

CRS Report for Congress

Agricultural Exports and the 2007 Farm Bill

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Summary

On December 14, 2007, the Senate passed its version of the 2007 farm bill. The House of Representatives passed its version of the 2007 farm bill (H.R. 2419) on July 27, 2007. Both bills, which would establish U.S. farm policy for 2008 through 2012, contain a trade title (Title III) that authorizes and amends U.S. Department of Agriculture (USDA) agricultural export programs and U.S. international food aid programs. This report assesses 2007 farm bill trade title provisions for U.S. agricultural export programs. (See CRS Report RL33553, *Agricultural Export and Food Aid Programs*, for additional detail. For an analysis of food aid issues and the farm bill, see CRS Report RL34145, *International Food Aid and the 2007 Farm Bill*.)

The bills incorporate a number of the recommendations made by the Administration in its farm bill trade proposals, especially changes to USDA's export credit guarantee programs and export market development programs. Both bills modify the export credit guarantee programs to make them compatible with World Trade Organization (WTO) rules limiting export subsidies. Both bills also provide increased funding for export market promotion and for addressing sanitary and phytosanitary (food safety) barriers to U.S. agricultural exports. The bills also reflect provisions of farm legislation introduced earlier in the 110th Congress, notably legislation introduced by Members representing the interests of fruit, vegetable, and tree nut (specialty crop) producers to increase federal support for their production and marketing activities, including export market promotion.

U.S. agricultural exports for FY2008 are forecast by USDA to be a record high \$91 billion, while imports will reach \$75.5 billion, also a record. If this forecast holds, the U.S. agricultural trade balance in FY2008 would be \$15.5 billion. Many variables interact to determine the level of U.S. agricultural exports — income, population growth, and tastes and preferences in foreign markets; U.S. and foreign supply and prices; foreign import barriers and exchange rates; and domestic farm policy and trade agreements. While many of these factors are beyond the scope of congressional action, farm bills have typically included programs that help to finance, subsidize, and promote U.S. commercial agricultural exports, or to address foreign trade barriers.

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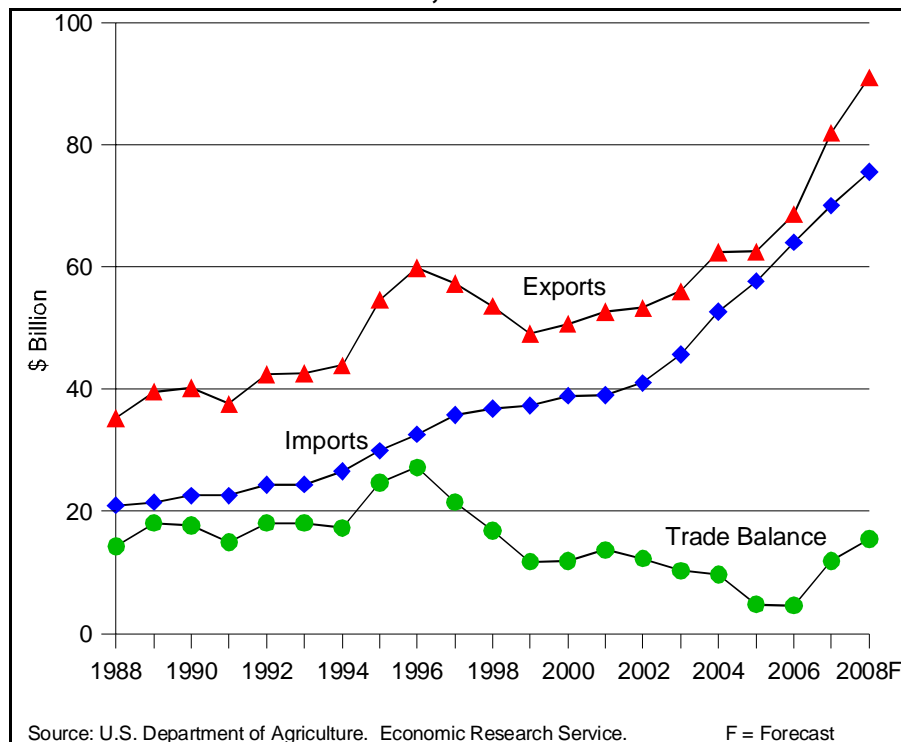
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Agricultural Exports and the 2007 Farm Bill

Introduction

The U.S. Dept. of Agriculture (USDA) forecasts that U.S. agricultural exports for FY2008 will reach a record high of \$91 billion, and forecasts that imports will reach \$75.5 billion, also a record (**Figure 1**). If these forecasts hold, the U.S. agricultural trade balance in FY2008 would be \$15.5 billion.¹ Since FY1991, high value exports (intermediate products such as wheat flour, feedstuffs, and vegetable oils or consumer-ready products such as fruits, nuts, meats, and processed foods) have outpaced such bulk commodity exports as grains, oilseeds, and cotton. In FY2008, high value agricultural exports are forecast to account for 60% of the value of total agricultural exports.² Much of the growth in U.S. agricultural exports in 2007 and 2008 is expected to come from strong demand for bulk commodities such as wheat, feed grains, oilseeds, and cotton.

Figure 1. U.S. Agricultural Exports, Imports, and the Trade Balance, FY1998-FY2008F



¹ U.S. Department of Agriculture, Economic Research Service, *Outlook for U.S. Agricultural Trade*, AES-56, November 30, 2007, available at [<http://usda.mannlib.cornell.edu/usda/current/AES/AES-11-30-2007.pdf>].

² For additional information on trends in U.S. agricultural trade, see CRS Report 98-253, *U.S. Agricultural Trade: Trends, Composition, Direction, and Policy*.

Agricultural exports are important both to farmers and to the U.S. economy. Production from almost a third of U.S. cropland moves into export channels, according to USDA. USDA estimates that from 21% to 23% of U.S. agricultural production (crops and livestock) is exported.³ Exports account for almost half of wheat production, more than one-third of soybeans, and a fifth of corn. The share of exports of specialty crops such as almonds is 70%, while for other specialty crops such as walnuts or grapefruit, the export share is as high as 40%. Export share of livestock products is lower than for crops, as most meat and dairy products are consumed domestically. U.S. agricultural exports generate employment, income, and purchasing power in both the farm and nonfarm sectors. According to USDA, each \$1 received from agricultural exports stimulates another \$1.64 in supporting activities to produce those exports. Recent data show that agricultural exports generate an estimated 806,000 full-time civilian jobs, including 455,000 jobs in the non-farm sector.⁴

Many variables interact to determine the level of U.S. agricultural exports: income, population growth, and tastes and preferences in foreign markets; U.S. and foreign supply and prices; and foreign import barriers 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 a trade title (Title III in the 2002 farm bill, the Farm Security and Rural Investment Act of 2002) that authorizes programs that guarantee the private financing of U.S. agricultural exports, subsidize agricultural exports, promote U.S. farm products in overseas markets, or address foreign trade barriers.⁵ All of the agricultural export programs authorized in the farm bill are administered by the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA).⁶

Title III of the House-passed (H.R. 2419) and the Senate Committee-reported farm bills reauthorize and extend these programs from 2008 through 2012, with increased funding for some of USDA's export promotion programs. The bills include new legislative authority for discretionary appropriations for initiatives aimed at strengthening U.S. participation in international food standard-setting

³ USDA's Economic Research Service (ERS) computes a volume-based measure of U.S. agricultural exports as a share of production, which includes those commodities for which both production and export volumes are available. As a result some products, such as wines, greenhouse/nursery products, seeds, and hides/skins are excluded. For information on how ERS measures the importance of exports to U.S. agriculture, see [<http://www.ers.usda.gov/AmberWaves/November06/Findings/Measuring.htm>].

⁴ For more detail on the macroeconomic effects of agricultural exports, see USDA, ERS, Agricultural Trade Update of February 5, 2007, pp. 6-8, available at [<http://usda.mannlib.cornell.edu/usda/ers/FAU//2000s/2007/FAU-02-15-2007.pdf>].

⁵ The trade title of the farm bill has also included legislative authorizations for various foreign food aid programs. For a discussion of food aid provisions of the House-passed farm bill, see CRS Report RL34145, *International Food Aid and the 2007 Farm Bill*.

⁶ For a detailed discussion of USDA's international programs, see CRS Report RL33553, *Agricultural Export and Food Aid Programs*. Information on specific agricultural export programs is available on the FAS website, at [<http://www.fas.usda.gov/programs.asp>].

organizations and enabling individuals and groups to challenge unfair trade barriers in international trade dispute settlement.

Agricultural Export Programs, Issues, and Congressional Action

On December 14, 2007, the Senate passed its version of the 2007 farm bill. The House of Representatives had passed its version on July 27, 2007. The bills, which would establish U.S. farm policy for 2008 through 2012, each contain a trade title (Title III) that authorizes and amends USDA agricultural export programs and U.S. international food aid programs. The bills incorporate many of the recommendations made by the Administration in its farm bill trade proposals, especially changes in USDA's export credit guarantee programs to make them consistent with World Trade Organization (WTO) rules limiting export subsidies.⁷ The trade title in each bill also incorporates Administration proposals for increased funding for export market promotion and for addressing sanitary and phytosanitary barriers to U.S. agricultural exports. Both bills also reflect provisions of farm legislation introduced earlier in the 110th Congress, notably legislation introduced by Members representing the interests of fruit, vegetable, and tree nut (specialty crop) producers who advocate increased federal support for their production and marketing activities, including export market promotion.

CCC Export Credit Guarantees

Export credit guarantee programs, administered by USDA's Foreign Agricultural Service (FAS), in association with the Farm Service Agency (FSA), guarantee payments for commercial financing of U.S. agricultural exports. U.S. financial institutions providing loans to foreign buyers for the purchase of U.S. agricultural commodities can obtain, for a fee, guarantees from USDA's Commodity Credit Corporation (CCC).⁸ If a foreign buyer defaults on the loan, the U.S. financial institution files a claim with the CCC for reimbursement, and the CCC assumes the debt. The aim of these programs is to facilitate exports to buyers in countries where official credit guarantees will help to maintain or increase U.S. export sales.

⁷ The Administration's farm bill trade proposals are available at [http://www.usda.gov/wps/portal/!ut/p/_s.7_0_A/7_0_1UH?contentidonly=true&contentid=2007_Farm_Bill_Title3.xml].

⁸ The Commodity Credit Corporation (CCC) is a wholly owned government corporation created in 1933 to stabilize, support, and protect farm income and prices (federally chartered by the CCC Charter Act of 1948 (P.L. 80-806)). The CCC, which has no staff, is essentially a financing institution for USDA's farm price and income support commodity programs, agricultural export programs, and certain conservation programs. It is authorized to buy, sell, lend, make payments and engage in other activities for the purpose of increasing production, stabilizing prices, assuring adequate supplies, and facilitating the efficient marketing of agricultural commodities. The CCC has the authority to borrow up to \$30 billion from the U.S. Treasury to carry out its obligations. Net losses from its operations subsequently are restored through the congressional appropriations process.

- The **GSM-102** program guarantees repayment of short-term financing (six months to three years) extended to eligible countries that purchase U.S. farm products.⁹
- The **GSM-103** program guarantees repayment of commercial financing up to 10 years to buyers in eligible countries to purchase U.S. farm products.
- The **Supplier Credit Guarantee Program (SCGP)** guarantees payment by foreign buyers of U.S. commodities and products that are sold by U.S. suppliers on a short-term deferred payment basis. The duration of the credit is short, generally up to 180 days, although the 2002 farm bill permits guarantees of up to 360 days.
- The **Facility Guarantee Program (FGP)** guarantees financing of goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets that will improve the handling, marketing, storage, or distribution of imported U.S. agricultural commodities and products.

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. In FY2006, financing for \$1.4 billion of U.S. agricultural exports was guaranteed under the program (**Table 1**).

**Table 1. CCC Export Credit Guarantee Programs:
Spending under the 2002 Farm Bill**

Program	Purpose	Farm Bill Average (\$ million) FY2002-FY2006	FY2006 (\$ million)
GSM-102	Short-term guarantee	2,900	1,400
GSM-103	Intermediate term guarantee	<1.0	0
Supplier Credit Guarantees	Very short term guarantees	473	0
Facility Guarantees	Finance infrastructure	0	0

Source: USDA Annual Budget Summaries, FY2003-FY2008.

⁹ GSM refers to the General Sales Manager, an official in FAS with responsibility for operating the export credit guarantee programs.

Export Credit Guarantee Program Issues. Export credit guarantee programs have become an issue in WTO dispute settlement as a result of a dispute raised by Brazil against certain aspects of the U.S. cotton program.¹⁰ The WTO dispute panel in the cotton case ruled in 2005 that three U.S. export credit guarantee programs (GSM-102, GSM-103, and SCGP) were prohibited subsidies because the financial benefits returned to the government by these programs did not cover their long-run operating costs. This ruling by the dispute settlement panel applied not only to cotton but to other commodities as well. The panel recommended that the United States take steps to remove the adverse effects of these subsidies or to withdraw them entirely. The Administration suspended operation of GSM-103 in 2006 and asked Congress to repeal the legislative authorization for the program and make other changes in the President's FY2007 and FY2008 budget requests.

The effectiveness of the credit guarantee programs also has been an issue. The Office of Management and Budget (OMB) reviewed the programs and found that export credit guarantees were only moderately effective in meeting program goals.¹¹ OMB noted also that there were substantial defaults, particularly in the SGCP program, a situation that led USDA to suspend operations of SCGP in 2006.

Administration Proposals. The Administration, in its farm bill trade proposals, recommended changes in CCC export credit guarantee programs that would bring them into compliance with the findings of the WTO dispute resolution panel in the Brazil cotton case. To accomplish this, the Administration asked Congress to remove the 1% cap on fees that can be collected under the Short-Term Credit Guarantee Program (GSM-102) and to eliminate specific legislative authority for the Intermediate Export Credit Guarantee Program (GSM-103) and the SGCP. USDA also proposed repeal of the SGCP because of approximately \$227 million in defaults and evidence of fraudulent activity. The Administration proposed to change the Facility Guarantee Program (FGP) to attract users who commit to purchasing U.S. agricultural products. No FGP funds have been allocated under the current farm bill.

Congressional Action. Both versions of the 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.

Export Subsidies

The current farm bill authorizes direct export subsidies of agricultural products through the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). The last year of substantial EEP activity was 1995, and there has

¹⁰ 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.

¹¹ [<http://www.whitehouse.gov/omb/expectmore/summary/10002020.2004.html>].

been no EEP spending under the current farm bill. DEIP spending, which has varied considerably, averaged \$18 million per year under the 2002 farm bill (**Table 2**).

**Table 2. Export Subsidy Programs:
Spending under the 2002 Farm Bill**

Program	Purpose	Farm Bill Average (\$ millions) FY2002-FY2006	FY2006 (\$ million)
EEP	Direct subsidies of agricultural products	0	0
DEIP	Direct subsidies of dairy products	18	0

Source: USDA Annual Budget Summaries.

EEP and DEIP. 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). EEP's main stated rationale, at its inception, was to combat "unfair" trading practices of competitors (other subsidizing countries such as the European Union) in world agricultural markets.

The General Sales Manager administers EEP. Most EEP subsidies have been used to assist sales of wheat. Many exporters have received subsidies, but from 1985 to 1995, three exporting firms received almost half the total of all EEP subsidies, which totaled more than \$7 billion. The United States agreed to reduce its agricultural export subsidies under the 1994 WTO Uruguay Round Agreement on Agriculture and, in ongoing multilateral trade negotiations, advocates that all agricultural export subsidies be eliminated.

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 dairy export subsidies, primarily those of the European Union. WTO export subsidy reduction commitments apply also to DEIP.

Export Subsidy Program Issues. EEP has been controversial since its inception. 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 declined 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.¹² While many oppose subsidizing dairy products for reasons similar to those held by EEP opponents, DEIP has strong support in Congress.

OMB also has evaluated the effectiveness of EEP and DEIP.¹³ OMB found that the export subsidy programs were only moderately effective in meeting program goals of countering export subsidies or unfair trade practices of other countries. In OMB's judgment, the export subsidy programs have not been able to demonstrate an ability to permanently expand exports or build U.S. market share in targeted countries. The agency does note that DEIP was successful in offsetting EU export subsidies for dairy products to Mexico, which permitted the United States to develop and maintain a market for dairy product exports to that country.

Administration Proposals. The Administration proposed the repeal of EEP because, it argued, EEP is not a useful tool for U.S. agricultural exports, it has been inactive for many years, and eliminating it would not materially affect U.S. agricultural exports. The Administration notes also that using EEP would be inconsistent with the U.S. goal of eliminating export subsidies in the WTO Doha Round of multilateral trade negotiations.¹⁴ The Administration made no proposals for either eliminating or reauthorizing DEIP, however.

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

Export Market Development Programs

The 2002 farm bill authorizes mandatory funding for four programs to promote U.S. agricultural products in overseas markets: the Market Access Program (MAP), the Foreign Market Development Program (FMDP), the Emerging Markets Program (EMP), and the Technical Assistance for Specialty Crops Program (TASC). (See **Table 3** for spending activity for export market development under the 2002 farm bill.).

MAP. MAP promotes primarily value-added products. The types of activities undertaken through MAP are advertising and other consumer promotions, market research, technical assistance, and trade servicing. Nonprofit industry organizations and private firms are eligible to participate in MAP promotions on a cost-share basis.

¹² 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>].

¹³ [<http://www.whitehouse.gov/omb/expectmore/summary/10003022.2006.html>].

¹⁴ For a discussion of the U.S. position in WTO Doha Round Agriculture negotiations, see CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*.

No foreign for-profit company may receive MAP funds for the promotion of a foreign-made product. 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). Only firms classified as small businesses by the Small Business Administration may receive direct MAP assistance for branded promotions. MAP is exempt from WTO export subsidy reduction commitments.

**Table 3. Export Market Development:
Spending under the 2002 Farm Bill**

Program	Purpose	Farm Bill Average FY2002- FY2006 (\$ millions)	FY2006 (\$ millions)
Market Access Program (MAP)	Promote high value exports	135	200
Foreign Market Development Program (FMDP)	Promote bulk exports	34	34
Technical Assistance for Specialty Crops (TASC)	Targets SPS/TBT barriers	2	2.6
Emerging Markets	Technical assistance	10	10

Source: USDA Annual Budget Summaries.

The 2002 farm bill 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.

FMDP. The 2002 farm bill also reauthorizes CCC funding for FMDP through FY2007 at an annual level of \$34.5 million. The program, which began in 1955, is similar to MAP in most major respects. Its purpose is to promote U.S. agricultural exports by undertaking activities such as consumer promotions, technical assistance, trade servicing, and market research. In contrast to MAP, FMDP mainly promotes generic or bulk commodities. 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 WTO export subsidy reduction commitments.

EMP. 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 authorizing legislation 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. Funding for the EMP is set at \$10 million each fiscal year through FY2007 in the 2002 farm bill.

TASC. TASC aims to assist U.S. organizations by providing funds for projects that address sanitary, phytosanitary (SPS), and technical barriers that prohibit or threaten U.S. speciality crop exporters. The 2002 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 pre-clearance programs. The 2002 farm bill authorizes \$2 million of CCC funds each fiscal year through FY2007 for the TASC program.

Export Market Development Program Issues. A basic issue raised by MAP and FMDP, and in some cases all the export programs, 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 counter 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.

OMB's reviews of the effectiveness of the market development efforts determined that the programs were moderately effective, but that the programs did not necessarily serve a clear need.¹⁵ Many of the groups that receive market development funds, it reported, receive at least some corporate funding and could afford to support their own export promotion efforts. OMB did note that the TASC program has helped to reduce barriers to U.S. agricultural exports, citing the example of TASC-funded efforts to open Taiwan's apple market to U.S. apples.

Administration Proposals. The Administration proposed an increase in mandatory funding for MAP by \$250 million over 10 years. The additional funds would be used to 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. In addition, the Administration proposed to increase mandatory funding for TASC to \$68 million over 10 years and to increase the maximum allowable project award to \$500,000. To address SPS issues generally, the Administration called for the establishment of a new grant program of \$20 million over 10 years to further focus resources on international SPS barriers for all agricultural commodities. To enhance USDA participation in international standard-setting bodies, such as the Codex Alimentarius, the International Plant Protection Convention, and the World Animal Health Organization, the

¹⁵ [<http://www.whitehouse.gov/omb/expectmore/summary/10003012.2005.html>].

Administration requested the authorization of long-term mandatory funding of \$15 million over 10 years.

Congressional Action. Both the Senate bill and the House bill 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). 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.

Other Farm Bill Trade Title Provisions

Both bills authorize discretionary appropriations ("such sums as necessary") to assist limited resource persons and organizations associated with agricultural trade to address unfair trade practice of foreign countries and to reduce trade barriers. Included among trade title proposals from the Administration, this measure would help smaller groups and industries who want to challenge trade practices of other countries but lack the technical and analytical expertise to successfully mount a challenge. The House-passed bill also authorizes discretionary appropriations to enhance U.S. participation in international standard-setting organizations, such as the Codex Alimentarius Commission or the World Organization for Animal Health. The intent of this measure, also proposed by the Administration, is to help bring U.S. interests to bear in standard-setting organizations when sanitary, phytosanitary, or technical trade are on the agenda.