The 2014 US Farm Bill: Implications for the WTO Doha Round in a Post-Bali Context

By Vincent H. Smith

Introduction

The 2014 Agricultural Act, signed into law by President Obama on 7 February 2014, terminates several farm subsidy programmes, replacing them with several major new subsidy initiatives. These initiatives have potentially important implications for the extent to which the US is likely to support reforms to the World Trade Organization (WTO) Agreement on Agriculture that are similar to the changes to Aggregate Measures of Support (AMS) caps and de minimis provisions described in the December 2008 Revised Draft Modalities.

One concern is that, if prices for major grain and some other commodities retreat from their recent record and near record levels towards long-run trend levels, then the new US Farm Bill programmes may well involve larger subsidies for farmers than those they received from the discontinued programmes. For example, if prices for crops like wheat and corn fall to the levels forecasted by the United States Department of Agriculture in February 2014, then subsidies paid out under the new programmes could be more than double the average amounts paid out annually under the original programmes.

A second closely related issue is that, in the context of the WTO Agreement on Agriculture, all of the major new subsidy programmes are unambiguously amber box programmes. In contrast, the now abandoned Direct Payments programme that was a major source of crop subsidies for US farmers between 2008 and 2013 (4.9 billion dollars a year) was essentially a decoupled green/blue box programme. Therefore, in contrast to some other WTO Member countries, through the 2014 Farm Bill, the US has shifted its subsidy programmes for agricultural commodities away from green and blue box policies and into amber box programmes, with the potential for substantially increased total outlays on those programmes.

The current de minimis limit, which allows a country to exclude some amber box subsidies counting against its AMS cap, is 5 per cent of the value of output. In addition, the current AMS cap for the United States is 19.1 billion dollars. Given these provisions, it is very unlikely that the United States would exceed its AMS cap, even though expenditures on farm subsidies in any given year could be more than double their maximum levels over the period covered by the previous Farm Bill (2008–2013). However, if the de minimis limit is reduced to 2.5 per cent and the US AMS cap is lowered by 60 per cent to 7.64 billion dollars (as implied by the 2008 draft modalities), given the provisions of the new Farm Bill, the US would be quite likely to exceed such an AMS cap, at least for some years.

A third WTO issue derives from the potential that the new Farm Bill's provisions could result in WTO trade dispute fillings based on claims of price suppression under the Subsidies and Countervailing
Measures (SCM) Agreement. The new Farm Bill programmes are designed to give US farmers larger subsidies when prices for the commodities they produce fall. These programmes cover at least 17 different internationally-traded crops, including large area crops like corn and soybeans, crops that have been the subject of previous trade disputes such as cotton and wheat, as well as small area crops like chickpeas and minor oilseeds. They are also designed to increase subsidies when world market prices for those crops decline.

1. The new farm bill subsidy programmes

The major new subsidy programmes are as follows:

• The Price Loss Coverage (PLC) programme, in which payments are triggered by relatively low crop prices;

• The Agricultural Risk Coverage (ARC) programmes, in which payments are triggered by relatively modest shortfalls in expected revenues on a per hectare basis;

• The Supplementary Coverage Option (SCO), which provides subsidized insurance (the government pays 60 per cent of the actuarially fair premium and all administrative costs) to cover relatively small decreases (shallow losses) in per hectare revenues from their expected levels and which is paid on every insured acre planted in the current year;

• The Stacked Income Protection (STAX), a more heavily subsidized version of the SCO insurance programme that is only for cotton (the government pays 80 per cent of the actuarially fair premium and all administrative costs);

• A new dairy programme called the Dairy Margin Protection Programme (DMPP).

The STAX and SCO programmes provide subsidies tied to the current crop planting and production decisions of US farmers as well as to the market prices for the current year. The PLC and ARC programmes make subsidy payments based on the farm's historical production of the crops covered (for most farms, almost certainly their production of the covered crop over the period 2008 to 2012). However, under the PLC, subsidies are triggered by current market prices and, under the ARC, subsidies are triggered by current prices and current yields.

Farmers are required to make a one-time choice about whether any given eligible crop will be covered by the PLC or the ARC programme. If the PLC programme is selected, the farmer can also obtain SCO insurance coverage for relatively small reductions in yields and revenues. If the ARC programme is selected for a crop, then the SCO option is not available for that crop. In addition, there are two versions of the ARC programme, one based on expected per hectare revenue in the county in which the farm is located and one based on expected farm-specific yields. If the farm-specific ARC option is chosen, then all crops eligible for a PLC or ARC subsidy must be enrolled in the farm-specific yield ARC programme.

The DMPP is a heavily subsidized quasi-insurance programme in which, while payments are based on recent historical milk production levels, the amount of the subsidies is determined by current milk prices and animal feed prices. As a result, all of these new subsidy programmes will generate amber box payments.
2. The shift from decoupled to amber box programmes

These new amber box programmes have been established as a response by the Congressional House and Senate to intensive lobbying on the part of farm groups. Those groups recognized that a major source of government subsidies to crop producers, the Direct Payments programme (DPP), was no longer politically viable. The DPP provided producers of 16 crops – including corn, wheat, soybeans, rice and cotton – with an essentially guaranteed 4.9 billion dollars a year in subsidies on the basis of the production of the land farmed between fifteen and thirty years ago. Effectively, the DPP subsidies were decoupled from current production decisions for most farms and, as a result, had increasingly become viewed as welfare payments flowing, for the most part, to relatively wealthy households.

As such, the DPP could no longer be justified from any policy perspective (Goodwin 2012) and the 2014 Farm Bill terminated the programme (or in the case of cotton phased it out), along with two other related programmes. These were the Countercyclical Payments Programme (CCP) and the Average Crop Revenue Programme (ACRE), which were both amber box programmes, but ones that had generally provided very small amounts of subsidies over the previous five years. However, the basic structure of the CCP was almost identical to the structure of the new Price Loss Coverage Programme that replaced it. Under the PLC, as under the now defunct CCP, farmers will receive a subsidy payment when the annual average market price for their crop falls below the trigger price, and payments are made on the basis of historical production.

There are two important differences between the CCP and the PLC. The first is that trigger prices are much higher under the new PLC than under the old CCP programme, as illustrated in Table 1. For example, under the PLC, the wheat trigger price is 53% higher, the corn trigger price is 75% higher and the rice trigger price is 72% higher. The implication is that annual average subsidy payments under the PLC programme are likely to be much higher and more frequent than they would have been under the CCP.

In addition, farmers will be allowed to update the amount of historical production on which PLC payments will be made. At their own discretion, they can either keep their current historical production bases or update them using their production of the crops covered by the PLC between 2008 and 2012, a period in which yields for most crops were much higher. In contrast, under the ARC programme, farms receive a subsidy payment if per hectare crop revenues fall below 86 per cent of their expected levels. The payment is capped at 10 per cent of the per hectare expected revenue (at the county or farm level), which is calculated using Olympic averages for prices and yields over the previous five years.

3. Potential farm bill subsidy expenditures and the current and potential future AMS caps

Several estimates of the subsidy costs of the new Farm Bill are available. Some, like the recent March 2014 Congressional Budget Office (CBO) estimates, suggest that the average annual outlays for the new programmes will be less than or close to the approximately five billion dollars in annual subsidy outlays of the discontinued Direct Payments, ACRE and CCP Programmes. Those estimates assume that prices for major crops like wheat and corn will remain at, or close to, their recent record and near record levels.
Other estimates indicate that government spending on just the PLC and ARC programmes for two or three major crops (such as corn and wheat) could be in excess of $7 billion for some years if prices moderate towards their long-run trend levels (Smith 2014). Furthermore, when all US farm programmes – including the federal agricultural insurance programmes – are considered, US government spending on amber box programme subsidies could easily exceed $15 billion for some years.

However, almost all analyses indicate that, between 2014 and 2018 (the period covered by the new Farm Bill), the US is unlikely to exceed its current $19.1 billion cap under the provisions of the new Farm Bill. That is not the case with respect to the AMS and de minimis provisions in the 2008 proposed draft modalities. First, it is difficult to envisage the United States regularly being able to stay below a Total Bound AMS cap of $7.64 billion, given the provisions of the 2014 Farm Bill, without the extensive use of AMS de minimis exemptions. However, if the PLC, ARC, SCO and crop insurance are viewed as crop specific (as they should generally be viewed), they would not be excluded from the reported US AMS expenditures under a 2.5 per cent de minimis exemption limit. For example, for most crops, crop insurance premium subsidies are about 4 per cent of the crop’s total market value.

4. The 2014 farm bill and the WTO Subsidies and Countervailing Measures Agreement

Finally, another important WTO issue concerns the potential for WTO trade disputes to be filed because of price suppression under the SCM Agreement. The PLC, ARC, and DMPP programmes, as well as the SCO and STAX programmes, are designed to give US farmers larger subsidies when prices for the commodities they produce fall. As mentioned above, the PLC and ARC programmes cover a range of different crops, including large area crops like corn and soybeans, crops that have been the subject of previous trade disputes such as cotton and wheat, as well as small area crops like chickpeas and minor oilseeds. All of these crops are traded internationally and, in several cases (for example, both corn and chick peas), the US has a relatively large share of global production. Hence, it could reasonably be argued that the 2014 Farm Bill has also substantially increased the potential scope for trade disputes with respect to both “large acre” and “small acre” crops.

### Table 1. CCP and PLC payment trigger prices

<table>
<thead>
<tr>
<th>Commodity</th>
<th>CCC Payment Trigger Price (USD)</th>
<th>PLC Reference (Payment Trigger) Price (USD)</th>
<th>Per cent Increase in Payment Trigger Price Under PLC (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corn</td>
<td>$2.35/bushel</td>
<td>$3.70/bushel</td>
<td>57%</td>
</tr>
<tr>
<td>Wheat</td>
<td>$3.65/bushel</td>
<td>$5.50/bushel</td>
<td>53%</td>
</tr>
<tr>
<td>Soybeans</td>
<td>$5.56/bushel</td>
<td>$8.40/bushel</td>
<td>66%</td>
</tr>
<tr>
<td>Peanuts</td>
<td>$459/ton</td>
<td>$535/ton</td>
<td>17%</td>
</tr>
<tr>
<td>Rice</td>
<td>$8.15/cwt</td>
<td>$14/cwt</td>
<td>72%</td>
</tr>
<tr>
<td>Barley</td>
<td>$2.39/bushel</td>
<td>$4.95/bushel</td>
<td>107%</td>
</tr>
</tbody>
</table>
References


US Congressional Budget Office. 2013. Updated cost estimates of the farm bills that were considered in the Senate and the House during the 112th Congress. 1 March 2013.
