15

An IPC Issue Brief
September 2005

The US Farm Bill and the Doha Negotiations: On Parallel Tracks or a Collision Course?

By Robert L. Thompson[1]

From the mid-1980s through the 1990s, the United States undertook major initiatives in domestic agricultural policy reform and global agricultural trade liberalization. The 1996 Farm Bill moved US farm policy far toward market-orientation. Simultaneously, during the Uruguay Round trade negotiations the United States was a strong advocate for imposing significant disciplines on national agricultural policies that distort the locus of production and pattern of trade into the rules of international trade. However, the 2002 Farm Bill reversed this course, increasing government spending and intervention levels in US farm subsidies, making it difficult for the United States to play a leadership role in the early stages of the Doha Development Round. In the next two years the United States Congress and the Administration will write a new Farm Bill as the Doha Round of WTO trade negotiations concludes. With the Doha Development Round, the United States has another opportunity to use the international negotiations to reform US farm policy to meet the changing needs of American agriculture.

The Farm Bill and the trade talks, whether on parallel tracks or on a collision course, will have significant impacts on one another.

THE URUGUAY ROUND AGREEMENT ON AGRICULTURE AND US FARM POLICY

During the Uruguay Round of multilateral trade negotiations in 1996, the United States and the Cairns Group[2], under the leadership of Australia, advocated freer and more open international markets for agricultural products. In previous negotiations, domestic policies were outside the bounds of international trade negotiations, which dealt only with border measures such as tariffs, quotas and export subsidies. At the insistence of the United States and the Cairns Group, domestic agricultural policies were debated for the first time in the Uruguay Round trade negotiations. The inclusion of domestic supports in the Uruguay Round was a significant breakthrough because it is domestic policies, not border measures, which often cause the greatest distortions in farm production and trade. Border measures are often put in place to accommodate the domestic policies, and not vice-versa. For example, when a government attempts to support the domestic price of an importable commodity at a level higher than the world market price, it must impose high tariff barriers to keep foreign producers from flooding the market with lower world market priced products and taking advantage of higher domestic prices. Or, if a government policy induces more production than can be accommodated on the domestic market, governments must subsidize exports onto world markets. In both cases, governments shift the burden of adjustment from the domestic to the world market.

Acknowledging that governments will always have political or economic reasons to provide support to their farmers, the United States and the Cairns Group argued that different types of payments to farmers do not equally distort agricultural production and trade. Support linked to the volume of production or to sales of specific commodities distorts farmers' production decisions more than direct payments that are not linked to specific commodities. Support linked to production or sales volume but accompanied by supply controls is less

[1] Robert L. Thompson, Chairman of the International Food and Agricultural Trade Policy Council, is the Gardner Professor of Agricultural Policy at the University of Illinois at Urbana-Champaign (USA).
[2] Members of the Cairns Group are: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

An earlier version of this paper was presented at the Second Annual North American Agrifood Market Integration Workshop, San Antonio, Texas, May 6, 2005. The author appreciates helpful suggestions from Ann Tutwiler and Hugh Corbet. Work on this paper was supported in part by a grant from the German Marshall Fund of the United States.

distorting than such support without supply controls. This insight led negotiators to categorize agricultural support into three "boxes", based loosely on the traffic light scheme.

Support that is clearly linked to production was categorized in the "Amber Box", measured by an Aggregate Measure of Support. In the Uruguay Round Agreement, each country accepted a maximum "aggregate measure of support" (AMS) below which it agreed to keep its total Amber Box support. The Uruguay Round Agreement encouraged countries to move policies out of this Amber Box by creating a "Green Box" category with no limits or caps. The "Green Box" includes direct payments that are not linked to present or future production of any specific product. These payments might be for conserving the soil or protecting the landscape for tourism, or they could be direct income transfers to farmers calculated on some fixed historical base. Investments in public goods like agricultural research, extension and teaching, and collecting and disseminating agricultural statistics and market information were also included in the Green Box. The URAA created a third category of agricultural subsidies, known as the "Blue Box." Policies in the "Blue Box" were constrained by supply or marketing controls to prevent them from inducing larger production volumes than the domestic market could absorb.

In addition to disciplining domestic policies, the URAA also addressed market access barriers and trade. In the Uruguay Round agricultural negotiations, the United States also advocated converting all non-tariff agricultural import barriers (i.e. quotas and variable import levies) into tariffs, which would then be reduced by an agreed upon percentage over the implementation period. This was important in part because it is much harder for potential suppliers to compete for a country's purchases when imports are constrained by a quota than by tariffs.

More importantly, a quota or other non-tariff barrier (NTB) to imports, such as a variable import levy, cuts the link between the world market price and domestic price of a product so that the domestic price no longer moves up and down with the world market price, and domestic producers and consumers get no signal to adjust to changed world market conditions. Instead, the entire adjustment burden falls on producers and consumers in countries whose domestic prices are linked to the world price (even those that are distorted by tariffs). When fewer producers and consumers participate in the adjustment to any shock in the world market, the world market price has to adjust more than it would if all shared in the adjustment. This causes world commodity prices to be more volatile than they would otherwise be, increasing price risk to producers and consumers in the rest of the world. Countries that cannot afford to cushion their producers from this volatility are particularly vulnerable. If most countries reconnected their domestic and world prices, the swings in world commodity prices should be dampened - thereby removing one major source of instability in farm incomes.

The United States and the Cairns Group also sought a ban on agricultural export subsidies. Export subsidies had been banned in non-agricultural goods trade since the Kennedy Round. In the Uruguay Round, agricultural export subsidies (both value and volume) were frozen and reduced, but not banned, and no country could start subsidizing exports of a commodity not previously subsidized. Several other forms of subsidized export competition (food aid, export credits, subsidies provided by state trading entities) were mentioned but not addressed by the Uruguay Round.

The Evolution of United States Farm Policy

The policies the United States advocated in the Uruguay Round mirrored policies being adopted in Congress since the 1985 Farm Bill. The 1985 Farm Bill had to address a severe financial crisis while restoring the international competitiveness of US products. To transfer income to farmers, the bill provided "deficiency payments" equal to the difference between a politically determined "target price" and the market price or the loan rate (price support), whichever was higher. To restore international competitiveness, the loan rates were reduced to 85 percent of a moving average world market price. "Marketing loans" were created for cotton and rice, in which the United States Department of Agriculture (USDA) would pay farmers the difference ("loan deficiency payment") between the loan rate and what it determined the world market price to be. This prevented the government from accumulating stocks, as it had done under the 1981 Farm Bill.

To prevent deficiency (income) payments from inducing larger production than the market could absorb, the 1985 Farm Bill began separating or decoupling payments from current production. Deficiency payments were no longer based on a farmer's actual production, but rather on a fixed historical average yield and the number of acres planted to each program crop. The 1990 Farm Bill further decoupled payments from production by fixing the acreage base for each crop at historical levels. Since current planting and input decisions could no longer influence the deficiency (income) payment a farmer received, payments were now almost fully decoupled from production decisions. However, farmers were still required to idle land in return for receiving payments if USDA believed that supplies would exceed demand in any given year.

The 1996 Farm Bill, written in the shadow of the Uruguay Round negotiations, took another step by granting farmers greater planting flexibility by eliminating target prices, deficiency payments and acreage reduction programs. The bill eliminated any link between income support payments and market prices. To compensate farmers for giving up deficiency payments, Congress created “production flexibility contract” payments (also known as Agricultural Market Transition Act (AMTA) payments), which were to be phased down to zero over the seven year life of the bill.

THE DOHA ROUND OF AGRICULTURAL TRADE NEGOTIATIONS

In 2001, delegates in Doha, Qatar, widely recognized that high-income countries tend to be most protectionistic in the sectors where low income countries have a comparative advantage, particularly labor intensive manufactures and certain agricultural products that thrive in the tropics, e.g. sugar, cotton, and rice. It was also acknowledged that developing countries had gained little from past rounds of multilateral trade negotiations and that, now that they represented the majority of members of the WTO, there would be no Doha Round agreement unless they benefited from it. Hence, the Doha Develoment Agenda was born.

Between 2001 and 2003, numerous proposals were introduced by individual countries and groups of countries, including several from various groups of low-income countries. The negotiators made several attempts at outlining a framework for an agricultural agreement, but without success. In July 2002, the United States submitted to the WTO an ambitious proposal for agricultural trade reform in this round of trade negotiations. The proposal stated that the United States is prepared to undertake significant reform of its domestic agricultural policies in exchange for significant increases in market access for US agricultural products abroad.

In August 2003, in an effort to advance the agricultural negotiations, the other members asked the United States and the European Union to bring forward a proposal that would at least be satisfactory to both of them. Just before the Cancun Ministerial meeting in September 2003, they produced a proposal which was seen as too self-serving (because neither made concessions) and not within the development spirit of the Round. The United States-European Union paper precipitated the emergence of an unlikely group of about 20 developing countries (the “G-20”[3]) led by Brazil and including India, China, South Africa, as well as other agricultural product exporting developing countries. The G-20 emerged as an effective counter-weight to the United States and the European Union in the negotiations. This also ended the era when the Americans and Europeans could go behind closed doors to hammer out the terms of a deal. Unless the G-20 perceives the deal to be worthwhile to them, there will be no deal.[4]

In the run-up to the Cancun Ministerial meeting, Oxfam and other non-governmental organizations waged a high-profile publicity campaign against high-income country agricultural subsidies. They focused on the adverse effects of subsidies which decrease world market prices and, in turn, drive down incomes of poor farmers in developing countries, most of whom derive their entire income from agriculture. Just before the Cancun Ministerial, the World Bank released estimates of the world market price depressing effect of high income countries’ agricultural subsidies and protectionism. The World Bank analysts estimated that OECD policies had depressed the world market price of rice by 33-50 percent below the level at which it would otherwise be (World Bank, Chapter 2). The Bank’s estimates for sugar and dairy product prices were 20-40 percent, and cotton and peanuts, 10-20 percent.

[3]The members of the G-20 are Brazil, Argentina, Bolivia, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela and Zimbabwe.

[4] Brazil and other agricultural exporters in the G-20 will insist on real agricultural policy reform in the agreement, however India is less prepared to reform its own policies, and China perceives that it already conceded enough in its WTO accession negotiations.

Table 1: World Market Prices Depressed Below Long Term Trend

Rice	33 - 50 %
Sugar	20 – 40 %
Dairy Products	20 – 40 %
Cotton	10 – 20 %
Peanuts	10 – 20 %

Source: World Bank. Global Economic Prospects 2002, Chap. 2.

Oxfam built its campaign around US cotton subsidies and how these hurt low-income cotton producers in four of the poorest countries in West Africa (Oxfam International). The campaign was so effective that when delegates arrived in Cancun, cotton, specifically the US cotton program, was on everyone's mind. The US negotiators were in an impossible situation, caught between one of the most powerful lobbies in Washington, DC and virtually all the other delegations. When the United States advanced a proposal to provide assistance to the West African countries to help their farmers diversify out of cotton, the anger at the United States was palpable. The stage was set for the Cancun Ministerial to fail.[5]

Because agriculture plays such an important role in the economies of most low-income countries, it is viewed as *th*e make-or-break issue in this round of trade negotiations. The United States has said that it would reduce its trade-distorting agricultural subsidies if other countries will reduce tariffs and increase quotas to provide greater market access. The developing countries say they cannot open their borders to products whose world market prices are artificially depressed by the subsidies high-income countries provide to their producers. The developing countries, in effect, are saying that the high-income countries must go first. The United States says it cannot sell subsidy reductions to the Congress without significantly increasing market access abroad, including in developing countries. This led to a stalemate in the agricultural negotiations for more than a year up until the July 31, 2004, Framework Agreement.

After more than two years of little progress, on July 31, 2004, the WTO agreed on a Framework Agreement, moving the process forward (International Centre for Trade and Sustainable Development). This agreement was substantially less ambitious than the original US submission. However, it contained many provisions that the United States had initially proposed. The agreement left a lot of details to be resolved, not only in the agriculture negotiations, but also in those dealing with manufacturing and services.

THE 2002 FARM BILL

Unlike the 1996 Farm Bill, the 2002 Farm Bill was written in the early stage of the Doha Development Agenda, when Congress wanted to increase its bargaining power by increasing support to farmers. Additionally, by the end of 2001, it was clear that US federal budget surpluses were coming to an end, but the "budget baseline" for the 2002 Farm Bill had not yet been revised. At the same time, constrained by the Uruguay Round to a budget ceiling of $19.1 billion, US farmers were envious of the European Union's much larger ($67 billion) subsidy levels. Congress was in a mood for spending and saw the $19.1 billion AMS more as a target to be attained than as an upper bound on farm programs. Congress passed the 2002 Farm Bill a year early in order to capture the disappearing budget surplus. Congress tried to design programs which would not exceed the Uruguay Round limit but they did not want actual subsidies to fall very far short of it either. The net result was to increase budget authority for US farm programs at the same time the United States had been telling everybody else to cut theirs.

The 2002 Farm Bill (Wescott, Young, and Price) reversed many of the 1996 Farm Bill's achievements. It raised loan rates on grains but lowered them on soybeans to rebalance the high corn to soy prices that were distorting production of these two commodities. The 2002 Farm Bill reestablished a target price system. It also created

[5] The Cancun Ministerial nominally failed over disagreement between the high- and low- income countries over whether to address national rules in four new areas on the Doha Round negotiating agenda: customs procedures, investment, competition, and government procurement, but the United States' inability to be forthcoming on cotton had already poisoned the well.

a new counter-cyclical payment (CCP) that institutionalized $2 billion of ad hoc “emergency payments”, which had been made each year on top of the AMTA payments authorized under the 1996 Farm Bill. The 2002 Bill watered down payment limitations, allowing individual farmers to get a larger total payment, and allowed farmers to update the historical base on which payments were made, meaning payments were no longer decoupled from production decisions. The Bill also institutionalized fixed direct payments in place of the AMTA payments, which were envisioned as transitional compensation that would be phased down over time. The 2002 Farm Bill created new farm programs for commodities that had never before had them (small legumes); resurrected programs for wool, mohair, and honey that had been terminated in earlier legislation; increased benefits to sugar producers; and created another dairy program. In one positive innovation, it bought out the quotas in the old peanut support program, but replaced it with a new support program.

In the WTO negotiations, the United States also advocated that the prices farmers use in making production decisions should be linked to world market prices so that farmers everywhere adjust their planting decisions with changing world market price signals. The counter-cyclical payments created in the 2002 Farm Bill violate this principle. They reduce American farmers’ responsiveness to declining prices, but not to increasing prices, amplifying their trade distorting impact. Furthermore, marketing loans, which were created originally for cotton and rice in the 1985 Farm Bill, further distort markets, as they function effectively as export subsidies, especially when the exports represent a significant share of world trade in the given commodity. While the US negotiators argued against export subsidies, the 2002 Farm Bill broadened the role of marketing loans in US agricultural policy.

Table 2: Direct Government Payments
USDA Forecasts for FY 2004 and 2005 ($ billions)

Total direct payments	**14.5**	**24.1**
Fixed direct payments	5.3	5.3
Counter-cyclical payments	2.0	6.0
Loan deficiency payments	3.2	4.8
Marketing loan gains	0.5	0.8
Milk income loss payments	0.2	0.5
Conservation payments	2.6	2.8
Ad hoc & emergency payments	0.7	3.9

Source: USDA

When viewed from abroad, the 2002 Farm Bill was seen as an abdication of US leadership in reforming farm policy and liberalizing agricultural trade. The United States, which had led the global effort to reduce agricultural subsidies, appeared two-faced, telling the rest of the world to cut their farm subsidies while increasing its own. By allowing direct payment bases to be updated, the 2002 Farm Bill was seen as a retreat from decoupling by its author and strongest advocate.

FACTORS INFLUENCING THE 2007 FARM BILL

There will be many factors likely to influence the writing of the 2007 Farm Bill. To understand these factors, it is important to realize that a Farm Bill is much more than commodity programs. The 2002 Farm Bill had several titles, including commodity programs, conservation, agricultural trade and aid, nutrition programs, rural development, research, forestry and energy.

While two-thirds of US agriculture is not affected by commodity programs, most of US agriculture is influenced by programs authorized under one or more titles. Many of the constituents of these programs are no longer satisfied with their individual programs and are seeking a bigger share of the overall agricultural budget in 2007.

It is also important to remember that Farm Bills are authorizing legislation. To actually implement most programs authorized in a Farm Bill, the USDA requires a Congressional appropriation each year even when the authorization specifies an annual expenditure level. There is an important exception, however, unique to USDA. Many of the farm commodity programs are entitlements that are funded independently of annual appropriations. The Commodity Credit Corporation (CCC) has a standing line of credit at the United States Treasury of $30 billion against which USDA draws. Periodically, after funds have been paid out to farmers, USDA asks Congress to "replenish" its line of credit.

Table 3: Commodity Subdsidies Increase by $10B from 2002 to 2005
(millions of dollars)

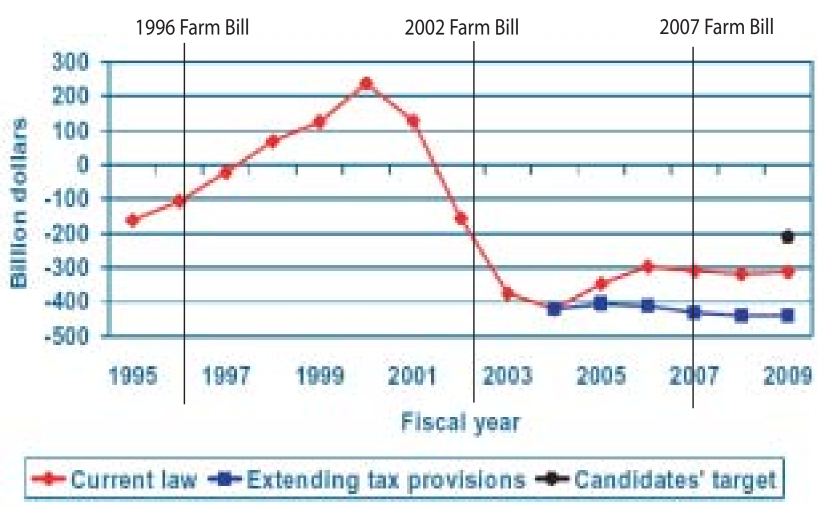
Commodity	2002	2003	2004	2005E
Corn	2,959	1,415	2,504	7,683
Wheat	1,190	1,118	1,173	1,495
Rice	1,085	1,279	1,130	586
Upland cotton	3,307	2,889	1,372	4,721
Soybeans	3,447	907	595	1,563
Dairy	622	2,494	295	633
Total	15,680	17,425	10,575	24,065

Source: USDA CCC

Federal Bugdet Deficit

Congress passed the 2002 Farm Bill using a budget baseline projection that everyone knew were already out of date. Congress rushed the passage of the 2002 Farm Bill early to get as much money committed to farm programs as possible before the baseline was updated with lower budget numbers. The 2007 Farm Bill will be written under very different circumstances. The Federal deficit returned and has run about $400 billion per year since 2003. Despite frequent calls to reduce the budget deficit, neither the White House nor the Congress appears very concerned. In 2004, both presidential candidates talked about reducing the annual deficit to about $200 billion. Many observers argue that agriculture must participate in deficit reduction, particularly since there never would have been as much money available for farm programs if the 2002 Farm Bill had not been taken up ahead of schedule.

Figure 1: Federal Budget Deficit



Source: Congressional Budget Office, Sept. 2004

The Administration's FY 2006 budget proposal, transmitted to Congress in February 2005, proposed a modest reduction in farm programs - $5 billion over five fiscal years. Farm organizations and commodity groups responded angrily, arguing that the government was breaking faith (if not a legal contract) with farmers, who had made their business plans assuming that the benefits of the 2002 Farm Bill would remain intact for the full five-year life of the bill. Some members of Congressional agriculture committees even proposed that the cuts should be taken out of food stamps, for low-income people, instead of farm programs.

The Congressional budget resolution authorized a $2.6 trillion Federal budget for FY 2006. With no apparent commitment to deficit reduction, this budget projects multi-hundred billion dollar deficits each year for five years, not including the cost required to re-build New Orleans and the regions devastated by hurricanes this fall. The largest "savings" or "cuts" from the budget baseline (not real reductions) came out of Medicaid—a health care program for low-income Americans. Despite many anti-farm subsidy editorials in major newspapers, agricultural spending was cut only $3 billion over five years, with all but $173 million put off until 2007, when the next Farm Bill is to be written, and beyond. In principle, this leaves over $2.8 billion in cuts from this year's budget cycle to be made under the 2007 Farm Bill, in addition to whatever budget reductions might be called for in 2007.

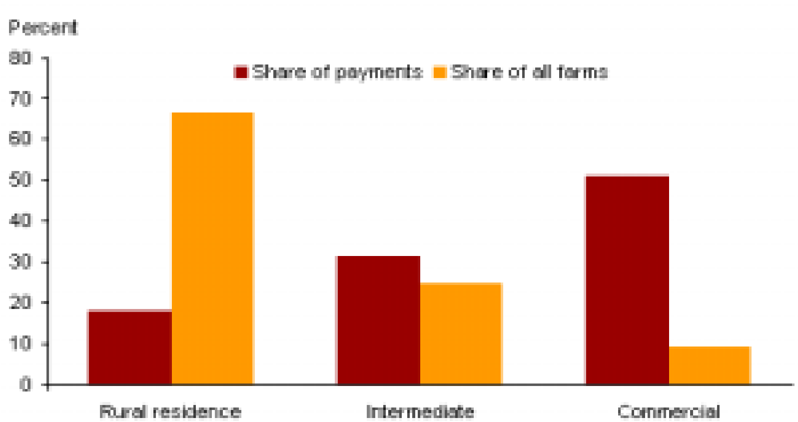
Regardless of the budget deficit, candidates make many budget commitments in the heat of presidential election campaigns. For example, last year in Wisconsin, both candidates pledged to continue the Milk Income Loss Contract (MILC) program, a temporary additional dairy program created in the 2002 Farm Bill, which was slated to expire. The President's FY 2006 budget proposal would fund this program for two more years. When all such commitments are added up, they too make it more difficult to reduce the Federal budget deficit.

US farm programs have never been subjected to an effectively binding budget constraint. Even in 1985, when Congress mandated across-the-board reductions in Federal outlays to reduce the deficit (under the Gramm-Rudman-Hollings Bill) the Farm Bill authorized the largest farm program benefits in history. It remains to be seen whether the political environment in 2007 will be any different. Further complicating the budget picture is the likely $200 billion additional cost to the federal government of reconstruction in the aftermath of Hurricane Katrina.

Inequities in Farm Payments

Over the decades, the most common argument for government support to agriculture has always been low farm family income. But two-thirds of American farmers receive no farm program benefits because they do not grow "program crops" (program commodities include corn, soybeans, wheat, cotton, rice and dairy, among others) There is no evidence that these farms are less profitable than those receiving Federal farm program benefits. Most program payments are distributed in proportion to past or present sales of the "program commodities," so the largest producers of those commodities get the largest benefits. Because most program payments get capitalized into the value of farm land, most of the benefits accrue ultimately to the largest farm land owners, a group whose average wealth exceeds the national average.

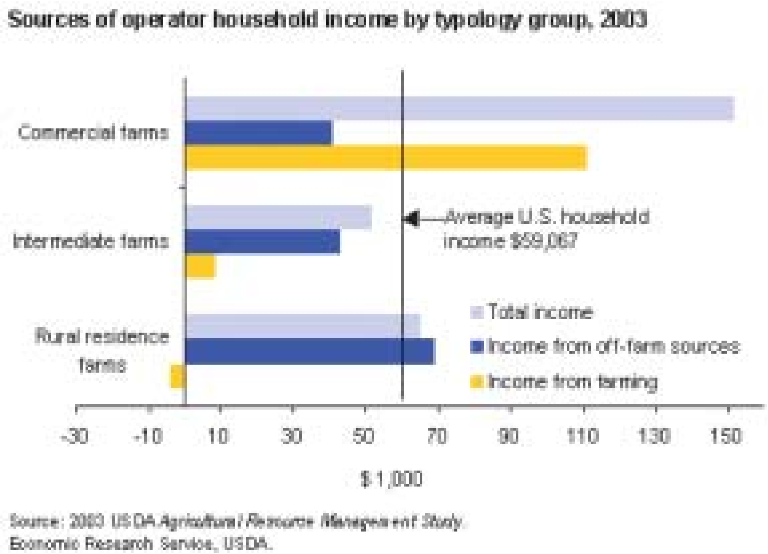
Figure 2: Share of government payments and farms, by farm type, 2003



Source: 2003 USDA *Agricultural Resource Management Survey*, Economic Research Service, USDA.

The “small farms” most Americans want to support benefit very little from these programs. These “small farms” are no longer viable commercial businesses that can support a family. They are rural residence farms or hobby farms or both. In fact, 77 percent of the “farms” in the United States by the official definition collectively contribute only 14 percent of the nation’s production of food and fiber. On average, these farmers earn more than the median family income from non-agricultural sources and lose money on their farming operations. In effect, they are subsidizing their rural lifestyles with off-farm income. The only group whose family income averages less than the median US household income is intermediate farms, and they also receive very little from government farm programs (MacDonald, Hoppe and Banker).

Figure 3:



Nor do the subsidies go to support corporate agribusiness. Most commercially viable farms today are incorporated for tax and estate planning and ease of transfer of ownership between generations. These incorporated family farms receive the bulk of farm payments. Agribusiness corporations account for less than 10 percent of farm output, and much of that is in the production of non-program commodities that receive no support.

Farmers have other ways to smooth their incomes that are not available to other forms of business. They can buy price insurance (put options) and federally subsidized crop insurance. Farmers are allowed to use cash accounting, which facilitates shifting income and expenses between two tax years. Farms are the only businesses allowed to use income averaging (over four years) when calculating their income tax. Most farmers are simply seeking to to “stabilize” farm income around a higher average. It is difficult to justify farm programs on the basis of either low farm family incomes or income volatility. Farmers also utilize tax provisions that allow them to roll-over capital gains from land sales into new farmland purchases without paying capital gains taxes (authorized under Section 1031 of the Internal Revenue Code). These provisions have contributed to escalating farmland prices in many areas.

The Environmental Working Group has posted data (www.ewg.org) obtained under Freedom of Information Act requests on how much each individual farmer (by name) receives from USDA programs. The ready availability of this information spawned a flurry of anti-farm program editorials in newspaper throughout the country. The transparency which publicly posting these data has brought to farm programs has forever changed discussions of the justification for and benefits of farm programs. The argument that farm programs help low-income family farmers can no longer be persuasive.

Breakdown in Inter-Commodity Solidarity

US agriculture has enhanced its political clout over the years by solidarity and effective coalitions among commodity groups. For many years dairy and tobacco interests formed a very effective coalition that secured more farm program benefits for each than either could have alone. Every link in the cotton supply chain gets something from the cotton program - from those who grow cotton to those who gin, ship, store, export or use it domestically. This has ensured cotton industry solidarity in support of the cotton program.

Agricultural commodity organizations have traditionally deferred to one another's interests, as have individual commodities within the general farm organizations. There has always been enough money to go around. Even though certain commodities or regions seem to always get more benefits than others, amity and solidarity have generally prevailed.

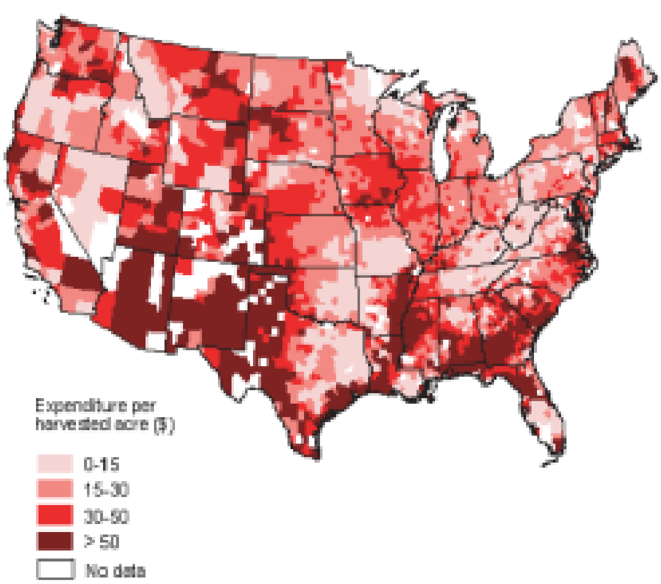
In 2005, cracks have appeared in this historical solidarity. For example, commodity groups that previously deferred to the sugar lobby are angry at the sugar growers' opposition to the Central American Free Trade Agreement (CAFTA), which was widely supported by the agricultural sector as a whole. Farm and commodity organization leaders are beginning to acknowledge that 2007 may be different: Congress really will have to do something about the Federal budget deficit and agriculture will be forced to participate in deficit reduction. Some observers speculate that the historical inter-commodity and inter-region solidarity may break down in the face of a tight budget constraint. The large differences among commodities and among regions in levels of support, and the large differences in payments to individual farmer are starting to bring demands for greater "equity" across commodities and farmers.

Electoral Politics

Rural America elected George W. Bush in 2000 and reelected him in 2004. Even in the Democratic majority states, rural counties voted for President Bush. Overlaying the county electoral map of 2004 (Gastner, Shalizi, and Newman) and a map of where commodity payments go (USDA), the correlation is striking. It is not hard to understand why the President's FY 2006 budget proposal did not push very hard to reduce farm program payments going to counties that recently voted for the President's reelection.

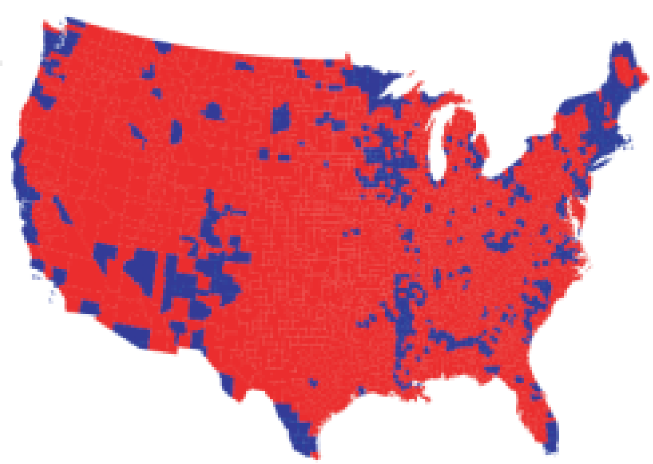
Figure 4:

Distribution of commodity payments per harvested acre



Source: USDA Economic Research Service.

Who Reelected President Bush?



Red: Republican majority counties; Blue: Democratic majority counties. Source: Univ. of Michigan

Congressional and Presidential elections are extremely expensive in the United States, and little real campaign reform has been achieved. Campaign contributions buy access to the Congress and the Executive Branch of government, enabling firms and interest groups to make their case to policy makers and members of Congress involved in writing regulations and legislation of interest to them. Food and agribusiness groups are generous contributors to both Congressional and Presidential campaigns.

Recently released data on Political Action Committee (PAC) contributions to Federal candidates in the 2004 election cycle reports $12.3 million in contributions from farm and commodity organizations and from food and agribusiness companies (Center for Responsive Politics). When the data for agricultural commodity PAC contributions are separated, there is a positive correlation between the magnitude of campaign contributions and the government support provided to that crop. The four highest agricultural campaign contributors, sugar, dairy, cotton and rice, are also the commodities with the highest levels of support (measured by a common yardstick known as Producer Support Equivalents[6].)

Table 4a:

Food & Agricultural PAC Contributions to Federal Candidates, 2004 Election Cycle

Sector	Contributions ($ million)
Agric Inputs & Services*	3.2
Food Processing/Sales	2.7
Sugar growers/proc'ors	2.4
Tobacco companies	2.1
Crops other than sugar	2.0
Dairy	1.8
Other livestock & poultry	0.7
Vegetables, fruits & nuts	0.6

*Machinery, pharmaceuticals, credit, insurance, fertilizer, seeds, ag chems, etc.
Source: Center for Responsive Politics (Federal Election Commission (FEC) data)

Table 4b:

Ag Commodity PAC Contributions to Federal Candidates, 2004 Election Cycle

Commodity	Contributions ($1,000)
Sugar	2,375
Dairy	1,757
Cotton	479
Rice	283
Peanuts	218
Citrus	167
Wheat	100
Potatoes	57
Corn	37
Soybeans	17

Source: Center for Responsive Politics (FEC data)

Despite the shrinking size of the US farm sector and its work force relative to the US economy and population, agricultural interest groups have effectively managed their campaign contributions and influence to give them political clout far in excess of their numbers. Many more Americans (including rural Americans) are far more concerned about issues like Social Security reform, Alternative Minimum Tax relief, funding of local schools and prescription drug coverage than about farm programs. There is little public goodwill towards farm programs that give most of the benefits to the largest producers and farmland owners. Nevertheless, agriculture has sufficient political support in Congress that farm programs almost completely avoided reductions in the fiscal year 2006 budget process.

Three final points related to political influences on the 2007 Farm Bill merit mention. In the past, agricultural policy making has been fairly bipartisan. However, in recent years, both the Congress and the White House have become extremely politicized. There is virtually no bipartisan cooperation among either the agriculture committee members or their staffs. This is very different from the traditional behavior of the agriculture committees

[6] The percentage of gross farm receipts attributable to government policy, including budgetary transfers financed by taxpayers, as well as the implicit tax on consumers that arises from interventions such as border protection that raise farm prices above the levels that would otherwise prevail.

of Congress. Today, each party is attempting to make the other look as bad as possible – even if it means Congressional paralysis. Second, the Republican-Democrat split in the Senate or the House of Representatives that will write the next Farm Bill will not be known until November 2006, after the mid-term elections. Finally, the State of Iowa has the first Presidential primary, and no aspiring President of the United States will utter a word against any farm program while campaigning in Iowa for fear of being an early casualty in the campaign. By the time a candidate is elected President, he has made so many commitments that it is hard to exercise the leadership necessary to change farm programs.

The Role of Environmental and Conservation Groups

Environmental groups played an active role in writing a US farm bill for the first time in 1985. That Farm Bill created the long-term conservation reserve program (CRP), allowing farmers to idle land for ten years in exchange for annual compensation. The CRP was supported by a coalition of environmental groups concerned about conservation and farm organizations that sought more government supply control. In addition, the 1985 Farm Bill created the so-called "sod-buster" and "swamp-buster" provisions and institutionalized "conservation compliance," which requires any farmer who receives benefits from any USDA program to have a farm conservation plan that meets certain environmental standards. To add these measures to US agricultural legislation required an unprecedented degree of cooperation between agricultural and environmental groups.

However, twenty years later, these two groups remain wary of one-another. Farmers see many environmental regulations as overly restrictive, increasing costs more than expected benefits. They see environmental organizations as too prone to use the stick instead of the carrot. Moreover, since 2002, every time Congress has authorized disaster payments, agricultural interests have successfully lobbied to have their cost subtracted from appropriations for conservation measures, not from commodity programs. Furthermore, neither the farm lobby nor the Bush Administration has supported funding of a new Conservation Security Program (CSP) that was authorized in the 2002 Farm Bill, but has remained underfunded and unimplemented. As a result, environmental organizations have begun to doubt the sincerity of farm organizations' support for conservation programs. This behavior, however, is not unique to environmental measures. Commodity groups support research, conservation, trade promotion, and the like as long as the appropriations for these programs are in addition to commodity programs. Commodity organizations have been unwilling to reduce near-term commodity program benefits in exchange for Federal investments in measures that would have longer-term payoffs for the sector as a whole.

In the Doha Round of trade negotiations, payments for conservation and environmental programs that are not linked to the production of any specific commodity would be categorized in the Green Box. European farm groups, who foresee lower traditional farm program benefits, would like to increase direct payments to underwrite the cost of soil conservation, protection of the landscape, and investments in other measures beneficial to the environment, as well as in rural development. It is likely, therefore, that an agreement would be easily achieved with the European Union for these kinds of payments to be exempted from any "binding" or cap in the Doha Round Agreement on Agriculture (DRAA). This may open a window for increased conservation payments in the United States.

Renewable Energy

The Uruguay Round Agreement on Agriculture (URAA) was oversold to American farmers. Agricultural economists showed large potential gains from agricultural policy reform and moving to *free trade* in agricultural products. But despite some important conceptual advances in the URAA, there was little real agricultural trade liberalization. When the anticipated gains failed to materialize and Brazil captured most of the growth in the world markets, many American farmers became disenchanted with the WTO and began to question their ability to compete in export markets. They started casting about for alternative markets.

While corn growers were looking for new markets, there was increasing concern about the growing US dependence on imported oil. The resulting confluence of interest in renewable energy sources sparked legislation subsidizing the conversion of corn into ethanol and, more recently, soybean oil into biodiesel. Even with oil approaching $75 per barrel, this industry seems to be economically viable only with construction subsidies, mandated minimum use in gasoline/diesel blends, and protection against imports from lower-cost suppliers, such as ethanol from sugar cane and biodiesel from palm oil.

Using corn and soybeans for renewable energy is extremely popular with farm organizations which can be counted on to advocate a larger role for agriculture in renewable fuels in the 2007 Farm Bill. Most farm organizations are currently more interested in renewables than in agricultural trade liberalization.

WTO Dispute Settlement

In addition to the Doha negotiations, the WTO may affect the 2007 Farm Bill through the recent case brought by Brazil against the US cotton program.

The Uruguay Round established a dispute settlement process to resolve differences among members over their trade obligations. When one country charges that another country is not living up to its trade obligations, a "dispute settlement panel" is appointed, which functions as the court of first appeal in trade disputes. If any party to a case is dissatisfied with the panel's ruling, it can appeal the decision to the WTO's "Appellate Body," which, in effect, serves as the "supreme court of international trade." Contrary to popular opinion, the WTO cannot force any country change its policies. However, if a country loses a case and refuses to change the policy found to be in violation of their existing trade commitments, then the WTO can authorize the victims of the violation (i.e. the country or countries which won the case) to collect compensation by levying import duties on the violator's exports to that country. These goods need have no relationship to the sector found to have been hurt by the violation. Countries often target goods produced by politically powerful non-agricultural sectors to encourage them to pressure their governments to change the offending agricultural policy.

a) Brazil's Cotton Case

In February 2003, Brazil filed a case in the WTO against the United States, alleging that the US cotton program violated the URAA, of which the United States was not only a signatory, but a principal author. (Brazil also filed and won a case against the other principal author of the URAA, the European Union, alleging that its sugar program violated that agreement.)

Brazil alleged that various subsidies to the US cotton sector stimulated larger production and exports of cotton than would have been the case in the absence of those subsidies. Brazil further claimed that the additional exports depressed the world price of cotton, reducing the earnings of Brazilian cotton producers, who obtain their entire income from the marketplace.

The United States lost the case on most counts at both the panel and the Appellate Body levels. These panels ruled that certain US policies had depressed the world price of cotton enough to cause "serious prejudice" to the interests of other cotton exporters. The offending policies included marketing loans, loan deficiency payments, counter-cyclical payments and "Step 2" payments (an export and domestic use subsidy specific to cotton). However, the panel and Appellate Body ruled that certain other US policies, specifically direct payments, crop insurance subsidies, and AMTA payments did not depress world prices as Brazil had alleged.

The panels also ruled that the United States was violating its export subsidy commitments through its export credit programs on cotton and other commodities. When each country filed its new tariff schedule with the WTO following the Uruguay Round, it was required to itemize those commodities utilizing export subsidies. The United States' filing did not list cotton, which were eligible for Step 2 payments and subsidized export credits. Therefore, the ruling mandated that the Step 2 cotton payments, as well as export credit guarantees in excess of normal commercial terms, which it found to also be export subsidies, should be changed by July 1, 2005. On July 1, 2005, the USDA administratively changed its export credit program to eliminate the offending subsidy element. Eliminating the Step 2 program requires Congressional action. On July 5, the USDA sent a request for its repeal to the Congress. The cotton industry has lobbied Congress hard not to eliminate the Step 2 program during the current marketing year.

Aside from the deadline for export subsidies, the panel did not specify a date certain for changing the other offending policies, such as the marketing loan. Whether the "fix" can wait until the 2007 Farm Bill or the outcome of the Doha Round will be decided in negotiations between Brazil and the United States.

b) Fruit and Vegetable Exclusion

The WTO panel and Appellate Body made another quite unanticipated ruling in the cotton case. When set-aside programs were originally designed, the fruit and vegetable industry (especially California and Florida growers) lobbied successfully for a ban on growing fruits and vegetables on set-aside land. If producers of program commodities could plant set-aside land with fruits and vegetables, fruit and vegetable farmers feared it would depress prices and hurt primary growers of those commodities, who received no government support. When direct payments were created, this fruit and vegetable exclusion rolled forward into the direct payment rules.

The WTO cotton panel ruled that US direct payments had not contributed to the larger production and exports that had depressed the world cotton price. However, the panel found that those direct payments did not meet the definition of decoupled payments in the URAA, which was substantially written by the US. The definition requires that in order to be decoupled there must be no restrictions on what the payment-receiving producer grows (or doesn't grow). The fruit and vegetable exclusion violates the definition. The panel concluded that the direct payments, therefore, should have been included in the total trade-distorting (Amber Box) subsidies reported by the United States to the WTO. The panel also said that if the payments had been included, the United States would also have been in violation of the cap on such support to which it had agreed to in the URAA.

The July Framework Agreement

a) Domestic Support

In the Framework Agreement the negotiators agreed that each high-income country should make a "substantial reduction in the overall level of its trade-distorting support from bound levels," with the highest levels of support being reduced the most. For the United States, this would entail more than proportional reductions in commodity-specific support to rice, cotton, sugar, dairy, and peanuts. Product-specific caps on support would be imposed, in addition to the binding on the aggregate support provided to the agricultural sector. The size of these caps and "substantial reduction" remain to be defined in the on-going negotiations.

It is important to recognize however, that a "cut" does not necessarily imply a reduction. In high-income countries the bound, or allowed, aggregate measures of trade-distorting support are generally higher than the total support provided. While the Framework Agreement calls for a 20 percent reduction in total trade-distorting domestic support in the first year of implementation of the DDA agricultural agreement, this would require neither the United States nor the European Union to make any actual reductions. In both cases there is more than 20 percent unused capacity in their AMSs, and the new lower maximum AMS would still exceed the levels that the United States and European Union have been providing to their farmers.

Moreover, The Framework Agreement also suggests an alternative cap, the sum of Amber Box plus Blue Box plus product specific de minimus subsidies. This would substantially increase the cap relative to the URAA AMS. Should this new cap be accepted, the "cuts" which the United States and European Union would have to make would be very large before any real reduction in subsidies would occur (IPC Issue Brief, June 2005).

In the Framework Agreement, US negotiators obtained agreement to broaden the definition of the Blue Box beyond policies that entail offsetting supply constraints such as a marketing quota or land set-aside. The broadened definition would also include "direct payments that do not require production". This would allow the United States to include its counter-cyclical payments in the Blue Box. Counter-cyclical payments that do not qualify for inclusion in the Green Box Payments are based on current market price. In the URAA there was no cap on Blue Box payments; in the July Framework, they are capped at less than five percent of a country's total value of agricultural production (i.e. the value of all commodities, not just those for which there are farm programs). During the remaining negotiations there will likely be further tightening of the definition of the Blue Box to ensure that such policies are less trade-distorting than the Amber Box. There is widespread unhappiness in other countries with the redefinition of the Blue Box, and one can anticipate continued attempts to tighten the criteria as much as possible in the remainder of the negotiations. These criteria would require the United States to change the nature of the counter-cyclical payments.

The Framework Agreement would leave Green Box payments unrestricted, but there is likely to be some further tightening of the Green Box criteria to ensure that support categorized there really is minimally trade-distorting in practice. Since the signing of the URAA, the United States, the European Union and Japan have made substantial shifts of agricultural subsidies from Amber Box support to specific commodities to direct (decoupled) payments. There is a widespread perception in other countries that such large Green Box payments cannot possibly be production- and trade-neutral.[7]

b) Export Subsidies

The Framework Agreement contains a commitment to eliminate all export subsidies, with the date yet to be determined. The elimination of direct export subsidies mainly affects the European Union. However, to obtain the EU's commitment, other countries had to agree to discipline and to eliminate policies they employ which have an effect equivalent to an export subsidy. In the case of the United States, this involves subsidized export credits and export credit guarantees with a repayment period beyond normal commercial terms (180 days).

The United States also provides part of its food aid to private voluntary organizations and non-governmental organizations which sell the products in the recipient country markets to generate local currency that is used to support their development and humanitarian activities. While much good comes from these activities, it is hard to argue that they do not displace commercial sales (from local farmers and/or commercial import suppliers).

Accepting greater discipline in these areas would be a small price for the United States to pay for a complete ban on agricultural export subsidies, which have caused significant distortions in world commodity markets. Eliminating export subsidies will force the European Union to make larger reforms in its domestic agricultural policies. For example, despite its milk marketing quotas, the European Union still has to buy dairy products ("intervention") to support the internal price of milk. It gets rid of these "intervention stocks" by subsidizing their sale on the world market.

c) Market Access

Market access is the most important of the three pillars because all countries maintain tariffs, and most of the potential economic benefits derive from reducing these barriers. It is also the least well-defined of the three pillars in the Framework Agreement. Not much has been decided beyond a general agreement that the highest tariffs should be reduced the most and that the negotiated reductions will be from bound, not applied, tariff rates. Because there is so much "water" in tariff rates (i.e. the allowed tariffs under the Uruguay Round agreement are higher than the actual tariffs countries impose) it would take a substantial reduction in bound tariffs in many cases to cause any reduction in applied rates and, in turn, an increase in actual imports.

Moreover, in response to insistence from the most protectionist agricultural importers, the G-10[8], the Framework provides an escape clause for sensitive products, which means that products with the highest tariffs might escape the deepest tariff cuts. The Framework would allow all countries to designate an "appropriate number" of "sensitive products" to which the tariff reduction formula will not apply. In exchange for a smaller tariff reduction on sensitive products, however, the Framework suggests that the minimum market access (as a percent of domestic consumption) for the "sensitive products" be increased, but many details remain to be negotiated.

In many instances tariff rate quotas (TRQs) allow limited access to highly protected markets. A relatively low tariff rate is charged on imports that enter within the quota, but a much higher - often prohibitively high - tariff is charged on imports in excess of the tariff rate quota. For example, the United States maintains tariff rate quotas for sugar, dairy, cotton, peanuts, tobacco, and beef. In the cases of beef, sugar, and butter, the United States would have to reduce its import tariffs by 77, 38, and 19 percent, respectively, before any increase in imports would occur (Tutwiler).

[7] There can be little doubt that they induce larger investments in the agricultural sector as a whole relative to other sectors of an economy than would otherwise be the case. The issue here is whether they distort the mix of products produced. For example, some argue that in relatively specialized production regions, e.g. rice in Japan,support formerly distributed to Japanese rice growers via price supports, which is now distributed as direct payments based on historical production patterns, is still supporting rice production.

[8] The G-10 includes Japan, South Korea, Norway, Switzerland,Taiwan, Bulgaria, Israel, Iceland, Mauritius, and Liechtenstein.

The sensitive product loophole provides a way for the most politically powerful commodities, which enjoy the largest subsidies and highest rates of import protection, to avoid as large a reduction in tariff rates as would be imposed on other products. Nevertheless, those commodities should anticipate having to allow foreign suppliers to compete for a larger fraction of domestic consumption. Larger imports might be enough to force more change in those commodities' domestic farm programs.

WTO agreements traditionally allow developing countries "special and differential treatment" (S&DT), which usually translates into smaller reductions in protection phased in over a longer transition period. This was once again be the case in the July 2004 Framework Agreement. US agricultural interests have expressed significant concern about one aspect of S&DT. Most interests (other than sugar) have little argument with the 50 or so least developed countries receiving special treatment. However, in the WTO the next higher income category of developing countries is a self-designating category, and some countries' self-declaration seems to stretch the definition, e.g. Singapore and South Korea. Moreover, certain large countries which have highly competitive export sectors, but yet significant regional concentrations of poverty, e.g. Brazil in soybeans and China in labor-intensive manufactured goods, are also eligible to receive S&DT. This is a highly political issue in the WTO, but US agricultural organizations are very unlikely to go along with a Doha Round agreement in which they see their prime competitor, Brazil, being able to claim special privileges just because it declares itself a developing country.

CONCLUSION: PROSPECTS FOR REFORM

The 2007 Farm Bill and the Doha Round are progressing on the same timetable. Field hearings and farmer listening sessions on the 2007 Farm Bill started in 2005, with hearings in Washington, DC continuing through 2006, in anticipation of writing the next Farm Bill in 2007. The most likely time for the Doha Round to conclude is June 2007, when the current US Trade Promotion Authority ("fast-track" negotiating authority) expires. If history is any guide, this will be an effective decision-forcing date to bring the WTO negotiations to closure. Any changes in farm policy agreed to in the DDA agricultural agreement can then be implemented in the 2007 Farm Bill.

US negotiators will be hard-pressed to meet this deadline as they would need to be prejudging by December 2005, what the next Congress will be willing to do in the 2007 Farm Bill. However, if the WTO negotiations can be concluded by the end of 2006, then the necessary notifications can be sent to the Congress early in 2007, and the agreements can be prepared in time for a signing ceremony by June 2006. This would dovetail with the timetable of the 2007 Farm Bill.

Among US farm organizations there is little enthusiasm for trade negotiations or even for exports in general. Many American farmers are taking a defeatist attitude about their ability to compete internationally. They see the world market as a zero-sum game and are betting their future on ethanol and biodiesel instead. Unless farm organizations enthusiastically embrace whatever is coming out of the Doha Round, one should not expect the Congressional agriculture committees to do so either.

Many farm organizations and commodity groups organized task groups to work on future farm policy alternatives already in 2004. Their leadership appears to believe that the probability of a binding budget constraint in 2007 is sufficiently high that they need to analyze alternatives. In particular, some farmers are examining ways to replace current crop insurance and disaster payment schemes. Subsidized crop insurance and disaster payments have a tendency to induce larger production of certain crops in areas where there are suboptimal growing conditions (higher risk) for those crops. Over the years, Congress has regularly undermined the viability of the crop insurance program by providing disaster payments to farmers in bad crop years. Some farm organizations are studying alternative forms that a gross revenue assurance program could take to replace disaster payments, crop insurance, marketing loans, loan deficiency payments and counter-cyclical payments. This willingness of farm organization leaders to look at radical alternatives to the present farm programs is very encouraging for WTO prospects. Nevertheless, most farm organizations' first priority seems to be to preserve everything they got in the 2002 Farm Bill.

Every Farm Bill is influenced disproportionately by the current economic conditions in the farm sector and agricultural commodity markets at the time the Farm Bill is written. One can predict with some certainty that whatever these conditions will be in 2007, they will affect the content of the 2007 Farm Bill.

The role of government payments in farmers' incomes in 2007 will also affect the outcome, but the direction of its influence is difficult to predict. If government programs are supplying a significant fraction of net farm income, farm organizations will lobby hard to keep what they are getting. On the other hand, if there should be a big jump in the magnitude of payments from 2005 to 2006 in addition to the large anticipated increase from 2004 to 2005 (USDA), budget hawks are likely to attack, demanding reductions. However, both political parties in the United States may view rural America as sufficiently important to their political futures that neither will risk losing any rural votes by proposing to change farm policy.

Table 5: Role of Government Payments in US Farm Income, 2001-2005 ($ billions)

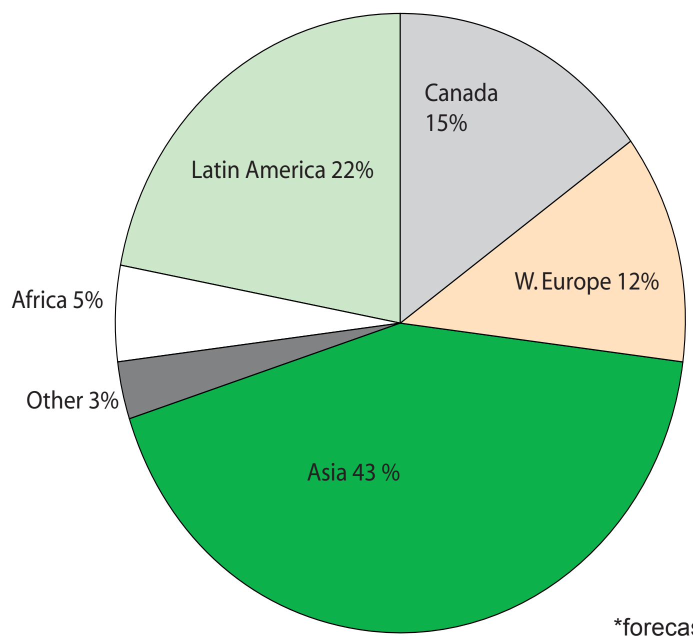
	2001	2002	2003	2004 (est)	2005 (est)
Total cash receipts	200	195	212	235	222
Net cash income	60	51	69	78	78
Net farm income	51	37	59	74	64
Total Government	**21**	**11**	**16**	**14**	**24**

Source: ERS

If one had to gamble, the safest best would be that the commodity programs in the 2007 Farm Bill will not look a lot different than at present. With the definition of the special and sensitive products and the redefinition of the Blue Box to include counter-cyclical payments in the WTO Framework Agreement of 2004, there is a significant probability of the Doha Round ending with a minimalist agreement in agriculture that requires little change in US farm programs. Based on their behavior in past rounds of multilateral trade negotiations, the United States and the European Union would probably go along with this.

But, such a minimalist outcome is not in the interest of the United States in the longer term. As the chart below indicates, already 73 percent of US exports are to markets other than Canada and the European Union – particularly to developing countries in Asia and Latin America. These countries will be the future growth market for US farmers.

Figure 5: Destination of US Farm Export, 2000*



*forecast
Source USDA, Economic Research Service

The (almost) three billion people to be added to the world's population in the first half of the 21st century plus the three billion people (almost half of the world's present population) who live on less than two dollars per day are the only potential growth market for world agriculture. But only if they experience broad-based economic growth will they have the purchasing power to translate need into market demand, and trade is one of the most important drivers of economic growth.

Table 6: Projected Population Growth

Region	2004	2050
• **World**	6,378	8,919
• **High Income**	1,206	1,220
• **Low Income**	5,172	7,699
• **Africa**	869	1,803
• **Asia**	3,871	5,222
• **Latin America**	551	767

Source: U.S. Bureau of the Census.

Table 7: Huge Market Growth Potential from Poverty Reduction

Country	Population (million)	Percent < $1/ day	Percent < $2/day
China	1298.8	16.6	46.7
India	1065.1	34.7	79.9
Indonesia	238.5	7.5	52.4
Brazil	184.1	8.2	22.4
Pakistan	159.2	13.4	65.6
Russia	144.0	6.1	23.8
Bangladesh	141.3	36.0	82.8
Nigeria	125.8	70.2	90.8
Mexico	105.0	9.9	26.3

Source: World Bank. World Development Indicators database

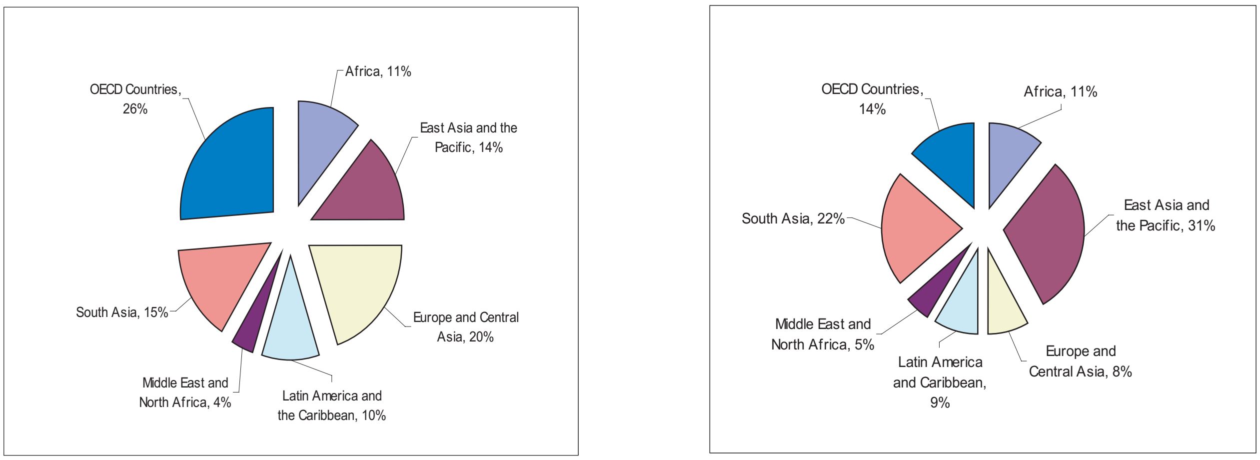
The dynamics of food demand illustrate this point:

- Three-quarters of people with an income below one dollar per day suffer hunger or undernutrition, i.e. do not consume enough calories.
- Above an income of two dollars per day, few people experience hunger
- Between two and nine dollars per day, people eat more animal protein, fruits, vegetables and edible oils, causing rapid growth in raw agricultural commodity demand
- After ten dollars a day, further increments in people's incomes get spent on more processing, convenience, services, packaging, variety and luxury forms, not on more raw agricultural commodities.

How many current and yet-to-be-born low-income consumers are lifted out of poverty will be the most important determinant of the future size of world food and agricultural product markets.

With population growth, urbanization and broad-based economic development, one can expect world food demand to double by 2050. Because many countries, especially in Asia, have a much larger fraction of the world's population than of the arable land, growth in their food demand will quickly outstrip their production capacity, and they will need to import a larger part of their food supply. However, this will happen only if they can export products in which they have a comparative advantage to earn the foreign exchange needed to buy goods in which other countries have a comparative advantage, including part of their food supply. A more open trading system can make an essential contribution of economic growth.

Figure 6:
The World's Arable Land (left) Is Distributed Very Differently than its Population (right)



The next milestone in the Doha Round is the Hong Kong Ministerial meeting in December 2005. Negotiations have moved at a glacial pace because the negotiators have not had license from their capitals to strike the necessary compromises. In 2005, neither the Dalian mini-ministerial meeting in June nor the Gleneagles G-8 Summit in July gave this process renewed momentum, and no progress was realized before the August WTO holiday. Negotiators must resolve many of the open issues between now and December, so that as few as possible remain to be resolved at the ministerial level in Hong Kong. If too many open issues remain, the Hong Kong Ministerial will fail. If the negotiators can define the modalities of an agreement by December, then they should be able to work out specific details via each country's offers and requests during 2006.

Agriculture is central to the interests of the least developed and developing countries, which make up the majority of WTO members. The least developed countries might be appeased with special and differential treatment preferences. However, the G-20, led by Brazil, is likely to take the attitude that a bad agreement is worse than no agreement, and they will view any agreement that does little to reform agriculture, a bad agreement. There will be no agreement until both the least developed and the developing countries perceive there to be something of value in it for them. The ingredients are in place for at least one more high profile failed WTO ministerial gathering.

The safest bet is that the 2007 Farm Bill will look a lot like to 2002 Farm Bill. However, there is just enough likelihood of change due to the Federal budget deficit, the breadth of recognition that the programs are not achieving their stated objectives, and the Doha Round of WTO negotiations that some more fundamental change might be possible.

This year, the United States has an historic opportunity to seize the initiative to craft an ambitious outcome that will set the stage for real farm policy reforms that address new realities in US agriculture and that will encourage the rest of the world to increase access to the growth markets of the future.

REFERENCES

Center for Responsive Politics. “Agribusiness: Long-Term Contribution Trends.” Available at: < http://www.opensecrets.org/industries/indus.asp?Ind=A>.

Environmental Working Group. “What’s The Plan? U.S. Farm Subsidies, 1995 through 2003,” Farm Subsidies Database, Washington, DC, 2005. Available at <http://www.ewg.org/farm/findings.php>.

Gastner, M., C. Shalizi, and M. Newman. “Maps and Cartograms of the 2004 U.S. Presidential Election Results.” Available at: < www-personal.umich.edu/~mejn/election/ countymappredblue.png>.

International Centre for Trade and Sustainable Development. “Agricultural Negotiations at the WTO: The July Package and Beyond,” Quarterly Intelligence Report No. 12, April 2005. Available at: <http://www.agtradepolicy.org/output/resource/ agriculture negotiations12.pdf.>,

International Food and Agricultural Trade Policy Council. “Building on the July Framework Agreement: Options for Agriculture,” Issue Brief: June 2005.

MacDonald, J., R. Hoppe, and D. Banker. “Growing Farm Size and the Distribution of Commodity Program Payments,” *Amber Waves* 2 (2005): 10-11.

Organization for Economic Cooperation and Development. “Producer and Consumer Support Estimates OECD Database, 1986-2004,” 2005. Available at: <http://www.oecd. org/document/58/0,2340,en_2649_37401_32264698_1_1_1_37401,00.html>.

Oxfam International. “Finding the Moral Fiber: Why Reform Is Urgently Needed for a Fair Cotton Trade.” Briefing Paper No. 69, October 2004. Available at: <http://www.oxfam.org.uk/what_we_do/issues/trade/downloads/bp69_cotton.pdf.> .

Tutwiler, M.A. “The July Framework Agreement: Nine Months Later.” International Food and Agricultural Trade Policy Council, Washington, DC, April 2005.

U.S. Department of Agriculture. “ERS Typology for a Diverse Agricultural Sector.” Agricultural Information Bulletin No. 759, September 2000.

U.S. Department of Agriculture. “Farm and Commodity Policy: Government Payments and the Farm Sector.” Available at: <http://www.ers.usda.gov/Briefing/FarmPolicy/gov-pay.htm>.

Wescott, P.C., C.E. Young, and J. M. Price. “The 2002 Farm Act: Provisions and Implications for Commodity Markets,” USDA Agriculture Information Bulletin no. 778, Nov. 2002. Available at: <http://www.ers.usda.gov/publications/aib778/aib778.pdf>. Accessed May 4, 2005.

World Bank. *Global Economic Perspectives and the Developing Countries 2002.* Washington, DC, September 2002.

Young, E., and D.A. Shields. “Provisions of the 1996 Farm Bill,” *Agricultural Outlook*, Special Supplement, April 1996. Available at: <http://www.ers.usda.gov/publications/ agoutlook/aosupp.pdf>..

The US Farm Bill and the Doha Negotiations: On Parallel Tracks or a Collision Course?

In the next two years the United States Congress and the US Administration will write a new Farm Bill as the Doha Round of WTO trade negotiations concludes. With the Doha Development Round, the United States has another opportunity to use the international negotiations to reform US farm policy to meet the changing needs of American agriculture.

The drafting of the next US Farm Bill and the Doha Round both have a significant impact on one another. The paper gives an overview of recent developments in US farm policy and analyzes the influence of international agricultural trade agreements on domestic legislation – and vice-versa. After examining different factors that will play a role in the drafting of the 2007 US Farm Bill, the paper concludes that because of the need for a successful outcome of the Doha Round and due to domestic factors such as the Federal budget deficit and the recognition that farm programs are not achieving their stated objective, there is a good chance that fundamental change in US farm policy is possible.

The United States has an historic opportunity this year to seize the initiative to craft an ambitious outcome that will set the stage for real farm policy reforms that take account of new realities in US agriculture and that will encourage the rest of the world to increase access to the growth markets of the future.

About IPC

The International Food and Agricultural Trade Policy Council (IPC) convenes high-ranking government officials, farm leaders, agribusiness executives and agricultural trade experts from around the world and throughout the food chain to build consensus on practical solutions to food and agricultural trade problems.

An independent group of leaders in food and agriculture from industrialized, developing and least developed countries, the IPC's thirty-six members are chosen to ensure the Council's credible and impartial approach. Members are influential leaders with extensive experience in farming, agribusiness, government and academia.