

Agricultural Export Programs and U.S. Agricultural Policy

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ABSTRACT

Various Government programs to increase farm exports have been used since the fifties. They have been used in combination with domestic commodity programs as part of an overall farm policy rather than as an explicit trade policy. With recent declines in U.S. agricultural exports, several export programs that were a part of the commodity management strategy prior to 1973 have recently been used. At the same time, these declines have generated increased interest in a redirection of U.S. policy to improve export performance. Even under a more market-oriented policy, export policy instruments which expand long-term demand play a role in formulation of a trade strategy.

KEYWORDS: Agricultural policy, agricultural trade, exports, U.S. agricultural export promotion programs.

INTRODUCTION

Government programs to increase farm exports date largely from the fifties. These programs have been used to expand the total volume of exports and to offset the impact of domestic commodity programs on exports. The emphasis and type of program used have varied with changing international market conditions. When U.S. support prices have been above market-clearing export prices, generating large Government-owned stocks, export market programs have been designed to dispose of surplus commodities abroad. When U.S. support prices have been below world market prices, and Government payments to farmers have depended on the relationship between market and target prices, export market programs have been directed to increasing world market prices by expanding the demand for commercial sales abroad.

The seventies were marked by a growing interdependence of nations in a world economy and increased exposure of U.S. agriculture to external forces (5). The change from a quasi-fixed exchange rate, the internationalization of financial markets, the growth of Western European and Japanese trade, and the increasing participation of centrally planned and developing countries in international trade all contributed to these developments (4). The world economy has become much more interdependent and U.S. agriculture is less insulated from external forces (5).

The impact of the international economy on U.S. agriculture has been particularly evident over the last 3 years. Since 1981, market prices for grains have been at or near the loan rate, which has prevented export prices from dropping in response to increased stocks, a strong U.S. dollar, and decreased purchasing power in importing countries. Government farm program

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spending reached record levels and, by 1983, stocks had risen to the highest levels since the sixties. To cope with these problems, the Government has made increased use of export market programs, some of which had not been in use since the early seventies. Given the situation since 1981, policymakers are reassessing the direction of agricultural policy and the role of export market programs. It is argued that the United States does not have an explicit agricultural trade policy or a well-defined strategy for improving export performance (6). Yet Government programs to increase exports, which have been a part of overall U.S. commodity management objectives, constitute an implicit trade policy.

The importance of agricultural trade in the seventies and the increasing importance of international commodity and financial markets in the eighties has been well documented, and are described in other chapters of this publication. The importance of trade and export markets prior to 1973, however, has not been emphasized. This article provides background information for future discussion on export market programs and their role in U.S. agricultural policy. Specifically, it discusses the types of programs that have been used, their effects on farm exports, and their relationship to domestic farm programs and international commodity markets.

EXPORT MARKET PROGRAMS AND POLICIES

U.S. export programs primarily have served agricultural policy objectives by promoting increased agricultural exports from the private sector. U.S. agricultural trade is carried out by private individuals and firms, and the U.S. Government assists exporters through programs designed to increase the quantity of U.S. commodities sold in international markets. At the same time, when Commodity Credit Corporation (CCC) inventories have become large, the Government has reduced CCC stocks by releasing them directly to U.S. exporters for commercial sale or for carrying out Government-negotiated contracts under various Government-financed programs.

Export market programs have included commercial and concessional credit programs, market development, barter, export payments, and foreign donation programs. In addition, the United States has sought to improve market access of U.S. exporters in international markets through multilateral negotiations to reduce trade barriers under the General Agreement of Tariffs and Trade (GATT), and by negotiation of multiyear bilateral trade agreements with countries such as the USSR and the Peoples Republic of China.

Export policy instruments, listed by program title in table 1, increase the demand for U.S. agricultural exports in three ways (3). First, some types of export market programs lower the prices at which U.S. exporters can offer commodities on the world market. These programs have the effect of increasing demand for U.S. exports at a lower export price. Programs to lower export prices have included cash or in-kind export payments, direct sales of CCC stocks for export at reduced prices, and outright donations. Direct payments and CCC sales at reduced prices enabled U.S. exporters to sell at market-clearing export prices when U.S. domestic prices were supported by relatively high nonrecourse loan rates. In addition to lowering export prices, these programs also helped the CCC to reduce its inventories. Foreign donations, made for humanitarian purposes, are a more direct method for reducing CCC stocks.

Loan rates have also been reduced periodically to lower the export price and increase the quantity demanded. In this case, deficiency payments were made

Table 1--U.S. export market policy instruments

EXPORT PRICE POLICY INSTRUMENTS

Export payment programs:

P.L. 320, Section 32
International Wheat Agreement
CCC export payments in cash or in kind
CCC sales at reduced prices 1/

Foreign donation programs:

P.L. 480, Title II
Agricultural Act of 1949, Section 416

Reduced loan rates

EXPORT DEMAND EXPANSION POLICY INSTRUMENTS

Concessional long-term credit:

P.L. 480 nonconvertible currency sales 2/
P.L. 480 dollar credit sales

Barter programs:

P.L. 480 barter program
CCC barter program

Commercial, short-term credit:

Export-Import Bank loans and guarantees
GSM-5 export sales credit program
GSM-101, 102 credit guarantee programs
Blended credit

Intermediate investment credit programs: 3/

P.L. 480 nonconvertible currency loans
GSM-201 intermediate credit
GSM-301 intermediate credit

Foreign market development programs:

Cooperator program
Export incentive program
Regional-State export groups
Agricultural Information Marketing Service
Government-sponsored exhibits
Product testing activities
Export trading company legislation

POLICY INSTRUMENTS TO INCREASE MARKET ACCESS

General Agreement on Tariffs and Trade (GATT)

Bilateral agreements

Attache contacts

1/ CCC direct sales to U.S. exporters, foreign governments, or voluntary agencies abroad. 2/ Foreign exchange credit. 3/ Intermediate-term credit programs were authorized by the 1978 Agricultural Trade Act to finance development of markets for breeding animals (GSM-201) and market infrastructure (GSM-301). A small GSM-201 program with Spain was funded in fiscal year 1980, and a small GSM-301 program with Israel was funded in fiscal years 1981 and 1982.

to farmers to offset the loss in income from the lower support price, and payments to exporters were discontinued.

Second, a variety of programs expand export demand. Their effect is to expand demand and thereby raise export prices to levels that are higher than price levels would be without the programs. Credit programs achieve this by providing dollar purchasing power at the time of the sale to countries that would otherwise not be able to buy because of foreign exchange or income constraints (2). Short-term credit is provided to countries that have cash flow problems, whereas long-term credit is targeted more to low-income countries with chronic foreign exchange problems. With the exception of the blended credit program, short-term credit is provided to eligible importing countries at commercial rates of interest. Long-term credit is provided at very low rates of interest with a grace period of from 3 to 10 years.

Barter exchanges also expand export demand through foreign exchange savings, and have been used by the United States on occasions when mutually agreeable two-way exchanges of goods could be arranged. Market development expenditures expand demand for agricultural exports over the longer term through a variety of techniques in importing countries that include advertising and other product promotion activities; technical assistance to improve productivity in industries such as baking, milling, or livestock feed compounding; and provision of information on product quality and pricing to importers.

Third, policies to promote market access increase foreign demand by lowering barriers to imports and increasing trade contacts. The United States has taken part in multilateral negotiations, concluded bilateral trade agreements, and has agricultural attaches in many countries. Removal of trade restrictions increases exports by allowing exports to compete on a more equal basis with competing products in importing countries, and by reducing incentives for countries to produce products which are more cheaply produced in other countries. To the extent that barter programs facilitated market access in countries that otherwise would not have traded with the United States, the effects from barter on U.S. trade are similar to other types of bilateral trade agreements.

Tables 2 and 3 indicate the importance of export market programs in facilitating trade in various periods. During the late fifties and early sixties, exports under Government-financed programs (P.L. 480, Section 416, and AID ^{1/}) and commercial exports with export payments assistance averaged about one-half the value of total U.S. agricultural exports (table 2). ^{2/} This proportion declined to 8 percent in the seventies as changes in U.S. domestic policy favored commercial sales. It is not possible to determine the proportion of commercial credit and barter export sales that also received export payments assistance. However, table 3 shows that commercial exports under credit and CCC barter programs increased from 5 percent during the late sixties and early seventies to 13 percent of commercial sales in 1983. In 1983, a period of world economic recession and large U.S. supplies, sales under Government-financed and commercial credit export programs increased to 16 percent of the value of total agricultural exports. The operation of

^{1/} Exports under AID programs, not included in table 1, comprise agricultural exports under foreign assistance or mutual security programs administered by the U.S. Agency for International Development.

^{2/} Exports under P.L. 480 and AID programs were also eligible for export payments.

specific U.S. agricultural export market programs and their use in U.S. agricultural trade since 1950 are discussed below.

Programs to Lower the Export Price

Sales of CCC stocks for export at prices below those in the domestic market as well as cash or in-kind payments to exporters provided a means for the CCC to reduce its inventories when producer support levels were above market-clearing export prices. From 1956 to 1960, 54 percent of the value of commercial agricultural exports were marketed under these programs (table 2). This proportion declined to 25 percent during the sixties and to 5 percent during the early seventies, when loan rates were brought more in line with market-clearing levels. In addition, 50 to 80 percent of exports under Government-financed programs, excluding donations, received export payments assistance during the sixties.

Export payments were discontinued in 1974, but were revived in 1983 with a wheat flour sale to Egypt, and in 1984 with CCC grain sales to African countries. Prior to 1974, export payments were made uniformly to exporters of eligible commodities, while recent export payments have been targeted to exporters for sales to specific countries or regions under particular circumstances.

Table 2--U.S. agricultural exports: total, specified Government-financed programs, and commercial, selected years

Fiscal year	Exports under Government-financed programs		Commercial exports			Total agricultural exports
	Title I <u>1/</u>	Other <u>2/</u>	With export payments <u>3/</u>	Without export payments	Total commercial exports	
<u>Million dollars</u>						
Average:						
1956-60	710.4	685.0	980.0	1,717.2	2,697.2	4,092.6
1961-65	1,109.9	405.8	1,144.0	2,806.5	3,950.5	5,466.2
1966-70	927.8	294.4	1,087.4	4,143.8	5,231.2	6,453.3
1971-75	686.1	395.9	669.8	12,563.7	13,233.5	14,315.5
1976-80	761.3	680.3	--	27,732.1	27,732.1	29,173.7
1981	789.7	702.4	--	42,296.1	42,296.1	43,788.1
1982	722.3	467.4	--	37,904.6	37,904.6	39,094.5
1983	809.7	525.6	103.5	33,330.7	33,434.2	34,769.5
1984	762.7	719.4	<u>4/</u>	36,544.5	36,544.5	38,026.6

-- = Program not in use.

1/ P.L. 480 Title I dollar credit and sales for foreign currencies (long-term credit).

2/ P.L. 480 Title II and Section 416 donations, P.L. 480 barter, and AID (Mutual Security Act) programs.

3/ CCC sales at reduced prices. Export payments under CCC and Section 32 programs.

4/ Does not include competitive-bid sales to African countries because these exports had not been shipped by the end of the 1984 fiscal year.

CCC Sales at Reduced Prices

Until the inauguration of payment-in-kind export programs, the CCC sold the bulk of its commodities for export at competitive bid or announced export prices, which were often below domestic market prices. Sales were made from CCC stocks to private exporters for commercial export or for export under Government-financed programs. The major problem with these programs was that the CCC became a major supplier of export commodities, and it incurred additional expenses for storing and transporting commodities before reselling to the private sector below acquisition cost. CCC sales to exporters for unrestricted commercial export were sharply reduced in the mid- to late fifties in order to promote sales from private stocks through in-kind export payments. ^{3/}

A targeted, CCC competitive-bid program was authorized by House Joint Resolution 493 in March 1984. This resolution authorized the CCC to make available up to \$90 million worth of wheat, wheat flour, corn, and rice to private exporters for resale to African countries hard-hit by severe drought. Exporters negotiated sales with buyers in the eligible African countries and then bid for the grain, which was acquired by the CCC through its price support programs.

Export Payments

Export payment programs were primarily designed to encourage the movement of privately owned stocks of agricultural commodities into export channels. This

^{3/} CCC export sales of dairy products at negotiated prices have continued to the present. CCC sales programs for other commodities were used during the sixties and the early seventies depending upon the availability of private stocks for export and the level of CCC stocks.

Table 3--Total U.S. commercial agricultural exports including credit sales and CCC barter, selected years

Fiscal year	Credit sales		CCC barter	Other commercial	Total commercial
	CCC 1/	Export-Import Bank 2/			
<u>Million dollars</u>					
Average:					
1956-60	11.5	81.7	0	2,604.0	2,697.2
1961-65	68.1	70.0	35.9	3,776.5	3,950.5
1966-70	203.4	58.8	300.3	4,668.7	5,231.2
1971-75	1,067.3	81.8	626.5	11,458.4	13,233.5
1976-80	1,328.4	77.6	0	26,326.1	27,732.1
1981	1,873.0	48.0	0	40,385.9	42,296.1
1982	1,393.1	60.4	0	36,457.7	37,904.6
1983	4,069.1	91.7	0	29,273.4	33,434.2
1984	3,646.3	86.9	0	32,811.3	36,544.5

1/ Sales under GSM-5, GSM-101, GSM-102, GSM-201, and GSM-301 programs, and blended credit.

2/ Data from 1976 to 1984 are based on authorizations.

would reduce quantities taken over by the CCC under price support programs, lower storage costs, and raise domestic prices. Export payment programs were authorized by Section 32 of the Agricultural Adjustment Act of 1935 from 1938 to 1974, by the CCC for wheat under the authority of the International Wheat Agreement Act of 1949 from 1950 to 1966, and by the CCC under its permanent charter authority from 1956 to 1974. Section 32 provides the USDA with funds equal to 30 percent of the revenue duties collected on all imported commodities for use in programs to expand markets for surplus agricultural commodities (8). This authority facilitated sales of commodities such as cotton, tobacco, grain, fruit, chickens, and eggs, among others. Before 1955, export payments under Section 32 averaged \$20-35 million per year. The authority permitted private exporters to buy at domestic prices, sell at world prices which were often below U.S. price support levels, and receive the difference in cash from Section 32 funds.

Export payments were made for wheat obtained by U.S. exporters at the domestic market price and sold at a lower fixed international price under the International Wheat Agreement (IWA) from 1950 through 1967. ^{4/} Cash payments were made until 1956, when the CCC implemented a payment-in-kind (PIK) export program for both IWA and non-IWA export wheat. The CCC PIK export payment program was later extended to cotton, rice, flaxseed, and linseed oil, and to feed grains and dairy products for a few years. Under this program, payments were made in the form of commodity certificates which were redeemable for CCC-owned stocks. The certificates were interchangeable between commodities and transferrable among certificate holders; the certificates had stated dollar values and were freely traded. The PIK export program was discontinued in 1966 when the exhaustion of CCC-held inventories reduced the supplies available for the program. Cash payments were continued for wheat, tobacco, rice, and other commodities until 1974.

In 1983, an export payment was made to U.S. wheat millers under an agreement between the United States and the Egyptian Government that provided for the commercial sale and delivery of flour equal to 1 million metric tons of wheat to Egypt. The agreement stipulated that wheat flour would be purchased from U.S. millers on a tender basis at a suggested price of \$155 per metric ton (compared with U.S. wheat flour prices of \$250-\$260 per ton), with 77.5 percent of the purchase price eligible for CCC financing under the GSM-102 credit guarantee program. Wheat was released to flour millers from CCC stocks to enable millers to contract for sale and delivery to the Egyptian market at or below the suggested price without financial losses. Actual export flour prices averaged about \$138 per ton of flour.

Foreign Donations

P.L. 480, Title II, authorizes the use of CCC-held or private stocks for donation directly to foreign governments or through international agencies or U.S. voluntary agencies abroad. Since 1982, supplemental foreign donations of dairy products have been authorized by Section 416 of the Agricultural Act of

^{4/} The IWA, a multilateral commodity agreement in effect from 1950 to 1967, set a fixed trade price for hard red spring wheat, with adjustments for quality and grade. Exporters selling wheat under this agreement paid a tax or received a subsidy on export sales depending on whether market prices were above or below the fixed trade price. Wheat was sold to importing countries under the agreement on the basis of negotiated quotas.

1949. ^{5/} This authority was amended in 1984 to include wheat, but this provision was never activated. Foreign donations, which averaged about 20 percent of total P.L. 480 exports during the sixties, increased to over 30 percent in the seventies. Foreign donations fell from an average of 8.0 percent of total U.S. exports during 1956-60 to 1.4 percent in 1976-80, but rose to 2.0 percent in 1984 with use of the Section 416 dairy provision.

Programs to Expand Export Demand

Demand expansion programs are primarily designed to raise the level of U.S. agricultural exports by easing financial constraints in importing countries and by helping U.S. producer groups or interested parties in importing countries to develop overseas markets. As shown in table 4, which presents data on official export credit authorizations and expenditures on selected agricultural export market programs, credit has been the mainstay of the U.S. export demand expansion strategy. In the late fifties and early sixties, long-term credit sales to developing countries under Title I of P.L. 480 averaged about 19 percent of the value of total U.S. agricultural exports. In the seventies, short-term commercial credit programs became more important, financing about 5 to 8 percent of the value of total U.S. agricultural exports, as the proportion of exports marketed through commercial channels increased. To reduce Federal outlays, the provision of direct short-term

^{5/} Authority for foreign donations under Section 416, which was used before 1966, was subsumed under P.L. 480, Title II, in that year. It was reactivated in 1982 for dairy products under the Omnibus Budget Reconciliation Act of 1982.

Table 4--Official export credit authorizations and expenditures on market development and export payments programs, 1956-83

Fiscal year	Demand expansion programs			Export payments	Total outlays
	Short-term credit 1/	Long-term credit 2/	Market development 3/		
	4/				
<u>Million dollars</u>					
Average:					
1956-60	93.2	710.4	3.0	367.1	1,173.7
1961-65	138.1	1,109.9	8.2	645.1	1,901.3
1966-70	262.2	927.8	12.7	232.7	1,435.4
1971-75	1,149.1	686.1	12.3	199.4	2,146.9
1976-80	1,406.0	761.3	15.6	0	2,182.9
1981	1,921.0	789.7	22.9	0	2,733.6
1982	1,453.5	722.3	23.8	0	2,199.6
1983	4,160.8	809.7	27.1	20.0	5,017.6
1984	3,733.2	762.7	31.6	0	4,527.5

1/ CCC and Export-Import Bank credit programs. For credit guarantees, actual Government outlays occur only in the case of nonpayment.

2/ Long-term credit under P.L. 480 from table 2.

3/ Does not include cooperator contributions. Does not include regional-State export program data until 1978.

4/ CCC export payments, payments made under Section 32, and CCC export differentials (differences between U.S. domestic market price and the CCC sales price for commodities sold for export from CCC stocks).

credit to importing countries was abandoned in favor of credit guarantees in the late seventies. In 1983, exports with short-term credit increased to \$4.1 billion, or 11 percent of the total value of agricultural exports, of which \$1.0 billion was under the newly created blended credit program.

Export credit authorizations shown in table 4 are a measure of the magnitude of Government export promotion efforts. Since the Government is a low-cost borrower of funds, official credits, whether loaned at or below market cost, provide a credit subsidy to the importer in most cases. This subsidy in turn makes the terms offered by U.S. exporters more competitive. 6/ The amount of the credit subsidy depends upon the difference between the cost of funds otherwise available to the importer and the interest rate charged for official credit, and upon the term and grace period of export credit loans. The costs to the Government from direct credit programs (P.L. 480 and GSM-5), however, depend upon the difference between the market cost of money to the Government and the interest rate charged for export credit. In the case of credit guarantees (GSM-101 and 102), actual Government outlays occur only in the case of importer default. 7/

Throughout the 1950-84 period, more emphasis was placed on programs which facilitated the immediate movement of commodities through export channels. This is in contrast to expenditures on market development, which promote exports over the longer term through investment in economic development in importing countries, and whose benefits have not been greatly understood. 8/

Concessional Sales under P.L. 480

The Mutual Security Act of 1951 authorized the sale of surplus agricultural commodities to friendly countries for local currencies. The Agricultural Trade Development and Assistance Act of 1954 (P.L. 480) incorporated this concept to help develop and expand export markets for U.S. agricultural commodities. Under Title I of this law, sales were made from CCC inventories for nonconvertible local currencies. 9/ The local currencies were deposited in a U.S.-owned account and used for a variety of purposes, including market development; procurement of services, strategic commodities, and military equipment; repayment of U.S. obligations abroad; the financing of educational exchanges; and for loans promoting multilateral trade and economic development in recipient countries. The terms of these loans from nonconvertible currency deposits were from 3 to 10 years at market interest rates. However, the loans were repaid at a constant rather than market-determined exchange rate. With a depreciating currency, this provided a foreign exchange subsidy to the borrower.

6/ It should be noted that export credit subsidies are often used by high-cost exporters.

7/ The social costs of official export credit programs differ from the actual outlays incurred by Government. For instance, through official credit programs the Government is channeling funds into specific uses, and thus the social cost of these funds is their opportunity cost to other sectors of the economy. To the extent they increase the Government's overall liabilities, Government guarantees may raise the cost of Government borrowing over the longer term.

8/ For a summary of studies which have examined the impacts of market development activities, see (3). Most of these studies have shown the returns to market development activities for commodities such as eggs, milk, orange juice, soybeans, and feed grains to be relatively high.

9/ Sales could be made from private stocks if it were determined that CCC inventories were insufficient to meet U.S. obligations under this law.

Long-term dollar credit sales as acceptable payment for commodity exports were added to P.L. 480 in 1959. ^{10/} Countries purchased agricultural commodities with loans at low interest rates, repaying in dollars or convertible local currencies, usually over a period of 20 to 40 years. Dollar credit sales were in addition to nonconvertible currency sales. In the sixties, the objectives of P.L. 480 shifted from domestic commodity management to the use of privately owned or CCC-owned commodities to promote economic development in recipient countries, meet emergency food aid needs, and combat malnutrition abroad. In 1966, P.L. 480 was amended to provide for the transition solely to a program of concessional dollar sales on credit terms under Title I by the end of 1971.

Barter Programs

Provisions for barter programs were included in the permanent authority of the CCC and in Title III of P.L. 480, which authorized the exchange of CCC-owned commodities for strategic materials (7). The objective of barter programs was to reduce CCC inventories by exchanging agricultural commodities for goods and services required by the United States from abroad. Agricultural exports under barter programs averaged 5 to 6 percent of the total value of U.S. agricultural exports from 1954 to 1973.

From 1954 to 1962, the barter program operated under P. L. 480 authority and involved exchanges of CCC-held commodities for strategic materials required for the U.S. strategic stockpile (see 7 for details). By 1962, changes in planning for wartime needs had reduced stockpile goals, strategic materials inventories exceeded minimum requirements in many cases, and the CCC's agricultural inventories had been greatly reduced. From 1963 to 1973, emphasis was placed on barter sales to offset part of the dollar drain from U.S. spending abroad. Barter agreements during this period relied upon authority of the CCC which allowed barter contractors to export private-stock commodities in exchange for foreign-produced supplies and services destined for overseas military installations and AID projects.

The United States signed barter agreements with Jamaica in February 1982, November 1983, and January 1984. The first two agreements provided for the exchange of Jamaican bauxite for U.S. nonfat dry milk and anhydrous milk fat from CCC stocks, tin and tungsten from the U.S. strategic stockpile, and cash. The third agreement exchanged Jamaican bauxite for nonfat dry milk and butter oil.

Export-Import Bank Loans and Guarantees

The Export-Import Bank extended credit to foreign buyers when commercial credit could not be obtained as early as 1948. In 1963, the Bank initiated a system of guarantees against political and financial risk. Export-Import Bank loans and guarantees for agricultural exports have been a small proportion of Export-Import Bank lending, which has generally been extended for investment in development.

CCC Export Credit Sales Program (GSM-5)

The CCC, under its permanent charter authority, made direct, short-term, export credit loans to stimulate commercial exports of agricultural

^{10/} Dollar credit sales were made through Title IV initially but later were moved to Title I.

commodities, mainly grains, soybeans, tobacco, and cotton, from 1956 to 1980, and in 1984. The purpose of this program was to increase commercial sales above the level which would exist without the credit program by alleviating cash flow problems of importers and permitting exporters to meet credit terms offered by competitors. Under this program, U.S. exporters sold agricultural commodities to importers on a deferred-payment basis for periods up to 36 months. In turn, the CCC reimbursed the exporter and held the note of the buyer. The CCC determined the interest rate paid by the importer. In the early years of the program, the interest rate charged borrowers was usually greater than the CCC's cost of borrowing from the Treasury; later, the interest rate was set from 0.5 to 1.5 percentage points above the U.S. prime rate. In 1984, the interest rate was set 1.5 percent above the rates paid by the Treasury on 52-week Treasury bills.

CCC Credit Guarantee Program (GSM-101, GSM-102)

CCC credit guarantees have been available since 1979. Their purpose is to encourage U.S. agricultural exports at levels above those which would exist without the guarantees by shifting some of the risks usually associated with export transactions from the U.S. exporter to the CCC. The GSM-101 Program, in operation from 1979 to 1981, provided a guarantee against noncommercial risks such as embargoes on imports, freezing of foreign exchange, revolutions, and wars. In 1981, commercial risk (that is, inability to pay for economic reasons) was added to the guarantee through GSM-102. The CCC now relies heavily on the GSM-102 guarantee program.

Under both programs, credit is provided through commercial institutions on a short-term basis, 6 to 36 months, at a cost of financing set by U.S. banks. The CCC reimburses the exporter for a portion of the exporter's account receivable in the event of nonpayment. Typically, the CCC guarantee covers 98 percent of the principal and interest up to 8 percent per year on the guaranteed amount of credit. The exporter pays a guarantee fee to the CCC prior to shipment which is usually added to the price of the commodity.

The CCC guarantee affects the terms of agricultural export sales in two ways. First, a U.S. Government guarantee enables banks to provide financing in excess of country lending limits and to offer longer credit terms than they normally would provide for agricultural commodities. Second, banks usually charge a lower rate of interest because of the guarantee.

Blended Credit

The blended credit program, begun in October 1982, uses GSM-5 direct credit and GSM-102 commercial export credit guarantees. The credit is blended on a ratio of a minimum of four parts Government-guaranteed credit (GSM-102) to one part interest-free, direct Government credit (GSM-5). The program was initiated in response to the buildup of U.S. stocks in 1982. Blended credit promotes commercial agricultural exports by providing credit for up to 3 years at interest rates below normal commercial levels to buyers of U.S. agricultural products. The blended credits were targeted principally to developing countries for purchase of U.S. wheat, rice, corn, vegetable oil, soybean meal, and cotton in fiscal year 1983. In fiscal year 1984, blended credits were offered to countries such as Morocco, Tunisia, Algeria, and Egypt for purchase of wheat.

Export Market Development Programs

The cooperator program has been the major export market development program since 1956. The objective of this program has been to develop, maintain, and expand long-term commercial markets for U.S. commodity exports. The program was started in 1955 after the passage of P.L. 480, which provided the legislative foundation and an initial source of funds for the program. Through the cooperator program, the USDA's Foreign Agricultural Service (FAS) cooperates with U.S. nonprofit producer organizations and governments, firms, or trade associations of other countries. Currently cooperators represent cotton, dairy products, poultry, fruit, vegetables, livestock and livestock products, tobacco, forest products, and seeds, in addition to grain and oilseeds. The type of activities used in the program varies among commodity groups. Rice promotion techniques are aimed at the final consumer to increase product demand, whereas wheat and feed-grain market development techniques are aimed at earlier users in the marketing channel such as millers, bakers, and feedlot operators. Soybean export market development has been aimed variously at crushers, feeders, and household or industrial consumers.

Other market development programs include the export incentive program, initiated in 1971, which assists firms with promotion of branded, consumer-ready, U.S. agricultural products for the period during which the product is being established in the market. FAS also cooperates with regional-State export groups to encourage suppliers with potential export capabilities to seek overseas markets. Support services are provided through seminars, market surveys, and other educational efforts. Agricultural trade offices were set up in 1978 in selected regions to facilitate export market development. In addition, FAS launched the Agricultural Information Marketing Service (AIMS), in 1984. The program provides, on a fee basis, the Trade Leads Service, a computer-based referral system that links the foreign market with domestic suppliers; a list of foreign importers; statistical trade information; and other services. Trade exhibits, catalog exhibits, and in-store promotions have also been used outside of the cooperator program. Finally, export trading company legislation was passed in 1982 to enable the private sector to develop trading companies for the export markets including the farm commodity market.

Agricultural Trade Negotiations

Agricultural trade negotiations are an effort to improve market access by removing sovereign restrictions on trade that are constraints to increased U.S. commodity exports. Restrictions include tariff and nontariff barriers such as quotas, licensing requirements, state trading practices, variable levies, and domestically administered prices. Removal of agricultural trade restrictions in many cases requires a change in domestic agricultural policies. For this reason, earlier multilateral negotiations under the General Agreements on Tariffs and Trade (GATT), the Dillon Round ending in 1962, and the Kennedy Round from 1963 to 1967, made little progress in negotiating agricultural trade policies. The Common Agricultural Policy (CAP) of the European Community (EC) was being formulated in that period and was viewed as essentially non-negotiable. The most recent GATT negotiations, the Tokyo Round, from 1973 to 1979, made limited progress in lowering restrictions for particular commodities and countries.

The United States has also attempted to increase market access and stability for U.S. exporters by entering into bilateral trade agreements with the Soviet

Union and the Peoples Republic of China. ^{11/} The current Soviet trade agreement, the second consecutive agricultural trade agreement signed by the two countries, stipulates minimum purchase levels of wheat, feed grains, and soybeans from the United States over a period of 5 years starting in October 1983; the Chinese agreement stipulated minimum purchase levels of wheat and corn over a 4-year period starting in 1981. Trade agreements are also used extensively by competitor countries such as Canada, Argentina, and Australia to promote their agricultural exports.

U.S. EXPORT MARKET PROGRAMS, DOMESTIC PROGRAMS, AND INTERNATIONAL MARKETS

Export market programs are designed to raise export demand or to reduce export prices in order to increase exports and decrease excess supplies. The export market programs have been used as policy instruments along with domestic market programs to regulate commodity supply and demand in order to achieve agricultural policy objectives. The objectives have been to maintain U.S. agricultural capacity, support producer income, and assure consumers an adequate food supply while minimizing surpluses and Government expenditures. Producer income has been maintained by domestic price and income policies, but the result has often been oversupply and surpluses, except in periods of strong export demand such as the midseventies. The export market programs have been used to decrease excess supply during periods of surplus, and to further support the market price in periods of strong demand. Thus, a combination of domestic and export market programs has been used at least since the fifties to regulate supply, demand, and farm prices.

Until 1962, domestic farm price supports tended to be unresponsive to world market conditions. The combination of high, supported domestic prices and increasing yields resulted in large stocks of commodities. Domestic efforts to reduce surpluses relied on acreage control programs and marketing restrictions for some commodities. Export market programs were initiated mainly for the purpose of dispersing large surpluses ⁽¹⁾. The export market strategy was based on nonconvertible currency concessional sales, export payments, CCC direct sales, and barter programs. Direct, short-term credit loans to alleviate cash flow problems of the more-developed purchasing countries and market development programs were also instituted during this period.

In the early sixties, support prices for most commodities were reduced, production adjustment controls were used, and farm income was supported with income payments for producers. Domestic prices were generally low enough for coarse grain and cotton exports to compete in world markets. As CCC-held stocks declined, export programs became more oriented toward generating dollar sales. Dollar credit sales under P.L. 480 increased as nonconvertible currency sales declined. More emphasis was also placed on expenditures for market development in the late sixties. With lower support prices and increased commercial exports, target income payments were used to maintain farm income.

Cochrane argues ⁽²⁾, based on a series of studies, that if domestic programs had been dismantled in the fifties and sixties, prices of supported

^{11/} To the extent that commitments under bilateral agreements are fulfilled regardless of the world market situation, bilateral agreements increase instability in that part of the market not covered by such agreements.

commodities would have decreased, thereby increasing demand and decreasing excess supply. But, producer income probably would not have recovered to the supported level. However, Cochrane states that since export market programs were used in combination with domestic programs, exports of grain, oilseeds, and possibly meat and cotton would probably not have increased beyond the actual levels of the sixties. In other words, the export market programs were used to counter the impact of domestic programs on the export market by removing the implicit tax on the export market from domestic price supports.

During the seventies, rapid growth in world population and income, the devaluation of the dollar in 1971 and again in 1973, crop shortfalls, and the decision on the part of the Soviet leadership to begin importing large amounts of grain from the United States all combined to eliminate domestic surpluses of most agricultural commodities. The value of agricultural exports increased from \$7.0 billion in fiscal year 1970 to about \$43.8 billion in fiscal year 1981, and the volume more than doubled. A target-price and deficiency-payment program supported producer income during this period. This program permitted loan rates to be set at or less than world market levels and, thus, it represented an alternative to the export payments and high support prices that had been used up to this time. Market prices were supported by strong commercial demand and by U.S. programs to make the private sector more competitive in international trade. Barter, nonconvertible currency P. L. 480 sales, and export payments were phased out as the strong foreign demand substituted for these programs in meeting agricultural policy goals. Dollar credit was retained to facilitate increased export sales.

As demand strengthened, banks became more accustomed to country borrowings with Government guarantees and there was an increased supply of money from oil revenues (petrodollars) after 1973. As a consequence, the short-term direct credit program was changed to a credit guarantee program in the late seventies in order to reduce direct Federal outlays on credit. The Agricultural Trade Act of 1978 legislated expansion of the agricultural attache program and establishment of 6 to 25 trade offices around the world. Representation was elevated to the level of counselor in several cases. Authority for a revolving fund to finance agricultural exports was also legislated in the Agriculture and Food Act of 1981, but this provision was never funded.

Due to a number of factors, including world recession and a strong U.S. dollar combined with high U.S. nonrecourse loan rates, the value of U.S. agricultural exports declined from \$43.8 billion in fiscal year 1981 to \$39.1 billion in fiscal year 1982, with a further drop to \$34.8 billion in 1983. By October 1983, CCC stocks of wheat and feed grains had increased to a record level of 140 million metric tons. Increased authorization for short-term credit guarantees, a new blended credit program, export payments, and sales of CCC stocks were implemented to increase exports.

EXPORT MARKET PROGRAMS AND FUTURE U.S. POLICY

The recent declines in U.S. agricultural exports have generated increased interest in policies to improve export performance (6). The ability of U.S. exporters to compete in world markets during the last 2 years has largely been constrained because legislated loan rate levels have prevented export prices from adjusting in response to the international demand situation and the strong dollar. The purposes of the recent export market initiatives are to offset the effect of the high value of the loan rate on the export market and

to permit U.S. exporters to make export sales to cash-short countries in a period of global world recession.

To improve export performance, agricultural policy can move either towards more reliance on market forces or towards increased use of export programs, which are an integral part of U.S. commodity management programs. However, there is a possible conflict between relying on a strict market-oriented policy and stabilizing farmers' incomes. Emphasis on a particular direction will affect the types of export market programs used as well as the strategy for their use.

Three alternative agricultural policy strategies are shown in table 5. Under a purely market-oriented strategy, exports are the primary determinant of farm income. Export demand expansion and market access policy instruments play a role in increasing long-term demand for U.S. agricultural exports. In this case, export market programs are the major policy instruments used to increase price and producer income. In the second strategy, producer income is supported through domestic commodity management programs. Export market programs are used as they were in the past to regulate demand and price in combination with domestic commodity programs.

The third strategy is an intermediate scenario in which the loan rate is responsive to market demand, but some domestic commodity programs are retained. In particular, the level of the target price will determine the extent to which income objectives are met. If the target price is reduced along with the loan rate, producer income will decrease if export demand is price-inelastic. On the other hand, if the target price is not reduced when the loan rate is reduced, Government expenditures will increase with the larger deficiency payments. To the extent that export demand expansion programs shift demand and raise the price level, increased expenditures on deficiency payments or the reduction in producer income will be lessened. Export policy instruments do not include export payments in this case since the reduction in the loan rate has the same effect on the export market as export payments. ^{12/} Export market programs are again the major policy instrument to increase price and producer income.

SUMMARY AND CONCLUSIONS

The appropriate use of export policy instruments depends upon policy objectives and the overall direction of agricultural policy in achieving these objectives. Policy objectives in the past have been to increase and stabilize producer income and to decrease Government expenditures. In the past, export market programs have been used to improve export performance in order to achieve these domestic policy objectives. Export market programs to expand export demand, such as credit and market development, and programs to lower the export price, such as export payments, have been used to reduce excess supply during periods of commodity surpluses. Demand expansion programs have also been used in periods of strong demand to further support the market price.

^{12/} However, the costs to the Government and to domestic consumers are different. When the loan rate is dropped, increased deficiency payments are paid on all of allowable supply and domestic consumers benefit from lower prices. The export payment lowers the price to the foreign consumer only, and is made on the proportion exported.

Table 5--Alternative agricultural policy strategies
and the role of export policy instruments

Strategy	Policy instruments	Policy objectives		Role of export market programs
		Producer income sources	Government expenditures	
Market-oriented	Export credit, market development, trade negotiations	From domestic or export market	Export programs	Expand long-term demand
Domestically oriented	Export market instruments noted above, export payments, deficiency payments (fixed loan rate and target price), supply and stock control	From commodity management programs; from export market in periods of strong demand	Domestic and export programs	Regulate demand and price in combination with domestic programs
Intermediate: Fixed target price	Flexible loan rate with flexible target price, export demand expansion	From domestic and export markets, reduced income from domestic programs	Reduced deficiency payments and expenditure on export expansion	Expand long-term market demand
Flexible target price	Flexible loan rate with fixed target price, export demand expansion	From domestic programs except in periods of strong export demand	Increased deficiency payments, export expansion	Expand long-term market demand

Given the changes in the international market in the past decade and the recent declines in U.S. exports, it is reasonable to assume that agricultural policy objectives may not remain the same. Any reassessment of the direction of agricultural policy and changes in policy objectives will involve an examination of the role of export market programs in meeting new policy objectives. It is clear that whether the strategy is market-oriented or domestically oriented, export market programs have a potential role to play.

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