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Increased Role for U.S. Farm Export Programs

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Mark Smith

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Reprint

Lower prices, commercial credit, and food aid programs are important tools for assisting U.S. exports of a variety of agricultural commodities. Export programs of the Commodity Credit Corporation that use those tools have helped maintain or expand U.S. market shares in some countries, but they may not be sufficient to offset other factors that may weaken U.S. market position. U.S. farm exports have fallen in recent years. The export programs discussed in this report have buffered that fall in certain countries. Australia, Canada, and France also offer credit programs. Food aid programs of the United States and other nations increase exports as they help those who cannot afford needed food.

The recent precipitous drop in U.S. agricultural exports raises the question: how important and effective are U.S. programs in boosting agricultural exports? This report describes these programs, examines the effectiveness of some, and examines similar programs of competing nations.

MEANS TO PROMOTE EXPORTS

U.S. programs use at least three basic methods to increase exports: price reduction, provision of commercial credit, and provision of food aid.

- o An exporter may lower the price of a commodity to become more competitive in the world market.
- o Many countries, however, cannot afford imports even at discounted prices. In these cases, an exporter might make credit available to make the purchase more affordable and increase sales.
- o Yet, some countries may be so poor that they may be unable to repay commercial loans. Furthermore, some groups in those countries may be so poor that they cannot buy food. In such cases, food aid may be appropriate.

Price Reduction

High loan rates set by Congress in the Agriculture and Food Act of 1981 contributed to high prices for U.S. commodities in relation to those of competitors. The Food Security Act of 1985 will gradually reduce loan rates for several major agricultural commodities by crop year 1990 to improve U.S. competitiveness.

The 1985 Act also established the Export Enhancement Program (EEP) which helps meet competitors' prices. Under the EEP, the Commodity Credit Corporation (CCC) awards bonuses in the form of certificates (redeemable for CCC-owned commodities) to

exporters enabling them to sell specified commodities to specified countries at prices below those of the U.S. market. Through 1988, the program is to provide at least \$1.0 billion in commodities. (All years referred to in this report are fiscal years, October 1–September 30, unless otherwise specified.) By mid-March 1987, sales had included about 11 million tons of wheat and flour, 2.8 million tons of barley, and barley malt, dairy cattle, frozen poultry, poultry feed, rice, semolina, sorghum, table eggs, and vegetable oil. The 1986 bonus averaged about \$25 per ton for wheat and just under \$80 per ton for wheat flour.

Commercial Credit

The CCC operates short- and intermediate-term commercial credit guarantee programs. The Export Credit Guarantee Program (GSM-102) has guaranteed repayment of private, short-term credit (up to 3 years) since 1981. GSM-102 is the largest U.S. agricultural export promotion program and in 1985 helped sell wheat (\$1.1 billion), corn (\$400 million), cotton (\$385 million), rice (\$135 million), soybean oil (\$95 million), and other commodities. Mexico, Korea, Iraq, Egypt, and Morocco were the main GSM-102 purchasers in 1986. The new Intermediate Credit Guarantee Program (GSM-103) is similar to GSM-102 in many respects but covers credit extended for 3–10 years. GSM-103's 1986 allocations were mostly for breeding livestock but also included protein meals, feed grains, and oilseeds.

Food Aid

The United States distributes food aid to developing countries chiefly through the Public Law (P.L.) 480 program. P.L. 480 goals are to expand international trade, to develop and expand export markets for U.S. agricultural commodities, to combat hunger and malnutrition and encourage economic development in developing countries, and to promote U.S. foreign policy.

Under title I of P.L. 480, the United States provides long-term, concessional credit at low interest rates and with repayment periods of up to 40 years for specific commodities which the recipient government sells on its domestic market. The Food Security Act of 1985 also authorized cash sales in the recipient's local currency. P.L. 480 exports in 1986 included \$450 million of wheat, \$110 million of flour, \$100 million of soybean oil, and \$75 million each of rice and bulgur wheat. Title III, the Food for Development program, is implemented under title I authority, but the title I debt can be forgiven if the recipient Government achieves certain agreed-upon development activities. Title II is a donations program in which U.S. commodities are distributed through private voluntary organizations, the World Food Program, and recipient Governments. These donations are generally targeted to specific groups in the recipient country.

Section 416 of the Agricultural Act of 1949, as amended, authorizes the donation of surplus CCC-owned commodities. Past donations have mostly been dairy stocks, but the Food Security Act of 1985 amended the program to include all edible commodities held by the CCC. On September 30, 1986, the U.S. Department of Agriculture (USDA) determined that 500,000 tons of grains and oilseeds and 150,000 tons of dairy stocks would be available in 1987.

Under the new Food for Progress program, commodities may be distributed through section 416, title I, or both, to help recipient countries achieve specific agricultural policy reforms. These programs may be multiyear, depending on the recipient country's progress toward specific policy reforms. Madagascar and Guinea received rice under this program during 1986.

The United States has consistently exceeded its pledge to the Food Aid Convention (FAC) whose members pledge to provide a total of at least 7.6 million tons of cereal aid annually. The U.S. pledge is 4.47 million tons, just under 60 percent of the total.

Other Programs

The Targeted Export Assistance Program was authorized by the Food Security Act of 1985. Under it, the CCC provides generic commodity certificates to U.S. producer groups who are disadvantaged by unfair trade policies of competing nations. These certificates may be redeemed for CCC commodities or sold to help finance market promotion such as at trade fairs or demonstration projects in a targeted market. Much of the targeted commodities have been fruits, vegetables, nuts, wine, and processed products shipped to more developed countries.

Under the Cooperator Program, USDA's Foreign Agricultural Service (FAS) works with nonprofit producer organizations and governments, firms, and trade associations in other countries to develop and expand markets for U.S. commodity exports.

The 1985 Act requires the CCC to sell at least 150,000 tons of dairy products annually through 1988. Also, the act directed USDA to purchase 200 million pounds of red meat for export over an 18-month period to minimize the effect of reducing the number of domestic dairy cattle.

THE ROLE OF CCC EXPORT PROGRAMS AND FOOD AID PROGRAMS IN U.S. AGRICULTURAL EXPORT MARKETS

In 1986, major CCC commercial export and Government food aid programs accounted for 15-20 percent of the total value of agricultural exports. Food aid exports were about 5 percent and CCC credit program exports were estimated to be about 10 percent of total exports. EEP exports were less than food aid exports. These various programs contributed significantly to exports of key commodities (see figure).

o Wheat and flour. The share of total wheat and flour exports under CCC commercial export and Government food aid programs is increasing. In 1986, those programs probably accounted for more than half of total exports. The share of exports under CCC credit programs significantly increased in 1983 when the GSM-102 program was expanded and the Blended Credit Program (which combined guaranteed commercial credit and interest-free Government credit) was introduced. The EEP probably accounted for about 20 percent of the 1986 exports, although some of the EEP sales were made under the GSM-102 program. Egypt was the top P.L. 480 wheat and flour recipient in 1985, and Brazil and Korea were top recipients under the CCC credit programs. Thus, Brazil, Korea, and Egypt ranked behind only Japan as the most important wheat and flour export markets in 1985.

o Vegetable oils. More than half of total 1986 vegetable oil exports may have been made under CCC commercial export and Government food aid programs. Falling total exports of vegetable oils have generally increased food aid's share of exports. CCC credit programs have been about 10 percent of total vegetable oil exports since 1980, except for 1983, when Mexico and Yugoslavia made large purchases, and 1986, when Mexico made another large purchase. In 1985, Pakistan was the largest recipient of vegetable oils under food aid programs and the GSM-102 program and was the largest vegetable oil export market overall.

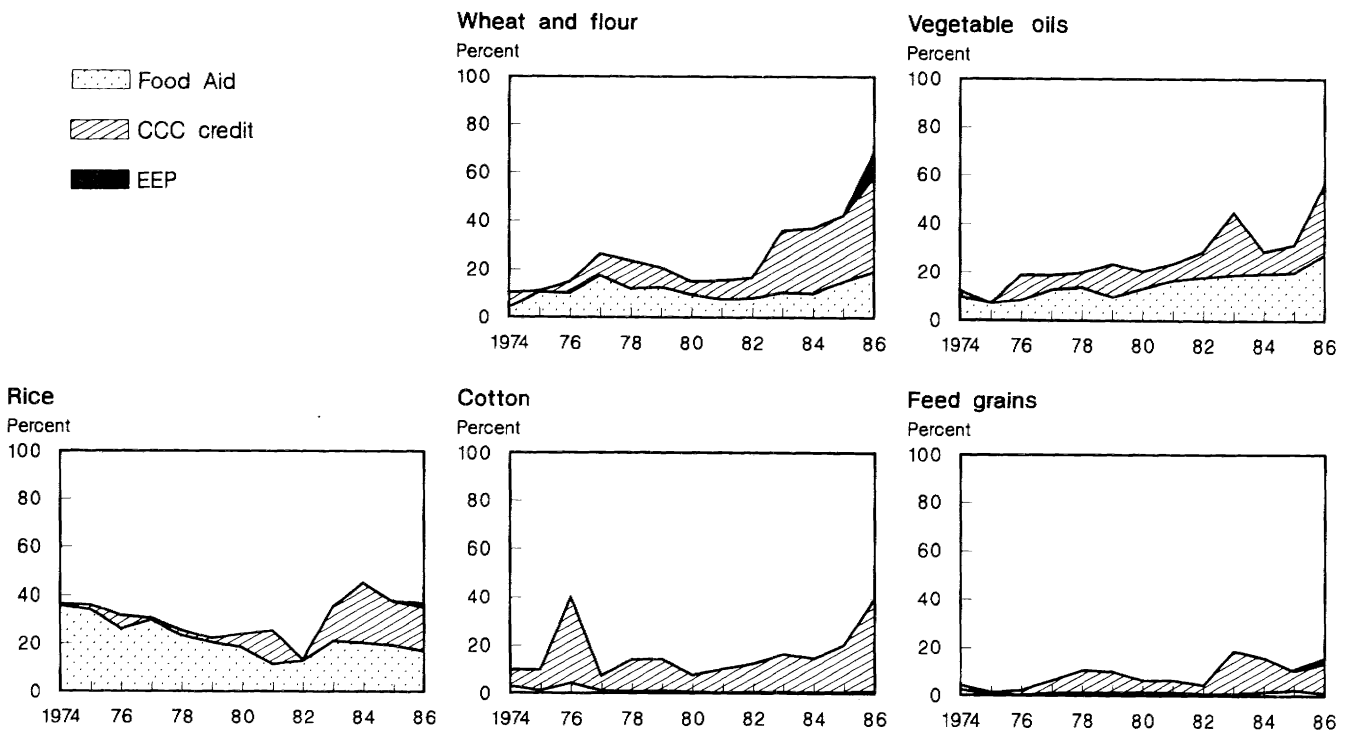
o Rice. The share of total rice exports under CCC commercial export and Government food aid programs peaked in 1984, then fell to an estimated 35 percent

in 1986. Since 1983, food aid exports have been fairly steady at 20 percent of total rice exports, but the share made up of CCC credit programs has risen substantially, mostly because of increased Iraqi purchases under the program. Iraq received the greatest amount of rice under the GSM-102 program in 1985, and was also the largest U.S. export market for rice. Bangladesh was the major P.L. 480 rice recipient that year. An EEP sale to Jordan probably accounted for about 1 percent of total rice exports in 1986.

o Cotton. CCC commercial export credit programs and Government food aid programs have generally been less important for cotton exports. P.L. 480 cotton exports have been less than 1 percent of the total for the last several years, although CCC credit program exports have generally increased since 1980 in both actual weights and in relation to all cotton exports. A sharp drop in total exports offset declining CCC credit program exports in 1986. Korea received the greatest amount of GSM-102 cotton and was the second largest market overall in 1985. Bangladesh received the most cotton under P.L. 480 in 1985.

o Feed grains. CCC commercial export and Government food aid programs are relatively less important for feed grains than for other commodities. The food aid share increased during the recent African famine as total exports remained stable. CCC credit program exports jumped sharply in 1983-84 due to large purchases by Mexico. EEP sales to Saudi Arabia and Israel probably accounted for very little of total 1986 exports. Portugal, Iraq, and Mexico received the most feed grain under the CCC credit programs in 1985, while African countries were top P.L. 480 recipients. Mexico was the fourth largest feed grain market behind the USSR, Japan, and Taiwan; Portugal ranked sixth.

How do Government programs contribute to U.S. agricultural exports?¹



^{1/} 1986 data are estimates.

EFFECTIVENESS OF CCC COMMERCIAL EXPORT PROGRAMS

How effective are the CCC commercial export programs in promoting or maintaining export market shares? The evidence is mixed, but CCC credit and credit guarantees apparently help maintain U.S. market share. However, they alone may not be sufficient to offset other factors that may erode U.S. trade. The EEP appears to have increased U.S. market share in targeted markets as a whole.

CCC Credit and Credit Guarantee Programs

I examined several countries that first received CCC credit or credit guarantees in 1983 and continued through 1985. I compared the U.S. share of commercial wheat and flour trade for those study countries with the U.S. share of world commercial wheat and flour trade from trade year 1980 (July 1980-June 1981) through trade year 1984, the latest year for which data are available.

The United States accounted for almost 50 percent of the commercial world wheat and flour exports in trade year 1980. That share rose in trade year 1981 as U.S. exports of wheat and flour peaked. Between 1981 and 1984, the dollar appreciated by almost 25 percent, competition intensified worldwide, and the U.S. share declined from 50 percent to about 33 percent of world trade.

The United States held 40 percent of the commercial wheat and flour trade to the countries I studied in trade year 1980. That figure rose in trade year 1981 because Egypt increased U.S. purchases partly for political reasons. In trade year 1982, about when CCC credit and credit guarantees were extended, the United States captured almost 55 percent of the market to those countries. The U.S. market share then declined so that by trade year 1984 the U.S. trade share was back to 40 percent, about 5 percent above the U.S. market share for the world as a whole.

For countries that received commodities under CCC credit programs over the entire 1980-85 period and were traditional U.S. wheat and flour markets, the performance of the CCC credit programs reflects the difficulty credit programs have in holding U.S. market share against fierce price competition. For example, Korea has long received CCC credit and credit guarantees. The United States provided 100 percent of Korea's commercial wheat and flour imports in trade years 1980-82, but by trade year 1984 had lost about 30 percent of that market, mostly to Australia. The United States supplied 99 percent of Peru's commercial wheat and flour imports in trade years 1980-81, but fell below 45 percent in trade year 1984, losing sales mostly to Argentina.

Export Enhancement Program

Determining the effectiveness of the Export Enhancement Program is even more difficult, partly because this program is less than 2 years old. A simple before-and-after analysis may be all that is possible, but we must recognize that the EEP may not be solely responsible for changes after its announcement. I examined the U.S. market share of wheat and flour to EEP-targeted countries before and after the countries were targeted. Preliminary data suggest that the U.S. share has increased in those countries, as a whole.

FAS examined shipment rates to North African and Middle Eastern wheat markets before and after EEP shipments. U.S. wheat shipments increased sharply after the program began. European Community (EC) export rates declined initially, but then recovered, although remaining below U.S. rates. FAS' analysis concludes that, without the EEP pricing arrangements, U.S. shipment rates to those areas would have remained at the 1984/85 season levels, or lower, and that EC shipments would have been much larger.

CREDIT AND FOOD AID PROGRAMS OF COMPETITORS

Other major exporters also operate export credit and food aid programs. Information is limited on competitors' credit programs, although the United States provides more food aid than all other donors combined.

o Australia.--- The Australian Wheat Board (AWB) extends credit for exports on a short-term basis, recently for 2-3 years. The Australian Government's Export Finance and Insurance Corporation guarantees credit for export sales of cereals. Egypt and China have been regular recipients. In 1982/83, the last year for which data are available, 16 percent of Australian wheat and flour exports were sold on credit terms of up to 3 years. That share may have since increased. Australia has applied to join the 1986 FAC, pledging 300,000 tons of cereal aid, down from its previous pledge of 400,000 tons. Australia provides food aid as grants and distributes much through the World Food Program. The Food and Agriculture Organization of the United Nations (FAO) estimates that Australia donated about 350,000 tons of cereals in 1985/86.

o Canada. The Canadian Wheat Board (CWB) provides export credit for up to 3 years, and the Government of Canada guarantees repayment of the loan through the Export Development Corporation (EDC). Usually, a 10-percent down payment is required on a 3-year loan. Canada shipped 10-15 percent of its wheat exports under credit arrangements in 1984/85. About 40 percent of Canada's barley exports were sold on credit, mainly because total barley exports fell much more than did credit sales exports. Brazil has regularly received credit for wheat purchases as one of the top five Canadian wheat export markets. East Germany, Egypt, Iraq, and Mexico, among others, have also received credit. East Germany was Canada's largest barley market in 1984/85 and used credit for all of its purchases. Canada has also shipped flour and oats on credit. The EDC has recently guaranteed credit of up to 1 year to selected countries for certain commodities and up to 3 years if necessary to meet competitors' terms. Allocations for agricultural exports during Canada's fiscal year 1986 (April-March) were probably about \$600 million. Canada provides food aid in grant form and usually exceeds its minimum FAC pledge of 600,000 tons of cereal aid. In 1985/86, Canada provided an estimated 830,000 tons.

o European Community. The EC does not provide credit to promote its exports, using instead direct export subsidies, but individual member nations do. In particular, France, a major agricultural exporter, promotes agricultural and nonagricultural exports and guarantees short-term credit through *Compagnie Francaise d'Assurance pour le Commerce Exterieur* (COFACE). The guarantees cover 85 percent of the credit for private purchases, 90 percent if the purchaser is a foreign government. COFACE may reimburse exporters for promotional costs and may insure against losses due to currency fluctuations. COFACE guaranteed credit for all recent French wheat exports to Morocco, and most to Egypt and Tunisia. *Banque Francaise du Commerce Exterieur* provides medium- and long-term credit. FAO estimates that the EC fell shy of its FAC food aid pledge of 1.65 million tons of cereals in 1985/86. The EC's FAC pledge will include that of Spain in 1987, rising to 1.67 million tons. The EC also donates large amounts of dairy products (mostly skim milk powder) and vegetable oils.

COMPARATIVE IMPORTANCE OF CREDIT SALES AND FOOD AID

The share of commercially exported wheat and flour covered by CCC credit and credit guarantees has until recently been less than that of Canada, the only other major exporter for which data are available. During 1974-82, exports under CCC credit programs were

generally less than 10 percent of all U.S. commercial wheat and flour exports. Canadian credit sales averaged about 30 percent of its wheat and flour exports in those years. In 1982/83, the share of U.S. exports increased with the expanded GSM-102 program and the Blended Credit Program. The Canadian share increased in 1982/83 mainly because of a 180-day credit sale to the USSR but has since fallen while the U.S. share has increased.

COFACE guaranteed 10.5 billion francs (about \$1.4 billion) of French agricultural exports out of total agricultural exports worth 121.2 billion francs (about \$15.9 billion) in calendar year 1983, the most recent year for which French agricultural credit data are available. This figure represents about 25 percent of French exports to destinations other than the EC and the United States. Exports under CCC credit programs were 15 percent of total U.S. agricultural exports to destinations outside the EC in 1983.

The United States and, to a slightly lesser extent, the EC have generally provided a larger share of total wheat and flour exports as food aid than have Australia and Canada. The U.S. share increased recently because of both falling total wheat and flour exports and the sizable U.S. response to the African famine. Since 1982/83, the United States shipped a larger share of total wheat and flour exports as food aid than did any other major donor.

FOR ADDITIONAL INFORMATION...

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For information on the Export Enhancement Program, contact Frank J. Piason (202/447-7791), Deputy Assistant Administrator for Commodity and Marketing Programs, Foreign Agricultural Service, U.S. Department of Agriculture, Room 5087, South Building, S.W., Washington, DC 20250.



Current debate on farm policy is based on conflicting reactions to the 1985 Food Security Act. A decision made on behalf of one group may have unanticipated or adverse effects on others. This bulletin and others listed below are part of a series published by USDA's Economic Research Service aimed at informing those debating farm policy about the highly interrelated nature of agricultural policymaking. For more information on upcoming bulletins, write to USDA-EMS Information, Room 237, 1301 New York Avenue, N.W., Washington, DC 20005-4788.

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