

VALUE-ADDED AGRICULTURE AND  
U.S. COMPETITIVENESS:  
A WESTERN U.S. VIEWPOINT

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### **Introduction**

It is a pleasure to join this panel to address the subject of U.S. food export competitiveness. I will principally focus my remarks on the competitiveness of U.S. exports to Asia. Asia is the major market region for Western U.S. value added food and agricultural exports, and it is also the market region in which the Western U.S. Agricultural Trade Association (WUSATA) draws most of our export experience. I will also present my remarks from the perspective of small and medium size companies, since these companies are the principal group targeted by our programs of our Association.

I would like to briefly provide some context for my remarks on trade and competition. WUSATA was formed in 1980 by thirteen states in the West. These states direct the WUSATA export marketing programs in cooperation with the Foreign Agricultural Service (FAS) of USDA. We are a major participant in the Market Access Program (MAP). WUSATA focuses on the export of our region's high value products, which principally include processed and fresh food, beverage, and agricultural products.

Over the past 20 years, consumer food exports have replaced bulk agricultural commodities as the foundation of growth for total U.S. agricultural exports. There was exceptional growth in exports of consumer foods in the 1980's and 1990's. However, this positive trend has hit a plateau. U.S. processed food and beverage exports peaked in 1997 at \$31.3 billion. In 2000, processed food exports are estimated to total \$30 billion.<sup>1</sup> Our competitors have taken a greater share of world food markets from the U.S., as U.S. exports of consumer food products have leveled off.

The 21st Century is the era of expanding global food trade. Increasing world trade means more competitive conditions among all countries that supply the world's agricultural commodities and processed food products. Global companies are investing in overseas plants to elude trade barriers, gain cost savings from less expensive local inputs such as labor and certain raw materials, and customize products to local tastes. Governments continue policies to encourage production and export of value-added products to gain jobs and income within their borders. All of these factors offer challenges for U.S. agriculture, as our nation looks to buildup processed food exports in coming years.

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<sup>1</sup> "Processed Food trade Deficit Continues in 2000", by W. Edmondson and V. Jones in Global Food Trade, September-December, 2001, Economic Research Service, USDA.

## **Challenges for Agriculture**

We are very familiar with the many barriers to world trade. Many countries have used high tariffs to discourage imports and this continues to impede U.S. food exports. Phytosanitary restrictions, ingredient restrictions, labeling requirements and other non-tariff trade barriers that add uncertainty or excessive costs have also harmed U.S. export performance. Expanded membership in the WTO should reduce these obstacles, but this will happen over years and undoubtedly there will be setbacks. Also the strong U.S. dollar relative to other currencies has placed the U.S. at a competitive price disadvantage against most of our competitors.

Until recent years, U.S. agriculture has overcome these obstacles and either maintained or added to its share of world markets. Today the powerful forces of capitalism and growth in global trade have brought faster movement of technology, capital and management skill across international borders. The Western region of the nation, as elsewhere, has “winners and losers” in whole sectors of the farm economy. The losses are painful. Grain farmers across the U.S. have suffered economic losses. The problems are wide spread in specialty crops as well. In the past few years, Washington apple production and packing has declined as orchards and packers find market prices consistently below their costs of production. Other western states have also lost long-time fruit and vegetable growers and processors. In some cases the closing of processing facilities have suddenly left farmers with no “home” for their crops. Many farmers in the West are earnestly searching for more profitable crops to grow and sell.

Many observers believe that we will continue to lose production of labor-intensive crops such as asparagus, grapes, hops, and tree fruits to low labor cost countries like Mexico. This is a real threat, yet the U.S. can continue to build export markets so long as we increase labor productivity and otherwise add value that cannot be matched by other countries.

## **Building Blocks for Further Growth in U.S. Exports**

The U.S. will continue to be a world player in agricultural and food trade. There are many examples of strong competition from our nation’s producers and processors, and many opportunities are ahead. American agriculture has a well-deserved reputation for growing and processing consistently high quality products. We also bring new and valuable products to our customers. Product quality and innovation are our major strengths.

Agricultural productivity continues to increase. The U.S. is at often at the forefront of technological innovation. The reasons the U.S. is so productive are well understood by this audience. We invest more capital than any other nation to very efficiently harvest, transport, store, process and market products. Even our small and medium size companies are large-sale businesses by most standards in the world. We also adopt the newest equipment, which increasingly includes electronic components, to more quickly and effectively transform and transport products and complete business transactions.

There is one more reason we can compete in the world marketplace. The U.S. market for food products is itself very competitive. Most companies compete first within the U.S. market, then in export markets. The ability to compete begins at home.

## Emphasis on Asia

### Prospects

Asian countries form a principal market for Western U.S. agriculture. At WUSATA, we heavily focus our export market development efforts toward Asia.

Several factors are at play:

1. East Asia has a population of about 1.9 billion or about one-third of the world's population. The region's population is growing at about one percent annually. Rising household income is rapidly expanding the middle class of consumers, and allowing them to change their diets and food preferences.
2. Asian countries have quickly recovered from the deep regional recession of 1997-1998. For example, South Korea, Malaysia, and the Philippines are expected to have growth in Gross Domestic Product in the range of 5 percent annually over the next several years.
3. Ports, roads, rail and other key infrastructure developments are continually improving throughout Asia. This region will continue to increase its capacity to handle two-way trade.
4. China is a "bright Asian star," as an emerging market for U.S. agricultural exports. The middle class in urban areas of China is now estimated to total 350 million people, and could reach 575 million by 2005.
5. Relative to Europe, the U.S. has an ocean transportation cost advantage to reach Asia. Currently, shippers with service contracts are quoting favorable rates for dry, chilled and "refer" containers from West Coast U.S. ports to Asia. The West Coast U.S. rates are lower than shipping rates from Mexico or Australia, but are slightly higher than Main European ports. The rates off the West Coast U.S. and Vancouver, Canada are comparable. For example, currently the service contract rate from Portland, Oregon (or other major West Coast U.S. and Vancouver, Canada ports) to Pusan, Korea for a 20-foot dry container is U.S.\$375. From major European ports to Pusan the current rate is U.S.\$ 250. From Mexico the rate is U.S.\$650, and from Australian ports the rate is U.S.\$575. There are comparable rate differences for 40-foot dry and refrigerated container cargo.

The trend in demand is clearly upward for U.S. food and agricultural products to Asia. Presently, five out of the ten top markets for U.S. exports are Asian countries: Japan, South Korea, Hong Kong, Taiwan, and China. Following are a few key observations:

- Japan is the largest export market for U.S. processed foods. In 2000, 21 percent of the U.S. food trade to Japan was processed food, up from a 19 percent share in 1998. We are still below our 1996 performance, when 24 percent of U.S. exports to Japan were processed foods. Japan is a huge market for American food products, and has remained a stable market even in the face of fundamental economic restructuring.
- South Korea's imports of U.S. products mirrors its emergence from the financial crisis of 1997-1998. From 1999 to 2000, sales of U.S. processed foods to South Korea jumped 33 percent. However, the U.S. still only has a six percent share of the Korea food import market, and this country appears to be a strong market for the future.

- Historically Hong Kong has been a key trans-shipment port, especially to reach the China market. Hong Kong serves a more limited trans-shipment function today, but it is still a vital link, especially for Southern China.
- China fits prominently in plans for U.S. food exports to Asia. It is a clear growth market, but China also is developing as a competitor to the U.S. in other markets. At this early stage, China offers good prospects as a buyer of U.S. dried fruit and nut products, frozen potato products, seafood, citrus, and poultry. China is a price-sensitive market, and the U.S. marketing message has to focus on the value Chinese consumers and the food trade will gain from purchasing consistently high quality U.S. food products.
- While Asia is a vast region, select niche market opportunities exist for U.S. exporters. This is beneficial to small companies who wish to export. For example, the state of Montana has developed recognition for its organic food products in Taiwan. The Taiwan food trade is aware and receptive to a wide range of organic foods, as a result of this sustained marketing effort. Similar market positioning is possible in other product categories, and in other Asian markets.

### Asian Retail Supermarket Sales

Retail supermarket sales are a very important component for U.S. value-added food sales in Asia. In WUSATA's experience, small and medium size U.S. processed food companies find it difficult to gain and hold sales in the supermarkets of Asia. While we have many success stories, unfortunately there are many more companies that have not succeeded with their plans to introduce products in this channel.<sup>2</sup>

The presence of supermarkets in Asian cities is a major trend. Small food stalls and wet markets for fresh fruits and vegetables still are prevalent in major cities, but they are often not preferred by middle and high-income consumers.

The global supermarket leaders are European firms that have expanded well beyond Western Europe to most major countries including Asia. They include: Carrefour (French), Ahold (Dutch) and Makro (German). American supermarket chains are notably absent, with the exception of the warehouse retailers, Walmart and Price Costco.

American food companies who do not have a well-recognized brand often have a disadvantage with retail buyers in these global companies. The chain buyers and their managers often do not know U.S. products, and will favor European imports unless American products have "stand out features".

As the leading Asian retailers work to build market dominance, they favor "world " recognized brands and they also negotiate volume discounts and other concessions from suppliers. Unless a supplier of small volume products offers goods with a large profit margin for the retailers or the product is a "must have" new item, smaller companies often face great difficulty gaining shelf space. U.S. suppliers also have great difficulty if they offer products that are unfamiliar to Asian supermarket shoppers. Western style products are often unfamiliar to the typical Asian consumer.

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<sup>2</sup> Much of this discussion is drawn from a recent market evaluation conducted by World Perspectives Inc. for WUSATA and the Mid-America Agri-Trade Council (MIATCO). The report is titled "Evaluation and Strategy Development for Selected MIATCO/WUSATA Generic Activities in Greater China, Southeast Asia and Mexico", October 2001.

The large retailers require suppliers to contribute funds or product for promotional allowances. This favors established, medium and large companies, while being a deterrent to most new, small size suppliers.

Large chains have sufficient product turnover and market power to offer their own private label brands. Contract packing is a good option for some American companies, and this is an option that all but the smallest companies can consider.

For their major product lines, large retailers often prefer to purchase directly from suppliers. However, for new products as well as small volume products, retailers will often procure from local distributors, wholesale distributors in the country of export or from U.S. based wholesale grocery product consolidators. It is important that U.S. suppliers consider business relationships with these third parties.

Another strategy that works for some U.S. suppliers is to find “second tier” Asian retailers who have a limited number of stores. These smaller supermarket companies are often locally owned, and they have middle-income customers. This strategy will generally require very close attention to product introduction support for the store shoppers.

#### Foodservice and Ingredient Product Channels

The presence of American restaurant chains and Western style dining is evident in most major cities of Asia. Denny’s, Pizza Hut, McDonald’s, TGI Friday’s, and KFC are just some of the chains operating in the region.

Product freshness and suitability to customer tastes are two reasons local products are often purchased by foodservice operators. Yet a range of American products are purchased for foodservice. They include frozen potatoes, prepared foods such as soups, meat products, sauces, dressings, and specialty foods prepared for specific operational characteristics of chain restaurants.

The foodservice market channel is growing as dining out continues to gain favor in urban areas throughout Asia. American companies who customize their products to meet the special needs of restaurant chains have a growth segment to develop.

Many Western U.S. food companies are marketing intermediate processed foods to overseas food processors. Some products in this category include flavorings, fruit and vegetable preparations and flour for bakery products. This trend is boosted by these factors:

1. Import tariffs are often lower for intermediate processed foods compared to consumer-ready foods.
2. U.S. and other foreign direct investment is expanding in Asia, creating demand by food processors for intermediate processed foods.

#### **Other Market Opportunities**

While the emphasis of this paper has been on Asia, other markets are of great importance to the Western U.S. In fact, Canada and Mexico rank two and three, respectively, as customers for U.S. processed foods. WUSATA states are very active in developing export opportunities for small and medium companies in the retail food channel in both countries. The Canadian market is a good “starting” market for U.S. companies embarking in international trade. However, the strength of the U.S. dollar versus the

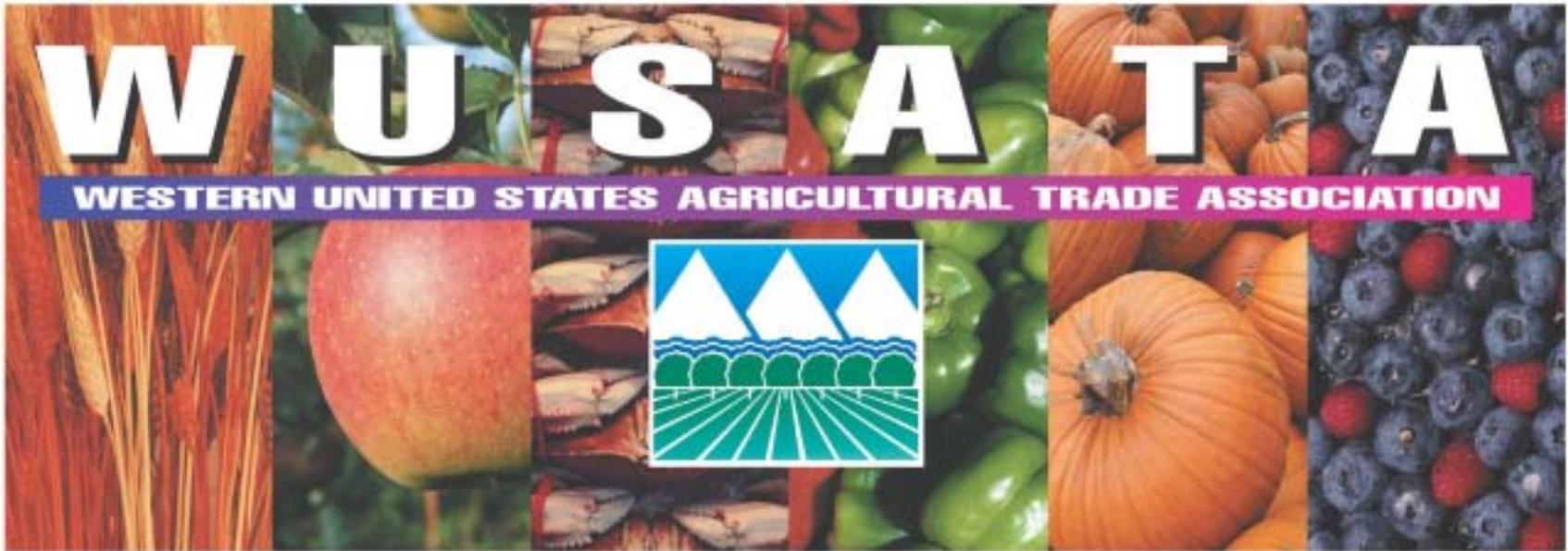
Canadian dollar is a clear obstacle. The Mexico market is currently strong, and offers good prospects for many U.S. companies. However, experienced exporters know that economic cycles in Mexico lead to corresponding fluctuations for U.S. export sales.

### **Boosting U.S. Export Prospects**

U.S. agriculture is prepared for “level playing field” competition. What should those of us who work in trade development do to support expansion of the U.S. share of global food trade? These are several recommendations:

1. Identify and concentrate our efforts on “best market” opportunities. In this era of global retailers, and food processors, we must focus our attention on the product categories and country markets where we hold the greatest advantages with the food trade and their customers. The high quality of American food, as well as product attributes like convenience, consistency, and usability for our customers need emphasis. Fewer, high impact market development programs are preferable to small, dispersed efforts.
2. Promote strong and effective trade policies for U.S. agriculture. We need trade agreements that give the U.S. better market access particularly with respect to non-tariff barriers, sanitary and phytosanitary regulations, and harmonized system codes. Access to export markets is key for U.S. agriculture.
3. Infrastructure improvements are also important in the West. Our highways, ports, and waterways need investments to make them more efficient. We need to have a competitive multi-modal transportation system for rail, interstate highway, barge, and ocean conveyance.

Attention to these “basics” will go a long way to allow our companies competitive access to world food and agricultural markets.



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***Bruce Prenguber, Executive Director of WUSATA***



## *Presentation in Context: WUSATA's Perspective*

- *Founded in 1980 by the 13 Western U.S. Departments of Agriculture*
- *Administer USDA Market Access Program (MAP) to Help Western U.S. Companies Grow Their Export Markets*
- *Perspective of Small to Medium Sized Companies Exporting High Value Products (processed and fresh food, beverage, and agricultural products)*
- *Asia is WUSATA's Primary Market, and the Primary Focus of This Presentation*



## *The Rise of Consumer Food Exports*

- *1980-2000: Consumer Food Exports Replace Bulk Agricultural Commodities as Foundation for U.S. Agricultural Growth*
- *1997-2000: Consumer Food Exports Plateau – Competitors Take Greater Share of Market*
- *2000: Processed Food Exports Total \$30 Billion*
- *21<sup>st</sup> Century: Era of Global Food Trade Means Increased Competition and Challenges for U.S. Exporters*



## *Challenges for U.S. Agriculture*

- *High Tariffs Impede U.S. Imports*
- *Non-tariff Barriers Add Excessive Cost (phytosanitary restrictions, ingredient restrictions, labeling requirements, etc.)*
- *Strong U.S. Dollar Leads to Price Disadvantage*
- *Overcoming These Obstacles is Increasingly Difficult in Today's Highly Competitive Global Economy*
- *Losing Production of Labor Intensive Crops to Countries Like Mexico and China – To Compete We Must Innovate and Continuously Add Value*



## *U.S. Agricultural Assets Transcend Trade Obstacles*

- *U.S. Reputation for Consistency Producing High Quality Products*
- *U.S. Companies Offer Innovative Products to World Market*
- *U.S. Companies Stand at Forefront of Technological Innovation in Agricultural Products*
- *U.S. Companies Invest More Capital to Yield Greater Efficiency*
- *U.S. Companies Leverage Domestic Success to Compete Globally – The Ability to Compete Begins at Home*



## *Factors Influencing WUSATA's Focus on Asian Countries*

- *East Asia is Home to One Third of World Population, and is Growing at a Rate of One Percent Annually*
- *Asian Countries Rapidly Recovered From 1997-1998 Recession*
- *Infrastructure in Asian Countries Continue to Improve,*
- *China is a Promising Emerging Market; 350 Million Middle Class Consumers in Urban Areas; 575 Million by 2005*
- *Relative Geographic Proximity to Asia Offer U.S. Companies an Ocean Transportation Cost Advantage*



## *Five Asian Nations Among Top Ten Markets for U.S. Agricultural Exports*

- *Japan: Largest Export Market For U.S. Processed Foods*
- *South Korea: '99-'00 U.S. Processed Food Exports Increased 33%, Yet Tremendous Market Potential Remains*
- *Hong Kong: A Key Tran-shipment Port, and Link to Southern China*
- *China: Price Sensitive Consumers Demand Low-Cost, High-Value Products. Marketing Message Must Convey Value of Quality*
- *Niche Markets: Great Opportunity for U.S. Exporters. For Example, Montana Has Gained Recognition in Taiwanese Organic Market*



## *Asian Retail Supermarkets Competing With European Suppliers*

- *Middle Class Asian Consumers Increasingly Prefer Major Supermarkets Over Small Food Shops*
- *Global Supermarket Leaders Are European Firms - Carrefour (French), Ahold (Dutch), and Makro (German)*
- *Other Than Warehouse Retailers, U.S. Supermarket Chains Are Notably Absent*
- *Small U.S. Food Companies At A Substantial Disadvantage (Due to Unfamiliar Brands, “Foreign” Foods, Retailer Promotion Demands, etc.)*
- *Possible Solutions: Third Party Distributors, Second Tier Retailers, and for some, Private Label.*



## *Asian Foodservice and Ingredient Product Channels*

- *Strong Presence of Many American Restaurant Chains*
- *U.S. Products Purchased for These Chains Include: Frozen Potatoes, Prepared Foods, and Specialty Foods*
- *Growing Opportunity for U.S. Ingredients in Foodservice Channel*
  - *Reasons: Lower Import Tariffs and Increased Global Investment in Asia*



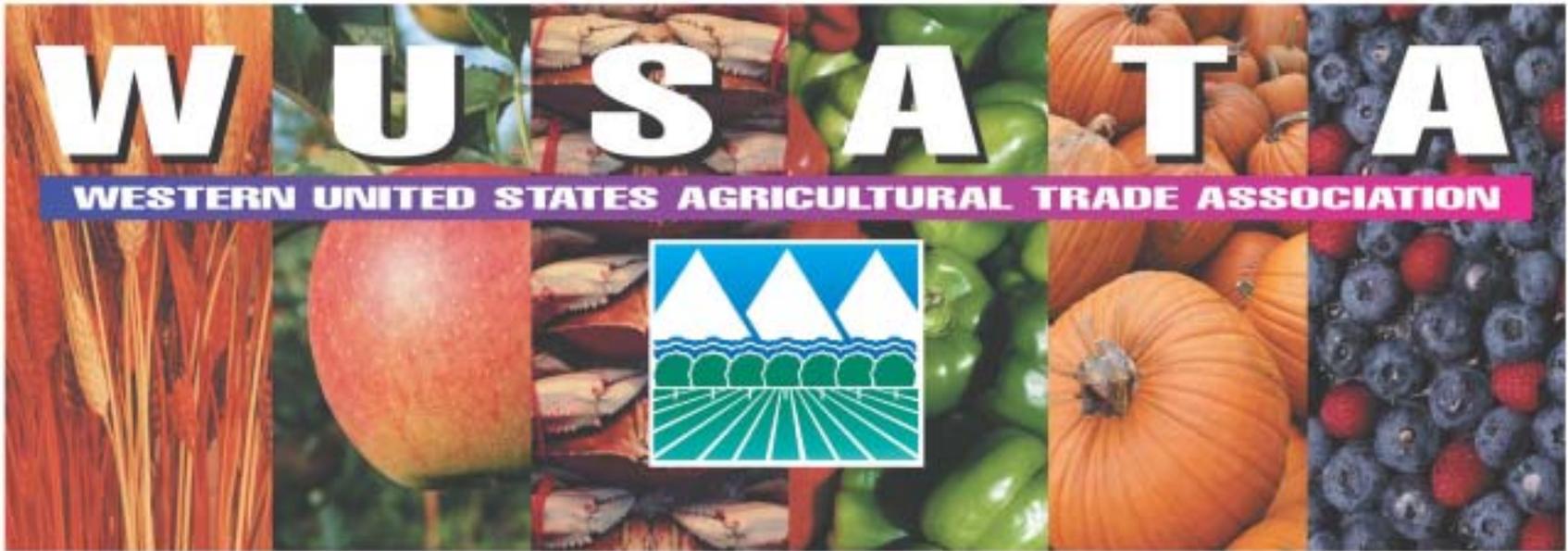
## *Canada and Mexico Critical Markets to the Western U.S.*

- *Canada and Mexico Rank Two and Three as Customers for U.S. Processed Foods*
- *Canada: Good “Starting” Market, Yet Canadian Dollar is Obstacle*
- *Under CFTA/NAFTA , the Economies of Canada and the U.S. Have Increasingly Integrated*
- *Mexico: Strong Market, Yet Economic Cycles Lead to Lack of Market Stability for U.S. Exporters*
- *Mexico: Will Experience Fastest Economic and Population Growth in North America Over the Next Decade*



## *Boosting U.S. Export Prospects How We Can Help*

- *Identify and Concentrate on “Best Market” Opportunities*
- *Promote Strong Effective Trade Policies for U.S. Agriculture*
- *In West: Improve Infrastructure and Enhance the Multi-Modal Transportation System*



***With Communication Cooperation and Innovation***

***U.S. Public and Private Sector Organizations***

***Can Gain Maximum Global Market Share***