United States
Department of
Agriculture

ERS

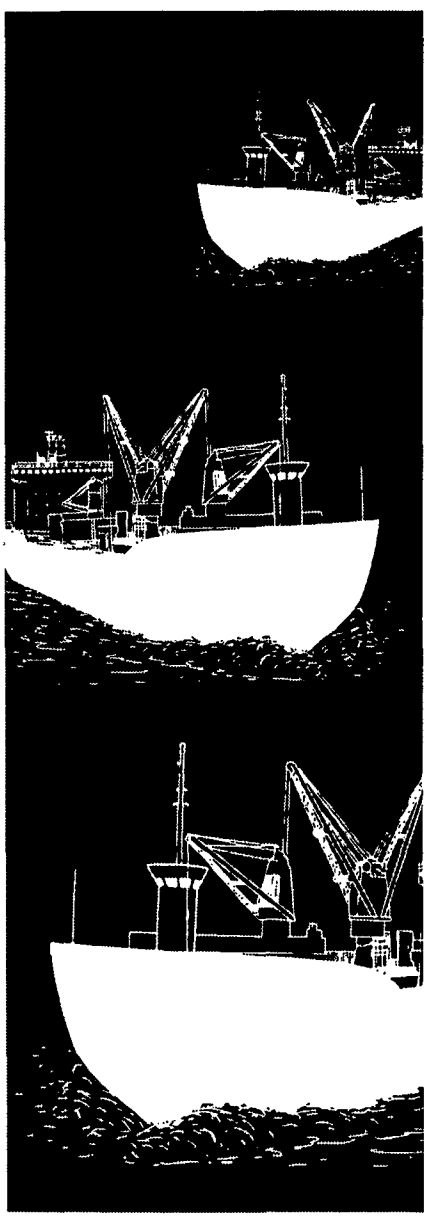
Agricultural
Economic
Report
Number 716

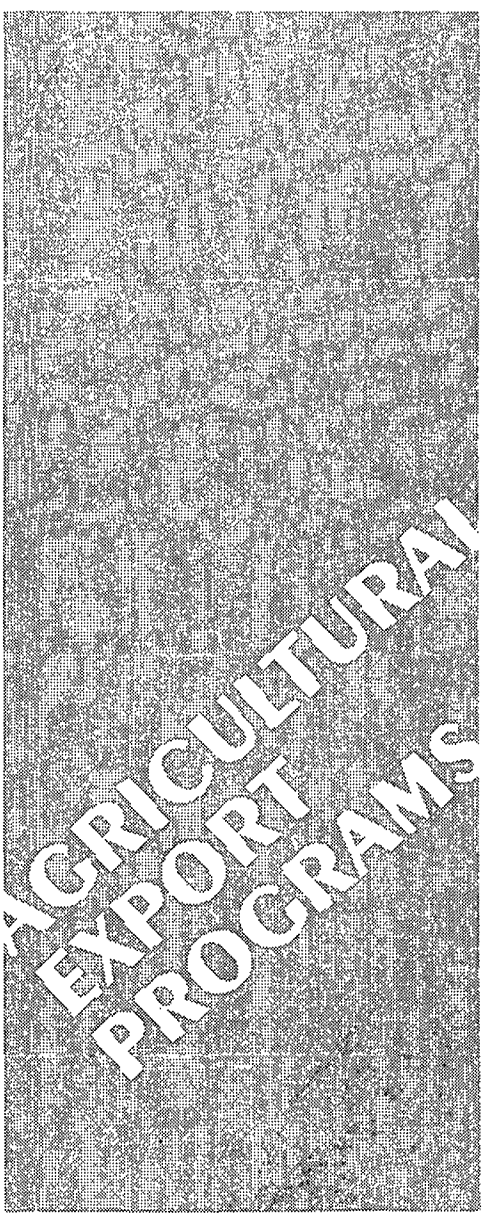
An Economic Research Service Report

Agricultural Export Programs

Background for 1995 Farm Legislation

Karen Z. Ackerman
Mark E. Smith
Nydia R. Suarez





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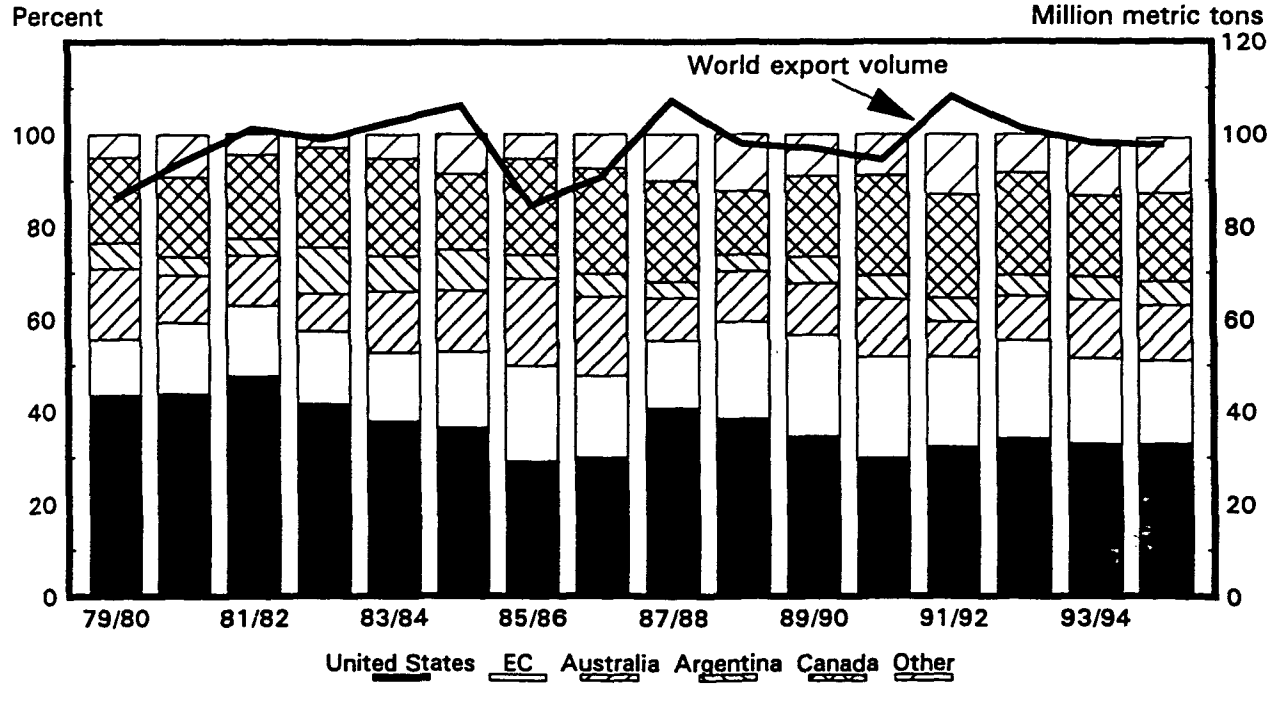
Errata for

***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.

Agricultural Export Programs

Background for 1995 Farm Legislation

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Introduction

Exports play an important role in the health of the U.S. farm sector and rural economy. For example, the harvest of more than half of U.S. wheat acreage is shipped overseas. Close to half of the U.S. rice and cotton crops are exported. The agricultural sector generated an $18 billion trade surplus in 1993 helping to offset deficits in other sectors. In 1993, agricultural exports amounted to about 20 percent of farm cash receipts. Agricultural export programs also assist some exports of lumber and seafood, not reported as agricultural exports.

Greater agricultural exports encourage greater production through higher prices and allow greater use of farmland and production inputs. This contributes to a healthier rural economy, though environmental concerns have been raised about overuse of agricultural land and inputs. Greater production at higher prices enhances farm income. Input suppliers benefit from greater demand for their products as planted acreage expands. Shippers, handlers, processors, and exporters of U.S. commodities benefit from a greater volume of business. Depending on the availability of resources, each dollar received from commodity exports stimulates another $1.38 in supporting activities to produce the exports. Every billion dollars in agricultural exports supports 18,000 jobs. Taxpayers benefit to the extent prices rise from greater exports since the costs of domestic farm support programs (such as deficiency payments) are reduced. For example, if greater exports boost wheat prices by one penny per bushel, taxpayer expenditures on deficiency payments can be reduced by about $15-$20 million.

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 its domestic support policies and increased export assistance. The United States currently provides an array of tools to boost U.S. commodity exports: programs to help U.S. exporters compete in terms of price; 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 (table 1). These programs contributed to boosting the U.S. share of the world market to about 14 percent in 1992, closer to the 1981-90 average of 15 percent.

Export programs assisted about 20 percent of U.S. agricultural exports over the 1989-93 period. However, this masks the importance of export programs for specific commodities. For example, about 80 percent of U.S. wheat has been shipped under some form of Government assistance in recent years (fig. 1). Government assistance plays varying roles in the export of different commodities (fig. 2). Such assistance is generally concentrated on program commodities in part because greater exports generate budget savings in the form of lower Commodity Credit Corporation (CCC) deficiency payments. The world trade environment also affects the role of Government assistance for specific products. Commodities such as wheat, for which there is heavily subsidized competition in world markets, receive greater assistance than other commodities. Generally, high-value products (HVP's) are assisted by the Market Promotion Program (MPP), a nonprice market development program.

There are several overarching issues related to export programs. First is the effect of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT).

The GATT is expected to improve world economic growth by reducing trade barriers and distortions and so increase trade efficiencies. The agreement is intended to open and expand markets for U.S. commodities. With lower government support for producers worldwide, and reduced export subsidies, commodity prices are expected to rise. For the United States, agricultural exports are expected to rise by $1.6-$4.7 billion by the year 2000, mostly from gains in grains and animal products. Farm incomes are expected to rise by as much as $1.3 billion by 2000. In particular, domestic U.S. wheat prices are expected to rise about 3-6 percent by the year 2000 and U.S. wheat exports are expected to grow by 7-11 percent.

Table 1—Agricultural Export Assistance Programs

Price Subsidy Programs
Export Enhancement Program (EEP)
Dairy Export Incentive Program (DEIP)
Cottonseed Oil Assistance Program (COAP)
Sunflowerseed Oil Assistance Program (SOAP)
Export Credit Programs
Export Credit Guarantee Program (GSM-102)
Intermediate Export Credit Guarantee Program (GSM-103)
Nonprice Promotion Programs
Foreign Market Development Program (FMDP)
Market Promotion Program (MPP)
Food Aid
Public Law (P.L.) 480
Section 416(b)
Food For Progress

The GATT agreement has direct effects on some U.S. export programs. Subsidies under the Export Enhancement Program (EEP), Dairy Export Incentive Program (DEIP), Sunflowerseed Oil Assistance Program (SOAP), and Cottonseed Oil Assistance Program (COAP) will be reduced, falling from 1986-90 levels of about $930 million to 2001 levels of approximately $595 million. Other export programs are not directly covered under the agreement. The agreement does call for exporters to develop and abide by provisions governing export credit and credit guarantees, but the Uruguay Round agreement makes no provisions for their reduction. Talks are being held in the Organization for Economic Cooperation and Development on this topic. Food aid must also conform to internationally-agreed rules; market promo-

Figure 1

U.S. wheat exports, by program

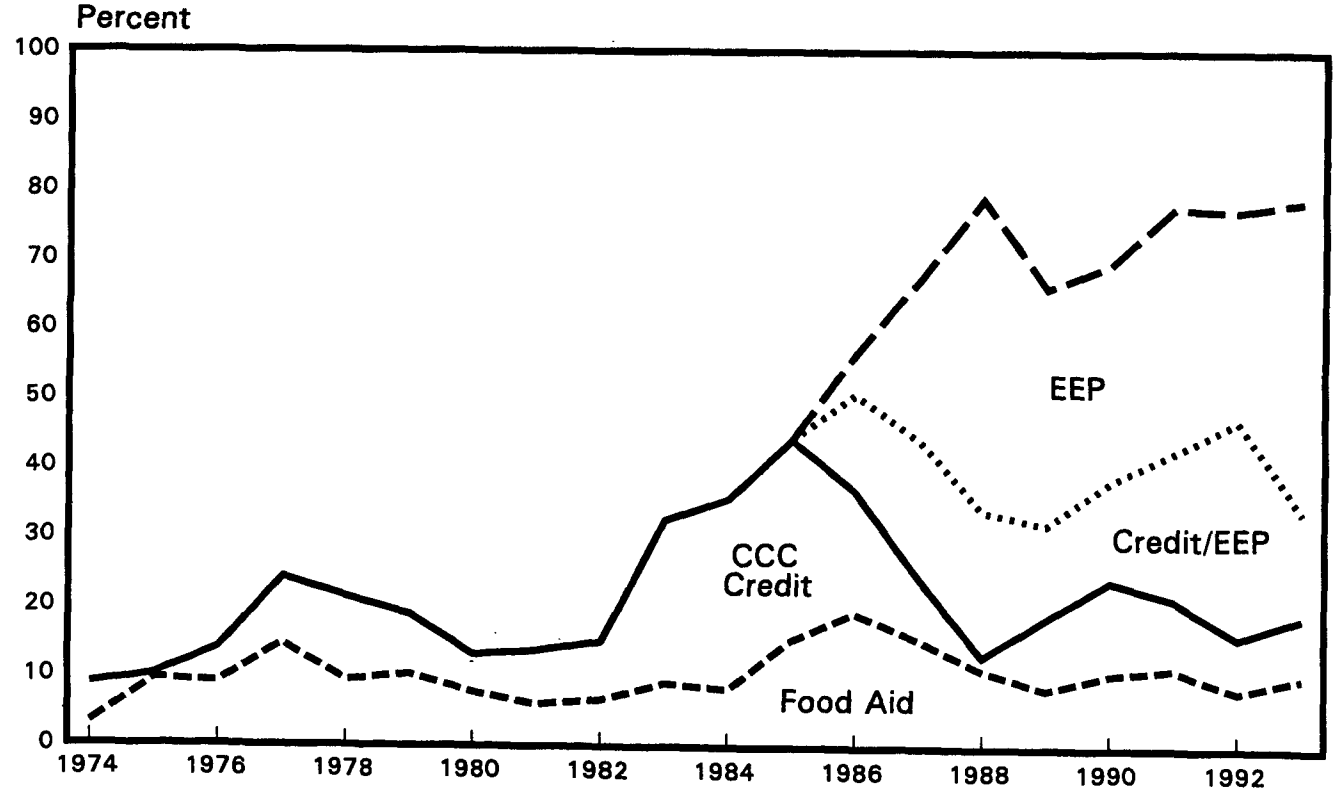


Figure 2a

U.S. vegetable oil exports by program

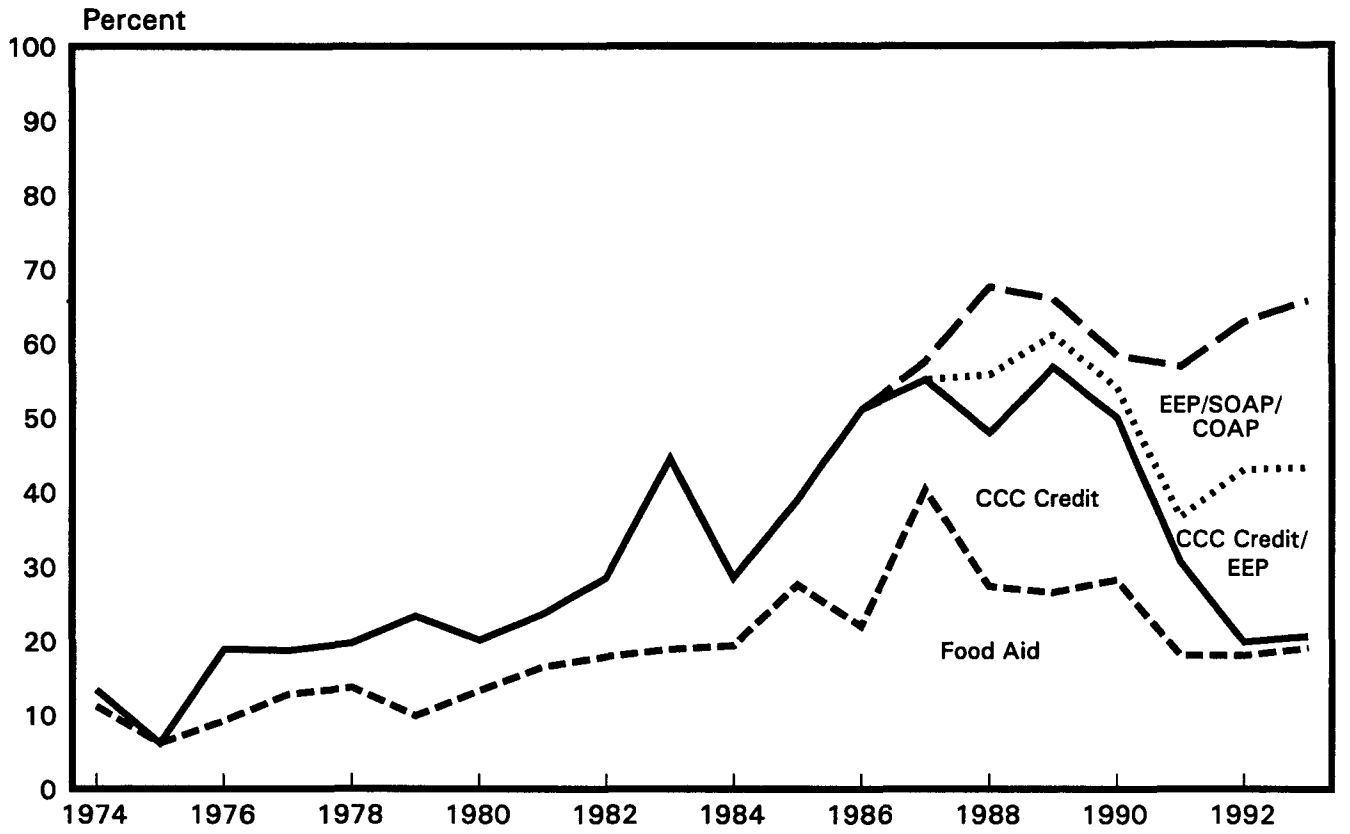


Figure 2b

U.S. rice exports by program

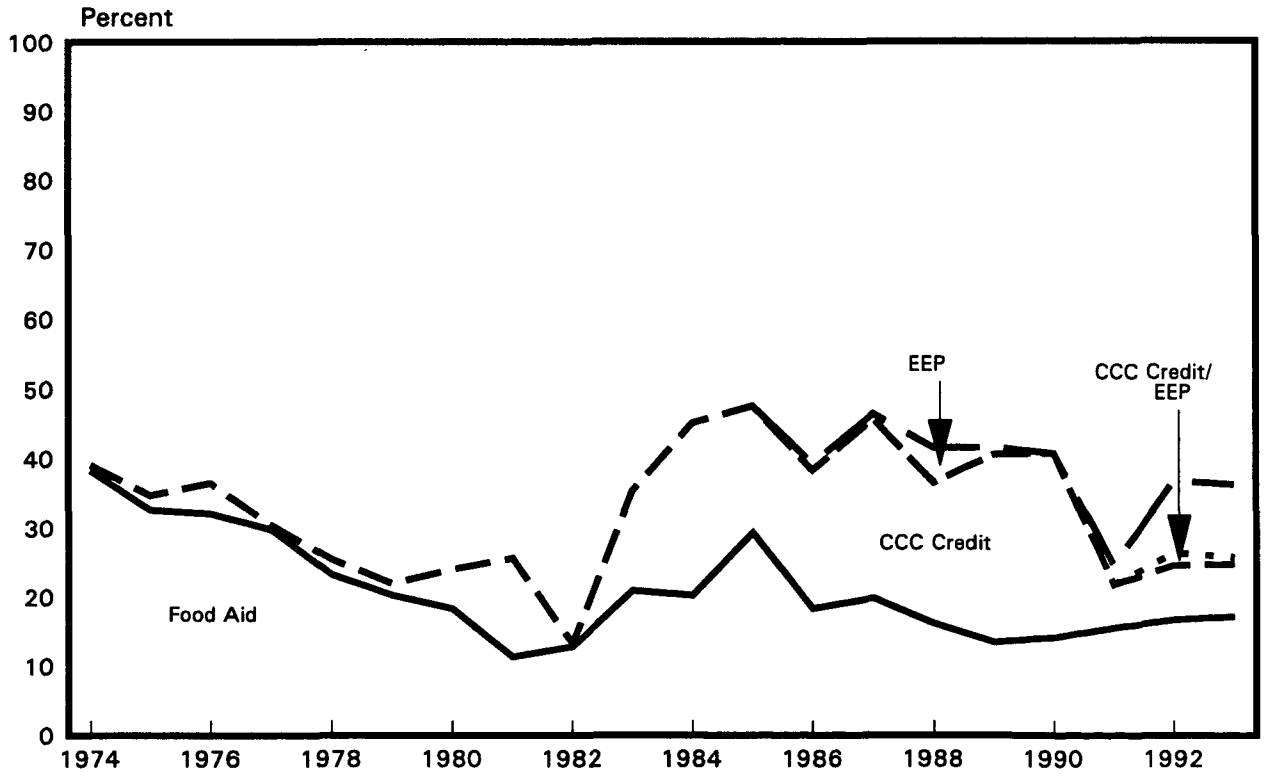


Figure 2c

U.S. cotton exports by program

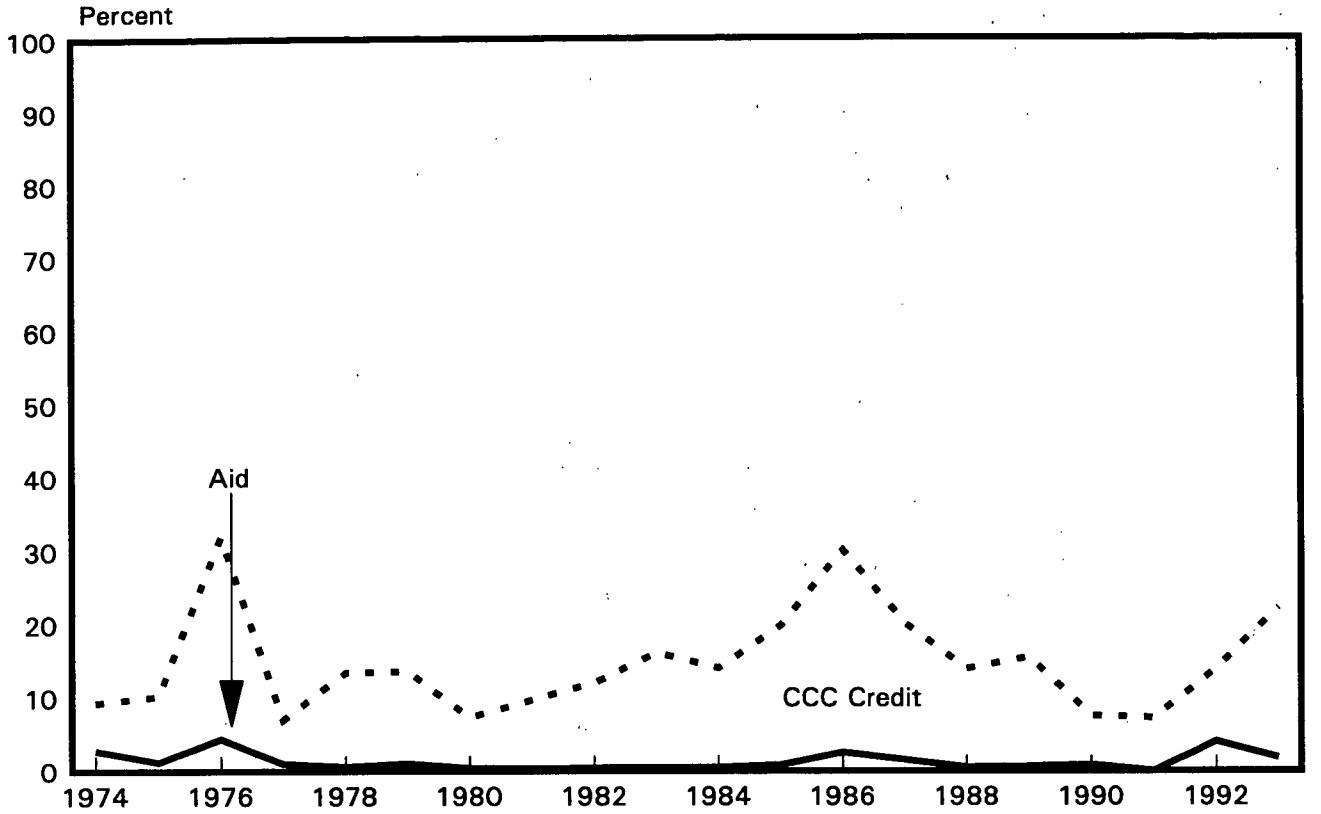
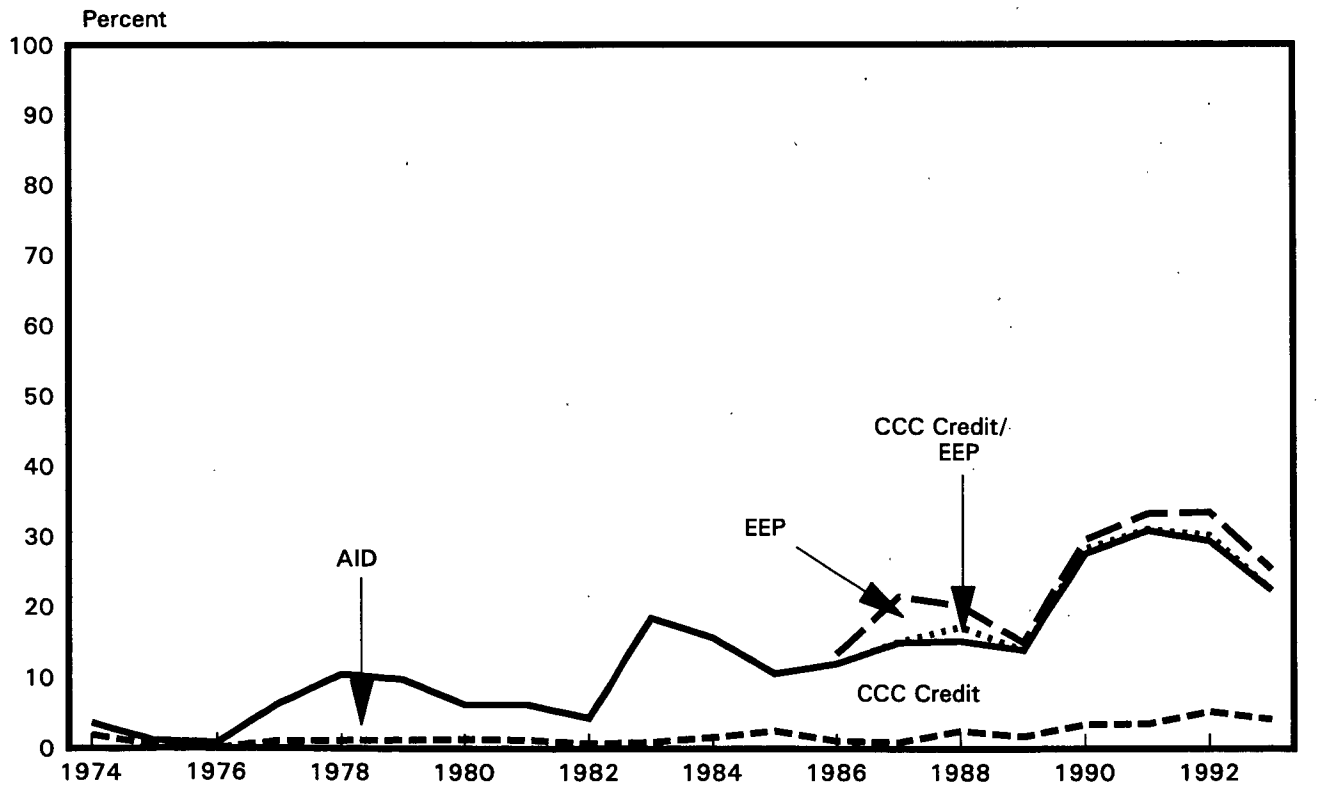


Figure 2d

U.S. feed grain exports by program



tion activities such as the MPP, however, are not included under the GATT.

In the aftermath of completion of the Uruguay Round of the GATT, a key issue is how best to revise current programs or develop new programs to make the transition to less price-subsidized agricultural trade. As government export price subsidies decline in importance as policy tools, governments will seek ways to assist private food marketers in other ways. Future U.S. agricultural export policies will not only maximize the effectiveness of allowable export price subsidies and challenge global export competition, but also address changing consumer food preferences.

How funds are spent depends also on the time horizon in which benefits are to be realized. In the short run, price subsidies are the quickest way to effect greater sales, especially in the face of continuing EU subsidies and other competitors' pricing practices. However, such sales may evaporate when subsidies cease. Credit guarantees cannot offset reductions in price subsidies because interest savings to importers are much less than price subsidies under the EEP. Market promotion may inform foreign consumers about the qualities of U.S. food products, but is likely less effective than price subsidies in boosting exports of 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 can lead to greater long-term demand for U.S. exports. Given higher expected cereal prices because of the GATT, there may be greater need for food aid by less-developed countries.

A second overarching issue is budget constraints. Program levels, which measure the value of total resources devoted to a program, averaged more than $7 billion annually for agricultural export assistance, compared with program levels of about $18 billion for CCC domestic programs during fiscal 1989-93.[1] Tighter Federal budgets imply reduced spending on export programs. Funding for price subsidy programs will decline due to GATT restrictions. However, lower levels of funding also have occurred in the market promotion programs, chiefly the MPP, and also under food aid programs. Program levels for the MPP, the Foreign Market Development (FMD) Program, and P.L. 480 programs have fallen from recent peaks in 1992 of close to $234 million and $1.7 billon, respectively, to about $105 million and $1.3 billion in 1995. Credit guarantee program levels have been constant at $5.7 billion with enactment of the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990, and do not necessarily have to decline under the GATT. However, other issues of program use affect the credit programs. Potentially alleviating some of the budget constraint for export assistance, the White House announced its commitment to making available $600 million for non-price subsidy export programs or for assistance for industrial uses for agricultural commodities to support the agricultural sector. This was reflected in the President's Budget for 1996. However, all administration commitments on export program funding are subject to congressional appropriation.

A third overarching issue is the role of high-value products (HVP's) in U.S. and world trade and the role of export programs in their promotion. HVP's have accounted for much of the growth in world agricultural trade in the last decade, and prospects remain stronger for HVP's than for bulk products. HVP's now constitute 80 percent of world agricultural trade. They include high-value unprocessed foods (e.g., eggs, fresh fruits and nuts, and fresh vegetables); semiprocessed products (e.g., flour, oilseed products, and meats); and highly processed products (e.g., prepared and preserved meats, dairy products, bakery products, wine, and prepared foods). Other countries have pursued strategies emphasizing value-added exports. For example, during the 1986-90 period, the EU targeted almost 70 percent of its export subsidies for HVP's. In contrast, the HVP share for most U.S. agricultural export programs was substantially less (table 2). The MPP is chief among U.S. export programs to emphasize HVP's.

Economic analysis shows that increasing exports of HVP's stimulates greater domestic economic activity than increasing exports of bulk commodities. That increased economic activity is achieved, however, with fewer offsetting savings in farm support programs, with fewer benefits realized by farmers and ranchers, and with more costly price subsidies than those for bulk products. For example, a dollar's worth of HVP exports generates about $1.61 in additional business activity, when extra capacity is available, compared with about $1.02 per dollar of bulk exports. However, HVP subsidy costs may be higher, particularly when targeted to markets where competitors heavily subsidize their exports. The European Union (EU) ag-

[1] Program levels for P.L. 480 and other food aid programs include the value of commodities and shipping costs. For credit guarantee programs, the program levels include the amount of loans to be guaranteed. For the price subsidy programs, the program levels represent the planned value of the subsidies; and, for the nonprice market promotion programs, the program levels represent the expected promotion expenditures.

Table 2—Export programs: Bulk versus non-bulk products

Programs	Average 1989-93		1993 alone	
	Bulk	Non-bulk	Bulk	Non-bulk
Price reduction programs 1/: Export Enhancement Program (EEP) Dairy Export Incentive Program (DEIP) Cottonseed Oil Assistance Program (COAP) Sunflowerseed Oil Assistance Program (SOAP)	81%	19%	72%	28%
Market promotion programs 2/: Foreign Market Development Program Market Promotion Program	30%	70%	27%	73%
Credit guarantee programs 3/: GSM-102 GSM-103	77%	23%	80%	20%
Food aid 4/: P.L. 480	61%	39%	62%	38%

1/ Percentages are calculated from EEP, DEIP, COAP, and SOAP bonuses (subsidies).
2/ Percentages are calculated from promotion expenditures by commodity organization.
3/ Percentages are calculated from the value of GSM-102 and GSM-103 shipments.
4/ Percentages are calculated from the value of P.L. 480 shipments by commodity.

Source: USDA, Econ. Res. Serv.

gressively uses price subsidies to export a wide range of HVP's. The largest EU subsidy programs for HVP's are targeted to dairy products and beef, although products such as wine are also subsidized.

Providing assistance for HVP's expands the number of beneficiaries of the increased exports to processors and shippers. Farmers and ranchers capture approximately 20 percent of the benefit from most exports of processed products, compared with about 40 percent from bulk exports.

The central issue confronting policymakers is how to assist U.S. agricultural exports and farm income most effectively. This is especially important since USDA has made a goal of increasing agricultural exports by 50 percent by the year 2000. Because different commodity markets have different characteristics, and different importers have different needs, no one solution will be sufficient. Flexibility in providing export assistance will be needed to help U.S. exporters make sales in increasingly liberalized import markets. Research has shown that the effects of export subsidies are influenced by market conditions: their effectiveness is greater when markets are slack and less when supplies are tight. Whether it is more effective to provide credit guarantees or price subsidies is an unresolved issue: since many importers purchase under both, the issue is less either/or and more the amount of exposure the credit program is willing to undertake. The combination is a means of increasing the competitiveness of U.S. goods without increasing assistance costs, if the importer makes payments as scheduled. However, credit programs alone cannot substitute for price subsidies because savings to the importer in interest costs under a credit guarantee often are not sufficient to counter competitors' exports that are subsidized or monopoly-controlled. Further, with the GATT approval and with higher cereal prices now prevailing in world markets, there may be greater need for food aid in less-developed countries.

The Export Enhancement Program and Other Price Subsidy Programs

Export price programs help U.S. exporters counter subsidized competition in selected commodity markets. The primary U.S. export price subsidy program is the Export Enhancement Program (EEP). Smaller programs are the Dairy Export Incentive Program (DEIP) and the Cottonseed Oil and Sunflowerseed Oil Assistance Programs (COAP and SOAP). The CCC also can make export sales of dairy products from its inventories at world prices.

The EEP, as authorized in the 1985 Food Security Act, was 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. The DEIP also was authorized under the 1985 Act. Monies were made available from Section 32 of P.L.

74-320 (1935) for the COAP and SOAP under the 1988 Rural Development, Agriculture, and Related Agencies Act.

Changes of the 1990 FACTA

All the export price subsidy programs were reauthorized and extended in the 1990 Food, Agriculture, Conservation and Trade Act (FACTA). The FACTA made the countering of unfair trade practices the primary focus of the EEP and established a minimum funding level of $500 million annually for the program. A funding level of $50 million annually from Section 32 funds was established for the COAP and SOAP together.

Program Levels and Expenditures

Since 1985, Congress has rarely capped EEP spending. However, for fiscal 1995, Congress limited EEP spending to $800 million. EEP expenditures for fiscal 1994 were at a historic high of $1.15 billion (table 3).

Appropriations for the SOAP and COAP together were $50 million annually in the 1990's, but actual expenditures varied with market conditions. For fiscal 1995, COAP and SOAP spending was limited to $26.5 million. Funding for the DEIP is not appropriated separately, but is part of the CCC dairy budget. Annual DEIP spending grew the most sharply in the 1990's.

Commodities Assisted under the Programs

Almost 80 percent of export price subsidy expenditures assist sales of grains, while the remaining 20 percent of program expenditures assist non-bulk products such as barley malt, canned peaches, dairy products, eggs, flour, frozen poultry, and vegetable oils. The chief commodity sold with EEP bonuses is wheat, which accounted for 73 percent of subsidy expenditures from 1989 through 1993 (table 4). Other grains sold under EEP include feed grains (barley and a little sorghum) and rice. Dairy products account for the second largest category of subsidy expenditures, followed by vegetable oils.

The value of commodities sold under price competition programs was less than 3 percent of U.S. export value in 1993, but played a major role in U.S. exports of barley, eggs, grain products, vegetable oils, and wheat. For example, the EEP accounted for 60 percent of wheat exports, 93 percent of barley exports, 55 percent of wheat flour exports, and 70 percent of egg exports in 1993. The EEP, COAP, and SOAP combined represented 73 percent of cottonseed, soybean, and sunflowerseed oil exports.

Countries and Regions under the Programs

The primary goal of the EEP and DEIP has been to match the prices offered by subsidizing competitors (in particular, the EU) in selected export markets. The COAP and SOAP have not focused solely on price competition from the EU. The primary markets for U.S. price subsidy programs from 1989 through 1993 were the former Soviet Union (FSU), China, and the North African countries of Algeria and Egypt (table 5). In 1994, lower world prices and increased use of the DEIP pushed up the use of price subsidies for Mexico, the Middle East, other Asian countries

Table 3—Export price programs: annual program levels and expenditures, 1989-95 1/

Item	1989	1990	1991	1992	1993	1994	1995
				Million dollars			
EEP:							
Program level	900	900	900	1,200	1,200	1,000	800
Bonuses	339	312	917	968	967	1,150	na
COAP/SOAP:							
Program level	0	0	50	50	50	50	27
Bonuses	9	4	15	24	32	24	na
DEIP 2/:							
Bonuses	0	9	39	76	162	118	na

na = not available

1/ 1995 EEP and COAP/SOAP program levels are Congressional spending caps.
2/ DEIP program levels are annual bonuses for 1989-94. The 1995 estimated DEIP program level is $145.5 million.

Sources: Annual Presidents' Budget Summaries and USDA, Foreign Agricultural Service, Export Credits Division.

Table 4—Export price subsidy program sales by commodity 1/

Commodity	Average 1989-93		1994	
	Sales	Bonuses	Sales	Bonuses
	1,000 mts	$1,000	1,000 mts	$1,000
Grains	--	627,507	--	982,991
Wheat	17,903	577,309	19,113	890,511
Barley	1,368	41,985	1,677	90,170
Rice	146	8,213	46	2,309
Grain products	--	39,941	--	87,619
Flour	445	36,934	556	78,069
Barley malt	35	3,007	65	9,550
Vegetable oils	373	35,796	583	53,812
Dairy products	--	57,260	--	117,615
Other non-bulk products 2/	--	13,876	--	49,264
Eggs (1,000 dozen)	20,486	4,983	61,892	14,972
Frozen poultry	16	8,782	28	20,662
Frozen pork	0	0	14	13,630
Total	--	774,380	--	1,291,300

1/ Includes EEP, DEIP, COAP, and SOAP sales.
2/ Other non-bulk products sold under EEP from 1989-93 were canned peaches, eggs, and frozen poultry. For 1994, non-bulk products included eggs, frozen poultry, and frozen pork.
mts = metric tons
-- = not available
Source: Calculated from USDA, FAS Export Credits Division data.

Table 5—Major export markets for U.S. price subsidy programs 1/

Region	Average 1989-93	1994
	Million dollars	
Western Hemisphere	44.8	87.4
Mexico	19.1	43.2
Western Europe	4.0	5.7
Eastern Europe	171.0	71.1
Former Soviet Union	162.1	66.3
Middle East	99.3	218.5
Other Asia	184.8	316.6
China	122.9	110.4
Africa	270.5	592.1
North Africa	233.5	496.4
Algeria	88.5	176.2
Egypt	99.7	271.7
Sub-Saharan Africa	37.0	95.7
Total	774.4	1,291.3

1/ Includes EEP, COAP, SOAP, and DEIP.

Source: Calculated from data provided by USDA, FAS, Export Credits Division.

(Pakistan and Sri Lanka), and the North African countries; sales to the FSU declined from the 1989-93 average. Price competition programs account for all commercial U.S. wheat exports to China, the FSU, the North African countries, and most other import markets for U.S. wheat. Chief exceptions are Japan, the Republic of South Korea, Taiwan, and also some food aid recipients. Some EEP, COAP, SOAP, and DEIP sales are also made under the CCC's export credit programs.

Competitors' Programs

The countries of the EU are the chief subsidizers of agricultural exports. The EU supports its domestic producers at high internal prices, while subsidizing agricultural export prices to compete in world markets. EU export refunds rose steadily through the 1980's to peak at $13.4 billion in 1991. Chief commodities subsidized by the EU include grains, dairy products, sugar, and beef (table 6). Several other European countries (including the Czech and Slovak Republics, Hungary, and Sweden), Saudi Arabia, and others also subsidize their exports in years of bountiful harvests. Other major competitors such as Canada market their grains through marketing monopolies (marketing boards) that practice discriminatory pricing (allowing them to offer lower prices in some competitive markets).

Issues

In past years, the primary objective of export price subsidy programs was to counter our competitors' subsidized exports in targeted markets. By countering subsidized competition, the EEP and other export price subsidy programs encouraged subsidizing com-

Table 6—EU budgeted refunds by commodity group, 1993

Commodity group	1993 budget
	$ million 1/
Wheat and flour 2/	2,038
Barley and malt	876
Other grains	555
Rice	90
Sugar	1,618
Oils and fats 3/	236
Fruits and vegetables	150
Wine	92
Tobacco	84
Milk and milk products	2,490
Beef and veal	1,294
Pork	243
Eggs and poultry	295
Other processed products	872
Food aid refunds	311
Total	11,245

1/ 1 ECU = $1.17
2/ Includes durum wheat and flour.
3/ Includes olive oil.

Source: EAGCF Guidance for 1993.

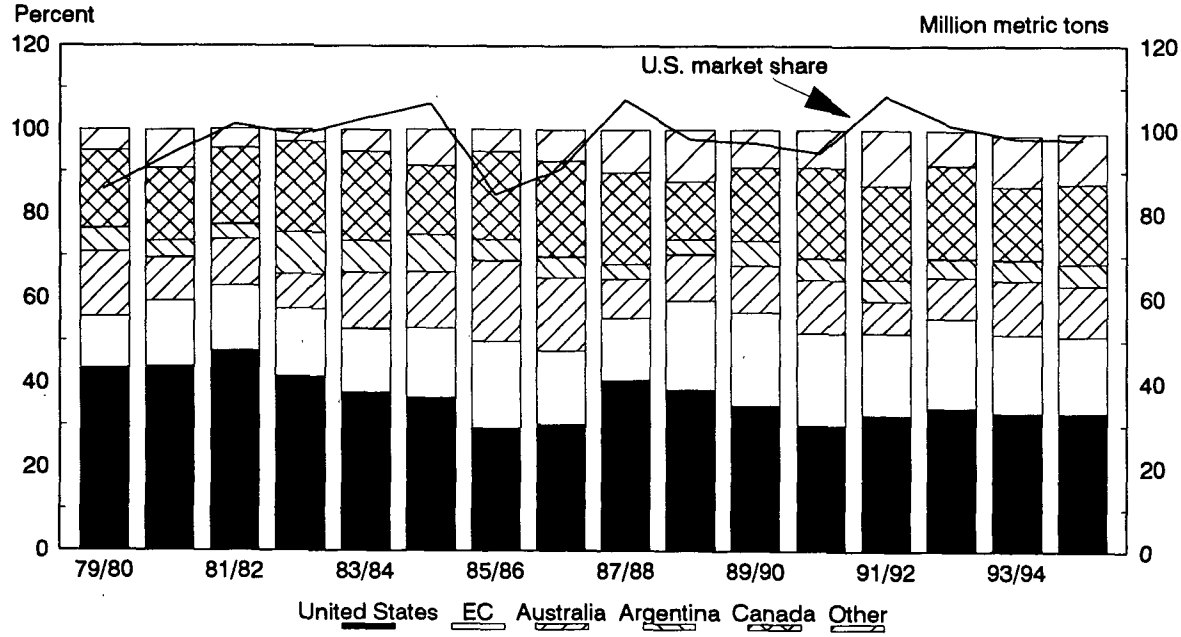
petitors, particularly the EU, to negotiate for future export price subsidy reductions. Another goal for export price subsidy programs in past years was to increase U.S. exports and improve farm prices. Implementation of the Uruguay Round agreement and budget concerns will determine the outlook for price subsidy programs in the next several years.

Program Performance

Exports of U.S. wheat varied widely, between 25.5 and 40.5 million tons, from 1985 through 1993. From late 1985 through 1989, economic studies of the EEP showed that the EEP boosted U.S. wheat exports by a range of from less than 5 to 30 percent.[2] Empirical estimates of the EEP's success at raising exports depend on the researchers' assumptions about importer and competitor responsiveness to the EEP as well as the quantity of exports subsidized. By increasing exports over what they would have been in the absence of the program, the EEP boosted farm prices and reduced deficiency payments.

[2] See Additional Readings: Bailey and Houck; Seitzinger and Paarlberg; and Haley.

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



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

While the EEP has been somewhat effective overall in boosting exports, it also has contributed to rearrangements of wheat trade flows. The U.S. share of the world wheat market has fluctuated, but, overall, has increased only slightly since the EEP was implemented (fig. 3).

The EEP helped pressure competitors to negotiate in the GATT. The EEP was estimated to have increased the cost of EU subsidies by 35-40 percent from 1986/87 through 1988/89.

Outlook for Price Subsidies Following Approval of the Uruguay Round Agreement

One of the chief goals of the Uruguay Round agreement is to reduce the volume and value of export subsidies. By the end of the 6-year phase-in period for the agreement, developed countries will be required to have reduced subsidized export volume by 21 percent and subsidy expenditures by 36 percent from the 1986-90 base period on a commodity basis (app. table 3). Negotiations in Brussels in December 1993 culminated in a GATT agreement that requires member nations to phase down export subsidies in equal increments from 1991-92 levels if these subsidies were higher than those of the 1986-90 base period. Only products whose exports were subsidized during the 1986-90 base period will be eligible for future export subsidies.

Reductions in export price subsidies under the Uruguay Round agreement of the GATT are expected to result in higher world commodity prices. In the short run, demand for imported commodities will dip in response to the higher prices, but, as global incomes improve due to greater market opportunities, importers are expected to increase their demand for grains and other agricultural products. In the long run, higher world prices may reduce the need for price subsidies from the exporters' perspective.

During the phase-in period, program administrators will search for ways to maximize the effectiveness of allowable subsidized exports and subsidy funding, particularly for commodities whose exports have been heavily supported in recent years. U.S. implementing legislation for the Uruguay Round of the GATT removes the legislative requirement that the EEP be used only to discourage unfair trade practices. The scope of the DEIP also has been broadened to emphasize market development. In addition, the Clinton administration has committed to seek funding for other programs to the maximum levels allowed under the Uruguay Round agreement and U.S. laws.

The implementing legislation to the Uruguay Round agreement expands U.S. export subsidy program flexibility in targeting countries, but restricts the products subsidized and the subsidy levels. This raises questions about how subsidies should be allocated among countries and commodities. Should price subsidy programs continue to battle substantial EU subsidies, or should the programs focus on markets where, in the long run, U.S. exports are likely to be most competitive without subsidies (will most increase their imports in response to relatively low subsidies)? Or would some combination of the two approaches be most effective?

Future country allocations will be particularly important for wheat. The largest EEP sales and subsidies have gone to markets where the primary competition has been with the EU. Sales to these nations require large subsidies. On the other hand, sales to countries such as the Philippines require lower bonuses because of U.S. transportation advantages and less EU competition. At issue is whether EEP bonuses should be targeted to those markets in which U.S. exporters will be able to compete with lower subsidies, or whether bonuses should be targeted to those "expensive" markets that the United States may wish to hold for other reasons or where there is the greatest subsidized competition.

In periods of higher world prices (for example, the 1994/95 marketing year), caps on subsidy expenditures will be less restrictive than the caps on subsidized export volume because per unit EEP bonuses will be relatively low. In periods of lower world prices, program administrators will carefully monitor per unit subsidy levels. For example, the 1995/96 marketing year (starting in July 1995) may be characterized by lower world wheat prices because EU exportable wheat supplies are expected to increase, potentially increasing exportable supplies of lower priced wheat. In October 1994, EU commissioners responded to reported higher world wheat prices by announcing a reduction of 3 percentage points in the 1995 EU set-aside acreage for all crops.

Because several commodities or types of products have been combined in the same funding category, some competition for subsidies may occur. This may be particularly important for products such as flour and barley malt that are heavily subsidized by the EU. For example, wheat and wheat flour currently are considered separate products under the EEP, but will be combined in one category for phase-down under Uruguay Round disciplines. In 1994, EEP wheat flour sales were relatively low, but per unit flour bonuses

were more than double wheat bonuses. That is, while wheat's share of EEP-subsidized wheat and flour volume was 97 percent, wheat's share of wheat and flour subsidy value was only 91 percent. Barley malt sales also represented only about 5 percent of combined EEP barley and barley malt sales, but accounted for almost 10 percent of combined barley and malt bonuses in fiscal 1994.

A related issue is the cost of subsidized sales of processed products compared with subsidies for bulk products. Price subsidies for some high-value products may have resulted in sales that would not have occurred without the subsidies. However, of importance in an environment of restricted budgets is the fact that per unit subsidies for some processed products are relatively high. For example, sales of 19,998 tons of frozen pork to the FSU required subsidies of $19 million. Hence, large sums are required to move relatively small volumes.

A final issue of growing importance is the operation of dairy subsidies. Some sectors of the dairy industry advocate the establishment of a dairy "self-help" program that would allow the dairy industry to market subsidized dairy exports and administer price subsidy funds. However, the implementing legislation for the Uruguay Round agreement does not include such a provision. Government-regulated industry marketing boards are prevalent in many countries, including Australia, Canada, and New Zealand. It is widely accepted that the DEIP, the chief program to subsidize export sales of dairy products, enhanced 1992 milk prices from 30 to 50 cents per hundredweight.

Commodity Credit Corporation Export Credit Programs

Many importers face foreign exchange constraints and need credit to purchase food. To help U.S. exporters meet this need, the Commodity Credit Corporation (CCC) operates the Export Credit Guarantee Program (commonly known as GSM-102, after the General Sales Manager's office, which operates the program) and the Intermediate Export Credit Guarantee Program (known as the GSM-103 program). Of all U.S. export programs, the GSM-102 program accounts for the largest value of agricultural exports.

Under the programs, the CCC typically guarantees repayment of 98 percent of the principal and a portion of the interest on credit extended for specified U.S. agricultural commodities to selected markets. The GSM-102 program covers private credit extended for up to 3 years, while the GSM-103 program covers private credit extended for 3-10 years. The programs encourage creditors to participate since CCC assumes most of the risk of nonrepayment. The programs allow exporters to arrange commercial financing for their sales at interest rates lower than what importers may otherwise find. Some importers may be unable to obtain credit without a credit guarantee. The program is sometimes used in conjunction with the price subsidy programs discussed above.

Changes of the 1990 FACTA

The FACTA included several significant provisions related to the CCC credit guarantee programs. First, the CCC cannot offer credit guarantees to any country that the Secretary determines cannot adequately service the debt associated with the sale. Second, the act stipulates that credit guarantees cannot cover financing for the foreign content of an exported product under the programs. The programs' exemption from cargo preference provisions was made explicit. The FACTA also reauthorized the Short-Term Direct Credit Sales Program and the Intermediate-Term Direct Credit Sales Program. Such programs have not been implemented since credit guarantees involve lesser outlays. At least $1 billion for fiscal years 1991-95 were to be made available to emerging democracies under the export credit guarantee programs. A portion of these funds was to be used to establish or improve handling, marketing, processing, storage, or distribution facilities in emerging democracies to promote U.S. agricultural exports, as long as such assistance helps U.S. exporters rather than those in close geographic proximity to the emerging democracy. While guarantees were made available for emerging democracies, a program to use credit guarantees for infrastructure facilities is being developed. The objective of the facilities guarantees is to develop infrastructure facilities that will facilitate the importation of U.S. commodities.

Program Levels

Program levels of the CCC credit guarantee programs have been stable between fiscal years 1989 and 1994 at a minimum of $5 billion under the GSM-102 program, $500 million under the GSM-103 program, and since 1991, $200 million per year for emerging democracies. However, use of the program has varied because of the mix of program participants, credit needs of importers, and competitors' sales offers (table 7).

Commodities Assisted under the Programs

About 90 different commodities have been shipped under the GSM-102/103 programs since fiscal 1989,

Table 7—GSM-102/103 Program credit guarantee approvals

Program	1989	1990	1991	1992	1993	1994
			Million dollars			
GSM-102	4,769.8	3,964.4	4,438.9	5,595.6	3,643.2	3,080.2
GSM-103	425.5	332.0	83.0	88.0	238.9	139.9
Total	5,195.3	4,296.4	4,521.9	5,683.6	3,882.1	3,220.1

Table 8—Commodity shipments under the GSM-102/103 Programs

Commodity	Average 1989-93	1993
	Million dollars	
Grains	2654.9	2151.0
Wheat	1271.5	1124.6
Corn	922.7	633.9
Other	460.7	392.5
Other bulk	881.4	897.6
Oilseeds	466.8	483.2
Other	414.6	414.4
Processed grain products	95.7	108.1
Vegetable oils	182.2	177.7
Dairy products	67.6	104.6
Other non-bulk	691.4	392.4
Soybean meal	365.1	209.4
Meat and products	142.7	145.1
Other	183.6	37.9
Total shipent value:1/	4,573.8	3,831.5

1/ Totals may not add due to rounding.

Table 9—Countries and regions under the programs

Region/country markets	Average 1989-93	1993
	Million dollars	
Latin America	1536.9	1482.4
Mexico	1235.7	1227.9
Other	301.2	254.5
E. Europe/FSU	1000.1	647.2
FSU	972.9	591.9
Other	27.2	55.3
Africa	846.1	889.7
Algeria	583.9	594.1
Egypt	123.4	43.4
Other	138.8	252.2
Middle East	471.6	57.0
Iraq	351.1	0.0
Other	120.5	57.0
Asia	719.0	755.5
Korea	482.7	462.1
Pakistan	186.9	223.9
Other	49.4	69.5
Total shipment value:1/	4,573.8	3,831.5

1/ Totals may not add due to rounding.

ranging from almonds to yeast. Grains and oilseeds (mostly wheat and soybeans) have accounted for more than two-thirds of the volume, although significant amounts of oilseed meals and oils are also sold under the programs (table 8). High-value products (HVP's), mostly semiprocessed grains and oilseed, and meat and products, accounted for close to 25 percent of program export volume between 1989 and 1993. In fiscal 1993, the programs accounted for about half or more of U.S. exports of butteroil, cottonseed, malting barley, nonfat dry milk, sorghum, and sunflowerseed oil. Also in fiscal 1993, about 15-25 percent of U.S. corn, cotton, soybean oil, soybean meal, wheat, and wheat flour exports were assisted by the programs. Less than 10 percent of U.S. rice was shipped, compared with 30 percent in fiscal 1989 when Iraq purchased heavily. Between fiscal 1989 and 1993, slightly more than 10 percent of total U.S. agricultural exports were shipped under the programs.

Countries and Regions under the Programs

Since fiscal 1989, over 40 countries have participated in the GSM-102/103 programs, including 5 of the top 15 U.S. agricultural export markets. Latin America and Eastern Europe, including the FSU, accounted for about half of the value of program shipments over the fiscal 1989-93 period (table 9). The chief destination was the FSU, which accounted for 40 percent of the value of program shipments. Other top markets were Mexico, with more than a quarter of shipments, Iraq, with almost 20 percent, and Algeria, with more than 10 percent. Iraq was suspended in fiscal 1990, and Russia, which was suspended from the program in November 1992, was allocated a small amount of guarantees for private sector importers late in fiscal 1994 and again in fiscal 1995. Countries reliant on CCC credit guarantees for more than half of their

1993 U.S. agricultural imports were Algeria, Morocco, Trinidad and Tobago, and Pakistan. Mexico, Romania, Senegal, and Zimbabwe purchased about one-third or more of their U.S. imports under the programs. China was added to the list of eligible countries in fiscal 1995, with an allocation of $100 million under the GSM-102 program.

Competitors' Programs

Credit is grounds for competition in world agricultural trade. Most major agricultural exporters offer some sort of export credit program. In Canada, the Ministry of Finance guarantees credit extended by the Canadian Wheat Board. About 10 percent of Canadian wheat was shipped under credit in 1992/93, down from about 40 percent when the FSU purchased heavily. In Australia, the Export Financing and Insurance Corporation guarantees loans issued by the Australian Wheat Board. The French Compagnie Française des Assurances pour le Commerce à l'Extérieure (COFACE), a semiprivate company, provides export credit guarantees, which also include agricultural products. Other European countries also extend credit or credit guarantees for products that can include agricultural commodities.

Credit competition among exporters increased when the FSU entered agricultural markets requiring credit in 1991. The United States provided 100 percent guarantees on credit to the FSU, and the European Union (EU), for the first time, offered credit guarantees as well. With Russian defaults on credit repayments, credit programs were halted. With debt rescheduled, however, the United States provided a relatively small amount of credit guarantees for private importers in the FSU in late fiscal 1994 and also in 1995.

Issues

Several issues face policymakers concerning credit guarantee provisions of the FACTA. A key issue is greater support for HVP's under credit guarantee programs. About $1 billion per year of HVP's are shipped under the CCC credit guarantee programs. However, because no credit guarantees may be extended on the foreign content of a product, this has the unintended effect of constraining the amount of HVP's that can be sold under the programs. For example, highly processed products may contain some amounts of imported products. It may be difficult to determine the source of a specific ingredient, and hence the amount of the foreign commodity in the product. This inhibits use of the program for such products, even though the foreign content might be small. An easing of the constraints would increase the amount of U.S. products exported, even though they might contain some foreign content.

Another issue is the definition of creditworthiness. Concerns have been raised by the claims paid by the CCC under the export credit guarantee programs, especially with large payments to creditors of some FSU importers. The repayment period of the credit is an important factor of creditworthiness: a country may have severe short-term foreign exchange constraints but may be capable of repaying credit in the long term. Congressional clarification of creditworthiness will likely be an issue.

Exporters' credit programs are not curtailed by the GATT, though Article 10 of the GATT calls for members to develop and abide by disciplines to govern the provision of export credits, credit guarantees, or insurance programs. Proposals have been made to increase the guarantee fees charged to cover the cost of the programs in terms of payments made under the programs. The FACTA set a maximum of 1 percent that may be charged for a GSM-102 guarantee origination fee and, as of April 1995, quoted rates were below that.

To make credit guarantee programs more accessible to exporters and importers, the President's Budget Proposal for 1996 includes proposals for the implementation of two new credit guarantee programs under GSM-102. The first is supplier credit guarantees, under which CCC will guarantee payment by foreign buyers of U.S. agricultural commodities and products sold by U.S. suppliers on a deferred-payment basis. This differs from other GSM-102 guarantees in that foreign banks and foreign bank letters of credit will not be involved in the transaction; instead, the foreign buyer alone will bear ultimate responsibility for repayment of the credit. The duration of the credit is also expected to be relatively short, generally up to 180 days.

Also to be carried out as part of the GSM-102 program in 1996 are facilities-financing guarantees. Under this activity, "CCC will provide guarantees to improve commodity-handling facilities and/or U.S. goods and services to address infrastructural barriers to increasing sales of U.S. agricultural products" (Annex to the 1996 President's Budget Proposal). Proposed program levels for the supplier credit guarantee and the facility-financing guarantee programs are $100 million annually for each.

Finally, as price subsidies are reduced, the importance of credit guarantees may rise if exporters use them in

place of other export assistance. This may be especially true if incomes grow in participating countries. Further, with both trade and market liberalization among importing nations, and with more private entrepreneurs involved in the import business, credit programs will meet a likely need. However, credit guarantees cannot offset reductions in price subsidies because interest savings to importers are much less than subsidized prices offered by the EU and other exporters. Still, availability of credit may be a more important consideration than price for some importers. Competitive credit programs will be needed to meet the needs of U.S. exporters wishing to sell in such an environment.

The Foreign Market Development and Market Promotion Programs

Market development programs seek to boost exports of U.S. agricultural and food products by expanding foreign consumer and industry demand for U.S. products. This is accomplished through advertising, nutritional information, store promotions, trade servicing, technical assistance, and other nonprice market development activities. USDA's Foreign Agricultural Service (FAS) operates two nonprice market development programs: the Foreign Market Development Program (FMD or Cooperator Program) and the Market Promotion Program (MPP).

Market development activities undertaken by the two programs are classified as "nonprice" because they focus on potential buyers' tastes and preferences rather than on product price or credit availability. Consumer promotions include store demonstrations and displays, media advertising, recipes and nutrition information, and event sponsorships. Export promotion activities directed to consumers may promote brand as well as generic products. Trade servicing activities acquaint importers and dealers with the attributes of U.S. agricultural products and help them procure U.S. products. Technical assistance teaches prospective customers about specific uses for U.S. agricultural commodities. Generally, MPP promotions target foreign consumers, while FMD activities focus chiefly on food manufacturers, processors, and importers in foreign countries.

Funding for the FMD was first authorized in 1954 under section 104 of the Agricultural Trade Development and Assistance Act. Since the early 1960's, the authority for the FMD came from section 601 of the Agricultural Act of 1954. The Market Promotion Program (MPP) was authorized in the 1990 FACTA. Their authorizing legislation noted that the FMD and MPP were expected to encourage the development, maintenance, and expansion of commercial export markets for U.S. agricultural commodities.

Changes of the 1990 FACTA and More Recent Legislation

The 1990 FACTA gave priority for MPP funding to organizations that could demonstrate that they had been harmed by another country's unfair trade practice. This continued the legacy of the Targeted Export Assistance (TEA) Program which was first authorized in 1985 as a means of assisting agricultural producers to counter the adverse effects of other nations' unfair trade practices. The 1990 FACTA also established a sunset provision for funding and legislative requirements for contributions from program participants.

Under the 1993 Omnibus Budget Reconciliation Act (OBRA), the MPP was reauthorized through 1997 and annual MPP funding was reduced to $110 million. The 1993 OBRA also required that MPP assistance be provided only to counter or offset the adverse effects of a subsidy, import quota, or other unfair trade practice except for small-sized entities operating through State/regional trade groups; that MPP funds supplement, not supplant, any private sector contributions; and that priority be given to small businesses for branded promotions. In addition, the 1993 OBRA specified a 5-year limit on branded promotion activities for a specific product in a single market; that producer and regional trade organizations participating in the program must contribute at least 10 percent of CCC resources for generic promotion; and that private firms put up at least half the cost of the MPP branded promotional activity.

Implementing legislation for the Uruguay Round agreement of the GATT removed the unfair trade practice requirement for MPP assistance.

Export market development program activities are conducted by nonprofit commodity trade organizations (such as the Washington State Apple Commission), nonprofit regional trade groups (for example, the Western United States Agricultural Trade Association, agricultural cooperatives, or a State agency), and private companies. FMD funding is aimed chiefly at generic promotion of commodities such as cotton, rather than promoting specific corporate brands. In contrast, close to 40 percent of MPP funds are invested in promotions conducted by U.S. corporate entities. Since FMD champions longer term market development, a greater share of FMD funding helps

generic commodity organizations maintain a long-term presence in many foreign countries. In contrast, MPP funds are focused more on short-term promotion activities.

Program Levels and Expenditures

The FMD is considered part of the annual FAS budget, while the MPP is a separate budget item funded by the CCC. Funding levels (expenditures) for the FMD have remained relatively constant, averaging about $30 million from 1989 through 1993 (table 10). Annual MPP funding was steady between 1989 and 1992, but began to dip in fiscal 1993.[3] The 1995 MPP appropriation of $85.5 million (as of April 1995) is less than half the annual MPP appropriation for 1989 through 1992.

Commodities Assisted under the Programs

The FMD and the MPP assist promotions of a multitude of agricultural products (table 11). From 1989 through 1993, 70 percent of FMD funds helped develop markets for grains and oilseeds. For the same period, close to 80 percent of MPP (and TEA) funds contributed to promotions of non-bulk, or higher-value products such as meats, fruits, vegetables, tree nuts, and packaged grocery products. The MPP is the chief USDA export program to focus on processed and other high-value products.

[3] Annual funding for the TEA Program, the precursor of the MPP, totaled $110 million annually from 1986 through 1988 and $200 million for 1989 and 1990.

Countries and Regions under the Programs

From 1989 through 1993, FMD and MPP funding went primarily to high-income markets—Japan and other East Asian countries and Western Europe (table 12).

However, in 1993, some program participants began to explore other markets closer to home in Mexico, the Caribbean, and Canada, where recent trade agreements have increased market access. Although Japan, other East Asian countries, Western European countries, Mexico, Canada, and Caribbean countries account for the bulk of FMD and MPP expenditures, program participants conduct market development activities under the two programs throughout the world.

Competitors' Programs

Major agricultural exporting nations such as Australia, Canada, European countries, and New Zealand heavily promote their agricultural and food products throughout the world. Many EU countries, such as France and Germany, use quasi-governmental agencies to conduct promotional activities and counsel firms about exporting. Funding for the agencies' operations comes from producer assessments, user fees, and government. In other countries, like Spain, export promotional activities are financed entirely by national and regional governments.

According to a 1994 survey by USDA's Foreign Agricultural Service (FAS), the producers and governments of major exporting nations other than the United States spent an estimated $500 million for non-price promotion activities in 1993. These activities included typical FMD and MPP activities, as well as other activities such as manufacturers' and retail discounts, which are not allowed under the U.S.

Table 10—Foreign Market Development (FMD), Targeted Export Assistance (TEA), and Market Promotion Program (MPP) program levels and expenditures, 1989-95 1/

Item	1989	1990	1991	1992	1993	1994	1995 2/
				Million dollars			
FMD:							
Program level	29.7	28.6	30.1	33.6	38.7	34.4	20.0
Expenditures	29.7	28.6	30.1	33.6	38.7	34.4	na 3/
TEA/MPP:							
Program level	200.0	200.0	200.0	200.0	147.7	100.0	85.5
Expenditures	145.2	169.2	227.6	170.0	191.6	154.8	na 3/

1/ The TEA Program was authorized from 1986 through 1990.
2/ The 1995 FMD program level is $20 million. Congress appropriated $85.5 million for the MPP for 1995.
3/ Planned expenditures are not available for the 1995 FMD and MPP.

na = not available.
Source: USDA, Foreign Agricultural Service, Marketing Operations Staff.

Table 11—Foreign Market Development Program and Market Promotion Program expenditures by product group

Commodity	FMD		TEA/MPP		FMD/TEA/MPP	
	Average 1989-93	1993 1/	Average 1989-93	1993 1/	Average 1989-93	1993 1/
	Thousand dollars					
Grains	14,219	16,719	13,535	14,208	27,755	30,927
Wheat	7,051	8,031	3,673	3,641	10,724	11,673
Feed grains	5,420	6,691	2,990	3,969	8,409	10,659
Other bulk products	8,802	10,306	26,899	21,658	35,701	31,964
Cotton	1,431	1,863	14,676	14,809	16,107	16,672
Oilseeds	7,102	8,059	11,229	5,203	18,331	13,261
Bulk 2/	23,021	27,025	40,434	35,866	63,455	62,890
Grain products	37	75	179	500	216	575
Dairy products	188	400	51	256	239	656
Other non-bulk products	9,613	11,195	139,816	154,819	149,429	166,014
Red meat	1,648	2,026	11,114	11,043	12,762	13,070
Poultry and eggs	1,511	1,765	6,130	7,160	7,641	8,925
Seafood	0	0	6,728	7,223	6,728	7,223
Fruits	301	509	49,182	44,801	49,483	45,310
Vegetables	215	279	7,988	7,402	8,203	7,681
Tree nuts	400	474	17,461	14,086	17,861	14,559
Wine	0	0	11,603	15,310	11,603	15,310
Grocery items	715	696	17,997	31,657	18,711	32,353
Forest products	2,544	2,841	8,017	11,303	10,561	14,144
Non-bulk 2/	9,838	11,669	140,046	155,575	149,884	167,245
Total:	32,859	38,694	180,480	191,441	213,339	230,135
Bulk commodities	70%	70%	22%	19%	30%	27%
Non-bulk products	30%	30%	78%	81%	70%	73%

1/ FMD, TEA, and MPP numbers for 1989-92 are actual expenditures, while 1993 numbers are planned expenditures.
2/ Some commodity organizations promote both bulk and processed products. Thus, it is difficult to estimate the distribution of promotion expenditures by bulk and non-bulk products.

Source: Calculated from data provided by USDA, Foreign Agricultural Service, Planning and Evaluation Staff.

programs. Seventy percent of the estimated $500 million spent by other nations in 1993 to promote agricultural exports abroad came from assessments on producers and food processors, while about 30 percent came from government appropriations.

Issues

Federal funding for the FMD and the MPP has been reduced sharply in recent years. However, in the U.S. implementing legislation for the Uruguay Round agreement, the United States proposed to increase spending levels for certain types of export programs—nonprice market development, credit, and food aid—and development of industrial uses for agricultural commodities over the next 5 years. In analyzing how much to fund the export market development programs and achieve export goals, policymakers are faced with two major program issues. First, how effective are the programs? Policymakers want to know how much the FMD and, especially, the larger MPP contribute to U.S. export volume and value, farm income, economic activity, and employment. Second, policymakers question whether taxpayer dollars are replacing private sector investment in market promotion.

Economic Benefits of Export Market Development Programs

The MPP and FMD differ from other export programs in that they are not tied to a specific shipment. Hence, linkages between promotions and sales to foreign consumers are less obvious than for other programs. While it is difficult to separate the export impacts of FMD and MPP activities from other factors, studies of individual agricultural products indicate that nonprice market promotions helped boost U.S. exports. For example, based on data for 1973 through 1988, Oklahoma State University researchers

estimated a short-term increase in export revenues of $5.36 per dollar spent on the promotion of one type of U.S. beef (diaphragm or skirt beef) in Japan.[4] In another study, Texas A&M researchers estimated an increase of $5 in export revenues for fresh grapefruit for every dollar spent on market promotion in Japan, France, and the Netherlands from 1969 through 1988, but pointed out that the removal of import quotas for fresh grapefruit and rising incomes in Japan also contributed to expanding U.S. grapefruit exports to Japan.[5] Other studies indicate increases in export revenues of more than $1 per dollar of investment in export promotion.

[4] DeBrito, M.A. "The Impact of Non-price Promotion Activities on United States Red Meat Exports to Japan." M.S. thesis. Oklahoma State University. Stillwater, Oklahoma. 1992.

[5] Fuller, S., H. Bello, and O. Capps. "Import Demands for Fresh Grapefruit: Effect of U.S. Promotion Programs and Trade Policies of Importing Nations." *Southern Journal of Agricultural Economics*. No. 24(1992). pp. 251-60.

The costs of promotion and returns to promotion investment vary by product and country. Promotion of bulk products is generally less costly than promotion of high-value products because the primary market development activities—trade-servicing activities to acquaint foreign buyers with the characteristics of U.S. products—are aimed at industry. However, the risk of low return on investment may be higher for grains and other bulk commodity promotions in countries where importers switch suppliers in response to price changes. Consumer promotions in middle-income countries also may be relatively less expensive because promotion costs are lower than in high-income countries. Promotion costs in highly developed countries are high, and competition for consumers is fierce. However, some higher income consumers are less price sensitive and are willing to pay a higher price for a specific food preference.

The effects of market promotion programs also vary by product. Even when market promotion is effective

Table 12—Foreign Market Development and Market Promotion Program expenditures by major markets

Region/country	FMD		TEA/MPP		FMD/TEA/MPP	
	Average 1989-93	1993 1/	Average 1989-93	1993	Average 1989-93	1993
			Thousand dollars			
Western Hemisphere	4,222	5,719	13,065	25,656	17,287	31,375
Mexico	1,636	2,414	5,724	13,686	7,360	16,100
Western Europe	6,783	7,328	62,526	56,537	69,309	63,865
France	600	631	6,717	5,688	7,317	6,319
Germany	1,560	1,584	14,109	12,934	15,669	14,518
Italy	566	570	5,666	5,020	6,232	5,590
Spain	485	436	5,600	4,735	6,085	5,171
United Kingdom	1,423	1,798	20,402	18,631	21,826	20,429
Eastern Europe and FSU	2,136	2,735	1,419	3,675	3,555	6,410
Asia	14,988	18,161	92,940	94,206	107,928	112,367
Middle East	1,661	1,775	7,014	7,896	8,675	9,671
Other Asia	13,327	16,386	85,927	86,310	99,254	102,696
Hong Kong	618	933	6,658	7,223	7,276	8,156
Japan	4,387	4,893	55,310	50,292	59,697	55,185
Korea	1,849	2,180	7,612	8,244	9,461	10,424
Taiwan	1,594	2,289	8,899	9,831	10,493	12,120
Oceania	196	172	2,721	3,327	2,918	3,499
Africa	2,991	3,566	3,937	2,990	6,927	6,556
Other 2/	1,543	1,018	3,917	5,264	5,459	6,282
World total	32,859	38,699	180,525	191,655	213,383	230,354

1/ 1989-92 FMD, TEA, and MPP numbers are actual expenditures, but 1993 numbers are planned expenditures.
2/ These expenditures were not allocated to any one country.

Source: Calculated from data provided by USDA, Foreign Agricultural Service, Planning and Evaluation Staff.

at boosting exports, export increases may have little effect on domestic U.S. farm prices. The product's export share of total consumption plays a role in determining how much an increase in exports boosts total demand. For example, pork exports, while increasing in recent years, represented only 3 percent of production in 1994 and are unlikely to have a significant effect on pork prices at present. The level of processing also determines how much of the export increase gets passed back to farmers. Promotion of packaged specialty products may benefit manufacturers and their employees far more than it benefits agricultural producers.

Market development activities, to the extent that they expand demand, may benefit the economy by maintaining or increasing employment and tax revenues. Depending on the product promoted, program effects may be localized, even though national consumer prices may rise due to increased export demand. In the long term, producers may respond to the higher prices resulting from greater export demand by increasing their production of the promoted commodity, which would tend to reduce prices.

Market development is a long-term process. Export gains from market promotion programs are realized over a longer period of time than the gains from price subsidies and credit guarantees, and typically require longer term investment. Individual consumer promotions can result in sales within days or months, but entire promotion campaigns or new-market penetration may take years.

The Role of Government In Export Market Development

In recent years of tightening Federal budgets, lawmakers have begun to question the role of the Government in agricultural export market development. Traditional USDA roles in developing export markets have focused on negotiating for more open markets for U.S. agricultural exports, gathering market intelligence, assisting U.S. companies to meet foreign buyers, arranging U.S. participation in trade fairs, and administering credit, price subsidy, and certain food aid programs. The FMD involved relatively small amounts of funding for market development. However, the TEA and MPP programs have gone beyond the forms of export assistance cited above. Attempts to legislate program objectives for the TEA and MPP to counter unfair trade practices, to assist small businesses, and to set graduation requirements stem from this debate about Government's role.

Legislators championed appropriations for the TEA and MPP to counter the adverse effects of unfair trade practices. However, the implementing legislation for the Uruguay Round agreement removes the unfair trade practice requirement for MPP funds. While it is unlikely that MPP promotions solve trade policy problems, they increase foreign consumers' awareness of U.S. products and can help position U.S. products once markets are liberalized.

International competition represents a strong argument for U.S. Government support for agricultural export market development. As U.S. negotiators gain access to foreign markets, market development assistance helps assure that U.S. producers benefit. Further, as the EU and other nations reduce their export subsidies to comply with the Uruguay Round agreement, they also may increase their emphasis on (and financial support for) nonprice market development. Finally, U.S. producers may turn to nonprice market development programs to ease the transition to market-oriented world trade.

Export market development involves significant risks, which many firms are unwilling (or unable) to accept. Nonprofit promotion organizations were established originally to help U.S. producers develop export markets for many bulk commodities, semi-processed products, and some fruits and meats when individual firms did not want to take the financial risk involved. At the same time, many of the foreign market entry strategies developed by U.S. food marketing and processing firms (opening subsidiaries in foreign countries, establishing joint ventures with foreign processors, and concluding licensing agreements) may rely less on U.S. than on foreign agricultural production. Thus, Government assistance may encourage firms to consider promoting and marketing U.S. agricultural products instead of spurring foreign production.

MPP and FMD participants from nonprofit organizations argue that USDA's assistance for the FMD and the MPP encourages private industry in the United States and overseas to increase participation in and contributions to export market development. The average nonprofit organization's cash contribution to the MPP is about 20 percent of USDA's funding; companies equally match USDA funds for approved MPP activities. However, program participants claim that FAS market development program funding leverages additional industry funding and interest. Hence, by providing some funds, the Government can encourage additional funding and activity that likely would not occur in the face of unfair trade practices.

The pursuit of foreign market opportunities is especially difficult for small firms. In recent years, legislators have argued for increased support to help small businesses develop export markets. MPP expenditures in recent years have been targeted increasingly to the regional trade associations, whose promotions focus on the products of small companies. While some may view it as Government's role to assist individual small firms, greater export gains may be obtained by allocating market development funds to larger companies that can move larger volumes. Thus, there is a trade-off between maximizing exports and assisting small firms.

The duration of assistance under the programs also is an issue. As discussed above, multiyear assistance is necessary to develop a market adequately. However, the Government wants to encourage market development without the recipients' becoming dependent on Government assistance. USDA is mandated to limit the number of years for which companies may receive MPP funds to promote a specific brand product in a specific market. The 5-year period should allow the companies to establish a presence in a market and determine whether they want to continue to fund the promotion activities themselves. Similar "graduation" requirements have not been announced for the nonprofit organizations.

U.S. Food Aid

The United States has played a significant role in meeting the food needs of developing countries. The U.S. Government currently provides food aid overseas chiefly through the P.L. 480 program, but also through Section 416(b) of the Agricultural Act of 1949, as amended, and through the Food for Progress (FFP) Program established by the Food Security Act of 1985. The goals of the U.S. food aid programs are to help meet humanitarian needs, provide needed calories and alleviate malnutrition, and establish a U.S. market presence in the recipient countries.

The U.S. Government at times taps the Food Security Wheat Reserve (FSWR) to provide food aid to developing countries. The FSWR, authorized by the Food Security Act of 1980 and extended through 1995 by the 1990 FACTA, is a reserve of up to 4 million metric tons of wheat to meet extraordinary need in developing countries. The President has authority to tap the reserve when: 1) wheat stocks are not available because of tight domestic supply and P.L. 480 commitments cannot be fulfilled, and 2) wheat supplies cannot be provided quickly enough under Title II procedures during an urgent humanitarian need. Wheat from the reserve has been used five times since its creation.

Changes of the 1990 FACTA

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) institutionalized and provided the framework for U.S. food aid programs. The 1990 FACTA revised U.S. foreign food assistance programs in response to a new political atmosphere and to the concerns expressed by constituencies interested in food aid. The policy objective of P.L. 480 was changed to promote U.S. foreign policy by enhancing the food security of developing countries. Before 1990, U.S. policy under P.L. 480 was primarily to expand international trade and U.S. agricultural export markets; to use U.S. agricultural abundance to combat hunger, encourage economic development in developing countries; and to promote U.S. foreign policy. In 1990, policy emphasis was shifted away from commercial market development and surplus disposal toward improving food security, hunger relief, and encourage economic development.

The P.L. 480 program includes concessional sales through Title I and donations and grants through Titles II and III. The 1990 FACTA gives the Secretary of Agriculture sole responsibility for Title I sales, while the Administrator of the U.S. Agency for International Development (AID) has authority for executing the Titles II and III programs.

Although the Title I program continues to support concessional sales with long-term, low-interest loans to developing countries, the terms were shortened in the Act from 40 years to 30 and the grace period for repayment reduced from 10 years to 7. The compulsory self-help measures, in effect since 1966, were deleted. The priorities for country allocations to receive Title I assistance were revised to include countries that have demonstrated the greatest need for food; are adopting policies to promote food security and agricultural development; promote broad-based equitable and sustainable development; and demonstrate potential to become U.S. commercial markets.

Title II centers on humanitarian relief and development initiatives undertaken by private voluntary organizations (PVO's), cooperatives, and international agencies such as the World Food Program (WFP). In emergency situations, Title II aid can also be provided directly to governments. The minimum volume of agricultural commodities to be made available under Title II was increased by 25,000 metric tons per year over a 5-year period, beginning with 1.925 million

metric tons in fiscal year 1991. Also, at least 10 percent of the commodities provided for Title II nonemergency assistance must be sold, with the proceeds used for development purposes. Title II was also amended to provide funding for PVO's and cooperatives to support their overseas food aid activities. The FACTA also emphasized the role of private sector involvement through the establishment of a Food Aid Consultative Group to review and address issues concerning Title II regulations and procedures.

The Title III program was drastically redesigned in the 1990 Act, albeit retaining its old name, "Food for Development." The new Title III provides an all-grant food aid program to be used by least-developed countries based on explicit poverty and malnutrition standards such as calorie consumption, per capita income, food deficit status, and child mortality rates. The commodities provided may be sold by the recipient government with the proceeds devoted to development programs, direct feeding programs, or emergency food reserves.

Section 416 of the Agricultural Act of 1949, as amended, provides for donations of CCC-owned surplus commodities to developing countries. The 1990 FACTA amended Section 416(b) to allow surplus CCC commodities to be used for the purpose of P.L. 480 Titles II and III and the FFP program.

The FFP program was amended to allow the United States to enter into agreements with PVO's, nonprofit agricultural organizations, and cooperatives, as well as developing countries and emerging democracies. FFP may be used to enhance the development of private sector agriculture in recipient countries. This program may be funded through P.L. 480 Title I appropriations as well as the resources available under Section 416(b). For Section 416(b), eligible commodities in the CCC inventory may be used, or the CCC may purchase commodities in the open market for use under FFP if they are not available in the CCC inventory. FFP commodities acquired with P.L. 480 Title I funds may be provided on a grant or concessional sales basis. A limit of 500,000 metric tons of food may be provided through FFP in any fiscal year. This restriction was lifted temporarily in fiscal 1992 and fiscal 1993 by the Freedom Support Act in order to make more commodities available to the FSU countries and emerging European democracies. In addition, no more than $30 million of CCC funds may be used to finance FFP transportation costs each year.

Table 13—P.L. 480 program levels, fiscal 1989-95 1/

P.L. 480	1989	1990	1991	1992	1993	1994	1995 3/
				Million dollars			
Title I	783	791	754	535	555	416	320
Title II	699	731	815	749	832	912	821
Title III	2/	2/	2/	324	312	233	157
Total program level	1,482	1,522	1,569	1,608	1,699	1,561	1,298

1/ Yearend levels reflect transfers among titles.
2/ Prior to FY 1992, funding levels for Titles I and III were reported together.
3/ Enacted levels.

Source: FAS, Budget Division, November 1994.

Program Levels

The P.L. 480 foreign food assistance programs are authorized as part of the farm legislation that is renewed every 5 years while appropriations committees annually approve the P.L. 480 budget. P.L. 480 program levels increased by 3 percent every year between fiscal 1989 and fiscal 1992, and in fiscal 1993 grew by 6 percent. However, program levels for Titles I and III began to decline considerably in fiscal 1994 as part of President Clinton's deficit reduction initiatives (table 13).

The amount of Section 416(b) aid depends on the volume of surpluses in CCC inventories; funds are not appropriated for it, and its size varies from year to year. The value of commodities shipped from fiscal 1989 through fiscal 1993 under the Section 416(b) program averaged about $300 million. In recent years, most Section 416(b) commodities have been used for emergency programs and for emerging democracies.

The FFP program does not involve funding separate from CCC borrowing authority or Title I appropriations. The value of the commodities shipped under the FFP program amounted to about $77 million in fiscal 1992 and $475 million in fiscal 1993.

Since the beginning of the P.L. 480 program, most U.S. food aid has been provided through Title I. From fiscal 1955 to fiscal 1990, an estimated 70 percent of the value of all commodities provided through P.L. 480 programs were in the form of Title I agreements. However, partially because of changes to the P.L. 480 program made by the 1990 FACTA and modifications made to the FFP program, the share of

commodities provided since 1990 under Title I authority has dropped. For example, in 1991, for the first time since the beginning of the P.L. 480 program, the largest share of total P.L. 480 exports was shipped under Title II (table 14). This demonstrates that more food aid is distributed under grants than ever before, partially in response to emergencies.

Commodities Provided under the Programs

The United States continues to provide a vast array of commodities to many developing countries through its food aid programs. In fiscal 1989-93, grains comprised most of the value of food donations. Much of that was wheat, followed by corn, rice, and sorghum. The second largest category was vegetable oil, mostly soybean oil. Processed grain products, like wheat flour, and blended products that include corn-soya-milk, wheat-soya-milk, and various other cereal blends accounted for almost 10 percent of the total value of food aid shipped during fiscal 1989-93. About 8 percent of the fiscal 1989-93 total were high-value products, including dried beans, dried peas, lentils, nonfat dry milk, soybean meal, and tallow. The remainder included cotton and miscellaneous products (table 15).

Food aid's share in U.S. agricultural exports has declined significantly from more than 30 percent in fiscal 1957 to about 6 percent in fiscal 1993 (app. table 1). However, food aid shipments are still significant for some commodities. For example, U.S. food aid accounted for about 15 percent of U.S. soybean oil exports, and more than 30 percent of U.S. wheat flour exports in fiscal 1992 and fiscal 1993. In fiscal 1993, the total value of food aid shipments amounted to $2.6 billion, more than double the value of food aid shipments in fiscal 1992, due mainly to the FFP package offered to Russia in early April 1993 at the Vancouver summit by President Clinton. The 14 million tons of U.S. food aid shipped in fiscal 1993 represented more than twice the previous year's level.

Table 14—Titles I, II, and III, Food for Progress, Barter, and Section 416 shares of USDA food aid shipments 1/

Year	Title I	Title II	Title III	Food for Progress	Barter	Section 416
			Percent			
1956-58	57.4	19.7	0	0	22.9	0
1966-68	78.3	20.1	0	0	1.6	0
1976-78	69.7	30.3	0	0	0	0
1986-88	56.0	29.4	0	0	0	14.5
1989-91	47.4	38.3	0	0	0	14.3
1992	25.6	35.0	15.7	7.1	0	16.4
1993	15.0	24.4	8.1	18.4	0	26.2

1/ Commodities were shipped under the P.L. 480 barter program until 1969.

Source: USDA/ERS/CED, P.L. 480 database.

Table 15—Food aid shipments by commodity group 1/

Commodity group	Average 1989-93	1993
	Thousand dollars	
Grains	933,975	1,531,453
Grain products	137,012	127,035
Vegetable oils	133,673	44,855
Dairy products	3,306	5,015
Oilseeds & meals	31,790	59,589
Fibers & fabric	17,605	49,012
Blended products 2/	56,909	33,896
Other	234,302	718,319
Total shipments 3/	1,548,572	2,569,174

1/ Food aid shipments include P.L. 480 shipments and Section 416 shipments.
2/ Blended products include corn-soya-milk, wheat-soya-milk, and various other cereal blends.
3/ Value of shipments for 3-year period.

Source: USDA/ERS/CED, P.L. 480 database.

Major Recipients of U.S. Food Aid

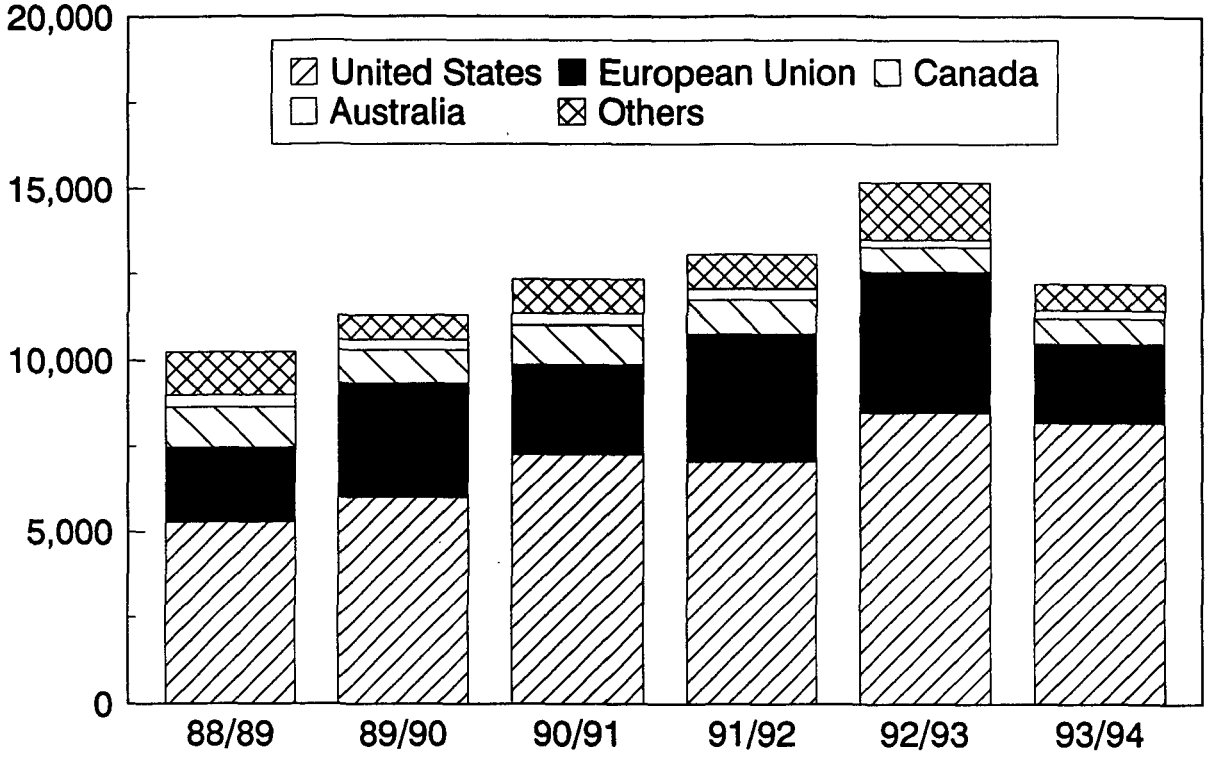
The distribution of U.S. food aid has changed in the last 5 years mainly as a result of the fall of the Com-

Table 16—Food aid shipments by destination 1/

Country group	Average 1989-93	1993
	Thousand dollars	
Africa	567,109	651,940
Egypt	203,206	154,265
Asia	332,749	289,893
India	98,858	118,951
Europe	314,238	1,228,236
Russia	94,753	406,620
Latin America	290,005	368,333
Peru	51,105	95,543
Middle East	44,289	30,776
Jordan	22,645	12,603
Other	183	0
Total shipments	1,548,573	2,569,178

1/ Food aid includes P.L. 480 Titles I, II, III, Food for Progress, and Section 416.

Figure 4
Grain food aid by donors 1/
Million tons



1/ July-June years.
Source: FAO Outlook Report, Sept. 1994

munist system in Europe and changing food needs around the world. From 1989 through 1992, Africa received the largest share of U.S. food aid. However, in 1993 the region that received the largest share was Eastern Europe and the FSU countries, especially Russia. The increase in the share of these shipments was mostly because of the emphasis in providing food assistance to formerly centrally-planned economies. At the same time, the share of U.S. food aid shipped to Asia and Latin America declined (table 14).

Other Major Food Aid Donors

Other major donors of food aid are, in order of magnitude, the EU, Canada, Japan, and Australia. The United Nations Food and Agriculture Organization (FAO) reported that U.S. cereal aid shipments amounted to 8.5 million tons in 1993/94 (July-June), or about 64 percent of global shipments, followed by the EU with 21 percent, Canada with 6 percent, Japan with 3 percent, and Australia with 2 percent. Cereals account for more than 90 percent of world food aid, with wheat and wheat flour accounting for more than 70 percent. Since 1988/89, donations from all donors have never fallen below the 10-million-ton minimum set 20 years ago at the 1974 World Food Conference. However, food aid availabilities of cereals in 1994/95 are expected to fall to 10 million tons. Since 1989, the U.S. share of total world food aid has declined, as the amount of aid provided by other donors, particularly the EU, increased significantly (fig. 4).

Food Aid Issues Related to 1995 Farm Legislation

As Congress prepares to discuss the 1995 farm legislation and reauthorization of P.L. 480 programs, it will seek to ensure that food aid is used as effectively and efficiently as possible. The implications of the GATT agreement, the reduction in the P.L. 480 budget, growing global food aid needs, the degree to which new legislative authorities included in the 1990 FACTA have been used, and the degree to which program changes have resulted in improved program operation and outcome are issues to consider.

Implications of the Uruguay Round Agreement on Food Aid

The GATT agreement calls on signatory nations to abide by internationally agreed upon rules regarding food aid. Ministers to the GATT also agreed to guarantee that the implementation of the Uruguay Round agreement would not adversely affect food aid com-

mitments to meet the authentic food needs of developing countries and stressed the continuing need for bona fide food aid. However, the GATT agreement is not specific on how this is going to be accomplished.

The GATT agreement will have other impacts that affect the food aid needs of developing countries and food aid availabilities of developed countries. Full implementation of the GATT agreement is expected to reduce subsidies that have kept world grain prices artificially low. A number of studies undertaken in the early years of the GATT indicated that liberalization would lead to significant reductions in agricultural production in the Organization for Economic Cooperation and Development (OECD) countries and a 5- to 15-percent increase in world prices of temperate zone products, including wheat, coarse grains, rice, and dairy products. The price effect on tropical products is expected to be smaller. This is of concern to developing countries, which are importers of the temperate zone products, mostly grains, and exporters of tropical products. Higher grain prices will diminish the ability of the least developed countries to purchase wheat on the world market in competition with the major wheat-importing countries of the Middle East, North Africa, and high-income Asian countries such as Japan.

Budget Issues

Several simultaneous forces, such as the GATT agreement, reductions in the P.L. 480 budget, and poor weather, could significantly reduce the volume of commodities shipped as food aid in the near future. A reduced budget, however, could be the most significant of those forces, since the budget is the controlling factor in the volume of U.S. food aid. Nonetheless, to the extent that higher world market prices are transferred to producers in developing countries, some increases in their food production would be expected, and the need for food aid correspondingly less.

P.L. 480 has been the target of several budget cutback proposals, including the fiscal 1995 overall cuts recommended by the President and Title I and III program cuts approved by Congress. Advocates of P.L. 480 see all the titles as important food aid programs that should continue at traditional spending levels or even expand, since they see so many countries in need of food and the possibility of many more such situations in the future. Since U.S. wheat prices are expected to remain relatively high throughout 1995, even if the fiscal 1995 P.L. 480 budget were the same as in fiscal 1994, its purchasing power would be reduced.

Agricultural producers are concerned about a reduced foreign food aid budget as well. They argue that reductions in Title I, a program that can serve as a market development tool, come at a time when the GATT agreement is likely to weaken other export assistance programs for U.S. agriculture.

At the same time, however, some critics have said for years that nonemergency food aid, especially the type provided by Titles I and III, can act as a disincentive for achieving needed economic and agricultural reforms in the recipient country. Their opinion is that reductions in these two titles, while significant, are unlikely to cause disasters in food deficit countries, and, in the long run, could encourage agricultural reform.

Future for Food Aid—More Emergencies but Less Surplus Commodities?

In the 1990 FACTA, Congress stated that the United States would promote its foreign policy by providing agricultural commodities to developing countries to enhance their food security. Food security was defined as "access by all people at all times to sufficient food and nutrition for a healthy and productive life." Factors affecting the level of U.S. food assistance have changed. Large agricultural surpluses often tapped for overseas food assistance have declined as a result of increasingly market-oriented domestic agricultural policies initiated in 1985 and 1990 legislation. For example, in fiscal 1994, the U.S. Department of Agriculture (USDA) made available about 200,000 metric tons of grains and dairy products for distribution under Section 416(b), compared with 2.9 million metric tons in fiscal 1993. Further, for fiscal 1995, the Secretary of Agriculture has determined that, based upon current CCC stocks and projected purchases and dispositions, at present 5,000 metric tons of nonfortified nonfat dry milk is available during fiscal 1995. Also, the 1989 National Research Council (NRC) report on global food aid projections for the 1990's declared that by the end of the century, global food aid needs will rise considerably. Estimates of needs by the year 2000 ranged from 30 million to 50 million metric tons. As the number of international emergencies continues to grow, some feel a need for the Government to develop new mechanisms to provide necessary food aid to cope with them.

Effect of Changes from the FACTA

The 1990 FACTA gave AID the responsibility for managing agricultural commodity assistance to foreign countries provided under Title II and Title III. The act also required that GAO evaluate these programs in terms of: (1) the uses of commodities

provided under Titles II and III and local currencies generated by the sale of commodities; (2) the impact of the assistance on enhancing food security; and (3) AID's management of the programs, particularly in safeguarding financial resources generated under the programs. In July 1993, GAO found that AID was not complying with the specifications mandated by the legislation.[6] Specifically, GAO found that AID had not developed any guidance on how food aid should be used to enhance food security. GAO further found that AID missions cannot ensure that resources are adequately controlled because they rely heavily on grant recipients that often lack the experience or expertise to ensure accountability of commodities and local currencies. In addition, AID had not ensured compliance with legislated timeframes for program authorization or minimum support to indigenous nongovernmental organizations.

AID responded that it will use the report as one way to assess its implementation of the 1990 FACTA, but argued that food security issues were more complex than interpreted by GAO and that the report did not provide a balanced view of differing perspectives on these complex issues.

GAO assessed the impact of Title I assistance on long-term market development assistance for U.S. agricultural exports and economic development in recipient countries and found that Title I's contribution in these areas was very limited. GAO claimed that Title I aid has had minimal impact on economic development because the value of the foreign exchange a country might save through purchasing Title I commodities on concessional terms is small relative to the country's development needs. Also, GAO said that the program gives USDA little opportunity to influence activities or initiate policy reforms in the recipient country.

GAO's review also indicated that Title I's contribution to long-term, foreign market development for U.S. agricultural commodities was nonexistent. GAO said that Title I commodities tend to be price sensitive, making it difficult to convert the concessional market share established through the Title I program into commercial market share, unless the United States can offer competitive prices. Also, some program requirements—for example, the cargo preference rules, re-export restrictions, and commodity quality and eligibility rules—impose constraints on recipients that undermine market development efforts.

In contrast, others state that U.S. food aid has been an important tool in building commercial markets for U.S. agricultural exports. They argue that food aid represents commodities that would not have been exported in the absence of concessional finance, and are additional to commercial exports. They also claim that food aid helps develop consumer preferences for U.S. products and that Title I agreements establish trade relationships that give U.S. exporters an advantage in future commercial sales. Developmental uses of food aid also contribute to export market development because food aid resources can be used to build market infrastructure and promote income growth in recipient countries. However, USDA recognized in testimony of the General Sales Manager of the Foreign Agricultural Service that Title I needs some changes, including more flexibility to be more responsive to a country's particular circumstances and to changes in the country composition.

Create a Food Fund Reserve

The United States already has a source of wheat to use as emergency food aid in the FSWR. At issue is whether the FSWR should be expanded to include other grains which would assure more flexibility to support the P.L. 480 program during unusual periods of constrained commodity supply or major emergency needs. Another option would be to combine the FSWR with a money reserve to expand the ability and flexibility needed to respond to critical food need emergencies in developing countries. This will benefit the recipient countries and the commodity groups.

If cash were provided, U.S. agriculture would not necessarily benefit, but the cash would enable recipient countries to obtain the maximum volume of desired commodities from the closest and cheapest sources.

Cargo Preference

Cargo preference regulations have been a matter of controversy in food aid policy since 1954, when the Cargo Preference Act was enacted. These regulations, which are designed to support the U.S. merchant marine industry, require that at least 75 percent of U.S. concessional shipments be shipped on U.S. flag vessels. U.S. freight charges tend to be higher than rates prevailing on the world market, increasing the cost of shipping food aid. Currently, USDA pays cargo preference costs on 50 percent of the food aid volume while the Department of Trans-

[6] *Food Aid: Management Improvements Are Needed to Achieve Program Objectives.* GAO/NSIAD-93-168, July 23, 1993).

portation (DOT) pays the costs on an additional 25 percent.

A September 1994 GAO study found that applying cargo preference to food aid programs did not contribute significantly to meeting the intended objectives of the Cargo Preference Act.[7] GAO found that cargo preference adversely affects the operation of U.S. food aid programs because higher freight costs for U.S. flag vessels reduce the tonnage purchased. Cargo preference also means that commodity-purchasing decisions are often driven by the availability of U.S. flag vessels instead of by commodity price or specifications. If food aid were exempted from cargo-preference regulations, food aid recipients and commodity groups would benefit if the savings were not used for deficit reduction purposes. The losers would be the owners, operators, and crew members of U.S. vessels that transport the food aid commodities. However, GAO cited a Department of Transportation study claiming that "federal programs, including cargo preference regulations, have not kept the U.S. merchant marine viable and competitive in world trade."[8]

[7] See U.S. General Accounting Office, *Cargo Preference Requirements: Their Impact on U.S. Food Aid Programs and the U.S. Merchant Marine*, June 1990.

[8] See U.S. General Accounting Office, *Cargo Preference Requirements: Their Impact on U.S. Food Aid Programs and the U.S. Merchant Marine*, June 1990.

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Appendix table 1—Export program shipments of agricultural products1/

Year	P.L.480 and Section 416	Credit and Guarantee Programs	Export Enhancement Program 2/	Barter 3/	CCC Direct Sales 4/	Agricultural Export value	Program Share of Exports
	Million dollars						Percent
1955	384.4	69.0				3,144.0	14.4
1956	984.9	61.9				3,496.0	29.9
1957	1,525.1	73.1				4,728.0	33.8
1958	981.0	203.3				4,003.0	29.6
1959	1,017.3	92.8				3,719.0	29.8
1960	1,115.9	1.0				4,519.0	24.7
1961	1,316.4	18.0				4,946.0	27.0
1962	1,495.5	33.0				5,143.0	29.7
1963	1,456.3	77.0				5,078.0	30.2
1964	1,418.0	118.0				6,068.0	25.3
1965	1,570.5	95.0				6,097.0	27.3
1966	1,345.9	210.0				6,747.0	23.1
1967	1,270.8	339.0				6,831.0	23.6
1968	1,279.5	141.0				6,331.0	22.4
1969	1,038.6	116.0				5,751.0	20.1
1970	1,055.8	211.0				6,958.0	18.2
1971	1,023.0	391.0				7,955.0	17.8
1972	1,057.0	372.0				8,242.0	17.3
1973	946.4	1,029.0				14,984.0	13.2
1974	865.9	297.9				21,559.0	5.4
1975	1,099.1	248.6				21,817.0	6.2
1976	904.1	956.9				22,742.0	8.2
1977	1,103.6	755.3				23,974.0	7.8
1978	1,072.8	1,582.5			16.9	27,289.0	9.8
1979	1,187.2	1,590.6			17.8	31,979.0	8.7
1980	1,341.6	1,417.0			41.4	40,481.0	6.9
1981	1,333.0	1,874.0			172.6	43,780.0	7.7
1982	1,107.6	1,393.0		13.0	24.3	39,097.0	6.5
1983	1,194.7	4,069.0			95.0	34,769.0	15.4
1984	1,505.9	3,646.0		34.0	15.5	38,027.0	13.7
1985	1,905.8	2,761.0	86.5		95.6	31,201.0	15.5
1986	1,334.2	2,416.5	715.7		111.7	26,312.0	15.9
1987	1,077.2	2,984.0	1,684.4		157.0	27,876.0	19.1
1988	1,435.7	3,879.9	3,313.5		108.6	35,316.0	22.0
1989	1,298.4	5,057.0	2,826.7		137.0	39,590.0	23.5
1990	1,315.0	4,299.6	2,384.2		7.1	40,220.0	18.0
1991	1,109.2	4,111.3	2,009.3		39.9	37,609.0	17.9
1992	1,074.3	5,529.0	3,296.8		133.3	42,430.0	19.6
1993	2,365.6	3,759.0	3,733.5		15.9	42,590.0	20.9

1/Program shares of exports account for overlaps between sales under credit guarantee program and EEP, COAP, and SOAP from 1986 through 1993. The following amounts have been subtracted from total Government-assisted sales to account for the overlap: 1986, $387 million; 1987, $578 million; 1988, $951 million; 1989, $964 million; 1990, $778 million; 1991, $520 million; 1992, $1.7 billion; 1993, $965 million.
2/Includes EEP, DEIP, COAP, and SOAP sale values.
3/Barter sales outside of the P.L. 480 program were reported for 1982 and 1984.
4/The market value of commodities sold by the CCC was not available prior to 1978.

Sources: U.S. Dept. Agr., For. Agr. Serv., Agricultural Assistance Update, "Notices to Exporters," and communications with officials in the Export Credits Division; U.S. Dept. Agr., Econ. Res. Serv. database of P.L. 480 shipments; U.S. Dept. Agr., Econ. Res. Serv. database of P.L. 480 and Section 416(b) shipments and Foreign Agricultural Trade of the United States.

Appendix 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 (1949-66)	Special loans to Afghanistan, India, Pakistan, Spain, and the United Kingdom	Section 416(b) (1950-54)		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), 1956-80, 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)	
1979		GSM-101 (1979-81) GSM-201 (1979)			
1980		GSM-102 (1980-present)	Food Security Wheat Reserve Act (1980-present)		
1981		GSM-301 (1981-82)			
1982			Section 416(b) reauthorized (1983-present)		
1983	Flour sales to Egypt	Blended credit (1983-85)			
1984	CCC sales to West African countries				
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 (1986-1990)	Red meat sales (1986-87) Mandated dairy sales (1986-88) Agricultural Trade and Development missions (1986-1990)
1988	Sunflowerseed Oil Assistance Program				
1989	Cottonseed Oil Assistance Program				
1990				Market Promotion Program (1991-present)	

Appendix table 3a–U.S. subsidized exports under the Uruguay Round agreement

Commodity	Base period 1986-90	Base period 1991-92	Annual commitments 95/96	96/77	97/98	98/99	99/00	00/01
			1,000 metric tons					
Annual quantity commitments by commodity: 1/								
Wheat/flour	18,382	21,382	20,238	19,095	17,952	16,809	15,665	14,522
Coarse grains	1,975		1,906	1,837	1,768	1,699	1,630	1,561
Rice	49	318	272	225	178	132	85	39
Vegetable oils	179	677	588	498	409	320	231	141
Butter/butter oil	27	47	43	39	34	30	25	21
Skim milk powder	86	116	108	100	92	84	76	68
Cheese	4	4	4	4	4	3	3	3
Other (WMP)	0.04	15	12	10	7	5	3	0.03
Bovine meat	22		21	21	20	19	18	18
Pigmeat	0.5		0.5	0.5	0.4	0.4	0.4	0.4
Poultry meat	35		34	33	32	30	29	28
Live dairy cattle(head)	13,955		13,467	12,978	12,490	12,001	11,513	11,024
Eggs [000 doz]	8,759	34,930	30,262	25,593	20,925	16,256	11,588	6,920

	Base period 1986-90	Base period 1991-92	Annual commitments FY 1996	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001
			Million dollars					
Annual budget outlays by commodity:								
Wheat/flour	568.5	845.8	765.5	685.2	604.8	524.5	444.2	363.8
Coarse grains	72.1		67.7	63.4	59.1	54.8	50.4	46.1
Rice	3.7	18.4	15.7	13.0	10.4	7.7	5.0	2.4
Vegetable oils	22.0	60.7	53.0	45.2	37.4	29.6	21.9	14.1
Butter/butteroil	47.7		44.8	41.9	39.1	36.2	33.4	30.5
Skim milk powder	128.8		121.1	113.4	105.7	97.9	90.2	82.5
Cheese	5.7		5.3	5.0	4.7	4.3	4.0	3.6
Other (WMP)	0.033	17.2	14.4	11.5	8.6	5.8	2.9	0.021
Bovine meat	35.7		33.5	31.4	29.2	27.1	25.0	22.8
Pigmeat	0.8		0.7	0.7	0.6	0.6	0.5	0.5
Poultry meat	22.7		21.4	20.0	18.6	17.3	15.9	14.6
Live dairy cattle	18.6		17.5	16.3	15.2	14.1	13.0	11.9
Eggs	2.5	8.8	7.6	6.4	5.2	4.0	2.8	1.6
Total	928.7		1,168.2	1,053.4	938.7	823.9	709.1	594.4
			982.6		780.6	679.7	578.6	477.8
				881.6				

See footnotes at end of table.

Appendix table 3b--European Union subsidized exports under the Uruguay Round agreement

Commodity	Base period 1986-90	Base period 1991-92	Annual commitments 1st Yr	2nd Yr	3rd Yr	4th Yr	5th Yr	6th Yr
			1,000 metric tons					
Annual quantity commitments by commodity: 1/								
Wheat/flour	17,008	20,255	19,119	17,982	16,846	15,709	14,573	13,436
Coarse grains	12,625		12,183	11,741	11,299	10,857	10,415	9,973
Rice	184		177	171	164	158	152	145
Rapeseed	100		97	93	90	86	83	79
Olive oil	148		143	138	132	127	122	117
Sugar	1,617		1,560	1,504	1,447	1,391	1,334	1,277
Butter/butteroil	463		447	431	415	399	382	366
Skim milk powder	308		297	286	276	265	254	243
Cheese	386	427	407	386	366	346	325	305
Other milk products	1,188	1,206	1,161	1,117	1,072	1,028	983	938
Beef 2/	1,034	1,179	1,119	1,058	998	938	877	817
Pork	509		491	473	455	437	420	402
Poultry meat	368	470	440	410	380	350	320	291
Eggs	105	112	107	102	98	93	88	83
Wine [000 hl]	3,080		2,973	2,865	2,757	2,649	2,541	2,434
Fruits/Veg.(fresh)	1,148		1,108	1,068	1,027	987	947	907
Fruits/veg. (processed)	201		194	187	180	173	166	159
Tobacco	143	206	190	175	159	144	128	113
Alcohol [000 hl]	1,452		1,402	1,351	1,300	1,249	1,198	1,147
			Million ECU					
Annual budget outlays by commodity:								
Wheat/flour	1,783.0	2,255.0	2,089.4	1,883.7	1,698.1	1,512.4	1,326.8	1,141.1
Coarse grains	1,379.5		1,296.7	1,214.0	1,131.2	1,048.4	965.7	882.9
Rice	61.8		58.1	54.4	50.7	47.0	43.3	39.6
Rapeseed	32.2		30.3	28.3	26.4	24.5	22.5	20.6
Olive oil	85.9		80.7	75.6	70.4	65.3	60.1	55.0
Sugar	776.5		730.0	683.3	636.7	590.1	543.6	497.0
Butter/butteroil	1,325.4		1,245.9	1,166.3	1,086.8	1,007.3	927.7	848.2
Skim milk powder	370.1		347.9	325.7	303.5	281.3	259.1	236.9
Cheese	439.2	550.0	505.2	460.4	415.5	370.7	325.9	281.1
Other milk products	1,008.1		947.6	887.1	826.6	766.2	705.7	645.2
Beef 4/	1,967.8	2,028.8	1,900.6	1,772.3	1,644.1	1,515.9	1,387.6	1,259.4
Pork	183.4		172.4	161.4	150.4	139.4	128.4	117.4
Poultry meat	143.2	147.0	137.8	128.5	119.3	110.1	100.9	91.6
Eggs	39.8		37.4	35.0	32.6	30.2	27.9	25.5
Wine [000 hl]	64.5		60.6	56.8	52.9	49.0	45.2	41.3
Fruits/Veg.Fresh	102.9		96.7	90.6	84.4	78.2	72.0	65.9
Fruits/Veg. Processed	15.4		14.5	13.6	12.6	11.7	10.8	9.9
Tobacco	62.9	106.0	95.0	84.1	73.1	62.1	51.2	40.2
Alcohol [000 hl]	150.2		141.2	132.2	123.2	114.2	105.1	96.1
Incorporated 5/	572.5	702.0	646.1	590.1	534.2	478.3	422.3	366.4
Total	10,564.3		10,634.1	9,843.3	9,072.8	8,302.2	7,531.6	6,761.0

WMP = Whole milk powder.

1/ U.S. quantity commitments are based on a July/June year. EU quantity commitment years are: July 1 -June 30, except rice and wine which are September 1-August 31; olive oil which is November 1-October 31; and sugar which is October 1-September 30.

2/ Base for the quantity reduction for EU beef = 1,324,000 tons = (Average 91-92 + Average 86-90)/2.

3/ EU budgetary outlay commitment year: October 16-October 15, except sugar which is July 1-June 30.

4/ EU base for budgetary reduction = 2,268 million ECU = (Average 91-92 + Average 86-90)/2.

5/ The "incorporated" category is processed products.

Source: U.S. Department of Agriculture, Foreign Agricultural Service, International Trade Policy.

U.S. Department of Agriculture
Economic Research Service

SUMMARY OF REPORT #AER-709

The 1995 Farm Bill

Tobacco's Future? How Will New Legislation Affect Production?

April 1995

Contact: Verner Grise, (202) 219-0890

Production of U.S. tobacco is likely to decline by the end of the 1990's, according to a new report from USDA's Economic Research Service. Accelerated antismoking activity, together with an increasing number of smoking restrictions and prohibitions and proposals to increase cigarette taxes, is weakening leaf demand. This, together with ample world production at lower prices, is hurting U.S. export prospects.

A shift worldwide to cheaper cigarettes and technological advances that permit production of an acceptable-quality cigarette with cheaper leaf are holding down demand for U.S.-grown leaf. Furthermore, stagnant cigarette demand and trade barriers continue to hold down U.S. export prospects, although the General Agreement on Tariffs and Trade should help soften potential declines in exports.

Congress will soon consider new farm legislation to replace the expiring Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624). A number of problems face the tobacco industry and amendments to modify the tobacco program may be considered in the next farm bill debate. ***Tobacco: Background for 1995 Farm Legislation*** provides an overview of the U.S. tobacco industry, reviews Federal tobacco programs and their effects, and examines issues and potential program changes.

The tobacco program is authorized under permanent legislation and, unlike most commodity programs, it does not have to be rewritten every 4 or 5 years. However, a number of legislative changes have been made since the basic marketing quota provisions of the Agricultural Adjustment Act of 1938. Legislation enacted in 1986 and 1993 made substantial changes in the program. The 1986 law reduced flue-cured and burley price supports, changed the setting of quotas to a more market-oriented approach, and provided for orderly movement of surplus stocks into trade channels. The 1993 law limited use of foreign-grown leaf in U.S. cigarettes, by applying assessments on imports and penalizing noncompliance.

Despite the changes that have been made in the tobacco program, several major concerns persist. Issues that affect the industry concern:

- Program rationale. The rationale for a tobacco program that has any government involvement. Intensive efforts by health groups and some Congressional leaders to bring tobacco products under the jurisdiction of the Food and Drug Administration (FDA), growing antismoking efforts, and prohibitions and restrictions on smoking are jeopardizing U.S. tobacco support programs.

To Order This Report...

The information presented here is excerpted from ***Tobacco: Background for 1995 Farm Legislation,*** AER-709, by Verner N. Grise. The cost is $9.00.

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U.S. Department of Agriculture
Economic Research Service

SUMMARY OF REPORT #AER-714

The 1995 Farm Bill

Planting Flexibility and Acreage Idling Are Key Issues for Feed Grains

April 1995

Contact: William Lin (202) 219-0848

Key issues to be addressed in the feed grains portion of this year's farm legislation deliberations include planting flexibility and acreage idling under both the Conservation Reserve Program (CRP) and the Acreage Reduction Program (ARP). These and other policy matters are discussed in detail in ***Feed Grains: Background for 1995 Farm Legislation***, a new report from USDA's Economic Research Service.

Policy options in regard to the planting flexibility issue include (1) expanding the normal flex acreage beyond the current 15 percent, (2) combining all crop acreage base into a farm program base and allowing complete planting flexibility within the base, and (3) implementing a normal crop acreage concept, such as the one under the 1977 Farm Act.

Options for the CRP include extending the current program for another 10-15 years but under more critical criteria to reduce soil and wind erosion and to preserve water quality and other environmental benefits.

Policy decisions that continue to hold land out of production will be critical given expectations for continued growth in both domestic use and exports. However, the program cost is likely to be the dominant criterion for legislation.

Producers benefit from participating in the government feed grains program directly through support prices and direct payments and indirectly through higher market prices. U.S. feed grain farmers have received program payments since 1961. During 1991-93, direct payments as a percentage of annual gross income were in ranges of 12-17 percent for corn, 19-22 percent for sorghum, 24-31 percent for barley, and 18-25 percent for oats. These percentages were well under those much of the 1980's. In 1986-88, for example, direct payments were 25-37 percent of annual gross income from corn production. Deficiency payments averaged $5.5 billion for feed grain producers during that late-1980's period, compared with $2.8 billion during 1991-93.

During 1991-93, returns over cash expenses for corn producers averaged $0.66 per bushel (in 1987 dollars), compared with $0.71 in 1985 and $0.86 in 1990. However, returns over cash expenses for corn producers were still the highest among feed grain producers on a per acre basis. Overall, returns over cash expenses are expected to improve considerably in 1994/95 because of record yields, greater domestic and export demands, and higher deficiency payments.

The U.S. Feed Grain Industry. U.S. feed grain production has trended upward since the 1930's, reaching a record 285 million metric tons in 1994/95. Much of the increase was due to yield improvements, especially for corn. Corn production increased from 5.8 billion bushels in 1975 to 10.1 billion bushels in 1994. However, acres planted to sorghum, barley, and oats have declined.

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The information presented here is excerpted from ***Feed Grains: Background for 1995 Farm Legislation,*** AER-714, by William Lin, Peter Riley, and Sam Evans. The cost is $12.00.

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