

CRS Report for Congress

Agricultural Export and Food Aid Programs

Updated April 27, 2007

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Prepared for Members and
Committees of Congress

Agricultural Export and Food Aid Programs

Summary

The U.S. Department of Agriculture (USDA) administers programs to promote agricultural exports and to provide food aid, all authorized in the 2002 farm bill, the Farm Security and Rural Investment Act (FSRIA, P.L. 107-171), or in permanent legislation. These programs include direct export subsidies, export market development, export credit guarantees, and foreign food aid. Legislative authority for most of these activities expires with the 2002 farm bill in 2007, and the 110th Congress has begun deliberations on a new farm bill. The Administration also has made proposals for significant change in the export and food aid programs. In addition, USDA's international programs could be affected by the outcome of agricultural trade negotiations in the World Trade Organization (WTO) or WTO trade litigation.

USDA's direct export subsidies include the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). EEP spending has been negligible since 1996, and DEIP spending has been declining since 2002. Export subsidies, but not other U.S. export and food aid programs, are subject to reduction commitments agreed to in multilateral trade negotiations. Export market development programs include the Market Access Program (MAP) and the Foreign Market Development or "Cooperator" Program (FMDP). Although criticized by some as corporate welfare, these programs are considered to be non-trade-distorting by the World Trade Organization (WTO) and thus are exempt from multilateral spending constraints. The FSRIA authorizes MAP spending of \$200 million annually in FY2006 and FY2007 and sets FMDP spending at \$34.5 million annually through FY2007. The FSRIA authorizes export credit guarantees by USDA's Commodity Credit Corporation (CCC) of up to \$5.5 billion worth of farm exports annually plus an additional \$1 billion for emerging markets through 2007. Actual levels guaranteed depend on economic conditions and the demand for financing by eligible countries.

The 2002 farm bill also authorizes, through FY2007, foreign food aid programs including P.L. 480 Food for Peace, Food for Progress, the Emerson Trust (a reserve of commodities and cash), and a new international school feeding program. Section 416(b), permanently authorized in the Agricultural Act of 1949, also can provide surplus commodities for donation overseas. Global food emergencies are putting pressure on the ability of food aid providers, including the United States, to meet estimated need. Increased allocations of U.S. food aid for emergency relief has reduced the volume of food aid available for development projects.

The 109th Congress adjourned without enacting an agriculture appropriations measure that would have included funding for USDA's international programs. Provisions of the continuing resolution (P.L. 110-5) limit international programs whose funding is discretionary (P.L. 480, Food for Education, the Foreign Agricultural Service) to FY2006 spending levels. Spending on export programs (and some food aid) is mandatory and unaffected by the continuing resolution.

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Agricultural Export and Food Aid Programs

Recent Developments

The House and Senate, on April 25 and April 26, 2007, respectively, passed the FY2007 supplemental appropriations measure (H.R. 1591, conference report H.Rept. 110-107) to fund the Iraq war. Included in the \$124 billion measure is \$460 million for P.L. 480 Title II emergency food aid donations and an additional \$40 million to replenish the Bill Emerson Humanitarian Trust. The President has indicated his intention to veto the bill.

On February 15, 2007, the President signed a continuing resolution (P.L. 110-5) providing funding for FY2007 through September 30, 2007. It funds agricultural programs at the lower of either the FY2006 level or the House-passed level in H.R. 5384, the agriculture appropriations bill. As a result, funding for P.L. 480 food aid, the McGovern-Dole Food for Education program, and the Foreign Agricultural Service will be at the FY2006 level. Spending on mandatory food aid and export programs is unaffected by the continuing resolution.

The Secretary of Agriculture, on January 31, 2007, unveiled U.S. Department of Agriculture (USDA) proposals for the 2007 farm bill. Included among 65 proposals are initiatives that would increase spending on export market development programs and other trade activities by \$400 million. The Secretary proposed authorizing the use of up to 25% of P.L. 480 Title II funds for local or regional purchase (instead of U.S. commodities) to meet emergency food aid needs.

The World Trade Organization (WTO) formally suspended the Doha Round of multilateral trade negotiations in July 2006, largely because of inability of WTO members to agree on reductions in domestic farm subsidies and tariffs on agricultural products. Prior to the collapse of negotiations, WTO members meeting in Hong Kong, China, on December 13-18, 2005, reached agreement on eliminating agricultural export subsidies by the end of 2013, contingent upon eliminating other forms of subsidized export competition, including subsidized export credit guarantees and food aid that displaces commercial sales.

U.S. Agricultural Exports

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

generate an estimated 825,000 full-time civilian jobs, including 437,000 jobs in the non-farm sector.¹

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

U.S. agricultural exports for FY2007 are forecast by USDA to be a record high \$78 billion, while imports will reach \$70 billion, also a record. If this forecast holds, the U.S. agricultural trade balance in FY2007 would be \$8 billion.³

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 FY2006, high value agricultural exports accounted for 63% of the value of total agricultural exports.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 exchange rates. U.S. domestic farm policies that affect price and supply, and trade agreements with other countries, also influence the level of U.S. agricultural exports. While many of these factors are beyond the scope of congressional action, farm bills have typically included programs that promote commercial agricultural exports or provide foreign food aid.

Agricultural Export and Food Aid Programs

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

- direct export subsidies;

¹ Data and analysis on the role of agricultural exports in the U.S. economy is available from USDA's Economic Research Service at [<http://usda.mannlib.cornell.edu/reports/erssor/trade/fau-bb/text/2006/fau109.pdf>].

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

³ Estimates of U.S. agricultural exports, imports and trade balance are reported in USDA, Economic Research Service, *Outlook for U.S. Agricultural Trade*, published quarterly, visited at [<http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1196>].

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

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

USDA's Foreign Agricultural Service (FAS) administers these export and food aid programs, with the exception of P.L. 480 Titles II (humanitarian food aid) and III (food for development), which are administered by the U.S. Agency for International Development (USAID).

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

USDA International Program Activity, FY1997-FY2006 (\$ millions)

Program	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
EEP ^a	0	2	1	2	7	0	0	0	0	0
DEIP ^b	121	110	145	78	8	55	32	3	0	0
MAP ^c	90	90	90	90	90	100	110	125	140	200
FMDP ^d	—	—	28	28	28	34	34	34	34	34
GSM Programs ^e	2,876	4,037	3,045	3,082	3,227	3,388	3,223	3,716	2,625	1,363
P.L. 480 ^f	1,054	1,138	1,808	1,293	1,086	1,270	1,960	1,809	2,115	1,829
FFE ^g	—	—	—	—	—	—	100	50	90	97
Section 416(b) ^h	0	0	1,297	1,130	1,103	773	213	173	76	20
FFP ⁱ	91	111	101	108	104	126	137	138	122	131
FAS ^j	191	209	178	183	201	198	195	197	206	246
Total	4,423	5,697	6,693	6,000	5,854	5,944	6,004	6,245	5,408	3,941

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

- a. Export Enhancement Program.
b. Dairy Export Incentive Program.

- c. Market Access Program.
- d. Foreign Market Development Program. FY1995-FY1998 FMDP spending included in FAS appropriation.
- e. GSM (General Sales Manager) Export Credit Guarantee Programs.
- f. The FY2003 estimate for P.L. 480 includes \$1.326 billion for regular FY2003 appropriations; \$248 million for Title II emergency assistance (after applying the across-the-board rescission of 0.65%); and \$369 million in the Emergency Wartime Supplemental Appropriations Act of 2003; FY2005 P.L. 480 includes \$377 million from the Emerson Trust.
- g. The McGovern-Dole International Food for Education and Child Nutrition Program (FFE) was authorized in the 2002 farm bill FY2003 funds were from the Commodity Credit Corporation; funds were first appropriated in P.L. 108-199, the FY2004 appropriations bill.
- h. Commodity value and ocean freight and transportation.
- i. Includes only CCC purchases of commodities for FFP. P.L. 480 Title I funds allocated to FFP are included in P.L. 480.
- j. Foreign Agricultural Service.

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).

Export Enhancement Program (EEP).⁵ EEP was established in 1985, first by the Secretary of Agriculture under authority granted in the Commodity Credit Corporation Charter Act, and then under the Food Security Act of 1985 (P.L. 99-198). The program was instituted after several years of declining U.S. agricultural exports and a growing grain stockpile. Several factors contributed to the fall in exports during the early 1980s: an overvalued dollar and high commodity loan rates under the 1981 farm bill made U.S. exports relatively expensive for foreign buyers; global recession reduced demand for U.S. agricultural products; and foreign subsidies, especially those of the European Union (EU), helped competing products make inroads into traditional U.S. markets. EEP's main stated rationale, at its inception, was to combat "unfair" trading practices of competitors in world agricultural markets.

The Office of the General Sales Manager in USDA's Foreign Agricultural Service (FAS) operates EEP. The Sales Manager announces target countries and amounts of commodities to be sold to those countries, and then invites U.S. exporters to "bid" for bonuses that effectively lower the sales price. An exporter negotiates a sale with a foreign importer, calculates the bonus necessary to meet the negotiated price, and submits the bonus and price to FAS. FAS awards bonuses based on bids and amount of funding available. Initially awarded in the form of certificates for commodities owned by the CCC, bonuses since 1992 have been in the form of cash.

Most EEP bonuses have been used to assist sales of wheat. In FY1995, the last year with significant program activity, 72% of EEP sales were wheat, 8% flour, 6% poultry, and the remaining sales were eggs, feed grains, pork, barley malt, and rice. Although many exporters have received bonuses, since 1985 three exporting firms have received almost half of the total of all EEP bonuses which now exceed \$7

⁵ Additional information on the Export Enhancement Program is available at [<http://www.fas.usda.gov/info/factsheets/eep.asp>]

billion. The former Soviet Union, Egypt, Algeria, and China were major beneficiaries of EEP subsidies.

The United States agreed to reduce its agricultural export subsidies under the 1994 Uruguay Round Agreement on Agriculture. The Agreement requires that outlays for export subsidies fall by 36% and the quantities subsidized by 21% over six years (1995-2001). Legislation to implement the Uruguay Round Agreement (P.L. 103-465) reauthorized EEP through the year 2001 and specified that EEP need not be limited to responses to unfair trade practices as in the 1985 Food Security Act, but also could be used to develop export markets. EEP was reauthorized most recently in the 2002 FSRIA. Authority to spend CCC funds on EEP expires in FY2007.

EEP has been controversial since its initiation in 1985. Many oppose the program outright on grounds of economic efficiency. EEP, they argue, like all export subsidies, interferes with the operations of markets and distorts trade. Others, noting that the Uruguay Round Agreement on Agriculture restricts but does not prohibit agricultural export subsidies, point out that as long as competitors, such as the European Union, use export subsidies, the United States should also be prepared to use them. The effectiveness of EEP also has been an issue. Several studies of the use of EEP found that wheat exports would have decline somewhat if EEP were eliminated, suggesting that the EEP program increased wheat exports. Other analysts, however, found that subsidizing wheat exports under EEP resulted in displacing exports of unsubsidized grains.⁶

Recent EEP Activity. Although almost always under some pressure from interested commodity groups to use EEP more extensively, USDA has limited its scope and funding since 1995. USDA's rationale for not using EEP is based on the argument that using it might depress world market prices for eligible commodities. Some analysts say that not using EEP also strengthens the U.S. hand in on-going WTO agriculture negotiations where a major U.S. aim is the elimination of agricultural export subsidies.

In FY1995, the last year of significant program activity, EEP bonuses were valued at \$339 million. From FY1996 to FY2006, a total of only \$17 million of EEP bonuses were awarded. There were no EEP bonus awards from FY2002 to FY2006.

Dairy Export Incentive Program (DEIP).⁷ 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

⁶ 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>].

⁷ Additional information on DEIP is available at [<http://www.fas.usda.gov/excredits/deip.html>].

purpose was to counter the adverse effects of foreign subsidies, primarily those of the European Union. Early bonus payments were in the form of sales from CCC-owned dairy stocks; later they were generic commodity certificates from CCC inventories; now they are cash payments. As with EEP, USDA announces target countries and amounts of dairy products that may be sold to those countries under the program. Exporters negotiate tentative sales and “bid” for bonuses to subsidize the prices of the sales. The Uruguay Round subsidy reduction commitments (see EEP above) apply also to DEIP. Legislative authority for DEIP expires on December 31, 2007.

While many oppose subsidizing dairy products for reasons similar to those held by EEP opponents, the program has strong support in Congress. Dairy producers consider DEIP an integral part of U.S. dairy policy, an important adjunct to domestic support programs.

Recent DEIP Activity. No DEIP bonuses were awarded in FY2005 or FY2006. The program level for DEIP in FY2003 was \$32 million and in FY2004 it was \$3 million.

Market Development Programs

FAS administers five programs to promote U.S. agricultural products in overseas markets, including the Market Access Program (MAP), the Foreign Market Development Program (FMDP), the Emerging Markets Program (EMP), the Quality Samples Program (QSP), and the Technical Assistance for Specialty Crops Program (TASC). All of these programs are funded through the borrowing authority of the CCC. Farm bill authorization of CCC funds for the market development programs expires at the end of FY2007. Legislation (H.R. 6193, the Eat Healthy America Act) introduced during the 109th Congress, and expected to be reintroduced in the 110th Congress, included provisions to substantially increase funding for MAP and TASC.

Market Access Program (MAP).⁸ MAP assists primarily value-added products. The types of activities that are undertaken through MAP are advertising and other consumer promotions, market research, technical assistance, and trade servicing. Nonprofit industry organizations and private firms that are not represented by an industry group submit proposals for marketing activities to the USDA. The nonprofit organizations may undertake the activities themselves or award funds to member companies that perform the activities. After the project is completed, FAS reimburses the industry organization or private company for part of the project cost. About 60% of MAP funds typically support generic promotion (i.e., non-brand name commodities or products), and about 40% support brand-name promotion (i.e., a specific company product).

The FSRIA authorizes MAP through FY2007. The funding level for the program (previously capped at \$90 million annually) gradually increases to \$200 million for FY2006 and FY2007. No foreign for-profit company may receive MAP funds for the promotion of a foreign-made product. No firm that is not classified as

⁸ Additional information on MAP is available at [<http://www.fas.usda.gov/mos/programs/map.asp>].

a small business by the Small Business Administration may receive direct MAP assistance for branded promotions. Starting in FY1998, USDA policy has been to allocate all MAP funds for promotion of branded products to cooperatives and small U.S. companies.

Recent MAP Activity. Although MAP is not funded by annual appropriations, appropriations acts have on occasion capped the amounts that could be spent on the program or imposed other restraints on programming. For example, the FY1999 agriculture appropriations act imposed no limits on MAP funding, but did prohibit MAP spending in support of promotion of exports of mink pelts or garments, a provision that was first adopted in the FY1996 agriculture appropriations law. Since 1993, no MAP funds may be used to promote tobacco exports. MAP has often been targeted for cuts by some Members of Congress who maintain that it is a form of corporate welfare, or to help offset increased expenditures on other programs, but such efforts have been unsuccessful. USDA allocated the maximum amounts authorized for MAP in the 2002 farm bill for FY2002 through FY2006.

Foreign Market Development Program (FMDP).⁹ The FSRIA also reauthorizes CCC funding for this program through FY2007 at an annual level of \$34.5 million. The program, which began in 1955, is like MAP in most major respects. Its purpose is to expand export opportunities over the long term by undertaking activities such as consumer promotions, technical assistance, trade servicing, and market research. As with MAP, projects under FMDP are jointly funded by the government and industry groups, and the government reimburses the industry organization for its part of the cost after the project is finished. Like MAP, FMDP is exempt from Uruguay Round Agreement reduction commitments. Unlike MAP, which mainly promotes consumer goods and brand-name products, FMDP mainly promotes generic or bulk commodities.

MAP and FMDP Issues. Some of the same issues raised with respect to MAP are also raised about FMDP and in some cases all the export programs. The basic issue is whether the federal government should have an active role in helping agricultural producers and agribusinesses market their products overseas. Some argue that MAP and FMDP are forms of corporate welfare in that they fund activities that private firms would and could fund for themselves. Others argue that the principal beneficiaries are foreign consumers and that funds could be better spent, for example, to educate U.S. firms on how to export. Program supporters emphasize that foreign competitors, especially EU member countries, also spend money on market promotion, and that U.S. marketing programs help keep U.S. products competitive in third-country markets.

Recent FMDP Activity. Prior to FY2000, FMDP was funded as part of the appropriation of the Foreign Agricultural Service. The 1996 farm bill provided new statutory authority for the Program and authorized it through 2002. In FY2000, USDA moved funding for FMDP from discretionary to CCC funding, thus shifting its funding into the mandatory category. Funds allocated for FMDP in FY2001 were

⁹ Additional information on FMDP is available at [<http://www.fas.usda.gov/mos/programs/fmdprogram.asp>].

\$28 million. USDA allocated the farm-bill authorized amount of \$34.5 million for the program in FY2002 through FY2006.

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

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

Quality Samples Program.¹¹ The Quality Samples Program (QSP) assists U.S. agricultural trade organizations to provide small samples of their agricultural products to potential importers in emerging markets overseas. The QSP focuses on industrial and manufacturing users of products, not end-use consumers. Under the authority of the CCC Charter Act of 1948, FAS uses up to \$2 million of CCC funds to carry out the program. In FY2006, FAS allocated \$1.8 million to 17 trade organizations participating in QSP.

Technical Assistance for Specialty Crops (TASC) Program.¹² The Technical Assistance for Specialty Crops (TASC) Program aims to assist U.S. organizations by providing funds for projects that address sanitary, phytosanitary and technical barriers that prohibit or threaten U.S. speciality crop exporters. The legislation defines speciality crop as all cultivated plants, and the products thereof, produced in the United States, except wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and tobacco. The types of activities covered include seminars and workshops, study tours, field surveys, pest and disease research, and pre-clearance programs. The FSRIA of 2002 authorizes \$2 million of CCC funds each fiscal year through FY2007 for the TASC program. In FY2006, FAS allocated \$2.6 million to TASC projects carried out by 26 U.S. trade organizations.

¹⁰ Additional information on the Emerging Markets Program is available at [<http://www.fas.usda.gov/mos/em-markets/em-markets.html>].

¹¹ Additional information on the QSP is available at [<http://www.fas.usda.gov/mos/programs/QSP.asp>].

¹² Additional information on the TASC program is available at [<http://www.fas.usda.gov/mos/tasc/tasc.asp>].

Export Credit Guarantees

The FSRIA reauthorizes through FY2007 USDA-operated export credit guarantee programs, first established in the Agricultural Trade Act of 1978 (P.L. 95-501), to facilitate sales of U.S. agricultural exports. Under these programs, private U.S. financial institutions extend financing at interest rates which are at prevailing market levels to countries that want to purchase U.S. agricultural exports and are guaranteed that the loans will be repaid. In making available a guarantee for such loans, the U.S. government, or more specifically, the CCC, assumes the risk of default on payments by the foreign purchasers on loans for U.S. farm exports.

Export Credit Guarantee Programs (GSM-102 and GSM-103).¹³ GSM-102 guarantees repayment of short-term financing (six months to three years) extended to eligible countries that purchase U.S. farm products. GSM-103 guarantees repayment of intermediate-term financing (up to 10 years) to eligible countries that purchase U.S. farm products. Eligible countries are those that USDA determines can service the debt backed by guarantees. Use of guarantees for foreign aid, foreign policy, or debt rescheduling purposes is prohibited.

The 2002 farm bill authorizes export credit guarantees of \$5.5 billion worth of agricultural exports annually through FY2007, while giving FAS the flexibility to determine the allocation between short and intermediate term programs. The actual level of guarantees depends on market conditions and the demand for financing by eligible countries. A provision in the statute allows guarantees to be used when the bank issuing the underlying letter of credit is located in a country other than the importing country. The farm bill continues the provision that minimum amounts of credit guarantees would be made available for processed and high value products through 2007. The farm bill permits credit guarantees for high value products with at least 90% U.S. content by weight, allowing for some components of foreign origin. The legislation provides for an additional \$1 billion through 2007 in export credit guarantees targeted to “emerging markets,” countries that are in the process of becoming commercial markets for U.S. agricultural products.

The General Sales Manager in FAS administers GSM-102 and -103. U.S. financial institutions providing loans to countries for the purchase of U.S. agricultural commodities can obtain, for a fee, guarantees from the CCC. If a foreign borrower defaults on the loan, the U.S. financial institution files a claim with the CCC for reimbursement, and the CCC assumes the debt. If a country subsequently falls in arrears to the CCC, its debts may ultimately be subject to rescheduling.

The biggest recipients of export credit guarantees have been Mexico, South Korea, Iraq, Algeria, and the former Soviet Union (FSU). Iraq is in default of more than \$2 billion of previously extended guarantees. In FY2005, the major recipients were Turkey (\$455 million), Mexico (\$392 million), South Korea (\$325 million), Russia (\$294 million), and China/Hong Kong (\$146 million). Guarantees facilitate

¹³ Additional information on CCC export credit guarantees is at [<http://www.fas.usda.gov/excredits/exp-cred-guar.html>].

sales of a broad range of commodities, but in FY2005 mainly benefitted exports of wheat, meat and poultry, oilseeds, feed grains, and cotton.

The CCC can guarantee credits under GSM-102 for two other programs: Supplier Credit Guarantee Program (SCGP) and the Facilities Guarantee Program (FGP).

Supplier Credit Guarantee Program.¹⁴ Under SCGP, the CCC will guarantee payment by foreign buyers of U.S. commodities and products which are sold by U.S. suppliers on a deferred payment basis. Under this variation of short-term credit guarantee, the foreign buyer alone will bear ultimate responsibility for repayment of the credit. The duration of the credit is short, generally up to 180 days, although the FSRIA permits guarantees of up to 360 days. These credits are expected to be particularly useful in facilitating sales of high value products, the fastest growing components of U.S. agricultural exports.

Facilities Guarantee Program.¹⁵ The FGP is also carried out under the GSM-102 program. In this activity, the CCC will provide guarantees to facilitate the financing of goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. Eligible projects must improve the handling, marketing, storage, or distribution of imported U.S. agricultural commodities and products.

Recent Export Credit Guarantee Activity. In FY2003 export credit guarantees financed an estimated \$3.2 billion of U.S. agricultural exports. FY2004 guarantees financed \$3.7 billion of U.S. farm exports and \$2.6 billion worth of exports in FY2005. Guarantees of \$1.4 billion of farm exports were made available in FY2006. The amounts of credit guaranteed each year depend on the demand for guaranteed financing of U.S. agricultural commodities by eligible borrowing countries. Substantially lower guarantees in FY2006 may have resulted from the suspension in FY2006 of the Supplier Credit Guarantee Program because of a high rate of defaulted obligations and other problems. USDA has proposed terminating the SCGP in its 2007 farm bill proposal. In addition, applying a more rigorous risk analysis (as a result of the U.S. response to the WTO cotton case) to prospective beneficiaries could have contributed to the decline in guarantees.

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

Export Credit Guarantees and the WTO Cotton Case. On March 3, 2005, a World Trade Organization (WTO) Dispute Appeals Panel ruled against the

¹⁴ Additional information on SCGP is available at [<http://www.fas.usda.gov/excredits/scgp.html>].

¹⁵ Additional information on the FGP is available at [<http://www.fas.usda.gov/excredits/scgp.html>].

United States in a dispute brought by Brazil against certain aspects of the U.S. cotton program.¹⁶ The WTO panel found that the GSM-102, GSM-103, and SCGP export credit guarantee programs effectively functioned as export subsidies because the financial benefits returned to the government by these programs failed to cover their long-run operating cost. Furthermore, the panel found that this applies not just to cotton, but to all commodities that benefit from U.S. commodity support programs.

The panel also found that certain payments (called Step 2 payments), authorized as part of special cotton marketing provisions in U.S. farm program legislation to keep U.S. upland cotton competitive on the world market, were prohibited subsidies.¹⁷ Step 2 payments are made to exporters and domestic mill users to compensate them for their purchase of U.S. upland cotton, which tends to be priced higher than the world market price. Payments to exporters were found to be “contingent upon export performance” and therefore qualified as prohibited export subsidies in violation of WTO commitments. Payments to domestic users were found to be “contingent on the use of domestic over imported goods” and therefore qualified as prohibited import substitution subsidies.

On July 5, 2005, U.S. Secretary of Agriculture Johanns announced a number of changes intended to bring the United States into compliance with the WTO cotton ruling, including a request to Congress to remove the 1% cap on fees charged under the GSM-102 export credit guarantee program, termination of the GSM-103 export credit guarantee program, and elimination of the Step 2 program. The announced termination of GSM-103 export credit guarantees programs can be made administratively, but changes in the cap on fees and the Step 2 program require legislation. Congress included a provision in the Deficit Reduction Act of 2005 (P.L. 109-171), signed into law on February 8, 2006, that provided for the elimination of Step 2 by August 1, 2006. However, Congress has yet to act on changing the cap on fees. (The Administration’s 2007 farm bill proposals, discussed below, include a proposal to eliminate the 1% cap and to repeal the statutory authority for the intermediate term credit guarantee program.)

In the meantime, Brazil has requested the imposition of WTO-sanctioned retaliatory trade measures against the United States, which it must do within certain time limits or lose its right to seek retaliation. Also, at Brazil’s request, the WTO has established a panel to determine if the United States has adequately complied with the dispute panel’s decision in the cotton case. That review, which began in October 2006, is still underway.

¹⁶ 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.

¹⁷ For more information on Step 2 payments, see CRS Report RL32442, *Cotton Production and Support in the United States*, by Jasper Womach.

Foreign Food Aid

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

P.L. 480 Food for Peace.¹⁸ P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, has three food aid titles. Title I, Trade and Development Assistance, provides for long-term, low interest loans to developing and transition countries and private entities for their purchase of U.S. agricultural commodities. Title II, Emergency and Private Assistance Programs, provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs. Title III, Food for Development, provides government-to-government grants to support long-term growth in the least developed countries. Title I of P.L. 480 is administered by USDA; Titles II and III are administered by the Agency for International Development (AID).

A five-year grace period may be granted before a recipient must begin repaying the principal on the credit extended under a Title I agreement. The Secretary could still allow up to 30 years for repayment, but could require repayment in fewer than 10 years if the recipient has the ability to repay in a shorter time. Priority for Title I agreements is accorded to developing countries with demonstrated potential to become commercial markets for U.S. agricultural commodities.

The P.L. 480 legislation identifies private voluntary organizations (PVOs), cooperatives, and intergovernmental organizations (such as the U.N. World Food Program) as organizations eligible to carry out Title II non-emergency (development) programs, including in countries where USAID does not maintain a mission. FSRIA authorized funding to pay project or administrative and other costs of eligible organizations at 5% to 10% of annual Title II funding. A minimum of 15% of non-emergency Title II commodities can be monetized (i.e., sold for local currencies or for dollars). Monetization enables PVOs and coops to defray the costs of distributing food or implementing development projects in countries where they operate. Currencies from Title II commodity sales (monetization) can be used in a country different from the one in which the commodities were sold, if the country is in the same geographic region.

¹⁸ Additional information on P.L. 480 food aid is available at [<http://www.fas.usda.gov/food-aid.asp>].

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

Section 416(b).¹⁹ This program, authorized in permanent law (the Agricultural Act of 1949) and administered by USDA, provides for the donation overseas of surplus agricultural commodities owned by the CCC. This component of food aid is the most variable because it is entirely dependent on the availability of surplus commodities in CCC inventories. Section 416(b) donations may not reduce the amounts of commodities that traditionally are donated to domestic feeding programs or agencies, prevent the fulfillment of any agreement entered into under a payment-in-kind program, or disrupt normal commercial sales.

Food for Progress (FFP).²⁰ FFP, first authorized by the Food for Progress Act of 1985 and also administered by USDA, provides commodities to support countries that have made commitments to expand free enterprise in their agricultural economies. Commodities may be provided under the authority of P.L. 480 or Section 416(b). The CCC may also purchase commodities for use in FFP programs if the commodities are currently not held in CCC stocks. Organizations eligible to carry out FFP programs include PVOs, cooperatives, and intergovernmental organizations such as the WFP. The 2002 farm bill requires that a minimum of 400,000 metric tons of commodities be provided in the FFP program.

McGovern-Dole International Food for Education and Child Nutrition Program.²¹ The FSRIA authorizes this new food aid program, which can use commodities and financial and technical assistance to carry out preschool and school food for education programs and maternal, infant and child nutrition programs in foreign countries. Private voluntary organizations, cooperatives, and the World Food Program and foreign governments are all eligible organizations for carrying out these activities. FSRIA mandated CCC funding of \$100 million for the program in FY2003 and authorizes appropriations of “such sums as necessary” from FY2004 to FY2007. McGovern-Dole replaces the pilot Global Food for Education Initiative discussed below. By decision of the President, as mandated by the 2002 farm bill, USDA, rather than USAID, administers this program. Legislation (H.R. 6229) was introduced in the 109th Congress, and is expected to be reintroduced in the 110th, to increase substantially spending on McGovern-Dole and to make spending on the program mandatory.

¹⁹ Additional information on Section 416(b) is available at [<http://www.fas.usda.gov/excredits/FoodAid/416b/section416b.asp>].

²⁰ Additional information on the Food for Progress program is available at [<http://www.fas.usda.gov/excredits/FoodAid/FFP/foodforprogress.asp>].

²¹ Additional information the McGovern-Dole program is available at [<http://www.fas.usda.gov/excredits/FoodAid/FFE/FFE.asp>].

The Bill Emerson Humanitarian Trust (BEHT).²² The 2002 farm bill reauthorized the BEHT, enacted in the 1998 Africa Seeds of Hope Act (P.L. 105-385), through FY2007. The BEHT replaced the Food Security Commodity Reserve established in the 1996 farm bill and its predecessor, the Food Security Wheat Reserve of 1980. Not technically a food aid program, the trust is primarily a reserve of up to 4 million metric tons of wheat, corn, sorghum, and rice that can be used to help fulfill P.L. 480 food aid commitments to developing countries under two conditions: (1) to meet unanticipated emergency needs in developing countries, or (2) when U.S. domestic supplies are short. Since 1980, the only commodity held in reserve has been wheat. The trust can also hold cash in reserve.

The John Ogonowski Farmer-to-Farmer Program. The Farmer-to-Farmer program (FTF), first authorized in the 1985 farm bill, was reauthorized by the 2002 farm bill and renamed in honor of John Ogonowski, a pilot killed on September 11, 2001. Ogonowski had participated in the Farmer-to-Farmer program. FTF is a program of technical assistance (not commodity food aid) provided to farmers, farm organizations, and agribusinesses in developing and transitional countries. The program mobilizes the expertise of volunteers from U.S. farms, land grant universities, cooperatives, private agribusinesses, and nonprofit organizations to carry out projects overseas. The FSRFA provides minimum funding for FTF at 0.5% of the funds appropriated for P.L. 480 programs. Special emphasis is given to FTF activities in the Caribbean Basin and sub-Saharan Africa. FTF funding under the current farm bill has been \$10 million annually.

Recent Food Aid Program Activity. P.L. 480 food aid averaged around \$1.1 billion from 1996 to 1998. In FY1999, however, more than \$1.8 billion in P.L. 480 food aid was provided. Although only around \$1.1 billion was appropriated for P.L. 480 in FY1999, the final total included approximately \$700 million of Title I food aid for Russia, which was financed by a transfer of funds from the CCC. The FY2000 program level for P.L. 480 was \$1.3 billion, while FY2001 P.L. 480 spending was \$1.086 billion and the FY2002 program level was \$1.270 billion, including Emerson Trust releases valued at \$175 million. In FY2003, the food aid program level spiked again as Congress appropriated more than \$1.8 billion for emergency humanitarian assistance under P.L. 480 Title II to meet emergency needs in Africa, Afghanistan, and Iraq. P.L. 480 Title II food aid for FY2005 was \$2.1 billion, which includes \$377 million of commodities from the Emerson Trust.

Commodity donations under Section 416(b) were \$213 million (commodity value and ocean freight and overseas distribution costs) in FY2003, consisting of surplus nonfat dry milk. In contrast, Section 416(b) donations averaged about \$1 billion a year from FY1999 to FY2002. Such large donations were made possible following CCC purchases of over 8 million metric tons of surplus wheat and wheat flour in FYs 1999 and 2000.

The Global Food for Education Initiative. Around \$300 million of Section 416(b) commodities acquired in the FY1999 and FY2000 purchases and

²² Additional information on the Emerson Trust is available at [<http://www.fas.usda.gov/excredits/FoodAid/emersontrust.asp>].

CCC funding were used to launch a Global Food for Education Initiative (GFEI) in July 2000. Under the GFEI, USDA donated agricultural commodities for use in school feeding and pre-school nutrition projects in developing countries. The commodities were either monetized or used directly in projects. USDA's Food and Nutrition Service provided technical assistance to the GFEI. USDA-approved projects were implemented by the U.N. World Food Program (WFP), private voluntary organizations, and eligible foreign governments. The GFEI was superseded by the McGovern-Dole International School Feeding and Child Nutrition Program authorized in the 2002 farm bill.

Releases from the Emerson Trust. The Secretary of Agriculture announced releases from the trust of 275,000 tons of wheat on June 10, 2002 and 300,000 tons of wheat on August 28, 2002. The wheat from the reserve was exchanged for an equal value of corn, beans and vegetable oil for use in humanitarian relief in southern Africa, where an estimated 14.4 million people needed emergency food aid to compensate for severe food shortages and stave off famine through much of 2003. In FY2003, the Secretary announced releases of 200,000 metric tons for emergency food needs in Eritrea and Ethiopia and 600,000 metric tons for emergency needs in Iraq. Of the announced releases, only about half, 400,000 metric tons, were used. Partial replenishment of the trust was addressed in the FY2003 Emergency Wartime Supplemental Appropriations Act. There were no releases from the trust in FY2004. On December 3, 2005, the Secretary of Agriculture and the Administrator of USAID announced the release of 200,000 metric tons of wheat from the trust for emergency food relief to western Sudan. On June 7, 2005, the President announced that \$250 million (500,000 metric tons) of Emerson Trust commodities would be used to meet emergency needs in Africa. Following these releases, approximately 900,000 metric tons of wheat and \$107 million in cash remain in the trust.

Food Aid Issues. The U.S. food aid program is often criticized as an inefficient way to meet the objectives of relieving emergency food needs or fostering economic and agricultural development in receiving countries. Critics, including the Administration, point to delayed arrivals of up to four months when U.S. commodities are shipped in response to emergency situations. Ocean transportation costs can be high. In FY2006, USAID estimated that almost half of its food aid allocations went to paying the cost of transportation.²³ Ocean freight rates vary from year to year, but paying such costs is one reason that both USDA and USAID have proposed in various budget proposals allocating some portion of funds available to P.L. 480 Title II emergency programs to purchase commodities in areas near to the emergency. Congressional and other critics of the local purchase proposal maintain that allowing non-U.S. commodities to be purchased would result in undermining the coalition of commodity groups, private voluntary organizations, and shippers that support the program and in reductions in U.S. food aid.²⁴

²³ See USAID FY2006 Congressional Budget Justification at [http://www.usaid.gov/policy/budget/cbj2006/pdf/fy2006summtabs6_PL480TitleII.pdf].

²⁴ See H.Rept.109-255 on H.R. 2744, the FY2006 agriculture appropriations measure.

Related to the question of cost-effectiveness is the cargo preference issue. The Cargo Preference Act, P.L. 83-644 (August 26, 1954), as amended, contains permanent legislation concerning the transportation of waterborne cargoes in U.S.-flag vessels. The act requires that 75% of the volume of U.S. agricultural commodities financed under P.L. 480 and other concessional financing arrangements be shipped on privately owned U.S.-registered vessels. Maritime interests generally support cargo preference, but proponents of P.L. 480 argue that it increases the costs of shipping U.S. commodities to poor countries and potentially reduces the volume of food aid provided. A GAO report found that shipments of food aid on U.S.-flag vessels did little to meet the law's objective of helping to maintain a U.S. merchant marine and that cargo preference requirements adversely affect operations of the food aid programs, chiefly by raising the cost of ocean transportation and reducing the volume of commodities that can be shipped.²⁵

The monetization (selling in local markets) of food aid commodities also is an issue. A P.L. 480 provision (Section 203) first included in the Food Security Act of 1985 (P.L. 99-198) allows private voluntary organizations and cooperatives to sell a percentage of donated P.L. 480 commodities in the recipient country or in countries in the same region. Under Section 203, private voluntary organizations or cooperatives are permitted to sell (i.e., monetize) for local currencies or dollars an amount of commodities equal to not less than 15% of the total amount of commodities distributed in any fiscal year in a country. The currency generated by these sales can then be used to finance internal transportation, storage, or distribution of commodities; to implement development projects; or to invest and with the interest earned to finance distribution costs or projects.

Many of the organizations that rely on sales of U.S. food aid commodities to finance development projects support monetization as their major source of development finance. Some private voluntary organizations, however, have begun to question the use of monetization as a source of funds.²⁶ CARE, which has been a major supporter of monetization in the past, has decided to transition out of monetization over the next two years. According to CARE, monetization is management-intensive and costly and fraught with legal and financial risks. In addition, it is economically inefficient. As CARE notes in its food policy paper: "Purchasing food in the U.S., shipping it overseas, and then selling it to generate funds for food security programs is far less cost-effective than the logical alternative — simply providing cash to fund food security programs." Finally, echoing criticisms of food aid heard in WTO Doha Round negotiations, CARE notes that when monetization involves open-market sale of commodities to generate cash, which is almost always the case, it inevitably causes commercial displacement. As such, it can be harmful to traders and local farmers and undermine the development

²⁵ See General Accountability Office, "Cargo Preference Requirements: Objectives Not Met When Applied to Food Aid Programs," September 29, 1994, available at [<http://archive.gao.gov/t2pbat2/152624.pdf>]

²⁶ See *White Paper on Food Aid Policy*, CARE USA, June 6, 2006, at [http://www.care.org/newsroom/articles/2005/12/food_aid_whitepaper.pdf].

of local markets, and be detrimental to longer-term food security objectives. Catholic Relief Services (CRS) has taken a similar position with respect to monetization.²⁷

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

FY2006 Appropriations

Title V of the FY2006 appropriations act (P.L. 109-97, H.R. 2744) provides \$1.488 billion in budget authority for USDA's discretionary international activities (primarily foreign food aid and salary and expenses of the Foreign Agricultural Service). The food aid budget authority provided in P.L. 109-97 reflects a rejection by both chambers of the President's proposal to purchase emergency food aid commodities in markets near to countries in need rather than from U.S. producers by shifting funds from P.L. 480 to a U.S. Agency for International Development (USAID) disaster and famine assistance fund.²⁸ The total program value of discretionary and CCC-funded international activities for FY2006 are estimated at \$3.9 billion. Because of the provisions of the FY2007 continuing resolution (P.L.110-5), funding for discretionary international activities will be at the level of FY2006 appropriations. Funding for CCC-funded activities is unaffected by the continuing resolution.

Foreign Agricultural Service (FAS). The appropriations act provides \$147.9 million of budget authority for FAS. This amount is \$11.2 million more than enacted in FY2005, but close to the President's FY2006 budget request.

P.L. 480. For P.L. 480 foreign food aid programs, the act provides \$1.230 billion. This amount of budget authority includes \$77 million for P.L. 480 Title I (long-term, low-interest loans to food deficit countries for the purchase of U.S. food commodities) and \$1.150 billion for P.L. 480 Title II (humanitarian donations for emergency relief and non-emergency development projects). The P.L. 480 Title II appropriation is \$265 million more than requested in the President's budget. These amounts and the other discretionary components of Title V are subject to a 1% rescission (as provided in the FY2006 Defense Appropriations measure, P.L. 109-148).

The Local Purchase vs. U.S. Commodities Issue. The President's FY2006 budget request contained a proposal to shift about \$300 million from P.L. 480 Title II to USAID's International Disaster and Famine Assistance account, which is administered separately from Title II. The funds would have been used to purchase food for emergency relief in markets closer to their final destinations rather than in the United States as required under P.L. 480. The Administration maintained that

²⁷ See Catholic Relief Services, *Food Aid and Food Security*, at [http://www.crs.org/get_involved/advocacy/food_aid/in_depth.cfm].

²⁸ See CRS Report RL32919, *Foreign Operations (House)/Foreign Operations and Related Programs (Senate): FY2006 Appropriations*, by Larry Nowels and Susan B. Epstein, for a discussion of the disaster assistance and famine account.

this change would make for more timely and cost-effective responses to emergency food needs. The proposal, however, proved controversial with farm groups, agribusinesses, and the maritime industry, who supply and ship commodities for Title II, and with many private voluntary organizations (PVOs) who rely on food aid to carry out development projects in poor countries. PVOs sell (or “monetize”) a substantial portion of food aid commodities in order to finance their development projects. Both chambers rejected the President’s cash-for-commodities food aid proposal.

Despite some expectations to the contrary, there were no Senate amendments to the conference report that would have provided some or all of the \$300 million requested by the President for purchase of non-U.S. commodities for famine relief. The conference report accompanying H.R. 2744 addresses the issue of converting a portion of P.L. 480 commodity food aid into cash by stating: “The conferees ... admonish the Executive Branch to refrain from proposals which place at risk a carefully balanced coalition of interests which have served the interests of international food assistance programs well for more than fifty years.” During House committee deliberations, amendments to augment P.L. 480 Title II emergency food aid by \$393 million and \$78 million, respectively, were defeated.

McGovern-Dole. For the McGovern-Dole International Food for Education and Child Nutrition Program, the conference report includes an appropriation of \$100 million, an amount recommended in both House- and Senate-passed measures. This level of budget authority is \$13.2 million more than appropriated in FY2005.

Food for Progress, Section 416, and Emerson Trust. Other food aid activities, largely funded by CCC borrowing, include the Food for Progress Program (FFP), Section 416(b) commodity donations, and the Bill Emerson Humanitarian Trust (BEHT). The President’s budget estimated that \$137 million of CCC funds would go to the Food for Progress (FFP) program. Additional FFP monies would be available from the funds appropriated to P.L. 480 Title I. The budget anticipated that \$151 million of CCC-owned nonfat dry milk, about 75,000 metric tons, would be available for food aid programming under Section 416(b) of the Agricultural Act of 1949. No program level was indicated in the President’s budget for the BEHT. Section 738 of Title VII (General Provisions) of the House bill limited to \$20 million the amount of FY2005 P.L. 480 appropriations that could be used to reimburse the CCC for the release of commodities from the BEHT.

Export Credit Guarantees. Export credit guarantees during FY2006 were \$4.4 billion, all for commercial credits with short-term repayment terms (up to three years). No funds were allocated to either the Supplier Credit Guarantee Program or the Facilities Financing Guarantee Program.

Export Promotion and Export Subsidies. MAP funding in FY2006 is estimated at \$200 million, the FSRIA-authorized amount. A House amendment to prohibit funds from being used to carry out MAP activities failed by a recorded vote of 66 to 356. For FMDP, the budget allocates \$34.5 million, the same as in FY2005; the Senate bill’s report (S.Rept. 109-92) instructs FAS to fund FMDP at no less than the FY2005 level. For export subsidy programs, the budget allocates \$28 million to

the Export Enhancement Program (EEP) and \$2 million to the Dairy Export Incentive Program (DEIP); however, no EEP or DEIP bonuses were allocated in FY2006.

The President's budget estimate also included \$90 million for Trade Adjustment Assistance to Farmers, the maximum amount allowed in the authorizing statute, the 2002 Trade Act. Under this program, USDA makes payments to farmers when the current year's price of an agricultural commodity is less than 80 percent of the five-year national average and imports have contributed importantly to the decline in price.

FY2006 Emergency Supplemental Funding

On February 16, 2006, the President requested an additional \$350 million FY2006 supplemental appropriation for emergency food aid under P.L. 480 Title II. The request was included as part of a \$72.4 billion supplemental appropriation to finance on-going military operations in Iraq and Afghanistan. The FY2006 Emergency Supplemental Appropriations Act (H.R. 4939, P.L. 109-234), as enacted, contained the \$350 million for humanitarian food aid under Title II of P.L. 480 for Sudan and other African regions as requested by the President.

Of this food aid total, an estimated \$150 million would address emergency food needs for individuals in the Darfur region of Sudan, including refugees from the violence who are in Chad. An estimated \$75 million would address emergency food needs in southern Sudan and an additional \$125 million would be used to meet other critical food situations, including those in East Africa.

Status of FY2007 Appropriations

The Continuing Resolution. The 109th Congress did not enact an FY2007 annual agriculture appropriations law before it adjourned. A continuing resolution (P.L. 110-5) is providing funding for FY2007 through the end of the fiscal year, at the lower of either the FY2006 level or the House-passed level in H.R. 5384. Since funding for USDA's discretionary international activities is lower in the FY2006 appropriations than in the House-passed bill, the FY2006 level will apply. Two food aid programs (P.L. 480 and the McGovern-Dole Food for Education program) and the Foreign Agricultural Service (FAS) will be affected by this situation. Spending on export programs (and some food aid) is mandatory and unaffected by the continuing resolution.

Proposed FY2007 Spending. Discretionary appropriations for international activities are one-tenth of a percent apart in the Senate-reported and House-passed versions of H.R. 5384, the FY2007 agriculture appropriations measure. The Senate-reported bill provides discretionary appropriations of \$1.489 billion for international activities, while the House-passed bill provides discretionary appropriations of \$1.488 billion. The Administration's budget indicates that an additional \$3.8 billion would be allocated to CCC-funded export and food aid programs. Combined, the total program value for all USDA international activities would be an estimated \$5.3 billion for FY2007. Included in the Senate-reported bill

is \$156.2 million for the FAS to administer USDA's international programs; the House allowance for FAS is \$156.5 million. These amounts represent an increase of about \$10 million over the amount enacted in FY2006 and about \$1 million less than proposed in the President's budget.

Food Aid Programs. For P.L. 480 foreign food assistance, the Senate-reported version of H.R. 5384 provides \$1.225 billion, \$87 million more than enacted in FY2006. The House-passed bill provides \$1.223 billion, while the Administration had requested \$1.218 billion. All of the P.L. 480 appropriations would go for Title II commodity donations.

Both the Senate-reported and the House-passed bill concur with the President's requests for no funds for P.L. 480 Title I loans, nor any for the Bill Emerson Humanitarian Trust, a reserve of commodities and cash held by the CCC, which currently holds 900,000 metric tons of wheat and \$107 million. The budget assumes \$161 million of CCC funds for the Food for Progress (FFP) program to provide food aid to emerging democracies. In the absence of an appropriation for P.L. 480 Title I, no funds will be available to FFP from that source during FY2007. Similarly, USDA anticipates that no CCC commodity inventories would be available for distribution as food aid under Section 416(b). For the McGovern-Dole International Food for Education and Child Nutrition Program, both the Senate-reported and the House-passed bill provide \$100 million, an increase of \$1 million from both the FY2006 enacted amount and the budget request (Figure 8).

Local Purchase vs. U.S. Commodities Again. The President's budget request contained proposed appropriations language to allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities in food crises. The Senate report (S.Rept. 109-266) explicitly rejects this proposal, stating that "[t]he Committee does not agree with the Administration's proposal to shift up to 25% of the Public Law 480 Title II program level to USAID to be used for direct cash purchases of commodities and other purposes." In addition, the Senate report rejects an Administration proposal to lift the requirement that 75% of P.L. 480 Title II commodities be devoted to nonemergency or development activities. Neither the House-passed bill nor the accompanying report (H.Rept. 109-463) makes mention of these Administration proposals. Congress rejected similar requests made in the FY2006 budget proposal.

Export Programs. The estimated FY2007 program level for export credit guarantees is \$1.964 billion for CCC export credit guarantees reflects the level of sales expected to be registered under the programs. Actual sales could vary from this estimate, depending upon demand for credit, market conditions, and other factors.

The Senate-reported bill deleted statutory authority for the intermediate export credit guarantee program (guarantees up to 10 years). Earlier, the Administration had suspended the operation of the intermediate guarantee program in response to an adverse ruling by the World Trade Organization (WTO) in the U.S.-Brazil cotton dispute. The President's budget contained suggested legislative language for the statutory change.

The farm bill-authorized funding level for the Market Access Program (MAP), an export market development program, is set at \$200 million for FY2007. Neither the Senate-reported nor the House-passed bills concurred with an Administration proposal to cut \$100 million from MAP in FY2007. During floor consideration, the House rejected a perennial amendment to bar the use of funds to carry out MAP by a vote of 79-342.

The export program that mainly promotes bulk commodities, the Foreign Market Development Program, would receive \$34.5 million, the farm bill authorized amount. For export subsidy programs, the budget requests \$28 million for the Export Enhancement Program (\$28 million in FY2006) and \$35 million to the Dairy Export Incentive Program (\$2 million in FY2006). The Administration requests \$90 million for Trade Adjustment Assistance to Farmers, the maximum allowed in the 2002 Trade Act. The House bill stipulates that \$3 million of these funds be made available for an intensive risk management technical assistance program for farmers.

FY2007 Supplemental Request for Food Aid

Congress has passed and sent to the President a supplemental appropriation measure to fund the war in Iraq that includes increased funding for P.L. 480 Title II humanitarian food aid donations. The President's original request for Title II was for \$350 million, which he indicated would be used to meet humanitarian needs in the Darfur Region of Sudan, among refugees from Darfur in Chad, and in other critical food situations in the Horn of Africa, Southern Africa and Afghanistan. The supplemental appropriations measure also includes an additional \$40 million to replenish the Bill Emerson Trust. The President has indicated he will veto the measure. Reportedly, negotiations are underway to produce a bill that Congress could pass and the President could sign. If the additional funds for Title II are included in a new bill, total P.L. 480 Title II spending in FY2007 could reach \$1.765 billion. If funds for replenishment of the Emerson Trust are included in a new bill, the available cash in the trust would increase to \$147 million.

FY2008 Budget Request

The President's FY2008 budget request reports the total program value for USDA discretionary and CCC-funded international activities at an estimated \$4.6 billion, of which \$1.490 billion would be appropriated. The FY2008 program level is \$392 million more than FY2007, with most of the difference accounted for by anticipated increases in the value of short-term export credit guarantees. The Administration requests an appropriation of \$173 million for the Foreign Agricultural Service (FAS) to administer its international programs.

For P.L. 480 foreign food assistance, the Administration requests a \$1.222 billion appropriation (\$1.343 billion program value with carryover and reimbursements), all of it for Title II commodity donations. The President's budget requests no funds for P.L. 480 Title I loans, nor any for the Bill Emerson Humanitarian Trust, which currently holds 900,000 metric tons of wheat and \$107

million in cash. The budget assumes \$163 million of CCC funds for the Food for Progress (FFP) program, which provides food aid to emerging democracies. Absence of Title I funds would effectively reduce spending on FFP. For the McGovern-Dole International Food for Education and Child Nutrition Program, the budget requests a \$100 million appropriation. Proposed appropriations language (and the Administration's farm bill proposal) would allow the Administrator of USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases of commodities in food crises. Congress rejected a similar request in FY2006 and FY2007.

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

USDA 2007 Farm Bill Proposals

USDA's farm bill proposals, announced by Secretary Johanns on January 31, 2007, would affect programs to develop markets, subsidize exports, guarantee commercial financing of U.S. farm exports, and provide food aid for emergency relief.²⁹ The Secretary's farm bill proposals for a new trade title would also place greater emphasis on addressing sanitary and phytosanitary and technical barriers to trade that especially affect specialty crop and livestock product exports.

Market Development. The Secretary proposes increased funding for the Technical Assistance for Specialty Crops (TASC) Program from its current level of \$2 million annually in mandatory funding. Under the proposal, TASC would increase to \$4 million in FY2008, \$6 million in FY2009, \$8 million in FY2010, and \$10 million thereafter through FY2015. For the Market Access Program (MAP), funding would rise from the current mandatory funding of \$200 million annually to \$250 million annually. The additional funding would address perceived inequities between farm bill program crops (grains, oilseeds, and cotton) and non-program

²⁹ USDA's farm bill proposals are at [<http://www.usda.gov/documents/07finalfbp.pdf>].

crops (especially specialty crops). Organic agriculture would be allowed to compete for MAP funding to help develop the export of organic products.

Export Credit Guarantees. Three major changes are proposed for the export credit guarantee programs. First, the proposals call for reforming the credit programs to make them consistent with U.S. WTO commitments. The WTO cotton dispute panel found that the export credit guarantees were not consistent with U.S. commitments under international trade rules. To bring them into conformity with trade rules, the Administration recommends removing the 1% cap on fees that can be collected under the Short-Term Credit Guarantee Program (GSM-102) and eliminating specific legislative authority for the Intermediate Export Credit Guarantee Program (GSM-103). Second, the Administration proposes termination of the Supplier Credit Guarantee Program, largely because the SCGP has incurred a number of defaults and there have been instances of fraud. USDA had already suspended FY2006 program announcements. Third, the Administration proposes to expand the Facilities Financing Guarantee Program (FGP) by allowing lower or no down payments, 98% principal and interest coverage, and longer terms for up to the life cycle of a facility's depreciation schedule (not to exceed 20 years). These recommendations are made, USDA notes, because the current requirements to qualify for FGP have discouraged its use.

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

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

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

WTO Negotiations and USDA International Programs

Prior to the suspension of WTO Doha Round negotiations in July 2006, a number of agreements were reached that could result in substantial change in U.S. agricultural export and food aid programs. WTO member countries on December 18, 2006, reached a preliminary agreement on a date certain — 2013 — for eliminating agricultural export subsidies in the current multilateral trade round known as the Doha Development Agenda (DDA).³⁰ This agreement was the most concrete outcome of the WTO's Hong Kong Ministerial Conference. The European Union (EU), the largest user of export subsidies, had opposed setting an end date, maintaining that WTO members needed to determine first how other forms of subsidized export competition — export credit programs, insurance, export activities of State Trading Enterprises (STEs), and food aid — would be disciplined. The United States and Brazil among others had been demanding agreement on an end to such export subsidies by 2010 with subsequent negotiations on other forms of export completion. As a compromise, the Hong Kong declaration calls for the parallel elimination of all forms of export subsidies and disciplines on measures with equivalent effect by the end of 2013. The end date for export subsidies would be confirmed, however, only after agreement on how to discipline the other forms of export subsidies.

With respect to other forms of export competition, the Hong Kong ministerial declaration included the following:

- Export credit programs should be “self-financing, reflecting market consistency, and of a sufficiently short duration so as not to effectively circumvent real commercially-oriented discipline”;
- Disciplines on exporting STEs will be such that their “monopoly powers cannot be exercised in any way that would circumvent the direct disciplines on STEs on export subsidies, government financing, and the underwriting of losses”; and
- On food aid, a “safe box” will be established for “bona fide” food aid “to ensure there will be no impediment to dealing with emergency situations.” However, disciplines will be established on in-kind food aid, monetization, and re-exports to prevent loopholes for continuing export subsidization leading to elimination or displacement of commercial sales by food aid.

The elimination of EU export subsidies has been a long-standing objective of U.S. agricultural trade policy, as has requiring greater transparency in STEs such as the Canadian Wheat Board. The Trade Act of 2002 (P.L. 107-210) calls for

³⁰ For details, see CRS Report RL33144, *WTO Doha Round: The Agricultural Negotiations*, by Charles E. Hanrahan and Randy Schnepf.

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

Since the Hong Kong meeting, there has been little agreement on the specifics in the Doha Round negotiations on agriculture, including any new disciplines on export credits and food aid. U.S. PVOs who monetize in-kind food aid commodities to finance projects in developing countries are concerned that new WTO disciplines aimed at preventing commercial displacement could severely limit their ability to do development work. Some large U.S. PVOs, however, have indicated that they will begin to phase out monetization as a source of funding for their development projects.

New multilateral rules for export and food aid programs are contingent on completing the Doha Round negotiations. Efforts are underway to complete the negotiations before congressional procedures for expedited consideration of trade agreements expires. The outcome of such efforts to bring the Doha Round to a mutually satisfactory conclusion appears highly uncertain. Any changes in farm bill export and food aid programs made necessary by a multilateral trade agreement would be debated if and when Congress took up legislation to implement the agreement. New multilateral trade rules for export subsidies, export credit guarantees, and food aid programs also would be taken up during the debate on the next farm bill.