

# **The U.S. Farm Bill & the WTO**

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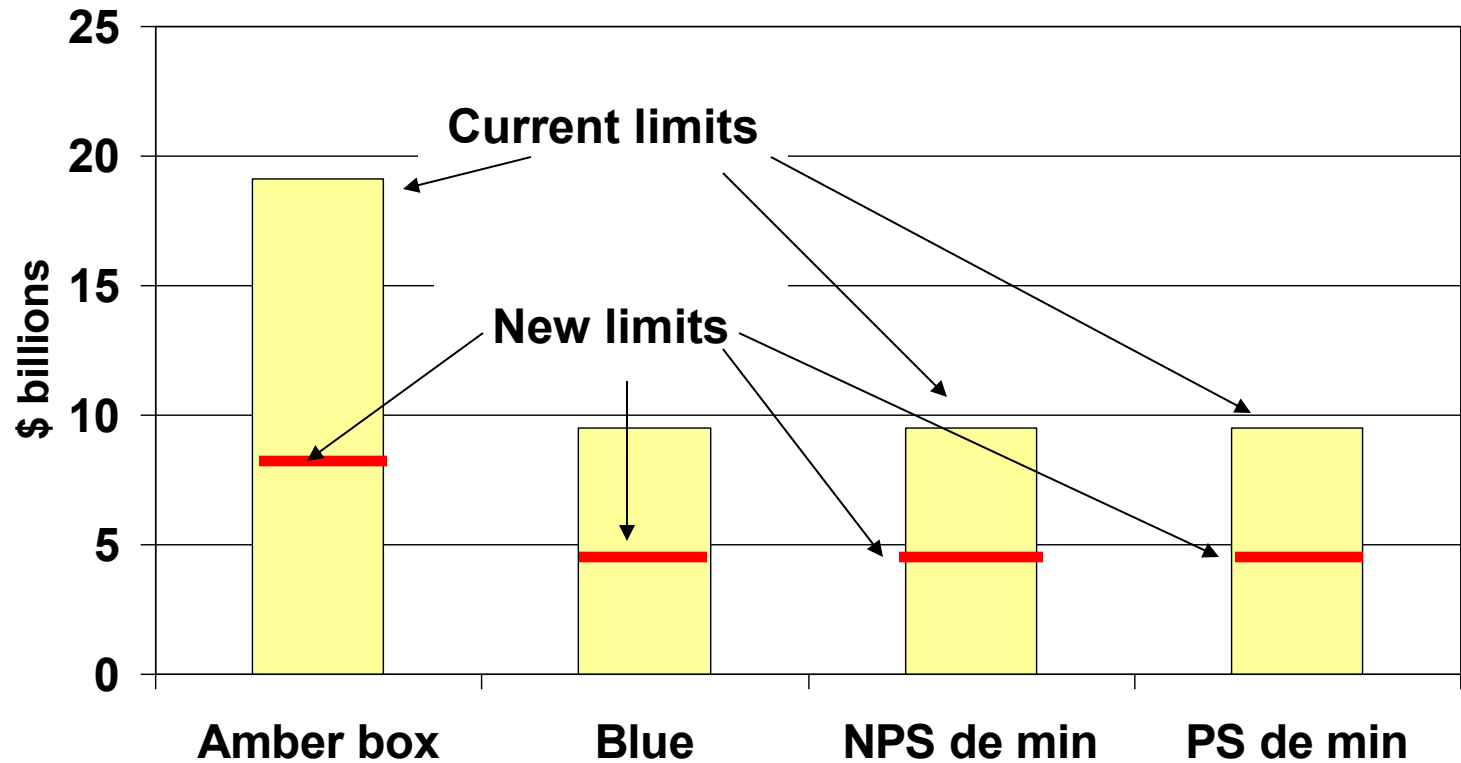
# Outline of a Grand WTO Deal

- U.S. gives up some domestic subsidies in exchange for increased market access and a drop in domestic subsidies in the EU
- U.S. proposal would require changes in current program support levels

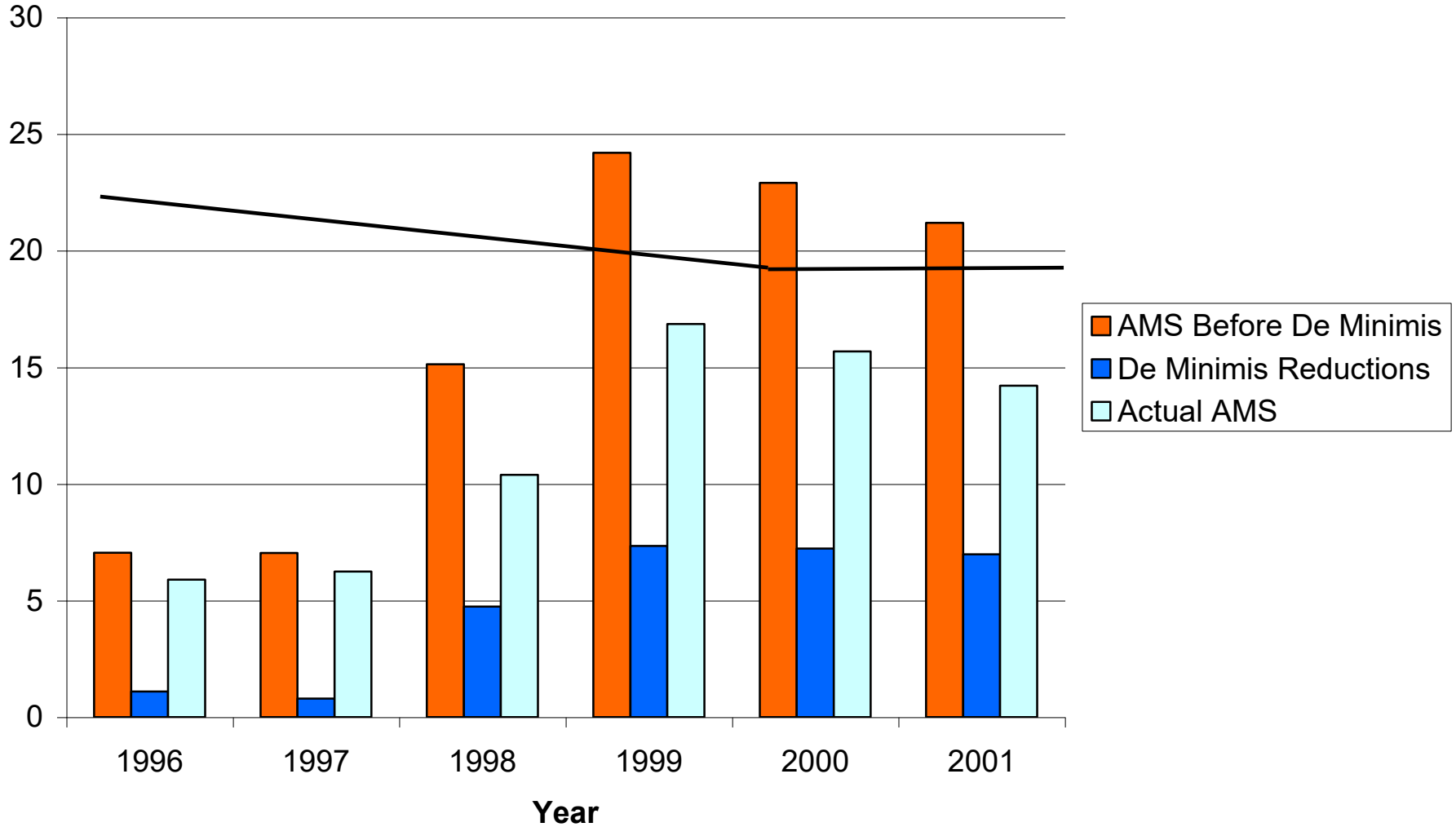
# Key Questions

- How much change in U.S. farm programs would be required?
- How much “safety” would still be provided by the program?
- Would a redesign of farm policy better fit the proposed restrictions in support?

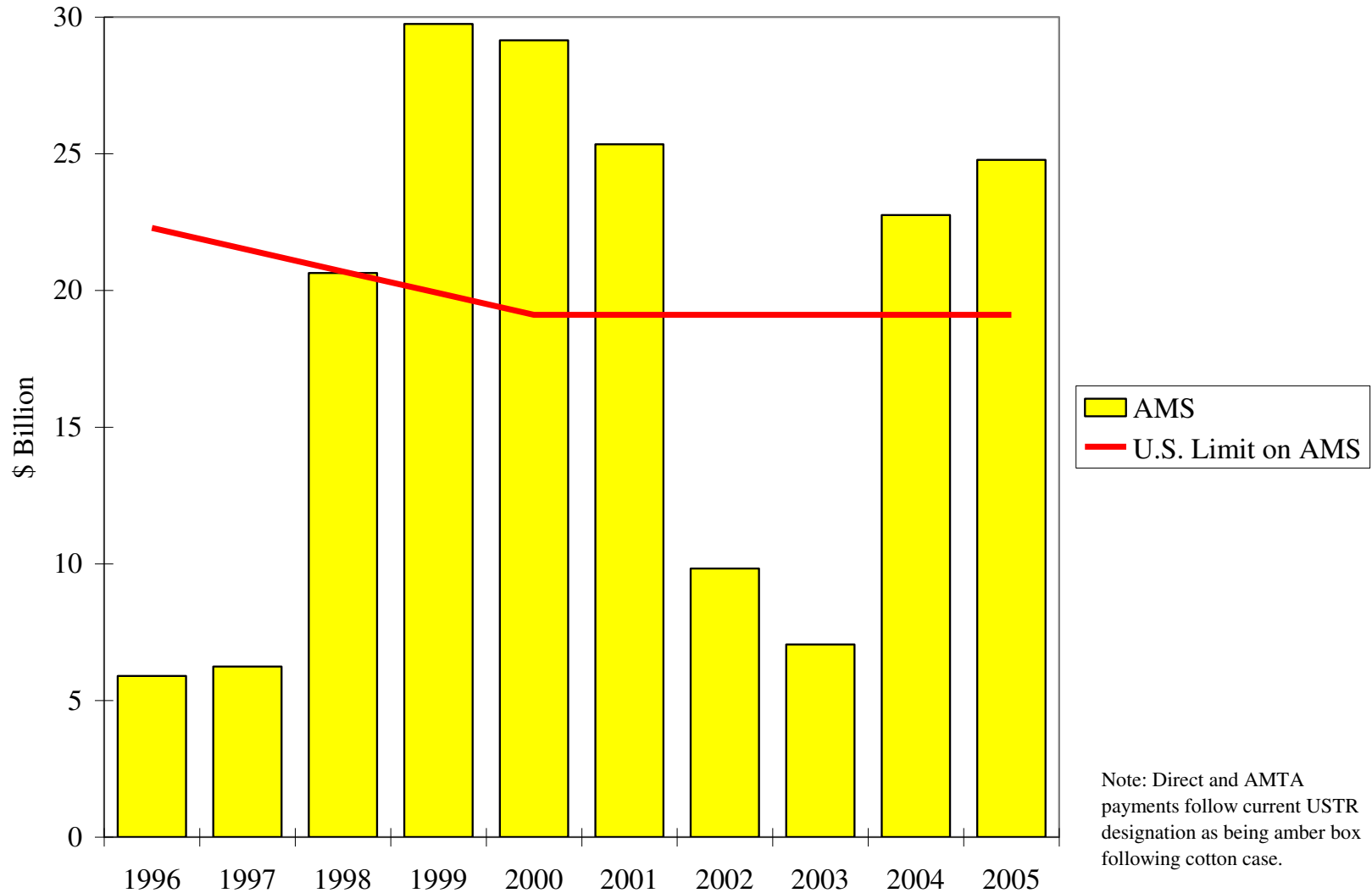
# Illustration of U.S. Proposal



# How the U.S. Met Its AMS Limits



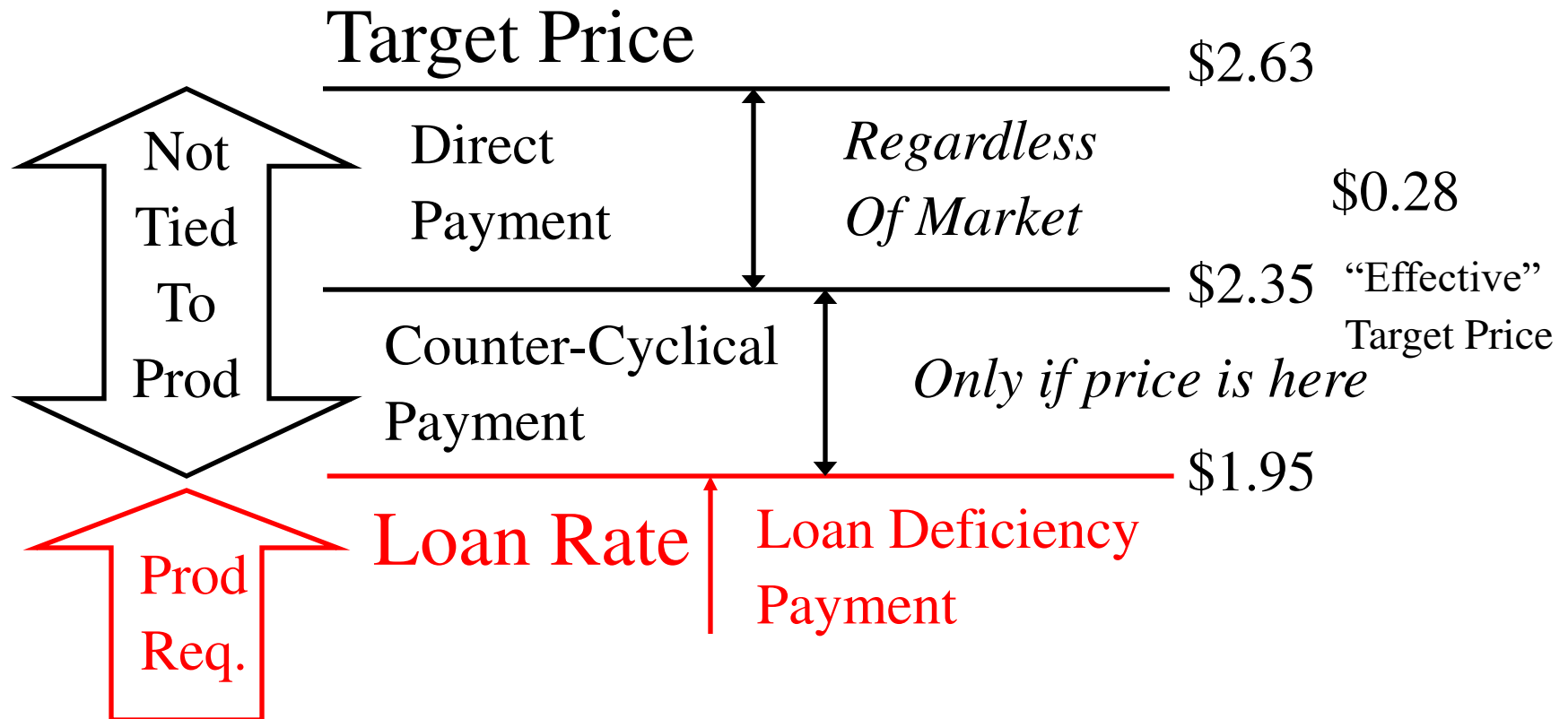
# Expenditures on Current Safety Net



# First Result

- With no change in policy, the probability of exceeding Amber Box limits is 70% in 2006.
- Culprits are dairy, sugar, LDPs and CCPs.

# Structure of Program Payments for Corn

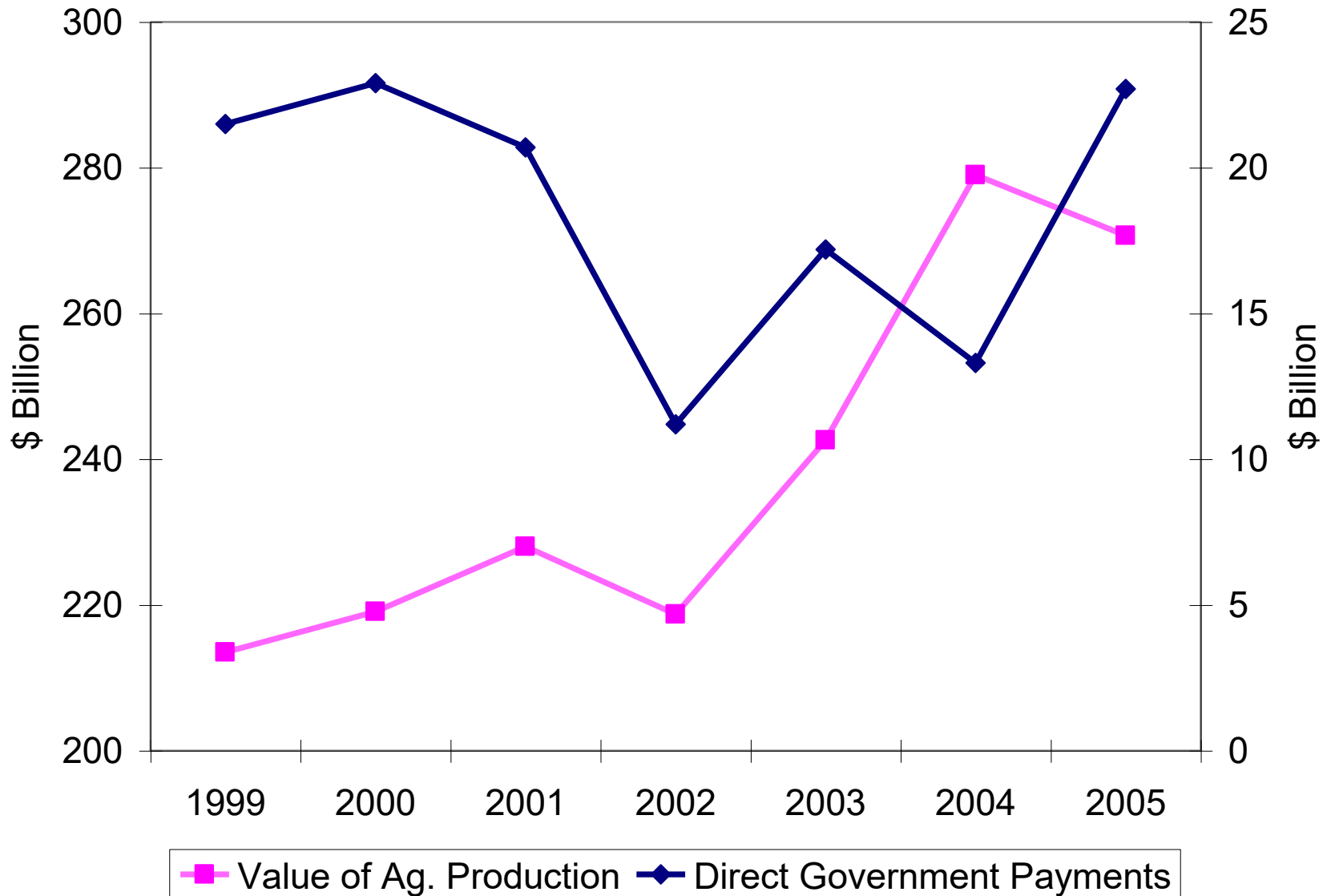




# What to Change?

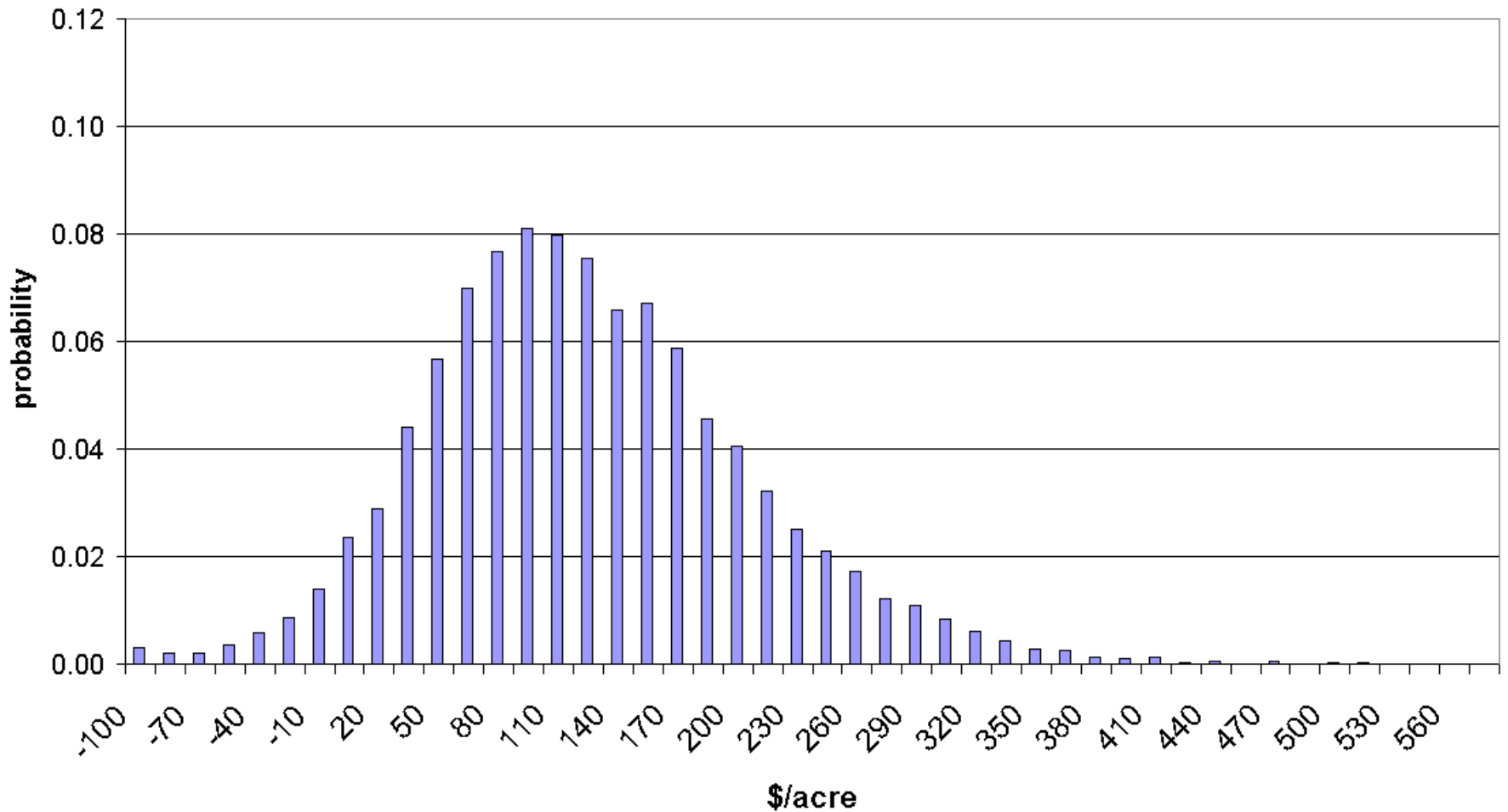
- Eliminate dairy program?
  - \$4.5 billion
- Eliminate sugar program?
  - \$1.2 billion
- Cut effective target prices?
  - Could hold target price constant
- Cut loan rates?
  - Would increase CCP

# Is There Room to Cut?

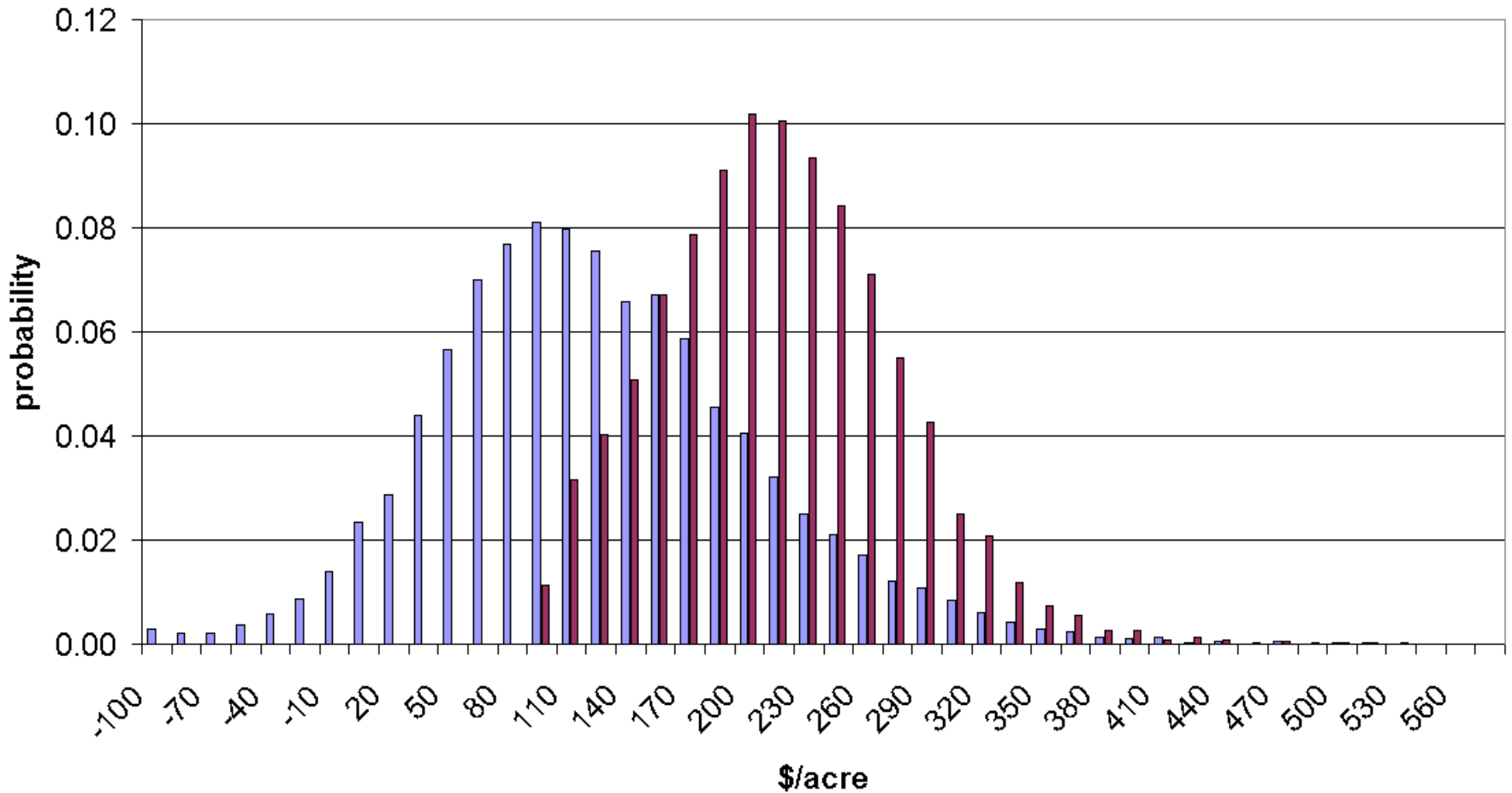


# Revenue Risk from Growing Iowa Corn

## Distribution of Corn Harvest Revenue Less \$180 Variable Cost



# Impact of Commodity Programs and Crop Insurance on Revenue Risk



# How Much to Cut to Meet Proposed Limits?

- No way to know for sure
  - Future payments depend on future price and production levels
- Two methods
  - Simulate “many” future outcomes and count the proportion of outcomes where proposed limits are exceeded
  - Simulate performance of programs over historical outcomes and count the proportion of years where proposed limits would have been exceeded

# Forward Looking Method\*

- Put the CCPs into Blue Box
- Cut loan rates and dairy support prices proportionately until 5% of outcomes exceed proposed Amber Box limits
- Cut effective target prices until 5% of outcomes exceed Blue Box Limits

\*Potential Impacts on U.S. Agriculture of the U.S. October 2005  
WTO Proposal FAPRI-UMC Report #16-05 December 15, 2005.

# Backward-Looking Method\*

- Put the CCPs into Blue Box
- Allocate dairy and sugar \$750 million of the Blue Box and \$1.04 billion of the Amber Box
- Calculate what support levels would have been from 1980 to 2004
- Cut loan rates and dairy support prices proportionately until 4% of years (one year out of 25) would have exceeded proposed Amber Box limits
- Cut effective target prices until 4% of outcomes would have exceeded Blue Box limits

\*Babcock and Hart. "How Much "Safety" Is Available under the U.S. Proposal to the WTO?" CARD Briefing Paper 05-BP 48 November 2005.

# Forward-Looking Results

	Current	New	Change	
			absolute	percent
<b>Corn</b>				
Loan rate	1.95	1.74	-0.21	-11.00%
Target price	2.63	2.45	-0.18	-7.00%
<b>Soybeans</b>				
Loan rate	5.00	4.45	-0.55	-11.00%
Target price	5.80	5.39	-0.41	-7.00%
<b>Wheat</b>				
Loan rate	2.75	2.45	-0.3	-11.00%
Target price	3.92	3.65	-0.27	-7.00%
<b>Cotton</b>				
Loan rate	52.00	46.28	-5.72	-11.00%
Target price	72.40	67.33	-5.07	-7.00%
<b>Rice</b>				
Loan rate	6.50	5.79	-0.72	-11.00%
Target price	10.50	9.77	-0.73	-7.00%
<b>Raw sugar loan (\$/lb)</b>	18.00	15.12	-2.88	-16.00%
<b>Milk support price (\$/cwt)</b>	9.90	8.81	-1.09	-11.00%
<b>Sugar non-NAFTA TRQ (mmt)</b>	1,229	1,984	755	61.50%



# Impact on Corn Income

	Baseline \$/acre	Change from Baseline		
		Unilateral No compensation	No compensation	Multilateral Compensated
Market Gross Returns	373.18	0%	4%	4%
Marketing Loan Gains	12.63	-76%	-86%	-85%
Counter-cyclical Payment	13.80	-53%	-67%	-67%
Direct Payment	24.37	0%	0%	66%
Gross Returns with Payment	423.97	-4%	-1%	2%
Net Returns with Payment	241.70	-6%	-2%	4%

# Backward-Looking Results

Crop	Current Loan Price	Required Loan Price
Barley (\$/bu)	1.85	1.68
Corn (\$/bu)	1.95	1.77
Cotton (\$/pound)	0.52	0.47
Oats (\$/bu)	1.33	1.21
Peanuts (\$/pound)	0.18	0.16
Rice (\$/hundredweight)	6.50	5.92
Sorghum (\$/bu)	1.95	1.77
Soybeans (\$/bu)	5.00	4.55
Wheat (\$/bu)	2.75	2.50

# Backward-Looking Results

Crop	Current Target Price	Required Target Price
Barley (\$/bu)	2.24	2.02
Corn (\$/bu)	2.63	2.37
Cotton (\$/pound)	0.72	0.65
Oats (\$/bu)	1.44	1.30
Peanuts (\$/pound)	0.25	0.22
Rice (\$/hundredweight)	10.50	9.45
Sorghum (\$/bu)	2.57	2.31
Soybeans (\$/bu)	5.80	5.22
Wheat (\$/bu)	3.92	3.53

# Some Observations

- Lower trade barriers makes the world and the United States wealthier
- Agricultural tariffs and subsidies are seemingly the largest roadblock to lower trade barriers
- U.S. agriculture net beneficiaries of lower trade barriers

# More Observations

- Cuts in loan rates and target prices reduce value of LDPs and CCPs
  - Direct payments could compensate
  - Moving to programs that target revenue could compensate:
    - ❖ Replacing LDPs and CCPs with county-triggered revenue program would increase average payments by 23% while meeting proposed Amber and Blue Box limits.
- Would lower price supports really damage farmer interests?