

CRS Report for Congress

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Farm Bill Trade and Food Aid Provisions

Geoffrey S. Becker
Specialist in Agricultural Policy
Resources, Science, and Industry Division

Summary

Exports are viewed by most U.S. agricultural groups as critical to their prosperity. Thus, the trade provisions of omnibus farm legislation (P.L. 107-171), passed and signed into law in May 2002, are of great interest to the agricultural community. The measure includes a trade title reauthorizing, through 2007, the major foreign food aid and agricultural export programs. It also contains other provisions affecting agricultural trade, including new country-of-origin labeling requirements for meat, seafood, and produce; and increased domestic farm subsidies with possible implications for U.S. trade relations. This report will not be updated.

Background

With agricultural exports accounting for about one-fourth of U.S. farm income, policymakers view efforts to develop and maintain overseas markets as vital to the sector's financial health. After reaching a record of nearly \$60 billion in FY1996, farm and food exports declined to \$49.2 billion by FY1999, but were beginning to recover, to a USDA-estimated \$52.8 billion in FY2001 and \$54.5 billion in FY2002. The drop in exports after FY1996 – attributed to financial problems in Asian and other emerging markets, increased competition due to large world supplies of major commodities, and the relative strength of the U.S. dollar – contributed to a decline in U.S. farm prices, leading Congress to pass multi-billion dollar “emergency” aid legislation for farmers in 4 consecutive years, 1998-2001.

The Administration and Congress, primarily through its Agriculture Committees, attempt to promote U.S. exports through an array of domestic farm programs, agricultural export subsidy and promotion activities, and foreign food aid programs. Most of these programs are periodically reviewed, amended, and reauthorized as part of an omnibus, multi-year farm bill. A new farm bill, the Farm Security and Rural Investment Act of 2002 (H.R. 2646; H.Rept. 107-424), was cleared by Congress in early May and signed by the President shortly thereafter (P.L. 107-171).

However, many other variables affect the level of U.S. agricultural exports, including changing income, population, and market preferences in foreign markets; the value of the

dollar relative to other currencies; countries' import policies; and the relative prices of foreign competitors' exports, among other things.

Programs and Provisions of the 1996 Law

Title II of the 1996 Federal Agriculture Improvement and Reform Act (P.L. 104-127) was the last omnibus farm law reauthorizing (generally through 2002) the major foreign food aid and agricultural export programs. They included:¹

Direct Export Subsidies. The *Export Enhancement Program* (EEP) and the *Dairy Export Incentive Program* (DEIP) both authorize USDA to offer bonuses that enable U.S. exporters to sell commodities at lower prices to buyers in targeted foreign markets. Although authorized at \$478 million annually, EEP (which subsidized mainly wheat but also poultry, pork, feed grains, and rice exports) has been used little in recent years. DEIP bonus values for dairy product exports have ranged from about \$20 million up to \$140 million per year.

Market Promotion Programs. Both the *Market Access Program* (MAP), recently funded at \$90 million annually, and the *Foreign Market Development Cooperator Program* (FMDP), funded at about \$28-30 million per year, cover part (but not all) of the cost of promoting U.S. farm and food products in overseas markets through activities conducted by farm trade associations and related groups.

Export Credit Guarantees. Private U.S. financial institutions extend financing to cash-short countries for the purchase of U.S. farm products, and USDA's Commodity Credit Corporation (CCC) assumes the risk of default. *GSM-102* provides shorter-term (6-months to 3-year) and *GSM-103* longer-term (up to 10-year) financing. The 1996 law authorized up to \$5.5 billion annually, but actual program activity has been \$3-4 billion per year.

Foreign Food Aid. The U.S. Government provides food aid through three major channels. First, the *P.L. 480*, or *Food for Peace* program, consists of: Title I, trade and development assistance, providing concessional sales of agricultural commodities to developing countries for dollars on credit terms or for local currencies; Title II, emergency and humanitarian assistance, providing for the donation of commodities to meet food needs overseas; and Title III, food for development, authorizing government-to-government grants to support long-term growth in the least developed countries (Titles II and III are administered by the U.S. Agency for International Development, AID). The P.L. 480 annual budget is approximately \$1 billion. Second, *Food for Progress* (FFP), with program activity at approximately \$90-\$120 million per year, provides commodities to

¹ Unless noted, these programs are administered by USDA's Foreign Agricultural Service (FAS). For a more detailed description, see: CRS Issue Brief IB98006, *Agricultural Export and Food Aid Programs*; CRS Report RS20402, *Agricultural Export Programs: The Dairy Export Incentive Program (DEIP)*; CRS Report RS20399, *Agricultural Export Programs: The Export Enhancement Program (EEP)*; CRS Report RS20415, *Agricultural Export Programs: The Market Access Program and Foreign Market Development Cooperator Program*; CRS Report RS20858, *Agricultural Export Subsidies, Export Credits, and the World Trade Organization*; and CRS Report RS20520, *Foreign Food Aid Programs: Background and Selected Issues*.

support countries committed to expanding free enterprise in their agricultural economies; FFP uses commodities from both the P.L. 480 (Title I) and CCC Section 416 account. Third, **Section 416(b)** of the Agricultural Act of 1949 permanently authorizes USDA to donate CCC-owned surplus commodities overseas; annual programming is highly variable because 416 use depends upon the availability of such surpluses.

Selected Issues

In renewing the food aid and export assistance programs, the 107th Congress again was confronted with questions of policy direction and funding. Levels of spending and volumes of product subsidized under EEP and DEIP are subject to limitations under the multilateral Uruguay Round Agreement on Agriculture (URAA). In practice, EEP has been used very little in recent years; DEIP has been used to the limits of the URAA. Market promotion programs like MAP, the food aid programs, and export credits (GSM) are not considered to be trade distorting under the current URAA, and therefore are not subject to spending disciplines. However, foreign trading partners argue that the United States has utilized food aid and export credits as ways to dispose of heavily subsidized farm surpluses, thereby distorting trade – and want such programs to be disciplined in the new round of negotiations.²

Some have questioned whether export subsidy and promotion activities actually increase overseas sales or simply displace commercial sales. Even if sales increase, do they translate into higher farm prices and incomes – or might direct farm subsidies be more cost-effective? Some critics claim that these programs benefit primarily large food and export companies (who can afford to pay for promotion activities themselves) or foreign buyers more than U.S. producers. Defenders cite studies claiming positive outcomes from such spending. Similar questions arise with regard to foreign food aid.

Congressional Action

The conference version of omnibus farm legislation was approved by the House and Senate on May 2 and May 8, 2002, respectively. The President signed the measure on May 13, 2002. Conferees had worked from mid-March through late April 2002 to resolve differences in the bill, including in Title III, the title where most program authorizations are located. (Some trade-related provisions are located in other parts of the measure.)

The House Agriculture Committee had marked up its omnibus bill (H.R. 2646, H.Rept. 107-191, Parts 1 and 2) in late July 2001, and included a trade title that reauthorized, through 2011, the major foreign food aid and agricultural export programs. The International Relations Committee amended the trade title (H.Rept. 107-191, Part 3) in early September 2001. Differences between the two panels' proposals were resolved, and were reflected in a wide-ranging substitute amendment that the Agriculture Committee brought to the House floor. The full House approved the bill with several amendments on October 5, 2001. The Congressional Budget Office (CBO) estimated that direct

² The URAA also limits trade-distorting U.S. domestic farm support to no more than \$19.1 billion per year; see page 6.

(mandatory) budget authority under the trade title would have been about \$5.4 billion over 10 years (\$1.4 billion of it above the April 2001 current policy baseline).

The Senate Agriculture Committee had approved its farm bill (S. 1731) on November 15, 2001. The panel had approved the trade title on November 7, 2001, drawing primarily from the trade titles of separate farm bills introduced by the chairman (S. 1628) and ranking minority member (S. 1571). The bill reauthorized the major food aid and export programs through 2006, and also made a number of other changes in the programs that differ from provisions in the House version. The full Senate approved its version (after a lengthy floor debate and series of amendments), on February 13, 2002. The CBO estimate for the Senate trade title was about \$6 billion (\$2.1 billion above baseline) over 10 years (although it was just a 5-year renewal).

CBO has estimated the cost of the conference version of the trade title to be \$5.1 billion (\$1.1 billion above baseline) over 10 years, and \$2.9 billion (\$532 million above baseline) over 6 years (FY2002-07).

Selected highlights of the final bill trade provisions follow.³

Market Access and Foreign Market Development Programs

The law reauthorizes MAP, increasing direct (mandatory) spending from its current annual level of \$90 million to \$100 million in FY2002, \$110 in FY2003, \$125 million in FY2004, \$140 million in FY2005, and \$200 million in FY2006 and FY2007. FMDP is extended through FY2007 at an annual level of \$34.5 million in direct spending. Under both programs, new participants and emerging markets must be given equal consideration in applications for the increased funds.

Export Enhancement and Dairy Incentive Programs

EEP is reauthorized by the law at its current annual level of \$478 million. The law adds, to the list of “unfair trade practices” against which EEP can be used, questionable pricing practices by certain state trading enterprises; use of subsidies that decrease U.S. export market opportunities or distort agricultural markets; unfair technical barriers to trade; administration of tariff rate quotas so as to impede imports of U.S. commodities; or failure to meet trade agreement obligations with the United States.

The commodity title (Title I) of the law extends also DEIP, including current language that DEIP be used to the limits permitted under the URAA. DEIP has been authorized through the commodity rather than trade title in past farm bills, reflecting a view that the program is an integral part of U.S. dairy policy.

³ Source: conference report on H.R. 2646 (H.Rept. 107-424) and House and Senate Agriculture Committee summaries. CRS Report RL31581, *Trade Title of the 2002 Farm Bill: Comparison of Final Provisions with the House and Senate Proposals, and Prior Law*, is a more detailed section-by-section explanation of the trade title.

Export Credit Guarantees

The law reauthorizes the GSM programs at their current levels and with the current requirement that not less than 35% of guarantees be used to promote processed or high-value products. The law also increases the term for supplier credits under GSM to 360 days if an authorization of appropriations to fund loan terms greater than the current length of 180 days is provided. (The supplier credit feature of the law has permitted the CCC to issue credit guarantees for repayment of credit made available by a U.S. exporter to a foreign buyer for up to 180 days.)

Foreign Food Aid

P.L. 480 Food for Peace. The law extends these programs through FY2007, and adds conflict prevention as a new program objective. The law increases the minimum level of Title II commodities from 2.025 million metric tons (MMT) to 2.5 MMT annually, and uncaps the current \$1 billion limit on Title II annual costs. Other provisions make several changes largely aimed at enhancing the capacity of providers to deliver food aid – such as effectively increasing funding for shipment and administrative expenses, streamlining application procedures for qualified providers, allowing monetization in U.S. dollars in foreign countries, and establishing deadlines for U.S. AID to act on proposals, for example.

International Food for Education. A \$300 million pilot Global Food for Education Initiative was launched by the Clinton Administration to help establish school and pre-school food programs in developing countries, and is still underway. The House measure explicitly permitted (but did not require) the President to operate an international food for education and child nutrition program, authorizing such sums as necessary through 2011. The Senate bill required the Secretary of Agriculture to operate a similar type of program, at up to \$150 million per year for 4 years (FY2002-2005). The final version authorizes the President to establish the program with funding mandated at \$100 million in FY2003 but subject to appropriation in FY2004-2007.

Bill Emerson Humanitarian Trust. The law extends this program which requires USDA to maintain a reserve of up to 4 MMT of grains to meet emergency food needs in developing countries.

Food for Progress. FFP is reauthorized through FY2007; not less than 400,000 metric tons annually may be provided. The law increases the annual limitations on program transportation costs from \$30 million to \$40 million, and on administrative costs from \$10 million to \$15 million. It also makes a number of administrative and operational changes, such as encouraging multi-year and multi-country agreements; permitting monetization of commodities in U.S. dollars; and streamlining application and approval processes.

These provisions contrast with the Bush Administration's position on food aid. After a review of U.S. food aid, the Administration earlier in 2002 proposed (in conjunction with its FY2003 budget plan) changes in the programs that effectively would eliminate use of CCC resources under Section 416(b), and result in less overall food aid tonnage next year. The Administration proposal also calls for all programs now run through private voluntary organizations, cooperatives, and the World Food Program to be placed in AID, with USDA food aid activities confined to government-to-government programs. Thus, FFP shows no

CCC program level in the Administration proposal; any FFP activity would be limited to government-to-government programs under P.L. 480 Title I. (Both section 416(b) and CCC funds used for Food for Progress are in the mandatory category of spending and do not require annual appropriation of budget authority.)

Other Programs and Provisions

Country-of-Origin Labeling. The conference version (in Title X) requires, after 2 years, retail-level country-of-origin labeling for muscle cuts and ground beef, pork, and lamb; farm-raised and wild fish and shellfish; fresh fruits and vegetables (including frozen and ice-packed); and peanuts. Retailers (except food service establishments) would have to inform consumers of the country of origin of through “a label, stamp, mark, placard, or other clear and visible sign on the covered commodity or on the package, display, holding unit, or bin containing the commodity at the final point of sale.” The requirement would take effect on September 30, 2004; until then, the program is voluntary. (See CRS Report 97-508, *Country-of-Origin Labeling for Foods: Current Law and Proposed Changes*.)

Cuba Sanctions. The Senate bill contained a provision, not in the House or conference version, that would have ended the current statutory restriction against private financing of agricultural sales to Cuba.

Speciality Crop Trade. The law newly requires \$2 million annually in CCC spending for a program to remove or mitigate sanitary and phytosanitary (SPS) and related barriers to U.S. exports of speciality crops (e.g., fruits and vegetables).

Emerging Markets Program. The final legislation extends this program, first authorized in 1990 to assist emerging democracies.

Trade Compliance (“Circuit Breaker”)

Some critics believe that the law’s expanded farm support increases the likelihood that the United States will exceed its URAA limits (\$19.1 billion per year in trade-distorting subsidies). To allay such concerns, the law’s drafters included, in Title I (the commodity title), a requirement that the Secretary of Agriculture, to the maximum extent practicable, make adjustments in domestic farm support to ensure that subsidies do not exceed the limits. Some have questioned the feasibility of implementing this provision – the so-called “circuit breaker” – and how it could be applied equitably among programs and producers.

Also, the law’s expanded farm supports have caused some critics here and abroad to question the sincerity of the U.S. proposal, in ongoing global trade negotiations, to further reduce all countries’ trade-distorting farm policies. Defenders counter that the United States has remained within its URAA limits and is not likely to exceed them in the future, and, furthermore, that so long as the European Union and others heavily subsidize their farmers, the United States should not unilaterally cut back on aid. (See CRS Report RL30612, *Farm Support Programs and World Trade Commitments*.)