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ISSUES FACING U.S. FARMERS AND THEIR COOPERATIVES

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By Dr. Clayton Yeutter*

It is a pleasure for me to speak this morning to this dynamic group of young farm families. Those of us who were actively involved in farming a few years back are continually amazed at the talent that has come along to succeed us. Farming has indeed changed more than we realize. That is not a new discovery, for thousands of articles have been written about the technological revolution in agriculture. But relatively little attention has been given to the change in farm families themselves. Without doubt, the quality level of young farmers and their wives - whether it be measured in terms of education, basic intelligence, knowledge, breadth of concerns, or any other reasonable criterion - is far superior to what it was twenty years ago, or even ten years ago. That is why U.S. agriculture has a bright future, and it is also why speaking before a group like this is such an enjoyable experience.

There are so many major issues facing U.S. farmers and their cooperatives today that one must necessarily prioritize them.

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In so doing, access to world markets would have to be at the top of most everyone's list. With many farm products being priced at their lowest level in years, we simply must expand exports as rapidly as possible. A great deal has been done already, for the value of our farm exports has quadrupled in the past decade. But much more can and must be done soon, if we are to relieve the price and income pressures that are now plaguing so many of our farmers.

There is no question about the competitiveness of U.S. agriculture. In a whole host of commodities, including most of those which are in surplus today, we can compete with anyone in the world - if we are permitted to do so! The difficulty is that we are often not permitted to do so. In other words, as our exports to a given market increase, trade barriers begin to rear their ugly heads. Usually the intent is to protect a domestic agricultural industry that is not nearly as competitive as ours. Some protection is understandable, for no nation wishes to be completely dependent on another for the major portion of its food. That would make it inordinately vulnerable in the delicate arena of international politics. In my judgment, most importing countries, particularly in the developed world (Japan, western Europe, etc.), are overly sensitive on this point. That is, they could enhance their economic growth rate by shifting some of their human and capital resources from the agricultural to the industrial sector. This would be mutually beneficial in that their standard of living would rise, and our farmers would benefit from expanded exports.

There are an infinite variety of trade barriers that impede expanded world trade. The traditional barrier is the tariff or duty.

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It is still a significant impediment in some countries and on some products, but in an era of floating exchange rates tariffs are not as troublesome as they were a decade or two ago. The most difficult problems today are with what are called "non-tariff barriers". These include a variety of devices such as quantitative restrictions or quotas, variable levies, export subsidies, and even standards.

Non-tariff barriers are far more pernicious than tariffs because they are often difficult to identify or prove, they can be applied quickly, and they often have drastic results. Application of an alleged health standard, for example, can often result in the total loss of a shipment of fruits or vegetables. A quota stops imports totally once the quota limit has been reached. And a variable levy is frustration personified! It automatically increases as world market prices decline thereby keeping import levels under control. This is, of course, precisely the situation that we face today in world grain markets, and the use of variable levies by a number of countries is one major reason why our export volumes have not been increasing.

Fortunately, we have an immediate opportunity to negotiate reductions in trade barriers throughout the world. That opportunity is presented in the Multilateral Trade Negotiations, now underway in Geneva, Switzerland. Ninety nations are involved, including all the major food importers except for the Soviet Union and the People's Republic of China. Consequently, we have a chance during the next twelve or eighteen months to obtain significant reductions in both tariff and non-tariff barriers affecting U.S. agricultural trade. Though this will not help those farmers who cannot survive for another year or two, it could be a big help to U.S. agriculture in 1979 and beyond. The key, of course, is how well we negotiate, and what kind of agricultural-industrial tradeoffs we make. Obviously, it would be in the best interest of both our farmers and our cooperatives to become involved in this process in every way possible, and to make sure that the U.S. negotiating team effectively and persuasively presents the case for U.S. agriculture.

Credit can also be used as a mechanism for expanding U.S. agricultural exports. The major U.S. credit program is P.L. 480, our "Food for Peace" effort. This involves either the grant or sale on soft credit terms of agricultural products for humanitarian, foreign policy, or market expansion purposes. P.L. 480, now twenty years old, has been an excellent program, perhaps the most successful of all our foreign aid endeavors. Countries such as Korea and Taiwan have "graduated" (or essentially so) from being P.L. 480 recipients, and have become some of our best "cash on the barrel head" customers. We are presently moving more than one billion dollars worth of agricultural products through P.L. 480 each year, and ought to expand that quantity when products are in surplus, as is true today.

Another mechanism available to us is CCC credit. This is a program, also used by many other countries, which helps buyers when they are reaching the limit of their commercial credit resources. Commerical terms are involved, so there is no taxpayer subsidy at issue, and repayment is required in three years or less. This too has been an excellent tool for expanding our agricultural exports, though volumes recently have only been a half billion dollars per year or less. As with P.L. 480, now that we have a severe surplus problem, those dollar volumes should be increased.

A final problem on the market access side is the Jackson-Vanik Amendment to the Trade Act of 1974. This is an amendment which denies most favored nation treatment to the Soviet Union and a number of eastern European countries because of their Jewish emigration policies. Though the intent of this amendment (to help Jewish residents of these countries to leave if they wish) is laudatory, there ought to be other and better ways to achieve that objective. Denying these countries most favored nation treatment in international trade, and also denying them access to certain credit programs, simply makes it more difficult for them to export to us, and in turn impedes their imports. Since one of their prime needs is for agricultural products and agricultural technology, U.S. farmers are indirectly hurt by this amendment as much or more than any other segment of the American economy. If this amendment were repealed or substantially altered, we should be able to significantly expand our farm exports, particularly to eastern Europe.

Obtaining access to world markets is only one side of the agricultural exporting coin. The other side of the coin is being able to penetrate those markets with actual sales. After all, other food producing nations want to expand their exports too. Canada, Australia, and Argentina, for example, are all affected by the worldwide surplus of wheat just as we are. Their farmers want to sell too. In addition, cooperatives have a special challenge in that they have not yet been able to capture a major segment of the world market in grains and soybeans, where much of the action is. To date, cooperatives have been much more successful in rice and a number of specialty products such as citrus, raisins, almonds, etc.

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Hopefully, cooperatives will become much more aggressive in the international arena in future years. All the indicators point in that direction, and I am especially pleased that this is so. USDA's Farmer Cooperatives Service has done a superb job of stimulating interest in a more intensive export program, and in supporting cooperatives which have embarked upon such a course. Export expansion has become a high priority objective of top management in many of the larger cooperatives. A lot of work is underway to prepare those cooperatives for broadened international involvement, a formidable task in itself. A lot of money is involved, so there is still some understandable hesitation on the part of co-op boards of directors. But that too is changing, for boards have begun to recognize that there is no other way to serve their members effectively.

International marketing is a different and much tougher ballgame than most cooperatives have played in the past. This is the major league, and it takes a lot of money to play and a lot of skill to win! I will outline briefly just a few of the requirements.

One is security of supply, and this is where cooperatives have a unique advantage. With the excellent storage facilities that are already available for most commodities, cooperatives can generally assure a buyer that if he makes a purchase the product will be there. If the order is exceptionally large, that assurance is not total, but it is probably better than any other seller can give him. Furthermore, as cooperatives begin to expand their various pooling arrangements, they will become increasingly strong in offering this kind of insurance policy to major importers. This will be especially helpful in dealing with buyers from countries such as Japan which simply cannot afford to take risks on product availability.

To be effective an international marketing team must have skills and knowledge far beyond that which is required in the U.S. market. Dealing with other cultures is a unique experience; it is an art that is not practiced well by many. Too often we expect other countries and their buyers to do business on the basis of our cultural norms. We can insist upon that if we wish, of course - but we will sell a lot more product if we do it their way instead of ours! We can also profit, in more ways than one, if we do it in their language rather than ours.

It takes a lot more market intelligence to operate internationally than domestically too. All of the major grain exporting companies, for example, have sophisticated market intelligence operations scattered throughout the world, interconnecting through the most modern communications technology that is available. Having an information edge over a competitor of a day, an hour, or even an minute can mean thousands of dollars on the profit and loss statement at the end of the year.

The international arena provides fertile ground for innovations. With U.S. farmers being among the most innovative groups in our society, one must hope that their cooperatives will be just as innovative in approaching world markets. If they are, they will be in a position to dramatically expand their share of those markets in the future. One way, for example, will be to engage in joint ventures with other cooperatives, or even with non-cooperatives, to provide a package of products that would be attractive to some of the large buyers throughout the world (particularly where those buyers are governments). This has the attraction of simplifying the purchasing task of those buyers. Another way is to combine exports and imports, something that is rarely done today. All foreign countries want to expand exports to the U.S. If cooperatives can provide an opportunity for them to do so, either with agricultural or industrial products, they are likely to be willing to buy more of our agricultural products, and to buy them from cooperatives rather than from someone else. Since we already have a number of importing cooperatives in this country (in petroleum, for example), perhaps a joint venture between those cooperatives and some of our agricultural exporting entities would also be feasible. Or perhaps some of those exporting entities that do not now import should consider doing so if (1) they can expand exports in this manner, and (2) they have the contacts or mechanism for selling the imports in the U.S. A classic example of this is Pepsi Cola's development of the Soviet market for soft drinks, in exchange for which they are distributing Soviet vodka in the U.S.

There is room for additional innovation by cooperatives in the domestic market as well. There is room for strong involvement by cooperatives in all phases of the production and marketing process of nearly every agricultural commodity. Cooperatives are doing a lot of processing today with heavy participation in such commodities as dairy products and fruit and vegetables. In some other areas, such as meat processing, the involvement is very limited. And when one moves to the retailing side of the market, there are only a few familiar names - Land O' Lakes, Sun-Maid, Sunkist and a number of others. That should offer a great deal of potential for the future.

Back at the farm level, cooperatives have done a magnificent job in recent years in the provision of feed, fertilizers, fuels, chemicals, etc. But here too there are new horizons - the leasing of agricultural equipment, for example, a booming new industry. At the moment, most of that action is now going to the equipment manufacturers and their related commercial banks.

Top quality management is scarce everywhere, on the farm and in the business world. It is a seller's market, and cooperatives simply have to compete for the limited supply that is available. Boards of directors have begun to realize that, and many cooperatives have now begun to pay their top people comparably to those elsewhere in the business world. Though the dollar figures sometimes seem high, this is generally the best investment that a cooperative can make. There are many cooperatives in the U.S. with sales of a hundred million dollars per year or more. In that bracket, the expenditure of an additional one hundred thousand dollars per year on upgrading the top echelon of management can easily return a dividend of many times that in increased savings.

Finally, like everyone else cooperatives must continually expand their involvement in governmental relations at the local, state and federal level. Whether we like it or not, government penetrates our lives today, and we have to learn to deal with it. To do otherwise will simply cost us money, and lead to a lot of unnecessary frustrations. One may not be able to reverse the trend toward increased governmental regulation in our lives, but we can try. Farmers rarely give up when the weather goes bad, or prices are depressing. Why then should we give up when government is causing us troubles, or proposing to do so. We shouldn't, for much of the cynicism toward government is borne of ignorance. There are responsive people in Washington, D.C., in both the Congress and the Executive Branch. There are also responsive and dedicated

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people in state and local governments throughout the country. But they cannot help unless we ask them to do so, and ask in the right way at the right place at the right time. That is what governmental relations is all about, and it is something at which we should all work harder in the future. If we do, we will have better government, a less burdensome regulatory environment, and a happier financial situation for farmers and their cooperatives.

In closing, I must empathize with the farm couples both in and out of this room who are feeling a terrible cost-price squeeze today. Most Americans do not fully appreciate the seriousness of this situation. But I am also optimistic about the future. We have a farm policy framework that can respond to the problems of the moment, and turn them around. But it would be unreasonable to expect this to happen overnight. It will probably take a couple of years to work ourselves back to economic good health, but it can be done. This is not a task for government alone. Government can help, but there is a role too for credit institutions, marketing firms, whether they be cooperatives or not, and farmers themselves as they shift their crop and livestock production patterns to whatever is most profitable.

Farmers today have little difficulty boosting yields; they have become masters at that. The present and future challenges lie in becoming just as masterful in developing their marketing skills. This is the major challenge facing their cooperative institutions as well.