

## **Export Credit Working Group**

November 24, 2008

The Honorable Joseph Glauber  
Chief Agricultural Negotiator  
Office of the United States Trade Representative  
600 17th Street, N.W., Room 415  
Washington, DC 20508

Dear Ambassador Glauber:

The Export Credit Working Group (ECWG), an informal working group comprised of representatives from the undersigned organizations, has a particular interest in the export credit negotiations in the WTO Doha Round and in preserving a viable US export credit guarantee program ("GSM program"). We appreciate the opportunity to have engaged with our negotiators on this subject since the launch of the Doha Round.

We believe that the current worldwide financial crisis necessitates a renewed effort to secure improved provisions on S&D treatment and emergency circumstances. Several aspects of the draft texts concerning export credits and export credit guarantees should be revisited. The existing texts do not provide adequate flexibility regarding emergency circumstances and could eliminate an important tool for restoring worldwide economic stability. We urge our negotiators to stress to developing and least developed country members the ability of agricultural trade credit programs to enable them to maintain their access to essential food and fiber needs even when there is a severe tightening of global trade credit availability.

There are indications that Director General Lamy may schedule a ministerial meeting in December in order to reach agreement on modalities before the end of 2008. We are deeply concerned that a hastily arranged meeting of Ministers with an arbitrary deadline will not enable WTO members to appropriately consider the clear importance of agricultural trade credit programs, such as GSM, in times of regional or global food and financial crisis.

From the outset of our discussions, the ECWG emphasized the importance of the GSM program to importing countries and to U.S. agriculture during times of financial or food crisis. The ECWG pointed to the Asian financial meltdown of the late 1990s as an example of how the GSM program has served as a vital tool for supporting the ability of affected countries to continue to access vital agricultural imports in times of crisis. We have also consistently suggested that provisions be included in any Doha Round agreement that would allow for the terms of disciplined credit programs, such as GSM, to be expanded under emergency circumstances to permit an uninterrupted flow of food, fiber and other essential agricultural products, particularly to developing countries.

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The GSM program performed brilliantly during the Asian Meltdown, during Mexico's financial crisis of the mid-1990s, and during numerous other country and regional crises. It should come as no surprise, then, that the GSM program is playing the same role -- on a much larger scale -- during the current global financial crisis. Within 48 hours of the October 6, 2009 allocation of the new GSM programs for FY09, more than \$8 billion in requests were received -- entirely for developing countries -- to facilitate essential food and fiber imports with GSM financing. More than \$3 billion in credit guarantees were awarded, and we expect that recipient countries will fully utilize whatever amount of GSM is made available for the remaining ten months of the fiscal year. The fact that the GSM program took up less than \$3 billion on an annual basis during times of high global liquidity is further evidence of the importance of such programs during financial or food crises.

Disciplined trade credit programs can play a significant positive and stabilizing role in global development. Accordingly, we ask that the United States reemphasize to all WTO delegations that a disciplined trade credit program such as GSM can and should continue to serve as a critical safety net for essential agricultural imports. In this regard, it is essential for all WTO negotiators to understand and appreciate that, notwithstanding its categorization for WTO purposes as an "export credit program," the GSM program itself:

- provides trade credit to importers, not exporters;
- operates in the context of a commercial transaction between an importer and a private sector U.S. exporter; and
- is utilized at the discretion of the importer (the importer must request GSM financing; GSM cannot be forced upon the importer by the exporter).

We urge you and the U.S. delegation to revisit the negotiations on agricultural trade credit with the goal of creating disciplines that would allow for the functioning of viable trade credit programs on an ongoing basis, and, in addition, that would allow for more flexible conditions for such programs during financial or food crises.

In that connection, the ECWG reiterates the following specific comments regarding the text on export credit guarantee programs in the draft modalities for agriculture, as submitted on July 10 by Crawford Falconer, Chairman of the Special Session of Committee on Agriculture (hereinafter referred to as "the text"):

**Implementation:** The text would require the US to reduce the tenor of the GSM-102 program ("GSM") to 180 days from the first day of implementation or the last day of 2010, whichever comes first. It is well-accepted that a six-month program will have significantly less usage than the current three year program, so a six-month program represents a significant restriction. By contrast, the text would allow export subsidy entitlements, including those of the European Union, to be continued until the end of 2013. Each dollar (or Euro) of export subsidy clearly conveys a subsidy element of 100

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percent, and the subsidy element of one dollar of export credits is significantly less than 100 percent. Hence the text violates the principle of “parallel elimination with equivalent effect,” as initially introduced by the EU. We understand this principle has been generally accepted for guiding the Doha agenda with respect to export subsidies and export credits. Fair and reasonable application of this principle would dictate that the US should be able to operate the GSM program, in its present form and level of authorization, until export subsidy entitlements have been completely eliminated.

**Self-financing period:** The text would permit a self-financing (“break-even”) period of only 4 years. This time period is insufficient for allowing a viable GSM program, as it does not permit a reasonable period of time for recovering defaulted loans (thereby forcing those loans to be recognized as “losses”) or for generating premiums sufficient to cover any losses. It should be noted that the WTO dispute case dealing with export credits incorporated a self-financing period of ten years, and the Congress codified this 10-year self-financing period in the 2008 Farm Bill. Moreover, the calculation is proposed to be over a previous 4 year rolling period, meaning a single loss would be counted repeatedly against GSM in multiple years. A failure to meet this test in a single year could render GSM immediately out of compliance for not meeting the self-financing requirement. This is a critically flawed approach and should not be included in any modalities. The period in which to evaluate whether a specific program has been self-financing should be no less than ten years and the “rolling” concept should be forward-looking only.

**Absence of Safe Harbor:** Even if GSM were to be operated in compliance with a new set of disciplines, the draft negotiating text still leaves the program open to challenge under item (j) of the *“Illustrative List of Export Subsidies”*. The lack of safe harbor protection renders moot any real reason to adhere to, and, in our opinion, even to negotiate, specific disciplines on export credits.

**Special & Differential (“S&D”) Treatment and Emergency Circumstances:** The text would prohibit any country, except for those defined in the Marrakesh Agreement, from accessing export credit guarantee programs for a tenor of more than 180 days, even under “emergency circumstances.” The ECWG urges US negotiators not to agree to these impractical limitations. All developing countries should be eligible for export credit tenors of up to 36 months for imports of essential foodstuffs and natural fibers, and all such countries should be eligible for tenors of more than 36 months under “emergency circumstances.”

We recognize and appreciate that our negotiators recently consulted with a number of developing countries regarding improved S&D and emergency provisions in the text; however, the world has changed dramatically, and not for the better, since those discussions took place. As in the past, the ECWG stands ready to assist our negotiators

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with such an effort and to help explain how maintaining a viable GSM program is clearly in the interest of importing countries as well as US agriculture and the U.S. economy.

In closing, the ECWG wishes to convey its support and appreciation for the ongoing effort and commitment of USDA and USTR to a Doha agreement that is beneficial to U.S. agriculture. We again thank you for your willingness to consider our input of this matter of importance to U.S. agriculture and for your very hard work to ensure a successful Doha Round. For further details, please contact us via Gary C. Martin at 202-682-4030.

Sincerely,

### **The Export Credits Working Group:**

*American Cotton Shippers Association*  
*American Soybean Association*  
*CoBank*  
*Cotton Council International*  
*National Cotton Council*  
*National Grain and Feed Association*  
*National Oilseed Processors Association*  
*National Sorghum Producers*  
*North American Export Grain Association*  
*USA Poultry & Egg Export Council*  
*U.S. Rice Producers Association*  
*USA Rice*  
*U.S Grains Council*  
*U.S. Wheat Associates*

Identical letter sent to USDA Undersecretary Mark Keenum

Cc: Mark Manis, USDA / FAS

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