Possible Effects of Changes in Funding for US Wheat Associates

The National Wheat Foundation asked US Wheat Associates for an assessment of how the export market development efforts for US wheat would be affected by a decline in financial support and what more could be accomplished if financial support increased.

US Wheat Associates (USW) is funded cooperatively by member state wheat organizations and by the Market Access Program (MAP) and Foreign Market Development Program (FMD) administered by USDA's Foreign Agricultural Service. While state support has grown modestly in the last five years, USDA funds for USW under the two programs (MAP and FMD, respectively) have declined by about the same dollar amount in that time. Thus, core support for USW has remained essentially unchanged even as costs for airfare, hotels, offices and staff, the costs for running an international promotion program for US wheat, have all risen. Moreover, USDA support has been increasingly uncertain, reduced by sequestration, delayed by Congressional inaction on the Farm Bill and appropriations, and challenged at every opportunity by those in Congress who do not support funding these programs. This paper will explore the potential effects of changes in funding for USW and how USW might respond to those changes.

Market Development Efforts for US Wheat

USW operates a worldwide export promotion program for all classes of US-grown wheat, which competes in a diverse and highly competitive international market. Wheat is the world's most widely grown crop and is consumed everywhere, and most countries need to import wheat at one time or another. Wheat has the largest share of the world trade of all grains. There are eleven countries plus the EU which routinely export a million tons or more of wheat each year, a larger number of major competitors than found for any other high volume agricultural commodity. USW has knowledgeable staff and resources available to work with all of the world's wheat buyers, both those who are in the market regularly and those who may need to import infrequently, and thus is well organized to maximize the opportunities for US wheat exports.

USW's task is to help US wheat compete effectively in the crowded world wheat market and to maximize the profitability of US wheat producers. To achieve this USW operates a comprehensive program incorporating information and advice for buyers and processors, efforts to optimize the benefits of trade agreements for US wheat producers and to remove technical barriers to US wheat exports, and consumer promotion efforts in a few select markets.

Existing funding allows USW to make contact with current and potential importers in all countries. Privatization that happened mainly in the 1990's means that most wheat today is privately imported by large numbers of buyers, many of whom are also processors, rather than the few government buyers that dominated in earlier years. The information USW brings to buyers and processors helps to distinguish the unique processing qualities of US wheat from those of other suppliers so that buyers can appreciate why there is value in buying from the US. USW helps buyers understand the integrity and reliability of the US marketing and grain handling systems. USW also helps buyers purchase effectively so that the wheat they receive meets their processing needs. New companies appearing and staff changes among established buyers mean educational efforts with decision makers are always needed.

USW has the technical expertise to work with millers and processors to help them introduce new products or optimize the production and quality of products currently being produced. Using technical staff, temporary consultants, and training facilities in the US and overseas, USW is able to supply expertise and training relevant to virtually the entire spectrum of wheat food products. When needed, USW is able to help buyers resolve processing issues or identify how to avoid encountering the same issue again.

USW staff monitor on-going trade negotiations and provide expert advice to US negotiators on issues that may affect US wheat exports. Staff also monitor the implementation of existing agreements and work with USDA and USTR to see that wheat-related provisions function as expected. USW staff work with USDA officials to remove or moderate phytosanitary or food safety restrictions that limit US wheat exports into a specific markets.

The Impact of Market Development Efforts

The overall effects of USW efforts are that buyers can recognize that US wheat has higher value and may be worth more than wheat from competing origins and that trade barriers are being minimized. Thus USW has helped to develop a large core group of customers, especially in Asia, Latin America, Europe and Nigeria, who are willing to pay more for US wheat. The two most exported US wheat classes, HRW and HRS, are also quite often the most expensive wheat in the world (after durum), reflecting that buyers of these classes recognize their value. Purely price buyers, such as the Egyptian government, buy cheaper wheat whenever it is available and often are not regular US wheat buyers. However, maintaining premium US wheat prices means that when cheaper supplies are not available, even price buyers come to the US and sales to them are made at high average prices. USW marketing programs focus on the first group but do not ignore the latter.

Econometric analysis done in 2009 found that USW's efforts increased both the volume and price of US wheat exports. The study showed that US wheat farmers received $23 in net revenue for every $1 they invested in export promotion between 2000 and 2007. The study also showed that every $1 invested by wheat farmers and the government returns $115 to the US economy. Such sizeable returns are possible both because the programs are effective and because the amounts being invested in promotional efforts are so small relative to the size of the US wheat industry and the value of exports.

The Risks and Potential Impact of Declining Market Development Funding

About two thirds of the funds that USW has available to operate this comprehensive program are provided by USDA, mainly through FMD and MAP. However, funding for the MAP and FMD programs has been uncertain as a result of Congressional inaction on appropriations and the farm bill. Some leaders in Congress routinely propose reducing or eliminating the programs, arguing that industry should pay the whole cost. Increased competition for those funds, sequestration, diversion of funds to pay USDA administrative costs, increasing FMD severance payment obligations, and even a special obligation associated with the US-Korea Free Trade Agreement have reduced the funds actually available for market development work in recent years. Reduction or termination of the funding from these programs would have a decisive impact on USW efforts unless the funds were replaced from other sources. How much impact would of course depend on how much and how quickly the funding changed.

The gradual erosion of USDA funding over the last few years has largely been made up by increased support from member states. Continued erosion is likely given stagnant appropriations and inflating costs. These kinds of declines in USDA funding could be managed provided member states made investment in USW a priority and continue to help offset the declines. Net reductions, however, obviously would reduce market development benefits to growers.

With, say, a 10% reduction, USW would likely curtail activities but leave office structure and worldwide market coverage in place. Thus, USW would likely have reduced resources to conduct activities addressing specific issues or opportunities but likely still be able to maintain at least some contact with all major buyers. Given the high return to market development efforts, the reduced ability to work with potential new buyers or respond to some issue would reduce grower revenue by amounts much larger than the funding loss. To the extent that the value of market development is recognized, growers would find it profitable to find ways to fully fund USW.

With a 50% reduction, overseas offices would have to be closed and staff reduced, and USW would no longer be able to operate a comprehensive program to address constraints and opportunities in all markets. Efforts would need to be concentrated on maintaining the most consistent markets where US wheat is most competitive either because of logistics or market needs for US wheat qualities. While this would be an optimal use of available funds, major opportunities may be lost in other markets where new buyers may no longer learn about US wheat's price or quality advantages and existing buyers may have unresolved processing or purchasing issues that prompt them to buy elsewhere. USW would also likely have to cut back on involvement in coalitions to address trade policy issues, thus losing opportunities to influence trade agreements and mitigating trade barriers. The lost income to US wheat growers from lost export sales and reduced buyer appreciation of the value (and price) of US wheat would again far outweigh the reduced funding. The 2009 study estimated that a 50% reduction in market development funding would result in a 17% reduction in US wheat exports. Fifty percent of market development funding today would be about $7.5 million and a 17% reduction in the value of 2013/14 US wheat exports would have been about $1.65 billion.

IF USDA funding were suddenly terminated entirely, and USW had only its existing reserves and member support, then USW's program would change entirely. Even if state members were willing to try to make up a significant share of the shortfall, the inevitable delay in replacing two thirds of USW's operating revenue would result in many staff departing and offices being closed. The loss of expertise would bring lasting disruption to the program regardless of further developments. If the USDA funds were not made up somehow and USW attempted to operate with current member contributions, all or nearly all overseas offices would be closed. Without staff overseas, USW's understanding of markets and opportunities would be lost and any remaining program efforts would be much less targeted and likely much less effective. USW could maintain an internet presence and thus provide generic information. USW would perhaps also have US-based staff to continue some level of effort on trade policy issues and have some expertise available to meet or communicate with specific buyers or processors if appropriate major issues became known. However, the personal relationships and market-specific expertise that have allowed USW to operate such effective programs would gradually be lost entirely as personnel and circumstances in target markets and companies change.

Sources of Market Development Funding

The most viable options available to offset reduction or elimination of USDA market development funds are either (1) to increase the financial support from USW's member states by increasing assessments and adding new members, or (2) to implement a national wheat checkoff. USW's member states are estimated to collect a total of about $40 million annually, of which about $5 million is invested in USW. Thus, member state checkoff revenue would need to increase by 15% to make up a 50% reduction in USDA funds (which currently total $12 million) or by 30% to replace USDA funds entirely with no net funding increase to market development efforts. Some of the increase might conceivably come from new member states, but 80-85% of US wheat production is in states that already have checkoffs. Attracting new members has been challenging, and often new members are reluctant to pay their full assessment amounts. This means all existing member states would need to be willing to make the commitment to increase support for export market development through USW, and most if not all would need to undertake increases in their checkoff rates. If these efforts required years before significantly increased funds could become available, in the interim USW would lose valuable staff resources and international relationships and its effectiveness could suffer lasting damage. However, continuing to rely on state checkoffs would mean that other changes would be minimal. State commissions would remain in control of all the checkoff funds collected and the funds collected would not be affected by USDA restrictions on how national checkoff funds can be spent.

Various allied industries benefit from wheat market development efforts, including input suppliers, equipment manufacturers, grain handlers and exporters. USW's bylaws currently provide for non-voting Associate Membership, which is open to any company or individual who may want to support the organization financially. However, there are no Associate Members. Allied groups have diverse agendas and have shown no interest in contributing funds without some influence over how those funds are spent through voting positions on the USW Board. The experience of some of the other organizations that do receive industry financial support suggests that the revenue to be gained by offering other groups decision-making membership status would be small.

There is also the possibility that Congress could increase the authorized funding levels for MAP and FMD. Making this happen would require a concerted effort by the entire US agricultural community in the next farm bill. The success of such an effort would be highly doubtful given tight federal budgets, recent efforts to reduce rather than expand farm programs, uncertainty about the future of the farm bill itself, and some vocal Congressional opposition to FMD and MAP.

A national checkoff would also take time to implement but would have the potential to collect significantly greater revenue, both by being additional to the revenue already collected by states with checkoffs and by covering all wheat produced. Having a national checkoff in place would help assure that a viable market development program could be continued even if USDA program funding declined or was eliminated. However, a national checkoff would involve more significant change in that state commissions would no longer be in control of all checkoff dollars collected and a new producer governing body to manage the funds would likely need to be created. National checkoff dollars are also likely to come with restrictions on how they can be spent and may mean that USW could need some other source of funds for work in sanctioned countries or for other situations where national checkoff dollars could not be used.

The Possibilities with Increased Market Development Funds

Identifying how funding could be increased now would provide a good safety net for the market development program should USDA funding decline or disappear. While USDA funding continues, USW could make effective use of additional funds to bring greater returns to US wheat producers. USW could constructively use an additional $10 - $15 million which would return many times that amount in added farm gate revenue. USW's staff have identified a wide range of ways that programs could be effectively expanded if new funds were available.

Increased funding would allow USW to expand technical services to more wheat food processors. USW's primary strategy has been to demonstrate the processing advantages of US wheat classes for specific end products. This kind of information would be most meaningful to end-product manufacturers. However, most countries have many wheat food manufacturers, and USW's resources limit how many of these can be targeted for market development efforts. In fact USW more often works with flour mills to help show them how to provide service to their customers. Hiring additional staff with appropriate technical expertise, including milling, baking, pasta processing, lab analysis, or quality control and R&D capabilities, would allow USW to extend the reach of technical training programs to companies, especially "second tier" companies which cannot be targeted today for lack of adequate resources. Smaller companies in many countries account for a large share of wheat food production.

New funding resources and expanded contacts as a result of expanded technical staff overseas would likely mean more candidates for technical training at NCI, IGP and WMC. Technical training in the US is limited both by the range of industry contacts USW can maintain overseas and by the limited financial resources available to bring qualified participants to the US for courses.

USW has long relied on consultants hired for one- or two-week assignments to provide technical expertise and no doubt would need to continue to hire specialized expertise even if staff technical expertise were increased. However, the pool of consultants available to USW is extremely small because FAS limits daily consultant fees to less than $500/day. USW can offer a modest supplement to that from producer funds, but highly qualified food industry consultants get at least twice and often three times that amount or more, daily fees that USW cannot pay. Increased financial resources would allow USW to pay more competitive consultant rates and gain access to a wider range of technical expertise.

Africa and the Mideast have hardly any training facilities available for bakers, noodle manufacturers, or other wheat food processors. These facilities need large numbers of staff to operate, and the lack of trained local staff often is a constraint to increasing production of high quality products in developing countries. Bringing large numbers of operating staff to the US for training is not economically practical. Additional funds would allow USW to partner with the few such educational resources that are available, providing them with additional equipment and educational opportunities for their staff so that their programs can be enhanced and be made more effective. Additional funding could also be used to buy equipment and upgrade resources in the schools in China and Southeast Asia that USW has partnered with for many years.

There are countries or program areas where USW would be more active if funds were available. Trade policy issues with China, Turkey and Brazil could be addressed more effectively with in-country policy support. Efforts in South America could be expanded with more staff resources, including perhaps the hiring of a USW representative for Brazil. There are now more promising prospects for work with Iran (sanctioned) and Myanmar, but resources to do more work with them are limited. The staff time and expertise required to deal with commercialization of biotech wheat will eventually warrant the addition of a staff person in the Arlington office as has occurred with other commodities.

Many USW staff have been with the company a very long time, suggesting it is a good place to work with adequate compensation. USW has also been able to attract a number of promising new staff for entry level positions. However, efforts to hire staff for more senior positions when needed in recent years have been much more difficult and less successful. The preferred candidates in at least a couple instances have turned down offers because the salary that USW could offer was not competitive with other job options. Increased financial resources would allow USW to offer more competitive salaries for senior positions, making it more feasible to fill more senior level positions as staff retire in coming years. Increased financial resources would also help to maintain newly placed US citizen staff overseas as their families grow and allowance and housing costs increase.

There are various studies that would help make USW promotional efforts more effective. USW has very little information on the processing qualities of competitive wheat supplies. Staff have often requested that a competitor wheat quality survey be conducted, but such an effort would be expensive and challenging, involving a fairly large number of samples to be meaningful. While some competitor information is available from various blending studies and lab analysis results, a database system could be developed and the information entered in order to be able to summarize and share the information more effectively. Studies of competitor infrastructure and market systems and additional studies of consumer demands and product profiles in targeted markets would also be helpful. Various policy issues would benefit from expert analysis.

There are still other areas where additional resources could expand market development efforts, including expanding marketing information resources (subscriptions) available to overseas staff, work on sustainability requirements, enhanced internet promotional resources including an online technical community to provide almost instantaneous technical advice, and new promotional materials like wheat sample cards or videos on various aspects of the US marketing system.

Conclusion

Market development is a valuable resource for US wheat producers that returns added revenue to their bottom lines many times larger than the dollars invested. Additional funding, if available, could be used to further benefit the industry. However, the USDA funds, which are two thirds of the current total, have been uncertain in the last several years and may be at risk from future cuts or even program elimination. Responsible, forward-looking industry planning could ensure that effective programs would continue and US wheat would always have a strong advocate in the highly competitive international markets even if USDA funding were reduced or lost.