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Farm Bill 2007 Negotiations: A Fine Line Between Market Risk Protection and International Trade

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Farm Bill 2007 negotiations continue underway to resolve issues with provisions which provide market risk protection, yet comply with World Trade Organization (WTO) international trade rules. Negotiations are taking place as energy costs have almost doubled and a large portion of the U.S., especially the South Central U.S. region, is facing a severe drought. The current Farm bill, passed in 2002, is scheduled to expire in 2007. U.S. producers and the agribusiness sector heavily favor the market risk management protection provided by Farm Bill 2002 and would like its provisions rolled over into Farm Bill 2007.

Exports are important to U.S. agriculture. About 35-40% of U.S. agricultural production is exported annually. The U.S. must remain WTO compliant to safeguard international trade, especially after Brazil was successful in challenging the U.S. program for cotton. This means that some changes must be made to U.S. farm policy. Farm policies which are considered trade distorting or encourage increased production must be changed to meet with WTO rules. Reductions in trade distorting programs could reduce some U.S. farm program payments as much as 60 percent if an agreement is made. So, it is going to be very difficult to negotiate a farm bill through Congress which is WTO compliant, yet meets producer/agribusiness expectations.

The Doha round of the WTO trade negotiations completed a framework of agreements during July 2004, but the April 30, 2006 deadline to agree on important provisions of this agreement was missed. The Doha round has been underway for four-and-a-half years. If the framework of agreement had been successfully completed, it would have established rules, guidelines and other requirements to reduce international trade barriers on goods, from agricultural products to manufactured goods, such as cars, computers, etc.

Agriculture remains the key to the success or failure of the negotiations. Agriculture was placed at the heart of the negotiations four-and-a-half years ago, in 2001, when the Doha round began. So far, little real progress has been made. WTO negotiations on agricultural trade are critical because the importance of agricultures to the developing world and because agriculture has the highest barriers to trade. For example, while the average U.S. agricultural tariff is 12 percent on imported agricultural products, an average agricultural import tariffs of 62 percent is imposed by foreign countries around the world.

The Doha talks stalled over agriculture subsidies and pressure is growing in the U.S. to extend, rather than rework, farm policy until after a WTO agreement is completed. The apparent thinking being if U.S. congress writes a new farm bill with provisions that farmers depend on to form their business plans, later WTO agreements could nullify some of the provisions. U.S. Senators Jim Talent (R-Mo.) and Blanche Lincoln (D-Ark.), both members of the Senate Agriculture Committee, announced recently they have introduced legislation to extend the current farm bill until the World Trade Organization (WTO) negotiations are complete.

The Administration, however, has made no secret of their intent to overhaul U.S. farm legislation. They oppose any extension of the current farm bill on the grounds that as it stands, the U.S. is vulnerable to legal action from other countries.

In order to jump start the WTO trade negotiations, the U.S. offered a bold proposal to eliminate export subsidies in agriculture, make deep cuts in agricultural tariffs and sharply reduce trade-distorting domestic subsidies.

The U.S. has proposed to cut potential U.S. trade distorting subsidies from a current ceiling of $19.1 billion annually to $7.6 billion. Other WTO members want the U.S. to go further. Contemplated cuts could reduce U.S. farm program spending significantly. Cuts could potentially increase the risk for agriculture by reducing the market risk protection currently provided by U.S. farm policy.

A WTO meeting to settle the negotiations has been rescheduled for mid-June 2006 and all parties will intensify their efforts to hammer out an agreement by the next deadline, July 30, 2006.

So, what comes first, a WTO agreement or a new farm bill? The House Committee on Agriculture is conducting public hearings to provide an opportunity for members of the agriculture industry to offer testimony in regards to federal agriculture policy. About 11 crop/livestock producers and agribusiness men presented testimony during hearings in San Angelo on Tuesday, May 9, 2006. It appears clear that the U.S. agriculture sector wants a farm bill which provides the maximum risk protection possible, especially as agricultural production risk increases with increasing energy costs, weak markets and now a severe drought. But, the U.S. depends on exports. So, a compromise must be found.