attempt to determine these programs' overall effectiveness. Instead, we concluded that these programs' potential

to increase pork exports is mostly unknown because it is impossible to isolate their effects from other factors. While a public-private partnership may improve market prospects, such a phenomenon has not been adequately documented.

39. The report clearly noted that the discussion on high-value and low-value pork products are the views of representatives of the Meat Export Federation. However, we can neither prove nor disprove the assertions. Because the information is not critical to our conclusion, we have deleted it.

40. We have modified our report to state that U.S. exports have more difficulty competing in countries where European Union-subsidized pork products are also being sold.

41. See comments 5 and 6. In addition, USDA seems to obtain its $1 billion turnaround by looking at the sum of the $900 million deficit in pork trade in the late 1980s and the $100 million surplus in 1998 and comparing the resulting sum to the overall agricultural trade surplus for 1998. This is like comparing apples and oranges. While the trade in pork has changed from a deficit to a surplus, the impact of that pork surplus on overall agricultural trade requires a comparison of the two surpluses over the same time period. When this is done (as we did in our report), the pork surplus is a small proportion of the overall trade surplus—about $175 million of a $15 billion surplus or about 1 percent. Furthermore, we were not asked to look at the importance of exports to the pork industry; as requested, we looked at the impact of pork trade on the overall agricultural trade balance.

42. Fundamental economic principles state that products are substitutes if they at least partly satisfy the same needs of consumers. Beef and poultry as well as pork satisfy consumers' need for meat. Therefore, they can be considered substitutes. Given these conditions, we state that increases in pork exports may come at the expense of reductions in exports for other agricultural commodities such as beef or poultry, as foreign consumers make choices between meat products on the basis of their relative prices.

43. See comment 42. In addition, we agree that "when the United States exports pork it is essentially exporting feed grains, via meat, as well as capturing the value added." When that happens, however, grain exports are reduced (the product has been consumed domestically). In that sense pork exports are substituting for grain exports.

44. See comments 1, 6, and 14.

45. The report already includes this information.

46. We revised the report to include this information.

47. See comment 46.

Related GAO Products

Pork Industry: USDA's Reported Prices Have Not Reflected Actual Sales (GAO/RCED-00-26, Dec. 14, 1999).

Commitments by the European Union and the United States to Reduce Agricultural Export Subsidies (GAO/NSIAD-99-198R, June18, 1999).

U.S. Agricultural Exports: Strong Growth Likely but U.S. Export Assistance Programs' Contribution Uncertain (GAO/NSIAD-97-260, Sept. 30, 1997)

Agricultural Trade: Changes Made to Market Access Program, but Questions Remain on Economic Impact (GAO/NSIAD-99-38, Apr. 5, 1999)

International Trade: Effectiveness of Market Promotion Program Remains Unclear (GAO/GGD-93-103, June 4, 1993).

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary, VISA and MasterCard credit cards are accepted, also.

Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 37050
Washington, DC 20013

or visit:

Room 1100
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (202) 512-6061, or TDD (202) 512-2537.

Each day, GAO issues a list of newly available reports and testimony. To receive facsimile copies of the daily list or any list from the past 30 days, please call (202) 512-6000 using a touchtone phone. A recorded menu will provide information on how to obtain these lists.

For information on how to access GAO reports on the INTERNET, send an e-mail message with “info” in the body to:

info@www.gao.gov

or visit GAO’s World Wide Web Home Page at:

http://www.gao.gov

PRINTED ON RECYCLED PAPER

United States
General Accounting Office
Washington, D.C. 20548-0001

Official Business
Penalty for Private Use $300

Address Correction Requested

Bulk Rate
Postage & Fees Paid
GAO
Permit No. GI00

[redacted]