



Cordell Hull Institute

# Trade Policy Analyses

Vol. 8, No. 4

March 2006



On March 31, 2006, as the Doha Round negotiations continued to struggle over modalities for negotiations on agriculture, and preparations for the 2007 U.S. Farm Bill were beginning in Washington, DC, the Cordell Hull Institute held a Trade Policy Roundtable meeting on the Reform of U.S. Farm Policy and the WTO System.

The meeting was held in the Washington offices of Hogan & Hartson, attorneys at law, located in the I.M. Pei designed Columbia Square Building (pictured here).



**Ralph Grossi** was a discussant on the topic of Enhancing the U.S. Environment and Reducing the Incentive to Farm Marginal Land. Adjacent is his power point presentation.

## REFORM OF US FARM POLICY...

IN THE Doha Round negotiations on agriculture, attention has focused in the United States on the prospect of securing improved access to markets, especially in developing countries, where the potential is great. But there have been wider interests at stake.

Following an international roundtable meeting that the Institute convened in May 2002, Clayton Yeutter pointed out: "The burgeoning public debate over liberalizing agricultural trade has revealed a wide range of interests with a stake in the outcome, some represented by long-established organizations, while others [outside the agricultural community] are relatively new groups that view themselves as a part of civil society...

"These include," Dr Yeutter went on to say, "humanitarian groups concerned about hunger and malnutrition, development groups interested in alleviating poverty, environmental groups pursuing excessive use of fertilizers, the conservation of natural resources, the preservation of bio-diversity etc, consumer groups campaigning on the cost, availability and quality of food, taxpayer groups that question massive government subsidies and academic economists and other trade-policy 'gurus' who observe the magnitude of agricultural trade distortions and the adverse impact on agricultural productivity."

## Avoiding Disputes in the WTO System

Reform of U.S. farm policy is taking into account developments outside the Doha Round negotiations. Mike Johanns, the U.S. Secretary of Agriculture, has stressed the importance of ensuring that subsidies in the next U.S. farm bill are not open to legal challenge in the WTO dispute-settlement process. This shift in policy followed Brazil's successful WTO case in 2005 against subsidies in the U.S. cotton program and its successful case – with Australia and Thailand – against the European Union's sugar program. Since then there has been talk of Uruguay mounting a case against the U.S. rice program; and of Canada, a case against the U.S. corn program.

On February 14, Senator Saxby Chamblis, chairman of the U.S. Senate committee on agriculture, declared support for ensuring

### About the Author

Ralph E. Grossi is president of American Farmland Trust, chairman of Smart Growth America, serves on the boards of directors of the Charles Valentine Riley Memorial Foundation and the Natural Resources Council of America.

Additionally, he serves on the advisory board of the Yale School of Forestry and Environmental Studies, on the University of California President's Advisory Commission on Agriculture and Natural Resources, and the National Center for Smart Growth Research and Education.

that U.S. farm-support policy complies with WTO rules against trade-distorting subsidies – whatever the outcome of the Doha Round negotiations.

### Failing to Assist Low-income Farm Households

Other factors appear to be influencing the farm-policy debate. In the *Economic Report of the President* for 2006 the chapter on the U.S. agricultural sector concluded: "If the intent of commodity-support programs is to assist low-income farm households, [they] are failing in this task because today the bulk of payments go to households with incomes above the U.S. non-farm average.

"Furthermore," the report continues, "as world trade in agricultural products increases, food security for U.S. consumers becomes less dependent on domestic production and, consequently, on domestic commodity-subsidy programs. Not only are domestic commodity policies – domestic support, market access and export subsidies – not targeting vulnerable populations in the United States, these policies, as used by the United States and other countries, reduce farm incomes in poor countries."

# Enhancing the U.S. Environment and Reducing the Incentive to Farm Marginal Land

Ralph Grossi



## Forces for Change



- **Globalization**
- **Budget deficits**
- **Perception of farm subsidies**
- **Unmet needs of agriculture**
- **Political will**



## Forces for Change



**Forces of Change**

- **Globalization**
  - Long term trends – Trade Liberalization
  - WTO
  - Trade negotiations
  - Developing nations'
- **Budget Deficits**
- **Transparency**
  - Public perception of farm subsidies
  - Farmer perception of fairness/needs
- **Unmet needs of agriculture**
  - Environmental regulation
  - Research, pest management, infrastructure, etc.



### Political Will

- “I’ve been in the unholy agricultural alliance for 33 years. I’ve voted for every damned ridiculous agricultural program and subsidy conceived by the minds of men. But I may not anymore.”

-Senator Trent Lott , July 2005



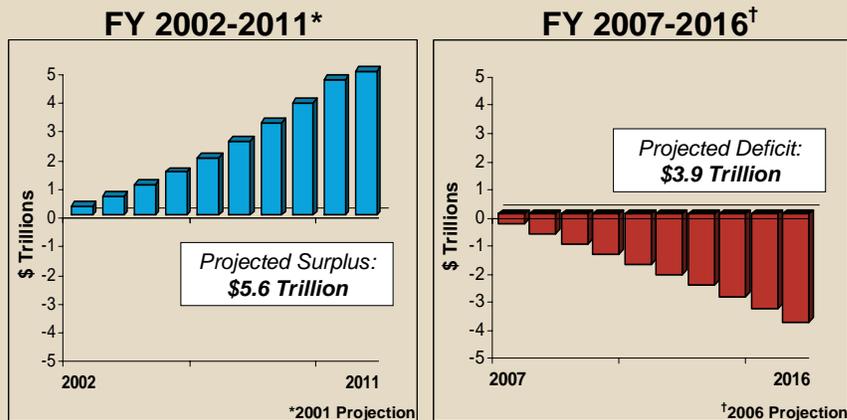
### Political Will

- “If we gave up 100% of subsidies, the gains politically and economically would be much greater than what we would lose.”

- Former House Ag Committee Chairman Rep. Charlie Stenholm, Fall 2005



## Projected Deficits in 2007 Will Shape the New Farm Bill



Source: Ten-Year CBO Budget Projections (cumulative)

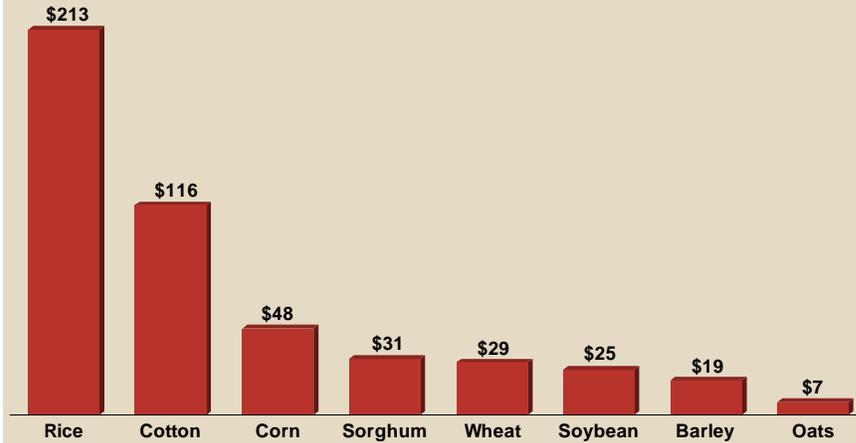


## Engaging Farmers and Ranchers

- Significant change needs the active participation of farmers and ranchers from all sectors of agriculture
- AFT sponsored nine research forums across the country to gain input from hundreds of farmers and ranchers in order to develop a new vision for a Farm Bill



### Average Annual Payment Per Base Acre\*



\*Based on averages from FY 1996-FY 2005

Source: Zulauf, Carl. Farm Program Spending: A Historical Perspective. July 2005,



### Engaging Farmers and Ranchers

#### What We Heard from Producers:

- Aware that change is coming but uncertain and anxious about what changes to farm policy mean
- Want to shape change to:
  - Restore U.S. competitiveness
  - Implement new policies with minimal disruptions
  - Meet farmers' needs



## Framework for Future Farm Programs

American Farmland Trust

**With the help of producers and academics  
AFT has created an alternative vision  
for a Farm Bill with the following  
elements:**

- **Manage Risk & Provide for a Safety Net**
- **Reward Stewardship**
- **Promote New Markets and Products**



## AFT's Vision for Agriculture

American Farmland Trust

### **Manage Risk Effectively**

- Farm policy always has had a role in helping provide a safety net of steady, reliable income, assistance when disaster hits and tools to manage risk. Existing commodity programs are narrowly focused on supporting prices, not revenues, and only apply to approximately one-third of agriculture. Moreover, they could be made more efficient to free up funds for other farm policy needs



## AFT's Vision for Agriculture

American Farmland Trust

### Manage Risk Effectively

- Replacement of Direct Payments, under threat by the WTO, with Green payments modeled on the CSP
- Replacement of the current price based protection system with a more comprehensive revenue based safety net
- Creation of a farmer tax package



## AFT's Vision for Agriculture

American Farmland Trust

### Reward Stewardship

- Savings generated from reforms to commodity programs would be redirected toward doubling the size of working lands programs like EQIP which is currently chronically under funded.



## AFT's Vision for Agriculture

American Farmland Trust

### **Simplify Stewardship Programs**

- Streamline existing stewardship and conservation programs by simplifying the process and creating uniformity
- Program specific changes such as the creation of a Conservation Loan Program and changes to CRP to for renewable energy uses.



## AFT's Vision for Agriculture

American Farmland Trust

### **Promote New Markets and Products**

- The next Farm Bill must stimulate entrepreneurship. During our farm forums it became clear states do a better job at delivering certain programs than does USDA. Savings from commodity payments should be redirected toward the states.



### Promote New Markets and Products

- Create a new **\$1 billion Farm Profitability Grants Program** that will encourage innovative marketing strategies, new business ventures, value-added products and education, and promotion related to any agricultural crops grown in the state. The program would be administered through each state's department of agriculture, as these agencies are better able to identify and address local and regional market conditions, challenges and opportunities.



### Promote New Markets and Products

- The **Farm Profitability Grants Program** will incorporate the needs of all producers—specialty, livestock and program crop—into one grant program and dedicate a sizeable base allocation to each state to provide support for a wide range of local and regional needs. The proposal recognizes the need for flexibility; it also recognizes that the incubators of change are programs and projects happening around the country at the state and local level.



## AFT's Vision for Agriculture

  
American Farmland Trust

### **Promote New Markets and Products**

- The U.S. must ensure that we have fair and equitable international market access. Once we have access small, medium and large producers must receive USDA assistance in taking advantage of these new opportunities.



## AFT's Vision for Agriculture

  
American Farmland Trust

### **Promote New Markets and Products**

- The nation faces an energy crisis and agriculture can help solve it via renewable energy. USDA should be helping to foster innovative new projects and new market opportunities through bolstering research into technologies.



## AFT's Vision for Agriculture

  
American Farmland Trust

### **Promote New Markets and Products**

- Federal government dollars should be used to promote a healthy diet. Institutional buying programs (school lunch, DoD purchases, etc) should be aligned more closely with the food pyramid.



## AFT's Vision for Agriculture

  
American Farmland Trust

### **Underpinnings for success**

- Research and development were critical to America's agricultural success in the past. Funding must be increased and the method of providing grants must be modernized so that we can re-invigorate research
- Research must benefit all producers not just traditional commodity crops; funding needs to be equitably distributed.



## AFT's Vision for Agriculture

American Farmland Trust

### **Underpinnings for success**

- Federal government dollars should be used to encourage young farmers and ranchers to get into or stay in the business. Preferential loan rates, preferential access to USDA programs should be provided to ensure a viable future for tomorrow.



## AFT's Vision for Agriculture

American Farmland Trust

### **Underpinnings for success**

- Extension and technical assistance are critical to ensuring success for producers. Assistance programs must be more diverse and more competent in under the next Farm Bill
- Our nation's defenses against foreign born disease must be strengthened.

