What are the Impacts of US Farm Policies on Developing Countries?

A Discussion hosted by the Carnegie Endowment for International Peace and The International Food & Agricultural Trade Policy Council

Event Summary

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Although the US Farm Bill debate has engaged many domestic groups, the effects of US farm policies are felt far beyond US borders, and have economic and social implications for rural sectors in developing countries. While the next Farm Bill is being debated in Congress, the Carnegie Endowment for International Peace hosted a timely discussion on the forthcoming findings of a study to be published by the International Food & Agricultural Trade Policy Council (IPC) on what impacts US farm policies have on developing countries. The discussion, held on June 27, 2007, focused on the implications of US policy, the role of energy, the Doha Round, and white commodities in the Farm Bill debate, international food aid, and impacts on African agriculture. The featured speakers were Robert L. Thompson, IPC member and Gardner Endowed Chair in Agricultural Policy at the University of Illinois at Urbana-Champaign, and Mary Chambliss, independent consultant on international food aid issues. Mr. Samuel Amehou, Ambassador of Benin in Geneva and the former coordinator of the African Group, along with IPC Member Michel Petit, Professor at the Institut Agronomique Mediterraneen, served as commentators, and Sandra Polaski, director of the Trade, Equity and Development Program at the Carnegie Endowment, served as moderator.

Robert Thompson, emphasizing the diversity among developing countries as well as the diversity of groups within specific developing countries, began the discussion, mentioning that 70 percent of those in absolute poverty live in rural areas and depend on farming for their livelihoods. There are four principal ways by which US agriculture policies can adversely affect them (not all of them part of the farm bill), including: restricting imports of products in which developing countries have a comparative advantage; stimulating an overproduction of certain commodities in the US, that when exported, lower the international price of goods from which low-income country farmers derive their incomes; distorting food markets in developing countries by the provision of in-kind food aid and the practice of monetization; and reducing official development assistance for agricultural and rural development, which slows progress toward poverty reduction. Thompson stressed that US agricultural policy reform is not only the “right thing to do,” but also in the US’ long-term interest to build up the future markets for its exports.

OECD policies have affected the world price of rice the most, which studies have shown have been depressed by as much as 33-50 percent. The prices of sugar, dairy products, and cotton, the other “white commodities,” have also been depressed by rich country policies. As the US is such a large player in world agricultural trade due to the amount of its exports, its agricultural policies do significantly affect the world market for food. In fact, some 18 percent of US corn production accounts for 60 percent of the global corn trade. US domestic agriculture policy also may determine the success or failure of the Doha “Development” Round, and even without a Doha Round, US policy needs to be brought into compliance with its existing WTO obligations. Adding that all politics is local, Thompson said that the US should take the initiative for reform independent of WTO considerations, but for sound domestic reasons, since domestic reform mandated by international law would not help politicians win elections.

Thompson highlighted the impact of the US ethanol boom on the farm bill debate, as well as its potential impacts on developing countries. The increased prices of corn, as well as other commodities, given the shift of cropland to corn, means that government expenditure on subsidies coupled to production would be minimal (with the exception of cotton, which has not witnessed such price increases). Commodity prices are projected to be high for years to come, which makes this a good time to reform US farm policies. Thus, although a continuation of existing policies would arguably not have as negative of an impact on developing countries as in the past, reform now would ensure that such impacts could not occur at a time when prices decline. Thompson also referred to the export opportunities that may arise for some developing countries, as the US shifts a greater amount of its corn production out of exports into ethanol production.

Mary Chambliss discussed the importance of US food aid, which accounts for 50 percent of global food aid. While all food aid provided by the US is currently in-kind, there are proposals for the 2007 farm bill to allow local and regional purchases, at least in the case of emergency food aid. Such an approach would allow a more timely response to humanitarian disasters at less cost, and also help stimulate local and regional agricultural markets. The EU, Australia, and Canada have moved in this direction, but significant opposition to this continues among US agricultural groups and shipping companies. Chambliss also lamented the shift from long-term development aid into emergency food aid, and praised the emphasis the new head of the World Food Program has placed on the need to use food aid as a development tool.

Mr. Samuel Amehou, Ambassador of Benin in Geneva, underscored the importance of subsidy reform in the US as important for the development of African agricultural markets. Subsidies of the US and other OECD countries adversely affect the competitiveness of African agricultural products; lead to increased migration from rural areas into African cities and abroad. For reasons of survival and food security in Africa, Ambassador Amehou stressed that US farm reform is crucial, and that its leadership in this area will translate into positive progress in the Doha "Development" Round. If the 2007 US Farm Bill remains unchanged from 2002, Amehou said that farmers in West and Central Africa will be harmed, and that progress in agriculture and rural development will be halted for many years. He stressed that although AGOA provides significant preferences for African products, US subsidies can nullify these provisions.

IPC Member Michel Petit highlighted that farm reform impacts different countries and groups differently, with high prices benefiting producers, but not consumers. Petit spoke of the "worrisome" insufficient movement by the US on cotton, following the WTO's ruling. He also referred to the changes that have occurred in international trade negotiations; with both the Cancun Ministerial and the recent lack of agreement among the G-4, testifying to the strengthened voice of developing countries. However, the role of developing countries, and their increased negotiating position in WTO trade agreements is relatively new, and was not as pronounced before the Cancun Ministerial. Emphasizing that an elimination of agricultural support is politically unrealistic, he stressed the ongoing need to decouple subsidies from production, and expressed concern about the apparent movement in the US away from direct payments.

During the Q&A period, Terry Townsend of the International Cotton Advisory Committee asked whether import barriers in China hurt low-income countries as much as US farm support, and whether there are other domestic considerations in developing countries that also hinder agricultural productivity. Robert Thompson answered that with the proper property rights, environmental, political and macroeconomic stability, Africa could eventually have thriving agricultural markets; Ambassador Amehou acknowledged the need for further reforms in West Africa, but indicated that these certainly would not nullify the benefits to be derived from significantly higher cotton prices which would follow an elimination of US trade distorting subsidies.

Charlotte Hebebrand of IPC indicated that the impact of US farm policies on developing countries hinged in a sense on whether commodity prices remain high and asked the panel's view on their projections. Robert Thompson answered that according to recent studies, prices would continue to be high for at least two years, and then ease as production in the rest of the world increased and as cellulosic ethanol becomes commercially viable. Sandra Polaski added that besides the ethanol boom, the rising demand of China and India has played an important role in the price increase and that this is certainly not expected to decline.

Christian Berger of the French Embassy asked whether safety net policies – such as revenue insurance programs-- would be less trade distorting. Thompson noted that suppressing risk does to a certain extent have an artificial impact on production, and thus cause distortions in agricultural markets, but that a farm-wide program would be less distorting than commodity specific programs, and certainly preferable to subsidies coupled to production.

The full IPC study on US farm policy implications on developing countries will be released over the course of the summer. A set of IPC Farm Bill Briefs on these issues, and presentations given at this event, can be accessed online at http://www.agritrade.org/Publications/farm_bill_briefs.html.