US Farm Policies and Developing Countries
Q&A with Robert Thompson

On June 27, 2007, the Carnegie Endowment for International Peace hosted a 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. Discussion focused on the implications of US policy, the role of energy, the Doha Round, white commodities in the Farm Bill debate, international food aid, and impacts on African agriculture. Here, Robert Thompson, one of the authors of the report, answers in detail questions from reporter Missy Ryan about the Farm Bill, and the economic and political implications of US agricultural reform. The longer report, to be released during the summer of 2007, will be authored by Mary Chambliss, Timothy Josling, Kara Laney, Daniel Sumner, and Robert L. Thompson.

Q. What message is Congress sending in the direction it's taking on the farm bill? I'm thinking specifically of the House subcommittee decision last week to extend 2002 with some changes.

A. This subcommittee's action sends the completely wrong message and is out of touch with popular sentiment. The action flies in the face of abundant evidence that current farm programs, which were designed for the agriculture of an earlier era, are not achieving their intended objectives. Moreover, it ignores the ground swell of support for real reform coming from an unprecedented number and diversity of interest groups across the country, including several national farm and commodity organizations.

To the rest of the world, the subcommittee's action is seen as yet another example of the United States' arrogance and unilateralist approach when it comes to international relations. When Brazil took a case to the WTO alleging that the U.S. cotton program violates international trade rules (of which the U.S. was a principal author), it also took a case to the WTO against the EU's sugar policy. Both the US and the EU lost their cases. What is different is the EU immediately set about reforming its sugar policy, while the U.S. thumbed its nose at the WTO and the rest of the world. The U.S. was a year late in repealing the Step 2 export subsidy and has not yet made the changes in the cotton program necessary to bring it into alignment with the WTO cotton decision. In fact, the subcommittee's action on the cotton program last week went in the opposite direction.

Very worrisome is the widespread discussion of moving money from green box direct payments into the amber box to pay for the higher projected cost of increasing target prices and loan rates. This is contrary to the efforts of the U.S. and other countries in the WTO trade negotiations to reduce the distortions in international agricultural trade caused by domestic supports that are linked to the production or market prices of specific commodities. The domestic commodity programs that cause the greatest distortions in world trade are those linked to production of specific commodities, particularly in countries that provide very different levels of support to different commodities. The United States, where 93% of government payments go to only five commodities, is one of the countries with the greatest concentration of farm program benefits on a few select commodities. The objective of the WTO trade negotiations is not to reduce the overall support given to agriculture, but to reduce the share of that support that is linked to production of specific commodities, i.e. to move support from the amber box to the green box. The U.S. moved in this direction when it created direct payments on fixed historical bases, which would not be affected by current cropping decisions or market prices. If the 2007 Farm Bill shifts support from decoupled direct payments to measures that are linked to the production of specific commodities, this will be seen as the U.S. taking a huge step backwards and will severely undermine the credibility of the American negotiators in the current WTO ag trade negotiations. If people dislike the current system of direct payments, there are other ways to distribute the same amount of support to farmers without linking it to production of specific commodities, i.e. keeping it in the green box. Examples include conservation payments, research, rural development, and whole farm revenue insurance.

Those who argue that the WTO trade negotiations need to be completed before the U.S. changes its farm policy are being disingenuous. I know no members of the ag committees who want to go home to their constituents and explain that they changed U.S. commodity policy because some unelected bureaucrats negotiated the changes in Geneva. In the Uruguay Round the U.S. and E.U. both made reforms in their domestic ag commodity policies first for good domestic political reasons and then got credit for the changes they had made in the Uruguay Round Agreement on Agriculture. It should be noted that the EU is continuing on the path of reform, reducing amber box support and shifting it to the green box, while the

U.S., which started down that same path in the 1985 Farm Bill, reversed course in the 2002 Farm Bill. The rest of the world is waiting to see which way the U.S. goes in the 2007 Farm Bill.

To some extent, however, this is a moot point. Many U.S. farm organizations are much more interested in ethanol than exports today. And it is the corn-based ethanol boom that is driving the high current prices of corn, oilseeds and other grains. As ethanol production absorbs more and more of U.S. corn production, and more and more land is shifted out of other commodities into corn, our exports of corn, soybeans, wheat and perhaps other commodities can be expected to decline. Because the U.S. is a large supplier of these commodities to the export market, their world market prices will have to stay high enough long enough to induce Brazil, Argentina and other countries to expand their production enough to backfill behind the exports that the U.S. is not going to supply to the world market in the next several years. (See table below for market shares. For example, the 18% of U.S. corn production that we export makes up 60% of the corn that moves in world trade.) This is creating a huge opportunity for developing countries with potential to efficiently increase their agricultural production and expand exports. This is the converse of policies which have artificially expanded production and exports in the past, depressing incentives to developing country farmers.

Q. In terms of the farm bill's impact on developing countries, just to confirm, you believe that anything Congress does to keep in place subsidies that stimulate overproduction will be harmful to developing countries, especially those that are commodity exporters.

A. About three billion people, almost half of the world's population, live on less than $2 per day, and 1.25 billion people live on less than $1 per day, of whom 70% live in rural areas and depend on farming for their meager incomes. One has to question the fairness, if not morality, of policies in high income countries which reduce the income-earning potential of the lowest income members of global society. Moreover, widespread rural poverty contributes to illegal immigration and may also facilitate recruitment of people who have nothing to lose into extremist activities.

There are four avenues by which the agricultural policies of the U.S. and other high income countries can affect adversely low income country farmers' well-being:

- By restricting imports of products in which those countries have a comparative advantage to encourage larger U.S. domestic production, e.g. sugar, ethanol and citrus.
- By inducing larger production of commodities in which LDCs have a comparative advantage, which, when pushed out into world market, depresses world market prices, from which low-income country farmers derive their entire incomes, e.g. cotton and rice. The larger the United States' world market share, the greater the likelihood of world market price "suppression" caused by these larger exports. (See the table included below for data.)
- In-kind food aid, especially when it depresses market prices in low-income country markets, deprives local farmers of sales and reduces their income earning potential, e.g. monetization of food aid.
- By reducing foreign assistance for agricultural and rural development, retard economic growth and rural poverty reduction in LDCs.

Many argue that low income net food importing countries benefit from high income country policies that depress world market prices. This may well reduce their food import bills, but, to the extent that farmers make up the bulk of the people living in poverty in those countries, the high income country policies may still increase poverty by reducing the earning potential of the lowest income members of the recipient countries' populations.

It is important to emphasize that, while other countries dislike "box shifting" in which high income countries compensate for reductions in amber box support by increasing green box support, there is no expectation that the Doha Round will limit the amount of green box support. In fact, the Doha Round is not so much about reducing support to agriculture in general as it is about reducing the share of support which is linked to the production of specific commodities. This is widely misunderstood by American farmers. It is the CBO budget baseline, not the WTO trade negotiations, that is causing a reduction in overall support to U.S. agriculture in the 2007 Farm Bill.

Out of fairness, it is important to emphasize that not all, or even the majority, of developing country agriculture's problems can be attributed to high income country policies. Agriculture in many low income countries underperforms relative to its potential consistent with both economic efficiency and environmental sustainability due to:

- Corruption and/or macroeconomic instability
- Lack of definition or enforcement of property rights and contract sanctity
- Underinvestment in public goods, such as rural infrastructure, education and R&D.
- Cheap food policies to keep urban consumers quiescent – often reinforced by food aid or subsidized exports from high-income countries
- Lack of technology adapted to local agro-ecological conditions (soils, climate; slope)

Q. If Congress puts in place legislation that is detrimental for developing country growth, we're shooting ourselves in the foot because we need to develop future markets for U.S. exports.

A. The most important potential long-term payoff to U.S. agriculture from the Doha Round is that it be a successful "development round" which accelerates economic growth in low income countries. The best growth markets since World War II for U.S. agricultural exports have been previously low income countries which have successfully reduced poverty. A growing population of low income consumers creates need, but not market demand. It is only when people escape from their poverty that demand for meat, dairy products, fruits, vegetables and edible oils really takes off. The world's population is projected to grow 50% in the first half of the 21st century, from 6 to 9 billion people, with almost all of that growth in presently low income countries. The potential growth in global food demand from the 3 billion people whose consumption is presently limited by their poverty plus 3 billion more people, the majority of whom will be born into that poverty, is huge. And, because many low income countries have a significantly larger fraction of the world's population than of its arable land and, in some cases, fresh water, growth in their food demand tends to outstrip their food production capacity and they become larger importers of agricultural products.

In the Doha Round, a great deal of political capital is being expended trying to bash open high income country markets. The potential benefit of this is limited. Most high income countries other than the United States are projected to lose population in the coming decades. For example, Europe's and Japan's populations are projected to decline 10% and 22%, respectively, by 2050. Furthermore, their populations are aging, and older people eat less.

While many crop producers see corn-based ethanol as their salvation, it is expected that eventually cellulosic feed stocks will replace a significant share of the corn used in ethanol production. By that time, other countries will have expanded their production capacity and assumed the position of regular suppliers of to the world market. As long as there is broad-based economic growth that lifts the maximum number of people out of poverty in presently low-income countries, global demand for food could double in the first half of the 21st century. Any policies in high income countries that impede poverty reduction in low income countries will redound to our long-term disadvantage.

Q. You think the impact of US farm policy on the developing world isn't a big consideration for most lawmakers.

A. It is furthest from their thoughts. All politics is local, and Members of Congress vote along the lines of what they think will play best in their home districts in the next election campaign and what will ensure future campaign contributions. Back home in their districts there is not much thought about developing countries either, as reflected in the weak support for foreign aid. Members of Congress are, unfortunately, reflecting the sentiment of their voters.

Q. Any other thoughts on the farm bill's relationship to the Doha talks given last week's G4 meltdown? Is the U.S. missing the point when it comes to Doha's development agenda?

A. I think I have addressed both of these questions in the above responses. I would add just two points.

First, the Administration has not done a good job of communicating to American farmers what it has offered in the Doha Round negotiations and the potential payoff from the Round being a successful "development round." For example, most Midwestern farmers believe the U.S. offered a 60% reduction in agricultural support. There are two essential terms which most farmers have failed to hear (and which most media coverage has omitted), "cap" and "trade-distorting". The U.S. offered a 60% reduction in the Uruguay Round cap on trade-distorting support (i.e. amber box, that which is linked to the production of specific commodities). The cap is substantially larger than actual U.S. amber box support in most years, so it could be reduced quite a lot without having any impact on actual support provided. More importantly, when one takes into account the fact that any real reduction in actual amber box support can be made up fully by higher green box support, no real reduction in total support has been proposed or is contemplated in the Doha Round. The same applies to the proposed new cap on overall trade-distorting support (amber box plus blue box plus the two *de minimis* categories). Any real reductions there could also be made up with higher green box support.

It is worth noting that, just as is the case with high-income country exporters, the largest export growth potential for developing countries themselves is in other developing countries which are enjoying broad-based economic growth that lifts the maximum number of people out of poverty. In addition, developing countries, on average, impose higher barriers to agricultural imports from one another than the high-income countries impose on developing country exports. Therefore, developing countries themselves should be strong advocates for reducing barriers to South-South trade.

1616 P Street N.W. • Suite 100 • Washington DC • 20036 • USA
Phone +1 202 328-5056 • Fax +1 202 328-5133 • www.agritrade.org ▪ agritrade@agritrade.org