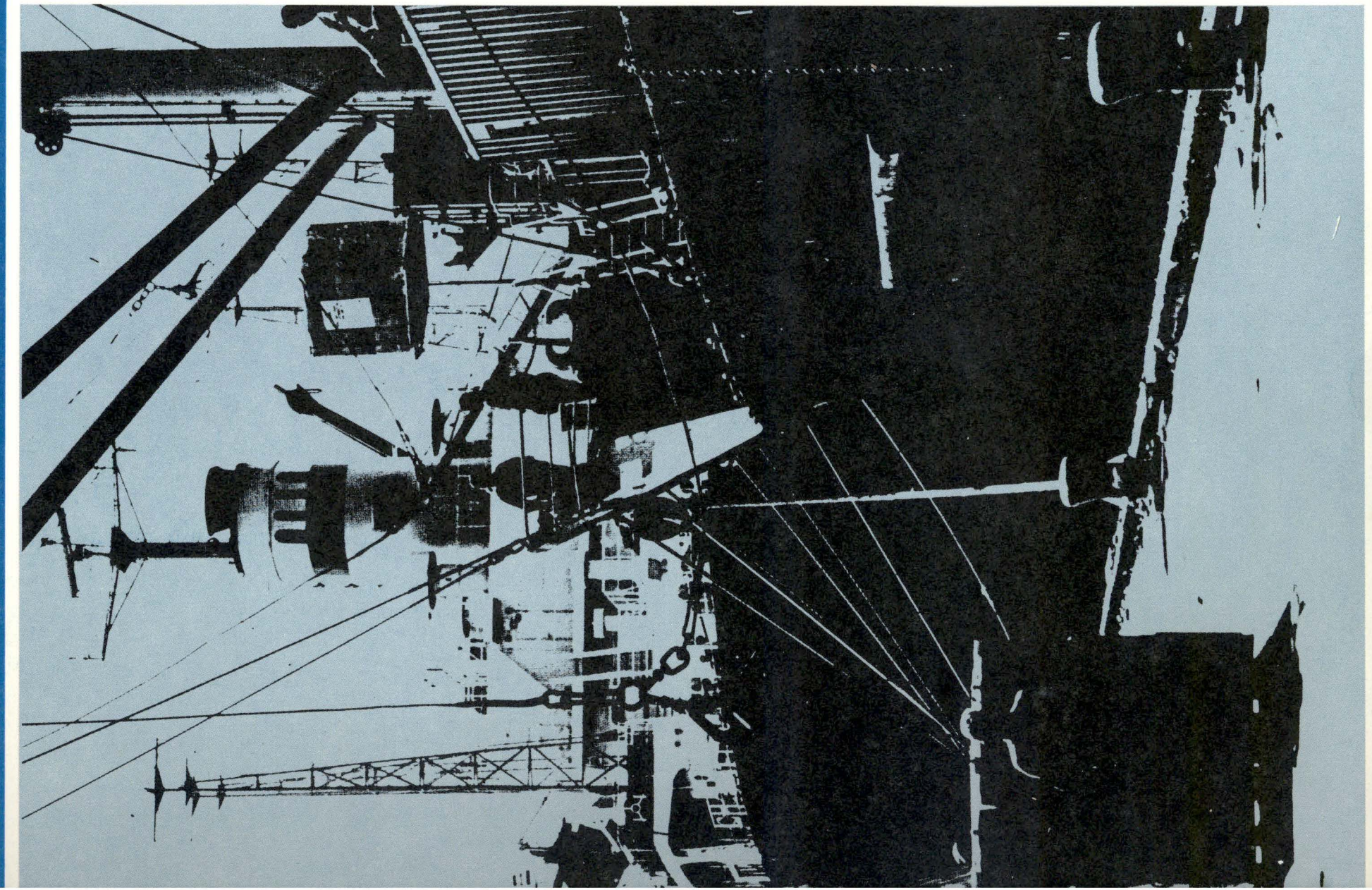
SPEAKING OF TRADE

Key Issues for Agriculture



International Marketing Systems

Herbert H. Hadley, Dennis R. Henderson, and Ronald D. Knutson

Many farmers ask, "Is there a better way to sell our products in world markets?" They hear about giant international marketing combines, government traders, commodity agreements, marketing boards, international cartels, etc. How do these systems compare with the way America's farm products are marketed internationally today? There is a choice. Farmers, agricultural leaders, policy makers, and others need to learn more about these alternatives to make intelligent choices. This publication describes and analyzes some of the alternative international marketing systems that could be adopted by the U.S. farm community and presents important public policy considerations for each. None of the alternatives discussed are new; each has been tried or is being used somewhere as a means of influencing world trade.

GOALS FOR INTERNATIONAL MARKETING POLICY

Marketing methods may be chosen for numerous reasons. Reasons that appear to be particularly important to the U.S. farm community, and that provide a common basis for evaluating alternatives, include:

(1) **Demand Expansion.** Expansion of export demand continues to be a primary goal of U.S. international marketing policy. Export demand expansion is a way of strengthening producer prices. It is also critical to general economic goals such as maintaining a favorable balance of trade and stabilizing the value of the dollar.

(2) **Market Assurance.** The desire to assure export markets strengthens as world food supply and demand slips between deficit and surplus conditions. Farmers in exporting countries want stable markets even in years of surplus production while importing countries desire assured supply even if deficit production exists.

(3) **Producer Prices.** For the producer the bottom line is price. Policies that raise and stabilize price are viewed favorably. Those that reduce price, such as embargoes, are unpopular.

(4) **Rationing Available Supplies.** The years 1972-74 taught the world that our food supply cannot be taken for granted. A means must exist for rationing commodities when shortages occur. Consumption priorities, food reserves, and the distribution of food-aid dollars have become important issues.

ALTERNATIVE 1: THE CURRENT U.S. SYSTEM

The most logical starting point for evaluating alternative international marketing methods is the current export marketing system for U.S. farm products. This can be described as a competitive, free enterprise system with relatively little centralized control or direction at the hands of either government or producer groups. As such, the system generally is consistent with the way domestic business is done in the

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Herbert H. Hadley and Dennis R. Henderson are at Ohio State University. Ronald D. Knutson is Professor and Extension Economist, Policy and Marketing, Texas A and M University.

U.S., but it is an anomaly in international trade where centralized decisionmaking by the world's trading nations is common. It is this disparity between the "American way" and methods of international marketing used by numerous other countries that often generates criticism, perhaps unfair, of the existing system.

Much of the worldwide marketing of U.S. farm products is done by a relatively small number of private firms such as Cargill Incorporated, Continental Grain Company, and Louis Dreyfus Corporation. Smaller firms and farmer-owned cooperatives also do some international merchandising, particularly of fruits, vegetables, and nuts, and are key parts of the system that assembles all farm products and prepares them for international shipment. For the most part, U.S. firms are free to deal with world customers on business terms, subject mainly to the general trade policies of the U.S. such as tariffs, quotas, embargoes, and preferential trading agreements with certain foreign nations.

The U.S. government does perform numerous functions, however, which generally facilitate the international trade of American firms, but which do not substitute for private enterprise and decisionmaking. Considerable intermediate- and long-term credit is provided to foreign customers who do not have commercial borrowing power. Federal grading and inspection services help assure accurate description and high quality of exported products. Agricultural attaches and others collect considerable foreign market information and make it available to American firms. Technical assistance in the use of products is provided in many foreign countries which helps create future demand for U.S. farm products. Government, producers, and industry jointly sponsor numerous programs to promote and merchandise U.S. farm products abroad. And, federally financed grain reserve programs help maintain a supply of exportable commodities.

These various activities may be viewed as a partnership between government and industry to develop and expand foreign markets. But, most of the basic marketing decisions — to whom to sell, what to sell, at what price, when, etc. — are private decisions with few if any central or industry-wide directions.

Impacts

The analysis of the performance of the current U.S. system for agricultural export marketing is relatively straightforward, because considerable experience exists.

Demand Expansion. The profit-motivated, free enterprise system puts considerable incentive on successful market expansion. This incentive to expand markets is probably greater than with any other system. Additionally, the joint private industry-government market development program is generally considered the most aggressive program in world markets. This has been a key factor in maintaining and expanding exports of U.S. farm products without initiating the sharp price-cutting tactics often used by other exporting nations. At the same time, the general lack of central control allows price flexibility necessary to remain competitive in the international market.

Market Assurance. The incentive for exporters to expand their market helps maintain marketing opportunities for farmers. However, the U.S. often becomes a residual supplier in world markets, given the relatively small use of long-term trade agreements in the current system. Thus, nothing inherent in this system guarantees that producers will find a ready market for all or even a specified portion of their output, particularly when world market supplies are plentiful. When supplies are tight, producers are likewise threatened by the possibility of export embargoes if government officials perceive domestic prices to be "too high."

Producer Prices. In a competitive, open market system, U.S. prices and world trade prices for commodities tend to be jointly determined. However, because the U.S. is the only major "decentralized" trading nation, it typically experiences greater price fluctuation and uncertainty then exists within many other countries that operate in international markets. This can result in high prices when world market supplies are tight but provide no price floor at other times.

Rationing Available Supplies. The current exports system depends on market-determined prices to ration short supplies among alternative customers and market shares among alternative sellers. The price system works pretty well as a rationing mechanism as long as we are willing to accept the principle that buyers with the most money get the biggest share of the supply and sellers with the lowest costs get the most business.

Policy Implications

Little direct change in public policy is necessary to maintain the existing system for export marketing. The U.S. could be an even more aggressive competitor with an expanded joint industry-government foreign market development program. New federal legislation facilitating producer check-off programs to help finance such joint efforts is one possibility. Prohibiting export embargoes would remove the uncertainty of untoward government intervention. Also, the present international marketing system is benefitted by a policy of economic assistance to less developed countries (LDC's)[1] which helps create long-term demand for U.S. farm products.

ALTERNATIVE 2: LONG-TERM, BILATERAL TRADE AGREEMENTS

A long-term, bilateral trade agreement is a contract between two traders and/or governments to purchase and supply specified farm products. Long-term agreements are distinguished from export sales within a crop year or from one crop year into the next.

[1] Countries where the gross national product is low — generally below $500 to $600 per capita.

While emphasizing the quantity of commodities to be traded, long-term agreements also frequently contain provisions for exchange of information on crop conditions as well as anticipated changes in product needs throughout the crop year. This facilitates more orderly marketing and price movements.

Probably the most widely recognized example of a long-term, bilateral trade agreement is the U.S.-U.S.S.R. grain agreement. It provides that each year for 5 years the U.S.S.R. will purchase at least 6 million tons of grain from the U.S. and that the U.S. stands ready to supply up to 8 million tons with price to be negotiated between the Soviet government and the U.S. trading firm handling the sales. Larger quantities may be purchased depending on U.S. supply conditions. It also provides for exchange of information on crop conditions and anticipated import needs on a regular basis. Government-to-government agreements also exist between the U.S. and Japan as well as the U.S. and Poland. A similar agreement has been negotiated with the People's Republic of China.

Such trade agreements need not be limited to governments. For example, a U.S. grain cooperative and a Japanese cooperative have a multiyear trade agreement on the sale of grain.

Opportunities for expansion of long-term, bilateral trade agreements may increase in the future. Governments, private firms, or combinations thereof may participate in such agreements. Performance on agreements is likely to be enhanced when governments either participate directly or stand behind private agreements. Performance may, however, be affected by the status of foreign relations between the countries involved. For example, a return to a cold war policy between the U.S. and the U.S.S.R. would jeopardize the current long-term grain agreement that exists between these nations.

Impacts

Because of both the current involvement of the U.S. in long-term agreements and the considerable interest that surfaces periodically in the farm community, the results of such agreements deserve careful consideration.

Demand Expansion. Although not the primary purpose, long-term trade agreements can expand export demand over time. Demand expansion occurs because of the trading relationships established during a long-term agreement.

Marketing Assurance. The main benefit of a long-term trade agreement is assurance for the buyer of a source of supply and for the seller of a market outlet. Agreements thus tend to create a specific set of trading patterns. Although this has advantages to both the buyer and seller, markets may be foreclosed to those who are not parties to the agreement.

Producer Prices. Long-term agreements are not primarily a tool of price enhancement. However, more stable prices may result from a more stable and predictable demand during the period of the agreement.

Rationing Available Supplies. Long-term trade agreements provide food to those countries that are in a position to negotiate an agreement. They may deny it to those that are not. It would seem that those buying countries in the best position to negotiate a long-term trade agreement are the relatively wealthy nations with adequate hard currency exchange. On the other hand, several LDC's are parties to such agreements.

Policy Implications

Long-term agreements result from a need by importing and exporting nations. Interest by importing countries logically increases when supplies are short. The Trade Act of 1974 and its predecessors provides authority for the U.S. to enter into long-term trade agreements. Despite this authority, policy questions continue to arise, particularly in periods of short supply. These questions usually relate to which countries receive priority access to available U.S. supplies. Once an agreement is made with one country, the desire by other countries for similar agreements tends to increase.

ALTERNATIVE 3: INTERNATIONAL COMMODITY AGREEMENTS

International commodity agreements are multilateral accords among governments affecting international terms of trade. Commodity agreements generally have one or more of three basic objectives: (a) stabilizing price, (b) raising price, and/or (c) assuring supplies. To accomplish these objectives, three provisions often are part of an agreement:

(1) Provision for a price range within which transactions may occur. This establishes a minimum price at which buyers may buy and a maximum price at which sellers may sell. The crucial variables are the level and range of the price corridor within which transactions may occur.

(2) Provision for the holding and release of buffer stocks, frequently referred to as an international reserve. In such agreements, parties hold stocks at agreed-upon levels. Costs of holding such buffer stocks may be shared in proportion to the stocks held by each country or allocated among the participating countries.

(3) Provision for control of production in accordance with market needs and price objectives. Effectiveness in controlling production requires joint participation and coordination of domestic production policies, such as the set-aside in the U.S., on the part of all major exporting countries. In the case of wheat, for example, this would include at least the U.S., Canada, Australia, Argentina, and France. These countries would be required to agree on the total quantity of wheat desired as well as the appropriate market shares for each country. Although such agreement is discussed frequently, enforceable production con-

trol provisions are extremely difficult to develop and maintain.

Interest in international commodity agreements increases when substantial surpluses lead to low prices. The thrust then becomes one of finding a way to establish price floors and spread the burden of adjustment among the major exporting countries. Thus, at least until recently, commodity agreements appeared to be largely of interest to the major agricultural exporting countries.

The interest of Third World countries in commodity agreements has been fostered by United Nations Conference on Trade and Development (UNCTAD). Active promotion of agreements in commodities produced by Third World countries has been an integral part of UNCTAD policies since the early 1970's.

Impacts

Commodity agreements are, in part, a way to reduce competition among the major exporters and importers of the commodity subject to the agreement. Specific impacts reflect this overall purpose.

Demand Expansion. Demand expansion is not a major consideration in these agreements. If prices are increased, demand may actually decline particularly where good substitute products are available. If the thrust of the agreement is toward buffer stocks, increased stability of price and food security may expand demand modestly.

Market Assurance. Commodity agreements do not explicitly provide assured markets for particular countries. However, with reduced price competition provided by price floors and ceilings and the forum provided for increased contact among exporters, the basis for division of markets among exporting countries may be enhanced.

Producer Prices. Historically, the prime objective of commodity agreements has been the negotiation of a floor price above that which would exist in the free market during times of surpluses. However, tight supplies in the early 1970's shifted the attention of importing countries to the issue of ceiling prices. In addition, there is concern that the floor price not be raised so high as to curtail demand.

The success of international commodity agreements in enhancing price is much debated. International wheat agreements negotiated between wheat exporting and importing nations were successful as long as supplies were not overly burdensome and the price that would exist in the free market was close to the specified range. However, when substantial surpluses accumulated, incentives for countries to reduce price began to build and the agreements frequently broke down.

Rationing Available Supplies. In the early 1970's, buffer stocks became a central issue in commodity agreement discussions. However, exporting countries never really became serious about the buffer stock demands of importing countries until surpluses began to accumulate. Government stocks then became an acceptable means of supporting sagging world prices.

Policy Implications

As in the case of long-term trade agreements, the Trade Act of 1974 provides authority for the President to enter into international commodity agreements. The agreements themselves are the product of negotiation among exporting and importing countries. Policies to implement effective agreements must, however, be broader than the 1974 Act. Domestic policies such as those affecting export prices, production, and stocks must be coordinated with the provisions of the agreement in each participating country. Such international policy coordination makes implementation particularly difficult.

ALTERNATIVE 4: INTERNATIONAL CARTELS

Since the oil producing nations increased world prices through OPEC, interest has grown in agriculture for developing an OPEC strategy or cartel among the major grain exporting countries. Such a cartel could be viewed as an international commodity agreement involving only exporting countries.

Four factors are necessary for the success of such a strategy:

(1) Agreement among exporters on the price level and adherence to the established level.
(2) Provision for sharing markets in the distribution of sales among nations.
(3) Provisions for gearing production in the participating countries to sales levels and market shares.
(4) The long run absence of, or control by the cartel of, production in other nonmember countries.

The incentive for entering such a cartel is clearly one of price enhancement. Canada, Australia, and certain U.S. producer segments have charged that U.S. policies needlessly hold down the world price as part of a "cheap food" policy. They contend that the U.S. is the major price leader in world agricultural markets, thus, if the U.S. only would raise its price, other exporting governments would follow. Realistically, however, the U.S. probably would price itself out of the market unless the other countries made an explicit agreement to follow the U.S. price lead.

All major exporting countries would have to participate in a cartel to make it effective. In addition, domestic policies of these countries would have to be coordinated to accomplish the agreed-upon price levels, trade patterns, and production controls. In the case of wheat, for example, this would require agreement among at least the U.S., Canada, Australia, Argentina, and France. France's participation raises some interesting questions. It currently enjoys a near-monopoly position on wheat sales to other countries within the European Community (EC). If allowed to retain that position as well as enjoy the cartel benefits, it would have the best of both worlds. If required to give up its favorable EC connection, France likely would not participate which could render the cartel ineffective.

Impacts

Evaluations of the impacts of an international agricultural cartel turn on its basic concept as a worldwide selling monopoly. Recent experiences with the world oil monopoly (OPEC) are helpful in understanding cartel behavior, however impacts in agriculture will differ somewhat because food is produced in substantial quantity virtually everywhere.

Demand Expansion. If commodity agreements were effective in raising price, the quantity demanded would be reduced. Substitution of other food or feed grains for which a cartel did not exist would probably occur.

Market Assurance. The market-sharing feature of commodity agreements would divide the available market among exporting countries. This division would need to be formalized within the cartel agreement.

Producer Prices. The prime objective of a cartel policy is to raise price. While a reduction in exports would be expected to result from the higher price, producer returns would increase. However, the long-run effects are more difficult to determine. Higher prices create an incentive in importing countries to seek alternative supply sources. They may do this either by substituting other products or by creating an alternative supply source. Japanese assistance in the development of soybean production potential in Brazil is illustrative of an importing country trying to develop alternative supply sources. The ability to develop such alternatives will influence directly the long-run effectiveness of the cartel.

Rationing Available Supplies. A cartel allocates supplies to those with the greatest ability to pay. This can affect the domestic as well as foreign markets. Several interesting questions can be raised: Would the U.S. consumer be willing to pay the price associated with a cartel policy? Would the general public accept the concept of raising farm prices to the detriment of the less developed countries? Would the U.S. producer accept the regimentation of production and marketing programs involved in a cartel policy?

Policy Implications

Participation in a cartel would force major changes in U.S. policy about agricultural exports. Effective U.S. participation would require centralization of export decisions, as well as production decisions, in a single agency such as a marketing board. That agency would need control over virtually all supply-, price-, and demand-related farm programs affecting the cartel commodity. In addition, an international organization of countries exporting the cartel commodity would be needed to make cartel decisions, and the U.S. would have to adopt a policy of subservience to that organization.

ALTERNATIVE 5: MARKETING BOARDS AND ORDERS

Conceptually, marketing boards and marketing orders are similar. They both are means of establishing compulsory industry-wide or market-wide control over market activities. They differ in where they have been used and in the way mandatory control is exercised.

No current legal framework exists in the United States for marketing boards. Boards are used extensively for agricultural export marketing in other countries, including Canada, Australia, and South Africa. On the other hand, marketing orders are a uniquely American institution. Federal orders have been authorized for fresh and dried fruits and vegetables, nuts, and milk since enactment of the Agricultural Marketing Agreement Act of 1937, and numerous orders have been implemented. These have not been used for export marketing but as domestic market control devices.

With market orders, market-wide control is exercised through cooperation between the federal government and producers of the regulated commodity. Generally, both producers and the government participate in a government-supervised decisionmaking process. Once a recommended decision has the majority support of both producers and the governmental overseeing agency, the Secretary of Agriculture orders the related action for all participants in the market. The process is different for marketing boards. Boards typically are composed of farmers who are chosen by all producers of a specified commodity, usually in accordance with a government-specified selection procedure. Nonproducer representatives may be included. Generally board decisions are final and binding upon all market participants, perhaps subject to governmental override in some instances.

Because of the lack of existing legislation, U.S. farmers can use neither marketing boards nor orders to appreciably influence their export market (orders, because existing authority generally does not extend to the export market and is limited to commodities which do not constitute the bulk of U.S. farm exports, and boards, since no authorizing legislation exists). However, given appropriate legislation, both are feasible means for U.S. farmers to gain greater collective influence over the export marketing of their products.

Although not unique to the order or board mechanism, numerous functions can be accomplished which can have significant impact upon the international marketing of U.S. farm products. Information on the worldwide supply situations and other market conditions can be collected, analyzed, and disseminated to the U.S. industry. Promotion and other foreign market development activities can be financed and implemented. Research can be commissioned that could lead to greater utilization of U.S. farm products abroad. Uniform standards for product identification, quality classification, weighing, packaging, and so on could be instituted industry-wide to help gain broader acceptance of U.S. products in world markets. Seasonal or multiyear pools could be engaged to reduce price variations received by producers relative to variations in world market prices. Production or marketing quotas could be

established for individual producers to reduce the negative impact of large, uncontrolled market supplies on prices. Buffer stocks could be maintained to smooth out available supplies from year to year. Price-setting authority could be granted to the board or order. Combined with quota authority, price-setting could be used to significantly alter farmers' receipts from export marketing.

In essence, just about any action affecting farmers' export market could be made collectively through boards and/or orders. Experience in several nations has shown that virtually any commodity group or industry could find a means to use the market-wide control features of these mechanisms relative to their export market. For example, the Australian Wheat Board markets all Australian-produced wheat, both domestically and internationally. The Canadian Wheat Board has authority for all export marketing, pools sales receipts, and can allocate marketing quotas to individual farmers. The Australian Meat Board regulates meat exports through export licenses and engages in market development and promotion. The South Africa Maize Board is the sole buyer of corn in that country and conducts all export marketing. In reality, a large share of the world's major agricultural exporting nations uses these types of control mechanisms.

Impacts

It is useful to examine the most likely impacts of using the board or order approach to international marketing to help decide whether it is in the best interest of the U.S. in general and U.S. farmers in particular to adapt these mechanisms for export purposes.

Demand Expansion. The primary function of international marketing boards or orders is to sell available supplies at the best price. Market expansion itself is often of secondary concern; efforts made to sell in large volume more frequently focus on price-cutting than on long-term market development. More emphasis also tends to be placed upon control of supplies to coordinate marketings with anticipated or negotiated demand. Although these mechanisms can be used to facilitate long-term market expansion, experiences in other countries suggest that the results of such efforts tend to be modest.

Market Assurance. By regulating the flow of farm commodities to foreign markets and through supply management practices such as buffer stocks and production coordination, foreign buyers could get supply assurances. Boards could make long-term export agreements, or orders could be used to provide the domestic supply management necessary to fulfill government-negotiated commitments. To the extent that long-term agreements result, U.S. producers would gain certainty of future sales opportunities.

Producer Prices. These mechanisms offer considerable potential to improve producer prices. Coordinated industry-wide sales decisions mean that sales can be timed more easily to correspond with periods of strong prices. By careful use of marketing or production quotas, burdensome surpluses can be reduced, limiting their downward impact on prices. By pooling returns, individual producers gain protection against regularly hitting the market on the downside. Of course, producers who market regularly on the price peaks probably would not fare quite as well.

Rationing Available Supplies. These marketing mechanisms generally mean less individual control over production, marketing, and supply availability and more collective, industry-wide decisionmaking. This reduces reliance upon market prices for allocating products among alternative buyers and makes it easier to distribute available supplies among more users, both rich and poor, in periods of short supply. However, the tendency is often to shorten supplies over time to enhance prices rather than to expand supplies when commercial sales opportunities are uncertain.

Policy Implications

Implementation of either the marketing board or order option in agricultural export markets can occur only with a change in U.S. agricultural marketing policy. Substantial extensions would be required to the Agricultural Marketing Agreement Act of 1937 to make marketing orders applicable to the major U.S. farm exports. Totally new legislation would be needed to establish marketing boards for controlling industry-wide export marketing decisions. This legislation would have to specify the type of authority and control that the board could exercise and provide a procedure for farmers to request organization of a board and rules to assure representation and fair conduct.

ALTERNATIVE 6: BARTER

Barter is the exchange of one product for another. It is the primary means of trade in primivite societies and the antithesis of our modern monetary exchange system for both domestic and international trade. Yet, interest in the barter of agricultural commodities for other products, particularly "food for crude," continue to surface. Furthermore, federal laws facilitating barter suggest that it is a matter of public policy to encourage the international barter of U.S. farm products.

The basic arguments for barter focus on the idea of obtaining strategic materials (such as crude oil) that are in short supply in the U.S. and high-priced on world markets in exchange for farm products that are abundant in the U.S., relatively low priced on world markets, and perhaps in short supply in countries producing oil and other strategic products. Some also argue that barter offers a means of disposing of surpluses without unduly depressing world market prices or of avoiding some of the uncertainties associated with rapid changes in international currency exchange rates.

A key flaw in such arguments, however, is the small probability of finding mutually advantageous barter situations, that is, another country which has a

"double coincidence of wants" with U.S. agricultural exporters. First, most oil-producing nations have relatively small populations and thus need only small amounts of U.S. farm products, and second, some countries with a great need for food have little of value to offer in exchange.

Impacts

At best export barter is a marginal marketing tool with perhaps some potential to generate exports not generated by commercial sales.

Demand Expansion. Barter arrangements are used mainly where commercial sales have limited opportunity. Thus, barter generally represents new marketings. The potential to expand agricultural exports by barter, however, is limited by the infrequent occurence of "double coincidence of wants."

Market Assurance. Barter can, at best, provide only marginal market assurance to producers. However, because the federal government is authorized to barter surplus agricultural commodities for "strategic" materials, this may help facilitiate Commodity Credit Corporation operations that indirectly provide some degree of market guarantee.

Producer Prices. It is not realistic to anticipate any impact on prices, because barter sales do not occur on a monetary basis. It is not the draw of attractive prices that creates such barter sales.

Rationing Available Supplies. Barter is not an effective rationing mechanism.

Policy Implications

Federal laws, such as the Strategic and Critical Material Stockpiling Act, the Commodity Credit Corporation Act, and the Agricultural Development and Assistance Act, currently authorize barter of agricultural commodities in international trade. However, little evidence of an effective barter policy can be found currently in the federal government. Interest tends to surface during periods of burdensome agricultural surpluses. However, the likelihood of any major impact is clearly remote.

ALTERNATIVE 7: EXPORT COOPERATIVES

Even though cooperatives originate a large share of U.S. grain, the four largest cooperative U.S. grain exporters have a combined market share of only 9 percent of total U.S. exports. The largest has just 3 percent. Except for a few specialty products such as almonds, cooperatives are not a significant factor in the export market.

The export cooperative alternative would involve a serious attempt by producers, existing cooperatives, and government to put cooperatives on par with other major trading companies in the agricultural export market. This would likely require one of the following:

(1) Consolidation of domestic cooperative export activities into the hands of a single cooperative for major commodity groups, such as grains, including food and feed grains as well as oilseeds. This would not require a merger of existing regional grain cooperatives but only a consolidation of their export operations.

(2) Establishment of trade agreements between cooperatives located in the U.S. and foreign countries. Such agreements already exist on a small scale between U.S. and Japanese cooperatives in feed grains and oilseeds.

(3) Establishment of a central sales agency owned and operated by cooperative importers and exporters located in different countries. Such an agency would operate sales contact offices and an international market information service in major exporting and importing countries. The agency would coordinate sales to both cooperative and noncooperative customers throughout the world. It would deal in products from all exporting countries that had cooperatives as members of the central sales agency.

(4) Establishment of a multinational export cooperative owned by cooperatives in different countries. Such a cooperative would take direct title to the products handled and be responsible for the entire sales effort. It would deal in products of all countries as a multinational, corporate trading firm.

Any U.S. cooperative handling grain, oilseeds, or other products could participate in a consolidated export organization. Present cooperatives controlling a sufficient volume of grain could establish trading relations with cooperatives in other countries.

Any importing or exporting cooperative could become a member of either a central sales desk or a multinational cooperative. The main barrier to such a development likely would be conflicts of interest in operating the combined venture among or between exporting and importing cooperatives.

Impacts

The impacts of the export cooperative alternative are somewhat tentative, because they would vary depending upon which organizational options are chosen. Nonetheless, some general insights are possible.

Demand Expansion. Export cooperatives have as one principal objective the expansion of their market share. Accomplishing this can come by either competition with noncooperative trading firms or market development activities. Market development would appear to hold particular potential in feed grains through expansion and improvement of livestock and poultry production in foreign nations.

Market Assurance. Increased cooperative-to-cooperative trading, through either trade agreements between cooperatives, a central sales agent, or a multinational cooperative, would provide increased market assurance for those producers who are cooperative members.

Producer Prices. Increased producer returns could be obtained if the cooperative is operated efficiently. However, such returns, while yielding a

satisfactory return on investment, would not likely substantially increase prices. A greater benefit to producers could come in terms of spreading risk of price changes through pooling of returns, improved information, and more rapid reflection of international market conditions back to the producer. This would happen if the cooperative had a good foreign market information system and reflected that information back to the producer in more responsive prices. Pursuing a price enhancement objective would require unprecedented cooperation between exporting cooperatives and the marketing boards of various countries.

Rationing Available Supplies. Supplies could be rationed to give preference to members of the international cooperatives. Such commitments could, however, still be subject to government interruption such as embargoes. In addition, as a business operation that must compete in the market place, any system of preferences must be economically viable.

Policy Implications

If cooperatives are going to effectively penetrate export markets, they must be permitted to grow to a size and market share where they can compete with noncooperative trading firms as well as deal with large international buyers, such as governments. Strong legislation protecting cooperatives' right to grow will be essential. Increased technical assistance as well as readily available credit also will be required.

IMPLEMENTATION OF INTERNATIONAL MARKETING ALTERNATIVES

International agricultural marketing policy affects producers, consumers, governments, and business. Producers are interested in a policy's effect upon prices and export sales. Consumer interest arises from increased food and fiber prices that might result from certain specific market policies and the availability of supplies. Business interest arises from the desire to expand sales and prevent further encroachment by government in export sales. Government interest arises from the desire to assure supplies domestically, improve the balance of payments, control inflation, and control the cost of domestic programs. Equally important is the realization that international trade policy is part of our foreign policy. For example, a factor favoring the government's decision to support a long-term trade agreement with the U.S.S.R. likely was the detente foreign policy of both nations.

The alternatives discussed cover a spectrum from those involving only facilitative government action to those involving considerably higher levels of government involvement than currently exists in U.S. agricultural production and international trade. Likewise, the ability of U.S. producers to achieve implementation of the alternatives also varies. One method of classifying the alternatives from the standpoint of implementation is in terms of the type of actions required. Such actions may be either unilateral, bilateral, or multilateral.

Unilateral

Unilateral action in international trade can be initiated by an individual, firm, or government. Much of the current system of trading involves unilateral action by private trading companies and by governments. Unilateral action of U.S. grain cooperatives could expand export cooperatives.

Unilateral action by government could establish a marketing board policy. Private grain trade, possibly including the grain cooperatives, probably would resist such a policy. Each would see its position in the market changed. It is also difficult to visualize a marketing board policy being adopted without consumer representation.

Bilateral

Bilateral action involves action by two nations or entities thereof. Trade agreements and barter fall in this category. Bilateral action generally is more difficult to achieve than unilateral action because both governments must receive benefits and be convinced of the need and both must establish supporting policies. In the case of trade agreements, this might be accomplished with relative ease in times of shortages, but would be considerably more difficult if long-term surpluses develop again.

Multilateral

Commodity agreements, cartels, and multinational cooperatives involve multilateral action by numerous entities. Agreement is reached largely by the act of compromise and common interest. Meaningful agreements are difficult to achieve. They require rigid controls and centralization of power if they are to be effective. The agreements are always subject to the effects of changes in international tensions, alliances, and policies. Yet, the potential for enhancing the position of producers in domestic and international markets is probably the greatest in those alternatives that are the most difficult to achieve and maintain.

These options put substantial additional economic power in the collective hands of agricultural producers. At the same time they reduce the individual farmer's power to make production and marketing decisions. Thus, two fundamental policy questions are involved:

(a) Will the public, through the legislative process, be willing to grant agricultural producers the authority to engage industry-wide control over their export marketing activities? and

(b) Will farmers, if facilitating legislation is enacted, be willing to elect a market-wide control mechanism and thus transfer individual control over many economic decisions to a group of their representatives?

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Reference Handbook Available:

Speaking of Trade: Its Effect on Agriculture, National Public Policy Education Committee Publication Number 6, may be obtained from your state Cooperative Extension Service. Single copies are available for $1.50 per copy and may be ordered from the Agricultural Extension Service, University of Minnesota, Room 3 Coffey Hall, 1420 Eckles Avenue, St. Paul, Minnesota 55108. Order Special Report No. 72. Prices for quantity orders are available upon request.

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