

The Export Credits Working Group
1250 Eye Street NW, Suite 1003 Washington, DC 20005
Telephone 202-682-4030

October 21, 2009

P. Mark Rowse
Director, Office of Trade Programs, Credit Programs Division
Foreign Agricultural Service
U.S. Department of Agriculture

Dear Mr. Rowse:

The Export Credit Working Group (ECWG) is an informal working group comprised of representatives from the undersigned organizations and has a particular interest in the GSM-102 Program (“GSM program”). We are writing in response to USDA’s Advance Notice of Proposed Rulemaking (“the ANPR”) published in the Federal Register on September 21, 2009, soliciting comments on proposed revisions to the guarantee fee rate schedule for the GSM program. We appreciate USDA’s efforts to solicit comments from stakeholders on this issue, with the goals of supporting the long-term viability of the GSM program and complying with the requirements of the Food, Conservation, and Energy Act of 2008 (“the Act”). Our comments on the subject of GSM fees elaborate upon those included in our comment letter to you of February 2, 2009. A copy of that letter is attached for your reference.

As you are aware, the ECWG has engaged with USDA/FAS, USTR, and other policymakers to maintain the viability and enhance the effectiveness of the GSM program since the launch of the WTO Doha Round in 2001. We are gratified that the program remains a key source of support for U.S. agriculture and the critical food and fiber needs of importing countries. The ECWG would be remiss in not recognizing the contributions of you and your staff in this regard, particularly your success in improving the operating efficiency of the GSM program. We recognize that, in the absence of such efforts, it would have been difficult if not impossible for the GSM program to have supported a record \$5.5 billion in U.S. agricultural exports in the fiscal year just ended.

As stated in the ANPR, the Act requires the Secretary to “work with industry to ensure, to the maximum extent practicable, that risk-based fees associated with the guarantees cover, but do not exceed, the program’s operating costs and losses over the long term.” The Act also requires the Secretary to “adjust risk-based guarantees as necessary to ensure program effectiveness and United States competitiveness.” In addition, the Act requires USDA “to develop an approach to risk evaluation that facilitates accurate country risk designations and timely adjustments to the designations (on an ongoing basis) in response to material changes in country risk conditions, with ongoing opportunity for input and evaluation from the private sector.”

The Farm Bill explicitly addressed the issue of country risk designations (“risk ratings”), since, with the July 1, 2005 shift to risk-based fees, USDA’s country risk ratings became the critical factor (in addition to the length of the guarantee period, or “tenor”) in determining the level of GSM fees charged by USDA. Accordingly, the ECWG urges USDA to implement the requirements of the Act by working with industry to develop a more robust and transparent approach to country risk ratings, before it undertakes any revisions to the GSM fee schedule.

The need for an assessment of USDA’s methodology for determining county risk ratings is demonstrated by the fact, as stated in our comment letter of February 2, that USDA’s risk ratings for

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a number of key markets are lower than those of the internationally recognized private sector rating agencies (e.g., Moody's, Standard & Poor's, Fitch) or even those of the US's own Export-Import Bank. The apparent under-grading of countries such as China, Indonesia, and Russia needlessly limits the size of GSM allocations that can be offered and causes an "overcharging" of the applicable guarantee fees, both of which mitigate against requirements of the Act to "maximize the export sales of agricultural commodities," and to, "maximize the export guarantees that are made available and used during the course of a fiscal year."

With the appropriate country risk assessment methodology in place, USDA would be much better positioned to comply with the Act's above-noted requirement to adjust risk-based guarantees in timely fashion and in a manner that "ensures program effectiveness and United States competitiveness." The ECWG believes that it is simply not practical for USDA to attempt to manage the GSM fee schedule via the ANPR process. For example, the ANPR proposes to substantially increase the level of fees for numerous countries -- many of which are the largest users of the GSM program -- at a time when credit risk conditions in many of these markets have begun to improve. Similarly, the proposed increase in fees comes at a time when the global markets for grains, feeds, oilseeds and other agricultural commodities are cycling to a situation of more ample supply. If USDA felt compelled to raise fees, it would have less problematic to do so approximately one year ago, when global credit risk and global commodity cycles were at or near their respective peaks. The ECWG emphasizes that it would welcome the opportunity to work with USDA to develop an approach to country risk designations that is accurate, transparent and supportive of a more appropriate and nimble fee-setting process.

The ECWG's comments regarding the specific changes to the GSM fee structure, as proposed in the ANPR, are as follows:

- Changes to the guarantee fee schedule adopted by USDA/FAS on July 1, 2005 resulted in a significant increase in GSM premiums for virtually all countries. Fees for risk-rated 6 countries increased on a per annum basis by not less than 51 percent and by as much as 137 percent, depending upon tenor. Notwithstanding these increases, in 2007 the ECWG went "on record" in support of USDA's proposal to lift the statutory 1% cap on GSM fees -- which was subsequently eliminated in the Act. The ECWG supported the repeal of the cap with the understanding that this would facilitate reinstatement of countries risk-rated 7 or worse to the GSM program and, more importantly, that USDA would not take the opportunity of the elimination of the 1% cap to further increase fees for countries rated 6 or better.

- In fact, the changes proposed in the ANPR would increase fees for a three-year GSM transaction to countries risk-rated 4, 5 and 6 by 50%, 80% and 150%, respectively. The ECWG is concerned, especially in light of above-noted trends in credit risk conditions and the commodity markets, that such increases would prompt a drop in GSM program utilization like that which occurred in 2006, when usage fell to a record low of \$1.36 billion. Although excess global liquidity was undoubtedly a contributing factor, the ECWG believes that the July 2005 increase in fees was a major driver of the 2006 drop in utilization to an all-time low. A repeat of this result would be clearly incompatible with the Act's requirement to maximize annual program utilization and, should utilization decline to a sufficiently low level, could threaten USDA's ability to meet the Act's requirement that "fees associated with the guarantees cover [the program's] operating costs and losses over the long-term."

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- The ECWG supports the proposed reduction in fees for short tenor transactions in the lowest risk countries (e.g., countries rated 0-3). Fees for short tenors for higher risk countries (e.g., countries rated 4-6) should also be reduced, reflecting the lower level of risk that is implied by short-tenor risk exposure.

Finally, the ECWG takes the opportunity of this communication to urge USDA to promptly announce GSM program allocations for fiscal year 2010, which began on October 1, 2009. Notwithstanding the nascent improvement in credit risk conditions in many markets, overall trade credit availability remains fragile and limited – particularly beyond very short tenors – highlighting the need for timely and robust GSM programming.

In closing, the ECWG wishes to reiterate our thanks for the excellent working relationship we have enjoyed with FAS/USDA over the past eight years, as well as our appreciation for the efforts and commitment of you and your staff. We look forward to continuing to work with USDA/FAS in pursuit of our shared goal of building markets for U.S. agricultural exports while supporting the food and fiber needs of importing countries.

Thank you for the opportunity to comment on this important issue. For further details, please contact us via Gary C. Martin at 202-682-4030.

Sincerely,

The Export Credits Working Group:

American Soybean Association
American Cotton Shippers Association
CoBank
National Cotton Council
National Council of Farmer Cooperatives
National Grain and Feed Association
National Oilseed Processors Association
National Sorghum Producers
North American Export Grain Association
North American Millers Association
USA Poultry & Egg Export Council
USA Rice Federation
US Grains Council
US Rice Producers Association
US Wheat Associates, Inc.

cc: James W. Miller, Under Secretary for Farm and Foreign Agricultural Services
Michael V. Michener, Administrator, Foreign Agricultural Service and Vice President,
Commodity Credit Corporation
John D. Brewer, General Sales Manager and Associate Administrator, Foreign Agricultural
Service

Attachments