

Review and Analysis of International and Budgetary Considerations for the 2007 U.S. Farm Bill

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Domestic and Trade Impacts of U.S. Farm Policy:
Future Directions and Challenges
Washington, DC
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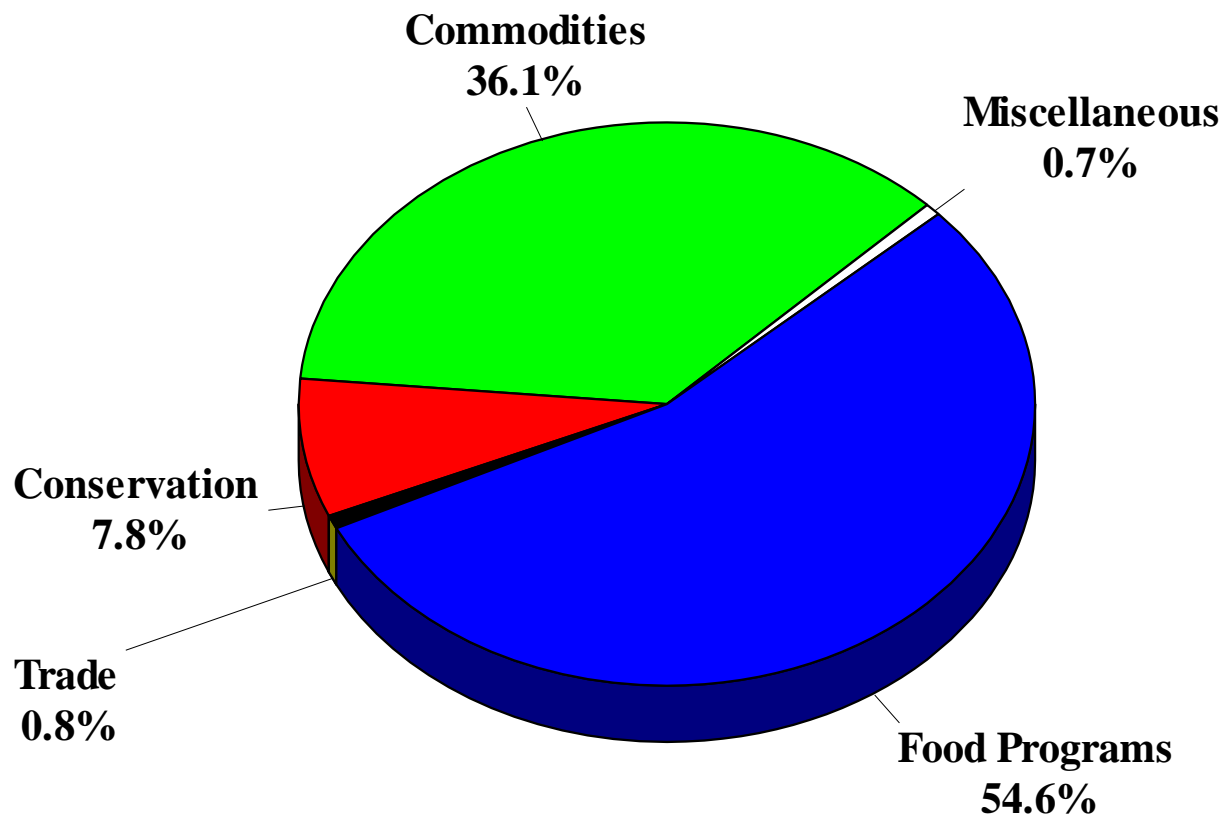


Why this Paper?

- Objective:
 - To identify and analyze major determinants of U.S. farm policy
- Policy environment is changing
- Some influences may seem less relevant today than few months ago
- But appearances can be deceiving
 - The influence of major determinants of U.S. farm policy are not going to disappear

Farm Bill Program Spending by Title, Budget Authority, FY 2002-2007

Total costs over 6 years: \$105 billion



Ways to Change U.S. Ag Policies

1. Change laws separately
2. Rewrite farms bills periodically
 - Every 4-7 yrs.
3. Or, extend previous farm bill by 1-2 yrs.

What Happens If Farm Bill Does Not Get Renewed?

(If 2002 farm bill expires in fall 2007)

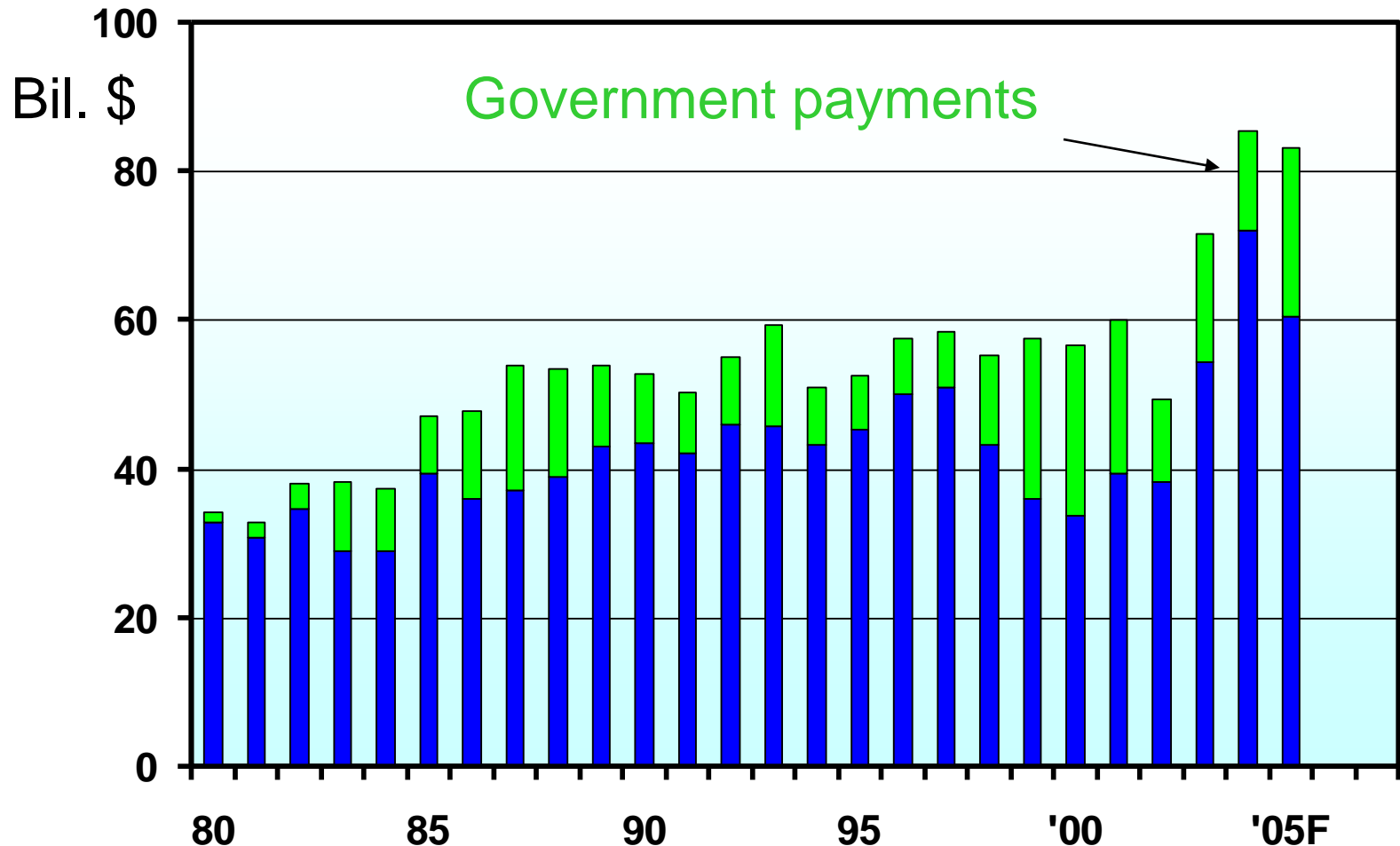
Revert to 3 permanent laws

1. 1938 Agricultural Adjustment Act (P.L. 75-430)
2. 1949 Agricultural Act (P.L. 81-439)
3. 1948 Commodity Credit Corporation (CCC)
Charter Act (P.L. 80-806)

→ Farm bills temporarily suspend
permanent laws

U.S. Net Cash Farm Income

Payments help sustain farm income



Forces Influencing Development of U.S. Farm Programs (Farm Bill)

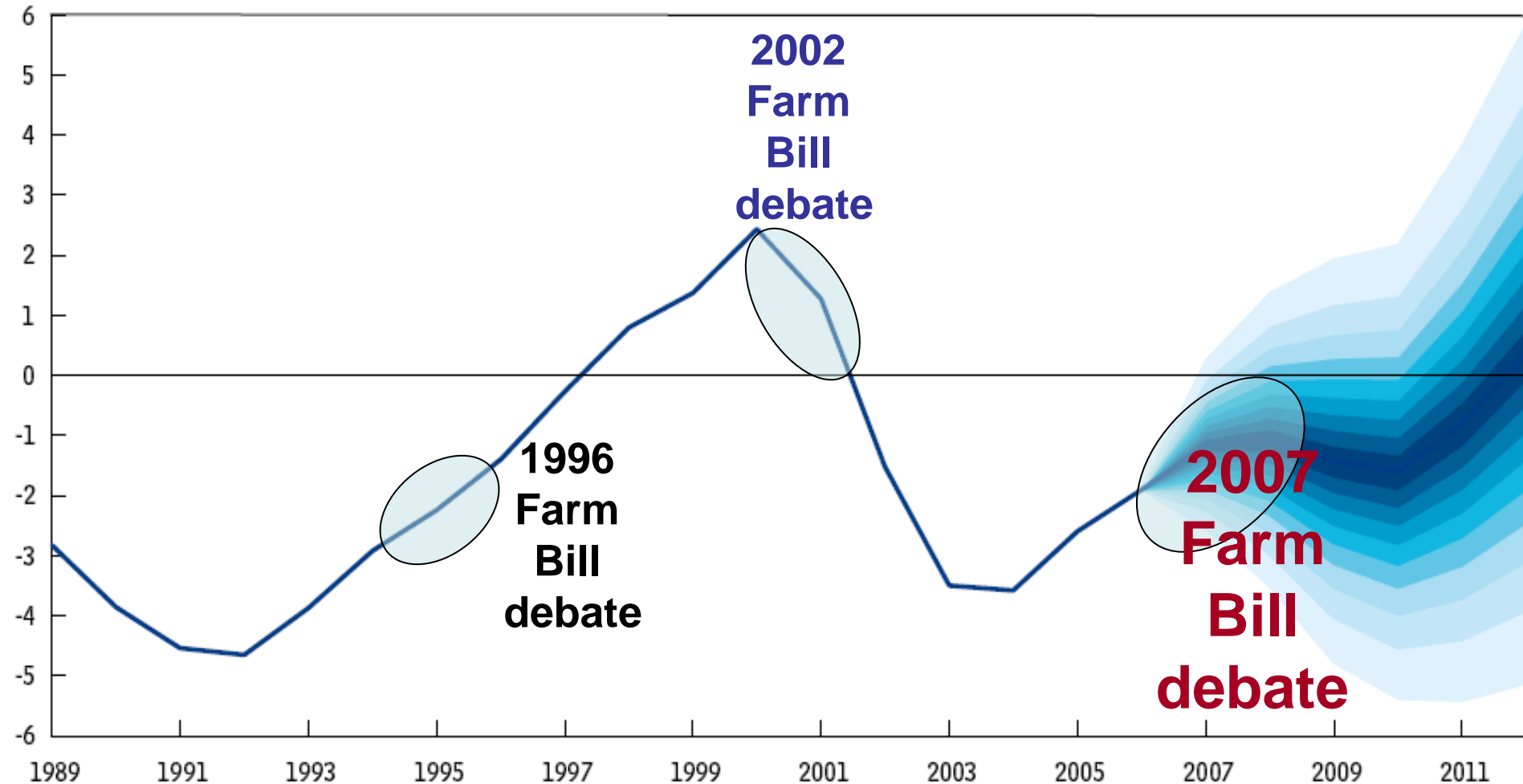
1. Federal budget: Surplus or deficit
2. WTO Agreements: Doha Round of trade negotiations
3. Other forces
 - Food safety concerns
 - Conditions in agriculture
 - Political conditions

Budgetary Environment Matters

- 2002 farm bill was passed during an era of budgetary surplus
- 2007 farm bill discussions are happening in an era of budget deficits
- 2005 Budget Resolution
 - Reduce spending by \$3 billion over 5 years
 - Likely from price supports, conservation, domestic food programs

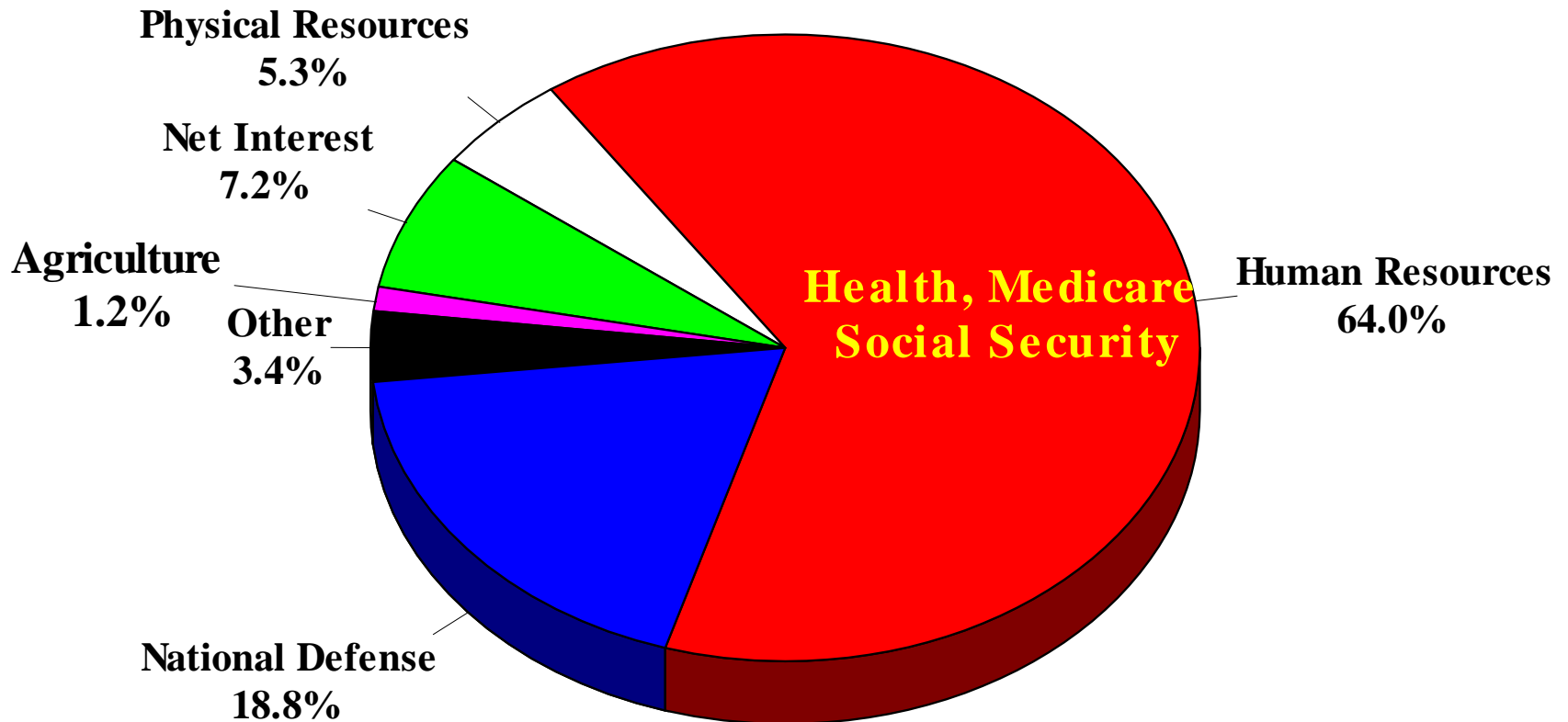
Budget Deficit Affects Federal Spending & Farm Bill Debate

(Percentage of gross domestic product)



U.S. Federal Budget Outlays by Function, FY 2005

Total Estimated Outlays: \$2.48 Trillion



International Trade Negotiations

- 1994 Uruguay Round
 - Established useful framework
 - Did little to open agricultural markets
- Doha Round – HOPES FOR:
 - More ambitious
 - Close loopholes
 - Tighten rules
- But hopes for Doha are rapidly fading

Some Progress: The “July 2004 Agreement”

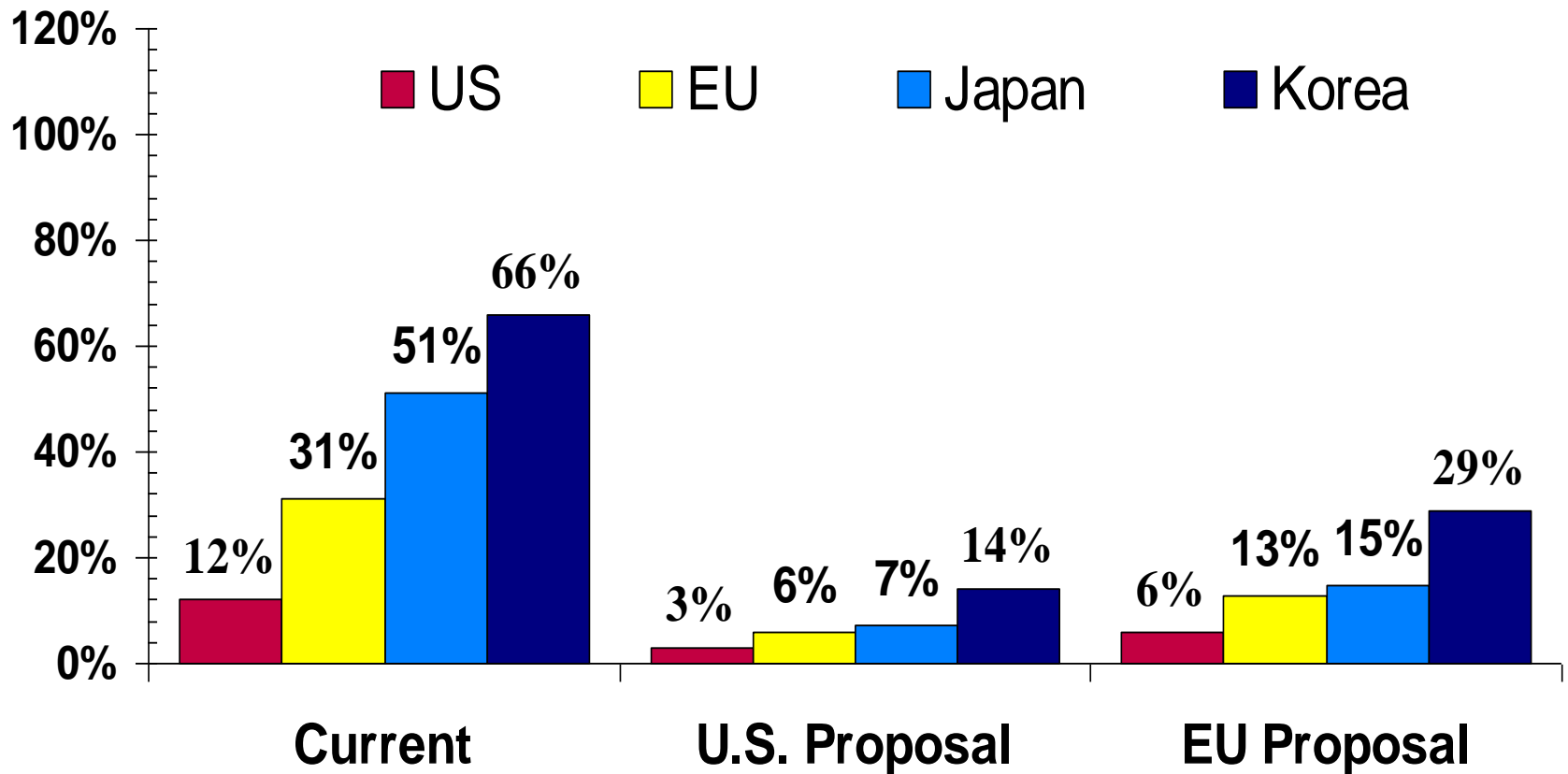
- Export competition
 - Eliminate export subsidies
 - Restrict export credits
 - Rules on food aid
 - Abolish export state-trading enterprises
- Domestic support
 - Large reduction in trade-distorting support

Market Access: U.S. Proposal

Reduce tariffs over 5 years

- Developed countries: 55–90% cuts
 - Maximum tariffs of 75%
 - Sensitive products: limit to 1%
- Developing nations
 - Smaller cuts
 - Longer phase-in

Market Access Proposals for Average Allowed Tariff

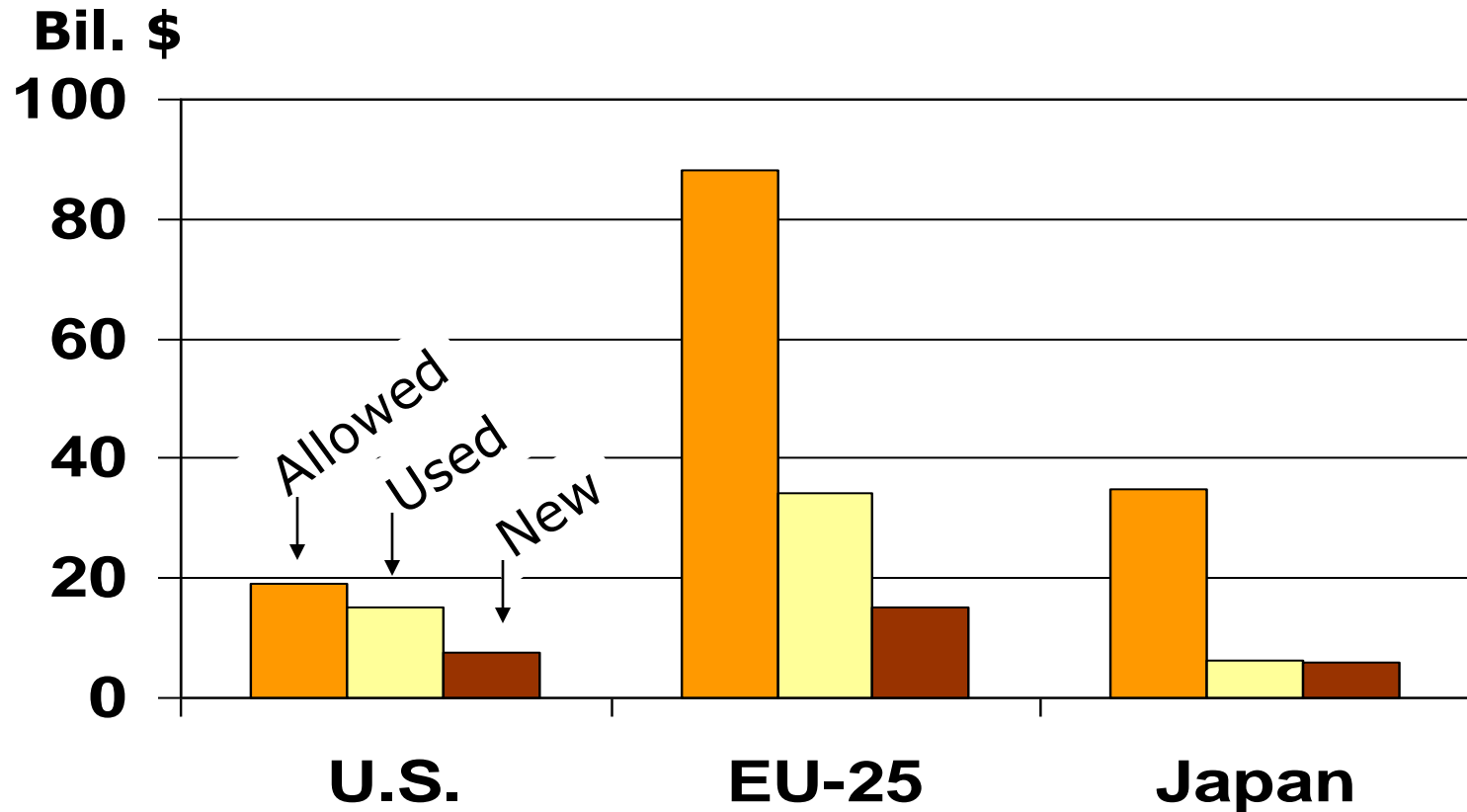


Sensitive Products: 1%

1%

8%

Domestic Support: U.S. Amber Box Proposal



Without Successful Doha: 3 Scenarios

(Huffbauer & Pischedda)

1. Weak Doha agreement

- Erode WTO's effectiveness
- More protectionist actions
- Push litigation

2. More Free Trade Areas - Asia Pacific (FTAAP)

- May inspire other regional trade blocks

3. More Bilateral Trade Agreements

- Complicates trade liberalization efforts
- Undermines WTO

Without Successful Doha ...

- These are not mutually exclusive
- Some combination of 1 & 3 more likely
- Not good for smooth trade relationships
- Reform of farm programs may be delayed or reversed

Other Factors Influencing Farm Bill

- Food safety
 - Health & food safety
 - Bioterrorism
- Energy policy
 - Bio energy
- Marketing
 - Labeling
- Political Factors

Concluding Comments

One of three possible outcomes

1. Revert to permanent legislation
2. Develop 2007 farm bill
Discussions underway
3. 1 or 2-year extension of 2002 farm bill

Concluding Comments

- Most likely outcome: new farm bill with few substantive reforms
- Serious farm policy concerns remain
 - Continued federal budget deficit pressure
 - Intense media scrutiny & public scrutiny
 - LDCs' call to reform domestic policies of developed nations

Concluding Comments

- Without successful DDR conclusion, U.S. legislators may simply delay reforming domestic farm policies.
- With successful Doha outcome
 - Responsibility shifts to USTR & foreign trade partners
 - Congress may go ahead and reform U.S. farm programs

Bottom Line

- An unsuccessful DDR doesn't eliminate US' need to comply with previous agreements:
 - Brazil's cotton case
 - Canada's corn case
 - Maybe more to come
- For now, some respite
 - High commodity prices make WTO challenges difficult
- Finally, The best time to reform agricultural programs is when the commodity prices are high. Once high prices are capitalized into high land values and costs of other factors of production, the opportunity to reform is gone. In fact we may have already missed the best opportunity.