



The Potential Impacts of Changes in Export Competition Policies



TEXAS TECH
UNIVERSITY™
COTTON ECONOMICS
RESEARCH INSTITUTE

Export Competition Policies

- Direct Export Subsidies
- State Trading Enterprises
- Export Taxes
- Export Financing Support (EFS)
 - Export Credit, Credit Guarantees and Insurance
- Food Aid

GATT

- The Agriculture Agreement prohibits export subsidies on agricultural products unless the subsidies are specified in a member's list of commitments.
 - 25 countries have export subsidy commitments, with a total of 428 individual reduction commitments.
 - The agreement required the members to cut both the amount of money they spend on export subsidies and the quantities of exports.
 - For developed countries: 36% cut in the budgetary outlays over the six years starting in 1995 and 21% reduction in quantities
 - For developing countries: 24% reduction in budgetary outlays and 14% reduction in volume in 10 years .

Doha Development Agenda

- Original Doha Declaration (Dec. 2001)
 - Reduction and eventual elimination of export subsidies
- Cancún Revision (Sept. 2003)
 - Reduction and eventual elimination of all forms of export subsidies:
 - Export subsidies: Elimination of export subsidies for products of particular interest to developing countries over a (____) year period.
 - For remaining products, reduce budgetary and quantity allowances for export subsidies
 - Export Credits: Elimination of export credit programs over the same period of time.
 - Cotton Initiative

Draft Modalities for Agriculture (July 17, 2007)

■ Export Subsidy Commitments

- Developed country members shall eliminate their exports subsidies by the end of 2013. 50% reduction by the end of 2010.
- Quantity outlay commitments will be reduced in equal installments.
- Developing country members shall eliminate export subsidies by (-----) in equal installments.

Export Financing Support (EFS)

- Direct financing support: Direct credits/financing and interest rate support
- Risk cover: Export credit insurance and export credit guarantees
- Government to government credit agreements
- Any other forms of governmental export credit support, direct or indirect

Terms and Conditions for EFS

- **Maximum Repayment Term:** The maximum repayment term of a supported export credit shall be no more than 180 days.
- **Minimum Interest Rate:** The applicable Libor (London Interbank Offered Rate) for the currency in which credit is denominated plus a margin of at least (50) basis points.
- **Self-Financing:** Export Financing support programs shall be self-financing.
- **Risk Sharing:** Cover provided in the form of export financing shall not exceed 90 percent of the value of a transaction.

Special and Differential Treatment for Developing Countries

- The maximum repayment terms shall be twice that provided for Developed country members.
- The minimum interest rate may be adjusted to take into account withholding taxes on international borrowings .
- The self-financing for developing countries shall be at least 6-7.5 years.



Cotton

- All form of export subsidies for cotton shall be eliminated by developed countries by the start of the implementation period.

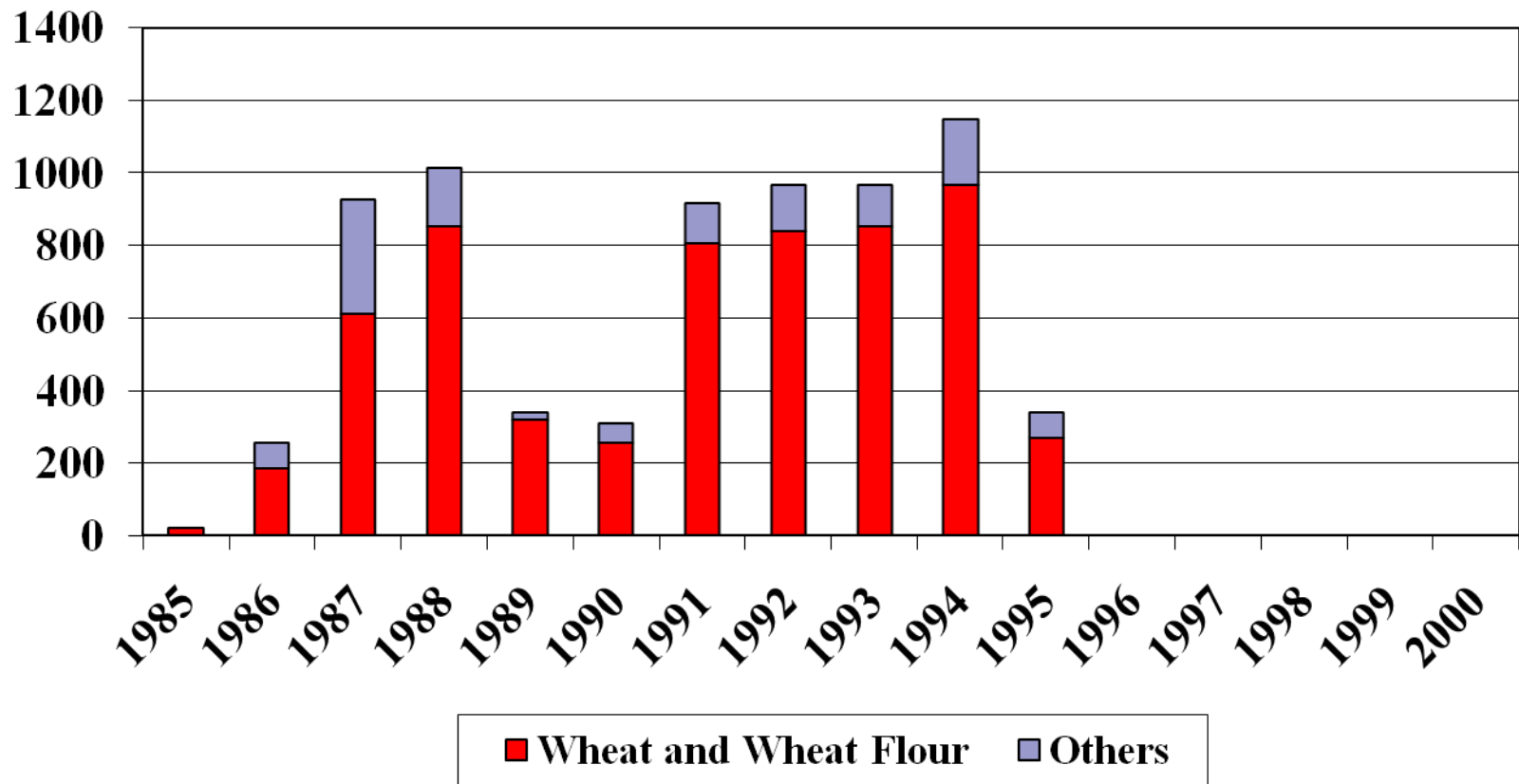
U.S. Export Programs

- Direct Export Subsidies: EEP and DEIP
- Step-2 Program
- Export Financing Support
 - Export Credit Guarantee Program (GSM-102)
 - Intermediate Export Credit Guarantee Program (GSM-103)
 - Supplier Credit Guarantee Program (SCGP)
- Food Aid
 - P.L. 480, Food for Progress, New International School Feed Program

EEP and DEIP

- USDA's two direct export subsidy programs
- Initiated under Food Security Act of 1985.
- Purpose: To offset the adverse effects on U.S. exports due to unfair trade practices or subsidies by competing exporters particularly European Union (EU), and also to support U.S. prices.
- This program allows exporters to sell U.S. products in targeted markets at prices below their costs by providing cash bonuses

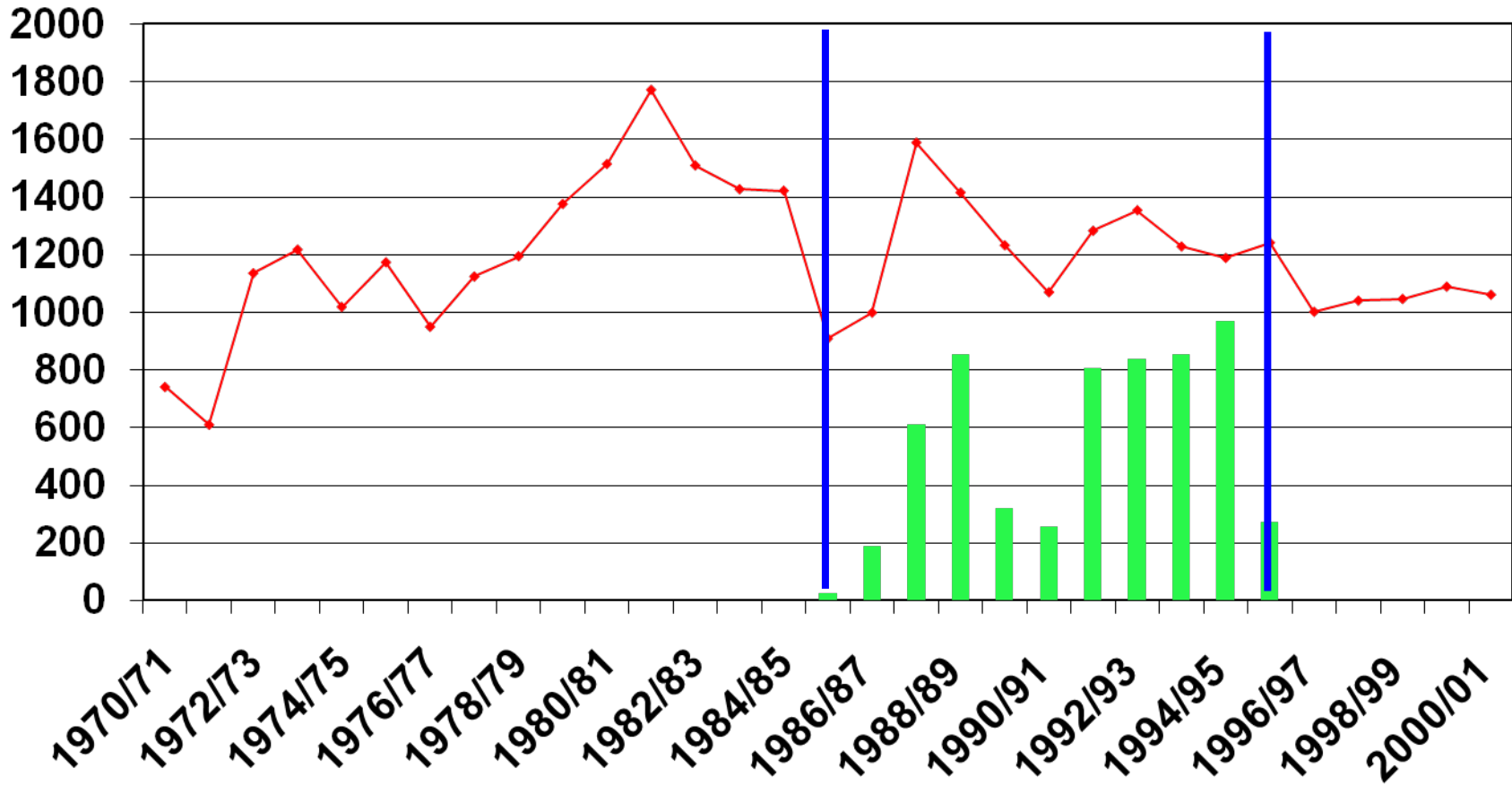
Total EEP Expenditures



U.S. Wheat Exports

Million Bushels/
Million Dollars

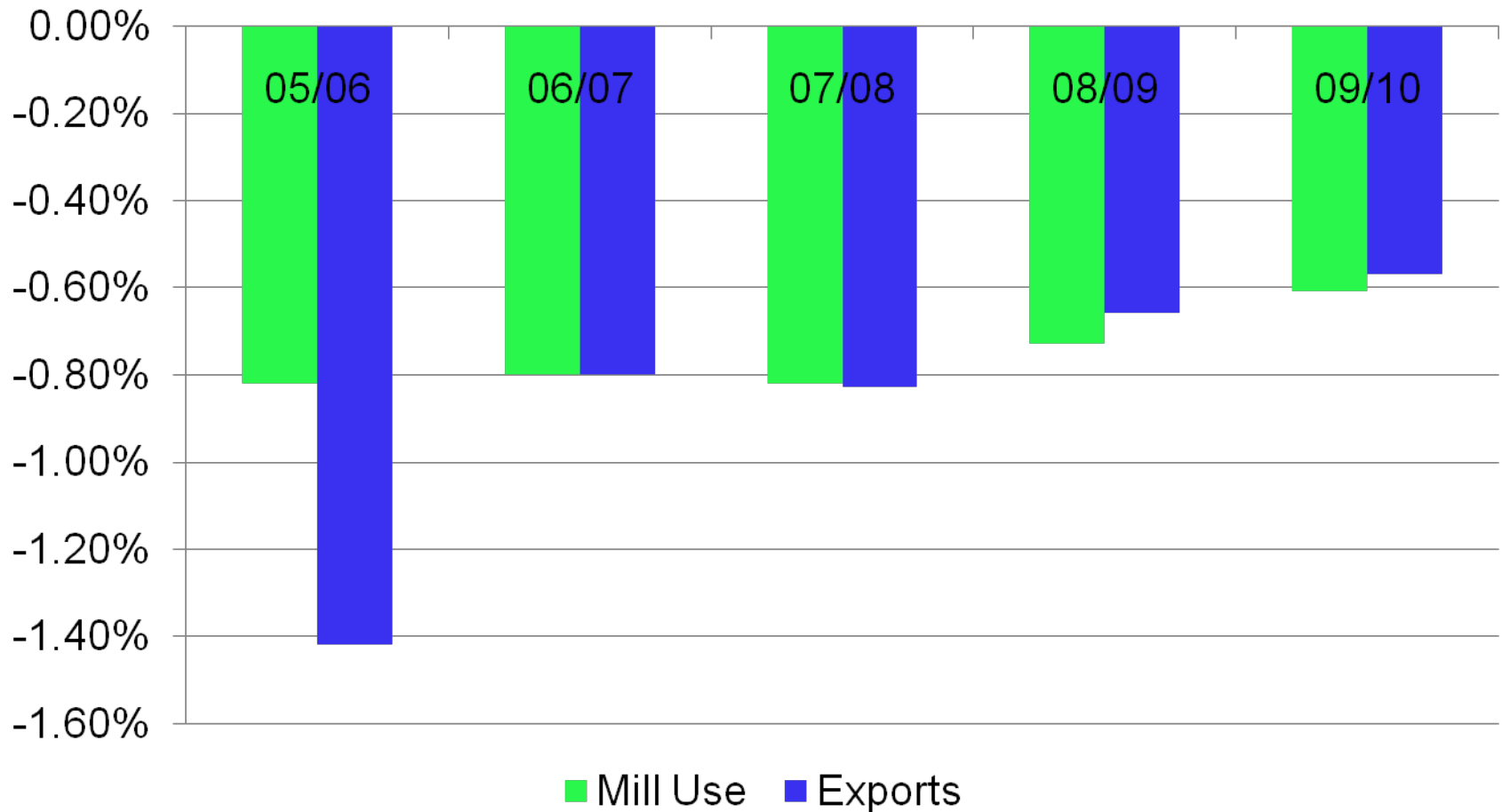
EEP Subsidies



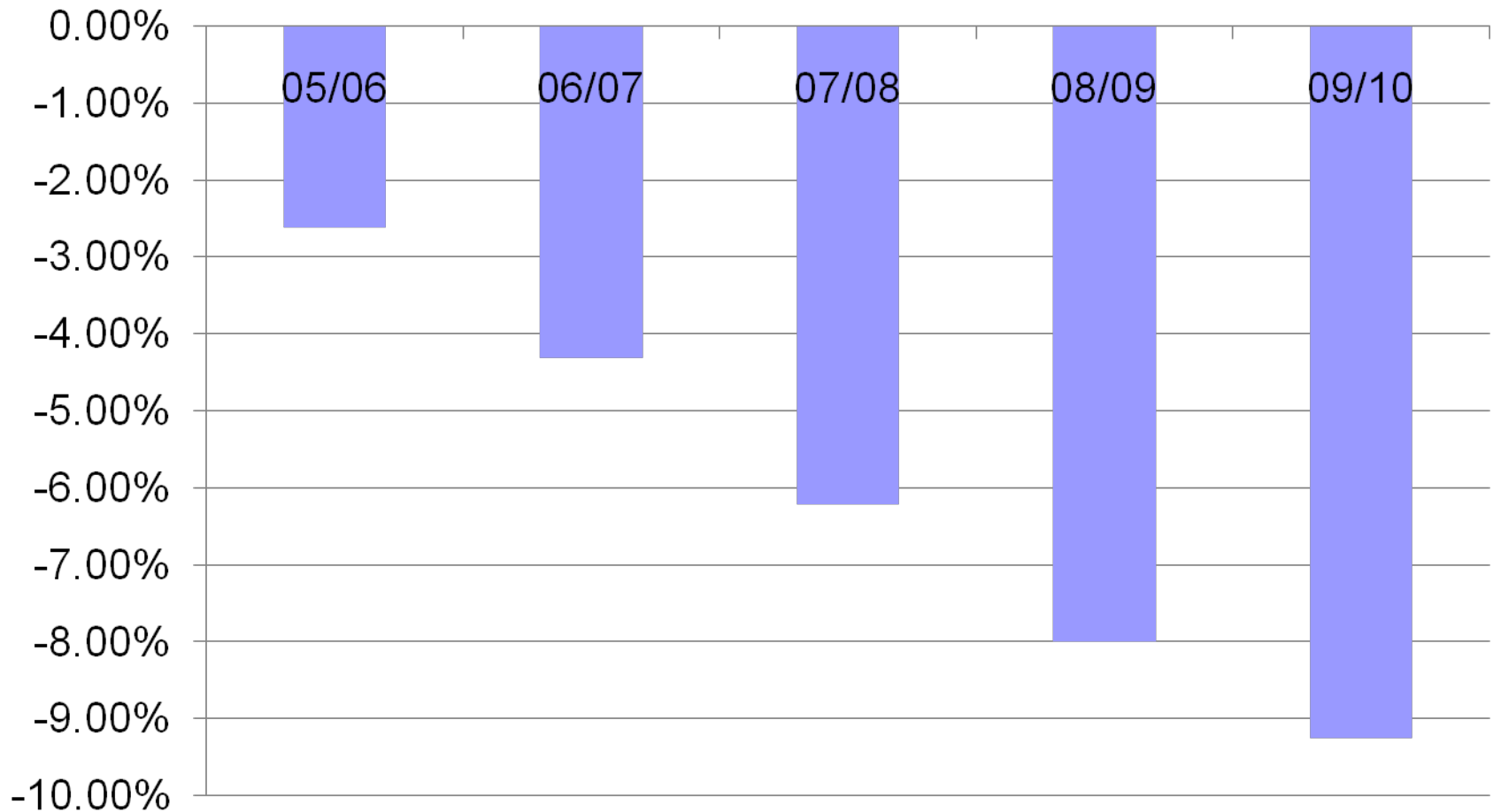
U.S. Response to WTO Ruling

- Eliminated Step-2 program, August 1, 2006
- Terminated GSM-103 program, July 2005
- Use a risk based structure for GSM-102 and SCGP programs

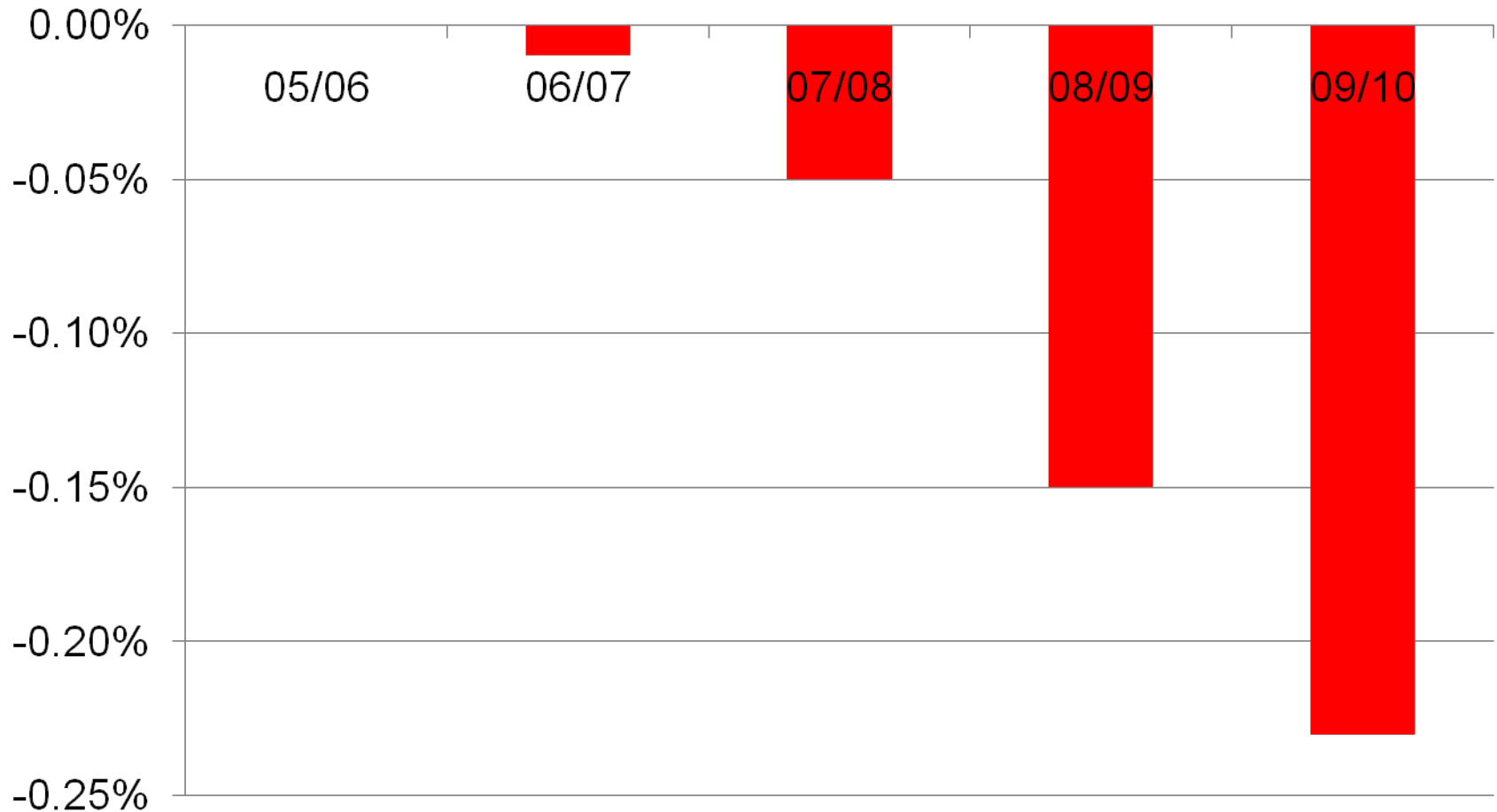
Step-2 Elimination: Impacts of Mill Use and Exports



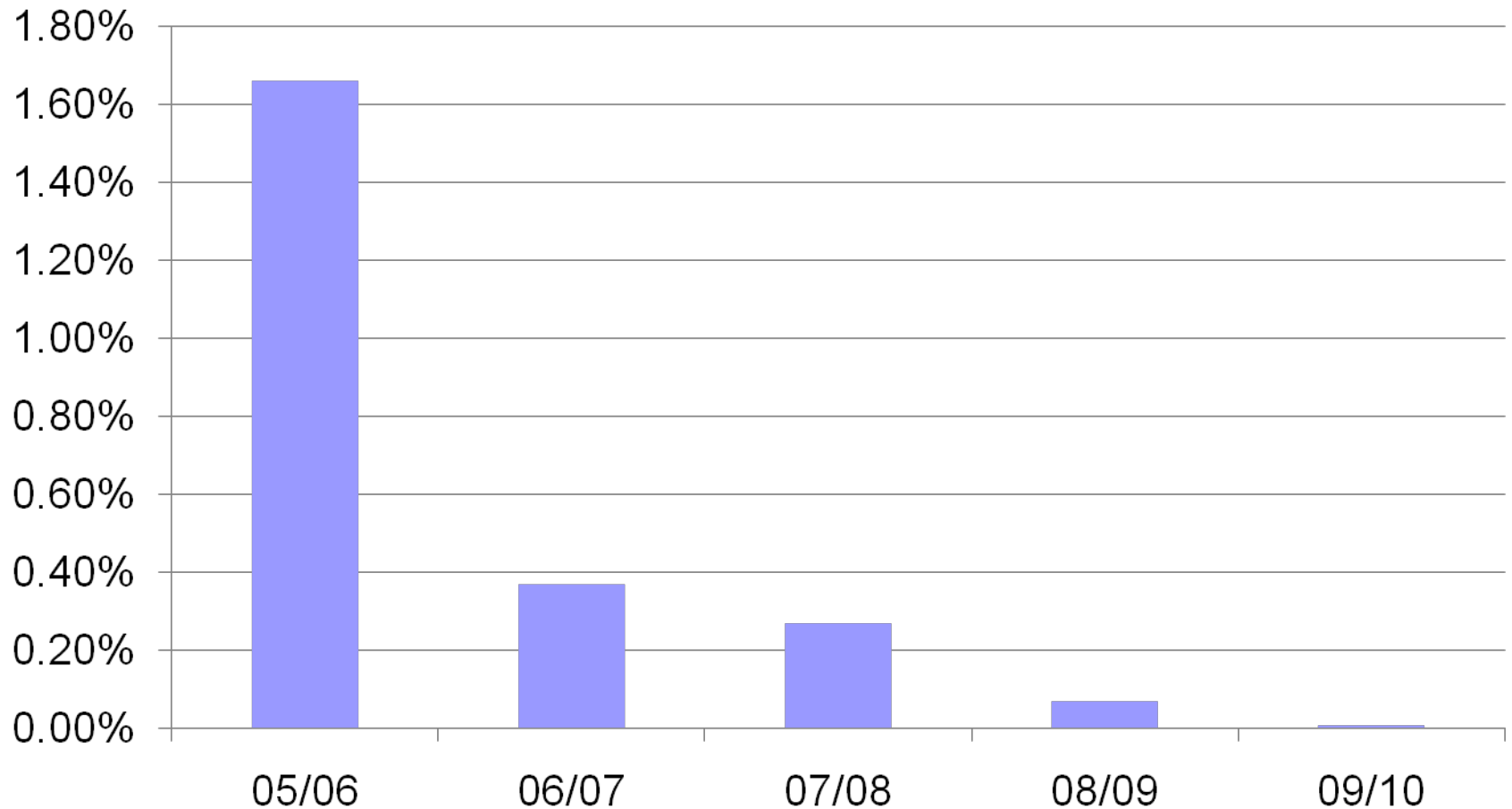
Impacts of Step-2 Elimination on U.S. Farm Price



Impacts of Step-2 Elimination on U.S. Cotton Production

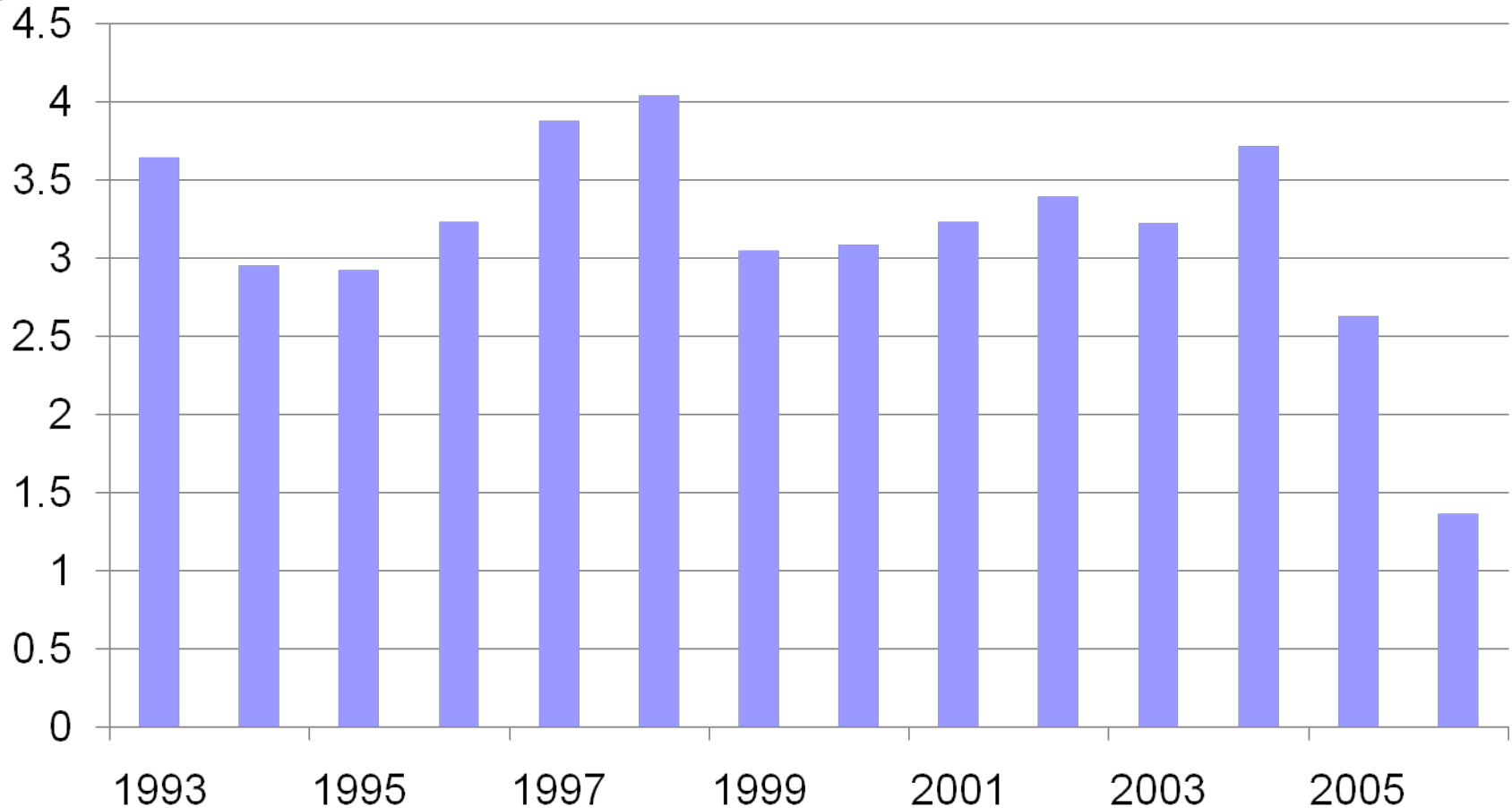


Impacts of Step-2 Elimination on A-Index



Values of U.S. Agricultural Exports Covered under Export Credit Guarantee Programs

\$ Billion



Source: CRS Report to Congress, Agricultural Exports and Food Aid Programs, December 2007

Concluding Remarks

- Brazilian cotton petition opened up the Pandora box.
- WTO is determined to eliminate all form of export subsidies.
- U.S. is definitely in a good position:
 - Direct export subsidy programs are mostly gone.
 - Step-2 program already eliminated
 - GSM-103 is gone
 - SCGP is currently suspended
 - GSM-102 is modified