Export Programs

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Background

In common with many other countries, the United States has implemented a wide range of programs that enhance agricultural exports. These programs include general and targeted export subsidies for products such as wheat and corn, broad-based export credit guarantees, food aid, market promotion and market assistance, credit, insurance and freight subsidies. Some countries implement less transparent programs to provide indirect export subsidies through government or quasi-government export State Trading Enterprises (STEs) such as the Australian Wheat Board, the Canadian Wheat Board, and the New Zealand Dairy Board.

The funding and scope of direct subsidy programs is already subject to limits and disciplines under the 1994 GATT agreement. Other programs (such as export credit guarantees, export STEs, and market promotion and assistance) have been targeted by some WTO member countries as areas for new restrictions and disciplines in the current WTO round of negotiations. This paper describes the different export support programs implemented by the U.S. and other countries and, for each type of program, identifies related current and potential future trade issues.

Issues

Export Subsidies

National governments have long used export subsidies as a means for protecting and promoting specific sectors of the economy. Export subsidies involve the payment of a direct or in-kind subsidy that lowers the price of exports to foreign buyers. These subsidies may be implemented under a variety of schemes, including specific and ad-valorem subsidies, variable subsidies, targeted subsidies, export promotion and assistance, and food aid. The mechanics of export subsidies and their economic effects are straightforward. They divert products from domestic to international markets by driving a wedge between the domestic price and the price paid by foreign buyers, generally increasing domestic market prices. Export subsidies may also lower international prices, depending upon the elasticity of demand for the country’s exports. Export subsidies have a long history in international commodity markets. Their use in agriculture, however, became especially prominent during the 1980s with the implementation of the Export Enhancement Program, or EEP, of the United States.

The EEP program was instituted in 1985 under the Food Security Act of 1985 (PL99-198). The program was initiated in response to declining U.S. agricultural exports and ever-increasing foreign subsidies on the exports of competitors, primarily those instituted by the European Community. EEP bonuses are targeted subsidies that were initially paid using commodity certificates, although the current program pays cash subsidies. Although EEPs were used extensively during the late 1980s and early 1990s, they were last heavily utilized in 1995, when 72 percent of the total funds used for EEP bonuses were paid on wheat, 8 percent on flour, 6 percent on poultry, and the remaining bonuses spread over other commodities (Hanrahan, 2000). Since 1995, only modest EEP subsidies have been paid on agricultural commodities although the 1996 FAIR Act (PL 104-127) did authorize discretionary EEP funding. The 1996 Act also gave the Secretary of Agriculture authority to make funds available for subsidizing exports of intermediate agricultural commodities.

The United States also operates an export subsidy program for dairy products under the Dairy Export Incentive Program (DEIP). The DEIP was established under the 1985 Farm Bill to stimulate U.S. dairy product exports. As with the EEP, at least in part, the DEIP was also a policy response to large EU dairy product export subsidies.

Direct export subsidies are explicitly disciplined under the 1994 Agreement on Agriculture, adopted at the end of the Uruguay Round of GATT negotiations. With respect to export subsidies, the 1994 GATT Agreement mandated reductions both in terms of the level of support granted through export subsidies and the volume of exports that was subsidized. For developed countries, including the United States, the 1994 GATT agreement mandated that countries would reduce the value of subsidies by 36 percent and the volume of exports receiving subsidies by 21 percent over their 1986-90 base levels. Support reductions required of developing countries were considerably weaker. These countries were to reduce the value of subsidies by 24 percent, and the volume of quantity subsidized by 14 percent.

Coming into the Uruguay Round, the largest users of export subsidies were the United States and the E.U. In the subsequent years, the level of export subsidies applied by the E.U. has remained substantial while those of the United States and other countries have been quite low. In 1996, the E.U. accounted for nearly 84 percent of a world total of $8.4 billion of export subsidies reported to the WTO while the U.S. accounted for only 1.4 percent of that total (Normile, 1998). Despite the large levels of export subsidies still characterizing world agricultural trade, especially for the E.U., both the U.S. and the E.U. satisfied their WTO obligations.

Several issues remain unresolved with respect to the 1994 GATT provisions for export subsidy reductions (Leetmaa and Ackerman, 1999). Some countries, including the E.U., have argued that they should be able to "bank" unused levels of subsidies from periods when they were far below their agreement for use at a later time. This would permit the E.U., among others, to impose large export subsidies in times of low prices.

Where export subsidies have been binding, Leetmaa and Ackerman note that countries have been innovative in adopting schemes that circumvent the agreed-upon reductions. For example, the E.U. now exports some processed cheese under the export subsidy commitments for skim milk powder and butter. Canada has implemented a two-tier price system that imposes a lower price on milk that is used in the manufacture of processed dairy products. In addition, as discussed below, export credits, food aid, and market development provisions are not subject to the disciplines of the WTO, in spite of their obvious export subsidy nature.

Overall, the reductions in export subsidies mandated by the URAA are modest and compliance has been easy for most of the 25 countries committed to reducing their use. Thus, although the agreement is important in terms of establishing a process for reducing direct export subsidies, the actual extent and effect of reforms realized so far is very modest. In addition, several issues remain unresolved, — most of which involve export-enhancing programs that are not currently counted as subsidies.

Export Credit and Credit Guarantee Programs

Many developed countries also provide support for agricultural exports to other countries through the provision of credit guarantees to importers who seek to defer payments for the goods received. Foreign importers often seek to obtain agricultural commodities from exporting countries on credit provided by either the exporter or a third party. If credit were not available, then many of these sales would not be made. However, especially when the importer is located in (or the government of) a country facing economic difficulties, absent some form of credit guarantee, private financial institutions will not provide credit to the importer. To ameliorate these problems, some exporting countries choose to provide direct lines of credit to the importer, often at below-market interest rates. More often, the exporter's government may provide a guarantee to private financial institutions that any loans they make to the importer will be repaid by the government if the importer defaults on the loan.

The United States operates several agricultural export credit guarantee programs: GSM-102 Export Credit Guarantees, GSM-103 Intermediate Export Credit Guarantees, Supplier Credit Guarantees, and Facility Credit Guarantees. Under the GSM-102 Export Credit Guarantee Program, the United States Department of Agriculture (USDA) underwrites financial transactions by U.S. banks willing to finance agricultural export transactions for exports to countries where credit might otherwise be difficult to obtain. Its provisions cover credit terms with payment schedules deferred up to three years.

The GSM-103 Export Credit Guarantee Program provides credit guarantees similar to those made available under GSM-102, but for longer periods of up to 10 years. The Supplier Credit Guarantee Program provides short-term credit extended by U.S. exporters for no more than 180 days. The Facility Credit Guarantee Program guarantees credit extended by U.S. banks for the commercial sale of American goods and services to improve agricultural infrastructure in importing countries, including storage, processing, and handling equipment.

Agricultural credit guarantee programs are widely viewed as a form of export subsidy and have been targeted for reform by WTO member countries. During the Uruguay Round of negotiations that preceded the 1994 GATT agreement, several countries unsuccessfully sought to define export credits as export subsidies that would be subject to GATT disciplines. Initial submissions in the current WTO negotiations have proposed either the abolition or curtailment of export credit guarantees. In 1999, the United States developed a proposal to limit the scope and length or tenor of agricultural credit guarantees to no more than 2 or 3 years for bulk commodities, and a maximum of 180 days for processed and non-bulk commodities. This proposal was submitted to, the member countries of the Organization for Economic Cooperation and Development and was accepted, with modifications. It may, therefore, form the basis for a WTO agreement on the use of export credit guarantees.

Export Market Promotion Programs

Publicly funded market promotion programs to stimulate agricultural exports are also widely utilized by many countries. In the U.S., two USDA managed market promotion programs are intended to promote exports through the use of treasury funds. The Market Access Program (MAP — formerly called the Market Promotion Program or the MPP) is primarily directed toward promoting exports of value-added agricultural products. The MAP subsidizes promotional activities such as market research, technical assistance, and marketing activities. The 1996 FAIR Act authorized MAP funding of $90 million per year through 2002, a level supported in the 2001 fiscal year budget of the President (Hanrahan, 2000).

The Foreign Market Development Program, introduced in 1955 and widely known as the *Cooperator Program*, is very similar to the MAP in that it is intended to enhance exports through market development activities. The two programs differ in that while MAP is directed toward value-added and processed agricultural commodities, the Cooperator program is directed toward unprocessed bulk commodities.

These two market development subsidy programs are notable in that under current WTO rules, they are considered to be ”non-trade-distorting.” Those subsidies deemed to be non-trade-distorting were exempt from the reductions mandated by the 1994 GATT agreement.

Domestic Subsidies for Export Sectors

Any subsidy directed toward the production of an exported product will affect international markets. Direct production subsidies increase output and may lower prices for both domestic and international consumers. As with export subsidies, the extent to which international prices are affected depends on demand elasticities for the exported good. A small country with very elastic demands for its exports will not influence world prices. However, the large subsidies applied by many of the world’s major agricultural producers do have effects on international markets. Deficiency payment programs and income support programs such as the U.S. Marketing Loan and Loan Deficiency Payment program also implicitly subsidize exports by increasing production and exports.

The 1994 GATT included provisions for reducing domestic support policies. The Agreement mandated cuts in total domestic support of 20 percent for developed countries and 13 percent for developing countries from the 1986-88 base levels. Some policies deemed to be “minimally-trade-distorting” were exempted from the agreement. In addition, the domestic policies of many countries were adapted to conform to GATT provisions for “green-box” policies that were viewed as “minimally-distorting.” The increased reliance on “green box” support policies will certainly be scrutinized in the current WTO negotiations round.

State Trading Enterprises

State Trading Enterprises (STEs) are important institutions in international agricultural commodity markets. STEs are typically sole (monopoly) buyers or sellers of products for a country in international markets. Countries with export STEs include several large producers of food and feed grains such as Canada, Australia, and New Zealand. Import STEs for agricultural commodities are important in countries such as China, Japan, Algeria, Iran, and Tunisia.

Export STEs are a concern because their monopoly status provides them with the ability to price discriminate. A monopoly marketing board STE may sell domestically at a higher price and export at a lower price. Alternatively, or in addition, the monopoly board may price discriminate among different international buyers, charging different prices according to individual buyers’ elasticity of demand. Such actions are fully equivalent in their effects to export subsidies. The extent to which such actions are taken, however, is unclear and the ability to price discriminate certainly depends upon the extent of the competition facing each seller. Moreover, the actions of STEs are often not transparent, making it difficult to assess the impacts of their market practices.

Article XVII of the GATT Agreement recognizes STEs as legitimate international traders, provided that they do not operate commercially in a non-discriminatory fashion. Ackerman and Dixit (1999) point out that while the 1994 GATT contained explicit provisions for disciplining export subsidies, they did not extend to the export-enhancing activities of STEs. Thus, countries using STEs may circumvent 1994 GATT provisions curtailing export subsidies.

Given that, under the right conditions, export STEs are able to implicitly apply export subsidies, their role will certainly be one focus of attention in the current WTO negotiations.

Other Export Enhancement Programs

National governments have utilized other programs to enhance exports. Freight subsidies have been important in some countries. Under the Western Grain Transportation Stabilization Act, for example, Canada provided prairie grain producers with rail freight subsidies of about $20 per ton until 1996 (when the subsidy was abolished).

The United States also has provided subsidies for transportation and handling through government programs that subsidize infrastructure improvements (for example, through improving grain handling facilities at Gulf ports). Insurance, interest rates, and other subsidies have also been provided to exporters.

For example, through the Export-Import Bank of the United States, the U.S. government provides guarantees of working capital loans for exporters and credit insurance against non-payment by foreign buyers. Some of these programs, such as Canada's grain transportation subsidies, are or have been subject to WTO disciplines on agriculture. Others are not, either because they are viewed as having minimal or *de minimus* impacts or because they are tied to very broad economic development programs.

Summary and Options

This paper has identified a wide range of export enhancing programs, many of which are currently or potentially subject to WTO disciplines. Policy initiatives relating to export and domestic subsidies for the 2002 Farm Bill will therefore have to take account of current and potential future U.S. international obligations. As noted previously, these obligations are as follows. For developed countries, including the U.S., the 1994 GATT agreement mandated that countries would reduce the value of subsidies by 36 percent and the volume of exports receiving subsidies by 21 percent over their 1986-90 base levels. Support reductions required of developing countries were considerably weaker. These countries were to reduce the value of subsidies by 24 percent and the volume of quantity subsidized by 14 percent. These GATT obligations, and also those that deal with domestic agricultural support levels, are likely to place important limits on some of the 2002 Farm Bill policy options.

Given the above discussions, and current and potential future U.S. obligations under the WTO, export program options that may be available under the 2002 Farm Bill, are as follows:

- *Continue market export promotion programs.* It is unlikely that this will be highly controversial in the context of the WTO as other countries have similar programs.

- *Continue Food Aid programs targeted towards humanitarian concerns.* While some WTO member countries are skeptical about food aid programs, many view them as important from a humanitarian perspective.

- *Continue Export Credit programs, although possibly in a modified form.* The current U.S. export credit programs (especially GSM 102 and GSM 103) have been targeted for strong criticism by some WTO countries. However, several important WTO member countries, including Canada and France, also utilize such programs. Also, OECD has developed a proposal for its members that would imply modifications to the U.S. programs that would make them somewhat less attractive to some eligible importing countries.

Some export and export-related program options appear to be off the table. Expanding direct export subsidies such as EEP beyond WTO permitted limits for 2001 and 2002 would be almost impossible, given current U.S. WTO obligations. Similarly, substantial increases in output and input subsidies that provide direct incentives for increased domestic production would prove to be highly controversial under the WTO. Also, efforts to improve farm income through the creation of State Trading Enterprise export marketing boards (such as a Durum Wheat Export Marketing Board) are unlikely to be acceptable.

Trade negotiations are likely to be extremely controversial. Many special interest groups are getting tired of hearing why the WTO is limiting what they can do in times of substantial liquidity pressure in much of agriculture. The future negotiations will be an anxiety test for the United States for freer trade.

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