Investigating Participation Rates of USDA's Export Credit Guarantee Program (GSM-102)

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Any opinion, findings, conclusions, or recommendations expressed in this publication are those of the authors and do not necessarily reflect the view of the U.S. Department of Agriculture, the University of Missouri, or the American Soybean Association.

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Work in progress…

- Interested in how participation rates in the GSM-102 program have changed over time.
  - Total participation
  - Differences within country/region
  - Differences by commodity

- Future directions
  - Comparison to other export market development programs
  - Economic value generated

Background

- GSM-102 established in 1978 and has been authorized in Farm Bills ever since
- Mandatory program
    - Funding is available, though doesn’t mean outlays always occur
- Administered through the Commodity Credit Corporation (CCC)
    - Not an issue most of the time, but we’ve seen this year that CCC can run against borrowing limits.
- Program rules have changed over time through the Farm Bill process and as a result of foreign pressure through the WTO

Source: Johnson (2017). “USDA Export Market Development and Export Credit Programs: Selected Issues. CRS Report R44985

Adapted from Table 2.

How it works

- Guarantees payment to commercial banks that finance sales of U.S. agricultural goods to foreign entities

- Covers 98% of the port value of good at specified U.S. port plus a portion of interest.

- Repayment terms of 9-18 months (i.e. short term)
  - Reduced as part of MOU with Brazil after the WTO cotton dispute
  - Rates are tied to OECD minimum premia rates based on risk
  - Must cover long-term operating costs and losses

Source: Johnson (2017). "USDA Export Market Development and Export Credit Programs: Selected Issues. CRS Report R44985

Adapted from Table 2. USTR (2014) "Memorandum of Understanding Related to the Cotton Dispute (WT/DS267)"

Arguments in support

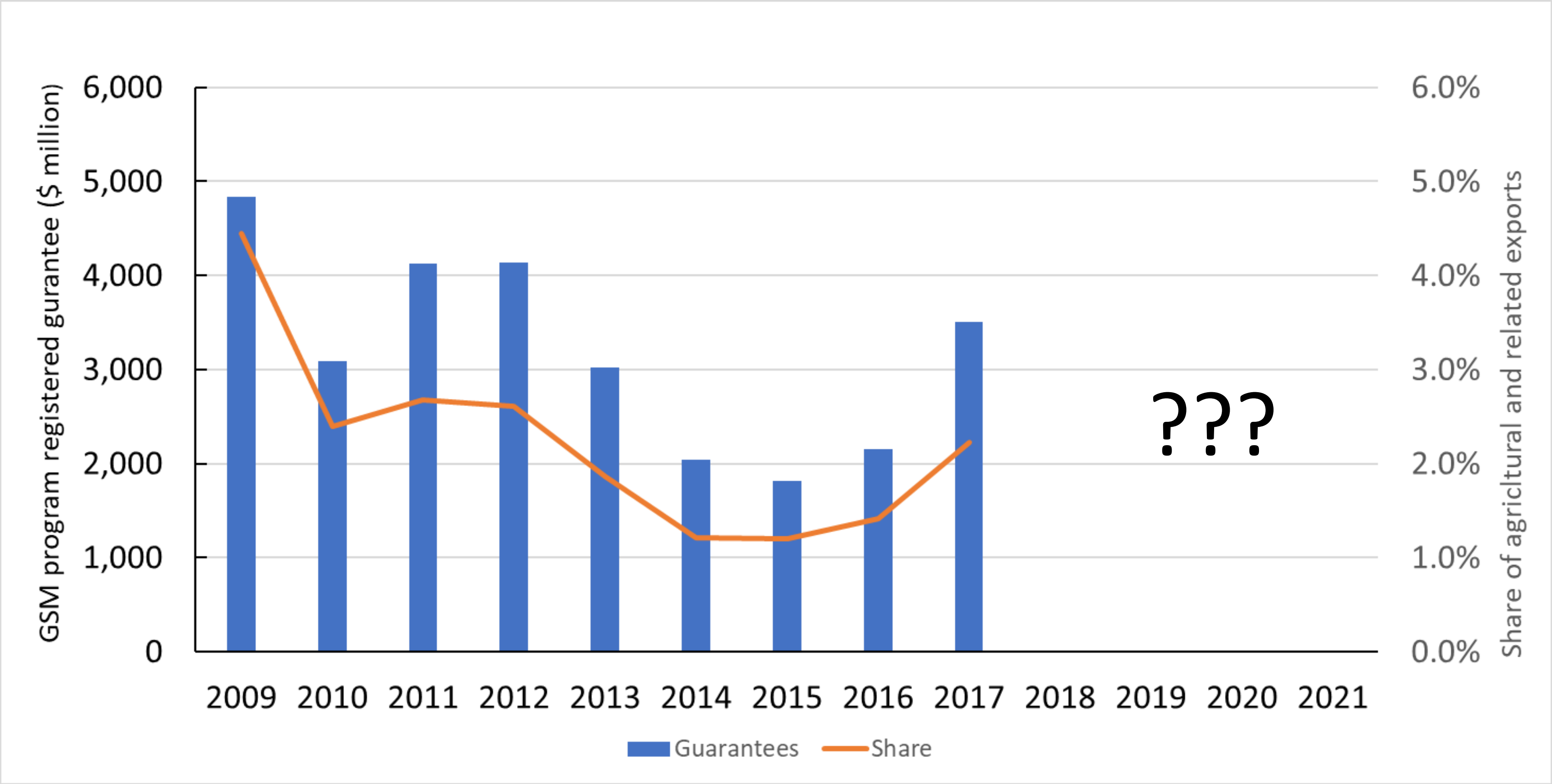
- Reduces the financial risk for countries that may difficulty accessing credit
- Encourages exports to developing nations

Challenges

- Must be actuarially fair
  - If it operates at loss, then can be viewed as an export subsidy
    - Brazil’s WTO case against U.S. cotton
    - Time-span to calculate soundness
  - If rates are too high, moral hazard issues

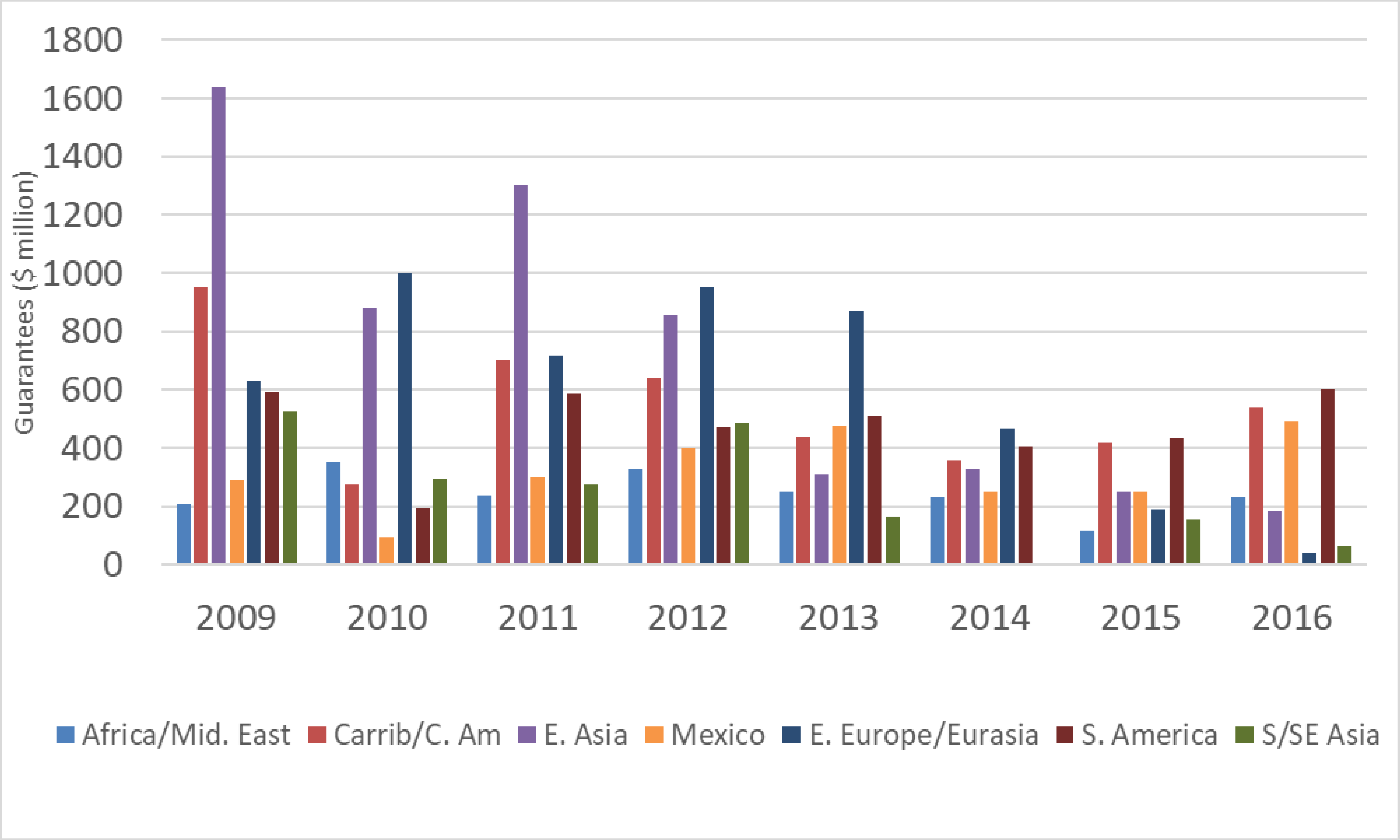
Source: Johnson (2017). “USDA Export Market Development and Export Credit Programs: Selected Issues. CRS Report R44985 Adapted from Table 2; Schnepf (2014). “Status of the WTO Brazil-U.S. Cotton Case”. CRS Report R43336.

Total participation



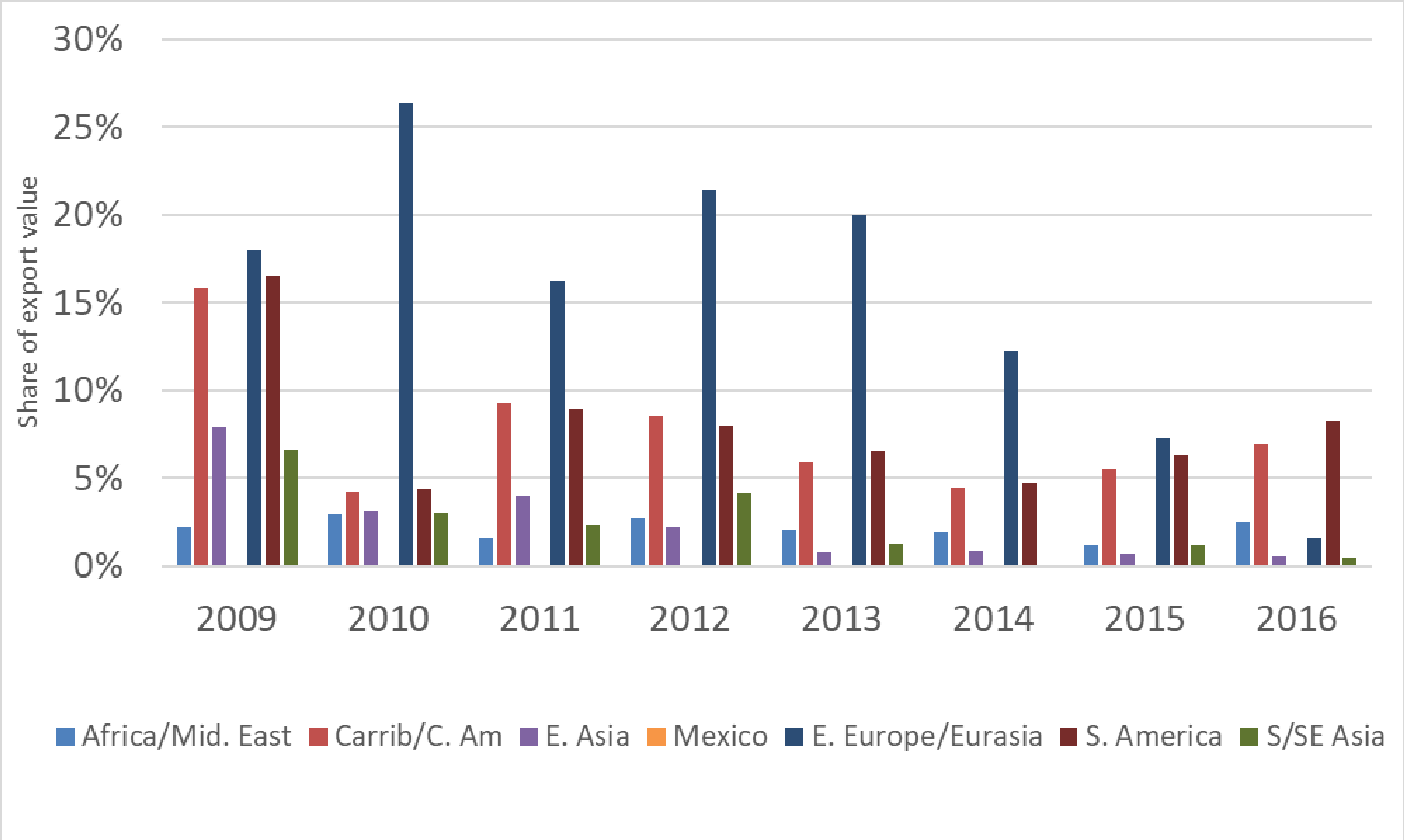
Source: USDA-FAS “GSM-102 Yearly Activity Reports” (multiple years); USDA-FAS “GATS Database”

Participation by country/region



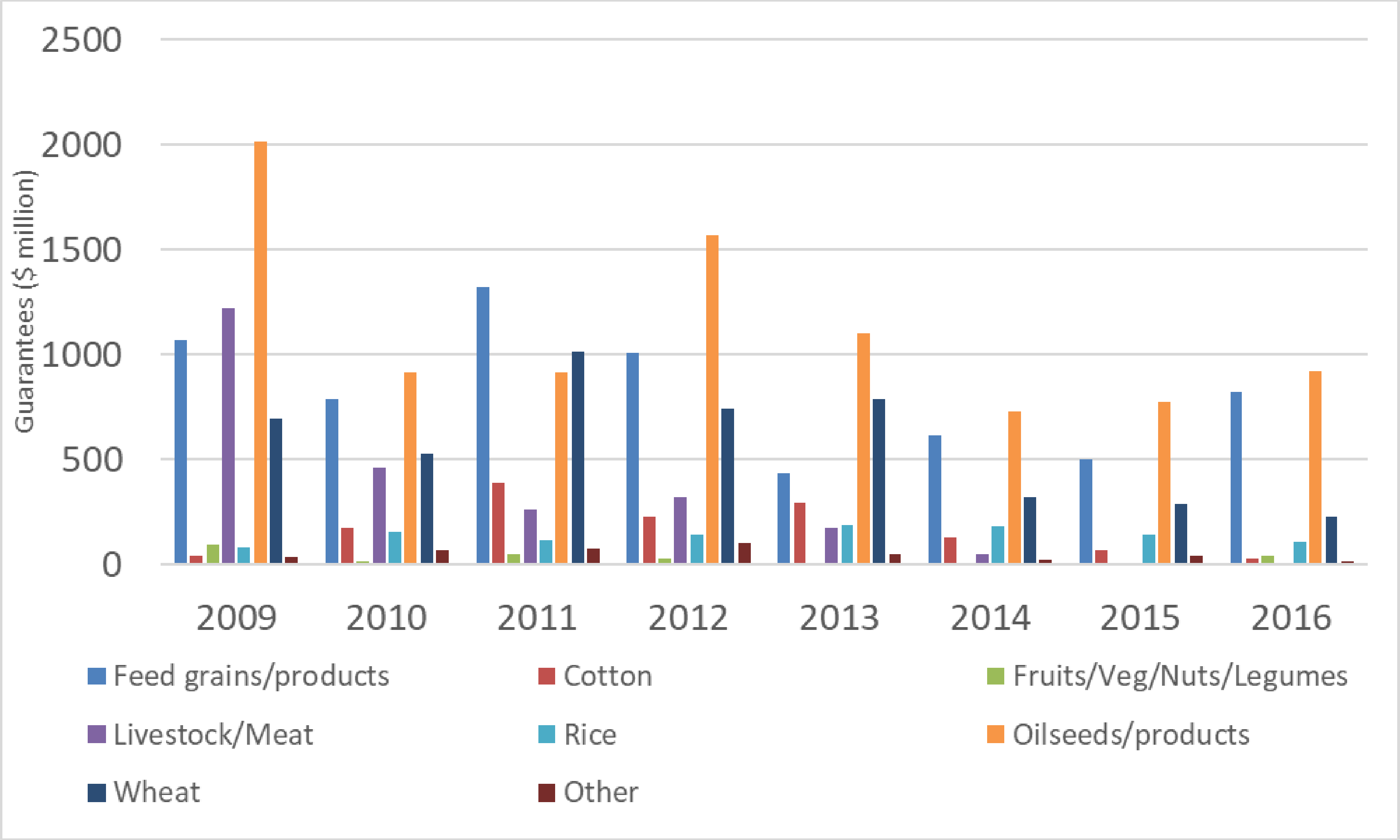
Source: USDA-FAS “GSM-102 Yearly Activity Reports” (multiple years); USDA-FAS “GATS Database”

Utilization by country/region



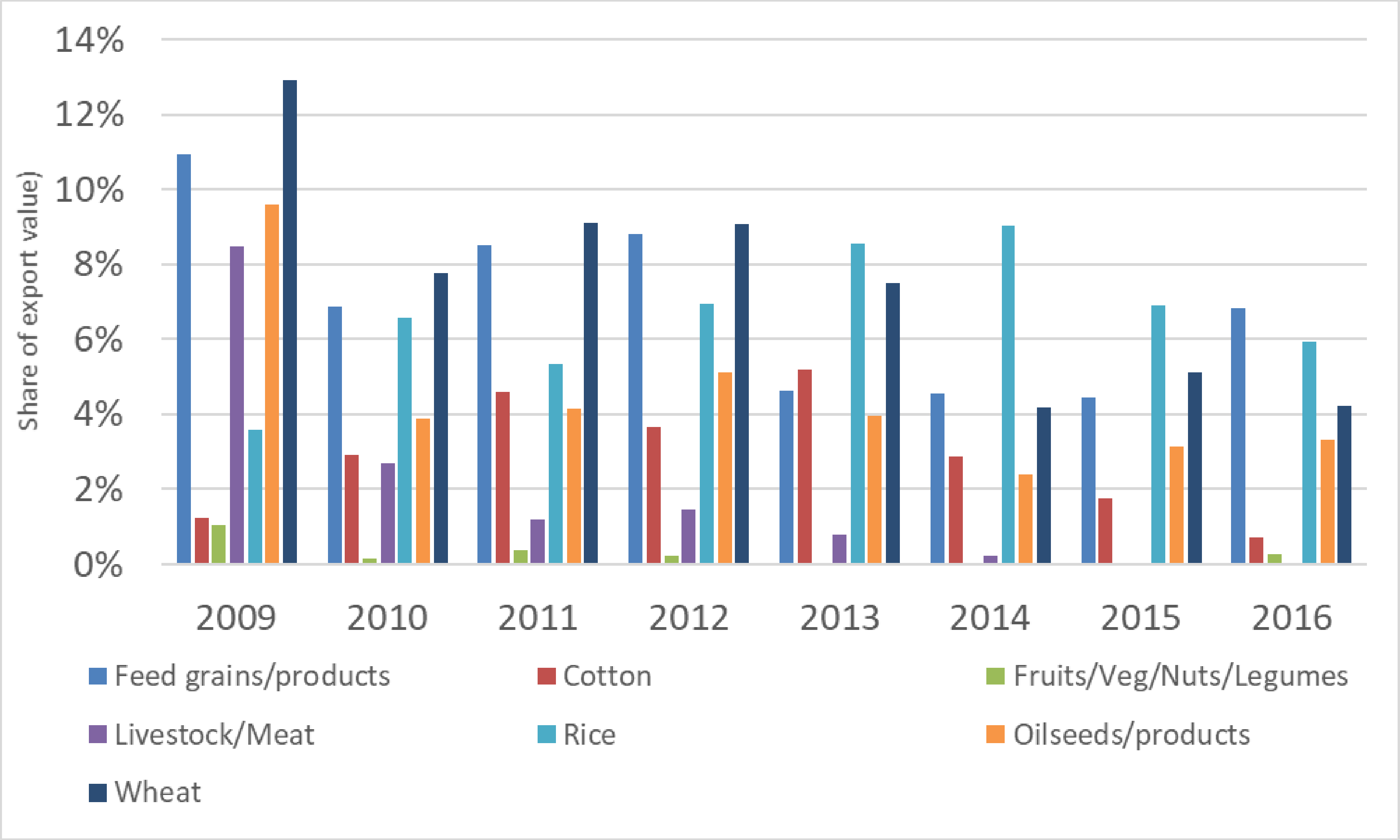
Source: USDA-FAS “GSM-102 Yearly Activity Reports” (multiple years); USDA-FAS “GATS Database”

Guarantees by commodity



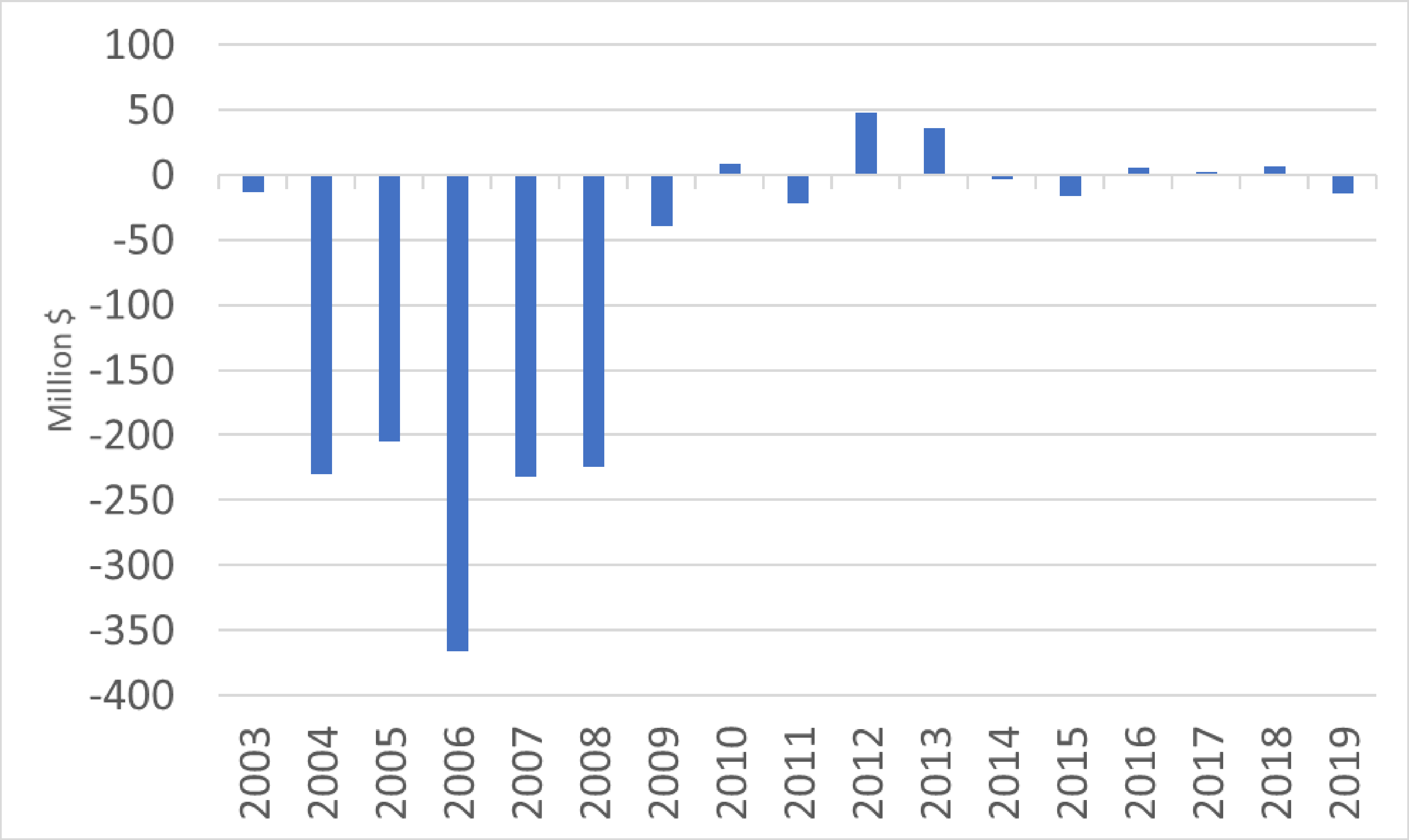
Source: USDA-FAS “GSM-102 Yearly Activity Reports” (multiple years); USDA-FAS “GATS Database”

Utilization by commodity



Source: USDA-FAS "GSM-102 Yearly Activity Reports" (multiple years); USDA-FAS "GATS Database"

Net gains/losses over time



Source: OMB; calculated as Receipts less Outlays

Takeaways

- GSM-102 is a long-running program to help make U.S. agricultural exports more accessible to countries that might have more credit risk.
- Running such a program is not without challenges, though
  - Budgetary perspective
  - Trade perspective
- Country/region and commodity makeup is continually changing

Thanks!

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