



# Beyond WTO Compliance: Seeking a Just 2007 U.S. Farm Bill

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The 2002 Farm Bill is set to expire this year and debate on a new Farm Bill is heating up in the U.S. Congress, drawing both domestic and international attention. Given the scope and reach of Farm Bill legislation, this is an opportunity to change the course of U.S. agriculture and draft meaningful legislation for U.S. family farmers and rural communities and their international counterparts. This article will discuss the current direction of U.S. agriculture policy, the interaction with international trade rules and current proposals for the 2007 Farm Bill, contrasting those that seek to comply with trade obligations and those that present an alternative to the current system.

## **U.S. Agriculture – Exporting our way to prosperity – or not.**

For over twenty years, the U.S. has pursued farm policies which promote industrial farming for export markets, arguing that farm prosperity lies in increasing competitiveness (selling at lower prices) and expanding export markets. The 1996 Farm Bill ended supply management programs for major commodities by no longer requiring farmers receiving government support to keep a percentage of their land out of production. The 1996 Farm Bill also “decoupled” farm payments by untying farm payments from the crops produced. Both factors encouraged farmers to farm as much land as possible, thereby increasing production. The market compensated for the ensuing dramatic increase in supply with a corresponding crash in prices. Support was restored in the form of emergency payments which evolved into the “countercyclical payments” of the 2002 Farm Bill which are enacted whenever the effective price is less than the target price. Over the same 20 year period, U.S. farmers have seen incomes decline, farms have consolidated into fewer and larger farms, global prices for major commodities have declined, and U.S. exports have remained flat.

## **International Reach of U.S. Agriculture Policy**

Moreover, US export-oriented agriculture policy, reinforced internationally through trade agreements, has done little to help struggling family farmers or impoverished rural communities. With multilateral negotiations at a standstill, the U.S. has pursued an aggressive agenda for securing greater market access for U.S. commodities and agricultural goods in bilateral and regional free trade agreements. U.S. demands have been met with initial resistance, with trading partners citing concerns over domestic rural livelihoods, food security, and even increased narco-trafficking. However, given the power imbalance in these bilateral

negotiations, the U.S. has been able to secure extensive market access without reformulating U.S. trade distorting policies.

Key areas in which trade legislation is used to expand the reach of U.S. agricultural exports and U.S. agricultural firms, like the large grain processors and food producers:

- **Market access:** The U.S. consistently pushes for enhanced market access for U.S. agricultural exports in its free trade negotiations. When developing countries lower or remove their tariffs and quotas on U.S. agricultural goods they are left with few tools to defend their domestic producers from the influx of subsidized U.S. goods.
- **Investment:** Liberalized investment regimes create the conditions for U.S. firms, and other mega processors to establish operations internationally, further extending the industrial production process and encouraging market concentration – one or only a few large buyer(s) of agricultural goods - in foreign markets.
- **Intellectual Property:** Enhanced IPR provisions in trade agreements further strengthen the position of the genetically modified (GM) crops which define the majority of U.S. industrial agricultural operations. Patents on (GM) seeds funnel profits back to U.S. agribusiness and make it increasingly difficult for farmers to store seeds from one harvest for next year's planting. Often GM crops require the use of pesticides and herbicides for maximum yield.
- **National Treatment** clauses and restrictions on performance requirements: These limit the ability of countries to differentiate between domestic and internationally sourced goods based on factors like production process. Such limitations make it more difficult to differentiate between goods produced locally or in a sustainable manner.
- **Sanitary and Phytosanitary (SPS):** The high cost of meeting SPS standards can effectively exclude small producers, who are unable to bear the cost, while simultaneously favoring larger or industrial producers who have the resources and capacity to meet SPS demands.

## **The Farm Bill in a Global Economy**

### **WTO Compliance**

The "Farm Bill" refers to the omnibus, multiyear piece of legislation that comprehensively addresses agriculture and food issues. The 2002 Farm Bill covered 10 issues: commodity programs, conservation, trade, nutrition programs, credit, rural development, research, forestry, energy, and the catch-all miscellaneous. While each of these issues are important, the sections below will focus on the interaction between U.S. farm policy (commodity support, trade, and food aid) and trade obligations, referencing proposals for 2007 that seek to address the issue of compliance with trade agreement obligations.

## • **Commodity support**

Total U.S. support has increased dramatically in recent years, from \$7.2 billion in 1995 to over \$21 billion in 2005, with a high of \$23 billion in 2000. The main crops receiving government support are corn, sorghum, wheat, cotton, rice, peanuts and soybeans. U.S. agricultural policies, particularly the high amounts of support, increasingly are being challenged in the WTO and under bilateral agreements for the adverse effect they have on world commodity prices. U.S. support mainly affects the world market in two ways:

1. Support given to farmers when prices are low encourages overproduction, which increases supply and further depresses prices. These include counter-cyclical payments, direct payments, and loan deficiency payments .
2. Support given to the users or exporters of U.S. commodities creates an incentive to buy U.S. crops, thus skewing the market in favor of U.S. goods to the detriment of crops from other countries.

As noted, much of the commodity support in the current system attempts to compensate for low prices. Low prices occur when supply is greater than demand. For producers of manufactured goods, it's easy to slow down production or hold back product from the market when the supply is too great. Farmers and agricultural markets operate a bit differently. In agriculture though, the lag time between planting and harvesting makes it much more difficult to respond to market signals. When the crops are ripe, they need to be harvested and sold before they spoil. Farmers are producers in one sense, but also workers at the same time. If I am working and my wages drop, the rational response will be to work more. Perhaps I work more hours or take a second job. This behavior doesn't usually impact wages overall. For farmers, the natural response to low prices is to plant more acreage in order to have more to sell. If one or two farmers did this, it wouldn't be a problem. However, when many producers of the same crop do this, it actually only serves to lower prices further because the supply has increased (if there isn't a greater, corresponding increase in demand.)

Challenges to U.S. agricultural support are mounting. In January 2007, Canada challenged U.S. subsidies and domestic support provided to U.S. producers and/or exporters of corn – citing that the measures in question caused “significant price depression and price suppression for corn in the Canadian market” for the period 1996-2006 and continue to threaten the Canadian market. In March 2005, Brazil won a WTO dispute settlement case on the U.S. cotton program and the U.S. was advised to remove certain “prohibited subsidies.” In August 2006, the U.S. eliminated the “Step 2 program,” which provided financial support to U.S.-based cotton millers and exporters so they could afford to buy domestically grown cotton instead of cheaper foreign cotton. The U.S. may still need to make additional permanent changes to comply with the WTO cotton ruling. In response to the WTO challenges and the refusal of developing countries to come to an agreement in the WTO before the U.S. reforms its agricultural policy, key elements of the USDA Farm Bill proposal are directed toward trade compliance.

The 2007 proposal for counter-cyclical payments would compensate for low revenues, taking both price and yield into the equation, and not tying payment to production . However, many argue that the decoupled, revenue based system would still affect production, specifically

encouraging production. Thus it would increase supply, lower prices, and therefore would be trade distorting. The proposal would increase direct payments overall, by increasing the payment rate. The proposal would remove “planting flexibility restrictions” which prohibit farmers receiving direct payments from growing fruits or vegetables. Payment base acres and yields would not be updated. This change would bring the U.S. further into compliance with the ruling in Brazil’s challenge to the U.S. cotton measures. The USDA proposal would lower the loan deficiency payment trigger price for the covered commodities, thereby lowering overall subsidies. If prices are consistently low, the trigger price would be reduced to 85% of the five year Olympic average of the market price. If prices remain high, for example for corn as a result of growing demand for ethanol, then the pay outs under this category would be low or non-existent.

#### • **Food Aid**

It is easy to view food aid only in positive terms, providing food to hungry people, but increasingly developing countries and hunger rights advocates are questioning the efficacy and motivation of the U.S. food program. Currently, the U.S. food aid is provided from surplus agricultural production. The food aid is shipped via U.S. shipping lines and is administered by U.S. aid agencies – who give away the food or sell it at concession prices. Many voices are raising the concern that food aid actually displaces local producers from the markets, which can actually worsen a food crisis or delay recovery. Instead, these critiques proposes the cash be used to purchase food from local and regional markets closer to the area of need – thereby infusing cash into the economy and increasing demand for local goods. For over a decade, the European Union has provided the vast majority of its food aid in the form of cash for local purchase rather than commodities. The USDA proposal authorizes up to 25% of U.S. food aid budgets for local and regional purchase of food during a food crisis.

#### • **Trade**

While there are trade-related measures in other titles of the Farm Bill, the Trade title encompasses those measures designed to expand U.S. agricultural trade. Major components in this chapter include technical assistance, market access, sanitary and phytosanitary issues, support for USDA involvement in international standard-setting bodies, export credit guarantees, non-tariff barriers, and food aid.

Export Credit Guarantees were found at the WTO to be inconsistent with U.S. trade agreements. In July 2005, steps were taken to comply with the WTO rulings, specifically, a more risk-based fee structure that better reflects country risk ratings and length of guarantee coverage and eliminated the highest risk countries from the the programs altogether. Going further, the USDA proposal would eliminate the Supplier Credit Guarantee program which was designed to help exporters offer direct, short-term credit to foreign buyers of U.S. food and agricultural products.

The market access program helps launch and expand sales of U.S. agricultural, fish and forest products overseas by sharing the costs of overseas marketing and promotional activities between USDA and non-profit trade groups and small businesses. Annual spending for this

program more than doubled between 2001 and 2007, rising from \$90 million to \$200 million. The USDA proposal for the 2007 farm bill would raise annual spending to \$225 million. The increase would primarily go toward marketing efforts for non-commodity crops.

## **Beyond Compliance: Proposals for a Just Agriculture Policy**

The high level of support enjoyed by U.S. farmers is encouraging overproduction and dumping, lowering world prices and threatening the livelihoods and food security of subsistence farmers globally and family farmers here in the US. USDA proposals for the 2007 Farm Bill will do little to reverse this trend.

Forty percent of the world's people are employed in the global food system (growing, processing, preparing, selling and serving food). Agriculture remains the key sector for meeting the livelihood and nutritional needs for the vast majority of the world's poor. It is crucial to get U.S. agricultural policy right.

Our faith tradition, elaborated upon by the Interfaith Working Group on Trade and Investment, leads us to conclude that:

1. U.S. food and agriculture policy should respect and support the dignity of the human person, the integrity of creation and our common humanity.
2. U.S. food and agriculture policy decisions should be transparent and should involve the meaningful participation of the most vulnerable stakeholders.
3. U.S. food and agricultural policy should advance the common good and be evaluated in light of its impact on those who are most vulnerable, both domestically and internationally.
4. U.S. food and agricultural policy should safeguard the global commons and respect the right of local communities to protect and sustainably develop their natural resources.
5. U.S. food and agricultural policy should reflect that the U.S. government, in collaboration with civil society, is creating public policies that encourage the development and welfare of all people, both domestically and internationally.

Guided by these principles, the Center of Concern supports the policy platform of the Building Sustainable Futures (BSF) coalition for a fair 2007 Farm Bill. Below is an overview of key provisions related to agriculture and international trade.

### **• Fair Farm Prices**

*Establish a price floor for commodities so that major commodity agribusinesses pay their fair share to family farmers. Negotiate International Commodity Agreements to create a worldwide price floor. Ban Dumping of Agricultural Commodities onto World Markets.*

It is important that domestic and world agricultural markets are kept in an equilibrium to meet global food needs and ensure farmer livelihoods. BSF proposes a multiprong approach which would ensure a fair price for farmers and meet critical domestic needs for food reserves, conservation, and biofuel production. Efforts to balance supply and demand would help "curtail

the unsustainable overproduction and dumping of agricultural commodities around the world.” International commodity agreements would establish a system for calculating a price floor that reflects the full cost of production, including on farm management and labor.

- **Food Sovereignty**

*Negotiate International Trade Agreements with Respect for Food Sovereignty*

The U.S. must support the respect for food sovereignty in all international agreements. Simultaneously, comprehensively and multilaterally negotiating trade rules for all agricultural commodities would remedy the complex tangle of independent rules and regulations currently found in the proliferation of bilateral and regional trade agreements

- **Local Markets**

*Promote local food economies and food security*

The domination of export-oriented agriculture, with crops and food stuffs being shipped across the globe as they move from harvest, through processing, and to consumption has served the tastes and preferences of wealthy consumers, but has left a void in local food needs. Additionally, the transportation requirements of this transnational production process generate an additional environmental toll in terms of fuel consumption and pollution. The building of local markets for agricultural goods would help reverse the current course.

- **Competition Title**

*Bolster anti-trust enforcement to reverse current trends towards the concentration of agricultural markets and further industrialization of our food system.*

As U.S. agriculture has grown more concentrated, with fewer and larger agribusinesses dominating the processing and distribution of agricultural goods and foodstuffs, they are able to exert considerable downward pressure on the prices farmers receive for their crops and upward pressure on consumer prices. Agribusinesses responsible for supplying farm inputs, processing, transporting and distributing agricultural goods and food products have similarly become larger, fewer and often are involved in multiple steps of the production chain. This situation has contributed to the skewing of U.S. agricultural markets against farmers and consumers.

- **Food Aid**

*Transition to untied, cash-based food aid. Establish a system of regional reserves. Establish strong, democratic and enforceable multilateral guidelines. Ensure adequate funding.*

The problems associated with current U.S. food aid policy have been outlined above. A move to fully funding a cash-based system for most food aid situations should be enacted. A multilateral effort to establish regional food reserves and coordinate dispersal is needed.

Decision-making authority should shift from donor countries to a multilateral setting which includes recipient countries and civil society organizations and is governed by transparent guidelines.

### **Additional Resources**

Institute for Agriculture and Trade Policy: [www.iatp.org](http://www.iatp.org)

Oxfam America: [www.oxfamamerica.org](http://www.oxfamamerica.org)

Building Sustainable Futures: [www.globalfarmer.org](http://www.globalfarmer.org)

Agribusiness Accountability Initiative: <http://www.agribusinessaccountability.org>

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