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Farm Bill First Draft Shows Scant Reform

The Issue at Hand

On 19 June 2007 the sub-committees of the House Agriculture Committee completed their drafting of the proposed 2007 Farm Bill, which once finalised will determine US agricultural policy for the next 5 years. The process was concluded with the subcommittee on Farm Commodities and Risk Management approving recommendations for the so-called Commodities Title, which houses the US agricultural subsidy programmes.

This is an important indicator of the likely policy direction that will be taken by the main committee of the House of Representatives (Congress). The House Agriculture Committee will itself review the work of the sub-committees after the recess that begins on 4 July 2007, where it may, and likely will effect changes to the sub-committee draft in the last week of July. The final deadline for the legislative process is the end of September 2007, when the current 2002 Farm Bill expires.

Commentary

The sub-committee (called a 'panel'¹) took a very protectionist stance and did not feel moved to take on board any of the reform orientated proposals that have been offered to date. The bottom line is that they collectively voted on a unanimous basis to grant a straight extension of the existing 2002 Farm Bill.

The protectionist stance taken by the sub-committee is not that surprising when one considers that between the 18 members of the panel, they represent

¹ This terminology should not be confused with the WTO dispute settlement panels.

constituents who have received \$10 billion², or 23% of the total national US spend on agricultural subsidies paid between 2003 and 2005. It had been thought that there was a chance that they may have gone even further and proposed a shift of some direct payments into the countercyclical payments category (a notionally Green Box to new Blue Box move), which did not materialise due to spending limits imposed the Congressional Budgetary Office.

During the session even the texts that had been introduced for modest reforms were rejected. The Bush Administration (USDA and USTR inspired) had made a proposal thought to try and make the US less prone to WTO challenge. This text received only 1 vote out of a possible 18. Another interesting text was the so-called 'Kind Proposal' (named after its proponent Wisconsin Democrat Ron Kind). The Kind Proposal would have ended the countercyclical payments and replaced direct payments with a type of risk insurance system that farmers could take out. This was defeated unanimously. Not unexpectedly the proposal (floated positively by some leading academics and think tanks) and then officially tabled by the financial house Citigroup³ that suggested a budgetary buyout of farmers receiving subsidies (i.e. a payout that then ends subsidies for the future) was also unanimously defeated.

The majority view was that the vote was openly in favour of US farmers currently receiving subsidies, and that extending the current programs was a show that in making law Congress would 'not turn the task over to bureaucrats in the World Trade Organization'. While it is recognised that the USDA has only an advisory role in the process, Agriculture Secretary Johanns took the time to comment from Germany where he and the USTR (Susan Schwab) are ensconced in critical G4 deliberations on the WTO modalities breakthrough. Johanns expressed disappointment that the bill 'fails to recognize the need for greater equity and predictability in farm policy' and 'paints a bulls-eye on farmers' backs and risks jeopardizing a portion of the \$78 billion in US agricultural exports by increasing trade-distorting support.' Clearly the events in Washington are not making life

² This collectively represents \$8 billion under title 1(subsidies) and \$2 billion under title 2 (conservation).

³ Citigroup would itself have benefited by involvement in financing the buyout programme, hence its sponsorship of the text. In theory buyouts are unlikely to interest farmers unless they believe subsidy programs will be eliminated or the buyout will be worth more than the long term future subsidy income stream.

easy for the US trade negotiators who were under pressure at the G4 sessions to reduce US domestic support from their current comfort zone of \$22 Billion to a low teens figure at around \$13 Billion. We now know that the G4 failed to find an agreement on this question, among others.

The following textual amendments were taken on board by the Subcommittee:

- Amendment to adjust premiums and discounts associated with cotton under loan, to recalculate the adjusted world price of cotton based on Far East markets as opposed to Northern European markets, and to provide economic assistance cotton users.
- Amendment to separate the marketing loans, loan rates, and target prices for rice.
- Amendment to make technical corrections to the target price and loan rate for rice.
- Amendment to establish a single corn and sorghum loan rate in each county.
- Amendment to create a pilot program in Indiana to allow for the planting of tomatoes grown and contracted for processing on up to 10,000 base acres, reducing base acres on an acre-by-acre basis for each acre of tomatoes planted.
- Amendment that money used to fund programs under the Subcommittee's jurisdiction should not be transferred to fund programs authorized or reauthorized under any other title of the Farm Bill.
- Amendment to give farmers the option to purchase supplemental area-based crop insurance in addition to their individual yield or revenue policy.

Cotton Specific Issues

In general the draft is very good for US cotton farmers. The subcommittee adopted an amendment introduced by Democrat Jim Marshall that includes most of the recommendations by the National Cotton Council (NCC) developed by an internal NCC special Farm Bill working group. This is evidence of a highly successful lobby effort by the US cotton industry. It is notable and understandable that American Cotton Producers Chairman (Jay Hardwick),

attended the subcommittee meeting, and subsequently expressed appreciation to the committee Chairman for the willingness to include the cotton industry's recommendations.

The subcommittee panel approved an amendment creating a program whereby the USDA issues marketing certificates or direct payments to domestic upland cotton users for the modernization and construction of textile facilities for US cotton users (textile producers). This is similar to part of the Step 2 programme that was WTO incompatible in the Upland Cotton case. However under this new guise this incompatibility may be eased somewhat, but arguably not enough, in that the US textile producers can also use foreign cotton but will be compensated if they use US cotton. Imports are however still limited through the US import quotas on cotton, which the Bill retains. This provision might still be opposed sufficiently enough to cause it to be revised before the final Bill is settled.

There was also a reformist proposal to discontinue the flexibility exclusion for fruits and vegetables; that states that these crops cannot be planted on programme crop (cotton) declared land. In some areas where there are no alternatives outside of fruit, vegetables and rice, the provision basically tells producers, albeit slightly indirectly, to grow cotton. Note that in the Upland Cotton WTO case, this was illegal because it contravened the Green Box criteria for direct payments which required no production requirement to be present⁴, and essentially here the instruction is that cotton must be grown to the exclusion of fruit and vegetables.

In short under the Subcommittee Bill, the upland cotton program on domestic support for 2008 onward would have a 52 cents base loan rate (this is the same as the level during the Upland Cotton case), and 68.61 cents target price (this was 72.4 cents during the Upland Cotton case). The direct payment amount would be 6.67 cents. The world reference price used to calculate the difference with the set loan rate is to be changed from the North European used now, to an Asian price. This is ostensibly to 'more accurately reflect the competitive environment'. What this probably means is that the world reference price will be lower meaning that support payments will increase. The payment base and yield

⁴ Agreement on Agriculture; Annex 2 at paragraph 6(e).

used for direct and countercyclical payments are to remain unchanged. Payment limitations are unchanged and the extra long staple program is extended on an as is basis. The earlier draft present just before this session had the loan rate reduced from 52 cents to 50 cents, and as is evident this was reversed. Note that the target price (68.61 cents) is lower. This is due to a budgetary technicality (offset), but the feeling seems to be that this is a temporary necessity that will be rectified later in the process and reset to the present level.

In addition under the crop insurance title the Bill from the subcommittee, inter alia, extends the number of cotton producing states eligible under the programme (defined by the Cotton Research and Promotion Act), and extends the availability of official cotton classification services for cotton producers.

Concluding Comment

The subcommittee panel's reinforcement of the existing Farm Bill has set them well apart from the agents of change, who may still have some fierce opposition to offer. As such there is likely to be a heated debate across the floor when the Bill is tabled in the House of Representatives in late July. Cotton support elements are likely to be prominent in this debate. It is notable that in the previous Farm Bill (1996) similar efforts by reformers at that time were firmly defeated. The present question is whether this will be the same now in 2007. Based upon the latest 19 June 2007 vote, the early answer seems to be 'yes'.

“ If you were looking for a signal that the U.S. is serious about negotiating lower farm supports . . . the House Agriculture Committee is basically saying 'To heck with you'. “

[Comment by University of California economist - Professor Daniel Sumner]

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