

Perspectives on Farm Policy Reform

Julian M. Alston and Daniel A Sumner

Department of Agricultural and Resource Economics
University of California, Davis

Western Agricultural Economics Association
Annual Meeting, Anchorage, Alaska
June 28-30, 2006

Reform? Reform?
Are things not bad enough already?

Attributed to Justice John Astbury, 1926

Chronological Landmarks

- 1994 – Uruguay Round Agreement on Agriculture (URAA)
- 1996 – Federal Agricultural Improvement and Reform (FAIR) Act
- 2002 – Farm Security and Rural Investment (FSRI) Act
- 2001 – Doha Round of WTO begins . . .
- 2007 – New Farm Bill

Outline

- Recent history of farm commodity policies
- Current status and prospects
- Effects of farm subsidies on Western agriculture
- Policy reform in Australia and New Zealand
- Facilitating policy reform

Main Provisions of URAA

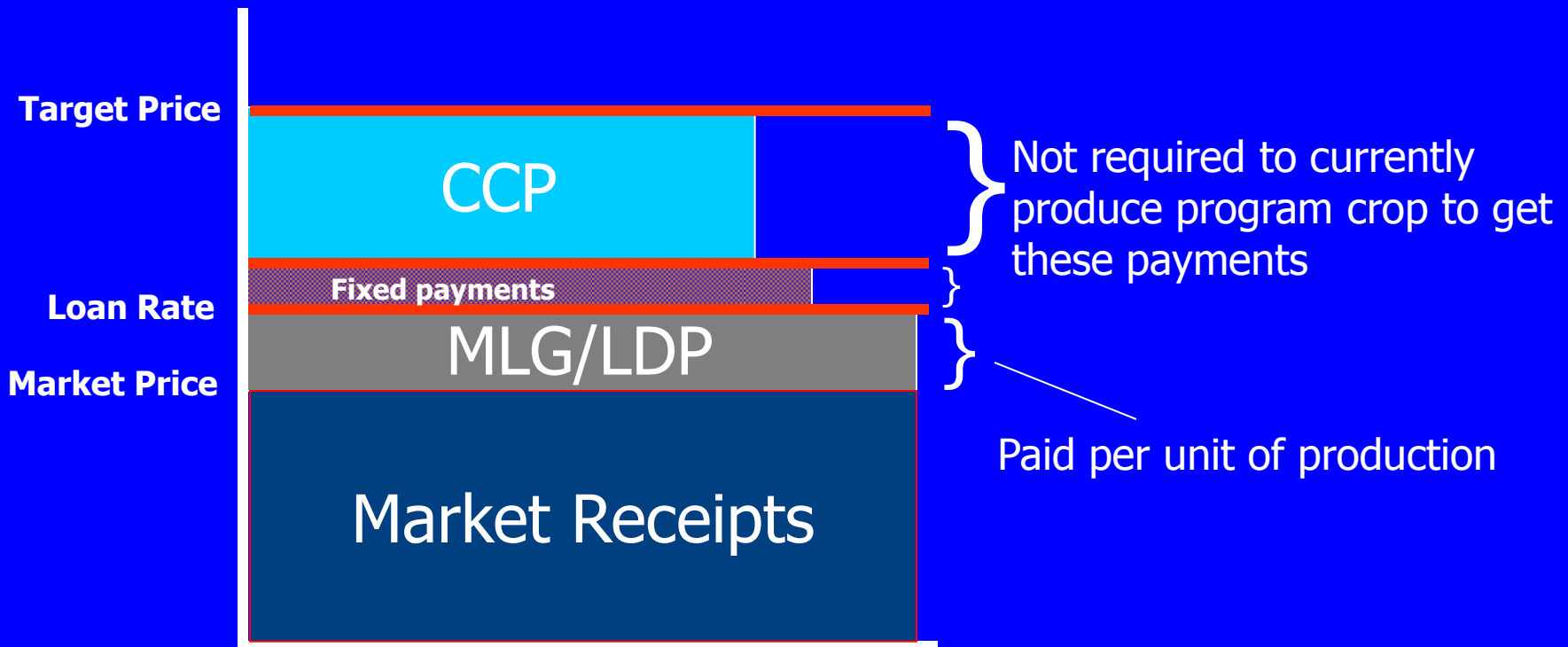
Negotiated Change	Implementation Period	
	Developed Countries (1995-2000)	Developing Countries (1995-2004)
	<i>– Percent –</i>	
Market Access		
Average tariff cuts, all ag. products	-36	-24
Minimum tariff cuts per tariff line	-15	-10
Aggregate Support		
Total cuts in AMS	-20	-13
Export Subsidies		
Value cut by product	-36	-24
Volume cut by product	-21	-14

Farm Bill Policies

- 1996 FAIR Act
 - eliminated annual set-asides and crop price supports
 - replaced deficiency payments with “direct payments”
 - continued marketing loan payments
- Ad hoc supplement to direct payments
 - 50 % in 1998
 - 100% in 1999-2001
- 2002 FSRI Act
 - converted ad hoc payments to countercyclical payments
 - continued direct payments
 - extended both to additional crops, including soybeans
 - introduced updating of program base acreage and yields

Program Crop Revenue under 2002 Farm Bill

Government payments vary in share of total revenue



(Based on a figure from Joe Outlaw Texas A&M)

Critical Trade Disputes – U.S. Cotton

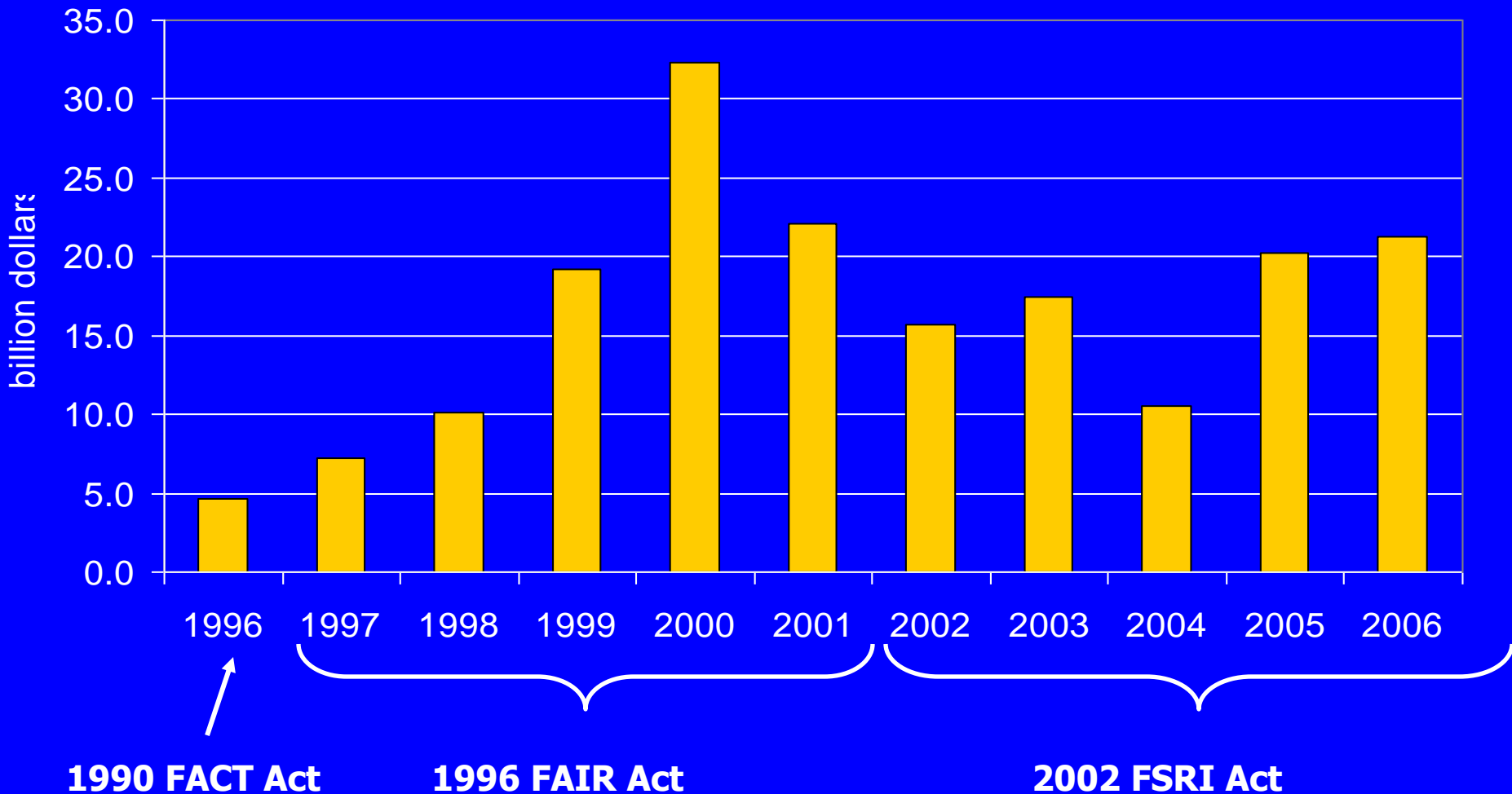
WTO panel and appellate body ruled that U.S.

- Step 2 subsidies entail GATT illegal
 - domestic content subsidies
 - export subsidies
- Export credit guarantees = illegal export subsidies
- Marketing loan and CCP programs
 - depressed world prices resulting in
 - serious prejudice to interests of Brazilian cotton growers
- Support includes direct payments & crop insurance
 - are these “amber box” and part of AMS?
 - has U.S. exceeded AMS limits?

Doha Round WTO Negotiations

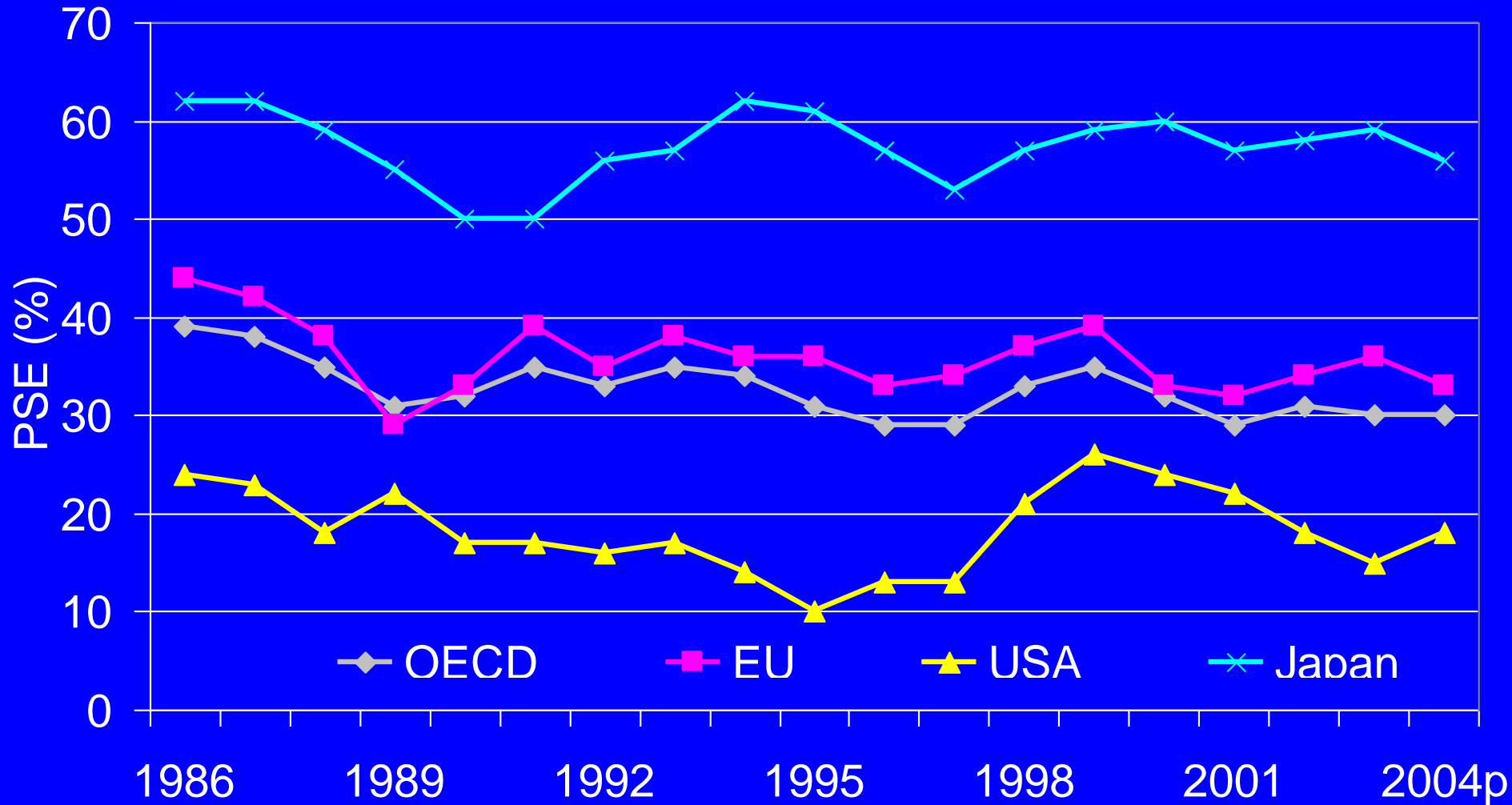
- Current framework implies
 - Elimination of all export subsidies including
 - credit subsidies
 - STE subsidies
 - commercial substitute food aid
 - Substantial reductions in domestic subsidies
 - new blue box (smaller cuts for “almost” green box programs)
 - Substantial expansion in access
 - reductions in tariffs
 - expansion of TRQs
 - exceptions for sensitive products (U.S. sugar? Korean rice?)
- If no consensus on parameters by June 30?

U.S. Farm Program Expenditures



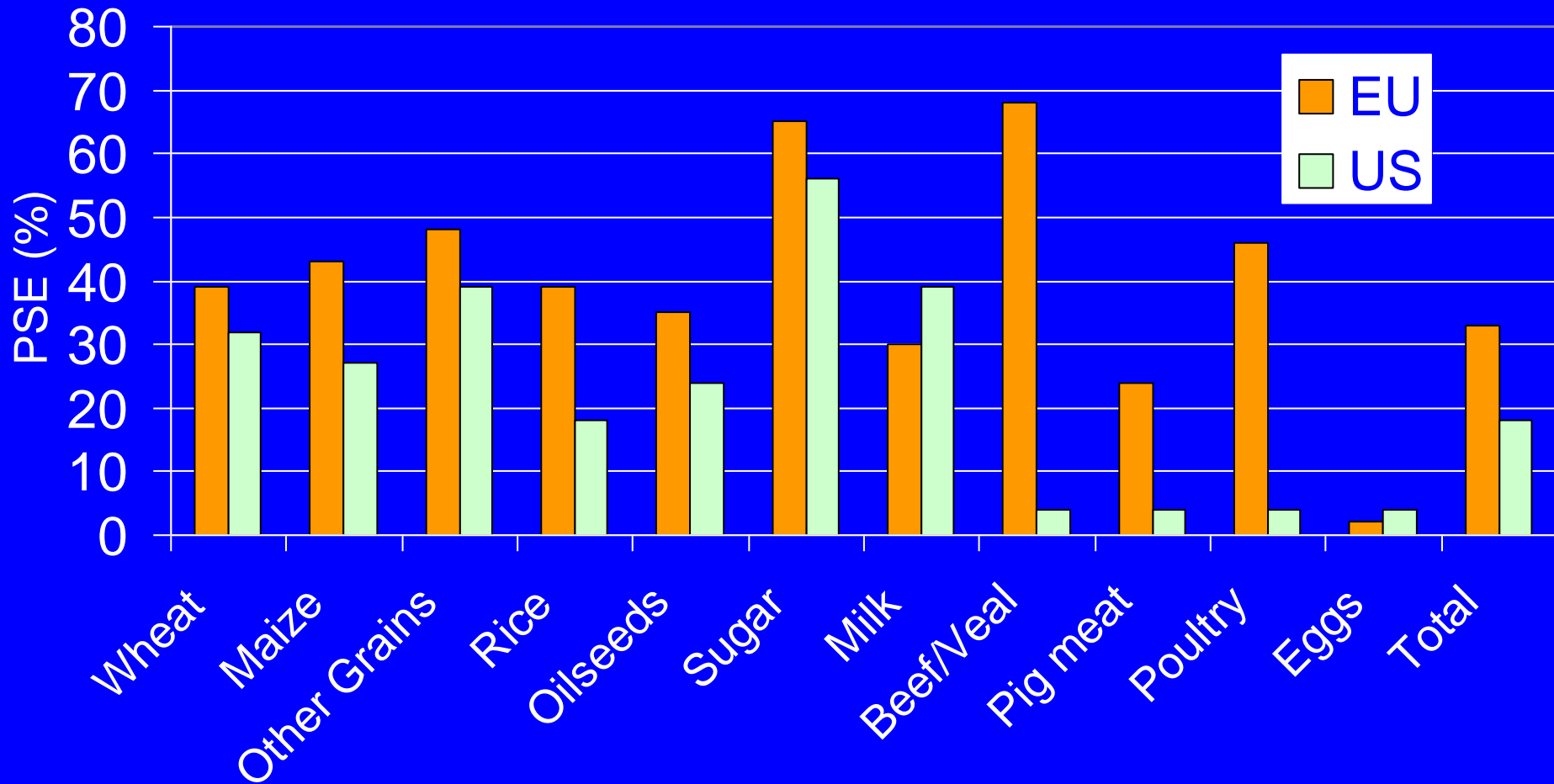
Farm Support in OECD Countries

[Total US\$ 280 billion in 2004]
(Source OECD Stefan Tangermann)



PSEs by Commodity

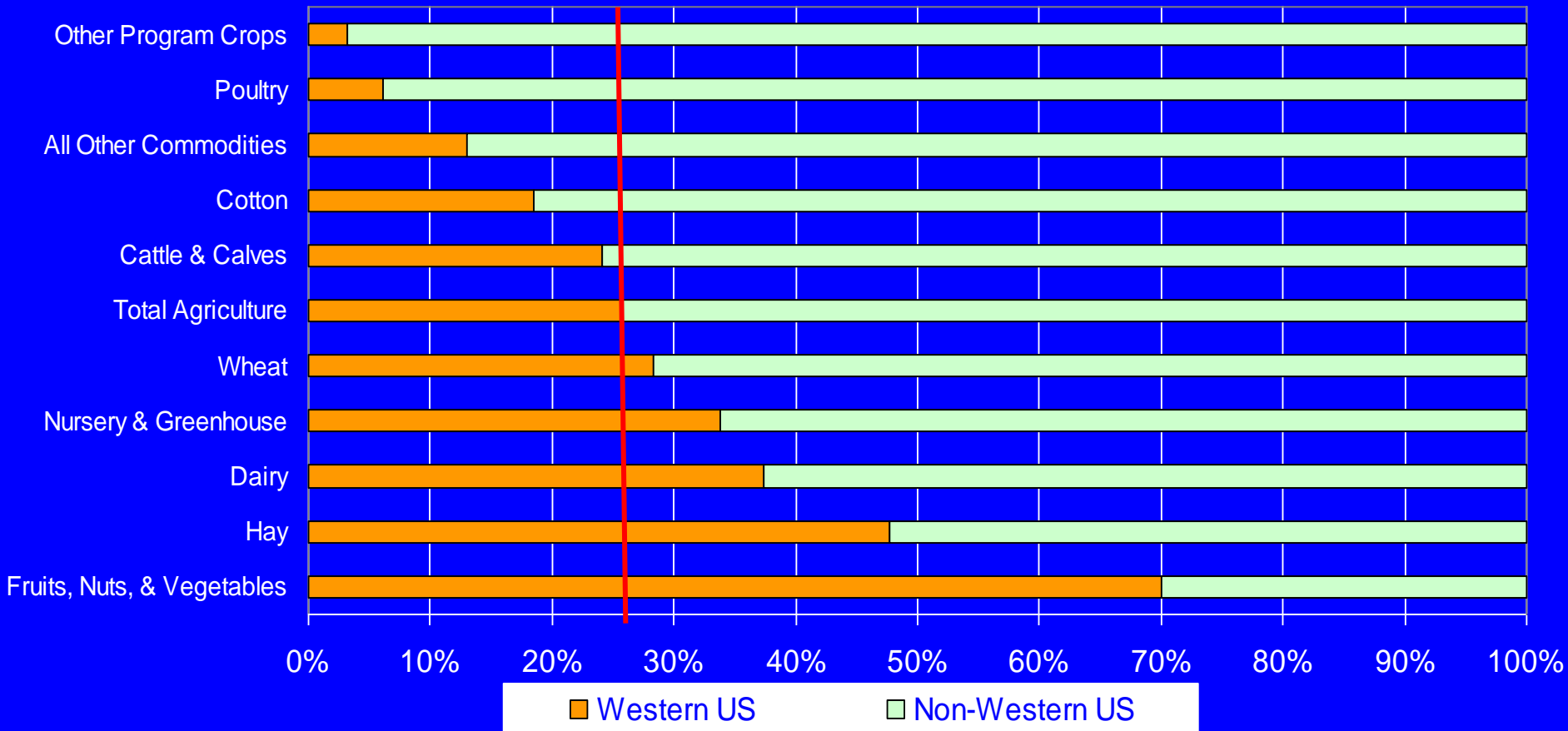
EU and US, 2004



Current Status and Prospects

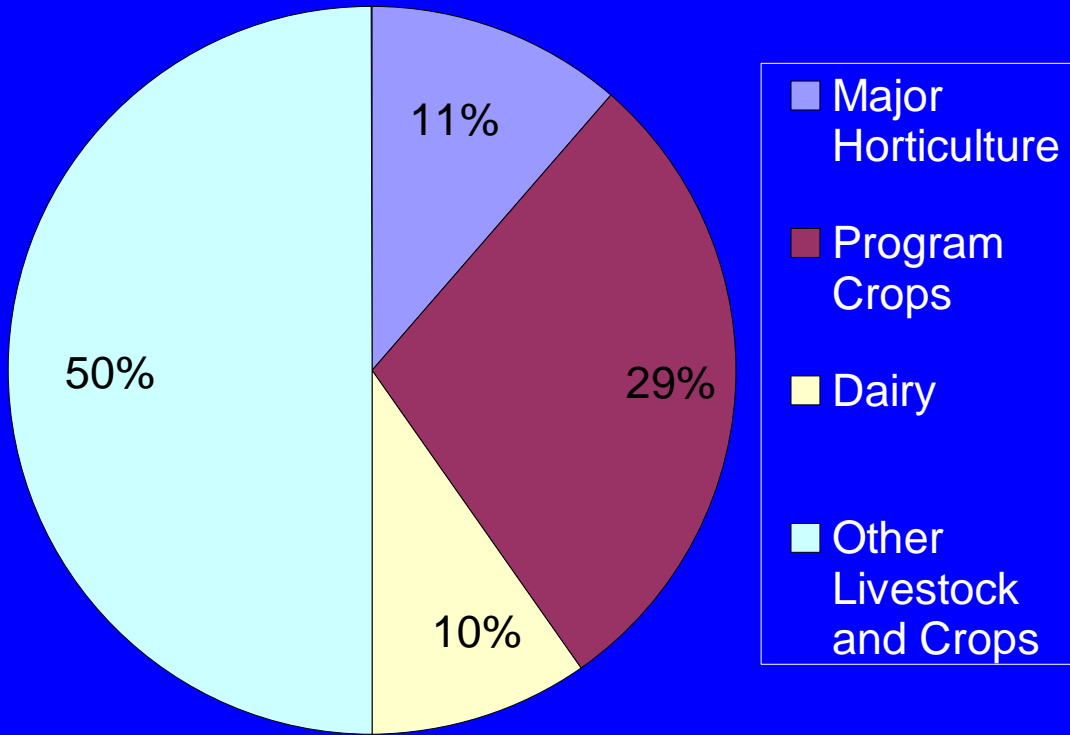
- Strong support for status quo
- Forces for change
 - Budget deficit
 - Environmental groups
 - Publicity about beneficiaries
 - Growers of non-program crops
 - Doha round
 - URAA rules and WTO rulings
 - Economic evidence

Western Agriculture Shares of U.S. Value of Production, 2004



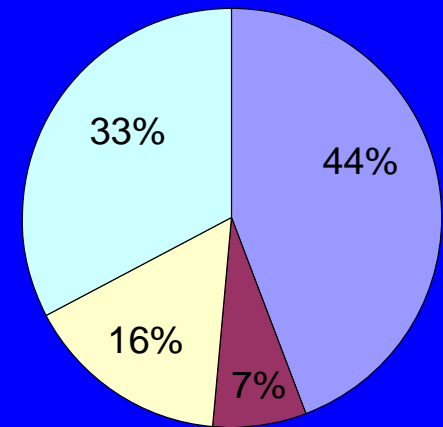
Western Agriculture Shares of U.S. Value of Production, 2004

Non Western



Total: \$179.3 billion

Western

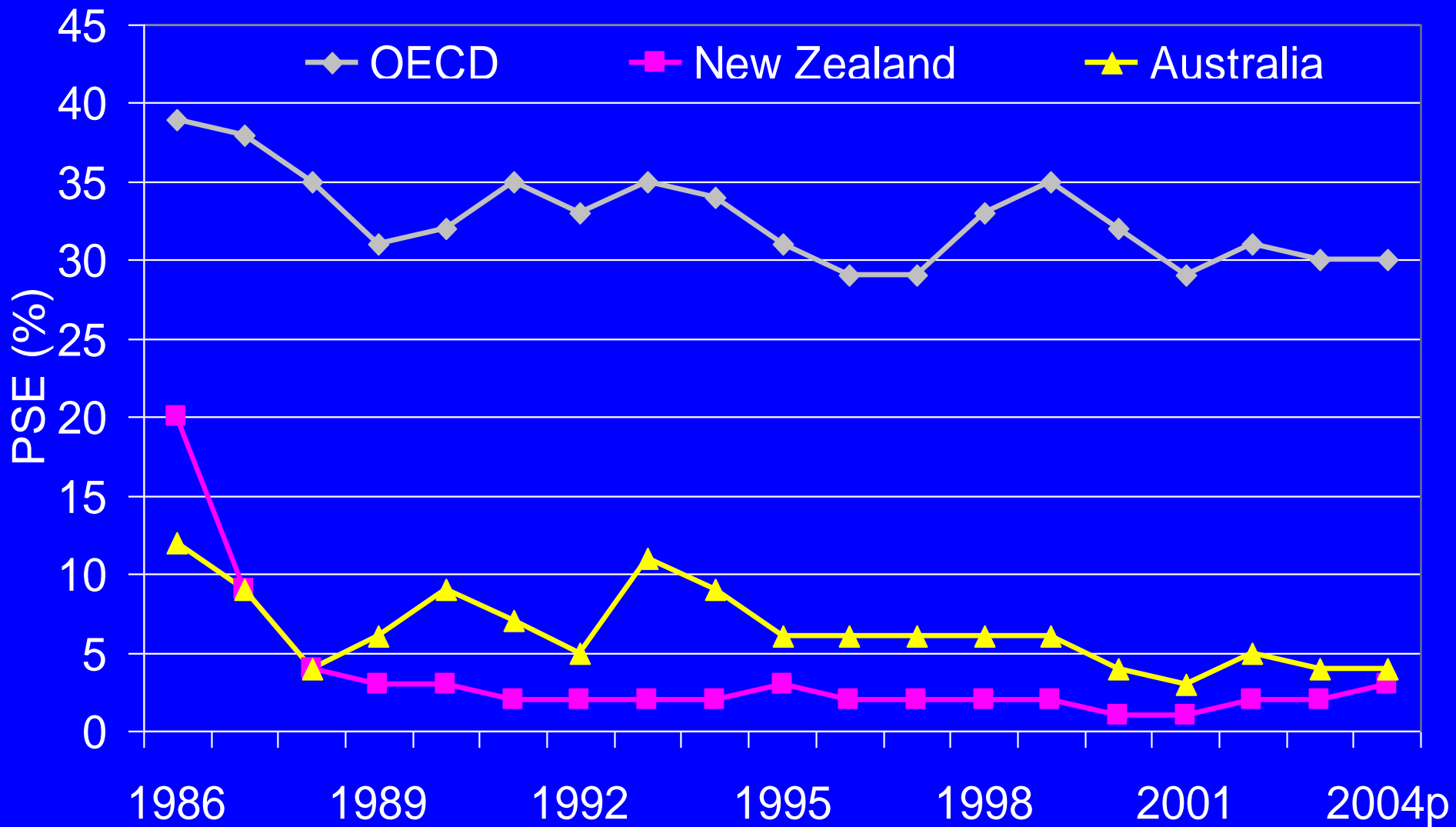


Total: \$69.9 billion

Subsidies Harm Unsubsidized Producers

- Directly through competition for
 - resources
 - consumers
- Indirectly because they
 - consume public funds
 - consume attention of policymakers
 - slow increases in market access

Policy Reform in Australia and NZ



Key Ingredients of Reforms

- Systematic, economy-wide approach
 - Driven by financial crisis in NZ
 - Part of general industrial policy in Australia
- Transparency institutions
 - Australia's Industries Assistance Commission
- Adjustment assistance
 - Australia's Rural Adjustment Scheme
- Compensation

Facilitating Policy Reform

- Systematic, economy-wide approach
- Transparency institutions
- Adjustment assistance
- Compensation

Conclusion

- Pressures for policy change from
 - Budget deficit
 - WTO (both Doha and URAA)
 - Environmental groups
 - “Other” agricultural interests
- Institutional innovations may help
 - Transparency institutions
 - Adjustment assistance
 - Buy-outs