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An Economic Research Service Report

Agricultural Export Programs

Background for 1995 Farm Legislation

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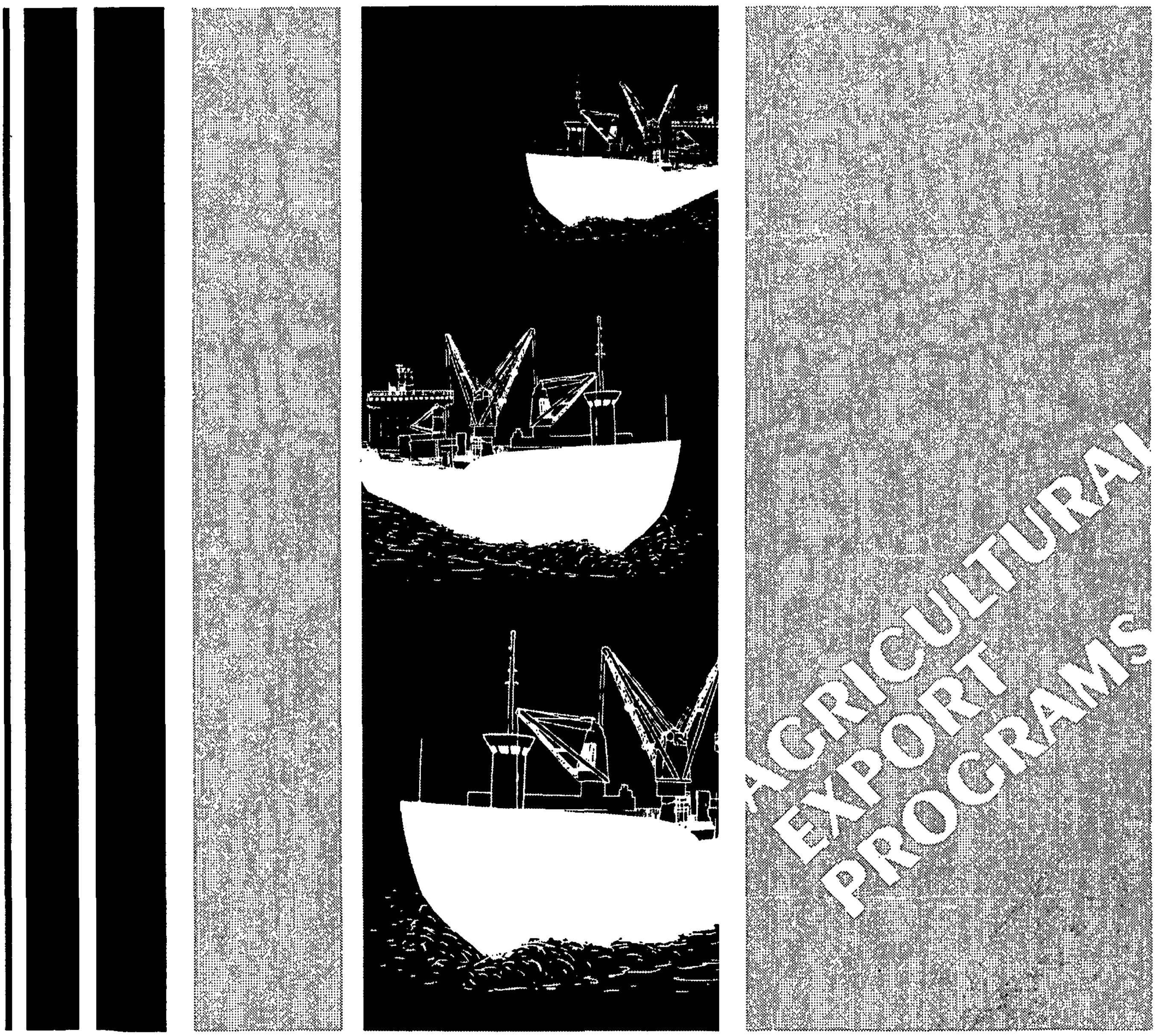

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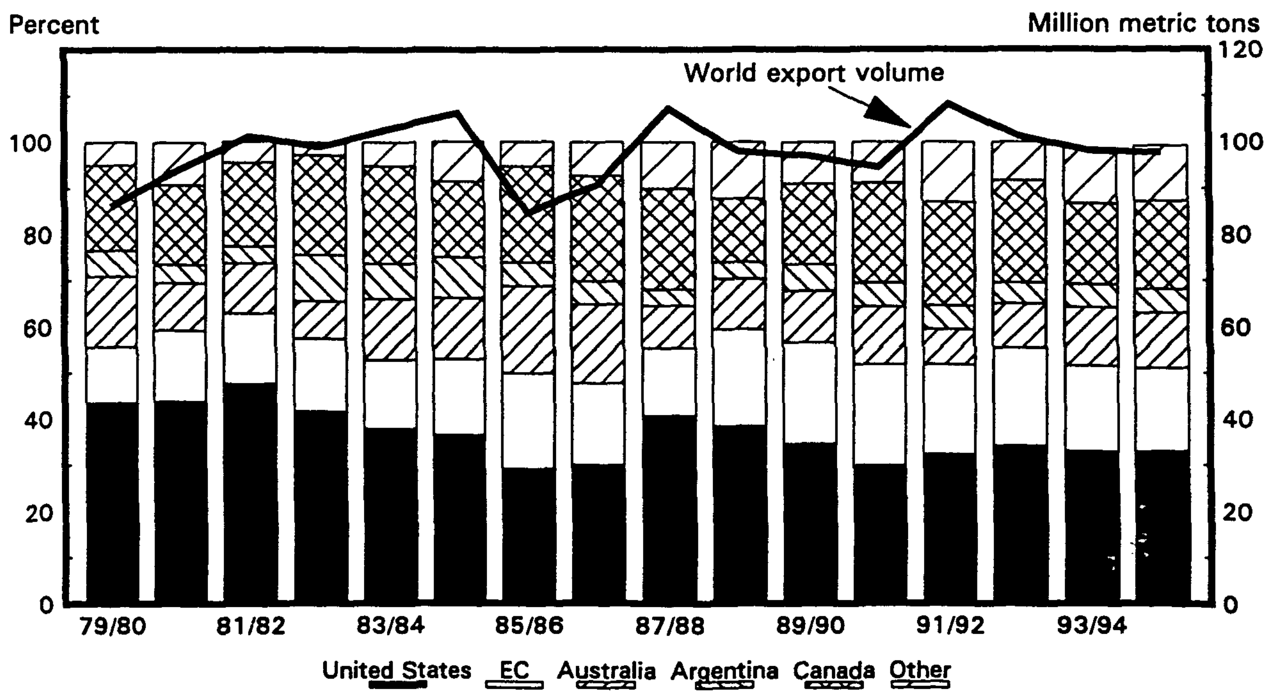
Errata for

Agricultural Export Programs: Background for 1995 Farm Legislation, by Karen Z. Ackerman, Mark E. Smith, and Nydia R. Suarez, U.S. Department of Agriculture, Economic Research Service, Commercial Agriculture Division. Agricultural Economic Report No. 716.

Page 7, column 1, paragraph 1, lines 2-3	"...1988 Rural Development, Agriculture, and Related Agencies Appropriations Act."
Page 7, column 2, paragraph 2, lines 1-3	"The value of commodities sold under price competition programs was less than 10 percent of U.S. export value in 1993,..."
Page 14, column 2, paragraph 3, lines 1-2	"Under the 1993 Omnibus Budget Reconciliation Act (OBRA), MPP funding was reauthorized through 1997..."
Page 21, column 2, paragraph 1, lines 1-2	"In fiscal 1989-93, grains comprised most of the value of food aid shipments."

Figure 3
World wheat and flour exports and U.S. market share 1/



1/ Excluding intra-EC trade.
Source: USDA, FAS.

Agricultural Export Programs: Background for 1995 Farm Legislation. By Karen Z. Ackerman, Mark E. Smith, and Nydia R. Suarez. U.S. Department of Agriculture, Economic Research Service, Commercial Agriculture Division. Agricultural Economic Report No. 716.

Abstract

Since 1985, the United States has heavily supported agricultural exports with an array of programs. A central issue related to these programs is how best to support farm exports, and farm income, with lower price subsidies under the Uruguay Round Agreement of the General Agreement on Tariffs and Trade (GATT) and with U.S. budget constraints.

Keywords: export programs, exports, food aid, subsidies, credit, trade negotiations, world trade, Export Enhancement Program, General Agreement on Tariffs and Trade, market development, Market Promotion Program.

Foreword

Congress will soon consider new farm legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990. In preparation for these deliberations, the U.S. Department of Agriculture and other groups are studying previous legislation and current situations to see what lessons can be learned that are applicable to the 1990's and beyond. This report updates *Agricultural Export Programs: Background for 1990 Farm Legislation* (AGES 9033) by Karen Z. Ackerman and Mark E. Smith. It is one of a series of updated and new Economic Research Service background papers for farm legislation discussions. These reports summarize the experiences with various farm programs and the key characteristics of the commodities and industries that produce them. For more information, see Additional Readings at the end of the text.

Acknowledgments

The authors thank Ron Trostle and Lorna Aldrich of the Economic Research Service, and Dee Linse, Sharon McClure, Beverly Simmons, Kathleen Wainio, Francine Radler, Paul Kiendl, and Chuck Bertsch of the Foreign Agricultural Service for their extensive reviews. The authors also appreciate Tom McDonald's expeditious editing of the report. Many thanks go to Linda Beeler for her statistical assistance and Shirley Brown, Wynnice Napper, and Joyce Bailey for their production of the document.

Washington, D.C. 20005-4788 June 1995

Contents

Summary

Export programs assisted about 20 percent of U.S. agricultural exports in 1989 through 1993, and their role for certain commodities was much higher. A central policy issue related to these programs is how best to support farm exports, and thereby farm income, in a time of lower price subsidies under the Uruguay Round Agreement of the General Agreement on Tariffs and Trade (GATT) and with the current U.S. budget constraints.

Exports play an important role in the health of the U.S. farm sector and related activities. For example, more than half the U.S. wheat crop is shipped overseas, as well as nearly half the rice and cotton crops. The agricultural sector generated an $18 billion surplus in 1993, helping to offset deficits in other areas.

After the U.S. share of world agricultural trade fell from a peak of almost 20 percent in 1981 to about 12 percent in 1986, the United States revised domestic support policies and increased export assistance. The tools used to boost farm exports include programs to help exporters compete in pricing, to help importers obtain credit needed to purchase U.S. commodities, to influence consumer tastes and preferences, and to provide U.S. farm products as food aid.

A number of program-specific issues also are likely to have prominent positions in this year's debate in Congress over omnibus farm legislation. One such issue is how best to implement the Export Enhancement Program (EEP), which was successful in bringing the European Union (EU) to negotiate reductions in export subsidies, now that such subsidies are capped. And with the recent increase in exports of high-value products (HVP's), policymakers will be studying the role of export programs in HVP markets.

Another issue is how credit guarantees will operate in an environment where a growing number of foreign private entities (rather than state monopolies) import goods. The effectiveness of market promotion and an appropriate government role in such assistance can be contentious. With lower surplus stocks in exporting countries and higher commodity prices, future food aid availabilities for needy countries are uncertain.

In the aftermath of the GATT Uruguay Round, a key question is how to change the means and targets of export assistance. How funds are spent depends on the time horizon in which benefits are to be realized. In the short run, price subsidies are the quickest way to bring about greater sales, especially in the face of continuing EU subsidies and other competitors' pricing practices. However, the GATT agreement limits the commodities eligible for export price subsidies and subsidy volumes and values. Similarly, credit guarantees may help importers with foreign exchange constraints.

Market promotion may be the best way to develop foreign consumers' tastes and preferences to benefit U.S. producers. Nonprice market promotion activities have been used for a wide range of HVP's as well as bulk commodities. If food aid, the most costly short-term means to boost exports, is combined with other economic assistance and generates economic growth in recipient countries, then such aid may lead to greater long-term demand for U.S. commodities.

Flexibility in providing export assistance will be needed to help U.S. exporters make sales in increasingly liberalized import markets. The effects of export subsidies are influenced by market conditions; that is, their effectiveness is greater in slack markets and less when supplies are tight.

Further, credit guarantee programs alone cannot substitute for price subsidies because savings to the importer in interest costs under a credit guarantee program often are not sufficient to counter competitors' exports that are subsidized or monopoly-controlled. Studies of market promotion effectiveness have shown significant increases in export revenues from promotion, but critics have voiced concerns about taxpayer dollars displacing funds for activities traditionally financed by the private sector.