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SUMMARY: THE NEW U.S. FARM BILL AND THE DOHA ROUND – The Relationship between WTO Commitments and Farm Bills – The Diverse and Shifting Interests of the U.S. Agricultural Community – The Positions of Key Players – Questions for the Future

THE NEW U.S. FARM BILL AND THE DOHA ROUND

The Bush administration took two steps on January 31 towards resolution of the Doha Round of the World Trade Organization (WTO). One was a request that Congress renew the president's trade promotion authority (TPA), which is currently scheduled to expire on June 30. The TPA rules establish special procedures to expedite congressional approval of trade agreements. The other step was a proposal for a new farm bill that would, with adjustments and innovations, be based principally upon continuation of the programs and principles of the 2002 farm bill. Farm bills set the rules by which the U.S. Government supports domestic production, subsidizes exports, and otherwise promotes the interests of agricultural producers.

Taken together, enactment of these two proposals are necessary but not sufficient conditions for the successful conclusion of the multilateral trade negotiations. If Congress opts to approve these measures without radical changes, it will preserve the status quo and allow the negotiators in Geneva to continue working towards an agreement. The current U.S. farm bill may not be popular with many U.S. trading partners, but it would be easier to negotiate on the basis of "the devil they know" than to deal with an entirely new set of U.S. programs and spending levels. Alternatively, a major change in the scope and structure of U.S. farm programs could disrupt the negotiations in Geneva, and failure to make a new grant of TPA would cast great doubt upon the ability of the U.S. president to secure approval of any agreements that might be reached.

This note focuses on the farm bill, while a future *Antenna* will deal in greater depth with the debate over renewal of TPA. One important difference between these two initiatives is that a farm bill is mandatory, in the sense that the expiring provisions of the 2002 bill require that Congress take some action this year. The current five-year farm bill will expire as of September 30, although a few programs are authorized for up to one additional year. The TPA also expires this year, but its renewal is entirely optional. No matter what happens in the coming congressional debate, it is certain that the United States will have agricultural programs in place. There is no similar guarantee that the U.S. president will continue to have special authority to secure congressional approval for trade agreements.

The most likely outcome of the debate over the farm bill will be the enactment of a bill that, like the Bush administration's proposal, bears a close resemblance to the 2002 farm bill. By itself, that is neither a good nor a bad development; its meaning will depend on what comes next. Enactment of a status quo bill is supported by much of the pro-trade segment of the U.S. agricultural community, who see it as a means of facilitating the WTO negotiations, but it is equally welcome among the trade-skeptics in the U.S. agricultural community. For the latter group, this means the maintenance of high levels of government subsidization. A roll-over is equally attractive to the Bush administration (which sides primarily with the pro-trade producers) and key leaders in Congress (who tend to side with the trade-skeptical producers). These disparate interests may all converge in the coming months as they bargain over the precise terms of the new farm bill, but that should not be mistaken for a strong sense of unity. If and when the Doha Round produces a final agreement, divisions within the agricultural community, as well as those between the executive and legislative branches, may be all too apparent.

The Relationship between WTO Commitments and Farm Bills

Before examining the prospects for the new U.S. farm bill, we should first recognize the special character of agricultural issues in the WTO. Trade negotiations are structured differently for agricultural products, and these differences allow the United States to exercise substantial discretion in the size and scope of its agricultural programs.

The first significant difference is that negotiations on agricultural market access are more technically and politically difficult than those on non-agricultural market access. That complexity stems from three distinctions. First, many agricultural tariffs are much higher than those on typical non-agricultural products. Second, while quotas and other quantitative restrictions are no longer permitted on non-agricultural products, many agricultural items are protected by tariff-rate quotas (TRQs). The rates that apply on in-quota imports may be relatively low, but those on above-quota imports are sometimes astronomical. Third, while most non-agricultural products are subject to *ad valorem* tariffs (i.e., rates are set on a percentage of the value), many more agricultural products are subject to specific tariffs (i.e., rates are set at so many cents or dollars per kilo, liter, dozen, etc.). While the translation of specific tariffs into *ad valorem* equivalents might seem like a straightforward exercise, that issue delayed negotiators for many months.

In addition to market-access, there are two other "pillars" to agricultural negotiations: domestic support (i.e., production subsidies) and export subsidies. Domestic support is the most contentious issue for the United States, and the one that makes the farm bill such an important instrument. Unlike the agreements that are reached in the WTO on tariffs, where ceilings are negotiated for each individual product, the rules gives countries considerable discretion in setting the magnitude and type of support that they will give to their producers. To simplify, the agricultural agreement reached in the Uruguay Round (1986-1994) required that developed countries cut their domestic support by 20 percent; in the case of the United States, that put a cap of $19.1 billion on most types of support. The main purpose of a farm bill is to decide how much of that maximum will be allocated, to whom, and on what terms.

The United States has thus far had two farm bills since the end of the Uruguay Round, each of which had decidedly different themes. The Freedom to Farm Act of 1996 was the agricultural equivalent of a "peace dividend," in which the Uruguay Round agreements were taken as the inspiration for a roll-back of subsidies and the introduction of more market-oriented policies. By contrast, a key aim of the Farm Security and Rural Investment Act of 2002 was to position the United States for the Doha Round negotiations. Increasing the U.S. subsidies, it was hoped, would also increase leverage on the European Union and other negotiating partners. For U.S. trade policymakers, one of the main objectives of the Doha Round is to produce a new and more ambitious farms-control agreement.

One problem with this strategy is that the U.S. negotiators run a risk that negotiations theory calls "falling in love with your bargaining chips." The high levels of production subsidies in the 2002 farm bill are a useful form of leverage only if the beneficiaries of those subsidies are willing to give them up in a new bargain. For at least some segments of the U.S. agricultural community, maintaining the current level of subsidization would be at least as attractive as reaching an agreement in the Doha Round. That fact casts doubt upon the ability of the U.S. negotiators to reach an ambitious agreement that will win support from agricultural producers and their allies in Congress.

The Diverse and Shifting Interests of the U.S. Agricultural Community

Two key facts define the position of the U.S. agricultural community *vis à vis* the farm bill and the Doha Round. The first is that the United States has gone from large and predictable surpluses in agricultural trade to a near-balance on this account. The second is that the producers who take a trade-skeptical view, or are at best trade-ambivalent, form a counterweight to the pro-trade segments of the community.

The data in Table 1 address the first point. In the years since the Uruguay Round results came into effect, the U.S. surplus in raw and processed agricultural products has declined sharply. That trend is attributable to the fact that imports of high-value products (i.e., processed food, beverages, and tobacco) increased by 86.8 percent during 1997-2005, but during the same period U.S. exports of raw agricultural products increased by just 7.7 percent. The net result was a precipitous drop in the agricultural trade surplus, which fell from $25.7 billion in 1997 to $4.5 billion in 2005. There has also been a decline in the share of the non-agricultural trade deficit that can be offset by the agricultural trade surplus. In short, the U.S. agricultural community as a whole has less cause to see itself as a winner in international competition.

That sense of competitiveness, or the lack thereof, is not evenly distributed throughout U.S. agriculture. In rough terms, the community can be placed on a spectrum defined at one end by those commodities that are principally export-oriented (e.g., wheat and cotton), and at the other end by the import-sensitive commodities (e.g., sugar and dairy products). Between these two extremes are commodities with mixed interests in export-promotion and import-protection, and others for which trade is less controversial. The characteristics of each of these groups are summarized in Table 2.

Table 1: U.S. Agricultural Trade Balances, 1997-2006 Year-to-Date

Imports for Consumption (Customs Value) and Domestic Exports (FAS Value), Billions of Current Dollars; YTD Data Are January-November

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 YTD
Imports	35.1	36.2	38.0	39.1	39.7	42.7	47.7	53.7	58.4	58.3
Agricultural Products	12.4	12.3	12.2	11.8	11.3	11.8	13.0	14.4	15.8	15.8
Processed Food	16.6	17.2	18.3	19.0	19.6	21.1	23.8	27.7	29.8	29.1
Beverages & Tobacco	6.2	6.7	7.5	8.3	8.7	9.8	10.9	11.7	12.8	13.4
Exports	60.8	55.3	51.0	54.1	54.9	53.6	59.6	61.5	62.9	64.3
Agricultural Products	28.4	24.2	22.0	23.6	24.1	24.8	29.2	31.9	30.6	31.4
Processed Food	25.8	24.6	23.6	25.0	26.5	25.2	26.8	25.9	28.8	29.4
Beverages & Tobacco	6.6	6.5	5.5	5.6	4.3	3.6	3.6	3.6	3.4	3.6
Balances	25.7	19.1	13.0	15.1	15.2	10.9	11.9	7.7	4.5	6.0
Agricultural Products	16.0	11.9	9.8	11.8	12.8	13.1	16.2	17.6	14.8	15.6
Processed Food	9.2	7.4	5.3	6.0	6.8	4.1	3.0	-1.8	-0.9	0.3
Beverages & Tobacco	0.5	-0.2	-2.1	-2.8	-4.4	-6.2	-7.3	-8.0	-9.4	-9.8
Deficit Offset	13.3	7.5	3.6	3.2	3.4	2.1	2.0	1.1	0.5	0.7

Deficit Offset: Share of the U.S. merchandise trade deficit in all other products that is offset by the agricultural trade surplus (calculated on the basis of the three components shown here).

Source: Calculated from U.S. International Trade Commission data.

As of the last census of agriculture (2002), there were 2.2 million farms in the United States. Those farms cannot be precisely attributed to single commodities, given the fact that many farms will produce more than one item. Even with some unavoidable double-counting in Table 2, the data give a rough indication of the relative size of these groups, as well as some of the more important processed agricultural products.

Close to half of all farms produce export-oriented commodities. Taken together, they accounted for a $20.1 billion trade surplus in 2005, greatly exceeding the $3.6 billion deficit in import-sensitive commodities. The export-oriented producers have often been involved in dispute-settlement cases in the WTO, primarily as complainants but also as respondents. The U.S. tariffs on their products are generally low, and the producers would presumably be happy to trade these tariffs away if other countries' barriers were also eliminated. That is not to say that they are purely market-oriented. Quite the opposite: These are the major recipients of production subsidies. They may be willing to see these subsidies reduced, but only if there are deep cuts in the European Union and elsewhere.

Apart from the dairy sector, most of the producers of import-sensitive commodities receive few or no production subsidies. Their main objective is instead to maintain high levels of protection, which they now receive through a combination of high tariffs, restrictive TRQs, and the use of trade-remedy laws. Their mistrust of the WTO goes beyond concerns over market-access negotiations; several of these commodities have been targeted in dispute-settlement cases. While the producers in this group comprise a relatively small number of farms, their influence is magnified by political connections. That is especially true in the case of sugar producers.

As large as the export-oriented group may be, the producers of commodities with mixed interests account for a slightly larger number of farms. Some of the items in this category enjoy relatively high levels of protection, as accorded by both tariffs and trade-remedy laws, but the very same producers also aggressively promote their exports. Many of them receive government assistance in foreign advertising campaigns under the Market Access Program. The mixed interests of these commodities are emblematic of the diverse and sometimes contradictory goals of U.S. agricultural producers.

Table 2: Characteristics of Selected U.S. Raw and Processed Agricultural Commodities

Imports for Consumption (Customs Value) and Domestic Exports (FAS Value), Thousands of Current Dollars

	Farms (2002)	Exports (2005)	Imports (2005)	Balance (2005)	Average MFN Tariff	TRQs	Trade Cases	U.S. Position in WTO Cases
Export-Oriented Commodities	**999,054**	**20,571,571**	**480,908**	**20,090,663**				
Soybeans	317,611	6,314,528	62,947	6,251,581	0.00	—	—	Both
Corn	452,211	5,027,106	124,233	4,902,873	0.02	—	—	Both
Wheat	169,528	4,378,435	172,057	4,206,378	2.90	—	Yes	Both
Cotton	24,805	3,997,252	17,923	3,979,329	0.82	—	—	Respondent
Apples	26,853	492,708	103,732	388,976	0.00	—	—	Complainant
Rice	8,046	361,542	16	361,526	2.28	—	—	Complainant
Low-Controversy Commodities	**>142,623**	**5,510,401**	**10,973,344**	**-5,462,943**				
Tree Nuts	40,377	2,510,285	1,824,242	686,043	0.07	—	—	—
Oranges	14,288	378,857	68,455	310,402	1.64	—	—	—
Dry Peas & Beans	10,841	356,874	186,560	170,314	0.37	—	—	—
Oilseeds (Except Soybean)	15,225	195,572	320,432	-124,860	0.01	—	—	—
Nursery Products & Trees	4,956	275,118	597,144	-322,026	1.54	—	—	—
Coffee & Tea	1,202	562,980	1,131,985	-569,005	0.35	—	—	—
Other Oilseed Products	NA	606,255	2,235,046	-1,628,791	0.98	—	—	—
Other Noncitrus Fruits	55,734	624,460	4,609,480	-3,985,020	0.03	—	—	—
Mixed-Interest Commodities	**1,003,818**	**12,774,697**	**13,136,723**	**-362,026**				
Poultry, Prepared or Preserved	32,006	2,757,665	164,983	2,592,682	1.58	Yes	—	Both
Wet Corn Milling Products	NA	1,379,134	394,407	984,727	3.07	—	—	Complainant
Meat Products (Except Poultry)	NA	6,077,051	5,944,872	132,179	3.27	Yes	Yes	Both
Berries	18,234	97,686	225,872	-128,186	0.00	—	Yes	—
Grapes	23,856	538,588	944,531	-405,943	0.06	—	Yes	—
Hogs and Pigs	78,895	27,889	598,176	-570,287	0.00	—	Yes	Both
Cattle	796,436	71,066	1,069,009	-997,943	0.02	—	—	Respondent
Other Vegetables & Melons	54,391	1,825,618	3,794,873	-1,969,255	1.01	Yes	Yes	Both
Import-Sensitive Commodities	**>185,314**	**5,391,033**	**8,979,818**	**-3,588,785**				
Dry/Conden./Evap. Dairy Prods.	NA	1,426,693	921,222	505,471	1.05	Yes	—	—
Tobacco	56,977	984,911	651,979	332,932	4.88	Yes	—	—
Peanuts	8,640	130,347	127	130,220	131.80	Yes	—	Respondent
Fluid Milk, Cream & Related	91,989	45,463	33,106	12,357	14.70	Yes	—	Complainant
Fresh Flowers, Seeds & Foliage	21,728	71,542	805,071	-733,529	2.83	—	Yes	—
Frozen Fruits, Juices & Vegs.	NA	860,867	1,606,266	-745,399	18.83	Yes	Yes	Respondent
Sugars	5,980	232,093	1,027,328	-795,235	6.54	Yes	Yes	Respondent
Cheese	NA	203,098	1,007,102	-804,004	10.09	Yes	—	Complainant
Fruits & Vegetables Preserved	NA	1,436,019	2,927,617	-1,491,598	4.60	Yes	Yes	—

TRQs: At least one product in this category is subject to tariff-rate quotas on an MFN basis and/or in free trade agreements.
Trade Cases: At least one product in this category has been subject to an investigation or order under the U.S. antidumping, countervailing duty, or safeguard laws during 1995-2006.
WTO Cases: For at least one product in this category, the United States has been the complainant, the respondent, or both, in a WTO dispute during 1995-2006.
Source: Trade data calculated from U.S. International Trade Commission data. Data on farms from the 2002 Census of Agriculture.

The Positions of Key Players

Given the diversity of interests in the U.S. agricultural community, as well as the declining trade fortunes of the sector as a whole, it should come as no surprise that the groups take differing positions on the Doha Round. Some see it as an opportunity, and others as a threat. The surprise instead comes in how many of them can reconcile their diversity of goals in that negotiation with more or less comparable positions on the farm bill: Most of the U.S. agricultural community supports some form of roll-over the 2002 law. That position is largely echoed in Congress and the Bush administration.

It is remarkable that extension of the 2002 provisions is favored by both the American Farm Bureau Federation (AFBF) and the National Farmers Union (NFU), two "umbrella" organizations that represent farmers in general but often disagree sharply on policy. The AFBF is loosely associated with the Republican Party and tends to take a more pro-trade position, while the NFU leans towards the Democratic Party and usually favors greater levels of government intervention. The fact that these two organizations both favor a roll-over supports the contention that this ambiguous option could result in either the maintenance or the reduction of U.S. agricultural subsidies, depending on the outcome of the Doha Round.

It would be an exaggeration to say that support for a roll-over is universal. The largest and most influential of the groups that take a stand against extension of the existing farm bill are the American Soybean Association and the National Corn Growers Association (which has made a proposal for a new payments system). The other opponents of a simple roll-over are the National Barley Growers Association, the National Potato Council, and Texas Citrus Mutual. Similarly, the food-processing industries that comprise the Sweetener Users Association would prefer a complete redesign of the programs that protect U.S. sugar producers. With these and few other exceptions, most players call for some form of roll-over of the existing bill. Some of these groups qualify that position by requesting that modifications be made, and one can certainly argue over whether any given change is major or minor. See for example the National Association of Wheat Growers, which made a proposal that seeks to "build upon the strengths" of the 2002 bill. Other commodity groups favor some version of a roll-over include the American Sugar Alliance, Dairy Farmers of America, the National Sorghum Producers, the USA Dry Pea and Lentil Council, the U.S. Rice Producers Association, and the National Cotton Council (which strongly opposes an "early harvest" of cotton subsidy reforms in the WTO).

The Bush administration's proposal can be seen largely as an extension of the 2002 law, albeit with several proposed changes. The many adjustments that are called for in the proposal are too detailed to be discussed at length here. From the perspective of the Doha Round negotiators, the most significant aspect of the proposal concerns the overall level of expenditure on commodity programs. The administration calculates that the existing programs would, if left in place during 2008-2017, result in $74.6 billion in direct payments, marketing loans, and related programs. The proposed changes would, they calculate, reduce these expenditures by 6 percent. The proposal would make important changes in the ways that compensatory payments are calculated for farmers that experience crop loss. On the whole, the proposal looks more like a modest set of reforms than a major overhaul.

That would seem to suit the new Democratic leaders in Congress, who have long called for renewal of the existing programs. That is certainly the case for Chairman Tom Harkin (Democrat-Iowa) of the Senate Agriculture Committee, who takes pride in the fact that he was the principal Senate architect of the 2002 bill. He is joined by Chairman Collin Peterson (Democrat-Minnesota) of the House Agriculture Committee. In a recent speech to the AFBF, Peterson said that he strongly supports the goals of the 2002 farm bill, and wants to see it renewed for a full five years.

The House and Senate agriculture committees are expected to begin work in earnest after the congressional budget committees complete action on the Fiscal Year 2008 budget. That is expected to be done in March. The budget will set the spending authorization limits for the departments and agencies of the Federal government, including the Department of Agriculture. The various subcommittees of the House and Senate agriculture committees will then begin holding hearings and drafting their portions of the farm bill this Spring. Chairman Peterson hopes his committee will finish drafting bill by the time Congress leaves for the July 4 recess, so that the House can vote on the bill later that month. If both houses can keep to that schedule, their staffers can meet during the month-long August recess on differences between the two versions, allowing Congress to take up a final, unified bill in September.

Questions for the Future

In the near term, the main question is what type of farm bill will emerge from this process. Based on the positions set out by most of the key players in Washington, there is good reason to expect that the main theme of the bill will indeed be continuity rather than change. There will undoubtedly be efforts made by different commodity groups to shift more resources to their producers, or otherwise alter the existing rules to their advantage. Demands of that sort can easily lead to a general scramble for favors, especially if some commodity groups feel that they are being treated less generously than others. It may require significant discipline on the part of legislators and the administration to prevent the process from degenerating into a free-for-all.

Let us assume for the moment that these efforts are successful, and that they ultimately produce a 2007 farm bill that bears a close family resemblance to its 2002 ancestor. What will that imply for the Doha Round?

The answer to that question depends in part on another pending initiative in Washington. It will not matter much what the 2007 farm bill looks like unless it is complemented by a renewal of the president's negotiating authority. In the absence of a new grant of TPA, there is little likelihood that U.S. trading partners — or even the U.S. negotiators themselves — would be willing to bring the Doha Round to a conclusion. The TPA rules guarantee that the results of the negotiations will not be amended in Congress, or (more likely) get stalled by endless parliamentary maneuvers. As will be discussed in a future *Antenna*, it may be extremely difficult for the Bush administration to secure a new TPA grant during its remaining two years in office.

Let us nevertheless make the further assumption that Congress does decide to make a new grant of negotiating authority to the president, and that the Doha Round finally comes to a successful conclusion in the next year or so. Where will we be then?

It is at that point that the aforementioned tensions between the pro-trade, trade-skeptical, and trade-ambivalent segments of the U.S. agricultural community will likely resurface. The similarities in the positions that the AFBF, the NFU, and others take on the farm bill should not be mistaken for unity on a Doha Round agreement. Some of these groups see a roll-over of the 2002 provisions as an instrument to help achieve ambitious results in the Doha Round, while others see it as a substitute for such an agreement. The former group may be willing to fight for approval of the results, but the latter group may be just as staunchly opposed. There are several more obstacles that will need to be cleared before that fight even begins.