Institute for Agriculture and Trade Policy

A FAIR FARM BILL for the World's Hungry

A Series of Papers on the 2007 U.S. Farm Bill

The Institute for Agriculture and Trade Policy promotes resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

2105 First Avenue South
Minneapolis, Minnesota 55404 U.S.A.
Tel.: (612) 870-0453
Fax: (612) 870-4846
iatp@iatp.org
iatp.org
agobservatory.org
tradeobservatory.org

Jim Harkness, President

About this publication
A Fair Farm Bill for the World's Hungry

Edited by Ben Lilliston, IATP Communications Director

Part of a series on the 2007 United States Farm Bill

Published April 2007

IATP thanks Oxfam America for their generous support of our policy work on the Farm Bill

Cover: Artwork based on a poster for the Works Progress Administration Federal Theatre Project presentation of "The Sun Rises in the West," c. 1936–1941. Library of Congress, Prints and Photographs Division, WPA Poster Collection, LC-USZC2-5158 DLC.

THE FARM BILL *and the world*

The U.S. Farm Bill is one of the most important pieces of agricultural legislation in the world. The Farm Bill decides which crops the government will support, how involved the government will be in setting prices for those crops, and how much support the government will give to promote exports in the world market. All these aspects of the Farm Bill affect the world's poor and their access to food.

In 2007, the U.S. Congress will write a new Farm Bill, and there will be an opportunity to reevaluate the impact it has on world hunger. Past Farm Bills have been designed to push market prices for basic agricultural commodities down–in many cases below their cost of production. When exported below the cost of production–a practice known as dumping–these exported commodities have done enormous damage to farmers in poor countries who simply cannot compete. As many farmers in poor countries lose their livelihoods, those countries lose their ability to feed themselves and become vulnerable to volatile global markets to feed their hungry. Dumping artificially cheap food, instead of contributing to food security, is actually contributing to hunger. Another concern is the U.S. Food Aid program, set by the Farm Bill, which suffers from being inefficient and costly while encouraging practices that undermine farmers in countries that are food insecure. The Farm Bill also funds export credits to U.S.-based agribusiness firms, giving those firms an unfair advantage in the global marketplace and undercutting farmers in poor countries.

About 850 million people in the world are undernourished in 2007.[1] This briefing paper explores some of the key Farm Bill programs that impact people facing hunger around the world, and proposes policy solutions that would benefit them. Specifically, we examine three practices driven by the Farm Bill: agricultural dumping, food aid, and export credits.

Agricultural DUMPING

Since 1990, the Institute for Agriculture and Trade Policy has been documenting agricultural dumping by U.S.-based agribusiness firms for the five biggest exported crops: wheat, corn, soybean, rice and cotton. In the case of each commodity, crops were fairly consistently exported at prices below their cost of production from 1990-2003.[2] Developing country agriculture, vital for food security, rural livelihoods, poverty reduction and generating foreign exchange, is crippled by this competition from major dumped commodities.

Artificially cheap commodity prices associated with agricultural dumping have two major effects on developing country farmers who raise competing products. First, below-cost imports drive developing country farmers out of their local markets. If the farmers do not have access to a safety net of subsidies and credit (in most poor countries they do not), they have to abandon their land. When this happens, the farm economy shrinks, in turn shrinking the rural economy as a whole and the nation's ability to feed its own people. Second, developing country farmers who sell their products to exporters find their global market share undermined by the depressed "global price" that results from dumping. The cascading effects of dumping are felt around the world in places as far apart as Jamaica, Burkina Faso and the Philippines.

"Dumping has been very much a damaging practice to small and marginal farmers who cannot get a proper price for what they produce, and pay back the loans from banks and other moneylenders You may be surprised to know that some peasants have committed suicide because of [dumping]."

—Biblap Halim, South Asian Peasant Coalition
"Understanding Dumping," IATP (2005)

"In the entire Caribbean dumping is a problem. In recent years, there has been a flood of cheap chicken parts—backs and necks—from the U.S. It is becoming very difficult for the farmers to supply cheap livestock products because they can't compete. It is quite clear that this influx of cheap food products is affecting the food security in the region."

—Renwick Rose, Winward Island Farmers' Association in the Caribbean
"Understanding Dumping," IATP (2005)

WHAT CAUSES *dumping*

Dumping by U.S.-based corporations is possible because attempts to manage commodity production in the Farm Bill are poorly designed. The 1996 and 2002 Farm Bills produced a vast structural, price-depressing oversupply of most major agricultural commodities. This oversupply has driven prices down, often below the cost of production. The same price depression that has caused export dumping has also hurt U.S. farmers. While government payments mitigate some damage, the payments are largely directed to the biggest farms and are often insufficient to keep small farmers in business. The result has been the institutionalization of agricultural dumping by the U.S. Farm Bill and the loss of many family farms.

U.S. farm subsidies are frequently blamed for agricultural dumping, yet they are only a symptom of a much deeper market failure. The sharp increases in agricultural dumping in the U.S. can be traced to the 1996 Farm Bill, which stripped away weakened programs designed to manage supply and set floor prices that commodity buyers had to pay farmers. The pre-1996 programs helped to correct a structural flaw in agricultural markets: with millions of producers and only a handful of processors, commodity markets do not function according to the textbook theories of sellers and buyers having equal supply/demand information and negotiating power at the moment of sale. Given this structural imbalance in market power between farmers and agribusiness corporations, the government traditionally intervened to ensure competitive markets.

In 1996, the U.S. government abandoned intervention mechanisms at the behest of agribusiness lobbyists. The result: U.S. agricultural prices went into freefall. To prevent the collapse of U.S. agriculture, Congress then authorized ad hoc emergency payments and, in 2002, countercyclical payments to make up part of the losses resulting from the Farm Bill's reforms. The U.S. now has very expensive farm programs that make little attempt to establish an agricultural marketplace of fair prices and fair competition between farmers and commodity buyers and processors.

The direct influence of the 1996 Farm Bill on dumping is significant. Each of the five major export commodities saw a significant jump in export dumping when comparing the seven years (1990-1996) prior to the 1996 Farm Bill to the subsequent seven years (1997-2003):[3]

- **Wheat** dumping levels increased from an average of 27 percent per year pre-1996 Farm Bill to 37 percent per year post-1996 Farm Bill
- **Soybean** dumping levels increased from an average of 2 percent per year pre-1996 Farm Bill to 11.8 percent post-1996 Farm Bill
- **Maize** dumping levels increased from an average of 6.8 percent per year pre-1996 Farm Bill to 19.2 percent post-1996 Farm Bill
- **Cotton** dumping levels increased from an average of 29.4 percent pre-1996 Farm Bill to an average of 48.4 percent post-1996 Farm Bill
- **Rice** dumping levels increased from an average of 13.5 percent pre-1996 Farm Bill to an average of 19.2 percent post-1996 Farm Bill

All of these crops, with the exception of cotton, are critical food staples for poor countries struggling to address hunger. And cotton is an important revenue source for many farmers in poor countries.

WILL *biofuels* IMPACT DUMPING?

The burgeoning biofuels market in the U.S. is dramatically increasing domestic demand for corn and to some extent soybeans. The result is higher market prices for most major crops and likely a decline in agriculture exports. A report by IATP found that if only a quarter of proposed Midwest ethanol plants come on line, Midwest corn exports could be cut in half.[4] Such price increases could dramatically reduce agriculture dumping from the U.S. in the next few years.

But such an increase in prices could prove temporary. A similar increase of agricultural commodity prices occurred prior to the 1996 Farm Bill. It would be a mistake to design farm policy based on only a few years of higher market prices. There is no guarantee that commodity prices will stay high, particularly as farmers around the world chase the biofuels boom. The 2007 Farm Bill offers an opportunity to make long-term structural reforms in commodity programs to restore competitive markets and set fair market prices that benefit farmers in the U.S. and around the world.

IS U.S. FOOD AID *addressing hunger?*

The U.S. is the world's largest food aid donor, delivering an average of 4 million metric tons of agricultural commodities per year since 2002 and saving millions of lives.[5] Yet U.S. food aid has several unique characteristics that make it less efficient than it could be, and in some cases harmful, actually contributing to food insecurity. The U.S. Food Aid program is part of Title III of the Farm Bill. Historically, U.S. Food Aid programs were designed in the 1950s to meet four objectives: First, secure the goodwill of newly emerging countries during the Cold War; second, help poor countries with their development; third, find a new outlet for surplus production; and fourth, build future export markets. Some of these objectives are now outdated and the mix has undermined their effectiveness, yet U.S. Food Aid programs have remained largely unchanged.

There are six active U.S. Food Aid programs (table, p. 7).

WHAT'S *wrong* WITH U.S. FOOD AID?

U.S. food aid has been highly criticized around the world for being poorly planned and implemented, ultimately creating problems for local markets. Specifically, two practices of the program have been targeted: First, the monetization, or selling, of food aid by non-governmental organizations is expensive and often works to the detriment of local farmers and traders in poor countries battling hunger. The U.S. is the only food aid donor, aside from South Korea, that sells part of its food aid. All other countries donate all of their contributions. Second, taxpayer-funded export credits facilitate dumping of food aid (overseas sales of food aid at prices below the cost of production).[6]

A requirement that a minimum of 75 percent of U.S. food aid be procured, processed, bagged and shipped in the U.S., by U.S. firms, makes the program inefficient and costly. Rising business and transportation costs have actually contributed to a 43 percent decline in average tonnages delivered over the past five years, according to a recent analysis by the U. S. Government Accountability Office (GAO). The GAO found that for the largest U.S. Food Aid program, business and transportation costs represent about 65 percent of total food aid expenditures.[7] There is a global push toward encouraging more local purchasing of food aid. Most aid policy analysts agree that local purchases either within the country or from nearby countries are generally preferable to long-distance food contributions. Food can be purchased from less costly sources, because of lower or no shipping costs. And when properly managed, food purchased locally or from nearby developing countries can stimulate agriculture and other economic activities in hunger-prone regions.

But no cash donations are allowed under current U.S. legislation. Food aid shipments from the U.S. take between four and six months to reach their destination–making them pointless for rapid response and potentially harmful if the shipments arrive at a time when domestic production is available in the market. An Organization for Economic Cooperation and Development (OECD) study found that in-kind food aid, by conservative estimates, is at least 30 percent more costly per metric ton than food aid purchased by the recipient countries through cash donations.[8] The Bush administration has proposed that up to 25 percent of appropriated food aid funds for commodity purchases be made in locations closer to where they are needed.[9] The U.S. Agency for International Development estimated that the Bush pro-

ACTIVE U.S. FOOD AID PROGRAMS

Program	PL 480 Title I (program)	PL 480 Title II (emergency and project)	Bill Emerson Humanitarian Trust (emergency)	Food for Progress (project)	Food for Education and Child Nutrition (project)	Section 416(b) Agricultural Act of 1949 (project)
Managing agency	USDA	USAID	USDA	USDA	USDA	USDA
Program structure	Concessional sales of agricultural commodities; sold by recipient governments for budgetary support, etc.	Donations of commodities for emergency and non-emergency needs; may be sold in recipient country for development purposes.	Private firms are paid to store U.S. commodities in the U.S. against possible emergency shortfalls in developing countries.	Donation of commodities from PL 480 Title I, 416(b) or CCC stocks to eligible developing countries.	Donation of commodities + financial and technical assistance for educational and nutritional objectives in poor countries.	Donations of CCC surplus commodities for purposes of PL 480 Title II and III or Food for Progres Programs.
Operating agencies	Governments and private entities.	Governments, cooperatives, NGOs, public or private entities, intergovernmental organizations (mainly World Food Programme).	Governments, cooperatives, NGOs, public or private entities, inter-governmental organizations.	Governments, cooperatives, NGOs, public or private entities, inter-governmental organizations.	Governments, private entities, intergovernmental organizations.	Governments, cooperatives, NGOs, public or private entities, inter-governmental organizations.

Source: Modified from OECD/Clay, p. 16 and U.S. General Accounting Office, 2002.

posal could annually feed at least a million more people for six months and save 50,000 more lives.[10]

U.S. food aid urgently needs to be reformed to better help the world's hungry. While the world has seen increases in food production, food dependency in many developing countries has grown. Sub-Saharan Africa now receives half of total U.S. food aid contributions. More than 200 million people in Africa are undernourished, and of those, about 40 million in any one year face acute hunger. Countries in parts of Latin America and much of sub-Saharan Africa that once fed themselves and exported food are now net food importers. Most countries in sub-Saharan Africa, and many others in the developing world, need to increase their domestic food production to effectively combat hunger.

EXPORT credits

Also under Title III of the Farm Bill, U.S. export credit guarantee programs work with U.S. commercial banks to guarantee repayment of loans to importers to buy agricultural commodities from the U.S. The loans under this program are offered at interest rates lower than those available from commercial banks, and repayments are scheduled over a longer period of time than would be allowed by commercial lenders. The programs, financed by the Commodity Credit Corporation (CCC) and administered by the Foreign Agriculture Services of the U.S. Department of Agriculture, guarantee that in the event the importer defaults on repayment, taxpayers will pick up the bill. In the 2002 Farm Bill, the CCC made available $5.5 billion annually for Export Credit Guarantee programs.

The goals of the program are to "promote agricultural exports into emerging markets."[11] Unfortunately, the result has been to give U.S.-sourced exports an unfair advantage in the marketplace that again undercut farmers in poor countries. Poor-country farmers with no or only very expensive access to credit can't compete with exports financed at below-market interest rates in programs subsidized and guaranteed by the U.S. government.

In March 2005, the World Trade Organization ruled that $1.6 billion in loans under the export credit program were illegal export subsidies. While the target was the U.S. cotton program, the ruling covered the program writ large. So far, the U.S. has yet to fully comply with the WTO ruling. In July 2004, WTO members agreed to what was called the "July Framework" as part of the Doha Round of negotiations. Under that Framework, there was an agreement to limit the repayment dates for export credits to no more than 180 days, and also included some limitations on the interests rates that could be set. The Framework agreement will not go into effect until the very tenuous Doha Round negotiations are completed.

Recommendations

The U.S. Farm Bill has a number of programs that have a direct impact on the ability of poor countries to guarantee their peoples' right to food. There is growing awareness of the influence of the U.S. Farm Bill around the world. Organizations that care about global hunger have an opportunity to capitalize on growing awareness of the problem by targeting reforms in the 2007 Farm Bill. Major reforms that would benefit the world's hungry include:

- **Restructuring farm commodity programs:** U.S. farm commodity programs encourage over-production, low market prices and, in turn, agricultural dumping. Rather than doling out production and income support, Congress should reform commodity programs to establish a fair market price floor that would help farmers around the world to make a living.

- **Adding a Competition Title:** The Farm Bill needs to bolster antitrust enforcement and market transparency to address the gross disparity in market power between millions of producers and the three to six firms per commodity that dominate the trade, processing and shipments of agricultural commodities.

- **Publishing annual full-cost of production estimates:** One of the keys to identifying and addressing dumping is the publication of full-cost of production estimates for major commodities. These are necessary for enforcement of WTO rules and could be part of domestic anti-dumping provisions as well.

- **Reforming U.S. Food Aid:** The U.S. should follow other major donors in making the transition to an untied, cash-based food aid system; the government should phase out sales of food aid; and it should set strict limits on in-kind food aid.

- **Limiting the Export Credit Program:** The export credit program creates incentives for U.S. crops to be exported to developing countries where they otherwise would not be commercially viable. The program facilitates agriculture dumping. Setting limits on interest rates and payback times would modify the program for when beneficiary countries determine that export credit is needed to provide a critical margin of food security.

REFERENCES

1. Food and Agriculture Organization. State of Food and Agriculture. 2006. <http://www.fao.org/es/esa/en/pubs_sofa.htm>
2. Murphy, Sophia, Ben Lilliston and Mary Beth Lake. "WTO Agreement on Agriculture: A Decade of Dumping." Institute for Agriculture and Trade Policy. February 2005. <http://www.iatp.org/iatp/publications.cfm?accountID=451&refID=48532>
3. Ibid.
4. Schoonover, Heather and Mark Muller. Staying Home: How Ethanol Will Change U.S. Corn Exports. Institute for Agriculture and Trade Policy. December 2006. <http://www.agobservatory.org/library.cfm?refid=96658>
5. Melito, Thomas. "U.S. Agencies Face Challenges to Improving the Efficiency and Effectiveness of Food Aid." Testimony Before the Senate Committee on Agriculture. U.S. General Accountability Office. March 21, 2007. <http://www.gao.gov/new.items/d07616t.pdf>
6. Murphy, Sophia. *Food Aid: What Role for the WTO.* Institute for Agriculture and Trade Policy. November 17, 2005. <http://www.iatp.org/iatp/publications.cfm?accountID=451&refID=77567>
7. Ibid.
8. Murphy, Sophia and Kathy McAfee. "U.S. Food Aid: Time to Get It Right." Institute for Agriculture and Trade Policy. July 2005. <http://www.iatp.org/iatp/publications.cfm?accountID=451&refID=73512>
9. McConnell, Kathryn. "Administration Seeks To Spend More Food Aid on Non-U.S. Products." U.S. State Department. March 16, 2007. <http://usinfo.state.gov/xarchives/display.html?p=washfile-english&y=2007&m=March&x=20070316124915AKllennoCcM0.4633295>
10. Dugger, Celia. "Even as Africa Hungers, Policy Delivery of U.S. Food Aid." New York Times. April 7, 2007. <http://nytimes.com/2007/04/07/world/africa/07zambia.html?hp>
11. U.S. Department of Agriculture. Farm Bill 2002. Title III. Agricultural Trade and Aid. <http://www.fas.usda.gov/info/factsheets/fb2002/trade.html>

FOLLOW THE PROGRESS
OF THE 2007 FARM BILL AT

agobservatory.org

Institute for Agriculture and Trade Policy

2105 First Avenue South
Minneapolis, Minnesota 55404 U.S.A.

iatp.org Tel.: (612) 870-0453