

# Implications of WTO Compliance & Environmental Policy for US Farm Programs

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Prepared for

“The Doha Development Agenda:  
Where are We & Where are We  
Going”

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# *Claims of Economists & Some Politicians & A simple Question*

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A Trade is good;  
protection is bad;  
trade agreements  
that reduce  
protection are  
good.@

“For whom?”



# Current Reality from US action/inaction on next Farm Bill—1 Feb 08

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- Congress has apparently decided to reduce the importance of trade and trade policy (either because of lack of Doha progress or fears of “trade disarmament” too soon)
  - Largely ignores the WTO trade setting
  - Sets the stage for:
    - » Management by response to dispute resolutions
    - » Possible revisit of farm act after new president elected and the trade negotiations again begin to move forward
    - » Revenue safety net programs could increase production

# Current Reality from WTO action/inaction—1

## Feb 08

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- WTO attempting to move forward
  - Generally unsuccessful
  - Discussion of environmental policy
    - » Keeping conservation/tillage programs green box; negligible impact on US
    - » Doing more to curb climate change; carbon restrictions, could potentially restrict commodity support and reduce production
    - » Changes in the near term unlikely
  - Discussion of commodity policy
    - » Generally in synch with recent dispute cases; potentially will restrict commodity support and reduce production

# WTO looks at Climate Change & Environmental Policy

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*The issue of Climate Change intersects with international trade in a multitude of different ways. While the World Trade Organization does not have rules that are specific to energy, to the environment or to climate change per se, there is no doubt that the rules of the multilateral trading system—as a whole (i.e. the WTO “rule book”—are indeed relevant to climate change.*

--Pascal Lamy, 9 Dec 07

# WTO options on environment

—currently lack focus & consensus

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- Regulations to curb pollution and/or level the field could be considered
  - Carbon taxes
  - Emission cap-and-trade systems
  - Restricting subsidies
- Focus on carbon-efficient transport of goods, especially food
  - Desire by some to shift to local markets for local consumption to save energy and reduce carbon footprint
  - Research not yet clear
- Opening markets for environmental goods & services
  - Push to reduce trade barriers, especially tariff rate quotas
  - May be an issue w/definition
    - » Ex.: biofuels, organic food/products???

# Potential Consequences to US Agriculture of Farm Bill Options

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## 1. Extension

- Little change
- Increase in dispute cases against US

## 2. New act

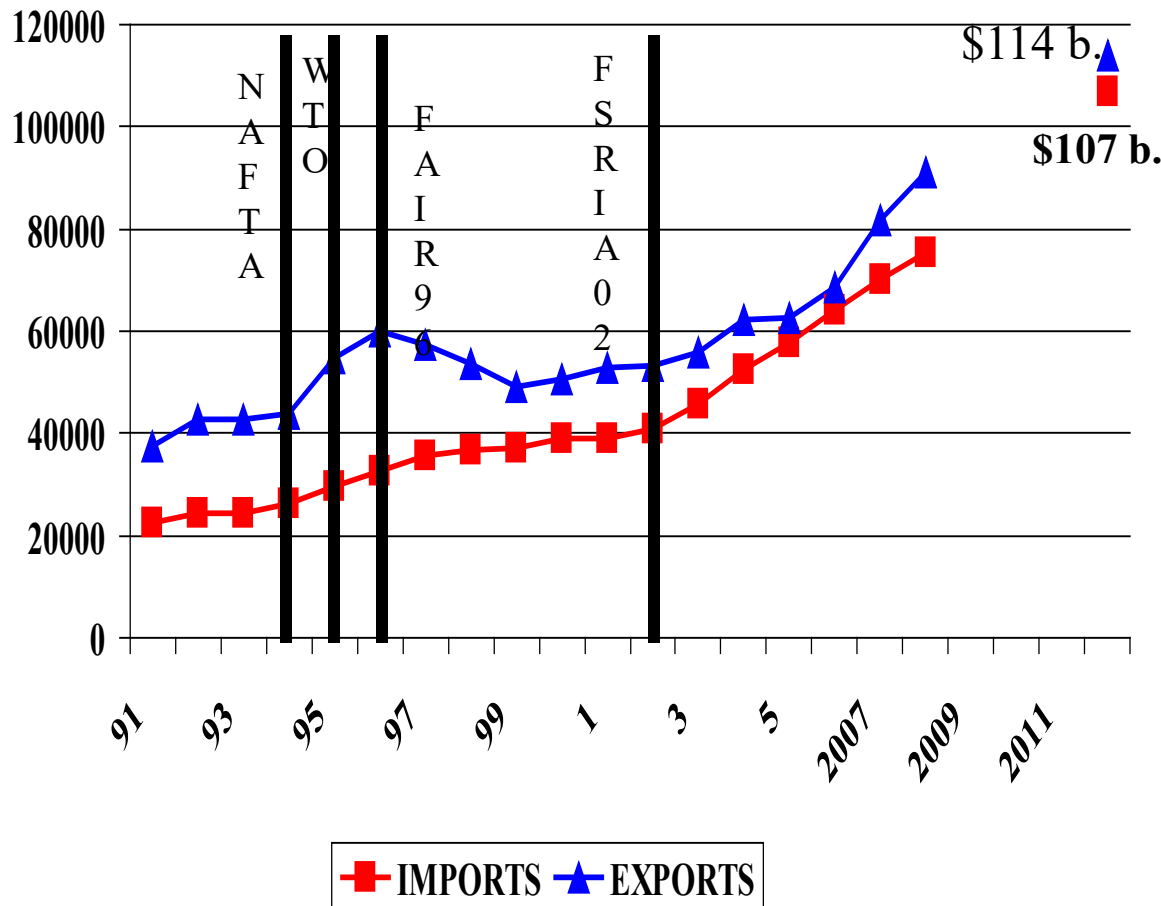
- Little change
- Increase in dispute cases against US

## 3. Permanent legislation

- Much more costly
- Loss of 50 years of new programs/major revisions
- Increase in dispute cases against US

# How has the mix of US domestic and trade policy affected Farmers?

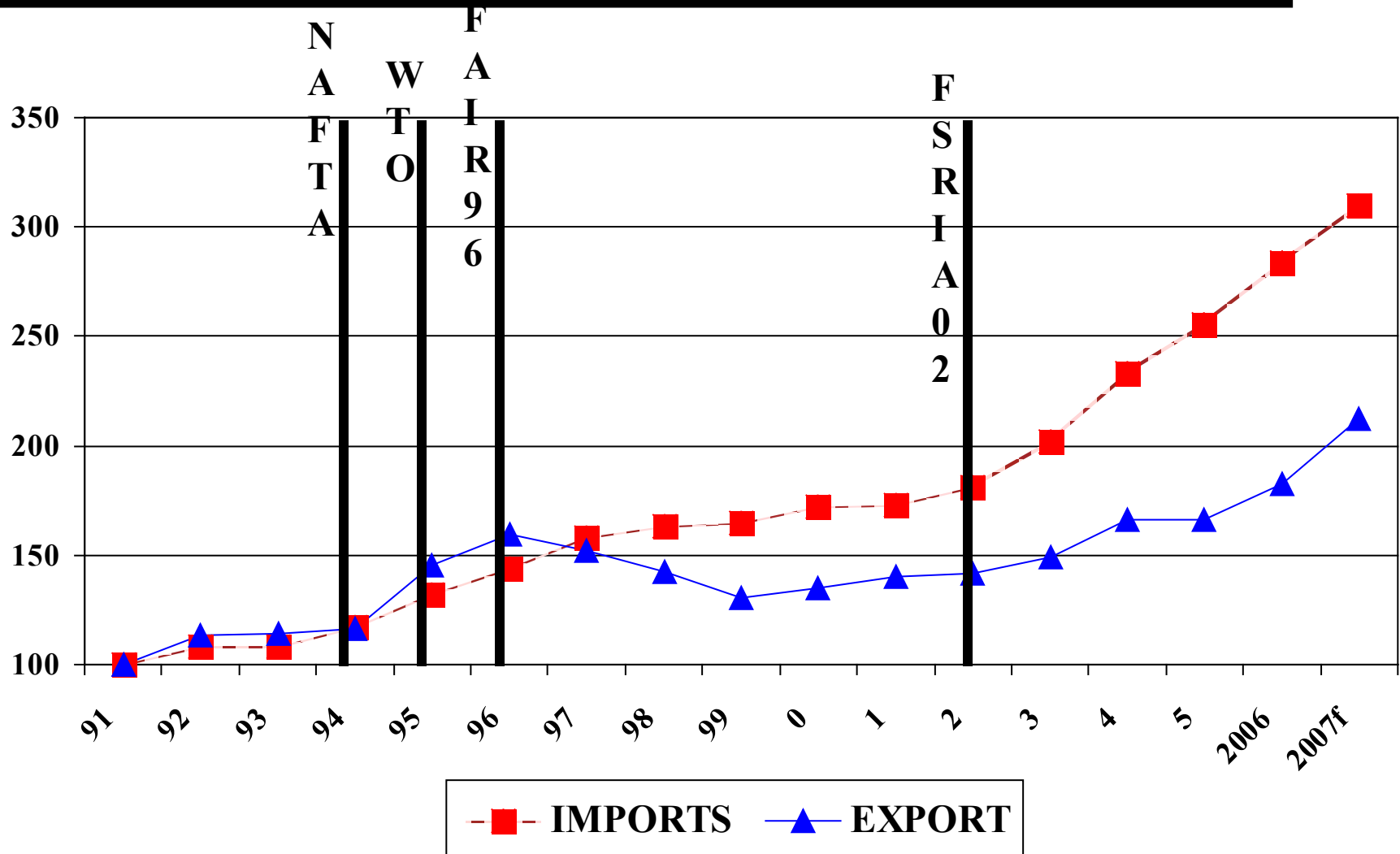
**US Agricultural Trade Balance, 1991-2007f ;  
2012 projection (\$mil/FY; agricultural  
product only)**



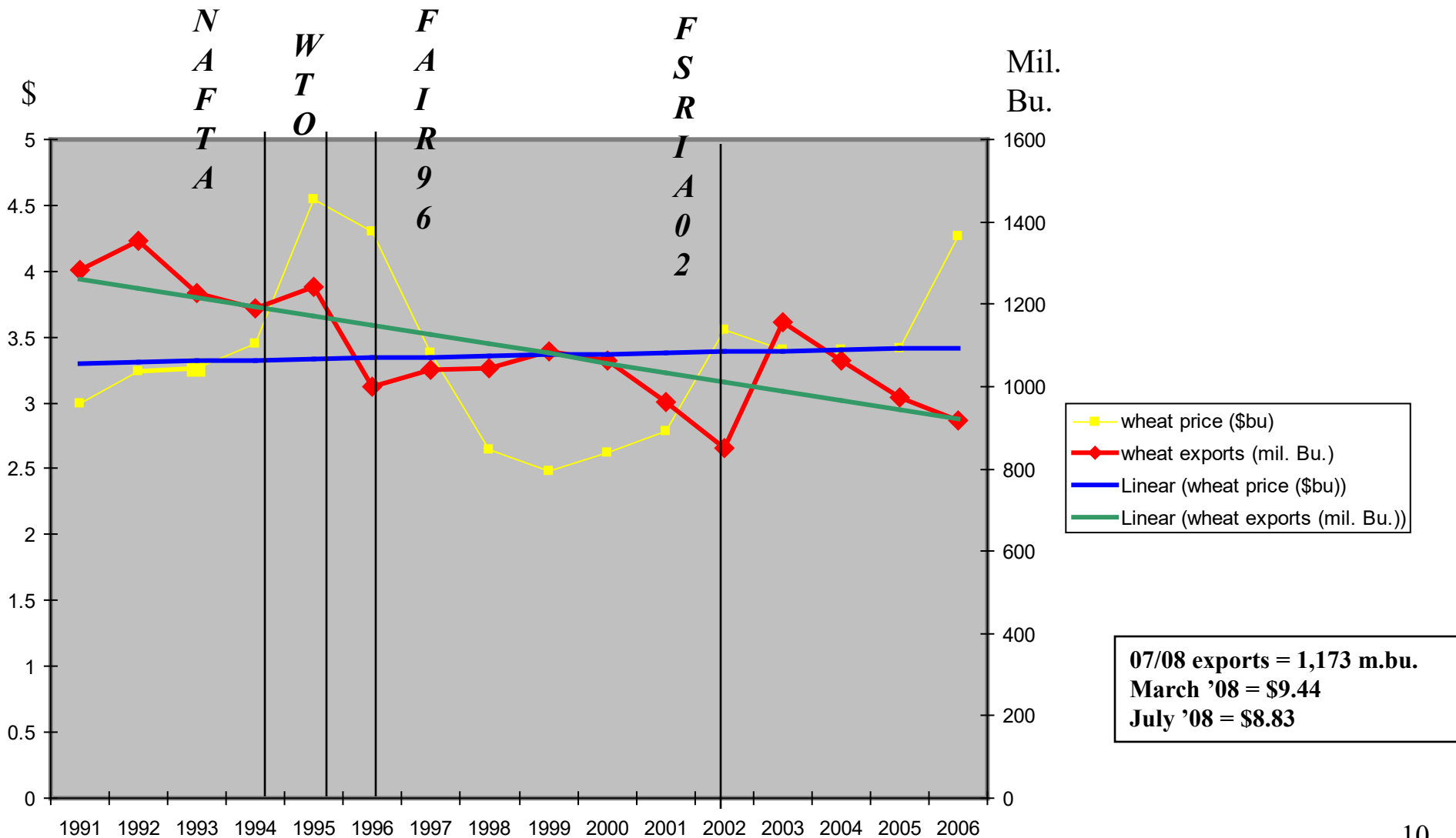
- Long term generally positive for sector
- More volatility in both agriculture and agribusiness
- Distributional inequity and concentration continue
- Consumers have benefited w/price and diversity
- Federal budget has worsened
- Ag trade surplus narrowed, now widening w/weak\$
- General trade deficit has worsened, but short improvement w/weak\$



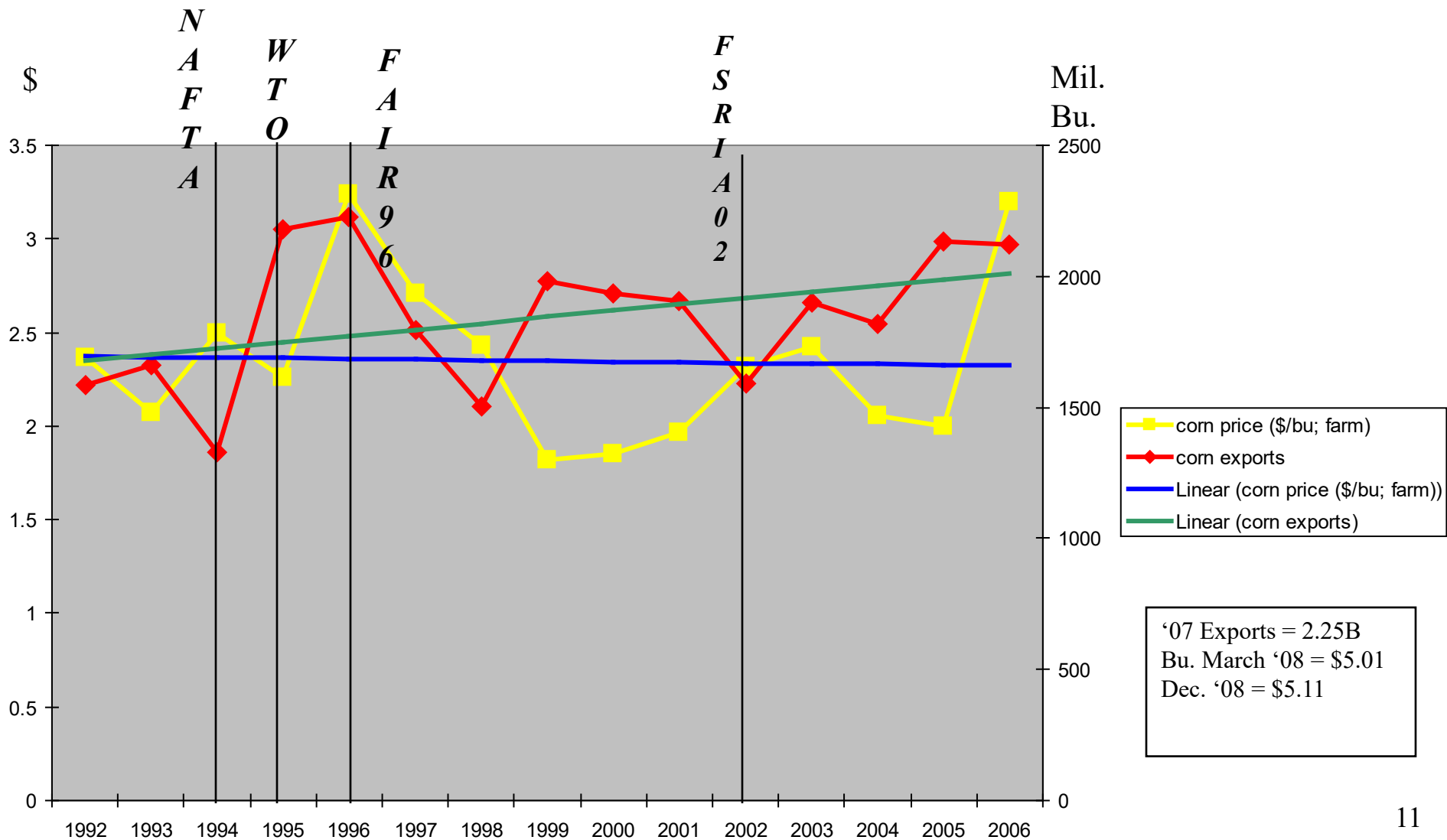
# Index of US Agricultural Trade Balance, 1991-2007f (1991=100; FY; agricultural product only)\*



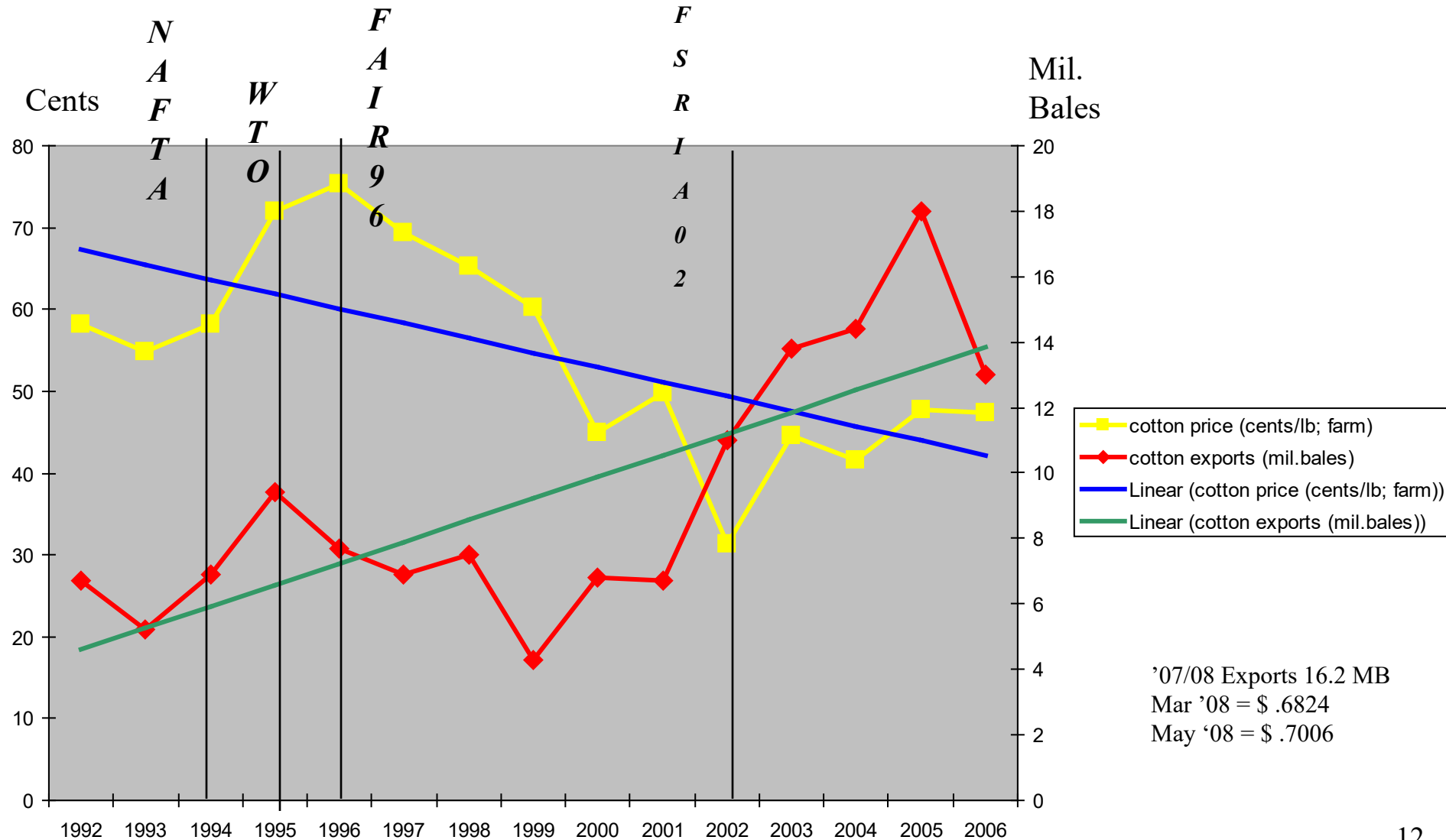
# US Wheat price & exports, 1991-2006



# US Corn price & exports, 1992-2006



# US Cotton price & exports, 1992-2006



# How will the next farm bill (2008 or later?) likely affect US Agriculture & future trade talks?

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## □ House & Senate versions

- Generally status quo w/commodity provisions
- Options for revenue programs provide similar or even large support levels (varies by commodity and region)
- Modestly increased funding for conservation
- Generally ignores WTO reform & cases

## □ Agricultural impact

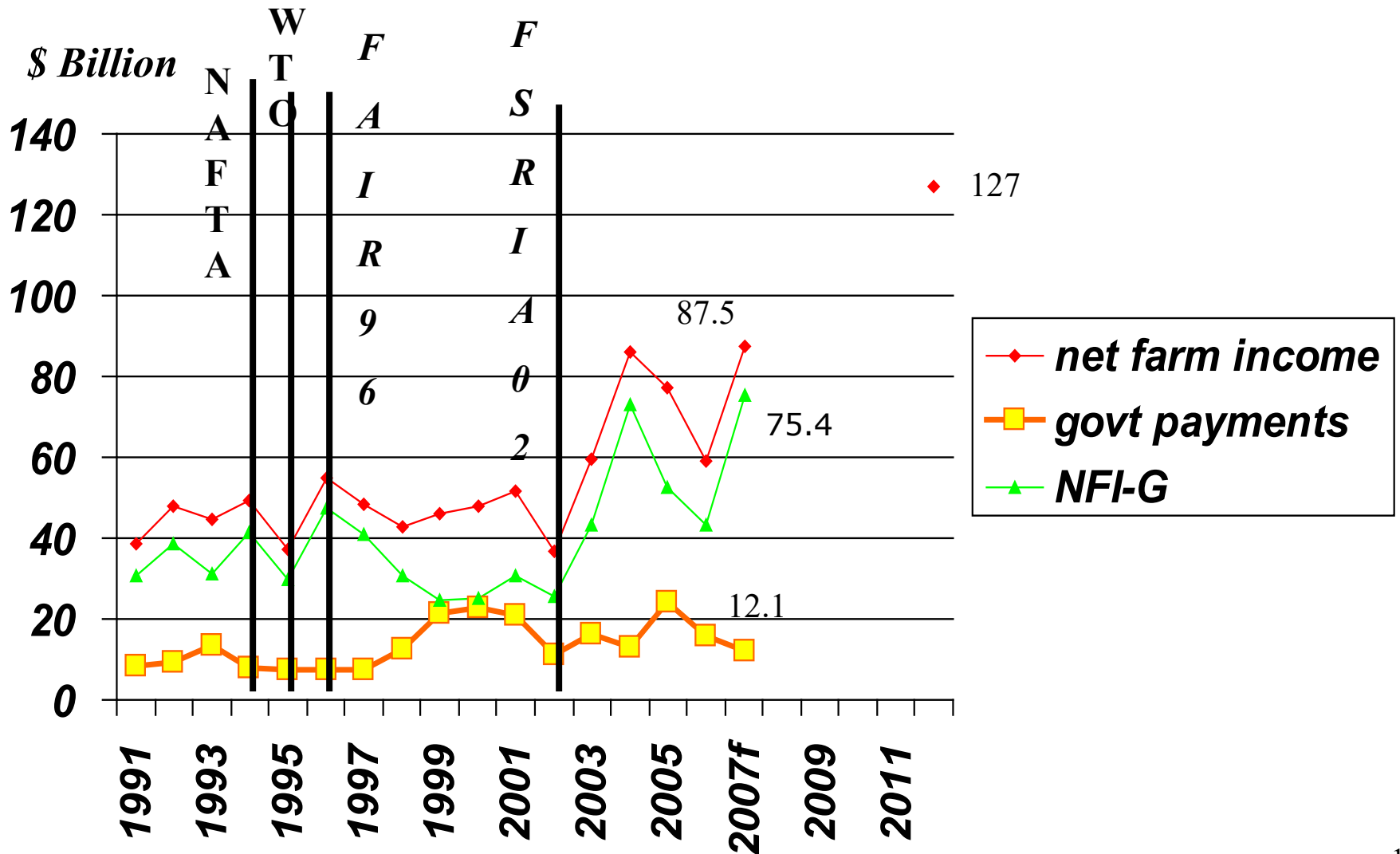
- Similar to 2002 act: NFI continues hi/up; govt support steady; exports likely up...largely due to supply and demand.

## □ Future trade talks

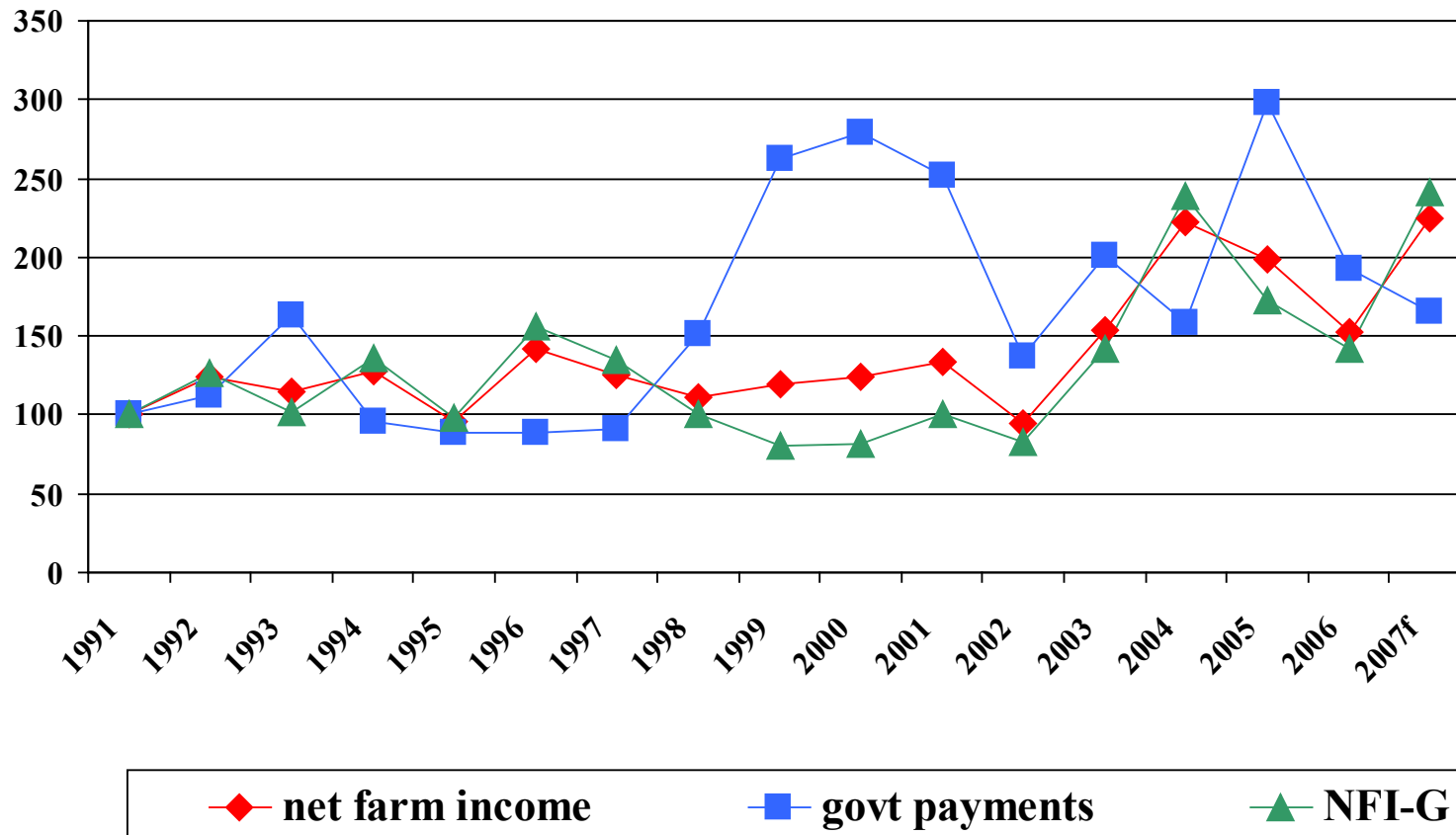
- Little interest until new President and Congress; then may be limited

# Net Farm Income & Direct Government Payments

(\$bil., 1991-2007f); 2012 projection of NFI



# Index of Net Farm Income and Government Payments, 1991-2007f (1991=100)



# Net Farm Income & Government Payments: Trends 1990s-present

	Average (\$bil/yr)		
	1991-95	96-02	03-07
NFI	43.5	46.9	73.8
Dir. G.	9.2	14.8	16.4
NFI-G	34.3	32.2	57.5
(G/NFI)%	21	32	22
Range (G/NFI)%	16-30	13-48	15-32

Note: Estimates suggest about 2/3 of Government payments go to support top 10% of producers. Further, top 10-15% of producers produce about 80% of gross sales. Further, government payments tend to be capitalized into land rents. Research studies indicate that, for every \$1 of crop subsidy tied to cropland, the cash rent increases by about \$1.



# Agribusiness Profitability

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- Agribusiness has done well despite livestock industry costs.

**TYSON FOODS, INC.**  
**CONSOLIDATED CONDENSED BALANCE SHEETS**  
 (In millions)

(Unaudited)

December 29, 2007      September 29, 2007

**Assets**

**Current Assets:**

Cash and cash equivalents	\$ 55	\$ 42
Accounts receivable, net	1,184	1,246
Inventories	2,250	2,238
Other current assets	152	70
	-----	-----

**Total Current Assets** 3,641      3,596

**Net Property, Plant and**

Equipment	3,661	3,693
Goodwill	2,487	2,485
Intangible Assets	125	126
Other Assets	336	327
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**Total Assets** \$ 10,250      \$ 10,227

**Liabilities and**

**Shareholders' Equity**

**Current Liabilities:**

Current debt	\$ 132	\$ 137
Trade accounts payable	1,192	1,050
Other current liabilities	803	928
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**Total Current Liabilities** 2,127      2,115

**Long-Term Debt** 2,574      2,642

**Deferred Income Taxes** 340      367

**Other Liabilities** 457      372

**Shareholders' Equity** 4,752      4,731

**Total Liabilities and Shareholders' Equity** \$ 10,250      \$ 10,227

posted on: December 25, 2007 | about stocks: MOO

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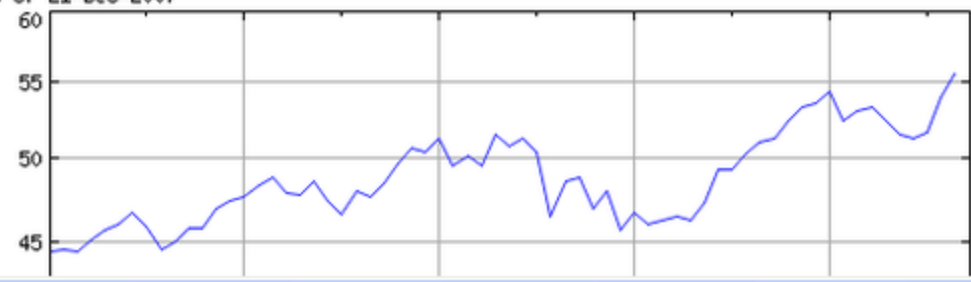
Aaron Pressman of BusinessWeek noted that prices for commodities such as wheat and soybeans soared in 2007, as did shares of bioengineering giant Monsanto (MON). Similarly, the Street.com believes agriculture-enhancing businesses will continue to deliver gluttonous profits in 2008.

One could invest directly in tractor makers like Deere (DE) or pesticide leaders like Syngenta (SYT). Of course, if you're an exchange-traded fund advocate like myself, you're going to look for the soybean lining... and that'd be the **Market Vectors Agribusiness ETF (MOO)**.

The **Agribusiness ETF (MOO)** tracks the DAXglobal Agribusiness Index -- an index that is north of 85% on the year. MOO, which has only been trading since September, is up roughly 40% and at a 52-week high.

What makes the **Market Vectors Agribusiness ETF (MOO)** even more attractive is the fact that it's genuinely global in nature. It holds more than 40 companies on 13 different exchanges around the globe.

MK VECTOR AGRIBS  
as of 21-Dec-2007



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- Rydex ExpressShares



# Agribusiness Profits 2008

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## □ **Forbes.com**

- The Market Vectors Global Agribusiness ETF (amex:MOO)... Since inception on Aug. 31, 2007, the MOO has gained about 40% in price, closing Wednesday at \$57.15. (John Dobosz, “**Farming ETF In The Hot House**” **Forbes.com** 01.10.08, 9:33 AM ET)
- Between 1980 and 2001, the five largest global supermarket chains (all of them based in Europe or the U.S.) each expanded the number of countries in which they operate by at least 270%, says the FAO. Sarah Murray, “**Food, The World's Biggest Industry**” **Forbes.com** 11.15.07, 6:00 PM ET)

# Agribusiness Profitability

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## □ Reuters

– **DAXglobal(R) Agribusiness Index up 90.02 Percent in 2007** Tue Jan 8, 2008 10:12am EST

» NEW YORK--(Business Wire)--The DAXglobal(R) Agribusiness Index (Bloomberg ticker: DXAG) returned +14.42 percent in December and gained 90.02 percent for the year ending December 31, 2007.\* +

# Agribusiness's Cost of Business?

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## □ Political contributions

- **Monsanto** gave \$106,500 to federal candidates in the 05/06 election cycle through its political action committee (PAC) - 32% to Democrats, 68% to Republicans. [26]

## □ Lobbying

- The company spent \$3,640,000 for lobbying in 2006. \$680,000 was to outside with the remainder being spent using in-house lobbyists. [27]

<http://en.wikipedia.org/wiki/Monsanto>

# **AGRIBUSINESS PROFITS**

**Plowing for Profits, U.S. agribusiness eyes Iraq's fledgling markets**

**by Christopher D. Cook**

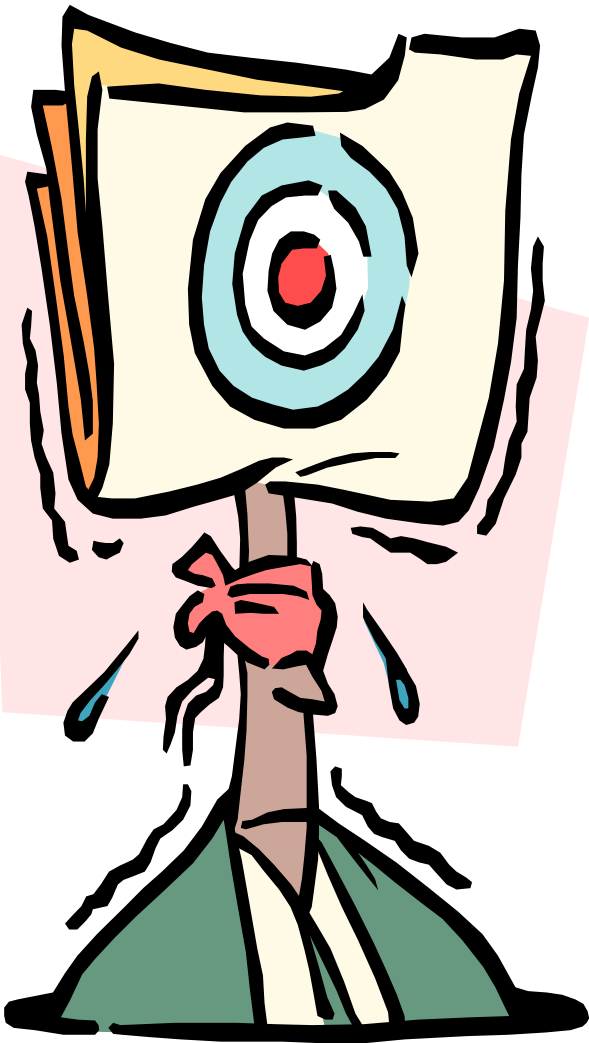
**In These Times magazine, March 2005**

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- **Other USAID efforts include an "agricultural mechanization program:' deploying U.S. companies such as Case New Holland to rehabilitate Iraq's dilapidated farm machinery. While this may seem like a goodwill gesture, it has its payoffs. "Of course, the companies themselves will eventually sell replacement machinery and parts:' adds Pool, "so it will be a good deal for them."**
- **Indeed, while Pool emphasizes USAID's project to expand and revitalize Iraq's farm sector, U.S. commodity exporters are hungrily eyeing renewed market opportunities-which could undercut Iraq's farmers. "Iraq was once a significant commercial market for US. farm products, with sales approaching \$1 billion in the 1980s," former agriculture secretary Ann Veneman told a conference of farm broadcasters in 2003. "It has the potential, once again, to be a significant commercial market."**

# Some Tentative Conclusions Since NAFTA, WTO, FAIR96 & FSRIA02: Is this what we expected?

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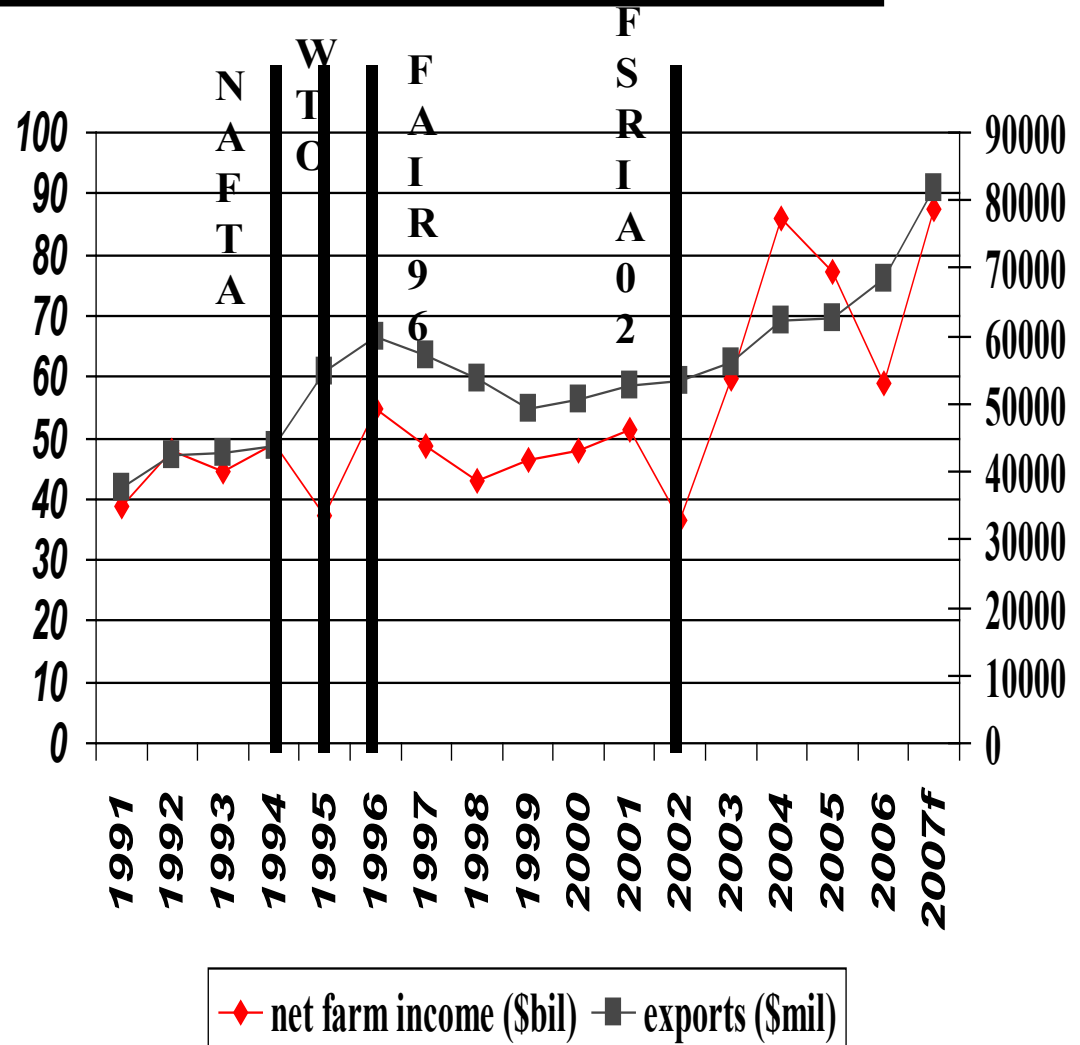


1. Trade has improved, with both imports & exports up.
2. Net Farm Income has improved.
3. Distributional inequality increased.
4. Selected major agribusinesses have done relatively well.
5. Concentration has continued, perhaps accelerating.
6. Rent-seeking by agriculture and agribusiness increased & successful up to now...but future uncertain.



# Summary of US Agricultural Exports & Net Farm Income, 1991-2007fy

- Trade & trade agreements are an integral part of the farm profit picture.
- However, farm bill subsidies are too.
- Farm interests will continue to rent-seek for trade and subsidy opportunities.
- Agribusiness will likely advantage itself as can.
- It's part of gaming the system.



# Contact Info

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