THE "DE-COUPLED" APPROACH TO AGRICULTURE

History and Analysis of
"De-Coupling" Policy Proposals

September, 1988

Institute for Agriculture
and Trade Policy

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BACKGROUND

Although the concept of "de-coupling" was widely debated as far back as the 1940's, it disappeared from most domestic and international farm policy discussions during 1970's and early 1980's. It has recently been revived, spearheaded by Senator Rudy Boschwitz (R-MN) on the domestic front and U.S. GATT negotiator Daniel Amstutz on the trade policy front. They are both promoting "de-coupling" as an alternative to current U.S. farm policy. They believe that the 1985 Farm Bill has failed to achieve the most important objectives, reducing taxpayer costs and raising exports, and see "de-coupling" as the logical solution.

Farm program costs under the 1985 Farm Bill (1986, 1987, and 1988) have averaged nearly $22 billion per year, compared to roughly $11 billion per year under the 1981 Farm Bill and less than $3 billion per year under the 1977 bill.[1]

Although total farm exports in 1987 were up slightly over 1986, they were still 30% under the $40 billion dollar levels of the early 1980's.[2] Moreover, the combined exports of our three most important crops, corn, wheat and soybeans, have fallen steadily since the passing of the 1985 Farm Bill. Exports of corn, wheat and soybeans, which were $16 billion in 1981, fell to $10.96 billion in 1986, and then down again to $10.3 billion in 1987. Even these meager results have come at a very high cost to U.S. taxpayers, with requiring export subsidies that have added billions to our budget deficit. In a recent deal for example, the Soviet Union paid only 40% of the cost of production for U.S. wheat; the rest was subsidized by U.S. farmers and taxpayers.

Although some Republican farm policymakers have recently argued that budget costs and exports will eventually improve, powerful forces within the academic and agribusiness communities are not convinced. They have launched a high visibility lobbying campaign to promote "de-coupling" farm policies at both the domestic and global level. Their hope is to drastically cut the costs of the U.S. farm program while restoring exports to their previous levels.

Cargill Grain Corporation, the chief architect of this "de-coupling" promotion campaign has pulled together a dozen of the largest U.S.-based agribusinesses to form an Agricultural Policy Working Group (APWG) to lobby for "de-coupling". A number of economists have been recruited to lend academic credibility, including Stan Johnson from Iowa State, Willy Meyers from the Food and Agricultural Policy Research Institute (FAPRI), and George Rossmiller from Resources for the Future. This combination of agribusiness financing and academic endorsement is likely to make "de-coupling" the major Republican farm policy proposal in the 1990 farm bill debate.

Alongside of this domestic legislative effort, the grain companies have convinced the Administration to make "global de-coupling" their primary objective at the General Agreement on Tariffs and Trade (GATT) agricultural negotiations in Geneva. Like domestic "de-coupling", the global approach includes an end to all farm programs except direct welfare-type payments, the lowering of farm prices, and an end to all import regulations. The U.S. "global de-coupling" proposal has sparked an important debate in the GATT trade talks making it one of the two major positions receiving serious consideration.

On both the domestic and international fronts, "de-coupling" has emerged as a major, though highly controversial option. This paper looks at the specifics of these proposals, their likely implications and the emerging support and opposition that will determine the fate of "de-coupling" during the next decade.

DEFINITION AND UNDERLYING PHILOSOPHY

So what is "de-coupling"? Unfortunately, there is no one simple answer. The term has been used to both to describe an economic philosophy, and as a title for specific legislation and trade proposals. It is worthwhile to examine both the underlying philosophy and the specific proposals in search for a comprehensive understanding of "de-coupling."

Cargill Corporation, the main force behind the revival of domestic and global "de-coupling," is the most articulate in defining "de-coupling." Cargill President, James Spicola, said that a "de-coupling" farm program would be one where there are no income supports except those "provided through direct payments that are neutral to production and trade."[3] Cargill's Vice-President for Public Affairs, Robbin Johnson, expanded on this, suggesting that "de-coupling" could include "reasonable income protection divorced from prices, planting, or marketing decisions." Warning that this income protection "should be only temporary or transitional" Johnson argued that "any payments need to be treated, in trade negotiations and in domestic implementing legislation, as structural adjustment assistance designed to unwind the distortions caused by past farm policies."[4]

Daniel Amstutz, former head of Cargill's Commodity Trading Division, now serves as the chief U.S. agriculture trade negotiator at GATT. He is the author of the "global de-coupling" GATT proposal made by the U.S. Amstutz defines "de-coupling" as a government-paid farm income support program where payments are "independent of the current or future value of a farmer's production and marketings, input use or commodity prices. This means if less or none of the commodity is produced or if prices are low or high, a "de-coupled" payment will not vary." Amstutz also argued, in the same speech, that farm programs must be limited to "providing transitional income support for farmers. 'De-coupled' payments could be aimed at income support goals such as assisting farmers in a transition period. Or, on a one-time lump sum basis, 'de-coupling' payments could facilitate resource adjustment, helping farmers change jobs."[5]

Senator Rudy Boschwitz, chief sponsor of the domestic "de-coupling" legislation, defines it this way, "The goal of 'de-coupling' is to make the farmer's planting decisions entirely neutral from the government program. Several conditions must be met before the planning decision becomes neutral.

- The income support payment, which we call a transition payment, must be made relative to an historic measure of base and yield.
- The payment must be independent of what is planted in the current year. The farmer can grow whatever he wants and still get the payments.
- The amount of the payment must be known in advance so the farmer can depend on it.
- There must be no annual acreage reduction requirement as a condition for getting the payments."[6]

Boschwitz has acknowledged that "de-coupling" will cause a sharp rise in government costs along with significant drop in farm prices. "Initially, the program would cost more than current programs, but would decline to levels that are less than current law. To make the program attractive to farmers and to elicit a real market response, the loan rates in this program would need to be very low, $1.00 or less a bushel on corn, with correspondingly low rates on other crops."[7]

Resources for the Future (RFF), one of the agribusiness-funded think tanks promoting "de-coupling," spelled out some of the current farm programs that would not be acceptable under "de-coupling." In their "Briefing Book on De-Coupling", RFF argues that the only true "de-coupling" proposals would both prevent trade distortions and have no significant impact on resource allocation. According to RFF, "de-coupling, by eliminating the difference between world and domestic prices, eliminates <u>both</u> trade distortion and the misallocation of resources. Not all policies that eliminate trade distortions, however, necessarily eliminate resource misallocations. Supply control is a good example of a program that reduces trade distortion effects by maintaining domestic resource misallocation."[8]

In addition to their belief that supply management programs would not be allowed under "de-coupling", RFF also makes a strong case that "de-coupling" would require the abolishing of all U.S. import control programs. "The sugar loan and import quota and the dairy price support and import quota are the most highly trade distorting of U.S. agricultural policies."[9]

In the same report, RFF also cited the "distorting" impacts of existing soil and water conservation programs, like the Conservation Reserve Program (CRP). Specifically, they criticize the CRP in this way, "by reducing plantings, the (CRP) program has a net effect of reducing production, consumption, and trade while increasing domestic and world prices."

Based on the comments and writings of the major supporters, a "de-coupled" farm policy would include the following:

- All current farm programs which are tied to production would be eliminated. This would include deficiency payments, CCC price support programs, marketing orders, and all existing domestic quota programs.

- All programs of acreage reduction and supply management would be eliminated, including short, medium, and long-term land set-aside programs.

- CCC loan rates and domestic market prices would be drastically lowered, resulting in a corresponding drop in the world prices. (Senator Boschwitz estimated that corn prices would need to be cut to $1 per bushel, with other crops lowered to similar levels.)

- Government payments to farmers would be available either on a one-time basis or phased out over 5 to 10 years.

- Farmers would receive government payments based on previous production levels. The larger your production in the past, the greater your payments would be. These payments would be made without conditions or requirements.

- All export subsidy programs, including export enhancements and deficiency payments, would be banned.

- There would be no restrictions on what crops could be grown by farmers on their land. For example, non-program crops could be grown on any available land. In addition, soil and water protection programs which affect production, consumption, trade, market prices or resource allocation would be banned.
- The cost of this program would be very high at first, but then would decrease as payments were phased out.
- Quotas and tariffs, which are used to regulate imports of beef, dairy products, peanuts, tobacco, sugar, fresh produce wheat, corn, soybeans, cotton, rice and other commodities would be prohibited.

SPECIFIC PROVISIONS OF THE BOSCHWITZ PROPOSAL FOR DOMESTIC "DE-COUPLING"

No one, of course, has proposed pure "de-coupling". However, the "Family Farm Protection Act," authored by Senator Boschwitz, is the major current domestic "de-coupling" legislative proposal. The following summary of this bill is taken directly from his brochure, "The De-coupled Approach to Agriculture."[10]

"Provisions - S-1725
Family Farm Protection Act

-- 6-year bill covering crop years 1990-1995.
-- Crops covered - wheat, feed grains, cotton, ELS cotton, rice, soybeans and sunflowers.

CCC LOAN RATE ($)

Wheat	1.60 bu.
Corn	1.30 bu.
Cotton	.45 lb.
Rice	4.50 cwt.
Soybeans	3.50 bu.

Loan rates for other feed grains, sunflowers, and ELS cotton will be set in relation to corn, soybeans and upland cotton respectively.

Nonrecourse commodity loan rates may be adjusted by not more than 5 percent if, in the previous two marketing years, market conditions warrant such an adjustment and such an adjustment will not jeopardize the competitive position of the United States.

Marketing Loan

If world market prices are below the loan rate, the Secretary must allow repayment of nonrecourse commodity loans at the world market price.

EQUITY PAYMENTS ($)*

Wheat	1.35 bu.
Corn	1.04 bu.
Cotton	.208 lb.
Rice	4.38 cwt.
Soybeans	.80 bu.

*"Equity Payments" is the term for direct government payments to farmers (editor's note).

Equity payments for other feed grains, sunflowers, and ELS cotton will be set in relation to corn, soybeans, and upland cotton respectively.

Payment rates will be determined by multiplying the 1989 crop acreage base by the 1989 program payment yield for each crop.

Payments will be reduced by 10 percent in each crop year. Soybean and sunflower payments will be reduced by 20 percent per year.

Producers will have the option of signing multiyear contracts for the life of the bill in order to be certain of program payment levels.

The Secretary is required to protect the interests of tenants and sharecroppers in the making of such payments.

Production Control Programs

The Secretary may not require participation in any acreage limitation or land diversion program as a conidition of eligibility for other program benefits.

The bill does not modify the current Conservation Reserve Program (CRP). Therefore, land already enrolled in the program and future CRP acreage levels mandated by the Food Security Act of 1985 will not be reduced. The CRP is designed to idle 40 to 45 million acres by 1989.

As a cost reduction option, the Secretary may accept bids for acreage diversion on an annual basis. Such bids would be in addition to and not in lieu of equity payments. The combination of paid diversion and CRP land diversions may not exceed 50 million acres.

CCC Sales Policy

The Commodity Credit Corporation (CCC) may sell acquired commodities at 125 percent of the then current loan rate for each commodity. If prices fall below 125 percent of the loan rate, CCC must discontinue sales.

Export Programs

Authority to export bulk commodities through the Export Enhancement Program (EEP) are discontinued. Funding for value added and processed products will continue through the life of the bill at not less than 100 million or more than 250 million.

Non-Program Crops

Producers of wheat, feed grains, cotton, ELS cotton, rice, soybeans and sunflowers receiving transition payments would only be allowed to plant non-program crops on the percentage of their acreage base that corresponds to a cumulative percentage reduction in their payments.

The percent of the 1989 farm acreage base that may be planted to nonprogram crop follows:

1990	0%
1991	10%
1992	20%
1993	30%
1994	40%
1995	50%

Non-program crops currently permitted for planting on "50/92" land will continue to be permitted on all acreage.

Haying and grazing will be allowed on the percent of the farm acreage base outlined above and the acreage devoted to wheat during the 1989 crop year.

Producers may plant any combination of wheat, feed grains, cotton, ELS cotton, rice, soybeans and sunflowers on the equivalent of their 1989 crop acreage base.

Payment Limitation

Producers will be eligible to receive transition payments on a tiered basis that is inversely related to farm size.

All payments and marketing loan benefits will be subject to an overall cap of $200,000 (current cap is $250,000).

The first $50,000 of payment eligibility will be credited to the producer at 100 percent. Each additional $50,000 will be subject to successive 10 percent reductions in the amount credited. All payments and marketing loan benefits are subject to the limitation.

The payment limit schedule is as follows:

1st $50,000 credited at	100%	=	$ 50,000
2nd $50,000 credited at	90%	=	45,000
3rd $50,000 credited at	50%	=	40,000
4th $50,000 credited at	70%	=	35,000
5th $50,000 credited at	60%	=	30,000
TOTAL			$200,000

Farm Income Hold Harmless Clause

If, in crop year 1990 and 1991, the Secretary determines that net farm income for producers of wheat, feed grain, cotton, ELS cotton, rice, soybeans and sunflowers, on a commodity by commodity basis is less than it would have been if the 1985 Food Security Act were continued and had such producers participated in the wheat, feed grain, cotton, ELS cotton, rice, soybeans and sunflower programs as determined by the Secretary, the Secretary shall make additional payments so that net farm income on a commodity by commodity basis meets or exceed that which the Secretary determines would have occurred under the 1985 Food Security Act."

IMPACT OF DOMESTIC "DE-COUPLING

Farm Income and Government Costs

S-1725 would affect U.S. farm income in three primary ways:

- Lowering CCC price support levels, resulting in lower farm prices;
- Phasing out all deficiency payments and other direct government payments;
- Providing direct welfare-type payments called "equity" payments.

Table 1 compares farm income under "de-coupling" with the average cost of production for U.S. family farmers over the six years life of the legislation for just corn, wheat, and soybeans. The total losses to U.S. producers could be over $100 billion dollars. Total losses, when all other crops are included, could be much higher.

Table 1*
Losses for Corn, Wheat, and Soybean Producers

	Proposed "De-coupling" Prices (per bu.)	Proposed Equity Payment (1st year/ per bu.)	Total of Proposed Prices & Equity Payment (1st year/ per bu.)	U.S. Average Cost of Production (per bu.)	Loss to Farmers Under "De-coupling" (Per bu.)	Total U.S. Production (bushels)	Income Loss (First Year)
Corn	1.30	1.04	2.34	3.00	.66	8.3 billion	$ 5.478 billion
Soybeans	3.50	.80	4.30	6.80	2.50	1.9 billion	$ 4.750 billion
Wheat	1.60	1.35	2.95	4.80	1.85	2.1 billion	$ 3.885 billion
					Total Loss (First Year)		$ 14.113 billion
						Losses Year 2+	15.553 billion
						Year 3	16.993 billion
						Year 4	18.433 billion
						Year 5	19.873 billion
						Year 6	21.313 billion
					Losses Over Six Years		$106.278 billion

* Production figures are from 1987 marketing year. Cost of production estimates are from North Dakota State University, and Ohio State University.

\+ Soybean equity payments are reduced by 20% per year over 5 years, while wheat and corn are reduced by 10% per year under the provisions of S.1725.

Total taxpayer cost of this proposal would be over $56 billion, (Table 2).

Table 2
Estimated Government Costs Over the First Six Years

	Proposed "Equity" Payment (Year one/per bu.)	Total U.S. Production (Bushels)	Total Cost (Year 1)
Corn	1.04	8.3 billion	$8.63 billion
Soybeans	.80	1.9 billion	$1.52 billion
Wheat	1.35	2.1 billion	$2.84 billion
		TOTAL - Year 1	$ 12.99 billion
		Year 2*	$ 11.55 billion
		Year 3	$ 10.11 billion
		Year 4	$ 8.67 billion
		Year 5	$ 7.23 billion
		Year 6	$ 5.79 billion
		6 Year Total	$ 56.34 billion

* Soybean equity payments are reduced by 20% per year over 5 years, while wheat and corn equity payments are reduced by 10% per year.

Production and Surpluses

"De-coupling" is likely to lead to an increase of production due to both an increase in yields and an increase in the number of acres which will be farmed. In the past, falling farm prices have almost always pushed farmers to boost production in order to make up for the lower prices.

During the first couple of years of "equity" payments, farmers who had previously grown crops covered by "de-coupling," would have a guaranteed income, enabling them to farm all of their land very intensively. In the later years, as "equity" payments dropped, a number of smaller farmers would be unable to continue farming. As these producers are "shaken out," they would be replaced by more capital-rich owners with the financial resources necessary to further intensify production. As prices continue to fall, those farmers who want to survive are forced to constantly increase their yields, primarily through increased use of fertilizer, chemicals, and irrigation.

At the same time that production is being intensified, S-1725 would abolish acreage reduction programs, bringing millions of additional acres into production. In 1986 and 1987, for example, U.S. farmers had roughly 75 million of fallow acres, including both short and long-term set-aside programs. Under the 50 million acre limit dictated by the law, at least 25 million acres would be forced back into production.

A portion of the 25 million acres brought back into production would be opened up for livestock and non-program crop production, which could lead to the creation of new surpluses in these products.

In addition to causing an increase in total production, "de-coupling" could also result in a drop in sales of U.S. produced agricultural products. For example, under S-1725, world commodity prices would fall simultaneously with U.S. prices, significantly reducing the export earnings of Third World countries who depend on these commodities as their primary exports. This would especially affect Brazil, Thailand, Mexico, the Philippines and Argentina, reducing their ability to buy a wide range of U.S. produced goods, both agricultural and industrial. This will also place the U.S. banks with major loans to these countries in jeopardy of loan defaults by these countries.

The ending of the Export Enhancement Program (EEP) would also reduce U.S. export sales, especially of wheat. Nearly 75% of our current wheat sales have been made with the help of the EEP program.

Finally, if U.S. import controls were abolished under "de-coupling", imports of competing products from other countries could rise significantly. For example, if U.S. beef import quota law was abolished, U.S. meatpackers and fast food restaurants would buy more beef from Central and South America where wage differentials and less strict environmental and health regulations make them lower cost producers. This could significantly reduce internal sales of U.S. beef. Table 3 summarizes the potential impact of "de-coupling" on the total supply and demand situation.

Table 3
Potential Impact of "De-coupling" on Supply, Demand, and Surpluses

Increases in Production

- More intensive farm practices as producers attempt to boost yields to make up for falling prices and income
- 25-30 million acres brought back into production
- Forced liquidation of some small and medium-sized producers, who would be replaced by larger, more capital-intensive owners able to invest in all yield-enhancing techniques and new bio-technological developments
- Some new land will be used to produce livestock and non-program crops, creating potential surpluses of these commodities

Decreases in Demand for U.S.-Produced Commodities

- Falling world prices would decrease ability of commodity exporting countries to buy U.S.-produced goods, both agricultural and non-agricultural
- Suspension of Export Enhancement Program would reduce some exports, especially wheat
- Removing border controls would result in increased U.S. imports of beef, dairy, sugar, wool, tobacco, peanuts, and other crops which would which would displace U.S.-produced goods.

Environmental Impacts

Senator Boschwitz, in his booklet "<u>The De-Coupled Approach to Agriculture</u>," uses the environmental disasters of the current 1985 Farm Bill as one of his major arguments for abandoning the current farm policy approach.

"Our present programs not only force intensive production but they reward it too. Prior to the 1986 crop, the more a farmer produced, the more he got paid by the government. We were able to stop this production incentive inherent in the target prices by freezing the program payment yield, but farmers may still receive commodity loans on all of their production. However, as long as the loan rates are above the variable cost of production, producers will have an incentive to squeeze more bushels, bales and pounds from every acre.

There is little room for trees, grass waterways, and terraces given these production incentives. Furthermore, water quality problems and excessive water use are of serious concern in rural America. Farm programs, such as the present one, that encourage maximum input use are certainly no benefit to the national environment."[11]

Although Boschwitz is clear about the environmental disasters of the 1985 Farm Bill, "de-coupling" would make things much worse. Under "de-coupling," agriculture- related environmental damage will increase due to at least nine specific factors.

1. Increase in land under cultivation.

Current farm legislation has allowed farmers to fallow over 75 million acres over the past few years. With a 50 million acre limit, S-1725 would bring 25 million or more acres of land back into production. In addition, this 50 million acres limit will mean that at least 30 of the estimated 80 million acres of highly erodible land will not be taken out of production through CRP-type program.

2. More intensive use of pesticides and fertilizer.

Gary Meyers, the head of the Fertilizer Institute, has thrown the support of the chemical industry behind "de-coupling," because it will mandate "reductions in prices which will provide incentives for farmers to improve their production efficiency."[12] In other words, prices will fall so far it will force farmers to maximize their production per acre to try to maintain their income.

In order to maintain the same level of income under the lower prices dictated by the legislation, corn yields would need to rise from the current average of 100 bushels per acre to 160, and soybean production would need to rise from 36 bushels to over 60.

3. Farm prices will fall, leaving farmers with less income.

As farm prices are lowered under the general program and through the marketing loans, farm families will end up with less income. This will both make it more difficult for them to take the risks necessary to convert to more sustainable practices and it will make it less likely that they can invest in vital soil and water conservation improvements.

Ultimately, a number of farm families will not be able to survive, even if they cut corners and intensify their production. They will be replaced by lenders, absentee owners, and much larger, capital-rich producers--all with the economic means to intensify fertilizer and chemical use enough to survive under "de-coupling" policies.

4. Families on the land will be replaced by corporate and/or absentee owners.

   The level of farm bankruptcies and foreclosures would rise dramatically under "de-coupling." Even Resources for the Future admits that, "The number of farms may decline at a faster rate than at present as farmers consolidate their holdings to become more competitive."[13] Land takeovers and re-possessions by insurance companies and other large entities have been quite detrimental to both soil and water conservation and to the long-term development of sustainable agriculture.

5. Smaller, diversified livestock producers will be replaced by large-scale feedlots.

   The reduction of feedgrain prices planned under "de-coupling" will put large cattle, hog, and poultry producers at an enormous competitive advantage over smaller, diversified family operations who grow their own feed. Under, S-1725, corn that costs around $3 per bushel to produce can be bought by a corporate feedlot or dairy for $1.30 per bushel, or even less under the marketing loan provision.

   It will also mean greater environmental problems caused by the run-off of manure from these huge operations. In addition to the on-site environmental hazards, the concentration of livestock into large scale units brings additional problems with diseases, fostering increased reliance on antibiotics and the use of nuclear irradiation to control these threats to animal and human health. These large-scale producers are also the major advocates of legalizing growth hormones and other artificial stimulants to further boost production.

6. Budget costs will continue at record levels, reducing funds for conservation and sustainable agriculture programs.

   The huge cost of "de-coupling," especially in the first years, will tend to limit the funds available for spending on other agriculture related concerns. In each agricultural budget battle over the past few years, soil and water conservation programs have been some of the first items sacrificed. In addition, the inclusion of marketing loans in this legislation will add significantly to costs in the later years of the program, limiting the financial possibilities for long-term conservation efforts.

7. Uncontrolled and unfair competition will be created for existing small and medium sized producers of non-program and specialty crops.

   First, producers of non-program and specialty crops will find their markets flooded by the shifting of land now in set-asides into production of their crops. Next, current base acreage will be shifted to non-program crops. In addition, S-1725 subsidizes producers of program crops with "equity payments," while those producers who have traditionally grown non-program crops are denied these payments. This would unquestionably be unfair treatment for the small- and moderate-sized farmers who are already diversified and who are often the best stewards of the land.

8. Impact on the environment in the Third World

The environmental impacts of the current US farm bill, especially the low prices set for rice, wheat, corn, and soybeans, has already been a disaster in many Third World countries around the world. Downward pressure on prices has forced debtor nations to intensify their production of these crops in order to keep up their export earnings in the face of lower prices. Individual farmers have been forced to "mine their land" and to "poach the rainforests in hopes of surviving in the face of lower prices. "De-coupling" will lower prices even further, creating an even greater disaster.

9. Elimination of conservation compliance requirements.

Cross compliance features, such as sodbuster and swampbuster provisions, are not included in the Boschwitz legislation.

In an effort to gain support for "de-coupling" among environmental groups, Senator Boschwitz has offered the possibility of tieing the "equity payments" to conservation compliance requirements. While this may attract some to "de-coupling", the overall negative impacts on the environment identified above are not affected. It does not change the fundamental problems with the entire concept. As long as the overall policy is toward ever lower prices and an end to supply management, the land will be farmed for maximum production.

Environmental Arguments "In Favor" of De-coupling

Supporters of "de-coupling", especially the major grain companies, have ironically attempted to argue that "de-coupling" has major environmental benefits. Their arguments are in two general areas.

First, they argue that "de-coupling" will at least be better than the current farm bill, which tends to encourage farmers to try to produce more on the land they are allowed to farm and locks farmers into fixed production patterns that do not encourage crop rotations or diversification.

Second, they believe that "de-coupling" has inherent environmental advantages. They argue that farm prices will fall so low that farmers won't be able to afford to buy chemicals and fertilizers and, according to Senator Boschwitz, "de-coupling will make sound conservation practices economically competitive with high intensity farming."

The first argument, that "de-coupling" would be better than the 1985 Farm Bill in that it would not encourage intensification is simply unsupported. The Fertilizer Institute supports "de-coupling" because it will mean higher sales of fertilzer and chemicals. They support it because they know it will force farmers to intensify their production or be replaced by larger producers who have enough capital to intensify enough to survive.

The argument that "de-coupling" will be better because it will allow farmers to diversify cropping patterns is an important point. The current farm program, which Senator Boschwitz voted for in 1985, does force farmers to follow fairly rigid cropping patterns, especially given the way it has been administered by the U.S.D.A. However, S-1725 goes beyond simply ending patterns of fixed cropping. It provides a guaranteed income to producers of traditional commodities, allowing them to shift to non-traditional crops with enormous competitive advantage over current producers. Creating a crisis for non-program crop producers is not an acceptable solution to the disastrous farm policies contained in the current farm bill.

Their other arguments, that farm prices would be set so low that farmers would be unable to buy fertilizer and chemicals and that "de-coupling" will make sustainable farming economically competitive with high intensity farming are simply unsubstantiated. Again, it is not likely that the chemical dealers would be strong supporters of "de-coupling" if there was any truth in this.

Sensing the growing environmental opposition to their proposals, "de-coupling" supporters have launched a series of internal debates and discussions on their next strategy. They are floating two potential modifications to the current "de-coupling" legislation in an attempt to overcome some of the major environmental objections.

The first modification being considered was included in a letter from Senator Boschwitz to environmental groups in the summer of 1987. It is an effort to mask the fact that "de-coupling" means putting farmers on direct, welfare-like payments.

> "The most severe hurdles facing the decoupling concept are the perception of the farm income payments (in decoupling, we term it an 'equity payment') as welfare, the concern that the scheduled phase down of equity payments is too rapid, leaving farmers with undeveloped and risky cropping alternatives, and the short-term budgetary costs of decoupling.
>
> The solution to all three of these concerns could lie in the realization of external (i.e. environmental and off-site) values. With this in mind, the equity payment could be split into a "decapitalization payment" and a 'soil bank' or 'conservation' payment.
>
> The decapitalization payment would be meant to reverse the capitalization of the old farm program. It might equal 85% of the present deficiency payment and be gradually phased out over 10 years.
>
> The other part of the equity payment would be a soil bank payment. It would equal maybe 25 percent of the present deficiency payment and would be funded by external interests (i.e. interests outside of agriculture) who benefit from conservation practices in agriculture.
>
> I hope you see the inclusion of the 'soil bank payment' within the equity payment as a way of making decoupling more palatable to everyone involved."

Although some have condemned this new strategy of Senator Boschwitz as pure unadulterated cynical politics, it is important to analyze the legislative possibility of this new approach.

It appears that the greatest obstacle to serious legislative consideration will be the cost. Overall, it would add another 10% to the current cost of the program, which has averaged over $20 billion per year since 1985. Although the additional 4-5 billion dollars that would be spent on the "soil bank" portion would come from other parts of the federal budget, it would still add to the deficit. This would be considerably more money than we spend today for all soil and water conservation programs combined. In fact, it would be more than we have spent in the last 6 years combined. It is doubtful that spending increases of this magnitude will be able to get through Congress, OMB, or the White House anytime soon. Even if Congress was able to find this amount of funding to preserve our soil and water resources, it is unlikely that it would be spent as envisioned by Senator Boschwitz.

Senator Boschwitz's second strategy to make "de-coupling" more palatable is to alter the terminology. For example, his staff has started to use the phrase "de-couple and then re-couple." By this twist in language, they are suggesting that payments be "re-coupled" to farmers on the basis of strict agreements on precise methods of conservation farming. In other words, farmers could get their welfare check as long as they promised to farm in the way prescribed by the government.

Already this new rhetoric has been picked up by some environmental groups, suggesting that it could be a somewhat successful new strategy. However, changing the language and adding a few details does not change the fundamental features of "de-coupling." As long as the overall policy is towards lower farm prices and ending supply management, the land that is farmed will be driven to produce the maximum volume possible, regardless of the environmental costs.

Downplaying the Negative Environmental Impacts

Resources for the Future (RFF) is attempting to recruit environmental groups to support "de-coupling." In their "Briefing Book on De-coupling," co-published with the Farm Foundation and the Center for Agricultural and Rural Development at Iowa State University, they attempt to downplay the negative environmental consequences.

RFF asserts that "land in cultivation will be farmed less intensively, (with) lower application rates of fertilizers and pesticides."[14] Not only is this statement directly contradicted by Gary Myers from the Fertilizer Institute, it cannot be supported by any recent historical experince. Surveys among farmers indicate that under "de-coupling" policies farmers expect to use more pesticides and fertilizers, in hopes of producing enough additional crops to make up for the lower prices.

RFF also argued that the "elimination of support for program crops will lead to greater diversity of production and more use of crop rotations as the need to preserve a crop-specific base acreage is removed."[15] Although the removal of the "base acreage" concept would give farmers a wider range of options, nothing in the current "de-coupling" proposal would automatically lead to greater diversity or improved crop rotations.

The RFF report is, however, in agreement with other analysts in their conclusion that "de-coupling" would accelerate the trend towards fewer and larger farms, and more tenant farms. "The number of farms may decline at a faster rate than at present as farmers consolidate their holdings to become more competitive. The effect on farm labor is uncertain, as increases in hired labor by expanding farms and livestock operations may offset the decline in the number of farm operators."[16] Experience has been, thus far, that when outside investors take over farmland, the ethics and values which underly concern about soil and conservation can be lost completely.

RFF also condemned the Conservation Reserve Program (CRP) as being inconsistent with "de-coupling," stating that it would have the "net effect of reducing production, consumption, and trade while increasing domestic and world prices."[17] In their chart comparing the "Effects of Some Current U.S. programs on Production Consumption, Trade and Prices," the CRP is one of the programs which they condemn for having damaging impacts in all areas of evaluation.[18] Although the Boschwitz bill maintains the CRP program, it restricts total set-aside possibilities to limit future programs.

Impact on Land Values and Farm Input Businesses

Iowa State economist, Dr. Neil Harl, summarized the anticipated impact on land values and rural businesses in a recent speech to the Nebraska Bankers Association. He predicted a serious drop in farmland prices if "de-coupling" is passed, with drastic implications for rural businesses.

> "Whether government recedes from involvement in crop production decisions by 'decoupling' subsidy payments from levels of crop production or by reducing target prices, production decisions would be made on the basis of market prices for commodities. Consequently, revenue from crop production (not counting 'decoupled' subsidy payments, if any) would decline everywhere, rents would fall and land values would come under pressure until there was less profitability for crop production on the least productive land than for the next most profitable use for the land. That land would then transition out of crops to a less intensive use, presumably to grazing land. Depending upon the area, some might transition to wasteland. The increase in supply of grazing land would assure that the least productive grazing land--mostly in the arid west--would decline in value.
>
> This movement of land to a less intensive use would spell economic pain for producers. Beyond that, those geared up to sell inputs to or purchase outputs from a crop-based agriculture would have to adjust, also." [20]

Impact on Food Security in the Third World

Senator Boschwitz has condemned current U.S. farm policy because "as our price supports increased world prices, many countries took a look and decided to start growing more of their own food."[21] To reverse this trend towards food self-reliance, Boschwitz has promoted his "de-coupling" plan in order to lower world prices enough to discourage food production in other countries.

In a letter in the March 18, 1985, Time magazine, he argued that "If we do not lower our farm prices to discourage other countries now, our worldwide competitive position will continue to slide and be much more difficult to regain. This should be one of the foremost goals of our agricultural policy."

Although Boschwitz was not able to pass his "de-coupling" legislation in 1985, the final version of the Farm Bill did include a number of "de-coupling" type provisions, including deep price cuts, and marketing loans. Both of these provisions, lower prices and marketing loans, have had a devastating impact on Third World food security.

Price Cuts

The low farm prices dictated by the 1985 Farm Bill have been devastating to the Third World. For example, the price of corn was cut to below $70 per ton, although the cost of production of corn in the U.S. is around $110 per ton. By forcing corn prices to these low levels, it became possible to manufacture a corn-based sugar substitute, called high fructose corn syrup, (HFCS), at prices below the cost of production of sugar. This artificially cheap HFCS triggered a shift away from sugar to corn-based sweeteners by the carbonated beverage industry and other food processors. The U.S. now consumes more corn sweetener than sugar.

One immediate impact of this shift to HFCS was a huge reduction in U.S. sugar imports. The Philippines, for example, were forced to cut sugar exports to the United States by 60%. As a direct result, over a quarter million sugar workers were thrown out of work on their sugar island of Negros. Hunger and starvation on this island became an international emergency.

"De-coupling" legislation would lower the price of corn even further, to $47 per ton, making it economically feasible to convert HFCS into a crystalized product which looks and tastes like sugar. This could mean the end of all U.S. imports of sugar and perhaps ultimately enabling U.S. corporations to become major exporters of corn sweeteners. This will further depress world prices, devastating the sugar producing nations of the Third World.

Marketing Loans

The 1985 Farm Bill also contained another "de-coupling" type provision, called marketing loans, for rice and cotton. Under this program, all price supports were abolished, allowing U.S. and world rice prices to fall dramatically, from $9 per hundredweight (cwt) to less than $4 as a direct result.

One of the main objectives of the Reagan Administration in pursuing this new policy was to take away rice markets from Thailand, the major rice exporters competition for the U.S. By cutting prices in half, they hoped to push Thailand out of the world market.

Thailand's large external debt, however, made it impossible to cut back on exports, no matter how much pressure the U.S. applied. Instead of reducing their exports, as hoped by the U.S., Thailand simply lowered their prices to U.S. levels, and then worked to boost the volume of their rice exports to make up for the lower prices. They were forced to maintain export earnings large enough to pay the interest on their debts to avoid default.

Since rice is the sole source of income for most of their farmers, the cutting of prices in half by the U.S. created a severe crisis in the Thai countryside. As a result, there were demonstrations against the 1985 U.S. Farm Bill by farmers, students, and workers outside of the U.S. embassy in Bangkok, in April of 1986.

Although this was a very serious economic and political crisis for Thailand, the most deadly impacts of the U.S. rice policy were felt in the poorest countries of West Africa. Many local farmers from this region, struggling for years to increase their rice production, were forced out of farming because they could not compete against imports of heavily subsidized low priced U.S.

rice. U.S. rice, for example, was sold into the Camaroons at prices nearly $80 per ton below the local costs of production, roughly $140 per ton below the U.S. cost of production. Thai rice was also priced at comparable levels as they tried to remain competitive with the U.S. in West Africa, one of their traditional markets.

Not only did these low-priced U.S. and Thai rice imports severely damage the efforts of these West African nations to achieve food self-reliance, it forced them to divert scarce foreign exchange earnings to pay for this imported food. Paying for imported rice meant cutting back on imports of fuel, medicines or the capital goods needed for long-term development. In the long-run, it could stagnate their economy. It is because of this dramatic negative impact on Third World countries that the Washington Post, in a January, 1988 editorial, called these marketing loans in rice "agricultural imperialism."

The marketing loans included in S-1725 for all program commodities would have the same devastating impacts on a wide range of Third World countries.

Impact on Non-Agricultural Sectors of the Economy

When the U.S. cuts world commodity prices, it reduces the foreign earnings of food exporting Third World countries, leading to cutbacks in imports. In addition, the diversion of export earnings to buy imported foodstuffs also reduces the amount of money available to buy other imports. U.S. banks heavily involved in major loans to the Third World will find it even more difficult to collect on these debts, as both lower world prices and diversion of foreign earnings to buy food reduces their funds available for debt servicing.

U.S.-based manufacturers will also have a harder time selling their goods in the U.S. and overseas. Some Third World countries, faced with falling earnings from food exports, may be forced to increase their exports of manufactured goods to make up for the drop in earnings. These countries could very well become even more aggressive in their export of competitively-priced manufactured goods, especially since wage differentials give them a cost-of-production advantage over many U.S.-based industries. This could be very damaging to already hard hit U.S. manufacturing sectors, leading to an even greater U.S. trade deficit.

DOMESTIC "DE-COUPLING" AND THE 1990 FARM BILL DEBATE

Senator Boschwitz, backed by agribusiness and a few academics, has already launched a full-scale campaign to make "de-coupling" the major Republican proposal in the 1990 Farm Bill debate.

Lobbying the Farm Groups

Curiously, only a few of the traditionally Republican-leaning agricultural organizations have supported "de-coupling" thus far. The American Farm Bureau Federation, one of the few recruits, had to perform an embarrassing public "flip-flop" on this issue. Many of their members are still troubled by the blatant disregard of their organization's long-standing policies in the recent decision by Farm Bureau leadership to drop their opposition and to formally support "de-coupling."

As recently as June of 1987, American Farm Bureau President Dean Kleckner was thoroughly condemning "de-coupling" in testimony to the Senate Agriculture Committee. In his own words,

> "The term 'de-coupling' has been used to describe many different farm program proposals and therefore is imprecise in terms of definition. "De-coupling" is most frequently used to refer to the concept of a 0/92* program whereby producers of farm program crops would have the option of not planting on program crop permitted acreage and still receive 92 percent of their deficiency payment. Other 'de-coupling' proposals, however, would go much further in breaking the linkage between the producers' responsibility and requirements as a condition of eligibility for program benefits which include not only income supplementation (i.e., deficiency payments) but also price support loans, storage payments, and other forms of program benefits."
>
> "In addition to our basic opposition to changes in the 1985 Farm Bill, we have some secondary concerns about both the zero planting option and the broad-based "de-coupling" concept. If a zero planting option is provided to farmers, we are concerned about:
>
> (1) Landlord/tenant relationships being disrupted in spite of well-intentioned efforts to protect the tenant.
>
> (2) The zero planting option directly competes with the long-term conservation reserve program making it more expensive and difficult to take the 40-45 million acres out of production that should be enrolled for the purpose of conservation rather than solely for production adjustment.

* Although 0-92 is sometimes referred to as a "de-coupling"-type proposal, it is not. "De-coupling" policies are designated to eliminate all supply management programs, while 0-92 is a paid land set-aside like the CRP, designed to reduce production. "De-coupling" also includes payments to farmes without stipulations, while 0-92 ties payments directly to the requirement that farmers do not plant their land. Finally, 0-92 payments are dependent on market conditions, while "de-coupling" payments are totally independent of market conditions. Deficiency payments are not paid if market prices are close to the target prices, as they have been during the current drought.

(3) Producers, particularly those pressured by their bankers, may be misled into enrolling in 0/92 with the expectation of an income guarantee that may not exist if certain supply/demand conditions materialize.

(4) Competing nations are likely to interpret this program as an opportunity to expand productions abroad causing greater pressure on U.S. exports.

(5) The zero planting option moves agricultural programs towards a system whereby payments are made for doing nothing. This would be a fundamental shift away from policies of the past 55 years and should be more thoroughly considered by farmers, ranchers and policymakers before being adopted.

If Congress were to consider the broader concept of 'de-coupling,' the American Farm Bureau Federation has concerns beyond our basic opposition to changing the 1985 Farm Bill. Some concerns in this area are:

(1) Income support remains the only focus of such a program, abandoning such important facets of farm programs as market stability, program features to provide producers additional marketing tools, production adjustment and conservation.

(2) True 'de-coupling' renders this income payment an entitlement program based solely on program crop production history. Producers will be denied benefits under such a program for no reason other than choosing not to participate in the previous program or not producing a program crop.

(3) Non-program crops will be adversely affected by increased competition that would result not only from market signals encouraging their production, but also from subsidy payments that would create an advantage for previous program participants at the expense of the non-program crop producer." [21]

Only 6 months later, however, Dean Kleckner completely reversed his position. In a Des Moines Register article titled, "Farm Bureau Backs Welfare for Farmers," their economist Ross Korvis was quite frank in his own assessment. "I don't think there's any doubt that it could be considered welfare." [22]

Even the American Soybean Association (ASA), who Boschwitz had counted on for key support, rejected "de-coupling." At a national meeting in Denver during August of 1988, the ASA Board of Directors considered a resolution endorsing "de-coupling". It took only a few brief statements of opposition from the floor to settle the matter. The final vote was a unanimous rejection of the motion. The board member making the resolution could not bring himself to vote for it.

Public Relations Campaign

Another major element of the lobbying campaign for "de-coupling" has been the creation by Cargill of the Agricultural Policy Working Group (APWG), to cary out the major propaganda efforts of this campaign, APWG has contracted with the lobbying firm of former U.S.D.A. Under-Secretary, William Lesher to operate the APWG. Lesher has hired Gene Moos, former chief of staff for the House Agriculture Committee, to work on APWG's campaign. Their activities thus far have included the publishing of three booklets in support of "de-coupling."

The first of these reports, "The Competitiveness of U.S. Agriculture," argues that the "United States would have an advantage in competing for market growth in a totally liberalized world trading environment."[23] They attempt to prove that if you exclude the cost of land, labor, management, and return on investment, the U.S. would have costs of production for some grain crops roughly the same as Argentina, Brazil and other Third World nations. Their second report was specifically written to sell "de-coupling" to America's farmers. The third report was an attack on land set-aside programs and quota-based surplus reduction measures.

Recruiting Academics

In addition to their own corporate activities, some agribusinesses are also using their foundations to fund numerous projects on campuses and in research institutions in support of "de-coupling". One of the largest, the Kellogg Grain Corporation Foundation sponsors dozens of projects, including the National Center for Food and Agricultural Policy based at Resources for the Future in Washington D.C. This Center has become one of the primary advocates for "de-coupling" within the academic community. In addition, the Food and Agriculture Policy Research Institute (FAPRI) staff from Iowa State University has been quite active in providing academic credibility to the Boschwitz proposal. Cargill and Archer-Daniels-Midland (ADM) grain companies are also providing the funding for a new Center for International Food and Agriculture Policy, headed up by former Reagan Administration GATT assistant C. Ford Runge.

Opposition to Domestic "De-Coupling"

Although the lobbying campaign in support of "de-coupling" is well funded, they have not been able to overcome rising opposition. Most of the general farm and commodity organizations, churches, environmental groups, and anti-hunger activists have come out against it.

Opposition has also developed among a number of national agricultural policy leaders. For example, Texas Commissioner of Agriculture, Jim Hightower, has sharply criticized "de-coupling". In testimony presented by his staff economist, Leland Beatty, Hightower blasted the Boschwitz proposal.

> "De-coupling' as a policy leading to free market conditions has considerable costs as well as long-term disadvantages.

The primary costs, beyond the actual income support payments, are the inherent transition costs such as retraining, relocation, lost investment, and lost opportunity.

Retraining will be necessary not only for the 40-50 percent of commercial farmers who would be forced out of business before the end of the "transition" period, but also for those in the rural economy that would be squeezed out along with the price.

The dangers of subsidizing those who have grown program crops in the past to now grow non-program crops have been well-documented; there is no value in diversification without real economic value.

The endangered investment in farming operations has been well-documented, perhaps most accessably by the Farm Journal. 'De-coupling' can be expected to exacerbate that problem, as land values drop even further in response to signals of ever-diminishing returns.

Perhaps the highest cost is the lost opportunity for economic development in Rural America. Because 'de-coupling' is basically a plan to reduce world agricultural returns to the absolute minimum level, we can forget hopes for rural economic development.

Pure 'decoupling,' as proposed by Senator Boschwitz, would also abolish the price floor concept that has been the basic fact of world agriculture for more than 50 years. This would be the policy equivalent of solving the economic troubles of other industries by abolishing the minimum wage, guaranteeing the workforce diminishing welfare checks for six years, and saying good luck, chumps!

The American price floor has been the regulating factor in world agriculture for 50 years, permitting the development of indigenous agriculture across the world and therefore indigenous economies, permitting efficiency increases in agriculture that greatly outstrip any other industry, and when programs were administered well, a stable U.S. farm economy. Where those price floors have been weakened and punctured in the past year, this proposal would abolish them altogether.

With this plan to return to the free market by abolishing the existing low agricultural minimum wage, we tell the world that we no longer believe in the inherent value of natural resources and human labor, and that we believe that the international markets should belong to those with the sturdiest peasant class who are most willing to exploit their natural resources for private benefit. [24]

A recent poll of 1000 Nebraska farmers found opposition to "de-coupling" by over 80% of the farmers.[25]

"GLOBAL DE-COUPLING" - MOVING THE DEBATE TO GENEVA

"De-coupling" is not likely to be approved by Congress due to both the high cost and the widespread opposition among producers and the general public. Sensing defeat in Congress, Cargill and their supporters have begun to shift their strategy. Their plan is to go around Congress by moving the debate and ultimate decision-making to the international trade negotiations at GATT. They believe it will be more possible to win changes in GATT rules than agreement from Congress.

Farm Future's analyst Jonathan Harsch described their new strategy in this way:

> "The Democrats are launching a major effort to wrench farm policy back from the brink of market orientation. For Democrats, 'market oriented' farm programs are nothing but a devious disguise for the low commodity prices that spell heaven for Republican big business.
>
> It's no coincidence that two of the Reagan Administration's most valuable players are targeting their energies on the current round of international trade talks. U.S. Trade Representative Clayton Yeutter and Ambassador Daniel Amstutz, the administration's new special envoy for agricultural trade and development are putting everything they've got into successful General Agreement on Tariffs and Trade reforms.
>
> The administration's objective in the GATT talks is to secure an interim agreement this December on a global phase-out of all agricultural subsidies. The Reagan administration hopes to sign an agreement in December that guarantees the phasing out of U.S. farm programs regardless of whether Bush or Dukakis wins in November.
>
> If all goes according to Republican plan, it won't make much difference to farm policy who wins in November -- or which person the next president picks as his Secretary of Agriculture.
>
> One Republican scare story is that if Dukakis is elected, farmers will face a Hobson's choice: Either Texas Agriculture Commissioner Jim Hightower or Minnesota Agriculture Commissioner Jim Nichols will become the cabinet official responsible for everything from loan rates and target prices to farm credit and pesticide regulations.
>
> But about 50 yards off the record, good Republicans acknowledge that what they are doing now in the GATT talks should make it virtually impossible for even Jim Hightower to reverse the direction of U.S. farm policy." [26]

The U.S. Proposal to GATT

The centerpiece of this global strategy, developed by former Cargill executive Daniel Amstutz, is the comprehensive proposal presented by the Reagan Administration to the current round of GATT negotiations.

The Amstutz proposal included the following specifics:

- AGRICULTURAL SUBSIDIES: A complete phase-out over 10 years of all agricultural subsidies which directly or indirectly affect trade.
- EXPORT SUBSIDIES: Freeze and then phase-out over 10 years all export subsidies, direct and indirect.
- IMPORT ACCESS: Phase-out import barriers over 10 years.

According to Amstutz, the following kinds of policies would be reduced and then eventually eliminated:

- Market price supports: Policies such as price support, import quotas, variable levies, minimum import prices, tariffs, some state trading activities, export subsidies, export credits, government support of marketing boards, interest subsidies associated with producer commodity operations, government contributions to stabilization funds, and government inventory costs.
- Income support: Policies such as deficiency payments, storage payments, stabilization payments, headage or acreage payments, and negative payments such as producer levies.
- Other support: Polices such as subsidized crop insurance, concessional farm credit or interest subsidies, fuel and fertilizer subsidies, some capital grants, marketing programs (including transportation subsidies, processing subsidies and inspection services), research, advisory services, and structural investments.

In the same report, Amstutz argues that certain types of policies would be permitted:

- "Direct income or other payments "de-coupled" from production and marketing, including those that provide a safety net against natural disaster or other extraordinary circumstances.
- Bona fide foreign and domestic aid programs."

This proposal has two primary objectives, according to Amstutz. First, the elimination of all farm programs, acreage reductions, and the phasing out of government payments with the exception of "de-coupling" payments, such as the "equity" payments included in the Boschwitz legislation. Second, to abolish all import regulations and controls, effectively prohibiting the enactment of any type of effective supply management programs.

Support for "Global De-Coupling"

Support for this U.S. proposal has thus far been limited to a few of the smaller exporting countries, loosely affiliated into an association called the Cairns Group, including Australia, New Zealand, Canada, Mexico, Thailand, and Hungary.

Although they have been somewhat supportive of the U.S. proposal, some member countries have also severely criticized it. For example, Mexican Agriculture Minister Eduardo Pesqueira dismissed the U.S. proposal for "global de-coupling" saying, "the U.S. offer to end all trade-distorting farm subsidies by the year 2000 will not work because of the huge gap in economic development between rich and poor countries." [27]

Thailand, another crucial member of the Cairns Group, also has serious concerns, including fears that their tapioca industry could be wiped-out by the type of trade deregulation proposed by the U.S.

Like their campaign to pass "de-coupling" legislation in the U.S., agribusiness corporations have mounted a sophisticated public relations effort aimed at getting their "global de-coupling" proposal accepted at GATT. One element of this strategy has been the recruiting of some of the multi-lateral institutions, like the World Bank, International Monetary Fund (IMF), and the Organization of Economic Cooperation and Development (OECD) to support the U.S.plan. Their support has included both public statements of support and a number of "economic studies."

The U.S. has also been working to win the support of individual countries. Canada has been the number one target. The February 1988, Manitoba (Canada) Cooperator, outlined the campaign to recruit Canadian Support:

"Discussion of 'de-coupling' started in the United States last year and has now moved to Canada where a well-organized effort is being made to sell the idea to policymakers and opinion leaders. As is too often the case, the proposition comes wrapped, not in the transparency of well-defined costs and benefits to all affected parties, but rather, in misleading layers of threat and fear. If Canada doesn't make 'decoupling' a key negotiating position at GATT, then other countries will force it on us, is a favorite pronouncement in Ottawa these days.

Fortunately, such thoughts come only from those who gaze out upon the imperfect world from classrooms and think tanks, and devise wonderous notions about conflicting forces of natural advantage, versus those of supply and demand. To date most politicians and farm leaders in North America have rejected the implications of 'decoupling'. In Europe it is only a foreign word.

The formal launching of the 'de-coupling' campaign in Canada began this month with a well developed two-day conference in the nation's capital. the discussion told an observer many things: Very few people agree on what 'it' is, what 'it' will do, or why 'it' is needed; a dedicated group of policy advisors inside government will continue to campaign for 'de-coupling;' it is potentially the most damaging, fragmenting farm policy in our time.

One remark from the conference stands out above all others as an indicator of who wants 'de-coupling' and why agriculture is about to again divide itself in debate. The speaker was a senior government official involved in upcoming multi-lateral talks: 'We're way down the road to GATT and we're now looking back over our shoulders wondering where you guys are.'

Good of someone remembering to ask, even if it appears nothing more than a hollow, token gesture."

Apparently, this Canadian conference became extremely controversial. The March 3, 1988 edition of Western Producer described the tension within the Canadian Ministry of Agriculture over U.S. pressure to publically endorse the "global de-coupling" proposal:

"Within the government, the issue remains a delicate political issue.

Agriculture Canada officials were nervous that 'decoupling' would be interpreted as departmental policy. They spread the word far and wide that although the department was sponsoring the conference, it had taken no position on the concept.

In other quarters within the department, the attitude was outright hostility.

Grains and oilseeds minister Charlie Mayer actively opposed the holding of the conference and his officials were conspicuous by their absence.

Officials say that Mayer's opposition included at least one personal telephone call to Canada's chief international trade official Sylvia Ostry to try to warn her that the conference was a bad idea that should be killed.

His opposition apparently was centered on complaints that it was too early to be considering the issue publicly since even the trade negotiators and bureaucrats have not defined the term. The fear of farmer unease about government intentions during an election year could also have figured in his political opposition to the plan.

Ostry, an advocate of both the 'de-coupling' conference and the concept, reportedly dismissed Mayer's advice and subsequently told Mayer's chief bureaucrat Harold Bjarnson directly that he and his minister were on the wrong side of the issue."

Another element of the global public relations campaign is efforts to recruit key influential individuals associated with GATT. For example, the Chairman of the GATT Agriculture Committee, Aart de Zeeuw, along with some of the most important GATT staff, has publically endorsed "de-coupling" proposals.

Diverting Attention Away from Export Dumping

One key element of the "global de-coupling" campaign is the attempt to shift the trade policy debate away from export "dumping" to one which focuses on domestic farm income support. The fact that U.S.-based grain corporations are exporting commodities at prices less than half the cost of production has been cleverly hidden behind discussions of farm price supports.

The GATT definition of export "dumping" is spelled out in the Text of the General Agreement, under Article VI, Section 1. It reads as follows:

"1. The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another

(a) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,

(b) in the absence of such domestic price, is less than either
(i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or
(ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.

2. In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product.

For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1."[28]

The debate over export "dumping" which is taking place is narrowly focused on just direct export subsidies, such as the U.S. Export Enhancement Program (EEP) and the export restitutions of the EC. These subsidies, which are provided directly to grain exporters, do have a very negative impact on world prices but they are only the "tip" of the export "dumping" iceberg. For example, the EEP subsidy to U.S. grain corporations for wheat exports has been as high as $40 per ton, but the indirect export subsidy provided by deficiency payments is over $70 per ton.

The major tactic for diverting attention away from export "dumping" has been the financing by the U.S. government of elaborate computer models to measure and compare so-called "farmer subsidies" on a country-by country basis. The most famous of these is the "Producer Subsidy Equivalent" (PSE) computer simulation model produced by the OECD. Millions of dollars have been spent to measure "producer supports" in hope that no one will make the effort to compute the level of corporate "export dumping."

Even without the expensive computer models and huge staffs of agencies like the OECD, the percentage of export "dumping" by the grain corporations can be easily computed using U.S.D.A. and university statistics. Table 4 looks at a few examples.

Table 4
U.S. Export Dumping Percentages (EDP)

	Cost of Production* ($US/bu)	1986-87 U.S. Export Price** ($US/bu)	Dumping as a % of Export Price
Corn	3.00	2.00	50%
Wheat	4.80	3.00	60%
Soybeans	6.80	5.80	18%
Rice	12.80 (cwt)	10.00	28%

* Cost of production figures sources are from Table 1
** U.S.D.A., Economic Research Service

Circumventing the U.S. Congress

Another element of the "global de-coupling" strategy is the attempt to take the control over U.S. farm policy out of the hands of Congress and to place it into the hands of trade negotiators in Geneva.

Senator Boschwitz, sensing the obstacles to passing his "de-coupling" bill through an increasingly hostile Congress, recently held a press conference at the GATT negotiations in Geneva, announcing his intention to move the debate. "The 1990 U.S. Farm Bill will be written here (in Geneva),"[29] he boasted.

One of his strongest allies in the attempt to shift power over farm policy away from Congress, Agriculture Secretary Richard Lyng, stated that the "kind of 1990 Farm Bill we will get will depend entirely, almost, on what the results in 1990 are of the Uruguay Round of GATT negotiations."[30]

Global Opposition

Although "global de-coupling" supporters in agribusiness and in the U.S. government have high hopes that their lobbying campaign will prevail, strong opposition from both Europe and Japan makes their ultimate success highly unlikely.

Europe has strongly condemned the U.S. plan as unrealistic and impractical, calling instead for higher world prices set at minimum "reference" levels and for international negotiations to end marketshare wars. Japan also strongly rejected the U.S. proposal, demanding instead an end to export "dumping" and for stronger protection for food-deficit nations.

Even a number of important Republican farm policy experts, like Dr. Robert Paarlberg, have downplayed the possibilities of "global de-coupling." In a widely circulated editorial, Paarlberg evaluated the prospects for the U.S. proposal.

> "A significant share of U.S. income support to farmers is already being provided through partly "de-coupled" cash deficiency payments. So for the United States, an across-the-board embrace of the Reagan plan might not require a quantum jump in program expenses.
>
> For our most important GATT partners, however, such adjustments to free farm trade would be far more difficult. Both Japan and the European Community have much larger populations of relatively non-competitive farmers, and both are currently providing most of their income support to these farmers through relatively cheap (in terms of budget costs) import-restriction schemes.
>
> "Cashing out" this support, as required under Reagan's proposal, would be for them a prohibitive budget expense. The alternative of asking inefficient farmers suddenly to face free international price competition without income support would be a violation of an important "social contract" with politically powerful farm interests. It would be a death warrant for any government daring to try it.
>
> Launching a negotiation with an extreme proposal that our trade partners can never accept (they told us as much at the Venice Ecnomic Summit last June, even before the Reagan plan was officially presented to GATT) is unlikely to produce the "early harvest" we have been seeking in Geneva.[32]

Organizing By Farmers

Perhaps the most crucial element in the global opposition has been the uniting of producer groups from around the globe to stop the U.S. proposal. A number of international summits among farm leaders have created a coherent, common strategy.

There is a rapidly developing global coalition of farm groups coming together around this issue. Farmers from the U.S., Canada, Japan, Europe and a number of countries of the Third World have begun working together and to develop a common strategy. At a December 1987 summit meeting in Geneva, the central issues were spelled out where farmers from the U.S., Europe, and Japan endorsed a common GATT proposal with two central features. First, they called for an end to any and all export dumping.

> "Strict application of the same prohibitions and sanctions against export dumping of agricultural commodities must be the long-term goal of these negotiations. In order for importing nations to make orderly adjustments to this strict discipline, a ten-year process for phasing out all export dumping practices should be established.
>
> Each contracting party must take measures to insure that all exporters under their legal jurisdiction, be they private corporations, state trading agencies, national marketing boards, or cooperatives, fully comply with the phasing out of export dumping."

The second concern of these farm leaders was the need to strengthen, not eliminate, the ability of countries to maintain effective import barriers. This was viewed as necessary in the Third World to protect local producers from the export dumping practices of the grain exporters. At the same time, it was considered necessary in the North in order for supply management programs to function properly in the surplus producing nations in the north. These programs were viewed as essential to eliminating the build-up of surpluses which inevitably end up getting dumped on world markets. Efforts are underway to circulate this proposal for endorsement by churches, unions, and other organizations all over the world.

One year later, in December of 1988, thousands of farmers from around the globe gathered in Montreal, Canada, at the GATT Mid-Term Review, to speak out in one global voice against "de-coupling" and in favor of positive steps to improve world agricultural trade. A joint statement, "The Montreal Charter", approved by producers from over 30 nations, opened with the following statement:

"The international farm community is concerned about the chaotic state of agricultural trade and very worried about the direction the current round of the GATT negotiations is taking to find solutions to this situation. In an unprecedented gesture of international solidarity, farm men and women from both developed and developing countries all over the world are taking this opportunity, halfway through GATT negotiations now being held in Montreal, to express their concerns.

They also wish to take advantage of this meeting to propose solutions tailored specifically to agriculture as an economic activity as well as a social, cultural political activity. These solutions clearly run counter to the direction dominating discussions at this time. Our solutions are more realistic, and more respectful of farmers and the environment."

CONCLUSION

Although the opposition to "de-coupling" remains quite strong, the combined power of the food processors, traders, and agri-input companies cannot be underestimated. Alone, policymakers are unwilling to implement "de-coupling" in the United States alone, without similar actions in other countries, chances for implementation are remote.

However, as the budget crisis becomes the dominant topic in Washington, any and all measures which promise to help reduce the deficit will receive serious consideration, including "de-coupling".

The only thing that can be certain in the debate over "de-coupling" is that it will rage on for many more years. The editor of the Farmer's Voice, a weekly farm paper from Kansas, clearly summarized the feelings of those deeply concerned with the outcome of this debate.

> "Boschwitz makes 'de-coupling' sound better than sliced bread, mother and apple pie. That's a good reason to be suspicious. Could 'de-coupling' be the method of accelerating the concentration of farmland in fewer and larger hands while throwing a government welfare sop to small family farmers who ultimately get 'de-coupled' from their farms. As the 'decoupling' debate unfolds in coming years, keep a sharp eye and a keen mind on the debate. Watch to see which individuals and which organizations and businesses support the concept. While it's true that you can't judge a bill by looking at its cover, you can tell a lot about it by the friends that it attracts."

<u>FOOTNOTES</u>

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