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Report to Congressional Requesters

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INTERNATIONAL TRADE

Foreign Market Development for High Value Agricultural Products



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United States
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**National Security and
International Affairs Division**

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January 17, 1990

The Honorable Patrick Leahy
Chairman, Committee on Agriculture,
Nutrition, and Forestry
U.S. Senate

The Honorable E. (Kika) de la Garza
Chairman, Committee on Agriculture
U.S. House of Representatives

As requested, we developed information regarding U.S. competitor agricultural export marketing of high value products. We concentrated on specific marketing practices, including market research, product development, and market promotion.

This report details organizational structure, the relationship between the public and private sectors, funding sources, and market development practices of 12 foreign countries competing with the United States in high value agricultural markets. We also provide a summary of U.S. practices and compare competitor and U.S. programs. Some competitors have more experience in export marketing and adopt different methods of structuring coordination between the public and private sectors.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days from the date of this letter. At that time we will send copies to interested parties and make copies available to others upon request.

Please contact me at 275-4812 if you or your staff have any questions concerning the report. The major contributors to this report are listed in appendix V.

A handwritten signature in cursive script that reads 'Allan I. Mendelowitz'.

Allan I. Mendelowitz, Director
Trade, Energy, and Finance Issues

Executive Summary

Purpose

Some foreign competitors, particularly in the European Community, have highly developed marketing networks in place, which have contributed to an expanded share of the lucrative high value agricultural product market. Because information about foreign competitors' market development programs is limited, the Chairmen of the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture asked GAO to obtain information about foreign market development programs, including the roles of the public and private sectors, and to compare foreign and U.S. high value agricultural market development.

Background

High value agricultural products include semiprocessed products (e.g., coffee and cocoa), highly processed, consumer-oriented products (e.g., milk and chocolate), and unprocessed horticultural products (e.g., fresh fruits and nuts). During the 1970s and the early 1980s, world trade in high value products was the fastest growing component of agricultural trade, and high value export growth is expected to continue. While high value trade accounted for 66 percent of world agricultural trade value in 1987, U.S. high value exports accounted for about 48 percent of U.S. agricultural exports.

Results in Brief

Although we found that most foreign competitors we reviewed spend less on high value market development than the United States, some spend their funds in a highly targeted manner, using an integrated marketing approach, which starts with identifying customer needs and moves to the producer who strives to satisfy that need. The Department of Agriculture has invested large sums in foreign market development in recent years but the primary responsibility for conducting foreign market development activities remains with selected private sector associations.

Based on our review of the marketing activities in 12 foreign countries, representing 65 percent of worldwide high value exports, we found that foreign competitors conduct market development through centralized marketing organizations, independent marketing boards, and various combinations of public and private sector institutions. Countries with "independent" marketing organizations which are funded by statutory levies reflect a national commitment to export marketing. Close cooperation between the public and private sectors is evident in the management and funding of some marketing organizations. For some countries, the line between public and private sectors is barely visible.

Some competitor marketing organizations promote virtually all agricultural products in both domestic and foreign markets while others promote products of a specific sector. A few foreign competitors conduct market research to determine the appropriate markets and products and work with producers to solve supply and distribution problems, including issues related to quality control. Trade show participation and retail and consumer promotion are integral to their marketing strategy. They generally evaluate performance informally; when circumstances warrant, they conduct or contract for formal evaluations to guide planning.

Foreign competitors generally differ from the United States in the closeness between the public and private sectors and do not have the same type of oversight by government agencies that is typical in the United States. Moreover, foreign governments play a larger role both in managing and funding market development organizations. The U.S. government works with nonprofit private sector trade associations in designing and implementing marketing plans. It shares costs with those firms, gathers information, and evaluates market development activities. Additional oversight is provided by the Congress.

GAO's Analysis

Some foreign competitors have a long history of exporting and have developed significant expertise in market development activities. Different forms of institutions—some managed by a combination of public and private representatives and drawing funds wholly or partially from the public sector—have evolved in those countries.

Most countries whose activities we reviewed have either centralized marketing organizations or independent marketing boards; some are managed by public officials while others have a combination of public and private management. For example, West Germany's central marketing board is guided indirectly by a council composed of both government and private sector representatives (with a government majority) and is funded by production levies funneled through the Ministry of Agriculture. Funding levels and sources also vary. In 1987-1988, Canada spent about \$3.2 million while Australian marketing boards and government combined spent at least \$130 million on high value agricultural export promotion.

The relationship between the private and public sectors is more distant in the United States. Many private U.S. firms conduct market development with no U.S. government involvement. Some U.S. government officials believe that private sector managers are in the best position to

assess prevailing market conditions; thus, U.S. government-funded market development is conducted by selected nonprofit private sector associations which develop marketing plans in consultation with the U.S. government. The Foreign Agricultural Service of the U.S. Department of Agriculture manages the Targeted Export Assistance and Cooperator market development programs and funds U.S. market development jointly with the designated associations. In 1988, it spent \$97.7 million in high value market development funds.

The specific marketing activities undertaken—trade show participation, market research, product development, consumer promotion, retail and consumer advertising, and evaluation—are similar in the majority of U.S. and competitor programs. However, some competitors develop integrated marketing strategies; they coordinate market research with production and distribution capability to meet consumer demand, and they work with producers to develop or adapt products to meet those identified conditions. For example, France's SOPEXA discovered that British consumers preferred smaller and greener apples than those usually grown by French producers. Based on SOPEXA's research and guidance, French producers picked their apples earlier and, according to SOPEXA representatives, increased their share of the market.

For many reasons, U.S. producers do not coordinate marketing activities with other producers, or marketing organizations, and they do not target markets as do some competitors. They tend to take their product(s) as a given, do research to find a market for their product(s) and develop a marketing plan in consultation with the Department of Agriculture, which allocates federal funds for agricultural foreign market development.

Moreover, the Department of Agriculture's high value foreign market development activities reflect a different role of government in foreign market development than in competitor countries. The Foreign Agricultural Service High Value Products Division focuses on export services to all agricultural producers and is essentially a clearinghouse for information. The Department of Agriculture overall remains bulk commodity-oriented despite the increasing high value product share of total world agricultural exports and the anticipated growth in high value exports over the coming decade.

As stated in GAO's October 1989 report, no Department of Agriculture agency has taken the lead in developing a Department-wide marketing approach to assist U.S. producers to be more marketing-oriented.

Although the Foreign Agricultural Service has the lead on implementing international trade programs, its programs do not comprise the Department-wide initiative necessary to lead agribusiness under an integrated marketing strategy. Issues that need to be addressed in developing a Department-wide marketing approach include determining the role of government in foreign market development, including its role in encouraging producers to become more export-oriented, and the appropriate coordination among Department of Agriculture agencies of market development functions.

Recommendations

This report contains no recommendations.

Agency Comments

GAO did not obtain official agency comments on this report but discussed the report with the Director of the High Value Products Division at the Foreign Agricultural Service, and technical comments have been incorporated where appropriate.

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Abbreviations

AGREXCO	Agricultural Export Company
AIMS	Agricultural Information and Marketing Service
CFCE	Centre Francais du Commerce Exterior
CMA	Centrale Marketinggesellschaft der deutschen Agrarwirtschaft
CMBI	Citrus Marketing Board of Israel
EC	European Community
FAS	Foreign Agricultural Service
HVP	high value product
ICE	Instituto Nazionale per il Commercio Estero
ICEX	Instituto de Comercio Exterior
PEMD	Program for Export Market Development
SOPEXA	Societe pour l'Expansion des Ventes des Produits Agricoles et Alimentaires
TEA	Targeted Export Assistance

Introduction

Background

Two distinct markets for agricultural products emerged in the 1970s—a market for bulk commodities and a market for high value products. Bulk commodities include such products as wheat, corn, and soybeans; little value is added during their processing, and they are shipped to buyers in large quantities.

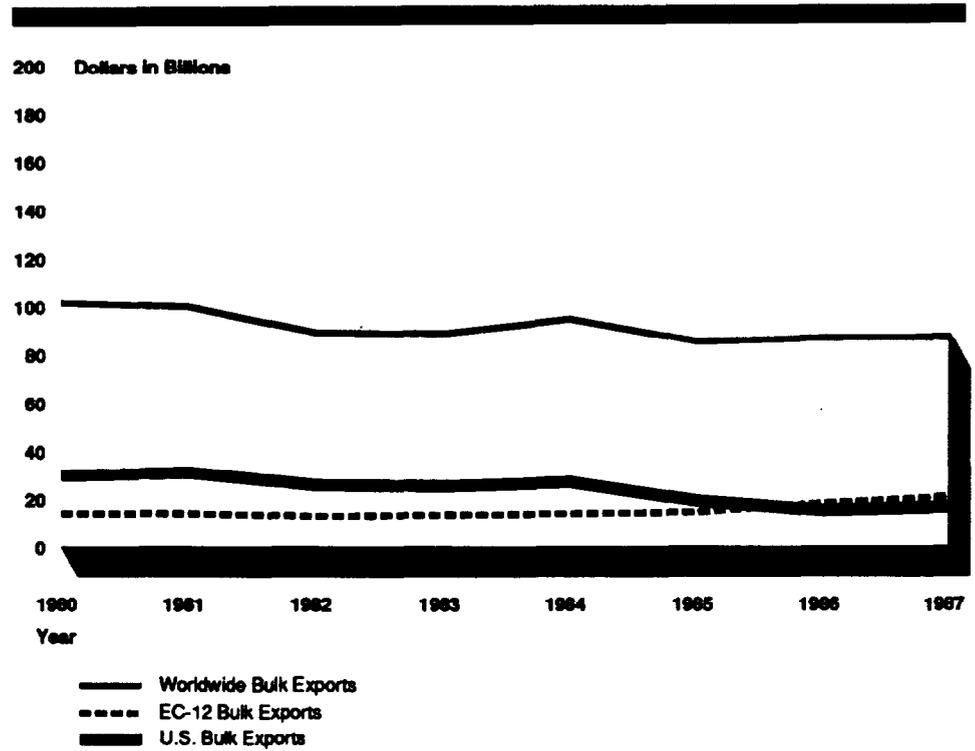
High value products (HVPS) include highly processed, consumer-oriented products (e.g., prepared and preserved meats, milk, butter, cheese, chocolate, spices, and cigarettes); semiprocessed products (e.g., fresh, chilled and frozen meat, refined sugar, coffee, cocoa, tea, and animal fats); and unprocessed products (e.g., eggs, fresh fruits and nuts, and fresh vegetables). Unlike bulk commodities, HVPS require care in packing and shipping, and these costs contribute significantly to HVPS' total value. HVP marketing requires sophisticated storage, processing, transportation, and distribution networks.

During the 1970s and early 1980s, world trade in high value agricultural products was the fastest growing component of international agricultural trade, and HVP export growth is expected to continue. Foreign competition is strong in HVP markets. The European Community (EC) and several other developed nations captured a large share of the expanding HVP market in the 1970s and 1980s due, in part, to their sizable processing infrastructure, excess capacity, and available subsidies. European countries tend to have highly developed trading systems in place and are known for their sophisticated marketing networks. It should be noted that the preponderance of all EC trade is intra-EC trade.

The share of HVP exports in total U.S. agricultural exports increased from about 30 percent in the late 1970s to about 44 percent (\$15.7 billion) in 1988. However, the HVP share of total world agricultural exports in 1987¹ was about 66 percent. Figures 1.1 and 1.2 show the relative trade values for agricultural bulk commodities and HVPS.

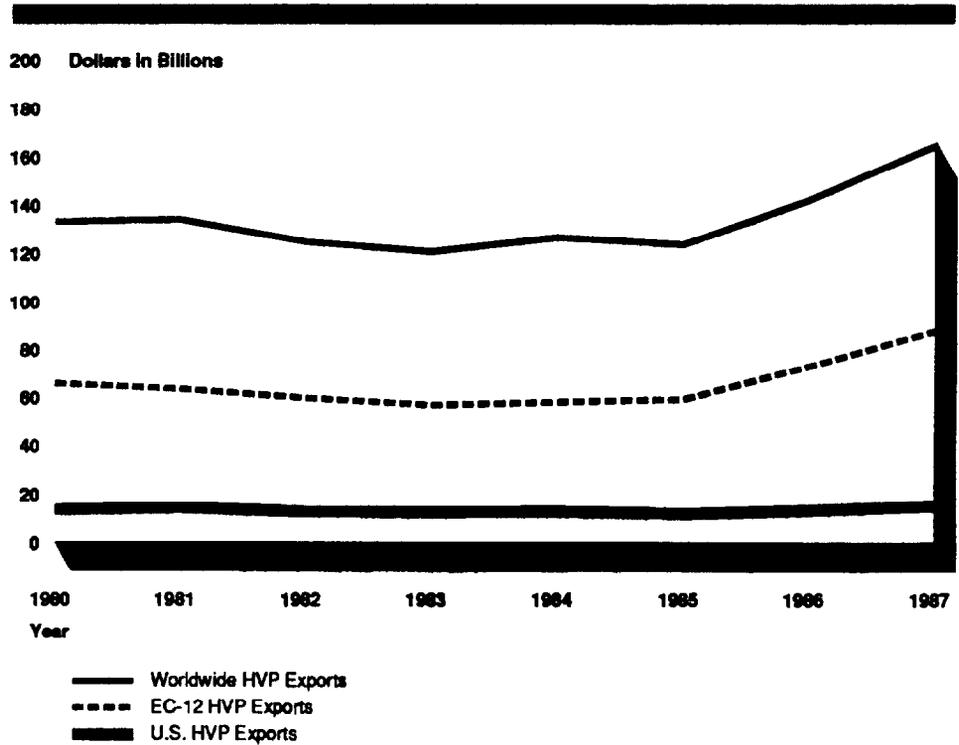
¹World agricultural export data for 1988 are not yet available.

Figure 1.1: Worldwide, EC-12, and U.S. Bulk Agricultural Exports, 1980-1987



Source: United Nations Food and Agricultural Organization.

Figure 1.2: Worldwide, EC-12, and U.S. HVP Agricultural Exports, 1980-1987



Source: United Nations Food and Agriculture Organization.

By 1987, both the Netherlands and France outranked the United States in HVP market share, with 11.3 percent and 10 percent, respectively, compared to 9.1 percent for the United States. Moreover, the U.S. 1987 average price per ton was \$232.80 compared with \$637.30 for EC-12² exports. The lower value per ton of U.S. exports results from a higher volume of bulk commodities in total U.S. exports and different areas of HVP concentration; the EC-12 HVP exports are primarily consumer-oriented, and U.S. HVP exports are primarily semi-processed HVPs. (See app. I for list of HVP exports and world market shares for competitors and the United States.

This comparison illustrates the increasing importance of HVP trade to the United States. Compared to an equivalent volume of bulk exports, HVP exports are associated with higher levels of employment, gross economic output, personal income, and government tax revenues. Because high

²Includes Belgium, Luxembourg, France, West Germany, Italy, the Netherlands, the United Kingdom, Denmark, Ireland, Greece, Spain and Portugal.

value exports involve selling both the agricultural product and the value added to turn it into a more valuable processed item, the concentration of U.S. agricultural exports in bulk and semi-processed products generates less economic value than would a mix with more semi-processed, and highly processed products.

In view of the changing world market and the importance of U.S. competitiveness in agricultural trade, Congress has become increasingly interested in the potential for expanding HVP exports and in how the role of marketing in U.S. agricultural trade policy must change to address the structural changes in world demand for agricultural products. Thus, the market development practices of U.S. competitors in HVP products may provide examples to guide agricultural marketing decisions in the United States.

Objectives, Scope, and Methodology

The Chairmen of the Senate Committee on Agriculture, Nutrition, and Forestry and the House Committee on Agriculture asked us to review the market development and promotion activities of the major U.S. competitors for HVP exports, specifically (1) product development and promotion, (2) the means for identifying developing markets for HVPS, (3) the effectiveness of present methods of disseminating market information to producers, and (4) the roles for the federal government and the private sector in market development and promotion. Subsequent to the original request, we were asked to compare these activities with those of the United States.

To obtain information on U.S. competitors' HVP marketing activities, we interviewed representatives of 12 foreign governments that the U.S. Department of Agriculture ranked among the top HVP exporters—the United Kingdom, France, Italy, the Netherlands, Denmark, Spain, West Germany, Israel,³ Canada, Australia, New Zealand, and Brazil. Taken together, these 12 countries represented more than 65 percent of worldwide HVP exports in 1987. We interviewed foreign government and other marketing organizations' representatives posted at foreign consulates (including the United States); for 9 of the 12 countries, we interviewed officials at headquarters locations. To see first-hand the broad spectrum of competitor products at a single trade exhibition, we attended the international food show, SIAL, in Paris in October 1988. We gathered available literature on the HVP marketing activities of competitor countries, including information collected by U.S. agricultural attaches and

³Israel is not a major U.S. competitor; however, we included it in our review because its marketing practices are noteworthy.

trade officers posted in the countries in our review and filed with the Foreign Agricultural Service at the Department of Agriculture. We report U.N. export data. Although reliable data on foreign governments' market development expenditures were difficult to obtain, the available data is presented in chapter 2. However, comparing data across countries should be done cautiously due to varying years for which data is reported and varying data sources. We also compared competitor HVP marketing activities in Japan, whose agricultural export market is second only to that of the United States; a separate report describing those activities is forthcoming.

We focused solely on market development and promotion activities--consumer promotion, technical assistance, and trade servicing—and excluded consideration of subsidy practices, food aid programs, and market access barriers (such as quotas, non-tariff barriers, and tariffs), all of which have some impact on market development. We recognize that direct comparisons between U.S. and EC marketing strategies are affected by the EC's status as a customs union, i.e. a group of nations that have eliminated trade barriers among themselves and imposed a common tariff on all goods imported from all other countries.

To compare competitor HVP marketing activities with those of the United States, we examined documents collected during our previous work on U.S. HVP marketing programs.⁴ We also met with Department of Agriculture officials responsible for HVP promotion and consulted private, nonprofit marketing organizations in the United States to broaden our base of information about certain aspects of U.S. marketing activities. During the fall of 1988, we attended the U.S. Agricultural Export Development Council/Foreign Agricultural Service annual workshop in Washington, D.C., and conference in Richmond, Virginia; we also attended a marketing seminar sponsored by the Eastern U.S. Agriculture and Food Export Council in Portland, Maine, in December 1988 and a trade show sponsored by the National Association of State Departments of Agriculture in Boston, Massachusetts, in May 1989.

In this report, we do not generalize about marketing practices of a particular country since the national government as well as producer boards conduct marketing activities. Although some countries (e.g.,

⁴See AGRICULTURE TRADE: Review of Targeted Export Assistance Program (GAO/NSIAD 88-183) May 1988 and INTERNATIONAL TRADE: Review of Effectiveness of FAS Cooperator Market Development Program (GAO/NSIAD 87-89) Mar. 1987.

France and West Germany) have single marketing organizations, we specify those by name to remain consistent.

Our fieldwork was conducted between September 1988 and September 1989 according to generally accepted government auditing standards. Due to the nature of our assignment, we did not test for compliance with legal and regulatory requirements or the adequacy of internal controls. As requested, we did not seek official agency comments. However, responsible officials at the Foreign Agricultural Service made technical comments on this report and we incorporated those comments where appropriate.

Structure and Funding of Agricultural Marketing Organizations in the Twelve Countries Reviewed

Various public-private partnerships characterize the marketing organizations that promote high value agricultural products in the 12 foreign countries we reviewed. These organizations use both public and private resources in varying combinations. In some countries, organizations managed by both public and private sector representatives conduct virtually all market development and promotion activities; in others, different marketing organizations operated separately by industry and government each conduct promotions. (See app. II for description of competitor market research practices and app. III for description of competitor promotional activities.) Some marketing organizations derive funds from legislated levies, some operate solely with government funds, while others are funded by a combination of public and private monies. Funding levels varied considerably, with 1987-1988 expenditures ranging from \$3.2 million (Canada) to at least \$130 million (Australia).

Major Competitor Countries

France

The Societe pour l'Expansion des Ventes des Produits Agricoles et Alimentaires (SOPEXA) operates 23 offices in 15 foreign countries. According to a U.S. Foreign Agricultural Service (FAS) representative in Paris, SOPEXA gets about 35 to 40 percent of its total budget from the Ministry of Agriculture.

SOPEXA representatives told us that the majority of its promotions are generic or nationally oriented. SOPEXA typically pays about 50 percent of promotional costs from its government funds; producers or producer groups who benefit from the promotions pay the other 50 percent from product levies collected. In some markets, SOPEXA also promotes specific brands if its market analysis indicates that generic promotions will not be effective, and it shares costs with the producers involved.

The Centre Francais du Commerce Exterieur (CFCE) assists SOPEXA and other government organizations at no charge, but sells its information and reports to non-government organizations on a subsidized basis. The Ministry of Agriculture provided CFCE's Division of Agricultural Products with approximately 30 percent of its 1987 budget with the balance provided by the Ministries of Trade and Finance and user fees. According to an FAS representative in Paris, CFCE's target markets are Europe,

Asia, Africa, and the Americas, with research activities increasingly emphasizing Asia and the Middle East.

Israel

Israel's government plays a major role in agricultural market development and promotions. The two largest export companies—the Agricultural Export Company (AGREXCO) and the Citrus Marketing Board of Israel (CMBI)—are nonprofit organizations jointly owned by the government and Israeli farmers.

AGREXCO promotes agricultural products under the brand name “Carmel,” which is familiar throughout Europe and represents quality to the trade and consumers. CMBI successfully created a quality image in European markets using the name “Jaffa” for its citrus products. Both companies handle agricultural products from points within Israel through to delivery and promotions in export markets and deduct their expenses from sales revenues before they are distributed to Israeli farmers.

The government also contributes funds for other export market development activities; for example, its export promotion fund seeks to (1) encourage new export initiatives for untried products, (2) develop new methods of packaging to lengthen the storage life of flowers, (3) ensure a minimum income to farmers willing to experiment with new varieties, and (4) develop effective quality control techniques.

Italy

The Italian government delegates responsibility for foreign market development and promotion of all Italian products to the Istituto Nazionale per il Commercio Estero (ICE), an organization funded by the Ministries of Foreign Trade and Agriculture. ICE operates 79 offices in 63 foreign countries. “ConSORZI” are associations of Italian businesses organized to carry out varying initiatives, including export promotions for agricultural products. ConSORZI which have at least five member companies can receive 50 percent of their expenditures during each of their first 5 operating years from the Ministry of Foreign Trade and 40 percent after 5 years. In 1987 the Ministry of Foreign Trade provided about \$2.3 million to agricultural conSORZI for export promotions.

Spain

Spain's marketing organization, the Instituto de Comercio Exterior (ICEX), promotes all Spanish exports, and agricultural products comprised 47 percent of its planned 1987 promotions. About 70 percent of

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1987 promotions was targeted at Organization for Economic Cooperation and Development countries.¹ ICEX promotes Spanish products using a national theme, furthering the country image via the "Spania" label and creating an umbrella under which individual producers can promote their own products or brands.

ICEX financially assists producers who promote their own products, generally providing about 50 percent of their promotions costs. However, ICEX will provide as much as 75 percent of the promotional costs to producers beginning to export or to promote in new markets. ICEX generally reduces its assistance as the producer gains experience and confidence or the share of the target market grows.

United Kingdom

Food From Britain was formed by the Ministry of Agriculture in the early 1980s to centralize the United Kingdom's market development efforts, similar to those of West Germany and France. It was intended to be funded by both the private and public sectors but met with resistance from the private sector. According to a Food From Britain official, producers recently have begun to accept the organization and to help fund its operations. About two-thirds of Food From Britain's 1989 budget will be provided by producer groups or individual producers.

West Germany

Legislation enacted in 1969 imposed a compulsory levy on producers and processors and established the Marketing Fund and the Centrale Marketinggesellschaft der deutschen Agrarwirtschaft (CMA). The government indirectly guides the Fund through the Administrative Council, which is composed of both industry and government representatives, with a government majority. It is governed by a shareholders committee, a board of directors, a coordination council, and numerous specialized committees, primarily staffed with industry representatives.

CMA provides national generic promotions for all German agricultural, forestry, trading, and food manufacturing industries, both in Germany and abroad. It represents the entire German agricultural economy from producer to retailer to exporter and, as a result, can work on all levels to

¹Principal members are the United States, Canada, Japan, Australia, New Zealand, and the nations of Western Europe.

achieve its market development and promotional aims. CMA also occasionally finances promotional campaigns jointly with individual industry sectors. Its export promotion activities are guided by offices in seven foreign markets.

The Netherlands

Although independent commodity boards or industry trade associations are independent and conduct the majority of Dutch agricultural export promotions, funding is mandated through government-imposed levies on producers, wholesalers, processors, and traders. Because the commodity boards represent all producers of a particular commodity, their export promotions are generic; for example, the Dutch Dairy Bureau promotes Dutch gouda cheese rather than any one manufacturer's brand.

The Ministry of Agriculture and Fisheries promotes agricultural products generically. In 1988, almost half its budget was slated for participating in international trade exhibitions and another 20 percent for organizing trade contact meetings to bring Dutch exporters and foreign importers together. The Ministry attempts to coordinate the promotional activities of commodity boards or industry trade associations with its activities, but it provides no financial assistance and cannot control their activities.

Denmark

The Agricultural Marketing Board and several commodity export boards are the primary promoters of Danish agricultural products. The Agricultural Marketing Board is an arm of the Agricultural Council, a joint forum for producers, cooperative processing and marketing organizations, and the Royal Danish Agricultural Society and is funded by a small percentage of the production levies collected by the Agricultural Council. It primarily facilitates Danish participation in trade exhibitions, leasing floor space, designing and constructing the display booths, and selling space to commodity export boards or individual producers at reduced rates.

Effective January 1, 1988, new legislation limited Ministry funding of export market development activities to exports of new products to new markets. The agricultural sector has been especially affected by this legislation, since most of its export markets (primarily EC countries) are old and well established, as are the products sold to these markets. Under the new legislation, the exporter must reimburse a percentage of the government money, based on the level of export sales.

Danish marketing boards are involved in research, training, quality inspection, and promotions. They also coordinate price leveling activities and sales to countries whose governments control trading. Each board typically promotes generic products and maintains offices in its major markets.

Canada

The Department of External Affairs carries out Canadian government agricultural export promotion activities through the Program for Export Market Development (PEMD). The PEMD supports generic promotions of products initiated by either the government or industry and funds trade fairs and trade missions.

Agriculture Canada, the government agency responsible for technical assistance to agriculture, provides services for raw commodities, horticulture, and special crops. Although the trade offices offer some technical assistance to exporters, they provide no promotional support.

In addition to promotions supported by the federal government, provincial governments also finance HVP export promotions, which they fund with taxes. Ontario and Alberta are the most active among the provincial governments.

Australia

The Australian government reorganized agencies with market development duties in 1985 to form the centralized marketing organization AUSTRADE, a statutory corporation which is now responsible for implementing export programs. The close relationship between the public and private sectors is illustrated by the management composition of AUSTRADE, which is managed primarily by private sector representatives. AUSTRADE trade commissioners work in 41 countries in 54 locations.

According to the FAS, Australian government spending on agricultural export market development and promotion increased about 20 percent during fiscal years 1987 and 1988. Marketing boards, which also actively participate in HVP market promotion and research, are required to report to the Ministry of Primary Industry but they decide their own policies. Embassies provide information to the boards on the changes in laws and regulations of foreign governments.

The Australian government reimburses eligible expenses of firms exporting domestic products. To participate, a firm must make a

“threshold” expenditure of just under \$8,000 (U.S. dollars); 70 percent of expenditures above that amount are reimbursed, subject to maximum payments, which decrease over time. The highest maximum is about \$157,000 (U.S. dollars). After receiving grants for 2 years, payments in subsequent years are reduced in accordance with a sliding percentage scale. Grants are not provided to firms whose export earnings in the grant year exceed about \$16 million (U.S. dollars). According to an Australian government official, additional compliance requirements have been added as Australia experiments with the most effective way to increase exports.

In addition, the Australian government has also introduced a separate business development program in which the government shares business risks, including product research and development, with firms wishing to enter export markets; if successful, the company pays a 10 percent royalty fee. Various Australian foreign market development programs are currently under review.

New Zealand

The New Zealand government began to reform its export policies in 1985, shifting away from subsidies and export incentives to a policy of market development and promotion. Reforms involved the removal or phasing out of industry supports, including export incentives, import licensing, and farm subsidies. Reforms include the implementation of cost-sharing or charging user fees for government services, as well as the restructuring of government agencies.

On December 1, 1988, the former Department of Trade and Industry's International Trade Relations Division joined with the Ministry of Foreign Affairs to form the new Ministry of External Relations and Trade. The New Zealand Trade Development Board, a government agency, was formed from the New Zealand Market Development Board and the New Zealand Trade Commission. The Ministry of External Relations and Trade advises the government and conducts trade negotiations while the Trade Development Board promotes New Zealand goods principally through identifying local importers and conducting market research on a fee basis.

According to the FAS, the producer boards receive approximately one-third of their budgets from the government, chiefly as grants for research, and the balance from levies. A government representative sits

on each of the producer boards; however, the representative serves primarily as an observer, taking little part in the decisionmaking. Marketing organizations receive little government assistance for promotion and development. Five producer boards and two or three private companies manage over 70 percent of New Zealand's agricultural exports.

Brazil

The highly centralized Brazilian government has a general industrial policy covering both geographic and product development. The government supports products by region, based in part on regional economic needs. Brazil's large foreign debt has contributed to its need to export in order to obtain foreign currency. Brazil has encouraged HVP exports by taxing exports of unprocessed commodities at a higher rate than those of processed products.

According to the Brazilian Trade Office in the United States, the Brazilian government has no specific programs for promoting high value agricultural products because its major HVP export, coffee, does not require promotional activities. The government, however, does operate a system of computerized trade leads provided by attaches posted in foreign markets. A Brazilian official states that trade leads are communicated to interested exporters within 72 hours after they are transmitted to Brasilia.

The National Agricultural Research System has helped to develop fruit varieties suitable for export markets. The National Association of Fruit and Produce Exporters (Hortinexa), a privately funded organization, was formed in 1979 by producers and exporters of fresh fruit to promote their products in export markets; it provides mostly promotional and technical services to exporters.

Table 2.1 lists funding, funding sources, and organizations by country.

Summary

Competitor marketing organizations reflect varying perspectives on the public/private sector relationship. In addition, some marketing organizations promote all products—not just agricultural products—in both domestic and international markets. Four countries (the Netherlands, Denmark, Australia, and New Zealand) have “independent” marketing organizations. However, their funding comes primarily from government-imposed levies, and thus these organizations appear to reflect a national commitment to export marketing. Some competitors have a combination of public and private organizations performing different

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marketing functions. Funding levels vary considerably, and the amounts specifically committed to foreign agricultural markets were difficult to identify in some cases.

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Table 2.1: Selected Information on Competitor Marketing Organizations as of 1987, 1988, or 1989

Dollars in millions

Country and marketing organization	Function	Management composition ^a	Funding source	Development expenditures	
				HVP exports	Total
France					
Ministry of Agriculture	guides SOPEXA and CFCE	government	government budget	unknown	\$33.6–83.9 ^b
SOPEXA	promotes food and wine	government and industry	Min. of Agriculture, levies, user fees	\$56.2 ^c	83.9 ^c
CFCE	information & advice	government	Min. of Agriculture, Trade, and Finance; user fees	36.7 ^d	61.2 ^d
Israel					
Ministry of Agriculture	partial funding for CMBI and AGREXCO; market research	government	government budget	4.13 ^e	4.13 ^e
CMBI	promotes citrus ^f	government and industry	Min. of Agriculture, sales commissions on producers	7.5 ^g	7.5 ^g
AGREXCO	promotes non-citrus and fruit and vegetables ^f	government and industry	Min. of Agriculture, sales commissions on producers	4.9 ^g	4.9 ^g
Italy					
ICE	promotes all products	federal and regional governments, industry	Min. of Foreign Trade, Min. of Agriculture	9.3 ^h	57.9 ^h
Spain					
ICEX	promotes all products	government and industry	Secretariat for Trade	30.0 ⁱ	120.0
International Olive Oil Council	promotes olive oil	industry members: EC-12, Turkey, Algeria, Yugoslavia, Tunisia, Morocco	all member governments; voluntary funds from EC and/or industry exporters	unknown	unknown
United Kingdom					
Food from Britain	promotes all products	government and industry	Min. of Agriculture, producers	8.9	8.9
West Germany					
DMA	promotes all products except wine and fish	government and industry	production levies	19.5 ^k	65.1 ^k

(continued)

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Country and marketing organization	Function	Management composition ^a	Funding source	Development expenditures	
				HVP exports	Total
Netherlands					
Min. of Agriculture and Fisheries	promotes all products	government	federal budget	\$5.2 ⁱ	\$5.2 ⁱ
Dutch Dairy Bureau	promotes dairy products ⁱ	industry and non-voting government	levies on producers, processors, exporters	26.2 ⁱ	26.2 ⁱ
Flower Council of Holland	promotes flowers/plants ⁱ	industry and non-voting government	levies on producers, processors, exporters	7.8 ⁱ	7.8 ⁱ
Central Bureau of Horticultural Auctions	promotes horticulture ⁱ	industry and non-voting government	levies on producers, processors, exporters	8.6 ⁱ	8.6 ⁱ
Dutch Information Bureau for Meat	promotes meat ⁱ	industry and non-voting government	levies on producers, processors, exporters	5.0 ⁱ	5.0 ⁱ
Denmark					
Agricultural Marketing Board	exhibition and promotion	government	levies, farmland tax revenue, Swedish customs duty rebates	unknown	unknown
Export Promotion Council	supports Danish promotions of new products/new markets	industry	government budget	12.4 ^m	73.1 ^m
Danish Bacon and Meat Council	promotes pork products ⁱ	industry	production levies	22.5 ⁿ	22.5 ⁿ
Danish Dairy Board	promotes dairy products ⁱ	industry	production levies		
SAGA Furs of Scandinavia	promotes Scandinavian furs ⁱ	industry	member contributions	unknown	
Canada					
Dept. of External Affairs	promotes all products	government	federal budget	2.4 ^o	28.0 ^o
Agriculture Canada	technical support	government	federal budget	1.0 ^p	1.0 ^p
Australia					
AUSTRADE	assists with trade fairs and exhibitions	industry	government budget	unknown	8.6 ^q

(continued)

**Chapter 2
Structure and Funding of Agricultural
Marketing Organizations in the Twelve
Countries Reviewed**

Country and marketing organization	Function	Management composition ^a	Funding source	Development expenditures	
				HVP exports	Total
Export Market Development Grants Scheme	supports all products	government	government budget	\$7.1 ^a	\$135.7 ^a
Meat & Livestock Corp.	promotes meat and livestock ¹	government and industry	levies	10.3 ^a	10.3 ^a
Wool Corporation	promotes wool	government and industry	levies	111.7 ^a	111.7 ^a
Dairy Corporation	promotes dairy products	government and industry	levies	0.7 ^a	0.7 ^a
Wine and Brandy Corporation	promotes wine and brandy	government and industry	levies	0.4 ^a	0.4 ^a
New Zealand					
N.Z. Trade Development Board	promotes all products	government	government budget	2.1 ^f	17.1 ^f
Dairy Board	promotes dairy products	government and industry	industry-funded, government research grants	18.7 ^f	18.7 ^f
Meat Producers Board	promotes meat products	government and industry	production levies, government research grants	7.9 ^f	7.9 ^f
Wool Board	promotes wool	government and industry	production levies, government research grants	45.9 ^f	45.9 ^f
Kiwifruit Authority	promotes kiwifruit	government and industry	production levies, government research grants	18.0 ^f	18.0 ^f
Brazil					
Ministry of Foreign Affairs	provides trade leads and shares cost of trade fairs	government	government budget	unknown	unknown
Hortinexa	promotes fresh fruit	industry	industry	unknown	unknown

^aRefers to composition of board of directors or overall membership. Where industry involved, extent of participation varies.

^bFAS estimate.

^c1988 budget calculated using 1988 average annual exchange rate of \$1.00 = FF5.95695.

^d1987 budget calculated using 1987 average annual exchange rate of \$1.00 = FF6.0107.

^eFiscal year April 1987-March 1988 estimated expenditure allocated to CMBI, Agrexco and other marketing organizations.

¹These organizations offer full range of market development and producer assistance.

⁹Fiscal year April 1987-March 1988 estimate.

^hFiscal year April 1989-March 1990 budget calculated using Jan.-July 1989 average exchange rate of \$1.00 = 1,381.2 lire.

ⁱ1987 estimated expenditure.

^jFiscal year April 1989-March 1990 budget computed using 1988 average exchange rate of \$1.781375 = 1.00 pound.

^kEstimated annual expenditure calculated using 1987 average annual exchange rate of \$1.00 = DM1.7974.

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^l1989 estimated budget calculated using 1988 average exchange rate of \$1.00 = DFL1.976575.

^m1987 estimated budget calculated using 1987 average exchange rate of \$1.00 = DKR6.840.

ⁿ1988 estimate for Danish commodity boards and calculated using 1988 average exchange rate of \$1.00 = DKR6.73125.

^o1987-88 expenditures calculated using 1988 average exchange rate of \$1.2307 = \$1.00 (Canadian).

^pBased on Agriculture Canada official's estimate.

^q1987-88 expenditures calculated using 1988 average exchange rate of \$1.00 = \$0.784225 (Australian).

^r1988-89 budget calculated using 1988 average exchange rate of \$0.655975 = \$1.00 (New Zealand).

Comparison of Competitor and U.S. Market Development/Promotion

Attitudes about the roles of government and the private sector influence the types of competitor marketing organizations. As a result, foreign competitor marketing organizations are structured differently than those in the United States. (See app. IV for a description of U.S. marketing practices.) In addition, some competitors adopt an integrated marketing approach. They coordinate market development from preliminary market research through product development, provide quality control and technical advice to producers to ensure product reliability, and participate in trade shows and undertake other consumer promotion. Funding amounts vary considerably for the countries in our review, but many competitors are funded through production levies.

Many countries have limited commitments to routine formal program evaluation, but some competitor marketing representatives say their professional expertise enables them to evaluate their success informally by observing changes in market shares, product sales, and client satisfaction.

EC Competitors Coordinate Marketing Strategy With Producers

Some foreign competitors have more experience in marketing high value products than the United States and have traditionally specialized in processed foods, which require more sophisticated marketing techniques.

Some competitors appear to have different marketing objectives than the United States. They have created institutions managed by both public and private sector representatives to coordinate market development activities, including product research, development, production, and delivery. Some marketing organizations promote virtually all agricultural products in both domestic and international markets. Moreover, they display a national orientation to HVP exporting not found among U.S. producers, who retain overall responsibility for planning and executing marketing plans even when using federal funds. A greater acceptance of government involvement in the marketplace exists in competitor countries, explaining in part the choice of single marketing organizations funded either by special taxation (production levies in West Germany and France) or general government funds (Italy, the United Kingdom, and Spain).

Some competitors appear to have little government involvement in market promotion, which is conducted primarily by so called independent marketing boards; however, it must be remembered that these marketing boards reflect a national commitment to export marketing, receiving

their funding exclusively through government ordained compulsory levies. For example, marketing boards in the Netherlands, a country only twice the size of New Jersey and the largest HVP exporter in the world, have primary responsibility for market promotion and are funded exclusively through compulsory levies. The government budget provided less than 8 percent of the 1989 \$66 million export promotion total committed by public and private sectors, and the Ministry of Agriculture representative on each board is a nonvoting member and does not control board decisions.

In France, Denmark, and Israel, marketing organizations use market research to identify consumer demand and then develop appropriate marketing strategies. Sometimes they redesign products or change packaging to meet consumer preferences; sometimes they develop new products. Some marketing organizations promote virtually all agricultural products (France's SOPEXA and West Germany's CMA) and are thus in a unique position to develop specific marketing plans based on current market conditions. Moreover, SOPEXA and CMA managements are composed of both public and private sector representatives. It should be noted that EC countries operate in a very different cultural environment than that in the United States. They have more experience in exporting and successfully use national images to sell their food products. Moreover, they benefit from membership in the EC, a customs union providing preferential treatment to members while applying a common schedule of tariffs to other countries.

U.S. HVP marketing takes a different form than in EC countries. U.S. marketing organizations tend to take their products as a given and use market research to find likely markets; consumer preferences are less likely to influence the product itself. Some U.S. producers are resistant to adapting their product for a specific foreign market. For example, U.S. association representatives stated that U.S. producers lost the Japanese pork market to Danish producers because U.S. producers were unwilling to reduce their portion sizes to suit Japanese preferences.

According to some U.S. and foreign marketing representatives, some U.S. producers appear to lack commitment to foreign markets. They have easy access to the large U.S. market and during periods of strong domestic demand may not be able to supply foreign customers. This apparent lack of commitment raises questions about the reliability and dependability of U.S. supply, according to foreign officials we consulted. Some U.S. officials acknowledge this problem but doubt that the government can change this business practice.

Some foreign officials noted that U.S. marketing sometimes lacks creativity in presentation and imagination. One French marketing professional noted that "In France, we sell a dream; the United States sells a product." Representatives of several countries noted that price is not necessarily the major determinant of HVP sales; consumers are often willing to pay a premium for high-quality products, and marketing success often depends on a sophisticated approach based on consumer preferences. Judging from marketing displays at the 1988 SIAL food show in Paris, some U.S. exhibitors paid little attention to creating attractive displays; some brought jars of condiments, opened them up, and popped in a plastic spoon for taste testers. Some competitors had elaborate displays; the Netherlands had unified booths for all exhibitors using flowers (which are counted as HVPS) for added appeal and many had sophisticated displays which emphasized style; few provided actual samples for visitors to eat.

U.S. Concerns About the Roles of the Public and Private Sectors

Some private U.S. firms conduct market development activities with no government funding. U.S. trade associations have primary responsibility for U.S. government-funded trade promotion; FAS facilitates and oversees these activities. The U.S. government collects and disseminates market information and participates in the Cooperator and Targeted Export Assistance (TEA) programs, which are cooperatively funded by the federal government and private nonprofit trade associations. FAS programs are subject to oversight by the Department of Agriculture and the Congress.

Foreign competitors have less oversight of their program operations due possibly to their organizational structure and the traditional relationship between the public and private sectors. Their managers frequently include both government and private sector representatives, and their system of government may be less oriented to public accountability. One competitor marketing representative claimed that managing competing constituent claims was not a concern for him. Several foreign representatives told us they had selectively informed exporters of market opportunities on occasion without concerns about equal access complaints from other exporters. They view this as using their professional expertise to match appropriate importers and exporters. These representatives believe that uniform dissemination of information is preferable but not always practical.

The traditional relationship between the U.S. private and public sectors is marked by separation. Government representatives do not participate

in private organizations' decisions, and private sector representatives typically do not participate in government decisions (although these representatives are periodically consulted). The Cooperator and TEA programs depart from this traditional relationship by establishing a joint relationship between the government and nonprofit associations to carry out foreign market development activities for U.S. agricultural products. Moreover, the public/private agricultural sector relationship appears to be unique in foreign market development in that we are unaware of any other business sector that has a joint program of support analogous to that under the Cooperator and TEA programs.¹ U.S. government officials work closely with this association network and FAS guidelines broadly define permissible expenditures and program requirements.

Concerns in the United States about public/private relationships center on non-discriminatory access to federal funds (i.e., equal access based on established criteria). Government agencies are expected not to give preferential treatment to anyone. In our May 1988 report, we raised concerns about the close relationship between FAS and nonprofit trade associations that may have preferential access to federal funds through their long association with FAS.

European Countries Place High Priority on Trade Show Participation

One example of the EC's integrated HVP marketing strategy is the strong commitment to trade exhibition participation in foreign markets; for example, France's SOPEXA participates in 50 major exhibitions in 15 countries each year. Some European countries take a long-term view of the impact of trade show participation and view it as a matter of national pride. This commitment was evident at the major food show we attended, where European products were expertly displayed with a great deal of attention to detail. Moreover, according to one U.S. association representative, Europeans prepare differently for trade shows by making contacts with potential clients and setting up appointments well in advance of trade shows.

U.S. participation in trade exhibitions has had a lower priority. FAS personnel have voiced concern about such participation, stating that in-store promotion is more cost-effective than trade exhibitions. In 1988, FAS spent approximately \$2.5 million for 22 trade exhibitions, including

¹The 1988 Trade and Competitiveness Act authorized the Secretary of Commerce to establish a Cooperator program to promote U.S. non-agricultural exports; however, the Department of Commerce has not requested funds to implement this program.

one major U.S. exhibition. A U.S. trade association representative stated that U.S. producers prefer to wait until the exhibition to make sales contacts. A National Association of State Departments of Agriculture representative stated that many U.S. exhibitors prepare inadequately for trade shows; they are unable to quote prices which take into account the cost of insurance and freight. He observed that such ill-prepared exhibitors should not participate in trade shows because foreign buyers depend on accurate projections of actual costs.

HVP Market Development Costs

Annual consumer-oriented HVP funding among foreign competitor marketing organizations (excluding Brazil, which provided us with limited data) varies considerably. For example, Australia's Wool Corporation alone spent almost \$112 million while Canada spent \$3.2 million in 1987-1988.² In comparison, U.S. funding totaled approximately \$97.7 million in 1988.

Other Factors Influence Ability to Market HVPs

The majority of EC HVP exports are traded within EC borders, where the system of cultural values, customs, and languages are well known among traders. Moreover, EC transportation and distribution systems facilitate HVP trading. U.S. HVP exporters face a difficult task in learning foreign market conditions and becoming adept at dealing with European traders. High transportation and storage costs also affect the competitiveness of their products.

The United States has a competitive advantage in the production of bulk commodities (wheat, corn, feedgrains, etc.), and its agricultural policy has historically emphasized these products. Although the seven FAS commodity divisions cover HVPs, FAS appears to remain oriented toward bulk commodities. Its HVP Division provides services to HVP exporters (see app. III), but HVP marketing support is spread across all the divisions. In addition, U.S. infrastructure is adapted to bulk commodity needs; for example, the U.S. rail transportation system has made adjustments to realize scale economies in handling large volumes of raw grain exports.

Trade liberalization is also clearly an important issue for HVP exports. Trade barriers tend to be lower for raw materials, which serve as inputs for a further stage of processing. Nontariff barriers, quotas, and high

²We were unable to collect budget data for the same years for all countries reviewed. The budget data for Spain, Australia, Israel, and Canada were for 1987; for France, Denmark, West Germany, and New Zealand, 1988; and for the United Kingdom, Italy, and the Netherlands, 1989. In addition, we have no data for Brazil.

tariffs protect domestic processing industries, and marketing strategies will not overcome them. The EC market unification scheduled for 1992 also provides some incentive for foreign firms to locate production facilities within EC borders rather than face barriers. Several representatives of competitor countries noted that one of a government's most important market development functions is to negotiate the removal of these trade barriers. Member countries of the General Agreement on Tariffs and Trade are currently engaged in an effort to liberalize world trade in agriculture at the Uruguay Round of the multilateral trade negotiations.

Evaluations Performed Informally

Evaluation of market development activities contributes to market success. Linking past performance with the planning stage of marketing brings the process full circle, thus maintaining a system of feedback based on market information. Knowing what has effectively contributed to creating and/or maintaining demand for a product helps in designing even more effective plans. Each marketing activity contributes to the system and requires evaluation, both individually and in its relationship to the whole. Evaluation, as a process, thus permits the marketing organization to function effectively and permits the organization to continue functioning effectively regardless of organizational changes in structure or staffing.

Formal evaluation based on program objectives and measurable goals is not given high priority by competitors or the United States. Marketing professionals stress the intuitive evaluation they perform based on their many years of experience. Many point to the difficulty of testing the marginal effect of specific marketing activities on sales, but some also judge the relative success of marketing programs by using such measures as number of trade contacts made at a trade exhibition, results of consumer awareness surveys before and after a particular promotion, or number of new products that grocery stores are willing to stock after a promotion. GAO raised concerns in our March 1987 and May 1988 reports that FAS could improve its evaluation procedures. FAS is in the process of modifying its evaluation requirements.

Changes in Policy Require Consideration of Many Factors

A comparison of U.S. and competitor activities for increasing HVP exports draws attention implicitly to the advisability of altering investment in HVP production and government-funded marketing programs in the United States. The assumption that increasing such investment will increase total economic activity is not accepted by all analysts, some of whom question whether diverting labor and capital into HVP exports will

increase the gross national product. Some analysts assert that, since the United States possesses a comparative advantage in the production of bulk commodities, it should continue to specialize in that production. However, in recent years, the United States has faced increased competition as other countries, especially in the EC, have increased their bulk commodity production and used subsidies to increase their bulk commodity exports.

Other analysts state that increased HVPs would create more jobs and not necessarily at the expense of employment in the bulk commodity sector. Another advantage is the relative steady growth of HVP markets. During the worldwide recession in the early 1980s, growth in HVP trade did not decline as severely as trade in bulk commodities. Moreover, these analysts observe that the United States is currently exporting HVP sector jobs and that exporting the processed product would increase overall employment in the United States and contribute relatively more than bulk commodity production to the U.S. economy.

According to the Economics Research Service of the Department of Agriculture, export statistics greatly understate the foreign presence of U.S. food processors. Some large U.S. processors have alternative ways of penetrating foreign markets; for example, they have formed joint ventures, licensed their products, or invested in foreign production facilities. Although the resulting products are not counted as U.S. exports, some income is repatriated to the United States. Firms operating in this manner avoid tariff and nontariff barriers, develop relationships with foreign regulators, and learn local preferences. Smaller U.S. HVP exporters who are unable to undertake foreign investment also have opportunities to identify and to develop export markets for specialty products and for market niches too small to interest the largest firms.

U.S. commitment to increased HVP marketing is uncertain. In 1983, an Economic Research Service report noted that maintaining or increasing the 10-percent world HVP market share would depend on more aggressive marketing and trade liberalization. The report stated that "With its extensive agricultural resource base and processing capacity, the United States could easily expand its HVP exports sharply without sacrificing leadership in the market for bulk farm products."

The Food Security Act of 1985 authorized the TEA program to promote U.S. exports, and TEA funds have benefited HVP exporters. For example,

in 1988, about 76 percent of TEA funds benefited HVP exporters.³ However, the scheduled expiration of the TEA program in 1990, the continuing FAS emphasis on bulk commodities, and the current structure of the HVP Division at FAS demonstrate the lack of an integrated marketing strategy to increase the U.S. share of the world HVP market. As we stated in an earlier report,⁴ no Department of Agriculture agency has taken the lead in developing a Department-wide marketing approach. Although FAS has the lead in implementing international trade programs, its programs do not comprise the Department-wide initiative necessary to lead agribusiness under an integrated marketing strategy.

Conclusions

Although most foreign competitors in our review spend less on high value market development activities than the United States, some spend their funds in a more highly targeted manner, using an integrated marketing approach and emphasizing the use of market research to tailor promotions to consumer demand. However, no U.S. Department of Agriculture agency has taken the lead in developing a Department-wide marketing approach to assist U.S. producers to be more marketing-oriented. Issues that need to be addressed in developing such an approach include determining the role of government in foreign market development, including its role in encouraging producers to become more export-oriented, and the appropriate coordination among Department of Agriculture agencies of effective market development functions.

³Based on an FAS estimate of TEA expenditures broken down into initial processing stage products and HVPs. It should be noted that the HVP category is quite broad and not confined to consumer-oriented products, which are the focus of competitor HVP marketing.

⁴U.S. DEPARTMENT OF AGRICULTURE: Interim Report on Ways to Enhance Management (GAO/RCED-90-19), Oct. 1989.

Major Exporters of High Value Products in 1987

Exporter	Value of export (in billions)	Percent of world total	Major products
Netherlands	\$18.54	11.3	Meats, dairy products, fresh vegetables
France	16.47	10.0	Alcoholic beverages, dairy products, meats
United States	15.02	9.1	Animal byproducts, tobacco, meats
West Germany	12.81	7.8	Dairy products, meats, alcoholic beverages
United Kingdom	8.37	5.1	Alcoholic beverages, meats, animal byproducts
Italy	6.99	4.3	Alcoholic beverages, cereals, processed vegetables
Denmark	5.56	3.4	Meats, dairy products, animal byproducts
Australia	5.47	3.3	Animal byproducts, meats, dairy products
Spain	5.17	3.1	Processed and dried fruit, processed vegetables, alcoholic beverages
Brazil	4.89	3.0	Oilseed meals, processed and dried fruits, meats
New Zealand	3.76	2.3	Meats, animal byproducts, dairy products
Canada	3.33	2.0	Meats, alcoholic beverages, animal byproducts
Israel	0.72	0.4	Fresh fruit, processed and dried fruit, meats
Worldwide HVP exports	\$164.49		

Market Information and Related Services

All of the marketing organizations we studied believe that market information is the foundation for building market development strategies and making promotion plans. Market information helps them to

- identify potential markets,
- modify products to meet consumer demand, and
- choose a promotions approach.

Identifying and Understanding Potential Markets

To identify potential markets, the marketing organizations use trade contacts, consultants, and their own representatives' expertise and collect or purchase general market and consumer demographics information—market population, consumer purchasing power, the competitive situation, consumption patterns—from data-gathering or statistical organizations.

The International Olive Oil Council, a trade organization composed of 17 olive oil exporting and importing countries, used market research to determine the potential for increased olive oil sales in the United States. It subsequently established offices and targeted its promotion activities in potential markets identified by the research. A Council representative believes that this approach was instrumental in increasing U.S. imports of olive oil from 32,000 to 60,000 tons in the last several years.

Understanding how the identified market operates—its distribution and retail systems and who to contact—is another important part of market research; for example, 10 of the 200 German retail companies represent about one-third of the German market.

Most of the marketing organizations we studied employ representatives in foreign markets who have many years of experience in both the market and in promotions. In addition, some have ongoing relationships with importer and retailer representatives there. Some marketing organizations, however, hire consultants to provide additional information on the peculiarities of each market environment; for example, the Dutch Dairy Bureau contracts for market research which is used to determine the potential for its products, to develop its marketing plans, and to determine its required budget.

Matching Products to Consumer Demand

Although a few of the countries we visited rely on traditional products for export, most conduct additional market research about specific consumer demand to help producers prepare or revise their exports to meet

the identified demand. Marketing organizations in three countries in particular, France, Denmark, and Israel, believe that matching exports to market demand is an important factor in successful market development programs. For example, a few years ago, France's SOPEXA targeted France's share of the British apple market for expansion. However, rather than use promotions to increase demand for existing apple exports, SOPEXA chose to determine exactly what apple consumers wanted. Using many sources of information, consumer preference research, demographics, and CFCE market information, SOPEXA determined that British consumers preferred an apple a bit greener and smaller than French producers normally grew.

To encourage French apple producers to meet this demand, SOPEXA met with them and explained that they could increase their British market share by picking their apples sooner than usual, when they were greener and smaller. Based on the evidence provided by SOPEXA's market research, the producers decided to revise production, and SOPEXA representatives told us that French producers' share of the British apple market did increase.

The Danish Bacon and Meat Council modifies its products to accommodate specific market preferences. For example, the Council's market research has shown that Japanese consumers prefer pork cuts only of a certain size and shape. Rather than trying to convince them to buy a different cut, Danish producers ensure that pork exported to Japan meets these specifications.

Market research by the Israel's CMBI has shown that traditional citrus products have saturated most foreign markets and that markets prefer new and exotic varieties, so CMBI has focused in recent years on developing new varieties, such as easy-peeling oranges and limquats (a hybrid of the lime and kumquat). Such targeted development clearly requires risk, large investment, many years of research, and commitment by producers to grow the new varieties.

Choosing a Promotions Approach

Most marketing organizations we studied depend on market information to decide how to approach a market, determine what promotions techniques are likely to be successful, and tailor their strategies to each product and each market. For example, Israel's AGREXCO used marketing information several years ago to introduce the avocado to European markets. AGREXCO determined that the German market looked very promising for avocados, but it also found that German consumers are

very conservative and generally buy only traditional products. Therefore, AGREXCO designed its approach to overcome German consumers' traditions by embarking on a 5-year promotions program designed to educate consumers and the trade about avocados, including how they are grown, how to store them, and how to prepare them.

Other Services to Exporters

The marketing organizations we reviewed maintain systems to communicate market information to producers and to match them to potential importers. In addition, they provide technical assistance to ensure that exported products meet the packaging, labeling, and import requirements of each market and work with producers to ensure that exported products are of high quality.

Information and Trade Lead Systems

France, the Netherlands, West Germany, and Israel use what appear to be the most thorough systems of providing market information to producers and assisting with trade leads. Many of the remaining countries maintain trade lead systems to match exporters and importers.

France's CFCE publishes a periodical summarizing all the information it has gathered for a particular agricultural sector, maintains a library in Paris to which producers can gain access by paying a small fee, and has a counseling office to provide information to potential exporters. In addition, CFCE arranges seminars to provide French producers with information on foreign markets. SOPEXA also publishes and distributes information, including directories of exporters which it sends to foreign markets; a monthly update on what France's competition is doing; regular newsletters with details of promotion activities conducted by each SOPEXA office; and lists of importers, wholesalers, retailers, and journalists.

The Dutch Ministry of Agriculture organizes "Information Days," opportunities for government agricultural attaches and other foreign market specialists to talk with Dutch producers and exporters about exporting products to their respective markets. The Ministry's Messages from Abroad contains general market information and periodically is sent to all Dutch producers. To reach even the smallest farmers or producers, Ministry representatives conduct "Information Evenings" in local rural areas to explain their activities to promote Dutch agricultural products.

Germany's CMA publishes a handbook for those with limited export experience and an agricultural export newspaper, conducts export seminars and export manager workshops, and makes available over 1,000 market research reports on 100 countries.

The Israeli Ministry of Agriculture's market research department publishes a monthly magazine, Export Markets, which summarizes the agricultural press in various markets, discusses new varieties and competition, and informs producers what they should grow to meet various market demand for the long term.

Assistance With Market Regulations and Requirements

The marketing organizations we reviewed believe it is important to help exporters learn about the laws, regulations, and requirements of each potential market and to help them revise their products accordingly before they attempt to enter foreign markets.

Marketing organizations in 11 of the 12 countries (Brazil is the only exception) provide this service to some degree, but France, Germany, and Israel have specific agencies or branches that routinely collect and disseminate such market information. France's CFCE collects information on foreign market requirements and regulations from government representatives at French embassies abroad and through its ongoing market research. CFCE disseminates the information through a library in Paris, monthly publications, and a counseling office. The manager of Germany's CMA Export Marketing Division claims that CMA has one of the best libraries of agriculture and food industry market research studies in the world, including information on foreign food laws. The Israeli Ministry of Agriculture's market research department routinely collects similar information and provides it to producers through its monthly publication and its Information Center in Tel Aviv.

Most organizations in the remaining eight countries help producers with a market's laws, regulations, and requirements, generally upon request. In Spain, Italy, and the United Kingdom, quasi-governmental marketing organizations assist producers with packaging, labeling, or import regulations. In the Netherlands, the Ministry of Agriculture and Fisheries works with producers to solve problems or provide specific information. In Denmark, the government can provide assistance through its agricultural attaches and Danish commodity boards, and industry associations help their members to comply with market requirements when they request help.

Quality Control Assistance

Germany's CMA has developed a quality seal to help guarantee that German exports are of high quality. To maintain credibility for the seal, independent testing facilities use very strict standards when testing a product for the CMA quality seal. In fact, typically only one-third of German products are able to meet the standards. CMA relies heavily on the quality image the seal provides as it promotes its products both domestically and abroad.

Because Israel's AGREXCO and CMBI depend on their Carmel and Jaffa labels to convey a quality image to consumers, quality control at all levels of Israeli production is paramount. The Israeli Ministry of Agriculture's extension services keep the government and the commodity export boards informed of what is happening on the farm and enable the boards to assist growers with quality control problems when required. Israeli products are also inspected for quality at packing stations, at Israel's air and sea ports, and at their final destinations.

Developing a Coordinated Strategy

The marketing organizations we studied work with their representatives in foreign markets and with producers in designing coordinated market development strategies and ensuring that the levels of planned promotions is commensurate with product supplies.

Organizations which have representatives in foreign markets generally ask them to propose effective promotion activities for their markets and use the proposals in designing market development strategies for all markets. These representatives generally have many years of experience and a thorough understanding of their markets' environment and can give their headquarters organizations valuable advice on what promotions activities best suit the markets. Producers and marketing organizations work together to develop overall export market development strategies and ensure that the planned levels of promotion activity in all markets is commensurate with product supplies.

For example, the Dutch Dairy Bureau uses the help of product working groups composed of industry representatives who are product or market specialists. The Bureau office manager in Paris, for example, discusses the cheese marketing plan with representatives of the cheese working group in the French market before presenting his plan to the next level, the advisory committee. Coordinating producer and marketing organization efforts is also an objective of the Bureau's board of directors; it includes exporters, wholesalers, and producers who meet several times

each year to decide how much funding will be provided for dairy product promotions.

A lack of cooperation between producers and the marketing organizations and commitment from producers can result in unreliable product supplies. The executive director of Food from Britain told us that British farmers and producers traditionally showed an interest in export markets only when their production was higher than expected or when domestic demand was down. In addition, they hesitated to cooperate with a marketing organization promoting all British products because they thought their competition within the United Kingdom would increase.

Conclusions

Many marketing organizations we reviewed conduct market research through their worldwide market intelligence networks. They develop information about market opportunities and work to link exporters with potential importers. They also provide important information about foreign regulations and quality control standards essential to exporters. Some governments also provide label clearance services to reduce bureaucratic delays and to facilitate export marketing. Independent marketing organizations also collect market information, conduct market research to identify market demand, and disseminate market information; this information enables exporters to develop appropriate products and promotion plans.

Product Promotions in Foreign Markets

Retail Education

Conducting promotions directed at the food trade is an important step to help ensure that a country's products are available to the consumer by influencing the trade to import, distribute, and present products at the retail level. Marketing organizations use trade exhibitions for making contacts with importers, distributors, and retailers. They use public relations activities and trade visits to show that their products are of high quality and that exporters can supply adequate quantities.

Trade Exhibitions

Trade exhibitions are used to introduce products and establish contacts with the import trade in each foreign market. Exhibitions are an opportunity for exporters to meet importers, distributors, and the trade press; initiate working relationships; and write product orders.

Marketing organizations typically assist their exporters to participate in trade exhibitions by acquiring floor space, building display booths as part of a national display, and renting the booths to the exporters—often a price at below cost to encourage participation. For example, the Israeli Ministry of Agriculture rents space to its exhibitors at 50 percent of the costs.

The number of exhibitions a marketing organization participates in generally varies and can depend on the number of markets the organization targets for development. For example, Food From Britain concentrates on trade exhibitions to the four countries it targets for market development; SOPEXA, which has a much wider range of market development activities, participated in 50 major exhibitions in 15 countries and conducted 60 solo shows or mini-exhibitions worldwide in 1988.

Marketing organizations in each of the countries we reviewed participate in the international trade exhibitions held during alternate years in Cologne, Germany, and Paris, France, which are among the largest exhibitions for food products and generally attract large numbers of exhibitors and visitors.

At least four of the marketing organizations also conduct their own exhibitions, which are referred to as "solo" exhibitions within foreign markets. They generally invite importers, distributors, retailers, and journalists; however, they sometimes invite restaurateurs, caterers, and hotel managers to sample the products and see them prepared in various recipes. Solo exhibitions can focus on promoting a single product line in a market or can promote a wide range of products in order to introduce new products to a single importer. Germany's CMA uses solo exhibitions

to reach importers that do not attend the other trade exhibitions. A CMA representative in London told us that he considers solo exhibitions as an effective trade promotion method because about 60 percent of the contacts made result in sales agreements.

Influencing the Retail Trade

To command the attention of retailers, marketing organizations generally advertise in trade publications and about half of them publish their own newsletters, brochures, or catalogs which are provided to the trade. At least one marketing organization from each of the countries we reviewed arranges informational trips to the producing country for trade representatives from each market and sometimes for trade journalists. We were told that these trips can increase the foreign trade's awareness of a country's products, help it understand how they are grown or produced, and help convince it that the products are of high quality and can be consistently supplied. The visits can include tours of production areas and processing plants, dinners at which the products are served, and demonstrations of product marketing in the host country.

Some marketing organizations also use special events or activities to influence the trade. For example, Foods From Spain took chefs who specialize in regional-unique cooking to its target markets to prepare dinners and talk with the trade and journalists about Spanish specialties and the use of Spanish agriculture products. For the U.S. trade, the Flower Council of Holland gives Dutch design shows—evenings which include dinner, cocktails, and a flower show. The Dutch Meat Board in Britain published a book of recipes by well-known chefs and launched it with a dinner at a hotel for journalists, restaurateurs, and caterers. France's SOPEXA conducts seminars in hotel and catering colleges to promote French agriculture products to the trade; because specialty designations are highly regarded by industry representatives, SOPEXA awards wholesalers, retailers, journalists, catering school teachers, and wine stewards a degree designating them as "experts in French cuisine."

Consumer Promotions

A marketing organization generally conducts the type and extent of consumer promotion activities consistent with the organization's status and strategy in the market. Consumer promotions include in-store promotion, and television, radio, and print advertising.

In-Store Promotions

In-store promotions (1) influence the consumer at the point of purchase, a critical decision point for many food products, (2) help to promote a country image for agricultural products, and (3) can be geared to either individual product sectors or to a country's entire range of products. Promoters can combine several activities—product demonstrations, competitions, and advertising. Marketing organizations' direct involvement in store promotions varies from just providing funds to participating in every phase of promotion. For example, the Danish Bacon and Meat Council office in the British market provides funds to its producer representatives who manage the store promotions. France's SOPEXA has the most involvement in store promotions; its full-time merchandising team in some markets introduces the products and the promotions materials to the retailers, educates and trains sales personnel, and supervises and assists in promotion and display of the products.

Consumer Advertising

Although advertising is generally generic in nature, officials in four of the marketing organizations told us that their promotions provide an umbrella under which individual exporters can promote their branded products. In addition, officials from one organization said they also conduct brand-specific promotions but the exporter must pay all the costs. Advertising of national brands or labels is also used by the Danish Dairy Board for butter, Spain's ICE for produce, and Israel's AGREXCO and the CMBI for produce and fruit. (These brands or labels, however, are available to all their country's producers if the products meet the quality standards.)

Marketing representatives tailor the promotion programs to each market. France's SOPEXA used consumer advertising as a significant component of a 5-year campaign it conducted to establish French prunes in the Netherlands market. About 34 percent of the promotion campaign's costs were spent on consumer advertisements which projected a high quality product image to complement the public relations and store promotion activities. As a result, SOPEXA tripled French prune exports to the Dutch market, according to a SOPEXA representative.

Evaluations

Evaluation of market development and promotion activities is vital to market success. Linking assessments of past performance with the planning stage of new marketing initiatives brings the process full cycle, thus maintaining a system of feedback on marketing success. Knowing what has effectively contributed to creating and/or maintaining demand for a product is essential for designing even more effective plans for the

future. Each marketing activity contributes to the system and requires evaluation, both individually and in its relationship to the whole. Evaluation, as a process, thus provides the basis for improving and/or continuing effective performance.

The marketing organizations we reviewed generally conduct informal evaluations each year. Their evaluation approach varies, but they generally consider image and consumer awareness of their products, sales, and market share. Organization representatives cautioned us that evaluation data may not accurately reflect the effectiveness of their market development activities because factors outside their control can affect consumer opinions and product sales.

Representatives from marketing organizations in 11 countries told us that they do market research to identify changes in the consumers' awareness or image of their products. This can involve collecting information from consumer panels or attitude surveys. Four marketing organization representatives specified that they use professional agencies in the markets to perform this research.

Nine organizations consider the results of these studies in conjunction with sales or market share information. In total, eleven marketing organizations consider sales or market share gained during the year in evaluating the success of their promotion programs. For example, the Danish Dairy Board compares sales and market share to targets set at the beginning of the year. One organization specified that it uses sales data in its evaluation for a market only if it establishes a relationship between sales and its promotion activity. To do this it uses selected retail stores as "check points" to determine the correlation between promotions and sales. In addition, three marketing organizations use sales data to evaluate the success of store promotions; however, they also use other information such as data from the exporters and the retailers, additional promotion expenses incurred on the promotions, and opinions on how well the promotions were conducted.

Evaluations are generally informal rather than definitive measures of success. Only four organizations set goals for their promotion programs and used them in evaluating their results. Most organizations do not set goals for changes in consumer perceptions, sales, or market share because exchange rates, independent promotion efforts by exporters, changes in product quality, and price changes by the exporters or the

competitors may also produce these changes. For example, representatives of two marketing organizations cited the impact of glycol being discovered in European wines; although their products did not have a problem and the promotions being conducted at the time were well planned and executed, the glycol publicity hurt the quality image of all European wines and their sales diminished.

Conclusions

Many of the marketing organizations we reviewed use their national image to project the appeal of quality products. Although France's SOPEXA promotes both generic and branded products, most promote their products generically, for example, Danish cheese. They emphasize the national identity and promote their products in a variety of media, including newspapers, newsletters, and trade publications. After retailers devote shelf space to their products, promoters next persuade consumers by using in-store promotions, cooking demonstrations, point-of-purchase materials, and newspaper and magazine advertising. Although conducted informally, program evaluation may permit marketing organizations to judge their success and develop future promotion programs based on past experience in the market.

U.S. Foreign Market Development and Promotion Activities

Organizational Funding and Structure

U.S. nonprofit trade associations assume primary responsibility for marketing activities in foreign markets. These associations serve producers, farmers, and farm-related interests, or trade associations and generally promote a single commodity or group of related commodities, e.g., livestock, and they assess market conditions and choose activities consistent with their products and export objectives.

Although the Department of Commerce provides marketing support for some HVPS (primarily marine fish and shellfish), the FAS has the lead government role in market development and promotion. The FAS administers the Cooperator Market Development and the TEA programs, the major sources of support for U.S. HVP market development, through its seven divisions. One of these divisions—the High Value Products Division—is tasked with developing and implementing policies, services, and programs to increase the competitiveness of U.S. processed foods in foreign markets. In addition to processing some TEA applications, the Division provides export services and technical assistance to HVP exporters.

Central to the overall FAS market development and promotion effort is the FAS worldwide network of agricultural attaches, counselors, and trade officers. FAS attaches¹ are located in 65 posts covering more than 100 countries and in 14 overseas trade offices.

The government and the private sector share costs; FAS estimates that it gave nonprofit associations \$97.7 million for HVP market development and promotion in 1988. The associations also receive funds from member associations through annual membership fees or, in some cases, through state-authorized taxes on production. The regional associations representing state departments of agriculture are funded by contributions from USDA, the states and private firms.

Market Development and Promotion Activities

Based on our previous audit work and more recent interviews with approximately 30 nonprofit trade associations, these associations' market development activities in foreign markets and in the United States include market research, trade exhibitions, trade missions, advertising, distribution of point-of-purchase materials, and consumer promotion. FAS funds these activities under the Cooperator Market Development and the TEA programs.

¹Hereafter in this report, attache refers to attaches, counselors, and trade officers.

The Cooperator Program²

The U.S. market development program, the Cooperator Market Development program, was created by Congress in 1954 to expand foreign markets for growing surpluses of U.S. agricultural products. Using a combination of private and public funds, the Cooperator program provides support in the form of cash to about 50 cooperators. According to FAS, these associations represent an estimated 2.4 million farmers, 1,500 U.S. cooperatives, more than 8,700 processors and handlers, and 2,000 forest product companies. They represent producers of low value bulk commodities, high value food products, and forest products. State and regional associations representing the interests of state departments of agriculture also receive export promotion funds from FAS under its Cooperator and TEA programs.

Market development and promotion activities undertaken by the non-profit trade associations are aimed at increasing both consumer and commercial uses of U.S. agricultural commodities and their derivatives by overcoming constraints to exports. Activities are not designed to make sales but to achieve long-term market access, and they fall into the general categories of technical assistance, trade servicing, and consumer promotion.

FAS funds the associations through project agreements which describe the basic working relationship and program and financial obligations of each party. The Cooperator Program requires contributions from participants in the form of cash or goods and services above the amount that would have been spent in the absence of federal funds. In fiscal year 1988, FAS spent \$29.0 million for the Cooperator program, \$17.0 million of which FAS estimates was for HVPS.

The Targeted Export Assistance Program

Authorized by the Food Security Act of 1985, the TEA program³ assists U.S. producers in developing foreign markets and promoting exports. The Department of Agriculture chose to implement the TEA program as a foreign market development program modeled on the Cooperator program to conform to provisions of the General Agreement on Tariffs and Trade, which permits market development, as well as to assist such high

²For a detailed explanation of the Cooperator program, see our report INTERNATIONAL TRADE: Review of Effectiveness of FAS Cooperator Market Development Program, (GAO/NSIAD 87-89) Mar. 1987.

³For a detailed explanation of the TEA program, see our report AGRICULTURE TRADE: Review of Targeted Export Assistance Program, (GAO/NSIAD 88-183), May 1988.

value horticultural crops as fruits and nuts, whose commodity groups claimed that their export problems had not been addressed.

The TEA program provides funds to counter or offset the effects of unfair foreign trade practices. A private sector participant must establish that the agricultural commodity it promotes has been adversely affected by an unfair foreign trade practice, is in adequate supply in the United States, and is at least of 50 percent U.S. origin. Priority is given to those products for which favorable section 301 actions have been granted by the U.S. Trade Representative.⁴

TEA promotional activities include both branded and generic promotions. A limited number of private U.S. firms promote HVPS through branded promotions, and trade associations (including regional export organizations) conduct generic promotional programs. Reimbursable expenses include market research designed to increase export sales, advertising, distribution of point-of-purchase materials, trade exhibitions, and consumer promotion. Participants are required to evaluate activities and report the evaluation findings to FAS.

The TEA program uses Commodity Credit Corporation commodity certificates or CCC funds, and fiscal year 1988 TEA program HVP expenditures amounted to about \$77.5 million with a budget ceiling of \$110 million and an approved 1989 budget of \$200 million.

Export Services

The High Value Products Division, with 1988 expenditures of about \$3.2 million, serves exporters by coordinating trade exhibitions, providing trade leads, disseminating market information, and giving technical advice on foreign regulations. In fiscal year 1988, it coordinated 22 trade shows, including one in the United States for exporters seeking foreign market contacts.

The Agricultural Information and Marketing Services (AIMS) provides a computerized communication system for transmitting trade leads, i.e., information on specific market opportunities, from attaches to private firms wishing to export. FAS attaches provide trade leads, which domestic producers can access electronically within 24 hours. Two private

⁴Section 301 of the Trade Act of 1974, as amended, gives the President broad powers to enforce U.S. trade rights granted by trade agreements and to attempt to eliminate acts, policies, or practices of a foreign government that are unjustifiable, discriminatory, or unreasonable and that restrict U.S. trade or violate international trade agreements. For more details, see our report INTERNATIONAL TRADE: Combating Unfair Foreign Trade Practices (GAO/NSIAD-87-100) Mar. 1987.

consultants offer this service at annual fees of \$300 to \$500. However, U.S. firms can also obtain these trade leads at lower cost by subscribing to either the Journal of Commerce, published weekly at an annual fee of \$205 or Export Briefs, published weekly at an annual fee of \$75. AIMS also maintains a data base, which permits it to provide buyer lists of foreign buyers for particular commodities by country as well as lists of buyers in particular countries. Other AIMS publications include newsletters, international marketing profiles, executive export services, and buyer alert notices.

The Export Product Review Program provides advance label clearance of products destined for export to ensure that the label meets regulatory requirements in the targeted market. The HVP Division also funds private sector participation in trade exhibitions in foreign countries to promote U.S. HVPs. This service is coordinated at Washington headquarters and includes considerable involvement of U.S. attaches posted in the foreign markets where the exhibitions take place. U.S. firms pay a portion of the total costs; FAS arranges for the space and coordinates transportation and customs clearance of sample products.

The HVP Division released the first in its new Retail Studies in October 1989. This series of reports produced by outside consultants will focus on a limited number of markets, providing essential information about those markets' financial, distribution, and retail sectors important to U.S. HVP exporters.

The HVP Division processes TEA requests of several HVP trade associations, one national, and four regional trade associations representing state departments of agriculture. The Division will also serve as executive secretariat to an additional Agricultural Technical Advisory Committee being jointly established by the Department of Agriculture and the Office of the U.S. Trade Representative in the interagency process to coordinate U.S. agricultural policy with the private sector. The Committee's charge is to provide technical advice on processed food issues.

U.S. Agricultural Representation Overseas

An important part of FAS support of market development and promotion is the FAS worldwide network of agricultural attaches, who handle all matters of trade information needs, food aid, and technical programs and file reports on world agricultural production, trade, and consumption of farm commodities. In addition, attaches prepare annual workplans describing developments affecting the agricultural markets in

their host countries. They also write country project statements describing the market situation and specific market development activities planned for the year and their costs. Commodity experts and economists at headquarters analyze these reports, and FAS makes this information public through radio, electronic transmission, magazines, and circulars. Publications include the monthly AgExporter, the 20 Circular Series, and a Weekly Roundup on world production and trade.

States Also Promote HVPs in Foreign Markets

States participate in market development and promotion through programs managed by (1) state or quasi-state agencies, (2) one of the four regional organizations⁵ representing state departments of agriculture, and (3) the National Association of State Departments of Agriculture. All 50 states and the four territories belong to the regional associations, which conduct generic promotions for HVPs and administer the FAS High Value Export Incentive Program under the TEA program. Approximately half of all states promote exports individually; some states also maintain overseas offices.

Trade Assistance and Planning Office

The FAS Trade Assistance and Planning Office provides information on export opportunities for U.S. agricultural products as well as foreign economic, demographic, regulatory, and production data. In addition, it provides information concerning available programs to those U.S. exporters who believe they have been injured by unfair trade practices. The office also provides three general annual reports to Congress relating to its operations; recommended U.S. policy goals for agricultural trade and projected spending levels for international activities of the Department of Agriculture, and the policies of foreign governments and market opportunities for U.S. agricultural exports.

⁵The regional associations are the Eastern U.S. Agricultural and Food Export Council, Inc., the Mid-America International Agri-trade Council, the Southern U.S. Trade Association, and the Western U.S. Agricultural Trade Association.

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