



## Judging the Performance of the 2002 Farm Bill

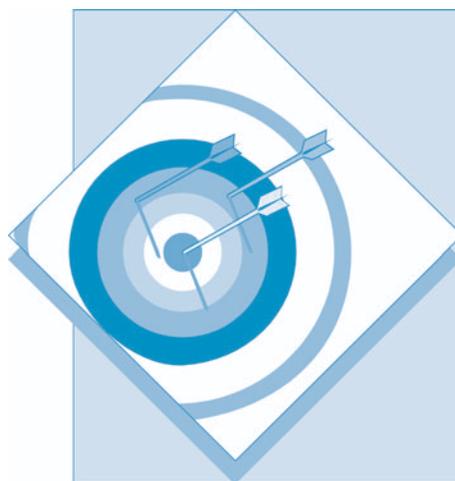
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The 2002 farm bill has been criticized from day one. Free-trade advocates criticized the significant increase in domestic subsidies for U.S. farmers at a time when the rest of the world was seemingly moving toward more liberalized production and trade. Small-farm advocates criticized the ability of large farms to bypass payment limitations through the use of commodity certificates. Conservation advocates thought they had accomplished a major feat with the Conservation Security Program, but implementation rules and subsequent funding cuts have shown that the program will have little short-term impact. And rural development advocates criticized the bill for its continued focus on supporting commodities rather than rural income enhancement.

Most groups criticize the farm bill because they would like to accomplish something different with the legislation. Disagreement and debate about the objectives of farm policy is a critical part of the policy discussion. But it is also crucial to know if the current commodity programs are in fact accomplishing what Congress wants them to do. If not, then they should be reformed, even if Congress does not alter its policy objectives.

It is not easy to pin down what farm programs are supposed to accomplish. The rhetoric of program defenders offers little guidance because the arguments employed are



usually based on myths rather than facts. For example, farm programs are often touted as providing consumers with inexpensive food when the reality is that the retail price of food bears little relationship to the price of supported commodities. Since 9/11, some say we need farm programs for national security reasons when almost all analysts suggest that aggregate production of food would change little if we did away with the programs. Others say that current farm programs enhance rural vitality. But the data show that the least economically viable rural regions are those that have become most dependent on farm subsidies. The biggest myth is that farm programs help vulnerable small family farmers when it is abundantly clear that it is the large commercial operations that are helped the most.

Judging Congress by its actions instead of its words, we conclude that the primary objective of current commodity programs is to support income for the U.S. field crop sector. Furthermore, because Congress set up crop-specific sup-

port levels, we also conclude that Congress wants to support income on a crop-by-crop basis. Various interpretations of what is meant by farm income could be made, but because Congress has little control over production costs, an appropriate measure of Congress's intent is to spend money so that total revenue for each supported crop does not fall below a specified level. We calculate this level for each crop by simple arithmetic.

The target for each crop's revenue is assumed to be expected production times the loan rate *plus* the maximum countercyclical payment rate times base acreage times base yield for the countercyclical payment program *plus* the direct payment rate times base acreage times base yield for the direct payment program. These calculations result in target revenues of approximately \$25 billion for corn and \$15.5 billion for soybeans. Given these targets, a taxpayer-cost-efficient farm program would spend money to bring revenue up to the target level when market income falls short of the targeted amount. When market revenue exceeds this amount, then an efficient program would cut off support.

### DO CURRENT PROGRAMS HIT THEIR TARGETS?

Figure 1 shows that current farm programs have done a poor job at meeting their objective for corn and soybeans. In 2002, market revenue for corn fell short of the target amount by about \$3.8 billion, yet farm programs paid out only \$2.1 billion. In 2003, corn farmers received \$2.1 billion in support, yet their market income was about equal to the target level. And in

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*Printed with soy ink*

2004, market income fell short of the target by \$1.4 billion, but we estimate that payments will exceed \$7 billion. For soybeans, market incomes exceeded target incomes in 2003 and 2004 and the shortfall in 2002 was only \$130 million. But total payments exceeded \$2.1 billion over this period.

When a policy tool fails to hit a target, the usual explanation is that the wrong tool was used. In 2002, market income was low because U.S. aggregate yield was below trend levels and prices did not increase enough to compensate. The only support producers received in 2002 (ignoring ad hoc disaster payments for now) was in the form of direct payments and these payments were not large enough to compensate for low aggregate yields. Furthermore, in 2002 many corn regions had good yields. The low aggregate corn yield was caused by drought in the western Corn Belt. But all regions received direct payments, regardless of regional income levels.

The largest miss occurred in the current 2004 crop year. Record yields led to record production. Prices fell dramatically, but there was only a small shortfall in market revenue. This type of low-price, high-yield year is what really triggers payments under current farm programs. We project that the current corn program will overshoot its target by almost \$6 billion.

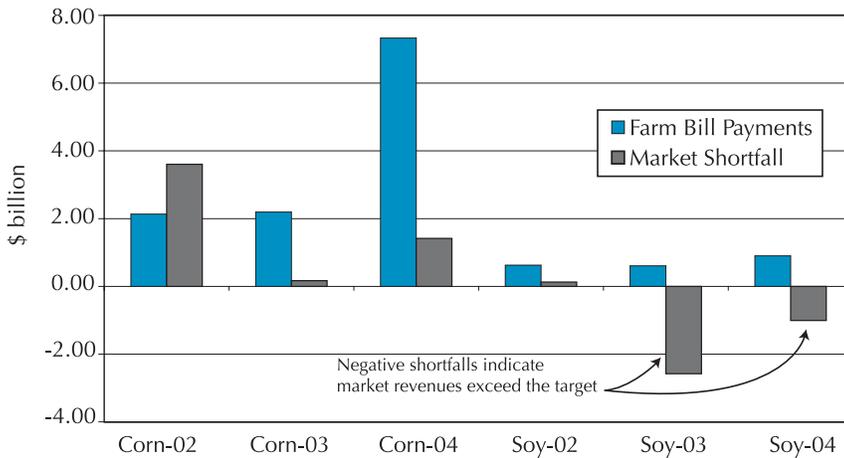
The soybean misses largely have been caused by direct payments arriving even when soybean revenue meets or exceeds its target amount. In addition, harvest prices in 2004 were low enough to trigger loan deficiency payments, even though subsequent price increases have enabled farmers to market their crops at much higher prices. Thus, soybean farmers are projected to receive almost \$1 billion in payments for their 2004 crop even though total market revenue is projected to exceed the target level by \$1 billion.

The mismatch between regional payments received and regional market revenue is more pronounced with soybeans. Much of the 2003 price strength was a result of very poor yields in Nebraska, western Iowa, and South Dakota. Yet farmers in these regions received the same direct payment as farmers in regions with normal yields. This illustrates the poor performance of current farm programs in compensating for low regional yields. Some might say that disaster payments in 2002 and 2003 partly compensated for these low regional yields. But if Congress recognizes the need for supplemental assistance caused by widespread low regional yields, wouldn't it be sensible to develop a new farm policy tool that automatically accounts for low yields as well as low prices? To find such a tool, Congress could look beyond USDA's Farm Service Agency and focus its attention on another USDA agency.

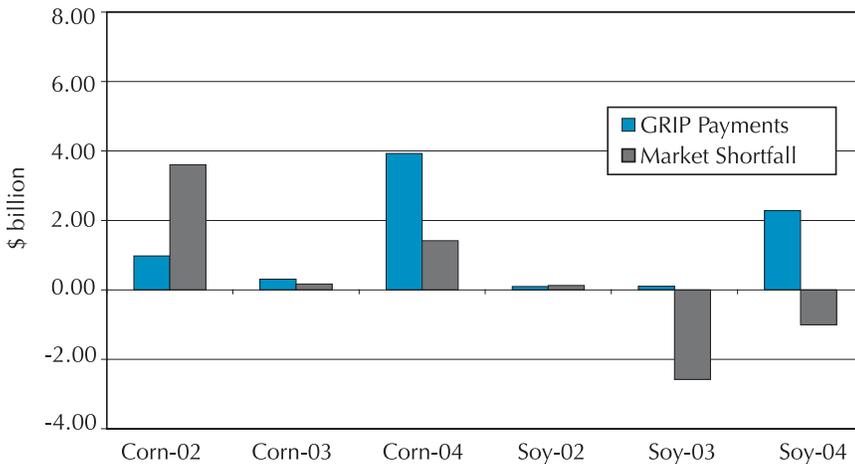
### INCOME SUPPORT FROM THE RISK MANAGEMENT AGENCY

For the 2005 crop year, we estimate that almost 6 million acres of U.S. corn and soybeans will be insured with Group Risk Income Protection (GRIP). This product provides a guarantee that county revenue will not fall below 90 percent of the product of expected market price and trend yield. This product seems ideally suited to hit congressional revenue targets. Either low prices or low yields can trigger a payment. But low prices by themselves will not trigger a payment if yields are high enough to raise revenue above the 90 percent level. And low yields will not trigger a payment if prices are strong enough. In addition, if payments arrive when aggregate market revenue exceeds its target level, then at least the payments would flow to those regions that experienced inadequate revenue because of low yields.

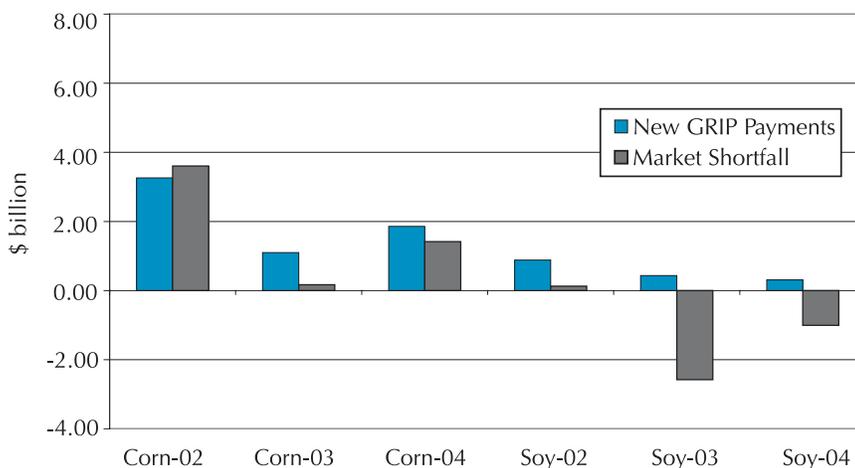
**FIGURE 1. DO FARM BILL PAYMENTS ARRIVE WHEN REVENUE IS LOW?**



**FIGURE 2. WOULD GRIP PAYMENTS ARRIVE WHEN REVENUE IS LOW?**



**FIGURE 3. WOULD MODIFIED GRIP PAYMENTS ARRIVE WHEN REVENUE IS LOW?**



To determine how well GRIP might perform as a commodity policy, we simulated GRIP payments to farmers assuming that a 90 percent GRIP policy was given to all corn and soybean farmers in 2002, 2003, and 2004. Figure 2 shows that GRIP does not perform as well as one might expect. For corn, GRIP would have overcompensated farmers in 2004 and undercompensated them in 2002. For soybeans, GRIP did a good job at not overcompensating farmers for aggregate losses in 2002 and 2003, but GRIP would have greatly overcompensated farmers in 2004.

The reason GRIP performs so erratically is that its guarantees are based on futures prices. In 2002, the expected corn price was \$2.30/bu and the expected soybean price was only \$4.53/bu. These prices are not adequate to provide the level of protection desired by Congress. In 2004, expected prices were dramatically higher at \$2.93 and \$7.27. The overcompensation in 2004 from GRIP is a direct result of market prices providing more protection than desired by Congress. While a market-based revenue product is desirable as an insurance product, it is less desirable in a national commodity policy.

### A NEW REVENUE-BASED COMMODITY POLICY

An easy fix for one of the weaknesses of GRIP as a commodity policy is to replace futures prices with a fixed price to calculate county revenue guarantees. An easy fix for the overcompensation that occurs when farmers use low harvest prices to maximize marketing loan benefits is to calculate payments based on season-average prices, much like we do with the current countercyclical payment program. Figure 3 shows that such a modified GRIP program would closely match payments with revenue shortfalls if all corn and soy-

*Continued on page 11*

## Water Cleanup: What's the Economic Impact for Iowa Communities?

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Many of Iowa's public lakes have been adversely affected by sediment, nutrients, or other nonpoint pollution. Iowa is grappling with the pressures of balancing federal water quality requirements, tight conservation budgets, concern for environmental preservation and restoration, and economic viability of rural areas. Efforts to improve water quality in many lakes are likely to entail significant economic costs. These costs can be public, such as when state resources are used to fund cleanup efforts, or private, such as altering land uses or farming practices, expanding municipal treatment facilities, or other investments. Before scarce funds are invested in cleaner water, it is imperative to know how much Iowans value cleaner water.

### VALUE MEASURES

The value of cleaner water is often missing from discussion of state water quality problems. What value do Iowans place on the protection of water resources in the state? What value would they place on improvement in quality levels? Conceptually, the economic value of water quality improvements in Iowa lakes is the maximum amount the citizenry is willing to pay to obtain those improvements. This is the standard economic definition of the value



of a good, as it represents the value of other goods and services that people are willing to forgo in order to acquire or preserve the good in question (water quality in this case). This “willingness-to-pay” concept can appropriately be used by policymakers in deciding how to spend limited public monies. While difficult to measure, economists and limnologists (who study water biology and chemistry) at Iowa State have a large research project underway to generate estimates of this value for water quality improvement at over 125 lakes in the state (for details, visit [www.card.iastate.edu/environment](http://www.card.iastate.edu/environment)).

In addition to the value of water quality improvements, citizens of local communities and regions are often interested in another measure related to environmental improvements. They want to know the amount of economic activity those improvements might stimulate. Typically, this economic impact is measured in total dollars of spending generated locally by the environmental improvement or the number of jobs created. This type of information is particularly

relevant for those interested in promoting and maintaining the viability of local communities.

The City of Storm Lake in Buena Vista County is one such community. Community leaders in the Storm Lake area have pursued an aggressive water quality and community development effort that has been termed “Project Awaysis” (see the project Web site: [www.awaysis.com](http://www.awaysis.com)). This proposal encompasses both water quality improvements in the lake and substantial economic development for the local community. Included in the plans are a new public beach, a lighthouse, a redesigned municipal golf course, a renovated campground, family cabins, an 80-room lodge, an indoor/outdoor water park, a countywide bike trail, an interpretive center, and other amenities.

### ECONOMIC IMPACT ANALYSIS

As part of their planning efforts, members of the Storm Lake Area Development Corporation were interested in having an economic impact analysis undertaken. They wanted to estimate the effects of spending by an increased number

of visitors that would likely result after dredging of the lake and construction of these additional facilities and attractions. The first step in the analysis was to take advantage of information already collected by the statewide lake valuation study by economists at CARD and Iowa State University. The study, which was jointly funded by the Environmental Protection Agency and the Iowa Department of Natural Resources, included data on annual visitation rates to Iowa lakes, as well as on-site surveys in Storm Lake that collected data on visitor activities and spending patterns during these visits. The primary activities engaged in on these visits included boating, fishing, camping, and hiking. Based on this information, we were able to estimate that over 267,000 visitors came to the area because of the lake in 2003. We estimated the aggregate spending of these Storm Lake visitors to be over \$22 million.

In the lake valuation study, visitors were further asked how improvements to Storm Lake would affect the number of visits they make to the area. For purposes of the economic impact analysis, this question was interpreted to apply to water quality improvements as well as amenity investments such as lodging to take advantage of the cleaner lake. Based on their responses, we estimate that visitation rates would increase by about 55 percent. At current spending rates, the lake improvements are expected to increase direct tourism spending by \$12.6 million during the summer season.

Since lake development is aimed at year-round usage of the facilities by including trails and an indoor water park, we develop estimates of additional spending occurring during the remainder of the year. In addition to the water park activities, other winter attractions include snowmobiling, ice fishing, and cross-

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*Overall, we estimate that the total economic impacts on the region will be \$28.4 million of sales, \$10.7 million of new income, and 690 new jobs.*

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country skiing on multi-purpose trails. The proposed lodge would also be promoted as a conference facility intended to draw visitors during the winter season. Winter visitation rates are expected to be lower, however; we estimate visitors and spending to be only half of the level seen during the summer months. Using these rates, we estimate additional spending of \$6.3 million during winter months. Adding this to the summer totals, lake improvements are expected to result in an estimated annual increase of \$18.9 million in direct spending in the Storm Lake area once the effects from a fully developed set of facilities are realized.

Based on the state averages for the different retail and service sectors, we expect about 27 new businesses to be supported by the increase in sales activity. The expenditure survey suggests that about \$3.5 million will be spent on lodging in the region. Based on the marketing analysis for the new lodge, which estimated 80 rooms and 70 percent occupancy at \$85 per night, about \$1.74 million will be spent at this facility. This implies that about \$1.76 million will be spent at other lodging facilities, supporting two to three additional facilities based on state averages.

Income and employment associated with expanded visitation can be estimated using an input-output (I-O)

model for the region. An I-O model is essentially a general accounting system tracking expenditures and purchases among sectors in the local economy. We use the IMPLAN data and modeling system to configure an I-O model for the economic region of Buena Vista County. After the project is completed, the local economy is stimulated by new visitors making retail purchases. The I-O model takes these estimates of new tourism spending, tracks them through the rest of the economy, and summarizes the secondary and overall purchases. Overall, we estimate that the total economic impacts on the region will be \$28.4 million of sales, \$10.7 million of new income, and 690 new jobs. Most of this activity, including the indirect and induced effects, is focused in the retail and service sector, as indicated by the initial spending survey. We estimate, after adjusting for full-time equivalence, that the earnings support about 490 full-time positions.

#### AN ESSENTIAL COMPONENT

With the help of this impact report, the community was able to acquire an \$8 million Vision Iowa grant to assist with developing the project. Awaysis Project Manager Mike Wilson says the economic impact study, based upon the survey results and willingness-to-pay estimates, was critical to the effort. "Project planners had long believed that the Awaysis development would spur economic activity in Storm Lake and Buena Vista County," he says. "The study provided independent, third-party quantitative estimates of the economic impact. Being able to refer to that study was key to our effort to help the community understand the promise of Project Awaysis." The project's development committee plans to use the report to assist with further marketing in the community and the region. ♦

## Agricultural Situation Spotlight

### Preparing for Soybean Rust

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**O**n November 10, 2004, the first confirmed case of soybean rust was found in the continental United States, in Louisiana. (Hawaii has had soybean rust since 1994.) In the weeks that followed, soybean rust was also confirmed in Alabama, Arkansas, Florida, Georgia, Mississippi, Missouri, South Carolina, and Tennessee. The most likely scenario as to how soybean rust arrived in the continental United States is via Hurricane Ivan. Ivan formed in the Atlantic in early September, brushed the South American coast, and proceeded to strike the southeastern United States, carrying rust spores from Colombia and Venezuela. This scenario highlights the ability of soybean rust spores to travel over large distances to create new areas of infestation. Given this initial bout with soybean rust, U.S. soybean producers, researchers, and federal and state governments have sought to learn about soybean rust as quickly as possible. Much of our knowledge about soybean rust comes from Brazil, where rust has been a persistent issue for a few years. We'll look at Brazil's response to soybean rust and the possible trade effects following an assessment of our efforts so far in the United States to mitigate this new challenge to soybean production.

#### TREATMENTS AND RESOURCES

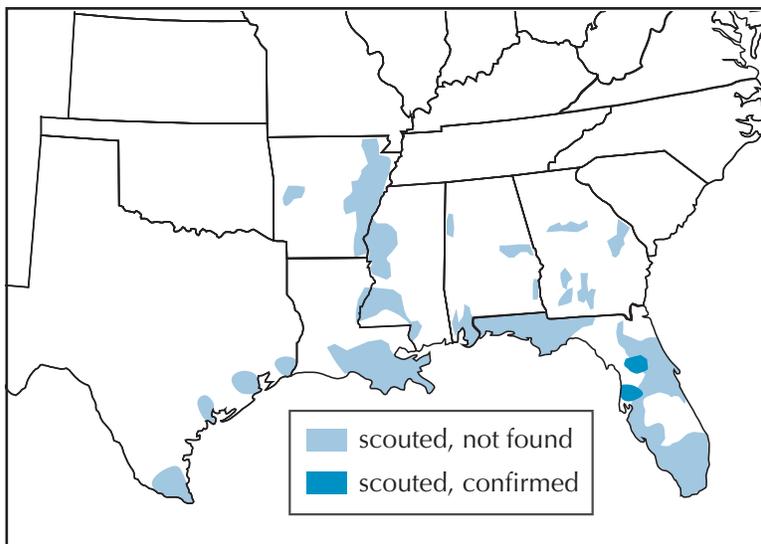
Even before soybean rust was discovered in Louisiana, research and planning was underway in the United States to deal with the disease. The Environmental Protection Agency (EPA) has registered three chemicals—azoxystrobin, chlorothalonil,

and pyraclostrobin—for the treatment of soybean rust. These chemicals are preventative treatments in that they protect soybean plants from infestation and limit subsequent rust development. Soybean rust spreads by spores. Spore germination occurs when soybean leaves experience prolonged wetness, temperatures between 59 and 86 degrees, and humidity between 75 and 80 percent. Under these conditions, pustules form on soybean leaves within 5 to 10 days and spores are produced within 10 to 21 days. The treatment chemicals prevent spore germination and penetration. In April 2004, the USDA's Economic Research Service examined the possible impact of soybean rust on the U.S. agricultural economy. The study looked at regional and national scenarios of soybean rust infestation, with yield impacts of up to 10 percent losses in affected areas. Under assumed costs of \$25 per acre for treatment, the study indicated that soybean rust would cause losses of \$640 million to \$1.34 billion, depending on the severity of the outbreak.

Since the first sighting, efforts have been directed at monitoring

the soybean rust situation in the United States, keeping soybean producers up to date on the latest soybean rust information and treatments, and outlining how the government is responding and will continue to respond to soybean rust. Various federal and state government agencies and university research centers have set up Web sites to allow producers to check the spread of soybean rust and find the latest information on the disease. For example, USDA has set up a Web site, [www.usda.gov/soybeanrust](http://www.usda.gov/soybeanrust), as a clearinghouse on soybean rust information. The site has links to other sites or publications that help producers identify soybean rust, track the scouting and confirmation of soybean rust in the United States, outline fungicide information for treatment, and provide information on the interaction between government programs and soybean rust (such as crop insurance).

USDA has continued to scout for soybean rust in the southeast in 2005. As of April 15, plant samples from 94 counties across the Southeast have been checked for soybean



2005 soybean rust observation as of April 15

Source: USDA

rust. Rust has been found in three counties just north of Tampa, Florida, on overwintering kudzu in one case and on new-season kudzu in the other two. Kudzu can serve as a host plant for soybean rust. Another USDA Web site, [www.sbrusa.net](http://www.sbrusa.net), has daily updates on soybean rust scouting and detection. The EPA has also approved seven chemical treatments for soybean rust on an emergency basis. Some of these chemicals are preventative in nature, while others are curative. These treatments are restricted to certain states, cannot be used until the state's pesticide regulatory agency approves them, and are limited to a certain number of applications. These treatments will be available on this emergency basis through the 2007 soybean production season. As the EPA continues to explore other treatments and updating treatment guidelines, producers will need to check for the latest information on soybean rust treatments as the season progresses.

#### MANAGING SOYBEAN RUST RISK

USDA's Risk Management Agency (RMA), the agency that manages crop insurance, has also been active in providing information to producers on how soybean rust is covered. Losses due to soybean rust are covered by crop insurance as long as producers follow "good farming practices" in combating the disease. A good farming practice is defined as a practice, agreed to by agricultural experts, that would allow the crop to make normal progress to maturity and produce the yield used to set the crop insurance. RMA currently lists plant pathologists employed by the Cooperative State Research, Education, and Extension Service (CSREES), agricultural departments of individual states, universities, and certified crop consultants as agricultural experts. Producers are required to keep informed on the spread of soybean rust and react if rust becomes a threat to their production.

Producers should document

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### *From a trade perspective, the introduction of soybean rust to the continental United States will change the competitive balance.*

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any advice they receive from agricultural experts, along with their efforts to combat soybean rust. Crop insurance will cover yield losses due to soybean rust even if the crop was not treated under certain conditions, such as inaccessibility of chemicals and/or equipment in the area when the treatment was needed. In these cases, though, producers will have to document that they attempted to follow good farming practices. If producers do not treat for soybean rust because of the cost of treatment, however, insurance coverage will be reduced. Economic reasons for non-treatment are not covered by crop insurance. RMA has posted updated information on crop insurance and soybean rust on their Web site ([www.rma.usda.gov/news/soybeanrust](http://www.rma.usda.gov/news/soybeanrust)), including a list of acceptable documentation of farm practices and discussion of rules for organic producers.

#### BRAZIL, LEARNING IN THE FIELD, AND TRADE IMPACTS

Brazilian soybean producers have dealt with soybean rust since 2001. It has been estimated that soybean rust costs the Brazilian agricultural economy \$1 to \$2 billion a year. The techniques Brazilian producers use to combat rust will likely need to be adopted by U.S. producers, but this will represent a significant shift in U.S. soybean production practices. Detection of soybean rust in its early stages requires extensive scouting within soybean fields. Producers may need to scout their fields two to four times a week for soybean rust

and inspect soybean leaves with a magnifying glass. Fungicides that combat soybean rust can be applied preventively or at the first sign of infection. There is some evidence that the chemicals recently approved by the EPA on an emergency basis are more effective than those previously approved, but these chemicals may have additional restrictions put on them because of their emergency use status.

Failure of a producer to account for soybean rust can create a twofold problem: possible yield loss for the producer and a possible source of rust infection for surrounding soybean producers. Since the soybean rust spores are lightweight, they can spread easily across adjoining fields or over wide areas, depending on wind and weather patterns. Drought conditions do not necessarily eliminate soybean rust risk: some areas of Brazil have experienced drought but still had rust issues.

From a trade perspective, the introduction of soybean rust to the continental United States will change the competitive balance. When rust infected Brazil, U.S. producers gained a competitive advantage, as Brazilian soybean producers faced the costs of combating rust. Now, U.S. soybean producers face similar additional costs. The final impact on soybean markets will depend on how producers in both countries continue to respond to soybean rust and the relative cost of that response. Given the patchwork of soybean fields, among the corn, oat, and hay fields and pastureland here in Iowa versus the relative lack of crop diversity around soybean fields in Brazil (soybean fields surrounded by soybean fields); it would seem that the Brazilians have a competitive advantage when dealing with soybean rust. Treatments can be applied more efficiently over a combined area, as opposed to hopping from field to field and trying to minimize the impact on surrounding crops. ♦

## Geographical Indications, the WTO, and Iowa-80 Beef

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In August 2003, the United States and Australia asked the World Trade Organization (WTO) to convene a panel to resolve an ongoing dispute concerning geographical indications (GIs). In simple terms, the United States and Australia charged that E.U. rules governing the registration of GIs discriminate against third-country GI products (national treatment) and fail to protect U.S. trademarks. Given the range of sub-issues covered in the dispute, it is perhaps not surprising that the WTO panel's March 2005 ruling left both sides claiming victory.

### LEVELING THE E.U. PLAYING FIELD

The European Union has invested a great deal of political and economic capital in promoting the use of GIs to encourage producers to abandon commodity production in favor of producing high-quality, high-value agricultural products associated with geographical location. One measure of the success of these investments is the approximately 700 GIs (excluding wines and spirits) currently registered in the European Union and the continuous stream of applications to register more products.

Whereas the United States incorporates protection of GIs within its trademark system, the European Union uses both a trademark system and a separate system to protect GIs. As members of the WTO, both are covered by WTO rules. The WTO panel was convened to determine whether the dual system of the E.U. violates the rights of non-E.U. WTO members. The WTO authorizes the use of GIs among its members to protect products with unique attributes linked to well-defined geographic areas from com-



*Certification mark submitted to the U.S. Patent and Trademark Office for Iowa-80 Beef*

petition from similar products. GI protection is spelled out in the Agreement on Trade-Related Aspects of Intellectual Property Rights, or TRIPS Agreement, and the European Union has consistently fought to strengthen the protections for GI products under this agreement. However, the United States, Australia, and other WTO members have charged that the European Union's own regulations include equivalence and reciprocity conditions that prevent full protection of third-country GI products. In short, the WTO panel was asked to evaluate whether GI registration, recognition, and protection under EC Council Regulation No. 2081/92 violate the TRIPS Agreement.

Among the issues in the WTO case are E.U. requirements that non-E.U. countries adopt E.U. inspection systems in order to register their GIs in the European Union; requirements that non-E.U. governments be involved in verifying and transmitting applications to register GIs; and limits on the ability of individuals or groups from non-E.U. countries to submit objections to GI registrations. The European Union argued that transmittal of applications is a modality of the registration process, which the United States did not show was unreasonable or inconsistent with the TRIPS Agreement. The

European Union further argued that Article 22.2 of the TRIPS Agreement does not confer a right to object to the registration of a GI and that, even if that right were conferred, requiring that non-E.U. governments transmit the objections is neither excessive nor unreasonable.

### WHO WON WHAT?

The panel confirmed that the rights of U.S. trademark owners could not be limited by GI regulations, except in very specific and narrowly defined circumstances. The European Union can protect registered GI names but cannot protect all the linguistic variations of that name—some of which may be brand names from other countries. The panel ruled that Regulation No. 2081/92 violates the TRIPS Agreement with respect to the requirement that applications be submitted by governments, the requirement that objections be submitted through governments, and the requirement that governments participate in inspection procedures. The panel suggested that the regulation be amended. On the other hand, the panel ruled that the European Union does not violate Article 22.2 of the TRIPS Agreement by allowing the “coexistence” of GIs and prior trademarks with similar names. In other words, GIs are compatible with non-E.U. trademark systems and their trademarks. Thus, the panel's ruling upheld some of the arguments from both sides.

### DEVELOPING A GEOGRAPHIC-BASED BRAND FOR IOWA BEEF

Given the differences in systems for branding products based on geographical linkages among WTO member-countries, disagreements will continue to require resolution. Despite these disputes over the methods of protection, however, many countries agree on the value of branding and promoting high-

value agricultural products based on geographical linkages. Building on a body of research revealing the benefits of GIs, product branding, and animal identification, a recent collaboration between the Center for Agricultural and Rural Development and the Iowa Beef Center at Iowa State University seeks to use Iowa's long-held reputation for excellence in producing high-quality, corn-fed beef to increase the profitability of Iowa beef producers by developing a branded beef associated with the state. The creation of such a brand is now underway.

Iowa's reputation has been built on the state's abundance of corn for long-fed beef and cattle producers' use of genetics that allow cattle to produce well-marbled beef at a young age, which promotes tenderness. These traits are especially important in high-value niche markets in the United States and in countries such as Japan, where consumers value well-marbled, tender beef. Japanese importers have long referred to high-quality corn-fed beef from the United States as "I-80 beef" because Interstate 80 provides a rough landmark of the geographic area where much U.S. corn-fed beef is produced. To build on this existing identification of high-quality beef in the most important export market for U.S. beef, "Iowa-80 Beef" was chosen as the brand name.

In addition to the geographical linkage, Iowa-80 Beef will include attributes that international and

domestic consumers are increasingly using to define high-quality beef. Ensuring uniform production methods and the appropriate use of the brand will allow Iowa beef producers to label consistently high-quality beef products and will allow consumers to readily identify and purchase Iowa-80 Beef.

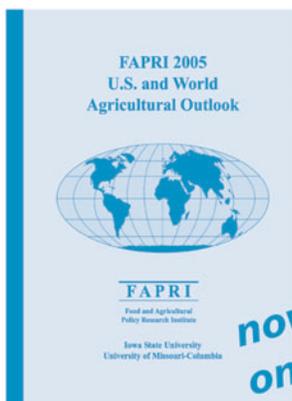
The process of developing and branding Iowa-80 Beef involves concurrent submissions to two separate government entities. One part of the process is to register for a certification mark with the U.S. Patent and Trademark Office (USPTO). For Iowa-80 Beef, a certification mark is more useful than a standard trademark because, once approved, the certification mark can be used to label beef from any Iowa producer who is willing to follow the production specifications for Iowa-80 Beef. The Iowa-80 Beef brand cannot be sold, and registration through the USPTO includes full rights to legal recourse for trademark infringement.

The second part of the process is to document the production and processing systems for Iowa-80 Beef and acquire certification of these systems through USDA's Agricultural Marketing Service (AMS). The Iowa-80 Beef specifications are being set intentionally high to differentiate this beef as a high-value, premium product. If the Iowa-80 Beef program specifications are accepted by USDA, the cattle from which Iowa-80 Beef is produced will be individually identified, trace-

able to the calf producer, age-verified, and fed corn or corn co-products for a minimum number of days in Iowa feedlots. At the processing stage, carcasses from Iowa-80 Beef animals will be carefully segregated and will have to meet minimum grade requirements for one of two quality levels: carcasses that grade in the top one-third of Choice or Prime and those that grade mid-Choice.

To fully protect and promote Iowa-80 Beef, both a U.S. certification mark and a USDA-approved certification program are necessary. The USDA-AMS can certify the production and processing systems but cannot protect the rights of producers against brand-name infringement. The USPTO certification mark provides legal protection for Iowa-80 Beef producers by certifying "...that the goods in connection with which it is used are produced and processed according to specifications that include individual animal identification, genetics, ration and number of days on feed in an Iowa feedlot, maximum age of steers and heifers at harvest, official USDA beef grades, and minimum number of days the beef is aged."

This project is ongoing, and we are awaiting approval of our applications for the Iowa-80 Beef certification mark from the USPTO and an Iowa-80 Beef certification program by USDA-AMS. As work on this project progresses, updates can be found at [www.card.iastate.edu/i80beef](http://www.card.iastate.edu/i80beef). ♦



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## The WTO Picture after the Cotton Ruling

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In early March, the World Trade Organization (WTO) released its report on the U.S. appeal in the cotton dispute with Brazil. The appellate ruling upheld much of the original ruling, including the finding that production flexibility contract (PFC) payments and direct payments are not Green Box measures. This means that these payments are to be counted against the agricultural support limit the United States agreed to under the current WTO Agreement on Agriculture. The rulings also state that the payments from the Step 2 program, marketing loan program, crop insurance, production flexibility contracts, market loss assistance, and other listed programs grant support specific to cotton and that they caused significant price suppression in the world cotton market.

The rulings are a major blow to U.S. agriculture because they call into question whether the United States has met its obligation to limit domestic farm subsidies. The blue line in Figure 1 shows the agricultural support limit the United States agreed to under the current WTO Agreement on Agriculture. The United States has reported agricultural support to the WTO through the 2001 marketing year. The gray line shows the reported agricultural support before the cotton ruling. By these original reports, the United States has complied with the WTO agricultural support limits. The United States reported PFC and direct payments as exempt payments. However, the cotton rulings indicate that the PFC and direct payments are not exempt. This drastically changes the U.S. agricultural support picture. Figure 1 shows how U.S. reported agricultural support would look if the PFC and direct payments are counted as non-

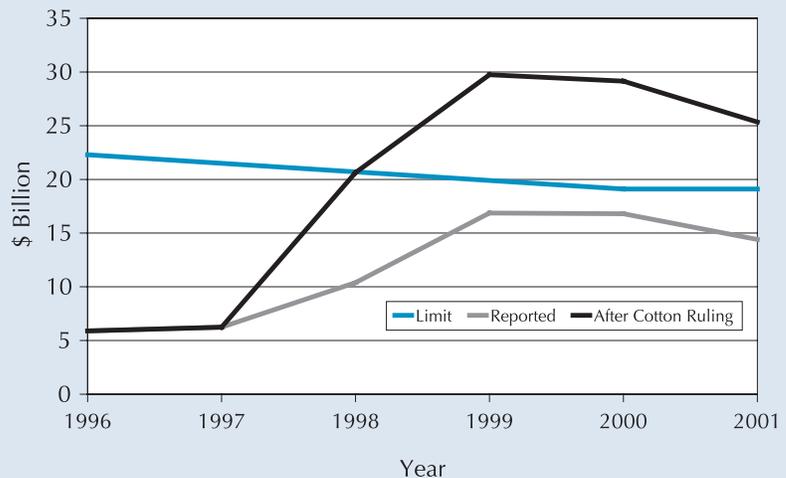


FIGURE 1. WTO LIMITS AND REPORTED SUPPORT BEFORE AND AFTER THE COTTON RULING

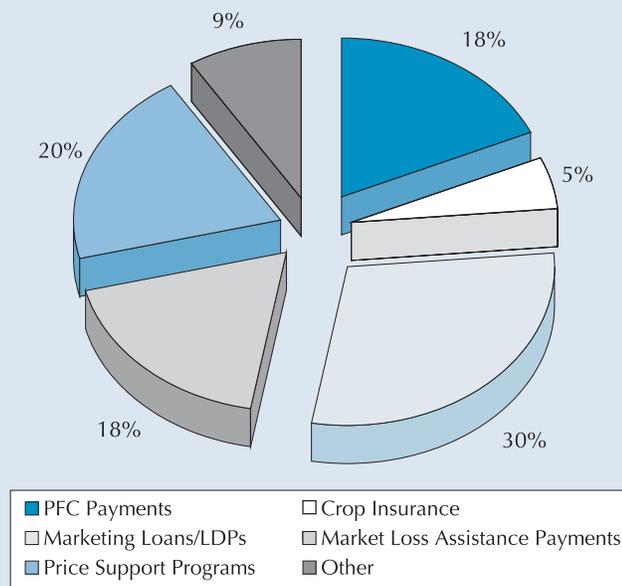


FIGURE 2. A BREAKDOWN OF U.S. AGRICULTURAL SUPPORT FOR THE 1999 MARKETING YEAR

uct-specific support. Reporting these payments in this way follows the U.S. reporting of market loss assistance payments. If this precedent is followed, U.S. agricultural support was at the limit in 1998 and exceeded the limits from 1999 to 2001.

The inclusion of the PFC and direct payments in the reported agricultural support has a double

impact. The U.S. reported support actually increases by more than the amount of the PFC and direct payments, because the other payments that were in the non-product-specific support but were exempted by *de minimis* rules must now be counted. These other payments include the net benefits from the crop insurance program, market loss assistance payments, state credit pro-

grams, and grazing and water subsidies. For 1999, the addition of the \$5.47 billion in PFC payments turns into a \$12.88 billion increase in reported support. Figure 2 shows a breakdown of our revised estimate of 1999 agricultural support. Marketing loan benefits (through loan deficiency payments or marketing loan gains) account for 30 percent of this support. PFC payments, mar-

ket loss assistance payments, and price support programs for dairy, sugar, and peanuts each account for roughly 20 percent of the support. Crop insurance represents 5 percent, while other agricultural programs contribute the remaining 9 percent.

The end results of the cotton dispute are still uncertain. How Congress and the administration will

respond to this ruling, either in modifying the current farm bill or in creating the next farm bill, is unknown. But the cotton ruling, combined with the federal budget pressures we are now seeing in the United States, has the potential to set off substantial changes in U.S. agricultural policy. ♦

### *Judging the 2002 Farm Bill* *Continued from page 3*

bean farmers received such a policy instead of current farm programs.

We calculated the Figure 3 results assuming that county revenue guarantees are based on a \$2.73 corn price and a \$6.00 soybean price. A payment was made to all farmers in a county if the product of the season-average price and the yield per planted acre fell below 90 percent of the guarantee. Figure 3 shows that this new policy tool would have avoided most of the overcompensation of corn and soybean farmers in 2004. The lower overcompensation that occurred in 2003 results from payments being targeted to those counties with low yields. For corn in 2002, the new policy would have come much closer to hitting the revenue target than either the current farm program or the market-based GRIP.

### **WTO OUTLOOK**

A GRIP-type farm program would be classified as “Amber Box” under the current WTO agriculture agreement and the Doha Round framework because payments are tied to the current price level and the farmers’ choices in planted acres. The pro-

gram could be modified to fit within the “Blue Box” or the “Green Box.” However, the modifications might limit the effectiveness of the program. The Blue Box modifications would allow payments to be triggered by price declines or regional yield disasters, but the payments could not change with national and/or farm shifts in planted areas. Green Box modifications would allow price and/or yield reductions to trigger payments and some updating for regional shifts in crop production; but shifts in farm production would not be accounted for and the program would require larger price and/or yield declines to trigger payments.

### **POLICY IMPLICATIONS**

Matching up policy tools with policy objectives is critical for program cost-efficiency. It is not surprising that our current mix of farm programs does a poor job of matching program support and market revenue shortfalls. These programs are with us for a variety of reasons: program inertia, opportunism concerning budget scoring, and WTO considerations. They are not the result of a deliberate process of choosing program instruments for their efficiency in meeting program objectives.

A more deliberate process would reveal that our commodity programs consist of two programs that protect against low prices, one program that delivers aid even when farm income is at an all-time high, and an ad hoc disaster system that pays out when regional production is low. In addition, we have a crop insurance program that also pays out when low yields or low prices occur and that offers a program, GRIP, that could easily be modified to replace all commodity and crop insurance programs for major field crops.

Rationalizing commodity, disaster, and crop insurance programs by replacing them with a single-payment program based on a modification of GRIP would increase program transparency, eliminate program duplication, reduce administrative costs, and largely eliminate over- and undercompensation of farmers. Perhaps budget pressures will lead congressional leaders and farm groups to take a fresh look at the current structure of farm programs with an eye toward increasing the efficiency of taxpayer support for farm income. ♦

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