

Export Credit Working Group

January 8, 2009

The Honorable James W. Miller
Under Secretary for Farm and Foreign Agricultural Services
205 E Whitten Building
12th St., SW & Jefferson Drive
Washington, DC 20250

Dear Secretary Miller:

The undersigned organizations, comprising the Export Credit Working Group, wish to convey concerns regarding current tenor restrictions implemented by USDA on the FY2010 GSM-102 Export Credit Guarantee program (GSM program).

The ECWG is an informal working group of individuals advising the undersigned organizations. The group has worked with USDA/FAS, USTR, and other policymakers to maintain the viability and enhance the effectiveness of the GSM program since prior to the launch of the WTO Doha Round in 2001.

Thank you and your staff for your work in this regard and the successful relationship we have enjoyed with U.S. Administrations and in particular the Foreign Agricultural Service. We look forward to maintaining and enhancing that relationship under your leadership.

Our first concern is the potential impact of the tenor restrictions on perceptions of official U.S. support for the GSM program. As you may know, tenor, along with fees, is the critical driver of the GSM program's viability. It is precisely because of its importance that our competitors have consistently sought to reduce the tenor of the GSM program, from the OECD negotiations of the late 1990s to the current WTO Doha Round negotiations. We are concerned that the tenor restrictions imposed on the FY2010 program will be perceived as an indication of waning U.S. support for the GSM program, at a time when efforts to re-start the Doha talks are underway and when, to our understanding, a dialogue has been established with Brazil regarding the WTO Cotton/GSM arbitration panel award. We note that, according to the formula established by that panel, the tenor of GSM guarantees has no impact on calculations of the amount of retaliation to which Brazil may be entitled.

A second concern relates to the long-standing issue of USDA's country risk rating methodology and the fact that the risk ratings resulting from that methodology were used as the basis for determining the tenor restrictions imposed on the FY2010 program. Notably, the 2008 Farm Bill 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." In its response to USDA's ANPR of September 21, 2009 regarding proposed changes to the GSM fee schedule, the ECWG reiterated its concerns regarding USDA's country risk rating methodology, and, by extension, with the country risk ratings and risk-based fees produced by that methodology. More specifically, the comment letter stated, "the ECWG urges USDA to implement the requirements of the Act [i.e., the 2008 Farm Bill] 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 ECWG continues to emphasize that it

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welcomes 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” (ECWG comment letter dated October 21, 2009, p.1).

The ECWG acknowledges that USDA refrained from implementing the proposed fee schedule, which would have increased fees for nearly all active GSM markets, with the start of the FY2010 GSM program. We are, however, troubled that USDA imposed restrictions on the equally crucial element of tenor, and, moreover, that it based these restrictions on country ratings that are the product of what we have long maintained is a flawed risk-rating process. We also respectfully note that, in its response to USDA’s December 17, 2008 ANPR soliciting general comments on the GSM program, the ECWG stated that, “A tenor of up to three years should be available for all programs. If USDA/FAS is considering limiting the tenor for a particular program to less than three years, it should consult with industry, in advance, to gauge the impact on program utilization and exports” (ECWG comment letter dated February 2, 2009, p.2).

We recognize that, notwithstanding the tenor restrictions, GSM program utilization has been strong for the limited, \$1.2 billion in FY2010 allocations announced on November 13, 2009. Nevertheless the ECWG is concerned that as credit conditions continue to improve in numerous export markets, the tenor restrictions will increasingly mitigate against GSM utilization and thus limit U.S. exports. Our concern is particularly great for prospective GSM utilization and exports for “under-graded” countries such as China, Russia, and Indonesia. More generally, we fail to understand the rationale for reducing tenors at a time when country risk conditions are improving in markets that have traditionally been the most active users of the program, including investment grade countries such as Korea, Brazil, and Russia. If the rationale is to accelerate repayments to minimize the total future volume of GSM guarantees outstanding, we respectfully note that the 2008 Farm Bill places no such restrictions on the volume of GSM guarantees that may be outstanding at any given time. The Act does require USDA to operate the program in a manner that will “maximize the export sales of agricultural commodities,” and “maximize the export guarantees that are made available and used during the course of a fiscal year.”

In closing, we want to emphasize our long-standing interest in supporting the work of USDA/FAS to meet the direction of the Farm Bill regarding implementation of the GSM program. Via the ECWG we look forward to offering input regarding risk ratings and the related and vital issues for the GSM program of guarantee fees and tenor. We are confident that, by working together, more progress can be made toward building markets for U.S. agricultural exports while concomitantly supporting the food, feed, and fiber needs of importing countries.

For further details, please contact us via Gary C. Martin at 202-682-4030.

Sincerely,

The Export Credit Working Group

American Cotton Shippers
American Soybean Association
CoBank
National Council of Farmer Cooperatives

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National Grain and Feed Association
National Oilseed Processors Association
National Sorghum Producers
North American Export Grain Association
U.S.A. Rice Federation
U.S. Rice Producers Association
U.S. Wheat Associates

cc: John D. Brewer, Acting Administrator, Foreign Agricultural Service and USDA General Sales Manager