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