

Global Impacts of Farm Policy Reforms in OECD Countries

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GTAP Conference Timeline of Events -- 2001

- Come up with brilliant idea for analysis of the Kyoto protocol
- Submit abstract to conference
- Laboriously perform analysis and write paper
- USA pulls out of Kyoto protocol
- Conference begins

GTAP Conference Timeline of Events -- 2002

- Come up with brilliant idea for analysis of the agriculture in the WTO
- Submit abstract to conference
- Laboriously perform analysis and write paper
- USA passes 2002 farm bill
- Conference begins

Burfisher, Robinson, and Thierfelder

- Opening sentence:

“Multilateral negotiations on agricultural trade liberalization will require WTO members, including OECD countries, to improve market access and to reduce domestic support and export subsidies.”

Structure of Presentation

- Give a **BRIEF (and incomplete)** overview of the 2002 farm bill drawing on materials from the Department of Agricultural Economics at Purdue University. Credit to:
 - Alan Gray
 - Otto Doering
 - Steve Lovejoy
- Draw some lessons from BR+T that apply to today's environment.

2002 Farm Bill: Where Are We?

- **House passed the conference committee bill on May 2nd**
- **Senate passed the conference bill on May 8th**
- **President Bush signed the bill on May 13th**
- **USDA is currently developing implementation rules and policies (CRUCIAL)**

2002 Farm Bill

- **6 Year bill**
- **Costs \$180 billion over 10 years**
- **Almost a \$6.0 billion dollar increase in annual spending for program crops**
- **Similar to emergency legislation spending from 1997-2001**
- **\$17 billion in additional spending for Environment over 10 years**

What is in the Commodity Title of the Bill?

- **Three Basic Support Mechanisms**
 - **Marketing Loans**
 - **Direct Payments**
 - **Counter-Cyclical Payments**
- **Soybeans and Peanuts become complete program crops**
- **Lentils, small chickpeas, wool, mohair, and honey are new commodities**
- **Dairy gets a counter-cyclical program**

What Are Payment Bases???

Payment	Payment On	Adjustment
LDP's	Certified Production	100%
Fixed	<u>Old or Updated Base Acres</u> * Old Base Yields	85%
Counter Cyclical	<u>Old or Updated Base Acres and Yields</u>	85%

Payments Under Various Market Price Scenarios

Corn Target	\$2.60	\$2.60	\$2.60
Corn Loan	\$1.98	\$1.98	\$1.98
Market Price	\$1.69	\$2.28	\$2.60
LDP	\$.29	.00	.00
Fixed	\$0.19	\$.19	\$.19
Counter Cyclical	<u>\$0.32</u>	<u>\$.04</u>	<u>.00</u>
Total	\$2.49	\$2.51	\$2.79

WTO Negotiations

- **Substantial increases in legislated amber box spending**
- **19 to 20 percent chance of exceeding the \$19.1 Billion spending limit in '02 market yr.**
- **Seem to be playing games with the rules**
- **Negotiators are in a tough position**

Conservation Programs

- \$17.1 billion over 10 years
 - A major increase
- Alphabet soup
 - 11 separate programs
 - A very high level of discretion given to USDA
- New program – Conservation security program
 - \$2.0 billion

Conservation Security Program

- “green payments”
- Tier I – 1 practice on limited acres 5 years
- Tier II – 1 practice on entire operation 5-10 yrs
- Tier III – comprehensive mgmt plan on entire operation for 5-10 years

CSP Base payment

- Average national per-acre rental rate for a specific land use during the 2001 crop year
- Another appropriate rate for the 2001 crop year that ensures regional equity

CSP – Tier I payment

- 5 % of base payment
- Up to 75% of the average county cost of the practice
- Payment enhancer
 - Exceeds minimum
 - Watershed or regional plan
 - Carries out assessment or evaluation of CSP

EXAMPLE – TIER I

- \$120 base payment for corn
- 5% = \$6/acre enrolled/year
- If no-till reduces net income by \$10/acre, add 75% or \$7.50/acre
- Total is \$13.50 per acre plus possible enhanced payment

EXAMPLE – TIER II

- \$120 base payment for corn
- 10% = \$12/acre/year – entire operation
- If no-till reduces net income by \$10/acre, add 75% or \$7.50/acre utilizing no-till
- Total is \$19.50 per acre plus possible enhanced payment

EXAMPLE – TIER III

- \$120 base payment for corn
- 15% = \$18/acre/year – entire operation
- If no-till reduces net income by \$10/acre, add 75% or \$7.50/acre utilizing no-till
- Total is \$25.50 per acre plus possible enhanced payment

Let the Box Battle Begin!

(Back to Burfisher, Robinson, and
Thierfelder)

Key Findings (BRT)

- Insulating producers from market prices weakens a country's production response to partners' reform.
- Domestic agricultural policies are, to some extent, a response to market conditions created by distorting policies of other countries.

Key Findings (BRT)

- Multilateralism leads to a “softer landing” than unilateralism.
- Domestic price supports partially neutralize a country’s reforms of its other “pillars.”

Information on the 2002 Bill

<http://www.ces.purdue.edu/farmbill/>