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Implications of Reactivating the Dairy Export Incentive Program (DEIP)

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Summary

U.S. dairy farmers are facing low returns in 2009 following a sharp decline in milk prices since late 2008 and continuation of relatively high feed costs that have adversely affected their businesses. Organizations representing dairy farmers are seeking assistance to deal with the situation. Among the requests has been the reactivation of the Dairy Export Incentive Program (DEIP). The principal objective of the program is to develop export markets where the United States competes with exporters who subsidize their products, but DEIP could also increase the U.S. price of milk if enough dairy products are removed from the domestic market. The U.S. Department of Agriculture (USDA) is considering reactivating DEIP and is in the process of consulting with other agencies, including the U.S. Trade Representative's office.

Reauthorized through 2012 under the 2008 farm bill (P.L. 110-246), DEIP can be used to subsidize U.S. dairy product exports under certain conditions. Under DEIP, USDA makes cash payments, on a bid basis, to entities that export U.S. dairy products. DEIP has not been active since 2004 because, until late in 2008, market conditions were relatively strong and U.S. trade negotiators have been pursuing the elimination of all agricultural export subsidies as a trade policy objective.

The United States' ability to provide export subsidies under DEIP is constrained by World Trade Organization (WTO) limits on quantities and budgetary outlays that can be provided as export subsidies. The allowable quantities and budgetary outlays for agricultural export subsidies, including dairy export subsidies, were negotiated as part of the WTO Uruguay Round Agreement on Agriculture.

The potential for impact on farm milk prices and dairy farmer income depends on how much milk (or in this case milk-equivalent via dairy product exports) is removed relative to the total market. When converted to a milk-equivalent basis, the maximum quantity of subsidized U.S. exports allowed under WTO limits is between 0.5% and 1.0% of total U.S. production. Given that the calculated quantity is a small share of total U.S. milk production, DEIP-assisted exports would be expected to have a relatively small effect on U.S. milk prices and income for U.S. dairy farmers.

There have been few evaluations of DEIP to assess its effectiveness in achieving its aims, including increasing U.S. market share in targeted overseas markets. A 2006 Office of Management and Budget assessment determined that DEIP was only a moderately effective program, although it pointed out that DEIP was successful in offsetting European Union export subsidies for dairy products to Mexico, which permitted the United States to develop and sustain a market for U.S. dairy product exports there.

The United States and other WTO member countries reached agreement in 2005 to eliminate export subsidies by 2013. Making good on this commitment is contingent on reaching a comprehensive agreement in WTO Doha Round negotiations, which are currently stalled. The 2005 WTO proposal would require the elimination of DEIP, but in the absence of a comprehensive Doha Round agreement on agriculture that eliminates export subsidies, the United States would be acting within its WTO rights and obligations if it decided to restart DEIP. On the other hand, long-standing U.S. opposition to export subsidies, especially to EU export subsidies, the opposition of trading partners like New Zealand and the Cairns Group, and the contingent agreement in the Doha Round to eliminate export subsidies could all be factors in a U.S. decision of whether to reactivate DEIP.

Contents

Figures

Tables

Contacts

Introduction

U.S. dairy farmers are facing low returns in 2009 following a sharp decline in milk prices since late 2008 and continuation of relatively high feed costs that have adversely affected their businesses. Organizations representing dairy farmers are seeking assistance to deal with the situation. Among the requests has been the reactivation of the Dairy Export Incentive Program (DEIP).[1]

Reauthorized under the 2008 farm bill (P.L. 110-246), DEIP can be used to subsidize U.S. dairy exports under certain conditions. Under DEIP, the U.S. Department of Agriculture (USDA) makes cash payments, on a bid basis, to entities that export U.S. dairy products. Exporters can then sell certain U.S. dairy products at prices lower than what it cost to acquire them.

While the principal objective of the program is to develop export markets where the United States competes with other exporters who subsidize their products, DEIP can also increase the U.S. farm price of milk if enough dairy products are removed from the domestic market.

DEIP has not been active since 2004 because, until late in 2008, market conditions were relatively strong and U.S. negotiators have been pursuing the elimination of all agricultural export subsidies as a trade policy objective. USDA is considering reactivating DEIP and is in the process of consulting with other agencies, including the U.S. Trade Representative's office.[2]

Should a decision be made to reactivate DEIP, the President's FY2010 budget includes placeholders for DEIP subsidies in both FY2009 and FY2010.[3] Citing recent changes in market conditions including declining competitor prices and reduced demand that have brought about lower U.S. commercial export sales of dairy products, the USDA budget includes an assumed funding level for DEIP of $100 million in FY2009 and $25 million in 2010. The funding level is lower in 2010 because USDA assumes that most of the allowable quantity of subsidized exports under the U.S. commitments to the World Trade Organization (WTO) would occur in FY2009.[4]

DEIP advocates say its use would increase dairy farmer income during the current period of financial distress in the industry. Moreover, they have argued that reactivation of DEIP is a way for U.S. dairy products to compete against recently restarted European Union (EU) dairy export subsidies. Weak milk prices worldwide led the EU to restart its dairy export subsidies in early 2009. Both the EU and United States are allowed to subsidize dairy exports under WTO limits.

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[1] The National Milk Producers Federation (NMPF) and the U.S. Dairy Export Council (USDEC) have requested reactivation of the DEIP program. The two organizations are co-located in Arlington, Virginia. The NMPF represents U.S. dairy cooperatives and their dairy farmer members. USDEC is a nonprofit organization that represents the export trade interests of U.S. milk producers, proprietary processors, dairy cooperatives, and export traders. See the NMPF letter (March 19, 2009) and statement (May 8, 2009) at http://www.nmpf.org/files/file/NMPF_Lttr_to_Pres_Obama_on_Dairy_Crisis_031909.pdf and http://www.nmpf.org/files/file/DEIP%20Talking%20Points_2009_final.pdf. The USDEC new release (January 15, 2009) requesting DEIP is found at http://www.usdec.org/files/PressReleases/EU%20Subsidy%20Release.pdf.

[2] Dairy Talk—AgWeb, "No USDA dairy buyout bail out," March 30, 2009, http://www.agweb.com/Blogs/BlogPost.aspx?src=DairyTalk&PID=e6e890d8-767e-4d44-ba8a-460e7b274f78; and AgriPulse, "Dairy Farmers of America seek help, from exports to foreclosures," May 6, 2009.

[3] *U.S. Dept. of Agriculture, FY2010 Budget Summary and Annual Performance Plan*, pp. 39-40, http://www.obpa.usda.gov/budsum/FY10budsum.pdf.

[4] WTO expenditures limits are on a fiscal year basis. Quantity limits are on a July 1-June 30 marketing year.

This report describes the current dairy market situation, the DEIP authorization and program operations, potential effectiveness of DEIP for addressing the current milk price environment, and the trade policy implications of reactivating DEIP.

Dairy Market Situation

In 2007 and for most of 2008, U.S. milk prices were historically high, lifted by strong export demand amid a lower-valued dollar and reduced milk output in Australia and New Zealand (and other countries). In the second half of 2008, these factors began to reverse, and economies worldwide started to slip. Demand fell for dairy products overseas and for domestic restaurant-based sales of dairy products.

The sudden drop-off in demand has created a mismatch with U.S. milk production, driving down U.S. farm prices for milk. The all-milk price received by farmers averaged $12.23 per hundredweight (cwt.) during January-March 2009, down 36% from the record quarterly average of $19.23 per cwt. set a year earlier. USDA forecasts the 2009 average annual farm price at roughly $12.10 per cwt., down 18% from the 10-year average of $14.83 per cwt.[5]

The decline in milk prices has been especially painful for dairy producers because feed costs remain relatively high. For example, the farm price of alfalfa, a primary feedstuff for many dairy farms, averaged $143 per ton during January-March 2009, up 3% from a year earlier and up 31% from the 10-year annual average of $109 per ton.

Price and Income Support for Dairy Producers

Declines in the farm milk price have already triggered two federal government programs designed to financially support dairy farmers. In fall 2008, under the dairy product price support program, the Commodity Credit Corporation (CCC) began purchasing nonfat dry milk and butter from dairy processors at purchase prices established in the 2008 farm bill. The program indirectly supports the farm price of milk.[6]

The second program, the Milk Income Loss Contract (MILC) program, was activated when declining milk prices in February 2009 triggered direct payments to producers. Payments have continued this spring because milk prices remain below the target price established in the 2008 farm bill.

The Federal Milk Marketing Order (FMMO) system is another major federal program, which operates regardless of the market situation. FMMOs mandate minimum prices that processors pay producers for milk. These minimums, however, are derived from dairy product prices established in the marketplace rather than by law.

[5] U.S. Department of Agriculture, World Agricultural Outlook Board, *World Agricultural Supply and Demand Estimates*, WASDE - 470, Washington, DC, May 12, 2009, p. 31, http://www.usda.gov/oce/commodity/wasde/.

[6] On March 26, 2009, USDA announced that approximately 200 million pounds of nonfat dry milk would be transferred from the CCC to USDA's Food and Nutrition Service for use in domestic feeding programs. As of May 12, 2009, USDA forecasts total CCC nonfat dry milk purchases of 305 million pounds for calendar years 2008 and 2009. A small amount of butter purchases is also expected.

For more information on these federal programs, see CRS Report R40205, *Dairy Market and Policy Issues*; and CRS Report RL34036, *Dairy Policy and the 2008 Farm Bill*.

Dairy Export Incentive Program (DEIP): Authorization, Funding, and Operation

The Dairy Export Incentive Program (DEIP) is a federal dairy policy tool that provides cash bonuses to exporters of U.S. dairy products. The program was initially intended to counter foreign dairy subsidies, mostly by the EU. During periods of large supplies, such as the late 1990s, when almost all U.S. milk powder exports were DEIP-assisted, the program essentially served as a *de facto* surplus removal program.[7] As a result, DEIP helped reduce expenditures associated with supporting the price of milk. Subsequent farm bill reauthorizations have added market development (establishing and sustaining sales) to the role of DEIP.

Authorization

The Food Security Act of 1985 (P.L. 99-198) first authorized DEIP through FY1989. The Secretary of Agriculture was directed to issue regulations that included assurances that any DEIP-assisted sales would not displace commercial sales by other exporters. Authorization has been extended under subsequent legislation, most recently by Section 1503 of the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, the 2008 farm bill), which extends DEIP through December 31, 2012.[8] USDA's Foreign Agricultural Service operates the program.

Funding Source and Outlays

DEIP funding is a mandatory account provided through the Commodity Credit Corporation (CCC) borrowing authority from the U.S. Treasury, rather than through annual USDA appropriations bills. Early bonus payments were in the form of sales from CCC-owned dairy product stocks; later they were generic commodity certificates from CCC inventories; now they are cash payments.[9]

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[7] CRS Report RS20402, Agricultural Export Programs: The Dairy Export Incentive Program (DEIP) (out-of-print report available from the author upon request).

[8] The amended authorizing statute is 15 U.S.C. 713a-14. Additional authorizing legislation includes the Hunger Prevention Act of 1988 (P.L. 100-435), which extended DEIP for one year, through FY1990; and the Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624), which extended it through FY1995. In 1994, the program was reauthorized through FY2001 as part of The Uruguay Round Agreements Act (P.L. 103-465), the legislation implementing the multilateral trade accords. This legislation also implemented the limits on dairy export subsidies, which included separate limits on outlays and quantities. Subsequent DEIP authorization was included in the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127), extending DEIP through FY2002; and the Food Security and Rural Investment Act of 2002 (P.L. 107-171), extending the program through FY2007. Authority for DEIP and other programs was provided under various short-term farm bill extensions until passage of the 2008 farm bill, which extended the program until December 31, 2012.

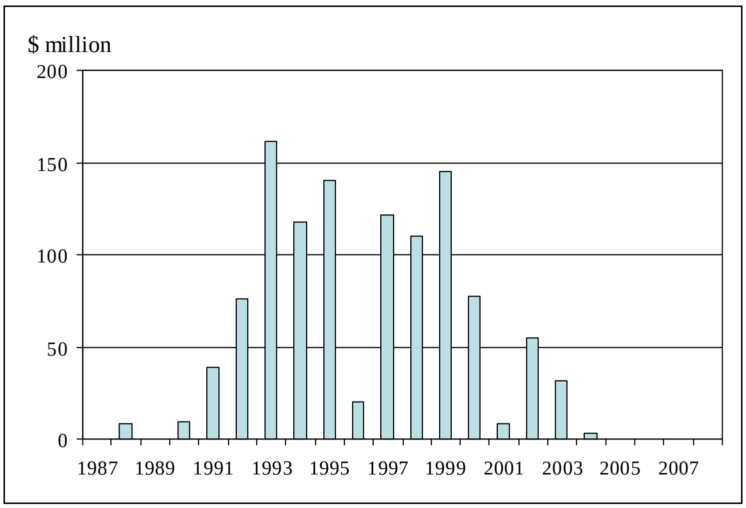
[9] CRS Report RL33553, *Agricultural Export and Food Aid Programs*, by Charles E. Hanrahan. The CCC is a U.S. government-owned and -operated corporation, created in 1933, with broad powers to support farm income and prices and to assist in the export of U.S. agricultural products. Toward this end, the 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. CCC net losses are periodically replenished through annual appropriations.

Expenditures since the program's inception have totaled $1.1 billion. DEIP was active throughout the 1990s, peaking in 1993 with $162 million in bonuses (**Figure 1**). The primary product receiving a subsidy was nonfat dry milk, reflecting its relative abundance. DEIP has not been used since FY2004 due to increased market strength and less perceived need to subsidize exports.

On a volume basis, DEIP has helped move more than 1 million metric tons of dairy products. Annual volume peaked at nearly 250,000 tons in FY1995, with annual amounts mostly between 50,000 and 100,000 tons in subsequent years when the program was operational. During the late 1990s, the program primarily moved nonfat dry milk that likely would have otherwise been accumulated in government-owned stocks under the dairy price support program.

Figure 1. Dairy Export Enhancement Program Activity

(fiscal year expenditures)



Source: USDA, Annual Budget Summaries, various issues.

Program Operation

All DEIP-assisted sales are made by private exporters, not the U.S. government. When in operation, the program uses a bid process to determine awards (called bonuses) to be paid to exporters of skim milk powder, butterfat, and various cheeses. The awards, usually paid per metric ton of product exported, reimburse the exporter for the difference between the cost of purchasing the domestic product and the selling price in the importing country. Participating exporters must provide information on their company, including business structure and previous activity with federally administered programs.[10]

Once an invitation for bids is issued, companies negotiate selling prices (and other terms) with buyers, often contingent on USDA's approval of a DEIP bonus. Prospective exporters then submit bids to USDA requesting a cash bonus that would allow the sale to take place. USDA reviews all bids and decides to accept or reject them based on the competitiveness of the bonus value. If a bid is accepted, the exporter receives the cash bonus once it provides evidence that the specified

[10] For more information, see U.S. Department of Agriculture, Foreign Agricultural Service, *Dairy Export Incentive Program Fact Sheet*, Washington, DC, March 2006, http://www.fas.usda.gov/info/factsheets/DEIP.pdf.

commodity was shipped to the target destination. USDA announces regional market allocations by product (e.g., specified quantity of nonfat dry milk to Africa and Middle East).

WTO Dairy Export Subsidy Limits

The United States' ability to provide export subsidies under DEIP is constrained by World Trade Organization (WTO) annual limits on quantities and budgetary outlays that can be provided as export subsidies. The allowable quantities and budgetary outlays for agricultural export subsidies, including dairy export subsidies, were negotiated as part of the WTO Uruguay Round Agreement on Agriculture. Maximum WTO allowable export subsidies for dairy products in the European Union (EU) dwarf those of the United States (**Table 1**). The EU can subsidize nearly 2 million metric tons of butter, skim milk powder (SMP), cheese and other milk products, while DEIP is limited to less than 93,000 metric tons of dairy products—about one-twentieth of the EU quantity. As to value, the EU's allowable maximum is over 2.3 billion Euros (about $3.1 billion at the exchange rate in early May) compared to the United States' $116.6 million. The quantity limits represent about 0.5% to 1% of U.S. production and about 12% to 15% of EU production.

In the year ending in June 2007, the year preceding the EU's suspension of dairy export subsidies, EU outlays were 478.3 million Euros for approximately 1 million tons of dairy product, 21% and 50% respectively of its maximum allowable WTO subsidy limits. For the reporting period ending in 2004, the most recent year for U.S. DEIP activity, U.S. budget outlays were $2.7 million and quantities were 68,201 metric tons of SMP and 3,030 metric tons of cheese. Budgetary outlays were 3.5% of the maximum allowable outlay for those two commodities, but equal to the commitment level for quantity.[11]

Table 1. WTO: Maximum Allowable Annual Dairy Export Subsidies, United States and European Union

	United States		European Union	
	Quantity (metric tons)	Value ($ thousands)	Quantity (metric tons)	Value (Euros thousands)
Butter & Butter oil	21,097	30,497	399,300	945,800
Skim Milk Powder	68,201	82,464	272,500	298,000
Cheese	3,030	3,636	321,300	345,700
Other milk products	34	21	958,100	724,100
TOTAL	92,362	116,618	1,951,200	2,313,600

Source: WTO, *Notification, Export Subsidies, United States of America*, G/AG/N/USA/64, and *Notification, Export Subsidies, European Communities*, G/AG/N.EEC/57. Export subsidy notifications are searchable by document number at http://docsonline.wto.org/gen_search.asp?searchmode=simple.

[11] WTO, Notification, Export Subsidies, United States of America, G/AG/N/USA62, searchable by document number at http://docsonline.wto.org/gen_search.asp?searchmode=simple.

EU Resumption of Dairy Export Subsidies

On January 15, 2009, the European Commission announced measures to help the EU dairy sector in the face of declining prices for milk and milk products.[12] As world market supplies of dairy products have increased and demand weakens, market prices in the EU have been pushed down to or below so-called intervention prices for dairy products. (The intervention price is the price at which public or private "intervention agencies" in each member state of the EU are obliged to accept butter and skim milk powder offered to them at the pre-determined intervention price.) The EU resumed intervention buying of butter and SMP in March 2009 and will continue buying until the end of August 2009.

At the same time, the Commission announced it was reactivating export refunds (subsidies) for dairy products. Products eligible to receive refunds are butter and SMP and also whole milk powder and cheese. Dairy export refunds had been suspended since June 2007, a period when high prices prevailed on world dairy markets. Market conditions have reversed, according to the Commission, and EU exporters are unable to compete. The situation is made worse, the Commission statement said, because of the difficulty exporters face as a result of the global financial/credit crisis.

Export refunds will be made available through a process of tendering. In this case, the Commission announces that it is making available a quantity of product for export. Exporters then make bids for specific volumes at specific refunds. Export licenses are awarded to exporters by a management committee. Traders who bid for refunds at or below the maximum level set by the committee are granted licenses. Those who bid higher than the maximum refund level are not awarded licenses. Like DEIP, EU dairy export refunds are intended to compensate exporters for buying products at higher prices than can be sold for in the world market.

The Commission stated that refunds would be used only "to the extent necessary." Refunds also would be provided in conformity with EU rights and obligations under the WTO. The specific amount of refunds would depend on offers received and the application of management committee criteria for accepting bids and awarding licenses.

DEIP Impacts

The potential impacts of reactivating DEIP can be segmented into two categories. The first is the impact on the U.S. milk market and dairy farm income. The second concerns how well DEIP may counteract foreign subsidies or help develop foreign markets, and how its use could affect U.S. trade policy.

Impact on Farm Milk Prices

Exports under DEIP would increase demand for dairy products, at least to the extent that subsidized exports do not substitute for commercial exports. As the domestic market rations the

[12] Press release, European Commission, "Dairy market: Commission proposes additional measures to help dairy sector," at http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/57&format=HTML&aged=0&language=EN&guiLanguage=en.

remaining supplies, milk prices should rise, thereby enhancing farm income. The potential for market impact, therefore, depends on how much milk (or in this case milk-equivalent via product exports) is removed relative to the total market (i.e., total U.S. milk production).

When converted to a milk-equivalent basis,[13] the maximum quantity of subsidized U.S. exports allowed under WTO limits is about 1 to 2 billion cwt. of milk out of 190 billion cwt. of annual U.S. milk production in 2008, or between 0.5% and 1% of total U.S. production.[14] Given that the calculated quantity is a small share of total U.S. milk production, DEIP-assisted exports would be expected to have a relatively small effect on U.S. milk prices and income for U.S. dairy farmers.

Two sets of research results quantify the potential market impact of DEIP. Both point to a limited impact of DEIP on dairy farm income. While these analyses consider removing DEIP during a particular baseline period rather than reactivating it in today's market, conclusions offer insight into the program's potential impacts.

A USDA analysis in 2004 implies that eliminating DEIP would reduce the farm price of milk by $0.13 per cwt., on average per year, or 1% relative to the baseline (base period of 2002-2007).[15] Gross receipts for dairy farmers (including higher government payments under the MILC program) would decline $267 million, on average per year, or about 1.5%. As an indication of the positive impact on consumers, the price of Class I milk (used for fluid consumption) would decline $0.16 per cwt., on average, or about 1% relative to the baseline price. Most of the price impact occurs during the first year of the baseline period as the market absorbs larger supplies.

Similar results were implied in a study by the Food and Agricultural Policy Research Institute in 2003.[16] Eliminating DEIP during a 2003-2007 base period would have reduced the all-milk price by $0.14 per cwt., on average, or about 1% of the baseline price. The associated decline in producer receipts was about $240 million per year or about 1%.

Counteracting Foreign Subsidies and Market Development

One of the initial aims of DEIP was to counter the export subsidies and unfair trade practices of competing dairy exporters, particularly the EU. Subsequently the aim of increasing the U.S. market share in targeted overseas markets was added to the authorizing statute in 1996. However, there have been few evaluations of DEIP to assess its effectiveness in achieving these aims.[17] A 2006 Office of Management and Budget (OMB) assessment of DEIP determined that it was a

[13] Milk-equivalent is the amount of milk used to manufacture dairy products. Because milk is perishable, government support and trade are in dairy products and not milk.

[14] Alternatively, on a product basis, maximum DEIP quantities as a share of 2008 production would be approximately 10% of nonfat dry milk, 3% for butter, and less than 0.1% for cheese.

[15] The figures reported here are calculated from results published in the report by J. Michael Price, *Effects of U.S. Dairy Policies on Markets for Milk and Dairy Products*, U.S. Department of Agriculture, Economic Research Service, Technical Bulletin Number 1910, Washington, DC, May 2004, http://www.ers.usda.gov/publications/tb1910/tb1910.pdf.

[16] The figures reported here are calculated from results published in the report by Scott Brown, "The Effect on the United States Dairy Industry of Removing Current Federal Regulations," Food and Agricultural Policy Research Institute, FAPRI-UMC Report #03-03, April 2003, http://www.fapri.missouri.edu/outreach/publications/2003/current_state_of_dairy.pdf.

[17] Office of Management and Budget, *Program Assessment: Export Enhancement/Dairy Export Incentive Program*, 2006, http://www.whitehouse.gov/omb/expectmore/summary/10003022.2006.html.

moderately effective program, but that globally, the Export Enhancement Program (EEP) and DEIP "have not been able to demonstrate an ability to permanently expand exports or build U.S. market share in targeted countries."

OMB does point out, however, that DEIP was successful in offsetting EU export subsidies for dairy products to Mexico, which permitted the United States to develop and sustain a market for U.S. dairy product exports there. For example, in 2008, the United States enjoyed a 90% market share of Mexican imports of nonfat dry milk.[18] DEIP was probably not the only factor and perhaps not the major factor in establishing the United States as the dominant foreign supplier of dairy products to the Mexican market. Mexico's proximity to expanding dairy areas of the western United States and trade liberalization under the North American Free Trade Agreement are also factors in explaining dairy product trade flows from the United States to Mexico.

Trade Policy Implications of Activating DEIP

Both the EU and the United States maintain that their dairy export subsidy programs comply with rules agreed to in the WTO. Nevertheless, the EU decision to restart dairy export subsidies has been criticized by other major dairy exporting countries. The government of New Zealand, the world's largest exporter of dairy products, expressed its disappointment that the EU had decided to reintroduce export refunds for dairy products after a two-year hiatus.[19] New Zealand's Trade and Agriculture Ministers expressed concern that restarting export refunds would send a negative signal at a time when efforts were being made to reject protectionism and remove distortions in world agricultural markets. The Cairns Group of agricultural exporting countries, which negotiates as a group in multilateral trade negotiations, expressed their concerns about the EU's decision to resume dairy export subsidies.[20] The Cairns Group statement said in part: "Export subsidies are a seriously damaging form of trade-distorting support measures and the Cairns Group has campaigned relentlessly for their elimination, including in the context of the Doha Round of trade negotiations."

The United States and other WTO member countries reached agreement at a WTO ministerial meeting (Hong Kong 2005) to eliminate export subsidies by 2013. Making good on this commitment is contingent on reaching a comprehensive agreement in WTO Doha Round negotiations, which are currently stalled.[21] Elimination of agricultural export subsidies, especially those of the EU, has been a long-standing objective of U.S. agricultural trade policy. The 2008 farm bill repealed legislative authority for the Export Enhancement Program (EEP), historically the largest U.S. agricultural export subsidy program. Some interpreted this repeal as a U.S. gesture in support of the Doha Round preliminary agreement to end agricultural export subsidies.

[18] USDA, Foreign Agriculture Service, Mexico Dairy Situation :Annual, 2008, http://www.fas.usda.gov/gainfiles/200811/146306552.pdf.

[19] "EU Dairy Export Subsidies 'Disappointing' ", *Newsroom 2009*, January 16, 2009, http://www.newsroomamerica.com/world/story.php?id=442788.

[20] "Cairns Group Ambassadors call on EU to reverse recent decision on export subsidies," http://www.cairnsgroup.org/media/090127_statement.html. In addition to New Zealand, the Cairns Group includes Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Uruguay.

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

The 2005 WTO proposal would require the elimination of DEIP, a much smaller export subsidy program than EEP. In the absence of a comprehensive Doha Round agreement on agriculture that eliminates export subsidies, the United States would be acting within its WTO rights and obligations if it decided to restart DEIP. On the other hand, long-standing U.S. opposition to export subsidies, especially to EU export subsidies, the opposition of trading partners like New Zealand and the Cairns Group, and the contingent agreement in the Doha Round to eliminate export subsidies could all be factors in a U.S. decision of whether to reactivate DEIP.

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