

INSTITUTE OF CURRENT WORLD AFFAIRS

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Exporting American Grains to Eastern Europe

Mr. Peter Bird Martin
Institute of Current World Affairs
Wheelock House
41 W. Wheelock Street
Hanover, New Hampshire 03755

Dear Peter:

Vienna is a gateway to eastern Europe and a center for East-West trade and diplomacy. The American Soybean Association (ASA) and the U.S. Feed Grains Council have established offices here to promote exports of American corn, sorghum and soybeans to East Europe. But their task won't be easy. Until 1981, U.S. agricultural exports to eastern Europe had been increasing, but in 1982, agricultural exports to East Europe were valued at only \$877 million. This was less than half the value of exports in 1981, and was the lowest since 1973. Exports of feedstuffs have fallen dramatically--grain exports to the region (91% of this grain is corn) fell from 7.2 million tons in 1981 to 3.5 million tons in 1982 and exports of soybean cake and meal fell to 524,000 tons, a decrease of almost 60%.

Both Tom Brennan, Director of the ASA East Europe office, and Terry Fleck, Director of the U.S. Feed Grains Council's office for East Europe, say that although they remain optimistic about the possibility of increasing U.S. farm product sales to a few individual countries in eastern Europe, they are pessimistic about long-term prospects. The most serious immediate problem limiting agricultural sales is the severe international indebtedness of many of these countries. Some countries are also making efforts to achieve self-sufficiency in animal feeds, which will reduce their future demands for imports. In addition, Brazil and Argentina have been cutting into U.S. sales to the region. They have been willing to trade soybeans, corn and wheat to East Europe for manufactured products, products which the East Europeans sometimes find it difficult to dispose of in regular commercial sales.

The Soybean Association and Feed Grains Council do, however, feel that East Germany, Bulgaria and Romania are countries where market development efforts could pay off over the next two years. Both East Germany and Bulgaria are interested in raising levels

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of meat consumption by making livestock feeding more efficient. High protein U.S. feeds may help them do so. East Germany and Bulgaria would undoubtedly prefer to be self-sufficient in feeds, but they have set up extensive livestock feeding operations and have created large demands for timely deliveries of feed stuffs. These demands can't always be met from domestic output, as this would involve restructuring crop production towards feeds and reorganizing internal distribution channels.

Romania is so deeply in debt that it can ill-afford to import feedstuffs. However, Romania's foreign policy leanings may augur well for future imports from the U.S., once it solves its debt problems. Poland used to be a good market for U.S. farm exports because Poland's large private sector needs more feeds than it can produce. Recent restrictions on U.S. trade with Poland and Poland's debt problems have limited export promotion activities there, but this situation too is expected eventually to ease. Hungary of course is a net grain exporter, so there's little room for promotion of U.S. grain exports in that country.

The ASA and the Feed Council use a variety of strategies to promote exports of U.S. corn, sorghum and soybeans. Demonstrations of hog, cattle and poultry feeding are one of the most effective. Feeding demonstrations, which may continue for several months, are usually set up with the technical advice and assistance of the ASA or of the Council (and their consultants) and the cooperation of a state farm or cooperative, which agrees to provide the animals and the feed. If the demonstration is successful, it may increase the demand for imported feeds. The Soybean Association also demonstrates industrial applications of soybean products and the role of soybeans in human nutrition. For example, soybeans can be used to make nutritionally valuable breads and infant feeding supplements for direct human consumption and soybean oil can be used industrially as a dust suppressor in grain elevators. The ASA and Council stress that they are really providers of technical advice rather than commodity salesmen. They do not actually make contracts for the sale and delivery of the farm products, so there is no guarantee that a successful demonstration will lead to a purchase of corn, sorghum or soybeans from the U.S.

Another promotional technique brings a team of East Europeans to observe U.S. farming techniques. This strategy is most effective if the team includes an East European government official who has the authority to initiate a trade deal. In fact, obtaining access to people at this level is the key to successful trade in this part of the world. Teams of journalists are also welcome to observe and report on U.S. agriculture, but there's a decided preference for teams of deputy ministers.

The ASA and Feed Grains Council are not by any means the only agricultural trade organizations promoting U.S. farm products in Europe although they are two of the largest. The U.S. Cotton Council operates out of Brussels, the Rice Council out of Zurich, and the poultry and egg producers have their representatives in Hamburg, to name just a few with European interests. Some fifty commodity groups in the U.S. are designated as cooperators, under the Agricultural Export Trade Act, to receive money from the U.S. government for promoting agricultural exports. American farmers also support these commodity groups by contributing part of their proceeds from commodity sales (e.g., through voluntary checkoff programs.)

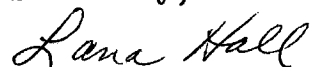
Receiving government funding for export promotion is not always an advantage in eastern Europe. Official U.S. government economic sanctions against Poland, for example, have prevented the ASA from using federal funds to promote soybeans there since 1981. Also, federal funding gives these groups quasi-governmental status, which is a mixed blessing because in some countries, like East Germany and Romania, access to farms, agriculturalists and state trading organizations is allowed only through strictly official channels.

On the other hand, the U.S. agricultural attaches have an obligation to support the work of these quasi-governmental export trade cooperators. Some cooperators, like the Holstein Association, have benefitted greatly. Ten years ago, with the help of U.S. agricultural attache for Hungary, Nicholas Thuroczy, the Holstein Association persuaded Hungary to use Holsteins to improve performance of the Hungarian dairy herd through a program of cross-breeding. The program required large imports of U.S. Holstein heifers and bull semen. Today according to Thuroczy, more than 60% of the Hungarian milking cows are first, second or third generation Holstein crossbreeds, and as a result, milk production per cow increased approximately 50% in seven years. Thuroczy has served as attache for Hungary, Czechoslovakia and Austria, operating out of Vienna, for the past ten years. He is a particularly effective attache and speaks Hungarian, Czech and German fluently.

But given the severe economic difficulties in eastern Europe today, promotion efforts can do only so much for U.S. exporters. Most of these countries simply don't have the dollars to pay. Without dollars and credit, they've turned from the U.S. to other exporters who can supply them with feeds on easier terms. Brazil, Argentina and, most recently, India, have shown that they are willing to export soybeans and corn to the countries of eastern Europe on a "counter-trade" basis. Counter-trade means, for example, that Brazil may agree to import Romanian industrial products in exchange for Romania importing soybeans from Brazil. U.S. grain exporters

though, have not been willing to counter-trade with eastern Europe. They have more lucrative markets in the Far East and in the Middle East and the demand in the U.S. for most East European manufactured products is too limited to make counter-trade attractive. As a result the U.S. may continue to lose its agricultural export markets in East Europe. The East Europeans may also lose by practicing counter-trade, even though it is a short-term solution to their foreign exchange problems. These countries need to develop marketing skills to compete successfully in international industrial and agricultural export markets and counter-trade can only postpone this learning process.

Sincerely,



Lana L. Hall

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