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Farm Bill Awaits Summer Progress in Doha Shadow

The Issue at Hand

With the first draft of the 2007 Farm Bill issued by the House agriculture sub-committees at the end of June 2007, the question now arises as to how the full House Agriculture Committee will treat the issue when its work recommences at the latter part of July. The law makers of the House Agriculture Committee are now going to debate the draft Farm Bill on 17, 18 and 19 July 2007. Recall that this work all progresses towards the final deadline for the legislative process, which is the end of September 2007, when the current 2002 Farm Bill expires.

Allied to the domestic debate in the US, external pressures on the US legislative process remain active. In particular the WTO agriculture modalities text was released on the 17th of July 2007 and the WTO dispute, raised by Canada against US agricultural subsidies will commence in earnest on 24 July. Brazil also decided to launch its own case against US subsidies. This brief examines the impact of these dynamics upon the emerging Farm Bill.

The Essence of the Problem

The essential problem with US agricultural support which focuses on price or price linked income supports, is that the dynamic adversely affects more competitive farmers, both in the US and elsewhere in the world. There are thus grounds for change in the current dispensation being voiced from within the US and from abroad, both directly and via the WTO Doha negotiations. The essential US problem is self propogating. The subsidies lead to overproduction, this overproduction leads to an over supply which in turn realises low commodity prices, and these depressed commodity prices then trigger even more compensatory subsidies. The dynamic is reminiscent of an iterative 'race to the bottom'.

The odd thing is that in the US these subsidies favour a handful of large farming operations that produce a few selected crops, like cotton. The majority of the

support is spent in only six states, and two thirds of the handouts go to just 10 percent of farms, thus disadvantaging the small producers that the support was designed to protect. The spill over effect on African small holder farmers is even greater, as African economies are less resilient to price shocks and the disaffected farmers do not have access to social safety nets. The irony in this is that the Agriculture Department gives out money that hurts African economies while the State Department then attempts to bolster regional stability in Africa, and then supports vast amounts on aid spending to achieve this. The added irony is that this aid represents a mere fraction of the benefit that Africa could enjoy from unfettered and functional markets.

Reform's Chances

In general recall that the June 2007 House subcommittees' draft Farm Bill text is very good for US cotton farmers. The main chance for reform through the House comes from a text called the Food & Agriculture Risk Management for the 21st Century Act or 'Farm 21' for short. This legislation is championed by Representative Ron Kind (Democrat) and Representative Jeff Flake (Republican)¹. The text of Farm 21 is vaunted by the proponents to have the ability to end incentives to overproduce by ending trade distorting commodity payments and would treat farmers 'like entrepreneurs instead of supplicants'. The proponents also feel that these reforms would make the US safe from noncompliance complaints in the WTO. Notably two such complaints have recently been activated, one by Canada and one by Brazil. Both these cases allege US non compliance with their AMS undertakings and export subsidy commitments on export credit guarantees in particular. In the instance of cotton in particular, if the current Farm Bill is simply continued the US would subsidize cotton production to the extent of at least \$8 billion over the next five years. These subsidies would keep cotton cheap and hence 75% of the crop would find its way onto the export markets. There is now a well established literature set confirming that this will continue to hurt developing country producers through depressing effects on the world market, not least those of Africa.

Farm 21 would replace direct payments to farmers with so called risk management accounts. These risk management accounts would be government

¹ For further information on FARM 21 see: <http://www.house.gov/kind/press/070613-%20RMA%20Intro.pdf>

backed, and in the early stages also government funded, but just to establish them. The accounts would be used by farmers to manage the cyclical nature of agricultural production – essentially through making investments (like a savings account) and buying crop and revenue insurance to protect themselves from extraordinary loss. These changes have a definite shift in emphasis in that the responsibility for farmer income protection shift from the Government to the farmer. The farmer has to take on responsibility of managing his own risk, but with a gradual and supportive transition mechanism which still contains subsidy elements, but these likely to be more readily accommodated under US WTO allowances. The saving on current spending is estimated at \$20 billion for the next five years. There is also supportive research which indicates that most farmers would do as well or better under the Farm 21 proposal.

The question remains as to whether the diluted voice of US consumers, taxpayers, the environmental lobby, the poor and the law makers responsible for US national security interests will be able to make any dent on the effective and well funded lobbies representing large producers of specific crops. This remains essential as the loudest (perhaps not yet the overall general view) coming through from law makers is that the Farm Bill must be written for US farmer interests without reference to the WTO. It seems that the logic would be to deal with subsequent WTO issues as and when they arise. The irony that seems to be largely lost in the US domestic scene is that these WTO issues are arising directly in tandem with the draft Farm Bill. Kind's own views on WTO compliance are rather more lucid and in line with the aspirations of African cotton producers. He stated on 13 June 2007 that :

'If we don't make some changes, the World Trade Organization will be writing our agriculture policies for us. This [Farm 21] is a way for us to reform our policies on our own terms. Furthermore, bringing our farm programs into compliance with trade agreements could jumpstart international negotiations that would open new markets for our agricultural products.'

This represents sober thinking indeed.

Weighing the Chances

It is an interesting thing to note here that when the current Farm Bill was being renewed in 2002, Ron Kind proposed an alternative farm bill at that time and the text was able to garner the support of 200 votes then. This is likely to have been part of the inspiration to persist with a reformist bill this year. The number to watch on the House vote is going to be 218. Recall that the House of Representatives has 435 voting members, each representing a congressional district. For a winning vote on the draft Farm Bill, a proposal will have to find 50% plus support. Based on Kind's 2002 performance, it would seem that there is not complete 'doom and gloom' for the reform minded. In fact they pose a credible threat to the status quo.

There is certainly stiff opposition around the reform question from the entrenched beneficiaries. A good example comes from a statement by the National Wheat Growers Association, from the 'no change' camp, who commented on 13 July that:

'Lawmakers who might support Kind-Flake must recognize that an industry that provides 25 million American jobs, 17 percent of the American GDP and \$3.5 trillion per year in economic activity has value - all that in addition to providing a safe, domestic food supply. A real safety net will allow America's agricultural producers to continue doing what they do best: providing the most affordable and abundant food supply in the world to our citizenry. Kind will not work in farm country.'²

This segment will be championed by the House Agriculture Committee Chairman Collin Peterson (Democrat), who is not going to pursue reform, this despite the fact that he has had a long career in the House and has actually supported the Republicans at times.

The Senate Agriculture Committee is characterised by at least some reformist influence, bear in mind that this is relative to what the sentiment is in the House. The Senate Agriculture Committee Chairman, Tom Harkin, has been somewhat critical of the House's pre-draft. He commented that the text was 'a very narrow view of agricultural policy, driven by a minority segment of the farm community.' Harkin has recently expressed doubt on whether the Senate Agriculture Committee would compile ('mark-up') its draft Farm Bill prior to August 2007, but

² See: <http://www.wheatworld.org/html/news.cfm?ID=1239>

he will still endeavor to move a draft bill to the Senate floor by the end of July. He is facing an uphill battle in trying to secure additional funding for the farm bill beyond the baseline provided by the Congressional Budget Office (CBO)³. This would mean that the bill would like the House, essentially be an extension of the 2002 farm bill with some changes. Harkin does not want a baseline draft like this because it would not give major funding to alternative energy production, nutrition and conservation. Essentially Harkin wants a reform minded Farm Bill for the future, and he sees part of this reform as including a larger emphasis on land conservation. This is premised on the amount of marginal land that has been brought into production by the ethanol inspired corn price rally.

Concluding Comment

The House Agriculture Committee's work this week will provide yet another telling indication as to where the US agricultural subsidy omnibus will be headed for the next 5 years. By the same token the WTO Agriculture Committee Chair will be having his WTO draft modalities text analysed over the same time period. The remainder of July 2007 is thus set to be a telling time both for agriculture in the US and for farmers the world over as US domestic law making processes and the machinery constructing multilateral trade laws churn out their respective texts. The hope that these processes might harmonise seems to be a slim hope indeed, even with WTO disputes attempting to bridge the two processes. However the US reformists do have a credible chance of approaching the magic number of '218' when the House draft Farm Bill vote comes to the fore.

Let us hope that there is some appreciation when the vote occurs that: ***"Crop subsidies are a 1930s relic that should have been scrapped long ago."****[Comment by US Law makers: Sen. Richard Lugar & Rep. Ron Kind]*

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³ By way of providing a sense of the quantum of support envisaged: The CBO's 2008-2012 baseline for commodities and conservation is \$56.76 billion; while the total figure for commodities, conservation, and crop insurance is \$83.62 billion.

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