Global Impacts of Farm Policy Reforms in OECD Countries

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Karen Thierfelder
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
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???

<table>
<thead>
<tr>
<th>Payment</th>
<th>Payment On</th>
<th>Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>LDP’s</td>
<td>Certified Production</td>
<td>100%</td>
</tr>
<tr>
<td>Fixed</td>
<td>Old or Updated Base Acres * Old Base Yields</td>
<td>85%</td>
</tr>
<tr>
<td>Counter Cyclical</td>
<td>Old or Updated Base Acres and Yields</td>
<td>85%</td>
</tr>
</tbody>
</table>
# Payments Under Various Market Price Scenarios

<table>
<thead>
<tr>
<th>Payments Type</th>
<th>First Scenario</th>
<th>Second Scenario</th>
<th>Third Scenario</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn Target</td>
<td>$2.60</td>
<td>$2.60</td>
<td>$2.60</td>
</tr>
<tr>
<td>Corn Loan</td>
<td>$1.98</td>
<td>$1.98</td>
<td>$1.98</td>
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<tr>
<td>Market Price</td>
<td><strong>$1.69</strong></td>
<td><strong>$2.28</strong></td>
<td><strong>$2.60</strong></td>
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<tr>
<td>LDP</td>
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<td>$.00</td>
<td>$.00</td>
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<tr>
<td>Fixed</td>
<td>$0.19</td>
<td>$.19</td>
<td>$.19</td>
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<tr>
<td>Counter Cyclical</td>
<td>$0.32</td>
<td>$.04</td>
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</tr>
<tr>
<td>Total</td>
<td>$2.49</td>
<td>$2.51</td>
<td>$2.79</td>
</tr>
</tbody>
</table>
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 county’s reforms of its other “pillars.”
Information on the 2002 Bill

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