Order Code IB98006

CRS Issue Brief for Congress

Received through the CRS Web

Agricultural Export and Food Aid Programs

Updated June 11, 2003

Charles E. Hanrahan
Resources, Science, and Industry Division

CONTENTS

Agricultural Export and Food Aid Programs

SUMMARY

The U.S. Department of Agriculture (USDA) forecasts that FY2003 agricultural exports will be $56 billion. Projected imports of $43.5 billion will result in an export surplus of $10.5 billion, $1.8 billion less than in FY2002.

USDA operates four kinds of programs to promote agricultural exports including food aid. The programs are authorized in the 2002 farm bill (P.L. 107-171), the Farm Security and Rural Investment Act (FSRIA), and permanent legislation. These programs include: direct subsidies, market promotion, export credit guarantees, and foreign food aid. Legislative authority for most of these programs now extends to the end of 2007. Export subsidies, but not other U.S. export and food aid programs, are subject to reduction commitments agreed to in multilateral trade negotiations.

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 international trade rules.

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 multilateral 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 by USDA's Commodity Credit Corporation(CCC) of $5.5 billion worth of farm exports annually plus an additional $1 billion for emerging markets through 2007. Actual levels guaranteed depend on economic conditions and the demand for financing by eligible countries.

The FSRIA also authorizes through FY2007 food aid programs including P.L. 480 Food for Peace, Food for Progress, the Emerson (food aid) Trust, and a new school feeding program. Section 416(b), permanently authorized in the Agricultural Act of 1949, also provides surplus commodities for donation overseas. Food needs in Africa, North Korea, Afghanistan, and post-war Iraq are putting pressure on the ability of food aid providers, including the United States, to meet estimated needs.

The FY2003 omnibus appropriations measure (P.L. 108-7) provides $1.440 billion for P.L. 480 Title II food donations. The Emergency Wartime Supplemental Act (P.L. 108-11, H.R. 1559) adds another $369 million to Title II, some of which goes to buy commodities to replenish the Emerson Trust for commodities released to meet emergency food needs in Africa and Iraq.

Congress is considering the President's FY2004 budget proposals for export and food aid programs. Congress also is monitoring World Trade Organization agriculture negotiations where export subsidies and food aid are on the agenda.

Most Recent Developments

On April 16, 2003, the President signed the Emergency Wartime Supplemental Appropriations Act of 2003 (P.L. 108-11, H.R. 1559), which includes an appropriation of $369 million for P.L. 480 Title II commodity donations. Some of the funds are to be used to restore funding to previously approved FY2003 Title II non-emergency programs and to partially replenish the Emerson Trust for commodities released to meet urgent food needs in Africa and Iraq. With the supplemental, FY2003 appropriations for P.L. 480 Title II emergency and non-emergency food aid will total more than $1.8 billion.

On March 19, 2003, the Secretary of Agriculture and the Administrator of the U.S. Agency for International Development announced a releases of 200,000 metric tons (mt) of wheat from the Bill Emerson Humanitarian Trust Emerson for emergency food assistance in the Horn of Africa. On March 20, the Secretary and the Administrator announced an immediate release of 200,000 mt of wheat from the Emerson Trust to meet urgent humanitarian needs in Iraq, with another 400,000 mt to be made available for Iraq as needed.

The President signed into law the FY2003 omnibus appropriations act (P.L. 108-7, H.J.Res. 2) on February 20, 2003. For USDA's international activities, the measure includes $1.455 billion in foreign food aid under P.L. 480 Title II, including $250 million in additional funding for emergency food aid that is available through FY2004. P.L. 108-7 requires USDA to provide a minimum of 400,000 tons of commodities under the Food for Progress program.

On February 3, 2003, the President transmitted his FY2004 budget proposals to Congress. The President proposed budget authority of about $1.4 billion to finance P.L. 480 food aid and the salaries and expenses of the Foreign Agricultural Service. The budget also assumes an estimated $4.8 billion program level for export subsidies, export credit guarantees, and some food aid.

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.

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 43.5% of wheat, 53.3% of rice, 43.1% of soybeans and products, 20.1% of corn, and 45.3% of cotton. About 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 $1.47 in supporting activities to produce those exports. Agricultural exports generated an estimated 801,000 full-time civilian jobs, including 457,000 jobs in the non-farm sector in 2001. In contrast to the continuing overall trade deficit, U.S. agricultural trade has consistently registered a positive, though declining, balance.

Nearly every state exports agricultural commodities, thus sharing in export-generated employment, income, and rural development. In 2001, the states with the greatest shares in U.S. agricultural exports by value were California, Texas, Iowa, Kansas, Illinois, Nebraska, Minnesota, Washington, Indiana, and North Carolina . These 10 states accounted for 60% of total U.S. agricultural exports. In addition, Arkansas, Ohio, Florida, Missouri, Georgia, 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 $50.9 billion for FY2000. USDA reports that FY2001 exports were $53 billion and increased slightly to $53.5 billion in FY2002. USDA forecasts FY2003 exports at $56 billion, a $3 billion increase over FY2002.

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).

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

Program	1996	1997	1998	1999	2000	2001	2002	2003 est.
Export Enhancement Program	5	0	2	1	2	7	0	28
Dairy Export Incentive Program	20	121	110	145	78	8	55	36
Market Access Program	90	90	90	90	90	90	100	110
Foreign Market Development Program[a]	–	–	–	28	28	28	34	34
CCC Export Credit Guarantees	3,230	2,876	4,037	3,045	3,082	3,227	3,388	4,225
P.L. 480 Food Aid[b]	1,207	1,054	1,138	1,808	1,293	1,086	1,270	1,944
Section 416(b)[c]	0	0	0	1,297	1,130	1,103	773	175
Food for Progress[d]	84	91	111	101	108	104	126	158
Foreign Agricultural Service	167	191	209	178	183	201	198	202
Total	4,803	4,423	5,697	6,693	6,000	5,854	5,940	6,453

[a] FY1995-FY1998 FMDP spending included in FAS appropriation.
[b] The FY2003 estimate for P.L. 480 includes $1.326 billion for regular FY2003 appropriations; $248 million for Title II emergency assistance (after applying the across-the-board recision of 0.65%); and $369 million in the Emergency Wartime Supplemental Appropriations Act of 2003.ll subject to a 0 .65% across-the-board recision.
[C] Commodity value and ocean freight and transportation
[d] 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, various issues and FY2003 appropriations acts.

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 was reauthorized in the 1996 FAIR Act and, most recently, in the FSRIA of 2002.

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.

Dairy Export Incentive Program (DEIP). DEIP, most recently reauthorized in the 2002 farm bill, 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 Title III (trade).

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 also reauthorizes this program through FY2007 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. 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.

Export Credit Guarantees

The FSRIA reauthorizes through FY2007 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 of $5.5 billion worth of agricultural exports annually through FY2007, 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, and is in default of more than $3 billion of previously extended guarantees. Republics of the FSU, because they are less important as commercial markets for U.S. agricultural exports, are no longer major beneficiaries. In FY2002, the major recipients were Mexico ($595.3 million), Turkey ($395.4 million), South Korea ($379.7), China/Hong Kong ($189.5), and Algeria ($89.1 million). 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 guarantee credits 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, although the FSRIA permits guarantees of up to 360 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 facilitate the financing of goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. Eligible projects must improve the handling, marketing, storage, or distribution of imported U.S. 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 through FY2007 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 2002 farm bill also establishes a new food aid program, the McGovern-Dole International School Feeding and Child Nutrition Program, which replaces a pilot activity, the Global Food for Education Initiative established in 2000 by the Clinton Administration.

P.L. 480 Food for Peace. P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, has three food aid titles. Title I, Trade and Development Assistance, provides for long-term, low interest loans to developing countries for their purchase of U.S. agricultural commodities. 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).

Private entities in addition to governments in 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 P.L. 480 legislation allows private voluntary organizations (PVOs) and cooperatives to carry out Title II non-emergency programs in countries where USAID does not maintain a mission. FSRIA authorized funding to pay project or administrative and other costs of PVOs and coops at 5% to 10% of annual Title II funding. Previously, from $10 million to $28 million was available for these kinds of costs. Intergovernmental organizations, such as the World Food Program, also are eligible to apply for such funds. A minimum of 15% of non-emergency 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 (75%) is to be channeled through such eligible organizations as private voluntary organizations, cooperatives, and the World Food Program.

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 surplus 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, first 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). The CCC may also purchase commodities for use in FFP programs if the commodities are currently not held in CCC stocks. Organizations eligible to carry out FFP programs include PVOs, cooperatives, and intergovernmental organizations such as the WFP. The 2002 FSRIA, as amended by P.L. 108-7, requires that a minimum of 400,000 metric tons of commodities be provided in the FFP 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 up to 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 Africa and Iraq, was used six times between 1980 and 1996–three times for urgent humanitarian relief and three times when domestic supplies were limited.

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 appropriations of "such sums as necessary" from FY2004-2007. McGovern-Dole replaces the pilot Global Food for Education Initiative discussed below. By decision of the President, as mandated by the 2002 farm bill, USDA, rather than USAID, administers this program.

Recent Program Activity

Export Subsidies. Although almost always under some pressure from interested commodity groups to use EEP more extensively, USDA has limited its scope and funding since 1995. The rationale for not using EEP is based on the argument that using it in the current international economic environment might depress wheat and other commodity prices now on the increase from lows reached in the late 1990s. Some analysts say that not using EEP also strengthens the U.S. hand in on-going WTO agriculture negotiations where a major U.S. aim is the elimination of agricultural export subsidies.

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 were awarded in FY2000. For FY2001, $7 million of EEP bonuses were awarded. No EEP bonuses were awarded in FY2002.

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 world market conditions for skim milk powder. The program level for DEIP in FY2000 was $78 million and in FY2001 was $8 million. In FY2002, DEIP bonuses were $55 million.

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 $100 million for MAP funding in FY2002 is the full amount authorized in the 1996 farm bill plus $10 million authorized by the 2002 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 allocated the farm-bill authorized amount of $34 million for the program in FY2002.

Export Credit Guarantees. For FY2001 export credit guarantees financed an estimated $3.2 billion of U.S. agricultural exports. FY2002 guarantees were estimated to be $3.4 billion.

Food Aid. P.L. 480 food aid averaged around $1.2 billion from 1995 to 1998. In FY1999, however, more than $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 included approximately $700 million of Title I food aid for Russia, which was financed by a transfer of funds from the CCC. The FY2000 program level for P.L. 480 was $1.3 billion, while FY2001 P.L. 480 spending was $1.086 billion. The FY2002 program level for P.L. 480 was $1.270 billion, including Emerson Trust releases valued at $175 million.

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 were estimated to be 1.6 million metric tons.

Around $300 million of Section 416(b) commodities and CCC funding were used to launch a global food for education initiative (GFEI) in July 2000. Under the GFEI, USDA donated agricultural commodities for use in school feeding and pre-school nutrition projects in developing countries. USDA-approved projects were implemented by the UN World Food Program (WFP), private voluntary organizations, and eligible foreign governments. The GFEI was superceded by the McGovern-Dole International School Feeding and Child Nutrition Program authorized in the 2002 farm bill.

Emerson Trust. The Secretary of Agriculture announced releases from the Trust of 275,000 tons of wheat on June 10, 2002 and 300,000 tons of wheat on August 28, 2002. The wheat from the reserve was exchanged for an equal value of corn, beans and vegetable oil for use in humanitarian relief in southern Africa. There, an estimated 14.4 million people will need emergency food aid to compensate for severe food shortages and stave off famine through much of 2003. In FY2003, the Secretary has announced releases of 200,000 metric tons for emergency food needs in the Horn of Africa and 600,000 metric tons for emergency needs in Iraq. With these announced releases, an estimated 1.1 million metric tons remain in the trust. Partial replenishment of the Trust is addressed in the FY2003 Emergency Wartime Supplemental Appropriations Act (see below).

FY2003 Appropriations for International Activities

The FY2003 omnibus appropriations measure (P.L. 108-7, H.J.Res. 2) authorizes appropriations of $1.477 billion for P.L. 480 food aid and the Foreign Agricultural Service. Taking into account estimated spending for CCC-funded or guaranteed activities (some additional food aid programs, market development, export subsidies, export credit guarantees) results in a program level of about $6.4 billion for all USDA international activities for FY2003. The program level for USDA's international activities was an estimated $5.9 billion in FY2002. The program level reflects not only increased appropriations for food aid during FY2003, but also Congress's rejection in the 2002 farm bill of many of the food aid reforms proposed by the Administration in its FY2003 budget proposals.

FAS Salaries and Expenses. For salaries and expenses of FAS, the omnibus appropriations measure provides $129.9 million, which is $8.1 million above the FY2003 enacted amount and about $1.5 million less than requested by the President.

Foreign Food Aid: Funding and Issues. The FY2003 omnibus appropriations measure contains an appropriation of $1.477 billion for USDA's international activities that are subject to annual appropriations (P.L. 480 food aid, salaries and expenses of the Foreign Agricultural Service, and administrative expenses for managing export credit guarantee programs). P.L. 480 food aid accounts for $1.334 billion (more than 90%) of the appropriation for discretionary programs. Included in the P.L. 480 authorization is $1.192 billion for humanitarian commodity donations under P.L. 480 Title II. In addition, the omnibus measure includes an appropriation of $248 million for emergency relief activities under P.L. 480, which will remain available through FY2004. Not counting the additional $248 million (which can be spent over two fiscal years), the total for appropriated international programs is $334 million greater than enacted for FY2002 with almost all of the increase going to humanitarian food donations.

The increase in food aid appropriations in the omnibus measure is in response both to large estimated global food needs and to the Administration's decision to phase out food aid based on commodity surpluses or CCC funding. Proposed reductions in Section 416(b) (which uses surplus commodities and CCC funds) are based on the Administration's review of food aid that also recommended (in the FY2003 budget proposal) that all programs now run through private voluntary organizations (PVOs), cooperatives, and the World Food Program be placed in USAID, with USDA food aid activities confined to government-to-government programs. Consistent with this approach, the Administration requested in the FY2003 budget proposal an increase in P.L. 480 Title II commodity donations to compensate partially for the phase-out of Section 416(b) commodity donations.

Initial Administration budget proposals also excluded any CCC funding in FY2003 for Food for Progress (FFP) which provides U.S. commodities to developing countries and emerging democracies. CCC funding of this program has averaged around $100 million annually in recent years. Under the President's proposals, any FFP activity would have been limited to government-to-government programs financed with money appropriated for P.L. 480 Title I. However, reauthorization of the FFP program in the 2002 farm bill (P.L. 107-171), with continued reliance on CCC funding, complicated the efforts of the Administration to phase out CCC-funded food aid programs. P.L. 108-7 goes further and amends the FFP statute by requiring a minimum volume of 400,000 metric tons of commodities (which effectively entails CCC funding) and by requiring the President to enter into FFP agreements not only with foreign governments, but also with PVOs, coops, and intergovernmental organizations. In consequence, the President's FY2003 estimates for international programs now include $158 of CCC funding for FFP.

Consistent with its phase-out of Section 416(b), the President's budget assumes that $118 million will be available for programming under Section 416(b) in FY2003. That would consist of surplus nonfat dry milk held in CCC inventories. In contrast, $175 million of commodity assistance and transport/distribution costs under Section 416(b) were funded in FY 2002 and $948 million in FY2001.

Food Aid in the Emergency Wartime Supplemental Act of 2003 (P.L. 108-11, H.R. 1559). The conference agreement on H.R. 1559, passed by both chambers on April 12, 2003 and signed by the President on April 16, includes an appropriation of $369 million for P.L. 480 Title II. Of that amount, approximately $155 million would be used to fund non-emergency Title II programs approved but not funded in FY2003. In addition, $69 million of the $369 million would be transferred to the Commodity Credit Corporation (CCC) and used to buy commodities for the Emerson Trust. Approximately 1.1 million metric tons (mmt)of wheat remain in the Trust which can hold up to 4 million mmt of grain. The wartime supplemental measure marks the first time since 1990 that the Trust has been replenished. The FY2003 emergency supplemental is also the first time, since the Trust was established in 1980, that Congress has appropriated money to replenish it. On previous occasions in 1985 and 1991, the Trust was replenished with stocks owned by the CCC. The emergency supplemental also prohibits for FY2003 the exchange or sale of wheat in the Trust for other commodities. This provision addresses the potential price-depressing effect of selling some of the wheat in the Trust in order to purchase rice for shipment to Iraq.

CCC-Funded Export Programs. By far the largest component of FY2003 program level is accounted for by an estimated $4.225 billion of U.S. agricultural exports that would be financed with CCC export credit guarantees. As noted, the actual export value of credit guarantees made available in FY2003 will depend ultimately on market conditions and demands for credit. Historically, the value of such guarantees has rarely reached (or exceeded) the levels anticipated in budget requests.

For the Market Access Program (MAP), the Administration assumes spending of $110 million and for the Foreign Market Development (or "Cooperator") Program (FMDP), $34 million. These amounts are authorized in the 2002 farm bill (P.L. 107-171).

For one CCC-funded direct export subsidy program, the Export Enhancement Program (EEP), the conference report limits CCC spending to $28 million. For its reduction from the level authorized in the farm bill ($478 million), the conference report for P.L. 107-171 scores savings of $450 million. In the past, the Congressional Budget Office (CBO) has scored no savings for proposed cuts to EEP funding since actual spending in the program has been negligible (e.g., $1 million in FY2001, $0 in FY2002). However, the conference report estimate of savings is based on the Office of Management and Budget's (OMB) scoring method (rather than CBO's) which allows dollar-for-dollar savings for cuts from the authorized EEP level. For the other export subsidy program, the Dairy Export Incentive Program (DEIP), the President's budget anticipates that $57 million would be provided, an estimate that reflects the maximum permitted under international trade agreements.

For the new food aid program established in the farm bill, the McGovern-Dole International Food for Education and Child Nutrition Program, the budget assumed that the farm bill-mandated $100 million of CCC-funding would be made available for FY2003. In subsequent fiscal years (FY2004-FY2007), the appropriations of "such sums as necessary" is authorized in the farm bill.

FY2004 Budget Proposals for International Activities

For FY2004, the President's budget estimates that agricultural export and food aid programs would have a program value $6.2 billion. Of that amount, approximately $1.4 billion (for P.L. 480 and FAS) would require authorization of budget authority in an appropriations act. The FY2004 program level is about $200 million less than estimated for FY2003.

For P.L. 480, the President's budget estimates a program level of $1.345 billion. Most of that, an estimated $1.185 billion requested for P.L. 480 Title II, is the same as requested in FY2003, and would go to meet humanitarian needs for development and relief in food deficit countries. However, the President's budget request for Title II is considerably less than appropriated in FY2003 ($1.192 billion, plus an additional $2248 million for emergency relief to remain available through FY2004, plus $369 million of emergency supplemental funding). Credit sales under P.L. 480 Title I would be $160 million. The 2002 farm bill authorized $100 million of CCC funding for the McGovern-Dole school feeding program in FY2003. Beginning in FY2004, however, the program will be funded by appropriations and the President requested $50 million for McGovern-Dole in FY2004.

FFP is financed principally by P.L. 480 Title I or CCC funds and the President's budget envisions $151 million of CCC funding for FFP. That program level is expected to provide the minimum 400,000 tons of commodities in FFP required by the 2002 farm bill.

The Administration makes no estimates about the use of the Emerson Trust in FY2004. For Section 416(b), which the Administration said it will phase out, the President's budget assumes that $118 million of nonfat dry milk will be made available in FY2004.

The President's budget assumes a program level of $28 million in both FYs 2003 and 2004 for EEP. The 2002 farm bill, however, allows EEP spending of $478 million, which is the maximum allowed under the World Trade Organization/Uruguay Round agreement on subsidy reduction commitments. Although EEP is capped at $28 million in FY2003 by P.L. 108-7, unless Congress decides otherwise, USDA retains some flexibility to increase the level of EEP subsidies in FY2004. For DEIP, the budget expects a program level of $57 million for FY2004, an increase above the $36 million estimated for FY2003.

The budget request assumes that the CCC will guarantee commercial financing of $4.2 billion of U.S. agricultural exports in FY2004. The anticipated level for each credit program is: GSM-102 ($3.4 billion); GSM-103 ($18 million); supplier credit guarantees ($750 million); and facility financing guarantees ($44 million).

Consistent with the farm bill reauthorization of MAP, the budget provides for MAP funding of $125 million in FY2004. The budget assumes the farm bill-authorized level of $34.5 million for FMDP in FY2004. The budget provides $2.5 million for a Quality Samples Program and $2 million for a new Technical Assistance for Specialty Crops Program to address phytosanitary and related technical trade barriers.

The budget requests $145 million in budget authority for FAS. With USAID reimbursements for technical assistance in developing countries from USAID, FAS's total estimated program level rises to $217 million for FY2004.

Trade Negotiations

U.S. agricultural export and food aid programs could be affected by on-going WTO agricultural trade negotiations. The United States has proposed that agricultural export 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 credit programs (such as the CCC export credit guarantees) and food aid (such as Section 416) on the WTO agriculture negotiating agenda.

The EU and other trading partners charge that the U.S. credit program has a subsidy element (although it is much less than the subsidy represented by the EUs export restitution program) and gives the U.S. an unfair competitive advantage in exporting certain agricultural commodities. Negotiations on export credit programs were carried out in the Organization for Economic Cooperation and Development (OECD), but did not succeed and have been suspended. Any changes in the U.S. program that might result from WTO trade negotiations would have to withstand scrutiny by Congress, where House and Senate Agriculture Committees strongly support the programs as they are presently constituted.

The EU and 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 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. 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 used for development programs. 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. Relatedly, the United States has argued that export credit programs also meet food security needs of some importing countries.

Many in the U.S. agricultural community have expressed concerns that what they regard as an effective tool for expanding agricultural exports, the CCC export credit guarantee programs, not be adversely affected by trade negotiations. The Trade Act of 2002, which contains negotiating objectives for U.S. participation in the current round of multilateral trade negotiations in the WTO (P.L. 107-210), makes preservation of export credit programs (and food aid) a principal negotiating objective. 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.)