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The concept of market development activities to increase the sale of U. S. agricultural commodities in foreign countries is not new. U. S. exporters have applied their skills to this end since the early years of this nation, but the patterns for successful market development have changed as trade conditions changed.

This study sets up a model for determining the probability of successful market development efforts involving sales for dollars of U. S. agricultural commodities in foreign countries.

The model consists of ten sections. The first six sections are the most crucial because they involve factors which a U. S. exporter cannot alter to a significant degree. The first three sections consider conditions in the United States and involve (1) adequate U. S. surplus production, (2) favorable competitive position and (3) packaging and transportation. The second three sections involve foreign countries and are (1) restrictions to trade in a foreign country, (2) production deficits in a potential market and (3) conversions of foreign currencies to dollars.

The remaining four sections are relatively less critical, although conditions within each prospective market will determine their importance to the total performance of the market development program. They can be a definite deterrent under special circumstances. These sections are (1) adequate port, storage and transportation facilities, (2) capital for storage and distribution, (3) adequate retail outlets and (4) foreign promotion potential.

SUMMARY

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Agricultural Market Development Abroad

James E. Kirby and John G. McNeely:

The purpose of this study is to establish guidelines for determining the probability of success of market development efforts involving sales of U. S. agricultural commodities in foreign countries.

Market development has been stimulated by the Trade Development and Assistance Act of 1954, more familiarly known as Public Law 480. This act was the culmination of political pressures resulting from mounting surpluses in certain government-owned agricultural commodities. The purposes of this legislation were declared to be:

... to expand international trade among the United States and friendly nations, to facilitate the convertibility of currency, to promote the economic stability of American agriculture and the national welfare, to make maximum efficient use of surplus agricultural commodities produced in the United States by providing a means whereby surplus agricultural commodities in excess of the usual marketing of such commodities may be sold through private trade channels and foreign currencies accepted in payment therefor. It is further the policy to use foreign currencies which accrue to the United States under this act to expand international trade, to encourage economic development, to purchase strategic materials, to pay U. S. obligations abroad, to promote collective strength and to foster in other ways the foreign policy of the United States.

The act contained more significant aspects such as a new attitude toward U. S. foreign sales designated in the term "market development." This recognized the new role of the United States as a policy leader in foreign trading by calling for increasing foreign consumption but prohibiting dumping which would injure the economies of other friendly nations. Additionally, it established a means whereby the continuing domestic, economic and political problem of farm surpluses could be used to further the foreign policies of the United States.

Of special note, the act called for cooperative effort by industry and government in providing the planning and work force for market development activities in foreign countries. The U. S. Department of Agriculture, charged with administering the act, had little experience that fitted it for foreign market promotion. The Office of Foreign Agricultural Relations had been largely a fact-gathering organization which also represented U. S. agriculture in foreign negotiations. Also, most trade and agricultural producer groups were without experience in large-scale promotions in markets abroad. This lack of experience on which to pattern an international program resulted in a new approach, that of asking trade and commodity groups to cooperate with the government to promote foreign markets.

Some commodity producers and handlers had national organizations while others did not. The commodity groups organized and consolidated their forces, and cooperative efforts in market promotion between government and industry began. The worldwide promotional work created an interest among foreign buyers in U. S. agricultural commodities and served as an impetus for U. S. producer and trade groups to re-emphasize foreign marketing. By June 1961, the Foreign Agricultural Service, FAS, reported that more than 60 associations, referred to as cooperators, had initiated joint market development efforts in more than 50 countries.

In 1959, after almost 5 years of market promotion work, the FAS sought an impartial evaluation of the results of market development work in specified countries. Texas A&M University, one of three land-grant universities selected to conduct the evaluation, was directed to review the Italian program. The purpose of the evaluation was to determine the effectiveness of U. S. market development work in Italy. The project included a review of the cooperating agreements with commodity groups representing U. S. cotton, poultry, wheat, soybeans and feed grain interests.

The conclusions reached from the Italian study indicated that some of the effectiveness of market development work was minimized because of either (1) inadequate knowledge of social and/or economic conditions in the country or (2) a lack of organized knowledge concerning the best method to use in getting the program underway and developing it.

This report projects the findings of the Italian study and, through the use of the model (Figure 2), formulates a framework whereby a private firm or commodity organization can determine, prior to formally establishing a market development program, the probability of success. It will also provide a background for understanding changing patterns of international trade in the early 1960's, and will relate

*Respectively, Extension economist and professor, Department of Agricultural Economics and Sociology.
findings relative to the conditions in the United States which instituted the legislative pressures for aggressively re-entering foreign markets. The European Economic Community is not integrated into this study.

CHANGING PATTERNS OF INTERNATIONAL TRADE

International trade as we know it today is only a few hundred years old and its justification, beyond the overriding one of profit, has changed in different economic eras. Some changes have taken place in trade patterns in recent years that are affecting the foreign sales of U. S. agricultural commodities. Such changes also influence the approach to effective market development work and must be considered when determining the likelihood of the successful promotion of U. S. agricultural commodities in foreign countries.

Motives for Trade

The basic reason for trade between people of different nations is to satisfy man's wants. Goods must be offered at prices which prospective buyers can and will pay. However, price does not necessarily reflect a free market situation because many of the motives of trade may be noneconomic. Consideration of international trading necessitates a view of the firm as a trader and the motives by which nations, as traders, influence international commerce.

After World War I the United States was catapulted into the world economic scene in a new international role as a creditor nation. The expansion in industry and agriculture during the war produced consumer goods in excess of domestic needs. As a result, U. S. foreign commerce expanded generally during the 1920's with the stimulation of private lending abroad. As competing foreign products threatened U. S. domestic markets, the political title of isolationism and protectionism brought increased tariffs. The Smoot-Hawley Tariff Act of 1930 was the highpoint of U. S. tariff levels and invoked retaliation by other countries. The U. S. depression and a continued world economic crisis laid the groundwork for the repeal of the Smoot-Hawley Act in 1934 with the passage of the Reciprocal Trade Agreement Act. This new act marked a beginning of a liberal trade policy based on reciprocal trade agreements.

The Trade Expansion Act of 1962 was the culmination of a continuing trend toward freer U. S. trade. The legislation was in part designed for trade negotiations with the European Common Market. It provided authority to the President to abolish all trade restrictions between the European Common Market and the United States on those commodities in which these two trading areas had 80 percent of the world trade. Generally, it gave the executive branch of the U. S. government the right to reduce tariffs by 50 percent in negotiated agreements with other countries. President Kennedy indicated the direction as well as expected results of U. S. foreign policy in remarks made October 11, 1962 on signing the Trade Expansion Act.

This act recognizes, fully and completely, that we cannot protect our economy by stagnating behind tariff walls but that the best protection possible is a mutual lowering of tariff barriers among friendly nations so that all may benefit from a free flow of goods. Increased economic activity resulting from increased trade will provide more job opportunities for our workers. Our industry, our agriculture, our mining will benefit from increased export opportunities as other nations agree to lower tariffs. Increased exports and imports will benefit our ports, steamship lines and air lines as they handle an increased amount of trade. Lowering of our tariffs will provide an increased flow of goods for our American consumers. Our industries will be stimulated by increased export opportunities and by freer competition with the industries of other nations for an even greater effort to develop an efficient, economic and productive system. The results can bring a dynamic new era of growth.

General Agreement on Tariffs and Trade

An influential factor in moving countries of the world toward freer trade is the General Agreement on Tariffs and Trade (GATT). This agreement, signed by 23 countries, went into effect on January 1, 1948, and is not the result of a formal organization but comes from an international conference providing the means by which countries can discuss their trade differences.

GATT has three major functions: (1) It provides the means whereby tariff concessions may be reciprocally exchanged by member countries; (2) it sets down a code of trading rules to guide the conduct of international trade; and (3) it provides the forum for discussion of international trade problems and disputes.

The sixth round of GATT negotiations began May 4, 1964 and is unofficially termed "The Kennedy Round." In the spring of 1963 there was a general endorsement of the goals of the sixth round at a GATT ministerial meeting. These goals are (1) a significant reduction in tariff levels among the principal trading countries, (2) liberalization of agreements for agricultural products to promote an expansion in agricultural trade and (3) arrangements to improve export prospects for developing countries.
Secretary Freeman outlined the basic approach of the United States, which is termed "market sharing."

This approach recognizes the universal income problems of farmers and the need for nations to improve the income of their farmers. It recognizes that one country's domestic farm program will be different from another country's farm program. It respects the world's centuries-old commercial trading system and recognizes the right of all countries to participate in commercial trade and the general need for lowering barriers to the flow of commercial trade . . . to make the commercial trading system serve all nations better it calls for a fair sharing of markets based on long-standing practices . . .

Developing Economies

Adding a new dimension to the motivation of trading is the increase in volume of products going to countries with what is now termed "developing economies." The motivation is an unstated intermingling of profits, assistance for political alliances and altruism.

Elrod outlines the broad goal for the United States as follows:

. . . (1) reduce and use constructively U. S. agricultural surpluses by expanding exports to low-income countries; (2) strengthen foreign agricultural trade and develop foreign markets; (3) accelerate economic development in the recipient countries for increased national and international security; and (4) provide higher nutritional standards for greater human energy potentials.

The magnitude of the trade between the United States and such economies is indicated in the total Public Law 480 expenditures between July 10, 1954 and December 31, 1963 of $13,582 million under Title I as published by the House Committee on Agriculture. The export market value, including ocean freight, was $9,526 million. Title II expenditures in the same period, providing emergency relief requirements, amounted to more than $1 billion.

Whatever the motivation, it is evident that such trading is important for certain commodities. Recipient countries sometimes use P.L. 480 commodities to increase their own net revenue as well as to bolster their currency and improve their balance of payments. The hard currency generated sometimes is used for the purchase of goods from nations other than the United States. An example of increasing a country's net revenue is the case of Spanish olive oil. In 1960, Spain purchased U. S. soybean oil with non-convertible currencies of P.L. 480 and sold it domestically as an inexpensive substitute salad oil while exporting its own traditional salad oil for hard currency and a considerable profit.

Tunisia is an example of hard currency generated for purchases from other nations. Wheat under P.L. 480 is shipped to Tunisia. Under the programs of the Tunisian government's aid to unemployment, the laborer is paid in part by a daily measure of U. S. wheat. The hard wheat grown domestically for processing into macaroni and spaghetti then can be shipped to France which needs it to upgrade its soft wheat. French francs thus generated create a favorable balance of payments whereby French goods may continue to flow into their traditional Tunisian market.

AGRICULTURAL SURPLUS AND NEW LEGISLATION

The consideration of an expansion of markets for U. S. agricultural products raises the question of the source of supply to fulfill the increased demand. This study assumes that the domestic price of this supply will remain stable to the extent that any increase in price, as a result of increased demand, will not be so great that the competitive position in world trade will be jeopardized. For this reason, a discussion of the source of supply of agricultural commodities for foreign sales is pertinent, and surplus is such a source from an economic sense.

Agricultural Surplus

Surplus is described by the U. S. Department of Agriculture as an amount of a commodity which "... may reasonably be expected" to be in excess of domestic requirements, adequate carryover and anticipated exports for dollars as determined by the Secretary of Agriculture. The surplus about which the USDA is concerned relates to those commodities whose production has been supported at a price above those of world markets. It follows that the price of these surplus products must be lowered to dispose of them in world trade channels.

This study also concerns U. S. commodities whose price is competitive in world trade but whose lack of wide distribution reflects the imperfections of competition.

Agricultural Surplus and Exports

Agricultural surpluses in the modern sense of overabundance have given new meaning to the word and have caused great difficulties economically and politically. These surpluses sometimes appear to be a particular phenomenon of this new technological age. Such is not the case. American farmers have produced a surplus for export since the early years of colonization of the New World. Since the mid-nineteenth century the American farm economy has been geared to production for export.
This export surplus furnishes large amounts of food and fiber to Europe and other parts of the world for more than a century. It has been a means by which the United States, since Colonial times, has bartered for those goods not produced within its borders. It was the means by which capital for economic growth of a young American nation in the nineteenth and early twentieth century was made available by the older and wealthier nations.

Agricultural exports accounted for more than three-fourths of the U.S. export trade between the Civil War and the early 1890's, Figure 1. By 1910 this amount had dropped to about one-half. The decline continued after World War I and through the depression of the thirties, reaching a low of 9 percent in 1940-41. Following World War II, agricultural exports were boosted through the use of lend-lease and foreign aid. Subsidies and other programs since 1949 have stimulated agricultural exports to about 20-25 percent of the U.S. total exports in recent years, Table 1.

Foreign demand expansion through regular market channels did not play a major role in proposed solutions to the surplus until recent years. Most early remedial legislation was built around dumping schemes and two-price plans. Current legislation has emphasized market development.

**Legislation and the Surplus**

The principal difficulty faced by Congress relative to agriculture in 1954 was a general glut of farm commodities owned by the government. The short-run problem was to dispose of the stored surplus in a manner acceptable both economically and politically to taxpayers. With this limitation, the only alternative was to recultivate the export trade that had diminished after 1930 when support levels had priced the principal American farm commodities above world market prices.

On July 10, 1954, Congress passed an act relating to foreign trade in agricultural products. The main purpose was to increase foreign consumption of U.S. surplus farm commodities. This was the new emphasis on demand expansion as opposed to dumping.

Renewed interest by the United States in export markets presented many potential difficulties among

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**Table 1. Value and Relative Percent of Agricultural and Total Foreign Trade of the United States, 1953-64**

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Exports</th>
<th>Imports (for consumption)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Agricultural</td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>Million dollars</td>
<td>Percent</td>
</tr>
<tr>
<td>1953</td>
<td>2,847</td>
<td>18</td>
</tr>
<tr>
<td>1954</td>
<td>3,054</td>
<td>20</td>
</tr>
<tr>
<td>1955</td>
<td>3,199</td>
<td>21</td>
</tr>
<tr>
<td>1956</td>
<td>4,170</td>
<td>22</td>
</tr>
<tr>
<td>1957</td>
<td>4,506</td>
<td>22</td>
</tr>
<tr>
<td>1958</td>
<td>3,855</td>
<td>22</td>
</tr>
<tr>
<td>1959</td>
<td>3,955</td>
<td>23</td>
</tr>
<tr>
<td>1960</td>
<td>4,832</td>
<td>24</td>
</tr>
<tr>
<td>1961</td>
<td>5,024</td>
<td>24</td>
</tr>
<tr>
<td>1962</td>
<td>5,034</td>
<td>24</td>
</tr>
<tr>
<td>1963</td>
<td>5,384</td>
<td>24</td>
</tr>
<tr>
<td>1964</td>
<td>6,348</td>
<td>24</td>
</tr>
</tbody>
</table>

Source: USDA.  
1 Year ending December 31.  
2 Preliminary.
foreign producers of agricultural commodities. Not only could the dumping of U. S. surplus commodities on the world markets cause a price break, but also many less well developed economies were in no position to buy producer items from the United States if we either disrupted their agricultural markets or decreased export revenue by sharply lowering the world price.

The problem was how to sell the U. S. surplus in world markets without disrupting world trade. Many countries could use additional amounts of food, but they could not bid for dollars in international exchange to buy producer goods from the United States. The Congressional answer to this problem was not to convert the foreign currency from the sale of surplus commodities, but to use it in the foreign country for specific goods and services in what would amount to barter and in some cases donations.

Overriding all other purposes was a dominant diplomatic note of caution that the United States should not cure its domestic farm ills at the risk of losing the friendly alliance of nations within its political orbit. With these and other factors to consider, the bill was enacted into law as the "Agricultural Trade Development and Assistance Act of 1954."

**Agricultural Trade Development and Assistance Act**

This law is commonly referred to as Public Law 480. In negotiating and carrying out agreements with friendly foreign nations to provide for the sale of surplus agricultural commodities under the act, the President was requested to take appropriate steps to assure that private trade channels were used to the maximum extent practicable. Also, he was to give special consideration to utilizing the authority and funds provided to develop and expand market demand abroad for agricultural commodities with appropriate emphasis on underdeveloped and new market areas.

**Market Development**

Executive Order No. 10,460 of September 9, 1954 designated USDA as the agency to carry out the provisions of Section 104(a) of the act, "To help develop new markets of U. S. agricultural commodities on a mutually benefiting basis."

The USDA immediately set forth definitions of the terms of the law. Accordingly, the phrase "develop new markets" is defined to include the maintenance or expansion of an existing foreign market for agricultural commodities as well as the creation of an entirely new market. Market development for a particular U. S. agricultural commodity may be either for that U. S. commodity directly, or for that commodity from all sources when it may be expected that U. S. exports of the commodity will benefit thereby. The phrase "United States agricultural commodities" is defined to include both raw and processed commodities of the types that originate on U. S. farms. For example, both fresh and processed oranges are included. Agricultural commodities do not have to be in U. S. government inventories or listed as surplus in the United States to be eligible for inclusion in Section 104(a) projects.

The basic plan of operation was to confine a project to a limited area, such as a single country.

A project would be undertaken only if there was a promise of contributing "to the effective creation, expansion or maintenance of markets abroad for U. S. agricultural commodities. Primary emphasis at all times will be on commercial markets."

The emphasis placed on commercial markets is of special significance. The market promotion plan was intended to give every opportunity for U. S. commodity groups to assume leadership in the promotional work and, at the same time, to allay the fears of the agricultural trade at home and abroad that normal marketing channels would be interrupted. This was stipulated in the law as the limitation under which the President was to negotiate such agreements.

To accomplish this end, USDA sought the cooperation of representative private trade groups that were industrywide or nationwide in membership and scope. Actually, the USDA was without previous experience in directing foreign market development work. For this reason the original plans and directives as outlined by FAS were without precedent. These original plans and directives were the contribution of a group of specialists drawn largely from the ranks of USDA and assembled into a foreign market development team.

The market development program was divided into three principal areas: market promotion, market assistance and marketing research and surveys.

The area of market promotion covers a broad range of activities aimed at expanding and maintaining markets for U. S. agricultural commodities in foreign countries, with primary emphasis on increasing both industrial and consumer uses of particular products so there will be a larger market in which U. S. producers and exporters may participate.

In the area of market assistance, the emphasis was to be placed on helping foreign importers, processors, wholesalers and retailers solve any technical problems associated with their particular activities.

The third area of market research and surveys called for (1) short-term surveys relating to developing the programs, (2) short-range economic research of a more detailed nature that would support proposed programs or existing projects, (3) a study of
basic market problems to assist in adapting U. S. practices to the foreign country, (4) long-range economic research to assist FAS and trade in economic planning and (5) research in the physical sciences as a broad and cautious generalization to include almost any type of study of the physical sciences not being duplicated.

One of the most unusual aspects of the market development program is that the agricultural industry and government joined forces to promote the sale of U. S. farm commodities in foreign countries. Equally significant is the instigation of a trade expansion program by government instead of by commodity trade. While this is not without precedent in history, it is a significant modern change in the responsibility and scope that government has assumed.

In project participation, FAS sought to rely upon representative private trade groups in the United States and foreign countries as cooperators to carry out Section 104(a) projects to the maximum extent possible. The cooperators were required to make a financial contribution to a development project that included, at the minimum, the dollar cost for maintaining that part of the cooperators' program in the United States where these foreign P.L. 480 funds could not be spent. In the long run, it was hoped that the U. S. agricultural industry would assume all financial responsibilities for an aggressive, continuing promotional program to sell surplus commodities abroad with FAS acting only in an advisory capacity.

Subsequent developments, however, have enlarged FAS's responsibilities under P.L. 480. Mounting surpluses, despite significant increases in foreign agricultural exports, have brought pressures emphasizing certain other aspects of the program not directly a responsibility of FAS. This emphasis is in the use of agricultural surpluses for economic development of friendly foreign allies. This aspect of P.L. 480 is significant because it affects the amount of funds generated by the sale of commodities. This money then becomes available for market development work.

Public Law 86-341 provides that, from sales proceeds and loan repayments, no less than the equivalent of 5 percent of the total sales made after September 21, 1959 shall be made available in advance for market development activities. Emphasis is given to obtaining agreements with purchasing countries for a conversion of a portion of sale proceeds to currencies of third countries where funds are needed to carry on market development projects.

The earlier result had been that funds were sometimes available in larger amounts to areas that did not require as much money in terms of the size and potential of the market development program. This law was intended to allow foreign allocation of funds to those areas where the largest programs, in terms of the market's potential, were in operation.

Type of U. S. Cooperator

The following commodity groups indicate the type of organizations with which FAS entered into Italian market development activities.

1. The National Cotton Council (superseded by Cotton Council International on January 1, 1957) signed during May 1955 to promote cotton.

2. The Nebraska Wheat Growers Association signed the original agreement to promote wheat and was superseded in October 1959 by the Great Plains Wheat Market Development Association, Inc.

3. The Soybean Council of America signed cooperator agreements with FAS in March 1957 to promote soybeans and soybean products.

4. The Institute of American Poultry Industries signed its agreement in June 1958 to promote the sale of U. S. poultry in Italy.

5. The Grain Sorghum Producers Association entered into an agreement in December 1958 to promote grain sorghum. The project was broadened in June 1960 to promote all U. S. feed grains and a new agreement was entered into with the Feed Grains Council of the United States.

The manner in which each cooperator group started its individual market development project followed a similar pattern in each country. The program agreement for a foreign currency market development program was made between the cooperator and FAS and contained a general understanding with regard to "the fields of activity, areas of operation and other conditions . . . ." A single director for a country usually was designated, but this was not always the case. Some directors worked on separate programs in several countries. The early period, after establishment in a country, often was devoted to getting acquainted with the market of the country and attempting to establish some rapport with individuals associated with the importing trade.

The methods used by program directors varied considerably between countries as well as between commodities. However, in the early phases of P.L. 480 market development work, considerable reliance was placed on individuals, with heavy responsibilities given to the U. S. agricultural attaché to determine the best method to use in approaching the trade.

During this early phase, cooperators operated under rather loosely defined areas of responsibility with a general lack of directive as to the precise purpose of activities, source of advice or guidance. The degree to which coordination was effectuated among the various activities appeared related to the cooperator's experience in international trade. The Cotton Council International, for example, never seemed to doubt the wisdom of its decisions in market development activities or the direction its promotional efforts
should take. However, the wheat and feed grain promotional efforts received little or no help from the experienced U. S. grain trade. The promotional program was instigated by newly formed producer groups having almost no experience in storing, handling and merchandizing the basic commodity. For this reason the early phases of the wheat and feed grain program were less sophisticated than the cotton program.

A FEASIBILITY MODEL TO DETERMINE MARKET POTENTIALS

The previous discussion provided a background for consideration of a model to evaluate the prospects of increasing foreign trade for U. S. agricultural commodities. The model, Figure 2, is designed with ten separate factors considered important to increased sale of U. S. farm commodities in foreign countries.

Figure 2. A feasibility model for U. S. agricultural market development work in foreign countries.
The designation of these factors as being important in market development work is the result of a study made in Italy in 1960 by Stelly and Kirby of Texas A&M University.

Order I(A) is concerned with three domestic limitations to trading which are: Section 1 — Adequate U. S. Surplus Production, Section 2 — Favorable Competitive Position and Section 3 — Packaging and Transportation.

Order I(B) is involved with three factors limiting trade in a foreign country. These are: Section 1 — Restrictions to trade in a foreign country, Section 2 — Production deficit in a potential market and Section 3 — Conversion of foreign currencies to dollars. All six parts of Order I must be favorable before further consideration is advisable because the exporting firm has little control over them. Information for this portion of the model may be obtained from the U. S. Government and other agencies in the United States.

For this reason, the determination of feasibility for U. S. market development is relatively inexpensive to this point. Other factors in the model require a study of the market situation in the foreign country.

**Order I(A) (United States)**

**Section 1. Adequate U. S. Surplus Production**

This is the keystone to foreign market expansion because without a product to sell there is no need for market development. A favorable finding for a specific U. S. agricultural commodity requires that such commodity be in adequate supply to furnish increased amounts to an expanding foreign market.

**Projected Land Needs**

The total land area of the 50 states shown in Table 2 is 2,271 million acres; about 458 million of this is classified as cropland. About 80 percent of the 458 million is used for crops; cropland pasture accounts for 14 percent, and soil improvement and idle cropland make up about 7 percent. The projection of cropland requirements for crops in 1980 estimates a reduced need of 51 million acres despite an estimated population increase of 67 million and an export volume 40 to 45 percent above the 1960 level.

**Surplus**

From what present use, in the distribution of agricultural commodities during a marketing year, will increased foreign sales be taken? In order that the domestic price level of U. S. commodities remains stable, the increased export sales must originate from a portion of the export distribution system already using part of the production or have a demonstrated capability of production expansion at the existing domestic price level. For wheat, cotton and grain sorghum, it is that part termed surplus by USDA which "may reasonably be expected" to be in excess of domestic requirements, adequate carryover and anticipated exports for dollars, as determined by the Secretary of Agriculture.

Government programs are presently channeling commodities into foreign trade in significant amounts through Public Laws 480 and 87-195. Public Law 480 exports include sales for foreign currency, famine and other emergency relief, foreign donations, barter and long-term supply and dollar credit sales. The source of the commodities to fulfill these export commitments is from the surplus stocks of U. S. production.

Public Law 87-195, Act for International Development (AID), was passed by the Eighty-seventh Congress for the purpose of making assistance available to foreign countries, upon request, for "... the creation of an environment in which energies of the people of the world can be devoted to constructive purposes, free of pressure and erosion by the adversaries of freedom ... assistance under this part should be complemented by the furnishing under any other Act of surplus agricultural commodities and by disposal of excess property under this and other Acts.”

Information from Table 3 shows that agricultural commodities which move under the aforementioned government programs are a substantial part of the total agricultural export trade and accounted for one-third of total foreign sales in the fiscal years of 1954-55 through 1961-62.

---

**TABLE 2. ACREAGE OF HARVESTED CROPS, CROPLAND HARVESTED, CROPLAND USED FOR CROPS AND TOTAL CROPLAND FOR 1954, 1959 AND PROJECTED REQUIREMENTS FOR 1980**

<table>
<thead>
<tr>
<th>Type of cropland</th>
<th>1954</th>
<th>1959</th>
<th>1980 projection</th>
<th>Change 1959-80</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total U. S. acres</td>
<td>2,271</td>
<td>2,271</td>
<td>-42</td>
<td></td>
</tr>
<tr>
<td>Acres of crops harvested</td>
<td>346</td>
<td>330</td>
<td>288</td>
<td>12</td>
</tr>
<tr>
<td>Acres double cropped</td>
<td>7</td>
<td>7</td>
<td>6</td>
<td>1</td>
</tr>
<tr>
<td>Cropland harvested</td>
<td>339</td>
<td>323</td>
<td>282</td>
<td>17</td>
</tr>
<tr>
<td>Crop failure</td>
<td>12</td>
<td>10</td>
<td>11</td>
<td>1</td>
</tr>
<tr>
<td>Cultivated summer fallow</td>
<td>29</td>
<td>29</td>
<td>24</td>
<td>5</td>
</tr>
<tr>
<td>Total cropland used for crops</td>
<td>380</td>
<td>362</td>
<td>317</td>
<td>45</td>
</tr>
<tr>
<td>Soil improvement and idle cropland</td>
<td>19</td>
<td>30</td>
<td>21</td>
<td>9</td>
</tr>
<tr>
<td>Cropland used for pasture</td>
<td>66</td>
<td>66</td>
<td>69</td>
<td>3</td>
</tr>
<tr>
<td>Total cropland</td>
<td>465</td>
<td>458</td>
<td>407</td>
<td>51</td>
</tr>
</tbody>
</table>

Source: USDA, A Land and Water Resource Policy for the United States Department of Agriculture, Washington, D. C., prepared by the Land and Water Policy Committee, January 1962, pp. 101 and 106. *(The number of acres needed is based on the following estimates of population, income, exports, farm technology and other factors: *(1) Population projection is 247 million for 1980 and is the median figure used in the studies by the Senate Select Committee on National Water Resources, p. 101. *(2) Index of disposable personal income (Index 1960 = 100) is estimated to be 212 in 1980, p. 96. *(3) Exports for 1980 were estimated at a volume 40 to 45 percent above 1960 exports, p. 97. *(4) Crop yields, water requirements and other factors affecting estimated output in 1980 were based largely on the projection of trends during the decade of the 1950's, p. 95. *Acreage includes Hawaii and Alaska. *Acrecs of crops harvested include double-cropped acres.)*

<table>
<thead>
<tr>
<th>Area</th>
<th>Total agricultural exports under specified government programs</th>
<th>Total agricultural exports outside specified government programs</th>
<th>Total agricultural exports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total U. S. exports</td>
<td>Thousand dollars</td>
<td>Thousand dollars</td>
<td>Thousand dollars</td>
</tr>
<tr>
<td>1954-55</td>
<td>866,230</td>
<td>2,278,049</td>
<td>3,144,279</td>
</tr>
<tr>
<td>1955-56</td>
<td>1,373,599</td>
<td>2,119,009</td>
<td>3,492,608</td>
</tr>
<tr>
<td>1956-57</td>
<td>1,957,059</td>
<td>2,766,712</td>
<td>4,723,771</td>
</tr>
<tr>
<td>1957-58</td>
<td>1,250,961</td>
<td>2,251,352</td>
<td>4,002,313</td>
</tr>
<tr>
<td>1958-59</td>
<td>1,253,766</td>
<td>2,464,944</td>
<td>3,718,710</td>
</tr>
<tr>
<td>1959-60</td>
<td>1,313,708</td>
<td>3,213,351</td>
<td>4,527,059</td>
</tr>
<tr>
<td>1960-61</td>
<td>1,556,948</td>
<td>3,388,636</td>
<td>4,945,584</td>
</tr>
<tr>
<td>1961-62</td>
<td>1,633,542</td>
<td>3,505,295</td>
<td>5,138,837</td>
</tr>
</tbody>
</table>


Accordingly, using the definition of surplus in P.L. 480, those commodities presently being exported from surplus stocks under specified U. S. government programs may be transferred to dollar sales because such dollar sales now have precedence over stock movements originating from surpluses. If a foreign market sales increase occurs, the required saleable supplies can come from surplus stocks.

Congressional Policy

Because the availability of the supply of surplus stocks depends on legislative measures, it seems advisable to consider the policy and attitudes of the U. S. Congress. The Eighty-seventh Congress stated its policy toward surpluses in Section 402 of the Food and Agriculture Act of 1962. It directed the Secretary of Agriculture and the Commodity Credit Corporation to adopt policies designed to minimize the acquisition of stocks by CCC and encourage the marketing of farm commodities through private trade channels.

Chairman Harold D. Cooley, House Committee on Agriculture of the Eighty-seventh Congress, expressed the sentiment of that committee toward U. S. surpluses as follows:

... this committee wants to get rid of the surpluses. We want to get out of the warehouse business and sell the commodities, food and fiber. We have given to the Department of Agriculture every authority that has been requested here, and yet you still have a surplus problem.

Future Farm Programs

Another consideration in the availability of surplus production lies in the adoption of a future farm program in the United States that would significantly reduce the amount of farm commodities produced. Some agricultural economists believe that by use of government programs sufficient resources can be moved out of agriculture to significantly reduce total agricultural production. However, Bird points out that many resources already have been taken out of agriculture but know-how is increasing at such a rate that the resources left in American agriculture can regroup and go on producing a surplus. Bitting concurs when he attributes the 40 percent increase in crop yields during 1940-61 to the greater use of fertilizer, better plant varieties, more and better chemicals and machinery and more skillful farming. Certainly the U. S. farm programs of the past have not been completely successful in reducing surplus production.

Thus, U. S. land resources for growing food and fiber are not in maximum production, and projected demands are expected to employ even less of the total acreage than is presently in cropland use. About one-third of U. S. agricultural exports are drawn from surplus production and dispersed through government programs which Congress believes to be less desirable than sales for dollars. Additionally, some economists see no significant lessening of the total supply of agricultural production in the future. Therefore, it appears that adequate supplies of U. S. agricultural commodities will be available in the future and from this supply a sufficient amount, now termed surplus commodities, will be available to export for dollar sales.

Section 2. Favorable Competitive Position

The purpose of Section 2 is to determine the competitive position that U. S. products hold in world markets relative to other world suppliers. This point will be analyzed from the U. S. position on export prices, transportation costs and other competitive factors affecting U. S. sales, such as quality considerations.

Price

Serious imbalances in the supply and demand situation for several agricultural commodities appeared in the early 1950's. Farm price support programs tended to hold U. S. export prices at a level higher than prices of other world suppliers. By 1953 the imbalance between domestic and world prices brought increasing U. S. stocks of storables and declining prices of both storables and nonstorables. The legislative means chosen to expand exports was to intensify use of already existing legislation plus adoption of new acts. They provided the means by which prices were equated between the U. S. domestic and the lower world market price for certain agricultural products.

Legislation Affecting Export Pricing

U. S. government export programs initiated to encourage the export of farm commodities may be classified into two broad groups: programs which
facilitate the export of farm commodities through regular commercial channels and those which complement the government's assistance to the economies of developing countries. The first category is of greatest significance to this study.

Section 32 of Public Law 320 was passed by the Seventy-fourth Congress in 1935. This act provided that an amount of money be appropriated each year equal to 30 percent of the duties collected under the custom laws during the period January 1 to December 31. Among other purposes it authorized the Secretary to use the funds to "... encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with the exportation thereof or of indemnities for losses incurred in connection with such exportation . . .".

Section 205 of the Agricultural Act of 1956 authorized the appropriation of $500 million to enable the Secretary to carry out the provisions of Section 32 on an expanded scale. One limitation was that not more than half of the sum could be devoted to a single commodity or product in any one fiscal year.

The Agricultural Act of 1949 limited the CCC in disposal of its stored commodities to a sale price not lower than 5 percent above the current support price for such commodities plus reasonable carrying charges. One exception affecting the movement of CCC-owned commodities in export trade was Section 407(F) which allowed CCC-owned agricultural commodities to be sold into foreign trade channels at less than the minimum figure at which the same commodity could be sold to domestic buyers. The products included under the act were, "... any commodity owned or controlled . . ." by the CCC.

In 1956, the CCC inaugurated its first payment-in-kind export program for wheat under authority of the Charter Act of 1948. Under this program, certificates are issued to exporters equal in value to the difference between the domestic and world price of the commodity after proof of export of the commodity from private stock. These certificates are redeemable in wheat from CCC stocks.

In 1958, corn was placed on the same type program and was followed in the same year by barley, oats, grain sorghum, rye, rice and cotton. Nonfat dry milk was placed on the list in 1962. Export subsidy payments now are made in cash on wheat flour and cotton products and in kind for the other commodities. Until inauguration of the payment-in-kind program, the CCC sold the bulk of its commodities for export at competitive bids or announced export prices.

Another CCC function is the extension of credit to commercial firms exporting certain farm commodities and products. Payment for such products may be deferred up to 36 months.

The Export Bank, as an independent agency of the U. S. government, also finances imports and exports by extending credit to private enterprises and foreign governments purchasing U. S. goods and services including farm commodities. Such loans are made for periods of 12 to 15 months and are repayable in dollars. On February 5, 1962, the Export Bank, in cooperation with the Foreign Credit Insurance Association, announced a new credit insurance program for U. S. exporters. It will insure both industrial and agricultural exporters against commercial and political risks on short term transactions.

Other programs have the similar purpose of disposing of U. S. surplus commodities plus the aim to complement foreign economic assistance for underdeveloped countries. The Mutual Security Acts of 1951 and 1952 made some surplus commodities available for foreign use. An amendment to this Act made by the Congress in 1953 (Section 550) was a new type of disposal program. It provided the Secretary of Agriculture not less than $100 million nor more than $250 million with which he could finance the sale of surplus agricultural commodities to foreign countries allowing them to pay for such goods in their own currency. The foreign currencies collected in payments could not be transferred into the United States. In 1955, Section 402 foreign currency sales replaced the original Section 550 program under the Mutual Security Act.

While the Agricultural Act of 1949 provided the machinery for surplus disposal, the U. S. trade emphasis up to 1950 was mainly in supplying the needs of war-torn economies. The Mutual Security Acts of 1951 and 1952 were directed toward strengthening the economies of underdeveloped countries. The non-convertible currency amendment in 1953 made it possible for a greater number of countries to purchase CCC commodities. But a still newer phase was opening in 1953 because the problem of excess stocks could no longer be ignored. Surplus disposal considerations began in earnest and were marked by new problems.

The Agricultural Trade Development and Assistance Act of 1954, known as P.L. 480, emerged as a definite attempt to dispose of mounting surpluses and to increase foreign markets for those commodities. This act was an extension of the Agricultural Act of 1949 as it related to the movement of surplus commodities into foreign trade at prices lower than domestic prices. The amendment to the Mutual Security Act of 1951 which allowed the acceptance of foreign currencies without conversion into dollars was made more specific and more comprehensive in P.L. 480.

Barter operations under CCC involve the exchange of surplus commodities for strategic or off-
shore construction programs of the U. S. government, or for materials which can be used in U. S. foreign aid programs. Legislative authorizations include the CCC Charter Act and the Agricultural Acts of 1949, 1954 and 1956. Title III of P.L. 480 broadened the authority of the barter program. Wheat, cotton and feed grains are the major commodities exported for barter. Other programs operating with the aim of economic assistance to developing economies include commodity grants and donations.

**Transportation**

The previously-stated assumption is that market development activities concerned with this model are to increase dollar sales abroad. Since the emphasis is on hard money transactions, the movement of U. S. commodities in ocean shipping must use ships whose rates will allow them to meet foreign competition.

Agricultural commodities exported under certain government-to-government export programs are required by law to ship a certain percent of the volume in U. S. bottoms. The legislation requiring this support of U. S. shipping is the Cargo Preference Act (P.L. 664), passed by Congress on August 26, 1954. Its purpose was "for the transportation of a substantial portion of waterborne cargoes in United States-flag vessels."

...whenever the United States shall procure, contract for, or otherwise obtain for its own account, or shall furnish to or for the account of any foreign nation without provision for reimbursement, any equipment, materials, or commodities, within or without the United States, or shall advance funds or credits or guarantee the convertibility of foreign currencies in connection with the furnishing of such equipment, materials, or commodities, the appropriate agency or agencies shall take such steps as may be necessary and practicable to assure that at least 50 per centum of the gross tonnage of such equipment, materials, or commodities, computed separately for dry bulk carriers, dry cargo liners, and tankers, which may be transported on ocean vessels shall be transported on privately owned United States-flag commercial vessels, to the extent such vessels are available at fair and reasonable rates for United States-flag commercial vessels in such cargoes by geographic areas....

An amendment to the Trade Development and Assistance Act, P.L. 480, Title IV, was approved September 21, 1959 and provided for long-term supply and dollar credits to foreign governments. A subsequent amendment in 1963 extended the lending limitations to include U. S. and foreign private enterprise entities of friendly nations. At least 50 percent of the tonnage shipped for dollars, under this title as amended, also must move in privately owned U. S. flag commercial vessels.

While the 1963 amendment restricts the choice of ship used when dollar sales are financed through Title IV arrangements, other sales for dollars in traditional market channels are not restricted. Because his choice of ships, (whether of U. S. or foreign registry, of conference or tramp rates) can be made freely, the U. S. exporter for dollar sales is considered to be "transportation competitive."

**Section 3. Packaging and Transportation**

When selling U. S. agricultural commodities abroad there is a complex interdependence between the preparation of a product to be moved long distances without damage and the types of transportation facilities in which the product may move. Both of these will be affected by transportation policies and regulations, rates and costs. Within the limitations imposed by these factors is the amount of technology that can be economically applied to the packaging and movement of the commodity consistent with the economies necessary to meet competition from other U. S. and world traders.

When considering the costs associated with developing a foreign market, limitations to the application of unused technology and to the amount of technology being developed and its potential for improving the U. S. competitive position in the future must be recognized.

The USDA, state experiment stations, industry and other organizations conducted about 350 man-years of research in fiscal 1962 on the improvement of transportation and storage facilities.

From these efforts evolves improved technology that may be economically employed immediately. An undetermined amount is inapplicable because the current price structure of the product makes the application cost of the technology too high. This presently inapplicable technology forms the unused reserve that must await either a price change or contributing refinements to make applications economically feasible.

One example of the dynamic nature of the transportation of U. S. farm commodities is the more than 26,000 tons of agricultural air freight moved by five major airlines in 1961. This was a substantial increase over the amount moved in 1959. Many airline officials believe the new turboprop planes designed for cargo, coupled with improved ground handling facilities, will reduce freight rates to about 15 cents per ton-mile compared with their present rate of 20 cents, which is about the same as rail express. Such transportation by fast air freight could serve
to overcome some quality problems of fruits and vegetables in overseas shipments via water transportation where refrigeration, container and stowing problems have seriously affected the market for U.S. products.

It is assumed that the U.S. exporter of agricultural products now is using all the technology that can be profitably employed at current price levels. Therefore, the product or commodity will be produced, packaged and transported in the same form as U.S. distributors and foreign buyers now are accustomed to receiving it.

The reason for making technology static is that the untried techniques do not always provide the most reliable figures for cost projections. This does not rule out future technological change in an established market after profit spreads have been determined by experience. However, for this study, the costs for foreign delivery of U.S. products should be based on packaging and transporting conditions which the exporter knows from experience can be met.

Order I(B) (Foreign Country)

If it has been determined in the three previous sections that a U.S. exporter of agricultural products is in a favorable competitive position with other world exporters to furnish a commodity to a foreign country, then the next logical step is to determine the accessibility of the foreign consumer, whether the prospective market is sufficiently large to warrant the expenditures necessary to develop the market and whether the foreign currency received for the U.S. product can be converted into dollars at an equitable rate of exchange.

Section 1. Restrictions to Trade in a Foreign Country

The first foreign barrier to trade with a country usually is its import regulations. Such regulations are a function of the government of that country, and, if restrictive in nature, may range from measures to regulate the quantity of foreign goods being imported to a direct prohibition on certain imports. A second restraint to import trade that may be non-political in nature but nonetheless effective is the social customs and traditions of a country. When either of these restrictive forces prohibits trade in a U.S. product from achieving an economically feasible volume of sales, then such a prospective market is considered to be unfavorable for market development work. Because this model is primarily concerned with dollar sales by private firms, such firms must consider they have no ability to change foreign regulations through government-to-government negotiations. Additionally, some social attributes of a foreign country which limit trade are considered to be beyond the power of a private firm to alter to the degree that a significantly larger volume of trade is possible.

Political

Political restrictions to trade encompass two facets of vital importance to the ability of firms to place their product competitively on a foreign market. First, there are restrictions to trade from tariffs, import quotas and embargoes, variable levies and gate-price systems, conditional imports, advance deposits, import licensing and bilateral agreements. Second, there are monopolies and monopsonies of a product's purchase and distribution system within a country. This may include private business operating under government authority, state trading agencies or quasi-government agencies. Import discrimination and preferential treatment also may complement restrictive practices which affect free trade with all countries and may be a function of any of the three areas in which monopoly and monopsony operate.

In some countries, any consideration of the statutory limitations discussed under political restrictions are superfluous because factors such as efficiency of domestic production, consumer preference for the domestic product and transportation costs limit economically feasible trade.

Tariffs

Tariffs may serve two purposes of notable importance to the importation of products. They may be used for raising revenue or protecting both agricultural and non-agricultural industries.

If a tariff is used to raise revenue for a country and is applied to all foreign countries alike, the level of the tariff must be considered. When properly applied for revenue purposes, a tariff should be low enough to not significantly reduce the volume of trade. There must be a further consideration of whether the tariff has been in effect long enough that an equilibrium in supply and demand at the higher price level caused by the tariff has been reached, and whether the current level of import demands includes the prevailing tariff structure. If the tariff allows a desirable volume of trade under stable conditions and is applied to all importers without discrimination, it is not considered a limiting factor to successful market development.

However, if the purpose of the tariff is to protect the country's agricultural industries, and the level is sufficiently high that a notable expansion of domestic production is taking place at a price equal to or lower than the U.S. domestic price plus transportation to the proposed foreign markets, and further expansion of production in the country is possible through arable land availability — then market development work should not be undertaken.

Import Quotas

Import quotas are a notable deterrent to the expansion of commodity markets within a country. Tariffs, in theory, do not close access to a market in a
physical sense, though the high level of the tariffs may serve to accomplish the same purpose. The quota system, however, physically limits importation and may prevent a volume of import sales sufficiently large to justify market development expenditures. There are varying kinds of quota arrangements including a combination of tariff payments plus limitations in the quantity of produce permitted to enter a country.

**Variable Levies**

Variable levies and gate-price systems are considered to be a trade barrier because, with variation of the import tax, they have an impact upon the quantity of a product imported. For example, the European Economic Community now is using a variable levy system on grain imports to give protection to the domestic price support by control of the volume of trade.

**Conditional Imports**

Conditional imports are demonstrated by domestic mixing regulations. Such regulations require that a portion of the domestic production of an agricultural commodity be used in preparation of food or feed for the retail trade. In domestic use, this limitation makes imports dependent upon the internal conditions of a country's productivity, utilization, price and other factors.

**Advance Deposits**

Advance deposits on imports are considered barriers when used in a discriminatory manner against the U. S. agricultural exporter.

**Import Licensing**

Import licensing is a deterrent to market development if such licenses are not granted automatically to all responsible importing countries. Discriminatory issuance can work against U. S. exporters even after a market has been established for a number of years. Failure to receive a license could mean a loss not only of sales volume but also the investment in the development of the market.

**Bilateral Agreements**

Bilateral agreements also may limit market development work for U. S. commodities where the United States is not a party to the arrangement.

**Health Regulations**

Health and sanitary regulations can be used as barriers to trade, although their existence does not necessarily indicate their use for this purpose. Only when such regulations are used in a discriminatory manner should they be considered as restraints to trade.

Another restriction which can influence the expansion of markets for U. S. agriculture is control of the use of a country's available foreign exchange by directing the types of import purchases to be made. Although it often acts as a stabilizer for the domestic economy, plus channeling imports to producer goods rather than consumer goods, this is a restraint to trade, and its use is sometimes discriminatory.

All the aforementioned political restrictions are capable of restraining trade with foreign countries. Their effectiveness depends on the degree of application. A recognition of a changing trend in government by relaxation of the severity of application may be sufficient cause to temporarily ignore political restrictions and undertake market development work. Italy, during the Fascist regime, sought by government policy to encourage wheat production to a level of self-sufficiency. This was accomplished, but at a high production cost necessary to support the expansion program on poorer grades of land planted to wheat. Import restrictions on wheat were prohibitory. During the decade 1950-60 there was a stated reversal of this policy because Italy's wheat was not only very high in price compared with world markets, but the bulk of it was of a low quality protein which changing domestic consumption patterns no longer demanded. The change in policy, however, was a gradual one to allow the domestic farm economy to make its adjustment. Market development work also must adjust its program to the gradual change.

The second part of the discussion of political restrictions deals with monopoly in a foreign country. Such a monopoly may be a private organization operating under government authority, state agencies or quasi-government agencies. Of equal importance is the monopolistic aspect of such agencies which may exert strong downward price pressures on purchases because of the magnitude of their buying power. Market development work for U. S. commodities, under monopolistic and monopsonistic conditions, must be of a limited nature and will depend upon the conditions within each country. For example, Italy was a state trader in wheat until July 1, 1963 when it went under the variable levy-gate price systems of the Common Agricultural Policy of the European Economic Community. During Italy's postwar reconstruction, U. S. aid under the Marshall Plan and P.L. 480 purchases for non-convertible currencies were extensively used for procuring U. S. wheat. During this period, a limited program by U. S. market development workers was carried on with educational efforts showing that the United States could furnish the type of wheat Italians needed. When Italy reached a position in late 1960 where it was ready to purchase wheat for dollars, U. S. market development work laid the foundation for purchases through educational work on specifications allowing Italian buyers to meet their exacting need for supplemental wheat. The educational work was limited in scope and was directed toward those individuals who selected the wheat when the time came for the state to buy. Thus, when deal-
ing with state traders in a commodity that is unidentifiable to the public, it is necessary to direct market development work toward a relatively few individuals. On the other hand, if a commodity is identifiable to the consumer, the development work could be directed to the public, expecting public demand to exert pressure on state purchasers. In either case, a limited program of market development activity is more appropriate under circumstances of monopoly or monopsony because conditions may exist that are beyond the control of the U. S. exporter to overcome. He should, therefore, hedge his investments in such a market by shifting part of the promotional resources to another country whose markets will have a better chance to reflect the additional effort in market development work.

Social Factors

The second broad category of restrictions to trade are the social factors which act to restrict or limit trade. For example, religious considerations would make unwise any attempt to expand the sales of such products as pork to Israel or beef to the Hindus of India. However, there are more subtle consumer preferences which strongly resist expanded sales. For example, the Italian housewife has displayed a determined preference in poultry purchases to those chickens whose fat is heavily yellow pigmented. She also has demonstrated a preference for the bird prepared for market by bleeding and plucking the feathers only.

The housewife has come to associate the grain-fed bird with this appearance. Her preference is further encouraged by the domestic poultry industry's strong ties of trade with Argentina which furnishes the bulk of such corn. The housewife's preference for the bird marketed with only the feathers removed results from the inability of the domestic poultry market to furnish a differently-dressed bird to the buyer through the system of unrefrigerated outlets by street vendors and the lack of refrigeration in the home. Poultry under these conditions is perishable. The Italian shopper is a canny buyer who has learned to protect the health of her household. She insists on freshly-killed poultry, and some buyers lay claim to the ability to determine how recently the bird has been killed by the deterioration of the eyes and the condition of the mucosa within the mouth. Therefore, the head on the bird is important from a health standpoint as well as that the head, feet and entrails are used in stew to stretch the household budget.

The broad-breasted American bird with lighter pigmented fat, prepared for the consumer by evisceration and removal of head and feet, has been regarded with suspicion in Italy. Additionally, the frozen bird which can be transported to Italy from the United States is also regarded with skepticism.

With the establishment of supermarkets in Italy there is evidence of change in the buying habits of the Italian consumer. However, this change will occur gradually over a long period. In the short run, an American firm could not support a market development program for U. S. frozen poultry.

Such an example demonstrates a foreign consumer preference that must be recognized as a deterrent to market development work. These preferences may be as varied as the cultures which produced them and, therefore, resist any effort to be handily categorized. However, they should be considered when studying foreign market feasibility and should be given equal weight with political restrictions acting as deterrents to trade. Thus, both political and social forces exert critical influence upon market development work. The political forces are more tangible and predictive; they are also more handily studied through experience with similar measures used by other nations. Conversely, social forces are a product of the people of a country and become infinitely more complex because each individual contributes some separate understanding to the make-up of the total tradition. Over time these two forces may become separately indistinguishable since either may contribute to the formation of the other. The establishment of a predictably successful market development program depends on whether either political or social measures or both currently allow a volume of trade that is sufficiently large to make such a market profitable. If the market is not currently using a sufficiently large export volume, as a result of such barriers, then the market potential must be considered unfavorable because the removal of such barriers is such a slow process that a private firm cannot afford the time and cost involved.

Section 2. Production Deficit in a Potential Market

To determine the potential of a foreign country as a market for a U. S. agricultural product there should be an evaluation of the physical ability of that country to fulfill its own needs from domestic production. This physical ability is influenced by (1) availability of arable land, (2) whether the country's government is directing a concerted effort to increase yields and expand acreages of a specific commodity, (3) the country's population trends which can indicate developing consumption patterns and (4) the rate of economic growth and development which may indicate how much the consumer can buy as well as the expected dietary changes associated with changing income levels. However, for this model the most important consideration in determining the foreign market's potential for expanded sales is the amount currently being imported. This im-
port level will indicate the degree to which domestic production is supplying the market and whether the production deficit is of sufficient magnitude to consider the investment in market development work.

It is assumed that countries or firms already supplying such a market will continue to be competitive. The new U. S. supplier in the market can expect to share the market and must determine when such an expected share is sufficiently large to consider the investment in market development work.

World trends in population and economic growth and development indicate an increased potential for U. S. agricultural exports. A study by Christensen and Mackie concerned with foreign economic growth and development points out that in recent years the best markets for U. S. agricultural products have been Japan, the United Kingdom, West Germany, Canada and the Netherlands, all highly developed economies. Over the long term they believe that the less-developed countries are potential customers for much larger quantities of U. S. products.

Figures 3 and 4 demonstrate how changes in the compound annual income growth rates in developed and less-developed countries have been associated with changes in imports of all products. Changes in U. S. imports are compared with changes in imports in other countries.

For developed countries, total income and imports increased at the same rate, 6.8 percent a year, during 1950-61, Figure 3. Imports from the United States increased 6.5 percent annually, slightly less than the rate for all imports. Agricultural imports from all countries increased at the rate of 4.7 percent while those from the United States increased at the lower rate of 3.3 percent per year.

In the less-developed countries, total imports from the United States increased only 3.8 percent while those from other countries increased 5.1 percent, Figure 4. The growth rate of income was 5.2 percent compared with the developed countries' rate of 6.8 percent. Agricultural imports from all countries increased 1.9 percent while those from the United States increased 5.5 percent. Rapid expansion of agricultural imports to the less-developed countries is attributed by Christensen and Mackie to the influence of P.L. 480 exports.

Their study indicates that if the 1950-61 growth rates for income and trade continue, by 1980 the total value of agricultural products exported from the United States will be 2.8 times larger than in 1960 and

![Figure 3. Total income and imports of developed countries.](image)


1Includes countries of Western Europe, Canada, Australia, New Zealand, Japan and Republic of South Africa.

2Income and imports of the United States are excluded.

![Figure 4. Total income and imports of less-developed countries.](image)


1Includes all countries in Africa (except Republic of South Africa), Asia (except Japan and Communist Asia) and Latin America.
will increase from $4.3 billion in 1960 to $9.8 billion in 1980.

Population
Population growth is another significant area of consideration when estimating future agricultural demand in world markets. While income and trade growth rates have only a tacit recognition of population increases, there is a close relationship between the demand for agricultural exports determined by income and trade trends and demand determined by the population's projected food needs.

Ezekiel, in a discussion of population growth and food needs, projects the population growth rate for less-developed countries at 2.4 percent to 1970. This rate is twice that of the developed countries. If this rate of population growth is maintained until the end of this century, it is estimated the world food supply would need to be doubled by 1980 and tripled by the year 2000.

Food production has been increasing in most areas of the world. Food production in 1960-61, when compared with the 5-year period centered around 1950, shows an aggregate increase of about 35 percent in Latin America, 38 percent in the Far East, 42 percent in the Near East and 23 percent in Africa. For Western Europe the increase was 40 percent, and in Eastern Europe and the Soviet Union the increase is reported to be 50 percent. In North Africa the increase was only 20 percent over the 1950's, due in part to efforts to restrict production.

Ezekiel points out that despite the gains in productivity during the past decade, food production levels per capita in most underdeveloped regions have not regained the levels reached before World War II; while in some high income countries even larger food surpluses may emerge during the current decade.

Evidence indicates that demand for food is increasing and will continue to do so in the years ahead; and while agricultural production is also increasing, it is not expected to equal the food needs in most of the underdeveloped regions of the world. Therefore, on a world-wide basis there are opportunities for increased sale of U. S. agricultural products because of population growth.

Expansion of sales of U. S. agricultural products is expected to come from an increase in the economic growth rate which may provide increased incomes for the purchase of food, population growth with its physical needs for more food and sales to customers presently being supplied by competing export nations.

Population and economic growth rates are plus factors for increases in a foreign country's market. But the current volume of imports is a more important consideration in the short run because it indicates its own relative self-sufficiency. Therefore, market development work can be considered economically feasible in an area where the volume supplied by competitors is sufficiently large to allow a profitable operation with only a share of the total imports.

Section 3. Conversion of Foreign Currencies to Dollars
A cardinal requirement of any competitive business firm is that it receives payment for goods and services. When a U. S. trader exports to other countries, he is faced with the additional problem of converting foreign currencies into dollars. This section of Order 1 concerns the determination of a foreign currency's ability to be converted into dollars at a favorable rate of exchange.

Many factors influence the rate of exchange of a country besides the visible and invisible importation and exportation of its merchandise. Domestic interest rates on money can influence foreign exchange rates. For example, a low level of short-term interest rates in the United States can cause a substantial outflow of short-term capital. Such an exodus of dollars to other countries tends to cause a lower U. S. exchange rate. Governmental extravagance, unbalanced budgets, industrial disruption, wars and rumors of wars and excessive speculation in foreign exchange all tend to adversely affect the exchange rate of a country's currency. Such factors which adversely affect a country's financial position also can be changed with varying degrees of swiftness in ways that influence the country's ability to meet its international obligations.

Southard, in a discussion of the relative international position of U. S. currency, points out that no country escapes from the continuing struggle to maintain domestic monetary stability and reasonable equilibrium in its balance of payments. The weak and the strong alike, the industrial and the undeveloped countries, all share this common problem.

To develop a classification of the relative strength of foreign currencies, Rice and Elrod used the quantitative factors to reflect some of the previously mentioned influences which are more qualitative in character. The major variables used in determining their ratings are (1) amount and trend of foreign exchange reserves, (2) proportion of such reserves representing a borrowed component, (3) export receipts and their trends, (4) export-import balance, (5) balance of payments position, (6) external debt obligation and its relative claim, short-term and long-term, against either receipts and/or reserves, (7) currency under- or over-valuation, (8) foreign assets and (9) vulnerability to volatile cyclical swings. They point to the absence of exact mathematical formulations to "infallibly" measure the relative categories they developed in analyzing a country's financial position. However, they believe their analysis to be more precise than expected from the broad definition of the
categories. Table 4 shows their classification of the countries of the world. Those countries whose 1962 report is rated Excellent (E) or Good (G) meet the qualification of this section of the model where market development activities may be undertaken with the expectation of receiving in payment a currency that can be converted into dollars. In countries classified Fair (F), market development investments should be limited and be dependent upon plus factors from

### TABLE 4. COUNTRIES OF THE WORLD CLASSIFIED ACCORDING TO EXTERNAL FINANCIAL POSITION

(Country designations as shown in U. S. Foreign Trade Statistics)

<table>
<thead>
<tr>
<th>I. Excellent (E) Financial Position: Large foreign exchange holdings, more than ample to pay for usual imports; balance of payments situation satisfactory or favorable; outlook favorable.</th>
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<tbody>
<tr>
<td><strong>Country</strong></td>
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<tr>
<td><strong>Australia</strong></td>
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<td><strong>Austria</strong></td>
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<td><strong>Bahrain, State of</strong></td>
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<td><strong>Belgium-Luxembourg</strong></td>
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<tr>
<td><strong>Canada</strong></td>
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<td><strong>France</strong></td>
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<td><strong>Germany, Federal Republic of</strong></td>
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<tr>
<td><strong>Italy</strong></td>
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<td><strong>Kuwait</strong></td>
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<td><strong>Netherlands</strong></td>
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<td><strong>Panama</strong></td>
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<td><strong>Saudi Arabia</strong></td>
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<td><strong>Switzerland</strong></td>
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<td><strong>United Kingdom</strong></td>
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<tr>
<th>II. Good (G) Financial Position: Exchange holdings, if prudently managed, are adequate to meet current import needs without difficulty; balance of payments situation stabilized; outlook either favorable or stable and without major adverse elements.</th>
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<tbody>
<tr>
<td><strong>Country</strong></td>
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<td><strong>Denmark</strong></td>
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<td><strong>El Salvador</strong></td>
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<td><strong>Ireland</strong></td>
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<td><strong>Israel</strong></td>
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<td><strong>Japan</strong></td>
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<td><strong>Lebanon</strong></td>
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<td><strong>Libya</strong></td>
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<tr>
<td><strong>Malaya, Federation of</strong></td>
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<tr>
<td><strong>Mexico</strong></td>
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<td><strong>Netherlands Antilles</strong></td>
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<tr>
<td><strong>New Zealand and Western Samoa</strong></td>
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<td><strong>Nigeria</strong></td>
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<td><strong>Norway</strong></td>
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<td><strong>Portugal</strong></td>
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<tr>
<td><strong>Rhodesia and Nyasaland, Federation of</strong></td>
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<td><strong>South Africa, Republic of</strong></td>
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<tr>
<td><strong>Sudan</strong></td>
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<td><strong>Surinam (Netherlands Guiana)</strong></td>
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<td><strong>Thailand</strong></td>
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<td><strong>Venezuela</strong></td>
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<th>III. Fair (F) Financial Position: Experiencing payments difficulties which limit the ability to import freely; reserves either (a) barely sufficient to maintain essential import needs, with the outlook tolerable to favorable or (b) currently adequate but deteriorating, with no indication of reversal of the trend; balance of payments situation either basically weak, or shifting to unfavorable.</th>
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<td><strong>Country</strong></td>
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<td><strong>China (Taiwan)</strong></td>
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<td><strong>Costa Rica</strong></td>
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<td><strong>Dominican Republic</strong></td>
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<td><strong>Ecuador</strong></td>
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<td><strong>Finland</strong></td>
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<td><strong>Free Territory of Trieste, Palestine and Arabia Peninsula States</strong></td>
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<td><strong>Ghana</strong></td>
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<td><strong>Greece</strong></td>
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<td><strong>Peru</strong></td>
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<td><strong>Philippines, Republic of</strong></td>
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<td><strong>Tanganyika</strong></td>
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<td><strong>Uganda</strong></td>
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<tr>
<th>IV. Poor (P) Financial Position: Exchange holdings low or depleted; balance of payment situation unfavorable and earnings insufficient for import needs; deficit financed by drawing down on reserves and/or foreign borrowing and assistance; import capability severely limited; foreign indebtedness often large; outlook uncertain or unfavorable.</th>
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<td><strong>Country</strong></td>
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<td><strong>Argentina</strong></td>
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<td><strong>Congo (Leopoldville)</strong></td>
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<td><strong>Iceland</strong></td>
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<td><strong>India</strong></td>
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<td><strong>Indonesia, Republic of</strong></td>
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<td><strong>Jordan</strong></td>
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<td><strong>Korea, Republic of</strong></td>
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<td><strong>Rwanda</strong></td>
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<td><strong>Sierra Leone</strong></td>
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<td><strong>Somali Republic</strong></td>
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<td><strong>Syrian Arab Republic</strong></td>
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<td><strong>Tunisia</strong></td>
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The purpose of this section is to call attention to port, storage and transportation facilities that may be inadequate for the most effective movement of U. S. products abroad and therefore, a detrimental factor to successful market development. Adequacy of these individual facilities becomes a matter of degree, and the final acceptance of their combined adequacy is determined by whether or not the commodity can be offered to the customer at a price competitive for the quality.

Factors to consider when selecting a port to service a market in a foreign country are (1) facilities to dock the larger freighters of the U. S.-European trade routes, (2) shelter and geographic location to allow a year-round access to unloading facilities, (3) unloading facilities to allow the discharge of cargo in sufficiently short time to meet delivery commitments and keep costs at a competitive level with other exporters, (4) dockside storage large enough to accommodate a whole cargo and (5) a port connected by sufficient rail and/or truck routes to inland markets to allow delivery of the commodity to the utilizer at competitive prices.

U. S. commodity exporters are sometimes at a competitive disadvantage where a small port facility is the best location to service a specific market. For example, freighters on the Atlantic routes from the United States usually are larger than the coastal steamers that handle some cotton trade in the Mediterranean. The coastal steamers are of sufficiently shallow draft to unload their cargoes at dockside in many small Italian ports where larger vessels must transfer their cargo onto lighters resulting in higher unloading costs.

Order II (Foreign Countries)

If it has been determined by use of the model through Order I that conditions for market development for a U. S. agricultural product are favorable, then further consideration of somewhat less critical factors concerned with foreign distribution is necessary. These factors should be considered as a trade deterrent in a different perspective since conditions within each country will determine their importance to the total performance of the market development program. Each part of Order I must be answered favorably if market development work is to be undertaken because the individual U. S. exporter has no control over its limitations. However, Order II recognizes that adjustments in program management, because of limitations, are not only possible but necessary for a program's success.

Order II deals with three broad factors: physical movement of the product into the foreign country, distribution within that country and retail outlets.

In Section 2 of Order I it was determined whether the price for the U. S. commodity would be competitive with other exporters at the border of the foreign country. From that point of importation the product must be moved with competitive efficiency at prices that will compete with other exporters. As indicated, there are alternatives in achieving the three above objectives. The final judgment, however, will be the cost of achievement and whether the product at the end use will be price competitive.

Section 1. Adequate Port, Storage and Transportation Facilities

other sections of the model for acceptance as a good financial risk. Countries listed as Poor (P) should not be considered for the investment of market development work by a private exporter of U. S. agricultural commodities. The better course for a firm or industry with limits in market development funds is to make investments in market development work where there is a greater probability of receiving favorable convertible currencies in payment over a longer period of time.

Order II (Foreign Countries)

Table 4—Continued

<table>
<thead>
<tr>
<th>Country</th>
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<td>Turkey</td>
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<td>Viet Nam, South</td>
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<td>Yugoslavia</td>
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Former French African Territories

Cameroun
Maghogy Republic (Madagascar)
Western Africa, n.e.c.
Dahomey
Ivory Coast
Mauritania
Niger
Kenegal
Togo
Upper Voltai
Western Equatorial Africa, n.e.c.
Central African Republic
Chad
Congo (Brazzaville)
Gabon


With two exceptions, dependent overseas territories and départements, including Trust Territories and the Canal Zone, are considered as the same category as the mother country. The exceptions are Netherland Antilles and Surinam, which hold their foreign exchange separately from the mother country and exercise a high degree of independence in its situation.

The Arabia Peninsula States, on which very little information is available, include Yemen, Oman, Qatar and Trucial Sheikdoms.

Foreign exchange assets of these newly independent states are held in one of the following ways: (a) by the national government, (b) in some cases by the central bank of the country, (c) by commercial banks, and (d) by individuals. In the case of the Arabian Peninsula States, the assets kept in the United States are held mainly by commercial banks, and not by the governments of the individual countries. In the case of the other newly independent states, the assets are held by the national government. In both cases, however, the assets are generally limited and potentially vulnerable exchange earnings and exchange beyond these limits is obtainable only under special arrangements requiring French agreement.

Therefore, with the exception of the Arabian Peninsula States, the only source of foreign exchange assets in the newly independent states is the exchange earnings of the countries. Dollars and other non-franc exchange are generally limited and potentially vulnerable exchange earnings and exchange beyond these limits is obtainable only under special arrangements requiring French agreement.

In view of (a) the currency and market development work by a private exporter of U. S. agricultural commodities.

The better course for a firm or industry with limits in market development funds is to make investments in market development work where there is a greater probability of receiving favorable convertible currencies in payment over a longer period of time.

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Section 1. Adequate Port, Storage and Transportation Facilities

The purpose of this section is to call attention to port, storage and transportation facilities that may be inadequate for the most effective movement of U. S. products abroad and therefore, a detrimental factor to successful market development. Adequacy of these individual facilities becomes a matter of degree, and the final acceptance of their combined adequacy is determined by whether or not the commodity can be offered to the customer at a price competitive for the quality.

Factors to consider when selecting a port to service a market in a foreign country are (1) facilities to dock the larger freighters of the U. S.-European trade routes, (2) shelter and geographic location to allow a year-round access to unloading facilities, (3) unloading facilities to allow the discharge of cargo in sufficiently short time to meet delivery commitments and keep costs at a competitive level with other exporters, (4) dockside storage large enough to accommodate a whole cargo and (5) a port connected by sufficient rail and/or truck routes to inland markets to allow delivery of the commodity to the utilizer at competitive prices.

U. S. commodity exporters are sometimes at a competitive disadvantage where a small port facility is the best location to service a specific market. For example, freighters on the Atlantic routes from the United States usually are larger than the coastal steamers that handle some cotton trade in the Mediterranean. The coastal steamers are of sufficiently shallow draft to unload their cargoes at dockside in many small Italian ports where larger vessels must transfer their cargo onto lighters resulting in higher unloading costs.
Seasonal weather variations must be considered when planning for a regular delivery schedule for commodities overseas. Certain northern ports are closed by ice during winter months, and this influence affects deliveries of farm commodities longer than the period of freezing because unloading facilities are sometimes in heavy demand for other types of cargo.

There are advantages to many of the ports such as specific unloading and storage facilities for certain types of cargo. While these factors may be adequate, there can be an overtaxing of the port’s capacity. On December 1, 1960, Genoa, Italy, had such a backlog of grain ships in harbor that wheat ships arriving on that day would be required to wait almost 60 days for unloading because of crowded seasonal port and distribution facilities. Evidence that this condition in grains continues to exist came when the Italian director of the Soybean Council of America reported that U.S. soybean sales to Italy would be limited in 1964 because total grain imports of all kinds would tax Italy’s handling facilities.

Dockside storage facilities are important for at least two reasons. First is the advantage in quick unloading of cargo. An allowance in shipping costs is made for the time necessary to unload once the freighter is alongside the pier. Any saving in this time eventually will lessen the cost of transportation. To hold a ship over an allotted time results in demurrage and higher costs. On November 10, 1960, a 15,000 ton freighter with a full wheat cargo from Galveston was being held in the Port of Naples for several more days than normally would be required for unloading because the 40,000-ton port terminal was full. All grain for out-shipment into Italy by truck and rail was sacked, and the sacking and shipping were relatively slow compared to the unloading rate. A second importance of dockside storage is to maintain product quality. Many difficulties resulted from inadequate or inaccessible facilities in transporting a small shipment of frozen poultry into Italy in 1960. The inadequate facilities for storing and transporting the frozen products after being unloaded from the ship allowed the poultry to thaw. Before being displayed, it was necessary to resack and refreeze the dressed and individually wrapped birds, resulting in a significant loss in product quality and appearance.

Larger and busier ports often have the advantage of railroads and other types of transportation into the inland markets which have been built up over time with the development of the port. An advantage exists over the smaller ports when countrywide distribution is necessary. Inland transportation is not usually a problem from the larger and busier ports of Europe but may become a significant limitation to newer markets in some less developed countries.

The problems associated with the unloading, storage and distribution of agricultural products in foreign countries may be as familiarly simple as in the United States or as complex and difficult as a bewildering combination of different languages, facilities and working conditions can make it. Of importance to successful market development work is a careful study of these factors and an evaluation of the effects of their limitations on market development work. The failure of these functions in marketing can cause a loss of quality and a failure of dependable delivery schedules.

Section 2. Capital for Storage and Distribution

Distribution of agricultural commodities in some volume in a foreign country is an established function of the marketing system, although the distribution of foreign products may be new or may bring new problems to the existing systems. One existing problem in foreign trading considered important to this study is sufficient capital in the hands of the importer and/or distributor to finance the large shipments of ocean transportation and the storage of an adequate amount to provide continuous supply.

If the importer is a state trader as was the Italian wheat buyer in 1960, then this section and those beyond this have no significance. If, however, the U.S. exporter can either choose a distributor or institute his own distribution system, then this section is of importance to him.

As indicated in the previous section, the existence of physical transportation, storage and distribution facilities for agricultural commodities are vitally important to market development. These are of no value if a distributor does not use them to provide the foreign purchaser a dependably available source of supply. To accomplish this usually requires the storage of a U.S. commodity in an amount sufficient to fulfill quantity needs of the market between import shipments. The amount of capital necessary depends on the value of the commodity, the quantity used, the length of time between shipments and the cost of storage considering both bulk and the facilities necessary to maintain quality.

Emphasis on providing the foreign utilizer with a supply from storage within his country is a departure from some past patterns of export trade. There is new recognition among those seeking to increase foreign sales for U.S. products that better service to these foreign outlets will increase sales. Providing a supply of a commodity to a foreign market inside the country and past the time-consuming “red tape” of importing is a definite service and an encouragement to increased use. For example, most Italian feed manufacturers consider the purchase of Argentina’s La Plata corn to be easier than buying U.S. yellow corn because it can be obtained without “red tape” and supplies were more dependably available. Argentina’s corn has been distributed in Italy for many years. The sources of supply for the Italian buyer are
well known and often come from warehouses within Italy. La Plata corn purchases in Italy are no more difficult for small feed manufacturers than purchases of domestic corn.

One feed mill operator in northern Italy indicated his interest in U. S. protein meal but pointed out that a shipment from the United States necessitated tying up his operating capital longer than do local purchases, careful scheduling of his mill operation into future months to be sure that the U. S. shipment's arrival would coincide with mill needs and a great amount of "red tape" connected with importing.

Problems associated with providing a dependable supply of agricultural commodities to foreign buyers are as critically important as they are to the U. S. domestic market if market development work is to make gains in sales. The foreign distributor must have sufficient capital to handle large shipments and must store these shipments to provide a steady flow of high quality products to the market. The difficulties associated with adequate capital for importers of U. S. agricultural commodities are recognized by Congress with the passage of a recent amendment to Title IV of P.L. 480 authorizing the Secretary of Agriculture to enter into long-term dollar credit sales agreements with U. S. and private trading entities. Under this arrangement, negotiations are carried on and sales agreements are signed between the U. S. government and the private companies in the foreign countries.

The physical supply of a U. S. agricultural commodity in a foreign country is not a guarantee of acceptance of the product by the foreign utilizer. However, it has been illustrated that such a supply has several advantages over booking orders for shipments from the United States. If the storage of a ready supply for a foreign market is feasible, then the capital to finance such an undertaking is necessary to successful market development work.

Section 3. Adequate Retail Outlets

The term "adequate" designates that the foreign retail outlet should possess the resources and the merchandising willingness to sell agricultural commodities to the consumer.

Resources in this instance include the facilities of a retail firm, such as refrigeration and other physical equipment, necessary to handle the particular form of a product shipped from the United States. For example, Italian retail food outlets in 1960 were largely street markets and small shops and could not handle U. S. frozen foods that when thawed out would deteriorate rapidly in quality and appearance. They were inadequate outlets for this type of product.

Merchandizing willingness is defined as an attitude of the foreign merchant indicating he is favorably disposed toward selling the U. S. product. Many U. S. products have met sales resistance because the retailer was unfamiliar with the product and unwilling to "push" sales. Soybean oil as a salad oil in Italy met some early resistance by retailers partly because it was so cheap as compared with olive oil and partly because it was believed nothing could replace olive oil for that purpose.

There is no best pattern for all successful market development work in all foreign countries any more than there is one type of adequate retail outlet for one U. S. product in all foreign countries. The prospective U. S. exporter must make a study of the market outlets and determine whether enough stores have physical facilities necessary to preserve the quality of the product.

An examination of the consumer market can determine how to prepare best the U. S. product for the peculiarities of a particular foreign consumer within the limitations of being cost competitive. Labels printed in the language of the country, and weight information given in the familiar measure of the market can help overcome resistance of the merchant to handling the product. The president of a U. S. firm doing business in international commerce suggests that to be successful a U. S. exporter should know as much as possible about the customs, mores, traditions and history of a country. This avoids the embarrassments and resulting diseconomies that come from ignoring national pride, flouting custom and calling people "stupid" because their habits and traditions differ from ours.

Different Extremes of the Market

There are wide differences in the demands on a retailer in different markets. Australia is one example of a market that offers little change from U. S. markets.

Language, legal and political structure, standard of living, way of life, and particularly willingness to consume are comparable or rapidly becoming so. Research, advertising agencies, media, channels of distribution, and other elements of the marketing function are familiar and easy for Americans to use.

Ewing points out that important differences do exist. Australian retailers welcome salesmen cordially as "visitors from on outside world they seldom see but like to hear about...it is sometimes alleged that they divide orders with a sense of fair play if not of logic." Though there is the strong similarity, there are differences that must be recognized if market development work is to be successful.

Dunn considers that the French retailer must satisfy a most difficult, hard-to-predict customer who is somewhat different from his or her counterpart in any other country.
His store is something of a social institution, with many of the attributes of a "club." The proprietor is sometimes as much a social director as a businessman. He must keep his members (his loyal customers) happy, and is often relatively unconcerned about enlarging his circle of customers.

A formidable barrier to marketing progress is the reluctance of the French consumer to accept the standardization implicit in mass production and mass marketing. This offers difficulties to some U. S. products where prepackaging is desirable for shipping or quality maintenance.

It is recognized that only a part of U. S. agricultural commodities going into foreign markets will retain U. S. identity. It is also true that many U. S. exporters will consider that their foreign customer is the foreign processor of U. S. agricultural raw materials. However, the final consumer cannot be ignored, and technological assistance and attention to the needs of consumer marketing among retail outlets may both increase consumption and engender good will among retailers. The U. S. cotton industry, for example, promoted all cotton at the consumer level in certain foreign countries. The promotion in part was to encourage the consumer and the retailer to accept cotton as a fabric that has "class" appeal as well as the appeal for traditional uses such as absorbency or sturdiness. The result was increased per capita consumption which makes friends of retailers.

The patterns of retailing within a country are many and may vary. Such variations may change the sales of U. S. commodities in different countries as well as different parts of the same country. Some resistance to the product by the foreign merchant may be overcome in time by promotion and education. However, a strictly limiting factor may be the inadequacy of physical facilities to provide the consumer a quality product at competitive prices.

Order III (Foreign Country)

This order attempts to determine if a market in a foreign country has adequate means for introduction and/or promotion of a U. S. commodity. The assumption of this section is that advertising and sales promotion are a part of successful selling in foreign countries.

The media necessary to adequate promotion are not designated in this study because there are different means of accomplishing the same purpose in different countries and in different cultures. "Adequate" promotional media means that, whatever the outlet used, the market's consumer can be reached effectively with information about the U. S. product.

U. S. Promotion Pattern

Western European countries now are employing product promotional techniques through advertising media similar to the methods developed in the United States and in some cases are obtaining help from U. S. advertising agencies.

Germany, for example, had five U. S. advertising agencies helping promote sales in 1961, and, according to *Time* magazine, her own agencies reflected the adoption of U. S. techniques by borrowing U. S. advertising terms. Their agencies are staffed by specialists, such as . . . "der Layouter, der Texter, and der Media-Mann. They work up die Marketing Proposition and test it on einem Consumer Panel. If it goes over they prepare ein guter slogan. They then make die Presentation to der Client."

It was reported earlier that Australia has facilities for advertising promotion comparable in coverage to the United States. Ewing states that other similarities to the United States also exist.

Like retailing and other aspects of advertising, Australian advertisements and commercials are characterized by a wide use of Americanisms. Despite the over-all improvement in technical standards in recent years, agencies and advertising departments still borrow freely from the United States and England.

Italian Media

Italy has all the principal advertising media in common use in the United States. However, there are differences in relative amounts of expenditures in Italy compared to the United States.

Trade Fairs

Trade fairs are a classical means of promoting market development in Italy. This is true in all of Europe. There are many fairs in Italy of different types and sizes, ranging from those of international scope to small local fairs. Many fairs have developed into specialized exhibits. Krugmann indicates the trend in Europe is away from the general exhibition. He points out that the specialized fairs have developed into the most important trading centers in Europe. It has become a place where trading is performed between groups representing the world's leading buyers and sellers.

Promotion in Italy

Market development work for agricultural commodities in Italy has been assisted by advertising and promotion. A promotional effort with the sophistication of Madison Avenue is not necessarily considered to be the most desirable means of increasing sales. The size of the market and the clientele involved will affect the choice of the type of promotion. A modification of the familiar U. S. sales pitch may be necessary to fit into a pattern acceptable to the Italian buyer. This indicates the importance of keeping what is best about the U. S. selling program and adding locally what is needed to be most effective in the
particular country. To do this, one must know the availability of advertising media in a foreign country for the promotion of U. S. agricultural commodities.

CONCLUSION

Market development activities to increase the sale of U. S. agricultural commodities in foreign countries is not a new concept. The U. S. exporter has applied his skills to this end since the early years of this nation, but the patterns for successful market development have changed as trade conditions have changed.

Foreign trading, like domestic trading, is influenced by the “living force” of its transactions between people. However, the complexity of dealing with people in different political, social and economic settings makes foreign trading subject to influences not always felt by the domestic merchant. This study has given emphasis to some of the more important influential factors in foreign trade.

Free Trade

Economists are in general agreement on the advantages of free trade between countries. The United States in modern times set its course toward freer trade in 1934 with the passage of the Reciprocal Trade Agreement Act. In 1962 the passage of the Trade Expansion Act gave more recent evidence of a continuation of the U. S. policy of freer and expanding trade.

Agriculture and the Balance of Payments

The position of the U. S. balance of payments is vitally affected by the exportation of agricultural commodities. In calendar years 1960-63 these commodities constituted 24 percent of the total U. S. export sales; in 1962-63 the same percent was the level of import purchases of agricultural commodities. More significantly, while agricultural imports have remained at about the same level over the past decade, their percentage of total imports has decreased, and in the same period the agricultural exports have increased in amount as well as in their percentage of the total. This export position demonstrates the importance of the agricultural export trade to the balance-of-payment position of the United States.

Changing Trade Patterns

It has been suggested that there is a changing pattern of foreign trade. It is not suggested that the political, economic and social forces are new, but that they are being applied in new combinations which influence trade. Such new combinations require a new appraisal of existing approaches to the development of foreign markets.

An example of changing patterns of foreign trade is demonstrated in the policy taken by the United States in the Kennedy Round of the GATT negotiations in Geneva. The U. S. position seeks an apportionment of existing markets somewhat in the same framework as the International Wheat Agreement. The purpose is, in part, to remove the sharp market price fluctuations that have characterized international commodity trade in certain past periods. Whatever the final outcome of the negotiations, the fact that this position is posed by the most economically influential nation in the world will affect trading patterns as other nations make their decisions to accept or reject the proposal.

Another potentially vital force in international trade is the yet unknown factor of what now appears a change of course to increase trade by the Soviet Union and the satellite countries. These factors, like the changes occurring through GATT negotiations, are beyond the power of individual firms or commodity organizations to alter significantly. These groups must be sensitive to the limitations of the greater political powers under which they must operate and must adjust their business accordingly.

A somewhat more limited concept of marketing and of change is that of a U. S. commodity organization or a private business firm seeking to maintain or expand its markets abroad. Developments in technology of communication have rendered obsolete the concept of an isolated market competed for by the few, or a supply of resource riches available to the few for the development of a product. The newer concept is of a commodity produced by several countries with varying degrees of efficiency that must be sold and not merely offered to the many customers. Such selling implies a price competitively correct for the quality of goods offered. Equally significant, this selling properly considers the importance of service to a market with the best application of the art of promotion as well as the best use of scientific achievements of marketing technology.

Such an application of resources has the tacit implication of expecting to supply and service this market over a long time period. Market development work for the long time period is advocated. However, the judgement of a market’s favorable acceptability for promotion is based on a relatively shorter period because of limited resources. The expenditure of resources necessary to expand the sale of U. S. agricultural commodities or to maintain existing sales can be justified only on the basis of continuing markets.

New Dimensions in Market Development

The development of foreign markets for U. S. agricultural products assumed new dimensions as a result of the Trade Development and Assistance Act of 1954. The new dimensions are the cooperative action of government and industry as a team effort
and the active promotion of U. S. agricultural commodities within a foreign country.

The initial efforts of government and industry often were highly successful but sometimes were definite failures. There was an insufficient number of U. S. citizens knowledgeable in foreign trading in the early years of promotional work after 1954. Some efforts were characterized more by willingness than by skill, resulting in some wasted effort. However, the total program had significant impact on the increased sale of U. S. agricultural commodities.

A Model for Market Feasibility

Considering that the impetus for market development will continue, this study is designed as a framework whereby U. S. agricultural exporters may consider systematically the feasibility of selling U. S. commodities or products in a foreign market.

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