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Background for 1990 Farm Legislation

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Abstract

Lawmakers authorized several new export programs under the Food Security Act of 1985 in an attempt to increase agricultural exports. U.S. agricultural exports began to recover in fiscal 1987 and, in fiscal 1989, climbed to \$39.6 billion, their highest level since 1981. Since 1986, U.S. agricultural export programs, a depreciating dollar, lower domestic commodity prices relative to world prices, and increased demand from importers have contributed to improved agricultural export sales. However, competition for world agricultural markets also has increased. Export programs help U.S. exporters meet subsidized competition, provide humanitarian relief, assist credit-seeking importers, and may help develop new overseas markets for U.S. agricultural products. Issues which could affect export programs in 1990 legislation include tightened U.S. and global grain stocks, potential budget exposure for increased loan guarantees, and the outcome of trade negotiations under the Uruguay Round of the General Agreement on Tariffs and Trade.

Keywords: export programs, exports, food aid, subsidies, credit, trade negotiations, world trade, Export Enhancement Program.

Foreword

Congress is considering new farm legislation to replace the expiring Food Security Act of 1985. In preparation for these deliberations, the Department of Agriculture and many groups throughout the Nation are studying preceding legislation to see what lessons can be learned that can be applied to the 1990's. This report, written by Karen Z. Ackerman and Mark E. Smith, is one of a series of new and updated Economic Research Service background papers for farm legislation discussions. These reports summarize the experience with various farm programs and the key characteristics of the commodities and the farm industries which produce them. For more information, see the Additional Readings listed at the end of the text.

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Summary

The United States has long supported agricultural exports through a variety of export programs. These programs have been designed to help overcome obstacles to greater exports and have at times accounted for a large share of U.S. agricultural exports. In the Food Security Act of 1985, expanded and amended food aid programs were meant to increase the volume and effectiveness of U.S. food aid. A new credit guarantee program helped increase the ability of U.S. exporters to sell in markets with tight foreign exchange constraints. The Export Enhancement Program and related price subsidy programs helped U.S. exporters meet subsidized competition. Market development programs authorized under the act have contributed to, although they are not solely responsible for, expanding sales to specific markets.

However, the environment for agricultural trade has changed since the 1985 Act was written. Domestic and global supplies of some agricultural commodities such as wheat have tightened considerably since 1985. The current stock situation in the United States limits exports of U.S. wheat and its provision as food aid. So, at least in the near term, it is unclear to what extent export programs for commodities in tight supply are needed to boost exports. These tight supplies are likely to prove temporary, however.

Developing countries, often cited as potential growth markets, are a more serious longrun problem, since they continue to suffer from debt problems which have hampered their economic growth and ability to purchase U.S. agricultural goods. Given these debt problems, the CCC export credit guarantee programs have the potential to facilitate sales of U.S. exports on a year-to-year basis, although the recipients' long-term market growth potential depends on resolution of their debt situation. Growing developing country needs come at a time when some Eastern European countries will need credit to increase imports of agricultural commodities. However, with growing concern over Government liabilities under other guarantee programs, it is possible that concern may spill over to the export credit guarantee programs.

Market development programs achieved greater prominence and funding under the Food Security Act of 1985. One question to be answered is which products are most effectively promoted under such programs: bulk or value-added, generic or branded. Another question is under which conditions might these programs be more effective than other export programs.

Trade liberalization is a final critical variable in the outlook. Trade negotiations under the Uruguay Round, which were initiated after implementation of the 1985 Food Security Act, will be completed in 1990. If participating nations agree to reduce subsidies, programs such as the EEP may be phased down. However, if no satisfactory agreement is achieved, calls for legislation could result in an expansion of the EEP and other export programs directed at competitors' trade practices.