The 2007 U.S. Farm Bill and the WTO Negotiations*

Robert L. Thompson**

From the mid-1980s through the1990s, the United States played a major leadership role in global agricultural trade liberalization and policy reform. The 1996 Farm Bill moved U.S. farm policy far in a market-oriented direction. During this period the United States was a strong advocate in the Uruguay Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade (GATT) for introducing significant discipline on national agricultural policies which distort the locus of production and pattern of trade into the rules of international trade. However, the 2002 Farm Bill reversed this course, increasing authorized spending and intervention levels in U.S. farm subsidies. In the next two years a new farm bill will be written in the United States, and the Doha Round of World Trade Organization (WTO) trade negotiations should be brought to conclusion. These two activities, while proceeding on parallel tracks, will each have significant impact of the other. The objective of this paper is to review and clarify forces conditioning each of these activities and their interactions.

This paper begins with a review of stated goals of U.S. farm policy and then turns to a brief historical review of U.S. agricultural policy from its beginnings in the late 1920s through the significant reforms embedded in the 1996 Farm Bill. After reviewing the progressive results in the Uruguay Round Agreement on Agriculture (URAA), the paper turns to the 2002 Farm Bill, which reversed course in American agricultural policy. The center section of the paper addresses domestic forces that are conditioning the next farm bill. It then examines the state of the Doha Round agricultural negotiations, which are now entering a serious phase at the same time as preparations for writing the 2007 farm bill are getting under way. The paper concludes with some observations on prospects for agricultural policy reform in both the Doha Round and the 2007 Farm Bill.

OBJECTIVES OF FARM POLICY AT ODDS WITH 21ST CENTURY REALITY

The most common arguments for government supports to agriculture are low farm family income and "excessive" variability of income. Two-thirds of American farmers receive no farm program benefits because they do not grow "program crops." There is no evidence that these farms are less profitable than those receiving Federal farm program benefits. Most program payments are distributed in proportion to past or present sales of

---

*An earlier version of this paper was presented at a seminar organized by the Cordell Hull Institute and the International Food and Agricultural Trade Policy Council on July 15, 2005, in Washington, DC, and at the Second Annual North American Agrifood Market Integration Workshop, San Antonio, Texas on May 6, 2005. Work on this paper was supported in part by a grant from the German Marshall Fund of the United States.
**Professor Robert L. Thompson, who holds the Gardner Chair in Agricultural Policy at the University of Illinois at Urbana-Champaign, is chairman of the International Food and Agricultural Trade Policy Council.

the "program commodities," so the largest producers of those commodities get the largest benefits. Because most program payments get capitalized into the value of farm land, most of the benefits accrue ultimately to the largest farm land owners, a group whose average wealth exceeds the national average.

There are many misperceptions about modern farming in the general public. Most Americans are too many generations removed from the farm to have much of an understanding of modern American agriculture. There is a widely held nostalgic view of the small family farm that is out-of-date. One source of the misperceptions about farming in the United States today is the very out-of-date definition of a "farm" that is used in official statistics on American agriculture: any place that sells over $1,000 worth of agricultural product(s) per year. The USDA's Economic Research Service disaggregates these data into three broad groups: rural residence farms, intermediate farms and commercial farms (USDA, Sept. 2000). Over 1.2 million of the 2.1 million "farms," so defined, sell less than $10,000 worth of product per year.

In no sense can are these "farms" commercially viable businesses that can support a family. They are rural residence farms or hobby farms or both. In fact, 77 percent of the "farms" in the United States by the official definition collectively contribute only 14 percent of the nation's production of food and fiber. On average, they earn more than the median family income from non-agricultural sources and lose money on their farming operations. The only group whose income averages less than the median U.S. household income is intermediate farms, and they receive very little from farm programs (MacDonald, Hoppe and Banker).

Another misperception is that corporate agribusiness has taken over American farming and receives most of the farm program benefits. This is false. Most commercially viable farms today are incorporated for tax and estate planning and ease of transfer of ownership between generations. Agribusiness accounts for less than 10 percent of farm output, and much of that is in the production of non-program commodities. The popular misconception that corporate agribusiness receives a lot farm program payments is simply erroneous.

To stabilize their incomes farmers can buy price insurance (put options) and Federally subsidized crop insurance. Farmers also have two other ways to smooth their incomes which are not available to other forms of business. Farmers are allowed to use cash accounting, which facilitates shifting income and expenses between two tax years, and farms are the only businesses allowed to use income averaging (over four years) when calculating their income tax. When one penetrates most stabilization arguments for farm programs, what farmers are really seeking is "stabilization" around a higher average. Therefore, it is difficult to justify farm programs on the basis of either low farm family incomes or income volatility.

The Environmental Working Group has posted on its website (www.ewg.org) data obtained through Freedom of Information Act requests on how much each individual

farmer (by name) receives from USDA programs. The ready availability of this information spawned a flurry of anti-farm program editorials in newspapers throughout the country. The transparency which publicly posting these data has brought to farm programs has forever changed discussions of the justification for and benefits of farm programs. The argument that farm programs help low income family farmers will no longer be persuasive.

A BRIEF HISTORY OF U.S. AGRICULTURAL POLICY1[1]

American agriculture prospered during World War I, but when European agriculture recovered after the war, exports collapsed, leaving U.S. farm production capacity well in excess of the domestic demand. American agriculture went into depression in 1921, almost a decade earlier than the rest of the economy. After several halting attempts to shore up farmers' income in the late 1920s, Congress passed the Agricultural Adjustment Act of 1933, which laid the foundation for farm policy for more than half a century. To raise the prices farmers received for their products, various acreage restrictions and marketing controls were used to constrain supply.

However, agricultural productivity rose faster than domestic demand grew, making the "surpluses" even larger. Because U.S. commodity prices were being supported at levels above world market levels, exports were possible only when subsidized or given away as food aid.

After the U.S. dollar was devalued in 1971 and 1973, U.S. farm products became once again internationally competitive, and exports grew rapidly through the 1970s until they were providing the market for about one-third of production. Weakness of the dollar in the late 1970s further facilitated these exports. However, in 1981, the dollar appreciated significantly, while Congress wrote a new farm bill which prescribed minimum levels at which U.S. prices would be supported ("loan rates"). Once again, U.S. farm policy undercut the international competitiveness of its farm products. Agricultural exports fell by 40 percent in five years. This precipitated the worst financial crisis in rural America since the 1930s, exactly 60 years after U.S. agriculture went into depression when exports collapsed with the recovery of Western European agriculture.

The 1985 Farm Bill had to deal with the financial crisis while restoring the international competitiveness of U.S. products. To transfer income to farmers, the bill provided "deficiency payments" equal to the difference between a politically determined "target price" and the market price or the loan rate (price support), whichever is higher. To restore international competitiveness, the loan rates were reduced to 85 percent of a moving average world market price. "Marketing loans" were created for cotton and rice, in which the Commodity Credit Corporation (CCC) of the USDA would pay farmers the difference ("loan deficiency payment") between the loan rate and what it determined the world market price to be.

1[1] For a more detailed history, see Gardner.

To prevent deficiency payments from inducing larger production than would otherwise have occurred, the 1985 Farm Bill began decoupling payments from current production. Deficiency payments were no longer based on actual production, but rather on a fixed historical average yield and the number of acres planted to each program crop. The 1990 Farm Bill completed the decoupling of payments from production by fixing also the acreage base for each crop at historical levels. Since current planting and input decisions could no longer influence the deficiency payment a farmer received, the payment was now fully decoupled from production decisions.

The 1996 Farm Bill gave farmers yet greater planting flexibility by doing away with target prices, deficiency payments and acreage reduction programs. The bill eliminated any link between income support payments and market prices. To compensate for giving up deficiency payments farmers were granted "production flexibility contract" payments (also known as Agricultural Market Transition Act (AMTA) payments), which were to be phased down to zero over the seven year life of the bill (Young and Shields).

U.S. ADVOCACY FOR AGRICULTURAL TRADE LIBERALIZATION

During this same period the Uruguay Round of multilateral trade negotiations was going on. The United States and the Cairns Group, under the leadership of Australia, were advocating freer and more open international markets for agricultural products. At the insistence of both, domestic agricultural policies were considered for the first time in trade negotiations. In previous negotiations domestic policies could not be discussed because they were not border measures such as tariffs and quotas. This was a significant breakthrough because it is domestic policies, not border measures, that often cause the greatest distortions in what farm products get produced where. Border measures are often put in place merely to accommodate the domestic policies, as when a government attempts to support the domestic price of an importable commodity at a level higher than the world market price (Johnson).

While acknowledging that there will always be occasions when a government for political reasons has to provide support to its farmers, the United States sold the notion that not all payments to farmers are equally distorting of agricultural production and trade. Support that is linked to the volume of production or sales of specific commodities distorts farmers' production decisions more than direct payments. These led to categorization of agricultural support into three "boxes." Support that is clearly linked to production was categorized in the "amber box." Each country accepted a maximum "aggregate measure of support" (AMS) below which it agreed to keep its total amber box support.

Countries were encouraged to "decouple" support from production of specific commodities by also creating a "green box" category, on which there would be no cap. The "green box" includes direct payments that are not linked to present or future production of any specific product. These payments might be for "doing something," like conserving the soil or protecting the landscape for tourism, or they could be direct income transfers to farmers calculated on some *fixed* historical base. Investments in

public goods like agricultural research, extension and teaching and collecting and diffusing agricultural statistics and market information were also included in the green box.

A third category of agricultural subsidies was created, known as the "blue box." Policies were categorized in the "blue box" if, while they would otherwise induce larger production, there is some constraint on the volume of production or sales of that product, such as a land set-aside program or a marketing quota.

In the Uruguay Round agricultural negotiations, the U.S. also advocated conversion of all non-tariff barriers to agricultural imports to tariffs, which would then be reduced by an agreed upon percentage over the implementation period. This was important in part because it is much harder for potential suppliers to compete for a country's purchases when imports are constrained by a quota than by tariffs.

There is a more important economic argument for "tariffication," as this conversion came to be known. A quota or other non-tariff barrier (NTB) to imports, such as a variable import levy, cuts the link between the world market price and domestic price of a product so that the domestic price no longer moves up and down with the world market price, and domestic producers and consumers get no signal to adjust. All the adjusting has to be done by the producers and consumers in countries whose domestic prices are linked to the world price (even when distorted by a tariff). When fewer producers and consumers participate in the adjustment to any shock in the world market, the world market price has to adjust more than it would if all shared in the adjustment. This causes world commodity prices to be more volatile than they would otherwise be, increasing price risk to producers and consumers in the rest of the world. If all countries reconnected domestic prices to world prices, the swings in world commodity prices should be dampened.

The U.S. and the Cairns Group both sought a ban on agricultural export subsidies. Export subsidies were banned in non-agricultural goods trade in the GATT. In the Uruguay Round Agreement on Agriculture (URAA), agricultural export subsidies (both value and volume) were frozen and reduced, but not banned, and no country could start subsidizing exports of a commodity not previously subsidized.

THE 2002 FARM BILL

Congress passed the 2002 Farm Bill (Westcott, Young and Price) early. Budget surpluses were coming to an end, however the "budget baseline," within which Congress had to bring the bill, had not yet been revised. A few years earlier, the Uruguay Round negotiators had agreed to a $19.1 billion ceiling (AMS) on amber box subsidies to U.S. farmers. There was widespread "subsidy envy" among American farmers over the fact that the European Union (E.U.) had negotiated an AMS of $67 billion, more than three times larger than theirs. Congress was in a mood for spending and looked at the U.S. AMS more as a target to be attained than as an upper bound on farm programs. Out of fairness to the Congress, they tried to design programs which would not exceed the AMS,

but they didn't want actual subsidies to fall very far short of it either. The net result was to increase budget authority for its farm programs at a time when the United States had been telling everybody else to cut theirs.

The 2002 Farm Bill (Wescott, Young, and Price) raised (lowered) loan rates on grains (soybeans). The 1996 Farm Bill had provided excessive incentive to produce soybeans relative to alternative crops that could be grown in the same places, and the 2002 bill corrected this market distortion. The 2002 Farm Bill reestablished a target price system and created a new counter-cyclical payment (CCP). The CCP program institutionalized $2 billion of ad hoc "emergency payments" that had been made each year on top of what was authorized under the 1996 Farm Bill.

The 2002 bill watered down payment limitations, allowing each farmer to get a larger total payment, and authorized updating the historical bases, meaning payments were no longer decoupled from production decisions. The bill also institutionalized fixed direct payments in place of the AMTA payments, which had been designed as transitional compensation that would be phased down. The 2002 Farm Bill created new farm programs for commodities that had never before had them (small legumes); resurrected previously killed programs for wool, mohair, and honey; increased benefits to sugar producers; and created another dairy program. It bought out the quotas in the old peanuts support program, and replaced it with a new support program.

When viewed from abroad, the 2002 Farm Bill was seen as an abdication of U.S. leadership in reforming farm policy and liberalizing agricultural trade. The United States, which had led the global effort to reduce agricultural subsidies, appeared two-faced, telling the rest of the world to cut their farm subsidies while increasing its own. By allowing direct payment bases to be updated, this farm bill was seen as a retreat from decoupling by its author and strongest advocate.

The United States had also been advocating that the prices to which farmers respond in making their production decisions should be linked to world market prices so that farmers everywhere adjust their planting decisions up and down to changing world market price signals. Counter-cyclical payments violate this principle. They reduce American farmers' responsiveness to declining prices, but not to increasing prices. Furthermore, marketing loans, which were created originally for cotton and rice in the 1985 Farm Bill, are effectively export subsidies. While the U.S. negotiators argued against export subsidies, the 2002 Farm Bill broadened the role of marketing loans in U.S. agricultural policy.

TOWARDS THE 2007 FARM BILL

There are several things to keep in mind when identifying factors likely to influence the writing of the 2007 Farm Bill. First, a farm bill is much more than commodity programs. The 2002 Farm Bill had 10 titles:

I. Commodity Programs

II. Conservation
III. Agricultural Trade and Aid
IV. Nutrition Programs
V. Farm Credit
VI. Rural Development
VII. Research
VIII. Forestry
IX. Energy
X. Miscellaneous

While two-thirds of American agriculture is not affected by commodity programs, most is affected by programs authorized under one or more titles.

Another important thing to keep in mind about farm bills is that they are authorizing legislation; implementation of most programs authorized in a farm bill (even when the authorization specifies an annual expenditure level) requires an appropriation each year. There is an important exception, however, unique to USDA. Many of the farm commodity programs are authorized in farm bills as entitlements which can be run independent of annual appropriations. The Commodity Credit Corporation (CCC) has a standing line of credit at the United States Treasury of $30 billion against which USDA draws. Periodically, after enough money has been paid out to farmers, USDA goes to Congress for a “replenishment” of its line of credit.

FEDERAL BUDGET DEFICIT

The 2002 Farm Bill was passed by Congress using a budget baseline projection that everyone involved knew was wrong. That farm bill was rushed through Congress early in order to get as much money committed to farm programs as possible before the baseline was updated. The Federal deficit returned and has run about $400 billion per year since 2003. Despite frequent calls to do something about the budget deficit, neither the White House nor the Congress appears to be very concerned. Both candidates for President talked about reducing the annual deficit to about $200 billion. Many observers have argued that agriculture must participate in deficit reduction, particularly since there never would have been as much money available for farm programs if the 2002 Farm Bill had not been taken up ahead of schedule.

In the Administration’s FY 2006 budget proposal transmitted to Congress in February 2005, a modest reduction in farm programs was proposed -- $5 billion over five fiscal years. Farm organizations and commodity groups responded angrily, arguing that the government was breaking faith (if not a legal contract) with farmers, who had made their five year business plans assuming that the full anticipated benefits of the 2002 Farm Bill would remain intact for the full five-year life of the bill. Some members of Congressional agriculture committees even proposed that the cuts should be taken out of food stamps, which go to low income people, instead of from farm programs.

The budget resolution Congress passed on April 28, 2005, authorized a $2.6 trillion Federal budget for FY 2006. Exhibiting no apparent commitment to deficit reduction, this budget projects multi-hundred billion dollar deficits for the next five years. The largest "savings" or "cuts" *from the budget baseline* (not real reductions) came out of Medicaid, which pays for medical care for low income people. Despite many anti-farm subsidy editorials in major newspapers, agricultural spending was cut little -- $3 billion over five years, with all but $173 million put off until 2007, when the next farm bill is to be written, and beyond. In principle, this leaves over $2.8 billion in cuts from this year's budget cycle to be made under the 2007 Farm Bill.

U.S farm programs have never been subjected to an effectively binding budget constraint. Even in 1985, a year in which Congress mandated across-the-board reductions in Federal outlays to reduce the deficit (Gramm-Rudman-Hollings Bill), it passed a farm bill which authorized the largest farm program benefits ever. Whether the environment in 2007 will be any different remains to be seen.

Many budgetary commitments get made in the heat of Presidential election campaigns. For example, in the 2004 campaign in Wisconsin both candidates pledged to continue the Milk Income Loss Contract (MILC) program, a temporary additional dairy program created in the 2002 Farm Bill, which was slated to expire. The President's FY 2006 budget proposal contained funds to continue this program for two more years. When all such commitments are added up, they too make it more difficult to reduce the Federal budget deficit.

BREAKDOWN IN INTER-COMMODITY SOLIDARITY?

U.S. agriculture's political clout has been enhanced over the years by solidarity and formation of effective coalitions among commodities. For many years dairy and tobacco interests formed a very effective coalition that resulted in each securing more farm program benefits than either could have if they had worked independently. Cotton has the most "vertically integrated" program of any commodity. Every phase of the industry gets something from the cotton program -- from those who grow cotton to those who gin, ship, store, export or use it domestically. This has ensured cotton industry solidarity in support of the program.

Agricultural commodity organizations have traditionally deferred to one another's interests, as have individual commodities within the general farm organizations. There has always been enough money to go around. Even when certain commodities or regions seemed to always get more benefits than others, amity and solidarity have generally prevailed.

In 2005, one observes cracks in this historical solidarity. Farm and commodity organization leaders are beginning to acknowledge that 2007 may be different, that Congress really is going to have to do something about the Federal budget deficit and that agriculture will be forced to "participate" in deficit reduction. One hears suggestions that the historical inter-commodity and inter-region solidarity may break down in the face of a

tight budget constraint. The large differences among commodities and among regions in total producer support and in payments per farmer and per acre are starting to bring demands for greater "equity." For example, groups that previously deferred to sugar are angry at sugar's opposition to the Central American Free Trade Agreement (CAFTA), which is generally viewed as good for the agricultural sector as a whole.

Farm program legislation bans production of fruits and vegetables on land benefiting from commodity programs. However, a recent WTO dispute settlement panel decision (Brazil cotton case, discussed in more detail below) ruled that that exclusion has to be removed if the U.S. wants to continue claiming its direct payments as green box support, not subject to a cap. Otherwise, those payments must be reported as amber box support. Changing this exclusion could bring land that previously grew program commodities into fruit and vegetable production in competition with existing growers. This would certainly cause fragmentation between fruit and vegetable interests and the program commodities. On the other hand, if the U.S. does not remove the exclusion, it will violate its AMS cap.

ELECTION POLITICS AND THE HIGH COST OF ELECTIONS

Don't forget that rural America reelected George Bush in 2004! If one overlays a map showing the "red" (Republican majority) and "blue" (Democratic majority) counties in the 2004 presidential election (Gastner, Shalizi, and Newman) with a map showing where farm program payments go (USDA, March 29, 2005), the correlation is striking. One can understand that the President's FY 2006 budget proposal did not push very hard to reduce farm program payments going to counties that so recently voted so strongly for the President's reelection.

Congressional and Presidential elections are extremely expensive in the United States, and little real campaign reform has been achieved. Campaign contributions do buy access to get a firm's or interest group's position heard by the Executive Branch and by members of Congress involved in writing legislation of interest. Food and agribusiness groups are generous contributors to both Congressional and Presidential campaigns. Recently released data on Political Action Committee (PAC) contributions to Federal candidates in the 2004 election cycle list $12.3 million in contributions from farm and commodity organizations and from food and agribusiness companies (Center for Responsive Politics). When the data for agricultural commodity PAC contributions are broken out, one observes a positive correlation between the magnitude of campaign contributions and the producer support for that crop. The four highest agricultural campaign contributors, sugar, dairy, cotton and rice, are also the commodities that receive the most farm program support.

Despite the shrunken size of the U.S. farm sector and its work force relative to the U.S. economy and population, respectively, its interest groups have effectively managed their campaign contributions and political influence to give them political clout far in excess of their numbers. Many more Americans are concerned about issues like Social Security reform, Alternative Minimum Tax relief, funding of local schools and

prescription drugs under Medicare than farm programs. There is little public goodwill towards a farm programs that give most of the benefits to the largest producers and farm land owners. Nevertheless, there is sufficient political support that farm programs almost completely avoided reductions in this year's budget process.

Three final points related to political influences on the 2007 farm bill merit mention here. The Congress and the White House are now extremely politicized. There is virtually no bipartisan cooperation among either the agriculture committee members or their staffs. This is very different from the traditional behavior of the agriculture committees of Congress. Today, each party is attempting to make the other look as bad as possible – even if it means Congressional paralysis. Second, we will not know the Republican-Democrat split in the Senate or the House of Representatives that will write the next farm bill until November 2006. Finally, the State of Iowa has the first Presidential primary, and no aspirant to the Presidency of the United States will utter a word against any farm program while campaigning in Iowa for fear of being an early casualty in the campaign. By the time a candidate is elected President, he has made so many commitments that it is hard to exercise leadership to change farm programs.

WHAT ROLE WILL ENVIRONMENTAL GROUPS PLAY?

The first time that environmental groups played an active role in writing a U.S. farm bill was in 1985. That farm bill created the long-term conservation reserve program (CRP), under which farmers bid for annual compensation for idling erosion-prone land for ten years. The CRP was created by a coalition of environmental groups concerned about conservation and farm organizations that sought more government supply control. In addition, the 1985 Farm Bill gave us the so-called "sod-buster" and "swamp-buster" provisions and created "conservation compliance," which requires any farmer who receives benefits from any USDA program to have a farm conservation plan that meets specified environmental standards. Failure to do so would cause that farmer to lose all USDA program benefits. To add these measures to U.S. agricultural legislation required an unprecedented degree of cooperation between agricultural and environmental groups.

I would characterize the relationship over the last 20 years between these two groups as wary of one-another. Farmers see many environmental regulations as overly restrictive, increasing their costs more than the expected benefits are worth. They see environmental organizations as too prone to use the stick instead of the carrot. Most farm organizations have not forgiven the Environmental Working Group for bringing transparency to how much each individual farmer receives in farm program payments.

Since 2002, every time Congress has authorized disaster payments, agricultural interests have successfully lobbied to have their cost subtracted from appropriations for conservation measures, not from commodity programs. Furthermore, neither the farm lobby nor the Bush Administration has supported funding of a new Environmental Conservation Security (ECS) program that was authorized in the 2002 Farm Bill, but has remained unfunded and unimplemented. Such actions have led the environmental organizations to doubt the sincerity of farm organizations' support for conservation

programs. This behavior by farm groups, however, is not unique to environmental measures. They support funding research, conservation, trade promotion, and the like as long as the appropriations are additional to commodity programs. The organizations have been unwilling to reduce near-term commodity program benefits in exchange for Federal investments in measures that would have longer-term payoffs for the sector as a whole.

In the Doha Round of trade negotiations, European farm groups, who foresee lower traditional farm program benefits would like to see more direct payments to underwrite the cost of soil conservation, protection of the landscape, and investments in other measures beneficial to the environment and to rural development. It is likely to be easy to get agreement with the E.U. for this kind of "doubly green"2[2] payments to be exempted from any "binding" or cap in the Doha Round Agreement on Agriculture (DRAA). The payments are "doubly green" in the sense that they are environmentally beneficial and would be categorized as "green box" payments, on which there are no limits.

AGRICULTURE AS ENERGY SUPPLIER?

The Uruguay Round Agreement on Agriculture was oversold to American farmers. Agricultural economists did a great deal of analysis which showed large potential gains from agricultural policy reform and moving to *free* trade in agricultural products. In reality, despite some conceptual advances in the URAA, virtually no real agricultural trade liberalization resulted. When the anticipated gains failed to materialize and Brazil captured most of the growth in the world markets, many farmers became disenchanted with the WTO and with their ability to compete in the export market. They started casting about for alternative market growth possibilities.

At the same time as corn growers were looking for new markets, there was increasing concern about the growing dependence of the United States on imported oil. The resulting interest in renewable sources of energy sparked interest in using corn to make ethanol to blend with gasoline and, more recently, soybean oil to produce biodiesel. Even with today's high oil prices this industry seems to be at most marginally profitable without construction subsidies and mandated minimum use in gasoline/diesel blends, and then only with protection against imports from lower-cost suppliers such as ethanol from sugar cane and biodiesel from palm oil.

The petroleum companies, which control access to the service station pumps and have deeper pockets to make political campaign contributions, oppose minimum use mandates. Nevertheless, they did not have the political clout to stop the mandate to double ethanol use in the 2005 Energy Bill. Using corn and soybeans for renewable energy is extremely popular with farm organizations which can be counted on to advocate a yet larger role for agriculture in renewable fuels in both the energy bill and the 2007 Farm Bill. Most farm organizations are currently more interested in this than in agricultural trade liberalization.

2[2] To paraphrase Gordon Conway's "doubly green revolution."

THE WORLD TRADE ORGANIZATION

There are two channels via which the WTO may affect the 2007 Farm Bill: the Doha Round of multilateral trade negotiations (officially, the Doha Development Agenda (DDA)) and the recent loss in a case brought by Brazil to the WTO against the U.S. cotton program. Before addressing either of these specifically, it is useful to review what the WTO is and what the WTO isn't. There is such a vast amount of misinformation swirling through the media that we need to have a clear understanding of the institution before taking up how it may affect the 2007 Farm Bill.

The World Trade Organization is a voluntary association of 148 countries which meet periodically ("rounds") to review and revise the rules of the road on international trade. Decisions are taken by consensus of all participants. The WTO has a Secretariat, located in Geneva, Switzerland, which organizes and staffs the negotiating meetings, reviews the trade policies of member countries, and administers a dispute settlement process to resolve differences among members over whether these mutually agreed rules are being broken.

When a case is brought by one country against another, a "dispute settlement panel" is appointed, which functions as the court of first appeal in international trade disputes. If any party to a case is dissatisfied with the panel's ruling, it can appeal the decision to the WTO's Appellate Body, which, in effect, serves as the "supreme court of international trade." The panels and the Appellate Body build up a body of case law which interprets and clarifies trade agreements. In past rounds negotiators have often found it necessary to use fuzzy language to reach closure and allow each party to declare victory after returning home. The cost of this is that panels and the Appellate Body may reach interpretations at odds with what the negotiators themselves thought they had agreed to.

Perhaps the most widespread misunderstanding about the WTO is the fact that it cannot make any country change its policies. However, if a country which loses a case refuses to change the policy found to be in violation of the existing trade agreement, then the WTO can authorize the victims of the violation (i.e. the country which won the case) to collect a specified amount of compensation by levying import duties on the violator's exports to that country. The goods on which the duties are levied need have no relationship to the sector found to have been hurt by the violation. This often leads to targeting with duties goods produced by politically powerful non-agricultural sectors to get them to bring pressure on their governments to change the offending agricultural policy.

The WTO Cotton Case

In February 2003, Brazil filed a case with the WTO against the United States, alleging that the U.S. cotton program violated the Uruguay Round Agreement on Agriculture, of which, parenthetically, the U.S. was not only a signatory, but a principal author. Brazil (along with Australia and Thailand) also brought a successful case against

the other principal author of the URAA, the European Union, alleging that its sugar program violated that agreement.

Brazil alleged that the various subsidies in U.S. cotton policy stimulated larger production and exports of cotton than would have been the case in the absence of those subsidies. Brazil further alleged that the additional exports depressed the world price of cotton, reducing the earnings of Brazilian (and low income West African) cotton producers, who get their entire income from the marketplace. Brazil demanded that the U.S. change its cotton program to remove the offending subsidies or pay it damages.

The United States lost the case on most counts at both the panel and the Appellate Body levels. They ruled that certain U.S. policies had depressed the world price of cotton sufficiently to cause "serious prejudice" to the interests of other cotton exporters. The offending policies included marketing loans, loan deficiency payments, countercyclical payments and "step 2" payments (an export and domestic use subsidy specific to cotton). However, the panel and Appellate Body ruled that certain other U.S. policies had not had the world price depressing effect that Brazil had alleged, specifically direct payments, crop insurance subsidies, and AMTA payments.

When each country filed its new tariff schedule with the WTO following the Uruguay Round, it was required to itemize those commodities for which export subsidies were being provided, and no previously unsubsidized commodity could be added to the list. The United States' filing did not list cotton (or soybeans). Therefore, the ruling mandated that the step 2 cotton payments, as well as export credit guarantees in excess of normal commercial terms, which it found to also be export subsidies, should be changed by July 1, 2005. On July 1, the USDA administratively changed its export credit program to eliminate the offending subsidy element. To eliminate the Step 2 program requires Congressional action. On July 5, the USDA sent a request for its repeal to the Congress. The cotton industry has lobbied the Congressional agriculture committees hard not to eliminate the Step 2 program during the current marketing year.

No date certain was specified by which the United States should change the other offending policies. Whether the "fix" can wait until the 2007 Farm Bill or the outcome of the Doha Round will be decided in negotiations between Brazil and the United States. It should be noted, however, that the U.S. cannot claim any "credit" in the Doha Round negotiations for changes it makes in policies that a WTO panel found to be in violation of the existing WTO agreement.

Fruit and Vegetable Exclusion

The WTO panel and appellate body made one other quite unanticipated ruling in the cotton case. When set-aside programs were designed, the fruit and vegetable industry (especially California and Florida growers) lobbied successfully for a ban on the subsidy recipients growing fruits and vegetables on set-aside land. They argued that, if producers of program commodities planted set-aside land to fruits and vegetables, this would likely depress the prices of fruits and vegetables to the primary growers of those commodities

who get their entire income from the marketplace. This fruit and vegetable exclusion rolled forward into the direct payment rules.

The WTO cotton panel, which ruled that the U.S. direct payments had not contributed to the larger production and exports which had depressed the world cotton price, found that those direct payments did not meet the definition of decoupled payments in the URAA. To be decoupled, the definition, which the U.S. substantially wrote, requires that there be no restrictions on what the payment-receiving producer grows (or doesn't grow). The fruit and vegetable exclusion violates the definition. The panel concluded that the direct payments, therefore, should have been included in the total trade-distorting (amber box) subsidies reported by the U.S. to the WTO, and, if they had been, the U.S. would also have been in violation of the AMS cap on such support that it had agreed to in the URAA.

The Doha Round of Agricultural Trade Negotiations

In July 2002, the United States submitted to the WTO an ambitious proposal for agricultural trade reform in this round of trade negotiations, which was reiterated by President Bush at the Gleneagles G-8 Summit in early July 2005. The proposal stated that the U.S. is prepared to undertake significant reform of its domestic agricultural policies in exchange for significant increases in market access for U.S. agricultural products abroad.

After more than two years of little progress in the negotiations, on July 31, 2004, a Framework Agreement was struck which promised to move the process forward (International Centre for Trade and Sustainable Development). This agreement was substantially less ambitious than the original U.S. proposal, however it contained many provisions which the U.S. had proposed. The agreement left a lot of details to be resolved in not only the agriculture negotiations, but also in those dealing with manufacturing, services and special and differential treatment. The negotiators achieved little progress in the ensuing 12 months. Despite the encouraging words from the G-8 heads of state in their Gleneagles Summit communiqué of 8 July 2005, they have not given their negotiators sufficient discretion to reach the necessary compromises.

The next milestone in the Doha Round is the Ministerial meeting to be held in Hong Kong in December 2005. Negotiations have moved at a glacial pace because the negotiators have not had license from their capitals to strike compromises. There was some hope that the Dalian mini-ministerial meeting would give this process renewed momentum, however no agreement was reached before the negotiators left Geneva for their August 2005 recess. It is urgent that negotiators resolve most of the open issues between September and December, so that few remain to be resolved at the ministerial level in Hong Kong. If the modalities of an agreement can be defined by December, then the negotiators should be able to work out specific details via each country's offers and requests during 2006. If Hong Kong fails, it will be very difficult to complete the Doha Round before US fast-track negotiating authority expires in mid-2007.

To meet this deadline will be very hard for the U.S. negotiators who would be prejudging by December 2005, what the next Congress will be willing to do in the 2007 Farm Bill. However, if the WTO negotiations can be concluded by the end of 2006, then the necessary notifications can be sent to the Congress early in 2007, and the agreements can be tidied up and translated into legal language in time for a signing ceremony by June 2006 before the United States' Trade Promotion (fast track negotiating) Authority expires. This would dovetail with the timetable on which the 2007 Farm Bill should be written.

Before discussing the specific aspects of the WTO Framework Agreement which have bearing on the 2007 Farm Bill, one other point should be clarified. As in U.S. Federal budgeting, a "cut" does not necessarily imply a reduction. It is essential to pay attention to what is the baseline from which any "cuts" are to be made. This is particularly important with respect to agreed upon reductions in tariffs and in trade-distorting domestic support. Many countries charge lower tariffs than the maximum rates they agreed to ("bound rates") in the last round of trade negotiations. The difference between bound and applied rates is often referred to as "water" in the tariffs. When there is a lot of water in tariffs, it takes a very substantial reduction in a bound tariff rate before any reduction in the applied tariff and increase in market access occurs.

Similarly, in high income countries the bound aggregate measures of trade-distorting support are in general higher than the total support provided. So, while the Framework Agreement calls for a 20 percent reduction in total trade-distorting domestic support in the first year of implementation of the DDA agricultural agreement, this would require neither the U.S. nor the E.U. to make any actual reductions. In both cases there is more than 20 percent unused capacity in their AMSs, and the new lower maximum AMS would still exceed the levels that the U.S. and E.U. have been providing to their farmers.

Domestic Support

In the Framework Agreement the negotiators agreed that each high income country should make a "substantial reduction in the overall level of its trade-distorting support from bound levels," with the highest levels of support being reduced the most. In the U.S. case this would entail more than proportional reductions in commodity-specific support to rice, cotton, sugar, dairy, and peanuts. Product-specific caps on support would be imposed in addition to the binding on the aggregate support provided to the agricultural sector. The size of these caps and "substantial reduction" remain to be defined in the on-going negotiations.

In the Framework Agreement U.S. negotiators obtained agreement to broaden the definition of the blue box beyond policies that, while providing production- and trade-distorting support, also entail an offsetting supply constraint such as a marketing quota or land set-aside. The broadened definition would also include "direct payments that do not require production" so that the U.S. could include its counter-cyclical payments in the blue box. Counter-cyclical payments do not qualify for inclusion in the Green Box

because, while there is no link to the current volume of production, the payment is based on current market price.

In the URAA there was no cap on blue box payments; in the July Framework, as redefined, they are capped at less than five percent of a country's total value of agricultural production (i.e. all commodities, not just those for which there are farm programs). During the remaining negotiations there will likely be further tightening of the definition of the blue box to ensure that such policies are less trade distorting than the Amber Box. There is widespread unhappiness in other countries with the redefinition of the blue box, and we can anticipate continued attempts to tighten the criteria as much as possible in the remainder of the negotiations.

The Framework Agreement would leave Green Box payments unrestricted, but there is likely to be some further tightening of the Green Box criteria to ensure that support categorized there really is minimally trade-distorting in practice. Since the signing of the URAA the U.S., E.U. and Japan have made substantial shifts of agricultural subsidies from amber box support to specific commodities to direct (decoupled) payments. There is a widespread perception in other countries that such large green box payments cannot possibly be production- and trade- neutral.3[3]

Particularly noteworthy in the Framework Agreement is a proposal to create a new cap on the sum of amber box plus blue box plus product-specific *de minimus* subsidies in place of the current AMS cap on the amber box. This would substantially *increase* the maximum allowable trade distorting subsidies -- in the United States to 250 percent of current spending and in the European Union to 170 percent of their current spending. If this change occurs, a reduction of 60 percent in this redefined cap would be required in U.S. farm program payments before *any* reduction would occur (International Policy Council on Agriculture Food and Trade).

Export Subsidies

The Framework Agreement contains a commitment to eliminate all export subsidies, with the date yet to be defined. The elimination of direct export subsidies affects mainly the E.U. However, to obtain the E.U.'s commitment on this issue, other countries will have to agree to discipline policies they employ which have an effect equivalent to an export subsidy. In the case of the United States, this involves subsidized export credits and export credit guarantees with a repayment period beyond normal commercial terms (180 days). (Recall that this issue was also flagged by the WTO Cotton Panel.)

3[3] There can be little doubt that they induce larger investments in the agricultural sector as a whole relative to other sectors of an economy than would otherwise be the case. The issue here is whether they distort the mix of products produced. For example, some argue that in relatively specialized production regions, e.g. rice in Japan, the fact that support formerly distributed to Japanese rice growers via price supports which it now distributes as direct payments based on historical production patterns, is still supporting rice production.

The U.S. also provides part of its food aid on other than a fully grant basis, e.g. providing it to private voluntary organizations and non-governmental organizations which sell the products in the recipient country markets to generate local currency which is used to support their development and humanitarian activities. While much good undoubtedly comes from these activities, it is hard to argue that they do not displace commercial sales (from local farmers and/or commercial import suppliers).

Accepting greater discipline in these areas would be a small price for the U.S. to pay for a complete ban on agricultural export subsidies, which have caused significant distortions in world commodity markets. Parenthetically, eliminating export subsidies will force the E.U. to make larger reforms in its domestic agricultural policies. For example, despite its milk marketing quotas, the E.U. still has to buy dairy products ("intervention") to support the internal price of milk. It gets rid of these "intervention stocks" by subsidizing their sale on the world market.

Market Access

Market access, the most important of the three pillars in liberalizing trade, is the least well defined of the three in the Framework Agreement. Beyond general agreement that the highest tariffs should be reduced the most and that the negotiated reductions will be from bound, not applied, tariff rates, not much has been agreed. Because there is so much "water" in tariff rates, in many cases it would take a substantial reduction in bound tariffs to cause any reduction in applied rates and, in turn, increase in actual imports.

Moreover, in response to insistence from the most protectionist agricultural importers, e.g. Japan, South Korea, Norway and Switzerland, the Framework provides an escape clause with respect to the principle that the highest tariffs should be reduced the most. The Framework would allow all countries to designate an "appropriate number" of "sensitive products" to which the tariff reduction formula will not apply. In exchange for a smaller tariff reduction on sensitive products, however, the Framework suggests that the minimum market access for the "sensitive products" be increased, but many details remain to be negotiated.

In many instances tariff rates quotas (TRQs) constrain access to highly protected markets. A relatively low tariff rate is charged on imports that enter within the quota, but a much higher, often prohibitively high, tariff is charged on imports in excess of the tariff-rate quota. For example, the U.S. maintains tariff rate quotas for sugar, dairy, cotton, peanuts, tobacco, and beef. In the cases of beef, sugar, and butter, the U.S. would have to reduce its import tariffs by 77, 38, and 19 percent, respectively, before any increase in imports would occur (Tutwiler).

The sensitive product loophole provides a possible way for the most politically powerful commodities, which enjoy the largest subsidies and highest rates of import protection, to avoid as large reductions in tariff rates as other products. Nevertheless, those commodities should anticipate having to allow foreign suppliers to compete for a

larger fraction of domestic consumption. Larger imports might be enough to force more change in those commodities' domestic farm programs.

Developing Country Issues

There is another important way in which the Doha Round of WTO negotiations is likely to affect the 2007 Farm Bill. This relates to the fact that there is a strong development focus in this round of negotiations, which is officially dubbed the Doha Development Agenda. This occurred for several reasons. The Doha Ministerial, which launched the Round, was held during November 9-13, 2001, exactly two months after the September 11th terrorist attacks in the United States. Global poverty and the extent to which it facilitates recruitment by extremists was very much on delegates' minds.

Trade is widely acknowledged to be a powerful engine of economic growth, more so than aid. It was widely recognized that high income countries tend to be most protectionist in the sectors where low income countries have a comparative advantage, particularly labor intensive manufactures and certain agricultural products that thrive in the tropics, e.g. sugar, cotton, and rice. It was also acknowledged that developing countries had gained little from past rounds of multilateral trade negotiations and that, now that they represented the majority of members of the WTO, there would be no Doha Round agreement until and unless they felt there was benefit in it for them.

Between 2001 and 2003, numerous proposals were introduced by individual countries and groups of countries, including several from various groups of low income countries, however, little progress was made in the negotiations. Several attempts at outlining a framework for an agricultural agreement were made, but without success. In August 2003, in an attempt to advance the agricultural negotiations, the other members asked the U.S. and the E.U. to bring forward a proposal that would at least be satisfactory to both of them. They produced a proposal just before the Cancun Ministerial meeting in September 2003, however the document was seen as so self-serving (in terms of neither having to make many concessions) and out of keeping with the development spirit of the Round that it precipitated the emergence of an unlikely group of about 20 developing countries (the "G-20") led by Brazil and including India, China, South Africa, and other agricultural product exporting developing countries. The G-20 emerged as an effective counter-weight to the U.S. and the E.U. in the negotiations and ended the era when those two could go behind closed doors to hammer out the terms of a deal. Unless the G-20 perceive the deal to be worthwhile to its various members, there will be no deal.4[4]

In the run-up to the Cancun Ministerial meeting, Oxfam and other non-governmental organizations had waged a high profile publicity campaign against high income country agricultural subsidies. They focused on the adverse effects of subsidies which drive down world market prices and, in turn, incomes of poor farmers in low income countries who get their entire income from the market. Just before the Cancun

---

4[4] Brazil and other agricultural exporters in the G-20, will insist on real agricultural policy reform in the agreement, however India is less prepared to reform its own policies, and China perceives that it already conceded enough in its WTO accession negotiations.

Ministerial the World Bank released estimates of the world market price depressing effect of high income countries' agricultural subsidies and protectionism. The World Bank analysts estimated that the world market price of rice is depressed by 33-50 percent relative to the level at which it would otherwise reside (World Bank, Chapter 2). The Bank's estimates for sugar and dairy product prices were 20-40 percent, and cotton and peanuts, 10-20 percent.

Oxfam had built its campaign around U.S. cotton subsidies and how they hurt low income cotton producers in four of the poorest countries in West Africa (Oxfam International). The campaign had been so effective that when delegates arrived in Cancun, cotton, specifically the U.S. cotton program, was on everyone's mind. The U.S. negotiators were in an impossible situation, caught between one of the most powerful lobbies in Washington and virtually all the other delegations. When the U.S. advanced a proposal that assistance be provided to the West African countries, which have lower cost of cotton production, to help their farmers diversify out of cotton, the anger at the U.S. was palpable, and the stage was set for the Cancun Ministerial to fail.5[5]

Because agriculture is so important in the economies of most low income countries, it is viewed as *the* make or break issue in this round of trade negotiations. The U.S. has said that it would reduce its trade-distorting agricultural subsidies if other countries will reduce tariffs and increase quotas to provide greater market access. The developing countries say they cannot open their borders to products whose world market prices are artificially depressed by the subsidies high-income countries provide to their producers. The developing countries, in effect, say the high income countries have to go first. The U.S. responds that it cannot sell subsidy reductions to the Congress without significant market opening abroad, including in developing countries. This led to a stalemate in the agricultural negotiations for more than a year up until the July 31, 2004, Framework Agreement and continues to thwart progress.

There is a tradition in WTO agreements to allow developing countries "special and differential treatment" (S&DT), which usually translates into smaller reductions in protection phased in over a longer transition period. That this will once again be the case was confirmed in the July 2004 Framework Agreement. U.S. agricultural interests have expressed significant concern about one aspect of S&DT. Most interests other than sugar have little argument with the 50 or so least developed countries receiving special treatment. However, in the WTO the next higher income category of countries, "developing countries," is a self-designating category, and some countries' self-declaration seems to stretch the definition, e.g. Singapore and South Korea. Moreover, there is a problem with certain large countries which have highly competitive export sectors, but yet significant regional concentrations of poverty, e.g. Brazil in soybeans and China in labor-intensive manufactured goods. This is a highly political issue in the WTO,

---

5[5] The Cancun Ministerial nominally failed over disagreement between the high- and low-income countries over whether to address national rules in four new areas on the Doha Round negotiating agenda: customs procedures, investment, competition, and government procurement, but the United States' inability to be forthcoming on cotton had already poisoned the well.

but U.S. agricultural organizations are very unlikely to go along with a Doha Round agreement in which they see their prime competitor, Brazil, being able to claim special privileges just because it declares itself a developing country.

It is in the U.S.' economic self-interest for this to be a successful development round. The (almost) three billion people to be added to the world's population in the first half of the 21st century plus the three billion people (almost half of the world's present population) who live on less than two dollars per day are the only potential growth market for world agriculture. But their need will be translated into market demand only if they experience broad-based economic growth that empowers them with the purchasing power to translate need into market demand. Because many countries, especially in Asia, have a much larger fraction of the world's population than of the arable land, the growth in their food demand will quickly outstrip their production capacity, and they will need to import a larger part of their food supply. However, this will happen only if they can export products in which they have a comparative advantage to earn the foreign exchange needed to buy goods in which other countries have a comparative advantage, including part of their food supply.

PROSPECTS FOR REFORM

The 2007 Farm Bill and the Doha Round of multilateral trade negotiations are progressing on the same timetable. Secretary of Agriculture Johanns has held listening sessions on the 2007 Farm Bill around the country during the summer of 2005, and the Congressional agriculture committees' field hearings will start in the fall of 2005, with hearings in Washington, DC continuing through 2006, in anticipation of writing the next farm bill during 2007. The most likely time for the Doha Round to conclude is June 2007, when the current U.S. Trade Promotion Authority ("fast-track" negotiating authority) expires. If history is any guide, this will be an effective decision-forcing date to bring the WTO negotiations to closure. Any changes in farm policy agreed to in the DDA agricultural agreement can then be implemented in the 2007 Farm Bill.

Within U.S. farm organizations there is little enthusiasm for the trade negotiations or even for exports in general. Many American farmers are taking a defeatist attitude about their ability to compete internationally. They see the world market as a zero sum game and are betting their future on ethanol and biodiesel instead. Unless farm organizations enthusiastically embrace whatever is coming out of the Doha Round, don't expect the Congressional agriculture committees to do so.

Many farm organizations and commodity groups organized task groups to work on future farm policy alternatives already in 2004. Their leadership appears to believe that the probability that there will be a binding budget constraint in 2007 is sufficiently high that they need to analyze alternatives. Nevertheless, most farm organizations' first priority seems to be to preserve everything they got in the 2002 Farm Bill intact. There is likely to be a continuing stream of anti-farm program editorials, however both political

parties may view rural America as sufficiently important to their political futures that neither will risk losing any rural votes by proposing to change farm policy.

There are a number of other domestic issues that will influence the 2007 Farm Bill. Agricultural commodity programs are now acknowledged to be weak rural development policy. Will a coalition emerge that can secure support for investments in rural infrastructure, e.g. broadband internet, and public goods, such as education, which are essential for successful rural development?

Many farmers perceive that the pendulum has swung too far in relying mainly on the private sector for future agricultural technologies. Will the farm organizations that represent them be willing to support shifting some funds from commodity programs to public support for agricultural research?

Another issue that will play into the 2007 Farm Bill debate is the increasing size of farms and concentration in the agricultural marketing and input sectors. This will be manifested in, among other ways, advocacy for limits on the size of farm program payments any one producer can receive. To be effective, payment limitations will have to constrain how many times a "farm" can be carved up into smaller units, each of which can receive the payment limit.

Subsidized crop insurance and disaster payments have a tendency to induce larger production of certain crops in areas where there are suboptimal growing conditions (higher risk) for those crops. Over the years Congress has regularly undermined the viability of the crop insurance program by providing disaster payments to farmers in bad crop years. Some farm organizations are studying alternative forms which a gross revenue assurance program could take as a possible replacement for disaster payments, crop insurance, marketing loans, loan deficiency payments and counter-cyclical payments. This willingness of farm organization leaders to look at radical alternatives to present farm programs is encouraging for WTO prospects.

Every farm bill is influenced disproportionately by the current economic conditions in the farm sector and agricultural commodity markets *at the time* the farm bill is written. While no one can predict how crop conditions here and around the world will evolve between now and 2007, we can predict with some assurance that whatever they are will affect the content of the 2007 Farm Bill.

The role government payments are playing in farmers' incomes in 2007 will also affect the outcome, but the direction of its influence is difficult to predict. If government programs are supplying a significant fraction of net farm income, farm organizations will lobby hard to keep what they are getting. On the other hand, if there should be a big jump in the magnitude of payments from 2005 to 2006 in addition to the large anticipated increase from $14.5 billion in 2004 to $24.1 billion in 2005 (USDA, Feb. 11, 2005), budget hawks are likely to attack, demanding reductions.

If one had to predict, the safest best would be that the commodity programs in the 2007 Farm Bill will not look a lot different than at present. With the definition of the special and sensitive products and the redefinition of the blue box to include counter-cyclical payments in the WTO Framework Agreement of 2004, there is a significant possibility that the Doha Round will end with a minimalist agreement on agriculture that requires little change in U.S. farm programs. Based on their behavior in past rounds of multilateral trade negotiations, the U.S. and E.U. would probably go along with this.

However, agriculture is central to the interests of the least developed and developing countries, which make up the majority of WTO members. The least developed countries might be appeased with special and differential treatment preferences, however, the G-20, led by Brazil, is likely to take the attitude that a bad agreement is worse than no agreement, and they will view any agreement that does little to reform agriculture, a bad agreement. There will be no agreement until both the least developed and the developing countries perceive there to be something of value in it for them. The ingredients are in place for at least one more high profile failed WTO ministerial gathering. Finally, in light of the difficulty the Bush Administration had in securing Congressional passage of the CAFTA-DR agreement, other countries' negotiators in the Doha Round will doubt that the U.S. negotiators can deliver Congressional approval of any significant agricultural policy reform to which they might agree.

A betting person would have to wager that the 2007 Farm Bill will look a lot like to 2002 Farm Bill. However, there is just enough higher likelihood of change due to the Federal budget deficit, the breadth of recognition that the programs are not achieving their stated objectives, and the Doha Round of WTO negotiations that some more fundamental change might be possible. Stay tuned.

REFERENCES

Center for Responsive Politics. "Agribusiness: Long-Term Contribution Trends." Available at: < http://www.opensecrets.org/industries/indus.asp?Ind=A>. Accessed May 4, 2005.

Conway, G. *The Double Green Revolution: Food for All in the Twentyfirst Century.* London: Penguin Books, 1997.

Environmental Working Group. "What's The Plan? U.S. Farm Subsidies, 1995 through 2003," Farm Subsidies Database, Washington, DC, 2005. Available at <http://www.ewg.org/farm/findings.php>.

Gardner, B.L. *American Agriculture in the Twentieth Century – How It Flourished and What It Cost*. Cambridge, MA: Harvard University Press, 2002.

Gastner, M., C. Shalizi, and M. Newman. “Maps and Cartograms of the 2004 U.S. Presidential Election Results.” Available at: < www-personal.umich.edu/~mejn/election/ countymapredblue.png>. I

International Centre for Trade and Sustainable Development. “Agricultural Negotiations at the WTO: The July Package and Beyond,” Quarterly Intelligence Report No. 12, April 2005. Available at: <http://www.agtradepolicy.org/output/resource/ agriculture negotiations12.pdf.

International Policy Council on Agriculture Food and Trade. “Building on the July Framework: Advice and Cautions.” Washington, DC. Available at www.agritrade.org.

Johnson, D.G. *World Agriculture in Disarray*, 2nd ed. London: Palgrave Macmillan, 1991.

MacDonald, J., R. Hoppe, and D. Banker. “Growing Farm Size and the Distribution of Commodity Program Payments,” *Amber Waves* 2 (2005): 10-11.

Organization for Economic Cooperation and Development. “Producer and Consumer Support Estimates OECD Database, 1986-2003,” 2004. Available at: <http://www.oecd.org/document/58/0,2340,en_2649_37401_32264698_1_1_1_37401,00.html>.

Oxfam International. *Finding the Moral Fiber: Why Reform Is Urgently Needed for a Fair Cotton Trade*. Briefing Paper No. 69, October 2004. Available at: <http://www.oxfam.org.uk/what_we_do/issues/trade/downloads/bp69_cotton.pdf.> .

Tutwiler, M.A. “The July Framework Agreement: Nine Months Later.” International Food and Agricultural Trade Policy Council, Washington, DC, April 2005.

U.S. Department of Agriculture. *ERS Typology for a Diverse Agricultural Sector*. Agricultural Information Bulletin No. 759, September 2000.

U.S. Department of Agriculture. “Farm and Commodity Policy: Government Payments and the Farm Sector.” March 29, 2005. Available at: <http://www.ers.usda.gov/Briefing/FarmPolicy/gov-pay.htm>.

US Department of Agriculture. “Farm Income and Costs: Farm Income Forecasts.” February 11, 2005. Available at: http://www.ers.usda.gov/briefing/farmincome/data/GP_T7.htm

Wescott, P.C., C.E. Young, and J. M. Price. “The 2002 Farm Act: Provisions and Implications for Commodity Markets,” USDA Agriculture Information Bulletin no. 778, Nov. 2002. Available at: <http://www.ers.usda.gov/publications/aib778/aib778.pdf>
World Bank. *Global Economic Perspectives and the Developing Countries 2002*. Washington, DC, September 2002.

Young, E., and D.A. Shields. “Provisions of the 1996 Farm Bill,” *Agricultural Outlook*, Special Supplement, April 1996. Available at: <http://www.ers.usda.gov/publications/agoutlook/aosupp.pdf>.