Agricultural Export Programs

Background for 1990 Farm Legislation

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Introduction

The 1985 Food Security Act was written in an environment of high domestic support prices relative to world prices, an appreciating dollar, declining U.S. agricultural exports, high domestic stocks, and increasing competitor production. To increase agricultural exports, lawmakers authorized several new export programs and extended other longstanding programs.

The 1985 Food Security Act became law in December 1985. U.S. agricultural exports began to recover in fiscal 1987 and, in fiscal 1989, climbed to $39.6 billion, their highest level since 1981. Since 1986, U.S. agricultural export programs, a depreciating dollar, lower domestic commodity prices relative to world prices, and increased demand from importers have contributed to improved agricultural export sales. However, the United States still faces stiff competition in world agricultural markets and financial constraints to importer demand.

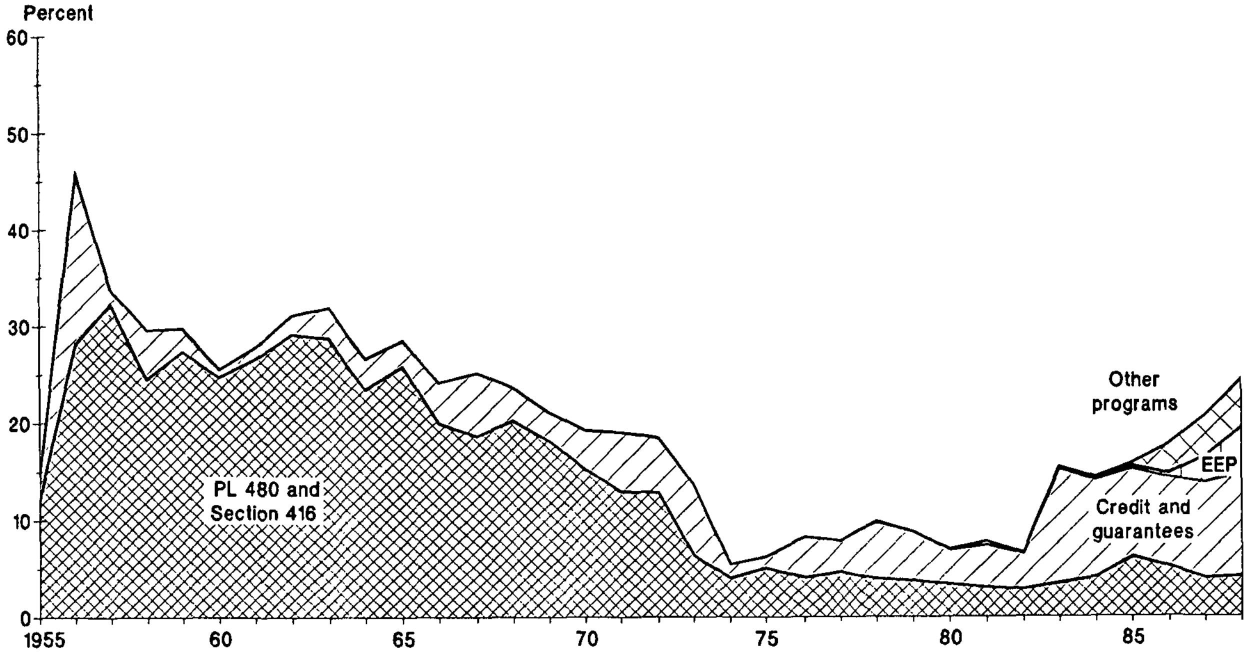
This report summarizes the major export programs since World War II. Some of the programs currently in operation were first authorized in the years following World War II. Other export programs authorized by the 1985 Food Security Act have their roots in historical programs. The report defines the objectives, operations, and costs of the major export programs currently in operation and the commodities and countries affected. Historical changes in program expenditures, commodities, and destinations are highlighted. Finally, the report defines issues related to the effectiveness of export programs and the programs' roles in increasing U.S. agricultural exports.

Export programs have become major tools of U.S. agricultural policy in recent years. The value of commodities exported under the programs has risen significantly (fig. 1). This report should contribute to an understanding of the role of export programs in U.S. agricultural trade. Descriptions of the export programs and issues highlighted in this report will be useful in the development of 1990 agricultural legislation.

Importance of Agricultural Exports

Trade has played an integral role in U.S. agriculture through most of the 20th century. With the exception of the 1930's, a period characterized by

Figure 1
Program shipments of agricultural products 1/



1/ Other export programs include CCC barter and CCC direct sales. Export subsidies prior to the EEP are not included.

Depression-era tariff laws, and the 1940's, agricultural exports have provided important outlets for U.S. agricultural production (table 1). For example, almost 25 percent of the wheat crop was exported from 1900 through 1930. In the 1950's, the export share of wheat production reached 33 percent each year, and climbed to an average of 58 percent in the 1970's.

Role of Export Programs in U.S. Agricultural Export Markets

The Federal Government first assisted agricultural exports in the late 1920's in response to mounting agricultural surpluses, and has continued to support agricultural exports with several types of programs. Export programs have been used to dispose of agricultural surpluses, to increase foreign demand for U.S. agricultural products, and to support humanitarian efforts.

The United States has used four basic methods to increase exports: price reduction, provision of commercial credit, provision of food aid, and nonprice promotion (table 2). Export payments (in cash or in kind) have allowed exporters to sell U.S. agricultural products at world prices when U.S. prices were supported above world prices and to counter the effects of competitors' export subsidies. Food aid programs, which help friendly nations overcome hunger, also have been used as foreign policy tools. Export credit and credit guarantee programs have assisted foreign buyers with foreign exchange constraints to purchase U.S. agricultural products. Generic and branded nonprice promotion programs have attempted to increase foreign demand for U.S. agricultural goods. All export programs, concessional or commercial, have attempted to maintain or increase U.S. exports and, indirectly, farm income.

Table 1--Average share of U.S. production exported for selected crops, by decade, since 1870

Decade	Wheat	Cotton	Tobacco	Corn	Soybeans	Rice
			Percent			
1870-79	25.4	64.7	59.1	4.4	[1]	[2]
1880-89	26.9	65.6	45.3	3.1	[1]	[2]
1890-99	30.1	68.6	37.3	5.3	[1]	[2]
1900-09	22.0	67.1	35.4	2.8	[1]	[2]
1910-19	23.5	57.6	37.0	1.8	[1]	[2]
1920-29	26.0	57.5	38.8	1.3	[1]	[2]
1930-39	8.4	50.9	31.4	1.6	6.7[3]	16.6
1940-49	18.7	23.1	22.4	2.0	2.8	42.7
1950-59	35.9	35.7	23.6	4.5	16.3	49.6
1960-69	53.6	35.0	26.1	12.4	28.1	61.2
1970-79	58.1	41.2	36.7	24.4	38.3	58.9
1980-88[4]	52.8	45.8	33.4	25.9	39.6	48.9

[1] Soybean production and trade data not reported prior to 1931.
[2] Rice production and trade data not reported prior to 1910.
[3] Nine-year average used.
[4] Eight-year average used for tobacco.
Source: Paarlberg and Webb; Updated from U.S. Dept. Agr., Agricultural Statistics, 1988, and U.S. Dept. Agr., Econ, Res. Serv., Agricultural Outlook.

Export Price Subsidies

Export price subsidies have been used to enable the United States to meet price competition in world agricultural markets when domestic agricultural policies supported prices above competitors' prices and to counter the effects of competitors who subsidized their exports. The Foreign Agricultural Service, U.S. Department of Agriculture, currently administers the Export Enhancement Program (EEP), a targeted export subsidy program.

Export Enhancement Program

The EEP was implemented to achieve three primary objectives: to increase U.S. agricultural exports, challenge competitors who subsidize their exports, and encourage U.S. trading partners to begin serious trade negotiations on agricultural trade problems.

Enabling Legislation and Program Levels

On May 15, 1985, Secretary of Agriculture John Block used the Secretary's authority under the Commodity Credit Corporation (CCC) Charter Act to announce the EEP. The EEP then was incorporated into the Food Security Act of 1985 under section 1127 which authorized that $2 billion in CCC commodities be provided through September 30, 1988, to U.S. exporters, processors, or foreign purchasers at no cost to encourage the development, maintenance, and expansion

Table 2-- Selected chronology of U.S. agricultural export programs

Year	Price subsidy	Credit/guarantees	Food aid	Market development	Other
1935	Section 32 for exports (1935-74)	Export-Import Bank loans/guarantees (1935-present)			
1947				First State check-offs for generic promotion	
1948			Economic Cooperation Act (Marshall Plan)		CCC chartered as a Federal corporation
1949	Cash subsidies to assist wheat exports under the IWA (1949-74)	Special loans to Afghanistan, India, Pakistan, Spain, and the United Kingdom	Section 416(b) (1950-54, 1982-)		Agricultural Act of 1949
1953			Mutual Security Act		
1954			Public Law 480 (1955-present)	Title I of PL 480 currencies for market development, Cooperator Program (1955-present)	PL 480 barter (1954-63)
1956		CCC direct credit sales (GSM-5), 1956-1980, 1984-85			
1958	Payment-in-kind for wheat, feed grains, cotton exports				
1961				First appropriation for Cooperator Program	
1962	Payment-in-kind for non-fat dry milk exports				
1963					Barter under CCC Charter authority (1963-73)
1971				Export Incentive Program (1971-present)	
1978		GSM-301 (1981-82)			Agricultural Trade Act of 1978
1979		GSM-101 (1979-81) GSM-201 (1979-81)			
1980		GSM-102 (1980-present)	Food Security Wheat Reserve Act (1980-present)		
1982			Section 416(b) reauthorized (1983-present)		
1983	Subsidized flour sales to Egypt	Blended credit (1983-85)			
1984	CCC sales to African countries (PL 98-248)				
1985	Export Enhancement Program (1985-present) Dairy Export Incentive Program (1986-present)	GSM-103 (1986-present)	Food for Progress (1986-present) Section 416(b) expanded	Targeted Export Assistance Program (1986-present)	Red meat sales (1986-87) Mandated dairy sales (1986-88) Agricultural Trade and Development missions (1986-present)
1988	Sunflowerseed Oil Assistance Program				
1989	Cottonseed Oil Assistance Program				

of U.S. agricultural export markets. The 1985 Act specified that the program was to help make U.S. commodities more competitive by offsetting subsidies or other "unfair trade practices," the adverse effects of price support levels temporarily above competitors' export prices, or fluctuations in exchange rates. The 1985 Act gave authority to the Secretary of Agriculture to make available for program use transferable "green dollar export" certificates (commodity certificates) which could be redeemed within 6 months of issuance for CCC commodities.

The 1985 Act further required that, for an authorized export promotion program which included a bonus or incentive payment, the Secretary was to attempt to use 15 percent of the program funds (or value of the commodities involved) each year to promote exports of poultry, beef, or pork and meat products (see "Other Export Programs" section).

The $2 billion funding level for the EEP authorized under the 1985 Act was amended by the Food Security Improvements Act of 1986 (table 3). The 1986 legislation required that not less than $1 billion and not more than $1.5 billion in CCC-owned commodities be used as EEP bonuses from 1985 through September 1988. On July 30, 1987, USDA announced that the EEP would continue under the CCC Charter Act provisions after the $1.5 billion maximum level for bonus awards had been exceeded.

Table 3--Export Enhancement Program authorized program levels and the market value of EEP bonuses awarded to exporters

Legislation and applicable time period	Authorized program level	Market value of bonuses [1]
	Billion dollars	
Food Security Act of 1985 and 1986 Food Security Improvements Act		
Fiscal 1986-88	1.0-1.5	2.2
Fiscal 1986		.3
Fiscal 1987		.9
Fiscal 1988		1.0
Omnibus Trade Act of 1988		
Fiscal 1986-90	1.0-2.5	2.72[2]
Fiscal 1989 appropriations (PL 100-460)		
Fiscal 1989	.77	.34
Fiscal 1990 level	.57	.18

[1] EEP bonuses are awarded in commodity certificates redeemable for commodities in CCC inventories.
[2] The EEP is operating under CCC Charter authority. The market value of fiscal 1990 bonuses applies to sales announced as of April 5, 1990.

The Omnibus Trade and Competitiveness Act of 1988 authorized an additional $1 billion to be awarded through fiscal 1990. The Agricultural Appropriations Act for fiscal 1989 subsequently set a limit on EEP bonuses to be awarded during fiscal 1989 of not more than $770 million. The fiscal 1990 agricultural appropriations act also set a cap of $770 million on the EEP, but the cap was lowered to $566 million during the reconciliation of the 1990 budget.

The market value of bonuses awarded under the EEP increased in the first 3 years of the program, but has decreased since fiscal 1988. EEP bonuses since the beginning of the program totaled $2.72 billion as of April 5, 1990. The program currently is operating under CCC Charter authority.

Targeting and Sales Under the EEP

Proposals for countries and commodity markets to be targeted under the EEP originate with foreign government officials and private importers, members of the U.S. agricultural community, USDA program specialists, and others. USDA first reviews the proposal, which, after approval, is presented to an interagency group, the Trade Policy Review Group (TPRG), for review.[1] If the interagency review group approves the proposal, USDA announces that importers in the targeted country may tender for a specified quantity of the designated commodity.

After the country tenders for the designated commodity, exporters bid for the sale. After arranging sales which may be contingent on receiving a CCC bonus, the exporters then compete against one another for the bonus. The CCC evaluates both the sale prices to the purchaser in the foreign country and the bonus bids. The bonuses are awarded to the exporter(s) whose sale price and bonus bid fall within predetermined ranges.

After completing the sale, the selected exporter or exporters present proof of the commodity's export to the CCC and receive the bonus in the form of commodity certificates redeemable for CCC commodities. The exporter may then sell the certificates or redeem them for any commodity available from CCC inventories.

Guidelines For EEP Initiatives

When the EEP was announced, four criteria were established to govern the program's operation. The four criteria published in the Federal Register in June 1985 were: additionality, targeting, budget neutrality, and cost effectiveness. Additionality, defined as the increase in exports due to the EEP, specified that EEP sales must increase U.S. exports above what would have occurred in the absence of the program. The targeting criterion required that EEP sales be targeted on specific market opportunities, especially those that challenge competitors which subsidize their exports. A third criterion, budget neutrality, required that EEP sales not increase budget outlays beyond

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[1]The TPRG is chaired by a Deputy U.S. Trade Representative and is made up of Under Secretaries and Assistant Secretaries from the Departments of Agriculture, State, Commerce, Labor, Treasury, and Transportation; the Office of Management and Budget; the Council of Economic Advisors; and other agencies with interest in the topic under discussion.

what would have occurred in the absence of the program. Cost effectiveness, the fourth criterion, meant that EEP sales should benefit the overall economy.

On November 27, 1989, USDA's Foreign Agricultural Service (FAS) published guidelines for the EEP in the Federal Register.[2] The new guidelines, which replace the four criteria, emphasize the EEP's trade policy objectives: challenging subsidizing competitors and furthering negotiations in the GATT Uruguay Round.

The first guideline requires that all EEP initiatives must further the U.S. negotiating strategy in the Uruguay Round by countering competitors' subsidies and other "unfair" trade practices. EEP subsidies should help U.S. exporters displace the exports of subsidizing competitors in specified, or targeted, countries. Under the second guideline, each EEP initiative should demonstrate a potential to develop, expand, or maintain markets for U.S. agricultural commodities. The third guideline requires that USDA not approve an EEP sale which would have more than a minimal effect on nonsubsidizing competitors. The fourth guideline, concerning EEP bonuses, requires that the overall EEP program level and bonuses for individual EEP sales be maintained at the minimum levels necessary to achieve the expected benefits of the program's trade policy and export expansion objectives.

Scope of the EEP

Since May 1985, 105 initiatives have been announced for 12 commodities and 65 countries worldwide. As of April 5, 1990, CCC commodities valued at $2.72 billion were awarded to exporters for sales of agricultural commodities valued at $10.2 billion. The value of commodities sold annually under the EEP increased from $800 million to $3.3 billion in fiscal 1986 through 1988, but decreased slightly to about $3 billion in fiscal 1989. The value of fiscal 1990 commodity sales under the EEP was about $1.6 billion on April 5, 1990.

Commodities Sold Under the EEP

By value of sales, wheat is the most important EEP commodity, accounting for almost 85 percent of EEP sales from fiscal 1985 through 1989 (table 4). Barley is next in importance, followed by flour, vegetable oils, frozen poultry, dairy cattle, rice, poultry feed, barley malt, sorghum, eggs, and semolina. Wheat accounted for 69 percent of the market value of EEP bonuses, followed by barley, flour, dairy cattle, frozen poultry, and vegetable oils.

Wheat and flour were the first commodities targeted for EEP sales in June 1985. Wheat sales volume increased from fiscal 1986 through 1988, then declined in 1989 (table 5). Wheat shipments under the EEP have accounted for almost 60 percent of U.S. wheat exports since 1988. EEP flour sales peaked in fiscal 1986 at 700,000 tons, but were less than 500,000 tons in fiscal 1988 and 1989.

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[2] In its announcement, FAS did not use the term "criteria," but instead called the four items "guidelines" for the operation of the program.

Table 4--Commodity shares of EEP sales value, fiscal 1985-89

Commodity	Share of sales value	Commodity	Share of sales value
	Percent		Percent
Wheat	82.2	Rice	0.6
Barley	5.8	Poultry feed	.5
Flour	4.9	Barley malt	.3
Vegetable oils	2.5	Sorghum	.3
Frozen poultry	1.6	Table eggs	.3
Dairy cattle	.9	Semolina	.1
		Total	100.0

Source: Calculated from data from U.S. Dept. Agr., For. Agr. Serv.

The United States first offered barley, sorghum, and barley malt under the EEP in 1986. Barley and sorghum sales under the EEP peaked at 3.5 million tons in fiscal 1987, but dropped to 1.9 million tons in fiscal 1988 and 530,000 tons in fiscal 1989. EEP sorghum sales of 319,000 tons represent a very small share of total sorghum sales, but EEP barley exports represented almost all U.S. barley exports in 1986 and 1987. Sales activity has been less frequent for other commodities targeted under the EEP. For example, EEP sales of vegetable oils totaled 357,000 metric tons in fiscal 1988, but dropped to 105,000 tons in fiscal 1989. Dairy cattle sales were terminated in 1988 and the last sales of semolina were in 1987. EEP bonuses have varied with market conditions and the level of competition among exporters (table 5). For example, EEP bonuses for wheat sales averaged $28.74 per metric ton from fiscal 1985 through 1989, and ranged from a high of $38.35 in fiscal 1987 to a low of $17.76 in fiscal 1989.

Countries Targeted for EEP Sales

The first countries targeted for EEP sales were Algeria, Egypt, Yemen, and Morocco. Since the program began, over 65 countries have been targeted under the EEP. Importers in most of the targeted countries have made purchases of two or more commodities under the program (see app. table 1).

Sales of the 12 EEP commodities have been focused on importers in the Soviet Union, China, North Africa, and the Middle East. Over 90 percent of the volume of EEP sales of barley, flour, frozen poultry, rice, and semolina went to importers in North African and Middle Eastern countries from May 1985 through December 15, 1989. Major importers of wheat under the EEP for the same period are the Middle Eastern and North African countries (34 percent), the Soviet Union (28 percent), and China (20 percent). The Soviet Union does not purchase commodities other than wheat under the EEP and China purchased only 185 head of dairy cattle under the EEP in addition to its wheat purchases.

Table 5--EEP initiatives, sales, and bonuses, by commodity, fiscal 1985-89

Year	Initiatives	Sales	Average bonus
	- - - - 1,000 metric tons - - - -		Dollars per metric ton
Wheat:			
1985	3,100	500	22.15
1986	5,306	4,847	26.17
1987	16,060	14,053	38.35
1988	31,390	26,584	30.78
1989	17,350	16,073	17.76
Total	73,206	62,057	28.74
Flour:			
1985	650	175	66.04
1986	1,044	703	83.19
1987	265	668	103.84
1988	270	322	98.25
1989	300	479	63.57
Total	2,529	2,347	85.86
Barley/sorghum:			
1986	2,160	946	30.05
1987	3,400	3,455	41.25
1988	2,100	1,877	34.36
1989	375	529	5.82
Total	8,035	6,807	35.04
Rice:			
1986	40	23	67.68
1987	130	28	41.57
1988	0	120	108.14
1989	40	20	11.31
Total	210	191	83.45
Vegetable oils:			
1986	25	0	0.00
1987	60	25	39.68
1988	560	357	140.86
1989	60	105	109.46
Total	705	487	128.92
Frozen poultry:			
1986	43.0	43.0	742.27
1987	99.5	94.5	638.21
1988	98.0	14.1	492.26
1989	0	7.5	489.65
Total	240.5	159.1	646.36
Table eggs:	--1,000 dozen--		Cents per dozen
1986	3,667	0	0
1987	22,000	12,659	.38
1988	21,000	17,741	.29
1989	4,000	4,224	.14
Total	50,667	36,458	.30

Source: Calculated from U.S. Dept. Agr., Econ. Res. Serv. database compiled from press releases.

Historical Export Price Subsidies

Export payments were authorized under several pieces of legislation (app. table 2). Cash subsidy payments for several agricultural commodities were authorized annually under Section 32 of the Agriculture Act of 1935 (PL 320). Under Section 32, 30 percent of the duties collected on imported commodities were used to sell surplus U.S. agricultural commodities in world markets.

Private exporters purchased commodities at domestic prices for export at world prices and received cash to make up the price difference. From its implementation in 1935 through 1974, Section 32 facilitated exports of fruit, sorghum, wheat, peanuts, and eggs, among other agricultural commodities.

U.S. export payment programs also were operated under the authority of the Commodity Credit Corporation, an independent corporation which has served as the financial institution for Federal farm commodity price support and production programs since 1933. Under the CCC Charter Act and the Agricultural Act of 1949, the CCC has broad authority to operate programs to support agricultural commodity prices; dispose of surpluses; procure commodities for sale to other Government agencies, foreign governments, and relief agencies, and to meet domestic requirements; to expand domestic consumption; and to facilitate the export of U.S. agricultural commodities.

The CCC established an export subsidy program under CCC Charter authority in July 1949 (6 CFR Part 571) to enable grain exporters to sell U.S. wheat within the price ranges established under the International Wheat Agreement (IWA) of 1949. The CCC paid wheat exporters the difference between the U.S. domestic wheat price and the lower IWA price in cash from 1949 through 1956 and then in kind until 1966. Beginning in 1956, the CCC issued certificates equal to the applicable subsidy rate to exporters on proof of export from private stocks. Export payments for flour were made in cash. Subsidies were used to sell wheat under the IWA through 1966.

Under its Charter authority, CCC implemented export payment-in-kind (PIK) programs similar to the wheat program for corn (April 1958); barley, oats, grain sorghum, and rye (July 1958); and rice (December 1958). Prior to the PIK programs for these commodities, CCC at times offered feed grains for export from price support stocks at less than domestic market prices. Cotton was exported from CCC stocks at world prices after 1955. In 1958, a PIK program was initiated for cotton exported from commercial stocks. In 1962, a PIK program was initiated for nonfat dry milk.

Export payment programs continuously assisted U.S. agricultural exports from 1955 through 1974. The Government offered export payments to assist agricultural exports under concessional programs such as PL 480 as well as commercial exports. In 1974, rising commodity prices and decreased commodity inventories resulted in a termination of the export subsidy programs.

Exports under Section 32, the IWA, and PIK or in cash programs represented close to a fourth of the value of U.S. agricultural exports from 1961 through 1974 (app. table 2). For some commodity groups such as wheat and flour, subsidized exports accounted for more than 60 percent of U.S. exports. Wheat exports under payment programs peaked in 1973 when the United States exported large quantities of wheat to the Soviet Union.

After 1974, the United States made relatively few subsidized sales of wheat and flour until announcement of the EEP. In 1983, U.S. exporters sold 1 million tons of flour to Egypt at prices $100 per ton or more below U.S. prices in an attempt to compete with subsidized wheat in the Egyptian market. The exporters then received wheat from CCC inventories to make up the price difference. The CCC also made commodities available to exporters from its inventories to sell to African countries in 1984.

Competitors' Export Subsidies

The EC is a major agricultural exporter using export subsidies to compete for world agricultural exports. Under its Common Agricultural Policy (CAP), the EC supports high internal agricultural commodity prices and awards export refunds (restitutions or subsidies) to exporters to ensure that EC agricultural products are competitive in world markets.

A system of export refund tendering is applied to the bulk of EC exports. For example, grain merchants bid for export refund rates for the quantity of free market wheat supplies which they want to export. After reviewing the bids, the EC fixes a maximum per ton refund rate. Exporters with bids that are less than or equal to the maximum rate are awarded contracts. The exporter then must apply for an export license which is valid for a specific time period, usually 5 months. After the grain is exported, the grain merchant receives an export refund equal to the refund rate (per ton) of his bid multiplied by the quantity exported. Most refunds apply to all zones (groups of countries); however, the EC may target refunds to specific countries as it competes with other exporters. The EC also publishes a "common" refund for wheat to be exported to specific neighboring countries.

Other major agricultural exporters such as Australia and Canada do not use export subsidies. However, both of these countries export wheat and other commodities through marketing boards which cushion returns to producers from sharp declines in world prices through guaranteed minimum price arrangements.

EEP Issues

Two major issues concerning the EEP are the effectiveness of the program in expanding exports and in targeting subsidizing competitors. Several ERS studies have explored the EEP's role in expanding exports of wheat, the chief commodity sold under the program.

ERS research credits the EEP with increasing U.S. wheat exports, but recognizes the importance of other contributing factors: the lower U.S. loan rate for wheat, increased Soviet and Chinese wheat imports, lower and poorer quality supplies in other major wheat-exporting countries, and dollar depreciation. ERS studies suggest that the EEP had its greatest effect on wheat exports in the 1986/87 (June/May) crop year (table 6).

Several factors cause the EEP's effects on exports to vary over time. The choice of targeted countries is important because some countries will increase their imports of wheat more than others in response to reduced EEP prices. The response of competitors also counts. Market conditions also determine the EEP's effectiveness in increasing exports. The EEP is a better tool for export expansion when U.S. supplies are large and competition for markets is fierce, as in the 1986/87 crop year. In an environment of tighter supplies and increased demand from importers, the EEP has less effect on exports.

Another major goal of the EEP is to counter competitors' subsidies and other unfair trade practices by displacing their exports in targeted markets. According to ERS research, EC export restitutions for wheat grew to estimated \$1.8 billion in 1988 from \$365 million in 1985. The EEP, lower U.S. loan rates, and the depreciation of the dollar relative to the European Currency Unit (ECU) also forced the EC to lower its export prices with larger per unit restitutions.

Table 6--Summary of research findings showing how much the EEP increased wheat exports, 1985-88

Time period	Researcher	Export increase
		Percent
Oct. 1985 - Mar. 1986	Seitzinger	2-3
June 1986 - May 1987	Bailey	20
July 1986 - June 1987	Haley	10-30
Apr. 1987 - June 1987	Seitzinger	12-14
June 1987 - May 1988	Bailey	7

Sources: Bailey (1988); Haley; and Seitzinger and Paarlberg.

While the markets of subsidizing competitors are the main targets of the EEP, the EEP may affect other nonsubsidizing competitors both by contributing to decreases in world prices and by inadvertently displacing export volume and market share in targeted markets. The effects of the EEP alone are not separated easily from other factors. For example, both Argentina and Australia experienced reduced market share and wheat acreage after 1985. In Argentina, wheat area harvested fell one year due to flooding and the next year due to drought. Australian wheat acreage declined due to very high beef and wool prices coupled with low world wheat prices.

ERS research has examined the effectiveness of the EEP in increasing exports and in targeting subsidizing competitors. Policymakers may want to ask several other questions about the EEP's effectiveness:

- Has the EEP encouraged our trading partners to negotiate? Although the EEP's growth has coincided with progress in the Uruguay Round of the GATT, it is difficult to assess the role that the EEP actually has played in furthering trade negotiations. The United States has used the EEP as a negotiating tool at the GATT and has proposed to keep the program until other nations drop their export subsidies. If trading nations reach an agreement to discipline agricultural support programs, the EEP may no longer be necessary.

- How does the EEP benefit producers? The EEP may increase farm income for nonparticipating farmers when increased U.S. exports raise domestic prices. According to two ERS studies, U.S. wheat prices rose slightly due to the EEP when price rises from increased exports surpassed the price-dampening effects from the release of CCC stocks awarded as EEP bonuses.

- Are value-added products better targets for EEP sales than bulk commodities? Most EEP sales have been targeted to basic grains such as barley, rice, sorghum, and rice. Smaller quantities of flour, barley malt, vegetable oils, and other processed commodities also have been sold under the program. Some argue that processed products are good candidates for EEP bonuses since the EC subsidizes sales of processed as well as bulk commodities. In addition, increased sales of processed products benefit the U.S. industrial sector, helping to maintain or increase employment.

However, targeting processed products under the EEP is expensive (see bonuses in table 5). For example, in 1987, the EEP contributed to increases in frozen poultry exports, although bonuses for the sales averaged 40 percent of the value of the poultry.

- Since 1985, EEP bonuses have been awarded to exporters in the form of commodity certificates redeemable for CCC inventories. Another issue concerns changes in economic effects of the EEP if cash bonuses instead of generic certificates were awarded to exporters.

Credit and Credit Guarantee Programs

Government-offered credit guarantees facilitate U.S. commercial agricultural exports to countries that may not be able to purchase U.S. agricultural imports without credit and help U.S. exporters to meet competition from other exporting countries. CCC credit guarantees increase the availability of credit at lower interest rates for these countries than would otherwise be possible because most of the risk of nonpayment is transferred to the CCC.

Current Credit Programs

USDA's Foreign Agricultural Service operates two credit guarantee programs for the CCC through the Office of the General Sales Manager. The Export Credit Guarantee Program (GSM-102) has guaranteed repayment of short-term credit (up to 3 years) since 1981. GSM-102 was the largest export program in 1989 at $5 billion. However, GSM-102 involves no direct budget outlays unless CCC is obliged to make payments for the debtor bank. The Intermediate Export Credit Guarantee Program (GSM-103) is similar to GSM-102 in many respects, but covers credit extended for more than 3 years to 10 years.

Legislation and Program Levels

The Food Security Act of 1985 established the Intermediate Export Credit Guarantee Program (GSM-103) to supplement existing CCC credit and credit guarantee programs. In conjunction with the establishment of the new program, the 1985 Act amended the existing intermediate credit programs to allow intermediate credit guarantees on loans in excess of 3 years and up to 10 years. The CCC was required to make at least $500 million available each year through 1988 and up to $1 billion available in 1989 and 1990 for the new intermediate credit guarantee program. The 1989 Agricultural Appropriations Act authorized the CCC to make available a minimum of $500 million in guarantees for fiscal 1989. The 1990 program level for GSM-103 is $500 million. The 1985 Food Security Act also made available at least $5 billion each year for GSM-102 in fiscal 1986-90. Program levels for fiscal 1986 through 1989 have followed the level authorized in the 1985 Act. The fiscal 1990 program level for GSM-102 is $5 billion.

Value of GSM Credit Guarantee Programs

Guarantee approvals under the commercial credit guarantee programs have increased significantly in the last 3 years (table 7). GSM-102 approvals rose to $4.8 billion in fiscal 1989 from $2.5 billion in fiscal 1986. GSM-103 approvals topped $425 million in fiscal 1989, 30 times more than the guarantees approved in fiscal 1986, the first year of GSM-103's implementation.

Table 7--Credit guarantee approvals under GSM-102 and GSM-103, fiscal 1986-89

Fiscal year	GSM-102	GSM-103	Total
		Million dollars	
1986	2,522.41	12.65	2,535.06
1987	2,622.53	250.35	2,872.88
1988	4,141.42	362.90	4,504.32
1989	4,769.78	425.53	5,195.31

Source: U.S. Dept. Agr., For. Agr. Serv., "Notices to Exporters," various years.

Credit Guarantee Program Terms

The two credit guarantee programs are similar in structure and operation, but each program has unique terms of coverage and repayment rates. GSM-102 covers loans issued for 6 months to 3 years, although most recent GSM-102 allocations have covered a 36-month repayment period. GSM-102 credit guarantees usually cover up to 98 percent of the port value of the commodity, up to 4.5 percentage points of the interest, and, for some countries, also cover freight and/or insurance. GSM-103 coverage applies to loans of 4-10 years and up to 98 percent of the port cost, and may also cover freight and insurance costs. GSM-103 interest coverage extends to 80 percent of the average investment rate of the most recent 52-week Treasury bill auction rate. Recent GSM-103 allocations cover repayment periods of 4-7 years. The longer loan maturities covered under GSM-103 result in higher guarantee fees to exporters than those of GSM-102.

Operation of the Credit Guarantee Programs

Eligible countries are approved for credit guarantee allocations for purchases of one or more commodities each fiscal year. FAS program managers establish the countries' eligibility for credit guarantees from information and evaluations provided by foreign government officials and FAS attaches, as well as credit risk profiles compiled by the FAS Trade and Economic Indicators Division. Potentially eligible countries must offer good prospects for long-term market development for U.S. agricultural products. Eligible borrowers also are characterized by debt or foreign exchange reserve situations which may make repayment riskier than the private U.S. banking community would like, but still offer a reasonable prospect for repayment.

FAS sends its recommendations each year to the National Advisory Council on International Monetary and Financial Policies for review and advice.[3] After

[3] The council coordinates the policies and practices of all U.S. Government agencies that participate in the issuance or insurance of foreign loans. Agencies represented include the Departments of Agriculture, State, Treasury, and Commerce; the U.S. Trade Representative; the Federal Reserve; the Export-Import Bank; and the International Development Cooperation Agency.

approval by the council, FAS announces each country-by-commodity credit guarantee allocation. Most country allocations are announced early in each fiscal year. However, new country allocations and changes to previously announced credit guarantee allocations may be announced at any time during the fiscal year.

Foreign buyers use the announced credit guarantees under GSM-102 and GSM-103 by arranging financing through a U.S. financial institution, purchasing an agricultural product from a U.S. exporter, and arranging for a letter of credit issued in favor of the exporter by a CCC-approved foreign bank in the buyer's country. After the product is shipped, the exporter assigns the guaranteed account receivable to a U.S. financial institution in exchange for a cash payment. The U.S. financial institution then collects scheduled payments from the foreign bank. If the foreign bank fails to make a payment as agreed, the U.S. lender can file a claim with the CCC, which then pays the guaranteed amount to the claimant. The U.S. lender in return assigns the delinquent loan payment to the CCC, who in turn arranges for the collection of the loan payment.

Credit Guarantee Programs' Shares of Agricultural Exports

Exports under credit and credit guarantee programs have increased since 1980 (table 8). In fiscal 1980, credit guarantee program shipments represented about 3.5 percent of the value of U.S. agricultural exports. In fiscal 1988, credit guarantee program exports represented over 10 percent of the value of U.S. agricultural exports. GSM-102 is also used to guarantee credit for sales of U.S. wood products and leather which are not included as agricultural products in export statistics. From fiscal 1986 through 1988, wood products and leather accounted for about 3 percent of exports under GSM-102 and GSM-103.

Table 8--Value of shipments of agricultural products under export credit and credit guarantee programs, fiscal 1980-88

Fiscal year	Value of export credit/guarantee shipments	Value of total U.S. agricultural exports	Credit programs' shares of U.S. agricultural exports
	Million dollars		Percent
1980	1,417	40,481	3.5
1981	1,871	43,780	4.3
1982	1,390	39,097	3.6
1983	4,060	34,769	11.7
1984	3,830	38,027	10.1
1985	2,807	31,201	9.0
1986	2,413	26,309	9.2
1987	2,745	27,876	9.9
1988	3,707	35,334	10.5

Sources: U.S. Dept. Agr., For. Agr. Serv., "Notices to Exporters," various issues; U.S. Dept. Agr., Econ. Res. Serv., FATUS.

Commodities Shipped Under Credit Guarantee Programs

Grains and grain products dominated credit guarantee program exports from fiscal 1986 through 1988 (table 9). Wheat and flour accounted for over 30 percent of the value of credit guarantee program shipments, followed by oilseeds and products (mainly soybeans and soybean meal) and coarse grains and products (mainly corn). The types of commodities exported under credit guarantee programs have changed little since fiscal 1981. From fiscal 1981 through 1983, wheat accounted for about 36 percent of the value of program shipments, followed by coarse grains (27 percent) and oilseeds and products (21 percent).

Since 1986, however, GSM-102 credit guarantees have been allocated for less traditional products such as fruit juice and soft drink concentrates, grocery items, and wood products. Exports of agricultural commodities under the credit guarantee programs account for large shares of the total exports of many individual commodities (table 10). About 30 percent of U.S. flour and soybean oil exports were shipped under credit guarantee programs between fiscal 1986 and 1988, and 25 percent of U.S. wheat and rice exports for the same period.

Table 9--Credit and credit guarantee program exports, by commodity group, fiscal 1981-83 and 1986-88[1]

Commodity group	Fiscal 1981-83		Fiscal 1986-88	
	Program exports	Share of GSM exports	Program exports	Share of GSM exports
	1,000 dollars	Percent	1,000 dollars	Percent
Livestock and products	131,840	1.8	572,864	6.3
Wheat and products	2,616,024	35.6	2,750,599	30.3
Rice	331,811	4.5	489,385	5.4
Coarse grains and products	1,988,235	27.1	1,723,287	19.0
Oilseeds and products	1,517,220	20.7	2,077,290	22.9
Cotton	709,792	9.7	752,629	8.3
Sugar	0	0	117,681	1.3
Tobacco	15,444	.2	213,075	2.3
Grocery items	0	0	316	0
Milk products	104	0	0	0
Seeds and dried vegetables	10,376	.1	163,104	1.8
Soft drink concentrates	0	0	26,506	.3
Wood products	0	0	190,464	2.1
Total[2]	7,339,000	100.0	9,080,951	100.0

[1] Preliminary. Based on exporters' reports to the FAS. Values may not completely reflect exports made under these programs.
[2] Numbers may not add due to rounding.
Source: Derived from U.S. Dept. Agr., For. Agr. Serv., "Notices to Recipients," various years.

Table 10--Credit guarantee programs' shares of selected agricultural exports, fiscal 1986-88

Commodity	GSM exports	Total exports	GSM share of total exports
	--1,000 dollars--		Percent
Wheat	2,561,300	10,602,794	24.2
Corn	1,450,983	10,678,475	13.6
Soybeans	898,961	13,386,839	6.7
Soybean oil	271,932	951,515	28.6
Soybean meal	444,016	3,903,442	11.4
Cotton	752,629	4,232,549	17.8
Tobacco	213,075	3,816,677	5.6
Rice	489,385	1,929,427	25.4
Flour	185,339	581,471	31.9
Poultry meat	54,267	1,112,959	4.9
Tallow	310,482	1,223,660	25.4
Total[1]	8,890,487	89,546,799	9.9

[1] Sales value of all commodities shipped under credit guarantee programs.
Source: Derived from U.S. Dept. Agr., For. Agr. Serv., "Notices to Recipients," various years.

Destinations of Program Shipments

Between fiscal 1986 and fiscal 1988, shipments of agricultural commodities valued at $9.1 billion were assisted by the GSM-102 and GSM-103 credit guarantee programs. Importers in Latin American countries were the chief purchasers, accounting for over 30 percent of program exports (table 11). The Middle East and North Africa each accounted for over 20 percent of program shipments, and Asian importers accounted for an additional 19 percent of program shipments.

The chief purchaser of U.S. agricultural commodities under the credit guarantee programs from fiscal 1986 through 1988 was Mexico, accounting for close to 30 percent of exports under GSM-102 (table 12). Iraq accounted for over 20 percent of all credit guarantee program exports, followed by the Republic of South Korea, Egypt, and Algeria. Top purchasers under the Intermediate Credit Guarantee program (GSM-103) were Morocco and Iraq, followed by Bangladesh, Tunisia, and Jordan.

The composition of credit and credit guarantee recipients has changed somewhat since fiscal 1981. The share of total GSM exports shipped to Western and Eastern Europe has declined since 1981-83, while the share taken by the Middle East and North Africa, which accounted for only 12 percent of credit guarantee program shipments in 1981-83, has increased.

Table 11--Credit guarantee program exports, by region of destination, fiscal 1981-83 and 1986-88[1]

Region	Fiscal 1981-83 Program exports	Fiscal 1981-83 Share of GSM exports	Fiscal 1986-88 Program exports	Fiscal 1986-88 Share of GSM exports
	1,000 dollars	Percent	1,000 dollars	Percent
Latin America	2,542,959	34.7	2,945,380	32.4
Caribbean	263,375	3.6	64,512	.7
Eastern Europe	940,257	12.8	110,513	1.2
Western Europe	1,019,233	13.9	129,851	1.4
Middle East	384,966	5.2	2,084,143	23.0
North Africa	502,176	6.8	2,046,346	22.5
Sub-Saharan Africa	56,534	.8	10,711	.1
Asia	1,629,500	22.2	1,689,403	18.6
Total	7,339,000[2]	100.0	9,080,859[3]	99.9

Note: GSM programs include credit guarantee programs (GSM-101, GSM-102, and GSM-103), investment credit (GSM-301), and blended credit.

[1] Based on exporters' reports to FAS. Therefore, values may not totally reflect exports under the programs.

[2] Numbers may not add due to rounding.

[3] Total exports by country may differ slightly from commodity exports.

Source: Derived from U.S. Dept. Agr., For. Agr. Serv., "Notices to Recipients," various years.

Table 12--Chief markets for GSM-102 and GSM-103 exports, fiscal 1986 through 1988[1]

Country	Value	Country	Value
	1,000 dollars		1,000 dollars
Chief GSM-102 markets:		Chief GSM-103 markets:	
Mexico	2,312,108	Morocco	176,914
Iraq	1,682,267	Iraq	155,334
Korea	1,435,496	Bangladesh	32,507
Egypt	838,123	Tunisia	26,791
Algeria	769,369	Jordan	23,225

[1] Based on exporters' reports to FAS. Therefore, values may not reflect all exports under these programs.

Source: U.S. Dept. Agr., For. Agr. Serv., "Notices to Recipients," various years.

The EEP and CCC Export Credit Guarantee Programs

Many countries that purchase U.S. agricultural commodities under the EEP also purchase under the export credit guarantee programs. Most of these countries are in North Africa and the Middle East (table 13). EEP used in combination with credit guarantees can help developing countries increase their commercial purchases of U.S. agricultural products.

Table 13--Countries purchasing U.S. agricultural commodities under the EEP and credit guarantee programs, fiscal 1988

Program	Wheat	Flour	Feed grains	Barley malt	Vegetable oils
GSM-102/EEP	Algeria	Egypt	Algeria	Algeria	Algeria
	Colombia		Iraq	Iraq	Morocco
	Egypt				Tunisia
	Iraq				Turkey
	Mexico				
	Tunisia				
	Yemen Arab Rep.				
GSM-103/EEP	Morocco		Tunisia		
	Tunisia				

Historical Credit Programs

The U.S. Government has provided credit or guaranteed loans for agricultural exports since the 1930's. Sources of credit have been the Export-Import Bank and the CCC.

Export-Import Bank Credits

The Export-Import Bank extended the first loans to foreign buyers to support agricultural exports. The bank, established in 1934 as an independent Government agency, has extended credit and credit guarantees to foreign buyers of U.S. agricultural commodities since 1935. Credit for food purchases has represented only a small portion of the bank's lending activities which have focused mainly on assistance to manufactured product exports.

In January 1963, the bank began to issue credit guarantees against financial and/or political risk to U.S. commercial banks, allowing exporters to deal directly with their own banks. Export-Import Bank loans and credit guarantees for agricultural commodity purchases generally have covered less than $100 million of agricultural exports per year (app. table 3).

Post-World War II Federal Credit for Agricultural Exports

After World War II, Congress authorized loans to several countries in which agricultural production had suffered during the war to facilitate their imports of U.S. agricultural commodities. In the post-war period, the United States made loans to Japan and Germany for cotton purchases (1946-51). Part of a post-war loan to the United Kingdom was used to procure food and tobacco from the United States. Other countries receiving special loans for agricultural commodities included India for grain imports (1952 and 1953), Spain for wheat and cotton purchases (1952), Pakistan for wheat purchases (1953), and Afghanistan for wheat (1953).

Commodity Credit Corporation Credit Programs

Under CCC Charter authority, the USDA implemented a credit program in 1956, known as GSM-5, to assist commercial sales of U.S. agricultural commodities (table 14). The maximum term for loans was 3 years, although loans for tobacco and cotton exports were generally for 1 year and 6 months for other eligible agricultural commodities. The CCC charged commercial interest rates.

In the first 9 years of GSM-5 operation, the direct credit program was used to sell commodities in CCC inventories and tobacco which was privately owned but under loan to the CCC. In 1965, however, CCC was authorized to purchase certain agricultural commodities from private stocks for direct credit sales. The following year, the CCC began to finance commercial sales of commodities from private stocks.

Exports of agricultural commodities under the CCC credit sales program increased from 1965 through 1967, decreased in the late 1960's, and then increased again in the early 1970's. 1973 was the largest single year for the credit sales program in this period, as the United States made extraordinarily large grain sales to the Soviet Union, in addition to smaller credit sales to other countries. Exports under the program dipped in 1974 and 1975, but increased again in the late 1970's. GSM-5 credit sales ceased in 1980, except for sales under the blended credit program during the 1983-85 period.

Three new credit programs were authorized in 1978 under the Agricultural Trade Act of 1978 and CCC Charter authority. The Non-Commercial Risk Assurance Program, GSM-101, in operation from 1979 through 1981, provided credit guarantees for noncommercial risks such foreign import embargoes, wars, or the freezing of foreign exchange. GSM-101 was replaced by the Export Credit Guarantee Program, GSM-102, announced on October 1, 1980, under the authority of the CCC Charter Act, which provided credit guarantees for commercial as well as noncommercial risks for commercial loans of 6 months to 3 years. GSM-102 is still in operation.

The other two programs were intermediate-term (3-10 years) direct credit programs: GSM-201 for sales of breeding animals and GSM-301 for financing market infrastructure projects. GSM-201 was used for sales of beef and dairy breeding stock to Spain in 1980. The GSM-301 loans to Israeli importers for soybean and sorghum sales in 1980 made available to Israel foreign currency for the construction of grain handling and shipping facilities.

In October 1982, the export blended credit program, which combined short-term credit guarantees (GSM-102) with interest-free direct credit (GSM-5), was initiated in response to the buildup of private and publicly held stocks of agricultural commodities. Under the program, blended credits were offered to developing countries in North Africa (Algeria, Egypt, Morocco, and Tunisia) and the Middle East for purchases of U.S. wheat, corn, rice, vegetable oil, soybean meal, and cotton.