



## Perspectives on the 2013 Farm Bill

### **Trade Title:**

### ***Updating Programs With and Without Legislation***

*By Christopher Goldthwait*

The Farm Bill's Trade Title governs mainly the U.S. Department of Agriculture's (USDA) export programs and the food aid programs of both USDA and the U.S. Agency for International Development (USAID). Discussing the Trade Title in the context of the legislation currently being considered poses a challenge because not much is being changed or needs to be. That doesn't mean, however, that major changes that can be made administratively aren't needed in some of the export programs. There is also a major controversy concerning food aid. Congress can be helpful by retaining the flexibility that currently exists in how all of the Trade Title programs are executed, and in requesting reports and using report language to prod the Executive Branch to adapt the programs to current circumstances.

### *Export Programs*

In a recent presentation, Acting Under Secretary for Farm and Foreign Agricultural Services Darci Vetter made four points that showed under-appreciated trends in agricultural trade, and the need for changes in the export programs. First, agricultural trade has reached \$1.2 trillion dollars annually, and is projected to reach \$1.6 trillion by 2022. The biggest growth is occurring in consumer-oriented foods that already account for half of agricultural trade. Third, about 70% of agricultural exports are made by developing countries, and these countries account for an equal share of imports. However, the developing countries are not deeply invested in the international institutions (WTO, Codex, etc.) that make and manage the trade rules for this enormous, vital commerce.

### *Credit Guarantees*

The biggest changes need to be made in the Credit Guarantee Programs, which are not helping U.S. agriculture to take advantage of the burgeoning growth in consumer-oriented trade. The programs are little changed from when I managed them some 20 years ago. Then, the case could be made that a structure based on letters of credit and focused on middle-income countries significantly expanded trade. Certainly this was true when GSM-102 was critical to keeping exports flowing to Mexico, Eastern Asia and Russia during their financial crises. To judge by data available on-line on program utilization today, they are supporting very little in the way of exports of high-value products. They are used for shipments to a small number of countries and regions—South Korea, Mexico, Turkey, Central America—that are relatively strong financially, where they may not, in fact, be leveraging much increase in exports. Is this because the fastest growth in trade

doesn't rely on the letter of credit mechanism, or perhaps because the programs are not attractive to the customers driving that trade?

What we need is a comprehensive analysis of where an infusion of credit through government risk sharing would truly expand the liquidity in the market beyond what the private sector itself can do. Should we provide the credit guarantees not to U.S. exporters but to foreign importers, for example supermarket chains, where a revolving short-term credit line to be used for purchases out of the United States might have much more impact? The Congress should call for such a report in the Trade Title or in report language, as it has often done in the past.

#### *Hidden Export Programs*

Under Secretary Vetter's point about the lack of commitment by developing countries in international institutions, is an argument for an enormous expansion in programs that we don't usually think of as export promotion programs—the Cochran Fellowship Program and the Borlaug Fellowship Program. Through capacity building for scientists and officials of developing countries, these programs create understanding of the need for science-based rules, and the ability on the part of developing countries to enforce them. This can have enormous impact in liberalizing the trading system over the long haul. Indeed, the National Center for Food and Agricultural Policy has executed several projects under these programs, and has seen first-hand the changes over time in the attitudes and policies of participating countries. In re-authorizing these programs, the Congress should signal its support for program expansion.

#### *Food Aid*

Paradoxically, the most controversial aspect of the Trade Title concerns food aid and the little-known practice of its monetization, i.e. the sale of U.S. government-donated commodities to generate the funds for development activities. The Government Accountability Office and other critics point to its inefficiencies, while supporters argue that without the political interest by the farming and maritime communities, the budget support for a cash-only food aid system would wither fast. It is interesting that even in the current budget environment, there is serious opposition to the Obama Administration's proposal in the FY2014 budget to eliminate the largest portion of monetization done under PL 480 Title II. At a minimum, the measures in the Senate's Farm Bill draft that set a 70% cost recovery benchmark for monetization, and increase the scope for purchasing food aid for emergency feeding in foreign countries and regions near the need, are welcome. But food aid, like the export programs, needs to remain flexible. It would be wrong to eliminate authority for monetization as one of the tools in the tool box, and this appears unlikely.

The recent emphasis on food aid quality and processed food aid products that are tailored to the specific nutritional needs of target populations in their way mirror the trade trend in favor of consumer-oriented foods. Support for these trends was already present in the 2008 bill and the current House and Senate drafts correctly continue this.

The Trade Title has always been one of the less controversial areas of the Farm Bill, and this is true again this year. Given the flexibility in current law, there is little need for major legislative changes. But Congress can enact some valuable smaller changes with respect to food aid, and send some useful signals about overhauling at least one of the major export programs.

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