

IMPORTING GRAIN TO JAPAN

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Zen-NOH Feed Grain Corporation

Zen-NOH is Japan's National Federation of Agricultural Cooperative Associations. Established in 1972 under the Agricultural Cooperative Society Law, it is a federation of agricultural cooperatives, the largest and most sophisticated such organization in the world.

Approximately 95 percent of the 4.5 million farm households in Japan are members of some 4,300 primary level agricultural cooperatives. Of that number, 4,042 are members of Zen-NOH. Forty-eight prefectural economic federations, fifteen special federations and three national federations of agricultural cooperatives are members. Zen-NOH is an organization of farmers by farmers and, most important, for farmers.

In cooperation with these federations and locals, Zen-NOH, the umbrella organization, purchases and distributes the material for agricultural production as well as the necessities of daily farm life. Zen-NOH also collects, distributes and markets the farmers' production through its own marketing and processing channels.

Contributing to Japanese Agriculture

In addition to these activities, Zen-NOH is involved in the further development of Japanese agriculture, improving the quality of life on the farm as well as securing a reliable food supply for the nation. Zen-NOH plays a large role in setting the direction for the entire agricultural industry of Japan. The sphere of activities encompasses the whole of Japan's agricultural industry and stretches from farmer to the consumer on up to a government level and overseas.

Zen-NOH does about \$31 billion on an annual basis through some 160 affiliated companies, all working to insure the smooth functioning of marketing, purchasing, processing and overseas activities. All of this is made possible because the Japanese farmer is fiercely loyal to his local cooperative. Of course, this is not a blind loyalty, there are complaints and dissents and politics, but the problems are addressed and worked out to most everyone's satisfaction. Breaking up the system would not serve the farmers' best interests.

Japanese Farmers Wield Influence

There are those that feel the system is too monopolistic and is a great disservice to the Japanese consumer. Most often this criticism is self-serving particularly when coming from the United States and large agricultural conglomerates interested in expanding their trade at the farmers' expense. The farmer enjoys a rather large influence on Japanese politics, the result of a system created during United States occupation at the end of World War II in order to break up the war lord/land baron structure believed to be in control before and during the war. As a result of land reform, each farmer was given about five acres of land. Now, without large subsidies and additional income from factory work he cannot exist. As a result land values are extremely inflated. Remember, we created the system as we know it, but the Japanese have improved on it.

Trade Problems

There are some rather large problems in trade between the United States and Japan. However, this is not due to agriculture. I think that most everyone in this room would agree that it is difficult to make a living on four to five acres of land unless prices are subsidized, and, as here in the United States, there is pressure to reduce the subsidies.

There is also pressure from the United States trade negotiators to raise the import quotas on rice, beef and citrus fruits. The problem with their approach is that it will not do much to improve the balance of payments and will only serve to create friction with the best customer the United States has for its agricultural products.

While it is true the Japanese market is protective it can only be corrected by regulating the exports to the United States that are causing the problem. This will be accomplished partially by the exchange rate. If we insist on selling meat products, the amount of grain products will be reduced, and, in addition, other countries will also clamor for reduced import restrictions.

Let Market Forces Correct Situation

The long and the short of all this is that agriculture provides a \$6 billion surplus to the trade deficit. It took forty years to build the trade position we now enjoy with Japan, but we now say that is not the way things should be done and immediate changes should be made. The trade deficit did not happen in one year, but rather built up over the years due to our inability to compete in price and quality and now we must let market forces go to work and correct the situation.

In these cases somebody will suffer a loss of income and standard of living as is quite obvious from the steel industry. If there are to be

international markets and trading this situation will be repeated over and over.

A United States characteristic is that we can and often do change gears and direction in our pursuit of goals. We must not allow the destruction of a market that has taken forty years to develop and has all the signs of improving slowly as time goes on. And we must be careful not to push our best customer off in other directions as we did with Russia several years ago. The world is awash with grain so we have to be rather careful how we address the problem of trade imbalances as related to agriculture.

One other problem relates to rice. This is a sacred cow and shipping rice to Japan is like importing wheat into the United States; it simply cannot be done.

In a nut shell, the Japanese live in constant fear that, for whatever reason, the United States may one day cut off their daily diet requirements, and, for this reason, they will maintain their rice production as a "sacred cow," not allowing imports. Unfortunately in the past the United States has demonstrated that exports can be embargoed for whatever political reasons. Until our track record improves our foreign buyers will harbor that mistrust.

Take Care Not to Destroy Market

The trade problems that exist between the United States and Japan are obviously complex and involved. Care must be taken not to destroy the foreign markets of the U.S. farmer as has happened in the past. If subsidy programs in the United States are to be phased out, the answer can only lie in increased exports. There is no doubt that U.S. agriculture is the most efficient in the world and it is a matter of playing hard ball with competitor producing nations until subsidy programs are phased out and the United States then reassumes its role as a prime supplier to the world and not as that of a residual supplier to which we have been relegated by some rather inept public officials.

New Orleans Facility

Zen-NOH's export facility in the New Orleans area is required to insure a constant, even supply of feed grains. Back in the '70s and early '80s when demands upon the existing export facilities caused delays of up to three weeks in vessel loading in the port of New Orleans, Zen-NOH felt the situation was intolerable and needed a better source to keep the pipeline full to Japan. They lived in constant fear of having to tell farmer members no feed was available and then turn to other supply sources. Vessel delays, complicated by a thirty-five-day voyage from the gulf to Japan, are expensive. Even today with excess export capacity, delays exist due to market condi-

tions in the United States whether it be a carry or inverse market. We at Zen-NOH Grain Corporation in New Orleans take that risk out of the market and supply our parent organization and their farmer members.

Since our incorporation in 1979 and subsequent operations beginning in 1982, Zen-NOH has always stressed the importance of working with United States cooperative organizations for their source of supply. Zen-NOH continues to affirm that commitment to the few remaining cooperative farm organizations. In Louisiana we work closely with the Farm Bureau in sourcing soybeans, corn and milo in the state. Zen-NOH Grain Corporation through its parent organization in Japan currently operates an export elevator on the Mississippi River in St. James Parish. Unfortunately, there remains only one large regional grain marketing coop in Minnesota. All the others have passed into private hands.

During our early years the intent was to source grain from Midwest regional cooperatives and form a farmer-to-farmer link between the United States and Japan. However, due to the demise of the Midwest regionals we at Zen-NOH have changed our direction of sourcing grain and purchased an interest in Consolidated Grain & Barge Company of St. Louis to fill the gap in Illinois, Ohio and Indiana and guarantee a continuing supply of grain to insure quick loading of vessels for the return trip to Japan.

Since the start of operations in September, 1982, this facility has loaded out over 2 billion bushels of grain, most of this is transported by barge down the Midwest river systems. In 1988, total volume through the facility was 440 million bushels of grain, more than any other facility has ever handled. This was 20 percent of the New Orleans volume and equates to about 10 percent of the total United States export volume.

Quality Issues

There is a popular misconception that grain from the farm is all #1, but then the exporter promptly adulterates it with all kinds of bad things. Fifteen to twenty years ago some of that occurred, but not in recent times. The current inspection as performed by the United States Department of Agriculture (USDA) is adequate and conforms to the present standards for the shipping of grains. Foreign buyers are well aware of those conditions when purchases are made. In spite of what is written and put out by members of Congress from time to time, complaints are relatively few when considering the volume of grain shipped from the United States.

The current grain standards allow for grain to be purchased with improvements in grade but no one will pay the price. In soybeans, common trading grade allows for 2 percent foreign matter and we load to that limit. The buyer can specify 1 percent or 1.5 percent at a

premium but rarely does. Other quality factors as protein and oil content of beans are rapidly becoming a trading factor by the buyers with discounts to apply, but here again, to meet those requirements additional charges are added by the exporter.

Another problem that occurs during the long voyage to final destination and during loading is the separation of foreign material and the whole grain. When unloading occurs at final destination, the first grain out of the middle of the hatch will contain a higher concentration of foreign material and the last half removed will be relatively clean. If the hatch is split between two buyers the first receiver will complain, the second one will be quiet. This becomes a problem that we have been unable to solve short of providing zero percent foreign material that no one seems to be willing to pay for.

A serious problem is foreign material in corn, as corn grown in the United States is soft and breaks up easily in handling. Movement through a typical U.S. elevator will create 1.5 percent to 2 percent foreign material in corn for each movement. Discharge of foreign parts through pneumatic systems, which is as rough as one can find, will increase the foreign material by another 3 percent to 4 percent. Now you can imagine what an end user would say about this. Quality very definitely needs to be addressed and improved upon.

Instead of bashing the exporter as being the culprit, we need to evaluate the varieties we grow to produce a hybrid that is more resistant to breakage. The problem remains that most efforts in this area are directed mainly toward yield. Unless we take steps to correct the problem, our foreign competition will take over most of the grain exporting in the world. Since the embargoes in the United States were put on some years ago, foreign production jumped by leaps and bounds and will continue to grow. We can only export wheat in the markets of Russia and China under the export enhancement program. In the beginning it was a stopgap measure to recapture lost markets but more than likely it is here to stay.

If you have read the *Wall Street Journal* in recent months, it seems some reporter is making a career on reporting the presence of aflatoxin in exported corn. If you believe the articles, it is a common occurrence to ship grain that is high in aflatoxin which has been widely reported in scientific articles to be carcinogenic if ingested by humans. Due to the drought during last year's growing season, grain in some areas did come from the fields with higher than acceptable levels. I cannot speak for the measures used in the interior, but all truck loads delivered to the local elevators were to be checked before unloading and rejected if above the 20 parts per billion acceptable level if designated for export. All grain unloaded into export elevators is checked and returned to the shipper if found to be above the 20 ppb level.

Summarily, all sub lot samples loaded on to the vessels were checked and aflatoxin certificates were issued by USDA certifying

the level to be below 20 ppb. There apparently were some complaints, but when checked by USDA inspectors the samples were found to be within tolerance. This program started when the 1988 crop began moving into market channels and continues at this time.