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Institute for Agriculture and Trade Policy



A FAIR
FARM BILL
for the **WORLD**

A Series of Papers on  the 2007 U.S. Farm Bill



The Institute for Agriculture and Trade Policy promotes resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

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Focus ON THE FARM BILL

Every five to seven years, the U.S. Congress writes a new farm bill that sets policy for agriculture subsidies, food aid, market competition and conservation. U.S. farm policy has come under extensive scrutiny from abroad in recent years. Trade negotiators point to distortions in world markets created by the Farm Bill. They identify billions of dollars in farm subsidies, along with the U.S. policy of pressuring other countries to lower their tariffs, as the primary cause of export dumping. Weak enforcement of U.S. antitrust law against oligopolistic multinational agribusinesses headquartered in the U. S. has accelerated concentration in global agriculture markets, often to the detriment of farmers. Health experts and environmentalists criticize the export of U.S. food habits and the food system those habits depend on.

In 2007, the World Trade Organization is scheduled to complete the Doha Round of negotiations while the U.S. will write a new Farm Bill. These two events were supposed to converge and complement each other. But with the collapse of the Doha talks and an electoral party change in Congress, the Farm Bill will likely be written more to reflect budget constraints and a domestic political calculus. Congressional leaders have said they will not try to “anticipate” the results of a Doha deal on agriculture. House Agriculture Chair Colin Peterson, D-Minn., has gone so far as to say, “I want to write a Farm Bill that’s good for agriculture. If somebody wants to sue us [at the WTO], we’ve got a lot of lawyers in Washington.”¹

As the Farm Bill debate begins in earnest, we have an opportunity to reflect on ways to improve U.S. farm policy in support of small farmers, rural development and livelihoods around the world. Specifically, we will look at how the Farm Bill directly affects trade, subsidies, dumping, food aid, market concentration and public health.

DANCING WITH THE WTO

Criticism of U.S. farm policy at the WTO has been substantial. Among WTO members, the U.S. government is perhaps the loudest advocate of market liberalization alongside Australia and New Zealand. Repeatedly, the Bush administration has denied poor countries the flexibility to protect certain crops critical to their food security and rural development by insisting that development depends on open markets. Yet the billions of dollars the U.S. government spends on agricultural programs contradicts the “free market” rhetoric and makes trading partners both skeptical and cynical about U.S. intentions.

The U.S. has also taken steps to undermine the WTO’s ability to implement rules for domestic subsidies. For example, the U.S. has not reported and categorized its domestic support payments to the WTO since 2001—the year before the last Farm Bill was passed. By not reporting how the payments fit within WTO rules, the U.S. makes it difficult to know whether the Farm Bill is complying with WTO rules.

In addition, the U.S. has been slow to comply with WTO dispute panel rulings.² In 2004, the dispute panel ruled that U.S. cotton subsidies were causing harm to Brazil’s industry by suppressing prices in the world market. The U.S. had until July 1, 2005 to comply with the ruling, but has yet to fully comply. Brazil has now formally requested a new WTO dispute panel to force the U.S. into full compliance.³

EMPTY PROPOSALS

The Bush administration’s October 2005 proposal on agriculture has also hurt its credibility at the WTO. When announcing the proposal, the U.S. trade representative (USTR) characterized it as “bold,” “ambitious” and “substantial.”⁴ But the proposal largely involved the re-categorizing of subsidy payments from the restricted Amber Box to the less restricted Blue Box, and would leave actual spending virtually unchanged.⁵ In addition, the proposal required other WTO members to drastically cut their tariffs in agriculture and requested an extension of the Peace Clause, which would exempt Farm Bill subsidy programs from legal challenge at the WTO. In 2006, the European Union and nine other WTO members asked for an economic simulation of the various agriculture proposals at the WTO. The simulation found that under the U.S. proposal, U.S. agriculture spending could legally increase.⁶

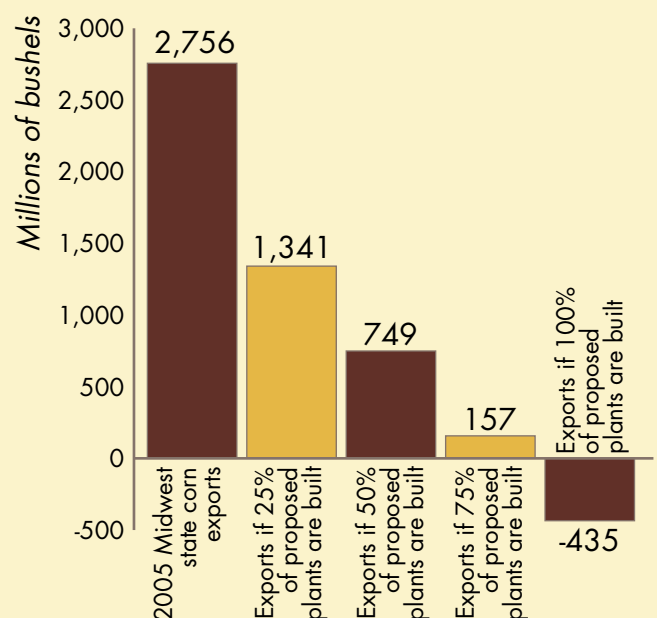
DOMESTIC MARKETS FAVORED

U.S. farmers have less and less interest in exports, especially after two decades of promised prosperity through exports have not materialized. In fact, U.S. farm exports have remained relatively flat over the past few decades.⁷

Instead, the dramatic growth in demand for most U.S. commodities over the past year has come from the emerging biofuels market. For example, if only a quarter of the ethanol plants currently proposed in the Midwest do come on-line and if the corn needed to supply these plants and the plants currently under construction were to be diverted from exports, Midwest corn exports could be cut in half by 2008.⁸ Meeting the domestic demand for biofuel and animal-feed markets is the primary concern of U.S. producers. And it’s also a primary concern of Congress in the next Farm Bill. “We can and I believe we must, formulate and pass a Farm Bill that accelerates the rural production of energy for the whole nation,” Senate Agriculture Chair Tom

Harkin, D-Iowa, said as he opened Farm Bill hearings in January.⁹ The growing importance of biofuels in the U.S. has changed the context of the Farm Bill debate and may ultimately affect the agriculture negotiations at the WTO. It is unclear what impact demand for biofuels in the U.S. will have on other countries.

POTENTIAL IMPACTS OF ETHANOL ON 2008 MIDWEST CORN EXPORTS



Source: IATP data. Assumes continued 0.78% increase in corn yield, 2.8 gal ethanol per bushel corn, constant corn acreage, constant feed and other uses. Includes only proposed plants in the Midwest. 2005 state export volume calculated by dividing export sales corn price at harvest, both from USDA ERS. Midwest includes Iowa, Ill., Ind., Minn., Mo., N.D., Neb., S.D. and Wis.

SETTING *subsidies* NOT PRICES

Through a variety of programs, the Farm Bill sets the various types of subsidy programs, how much money will be spent and which crops will be supported. U.S. commodity programs written in the Farm Bill cover 20 different crops but the vast majority of money and resources go to corn, soybean, wheat, cotton and rice. Fruits and vegetables are not part of the commodity programs because when the programs were first established in the 1930s they were only for crops that could be stored for long periods of time.

The U.S. is heavily criticized for its subsidy programs, which have been associated with commodity dumping that depresses world prices. But the focus on U.S. subsidies often misses its mark. U.S. farm subsidies, as categorized by the WTO, have risen over the past 10 years from just over \$7 billion in 1995 to a high of \$23 billion in 2000.¹⁰ The wild fluctuations in subsidies each year occur because several forms of subsidies depend on the market price. If the market price for corn is higher, subsidy levels drop. If the price is lower, subsidies increase. This explains why U.S. farm subsidies ultimately do not dictate price fluctuations; rather, the market price dictates overall subsidy levels. And subsidies play only a marginal role in the cropping decisions of U.S. farmers. Instead, the significant increase in U.S. subsidies over the past ten years is tied almost directly to the removal of supply management tools in the 1996 Farm Bill, which required farmers to set aside a percentage of their acreage to qualify for government payments. Without those tools, U.S. farmers overproduced at such levels that the market price for most major crops dipped well be-

low the cost of production. According to the Agriculture Policy Analysis Center at the University of Tennessee have pointed out, simply eliminating U.S. farm subsidies would do little to slow U.S. crop production. Rather, it would likely shift production to different commodity crops—but the fundamental problems of oversupply and low prices would persist.¹¹

Ironically, the 1996 Farm Bill, written to comply with WTO rules, required most farm subsidies to be phased out by 2001 through a mechanism called “decoupling,” which removed the historical tie between farm payments and the crops produced. But when farmers were allowed to produce as much as they could, prices collapsed and the subsidies were restored in the form of “emergency payments.” In 2002, Congress transformed those “emergency” payments into a permanent part of the Farm Bill, calling them “counter-cyclical payments.”

In 2006, the growth of the ethanol market sent corn prices higher than they had been in a decade and has had a ripple effect on other crops, particularly other animal-feed crops like wheat and soybeans. Ethanol’s growth and rising prices had an immediate impact on farm subsidies, which went down from \$24.3 billion 2005 to an estimated \$16.5 billion in 2006.¹² The U.S. Department of Agriculture projects prices to continue to rise in 2007 and subsidies to again decline. It is unclear whether the price increases due to ethanol are a brief bump, as the U.S. experienced in 1995 prior to the writing of the 1996 Farm Bill, or part of a longer-term systemic shift in U.S. agriculture prices.

THE DEVASTATION OF *dumping*

Over the past decade, the Farm Bill has intentionally driven prices down with a focus on expanding export markets. In many cases, crops from the U.S. were actually exported at prices below the cost of production (known as dumping). Agricultural dumping creates an unfair trading advantage for U.S. agribusiness firms because they depress international prices and narrow or even eliminate market opportunities for producers in other countries.¹³ This structural price depression can have two major effects on developing countries whose farmers produce competing products. First, without substantial governmental support, developing-country farmers are driven out of their local markets by the below-cost imports. Second, farmers who sell their products to exporters find their market share undermined by the lower-cost competition.

The full effects of dumped exports have to be considered in

light of the push over the past 20 years at the World Bank and International Monetary Fund to reduce tariffs in developing countries as a condition for access to international financing.

Agricultural development in less-developed countries is a catalyst for broad-based economic growth and development.¹⁴ Research shows that domestic food productivity is more effective in stabilizing developing-country food security than the reliance on inexpensive (i.e., dumped) food imports.¹⁵ A fair price for the farmer’s production will also help stabilize demand for wage labor in the local economy.¹⁶

Multinational agribusiness firms based in the U.S. and European Union have been the most involved in agricultural dumping. The Institute for Agriculture and Trade Policy has documented the high dumping levels of U.S.-based firms since 1990.¹⁷

FARM BILLS DRIVING DUMPING

The last two U.S. Farm Bills, which encouraged over-production and low priced commodity crops, have played a major role in agricultural dumping by U.S.-based multinational firms. Each of the five major export commodities saw a significant jump in export dumping when comparing the seven years prior to the 1996 Farm Bill (1990-1996) to the subsequent seven years (1997-2003):¹⁸

- * **Wheat** dumping levels increased from an average of 27 percent per year pre-1996 Farm Bill to 37 percent per year post-1996 Farm Bill.
- * **Soybean** dumping levels increased from an average of 2 percent per year pre-1996 Farm Bill to 11.8 percent post-1996 Farm Bill.

- * **Maize** dumping levels increased from an average of 6.8 percent per year pre-1996 Farm Bill to 19.2 percent post-1996 Farm Bill.
- * **Cotton** dumping levels increased from an average of 29.4 percent pre-1996 Farm Bill to an average of 48.4 percent post-1996 Farm Bill.
- * **Rice** dumping levels increased from an average of 13.5 percent pre-1996 Farm Bill to an average of 19.2 percent post-1996 Farm Bill.

Food Aid TIME TO GET IT RIGHT

The U.S. Food Aid program is included in Title III of the Farm Bill. The Farm Bill decides how much and what type of food aid will be allocated. Food aid is often held up as an example of the good that the U.S. agricultural bounty affords. Yet U.S. programs are the most controversial of all bilateral food aid programs, attracting criticism from international trade and aid officials alike. One criticism is that almost all the aid is in the form of food produced, bagged, fortified and shipped in the U.S. by U.S.-based firms, rather than as cash to buy food wherever it can be sourced most effectively—at a good price, as close to the final destination as practical and with a view to supporting long-term agricultural capacity in the area suffering food shortages. This makes U.S. food aid both slower and more expensive than it should be—up to twice as expensive as prevailing commercial prices.¹⁹ Local purchases ought to be the first recourse for food aid to minimize the risk for future dependency and to provide an injection of cash into the local economy.

Most food aid donors have shifted their policy to give money instead of food. Canada and the U.S. are the only significant food aid donors that do not use a cash-based system to give food aid.

In 2005, the Bush administration proposed designating an additional \$300 million for food aid purchased from local or regional sources, but Congress rejected the proposal. An unlikely alliance of interests persuaded Congress to maintain the status quo. The alliance is composed of U.S. shipping firms guaranteed all food aid business; U.S. agribusinesses that provide the food; and U.S. nongovernmental

organizations (NGOs) that often deliver food aid, particularly project aid for development purposes and humanitarian aid in emergencies. The NGOs sell a portion of their food aid in recipient countries to generate funds for their development work, a process known as monetization. The costs of monetization are considerable, but it represents resources that the U.S. government would be unlikely to replace with cash for development.

FOOD AID AND THE WTO

U.S. food aid has been the subject of negotiation at the WTO, particularly during the recent Doha negotiations, under the heading of export competition. U.S. food aid poses two main problems for rival exporters. First, the government's use of export credits to sell program food aid effectively prices commercial exporters out of the market. Second, increasing monetization of food aid. The U.S. has resisted any meaningful new disciplines on food aid, particularly on monetization.²⁰ Rather than risk new trade rules that could reduce total food aid by reforming delivery, recipient governments have been inclined to support the U.S.

With the Doha talks now suspended, it is not clear whether U.S. food aid will change in the new Farm Bill. President Bush's Farm Bill proposal included more money for the purchase of food aid by recipient countries. And a number of the largest U.S. NGOs involved in providing food aid are moving away from their support for monetization. However, a few vocal NGOs still remain committed to the existing system.

Market concentration

HURTING COMPETITION

There is pressure from farm groups and some members of Congress to include a Farm Bill title that addresses market concentration in agriculture. Market concentration describes how many different companies control a specific market. Increased market concentration and market power of agricultural input, production and processing companies has dramatically affected the agricultural market in the U.S. Market power is defined as the ability to affect price (setting buyer prices above and/or supplier prices below open market levels) and to reduce competition. U.S. farmers have fewer companies from whom to purchase inputs and fewer companies to which they can sell. The result has been a squeeze from both sides of the supply chain resulting in a steady decline in farm income.

Currently, only four beef packers control 83 percent of the U.S. market, four pork packers control 64 percent of the market, four flour milling companies control 63 percent of the market, and three soybean-crushing companies control 71 percent of the market. Many of these sectors are not only horizontally integrated, where a few companies dominate a given sector, but also vertically integrated, where companies are dominant across several sectors in the supply chain. For example, Cargill is one of the top beef packers, turkey producers, animal-feed suppliers, flour millers and soybean crushers.²¹ Vertical integration allows companies such as Cargill to internalize a number of costs and realize significant competitive advantages over their competition.

Technological innovations in the areas of transport and communications have revolutionized food production, processing and distribution. We now live in a truly globalized food economy, and many U.S.-based agribusinesses including Cargill, Archer Daniels Midland, Monsanto, Tyson Foods, Smithfield Foods and ConAgra have operations in multiple countries around the world.

The steady downward pressure on tariffs advocated by the U.S. at the WTO and World Bank has opened up markets and aided U.S.-based food companies doing business on a global scale.²⁸

CHALLENGING MARKET POWER

Inside the U.S., weak antitrust enforcement by the federal government has increased the market power of U.S.-based food companies.²⁹ As Congress heads toward a new Farm Bill in 2007, there is a growing recognition inside and outside Congress that reform is needed. “Vertical integration leaves the independent producer with even fewer choices of who to buy from and sell to. And, it hurts the ability of farmers to get a fair price for their products,” said Senator Charles Grassley, R-Iowa.³⁰

In January, more than 200 U.S. organizations sent a letter to Congress calling for a competition title to be included in the Farm Bill. Such a title aims to restore fair markets, including an expansion in U.S. Department of Agriculture’s role in the pre-merger review process and the establishment of an Office of Special Counsel on Competition within the USDA;³¹ fairness and transparency in agricultural contracts between companies and farmers; improved enforcement of the Packers and Stockyard Act, the main legislation for antitrust enforcement in agriculture; and mandatory price reporting.

The 2007 Farm Bill stands a better chance of passing competition-related provisions than in the past, and if successful these efforts would likely impact the operations of many U.S.-based companies around the world.

U.S.-based agribusiness’ global reach

Cargill	63 countries ²²
Archer Daniels Midland	U.S., Canada, Latin America, Europe, Asia and Pacific Rim and Africa ²³
Monsanto	61 countries ²⁴
Tyson Foods	80 countries ²⁵
Smithfield Foods	8 countries ²⁶
Wal-Mart	15 countries ²⁷

NOT A LEVEL PLAYING FIELD FOR *public health*

The Farm Bill has attracted the attention of health professionals in the U.S. and around the world. Developing countries are rapidly heading toward similar health crises to those confronting overfed developed countries: an explosion in the incidences of diseases associated with obesity and calorie-rich but nutritionally poor diets (diabetes, cancer and heart disease). Ironically, similar micronutrient deficiencies are associated both with hunger and the diets that lead to obesity, particularly anemia and vitamin A deficiency, which causes blindness in children under five.³²

In the U.S., a full one-third of American adults and approximately 9 million children over the age of 6 are now considered obese.³³ Both the incidence and the financial costs of obesity have skyrocketed in recent years. Because of the increased focus on obesity, many U.S.-based public health organizations, including the American Public Health Association, are becoming interested in the Farm Bill.

COMMODITY PRICES AND HEALTH

While the U.S. Farm Bill has historically driven down the price of commodities like corn and soybeans, prices for fruits and vegetables grown with relatively few subsidies have steadily increased. Low commodity prices have deeply influenced investments by the food industry. High fructose corn syrup and hydrogenated vegetable oils—products that did not exist a couple of generations ago but are now ubiquitous as added sugars and fats—have proliferated thanks to artificially cheap corn and soybeans grown in the U.S. Many of these same commodities are in some of the cheapest processed food exported around the world.

Deriving a relatively large share of total calories from fat used to be associated with higher income levels. Today, a high-fat diet is available at lower and lower income levels, spreading the malnutrition of obesity into economically poorer classes of the population.³⁴ In Brazil and Mexico, just as in the U.S. and Australia, obesity is a disease of the poor more than the rich.

OPPORTUNITIES FOR A *fair* FARM BILL

The U.S. Farm Bill has had a dramatic impact on agricultural economies across the globe. U.S. farm programs are targeted at the WTO for violating trade rules. Agricultural dumping from U.S.-based agribusiness firms undercut farmers in poor countries. Food aid is criticized for hindering farming economies of countries facing hunger. A few U.S.-based agribusiness companies are part of a global market that is becoming more concentrated, squeezing farmers in the U.S. and around the world. And the Farm Bill's promotion of artificially cheap raw commodities is adversely affecting health in the U.S. and abroad.

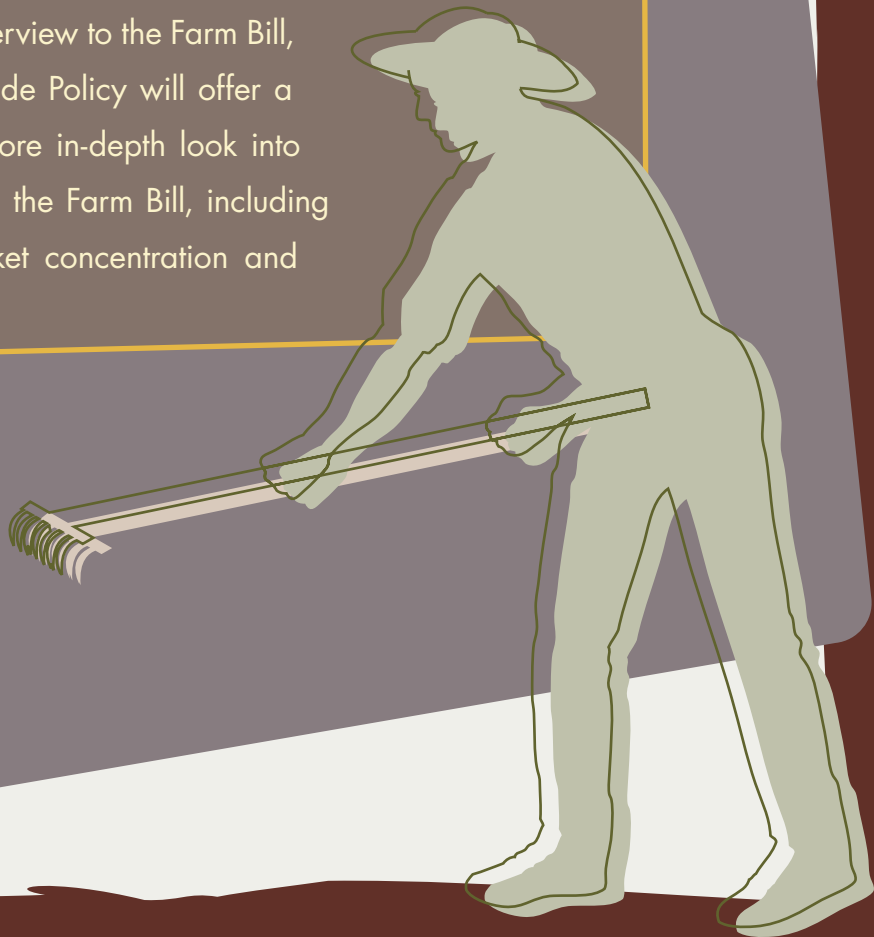
Farm Bill programs that have been so harmful to many in the international community have been extremely beneficial to U.S.-based food companies. These companies are some of the most powerful in Washington. Fortunately, there are more constituencies paying attention to the Farm Bill than ever before—including the environmental, energy, religious and public health communities. This new and greater interest in the Farm Bill has created more space for new proposals and reform.

Recommendations

A fair Farm Bill for the international community would include the following:

- * Commodity programs that ensure a fair market price for farmers and eliminate export dumping.
- * Stronger antitrust enforcement and improved price transparency in the food and agriculture industry could help competition in the global market.
- * Support for local food economies, smaller farmers and greater food security would help diversify U.S. cropping systems and reduce agriculture exports.
- * A transition to untied, cash-based food aid and a phase out of sales of food aid (monetization).

To accompany this international overview to the Farm Bill, the Institute for Agriculture and Trade Policy will offer a domestic analysis, along with a more in-depth look into the specific issues as they relate to the Farm Bill, including energy, hunger, immigration, market concentration and public health.



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