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

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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

Surplus/Deficit from 2006 Budget
Surplus/Deficit from 2001 Budget
Source: OMB
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
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.
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

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<th>Current Limits</th>
<th>80% of Limits</th>
<th>Hist. or Program Max</th>
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<tbody>
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<td><strong>Amber</strong></td>
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<td>16.9</td>
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<td>16.9</td>
<td>2.2</td>
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## Could We Exceed the Limits?

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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
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

![Graph showing If Direct Payments Aren’t Green Box](image-url)

- **Amber-Limit**: Yellow line
- **Before**: Orange line
- **After**: Red line

- $\text{Billion}$
- $1995$ to $2001$

CARD
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.