AGRICULTURAL TRADE POLICY AND PROGRAMS IN THE 1995 USA FARM BILL

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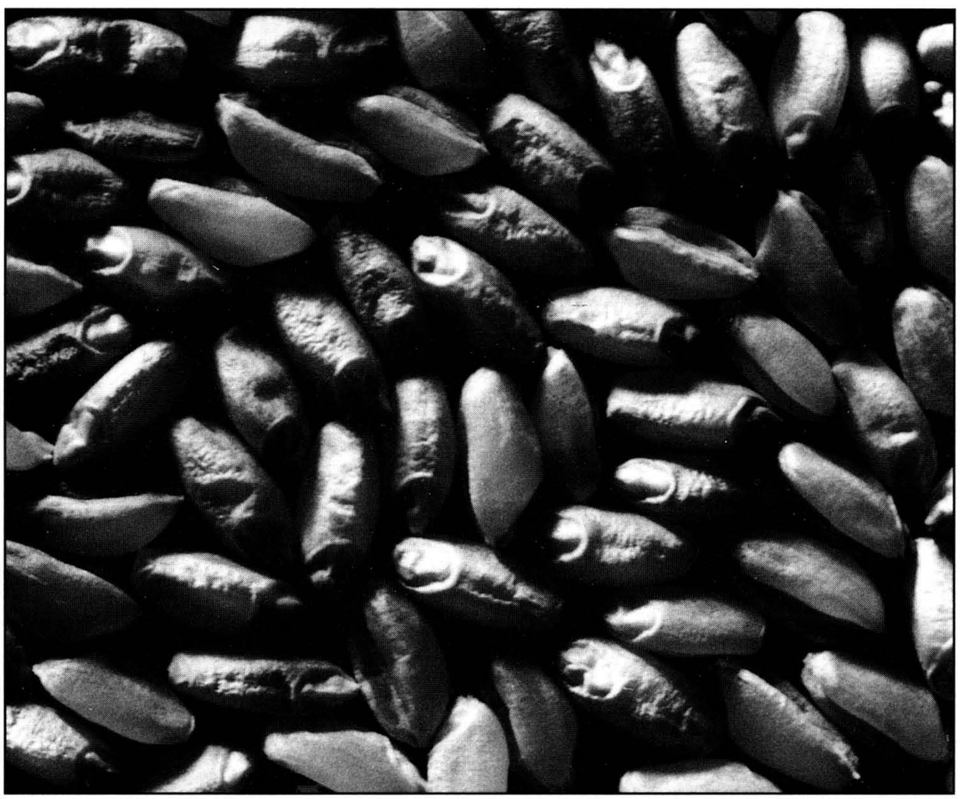
Abstract

Market opening created by two recently concluded trade agreements (NAFTA and GATT) and the economic growth they may generate are projected to improve US agricultural export prospects over the next several years.
The ability of US exporters to take advantage of these sales opportunities, though, will also depend much on US competitiveness vis-à-vis other agricultural exporting countries, the value of the dollar, income and population growth in key markets (Asia and Latin America), and the nature of US Government export program support (changed by some GATT provisions and subject to the availibility of budget resources in a continuing tight fiscal environment).
Ordinarily the trade title of the 1995 farm bill would be the main legislative vehicle for reauthorizing export promotion, food aid, and credit programs. However, legislation to implement Uruguay Round accords which Congress will take up under expedited procedures later in 1994 makes several important changes in USDA agricultural export programs.

Résumé

L'ouverture du marché créée par les deux accords commerciaux récemment conclus (NAFT et GATT) et la croissance économique qui en résulte pourraient améliorer les perspectives des exportations agricoles des Etats Unis pour les années futures.
Toutefois, la capacité des exportateurs étatsuniens de profiter de ces opportunités de vente, dépendra aussi de la compétitivité américaine vis-à-vis d'autres pays exportateurs de produits agricoles, de la valeur du dollar, du revenu et de l'accroissement démographique dans les marchés clé (Asie et Amérique Latine), ainsi que des programmes d'exportation étatsuniens (modifiés par des dispositions du GATT et sujets à la disponibilité des ressources budgétaires dans un régime fiscal de plus en plus strict).
Normalement, le chapitre sur le commerce du plan agricole 1995 serait l'outil législatif principal pour promouvoir l'exportation, l'aide alimentaire et les programmes de crédit. Toutefois, la législation pour la mise en application des accords de l'Uruaguay Round qui sera accueillie par le Congrès apporte des changements importants dans les programmes des exportations agricoles de l'USDA.



U.S. agricultural exports continue to be vital to the financial health of farmers and agribusinesses that market commodities and food products overseas Production from more than a third of U.S. cropland is exported, including an estimated 67 percent of wheat, 42 percent of rice, 34 percent of soybeans, 21 percentof corn, and 38 percent of cotton(1).

After years of steady growth, U.S. agricultural exports peaked in FY 1981 at $43.8 billion, but then declined 40 percent to $26.3 million in FY 1986. By FY 1994, agricultural exports had almost recovered to the 1981 peak, totaling $42.5 billion. Agricultural trade has consistently registers a large surplus; for FY 1994, this trade surplus is estimated at $17.0 billion. Since calendar 1991, bulk commodity exports (grains, oilseeds and cotton) have accounted for less than non-bulk exports (defined as intermediate products like feedstuffs and consumer-oriented products like fruits and nuts, meat, and processed foods). In 1993, these higher value exports were valued at $23.9 billion, or 56 percent of all agricultural exports. The demand for non-bulk agricultural exports has been growing in large measure in response to demand stimulated by rapid income growth in Latin America and the Pacific Rim countries of Asia.

Market openings created by two recently concluded trade agreements (the North American Free Trade Agreement and the GATT 1994 Agreement on Agriculture) and the economic growth they may generate are projected to improve U.S. agricultural export prospects over the next several years. The ability of U.S. exporters to take advantage of these sales opportunities, though, will also depend much on U.S. competitiveness vis-à-vis other agricultural exporting countries, the value of the dollar, income and population growth in key markets (Asia and Latin America), and the nature of U.S. Government export program support (changed by some GATT provisions and subject to the availability of budget resources in a continuing tight fiscal environment).

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(1) USDA, Economic Research Service, Foreign Agricultural Trade of the United States, September-October 1993, p. 10.

Efforts to negotiate additional free trade agreements (with Chile, other Latin American countries, and Pacific Rim nations) could result in increased access for U.S. farm products in selected country markets. These agreements, though, may also require opening the large U.S. market to import sensitive products.

Agricultural trade in the Farm Bill

The 1990 farm law dealt with agricultural trade policy and programs. Title XV authorized for five years USDA guarantees of commercial financing of agricultural export; export subsidies targeted at "unfair" competitors; foreign food aid for market development, humanitarian donations, and economic development; and various export market promotion activities (**table 1**). Title XV extended the short and intermediate-term export credit guarantee programs known ad GSM (for General Sales Manager) -102 and -103, and prescribed in greater detail how guarantess were to be used to promote U.S. farm exports. It authorized four export subsidy programs - the Export Enhancement Program (EEP), the Dairy Export Incentive Program (-DEIP), and Sunflower Oil and Cottonseed Oil Assistance Programs (SOAP and COAP). Also reauthorized were the U.S. foreign food aid programs (Titles I, II, and III of P.L. 480, the Food for Peace Act first enacted in 1954,and Section 416 (b) of the 1949 Agricultural Marketing Act). Several substantial changes were made to these food aid programs. The Market Promotion Program (MPP, formerly known as the Targeted Export Assistance program or TEA), was reauthorized, as well as the Foreign Market Development Program (FMDP), also known as the "Cooperator" program. MPP and FMDP fund the federal share of overseas market development activities carried out by commodity and food product trade promotion organizations and private firms.

The 1990 farm act also suthorized funding and employment levels for the Foreign Agricultural Service (FAS), which administers the export guarantee and subsidy programs, food aid for market development (Title I of P.L. 480), Section 416 commodity donations, and the trade promotion programs.

While Title XV makes it policy to promote U.S. agricultural exports and to combat unfair competition through its export subsidy programs, especially EEP, other titles of the farm bill deal with commodity price and income support programs. Because these domestically oriented programs can affect commodity supply and demand and the prices at which U.S. agricultural exports are sold in world markets, they also have important implications for the export competitiveness of U.S. agriculture.

Agricultural export policy

Ordinarily the trade title of the 1995 farm bill would be the main legislative vehicle for reauthorizing export promotion, food aid, and credit programs. However, legislation to implement Uruguay Round (U.R.) accords which Congress will take up under expedited procedures later in 1994 makes several important changes in USDA agricultural export programs. Among other

Table 1 ***Program Levels for CCC Export Credit Guarantees, Export Subsidies, Food Aid, and FAS Salaries and Expenses, FYs 1990-1994 (Dollars in Millions).***

Programm	1990	1991	1992	1993	1994 (est.)
CCC Export Credit					
Short-term Guarantees	3,964.4	4,438.9	5.595.6	3,643.2	5,000.0
Intermediate-term Guarantees	332.1	83.0	38.0	238.9	500.0
Emerging Democracies	0.0	0.0			200.0
Total Export Credit	4,296.5	4,521.9	5,683.6	3,882.1	5,700.0
Export Enhancement	311.7	916.6	968.2	967.3	1,000.0
DIEP	na	na	76.0	161.8	156.0
SOAP and COAP	na	na	23.6	82.1	50.0
MPP	200.0	200.0	200.0	147.7	100.0
P.L. 480	145.3	1,553.1	1.604.5	1,698.9	1,598.0
FAS		150.9	162.6	183.9	183.8
Total		7,842.5	8,718.5	7,073.3	8,787.8

Source: Budget Summaries, U.D. Dept. of Agriculture, 1980 through 1995.

provisions, the UR Agreement on Agriculture requires the United States to reduce both the outlays for export subsidies and the volume of commodities subsidized. Uruguay Round implementing legislation thus stipulates that U.S. agricultural export subsidy programs be carried out in conformity with export subsidy reduction commitments made in the negotiations. In addition to that "conforming" amendment, U.R. implementing legislation reauthorizes EEP and DEIP until the year 2001 and, significantly, removes the requirement that EEP be used exclusively to discourage "unfair" trade practices. No similar statutory change is made with regard to DEIP, SOAP, and COAP because there are no statutory restrictions on their operations. UR legislation also provides that MPP assistance need not be targeted at the unfair trade practices of U.S. competitors.

Such "untargeting" of EEP and MPP and anticipated administrative action to broaden also the operation of the other export subsidy programs, presumably sets the stage for using export subsidies as a market development tool in addition to using them to combat "unfair" trade practices. However, neither the implementing, legislation nor accompanying statements of administrative action to implement these changes in export programs offer much insight as to how export subsidies might be used independently or in combination with other programs, such as food aid or export credit guarantees, to develop markets. So it is likely that the relationship between the various export assistance programs (-EEP, MPP, Title I food aid, GSM credit guarantees) and market development will be a subject of considerable debate as the 1995 farm bill is formulated. Similarly, the role of the FAS and its many functions with respect to export policy-information collection and reporting, data analysis, trade negotiations, export promotion, trade servicing-are also likely to be part of the farm bill debate on agricultural trade.

UR implementing legislation also provides for additional funds to be made available for a number of CCC programs. The Administration has estimated that these additional funds would amount to about $600 million over six years. Programs that could receive funding include the MPP, new export credit programs, and programs to develop alternative uses for agricultural products. All of these are so-called "green-box" programs, those exempted from cuts required by the Agreement on Agriculture. The allocation of funds to these programs will likely be the subject of lively debate as the trade title of the 1995 farm bill formulated, especially since Congress has in recent years reduced funds available to programs such as MPP and FMDP.

Questions expected to arise during the upcoming debate include: What respective and complementary roles should USDA and the private sector play to successfully promote agricultural exports? Are existing programs flexible enough to respond to changing markets and needs, and/or are new approaches required? Do domestic agricultural policies foster competitiveness of U.S. produced commodities and products? Are budget resources adeguate to take advantage of increased market openings under negotiated trade agreements? Should resources be targeted to help smaller firms explore overseas market opportunities? Should more emphasis be placed on promoting higher-value agricultural exports as contrasted with bulk commodity exports?

Export credit programs

The export credit guarantee programs (-GSM-102 and GSM-103) enable countries that cannot secure normal trade financing to access commercial financing to buy U.S. agricultural products. The guarantee commits USDA to cover scheduled payments not made to participating banks by a country/ buyer in case of default. Current law restricts access to countries that USDA determines can service the debt backed by guarantees (the "creditworthiness" test), and specifically prohibite use of guarantees for foreign aid, foreign policy, or debt rescheduling purposes. In recent years, demand for guarantees has declined relative to authorized levels, reflecting the disappearance of Iraq and the former Soviet Union as major program participants. Future demand will depend on the extent the program is structured to meet different financing needs created in large part by the shift in responsibility for commodity purchases from the public to the private sector (i.e., from central governmental importing agencies to their privatized successors and or competitors).

Export credit guarantees are exempt from UR reduction commitments. Actual use of credit guarantees, though, has remained well below levels authorized in the 1990 farm act. The Administration has indicated in statements accompanying UR implementing legislation that the CCC will consider how to structure and fully use export credit guarantees (and direct credits, which CCC is authorized to make but does not use currently), taking into account global political, economic and social changes. The use of export credits (guarantees and/or direct credits) in trade with the "transitional" economies of central and eastern Europe and the former Soviet Union will continue to be of particular interest to some.

Specific issues likely to surface during farm bill debate include: removing the creditworthiness test, allowing some foreign content to be included in guarantee backed sales, allowing for additional flexibility in guarantes program administration, and dedicating a portion of the resources available for GATT "green box" activities to fund an existing authorized direct credit program. Debate will revolve largely around weighing the benefits and costs of making additional credit resources available to increase agricultural exports and limiting the Federal Government's budget exposure created by extending credit possibly to countries viewed as less likely to mest repayment obligations.

Food aid programs

The 1990 farm law made a number of significant changes in foreign food aid pro-

grams. The act established the primary goal of food aid programs to be promoting U.S. foreign policy by "enhancing the food security of the developing world". The aims of each food aid program were clarified and agency responsabilities for administering the programs expressly delineated.
The UR Agreement on Agriculture exempts foreign food aid from any reduction commitments, if it is *bona fide* and not used to circumvent export subsidy reduction commitments. Implementing legislation takes note of the possible negative effect (higher prices for food imports) of the UR agreement on net-food importing countries, by expressing the sense of Congress that the United States should increase its contribution of food aid to developing countries. This provision may provoke farm bill debate over the levels of food aid, vhich have declined in recente years. In FY 1990, the United Sates made available through various food aid titles 6.3 million metric tons of food commodities; the volume of commodities to be supplied in FY 1995 in estimated to be 4.7 million tons. Food aid for market development or economic development purposes has declined relative to food aid for humanitarian relief.
Other issues that may be raised include the relationship of food aid to overal U.S. development assistance, food aid (Title I) in relation to the market development strategy discussed above, and the perennial issue of the "cargo preference" requirement for U. S. food aid shipments.
Food aid has been an important, though declining, component of U.S. development assistance. The 1990 farm law emphasized the role of food aid in promoting food security and developmental goals of recipient low income countries. General Accounting Office (GAO) reviews (mandated by the 1990 act) of the implementation of the 1990 food aid program changes report that the Agency for International Development (AID) which administers Titles II and III has not prumulgated adequate guidance on how food aid programs should enhance food security. Issues likely to be debated in 1995 include the relative importance of food security as a goal of U.S. development assistance, the contribution of food aid to development goals versus other forms of aid, and the relative allocations of food and funds to humanitarian versus economic development activities.
U.S. maritime legislation requires that 75 percent of U.S. food aid be shipped on U.S. flag vessels. Since freight costs on these vessels are higher than on foreign flag vessels, cargo preference effectively results in a subsidy to the U.S. maritime industry and reduces the volume of commodities that might otherwise be shipped. If budget pressures continue to apply to food aid programs, as appears likely, the trade off betwenn cargo preference and food aid commodities may be examined once again as part of farm bill debate.

Agricultural import policy

The UR Agreement on Agriculture also requires countries to open up their domestic markets to competition from foreign agricultural imports. Accordingly, the Unitec' States will convert existing restrictions (i.e imposed under Section 22, the Meat Import Act, and the sugar tariff headnote authority) on imports of some agricultural commodities and food products into tariff-rate quotas. These will allow imports up to a specified amount (the quota) to enter at a low or zero tariff. Imports above the quota will also be allowed to enter, but a higher protective tariff that will decline by 15 percent during the implementation period. These new rules will effectively result in increased imports of peanuts and some dairy products, and possibly create some pressure to make changes to these two commodity price support programs to accomodate access granted to competing imports. Other protected commodities (sugar, meat, and cotton) will likely not face increased foreign competition under the new rules. ●