Cooperative
Extension Service
University of Illinois
at Urbana-Champaign

WEEKLY OUTLOOK
Department of Agricultural Economics
College of Agriculture
University of Illinois at Urbana-Champaign

June 12, 1985

EXPORT BONUS PROGRAM

THE USDA HAS BEGUN TO IMPLEMENT the new export bonus program announced last month. Complete operating procedures for the program are expected to be released some time this week. However, the general philosophy of the program has been announced, and some details on the first sale under the program have been released.

There are four general criteria which export sales must meet to qualify for the program. Such sales must, in the judgement of USDA, increase U.S. exports above the level that would have been achieved in the absence of the program. The sales must be targeted to those markets which will provide competition to other exporters who subsidize exports. Sales must be determined to be cost effective, in that such sales are positive for the general economy. Finally, sales should be budget-neutral, in that they do not increase federal budget expenditures beyond levels that would have occurred without the new program.

U.S. exporters participating in the program will have to submit bids to the Commodity Credit Corporation (CCC) for the bonus needed to make a specific sale. The CCC then will examine the bids to determine the competitiveness of the sale (compared to sales from other U.S. and foreign exporters) and the competitiveness of the bonus request. Successful bidders will select available commodities from the catalog provided by the CCC and request delivery. In general, commodities will be delivered to the exporter in storage at the warehouse where they are currently stored.

Plans now call for $2 billion of CCC commodities to be used for the export bonus program over the next three years. The quantity of commodities involved will depend on the mix of commodities selected for bonus and the method used to value those commodities.

On June 5, the USDA announced its plans for the first sale under the export bonus program. That sale will involve up to 1 million metric tons (36.7 million bushels) of nondurum wheat to Algeria. Algeria was chosen because of the sharp decline in the U.S. share of that market in recent years. In 1979-80, the U.S. had an estimated 41 percent of the Algerian market. That share declined to 16 percent in 1984-85. The European Economic Community (EEC) increased its share of that market from 29 to 59 percent over the same time period.

On June 7, the USDA released further details of the bonus sale to Algeria. That announcement spelled out the procedure which exporters must follow in submitting bids to the CCC.

The potential impact of the export bonus program is still being debated. The initial reaction to the announcement of the program was a decline in grain prices. The program was viewed as a mechanism which would release CCC stocks into the market at substantially lower prices than would occur under the current release price scheme. The possibility that other exporters, such as the EEC, would increase export subsidies to meet the U.S. competition suggested that world grain prices could be temporarily depressed.

In the longer term, the export bonus program could be supportive to wheat prices, since that commodity will likely be the one predominantly used. Carry-over stocks may be reduced somewhat, and the U.S. share of the world wheat market may be increased. However, the program is not a permanent solution to the surplus grain situation.

Darrel Good

Issued by *Darrel Good*, Extension Specialist, Prices and Outlook

Cooperative Extension Service
United States Department of Agriculture
University of Illinois
At Urbana-Champaign
Urbana, Illinois 61801