

AGRICULTURAL OUTLOOK



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Statistical Indicators can be found in the printed version of the October 1997 issue of Agricultural Outlook. For more information, please contact Randy Schnepf at (202) 694-5331.

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Fast-Track Authority . . . State Trading Enterprises . . . the Cranberry & Carrot Industries . . . NIS & Baltic Countries as WTO Candidates

Ag Trade: Markets & Issues

Fast-Track Authority: implications for U.S. agriculture. Increasing access to foreign markets is essential for a profitable and growing agricultural sector. Production is rising more rapidly than domestic consumption, and the value of U.S. agricultural products sold to foreign markets has grown three times as rapidly as domestic sales. Comprehensively addressing agricultural trade issues will require multilateral and regional negotiations. Fast-track authority would increase the effectiveness, efficiency, and speed of negotiations. A new fast-track authority would focus on broad World Trade Organization issues after the Uruguay Round agreements, and also extend to regional trade agreements.

Markets expanding in Southeast Asia. The economies of Southeast Asia have been among the world's fastest growing during the 1990's, emerging as key markets for a wide range of U.S. agricultural commodities. Imports from the U.S. reached a record of almost \$3.3 billion in 1996. Underlying the increase are new consumption patterns accompanying economic growth and urbanization; climatic and land resource constraints on the region's agricultural sectors; expansion of textile and leather product manufacturing; and import policy changes. Long-term agricultural import patterns in Southeast Asia provide a wide range of opportunities for U.S. exporters of products made from temperate-climate crops such as wheat, corn, soybeans, and apples.

NIS and Baltics as WTO candidates. The Baltic countries and 10 of the 12 Newly Independent States (NIS) of the former Soviet Union have begun the application process to join the World Trade Organization. Since these countries are high-cost producers of agricultural goods, particularly livestock and other high-value products, U.S. agriculture could benefit from their accession through increased exports. Before accession, several problematic issues must be addressed—e.g., state trading activities, food safety and product standards, and the level of domestic support to the farm sector.



State Trading Enterprises: Their Role As Importers

For many countries, the creation of a central agency, or state trading enterprise (STE), to handle domestic procurement and to plan import needs is perceived as essential to the achievement of government policies such as assurance of abundant, low-cost food supplies and stable farm prices. Such import-oriented STE's often have considerable power to control access to domestic markets.

WTO member-countries committed in the Uruguay Round to increase access for imported commodities and to reduce support for agricultural producers. However, trading partners have expressed concern that lack of transparency in the operations of STE importers makes it difficult to determine whether STE importers actually restrict trade and the extent to which they subsidize domestic agricultural producers. STE's in Indonesia, Japan, South Korea, and Mexico—all countries whose governments control imports of important staple commodities—are among the largest enterprises that can be classed as STE importers. State trading practices will become increasingly important as countries with centrally planned economies or countries in the process of privatizing

their agricultural production and marketing apply for membership in the WTO.

Carrots & Cranberries: Popularity Growing

Cranberry production responds to growing demand. Traditionally eaten only with holiday turkeys, cranberries are now consumed year round in the U.S., purchased as fresh berries, sauce, juice, and dried fruit. With growing demand and higher prices, production has increased, and the structure of the domestic industry has begun to change with the entry of new firms. Along with increased demand, environmental constraints on U.S. growing areas have propelled the search for new production areas in nontraditional locations. U.S. cranberry average annual production increased 88 percent from the period 1975-79 to 1992-96. Increased consumer demand, competition among processors to acquire an adequate supply of cranberries, and low beginning stocks produced record prices in 1996, despite near-record production.

Carrots finding increased favor among U.S. consumers. In the 1990's, per capita use of fresh-market carrots has averaged 25 percent above the average of the 1980's, while use for freezing is up 30 percent during the same period. Carrots are popular as snacks, side dishes, salad ingredients, juice mixtures, and dessert ingredients. Fresh-cut and peeled carrots have been credited as the primary driving force in the growth of the carrot industry. Increased demand has boosted domestic production and imports in recent years.

Multiple Jobholding Among Rural Workers

In 1996, 1.7 million rural workers in the U.S. held two or more jobs, a rate of 7.1 percent compared with 6.2 percent of urban workers. About one in five rural workers employed in farming, forestry, and fishing held more than one job, and among all rural workers who held more than one job, the largest percentage of second jobs was in farming, forestry, and fishing occupations (19 percent). About 37 percent of rural moonlighters were self-employed in their second jobs, with the largest share in service industries.

Briefs



Jack Harrison

Field Crops

Overview: Major U.S. Field Crops

Weather conditions have been mixed this year for the major U.S. field crops as harvests near completion. A record crop is forecast for soybeans in 1997, and the third-highest output on record is expected for corn. U.S. wheat production is forecast to be the highest in 7 years—the Hard Red Winter production region has recovered dramatically from the 1995-96 drought, rebounding from low yields of the past 2 years and producing a record crop in Kansas. Rice production is also forecast to be higher in 1997, on the strength of a 13-percent jump in planted acreage.

With good harvests expected, season-average prices for wheat and soybeans are expected to drop significantly from last year. However, corn and rice prices are forecast to remain relatively firm in 1997/98 due to strong domestic and export demand.

Cotton production is forecast to be lower in 1997, as some acreage was diverted to soybeans, but output would still be the fourth largest on record.

U.S. farmers are forecast to harvest a record soybean crop in 1997, with production up 14 percent from last year. Extremely high soybean prices during the spring months triggered a 10-percent increase in seedings, resulting in the largest planted area of soybeans since 1982 and the third highest on record. In addition, timely rains during August in several midwestern states improved potential yields and helped to speed crop development.

Total soybean use is forecast up for 1997/98, as crushings are driven higher by near-record domestic use and exports of soybean meal. In addition, soybean exports are forecast record high in 1997/98 with a rapid pace of sales to China, the European Union, and Brazil. But with the largest U.S. soybean harvest in history and abundant international supplies anticipated, the U.S. season-average

farm price is forecast down sharply to \$5.75-\$6.85 per bushel, from \$7.38 in 1996/97.

U.S. corn production for 1997 is forecast up slightly from last year at 9.31 billion bushels, despite the highest planted corn acreage since 1985. After a very promising start to the season, crop conditions generally deteriorated from early July through the middle of August due to widespread dryness across the Corn Belt. Nevertheless, the 1997 corn crop is forecast to be the third largest ever.

Forecast total use in 1997/98 is up sharply from 1996/97. U.S. corn exports are expected to be 13 percent greater in 1997/98 as reduced competitor supplies—particularly in Argentina, South Africa, and China—lessen competition in international markets. Lower domestic feed grain prices have also boosted U.S. corn usage

U.S. Field Crops—Market Outlook

	Area		Yield	Output	Total supply	Domestic use	Exports	Ending stocks	Farm price
	Planted	Harvested							
	— Mil. acres —		Bu/acre	— Mil. bu —				\$/bu	
Wheat									
1996/97	75.6	62.9	36.3	2,285	2,753	1,308	1,001	444	4.30
1997/98	71.0	63.6	39.7	2,527	3,065	1,325	1,075	665	3.30-3.70
Corn									
1996/97	79.5	73.1	127.1	9,293	9,732	7,058	1,790	884	2.70
1997/98	80.2	74.0	125.8	9,312	10,206	7,400	2,025	781	2.55-2.95
Sorghum									
1996/97	13.2	11.9	67.5	803	821	569	205	47	2.34
1997/98	10.3	9.5	69.9	664	712	460	200	52	2.30-2.70
Barley									
1996/97	7.1	6.8	58.5	396	532	391	31	110	2.74
1997/98	6.9	6.4	58.3	374	524	357	70	97	2.25-2.65
Oats									
1996/97	4.7	2.7	57.8	155	319	250	3	67	1.96
1997/98	5.2	2.9	60.5	176	343	270	3	70	1.55-1.75
Soybeans									
1996/97	64.2	63.4	37.6	2,382	2,576	1,562	882	132	7.38
1997/98	70.9	69.8	39.0	2,722	2,859	1,629	960	270	5.75-6.85
Rice			Lbs./acre		— Mil. cwt (rough equiv.) —				\$/cwt
1996/97	2.82	2.80	6,121	171.3	206.3	102.8	76.4	27.1	9.90
1997/98	3.07	3.04	5,907	179.4	216.5	107.9	85.0	23.6	9.00-10.00
Cotton			Lbs./acre		— Mil. bales —				c/lb.
1996/97	14.6	12.9	707	18.9	22.0	11.1	6.9	4.0	69.3
1997/98	13.9	13.4	658	18.4	22.4	11.3	6.9	4.2	*

Based on October 10, 1997 *World Agricultural Supply and Demand Estimates*.

*USDA is prohibited from publishing cotton price projections.

See table 17 for complete definition of terms and data for prior years.

Economic Research Service, USDA

in 1997/98. Season-average farm prices for corn are forecast at \$2.55-\$2.95 per bushel, compared with \$2.70 in 1996/97 and a record \$3.24 in 1995/96.

The 1997 U.S. wheat crop is forecast 11 percent above last year and the largest in 7 years. Much of this increase resulted from a strong recovery in Hard Red Winter wheat production in the Southern and Central Plains. Yields in Kansas, Oklahoma, and Texas had been severely reduced the past 2 years because of prolonged dry conditions during critical growing periods and large areas of winterkill.

U.S. wheat exports are forecast slightly higher for 1997/98, due to production declines for several export competitors. But most of the increase in U.S. wheat production is forecast to build 1997/98 ending stocks, rising by 50 percent over 1996/97. As a result, 1997/98 U.S. farm prices are projected lower at \$3.30-\$3.70 per bushel, compared with \$4.30 in 1996/97.

Winter wheat planting for the 1998/99 crop year is currently underway in the Southern and Central Plains. Conditions are presently favorable because of abundant soil moisture in both Kansas and Oklahoma. The first USDA forecast of winter wheat seedings will be released on January 10, 1998.

U.S. rice production in 1997 is forecast to be nearly 5 percent larger than the 1996 crop on the strength of a significant expansion of planted acreage—up 13 percent. Higher output is expected in five of the six major rice producing states, with Texas the exception. Cold, wet weather in Texas this year delayed rice planting and emergence, resulting in the smallest rice crop since 1983. In California a record crop is expected, as a warm, dry spring promoted early completion of plantings, while a cooler-than-normal growing season benefited yields. And Arkansas, which generally accounts for 40 percent of the U.S. crop, is forecast to have its second-highest yield on record, producing a bumper crop.

World Commodity Market Outlook

	Year	Production ¹	Exports ²	Consumption ^{1,3}	Carryover ¹
<i>Million tons</i>					
Wheat	1996/97	582.7	117.0	578.0	108.4
	1997/98	600.6	111.4	581.6	127.4
Corn	1996/97	589.8	69.2	571.8	84.2
	1997/98	570.4	71.4	590.9	63.7
Barley	1996/97	153.3	16.3	149.7	23.3
	1997/98	154.9	16.3	153.3	24.9
Rice	1996/97	380.0	18.9	376.2	53.9
	1997/98	380.9	19.8	381.4	53.3
Oilseeds ⁴	1996/97	257.2	46.7	218.0	16.2
	1997/98	276.4	50.6	224.9	21.6
Soybeans ⁴	1996/97	131.4	36.0	135.6	12.8
	1997/98	147.2	38.6	141.9	18.2
Soybean meal ⁴	1996/97	92.3	33.9	92.4	4.1
	1997/98	96.7	35.2	96.8	4.1
Soybean oil ⁴	1996/97	20.7	5.9	20.9	2.3
	1997/98	21.8	6.2	22.0	2.2
<i>Million bales</i>					
Cotton	1996/97	89.0	26.6	88.1	36.4
	1997/98	89.9	27.3	90.1	35.8

1. Aggregate of local marketing years. 2. Wheat, July-June; coarse grains, October-September; cotton, August-July. Rice trade is for the second calendar year. All trade includes trade among countries of the former Soviet Union. All grain trade excludes intra-EU trade; oilseed and cotton trade include intra-EU trade. 3. Crush only for soybeans and oilseeds. 4. Brazil and Argentina adjusted to October-September. Economic Research Service, USDA


Total U.S. rice use is forecast 8 percent higher in 1997/98, driven mainly by increased exports, primarily to Latin America. Despite greater supplies, the projected higher use results in a stocks-to-use ratio that would be the lowest since 1980/81. This has helped to support the season-average farm price, forecast at a robust \$9-\$10 per cwt, compared with \$9.90 in 1996/97.

Cotton production is forecast to decline 3 percent in 1997 as acreage reductions occurred in Louisiana, Mississippi, and Tennessee. Higher prices of soybeans relative to cotton at planting time encouraged greater soybean area, largely at the expense of cotton. Despite lower acreage this year, 1997 is forecast to be the fourth-largest cotton harvest on record as crop conditions have improved continually through the growing season.

Slightly stronger domestic mill use and exports are forecast for 1997/98, resulting in a moderate buildup in projected ending stocks. The pace of cotton export sales to several major buyers to date, including Mexico, Japan, and South Korea, has been strong.

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Briefs

Livestock, Dairy, & Poultry**Growing U.S. Supplies, Uncertain Demand Pressuring Meat Prices**

Increasing U.S. supplies of meats—both seasonal and year-over-year—are pressuring prices of pork and broilers downward this fall. At the same time, meats continue to trade under the shadow of uncertain domestic and international demand. Hog and broiler prices have been hit hardest by a combination of expected large production increases (6-9 percent) in 1998 and current exports falling below early expectations, especially for pork. Although the recent cattle herd liquidation is expected to lead to a fall of about 2 percent for beef production in 1998, beef prices will be pressured by lower prices for pork and chicken.

U.S. hog prices fell over \$10 per cwt over the last 3 months, from the high \$50's per cwt in July to the mid-\$40's in October. During the same period, broiler prices dropped close to 10 cents per pound, from the mid-60's to the mid-50 cents. Choice steer prices remain steady in the mid-\$60's per cwt. In the final quarter of 1997, hog prices are expected to remain in the mid-\$40's, and broiler prices are expected to recover slightly but remain in the mid-50-cents range, while Choice steers move up slightly into the high \$60's per cwt.

High-value wholesale broiler and pork cut prices also declined sharply from July to early October. Chicken breast meat prices dropped from 99 cents to 74 cents per pound, and whole pork loin prices declined from \$123 per cwt to around \$100. These lower prices will make chicken breasts and pork chops more attractive for retail featuring than the more expensive Choice beef cuts, limiting the competitive position of Choice beef.

Despite recent price pressure, hog and broiler producers' returns have been relatively favorable this year, and since feed costs in 1998 are expected to be somewhat lower than this year, expectations are for continued expansion in both

industries. The September *Hogs and Pigs* report confirms the June report that producers are planning to increase the number of sows farrowing in the coming months—farrowing intentions for September 1997–February 1998 are up 7 percent over actual farrowings a year ago. On September 1, the broiler hatchery supply flock was 5 percent higher than a year ago, which would support a large increase in production.

In contrast, beef cow numbers were down 3 percent as of July 1, predicting a smaller 1997 calf crop than in 1996. A smaller number of calves will tighten feeder cattle supplies in the coming year, reducing the number of cattle placed on feed and ultimately the supply of U.S. beef.

Slower-than-expected increases in export sales of broilers and pork have influenced the recent weakening of prices. Although broiler exports in 1997 are expected to grow about 5 percent, they are well below the double-digit growth forecast earlier this year and witnessed over the past several years. While export growth to Russia, other Newly Independent States (NIS), and Mexico has shown strong gains, the overall increase has been moderated by falling sales to many Asian markets. The forecast for 1998 is for only a 2-3-percent

increase in broiler exports, as a result of a gradual slowdown in expansion of exports to Russia and continued strong competition in Asian markets from China, Brazil, and Thailand.

In the six largest Asian markets (Hong Kong, Japan, China, Singapore, Korea, and Taiwan), U.S. broiler exports fell 19 percent in the first half of 1997. Broiler producers in China have provided strong competition, expanding their share of the Japanese market, especially for deboned leg meat. Thailand, which had been losing market share in Japan, will also become a much stronger competitor with the large devaluation of the Thai baht. A substantial share of the decline in U.S. broiler product exports to the Asian markets, however, can probably be attributed to strong competition from other U.S. poultry products. Gains in exports of turkey products and mature chicken (spent laying hens) have almost totally offset the decline in broiler sales.

Broiler exports are seeing seasonal strengthening in the second half of 1997, with gains to Mexico and Russia offsetting lower shipments to Asia. The chief uncertainty in the Asian markets is whether the economic downturns and currency devaluations in Thailand and

Wholesale Turkey Prices on the Rise

Lower whole-turkey stocks and continuing strong export sales are expected to keep wholesale hen turkey prices above last year, although turkey production is expected to increase 1-2 percent this fall. Slightly lower turkey meat production in the first half of this year, and strong exports, have pulled down whole-bird stocks to 3 percent below last year (as of August 31).

Although wholesale turkey prices are expected to be about 2 cents per pound higher than last year, early-November retail prices (typically loss leaders for Thanksgiving shopping) are expected to be near those of 1996. Retailers will likely absorb the additional difference to guard market share against the extremely competitive position of hams.

Turkey processing margins have been negative since January, but are expected to turn positive as wholesale prices experience their typical rise prior to Thanksgiving. Average returns are still expected to be negative for the year, but should be considerably better than last year's loss of 6 cents per pound, in part because of lower feed costs.

The competition between hams and turkeys is usually more intense for Christmas than Thanksgiving, but August 31 stocks of hams in cold storage were 39 percent higher than a year earlier. Ham prices in September were down nearly 25 percent from a year ago, and pork production, expected up about 2 percent for the remainder of the year, should keep ham prices down.

U.S. Livestock and Poultry Products—Market Outlook

		Beginning stocks	Production	Imports	Total supply	Exports	Ending stocks	Consumption		Primary market price	
								Total	Per capita		
								<i>Million lbs.</i>		<i>Lbs.</i>	<i>\$/cwt</i>
Beef	1997	377	25,407	2,467	28,251	1,918	400	25,933	67.2	66.67	
	1998	400	24,931	2,680	28,011	2,095	350	25,566	65.7	70-76	
Pork	1997	366	17,067	620	18,053	1,064	400	16,589	48.0	52.48	
	1998	400	18,532	615	19,547	1,150	380	18,017	51.7	45-49	
Broilers*	1997	641	27,174	4	27,820	4,630	650	22,540	73.1	59.8	
	1998	650	28,953	3	29,606	4,750	750	24,106	77.5	57-62	
Turkeys	1997	328	5,399	1	5,728	547	325	4,856	18.1	66.6	
	1998	325	5,656	1	5,982	575	325	5,081	18.8	62-67	
Eggs**	<i>Million doz.</i>								<i>No.</i>	<i>c/doz.</i>	
	1997	8.5	6,437.9	5.4	6,451.8	220.0	10.0	5,325.7	238.5	79.9	
1998	10.0	6,580.0	4.0	6,594.0	255.0	10.0	5,389.0	239.1	72-78		

Based on October 10, 1997 *World Agricultural Supply and Demand Estimates*.

*Cold storage stocks previously classified as "other chicken" are now included with broiler stocks. **Total consumption does not include eggs used for hatching. See tables 10 and 11 for complete definition of terms.

Economic Research Service, USDA

other Southeast Asian countries will lower overall demand for poultry meats and increase the price of U.S. products relative to those from Thailand or China.

Over the last several years, the increase in exports to Eastern Europe and NIS has been the central factor in overall growth of U.S. broiler exports. The breakup of the Soviet Union and the resulting shift from government-controlled agricultural production to a more market-oriented structure had led to a large decline in domestic poultry production and the need for large imports. Changes in the agricultural sectors in these countries will likely continue to hold the key to growth in U.S. broiler exports.

USDA has lowered its forecast for U.S. pork exports for 1997 and 1998, due largely to weaker Japanese import demand than anticipated. The U.S. is expected to export a total of 1.064 billion pounds of pork in 1997, down 22 percent from the April forecast following the foot-and-mouth disease (FMD) outbreak in Taiwan in March. Exports in 1998 are expected to be 1.15 billion pounds, down 27 percent from the initial May forecast.

Higher pork prices this year in Japan and the U.S., particularly since the FMD outbreak, have reduced Japanese pork consumption and limited U.S. exports to Japan. The Japanese government even took the unusual step of waiving the 4.7-percent tariff on pork imports for the month of August to increase available pork supplies and moderate high domestic prices. U.S. pork has also faced increased competition for the Japanese import market; Canada and South Korea, in particular, have been aggressively marketing pork to Japan since last spring.

Additional difficult-to-measure factors may be moderating demand for U.S. pork in Japan. Food safety concerns may have caused a shift in demand away from imported products. It is difficult to determine whether reluctance to consume imported meat products indicates a permanent shift in Japanese consumer preferences, or whether consumers will resume more normal consumption patterns as *E. coli* outbreaks decline and animal disease problems such as BSE and FMD come under control.

Japanese pork demand may also be affected by consumer responses to differences in appearance and taste between U.S. and

Asian pork. Pork produced in Taiwan, for example, is darker in color, sweeter in taste, and somewhat tougher in texture than U.S. pork. The absence of the anticipated surge in Japanese demand for U.S. pork products since the FMD outbreak in Taiwan, could be a signal that Japanese consumers view U.S. pork as a distinct product rather than a substitute for pork produced in Taiwan or Japan. Macroeconomic factors in Japan—continued slow income growth, an increase in the consumption tax in the second quarter, and continued appreciation of the U.S. dollar relative to the yen—are also likely slowing demand for U.S. pork.

While forecasts for exports to Japan have moderated, U.S. shipments to Canada, Mexico, and South Korea have increased so far in 1997 and are expected to continue to rise into 1998. U.S. pork exports have filled the gap in the Canadian market created by exports of Canadian hogs to the U.S. and by concerted efforts by Canadian packers to increase market share in Japan. Exports of Canadian hogs to the U.S. are expected to moderate in 1998, however, as Canadian packers bid more aggressively for hogs to fill new, lower cost packing capacity and continue their efforts to service the growing export market in Japan.

Briefs

Mexican economic growth has translated into a 38-percent increase in imports of U.S. pork, and first-half 1997 U.S. pork imports by South Korea are 40 percent greater than in 1996. Continued growth in U.S. exports to Korea is expected, following Korea's July 1 liberalization of its frozen pork import market structure in accordance with WTO commitments.

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World Trade

What Determines U.S. & EU Trade Market Shares?

A common perception is that the European Union (EU) has become an important export supplier of agricultural commodities solely because of the Common Agricultural Policy (CAP) which provides large subsidies for European farmers. However, policies affecting supply are only part of the equation affecting aggregate market share. Shifts in the composition of world demand for agricultural goods can also alter the relative importance of the U.S., the EU, and other agricultural supplying nations.

Income growth, technological change, and the lowering of trade barriers have increased worldwide trade in consumer-oriented processed products, especially since the early 1980's. Trade of fresh produce and chilled meat among developed countries has also sharply accelerated, because of greater efficiencies in transportation. Increased competition in the shipping industry and improvements in container technology permit perishables to be transferred seamlessly across road, rail, and water. Expanding imports of

higher valued agricultural products by the newly industrializing countries have out-paced expansion of wheat, rice, and other bulk-commodity imports. This changing commodity mix of global agricultural trade has affected the market shares of both the U.S. and the EU.

Aggregate market shares of the U.S. and EU are weighted averages of market shares in all foreign commodity markets. The weights are a country's share of the world market for a specific commodity. Changes in the importance in world trade of *bulk commodities* (unmilled grains and oilseeds), *intermediate products* (feed, flour, and refined sugar), *horticultural and fresh produce* (fruits, vegetables, and flowers), and *consumer-ready processed products* (grain-based foods, meat, and beverages) help explain changes in U.S. and EU market shares.

The longrun share of bulk commodities in world agricultural trade has, with the exception of an interlude during the 1970's, steadily declined, and the share of consumer-ready processed products has increased. In contrast, the relative importance of intermediate agricultural commodities did not change appreciably throughout the 1962-94 period.

The U.S. is the world's principal supplier of wheat, corn, and soybeans. Bulk commodity exports comprised about 60 percent of total U.S. agricultural shipments between 1962 and 1994. In the early 1970's, the Soviet Union shifted away from a policy of self-sufficiency and began importing grain. In the same period, floods ravaged South Asia, and droughts plagued Sub-Saharan Africa. As a result, the relative importance of bulk commodities in world trade increased, and total U.S. agricultural market share soared.

Between 1970 and 1981, the U.S. market share jumped nearly 7 percentage points, and 82 percent of the gain was from bulk commodities. In contrast, bulk commodities contributed only 20 percent to the 5-percentage-point rise in the EU agricultural market share during this period.

U.S. market share reached a high of 25 percent in 1981, then fell precipitously, dropping more than 7 percentage points to just under 18 percent by 1986. Part of

the U.S. market-share decline was due to the global recession and debt-repayment problems which hampered many developing countries' ability to pay for bulk-commodity imports. As aggregate EU market share was climbing, U.S. market share declined because the structure of world agricultural trade moved away from bulk commodities.

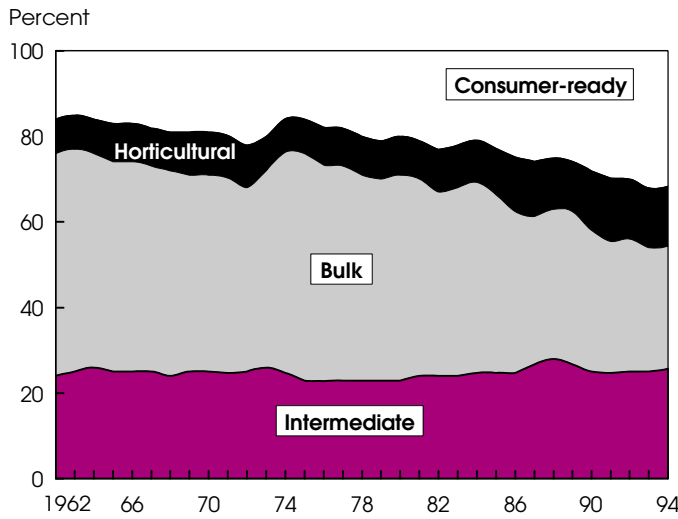
Consumer-ready processed products are a significant and growing component in EU agriculture. Exports from this sector comprised 45 percent of total EU agricultural exports as early as 1962. Mirroring global trade, the composition of EU agricultural exports has moved toward more consumer-ready processed products. By 1994, these products comprised 55 percent of total EU agricultural exports. Much of the increases in aggregate EU market share can be explained by shifts in world agricultural trade toward more consumer-ready processed products, goods in which the EU had retained higher market shares than for the bulk commodities.

The growing importance in world trade of consumer-ready processed products as well as horticultural and fresh produce accelerated between 1986 and 1994. Collectively, these two consumer-oriented product sectors contributed more than 3 percentage points to U.S. market share during this period. The U.S. also increased its shares in most bulk-commodity markets at this time, but this improved performance did not translate into a higher U.S. aggregate share for agricultural exports because the importance of bulk commodities continued to decline in global trade.

Market distortions, induced by policies such as the CAP, affect the individual commodity market shares of the U.S. and the EU. However, the changing mix of demand for commodities also influences aggregate shares. Changes in aggregate market share of the U.S. and the EU reflect not only shifts in performance in individual commodity and product markets but also shifts in the structure of world agricultural trade.

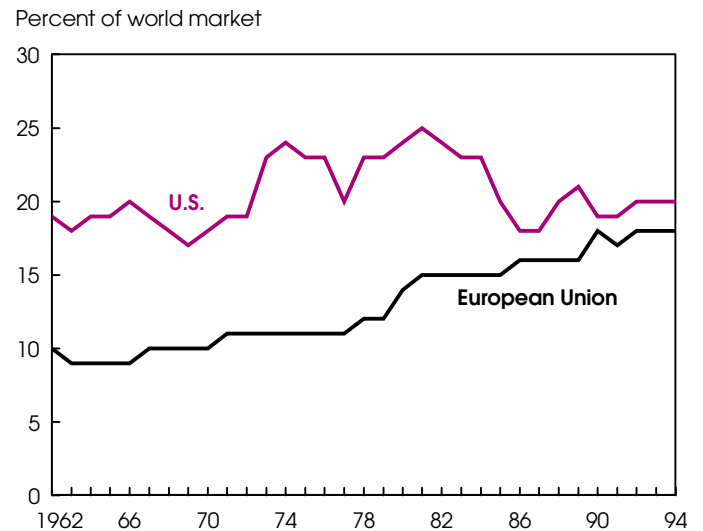
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Consumer-Ready Products Account for Rising Share Of World Ag Trade



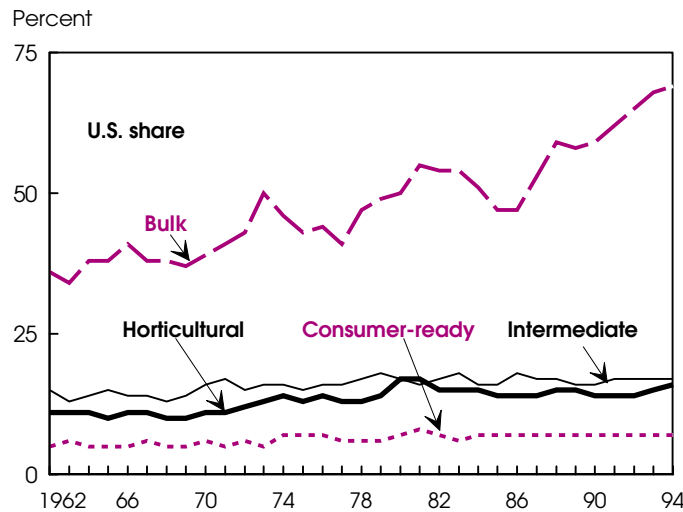
Intra-EU trade excluded from world totals.
Economic Research Service, USDA

U.S. Lead Over EU's Ag Market Share Has Narrowed



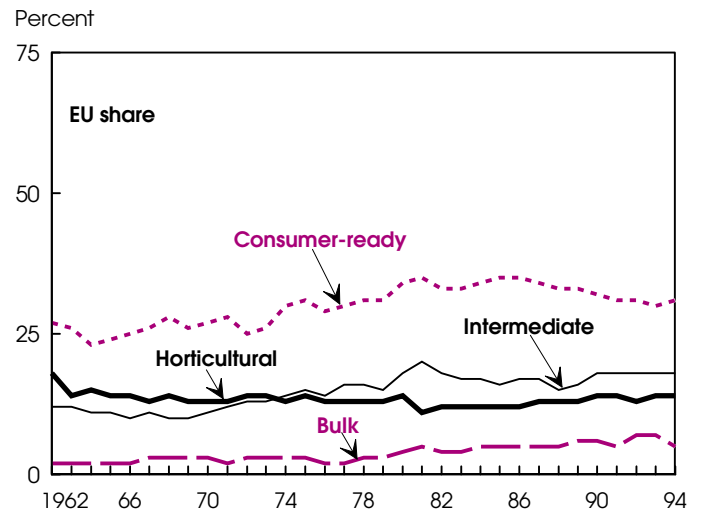
Intra-EU trade excluded.
Economic Research Service, USDA

U.S. Dominates World Market in Bulk Ag Commodities . . .



Intra-EU trade excluded from world totals.
Economic Research Service, USDA

. . . While EU Is a Major Supplier of Consumer-Ready Products



Intra-EU trade excluded.
Economic Research Service, USDA

Commodity Spotlight



Ocean Spray Cranberries, Inc.

Cranberry Supply Expands In Response to Higher Demand

Traditionally, cranberries were eaten only with holiday turkeys, but Americans consumers now purchase cranberries year round in many forms, including fresh berries, sauce, juice, and dried fruit. In 1996, Americans consumed the fresh-weight equivalent of 1.6 pounds of cranberries per person. With growing demand and higher prices, production has increased, and the structure of the domestic industry has begun to change with the entry of new firms. Along with the demand for cranberries, environmental constraints to new production in the U.S. has propelled the search for growing areas in nontraditional locations.

The 1996 U.S. cranberry crop totaled 4.67 million barrels (100 pounds), close to the record of 4.68 million in 1994, and up 11 percent from the short 1995 crop. Despite the rebound in production in 1996, the average grower price was a record \$62.50 per barrel, up 17 percent from 1995, bringing the farm value of the 1996 crop to \$292 million. Increase in consumer demand for a variety of cranberry prod-

ucts, and competition among handlers and processors eager to acquire an adequate supply of cranberries, produced the stronger prices. Also supporting strong prices were relatively low stocks of cranberries at the beginning of the 1996 season (September-August)—22 percent below the previous year and the lowest since 1988.

The 1997 cranberry crop is forecast to reach a record 5.04 million barrels. Average production increased 88 percent from the period 1975-79 to 1992-96. Over the same time span, harvested acreage increased 36 percent to a record 34,200 acres in 1996, despite serious limitations to new use of wetlands for cranberry production in recent years. The Cranberry Marketing Committee, an agency of USDA's Agricultural Marketing Service responsible for administering the Federal cranberry marketing order, estimates that harvested acreage in current U.S. producing areas will reach 38,794 by 2000, when recent plantings reach full maturity at 5 years.

Beginning in 1995, Wisconsin production surpassed that of Massachusetts, the traditional cranberry industry leader. In 1996, Wisconsin accounted for 42 percent of production and Massachusetts for 37 per-

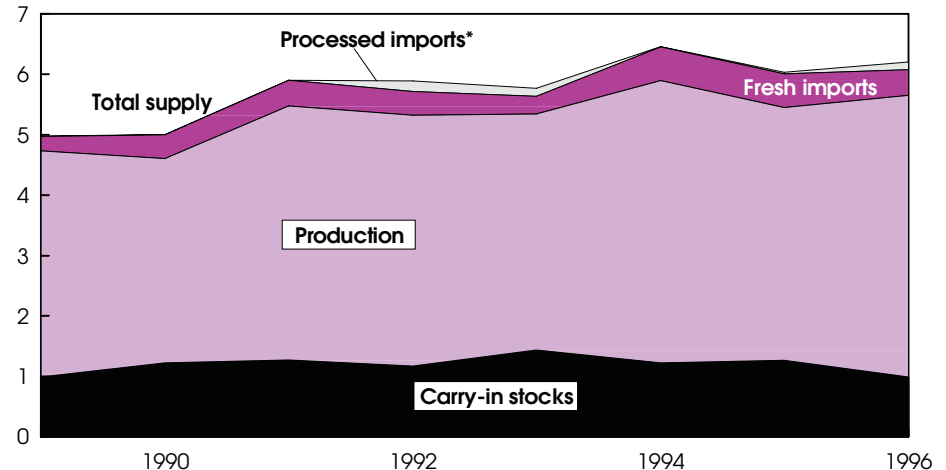
cent. With urban pressure and an already highly developed cranberry industry, Massachusetts has less land available than Wisconsin for expansion of the cranberry industry. The Cranberry Marketing Committee expects an additional increase of 23 percent in harvested acreage in Wisconsin by 2000.

New Jersey, Oregon, and Washington are the other major cranberry producing states, with 10, 7, and 4 percent of production. Increased interest in cranberries may lead to commercial production in other states, including Maine, New York, Minnesota, and Michigan. The state of Michigan offers tax breaks and a technical team to evaluate sites for potential cranberry entrepreneurs in an effort to revive the industry there.

Wetlands such as bogs and marshes are the traditional cranberry production areas. But concern about loss of wetlands and water quality problems has led to Federal regulations restricting new agricultural use of wetlands. Building a new cranberry bed in a wetland today would violate the 1972 Clean Water Act's wetland usage rules in the absence of an Environmental Protection Agency/Army Corps of Engineers permit, which is difficult to obtain. State and local regulations often

U.S. Cranberry Supplies Increase as Rising Production Offsets Declining Stocks

Million barrels



*Fresh-fruit equivalent.

Sources: National Agricultural Statistics Service and Cranberry Marketing Committee, USDA; Bureau of the Census, U.S. Department of Commerce; *Journal of Commerce*, PIERS Database. Economic Research Service, USDA

further limit agricultural use of wetlands. As a result, cranberry producers began developing manmade wetlands about 10 years ago.

Virtually all expansion of cranberry acreage in the U.S. in the last 5 years has been on these artificial wetlands. However, yields on manmade wetlands lag behind those on natural wetlands, leading producers to search for cranberry varieties that perform better in this new environment.

New Products & New Firms

The cranberry harvest begins in mid-September. Fresh berries are exported to Canada for the Canadian Thanksgiving holiday in early October. By the end of October most berries have been harvested. Fresh berries for the U.S. holiday market remain in storage and are packed later. But only 5 percent of the U.S. cranberry harvest in 1996 went for fresh use, continuing a steady decline generated by weak consumer demand for fresh berries and the higher profit margin in cranberry juice.

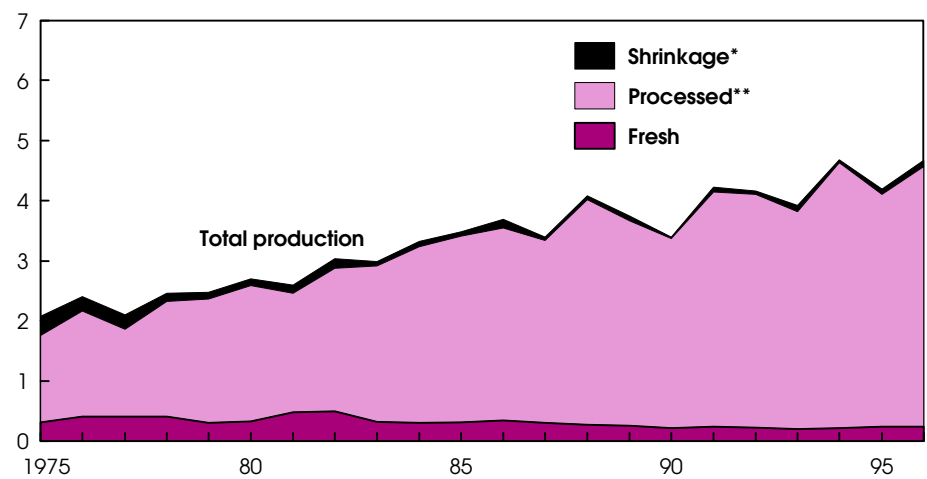
The industry estimates that about 90 percent of processed cranberries currently go to juice, and about 10 percent to sauce and other products such as dried cranberries. Ocean Spray, the large grower cooperative whose brand name is synonymous with cranberries, is credited with lifting the cranberry from its minor role as a sauce to accompany turkey to its current identity as a product to be consumed year round. In the late 1960's, Ocean Spray introduced cranberry juice cocktail. Blended cranberry juice drinks (e.g., cranberry-apple juice) have also become very popular.

Demand for cranberry juice increased further after the *Journal of the American Medical Association* confirmed in 1994 that drinking cranberry juice helps fight urinary tract infections. New products such as dried sweetened cranberries, sold by Ocean Spray under the trademark name of Craisins, are also catching on with consumers.

The Ocean Spray cooperative dominates the industry, with members in the U.S.,

Processed Products Driving Increases in U.S. Cranberry Production

Million barrels



*Shrinkage refers to cranberries paid for by processors and lost because of dehydration and berry breakdown after delivery. **Mostly juices.

Source: National Agricultural Statistics Service, USDA

Economic Research Service, USDA

Canada, and Chile. In 1996 it reported sales revenue of approximately \$1.4 billion. The cooperative provides growers a wide range of services, encompassing production planning, pesticide and environmental management expertise, processing, marketing, distribution, new product development, and advertising (including promotions by Sarah Ferguson, Duchess of York).

In the mid-1980's, Ocean Spray controlled 85 percent of U.S. cranberry production. Ocean Spray has traditionally tried to maximize grower returns by expanding markets rather than production. Growers have renewable 3-year marketing contracts with Ocean Spray for purchase of production from a specified number of acres. Ocean Spray growers can produce additional acres of cranberries outside their contracts, but they must market the product through other channels. Over time, high returns have led to a growth in production outside of the cooperative and to an increase in competition from independent processors.

In recent years independent processors, eager to develop market share, have enticed some growers away from Ocean Spray. Although Ocean Spray still controls the majority of the U.S. cranberry

crop, its share has declined. The cooperative recently opened membership to new producers—the first time in many years.

Ocean Spray's market strength is in processed products, a sector it shares with Northland Cranberries, Tropicana, Minute Maid, Veryfine, and several other firms that produce for the private-label market. As Ocean Spray reduced its production for the fresh market, opportunities developed for other firms to target that sector.

Northland, once Ocean Spray's largest grower, has become the largest independent grower of cranberries in the U.S. by specializing in production of fresh cranberries sold under its brand name. The company estimates it now supplies 22 percent of the fresh market. In 1996, Northland owned 1,935 harvested acres in Wisconsin and Massachusetts, up from 958 in 1992, and purchased cranberries under contract from additional acres. Northland now also markets its own brand of juice. The company reported 1996 sales of \$37.6 million and is aggressively searching for new production to increase market share. Decas Cranberry Sales and Hiller Cranberry Sales also market fresh berries.

Commodity Spotlight

Going Abroad To Grow Cranberries

Cranberry prices in the U.S. remain high, but the industry faces environmental constraints to expanding production. As a result, many processors, handlers, growers, and entrepreneurs are looking into the potential for cranberry production in other countries.

Canada's wetland use regulations for agriculture are less restrictive than in the U.S., allowing the industry there to grow in response to high demand across the border. Traditionally, British Columbia dominated Canadian production, accounting for 98 percent of bearing acres in 1994. Between 1994 and 1997, Canadian bearing acres in cranberry production increased 42 percent to 3,761 acres, and Quebec became a significant production area with 20 percent of total acreage, leaving British Columbia with only 78 percent.

Almost all producers in British Columbia belong to Ocean Spray, and their production is shipped fresh to the U.S. When Ocean Spray recently increased membership, British Columbia gained a large share of the new contracts—bearing acres increased 13 percent from 1994 to 1997. British Columbia production for 1996 was 399,500 barrels, compared with 73,934 barrels in Quebec. In 1997, production area in Quebec is 702 acres, up 29 percent from 1996, with an additional 598 planted, nonbearing acres. About 50 percent of the cranberry acreage in Quebec belongs to the Ocean Spray cooperative.

Cranberry production is increasing in Newfoundland, Prince Edward Island, Nova Scotia, New Brunswick, and Ontario. Production in these provinces rose from 45 bearing acres in 1994 to 118 bearing acres in 1997. The Canadian government offers tax incentives for new production in some areas.

Producers and investors have also looked to Chile as a source of commercial production. Chile exported a very small amount of fresh cranberries to the U.S. in 1994 but apparently now intends to focus

on the cranberry juice concentrate market. Chile's third harvest in 1996, following years of research and pilot efforts, produced 441 barrels from 700 planted hectares. In 1997, planted acreage is estimated at 1,000 hectares, and plans call for expanding to 1,500 hectares by 2000.

Cranchile, owned by a U.S. businessman and the largest company producing cranberries in Chile, has built a large juice concentrate plant with a capacity of over 30,000 metric tons. Northland Cranberries has agreed to purchase 20 percent of Cranchile's production. In addition, Ocean Spray has one member in Chile. The industry in Chile is so new, however, that its potential for commercial supply remains uncertain.

Northland also has a joint venture with the Irish Peat Board—a 7-acre project in its fifth year of testing and evaluating. Other areas that appear to have potential for cranberry production include Russia, the Baltics, and Eastern Europe.

Trade—A Small Part Of U.S. Cranberry Market


Canada has been the primary source of U.S. cranberry imports. In calendar-year 1996, *fresh* imports from Canada totaled 424,437 barrels, over 99 percent of all U.S. fresh cranberry imports and 78 percent of total Canadian cranberry production. Denmark and Russia supplied the remaining fresh cranberry imports in 1996.

Cranberry imports from Europe are generally assumed to be the European cranberry, *Vaccinium oxycoccus*, not the North American cranberry, *Vaccinium macrocarpon*, grown in the U.S. The Food and Drug Administration allows both the North American and European varieties to be labeled as cranberry. The European cranberry grows wild in northern Europe, and when U.S. prices are high the wild berries are harvested and sent to the U.S. The majority of imports from Europe arrive as juice concentrate rather than as fresh or frozen berries.

The U.S. imports only a small amount of *frozen* cranberries—13,058 barrels in calendar year 1996. Canada has been the traditional source, accounting for at least 95 percent of all frozen imports from 1992 to 1995, with the remainder supplied by Sweden. In 1996, however, Estonia and Russia entered the market. As imports of Canadian frozen cranberries fell 11 percent, Estonia captured 52 percent of U.S. imports, leaving Canada with only 40 percent, with the remaining 8 percent split between Sweden and Russia.

No official trade statistics exist for cranberry *concentrate*, but concentrate imports for the 1996 crop year are estimated at a record 107,200 barrels, fresh-fruit equivalent, a small amount compared with the 4.3 million barrels of U.S. production used for processing. Imports of concentrate began in the early 1990's. From 1993 to 1996, 43 percent of concentrate imports came from Sweden, 24 percent from Finland, 15 percent from the Netherlands, 8 percent from Austria, 4 percent from Germany, 3 percent from Russia, and 2 percent from Chile. Sweden and the Netherlands both serve as concentrate processing centers for berries grown in other places.

Although U.S. cranberry exports are growing, consumers in most countries are not very familiar with the North American berry. Exports as a percent of U.S. production increased from 3 percent in marketing-year 1987 to 10 percent in 1996, according to the Cranberry Marketing Committee. As late as 1990, most cranberries were exported in fresh form, but by 1996, less than 4 percent of exports were fresh. Sales to Canada have always dominated fresh cranberry exports, and the United Kingdom has become an important new market. No official U.S. trade statistics exist for processed cranberry exports.

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California Fresh Carrot Advisory Board

What's Up, Doc?—Carrots!

Carrots have found increasing favor among U.S. consumers. In the 1990's, per capita use of fresh-market carrots has averaged 25 percent above the average of the 1980's, while use of carrots for freezing is up 30 percent during the same period. Carrots are popular as snacks, side dishes, salad ingredients, juice mixtures, and ingredients in desserts (e.g., carrot cake). As a result of the increase in demand, both domestic production and imports have soared in recent years. The U.S. is now the second-largest producer of carrots in the world behind China—Russia is third.

California Dominates U.S. Carrot Production

Underscoring the rising popularity of carrots is an expansion in both the acreage and the number of farms producing this root crop. According to the Census of Agriculture, carrots were produced on 2,039 farms in 1992—up 29 percent from the previous Census in 1987. California accounts for 73 percent of the *fresh-market* carrot crop, followed by Colorado and Michigan with about 5 percent each (USDA statistics include baby carrots and other fresh-cut products in fresh-market output). On the *processing* side (canned, frozen, juice, dehydrated), Washington

state produces about a third of the U.S. crop, followed by California with 25 percent and Wisconsin with 13 percent.

Fresh-market carrots account for 70 percent of total U.S. carrot output. Fresh-market volume is heaviest during the spring months (March–May) and lowest during late-summer months (August–September). California produces carrots for the fresh market year round. Kern County, 90 miles northeast of Los Angeles, is the center of California carrot production, followed by Imperial and Monterey Counties. With a constant supply of quality product, California shippers are the price leaders in the carrot market throughout the year. Although California is the volume leader each month, other states such as Michigan (during the fall) and Texas (late winter and early spring) have also carved out market niches.

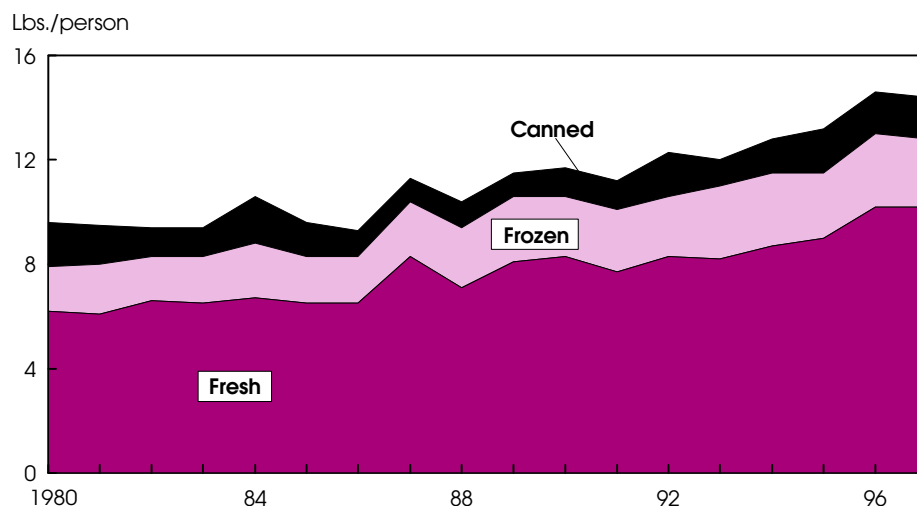
The shipping side of the fresh market is highly concentrated. Although there are eight shippers of fresh carrots in California, the two largest California firms reportedly control 90 percent of the market for California fresh carrots. These large integrated grower/shippers contract with other growers to produce carrots. Similar to the processing side of the business, the majority of fresh-market carrots are produced under contract or agreement with a shipper or processor prior to planting. Because of the concentration of ship-

pers and the cost of establishing a packing/processing plant, contracting is more prevalent in the carrot industry than in most other fresh produce industries where many growers also act as shippers.

Carrot production in the U.S. is highly mechanized. With few exceptions, carrots for both the fresh market and for processing are machine harvested. *Fresh-market* carrots are harvested when most of the roots are 1 to 1.5 inches in diameter near the top. Different varieties tend to be used for processing than for fresh consumption. While the fresh market favors long slender carrots with high sugar content, many processors can use short, thick varieties since they are going to be diced, sliced, or otherwise cut. In some areas, *processing* carrots tend to be left in the ground longer to increase size, dry matter, and color.

Over the past decade, carrot production has become increasingly segmented between carrots for the freshmarket (including fresh-cut products) and those for processing. Because of their characteristics, the short, thick carrot varieties have always been geared toward the frozen, canned, juice, or dehydration markets. However, in years past, some of the carrots destined for fresh use ended up being processed when low fresh-market prices encouraged diversion to the processed market.

U.S. Per Capita Carrot Consumption Has Risen in the 1990's



1997 forecast.
Economic Research Service, USDA

Commodity Spotlight

Purple Carrots?

Carrots, a cool-season crop, are members of the parsley family and are believed to have originated in western Asia near Afghanistan. Originally, carrots did not have the familiar orange hue of today. Centuries ago, carrots were various shades of white, purple, and yellow, with today's orange carrot an apparent aberration reportedly developed in the 16th century by the Dutch. When carrots arrived in England and France soon after, the lacy green tops were prized as an adornment for women's hats and hair. And when early European settlers came to Virginia, they brought carrot seeds to the New World to grow the root for food.

Carrots were reportedly used for medicinal purposes before becoming a popular consumer vegetable. Long ago, the Greeks are said to have used carrots to cure stomach ailments. Carrots also have other traditional roots. During Rosh Hashanah, the Jewish New Year, carrots are traditionally served—sometimes in round forms to look like coins—as a symbol of future prosperity.

Virtually devoid of fat, carrots are also low in calories and sodium and provide dietary fiber, potassium, and vitamin C. However, the carrot's nutritional claim to fame is as a leading source of a carotenoid called beta-carotene (other carotenoids measured by scientists and found in carrots are alpha-carotene and lutein). Beta-carotene is found in most yellow/orange vegetables and melons (e.g., carrots, sweet potatoes, squash, and cantaloupe), as well as in dark green leafy vegetables such as spinach and broccoli. The human body converts dietary beta-carotene as needed to vitamin A, a fat-soluble vitamin stored in the body. Vitamin A is essential for normal vision, regulation of cell development, healthy skin, and proper immune-system response.

The rise of the *fresh-cut* industry has meant some of the misshapen and otherwise imperfect carrots have an alternative profitable outlet. Carrots that would not have made the grade in a standard cello pack of fresh carrots do not have to be sent to freezers or canners to be cut, diced, or juiced. Today, the cutting and peeling process for various fresh-cut carrot products allows a majority of the raw carrots destined for the fresh market to become fresh-market products. One of the largest food processing facilities in the world is a California fresh-cut carrot cutting/peeling/packing operation.

Domestic Demand Surges in the 1990's

U.S. consumers have significantly increased consumption of carrots during the 1990's. In terms of domestic use, carrots are now the seventh-largest fresh vegetable (including melons) and third among frozen vegetables. Use of fresh-market carrots totaled 10.2 pounds per person in 1996—up 23 percent since 1990, the highest per capita use since the 1940's and the third largest on record. Per capita use of carrots for freezing between 1990 and 1996 rose 22 percent to 2.8

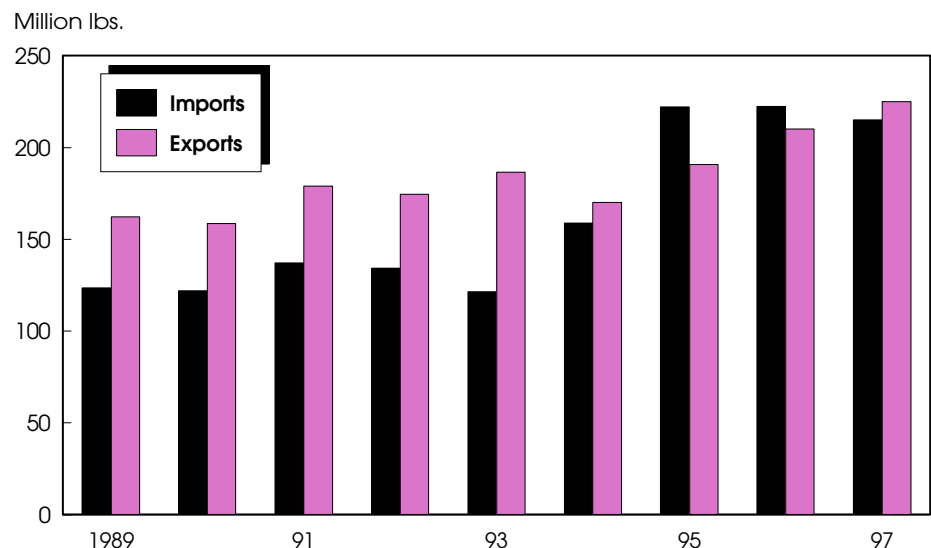
pounds—tied for the highest on record. Although there is no production or pack data for canned carrots, evidence suggests that canned carrot use may have expanded as well during the 1990's.

What is driving carrot consumption higher? A combination of several factors are at work including:

- convenience of fresh-cut and peeled (baby) carrots;
- rising nutritional awareness of consumers;
- continued popularity of salads and salad bars;
- economic expansion and lifestyle changes that fuel increases in away-from-home meals;
- consumer interest in new organic products;
- development of sweeter, more tender carrot varieties; and
- new marketing approaches.

Why eat carrots? A privately funded annual consumer produce survey ("Fresh Trends," by Vance Research) consistently indicates that carrots are the leading vegetable snack item—celery is usually second. The annual surveys have also shown that carrots are consumed for a variety of health-related reasons including cancer prevention, vitamin/mineral intake, calorie control, and fiber content. For years, consumers have strongly associated carrots with vitamin A. In fact, 51 percent of the respondents to the 1994 survey considered carrots the most nutritious vegetable, ahead of broccoli and potatoes.

U.S. Carrot Exports to Surpass Imports in 1997



1997 forecast.

Economic Research Service, USDA

Always popular in salads, carrots have also consistently been identified in consumer surveys as the most popular raw vegetable. At the same time, carrots were cited as lacking convenience because of time required for peeling and cutting. In response to this finding, "baby carrots" were introduced in 1988. However, possibly because of concern over cost and quality, the new product did not catch on with consumers until the early 1990's. Today, fresh-cut and peeled carrots have been credited as the primary driving force behind growth in the fresh and frozen carrot industries. Baby carrot products are not tiny carrots but are selected long and slender fresh-market carrots that have been trimmed, grated, polished, and shaped into small uniform sizes.

The kind of creative marketing that devised baby carrots is still at work. Recently, some airlines have decided to offer a new in-flight snack. A small pack of mini baby carrots produced by industry leader Grimmway Farms will be offered on some flights as an alternative to peanuts. In addition to carrot sticks, baby carrots, and mini baby carrots, fresh carrot snacks also come in the form of crinkle-cut pieces and "coins"—small round shapes that are easy to eat on the go. Finally, demand for organic carrots is on the rise. Organic carrots, for example, may account for as much as 10 percent of the carrots sold in the Boston wholesale market despite a strong price premium.

After a decade as a net exporter of fresh carrots, the U.S. has become a net importer. Although imports and exports have both been trending higher in the

1990's, import growth has been stronger (up 82 percent since 1990 versus 32 percent for exports). Much of the import growth reflects a combination of rising demand for fresh-cut product and the 1994/95 peso devaluation which caused imports from Mexico to jump 300 percent between 1994 and 1995. Imports of fresh-market carrots account for 8 percent of U.S. supply, up from 5 percent in 1990.

The popularity of fresh-cut carrots has spilled over into the import market as producers in Canada and Mexico seek to replicate the success of U.S. companies. Imports from Canada and Mexico make the U.S. the world's third-leading importer of carrots. The leading importer is Belgium-Luxembourg, a primary point of entry for Europe.

Ninety percent of U.S. fresh carrot exports go to three countries—Canada, the United Arab Emirates (UAE), and Japan. Shipments to Canada account for 84 percent of exports and help make the U.S. the world's fourth-leading exporter of fresh carrots. The Netherlands is first, followed by Italy and Belgium-Luxembourg. Exports now account for 7 percent of U.S. supply and are valued at \$44 million.

Japan has slowly been opening as a market for U.S. fresh carrots. The uniform appearance and consistent high quality of today's fresh-cut and peeled products is more appealing to Japanese consumers than a standard cello pack of carrots. Although accounting for just 3 percent of U.S. fresh carrot exports, shipments to Japan totaled 6.9 million pounds in

November Releases—USDA's Agricultural Statistics Board

The following reports are issued electronically at 3 p.m. (ET) unless otherwise indicated.

November

- 3 *Crop Progress (after 4 pm)*
- 4 *Dairy Products*
Egg Products
Poultry Slaughter
- 5 *Broiler Hatchery*
- 7 *Cheddar Cheese Prices*
- 10 *Cotton Ginnings (8:30 am)*
Crop Production (8:30 am)
Crop Progress (after 4 pm)
- 13 *Broiler Hatchery*
- 14 *Cattle on Feed*
Milk Production
Sheep
Turkey Hatchery
Cheddar Cheese Prices
- 17 *Crop Progress (after 4 pm)*
- 19 *Broiler Hatchery*
- 21 *Chickens & Eggs*
Cold Storage
Farm Labor
Livestock Slaughter
Cheddar Cheese Prices
- 24 *Catfish Processing*
Crop Progress (after 4 pm)
- 25 *Cotton Ginnings (8:30 am)*
- 26 *Agricultural Prices*
Broiler Hatchery
Peanut Stocks & Processing
- 28 *Cheddar Cheese Prices*

1996—up from an average of only 500,000 pounds in the early 1990's. If this growth continues, Japan will soon overtake the UAE as the second-leading export market for U.S. fresh carrots.

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World Agriculture & Trade



Virginia Port Authority

Fast-Track Authority: Issues for U.S. Agriculture

A global proliferation of trade agreements is having an increasing impact on U.S. and world trade patterns. In the past decade, the U.S. negotiated 20 multilateral, 2 plurilateral, and over 180 bilateral trade agreements. Of these, one-fourth directly affect U.S. agricultural interests. The effects range from multilateral reductions in trade distortions such as export subsidies, import tariffs, and domestic support, to increased U.S. access to a specific foreign market for a specific product—e.g., beef in Japan.

U.S. agriculture is increasingly linked to the rest of the world. Production is growing more rapidly than domestic consumption, and the value of U.S. products sold to foreign markets has risen three times as fast as domestic sales. Increasing access to foreign markets, through reductions in foreign trade barriers and trade-distorting policies, will be essential for a profitable and growing agricultural sector. Comprehensively addressing remaining agricultural trade issues will require multilateral and regional negotiations addressing non-tariff trade barriers and related regulatory

matters (e.g., sanitary and phytosanitary restrictions, agricultural subsidies, antidumping and countervailing duties, and government procurement or supply management). U.S. ability to credibly and effectively negotiate such treaties will require some form of “fast track authority.”

Fast-track authority explicitly enables the President to submit a trade agreement with implementing legislation for congressional approval under special, expedited procedures. Congress retains the right of final approval of the agreement and of the implementing legislation that makes necessary changes in Federal law.

Under past fast-track procedures, the President could submit to Congress the text of a trade agreement with one or more foreign nations, along with draft implementing legislation to make any “necessary and appropriate” changes in U.S. laws. Congress then had a maximum of 60 legislative days (90 for legislation involving revenue) to approve or disapprove the complete package, with no amendments permitted. The most recent fast-track authority expired 3 years ago after approval of implementing legislation for the Uruguay Round agreements.

Fast track is intended to strengthen the President’s negotiating authority and credibility by reassuring foreign trading partners that implementation of agreements will be considered expeditiously by Congress and not be subjected to changes that would force a return to the bargaining table. The negotiators of most other nations have the authority to make binding commitments for their countries.

In the past, fast-track authority has stipulated general and specific negotiating objectives for the U.S. and included such requirements as advance notification of Congress and advance consultations with relevant House and Senate committees before an agreement could be concluded. Lawmakers, in effect, used these consultative requirements as informal legislative markups to address, in advance, the various policy issues that otherwise might be debated during enactment of the implementing legislation.

Not all U.S. initiatives to reduce trade distortions and gain increased access to foreign markets require fast-track authority. The President can negotiate, without prior congressional approval, executive agreements with foreign nations, although Congress must be notified of the intent. Congress has also granted authority,

Several Major Importers Still Impose High Tariffs

Country/product	Tariff rate, year 2000	Country/product	Tariff rate, year 2000
	Percent		Percent
European Union		Japan	
Beef	151.9	Beef	38.5
Milled rice	185.2	Cheese	29.8
Wheat	102.5	Orange juice	25.5
Butter	218.3	Wheat	359.5
White sugar	165.7	White sugar	277.2
Poland		Canada	
Butter	102.4	Wheat ¹	76.5
Beef	103.7	Butter	298.7
Wheat	91.6	Chicken	238.3
Switzerland		Korea	
Wheat	406.0	Beef ²	41.2
Butter	732.9		
Beef	118.7		

1. Tariff level for nondurum wheat. 2. Tariff rate for 2001.

Sources: Foreign Agricultural Service and Economic Research Service, USDA; Josling, Tim, Stefan Tangermann, and T.K. Warley, *Agriculture in the GATT: Past, Present and Future* (London: MacMillan, 1996).

Economic Research Service, USDA

through legislation, to the Secretary of Agriculture to ensure U.S. food safety, including negotiating with foreign governments the rules governing inspections of agricultural products and processing procedures.

The Office of the U.S. Trade Representative (USTR) also has authority to pursue unfair trade practices and remedies and to enter into trade agreements that will benefit U.S. trade, although any agreements requiring changes in Federal law require congressional approval. The Secretary of Agriculture and USTR have effectively used their authorities to negotiate trade agreements involving food safety and the removal of unfair barriers in specific foreign markets.

Farm trade initiatives negotiated bilaterally by the U.S. that did not require changes in Federal law have achieved significant trade gains by enhancing market access through reductions in both tariff and nontariff barriers. Estimated U.S. net farm export gains from eight such agreements implemented in the early 1990's amounted to about \$3.3 billion by 1996. The U.S. can continue without fast-track authority to negotiate directly with trading partners to lower specific high tariff and/or technical barriers remaining after the Uruguay Round, but is limited in the range of concessions it can make.

However, extensive trade agreements requiring changes in Federal law have to be submitted to Congress for approval. Without fast-track authority, such legislation would be subject to the normal uncertainties of the legislative process. The agreement or implementing bill might not come to a vote at all, or would be subject to committee and floor amendments that might be inconsistent with the agreement's provisions and significantly delay action.

Potential Uses for New Fast-Track Authority

The fast-track process was first adopted in the Trade Act of 1974 and has been used to enact bills to implement a number of trade agreements, beginning with the Tokyo Round in 1979. Implementing legislation for the U.S.-Israel Free-Trade Area Agreement (1985), the U.S.-Canada

Agricultural Trade Issues for Future Negotiations

High tariffs. High tariffs in importing countries impede trade by reducing the ability of lower cost producers in exporting nations to compete. In some cases, tariffs are high enough to completely shut exporters out of markets. The Uruguay Round Agreement on Agriculture generally required governments to convert nontariff barriers to tariffs, but lacked strong guidelines for establishing the tariff rates. Many countries set tariffs at very high or prohibitive levels. Further reductions in tariff rates will increase market access for U.S. goods.

Tariff-rate quotas (TRQ's). To administer market access commitments made during the UR's Agreement on Agriculture, many countries have established TRQ's, which allow specific quantities of products to be imported at zero or low tariff rates. But there are a variety of ways to allocate quotas, some more trade distorting than others, and the WTO guidelines are not precise. Small quota quantities and high duties for out-of-quota amounts—quantities above the quota limits—effectively cap U.S. exports, and restrictive methods of administering TRQ's also impede trade. Renewed multilateral trade negotiations could increase TRQ's to allow greater imports and could establish rules that ensure TRQ's will be administered in a more transparent, predictable manner.

Export subsidies. Efficient producers do not require export subsidies to compete as long as other countries are not driving them out of markets with subsidized products. Further reductions in export subsidies will likely be a focus of the next round of negotiations.

Domestic support. Domestic policies that encourage production of specific commodities distort trade. Policies that indirectly support agricultural producers, such as disaster relief, selected environmental programs, and regional and rural development programs, can also distort production and trade. The trade agreement disciplines on output-enhancing producer subsidies are likely to be controversial in future negotiations.

State trading. State trading enterprises (STE's) in some of the world's major trading countries monopolize purchases or sales. The activities of importing or exporting STE's lack transparency and can be used to disguise protection or support. More rigorous disciplines could be imposed on the activities of STE's in future negotiations.

Sanitary and phytosanitary (SPS) barriers. SPS impediments to imports that are not based on sound science and risk assessments can result in protectionism disguised as concerns for public health. SPS measures are increasingly being used as barriers to trade. Further trade negotiations could increase the transparency of SPS rules and clarify the standard for scientific justifications underlying those rules.

Regional trade agreements. Preferential trade agreements among other countries that exclude the U.S. represent a growing threat to U.S. export prospects. MERCOSUR is increasing its presence in Western Hemisphere trade, ASEAN in Asian trade, and an expanded European Union in European trade. Chile has signed trade agreements with a number of countries. Regional trade agreements generally provide preferential access for members' exports, making it more difficult for U.S. products to compete in these markets.

Free-Trade Agreement (1988), and the North American Free Trade Agreement (1993) were all enacted under fast-track procedures. The most recent use of fast-track authority was the Uruguay Round

Agreements Act (1994) which provided implementing legislation for a package of 54 multilateral and plurilateral agreements, understandings, and ministerial decisions and declarations.

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A new fast-track authority with more limited negotiating objectives would focus on broad World Trade Organization (WTO) issues remaining after the Uruguay Round: tariff reductions, market access, export subsidies, and domestic support. A new fast-track authority would also extend to regional trade agreements and issues such as state trading, sanitary and phytosanitary barriers, and technical barriers to trade. In addition, some groups advocate incorporating environmental and labor concerns that may affect competitiveness in trade.

The Uruguay Round's (UR) Agreement on Agriculture requires that negotiations for continuing the reform process be initiated 1 year before the end of the implementation period (1995-2000). A new round of WTO *agriculture negotiations* is scheduled to begin in late 1999. The agenda will most likely cover issues defined in the Agreement on Agriculture, particularly those relating to market access, domestic support, and export competition. In addition, new issues have surfaced with implementation of the Agreement on Agriculture, such as tariff-rate quotas used by importing countries to administer their market access commitments. Other issues not directly addressed by the Agreement on Agriculture, including the use of state trading enterprises and technical barriers to trade, may be added to the negotiating agenda.

Chile and the U.S. began negotiations for Chile's accession to the North America Free Trade Agreement (NAFTA) in 1995, but talks were suspended, in part because Chile wanted the U.S. to renew fast-track authority before discussing what it views as sensitive issues. Meanwhile, Chile has negotiated its own trade agreements with several other individual countries, including Canada and Mexico, and with the Common Market of the South (MERCOSUR). As a result, U.S. food and agricultural products headed for Chile face tariffs 11 percent higher than those encountered by MERCOSUR countries (Argentina, Brazil, Paraguay, Uruguay). Although Chile is not a major U.S. trading partner, its accession to NAFTA is considered a significant step toward broader economic integration in the Western Hemisphere.

An Example of Remaining Agricultural Trade Barriers: Selected South Korean Market Access Barriers

High tariffs	Tariff rate quotas	State trading with mark-up	State trading without mark-up
Pork	Chilled & frozen beef	Potatoes	Onions
Poultry meat	Many dairy products	Dried beans	Garlic
Yogurt	Corn	Barley & products	Peppers
Cheese	Barley	Rice & products	Citrus fruit
Ice cream	Soybeans	Soybeans (food)	Sesame seeds
Nuts	Peanuts	Peanuts	
Candy	Dried beans		
Pasta	Potatoes		
Baby food	Onions		
Jams, jellies, etc.	Garlic		
Fruit juice	Peppers		
Fruit, excl. prunes	Citrus fruit		
Vegetables	Citrus juice		
Alcoholic beverages			
Protein concentrate			

Economic Research Service, USDA

Formal negotiations among 34 Western Hemisphere nations for a *Free Trade Area of the Americas* (FTAA) are to begin in 1998. Already more than 30 bilateral and regional trade agreements are operating in the Western Hemisphere, and the U.S. is party to only one—NAFTA. At the same time, the European Union is discussing a trade agreement with MERCOSUR, and Japan and China are sending trade delegations to MERCOSUR countries. With the spread of preferential agreements that exclude the U.S., competition in these markets will become more difficult for U.S. exporters.

Many of the *Asia and Pacific Rim* countries that are experiencing the most rapid growth in incomes and consumer demand for U.S. food and farm products belong, with the U.S., to the Asia-Pacific Economic Cooperation forum (APEC). APEC is seeking to establish free trade and investment arrangements by 2010 among members with industrialized economies and by 2020 among those with developing economies.

Such an agreement could have a significant influence on U.S. trade, since it could reduce trade barriers for many U.S. products sold to the fastest growing markets in the world. A general commitment to a comprehensive agreement means that agriculture would be included as a key element. Other alliances in the region, notably the Association of Southeast Asian Nations (ASEAN), also have

agendas for trade liberalization in which the U.S. and its agricultural community will have a major stake.

In the past, fast-track authority has been limited to international agreements focused on trade and trade policies. Some interest groups would like fast-track authority to allow inclusion of labor and environmental standards in trade agreements. These groups argue that unfair labor practices or lax environmental standards in other countries would give them a competitive advantage over the U.S. Potential economic gains from trade agreements could then be outweighed by the prospect of U.S. capital and jobs being exported to countries where labor standards and environmental requirements are weaker. Conversely, opponents of including such issues under fast-track authority argue that fast track might be used to force new labor and environmental regulations for the U.S. through Congress, or to erect unfair barriers to imports from developing countries.

Trade agreements may not be the most effective way to remedy most environmental problems, since they are designed to reform trade policies, not to provide disincentives to pollute. International agreements focused on the environment are the preferred, although often more difficult, method of achieving gains in international or transboundary environmental goals.

The Unfinished Business Of Trade Liberalization

Export markets are critical to U.S. farm prices and farmers' prosperity. Domestic production is increasing more rapidly than consumption, with U.S. agricultural exports growing three times as fast as domestic demand for food. Agricultural exports have risen from 18 percent of gross farm cash receipts in 1986 to 30 percent in 1996, and the share is expected to increase in the future.

With an efficient agricultural sector, abundant natural resources, and an excellent physical and institutional marketing infrastructure, most of U.S. agriculture can effectively compete in a liberalized world trade environment. But trade liberalization for agriculture is far from complete. U.S. producers, processors, and exporters continue to face tariff and nontariff barriers, unfair trading practices, and preferential trading arrangements in key markets around the world.

Preferential trade agreements like MERCOSUR in South America, ASEAN in Asia, and the Canada-Chile trade agreement provide members preferential access to each other's markets for a broad range of agricultural products. Without similar access, U.S. producers and suppliers face constrained sales opportunities in some of the world's most dynamic regional markets.

State trading enterprises in some of the world's major trading nations monopolize sales or purchases, creating unfair competition or restricting U.S. access to their large markets. In a number of countries, agricultural products face high import tariffs, low tariff-rate quotas, and/or state

trading agencies that resell at high mark-ups. Agricultural products also face sanitary and phytosanitary barriers based on questionable scientific standards.

Successful efforts to open international markets will contribute to sustaining export growth. Such efforts include negotiation of trade agreements that reduce tariffs, address technical barriers to trade such as sanitary and phytosanitary issues, curtail the use of trade-distorting domestic and export subsidies, and generally provide a more transparent world market. Export growth advanced by further liberalization of agricultural trade will also benefit off-farm income earners, taxpayers, and consumers. U.S. agricultural exports generate close to a million jobs, many of them off the farm. Reduced U.S. subsidies for exports would lower tax burdens. Finally, consumers will benefit from a wider variety of available products and the stimulation of general economic growth.

Despite significant progress in opening markets over the past several years, agriculture remains one of the most protected and subsidized sectors of the world economy. Because U.S. agricultural producers are among the most competitive in the world, trade distortions in agriculture that limit access to markets are a particularly pressing issue for the U.S. Although bilateral trade agreements and trade disputes pursued under a WTO framework by the U.S. government will remain important means of opening foreign markets, multilateral negotiations through the WTO process are necessary to comprehensively address issues such as high tariffs, export subsidies, and other trade-distorting practices.

If the U.S. leaves it to other nations to form new trade pacts and write future rules for trade, U.S. producers, processors, and exporters could be at a major disadvantage in the competitive marketplace of the 21st century. For the U.S. to continue to play a major role in writing the rules of international agricultural trade, it will need to participate in these negotiations. Fast-track authority would increase the effectiveness, efficiency, and speed of such negotiations.

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Upcoming Reports—USDA's Economic Research Service

The following reports will be issued electronically on dates and at times (ET) indicated.

November

- 12 *Feed Outlook (4 pm)***
- Oil Crops Outlook (4 pm)***
- Rice Outlook (4 pm)***
- Wheat Outlook (4 pm)***
- 18 *Vegetables & Specialties**
- 19 *Agricultural Outlook**
- Livestock, Dairy, & Poultry*
- (12 noon)*
- 20 *Cotton & Wool Yearbook**
- 24 *U.S. Agricultural Trade Update*
- Food Security Assessment**
- 26 *Potato Facts*

*Release of summary, 3 pm.

**Available electronically only.

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Ag Trade Opportunities in Southeast Asia

The economies of Southeast Asia are among the fastest growing in the world in the 1990's, emerging as key markets for a wide range of U.S. agricultural commodities. Imports from the U.S. totaled a record of almost \$3.3 billion in 1996.

Together the Philippines, Indonesia, Thailand, and Malaysia—the largest markets in the region—increased imports of U.S. agricultural products at an annual rate of 17 percent from 1990 to 1996, and this growth accounted for 10 percent of the expansion of U.S. agricultural exports over this period. The Philippines and Indonesia are the largest U.S. markets among the four countries, but Malaysia has been growing the fastest.

Southeast Asia emerged in the 1990's as a market for U.S. agricultural exports, despite its substantial agricultural sector. The region remains a strong producer and exporter of tropical products, but has become an importer of commodities grown in temperate climates, such as wheat, corn, soybeans, and apples. A variety of factors—principally rapid economic growth—have driven the demand for U.S. agricultural products. However, the recent currency devaluations in the region, which sharply boost import prices, are likely to curtail import growth in the short run.

Export Markets Expand With Rising Incomes

Long-term economic forces have led to a sharp increase in U.S. agricultural exports to Southeast Asia. Underlying the increase are the effects of economic growth and urbanization on consumption patterns; climatic and land resource constraints on the region's agricultural sectors; expansion of textile and leather product manufacturing drawing on the region's low-cost labor; and import policy changes.

Since 1990, income growth as measured by gross domestic product rose 6.8 percent annually in Southeast Asia, and most of this growth was concentrated in urban centers. Rising incomes and urbanization explain much of the import consumption increases occurring in Southeast Asia. Higher incomes allow for consumption of more expensive foods such as meat and fruit products.

From 1984 to 1994, meat consumption increased more than 4 percent annually, compared with an annual increase of less than 1 percent in cereal consumption. Also, wealthier households purchase more processed foods, such as instant noodles and bread made from wheat, to save time spent in food preparation. Finally, urban residents have easier access than rural residents to a wider variety of food choices, including imported items.

Changes in the population's consumption patterns are outpacing the capacity of

domestic agricultural producers. Land resources of the region are best suited for tropical crops. Thailand is a significant producer and exporter of rice, cassava, sugar, poultry meat, and rubber. Malaysia and Indonesia are large producers and exporters of palm oil. The Philippines produces and exports coconut oil and sugar.

To meet the demands of rising meat consumption, more corn and soybean imports are needed to supply the feed requirements for expanding livestock sectors. Although corn and soybeans are grown in Southeast Asia, yields are low compared with temperate climate standards because suitable varieties have not been developed for tropical environments. Consequently, output expansion tied to rising yields will be limited.

Converting forest land to agricultural use is one possibility for output expansion. Land conversion in the 1980's was an

Regional Agricultural Profile

Agriculture is still a key sector in the economies of Southeast Asia. In Indonesia, the Philippines, and Thailand, rice and corn account for 50-60 percent of the area harvested. Malaysia's crop production is dominated by two tropical tree crops—oil palm and rubber. Tropical tree crops are also important in Indonesia (coconut, rubber, oil palm), Thailand (rubber), and the Philippines (coconut). Rice is the principal staple food in all the countries, with corn, cassava, and soybeans having minor roles, except in the Philippines and Indonesia where these three crops have been important foodstuffs since colonial times.

Corn has been grown primarily as livestock feed in Thailand, and now increasingly for feed in the Philippines and Indonesia. Corn supplies livestock sectors dominated by poultry and swine. Poultry is the largest livestock sector everywhere, except for the Philippines where swine are dominant. Livestock in the region is produced to supply domestic demand, except in Thailand, which is a major exporter of poultry meat. For the region as a whole, the expansion of poultry and pork production occurred within a structure of large-scale commercial farms and intensive livestock operations. Pork production is limited in the predominantly Muslim countries of Indonesia and Malaysia.

Cattle feeding is limited, as the region lacks extensive grasslands for cow-calf herds. The Philippines and Indonesia import range cattle from Australia (more than 500,000 head in 1996) for short-term intensive feeding. Dairy production is also limited.

The two major feedstuffs in Southeast Asia are soybean meal and corn. Soybean meal is crucial in the region despite the production of large amounts of palm kernel meal and copra meal. Because of their high fiber and low protein content, these tree-crop meals are unsuitable for nonruminants such as poultry and swine which predominate in the region. As poultry and swine production expands, demand for imported corn and soybean meal will rise, providing increased opportunities for U.S. trade.

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important factor in the expansion of agricultural output as more than 12 million hectares (about 30 million acres) was converted to agricultural production. But environmental constraints and the rising cost of new land development have slowed expansion. In Thailand, in particular, extensive clearing of upland areas for growing corn for export has led to severe erosion and flooding problems.

The largest country in the region, Indonesia, still has extensive areas in tropical forests, and large-scale projects are planned to convert more forest land to field crop and tree crop production. One particularly large project involves converting 1 million hectares of forests to crop production on the island of Kalimantan. The peat soils of the area, however, will slow the conversion process because these soils are not very fertile, cannot hold moisture easily, and tend to subside.

Besides constraints on expanding production, domestic supplies of several key agricultural inputs for manufacturing are also limited, thereby heightening the role of imports. As high wages in East Asia reduced the competitiveness of their clothing and leather goods industries, these labor-intensive manufacturing operations shifted to lower wage Southeast Asia and China. With this shift, Southeast Asian imports of U.S. cotton and cattle hides increased sharply over the last decade, especially for Thailand and Indonesia. Cotton is not a competitive crop in tropical climates, and domestic supplies of cattle hides are generally of low quality, from old draft animals whose hides have been damaged over a long life or through inappropriate slaughtering practices.

The region's policy regimes affecting imports vary, but generalizations can be made across three broad categories of imported items; staple foods, intermediate inputs for manufacturing, and consumer products. Southeast Asian governments have typically protected their domestic producers of staple foods—particularly rice and soybeans—and have sometimes controlled the import of wheat, an increasingly important foodstuff. The import of intermediate inputs—feedstuffs, cotton, and cattle hides—is generally less regulated than staple foods. The import of

consumer products, particularly livestock products, is highly regulated and/or taxed to protect domestic production.

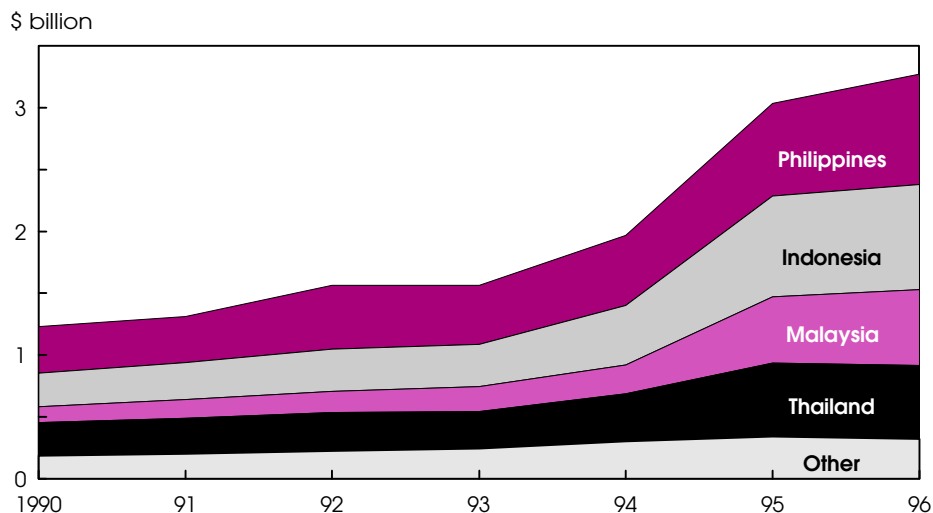
Trade & Consumption Begin to Shift

Rice is the region's traditional staple food. But with diet diversification, the substitution of other foodstuffs for rice is leading to changes in import patterns. Wheat imports are rising as bread and noodle consumption increases. Feedstuff imports are expanding to produce the needed live-

stock products for increased consumption of meats. Horticultural imports are up as higher incomes—and sometimes lower import tariffs—make these consumer items affordable to a wider range of the population.

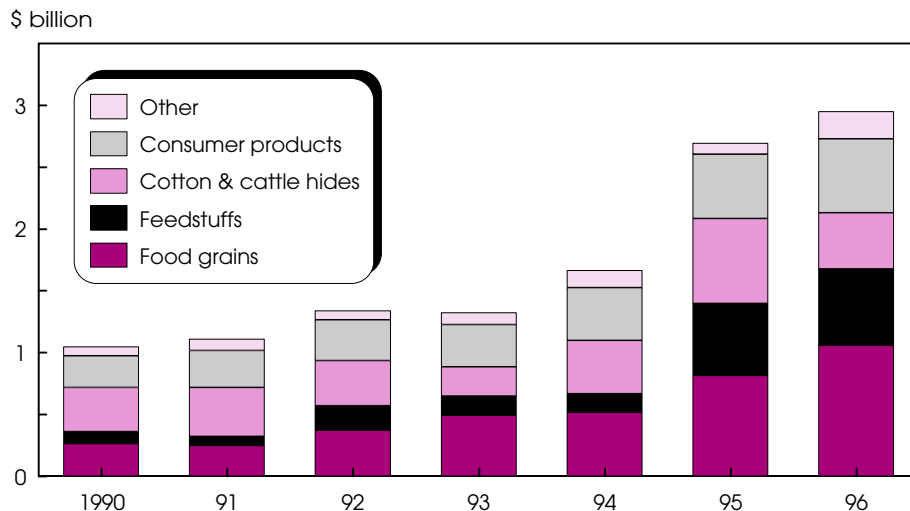
Staple foods. Most Southeast Asian countries have traditionally placed a high value on self-sufficiency in rice. However, these countries have been significant importers during periods of unexpected production shortfalls. For example, poor

U.S. Exports to Southeast Asia Are Concentrated in Four Markets



Economic Research Service, USDA

Food Grains and Feed Are Largest U.S. Ag Exports to Southeast Asia



Economic Research Service, USDA

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weather conditions forced Indonesia to import 3 million tons of rice in 1995, more than three times the level of imports in 1994. While these imports made the country the world's largest rice importer, they were still only 9 percent of its total rice consumption. Droughts caused by the current El Niño may result in larger-than-normal rice imports by both Indonesia and the Philippines. When rice imports are needed, these countries use their government-controlled state trading enterprises to limit imports to target levels.

Wheat-based products are an increasing part of Southeast Asian diets. In the Philippines, Indonesia, Thailand, and Malaysia, wheat's share of total wheat and rice consumption has increased from 12 to 19 percent over the past decade. The region's consumption pattern of wheat has also changed. Demand for wheat-based oriental noodles has rapidly increased. For example, in Indonesia, the largest wheat importer in Southeast Asia, consumption of noodles as a share of wheat consumption has doubled to 55 percent in the past decade.

For the region as a whole, oriental noodles now account for about 42 percent of wheat use. The increasing consumption of oriental noodles is noteworthy because Australia's white wheat is often favored over U.S. hard red wheat for certain popular types of oriental noodles—particularly in Thailand and Malaysia, where the U.S. share of the wheat market is relatively small.

Soybean products are an important source of protein for people in Southeast Asia, particularly in Indonesia. The tendency has been for governments to protect their domestic soybean producers from lower cost producers outside the region by restricting imports and assessing import duties. But as the region's livestock sector expands, these policies are coming under increasing challenges from local feed manufacturers and livestock producers looking for cheaper feedstuffs to fuel rapid development.

Feedstuffs. Corn is important as both foodstuff and feedstuff in Southeast Asia. However, the region's trade in corn is related primarily to feed use. Across the region, food use is becoming a smaller

Southeast Asia's Currency Crisis

Since July of this year, the countries of Southeast Asia have been the focus of the world's financial markets. Country after country in the region has been forced to devalue its currency, lowering estimates of economic growth in the near term. The disarray in the financial markets has also dimmed U.S. export prospects to the region for the near term.

Economic growth in Thailand, Indonesia, Malaysia, and the Philippines has been fueled by export expansion, largely of processed agricultural products and non-agricultural products. The principal markets for these exports have been the U.S., Japan, and Western Europe. Many of these export products are from facilities financed by foreign investors taking advantage of low-cost labor. Malaysia, Indonesia, and Thailand have been among the top 12 recipients of foreign direct investment among developing countries since the 1970's.

Most Southeast Asian countries had pegged their currencies to the U.S. dollar. When the dollar dropped relative to the yen in the 1980's, Japanese investments, in particular, flowed in and cheap exports flowed out. Southeast Asian countries' policies of linking their currencies to the U.S. dollar partially underlies the financial crisis that has swept through the region since July of this year. As the dollar gained in exchange value against the yen and European currencies, Southeast Asia lost export competitiveness over the past year.

The exchange rates of these countries are now floating after large devaluations against the U.S. dollar. The currencies of Thailand, Indonesia, Malaysia, and the Philippines (as of mid-October) had dropped 31, 33, 23, and 22 percent since early July. This crisis is still unfolding, and its consequences for Southeast Asian national economies are uncertain.

proportion of use as livestock industries expand rapidly.

The value of livestock amounted to only 15 percent of total agricultural output in Southeast Asia in the late 1970's and 1980's. Growth in livestock output began outpacing crops in 1990, achieving a 20-percent share by 1995. Although the region's domestic corn production will increase, it is not expected to keep pace with the rapidly expanding livestock sector, a trend sharply reinforced when Thailand—the region's only major corn exporter—recently switched from exporter to importer of corn.

To ensure adequate feedstuff supplies, these countries are expected to give their feed manufacturers easier access to low-cost imported corn and soybean meal. For example, to reduce feedstuff costs, Indonesia deregulated soybean meal imports in 1996. BULOG, the country's state trading enterprise, no longer controls the import of meal, and feed manufacturers can directly import soybean meal as

needed. Thailand replaced its system of approving corn and soybean meal imports on a case-by-case basis with a tariff-rate quota system in early 1997.

U.S. exporters are sometimes at a disadvantage in supplying feedstuffs in the region because U.S. exporters use larger ships than some of the region's ports can handle. Chinese corn exports, for example, are transported in smaller ships more suitable for such ports.

Consumer products. The leading horticultural exports to the region are apples, grapes, frozen potatoes (french fries), and citrus. Markets for these temperate climate products have grown rapidly as trade barriers and tariffs have been reduced. For example, fruit imports by Indonesia, with the lowest average income of the four countries, have grown rapidly since limits on fruit imports ended in 1991. Tariffs have been cut twice and U.S. fresh fruit exports to Indonesia have increased more than twenty-fold from 1990 to 1996.

Temperate-climate product imports by these tropical countries are likely to continue to expand as incomes rise. Imports of frozen french fries should continue to grow with the expansion of western-style fast-food restaurants. Although potatoes are an important crop in Southeast Asia, many Asian consumers prefer the characteristics of U.S. french fries.


U.S. meat exports to Asia have expanded rapidly, but not to Southeast Asia. Import markets for U.S. meats in Southeast Asia are limited mostly to hotel and restaurant sectors, partly because of government policies that restrict meat imports for other domestic uses. Indonesia, the

Philippines, and Thailand regulate meat imports through trade restrictions and licensing, and Malaysia licenses importers.

In addition to these policy barriers to trade, the lack of refrigeration infrastructure often limits the import of perishable products, such as fresh fruit and meats. Without refrigeration, it is difficult to transport perishable products inland from ports without excessive spoilage.

Long-term agricultural import patterns in Southeast Asia have provided a wide range of opportunities for U.S. exporters of products made from temperate-climate

crops. The currency crisis in Southeast Asia will slow import growth in these countries for the near term, particularly for consumer products. But the devalued currencies could boost the competitiveness of Southeast Asian textile and leather exports, resulting in increased demand for cotton and cattle hides. Once the region's economies stabilize, more trade opportunities will develop as consumption patterns continue to evolve with rising incomes, increasing urbanization, and changing trade policies.

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Coming in Agricultural Outlook . . .

*MERCOSUR, the Common Market of the South
. . . the ag production potential of this trade bloc*

Farm & Rural Communities



Carol Morgan

Multiple Jobholding Among Rural Workers

During the 1980's the multiple jobholding rate for the nation increased significantly from 4.9 percent of the work force in 1980 to 6.2 percent in 1989. Since 1989, the overall multiple jobholding rate has held steady at around 6.2 percent. In rural areas, however, the rate remains higher than in urban areas, although the nearly 8-percent rate of the late 1980's has fallen in the 1990's. In 1996, 1.7 million rural workers held two or more jobs, a rate of 7.1 percent.

While farming remains important as a source of jobs and income in many rural areas, it is no longer the dominant rural industry, and even for the remaining farm households, the nonfarm rural economy is a critical source of employment and income. The largest share of rural jobs and recent employment growth has occurred in the service sector, mirroring the urban employment picture. Rural workers are employed in a wide range of occupations related to recreation, retirement, and natural amenities, as well as in the financial, insurance, real estate, telecommunications, and retail industries.

About one in five rural workers employed in *farming, forestry, and fishing* held more than one job in 1996. Some of these workers were farmers who held off-farm jobs. Others were workers who took seasonal farm jobs in addition to their primary employment. Among rural workers who held more than one job, the largest percentage of second jobs was in farming, forestry, and fishing occupations (19 percent). Farming was the most common second job for moonlighters in blue-collar occupations including protective service (20 percent), precision production and craft (42 percent), machine operation and assembly (23 percent), and transportation (37 percent), and among handlers, cleaners, helpers, and laborers (33 percent).

Professional specialty occupations accounted for 13 percent of second jobs held by rural workers, and rural workers whose primary occupations were in professional specialty fields were the most likely to hold more than one job. Many of these occupations have flexible work schedules, or regular time off, allowing workers to take on other jobs.

Rural elementary and secondary school teachers were the most likely to hold a second job, with a rate of 12 percent. Teachers also accounted for the largest absolute number of rural multiple jobholders. Other professional specialty

occupations such as health assessment and treatment (9 percent), technicians (11 percent), and college and university teachers (10 percent) had high multiple jobholding rates, as did rural workers in administrative support (8 percent), technicians (11 percent), and police and firefighters (10 percent).

Many of the second jobs held by rural workers were in *services and sales occupations* (18 and 15 percent). About 37 percent of rural moonlighters were self-employed in their second job, with the largest share in service industries. In contrast, only about 15 percent of workers who held a single job were self-employed.

Most rural workers took a second job in the same occupation as their primary job, or in a related field, but many second jobs were seasonal or low-paying jobs that supplemented earnings to meet basic living expenses. Workers most often claim financial reasons for holding two or more jobs. About 44 percent of rural workers with more than one job in 1989 and 42 percent in 1991 held multiple jobs to meet household expenses or to pay off debts. Evidence suggests financial reasons have remained a primary motivation. Rural workers whose median weekly earnings were in the lowest fifth had the highest multiple jobholding rate (8 percent) in 1996.

The Current Population Survey

This analysis draws on data from the 1996 Current Population Survey (CPS), a monthly survey of households conducted by the Bureau of the Census for the Bureau of Labor Statistics. The CPS provides detailed information on the labor force, employment, unemployment, and demographic characteristics of the rural and urban population.

The CPS derives estimates based on interviews of about 47,000 households that are representative of the U.S. civilian noninstitutional population 16 years of age and over. Labor force activity is based on respondents' activity during the third week of each month. *Primary job* is defined as the job at which the respondent worked the most hours. As a result of these survey specifications, farm work may be recorded as a *secondary job* if more hours were devoted to an off-farm occupation during the survey week, even when the worker would identify him/herself as a farmer.

Estimates of the basic demographic statistics in this article are based on the full CPS monthly samples, while detailed information on occupations is based on surveys of a quarter-sample of respondents each month. Because of changes in the CPS during 1994-95, the 1996 survey marks the first time since 1993 that annual rural and urban data have been available, and the first time since 1991 that multiple jobholding data have been collected.

Farm & Rural Communities

The Demographics of Multiple Jobholding

The greater the educational levels a rural worker reported, the greater the likelihood that the worker held a second job. Only 4 percent of high school dropouts held multiple jobs, compared with 10 percent of workers with a 4-year college degree. Workers with high levels of education may find it easier to get a second job because they have more specialized knowledge and skills that are in demand.

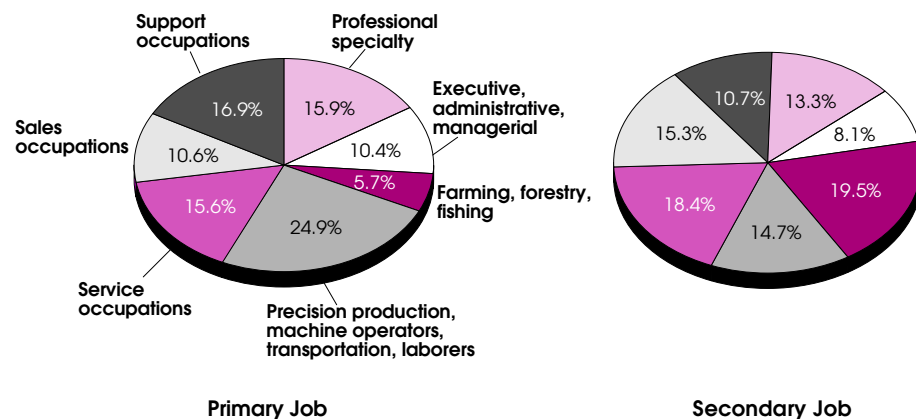
Although workers with more education may have financial reasons for moonlighting, nonfinancial reasons may strongly affect their decision to work a second job. For example, a second job may provide experience needed to enhance a worker's primary occupation. In addition, workers with higher levels of education may have more flexible schedules that permit taking a second job. For example, occupations like teaching and nursing that demand relatively high levels of education and have relatively flexible schedules also have high rates of moonlighting.

The multiple jobholding rate was the same for rural men and women—7 percent. Men outnumbered women slightly in the absolute number of multiple jobholders, comprising 54 percent of all rural multiple jobholders. Married men were more likely than single men to be multiple jobholders, while married women were less likely to work at a second job than single women.

While the multiple jobholding rate for rural men and women was virtually the same, their work schedules were not. About 83 percent of rural men who worked more than one job in 1996 usually worked full-time on their primary jobs and part-time on their secondary jobs. About 14 percent of rural men worked part-time in both primary and secondary jobs, while about 5 percent worked full-time in both jobs. In contrast, only 55 percent of rural female multiple jobholders worked full-time in their primary jobs and part-time in their secondary jobs. About 42 percent held multiple part-time jobs.

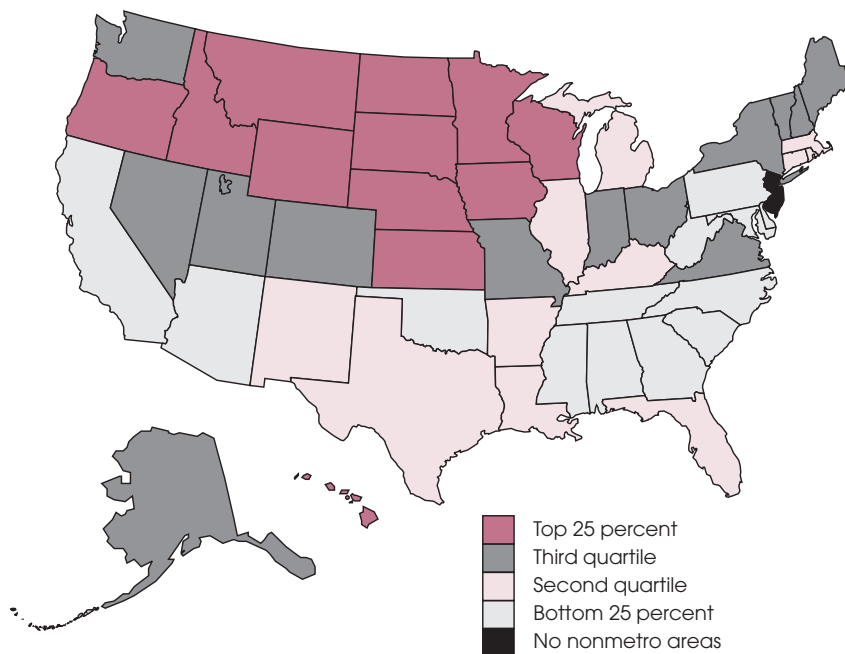
Middle-aged rural workers, 45 to 54 years, had the highest multiple jobholding rate of any age group, at 8 percent. The

The Most Common Second Jobs Among Rural Residents Are in Farming-Forestry-Fishing Category



Source: 1996 Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor. Economic Research Service, USDA

Rural Multiple Jobholding Rate Is Highest in the North Central Region



Source: 1996 Current Population Survey, Bureau of Labor Statistics, U.S. Department of Labor. Economic Research Service, USDA

multiple jobholding rate increased with each working-age group, up to ages 45-54: 6 percent for teens, 7 percent for workers age 20-24 and 25-34, and 8 percent for ages 35-44. The rate declined

after age 54. In urban areas, in contrast, workers age 45-54 had the lowest multiple jobholding rate—6 percent—and those age 20-24 the highest—7 percent.


Farm & Rural Communities

The moonlighting rate for rural whites was 7.5 percent, followed by blacks at 5 percent and Hispanics at 4 percent. But blacks worked an average of 51 hours per week at their multiple jobs, compared with just over 50 hours for Hispanics and just under 50 hours for whites, paralleling the pattern found in urban areas.

In the North Central region, rural multiple jobholding rates were higher across all major occupational and demographic categories. A high proportion of lower

paying jobs and a large number of jobs in farming, forestry, and fishing in these states likely contributed to the high multiple jobholding rate. Net outmigration and low unemployment rates in many rural areas in these states have also provided more opportunity for workers to take a second job. The highest rates of multiple jobholding in this region were in Minnesota and Wisconsin (both 12 percent); Nebraska, Montana, and Kansas (11 percent each); and Iowa and South Dakota (10 percent each).

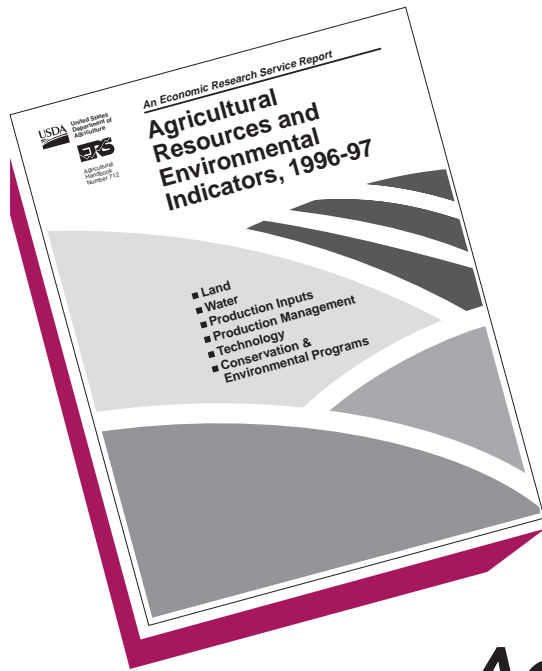
The states with the lowest rates of rural multiple jobholding were in the South and Southwest. South Carolina and Arizona had the lowest rate at 3 percent, followed by Tennessee and Georgia at 4 percent. High immigration and unemployment rates in these states, relative to other regions, may have helped keep the multiple jobholding rates low.

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Special Article



Christian Foster

NIS & Baltic Countries Look to Join the WTO

Twenty-nine countries are currently in the process of accession to the World Trade Organization. Nearly half of the 29 are the Newly Independent States (NIS) of the former Soviet Union, and the three Baltic countries—Estonia, Latvia, and Lithuania. The accession has great potential to increase trade that would benefit current WTO members as well as the acceding countries.

The Baltic countries and 10 of the 12 NIS—Russia, Ukraine, Kazakstan, Belarus, Uzbekistan, Kyrgyzstan, Moldova, Armenia, Azerbaijan, and Georgia (Turkmenistan and Tajikistan are the exceptions)—have begun the application process. Since these countries are high-cost producers of agricultural goods, particularly livestock and other high-value products, U.S. agriculture could benefit from this trade expansion through increased exports. With exports to these countries already expanding, the main benefit of WTO accession, both to the acceding countries and to their trade partners, would be to restrain growing protectionist pressure which, if unchecked, could impede growth in NIS and Baltic trade. As the NIS and Baltic nations establish more market-oriented economic systems integrated into the world economy, their producers are increasingly exposed to foreign competition, and producers' response has been to lobby strongly for protection.

The U.S. and other WTO members would also benefit from more transparent and predictable trade regimes in the acceding countries, based on WTO rules. Specific membership advantages to the NIS and Baltic countries are most-favored-nation trade

status vis-à-vis all other WTO members, access to the WTO dispute resolution process, and the right to participate in future negotiation rounds.

However, joining the WTO is a lengthy, involved procedure. An applicant country's trade regime, economic policies, and laws must be reviewed by a WTO working party to determine its compliance with WTO rules, and bilateral negotiations on market access for trade in goods and services must be completed. Out of the working party meetings and bilateral negotiations (between the acceding country and individual WTO members) come the applicant's terms of membership—i.e., its Protocol of Accession.

Assessment of NIS and Baltic policies in the context of WTO rules is complicated by the transitional nature of these countries' economies. For agriculture, several problematic issues—e.g., state trading activities, food safety and product standards, and

NIS and Baltic Countries Comprise Nearly Half of WTO-Accession Applicants

Country	Population (1995)	GDP (1994)
	Million	\$ billion
NIS and Baltics		
Armenia	4	8
Azerbaijan	8	14
Belarus	10	53
Estonia	2	10
Georgia	6	6
Kazakstan	17	55
Kyrgyzstan	5	8
Latvia	3	12
Lithuania	4	14
Moldova	5	12
Russian Federation	150	721
Ukraine	52	189
Uzbekistan	23	55
Subtotal	287	1,158
Others		
Albania	4	4
Algeria	29	97
Cambodia	11	6
People's Republic of China	1,203	2,979
Croatia	5	12
Former Yugoslav Republic of Macedonia	2	2
Jordan	4	17
Nepal	22	22
Oman	2	17
Saudi Arabia	19	173
Seychelles	0*	0**
Sudan	30	24
Taipei	22	257
Tonga	0*	0**
Vanuatu	0*	0**
Vietnam	74	84
Subtotal	1,425	3,695
Total	1,713	4,853

*Less than 50,000. **Less than \$50 million.

Economic Research Service, USDA

the level of domestic support to the farm sector—are common to most NIS and Baltic accessions. These issues arise mainly because the countries' policies are still to a large degree geared to the nonmarket system of the former Soviet Union.

Trade Gains From WTO Accession Are Potentially Large

The basis for mutually beneficial trade between countries based on *comparative advantage* is that a country benefits from exporting those goods which it produces relatively efficiently—i.e., at a lower cost—and imports goods it produces less efficiently. But during the Soviet regime the state was not very interested in trade gains that could be obtained by specializing in the production and export of goods with significant international cost advantages.

The USSR's goal was to be as economically self-sufficient as possible—imports were used to fill shortfalls in the economy-wide plan of production, and exports were used to pay for needed imports. The Soviet economy was not well integrated into the world economy, and its production technologies were typically inferior to those of the West. As a result, large differences in relative costs of production for goods inevitably existed with other countries—i.e., strong potential existed for increasing mutually beneficial trade based on comparative advantage.

The USSR was a low-cost producer of natural gas relative to world market prices, a medium-cost producer of machinery and equipment, and a generally high-cost producer of agricultural goods—especially meat. The USSR would clearly have benefited from trading more low-cost goods for high-cost products. For example, for an additional unit of meat not produced (a unit of a good is defined as the amount that would sell for \$1 on the world market), the USSR could have used the 2.5 rubles of resources saved to produce 25 more units of natural gas. If exported, the gas would have earned \$25 on the world market. With this money, the USSR could then have imported 25 units of meat, resulting in a substantial *net* gain from trade of 24 units of meat. Although the Soviet Union was a fairly large exporter of natural gas, it would have benefited from producing and exporting even more gas, and from producing less and importing more meat.

Just as the USSR was a low-cost producer of natural gas and a high-cost producer of grain and meat relative to the world market, a number of non-USSR countries that produced for export were high-cost producers of natural gas and low-cost producers of agricultural goods relative to the USSR. These countries would have gained from exporting more meat to the USSR in order to purchase more natural gas.

The greater the difference between relative production costs for various goods, the greater was the potential for the USSR to expand profitable trade based on comparative advantage. Economywide, Soviet relative costs of production differed substantially from the prices of goods traded on the world market, indicating that the country's foreign trade was far below the level

USSR Had a Significant Comparative Advantage in Producing Natural Gas Over Grains and Meat

Product	Production cost*
	<i>Rubles</i>
Natural gas	0.1
Machinery and equipment	0.5
Grain	1.2
Meat	2.5

*Estimated cost in rubles in the Soviet Union of producing an amount of a good (or product group) that sold for \$1 on the world market during the 1980's. Costs were calculated using standard method developed in the West for computing full economic cost of producing goods in the USSR.

Economic Research Service, USDA

that would have maximized gains from trade based on comparative advantage.

A good example of Soviet trade at odds with comparative advantage involved agriculture. Although the USSR was a high-cost producer of meat relative to grain, during the 1980's the country imported large amounts of grain rather than meat. This behavior was inconsistent with its comparative advantage, but was initiated as a matter of state policy beginning in the early 1970's when the Soviet regime decided to substantially increase the livestock sector. From 1970 to 1990, Soviet output of meat and other livestock products rose by about 50 percent. The increase was achieved, however, only at very high costs of production. The Soviets were pushing the growth of livestock production throughout the country, but particularly in northern regions. These areas lack agriculturally rich land; have cold climates, which means a shorter agricultural season as well as high heating costs for livestock; and are grain-deficit producers, requiring most feed to be transported in from other areas.

Since economic reform began in the early 1990's, the NIS and Baltic countries have substantially reduced both their livestock sectors and their grain imports, and have increased meat imports. In 1996 these countries imported over 2 million tons of meat from outside the region, compared with average annual meat imports of about 850,000 tons during the 1980's.

Although the NIS and Baltic region as a whole appears presently to have a comparative disadvantage in agriculture, favorable land and climate in certain countries within the region probably give those countries some comparative advantage in agriculture. Ukraine and Kazakhstan in particular are likely to be net agricultural exporters, especially of grain.

Since reforms began, the structure of NIS and Baltic trade has been changing, especially in agriculture, but the region has not yet exploited its full potential for expanding trade according to comparative advantage. In real terms, aggregate NIS trade with nations outside the region is not much greater than during the Soviet period, and has actually fallen in real terms for most imported items.

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How a Country Joins the WTO

The WTO builds on its predecessor, the General Agreement on Tariffs and Trade (GATT), by incorporating the results of the Uruguay Round (UR) of trade negotiations, which strengthened existing rules and introduced new disciplines in the areas of trade in services and intellectual property rights (AO December 1996). All UR agreements plus the amended version of the GATT (known as GATT 1994) form the basis for accession negotiations. As a result, accession to the WTO has become more complex.

Article XII of the Final Act—the legal document containing the texts of all provisions agreed upon during the UR—states that any country or separate customs territory with full autonomy in formulating trade and economic policy can accede to the WTO, under conditions negotiated by the acceding country and WTO members. The accession process begins when a country requests the formation of a working party to consider its application. The working party, open to all WTO members, reviews the applicant's trade and economic policies to assess their consistency with WTO rules and to develop the terms of accession. This process helps member countries better understand the applicant's policy regime and its ability to abide by WTO trade rules. The working party also provides a forum for members to identify areas where the applicant should make changes to conform with WTO rules.

Simultaneous with the working party process, bilateral negotiations are held between the acceding country and interested individual WTO members. In agriculture, these talks focus on establishing commitments for market access, internal support, and export subsidies, and on related issues such as sanitary and phytosanitary (SPS) measures. Generally speaking, the working party process does not end until all bilateral negotiations are completed.

One reason trade has not grown more is the general political and economic disruption that followed the breakup of the Soviet Union, as well as the disturbance to trade created by countries having to establish their own currencies. Also, in the years immediately following independence, all NIS countries restricted exports severely, imposing complete bans for some goods, particularly foodstuffs. Fearing material shortages, governments wanted to keep output within the country. The drop in imports was largely the result of two developments: a fall of more than 50 percent in consumer real income following price liberalization—the lead policy of economic reform—and weak currencies that kept import prices high.

However, conditions impeding trade in the post-independence years are gradually being corrected. Political and economic uncertainty has diminished, new national currency markets are functioning better, and most export controls have been eliminat-

The U.S. government, in preparation for bilateral negotiations, posts a request in the *Federal Register* for public comments on a country's accession and consults with the private sector to identify priority areas. Based on responses, an inter-agency committee, chaired by the Office of the U.S. Trade Representative, develops a formal U.S. request on tariffs and other trade measures, which forms the basis for negotiations.

Once bilateral negotiations have ended and the working party has concluded its review, a protocol package is prepared which consists of the working party report and a draft of the Protocol of Accession—i.e., the terms of accession and any accompanying special provisions. After the working party approves these documents, they are submitted to the WTO membership for final approval, with a two-thirds vote needed for approval. The applicant country becomes a member 30 days after its acceptance of the terms of accession, either by signature or by submitting proof of ratification, if the country requires legislative approval.

The terms of WTO membership are contained in the Protocol of Accession, which sets out a country's commitments to meet the requirements of all WTO agreements and the GATT 1994. Annexes to the Protocol generally contain special provisions, such as schedules to phase out policies that must be terminated by the date of membership.

Commitments to bind and reduce tariffs on agricultural products, negotiated bilaterally, are consolidated into the Agricultural Country Schedule and annexed to the Protocol. This schedule also contains commitments on export subsidies and domestic support. An acceding country must negotiate market access commitments for trade in other goods and for services, which are also annexed to the Protocol.

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ed. Real incomes in most NIS countries are rising, and national currencies have been appreciating in real terms.

Since economic conditions for trade expansion are improving, the main benefit to both the world economy and the NIS and Baltic countries from the latter's membership in the WTO would be to check growing pressure within the acceding countries for trade protectionism. Currently, import restrictions in most NIS and Baltic countries are not particularly onerous—for agriculture or economywide. In Russia and Ukraine, tariffs for most agricultural imports range from 10 to 30 percent, and quantitative restrictions on imports are virtually nonexistent, at least for now.

The relatively moderate nature of official trade controls is a legacy of the Soviet period. Under central planning, the state's strict monopoly over foreign trade insulated domestic producers from the world economy, making conventional trade policy instruments such as tariffs and quantitative controls irrelevant.

However, market reform has exposed producers, not only in agriculture but throughout the economy, to new pressures, requiring them to sell their own output, find their own financing, and meet the challenge of foreign competition. Faced with these pressures, agricultural and industrial producers throughout the region are lobbying actively for greater protection. Tariffs on agricultural imports have been growing, and several countries have enacted legislation that provides for the introduction of agricultural import quotas and other nontariff barriers to trade.

WTO accession would counter protectionist pressure and encourage the restructuring and growth of trade along the lines of comparative advantage. WTO membership would lock the NIS and Baltic countries into maximum allowable tariffs for agricultural imports, forbid most types of quantitative trade controls, and set upper bounds for state support to agriculture. Accession would also make NIS and Baltic trade policies more transparent and predictable.

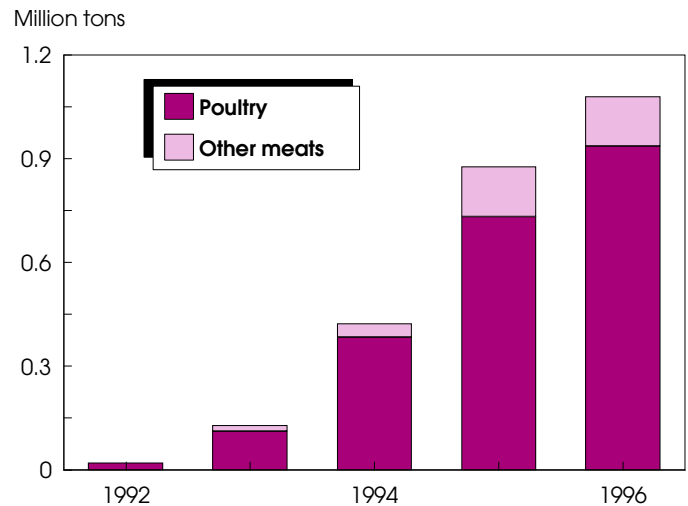
WTO membership would also bring the acceding countries some specific advantages: instant most-favored-nation treatment and access to the WTO dispute mechanism, an important tool for smaller countries with less economic "muscle." For example, access to the WTO dispute mechanism would be useful given the charges of dumping made by various countries against NIS nations, often resulting in import restrictions—as in the case of Russian fertilizer exports to the EU. Entry into the WTO would also provide a seat for the acceding countries at the negotiating table, allowing them to influence future WTO trade rules.

The growth of NIS and Baltic agricultural trade that WTO membership would promote would benefit U.S. agriculture. The severe contraction of the NIS and Baltic livestock sectors during reform has substantially reduced the region's large imports of grain, soybeans, and soybean meal used as animal feed, which has hurt U.S. exporters of agricultural bulk products (*AO* January-February 1997). However, the region has become a fast-growing market for processed and consumer-ready high-value food products, particularly meat. Since 1992, U.S. annual exports of processed agricultural goods to Russia have risen in value from less than \$100 million to about \$1.2 billion. For the past 2 years Russia has been the top destination for U.S. poultry meat exports, which in 1996 reached nearly 1 million tons.

Accession Linked To Market Reform

To a large degree, progress in WTO accession is correlated with the extent to which NIS and Baltic countries have implemented market reforms. Estonia and Latvia, two of the most reformist countries in the region, have made the most progress in their accession bids and have already begun to formulate their Protocols of Accession. Russia and Ukraine, two of the largest NIS countries involved in WTO accession, have already had several working party meetings and bilateral consultations, and the next working party meetings are scheduled for the end of 1997. However, countries which are moving much more slowly on reform, such as Belarus and Uzbekistan, are only beginning the accession process.

Poultry Leads Meteoric Rise in U.S. Meat Exports To NIS/Baltic Countries



Totals include fresh, frozen, prepared, and preserved meat.

Economic Research Service, USDA

Several potentially problematic issues involving agriculture are common to most of the NIS and Baltic accessions. These issues, which arise largely because of the transitional nature of the economies of these countries, can make it difficult to evaluate their agricultural policies in a WTO context. Two of the main areas of concern are market access—i.e., the extent to which a country permits imports—and internal support for domestic agriculture.

Market access. Most NIS and Baltic countries, including Russia and Ukraine, have not imposed quantitative restrictions on agricultural imports. Instead, current official restrictions consist primarily of tariffs. This is consistent with the spirit and rules of the WTO.

Although in some NIS and Baltic countries *agricultural tariffs* have been rising, they are not yet overly restrictive. As mentioned earlier, in Russia and Ukraine, tariffs for major agricultural imports range from 10 to 30 percent. However, some NIS and Baltic countries, including Russia and Ukraine, have introduced minimum per-unit tariffs in addition to *ad valorem* taxes. The combined tariffs may raise the effective *ad valorem* rates, which creates difficulties in negotiating and then policing the eventual *bound* tariff rates (set at a rate that cannot be exceeded). In addition, several countries have enacted legislation providing for introduction of import quotas and other nontariff barriers to trade, measures which generally violate WTO rules.

Another area of concern involving market access is *state trading*. In WTO parlance, state trading is the exercise of special rights and privileges granted to government or nongovernmental enterprises, which alter the direction or level of trade. All WTO members are required to report their use of state enterprises to conduct trade (*AO* December 1996).

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Almost all countries in the region have abandoned complete state control over agricultural trade. However, in the less reformist countries such as Belarus and Uzbekistan, the state maintains strong influence over both the direction and volume of agricultural trade, often through agencies privatized in name only. In Russia and certain other countries, many of the foreign trade organizations that handled trade under the Soviet regime have been converted to joint-stock companies in which the government continues to hold (sometimes majority) shares. In Russia, this relationship has given impetus to granting tax exemptions for such companies, as well as exclusive buying/selling rights and concessional credit tied to specification of import sources.

Since these privileged organizations are largely importers rather than exporters, the concessions granted them have probably increased, rather than decreased, the region's imports of foodstuffs. However, as the array of policy instruments to protect domestic producers declines, the relationship between the state and these organizations, as well as other types of state trading arrangements, could be used as an indirect way to reduce imports.

Agricultural trade among NIS countries also raises questions of state trading. Much of this trade is conducted through interstate agreements that specify trade volumes. Frequently an NIS country will authorize a single company or agent to fulfill an interstate trade agreement. The use of a sole agent to trade on a non-commercial basis may constitute state trading, while inter-state barter trade agreements raise questions of trade discrimination.

Sanitary and phytosanitary (SPS) issues and technical barriers to trade (TBT) are further areas of concern regarding market access. The NIS food safety and standards systems, largely retained from the Soviet period, might not fully comply with WTO rules. Most of these countries lack a single inquiry point for information on standards and SPS requirements, and there is currently inadequate transparency in the adoption and notification of measures, as required in the Uruguay Round SPS and TBT agreements.

For example, Russia has introduced new labeling requirements (scheduled to go into effect on May 1, 1997) for foodstuffs and a holographic mark of conformity for certain items. These regulations were not introduced in a manner consistent with WTO provisions on TBT's, as the transparency requirements were not observed and a transition period was not included in the original legislation.

A final problem concerning market access in some countries, particularly Russia, is the issue of *regional controls on agricultural flows*, which are often tied to the continued power of procurement by local authorities. While most controls in Russia and Ukraine have been on the export side, some localities (such as the Sverdlovsk and Magadan regions in Russia) are turning to tariffs or other import restrictions. Although most of these prac-

tices violate federal law, central government weakness vis-a-vis the regions has made enforcement difficult. WTO members will seek assurances that regional policies will not undermine trade concessions negotiated with the federal government.

Internal support. The NIS and Baltic nations will be required to commit to reductions in domestic support of agricultural production. Each country must quantify its level of domestic support by calculating and submitting to the WTO an annual Aggregate Measure of Support (AMS).


Each country commits to reduce domestic support from a base-period AMS. For acceding countries the base period is the three most recent years of available data. For each succeeding year, a country's AMS calculation must not exceed a negotiated, gradually declining limit expressed as a percent of the base-period AMS.

Several problems common to most NIS and Baltic countries make it difficult to compute the annual AMS, particularly for the base-period years. These complicating factors include high inflation, capturing support at the sub-national level (which is sizable in Russia), and handling the writing off of state loans to agriculture. Russia's inflation rates in 1993, 1994, and 1995 were 840, 215, and 130 percent, and the rates in most other NIS countries were higher. With inflation, the calculated level of support can differ from year to year, not only because support has changed in real terms, but because prices and monetary values in general have been inflated. If the AMS for a country is to be expressed in its own currency, a common approach to adjust for inflation has been to express all annual values in constant value of a given year.

It is not likely that support to agriculture will prove a major sticking point in accession negotiations, despite the difficulties encumbering AMS calculations. Most NIS and Baltic countries are fiscally weak, with little funds available for agricultural support. Furthermore, state support in the region has fallen substantially from the Soviet period. During the late 1980's, total Soviet budget subsidies to the agriculture and food economy were estimated at about 10 percent of GDP. In contrast, Russia's agricultural support in 1995 from governmental budget expenditure (including tax breaks and soft loans) is estimated at 2-3 percent.

The specific terms of WTO accession are important for U.S. agriculture. Emphasis in negotiations will be on ensuring market access opportunities through tariff bindings (setting rates that cannot be exceeded) and the removal of all nontariff barriers to trade. Transparency in how state trading enterprises conduct trade is vital, so that their activities do not circumvent market access commitments. And commitments to comply with rules on SPS measures and TBT's will be sought, to ensure that such barriers to U.S. products are based on science or international standards.

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Special Article



Frederick Crook

State Trading Enterprises: Their Role As Importers

For many countries, the creation of a central agency, or state trading enterprise (STE), to handle domestic procurement and to plan import needs is perceived as essential to the achievement of government policies such as assurance of abundant, low-cost food supplies and stable farm prices. Most discussions of STE's involve the export marketing boards, e.g., the Canadian Wheat Board, that stabilize and support farm prices by encouraging trade expansion. But the import STE's that can control or restrict trade are important as well, and often have considerable power to control access to domestic markets. In addition, in periods of bountiful supplies these STE's may also export agricultural commodities to support domestic farm prices.

Under the Agreement on Agriculture in the Uruguay Round of multilateral trade negotiations (completed in 1994), participating countries agreed to increase access to their markets by converting quotas and other quantitative import restrictions to tariffs and subsequently reducing the tariffs over several years. Recognizing the importance of STE's in controlling access to import markets, the Agreement on Agriculture explicitly prohibits countries from reverting to non-tariff restrictions, including "non-tariff measures maintained through state trading enterprises."

WTO member-countries also committed to reducing their support for agricultural producers. However, trading partners have expressed concern that lack of transparency in the operations of STE importers makes it difficult to determine whether STE importers actually restrict trade, and the extent to which they subsidize domestic agricultural producers.

Reviewing the classification scheme for importer STE's. A classification scheme which compares and contrasts the chief characteristics of STE importers provides some indication of an STE's potential to distort trade. This framework was previously applied to STE exporters (AO June 1997).

Ownership regime provides insights into the objectives of an STE, its reasons for existence, its management, and its financial linkages to the national treasury. Most STE importers are government agencies or corporations that were established to support and stabilize domestic consumer and/or producer prices. Some STE importers, such as Japan's Food Agency, contribute "monopoly rents"—i.e., profits that result from buying on international markets at world prices and selling at much higher prices in tightly controlled domestic markets—to their national treasuries. Import revenues gained by STE's may be transferred to other agricultural agencies to support domestic farm prices or subsidize consumer prices. Government funding may provide insurance against risk for STE importers.

The *product regime*—i.e., range of products covered—defines an STE's ability to differentiate its products and regulate the use of substitutes. Some STE importers control trade in only one commodity, while others control trade in a variety of commodities and their semi-processed products. If an STE imports a variety of commodities and their processed products, it has more potential to affect market access opportunities.

Market regime refers to an STE's control of exports, imports, domestic procurement, and domestic marketing. If an STE controls all four of these activities, its potential to distort trade is

STE's & the WTO

STE's have been in existence for several decades. The General Agreement on Tariffs and Trade (GATT), the body of international law which preceded the World Trade Organization (WTO) in regulating global trade in goods and services, recognizes STE's as legitimate participants in international trade but establishes guidelines on their behavior, contained in Article XVII of GATT 1947. These guidelines require STE's to conduct their export or import trading activities according to the principles of nondiscriminatory treatment.

The Uruguay Round (UR) of multilateral trade negotiations, conducted under the auspices of the GATT, was completed in 1994. Article XVII was incorporated into the GATT of 1994. The UR's "Understanding on Article XVII" added a working definition of STE's to guide WTO member-countries in their reporting of STE's. The "Understanding on Article XVII" defines STE's as "governmental and non-governmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales the level or direction of imports or exports."

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likely to be much greater than if it controlled fewer, or none. Many STE importers, for example, control both imports and domestic markets. An STE that controls its domestic market and imports may choose to protect administered domestic prices by discouraging imports. Most STE importers either import the commodities themselves or contract with private traders for imports either directly or through a tender system.

Policy regime refers to the policies available to or administered by an STE to control the flow of imports. In the past, *trade policies* such as quotas and outright bans were the primary policy tools used to restrict imports. In today's post-UR environment, non-tariff restrictions must be converted to tariffs, which will become the principal tools of the trade (AO December 1996). *Domestic policies* range from supply control and procurement to the marketing of imported goods. For many STE importers, market regime and policy tools are inseparable.

The list of major STE importers is headed by Japan's Food Agency and Indonesia's Badan Urusan Logistik (BULOG). STE's in Indonesia, Japan, the Republic of South Korea, and Mexico—all countries whose governments control imports of certain important staple commodities—are among the largest enterprises that can be classed as STE importers. The major STE's from these four countries—the Korean Ministry of Agriculture and Forestry (MAF) and the Korean Livestock Products Marketing Organization (LPMO); Japan's Food Agency; Indonesia's Badan Urusan Logistik; and Mexico's

Compania Nacional de Subsistencias Populares (CONASUPO)—are government agencies or corporations. An exception among the major STE's is Japan Tobacco, Incorporated, the second-largest STE importer, which was recently privatized.

Japan. Japan uses price supports supplemented by strict border measures to maintain income for its agricultural producers. Since November 1995, the Food Agency of Japan's Ministry of Agriculture, Forestry, and Fisheries (MAFF) has controlled production, pricing, and marketing of domestic wheat and rice, as well as the importation and pricing of imported rice and most imported wheat.

Japan reported to the WTO three STE's—its Food Agency, Japan Tobacco, Inc., and the Agricultural and Livestock Corporation—for a range of agricultural products. Japan's Food Agency was the sole importer of rice, wheat, and barley, and now administers Japan's WTO market access commitments for those products. Imports of wheat and wheat products by the Food Agency averaged \$1.14 billion from 1993 through 1995; wheat imports accounted for about 77 percent of domestic supplies—beginning stocks, imports, and domestic production—for this period.

From 1993 to 1995, Japan's rice imports accounted for 10 percent of domestic supplies. Prior to the Uruguay Round, a ban limited Japan's total annual rice imports to 20,000-30,000 tons, destined for Okinawa, although the MAFF purchased rice when needed. Rice and rice product imports jumped temporarily to 2.5

Japan's Food Agency Heads the List of Import-Oriented STE's¹

Country	STE	Commodity	Average import value, 1993-95	U.S. market share, 1993-95
			\$ million	Percent
Japan	Food Agency	Wheat and intermediate products	1,145	56
Indonesia	BULOG	Wheat	608	3
Japan	Japan Tobacco, Inc.	Leaf tobacco	593	47
Japan	Food Agency	Rice and intermediate products	513	21 ²
Korea ³	Livestock Products Marketing Org.	Beef	432	48
Pakistan ⁴	Min. of Food, Agric., and Cooperatives	Wheat	378	50
Indonesia	BULOG	Rice	350	2
Mexico	CONASUPO	Milk powder	329	25
Turkey	Soil Products Assoc.	Wheat	166	25
Tunisia	Grain Board	Wheat	164	35
Morocco	National Sugar and Tea Office	Raw sugar	125	0
Malaysia	Padiberas Nasional Berhad	Rice	121	<1

1. STE importers with 1993-95 average annual imports in excess of \$100 million. Some of these STE importers are from countries that reported no STE activity to the WTO. 2. U.S. market share of Japan's rice imports under its WTO tariff-rate quota was 46 percent for 1995 and 1996. 3. The LPMO purchased 90 percent of Korea's beef imports in 1993, 80 percent in 1994, and 70 percent in 1995. Private firms participated in the remaining beef imports under a Simultaneous Buy-Sell (SBS) System. The private-sector (SBS) share of Korea's imports increased to 70 percent in 1997. 4. Pakistan opened imports of wheat to private traders in 1991. However, government procurement and resale policies for domestically produced wheat continue to limit private trade.

Sources: Japan and Korea trade statistics; International Grains Council; Food and Agriculture Organization, United Nations; Foreign Agricultural Service, USDA.

Economic Research Service, USDA

million tons in 1994, valued at \$1.48 billion, due to a major rice crop failure.

In the Uruguay Round, Japan agreed to open its rice market to imports of 379,000 tons (4 percent of base-period consumption) beginning in 1995. Japan's minimum access commitment will double by 2001, the end of the implementation period. Japan also negotiated a maximum mark-up of 292 yen per kilogram (about \$2,500 a ton) for rice imports sold in the domestic market.

Japan also has a WTO tariff-rate quota for wheat of 5.65 million tons in 1995, which will rise to 5.74 million in 2001. Japan's maximum mark-up for wheat imports of 53 yen per kilogram (about \$457 a ton), will fall to 45.2 yen per kilogram (about \$390 a ton) in 2001. Japan also has an over-quota tariff for wheat of 65 yen per kilogram, which will fall to 55 yen per kilogram in 2001. The mark-ups reflect Japan's support for its domestic rice and wheat producers. High mark-ups for wheat and rice are encouraging importers to purchase more highly processed wheat and rice products such as prepared dough.

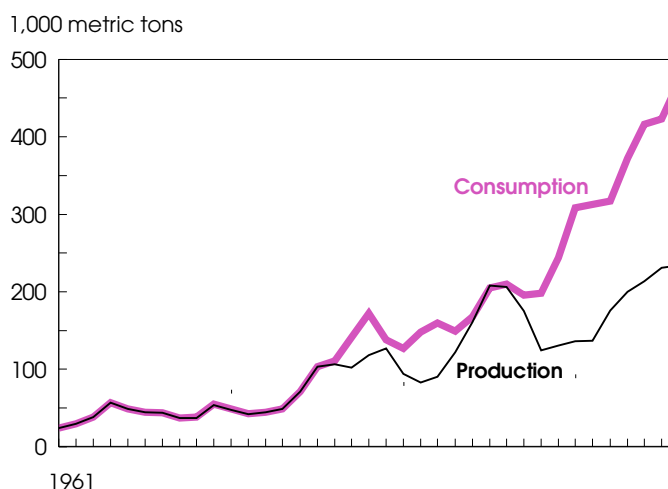
The Food Agency conducts general tenders for its rice imports as well as tenders under a Simultaneous Buy-Sell System (SBS) which allows private firms to propose rice purchases that fit their specifications. From April 1996 through March 1997, SBS rice imports accounted only for about 5 percent (22,000 metric tons) of Japan's rice imports under its minimum access commitment.

Registered Japanese and international trading firms bid for wheat imports under tenders conducted by the Food Agency. The Food Agency confers with flour millers and other wheat users to establish tender specifications. For import quantities above the WTO tariff-rate quota, private firms are allowed to import wheat directly. Over-quota wheat imports amounted to more than 1.5 million tons in 1995, or 25 percent of total wheat imports, but dropped to almost zero in 1996. Wheat flour millers also are permitted to import wheat directly if they plan to export the flour. On average, about 300,000 tons of wheat flour has been exported annually.

Japan's Ministry of Agriculture, Forestry, and Fisheries controls the domestic marketing and pricing of rice and wheat. Japan's rice growers sell their rice to local agricultural cooperatives which, in turn, market the rice to prefectural cooperatives. Two official channels dominate national-level procurement—the Food Agency, which procured about 15 percent of domestically produced rice in 1996, and two major associations of cooperatives. About half the rice produced in Japan is marketed through these two official channels.

The MAFF specifies the total quantity of rice marketed to official buyers in its annual rice distribution plan and allocates quotas to farmers through their local cooperatives. Farmers who sell rice outside the official marketing channels must report their sales in advance to the MAFF.

Korean Beef and Veal Production Lags Domestic Demand



1997 forecast.

Economic Research Service, USDA

Although Japan's wheat producers have the option of marketing their wheat and barley privately, almost all domestically produced wheat is purchased by the Food Agency. Local cooperatives and consigned brokers may act as intermediary purchasers.

Japan's MAFF establishes producer and resale prices for domestically produced rice and for domestic and imported wheat after lengthy consultations with other government agencies and producer cooperatives.

Korea. The South Korean government developed its agricultural policies to maximize self-sufficiency and foster parity between urban and farm incomes. Orderly marketing of agricultural products is also an important objective for Korea. Major differences between world prices and Korea's domestic prices for agricultural commodities have led to controls on imports to prevent producer price declines.

The Republic of South Korea designated eight STE's to import 18 agricultural products including rice, unhulled barley, beans, buckwheat, red pepper, ginger, ground nuts, onions, potatoes, sesame seeds, food-use soybeans, oranges, beef, garlic, natural honey, raw silk, ginseng, and pine nuts. However, as Korea has liberalized trade in certain commodities, it also has begun to allow private firms to import those commodities. For example, in 1995, the Cheju Citrus Cooperative was designated as the importer for almost all imports under Korea's WTO minimum access commitment on fresh oranges. On July 1, 1997, the Korean market for fresh oranges was liberalized, allowing private firms greater opportunities to import fresh oranges.

Access to Korea's beef market is scheduled for total liberalization by 2001. Prior to 1991, the Livestock Products Marketing Organization controlled all beef imports as a means of supporting domestic cattle prices. In bilateral negotiations with the U.S.

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and other major trading partners, the Korean government agreed in the early 1990's to allow some private-sector participation in beef imports. The Korean government does not procure domestic beef or directly control the marketing of domestically produced beef. While Korea's import policy has maintained domestic beef prices at more than double world price levels, it has not helped domestic production keep pace with demand.

Korea's imports of beef and veal grew from zero in 1987 to an average of 42 percent of domestic supplies from 1993 to 1995. In a 1993 Record of Understanding (ROU) between Korea and the U.S., the Korean government set a final date for liberalization of its quantitative and institutional barriers to imports, which was incorporated into its WTO commitments. In the Uruguay Round, Korea agreed to continue increasing beef imports, while reducing beef import tariffs.

The 1993 and earlier ROU's also required that the LPMO allow industries to participate in importing through a Simultaneous Buy-Sell System, which allows selected industry groups to contract directly with foreign sellers for the cuts of beef desired, rather than by anonymous bidding through the LPMO. For 1997, the LPMO will import 50 percent of Korea's WTO beef minimum access commitment, while private-sector groups will participate in SBS imports of 50 percent of the beef minimum access commitment. The private groups include beef producers; cold storage firms; tourist, hotel and restaurant suppliers; and the meat industry association. SBS imports will increase to 70 percent in 2000. After 2000, the LPMO will no longer control imports of beef, and private sector importers will have complete autonomy to import, and to market imported products.

Access to Korea's rice market is progressing much more slowly. The Korean government gave the Ministry of Agriculture and Forestry the exclusive right to control imports of rice because of its importance as a staple crop. The MAF buys lower quality rice from farmers at high prices and releases it at lower prices, although the rest of the domestic rice market is relatively free of government control. The MAF procured 30 percent of Korean rice production from 1993 through 1995. The remaining 70 percent of the rice produced in Korea was sold on the open market. MAF procurement fell to nearly 23 percent of Korean rice production in 1996.

Korea first opened its rice market to imports in 1995 under its WTO market access commitments, when it purchased rice equal to 1 percent (or about 51,000 metric tons) of its base period (1986-88) domestic consumption. Korea's minimum access commitment for rice will rise to 4 percent in 2004.

Korea's rice imports in 1996 were valued at more than \$50 million. In letters to the WTO, the MAF is designated as the sole importer of rice under Korea's WTO commitment to open its rice market. The MAF decides how much rice to import, schedules tenders for rice imports, and generally bases import purchases on price alone. Chief suppliers of rice were India and China in 1995, China in 1996, and China and Thailand in 1997.

Economic Characteristics of Major STE Importers

Country/STE	Owners
South Korea Ministry of Agriculture and Forestry (MAF)	Government
Livestock Products Marketing Org. (LPMO)	Government
Japan Food Agency (FA)	Government
Indonesia Badan Urusan Logistik (BULOG)	Government corporation
Mexico CONASUPO	Government
*Beef and veal.	

Indonesia. Indonesia reported Badan Urusan Logistik to the WTO as an STE in 1995. BULOG was established as a government corporation in 1967 to stabilize agricultural commodity prices at the producer and consumer levels. To carry out its price stabilization responsibilities, BULOG is authorized to import, export, and manage stocks, to procure domestic production, and to engage in marketing of domestically produced and imported agricultural commodities. BULOG's activities are financed through Indonesian state banks at commercial interest rates.

BULOG uses price and procurement policies to support producers and maintain affordable consumer prices for rice. BULOG does not have a monopoly in the domestic rice market, and procures only about 3 percent of domestic rice production. However, BULOG owns grain storage facilities which it uses to hold a national rice reserve for emergencies, and buffer stocks to stabilize rice prices between and within years. BULOG establishes rice prices for sales by farm cooperatives and retail prices. In years of excess supplies, Indonesia has exported rice.

Indonesia produces no wheat, but imported an average of 3.3 million tons between 1993 and 1995. BULOG is the exclusive importer of wheat, and controls the distribution of imported wheat. Domestic flour millers act as agents for BULOG to import wheat and flour.

Product regime	Market regime	Policy regime	Import share of domestic supplies (1993-95 average) Percent
Rice	MAF controls domestic procurement (30 percent of production) and all imports	WTO minimum-access commitment for imports; domestic price support through a procurement price; and domestic supply controls	1
Beef	LPMO controls imports of beef under minimum-access commitments, but has allowed private firms from specified industries to participate in imports through a Simultaneous Buy-Sell system; no control of domestic marketing	WTO minimum-access commitment for imports	42*
Rice, wheat	FA controls imports of all rice and of wheat within the tariff-rate quota; FA controls some domestic rice and wheat procurement	<i>Rice:</i> WTO minimum-access commitment for imports; domestic supply control; government-set producer and retail prices; government procures 15 percent of domestic production <i>Wheat:</i> tariff quota for imports; government-set producer and retail prices; government procures almost all domestic production	10 77
Rice, sugar, wheat, soybeans, flour, garlic	BULOG controls imports of rice, wheat, soybeans, and refined sugar; procures rice for government reserves and controls the distribution of imported wheat, soybeans, rice, and refined sugar.	WTO minimum-access commitment for rice; BULOG sets producer and retail prices for rice and wheat	Rice: 5 Wheat: 92
Milk powder	CONASUPO procures domestically produced corn, beans, milk for sales to low-income consumers and imports milk powder	WTO and NAFTA tariff-rate quotas	17

The domestic flour market also is highly controlled by BULOG, which determines the allocation of wheat to each mill and licenses flour distributors. The mills receive a processing fee for the wheat. Import, mill, and retail prices are established by BULOG. BULOG's monopoly fostered and supported the growth of one large flour milling company. This firm had a monopoly on flour milling until 1997. In 1997 and 1998, three smaller mills will begin operating.

BULOG is the exclusive importer of refined sugar, but in a concession to private importers, the Indonesian government announced on July 7, 1997 that private firms with sugar refining capacity could import raw sugarcane and sugar beets. Licensed agents conduct BULOG's imports and are paid a commission for their purchases. From 1993 to 1995, BULOG imported an average of 311,000 tons of raw and refined sugar annually.

BULOG also purchases much of the domestically produced sugar and has considerable control of its distribution through the Association of Indonesian Sugar and Flour Distributors. Only association members may obtain sugar supplies from BULOG.

BULOG also is the sole importer of soybeans, which are used exclusively for food use. In 1996, following the closing of the only soybean crushing facility, the importation of soybean meal,

primarily for poultry feed, was completely opened to private traders.

In the Uruguay Round, Indonesia agreed to import a minimum of 70,000 tons of rice annually. Indonesia's rice imports averaged 1.27 million tons annually from 1993 to 1995, although annual imports varied widely during that period. Imports in 1993 of 24,000 tons contrast sharply with 1995 imports of 3.15 million tons. Indonesia has no import tariffs on wheat, soybeans, and sugar, although sugar is subject to a 10-percent value-added tax.

Mexico. Prior to the late 1980's, Mexican agricultural policy sought to support farm prices and incomes and to guarantee consumers an accessible, reasonably priced food supply. To achieve these objectives, the Mexican government subsidized agricultural producers and consumers through direct government intervention at every link in the marketing chain—production, storage, marketing, and distribution of agricultural commodities, and processed food. Among the creations of Mexico's support system was its chief agricultural corporation, the *Compania Nacional de Subsistencias Populares*, established in March 1965.

In the late 1980's Mexico began to decrease its domestic support programs and consumer subsidies in response to an external debt

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China's Import STE's

The value of STE imports by the People's Republic of China, which is seeking accession to the WTO, likely eclipses that of all STE's in current WTO member countries. China requested membership in the WTO in 1986, but accession negotiations were not completed in time for China to become a founding member of the WTO. WTO members have expressed concern about the lack of transparency in China's trade regime, including its discriminatory import licensing procedures, import substitution policies, and state trading. China's STE's—the China National Cereals, Oil and Foodstuffs Import and Export Corporation (COFCO), and the China National Textiles Import and Export Corporation (Chinatex)—dominate agricultural trade of major grains and cotton, but compete with other state-owned enterprises (SOE's) for imports of vegetable oils, sugar, and rice. SOE's also handle trade in wool.

China's Average Annual Agricultural Imports by STE's, 1993-95

State trading enterprise	Commodity	Value
		\$ million
COFCO	Wheat	1,268
COFCO and Other SOE's	Vegetable oils	1,140
Chinatex	Cotton	758
China National Maize	Corn	272*
COFCO and Other SOE's	Rice	203
Total		3,641

*Most of China's 1993-95 corn imports were in 1995.
Economic Research Service, USDA

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crisis, peso depreciation, and high domestic inflation. Today, CONASUPO no longer intervenes in all aspects of Mexican agricultural production and marketing, but continues to purchase domestically produced corn, edible beans, and raw milk for its subsidized sales of staple food commodities.

Prior to implementation of the North American Free Trade Agreement (NAFTA) in 1994, CONASUPO was the sole importer of milk powder. Based on its historical role as exclusive importer, CONASUPO received all of the licenses for imports of milk powder under NAFTA and WTO tariff quotas. As a result, CONASUPO continues to act as sole importer of powdered milk.

The annual value of Mexico's nonfat dry milk and whole milk powder imports averaged \$317.5 million from 1993 through 1995 and represented about 35 percent of world trade in nonfat dry milk. Mexico would have needed to produce 20 percent more raw milk from 1993 to 1995 to replace milk powder imports. CONASUPO directs 60 percent of milk powder imports

to its affiliate, LICONSA (Leche Industrializada Conasupo, S.A.), for subsidized milk sales to low-income families. CONASUPO then resells to private processors 30-40 percent of the milk powder which it has imported.

Under NAFTA, Mexico allowed duty-free access for up to 40,000 tons of U.S. milk powder in 1994, and this access increases by 3 percent annually through 2008. The maximum over-quota tariff for U.S. milk powder under NAFTA was \$1,160 per ton or 139 percent *ad valorem* in 1994, but will decline to zero in 2008.

Mexico's WTO tariff-quota schedule grants duty-free access for 40,000 tons of U.S. milk powder and 80,000 tons of imports by countries other than the U.S. Tariff-rate quota levels are fixed through 2004. In 1995, Mexico imported 134,646 tons of milk powder, or 15,000 tons more than its total WTO quota. However, the U.S. supplied only 34,000 tons—6,000 less than the U.S. quota.

On July 2, 1997, Mexico announced a small and carefully monitored exception to CONASUPO's monopoly on milk powder imports—private firms in the province of Quintana Roo (the Yucatan Peninsula) and along the Guatemalan border could apply for licenses to import 2,914 metric tons of milk powder in 1997 under the WTO duty-free tariff-rate quota for "Other countries." CONASUPO would continue as the sole importer under the U.S. tariff-rate quota (40,000 tons) and the remaining 77,086 tons of the WTO "Other country" tariff-rate quota. The Mexican government announcement also required that the importing private firms not reship milk powder imported under the quota to other parts of Mexico. Private hotels, restaurants and other private businesses in the designated areas likely had been importing small amounts of milk powder in years prior to the recent announcement.

Despite significant opportunities for U.S. and other milk powder exporters, CONASUPO's control of powder imports raises concerns about the satisfaction of public sector and private sector demand for milk powder. If CONASUPO chooses to reduce its imports of milk powder for subsidized sales to low-income consumers, will CONASUPO continue to import adequate quantities of milk powder to be able to sell to commercial users?

Future directions for STE importers. The STE importers described in this article, all government corporations or recently privatized companies, have used their statutory authorities to influence or control imports. Their national governments have committed to increase access for imported commodities in the Uruguay Round and are testing increased private sector participation in the new market opportunities.

Korea, for example, has committed to turn over imports of beef to the private sector in 2001. Indonesia opened its raw sugar imports to the private sector this summer and may forsake some of BULOG's monopoly rents from wheat, soybeans, and refined sugar imports in order to open imports of those commodities to private trade. However, for countries where an STE import

Tobacco & Liquor Import Monopolies

A number of countries reported to the WTO that they or their states/provinces maintain monopolies on the import of liquor and tobacco. In some cases, the monopolies were established to support domestic producers. In others, protection of public health and the financing of public services such as health care are important objectives of national and state import monopolies. For example, the revenues garnered by Colombia's departmental liquor monopolies finance local health services and education.

The largest tobacco monopoly reported to the WTO is Japan Tobacco Incorporated (JTI), a recently privatized corporation, which was established to promote the sound development of the tobacco industry in Japan. Other private firms also may import leaf tobacco, but since JTI is the sole cigarette manufacturer, those importers would have to sell to JTI for processing, thus giving JTI an effective monopoly.

JTI imports leaf tobacco and processes it into cigarettes and other tobacco products. JTI also contracts with domestic tobacco growers for purchases of domestically produced tobacco. JTI sets the price and the quantity allotted for each tobacco grower. JTI's imports of leaf tobacco averaged \$613 million annually from 1993 to 1995. Other countries that reported tobacco monopolies are Iceland, Morocco, and Thailand.

Liquor monopolies control imports of distilled liquors, wine, and beer to raise money for national treasuries and to protect public health. Many countries reported to the WTO that they or their provincial authorities control liquor imports and regulate the distribution of domestic and imported liquors. Reporting countries included Canada, Colombia, Iceland, and Turkey.

monopoly has accommodated objectives of domestic price support and has complemented domestic market control, the opening of imports to private traders will likely come more slowly.

Of interest will be the continuing role of STE's in administering countries' import regimes, particularly for staple agricultural commodities. Market liberalization has not been easy for Japan and Korea, but their STE's have cushioned the impacts of market openings by storing imported rice. Japan has also exported a limited amount of imported rice as food aid to developing countries. BULOG likely will remain the sole importer of rice in Indonesia due to the government's interest in controlling rice supplies.

Other WTO member countries—such as India, a major consumer of wheat, rice, and vegetable oil—also champion the control of agricultural markets by STE's. India's Food Corporation and other STE's continue to monopolize India's sporadic imports of staple commodities.

WTO laws require that the non-tariff restrictions maintained by import monopolies be converted to tariffs. State trading practices will become increasingly important as countries with centrally planned economies or countries that are in the process of privatizing their agricultural production and marketing apply for memberships in the WTO.

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