

The Farm Bill in a Global Context: Negotiations and Litigation

AEI

Washington DC

January 30, 2008

Daniel A. Sumner, University of California

Agricultural Issues Center and

Department of Agricultural and Resource Economics

UC, Davis

Outline and Main Points

- 1. What do farm bills look like**
- 2. The farm bill could be used to win more market access in WTO negotiations ...or the opposite**
- 3. The farm bill could solve current WTO litigation problems and make future litigation less likely... or the opposite**

Periodic US farm bills are always huge and complex

- **Hundreds of pages: \$\$\$ for food stamps, rural telephones, R&D, foreign food aid, and more**
- **A few billion for environmental activities under the EQIP and CSP and land idling under CRP**
- **Subsidies for grains, oilseeds, and cotton (recent subsidy averaged 20% of revenue, but 50% or more for rice or cotton in some years)**
- **Other payments, regulations or trade barriers subsidize dairy, sugar, and a few other programs**
- **But always remember, most commodities get little subsidy, subsidy equivalents of less than 5% (for example, this includes 70% of California agriculture)**

Subsidies by Commodity

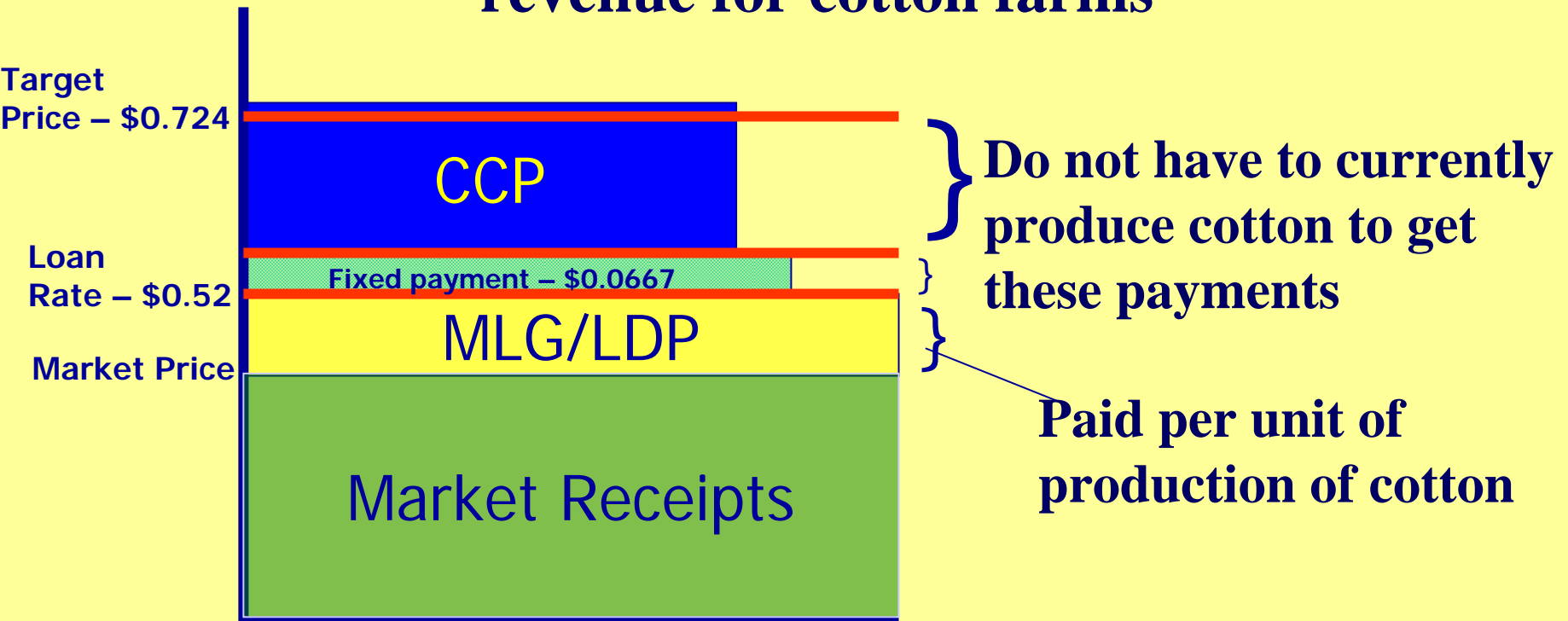
Commodity	Typical Share of Subsidy Outlays (average 2002-2006)	Share of Production Value
Feed grains	50%	13%
Soybeans	10%	9%
Wheat	10%	4%
Cotton	12%	3%
Rice	7%	1%
Dairy	3%	10%
Other	4%	60%

Example: Cotton policy background

- **US subsidies comprised an array of programs**
- **Total value of subsidy varies inversely with price ... on average roughly equal to the market value of the crop \$2 to \$4 billion, mostly taxpayer financed.**
 - **Marketing loan... deficiency payments on all production**
 - **Direct payments... on historical (updated) base with some planting restrictions**
 - **Counter-cyclical payments...deficiency payments but paid on historical (updated) base with restrictions**
 - **Crop insurance subsidies**

Government Cotton Payments under the 2002 and Proposed New Farm Bills

Government cotton payments average about half of total revenue for cotton farms



(Based on a figure from Joe Outlaw Texas A&M)

What do the New Farm Bill Proposals Change?

- **Raise loan rates for wheat, barley and others so bigger payment potential**
- **Raise target prices that trigger CCP payments for several crops so bigger payment potential**
- **Adjust cotton repayment rates to allow payments to be maintained or raised**
- **Add a new buyer subsidy for cotton**
- **Expand the MILC payments to dairy farms**
- **Additional support for crops extended into regions that are prone to periodic losses (aptly named “permanent disaster”)**
- **Create a new sugar purchase provision in case sugar enters under NAFTA as barriers finally expire**
- **Extend the ethanol tariff past 2010**

Implications

- **No plausible public rationale for continued subsidies, but subsidy expansion stretches credibility**
 - **Traditional subsidy continue with a different market environment**
 - **Land prices are not vulnerable, farm incomes for subsidized crops at record levels**
 - **Long run investment in market based agriculture could be achieved with no short-run disruption, and today's point**
 - **Budget and short run market impacts are muted by high prices, but**
- **All of these proposals run exactly counter to US negotiating positions and the 20 year tradition of US support for more open markets in agriculture**

**Economists need a mathematical
political economy model to explain
the pattern of wealth transfer to
farmers**

My model follows...

I'D LIKE YOUR VOTE.

TAXPAYER

WHAT DO YOU HAVE TO OFFER?

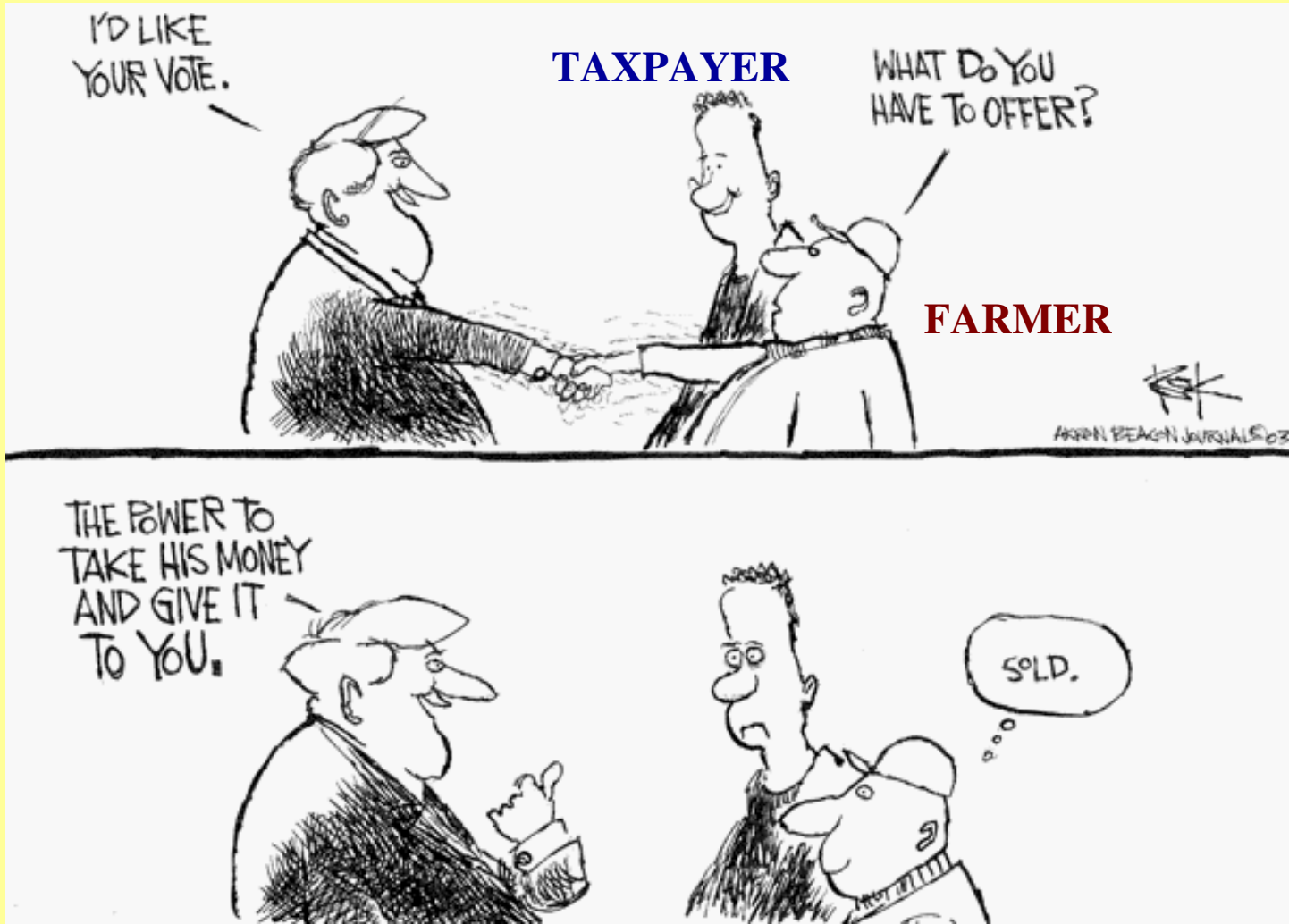
FARMER



ARON BEACH JOURNALS 03

THE POWER TO TAKE HIS MONEY AND GIVE IT TO YOU.

SOLD.



Some view the WTO as a monster



The WTO plays two main roles

- Supervise implementation of agreements including settling disputes among members**
- Provide the framework for negotiating new agreements**

WTO Negotiations

- **Strategic interest of the US is clearly to open markets globally,**
 - Obviously, not every industry or worker gains from more open trade, but most do gain,
 - Agriculture is a big winner and a bigger winner the more borders are opened
- **But negotiating partners point to US farm subsidies as a rationalization (a plausible one) for not opening markets**
- **With the farm bill raising subsidies, the US is less effective in pushing harder to open commodity borders**
- **That leaves an impasse in agriculture and**
- **The result is more likely frustration on non-farm issues in services, goods etc.**

WTO Disputes in Agriculture

- **Three main sorts of issues are currently active rated to compliance with agreements**
 1. **Programs that are “prohibited” that is counter to basic WTO rules**
 2. **The array of programs that in sum exceed the agreed limits of subsidy amounts**
 3. **Programs that cause serious prejudice (say by lowering prices) to competing industries.**

The farm bill proposals raise concerns in all these dimensions

Prohibited Subsidies and Aggregate Subsidy

- **The new cotton buyer subsidy does not specify domestic cotton only, however, imports are not in the market**
 - **The result will be subsidized purchase of US cotton and effective circumvention of the WTO cotton ruling**
- **New sugar purchases to offset imports also raise concerns as does extension of the ethanol tariff which is outside the normal tariff schedule**
- **All the added support, including for dairy and sugar make it more likely that the US cannot meet its aggregate support commitments, especially if those are lowered in negotiations**
- **The current Canada and Brazil cases against US aggregate support through 2005 means the US is already vulnerable**
- **The US could argue it was already moving to defuse the problems, but this farm bill seems ready to move in the opposite direction.**
- **Now use the cotton case as an example of serious prejudice**

Main WTO Cotton Dispute Issues

Brazil has claimed that:

- 1. Two buyer payment programs were prohibited subsidies under WTO rules**
- 2. Producer payments under the various programs subsidize cotton production and cause world cotton prices to be lower than otherwise**

Prior “peace clause” issue US cotton subsidies had risen

This required defining when a program would be considered support to a commodity

Effect of Removing Cotton Subsidy

- I put the cotton data and relationships into a simple simulation model and found serious market impacts of US cotton subsidies, especially the CCP and marketing loans**
- Effects vary by year, but based on data through 2005, US production would be some 20% lower and and US exports fall by even more**
- World price would be higher by about 10%**
- This price increase encourages more production and exports from producers elsewhere**

The US lost on all major counts

- **WTO panel ruled for Brazil in 2004**
 - **Peace clause violated ...US payments and crop insurance were support for cotton**
 - **Buyer subsidies ruled out of compliance**
 - **Price-based subsidies caused serious prejudice by suppressing world price**
- **Appellate Body agreed with the panel and US finally removed buyer subsidies in 2006**
- **Second panel on “compliance” ruled that removing buyer subsidies was not enough and the US must change farm subsidies to comply**
- **That decision is now on appeal**
- **Meanwhile Brazil is preparing to “withdraw concessions if the US does not do more**

Where Do the Current Farm Bills Leave Us?

- US negotiators face a very tough year**
- The right sort of farm bill could make their work much more effective**
- On dispute settlement the US must be defensive**
- The right sort of farm bill would immediately defuse most challenges**

Thank You

For background papers:

Contact me directly

dasumner@ucdavis.edu

Or check

www.aic.ucdavis.edu