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Agricultural Export Subsidies, Export Credits, and the World Trade Organization

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Summary

Despite agreement in the World Trade Organization (WTO) to reduce agricultural export subsidies, their use is still substantial for certain commodities and countries. Of $6.6 billion in global export subsidies in 1998, 30% went to dairy, 22% to grains, 19% to meat and 14% to sugar. The European Union (EU) alone accounted for more than 90% of total export subsidy spending, while the United States accounted for 2.2%. Export subsidies are on the agenda of WTO agriculture negotiations where the United States, among others, has proposed their total elimination. The EU, however, has conditioned further reductions in export subsidies on negotiating multilateral rules to curb the use of officially supported export credit programs (direct credits, credit guarantees, insurance). Export credits may give exporters a competitive advantage, but their subsidy component is estimated to be small. Failure of negotiations in the Organization for Economic Cooperation and Development (OECD) to establish rules for using export credits creates pressure to include this topic on the WTO negotiating agenda. This report will be updated as developments warrant.

WTO Export Subsidy Reduction Commitments

The Uruguay Round Agreement on Agriculture, which entered into force in 1995, established a strengthened set of multilateral rules for agricultural trade. In the Agreement, member countries of the World Trade Organization (WTO) made commitments to reduce tariffs on agricultural products and to curb both domestic and export subsidies that distorted agricultural trade.[1] For export subsidies, the Agreement

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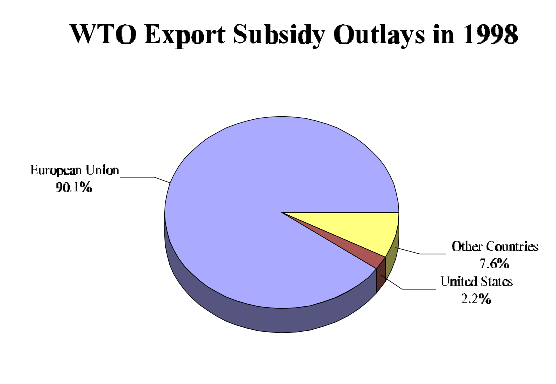
[1] For an overview of the Uruguay Round Agreement on Agriculture, see *Agricultural Negotiations*
(continued...)

requires that both their volume and value be reduced from their average levels in 1986-88. Reduction commitments are made on a product basis. Quantities subsidized must be reduced by 21% and subsidy outlays by 36% by the end of a six-year implementation period, the last year of which was 2000. Under the Agreement, 25 WTO member countries made commitments to reduce agricultural export subsidies.

The Agreement on Agriculture broadly defines export subsidies as payments on the export of an agricultural product financed by virtue of government action, whether or not charged to the public account. The rationale for curbing their use is that they are trade-distorting because they are used to dispose of surplus agricultural production. They give a price advantage to the subsidizing country in competition with countries that subsidize less or not at all. Export subsidies are usually linked with domestic price support policies that contribute to surplus production and with tariffs that protect domestic producers from outside competition.

Experience with Export Subsidy Use

WTO member countries with reduction commitments file notifications of their subsidy activities with the WTO. Based on these notifications, the WTO secretariat recently compiled country experience with export subsidy reduction commitments in a background report prepared for WTO agriculture negotiations.[2] All 25 countries with export subsidy reduction commitments complied with their obligation to notify the WTO of their subsidy activity in 1998. Of the twenty-five countries, fourteen used subsidies in 1998 (Table 1).



Source: World Trade Organization (WTO), *Export Subsidies Background Paper by the Secretariat*, May 11, 2000.

The WTO report shows that despite reduction commitments, the use of export subsidies is still substantial for certain commodities and countries. Of the $6.6 billion in export subsidies in 1998[3], the largest share went to dairy products (30%), followed by grains (22%), meat (19%), and sugar (14%). Using data in the WTO export subsidy report, the Organization for Economic Cooperation and Development (OECD) reports that 25% of world trade in butter and cheese and more than 40% of world trade in skimmed milk powder

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[1] (...continued)
in the World Trade Organization, CRS Report 98-254; for a review of experience with domestic support reduction commitments, see *Farm Support Programs and World Trade Commitments*, CRS Report RL30612.

[2] WTO, *Export Subsidies: Background Paper by the Secretariat*, G/AG/NG/S/5, May 11, 2000 is available at http://www.wto.org/english/tratop_e/agric_e/ngs5_e.doc

[3] 1999 export subsidy activity is still being notified.

are subsidized.[4] Almost 30% of global pork trade and 13 % of beef trade are subsidized, while nearly 14% of world trade in coarse grains and 14% of wheat also are subsidized.

The notifications show that the European Union (EU) is the largest user of export subsidies (Figure 1). In 1998, the EU spent almost $6 billion on export subsidies or 90.1% of the WTO member country total. The EU subsidized most of its agricultural exports, including nearly all of its exports of coarse grains, butter and butter oil, beef, and skim milk powder.[5] In 1998, the United States reported export subsidies of about $147 million, 98% of which was for dairy products and the rest for poultry meat. U.S. agricultural export subsidies represented 2.2% of total WTO member country export subsidy spending in 1998.

Table 1. Agricultural Export Subsidies in 1998

Country	Outlay ($millions)	Percent
Australia	1.259	0.02%
Colombia	20.115	0.30%
Cyprus	3.464	0.05%
Czech Republic	41.757	0.63%
European Union	5,976.544	90.14%
Hungary	11.758	0.18%
Israel	0.980	0.01%
Norway	77.216	1.16%
Poland	13.700	0.21%
Slovak Republic	12.275	0.19%
South Africa	3.386	0.05%
Switzerland	292.040	4.40%
Turkey	29.080	0.44%
United States	146.708	2.21%
Total	**6,630.282**	**100.00%**

Source: WTO, *Export Subsidies: Background Paper by the Secretariat*, May 11, 2000.

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[4] OECD, *A Forward Looking Analysis of Export Subsidies in Agriculture*, December 2000.

[5] U.S. Dept. of Agriculture, Economic Research Service, *The Road Ahead: Agricultural Policy Reform in the WTO*, "Options for Reducing Export Subsidies," pp. 19-20, Agricultural Economic Report No. 797, January 2001.

Export Credit Programs

Officially supported export credit programs also were discussed during the Uruguay Round negotiations as a measure that exporters could use to subsidize exports or circumvent export subsidy limits. Officially supported export credit programs may include direct credits or financing, credit guarantees or insurance for loans, or interest rate support by governments. Export credits may offer an importer financial terms such that the total cost of acquiring the commodity is reduced below alternative, private market costs.[6] The Agreement on Agriculture, however, did not deal directly with export credits or their effects on trade as it did with export subsidies. Instead, signers of the Agreement committed to "work toward the development of internationally agreed disciplines" for officially supported credit programs. Those negotiations, which were held under OECD auspices rather than in the WTO, have not resulted in any new rules for export credits and were suspended in November 2000.

As part of its research on issues in WTO agriculture negotiations, the OECD recently reported on the use of export credits and estimated the extent to which they subsidize exports.[7] (The main results of the OECD study are summarized in Table 2.) In 1998, OECD countries reported export credit use of $7.9 billion (the value of trade supported with export credit programs.). The United States was the largest user with $3.9 billion, followed by Australia with $1.5 billion, EU countries with $1.2 billion, and Canada with $1.1 billion. The share of trade benefitting from these programs was 14.8 % for Australia, 6.8% for the United States, 6.3 % for Canada, and 2.2% for the EU.

The share of trade covered by export credits and the amount of subsidy they represent are not the same thing, however. OECD's analysis indicates that, in contrast to export subsidies, the subsidy component of export credit programs is a small part of the total value of the credit programs, amounting to $300 million or 3.6% of the total credit value reported in 1998.[8] Export credits used by the United States had an estimated subsidy component of $258 million which gives a subsidy rate of 6.6% compared to the average 3.6% for all users. The higher U.S. subsidy component is largely explained, according to

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[6] OECD, "Economic Consequences of Multilateral Agreements," by Loek Boonekamp, OECD Directorate for Agriculture. Paper presented at the annual Outlook Forum of the U.S. Department of Agriculture, February 22, 2001.

[7] OECD, *An Analysis of Officially Supported Export Credits in Agriculture*, December 20, 2000.

[8] OECD describes its methodology as follows: "...the OECD has used existing methodologies to estimate the implications for each importer's total costs by determining the future payment stream which the importer perceives in using a particular export credit. This is then converted into present value using that importer's discount rate. The results of these calculations are the subsidy rates of the export credits, or the percent by which the export credit reduces the present value cost of the traded commodity. Critical parameters in this calculation are the difference between the subsidized or guaranteed interest rate and the going market rate, the term of the loan, the down payment, the number of payments per year and the fee." OECD, "Economic Consequences of Multilateral Agreements," p. 5.

the OECD, by the fact that the United States has a relatively large share of long term credits which is not offset by sufficiently high fees.[9]

Table 2. Export Credits, Value of Exports, and Subsidy Component 1998

Country	Export Credits ($millions)	Total Exports ($millions)	Export Share with Credits (%)	Estimated Subsidy ($millions)	Subsidy Share of Credits (%)
Australia	1,553	10,501	14.8	5.1	0.3
Canada	1,108	17,555	6.3	13.6	1.2
European Union[a]	1,254	57,028	2.2	[a]	[a]
Austria	11			0.1	0.6
Belgium	153			0.9	0.6
Finland	11			0.2	0.6
France	330			12.4	3.8
Germany	0			0.0	1.0
Greece	4			0	0.0
Netherlands	411			3.5	0.8
Portugal	0			0	0.0
Spain	334			6.7	0.8
Hungary	19	2,788	0.7	na	na
Korea	46	2,875	1.6	0.1	0.2
Norway	0	4,086	0.0	0	3.8
United States	3,929	57,395	6.8	258.0	6.6
Total	7,910	152,228	3.6	300.5	3.6

[a] The EU does not have an EU-wide export credit program. Export credit programs are carried out by individual EU member countries.

Source: OECD, *An Analysis of Officially Supported Export Credits in Agriculture*, December 20, 2000.

[9] See *Agricultural Export and Food Aid Programs*, CRS Issue Brief 98006, for a description of U.S. export credit programs.

Export Subsidies and Export Credits in WTO Agriculture Negotiations

In WTO agriculture negotiations which began in March 2000[10], the United States has proposed the elimination of all agricultural export subsidies. Levels of budget outlays and quantities of exports subsidized would be reduced through progressive annual reduction commitments over a fixed period of time. All eighteen members of the Cairns Group of agricultural exporting countries[11] also have called for the elimination and prohibition of export subsidies for all agricultural products. In addition, a number of developing countries have proposed the elimination of export subsidies. These include several Latin American country members of the Cairns Group, plus Egypt, India, Malaysia, and Morocco.

The EU, the Cairns Group, and Japan have said that in addition to export subsidies, officially supported export credit programs should also be on the agenda of the WTO agriculture negotiations. The EU has, moreover, conditioned its willingness to negotiate reductions in export subsidies on putting export credit programs and other forms of export competition on "an equal footing" in the agriculture negotiations. The United States has insisted that export credit negotiations be conducted in the OECD which has traditionally been the international forum that has dealt with export credit issues.

Whether WTO agriculture negotiations will be broadened to include officially supported export credit programs in addition to export subsidies remains to be determined. Two developments make the prospect of including export credits more likely. One is failure thus far to reach agreement in the OECD on new rules for credit programs. The other is pressure from U.S. trading partners, especially the EU, to move export credit negotiations from the OECD and put them on the WTO negotiating agenda. If OECD negotiations were to resume and a new set of multilateral disciplines for export credits were agreed, then the pressure to negotiate export credits in the WTO would lessen.

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[10] Background information on WTO agriculture negotiations, including U.S. and other country negotiating positions, can be found at http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm

[11] Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay.