
24 September 2007

Farm Bill Status Post Summer Recess

The Issue at Hand

On 27 July 2007 the House of Representatives completed their vote on the draft Farm Bill legislation prepared by the House Agriculture Committee earlier in July (see IDEAS Centre Farm Bill/TPA Series n° 6). In the main there were no major reforms to the 741 page text put forward by the Agriculture Committee chaired by democrat Colin Peterson. The House process is the second to last milestone in achieving the 2007 version of the Farm Bill, with the final Senate phase having now commenced. The House Bill now has to be combined with a text to be prepared by the Senate. The Senate version was expected to be released by the third week of September. At the current knowledge, it seems unlikely that the Senate Agricultural Committee is in a position to submit a proposal to the floor before the expiration of the present Farm Bill. The currently applicable 2002 Farm Bill will expire on 30 September 2007, and it is likely that it will need to be extended.

The House Vote

Republican representatives put on a united front, but were not successful in opposing the draft text. The final vote was 231 in support and only 191 against the Bill. Some 19 Republicans voted 'yes' with the Democrats and 14 Democrats voted against the Bill with the Republicans. The detail of the vote is as follows:

Vote Count: H R 2419: Farm, Nutrition, and Bio-energy Act

	<u>YES</u>	<u>NO</u>	<u>ABSENT</u>	<u>ABSTAIN</u>
DEMOCRAT	212	14		4
REPUBLICAN	19	177		6
TOTALS	231	191	3	10

At 231 the Democrats were well past the numbers required to carry the vote (218). While the final note is largely according to party lines, it has to be noted that the opposition of the Republicans was against the proposed financing by a new tax on foreign subsidiaries of US companies. It is considered that the content of the Farm Bill received nearly unanimous bi-partisan support. It is therefore likely that the Farm Bill would have sufficient support to override the announced presidential veto if the financing issue can be solved.

The unwillingness of the Congress to consider reforms is underlined by the defeat of a last minute amendment. The reformist camp supporting 'FARM 21' as championed by Ron Kind was outvoted 117 to 309 the evening before the main vote as regards their submission of a last attempt at an amendment that sought to replace the existing countercyclical and loan deficiency payment programs. Kind was also one of the 6 Democrats who voted 'no' on the Bill the next day. Recall that the thinking on the 'Kind' approach is to change the countercyclical payment programme to be 'revenue based' as opposed to 'price based'. In so doing it is thought that the countercyclical payment programme would be made more WTO friendly. The logic of differentiating between the less negative trade effects of income support measures as opposed to price support measures comes from the precedent in the WTO Upland Cotton dispute. Conceptually income support may be seen as 'decoupled' support i.e. securing farmer income independent of current market price levels, which would resonate with green box qualification criteria. Kind is on record as saying that ignoring the revision towards a revenue-based countercyclical program would make a direct impact and 'exacerbate poverty in food-short developing countries'. The camp that opposes this logic responded that Kind's eleventh hour attempt at taking another stab at a 'FARM 21' type wording, would unilaterally disarm US farm programs and benefit other countries who themselves maintain sizeable production and export subsidies which serve as barriers to US exports.

The vote is seen as a success for the House agriculture committee's Democrat chairman Collin Peterson. Peterson is popular with the farm lobby having managed to construct a package that satisfied virtually every major and minor farm interest, from the cotton and grain farms that traditionally dominate subsidy

programs, to fruit and vegetable farmers, sugar growers and even the relatively small organic production industry.

The Senate

In order to satisfy the budgetary constraints on the House Bill, Chairman Peterson reduced \$4.8 billion from the Conservation Security Program, which rewards farmers for improved environmental practices. As a result, no farmer would be able to benefit from the conservation programme until 2012.

This move is not popular with the Senate Agriculture Committee Chair, Tom Harkin, who has been a champion for the conservation programme. Given the current House vote, Harkin is faced with two options in the Senate process that must now take place. Firstly he could try and liberate the conservation fund from another source (which would be difficult) or secondly, he will have to undo the House Bill that has been rated as popular with US farm groups. Undoing the House Bill might thus risk a farmer backlash, making it highly unlikely that Harkin will risk cotton and grain subsidy programmes to fund the Conservation Security Program. Recall that the House Bill continues fixed direct payments for grain and cotton farms with no cuts through to 2012. These payments will continue without regard to the near to record prices for these commodities in recent times. The House Bill additionally raises the limit on how much subsidies farmers can receive by fifty percent. Recall also that fruit and vegetable growers, ignored by the 2002 Farm Bill, will now get \$1.6 billion inter alia through marketing assistance in the next five years.

Harkin has indicated that the Senate Bill 'is not going to be a mirror image of the House bill' as he sees the House vote as 'a direct arrow aimed at the Senate'. It, however, seems more and more unlikely that he can come up with major changes to the proposed bill.

The Senate drafting process is likely to face the following challenges:

- As mentioned, the House of Representatives has included some strong funding constraints including Democrats proposals unpopular with Republicans needing \$7.5 billion in taxes on foreign corporations to fund an increase in food stamps

benefits and a provision to tax oil companies for \$2.5 billion to fund development of bio-fuel programmes.

- The Bush administration has threatened to veto the House bill, and Democrats would need significant Republican support to override a presidential veto. The President's contention that the House Bill does not address subsidy cuts to the wealthiest farmers is likely to have broad public appeal, especially with the urban and business lobbies. The House Bill does contain a means test, ending payments to farmers with more than \$1 million in income, which is down from the existing limit of \$2.5 million per annum. The President however wants a much lower cap at a mere \$200,000 per annum.

- The full Senate may also take a different view to that of its agriculture committee, unlike the House where the vote mirrored the committee sentiment. Indeed, it seems more and more likely that the Senate may bypass the Committee and directly deliberate the House version on the floor.

It seems highly likely that there will be no agreement on the Farm Bill by the end of September and that a temporary extension, called a 'stopgap bill' will be passed. It is notable that both the previous farm bill's (1996 and 2002) were only finalized a year after expiry.

Concluding Comment

The House Bill passed just before the summer recess will now have to be augmented with the complementary text from the Senate Agriculture Committee, where the drafting process is not yet well advanced. The Senate Agriculture Chair, Tom Harkin has expressed the view that the biggest challenge in the Senate process is going to be to secure additional funding for the Farm Bill which is presently precariously couched and facing constraints on spending limits covered by taxes on other commercial sectors. In this regard chairman Harkin, held consultations with his House counterpart Peterson to 'compare notes'. There are, however, currently few indications that the Senate process holds any ready relief in stall for the Geneva based WTO agriculture negotiations which have also recommenced as of early September. Washington and Geneva based trade diplomats will no doubt be keeping a close watch on the Senate.

“Farmers do face unpredictable hardship, and they do deserve America's support. They also see the danger in distributing \$1.5 billion in the name of farm programs to people who are among the wealthiest 2 % of all Americans. Farmers know that is not a safety net, and they also know its not wise public policy. “

[US Agriculture Secretary –Mike Johanns 27 July 2007]

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