United States General Accounting Office

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Report to the Honorable
Dan Glickman, House of Representatives

April 1993

AGRICULTURAL TRADE

High-Value Product Sales Are Limited in Export Enhancement Program

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GAO

United States
General Accounting Office
Washington, D.C. 20548

Resources, Community, and
Economic Development Division

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April 6, 1993

The Honorable Dan Glickman
House of Representatives

Dear Mr. Glickman:

The European Community has become the world's largest exporter of agricultural high-value products (HVP), capturing 20 percent of the world's $160 billion HVP trade in 1990, as compared with the United States' 15.6 percent.[1] In that same year, the Congress directed the Secretary of Agriculture to establish as an objective the annual use of at least 25 percent of the Export Enhancement Program's (EEP) funds (or value of commodities employed) to facilitate the sales of HVPS. Historically, EEP has been a bulk commodity program, only 8 percent of whose program funds were used in fiscal year 1991 to support HVP sales.

In response to your request, this report (1) identifies factors that limit HVP sales under EEP and (2) discusses other U.S. Department of Agriculture (USDA) efforts to increase HVP exports. The report also contains background information on how EEP works and on the extent to which HVPS participate in EEP.

Results in Brief

Certain factors limit HVP sales under EEP, including restrictive program guidelines, foreign policy considerations, and cumbersome administrative processes. According to EEP guidelines, when selecting commodities and countries to target under the program, program managers must determine that EEP sales will counter foreign competitors' subsidies (primarily from the European Community) and other unfair trade practices. Since the European Community does not directly subsidize a large portion of its HVP exports, this guideline restricts the number of HVP sales that the Foreign Agricultural Service (FAS) can make through EEP. Furthermore, an EEP guideline requiring program managers to ensure that EEP sales will not displace nonsubsidizers' sales reduces the number of targetable markets for HVP sales under EEP. In addition, U.S. trade sanctions have prohibited EEP sales to some countries. Finally, time-consuming processes for

[1]Agricultural products are classified as bulk or high-value. According to USDA's Economic Research Service, bulk products have little value added beyond the farm gate and are generally shipped to buyers in large quantities (e.g., wheat). In contrast, high-value products include (1) products that have value added after the farm gate through specialized processing, packaging, marketing and/or transportation (e.g., wheat flour, vegetable oil) and (2) unprocessed products that are intrinsically high in value (e.g., fresh fruits, vegetables, nuts). We use the term HVP to include both value-added and high-value products.

reviewing proposals and for bidding have both delayed and prevented EEP sales.

USDA administers a number of programs in addition to EEP that offer assistance in exporting HVPs. Some of these programs may be better designed than EEP to facilitate HVP sales because they have less restrictive guidelines. Also, on January 15, 1993, USDA submitted to the Congress a Long-term Agricultural Trade Strategy, which was mandated by the 1990 Farm Bill.[2] One of the stated goals of this strategy is to expand both the total dollar amount of HVP exports and the percentage of U.S. exports represented by HVPs. The Long-term Agricultural Trade Strategy should help USDA establish priorities for its program expenditures and better focus its efforts to increase HVP exports.

Background

In May 1985, EEP was established by the Secretary of Agriculture in reaction to continuing declines in U.S. agricultural exports. Under the program, cash bonuses are made available to exporters to enable them to lower the prices of U.S. agricultural commodities and to make these commodities competitive with subsidized foreign agricultural exports, particularly those of the European Community.[3] The 1985 Farm Bill subsequently authorized EEP as an export subsidy program.[4]

Promotion of HVPs has always been an objective of EEP. The 1985 Farm Bill directed the Secretary of Agriculture to seek to expend annually at least 15 percent of the total available EEP funds (or 15 percent of the value of any commodities employed to encourage such sales) for program activities that would encourage and enhance the export sales of poultry, beef, or pork meat and meat products.

The Congress demonstrated continued interest in increasing HVP exports through recent legislation calling for additional HVP sales in EEP and in the Export Credit Guarantee Programs (GSM-102/103).[5] The 1990 Farm Bill requires the Secretary of Agriculture to set as an objective the annual

[2]Food, Agriculture, Conservation, and Trade Act of 1990 (P.L. 101-624, Nov. 28, 1990), section 1531.

[3]Before November 1991, bonus payments were made in the form of generic commodity certificates redeemable from inventory of USDA's Commodity Credit Corporation.

[4]Food Security Act of 1985 (P.L. 99-198, Dec. 23, 1985).

[5]Under the GSM programs, the Commodity Credit Corporation guarantees that U.S. exporters or their assignees (i.e., financial institutions) will be repaid for a credit sale made to a foreign buyer in the event of a loan default.

expenditure of at least 25 percent of the total available EEP funds (or value of commodities employed) in support of HVP export sales.

HVP Participation

While USDA's Economic Research Service categorizes HVPs according to the level of processing (i.e., unprocessed, semiprocessed, and highly processed), FAS uses different groupings—intermediate and consumer-oriented products. Intermediate products are generally semiprocessed commodities, such as wheat flour, soybean meal, soybean oil, other vegetable oils, feeds and fodder, animal fats, hides, and skins. Consumer-oriented products are end products that are ready for consumption. They include bakery products, beef, poultry meat, pork, offal, dairy products, fresh and processed fruit, fresh and processed vegetables, fruit and vegetable juices, tree nuts, and wine.

Ten HVPs have been approved for sale through EEP: wheat flour, barley malt, vegetable oil, frozen poultry, table eggs, dairy cattle, semolina, poultry feed, canned peaches, and pork. All but one of these commodities have registered sales. As of December 10, 1992, the initiative for pork had not yet had any sales.

Seventy-one countries or regions have been targeted under EEP (see app. I). Over 75 percent of the HVP sales have been to eight countries: Algeria, Egypt, Indonesia, Iraq, Morocco, Tunisia, Turkey, and Yemen. Wheat flour, frozen poultry, and vegetable oil represent over 75 percent of the sales of HVPs to all countries.

How EEP Works

FAS receives oral and written recommendations for countries and commodities to target under EEP. Most of these recommendations come from trade associations and from within FAS; however, importing countries, U.S. exporters, U.S. and foreign government officials, and other members of the U.S. agricultural community also submit recommendations. Most of the new recommendations (countries/commodities never having prior EEP sales) are made by the trade associations, while most renewals (initiatives currently or previously available) are made by FAS personnel.

The appropriate FAS commodity division first reviews each recommendation to determine whether it meets the program's guidelines and then drafts a proposal. To be approved for an EEP initiative, a proposal must be designed to (1) further the United States' trade policy strategy of opposing competitors' subsidies and other unfair trade practices by displacing competitors' subsidized exports in targeted countries, (2) avoid more than a minimal effect on nonsubsidizers in the market, (3) maintain a minimum level of bonus awards to achieve the expected benefits, and (4) develop, expand, or maintain markets for U.S. agricultural products abroad. The proposal must also contain detailed historical information about the market that is being targeted. This includes information on the presence of subsidizing countries in the market, data on the sales activity and market share of both the United States and nonsubsidizers, and other market data for the previous 10 years. A proposal that meets the program's guidelines is forwarded with comments and recommendations to USDA's Under Secretary for International Affairs and Commodity Programs.

If the Under Secretary approves the proposal, an interagency review begins. The proposal is sent to the Office of the U.S. Trade Representative, which coordinates the final review and approval and distributes the proposal to member agencies of the Trade Policy Review Group (TPRG). TPRG is chaired by a deputy U.S. Trade Representative and is made up of representatives from the U.S. Departments of Agriculture, Commerce, State, and the Treasury; the Office of Management and Budget; the National Security Council; the Council of Economic Advisors; and other agencies with interest in the proposal. TPRG reviews the proposal in light of USDA's guidelines and considers foreign policy concerns for trade to certain regions. If TPRG cannot reach consensus, the proposal is forwarded to the Economic Policy Council. If the Council cannot agree, the proposal may be sent to the President for approval or rejection.

Once a proposal is approved, FAS issues invitations for bids that specify the country or countries (targeted market), the commodity, the unit of measure, the maximum quantity of the commodity eligible for a bonus, the quality specifications of the commodity, the eligible buyers (importers), the method and rate for determining liquidated damages and performance security requirements, and other terms and conditions.

In order for exporters of U.S. agricultural commodities to obtain EEP bonuses, sales must be approved through a bidding process administered by FAS. FAS collects information on competitors' selling prices from daily and weekly market intelligence reports and from overseas sources, such as agricultural attachés, private contractors, and trade contacts. FAS sets a minimum acceptable price that is competitive with the delivered price of the subsidizing supplier. FAS also estimates the U.S. domestic price plus charges for freight and special handling to the same destination.

Information is collected from trade publications, trade contacts, freight companies, and other USDA divisions. FAS uses the difference between the United States' and competitors' delivered prices as the basis for calculating separate prices and bonuses for each destination, type of commodity (e.g., hard red winter wheat, soft winter wheat, durum wheat), and time of shipment.

After an exporter negotiates a sales price with an importer, the exporter determines the bonus necessary to make the sale and submits this information as a bid to FAS by 3 p.m. Eastern Standard Time. For FAS to accept the bid, it must fall within established minimum price and maximum bonus levels.[6] FAS compares all acceptable bids received and awards contracts in ascending order of bonus bids until the approved quantity is filled. By 10 a.m. Eastern Standard Time the following day, FAS must respond to all of the bids that were submitted the previous day. FAS sends written notification to exporters whose bids have been accepted and tells exporters whose bids have been rejected whether their bid price was too low or their bonus amount too high.

Factors Limiting HVP Participation in EEP

USDA has not met the objectives for HVP sales established for EEP under either the 1985 Farm Bill or the 1990 Farm Bill. While bonuses for HVPs averaged 20 percent of total EEP bonuses awarded in fiscal years 1985 to 1989, bonuses for meat products fell short of the 1985 bill's 15-percent goal, representing only 8 percent of the EEP bonuses paid. Similarly, 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 bill.

To better understand why USDA was not meeting the legislative objectives for HVP sales, we examined documented recommendations for HVP proposals under EEP between January 1, 1991, and August 20, 1992.[7] Of the 75 HVP recommendations that FAS received during this period, 25 had been terminated as of December 10, 1992, for the following reasons: 12 were targeted to countries in which a foreign competitor (the European Community) was not subsidizing the same commodity; 6 were incompatible with U.S. foreign policy objectives; 6 contained insufficient

[6] The minimum price and maximum bonus levels are not publicly announced, primarily to maintain the integrity of the bidding process and to promote competition.

[7] We reviewed recommendations submitted after January 1, 1991, because documentation was not previously available. FAS received additional oral suggestions that were not formally documented for various reasons—such as duplication of a suggested proposal or rejection for clearly not meeting program guidelines.

market data; and 1 could not ensure a minimal impact on nonsubsidizing competitors in the market. Although terminated, these recommendations could be reevaluated and approved at a later date.

On the basis of the reasons cited for terminating EEP recommendations, we identified three prime factors that have limited USDA's ability to increase HVP participation in EEP. These factors, which often interact with one another, include restrictive program guidelines, foreign policy considerations, and cumbersome processes for administering the program. While these factors have also affected bulk commodity sales, some are more problematic for HVP sales and help to explain why increasing HVP exports through EEP has proven difficult.

Restrictive Program Guidelines

As previously stated, for a commodity to be eligible for inclusion in EEP, a foreign competitor, usually the European Community, must be subsidizing the export of the same commodity to that particular market. The European Community primarily subsidizes exports of cereal products, which include wheat, barley, barley malt, wheat flour, and rice (see app. II). However, a large portion of the European Community's HVP trade is in horticultural and tropical products (see app. III). These commodities represent 47 percent of the European Community's HVP export trade, yet they receive little if any direct export subsidy; therefore, the same U.S. commodities are not eligible for participation in EEP. While dairy products receive significant export subsidies from the European Community, USDA has a separate program, the Dairy Export Incentive Program (DEIP), to assist in exporting these commodities (see app. IV).

EEP sales are supposed to be designed to have minimal impact on nonsubsidizers' sales. This guideline further reduces the targetable markets for HVP sales under EEP. In order for an EEP proposal to be approved, FAS personnel must spend time obtaining assurances from importing countries that nonsubsidizers' sales will not be displaced. In contrast, the European Community can make subsidies available without considering the effect of its exports on nonsubsidizers' market shares.

FAS officials and trade representatives mentioned additional reasons why a greater percentage of EEP funds are not used to support HVP sales. These reasons include (1) limited sales activity after HVP initiatives have been approved and announced, (2) considerations of cost-effectiveness and (3) a requirement that 100 percent of a commodity's components be of U.S. origin.

FAS' analysis showed that if all of the EEP initiatives open on May 15, 1992, had been sold, the percentage of EEP bonus awards for HVP sales would have been close to 30 percent. However, our analysis showed that inactivity occurs in the sales of both HVP and bulk commodities; for example, many wheat initiatives have limited sales. Sales inactivity may occur for a variety of reasons—lack of available credit, filling of demand from other sources following delays in obtaining approval for a proposed EEP initiative, and problems with the bidding process. Overall, since the beginning of fiscal year 1991, 55 percent of the quantities allocated for bulk, and 66 percent of the quantities allocated for HVP, initiatives have not been used.

Considerations of cost-effectiveness arise under EEP when USDA compares the bonus level needed to make the product competitive with the expected benefits. According to trade representatives, this comparison creates an implied bias against HVP initiatives because HVPs require a relatively higher bonus level than bulk commodities to be competitive with foreign subsidized sales. Our analysis shows that although the cost of subsidizing exports varies by commodity, the bonus was higher relative to the sales price for most HVPs than for bulk commodities (see app. V). Although we did not find that any recommendation for a proposal had been terminated primarily because the cost of the subsidy was considered too high, recommendations for HVP proposals may not have been submitted for this reason.

Closely related to consideration of a particular initiative's cost-effectiveness is concern for maintaining EEP's overall budget neutrality. Since EEP bonuses are currently used primarily to support exports of bulk commodities, EEP is considered to be budget neutral—that is, to have no impact on the federal budget—because the program's costs are offset by reductions in domestic price support payments that result when exports increase and domestic prices rise. Because HVP sales do not have as direct an effect on domestic commodity programs as bulk commodity sales, an increase in the percentage of HVP sales could raise concerns about maintaining EEP's overall budget neutrality. These concerns could, in turn, limit approval of proposals for HVP initiatives.

Finally, FAS officials noted that HVP sales are restricted by a provision in the 1990 Farm Bill that defines eligible agricultural products as those produced in the United States.[8] Since foreign-produced ingredients are

[8]An exception is made for a product that contains an agricultural component not entirely produced in the United States if that component is added "de minimus" and is not commercially produced in the United States and no acceptable substitute is produced commercially in the United States.

used to process some HVPs, these HVPs may not be eligible for export assistance under EEP. While we agree that this legislative requirement could limit HVP sales under EEP, we did not find it cited as a reason for terminating any of the recommendations we reviewed. Again, it is possible that HVPs with high foreign content were automatically excluded from consideration.

Foreign Policy Considerations

Six of the 25 HVP proposals that we reviewed were terminated because of foreign policy considerations generally raised by members of TPRG. Multilateral and unilateral trade sanctions prevent the sale of U.S. commodities to some countries, such as Cuba, Iraq, Libya, North Korea, Serbia-Montenegro, and Vietnam. For example, a current multilateral trade embargo prevents trade with Iraq, which prior to the Gulf war was the second largest importer of HVPs sold through EEP. In addition, unilateral trade sanctions prevent EEP sales in countries where the European Community can, and in some cases does, trade extensively. For example, 24 percent of the European Community's wheat flour trade in 1990 was to Libya, Cuba, and Vietnam.

Cumbersome Administrative Processes

FAS' processes for administering EEP are cumbersome and time-consuming. FAS proposals for EEP initiatives must contain substantial amounts of data and go through an extensive interagency review. Moreover, once an initiative is approved, it is often difficult to obtain accurate data each day for open-initiative bids.

Developing and Approving Proposals

A proposal must contain detailed information about the market that is being targeted, including information on the presence of the subsidizing country or countries in the market, data on sales activity and market share for both the United States and nonsubsidizers, and other market data for the previous 10 years. Proposals are sometimes terminated or put on hold until these data can be assembled. Our analysis shows that a new proposal takes an average of 7 months to be approved and announced as an initiative.

In addition, according to FAS, the interagency review process through which multiple agencies in TPRG must approve EEP proposals is unnecessarily cumbersome and impedes U.S. exports. Sales have been lost because interagency disputes have delayed the announcement of a country's eligibility, and the country has simply filled its needs from other suppliers that are less selective in targeting their subsidies.

HVP exporters have complained that when an initiative's allocated sales quantity has been completely sold, new allocations under revised initiatives are not always announced in a timely manner. Exporters find it hard to continue to compete in these markets without EEP support and are concerned that importers will not see them as reliable suppliers. Recently, to give more continuity to the export market, FAS began submitting proposals for "packaged" initiatives (one commodity and multiple countries) rather than for a number of separate initiatives. This process should reduce the time spent working on proposals, enabling FAS to concentrate on maintaining EEP initiatives in markets that are selling faster than anticipated. In September 1992, wheat became the first initiative to be announced as a package. The sale of nearly 30 million metric tons was approved for 28 countries or regions. Other packaged initiatives have since been announced for vegetable oil, table eggs, rice, barley, frozen poultry, barley malt, and wheat flour.

Bidding

The bidding process also discourages greater HVP sales. FAS officials stated that the minimum price cannot undercut the existing world price. They stated that it is harder to obtain valid price information for HVPs than for bulk commodities because there are fewer sources for FAS to verify HVP price information. There are no daily price quotations on commodity boards for HVPs as there are for bulk commodities, trade is seasonal, and foreign exporters sometimes do not report sales prices. Because market information is scarce, FAS' price information may not be current. A recent USDA Inspector General report noted that in 11 out of 87 EEP agreements reviewed, FAS had incorrectly calculated the minimum price and should have rejected the bids. In all 11 cases, the agreements were for HVPs.[9] This miscalculation occurred because the most current pricing data were not used in determining whether the exporters' bids fell within the established price range or because updated pricing data were not received in a timely manner. As a result, ineligible or questionable bonuses of about $1.8 million were awarded. Not using the most current price data could also cause FAS to deny bids when it should accept them.

Other USDA Efforts to Increase HVP Sales

USDA administers other export assistance programs that can help increase HVP exports, including both commercial and concessional (food aid) programs. Some of these programs may be better able than EEP to promote HVP exports. As appendix VI shows, the percentage of subsidized HVP sales for all export subsidy programs together (17 percent in fiscal year 1992) is

[9] Foreign Agricultural Service Audit of the Export Enhancement Program, Audit No. 07099-28-Hy (Sept. 1992).

significantly larger than for EEP alone (8 percent in fiscal year 1992). In addition, USDA recently proposed a Long-term Agricultural Trade Strategy that is designed, in part, to expand and coordinate HVP sales through the Department's export assistance programs.

Other USDA Programs for Promoting HVP Exports

In the commercial sales area, FAS operates three export subsidy programs in addition to EEP: the Sunflowerseed Oil and Cottonseed Oil Assistance Programs (SOAP and COAP, respectively) and the Dairy Export Incentive Program (DEIP). Similar in operation to EEP, these programs allow USDA to provide cash bonuses to U.S. exporters to facilitate sales of specific HVPs in selected foreign markets. However, SOAP and COAP initiatives do not, like EEP initiatives, require consideration of either the presence of a subsidizing competitor (e.g., the European Community) in the targeted market or the impact of U.S. export subsidies on nonsubsidizing competitors—both of which are important EEP guidelines that limit HVP sales under EEP. Hence, FAS is able to target a wider range of markets for vegetable oil exports through these programs than through EEP.

USDA also operates the Market Promotion Program (MPP), which supports HVP sales. MPP funds are used to help finance market development activities—such as market research, consumer promotions, and technical assistance—for eligible products, principally HVPs, in specified countries. The Export Credit Guarantee Program also supports HVP sales by providing loan guarantees to U.S. exporters or their assignees (i.e., financial institutions) ensuring payment in the event of default for credit sales made to foreign buyers. Concessional (food aid) programs established under Public Law 480 and section 416(b) of the Agricultural Act of 1949 have also been used to increase exports of HVPs. Appendix IV provides more information on these programs.

Long-term Agricultural Trade Strategy

In October 1989, we reported that USDA needed to take a more strategic approach to marketing U.S. agricultural products.[10] In January 1990, we reported that the United States spends significantly more on promoting HVPs than its competitors. However, our competitors spend their funds in a highly targeted manner, using an integrated marketing approach.[11] The 1990 Farm Bill required the Secretary of Agriculture to develop a long-term

[10] U.S. Department of Agriculture: Interim Report on Ways to Enhance Management (GAO/RCED-90-19, Oct. 26, 1989).

[11] International Trade: Foreign Market Development for High Value Agricultural Products (GAO/NSIAD-90-47, Jan. 17, 1990).

agricultural trade strategy and specified that a report be sent to the Congress by October 1, 1991. Specifically, the legislation required that the strategy be designed to ensure (1) the growth of exports of U.S. agricultural commodities, (2) the efficient, coordinated use of federal programs designed to promote the export of U.S. agricultural commodities, (3) the provision of food assistance and the improvement in the commercial potential of markets for U.S. agricultural commodities in developing countries, and (4) the maintenance of traditional markets for U.S. agricultural commodities. In addition, USDA was directed to designate priority growth markets for bulk and HVP commodities and to devise individual market development plans. USDA appointed FAS as the lead agency to prepare the required multiyear trade strategy because FAS is responsible for promoting agricultural exports.

On January 15, 1993, USDA sent its strategy to the appropriate congressional committees. According to the document, the strategy is not only a series of plans for individual markets but also a set of principles that will guide USDA's decision-making. One of the stated goals is to expand both the total dollar amount of HVP exports and the percentage of U.S. exports represented by HVPs. Export price enhancement programs aimed at countering competitors' export subsidies in targeted countries—like EEP, SOAP, COAP, DEIP—will focus heavily on exports of price-sensitive agricultural commodities (mostly bulk and intermediate commodities), while market development and promotion programs—like MPP and the Export Credit Guarantee Programs—will focus more heavily on exports of quality-dependent commodities and products (mostly consumer-oriented products). We are currently reviewing the Long-term Agricultural Trade Strategy as part of a management review of FAS and will comment in a future report on whether the strategy will help to establish priorities for program expenditures and better focus USDA's efforts to increase HVP exports.

Conclusions

EEP is not a good vehicle for increasing the sales of HVPs. Restrictive EEP guidelines, foreign policy considerations, and cumbersome proposal and bidding processes make it difficult to significantly increase beyond current levels the percentage of EEP bonus awards supporting HVP sales.

Other USDA programs that help to promote HVP exports but are not bound by EEP's restrictive guidelines may better facilitate HVP sales. The recently developed Long-term Agricultural Trade Strategy should help USDA to focus on attaining the best mix of export assistance programs to increase HVP sales.

Agency Comments

We discussed the findings of this report with a number of FAS officials, including the Acting Administrator/Acting General Sales Manager, the Assistant Administrator for Commodity and Marketing Programs, and the Assistant Administrator for Management. These officials generally agreed with our report's findings, and we incorporated their comments where appropriate. As requested, we did not obtain written agency comments on a draft of this report.

We conducted our work between April 1992 and November 1992 in accordance with generally accepted government auditing standards. Appendix VII contains a detailed discussion of our objectives, scope, and methodology.

As agreed with your office, unless you publicly announce its contents earlier, we plan no further distribution of this report until 14 days after the date of this letter. At that time, we will send copies to the Secretary of Agriculture and other interested parties. We will make copies available to others on request.

Please contact me on (202) 512-5138 if you or your staff have any questions about this report. The major contributors to this report are listed in appendix VIII.

Sincerely yours,

John W. Harman
Director, Food and
Agriculture Issues

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Abbreviations

COAP	Cottonseed Oil Assistance Program
DEIP	Dairy Export Incentive Program
EEP	Export Enhancement Program
FAS	Foreign Agricultural Service
GAO	General Accounting Office
HVP	high-value product
MPP	Market Promotion Program
SOAP	Sunflowerseed Oil Assistance Program
TPRG	Trade Policy Review Group
USDA	U.S. Department of Agriculture

Announced Export Enhancement Program Initiatives for High-Value Products

Country	Initiatives
Algeria	Dairy cattle, table eggs, wheat flour, barley malt, semolina, vegetable oil
Brazil	Barley malt
Burundi	Barley malt
Cameroon	Barley malt
Canary Islands	Dairy cattle, frozen poultry
Caribbean countries[a]	Barley malt
Central African Republic	Barley malt
Central American countries[b]	Barley malt
China	Dairy cattle, vegetable oil
Colombia	Barley malt, malting barley
Dominican Republic	Table eggs, frozen poultry, vegetable oil
Egypt	Dairy cattle, wheat flour, frozen poultry, semolina
Gulf countries[c]	Frozen poultry, dairy cattle
Hong Kong	Table eggs, vegetable oil
India	Vegetable oil
Indonesia	Dairy cattle
Iraq	Dairy cattle, table eggs, wheat flour, barley malt, frozen poultry
Japan	Canned peaches
Jordan	Frozen poultry
Korea	Canned peaches
Lebanon	Wheat flour, vegetable oil
Mexico	Canned peaches, vegetable oil
Morocco	Dairy cattle, vegetable oil
Near East countries[d]	Table eggs
Nigeria	Barley malt
Peru	Barley malt
Philippines	Wheat flour, barley malt
Saudi Arabia	Dairy cattle, frozen poultry
Senegal	Vegetable oil
Singapore	Frozen poultry
Slovenia	Wheat flour
Sri Lanka	Wheat flour
Sub-Saharan African countries[e]	Wheat flour
The former Soviet Union	Wheat flour, vegetable oil, pork, barley malt
Tunisia	Dairy cattle, vegetable oil
Turkey	Dairy cattle, vegetable oil, malting barley

(continued)

Country	Initiatives
Venezuela	Barley malt
West African countries[f]	Frozen poultry
Yemen	Wheat flour, mixed poultry feed
Zaire	Frozen poultry

Note: Initiatives are as of December 10, 1992.

[a]Dominican Republic, Guyana, Jamaica, Trinidad, Tobago.

[b]Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, Panama.

[c]Bahrain, Kuwait, Oman, Qatar, United Arab Emirates.

[d]Bahrain, Kuwait, Oman, Qatar, United Arab Emirates, Yemen.

[e]Angola, Benin, Burundi, Cameroon, Central African Republic, Congo, Djibouti, Equatorial Guinea, Gabon, Guinea, Guinea Bissau, Liberia, Malawi, Mali, Mauritania, Mozambique, Namibia, Niger, Rwanda, Sierra Leone, Sudan, Swaziland, Tanzania, Uganda, Zaire, Zambia, Zanzibar, Zimbabwe.

[f]Benin, Cameroon, Côte d'Ivoire, Gabon, Ghana, Guinea, Liberia, Senegal, Sierra Leone, Togo.

Source: GAO analysis of Foreign Agricultural Service (FAS) data.

European Community Export Subsidy Levels, 1990

To facilitate agricultural exports, European Community exporters receive subsidies for selected commodities and products. These subsidies are based on the difference between the internal European Community market price and the world market price. Table II.1 illustrates the level of subsidization for agricultural products in 1990.

Table II.1: European Community Export Subsidy Levels, 1990

Commodity	1990 export subsidy	Percent of total export subsidies
Cereals/rice[a]	$3,231,128,600	32.9
Dairy products	2,478,021,800	25.2
Beef/veal	1,413,030,000	14.4
Sugar	1,182,235,100	12.0
Other[b]	874,551,000	8.9
Other processed products[c]	651,139,500	6.6
Total	**$9,830,106,000**	**100.0**

[a]Includes both bulk commodities and high-value products (HVP): common wheat and flour, barley grain and malt, durum wheat and flour, oats and meal, other cereals, and rice.

[b]Includes olive oil, oilseeds, fresh and processed fruits and vegetables, wine and alcohol, tobacco, pigmeat, eggs, and poultry.

[c]Consists of HVPs that are eligible for export subsidies because they are composed of eligible agricultural commodities (yogurt or pastries, for example).

Source: GAO analysis of European Community budgetary data.

Comparison of European Community and U.S. Trade, 1990

Dollars in thousands

Commodity group	Processing stage	Value of European Community exports 1990	Value of U.S. exports 1990
Grain and feed	Bulk	$3,217,150	$12,343,824
	Intermediate	3,079,651	2,500,010
	Consumer-oriented	2,527,894	576,975
Oilseeds	Bulk	46,917	3,881,175
	Intermediate	2,058,702	1,798,390
	Consumer-oriented	118,354	31,141
Dairy, livestock, and poultry	Intermediate	1,694,822	2,736,309
	Consumer-oriented	7,719,875	3,521,502
Horticultural and tropical products	Bulk	620,754	106,453
	Intermediate	2,115,166	616,278
	Consumer-oriented	13,275,169	6,653,146
Cotton, tobacco, and seeds	Bulk	486,657	4,281,005
	Intermediate	406,652	246,261
Total agriculture[a]	Bulk	4,371,478	20,612,457
	Intermediate	9,354,992	7,897,248
	Consumer-oriented	23,641,291	10,782,764
	Total[a]	**$37,367,762**	**$39,292,469**

[a]Totals may not add because of rounding.

Source: GAO analysis of United Nations trade data.

Other USDA Programs Used to Increase High-Value Product Sales

In addition to the Export Enhancement Program (EEP), the U.S. Department of Agriculture (USDA) operates a number of programs intended to provide export assistance for U.S. agricultural commodities. These programs are used to facilitate the export of both bulk agricultural and HVP commodities. USDA divides these efforts into two main categories: (1) commercial programs, for which the terms of export sales are negotiated using prevailing world market prices and interest rates, and (2) concessional (food aid) programs, for which interest rates are lower than market level, loan repayment terms are longer than standard, or products are donated by the U.S. government.

Commercial Export Assistance

USDA operates several commercial export assistance programs that are designed to enhance the export of U.S. agricultural commodities to foreign markets. Like EEP, some of these programs provide bonuses to exporters, allowing them to reduce the price of U.S. commodities to compete with exports subsidized by other countries. Other programs fund foreign market development activities and provide export credit guarantees to foreign buyers.

Sunflowerseed Oil Assistance Program (SOAP) and Cottonseed Oil Assistance Program (COAP)

The Congress authorized SOAP and COAP in late 1987 and 1988, respectively, and subsequently reauthorized these programs in the 1990 Farm Bill. The programs are intended to help U.S. sunflowerseed and cottonseed producers and processors, as well as vegetable oil exporters, gain access to foreign markets. Although these programs are designed exclusively for sunflowerseed oil and cottonseed oil, these vegetable oils can also be marketed through EEP initiatives.

In determining which countries to target for SOAP and COAP initiatives, FAS considers three principal guidelines. To be approved as a SOAP or COAP initiative, a proposed initiative must be designed to (1) contribute to developing, maintaining or expanding the market for U.S. exports of sunflowerseed or cottonseed oil, (2) be cost-effective, and (3) ensure that sales facilitated by the initiative will not displace normal commercial sales of sunflowerseed or cottonseed oil.

In contrast to EEP initiatives, SOAP and COAP initiatives are not required to consider either the presence in the market of subsidizing competitors, such as the European Community, or the impact of U.S. export subsidies on nonsubsidizing competitors—both of which are important EEP guidelines. According to an FAS official responsible for targeting SOAP, COAP, and EEP initiatives, this difference in program guidelines has given FAS more flexibility in targeting potential markets for sales of sunflowerseed and cottonseed oil under SOAP and COAP than under EEP. Additionally, when all the sales have been made for an EEP vegetable oil initiative to a country, SOAP or COAP initiatives have continued to facilitate vegetable oil sales during the "gap" created by the time required to renew the EEP initiative.

Before fiscal year 1992, USDA paid in-kind bonuses to exporters under these programs with in-kind commodities. However, these programs, like EEP, now pay cash bonuses. Funding for SOAP and COAP is obtained from import tariff funds made available under 1935 legislation amending the Agricultural Adjustment Act.[1] For fiscal year 1992, $50 million was made available for SOAP and COAP bonuses. Sales approved for both programs eventually totaled 281,360 metric tons, and total bonuses of $23.6 million were paid. This activity represents a marked increase from fiscal year 1991, in which approved sales totaled 116,500 metric tons and bonuses totaled $15.4 million.

Dairy Export Incentive Program (DEIP)

DEIP was authorized in the 1985 Farm Bill and, like SOAP and COAP, was subsequently extended under the 1990 Farm Bill. DEIP operates under the same four guidelines as EEP and is intended to help U.S. dairy farmers, processors, manufacturers, and exporters gain access to foreign markets, especially those in which U.S. products are competing with subsidized dairy products from the European Community. The European Community subsidizes its dairy exports heavily, spending roughly 25 percent of its total export subsidies on the sale of dairy products.

Since its inception, DEIP has steadily increased its subsidy support for dairy products, reaching its highest level of bonuses paid in 1992 at $76 million. The program focuses primarily on sales of butter, butteroil, nonfat dry milk, nonfat dry milk powder, whole milk powder, cheddar cheese, and mozzarella cheese.

Other Commercial Assistance for HVPs

The Market Promotion Program (MPP—formerly the Targeted Export Assistance Program) also provides funds to help U.S. producers and other organizations finance promotional activities for U.S. agricultural products, primarily HVPs. Program participants use MPP funds to help finance market

[1]This provision, referred to as "section 32" and most recently amended in 1985, authorizes the Secretary of Agriculture to apply a certain amount of the gross receipts from import duties collected each year to, among other things, "encourage the exportation of agricultural commodities and products thereof by the payment of benefits in connection with the exportation thereof. . . ."

development activities for eligible products in specified countries, such as market research, consumer promotions, and technical assistance. In fiscal year 1991, $199 million was allocated for developing foreign markets; about 79 percent of this sum was directed toward promoting U.S. HVPs among consumers.

To reduce the risk associated with selling U.S. agricultural products abroad, USDA operates the Export Credit Guarantee Programs (GSM-102/103), which provide loan guarantees to U.S. exporters and the private financial community in case of nonpayment by foreign banks. In fiscal year 1991, these programs provided $924.6 million in credit guarantees for HVP sales, or about 22 percent of the total funds allocated for loan guarantees under these programs that year. USDA also promotes exports of consumer-oriented agricultural products by sponsoring U.S. participation each year in overseas trade shows and single-industry exhibitions that focus on HVPs.

Foreign Food Aid

Besides offering commercial assistance to increase U.S. agricultural exports, USDA operates programs aimed at providing humanitarian assistance and developing markets for U.S. agricultural products overseas. Like some commercial assistance programs, these food aid programs are used to facilitate the export of both bulk commodities and HVPs.

USDA administers title I of the Food for Peace Program (P.L. 480), which provides for government-to-government sales of commodities, with lengthy repayment terms at low interest rates.[2] Under section 416(b) of the Agricultural Act of 1949, USDA also operates a program that provides for donations of government-owned surplus commodities abroad. In fiscal year 1991, HVPs accounted for $195.2 million, or approximately 31 percent of the total export value under these programs.

[2]Titles II and III of P.L. 480 are administered by the Agency for International Development. Activity in this area also includes donations of government-owned commodities intended to provide humanitarian relief as well as encourage economic development.

Export Enhancement Program: Bonus as a Percentage of Sales Value, 1985-92

Commodity	Sales value	Bonus as a percentage of value
Feed grains	$1,077,422,324	37.3%
Rice	196,725,370	22.1%
Wheat	13,001,999,893	27.8%
Bulk total	**14,276,147,587**	**28.4%**
Barley malt	58,618,240	45.5%
Canned peaches	1,794,250	11.7%
Dairy cattle	73,827,936	125.7%
Frozen poultry	210,408,413	65.8%
Mixed poultry feed	40,396,166	41.1%
Semolina	8,728,500	141.7%
Table eggs	57,767,871	38.5%
Vegetable oil	512,300,290	21.8%
Wheat flour	629,284,340	44.2%
HVP total	**1,593,126,006**	**43.9%**
EEP total	**$15,869,273,593**	**30.0%**

Note: Values are as of December 4, 1992.

Source: GAO analysis of FAS data.

Bonus Amounts Paid for USDA'S Export Subsidy Programs, 1985-92

Program/commodity	Fiscal years 1985-89	Fiscal year 1990	Fiscal year 1991	Fiscal year 1992	Total—fiscal years 1985-92
EEP					
Bulk products					
Feed grains	$239,402,561	$34,102,029	$74,414,097	$54,319,689	$402,238,376
Rice	15,952,255		4,091,380	23,438,097	$43,481,732
Wheat	1,787,906,729	241,881,914	767,702,185	813,205,199	$3,610,696,026
Bulk total	**$2,043,261,545**	**$275,983,944**	**$846,207,661**	**$890,962,984**	**$4,056,416,134**
HVPs					
Barley malt	16,250,334	5,559,411	2,755,116	2,093,500	$26,658,361
Canned peaches				209,679	$209,679
Dairy cattle	92,823,583				$92,823,583
Frozen poultry	102,862,213	10,847,370	10,405,223	14,406,097	$138,520,903
Mixed poultry feed	16,619,620				$16,619,620
Semolina	12,371,003				$12,371,003
Table eggs	10,629,251	1,905,737	4,811,701	4,885,635	$22,232,324
Vegetable oil	62,719,913	4,378,887	14,195,641	30,212,213	$111,506,654
Wheat flour	201,368,515	13,075,384	38,223,888	25,428,458	$278,096,245
HVP total	**$515,644,432**	**$35,766,789**	**$70,391,569**	**$77,235,582**	**$699,038,372**
EEP total	**$2,558,905,977**	**$311,750,732**	**$916,599,231**	**$968,198,566**	**$4,755,454,506**
HVP percentage of EEP total	**20%**	**11%**	**8%**	**8%**	**15%**
SOAP[a]	$8,500,000	$3,800,000	$10,200,000	$20,873,607	$43,373,607
COAP[b]			4,200,000	2,709,601	$6,909,601
DEIP[c]	8,337,861	9,245,906	39,260,778	75,995,766	$132,840,310
Total for all subsidy programs	**$2,575,743,838**	**$324,796,638**	**$970,260,008**	**$1,067,777,540**	**$4,938,578,024**
HVP total for all subsidy programs	**$532,482,293**	**$48,862,694**	**$124,052,347**	**$176,814,555**	**$882,161,890**
HVP percentage of total for all subsidy programs	**21%**	**15%**	**13%**	**17%**	**18%**

Note: Amounts are as of December 4, 1992.

[a]Program began operating in fiscal year 1989.

[b]Program began operating in fiscal year 1991.

[c]Program began operating in fiscal year 1987.

Source: GAO analysis of FAS reports.

Objectives, Scope, and Methodology

In response to a request from Representative Dan Glickman, we reviewed the Export Enhancement Program (EEP). Our objectives were to (1) identify factors that limit HVP sales under EEP and (2) discuss other U.S. Department of Agriculture (USDA) programs that focus on increasing HVP exports. We also include information on how EEP works and on the extent to which HVPs participate in EEP.

In evaluating EEP, we focused on two major program elements: (1) the proposal, review, and approval of initiatives and (2) the administration of the bidding process. To understand how the program works, we interviewed Foreign Agriculture Service (FAS) officials, reviewed proposal files, and reviewed prior GAO work and the most recent U.S. Department of Agriculture (USDA) Inspector General report on EEP. To provide data on bonuses paid to support HVP sales, we obtained sales activity data from FAS officials for EEP and for other USDA programs involved in HVP export sales.

To identify factors limiting HVP sales, we reviewed documented recommendations that FAS received from January 1991 to August 1992. FAS did not keep track of these data before January 1991. We reviewed commodity division worksheets to determine the number of proposals considered by FAS and the outcomes of the decisions. We interviewed members of the Trade Policy Review Group to obtain their views on HVPs. We also interviewed several HVP exporters and trade association representatives to obtain their views on EEP.

To obtain information on other Agriculture programs that focus on increasing HVP exports, we interviewed USDA officials and reviewed literature on other programs that promote HVP exports, such as the Export Credit Guarantee Programs (GSM-102/103), the Market Promotion Program, the Sunflowerseed Oil Assistance Program, the Cottonseed Oil Assistance Program, and the Dairy Export Incentive Program.

We conducted our work between April 1992 and November 1992 in accordance with generally accepted government auditing standards. As requested, we did not obtain written agency comments on a draft of this report.

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