The Monthly Magazine for Food and Agricultural Exporters

AgExporter

United States Department of Agriculture
Foreign Agricultural Service

February 2001

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Russia's Economy: Food Import Growth, When?

By Eric A. Wenberg

After a decade of freefall, Russia's economy is finally showing a growth trend. Today, despite its problems, Russia's import market is on the upswing and shows signs it may repeat its 1994 growth pattern, when it became the fastest growing food market ever.

In the 1990s, Russia's gross domestic product (GDP) spiraled downwards, approaching the decade's end with a disastrous currency devaluation in August 1998. That crisis knocked Russia off the short list of agricultural markets that import more than $1 billion worth of U.S. products.

After the ruble's devaluation, U.S. agricultural exports to Russia dropped precipitously as import demand evaporated. The currency slump made imported products more expensive.

The crisis did solve one lingering problem for Russia's economy. It ended an economic policy that promoted short-term government borrowing to finance budget deficits.

Now, instead of deficits, Russia's budget runs on surpluses, thanks to higher oil prices. The government's growth in revenue has helped achieve broader economic stability by providing more resources for spending, including strengthening the social safety net for the poor and elderly.

Bottom line: in contrast to the 1990s, when Russia's GDP fell almost every year, it is growing. And if oil prices remain buoyant, some anticipate 7-percent annual growth in 2001.

So what does all this mean for U.S. agricultural exporters?

Presently, there are signs of commercial recovery, especially for U.S. poultry sales. As this magazine went to print, an estimated third-quarter 2000 U.S. agricultural exports to Russia were $120 million. Of that amount, poultry enjoyed a 70-percent share. If the pace grows to include a wider array of products, Russia's recovery as a U.S. market would be well assured. Already there are signs that Russia's imports of products from the United States might expand past the single commodity stage.

ALREADY THERE ARE SIGNS THAT RUSSIA'S IMPORTS OF PRODUCTS FROM THE UNITED STATES MIGHT EXPAND PAST THE SINGLE COMMODITY STAGE.

What makes U.S. traders more optimistic than at any time since August 1998 is that European exports to Russia are strengthening.

Why should U.S. exporters celebrate when European competitors are gaining access to Russia? After all, Europe enjoys a geographic advantage over U.S. trade and pays restitutions to exporters who lower their prices in markets such as Russia.

But consider the pattern of recent history. When Russia's market opened in the 1990s, the export boom for consumer-ready products started first in Western Europe and later expanded to the United States. That pattern may be repeating itself.

The latest data from Europe show recovery of the Russian market is underway. Second-quarter 2000 European Union exports of consumer-ready foods are estimated at $350 million in commercial sales, a hefty increase over last year.

The European Union is, of course, no monolith; its member nations show different export strengths. French trade data show prepared meat exports to Russia are up; from Germany, malt and cheese exports are rising. Finland is selling more dairy products, including cheese, as well as more snacks. Denmark's fresh and processed fruit and vegetable sales to Russia are higher. Nursery products and flower exports to Russia from the Netherlands have doubled from 1999.

After the Soviet Union's collapse each of these countries found new markets in Russia in their area of strength. The U.S. sales came on the heels of these European successes.

Thus, if the latest data from Europe indicate a recovery, and if U.S. commercial sales grow along with Russia's economy, U.S. exports to Russia may have weathered bad times. While those are two formidable "ifs," the outlook for expanded U.S. trade to Russia is finally positive. ■

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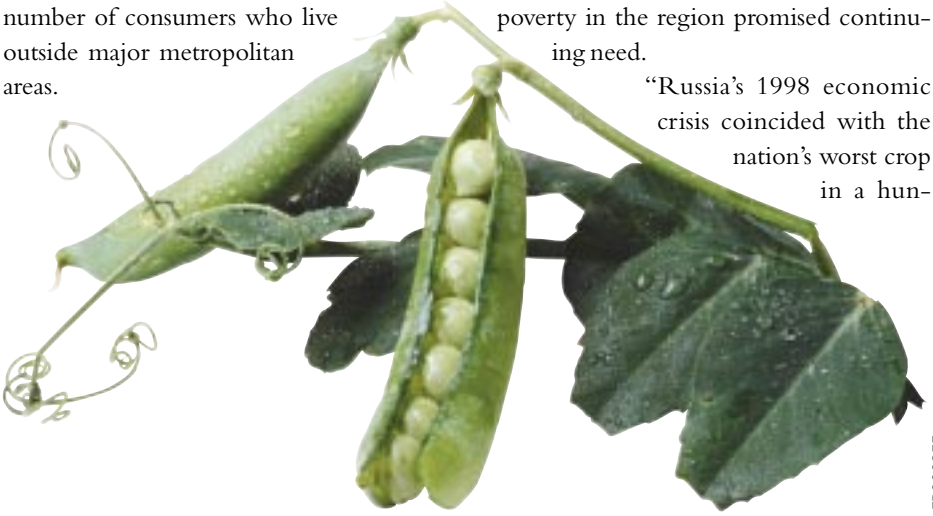
FAS Plants Russian Seeds for U.S. Export Opportunity

On Aug. 19, 1998, Russia went into a financial crisis. Banks collapsed and Russia's currency, the ruble, tumbled.

But now, many observers feel the situation is improving. Among them is Geoffrey W. Wiggin, FAS' Minister-Counselor at the U.S. embassy in Mosow. He notes that thanks to strong oil prices Russia's currency has stabilized and the nation is now seeing economic growth. Banks are working at reform. In fact, the country's credit-worthiness has recently been upgraded.

"As the economy has strengthened in the last year, Russia has enjoyed a certain new measure of stability. There have been increases in demand for agricultural products including imports, particularly U.S. poultry. This demand is largely centered in urban areas such as Moscow and St. Petersburg," said Wiggin.

But to achieve a larger recovery, he added, Russians will have to find ways to improve the economic status of the vast number of consumers who live outside major metropolitan areas.



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What Happened and Why

In large part, the collapse began when some banks strayed from their mission.

"For lack of a better term, they were engaged in a high-level pyramid scheme, and when the scheme collapsed other banks went under as well, taking the Russian economy with them," Wiggin said.

As a result, Russia's currency was devalued from about 6 rubles to the dollar to 28.

FAS Helps With Recovery

With the crisis swirling, how could U.S. exporters maintain a presence in Russia's turbulent market? Asif Chaudhry, FAS' Assistant to the General Sales Manager, developed a novel commodity assistance package. The plan involved food commodities for immediate needs following the crisis and feed grain, soybean meal and planting seeds for use as agricultural inputs.

Seed Aid Benefits Both Nations

In January 1999, the plan was implemented. The decision to provide seeds was a practical response to a problem: Russia's farmers lacked credit to buy any seeds–let alone those of quality. Furthermore, the poverty in the region promised continuing need.

"Russia's 1998 economic crisis coincided with the nation's worst crop in a hundred years," said Chaudhry. "In 1997, they harvested 87 million tons of grain; in 1998, the harvest was 47 million tons."

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After the Russian government asked the United States for assistance, Chaudhry and other FAS food aid analysts made dealing with tight food supplies their top priority.

"We had provided food aid, but part of the message behind seed aid was: 'Okay how will Russian fare next year if we give them only food for this year?'" said Chaudhry.

Both Wiggin and Chaudhry said that the seeds won't solve all the problems of Russia's credit-starved farmers. To thrive, they also need new machinery and other upgrades. But the seeds will help, and they have an added benefit for U.S. agriculture.

"Seed aid was also the right decision from the market development perspective," said Wiggin. "It provided us with an opportunity to see how U.S. seeds fared under Russian growing conditions. And they did great! The pea seeds we sent to Russia have completely outperformed domestic varieties. We heard of a cannery that ran out of cans because farmers produced so many peas from the seeds that we provided."

Since the 1999 crop year was also bad, the seed aid program was continued for a second year. The 2000 crop appears to be improved, however.

Why U.S. Investment in Russia?

While U.S. investment in Russia's recovery is valuable on a humanitarian level, it also benefits U.S. agriculture. When better times come, those seeds, with their high production quality, could be a popular choice with Russian farmers. But there are bigger, macroeconomic reasons for planting seeds for trade in Russia.

Before 1991, Russia had a centrally planned economy that was part of the larger Soviet Union system. Even though the nation is currently impoverished, with autonomy Russia became a market of 140 million citizens, a potentially large market for the future trade.

"If you look at Russia's per capita consumption of major critical commodities, such as meat, poultry, eggs and milk, you find it is extremely low by world standards," said Chaudhry. "This means Russia's market is one where exporters have a future if they take initiative."

What Russia Must Do

The rise in oil prices over the summer and fall of 2000 brought Russia an unexpected degree of stability. Natural resources like petroleum bring in more income to buy imported goods.

Wiggin and Chaudhry also foresee changes Russia could make that might help the country's agricultural industry recover and stimulate demand for U.S. goods.

"THEY DID GREAT! THE PEA SEEDS WE SENT TO RUSSIA HAVE COMPLETELY OUTPERFORMED DOMESTIC VARIETIES."

"The Russian government recognizes the importance of agriculture in its bid for meaningful economic growth," said Wiggin. "Unfortunately, there isn't a lot of investment money. They are looking for ways to encourage agricultural production."

A big problem, according to Wiggin, is breaking habits from the Communist past such as providing subsidies or supports on a non-economic basis to regional governments and producers with political connections.

There are specific policy reforms that Russia's parliament could undertake that would help agriculture, according to Chaudhry.

There are some regions, called *oblasts* in Russia, where steps have been taken to favor competition. If these changes could be replicated on a national scale, Russia's economy overall would improve.

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What Other Nations Could Do

While Russia can, and is, taking steps to reform its economy, it needs support from the rest of the world. One way to do this is through fair-minded trade policies.

European subsidies present special problems, not only for U.S. agriculture trying to make it in Russia's re-emerging market, but also for Russians as well.

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"Subsidized European pork poses a threat to our poultry imports," said Wiggin. "The price spread between pricier pork and cheaper chicken is key. If you use subsidies to shrink that gap between pork and chicken, you then find people will shift their consumption away from poultry."

The European subsidies hurt Russian producers. It is one thing for them to compete against unsubsidized competition, like U.S. poultry, but quite another to compete with subsidized product.

"We try to make sure the Russians don't confuse our wares, which are the result of efficient production, with European goods, which may be heavily subsidized," Wiggin said.

WTO and the Future of Russian Trade

Chaudhry and Wiggin both agree that another important trade issue for Russia is World Trade Organization membership.

"Membership would establish ground rules and clear conditions for products going into Russia," said Wiggin. "It will help traders to know just what Russia requires and that their trade and agribusiness policies are consistent with those of therest of the world."

WTO membership will be good for Russia, Wiggin said, because it is expected to help move resources into the hands of those best suited to use them and improve agricultural efficiency. It will also set limits on tariffs.

WHILE RUSSIA CAN, AND IS, TAKING STEPS TO REFORM ITS ECONOMY, IT NEEDS SUPPORT FROM THE REST OF THE WORLD.

Bringing major nations like China and Russia into the WTO helps all members thrive, since major international exceptions to the WTO make for confusion and increase the work–and worry–for all the members.

"Right now we have a range of plant protection practices as well as sanitary, phytosanitary and veterinary requirements for exporting to Russia that are more protectionist than based on sound science," said Chaudhry.

"When universal standards are based on agreed-upon science, it will really help bring Russia into harmony with the rest of the world, expanding their opportunities for trade–not to mention our own. ■

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Making the Most of Russia

How can small- and medium-sized businesses make the most of Russia in recovery?

- **Watch trends** like the increase in the import of ingredients. Russian importers may forgo buying finished products in favor of raw materials that can be processed at home, but ingredients are a bare necessity and suppliers in Russia may be unreliable.

  "Russia has a real sense of national pride, so there is a tendency for Russians to do it themselves, even to the point of inefficiency," Chaudhry said. "For example, to make domestic beer, they take away grain intended for livestock production. Beer-making may give grain added value, but at the price of other, more key agricultural priorities."

- **Luxury meats for high-end hotels are a good bet.**

  "Small-scale importers of commodities like grains are probably not going to have an advantage over large importers," said Wiggin. "But small companies might do well in value-added products such as high-quality beef for the restaurant trade."

  Because of the lack of credit available to Russian traders, they purchase beef in smaller quantities, often only a few containers at a time.

  Having the right contacts is essential, however, according to Wiggin.

- **Check the FAS home page regularly (www.fas.usda.gov)** The site has reports on commodities and certification requirements for shipping to Russia.

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U.S. Negotiating Proposal to the WTO Seeks Far-Reaching Agricultural Trade Reform

By Linda Habenstreit

On June 30, 2000, the United States presented its negotiating proposal for agriculture at a special session of the World Trade Organization's (WTO) Committee on Agriculture in Geneva, Switzerland. To learn more about the U.S. proposal,* AgExporter *talked to Patricia Sheikh, Deputy Administrator for International Trade Policy in USDA's Foreign Agricultural Service. This is what she told us.

AgExporter: Why did we submit a U.S. proposal?

Sheikh: We want to continue the agricultural reform process called for in the Uruguay Round. The United States will benefit economically from a more open, transparent and rules-based agricultural trade system.

The Uruguay Round was the first real attempt to bring agriculture into the world trading system. We still have a long way to go and much unfinished business to complete. We know we are not going to change agricultural trade over night, but it is in the best interests of American agriculture to continue the reform process.

Before we put this proposal on the table, however, we made sure that all groups with a stake in U.S. agricultural trade agreed with our approach. So we held listening sessions around the country to talk to farmers, ranchers, commodity groups, and others about their interests and concerns. We also consulted with members of Congress and our Agricultural Trade Advisory Committee and Agricultural Policy Advisory Committee to get their input on the proposal.

AgExporter: What are the key points of the proposal? What do we hope to achieve?

Sheikh: Our proposal is bold and comprehensive. It moves us beyond the Uruguay Round to accelerate world agricultural trade reform and create a level playing field for farmers and ranchers worldwide. The proposal provides the framework for reform in the key areas of market access, export competition and domestic support. Each of these areas is integral to an effective and meaningful trade reform package.

U.S. objectives include:

- reducing tariffs and increasing tariff-rate quota quantities;
- eliminating export subsidies;
- capping and simplifying domestic support;
- ending the monopoly privileges of import and export state-trading enterprises;
- increasing the reliability of the global food supply;
- providing special and differential treatment to developing countries; and
- allowing WTO members to engage in specific sectoral negotiations with one another.

AgExporter: How does the U.S. proposal deal with domestic farm programs?

Sheikh: Our proposal is innovative. It eliminates the green, amber and blue box system of classifying the domestic support that a country provides its farmers. In its place are two simple categories: exempt or non-exempt. If the support is exempt, it is not considered trade distorting and is not subject to limits. If the support is non-exempt, it is trade distorting and would be capped.

The proposal calls for countries to agree to a common, domestic support limit based on a fixed proportion of the total value of their agricultural production. Over a specific period of time, each country would be required to make equal annual cuts based on that limit. This process would correct the kind of disparities that occurred under the Uruguay Round, which mandated uniform cuts by all countries but still allowed those who started at a higher level to retain their advantage.

Our proposal also addresses market access issues related to the products of new technology, including biotechnology. We think that the product approval process should be clear, predictable and based on sound science, not on fear or unsubstantiated claims.

AgExporter: Does this proposal cover all agricultural commodities?

Sheikh: Yes it does. To put forth a credible proposal, the United States must put everything on the table. If we had excluded specific commodities from the proposal, then other WTO members could have done the same. You can picture how negotiations could quickly go down hill in a case like that.

AgExporter: Will this proposal limit flexibility in developing new U.S. farm legislation?

Sheikh: No. To the contrary, we think it will give the Congress more flexibility. With only two categories of domestic support–exempt and non-exempt–Congress can design programs that fit into either category. The proposal will give voice to new

issues that do not fit into the old framework; for example, using agricultural commodities to create new technologies, like biomass. This was not an issue in the Uruguay Round, but it is now. This proposal will give governments the flexibility to classify sustainable agriculture and resource conservation programs under the exempt support category.

AgExporter: Will this proposal benefit U.S. agriculture?

Sheikh: We think it will. As we traveled around the country, farmers, ranchers, trade associations and commodity groups told us that other countries' import barriers, like high tariffs, and trade-distorting programs, like export subsidies and domestic supports, were hurting their ability to compete in the global marketplace. This proposal will help us reduce disparities so our agricultural products have a better chance of penetrating new markets and holding on to existing ones.

AgExporter: This proposal addresses the needs of developing countries. How does it do that?

Sheikh: First of all, developing and least developed countries represent more than 70 percent of the WTO's membership. Since the WTO makes decisions by consensus, it behooves us to more thoroughly consider the needs of developing countries in this negotiation. Another equally important reason is that we want to see these countries become more fully integrated into the WTO process. We want to have meaningful discussions with them rather than appear to dictate what they should be doing. We want a full and open dialog.

For example, in 1999 a group of 11 developing countries submitted a paper

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describing their needs for domestic support. It conveyed a perception that was quite different from our proposal on domestic support. Since then, we have been talking with these countries to see if we can reach some common understanding as to how to address their needs. We want to work together to accommodate their interests as well as our own.

Of course, we continue to give targeted technical assistance on a bilateral basis to help developing countries integrate into the world economy. U.S. officials have traveled to developing countries or government officials from these countries have come here to discuss various concerns, like sanitary/phytosanitary measures or the workings of the WTO.

We are also concerned that least-developed countries are not well represented in the global marketplace. They need equal access to the world trading system and we want to make sure they have a say in how they do it.

***AgExporter:* How is this proposal different from the Seattle Ministerial proposal?**

Sheikh: The structure of our current proposal is very much in line with our Seattle proposal, but it goes further. It proposes two categories of domestic support instead of the current three. It further refines market access and domestic support by dealing with the whole issue of disparities. It requests special consideration for least developed and developing countries to make sure that any agreement we reach appropriately addresses their circumstances.

***AgExporter:* How did it benefit the United States to submit its proposal to the WTO Committee on Agriculture last June?**

Sheikh: Ours was the first comprehen-

Deciphering Trade Jargon

The following glossary is a brief guide to some of the agricultural trade terms and concepts used in this interview.

Agricultural Trade Advisory Committee and Agricultural Policy Advisory Committee. These Committees, established in 1974 by Congress, ensure that U.S. trade policy and trade negotiation objectives adequately reflect U.S. commercial and economic interests. Members come from the private sector and must be recognized leaders in their field. The committees provide the Secretary of Agriculture and the U.S. Trade Representative with information and advice on negotiating objectives, bargaining positions and other matters related to the development, implementation and administration of U.S. agricultural trade policy.

Boxes.

- **Amber box policies.** Describes the domestic support policies presumed to have the greatest potential effects on production and trade. Examples of these policies in the United States include market price supports, marketing loans and deficiency payments and storage payments.
- **Blue box policies.** Exempts from reduction commitments payments from production-limiting programs, such as diversion payments on set-aside land.
- **Green box policies.** Describes domestic support policies that are not subject to reduction commitments under the Uruguay Round Agreement on Agriculture (URAA). These policies are assumed to affect trade minimally, and include policies related to such activities as research, extension, food security stocks, disaster payments, the environment and structural adjustment programs.

Built-in agenda. Under the URAA, negotiations on further reform in agriculture and services were mandated to begin by 2000 even without the start of a new round of trade talks.

Cairns Group. An informal association of 15 agricultural exporting countries, formed in 1986 at Cairns, Australia. Members are Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

Export subsidies. Special incentives, such as cash payments, extended by governments to encourage increased foreign sales; often used when a nation's domestic price for a good is artificially raised above world market prices.

Market access. The extent to which a country permits imports. A variety of tariff and nontariff trade barriers can be used to limit the entry of foreign products.

Sanitary and phytosanitary (SPS) measures. Technical barriers designed for the protection of human health or the control of animal and plant pests and diseases. Under the URAA on the Application of Sanitary and Phytosanitary (SPS) Measures, WTO member countries agreed to base any SPS measures on an assessment of risks posed by the import in question and to use scientific methods in assessing the risk.

Seattle Ministerial. The third ministerial of the WTO held in Seattle, Washington, from Nov. 30-Dec. 3, 1999. It was hoped that a new round of trade negotiations would be launched at this ministerial, but trade ministers from WTO member countries could not reach consensus on issues to be addressed and the talks were suspended. However, work on agriculture and services began in Jan. 2000 as part of the built-in agenda mandated by the URAA.

sive proposal to be submitted. We set the debate, if you will. Although other countries or groups, like the Cairns Group and the European Union, have since submitted proposals on specific issues, we put down the marker and defined the parameters.

AgExporter: When might negotiations be completed?

Sheikh: Negotiations started in earnest this year. We hope they will be completed by 2003. The reasons are twofold. Countries are not introducing new concepts into the WTO framework, only elaborating on those already in place. Also the final reduction commitments that WTO developed-country members agreed to in the Uruguay Round will have been reached by 2001. Developing-country members will reach their final reduction commitment levels by 2004. ■

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OS42019

Special and differential treatment. A principle allowing developing countries to have lesser reduction commitments than developed countries. In the Uruguay Round, disciplines applying to developing and least-developed countries were less stringent than those applying to developed countries.

State-trading. The practice of conducting trade exclusively through a government agency. Centrally planned economy countries follow this practice for all products, while many other nations, particularly developing countries, use state trading for commodities of critical economic importance, like grains.

Tariff. A tax imposed on imports by a government. A tariff may be either a fixed charge per unit of product imported (specific tariff) or a fixed percentage of value (*ad valorem* tariff).

Tariff-rate quota (TRQ). Application of a higher tariff rate to imported goods after a certain quantitative limit (quota) has been reached. A lower tariff rate applies to any imports below the quota amount.

Uruguay Round. The eighth round of negotiations under the General Agreement on Tariffs and Trade (GATT). The Uruguay Round began in 1986 in Punta del Este, Uruguay (for which the round was named), and ended in 1995 with the official signing of the agreement in Marrakech, Morocco.

World Trade Organization (WTO). Established on Jan. 1, 1995, as a result of the Uruguay Round, the WTO replaced the GATT as the legal and institutional foundation of the multilateral trading system of member countries. It sets forth the principal contractual obligations determining how governments frame and implement domestic trade legislation and regulations. And it is the platform on which trade relations among countries evolve through collective debate, negotiation and adjudication.

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AgLink: Small Businesses' Connection to Emerging Markets

By Brian Guse and Patricia Jehle

The sale was finalized on April 12, 2000. It totaled over $1 million. The company was small–six employees, including the president and vice president. They were exporting to Morocco, a developing country.

It was not the first time American Pulp and Paper Corporation of Redmond, Wash., had made a million-dollar sale to Morocco. An impossible dream? No, thanks to the company's skilled marketer and a little-known FAS program called AgLink.

"I would say AgLink was the primary reason we were able to expand our market into Northern Africa," said Nicole Benchekroune, export sales manager for American Pulp and Paper Corporation. "I would love to see it expanded to more developing countries in Africa–it would be a great service for exporters and the countries seeking to import U.S. products."

As it turns out, Worldwide AgLink, a separate program from AgLink Morocco, *will* be expanding. Worldwide AgLink was originally a program focused on countries of the former Soviet Union, but was expanded in April 2000 to include other countries such as China, Mexico, and South Africa. Worldwide AgLink is funded through FAS' Emerging Markets Program.

AgLink Morocco will conclude on Dec. 31, 2001. But Benchekroune will still be able to rely on FAS' agricultural outreach and promotion efforts. Agency staff, at the U.S. Embassy in Rabat, provide excellent service to Benchekroune to help her maintain a presence there. AgLink Morocco was a complement to the embassy's already extensive services.

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What Is AgLink?

Many managers at small- to medium-sized companies aspire to export their products. The problem is they may lack the confidence–or capital–to make it happen.

AgLink is an FAS program designed to bridge these gaps in money or moxie, thereby enhancing trade. Through AgLink, U.S. managers can get money for travel as well as a living stipend while looking for opportunities overseas. They can also get help with visa applications.

In addition to AgLink Morocco assistance, Benchekroune received the help of FAS Embassy staff. Former agricultural attache Quintin Gray escorted her on visits with companies, helping make access easer. This allowed Benchekroune to find new oopportunities when U.S. sanctions in Iran and Iraq made doing business there no longer an option.

"I had a background and expertise in working with French businesses, so North Africa seemed like a good choice. Moreover, the company already had active sales in Algeria," she said. "AgLink paid for plane fares and hotel stays for one of our team members, buying time for us to make contacts."

American Pulp and Paper Corporation sells wood pulp and fluff for hygiene products such as tissues and diapers. When they visited Morocco for the first time, they alerted Gray of their intentions and he forwarded specifics to Patricia Jehle, AgLink Morocco's coordinator, who helped the firm apply.

Through AgLink, and the help of FAS Rabat, the company noted a big difference in how it was received by Moroccan importers.

"Initially, many of the companies we contacted didn't reply, but when we were identified as a U.S. company working with USDA, they were much more eager to give us an appointment," Benchekroune said. "After showing them what we have to offer, they asked us, 'Why didn't you visit us sooner?' They were delighted to have a product that was high quality and price competitive with suppliers in Europe."

Twice, Benchekroune and a partner traveled to Morocco thanks to help from AgLink. She feels that having the two trips helped to seal strong business ties.

"In Morocco they want to look you in the eye and feel they trust you," Benchekroune said. "That's why we so appreciated AgLink Morocco's willingness to help us not once, but twice. "It's even more important when you consider that our competition in Europe can get on the plane and be in Morocco in two hours."

THROUGH AGLINK, U.S. MANAGERS CAN GET MONEY FOR TRAVEL AS WELL AS A LIVING STIPEND WHILE LOOKING FOR OPPORTUNITIES OVERSEAS.

Apply On-Line

Any small- to medium-sized business can apply to AgLink. Applications are accepted year-round and are evaluated by USDA international affairs specialists. Detailed application guidelines are on-line: *www.fas.usda.gov/icd/grants/progdes.html*

AgLink How Does It Work?

One of AgLink's best traits may be its adaptability. FAS international affairs specialists work with managers to design an overseas exchange program that best suits their needs.

U.S. managers also have the option of choosing a business manager in their target country for up to two-months of on-the-job business training in the United States. The U.S. company can even hold management seminars or training in its new market overseas.

Thomas Wilbur, of Thomas International, a food product supplier in Seattle, Wash., found that AgLink's flexibility works to his advantage.

Knowing his apples, cherries and barley would do well in the former Soviet Union, Wilbur narrowed the list of importers he wanted to work with down to two. AgLink sponsored a U.S. visit for one of them.

There was a bonus in the arrangement for the overseas importer. The Russian businessman learned how the produce industry works in the United States and how it could work for him as a supplier.

The key is to scope out each unique situation, then work with FAS staff to create a winning plan.

AgLink: Diversity in Products

AgLink is open to any small- to medium-sized agribusiness whether it sells wood products, produce or even plants.

For example, several Marrakech table grape growers have purchased the rights to grow a high-yielding early-season grape variety owned by Sun World International Inc. in Bakersfield, Calif. In addition, Moroccan nurseries will be licensing rights to grow and distribute grapevines. The deal could be worth $1-2 million.

The California company also licensed one Moroccan nursery, Agriga Maroc, to produce new grapevines for them.

At the beginning of the deal, though, things were dicey. While the company had received requests from growers, a fear of patent infringement and a lack of knowledge about Morocco's fruit industry held them back. AgLink helped the company with market contacts and carefully tracked Morocco's legislation on intellectual property legislation, so they could feel confident about exporting. Only then did Sun World proceed.

Which Countries Are AgLink Eligible?

All emerging-market countries such as China, Mexico, Poland, Russia and South Africa can participate. Basically, these are countries that are taking steps toward market-oriented economies through improvements to food, agriculture or rural business sectors. They must also show the potential to provide a viable and significant market for U.S. commodities or agricultural products.

In addition to these requirements, USDA uses two rather specific criteria. First, per capita income must be less than $9,360. Second, population must exceed 1 million. However, that number may encompass regional groupings such as the Caribbean Basin nations.

FAS INTERNATIONAL AFFAIRS SPECIALISTS WORK WITH MANAGERS TO DESIGN AN OVERSEAS EXCHANGE PROGRAM THAT BEST SUITS THEIR NEEDS.

A Final Writing Assignment

Feedback is an essential part of AgLink. At each stage of the exchange, the U.S. company must evaluate the program and activities that AgLink supported. The company must submit a final report six months after the completion of the Worldwide AgLink project. ■

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Write a Winning AgLink Proposal

- Describe your agribusiness. Tell about its history, size, area of emphasis, major customers and target markets, resources and previous overseas work.
- Provide a statement of what your company hopes to achieve through AgLink. Specifically, what joint activity do you see your company developing with your counterpart overseas?
- Do you have contacts already in mind, or do you intend to develop them while in the country?

For a visiting overseas manager:

- Provide the name and position of the staff person who will coordinate the activities of the visiting manager, develop the training plan and arrange housing.

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Austria's Young Consumers Want Fun, Functional Foods

By Walter Krucsay

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Consumers will no longer settle for bland, boring health foods. They want bright colors, fascinating flavors and nothing ordinary. Nowhere is this more the case than in Austria, where young people drive the demand for functional foods. In fact, health foods and related products may soon make up a full 20 percent of the country's entire food market.

"Austria has the twelfth-highest per capita income in the world, and that's one reason functional foods are gaining ground," said Allan Mustard, deputy chief of FAS' attache services for international support. Mustard recently returned to Washington, D.C. after serving as agricultural counselor at the U.S. Embassy in Vienna. "People buy basic foods when their income is limited; when they have more, they want special foods."

U.S. exporters, however, will need creativity as well as taste to please this crowd.

Make It Special, Make It Just for Me

Austria produces most of its food domestically, and a majority of its imports come from nearby, purchased from fellow members of the European Union (EU). So what can a U.S. exporter sell? In a word: variety.

When Austrians travel to the United States, they're impressed by a vast choice of foods and wish they had as many options in so many flavors, textures and combinations at home. This suggests that if a U.S. exporter wants to sell to an Austrian importer, the firm should consider what flavors might surprise or intrigue consumers in this region.

For example, "organically produced" breakfast cereals have been losing market share, while fitness cereals with flavors such as banana-chocolate or strawberry are gaining ground.

Ask yourself, what makes your item different? Austria is, for the most part, a saturated market for food, so niche products have the best chance.

Health products that target a particular demographic group have made inroads in the United States–they might also do well in Austria. Drinks to fortify seniors' diets or iron-fortified and soybean-based foods to improve women's health are just a few novel U.S. ideas that could catch an Austrian importer's attention. In addition, consumers like the idea that a product is made just for them.

Make It Portable, Make It Flavorful

Many other U.S. products could fit into Austria's health-conscious culture with the right marketing. This is particularly true for foods that can be enjoyed during sports and outdoor activities.

"People in Austria are, in general, outdoor-oriented; the national sports are skiing in the winter and mountain climbing in the summer. What really sells in grocery stores–and everywhere else–is trail mix. They call it "student feed" and take it with them on their hikes, climbs and ski trips," said Mustard. "While they do already eat U.S.-style energy bars, that is by no means a saturated market."

Mustard said that because many Austrians would think nothing of a day hike requiring a 10,000-foot climb, portable high-energy nutrition products such as those fortified, high-calorie food bars from the United States could do very well.

Healthy Revolution Fueled by Young

Health-conscious Austrian consumers looking for low-fat, nutritional products represent a more recent consumer trend.

"America in the 1940s was still pretty much agrarian, and people ate high-energy foods because doing farm labor demanded calories. Things changed when people moved to the cities and took desk jobs," said Mustard. "Today in Austria, you see the younger, urban consumers realizing that the high-fat, high-cholesterol foods their grandfathers and fathers ate may not work for them."

Thanks to this generational dietary change, there is some evidence that omega-3 fatty-acid foods will become popular, thanks to an association with blood-vessel and cardiac health. If the trend takes off, it will be because consumers in their 20s and early 30s have decided that dietary changes are a must in their lives. And if that happens, U.S. fat substitutes–not to mention products made with them–could also do very well.

Making Fruit and Juices Fun

According to a poll of Austrian consumers, the product groups most associated with health were cold drinks and dairy products. Because Austria is a member of the EU, juice may be a better bet than regulation-encumbered dairy products. But again, creativity counts.

As with grocers in the United States, juices with blended and surprising flavors–such as strawberry, banana or mango–make the grade. So do products packing a vitamin punch such as added calcium or a special combination of the vitamins A, B and C.

So Refreshing, So Functional

The market for functional health beverages extends beyond juices. Health drinks have been very well received, especially by Austria's younger consumers.

Green tea is also catching on and finding a rising demand. Mineral waters, particularly non-carbonated ones, are also grabbing market share.

For warm drinks, chocolate-malt flavored, vitamin-fortified products do better than herbal teas.

Finding a Distributor

While some U.S. distributors work exclusively with functional foods, you can forget about such specialization in Austria.

What the country does have is five or six leading supermarket chains and a constellation of small health-food stores. The health-food stores work exclusively through importers and wholesalers. The superstore power players can use these middle men, but also rely on their own buyers.

Once a U.S. exporter gets a product established in one of the powerful supermarket chains, it is almost guaranteed a standing presence. In Austria, most health-food products are sold in the large supermarket chains: Billa, Spar, Hofer, Adeg, ZEV and Löwa.

Watch Those Labels

U.S. exporters must take time to read–and edit–the label of the health food products before shipping to Austria. The government forbids ambiguous label claims such as "health drink" or "the healthy plus." Also not allowed are health-related claims such as "prevents heart attacks."

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Some exceptions are possible. There are claims which can be made if the exporter gets permission. An example would be, "omega-3 fatty acids have a positive effect on fat metabolism."

General information such as "wholesome" or "cholesterol-free" does not require permits. If an exporter has any questions, call FAS' office at the U.S. Embassy in Austria before printing labels.

One more note of caution, from Mustard. As a member of the European Union, Austria applies EU labeling regulations, which are detailed in an FAS GAIN report. Exporters should look up *GAIN: BE0010, Food and Agricultural Import Regulations and Standards* and understand it well before shipping. It's available on-line at **http://www.fas.usda.gov/country.html,** and from there, you can check out market reports for more details. ■

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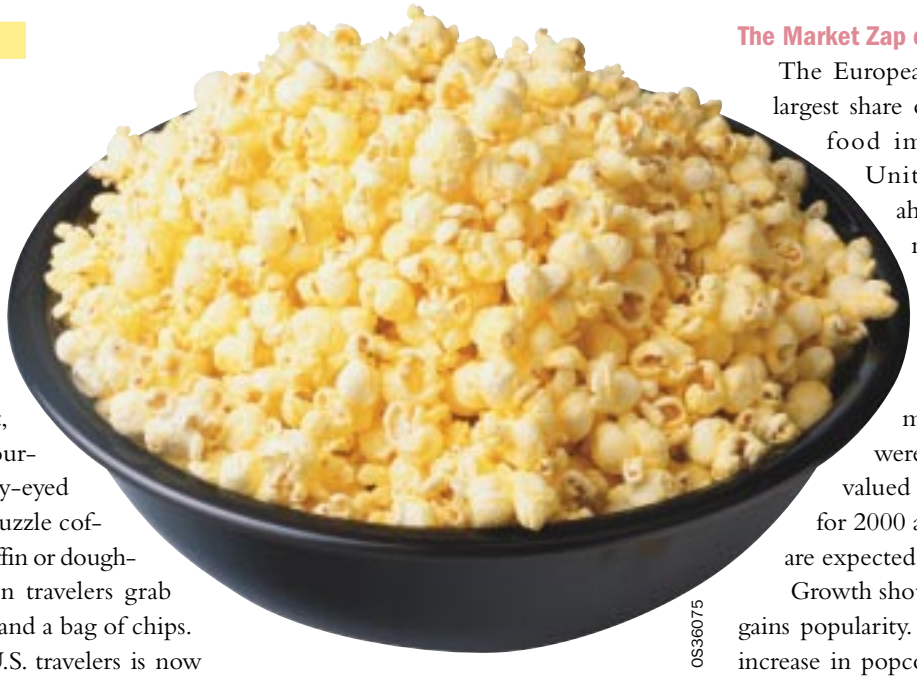
Czechs on the Run Break for U.S. Snack Foods



By Petra Chotêborská

It's almost a reflex in the United States– an outgrowth of our love affair with the automobile. Go to the gas mart, fill up the tank, fuel yourself with a snack. Bleary-eyed morning commuters guzzle coffee and indulge in a muffin or doughnut. Harried afternoon travelers grab caffeinated soft drinks and a bag of chips.

What works for U.S. travelers is now becoming an option in the Czech Republic. Modernization there should increase the export market for U.S. snack foods.

In 1992, the United States sold no candy, popcorn, chewing gum or nuts to the Czech Republic. Now these products are regularly traded and a few have caught on and are doing quite well.

Communism's end marked the birth of the perfect market conditions for convenience shopping in the Czech Republic. Wealthier and busier consumers began lining up at 24-hour supermarkets and convenience stores that are now part of the landscape in urban and rural neighborhoods. Gas station food marts, which didn't even exist prior to 1989, now fit in perfectly with the Czech consumer's busy new lifestyle.

Czechs' Mix: The Snacks They Crave

Overall, the sales of U.S. snack foods to the Czech Republic increased 67 percent in the first five months of 2000. The big sellers are candy, sales of which increased 11 percent, and salted nuts, which went from no sales in 1999 to $66,000 in the first five months of 2000.

Popcorn, however, was the most explosive U.S. export, with $258,000 in sales, an 80-percent increase over the same five months of 1999. That excludes sales of microwaveable popcorn, a hot item in its own right.

Another fixture of U.S. culture, the cinema multiplex, has found a home in the Czech Republic, adding its fuel to the fire under popcorn demand. The multiplex movie theaters opening up in the Czech Republic sell a wide variety of flavored popcorn: everything from ham and pizza flavored to plain old butter.

There may even be room for more U.S. products, since potato chips and chocolate bars are among the leading snacks in the Czech Republic. The United States didn't sell any chips there in 1999 or 2000; chocolate and corn chips have been sold, but exports have been infrequent.

The Market Zap of Microwave Popcorn

The European Union may have the largest share of the Czech Republic's food import market, but the United States has jumped ahead of others in sales of microwaveable popcorn.

In fact, it was a U.S. company that first introduced the product in 1998. A year later, sales of microwaveable popcorn were about 100 metric tons, valued at $250,000. Market data for 2000 are not yet published, but are expected to be equally as strong.

Growth should continue as the snack gains popularity. The overall year-to-year increase in popcorn consumption is estimated to be about 30 percent. And Czech imports of snack foods have grown from almost none in 1990 to $122 million in 1999. These are numbers U.S. exporters can really sink their teeth into! ■

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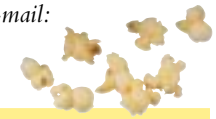

SNACKEX 2001 in Prague This Year!

The Snack Food Association (SFA), the Alexandria, Va.-based association for snack food producers in the United States and worldwide, invites participation in SNACKEX 2001, the European Snacks Association's ninth annual Exhibition & Conference to be held in Prague, Czech Republic, June 24-26, 2001. The theme of the event is "East Meets West". For more information, call SFA at (703) 836-4500.

Natural Beauty: Cosmetic Products Create Agri-Business

By Jill Lee

The first perfumes and cosmetics were not from any factory. Ancient stone mortars pounded berries, flowers and shrubs into pastes for protecting the skin or coloring it. The daily grind also provided potions to help people and their property smell a little better or keep pests at bay.

The world is more sophisticated these days but plants still provide many softeners and scents. Some of them are native to North America–and a few are highly successful U.S. exports.

When it comes to fragrances, the United States is not a strong exporter; "flavor oils" are the U.S. claim to fame. But the export market for certain fragrance oils is growing. Moreover, because these products are so concentrated, a small increase in volume can mean big gains in profits.

Jojoba: U.S. Exporters' Golden Crown

Jojoba is a native plant that grows in the Arizona desert and Mexico. About 90 percent of the jojoba grown in the United States is exported, mainly to cosmetic companies in France, Switzerland and Japan.

The humble brown bean produces an oil that, when refined to creamy whiteness, is a superior beauty product, according to cosmeticians. Jojoba's moisturizing ingredients are similar to those found in human skin.

Between 1999 and 2000 total U.S. exports of jojoba doubled from $5 to $10 million. Depending on world demand and product quality, an ounce of jojoba can cost anywhere from $5 to $25.

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At present, there are only about 40 jojoba growers in the United States. Their main competition is Israel, Mexico and Argentina.

A Scent of a Growing Industry

While the United States is a net importer of scented oils, this industry also has a few shining export stars. Jasmine and lavender oil exports increased between 1998 and 1999, mostly sold to Britain and Canada.

Canada bought nearly $230,000 worth of U.S. jasmine oil in 1999, 37 times more than it purchased the year before. The United Kingdompurchased almost $20,000 worth, more than double the previous year.

For U.S. lavender oil, Canada doubled its imports from the United States, from over 15,000 kilograms in 1998 to over 31,000 in 1999. The total dollar value increased by $232,429.

Among other essential oils for fragrance, such as bergamot, vetiver and geranium, the value was generally down. There were, however, a few bright spots. The United Kingdom purchased more geranium oil from the United States–up by more than 11,000 kilograms and $71,000 between 1998 and 1999.

Market Forces for Essential Oils

Concentration is the name of the game in this industry. For example, Colombia purchased 200 kilograms of lavender oil worth almost $4,000 in 1998. U.S. lavender oil exporters earned more than $6,000 a year later. Even so, the total volume sold was only one kilogram. In this industry, purity and refinement pay big dividends.

In fact, this is one of the tricky factors that make it tough to measure export growth in essential oils. When sales go up it doesn't necessarily mean that consumers are wearing more perfume or–in the case of flavored oils–buying more mint toothpaste. Increased sales can be a reflection of purity, a competitor's crop loss or a change in price.

Another interesting aspect of this market is the role that developing nations play. Purchases are small, but growing. The Oceanic nations, which include the Pacific Islands, imported almost $10 million in U.S. essential oils in 1996. They imported $15 million worth in 1999. Similar steady growth has been seen in the Middle East, North Africa, and South Asian nations such as India, Pakistan and Bangladesh.

Meanwhile, the strong, established markets have shown growth as well. The exception is in Asia. Sales to such markets as Japan and Taiwan dipped to $101 million in 1999, from $237 million in imports in 1996, reflecting the Asian economic crisis.

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The Healing Touch of Aloe Vera

It's no secret that aloe vera, grown in southern Texas, can protect skin and soothe certain burns. The plant is also used as a nutritional supplement.

The export market for aloe vera is estimated to be somewhere in the hundreds of millions–and is expected to approach the billion-dollar mark soon. Pinning a number down can be hard because of aloe vera's many uses. The plant's juice can be drunk as a dietary supplement or its extract can be used as a medical supply. Some products containing aloe vera are listed in separate, non-agricultural categories. That means sales figures are currently estimates at best.

Only a few U.S. aloe vera producers export directly overseas; most sell to wholesalers. There are, however, exceptions.

You could find the product throughout the world as ingredients in everything from sunscreen to products that help heal skin burns after radiation therapy. ■

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Making a Mint of Money: Essential Oils' Export Success

By Jill Lee

Growers in the Pacific Northwest find themselves awash in green–breezy emerald fields of spearmint and peppermint that can be converted into export dollars.

U.S. essential oil exports totaled more than $530 million in 1999, up slightly from the year before. The single largest seller, not counting blended products, is peppermint oil. The runner-up is orange oil.

Who Buys the Mint?

The essential oils of mint can flavor anything from toothpaste to cookies. Canada is the largest market for U.S. essential oils–the value of sales there grew by 21 percent in 1999. While that market is respectable, it is not the fastest growing.

Canada purchased only about $75,000 more peppermint oil in 1999 than it did in 1998. During the same timeframe, however, China's purchases jumped from $1.2 million to $5.5 million, more than a fourfold increase.

Lebanon increased peppermint oil purchases from the United States to roughly $250,000 in 1999, almost doubling 1998 sales. Peru also showed sharp growth, with U.S. sales totaling more than $18,000 in 1998, but more than $300,000 worth in 1999.

For spearmint oil, the top customers were France, Mexico and the United Kingdom.

Other Winning Oils

One positive sign was the growth in cedarwood, clove and nutmeg oils. The value of exports grew by 44 percent, from $3.7 to $5.3 million. Belgium-Luxembourg boosted U.S. exports by purchasing more than $200,000 worth of these oils in 1999–three times the sales of the year before.

The United Kingdom remains the United States' strongest customer, lapping up $3.7 million in oils. Sales to the United Kingdom account for almost 70 percent of U.S. total sales for 1999.

Orange oil exports increased by less than 3 percent in 1999. Still, at $20.7 million, this category's exports outpaced sales of nutmeg and clove oils, while other citrus oils such as lemon or lime lost ground.

Predictably, this market is mainly one of developed nations. At $5.7 million, the Netherlands was the leading customer for U.S. orange oils. Japan came in second at $4 million. Switzerland, Ireland and the United Kingdom were also million-dollar markets for citrus oils.

Power Combinations Dominate

While pure essential oils have their market, there is yet another subcategory of essential oils that outsells them all. "Mixtures of odoriferous," an awkward term referring to pleasant combinations of plant oils used in foods or drinks, are the potions of power in this commodity. Think of them as the perfume of the culinary world, for they give foods distinctive scents and flavors, making them more appetizing. Their total sales for 1999: over $270 million, up slightly from $257 million the year before. That is more than the $228 million sold for the "single-note" U.S. essential oils combined. ■

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Trade Notes...

Disneyland Paris a Showcase for American Food Products

With more than 12 million visitors a year–40 percent French and 60 percent Europeans—Disneyland Paris is a prime spot to showcase American food products carrying the image of the United States to France. Disneyland Paris buys 80,000 bottles of U.S. wines–mostly from California–and a wide range of U.S. food products, most of them through importers and distributors in Belgium, the Netherlands and Germany. The only product that the theme park imports directly from the United States is flavored popcorn. Disneyland Paris carries U.S. state menu promotions, usually in April and September.

Oman Becomes the 139th WTO Member

In November 2000, the Sultanate of Oman officially became the 139th Member of the World Trade Organization. U.S. exports of agricultural products to Oman are led by corn, barley and soybean oil, which accounted for more than one-third of the roughly $18 million in U.S. agricultural exports to Oman in 1999.

World Health Organization of Japan Links up with ATO/ Osaka to Promote Health Foods

The 3rd annual Hello Life Fair, organized by the Japan Association of the World Health Organization and the Kobe International Tourism and Convention Association, took place in October at the Kobe Convention Center. ATO/Osaka, occupying a booth at the show's entrance, promoted various organic foods, dried fruits, citrus, cranberry and other products with support from importers and FAS Cooperators. Attended by over 10,000 people, the fair promotes health- oriented foods, equipment, health care products and good health practices.

USDA and the U.S. Export-Import Bank Brief Bankers and Buyers in Nigeria

Last October, USDA officials accompanied the U.S. Export-Import Bank to Nigeria where they conducted seminars on export credit programs. In Lagos and Abuja, USDA and the U.S. Export-Import Bank met with 800 Nigerian buyers and bankers who expressed keen interest in how USDA and U.S. Export-Import Bank programs can increase business between Nigeria and the United States.

Sales at SIAL 2000 on Pace to Break Record

With responses in from just half of the show exhibitors, participants so far project sales within coming months at $30 million from the International Food Show (SIAL 2000) held in Paris last October. This compares with $37 million in 1998 for all exhibitors, and bodes well for setting a sales record.

The USA Pavilion at SIAL 2000 was the largest ever held with more than 140 exhibitors featuring a wide variety of products on 2,718 square meters, a 25-percent increase in exhibit space over 1998. In addition, about 13 companies representing the dairy, livestock and poultry sectors exhibited in a separate hall where meat products were featured.

The National Association for Specialty Food Trade (NASFT) had its first stand at SIAL sponsored by a group of its members. Other regions and States represented included Western United States Agricultural Trade Association, Food Export-USA-Northeast, California, Pennsylvania, Illinois, Louisiana, Ohio, Georgia, Wisconsin and Florida.

Also for the first time the U.S. Pavilion featured "The American Culinary Theater," cosponsored by the State regional trade associations, at which recognized American chefs showed off their cooking ability. Every day, the live culinary theater featured dishes made from rice, beans, nuts, honey, beef, pork, cooking sprays, grill sauces and other products offered by exhibitors in the pavilion.

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