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The Honorable Richard G. Lugar
Chairman
The Honorable Thomas A. Daschle
Committee on Agriculture, Nutrition,
and Forestry
United States Senate

The Honorable Pat Roberts
Chairman
The Honorable E (Kika) de la Garza
Ranking Minority Member
Committee on Agriculture
House of Representatives

The Honorable Toby Roth
Chairman, Subcommittee on International
Economic Policy and Trade
Committee on International Relations
House of Representatives

As you requested, in view of Congress' current consideration of the 1995 Farm Bill, we identified options proposed by public and private sector organizations for improving title XV agricultural export assistance programs administered by the U.S. Department of Agriculture (USDA). Specifically, our objectives were to identify options suggested for improving the effectiveness of these programs and to categorize these options in a conceptual framework to assist congressional evaluation and review.

Background

Title XV has four types of agricultural export assistance programs:

(1) market development and export promotion programs that attempt to develop, maintain, and expand foreign markets for U.S. agricultural products, specifically the Market Promotion Program (MPP) and the Foreign Market Development Program, also known as the Cooperator Program;[1]

[1]MPP and Cooperator Program activities focus primarily on advertising, trade servicing, and technical assistance to foreign importers, government officials, distributors, and consumers.

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(2) food aid programs, including title I of the Agricultural Trade Development and Assistance Act of 1954 (P.L. 83-480, July 10, 1954—commonly known as P.L. 480), whereby U.S. agricultural commodities are sold to developing countries on long-term credit terms[2] at below-market interest rates;

(3) export credit guarantee programs that offer short- and intermediate-term loan guarantees to enable importing countries to borrow money to purchase U.S. agricultural exports, specifically the General Sales Manager (GSM) 102 and 103 programs;[3] and

(4) export subsidy programs that help U.S. commodities become more price competitive on world markets when U.S. prices exceed world prices, including the Export Enhancement Program (EEP), the Sunflowerseed Oil Assistance Program (SOAP), and the Cottonseed Oil Assistance Program (COAP). In addition to EEP, SOAP, and COAP, there is an agriculture export subsidy program that is included under title I of the 1990 Farm Bill. That program is the Dairy Export Incentive Program (DEIP). For the purpose of this review of options related to agriculture export programs, we included DEIP along with USDA's title XV programs.

In fiscal year 1996, appropriations for all four types of agricultural export assistance programs (including DEIP) totaled about $8.1 billion.

Options Identified

To identify options for improving USDA agricultural export assistance programs, we analyzed reports from and sought the views of officials from a wide range of organizations familiar with these programs. We also reviewed our own work on these programs. The universe of 42 public and private sector organizations we identified (which included GAO) was developed from our years of experience in evaluating these programs and from suggestions of congressional committees and USDA. The organizations ranged from federal agencies, such as the Congressional Research Service (CRS) and the Congressional Budget Office (CBO), to trade associations, such as the U.S. Feed Grains Council and the National Association of State Departments of Agriculture. We also obtained options from universities and research organizations, such as Texas A&M University's Texas

[2]Title I food aid offers credit terms with a maximum 30-year repayment period and a maximum 7-year grace period.

[3]The Export Credit Guarantee Program (GSM-102) guarantees repayment of short-term financing (up to 3 years) extended to eligible countries that purchase U.S. farm products. The Intermediate Credit Guarantee Program (GSM-103) guarantees repayment of intermediate-term financing (3 to 10 years) extended to eligible countries that purchase U.S. farm products.

Agricultural Extension Service and the Cato Institute, which is located in Washington, D.C. The names of these organizations and their suggested options for each export assistance program are identified in the enclosures to this letter.

Overall, after eliminating areas of duplication, we identified 126 options for improving USDA agricultural export assistance programs. A detailed discussion of options for each of the four types of export programs is provided in enclosures I-IV.

Conceptual Framework

To develop a conceptual framework to organize and discuss these 126 options, we analyzed our past reviews of agricultural export assistance programs (e.g., MPP, title I, GSM, and EEP)[4] and catalogued the types of problems we had identified in our work, which we referred to as "potential criteria." We then informally circulated a draft of these potential criteria among USDA and Office of Management and Budget (OMB) officials, staff of several congressional committees involved with agricultural issues, and private sector experts on these programs. We considered their comments and modified the draft of the potential criteria as appropriate to create the conceptual framework we adopted for our analysis. We then categorized the options for improving the programs by whether or not they were related to or addressed the nine criteria.

The nine criteria we adopted included:

- clear program objectives that complement and do not compete with one another;
- cost-effectiveness in terms of increasing, in an efficient manner, U.S. agricultural exports and farm income;
- flexibility and responsiveness to changing world conditions, such as increased competition abroad, emerging markets (e.g., Pacific Rim nations), and the increased importance of high-value products (HVP);
- a graduation requirement that states at what point the U.S. private sector participants would no longer need U.S. government assistance to export to a particular market;

[4]The reports we reviewed included International Trade: Effectiveness of Market Promotion Program Remains Unclear (GAO/GGD-93-103, June 4, 1993); Food Aid: Competing Goals and Requirements Hinder Title I Program Results (GAO/GGD-95-68, June 26, 1995); Loan Guarantees: Export Credit Guarantee Programs' Costs Are High (GAO/GGD-93-45, Dec. 22, 1992); and U.S. Department of Agriculture: Foreign Exporters' Participation in the Export Enhancement Program (GAO/GGD-95-127, May 11, 1995).

- additionality—i.e., evidence of additional exports beyond what would have occurred had these programs not been in existence;[5]
- compliance with international trade agreements, such as the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA);
- coordination with other USDA programs, both export-oriented and domestic, so that various programs are not working at cross purposes;
- internal control processes that adequately assess program risks of waste, fraud, and abuse and safeguard program assets; and
- administrative and program requirements that support a program's ability to achieve its objectives without being excessively burdensome.

It was not our intention to endorse any particular option, nor to imply that any one criterion needs to be specifically addressed over another. Rather, our objective was to present the options organized within a conceptual framework that would assist Congress in understanding the potential effect(s) of the options. If there were no options related to a particular criterion, we did not intend to imply that the program(s) had no problems or opportunities for improvement in that area, but only that we identified no options from the sources we contacted that were related to that criterion. Where possible, we identified pros and cons associated with some of the improvement options based on previous reports and studies by us, CBO, and executive branch agencies as well as on our interviews with USDA officials.

During the course of our review, we also (1) briefed congressional requesters on the interim results of our efforts; (2) received and incorporated technical comments on the options and our analysis from senior USDA officials; and (3) addressed, where applicable, improvements made by USDA as part of its management responsibilities for title XV programs.

We did our review in Washington, D.C., from November 1994 to August 1995.

[5]We acknowledge that historically it has been difficult for USDA and others to identify what additional exports result from these programs that are separate from other factors that increase exports (e.g., lower interest rates, production shortfalls, and economic growth). However, our prior work suggests that proposals for improving title XV programs should at a minimum address how these programs increase exports, in order to justify their continued funding.

As agreed with you, we are sending copies of this letter to the Secretary of Agriculture; the Director, OMB; and other congressional committees. Copies will be made available to other interested parties upon request.

The major contributors to this letter are listed in enclosure V. Please contact me at (202) 512-4812 if you have any questions concerning this report.

JayEtta Z. Hecker, Director
International Trade, Finance, and
Competitiveness Issues

Contents

Abbreviations

AID	Agency for International Development
CBO	Congressional Budget Office
CCC	Commodity Credit Corporation
COAP	Cottonseed Oil Assistance Program
CRS	Congressional Research Service
DEIP	Dairy Export Incentive Program
EEP	Export Enhancement Program
EM	emerging market
EU	European Union
FAS	Foreign Agricultural Service
FACT	Food, Agriculture, Conservation, and Trade Act
FSU	former Soviet Union
GATT	General Agreement on Tariffs and Trade
GSM	General Sales Manager
HVP	High-value product
IMF	International Monetary Fund
MPP	Market Promotion Program
NAFTA	North American Free Trade Agreement
NASDA	National Association of State Departments of Agriculture
OMB	Office of Management and Budget
P.L.	Public Law
SCGP	Supplier's Credit Guarantee Program
SOAP	Sunflowerseed Oil Assistance Program
TEA	Targeted Export Assistance
TPRG	Trade Policy Review Group
UR	Uruguay Round
USDA	U.S. Department of Agriculture
WTO	World Trade Organization

Options for the U.S. Department of Agriculture's Market Development and Promotion Programs

Twelve sources, including the administration, trade experts, and exporters, offered 58 options for improving the market development and promotion programs.[1] These options suggested ways to (1) best accomplish program objectives, (2) ensure cost-effectiveness, (3) improve flexibility to capture new export opportunities, (4) establish and implement a graduation requirement, (5) ensure that "additionality" is adequately measured, (6) eliminate duplication of the U.S. Department of Agriculture's (USDA) efforts to ensure adequate coordination of program management, (7) improve internal controls or program oversight, and (8) streamline administrative requirements to ensure that export opportunities could be captured as market conditions change. No option addressed how to best comply with recent international accords.

Also, 17 sources supported 2 remaining options. First, 10 sources advocated that these programs continue as funded until it becomes clear what effects recent legislation and international agreements will have had on market promotion. Second, six sources stated that the United States can no longer afford to fund such programs and should therefore abolish them. (See table I.2 at the end of this enclosure for a summary of these options and the organizations suggesting them.)

Background

In response to the need to stimulate overseas markets for the growing surpluses of U.S. agricultural products in the 1950s, and the continuing decline in U.S. agricultural exports and the need to combat unfair foreign trade practices in the 1980s, the federal government created several market development and promotion programs to develop, maintain, and expand market share for U.S. agricultural exports. According to USDA, the two major export development and promotion programs are the Market Promotion Program (MPP) and the Cooperator Program.[2]

Since 1986, MPP and its predecessor, the Targeted Export Assistance (TEA) program,[3] have provided funds to commercial firms and not-for-profit

[1]The U.S. government assists U.S. agricultural exports through various market development and promotion programs. The two major export programs are the Market Promotion Program and the Foreign Market Development Program—also known as the Cooperator Program.

[2]Other market development and promotion programs besides MPP and the Cooperator Program include the Trade Show Program and the State Check-Off Program. In addition, USDA has a network of Agricultural Trade Offices throughout the world to help expand U.S. agricultural exports.

[3]TEA was authorized by the Food Security Act of 1985 (Public Law (P.L.) 99-198, Dec. 23, 1985) to reverse the decline in U.S. agricultural exports and to counter the unfair trade practices of foreign competitors. Only commodities adversely affected by unfair foreign trade practices were eligible for funding under TEA.

organizations to promote U.S. agricultural commodities in foreign markets. MPP was established by the Food, Agriculture, Conservation, and Trade Act of 1990 as the replacement for TEA.[4]

Congress authorized almost $1.5 billion of MPP and TEA funds to nonprofit organizations and commercial firms between fiscal years 1986 and 1995. In fiscal year 1995, Congress authorized $110 million[5] for MPP (see fig. I.1).[6] From 1991 to 1994, USDA allocated on average 65 percent of all available MPP funding[7] to promote generic products, while the remaining 35 percent of available funding was allocated to promoting brand-name products.[8]

[4]Public Law 101-624, Nov. 28, 1990.

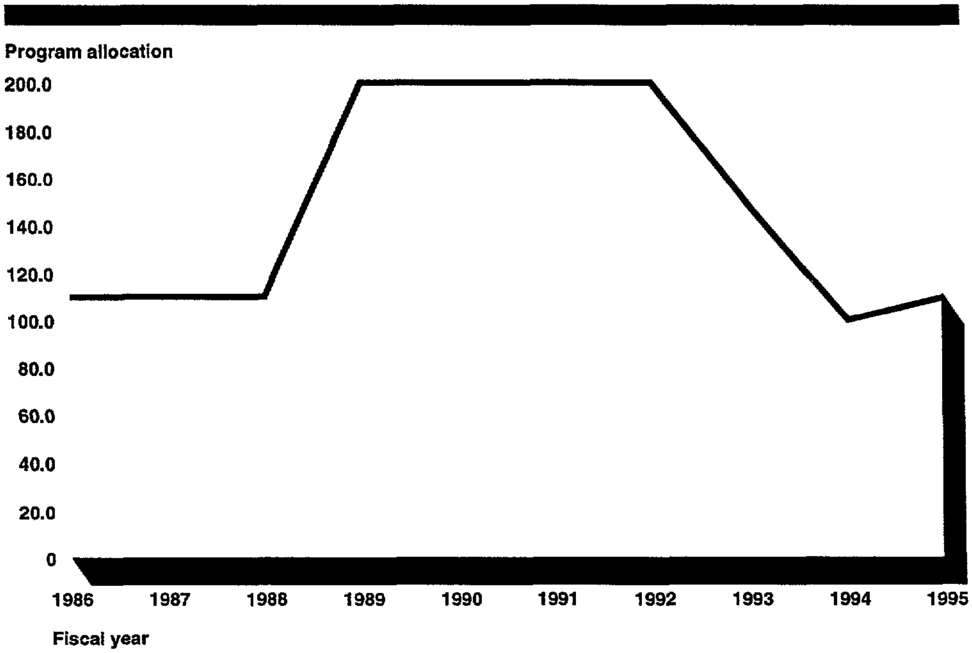
[5]Initially, Congress authorized $85.5 million for MPP in fiscal year 1995. An additional $24.5 million was provided for in the Emergency Supplemental Appropriations For Additional Disaster Assistance, For Anti-terrorism Initiatives, For Assistance in the Recovery From The Tragedy That Occurred at Oklahoma City, And Rescissions Act, 1995 (P.L. 104-19, July 27, 1995).

[6]This decrease in funding was probably due to budget pressures and controversy over MPP. For instance, while supporters of the program believe that MPP served as a valuable tool to capture export opportunities created by recent changes in the world trading environment, critics argue that MPP is ineffective and exemplifies "corporate welfare" that the nation cannot afford.

[7]According to USDA, available MPP funds include funding Congress allocates in a given fiscal year as well as unused funds from prior fiscal years.

[8]Congress has changed the requirement linking MPP funding priority to unfair foreign trade practices. For example, unlike TEA, when MPP was established in 1990, funding was not limited to commodities adversely affected by unfair foreign trade practices. However, in 1991, rules and regulations published in the Federal Register on August 16 specified that priority funding be given to promote commodities affected by unfair foreign trade practices. This stipulation was also required in rules and regulations published in the Federal Register on November 17, 1993. But, in 1995, new rules and regulations published in the Federal Register on February 1 no longer included the stipulation.

Figure I.1: Authorized Funding for MPP/TEA, Fiscal Years 1986-95 (Dollars in millions)



Note: Congress initially authorized program funding of $325 million and later reduced it to $200 million.

Source: USDA.

To support market development efforts, the Cooperator Program was established more than 40 years ago under the auspices of the Agriculture Trade Development and Assistance Act of 1954 (P.L. 83-480, July 10, 1954), as amended; the Agricultural Act of 1954 (P.L. 83-690, Aug. 28, 1954); and Executive Order 10900 (Jan. 5, 1961) to support market development efforts. Under this long-standing program, USDA and cooperators[9] are to combine their technical and financial resources to develop export markets and promote U.S. agricultural commodities—typically bulk, or generic, products. Agreements are made between USDA and cooperators to conduct

[9]Cooperators are nonprofit commodity groups representing producers, farmers, and farm-related interests or trade associations. Cooperators represent specific U.S. commodity sectors, such as feed grains, wheat, rice, and poultry. Other cooperators participating in USDA's Cooperator program include the National Association of State Departments of Agriculture and four State Regional Trade Groups representing the agricultural interests of the eastern, western, southern, and mid-American states.

various activities that fall into four categories: market research, trade servicing,[10] technical assistance,[11] and consumer promotions.[12]

Since the mid-1980s, USDA's contribution to the Cooperator Program has averaged around $30 million a year. But, in fiscal year 1995, USDA allocated $20 million to the program. Cooperators and officials representing domestic and foreign industry must provide additional funds to execute projects by matching the USDA allocation.

On average, about 40 cooperator groups have recently used funding from the Cooperator Program for market development activities in more than 100 countries. Most of the money was used to promote bulk commodities through trade servicing and technical assistance.

Options for Improving MPP and the Cooperator Program

Options suggesting improvements to MPP and the Cooperator Program addressed eight of our nine criteria. Most options focused mainly on MPP[13] and suggested ways to (1) clarify how program objectives could best be achieved, (2) ensure cost-effectiveness, (3) improve flexibility to capture new export opportunities, (4) establish and implement a graduation requirement, (5) ensure that program additionality is adequately measured, (6) eliminate duplication of USDA efforts to ensure adequate coordination of program management, (7) improve internal controls or program oversight, and (8) streamline administrative requirements to ensure that export opportunities can be captured as market conditions change.

The following discussion reviews how each of the options attempted to address (with varying degrees of specificity) historical problems and presents some of the trade-offs that may be associated with the options. Because MPP and the Cooperator Program have similar objectives and related historical problems, where appropriate we discuss the problems and related options for both of the programs simultaneously. In those cases where a problem area(s) affected only one program, we discuss that

[10]Trade servicing activities are designed to influence foreign traders, importers, and wholesalers as well as foreign government officials who are involved with importing, distributing, and marketing agricultural commodities and products.

[11]Technical assistance activities are designed to expand a foreign country's capability to use or process U.S. commodities by, among other things, addressing technical problems related to the sale, movement, processing, and marketing of U.S. agricultural products.

[12]Consumer promotion activities are designed to influence consumers by changing their attitudes toward or making them aware of the advantages of using U.S. agricultural products.

[13]We believe that most options related to MPP probably because MPP engendered much controversy in recent years, received almost 6 times more money than the Cooperator Program, and was legislatively changed by the Omnibus Budget Reconciliation Act of 1993 (P.L. 103-66, Aug. 10, 1993).

program and related options. In some instances, options relating to one program could be applicable to the other program.

Options Addressed How Best to Achieve Program Objectives

The primary objective of MPP is to develop, maintain, and expand commercial export markets for U.S. agricultural commodities through cost-sharing assistance to eligible participants that implement a foreign market development program. To accomplish this objective, USDA gave priority funding to small firms that conduct brand-name promotion as required by the Omnibus Budget Reconciliation Act of 1993.[14] However, we previously reported that USDA believed that larger companies with significant export experience can often use program funds more efficiently and effectively than smaller or new-to-export firms.[15]

One of our earlier reviews of MPP found that the resources available to large firms may indicate they have no demonstrable need for government assistance.[16] Such firms generally have the capability to fund their own foreign market development programs. For instance, E. & J. Gallo Winery, Inc., received over $4 million in MPP funds in fiscal year 1993. According to the 1995 Directory of Corporate Affiliations, in fiscal year 1994, E. & J. Gallo Winery employed about 3,000 workers and had over $1 billion in sales.

We reported that small and new-to-export firms typically have a greater need for government assistance because of their more limited infrastructure for marketing overseas.[17] However, USDA believed that these firms may not be in the best competitive position to increase exports. Nonetheless, USDA officials told us that they started prioritizing funding for brand-name promotion to small firms in fiscal year 1994 in accordance with the statutory changes made to MPP by the Omnibus Budget Reconciliation Act of 1993. Congress directed that USDA use the Small Business Administration's size standard for determining allocation to small firms.[18] Preliminary USDA statistics show that small firms received almost

[14]As previously mentioned, brand-name promotion represents 35 percent of MPP funding.

[15]See International Trade: Changes Needed to Improve Effectiveness of the Market Promotion Program (GAO/GGD-93-125, July 7, 1993).

[16]GAO/GGD-93-125.

[17]GAO/GGD-93-125.

[18]The Small Business Administration established standards by industry using Standard Industrial Classification codes to define companies that meet its criteria for federal assistance for small firms. The size standards are specified either as the maximum number of employees or annual receipts for a business to be considered small.

42 percent, or about $24 million, of all MPP funds available for promoting brand-name products in fiscal year 1994.[19]

Several options addressed the issue of whether to provide funds to firms that could maximize U.S. agricultural exports or to support small businesses that have greater need for export assistance. While most options suggested that priority funding be given for one purpose or the other, two options suggested ways to satisfy both purposes. For instance, we previously reported that whether a firm should receive government funding for export promotion should depend both on the firm's ability to effectively use the funds and on the demonstrated need for the funds.[20] According to a USDA official, USDA is collecting and analyzing data to ensure that both conditions are met. Another option suggested that Congress legislatively mandate two separate program segments to provide (1) funds to companies that can develop, maintain, and expand exports and (2) seed money to smaller and new-to-export businesses. USDA believed that this is already being done under the existing MPP. According to USDA officials, a new program could require additional USDA resources to oversee and manage two different program segments.

Although not specifically related to the objectives of MPP or the Cooperator Program, two options suggested that the intent of all market development and promotion programs be reviewed. For instance, one option suggested that Congress ensure that all programs can adapt to changes in the world trading environment to capture export opportunities as they occur. Another option suggested that Congress fundamentally change agricultural policy, including providing participants with risk insurance, similar to the Federal Deposit Insurance Corporation's risk management insurance for the banking industry.

Options Attempted to Ensure Cost-Effectiveness of Programs

Several questions have been raised about whether program funds have been used in the most cost-effective manner. For instance, (1) there may be limited assurance that participants have not used Cooperator Program funds in place of their private expenditures, (2) MPP funds have been allocated to foreign firms with possibly limited assurance that they are using and promoting U.S. commodities, and (3) both MPP and Cooperator Program funds have been expended for the promotion of brand-name

[19]USDA officials could not easily identify the number of small firms that received this money because complete data are not yet available. The primary reason for this incomplete data is because participants are currently in the process of conducting 1994 promotional activities. USDA expects that complete data will be available sometime in late 1995.

[20]GAO/GGD-93-125.

products even though it is unclear whether the benefits that accrue to individual companies are the most efficient means of contributing to national economic growth, or rather just involve one company's brand-name products displacing another's brand-name products. While USDA officials told us that they have attempted to address these concerns, government and nongovernment agencies have published additional options.

Ensure That Program Funds Do Not Replace Private Expenditures

MPP participants must certify that MPP funds do not replace private expenditures.[21] One option suggested that Congress continue to require such a certification for MPP. However, the National Association of State Departments of Agriculture[22] believed that it might be difficult for USDA to validate certifications because company officials may hesitate to open their business records. Nonetheless, to validate certifications, MPP regulations specify that USDA review each participant's marketing budget from year to year and variations in promotional strategies within a country and among new markets.

While the Cooperator Program does not require participants to certify that Cooperator funds do not replace private expenditures, we did not identify any options that suggested such a certification requirement. However, USDA told us that it is reviewing the requirements of the Cooperator Program and believe that a similar certification could be required. USDA officials also emphasized that cooperators and foreign and domestic participants must provide funds to execute promotion projects that are approved under the program by matching the USDA allocation.

Restrict Foreign Firm Participation

Questions have been raised about allocating U.S. public funds to foreign firms. During fiscal years 1987-93, hundreds of foreign firms received millions of dollars, or on average over 20 percent of all MPP funds, for brand-name promotion. For instance, in fiscal year 1993, 183 foreign firms received almost 27 percent, or over $15 million, of all MPP funds available for brand-name promotion. USDA officials believed that foreign firms have helped to increase U.S. exports because these firms can better distribute

[21]We previously reported on the potential problem of public funds replacing private sector expenditures (see GAO/GGD-93-125). We recommended that USDA require that MPP funds be used to increase expenditures for foreign market development activities over those that would take place without MPP support. Our recommendation was adopted under the Omnibus Budget Reconciliation Act of 1993, which required that MPP participants certify that MPP funds supplement, but do not supplant, expenditures that participants would otherwise make for promotional activities without MPP support.

[22]This association, formed in 1915, is a nonprofit organization of the 50 state and 4 territorial departments of agriculture.

U.S. products due to their superior distribution networks and their knowledge of foreign markets.

However, the Congressional Research Service (CRS) reported that questions have been raised as to whether foreign firms used or promoted U.S. commodities. For instance, CRS reported that Benetton—an Italian clothing manufacturer—received MPP funds after it agreed to use cloth made of at least 50-percent U.S. cotton. However, it may be difficult to verify whether Benetton met this condition because cotton is a homogeneous, indistinguishable commodity, and Benetton buys cotton from numerous spinners and processors.[23]

Our earlier report on MPP recommended that USDA define the conditions under which foreign firms might be allowed to participate in U.S. market promotion programs.[24] According to USDA officials, this has been done. Pursuant to the changes made to MPP under the Omnibus Budget Reconciliation Act of 1993, USDA requires adequate justification within MPP applications before allocating funds to foreign firms. For instance, USDA told us that foreign firms must promote U.S.-origin products to receive MPP funds. Moreover, USDA officials told us that compliance officials began to review this requirement in fiscal year 1994.

Limit Brand-Name Promotions

Another area of concern related to allocating funds for the promotion of brand-name products. Although USDA believed that promoting brand-name products helped to increase exports because consumers usually purchased products whose name they recognize, questions have been raised about whether benefits that accrue to individual companies are the best or most efficient means of contributing to national economic growth. As previously mentioned, USDA allocated on average about 35 percent of all available MPP funds for fiscal years 1991-94 to participants promoting brand-name products. For instance, in 1994, about 37 percent, or almost $57 million, of all available MPP funds were allocated for this purpose.

Five options addressed this concern. One option suggested that USDA evaluate the benefits derived from promoting brand-name products to determine whether to continue funding such activities. A second option suggested that USDA prohibit the use of MPP funds for promoting brand-name products. A third option suggested that USDA limit funds for brand-name promotion only to those participants entering new markets and only for a 2-year period. A fourth option recommended that

[23]See Market Promotion Program Issues, CRS (Washington, D.C.: Mar. 23, 1992).

[24]GAO/GGD-93-125.

participants match an equal amount of public funds for brand-name promotion. Finally, a fifth option suggested that Congress design a new program segment to offer Commodity Credit Corporation (CCC)[25] loans to companies for the promotion of brand-name products. While this last option might result in increased public revenue from interest income, it could also require that USDA devote additional resources to overseeing a new loan program.

Options Suggested Increased Flexibility to Capture Export Opportunities

Questions have been raised about the flexibility of MPP and the Cooperator Program to capture increased export opportunities created by changes in the world trading environment. For instance, growing commodity sectors such as high-value products (HVP) represent increased market-opening possibilities. In addition, the growth of emerging markets (EM) in countries such as Indonesia and Malaysia may have good potential for U.S. exports. Furthermore, recent international accords such as the North American Free Trade Agreement (NAFTA)[26] and the Uruguay Round's (UR) agriculture agreement[27] are expected to open new export opportunities for agricultural commodities. For instance, provisions of the UR agriculture agreement are expected to improve market access, reduce export subsidies, and lower internal support.[28]

Several options suggested ways to increase the program's flexibility to respond to market opportunities. One option suggested that USDA assess potential export opportunities for U.S. agricultural products and provide the necessary tools to capture these opportunities. Another option suggested that evaluations focus on the potential for, and benefits received from, exporting bulk versus value-added products. Appropriate evaluations could help USDA determine benefits expected from market

[25]CCC is a government-owned and -operated corporation responsible for financing major USDA programs, including price supports, domestic and foreign food assistance, and export sales programs.

[26]NAFTA, which took effect in January 1994, is an agreement among the United States, Canada, and Mexico that establishes a free trade area among the three countries through the combined elimination of tariffs and other barriers to trade, including in most agricultural sectors, mostly within 10 years. See North American Free Trade Agreement: Assessment of Major Issues (GAO/GGD-93-137 a/b, Sept. 9, 1993).

[27]Considered the most complex trade agreement in history, the General Agreement on Tariffs and Trade (GATT) has a final act that includes an Agreement on Agriculture that extends a variety of measures designed to liberalize world agricultural trade. See The General Agreement on Tariffs and Trade: Uruguay Round Final Act Should Produce Overall U.S. Economic Gains (GAO/GGD-94-83 a/b, July 29, 1994).

[28]For instance, the Uruguay Round's agriculture agreement provisions for improved market access have ended import bans for some products, thus allowing producers to compete in markets where no imported product has previously been allowed.

development and promotional activities and how best to allocate public funds to capture the benefits identified.

Although USDA officials told us that many participants have used MPP and Cooperator Program funds to promote HVPs and to promote U.S. products in EMs, several options suggested more could be done. For instance, one option suggested that USDA specifically target program funds to promote U.S. products to EMs. This practice could help to improve the United States' competitive position in exporting agricultural products because a number of other countries, such as Australia and Japan, have already begun capturing large shares of these markets. USDA officials told us that USDA has not targeted funds in this manner because exporting to EMs is considered somewhat risky, and exporters may not receive the best return on their investment when compared to promoting products to mature markets such as Japan.

Options Suggested Ways to Ensure Program Graduation

MPP has a graduation requirement to ensure that participants do not indefinitely continue to receive funds, but implementation could vary among participants. According to USDA officials, the Cooperator Program does not have a graduation requirement.

The Omnibus Budget Reconciliation Act of 1993 established a graduation requirement for MPP. This requirement stipulated that funding assistance would not be provided for a specific brand-name product promoted in a single country for more than 5 years unless the USDA Deputy Administrator determines that further assistance is necessary to meet the objectives of the program.[29]

Several options supported the MPP graduation requirement, but differed about when and how graduation could be accomplished. For instance, one option supported the current 5-year limit for MPP, but another suggested that the time limit be increased to at least 6 years to coincide with the length of time allotted for implementing the UR agriculture agreement. Another option suggested that USDA be given the authority to set a

[29]We reported that USDA previously had no restrictions on the length of time that commercial firms could continue to receive MPP funds. We also reported that 17 firms received TEA/MPP funds for 7 straight years—since the program's inception. Many more firms—119—had participated in the program for 5 or 6 years and received most of the funds for brand-name promotions. We recommended that USDA develop criteria on the maximum length of time commercial firms can continue to receive MPP funds for a particular market. (See GAO/GGD-93-125.) The Omnibus Budget Reconciliation Act of 1993 adopted our recommendation. According to USDA officials, this requirement is not intended to graduate a participant from the program if the participant promotes different commodities or promotes products to different markets.

specified time limit for each participant. This time limit could vary based on factors such as the participant's experience in exporting, the type of commodity promoted, or the risk associated with a particular market. USDA officials believed that this is a worthwhile option because of difficulties associated with setting a standard applicable to all participants due to the factors previously listed.

Another option suggested that during the period before graduation, current requirements for shared funding between the government and participants could be changed. For instance, during the early years of a promotion commitment more public than participant funding could be provided, then toward the end of a commitment participants could provide the majority share of the funds. Likewise, another option suggested that to ensure participant graduation from promoting products to mature markets, Congress could require a higher participant funding contribution in these markets.

One option supported a graduation requirement for the Cooperator Program. However, USDA officials believed that it may not be in the best interests of U.S. domestic farm policy to set a graduation requirement for the Cooperator Program. USDA officials told us that if the promotion efforts to export bulk commodities are limited, then U.S. stock levels of some commodities could rise.

Options Suggested That MPP Additionality Be Measured

Although USDA officials told us that USDA has not recently evaluated the Cooperator Program's impact on additionality, it has attempted to measure the effect that MPP had on increasing U.S. agricultural exports. In 1995, USDA concluded that for every federal dollar spent on MPP and TEA promotions of high-value consumer food products during 1986 to 1992, U.S. exports were boosted by $16.[30] This result could be overstated because, in its estimation of MPP's effect on exports, USDA omitted some factors that influence export sales. These factors included private sector expenditures on promotional activities, competitors' promotional expenditures, trends in domestic commodity production, changes in consumer tastes, and other relevant government programs and policies. USDA officials recognized that there were limitations in their evaluation but explained that they could not assess all variables that affect exports because of a lack of data.

[30]See Evaluating the Effectiveness of the Market Promotion Program on U.S. High-Value Agricultural Exports, USDA (Washington, D.C.: Feb. 1995).

A few options suggested that better evaluations be done to assess program impact on additionality. One option suggested that more effective evaluation measurements are needed but did not provide any more details. Another option suggested that USDA's Economic Research Service conduct evaluations.

Options Addressed the Need to Better Coordinate Programs

MPP and the Cooperator Program have similar objectives, and more than half of the participants, on average, received funding from both programs. This could lead to a duplication of USDA resources because USDA staff must approve and allocate funds for both programs.[31] In addition, participants must expend resources because they must adhere to different application and funding requirements that exist for both programs.

To address these concerns, one option suggested merging MPP and the Cooperator Program. In a previous report,[32] we concluded that this action could result in a more efficient use of USDA and cooperator resources because program management and oversight would be streamlined. A 1994 congressional report stated that USDA and cooperator officials believed that it could be easier to administer one rather than two programs. Moreover, this option could result in more efficient use of participant resources. The 1994 congressional report stated that cooperators believed that many activities conducted with MPP funds could have been accomplished with cooperator program funds, if the money had been available.

If MPP and the Cooperator Program were merged, another option suggested giving cooperators the responsibility to manage the combined program. This option is meant to reduce the need for some USDA resources. Moreover, it could lead to improved program management because, according to private sector officials, cooperators are usually knowledgeable about market opportunities and participants' ability to capture these opportunities. However, cooperators may not be currently structured to manage such a program efficiently because there are numerous, individual cooperators representing the interests of specific commodity groups. One option addressed this concern by suggesting that all cooperators be combined into "a team organization." This "team" could

[31]USDA officials told us that during the funding review process for MPP and the Cooperator Program, the same USDA commodity specialist or group of specialists review the activities of both programs to ensure that participant activities and efforts are complementary.

[32]See Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990).

facilitate efficient marketing of U.S. products, especially because buyers are usually consumers of multiple products.

Another option specified that MPP and the Cooperator Program should not be merged together, but rather should be kept separate. Although USDA considered merging the programs, it was reluctant to do so because the programs are funded under different authorities. In addition, USDA and some private sector officials believed that a combined program could become dominated by either HVPs or bulk commodities, to the detriment of the other. Even so, under this option Congress could establish rules for a merged program that clearly distinguishes funding activities for promoting bulk commodities versus HVPs.

Options Suggested Ways to Improve Internal Controls

USDA has limited resources to oversee the (1) large number of participants that receive MPP funds and (2) participation of about 40 not-for-profit organizations that help to administer MPP by allocating funds to a number of firms. Although USDA compliance staff conduct random audits of participant promotional activities, there may possibly be limited assurance that program regulations are followed and activities effectively conducted. For instance, one soybean contractor received excess funding amounting to over $1,100,000 due to altered invoices submitted over several years.[33] USDA officials believed that this case was an exception and not typical. USDA officials told us that in fiscal year 1994, compliance audits have shown that less than 1 percent of allocated funds resulted in a problem.

To address this concern, options suggested better monitoring of MPP funds and activities. For instance, one option suggested that USDA conduct greater oversight of private firms promoting their own brands. Another option suggested that USDA continue to require not-for-profit associations to oversee the activities of firms to which they allocated funds.

Options Suggested Improvements to MPP Administrative Requirements

As we have previously reported, MPP may not be as effective as it could be in maximizing exports because administrative requirements (1) may cause USDA delays in approving and allocating funds and (2) may not allow participants the flexibility to use funds to meet changing market conditions, according to private sector officials. Several options suggested ways to improve administrative requirements.

[33]See U.S. Department of Agriculture: Management Issues Remain Unresolved in the Market Promotion Program (GAO/T-GGD-92-25, Mar. 25, 1992).

USDA officials told us that they have a two-stage application approval process that may require up to 12 weeks for allocating MPP funds.[34] As we have previously reported, additional time often elapses because officials representing the state and private sector levels were involved in the review process. If too much time elapses, then a participants' MPP marketing plan could become obsolete due to the cyclical nature of agriculture and the changing market conditions. Because this affects the participants' ability to adapt to the changing market conditions and maximize exports, an official representing the National Association of State Departments of Agriculture told us that many exporters do not use MPP.

Several options suggested ways to improve the timeliness of approving and allocating funds. For instance, one option suggested streamlining the review process by delegating review and oversight to the state departments of agriculture. Another option recommended introducing an oversight board with representatives from public and private sectors to oversee market promotion programs. Another option suggested that administrative requirements be streamlined and made more user friendly. While USDA believes that this is a worthwhile option, an official told us that documentation is necessary to ensure that funds are properly allocated and appropriately used.

Once MPP funds are allocated, participants must use funds as approved. However, participants may submit proposed changes to USDA to modify spending plans to take advantage of market opportunities. Because participants must wait for USDA approval, one option suggested that participants be permitted to use funds according to more flexible marketing plans that can change and adapt to varying market conditions. As a result, some program participants believe that this option could result in increased exports, it could also result in a reliance on each participant's judgment to use public funds in a correct manner. USDA officials told us that when participant changes are submitted on a "rush basis," USDA can review and approve the changes in a matter of hours.

[34]USDA recently streamlined its review and approval process that reduced the amount of time for allocating funds from 19 weeks in fiscal year 1993 and 15 weeks in fiscal year 1994 to 12 weeks in fiscal year 1995.

Option to Keep MPP and the Cooperator Program

Several public and private sector officials supported the option that market development and promotion programs continue to be funded as they are now. For one, supporters of this option said that these programs have been effective in promoting exports.[35] In addition, they said that the programs serve as valuable tools in capturing export opportunities created by NAFTA and the UR agriculture agreement and should, therefore, be funded to the fullest extent possible as allowed under these accords.[36] Moreover, supporters said that these programs have helped to improve the United States' competitive position by countering the market development and promotion efforts of foreign countries.[37]

One option specifically suggested that Congress continue to fund MPP as it is currently structured. The primary reasons given for this option was that MPP has been significantly changed under the Omnibus Budget Reconciliation Act of 1993 and that Congress should wait to see the effect of these changes. For instance, as previously mentioned, the Omnibus Budget Reconciliation Act of 1993 limited the length of time participants could receive funds for brand-name promotions and required participants to certify that public funds would not replace private expenditures.

Option to Abolish MPP and the Cooperator Program

Several public and private sector officials supported the option that market development and promotion programs be abolished. Supporters of this option have raised several questions about the cost-effectiveness of MPP and the Cooperator Program. For instance, critics said that MPP exemplifies "corporate welfare" because millions of dollars have been allocated to hundreds of large companies that can usually already afford promotional activities. They also argued that once funds were allocated to

[35]USDA evaluations of MPP are usually cited to support this view. As previously mentioned, we believe that the results of USDA's 1995 evaluation are overstated.

[36]USDA plans to take this action. The Secretary of Agriculture and the Acting Director of the Office of Management and Budget sent a letter to the President on September 30, 1994, stating that USDA planned to increase funding for MPP and other GATT-allowable (i.e., "green box") programs.

[37]According to USDA, competitors such as Australia, Canada, the European Union (EU), and New Zealand are moving aggressively with their exporters in support of market development and promotion efforts. However, this may not be the case. Although we did not review the market development and promotion efforts of Australia, Canada, and New Zealand, we recently testified that the EU countries do not plan to increase funding for such efforts. USDA attaches in Europe reported in cables sent this year that there have been no plans to increase government funding of foreign agricultural market development in most EU countries. In 1995, the EU consisted of 15 member countries: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom. Furthermore, we testified that many countries, in fact, are planning to reduce government support for market development in the coming years. See Agricultural Trade: Competitor Countries' Foreign Market Development Programs (GAO/T-GGD-95-184, June 14, 1995).

such companies, USDA had no assurance that public funds supported additional promotional activities, rather than simply replacing company/industry funds. Moreover, critics questioned whether the nation benefits from allocating funds to promote brand loyalty of products that consumers already recognize and purchase. They also questioned allocating U.S. taxpayer money to foreign firms. Because of these reasons as well as serious budget pressures, critics argue that MPP and the Cooperator Program are the type of programs that Congress should eliminate in an effort to balance the budget. For instance, the Congressional Budget Office (CBO) suggested that MPP be abolished to achieve a 5-year savings of $434 million from fiscal years 1996 to 2000.

Information on the MPP's and Cooperator Program's Historical Problems and Options

The following informaton is presented in two tables. Table I.1 provides a listing of historical problems affecting MPP and the Cooperator Program as they relate to each of our nine criteria. These historical problems are drawn from our past reports and testimonies regarding these programs. And, under each criterion the problems are numbered sequentially.

Table I.2 provides a conceptual framework for organizing and evaluating the types of options that various sources suggested for improving, keeping, or eliminating MPP and the Cooperator Program. The table organizes the options for improving the program according to the nine criteria we developed and the names of the sources that provided them. Each option is linked—here possible—to a related historical problem cited in table I.1, by assigning the option the same number as the historical problem.

Table I.2 also includes the options to keep or abolish MPP and the Cooperator Program and identifies which sources offered these options and their reason for doing so. In some cases, one source may have suggested options to improve the program as well as the option to keep or abolish the program.

Table I.1: MPP and the Cooperator Program: Summary of Historical Problems, by Criteria

	Clear objectives	Cost-effectiveness	Flexibility	Graduation
Historical problems	1. Questions have been raised as to whether large or small companies can best achieve the objective of MPP, which is to develop, maintain, and expand exports of agricultural commodities.	1. While participants must certify that MPP funds would not be used in lieu of private funds, no similar assurance is required for the Cooperator Program. 2. MPP funds allocated to foreign firms with possibly limited assurance that these firms use U.S. products. 3. MPP and Cooperator funds are used for promoting brand-name products even though it is unclear whether the benefits that accrue to individual companies are the most efficient means of contributing to the national economic growth.	1. MPP and Cooperator Program could be better focused to capture export opportunities created by changes in the world trading environment.	1. MPP has a graduation requirement, but implementation could vary among participants. 2. Because the Cooperator Program does not have a graduation requirement, participants can indefinitely continue to receive public funds.

Criteria				
Additionality	**International trade agreements**	**Coordination w/USDA programs**	**Internal controls**	**Administrative and program requirements**
1. USDA may not have sufficient data to measure the effect that MPP or the Cooperator Program has on increasing U.S. agricultural exports.	1. MPP and Cooperator Program must continue to be reviewed to ensure compliance with provisions of int'l trade agreements.	1. There may be a duplication of USDA efforts because MPP and the Cooperator Program have similar objectives and about half of all participants receive funds from both programs.	1. Because of resource limitations and other staff responsibilities, USDA oversight of MPP is limited. Although USDA officials told us that random audits are done and that less than 1 percent of program funds resulted in a problem in fiscal year 1994, there may be limited assurance that program regulations are followed and activities are effectively conducted without adequate oversight.	1. Although USDA has recently streamlined administrative and program requirements, delays could result in approving and allocating MPP funds. As a result, export opportunities could be lost. 2. Once MPP funds are allocated, participants must use funds as approved. Because some participants cannot always quickly use funds to adapt to changing market conditions, export opportunities could be lost.

Legend

MPP Market Promotion Program
USDA U.S. Department of Agriculture

Note: The historic problems cited do not reflect USDA's efforts over the years to address several of these problems.

Table I.2: MPP and the Cooperator Program: Options for Change, by Criteria and Source

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
Gov't Sources					
Congressional amendments (Senate and House)					
Congressional Budget Office					
Department of Commerce	1. Expand scope of Cooperator Program to include marine fish and fish products. Including these products could give fish-related organizations additional sources of funding for promoting exports.[a]				
Foreign Agricultural Service[b]	1. To ensure priority funding is given to small firms, allow industry associations to define "small sized" and to select firms to receive funding preference.	3. Restructure MPP to limit to 2 years funding of brand-name promotions for test marketing in new markets.	1. Target program funds to EMs. Because of risks associated with promoting products to EMs, the government could provide a greater percentage of funds than the percentage of contributions required by private firms.	1. Graduation requirement may be contrary to MPP objective to increase exports. If objective must be applied, then graduation should be determined on a case-by-case basis dependent on market forces as determined by the Sec. of Ag. The requirement should not be more stringent than the current 5-year limit. 1. Ensure graduation from mature markets by requiring higher participant contribution in these markets.	1. More effective evaluation measurements are needed.

by criteria					
International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
					S 617 proposed to eliminate MPP funding. HR 1749 proposed to abolish MPP.
					Abolish MPP to achieve 5-year savings of $434 million (1996-2000).
	1. Merge MPP and the Cooperator Program.		1. Determine ways that FAS can timely approve and allocate funds and reduce paperwork. 1. Approve the use of funds for at least 2 years to reduce the number of filings. 1. Develop better coordination between FAS and state departments of agriculture.		

(continued)

	Options to improve,				
	Clear objectives	**Cost-effectiveness**	**Flexibility**	**Graduation**	**Additionality**
GAO	1. Target funds to firms that can increase exports and that need financial assistance. 1. Establish criteria and procedures for prioritizing MPP funds to small, new-to-export firms.	2. Require FAS to define the conditions under which foreign firms could participate in MPP.		1.Participants should be graduated from MPP within 5 years.	1. Evaluations, although difficult, are essential to determine whether MPP has been successful in developing, maintaining, or expanding exports.
Office of Management and Budget					
U.S. Interagency Subgroup on International Issues (1995 Farm Bill)			1. Focus programs on EMs.		

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
	1. Merge MPP and the Cooperator Program to streamline program management and to provide for more complete data regarding market development activities worldwide. FAS could use data to develop a long-term strategy.	1. FAS should (a) conduct greater oversight of private firms promoting their own brands and (b) continue to require not-for-profit associations to oversee the activities of firms to which they allocated funds.			
				Increase MPP funding to identify and capture export opportunities. Funding could be provided from savings made from other budget cuts or from fees charged to firms.	
				Continue MPP and use program to the fullest extent possible under the UR agriculture agreement.	

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
USDA Farm Bill Task Force: International Trade[d]	1. Create a new MPP program that specifies program objectives (e.g., one objective could be to provide funding to companies that can expand exports and another objective could be to provide seed money to small and new-to-export firms). 1. Focus MPP away from providing funds to small firms to improving farm income through increased exports. 1. If Congress will not change focus from small firms, then broaden definition of "small" to give more program flexibility and improve MPP effectiveness.	3. Develop a separate loan program to award CCC loans, at CCC borrowing rate, to firms that wish to promote brand-name products. Modest exceptions to repayment could be crafted for small firms.	1. Focus programs to capture export opportunities related to EMs and trading of HVPs.		
Nongov't Sources					
Bruce Foods					
California Kiwi Fruit Commission					
Cato Institute					

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
				Keep MPP.	
				Keep MPP and increase funding to the fullest extent possible under the UR agreement.	
					Abolish all "corporate welfare" programs, including MPP. Realized savings could be up to $110 million.

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
GIC Agricultural Trade Group					
Heritage Foundation					
National Association of Animal Breeders					
National Association of State Departments of Agriculture	1. Prioritize MPP funding for small and new-to-export firms. SBA's definition of "small" firms should be reviewed and, if necessary, adjusted to reflect current conditions in U.S. agribusiness.	1. Continue requiring participants to certify that MPP funds would not be used in lieu of private expenditures. However, there could be difficulties in determining certification validity because firms may hesitate to open their business records. 3. Require a 50/50 funding match between gov't and participants for brand-name promotions.		1. Participants should graduate within a specific time frame for target markets (e.g., 5 years). But FAS should have authority to vary time frame based on factors such as participants' export experience or a given market's export risks.	1. ERS could determine the value that programs have to U.S. exports. Also, other evaluations should be done to aid in developing a long-term strategy. For instance, USDA should assess potential export opportunities and then provide necessary tools to capture the opportunities. GAO could determine the value of promoting bulk and value-added products.

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
	1. Establish a coordination committee comprising representatives from federal and state levels.		1. Create an oversight board with representatives from the public and private sectors to oversee all export promotion programs.		
					Abolish MPP to achieve 5-year savings of $434 million.
				Keep MPP and Cooperator Program and increase funding.	
	1. Closely coordinate programs with FAS overseas posts. Also, complement the trade policy and export finance programs of USDA and other federal agencies. State regional trade groups should coordinate export programs with FAS' one-stop export shops in their respective regions.		1. Streamline administrative review procedures to provide funds in a timely manner (e.g., limit gov't approval and oversight). 1. Require better coordination among federal and state levels. 1. Delegate oversight responsibility to state departments of agriculture. 1. Adopt more user-friendly administrative procedures. 2. Give participants flexibility to use funds (e.g., allow participants to use funds for various activities within a given region).		

(continued)

	Options to improve,				
	Clear objectives	**Cost-effectiveness**	**Flexibility**	**Graduation**	**Additionality**
National Center for Food and Agricultural Policy and the Hubert H. Humphrey Institute for Public Affairs	1. Although not specifically directed towards MPP and Cooperator Program objectives, one option suggested that Congress review the intent of all programs to ensure that they can adapt to changes in the world trading environment.	3. Evaluate MPP and Cooperator Program to determine whether they should focus on promoting generic or brand-name products.	1. Improve U.S. competitiveness by ensuring programs meet changing world conditions. Also, expand and focus research on international marketing by identifying ways to correct export problems and reduce technology costs.	1. Graduation could be required for MPP and Cooperator Program. However, there are questions about when and how to establish a cutoff for a particular firm, product, and/or market.	1. Evaluate programs to decide if they should focus on bulk or value-added products. Under the value-added category, determine whether focus should be on generic or brand-name products.
National Potato Council					
Progressive Policy Institute					
Schnittker Associates	1. Update objectives for MPP to adapt to changes in the world trading environment.		1. Update program objectives for both programs.		
Texas A&M University	1. Limit funding to small- to medium-sized firms.	3. Limit or prohibit MPP funding for the promotion of brand-name products.	1. Focus on promoting to high-priority markets.	1. Limit the number of consecutive years that a program in a specific country is funded.	1. Periodically evaluate programs to measure extent to which public purposes are achieved.
U.S. Feed Grains Council					

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
	1. Adjust or reform domestic policies to (a) make U.S. products more competitive in foreign markets and (b) eliminate features that increase production costs. Also, eliminate other policies that adversely affect U.S. agricultural exports.			Continue or increase program funding to (a) offset heavy intervention by other gov'ts and (b) capture UR benefits that will take time to realize.	
				Keep MPP and increase funding to the fullest extent possible under the UR agreement.	
					Abolish MPP to achieve 5-year savings of $0.5 billion.
	1. Improve coordination as required by TPCC. Increased coordination could become a mandate for consolidating program efforts under one management authority.	1. Require USDA to better monitor and control contractors. Increase oversight.		Increase public funding to maintain and expand foreign markets. Also, require private sector to increase funding.	Eliminate MPP and Cooperator Program if focus of public funding is to gather information on marketing U.S. exports, rather than promoting exports.
	1. Keep MPP and Cooperator Program separate.			Keep MPP and Cooperator Program separate and increase funding.	

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
Western Growers Association			1. Give priority funding to promoting HVPs and commodities that face unfair trade barriers.		
World Perspectives, Inc.	1. No specific options for changing MPP or the Cooperator Program objectives, but Congress should fundamentally change agriculture policy. Congress could establish a commission for determining policy options and gov't role. Or, develop a quasi- public corporation to provide farmers with some risk insurance (similar to FDIC risk management for the banking industry).		1. Improve U.S. competitiveness by marketing and increasing marketing and research, developing innovative technology, reducing production costs, and maximizing return on investment.	1. Change MPP requirement to at least 6 years to coincide with the time allotted for implementing the UR agreement. Or, before graduation, have gov't and private-industry share funding for promotional activities.	

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
				Keep MPP and increase funding.	
	1. Cooperators could manage export programs, such as MPP. But, to ensure efficient program management, individual cooperators must be streamlined into a "team organization."				

Legend

CCC	Commodity Credit Corporation
EM	emerging market
FAS	Foreign Agricultural Service
FDIC	Federal Deposit Insurance Corporation
HVP	High Value Product
HR	House of Representatives bill
MPP	Market Promotion Program
S	Senate bill
TPCC	Trade Promotion Coordinating Committee
UR	Uruguay Round of GATT
USDA	U.S. Department of Agriculture

Note: Empty option cells indicate that we received no options for a given criteria-linked historic problem from the source(s) listed.

[a]Option does not address any specifically cited problems.

[b]FAS officials participated in task force meetings that resulted in various options for USDA consideration. These options, however, do not necessarily represent USDA's final agency position.

Options for the Title I Food AID Program

Six sources, including government and nonprofit organizations, offered 18 options for improving the title I program.[1] These options, addressing four of our nine criteria, suggested methods to (1) clarify program objectives, (2) increase program flexibility, (3) encourage graduation, and (4) reduce impediments created by program and administrative requirements. We did not identify any options for improving the title I program that were linked to our five other criteria: cost-effectiveness, additionality, international trade agreements, coordination with USDA programs, and internal controls. Furthermore, two sources suggested the option to keep the program as is, each stressing the importance of funding export assistance programs that are allowable under international treaties.

In addition to options that suggested improving or keeping the program as is, four sources recommended eliminating the title I program as an alternative option for reasons such as obsolescence, diminished U.S. agricultural surpluses, and questionable contributions to market development and economic development overseas. See table II.3 at the end of this enclosure for a summary of these options and the organizations suggesting them.

Background

Over the past 40 years, the United States has allocated more than $88 billion (1993 dollars) in food assistance to developing countries under title I of the 1954 Agricultural Trade Development and Assistance Act, commonly known as P.L. 480.[2] P.L. 480 first established the legal framework for U.S. food aid in 1954. Since then, numerous amendments including the most recent amendments in the 1990 Farm Bill have revised the goals and provisions of the three food aid programs administered under P.L. 480, including title I. The P.L. 480 legislation and its amendments have always consisted of multiple and sometimes competing objectives that support U.S. market development, economic development, and foreign policy efforts overseas. In addition, the title I program advances another U.S. objective—to support the U.S. merchant marine industry—as cargo preference provisions[3] require that at least 75 percent of the P.L. 480

[1]Under the title I food aid program, U.S. agricultural commodities are sold to developing countries on long-term credit terms at below-market-rate interest.

[2]Public Law 83-480, July 10, 1954. Two other P.L. 480 food aid programs, titles II and III, provide food aid grants and donations in response to emergencies and in support of economic development. While USDA manages the title I program, the Agency for International Development administers the titles II and III food aid programs. These food aid programs are outside the scope of this report.

[3]Provisions of the Merchant Marine Act of 1936 (ch. 858, 49 Stat. 1985, June 29, 1936), as amended by the Cargo Preference Act of 1954 (ch. 936, 68 Stat. 832, Aug. 26, 1954), and the Food Security Act of 1985 (P.L. 99-198, Dec. 23, 1985).

commodity tonnage be shipped on U.S. flag ships rather than on lower-cost foreign flag ships.

While the emphasis among the various P.L. 480 program objectives has shifted over time to reflect the changing needs of domestic farm policy and emerging foreign policy developments, the importance of the title I program as a U.S. export program and U.S. food aid program has diminished significantly since the program's inception in 1954.[4] Title I commodity exports that once represented 80 percent of the total value of U.S. food aid and 20 percent of U.S. agricultural exports have declined dramatically since the 1950s. In fiscal year 1993, title I represented about 14 percent of the total value of U.S. food aid and less than 1 percent of U.S. agricultural exports.

Under the title I program, U.S. agricultural commodities are sold to developing countries using concessional credit that the U.S. government provides. The terms are concessional because they include a maximum 30-year period for repayment, with a maximum 7-year grace period and interest rates below prevailing market rates. In return for receiving title I aid, recipient countries must state in writing how they will integrate the benefits of the title I assistance into their countries' overall development plans. The concessional nature of the title I loan allows a developing country to save its scarce foreign exchange when importing U.S. agricultural commodities and invest these savings in projects that support the country's economic development.

As part of its program management responsibilities, USDA directs the selection of title I recipients and the amount of money they receive under the program. In recent years, the amount of agricultural commodities exported under the title I program has decreased from $749.6 million in fiscal year 1990 to $217.8 million in fiscal year 1994, reflecting the decreased level of authorized program funding (see fig. II.1). In fiscal year 1994, 17 countries[5] imported title I commodities from the United States in amounts ranging from $4.5 million to $24.1 million. Nine of these title I recipients[6] had received aid for 3 years or less, and many were countries of

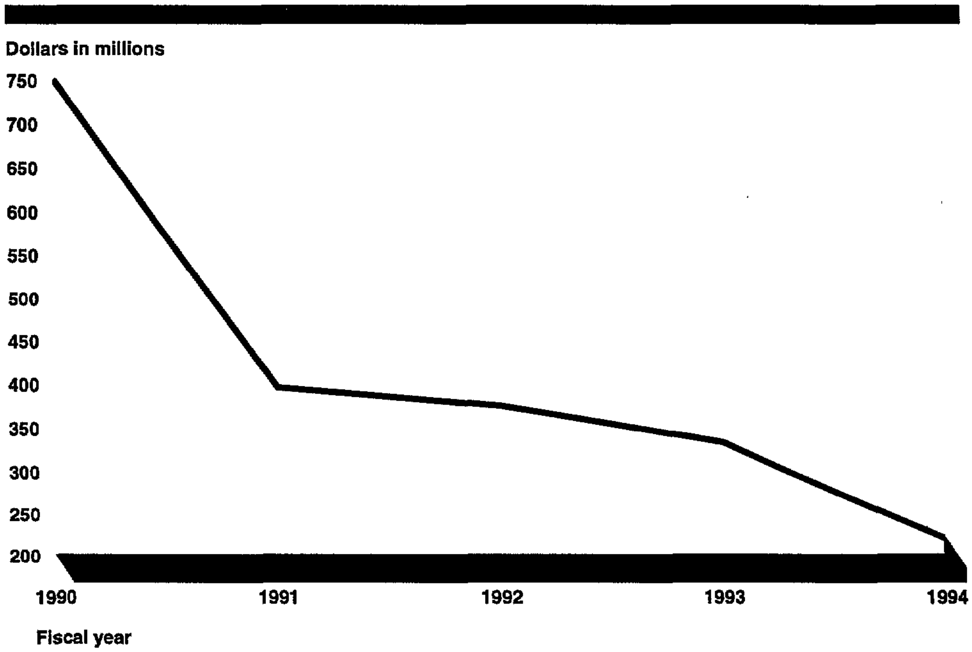
[4]Most of the information presented in the following paragraphs is from our recent report entitled Food Aid: Competing Goals and Requirements Hinder Title I Program Results (GAO/GGD-95-68, June 26, 1995).

[5]Angola, Belarus, Congo, Côte d'Ivoire, Croatia, Guatemala, Jamaica, Jordan, Lithuania, Macedonia, Moldova, Morocco, the Philippines, Sri Lanka, Suriname, Turkmenistan, and Ukraine.

[6]Angola, Belarus, Côte d'Ivoire, Lithuania, Macedonia, Moldova, Suriname, Turkmenistan, and Ukraine.

the former Soviet Union. In addition, 7 of the 17 recipients had also received titles II and/or III assistance.[7]

Figure II.1: Total Value of Commodities Exported Through the Title I Program, Fiscal Years 1990-94 (Dollars in millions)



Source: USDA.

Although title I assistance is a concessional loan program in which recipients are expected to pay back the amount of the loan plus interest, according to officials at the Office of Management and Budget (OMB), the U.S. government never fully recovers the cost of the loans. In other words, the outlays for the commodities are greater than the present value of the expected returns, which include expected principal payments plus interest.[8] Under the Federal Credit Reform Act of 1990 (P.L. 101-508, Title XIII, sec. 13201(a) Nov. 5, 1990), USDA and OMB must estimate the subsidy rate for program loans to determine the total budgetary cost of the title I concessional loans. The composite subsidy rate for all of the individual

[7]These title I recipients also received title II assistance in fiscal year 1994: Angola, Croatia, Guatemala, Jordan, Morocco, and the Philippines. Sri Lanka received titles II and III assistance in fiscal year 1994.

[8]The interest paid does not cover the cost of financing because of the concessional nature of the title I loan (i.e., grace period, long repayment terms, and below-market rates of interest).

title I concessional loans in fiscal year 1993 was approximately 64 percent, according to USDA officials. Therefore, even though title I is a loan program, the actual cost of the fiscal year 1993 title I concessional loans to the U.S. Treasury is estimated to be $223 million on the basis of $332.8 million in title I loans made to recipients for commodity purchases during that fiscal year. In other words, OMB expects the U.S. Treasury to get back, on average, 36 cents for every dollar loaned under the 1993 title I program.

Options for Improving the Title I Program

Options suggesting improvements to the title I program addressed four of our nine criteria, offering ways to (1) clarify the multiple and competing program objectives of the title I program, (2) improve the program's flexibility in responding to customer needs and market opportunities, (3) encourage the graduation of recipients from the title I program, and (4) reduce impediments created by program requirements, such as cargo preference provisions, and streamline administrative requirements. While we can assume that the proposed changes were intended to improve program performance, in some cases we identified trade-offs associated with the proposed options. Each option varied in its level of detail, ranging from specific actions to broadly worded goal-oriented statements.

Options to Clarify Title I's Multiple and Competing Objectives

Unlike other USDA export assistance programs whose sole purpose is to expand U.S. exports, the title I program includes other objectives in addition to its market development objective. Currently, the goal of the P.L. 480 legislation, as amended, including title I, is to promote U.S. foreign policy by enhancing the food security[9] of developing countries through the use of agricultural commodities and local currencies to (1) combat world hunger and malnutrition and their causes; (2) promote sustainable economic development, including agricultural development; (3) expand international trade; (4) develop and expand export markets for U.S. agricultural commodities; and (5) encourage the growth of private enterprise and democratic participation in developing countries.

[9]Food security is defined as "access by all people at all times to sufficient food and nutrition for a healthy and productive life." (See sec. 402 (5) of the Agricultural Trade Development and Assistance Act of 1954, as amended by sec. 1531 of the 1990 Farm Bill.)

Our recent report on the title I program[10] concluded that although the 1990 Farm Bill revised the structure of the title I program,[11] these revisions did not improve the program's ability to accomplish either its sustainable economic development or market development objectives of the 1990 Farm Bill. USDA must still cope with the program's multiple and sometimes competing goals and objectives and with the various program requirements that are difficult to integrate into an effective program strategy.

While the provisions of title I aid to some countries have simultaneously fulfilled several of the program's multiple objectives, sometimes one objective has conflicted with another. These conflicts may result in title I aid being provided to a country to accomplish one objective at the expense of achieving progress on other objectives. For instance, U.S. foreign policy and economic development objectives in Honduras and Sri Lanka prompted the Department of State's and the Agency for International Development's (AID) support for title I assistance to these countries despite USDA concerns about displacing commercial sales, according to USDA officials. Our review found that the primary means by which title I aid could contribute to sustainable economic development in recipient countries would be by helping countries save foreign exchange that then could be used to invest in projects that promote long-term economic development. These savings occur when title I assistance displaces commercial sales (i.e., when countries purchase agricultural goods through the title I concessional sales program instead of purchasing them through commercial channels).

The 1990 Farm Bill established eligibility rules for receiving title I aid that can be contradictory. One criterion directs USDA to give priority to countries that demonstrate the greatest need for food; another eligibility criterion directs USDA to give priority to countries that demonstrate potential to become commercial markets for competitively priced U.S. agricultural commodities. The process of selecting countries to participate in the title I program illustrates the difficulty in implementing a cohesive strategy that effectively supports a diverse set of objectives. For example, until fiscal year 1993, the State Department succeeded in allocating title I assistance to Sierra Leone even though USDA argued that Sierra Leone, a

[10]GAO/GGD-95-68.

[11]The 1990 Farm Bill streamlined title I program management by abolishing the cumbersome interagency administration of the program and assigning the management of the title I program to USDA. In addition, the 1990 Farm Bill simplified title I program implementation overseas by eliminating the requirement that recipients undertake specific and measurable economic development activities as part of the title I agreements and requiring only general development statements.

country with little market development potential, was eligible for title III food aid grants.

Several options suggested clarifying title I program objectives. One option suggested increasing the program's emphasis on market development and lessening the program's emphasis on economic development. A second option, similar to the previous option, suggested restructuring the title I program to concentrate on a single objective: either market development or economic development, but not both. The third option proposed refocusing the program on more specific economic and/or market development objectives by eliminating some of the multiple and competing requirements of the program's present framework.

Options to Improve Title I Program's Flexibility

USDA and public and private sector officials suggested options to improve the title I program's responsiveness to market opportunities and customer needs. These options fell into three general categories: (1) increase the variety of commodities eligible for export under the title I program, (2) expand the range of repayment terms offered under the title I program, and (3) foster trade with private sector entities.

Increase Variety of Title I Commodities

Currently, legislative requirements restrict the types of commodities eligible for export under the title I program. Each fiscal year, the Secretary of Agriculture announces a P.L. 480 "docket" that lists the types and amounts of agricultural commodities available for sale or donation under the three P.L. 480 food aid programs. Before an agricultural commodity can be considered for export under any one of the P.L. 480 programs, the domestic supply of that commodity in the United States must be in excess of what is needed to (1) meet domestic consumption requirements, (2) provide adequate surplus for domestic reserves, and (3) meet anticipated export opportunities. According to officials from USDA, several commodities that are regularly on the P.L. 480 docket represent planned production for export rather than an accidental byproduct of U.S. farmers' overproduction during a year.[12]

Driven by supply-oriented considerations, the title I program supports a limited range of agricultural commodities without regard to market demand. As a result, many commodities available for export under the title I program are not purchased by recipient countries through the program.

[12]USDA considers the P.L. 480 programs at the outset of the fiscal year when it sets production goals and establishes acreage reduction programs to remove farm land from production for price-supported crops, such as wheat, corn, rice, and cotton.

Agricultural commodities typically sold under the title I program are bulk commodities, such as wheat, rice, corn, and cotton, and a few semiprocessed commodities, such as vegetable oil, wheat flour, and tallow. Wheat has been the predominant export under the title I program, representing nearly 48 percent of the total value of commodities exported under the program during fiscal years 1990 through 1993.

According to several USDA officials, the title I program would be more effective as a market development tool if the program were able to support a greater range of HVPs, especially consumer-oriented products.[13] These officials told us that some HVPs may have strong market development potential in recipient countries with "two-tier" economies, that is, developing countries with pockets of mature markets and prosperous citizens. Although these countries do not have foreign exchange to import a large variety of HVPs on a commercial basis, a thriving portion of the countries' population has purchasing power, if the goods were made available. These USDA officials stated that the title I program, with its concessional terms, would be a useful market development tool for introducing HVPs into these countries.

We identified several options that suggested methods to increase the range of commodities eligible for export under the title I program. One option proposed relaxing the eligibility rules and permitting the Secretary of Agriculture to consider a commodity eligible for export under the program if there is an adequate supply of that commodity for domestic consumption and reserves. A second option proposed increasing the program's emphasis on HVPs and other commodities with market potential, but did not provide any specific detail on how to accomplish this. A third option suggested a major evaluation of whether agricultural export programs should focus on bulk commodities or HVPs.

A fourth option suggested that the Food Security Wheat Reserve be expanded to include other cereals, such as corn, sorghum, and rice. The Food Security Wheat Reserve was established in 1980 to help the United States meet international food aid commitments. As currently structured, the Reserve program allows wheat to be released from the 4-million ton reserve for use in the food aid programs when U.S. domestic supplies of

[13]Agricultural products can be classified into three major categories: bulk, intermediate, and consumer-oriented. The latter two categories are often grouped together and labeled as HVPs. Intermediate products are principally semiprocessed grains and oilseeds. Consumer-oriented products require little or no additional processing for consumption and include fresh and processed meats, vegetables, and fruits. Consumer-oriented products represent the leading growth sector in world agricultural trade, constituting about 51 percent of the world agricultural export value in 1993.

wheat are tight and wheat would not otherwise be available for USDA programs. According to private and public sector officials, there has been much demand for emergency food aid in Africa where corn, grain sorghum, and rice may be preferred over wheat. One option suggested that the procurement of food grains could be accomplished through the exchange of wheat from the reserve so that program costs would not be increased.

Expand Repayment Terms of Title I Loans

According to USDA officials, the food aid program needs an expanded range of credit terms to address the fluctuating needs of new food aid recipients in the former Soviet Union (FSU) and elsewhere. These officials said that the concessional terms of the title I program do not always best meet USDA's market development objectives.

Two options suggested expanding the range of repayment terms offered under the title I program. One option suggested creating a new USDA food aid program that could tailor food aid assistance to specific country conditions by offering long-term concessional financing, accepting local currency payments for U.S. agricultural sales, or providing food donations. A second option also proposed a greater range of credit terms to better match country situations; however, it did not suggest any specific actions.

Foster Trade With Private Sector Entities

Title I aid is a direct loan between the U.S. government and the recipient government to purchase U.S. agricultural commodities. According to USDA officials, this arrangement makes sense for some countries; however, there are other countries where U.S. interests lie in decreasing the recipient government's role in commerce and fostering the private sector's role instead. These officials stated that this increased emphasis on private entities is consistent with the emerging post-UR market environment. One option proposed broadening title I authority to include extending title I loans to private sector entities as well as governments. According to USDA officials, private sector entities would include nongovernment organizations, private voluntary organizations, and U.S. agricultural cooperative trade groups. These entities would use local currencies generated by the sale of title I goods in-country to invest in projects that foster private sector development. The amounts of the title I loans would be relatively small, ranging from $1 million to $3 million, according to USDA officials.

This option is different from past title I local currency programs because these local currencies would be owned by private sector entities rather than recipient governments. Despite this difference, the option raises similar concerns regarding the effective use of local currencies. Before the 1990 Farm Bill, when AID managed the title I local currency program, we and AID's Office of the Inspector General found that the monitoring of local currencies by U.S. government officials in-country was insufficient to provide reasonable assurance that the currencies were properly used.[14] The option acknowledges that appropriate safeguards are needed to (1) ensure a fair and competitive process for selecting the private entities to participate in the program and (2) prevent fraud and abuse. In addition, the option recognizes that benchmarks are needed to monitor performance.

Options to Encourage Graduation From Title I Aid

The title I program does not contain any requirements that limit the number of years a country can participate in the program. While USDA hopes to transform title I recipients into commercial importers, their "graduation" from the program can be a long and uncertain event. For example, 5 of the 17 recipients[15] in fiscal year 1994 have been in the program for 15 years or more. In addition, the graduation of a country from a food aid recipient to a commercial customer does not occur in discrete stages. Many of the title I recipients in fiscal year 1994 also participated in other USDA export subsidy and credit guarantee programs.

One option proposed preventing perpetual assistance; however, it did not propose any specific actions but rather raised questions (i.e., should there be a cutoff point for federal assistance for exports to any one firm or for any specific product in any specific market?). A second option suggested that each country program be reviewed by the Secretary of Agriculture after 5 years to measure progress toward the market development objective. USDA officials stated that this option does not necessarily require legislative action and already can be implemented at the discretion of USDA managers. However, they said that including such language in the 1995 Farm Bill would ensure that country programs were reviewed every 5 years.

[14]See Foreign Assistance: Use of Host Country Owned Local Currencies (GAO/NSIAD-90-210BR, Sept. 25, 1990).

[15]Jamaica, Jordan, Morocco, the Philippines, and Sri Lanka.

Options to Reduce Impediments Created by Program and Administrative Requirements

Options suggesting ways to reduce burdensome title I program and administrative requirements fell into two different categories. One set of options suggested ways to reduce or eliminate impediments to market development caused by U.S. cargo preference rules that require 75 percent of food aid tonnage to be shipped on more costly and more scarce U.S. flag vessels. Another set of options addressed streamlining administrative requirements.

Reduce or Eliminate Cargo Preference Rules

Cargo preference provisions require that at least 75 percent of the P.L. 480 commodity tonnage be shipped on U.S. flag ships rather than on generally less expensive foreign flag vessels.[16] Under the title I program, the U.S. government reimburses the recipient countries only for the amount by which the cost to ship on U.S. vessels exceeds the cost to carry the same commodities on vessels of other countries. The cost to the U.S. Treasury to ship $332.8 million of title I commodities during fiscal year 1993 was $58.3 million.

USDA's difficulties in implementing an effective market or economic development strategy are compounded because the title I program is subject to U.S. cargo preference requirements. One of our earlier reviews, which specifically examined the impact of cargo preference rules on food aid programs, found that cargo preference requirements can be obtrusive and undermine market development efforts.[17]

To comply with cargo preference requirements, some recipients were forced to purchase a different variety of commodity than planned because their purchasing decisions were driven by the availability of U.S. flag ships rather than the availability of the commodities. For instance, both El Salvador and Guatemala were interested in purchasing western white wheat under the title I program in fiscal year 1993. However, they were forced to purchase different varieties of wheat because no U.S. flag vessels were obtainable from the West Coast, where western white wheat is

[16]Section 101 of the Merchant Marine Act of 1936 (ch. 858, 49 Stat. 1985, June 29, 1936) required that the U.S. merchant marine be sufficient to carry a substantial portion of waterborne domestic and foreign commerce of the United States and be capable of serving as a naval and military auxiliary in time of war or national emergency. To satisfy these two objectives, the act established several programs to support the continued operation of U.S. flag ships. One of these programs guarantees cargoes for U.S. flag ships by requiring that certain government-owned or -financed cargo, such as food aid, be shipped on U.S. flag ships.

[17]See Cargo Preference Requirements: Objectives Not Significantly Advanced When Used in U.S. Food Aid Programs (GAO/GGD-94-215, Sept. 29, 1994). This report also concluded that the application of cargo preference to food aid programs did not significantly contribute to meeting the intended objectives of helping to maintain U.S. flag ships as a naval and military auxiliary in time of war or national emergency or for purposes of domestic or foreign commerce, based on interviews with officials from the Department of Defense.

loaded for export. USDA officials stated that they believe that recipient countries that have had this type of unfavorable experience with the title I program are not likely to purchase agricultural products from the United States on a commercial basis in the future.

Also, some title I recipients have not been able to purchase a title I commodity at its lowest cost because U.S. flag ships were not available. This situation has forced the recipient to purchase less of the commodity at a more expensive price. Food aid recipients were sometimes not able to purchase the title I commodities at their lowest price, even if a U.S. flag ship were available, because the vessel might not have been the appropriate type or size to transport the commodity. For example, in a 1992 title I purchase, Estonia wanted to place both its corn and wheat purchases on one U.S. flag ship. However, the only U.S. flag ship that offered to carry these cargoes was too large to be accommodated at the U.S. loading facilities that offered the lowest wheat prices. To use this U.S. flag ship, Estonia purchased higher-priced wheat from a supplier with loading facilities that could accommodate this ship.

Several options addressed cargo preference requirements. One option proposed reducing the portion of P.L. 480 food aid tonnage that must be shipped on U.S. flags from 75 percent to the previous level of 50 percent. A second option proposed modifying U.S. cargo preference requirements to give U.S. shipowners incentives to invest in more efficient ships in order to reduce food aid transportation costs. For example, allowing new, foreign-built, U.S. flag ships to participate immediately in the food aid cargo preference trade was suggested as a possible incentive. A third option suggested revising cargo preference provisions to permit the subsidization of the merchant marine industry without expending funds that could be used for programs (e.g., title I) designed to bolster the exports of U.S. farm products. The fourth option proposed eliminating cargo preference requirements for food aid cargo altogether.

Streamline Administrative Procedures

To help the title I program meet the demands and time constraints of export markets, we identified two options suggesting methods to streamline administrative procedures. One option suggested providing allocated funds on schedule and making all necessary forms reasonable and user friendly. Another option suggested simplifying procedures to facilitate participation by recipient countries, importers, and exporters as well as eliminating the need for purchase authorizations and redundant letters of credit.

Option to Keep Current Title I Program Intact Without Structural Changes

Two sources suggested the option of keeping the current structure of the title I program as is. Reasons for keeping the current program intact reflected the fact that fewer funds would be used to support direct export subsidy programs due to UR rules that place distinct limits on the future use of export subsidies by all countries. To ensure that the United States maintains and expands its share of the world market for food and fiber, one source suggested that the 1995 Farm Bill should authorize agricultural export development programs, such as title I, and fund them to the extent allowed under international treaties for the next 5 years.

Option to Abolish the Title I Program

Four sources suggested the option to eliminate the title I program for a variety of reasons. One rationale often cited was the significant decline in the program's importance, both domestically and internationally, since the program's inception. When P.L. 480 was enacted in 1954, its objectives were to move large amounts of U.S. surplus agricultural commodities and serve U.S. foreign policy objectives. During the 1950s, title I aid represented over 80 percent of U.S. food aid and approximately 20 percent of the total value of U.S. agricultural exports. By the late 1980s, increased food aid donations from other countries and the establishment of new USDA export assistance programs had reduced the importance of title I aid as a humanitarian, surplus disposal, and export assistance program. Title I's share of U.S. food aid declined to 14 percent in fiscal year 1993, and its share of U.S. agricultural exports dropped to less than 1 percent in fiscal year 1993.

According to one source, the title I program should be eliminated because the program has been rendered obsolete. When the P.L. 480 program began over 40 years ago, the inconvertibility of foreign currencies and the lack of foreign exchange held by potential customers limited commercial exports of large U.S. surpluses of agricultural commodities. Sales for foreign currencies and concessional credits, as well as grants, provided a useful mechanism to accomplish the aims of the program. However, because exports under titles I and III are a small portion of total U.S. agricultural exports and the countries currently receiving P.L. 480 commodities are unlikely to become commercial customers, the present market development aspect of the program is insignificant. In addition, disposing of surplus agricultural commodities is no longer a primary concern of the program. Also, in some cases, the terms of the credit granted under title I may actually harm the economies of the countries that receive the credits. For example, the debt payments remain long after the item purchased has been consumed, since some of the credits under title I have maturities of as long as 30 years.

In our June 1995 report on the title I program[18] we also suggested that one of several options Congress may want to consider is eliminating the title I program. This report concluded that title I aid has had minimal impact on sustainable economic development because the amount of foreign exchange a country could potentially save through using the title I program was small relative to its overall development needs. Also, title I provided the United States with relatively little leverage to influence development activities or initiate policy reforms, and other title I objectives sometimes took priority in shaping the title I programs in recipient countries. We also found that title I's importance to long-term market development had not been demonstrated. The link between title I assistance, economic development, and increased U.S. agricultural exports was tenuous. In addition, title I commodities tended to be price sensitive, and it was difficult to retain market share once the food aid program had been discontinued unless the United States could offer competitive prices and financing. The report also suggested two alternatives if Congress chooses to eliminate the title I program but wants to continue to support the objectives of the title I program and devote resources to achieving them: (1) transfer program resources to existing programs with compatible purposes or (2) replace the program with a new program or programs unencumbered with a history of competing objectives and outdated program requirements.

In a separate report to Congress, we estimated budgetary savings if the title I program were eliminated.[19] The savings presented in Table II.1 assume that the program authority would not be extended beyond fiscal year 1996.[20] The delay would permit USDA to lower agricultural production through an increased acreage set-aside in 1996 that would not build surpluses or otherwise affect the budget.

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[18]GAO/GGD-95-68.

[19]See Addressing the Deficit: Budgetary Implications of Selected GAO Work for Fiscal Year 1996 (GAO/OCG-95-2, Mar. 15, 1995).

[20]The savings include $29 million for ocean freight differential costs for the shipment of title I commodities. Ocean freight differential subsidies are the difference between the rates per ton charged by owners of U.S. flag ships used to carry food aid cargo and the rate that would have been charged by owners of less expensive foreign flag ships.

Table II.1: Estimated Budgetary Savings If Title I Program Is Eliminated, Fiscal Years 1996-2000

Dollars in millions

	Fiscal year 1996	Fiscal year 1997	Fiscal year 1998	Fiscal year 1999	Fiscal year 2000
Savings from the 1995 funding level					
Budget authority	0	$268	$268	$268	$268
Outlays	0	148	254	268	268
Savings from the 1995 funding level, adjusted for inflation					
Budget authority	0	286	296	306	317
Outlays	0	158	277	301	312

Source: GAO analysis of Congressional Budget Office data.

Information on Title I Historical Problems and Options

The following information is presented in two tables. Table II.2 provides a listing of historical problems affecting the title I program as they relate to each of our nine criteria. These historical problems are drawn from our past reports and testimonies regarding the title I program. And, under each criterion the problems are numbered sequentially.

Table II.3 provides a conceptual framework for organizing and evaluating the types of options that various sources suggested for improving, keeping, or eliminating the title I program. The table organizes the options for improving the program according to the nine criteria we developed and the names of the sources that provided them. Each option is linked—where possible—to a related historical problem cited in table II.2, by assigning the option the same number as the historical problem.

Table II.3 also includes the options to keep or abolish the title I program and identifies which sources offered these options and their reason for doing so. In some cases, one source may have suggested options to improve the title I program as well as the option to keep or abolish the program.

Table II.2: Title I Program: Summary of Historical Problems, by Criteria

	Clear objectives	Cost-effectiveness	Flexibility	Graduation
Historical problems	1. Program consists of multiple and sometimes competing objectives that undermine program effectiveness.		1. Rules limit types of commodities eligible for export. 2. Credit terms are limited. 3. Gov't-to-gov't loans reinforce involvement of recipient gov't in trade, do not foster private sector role.	1. Recipients can receive title I aid indefinitely, such that many countries have received title I aid for long periods (i.e.,10+ years).

Criteria				
Additionality	**International trade agreements**	**Coordination w/USDA programs**	**Internal controls**	**Administrative and program requirements**
				1. U.S. cargo preference requirements[a] deter market development. 2. Program requirements are burdensome.

Legend

USDA U.S. Department of Agriculture

Note 1: The historic problems cited do not reflect USDA's efforts over the years to address several of these problems.

Note 2: Empty historic problem cells under a given criteria indicate there was no historical problem cited in our reports on those programs for that criteria. However, this does not indicate that there are no problems in this area.

[a]Cargo preference provisions require that at least 75 percent of the title I tonnage be shipped on U.S. flag ships rather than on less expensive foreign flag vessels. Under the title I program, the U.S. government reimburses the recipient countries for the amount by which the cost to ship on U.S. vessels exceeds the cost to carry the same commodities on vessels of other countries.

Table II.3: Title I Program: Options for Change, by Criteria and Source

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
Gov't Sources					
1995 Farm Bill: guidance of the administration	1. Increase emphasis on market development and decrease emphasis on economic development.		1. Offer wider range of commodities by allowing Secretary of Agriculture to relax eligibility rules[a] (i.e., consider commodities for export if there is adequate surplus for domestic reserves). 1. Broaden the Food Security Wheat Reserve[b] to include other cereals such as corn, sorghum, and rice. 2. Expand credit terms to tailor program to financial condition of country. 3. Loan to private sector and allow it to monetize[c] the loan for investments that support local commerce and U.S. market development.	1. Secretary of Agriculture is to review each country-program after 5 years to measure progress on market development.	

by criteria					
International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
			2. Simplify procedures to facilitate commerce, such as eliminating purchase authorizations and letters of credit.		

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
GAO	1. Refocus the program on more specific economic and/or market development objectives by eliminating some of the multiple and competing requirements of the present framework. 1. Restructure the program to concentrate on a single objective, such as market development.				
House Committee on the Budget					

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
			1. Eliminate U.S. cargo preference requirements. 1. Modify U.S. cargo requirements to give U.S. shipowners incentives to invest in more efficient ships. 1. Eliminate U.S. cargo preference rules and support alternative programs that provide operating ocean freight differential subsidies[d] that more efficiently support U.S. flag vessels.		Title I has not significantly advanced either the market or economic development objectives of the 1990 Farm Bill. Abolish the program. If Congress wishes to continue to support title I program objectives, then shift title I resources to new or existing programs that individually address each of the program objectives.
					Changes in the world over the past 40 years may have rendered program obsolete. Relatively insignificant contribution to market development because title I is a small portion of total U.S. agricultural exports. Recipients unlikely to become commercial customers.

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
U.S. Interagency Subgroup on International Issues (1995 Farm Bill)			1. Broaden the Food Security Wheat Reserve to include other cereals such as corn, sorghum, and rice. 2. Create new food aid program (i.e., combine concessional, donations and, local currency sales into single program) to tailor program to financial condition of country.		
Nongov't Sources					
Cato Institute					
Heritage Foundation					
National Association of State Departments of Agriculture			1. Increase emphasis on HVPs and commodities with market potential.		

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
					End "corporate welfare."
					Title I exports are a small portion of total U.S. agricultural exports. Disposing of U.S. surpluses is no longer a primary concern of the program. Title I debt may actually harm recipient economies. Recipients unlikely to become commercial customers.
			2. Streamline procedures for export participants such as user-friendly forms and timely allocations.	Keep. Fund to extent allowable under international treaties for next 5 years.	

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
National Center for Food and Agricultural Policy and the Hubert H. Humphrey Institute for Public Affairs			1. Evaluate whether program should focus on bulk or HVPs.	1. Determine how to graduate recipients from program to prevent perpetual support.	
U.S. Feed Grains Council	1. Increase emphasis on market development.		1. Broaden the Food Security Wheat Reserve to include other cereals such as corn, sorghum, and rice.		

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
			1. Revise cargo preference requirements by subsidizing U.S. flag ships without diverting funds from title I.	Keep. Increase funding by shifting funds saved from the UR mandated reduction in direct export subsidies to "green box" programs[e] such as title I .	
			1. Eliminate U.S. cargo preference requirements. 1.Reduce the portion of food aid that must be shipped on U.S. flag ships from the current 75% of total food aid tonnage to previous 50% requirement.		

Legend

HVP High Value Product
UR Uruguay Round

Note: Empty option cells indicate that we received no options for a given criteria-linked historical problem from the source(s) listed.

[a]Before agricultural commodities can be considered for export under any one of the Public Law 480 food aid programs, the Secretary of Agriculture must (1) determine that the domestic supply of that commodity in the United States is in excess of what is needed to meet domestic consumption requirements, (2) provide adequate surpluses for domestic reserves, and (3) meet anticipated export opportunities.

[b]The Food Security Wheat Reserve was established in 1980 to help the United States meet international food aid commitments. Wheat may be released from the 4-million ton reserve for the use in the food aid programs when U.S. domestic supplies of wheat are tight and wheat would not otherwise be available for programming.

[c]The recipient's sale of title I commodities in-country generates revenues, called "local currencies," that the recipient can use to cover expenses. In theory, the local currency enables the recipient to gain control over additional domestic spending power that it would not otherwise have had; however, the title I loan must be repaid according to the terms of the title I agreement.

[d]Ocean freight differential subsidies are the difference between the rates per ton charged by owners of U.S. flag ships used to carry food aid cargo and the rate that would have been charged by owners of less expensive foreign flag ships.

[e]"Green box" programs are those programs allowed under the Uruguay Round.

Options for the General Sales Manager Export Credit Guarantee Programs

Nine sources, including industry groups, trade experts, and the administration, suggested 10 options to improve the General Sales Manager (GSM) guarantee programs. These options suggested ways to: (1) clarify program objectives, (2) improve program cost-effectiveness, (3) increase flexibility in GSM operations, and (4) resolve impediments from administrative and program requirements. None of these options addressed five of our criteria: graduation, additionality, international agreements, coordination with other USDA programs, or internal controls. Six sources suggested two remaining options (i.e., to keep or abolish GSM programs).[1] First, four sources suggested that USDA continue to fund GSM to take advantage of the fact that no UR restrictions existed on these programs. Second, two sources suggested eliminating GSM programs—in conjunction with eliminating all USDA export assistance efforts—to achieve budgetary savings. (See table III.3 at the end of this enclosure for a summary of these options and the organizations suggesting them.)

Background

The USDA's agricultural export credit guarantee programs are administered by GSM of the USDA's Foreign Agricultural Service (FAS) under the auspices of CCC. USDA currently operates two programs: (1) the GSM-102 program (guarantees 3 years or less) and (2) the GSM-103 program (3 to 10 years). The 1990 Farm Bill requires that CCC make available not less than $5 billion a year in GSM-102 credit guarantees and not less than $500 million a year in GSM-103 credit guarantees. The 1990 Farm Bill also requires that CCC make available, during fiscal years 1991 through 1995, not less than $1 billion in GSM-102 export credit guarantees in connection with exports to "emerging democracies."[2] From January 1, 1980, through August 17, 1994, GSM programs provided about $51.1 billion in export credit guarantees to 61 countries. In fiscal year 1994 alone, USDA provided $3.1 billion in export credit guarantees to over 37 countries. However, we are unaware of any empirical evidence that demonstrates that the export credit guarantee programs resulted in increased agricultural exports.[3]

[1]Two sources suggested options to improve as well as an option to keep the GSM program.

[2]Subsection 1542(f) of the 1990 Farm Bill defined the term "emerging democracy" to mean any country that the president determines is taking steps toward allowing political pluralism, encouraging economic reform, showing respect for internationally recognized human rights, and establishing friendly relations with the United States.

[3]According to USDA, on January 3, 1995, USDA's Economic Research Service completed a review of the effects of CCC export credit guarantee programs. While the study concluded that CCC gains could be substantial in individual years for specific countries and commodities, the study also pointed out that since most commercial shipments operated outside the CCC credit programs, the effect of these programs on total U.S. commercial exports would be expected to be small.

Since 1981, when the GSM-102 program first began, USDA has extended agricultural credit guarantees to address several U.S. policy concerns. Both export credit guarantee programs were designed to operate when (1) a guarantee is necessary to increase or maintain U.S. agricultural exports in a foreign market and (2) private U.S. financial institutions are unwilling to provide financing without USDA's guarantee. Furthermore, USDA has extended credit guarantees to support the long-term market development of U.S. agricultural commodities in developing countries and also to offset the impact of other exporting countries' credit guarantees. We have reported that, in some cases, USDA extended guarantees to higher-risk countries, such as Iraq, bolstered by the president's foreign policy goals during the late 1980s.[4] However, the 1990 Farm Bill now prohibits export credit guarantees under the GSM program from being used for foreign aid, foreign policy, or debt-rescheduling purposes. USDA officials are not aware of any restrictions imposed upon export credit guarantees by GATT (or by NAFTA); however, continuous deliberations held throughout 1995 between GATT member countries may introduce international guidelines and impose some restrictions. In most cases, USDA officials require that all goods promoted under a GSM guarantee be entirely produced in the United States. Consequently, USDA prohibits from eligibility many HVPs that have non-U.S. components.

USDA maintains that GSM export credit guarantee programs operate on a "fully commercial basis."[5] In other words, under a USDA export credit guarantee, private U.S. financial institutions extend financing at prevailing market interest rates and credit terms. The 1990 Farm Bill restricted the GSM program from being used when the Secretary of Agriculture determines that a borrowing country cannot adequately service the debt associated with specific program sales. However, determinations on the likelihood of repaying a guaranteed loan are judgment calls for which the Secretary has considerable discretion. This includes the ability to approve credit guarantees even for high-risk countries. Moreover, the overall creditworthiness of a country is only one factor that the Secretary may consider in assessing the likelihood of repayment of a specific credit guarantee.

[4]In November 1989, interagency discussion regarding the extension of credit guarantees to Iraq focused on both foreign policy and market development reasons. Subsequently, the then Secretary of Agriculture issued a letter to support continuation of the Iraqi GSM program. The letter highlighted the foreign policy initiatives of the State Department as well as the size of the Iraqi market. See Agricultural Loan Guarantees: Members Views of National Advisory Council on Loans to Iraq Withheld (GAO/GGD-94-24, Oct. 27, 1993).

[5]In May 1993, we testified that the GSM programs are not strictly commercial, since without the government's repayment guarantee the sales would not likely occur. See U.S. Department of Agriculture: Issues Related to the Export Credit Guarantee Programs (GAO/T-GGD-93-28, May 6, 1993).

Options for Improving GSM Export Credit Guarantee Programs

Options suggesting improvements to the GSM guarantee programs addressed four of our nine criteria. The options suggested ways to (1) clarify program objectives legislated in the 1990 Farm Bill, (2) improve cost-effectiveness by reducing GSM program allocations, (3) increase the flexibility of GSM services and operations, and (4) resolve impediments from administrative and program requirements. Furthermore, the following discussion reviews how some of the options attempted to address (with varying degrees of specificity) historical problems and presents some of the trade-offs that may be associated with these options. In some cases, the options addressed one or more export credit guarantee programs.

Options to Clarify GSM Program Objectives

The option to clarify GSM program objectives dealt with problems concerning two potentially competing legislative requirements of the GSM-102 program. On the one hand, the 1990 Farm Bill requires USDA to extend a minimum of $5 billion in GSM-102 guarantees per year; on the other hand, it also requires the Secretary of Agriculture to verify that GSM-participating countries are able to repay guaranteed loans. In most years of the program, USDA has been unable to identify a sufficient number of countries which meet both requirements. For example, in fiscal year 1994, USDA fell short of extending the minimum amount of GSM-102 guarantees by $1.9 billion.

The option for addressing the competing objectives of the GSM-102 program suggested revising USDA's evaluation of creditworthiness to allow more countries to participate in GSM programs and make use of the unallocated credits.[6] The option did not specify whether the revision should be made in the legislation or in USDA's operation of the program. However, to implement this option, USDA would need to consider accepting countries that carry a higher degree of risk and to assume larger amounts of credit exposure to reach the $5 billion minimum. USDA officials explained that the GSM program annually faces a choice between meeting the $5 billion requirement or maintaining a given level of creditworthiness among program participants. USDA has chosen to maintain a certain level of GSM credit risk and to fall short of the legislative minimum funding

[6]For each country applying for GSM export credit guarantees, USDA conducts a "country risk" assessment to evaluate the likelihood of repayment. Country risk is the risk that adverse economic, social, or political circumstances may prevent foreign borrowers from making timely and complete repayment; country risk assessments evaluate the "creditworthiness" of the borrowing country. Under the GSM guarantee, the borrower is the bank issuing the letter of credit. Thus, in addition to country risk, USDA also assesses the risk associated with a given bank, sometimes referred to as "commercial risk." Commercial risk may be different for a private bank operating in a given country than for a government-owned bank in the same country.

requirement. If a country presents an amount of risk unacceptable to USDA, then no GSM program is considered. Nonetheless, the current level of credit risk that USDA has accepted includes high-risk countries that defaulted since 1990. (See the discussion in the following section regarding cost-effectiveness.)

Options to Improve Cost-Effectiveness

Options to improve cost-effectiveness sought to reduce or eliminate higher-risk countries from participating in the GSM program. Between 1987 and 1992, the amount of guarantees extended per year to countries with low credit ratings increased rapidly. Despite their low credit ratings, Iraq and the successor states of the FSU received credit guarantees for overarching market development and, as we reported in the case of Iraq, foreign policy purposes.[7] Since 1990, defaults on GSM-guaranteed loans to these countries have increased, making the financial management of the GSM programs a growing factor in controlling USDA's repayment costs for claims on defaulted loans.[8]

As of August 1994, defaults on loans guaranteed under GSM programs to Iraq and the FSU since 1990 comprised over one-half of USDA's payments on claims (see table III.1). Table III.1 presents information regarding the total amount of loan guarantees issued under GSM from the inception of existing programs in 1980 until August 17, 1994, including claims USDA paid, by country. Furthermore, USDA's own estimate contrasting the amount of claims paid on principal by USDA relative to the total amount of guarantees issued (i.e., the payout rate) increased from 8.7 percent in December 1992 to 12.7 percent in August 1994.[9]

[7]GAO/GGD-94-24.

[8]USDA estimates contend that export credit guarantees provided to the FSU and its successor states resulted in lower costs for U.S. commodity support programs, due to higher commodity prices supported by the guarantees. Proponents of the credit guarantees assert that these reduced program costs help offset the risk of default on guaranteed debt. However, the estimated savings in commodity support costs depended importantly on an assumption that alternative markets would not be generally available if the commodities were not exported to the FSU. In our report on the FSU, we disagreed with USDA analyses that assume only 100 percent additionality, and we argued that any estimated savings in commodity support programs should consider a range of additionality levels. For further information, see Former Soviet Union: Creditworthiness of Successor States and U.S. Export Credit Guarantees (GAO/GGD-95-60, Feb. 24, 1995).

[9]Estimates based upon the historical payout rate divide the total amount paid on defaulted guarantees on principal by the total amount of guarantees issued by the GSM-102/103 programs. We believe this approach does not fully reflect potential program costs. For further discussion of estimating GSM program costs, see Loan Guarantees: Export Credit Guarantee Programs Costs Are High (GAO/GGD-93-45, Dec. 22, 1992).

Table III.1: Five Largest Recipients of GSM Export Credit Guarantees, Amount of Guarantees Issued, and Claims Paid by CCC, 1980-August 17, 1994

Dollars in millions

Country	GSM loan guarantees issued	Percent share of total	Claims paid by CCC	Percent share of total
Mexico	$11,950	23%	$384	6%
South Korea	6,987	14	0	0
Iraq	4,984	10	1,658	25
Algeria	4,519	9	172	3
The FSU	3,744	7	1,762	27
Subtotal (five major recipient countries)	$32,184	63%	$3,976	61%
All other countries	$18,919	37%	$2,555	39%
Total	**$51,103**	**100%**	**$6,531**	**100%**

Source: GAO analysis of CCC data.

One option for addressing increased GSM program costs suggested reducing the average risk of USDA's export credit guarantee portfolio. To the extent that CCC can reduce the average riskiness of the countries in its GSM-102/103 portfolio, estimated program costs will also decrease. The option proposed that USDA eliminate the guarantees it extends to higher-risk countries. Alternatively, Congress could reduce USDA's annual program budget for credit guarantees allowing USDA to determine where to make budget reductions. The benefits of reducing credit guarantees to high-risk countries would be to lessen the potential for added program costs due to further defaults. However, one concern is that eliminating guarantees to certain countries, such as Russia, may initially increase government outlays if U.S. exports of price-supported agricultural commodities declined. Some argue that these guarantees are vital to retaining the U.S. share of competitive world agricultural export markets. On the other hand, the Congressional Budget Office (CBO) stated that potential increases in domestic programs may compensate for lost exports in subsequent years by lowering production.[10] CBO argued that, on balance, this option could reduce total government outlays on agricultural credit guarantees over a 5-year period between 1996 and 2000.

[10]CBO projected that during the years between 1996 and 2000, an increase in the acreage set-aside would compensate for the lost exports by lowering production. CBO concluded that, on balance, this change would reduce outlays by $681 million over that time period. For further information, see Reducing the Deficit: Spending and Revenue Options, a report to the Senate and House Committees on the Budget, CBO (Washington, D.C.: U.S. Government Printing Office, Feb. 1995).

Options to Increase USDA's Program Flexibility

We identified several options for increasing the flexibility of GSM program operations to adapt to changes in global agricultural trade. One option would provide GSM programs more flexibility in defining the minimum foreign content allowable in processed U.S. agricultural products. The remaining three options sought to increase GSM program flexibility in extending credit guarantees to economies in transition.[11]

Option to Address GSM Program Problems With Foreign Content

Historically, USDA has been restricted to only providing GSM guarantees to products having 100-percent U.S. content. This restriction excludes most HVPS, such as prepared meats and distilled beverages, from being eligible to receive agricultural export credit guarantees. One option would allow modest levels of foreign content for consumer-oriented products or HVPS only, excluding U.S. bulk products such as wheat. USDA suggested implementing this option with shorter-term credit guarantees to accomodate importers who trade HVPS under shorter repayment terms, covering smaller shipments of product, to minimize inventories. The option suggested that combining a foreign content allowance with other options proposing new programs for transition economies may result in added export assistance gains.

Supporters of this option argued that credit guarantees are needed to further develop a product area—HVPS—that has increased in world agricultural trade but has not previously been allowed under GSM guarantees. While the option would promote agricultural products in markets where global demand is already on the rise, global competition for market share is expected to increase rapidly as well; therefore, U.S. agricultural exports may require export assistance. Regarding the potential costs of this option, USDA stated that guarantees allowing a limited amount of foreign content may modestly reduce USDA's risk, if the repayment terms of the guaranteed loan are shorter and cover smaller transactions, as projected. U.S. government export credit guarantees extended to cover transactions with lower credit risk (e.g., shorter repayment terms) would require lower budget subsidy appropriations and therefore incur lower program costs.[12] Thus, USDA concluded that the resulting budget implications from promoting HVPS would be minimal.

[11]Recent political changes in many countries have shifted the responsibility for economic decisionmaking from state organizations to private markets; such countries have been referred to as "transition economies."

[12]To better account for the costs of federal credit programs, the Federal Credit Reform Act of 1990 required, beginning with fiscal year 1992, that the president's budget reflect the costs of the loan guarantee programs. To this end, new loan guarantee commitments can be undertaken only if appropriations of budget authority are made to cover their costs, including estimated payments by the government to cover defaults and delinquencies.

One concern regarding this option would be how to verify that U.S. agricultural products contain only allowable foreign content. Previously, USDA experienced problems with the verification of U.S. agricultural bulk commodities promoted under the GSM program.[13] Since the U.S. government assumes a contingent liability to pay claims in the case of default for each loan repayment guarantee it provides, government agencies have the responsibility to ensure that the guarantees are being used properly (e.g., that guarantees cover the credit sales of only U.S.-origin agricultural commodities).

Options for Expanding GSM Guarantees to Transition Economies

One option sought to expand the criteria for determining creditworthiness for countries moving from state-planned economies to market-based economies to allow them to participate in the GSM-103 program (3- to 10-year guarantees). According to USDA officials, current GSM-103 creditworthiness requirements are the same as those for GSM-102 (guarantees less than 3 years). However, very few countries appear to be interested in the GSM-103 program, primarily because the loan terms continue for years after the goods have been consumed, according to USDA officials. To increase GSM-103 participation, this option would allow countries, or transition economies, that are undergoing restructuring with international financial institutions (e.g., the International Monetary Fund (IMF) and the World Bank) to be given greater weight when evaluating their creditworthiness. Supporters argued that revising USDA's evaluation of creditworthiness to include this option would directly increase U.S. exports by expanding the underutilized GSM-103 program into countries that have a greater demand for agricultural products than they can currently finance on the commercial market. USDA officials stated that if this option were implemented, they would anticipate an increased demand for U.S. agricultural commodities in these countries.

However, one possible trade-off in this option would be the potential for increases in program costs. One concern is that because these restructuring countries carry a higher average risk, higher budget subsidy appropriations would be required, thereby increasing program costs as well. One suggestion would be that any increased export credit subsidy costs could be offset by a reduction in the overall level of export credit guarantees for all GSM programs. Alternatively, some costs could be offset by charging a higher fee for countries participating in the revised program. USDA could then permit that fee to be included in the loan to minimize initial costs. Furthermore, since few countries have expressed much interest in participating in the GSM-103 program to date, USDA could include

[13] GAO/T-GGD-93-28.

other provisions to make the program more attractive to cash-poor countries, such as allowing smaller payments at the beginning of the loan that increase later in the term (i.e., "balloon" payments). Supporters of this option argued that should these provisions be included, USDA could maintain its commercial risk-sharing principle without making these loans concessional.[14]

Another option for expanding exports to transition economies is to offer new guarantee programs with more flexible credit terms. Increased flexibility is needed because as transition economies have become increasingly dependent upon private buyers of exported commodities, the demand for smaller and shorter-term transactions (i.e., more flexibility) has also risen. Specifically, these private foreign buyers have found it difficult to meet certain requirements for receiving loans, such as obtaining letters of credit, thereby eliminating them from participating in the GSM program. To adapt to these demands, new GSM programs would have to reduce the length of terms covered under the guarantee as well as provide mechanisms to reduce the cost of the credit currently extended by U.S. suppliers. Two such programs were suggested to address these countries' needs for export credit guarantees.

One proposed program, to be called the "Supplier's Credit Guarantee Program" (SCGP), would provide credit guarantees for 180 days or less without requiring letters of credit—an option not currently available in GSM programs. SCGP would require U.S. exporters or their banks to increase the amount of foreign buyer risk they bear in order to provide more and lower cost credit to foreign buyers than U.S. suppliers now offer.[15] Proponents of the program suggested that it could be used in combination with changes in the foreign-content rule to support HVPs. This proposal would allow GSM coverage to be extended on shorter credit terms and in markets where U.S. export credit guarantees were previously unavailable. According to USDA, the implementation of SCGP would require a separate budget subsidy appropriation to be included in USDA's budget submission. However, USDA anticipates that the additional appropriation per dollar of exports

[14]We testified that because the U.S. government bears the majority of the risk, GSM export credit guarantee loans are not strictly commercial (see GAO/T-GGD-93-28).

[15]USDA officials noted that SCGP does not necessarily increase the amount of foreign buyer risk that exporters or their banks would bear. They explained that SCGP may be used for commodities and products that would normally trade on an open account basis where the exporter would have short-term risk exposure on 100 percent of the sales value. Under SCGP, an exporter could replace such open account sales with a larger volume of guaranteed sales without increasing risk. For example, if the risk-sharing under SCGP is 50-50 percent, and the exporter registered all sales under SCGP, the exporter could double the total value of short-term credits extended without increasing risk exposure.

generated would be smaller than that under GSM-102 and –103. This increase would result from the shorter term and higher risk-sharing from participating banks and exporters, which would minimize costs. Furthermore, USDA suggested that adjustments could be made in the current budget authority for GSM-102 and –103 to offset the new appropriation for the SCGP option.

A second program proposed for transition economies, entitled the "Serial Guarantee Program," would provide credit guarantees to support a foreign bank's revolving letter of credit for back-to-back export transactions. The program would operate in a manner similar to GSM-102, with the added feature of applying USDA's export credit guarantee to a subsequent shipment, if payment for the initial shipment were received on time. Like the SCGP, these transactions would limit risk by covering small unit volumes and by taking foreign bank—rather than foreign buyer—risk. Both programs could be used for promoting HVPs.

Option to Resolve Impediments to Adminstrative and Program Requirements

One option addressed the need to resolve program requirements that inhibited the implementation of the Emerging Democracies Facilities Guarantee Program.[16] Since the program was first introduced in the 1990 Farm Bill, USDA officials were precluded from extending facilities credit guarantees because of interagency discrepancies regarding which countries should be considered emerging democracies. The administration did not fulfill the requirement that the president designate which countries were emerging democracies until August 1995. This was the first time that countries had been designated eligible to participate in the program.[17]

The option reviewed for addressing administrative problems with the Emerging Democracies Facilities Guarantee Program sought to revise two components of the program's requirements. The first component suggested that the legislation be revised to allow the Secretary of Agriculture, rather than the president, to be given the authority to

[16]The Emerging Democracies Facilities Guarantee Program is intended to facilitate the financing of eligible projects that would improve or establish port facilities, provide services, or supply U.S. goods in relation to an agriculture-related undertaking in an emerging democracy. According to 1990 Farm Bill legislation, the president determines which countries qualify as emerging democracies.

[17]On August 10, 1995, the President determined for the first time since passage of the 1990 Farm Bill that the following countries qualified as emerging democracies: Albania, Bangladesh, Belarus, Bosnia and Herzegovina, Bulgaria, Cambodia, Croatia, the Czech Republic, Egypt, El Salvador, Estonia, the former Yugoslav Republic of Macedonia, Ghana, Guatemala, Hungary, Jordan, Kazakhstan, Latvia, Lithuania, Morocco, Namibia, Nicaragua, Pakistan, Panama, the Philippines, Poland, Romania, Russia, Slovakia, Slovenia, South Africa, Tanzania, Tunisia, Ukraine, Yemen, and Zimbabwe.

determine which countries would receive facilities guarantees.[18] The second component suggested that the facilities guarantee program be oriented toward countries USDA designates as emerging markets rather than emerging democracies.

As a new program, one concern regarding the facilities guarantee program would be the management of program costs. To address such concerns, the option suggested that the facilities guarantee program be provided with its own budget subsidy appropriation separate from the other two GSM programs. USDA officials suggested that a reduction in the GSM-102 program's funding level could offset the costs of the facilities guarantee program, with no effects upon GSM-102, since the current appropriation for GSM-102 is underutilized. Implementing this option through the use of GSM-102 funds would support further U.S. agricultural exports by enabling countries either to expand their purchases or to become purchasers of U.S. agricultural products. Furthermore, the option suggested that facilities guarantees could also be combined with existing export credit guarantees programs for agricultural commodities as well as technical assistance, training, and cooperative work on sanitary and phytosanitary (animal and plant health) standards as broader "country packages" to support U.S. trade. The option also suggested that existing GSM participants be granted immediate eligibility for facilities guarantees, when applying for additional guarantees for U.S. agricultural commodities.

Option to Keep GSM Programs

One option suggested keeping the GSM programs operating primarily as they are. The option would continue to fund these programs to the maximum extent allowed under GATT. To increase program allocations, the option suggested that funds from other agricultural trade programs that are prohibited under GATT be transferred to programs like GSM, which are considered "green box" or allowable under GATT. Nonetheless, one supporter of GSM programs recommended a reevaluation of GSM operations since the overall trade environment had changed sufficiently to merit such a review. This reevaluation would encompass the operation of GSM programs abroad in terms of exposure and commodities by country as well as the operation of GSM programs domestically with regard to coordination with other U.S. government loan programs.

[18] In 1995 Farm Bill: Guidance of the Administration, the administration recommended that the Secretary of Agriculture be able to determine which countries should receive these guarantees. However, in August 1995, the President designated 36 countries as emerging democracies. It remains unclear which office should determine country eligibility and whether facilities export credit guarantees should be used in emerging markets.

Option to Abolish GSM Programs

One option suggested abolishing all USDA agricultural export assistance programs, including the GSM programs. The reason to abolish these programs was to identify savings for the federal budget. Specifically, this option suggested eliminating the GSM programs, along with many other domestic and export program areas in USDA, as part of a larger package of reforms to U.S. government agencies overall.

Information on GSM Credit Guarantee Historical Problems and Options

The following information is presented in two tables. The first table, table III.2, provides a listing of historical problems affecting the GSM programs as they relate to each of our nine criteria. These historical problems are drawn from our past reports and testimonies regarding the GSM programs. And, under each criteria the problems are numbered sequentially.

The second table, table III.3, provides a conceptual framework for organizing and evaluating the types of options that various sources suggested for improving, keeping, or eliminating the GSM programs. The table organizes the options for improving the program according to the nine criteria we developed and the names of the sources that provided them. Each option is linked—where possible—to a related historical problem cited in table III.2, by assigning the option the same number as the historical problem.

Table III.3 also includes the options to keep or abolish the GSM programs and identifies which sources offered these options and their reason for doing so. In some cases, one source may have suggested options to improve these programs as well as the option to keep or abolish the programs.

Table III.2: GSM Export Credit Guarantees: Summary of Historical Problems by Criteria

	Clear objectives	Cost-effectiveness	Flexibility	Graduation
Historical problems	1. Annual conflict between $5 billion minimum (GSM-102) and repayment verification.[a]	1. Increased program costs since 1990 due to rise in defaults on GSM- guaranteed loans.	1. 100% U.S. content rule: CCC unable to support HVPs with foreign content.[b] 2. Lack of programs for small exporters in transition economies.	

Criteria				
Additionality	**International trade agreements**	**Coordination w/ USDA programs**	**Internal controls**	**Administrative and program requirements**
				1. Inability to define emerging democracies precluded program operations.[c]

Legend

CCC	Commodity Credit Corporation
GSM	General Sales Manager
HVP	High Value Product

Note 1: The historical problems cited do not reflect USDA's efforts over the years to address several of these problems.

Note 2: Empty historical problem cells under a given criteria indicate there was no historical problem cited in our reports on those programs for that criteria. However, this does not indicate that there are no problems in this area.

[a]The 1990 Farm Bill restricts the GSM program from being used when the Secretary of Agriculture determines that a borrowing country cannot adequately service the debt associated with specific program sales (i.e., repayment verification). USDA's Trade and Economic Information Division prepares a credit-risk analysis for each participating country to assess the ability of that country to participate in the GSM program. However, some countries that have received low credit ratings have been approved for GSM guarantees.

[b]The 1990 Farm Bill provides for credit guarantees to be extended for U.S. agricultural products with a minimum amount of foreign content, under certain restrictions. Due to these restrictions, FAS currently interprets the law to require 100-percent U.S. content, thereby eliminating most processed agricultural products, also known as consumer-oriented or "high-value" products.

[c]The Emerging Democracies Facilities Guarantee Program is intended to facilitate the financing of eligible projects that would improve or establish facilities, provide services, or supply U.S. goods in relation to an agriculture-related undertaking in an emerging democracy. According to 1990 Farm Bill legislation, the President determines which countries qualify as "emerging democracies." On August 10, 1995, the President determined which countries qualified as emerging democracies for the first time since passage of the 1990 Farm Bill.

Table III.3: GSM Export Credit Guarantees: Options for Change, by Criteria and Source

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
Gov't Sources					
1995 Farm Bill: guidance of the administration			1. Offer guarantees that allow for limited foreign content. 2. Consider longer-term growth potential for GSM-103 applications.		
Congressional Budget Office		1. Eliminate guarantees to high-risk borrowers.			
GAO		1. Reduce program budget (e.g., eliminate high-risk borrowers).			
Office of Management and Budget					
USDA Farm Bill Task Force: International Trade[a]			1. Allow guarantees to include limited foreign content. 2. Make allowance for longer-term growth potential when considering repayment on GSM-103 applications. 2. New program to remove the need for LOCs (Supplier's Credit Guarantee Program). 2. New program to use standby LOCs[b] (Serial Guarantee Program).		
Nongov't Sources					

by criteria					
International trade agreements	**Coordination w/ USDA program**	**Internal controls**	**Administrative and program requirements**	**Option to keep**	**Option to abolish**
			1. Refocus Emerging Democracies program to "emerging markets," to be determined by USDA in consultation with State.		
				Increase GSM and MPP funding by $10 million to identify and capture export opportunities. Funding could be provided from savings made from other budget cuts or from fees charged to firms.	
			1. Refocus from emerging democracies to emerging markets; allow USDA to make this determination.		

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
Cato Institute					
GIC Agricultural Trade Group			1. Expand eligible products and services.		
Heritage Foundation					
Nat'l Association of State Departments of Agriculture					
National Center for Food and Agricultural Policy and the Hubert H. Humphrey Institute for Public Affairs			2. Review Supplier's Credit Guarantee Program proposal.		
National Cooperators Bank	1. Revise repayment requirement to allow GSM program to meet $5 billion minimum.		1. Amend law to expand foreign content restrictions.		
U.S. Feed Grains Council			2. Use different criteria for assessing creditworthiness of transition economies.		
World Perspectives, Inc.			2. For GSM-103: accept as "creditworthy" countries that are in compliance with and are meeting IMF and Paris Club[c] restructuring terms.		

by criteria

International trade agreements	Coordination w/ USDA program	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
					All "corporate welfare" programs should be terminated.
				Reevaluate GSM to take account of the level of exposure by country and commodity, repayment terms, and relationship of GSM loans to other U.S. loan programs.	
					Eliminate all USDA export assistance programs.
				Fund export promotion programs to the extent allowable under int'l treaties.	
			1. Review facilities guarantee program ("Emerging Democracies").		
			1. Broaden Emerging Democracies program to enable use by current GSM participants.		
				At minimum, fund GSM in the same amounts as 1990 Farm Bill.	

Legend

GSM	General Sales Manager
IMF	International Monetary Fund
LOC	letter of credit
MPP	Market Promotion Program
USDA	U.S. Department of Agriculture

Note: Empty cells convey that we received no options for a given criterion from the source(s) listed. They do not convey that there are no problems in this area.

[a]FAS officials participated in task-force meetings that resulted in various options for USDA consideration. However these options do not necessarily represent USDA's final agency positions

[b]A letter of credit is a document issued on behalf of a buyer by a bank, giving the buyer the financial backing of the issuing bank. In a transaction, the bank's acceptance of drafts drawn under the LOC satisfies the seller and the seller's bank. The buyer and the accepting bank also have an agreement on the payment of drafts as they are presented. A "standby" LOC would enable the buyer to take out a line of credit and continue to pay off and reuse the LOC, much like a revolving account, without having to reapply for credit with each purchase.

[c]The Paris Club deals with restructuring of debt service payments on loans extended by, or guaranteed by, the governments or the official agencies of participating creditor countries. The club, which is open to all official creditors that accept its practices and procedures, normally handles official multilateral debt negotiations.

Options for the Export Subsidy Programs

Twenty-eight sources, including the administration, industry groups, trade experts, and exporters, offered 40 options for improving export subsidy programs.[1] These options suggested (1) clarifying and refocusing program objectives, including the type of products and markets these programs should target; (2) increasing program flexibility in responding to market changes; (3) improving the coordination of domestic programs to reduce the need for export subsidies; and (4) decreasing administrative processes that create frustration for exporters. None of these options addressed five of our criteria (e.g., cost-effectiveness, graduation,[2] additionality, international trade agreements, and internal controls). Lastly, five sources recommended the option to keep the four subsidy programs as they currently are, while complying with UR agreement-mandated reductions, because they were basically satisfied with the results of these programs. Ten sources suggested the option to abolish these programs. Several reasons were given for abolishing these programs, including the belief that the four programs have not significantly increased U.S. agricultural exports. (See table IV.2 at the end of this enclosure for a summary of these options and the organizations suggesting them.)

Background

In May 1985, the Secretary of Agriculture established a targeted Export Enhancement Program (EEP) as a temporary program to help U.S. agricultural products meet the competition from subsidizing countries, especially the EU.[3] Subsequently, EEP was also to address the continuing declines in U.S. agricultural exports and to pressure foreign nations to reduce trade barriers and eliminate trade-distorting practices. EEP was reauthorized through 1995 by the Food, Agriculture, Conservation, and Trade (FACT) Act of 1990,[4] along with the Dairy Export Incentive Program (DEIP), the Sunflowerseed Oil Assistance Program (SOAP), and the

[1]USDA subsidizes the export of agricultural commodities through four export subsidy programs: the Export Enhancement Program, the Dairy Export Incentive Program, the Sunflowerseed Oil Assistance Program, and the Cottonseed Oil Assistance Program. These programs have been a key part of U.S. agricultural export efforts. For example, in fiscal year 1994 these programs received 20 percent, or about $1.3 billion, of the total funding in that year for promoting U.S. agricultural exports. These programs were designed to help U.S. agricultural products meet the competition from subsidizing countries, particularly the EU.

[2]There was no specific option that addressed the issue of graduation; however, the administrative process option for a more market-oriented program does have a graduation component.

[3]The Food Security Act of 1985 codified EEP as a 3-year export subsidy program. In July 1987, USDA announced that the program would continue under the provisions of the Commodity Credit Corporation Charter Act of June 29, 1948, once the authorized funds had been exhausted.

[4]The 1990 FACT Act made countering unfair foreign trade practices the primary focus of EEP.

Cottonseed Assistance Program (COAP).[5] In the United States' implementing legislation for the UR agreement, increased emphasis was given to the four programs' market development objective.[6]

EEP is the largest of the four programs, accounting for $1.15 billion in export subsidy bonuses awarded for fiscal year 1994. The bonuses are paid to exporters for selling eligible U.S. agricultural commodities overseas. More than 77 percent, or about $891 million, of EEP bonuses awarded in 1994 were for wheat exports. USDA also awarded about $140 million in DEIP bonuses and about $24 million in SOAP and COAP bonuses in 1994. Also, the 1990 FACT Act required CCC to make available at least $500 million in EEP program funding for 5 years.[7] For fiscal year 1995, EEP's budgeted program ceiling was $800 million, with a DEIP-budgeted ceiling at about $112 million and SOAP's and COAP's budgeted ceiling at about $26 million.

All four programs operate under a bid-bonus system in which an exporter may submit bids to USDA in order to sell eligible agricultural commodities in specific markets overseas. To begin this process, USDA determines which commodities and countries USDA should target under the program by submitting various proposals to the Trade Policy Review Group (TPRG)[8] for approval. An approved proposal is then published in bid announcement as an initiative, detailing the targeted country, the commodity, and the quantity approved for sale. U.S. exporters respond to the announcement by submitting bids. Included in the exporter's bids is a negotiated selling price with a foreign buyer and a "bonus" amount. The bonus is the difference to the exporter between the higher domestic price of a given commodity and the lower world price. If the price and bonus amounts are within USDA's acceptable range of commodity price and exporter bonus, the bids are accepted and the commodity is allotted.

Under the UR agreement, the United States must reduce subsidized exports by 21 percent in volume and export subsidies by 36 percent in value, measured from the average 1986-90 level over the 6-year implementation

[5]Commodities eligible under EEP are barley, barley malt, frozen poultry, rice, semolina, table eggs, vegetable oil, wheat, and wheat flour. USDA operates DEIP, SOAP, and COAP to assist in the export of dairy products and sunflowerseed and cottonseed oils.

[6]Uruguay Round Agreement Act, Public Law 103-465, December 8, 1994.

[7]Some EEP sales are also covered by GSM-102 export credit financing. From 1986 through 1993, almost $7 billion of EEP export shipments received GSM financing.

[8]TPRG is an interagency body that reviews, among other things, USDA's export EEP and DEIP proposals to ensure compliance with U.S. national trade policy objectives. As part of its duties, TPRG reviews decisions regarding USDA export subsidy commodity allocation.

period.[9] By fiscal year 2001, the funding levels for U.S. agricultural export subsidy programs are expected to be reduced to approximately $595 million, falling from 1986-90 levels of about $930 million. In addition, agricultural products that were not subsidized under these programs during the 1986-90 period cannot be subsidized under the current programs. Furthermore, since USDA will not be able to increase either the quantity of or budgetary outlay for these commodities, there will be limited opportunity to promote exports of products (i.e., HVPs)[10] that the programs did not subsidize during those years.

Options for Improving Export Subsidy Programs

Options suggesting improvements to title XV export subsidy programs addressed four of our criteria. The options focused mainly on EEP and DEIP because they are the largest of the four programs. The options suggested ways to (1) clarify the programs' objectives, including which markets and products should be emphasized; (2) increase the flexibility of program operations to be more responsive to the changing world trade environment; (3) increase USDA domestic and export program coordination; and (4) restructure administrative requirements that currently make the programs burdensome to exporters.

The following discussion reviews how each of the options attempted to address (with varying degrees of specificity) historical problems and what some of the trade-offs were that may be associated with these options. In some cases, the options addressed one or more export subsidy programs.

Some Options Suggested Clarifying and Refocusing Program Objectives

Historically, EEP and DEIP have had the competing program objectives of discouraging unfair foreign trade practices while also promoting market development.[11] Also, long debated has been whether these programs should emphasize subsidizing bulk or HVP commodities.[12] The United States' UR-implementing legislation states that EEP and DEIP no longer are to be used exclusively to discourage unfair foreign trade practices, but instead are to be used for market development purposes as well. However,

[9]These reductions will significantly reduce the quantity of U.S.-subsidized exports. Some examples of these reductions include the following: subsidized dairy products will be reduced by 50 percent, vegetable oils by 79 percent, and wheat by 32 percent.

[10]HVPs include processed commodities (e.g., wheat flour, barley malt, and vegetable oils) and unprocessed products that are intrinsically higher in value (e.g., table eggs and frozen poultry) than other commodities and products.

[11]These objectives are competing in that focusing on unfair foreign trade practices meant EEP subsidies would only be targeted to the markets EU subsidized and other subsidizing nations, but not necessarily targeted where the greatest market opportunities lay.

[12]Bulk commodities include wheat, feedgrains, and rice.

while the legislation emphasized market development, it did not provide any details on how export subsidies might be used as a market development tool. In addition, with this increased emphasis on market development, new concerns have surfaced. For instance, knowing which markets and products might provide the greatest opportunity for a new market development-oriented program is difficult.[13]

One option that could clarify and refocus EEP and DEIP for market development purposes suggested targeting EMs, such as Asia and South America. This option would take advantage of the trend toward increased consumption of high-value U.S. agricultural products in these regions. Therefore, the option stressed focusing on these EMs where there is greater potential for future growth than previously targeted markets, such as the FSU and Egypt.[14]

Another option for clarifying EEP and DEIP program objectives suggested that the programs focus on HVPs rather than bulk commodities. This emphasis could help increase future agricultural exports because HVP markets have grown significantly over the past several years and have shown more potential for expansion than have the bulk commodity markets. However, this option has several trade-offs. First, USDA officials acknowledged that they have not met the HVP objectives established for EEP under either the 1985 or the 1990 Farm Bill.[15] We previously reported that EEP is not a good vehicle for increasing exports of HVPs.[16] Specifically, certain factors limit the sale of HVPs under the program, including restrictive program guidelines, foreign policy considerations,[17] and cumbersome proposal and bidding processes for program funding allocations. Also, efficiency considerations arise when USDA compares the EEP bonus level needed to make HVPs competitive versus the expected economic benefits. According to U.S. agriculture industry officials, this comparison creates an implied bias against HVPs because HVPs require a

[13]Historically, EEP emphasized bulk commodities and targeted markets that received EU subsidies (e.g., the FSU, China, Egypt, and Algeria).

[14]The financial instability of the FSU makes it dependent on whichever foreign source of agricultural commodity has the lowest price or whichever source can provide a better source of credit.

[15]In fiscal years 1991 and 1992, total HVP bonuses represented only 8 percent of total EEP funds, falling short of the 25-percent objective specified in the 1990 Farm Bill. However, USDA officials state that they made available 25 percent of program funds for HVP exports; program participants did not attempt to export the total amount of commodity available.

[16]See Agricultural Trade: High-Value Product Sales Are Limited in Export Enhancement Program (GAO/RCED-93-101, Apr. 6, 1993.)

[17]TPRG members raised foreign policy considerations for reasons such as multilateral and unilateral trade sanctions and the protection of U.S. relations with its trading partners.

relatively higher bonus level than bulk commodities to be competitive with foreign subsidized sales.[18]

A second trade-off to emphasizing HVPs comes from the UR agreement legislation, which, according to an administration official, restricts the amount and mix of agricultural commodities that can be subsidized—including HVPs—to those that existed during 1986-90. Thus, a limit is placed on both the quantities and type of HVPs subsidized based on what was provided during that period. Consequently, no new products, HVPs or others, can be eligible for export subsidies under these programs. Finally, USDA officials have noted that HVP sales are also restricted by a provision in the 1990 Farm Bill that defines "eligible agricultural products" as those entirely produced in the United States [19] (see sec. 202(h) of the Agricultural Trade Act of 1978, as amended by sec. 1531 of the 1990 Farm Bill). Since foreign-produced ingredients are used to process some HVPs, these HVPs may not be eligible for export assistance under EEP.

Some Options Attempted to Increase the Flexibility of the Programs

The process for determining the type of commodity to be subsidized, the amount of the commodity to be shipped, and the foreign country to receive these commodities from EEP and DEIP is slow and complex. As a result, industry groups, exporters, and Congress have complained about lost sales opportunities due to delays and a lack of flexibility to changing market conditions. Part of the process for determining the composition of U.S. agricultural products for export under EEP and DEIP involves a TPRG review before the bid announcement is published for exporters' response.

TPRG reviews and allocates some commodity requests on a country-by-country basis. This country-by-country review has made EEP and DEIP more rigid, since allocations were intended to be in effect for 1 year at a time. These allocations have resulted in the administration's overestimating or underestimating the quantity that a given country will use during a year—either allocating too little and thereby losing sales or allocating too much and not using the entire allocation. In addition, having four separate U.S.-subsidized agricultural programs has made the programs less able to respond quickly to changing market conditions. This reduced flexibility occurred because USDA was unable to target a variety of

[18]We previously reported that although the cost of subsidizing exports varied by commodity, the bonus was higher relative to the sales price for most HVPs than for bulk commodities (GAO/RCED-93-101).

[19]By regulation, the Secretary of the Department of Agriculture may designate an exception for a product that contains an agricultural component not entirely produced in the United States if that component is an added "de minimus component" and is not commercially produced in the United States and no acceptable substitute is produced commercially in the United States.

commodities (e.g., dairy, grain, and cottonseed oil products) in one block to a given foreign market.

One option suggested a way to expedite the TPRG review and approval process as it relates to DEIP; however, this option could apply to EEP also. The option recommended reducing the role of TPRG and simplifying its decisionmaking processes. For example, when reviewing DEIP commodity allocations for a given year, TPRG should review all of them on a regional, not individual, country-by-country basis.[20] This option attempts to speed up the approval process by giving USDA the flexibility to adjust the allocations to individual countries within a regional area in response to market conditions. Thus, the market would be able to dictate more specifically where the sales should be made.

Allowing USDA to take greater responsibility may be beneficial because, as previously mentioned, the administration plans to refocus DEIP's use for market development purposes. Furthermore, USDA is more knowledgeable about dairy market development than TPRG. However, one concern regarding this option is TPRG's possible unfavorable reaction to limiting its role. The federal agencies that are included in TPRG have an oversight function that they may wish to maintain in its current form.

Another option to address the flexibility and responsiveness of these programs suggested combining the four export subsidy programs into one unified program. Combining the four programs may give USDA greater flexibility in responding to other countries' programs for targeting subsidized agricultural exports. Thus, this option attempts to make USDA's unified program more competitive in expanding U.S. agricultural exports.[21] However, this option raises a concern about whether subsidy limitations in the UR agreement (because of its restrictions on adding new commodities and products) would limit the flexibility this option could provide. Because of these potential limitations, USDA—which initially saw value in this option—no longer supports this idea.

The sunflowerseed oil and cottonseed oil industries have indicated that they are opposed to the unified approach, because EEP and DEIP have had far more program restrictions than SOAP and COAP. Specifically, EEP and DEIP are restricted by foreign policy considerations, SOAP and COAP have

[20]Currently, TPRG allocates some DEIP and EEP products on a regional basis.

[21]Having one program would be more competitive because the greater range of agricultural products covered under the combined program would give USDA more flexibility in targeting U.S. products to foreign nations.

never had these restrictions. If all programs were combined, oilseed exporters would face increased restrictions.

Some Options Addressed Coordination of Domestic Programs and Their Effect on Export Subsidies

To better coordinate USDA domestic and export programs and increase agricultural exports, one option suggested having a phased replacement of current domestic price supports with income/revenue assurance programs. Current U.S. domestic price and income support programs keep U.S. domestic prices for many agricultural commodities significantly higher than foreign market prices.[22] Trying to overcome this price disparity and ensure competitiveness has become increasingly difficult. Some sources argue that this price disparity has created inefficiencies and market distortions and has limited the incentive for exporters to merchandise U.S. agricultural products through emphasis on nonprice factors (e.g., type of product or product quality). Some U.S. agricultural industry officials stated that policies that raise U.S. price supports or idle productive farmland undermine the competitiveness of U.S. agricultural exports.

To address this lack of competitiveness, USDA suggested that policymakers review U.S. domestic policies and programs to ensure that producers have a competitive cost structure. This review may be beneficial because domestic agricultural support programs that increase domestic prices above foreign competitor prices tend to encourage imports and prohibit exports, according to an industry official. It is possible that U.S. agricultural export subsidy programs may push up domestic prices enough to encourage imports as U.S. tariff protection is lowered under international agreements, such as NAFTA and GATT. In actuality, according to an industry official, this appears to have happened in the case of the United States' use of EEP on barley and durum wheat, which encouraged imports from Canada in 1993 and 1994.

Another option to address competitiveness and increase agricultural exports was to have a phased replacement of current domestic price supports with income support programs. Under this system, agricultural exports might be maximized by moving toward a support mechanism to allow U.S. exports to be marketed at world price levels. The years in which the 1995 Farm Bill is in effect could be a phase-in period for such a mechanism. An income support program could include revenue assurance.

[22]Continuing the current price and income support programs may result in a further loss of U.S. exports to competitors. According to USDA, our foreign competitors are rapidly delinking agricultural income supports from export commodity prices, thus hoping to ensure their ability to market these agricultural commodities at foreign market prices with little or no export subsidy.

The revenue assurance program would replace the production control (acreage allotments), deficiency payments,[23] crop insurance, and the price support loan program. This revenue assurance program would guarantee producers a specified percentage of their average crop revenue over a given number of years. With a revenue assurance program, export subsidies should not be needed. Such a program would allow U.S. prices to fall to world price levels, thus improving U.S. exports, according to USDA officials. And, under such a program, all that matters would be which agricultural commodities a farmer would produce, how much revenue would be generated from these commodities, and what balance would be owed to the farmer from the federal government if the revenues generated fell short of the revenue guaranteed under the program.

One concern about this revenue assurance option is that the commodity groups that currently receive the greatest benefits from the current programs could be hesitant to support it, given the uncertainties of the new program. These groups would want a clear demonstration that the proposed changes would be a good option for maximizing future farm income during a time when budget pressures will likely reduce funding and administrative resources for the existing programs. Another concern is that in the short term, farm income might decline unless revenue assurance could be guaranteed at a high level. However, proponents of this option say that as farm support prices are being removed, production should increase and certain industries (e.g., agribusiness, processing, merchandising, and exporting firms) could see growth in their economic activity and income.

Some Options Attempted to Reduce Administrative Burdens

We reported that USDA's bidding and allocation processes for EEP are cumbersome and time-consuming for exporters.[24] According to USDA officials, 85 to 91 percent of all bids submitted for EEP commodity allocations between 1991 and 1993 were rejected, wasting a lot of time and effort by USDA and exporters. Exporter bids can be rejected for two reasons: (1) their negotiated commodity sales price with the foreign buyer is too low or (2) their bonus request is too high.

USDA sets minimum international prices and maximum exporter bonuses for commodities sold under the four programs. Price and bonus amounts

[23]Deficiency payments are a direct payment to producers of certain commodities, by USDA's CCC, equal to the difference between the CCC target price and the actual market price for each of those commodities.

[24]GAO/RCED-93-101.

are calculated for each foreign destination, type of commodity, and time of shipment. USDA bases these prices on information collected from overseas contacts (e.g., U.S. agricultural attaches and private contractors) and daily and weekly commodity market reports. USDA then sets a minimum acceptable commodity price that is competitive with the delivered price of other international subsidizing suppliers.[25] The difference between the U.S. market price and the competitor's delivered prices for a given commodity becomes the maximum acceptable bonus for the exporter. However, the problem with this process is that exporters must constantly submit and resubmit bids for each commodity under each of the four programs without knowing if submissions are within accepted limits for selection.

TPRG proposed three separate options to address the UR agreement's mandated export subsidy reductions and the administration's increased emphasis on the market development aspects of these programs.[26] Announced in the Federal Register on June 26, 1995—as part of the TPRG's proposals for comment—the options include (1) a quarterly auction system, (2) a preannounced bonus system, and (3) market-oriented modifications to the existing programs. In announcing these options, TPRG requested comments from U.S. agriculture industry organizations.

Option for a New Quarterly Auction System

According to TPRG, the first option, a quarterly auction system, was designed to augment the cost-effectiveness of export subsidies by increasing competition in the subsidy allocation process and by extending industry flexibility in allocating subsidies across markets. Specifically, for each subsidized commodity, USDA's CCC would conduct quarterly auctions in which exporters would make bids that specify a dollar amount of export subsidy (i.e., the bonus) and the quantity of commodity to be exported (the sales price of the commodity to the foreign buyer would no longer be a determinant in making the award). USDA would then allocate subsidies based on the least-cost bid.

Before an auction announcement, the TPRG interagency process would determine the maximum annual subsidized export volumes for a set of

[25]USDA determines the overall U.S. price for a given subsidized agricultural commodity by estimating the U.S. domestic price plus the freight and special handling costs to the destination targeted.

[26]The administration's 1995 Farm Bill proposal also announced the following policy objectives (which parallel several of our criteria) to assist export subsidy programs' market development efforts: (1) increase the cost-effectiveness of export subsidy programs by encouraging the lowest possible subsidies to achieve the maximum level of subsidized volume, (2) increase the flexibility of exporters to respond to changing market conditions, (3) reduce administrative complexity and cost, (4) provide safeguards against fraud and exports of foreign-origin products, and (5) be consistent with U.S. trade policy goals.

different markets. The markets would be defined as broadly as possible, subject to promotion of U.S. foreign policy and trade objectives. USDA would then announce the proportion of the overall annual subsidized export volume that was to be auctioned for a given quarter (e.g., May through July). USDA would choose winning bids to achieve the quarterly subsidized volume allocation at the minimum cost in dollar subsidies.

To select the lowest bid, USDA would establish new bidding procedures that would set maximum bonus levels to be allowed for awarded bids in each quarterly auction. These maximum levels would be kept secret. Bids with bonus levels that were higher than the USDA-determined maximum levels would be rejected. Winning bidders would be required to export the agreed-upon quantity some time within the 12 months (or less) that follow the award. The exporters would be free to apply the subsidies to individual sales as they choose. The export subsidy rights obtained by a winning bidder could be sold to another U.S. exporter[27] either for all of the agreed-upon subsidized export volume or part of the volume.

According to TPRG, this option would provide more flexibility for exporters. It also would create a system in which exporters would compete directly against each other for specific market opportunities. This competition might increase the efficiency of the program by ensuring that USDA would provide the lowest amount of subsidy for the highest export quantity. This process could help improve the bidding process by reducing the number of unacceptable bids provided by exporters. Quarterly auctions might also reduce the administrative burdens that exporters and USDA currently face because exporters would no longer send their bids for specific commodity subsidies on a daily basis to USDA for approval.

However, some U.S. agriculture industry officials believe there are some potential drawbacks to this option. First, this quarterly auction system may tend to benefit large exporters and manufacturers (by virtue of their economies of scale) and restrict smaller exporters' program participation. Second, the auction system may also allow a few large exporters to speculate on a substantial quantity of the program allocation. Third, the infrequency of quarterly auctions may not permit sufficient flexibility to respond to changing market conditions and competition from other subsidizing countries.

[27]These export subsidy rights might give an exporter more commercial flexibility than the current system in that as long as the broader time period was met (e.g., 12 months or less), an exporter could sell these tradeable certificates to other U.S. exporters.

Option for a Preannounced Bonus System

TPRG's second option would be for USDA to have a preannounced bonus mechanism instead of the current commodity announcement and bidding procedures. Under this preannounced commodity bonus approach, USDA's CCC would publish a TPRG-cleared list of (regional) destinations. On a periodic basis (weekly or biweekly), USDA would announce the eligibility of a quantity of commodity and the bonus level to be paid per metric ton. A single bonus would apply to all qualities of a particular commodity (e.g., the various qualities of wheat). Exporters would register for the bonus on a first-come/first-served basis, and awards would be made up to the announced quantity. This option could permit exporters to bid on specific commodity offerings without having a firm export sales contract with a foreign buyer. If an exporter does not sign a sales contract, the exporter might be able to transfer awarded export bonus rights to another eligible exporter, given that a secondary market would be established for these export subsidy rights. Transactions in this secondary market would be required to be reported to USDA.

Some potential benefits of this option cited by U.S. agriculture industry officials are that it could (1) provide for a simple, fair, and easily administered program, with minimal government involvement on a transaction-by-transaction basis; (2) remove the commodity sales price from being a determining factor in program awards; and (3) allow exporters and importers to come to terms more easily on a selling price because of the transparency (openness) of the preannounced bonus level.

Some concerns cited by the industry officials regarding this options are that (1) foreign competitors may be able to counter the U.S. price because of the transparency of the bonus award[28] and (2) exporters may rush to secure bonus awards on a first-come/first-served basis without firm sales contracts in hand and then be unable to perform the export transactions.

Option for More Market-Oriented Programs

The third TPRG option was to incorporate several market-oriented modifications into the current programs' operating structure to make them more efficient and responsive to changing world market conditions. According to TPRG, these modifications were designed to restore to the exporter the incentive to achieve higher selling prices and to reduce the current export subsidy program's market intrusiveness. This option differs from the current EEP bidding and allocation process in that it (1) de-emphasizes the commodity sales price in awarding a bid (sales prices would still be submitted but would not be a factor in determining

[28]By knowing the USDA bonus amount and world trading price for a given U.S. agricultural commodity, a foreign competitor could offer a slightly lower price and beat a U.S. exporter out of a sale.

awards), (2) allows exporters to shift a bonus award between different transactions within the same region and shipping period, and (3) states that countries or regions would "graduate" from their eligibility for a subsidy if the United States became fully price competitive in a given region in the future.

This option differs from the two other TPRG options in that it (1) does not radically change the bidding and allocation process (unlike the other two TPRG options, sales prices, though de-emphasized, are still included); (2) does not include a cost-minimized auction as in the quarterly auction system option; (3) does not include a preapproved bonus as in the preannounced system option; (4) has no secondary market component as both other options do; and (5) requires that U.S. exporters submitting bids still must have a foreign buyer contract.

U.S. agriculture industry officials believed some potential benefits of this option are that (1) the export subsidy programs would be more efficient and responsive to changing world market conditions, and regional (rather than country-specific) allocations would provide exporters with more flexibility; (2) USDA's price and bonus review mechanism would be more cost-effective in terms of providing the least amount of subsidy to facilitate a sale; and (3) the allowance for shifting bonus awards within a region would reduce the need to change destination specifications within a given region and would therefore reduce the possible loss of sales for exporters.

Some potential drawbacks of this option cited by U.S. agricultural industry officials are that (1) it does not sufficiently change the current programs to meet the criteria outlined by the administration, (2) it does not permit exporters to offer firm prices to importers, and (3) it does not allow the regional allocations suggested to take into account the specific situation of each country.

An Option to Keep Current Export Subsidy Programs Intact Without Structural Changes

One option suggested by five sources would keep the four export subsidy programs as they are (without any structural change to the programs) following the UR-mandated reductions. Several reasons were offered for maintaining the programs. First, some U.S. agricultural industry officials believed that export subsidies are still necessary to counter the unfair foreign trade practices of U.S. competitors. Second, some industry officials believed that export subsidies are still needed to put ongoing pressure on U.S. competitors, who continue to use unfair trade practices, for further trade negotiations and greater reductions in GATT-allowable agricultural export assistance programs. Third, some industry officials said that some beneficiaries of the programs want to continue receiving the benefits the programs offer.

Although export subsidies will be reduced under the UR agreement, U.S. exports will continue to face some subsidized competition and other unfair trade practices that allegedly enhance the competitiveness of other countries. Some exporters have stated that the UR agreement did not eliminate the use of subsidies but instead legitimized their employment.[29] As a result, they suggested EEP would be necessary to keep the price of U.S. agricultural commodities competitive with those from other subsidizing nations. In addition, exporters claim that if the long-term goal of the United States in multilateral negotiations is to eliminate all export subsidies, programs such as EEP would still be necessary to create pressure on the EU to negotiate further reductions.

An Option to Abolish Export Subsidy Programs

One option suggested by 10 sources would abolish all 4 export subsidy programs, particularly EEP and DEIP. Several reasons were offered for their abolition. For example, the three following reasons were cited for eliminating EEP. First, EEP has done little to retain market share for eligible products. Actually, for some U.S. producers (those who produce corn and sorghum) EEP has done more to displace commercial sales of these commodities than to increase the amount of EEP-subsidized exports.[30] Second, some EEP exporters claimed they have not seen evidence that EEP has been effective in increasing U.S. agricultural exports or expanding U.S. agricultural markets. They said that EEP has not maintained pace with the world agricultural marketplace's shift from a bulk commodity orientation to one favoring high-value agricultural products and commodities. A third reason cited was that EEP distorts markets and depresses prices obtained for agricultural exports through the subsidized dumping of U.S. agricultural products on the world market and that the program benefits importing countries at the expense of U.S. producers. Opponents claim that EEP has penalized competitor nations who do not subsidize their

[29]See International Trade: Impact of the Uruguay Round Agreement on the Export Enhancement Program (GAO/GGD-94-180BR, Aug. 5, 1994).

[30]According to Robert Paarlberg, an agricultural economist at Harvard University, EEP has distorted the normal price relationship that exists between wheat and corn. Wheat usually sells at a $15 to $40 per metric ton premium to corn. Corn is not eligible for export subsidies under EEP. With the inclusion of the EEP wheat bonuses, wheat has been selling in some traditional feedgrain markets for $10 to $15 per metric ton below corn prices. The result is the loss of nonsubsidized U.S. corn exports that are displaced by U.S. and EU wheat that is being heavily subsidized.

exports. They said that EEP has also allowed foreign purchasers of U.S. agricultural commodities to buy those goods at lower prices than U.S. consumers themselves could purchase those goods. This has undermined the attractiveness of export markets to U.S. farmers. One source stated that the additional sales created by export subsidy programs are just not enough to justify the budget cost. According to this source, technical studies have shown that 70 to 90 percent of the wheat bushels sold under EEP would have been sold anyway without the subsidy and sold at a higher price. Furthermore, another source estimated that eliminating EEP would save about $3.4 billion in U.S. funds between 1996 and 2000.

Several reasons were cited for abolishing DEIP. One dairy industry representative stated that DEIP adds to the federal deficit, is not market-oriented, lowers prices for all dairy products, and distorts the dairy market. The representative also said that DEIP has provided a dumping ground for unmarketable products, such as powdered milk. Finally, the representative said that with foreign competitor prices so low, U.S. taxpayers and dairy farmers cannot afford through DEIP to continue to subsidize inefficient milk processors and international trading companies. Other sources viewed DEIP as a form of corporate welfare that should be eliminated.

Information on Export Subsidy Program's Historical Problems and Options

The following information is presented in two tables. Table IV.1 provides a listing of historical problems affecting the export subsidy programs as they relate to each of our nine criteria. These historical problems are drawn from our past reports and testimonies regarding the export subsidy programs. And, under each criterion the problems are numbered sequentially.

Table IV.2, provides a conceptual framework for organizing and evaluating the types of options that various sources suggested for improving, keeping, or eliminating the export subsidy programs. The table organizes the options for improving the program according to the nine criteria we developed and the names of the sources that provided them. Each option is linked—where possible—to a related historical problem cited in table IV.1, by assigning the option the same number as the historical problem.

Table IV.2 also includes the options to keep or abolish the export subsidy programs and identifies which sources offered these options and their reason for doing so. In some cases, one source may have suggested options to improve these programs as well as the option to keep or abolish the programs.

Table IV.1: Export Subsidy Programs: Summary of Historical Problems by Criteria

	Clear objectives	Cost-effectiveness	Flexibility	Graduation
Historical problems	1. EEP and DEIP both have competing program objectives of discouraging unfair foreign trade practices and promoting market development. 2. U.S. UR legislation gives no details on how to use current programs as market development tool. 3. EEP and DEIP do not maximize U.S. exports and are not competitive with other nations' efforts. 4. Program requirements and processes for EEP and DEIP inhibit HVP exports. 5. UR and the 1990 Farm Act contain provisions that restrict subsidies for cetain products including HVPs.	1. Programs could be more cost-effective.	1. EEP's lack of flexibility in operations and procedures makes program unresponsive to changing market conditions. 2. TPRG review and clearance process for EEP and DEIP is very slow. Exporters complain of lost sales opportunities.	

Criteria				
Additionality	**International trade agreements**	**Coordination w/ USDA programs**	**Internal controls**	**Administrative and program requirements**
1. Impact of EEP on increasing U.S. exports is questionable.	1. All export subsidy programs are to be reduced in accordance with UR legislation.	1. U.S. domestic price supports increasing domestic prices above world prices, encouraging imports, and limiting exports.	1. Internal controls to detect unauthorized diversions of EEP commodities are not completely reliable.	1. Due to restrictive guidelines and cumbersome administrative processes for EEP and DEIP, program response to exporters is slow, resulting in loss of foreign customers. 2. Programs need new bidding procedures: 85-91% of EEP bids were rejected.

Legend

DEIP	Dairy Export Incentive Program
EEP	Export Enhancement Program
HVP	High-value product
TPRG	Trade Promotion Review Group
UR	Uruguay Round

Note 1: The historical problems cited do not reflect USDA's efforts over the years to address several of these problems.

Note 2: Empty historical problem cell indicates there was no historical problem cited in our reports on those programs. However, this does not indicate that there are no problems in this area.

Table IV.2: Export Subsidy Programs: Options for Change, by Criteria and Source

	Options to improve,				
	Clear objectives	**Cost-effectiveness**	**Flexibility**	**Graduation**	**Additionality**
Gov't Sources					
1995 Farm Bill: Guidance of the Administration	2. Focus programs on emerging markets, i.e., South America, Asia.		1. For all programs, need to increase the flexibility of exporters to respond to changing market conditions.		
Congressional Budget Office					
GAO	2. EEP exporters suggest emphasizing emerging markets and HVPs.[a]		1. Exporters suggest eliminating or streamlining EEP's interagency approval process (TPRG), making program more flexible.		

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
			For all programs: 1. reduce cost and administrative complexity 2. provide quarterly auctions for specified commodities and make awards by providing tradeable certificates to exporters.		
					Eliminating EEP would save $3.4 billion during 1996-2000. Not clear how effective the program has been as counterweight to foreign subsidies.
			EEP exporters suggest: 1. modifying the program to resemble the EU's export subsidy system; 1. increasing flexibility of exporters' use, thru timing, location, and contract modifications of subsidy allocations; 2. publicly announcing maximum bonus amounts and awarding subsidies based on lowest bid.		

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
USDA Farm Bill Task Force: International Trade[b]	2. Refocus programs to be more competitive in the world market.		1. Combine all four programs into one unified program, to make more flexible and effective. 1. Eliminate the need for TPRG review.		
Trade Policy Review Group					
Nongov't Sources					

by criteria					
International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
	1. Policymakers should review U.S. domestic policies and programs to ensure that producers have a competitive cost structure. 1. For U.S. domestic programs, a phased shift from current price and income support programs to direct farm income support (i.e., revenue assurance), thus limiting the need for export subsidies.				
			Developed three bidding and allocation options: 2. quarterly auctions: USDA would conduct quarterly auctions in which exporters make bids that specify a dollar amount and quantity of the subsidized commodity to be exported. USDA would allocate subsidy rights to the lowest bidders and set bonus levels that would remain secret. 2. preannounced bonus mechanism: USDA would publish a TPRG-cleared list of regional destinations. Exporters would register for the bonus on a first-come/first-served basis. 2. market-oriented modification to current programs: make programs more flexible, cost-effective, and less burdensome.		

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
Alliance for Sound Food and Agricultural Policy					
Cato Institute					
Coalition to Promote U.S. Agricultural Exports	1. We must develop overall trade strategy that reflects recent changes in global marketplace. 3. Must be able to counter subsidized competition as well as capitalize on market opportunities for both bulk and HVPs. — Must provide for investment in research and development, new technologies, and alternative uses to improve productivity, expand demand, and enhance competitiveness for subsidized commodities.[c]				

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
				Current food and agricultural policies and programs have met needs of producers and consumers.	
					All "corporate welfare" programs should be terminated. U.S. taxpayer dollars are used to enable citizens of other nations to purchase U.S. agricultural commodities at prices lower than U.S. consumers can pay to purchase those goods.

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
Coalition for a Competitive Food and Agricultural System	2. Design export programs that develop overseas markets for U.S. bulk, semiprocessed, and HVPs. 3. Focus on exporting HVPs, and emerging markets.				
Dairy Trade Coalition	2. DEIP should be fully funded and targeted for use against countries that employ state trading enterprises.				
Family Farm Defenders					
GIC Agricultural Trade Group					
Heritage Foundation					
Miller's National Federation	2. Design export programs that develop overseas markets for U.S. bulk, semiprocessed, and HVPs. 4. Focus on exporting HVPs, and emerging markets.				
National Dairy Promotion and Research Board	2. Concentrate DEIP on HVPs.				

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
				Continue to fund programs as export subsidies are being reduced.	
					End DEIP funding. It adds to federal deficit, is not market oriented, and lowers prices for all dairy products.
					Eliminate EEP in response to new GATT. Program has done little to expand market share.
					EEP distorts markets and depresses world prices.
				Continue to fund export subsidies as they are being reduced.	
			1. Create more user-friendly DEIP participation procedures.		

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
National Cheese Institute	4. Redirect DEIP country/regional allocations to markets with higher HVP market potential to maximize sales.				
National Milk Producers' Federation	2. Expand DEIP to other Asia-Pacific markets.				
National Association of State Departments of Agriculture					
National Center for Food and Agricultural Policy and the Hubert H. Humphrey Institute for Public Affairs	2. Market development strategy should be laid out by USDA and affected industries for these programs, then followed for period of time.				
National Cottonseed Products Association			1. SOAP/COAP should not be rolled into EEP at any time because EEP has more program restrictions.		

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
	1. Avoid programs whose purpose is to enhance domestic prices.		1. Create competitive DEIP bidding process to maximize returns and minimize costs.		
	1. Discontinue CCC price support purchases of butter and nonfat dry milk.				
				Authorize and fund all programs to the extent allowed under UR for the next 5 years.	
				Keep programs if competitors continue to act in predatory fashion.	Transfer funds away from export subsidies and expand other UR-permitted programs.
			1. Streamline SOAP and COAP to obtain more rapid responses to bids.		

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
North American Export Grain Association, Inc.					
Progressive Policy Institute					
Robert Paarlberg, Harvard University					
Schnittiker Associates	2. Antiquated export subsidy programs need new objectives and new rationale.				

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
			1. Supports a Preannounced bonus award system. Recommends a single bonus for each type of grain or oilseed (except durum) for all costs of shipment; bonuses should be effective for the longest possible period of time, ideally an entire crop year; if there is overbooking for a bonus, provisions must be made for allocating awards on an equitable basis; and many members believe bonuses should be awarded only if firm export contract is in hand.		
					End U.S. taxpayer subsidies of wheat and other food purchased by foreign consumers.
					Eliminate EEP: program never was much help to farmers.

(continued)

	Options to improve,				
	Clear objectives	Cost-effectiveness	Flexibility	Graduation	Additionality
The Dairy Export Incentive Program Coalition	2. Need legislation that makes market development a primary focus of DEIP. 2. Continue use of program in Asia and South America.		2. Need timely DEIP announcement and other allocation procedures. FAS should ensure tonnage allocations are apportioned properly so products move smoothly throughout the year. 2. TPRG should review all yearly commodity allocations on a regional basis, not country-by-country. 2. Allow USDA to take greater responsibility for commodity allocations		
U.S. Feed Grains Council	3. Expand programs to address unfair practices of all competitors. 4. Focus programs on HVPs.				
University of Nebraska, Institute of Agriculture and Natural Resources					
World Perspectives, Inc.	2. Expand EEPto more export markets. 2. Eliminate EEP's targeted allocation of subsidies.		1. Make EEP program more flexible for exporters and foreign buyers.		

by criteria

International trade agreements	Coordination w/ USDA programs	Internal controls	Administrative and program requirements	Option to keep	Option to abolish
			2. CCC should establish a maximum DEIP bonus for each commodity and destination, using international market prices, not just EU prices. If exporter's bid is within the maximum allowable, it should automatically be approved.		
					End export subsidies.
					Eliminate EEP—a costly and ineffective program that does little more than confuse our relations with Canada and Australia.
			For EEP: 1. give exporters option to determine timing, positioning, and destination market for export; 2. establish competitive bidding process. require financial performance guarantees from exporters, provide appropriate penalties for nonperformance.		

Legend

CCC	Commodity Credit Corporation
COAP	Cottonseed Oil Assistance Program
DEIP	Dairy Export Incentive Program
EEP	Export Enhancement Program
EU	European Union
FAS	Foreign Agricultural Service
GATT	General Agreement on Tariffs and Trade
HVP	High value product
SOAP	Sunflowerseed Oil Assistance Program
TPRG	Trade Promotion Review Group
UR	Uruguay Round
USDA	U.S. Department of Agriculture

Note: Empty option cells indicate that we received no options for a given criterion-linked historical problem from the source(s) listed.

[a]We contacted 13 EEP exporters to obtain their suggestions on options that could be considered for making legislative changes to EEP. The exporters contacted have received over 60 percent of the subsidies awarded under EEP for those commodities from May 1985 to May 1994. See International Trade: Impact of the Uruguary Round Agreement on the Export Enhancement Program (GAO/GGD-94-180BR, Aug. 5, 1994).

[b]FAS officials participated in task force meetings that resulted in various options for USDA consideration. However, these options do not necessarily represent USDA's final agency position.

[c]Option does not address any specifically cited problems.

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