

Budgetary, Political, and WTO Forces on the Next Farm Bill

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Agricultural Policy Summit
“New Directions in Federal Farm Policy: Issues for the
2007 Farm Bill”
Iowa State University

By Chad Hart
Scientist,
Center for Agricultural and Rural Development (CARD),
and U.S. Policy and Insurance Analyst,
Food and Agricultural Policy Research Institute (FAPRI),
at Iowa State University



A Quick List

Politically:

- Farm bill debate aligns with mid-term elections
- Agricultural issues tend to break along commodity (not party) lines

Budgetary:

- Projected deficits over the life of the next farm bill
- Agriculture is already facing budget cuts

World Trade Organization:

- A new general framework has been agreed to, but the details have not
- WTO cotton case has already had an impact

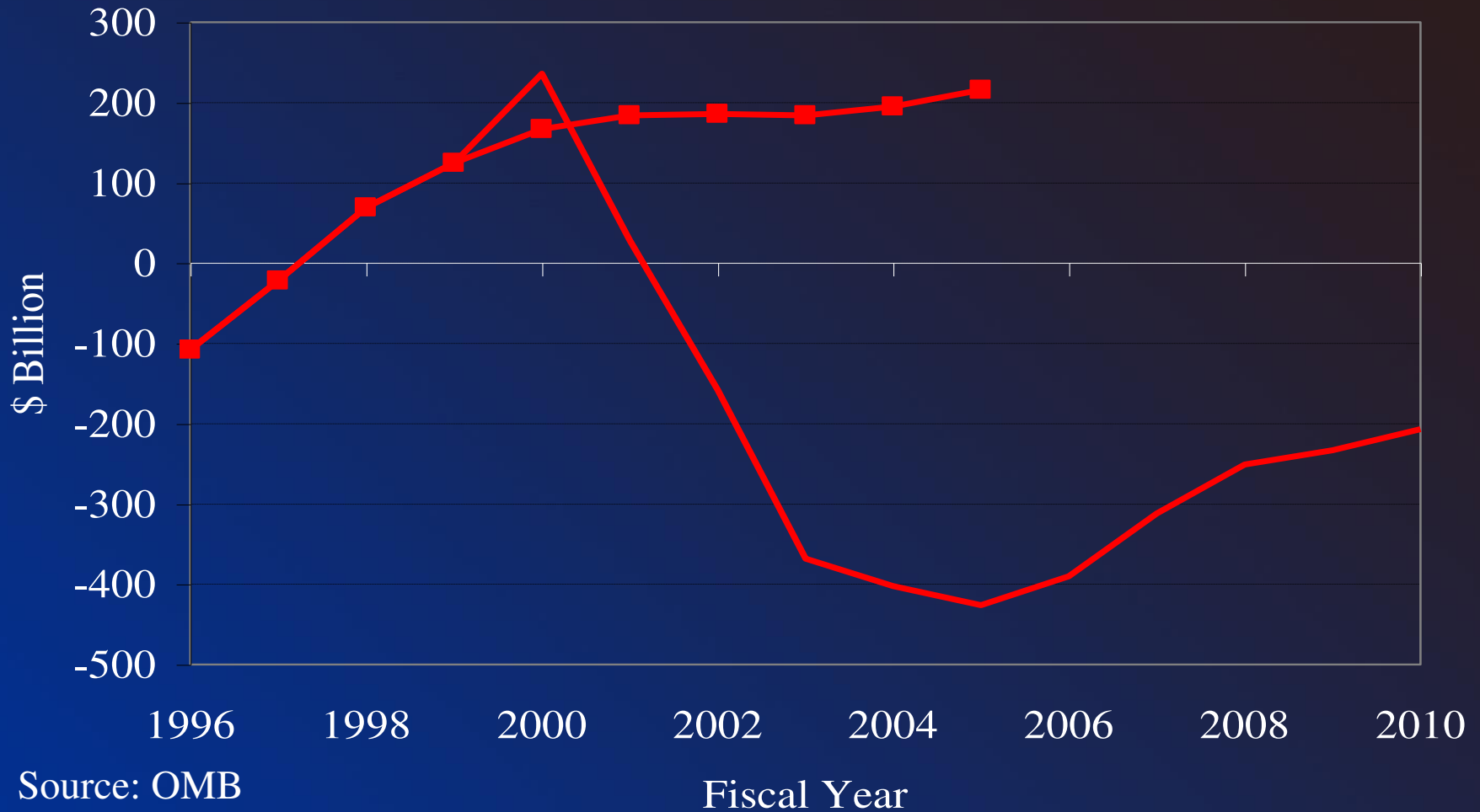
Political Forces

Much of the 2007 farm bill debate will occur in the 2006 political season

If the debate extends into 2007, the next Congress will have to finish the bill

While agricultural issues can elicit party-line votes, commodity-line votes are most likely (recent example: DR-CAFTA)

Overall Budget Picture



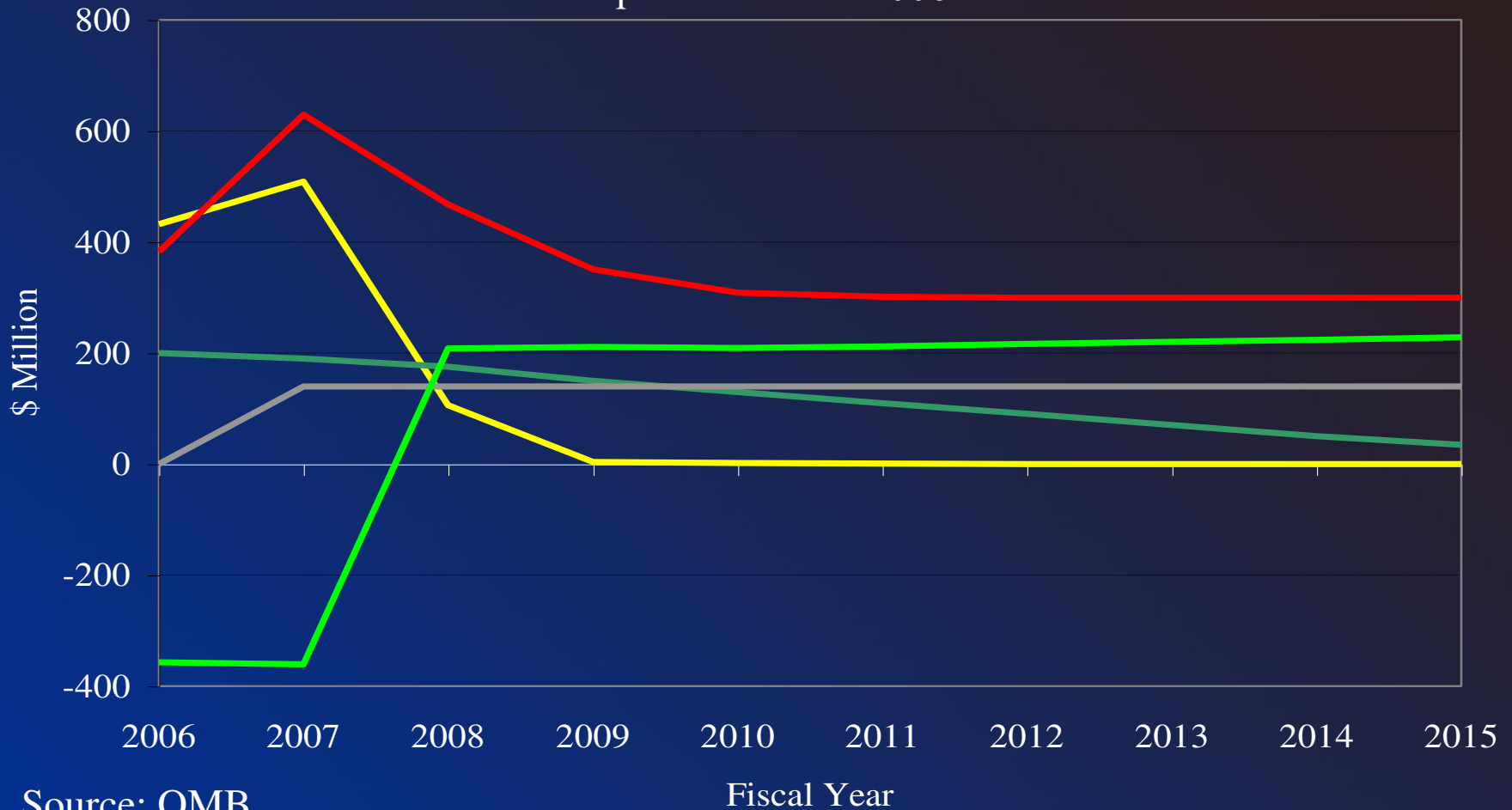
Source: OMB

Surplus/Deficit from 2006 Budget Surplus/Deficit from 2001 Budget



Budget Issues within Ag.

Administration's Proposed Cuts for 2006 Reconciliation



Source: OMB



Marketing Loan Change Payment Limit 5% Payment Cut
Crop Insurance Changes Other Ag. Cuts

WTO

A general ag. framework is in place, specific guidelines are being negotiated

The specific guidelines will determine if the U.S. must change some farm programs to meet WTO objectives

The new agreement may lead to substantial changes, but is more likely to have a small to no impact



Current WTO Rules

Farm support divided into three boxes

Green: Non-trade-distorting, not limited

Examples: Direct payments, conservation programs

Blue: Trade-distorting, not limited

Must have production limits

Example: Old deficiency payments

Amber: Trade-distorting, limited

Example: Loan deficiency and countercyclical payments



Current U.S. Limits

Amber box spending limited to \$19.1 billion per year

Spending totaled by crop, if spending less than 5% of the crop value, then doesn't count (the *de minimis* rule)

Non-Product Specific Support

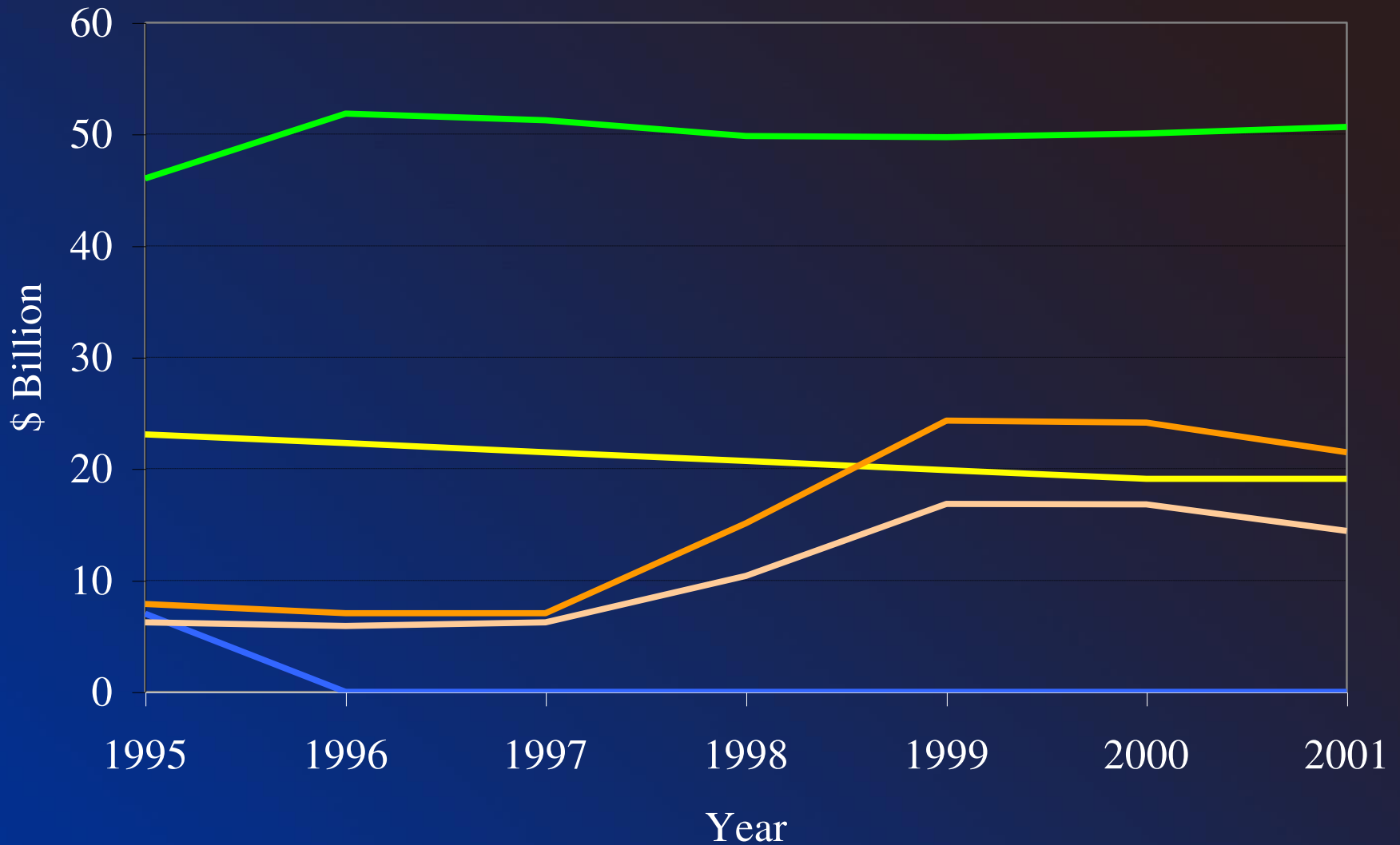
For payments or programs that are considered non-product specific, the benefits are totaled and compared against the total value of agricultural production

If the support is less than 5% of the value, then it doesn't count (the *de minimis* rule)

Biggest programs/payments: Countercyclical payments, Market Loss Assistance payments, Crop insurance benefits



U.S. Use of the Boxes



Green Blue Amber-Limit Amber-Total Amber-Counted

New WTO Framework

New limits for Amber Box, *de minimis*, and Blue Box spending

A limit on total support (Amber + *de minimis* + Blue)

Commodity specific limits within the Amber Box

Limits will shrink for total support, Amber Box, and *de minimis*



New Box Structure

Green: Non-trade-distorting, not limited

Examples: Direct payments, conservation programs

Blue: Trade-distorting, limited

Must have production limits or fixed payment base
Example: Countercyclical payments

Amber: Trade-distorting, limited

Example: Loan deficiency payments



New Limits

	Current Limits	80% of Limits	Hist. or Program Max
	(\$ Billion)		
Amber	19.1		16.9
<i>de minimis</i>	20.0		2.2
Blue	10.0		7.4
Total	49.1	39.3	26.5



Could We Exceed the Limits?

	Current Limits	80% of Limits	Hist. or Program Max
	(\$ Billion)		
Amber	19.1	15.3	16.9
<i>de minimis</i>	20.0	16.0	2.2
Blue	10.0	8.0	7.4
Total	49.1	39.3	26.5

Maybe



WTO Cotton Ruling

The U.S. has lost a WTO dispute on cotton support

The final ruling called for major changes in U.S. cotton support

Within the last week, the Administration has announced (proposed) program changes to address some issues in the support ruling



Export Issues

WTO panel had issues with 3 export credit guarantee programs and the Step 2 cotton export subsidy program

USDA's response:

- Shift the fee structure for the Export Credit Guarantee (GSM-102) and Supplier Credit Guarantee (SCGP) programs to be risk-based
- End the Intermediate Export Credit Guarantee (GSM-103) program
- Propose the elimination of the Step 2 program



Domestic Support Issues

WTO panel also found that U.S. direct payments are not “Green Box” and the combination of “price-contingent” payments supporting cotton caused “significant price suppression”

The U.S. has some time to address the price suppression issues

If Direct Payments Aren't Green Box

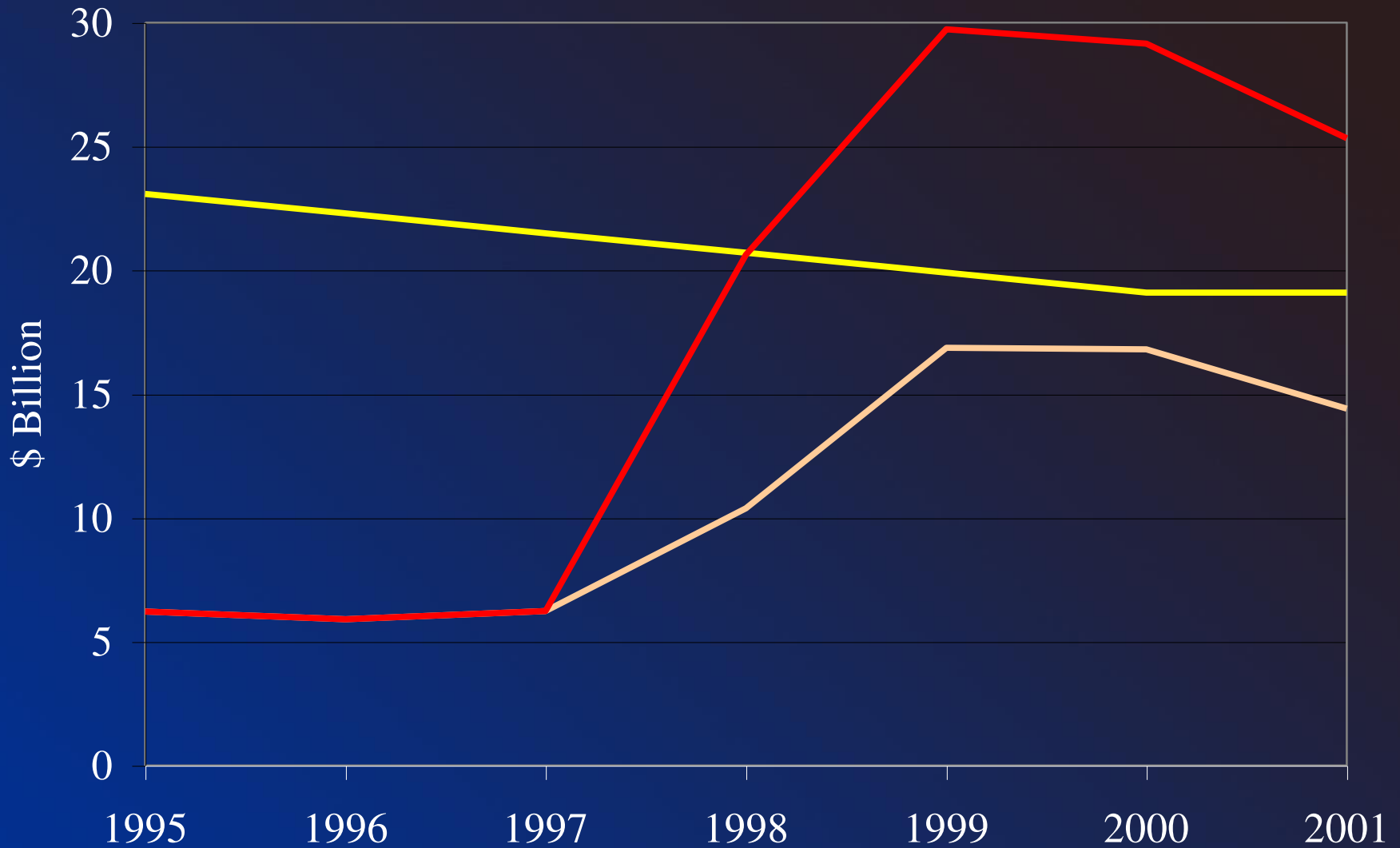
Based on current rules and prior domestic support reports from the U.S., then the direct payments would be non-product specific “Amber Box” support

Under the new WTO agricultural framework, they would be “Blue Box”

This change alone has sizable implications for U.S. agriculture under the WTO



If Direct Payments Aren't Green Box



— Amber-Limit — Before — After

Addressing Domestic Support Issues

The direct payment issue could be addressed by removing the planting exclusions on program base

The price suppression issues do not have such a clear way to be addressed

Could be resolved through negotiations, but may not resolved for a long time

