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CRS Report for Congress

Agricultural Export Provisions of the 2008 Farm Bill

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Summary

Agricultural exports, which are forecast by the U.S. Department of Agriculture to reach $108.5 billion in 2009, are an important source of employment, income, and purchasing power in the U.S. economy. Programs that deal with U.S. agricultural exports are a major focus of Title III, the trade title, in the new omnibus farm bill, the Food, Conservation, and Energy Act of 2008 (P.L. 110-246, H.R. 6124).[1] The enacted farm bill repeals the major U.S. export subsidy program, and reauthorizes and changes a number of programs that assist with financing U.S. agricultural exports or that help develop markets overseas.[2] Changes include modifying export credit guarantee programs to conform with U.S. commitments in the World Trade Organization (WTO), making organic products eligible for export market development programs, and increasing the funds available to address sanitary and phytosanitary barriers to U.S. specialty crop exports.

Historically, Congress has mandated programs to help U.S. exporters compete with subsidies provided by other countries, to assist with financing for exports where credit is a constraint, or to promote U.S. agricultural exports. Some in Congress have criticized programs that assist with exports as corporate welfare; others suggest that private entities could and should themselves finance export activities. The 2008 farm bill extends funding authority for credit guarantees and export market development through FY2012.

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[1] The conference agreement on the 2008 farm bill was originally approved by the House and the Senate as H.R. 2419 and vetoed by the President in May 2008. Both chambers overrode the veto, making the bill law (P.L. 110-234). However, the trade title was inadvertently excluded from the enrolled bill. To remedy the situation, both chambers re-passed the farm bill conference agreement (including the trade title) as H.R. 6124. The President vetoed the measure in June 2008 and both chambers again overrode the veto, which made H.R. 6124 law as P.L. 110-246, and superseded P.L. 110-234.

[2] International food aid programs are the other major focus of the farm bill trade title. For a discussion of farm bill changes in food aid programs, see CRS Report RS22900, *International Food Aid Provisions of the 2008 Farm Bill*.

The enacted farm law repeals legislative authority for the major export subsidy program, but extends authority for a smaller program that subsidizes dairy product exports. Funded by using the borrowing authority of the Commodity Credit Corporation (CCC), the farm bill agricultural export programs are administered by the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA).[3]

CCC Export Credit Guarantees

CCC export credit guarantees assure payments for commercial financing of the sale of U.S. agricultural exports. If a foreign buyer defaults on the debt financing incurred, the CCC assumes the debt. In the 2002 farm bill (P.L. 107-171) Congress authorized $5.5 billion (in export value, not cost to the Treasury) for such guarantees, plus an additional $1 billion to be made available to countries that are emerging markets.

Four CCC export credit guarantee programs were authorized in the 2002 farm bill. **GSM-102** guaranteed short-term (up to 3 years) financing of U.S. farm products; **GSM-103** guaranteed longer-term (3-10 years) financing. The **Supplier Credit Guarantee Program** (SCGP) guaranteed very short-term (up to 1 year) financing of exports. The **Facilities Financing Guarantee Program** (FFGP) guaranteed financing of goods and services exported from the United States to improve or establish agriculture-related facilities in emerging markets.

In 2006, FAS suspended operation of the GSM-103 program. The suspension was in response to a WTO dispute panel decision in a case brought by Brazil against U.S. cotton policy. The panel ruled that GSM programs were prohibited export subsidies because they did not recover their operating costs.[4] Also FAS suspended the SCGP in FY2006, largely because of a high rate of defaulted obligations and evidence of fraud. In its farm bill proposals, the Administration requested that Congress formally repeal legislative authorities for GSM-103 and the SCGP. The Administration also requested that Congress lift the statutory 1% cap on loan origination fees for GSM-102,which the WTO cited as a subsidy element in the operation of the export credit guarantee programs.[5]

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[3] The Commodity Credit Corporation is a wholly owned government corporation created in 1933 to stabilize, support, and protect farm income and prices (federally chartered by the CCC Charter Act of 1948, P.L. 80-806). The CCC, which has no staff, is essentially a financing institution for USDA's farm price and income support commodity programs and agricultural export programs. It is authorized to buy, sell, lend, make payments and engage in other activities for the purpose of increasing production, stabilizing prices, assuring adequate supplies, and facilitating the efficient marketing of agricultural commodities. The export programs funded through CCC are administered by employees of the Foreign Agricultural Service. The CCC has the authority to borrow up to $30 billion from the U.S. Treasury to carry out its obligations. Net losses from its operations subsequently are restored through the congressional appropriations process.

[4] 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.*

[5] The Administration's farm bill export program proposals are discussed in [http://www.usda.gov/documents/07finalfbp.pdf].

The 2008 farm bill repeals authority for the SCGP, the GSM-103 intermediate credit guarantee, and the 1% cap on loan origination fees for the GSM-102 program. The new farm bill caps the credit subsidy for the program at $40 million annually.[6] The amount of GSM-102 credit that CCC must make available each year is set at not less than $5.5 billion, but the $40 million credit subsidy cap, according to the manager's statement accompanying the bill, is expected to finance $4 billion annually in export credit guarantees.[7]

The 2008 farm bill extends authority for the FFGP 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.

Export Market Development

The 2002 farm bill authorized four 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), and the Technical Assistance for Specialty Crops Program (TASC). Authorization of CCC funds for the market development programs expired with the 2002 farm bill in 2007. During the farm bill debate both the Administration and producers of fruits and vegetables advocated increased funding for export market development programs, targeted to specialty crops (fruits and vegetables).

Market Access Program. MAP assists primarily value-added products. Its purpose is to expand exports over the long term by undertaking activities such as consumer promotions, technical assistance, trade servicing, and market research. MAP projects are jointly funded by the federal government and industry groups. Trade organizations, nonprofit industry organizations, and private firms that are not represented by an industry group submit proposals for marketing activities to the USDA, which evaluates proposals and selects recipient organizations. The 2008 farm bill extends MAP through FY2012, makes organic produce eligible for the program, and keeps the funding level at the FY2007 level — $200 million — for each of the next five years (FY2008-FY2012).

Foreign Market Development Program. The 2002 farm bill reauthorized CCC funding for FMDP through FY2007 at an annual level of $34.5 million. FMDP, which resembles MAP in most major respects, mainly promotes generic or bulk commodity exports. The 2008 farm bill extends FMDP through FY2012 without change in the funding authorization.

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

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

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

emerging market is defined in the authorizing legislation (the 2002 farm bill) 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. The 2002 farm bill authorized funding at $10 million annually through FY2007. The 2008 farm bill reauthorizes the Emerging Markets Program through FY2012 without change.

Technical Assistance for Specialty Crops. TASC aims to assist U.S. specialty crop exports by providing funds for projects that address sanitary, phytosanitary, and technical barriers that prohibit or threaten U.S. speciality crop exporters. The 2002 farm bill defined specialty crops 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. The 2002 farm bill authorized $2 million annually of CCC funds each fiscal year through FY2007 for the TASC program. The 2008 farm bill extends TASC 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 Subsidies

The 2002 farm bill authorized direct export subsidies of agricultural products through the Export Enhancement Program (EEP) and the Dairy Export Incentive Program (DEIP). Both programs subsidized agricultural exports when U.S. domestic prices were higher than world or international prices. EEP, which mainly subsidized exports of wheat and wheat flour (around 80% of EEP subsidies), has been little used as U.S. and world prices have 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. DEIP provided subsidies for dairy product exports; no DEIP subsidies have been provided since 2005. Agricultural export subsidies are a major issue in the Doha Round of multilateral trade negotiations, where preliminary agreement has been reached to eliminate them by 2013. The 2008 farm bill repeals legislative authority for EEP, but extends legislative authority for DEIP through December 31, 2012. (The DEIP authorization is in Title I, the Commodities title of the 2008 farm bill.)

Other Provisions

Global Crop Diversity Trust. The 2008 farm bill requires the U.S. Agency for International Development (USAID) to make a contribution on behalf of the United States to the Global Crop Diversity Trust of up to $60 million over 5 years. U.S. contributions to the trust may not exceed one fourth of the total of funds contributed to the trust from all sources. The Global Diversity Trust is the funding mechanism for the International Treaty on Plant Genetic Resources for Food and Agriculture, which is an international agreement for the conservation, exploration, collection, characterization, evaluation and documentation of plant genetic resources for food and agriculture. The trust, administered by the United Nations Food and Agriculture Organization, (FAO), assists in funding the operation of gene banks held by the countries that are party to the treaty.[8]

Consultative Group to Eliminate the Use of Child Labor and Forced Labor in Imported Agricultural Products. The 2008 farm bill includes a provision that requires the Secretary of Agriculture, in cooperation with the Secretary of Labor, to develop standards that importers of agricultural products into the United States could choose to use to certify that those products were not produced with the use of abusive forms of child labor. The consultative group would develop recommendations on practices that would enable companies to monitor and verify whether the food products they import are made with the use of child or forced labor.

[8] The website of the trust is at [http://www.croptrust.org/main/].