The Role of the State in Agricultural Trade in North America: The U.S. Commodity Credit Corporation as a Government Actor in the North American Market for Grains

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Introduction

The United States listed the Commodity Credit Corporation (CCC) as a State Trading Enterprise (STE) in its official notification to the World Trade Organization (WTO) in 1995.[1] What constitutes a State Trading Enterprise under the WTO is open to interpretation and we shall not attempt to settle that issue here.[2] But the CCC has over the years been a major player in the North American market for agricultural goods. It is firmly in the public sector: equally clearly it engages in trade. As such, its actions are of interest to other countries regardless of WTO definitions.

Policies that affect trade can of course be carried out in ways that do not involve state trading. Direct tariff trade barriers, tariff rate quotas, export price subsidies, export credit subsidies and direct payment and price support schemes can all be administered without public trading agencies. But in many countries such agricultural policies and

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[1] Countries have been required to notify STEs under Article XVII of the GATT. Such a notification of the CCC by the US had also been made in earlier years. However the definition of State Trading had been clarified in the Uruguay Round, and a Working Party had been established within the WTO to improve the monitoring. Hence the 1995 notification can be assumed to have more significance.

[2] See the paper by Josling (1998c) given later in this Workshop.

programs are implemented through institutions that operate in the market. This has typically been the case in the United States for grains and several other commodities. Many of the price support mechanisms have involved activities of the CCC, both on domestic and overseas markets. But these price support policies have begun to change, and the functions of the state in trade are changing with them. The approach taken here is to focus on what has been the changing role of state, as personified in the CCC, in the operation of the grain market in the U.S.

The CCC is a government-owned Corporation that operates within the United States Department of Agriculture (USDA) as a vehicle to carry out farm policy and programs as authorized by legislation. The CCC was authorized in 1933, and the various re-formulations and amendments of its Charter which have followed have left the basic authority intact. The CCC is not an independent government agency and has no employees of its own. Activities of the CCC are carried out by permanent staff of the USDA in accordance with legislative mandate and regulation and other guidance from policy officials. In a sense, the CCC can best be considered as a budgetary conduit used to carry out policies determined by other parts of the government.

For many years the basic functions and operations of the CCC remained the same, though the details of policy changed. From the beginning the CCC was the source of funds used for non-recourse loans that financed price support activities. Outlays were needed to extend loans to growers, to cover interest rate subsidies, to cover storage costs of stocks acquired and to cover losses on stock liquidation. Some of these losses on direct sales were for export sales, though in most cases sales from CCC stocks occurred in the domestic market. The CCC also provided funds for deficiency and diversion payment schemes. Explicit export activities of the CCC have included in-kind and cash payments to exporters, food aid from CCC stocks and in cash, and credit guarantees to facilitate export of U.S. agricultural goods.

This brief paper examines the role and operation of the CCC in grains in the context of the totality of government activity in the North American market. We recount the origins and history of the CCC and then concentrate on recent reforms and current activities. A final section considers whether the CCC is consistent with further liberalization of the grain market in North America.

Historical development of the CCC

The CCC was incorporated in 1933 and managed in affiliation with the Reconstruction Finance Corporation.[3] The CCC Charter Act, as amended, authorizes the CCC to undertake activities to support prices of agricultural commodities on the internal US market. This price support function was to be carried out by a variety of instruments of policy such as purchases of the commodity, storage, and sale to other government agencies and to foreign governments. As US agriculture became a leading player in international markets the export functions (whether on commercial or concessional terms) began to play a broader role in the CCC activities. However, the main focus of the CCC has always been the domestic market.

The CCC needs to be seen in the context of the U.S. grain marketing system as a whole. This system is primarily one of independent farmers selling grains to the private trade for resale to domestic or foreign buyers. The private sector is not obliged to buy and sell at fixed prices. Price supports, since the 1930s, have come from the existence of a parallel market provided by the state. This outlet also has offered the advantage to farmers of giving a loan after harvest based on the quantity of grain produced. Farmers thus have the assurance that they can sell to the government agency (technically by failing to redeem their loan) at a predetermined price. Similarly, the private sector is unlikely to hold stocks of grain under conditions when prices are weak and prospects for firmer markets are slim. Once again the government has undertaken that function over the years, holding grain off the market and

[3] The original incorporation was under a Delaware charter. The link with the RFC, a major New Deal agency, was later terminated when the CCC was transferred to the USDA in 1939. It was re-incorporated in 1948 as a federal corporation within USDA.

accumulating stocks. These stocks can then be released for use on the domestic or foreign markets, according to demand conditions.

The role of government in markets has been changing in recent years, both within and outside agriculture. In the case of the grain market, change has come rapidly in the past few years. The FAIR Act has begun to modify the activities of the CCC. But to see the contrast it is necessary to look more closely at the traditional activities of the CCC.

Traditional Activities of the CCC

The CCC is managed by a Board of Directors subject to the direction of the Secretary of Agriculture who is *ex officio* Chairman of the Board. The seven members are appointed by the President with the advice and consent of the Senate. All the members of the Board and the other officers are USDA officials. The CCC has no operating personnel: its operations are carried out through the agencies of the USDA, in particular the Consolidated Farm Service Agency (CFSA), formerly known as the Agricultural Stabilization and Conservation Service (ASCS). In addition the Agricultural Marketing Service (AMS) occasionally uses CCC authority to acquire commodities for food aid programs, both domestic and foreign. Export sales and the disposal of CCC stocks through foreign aid programs are administered by the Foreign Agricultural Service (FAS), through the office of the General Sales Manager.[4]

The control of the CCC by the Secretary of Agriculture ensures its devotion to government policy, at least as viewed by the Executive Branch. Congress influences the CCC directly through the farm legislation. The ability of the CCC to act on its own is based on so-called “Charter Act” authority. Just how much the CCC can do without explicit legislative direction has not been tested.

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[4] Tobacco and peanut exports are not handled in this way.

A main function of the CCC on domestic markets has been to support through its activities the administration of the price support system. This system is encompassed in the successive "Farm Bills", of which the latest is the FAIR Act of 1996. This act changed markedly the nature of the activities that had to be administered and supported. As a consequence the role of the CCC has changed. This section focuses on the role under the previous legislation (for example, up to the 1990 Food Agriculture Conservation and Trade Act): a later section describes the changes brought about by the FAIR Act.

Financial Transfers

As a financial conduit for farm support and as a market participant seeking to influence prices, the CCC has to have deep pockets. Currently the CCC has an authorized capital stock of $100 million, with the ability to borrow up to $30 billion at any one time.[5] Funds can be borrowed from the Treasury or from the private capital market, though in the latter case, reserves must cover the outstanding balance of the loan. Bonds issued by the CCC are subject to approval by the Treasury. Interest on borrowings (and on the draw-down of capital stock) is paid at the average rate of similar obligations of other government agencies. However, as of 1996, interest payments can be terminated on borrowings from the treasury equal to any losses made by the agency in the previous year.

The "CCC as cash conduit" is an important part of its role. The scale of the CCC-facilitated payments to farmers can be seen from Table 1. This table traces the direct government payments to farmers under the grains programs. The direct government payments shown for wheat, feed grains, and rice include deficiency and diversion program payments and are for the calendar year. (The rice program payments do not include marketing loan payments that were made in 1985 to 1993.) Beginning in 1996, production flexibility program payments are included in accordance with the passage of the Federal Agriculture Improvement and Reform (FAIR) Act of 1996.

[5] The total statutory borrowing authority was increased in 1988 from the previous level of $25 billion under P.L. 100-202.

Notable in the table is the rise in payments in the mid-1980s, particularly for feed grains and for wheat, as a result of low market prices. At their peak, these programs were costing over $10 billion. Even with the effect of budget cuts and policy shifts, the sum is still in excess of $5 billion. The market effects of these payments are of course debatable. In so far as they are linked to acreage controls the incentive effect of the payments is blunted or even reversed. But the more recent payments are of a more decoupled nature and presumably have less incentive effect. Though it might be premature to call all these CCC payments "green box" compatible, the output-stimulation has undoubtedly been reduced over time.

Table 1: Direct Government Payments

Year	Wheat	Feed Grains	Rice
	dollars	dollars	dollars
1980	211,343,941	382,060,806	1,948,162
1981	624,545,929	242,949,597	1,751,427
1982	652,267,501	713,314,870	155,910,747
1983	2,837,694,693	3,904,539,215	545,183,178
1984	2,301,206,379	3,589,269,994	284,309,078
1985	2,040,224,299	2,860,552,256	577,234,157
1986	3,499,720,896	5,158,038,195	422,769,007
1987	2,931,265,769	8,489,993,234	474,852,545
1988	1,841,882,665	7,219,460,128	464,547,617
1989	602,997,161	3,140,795,555	670,981,143
1990	2,311,300,022	2,701,172,726	464,878,518
1991	2,165,671,995	2,648,653,002	550,028,731
1992	1,402,687,527	2,499,272,562	512,299,504
1993	1,904,791,161	4,844,009,108	707,572,854
1994	1,155,839,714	1,446,938,521	337,076,803
1995	587,194,222	3,023,945,418	784,459,145
1996	1,095,287,630	2,819,525,137	680,708,242

1997	1,598,269,036	2,723,292,111	518,349,385

Sources: U.S. Department of Agriculture, Agricultural Stabilization and Conservation Service, *Payments to Producers by State and Programs* and U.S. Department of Agriculture, Economic Research Service, "Provisions of the Federal Agriculture Improvement and Reform Act of 1996," Agriculture Information Bulletin Number 729.

Commodity Support

The major components of the commodity programs have been the loan rate system, the maintenance of stocks and the disposal of surpluses. The operation of the loan rate system was based on the notion that a farmer can walk away from a loan, allowing the CCC to take title to the grain. Thus, the loan rate became a floor price in the market. The CCC acquired stocks through this "takeover" process that can then, be stored, disposed of on the domestic market, or exported on commercial or concessional terms. In addition, the CCC can purchase stocks directly in the market to support prices, as is done in the case of dairy products.

The stocks of wheat and corn held by the CCC at the end of the fiscal year (September 30) are shown in Table 2. As with the payments to farmers, the stocks peaked in the 1980s, at the time of depressed world prices. Wheat stocks were valued at $3.5 billion in 1986 and corn stocks were worth $4 billion in 1987. By contrast, the value of inventories held by the CCC has dropped to a total of only half-a-billion dollars in 1997, mostly in wheat. Note the value of wheat relative to corn is partly a function of the date. September 30 is a few months after the bulk of the wheat harvest and just before the bulk of the corn harvest.

The CCC is also involved with the provision of goods for use in domestic food aid. The agency is authorized to sell to other governmental actors from the stocks accumulated under the loan rate program. Such food aid includes the School Lunch program (primarily dairy products) as well as products for charitable institutions, hospitals and prisons. In addition, goods can be used in areas of acute economic stress and at times of major disaster.

Table 2: Value of Stocks Owned on September 30

Year	Corn	Wheat
	million dollars	Million dollars
1980	596	705
1981	555	679
1982	709	679
1983	3,392	1,533
1984	1,045	1,510
1985	757	1,951
1986	1,757	3,491
1987	4,172	3,272
1988	2,197	1,208
1989	1,253	697
1990	625	505
1991	962	639
1992	322	583
1993	145	562
1994	110	538
1995	528	105
1996	75	408
1997	6	346

Source: U.S. Department of Agriculture, Agricultural Stabilization and Conservation Service, *Commodity Credit Corporation Report of Financial Condition and Operations.*

Export programs (including EEP)

The CCC has the ability to sell to foreign buyers, both public and private. It administers the food aid program under PL 480. In addition it acts as the financing agency for export credit guarantees (mainly GSM 102 and GSM 103) as well as under the Export Enhancement Program (EEP). In the latter program, the CCC pays cash to exporters as a bonus, allowing them to sell on foreign markets at prices below what would otherwise be possible.[6] In addition, the Market Promotion Program (MPP) acts to encourage commercial exports through the sharing of costs with eligible trade organizations.[7]

Table 3 shows the extent of the export programs as run through the CCC. The Export Enhancement Program (EEP) is a classified as a commercial export program. The value of commodities exported under the credit programs are for the GSM 5, GSM 101, GSM 102, GSM 103, GSM 201, GSM 301, and blended credit programs. The concessional programs include Public Law 480 (P.L. 480), Section 416 (b), and Food For Peace (FFP) programs. The export programs also built up during the 1980s, reaching a peak in the middle of the decade and showing a marked reduction in the 1990s. The years since 1995 indicate the effect of the Uruguay Round constraints as well as autonomous changes in US domestic policy.

[6] The CCC also administers the export enhancement programs for other commodities, including the Dairy Export Incentive Program (DIEP), the Sunflower seed oil assistance program (SOAP) and the Cottonseed oil assistance program (COAP), each of which consists of cash payments to exporters. Until 1991, surplus commodities were used as export incentives, through the issuance to exporters of generic commodity certificates.

[7] In the case of dairy products the CCC makes direct subsidized sales from its inventories.

Table 3: Value of Export Programs

Year	Export Enhancement Program	Credit Programs	Concessional Programs
	Million dollars	million dollars	million dollars
1980	0.0	1,417.0	1,341.6
1981	0.0	1,873.7	1,333.0
1982	0.0	1,393.2	1,107.6
1983	0.0	4,069.1	1,194.7
1984	0.0	3,646.3	1,505.9
1985	86.5	2,761.1	1,905.9
1986	715.7	2,416.5	1,345.0
1987	1,684.4	2,784.4	1,077.2
1988	3,313.5	3,880.0	1,469.2
1989	2,826.7	5,057.0	1,311.4
1990	2,384.2	4,299.6	1,434.5
1991	2,009.3	4,111.3	1,323.9
1992	3,296.8	5,564.7	1,516.0
1993	3,733.5	3,831.4	2,363.7
1994	3,118.9	2,948.5	1,167.3
1995	2,408.0	2,547.1	892.4
1996	135.2	3,240.2	869.5
1997	254.9	2,894.5	673.0

Source: U.S. Department of Agriculture, Foreign Agricultural Service, "Commodity Exports By USDA Programs: Concessional, And Other Authorized Government Programs For Fiscal Years 1955-1997."

Recent Changes in CCC Activities

Legislation from 1985 through 1996 brought some significant changes in the activities of the CCC. The changes that have gotten the most attention recently were the shift from deficiency payments to direct “contract payments,” the elimination of mandatory land idling as a condition for payments, and most restrictions on which crops are planted, all of which were made in 1996. From 1990 to 1996, for a fixed “payment quantity” grain and cotton farmers received a per unit deficiency payment equal to the difference between the national average market price and a legislated target crops. In exchange participating farmers agreed to idle some portion of their eligible acreage (that portion varied year to year) and agreed to plant the payment crop on the payment acres.

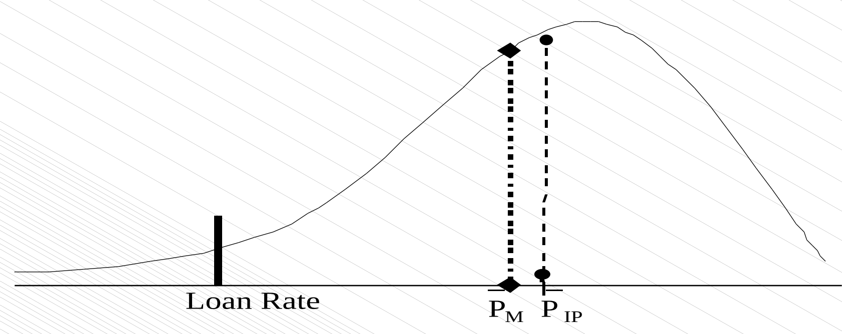
However, earlier program changes, may have been more important for the relationship of the CCC to international trade. Although the loan rate system still exists for most program commodities, its role in the market has been weakened. The “marketing loan” feature of the programs was designed to reduce the role of the CCC in commodity storage and price setting. Starting with the Food Security Act of 1985 the price support programs for rice and cotton were operated in such a way that direct payments to farmers were used as a substitute for price support. Under the rice program, farmers may place the crop under loan and repay the loan based on an “adjusted” world price (AWP) for rice. Whenever this adjusted world price was below the loan rate applicable to that type of rice, the farmers simply received the difference between the loan rate and the AWP. In addition to deficiency and now contract payments, when projections look favorable a farmer can simply take a “loan deficiency payment” without ever putting the crop under loan. For rice the national average minimum loan rate has been set by legislation since 1990 and has not varied. The AWP was well below the loan rate in the late 1980s, but has been above the loan rate for the last four or five years.

For wheat, feed grains and oil seeds the marketing loan program has been in place since the FACT Act of 1990, but it has only been significant starting in 1998. For these crops, the loan rates vary locally such that the national average loan rate equals 85 percent of a moving average of the past 5 years of market prices (dropping the high or low year). More importantly, the loan repayment rate is set at the "posted county price" which represents the available price in the local market area. Under this marketing loan program, the farmer may at harvest receive a loan deficiency payment equal to the difference between the local loan rate and the posted county price. Alternatively, the farmer may put the crop under loan and market it later if the farmer expects a gain from increases in the market price or a decline in the posted county price.

Figure 1, shows the operation of the marketing loan program for grains in 1998. The figure shows an example of a subjective ex ante distribution of market price. Note the loan rate is low relative to the mean of the ex ante distribution, shown by P_M. Under the marketing loan program the government does not take title to the crop, instead it offers a payment. This means that whereas there is no floor on the market price, there is a floor on the incentive price facing farmers. The returns per unit available to the grower cannot fall below the loan rate. Thus the mean of the subjective distribution of the incentive price facing the farmer rises to P_{IP}. Note that under the current program the CCC does not acquire inventories to maintain market price above the loan rate. Indeed, the increase in the ex ante incentive price will cause more production and a lower market price.

The situation in 1998 may be instructive for interpreting the consequences of the FAIR Act reforms and the operation of the marketing loan program. First, early in the season, before planting, evidence from options markets indicates that a market price as low as the loan rate for corn was considered very unlikely. Further, based on the evidence that was available at that time, if prior legislation were in place, the acreage reduction percentage for corn would have been set at zero. The dramatic decline in market price really was unexpected and would not have been moderated by prior farm programs.

Figure 1: The Truncated Distribution of the Incentive-Price Facing Farmers



Ex Ante Distribution of Market Price

Under the contract payment program, the payment rate remained fixed when market price was relatively high in 1996 and 1997. However, in 1998, after the collapse of market prices for wheat and feed grains, appropriation legislation increased payment rates by 50 percent. Thus, in fact, the payment rates have been limited from falling when market price is high, but they have risen when market price fell. Despite the 1996 reforms, a kind of ad hoc deficiency payment program seems to be operating. On the other hand, the payment rate increases were not set based on any specific calculation of market prices. Indeed, the payment rate for rice rose by the same amount as that for wheat and feed grains even though rice prices have remained firm.

Is the CCC Compatible with Trade Liberalization?

The movement toward liberalization of trade has had an impact on the activities of the CCC. The existence of the institution itself is not however directly threatened. The issue of WTO compatibility of the CCC has not seriously been raised. State trading as such is not contrary to the WTO articles. But the way in which one views the role of the CCC in the market does have significance in terms of the rules of the WTO. This issue can be addressed in three ways. The first, and least fruitful, is to treat it as an issue of the definition of an STE as agreed in the Uruguay Round. This definition rests on the notion of public or private enterprises that are given special rights and privileges in the market for agricultural products. The CCC as an actor with a mission to perform clearly has "special rights and privileges". It has access to government financing, can influence the terms on which private firms and farms trade, and determines stock levels. Moreover, if it is an STE under WTO rules then it is *prima facie* in contravention of Article XVII. No one would suggest that the CCC operates on a commercial basis: it would be derelict in its duty if it did so. To frame the issue in this way merely points up the weakness of the WTO definition and the unrealistic conditions that are expected of parastatal enterprises.

The second way to approach the issue is to regard the CCC as nothing more than a conduit for cash and a convenient executor of policy decisions. Under this interpretation, the CCC has no market activity that is not a direct consequence of legislation. If it lends to farmers it is merely following policy. If it takes title to the grain it is merely implementing the non-recourse system established by Congress. If it finds itself shipping grain to domestic institutional users then it is merely abiding by the mandate in its Charter. If the grain is needed for food aid then it has to make that grain available. This view of a subservient agency with no powers of initiative and hence no responsibility of its own leads to a different view of its WTO obligations. It should not be notified, as this implies that the country concerned regards the agency as falling within the definition. This would make no difference to the treatment of US agricultural policy within the WTO. The policies that the CCC administers are for the most part subject to disciplines under the Uruguay Round Agreement on Agriculture. There is no more reason to apply additional disciplines to the CCC than to a country's customs authority or to (say) the intervention agencies in the European Union. Though this view may have the advantage of removing the CCC from international scrutiny, it is also unsatisfactory. It is difficult to argue that the institutional method of implementing a policy has no potential impact on market outcomes. Though countries have the right to administer policies in ways in which they consider appropriate, there is an obligation to avoid ways which disrupt trade and harm other countries.

This leads to a third interpretation of the issue of the place of the CCC. This view emphasizes the importance of the CCC as a deliberate expression of a policy rather than the “neutral” agent of that policy. Under this interpretation the CCC clearly held a key role in the grain markets when the farm support system emphasized market intervention. It has become over time a less obtrusive agency, until now one can almost dismiss it as a conduit with no distinct function. If this is correct there has been a very significant shift in the role of the government in the marketing of grain in North America. The same agency with the same powers has shifted from a major player to a minor convenience. In fact, the US might consider winding up the CCC altogether and replacing its functions by the operations of the parts of the USDA which currently act on behalf of the CCC in carrying out its mission. This would reinforce the notion that the US has relinquished its ability to intervene in grain markets and assist in the development of a true North American agricultural system.

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