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## **The Senate Agriculture Committee Farm Bill Mark-up**

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### **The Issue at Hand**

The Senate Agriculture Committee completed its compilation (mark-up) of the 2007 Farm Bill on 25 October 2007. This follows just on 3 months after the House of Representatives voted on their version of the Bill, which was essentially unchanged from the existing legislation. The draft Senate bill has appeared somewhat later than expected as the chair of the Senate agriculture committee, Tom Harkin, had a difficult time in securing the necessary budget to fund his key priorities in food programmes, conservation programmes and bio-fuels. These programmes are in addition to the traditional Title I commodity programmes.

In many respects the Senate's draft Bill is not that much different to the House Bill. While there are admittedly nuances where they do differ, both the House version and the Senate Bill released this week make no revolutionary changes to the status quo. The legislation is strong on the so-called traditional safety net programmes which hark from the 1930's. In modern times farmers of high value market based produce which are geared for innovation and taking on risk, are subsidiary to established and relatively inefficient rice, cotton and corn growers. In the wider policy context it is thought that the legislative process has not captured the essence of the underlying social and economic effects of large scale farm subsidies. Groups outside of the agriculture sector directly have, like in the House process, expressed concern. These have interestingly included the medical professions who have expressed concern at the legislation's inability to curb obesity and poor nutrition in the US which would require cutting subsidies for oil and starch rich crops. In addition business lobbies have again voiced concern that the quantum of subsidies undermines US credibility in terms of its international trade obligations. This segment has a particular concern that trade retaliation that may arise from internationally illegal programmes may be directed at their sectors (like services and intellectual property), while itinerant agricultural

sectors would continue to flourish while others bear the retaliatory measures on their behalf. There also remains a deep concern that the trend of small scale farmers selling out to large production conglomerates will continue unabated under the proposed Senate Bill.

In the House process recall that there was a reform minded group sponsoring the so-called 'FARM 21' package. This was driven by Ron Kind, and soundly defeated in the House. In the Senate there has been a similar reform minded approach led by Senators Dick Lugar and Frank Lautenberg. Their legislation was dubbed the FRESH Act (Farm, Ranch, Equity, Stewardship and Health Act). Senator Lugar is well respected as a farmer and himself a former chair of the Senate Agriculture Committee. This proposal aimed to change traditional federal crops subsidies that are focused on a narrow section of crops and farmers, and introduced a more market related insurance programme which would operate only as and when needed, and not regardless of market conditions. Unlike current programmes, this safety net would protect against unforeseen risks, but would not provide automatic payments to farmers when unneeded, and would not continue to distort overseas agricultural markets. The FRESH proposal would also have eased the Chair's budget difficulties, by liberating money for other Title programmes (notably hunger relief and food stamps) and leave approximately \$3 billion to spare. This proposal (like the FARM 21 draft in the House) was short lived and in the Senate committee vote it was soundly defeated by 17 votes to 4.

The USDA and Administration commented via acting Agriculture Secretary, Chuck Connor, that the Senate draft is disappointing in that it raises loan rates and target prices for several commodities. He reiterated the language previously used by his predecessor that the Bill still leaves the "bull's-eye on the backs of the American farmer" in the WTO. Connor's commented that: "It's just simply bad farm policy. No reform at all." Note as an aside that President Bush appointed a new Secretary of Agriculture on 31 October 2007. The new incumbent is a former North Dakota governor, Edward Schafer. He follows-up in the position from Mike Johanns who had a difficult time in engendering the Administration's views into the House version of the Farm Bill. The Senate Agriculture Chair, Harkin, has welcomed Shafer's appointment.

## Salient Content

Under the commodity title the standard programmes are provided for as regards:

- Direct price support through loan rates (floor prices).
- Direct payments.
- Countercyclical payments (target prices).

A summary of the loan rates proposed by the Senate agriculture committee for the years 2008 to 2012 are as follows:

Commodity (unit)	Current Law	Food and Energy Security Act of 2007
Wheat (bu)	\$2.75	\$2.94
Corn (bu)	\$1.95	\$1.95
Grain sorghum (bu)	\$1.95	\$1.95
Barley (bu)	\$1.85	\$1.95
Oats (bu)	\$1.33	\$1.39
Upland cotton (lb)	\$0.52	\$0.52
Extra long staple cotton (lb)	\$0.7977	\$0.7977
Long grain rice (cwt)	\$6.50	\$6.50
Medium grain rice (cwt)	\$6.50	\$6.50
Soybeans (bu)	\$5.00	\$5.00
Other oilseeds (cwt)	\$9.30	\$10.09
Dry peas (cwt)	\$6.22	\$5.40
Lentils (cwt)	\$11.72	\$11.28
Small chickpeas (cwt)	\$7.43	\$7.43
Large chickpeas (cwt)	-	\$11.28
Graded wool (lb)	\$1.00	\$1.20
Nongraded wool (lb)	\$0.40	\$0.40
Mohair (lb)	\$4.20	\$4.20
Honey (lb)	\$0.60	\$0.72

Note that the loan rate for upland cotton remains unchanged in relation to its present levels. Notable increases are in wheat, wool and oilseed.

As in the present legislation the Agriculture Secretary can approve additional payments if the effective price received by the farmer falls below a national target price through a countercyclical payment.

The target prices for the period 2008 – 2012 relative to the current 2002 dispensation are as follows:

Wheat (bu)	\$3.92	\$4.20
Corn (bu)	\$2.63	\$2.63
Grain sorghum (bu)	\$2.57	\$2.63
Barley (bu)	\$2.24	\$2.63
Oats (bu)	\$1.44	\$1.83
Upland cotton (lb)	\$0.724	\$0.7225
Long grain rice (cwt)	\$10.50	\$10.50
Medium grain rice (cwt)	\$10.50	\$10.50
Soybeans (bu)	\$5.80	\$6.00
Other oilseeds (cwt)	\$10.10	\$12.74
Dry peas (cwt)	-	\$8.33
Lentils (cwt)	-	\$12.82
Small chickpeas (cwt)	-	\$10.36
Large chickpeas (cwt)	-	\$12.82

Note that the cotton target price is unchanged at \$0.72 cents per pound. Recall that in the House draft at this point of the process this target price had dropped to \$0.70 cents. It is expected that the \$0.72 cents level will now be retained in the final Senate version of the Bill.

### **Cotton**

In addition to the rates described above, the following provisions have a particular bearing on cotton:

An import quota system for cotton is retained whereby imports are restricted under certain price conditions adverse to the domestic industry. The quantity of the quota is proposed at 21 days of domestic mill consumption. Programme payments to cotton growers are provided for when the world market price for cotton falls below the prevailing US price below the loan rate. Users and exporters of domestic cotton are eligible to participate in the payments programme. This will assist cotton growers to maintain and expand the use of domestic cotton in the US as well as increase cotton exports. An optional revision of the countercyclical programme will be introduced on a trial basis. This measure has been called the 'Average Crop Revenue Programme' (ACR). Under the programme farmers can opt for a fixed payment programme in lieu of countercyclical payments. The USDA would make crop revenue payments available to the producers for each crop year based on historical acreages in the 2002 to 2007 period. We note that the existing 'subsidy circuit breaker' provision (now in section 1701) will allow the USDA to reduce payments to total allowable

domestic support levels if they exceed limits set present according to the US WTO scheduled commitments. This provision has never been applied in the past.

During committee's deliberations Senator Lugar (FRESH Act proponent) offered a provision intended to address the ongoing cotton trade dilemma whereby there would be an expedited legislative process to correct programmes that have been found not to be in line with the US's WTO commitments. The suggestion was that the President would have to submit legislation to Congress for correction if the measures had failed to stand up to a WTO challenge. The mechanism would require Congress to act on correcting programme inconsistencies within 90 days of submission by the President, with voting on a simple accept or reject basis without amendment (similar to what is done with 'fast track' authority). The idea was not taken up as committee members were nervous of the automatic evocation of the process. This suggestion may resurface in the full Senate debate, but is unlikely to be seriously considered.

### **Concluding Comment**

The full Senate starts to debate the agriculture committees' draft today. Considering the debates, two weeks may not be enough time. After the Senate completes its work, a 'conference committee' between the House and the Senate will attempt to reconcile the two bills. This may prove to be a lengthy process. The House version essentially continues the status quo for the main commodity subsidy programmes and any final hopes for a bill more consistent with Doha's trade and development aims rests in the Senate, and the ensuing conference committee process. It was originally intended that the reconciled Farm Bill would be sent to the President for signature in late October 2007. This has not happened and early indications on the Senate mark-up are that President Bush is likely to veto the current legislation as it stands. It is thus unlikely that the new Farm Bill legislation will be ready this year.

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