TITLE III
TRADE

SUMMARY OF TRADE TITLE REFORM

Recommendations In Brief
Improve farm bill policy to expand and ensure fairness of international trade.

Problem
Developing countries and developed countries alike are increasingly using unscientific sanitary, phytosanitary, and technical standards as non-tariff trade barriers to imports of U.S. agricultural products. This is especially true for specialty crops and meat and poultry products. This practice has had a significant impact on the U.S. export market.

At the same time, American agricultural productivity continues to expand at a consistent rate of about two percent per year, while the U.S. population, and therefore consumption, is increasing by only about one percent per year. Additionally, 95 percent of the world's population, the majority of consumers, lives outside our borders. This population represents market opportunities for U.S. agriculture if we appropriately respond to unfair practices as well as strengthen our efforts to revitalize the agricultural sectors in fragile regions.

USDA heard about trade challenges at many Farm Bill Forums. For example, Dan from Montana pleaded, "We have a huge production machine in the U.S. ag industry, and it just feels like there's a lot of hidden barriers and things there that are out of our control as producers."

Recommended Solution
The Administration is recommending several proposed changes and new initiatives to Title III – entitled "Trade." Following is a list of the major components of the package.

1. Expand mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program to $68 million over 10 years and increase the maximum allowable project award to $500,000. (For further information, see the proposal entitled "Expand Technical Assistance for Specialty Crops" on pages 67 – 68.)
2. Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities. (For further information, see the proposal entitled "Enhance the Market Access Program" on pages 69 – 70.)
3. Establish a new grant program investing $20 million over 10 years to further focus resources on addressing international sanitary and phytosanitary (SPS) issues for all agricultural commodities. (For further information, see the proposal entitled "Grant Program to Address Sanitary and Phytosanitary Issues" on page 71.)
4. Authorize and provide long-term mandatory funding of $15 million over 10 years to enhance USDA staff support for international standard-setting bodies, such as the *Codex Alimentarius*, the International Plant Protection Convention, and the World

Animal Health Organization. (For further information, see the proposal entitled "Support International Trade Standard Setting Activities" on page 72.)

5. Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes and challenges. (For further information, see the proposal entitled "Technical Assistance to Resolve Trade Disputes" on pages 73 – 74.)
6. Expand trade capacity, food safety, and agricultural extension programs in fragile regions through $20 million of mandatory funding over 10 years. (For further information, see the proposal entitled "Trade Capacity Building and Agricultural Extension Programs in Fragile Regions" on page 75.)
7. Reform the Commodity Credit Corporation's (CCC) export credit guarantee programs to bring them into compliance with the findings of the World Trade Organization dispute resolution panel in the Brazil cotton case. Terminate the Supplier Credit Guarantee Program (SCGP) due to approximately $227 million in defaults and evidence of fraudulent activity. (For further information, see the proposal entitled "Reform Export Credit Guarantee Programs" on pages 76 – 77.)
8. Revise the Facility Guarantee Program (FGP) to attract additional users who commit to purchasing U.S. agricultural products. These program improvements are estimated to increase usage of the program by $16 million over the next 10 years. (For further information, see the proposal entitled "Facility Guarantee Program Revisions" on page 78.)
9. Repeal the Global Market Strategy mandate and the Export Enhancement Program, which are redundant or inactive, allowing USDA to focus resources on priority issues. (For further information, see the proposal entitled "Repeal the Export Enhancement Program and Global Market Strategy Report" on pages 79 – 80.)
10. Authorize the use of up to 25 percent of P.L. 480 Title II funds for the local or regional purchase and distribution of emergency food to assist people threatened by a food security crisis. (For further information, see the proposal entitled "Provide Cash Authority for Portion of Emergency Food Aid" on pages 81– 82.)

EXPAND TECHNICAL ASSISTANCE FOR SPECIALTY CROPS

Recommendation In Brief
Expand mandatory funding for the Technical Assistance for Specialty Crops (TASC) grant program to $68 million over 10 years and increase the maximum allowable project award to $500,000.

Problem
International trade in specialty crops has expanded more rapidly than trade in other agricultural commodities, especially since the 1980s. For example, fruits and vegetables have claimed an increasing share of world agricultural trade, from $3.4 billion in 1961 to nearly $70 billion in 2001. However, trade in specialty crops continues to face increasing challenges especially in the area of sanitary, phytosanitary, and technical barriers in other countries.

These challenges tend to be complex, multi-region issues that are not easily addressed. However, current law caps TASC project awards at $250,000, which can limit the effectiveness of efforts to address these complex problems. Greater flexibility in the TASC program to accept larger, multidisciplinary projects would allow for better quality proposals and improved assistance to specialty crop growers.

Trade barriers were cited as top concerns by some specialty crop producers who commented during USDA Farm Bill Forums. Barry from California said, "…our ability to increase exports is hindered by the reality of non-tariff trade barriers…our efforts have been assisted by the existence of TASC…funds and this is an area that should be expanded."

Recommended Solution
In order to increase usage of the TASC grant program, the Administration recommends increasing the maximum allowable annual project award from $250,000 to $500,000 and allowing more flexibility to allow project timeline extensions. Additionally, the Administration proposes a phase-in of enhanced annual mandatory funding for the TASC program including $4 million in FY 2008; $6 million in FY 2009; $8 million in FY 2010; and $10 million thereafter through FY 2015.

Background
The 2002 farm bill created the TASC program and authorized the use of $2 million of Commodity Credit Corporation (CCC) resources in each fiscal year from 2002 to 2007.

TASC assists U.S. food and agricultural organizations by funding projects that address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. specialty crops. For purposes of the TASC program, a "specialty crop" is defined as all cultivated plants and the products thereof, produced in the United States, *except* wheat, feed grains, oilseeds, cotton, rice, peanuts, sugar, and tobacco. These grants may cover activities such as seminars and workshops, study tours, field surveys, pest and disease research, and pre-clearance programs.

TASC proposals are accepted from any U.S. organization, including, but not limited to - U.S. government agencies, State government agencies, non-profit trade associations, universities, agricultural cooperatives, and private companies. USDA provides these grant funds as direct assistance to U.S. organizations. Applicant contributions are not required, but strongly encouraged.

Each year, USDA announces via the *Federal Register* an application period for participation in TASC. Funds are awarded to applicants that demonstrate how their project will overcome trade barriers resulting in market access retention or expansion for specialty crops. Current law award maximums are $250,000 per year for activities of up to three years. Proposals may target any eligible export market, including single countries or a regional grouping of countries. No TASC participant may have more than three projects underway at the same time.

ENHANCE THE MARKET ACCESS PROGRAM

Recommendation In Brief

Expand mandatory funding for the Market Access Program (MAP) by $250 million over 10 years and focus the additional funds on non-program commodities.

Problem

Specialty crop production receives very little cash benefit from the farm bill. More than 90 percent of the commodity program subsidy payments go to five crops -- corn, wheat, rice, soybeans, and cotton. However, specialty crops are now equal in value to these program crops. During Farm Bill Forums, Secretary Johanns heard frequently about this disparity from specialty crop producers who made a compelling case for a more equitable share in the next farm bill, often requesting an increase in market access efforts. Allison, a strawberry farmer in New York said, “What I need to stay competitive is more agricultural and marketing research and promotion – on specialty crops. There is a tremendous imbalance between money spent on program crops and money spent on specialty crops…” Tom from California said, “This program has proven to be very successful in assisting U.S. fruit and vegetable exports to be more competitive in world markets, and it is critical that the Administration and Congress fund MAP at the maximum authorized level.” Dale from Washington State said, “We…hope that the new farm bill will increase the MAP funding…that helps us open foreign markets and sell our fruit crops abroad.”

While specialty crop producers specifically requested an expansion of MAP, the program benefits more than specialty crop producers, supporting the full range of food and agricultural commodities. This support is important at a time when American agricultural productivity continues to expand at a consistent rate of about two percent per year, while the U.S. population, and therefore consumption, is increasing by only about one percent per year. Additionally, approximately 95 percent of the world's population, the majority of consumers, lives outside the U.S. borders. This population represents new and expanding market opportunities for U.S. agricultural products. Currently, agricultural exports are equal to about 25 percent of U.S. farm cash receipts, so programs that open new markets and strengthen overall U.S. agricultural trade are essential. MAP is one such program. It helps to ensure the U.S. agricultural trade balance remains positive.

Recommended Solution

The Administration recommends increasing Market Access Program funding from $200 million to $225 million annually. USDA will apportion this additional funding to address the inequity between farm bill program crops and non-program commodities. Additionally, organic agriculture should be allowed to compete for MAP funding to help develop and increase the organic export market.

Background

The Market Access Program assists in the creation, expansion, and maintenance of foreign markets for U.S. agricultural products. MAP is authorized by Section 203 of the Agricultural Trade Act of 1978.

MAP forms a partnership between USDA and non-profit U.S. agricultural trade associations, U.S. agricultural cooperatives, non-profit state-regional trade groups, and small U.S. businesses to share the costs of overseas marketing and promotional activities such as consumer promotions, market research, trade shows, and trade servicing.

Each year, MAP helps launch and expand sales of U.S. agricultural, fish, and forest products overseas. MAP uses funds from the USDA's Commodity Credit Corporation to partially reimburse program participants for foreign market promotion activities. MAP applications undergo a competitive review process.

The 2002 farm bill authorized MAP at an annual funding level of $90 million for FY 2001, $100 million for FY 2002, $110 million for FY 2003, $125 million for FY 2004, $140 million for FY 2005, and $200 million for FYs 2006 and 2007.

Agricultural cooperatives and small companies can receive assistance for branded product promotion under MAP, but individual companies must provide at least 50 percent of the funding to participate. For generic promotion activities under MAP, trade associations and others must meet a minimum 10-percent match requirement. Participants are required to certify that federal funds used under the program supplement - and do not replace - private sector funds.

USDA has approved MAP proposals to promote a wide variety of U.S. commodities in almost every region of the world. Among these U.S. food and fiber products are apples, asparagus, canned peaches and fruit cocktail, catfish, cherries, citrus, cotton, dairy products, dry beans, eggs, feed grains, frozen potatoes, grapes, honey, hops, kiwifruit, meat, peanuts, pears, pet food, pistachios, poultry meat, prunes, raisins, rice, salmon, soybeans, strawberries, sunflower seeds, surimi, tallow, tomato products, walnuts, watermelons, and wheat.

GRANT PROGRAM TO ADDRESS SANITARY AND PHYTOSANITARY ISSUES

Recommendation In Brief
Establish a new grant program investing $20 million over 10 years to further focus resources on addressing international sanitary and phytosanitary (SPS) issues for all agricultural commodities.

Problem
Developing countries and developed countries alike are increasingly using unscientific sanitary and phytosanitary standards as non-tariff barriers to U.S. agricultural products. Examples include biotechnology restrictions, maximum residue standards, and restrictions on U.S. beef due to BSE. USDA needs technical expertise on an ad-hoc basis to address SPS barriers as they arise and before they burgeon into larger problems.

This problem was highlighted repeatedly during USDA's Farm Bill Forums and in comments submitted to USDA. Ross from Texas stated, "We must be able to remove unfair trade barriers in a more timely manner." Paul from Hawaii said, "Continue to support and increase support for programs that remove, resolve, or mitigate sanitary and phytosanitary barriers to trade."

Recommended Solution
The Administration proposes creation of a new grant program focused on SPS issues, supported by $2 million in annual mandatory funding. This program would allow for new or expanded focus on such issues as foreign governments' acceptance of antimicrobial treatments; wood-packaging material; irradiation; biotechnology; science-based maximum residue level standards; and testing procedures and controls for mycotoxins.

Background
With an increasing number of non-tariff trade barriers in both developed and developing countries, the SPS issues grant program would be designed to fund projects that address sanitary, phytosanitary, and technical barriers that prohibit or threaten the export of U.S. food and agricultural products, including meat, poultry, and specialty crops. The grants program would reduce the need to hire technical staff permanently, bring the creativity of the private sector to USDA technical problem solving, allow the USDA to commission targeted scientific reports, or otherwise make use of outside technical expertise to address technical trade barriers.

SUPPORT INTERNATIONAL TRADE STANDARD SETTING ACTIVITIES

Recommendation In Brief

Authorize and provide long-term mandatory funding of $15 million over 10 years to enhance USDA staff support for international standard-setting bodies, such as the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization.

Problem

Technical trade barriers that are not scientifically justified are constraining U.S. agricultural exports. USDA heard about these struggles at various Farm Bill Forums. For example, Dan from Montana pleaded, "We have a huge production machine in the U.S. ag industry, and it just feels like there's a lot of hidden barriers and things there that are out of our control as producers." And Jeremy, from South Dakota, wrote, "Ag countries around the globe are penalizing or threatening to penalize our producers with trade barriers."

Increasing U.S. representation in and ensuring full funding of standard setting bodies at the Food and Agriculture Organization (FAO) and other similar international agricultural health organizations are critical to harmonizing multilateral food, plant, and animal safety standards. A lack of U.S. funding for staff support has led FAO to take a more Eurocentric approach to its analysis, which may be in conflict with U.S. objectives.

Recommended Solution

The Administration proposes to enhance USDA support for the *Codex Alimentarius*, the International Plant Protection Convention, and the World Animal Health Organization - the three respective international standards setting bodies for food, plants, and animals. This initiative would close compensation gaps between USDA and international organizations. Additionally, it would increase funding from $200,000 to $1.5 million to fund up to four Associate Professional Officers a year to support U.S. sanitary and phytosanitary (SPS) priorities.

Background

International bodies establish and harmonize SPS standards and minimize technical barriers between countries and regional organizations. By ensuring these international health and safety protection standards are properly designed and implemented, the U.S. can avoid unwarranted technical barriers that threaten opportunities for two-way trade.

It is imperative that USDA place seasoned director-level staff in international organizations that have the experience, background, and savvy to effectively influence decision-making. Because these positions are employed by the international organizations, the USDA needs authority to close the gap between international organization and U.S. salaries, cost of living adjustments, and accrued service benefits, which would allow the U.S. to place more senior level personnel in policy positions.

TECHNICAL ASSISTANCE TO RESOLVE TRADE DISPUTES

Recommendation in Brief

Provide enhanced monitoring, analytical support, and other technical assistance to support U.S. agriculture in bringing forward or responding to significant trade disputes and challenges.

Problem

When industries are faced with unfair practices by our trading partners, they are often at a disadvantage due to limited information and resources. At the same time, U.S. industries may be challenged by other trading partners. Although the preferred route to address unfair trading practices may be to initiate a World Trade Organization (WTO) case, this may be impossible for limited resource industries. This situation adversely affects smaller groups and industries much more than larger, more resourceful entities. Trade dispute cases are typically very lengthy and resource intensive, often spanning several years. USDA can provide needed technical and analytical expertise to assist in the event of such action.

USDA was repeatedly encouraged to focus on lifting trade barriers during Farm Bill Forums held across the country and in written comments submitted to the Department. For example, Wendy from Iowa wrote, “Efforts should be continued to reduce trade barriers, providing a level playing field for U.S. exports in international markets.” Larry in Missouri, wrote, “…the removal of unfair, legally questionable foreign interventionist practices and highly-protective tariff and non-tariff trade barriers are essential for the U.S. industry to be competitive.”

Recommended Solution

The Administration proposes giving USDA broad discretionary authority to provide enhanced monitoring, technical assistance, and analytical support to limited resource agriculture groups if the Secretary of Agriculture determines that it would be beneficial to U.S. agriculture.

Background

As U.S. agriculture has become increasingly part of a global economy, more and more agricultural industries may face unfair competition or be challenged by other trading partners. U.S. industries have recourse through trade remedy laws – antidumping, countervailing duties, or safeguards – to address potential unfair competition. In addition, trade actions in the WTO are increasing and are another avenue to address unfair competition. Over the past decade, many U.S. agricultural industries have brought challenges through U.S. trade laws and worked with USDA and the U.S. Trade Representative (USTR) to resolve WTO cases. Conversely, some U.S. agricultural sectors have faced challenges in either the WTO or by other countries’ trade remedy laws. USDA currently assists in such efforts by providing legal and analytical support, often working closely with USTR. Such actions are complex, lengthy, and time-consuming.

The impact of foreign trade competition was discussed at Farm Bill Forums. For example, Al from Rhode Island said, “Let's just try and keep our farms competitive with farms from overseas.” And Tim of Minnesota added, “We cannot compete, farmer against nation.” Agricultural beneficiaries of the Trade Adjustment Assistance (TAA) Program have been few and decreasing while USDA operational costs for the program have been high in comparison to producer benefits. For example, in fiscal year 2006, TAA expenditures were $7.9 million, including $5.9 million in USDA operating costs (including technical assistance provided by the Cooperative State Research, Education, and Extension Service to eligible participants). Direct payments to eligible producers were only $2 million. Legal authority for Trade Adjustment Assistance recently expired. If Congress chooses to re-authorize this program, the Administration would like to be engaged to ensure this program is more useful and a better use of taxpayer dollars.

TRADE CAPACITY BUILDING AND AGRICULTURAL EXTENSION PROGRAMS IN FRAGILE REGIONS

Recommendation In Brief
Expand trade capacity, food safety, and agricultural extension programs in fragile regions of the world through $20 million of mandatory funding over 10 years.

Problem
International economic development is one of the three pillars of U.S. foreign and national security policy. In recent years, USDA has worked with the U.S. State Department, the Department of Defense, and the National Security Council to assist in the reconstruction and stabilization of Afghanistan and Iraq. Revitalization of the agricultural sector is essential in fragile regions, particularly those dependent on agriculture for food and employment. While USDA has provided technical assistance through agricultural extension programs, USDA has not received direct funding for such programs, limiting their reach and effectiveness.

Recommended Solution
The Administration proposes providing $2 million annually in direct mandatory funding for agriculture reconstruction and extension efforts for purposes of trade capacity. While USDA is engaged in significant activities in Afghanistan and Iraq, additional funds should be provided for future assistance needs in fragile and/or potentially unstable environments, such as Sudan or Somalia.

Background
In recent years, USDA has worked with the U.S. State Department, the Department of Defense, and the National Security Council to assist in the reconstruction and stabilization of post-conflict Afghanistan and Iraq.

Program benefits include:
- Supporting Presidential commitments to current and future international aid, such as agricultural extension projects or agriculture knowledge initiatives.
- Supporting U.S. foreign policy and national security goals of reconstruction and stabilization efforts in fragile regions.
- Preparing for future assistance needs in potentially unstable environments, such as Sudan or Somalia, where agriculture is a major sector for livelihoods and economic activity.
- Building bilateral partnerships with strategically important countries and agricultural sectors engaged in global trade.

REFORM EXPORT CREDIT GUARANTEE PROGRAMS

Recommendations in Brief

Further reform the Commodity Credit Corporation's (CCC) export credit guarantee programs in light of the findings of the World Trade Organization (WTO) in the Brazil cotton dispute. Terminate the Supplier Credit Guarantee Program (SCGP) due to approximately $227 million in defaults and evidence of fraudulent activity.

Problem

The WTO found that the CCC export credit guarantee programs are not consistent with U.S. obligations under international trade rules. Although the Administration has taken certain administrative steps to bring the programs into conformity with U.S. obligations, additional legislative changes would complement those actions and ensure that the programs remain WTO compliant. As Kid, from Texas noted at a Farm Bill Forum, "We have got to abide by those trade agreements that we made."

The Supplier Credit Guarantee Program has incurred a large number of defaults and has been subject to fraud. Total defaults over the life of the SCGP (1996 to present) equal approximately $227 million, with the largest losses occurring in FY 2004 (approximately $79 million) and FY 2005 (approximately $122 million). These recent defaults prompted USDA to withhold announcement of a SCGP program in FY 2006. Of the $227 million in default, approximately $7 million has been recovered.

Recommended Solution

The Administration recommends removing the one percent cap on fees that can be collected under the short-term Export Credit Guarantee Program (GSM-102) and eliminating the specific authority for the Intermediate Export Credit Guarantee Program (GSM-103). The Administration also proposes termination of the Supplier Credit Guarantee Program.

Background

In the Brazil cotton dispute, the WTO found that the CCC export credit guarantee programs are export subsidies provided in a way that is inconsistent with U.S. trade agreements. The WTO's findings apply not just to cotton, but also other U.S commodities that receive export credit guarantees. To comply with these findings, the Administration took a number of steps in July 2005 to bring the programs into conformity with U.S. obligations. With respect to the GSM-102 program, the Administration implemented a more risk-based fee structure that better reflects country risk ratings and length of guarantee coverage and eliminated the highest risk countries from the programs altogether. The Administration further suspended additional guarantee applications under the GSM-103 program. To complement these actions, the Administration submitted legislative proposals to Congress in July 2005 and again in March 2006.

The Administration proposes eliminating the cap on GSM-102 fees to provide greater flexibility and assist USDA in maintaining the risk-based fee structure adopted in July 2005. Eliminating the specific statutory authority for the GSM-103 program is consistent with the suspension of the program in July 2005. Further, participation in the GSM-103 program has been very low in recent years, and repeal of the specific authority is likely to affect few, if any, food or agricultural interests.

The Supplier Credit Guarantee Program is designed to help exporters offer direct, short-term credit to foreign buyers of U.S. food and agricultural products. USDA's CCC reduces the financial risk to exporters by guaranteeing a large portion of the payments due from importers under financing arrangements of up to 180 days. The direct credit extended by the exporter to the importer for the purchase of U.S. agricultural products must be secured by a promissory note signed by the importer. USDA issues the credit guarantee, while the exporter or the exporter’s bank provides the financing. A substantially smaller portion of the value of exports (currently 65 percent) is guaranteed under the SCGP than under the GSM-102 program, where the CCC is guaranteeing foreign bank obligations.

FACILITY GUARANTEE PROGRAM REVISIONS

Recommendation In Brief

Revise the Facility Guarantee Program (FGP) to attract additional users who commit to purchasing U.S. agricultural products. These program improvements are estimated to increase usage of the program by $16 million over the next 10 years.

Problem

Emerging markets often lack the infrastructure to support increased trade volume. USDA has a credit guarantee program, the Facility Guarantee Program (FGP), to help meet this need for increased trade capacity and infrastructure. However, the requirements to qualify for this program have discouraged its use. Thus, the program needs to adapt to market realities. As Jeff from Rhode Island said, “(in) the global economy that we live in…innovation is everything.”

Recommended Solution

A robust Facility Guarantee Program is needed to facilitate trade in the CAFTA region. Thus, the Administration recommends expanding FGP loan authority to allow lower or no down payments, 98 percent principle and interest coverage, and longer tenor for up to the lifecycle of a facility’s depreciation schedule (not to exceed 20 years). Additionally, we propose increased flexibility within the facility construction input origin requirements, including providing authority to the General Sales Manager to waive these requirements on a case-by-case basis where a U.S. equivalent input is not available or practical. These changes will make the program more viable and competitive with similar Export-Import Bank programs and would not exceed $50 million in additional subsidy costs. Project approvals would still be dependent on both the project and country risk assessment.

Background

The USDA Facility Guarantee Program was authorized by section 1542(b) of the 1990 farm bill. The FGP is designed to expand sales of U.S. agricultural products to emerging markets where inadequate storage, processing, or handling capacity limit trade potential. The program provides payment guarantees for one to 10 years to finance commercial exports of U.S. manufactured goods and services that will be used to improve agriculture-related facilities.

Emerging markets often lack the infrastructure to support increased trade volume. Export sales of U.S. equipment or expertise to improve ports, loading and unloading capacity, refrigerated storage, warehouse and distribution systems, and other related facilities may qualify for facility guarantees, as long as these improvements are expected to increase opportunities for U.S. agricultural exports.

Under this program, USDA's Commodity Credit Corporation (CCC) guarantees payments due from approved foreign banks to exporters or financial institutions in the

United States. The financing must be obtained through normal commercial sources. Typically, a guarantee covers 95 percent of principal and a portion of interest.

REPEAL THE EXPORT ENHANCEMENT PROGRAM AND GLOBAL MARKET STRATEGY REPORT

Recommendation In Brief
Repeal the Global Market Strategy mandate and the Export Enhancement Program, which are redundant or inactive, allowing USDA to focus resources on priority issues.

Problem
The Export Enhancement Program (EEP) is no longer a useful tool for U.S. agricultural exports. EEP has been inactive for many years; therefore, eliminating EEP would not materially affect U.S. exports. Additionally, the utilization of EEP is inconsistent with the U.S. goal of eliminating export subsidies worldwide.

The Global Market Strategy (GMS) is a redundant mandate to USDA's existing United Export Strategy and Country Strategy programs. The GMS is not as useful or timely but carries administrative compliance costs to produce the report. Administrative costs to comply with the GMS total approximately $250,000 for reviewing and auditing the report.

Recommended Solution
The Administration proposes repealing the Global Market Strategy mandate and the Export Enhancement Program because they no longer serve valuable purposes. These changes would allow USDA to further focus staff and financial resources on priority issues.

Background
The 2002 farm bill requires that within six months after enactment and every two years thereafter, the Secretary of Agriculture consult with Congress on formulating and implementing a global market strategy that identifies growth opportunities in foreign markets for agricultural exports. However, USDA's existing United Export Strategy and Country Strategy programs use real-time market analysis and global intelligence, which more appropriately highlight opportunities for U.S. agricultural exports in global markets in a timelier manner.

The Export Enhancement Program is designed to help U.S. farm products meet competition from subsidizing countries, especially the European Union. Under the program, the U.S. Department of Agriculture pays cash to exporters as bonuses, allowing them to sell U.S. agricultural products in targeted countries at prices below the exporter's cost of acquiring them. The major objectives are to expand U.S. agricultural exports and to challenge unfair trade practices.

Consistent with its World Trade Organization commitments under the Uruguay Round Agreement on Agriculture, the United States has established annual ceilings, by commodity, with respect to export quantities and budget expenditures. The EEP has been inactive in recent years, and no allocations were announced for fiscal year 2005 or 2006. EEP bonuses become available only when USDA announces an operational EEP initiative for a specific commodity or commodities. Commodities eligible for EEP initiatives are wheat, wheat flour, rice, frozen poultry, barley, barley malt, table eggs, and vegetable oil. The 2002 farm bill established a maximum annual program level for EEP of $478 million, the maximum allowable level under the Uruguay Round export subsidy reduction commitments.

PROVIDE CASH AUTHORITY FOR PORTION OF EMERGENCY FOOD AID

Recommendation in Brief

Authorize the use of up to 25 percent of P.L. 480 Title II funds for the local or regional purchase and distribution of emergency food to assist people threatened by a food security crisis.

Problem

The Administration is very concerned about ensuring that food aid and famine prevention are effective and efficient and address the highest priority needs. Food purchased in the United States normally takes four months or longer to arrive at its destination. Food purchased locally, however, can reach beneficiaries within days or weeks in many cases.

Without the ability to use a portion of Title II for local and regional purchase, the U.S. is slower and has less flexibility to save lives and prevent famine. Speed is sometimes necessary when an emergency occurs with little notice (e.g., a natural disaster), food deliveries are unexpectedly interrupted (e.g., a pipeline break), or a cease fire allows rapid access to populations in need.

Under current law, P.L. 480 Title II may only be used to purchase and ship U.S. commodities. The current program is typically able to provide timely and effective assistance, but there have been several recent cases where P.L. 480 Title II could not be procured quickly enough and the U.S. either could not provide food, provided food late. Two notable cases in recent years have been Iraq in 2003 and the humanitarian crisis in Lebanon in 2006. The Administration would also have considered using this authority for the immediate response to the Asian tsunami in 2004, in southern Africa and Niger in 2005, and in East Africa in 2006.

Recommended Solution

The Administration proposes authorization to use up to 25 percent of the P.L. 480 Title II request to procure food from selected developing countries near the site of a crisis. This authority increases Administration tools to quickly meet emergency needs in the most effective way possible. Cash food aid will only be used in those cases where a rapid response is critical to saving lives. The majority of U.S. food aid will continue to rely on U.S. commodities.

U.S.-grown food will continue to play the primary role and will be the first choice in meeting global needs. Local and regional purchases will be used judiciously where the speed of the arrival of food aid is essential. The Administration will be better equipped to deal with emergencies if our tools include cash that can be used to provide immediate relief until US commodities arrive or to fill in when there are pipeline breaks.

Background

The P.L. 480 Title II food aid program, which buys U.S. food to be shipped to developing countries, is funded through the U.S. Department of Agriculture appropriation and administered by the U.S. Agency for International Development. The major use of this program is to address emergency humanitarian needs, save lives and to address the underlying causes of food insecurity.

P.L. 480 Title II is the largest U.S. international food aid program. The FY 2008 request is $1.2 billion (about $80 million higher than the FY 2006 enacted level). Current P.L. 480 legislation requires the use of U.S. commodities. The U.S. alone currently provides almost half of food aid distributed by the UN World Food Program. In FY 2007 and again in FY 2008, the increase in the Administration's request compared to FY 2006 is intended to complement the additional flexibility requested.

The Administration began requesting the authority to use a portion of food aid funding for cash food aid in food security emergencies in FY 2006. In FY 2008, as in FY 2007, the President's budget includes the request that the Administrator of the U.S. Agency for International Development (USAID) be granted authority to use up to 25 percent of appropriated P.L. 480 Title II funds for the local or regional purchase and distribution of food to assist people threatened by a food security crisis.

The principal reason for the proposal is to save lives. USAID's conservative estimate is the authority could feed at least one million additional people for 6 months and could save at least 50,000 lives in acute emergencies.

The Administration expects food would be purchased from developing countries, as defined by the OECD Development Assistance Committee list of ODA recipients. We do not foresee procuring food from Latin American countries because commodities usually can be shipped to the region quickly from the United States. We do not foresee purchasing significant food from East Asian countries because there are few major emergencies in the region that require large emergency food aid programs (e.g., prolonged conflict or wide-spread droughts affecting millions of people, as in Africa). We do not anticipate procuring commodities in one region of the world and shipping them to another distant region because commodities can likely be shipped from the United States just as quickly. We would not procure food from developed countries.

This authority would enable U.S. assistance to be more effective and more efficient. The authority would be used in those instances where the rapid use of cash for local or regional procurement is critical to saving lives in response to an emergency. The intention is not to change the way the United States meets most food aid needs, but rather to enhance the variety of tools at our disposal to address food emergencies.