US Farm Bill Options: Implications for Developing Countries

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Introduction

- Presentation based on work with IPC on the Farm Bill and Developing Countries
- Dan Sumner and Kara Laney also involved, though not responsible for today's presentation
- Thanks to the UK DFID for support and encouragement

Motivation

- US Farm Bill is a major event in global agricultural policy
- Establishes financial and programatic conditions for the major agricultural trader and one of the major producers of farm crops
- Taken as an indication of the direction of US farm policy and its trade components

Overview

- Changing nature of linkage with developing countries
- Changing nature of developing countries themselves
- Specific implications for Doha Round (Tim)
- Changes in Food Aid and implications for recipients (Mary)
- US and Brazil: cotton, corn, sugar and ethanol (Bob)

Changing nature of linkage with developing countries

- Over time, three linkages have been dominant:
  - Impact on world prices through stockholding, domestic production incentives and/or supply restraint
  - Impact on developing country markets through food aid and overseas market development
  - Impact on policies of other countries through trade relations and trade conflicts

Changing nature of linkage with developing countries

- US stockholding policies are no longer significant element in world markets
- US supply control no longer used to balance world market conditions
- Production incentives have become the main linkage
  - Major crops supported with price-linked subsidies (cotton, rice, corn, wheat, oilseeds)
  - Ethanol subsidies redirect corn and sugar use

Changing nature of linkage with developing countries

- US Food Aid still significant for a number of low income countries
- Export promotion programs remain an important part of Farm Bill Trade Title
- Significant support for development of "specialty crops" export markets
- Focus on emerging markets where demand is likely to grow
- But – program crops face increasing competition in overseas markets

Changing nature of linkage with developing countries

- Impact on policies of other countries an increasingly important dimension
  – Other exporters face dilemma as to whether to match US subsidies
  – Importers concerned over US products undercutting domestic supplies
  – Major question is the impact on agricultural policies in China, India and Brazil – open policies or more protection?

Changing nature of developing countries

- Greater differentiation among countries
- Brazil has emerged as a significant low-cost producer of sugar, oilseeds, beef, citrus, etc.
- China has emerged as a huge market but also a potential competitor in some areas
- India has the potential to be an agricultural power
- Least Developed Countries losing out
- Africa slow to take advantage of trade opportunities

Specific implications for Doha Round

- Farm Bill widely seen (abroad) as indication of US intentions
- Higher support prices out of tune with downward trends in other countries
- Continuation of LDP and CCP programs seen as undermining US DDA position
- Lack of willingness to change cotton programs (and even the reintroduction of cotton user subsidies) seen as negative signal

Specific implications for Doha Round

- Opportunity to introduce a Farm Bill that is both domestically defensible and internationally constructive apparently lost
- US has less to offer other countries in the DDA, will get less in return
- Cost will be borne by exporters of unsupported crops as well as by non-agricultural export sectors
- Trade relations could deteriorate with Africa over cotton subsidies and with Latin America over corn and ethanol subsidies

Specific implications for Doha Round

- Lack of a WTO circuit-breaker clause unfortunate
- Absence of a change in Fruit and Vegetable exception gives aid to WTO challenges
- Issues of WTO notification of ACR, CCP could lead to more challenges from other exporters
- But – DDA could drag on to 2009, and implementation begin late in life of Farm Bill, with only small changes required by 2012

Changes in Food Aid and implications for recipients

- The Positives
  - Reauthorizes all three food aid programs
  - Reauthorizes and up dates the Bill Emerson Humanitarian Trust (BEHT)

Continued Positives

- Provides some program improvements
  - Section 202(e) flexibility
  - Increases pre-positioning
  - Calls for improve food quality
  - Calls for developing new products
  - Greater oversight and monitoring

Funding Positives

- House version authorizes $2.5 billion for Title II
- Some increase in CCC funds for Food for Progress
- House version call for stable, CCC, funding for McGovern/Dole at higher levels

The Negatives

- Proposal for local/regional purchase within Title II appears dead
- Creates competition between emergency and development food aid
  - The hard earmark or safe box issue
- No way to address increasing commodity and transportation costs
- No assured funding to replenish the BEHT

Unaddressed Future

- Maintains status quo – decades old
- Expanding political support
- Ignores DOHA discussion
- Impact of changing supply/demand in global agriculture
- Any impact of climate change on the poorest
- The need to integrate food aid with broader food security goals

US and Brazil: cotton, corn, sugar and ethanol

- Main Commodity Impact of US programs is on Corn, Cotton, and Sugar – as well as ethanol
- Brazil has an interest in sugar, ethanol and cotton
- Emerging as a significant competitor in several other crops (beef, citrus, poultry)
- Trade relationships with Brazil will be heavily weighted by agriculture (as with EU in the past?)

US and Brazil: cotton, corn, sugar and ethanol

- Brazil is major player in WTO, both negotiations and litigation
- Has taken aim at US subsidies (as US took aim at CAP in the 1960s)
- To ignore Brazil would be shortsighted: better to think of complementarities
- Partner in ethanol production, though from different feedstocks

Conclusions

- US Farm Bill has significant implications for developing countries
- Continuation of current marketing loans and counter-cyclical programs would preserve incentives to the production of cotton, corn, rice and oilseeds even where costs are not covered
- US sugar program proposals would continue subsidies, complicating trade relations with Mexico, the Caribbean and Brazil

Conclusions

- Changes in Food Aid rules in the Farm Bill address some issues but do not go far
- US objectives in the Doha Round would be made more difficult to achieve by passage of the Bill
- US would be put at a disadvantage in defending against WTO challenges (regardless of outcome of Doha Round)
- US leadership in reforming agricultural trade and domestic policies would be in effect abdicated