Overview of the 2008 Farm Bill process, views of the Presidency candidates and potential impact on the Doha Round negotiations

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OUTLINE

I – Overview of the 2008 Farm Bill process

This backgrounder first section is mainly made from unquoted excerpts from many sources, mostly from the Congressional Research Service (CRS)'s papers on the farm bill and from the daily analysis of Keith Good, in The FarmPolicy.com News. Therefore it should not be quoted as a J. Berthelot's paper. It concentrates essentially on the commodities support part of the Bill, which is more relevant for the Doha Round negotiations.

1) A farm bill does not cover all public agricultural expenditures

Federal commodity support, conservation, food assistance, agricultural trade, marketing, and rural development policies are governed by a variety of separate laws.

Many of these laws periodically are evaluated, revised, and renewed through an omnibus, multi-year farm bill, of usually five years. It is an opportunity to reconsider agriculture and food issues more carefully, and address them more comprehensively.

However these policies are sometimes modified or overhauled as freestanding authorizing legislation, or as part of other laws. Thus, the 1996 farm bill was intended to guide agricultural support through 2002. But an unanticipated drop in commodity prices prompted Congress to begin the "next" farm bill debate in 1998, when it considered and passed the first of a series of *ad hoc* emergency assistance measures that pumped $20 billion in market loss payments to farmers over three years (FY1999-FY2001), and ultimately led to the adoption of "counter-cyclical payments" in the 2002 farm bill. An opposite example is that of FY2006 where budget reconciliation trimmed $2.7 billion over five years (FY2006-FY2010) from USDA mandatory programs.

We will focus mainly here on the heart of every omnibus farm bill: the farm income and commodity price support policy, the methods and levels of support that the federal government provides to agricultural producers.

<u>2) The budget rules</u>

They require that costs of legislation be estimated over a 10-year time horizon, even when legislation such as a farm bill covers a shorter time period. The benchmark, called the budget baseline prepared by the Congressional Budget Office (CBO), is an estimate of expected future costs of existing programs in the absence of new legislation. This explains why the 2007 Farm Bill is presented with two time-horizons: five years (FY2008-FY2012) and ten years (FY2008-FY2017). The projections start with the Congress' most recent budgetary decisions and show what would happen to the federal budget if no policy changes were made over the projection period.

<u>3) USDA's early involvement in the 2007 farm bill</u>

After a series of 52 farm bill forums initiated in July 2005, USDA has submitted its own detailed recommendations for the 2007 farm bill on 31 January 2007, of which, for the commodities part of the bill:

1- Increase direct payments and provide additional income support in the 2010-2012 crop years. Continue direct payment acres at 85 percent of base acres, and do not update program payment bases and yields. This proposal would pay farmers an additional $5.5 billion over ten years. Allow planting flexibility of fruits, vegetables, and wild rice on base acres, so that direct payments would not be challenged as fully green subsidies at the WTO.

2- Consequently the proposals target nearly $5 billion over 10 years to significantly increase support of fruit and vegetable producers through targeted programs.

3- Create a counter-cyclical program that is more responsive to actual conditions by replacing current price-based payments with revenue-based payments for program crops.

4- Loan rates: under the 2002 farm bill, loan rates were fixed for the 2002-2007 crops and, for some commodities, their levels were well above market prices year after year. These fixed loan rates create incentives for producers to plant one crop over another simply because relative loan rates may not reflect the trends in market prices. And a loan rate in excess of the market price for a crop encourages producers to plant more acreage to that crop, subsequently lowering the crop's market price and increasing marketing assistance loan outlays even further. To minimize these market distortions and unintended consequences, the Administration recommends a more market-based solution for determining loan rates. All loan rates for commodity crops would be set at the lesser of: i) 85 percent of the 5-year Olympic average (average of last five years price excluding the high year and the low year). ii) The loan rate levels established in the House-passed version of the 2002 farm bill.

5- Loan deficiency payments (LDP): producers may take advantage of short term price depressions to obtain an LDP and then market the crop later in the year, with the resulting

market price plus LDP greatly exceeding the loan rate. In this case, the producer receives total compensation much greater than intended by the loan program.
6- Reform farm program payment limits, eligibility requirements, and attribution to reduce payments going to larger and higher income producers, increasing overall equity in farm programs. USDA would end the subsidies to farmers whose adjusted gross income is above $200,000 against $2.5 billion presently and sets the subsidy payment limit for individuals at a total of $360,000.
7- Allow as much as 25 percent of the U.S. food aid budget to be used to make local or regional purchases of food.
8- Allow USDA to adjust certain payments to meet current and future WTO commitments.

The USDA proposals would increase by $4.950 billion the previous Congressional Budget Office's (CBO) baseline of $618.5 billion for 2008-2017. However the increase is due to conservation programs because USDA has cut the commodities programs by $4.5 billion. The proposals would spend $10 billion less than the 2002 farm bill spent over the past five years (excluding ad-hoc disaster assistance). They would provide $5 billion more than the projected spending if the 2002 farm bill were extended.

4) The new CBO's baseline budget of March 2007

It has served as the official benchmark for scoring the budgetary impacts of a 2007 farm bill, i.e. $597 billion in projected spending over 10 years of which $280.3 billion over five years (FY2008-FY2012). It assumed continuation of current farm bill policies under expected economic conditions. It is the budget resolution that set the actual spending constraints for the House and Senate Agriculture Committees as they drafted a new farm bill. On the projected total of $280.3 billion $37 billion were for commodity programs, $26 billion for crop insurances, $22 billion for conservation and $192 billion for nutrition programs (table 1 below).

CBO's projected total farm support (commodities, conservation, and trade) spending under current law over the next five years (FY2008-FY2012) will be $59.8 billion, which is about $16.4 billion less than the amount actually spent over the last five years (FY2003-FY2007). This lower estimate is driven primarily by projections for sustained high commodity prices for the foreseeable future. The reduction of $16.4 billion is due to $22.7 billion in reduced commodity spending, but $5.7 billion in increased conservation spending, and $482 million in increased export spending. In contrast, spending for food stamps under current law is expected to increase by about $30 billion over the five-year period.

5) Congress' involvement

a) The procedure

After having conducted field hearings from February 2006 to review the federal farm policy, on July 27, 2007, the House passed its version of the 2007 farm bill, H.R. 2419 (Farm, Nutrition, and Bioenergy Act of 2007), and the Senate passed its own version on December 14, 2007.

Conference negotiations started in January 2008, House and Senate staffs trying to write a single bill from their own versions, but they are still lagging. Because the 2002 Farm Bill was supposed to expire September 30, 2007, it has been repeatedly extended until March 15, 2008, and lastly until April 18, 2008. And President Bush has asked Congress on March 14 to extend the 2002 farm bill for at least one year if no agreement is reached on April 18.

Congress left Washington March 14 for a two-week recess, but congressional leaders agreed to continue work on a bill that would add $10 billion over 10 years to the baseline of $597 billion, about 70 percent of which being spent on food stamps and other nutrition programs. The Bush administration has said it would consider that additional $10 billion if Congress further limits farm subsidies that go to wealthy farmers and adheres to other administration requests.

b) Similarities and differences in the House and Senate bills

The House and Senate versions differ in their respective 5-years (FY2008-FY2012) and 10-years (FY2008-FY2017) budget estimates of new spending authority. This difference, in part, reflects new spending in the House bill over the full 10-year period, whereas the Senate bill extends new spending only over the 5-year period.

Both versions have come to about the same amount of expenditures: $286 billion for the House and $285.6 billion for the Senate. Both the House and Senate versions raise most loan rates and target prices (except for cotton), continue planting restrictions on base acres, maintain the 2002 level of direct payments (but the House version foresees to eliminate them for the FY2016), reduce support to crop insurances, create a sugar loan rate and a sugar to ethanol program, maintain prices-based counter-cyclical payments (CCPs) but propose revenue-based CCPs as an option: the House offers a one-time choice for a national-based "revenue CCP" beginning in 2008, while the Senate offers a one-time choice for a state-level "average crop revenue" program beginning in 2010.

Both the House and Senate bills would add new provisions to address horticulture and livestock issues. However, whereas the House bill creates a new horticulture title, the Senate bill instead creates a new livestock title. The House and Senate bills both add new horticulture provisions providing mandatory funding for specialty crop block grants and add new provisions supporting organic production, among other provisions.

New animal provisions include changes in meat and poultry inspections, and country-of-origin labelling requirements; the Senate bill also includes extensive provisions affecting packer ownership and other competition issues.

However the most contentious divide between the House and Senate versions is the issue of disaster payments: the Chairman of the Senate Finance committee wants $5.1 billion over five years for a permanent disaster plan for farmers whereas the present compromise between the House and Senate would not allocate to it more than $2.2 billion over ten years. As of 27 March 2008, it seemed that farm bill negotiators appear likely to compromise on a $4.05 billion farm disaster program over five years, being offset by lower increases for conservation, specialty crops and energy programs[1].

Table 1 – Farm Bill for FY2008-FY 2012: the CBO Baseline, House and Senate versions

	Commodity Support	Conservation	Energy	Trade/Aid	Nutrition	Crop Insurance	Other	Total
March 2007 Baseline	36.5	21.6	0.0	1.7	192.2	25.7	2.6	280.3
House Farm Bill	35.4	24.6	2.4	2.3	196.4	21.7	3.5	286.0
Senate Farm Bill	33.0	26.0	1.0	1.8	197.5	22.0	4.5	285.6

Source: CRS, Farm Bill Budget and Costs: 2002 vs. 2007, January 29, 2008.

[1] http://www.farmpolicy.com/?p=670#more-670

6) The last USDA's demand

For USDA, on behalf of the White House, any final farm bill agreement must include real programs reforms[2] among which:

1- Payment Limitations: the current Adjusted Gross Income (AGI) limitation must be lowered and capped at not more than $500,000.

2- Loans rates and target prices should not be increased above the current 2002 levels.

3- The current price-based countercyclical program should be replaced with a revenue-based program that better targets farm support, includes a revenue guarantee cap and does not duplicate crop insurance assistance.

4- Elimination of Planting Restrictions: Fruit and vegetable planting restrictions should be lifted to eliminate any question that direct payments are "green box" in the light of recent WTO rulings.

5- Any final agreement must include the Administration's proposal authorizing up to 25 per cent of P.L. 480 Title II food aid assistance for local purchases.

However it seems that these White House's demands would be mitigated as long as at least one of them would be satisfied by Congress.

II –The position of the three presidency candidates on the farm bill and trade issues

The three candidates are Senate Members but none is a Member of its Agriculture, Nutrition & Forestry Committee or of the Joint economic Committee which covers international trade (besides the issues of energy, taxation or income inequality) and is in fact a bicameral Committee composed of ten members from the Senate and ten from the House of Representatives.

John Mc Cain (R-Az) participates to 3 Committees: Armed Services, Indian Affairs, Commerce, Science & Transportation (this Committee does not deal with international trade, covered by the Joint economic Committee). Hillary Clinton (D-NY) participates also to the Armed Services Committee, the Committee on Environment & Public Works and the Committee on Health, Education, Labor & Pensions. Barack Obama (D-Il) participates also to the Committee on Health, Education, Labor & Pensions and to the Foreign Relations Committee, the Committee on Veterans' Affairs and the Committee on Homeland Security and Governmental Affairs.

Two ways have been used to compare the 3 candidates' positions on the farm bill and agriculture in general: a rating by some agricultural organizations and an analysis of their statements and speeches over 2007 and 2008, the main sources of information being the "Project vote smart"[3] and the candidates' websites[4].

1) The view of 3 agricultural organizations on the extent to which the candidates are supporting their interests

a) The National Council of Agricultural Employers (NCAE)[5] presents itself as "*the ONLY national association focusing exclusively on farm labor issues from the farm management viewpoint*". In concrete terms, NCAE is lobbying to alleviate the legal pressures on employers of seasonal foreign farm workers, particularly to eliminate the "adverse effect wage rates"

[2] USDA, *Parameters of a successful farm bill*, February 28, 2008.
[3] http://www.votesmart.org/
[4] http://www.barackobama.com/; http://www.hillaryclinton.com/; http://www.johnmccain.com/
[5] http://www.ncaeonline.org/

(AEWR) which are "*the minimum wage rates the Department has determined must be offered and paid by employers of H–2A workers or H–2B logging workers to U.S. and foreign workers for a particular occupation and/or area so that the wages of similarly employed U.S. workers will not be adversely affected*"[6]. In other words the NCAE tends to give a high score to Congressmen more inclined to defend the interests of farm employers than those of foreign and national farm workers. J. Mc Cain has received a 87% score in 2006 and 80% in 2005. B. Obama has received a score of 66% in 2006 and 100% in 2005 and H. Clinton of 66% in 2006 and 80% in 2005.

b) The American Farm Bureau Federation is the largest farmers' union but is first and foremost a large insurance company as it claims 6.2 million members (http://www.capitalpress.com/main.asp?SectionID=67&SubSectionID=1152&ArticleID=29664) when there are only 2.1 million US farms. In fact the FB has two crop insurance companies: the American Agricultural Insurance Company (AAIC) with a net surplus of $780 million in 2007[7] – mostly paid by taxpayers large subsidies to crop insurance companies and farmers –, and the American Farm Bureau Insurance Services (AFBIS). The Farm Bureau has always defended the interests of corporate agribusiness and of the export-oriented large farmers and corporations, pleading for larger subsidies and more aggressive exports.

The Farm Bureau gave a score of 35% to J. Mc Cain in 2005-2006 (down from 89% in 1993-1994, 72% in 1996-1996, 50% in 1999 and 2000. H. Clinton received a 29% score in 2005-2006, against 35% for B. Obama.

c) The National Farmers Union (NFU), with about 300,000 members, represents better the small to average family farmers: "*NFU believes the decline in the number of family-sized commercial farms must be reversed*"[8]. It is opposed to the WTO Doha Round agricultural negotiations (where "*agriculture has been used as trade bait to entice other countries into global trade agreements. Any announcements made as a result of this current round of talks fly in the face of what is right for the economic wellbeing of America's family farmers, ranchers and rural communities*"[9]) and to bilateral free-trade agreements "*Pending free trade agreements (FTA) with Colombia, Panama and South Korea serve only to further the failed North American Free Trade Agreement (NAFTA) model and will not benefit the American agricultural economy. Like NAFTA, these agreements promote a race to the bottom of who can produce the cheapest goods using the lowest labor, health and environmental standards*".

NFU fights to concentrates the subsidies on small farms: "*All USDA agencies should use the USDA definition of small farms (farms with less than $250,000 gross receipts annually on which day-to-day labor and management are provided by the farmer and/or farm family that owns the production, or leases the productive assets) and not the Small Business Administration definition of $750,000 gross receipts annually*". It adds that "*Prohibition of artificial subdivision of farms to avoid limits should be enforced*" and that, instead of subsidies, "*We are adamantly opposed to decoupling and believe that production-oriented benefits are the most viable public policy alternatives available today to respond to the crisis facing family farm agriculture. Production-oriented benefits must establish a basis that provides cost-of-production returns and a reasonable livelihood from the basic output of a family farm*"[10]. Section 3 below will come back to the NFU proposals for a new farm bill.

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[6] http://www.foreignlaborcert.doleta.gov/adverse.cfm
[7] http://www.aaic.com/
[8] http://nfu.org/issues/agriculture-programs
[9] http://nfu.org/wp-content/sob-trade.pdf
[10] http://nfu.org/issues/agriculture-programs/resources/policy

NFU has given a score of 0% to Mc Cain in 2005-2006 and 44% in 2003-2004, of 83% to H. Clinton in 2006-2006 and 67% in 2003-2004, and of 100% to B. Obama in 2005-2006 (no data for 2003-2004).

2) Analysis of the 3 candidates' statements and speeches on the Farm Bill issues, trade and biofuels over 2007 and 2008

a) John Mc Cain

i) On agriculture: apparently he has not made any statement or speech on the Farm Bill or other agricultural issues in 2007 and up to 20 March 2008.

ii) On trade:

1- J. Mc Cain disagreed the 9 October 2007 with H. Clinton: "*I strongly disagree with Senator Clinton's position on open global trade. As a student of history I know that every country that has turned to protectionism has ultimately harmed itself. The steady march toward more open global trade has been a critical part of the economic miracle that is the American economy. When I'm President I will relentlessly pursue trade agreements that will open markets all over the world for American businesses and workers and benefit consumers*"[11]. "*America should open its borders to free trade throughout Latin America… The presidential hopeful said free trade is key to bringing democracy and stability to Latin American countries… "My administration would reduce barriers to trade ... Too many Democrats have embraced economic isolationism*""[12].

2- "On the issues" website[13] recapitulates J. Mc Cain's trade stances as follows:

- Consider subsidies a mistake, and oppose them. (Dec 2007)
- Every time US went protectionist, we paid heavy price. (Oct 2007)
- Supports ethanol, but by exporting, not by subsidies. (Oct 2007)
- No environmental provisions in trade agreements. (Nov 2004)
- Against foreign sales corporations (offshore tax breaks). (Feb 2000)
- Substitute trade treaties for protectionism. (Jan 2000)
- Admit China to WTO based on their concessions. (Jun 1999)
- Free trade with any country except security risks. (May 1999)
- Retaliatory protectionism is a "murder-suicide pact". (May 1999)
- Chile in NAFTA is good, but Fast Track isn't. (May 1999)
- China: Keep open trade & diplomacy; but keep eyes open. (Apr 1999)
- Mexico: balancing act between free trade & stopping drugs. (Mar 1999)
- NAFTA has had unambiguously positive impact on US. (Mar 1999)

3- Mc Cain scores 100% as a free-trader by CATO, knowing that "*The mission of the Cato Institute Center for Trade Policy Studies is to increase public understanding of the benefits of free trade and the costs of protectionism*".

McCain supports the following statements regarding free trade:

- Supports NAFTA, including broadening NAFTA to include other countries in the western hemisphere.
- Supports GATT and the WTO.
- Opposes imposing tariffs on products imported from nations that maintain restrictive trade barriers on American products.

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[11] http://www.votesmart.org/speech_detail.php?sc_id=323644&keyword=&phrase=&contain=
[12] http://www.votesmart.org/speech_detail.php?sc_id=296637&keyword=&phrase=&contain=
[13] http://www.ontheissues.org/2008/John_McCain_Free_Trade.htm

- A nation's human rights record should not affect its "most favored nation" trading status with the US.
- Supports granting the President "fast-track" authority.

According to the CATO Institute's "*Free Trade, Free Markets: Rating Congress*"[14] J. Mc Cain votes in Senate scored 88% against trade barriers (35 votes out of 40 opposing trade barriers) and 80% against trade subsidies (8 votes out of 10 opposing trade subsidies). He did not vote: 21% (13 votes out of 63).

4- J. Mc Cain did not answer to the Wisconsin Fair Trade Coalition 2008 Presidential Questionnaire as the two other candidates did (see below).

5- McCain has said being opposed to the inclusion in trade agreements of any provisions that "*address environmental concerns and protect workers' rights*"[15].

iii) On energy, biofuels and climate change: in order to reduce the oil dependency he has advocated to develop alternative energies (biofuels, wind…) with a strong emphasis on nuclear energy.

iv) On large water infrastructures, John Mc Cain has supported the President Bush's veto to the $23 billion Water Resources Development Act (WRDA) of 2007 over 15 years although both the House and Senate overrode the veto eventually. The Taxpayers for Common Sense association, which has produced many interesting critical reports on water projects, has also criticized the WRDA. However the Act has also been supported by some environmental associations such as Nature Conservancy and has a large component of flood protection measures so that it is difficult to have an overall balanced judgement on it.

Among the strongest supporters of the Act was the National Corn Growers Association for which "*The continued development of our water resources in an environmentally sound manner will contribute mightily to the well-being of the nation. WRDA represents a meaningful and responsible legislative package that addresses issues such as environmental restoration, navigation, flood control, hurricane protection, water supply, irrigation and beach nourishment and recreation. Improvements in these areas will serve us well in the years to come. Our country's inland navigation system plays a critical role in our economy, moving more than 1 billion tons of domestic commerce valued at more than $300 billion. More than 1 billion bushels of grain (approximately 60 percent of all grain exports) move to export markets via the inland waterways each year, accounting for $8.5 billion in exports*"[16]. And the NCGA adds in its letter to President Bush: "*These provisions will dramatically improve our ability to deliver crops to the global marketplace*"[17].

Barack Obama was an original cosponsor of the bill in March 2005 as a member of the Senate Environment and Public Works Committee. This is quite understandable given its component of improved navigability on the Mississipi and Illinois rivers: "*This bill authorizes almost $2 billion for upgrades to locks and dams along the Mississippi and Illinois Rivers. Illinois is the*

[14] http://www.freetrade.org/congress
[15] http://americas.irc-online.org/am/5065?utm_source=streamsend&utm_medium=email&utm_content=421322&utm_campaign=%5BAmericas%5D%20Presidential%20Candidates%20on%20Trade
[16] http://www.ncga.com/letters/2008/SenateWRDALetter110607.pdf
[17] http://www.ncga.com/letters/2007/2007_10_02%20-%20Letter%20to%20President%20Bush%20Supporting%20WRDA.pdf

largest shipper of corn and soybeans on these rivers, and the 70 year old system of locks and dams needs these upgrades to ensure swifter access to export markets--something, by the way, that competitors like Brazil are doing right now. A significant part of the farm economy is about reducing transportation costs, so if we are to strengthen our agriculture markets, we need to strengthen waterway transportation, and that means upgrading these locks and dams"[18]. The 12 June 2007 he had already declared that "*ecosystem proposals have been key to calming legislative and environmental critics of new locks… Each freight barge tow replaces 870 semi-tractor trailer on Midwest roads, reducing air pollution and traffic congestion*"[19].

Let us underline incidentally that WRDA 2007 is a good example of the large impact of "gold box" subsidies – those not considered by the WTO because they are not agricultural subsidies – to circumvent the limits of the possible agricultural subsidies.

b) Hillary Clinton

i) On agriculture:

1- The 14 December 2007, she wrote: "*I am disappointed that we did not succeed in lowering payment limits to better target commodity programs to family farms*"[20].

The 13 December she voted "*to support the Dorgan-Grassley Amendment, which would have limited commodity payments to $250,000 per household. The amendment did not pass… She has worked to close loopholes that disproportionately benefit wealthy corporate farmers and those who do not directly take part in the operations or management of their farms by eliminating the triple-entity rule*"[21].

This bi-partisan amendment would have created "*over $1 billion in savings and redistribute those funds into priorities in conservation, nutrition and rural development programs*"[22].

Indeed, 90.3% of the 2.1 million of US farms in 2005 are small family farms with sales lower than $250,000 but account for 24.6% of agricultural production and 61% of farms do not receive any government agricultural payment[23].

2- The 16 November she stated: "*By threatening to veto the bill and by blocking the farm bill from coming to a final vote, President Bush and Republicans in Congress are obstructing a real opportunity to make progress for our farmers and producers and further delaying needed reauthorization of this critical bill*".

3- On the commodities part of the Farm Bill the 16 July 2007 "*Senator Clinton emphasized the need to continue the commodity title with a strong counter-cyclical safety net, factoring cost of production, for producers to mitigate periods of low prices*"[24].

And she stated the 14 June 2007: "*Like dairy, the commodity title needs to have a strong safety-net for producers. A counter-cyclical program, factoring cost-of-production, is the most effective way to help farmers when prices are low and to save taxpayer dollars when our*

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18 http://www.votesmart.org/speech_detail.php?sc_id=320785&keyword=&phrase=&contain=
19 http://www.votesmart.org/speech_detail.php?sc_id=159566&keyword=&phrase=&contain=
20 http://www.votesmart.org/speech_detail.php?sc_id=341515&keyword=&phrase=&contain=
21 http://www.votesmart.org/speech_detail.php?sc_id=338323&keyword=&phrase=&contain=
22 http://www.votesmart.org/speech_detail.php?sc_id=341506&keyword=&phrase=&contain=
23 Robert A. Hoppe et al., *Structure and Finances of U.S. Farms, Family Farm Report, 2007 Edition*, USDA, June 2007, http://www.ers.usda.gov/publications/eib24/eib24.pdf
24 http://www.votesmart.org/speech_detail.php?sc_id=304133&keyword=&phrase=&contain=

farmers are getting a better price from the market. Farmers in this country need a reliable and fiscally sound set of payments that help mitigate the impact of their being price takers and not price makers. This requires federal support in times of fluctuating prices"[25].

ii) On trade:

1- She declared the 12 March 2008: "*The reason we so desperately need to take a timeout from new trade agreements is to put a stop to the Bush Administration's reckless and destructive trade policies, and to chart a new course on trade policy for the 21st Century that is genuinely pro-worker and pro-American. We also need a President who is truly committed to fixing NAFTA*"[26].

2- The 8 November 2005 she stated: "*I support the trade agreement with Peru. It has very strong labor and environmental protections. This agreement makes meaningful progress on advancing workers' rights, and also levels the playing field for American workers. Most Peruvian goods already enter the U.S. duty free, but our exports to Peru have been subject to tariffs. However, I will oppose the pending trade agreements with South Korea, Colombia, and Panama. The South Korean agreement does not create a level playing field for American carmakers. I am very concerned about the history of violence against trade unionists in Colombia. And as long as the head of Panama's National Assembly is a fugitive from justice in America, I cannot support that agreement. Accordingly, I will oppose the trade agreements with these countries. We need to vigorously enforce our trade agreements. As President, I will appoint a trade enforcement officer and double the enforcement staff at the office of the United States Trade Representative. I will also systematically review every trade agreement to ensure that it is delivering benefits to American workers. I will also expand the Trade Adjustment Assistance program so that workers negatively affected by the global economy get the help they need. And as President, in my first months in office, I will take a time out from new trade deals to assess their impact before going forward*".

3- "On the issues" website recapitulates H. Clinton's trade stances as follows (http://www.ontheissues.org/2008/Hillary_Clinton_Free_Trade.htm):

- AdWatch: Supported NAFTA in 1998; opposed CAFTA since 2005. (Jan 2008)
- FactCheck: for NAFTA while First Lady; now against CAFTA. (Oct 2007)
- Export from big agribusiness, but also from small farmers. (Aug 2007)
- Smart, pro-American trade: NAFTA has hurt workers. (Aug 2007)
- No fast-track authority for this president. (Aug 2007)
- Better approach: real trade adjustment assistance. (Aug 2007)
- End tax breaks for outsourcing jobs. (Jun 2007)
- Defended outsourcing of US jobs to India. (Oct 2005)
- Globalization should not substitute for humanization. (Jun 1999)

[25] http://www.votesmart.org/speech_detail.php?sc_id=293882&keyword=&phrase=&contain=
[26] http://www.votesmart.org/speech_detail.php?sc_id=354469&keyword=&phrase=&contain=

4- Clinton scores 17% by CATO on senior issues, indicating a pro-fair trade voting record.

5- According to the CATO Institute's "*Free Trade, Free Markets: Rating Congress*"[27] H. Clinton votes scored 31% against trade barriers (9 votes out of 29 opposing trade barriers) and 14% against trade subsidies (1 votes out of 7 opposing trade subsidies). She did not vote: 8% (3 votes out of 39).

6- On a question about the Doha Round by the Wisconsin Fair Trade Coalition 2008 Presidential Questionnaire, H. Clinton answered the 18 February 2008: "*We need a 21st trade policy that allows us to better manage globalization. Trade policy cannot just protect the interests of elites. It must make our workers better off, and it must elevate standards of living around the world. That is why I have insisted on ever stronger labor and environmental provisions which will ensure that American workers are not caught in a race to the bottom. I have said that as President, I will take a timeout from new trade agreements. My priority will be to review all of our existing agreements to ensure that they are producing benefits for our workers and our economies. And I will then formulate a comprehensive trade policy that is genuinely pro-worker and vigorously enforced. I have opposed fast track authority for President Bush, and I will fight any attempt he makes to ram through new trade agreements before he leaves office*"[28].

7- To know more about the necessary changes in the WTO and FTAs rules, see the Public Citizen's report "*Presidential Candidates' Key Proposals on Health Care and Climate Will Require WTO Modifications Overreach of WTO Highlighted by Potential Conflicts with Candidates' Non-Trade Proposals*" of February 2008[29]. Among many remarks:
- "*Changes to the WTO will be needed to create the policy space for an array of energy efficiency and carbon reduction measures. In addition to the GATS, other WTO agreements such as the GATT, the Agreement on Technical Barriers to Trade (TBT), the Agreement on Subsidies and Countervailing Measures (SCM), and the Agreement on Government Procurement (AGP) must be modified to accommodate domestic climate change proposals offered by various presidential candidates*".
- "*Cap-and-trade carbon reduction proposals could run into existing WTO rules in numerous ways*".
- "*Any of the candidates' proposed subsidies to encourage the use of "homegrown biofuels" could violate SCM Article 3 by being "in fact" contingent "upon the use of domestic over imported" biofuels*".
- "*As noted, Obama promises to provide "retooling tax credits and loan guarantees for domestic auto plants and parts manufacturers, so that the new fuel efficient cars can be built in the U.S. rather than overseas. This measure will strengthen the U.S. manufacturing sector and help ensure that American workers will build the high-demand cars of the future." If the effect of these retooling subsidies were to actually reduce car imports, or to promote exports in way that allows U.S. automakers to gain foreign market share at the expense of other WTO members, the subsidies could be challenged as causing serious prejudice, injury or nullification of WTO benefits to another WTO country*".

iii) On energy, biofuels and climate change: the 29 November 2007: "*Increasing biofuels production to 60 billion gallons by 2030 is a key component of my comprehensive plan to reduce dependence on foreign oil, take action on global warming, and revitalize rural economies*"[30].

[27] http://www.freetrade.org/congress
[28] http://www.wisconsinfairtrade.org/
[29] http://www.alternet.org/audits/79227/
[30] http://www.votesmart.org/speech_detail.php?sc_id=335720&keyword=&phrase=&contain=

On nuclear energy she said the 25 October 2007: "*I think nuclear power has to be part of our energy solution. I think we've gotta do a better job at figuring out how we're going to deal with the waste… I don't have any preconceived opposition… We get about twenty percent of our energy from nuclear power in our country… So we do have to look at it because it doesn't put greenhouse gas emissions into the air*"[31].

c) Barack Obama

i) On agriculture:

1- The 17 December 2007: "*Tom Harkin just fought hard to pass a farm bill that stressed conservation and support for specialty growers - but once again, the lobbyists stepped in to make sure that big agribusinesses got the multi-million-dollar giveaways they've come to count on," said Senator Obama. "Well it's time we stand up to those lobbyists and tell them that we're putting family farmers first. We're putting conservation of our land and water first. We're putting tougher standards for CAFOs* [concentrated animal feeding operations] *first*"[32].

2- The 14 December he endorsed the Senate vote of the farm bill but added "*I am disappointed that those who blocked payment limitations chose to put big agribusiness ahead of family farmers. I will continue to fight for meaningful payment limitations legislation that will target subsidies to the farmers and ranchers who most need assistance*"[33].

The 13 December 2007, he had already lamented on the Senate's failure to pass the Dorgan-Grassley amendment which would have capped federal payments at $250,000 per farmer, adding that "*This amendment also would have helped our rural communities by generating $1 billion to support beginning and minority farmers, as well as rural development, conservation and nutrition programs*".

3- The 17 October 2007, "*Barack Obama unveiled a farm plan* ['Real Leadership for Rural America']*… that would limit farm subsidies, push for tougher fines for rural polluters and establish country-of-origin labeling. Obama's farm plan, which would cost…$300 million a year in new spending, would also include the elimination of income taxes for seniors making less than $50,000, conservation and land protection measures, and investments in bioenergy expansions*". He referred "*to the dozens of meetings his campaign held with rural Iowans during the summer to help draft the plan*" and added that "*Farm subsidies have drawn national attention, particularly after a federal report this year showed that $1.1 billion was paid by the federal government to 172,801 dead people between 1999 and 2005*"[34].

4- The 25 September 2007 he pleaded with other Senators (among whom Hillary Clinton) to include in the Senate's farm bill a mandatory Country of Origin Labeling (COOL)[35].

5- The 28 August 2007 he declared that "*Over the past decade, our government has handed out $1.3 billion in federal farm money to people who aren't even farmers. We've even got farm money going to Fortune 500 companies*"[36].

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[31] http://www.democracyfornewhampshire.com/node/view/4909

[32] http://www.votesmart.org/speech_detail.php?sc_id=340022&keyword=&phrase=&contain=

[33] http://www.votesmart.org/speech_detail.php?sc_id=338600&keyword=&phrase=&contain=

[34] http://www.votesmart.org/speech_detail.php?sc_id=326171&keyword=&phrase=&contain=

[35] http://www.votesmart.org/speech_detail.php?sc_id=319196&keyword=&phrase=&contain=

[36] http://www.votesmart.org/speech_detail.php?sc_id=310567&keyword=&phrase=&contain=

ii) On energy, biofuels and climate change: Obama has devoted a lot of interest and work on these issues.

1- The 12 October 2007 he stated: "*I've put forth a bold energy plan that would reduce our carbon emissions 80% by 2050*"[37]**.**

2- He has been a strong proponent of the energy bill expanding the Renewable Fuel Standard (RFS) to 36 billion gallons by 2022[38], and few days before he added: "*As president, Obama will seek to surpass these targets and establish a requirement to produce at least 60 billion gallons of biofuels, including cellulosic ethanol and biodiesel, by 2030*", which was also proposed by H. Clinton[39].

"*In the face of a precipitous decline in the price of ethanol which threatens the viability of community-sized ethanol plants and discourages private sector investment in cellulosic biomass ethanol technologies, Obama and Harkin introduced a bill that would boost the price of ethanol by requiring the use of more renewable fuels in the nation's gasoline pool*"[40]**.**

For the Senate's farm bill Obama declared the 25 October 2007: "*I am pleased that it includes a provision I cosponsored to expand E-85 fuel infrastructure to help the ethanol and biofuels industry succeed*"[41].

But he has acknowledged the limitations of ethanol from corn: "*Even if we are able to double – or even triple – production of ethanol from corn this will still offset only about 10 percent of our gasoline demand. There are also real concerns about bringing set aside lands into corn production as well as concerns about an increase in the use of pesticides, water use and upward pressure on the cost of food for people and livestock alike… Obama will invest federal resources, including tax incentives…into developing the most promising technologies with the goal of getting the first two billion gallons of cellulosic ethanol into the system by 2013*"[42].

However, according to Emmanuel, a blog commentator, "*It is not, of course, family farmers who primarily benefit from the program but rather the agribusiness giants such as Illinois-based Aventine Renewable Energy and Archer Daniels Midland (for which ethanol accounts for just 5 percent of its sales but an estimated 23 percent of its profits). Ethanol production, as Tad Patzek of UC Berkeley's Department of Civil and Environmental Engineering wrote in a report this year, is based on "the massive transfer of money from the collective pocket of the U.S. taxpayers to the transnational agricultural cartel." Since arriving on Capitol Hill, Obama has been as assiduous as any member of Congress in promoting ethanol. He has introduced a number of measures that benefit the industry—such as the "Obama Amendment" that offered oil companies a 50 percent tax credit for building stations that offer E85 fuel—and voted for the corporate-welfare-laden 2005 energy bill, which offered billions in subsidies to ethanol producers as well as lavish incentives for developing cars that run on*

[37] http://www.votesmart.org/speech_detail.php?sc_id=338092&keyword=&phrase=&contain=
[38] http://www.votesmart.org/speech_detail.php?sc_id=337144&keyword=&phrase=&contain=
[39] http://www.votesmart.org/speech_detail.php?sc_id=324137&keyword=&phrase=&contain=
[40] http://www.votesmart.org/speech_detail.php?sc_id=337159&keyword=&phrase=&contain=
[41] http://www.votesmart.org/speech_detail.php?sc_id=331201&keyword=&phrase=&contain=
[42] http://www.votesmart.org/speech_detail.php?sc_id=324137&keyword=&phrase=&contain=

alternative fuels… Obama, Durbin, and three other farm-state senators opposed a proposal this year by the Bush Administration to lower stiff tariffs on cheaper sugarcane-based ethanol from Brazil and other countries"[43].

3- Obama supports the pursuit of nuclear energy but with additional safeguards: "*It is unlikely that we can meet our aggressive climate goals if we eliminate nuclear power from the table. However, there is no future for expanded nuclear without first addressing four key issues: public right-to-know, security of nuclear fuel and waste, waste storage, and proliferation*".

iii) On trade:

1- Obama's website states: "*Obama believes that trade with foreign nations should strengthen the American economy and create more American jobs. He will stand firm against agreements that undermine our economic security.*

- *Fight for Fair Trade: Obama will fight for a trade policy that opens up foreign markets to support good American jobs. He will use trade agreements to spread good labor and environmental standards around the world and stand firm against agreements like the Central American Free Trade Agreement that fail to live up to those important benchmarks. Obama will also pressure the World Trade Organization to enforce trade agreements and stop countries from continuing unfair government subsidies to foreign exporters and nontariff barriers on U.S. exports.*
- *Amend the North American Free Trade Agreement: Obama believes that NAFTA and its potential were oversold to the American people. Obama will work with the leaders of Canada and Mexico to fix NAFTA so that it works for American workers.*
- *Improve Transition Assistance: To help all workers adapt to a rapidly changing economy, Obama would update the existing system of Trade Adjustment Assistance by extending it to service industries, creating flexible education accounts to help workers retrain, and providing retraining assistance for workers in sectors of the economy vulnerable to dislocation before they lose their jobs*"[44].

2- The 26 December 2007 he wrote to the Iowa Fair Trade Campaign: "*We can't stop globalization in its tracks, but what we can do is have a president who's looking out for American workers and farmers and our environment… I share your frustrations with trade agreements like NAFTA that are not working for American workers. While NAFTA gave broad rights to investors, it paid only lip service to the rights of labor and the importance of environmental protection. Ten years later, CAFTA has many of the same problems which is why I voted against it. I supported the Peru Free Trade Agreement because it broke that model, put labor and environmental protection in the core of the agreement and stated explicitly that no foreign investor would have any greater rights in the U.S. than any American… I will add enforceable measures to NAFTA, the World Trade Organization (WTO), CAFTA and other Free Trade Agreements (FTA's) currently in effect*".

3- "On the issues"[45] recapitulates B. Obama's trade stances as follows:

- Strong labor, safety, and environmental standards on trade. (Feb 2008)
- More Transition Assistance for displaced workers. (Feb 2008)
- Enforce environmental & labor provisions in trade agreements. (Jan 2008)
- Enforce existing safety laws against Chinese products. (Dec 2007)
- NAFTA needs to be amended. (Dec 2007)

[43] http://ipezone.blogspot.com/2008/02/obama-is-protectionists-choice-too.html#comment-4247141753425029688
[44] http://www.barackobama.com/issues/economy/#trade
[45] http://www.ontheissues.org/2008/Barack_Obama_Free_Trade.htm

- Stand firm against CAFTA for labor & environmental standards. (Aug 2007)
- Congress subsidizes megafarms & hurts family farmers. (Aug 2007)
- People don't want cheaper T-shirts if it costs their job. (Aug 2007)
- Amend NAFTA to add labor agreements. (Aug 2007)
- Reinvest in communities that are burdened by globalization. (Jun 2007)
- Insist on labor and human rights standards for China trade. (Jul 2004)
- Fair trade should have tangible benefits for US. (Jun 2004)
- Voted YES on free trade agreement with Oman. (Jun 2006)
- Voted NO on implementing CAFTA for Central America free-trade. (Jul 2005)

4- According to the CATO Institute's "*Free Trade, Free Markets: Rating Congress*"[46] Obama voted 36% against trade barriers (4 votes out of 11 opposing trade barriers) and 0% against trade subsidies (0 votes out of 2 opposing trade subsidies). He did not vote: 19% (3 votes out of 16).

5- According to Eamon Javers in Business Week, "*He wants to roll back the Bush tax cuts that benefit many of the people running big American companies. Plus, the U.S. Chamber of Commerce gives him the lowest rating of any of the three major contenders for the Presidency, behind Senator Hillary Clinton (D-N.Y.) and Senator John McCain (R-Ariz.)… Still, business has traditionally preferred Republicans in the White House. In its most recent Senate tally, the Chamber of Commerce gave likely GOP nominee McCain an 80% favorable rating, compared with Clinton at 67% and Obama at 55%. Even worse for the two main Democrats, the National Association of Manufacturers rated both a zero, while McCain garnered 100%*"[47].

6- On a question about the Doha Round by the Wisconsin Fair Trade Coalition 2008 Presidential Questionnaire, Obama answered the 18 February 2008: "*I support ensuring that future WTO negotiations are productive and fair to working people and the environment. I believe that we can work within the framework of the WTO to ensure our international standards for workers, poor nations, public health, and the environment are all improved. And we must ensure that global trade rules allow governments to pass nondiscriminatory laws and regulations that are in the public interest*"[48]. We see that Obama's takes more explicitly into account the impact of WTO on other countries than H. Clinton does (see above).

7- Incidentally, to know more about the necessary changes in the WTO and FTAs rules, see the Public Citizen report "*Presidential Candidates' Key Proposals on Health Care and Climate Will Require WTO Modifications Overreach of WTO Highlighted by Potential Conflicts with Candidates' Non-Trade Proposals*" of February 2008[49] and the excerpts from it above page 11.

8- However, beyond B. Obama's clear stance to introduce social and environmental clauses in trade agreements, some question marks remain about his true dedication to change significantly the other US positions on free trade, WTO and FTAs. And these question marks come from the stance taken by his senior economic adviser, Austan Goolsbee, and from B. Obama positions on trade subsidies.

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46 http://www.freetrade.org/congress
47 http://www.businessweek.com/bwdaily/dnflash/content/feb2008/db20080212_645487.htm?chan=search
48 http://www.wisconsinfairtrade.org/
49 http://www.alternet.org/audits/79227/

i) I will not enter into the controversy about the meeting of the 8 February 2008 between A. Goolsbee and the Canadian Consulate in Chicago where he told him that Obama’s language in his speeches on reforming NAFTA "*should be viewed as more about political positioning than a clear articulation of policy plans*" and the denegation by the Canadians and Obama was not fully convincing[50].

Austan Goolsbee is a brilliant economist[51] but his theoretical referential is difficult to assess. At first sight he does not appear as a particularly progressive economist given his awards – among which one of the *Financial Times'* six Gurus of the Future/Best Under 40 in September 2005, one of the Young Global Leaders by the World Economic Forum of Davos in 2005 and one of the 100 Global Leaders for Tomorrow already at the same place in 2002 – or the eulogy made of Milton Friedman in the New York Times[52].

In a 24 January 2008 debate with economist advisers of H. Clinton (Gary Gensler) and J. Mc Cain (Kevin Hassett), he presented his views on free-trade as follows: "*I'm a University of Chicago economist and no one is ever going to be more in favor of open markets and free trade than an economist, so you would presume I'd be for anything that has the words 'free trade agreement' in it and all I'll tell you is this: I do believe there's no one more in favor of open markets than me and that said, if you look at a free trade agreement - if you have never read a free trade agreement I encourage you to go read it - because it is as close to the economists' case for free trade as our tax code is to the economists' case for the ideal tax system. If you look at these 900-page agreements, they're two pages of what every economist says "yeah, that's great" - opening tarriffs - and then 898 pages of loopholes. It looks just like the tax code - of protect this company and make sure they're getting their money and these investor protections - and so I think that the case for open markets is different than what you think about this, that or the 146 trade agreements that were signed in the 1990s. And Obama has been trying to get us away from what I call the false choice that either you're for every single thing the administration has done or else you're a protectionist and you're against America's role in the international economy, but neither of those is true. There are perfectly grounded things oriented around opening markets and expanding American presence in the world that I think we can have pretty general consensus on and I agree with Garry - one thing that we should have general consensus on is if a country signs an agreement with the United States that says they're gonna do a, b and c, that they should do it. If they don't do it, we should pursue the means in the WTO or otherwise that makes sure everybody abides by the agreements that they sign, so it strikes me that there is common ground here*"[53].

His research has mainly focused on taxation economics and income distribution, where he challenges the prevailing view of the Laffer curve – that government fiscal revenues are inversely correlated with the rate of income tax – but he considers that the overall stagnation of income for 80% of the US workers has nothing to do with freer trade but is mainly due to the insufficient level of their skills: "*Barack Obama's adviser... is not convinced free trade is the culprit behind the squeeze on incomes. But he believes many U.S. workers aren't sharing in the gains from open markets and fears a political blowback unless something is done*"[54].

[50] http://pages.prodigy.net/thomasn528/blog/2008_03_02_newsarcv.html#467403214611549717
[51] http://faculty.chicagogsb.edu/austan.goolsbee/website/
[52] http://www.nytimes.com/2006/11/17/business/17milton.html?ex=1321419600&en=a0db57796ae72e19&ei=5090&partner=rssuserland&emc=rss
[53] http://citizen.typepad.com/eyesontrade/2008/01/a-new-american.html
[54] http://www.businessweek.com/magazine/content/08_06/b4070032762393.htm?chan=magazine+channel_news&chan=top+news_top+news+index_businessweek+exclusives

He adds that "*technology -- meaning all that the phrase "information economy" denotes -- accounts for more than 80 percent of the increase in earnings disparities, whereas trade accounts for much less than 20 percent*"[55].

At least, to face the present US economic downturn, whereas "*In his Mar. 25 speech, McCain argued against an expansive role for the government in responding to the crisis*"[56], the two democrat candidates propose a broad government involvement. H. Clinton proposes "*to spend $10 billion over five years on improving education and training programs, particularly for displaced workers*" and B. Obama puts the emphasis "*on the measures needed to shore up the regulatory structure surrounding financial markets*" and on "*a $10 billion Foreclosure Prevention Fund that would help homeowners who are victims of fraud refinance their homes*". A. Goolsbee gives more details and states that, beyond the financial markets crisis, "*To solve the current crisis, Barack Obama would immediately take three steps, addressing the fact that the troubles ultimately result from the squeeze on ordinary Americans in the "real" economy*"[57].

ii) What is more puzzling are the positions taken by B. Obama on trade subsidies. To a large extent we concur with the CATO's Center for Trade Policy Studies' dedicated free trade advocates that protectionism is not only a matter of import barriers but also of trade subsidies[58]. Here, and despite Obama's statement (quoted above) that he "*will also pressure the World Trade Organization to… stop countries from continuing unfair government subsidies to foreign exporters*", he has advocated a large use of trade subsidies and seems unaware of their detrimental impact on DCs' farmers, particularly on cotton farmers in West Africa[59].

Indeed, despite his vibrant speeches on how he would promote more solidarity within the US and at the world level, during his travel to Kenya in August 2006 "*a reporter raised an issue about which Obama possesses more influence -- dealing with American protectionism that hurts Kenyan farmers. Why, asked the reporter, do Americans retain farm subsidies and tariffs that prevent Kenyan farmers from competing in the world's biggest market? Obama's response? He talked about the soybean farmers in Illinois, and said, "It's important to me to be sure I'm looking out for their interests. It's part of my job*"[60].

If we disagree with the implicit view in this statement, and of the CATO's free traders, that the US should necessarily reduce its agricultural tariffs to DCs' exports – because the US as any other country should have the right to food sovereignty and because exporting more agricultural products in not always the best solution for food deficit DCs and for their small farmers and poor consumers –, at least B. Obama should become aware of the huge detrimental impact of the part of the otherwise legitimate domestic subsidies when they benefit to exported products. By the way H. Clinton's stance on this issue is not better.

This B. Obama's statement underlines also the US prevailing view that the best and least protectionist way to increase the competitiveness of US agricultural products is to subsidize

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55 http://www.washingtonpost.com/wp-dyn/content/article/2007/10/03/AR2007100302003.html
56 http://www.businessweek.com/bwdaily/dnflash/content/mar2008/db20080327_133007.htm?chan=search
57 http://www.washingtonpost.com/wp-dyn/content/article/2008/03/23/AR2008032301414.html
58 http://www.cato.org/dailypodcast/danieltgriswold_countingthefreetradersincongress_20080215.mp3
59 http://www.cato.org/dailypodcast/danieltgriswold_countingthefreetradersincongress_20080215.mp3
60 http://www.townhall.com/columnists/LarryElder/2006/08/31/obama_goes_to_africa,_defends_american_protectionism?page=full&comments=true

them because tariffs have been used for a limited number of US products, mainly sugar and dairy and almost not for grains, with the recent exception of ethanol imported from Brazil.

Indeed B. Obama and H. Clinton are far from adhering formally to the food sovereignty principle, as does the Food from Family Farms Act of the National Family Farm Coalition – a Member of Via Campesina which claims the farmers' right to food sovereignty for all countries – which states: "*The ability to develop farm programs that respond to the needs of our nation's farmers and consumers must be reinstated through adoption of provisions such as Section 22 of the Agricultural Adjustment Act. Section 22 allows for a limitation on imports of a specific commodity if that level disrupts the fair domestic market price for our nation's farmers*"[61].

III – Some preliminary thoughts on the impacts of the foreseeable 2008 Farm Bill, particularly on the Doha Round negotiations

As long as the final Farm Bill signed by President Bush would not be available the following preliminary comments will remain provisory. We will concentrate on the main agricultural payments – marketing loans, direct payments, counter-cyclical payments, crop insurance subsidies and disaster payments – with a view to appraise the extent to which they go in the direction of a more sustainable and fair farm bill for the US itself and for the rest of the world, so as to change profoundly the present turn of the Doha Round agricultural negotiations.

According to USDA agricultural Baselines projections of February 2008, "*Direct government payments to farmers are projected to fall from $13 billion in 2008 to an average of less than $10 billion annually in 2009 to 2017, largely due to higher commodity prices and correspondingly lower price-dependent program benefits*". Thus "*payments for marketing loan benefits and counter-cyclical payments for feed grains are minimal, totaling less than $500 million over calendar years 2008-17 for the projections scenario in this report.*
In contrast, with higher crop prices, use of land for production is more valuable, so rental rates for land in the Conservation Reserve Program (CRP) rise and push overall annual CRP payments to close to $3 billion toward the end of the projections. As a result, fixed direct payments under the 2002 Farm Act and conservation payments account for a larger share of total direct government payments in the farm income accounts, over 80 percent in 2015-17"[62].

However the concept of "direct government payments" include only the payments made through the Commodity Credit Corporation (CCC): fixed direct payments, CCPs, marketing loan benefits (loan deficiency payments, marketing loan gains and certificate exchange gains), milk income loss program payments, tobacco transition payments program, conservation payments program and ad hoc and emergency program payments (disaster payments)[63].

But they do not include the crop insurance subsidies and the market price supports to sugar and dairy which are not actual payments but account nevertheless for the larger share of the amber box (total AMS) notified at the WTO. The non inclusion of corn insurance subsidies in the Commodities section of the Farm Bill versions is attested in table 1 above and in the 19 March 2008 CBO baselines which project an average of $14.721 billion for "Commodity Programs, Crop Insurance and Miscellaneous" for FY2008-FY2012 according to the Senate version.

[61] http://www.nffc.net/resources/statements/FFFA2007.pdf
[62] http://www.ers.usda.gov/Publications/OCE081/OCE20081.pdf
[63] http://www.ers.usda.gov/briefing/farmincome/data/GP_T6.htm

1) The issue of marketing loan benefits

Should we take for granted that the recent skyrocketing in the prices of grains will continue far away in time, as most experts tell us, because of the biofuels boom, the climate change, the world population increase and the generalization of the Western diet to most DCs? Yet some prominent expert have disagreed recently:

a) Daryll Ray see two reasons – in the short and long runs – why this upward trend is not so sure to last:

i) "*An alternative analysis suggests that the current high commodity prices are not being driven by fundamentals alone… The driving force is money flowing into commodity markets from index funds that buy long as a hedge against future inflation… If the index funds decide to "take their profits" by closing out their positions, the liquidation orders will be for agricultural commodity contracts as well as energy and metal contracts. In the months ahead, exaggerations in price falls could be as great as recent exaggerations in price rises. A short-run possibility, and concern, is the bursting of speculation bubbles*".

ii) "*In the longer-run, it's the impact that current prices will have on the future output of commodities… Current prices are seen not only by US farmers, they are seen by farmers all over the world. It is unrealistic to believe that $13 soybeans and $10 wheat will not catch the attention of farmers in Brazil and Kazakhstan respectively… Additional resources will be brought into production, potentially oversupplying the market with the expected result being lower prices*"[64].

b) For Bruce A. Babcock, "*High prices are their own worst enemy. Increased profit margins entice entrepreneurial investment, which results in increased production. Lower market prices inevitably follow… Over the last 50 years there have been only two corn price increases that have been sustained for more than two years… Over time, however, yield increases, infrastructure investments, and expansion of crop acreage will all work to increase world supplies; the profit signals are just too high for these price levels to be sustainable over the long term*"[65].

c) For Patrick Westhoff, "*FAPRI's projections suggest that average prices for many agricultural products are likely to remain above the average levels that prevailed prior to 2006. But, it would be premature to conclude that we are in a new world and that there is no chance that we will ever see $2.00 per bushel corn again… There are sound reasons to expect agricultural commodity prices to remain relatively strong over the next decade. Indeed, one can easily tell stories where FAPRI's current price projections are too conservative. However, many things could lead to prices falling again. Petroleum prices could decline from current levels, domestic and foreign crop supplies could grow more rapidly, or a global economic slowdown could weaken demand*"[66].

Therefore if grain prices end up falling again after the next two years, the increased loan rates proposed in the House and Senate versions could trigger some marketing loan benefits, although the USDA baselines projections up to 2017 do not foresee a significant drop of grain prices: they would remain much higher than the loan rates adopted in the House and Senate farm bill versions.

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[64] Daryll Ray, *Futures and fundamentals*, APAC, University of Tennessee, February 29, 2008, http://www.agpolicy.org/weekcol/395.html

[65] Bruce Babcock, *When Will the Bubble Burst?* Iowa Agriculture Review, Winter 2008, http://www.card.iastate.edu/iowa_ag_review/winter_08/article1.aspx

[66] Patrick Westhoff, *Structural Changes in the Agricultural Economy*, FAPRI, October 18, 2007, agriculture.house.gov/testimony/110/h71018/Westhoff.doc

2) The issue of the fixed direct payments

There has been a lot of protests in the US media about maintaining in the 2008 Farm Bill the same amount of fixed direct payments at a time where agricultural prices and farm income have never been so high and should remain so for at least several years. The more so as they were first introduced, under the label of "production flexibility contract payments", in the 1996 Farm Bill as a means to wean farmers of large marketing loan benefits.

Both the House and Senate versions keep the same level of fixed direct payments during the five years 2008-2012 as in the 2002 Farm Bill, i.e. at about $5.2 billion, and do not change the planting restrictions as demanded by USDA because the WTO Appellate Body ruled the 3 March 2005 in the cotton case that the fixed direct payments are not in the green box given the interdiction to grow fruits, vegetables and wild rice. And it is much likely that the present joint proceeding by Brazil and Canada against the US subsidies will confirm the cotton case ruling for the other grains, so that the $5.2 billion would be put in the amber box (total AMS).

It is puzzling that USDA had proposed to increase the fixed direct payments in its Farm Bill version of 31 January 2007 since we were already in a context of high agricultural prices. Clearly they were at least three reasons:

1- To increase the subsidies notified in the WTO green box, where the fixed direct payments should not be challenged once farmers would have a full flexibility of production.

2- To compensate farmers for the lower loan rates and target prices proposed in the USDA farm bill version.

3- To compensate partially the possibility that the Doha Round negotiations would not confirm the inclusion of the CCPs in the new blue box.

3) The interrelated issues of direct payments and countercyclical payments

The US National Farmers Union (NFU) has proposed a very interesting reform of the Farm Bill which would go a long way in the direction of food sovereignty, would guarantee a fair income to family farmers mainly through prices and would in fact reduce the cost of the farm bill.

This proposal would rest on a new type of revenue-based CCP which would replace also the marketing loan benefits and the fixed direct payments: "*According to the economic analysis and modeling conducted by Dr. Daryll Ray, at the Agricultural Policy Analysis Center, University of Tennessee, the proposal would provide the same level of safety net as provided by the current farm bill, plus save $2 to $3 billion per year. This level of protection and savings is achieved because it would only provide federal assistance if commodity prices are low, and would eliminate the difficult-to-defend direct, de-coupled, guaranteed payments of the current program. Direct payments are difficult to defend when prices are high; when prices are low, the direct payment isn't adequate protection for producers… Under the proposal suggested, the savings from the direct payments can be used for the cost of production based counter-cyclical program and a permanent disaster program and still yield savings. These savings could be used for priorities such as renewable energy, conservation, specialty crop producers, rural development and research*"[67].

This new CCP would rest on a new type of loan rate reflecting the constantly updated national average cost of production: "*A farm program should recognize the market realities of the fundamentally unique business of farming. Such a program should include these basic*

[67] NFU, *Testimony of Tom Buis Before the U.S. Senate Committee on Agriculture, Nutrition and Forestry*, April 25, 2007, http://www.nfu.org/wp-content/4-25-07-senate-economic-challenges-opportunities.pdf

provisions: a) Price support and income support mechanism for wheat, feed grains, oilseeds, rice and cotton that establishes a floor under market prices and enables producers to obtain their income from the marketplace; b) Price and income supports should primarily be provided by CCC non-recourse commodity loans; c) Loan rates should be adjusted annually to reflect the effects of inflation and productivity; d) Producers without access to storage should be provided with a provision to be protected by the price support loan; e) Loan maturity periods should be extended at the discretion of the producer, for up to 18 months to provide producers maximum marketing flexibility; f) A maximum should be set for the level of production per farm family that is eligible for the CCC loan; g) Price support and CCC loan levels should be set at levels to ensure producers have the opportunity to receive a fair return on their investment. The loan should not be less than the USDA national average cost of production. CCC loan levels should be adjusted annually to reflect inflation and productivity"[68].

Daryll Ray summarizes the design and impact of this new CCP: "*The Agricultural Policy Analysis Center has conducted preliminary analysis of the National Farmer Union's proposed counter-cyclical payment program that replaces the current direct decoupled payment program, the marketing loan program and counter-cyclical payment program with a single redesigned counter-cyclical payment mechanism.*
Compared to the current program, the proposed program reduces government payments in years in which farmers receive at least a targeted level of receipts from the market and provides additional payments in years in which market income is low. The protection of this program is set as a percent of the full cost of production per planted acre at the national level.
Using the February 2007 USDA Baseline updated to include the March 30, 2007 planting intentions, preliminary analysis of the program shows that under average conditions, that is baseline prices and yields, the proposed counter-cyclical program potentially saves $2-$3 billion a year when compared to the current program. These savings accrue primarily because no direct payments are made under any conditions including when crop prices and yields generate prosperous times for crop farmers. These savings are achieved while maintaining net farm income levels that are comparable to those provided under the current set of policy instruments"[69]. The APAC's formulae to derive this new CCP are in another paper[70].

Of course such a CCP could not claim to be put in the new blue box as it would be linked to the current average national yield and to the current average national cost of production. However, in a perspective of food sovereignty – implicitly claimed by the NFU as it pleads to "*Establish tariffs on foreign imports of all dairy ingredients that displace domestically produced milk usage*" and underlines that "*The unrestricted importation of livestock and livestock products is causing serious damage to our domestic industry*" –, NFU fails to state that US agricultural exports should not be dumped on world markets, i.e. sold at prices below this average national cost of production without subsidies, among which the proposed new CCP.

In another study, Daryll Ray made the excellent case that, even with the present price-based CCP, "*Eliminating the direct payments in response to high prices would not reduce the safety net for farmers if prices were to plummet. At present the direct payments are, in effect, deducted when the counter-cyclical payment rates are calculated. The elimination of direct*

[68] NFU, *2007 Policy of the National Farmers Union*, http://nfu.org/issues/trade/resources/policy
[69] http://www.nfu.org/wp-content/university-of-tennessee-analysis.pdf
[70] http://www.nfu.org/wp-content/formula-explanation.pdf

payments would also eliminate this deduction from the counter-cyclical payment rates, which means that farmers would receive the equivalent of the direct payments if prices tank". Besides, "*That would free up $26 billion, easily funding increases in nutrition, biofuels, disaster, and conservation programs*"[71]. Indeed those $26 billion would easily solve the problem of offsetting, by cuts elsewhere as demanded by USDA, the $10 billion of additional spending in both the House and Senate versions.

The NFU's proposal to fix the loan rates at the cost production level is also supported by the National Family Farm Coalition (NFFC)'s Food from Family Farms Act: "*Loan rates will be set at an appropriate level that reflects the cost of production for each individual crop based on USDA's Economic Research Service (ERS) calculations and average transportation and storage costs. A similar formula will apply for establishing the price for milk at the farm-gate*"[72]. And the NFFC caps the benefit of this loan rate: "*A maximum quantity of crops up to a loan value of $450,000 per farm will be eligible for the loan program*".

<u>4) The interrelated issues of crop insurance subsidies and disaster payments</u>

As shown above in table 1, the House and Senate versions foresee significant lower amounts for the crop insurance subsidies than in the CBO's baseline of March 2007: respectively $21.7 billion, $22 billion and $25.7 billion. Even if, according to B. Babcock, "*About half of the House cuts to crop insurance are real and about half are budget sleights of hand that involve moving payments from one fiscal year to the next*"[73]. Nevertheless the House and Senate versions would imply about $4.4 billion per year, hardly less than the "*More than $5 billion… now being spent on providing crop insurance to program crop producers, an amount that is about equal to the annual direct payments that the same producers receive*".

However the lower level of crop insurances subsidies decided in the House and Senate versions would be more than offset by increased disaster payments, particularly in the Senate versions, as seen already above.

The crop insurance program and the disaster payments have been much criticized as being largely overlapping, including by the present USDA Chief economist who was also recently the USTR Chief agricultural negotiator at the WTO, Joseph W. Glauber: "*Subsidies for crop insurance have averaged more than $3 billion a year since 2002, and annual disaster payments have averaged more than $2 billion. Moreover, much of the disaster assistance goes to producers who also are receiving crop insurance indemnity payments. The result, as the title of this paper suggests, is "double indemnity." For many producers, disaster assistance allows them to collect twice on the same loss to "help fill the hole in the safety net"… Proposed legislation to establish standing disaster legislation in addition to crop insurance would likely push these costs higher still. Moreover, by indemnifying losses twice—once through insurance and once through disaster—there are concerns that combined programs will potentially overcompensate losses and distort production decisions*"[74].

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[71] Daryll Ray, *Shifting Direct Payments from being a black eye to strengthening the safety net*, APAC, February 29, 2008, http://www.agpolicy.org/weekcol/396.html

[72] http://www.nffc.net/resources/statements/FFFA2007.pdf

[73] Bruce Babcock, *How to Save Billions in Farm Spending*, http://www.card.iastate.edu/iowa_ag_review/fall_07/article2.aspx

[74] *Double Indemnity: Crop Insurance and the Failure of U.S. Agricultural Disaster Policy*, in Bruce L. Gardner and Daniel A. Sumner, The 2007 Farm Bill and Beyond, 2007, http://aic.ucdavis.edu/research/farmbill07/aeibriefs/20070516_Summary.pdf

For the Los Angeles Times of 21 March 2008 "*a new $5-billion disaster-assistance program intended to help growers whose crops are destroyed by drought or flood. In practice, this would simply encourage farmers to plant in drought-prone areas, knowing the government will bail them out if their crops fail. It also would encourage them to farm on environmentally sensitive land now being held in the Conservation Reserve Program — mostly poor farmland that otherwise would be considered too risky for planting. The way the negotiations are proceeding, it's looking as if the nutrition budget will be cut in order to pay for this environmentally destructive handout*"[75].

To what extent the permanent disaster program called for by the NFU to complement its proposed CCP would avoid such overlapping with crop insurances subsidies? The question mark remains because it is advocating also extended crop insurance subsidies, which is fair enough vis-à-vis its farmers members but which mitigates somehow its claim to reduce the farm bill cost. On the other hand, for the NFFC "*The FFFA Disaster Program eliminates the current subsidized crop insurance system that is not only inadequate when disaster strikes but fosters production on marginal land and underwrites farm consolidation. In its place, a disaster relief program will be offered to all eligible farmers… Insurance coverage from the private sector beyond established disaster relief would be at the producers' cost, but will not be required in order to qualify for the Disaster Program*".

5) The likely impact of the foreseeable 2008 Farm Bill on the Doha Round negotiations

Il is clear that Congress has devised the 2008 Farm Bill without caring about its impacts on the Doha Round negotiations and on the WTO in general, despite the warnings of USDA. Consequently the US would be poles apart from being able to comply with its October 2005 offer to cut, at the end of the Doha Round implementation period, by 60% its Final Bound Total AMS (FBTA) and its Overall Trade-Distorting Domestic Support (OTDS), and this even if the marketing loan benefits and the CCPs would be nil as a consequence of persistent high prices.

Indeed the FBTA should drop from $19.103 billion to $7.641 billion, which is inconsistent with the foreseeable farm bill:
- The market price support for sugar and dairy would be maintained around the same level as the average $5.826 billion notified from 2002 to 2005 because the House and Senate farm bill versions did not propose to eliminate these fake market price supports (fake because they would not have any impact on domestic prices without the high tariffs).
- Both chambers have decided to maintain the fixed direct payments at about the same level as during the last years, i.e. $5.2 billion, and this without the planting flexibility required to be notified in the green box.
- Even if they have proposed to lower somehow the crop insurance subsidies, they would be around $4.4 billion. Without prejudice that a good part of the so-called "disaster payments" of at least $0.8 billion ($4 billion over five years) could not be put in the green box.
- The unknown amount of subsidies to biofuels should also be put in the amber box, the more so as its net environmental benefits are far from being obvious.
- The components of the non-product specific AMS other than the CCPs and crop insurances subsidies and within the *de minimis* exemption level, would continue to reach at least the average $4.1 billion of the base period 1995-2000 (given the under-notification of the subsidies on agricultural loan, grazing on public lands, irrigation and on agricultural fuel[76]).

[75] http://www.latimes.com/news/printedition/asection/la-ed-hunger21mar21,0,4440681.story
[76] J. Berthelot, *The huge lies in the US notification of its agricultural trade-distorting domestic supports from 2002 to 2005*, Solidarité, 6 November 2007.

We see that, with only the first three supports, the FBTA would already be around $15 billion during the next five years, and this even if there would not be any marketing loan benefits and CCPs. Therefore the possibility for the US to lower, at the end of the Doha Round implementation period, its applied total AMS at $7.641 billion and even more its applied OTDS (which, besides the applied total AMS, takes into account the applied product-specific *de minimis* and non-product-specific *de minimis*, not to speak of the blue box) at the $12-13 billion demanded by the G-20 is totally unfeasible.

In that perspective, the best way out for the US farmers themselves and even more for the whole world would be that no agreement on the 2008 Farm Bill would be reached by the 18 April 2008 and that the 2002 Farm Bill would be extended for one year. With the hope that the new Democrat President would convince Congress to devise the new Farm Bill on the lines proposed by the NFU and NFFC, and that this stalemate on the Farm Bill would help to postpone as well the conclusion of the Doha Round for at least two years, the time for DCs to challenge seriously the EU and US massive domestic subsidies going to their agricultural exports and to agree to rebuild the Agreement on Agriculture on the food sovereignty principle[77].

[77] J. Berthelot, *Solidarité's comments on ag modalities revised draft of 8 February 2008*, Solidarité, 21 February 2008.