Agricultural Export Programs: Background and Issues

Melissa D. Ho
Analyst in Agricultural Policy

Charles E. Hanrahan
Senior Specialist in Agricultural Policy

April 19, 2010

Congressional Research Service
7-5700
www.crs.gov
R41202

CRS Report for Congress
Prepared for Members and Committees of Congress

Summary

Agricultural exports are important both to farmers and to the U.S. economy. According to the U.S. Department of Agriculture's Economic Research Service (ERS), agricultural exports have exceeded imports since the early 1970s. The most recent outlook for FY2010 has U.S. agricultural exports estimated at $100 billion. While the FY2010 forecast is down from the record level seen in FY2008, the forecast is still the second highest on record. U.S. agricultural imports are forecast to reach $77.5 billion in FY2010, which would result in a $22.5 billion trade surplus for agricultural goods.

The trade title of the 2008 farm bill, the Food, Conservation, and Energy Act of 2008 (Title III of P.L. 110-246), authorized, amended and repealed certain U.S. agricultural export programs. USDA's Foreign Agricultural Service (FAS) administers three main types of agricultural export programs, which are funded through the borrowing authority of the Commodity Credit Corporation (CCC). Annual appropriations acts, however, sometimes amend the spending limits on these mandatory programs. USDA agricultural export programs include:

- Direct export subsidy programs: The 2008 farm bill reauthorized the Dairy Export Incentive Program (DEIP), which was reactivated in FY2009 due to falling dairy prices, and repealed authority for the Export Enhancement Program (EEP), which has been inactive since FY2002;
- Export market development programs: FAS administers five market development programs, whose primary aim is to assist U.S. industry efforts to build, maintain, and expand overseas markets for U.S. agricultural products: these are 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). The 2008 farm bill made organic products eligible for market development programs and increased funds available to address sanitary and phytosanitary barriers to U.S. specialty crops;
- Export credit guarantee programs: Through the GSM-102 Program and the Facility Guarantee Program, USDA's CCC guarantees loans so that private U.S. financial institutions will extend financing to buyers in emerging markets that want to purchase U.S. agricultural exports. The 2008 farm bill made changes to export credit programs to conform to U.S. commitments in the World Trade Organization (WTO). The 2008 farm bill also repealed two other export guarantee programs.

The President's FY2011 budget request includes an additional $53.5 million for agricultural export programs for the Administration's National Export Initiative. Important factors affecting U.S. agricultural exports include the recent global recession (2007-2008), which led to a sharp curtailment of global trade, including agricultural commodities; the depreciation in value of the U.S. dollar, which makes U.S. agricultural exports increasingly competitive in a global market; and increasing global economic growth, particularly in developing and emerging countries, which will likely increase demand for U.S. agricultural commodities in the coming year. Issues for Congress include determining the role and effectiveness of public vs. private sector for investing in the development of new markets; the Brazil WTO case against the U.S. cotton subsidies and implications for trade relations; and the U.S. Trade Representative's approach for addressing agricultural trade barriers, primarily related to sanitary and phytosanitary issues.

Contents

Figures

Tables

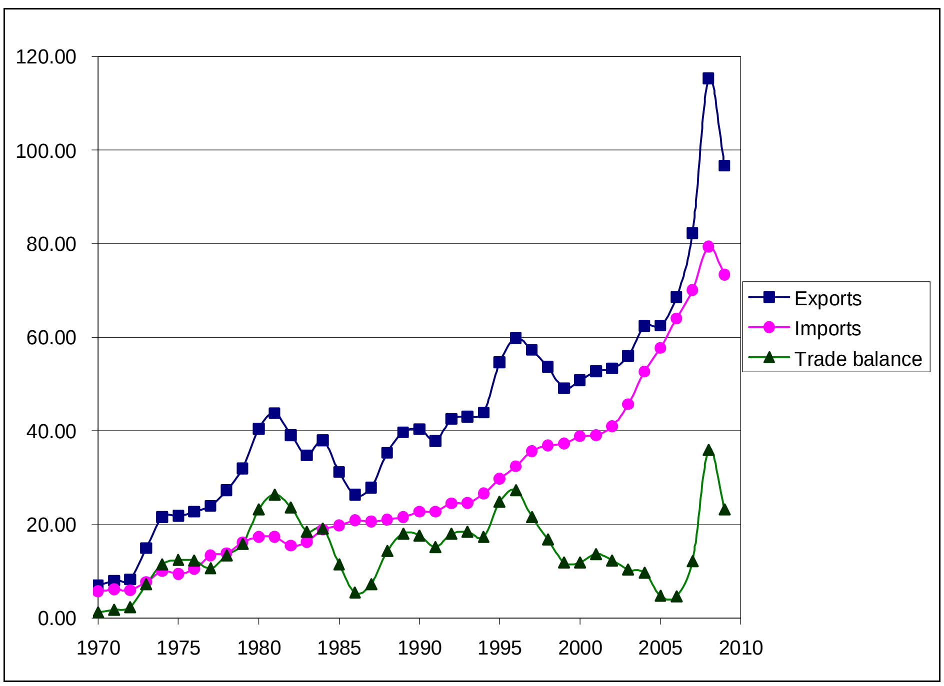
Contacts

U.S. Agricultural Exports

Agricultural exports are important both to farmers and to the U.S. economy. With the productivity of U.S. agriculture growing faster than domestic demand, U.S. farmers and agricultural firms rely heavily on export markets to sustain prices and revenue. According to the U.S. Department of Agriculture's Economic Research Service (ERS), agricultural exports have exceeded imports since the early 1970s (**Figure 1**). In FY2009, U.S. agricultural exports reached $96.6 billion, a significant decline from the record high of $115.5 billion in FY2008. With agricultural imports of $73.4 billion, the FY2009 agricultural trade surplus was $23.2 billion, which was almost $13 billion lower than that in FY2008. The global recession was the primary factor contributing to the decline (See section on "Recent Developments"). The outlook for FY2010 has exports rebounding to $100 billion.[1] While the FY2010 forecast is down from the record level seen two years ago, the forecast is still the second highest on record. U.S. agricultural imports are forecast to also rise and reach $77.5 billion in FY2010, which would result in a $22.5 billion trade surplus for agricultural goods.

Figure 1. Value of U.S. Agricultural Trade, FY1970-2009

(US$ billions)



Source: USDA Economic Research Service (ERS)

Notes: U.S. foreign agricultural trade data can be obtained at http://www.ers.usda.gov/Data/FATUS/.

[1] USDA Economic Research Service, Outlook for U.S. Agricultural Trade Feb 18, 2010, http://usda.mannlib.cornell.edu/usda/current/AES/AES-02-18-2010.pdf.

USDA estimates that production from about a third of the harvested acreage in the United States is exported, including about 50 percent of rice and wheat, 74 percent of cotton, and 34 percent of soybeans.[2] Exports also generate economic activity in the non-farm economy. According to a recent USDA study, each $1 received from agricultural exports stimulated an additional $1.65 in supporting activities to produce those exports, and agricultural exports generate over 1 million U.S. jobs both on and off the farm.[3]

The top ten country destinations for U.S. agricultural exports in FY2009 are given in **Table 1**. While Canada and Mexico have continued to be the largest two markets for U.S. agricultural exports over the past few years, China and other Asian markets have become increasingly important trading partners over the past few years.

Table 1. Top U.S. Agricultural Export Destination, by Value

FY2009

Rank	Country	US$ millions	% of Total
1	Canada	15,518	16.0
2	Mexico	13,459	13.9
3	Japan	11,221	11.6
4	China	11,157	11.5
5	EU	7,619	7.9
6	South Korea	3,825	4.0
7	Taiwan	2,891	3.0
8	Hong Kong	1,789	1.9
9	Indonesia	1,667	1.7
10	Russia	1,429	1.5
11	Egypt	1,420	1.5
12	Turkey	1,387	1.4
13	Philippines	1,246	1.3
14	Venezuela	1,051	1.1
15	Colombia	954	1.0

Source: USDA Economic Research Service, http://www.ers.usda.gov/Data/FATUS/

Notes: In FY2009, the total value of U.S. agricultural exports was $96.6 billion.

The top exported commodities in FY2009 are given in **Table 2**. With record production levels and higher demand from China, soybean exports are expected to drive the U.S. gain in exports in FY2010. Dairy, livestock, and cotton exports are also forecasted to be higher for FY2010. For

2 See USDA Foreign Agricultural Service Factsheet: http://www.fas.usda.gov/info/factsheets/tradevalue.pdf

3 William Edmondson, *U.S. Agricultural Trade Boosts Overall Economy*, USDA Economic Research Service, FAU-124, Washington, DC, April 2008, http://www.ers.usda.gov/Publications/FAU/2008/04Apr/FAU124/FAU124.pdf.

more information about U.S. agricultural trade, see CRS Report 98-253, *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy*, by Charles E. Hanrahan, Carol Canada, and Beverly A. Banks.

Table 2. Top U.S. Agricultural Export Commodities, by Value, FY2009

Rank	Commodity	US$ millions	% of Total
1	Soybeans	16,454	14.0
2	Corn	8,775	9.6
3	Wheat Unmilled	5,374	6.2
4	Other Feeds & Fodder	4,028	4.0
5	Soybean Meal	3,484	3.7
6	Misc Horticultural Products	3,414	3.5
7	Cotton Products	3,383	3.4
8	Pork Products	3,178	3.3
9	Chicken Products	3,132	3.0
10	Other Grain Products	2,619	2.7
11	Beef & Veal Products	2,481	2.5
12	Rice-Paddy Milled	2,174	2.3
13	Almonds	1,923	1.9
14	Other Veg Oils/Waxes	1,319	1.5
15	Essential Oils	1,264	1.3

Source: USDA Economic Research Service, http://www.ers.usda.gov/Data/FATUS/

Notes: In FY2009, the total value of U.S. agricultural exports was $96.6 billion.

Nearly every state exports agricultural commodities. **Table 3** gives the top ten states with the greatest shares of U.S. agricultural exports by value in FY2008. These 10 states accounted for 56 percent of total U.S. agricultural exports in FY2008.[4]

Table 3. Top Exporting States of Agricultural Commodities

FY2008

Rank	State	US$ millions	% of Total
1	California	13,691.0	11.9
2	Iowa	7,859.5	6.8
3	Illinois	7,540.8	6.5
4	Texas	6,006.8	5.2

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

Rank	State	US$ millions	% of Total
5	Nebraska	5,944.6	5.1
6	Kansas	5,902.1	5.1
7	Minnesota	5,461.4	4.7
8	North Dakota	3,949.5	3.4
9	Indiana	3,778.2	3.3
10	Missouri	3,219.2	2.8

Source: USDA, FAS

Notes: For FY2008, the total value of U.S. agricultural exports was $115.5 billion.

USDA's Agricultural Export Programs

The USDA's Foreign Agricultural Service (FAS) works to improve the competitive position of U.S. agriculture in the global marketplace.[5] To that end, FAS administers several export programs aimed at improving foreign market access for U.S. agricultural goods. The trade title of the 2008 farm bill, the Food, Conservation, and Energy Act of 2008 (Title III of P.L. 110-246), authorized and amended USDA's foreign agricultural export programs, which are funded through the borrowing authority of the Commodity Credit Corporation (CCC).[6] These programs include:

- direct export subsidy programs;
- export market development programs;
- export credit guarantee programs.

The 2008 farm bill made changes to a number of programs that assist with financing U.S. agricultural exports or that help develop markets overseas.[7] Changes include modifying export credit guarantee programs to conform with U.S. commitments in the World Trade Organization (WTO), making organic products eligible for export market development programs, and increasing the funds available to address sanitary and phytosanitary barriers to U.S. specialty crop exports. In addition, the 2008 farm bill repealed the major U.S. export subsidy program (the Export Enhancement Program), and repealed two export credit guarantee programs (the GSM-103 program and the Supplier Credit Guarantee Program).

---

[5] An overview of the Foreign Agricultural Service is available at http://www.fas.usda.gov/aboutfas.asp.

[6] 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.

[7] For more information about agricultural export provisions in the 2008 farm bill, see CRS Report RS22905, *Agricultural Export Provisions of the 2008 Farm Bill*, by Charles E. Hanrahan.

Direct Export Subsidy Programs

The 2008 farm bill authorized only one direct export subsidy program for agricultural products, the Dairy Export Incentive Program (DEIP), and repealed authority for the historically largest export subsidy program, the Export Enhancement Program (EEP).

Dairy Export Incentive Program (DEIP)[8]

The Dairy Export Incentive Program (DEIP) was established under the 1985 farm bill (P.L. 99-198) to assist in the export of U.S. dairy products. DEIP was most recently reauthorized in the commodity program title, not the trade title, of the 2008 farm bill (P.L. 110-246). DEIP aims to develop international export markets in regions where U.S. dairy products are not competitive due to the presence of subsidized products from other countries. The original purpose of the program was to counter the adverse effects of foreign dairy product subsidies, primarily those of the European Union (EU). Eligible commodities under DEIP include milk powder, butterfat and various cheeses. DEIP can potentially increase the U.S. price of milk if enough dairy products are removed from the domestic market. Early bonus payments were in the form of sales from CCC-owned dairy stocks, and later they were in the form of generic commodity certificates from CCC inventories. Currently, USDA pays cash to exporters as bonuses. Each year, USDA's Foreign Agricultural Service (FAS) announces amounts of dairy products that may be subsidized under the program. Actual Invitations for Offers may or may not be issued depending on market conditions for dairy product exports.

The DEIP program has strong support in Congress, though the program is only used when dairy prices fall. Dairy producers consider DEIP an integral part of U.S. dairy policy, and an important adjunct to domestic support programs.[9] The program level for DEIP has varied over the past few years depending on the dairy price situation. In FY2003, DEIP levels were at $32 million, and in FY2004, they were at $3 million. No DEIP bonuses were awarded from FY2005 through FY2008. Starting in late 2008 and continuing through most of 2009, U.S. dairy farmers experienced low returns due to a sharp decline in milk prices and relatively high production costs.[10] As a result, USDA reactivated DEIP in July 2009 to provide support in FY2009-2010. With dairy prices stabilizing in early 2010, no DEIP payments are expected in FY2011. Legislative authority for DEIP expires on December 31, 2012.

Agricultural export subsidies are on the agenda of currently stalled WTO multilateral trade negotiations, the Doha Round. In these negotiations, the United States, along with other trading partners who have subsidized exports, has tentatively agreed to phase out all agricultural export subsidies by 2013.[11] The elimination of agricultural export subsidies has been a longstanding

---

[8] Additional information on DEIP is available at http://www.fas.usda.gov/excredits/deip/deip-new.asp.

[9] For background about dairy policy issues see CRS Report R41141, *Previewing Dairy Policy Options for the Next Farm Bill*, by Dennis A. Shields.

[10] For background about the dairy sector and policy see CRS Report R40205, *Dairy Market and Policy Issues*, by Dennis A. Shields.

[11] For a discussion of agriculture and Doha Round negotiations, see CRS Report RS22927, *WTO Doha Round: Implications for U.S. Agriculture*, by Randy Schnepf and Charles E. Hanrahan.

objective of U.S. agricultural trade policy. These WTO export subsidy commitments would apply to DEIP.

Export Enhancement Program (EEP) - Repealed

Under the Export Enhancement Program (EEP), exporters were awarded generic commodity certificates which were redeemable for commodities held in CCC stores, thus enabling them to sell commodities to designated countries at prices below those on the U.S. market. The 2008 farm bill repealed legislative authority for EEP. EEP, which mainly subsidized exports of wheat and wheat flour (around 80% of EEP subsidies), had been little used as U.S. and world prices moved closer together. The last year of significant EEP subsidies was 1995. There were no EEP subsidies during the five years of the 2002 farm bill. The repeal of EEP reflected the fact that the program had been little used since 1995 and is also consistent with the U.S. position to adhere to its promised WTO commitment to eliminate export subsidies by 2013.

Market Development Programs

USDA's Foreign Agricultural Service (FAS) supports U.S industry efforts to build, maintain, and expand overseas markets for U.S. food and agricultural products. FAS administers five market development programs including the following:

- Market Access Program (MAP);
- Foreign Market Development Program (FMDP);
- Emerging Markets Program (EMP);
- Quality Samples Program (QSP); and
- Technical Assistance for Specialty Crops Program (TASC).

In general, these programs provide matching funds to U.S. organizations to conduct a wide range of activities including market research, consumer promotion, trade servicing, capacity building, and market access support. FAS also facilitates U.S. participation in a range of international trade shows. The 2008 farm bill extended legislative authorization of CCC funds for the market development programs until the end of FY2012. All of these programs are funded through the borrowing authority of the CCC.

Market Access Program (MAP)[12]

The Market Access Program (MAP), which aids in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products, was originally authorized by the Agricultural Trade Act of 1978 (P.L. 95-501, as amended) and is administered by FAS.[13] MAP provides funding to non-profit U.S. agricultural trade associations, non-profit U.S. agricultural

---

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

[13] MAP has had two predecessor programs. In 1996, MAP replaced the Market Promotion Program, which was established in 1990 to replace the Targeted Export Assistance Program authorized in 1985.

cooperatives, non-profit state-regional trade groups, and small U.S. businesses for overseas marketing and promotional activities, such as trade shows, market research, consumer promotions for retail products, technical capacity building, and seminars to educate overseas customers. MAP funds assist primarily value-added products and can be used to support both generic promotions and brand-name promotions. Generic promotions are undertaken by non-profit trade associations, state regional groups, and state agencies to increase demand for a specific commodity with no emphasis on a particular brand, e.g. peas, lentils, and cotton. MAP funds may be spent by the participating organizations themselves (direct funding) and/or can be redistributed to entities that have applied to participating organizations for MAP assistance (indirect funding). Since FY1998, USDA policy has been to prohibit the allocation of MAP funds to large U.S. companies, regardless of whether they are distributed directly or indirectly. Agricultural cooperatives and small U.S. companies[14] can receive assistance under the brand program, which seeks to establish consumer loyalty for their brand-name products. To conduct branded product promotion activities, individual companies must provide a funding match of at least 50 percent of the total marketing cost. For generic promotion activities, trade associations and others must meet a minimum 10-percent match requirement.

Although MAP is a mandatory program and hence does not require an annual appropriation, agriculture 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 total MAP funding levels, 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. FAS usually announces MAP allocations early in the fiscal year.[15] MAP funding steadily increased from $90 million in FY2000 to $200 million in FY2006, where it has remained. MAP was reauthorized most recently in the 2008 farm bill, the Food, Conservation, and Energy Act of 2008 (P.L. 110-246), at $200 million annually through FY2012. The FY2010 agriculture appropriations act (P.L. 111-80) placed no restrictions or limitations on current year spending. For FY2011 the Administration requested $160 million for MAP.

Foreign Market Development Program (FMDP)[16]

The Foreign Market Development Program (FMDP) was originally authorized in 1955, and similar to MAP, has the primary objective to assist industry organizations in the expansion of export opportunities. The 2008 farm bill reauthorized CCC funding for FMDP for FY2008 through FY2012 at an annual level of $34.5 million. FMDP funds industry groups with a match requirement, to undertake activities such as consumer promotions, technical assistance, trade servicing and market research by the government and industry groups. Like MAP, FMDP is

[14] As defined by the Small Business Administration.

[15] A list or MAP program participants and allocation amount for FY2010 is available at http://www.fas.usda.gov/info/factsheets/mapfact.asp.

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

exempt from current WTO negotiations related to export subsidy commitments. Unlike MAP, which mainly promotes consumer goods and brand-name products, FMDP mainly promotes generic or bulk commodities.

The 1996 farm bill provided new statutory authority for the program and authorized it through 2002. Funds allocated for FMDP in FY2001 were $28 million. The 2002 farm bill increased the annual funding level to $34.5 million. The 2008 farm bill maintained the funding level authorized in the 2002 farm bill. For FY2011, the Administration is also requesting $34.5 million in discretionary spending as part of the National Export Initiative for FMD, in addition to the $34.5 million in mandatory funding provided through the CCC. (See Section on "Obama Administration's National Export Initiative")

Emerging Markets Program[17]

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 market is defined in the 2008 farm bill (P.L. 110-246) 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. FAS limits EMP projects to countries with per capita incomes below $11,455, and whose populations are greater than 1 million.[18] The 2008 farm bill authorized funding for EMP at $10 million each fiscal year from FY2008 through FY2012.

Quality Samples Program[19]

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, and allows manufacturers overseas to do test runs to assess how U.S. food and fiber products can best meet their production needs. Priority is given to projects targeting developing nations or regions with a per capita income of less than $10,725 and a population greater than 1 million. Priority is also given to projects designed to expand exports where a U.S. commodity's market share is 10 percent or less. Under the authority of the CCC Charter Act of 1948, FAS uses up to $2 million of CCC funds to carry out the program.

---

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

[18] This is the current ceiling on upper middle income economies as determined by the World Bank.

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

Technical Assistance for Specialty Crops (TASC) Program[20]

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 limit U.S. specialty crop exporters. The 2008 farm bill defines specialty crops 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 preclearance programs. Under the 2002 farm bill, TASC funding was authorized at $2 million per fiscal year. The 2008 farm bill extended authority for TASC from 2008 through FY2012 and increased funding levels to $4 million in FY2008; $7 million in FY2009; $8 million in FY2010; and $9 million in each of FY20011 and FY2012.

Export Credit Guarantees

From FY2008 through FY2012, the 2008 farm bill reauthorizes USDA-operated export credit guarantee programs, which were 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 prevailing market interest rates, to countries that want to purchase U.S. agricultural exports and are guaranteed by the CCC that the loans will be repaid. In making available a guarantee for such loans, the CCC assumes the risk of default on payments by the foreign purchasers on loans for U.S. farm exports. The 2008 farm bill extends authority for two export credit guarantee programs, the GSM-102 short-term guarantee program and the Facility Guarantee Program (FGP).

GSM-102 Program[21]

The GSM-102 program guarantees repayment of short-term financing (typically six months to three years) extended by approved foreign banks, mainly in developing countries, for purchases of U.S. food and agricultural products by foreign buyers. The GSM-102 program aims to encourage U.S. agricultural exports to buyers in countries where credit is necessary to maintain or increase U.S. sales, but where financing may not be available without CCC guarantees. 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. CCC selects agricultural commodities and products according to market potential and eligibility based on applicable legislative and regulatory requirements. All products must be entirely produced in the United States.[22] The GSM-102 program helps ensure that credit is available to finance commercial exports of U.S. agricultural products to developing countries, while providing competitive credit terms in these countries.

---

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

[21] The acronym GSM refers to the General Sales Manager, an official of FAS who administers the credit, and other, export programs. Additional information on GSM-102 export credit guarantees is at http://www.fas.usda.gov/excredits/exp-cred-guar-new.asp.

[22] A list of eligible commodities and products under the GSM-102 program can be found at http://www.fas.usda.gov/excredits/gsmcommodities.html.

The biggest recipients of export credit guarantees over the years 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 FY2009, the major beneficiary countries were South Korea ($1,290.6 million), Turkey ($478.6 million), and Russia ($368.1 million). On a regional basis,[23] the largest allocation of guarantees in FY2009 went to Central America ($607.2 million), South America ($590.3 million), and Southeast Asia ($522.8 million). Guarantees facilitate sales of a broad range of commodities, but in FY2009 mainly benefitted exports of wheat, meat and poultry, oilseeds, feed grains, protein meals and cotton. **Table 4** provides GSM-102 funding by country or region for FY2010.

Table 4. GSM-102 Allocation By Country & Region

FY2010

Region	US$ millions
China, Hong Kong	125
Eurasia	250
Mexico	225
Middle East & North Africa	175
South America	225
South Asia	75
South Korea	450
Southeast Asia	225
Sub-Saharan Africa	175
Turkey	300

Source: USDA, Foreign Agricultural Service

Notes: FY2010 allocation was announced by USDA on March 8, 2010 - http://www.fas.usda.gov/excredits/exp-cred-guar.asp; Major individual country recipients of export credit guarantees, such as Korea, Turkey and Russia, are not included in the regional funding figures.

The 2008 farm bill authorized export credit guarantees of up to $5.5 billion worth of agricultural exports annually from FY2008 through FY2012, and provided for an additional $1 billion targeted to "emerging markets," countries and/or regions that are in the process of becoming commercial markets for U.S. agricultural products. The 2008 farm bill also capped the credit subsidy for the GSM-102 program at $40 million annually.[24] 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 permits credit guarantees for high value products with at least 90% U.S. content by weight, allowing for some components of

[23] Major individual country recipients of export credit guarantees, such as Korea, Turkey and Russia, are not included in the regional funding figures.

[24] The credit subsidy is the available budget authority for the cost of the program.

foreign origin. The 2008 farm bill also removed the 1 percent cap on loan origination fees for the GSM-102 program.

Facility Guarantee Program[25]

The CCC also provides funding to guarantee financing under the Facility Guarantee Program (FGP). FGP guarantees financing of goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. Eligible projects must improve the handling, marketing, storage, or distribution of imported U.S. agricultural commodities and products.

The 2008 farm bill reauthorized FGP and extended authority through the end of FY2012. It also provided that the Secretary of Agriculture may waive requirements that U.S. goods be used in the construction of a facility under this program, if such goods are not available or their use is not feasible. The new law also permits the Secretary to provide a guarantee for this program for the term of the depreciation schedule for the facility, not to exceed 20 years.

Other Export Guarantee Programs - Repealed

Two other export guarantee programs, previously authorized, were repealed by the 2008 farm bill. These were the GSM-103 program, which guaranteed longer-term (3-10 years) financing, and the Supplier Credit Guarantee Program (SCGP), which guaranteed very short-term (up to 1 year) financing of exports without bank intermediation. The repeal of the GSM-103 program (and lifting the cap on origination fees for the GSM-102 program) was done in response to a WTO dispute panel decision in a case brought by Brazil against U.S. cotton policy (see "**Issues for Congress"** below). Legislative authority for the SCGP was suspended largely because of a high rate of defaulted obligations and evidence of fraud.

Funding

As mentioned above, USDA's agricultural export programs are funded through the authority of the CCC at levels established in statute. Annual appropriations acts, however, sometimes amend the spending limits on these mandatory programs. **Table 5** shows USDA foreign export budget authority levels for FY2001 through FY2010, and also includes the Administration's FY2011 request for these programs.

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

Table 5. USDA International Export Program Activity, FY2001-2011

(US$ millions)

Program	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010 (est)	FY2011 (req)
DEIP[a]	8	55	32	3	0	0	0	0	100	25	0
MAP[b]	90	100	110	125	140	200	200	200	200	200	160
FMDP[c]	28	34	34	34	34	34	34	34	34	34	69
EMP[d]	__	__	10	10	10	10	4	10	10	10	10
TASC[e]	—	2	2	2	2	2	1	4	7	8	9
QSP[f]	2	2	2	2	2	2	1	1.4	2	2	2
GSM-102[g]		2,936	2,545	2,926	2,170	1,363	1,445	3,115	5,357	5,400	5,400

Sources: USDA, *Annual Budget Summaries*, various issues, and personal communication. These data are budget authority levels, except GSM-102 program, which include the value of exports financed through the program.

Note: FY2010 data are an estimate and FY2011 numbers reflect the Administration's request.

a. Dairy Export Incentive Program

b. Market Access Program

c. Foreign Market Development Program. For FY2011, the Administration is also requesting $34.5 million in discretionary spending as part of the National Export Initiative for FMD, in addition to the $34.5 available through the CCC.

d. Emerging Markets Program

e. Technical Assistance for Specialty Crops – In FY2006, an additional $0.6 million was provided for TASC activities through a FAS direct appropriation.

f. Quality Samples Program

g. General Sales Manager (GSM) Export Credit Guarantee Program. The values given represent the value of exports financed through the program, not budget authority.

Recent Developments

U.S. and global trade are greatly affected by the growth and stability of world markets.[26] Changes in world population, economic growth, and income are most likely to alter global food demand. According to the World Bank, the volume of global trade in 2009 declined for the first time since 1982. The 2009 value of total and agricultural commodities show a broad-based decline in the value of exports and imports compared with a year earlier. In addition to current economic factors, other broader variables also influence the level of U.S. agricultural exports: income and population growth; 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

[26] For more information about U.S. agricultural trade, see CRS Report 98-253, *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy*, by Charles E. Hanrahan, Carol Canada, and Beverly A. Banks.

agricultural exports or provide foreign food aid. Some important factors affecting U.S. agricultural exports are discussed in greater detail below.

Macroeconomic conditions

- **Global recession**. According to the USDA's Economic Research Service (ERS), the global economic crisis that started in late 2008 led to a sharp curtailment of international trade, including a short-term decline in the value of global agricultural trade of around 20 percent.[27] While not uniform across commodities and regions, the trade impact appears to have a greater effect on crops than on livestock. In the short term, with declining world economic activity in 2009, overall global trade declined for the first time since 1982 and agricultural trade fell as well.[28] The economic crisis affected international agricultural trade primarily through the realignment of real (adjusted for inflation) exchange rates and that realignment's effect on real incomes. The economic crisis resulted in major recessions in most of the world, with world GDP expected to have declined by more than 2 percent in 2009. The slowing of the growth in demand for agricultural commodities worldwide resulting from the fall in global income led to a slowing of the growth in the volume of agricultural commodities traded. An economic recovery is predicted to occur in 2010, which accounts for the favorable outlook for U.S. agricultural trade in FY2010.
- **U.S. currency depreciation**. Since 2002, the U.S. dollar has depreciated in value and this trend is expected to remain over the next decade. The depreciation of the dollar makes U.S. agricultural exports increasingly competitive in international markets by lowering the price of U.S. goods in global markets relative to competing goods priced in appreciating currencies. Similarly, a weak dollar tends to dampen imports by raising the price of foreign goods priced in appreciating currencies relative to U.S. domestic goods. Combined with a return to global economic growth, with gains in developing countries particularly important for agricultural demand, prospects for U.S. agricultural exports are improved.[29]
- **Global economic growth, particularly in developing countries**. Despite a drop of two percent in 2009, global economic growth is projected to average 3.3 percent annually in 2010 through 2019, mostly due to resumed high growth rates in emerging market countries such as China and India and a return to strong growth in other developing countries and countries of the former Soviet Union. Developing countries account for the primary portion of projected increase in world agricultural imports. According to USDA-ERS, renewed economic growth

---

[27] May Peters, Mathew Shane, and David Torgerson, *What the 2008/2009 World Economic Crisis Means for Global Agricultural Trade*, USDA Economic Research Service, WRS-09-05, Washington, DC, August 2009, http://www.ers.usda.gov/Publications/WRS0905/WRS0905.pdf.

[28] Peters, Shane and Torgerson, 2009 op. cit.

[29] May Peters, Mathew Shane, and David Torgerson, *What the 2008/2009 World Economic Crisis Means for Global Agricultural Trade*, USDA Economic Research Service, WRS-09-05, Washington, DC, August 2009, http://www.crs.gov/Pages/Reports.aspx?ProdCode=R41091.

> is expected to occur beginning in 2010, providing the foundation for gains in world demand and trade for agricultural products. Countries in Africa and the Middle East account for 60 percent of the growth in poultry and meat imports and are projected to account for 50 percent of the increase in the world wheat imports, 40 percent of the growth in rice and coarse grain imports, and 13 percent of the rise in soybean oil imports. Food consumption and feed use are particularly responsive to income growth in those countries, with movement away from staple and traditional food crops and toward an increased diversification of diets. Demand from developing countries is further reinforced by population growth rates that are nearly twice those of developed countries.

Biofuels

Over the past few years, biofuels have grown in significance as an alternative to petroleum-based fuels in the United States and globally.[30] With recent high energy prices, the passage of major energy legislation in 2005 (P.L. 109-58) and 2007 (P.L. 110-140), and the passage of a new farm bill in 2008 (P.L. 110-246), there is growing interest in the United States for the expansion of farm production for biofuel crops. U.S. biofuel policies were seen by some observers to be a fundamental cause of the recent surge in agricultural commodity prices.[31] Commodities such as corn, sugar cane, soybeans and other vegetable oil crops, can be used either as food, feed or to make biofuels. Many observers argued that the biofuel policies diverted U.S. agricultural output to ethanol and biodiesel production, leading to lower quantities of U.S. commodities available for export and consequently causing higher world prices. They argue that the increased demand for commodities for biofuel production has led to significant impacts on the agricultural sector, including heightened competition for available cropland (and a subsequent increase in farmland value); intensification of agricultural activity on U.S. cropland to meet growing demand for food, feed, and fuel resources; and a rise in commodity prices.[32] Continued support for biofuels could result in additional impacts on food prices and subsequently on agricultural trade, they say.

However, the extent that the global demand for biofuels is responsible for the recent food price spikes (as opposed to other factors, such as exchange rates, petroleum prices, crop growing conditions in key areas, private stock holding, etc) is still widely debated. Other studies have attributed the spike in commodity prices in 2008 to factors other than increased biofuels demand, implicating instead overall increased costs of production due to high oil prices.[33] These studies conclude that while most medium-term economic models find that biofuel

---

[30] Biofuels are essentially any transportation fuels produced from plants and other organic materials.

[31] Use mandates, biofuel use tax credits, and ethanol import tariffs represent the three main elements of US biofuel policy at present. For more information about these policy mechanisms, see CRS Report R40110, *Biofuels Incentives: A Summary of Federal Programs*, by Brent D. Yacobucci.

[32] For instance, see http://www.foodbeforefuel.org/files/Role%20of%20Biofuels%206-19-08.pdf and http://www.ers.usda.gov/AmberWaves/march09/Features/Biofuels.htm.

[33] Simone Pfuderer, Grant Davies, and Ian Mitchell, *Annex 5 - The role of demand for biofuel in agricultural commodity price spike of 2007/08*, Department for Environment, Food and Rural Affairs (DEFRA), London, UK, April 1, 2010, http://www.defra.gov.uk/foodfarm/food/pdf/ag-price-annex%205.pdf.

demand has and will put upward pressure on prices for biofuel commodities, available evidence suggests that biofuels had a relatively small contribution to the 2008 spike in food prices. In addition, these studies point out the fact that while commodity prices have fallen steeply from their peak in 2008, biofuel demand has remained steady indicating that a casual link between biofuel demand and short-term crop prices is relatively week.

Obama Administration's National Export Initiative

In his first State of the Union speech on January 27, 2010, President Obama launched a National Export Initiative, which he described as a plan to "double exports over the next five years, an increase that will support two million new jobs in America." On March 11, 2010, President Obama issued an Executive Order that officially launched the National Export Initiative, which directs agencies across his Administration to coordinate a "jobs-oriented policy and promotion effort."[34] Agriculture Secretary Vilsack spoke about the importance of exports for the agriculture sector and USDA's involvement in the National Export Initiative and the importance of trade for agriculture in remarks made in March 2010, at an industry trade show.[35]

The President's FY2011 budget request includes an additional $53.5 million request for the Foreign Agricultural Service for the National Export Initiative, and includes an increase of $10 million to expand FAS exporter assistance and in-country promotion activities, and to meet higher operating costs of FAS's 90 overseas posts; $34.5 million in new discretionary funding, which would be in addition to the $34.5 million of CCC funding, for the Foreign Market Development Cooperator Program (FMDP) to broaden program participation and to support new, innovative program activities; and a $9 million expansion of the Technical Assistance for Specialty Crops Program, which assists U.S. organizations in overcoming sanitary, phytosanitary and related technical barriers that limit the export of specialty crops, and "reflects the growing importance of specialty crops as a growing share of total U.S. agricultural exports." FAS plans to work in coordination with the interagency Trade Promotion Coordinating Committee (TPCC), and through U.S. farm groups, state departments of agriculture and state regional trade groups (SRTGs), agricultural trade and industry organizations, and other USDA agencies to execute the initiative.

Issues for Congress

Public Sector Role and Effectiveness in Export Promotion

Historically, many Members have been highly supportive of the Market Access Program (MAP) and cite the benefits the program brings to U.S. agricultural industries through export market

[34] http://www.whitehouse.gov/the-press-office/executive-order-national-export-initiative.

[35] http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1OB/.cmd/ad/.ar/sa.retrievecontent/.c/6_2_1UH/.ce/7_2_5JM/.p/5_2_4TQ/.d/1/_th/J_2_9D/_s.7_0_A/7_0_1OB?PC_7_2_5JM_contentid=2010/03/0121.xml&PC_7_2_5JM_parentnav=TRANSCRIPTS_SPEECHES&PC_7_2_5JM_navid=TRANSCRIPT#7_2_5JM.

development abroad. In fact, last year several Members expressed concern to the Administration about its proposed 20 percent reduction in MAP funding in the FY2010 agriculture budget request. Congress rejected the Administration's proposal and maintained MAP funding at its authorized level for FY2010. The Administration has again proposed to reduce MAP funding by 20 percent ($40 million) for FY2011.

At the same time, a frequent concern raised by some Members of Congress with respect to MAP and the Foreign Market Development Program (FMDP) is whether the federal government should have an active role at all 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.[36] Other critics 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.

In the early 1990s, some Members raised specific concerns about the effectiveness of MAP operations, specifically questioning the program's cost-effectiveness and impact, and citing its lack of support for small businesses and displacement of private sector marketing funds. In response to these concerns Congress directed USDA to enact significant changes to MAP. In 1996, Congress through the appropriations process prohibited FAS from providing direct assistance for brand-name promotions to companies that are not recognized as small businesses under the Small Business Act. In 1997, Congress prohibited large companies from receiving indirect assistance from MAP as well. Giving priority to small businesses did result in a substantial increase in the small business share of MAP assistance for brand-name promotion by 1997. FAS also established a five-year limit (graduation requirement) on the use of MAP funds for companies that use funds to promote a "specific branded product" in a "single market," unless FAS determined that further assistance was still necessary to meet program objectives (generic marketing was not subject to the graduation requirement). FAS later revised the regulations in 1998 to limit each company to no more than five years (consecutive or nonconsecutive) of MAP funding for brand-name promotions per country, which some participating companies currently feel is too restrictive. Lastly, a requirement was added that each participant certify that MAP funds supplement, not supplant, its own foreign market development expenditures. Though FAS regularly audits the participants and verifies that the certification statement has been completed, FAS also admits that it is difficult to verify whether MAP funds are additional to what a company would have spent in the absence of MAP funds.

A 1999 GAO study reviewed a number of studies looking at MAP's effectiveness and concluded that while changes had been made to the program, the economic benefits of export programs (including MAP) were unclear. It stated that "few studies show an unambiguously positive effect of government promotional activity on exports."[37] In addition, GAO recently testified to Congress

---

[36] See for example, http://www.fpif.org/articles/corporate_welfare_and_foreign_policy; http://councilfor.cagw.org/site/News2?page=NewsArticle&id=11742

[37] U.S. General Accounting Office (GAO), *Changes Made to Market Access Program, but Questions Remain on Economic Impact*, NSIAD-99-38, Washington, DC, April 1999, http://www.gao.gov/archive/1999/ns99038.pdf.

that U.S. export promotion activities were in need of strengthened performance management systems.[38]

Congress will be considering the Administration's request for reduced MAP funding for FY2011. Some may question the exclusion of MAP from the President's National Export Initiative. Currently, some Members urging greater fiscal responsibility on the part of the federal government have introduced legislation to eliminate MAP. H.R. 4683 would amend the Agricultural Trade Act of 1978 to repeal MAP.

WTO Trade Dispute

Brazil has had a long-running dispute against the United States over U.S. cotton programs. In 2005 and again in 2008, the World Trade Organization (WTO) found that certain U.S. agricultural programs are inconsistent with WTO commitments including payments to cotton producers under the marketing loan and countercyclical programs; and export credit guarantees under the GSM-102 Program.[39]

In December 2009 Brazil announced that it was authorized by the WTO arbitrators to impose trade countermeasures against the United States in excess of $800 million in 2010 (based on 2008 data). The WTO arbitration awards provided the level of countermeasures that Brazil could impose against U.S. trade annually in two parts: 1) a fixed amount of $147.3 million for the cotton payments; and 2) an amount for the GSM-102 program that varies based upon program usage. In March 2010, Brazil released a list of 102 goods of U.S. origin valued at $591 million that would be subjected to import tariffs and released a preliminary list of U.S. patents and intellectual property rights it could restrict, barring a joint settlement.

After several meetings between U.S. and Brazilian officials, the Government of Brazil agreed not to impose any countermeasures on U.S. trade and the United States agreed to work with Brazil to establish a fund of approximately $147.3 million per year on a pro rata basis to provide technical assistance and capacity building for Brazilian farmers until the passage of the next farm bill or a mutually agreed solution to the cotton dispute is reached, whichever is sooner. The United States also agreed to make some near-term modifications to the operation of the GSM-102 Export Credit Guarantee Program, and to engage with the Government of Brazil in technical discussions regarding further operation of the program. The U.S. hope is that continuing negotiations will lead to an agreement which avoids having Brazil impose retaliatory measures under WTO rules. Congress will likely continue to monitor developments in the WTO cotton case and its implications for the GSM-102 program.

---

[38] Yager, L. "International Trade: Observations on U.S. and Foreign Countries' Export Promotion Activities," GAO Testimony to Subcommittee on International Trade, Customs, and Global Competitiveness, Senate Committee on Finance. December, 2009.

[39] For more information see CRS Report RL32571, *Brazil's WTO Case Against the U.S. Cotton Program*, by Randy Schnepf, Brazil's WTO Case Against the U.S. Cotton Program, by Randy Schnepf.

Addressing Trade Barriers

On March 31, 2010 the U.S. Trade Representative (USTR) released to Congress a new report that outlines key sanitary and phytosanitary (SPS) barriers that American agricultural and food producers face when trying to export their products.[40] Key trade barrier issues addressed in the report include avian influenza; biotechnology; bovine spongiform encephalopathy (BSE); H1N1 influenza; maximum residue limits (MRLs) for pesticides; pathogens, and ractopamine, a veterinary drug used to promote lean meat growth in pigs, cattle and turkeys. In addition to monitoring how USTR addresses SPS issues, Congress will be considering the Administration's request to increase funding for the Technical Assistance for Specialty Crops (TASC) program, which focuses on SPS barriers to exports.

For more information about trade issues related to fruit and vegetable commodities, see CRS Report RL34468, *The U.S. Trade Situation for Fruit and Vegetable Products*, by Renée Johnson. For trade issues related to livestock and meat commodities, see CRS Report RS22948, *U.S.-Russia Meat and Poultry Trade Issues*, by Renée Johnson and Geoffrey S. Becker. For more information about trade issues related to agricultural biotechnology, see CRS Report RL33334, *Biotechnology in Animal Agriculture: Status and Current Issues*, by Tadlock Cowan and Geoffrey S. Becker.

Author Contact Information

Melissa D. Ho
Analyst in Agricultural Policy
mho@crs.loc.gov, 7-5342

Charles E. Hanrahan
Senior Specialist in Agricultural Policy
chanrahan@crs.loc.gov, 7-7235

[40] See U.S. Trade Representative website at http://www.ustr.gov/about-us/press-office/fact-sheets/2010/march/key-sanitary-and-phytosanitary-barriers-american-export.