Table 14--Agricultural credit sales and guarantee programs

Program	Period	Lender	Maturity	Interest rate
	Loan conditions			
GSM-5	1956-80	U.S. Government	6 mos-3 yrs	Commercial
GSM-101	1979-81	Commercial bank loan guaranteed by U.S. Government	6 mos-3 yrs	Commercial
GSM-102	1981-	Commercial bank loan guaranteed by U.S. Government	6 mos-3 yrs	Commercial[1]
GSM-201	1979	U.S. Government	3-10 years	Commercial
GSM-301	1981-82	U.S. Government	Over 3 years-10	Commercial
Blended credit package	1983-85	Government loan (GSM-5) combined with GSM-102 credit guarantees	6 mos-3 yrs	GSM-5 was interest-free
GSM-103	1986-	Commercial bank loan with U.S. Government guarantee	Over 3 years-10	Commercial[1]

[1] Commercial rate for the GSM-102 and GSM-103 credit guarantee programs has been a fraction above the London Interbank offer rate (LIBOR).

Note: The GSM-5, GSM-101, GSM-201, GSM-301, and Blended Credit programs are authorized, but are not operational.

Source: Grigsby and Dixit.

The blended credit program was suspended in early 1985 after a Federal district court ruled that exports under the program were subject to cargo preference requirements. (Under PL 664, passed in 1954, at least 50 percent of all cargoes given away or sold for foreign currencies must be transported overseas on U.S. flag vessels.) During the program's operation, $1.3 billion of wheat, flour, rice, and vegetable oils were shipped.

Competitors' Credit Programs

All major exporters of agricultural commodities can make credit and/or credit guarantees available to importers. In Canada, the Canadian Wheat Board (CWB) offers credit for wheat and other grain sales at commercial interest rates available to the Wheat Board from Canadian financial institutions. Credit is guaranteed by the Government of Canada (Ministry of Finance).

Credit for Australian sales of agricultural commodities is available through the individual marketing organizations, such as the Australian Wheat Board (AWB). An Australian government statutory corporation, the Export Finance and Insurance Corporation (EFIC), guarantees the loans issued by the marketing organizations for a guarantee fee.

The EC itself cannot grant credit for agricultural exports, although some of its member nations make credit available to importers. French grains and oilseeds are eligible for French government-sponsored credit. National banks such as the Banque Francaise du Commerce Exterieur (BFCE) and the Caisse

Nationale de Credit Agricole (CA) or a consortium of banks may provide financing which is then guaranteed by the Compagnie Francaise d'Assistance pour le Commerce Exterieur (COFACE), a semiprivate company controlled by the French government. The British and West German governments also guarantee credit for agricultural exports.

Export Credit Program Issues

Major issues concerning GSM-102 and GSM-103 are the ability of targeted countries to repay the loans and the oversight of the program.

- How much budget exposure is associated with credit guarantee programs? The CCC credit guarantee programs encourage U.S. banks to finance the exports of agricultural commodities at commercial interest rates to countries which may not qualify for such terms of credit. Some users of credit guarantee programs have not kept current on their other loans. Banks' claims against obligations under GSM programs have averaged about 12 percent of new annual credit guarantee approval levels from fiscal 1986 through 1988. However, the value of loans guaranteed under GSM-102 and GSM-103 has increased dramatically in recent years. Fiscal 1989 credit guarantees covered loans totaling $5.2 billion in fiscal 1989 and fiscal 1990 guarantee allocations are approaching $5.3 billion. As the GSM-102 and GSM-103 programs have expanded, so too has the potential for increased CCC outlays when importers under the programs fail to make payments on their CCC loans.

- As the number of countries and commodities covered under the CCC programs has increased, it has become more difficult for CCC administrators to address the mounting number of operational issues under the programs with available staff resources. The increasing requirements for regulation over issues of foreign content, sale price approval, and other program operations could lead to disincentives for commercial firms to participate in the credit guarantee programs.

U.S. Overseas Food Aid Programs

Current U.S. overseas food aid has its roots in food aid provided shortly after World War II. Its motivations have included several sometimes contradictory objectives: removal of domestic surplus stocks, market development, achievement of foreign policy goals, economic development within recipient economies, and humanitarian relief.

Current Food Aid Programs

The United States currently provides food aid abroad through two main channels: the PL 480 program, otherwise known as the Food for Peace Program, and through section 416(b) of the Agricultural Act of 1949, as amended.

Food is distributed through PL 480 under three programs. Under Title I, the U.S. Government provides long-term, low-interest credit or accepts local currencies for the sale of U.S. agricultural commodities to designated countries. Local currencies generated by the sale of the aid commodities are programmed by the recipient government for self-help measures that have been jointly agreed upon with the United States. These measures may include actions such as increasing farm production and improving storage, transportation, and distribution of farm products in the recipient country. PL 480 Title II provides donated U.S. agricultural commodities to alleviate famine, provide disaster relief, combat malnutrition, and encourage economic and community development. These donations are distributed through either recipient governments, private voluntary organizations, or the World Food Program. Under the Food for Development Program (Title III), a Title I loan may be forgiven if all the local currency generated from Title I commodity sales is used to finance specified development purposes.

The Section 416(b) program, separate from, though similar to, PL 480 Title II, involves overseas donation of surplus commodities owned by the CCC. Commodities were first donated under this authority from 1950 through 1954. After the enactment of PL 480 in 1954, donations under Section 416(b) ceased, and the donation of CCC commodities was included in the PL 480 program. Dairy product donations under Section 416(b) were reauthorized under the Omnibus Budget Reconciliation Act of 1982 and subsequent legislation expanded the types of commodities to all edible CCC commodities. Donations have included dairy products, wheat, flour, other grains, and soybeans. However, such shipments depend on the availability of surplus CCC stocks.

U.S. food aid is overseen by an interagency process. Working groups of the Development Coordinating Committee meet to direct PL 480 and Section 416 assistance. Participating offices usually include the Departments of Agriculture, State, Treasury, and the Agency for International Development and the Office of Management and Budget.

Changes in Food Aid Programs Under the 1985 Food Security Act

Under the Food Security Act of 1985, Section 108, PL 480 was amended to allow countries to repay long-term loans under Title I, in part with local foreign currencies. These local currencies were to be loaned to private financial intermediaries such as banks and cooperatives, which would then reloan the funds to private enterprises in the recipient countries.

The minimum tonnage levels of Title II, which authorizes donations through government-to-government agreements, private voluntary organizations, and the World Food Program, were increased slightly to 1.9 million tons in fiscal 1987-90. A minimum of 1.425 million tons of the 1.9 million tons authorized under Title II was to be distributed by private voluntary organizations and the World Food Program, an increase of about 200,000 tons.

The 1985 Food Security Act also authorized a new multiyear program, Food for Progress, to assist developing countries committed to market-oriented agricultural policy reform. Food for Progress was to distribute 75,000 tons per year under authority of Section 416(b) of the Agricultural Act of 1949, as amended by the 1985 Act. Funds authorized under PL 480 Title I could also be used.

Under the 1985 Act, the range of commodities eligible for overseas donations under Section 416(b) of the Agricultural Act of 1949 was expanded from dairy products, wheat, and rice to include other grains, oilseeds, and other edible commodities acquired by the CCC. The 1985 Act also allowed, for specific purposes, the sale or barter of at least 5 percent of the aggregate value of commodities and products furnished under this program to private voluntary organizations and cooperatives.

A special section in the 1985 Act amended the 1954 amendments to the 1934 Merchant Marine Act requiring that 50 percent of all commodities sold for foreign currencies or donated be shipped on U.S. flag vessels. Under Section 1142 of the 1985 Act concerning cargo preference, shipments of agricultural commodities under commercial export credit, credit guarantee, blended credit, and export subsidy programs were exempt from cargo preference requirements. However, 75 percent of shipments under PL 480 and Section 416(b) programs must be shipped on American flag vessels.

Size of Program

Funding for the PL 480 program peaked at about $2.2 billion in fiscal 1985 during the African famine. Since enactment of the Food Security Act of 1985, the PL 480 program has remained relatively stable after declining from that peak to $1.5 billion in fiscal years 1987-90 (table 15).

PL 480 shipments accounted for 25-30 percent of agricultural exports from 1955 through 1965, but slipped to 20 percent or less in the late 1960's and early 1970's (table 16). In 1973, PL 480 shipments plummeted to 6.3 percent of agricultural exports as commercial exports expanded and commodity prices rose. PL 480 has accounted for 5 percent or less of the value of total U.S. agricultural exports since 1974. Volumes shipped have declined from about 8.5 million tons in fiscal 1985 to about 6 million tons in fiscal 1988. (Peak shipments of more than 19 million tons occurred in fiscal 1962.)

The Section 416(b) program does not involve a program level separate from CCC spending, but has involved commodity shipments valued at as much as $279 million (in fiscal 1985 and also 1988). Volumes have ranged between 153,000 tons in fiscal 1984 and 2.1 million tons in 1988.

Table 15--PL 480 program funding

Fiscal year	Title I/III	Title II	Total
		Million dollars	
1980	922	729	1,651
1981	927	788	1,715
1982	825	608	1,433
1983	872	600	1,472
1984	872	740	1,612
1985	1,106	1,068	2,174
1986	989	751	1,740
1987	911	552	1,463
1988	767	715	1,482
1989	783	699	1,482
1990	849	673	1,522

Source: U.S. Dept. Agr., For. Agr. Serv. personal communications.

Table 16--PL 480 and Section 416 shipments' shares of total agricultural exports, 1955-88

Year	Total PL 480 and Section 416	Agricultural exports	Food aid share of agricultural exports
	------Million dollars------		Percent
1955	384.4	3,144.0	12.2
1956	984.9	3,496.0	28.2
1957	1,525.1	4,728.0	32.3
1958	981.0	4,003.0	24.5
1959	1,017.3	3,719.0	27.4
1960	1,115.9	4,519.0	24.7
1961	1,316.4	4,946.0	26.6
1962	1,495.5	5,142.0	29.1
1963	1,456.3	5,078.0	28.7
1964	1,418.0	6,068.0	23.4
1965	1,570.5	6,097.0	25.8
1966	1,345.9	6,747.0	19.9
1967	1,270.8	6,821.0	18.6
1968	1,279.5	6,331.0	20.2
1969	1,038.6	5,751.0	18.1
1970	1,055.8	6,958.0	15.2
1971	1,023.0	7,955.0	12.9
1972	1,057.0	8,242.0	12.8
1973	946.4	14,984.0	6.3
1974	865.9	21,559.0	4.0
1975	1,099.1	21,817.0	5.0
1976	904.1	22,742.0	4.0
1977	1,103.6	23,974.0	4.6
1978	1,072.8	27,289.0	3.9
1979	1,187.2	31,979.0	3.7
1980	1,341.6	40,481.0	3.3
1981	1,333.0	43,780.0	3.0
1982	1,107.6	39,097.0	2.8
1983	1,194.7	34,769.0	3.4
1984	1,505.9	38,027.0	4.0
1985	1,905.8	31,201.0	6.1
1986	1,334.2	26,324.0	5.1
1987	1,077.2	27,877.0	3.9
1988	1,435.7	35,337.0	4.1

Source: U.S. Dept. Agr., Econ. Res. Serv., PL 480 database, Foreign Agricultural Trade of the United States.

Distribution of U.S. Food Aid

Over the years, the programs through which U.S. food aid has been distributed have changed slightly (table 17). During fiscal 1956-58, almost 60 percent of PL 480 shipments were channeled through Title I agreements. Title II donations and PL 480 barter together accounted for another 40 percent of PL 480 shipments. After PL 480 barter was phased down, Title I shipments increased to almost 80 percent of PL 480 shipments in 1966-68. Increased donations for the drought-stricken Sahel countries under Title II lowered Title I/III shipments to 70 percent in fiscal 1976-78. In fiscal 1986-88, Title I/III shipments declined again to 65 percent, mainly because of increased donations under Title II and Section 416(b). Shipments under Section 416 accounted for almost 15 percent of total food aid shipments during fiscal 1986-88.

Commodities Provided Under U.S. Food Aid Programs

The United States provides a wide variety of commodities under its food aid programs, ranging from bulk, unprocessed commodities to foods easily used in relief camps (table 18). The array of commodities provided is shown in table 18. In years 1986-88, grains comprised about 55 percent of the value of food aid shipments. Much of that was wheat, followed by rice, corn, and sorghum. In addition to grains, processed grain products comprised about 13 percent of the total. These products, which can be more readily used or consumed by food aid recipients, include flour, bulgur wheat (cracked wheat), and cereal mixtures. A little more than 15 percent of the total value was comprised of vegetable oils, which are used for cooking purposes and as an ingredient in other foods. The large majority of this was soybean oil. Dairy products, chief of which was nonfat dry milk, comprised about 5 percent of the total. Miscellaneous commodities included cotton, tallow, and other products.

The mix of commodities shipped under PL 480 has changed somewhat since 1955. Cotton and other fibers accounted for 18 percent of the value of 1956-58 shipments, compared with only 1 percent in 1986-88. Dairy products, which comprised 13 percent of the value of early shipments, accounted for 5 percent in 1986-88. However, the share comprised of vegetable oils doubled from its 1956-58 level to 16 percent in 1986-88. Similarly, the share of grain products grew from less than 4 percent in the early years to 13 percent in

Table 17-- Titles I and II, barter, and Section 416 shares of USDA food aid shipments[1]

Year	Title I	Title II	Barter	Section 416
		Percent		
1956-58	57.4	19.7	22.9	0
1966-68	78.3	20.1	1.6	0
1976-78	69.7	30.3	0	0
1986-88	56.0	29.4	0	14.5

[1] Commodities were shipped under the PL 480 barter program until 1969.
Source: U.S. Dept. Agr., Econ. Res. Serv., PL 480 database.

Table 18--Food aid shipments by commodity group[1]

Commodity group	1956-58	1966-68	1976-78	1986-88
		Percent		
Grains	51.1	63.5	55.9	55.7
Grain products	3.5	9.0	17.6	13.3
Vegetable oils	8.1	8.0	11.5	16.0
Dairy products	12.9	6.7	4.8	5.4
Livestock and meat products	1.1	0	0	0
Oilseeds and meals	0	0	0	.6
Fibers and fabric	17.9	8.5	2.0	1.1
Blended products[2]	0	1.0	5.7	4.2
Others	5.3	3.4	2.6	3.8
		1,000 dollars		
Total shipments[3]	3,490,998	3,896,161	3,080,554	3,847,089

[1] Food aid shipments include PL 480 shipments and section 416 shipments.
[2] Blended products include corn-soy milk, wheat-soy milk, and various other cereal blends.
[3] Value of shipments for 3-year period.
Source: U.S. Dept. Agr., Econ. Res. Serv., PL 480 database.

1986-88. Grain shipments accounted for 51 percent of PL 480 shipments in 1956-58 and 56 percent in 1986-88.

Destinations of U.S. Food Aid

The agricultural situation in developing countries has changed since the mid-1970's. Food production per capita has generally worsened in Africa compared with other regions, especially in Asia. The distribution of U.S. food aid has shifted, in part, to reflect these changes (table 19). African countries received almost 45 percent of all U.S. food aid in fiscal 1986-88, up from about 30 percent a decade earlier. Egypt alone accounted for more than 15 percent of the U.S. total in 1986-88. The share received by Asian countries dropped in 1986-88 to 28 percent of the total, compared with more than half in fiscal 1976-78. The share of U.S. food aid shipped to Latin America grew from less than 10 percent to more than 25 percent in 1986-88, reflecting unsteady growth in per capita grain production and higher debt burdens there.

Other Donors' Food Aid Programs

While the United States is a leader among nations providing food aid, it is by no means alone (app. table 4). In 1989/90, the Food and Agriculture Organization (FAO) estimates that the United States will provide about 55 percent of total world cereal aid shipments, followed by the European Community with about 25 percent, Canada with less than 10 percent, and Japan

Table 19--U.S. food aid shipments by destination[1]

Region	1956-58	1966-68	1976-78	1986-88
		Percent		
Africa	1.7	11.7	30.8	43.8
Asia	33.0	68.7	52.8	28.3
Europe	50.8	6.1	2.7	.5
Latin America	7.9	8.5	9.4	26.2
Middle East	6.6	4.2	4.4	1.2
Other[2]	0	.7	0	0
		1,000 dollars		
3-year total	3,490,998	3,896,161	3,080,554	3,847,089

[1] Food aid includes PL 480 Titles I, II, and barter and Section 416.
[2] "Other" includes special Christmas programs, UNRAA, and other United Nations program shipments.

and Australia with less than 5 percent each. Under the Food Aid Convention, food aid donors pledge to provide a minimum volume of food aid. The pledges of all donors total about 7.5 million metric tons of cereal aid, with the United States pledging about 60 percent. Australia has pledged 300,000 tons of cereal aid while the Canadian pledge is twice that level. The pledge of the European Community, including member countries, is 1.67 million tons, second to the United States. Japan has pledged 300,000 tons, but all its aid is purchased from cereal exporters, such as the United States and Thailand. The United States is the only donor that provides some of its aid in the form of concessional credits; all other donors provide food aid on a grant basis.

Historical Food Aid Programs

Pre-1954 Programs

The U.S. Government initiated major food aid programs as part of the relief effort following World War II. European Recovery Program (Marshall Plan) agreements provided grants of food as well as other commodities. The United States also contributed agricultural commodities to European and other countries through the United Nations Relief and Rehabilitation Administration (UNRRA), and operated post-UNRRA and civilian feeding programs under U.S. military auspices. Grants and donations of agricultural commodities under these programs from 1948 through 1954 totaled about $11 billion.

A variety of other programs provided outlets for CCC commodities abroad. Food donations from CCC-owned surplus stocks were authorized under Section 416 of the Agricultural Act of 1949. From 1950 through 1954, about $120 million of CCC-owned agricultural commodities were exported under the Section 416 program. PL 77, passed in June 1953, authorized the gift of 1 million tons of wheat to Pakistan. In July 1953, Congress passed PL 216 authorizing the donation of up to $100 million of CCC surplus stocks for worldwide famine relief. A new section of the Mutual Security Act authorized the sale of CCC stocks to countries participating in the Mutual Security Program in exchange for their local currencies. The foreign currencies received from the participating countries were used to finance mutual security operations in those countries.

A program promoting the barter of U.S. agricultural commodities for strategic materials was authorized under the CCC Charter Act. From 1950 through 1954, $108 million in CCC stocks were exchanged for an equivalent value of materials produced abroad.

Food Assistance Legislation Under PL 480

The Agricultural Trade Development and Assistance Act of 1954 (PL 480) drew together many of the existing programs under one authority. The three titles of PL 480 emphasized the distribution of U.S. agricultural surpluses to needy countries and individuals in addition to the development of future markets for U.S. commodities.

Title I of PL 480, sales of surplus commodities for foreign currencies, expanded the number of eligible countries from the participants of the Mutual Security Act of July 1953 to all countries, barring certain Communist countries. Title I required that sales of surplus commodities under the program not interfere with normal U.S. marketings or disrupt world prices. Section 104 of Title I authorized the use of the foreign currencies received from Title I sales for various activities including market development projects, the origin of the FAS Cooperator Market Development Program.

Title II, authorizing the donation of surplus commodities to meet famine or other urgent relief requirements at home or abroad, encompassed the post-World War II relief programs. The Title II donations program was implemented in the form of government-to-government grants for emergency relief.

Title III authorized the donation of available surplus food to accredited U.S. voluntary relief agencies and to international organizations for use in child feeding and nutrition programs. Authority for Title III donations came from Section 416 of the Agricultural Act of 1949 as amended.

In 1959, a new Title IV was added to PL 480 to allow for the sale of CCC surplus agricultural commodities for dollars under long-term credit. This program complemented Title I which authorized sales of agricultural commodities for foreign currencies. Under Title IV, the U.S. Government could make agreements with friendly countries specifying up to a 10-year delivery schedule (3 years on average) for agricultural commodities purchased on credit. The maximum repayment period was 20 years.

In 1960, Title II was amended to permit the donation of CCC inventories for self-help and economic development activities in addition to famine relief. Title II also authorized U.S. contributions to the World Food Program, established by the United Nations and the Food and Agriculture Organization in 1962. The program began as a 3-year experiment and was extended permanently in December 1965.

In 1966, Title IV was combined with Title I, and long-term credit sales for convertible local currencies were authorized under Title I. Countries signing agreements under the convertible currency provision of Title I had 40 years to repay their loans (with a 10-year grace period to begin repayment). In 1968, foreign currencies received from sales of U.S. agricultural products under Title I were authorized for self-help and other development programs. Sales for foreign currencies were phased down between 1966 and 1971, emphasizing long-term credit sales for dollars and for convertible local currencies.

Title III also incorporated the barter program into PL 480. Under the barter program, about $6.6 billion in agricultural commodities were exported to all parts of the world between 1954 and 1975. Prior to 1963, the barter program was instrumental in assisting the U.S. Government to acquire foreign-produced strategic materials. After the Government's stockpile needs had been met in 1963, the barter program was used to procure goods for U.S. military and foreign assistance agencies overseas. Commodities in CCC inventories generally were used for the barter program prior to 1963, and private stocks were exported under the authority of the CCC Charter Act after 1963 under barter arrangements. The program was suspended in 1973.

Changes in world agricultural conditions and concerns about food shortages throughout the world resulted in amendments to PL 480. In 1973, global stocks tightened as drought reduced crops in many regions. Increases in U.S. commercial exports, particularly to the Soviet Union, reduced the availability of many agricultural commodities for export under PL 480. Under fixed budget appropriations, PL 480 shipments declined as prices rose. In 1977, Congress passed legislation allowing commodities to be shipped for humanitarian purposes even if such shipments would reduce the supply of the commodity below levels needed to satisfy domestic and export requirements as well as adequate carryover.

As lower supplies limited the volume of PL 480 shipments, the Foreign Assistance Acts of 1973 and 1974 attempted to change the distribution of countries to be assisted by PL 480 by requiring that 70 percent or more concessional aid be directed to the countries designated by the United Nations as most seriously affected by food shortages. Legislation in 1975 increased this percentage to 75 percent. Special attention was given to increasing agricultural production in countries with an annual per capita income under $300.

The 1975 International Food Assistance and Development Act also set a minimum quantity of 1.3 million tons of agricultural commodities to be distributed each year through Food for Peace donations (Title II). Of this minimum, private voluntary organizations and the World Food Program were guaranteed 1 million tons. The minimum tonnage requirement under Title II was increased several times in subsequent legislation.

In 1977, the Food and Agriculture Act and the International Development and Food Assistance Act amended PL 480 in several ways. The 1977 legislation changed the eligibility standard for countries in the 75-percent category to the 1977 poverty level criteria of the International Development Association (which is revised periodically to account for inflation and other factors). In conjunction with the 1977 legislation's emphasis on self-sufficiency for the poorest countries, the Food for Development program was authorized under Title III. The Food for Development program was created to encourage countries to use the proceeds from the sales of Title I commodities to support agricultural and rural development projects, nutrition and health services, and population planning.

Related to PL 480, the Food Security Wheat Reserve Act of 1980 authorized up to 4 million tons of wheat to be held aside for use in meeting emergency humanitarian food needs in developing countries. The reserve can be drawn upon for two reasons. One is when domestic supplies limit PL 480 availabilities. Second, up to 300,000 tons of wheat can be released from the reserve without consideration of the domestic supply situation to meet relief needs quickly in a developing country or countries experiencing a major disaster. On December 5, 1984, President Reagan authorized the first release of 300,000 tons of wheat from the food security wheat reserve to meet urgent humanitarian needs in Ethiopia.

In the early 1980's, President Carter's Commission on World Hunger recommended to Congress that PL 480 be revised to emphasize development objectives. The recommendation was integrated into the Agriculture and Food Act of 1981 which authorized the institution of literacy and health programs for the rural poor under Title I of PL 480 (Title I, Section 109). In 1982, USDA renewed supplemental donations of dairy products under section 416 of the Agricultural Act of 1949.

Program Issues

- In sharp contrast to the farm surpluses existing in the United States when the 1985 farm bill was written, the current, tighter supply situation has raised the issue of the availability of U.S. stocks to meet food aid needs. In fiscal 1989, 1.5 million tons from the Food Security Wheat Reserve (FSWR) were tapped to meet PL 480 food needs while up to 2 million tons are authorized for use in fiscal 1990. The reserve has become an important source of wheat under the PL 480 program since fiscal 1988. Some are concerned about the ability of the United States to respond to overseas food needs and feel that the United States should extend the FSWR, which was created in 1980 in order to help meet food needs abroad.

- A related issue is multiyear programming of U.S. food aid. Private voluntary organizations distributing aid commodities have asked for multiyear commitments to assure supplies and help improve planning and effectiveness of their food aid programs. Since budgets are set on an annual basis, and since commodity availabilities are not known with certainty beyond 1 year, the administration has been opposed to making commitments that may be difficult to meet given changing supply or price situations.

- Under cargo preference requirements, 75 percent of U.S. concessional shipments (which includes food aid) must be carried on U.S. flag vessels. The U.S. vessels generally charge higher shipping costs than do those of other nations. These provisions, which increase the cost of food aid, amount to a subsidy for the U.S. maritime industry and complicate PL 480 programming. Higher shipping costs reduce funds available for aid commodities. Proponents claim that a strong U.S. merchant marine is important to the national security and hence should be supported.

- Congressional decisionmakers often deal with program management when reauthorizing U.S. food aid programs. The programs are managed jointly by several agencies, mainly USDA and the Agency for International Development. Some claim that the market development goal of the PL 480 program or foreign policy considerations sometimes contradict the economic development goals and that the program could be more effective in meeting individual goals and more easily managed if program responsibility were more clearly divided. One proposal is to give USDA control of part of the program for market development purposes while AID be given control of part of the program for economic development and humanitarian purposes. Others claim that one of the strengths of the PL 480 program is the diversity of groups that support the program as currently organized and that the economic development aspects of the program should not be divorced from the market development aspects since they are related.

Market Development Programs

FAS currently administers two major export promotion programs, the Foreign Market Development Program and the Targeted Export Assistance (TEA) Program. Also contributing resources to the two programs are U.S. nonprofit producer organizations, regional groups of State departments of agriculture, private companies, and, in some cases, foreign "third-party" cooperators.

Foreign Market Development Program

Goals of the Foreign Market Development Program, established in 1955, are to develop, maintain, and expand long-term foreign markets for U.S. agricultural exports. To accomplish these goals, FAS works with U.S. nonprofit commodity organizations, called "cooperators," to promote U.S. agricultural products overseas. Most of the nonprofit organizations represent producers of specific commodities such as apples, feed grains, poultry, and wheat. However, FAS also has enlisted the support of one national and four regional associations of State departments of agriculture in developing overseas markets for regional U.S. agricultural specialties.

FAS established the Export Incentive Program (EIP) in 1971. Under the EIP, FAS enters into agreements with private U.S. companies under which FAS reimburses the participating companies for up to 50 percent of their eligible costs of promoting specific branded U.S. agricultural products.

Legislation and Program Levels

The 1985 Food Security Act endorsed the continuation of funding for the Foreign Market Development Program under the FAS program (which also includes support for FAS' 60 agricultural counselors and attaches and Agricultural Trade Offices in 15 countries). Funding levels for the Foreign Market Development Program had increased through the 1980's, peaking at $33.7 million in 1986 (table 20). Since 1986, estimated FAS contributions to the program have averaged about $29 million each year.

Since 1985, over 40 organizations have participated each year in the Cooperator Market Development Program. In 1986, FAS entered into EIP marketing agreements with 14 private companies for specific branded promotions. Since 1986, fewer EIP projects have been conducted with support from the FAS Foreign Market Development Program.

Market Development Program Activities

Projects conducted by organizations under the Foreign Market Development Program generally fall into three major categories: trade servicing, technical assistance, and consumer promotion. Trade servicing activities are designed to develop or improve trade relationships. The organizations establish contact with foreign country importers and government officials by advertising in foreign trade publications, hosting trade conferences, distributing promotional materials to foreign food buyers, and by sponsoring trade delegations to or from the United States to inform foreign trade and government officials about U.S. production capabilities and reliability as a supplier. Trade servicing has been a major activity of the Cooperator Program.

Organizations conduct technical assistance activities to expand or improve local processing capabilities and develop new or improved uses for U.S. commodities in foreign countries. Some technical assistance activities include agronomic experiments, livestock nutrition programs, and seminars. Technical assistance activities seek to stimulate growth in the long-term demand for U.S. exports. Technical assistance is a major activity under the Cooperator Program, particularly for grains and oilseeds.

Foreign Market Development Program projects also focus on retail consumers of agricultural products. Consumer promotion activities include generic and branded advertising campaigns, consumer education programs, and point-of-sale promotions and demonstrations. Generic promotion activities encourage demand for U.S. agricultural commodities and products, while branded promotions

Table 20--FAS expenditures for market development programs, fiscal 1980-90

Fiscal year	Cooperator Market Development program[1]	Export Incentive program	Targeted Export Assistance	Total
		Million dollars		
1980	18.2	1.13	---	19.33
1981	17.54	1.29	---	18.83
1982	19.00	1.14	---	20.14
1983	23.50	1.72	---	25.22
1984	25.24	1.57	---	26.81
1985	31.81	2.04	---	33.85
1986	33.40	1.60	61.82	96.82
1987	23.11	.20	53.60	76.91
1988	29.35	---	115.25	144.60
1989	28.11	---	117.81	145.92

--- = Less than $200,000.

[1] Expenditures for 1989 are estimated since organizations have 12 months after the end of each marketing plan year in which to claim reimbursements.

Source: U.S. Dept. Agr., For. Agr. Serv., Marketing Programs Division and Management Division.

enhance demand through product differentiation. Consumer promotion activities represent less than 20 percent of the activities conducted under the Cooperator Program, but are the only activities of the EIP.

Program Operation

Cooperator program projects are expected to assist in developing long-term markets for U.S. agricultural products. Thus, the funds obligated in project marketing agreements with FAS are available to be budgeted in annual marketing plans and expended over a 5-year period to ensure continuity in programming and access to funding to complete multiyear projects.

Cooperators submit to FAS for approval annual marketing plans containing detailed descriptions of proposed activities and budgets prior to the beginning of each year. Authority to use the funds obligated in project agreements is limited to approved activities and budgets. For each proposed market, the cooperator must provide information on trade constraints and export projections. Cooperator plans typically focus on demand-related limitations such as a lack of consumer (dealer) awareness of the commodity and competition with substitute products or alternative supplies or lack of technical capability. The cooperator must then show how the proposed activities will overcome or help alleviate the constraints for each commodity/market covered by the plan.

After FAS has accepted the proposed marketing plan, the cooperator begins conducting the activities approved under the marketing plan. The cooperator has up to 12 months to implement the marketing plan and an additional 12 months to submit claims for reimbursement of project expenses incurred during the previous marketing plan year.

Cooperators contribute resources to the jointly funded program, including all domestic administrative costs. Cooperator contributions have accounted for about one-third of total program expenditures over the years. Foreign third-party cooperators also have contributed a third of the program expenses, on average.

In contrast to the Cooperator Program, EIP programs are announced by FAS and developed for a 3-year period. At the end of the 3-year period, a new 3-year program may be developed for the commodity. FAS' decision to announce an EIP program for a specific commodity or product is based, in part, on a determination that export markets for the product can be developed most effectively by brand promotion and that there is sufficient U.S. industry interest to support such a program.

Under the EIP, private U.S. firms submit applications which describe the product, labels (which identify the United States as the source of the product), and proposed activities for each foreign market. Agreements may be renewed annually over the 3-year life of the program. FAS' EIP agreements with private companies specify that FAS will reimburse up to 50 percent of eligible promotion costs. Expenses eligible for reimbursement are limited to direct promotional expenses such as print and electronic media advertising, point-of-sale promotions and materials, trade fair participation, and public relations activities. Costs related to travel, salaries, entertainment, product samples, and price discounting are excluded.

Commodities Promoted

The first commodities promoted under the Cooperator Program in the 1950's were grains and cotton. By 1986, over 70 organizations and companies were promoting commodities ranging from grains and oilseeds to fruits and vegetables and consumer-ready packaged products through the Foreign Market Development Program. Almost 65 percent of the funds budgeted for the Foreign Market Development program for fiscal 1986 through 1989 were used to promote grains, oilseeds, and their products (table 21). Only about 6 percent of the budgeted Foreign Market Development Program funds were targeted to horticultural product promotions.

Countries and Regions Targeted for Export Promotions

Participants in the Foreign Market Development Program conduct market promotion activities in both developed and developing countries (table 22). In 1986, FAS budgeted about $39 million for promotions under the Cooperator Market Development Program and for EIP's. One quarter of the funds were for promotions in Western Europe. Another 20 percent was for promotions in Japan.

Table 21--Foreign Market Development Program budgets, by commodity group, fiscal 1986-89

Commodity group	1986	1987	1988	1989	1986-89
			Million dollars		
Total Cooperator/EIP budgets	39.10	25.49	34.17	33.40	132.16
			Percent		
Animals and animal products	13.9	17.0	16.1	14.9	15.3
Grains, grain products, and dry beans	37.3	43.4	43.7	42.3	41.4
Oilseeds and products	20.9	22.7	25.0	24.0	23.1
Horticultural and tropical products	13.1	2.1	1.3	4.5	5.7
Regional and State associations/other high-value products	2.6	2.7	2.4	1.9	2.4
Cotton, seeds, and tobacco	6.0	4.5	4.3	4.3	4.8
Wood products	6.3	7.6	7.2	8.2	7.3

Source: Calculated from data provided by U.S. Dept. Agr., For. Agr. Serv., Marketing Programs Division.

Table 22--Foreign Market Development Program budgets, by region, fiscal 1986

Region/country	Share of budget	Region/country	Share of budget
	Percent		Percent
European Community	21.9	Southeast Asia	6.8
Other Western Europe	2.6	South Asia	2.7
Eastern Europe	2.2	Oceania	.2
USSR	1.1	Middle East	6.8
China	7.1	North Africa	5.5
Japan	17.2	Sub Saharan Africa	4.2
Other East Asia	11.4	Latin America	10.3
			Dollars
		Total budget	39,094,196

Source: Calculated from U.S. Dept. Agr., For. Agr. Serv., Marketing Programs Division data compiled by Oklahoma State University.

Historical Foreign Market Development Programs

From 1955 through 1985, the major federally supported market development program was the Cooperator Market Development Program (app. table 5). Individual States had already established various check-off programs to promote specific U.S. agricultural commodities overseas as early as 1947.

FAS first was authorized to use the foreign currencies obtained from PL 480 Title I sales for market development in 1954, although the first joint promotions did not begin until 1956. For fiscal 1961, the Congress appropriated funds to supplement the foreign currency received for Title I sales. In the following years, annual budget appropriations gradually replaced the foreign currencies as the only source of funding for the Cooperator Program.

The first cooperators included several regional wheat growers associations (later merged into a national organization, U.S. Wheat Associates), the National Cotton Council (today, the Cotton Council International), the Rice Council, and the Millers National Federation. Several nonprofit associations were formed to promote tobacco, poultry, fruits, and vegetables in the late 1950's. FAS also enlisted the support and participation of regional and State organizations in 1978, although the agency had been cooperating with some of these groups since the late 1960's to encourage and coordinate the export promotional efforts of suppliers with potential export capabilities. Five regional and State organizations have participated in the Cooperator Program, including the Eastern U.S. Agricultural Food and Export Council (EUSAFEC), the Southern U.S. Trade Association (SUSTA), the Mid-America International Trade Council (MIATCO), the Western U.S. Agricultural Trade Association (WUSATA), and the National Association of State Departments of Agriculture (NASDA).

In 1971, FAS established the Export Incentive Program (EIP) to help private companies promote branded, consumer-ready agricultural products. EIP operations differed from those of the Cooperator Program in that FAS reimbursed no more than half of the eligible direct costs of promotion in specified foreign markets. Some early EIP participants included major fruit and vegetable processors and wine and nut export firms.

Targeted Export Assistance Program

FAS, which administers the Targeted Export Assistance Program (TEA), has used CCC generic commodity certificates to reimburse nonprofit commodity and regional organizations for eligible expenses incurred to promote U.S. agricultural products in specific foreign markets. In accordance with the provisions of the 1985 Food Security Act, priority is given first to U.S. agricultural products which have received a favorable decision under Section 301 of the Trade Act of 1974 or that have suffered retaliatory action as a result of a favorable Section 301 decision.

Authorizing Legislation and Program Levels

The TEA was mandated by Congress under the 1985 Food Security Act. Section 1124 of the 1985 Act required that the Secretary of Agriculture use $325 million each year in CCC funds or commodities from CCC inventories through September 30, 1990, to counter or offset the adverse effects on U.S. exports of subsidies, import quotas, or other "unfair foreign trade practices."

Close to half of the 1986 Foreign Market Development Program funds were budgeted for promotions in Africa, Latin America, and Asian countries other than Japan. Program participants targeted about 17 percent of their promotion budgets to the Middle East and Africa, and another 10 percent to Latin American countries.

In subsequent amendments to the 1985 Food Security Act, Congress decreased TEA program levels to $110 million for fiscal years 1986 through 1988, but maintained the higher annual level of $325 million for fiscal 1989 and 1990 (table 20). The USDA appropriations act for fiscal 1989 reduced the TEA program level to $200 million, of which $30 million was to be held in reserve for release at the discretion of the Secretary of Agriculture. After determining that the full $200 million should be used for the TEA program, the Secretary released the additional $30 million. For fiscal 1990, Congress limited the TEA program level to $200 million.

From 1986 through 1990, over 28 nonprofit organizations participated each year in the TEA program. For the same period, CCC entered into EIP marketing agreements with about 25 private U.S. companies for branded promotions under three commodity specific TEA/EIP programs (California and Arizona citrus, processed sweet corn, and almonds).

Program Operation

FAS implemented the TEA as an export promotion program. TEA program activities can be conducted in the market affected by the unfair trade practice to counter or mitigate the practice itself or in alternative markets to offset its effects on exports.

The availability of the TEA program is announced annually in a Federal Register notice which describes eligibility criteria and establishes an application deadline prior to the beginning of the program year. TEA program applicants must identify an unfair foreign trade practice and estimate the extent to which it has adversely affected U.S. exports. Applicants must also assess the probable success of the proposed project(s) in countering or offsetting the adverse effects of the unfair trade practice and describe the organization's membership, administrative capability, prior promotion history, and available resources to be contributed to implement the TEA projects.

Although FAS administers the TEA for the CCC, reimbursements to program participants to date have been in the form of CCC generic certificates redeemable for commodities in CCC inventories. TEA participants, mainly nonprofit trade associations with little use for CCC commodities, resell the certificates (which have a 1-year life) to brokers or exporters, who in turn redeem them for CCC inventories.

TEA Program Activities

TEA projects also can be classified as technical assistance, trade servicing, and consumer promotion. However, most TEA projects (almost three-fourths in 1990) are consumer promotions, particularly advertising.

Branded promotions are more prevalent under the TEA than under the Foreign Market Development Program. Branded promotions are conducted under the TEA through the private company TEA/EIP agreements and by nonprofit commodity and regional organizations.

Commodities Promoted

The TEA program places more emphasis than the Cooperator Program on the promotion of higher valued products such as fruits and vegetables, red meat, and grocery items. Over 80 percent of TEA projects are aimed at the promotion of higher valued products. From 1986-89, over half of the TEA program budgets were used for the promotion of horticultural products (table 23). Twenty percent of the TEA program budgets were targeted to grains, oilseeds, and their products.

Targeted Countries and Regions

TEA participants have conducted the bulk of their projects in the EC and Japan. In 1986, the first year of the TEA, over 35 percent of TEA activities were in Western Europe. TEA participants conducted 38 percent of their projects in Japan, and an additional 17 percent of their projects in other Asian countries (table 24). After 4 years of operation, the TEA continues its focus on Western European and developed Pacific Rim countries.

Competitors' Export Market Development Programs

Most major agricultural producing countries support the promotion of their agricultural products in foreign markets. Governments often take the lead in overseas promotion through their foreign services and special marketing agencies.

For example, the French government promotes agricultural products through SOPEXA (Societe pour l'Expansion de Ventes de Produits Agricoles et Alimentaires) with market research and statistical support from the CFCE (Centre Francais du Commerce Exterieur). Agricultural marketing boards and private industry organizations also play major roles in overseas promotions.

Table 23--Targeted Export Assistance Program budgets, by commodity group, fiscal 1986-89

Commodity group	1986	1987	1988	1989	1986-89
			Million dollars		
Total TEA budgets	93.80	66.63	136.16	186.65	483.44
			Percent		
Animals and animal products	14.5	16.7	11.3	14.0	13.7
Grains, grain products, and dry beans	9.1	.7	12.9	12.1	10.2
Oilseeds and products	8.6	2.8	13.8	10.1	9.8
Horticultural and tropical products	53.2	74.8	45.7	44.2	50.6
Regional and state associations/ other high-value products	6.1	3.2	7.0	8.6	6.9
Cotton, seeds, and tobacco	7.5	.5	7.0	9.0	7.0
Wood products	1.1	1.3	2.2	2.0	1.8

Source: Calculated from data provided by U.S. Dept. Agr., For. Agr. Serv., Marketing Programs Division.

Table 24--Regional distribution of funds budgeted for Targeted Export Assistance Program projects, fiscal 1986

Region/country	Share of budget	Region/country	Share of budget
	Percent		Percent
European Community	35.7	Southeast Asia	3.3
Other Western Europe	2.0	South Asia	.7
Eastern Europe	0	Oceania	1.1
USSR	0	Middle East	2.4
China	0	North Africa	1.7
Japan	37.5	Sub Saharan Africa	.3
Other East Asia	13.5	Latin America	1.8
			Dollars
		Total TEA budget[1]	93,802,338

[1] 1986 TEA budget committed as of April 1989. Participants had 1 year in which to spend funds approved under their 1986 marketing plans.

Source: Calculated from U.S. Dept. Agr., For. Agr. Serv., Marketing Programs Division data compiled by Oklahoma State University.

Marketing boards such as the Canadian and Australian wheat boards maintain overseas offices. For many exporting countries, governments and private firms work together to conduct promotion activities ranging from technical assistance to media advertising. Almost all foreign exporters participate in trade fairs and conduct in-store promotions. Chief regions targeted for promotions by all exporters include Japan and other Far Eastern countries and Western European countries.

Market Development Program Issues

FAS has assisted U.S. commodity organizations and private companies to promote U.S. agricultural products overseas since 1956. Several issues concerning the export market development programs have developed as the programs have evolved and expenditures increased.

- The effectiveness of the promotion programs in developing overseas markets for U.S. agricultural products is important not only to policymakers, but also to the producers, processors, and foreign country marketers who provide funds. Is an increase in exports the best measure of program success or could other accomplishments such as maintaining export levels or minimizing export losses be valid program goals? What are reasonable timeframes over which to measure the lagged effects of longer term generic market development programs versus the shorter term advertising promotions?

- Some program participants have worked with FAS to promote the same products overseas for decades. Should FAS continue to fund projects in previously established markets or limit the number of years in which the Government will assist an organization to promote a product in a particular market?

- Organizations conducting overseas promotions may succeed in developing markets for U.S. agricultural products, but may lose sales and market share due to changing market conditions. In evaluating the effectiveness of market development programs over time, how can market participants isolate the effect of their primarily generic promotion activities from other market factors such as price competitiveness, exchange rate changes, and political situations? How can an organization's active promotion program address changes in supply, demand, and political situations?

- Under the Foreign Market Development Program, FAS enables a long-term commitment to market development by assisting participants to finance promotions in markets where the risk of failure is higher than for established markets. For example, FAS has funded promotions of high-valued commodities and consumer-ready packaged products and has encouraged cooperators to promote agricultural commodities in less developed countries. What methodologies could be used to evaluate projects that require longer funding periods?

- Generic promotion programs attempt to expand demand for an individual commodity or group of commodities. Generic promotion activities may help develop a market for the commodity or product, but may need to focus more on differentiating U.S.-origin commodities from those of other exporters. For example, U.S. market development programs helped increase demand for Brazilian orange juice in Canada and soybeans in other regions. Should