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**BACKGROUND NOTE – 19 April 2006**

**WTO Agricultural Negotiations and the US Farm Bills**

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International law, with few exceptions, is not self-executing; in order to take effect, its provisions need to be written into national law. In that sense, WTO law is code governing and regulating national legislation on trade and trade policy. Moreover, it provides, in quite a unique way, for the settlement of disputes arising from the interpretation of international trade law in national legislation. It is within this context that we see the persistent discussions, by policy makers and politicians of a number of WTO Members, on whether the evolution of national trade law should precede or rather follow the establishment of international trade law.

The DDA mandate for agricultural negotiations issued to the EU negotiators reportedly goes as far as and does not exceed the policy space built into the present common agricultural policy and its next, already defined reform steps. Any further concessions would require a new mandate, which explains the difficulties the EU faces in this phase of the negotiation

The relationship between domestic policy and the negotiator's mandate is less clear-cut in the case of the USA. The present Farm Bill (Farm Bill 2002) will expire in 2007. Since the beginning of this year, the discussions among legislators, administration and lobbyists on the future of farm bill have been heating up. Given the parallelism between Farm Bill expiry and WTO negotiations, considering the impact on world agricultural trade that might result from different Farm Bill / DDA scenarios and admitting that we have focused in our past newsletters on the international situation, we think it is timely to spend a few remarks on the state of the discussion around the farm bill in the USA.

We can distinguish, admittedly by recurring to a significant level of abstraction, the following groups and their specific interests:

**1. The winners of the present US farm policies**

The winners of the policies of the Farm Bill 2002 are fundamentally the operators within the "program crops" sectors, such as wheat, soybeans, rice, sugar, cotton and the dairy sector.

## **2. The ones outside the main thrust of the present farm policies**

Those that produce without major direct government support include the meat (chicken, pork and beef), fruit and fresh produce sectors. In particular the meat producers would benefit from lower domestic feed costs under a support reduction scenario and are therefore expected to be potential beneficiaries of freer agricultural markets.

## **3. Those concerned about public spending**

The US is accumulating another record public deficit. For those lawmakers whose concerns are centred on the sustainability of the public finances of their nation, farm expenditure is a priority target for cutting costs.

## **4. The conservationists**

This group favours a policy reform along the principles introduced by many European countries, meaning: Further decoupling of support from production and linking support to non-trade concerns such as farming methods taking into account conservation and sustainability considerations.

## **Comments**

International agricultural policies do not appear prominently within the discussion on the US Farm Bill. While negotiators have been affirming their will to cut down on the support to US agriculture – provided agricultural and non-agricultural market access is improved significantly in the Doha Round – this view does not appear to be shared by many policy makers. It is interesting to note that policy makers in the US appear to discover tools such as price safety nets or food aid, which does not only have a humanitarian dimension, but also provides for a reliable export channel for US grain.

The discussion has been concentrating on the question whether the present Farm Bill should be extended beyond the September 2007 expiry date or whether the coming months should be used to negotiate a new Bill. All those with links to and political dependence from groups or areas relying for their economic prosperity on the “program crops” are strongly in favour of extending the Farm Bill 2002 beyond 2007, being well aware of the fact that any new Farm Bill could only be less generous than the present one. The other strong argument that is being made in favour of the extension is that of keeping a tight control over negotiators. Some politicians and policy makers indeed suspect that the USTR has already been exceeding its negotiating mandate. Consequently, they consider sticking to the present farm bill an efficient tool to keep negotiators under control – Incidentally the situation is quite similar in the EU.

The debate we have been seeing illustrates long-dating empirical evidence that a lobby defending privileges is often stronger than a lobby in favour of overall interest and welfare. It is important to recall that the Farm Bill 2002 followed the 1996 Bill, dubbed the Freedom to Farm Act, which was a bold step in the direction of reform, eliminating many features of production-related farm support. However, emergency measures in the late 1990s, culminating with the 2002 Bill, re-introduced or strengthened product-related support, again.

### **Implications for the DDA in general and cotton specifically**

An extension of the present US farm bill beyond 2007, or a US-domestic view favouring such an extension, will send a signal to the international trade community that the US agriculture is not prepared to take the challenge of freer trade. It will convey the message that dispute settlement will have to have priority over multilateral negotiations. On the other hand, rewriting the Farm Bill would offer US policy makers the chance to convey to the world a vision of a future without welfare destroying, trade distorting, agricultural subsidies.

The emergency legislation leading to the Farm Bill 2002 created the legal framework for the increase of support to about 40% of cotton traded on the world market from some 460 million US\$ in 1997 to about 2'800 million US\$ in 2001. The export subsidy components of these measures have been ruled WTO illegal by the cotton panel and the US has been asked to eliminate them. Other support measures, declared as "green box" measures, have been judged as trade distorting "orange box" measures and the panel requested their rectification or their inclusion into the calculation of the Aggregate Measurement of Support (AMS), respectively. As of now, the US has shown its intention to eliminate the export subsidies in favour of cotton. However, and even though the implementation has been overdue for more than 6 months, no action has been taken in relation to the domestic support measures that are in violation of the UR results of WTO.

By sticking to the 2002 Farm Bill beyond its 2007 expiry, legislators would maintain a Bill that provides for a policy space in excess of that available under the results of the UR and therefore even more exceeding any Doha Round result. The availability of the policy space does not imply its use. However, already the implementation of the UR results faces strong political resistance, as can be seen from the cotton case. An extension of the Farm Bill 2002 would send a clear message that the real challenge the USTR would have to face is not the DDA negotiation, but the national implementation of its results.

By signing expeditiously into law a new Farm Bill, US legislators would demonstrate their commitment to play by the (cotton) rules. They would have the unique opportunity to set an example for true global reform in the agricultural sector.

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IDEAS Centre offers policy advice services to developing and transition country governments in the areas of international trade, development and economic governance. In relation to the World Trade Organization (WTO), IDEAS Centre helps low-income countries defend their trade interests and thus use their WTO membership in a way that supports their development.

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