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Agricultural Export and Food Aid Programs

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Summary

The U.S. Department of Agriculture (USDA) forecasts that FY2002 agricultural exports will be $53.5 billion. Projected imports of $40 billion will result in an export surplus of $13.5 billion, which represents a slight annual increase in the trade balance of $200 million.

Farm exports that have declined from the $60 billion reached in 1996, together with lower U.S. prices, are among reasons for recent large food aid and export program measures taken by USDA in recent years to boost U.S. agricultural exports. These measures include the purchase and donation as food aid of large wheat, a $300 million (640,000 mt) pilot global school feeding program beginning in FY2000, and large export credit guarantees in both FY2000 and 2001.

The 2002 farm bill (P.L. 107-171), the Farm Security and Rural Investment Act (FSRIA), and permanent legislation authorize four kinds of federal programs to support agricultural exports: direct subsidies, market promotion, export credit guarantees, and foreign food aid. Legislative authority for most of these programs now expires at the end of 2007. Export subsidies, but not other types of export and food aid programs, are subject to reduction commitments in the Uruguay Round Agreement on Agriculture (URAA).

Direct subsidies include the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). EEP spending has been negligible since 1996. DEIP spending, however, has been at the maximum allowed under the Uruguay Round Agreement.

Market promotion programs include the Market Access Program (MAP) and the Foreign Market Development or "Cooperator" Program (FMDP). Considered to be non-trade distorting, these programs are exempt from Uruguay Round reduction commitments. The FSRIA increases MAP to $200 million annually by FY2006; and sets FMDP spending at $34.5 million annually.

The FSRIA authorizes export credit guarantees of $5.5 billion annually plus an additional $1 billion for emerging markets through 2007. Actual levels depend on economic conditions and the demand for financing by eligible countries. Export credit guarantees also are not subject to Uruguay Round disciplines or reduction commitments.

The FSRIA also authorizes P.L. 480 Food for Peace programs and Food for Progress through FY2007. Section 416(b), permanently authorized in the Agricultural Act of 1949, provides for overseas commodity donations. Extensive use has been made of Section 416(b) commodity donations in the various recent food aid initiatives and in responding to humanitarian food needs in Afghanistan.

The President's FY2003 budget request, which includes funding for USDA's international programs, proposes to phase out Section 416(b) commodity donations in 2003. Export subsidies, export credit programs, and food aid also are on the agenda of agricultural negotiations in the World Trade Organization.

Most Recent Developments

On June 10, 2002, at the World Food Summit in Viterbo, Italy, the Secretary of Agriculture announced that 275,000 tons of wheat would be released from the Bill Emerson humanitarian Trust, exchanged for corn, beans, and vegetable oil and provided to meet humanitarian food needs in Southern African countries.

President Bush signed into law the Farm Security and Rural Investment Act (P.L. 107-171) on May 13, 2002. The FSRIA reauthorizes most agricultural export and food aid programs through FY2007. The Senate passed its version of the farm bill (S. 1731) on February 13, 2002, the House passed its version (H.R. 2646) on October 5, 2001.

On February 4, the President transmitted his FY2003 budget proposals to Congress. The budget proposes a program level of $6.45 billion for USDA's export and food aid programs. The budget also proposes to phase out food aid donations that rely on the purchase of surplus commodities by the Commodity Credit Corporation.

The President signed the FY2002 agriculture appropriations act (P.L.107-76, H.R. 2330) into law on November 28, 2001. The act provides $1.124 billion in budget authority to support an estimated $6.4 billion of international programs this fiscal year.

Background and Analysis

U.S. Agricultural Exports

Agricultural exports are important both to farmers and to the U.S. economy. Production from more than a third of harvested acreage is exported, including an estimated 32% of wheat, 42% of rice, 33% of soybeans, 16% of corn, and 26% of cotton. About 15% of the value of agricultural production is exported and around 25% of gross farm income comes from exports. Exports generate economic activity in the non-farm economy as well. According to USDA, each $1.00 received from agricultural exports stimulates another $1.30 in supporting activities to produce those exports. Agricultural exports generated an estimated 808,000 full-time civilian jobs, including 488,000 jobs in the non-farm sector in 1998. In contrast to the continuing overall trade deficit, U.S. agricultural trade has consistently registered a positive, though recently declining, balance.

Nearly every state exports agricultural commodities, thus sharing in export-generated employment, income, and rural development. In 1999, the states with the greatest shares in U.S. agricultural exports by value were California, Iowa, Nebraska, Kansas, Illinois, Texas, Minnesota, Washington, Indiana, and Wisconsin. These 10 states accounted for 56% of total U.S. agricultural exports. In addition, Arkansas, North Carolina, Ohio, Florida, Missouri, Georgia, North Carolina, and South Dakota each shipped over $1 billion worth of commodities.

After growing rapidly in the 1970s, U.S. agricultural exports reached a high of $43.8 billion in FY1981, but then declined by 40% to just $26.3 billion by FY1986. By FY1995, agricultural exports had recovered and reached a new peak of $54.6 billion. Agricultural exports reached nearly $60 billion in FY1996, but declined to $57.3 billion in FY1997. U.S. agricultural exports declined further in FY1998 to $53.6 billion. Main reasons for the decline were financial difficulties and an economic slow-down in East and Southeast Asian countries, and increased competition for global corn, wheat, and soybean markets. For the same reasons, exports fell in FY1999 to $49 billion. They rose to an estimated $50.9 billion for FY2000. USDA reports that FY2001 exports were $53 billion and forecasts that exports will increase only slightly to $53.5 billion in FY2002. USDA has revised downward its FY2002 forecast for U.S. agricultural exports by $1.0 billion, attributing the lower estimate to export competition and lower prices for wheat, corn, and rice.

The commodity composition of U.S. agricultural exports has changed over time with exports of high value agricultural products now exceeding those of bulk commodities. Since FY1991, bulk commodities (grains, oilseeds, and cotton) have accounted for less than total non-bulk exports (intermediate products such as wheat flour, feedstuffs, and vegetable oils or consumer-ready products such as fruits, nuts, meats, and processed foods). In FY2001, high value agricultural exports accounted for 65% of the value of total agricultural exports.

Many variables interact to determine the level of U.S. agricultural exports: income, population growth, and tastes and preferences in foreign markets; U.S. and foreign supply and prices; and exchange rates. U.S. agricultural export and food aid programs, domestic farm policies that affect price and supply, and trade agreements with other countries also influence the level of U.S. agricultural exports.

Agricultural Export and Food Aid Programs

The trade title of the 2002 FSRIA (Title III of P.L. 107-171) authorizes and amends four kinds of export and food aid programs:

- Direct export subsidies;
- Export Promotion Programs;
- Export credit guarantees; and
- Foreign food aid.

USDA's Foreign Agricultural Service (FAS) administers the export and food aid programs, with the exception of P.L. 480 Titles II (humanitarian food aid) and III (food for development), which are administered by the U.S. Agency for International Development (USAID).

For the current fiscal year, FY2002, USDA appropriations legislation (P.L. 107-76, H.R. 2330) provides budget authority of $1.124 billion to support a program level for international activities at an estimated $6.6 billion. The large difference between program level (the gross value of commodities and services provided by USDA) and budget authority (the funds authorized by Congress to carry out the programs) is mainly attributable to the large part played by credit programs (especially export credit guarantees) in USDA's international activities. For credit programs, only costs represented by administrative expenses and loan subsidies (not the value of the exports which are financed by the private sector) require authorization of budget authority. Moreover, export subsidies, export market development and some food aid donations are funded not by direct annual appropriations, but by borrowing from USDA's Commodity Credit Corporation (CCC) and also do not require budget authority.

USDA International Program Activity, FYs1995-2002
($ millions)

Program	1995	1996	1997	1998	1999	2000	2001	2002 est.
Export Enhancement Program	339	5	0	2	1	2	7	478
Dairy Export Incentive Program	140	20	121	110	145	77	8	61
Market Access Program	110	90	90	90	90	90	90	90
Foreign Market Development Program[a]	–	–	–	–	28	28	28	28
CCC Export Credit Guarantees	2,921	3,230	3,876	4,037	3,045	3,082	3,227	3,926
P.L. 480 Food Aid	1,286	1,207	1,054	1,154	1,796	1,076	1,086	1,214
Section 416(b)[b]	4	0	0	0	917	439	1,103	650
Food for Progress[c]	146	144	121	139	307	150	104	109
Foreign Agricultural Service	159	167	191	181	178	200	201	198
Total	5,105	4,863	5,453	5,713	6,507	5,144	5,854	6,561

[a] FY1995-FY199 8 FMDP spending included in FAS appropriation.
[b] Commodity value plus ocean freight and internal distribution costs.
[c] Includes only CCC purchases of commodities for FFP. P.L. 480 Title I funds allocated to FFP are included in P.L. 480.

Source: USDA, *Annual Budget Summaries* and *Outlook for U.S. Agricultural Exports*, various issues.

Export Subsidies

The FSRIA authorizes direct export subsidies of agricultural products through the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP).

Export Enhancement Program (EEP). EEP was established in 1985, first by the Secretary of Agriculture under authority granted in the Commodity Credit Corporation

Charter Act, and then under the Food Security Act of 1985 (P.L. 99-198). The program was instituted after several years of declining U.S. agricultural exports and a growing grain stockpile. Several factors contributed to the fall in exports during the early 1980s: an overvalued dollar and high commodity loan rates under the 1981 farm bill made U.S. exports relatively expensive for foreign buyers; global recession reduced demand for U.S. agricultural products; and foreign subsidies, especially those of the European Union (EU), helped competing products make inroads into traditional U.S. markets. EEP's main stated rationale was to combat "unfair" trading practices of competitors in world agricultural markets.

The Office of the General Sales Manager in USDA's Foreign Agricultural Service (FAS) operates EEP. The Sales Manager announces target countries and amounts of commodities to be sold to those countries, and then invites U.S. exporters to "bid" for bonuses that effectively lower the sales price. An exporter negotiates a sale with a foreign importer, calculates the bonus necessary to meet the negotiated price, and submits the bonus and price to FAS. FAS awards bonuses based on the bids and amount of funding available. Initially awarded in the form of certificates for commodities owned by the CCC, bonuses since 1992 have been in the form of cash.

Most EEP bonuses have been used to assist sales of wheat. In FY1995, the last year with significant program activity, 72% of EEP sales were wheat, 8% flour, 6% poultry, and the remaining sales were eggs, feed grains, pork, barley malt, and rice. Although many exporters have received bonuses, since 1985 three exporting firms have received almost half of the total, which now exceeds $7 billion. The former Soviet Union, Egypt, Algeria, and China were major beneficiaries of EEP subsidies.

The United States agreed to reduce its agricultural export subsidies under the 1994 Uruguay Round Agreement on Agriculture. The Agreement requires that outlays for export subsidies fall by 36% and the quantities subsidized by 21% over 6 years (1995-2001). Legislation to implement the Uruguay Round Agreement (P.L. 103-465) reauthorized EEP through the year 2001 and specified that EEP need not be limited to responses to unfair trade practices as in the 1985 Food Security Act, but also could be used to develop export markets.

EEP has been a controversial program since it was initiated in 1985. Many oppose the program outright on grounds of economic efficiency. EEP, they argue, like all export subsidies, interferes with the operations of markets and distorts trade. Others, noting that the Uruguay Round Agreement on Agriculture restricts but does not prohibit agricultural export subsidies, point out that as long as competitors, such as the European Union, use export subsidies, the United States should also be prepared to use them. The effectiveness of EEP also has been an issue. Several studies have found that wheat exports would decline somewhat if EEP were eliminated, suggesting that EEP increases wheat exports. Other analysts, however, find that subsidized wheat exports under EEP displace exports of unsubsidized commodities such as corn. Some critics suggest EEP subsidies should target different products and country markets such as high value or value-added products in Asia or Latin America.

For more information, see CRS Report RS20399, *Agricultural Export Programs: The Export Enhancement Program (EEP)*.

Dairy Export Incentive Program (DEIP). DEIP was established under the 1985 farm act to assist exports of U.S. dairy products. Its purpose was to counter the adverse effects of foreign subsidies, primarily those of the European Union. Early bonus payments were in the form of sales from CCC-owned dairy stocks; later they were generic commodity certificates from CCC inventories; now they are cash payments. As with EEP, USDA announces target countries and amounts of dairy products that may be sold to those countries under the program. Exporters negotiate tentative sales and "bid" for bonuses to subsidize the prices of the sales.

The Uruguay Round subsidy reduction commitments (see EEP above) apply also to DEIP. Uruguay Round implementing legislation authorized DEIP through the year 2001. The 1996 FAIR Act extended DEIP authority to FY2002, and FSRIA reauthorizes DEIP through 2007.

While many oppose subsidizing dairy products for reasons similar to those held by EEP opponents, the program has strong support in Congress. Dairy producers consider DEIP an integral part of U.S. dairy policy, an important adjunct to domestic support programs. That is perhaps why DEIP is reauthorized as part of Title I commodity programs of the FSRIA, not the trade title.

For more information see CRS Report RS20402, *Agricultural Export Programs: The Dairy Export Incentive Program (DEIP).*

Market Promotion

USDA operates two market promotion programs, the Market Access Program (MAP), formerly the Market Promotion Program (MPP) which in its turn had succeeded the Targeted Export Assistance Program (TEA), and the Foreign Market Development Program (FMDP) also know as the "Cooperator" program.

Market Access Program (MAP). TEA, authorized in 1985, was intended to compensate U.S. exporters for markets lost to unfair foreign competition. MPP/MAP is broader: its aim is to help develop foreign markets for U.S. exports.

MAP assists primarily value-added products. The types of activities that are undertaken through MAP are advertising and other consumer promotions, market research, technical assistance, and trade servicing. Nonprofit industry organizations and private firms that are not represented by an industry group submit proposals for marketing activities to the USDA. The nonprofit organizations may undertake the activities themselves or award funds to member companies that perform the activities. After the project is completed, FAS reimburses the industry organization or private company for part of the project cost. About 60% of MAP funds typically support generic promotion (i.e., non-brand name commodities or products), and about 40% support brand-name promotion (i.e., a specific company product).

The FSRIA authorizes MAP through 2007. The funding level for the program (previously capped at $90 million annually) gradually increases to $200 million by FY2006. The 2007 farm bill continues restrictions on the recipients of MAP assistance. No foreign for-profit company may receive MAP funds for the promotion of a foreign-made product.

No firm that is not classified as a small business by the Small Business Administration may receive direct MAP assistance for branded promotions. Starting in FY1998, USDA's policy has been to allocate all MAP funds for promotion of branded products to cooperatives and small U.S. companies.

Foreign Market Development Program (Cooperator Program). The FSRIA reauthorizes this program with annual funding of $34.5 million. This program, which began in 1955, is like MAP in most major respects. The purpose of the program is to expand export opportunities over the long term by undertaking activities such as consumer promotions, technical assistance, trade servicing and market research. Like MAP, projects under the Cooperator Program are jointly funded by the government and industry groups, and the government reimburses the industry organization for its part of the cost after the project is finished. Like MAP, the Cooperator Program is exempt from Uruguay Round Agreement reduction commitments.

The two programs are different, however, in other respects. Unlike MAP, which is more oriented toward consumer goods and brand-name products, the Cooperator Program is oriented more toward bulk commodities.

Some of the same issues raised with respect to MAP are also raised about the Cooperator Program and in some cases all the export programs. The basic issue is whether the federal government should have an active role in helping agricultural producers market their products overseas. Some argue that the principal beneficiaries are foreign consumers and that funds could be better spent, for example, to educate U.S. firms on how to export. Program supporters emphasize that foreign competitors, especially EU member countries, spend money on market promotion, and that U.S. marketing programs help keep U.S. products competitive in third-country markets.

For more information, see CRS Report RS20415, *Agricultural Export Programs: The Market Access Program and Foreign Market Development Cooperator Program*.

Export Credit Guarantees

The FSRIA reauthorizes USDA-operated export credit guarantee programs, first established in the Agricultural Trade Act of 1978, to facilitate sales of U.S. agricultural exports. Under these programs, private U.S. financial institutions extend financing at interest rates which are at prevailing market levels to countries that want to purchase U.S. agricultural exports and are guaranteed that the loans will be repaid. In making available a guarantee for such loans, the U.S. government, or more specifically, the CCC, assumes the risk of default on payments by the foreign purchasers on loans for U.S. farm exports.

Export Credit Guarantee Programs (GSM-102 and GSM-103). GSM-102 guarantees repayment of short-term financing (6 months to 3 years) extended to eligible countries that purchase U.S. farm products. GSM-103 guarantees repayment of intermediate-term financing (up to 10 years) to eligible countries that purchase U.S. farm products. Eligible countries are those that USDA determines can service the debt backed by guarantees (the "creditworthiness" test). Use of guarantees for foreign aid, foreign policy, or debt rescheduling purposes is prohibited.

The 2002 farm bill authorizes export credit guarantees at $5.5 billion annually through FY2002, while giving CCC flexibility to determine the allocation between short and intermediate term programs. The actual level of guarantees depends on market conditions and the demand for financing by eligible (i.e., creditworthy) countries. A provision in the statute allows guarantees to be used when the bank issuing the underlying letter of credit is located in a country other than the importing country. The new farm bill continues the provision that minimum amounts of credit guarantees would be made available for processed and high-value products through 2007. The farm bill permits credit guarantees for high-value products with at least 90% U.S. content by weight, allowing for some components of foreign origin. The legislation provides for an additional $1 billion through 2007 in export credit guarantees targeted to "emerging markets," countries that are in the process of becoming commercial markets for U.S. agricultural products.

The General Sales Manager in FAS administers GSM-102 and -103. U.S. financial institutions providing loans to countries for the purchase of U.S. agricultural commodities can obtain, for a fee, guarantees from the CCC. If a foreign borrower defaults on the loan, the U.S. financial institution files a claim with the CCC for reimbursement, and the CCC assumes the debt. If a country subsequently falls in arrears to the CCC, its debts may ultimately be subject to rescheduling.

Historically, the biggest recipients of export credit guarantees have been Mexico, South Korea, Iraq, Algeria, and the former Soviet Union (FSU). Iraq, for foreign policy reasons, no longer participates in the program. Republics of the FSU, because they are less important as commercial markets for U.S. agricultural exports, are no longer major beneficiaries. Guarantees have helped facilitate sales of a broad range of commodities, but have mainly benefitted exports of wheat, wheat flour, oilseeds, feed grains, and cotton.

The CCC can also extend credit under GSM-102 for two other programs: "supplier credit guarantees" and "facilities financing guarantees." Under the former, the CCC will guarantee payment by foreign buyers of U.S. commodities and products which are sold by U.S. suppliers on a deferred payment basis. Under this variation of short-term credit guarantee, the foreign buyer alone will bear ultimate responsibility for repayment of the credit. The duration of the credit is short, generally up to 180 days. These credits are expected to be particularly useful in facilitating sales of high-value products, the fastest growing components of U.S. agricultural exports.

The "facilities financing guarantee" is also carried out under the GSM-102 program. In this activity, the CCC will provide guarantees to improve commodity handling facilities and/or U.S. goods and services to address infrastructure barriers to increasing sales of U.S. agricultural products. Eligible projects must improve the handling, marketing, storage, or distribution of imported agricultural commodities and products.

The major issue concerning export credit programs is to what extent and how they might be treated in WTO agriculture negotiations. This issue is discussed below.

Foreign Food Aid

USDA provides food aid abroad through three channels: the P.L. 480 program, also known as Food for Peace; Section 416(b) of the Agricultural Act of 1949; and the Food for

Progress Program. All these programs are authorized in the 2002 FSRIA, except Section 416(b) which is permanently authorized in the Agricultural Act of 1949. The FSRIA also authorizes the Bill Emerson Humanitarian Trust, which is primarily a commodity reserve, that can be used, under certain circumstances, to provide P.L. 480 food aid. The 2007 farm bill also establishes a new food aid program, the McGovern-Dole International School Feeding and Child Nutrition Program.

P.L. 480 Food for Peace. P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, has three food aid titles. Each title has different objectives and provides agricultural assistance to countries at different levels of economic development. Title I, Trade and Development Assistance, provides for concessional sales of agricultural commodities to developing countries for dollars on credit terms or for local currencies. Title II, Emergency and Private Assistance Programs, provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs. Title III, Food for Development, provides government-to-government grants to support long-term growth in the least developed countries. Title I of P.L. 480 is administered by USDA; Titles II and III are administered by the Agency for International Development (AID).

Section 416(b). This program, authorized in permanent law and administered by USDA, provides for the donation overseas of surplus agricultural commodities owned by the CCC. This component of food aid is the most variable because it is entirely dependent on the availability of commodities in CCC inventories. Section 416(b) donations may not reduce the amounts of commodities that traditionally are donated to domestic feeding programs or agencies, prevent the fulfillment of any agreement entered into under a payment-in-kind program, or disrupt normal commercial sales.

Food for Progress (FFP). FFP, authorized by the Food for Progress Act of 1985 and also administered by USDA, provides commodities to support countries that have made commitments to expand free enterprise in their agricultural economies. Commodities may be provided under the authority of P.L. 480 or Section 416(b). Under certain conditions, the CCC may also purchase commodities for use in FFP programs if the commodities are currently not held in CCC stocks.

The 2002 FSRIA extends authority for all P.L. 480 programs and Food for Progress through FY2007. (Section 416(b) commodity donations are permanently authorized in the Agricultural Marketing Act of 1949.) Both market development and humanitarian aspects of P.L. 480 food aid are dealt with in the legislation. Private entities in addition to developing countries are eligible to enter into Title I sales agreements. A 5-year grace period may be granted before a recipient must begin repaying the principal on the credit extended under a Title I agreement. The Secretary could still allow up to 30 years for repayment, but could require repayment in fewer than 10 years if the recipient has the ability to repay in a shorter time. Priority for Title I agreements is accorded to developing countries with demonstrated potential to become commercial markets for U.S. agricultural commodities.

The legislation allows private voluntary organizations (PVOs) and cooperatives to carry out Title II nonemergency programs in countries where AID does not maintain a mission. Also authorized is funding to pay project or administrative and other costs of PVOs and coops at 5% to 10% of annual Title II funding. Intergovernmental organizations, such as the World Food Program, also are eligible to apply for such funds. A minimum of 15% of nonemergency Title II commodities can be monetized (i.e., sold for local currencies). Monetization enables PVOs and coops to defray the costs of distributing food or implementing development projects in countries where they operate. Local currencies from Title II commodity sales (monetization) can be used in a country different from the one in which the commodities were sold, if the country is in the same geographic region. FSRIA stipulates that the annual minimum tonnage level provided as Title II commodity donations shall be 2.5 million metric tons, of which 1.875 mmt is to be channeled through such eligible organizations as private voluntary organizations, cooperatives, and the World Food Program.

The Bill Emerson Humanitarian Trust. The FSRIA reauthorizes the Emerson Trust enacted in the 1998 Africa Seeds of Hope Act (P.L. 105-385). The trust is primarily a reserve of 4 million metric tons of wheat, corn, sorghum and rice that can be used to help fulfill P.L. 480 food aid commitments to developing countries under two conditions: (1) to meet unanticipated emergency needs in developing countries, or (2) when U.S. domestic supplies are short. The trust, as presently constituted, replaced the Food Security Commodity Reserve established in the 1996 farm bill and its predecessor, the Food Security Wheat Reserve of 1980. The trust, which the Administration recently tapped to meet urgent food aid needs in southern African countries, was used six times between 1980 and 1996–three times for urgent humanitarian relief and three times when domestic supplies were limited. Two and one-half million metric tons of wheat remained in the trust as of June 2002.

McGovern-Dole International Food for Education and Child Nutrition Program. The FSRIA authorizes this new food aid program, which can use commodities and financial and technical assistance to carry out preschool and school food for education programs and maternal, infant and child nutrition programs in foreign countries. Private voluntary organizations, cooperatives, and the World Food Program and foreign governments are all eligible organizations for carrying out these activities . FSRIA mandates CCC funding of $100 million for the program in FY2003 and authorizes such sums as necessary from FY2004-2007. McGovern-Dole replaces the pilot Global Food for Education Initiative discussed below.

(For more information, see CRS Report RS20520, *Foreign Food Aid Programs: Background and Selected Issues*; CRS Report RS20997, *Farm Bill Trade and Food Aid Provisions; and The Bill Emerson Humanitarian Trust: Background and Current issues*, CRS Report RS21234.)

Recent Program Activity

Export Subsidies. Although under some pressure from interested commodity groups to use EEP more extensively, USDA has limited the scope and funding of EEP since 1995. The rationale for not using EEP is based on USDA economists' argument that using it in the current international economic environment might further depress prices for wheat and other commodities. Some analysts say that not using EEP strengthens the U.S. hand in on-going WTO agriculture negotiations aimed at eliminating export subsidies over some agreed upon time period.

In FY1995, the last year of significant program activity, EEP bonuses were valued at $339 million. In FY1996, $5 million in EEP bonuses were awarded and none were awarded in FY1997. In FY1998, EEP bonuses amounted to just $2 million. Expenditures for EEP sales in FY1999 totaled $1 million. EEP bonuses of $2 million (for frozen poultry) were awarded in FY2000. For FY2001, $7 million of EEP bonuses were awarded. The President's FY2002 budget proposed EEP spending of $478 million, but so far in this fiscal year, no EEP bonuses have been awarded.

Recent levels of DEIP reflect limits imposed by Uruguay Round Agreement commitments, an end to the "roll-over" authority in the Agricultural Agreement, which allowed countries to draw on unused subsidy authority from previous years, and improved world market conditions for skim milk powder.

The program level for DEIP in FY2000 was $78 million and in FY2001 is estimated to have been $8 million. In FY2002, $43.3 million in DEIP bonuses have been awarded. The committee report for S.1191, the Senate version of FY2002 agriculture appropriations, indicates it "expects" the Administration to use fully its DEIP authority. Further, the report expresses concern that the program has lost a "substantial percentage" of its WTO-permitted tonnage every year because not all foreign sales of DEIP-awarded export sales are completed due to buyer cancellations and other factors. The report directs USDA to prepare a plan to ensure that all lost tonnage be reallocated during the applicable export year so that it is not lost due to the WTO provision ending roll-over authority.

Market Development. MAP, like EEP, is not funded by annual appropriations, but appropriations bills have on occasion capped the amounts that could be spent on the program. For example, the FY1999 agricultural appropriations legislation imposed no limits on MAP funding, but did prohibit MAP spending in support of promotion of exports of mink pelts or garments, a provision that was first adopted in the FY1996 agriculture appropriations bill. Since 1993, no MAP funds may be used to promote tobacco exports. Some Members of Congress targeted MAP for cuts in FY2000 to help offset increased expenditures on other programs, but such amendments were defeated. MAP was unsuccessfully targeted by budget cutters in FY2001 as well. USDA's allocation of $90 million for MAP funding in FY2002 is the full amount authorized in the 1996 farm bill. A proposed amendment to eliminate completely MAP funding in FY2002 was defeated during floor consideration of H.R. 2330, the House-passed version of FY2002 agriculture appropriations.

Prior to FY2000, FMDP was funded as part of the appropriation of the Foreign Agricultural Service. The 1996 farm bill provided new, statutory authority for the Program and authorized it through 2002. In FY2000, USDA moved funding for FMDP from discretionary to CCC funding, thus shifting its funding into the mandatory category. Funds allocated for FMDP in FY2001 were $28 million and USDA has allocated the same level of spending in FY2002.

Export Credit Guarantees. For FY2001 export credit guarantees financed an estimated $3.2 billion of U.S. agricultural exports. FY2002 guarantees are estimated to rise to $3.9 billion.

Food Aid. P.L. 480 food aid averaged around $1.2 billion from 1995 to 1998. In FY1999, however, nearly $1.8 billion in P.L. 480 food aid was provided. Although only around $1.1 billion was appropriated for P.L. 480 in FY1999, the final total includes approximately $700 million of food aid programming for Russia, which was carried out through a transfer of funds from the Commodity Credit Corporation. The FY2000 program level for P.L. 480 was $1.076 billion, while FY2001 P.L. 480 spending is estimated at $976 million. The FY2002 spending level for P.L. 480 is estimated at $1.214 billion.

Section 416(b) was used to donate CCC purchases of around 5.3 million metric tons of wheat and wheat flour in the President's Food Aid Initiative in FY1999. Approximately 30 countries designated as having food problems received Section 416 commodities. The FY2000 CCC purchase of 3 million metric tons of wheat were also donated under Section 416(b). Allocations of Section 416(b) commodity donations in FY2001 were an estimated 2.6 million metric tons and in FY2002 are forecast to be 1.4 million metric tons.

Global Food for Education Initiative. Section 416(b) commodities also were used to launch a global food for education initiative (GFEI) in July 2000. Under the GFEI, USDA donates agricultural commodities for use in school feeding and pre-school nutrition projects in developing countries. The program's rationale is that school feeding helps assure that children attend and remain in school, improves childhood development and achievement, and contributes more broadly to social and economic development. USDA's Commodity Credit Corporation (CCC) has committed $300 million of U.S. commodities and transportation to the initiative under the authority of Section 416(b). USDA-approved projects are being implemented by the UN World Food Program (WFP), private voluntary organizations, and eligible foreign governments.

Emerson Trust. Administration proposals to reduce food aid's reliance on surplus commodities and anticipated demand for emergency food aid, especially in southern Africa, have focused renewed attention on the Emerson Trust, which had not been used since 1996. The Secretary of Agriculture announced at the UN World Food Summit on June 10, 2002 that 275,000 of wheat from the reserve would be exchanged for an equal value of corn, beans and vegetable oil for use in humanitarian relief in southern Africa. There, an estimated 12.7 million people will need about 1.9 million tons of staple foods (mainly corn) to compensate for severe food shortages and stave off famine. Private voluntary organizations and cooperatives that implement food aid programs in developing countries, while welcoming use of the trust to alleviate hunger in Africa, have expressed concerns that the trust be reimbursed in a way that does not use P.L. 480 funds as required in current law.

FY2003 Budget Proposals

For USDA's international activities, including food aid, export credit guarantees, export market development programs, and export subsidies, the Administration proposes a $6.45 billion program level for FY2003. This represents the value of all goods and services provided; actual budget authority requested in the President's budget proposal is $1.453 billion, most of which ($1.185) would go to fund P.L. 480 foreign food aid.[1] The program

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[1] Program level exceeds budget authority because federal credit programs, such as export credit guarantees funded through the borrowing authority of the Commodity Credit Corporation (CCC), which are a substantial portion of USDA's international activities, do not require annual appropriations. Only administrative expenses and loan subsidies, not the value of the loan or

(continued...)

levels for USDA's international activities in FY2002 were estimated at $6.4 billion and were $5.22 billion in FY2001. Budget authority enacted for FY2002 was $1.124 billion, or $330 million less. Increased budget authority for FY2003 reflects a decision by the Administration to pay for much of U.S. foreign food aid with discretionary rather than mandatory spending.

Within the $1.453 billion of budget authority for discretionary programs, the President requests $1.185 billion for P.L. 480 (Food for Peace) programs, which have been the main channel for U.S. foreign food aid and are the largest appropriated international USDA program. The budget request for P.L. 480 is $335 million greater than the FY2002 request. Almost all of the increase will be allocated to commodity donations for emergency and humanitarian feeding programs under Title II of P.L. 480. The budget request is estimated by USDA to support 3.7 million metric tons of P.L. 480 commodity assistance to developing countries in FY2003. However, foreign food assistance program levels would decline under the FY2003 budget proposal, to $1.35 billion, compared with an estimated $1.61 billion in FY2002 and $1.66 billion in FY2001.

The reduction in program level is due to the Administration's decision to curtail sharply reliance on another food aid vehicle, Section 416(b) CCC surplus commodity donations. Only about $50 million in Section 416 commodities (mostly surplus nonfat dry milk) is expected to be available in FY2003, compared with an estimated $360 million in Section 416 commodities in FY2002 and $634 million in FY2001. Proposed reductions in Section 416 (which in past years have not necessarily been achieved) are rationalized by a recent Administration review of food aid that also recommended (and is in this budget) that all programs now run through private voluntary organizations (PVOs), cooperatives, and the World Food Program be placed in AID, with USDA food aid activities confined to government-to-government programs. So, Food for Progress (FFP), which provides U.S. commodities to developing countries and emerging democracies and is funded at more than $100 million annually, shows no CCC program level. Any FFP activity would be limited to government-to-government programs under P.L. 480 Title I. (Both Section 416(b), and CCC funds used for Food for Progress are in the mandatory category of spending and do not require annual appropriation of budget authority.)

The Administration's decision virtually to eliminate Section 416(b) commodity donations has provoked controversy between the Administration and food aid providers, such as private voluntary organizations (PVOs) and cooperatives, and agribusiness suppliers of commodities to the food aid programs. Some Members of Congress also have criticized the Administration's decision on food aid. These groups welcome the increase in Title II commodity donations, but maintain that the net effect of the Administration's decision will be to reduce the volume of U.S. foreign food aid. Some food aid groups agree that food aid should not be based on the availability of surpluses (as is the case with Section 416(b)), but argue that substantially more funds for food aid than requested by the President are needed.

Many other USDA international programs are not subject to direct annual appropriations, and instead are funded through CCC borrowing authority. About two-thirds

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[1] (...continued)
guarantee, require an appropriation. In addition, CCC funded activities, such as EEP, MAP, and FMDP, which are included in program level, do not require annual appropriations.

of the proposed FY2003 program level, $4.22 billion, would be for CCC export credit programs.

For other CCC-funded programs, the Administration proposes $90 million for the market access program (MAP) and $28 million for the foreign market development cooperator program (FMDP), the same as current year funding. Both – which would be expanded significantly by the pending omnibus farm bills – assist trade associations and others to develop overseas markets for U.S. farm products. For the two CCC-funded direct export subsidy programs, the Administration proposes $478 million for the Export Enhancement Program (EEP), the maximum permitted by current farm law and world trade obligations (although only about $1 million annually has been used in recent years), and $63 million for the Dairy Export Incentive Program (DEIP), also reflecting maximum permitted levels under trade obligations.

No funding for the Global Food for Education Initiative (GFEI), a pilot school and child nutrition program costing an estimated $230 million worth of CCC commodities, is in the FY2003 proposal. USDA said a decision on continuation will hinge on the results of an evaluation. In the meantime, as indicated above, the FSRIA authorizes such a program and mandates $100 million of CCC funds to finance it in FY2003. Finally, the Administration proposes that all costs of the "cargo preference" law, which requires that 75% of all food aid be shipped on U.S. flag vessels when feasible, would be borne by USDA; currently, the U.S. Maritime Administration reimburses USDA for one-third of those costs.

Trade Negotiations

Export subsidies are on the agenda of WTO agricultural trade negotiations now underway. The United States has proposed that such subsidies be eliminated, while the European Union, which opposes complete elimination of such subsidies, has conditioned its willingness to negotiate reductions in export subsidies on the inclusion of export credits and food aid on the WTO agriculture negotiating agenda.

Not only the EU, but other U.S. trading partners such as Australia, Brazil, and a number of agricultural exporting developing countries also have raised the issue of large U.S. food aid shipments and export credit guarantee programs in on-going WTO agriculture negotiations. They have suggested that the United States is using food aid to get around its export subsidy reduction commitments made in the 1994 Uruguay Round Agriculture Agreement and that export credit programs should also be curbed along with direct export subsidies. The United States has countered that its food aid shipments, though large, are made in conformity with WTO rules, and are being made available to countries with food needs or in the context of development programs such as the GFEI. Food aid is also an issue for some food-importing developing countries who feel that the United States and other developed countries have not adequately addressed their commitment made in the Uruguay Round negotiations to meet long-term needs for food aid, for financing food imports, and for technical assistance to improve food production. On export credits, the United States, while professing willingness to make changes in programs that would reduce the subsidy component of such programs, has maintained that export credit programs also meet food security needs of some importing countries.

Along with market promotion and food aid programs, export credit guarantees are exempt from Uruguay Round disciplines and reduction commitments. Member countries of the World Trade Organization (WTO) agreed, however, in the 1994 Uruguay Round Agreement on Agriculture, "to work toward the development of internationally agreed disciplines to govern the provisions of export credits, export credit guarantees or insurance programs and, after agreement on such disciplines, to provide export credits, export credit guarantees, or insurance programs only in conformity therewith." Negotiations on agricultural export credits and guarantees were carried out in the Paris-based Organization for Economic Cooperation and Development (OECD).

In the OECD negotiations, some countries suggested that the United States change its program by, for example, reducing the volume of credit guaranteed or shortening the terms for which guarantees are provided. The United States indicated a willingness to make some changes in the program in exchange for greater transparency on the part of other countries' export credit financing agencies and state trading enterprises.

The OECD negotiations on new rules and disciplines for agricultural export credits and guarantees ended without agreement. The main differences were over how an agreement would cover state agricultural exporting enterprises like those used by Australia and Canada and the length of repayment terms for U.S. export credit guarantees. Without an agreement, negotiations on agricultural export credits will move into the on-going WTO agriculture trade negotiations, where a number of WTO members have already raised the issue. The Senate Finance Committee version of fast track or trade promotion authority, however, makes preservation of U.S. export credit guarantees a U.S. objective in agricultural trade negotiations.

Many in the U.S. agricultural community have expressed concerns that what they regard as an effective tool for expanding agricultural exports not be adversely affected by trade negotiations. Both versions of trade promotion authority (TPA) legislation (H.R. 3005 passed by the House and H.R. 3009 as passed by the Senate) make preservation of export credit programs (and food aid) a principal negotiating objective of the United States in the current round of WTO trade negotiations. This objective calls for eliminating agricultural export subsidies, but maintaining bona fide food assistance programs, and preserving U.S. market development and export credit programs. Nevertheless, in WTO agriculture negotiations, U.S. officials have indicated a willingness to discuss disciplines on export credit programs.

(For more information, see *Agricultural Export Subsidies, Export Credits, and the World Trade Organization*, CRS Report RS20858.)