

**Review and Analysis of
International and Budgetary
Considerations for the
2007 U.S. Farm Bill**

by

Bashir Qasmi and Evert Van der Sluis*

South Dakota State University
Economics Staff Paper No. 2008-1
January 2008

Abstract

We assess the extent to which national budget considerations, international trade negotiations, and domestic political deliberations affect the potential development of an omnibus farm bill, which may be signed into law in 2008. With no successful conclusion of the Doha Development Round of trade negotiations in sight, U.S. legislators appear unable to make politically unpopular decisions on domestic farm policy reform. However, the absence of an international trade agreement does not reduce the need for the U.S. to comply with previous agreements.

Key words: farm bill, budget deficit, international trade agreements, agricultural policy

An earlier version of this paper was presented at Presented at a Conference on “Domestic and Trade Impacts of U.S. Farm Policy: Future Directions and Challenges” in Washington, DC on November 15-16, 2007.

The authors wish to thank Thomas Dobbs and Alan May for reviewing an earlier version of this paper.

Copyright 2008 by Qasmi, and Van der Sluis. All rights reserved. Readers may make verbatim copies of this document for no-commercial purposes by any means, provided that this copyright notice appears on all such copies.

Papers in this series are reproduced and distributed to encourage discussion of research, extension, teaching, and economic policy issues. Although available to anyone on request, Economics Department Staff Papers are intended primarily for peers and policy makers. Papers are normally critiqued by some colleagues prior to publication in this series. However, they are not subject to formal review requirements of South Dakota State University’s Agricultural Experiment Station and Cooperative Extension Service publications.

* Associate Professor, and Professor, respectively, Department of Economics, Box 504, South Dakota State University, Brookings, SD 57007-0895 (605-688-4141). They can be contacted at Bashir.Qasmi@sdstate.edu, and Evert.VanderSluis@sdstate.edu, respectively.

Review and Analysis of International and Budgetary Considerations for the 2007 U.S. Farm Bill

U.S. federal policies pertaining to agriculture, food products, and rural development are determined by various laws. Each law may be reviewed, adjusted, or repealed separately or jointly as omnibus farm bills every four or five years. The farm bill effective through the 2007 harvest was the Farm Security and Rural Investment Act (FSRIA), enacted into law as Public Law 107-171 in 2002. Due to the lack of a new comprehensive farm bill or separate new laws, most of the FSRIA provisions expire between September 30, 2007, and August 31, 2008, and farm legislation would automatically revert to permanent legislation and statutes, some of which were written in 1920s and 1930s (Womach). Under the permanent law, support would be high for a small number of eligible commodities, but other currently supported commodities such as rice, soybeans, and peanuts would not be eligible for federal financial support. Because the permanent laws have little relevance to current agricultural conditions and would be costly, it is likely that Congress will either extend FSRIA provisions, or develop a new farm bill. As pointed out by Womach, the absence of new commodity support provisions before the 2008 harvest would have few immediate financial consequences for agricultural producers other than those associated with uncertain conditions, so it is possible for Congress to wait with changing farm legislation up to the 2008 harvest.

In efforts to build broad-based support for legislation pertaining to agriculture, recent farm bills have included titles on a variety of issues that directly or indirectly affect agriculture (Knutson, Penn, and Flinchbaugh, p. 48; Womach). In particular, contemporary farm bills have included titles related to trade, foreign food aid, conservation and the environment, forestry, domestic food assistance, agricultural credit, rural development, agricultural research and education, as well as forestry programs. The farm bills have also included “miscellaneous” provisions pertaining to agricultural marketing, energy, food safety, and animal health and

welfare. Thus, national farm bill deliberations provide opportunities to influence agricultural policies in the future – not only for the legislative and executive branches of the federal government, but also for numerous interest groups.

The current farm policy debate is subject to a number of key influences, including – but not limited to – the U.S. federal government’s budget deficit, pressures to comply with international trade agreements, current economic and social conditions in the agricultural sector, national political considerations, and other factors such as those identified by Mercier and Smith. In this paper, we assess the extent to which national budget considerations, international trade negotiations, and domestic political deliberations affect the potential development of an omnibus farm bill of 2007 or 2008. We briefly summarize past developments leading up to the current federal farm legislation, followed by a short overview of the key elements contained in the 2002 farm bill, and budgetary and international considerations in developing a new farm bill.

U.S. Farm Policy Origins

The U.S. government has a long history of implementing policies affecting the production and marketing of agricultural products, and its involvement has been questioned equally long. As pointed out by Cochrane (p. 307), government plays a vital role in providing services essential for a successfully operating and economically developing society, but at the same time, government involvement may conflict with the aim of maximizing individual citizens’ freedoms. Thus, discussions surrounding agricultural policy in general and farm bills in particular involve striking a balance on the role and extent of government involvement in the U.S. agricultural and food system.

As documented by Doering and Outlaw; and Effland, the reasons for the federal government’s involvement in and its specific policies pertaining to agriculture have varied over time. For a large part of the past century, between the 1920s and the middle 1980s, farm income

supports largely consisted of price supports and production controls. This changed with the 1985 farm bill, which included soil conservation as a specific objective (Cain and Lovejoy). The same farm bill and the subsequent 1990 farm bill also included efforts to decouple payments from existing production levels, in attempts to avoid production surpluses in times of low commodity prices (Thompson, 2005).

The 1996 farm bill, known as the Federal Agricultural Improvement and Reform (FAIR) Act, further shifted policies away from price support and output control linked to agricultural production to direct income support and other relatively less trade-distorting policies. These changes were made in part so as to remain in compliance with international trade agreements, but also in response to increased public calls to conserve natural resources, and enhance rural development, as well as efforts to improve U.S. global competitiveness in agricultural production, and enhance agricultural research output.

While the 1996 farm bill appeared to mark a move towards relatively free markets with reduced government involvement in farm commodity markets, by 2000, farm program support levels increased to record-high levels due to disaster assistance payments and Loan Deficiency Payments (LDPs). The latter payments are closely tied to production, so their increased importance marked a move away from decoupled program instruments.

The 2002 Farm Bill

In contrast to current conditions, passage of the 2002 farm bill occurred during a time of budget surpluses (Westcott, et al.). Also, the international trade delegation representing the U.S. in the Uruguay Round trade negotiations had committed the U.S. to limit “amber box” farm payments to a total of \$19.1 billion. As a backdrop, the European Union (EU)’s maximum “aggregate measurement of support” (AMS) was \$67 billion – much higher than the level of

payments made to U.S. farmers (Thompson, 2006).¹ As a result, members of Congress were willing to support U.S. farmers within the boundaries of the international agreement. While support levels were adjusted for individual programs, overall expenditures for the 2002 farm bill eventually increased over previous levels. For example, the FSRIA reduced the loan rates on soybeans, while increasing those on grains. Also, the 2002 farm bill reinstated a target price system in the form of a new counter-cyclical payment (CCP), turning temporary “emergency payments” spent over funding levels authorized under the 1996 farm bill into formal program payments. Further, payment limitations were set at higher levels in the FSRIA than in the previous farm bill.

The 2002 farm bill was a reversal from the previous farm bill, which had emphasized a “decoupling” between farm program payments and production levels. The FSRIA allowed making changes to the historical program crop acreage bases, thereby reestablishing a link between previous production decisions and program payments. In addition, an important aspect of the 1996 farm bill was the Agricultural Market Transition Act (AMTA) payment, consisting of an annual payment not tied to the production of a specific crop. AMTA payments were intended to compensate farmers for shifting from commodity-specific programs to a system based on income payments only. In the 2002 farm bill, the AMTA payments were replaced with fixed direct income payments. Finally, the FSRIA established new farm programs for commodities not previously included in farm bills, revived earlier programs, and modified existing programs for relatively minor agricultural commodities.

¹ As explained below, domestic support programs distorting agricultural production and trade fall under the amber box, as agreed upon by the Agriculture Agreement of the Uruguay Round of trade negotiations. Although subject to specified limits, WTO members are generally committed to reducing amber box subsidies. The Total Aggregate Measurements of Support (Total AMS) represents these nations’ commitments to reduce such subsidies to their own agricultural producers, and is expressed as a single amount of money which enables making comparisons across countries.

Throughout its history, government involvement in agriculture has generated public debate, so farm bill reauthorization processes are anticipated with much anxiety in agricultural circles. The discussions surrounding the 2007 farm bill are taking place in an increasingly difficult economic environment, even by historical standards. Partly due to the range of interests represented in the omnibus farm bills, the debate about farm income support and related policies has expanded and increased in intensity over the past two decades. Forces such as globalization, the drive towards efficiency improvements using market-based approaches, complying with international trade agreements, and concern about agriculture's influence on the environment and sustainability are increasingly influencing current policy discussions. Equally important in the policy debate are structural transformations in agriculture, which have led to fewer farms and reduced numbers of people directly involved in food production.

National Budget Considerations

Current national U.S. budgetary conditions are not amenable to large increases in expenditures not involving emergencies, strictly necessary programs, or previous commitments, such as those associated with the wars in Afghanistan and Iraq, disaster relief, and fulfilling debt payment obligations. Projections conducted by the Congressional Budget Office (CBO) (2007b) suggest that if current policies and laws are kept in place, the 2007 federal budget deficit will amount to \$158 billion, or 1.2 percent of the nation's gross national product (GDP). Adding spending increases associated with military activities in Iraq and Afghanistan would result in a larger federal budget deficit.

Based on the assumption that current laws and policies would remain unchanged, projections further indicate a small decrease in budget shortfalls through 2008, followed by a budget deficit increase to about 1.5 percent of GDP for 2009 and 2010, and again followed by slight surpluses until 2017. Mandatory expenditures, such as Social Security, Medicare and

Medicaid are expected to increase by 5.9 percent between 2008 and 2017, and exceed the projected nominal GDP growth rate of 4.6 percent per year over the same period. Mandatory programs also include the 2002 farm bill programs that most directly affect the farm sector, including commodity programs, conservation programs, and programs enhancing agricultural trade. Other important mandatory programs included in the 2002 farm bill are nutrition programs, farm credit programs, and energy programs.

Discretionary expenditures are projected to increase by two percent per year, well below the average U.S. economic growth rate of 4.3 percent over the past two decades (Congressional Budget Office, 2007b). Discretionary programs include agricultural research and Extension, statistical and economic data collection and analyses, plants and livestock inspections, agricultural marketing, and various types of international food aid. The combined total outlays on mandatory (those mandated by law) and discretionary (determined by annual appropriation acts) agricultural programs were \$26.0 billion in 2006, just below the previous years agricultural outlays of \$26.6 billion, which was the largest amount since 2000, and about twice as much as was spent on agriculture in 2004 (Congressional Budget Office, 2007).

The overall impact of long run budgetary concern on the development of a new farm bill appears to be more limited than anticipated earlier. On the one hand, there is general agreement that baseline projections of the Congressional Budget Office (2007c) indicate that the U.S. federal government's budget trends are not sustainable in the long run. In particular, the combined expenditures on the three large social programs – Medicare, Medicaid, and Social Security – would exceed ten percent of GDP by the middle 2010s and would be 20 percent of GDP by 2050 if current policies would remain unchanged. The increased mandatory expenditures on the three large social programs are expected to create increased pressures on relatively inessential programs in the future. On the other hand, in the short run, political motives

discourage the development of proposals that appear to make substantive cuts in farm program expenditures.

Agricultural Policy Reforms under the Uruguay Round

In the past, international trade agreements have often been used to facilitate a reduction in trade-distorting domestic support policies. International efforts to reduce trade obstacles date back to the 1930s, after record-high protectionist policies across the globe and following U.S. passage of the Smoot-Hawley Tariff Act of 1930. Initially, the U.S. sought to cut tariffs on its imports through bilateral negotiations with other nations. The trade talks were broadened shortly after World War II, when the country also engaged in multilateral trade negotiations within the framework of the General Agreement on Tariffs and Trade (GATT).

The various rounds of trade negotiations helped liberalize trade in most nonagricultural goods, but trade barriers on agricultural goods remained relatively high until the Uruguay Round. The Uruguay Round Agreement on Agriculture (URAA) provides a framework for a long-term move towards agricultural trade liberalization and domestic policy reform (Kennedy, et al.).

Table 1 summarizes the three main provisions of the URAA and their agreed implementation periods. First, the market access provision is aimed at opening markets by reducing barriers to agricultural trade and by increasing market transparency. Further, members committed to convert non-tariff barriers to simple tariffs or to tariff rate quotas (TRQs). Members also agreed to reduce the over-quota tariffs and simple tariffs over a predefined implementation period (Burfisher, pp. 1-3).

The second important URAA provision pertains to domestic agricultural support policies. Developed countries agreed to keep the total value of trade-distorting domestic supports made to agricultural producers below maximum amounts, based on their level of trade-distorting domestic support during a base period from 1986 to 1988. Maximum payments values were

gradually lowered from 97 percent of the 1986-88 base levels in 1995, to 80 percent in 2000. The annual amounts of support, or aggregate measurements of support (AMS), are calculated as the sum of trade-distorting farm program expenditures. The AMS payments include both direct government payments not tied to a particular commodity, and commodity-specific price supports coupled to current production levels, price levels, or resource or inputs usage.

The URAA allowed for making exceptions for certain program categories under the *de minimis rule*. In particular, total AMS payments include specific commodity supports only if the financial assistance exceeds five percent of the commodity's production value. Similarly, noncommodity-specific supports are also exempted from inclusion in total AMS benefits, as long as they do not exceed five percent of the total agricultural output value.

The third important URAA provision pertains to export subsidies, which have long been a source of contention in international trade discussions. The URAA required all countries to report, reduce, and set legal upper limits on their export subsidies. As a consequence, the number of countries using export subsidies has declined in recent years. Also, total expenditures on export subsidies of the combined WTO membership fell from \$5.4 billion in 1998 (the latest year for which export subsidy data are available) to an estimated \$3 billion or less worldwide in 2005 (Panagariya).

The URAA distinguishes domestic support policies by their effects on production and trade (Table 2). First, the "amber box" includes domestic programs directly subsidizing production and thus influencing production decisions. These programs are included in the AMS payment calculations and are therefore subject to reductions, as described above. Second, domestic farm programs meeting established criteria for causing only minimal trade distortions are included in the "green box" and are exempted from any expenditure reductions. Finally, farm

subsidies linked to supply limitations are included in the “blue box” and are thus exempted from any expenditure limits.

Estimates of the economic impact of the Uruguay Round in general vary, but the most widely cited estimate suggests that full implementation of the agreement would raise world income by one percent per year in real terms (Krugman and Obstfeld, p. 230). A specific benefit of the URAA is that it has helped increase agricultural policy transparency, in part because nations agreed to notify the WTO on their current support levels.

In spite of the increased transparency, the URAA has had limited success in reducing the total support level for agriculture in developed countries (Kennedy, et al.). Compared to other industries, agricultural product supports remain high. Another shortcoming of the URAA is that many trade problems of developing countries have not been adequately addressed (Salvatore, pp. 303-304). Further, the extent to which the URAA has been effective in reducing domestic support has been somewhat limited (Kennedy, et al.). Several countries have been able to meet their URAA obligations by shifting support from the non-exempt (amber box) to the exempt (blue or green box) categories. Also, by committing themselves to reducing their total AMS benefits, WTO member nations have been able to trim down their support for some products, while maintaining funding for other products at high levels. In addition, member nations have utilized the *de minimis* provisions to their advantage, allowing the potential for continued high levels of support for the production of selected commodities.

Agricultural Trade Policy Negotiations under the Doha Round

The multilateral trade negotiations as part of the Doha round have been contentious. At the time of writing, no final agreement has been reached. Following Vanzetti and Peters, the proposals may be divided into three distinct categories. The U.S., supported by the Cairns group of agricultural exporters, is pressing for substantial agricultural trade liberalization. The EU, along

with Japan, Korea, Switzerland and Norway, argues for a more conservative approach. Further, developing countries are pressing development issues more vigorously than in the past, following the absence of substantial benefits flowing to developing countries after implementation of the Uruguay Round reforms.

Also following Vanzetti and Peters and others, agricultural concerns in the Doha Development Round (DDR) may be separated in five distinct categories, including market access, domestic support, export subsidies, special and differential treatment, and non-trade concerns. These five elements are briefly outlined in the discussion below.

1. Market Access. Although tariffs remain relatively high for many agricultural products, WTO members have legally bound themselves to maximum tariffs. The simple average of bound tariff rates of agricultural products in developed and developing countries is 51 percent, and the average of the actually applied tariff rate is about 48 percent. For developing countries, the average applied tariff rate on agricultural products is 26 percent, but tariffs on individual products may be as high as 300 percent. Generally, bound rates are much higher than applied rates, particularly for developing nations.²

The U.S. has proposed a reduction in applied tariffs according to a harmonizing Swiss Formula, which entails reducing high tariffs more than proportionately (U.S. Department of Agriculture). The U.S. also proposed to eliminate in-quota tariffs for TRQs, and to expand import quotas by 20 percent. Thus, U.S. proposal would apply the greatest cuts in the most trade-distorting tariffs, and place the focus on applied rather than bound tariffs. In practice, the application of a single harmonizing formula would require developing countries to make proportionately large cuts due to their relatively high average tariff rates on agricultural products.

² The Uruguay Round also established a two-tier tariff system, mostly used by the developed countries with a highly protected agriculture to shelter their sensitive products from low-cost imports. Under a two-tier tariff system, imports are taxed at a relatively low rate until reaching a predefined quantity, and those exceeding the quota are taxed at a relatively high rate.

The U.S. proposal does not specifically recognize special and differentiated treatment for developing countries.

The EU proposal for market access is a continuation of the Uruguay Round approach. In particular, the EU proposed reducing bound tariff rates by an average of 36 percent, but with a minimum of 15 percent for an individual tariff line.

2. *Domestic Support.* Despite their declared intent to lower support for agriculture, many developed WTO member nations maintain relatively high domestic agricultural products support levels.³ About one-half of subsidies are borne by consumers, and the remainder by taxpayers. Most developing countries are unable to afford such high levels of domestic support. However, agricultural producers in developing nations are affected by the domestic support for the agricultural sector in developed countries, because the supports stimulate domestic food production, force down world commodity prices, and benefit consumers at the expense of producers in food importing nations that do not provide such supports.

Recently, farm program expenditures have declined due to high world market prices for many agricultural commodities. The prices may be sustained over part of the next decade, because they are not only due to temporary factors such as crop shortfalls associated with drought and low stocks, but also the result of structural changes including increased feedstock demand for biofuel production, and surplus reduction due to past policy reforms (Organization for Economic Co-operation and Development, 2007).

The U.S. proposal with regard to domestic supports includes a reduction over a five-year period in non-exempt (amber box) and production-limiting (blue box) support to at most five percent of the agricultural production value in the 1996-98 base period. The proposal suggests

³ During 2000, the combined support for agricultural production among Organization for Economic Cooperation and Development (OECD) member nations amounted to \$323 billion, whereas the total farm gate value of agricultural products was \$632 billion. That is, one-third of every dollar received by agricultural producers in OECD countries is attributed to government assistance. The major beneficiaries of these domestic supports were farmers in the EU, followed by those in the U.S. and Japan.

eliminating all non-exempt domestic support in the future and allowing developing countries to provide additional support to facilitate development and food security.

The EU proposal includes maintaining the blue and green boxes, and reducing amber box payments by 55 percent. The EU proposal would expand the green box criteria to encompass non-trade concerns, and would also eliminate the *de minimis* provision for developing countries.

3. *Export Subsidies.* The U.S. has proposed eliminating all export subsidies over five years. Without setting specific quantitative limits, the U.S. proposal also restricts the use of export credits, food aid, and other forms of export support. The EU has proposed a more modest reduction in export supports by an average of 45 percent. Similar to tariff reductions, setting average limits on export supports provides nations with flexibility, by permitting large cuts in some lightly traded or lightly protected products, while maintaining strong financial support for commonly exported products. The EU has also proposed to identify trade distorting elements of export credits for agricultural products, and subject them to strict disciplines.

4. *Special and differential treatment.* To ensure that all countries benefit from world trade expansion, the proposals contain special provisions for developing countries. The EU proposed accepting all imports duty free from a group of least developed countries, and receiving 50 percent of imports from developing countries overall without trade barriers. The EU itself already meets this criterion. The EU called for reducing developing nations' commitments in moving toward free trade, in case food security and other multifunctional objectives would need to be met. The US did not make a concrete offer concerning special and differentiating treatment for developing nations, but has remained open to modify the agreed terms and conditions regarding developing nations and to provide exceptions to meet emergency situations.

5. *Non-trade concerns.* The agricultural negotiations may provide an opportunity for governments to pursue specific non-trade issues such as those relating to the environment, rural

development, labor standards, and food security. The U.S. position is to focus on issues directly relevant to international trade. In contrast, the EU proposal supports setting specific social goals, such as protecting the environment, protecting traditional landscapes, enhancing rural development and protecting animal welfare.

The Need for an International Trade Agreement

Anderson and Martin suggest that the accomplishments of the URAA provide an opportunity for additional achievements as part of the DDR and beyond. However, while the three pillars of URAA provide a basis for further negotiations, the development of a suitable framework for the DDR – the July (2004) Framework Agreement – took more than three years. The framework addressed the three pillars of the existing URAA (domestic support, export competition, and market access), and introduced other headings, such as those dealing with least-developed countries, new WTO members, and monitoring and surveillance.

At the time of writing, the DDR appears to be stalled and may not reach a successful conclusion. Huffbauer and Pischedda argue that the heavy emphasis on agricultural trade liberalization contributed to failed DDR discussions. While the emphasis on agriculture may be justified from an economic perspective – due to limited agricultural trade liberalization progress in previous rounds, and also because developing nations would stand to gain considerably from subsidy reductions among developed nations and market access – political obstacles prove difficult to overcome. In particular, due to the capitalization of farm programs in land values, the EU, the US, and Japan have thus far been unwilling to reduce their domestic agricultural support. Further, with the exception of Argentina and to a less extent Brazil, developing nations have been unwilling to agree to market access restrictions. In addition, without Trade Promotion Authority (TPA) – granting the U.S. president the right to negotiate trade agreements

independent of congressional oversight, and which expired at the end of July 2007 – the U.S. negotiating power in trade discussions is limited.

Huffbauer and Pischedda outline three scenarios that may unfold in the absence of an impending DDR agreement. First, a weak Doha agreement could erode the WTO's effectiveness, and cause member nations to advance their own interests at the expense of other members by advancing the litigation function of the WTO. Such an outcome would likely lead to additional protectionist actions such as intensified sanitary and phytosanitary measures. A second scenario would be the successful creation of a Free Trade Area of the Asia Pacific (FTAAP). The addition of a powerful trade block might either inspire other regional trade blocks to become either more cooperative or more antagonistic in their international trade relationships. A third scenario would involve an increase in bilateral or small regional trade agreements. Such agreements would complicate trade liberalization efforts and would likely serve to undermine the WTO. The three scenarios are not mutually exclusive. In particular, at the time of writing, a combination of scenarios 1 and 3 appears to be developing.

Neither the current DDR stalemate, nor any of the three scenarios or a combination thereof is conducive to efforts to develop a 2007 farm bill that significantly alters the role of the federal government in U.S. agriculture. Further, the political realities associated with an approaching election year are expected to limit the desire among legislators for agricultural reform. In addition, as outlined earlier, farm legislation must be in place at the latest before the 2008 crop harvest to avoid reverting to permanent farm legislation. The combination of these factors suggests that the likelihood of the successful development of a farm bill that includes substantive elements of reform may be diminishing within the near future.

A unique window of opportunity for reducing the role of the federal government in agriculture will soon be closed. While historically high commodity prices have momentarily

reduced the need for high federal commodity support and provided an opportunity to develop a farm bill that would de-emphasize the role of government in production agriculture, increasing production costs associated with high energy prices and asset capitalization are expected to lead to calls for further government program support for agriculture in the future.

Concluding Comments

While it is impossible to predict the final outcome of the ongoing farm policy debate leading up to the development of new farm legislation, a potential compromise between the House and Senate farm bill proposals appears to be developing at the time of writing. The most likely outcome appears to be the development of a new farm bill with few substantive reforms.

Even if a compromise is enacted into law in 2007 or soon thereafter, serious farm policy concerns remain, including continued difficult national budget conditions, intense media scrutiny, increased public awareness that the farm program objectives have not always been attained, and calls from developing nations to reform domestic policies of developed nations.

In the absence of a successful conclusion of the DDR trade negotiations, U.S. legislators appear unable to make politically unpopular decisions involved with reforming domestic farm policies. Alternatively, a trade agreement at the conclusion of the DDR might have been portrayed as the responsibility of the Office of the United States Trade Representative – at the behest of the Executive and Legislative branches of the U.S. government – and the foreign trade partners. That is, Congressional Representatives might be able to avoid political consequences associated with the development of potentially unpopular farm program legislation.

A potential unsuccessful end of the DDR does not eliminate the need for the U.S. to comply with previous agreements. The U.S. has thus far chosen to largely ignore Brazil's charges and the WTO's rulings against the U.S. alleging that the U.S. exceeded its annual total AMS commitment levels for a number of years, and that the U.S. export credit guarantee

program for cotton operates as an illegal export subsidy (Schnepf, 2007a). Following Brazil's case against the U.S. cotton policies, Canada (and subsequently joined by Argentina and Brazil) has brought similar charges against the U.S. support programs for corn (Schnepf, 2007b). While high commodity prices will make WTO challenges difficult, the U.S. may not be able to ignore such charges in the long run.

References

- Anderson, Kym, and Will Martin. 2005. "Agricultural Trade Reform and the Doha Development Agenda." World Bank Policy Research Working Paper 3607, May. <http://ideas.repec.org/p/wbk/wbrwps/3607.html>
- Burfisher, Mary E. (Ed.). 2001. "The Road Ahead: Agricultural Reform in the WTO – Summary Report." Market and Trade Economics Division, Economic Research Service, U.S. Department of Agriculture, Agricultural Economic Report No. 797. <http://www.ers.usda.gov/publications/aer797/aer797.pdf>
- Cain, Zachary, and Stephen Lovejoy. 2004. "History and Outlook for Farm Bill Conservation Programs." *Choices*, 4th Quarter: 37-42. <http://www.choicesmagazine.org/2004-4/policy/2004-4-09.pdf>
- Cochrane, Willard W. 1993. *The Development of American Agriculture: a Historical Analysis*. Second Edition. Minneapolis: University of Minnesota Press.
- Congressional Budget Office. 2007a. *Budget Options: 350 – Agriculture*. Congress of the United States, February. <http://www.cbo.gov/ftpdoc.cfm?index=7821&type=1>
- Congressional Budget Office. 2007b. *The Budget and Economic Outlook: Fiscal Years 2008 to 2017*. Congress of the United States, January. <http://www.cbo.gov/ftpdoc.cfm?index=7731&type=1>
- Congressional Budget Office. 2007c. *The Budget and Economic Outlook: An Update*. Congress of the United States, August. <http://www.cbo.gov/ftpdoc.cfm?index=8565&type=1>
- Doering, Otto, and Joe L. Outlaw. 2006. "The Evolution of the Rationale for Government Involvement in Agriculture." *Choices* 21(4): 221. 224. <http://www.choicesmagazine.org/2006-4/resource/2006-4-03.htm>
- Effland, Anne B. W. 2000. "U.S. Farm Policy: The First 200 Years." *Agricultural Outlook*, March 21-25. <http://www.ers.usda.gov/publications/agoutlook/mar2000/ao269g.pdf>
- Fergusson, Ian F. 2007. "World Trade Organization Negotiations: The Doha Development Agenda." Congressional Research Service Report for Congress, Updated August 21. <http://www.nationalaglawcenter.org/assets/crs/RL32060.pdf>
- Hufbauer, Gary, and Costantino Pischedda. 2007. "After Doha: Evolution or Revolution in the World Trading System?" Canadian Agricultural Trade Policy Research Network Commissioned Paper CP 2007-1, February. http://www.uoguelph.ca/~catprn/PDF/Commissioned_Paper_2007-1_Hufbauer.pdf
- Kennedy, P. Lynn, Lars Brink, John Dyck, and Donald Maclaren. 2001. "Domestic Support: Issues and Option in the Agricultural Negotiations." International Agricultural Trade Research Consortium,

Commissioned Paper No. 16.

http://www.nuca.ie.ufrj.br/infosucro/biblioteca/negociacoes/Kennedy_domestic.pdf

Knutson, R., J. B. Penn, and B. L. Flinchbaugh. 2003. *Agricultural and Food Policy*, Fifth Edition, Prentice-Hall, Inc.

Koo, Won W., Jeremy W. Mattson, and Richard D. Taylor. 2004. "Potential Effects of the WTO Framework Agreement on U.S. Agriculture." Center for Agricultural Policy and Trade Studies, North Dakota State University, September. <http://www.ag.ndsu.nodak.edu/captis/documents/AgPolicyBrief04-2.pdf>

Krugman, Paul R. and Maurice Obstfeld. 2006. *International Economics, Theory and Policy*, 7th Edition, New York, Pearson Addison Wesley.

Mercier, Stephanie, and Vince Smith. 2007. "Domestic Farm Policy for 2007: Forces for Change." *Choices* 21(4): 209-214. <http://www.choicesmagazine.org/2006-4/resource/2006-4-01.htm>

Organization for Economic Co-operation and Development. 2007. "OECD-FAO Agricultural Outlook 2007-2016." <http://www.oecd.org/dataoecd/6/10/38893266.pdf>

Panagariya, Arvind. 2005. "Liberalizing Agriculture." *Foreign Affairs* - WTO Special Edition, December. <http://www.foreignaffairs.org/20051201faessay84706/arvind-panagariya/liberalizing-agriculture.html>

Pugel, Thomas A. 2006. *International Economics*, 13th Edition. New York: McGraw-Hill Irwin.

Salvatore, Dominick. 2004. *International Economics*, 8th Edition, John Wiley & Sons, Inc.

Schnepf, Randy. 2007a. "Brazil's WTO Case Against U.S. Agricultural Support: A Brief Overview." Congressional Research Service, Report RS22728, September 21. http://www.google.com/url?sa=t&ct=res&cd=4&url=http%3A%2F%2Fopencrs.cdt.org%2Fdocument%2FRS22728&ei=cwk5R8DjE6SeiAH1w-TiCQ&usq=AFQjCNFUEpaVbRzmBarIkHKp090vO_zbiQ&sig2=ZFGFF4kpm7OvqqHWNagLuw

Schnepf, Randy. 2007b. "Canada's WTO Case Against U.S. Agricultural Support." Congressional Research Service, Report RL33853, September 18. <http://www.google.com/url?sa=t&ct=res&cd=1&url=http%3A%2F%2Fwww.nationalaglawcenter.org%2Fassets%2Fcrs%2FRS22724.pdf&ei=Sgo5R6PiOYuGiAH06a3rCQ&usq=AFQjCNEFMFibTAM6Lw41KnIprb-85RSDeQ&sig2=q0XJm7Euf3wgQ0dMvulirg>

Thompson, Robert L. 2005. "The 2007 U.S. Farm Bill and the WTO Negotiations." Agricultural and Applied Economics Seminar Series, September. http://naamic.tamu.edu/sanantonio/agrifood_regulatory_and_policy_integration_under_stress.pdf

Thompson, Robert L. 2006. "The Next Farm Bill." In Karen M. Huff, Karl D. Meilke, Ronald D. Knutson, Rene F. Ochoa, and James Rude (eds.). *Agri-food Regulatory and Policy Integration Under Stress*. Texas A&M University, University of Guelph, and Inter-American Institute for Cooperation in Agriculture-Mexico. http://naamic.tamu.edu/sanantonio/agrifood_regulatory_and_policy_integration_under_stress.pdf

United States Department of Agriculture. 2005. "U.S. Proposal for Global Agricultural Trade Reform, Actual Language of U.S. WTO Agriculture, Proposal Presented at Geneva, Washington, <http://www.fas.usda.gov/itp/wto/actual.htm> Accessed October 15, 2007.

Vanzetti, David, and Ralf Peters. 2003. "Making Sense of Agricultural Trade Policy Reforms." Paper presented at the 25th International Conference of International Association of Agricultural Economics, Durban, South Africa, August 16-22. http://192.91.247.38/tab/atpsmres/VP_IAAE03.pdf

Westcott, Paul C., C. Edwin Young, and J. Michael Price. 2002. "The 2002 Farm Act: Provisions and Implications for Commodity Markets," USDA, Economic Research Service, Agriculture Information Bulletin no. 778, November. <http://www.ers.usda.gov/publications/aib778/aib778.pdf>

Womach, Jasper. "Possible Expiration of the 2002 Farm Bill". Congressional Research Service Report Number RL34154, Updated September 10, 2007. <http://openocrs.cdt.org/getfile.php?rid=61268>

World Trade Organization. "Dispute settlement." Web Page. http://www.wto.org/english/tratop_e/dispu_e/dispu_e.htm Accessed October 15, 2007.

Table-1. Main Provisions of the Uruguay Round Agreement on Agriculture

Negotiated Reduction	Implementation Period	
	Developed countries (1995-2000)	Developing countries (1995-2004)
Market access	Percent	Percent
Average tariff cuts for all agricultural products	-36	-24
Minimum tariff cuts per product	-15	-10
Domestic support		
Total cuts in aggregate measurement of support	-20	-13
Export subsidies		
Value cut	-36	-24
Volume cut	-21	-14

Least developed countries were required to bind their tariffs but are exempt from reduction commitments

Source: Burfisher, p. 2.

Table-2. Treatment of domestic agricultural support in the Uruguay Round Agreement on Agriculture

Category	General Criteria	Examples of Policies
Exempt support (green box)	Measures must be financed by government rather than consumers and must not provide price support to producers Specific criteria for general government services, public stockholding, domestic food aid, direct payments, and other programs	Direct payments to farmers that do not depend on current production decisions or prices; disaster assistance; government programs on research, extension, and pest and disease control
Exempt direct payments (blue box)	Direct payments under production-limiting programs must be based on a fixed area or yields, and cover 85 percent or less of the base production level or head of livestock	Direct payments to producers, linked to the production of specific crops, but which impose offsetting limits on output
Nonexempt support (amber box)	Market price supports, nonexempt direct payments and any other subsidies not specifically exempted are subject to reduction commitments	Market price support programs, and output subsidies

Source: Burfisher, p. 3.