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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 FY2005 agricultural exports will be $63.5 billion, up from FY2004's record $62.3 billion. FY2005 imports will be $61 billion, a record high, leaving the United States with its smallest agricultural trade surplus in decades. USDA has yet to assess possible effects on exports attributable to Hurricane Katrina.

USDA operates four kinds of international programs, all authorized in the 2002 farm bill, the Farm Security and Rural Investment Act (FSRIA, P.L. 107-171), and in permanent legislation. These programs include direct export subsidies, export market development, 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 development 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 authorizes MAP spending of $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 FY2005 Consolidated Appropriations Act (P.L. 108-447, H.R. 4818) supports just over $7 billion in export and food aid programs, $1.533 billion of which are appropriated funds and the rest funded through borrowing from the Commodity Credit Corporation (CCC). The FY2005 wartime supplemental (P.L. 109-13, H.R. 1268) increases P.L. 480 food aid by $240 million. The House-passed version of FY2006 agriculture appropriations (H.R. 2477) provides $1.441 billion in discretionary funds, mainly for foreign food aid. The President's budget estimated that the combination of discretionary and CCC-funded international activities would total $6.3 billion in FY2006.

Most Recent Developments

The Senate Appropriations Committee reported its version of H.R. 2477 (S.Rept. 109-92), the FY2006 agriculture appropriations measure, on June 27, 2005. Included in the measure is $1.448 billion of discretionary appropriations for USDA's international activities.

On June 8, 2005, the House of Representatives passed its version of H.R. 2744. Included in the measure were $1.441 billion of discretionary funds for USDA's international activities.

On May 11, 2005, the President signed H.R. 1268 (P.L. 109-13), the FY2005 emergency supplemental appropriations for wartime expenditures in Iraq and Afghanistan, which included $240 million for P.L. 480 Title II humanitarian food aid for emergency and non-emergency programs.

On February 7, 2005, The President forwarded to Congress his FY2006 budget request. Included are international export and food aid programs valued at $6.3 billion, of which $1.217 would require appropriations; the rest would be funded through borrowing from the Treasury by the Commodity Credit Corporation (CCC).

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 also generate economic activity in the non-farm economy. According to USDA, each $1.00 received from agricultural exports stimulates another $1.54 in supporting activities to produce those exports. Agricultural exports generated an estimated 912,000 full-time civilian jobs, including 461,000 jobs in the non-farm sector in 2001.

Nearly every state exports agricultural commodities. In 2003, the states with the greatest shares in U.S. agricultural exports by value were California, Iowa, Illinois, Texas, Nebraska, Kansas, Minnesota, Washington, North Dakota, and Indiana. These 10 states accounted for 58% of total U.S. agricultural exports. In addition, Wisconsin, Arkansas, North Carolina, Florida, Missouri, Ohio, and Pennsylvania each shipped over $1 billion worth of commodities.

U.S. agricultural exports for 2005 are forecast by USDA to be $59 billion, while imports will reach a record level of $58 billion. Thus, if this forecast holds, the U.S. agricultural trade balance would shrink to its lowest level since 1960.

Since FY1991, high value exports (intermediate products such as wheat flour, feedstuffs, and vegetable oils or consumer-ready products such as fruits, nuts, meats, and processed foods) have outpaced such bulk commodity exports as grains, oilseeds, and cotton. In FY2004, high value agricultural exports accounted for 57% 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 market development 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, FY1997-FY2004
($ millions)

Program	1997	1998	1999	2000	2001	2002	2003	2004	2005 est.	2006 req.
EEP [a]	0	2	1	2	7	0	0	0	28	28
DEIP [b]	121	110	145	78	8	55	32	3	6	52
MAP [c]	90	90	90	90	90	100	110	125	140	125
FMDP[d]	—	—	28	28	28	34	34	34	34	34
GSM Programs[e]	2,876	4,037	3,045	3,082	3,227	3,388	3,223	3,716	4,528	4,396
P.L. 480 [f]	1,054	1,138	1,808	1,293	1,086	1,270	1,960	1,809	1,491	1,109
FFE[g]	—	—	—	—	—	—	100	50	91	106
Section 416(b)[h]	0	0	1,297	1,130	1,103	773	213	173	147	151

Program	1997	1998	1999	2000	2001	2002	2003	2004	2005 est.	2006 req.
FFP[i]	91	111	101	108	104	126	137	138	141	137
FAS[j]	191	209	178	183	201	198	195	197	203	214
Total	4,423	5,697	6,693	6,000	5,854	5,940	6,606	6,121	7,006	6,324

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 (FFE)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 most recently in the FSRIA of 2002.

EEP has been controversial since its initiation 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 commodity program, not the trade title, of 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.

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.

Market Development Programs

USDA operates two market development 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 (FMDP). 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. Its purpose 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 FMDP 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, FMDP is exempt from Uruguay Round Agreement reduction commitments. Unlike MAP, which is more oriented toward consumer goods and brand-name products, FMDP is oriented more toward bulk commodities.

Some of the same issues raised with respect to MAP are also raised about FMDP 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 FY2004, the major recipients were Mexico ($675 million), South Korea ($457 million), Turkey ($396 million), Russia ($200 million), China/Hong Kong ($69 million), and Algeria ($35 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 Guarantee Program (SCGP) and the Facilities Guarantee Program (FGP). Under SCGP, 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. In FY2004, SCGP guarantees totaled $670 million.

The FGP 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. There were no FGP guarantees in FY2004.

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 and transition countries and private entities 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).

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 identifies private voluntary organizations (PVOs), cooperatives, and intergovernmental organizations (such as the UN World Food Program) as organizations eligible to carry out Title II non-emergency programs, including in countries where USAID does not maintain a mission. FSRIA authorized funding to pay project or administrative and other costs of eligible organizations at 5% to 10% of annual Title II funding. 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 the eligible organizations.

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.

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 mandated CCC funding of $100 million for the program in FY2003 and authorizes appropriations of "such sums as necessary" from FY2004 to FY2007. 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.

The Bill Emerson Humanitarian Trust (BEHT). The 2002 farm bill reauthorizes the BEHT, enacted in the 1998 Africa Seeds of Hope Act (P.L. 105-385). The BEHT replaced the Food Security Commodity Reserve established in the 1996 farm bill and its predecessor, the Food Security Wheat Reserve of 1980. Not technically a food aid program, 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. Since 1980, the only commodity held in reserve has been wheat. The trust can also hold cash in reserve.

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, FY2003, or FY2004; thus far in FY2005, none have been awarded.

Recent levels of DEIP reflect limits imposed by Uruguay Round Agreement commitments, an end to the "roll-over" authority in the Agricultural Agreement, which allowed countries to draw on unused subsidy authority from previous years, and world market conditions for skim milk powder. The program level for DEIP in FY2003 was $32 million and is estimated to be just $3 million in FY2004, and $6 million in FY2005.

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.

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, FY2004, and FY2005.

Export Credit Guarantees. For FY2003 export credit guarantees financed an estimated $3.2 billion of U.S. agricultural exports. FY2004 guarantees financed $3.7 billion of U.S. farm exports and are estimated to finance $4.5 billion worth of exports in FY2005. 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. Food emergencies in Africa and more recently in the Indian Ocean in connection with the December 26, 2004 earthquake and tsunami have resulted in a global shortfall in emergency food needs, according to the U.N. World Food Program. Unmet emergency food needs have led some in Congress to propose that P.L. 480 Title II emergency food aid and funds available to the Emerson Trust be augmented. Private voluntary organizations and others have also suggested that food aid funds diverted from non-emergency development projects to emergency response be restored in an FY2005 emergency supplemental appropriations bill. To meet emergency food needs in countries affected by the Indian Ocean tsunami, P.L. 480 Title I and II commodities have been reallocated to emergency food assistance.

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. P.L. 480 food aid for FY2005 is estimated at $1.346 billion.

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. Partial replenishment of the trust was addressed in the FY2003 Emergency Wartime Supplemental Appropriations Act (see below). There were no releases from the trust in FY2004. On December 3, 2005, the Secretary of Agriculture and the Administrator of USAID announced the release of 200,000 metric tons of wheat from the trust for emergency food relief to western Sudan. On June 7, 2005, the President announced that $250 million (500,000 metric tons) of Emerson trust commodities would be used to meet emergency needs in Africa. Prior to this announcement, 1.4 million metric tons of wheat and $107 million remained in the trust.

FY2005 Budget Developments

For USDA's international activities that require an appropriation (discretionary programs), the FY2005 Consolidated Appropriations Act (P.L. 108-447, H.R. 4818) provides $1.533 billion, $29.8 million more than enacted in FY2004. Much of the increase is accounted for by an increased appropriation for the McGovern-Dole International Food for Education Program (see below). The final total for USDA's international activities is $12.3 million more than requested by the President. In addition to such discretionary programs as P.L. 480 foreign food aid, USDA's international activities also include mandatory programs (e.g., export market promotion), with the latter funded through the borrowing authority of the Commodity Credit Corporation (CCC). The Administration has estimated that the combined total of discretionary and mandatory programs for FY2005 would be $6.6 billion, up $183 million from the FY2004 Administration estimate.

Discretionary Programs. Discretionary international programs include commodity sales and humanitarian donations under P.L. 480 (or Food for Peace) and the McGovern-Dole International Food for Education Program (FFE), authorized in the 2002 farm bill (P.L. 107-171). Historically, P.L. 480 has been the main vehicle for providing U.S. agricultural commodities as food aid overseas. FFE makes available commodity donations and associated financial and technical assistance to carry out school and child nutrition programs in developing countries.

For P.L. 480, the final appropriations act contains an FY2005 appropriation of $1.303 billion, almost $15 million less than enacted in FY2004 and just over $5 million more than requested by the President. The lower FY2005 appropriation for P.L. 480 is explained almost entirely by a reduction in P.L. 480 Title I loan subsidies and ocean freight differential grants. (Title I provides direct loans to low-income or transitional countries for the purchase of U.S. farm commodities). The total appropriation to P.L. 480 includes $1.182 billion, or $2.5 million less than enacted in FY2004, for humanitarian commodity donations under P.L. 480 Title II. In report language, the conference committee makes clear that it expects "the Administration to abide by the statutory set-aside for non-emergency food aid programs." The 2002 farm bill (P.L. 107-171) increased this statutory set-aside, the volume of P.L. 480 Title II commodities earmarked for non-emergency assistance, to 1,875,000 metric tons. The committee reminds USDA that if additional emergency assistance above the appropriated level is needed, the Bill Emerson Humanitarian Emerson Trust (see below) is available for that purpose.

For the McGovern-Dole International Food for Education and Child Nutrition Program (FFE), P.L. 108-447 provides $87.5 million, $37.8 million more than enacted in FY2004. Both the House-passed (H.R. 4766) and Senate-reported (S. 2803) appropriations measures had recommended substantially increased funding for FFE: H.R. 4766 by $25 million and S. 2803 by $50 million. The increased funding level for FFE is partially offset by reductions in the Title I loan account. Conferees also rescinded $191.1 million in P.L. 480 funds carried forward to FY2005 from previous years, which appropriators scored as savings in the measure.

USDA's other major discretionary account is the Foreign Agricultural Service (FAS), for which the conferees appropriated $137.8 million, $6.4 million more than enacted in FY2004. FAS administers all of USDA's international activities with the exception of P.L.

480 Title II, which is administered by the U.S. Agency for International Development (USAID). P.L. 108-447 provides $4 million to cover expenses for administering CCC export credit guarantees (which are mandatory activities). The President's budget and House and Senate appropriations reports estimated that in FY2005, these administrative costs would support programs that finance $4.5 billion of U.S. agricultural exports.

Mandatory Programs. Other food aid programs are mandatory (for which an annual appropriation is not required), including Food for Progress (FFP) 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. About 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). P.L. 108-447 contains a general provision stipulating that, to the extent practicable, $25 million of Section 416(b) commodities be made available to foreign countries to assist in mitigating the effects of HIV/AIDS. The House bill (and the President's budget request) had omitted this provision, which had been included in the FY2004 and previous appropriations measures. USDA indicates that only nonfat dry milk will be available for distribution under Section 416 in FY2005. The President's budget made no estimate of releases from the BEHT for FY2005, but so far in the current fiscal year, releases from the trust amounting to 700,000 metric tons have been announced.

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 Administration 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 MAP and $34 million for FMDP. Both of 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. Previous efforts to reduce MAP spending have proved unsuccessful, but neither the final FY2005 appropriations act nor reports accompanying H.R. 4766 and S. 2803 address this issue. A Chabot amendment to H.R. 4766 would have prohibited any MAP spending in FY2005, but was defeated by a vote of 72-347 on the House floor.

FY2005 Emergency Supplemental Appropriations. On May 11, 2005, the President signed H.R. 1268 (P.L.109-13), the FY2005 emergency supplemental appropriations for wartime expenditures in Iraq and Afghanistan, which provides $240 million for P.L. 480 Title II humanitarian food aid for emergency and non-emergency programs. Both bill and report language provide for additional emergency food aid and funding for approved but unfunded FY2005 food aid projects. The bill signed by the President also provides $656 million for relief of victims of the Indian Ocean tsunami and earthquake of December 2004, some portion of which could also be allocated to P.L. 480 Title II humanitarian food aid.

Status of FY2006 Appropriations

The House-passed version of FY2006 agriculture appropriations provides $1.441 billion in budget authority for discretionary international activities, which include primarily P.L. 480 foreign food aid programs and the salaries and expenses of the Foreign Agricultural Service. The Senate-reported measure recommends budget authority of $1.488 billion, with most of the difference accounted for by the Senate committee's larger appropriation for P.L. 480 food aid. Both measures reject the President's proposal, contained in the FY2006 budget request, to purchase commodities in markets near to countries in need rather than from U.S. producers by shifting funds from P.L. 480 Title II to a USAID disaster and famine assistance fund (discussed below). Combining anticipated appropriation levels for discretionary programs with CCC-funded activities, USDA estimates that the total program value of international activities for FY2006 would be more than $6 billion.

Foreign Agricultural Service (FAS). The House bill recommends an appropriation of $148.2 million for the Foreign Agricultural Service (FAS). The Senate-reported measure provides for $147.9 million. These amounts are about $11 million more than enacted in FY2005, but close to the President's budget recommendation.

Foreign Food Assistance. For P.L. 480, the House bill recommends budget authority of $1.187 billion. The recommended budget authority includes $77 million for P.L. 480 Title I loans and $1.107 billion for P.L. 480 Title II humanitarian donations. The P.L. 480 Title II request is $222.1 million more than requested in the President's budget. The Senate committee measure also provides $77 million for P.L. 480 Title I and, for Title II, $1.159 billion, which is $274 million more than the President requested.

The President's budget contained a proposal to shift about $300 million from P.L. 480 Title II to USAID's International Disaster and Famine Assistance account, which would be administered separately from Title II and used to purchase food for emergency relief in markets closer to their final destinations rather than in the United States as required under P.L. 480. This proposal, effectively rejected in the House-passed and Senate-reported measures, proved controversial with farm groups, agribusinesses, and the maritime industry who supply and ship commodities for Title II and with private voluntary organizations who rely on food aid to carry out development projects in poor countries. While the President argued that such an approach would be an efficient and cost-effective way to meet emergency needs, opponents maintained that shifting funds out of Title II would undercut the political support for the program and reduce the amount of food aid available.

For the McGovern-Dole International Food for Education and Child Nutrition Program, the House bill and the Senate committee measure both include an appropriation of $100 million. This level of budget authority is $13.2 million more than appropriated in FY2005.

The President's budget estimates that $137 million of CCC funds would go to the Food for Progress (FFP) program, which provides food aid to developing countries and emerging democracies that are introducing and expanding free enterprise in their agricultural economies. Additional FFP monies would be available from the funds appropriated to P.L. 480 Title I. The budget anticipates that $151 million of CCC-owned nonfat dry milk, about 75,000 metric tons, would be available for food aid programming under Section 416(b) of the Agricultural Act of 1949. Section 725 of Title VII (General Provisions) in the House bill directs the Secretary of Agriculture to make available, "to the extent practicable," $25 million of commodities provided under Section 416(b) to assist in mitigating the effects of HIV/AIDS. No program level is indicated in the President's budget for the BEHT. Section 738 of Title VII (General Provisions) of the House-passed bill limits to $20 million the amount of FY2005 P.L. 480 appropriations that may be used to reimburse the CCC for the release of commodities from the BEHT.

Export Credit Guarantees. The President's budget estimates a program level for export credit guarantees of $4.4 billion, none of which would receive a discretionary appropriation. Most guarantees — $3.4 billion — are for commercial credits with short-term repayment terms (up to three years). Another $1 billion would be guarantees for supplier credits where short-term financing is extended directly to importers for the purchase of U.S. agricultural products.

Export Promotion and Export Subsidies. The President's budget provides CCC funding of $125 million for MAP, $15 million less than the FY2005 level and $75 million less than authorized in the 2002 farm bill. In the House, a Chabot amendment to prohibit funds from being used to carry out MAP activities failed by a recorded vote of 66 to 356. For FMDP, the budget allocates $34.5 million, the same as in FY2005.

For export subsidy programs, the budget allocates $28 million to the Export Enhancement Program (EEP) and $52 million to the Dairy Export Incentive Program (DEIP). DEIP subsidies would exceed their FY2005 level by $46 million. The President's request also includes $90 million for Trade Adjustment Assistance to Farmers, the maximum amount allowed in the authorizing statute, the 2002 Trade Act. Under this program, USDA makes payments to farmers when the current year's price of an agricultural commodity is less than 80 percent of the five-year national average and imports have contributed importantly to the decline in price.

Export Credit Guarantees and the WTO Cotton Case

On March 3, 2005, a World Trade Organization (WTO) Dispute Appeals Panel ruled against the United States in a dispute brought by Brazil against certain aspects of the U.S. cotton program.[1] The WTO panel found that the GSM-102, GSM-103, and SCGP export credit guarantee programs effectively functioned as export subsidies because the financial benefits returned to the government by these programs failed to cover their long-run operating cost. Furthermore, the panel found that this applies not just to cotton, but to all recipient commodities that benefit from U.S. commodity support programs.

The panel also found that certain payments (called Step 2 payments), authorized as part of special cotton marketing provisions in U.S. farm program legislation to keep U.S. upland

[1] For a detailed discussion of the U.S. response to the WTO cotton panel's decision, see CRS Report RS22187, *U.S. Agricultural Policy Response to WTO Cotton Decision*. For a detailed discussion of the U.S.-Brazil WTO dispute settlement case, see CRS Report RL32571, *Background on the U.S.-Brazil WTO Cotton Subsidy Dispute*.

cotton competitive on the world market, were prohibited subsidies.[2] Step 2 payments are made to exporters and domestic mill users to compensate them for their purchase of U.S. upland cotton, which tends to be priced higher than the world market price. Payments to exporters were found to be "contingent upon export performance" and therefore qualified as prohibited export subsidies in violation of WTO commitments. Payments to domestic users were found to be "contingent on the use of domestic over imported goods" and therefore qualified as prohibited import substitution subsidies.

On July 5, 2005, U.S. Secretary of Agriculture Mike Johanns announced that the Administration was sending proposed statutory changes to Congress to comply with the WTO ruling, including removal of a 1% cap on fees charged under the GSM-102 export credit guarantee program, termination of the GSM-103 export credit guarantee program, and elimination of the Step 2 program. In light of USDA's proposed changes, and with the expectation that they will be fully implemented in an expeditious manner, Brazil has temporarily suspended its pursuit of WTO-sanctioned retaliatory trade measures against U.S. agricultural products. The U.S. National Cotton Council (NCC) has announced its opposition to the removal of the Step 2 cotton program. Modifications to or the elimination of the programs, as suggested by USDA, ultimately will be decided by Congress.

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 end export subsidies such as EEP and DEIP and affect the operation of U.S. export guarantee and food aid programs.[3]

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. The Trade Act of 2002 (P.L. 107-210) calls for eliminating agricultural export

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[2] For more information on Step 2 payments, see CRS Report RL32442, *Cotton Production and Support in the United States*.

[3] For details, see CRS Report RS21905, *Agriculture in the WTO Doha Round: The Framework Agreement and Next Steps*.

subsidies, but makes preservation of export credit programs and food aid a principal negotiating objective.

Pressure from the United States 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. The United States has agreed to eliminate trade-distorting aspects of such programs in exchange for the elimination of all agricultural export subsidies by the European Union. This trade-off between export subsidies and export credit and food aid programs is reflected in the July framework agreement. USDA's export credit guarantee programs would be substantially altered by the agreement.

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.

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.