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Agricultural Export and Food Aid Programs

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Charles E. Hanrahan
Senior Specialist in Agricultural Policy
Resources, Science, and Industry Division

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Committees of Congress

Agricultural Export and Food Aid Programs

Summary

The U.S. Department of Agriculture (USDA) administers programs to promote agricultural exports and to provide food aid, all currently authorized in the 2002 farm bill, the Farm Security and Rural Investment Act (FSRIA, P.L. 107-171), or 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 activities expires with the 2002 farm bill in 2007, and the 110th Congress has been deliberating a new farm bill.

USDA's direct export subsidies include the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). EEP spending has been negligible since 1996, and DEIP spending has been declining since 2002. Export subsidies, but not other U.S. export and food aid programs, are subject to reduction commitments agreed to in multilateral trade negotiations. Export market development programs include the Market Access Program (MAP) and the Foreign Market Development or "Cooperator" Program (FMDP). Although criticized by some as corporate welfare, these programs are considered to be non-trade-distorting by the World Trade Organization (WTO) and are exempt from multilateral spending constraints. The FSRIA authorizes MAP spending of $200 million annually in FY2006 and FY2007 and sets FMDP spending at $34.5 million annually through FY2007. The FSRIA authorizes export credit guarantees by USDA's Commodity Credit Corporation (CCC) of up to $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 2002 farm bill also authorizes, through FY2007, foreign 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 can provide surplus commodities for donation overseas. Average annual spending on food aid under the 2002 farm bill has been $2.2 billion. Global food emergencies are putting pressure on the ability of food aid providers, including the United States, to meet estimated needs. Increased allocations of U.S. food aid for emergency relief has reduced the volume of food aid available for development projects.

The administration announced its proposals for farm bill program changes on January 31, 2007. The House and Senate have each approved their respective versions of a new farm bill, and conference deliberations are expected as Congress reconvenes for the second session of the 110th Congress. The President has threatened to veto the legislation because of disagreement with Congress over tax and spending provisions. The President signed the Consolidated Appropriations Act of 2008 (P.L. 110-161), which includes funding for USDA's international activities for the current fiscal year and an extension of 2002 farm bill programs, including export and food aid programs, through March 15, 2008.

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Recent Developments

Farm Bill Developments

The House Agriculture Committee conducted its markup of its version of the farm bill (H.R. 2419) in mid-July, and House floor action was completed on July 27, 2007. The Senate Agriculture Committee approved its version of the farm bill on October 25, 2007. The full Senate passed its amended version of H.R. 2419 on December 14, 2007. Among other provisions, both bills reauthorize and extend export and food aid programs through 2012.

Appropriations Developments

On May 25, 2007, the President signed the Iraq war emergency supplemental appropriations act (H.R. 2206, P.L. 110-28), which included an additional $450 million for P.L. 480 Title II food aid donations for FY2007. These funds would be available until expended.

The President signed on December 16, 2007, H.R. 2764 (P.L. 110-161), the Consolidated Appropriations Act of 2008, which includes FY2008 funding for USDA's international activities. The act provides about $1.5 billion of discretionary funding for USDA's international activities (mainly international food aid). The President's budget request indicates that another $3.1 billion would be allocated to mandatory international programs (export promotion, export credit guarantees, export subsidies). Section 751 of the Consolidated Appropriations Act extends authority for 2002 farm bill programs, including USDA international programs, through March 15, 2008.

U.S. Agricultural Exports

Agricultural exports are important both to farmers and to the U.S. economy. Production from almost a third of harvested acreage is exported, including an estimated 48% of food grain production, almost 20% of feed grains, and about 36% of U.S. oilseeds. Cotton exports amounted to 70% of production in 2006. Exports also generate economic activity in the non-farm economy. According to USDA, each $1 received from agricultural exports stimulated another $1.48 in supporting activities to produce those exports. Recent data show that agricultural exports generate an estimated 825,000 full-time civilian jobs, including 437,000 jobs in the non-farm sector.[1]

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[1] Data and analysis on the role of agricultural exports in the U.S. economy is available from (continued...)

Nearly every state exports agricultural commodities. USDA data shows that the states with the greatest shares of U.S. agricultural exports by value are California, Iowa, Texas, Illinois, Minnesota, Nebraska, Kansas, Washington, North Dakota, and Indiana. These 10 states accounted for 58% of total U.S. agricultural exports in FY2005. In addition, Arkansas, Florida, Kentucky, Missouri, North Carolina, Ohio, Pennsylvania and Wisconsin each shipped over $1 billion worth of commodities.[2]

U.S. agricultural exports for FY2007 were estimated by USDA to be a record high $81.9 billion, with imports reaching $70 billion, also a record. As a result, the U.S. agricultural trade balance in FY2007 is an estimated $8.5 billion. USDA's forecast is for U.S. agricultural exports to reach $91 billion in FY2008. With agricultural imports forecast to reach $75.5 billion, the FY2008 agricultural trade surplus would be $15.5 billion.[3]

In recent years, high value exports (intermediate products such as wheat flour, feedstuffs, and vegetable oils and consumer-ready products such as fruits, nuts, meats, and processed foods) have outpaced such bulk commodity exports as grains, oilseeds, and cotton. In FY2007, high value agricultural exports accounted for 60% of the value of total agricultural exports.[4] High-value product continue to rise, but, according to USDA, bulk commodity exports account for three-quarters of the year-to-year increase in agricultural export value, with about one-quarter of that increase from volume gains.[5] USDA attributes the FY2008 level of farm exports to continued strong demand, tight global markets, higher prices for grains and oilseeds, and a weak dollar. In addition to these current factors, other, broader variables also influence the level of U.S. agricultural exports: income and population growth, and tastes and preferences in foreign markets; and exchange rates. U.S. domestic farm policies that affect price and supply, and trade agreements with other countries, also influence the level of U.S. agricultural exports. While many of these factors are beyond the scope of congressional action, farm bills have typically included programs that promote commercial agricultural exports or provide foreign food aid.

USDA's International Agricultural Programs

The trade title of the 2002 farm bill, the Farm Security and Rural Investment Act (FSRIA; Title III of P.L. 107-171), authorizes and amends four kinds of export and food aid programs:

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[1] (...continued)
USDA's Economic Research Service at [http://usda.mannlib.cornell.edu/reports/erssor/trade/fau-bb/text/2006/fau109.pdf].

[2] Agricultural export data by state is available from USDA's Economic Research Service at [http://www.ers.usda.gov/data/stateexports/].

[3] Estimates of U.S. agricultural exports, imports and trade balance are reported in USDA, Economic Research Service, *Outlook for U.S. Agricultural Trade*, published quarterly, visited at [http://usda.mannlib.cornell.edu/usda/current/AES/AES-11-30-2007.pdf].

[4] Percentage of high value agricultural exports estimated from data provided in USDA's Foreign Agricultural Service data base available at [http://www.fas.usda.gov/scriptsw/bico/bico_frm.asp]

[5] *Outlook for U.S. Agricultural Trade*, November 30, 2007, p. 1

- direct export subsidies;
- export market development programs;
- export credit guarantees; and
- foreign food aid.

USDA's Foreign Agricultural Service (FAS) administers these 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).

Some of USDA's international activities (P.L. 480 food aid, the Food for Education program, and the operations of the Foreign Agricultural Service) are funded by annual appropriations. Other programs (export subsidies, export market development programs, export credit guarantees, and some foreign food aid programs) are funded through the borrowing authority of the Commodity Credit Corporation (CCC). The CCC is a U.S. Government-owned and operated corporation, created in 1933, with broad powers to support farm income and prices and to assist in the export of U.S. agricultural products. Toward this end, the CCC finances USDA's domestic price and income support programs and its export programs using its permanent authority to borrow up to $30 billion at any one time from the U.S. Treasury. (The table below shows international program spending for FY1997 through FY2006.)

USDA International Program Activity, FY1997-FY2006

($ millions)

Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EEP[a]	0	2	1	2	7	0	0	0	0	0
DEIP[b]	121	110	145	78	8	55	32	3	0	0
MAP[c]	90	90	90	90	90	100	110	125	140	200
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	2,625	1,363
P.L. 480[f]	1,054	1,138	1,808	1,293	1,086	1,270	1,960	1,809	2,115	1,829
FFE[g]	—	—	—	—	—	—	100	50	90	97
Section 416(b)[h]	0	0	1,297	1,130	1,103	773	213	173	76	20
FFP[i]	91	111	101	108	104	126	137	138	122	131
FAS[j]	191	209	178	183	201	198	195	197	206	246
Total	4,423	5,697	6,693	6,000	5,854	5,944	6,004	6,245	5,408	3,941

Sources: USDA, *Annual Budget Summaries*, various issues. These data are program levels (i.e., the value of goods and services provided in a fiscal year). They include for the discretionary programs (P.L. 480, Food for Education, and the Foreign Agricultural Service), in addition to regular, annually appropriated funds, emergency supplemental appropriations, carry-over from one fiscal year to another, transfers from other USDA agencies, transfers between programs, and reimbursements from other agencies.

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; FY2005 P.L. 480 includes $377 million from the Emerson Trust.
g. The McGovern-Dole International Food for Education and Child Nutrition Program (FFE)was authorized in the 2002 farm bill FY2003 funds were from the Commodity Credit Corporation; 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.

Agricultural Export Programs[6]

Export Subsidies

The 2002 farm bill authorizes direct export subsidies of agricultural products through the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP).

Export Enhancement Program (EEP).[7] 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 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.

[6] For discussion of USDA's export programs in relation to the next farm bill, see CRS Report RL34227, *Agricultural Exports and the 2007 Farm Bill*.

[7] Additional information on the Export Enhancement Program is available at [http://www.fas.usda.gov/info/factsheets/eep.asp]

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 2002 FSRIA. Authority to spend CCC funds on EEP expires in FY2007.

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 of the use of EEP found that wheat exports would have decline somewhat if EEP were eliminated, suggesting that the EEP program increased wheat exports. Other analysts, however, found that subsidizing wheat exports under EEP resulted in displacing exports of unsubsidized grains.[8]

Recent EEP Activity. Although almost always under some pressure from interested commodity groups to use EEP more extensively, USDA has limited its scope and funding since 1995. USDA's rationale for not using EEP is based on the argument that using it might depress world market prices for eligible commodities. 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. From FY1996 to FY2006, a total of only $17 million of EEP bonuses were awarded. There were no EEP bonus awards from FY2002 through FY2007.

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[8] See, for example, the article by Paarlberg and Seitzinger, "A simulation model of the U.S. export enhancement program for wheat in the presence of an EC response," at [http://erae.oxfordjournals.org/cgi/content/abstract/16/4/445]. A Government Accountability Office (GAO) report found that EEP increased exports and helped bring competitors, notably the European Union, to the bargaining table in Uruguay Round multilateral trade negotiations. The GAO report is available at [http://archive.gao.gov/d23t8/141716.pdf].

Dairy Export Incentive Program (DEIP).[9] DEIP, most recently reauthorized in the commodity program title, 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. Legislative authority for DEIP expires on December 31, 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.

Recent DEIP Activity. No DEIP bonuses were awarded from FY2005 through FY2007. The program level for DEIP in FY2003 was $32 million and in FY2004 it was $3 million.

Administration Farm Bill Proposals. The Administration calls for the repeal of the Export Enhancement Program (EEP). USDA's justification for this move is that EEP is no longer a useful tool for U.S. agricultural exports, it has been inactive since 1995, and its elimination would not materially affect U.S. exports. EEP, the Secretary says, is inconsistent with the U.S. goal of eliminating export subsidies worldwide in Doha Round negotiations.

Farm Bill Legislative Action. The House-passed bill extends authority for EEP through FY2012, while the Senate version calls for the repeal of EEP. Both the Senate and House farm bills also extend the authorization for DEIP in Title I, the commodity title, through FY2012.

Market Development Programs

FAS administers five programs to promote U.S. agricultural products in overseas markets, including the Market Access Program (MAP), the Foreign Market Development Program (FMDP), the Emerging Markets Program (EMP), the Quality Samples Program (QSP), and the Technical Assistance for Specialty Crops Program (TASC). All of these programs are funded through the borrowing authority of the CCC. Farm bill authorization of CCC funds for the market development programs expires at the end of FY2007. Legislation (H.R. 1600, the Eat Healthy America Act) introduced during the 110th Congress included provisions to substantially increase funding for MAP and TASC.

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[9] Additional information on DEIP is available at [http://www.fas.usda.gov/excredits/deip.html].

Market Access Program (MAP).[10] 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 FY2007. The funding level for the program (previously capped at $90 million annually) gradually increases to $200 million for FY2006 and FY2007. 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 policy has been to allocate all MAP funds for promotion of branded products to cooperatives and small U.S. companies.

Recent MAP Activity. Although MAP is not funded by annual appropriations, appropriations acts have on occasion capped the amounts that could be spent on the program or imposed other restraints on programming. For example, the FY1999 agriculture appropriations act 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 law. Since 1993, no MAP funds may be used to promote tobacco exports. MAP has often been targeted for cuts by some Members of Congress who maintain that it is a form of corporate welfare, or to help offset increased expenditures on other programs, but such efforts have been unsuccessful. USDA allocated the maximum amounts authorized for MAP in the 2002 farm bill for FY2002 through FY2006.

Foreign Market Development Program (FMDP).[11] The FSRIA also reauthorizes CCC funding for this program through FY2007 at an annual level of $34.5 million. The 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. As with 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 mainly promotes consumer goods and brand-name products, FMDP mainly promotes generic or bulk commodities.

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[10] Additional information on MAP is available at [http://www.fas.usda.gov/mos/programs/map.asp].

[11] Additional information on FMDP is available at [http://www.fas.usda.gov/mos/programs/fmdprogram.asp].

MAP and FMDP Issues. 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 and agribusinesses market their products overseas. Some argue that MAP and FMDP are forms of corporate welfare in that they fund activities that private firms would and could fund for themselves. Others 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, also spend money on market promotion, and that U.S. marketing programs help keep U.S. products competitive in third-country markets.

Recent FMDP Activity. 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. USDA allocated the farm-bill authorized amount of $34.5 million for the program in FY2002 through FY2006.

Emerging Markets Program.[12] The Emerging Markets Program (EMP) provides funding for technical assistance activities intended to promote exports of U.S. agricultural commodities and products to emerging markets in all geographic regions, consistent with U.S. foreign policy. An emerging markets is defined in the authorizing legislation (FSRIA of 2002) as any country that is taking steps toward a market-oriented economy through food, agricultural, or rural business sectors of the economy of the country. Additionally, an emerging market country must have the potential to provide a viable and significant market for U.S. agricultural commodities or products. Eligible countries must have per capita incomes of less than $10,065 in 2005-2006 and a population greater than 1 million. The FSRIA of 2002 authorizes funding at $10 million each fiscal year through FY2007.

Funding for the EMP is set at $10 million each fiscal year through FY2007 in the 2002 farm bill. In FY2006, EMP allocated $10 million for 76 agricultural trade promotion projects to support generic promotions and distribution of U.S. agricultural products, trade missions, and research on new markets.

Quality Samples Program.[13] The Quality Samples Program (QSP) assists U.S. agricultural trade organizations to provide small samples of their agricultural products to potential importers in emerging markets overseas. The QSP focuses on industrial and manufacturing users of products, not end-use consumers. Under the authority of the CCC Charter Act of 1948, FAS uses up to $2 million of CCC funds to carry out the program. In FY2006, FAS allocated $1.8 million to 17 trade organizations participating in QSP.

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[12] Additional information on the Emerging Markets Program is available at [http://www.fas.usda.gov/mos/em-markets/em-markets.html].

[13] Additional information on the QSP is available at [http://www.fas.usda.gov/mos/programs/QSP.asp].

Technical Assistance for Specialty Crops (TASC) Program.[14] The Technical Assistance for Specialty Crops (TASC) Program aims to assist U.S. organizations by providing funds for projects that address sanitary, phytosanitary and technical barriers that prohibit or threaten U.S. speciality crop exporters. The legislation defines specialty crop as all cultivated plants, and the products thereof, produced in the United States, except wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and tobacco. The types of activities covered include seminars and workshops, study tours, field surveys, pest and disease research, and pre-clearance programs. The FSRIA of 2002 authorizes $2 million of CCC funds each fiscal year through FY2007 for the TASC program. In FY2006, FAS allocated $2.6 million to TASC projects carried out by 26 U.S. trade organizations.

Administration Farm Bill Proposals. The Secretary proposes increased funding for the Technical Assistance for Specialty Crops (TASC) Program from its current level of $2 million annually in mandatory funding. Under the proposal, TASC would increase to $4 million in FY2008, $6 million in FY2009, $8 million in FY2010, and $10 million thereafter through FY2015. For the Market Access Program (MAP), funding would rise from the current mandatory funding of $200 million annually to $250 million annually. The additional funding would address perceived inequities between farm bill program crops (grains, oilseeds, and cotton) and non-program crops (especially specialty crops). Organic agriculture would be allowed to compete for MAP funding to help develop the export of organic products.

Farm Bill Legislative Action. Both the Senate bill and H.R. 2419 reauthorize USDA's agricultural export promotion programs through FY2012. The Senate bill increases MAP funding by $100 million over the five fiscal years FY2008-FY2012, while the House bill increases MAP funding by $125 million. Both bills specifically authorize MAP to promote exports of organically produced commodities. The House bill authorizes CCC funding for FMDP through FY2012 with no change in the funding levels authorized in the 2002 farm bill (i.e., $34.5 million annually). The Senate bill reauthorizes FMDP through FY2012 but increases its funding by $22 million over five fiscal years. H.R. 2419 also increases funding for TASC, which the 2002 farm bill authorizes at $2 million of CCC funds per fiscal year. Total funding for TASC in H.R. 2419 over five years would amount to $38 million. The Senate bill provides a total of $29.2 million for TASC over five years.

Export Credit Guarantees

The FSRIA reauthorizes through FY2007 USDA-operated export credit guarantee programs, first established in the Agricultural Trade Act of 1978 (P.L. 95-501), 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.

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[14] Additional information on the TASC program is available at [http://www.fas.usda.gov/mos/tasc/tasc.asp].

Export Credit Guarantee Programs (GSM-102 and GSM-103).[15] 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. 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 FAS the 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 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 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 is in default of more than $2 billion of previously extended guarantees. In FY2006, the major recipients were Turkey ($249 million), South Korea ($200 million) and Russia ($200 million). Guarantees facilitate sales of a broad range of commodities, but in FY2006 mainly benefitted exports of wheat, meat and poultry, 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).

Supplier Credit Guarantee Program. 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

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[15] Additional information on CCC export credit guarantees is at [http://www.fas.usda.gov/excredits/exp-cred-guar.html].

expected to be particularly useful in facilitating sales of high value products, the fastest growing components of U.S. agricultural exports.

Facilities Guarantee Program.[16] 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.

Recent Export Credit Guarantee Activity. In 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 $2.6 billion worth of exports in FY2005. Guarantees of $1.4 billion of farm exports were made available in FY2006. The amounts of credit guaranteed each year depend on the demand for guaranteed financing of U.S. agricultural commodities by eligible borrowing countries. Substantially lower guarantees in FY2006 may have resulted from the suspension in FY2006 of the Supplier Credit Guarantee Program because of a high rate of defaulted obligations and other problems. USDA has proposed terminating the SCGP in its 2007 farm bill proposal. In addition, applying a more rigorous risk analysis (as a result of the U.S. response to the WTO cotton case) to prospective beneficiaries could have contributed to the decline in guarantees.

The farm bill made no specific authorization of funds for the FGP and no funds have been allocated by USDA to this program under the current farm bill. In its 2007 farm bill proposals, USDA suggests changes (see below) that would make the program an effective vehicle for improving the infrastructure for handling U.S. farm exports in emerging markets.

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.[17] 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 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 cotton competitive on the world market, were prohibited

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[16] Additional information on the FGP is available at [http://www.fas.usda.gov/excredits/facility-new.asp].

[17] 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*; and 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*, both by Randy Schnepf.

subsidies.[18] 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 Johanns announced a number of changes intended to bring the United States into compliance with the WTO cotton ruling, including a request to Congress to remove the 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. The announced termination of GSM-103 export credit guarantees programs can be made administratively, but changes in the cap on fees and the Step 2 program require legislation. Congress included a provision in the Deficit Reduction Act of 2005 (P.L. 109-171), signed into law on February 8, 2006, that provided for the elimination of Step 2 by August 1, 2006. However, Congress did not change the cap on fees. (The House- and Senate-passed farm bills, discussed below, do make these changes in CCC Export Credit Guarantee Programs.)

On October 15, 2007, a World Trade Organization (WTO) compliance panel released its final report to the U.S. and Brazilian governments concerning U.S. compliance with a negative ruling in a dispute settlement case (DS267) brought by Brazil against certain aspects of the U.S. cotton program. Reportedly, the panel's ruling confirmed an earlier (July 27, 2007) interim ruling that the United States has not fully complied with a March 2005 WTO ruling against certain U.S. cotton support programs. The United States is expected to appeal the compliance panel's ruling. The ruling against the United States (barring a successful U.S. appeal) could necessitate further U.S. farm program changes or, if no further changes are forthcoming, clear the way for Brazil to request WTO authorization for retaliatory trade sanctions.

Administration Farm Proposals. Three major changes are proposed for the export credit guarantee programs. First, the proposals call for reforming the credit programs to make them consistent with U.S. WTO commitments. To bring the credit guaranty programs into conformity with trade rules, the Administration asks Congress to remove the 1% cap on fees that can be collected under the Short-Term Credit Guarantee Program (GSM-102) and eliminate specific legislative authority for the Intermediate Export Credit Guarantee Program (GSM-103). Second, the Administration proposes termination of the Supplier Credit Guarantee Program, largely because the SCGP has incurred a number of defaults and there have been instances of fraud. USDA had already suspended FY2006 program announcements for SCGP. Third, the Administration proposes to expand the Facilities Financing Guarantee Program (FGP) by allowing lower or no down payments, 98% principal and interest coverage, and longer terms for up to the life cycle of a facility's

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

depreciation schedule (not to exceed 20 years). These recommendations are made, USDA notes, because the current requirements to qualify for FGP have discouraged its use.

Farm Bill Legislative Action. Title III in both the House-passed farm bill (H.R. 2419) and the Senate farm bill make the changes in USDA's export credit guarantee programs recommended by the Administration: repeal of GSM-103 and the SGCP and removal of the 1% cap on origination fees for GSM guarantees. The GSM-102 program is extended through FY2012.

Other Trade Proposals

Other Administration 2007 farm bill proposals would strengthen U.S. capacity to address international SPS and technical trade barriers; strengthen staff support for U.S. participation in international standard-setting bodies, such as the Codex Alimentarius, the International Plant Protection Convention, and the World Animal Health Organization; and provide technical assistance to limited-resource agricultural producers to respond to trade disputes and challenges.

International Food Aid Programs[19]

The 2002 farm bill authorizes a number of international food aid programs that supply U.S. commodities abroad. These include Titles I, II, and III of P.L. 480, also known as Food for Peace; the Food for Progress Program; the McGovern-Dole International Food for Education and Child Nutrition Program; and the Bill Emerson Trust, a reserve of commodities and cash to be used in the case of unanticipated emergencies. All of these programs are authorized through FY2007. One other food aid program, Section 416(b) surplus commodity donations, is permanently authorized in the Agricultural Act of 1949. The McGovern-Dole program is a new food aid program established by the 2002 farm bill. It replaces a pilot activity, the Global Food for Education Initiative, established in 2000 by the Clinton Administration. The John Ogonowski Farmer-to-Farmer Program, a small program of volunteer technical assistance to agriculture in developing countries, is funded from the P.L. 480 appropriation.

P.L. 480 (Food for Peace)[20]

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

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[19] For discussion of international food aid programs in relation to the next farm bill, see CRS Report RL34145, *International Food Aid and the 2007 Farm Bill*.

[20] Additional information on P.L. 480 food aid is available at [http://www.fas.usda.gov/food-aid.asp].

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 U.N. World Food Program) as organizations eligible to carry out Title II non-emergency (development) 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.

The FSRIA mandates an annual minimum tonnage level provided as Title II commodity donations of 2.5 million metric tons, of which 1.875 mmt (75%) is to be channeled through the eligible organizations. This mandate, which has rarely been met, can be waived by the USAID Administrator upon a determination that this volume of commodities cannot be used effectively or in cases of emergency need. In recent years, the volume of P.L. 480 emergency food aid has far exceeded the amount of non-emergency or development food aid.

Other Food Aid Programs

Section 416(b).[21] This program, authorized in permanent law (the Agricultural Act of 1949) 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.

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[21] Additional information on Section 416(b) is available at [http://www.fas.usda.gov/excredits/FoodAid/416b/section416b.asp].

Food for Progress (FFP).[22] 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 farm bill 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.[23] 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. Legislation (H.R. 6229) was introduced in the 109th Congress, and is expected to be reintroduced in the 110th, to increase substantially spending on McGovern-Dole and to make spending on the program mandatory.

The Bill Emerson Humanitarian Trust (BEHT).[24] The 2002 farm bill reauthorized the BEHT, enacted in the 1998 Africa Seeds of Hope Act (P.L. 105-385), through FY2007. 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 also can hold cash in reserve.

The John Ogonowski Farmer-to-Farmer Program. The Farmer-to-Farmer program (FTF), first authorized in the 1985 farm bill, was reauthorized by the 2002 farm bill and renamed in honor of John Ogonowski, a pilot killed on September 11, 2001. Ogonowski had participated in the Farmer-to-Farmer program. FTF is a program of technical assistance (not commodity food aid) provided to farmers, farm organizations, and agribusinesses in developing and transitional countries. The

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[22] Additional information on the Food for Progress program is available at [http://www.fas.usda.gov/excredits/FoodAid/FFP/foodforprogess.asp].

[23] Additional information the McGovern-Dole program is available at [http://www.fas.usda.gov/excredits/FoodAid/FFE/FFE.asp].

[24] Additional information on the Emerson Trust is available at [http://www.fas.usda.gov/excredits/FoodAid/emersontrust.asp].

program mobilizes the expertise of volunteers from U.S. farms, land grant universities, cooperatives, private agribusinesses, and nonprofit organizations to carry out projects overseas. The FSRIA provides minimum funding for FTF at 0.5% of the funds appropriated for P.L. 480 programs. Special emphasis is given to FTF activities in the Caribbean Basin and sub-Saharan Africa. FTF funding under the current farm bill has been $10 million annually.

Recent Food Aid Program Activity

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 Title II food aid for FY2005 was $2.1 billion, which included $377 million of commodities from the Emerson Trust.

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.

The United States has provided on average $2.2 billion annually of international food assistance under the current farm bill (FY2002-FY2006).

Releases from the 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. 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. Following these releases, approximately 900,000 metric tons of wheat and $107 million in cash remain in the trust.

Food Aid Issues

The U.S. food aid program is often criticized as an inefficient way to meet the objectives of relieving emergency food needs or fostering economic and agricultural development in receiving countries. Critics, including the Administration, point to delayed arrivals of up to four months when U.S. commodities are shipped in response to emergency situations. Ocean transportation costs can be high. In FY2006, USAID estimated that almost half of its food aid allocations went to paying the cost of transportation (ocean transport and internal shipping costs).[25] Ocean freight rates vary from year to year, but paying such costs is one reason that both USDA and USAID have proposed in various budget proposals allocating some portion of funds available to P.L. 480 Title II emergency programs to purchase commodities in areas near to the emergency. The Administration argues that with local or regional purchase, not only could more food be purchased at lower prices, but the food could be delivered more rapidly. Congressional and other critics of the local purchase proposal maintain that allowing non-U.S. commodities to be purchased would result in undermining the coalition of commodity groups, private voluntary organizations, and shippers that support the program and in reductions in U.S. food aid. [26]

Related to the question of cost-effectiveness is the cargo preference issue. The Cargo Preference Act, P.L. 83-644 (August 26, 1954), as amended, contains permanent legislation concerning the transportation of waterborne cargoes in U.S.-flag vessels. The act requires that 75% of the volume of U.S. agricultural commodities financed under P.L. 480 and other concessional financing arrangements be shipped on privately owned U.S.-registered vessels. Maritime interests generally support cargo preference, but proponents of P.L. 480 argue that it increases the costs of shipping U.S. commodities to poor countries and potentially reduces the volume of food aid provided. A GAO report found that shipments of food aid on U.S.-flag vessels did little to meet the law's objective of helping to maintain a U.S. merchant marine and that cargo preference requirements adversely affect operations of the food aid programs, chiefly by raising the cost of ocean transportation and reducing the volume of commodities that can be shipped.[27]

The monetization (selling in local markets) of food aid commodities also is an issue. A P.L. 480 provision (Section 203) first included in the Food Security Act of 1985 (P.L. 99-198) allows private voluntary organizations and cooperatives to sell a percentage of donated P.L. 480 commodities in the recipient country or in countries in the same region. Under Section 203 of P.L. 480, private voluntary organizations or cooperatives are permitted to sell (i.e., monetize) for local currencies or dollars an amount of commodities equal to not less than 15% of the total amount of commodities distributed in any fiscal year in a country. The currency generated by

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[25] See USAID FY2006 Congressional Budget Justification at [http://www.usaid.gov/policy/budget/cbj2006/pdf/fy2006summtabs6_PL480TitleII.pdf].

[26] See H.Rept.109-255 on H.R. 2744, the FY2006 agriculture appropriations measure.

[27] See General Accountability Office, "Cargo Preference Requirements: Objectives Not Met When Applied to Food Aid Programs," September 29, 1994, available at [http://archive.gao.gov/t2pbat2/152624.pdf]

these sales can then be used to finance internal transportation, storage, or distribution of commodities; to implement development projects; or to invest and with the interest earned to finance distribution costs or projects.

Many of the organizations that rely on sales of U.S. food aid commodities to finance development projects support monetization as their major source of development finance. Some private voluntary organizations, however, have begun to question the use of monetization as a source of funds.[28] CARE, which has been a major supporter of monetization in the past, has decided to transition out of monetization over the next two years. According to CARE, monetization is management-intensive and costly and fraught with legal and financial risks. In addition, it is economically inefficient. As CARE notes in its food policy paper: "Purchasing food in the U.S., shipping it overseas, and then selling it to generate funds for food security programs is far less cost-effective than the logical alternative — simply providing cash to fund food security programs." Finally, echoing criticisms of food aid heard in WTO Doha Round negotiations, CARE notes that when monetization involves open-market sale of commodities to generate cash, which is almost always the case, it inevitability causes commercial displacement. As such, it can be harmful to traders and local farmers and undermine the development of local markets, and be detrimental to longer-term food security objectives. Catholic Relief Services (CRS) has taken a similar position with respect to monetization.[29]

Using some portion of the funds available to food aid programs to make local or regional purchases of emergency food aid rather than U.S. commodities has been an issue in annual food aid appropriations debates since 2003. The issue is discussed below.

The Administration's Farm Bill Food Aid Proposal

The Administration made only one farm bill food aid proposal. Secretary Johanns, in his January 2007 farm bill recommendations, proposed that Congress provide legislative authorization to use up to 25% of funds available annually to P.L. 480 Title II to procure food from selected developing countries near the site of a crisis. The Administration justifies this proposal on the grounds that the U.S. response to food emergencies would be more efficient and cost-effective if commodities could be procured locally. The Administration's farm bill document notes instances in which the U.S. food aid response to emergencies would have been enhanced with this kind of authority: Iraq in 2003, the Asian tsunami in 2004, Southern and West Africa in 2005, and East Africa in 2006. As if anticipating the same congressional antipathy expressed in regard to this idea in past budget requests, the Administration is careful to note that "U.S. grown food will continue to play the primary role and will be the first choice in meeting global needs." Local and regional purchases would be made only where the speed of the arrival of food aid is essential.

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[28] See *White Paper on Food Aid Policy*, CARE USA, June 6, 2006, at [http://www.care.org/newsroom/articles/2005/12/food_aid_whitepaper.pdf].

[29] See Catholic Relief Services, *Food Aid and Food Securit*y, at [http://www.crs.org/get_involved/advocacy/food_aid/in_depth.cfm].

Farm Bill Legislative Action on Food Aid

Title III of the House-Passed (H.R. 2419) and Senate-reported farm bill reauthorizes and amends U.S. international food aid programs. Title III in both bills extends these programs through 2012. The House bill disregards the one food aid recommendation from the Administration to allocate up to a quarter of P.L. 480 Title II funds to local or regional purchase of emergency food aid. However, the Senate bill includes authority to use P.L. 480 Title II funds for a pilot program for local or regional purchase of emergency food aid commodities.

P.L. 480

H.R. 2419 extends the P.L. 480 food aid programs through 2012, and authorizes discretionary appropriations for P.L. 480 Title II humanitarian donations of $2.5 billion annually. If appropriated, that amount would represent a very substantial increase over the $1.2 billion appropriated annually in recent years. An increase in appropriations for P.L. 480 Title II of this magnitude was initially a provision in H.R. 2488, the House Foreign Affairs Committee-reported version of the farm bill's trade title. H.R. 2419 also extends the minimum tonnage requirements of Title II through 2012. The House-passed bill also increases the amount of cash that could be allocated to PVOs to pay for project-related expenses. H.R. 2419 increases Section 202(e) cash support to not less than 7% nor more than 12% of funds available to Title II.

The Senate version of Title III also reauthorizes P.L. 480 food aid programs and extends the minimum tonnage requirements for Title II through 2012. In contrast to H.R. 2419, the Senate bill does not increase the appropriation for Title II. The Senate bill increases the share of Title II funds that can be used to cover project-related expenses of PVOs to not less than 7.5%, but specifies no upper limit as in the House bill and current law.

Non-Emergency Development Food Aid

The House-passed bill stipulates that of the funds made available for Title II, not less than $450 million annually be made available for nonemergency (development) food aid. This minimum level of non-emergency assistance could not be waived unless requested by the Administrator of USAID, followed by enactment of a law approving the Administrator's request. The Senate bill also establishes a hard earmark of $600 million for development food aid that also would not be subject to waivers. Following passage of the House-passed bill, the Office of Management and Budget, in its Statement of Administrative Policy, said that it strongly opposed this provision because it would deprive the Administration of the ability to quickly waive it in an emergency. OMB estimated that this House bill provision would result in a $100 million decrease in emergency food aid. OMB also opposes the hard earmark in the Senate bill.

Local or Regional Purchase for Emergency Food Aid

The House-passed farm bill disregarded the Administration's sole farm bill food aid proposal for legislative authority to allocate up to 25% of Title II funds to local

or regional purchase of commodities for emergency relief. H.R. 2419 did, however, stipulate that $40 million of the funds appropriated for USAID's International Disaster and Famine Assistance (IDFA) program be allocated to famine prevention and relief. IDFA funds can be used to purchase commodities locally or regionally, although other demands on IDFA for emergency supplies constrain the amount of food that could be purchased. In contrast, the Senate farm bill establishes a pilot program, authorized at $25 million annually, to explore how local or regional procurement of food in emergency situations might be used.

Other P.L. 480 Provisions

Both bills extend provision for the Food Aid Consultative Group (FACG), which reviews the effectiveness of rules for the Title II program. The group is composed of representatives of USAID, USDA, PVOs, recipient countries, and U.S. agricultural producers. The Senate bill adds a representative of the maritime transport sector to the FACG.

Both bills extend the authorization for USAID grants for stockpiling and distributing shelf-stable foods. The House bill increases the amount that can be appropriated from $3 million to $7 million; the Senate bill increases the amount to $8 million. In addition, the bills extend authorization for the use of P.L. 480 funds for prepositioning of agricultural commodities overseas. The House bill increases from not more than $2 million to not more than $8 million the amount that can be spent to store commodities overseas. The Senate bill increases the amount that can be spent on overseas storage to not more than $4 million.

Both reauthorize the Ogonowski Farmer-to-Farmer program. The House bill provides a floor level of annual funding for the Farmer-to-Farmer Program of $10 million or not less than 0.5%, whichever is greater, and authorizes appropriations of $10 million for sub-Saharan African and Caribbean Basin countries and $5 million for all other countries. The Senate bill reauthorizes the program without change.

Other Food Aid Programs

Food for Progress. H.R. 2419 reauthorizes, without change, the Food for Progress program through FY2012. The Senate bill also reauthorizes Food for Progress and increases the amount that can be spent on transporting commodities from $40 million annually to $48 million for FY2008-FY2010.

McGovern-Dole Food for Education. In reauthorizing the McGovern-Dole program, the House-passed bill changes its funding basis from discretionary to mandatory and increases spending from $140 million in FY2009 to $300 million in FY2012. Funding for McGovern-Dole under the 2002 farm bill has averaged around $97 million annually. These provisions for the McGovern-Dole program — substantially increasing funding and making it mandatory — are virtually identical to those included in H.R. 1616 (McGovern) and S. 946 (Durbin), introduced earlier in the 110th Congress. Mandatory McGovern-Dole spending would be offset by changes in the federal crop insurance program. The Senate bill reauthorizes the food

for education program, but calls for $300 million in discretionary appropriations to fund the program.

The Bill Emerson Humanitarian Trust. The Senate bill reauthorizes the Emerson Trust through 2012 and makes a number of changes in the statute governing the trust. The bill specifies that the trust can be held as a combination of commodities and cash, not to exceed the equivalent of 4 million tons of commodities. Commodities held in the trust can be exchanged for funds available under P.L. 480 Title II, the McGovern-Dole program, or the market, if the Secretary of Agriculture determines that such sales will not disrupt the domestic market. The bill allows the funds held in the trust to be invested in low-risk short-term securities or instruments. The House-passed farm bill extended authority for the Emerson Trust through FY2012 without other modifications.

Congressional Action on Appropriations

FY2007 Supplemental Request for Food Aid

The 110th Congress passed and sent to the President a supplemental appropriation measure to fund the wars in Iraq and Afghanistan that included increased funding for P.L. 480 Title II humanitarian food aid donations (H.R. 1591). The President's original request for Title II was for $350 million, which he indicated would be used to meet humanitarian needs in the Darfur Region of Sudan, among refugees from Darfur in Chad, and in other critical food situations in the Horn of Africa, Southern Africa, and Afghanistan. H.R. 1591 would have provided $460 million for P.L. 480 Title II donations and an additional $40 million to replenish the Bill Emerson Trust. The President vetoed H.R. 1591 on May 2, 2007. In a compromise version of the Iraq war emergency supplemental that was submitted to the President on May 24, 2007, and signed on May 25, 2007 (H.R. 2206, P.L.110-28), Congress provided $450 million for P.L. 480 Title II, the amount included in the version of the bill vetoed by the President, plus an additional $10 million for replenishment of the Emerson Trust. With the additional supplemental appropriation of $450 million, funds appropriated for P.L. 480 Title II in FY2007 would be an estimated $1.655 billion.

FY2008 Budget Request

USDA's international activities are funded by discretionary appropriations (e.g., foreign food assistance under P.L. 480) and by using the borrowing authority of the CCC (e.g., export credit guarantees, market development programs, and export subsidies). The President's FY2008 budget request reports the total program value for USDA discretionary and CCC-funded international activities at an estimated $4.6 billion, of which $1.490 billion would be appropriated. The FY2008 program level would be $392 million more than FY2007, with most of the difference accounted for by anticipated increases in the value of short-term export credit guarantees. The Administration requests an appropriation of $173 million for the Foreign Agricultural Service (FAS) to administer its international programs.

For P.L. 480 foreign food assistance, the Administration requests a $1.219 billion appropriation ($1.343 billion program value with carryover and reimbursements), all of it for Title II commodity donations. The President's budget requests no funds for P.L. 480 Title I loans, nor any for the Bill Emerson Humanitarian Trust, which currently holds 900,000 metric tons of wheat and $107 million in cash. The budget assumes $163 million of CCC funds for the Food for Progress (FFP) program, which provides food aid to emerging democracies. Absence of Title I funds would effectively reduce spending on FFP. For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget requests a $100 million appropriation. Proposed appropriations language, previously rejected by Congress in FY2006 and FY2007, would allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities in food crises.

For CCC export credit guarantee programs, USDA estimates a FY2008 program level of $2.4 billion, all of it for short-term guarantees. This estimate reflects the U.S. response to the adverse ruling by the World Trade Organization in the 2005 U.S.-Brazil cotton dispute: suspending long-term guarantees, implementing a risk - based fee structure, and eliminating high-risk countries from the program. Although $200 million is allocated, "pending review," to the Supplier Credit Guarantee Program, USDA's farm bill proposal calls for repeal of the program because of substantial defaults and evidence of fraudulent activity. The budget proposes $200 million of CCC funds (the authorized level) for the Market Access Program, which primarily promotes sales of high-value products. The Foreign Market Development Program, which mainly promotes bulk commodities, would receive $34.5 million, also the farm bill authorized amount. Other, smaller export promotion programs would be allocated a total of $14 million. Of two current export subsidy programs, citing favorable supply and demand conditions for exports, the budget allocates no funds to the Export Enhancement Program and just $3 million to the Dairy Export Incentive Program. USDA's farm bill proposal calls for repeal of EEP. Noting the expense of the program and the relative absence of applicants, the Administration proposes no funds for Trade Adjustment Assistance, which is authorized at $90 million.

FY2008 Appropriations

The President signed into law the Consolidated Appropriations Act of 2008 (H.R. 2764, P.L. 110-161) on December 26, 2007. The act includes discretionary appropriations for USDA's international activities, which are subject to a 0.7% across the board rescission included in the measure. P.L. 110-161 provides, after the rescission, a total of $1.476 billion for P.L. 480 Title II food aid and other international programs. The House-passed FY2008 agriculture appropriations measure (H.R. 2206) would have provided discretionary appropriations of $1.487 billion, while the Senate committee-reported bill would have provided discretionary appropriations of $1.495 billion for international activities. The Administration's budget request indicates that an additional $3.3 billion would be allocated to CCC-funded (mandatory) programs during FY2008. Since the enacted appropriations measure imposes no restrictions on mandatory export program spending, program levels for these activities (export subsidies, market promotion, export credits, and some food aid) will be at farm bill authorized levels. Included in

the enacted bill is $158.4 million for the Foreign Agricultural Service (FAS) to administer USDA's international programs. The Senate-reported bill proposed $167.4 million for FAS, while the House bill's allowance for FAS was $159.1 million.

For P.L. 480 foreign food assistance, the enacted amount is $1.214 billion. Both the House-passed and Senate-reported versions of FY2008 agriculture appropriations recommended $1.222 billion (including transfers to the Farm Service Agency for salaries and expenses in connection with the P.L. 480 operations). Both bills concurred with the President's requests for no funds for P.L. 480 Title I loans or for P.L. 480 Title III grants. Thus, all of the P.L. 480 appropriations in the enacted bill would go for USAID-administered Title II commodity donations. Two USDA-administered food aid programs, Food for Progress (FFP) and Section 416(b) donations, receive mandatory funding. The President's budget assumes $163 million of CCC funds for FFP, which provides food aid to emerging democracies. P.L. 480 Title I funds can be allocated to FFP, but in the absence of an appropriation for Title I, that source would be unavailable in FY2008. Similarly, USDA anticipates that no CCC commodity inventories would be available for distribution as food aid under Section 416(b), a program that makes surplus agricultural commodities available overseas.

The enacted 2008 appropriations measure provides $99.3 million for the McGovern-Dole International Food for Education and Child Nutrition Program, an increase of $300,000 from the FY2007 enacted amount. Both chambers' appropriations bills and the President's budget request called for $100 million for McGovern-Dole. The House-passed farm bill (H.R. 2419) proposes to change the funding basis for the McGovern-Dole Program from discretionary to mandatory and to increase its annual authorized funding to $300 million by FY2011. The Senate-passed version of the farm bill does not include a similar provision.

The President's budget request to allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities to address international food crises was not included in the enacted measure. Nor was it included in either chamber's appropriation bill. In commenting on the proposal, the Senate committee report stressed its expectation that Title II would be used primarily for development, not emergency, assistance. In the event of additional emergency needs, the Senate Appropriations Committee "reminds the Department of the availability of the Bill Emerson Humanitarian Trust." In contrast, the House Appropriations Committee report indicates that, although it did not include the Administration's proposal in its version of the bill, it will consider the proposal as part of an overall examination of food aid programs. The Senate version of the farm bill, but not the House version, contains a provision authorizing $25 million annually for a pilot project to assess local/regional purchases of food aid for emergency relief.

The enacted bill includes an appropriation of $5.3 million for administrative expenses of CCC export credit programs, which the President's budget estimated would finance U.S. agricultural exports in FY2008 of $2.444 billion. P.L. 110-161 does not include legislative language proposed by the Administration to bring CCC export credit guarantee programs into compliance with a WTO dispute panel decision

that found such programs to be prohibited export subsidies. However, the House- and Senate-passed farm bills do make these WTO compliance changes.

The President's budget proposes that $200 million be allocated to the Market Access Program (MAP). The Foreign Market Development Program would be allocated $34.5 million according to the President's budget. For export subsidy programs, the budget requests no funds for the Export Enhancement Program (EEP) and just $3 million for the Dairy Export Incentive Program ($3 million in FY2007). EEP funding is authorized at $478 million annually under the 2002 farm bill, but no CCC funds have been allocated to the program during FY2002-FY2007. Authorized funding levels for these CCC-funded programs could be altered by the pending farm bill, as the Senate-passed farm bill repeals legislative authority for EEP while the House-passed bill reauthorizes spending at levels provided in the 2002 farm bill. Both farm bills authorize additional mandatory funding for export promotion programs as well.