Order Code IB98006

CRS Issue Brief for Congress
Received through the CRS Web

Agricultural Export and Food Aid Programs

Updated January 14, 2000

Charles E. Hanrahan
Resources, Science, and Industry Division

CONTENTS

SUMMARY

MOST RECENT DEVELOPMENTS

BACKGROUND AND ANALYSIS

U.S. Agricultural Exports

Agricultural Export and Food Aid Programs
- Export Subsidies
  - Export Enhancement Program (EEP)
  - Dairy Export Incentive Program (DEIP)
- Market Promotion
  - Market Access Program (MAP)
  - Foreign Market Development Program (Cooperator Program)
- Export Credit Guarantees
  - Export Credit Guarantee Programs (GSM-102 and GSM-103)
- Foreign Food Assistance
  - P.L. 480 Food for Peace
  - Section 416(b)
  - Food for Progress (FFP)

FOR ADDITIONAL READING

Agricultural Export and Food Aid Programs

SUMMARY

The U.S. Department of Agriculture (USDA) forecasts that FY2000 agricultural exports will be $49 billion, the same level as in FY1999, while projected imports of $38 billion will be just over FY1999's $37.5 billion. The expected export surplus is $11 billion, $1 billion less than last fiscal year and the lowest level since 1987. USDA's forecast reflects continued weak demand for U.S. farm products in East and Southeast Asian countries that have experienced financial difficulties, a strong dollar, and increased global competition for U.S. corn, wheat, and soybean exports.

Falling exports, coupled with lower U.S. prices and a drop in farm income, are among the reasons the Secretary of Agriculture and USDA have announced several food aid and export program measures to boost U.S. agricultural exports. These include the purchase of more than 5 million metric tons of wheat for donation to needy countries (the President's Food Aid Initiative) as of July 19, 1999, a 3.1 million metric ton food aid program for Russia, and large export credit guarantees, especially to Asian countries and Mexico.

The 1996 farm bill (P.L. 104-127), the Federal Agriculture Improvement and Reform (FAIR) Act, authorizes four kinds of federal programs to support agricultural exports: direct subsidies, market promotion, export credit guarantees, and foreign food aid. Direct subsidy programs include the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). FY2000 EEP spending is authorized at $579 million, which is the level authorized by the FAIR Act and within limits imposed by the 1994 Uruguay Round Agreement on Agriculture. DEIP spending is authorized at the maximum allowed under the Uruguay Round Agreement. EEP spending has been negligible since 1996, although EEP bonuses are currently available to subsidize the sale of frozen poultry meat to the Middle East.

USDA's market promotion programs include the Market Access Program (MAP) and the Foreign Market Development (FMDP) or "Cooperator" Program (FMDP). Considered to be non-trade distorting, these programs are exempt from Uruguay Round reduction commitments. The FAIR Act caps MAP at $90 million annually through FY2002. FMDP funding is a little over $27 million in FY2000.

The FAIR act authorizes export credit guarantees of $5.5 billion annually plus an additional $1 billion for emerging markets through 2002. For FY2000, USDA has announced allocations of $3.6 billion in export credit guarantees, $1.1 billion of which goes to Asian countries to help them finance purchases of U.S. agricultural products. Export credit guarantees are not subject to Uruguay Round disciplines or reduction commitments.

The FAIR Act authorizes P.L. 480 Food for Peace programs and Food for Progress through FY2002. Section 416 of the Agricultural Act of 1949 provides for commodity donations. A Food Security Commodity Reserve provides for unanticipated emergency needs. The more than 5 million ton donation of wheat in the President's food aid initiative is being made available to food-deficit countries under Section 416. The Russian food aid program includes both P.L. 480 food aid concessional finance and donations and Section 416 donations.

MOST RECENT DEVELOPMENTS

The President's budget for FY2001, which will be delivered to Congress on February 7, 2000, will contain recommendations for funding levels for agricultural export and food aid programs.

USDA's latest official forecast (November 30, 1999) is that FY2000 U.S. agricultural exports will be $49 billion, the same as in FY1999, while imports will rise to $38 billion, $500 million more than last year. The agricultural export surplus of $11 billion would be the lowest level since 1987. Mainly responsible for the drop in exports are continuing financial difficulties in East and Southeast Asia, the strength of the dollar (which makes U.S. exports more expensive in importing countries), and competition for U.S. corn, wheat, and soybean exports in world markets.

USDA has been using its Commodity Credit Corporation Export Credit Guarantee Programs, especially short-term credit guarantees (GSM-102), to respond to the financial crisis in several East and Southeast Asian countries. The FY2000 allocation for export credit guarantees as of November 30 is $3.6 billion, with the lion's share going to financially strapped Asian countries ($1.1 billion) and Mexico ($500 million). Last year's allocation for export credit guarantees was $4.0 billion.

Under the President's Food Aid Initiative (announced July 18, 1998), approximately 5.2 million metric tons of wheat and wheat flour have been purchased for donation to 30 countries experiencing food problems, including Russia, the Balkans, and Central American countries ravaged by Hurricane Mitch. Funds from the Commodity Credit Corporation are used to purchase the wheat which is subsequently donated under Section 416(b) foreign food donations (see below).

The U.S. food assistance package for Russia (announced November 1998) includes a combination of donations and concessional sales of grains, meats, oilseeds, and other U.S. agricultural products. As of August 18, 1999, despite some logistical and other difficulties, practically all of the 1.7 million tons of wheat and wheat flour allocation had been exported to Russia. Recently, Secretary Glickman announced that Russia had requested additional food aid, but no agreements have been reached.

The FY2000 agricultural appropriations act (P.L. 106-78) provided for a program level of around $5.7 billion for USDA's agricultural export and food aid programs. The appropriations act provides a little over $1 billion for P.L. 480 food aid programs.

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 55% of wheat, 43% of rice, 35% of soybeans, 18% of corn, and 32% of cotton. About 17% 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 in 1997 stimulated another $1.38 in supporting activities to produce those exports. Agricultural exports generated an estimated 895,000 full-time civilian jobs, including 562,000 jobs in the non-farm sector. In contrast to the continuing overall trade deficit, U.S. agricultural trade has consistently registered an export surplus.

Nearly every state exports agricultural commodities, thus sharing in export-generated employment, income, and rural development. In 1998, the states with the greatest shares in U.S. agricultural exports by value were California, Iowa, Illinois, Texas, Nebraska, Kansas, Minnesota, Washington, Indiana, and Arkansas. These 10 states accounted for 58% of total U.S. agricultural exports. In addition, Florida, Georgia, Missouri, North Carolina, North Dakota, Ohio, South Dakota, and Wisconsin 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, then declined 40% to $26.3 billion in 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 by $3.7 billion to $53.6 billion in FY1998. This decline was due largely to the economic effects of continuing financial turmoil in South Korea and Southeast Asian markets and to increased competition for corn, wheat, and soybeans in global markets. For the same reasons, exports fell in FY1999 to $49 billion. USDA revises its forecasts of agricultural trade quarterly. The most recent forecast (November 30, 1999) projects FY2000 exports to remain at $49 billion.

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 FY1999, high value agricultural exports accounted for 62% 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 can also influence the level of U.S. agricultural exports.

Agricultural Export and Food Aid Programs

The trade title of the 1996 FAIR ACT (Title II of P.L. 104-127) authorizes and amends four kinds of export and food aid programs:

- Direct export subsidies;
- Programs to promote U.S. agricultural exports in foreign markets, including consumer promotions, market research, technical assistance, and trade servicing;
- 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 FY2000, the agricultural appropriations act (P.L.106-78) provides budget authority of $1.063 billion which will support a program level of $5.563 billion. The 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 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 require authorization of budget authority.

Export Subsidies

The 1996 FAIR Act authorizes direct export subsidies of agricultural products through the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). Previously operated subsidy programs for cottonseed oil and sunflower seed oil exports were effectively terminated by the FAIR Act, although exports of these products still can be subsidized by the EEP.

Export Enhancement Program (EEP). EEP was instituted in 1985, first by the Secretary of Agriculture under authority granted in the Commodity Credit Corporation Charter (CCC) 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 for 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. Egypt, Algeria, and China have been 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 subsidy 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 could be used also to develop export markets.

The 1996 FAIR Act makes available for EEP "not more than" $350 million in FY1996, $250 million in FY1997, $500 million in FY1998, $550 million in FY1999, $579 million in FY2000, and $478 million annually in FY2001 and FY2002. The levels were well below the amounts allowed under the Agreement on Agriculture for FYs1996-1999 but at the allowed ceilings thereafter. The 1996 FAIR Act also authorizes the Secretary of Agriculture, beginning in FY1996, to make available up to $100 million of EEP funds annually for subsidizing the sale of intermediate agricultural products.

In FY1995, the last year of significant program activity, EEP bonuses were valued at $339 million. Only $5 million in EEP bonuses were awarded in FY1996 and none was awarded in FY1997. In FY1998, EEP bonuses amounted to just $2 million. Expenditures for EEP sales in FY1999 totaled $1.4 billion. EEP spending in FY2000 as of November 22 totals $29,250 for frozen poultry. Recently, the Secretary of Agriculture has been under considerable pressure from wheat and flour producers to reactivate the EEP program. Wheat stocks are rebuilding and average farm prices have reached their lowest levels in four years. From a high of $4.55 per bushel in 1996, wheat prices fell to $3.20 at the beginning of 1998. Wheat prices are forecast to range from $2.45 to $2.75 per bushel in 1999. (Prices are season average prices received by farmers as reported by USDA.) The Secretary has not so far responded with any announcement of EEP subsidies for wheat or wheat flour. The rationale for not using EEP is based on USDA economists' argument that using EEP in the current international economic environment might further depress prices for wheat.

EEP has been a controversial program since it was initiated in 1985. Many oppose the program 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 other competitors, such as the European Union, use export subsidies, the United States should also be prepared to use them. The effectiveness of EEP is also at 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 question whether EEP subsidies should target different products and country markets. EEP has subsidized primarily bulk commodities (predominantly wheat) and has been targeted largely to the Middle East and North Africa. Some suggest that instead, EEP should target high-growth markets in Asia and Latin America for high-value or value-added products.

For more information see CRS Report RS20399 Agricultural Export Programs: The Export Enhancement Program (EEP), November 10, 1999.

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 to DEIP as well, so outlays and subsidized quantities should decline from FY1996 through FY2001. Uruguay Round implementing legislation authorized DEIP through the year 2001. The 1996 FAIR Act extended DEIP authority to FY2002, directed the USDA to maximize the volume of dairy exports consistent with the Uruguay Round Agreement, and authorized DEIP exports to anywhere in the world. The program level for DEIP in FY1999 is estimated by USDA to be around $145.3 million, with sales of 36,122 tons of anhydrous milk fat, butter, butter oil, cheese, and whole milk powder. USDA has estimated that DEIP subsidies will be $99 million in FY2000. As of November 22, DEIP bonuses in FY2000 of $16 million have assisted 16,809 metric tons of dairy product exports.

An issue during farm bill debate was whether a separate export subsidy program is needed for dairy products. Some industry supporters want to continue the program for dairy products because they view it as less likely that dairy will lose its funding if the program does not have to compete with other products for support. Others argue, however, that dairy products should be considered alongside all other commodities in one large subsidy program. Under such an arrangement, they argue, commodities and country markets could be strategically targeted. The FAIR Act resolved this issue by continuing the separate authorization for dairy export subsidies.

For more information see CRS Report RS20402, Agricultural Export Programs: The Dairy Export Incentive Program (DEIP), November 18, 1999.

Market Promotion

USDA operates two market promotion programs, the Market Access Program (MAP), formerly the Market Promotion Program (MPP) which in its turn 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, had been 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).

Although the Uruguay Round Agreement on Agriculture requires cuts in direct export subsidies such as EEP, no reductions are required in market promotion programs such as MAP on grounds that they are not trade-distorting. As a consequence, many agricultural groups have called for an increase in funding for MAP and other programs not subject to reduction commitments.

The FAIR Act authorizes MAP through FY2002 and caps funding at $90 million annually from FY1996-FY2002. That is a drop from the FY1995 program level of $110 million. The Act also restricts 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. The Secretary announced that, starting in FY1998, all MAP funds for promotion of branded products would be allocated to cooperatives and small U.S. companies.

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. FY1999 agricultural appropriations legislation impose no limits on MAP funding, but do 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. The President's FY1999 budget calls for $90 million of MAP funding, the full amount authorized by the 1996 farm bill. Some Members of Congress targeted MAP for cuts in FY1999 to help offset increased expenditures on other programs, such as highways and bridges, but such amendments were defeated. The President's FY2000 budget again calls for full funding of MAP at $90 million. Legislation has been introduced in the 106th Congress, H.R. 1470, to repeal MAP (and EEP as well). The agricultural appropriations act for FY2000 (P.L.106-78) contains no restrictions on MAP funding.

Foreign Market Development Program (Cooperator Program). 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. Unlike the MAP program, which is mandatory and included in the budget reconciliation process, the Cooperator Program is a discretionary program funded with direct appropriations. The President's FY2000 budget proposed that future funding for FMDP come from CCC funds, thus shifting its funding into the mandatory category. The 1996 farm bill provides statutory authority for the Program and authorized it through 2002. Funding for FMDP is estimated to be $33 million in FY1998. The President's FY2000 budget proposes to allocate $27.5 million of CCC funds to FMDP.

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.

Export Credit Guarantees

FAIR reauthorizes two 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 but are short of cash. 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. The financial crisis in several East and Southeast Asian countries has focused attention on the export credit guarantee programs.

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 (3 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 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 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 finance a broad range of commodities, but have mainly financed exports of wheat, wheat flour, oilseeds, feed grains, and cotton.

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) have agreed, however, "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 export credit guarantees have been underway in the Organization for Economic Cooperation and Development (OECD). A sense of Congress resolution, included in the FAIR Act, provides that multilateral negotiations on export credits should be compatible with U.S. law, impose disciplines on entities such as the Australian and Canadian

wheat boards, and ensure greater openness on entities that receive considerable support from their governments.

The CCC can also extend credit under GSM-102 for two other programs: "suppliers 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 expected also to be 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" will also be 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 1996 farm bill authorizes export credit guarantees at $5.5 billion annually through FY2002, but gives CCC flexibility to determine the allocation between short and intermediate term programs. The new law allows guarantees to be used when the bank issuing the underlying letter of credit is located in a country other than the importing country. Minimum amounts of credit guarantees would be made available for processed and high-value products—not less than 25% in FYs1996 and 1997, 30% in FYs1998 and 1999, and 35% in FYs2000-2002. The FAIR Act permits credit guarantees for high-value products with at least 90% U.S. content by weight, allowing for some components of foreign origin. The FAIR Act also authorized an additional $1 billion through 2002 in export credit guarantees targeted to "emerging markets," countries that are in the process of becoming commercial markets for U.S. agricultural products.

FY1999 appropriations would support a program level of $5.7 billion for these programs. USDA announced allocations for the export credit guarantee programs of $4.0 billion for FY1999, with the lion's share going to economically troubled Asian countries ($1.3 billion) and to Mexico ($1.25 billion). USDA has announced allocations of $3.7 billion in FY2000 as of November 19, 1999.

In the OECD negotiations over disciplines for export credits and credit guarantees, some countries are suggesting 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 has 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 entities. 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 the OECD negotiations. The sense of Congress resolution concerning export credit negotiations in the FAIR Act reflects this concern.

Other issues that relate to the effectiveness of the export credit guarantee programs include the level of guarantees to provide; redesigning the programs to deal with changed political and economic situations, such as political and economic transformation in Eastern and Central Europe and the FSU; and accommodating the programs to changes in the

commodity composition of U.S. agricultural exports, e.g., by providing more guarantees for high-value products; and allowing more foreign content in the exports backed by loan guarantees.

Foreign Food Assistance

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 1996 FAIR Act, except Section 416 which is part of the Agricultural Act of 1949.

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 food and feed 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.

Section 416(b) is being used to donate the CCC purchases of around 5.4 million metric tons of wheat and wheat flour in the President's Food Aid Initiative. Approximately 30 countries designated as having food problems are receiving Section 416 commodities.

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.

Issues raised during farm bill debate on food aid included the size of the programs in relation to global needs; making the programs more responsive to legislative intent (market development in the case of Title I, humanitarian response in the case of Title II); and whether to end cargo preference, the requirement that 75% of U.S. food aid be shipped on U.S.-flag vessels. Cargo preference was debated early in farm bill consideration, but P.L. 104-127 does not deal with the issue.

The Uruguay Round Agreement on Agriculture exempts foreign food aid from any reduction commitments, if it is *bona fide* and not used to circumvent export subsidy reduction

commitments. Uruguay Round implementing legislation takes note of the possible negative effect (higher prices for food imports) of the Agreement on net-food importing countries, by expressing the sense of Congress that "the United States should increase its contribution of *bona fide* food aid to developing countries consistent with the Agreement on Agriculture."

The 1996 farm bill extends authority for all P.L. 480 programs and Food for Progress through FY2002. (Section 416 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 become eligible for Title I sales agreements. A 5-year grace period, instead of the current 7 years, 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 reordered listing developing countries with demonstrated potential to become commercial markets for U.S. agricultural commodities first.

The FAIR Act allows private voluntary organizations (PVOs) and cooperatives to carry out Title II nonemergency programs in countries where AID does not maintain a mission. The bill increases the funds that can be used to pay new project or administrative and other costs of PVOs and coops from $13.5 to $28 million. Intergovernmental organizations, such as the World Food Program, become eligible to apply for such funds. The minimum amount of nonemergency Title II commodities to be monetized (i.e., sold) increases from 10 to 15%. 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. Minimum tonnage levels for both total and nonemergency assistance stipulated for FY1995 under the 1990 farm act are maintained through FY2002.

The Food Security Wheat Reserve was broadened into a Food Security Commodity Reserve (FSCR) by adding corn, rice, and sorghum to the list of commodities to be held in reserve. The bill increases the amounts of reserve stocks that can be released in any fiscal year to meet unanticipated emergency needs. P.L. 105-385 enacted in the 105th Congress transforms the FSCR into a Food Security Trust. The trust will be comprised of commodities and certain funds of the Commodity Credit Corporation made available under P.L. 480. Funds can be used to purchase commodities to replenish the trust. This legislation also provides permanent authority for the trust.

Although 1994 Uruguay Round implementing legislation and the 1996 farm bill both call for increasing contributions of bona fide food aid to developing countries, ensuing budget submissions by the Administration and agriculture appropriations acts have called for reduced levels of food aid. The FY1996 appropriations act provided for a program level of $1.187 billion for P.L. 480 food aid. That amount was $71 million less than in FY1995. The FY1997 agricultural appropriations act provided for a total P.L. 480 program level of $1.097 billion in FY1997, $77 million less than in FY1996. Lower FY1997 funding was due largely to cuts in concessional sales (Title I) and grant food aid (Title III). FY1998's program level is currently estimated to be $1.112 billion, which would provide 3.2 million metric tons of commodity assistance.

The FY1999 funding for P.L. 480 is estimated to be $1.1 billion. Moreover, FY 1999 emergency supplemental legislation authorizes an additional $149 million for emergency food

aid (Title II donations) to Kosovo. P.L.106-78 authorizes FY2000 funding for P.L.480 of $951 million.

Although funding for P.L. 480 in FY1999 is slightly lower than in FY1998, commodity totals for U.S. food aid in FY1999 are likely to be high. That is because Commodity Credit Corporation authorities and Section 416 are being used to channel additional commodities to developing countries and to Russia. Secretary Glickman announced (September 10, 1999) that 8.5 million metric tons of U.S. commodities were shipped in FY1999, more than 5 times FY1998's 1.6 million tons, the largest tonnage in 25 years.

The President's budget expects that $109 million of CCC funds will be used to support Food for Progress programs in FY1999—$79 million for the purchase of commodities by the CCC and $30 million for transportation and other non-commodity costs. Additional FFP programming could come from funds under P.L. 480 Title I. Emergency appropriations legislation for FY1999 provides an additional $30 million for FFP. The FY2000 estimate for FFP is $91 million. The use of Section 416 commodity donations is expected to decline substantially in FY2000. The President's budget anticipates that only $3 million will be needed to finance ocean freight and transportation for Section 416 donations in FY2000 in contrast to $678 million expected for FY1999.

FOR ADDITIONAL READING

U.S. Department of Agriculture. *1995 Farm Bill: Guidance of the Administration*. May 9, 1995.

——Economic Research Service. *Agricultural Export Programs: Background for 1995 Farm Legislation*. Agricultural Economic Report no. 716, June 1995.

U.S. General Accounting Office. *Changes Needed to Improve Effectiveness of the Market Promotion Program*. July 1993. GAO/GGD-93-125

——*Foreign Agricultural Service Could Benefit from Better Strategic Planning*. September 1995. GAO/GGD-95-225

——*Food Aid: Competing Goals and Requirements Hinder Title I Program Results*. June 1995. GAO/GGD-95-68

——*Food Aid: Management Improvements are Needed to Achieve Program Objectives*. July 1993. GAO/NSIAD-93-168

——*Foreign Aid: Actions Taken to Improve Food Aid Management*. March 1995. GAO/NSIAD-95-74

——*Foreign-Owned Exporters' Participation in the Export Enhancement Program*. Report to Congressional Requesters. May 1995. GAO/GGD-95-127

——*GSM Export Credit Guarantees*. September 29, 1994. Letter response to the Chairman of the Senate Committee on Agriculture, Nutrition, and Forestry. GAO/GGD-94-211R

CRS Reports

CRS Report 94-582 S. *Agriculture in the Uruguay Round: An Assessment*, by Charles E. Hanrahan.

CRS Report 95-388 ENR. *Export Enhancement Program: Background and Current Issues*, by Lenore Sek.

CRS Report 97-179 ENR. *Agricultural Programs for Marketing Abroad: Funding and Program Issues*, by Lenore Sek.

CRS Report 96-304 ENR. *The 1996 Farm Bill: Comparison of Selected Provisions with Previous Law*, by Food and Agriculture Section. Environment and Natural Resources Policy Division.

CRS Report 96-538 ENR. *Food Aid and Trade Provisions in the Federal Agriculture Improvement and Reform Act of 1996*, by Charles E. Hanrahan.

CRS Report 94-303 S. *P.L. 480 Food Aid: History and Legislation, Programs, and Policy Issues*, by Leisl Leach and Charles E. Hanrahan.

CRS Report 98-253 ENR. *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy*, by Charles E. Hanrahan, Lenore Sek, and Mary L. Dunkley.

CRS Report 96-707 ENR. *How is U.S. Agriculture Faring Under NAFTA and the WTO?* Proceedings of a CRS Seminar, by Charles E. Hanrahan and Lenore Sek.

CRS Report 96-779 ENR. *Agriculture in the WTO Ministerial Conference*, by Charles E. Hanrahan

CRS Report 96-903 ENR. *The U.S. Department of Agriculture: Appropriations for FY1997*, by Ralph Chite et al.

CRS Report 97-201 ENR. *Appropriations for FY1998: U.S. Department of Agriculture*, by Ralph M. Chite et al.

CRS Report 98-201 ENR. *Appropriations for FY1999: U.S. Department of Agriculture and Related Agencies*, by Ralph M. Chite et al.

CRS Report 98-398 ENR. *The Food Security Reserve: The Replenishment Issue*, by Charles E. Hanrahan.

CRS Report RL30201. Appropriations for FY2000: U.S. Department of Agriculture and Related Agencies, by Ralph M. Chite et al.

CRS Report 96-351 ENR. *An Introduction to Farm Commodity Programs*, by Geoffrey S. Becker.