Agricultural Export and Food Aid Programs

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Summary

The U.S. Department of Agriculture (USDA) administers programs to promote agricultural exports and to provide food aid, all currently authorized in Title III of the 2008 farm bill, the Food, Conservation, and Energy Act of 2008 P.L. 110-246, or in permanent legislation. These programs include direct export subsidies, export market development, export credit guarantees, and foreign food aid. Legislative authority for most of these activities will expire with the 2008 farm bill in 2012.

USDA operates one direct export subsidy program, the Dairy Export Incentive Program (DEIP). DEIP spending declined during the last farm bill (2002-2007) and no DEIP subsidies were provided during 2005-2007. Agricultural export subsidies, but not other U.S. export and food aid programs, are subject to reduction commitments agreed to in multilateral trade negotiations. Export market development programs include the Market Access Program (MAP) and the Foreign Market Development or "Cooperator" Program (FMDP). Although criticized by some as corporate welfare, these programs are considered to be non-trade-distorting by the World Trade Organization (WTO) and are exempt from multilateral spending constraints. The 2008 farm bill authorizes MAP spending of $200 million annually from FY2008 through FY2012 and sets FMDP spending at $34.5 million annually through FY2012. The 2008 farm bill authorizes export credit guarantees by USDA's Commodity Credit Corporation (CCC) of up to $5.5 billion worth of farm exports annually plus an additional $1 billion for emerging markets through 2012. Actual levels guaranteed depend on economic conditions and the demand for financing by eligible countries.

The 2008 farm bill authorizes, through FY2012, foreign food aid programs including the three titles of the Food for Peace Act (P.L. 480), Food for Progress, the Bill Emerson Humanitarian Trust (a reserve of commodities and cash), and the McGovern-Dole Food for Education and Child Nutrition Program. Section 416(b), permanently authorized in the Agricultural Act of 1949, also can provide surplus commodities, if available and needed, for donation overseas. The U.S. Agency for International Development (USAID) administers Titles I and III food aid programs of the Food for Peace Act, while USDA administers all the other food aid programs. Average annual spending on food aid under the 2002 farm bill was $2.2 billion. The United States provides food aid for emergency food relief and to support development projects. Increased allocations of U.S. food aid for emergency relief in recent years has reduced the volume of food aid available for development projects.

USDA's export programs, and some food aid programs, are funded through the borrowing authority of the Commodity Credit Corporation. Food for Peace Act food aid and the McGovern-Dole program are funded through annual appropriations.

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The 2008 farm bill, the Food, Conservation, and Energy Act of 2008 (P.L. 110-246) was enacted into law on June 18, 2008. Title III of the new farm bill authorizes and amends international agricultural export and food aid programs.

On June 30, the President signed the Supplemental Appropriations Act of 2008 (H.R. 2642, P.L. 110-252). Included in this so-called "bridge" supplemental is a total of $1.885 billion for international food aid, development assistance, and disaster assistance for FY2008 and FY2009. With the supplemental appropriations, funding available for food aid in FY2008 amounted to an estimated $2.7 billion.

U.S. Agricultural Exports

Agricultural exports are important both to farmers and to the U.S. economy. Production from almost a third of harvested acreage is exported, including an estimated 48% of food grain production, almost 20% of feed grains, and about 36% of U.S. oilseeds. Cotton exports amounted to 92% of production in 2007. Exports also generate economic activity in the non-farm economy. According to USDA, each $1 received from agricultural exports stimulated another $1.61 in supporting activities to produce those exports. Recent data show that agricultural exports generate an estimated 841,000 full-time civilian jobs, including 441,000 jobs in the non-farm sector.[1]

Nearly every state exports agricultural commodities. USDA data show that the states with the greatest shares of U.S. agricultural exports by value are California, Iowa, Texas, Illinois, Nebraska, Kansas, Minnesota, Washington, North Dakota, and Indiana. These 10 states accounted for 56% of total U.S. agricultural exports in FY2007. In addition, 15 other states shipped more than $1 billion worth of commodities.[2]

USDA estimates that U.S. agricultural exports reached $115.5 billion in FY2008, a record high. With agricultural imports of $79.3 billion, the FY2008 agricultural trade surplus was $36.1 billion, three times the agricultural trade surplus reported for FY2007.

In recent years, high value exports (intermediate products such as wheat flour, feedstuffs, and vegetable oils and consumer-ready products such as fruits, nuts, meats, and processed foods) have outpaced such bulk commodity exports as grains, oilseeds, and cotton. In FY2008, high value agricultural exports accounted for 55% of the total value of U.S. agricultural exports.[3] Although high value exports are the largest component, bulk commodity exports were $20 billion greater in FY2008 than in FY2007. USDA attributes the FY2008 level of farm exports to continued strong demand, tight global markets, higher prices for grains and oilseeds, and a weak dollar. In FY2009,

[1] Data and analysis on the role of agricultural exports in the U.S. economy is available from USDA's Economic Research Service at http://www.ers.usda.gov/Publications/FAU/2008/04Apr/FAU124/.

[2] Agricultural export data by state is available from USDA's Economic Research Service at http://www.ers.usda.gov/data/stateexports/.

[3] Percentage of high value agricultural exports estimated from data provided in USDA's Foreign Agricultural Service data base available at

the global recession, accompanied by weaker global demand for commodities, falling prices, and an appreciating dollar, will create an unfavorable outlook for U.S. agricultural exports.[4]

In addition to current economic factors, other, broader variables also influence the level of U.S. agricultural exports: income and population growth, and tastes and preferences in foreign markets; and exchange rates. U.S. domestic farm policies that affect price and supply, and trade agreements with other countries, also influence the level of U.S. agricultural exports. While many of these factors are beyond the scope of congressional action, farm bills have typically included programs that promote commercial agricultural exports or provide foreign food aid.

USDA's International Agricultural Programs

The trade title of the 2008 farm bill, the Food, Conservation, and Energy Act of 2008 (Title III of P.L. 110-246), authorizes and amends four kinds of export and food aid programs:

- direct export subsidies;
- export market development programs;
- export credit guarantees; and
- foreign food aid.

USDA's Foreign Agricultural Service (FAS) administers these export and food aid programs, with the exception of Food for Peace Act (P.L. 480) Titles II (humanitarian food aid) and III (food for development), which are administered by the U.S. Agency for International Development (USAID).[5]

Some of USDA's international activities (Food for Peace Act food aid, the Food for Education program, and the operations of the Foreign Agricultural Service itself) are funded in annual appropriations acts. Other programs (export subsidies, export market development programs, export credit guarantees, and some foreign food aid programs) are funded through the borrowing authority of the Commodity Credit Corporation (CCC).[6] Annual appropriations acts, however, sometimes limit the spending on these mandatory programs. (**Table 1** shows international program spending for FY1998 through FY2007.)

[4] *Outlook for U.S. Agricultural Trade*, December 1, 2008, p. 1, viewed at http://usda.mannlib.cornell.edu/MannUsda/viewDocumentInfo.do?documentID=1196.

[5] An overview of the Foreign Agricultural Service is available at http://www.fas.usda.gov/aboutfas.asp.

[6] The CCC is a U.S. government-owned and -operated corporation, created in 1933, with broad powers to support farm income and prices and to assist in the export of U.S. agricultural products. Toward this end, the CCC finances USDA's domestic price and income support programs and its export programs using its permanent authority to borrow up to $30 billion at any one time from the U.S. Treasury.

Table 1. USDA International Program Activity, FY1998-FY2007

($ millions)

Program	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
EEP[a]	2	1	2	7	0	0	0	0	0	0
DEIP[b]	110	145	78	8	55	32	3	0	0	0
MAP[c]	90	90	90	90	100	110	125	140	200	200
FMDP[d]	—	28	28	28	34	34	34	34	34	34
GSM Programs[e]	4,037	3,045	3,082	3,227	3,388	3,223	3,716	2,625	1,363	1,445
P.L. 480[f]	1,138	1,808	1,293	1,086	1,270	1,960	1,809	2,115	1,829	1,787
FFE[g]	—	—	—	—	—	100	50	90	97	99
Section 416(b)[h]	0	1,297	1,130	1,103	773	213	173	76	20	0
FFP[i]	111	101	108	104	126	137	138	122	131	147
FAS[j]	209	178	183	201	198	195	197	206	246	268
Total	5,697	6,693	6,000	5,854	5,944	6,004	6,245	5,408	3,941	3,987

Sources: USDA, *Annual Budget Summaries*, various issues. These data are program levels (i.e., the value of goods and services provided in a fiscal year). They include for the discretionary programs (P.L. 480, Food for Education, and the Foreign Agricultural Service), in addition to regular, annually appropriated funds, emergency supplemental appropriations, carry-over from one fiscal year to another, transfers from other USDA agencies, transfers between programs, and reimbursements from other agencies. Programs not in the table include the Emerging Markets Program, Technical Assistance for Specialty Crops, the Quality Samples Program, and Trade Adjustment Assistance for Farmers.

a. Export Enhancement Program, repealed by the 2008 farm bill (P.L. 110-246).

b. Dairy Export Incentive Program.

c. Market Access Program.

d. Foreign Market Development Program. FY1995-FY1998 FMDP spending included in FAS appropriation.

e. GSM (General Sales Manager) Export Credit Guarantee Programs.

f. The FY2003 estimate for P.L. 480 includes $1.326 billion for regular FY2003 appropriations; $248 million for Title II emergency assistance (after applying the across-the-board recision of 0.65%); and $369 million in the Emergency Wartime Supplemental Appropriations Act of 2003; FY2005 P.L. 480 includes $377 million from the Emerson Trust. FY2007 Title II program level includes a supplemental appropriation of $450 million.

g. The McGovern-Dole International Food for Education and Child Nutrition Program (FFE)was authorized in the 2002 farm bill FY2003 funds were from the Commodity Credit Corporation; funds were first appropriated in P.L. 108-199, the FY2004 appropriations bill.

h. Commodity value and ocean freight and transportation.

i. Includes only CCC purchases of commodities for FFP. P.L. 480 Title I funds allocated to FFP are included in P.L. 480.

j. Foreign Agricultural Service.

Agricultural Export Programs[7]

Export Subsidies

The 2008 farm bill authorizes only one direct export subsidy program for agricultural products, the Dairy Export Incentive Program (DEIP). P.L. 110-246 repealed authority for the largest authorized export subsidy program, the Export Enhancement Program (EEP).

Dairy Export Incentive Program (DEIP)[8]

DEIP, most recently reauthorized in the commodity program title, not the trade title, of the 2008 farm bill, was established under the 1985 farm act to assist exports of U.S. dairy products. Its purpose was to counter the adverse effects of foreign dairy product subsidies, primarily those of the European Union. Early bonus payments were in the form of sales from CCC-owned dairy stocks; later they were generic commodity certificates from CCC inventories; now they are cash payments. USDA's Foreign Agricultural Service annually announces amounts of dairy products that may be subsidized under the program. Actual Invitations for Offers may or may not be issued depending on market conditions for dairy product exports. WTO export subsidy commitments which limit the volume and financing of export subsidies apply to DEIP. Legislative authority for DEIP expires on December 31, 2012.

The DEIP program has strong support in Congress. Dairy producers consider DEIP an integral part of U.S. dairy policy, an important adjunct to domestic support programs. Agricultural export subsidies are on the agenda of currently stalled WTO multilateral trade negotiations, the Doha Round. In those negotiations, the United States, along with other trading partners who have subsidized exports, have agreed, tentatively, to phase out all agricultural export subsidies by 2013.[9]

Recent DEIP Activity

No DEIP bonuses were awarded from FY2005 through FY2008. The program level for DEIP in FY2003 was $32 million and in FY2004 it was $3 million.

Export Enhancement Program (EEP)

The 2008 farm bill repealed legislative authority for EEP. EEP, which mainly subsidized exports of wheat and wheat flour (around 80% of EEP subsidies), had been little used as U.S. and world prices moved closer together. The last year of significant EEP subsidies was 1995; there were no EEP subsidies during the five years of the 2002 farm bill. The repeal of EEP reflected the fact that

[7] For a discussion of issues concerning USDA's export programs raised during debate over the 2008 farm bill, see CRS Report RL34227, *Agricultural Exports and the 2007 Farm Bill*, by Charles E. Hanrahan; for greater detail on changes made to agricultural export programs in the 2008 farm bill, see CRS Report RS22905, *Agricultural Export Provisions of the 2008 Farm Bill*, by Charles E. Hanrahan**.**

[8] Additional information on DEIP is available at http://www.fas.usda.gov/excredits/deip.html.

[9] For a discussion of agriculture and Doha Round negotiations, see CRS Report RS22927, *WTO Doha Round: Implications for U.S. Agriculture*, by Randy Schnepf and Charles E. Hanrahan.

the program had been little used since 1995 and also is consistent with the U.S. position in the Doha Round multilateral negotiations to eliminate export subsidies by 2013. The elimination of agricultural export subsidies has been a longstanding objective of U.S. agricultural trade policy.

Market Development Programs

FAS administers five programs to promote U.S. agricultural products in overseas markets, including the Market Access Program (MAP), the Foreign Market Development Program (FMDP), the Emerging Markets Program (EMP), the Quality Samples Program (QSP), and the Technical Assistance for Specialty Crops Program (TASC). With passage of the 2008 farm bill, legislative authorization of CCC funds for the market development programs now expires at the end of FY2012. All of these programs are funded through the borrowing authority of the CCC.

Market Access Program (MAP)[10]

MAP assists primarily value-added products. The types of activities that are undertaken through MAP are advertising and other consumer promotions, market research, technical assistance, and trade servicing. Nonprofit industry organizations and private firms that are not represented by an industry group submit proposals for marketing activities to the USDA. The nonprofit organizations may undertake the activities themselves or award funds to member companies that perform the activities. After the project is completed, FAS reimburses the industry organization or private company for part of the project cost. About 60% of MAP funds typically support generic promotion (i.e., non-brand name commodities or products), and about 40% support brand-name promotion (i.e., a specific company product). No foreign for-profit company may receive MAP funds for the promotion of a foreign-made product. No firm that is not classified as a small business by the Small Business Administration may receive direct MAP assistance for branded promotions. Since FY1998, USDA policy has been to allocate all MAP funds for promotion of branded products to cooperatives and small U.S. companies.

The 2008 farm bill authorizes MAP through FY2012 and sets the funding level for the program at $200 million for each fiscal year during FY2008-FY2012. The new farm bill makes organic produce eligible for MAP funding.

Recent MAP Activity

Although MAP is not funded by annual appropriations, appropriations acts have on occasion capped the amounts that could be spent on the program or imposed other restraints on programming. For example, the FY1999 agriculture appropriations act imposed no limits on MAP funding, but did prohibit MAP spending in support of promotion of exports of mink pelts or garments, a provision that was first adopted in the FY1996 agriculture appropriations law. Since 1993, no MAP funds may be used to promote tobacco exports. MAP has often been targeted for cuts by some Members of Congress who maintain that it is a form of corporate welfare, or to help offset increased expenditures on other programs, but such efforts have been unsuccessful. FAS usually announces MAP allocations early in the fiscal year.[11]

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[10] Additional information on MAP is available at http://www.fas.usda.gov/mos/programs/map.asp.

[11] Although FAS has not announced FY2009 MAP allocations, it has issued a press release about its FY2008 programs, (continued...)

Foreign Market Development Program (FMDP)[12]

The 2008 farm bill also reauthorizes CCC funding for FMDP for FY2008 through FY2012 at an annual level of $34.5 million. The program, which dates from1955, is like MAP in most major respects. Its purpose is to expand export opportunities over the long term by undertaking activities such as consumer promotions, technical assistance, trade servicing, and market research. As with MAP, projects under FMDP are jointly funded by the government and industry groups, and the government reimburses the industry organization for its part of the cost after the project is finished. Like MAP, FMDP is exempt from Uruguay Round Agreement reduction commitments. Unlike MAP, which mainly promotes consumer goods and brand-name products, FMDP mainly promotes generic or bulk commodities.

MAP and FMDP Issues

The most often raised issue with respect to MAP and FMDP is whether the federal government should have an active role in helping agricultural producers and agribusinesses market their products overseas. Some argue that MAP and FMDP are forms of corporate welfare in that they fund activities that private firms would and could fund for themselves. Others argue that the principal beneficiaries are foreign consumers and that funds could be better spent, for example, to educate U.S. firms on how to export. Program supporters emphasize that foreign competitors, especially EU member countries, also spend money on market promotion, and that U.S. marketing programs help keep U.S. products competitive in third-country markets.

Recent FMDP Activity

Prior to FY2000, FMDP was funded as part of the appropriation of the Foreign Agricultural Service. The 1996 farm bill provided new statutory authority for the program and authorized it through 2002. In FY2000, USDA moved funding for FMDP from discretionary to CCC funding, thus shifting its funding into the mandatory category. Funds allocated for FMDP in FY2001 were $28 million. The 2002 farm bill increased the funding level to $34.5 million. The 2008 farm bill maintained the funding level authorized in the 2002 farm bill.

Emerging Markets Program[13]

The Emerging Markets Program (EMP) provides funding for technical assistance activities intended to promote exports of U.S. agricultural commodities and products to emerging markets in all geographic regions, consistent with U.S. foreign policy. An emerging market is defined in the authorizing legislation (P.L. 110-246, as amended) as any country that is taking steps toward a market-oriented economy through food, agricultural, or rural business sectors of the economy of the country. Additionally, an emerging market country must have the potential to provide a viable and significant market for U.S. agricultural commodities or products. FAS limits EMP projects to countries with per capita incomes less than $11,455—the current ceiling on upper middle income

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which can be viewed at http://www.fas.usda.gov/scriptsw/PressRelease/pressrel_dout.asp?PrNum=0146-08.

[12] Additional information on FMDP is available at http://www.fas.usda.gov/mos/programs/fmdprogram.asp.

[13] Additional information on the Emerging Markets Program is available at http://www.fas.usda.gov/mos/em-markets/em-markets.html.

economies as determined by the World Bank—whose populations are greater than 1 million. The 2008 farm bill authorizes funding for EMP at $10 million each fiscal year FY2008 through FY2012.

Quality Samples Program[14]

The Quality Samples Program (QSP) assists U.S. agricultural trade organizations to provide small samples of their agricultural products to potential importers in emerging markets overseas. The QSP focuses on industrial and manufacturing users of products, not end-use consumers. Under the authority of the CCC Charter Act of 1948, FAS uses up to $2 million of CCC funds to carry out the program. In FY2008, FAS allocated $1.4 million to 13 trade organizations participating in QSP.

Technical Assistance for Specialty Crops (TASC) Program[15]

The Technical Assistance for Specialty Crops (TASC) Program aims to assist U.S. organizations by providing funds for projects that address sanitary, phytosanitary and technical barriers that prohibit or threaten U.S. speciality crop exporters. The legislation defines specialty crop as all cultivated plants, and the products thereof, produced in the United States, except wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and tobacco. The types of activities covered include seminars and workshops, study tours, field surveys, pest and disease research, and pre-clearance programs. Under the 2002 farm bill, TASC funding was authorized at $2 million per fiscal year. The 2008 farm bill extends authority for TASC from 2008 through FY2012 and increases funding to $4 million in FY2008; $7 million in FY2009; $8 million in FY2010; and $9 million in each of FY20011 and FY2012.

Export Credit Guarantees

The 2008 farm bill reauthorizes from FY2008 through FY2012 USDA-operated export credit guarantee programs, first established in the Agricultural Trade Act of 1978 (P.L. 95-501), to facilitate sales of U.S. agricultural exports. Under these programs, private U.S. financial institutions extend financing at interest rates which are at prevailing market levels to countries that want to purchase U.S. agricultural exports and are guaranteed that the loans will be repaid. In making available a guarantee for such loans, the U.S. government, or more specifically, the CCC, assumes the risk of default on payments by the foreign purchasers on loans for U.S. farm exports. The 2008 farm bill authorizes two export credit guarantee programs, the GSM-102 short-term guarantee program and the Facility Guarantee Program (FGP).

Export Credit Guarantee Programs[16]

GSM-102 guarantees repayment of short-term financing (six months to three years) extended to eligible countries that purchase U.S. farm products. (The acronym GSM refers to the General Sales Manager, an official of FAS who administers the credit, and other, export programs.)

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[14] Additional information on the QSP is available at http://www.fas.usda.gov/mos/programs/QSP.asp.

[15] Additional information on the TASC program is available at http://www.fas.usda.gov/mos/tasc/tasc.asp.

[16] Additional information on CCC export credit guarantees is at http://www.fas.usda.gov/excredits/exp-cred-guar.html.

Eligible countries are those that USDA determines can service the debt backed by guarantees. Use of guarantees for foreign aid, foreign policy, or debt rescheduling purposes is prohibited.

The 2008 farm bill authorizes export credit guarantees of $5.5 billion worth of agricultural exports annually from FY2008 through FY2012. The actual level of guarantees depends on market conditions and the demand for financing by eligible countries. A provision in the statute allows guarantees to be used when the bank issuing the underlying letter of credit is located in a country other than the importing country. The farm bill permits credit guarantees for high value products with at least 90% U.S. content by weight, allowing for some components of foreign origin. The 2008 farm legislation provides for an additional $1 billion through 2012 in export credit guarantees targeted to "emerging markets," countries that are in the process of becoming commercial markets for U.S. agricultural products.

U.S. financial institutions providing loans to countries for the purchase of U.S. agricultural commodities can obtain, for a fee, guarantees from the CCC. If a foreign borrower defaults on the loan, the U.S. financial institution files a claim with the CCC for reimbursement, and the CCC assumes the debt. If a country subsequently falls in arrears to the CCC, its debts may ultimately be subject to rescheduling.

The biggest recipients of export credit guarantees have been Mexico, South Korea, Iraq, Algeria, and the former Soviet Union (FSU). Iraq is in default of more than $2 billion of previously extended guarantees. In FY2008, the major beneficiary countries were South Korea ($487.6 million), Turkey ($485 million) and Russia ($344.5 million). On a regional basis, the largest allocation of guarantees in 2008 were to the Central America region ($606 million), the South America region ($390 million), and the Caribbean region ($299.9 million). Guarantees facilitate sales of a broad range of commodities, but in FY2008 mainly benefitted exports of wheat, meat and poultry, oilseeds, feed grains, and cotton.

Facility Guarantee Program[17]

The CCC also guarantees financing under the Facility Guarantee Program (FGP), also reauthorized in the 2008 farm bill. FGP guarantees financing of goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets. Eligible projects must improve the handling, marketing, storage, or distribution of imported U.S. agricultural commodities and products.

The 2008 farm bill extends authority for the FGP to FY2012. It also provides that the Secretary of Agriculture may waive requirements that U.S. goods be used in the construction of a facility under this program, if such goods are not available or their use is not practicable. The new law also permits the Secretary to provide a guarantee for this program for the term of the depreciation schedule for the facility, not to exceed 20 years.

Other Farm Bill Changes

Two other export guarantee programs, previously authorized, were repealed by the 2008 farm bill. These were the GSM-103 program, which guaranteed longer-term (3-10 years) financing, and the

[17] Additional information on the FGP is available at http://www.fas.usda.gov/excredits/facility-new.asp.

Supplier Credit Guarantee Program (SCGP), which guaranteed very short-term (up to 1 year) financing of exports. The 2008 farm bill also lifted the 1% cap on loan origination fees for the GSM-102 program. The repeal of the GSM-103 program and lifting the cap on origination fees were in response to a WTO dispute panel decision in a case brought by Brazil against U.S. cotton policy.[18] The panel ruled that GSM programs were prohibited export subsidies because they did not recover their operating costs. Legislative authority for the SCGP was suspended largely because of a high rate of defaulted obligations and evidence of fraud.

The new farm bill caps the credit subsidy for the GSM-102 program at $40 million annually.[19] The amount of GSM-102 credit that CCC must make available each year is set at the lesser of $5.5 billion, or the amount of credit guarantees that can be made available with budget authority of $40 million (for the cost of operating the program). The $40 million credit subsidy cap, according to the manager's statement accompanying the 2008 bill, is expected to finance $4 billion annually in export credit guarantees.[20]

Recent Export Credit Guarantee Activity

In FY2008 export credit guarantees were allocated to $1.4 billion of U.S. agricultural exports. For FY2009, FAS has announced the availability of $3.5 billion in credit guarantees.[21]

International Food Aid Programs[22]

The 2008 farm bill reauthorizes a number of international food aid programs that supply U.S. commodities abroad. These include Titles I, II, and III of P.L. 480, renamed the Food for Peace Act by the 2008 farm bill; the Food for Progress Program; the McGovern-Dole International Food for Education and Child Nutrition Program; and the Bill Emerson Humanitarian Trust, a reserve of commodities and cash to be used in the case of unanticipated emergencies. All of these programs are authorized in the new farm bill from 2008 through FY2012. One other food aid program, Section 416(b) surplus commodity donations, is permanently authorized in the Agricultural Act of 1949. The John Ogonowski Farmer-to-Farmer Program, a small program of volunteer technical assistance to agriculture in developing countries, is funded from the P.L. 480 appropriation, and is also reauthorized in the 2008 farm bill.

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[18] For a fuller discussion of the U.S.-Brazil cotton case and its implications for CCC export credit guarantee programs, see CRS Report RS22187, *Brazil's WTO Case Against the U.S. Cotton Program: A Brief Overview*, by Randy Schnepf.

[19] The credit subsidy is the available budget authority for the cost of the program.

[20] The manager's statement was viewed at http://agriculture.house.gov/inside/Legislation/110/FB/Conf/statement_of_managers.pdf..

[21] Announcements of GSM-102 allocations are available at http://www.fas.usda.gov/excredits/exp-cred-guar.asp.

[22] For a discussion of international food aid issues raised during debate over the 2008 farm bill, see CRS Report RL34145, *International Food Aid and the 2007 Farm Bill*, by Charles E. Hanrahan**;** for greater detail on 2008 farm bill changes in the international food aid programs, see CRS Report RS22900, *International Food Aid Provisions of the 2008 Farm Bill*, by Charles E. Hanrahan**.**

Food for Peace Act (P.L. 480)[23]

P.L. 480, the Agricultural Trade Development and Assistance Act of 1954, now renamed the Food for Peace Act, has three food aid titles. Title I, Economic Assistance and Food Security, provides for long-term, low interest loans to developing countries and private entities for their purchase of U.S. agricultural commodities. Title II, Emergency and Private Assistance Programs, provides for the donation of U.S. agricultural commodities to meet emergency and non-emergency food needs. Title III, Food for Development, provides government-to-government grants to support long-term growth in the least developed countries. Title I of the Food for Peace Act is administered by USDA; Titles II and III are administered by the Agency for International Development (AID).

Agreements under Food for Peace Act Title I provide for repayment terms of up to 30 years with a grace period of up to five years. Title I also authorizes grant programs. Beginning with FY2006, USDA has not requested funding for Title I food aid. In recent years, P.L. 480 Title III (government-to-government food donations for development) also has been inactive.

Food for Peace Act Title II emergency food aid is provided through the World Food Program (WFP) or private voluntary organizations (PVOs), although commodities may be provided in government-to-government programs. The legislation identifies PVOs, cooperatives, and intergovernmental organizations (such as WFP) as organizations eligible to carry out Title II non-emergency (development) programs, including in countries where USAID does not maintain a mission. With a view to providing more cash assistance to organizations—private voluntary organizations (PVOs), cooperatives, intergovernmental organizations—that implement Title II food aid programs, the 2008 farm bill increases the range of funds available for administrative and distributional expenses to between 7.5% and 13% of funds available each year to the program (appropriations, carry-over, and reimbursements). A minimum of 15% of non-emergency Title II commodities can be monetized (i.e., sold for local currencies or for dollars). Monetization enables eligible organizations to defray the costs of distributing food or implementing development projects in countries where they operate.

The farm bill mandates an annual minimum tonnage level provided as Title II commodity donations of 2.5 million metric tons, of which 1.875 mmt (75%) is to be channeled as non-emergency assistance through the eligible organizations. This mandate, which has rarely been met, can be waived by the USAID Administrator upon a determination that this volume of commodities cannot be used effectively or in cases of emergency need. In recent years, the volume of Title II emergency food aid has far exceeded the amount of non-emergency or development food aid.

The 2008 farm bill sets the annual authorization level for Title II at $2.5 billion. This level of funding would be $500 million more annually than has been provided for Title II under the 2002 farm bill each fiscal year through a combination of regular and supplemental appropriations. But as this authorization is discretionary, it will be up to appropriations bills to set the amount of annual Title II funding.

The farm bill provides for a "safe box" for funding of non-emergency development assistance projects under Title II. The aim of the safe box is to provide assurances to the implementing

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[23] Additional information on Food for Peace Act (P.L. 480) food aid is available at http://www.fas.usda.gov/food-aid.asp.

organizations (PVOs, coops, intergovernmental organizations) of a given level of funds with which to carry out development projects. The safe box funding level begins at $375 million in FY2009, ending in FY2012 at $450 million. The mandated funding level can be waived if three criteria are satisfied: (1) the President determines that an extraordinary food emergency exists; (2) resources from the Bill Emerson Humanitarian Trust (see below) have been exhausted; and (3) the President has submitted a request for additional appropriations to Congress equal to the reduction in safe box and Emerson Trust levels.

The 2008 farm bill includes a scaled-down version of the Administration's only international food aid proposal for legislative authority to use up to $300 million of appropriated P.L. 480 Title II funds for local or regional purchase and distribution of food to assist people threatened by a food security crisis. The farm bill provides that a pilot project be conducted by the Secretary of Agriculture with a total of $60 million in mandatory funding (not P.L. 480 appropriations) during FY2009 and FY2012. The pilot project would entail a study of previous or ongoing experiences with local/regional purchase followed by field-based projects that would purchase food commodities locally or regionally. The field-based projects would be funded with grants to PVOs, cooperatives, and intergovernmental organizations, such as the World Food Program. All of the field-based projects would be evaluated by an independent third party beginning in 2011; the Secretary of Agriculture would submit a report to Congress on the pilot project four years after the enactment of the bill.

The new farm bill extends to 2012 the authority for the Food Aid Consultative Group (FACG), which advises the USAID Administrator on food aid policy and regulations. It requires that a representative of the maritime transportation sector be included in the group.

The farm bill authorizes the use of up to $22 million annually to be used for the monitoring and assessment of non-emergency (development) food aid programs. This provision is a response to criticism that monitoring of such programs by USAID has been inadequate due to such factors as limited staff, competitive priorities, and legal restrictions. The USAID Administrator can use these funds to employ contractors as non-emergency food aid monitors.

The farm bill increases funding available annually (from Title II funds) from $3 million to $8 million for stockpiling and rapid transportation, delivery, and distribution of shelf-stable, prepackaged foods. Shelf-stable foods are developed under a cost-sharing arrangement that gives preference to organizations that provide additional funds for developing these products. The new bill also reauthorizes pre-positioning of commodities overseas and increases the funding for pre-positioning to $10 million annually from $2 million annually. USAID maintains that pre-positioning (currently at two sites, New Orleans and Dubai, United Arab Emirates) enables it to respond more rapidly to emergency food needs. Critics say, however, that the cost effectiveness of pre-positioning has not been evaluated.

Other Food Aid Programs

Section 416(b)[24]

This program, authorized in permanent law (the Agricultural Act of 1949) and administered by USDA, provides for the donation overseas of surplus agricultural commodities owned by the CCC. This component of food aid is the most variable because it is entirely dependent on the availability of surplus commodities in CCC inventories. Section 416(b) donations may not reduce the amounts of commodities that traditionally are donated to domestic feeding programs or agencies, prevent the fulfillment of any agreement entered into under a payment-in-kind program, or disrupt normal commercial sales. The Section 416(b) program is currently inactive due to the unavailability of CCC-owned stocks.

Food for Progress (FFP)[25]

FFP, first authorized by the Food for Progress Act of 1985 and also administered by USDA, provides commodities to support countries that have made commitments to expand free enterprise in their agricultural economies. Commodities may be provided under the authority of the Food for Peace Act or Section 416(b). The CCC may also purchase commodities for use in FFP programs if the commodities are currently not held in CCC stocks. Organizations eligible to carry out FFP programs include PVOs, cooperatives, and intergovernmental organizations such as the WFP. The farm bill requires that a minimum of 400,000 metric tons of commodities be provided in the FFP program.

McGovern-Dole International Food for Education and Child Nutrition Program[26]

The McGovern-Dole program uses commodities and financial and technical assistance to carry out preschool and school food for education programs and maternal, infant, and child nutrition programs in foreign countries. Private voluntary organizations, cooperatives, and the World Food Program and foreign governments are all eligible organizations for carrying out these activities. The 2008 farm bill reauthorizes the program through 2012 and establishes the U.S. Department of Agriculture as the permanent home for the program. The new law maintains funding for McGovern-Dole on a discretionary basis without an increase, but does authorize $84 million in mandatory money (CCC funds) for the program in FY2009, to be available until expended.

[24] Additional information on Section 416(b) is available at http://www.fas.usda.gov/excredits/FoodAid/416b/section416b.asp.

[25] Additional information on the Food for Progress program is available at http://www.fas.usda.gov/excredits/FoodAid/FFP/foodforprogess.asp.

[26] Additional information the McGovern-Dole program is available at http://www.fas.usda.gov/excredits/FoodAid/FFE/FFE.asp.

The Bill Emerson Humanitarian Trust (BEHT)[27]

The 2008 farm bill reauthorizes through 2012 the BEHT, a reserve of commodities and cash that can be used to meet food aid needs. The BEHT, so named in the 1998 Africa Seeds of Hope Act (P.L. 105-385), replaced the Food Security Commodity Reserve established in the 1996 farm bill and its predecessor, the Food Security Wheat Reserve, enacted in 1980. Not strictly speaking a food aid program, the trust can be used to help fulfill Food for Peace Act emergency food aid commitments to developing countries to meet unanticipated emergency needs. Since 1980, the only commodity held in reserve has been wheat; the trust also can hold cash in reserve. The 2008 farm bill removes the previous 4 million ton cap on commodities that can be held in the trust, and allows the Secretary to invest the funds from the trust in low-risk, short-term securities or instruments so as to maximize its value.

During 2008, USDA sold the remaining wheat in the trust (about 915,000 MT) so that currently the BEHT holds only cash—about $294 million. The cash would be used, according to USDA, when USAID determines it is needed for emergency food aid.

The John Ogonowski Farmer-to-Farmer Program

The Farmer-to-Farmer program (FTF), first authorized in the 1985 farm bill, was reauthorized by the 2008 farm bill. The program was renamed in 2002 to honor John Ogonowski, a pilot killed during the terrorist attacks of September 11, 2001. Ogonowski had participated in the Farmer-to-Farmer program. FTF is a program of technical assistance (not commodity food aid) provided to farmers, farm organizations, and agribusinesses in developing and transitional countries. The program mobilizes the expertise of volunteers from U.S. farms, land grant universities, cooperatives, private agribusinesses, and nonprofit organizations to carry out projects overseas. The farm bill provides minimum funding for FTF at 0.5% of the funds made available to Food for Peace Act programs. Special emphasis is given to FTF activities in the Caribbean Basin and sub-Saharan Africa. FTF funding under the previous farm bill was $10 million annually.

Food Aid Issues

Local or Regional Purchase

The U.S. food aid program is often criticized as an inefficient way to meet the objectives of relieving emergency food needs or fostering economic and agricultural development in receiving countries. Critics, including the Administration, point to delayed arrivals of up to four months when U.S. commodities are shipped in response to emergency situations. Ocean transportation costs can be high. In FY2006, USAID estimated that almost half of its food aid allocations went to paying the cost of transportation (ocean transport and internal shipping costs).[28] Ocean freight rates vary from year to year, but paying such costs is one reason that both USDA and USAID have proposed in various budget proposals allocating some portion of funds available to Title II emergency programs to purchase commodities in areas near to the emergency. The

[27] Additional information on the Emerson Trust is available at http://www.fas.usda.gov/excredits/FoodAid/emersontrust.asp.

[28] See USAID FY2006 Congressional Budget Justification at http://www.usaid.gov/policy/budget/cbj2006/pdf/fy2006summtabs6_PL480TitleII.pdf.

Administration argues that with local or regional purchase, not only could more food be purchased at lower prices, but the food could be delivered more rapidly. Congressional and other critics of the local purchase proposal maintain that allowing non-U.S. commodities to be purchased would result in undermining the coalition of commodity groups, private voluntary organizations, and shippers that support the program and in reductions in U.S. food aid.[29] Critics of local or regional procurement (LRP) also argue that buying locally or regionally could result in price spikes that would make it difficult for poor people to buy the supplies they need on local markets. Some also argue that the reliability and quality of food supplies could not be guaranteed with LRP.

The Administration's only farm bill proposal with respect to food aid was that Congress provide legislative authorization to use up to 25% of funds available annually to P.L. 480 Title II to procure food from selected developing countries near the site of a crisis. The Administration justified this proposal on the grounds that the U.S. response to food emergencies would be more efficient and cost-effective if commodities could be procured locally. The Administration's farm bill document noted instances in which the U.S. food aid response to emergencies would have been enhanced with this kind of authority: Iraq in 2003, the Asian tsunami in 2004, Southern and West Africa in 2005, and East Africa in 2006. As if anticipating the same congressional antipathy expressed in regard to this idea in past budget requests, the Administration was careful to note that "U.S. grown food will continue to play the primary role and will be the first choice in meeting global needs." Local and regional purchases would be made only where the speed of the arrival of food aid is essential, according to USDA.

Cargo Preference

Related to the question of cost-effectiveness of providing U.S. commodities as food aid is the cargo preference issue. The Cargo Preference Act, P.L. 83-644 (August 26, 1954), as amended, contains permanent legislation concerning the transportation of waterborne cargoes in U.S.-flag vessels. The act requires that 75% of the volume of U.S. agricultural commodities financed under P.L. 480 and other concessional financing arrangements be shipped on privately owned U.S.-registered vessels. Maritime interests generally support cargo preference, but opponents argue that it increases the costs of shipping U.S. commodities to poor countries and potentially reduces the volume of food aid provided. A GAO report found that shipments of food aid on U.S.-flag vessels did little to meet the law's objective of helping to maintain a U.S. merchant marine and that cargo preference requirements adversely affect operations of the food aid programs, chiefly by raising the cost of ocean transportation and reducing the volume of commodities that can be shipped.[30]

Monetization

The monetization (selling in local markets) of food aid commodities also is an issue. A Food for Peace Act provision (Section 203) first included in the Food Security Act of 1985 (P.L. 99-198) allows private voluntary organizations and cooperatives to sell a percentage of donated P.L. 480 commodities in the recipient country or in countries in the same region. Under Section 203 of P.L.

[29] See H.Rept. 109-255 on H.R. 2744, the FY2006 agriculture appropriations measure.

[30] See General Accountability Office, "Cargo Preference Requirements: Objectives Not Met When Applied to Food Aid Programs," September 29, 1994, available at http://archive.gao.gov/t2pbat2/152624.pdf.

480, private voluntary organizations or cooperatives are permitted to sell (i.e., monetize) for local currencies or dollars an amount of commodities equal to not less than 15% of the total amount of commodities distributed in any fiscal year in a country. The currency generated by these sales can then be used to finance internal transportation, storage, or distribution of commodities; to implement development projects; or to invest and with the interest earned to finance distribution costs or projects.

Many of the organizations that rely on sales of U.S. food aid commodities to finance development projects support monetization as their major source of development finance. Some private voluntary organizations, however, have begun to question the use of monetization as a source of funds.[31] CARE, which has been a major supporter of monetization in the past, has decided to transition out of monetization. According to CARE, monetization is management-intensive and costly and fraught with legal and financial risks. In addition, it is economically inefficient. As CARE notes in its food policy paper: "Purchasing food in the U.S., shipping it overseas, and then selling it to generate funds for food security programs is far less cost-effective than the logical alternative—simply providing cash to fund food security programs." Finally, echoing criticisms of food aid heard in WTO Doha Round negotiations, CARE notes that when monetization involves open-market sale of commodities to generate cash, which is almost always the case, it inevitability causes commercial displacement. As such, it can be harmful to traders and local farmers and undermine the development of local markets, and be detrimental to longer-term food security objectives. Catholic Relief Services (CRS) has taken a similar position with respect to monetization.[32]

Congressional Action on Appropriations

FY2009 Budget Request for International Programs

USDA's international activities are funded by discretionary appropriations (e.g., foreign food assistance under the Food for Peace Act (P.L. 480) and by using the borrowing authority of the CCC (e.g., export credit guarantees, market development programs, and export subsidies). The total program value for international programs for FY2009 would be $4.965 billion, with $1.475 billion appropriated. The FY2009 program level is $481 million more than FY2008 (+11%), with most of the difference accounted for by increases in short-term export credit guarantees. The Administration requests an appropriation of $173 million for the Foreign Agricultural Service (FAS) to administer its international programs.[33]

For P.L. 480, USDA requests a $1.2 billion appropriation for Title II commodity donations. The President's budget requests no funds for P.L. 480 Title I loans, nor any for the Bill Emerson Humanitarian Trust. The budget assumes $340 million of CCC funds for Food for Progress (FFP) to aid emerging democracies, and a constant $100 million appropriation for the McGovern-Dole International Food for Education and Child Nutrition Program. The Administration again

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[31] See *White Paper on Food Aid Policy*, CARE USA, June 6, 2006, at http://www.care.org/newsroom/articles/2005/12/food_aid_whitepaper.pdf.

[32] See Catholic Relief Services, *Food Aid and Food Securi*ty, at http://crs.org/public-policy/food_aid.cfm.

[33] USDA's budget request for international programs is in USDA, *FY2009 Budget Summary and Annual Performance Plan*, available at http://www.obpa.usda.gov/budsum/fy09budsum.pdf.

proposes to allow USAID to use up to 25% of P.L. 480 Title II funds for local or regional purchases in food crises. Congress has rejected similar requests annually since FY2006.

CCC export credit guarantee programs finance U.S. agricultural exports. USDA requests $2.6 billion in short-term guarantees and $75 million in guarantees to finance agriculture-related facilities in emerging markets. The Market Access Program (MAP) would receive its authorized level of $200 million.

FY2009 Continuing Resolution

The agriculture appropriations bill, which includes funding for Food for Peace Act (P.L. 480) food aid programs, was not completed before the beginning of FY2009.[34] A nearly 5½ -month continuing resolution (P.L. 110-329, Division A) was enacted on September 30, 2008, to fund the government until March 6, 2009, or until a separate appropriations bill is enacted. The continuing resolution funds food aid programs at their FY2008 levels.

FY2008/FY2009 "Bridge" Supplemental

In the Supplemental Appropriations Act, 2008 (P.L. 110-252), Congress made available $1.245 billion for Food for Peace Act (P.L. 480) Title II food aid. Of that total, $850 million was appropriated for FY2008 and $395 million for FY2009. Both amounts are to remain available until expended. These supplemental appropriations were the congressional response to rising food prices during much of 2008.

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[34] USDA's export programs are not funded by annual appropriations.