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Agricultural Export and Food Aid Programs

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Note: a searchable glossary is available for many of the programs/terms discussed in this issue brief.

Agricultural Export and Food Aid Programs

SUMMARY

The U.S. Department of Agriculture (USDA) forecasts that FY2004 agricultural exports will be a record $61.5 billion, exceeding the FY1996 record of $59.8 billion. Projected imports of $51.5 billion, also a record, will result in an export surplus of $10 billion, $500 million less than in 2003.

USDA operates four kinds of export and food aid programs that are authorized in the 2002 farm bill (P.L. 107-171), in the Farm Security and Rural Investment Act (FSRIA), and in permanent legislation. These programs include direct export subsidies, export 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, but DEIP spending 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 Trust (a reserve of commodities and cash), and a new international school feeding program. Section 416(b), permanently authorized in the Agricultural Act of 1949, also provides surplus commodities for donation overseas. Food emergencies in Africa and North Korea are putting pressure on the ability of food aid providers, including the United States, to meet estimated needs.

The House-passed FY2005 agriculture appropriations bill (H.R. 4766, H.Rept. 108-584) recommends an appropriation of $1.509 billion for USDA's international activities (discretionary funding), $12.2 million less than requested in the President's budget. With programs funded through borrowing from the Commodity Credit Corporation (other food aid and export programs), the estimated program value of all FY2005 international activities is $6.6 billion.

Most Recent Developments

On July 13, 2004, the House passed the FY2005 agriculture appropriations bill (H.R. 4766, H.Rept. 108-584). The measure provides $1.509 billion for USDA's discretionary international programs, namely P.L. 480 food aid, the new McGovern-Dole International Food for Education and Child Nutrition Program (FEP), salaries and expenses of USDA's Foreign Agricultural Service, and administrative expenses for Commodity Credit Corporation export credit programs.

On February 2, 2004, the President transmitted to Congress his FY2005 budget. Included is a request for around $1.520 billion in discretionary funding for USDA international activities, mainly foreign food aid programs authorized in the Agricultural Trade Development Assistance Act (P.L. 83-480). The President's budget estimates that all USDA international activities in FY2005 (food aid plus mandatory food aid and export programs funded through borrowing from the Commodity Credit Corporation) will have a program value of around $6.6 billion.

On January 23, 2004, the President signed the FY2004 Consolidated Appropriations measure (P.L. 108-199) that includes annual funding for the U.S. Department of Agriculture and related agencies. The bill provides $1.512 billion for USDA's discretionary international activities.

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.

U.S. agricultural exports for 2004 are forecast by USDA to be a record $61.5 billion, exceeding the FY1966 record of $59.8 billion. Projected imports of $51.5 billion, also a record, will result in an export surplus of $10 billion, $500 million less than in FY2003.

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 FY2003, high value agricultural exports accounted for 63% 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, FY1996-FY2004
($ millions)

Program	1996	1997	1998	1999	2000	2001	2002	2003	2004 est	2005 req.
EEP [a]	5	0	2	1	2	7	0	0	28	28
DEIP [b]	20	121	110	145	78	8	55	32	22	53
MAP [c]	90	90	90	90	90	90	100	110	125	125
FMDP[d]	—	—	—	28	28	28	34	34	34	34
GSM Programs[e]	3,230	2,876	4,037	3,045	3,082	3,227	3,388	3,223	4,275	4,528
P.L. 480 [f]	1,207	1,054	1,138	1,808	1,293	1,086	1,270	1,960	1,468	1,308
FEP[g]	—	—	—	—	—	—	—	100	50	75
Section 416(b)[h]	0	0	0	1,297	1,130	1,103	773	213	147	147
FFP[i]	84	91	111	101	108	104	126	137	128	149
FAS[j]	167	191	209	178	183	201	198	195	199	212
Total	4,803	4,423	5,697	6,693	6,000	5,854	5,940	6,606	6,580	6,763

Sources: USDA, Annual Budget Summaries, various issues; the FY2003 appropriations act; and P.L. 108-199, the FY2004 appropriations bill.

[a] Export Enhancement Program.

[b] Dairy Export Incentive Program.

[c] Market Access Program.

[d] Foreign Market Development Program. FY1995-FY1998 FMDP spending included in FAS appropriation.

[e] GSM (General Sales Manager) Export Credit Guarantee Programs.

[f] 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.

[g] The McGovern-Dole International Food for Education and Child Nutrition Program (FEP)was authorized in the 2002 farm bill; funds were first appropriated in P.L.108-199, the FY2004 appropriations bill.

[h] Commodity value and ocean freight and transportation.

[i] Includes only CCC purchases of commodities for FFP. P.L. 480 Title I funds allocated to FFP are included in P.L. 480.

[j] Foreign Agricultural Service.

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, at its inception, 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 of all EEP bonuses which now exceed $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 six 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 (six months to three 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.

The biggest recipients of export credit guarantees have been Mexico, South Korea, Iraq, Algeria, and the former Soviet Union (FSU). Iraq currently 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 five-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 or for dollars). Monetization enables PVOs and coops to defray the costs of distributing food or implementing development projects in countries where they operate. 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 can also hold cash in reserve. 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, has been used 10 times since its inauguration in 1980 — seven times to meet unanticipated needs 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 FYs 2002 or 2003.

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 FY2003 was $32 million and is estimated to be $22 million in FY2004.

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, FY2003, and FY2004.

Export Credit Guarantees. For FY2003 export credit guarantees financed an estimated $3.2 billion of U.S. agricultural exports. FY2004 guarantees are estimated to be $4.3 billion. The amounts of credit guaranteed each year depend on the demand for guaranteed financing of U.S. agricultural commodities by eligible borrowing countries.

Food Aid. P.L. 480 food aid averaged around $1.1 billion from 1996 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 and the FY2002 program level was $1.270 billion, including Emerson Trust releases valued at $175 million. In FY2003, the food aid program level spiked again as Congress appropriated more than $1.8 billion for emergency humanitarian assistance under P.L. 480 Title II to meet emergency needs in Africa, Afghanistan, and Iraq.

Commodity donations under Section 416(b) were $213 million (commodity value and ocean freight and overseas distribution costs) in FY2003, consisting of surplus nonfat dry milk. In contrast, Section 416(b) donations averaged about $1 billion a year from FY1999 to FY2002. Such large donations were made possible following CCC purchases of over 8 million metric tons of surplus wheat and wheat flour in FYs 1999 and 2000.

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 superseded 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, where an estimated 14.4 million people needed emergency food aid to compensate for severe food shortages and stave off famine through much of 2003. In FY2003, the Secretary announced releases of 200,000 metric tons for emergency food needs in Eritrea and Ethiopia and 600,000 metric tons for emergency needs in Iraq. Of the announced releases, only about half, 400,000 metric tons, were used. At present, according to USDA, 1.6 million metric tons and $107 million remain in the Trust. Partial replenishment of the Trust was addressed in the FY2003 Emergency Wartime Supplemental Appropriations Act (see below).

FY2004 Appropriations for International Activities

P.L. 108-199, the Consolidated Appropriations bill for FY2004, provides $1.512 billion for USDA's discretionary programs, namely P.L. 480 food aid, the new McGovern-Dole International Food for Education Program (FEP), salaries and expenses of USDA's Foreign Agricultural Service, and administrative expenses for CCC export programs. For the mandatory programs, which include both agricultural export and other food aid programs, the Administration estimates a program level of around $4.66 billion. Both the discretionary and mandatory international programs are authorized in the 2002 farm bill (P.L. 107-171). The appropriations bill places no additional funding limits on the mandatory agricultural trade and food aid programs.

The recommended appropriations for food aid is more than $600 million less than appropriated in FY2003. FY2003 appropriations included congressionally initiated responses to humanitarian food needs of $248 million for additional emergency food relief and $369 million for P.L. 480 Title II programs in the Emergency Supplemental Wartime Appropriations Act. The Senate report, accompanying the FY2004 appropriations measure, indicates that funding for P.L. 480 Title II should be used for its intended purposes, which it identifies as addressing underlying causes of hunger, and not for ad hoc emergency assistance. In the event of additional emergency needs, the report says, "the Committee reminds the Department of the availability of the Bill Emerson Trust."

The Consolidated Appropriations bill provides an appropriation for the first time for the McGovern-Dole International Food for Education Program and Child Nutrition Program (FEP). FEP will provide commodity donations and associated finance and technical assistance to carry out school and child feeding programs in foreign countries. The 2002 farm bill authorized $100 million of CCC funding for FEP in FY2003. Beginning in FY2004, however, the farm bill called for FEP to be funded by appropriations. The Senate Committee report, accompanying its version of the FY2004 agriculture appropriations, however, suggested that the Secretary investigate the use of Food for Progress resources for FEP to supplement appropriated funds.

The President's budget provides no estimate of the value or volume of commodities that could be released from the Emerson Trust in FY2004. The President's budget envisions $151 million of CCC funding for FFP; some funding for FFP also will come from appropriations for P.L. 480 Title I (concessional sales), for which the FY2004 bill appropriates $132 million. USDA estimates that about $119 million of surplus nonfat dry milk will be made available under Section 416(b) in FY2004.

The President's budget assumes a program level of $28 million in FY2004 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. Thus, 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 FY2005 Budget Developments

The President's FY2005 budget request estimates that USDA's international activities, including both discretionary and mandatory programs, will have a program value of $6.6 billion for FY2005, up about $100 million from the FY2004 Administration estimate. Of that amount, approximately $1.5 billion would require budget authority in appropriations legislation, with the balance funded through the borrowing authority of the Commodity Credit Corporation.

For P.L. 480, the President requested budget authority of $1.294 billion for FY2005, $22 million less than the enacted amount in FY2004. Most of the FY2005 request, an estimated $1.185 billion, would be allocated to humanitarian commodity donations under P.L. 480 Title II, and is identical to the amount enacted in FY2004. The rest of the P.L. 480 request, $109 million, would be allocated to P.L. 480 Title I (direct commodity sales). The FY2004 appropriation for Title I was $131 million. The President's budget requests $75 million for FEP, $25 million greater than enacted in the previous fiscal year. The other major discretionary account is the Foreign Agricultural Service (FAS), for which the Administration requests an FY2005 appropriation of $143 million, up almost $12 million from the FY2003 appropriation.

The House passed its version of FY2005 agriculture appropriations (H.R. 4766, H.Rept. 108-584) on July 13, 2004. The measure provides $1.509 billion for USDA's discretionary international programs, namely P.L. 480 food aid, the new McGovern-Dole International Food for Education and Child Nutrition Program (FEP), salaries and expenses of USDA's Foreign Agricultural Service, and administrative expenses for Commodity Credit Corporation export credit programs. For P.L. 480, the House committee recommends an appropriation of $1.291 billion for FY2005, $27 million less than enacted in FY2004 and $7 million less than requested by the President. Of the FY2005 recommended amount, the House committee allocated $1.180 billion to humanitarian commodity donations under P.L. 480 Title II. The Title II appropriation is $5 million less than the FY2004 enacted amount and $5 million less than requested by the President. For P.L. 480 Title I (direct commodity sales), the committee's recommended appropriation is $109.1 million, which is identical to the amount requested by the President, but $22 million less than enacted in FY2004. The recommended increase of $25 million in the appropriation for FEP (a total of $75 million recommended for FY2005) is largely offset by the reductions in P.L. 480 Titles I and II.

The other major discretionary account is the Foreign Agricultural Service (FAS), for which the House bill recommends an FY2005 appropriation of $137.7 million, down more than $6 million from FY2004's enacted amount and $5.3 million less than the President requested. FAS administers all of USDA's international activities with the exception of P.L. 480 Title II, administered by the U.S. Agency for International Development (USAID). The committee also recommends $4.5 million to cover administrative expenses of CCC export credit guarantee programs. The President's budget estimated that in FY2005, these administrative costs would support programs that finance $4.5 billion of U.S. agricultural exports.

Other food aid programs are mandatory (i.e., an annual appropriation is not required), including Food for Progress (FFP), the Bill Emerson Humanitarian Trust, and Section 416(b) commodity donations. The President's budget envisions $149 million of CCC funding for FFP. That program level (plus some funding from P.L. 480 Title I) is expected to provide the minimum 400,000 tons of commodities in FFP established in the 2002 farm bill. No commodities were released from the Emerson Trust in FY2004, but in FY2003, $212 million of commodities and related services were provided via the trust, which is primarily a commodity reserve used to meet unanticipated food aid needs or to meet food aid commitments if domestic supplies are unavailable. The President's budget makes no estimate of releases from the trust in FY2005, but notes that 500,000 tons are available for emergency food assistance. Around 1.6 million metric tons of wheat and $109 million in cash are currently in the trust. For Section 416(b) commodity donations, the President's budget projects a program level of $147 million ($15 million for ocean freight and overseas distribution costs and $132 million in commodity value). USDA indicates that only nonfat dry milk will be available for distribution under this program in FY2005.

A number of USDA's export-related programs are also mandatory and thus do not require an appropriation. Under the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP), USDA makes cash bonus payments to exporters of U.S. agricultural commodities to enable them to be price-competitive when U.S. prices are above world market prices. EEP has been little used in recent years, and no EEP bonuses were provided in FY2004. Reflecting this program experience, the President's budget assumes a program level of $28 million in FY2005, compared with $478 million authorized by the 2002 farm bill. Consequently, USDA retains some flexibility to increase the level of EEP subsidies because of the mandatory authorization. For DEIP, the budget expects a program level of $53 million for FY2005, compared with a current estimate of $22 million for FY2004. For export market development, the budget proposes $125 million for the Market Access Program (MAP) and $34 million for the Foreign Market Development Program. Both these estimates are identical to amounts proposed in the FY2004 budget for USDA. The MAP request, however, is $15 million less than authorized in the 2002 farm bill. This proposed reduction could prove controversial, but the committee report does not address this issue. Most previous efforts at restricting MAP spending in Congress have met with little success.

Trade Negotiations and USDA International Programs

U.S. agricultural export and food aid programs could be affected by ongoing WTO agricultural trade negotiations. WTO member countries on July 30, 2004, reached agreement on a so-called framework for concluding the agriculture negotiations in the multilateral trade round knows as the Doha Development Agenda (DDA). The agriculture framework includes agreements that would affect the operation of U.S. export guarantee and food aid programs. (For details, see CRS Report RS21905, *The Agriculture Framework Agreement in the WTO Doha Round*.)

The agriculture framework stipulates that by "the end date" to be negotiated, WTO member countries will eliminate the following: export subsidies; export credits, credit guarantees, or insurance programs with repayment periods beyond 180 days; terms and conditions for export credits not in accordance with disciplines to be agreed, including, *inter alia*, interest payments, minimum interest rates, and minimum premium requirements; trade-distorting practices of exporting State Trading Enterprises (STEs); and provision of food aid not in conformity with disciplines to be agreed, including disciplines to prevent commercial displacement. However, WTO member countries will ensure that export credits, credit guarantees, or insurance programs "appropriately provide for differential treatment in favor of least-developed and net food-importing countries."

The elimination of EU export subsidies has been a long-standing objective of U.S. agricultural trade policy, as has requiring greater transparency in STEs such as the Canadian Wheat Board. Pressure from U.S. and developing country WTO members plus successive reforms of the EU's Common Agricultural Policy (CAP), which has reduced its reliance on export subsidies, led the EU to offer to eliminate them by a date certain. In exchange, however, the EU countered that all forms of export subsidies, including U.S. export credit guarantees and food aid, should be eliminated. This trade-off between export subsidies and export credit and food aid programs is reflected in the framework agreement. USDA's export credit guarantee programs, which have provided guarantees for about $4 billion of agricultural exports annually in recent years, would be substantially altered by the agreement. As presently constituted, these programs can provide credit guarantees from 180 days to 10 years (see program details above).

U.S. food aid for humanitarian relief and development projects (e.g., P.L. 480 Title II donations) that meet the criterion of not displacing commercial sales appear to be unaffected by the framework agreement. Earlier versions of the framework implied that commodity food aid would be eliminated in favor of cash grants. However, the framework does indicate that "(t)he question of providing food aid exclusively in fully grant form" will be addressed in the negotiations. The role of international organizations vis-a-vis WTO member countries' food aid programs will also be addressed in the negotiations.

Many in the U.S. agricultural community have expressed concerns that what they regard as effective tools for expanding agricultural exports (the CCC export credit guarantee programs) and providing food aid 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 aid programs and preserving U.S. market development and export credit programs. Any changes in these farm bill export and food aid programs made necessary by a DDA trade agreement would be debated if and when Congress took up legislation to implement the agreement. Conclusion of the DDA negotiations could also occur as Congress begins deliberation on a farm bill to replace the 2002 FSRIA. DDA implications for export credit and food aid programs could thus be taken up in farm bill debate.