



An Agricultural Law Research Article

**World Trade Organization and the Commodity
Title of the Next Farm Bill:
A Practitioner's View**

by

Doug O'Brien

April 2006

www.NationalAgLawCenter.org

**World Trade Organization and the Commodity
Title of the Next Farm Bill:
A Practitioner's View**

Doug O'Brien

Senior Staff Attorney

National Agricultural Law Center - University of Arkansas School of Law

Drake Agricultural Law Center - Drake University School of Law

Attorneys who represent farmers, and especially those who represent producers who receive payments through the farm bill,¹ know what an impact that piece of federal legislation has on producers' business decisions. So the farm bill can determine a producer's decisions, but what determines the contents of a farm bill? Traditionally, the major factors affecting the makeup of a farm bill were the state of the farm economy, the condition of the federal budget, and who is in power in Congress at the time of the bill's consideration. To be sure, all of these factors will again play a major role in the next farm bill. But an influence that has many times provided background context to farm bill deliberations is now up front and squarely facing policy makers: current and future trade policy. The impact of the Brazil Cotton Case has shifted current trade policy in a way that may force domestic policy to change. Further, the debate surrounding the next farm bill could very well coincide with the negotiations for the next major multi-lateral agricultural trade agreement, known as the World Trade Organization Doha Round. The timing both highlights and heightens the new significance that United States' trade obligations have on domestic policy.

This article examines how this new factor might influence Congress' farm bill debate. But first, the article sets the stage by looking briefly at the history of farm bills, focusing on particular provisions of the 2002 Farm Bill, and examining the World Trade Organization and the U.S.'s obligations under it. The subject area has been covered by numerous articles, practically all of which were written with policy makers or trade specialists as the audience.² In contrast, this article is designed for the practitioner who works in the agricultural sector and discusses the policy changes that may come

¹ 'Farm bill' is "the popular, generic term given to current federal omnibus agricultural legislation, usually enacted every four to seven years." Chuck Culver, *Glossary of Agricultural Production, Programs, and Policy* (4th ed.), at <http://www.nationalaglawcenter.org/#>; see also Geoffrey S. Becker, *The Farm Bill in Brief*, Congressional Research Service, at <http://www.nationalaglawcenter.org/assets/crs/RS22131.pdf> (answering the question: "What is a Farm Bill?").

This paper will refer to the various farm bills according to the year in which they were passed. Nevertheless, each of the bills has its own official short title. The title of the 2002 Farm Bill is the "Farm Security and Rural Investment Act of 2002." The President signed the 2002 Farm Bill on May 13, 2002, making it Public Law 107-171. The Bill is codified in various places, with most of its sections at Title 7 of the United States Code, except for most of the conservation provisions of the bill that are codified at title 16 of the Code.

² See e.g. Raz Bhala, *World Agricultural Trade in Purgatory, The Uruguay Round Agricultural Agreement and its Implication for the Doha Round*, 79 N.D. L. REV. 691 (2003); Karen Halverson Cross, *King Cotton, Developing Countries, and the 'Peace Clause': The WTO's Cotton Subsidies Decision*, 9 J. INT'L ECON. L. 149 (2006); Melaku Geboye Desta, *The Bumpy Ride Towards the Establishment of "A Fair and Agricultural Trading System" at the WTO: Reflections Following the Cancun Setback*, 8 DRAKE J. OF AGRIC. L. 489 (2003).

about in the next few years. Finally, the article considers how these changes may impact the agricultural attorney's practice.

Part I. Current Policy

A. Farm Bill History

Trade has always played a major role in the farm economy of the United States. The British government chartered the original thirteen colonies largely as a source of agricultural products.³ The story of the agricultural economy from the country's founding through the First World War is generally one of greater productivity based on increased land cultivation and technological improvements, with generally increasing exports to soak up the greater supplies.⁴ While agriculture was the primary sector of the economy in this period, Congress generally took a hands-off approach to production or prices.⁵

Comprehensive farm policy emerged from the federal government in the 1920's in response to the farm crisis of that time.⁶ The farm economy had crashed after the highly profitable World War I era in which the U.S. quickly ramped up capacity in response to European demand. As the war ended, so did the great demand for U.S. agricultural products.⁷ To address the serious agricultural income problems, Congress devised a plan largely based on trade policy that attempted to improve farm gate prices. Known as the McNary-Haugen plan, it proposed to limit supplies in the domestic market "to an amount that would drive up domestic farm prices to parity level."⁸ The remainder of the supplies would be sold, or dumped, on the world market at presumably much lower prices.⁹ Although both houses of Congress passed the McNary-Haugen plan in both 1927 and 1928, President Coolidge vetoed the bills.¹⁰ While the McNary-Haugen plan never became law, it serves as prelude to two

³ DAVID ORDEN, ET AL., POLICY REFORM IN AMERICAN AGRICULTURE 13 (1999)

⁴ *Id.* at 14.

⁵ *Id.* Congress was active in setting up the infrastructure for American agriculture sector with the creation of the United States Department of Agriculture, the Homestead Act, the creation of the Land-Grant Colleges, all in 1862, and the creation of the railroads. *Id.* Congress also passed a set of measures designed to improve the farmer's bargaining position in dealings with major buyers, including the Packers and Stockyards Act of 1921, 7 U.S.C. § 192, the Commodity Futures Trading Act, 7 U.S.C. § 1, and the Capper Volsted Act., 7 U.S.C. § 291. Orden, *supra* note 3, at 15, note 6. While these laws affected the relationship between buyers and sellers of farm products, they did not attempt directly to affect supplies or prices.

⁶ WILLARD W. COCHRANE AND C. FORD RUNGE, REFORMING FARM POLICY 39 (1992).

⁷ See Orden, *supra* note 3, at 15.

⁸ Cochrane, *supra* note 6, at 39. Parity prices are prices for a basic set of farm commodities based on prices received in 1910 to 1914, a time of unusually high farm prices. *Id.* For a discussion of the McNary-Haugen plan, see BRUCE L. GARDNER, AMERICAN AGRICULTURE IN THE TWENTIETH CENTURY 214-15 (2002). Although McNary-Haugen was the primary policy forwarded by farm advocates at the time, it was not the only one. Farmers and rural members of Congress also advocated for such things as export credit subsidies, improved domestic farm credit policies, and strengthened cooperative policies. Orden, *supra* note 3, at 17-18.

⁹ Cochrane, *supra* note 6, at 39.

¹⁰ *Id.*

themes recurring in agriculture ever since: federal efforts to improve farm income and the politically sensitive intersection of domestic farm policy and international trade.

Congress again looked to trade policy to address domestic farm income problems in 1930 when it took up President Hoover's suggestion to raise tariffs on imports into the United States.¹¹ The goal was to increase the demand for domestic products by increasing the price of foreign agricultural goods. The result, however, was a "wave of protectionism around the world, serv[ing] to shut off foreign trade of all kinds and the export of American farm products, in particular."¹² As the farm economy continued to flounder and the political strength of farmers increased,¹³ the stage was set for the creation of comprehensive domestic farm policy.

The Agricultural Adjustment Act of 1933¹⁴ (AAA) was the first comprehensive piece of legislation that people today would recognize as a farm bill. It was the first law to utilize a number of mechanisms that have become familiar to farm policy observers, including supply control through acreage reduction and authority to store farm products.¹⁵ What we would now call the commodity title was funded primarily through excise or processing taxes. Because of this funding scheme, the Supreme Court ruled the AAA unconstitutional.¹⁶ Yet the high level of government intervention proved popular¹⁷ so Congress salvaged the program by changing the law and refocusing its provisions by taking land out of production in the name of soil conservation.¹⁸ The provisions would have the continued effect of decreasing supplies.

The agricultural sector experienced boom and bust years affected by severe weather or major wars, and the basic structure of farm policy remained. Although the use of particular policy tools waxed and waned over the years, certain mechanisms emerged as predominant for the balance of the 20th century, including different types of price supports, non-recourse loans, deficiency payments, the requirement that farmers set aside land to participate in the commodity program and government-controlled storage that provided both a level of food security and attempted to hold supply off the market to increase price. The 1996 Farm Bill continued much of the earlier policy but essentially did

¹¹ *Id.* at 40.

¹² *Id.*

¹³ See Orden, *supra* note 3, at 16-17 (citing JOHN MARK HANSEN, GAINING ACCESS: CONGRESS AND THE FARM LOBBY (1991)) (discussing the lack of an organized farm constituency in the early part of the 20th century and the rise of the farm bloc in the 1920s).

¹⁴ P.L. 73-10 (1933).

¹⁵ Cochrane, *supra* note 6, at 40-41.

¹⁶ United States v. Butler, 297 U.S. 1 (1936).

¹⁷ Orden, *supra* note 3, at 21 (comparing the fate of the farm bill with that of the National Industrial Recovery Act, aggressive legislation designed to address economic problems in the industrial sector and which had a short life of two years because of lack of popularity and lobbying by big business).

¹⁸ Cochrane, *supra* note 6, at 41.

away with land set-asides¹⁹ and government controlled storage. The hallmark of the 1996 Farm Bill was its intent to “wean” farmers from commodity payments by setting fixed payments that would decline each year. As the bill arrived at the point where subsidies were to decline, however, Congress stepped in with recurring lump-sum payments that were renewed every year through the life of the 1996 Farm Bill that became known as marketing loss assistance payments.²⁰ The 2002 Farm Bill continued much of the policy under the 1996 Bill and formalized the market loss assistance payments in what became known as counter cyclical payments.

B. 2002 Farm Bill Commodity Programs

As an initial matter, most of the Farm Bill programs, including the direct payments, countercyclical payments and the marketing loan program, are authorized through the 2007 crop year. Traditionally, this means that Congress must take legislative action to rewrite or extend the current Farm Bill by late 2007. A discussion on timing issues appears below.

This section will examine the three major commodity payment mechanisms in the current farm bill: direct payments, marketing loans, and counter cyclical payments.²¹ Before discussing those individual mechanisms, some general rules of eligibility and limitations, all of which are important in the context of U.S. trade obligations will be studied.²²

The statute requires the Secretary to make payments to producers, who are individually defined as “an owner, operator, landlord, tenant, or sharecropper that shares in the risk of producing a crop and is entitled to share in the crop available for marketing from the farm.”²³ The regulations require that the person be “actively engaged in farming,” a phrase to which the Code of Federal Regulations devotes an entire subpart.²⁴ In general, to be actively engaged in farming a person must make significant contributions of both (1) capital, land and/or equipment, and (2) personal labor and/or

¹⁹ Although set-asides were not required to participate in the commodity programs, Congress did create or expand other set aside programs that were independent of the commodity programs, such as the Conservation Reserve Program.

²⁰ From 1998 until passage of the Farm Security and Rural Investment Act of 2002, Congress passed annual emergency farm legislation that allocated marketing loss assistance payments for program crops. The payments were paid using the same payment formula that was used for regular Agricultural Market Transition Act (AMTA) payments.” Chuck Culver, *Glossary of Agricultural Production, Programs, and Policy* (4th ed.), at <http://www.NationalAgLawCenter.org>.

²¹ For an excellent extended explanation of these mechanisms, see Jim Monke, *Farm Commodity Programs: Direct Payments, Counter-Cyclical Payments, and Marketing Loans*, Congressional Research Service (Feb. 10, 2006), at <http://www.nationalaglawcenter.org/assets/crs/RL33271.pdf>.

²² In general, the commodities covered by the commodity programs include wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans and other oilseeds. 7 U.S.C. § 7901(4). These commodities are eligible for all three types of payment mechanisms. Certain other commodities, known as loan commodities, are not eligible for direct payments and counter cyclical payments, but are eligible for loans, they include extra long staple cotton, wool, mohair, honey, dry peas, lentils, and small chickpeas. 7 U.S.C. § 7901(8).

²³ 7 U.S.C. § 7901(12).

²⁴ 7 CFR part 1400 subpart C is devoted exclusively to the phrase.

management.²⁵ Recipients of commodity payments must also agree to relatively minimal conservation requirements,²⁶ as opposed to pre-1996 when farmers might be required to remove up to fifteen percent of their cropland from production. The current “highly erodible land” requirements simply oblige farmers to exercise certain conservation practices that limit soil erosion on highly erodible land and generally prohibit the conversion of previously uncultivated land and wetlands²⁷ (programs popularly known as sodbuster and swampbuster, respectively).

The major limiting factors for producers are the number of acres one is allowed to enroll, the number of bushels covered and the total amount of money one may receive under the different programs. In general, the number of acres eligible for payment, or “base acres”, is not based on the actual number of acres planted for the year for which the farmer receives a payment. Rather, base acres is generally the average number of acres planted to covered commodities in the past, for instance from 1998 to 2001, or if the producer prefers, base acres used by the 1996 Farm Bill, which in turn were also based on historical acreage.²⁸ The result is that one of the major variables in two of the payments, direct payments and counter cyclical payments, could be based on production decisions the farmer made nearly twenty years prior to the payment. As will be seen, another major variable in the determination of direct payments and counter cyclical payments is the program yield. As with the base acres, the program yield is also based on historical numbers and will not change with the current yield.²⁹

Another important limitation is the one that has become the most controversial: the amount of payments a producer may receive under the different types of payment mechanisms. In general, a producer is limited to the following amounts for each program: \$40,000 in direct payments; \$65,000 in counter cyclical payments; and \$75,000 in loan deficiency payments and market loan gains.³⁰ Well-worn legal devices such as the three-entity rule allow farmers to essentially double the payment limits, and the use of commodity certificates can take the lid off the marketing loan limits.³¹

One other limitation especially important in the eyes of the World Trade Organization is the flexibility provided to producer planting decisions. The 1996 and 2002 Farm Bills provided greater flexibility to producers in whether and what to plant without affecting certain payments. Yet farmers are not completely free to plant what they want. In general, producers seeking subsidies for “covered

²⁵ 7 CFR 1400.201(b).

²⁶ 7 U.S.C. § 7915(a)(A); 16 U.S.C. § 3811.

²⁷ 7 U.S.C. § 7915(a)(B); 16 U.S.C. § 3821.

²⁸ 7 U.S.C. § 7911(a).

²⁹ 7 U.S.C. § 7912. The statute provides that the program yield is generally that established in the 1995 crop year. The statute does provide for updating the yield, but only if the farmer chooses not to update her base acres to include the newly-eligible oilseed crops. In either case, once the program yield is determined, it will not be changed by the current crop year.

³⁰ 7 CFR 1400.1(g).

³¹ For an excellent explanation of the rules affecting payment limitations, see Christopher R. Kelley, *Introduction to Federal Farm Program Payment Limitation and Payment Eligibility Law*, National Agricultural Law Center (2002), at http://www.nationalaglawcenter.org/assets/articles/kelley_paymentlimitations.pdf.

commodities³² may not plant fruits or vegetables on base acres.³³ This “fruit and vegetable” limitation was widely reported to be the result of efforts to mollify fruit and vegetable growers because they receive very little direct support in the farm bill relative to producers of covered commodities.

The next section will look at the three primary payment mechanisms received by producers of covered commodities.

Direct payments. Producers receive direct payments based exclusively on their base acres and program yield.³⁴ The direct payments are a remnant of the 1996 Farm Bill Production Flexibility Contract that were to phase out in 2002 but that Congress decided to extend. These direct payments are generally decoupled, or unrelated, to current production or price. To arrive at a producer’s direct payment, one simply needs to multiply the following three variables by .85: base acres, program yield, and payment rate. The payment rate is the rate provided for in statute.³⁵ In formula terms:

Base acres x program yield x payment rate x .85 = direct payment.

To provide an example:³⁶

Base acres = 400 acres
Program yield = 110 bushel/acre
Payment rate = \$.28/bushel

400 acres x 110 bu/ac x \$.28/bu x .85 = \$10,472

Counter cyclical payments. Counter cyclical payments signified the return of deficiency payments, which were used in Farm Bills before 1996. Counter cyclical payments are designed to provide a safety net for farmers when prices are low and thus are not paid when prices are high. The countercyclical payment makes up the difference between the target price, which is fixed in statute,³⁷ and the amount the farmer could have received for producing the crop, including money received when he or she sold the crop, the direct payment, and any marketing loan gain. The key to finding the countercyclical payment total is to determine the countercyclical payment rate. One arrives at the countercyclical payment rate by taking the target price and subtracting the higher of the market price (averaged over a certain marketing period) or the national loan rate along with the direct payment and market loan gain that should have been received by the producer if he or she would have received the average market price.

CCP rate = Target price – ([higher of market price or loan rate] + direct payment rate)

³² The term “covered commodity” includes wheat, corn, grain sorghum, barley, oats, upland cotton, rice, soybeans, and other oilseeds. 7 U.S.C. § 7901(4). All of these commodities are eligible for direct payments, countercyclical payments and marketing loans. Certain other commodities, “loan commodities”, are eligible for marketing loans only, including: wool, mohair, honey, dry peas, lentils, and small chickpeas. 7 U.S.C. § 7901(8).

³³ 7 U.S.C. § 7916.

³⁴ See notes 28 thru 29 and accompanying text.

³⁵ 7 U.S.C. § 7913(b) (providing payment rates for covered commodities).

³⁶ The example is taken from Monke, *supra* note 21, at 7.

³⁷ 7 U.S.C. § 7914(c).

To arrive at the countercyclical payment, multiply all of the following variables by .85: base acres, program yield, and the countercyclical payment rate.

$$\text{CCP} = \text{base acres} \times \text{program yield} \times \text{CCP rate} \times .85$$

The key to the CCP is that producers could receive this payment even if they choose not to plant anything; that is, none of the variables are dependant on actual production. Nevertheless, CCP does have a countercyclical affect because the payment is partially dependant on market prices.

Nonrecourse marketing assistance loans. Nonrecourse loans were a component of both pre-1996 Farm Bills and the 1996 Farm Bill. Marketing loans in theory provide farmers interim financing from the time that the crop is harvested until they decide to market the crop. The loans were originally designed to give producers the ability to hold on to the crop until the harvest seasonal lows passed. Nonrecourse loans work by allowing farmers to borrow money using the crop as collateral valued at the loan rate, for instance \$1.95 per bushel of corn.³⁸ If the actual price falls below the loan rate, the farmer technically has the option of forfeiting the crop, and because the loan is nonrecourse, the farmer does not have to pay the difference between the loan rate and the value of the crop when forfeited. Because there is no recourse for forfeiting a lower-valued crop, the real effect of nonrecourse loans is to set a price floor because a producer will always be able to receive at least the loan rate for his or her crop.

For example, if a farmer borrows money using 10,000 bushel of corn for collateral and the loan rate is \$1.95 per bushel, the farmer receives a loan of \$19,500. If at a particular time the farmer decides to forfeit the corn, although it is worth only \$1.70 per bushel or \$17,000 total at the time of forfeiture, he will be free of his loan obligation because the loan is nonrecourse. The farmer enjoys a loan gain of \$.25 per bushel or \$2500. The real result is that the farmer was able to receive \$1.95 per bushel of corn even though the market price was only \$1.70.

To avoid massive forfeitures and direct commodities on to the market, Congress has provided producers alternatives for receiving the loan gain. Instead of forfeiting the commodity, the producers may choose simply to pay off the loan at the lower market price,³⁹ thus receiving the advantage of the difference between the loan rate and the market price. The statute limits the amount a producer may receive on these marketing loan gains to \$75,000 per person. On a variation of this marketing loan gain, producers can in effect take part in a paper shuffle that allows them to pay back the loan with commodity certificates.⁴⁰ The economic benefit is the same for the producer; the only major difference is that gains received when using commodity certificates are not limited. Finally, farmers

³⁸ 7 U.S.C. § 7932 provides loan rates for covered commodities and loan commodities.

³⁹ 7 U.S.C. § 7934.

⁴⁰ In his glossary on the National Agricultural Law Center website, Chuck Culver defines commodity certificates: "Negotiable payments issued by the Commodity Credit Corporation in lieu of cash payments to producers who have outstanding nonrecourse loans that have not matured. Holders of the certificates may exchange them with the CCC for CCC-owned commodities. Under provisions intended to minimize loan forfeitures and accumulation of stocks by the USDA, a producer who is facing the likelihood of loan forfeiture can acquire commodity certificates at the adjusted world price for rice and cotton, or the posted county price for other commodities, multiplied by the amount of commodity still under loan. The producer then immediately exchanges the purchased commodity certificate for the crop pledged as collateral on the nonrecourse loan." At <http://www.nationalaglawcenter.org>.

can avoid putting their crop under loan altogether and still receive an equivalent to the marketing loan gain called a loan deficiency payment, which are subject to the \$75,000 payment limit.⁴¹

The key for the purpose of this article is that producers receive these type of benefits based on actual production.

C. World Trade Organization

As stated on its website, “the World Trade Organization (WTO) is the only international organization dealing with the global rules of trade between nations.”⁴² The organization was created in 1994 and as of December 2005 included 149 countries as members. The main functions of the WTO are to serve as a forum for trade negotiations, administer WTO trade agreements and handle trade disputes.⁴³ Beyond the general agreements establishing the WTO and setting the rules of dispute resolution, the main WTO agreements are those covering the general areas of goods, services, and intellectual property.⁴⁴ Under these umbrella agreements are more specific agreements, such as the Agreement on Agriculture that falls under the umbrella agreement on goods known as the General Agreement on Tariffs and Trade (GATT). Appended to the Agreement on Agriculture is each country’s Schedule of Concessions that lists specific country commitments.

The Agreement on Agriculture was one of the major results of the Uruguay Round of negotiations that took place from 1988 to 1994. The Agreement is by far the most significant international trade agreement affecting agriculture, a sector known for its protected status throughout history. Although its precise impact thus far is difficult to gauge, the major significance of the Agreement on Agriculture is simply the creation of mechanisms to regulate agricultural trade.⁴⁵

The Agreement on Agriculture addresses three subjects: market access, domestic support, and export subsidies.⁴⁶ On market access, the Agreement on Agriculture requires countries to undergo tariffication,⁴⁷ which means the conversion of non-tariff trade restrictions such as quotas to tariffs. For example, if a country has a quota restricting the amount of kumquats that it will allow into the country, the agreement requires that the quota be converted into a tariff that would result in the same number of imported kumquats. Although the immediate result is the same as quotas, tariffication provides for greater transparency that makes it easier to reduce tariffs. The Agreement on Agriculture also requires a gradual reduction of tariffs over time.

⁴¹ 7 U.S.C. § 7935.

⁴² WTO website, The WTO in Brief, at http://www.wto.org/english/thewto_e/whatis_e/inbrief_e/inbr00_e.htm.

⁴³ WTO website, WTO Fact File, at http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm.

⁴⁴ WTO website, Understanding the WTO: The Agreements, at http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm1_e.htm.

⁴⁵ Organization for Economic Cooperation and Development (OECD), *The Uruguay Round Agreement on Agriculture: An Evaluation of its Implementation in OECD Countries* 5 (2001), at <http://www.oecd.org/dataoecd/50/55/1912374.pdf>.

⁴⁶ WTO Agreement on Agriculture (1994) (Agreement on Agriculture), different electronic versions of Agreement on Agriculture can be found at http://www.wto.org/english/docs_e/legal_e/legal_e.htm#ag.

⁴⁷ *Id.*, Article 4.2.

Domestic support refers to subsidies provided to agricultural producers.⁴⁸ The Agreement on Agriculture divides the types of support into different categories determined by whether the support has an effect on agricultural production. The categories are known as amber box, blue box, and green box.⁴⁹

Subsidies included in the amber box are those deemed to have trade-distorting effects or that affect production. Amber box subsidies are limited under the Agreement on Agriculture as calculated under the Aggregate Measure of Support (AMS).⁵⁰ The Agreement on Agriculture requires countries to reduce the AMS by a certain percentage, depending on whether the country is developed or developing. For developed countries, the AMS was reduced by twenty percent, while developing countries reduced their AMS by thirteen percent. The main examples of amber box subsidies in U.S. policy are the marketing loan benefits, including loan deficiency payments and marketing loan gains.⁵¹

Subsidies included in the blue box cover production-distorting subsidies that require farmers to limit production.⁵² These types of subsidies are used very rarely in the United States, and at any rate are not included in the AMS. A historical example of this type of subsidy is the target price deficiency payments that were a feature of pre-1996 Farm Bills and that required farmers to idle part of their productive land in return for the right to obtain deficiency payments.

Domestic supports categorized in the green box are deemed not to distort trade and thus are not included in the AMS. Support falling under this category includes funding for agricultural research, conservation, rural development, domestic food aid and disaster payments.⁵³ The U.S. has argued that direct payments under the 2002 Farm Bill should be included in the green box, but the WTO Cotton Case discussed below ruled that direct payments cannot be categorized in the green box and thus were included in the amber box for the Peace Clause determination.⁵⁴

Beyond the exemptions provided in the green and blue boxes, the Agreement on Agriculture also provides two types of de minimus exceptions to the AMS.⁵⁵ Product-specific domestic support focuses on the different types of amber box supports used for a particular product and exempts these

⁴⁸ Although the phrase 'domestic support' is not defined in the Agreement on Agriculture, a definition can be inferred from the definition of Aggregate Measure of Support, which includes "support, expressed in monetary terms, provided for an agricultural product in favour of the producers of the basic agricultural product or non-product-specific support provided in favour of agricultural producers in general ..." *Id.*, Article 1(a).

⁴⁹ The colors generally refer to how a country should proceed with the subsidies – those in the green box can keep going, while those in the amber, or yellow, box need to slow down.

⁵⁰ Randy Schnepf, *Agriculture in the WTO: Policy Commitments Made Under the Agreement on Agriculture*, Congressional Research Service 6 (May 12, 2005) (hereinafter *WTO Commitments*), at <http://www.nationalaglawcenter.org/assets/crs/RS20840.pdf>.

⁵¹ Randy Schnepf, *Agriculture in the WTO: Limits on Domestic Support*, Congressional Research Service 6 (May 10, 2006) (hereinafter *WTO Limits*), at <http://www.nationalaglawcenter.org/assets/crs/RS20840.pdf>.

⁵² Agreement on Agriculture, *supra* note 46, Article 6.5.

⁵³ *Id.* Annex 2, § 2.

⁵⁴ See *supra* notes 78 to 84 and accompanying text.

⁵⁵ Agreement on Agriculture, Article 6.4.

supports if the total value does not exceed five percent of the total value of production of that product. Non-product-specific support is exempt if all amber box support used in the country for all products is less than five percent of the total value of production of all products in the country.

In the Agreement on Agriculture the U.S. is committed to limiting its AMS to \$19.1 billion per year. When trying to determine whether a program is included in the AMS, one analyst provides this helpful list of questions:⁵⁶

1. Can the program be categorized within the green box, i.e., does not distort trade?
2. Can the program be classified under the blue box, i.e., a production-limiting program?
3. Does the support fall within either the product-specific or non-product-specific de minimis exceptions?

If the answer to any of these questions is yes, then a country is not required to include the program expenditures in the AMS. Otherwise, the domestic support should be added to AMS.

Export Subsidies. “Export subsidies are special incentives in the form of direct or indirect compensation provided by governments to commercial firms to encourage increased foreign sales of domestic products.”⁵⁷ Examples of export subsidies include direct export payments to exporting firms and gifts or sales of government stocks below the market price.⁵⁸ The Agreement on Agriculture requires developed countries to reduce the value of subsidized exports by 36 percent over six years (1995-2001).⁵⁹ While direct export subsidies are subject to these commitments, indirect subsidies such as credit guarantees are subject to some debate.

Agreement on Subsidies and Countervailing Measures. The Agreement on Subsidies and Countervailing Measures (SCM) is the agreement that generally provides disciplines on subsidies and limits what countries can do to counter others’ subsidies.⁶⁰ Discussed below, the Peace Clause in the Agreement on Agriculture largely exempted agriculture from provisions of the SCM Agreement.⁶¹ With the Peace Clause’s expiration in 2004, however, the SCM now generally applies to agriculture.

⁵⁶ WTO Limits, *supra* note 51, at 2.

⁵⁷ WTO Commitments, *supra* note 50, at 9; see Chuck Culver, *Glossary of Agricultural Production, Programs, and Policy* (4th Ed.), at <http://www.nationalaglawcenter.org> (defining export subsidy as “[s]pecial incentives (such as cash payments, tax exemptions, preferential exchange rates, and special contracts) extended by governments to encourage increased foreign sales. These subsidies are most often used when internal prices exceed export prices.”); Agreement on Agriculture, *supra* note 46, Article 1(e) (defining export subsidies as “subsidies contingent upon export performance.”).

⁵⁸ WTO Commitments, *supra* note 50, at 10. Certain exemptions apply, such as bona fide food aid. Agreement on Agriculture, *supra* note 46, at Article 10.4.

⁵⁹ Developing countries agreed to a 24% reduction over ten years. WTO Commitments, *supra* note 50, at 10.

⁶⁰ Article 1.1. the SCM Agreement defines “subsidies” as a financial contribution by a government where a benefit is conferred. WTO Agreement on Subsidies and Countervailing Measures (1994) (hereinafter Agreement on SCM).

⁶¹ Agreement on Agriculture, *supra* note 46, Article 13.

The SCM divides its treatment of subsidies into more general “actionable subsidies”⁶² and more precise “prohibited subsidies.” Prohibited subsidies include subsidies contingent on export performance (export subsidies) and subsidies contingent on the use of domestic over imported goods.⁶³ Export subsidies for agricultural goods, however, are not subject to this prohibition but are rather limited by the Agreement on Agriculture.⁶⁴ “Actionable subsidies are countervailable, if they cause material injury to domestic industry. In addition, actionable subsidies (e.g., government benefits to a specific enterprise or industry), even if not prohibited, nonetheless may be subject to challenge under the agreement if used in a way so as to cause ‘serious prejudice’ to the interests of another WTO member.”⁶⁵ Serious prejudice may arise when “the effect of the subsidy is to displace” imports, undercut prices of competing products, or increase the world market share of the particular product.⁶⁶ One commentator summarizes the effect of the SCM in this way: “[W]henver a government confers a financial benefit to a specific group of producers, such benefit will amount to a subsidy that may be challenged by another WTO member if that subsidy caused ‘serious prejudice’ to its interests.”⁶⁷

Peace Clause in the Agreement on Agriculture. The Agreement on Agriculture protected member-countries from some claims that otherwise would have been actionable under the SCM.⁶⁸ What is popularly known as the Peace Clause expired in January of 2004.⁶⁹ Before it expired, the clause suspended the application of the Agreement on SCM to most agricultural subsidies, including domestic support that does not violate the limits within the Agreement on Agriculture as long as the support granted to that subsidy is not greater than that provided in 1992,⁷⁰ domestic subsidies that fit within the green box,⁷¹ and export subsidies that do not violate the Agreement on Agriculture.⁷²

⁶² The WTO website summarizes treatment of actionable subsidies:

“[T]he complaining country has to show that the subsidy has an adverse effect on its interests. Otherwise the subsidy is permitted. The agreement defines three types of damage they can cause. One country’s subsidies can hurt a domestic industry in an importing country. They can hurt rival exporters from another country when the two compete in third markets. And domestic subsidies in one country can hurt exporters trying to compete in the subsidizing country’s domestic market. If the Dispute Settlement Body rules that the subsidy does have an adverse effect, the subsidy must be withdrawn or its adverse effect must be removed. Again, if domestic producers are hurt by imports of subsidized products, countervailing duty can be imposed.”

WTO Website, Anti-dumping, Subsidies, Safeguards: Contingencies, etc., at http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm8_e.htm.

⁶³ Agreement on SCM, *supra* note 60, Article 3.

⁶⁴ *Id.*

⁶⁵ Karen Halverson Cross, *King Cotton, Developing Countries, and the ‘Peace Clause’: The WTO’s Cotton Subsidies Decision*, 9 J. OF INT’L ECON. L. 149, 163 (2006).

⁶⁶ Agreement on SCM, *supra* note 60, Article 6.3.

⁶⁷ Cross, *supra* note 65, at 163.

⁶⁸ Agreement on Agriculture, *supra* note 46, Article 13.

⁶⁹ See *id.*, Article 13 (extending the Peace Clause through the implementation period); and Article 1(f) (defining “implementation period” for purposes of Article 13 as “the nine year period commencing in 1995”).

⁷⁰ *Id.*, Article 13(b).

⁷¹ *Id.*, Article 13(a).

The Dispute Settlement Process. In any agreement the ultimate question must be: Why would the parties choose to comply? For the United States, there are any number of “soft” reasons generally based on the idea that free trade is a good thing, the U.S. must be a leader in free trade, and if the U.S. flaunts the primary trade agreement it will threaten both the free trade movement and the U.S. position as a trade leader. Beyond this geo-political reasoning, the WTO also provides some hard backstops to enforce its agreements.

Annex 2 to the General Agreement on Tariffs and Trade, the Dispute Settlement Understanding, sets out the rules of handling disputes that come under the Agreement on Agriculture.⁷³ In general, the DSU encourages members to negotiate trade differences in “consultations.”⁷⁴ These consultations could be compared to mandatory mediation before a party in a U.S. civil proceeding is able to proceed to litigation. If the consultation does not solve the trade dispute, the parties have the opportunity to establish a panel to hear the dispute.⁷⁵ According to the DSU, the panel should hear the case and file a report within six months of convening. Aggrieved parties do have the ability to appeal the findings of the panel to an appellate body.⁷⁶

The panel report, or in the case of an appeal the appellate report, will include recommendations and rulings of what the violating party should do to come into compliance. Once the panel or appellate report is final, the parties once again have the opportunity to negotiate terms with respect to the adopted recommendations, including compensation for the complaining member. If the parties fail to agree on how to proceed, then the aggrieved party may request the Dispute Settlement Body to suspend certain provisions of WTO agreements that either restrict trade for the aggrieved party or generally help the party that was found to violate the agreement.⁷⁷ In short, the process first recommends that a member change their domestic policy to come into compliance, and if it does not do so, the WTO may take away certain rights or impose obligations such as allowing the aggrieved country to impose higher tariffs on the violating party’s goods.

⁷² *Id.*, Article 13(c).

⁷³ WTO, *Dispute Settlement Understanding* (hereinafter DSU) (1994) (Annex 2 of 1994 GATT). A number of electronic versions of the DSU can be found at http://www.wto.org/english/docs_e/legal_e/legal_e.htm#dispute.

⁷⁴ *Id.*, Article 4.

⁷⁵ *Id.*, Article 6. When the complaining party requests the establishment of a panel, the member must also file something akin to the complaint in a U.S. jurisdiction:

The request for the establishment of a panel shall be made in writing. It shall indicate whether consultations were held, identify the specific measures at issue and provide a brief summary of the legal basis of the complaint sufficient to present the problem clearly. In case the applicant requests the establishment of a panel with other than standard terms of reference, the written request shall include the proposed text of special terms of reference.

Id., Article 6.2.

⁷⁶ *Id.*, Article 17.

⁷⁷ *Id.*, Article 22.

D. Brazilian Cotton Case

Brazil's complaint against the U.S. cotton program provides an example of the dispute settlement process. A dispute that Brazil initiated in late 2002 went through the consultation and panel process and was appealed by the U.S. In March 2005, the appellate body upheld the panel's finding that portions of the U.S. cotton program violated the Agreement on Agriculture.⁷⁸

The most concrete finding was that the U.S. Step 2 program violated the Agreement on Agriculture because the payments were based on export performance. "Step 2 requires the USDA to issue cotton user marketing certificates or cash payments, under certain circumstances, to domestic users (such as textile mills) and exporters of cotton. The Step 2 certificates help to bridge part of the gap between the price of U.S. and foreign growths by 'buying down' part of the difference between the U.S. price and the world price."⁷⁹ The Agreement on Subsidies and Countervailing Measures generally prohibits subsidies that are based on export performance or that are contingent upon the use of domestic over foreign supplies.⁸⁰

The panel and appellate body also found that most of the U.S.'s export credit guarantees are effectively export subsidies not consistent with the U.S.'s WTO obligations. This finding went beyond cotton to include other commodities that participate in the export credit guarantee programs.⁸¹ In response to the WTO decision, Congress repealed the Step 2 program effective on August 1, 2006.⁸²

Although cotton was the only commodity involved in the dispute, the WTO decision could have broader impacts because of a preliminary finding having to do with the Peace Clause. Before Brazil could get to the Step 2 claim, it first needed to get over the Peace Clause, which limited a member's ability to challenge a subsidy when the subsidy is below the amount of support for that particular commodity in 1992.⁸³ To determine the level of support for this Peace Clause question, Brazil argued that direct payments should be included, in opposition to the U.S.'s characterization of direct payments as completely decoupled and thus exempt from the support calculation. Significantly, the panel and appellate body found that direct payments are not completely decoupled because they were partly contingent on producers not planting fruits and vegetables.

Although the Peace Clause no longer applies because it lapsed after the initiation of the Cotton Case, the findings that direct payments are not decoupled may still have weight. This characterization of direct payments as outside the green box has some U.S. policy makers concerned that these

⁷⁸ For a summary of the WTO Cotton dispute (DS267) and a link to numerous documents related to the case, see WTO Website, United States Subsidies on Upland Cotton, at http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds267_e.htm.

⁷⁹ Chuck Culver, *Glossary of Agricultural Production, Programs, and Policy* (4th Ed.), at <http://www.nationalaglawcenter.org>. The Step 2 program is codified at 7 U.S.C. § 1207.

⁸⁰ WTO Agreement on Subsidies and Countervailing Measures, Article 3.1. For links to different electronic versions of the Agreement, go to http://www.wto.org/english/docs_e/legal_e/legal_e.htm#subsidies.

⁸¹ Randy Schnepf, *Background of the U.S.-Brazil WTO Cotton Subsidy Dispute*, Congressional Research Service 15 (July 11, 2005), at <http://www.nationalaglawcenter.org/assets/crs/RL32571.pdf>.

⁸² P.L. 109-171, sec. 1103. The repeal was included in the Budget Reconciliation bill signed on February 8, 2006.

⁸³ Agreement on Agriculture, *supra* note 46, Article 13.

payments may subject the U.S. to more WTO challenges in the future. Others, however, point out that the consequences may be limited to the particular case as evaluated strictly in terms of the Peace Clause violation.⁸⁴ They point out that “[t]he panel did not specifically reclassify U.S. [direct payments] as ‘amber box,’ nor did the panel recommend that the United States should notify such future payments as ‘amber box.’”⁸⁵ At any rate, the finding focusing on the fruit and vegetable limitation does provide a new wrinkle in the farm bill debate and at the very least will force Congress to consider the wisdom of continuing that limitation.

E. The Doha Development Round

Article 20 of the Agreement on Agriculture required that the members begin renegotiating the agricultural provisions in 2000.⁸⁶ To formally kick off negotiations, member countries agreed to a ministerial declaration in Doha, Qatar in November 2001.⁸⁷ This round of negotiations has become known as the Doha Development round in recognition of the importance of the effect that the eventual agreement will have on developing nations. Peppered throughout the declaration are references to developing and least developed nations that could be summed up in this statement in the second paragraph of the declaration: “[W]e shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development.”⁸⁸ Further evidence of the importance of developing countries is the unprecedented active participation of these countries in

⁸⁴ Randy Schnepf, *Background of the U.S.-Brazil WTO Cotton Subsidy Dispute*, Congressional Research Service 15 (July 11, 2005), at <http://www.nationalaglawcenter.org/assets/crs/RL32571.pdf>.

⁸⁵ *Id.* at 15.

⁸⁶ Agreement on Agriculture, *supra* note 46, Article 20, which provides:

Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

- (a) the experience to that date from implementing the reduction commitments;
- (b) the effects of the reduction commitments on world trade in agriculture;
- (c) non-trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and
- (d) what further commitments are necessary to achieve the above mentioned long-term objectives.

⁸⁷ WTO, Doha Ministerial Declaration (Nov. 14, 2001) (hereinafter Doha Ministerial). Links to this declaration and supporting documents can be found at http://www.wto.org/English/tratop_e/dda_e/dda_e.htm.

⁸⁸ Doha Ministerial, *supra* note 87, paragraph 2. The focus on developing countries includes an express intention to provide these countries special and differential treatment in the trade agreement. *Id.* at paragraph 13.

the negotiations. A group of member countries known as the G-20 and led by Brazil, India and China has emerged as a major player in the negotiations.⁸⁹

Originally, the Doha Declaration set January 1, 2005 for the completion of negotiations.⁹⁰ With agricultural presenting the main snag, the latest schedule agreed to in Hong Kong in December 2005 proposes a new goal of completing negotiations by the end of 2006, with member countries establishing modalities by April 30, 2006.⁹¹ Modalities are the actual mechanisms that will be used by countries to reduce trade distorting policies. For instance, in the Agreement on Agriculture the use of tariffication and the corresponding reduction in tariff rates are modalities.⁹² As of the writing of this article in mid-April, the conventional wisdom is that members will not meet the April 30 deadline. Further, the April 18 departure of Rob Portman from the post of U.S. Trade Representative to the Director of the Office of Management and Budget has caused many to speculate that the Doha Round may not be completed at all.

The U.S., EU, G20 and Cotton 4 Positions. To jumpstart stalled talks, in October 2005 the U.S. made an aggressive proposal that would eliminate all trade-distorting subsidies and tariffs within fifteen years. The U.S. proposed the following modalities: Within five years, cut its own “amber box” domestic subsidies by 60 percent, cut the de minimus allowances for developed countries from five to 2.5 percent, and maintain the green box criteria.⁹³ The U.S. proposal would rework the blue box to allow for the 2002 Farm Bill countercyclical payments, or as the U.S. Trade Representative calls them “partially decoupled direct payments,” while limiting the blue box to 2.5 percent of the total value of

⁸⁹ Charles Hanrahan and Randy Schnepf, *WTO Round: The Agricultural Negotiations*, Congressional Research Service 16 (Jan. 12, 2006), at <http://www.nationalaglawcenter.org/assets/crs/RL33144.pdf>.

⁹⁰ Doha Ministerial, *supra* note 87, paragraph 45.

⁹¹ WTO, Hong Kong Ministerial Declaration, (Dec. 18, 2005), paragraphs 1 and 10, at http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm.

⁹² Charles Hanrahan and Randy Schnepf, *WTO Round: The Agricultural Negotiations*, Congressional Research Service 19 (Jan. 12, 2006) (hereinafter *Agricultural Negotiations*), at <http://www.nationalaglawcenter.org/assets/crs/RL33144.pdf>; see European Union News Release, *WTO Farm Talks: EU Commissioner Fischler Vows to Plow On* (Mar. 31, 2003), which provides:

Modalities will indicate the general objectives (including numerical targets as well as rules) and the way to achieve them. For example, as regards tariff reductions, a modality would be an average reduction of 36% with a minimum 15% reduction per tariff line to be reached by, for example, 6% reduction over six years.

Modalities also comprise all the detailed rules to be incorporated in the WTO Agreement on Agriculture, be it new rules (as for example the EC is pursuing on export credits, food aid and geographical indications) or amendments to existing rules (as for example on domestic support where the EU wants to include animal welfare under the "green box"), or an effort to reach an agreed understanding, as for example on food safety and the use of the precautionary approach.

⁹³ Office of United States Trade Representative, *U.S. Proposal for Bold Reform in Global Agricultural Trade* (Dec. 2005) (hereinafter *USTR Proposal*), at http://www.ustr.gov/assets/Document_Library/Fact_Sheets/2005/asset_upload_file281_8526.pdf; see Charles Hanrahan and Randy Schnepf, *WTO Round: The Agricultural Negotiations*, Congressional Research Service 6 (Jan. 12, 2006), at <http://www.nationalaglawcenter.org/assets/crs/RL33144.pdf>.

agricultural production in the U.S.⁹⁴ As to other nations, the U.S. proposal targets the EU and Japan for an 83 percent reduction in amber box spending in five years and would eliminate all export subsidies.

Although the proposals concerning domestic support are not that far apart,⁹⁵ those concerning market access, an area that the EU extensively uses to protect its agriculture, are wide apart.⁹⁶ For example, the U.S. proposal cuts average tariffs of all countries by 75 percent where the EU proposal cuts it only by 39 percent with exemptions for a number of sensitive products.⁹⁷ Many in the U.S. agricultural community are seizing on this wide difference and arguing that the U.S. should not give up its right to provide domestic subsidies unless the EU is willing to open its markets.

A group of cotton exporting, least-developed nations in Africa known as the Cotton 4 – Benin, Burkina Faso, Chad, and Mali – proposed “the complete elimination of export subsidies and trade-distorting domestic support by all WTO members.”⁹⁸ In general, the EU supported the idea of a more ambitious and quicker approach to decreasing cotton subsidies but thus far refused to put numbers in its proposal.⁹⁹ The U.S. position has been that cotton should not be dealt with separately from the rest of the agricultural negotiations.¹⁰⁰

The Cotton 4 proposal comes in the context of a continued attack on cotton subsidies, and especially U.S. cotton subsidies, by a number of international nongovernmental organizations and much of the mainstream press. For instance, Oxfam International has criticized U.S. cotton subsidies for undermining rural economies of the poorest African nations by lowering the price of cotton on the world market,¹⁰¹ while the NEW YORK TIMES has featured a number of editorials during the Doha Round urging developed nations to reduce subsidies in order to assist least developed nations.¹⁰²

⁹⁴ *Id.*

⁹⁵ See USTR Proposal, *supra* note 93, at 11 for a table comparing the proposals on domestic support.

⁹⁶ *Id.* at 12.

⁹⁷ *Id.*

⁹⁸ Agricultural Negotiations, *supra* note 92, at 15; see also Charles Hanrahan, *The African Cotton Initiative and WTO Agriculture Negotiations*, Congressional Research Service (Jan. 16, 2004), at <http://www.nationalaglawcenter.org/assets/crs/RS21712.pdf>.

⁹⁹ *Id.*, at 15.

¹⁰⁰ *Id.*, at 16.

¹⁰¹ Oxfam Briefing Paper, *Cultivating Poverty: The Impact of US Cotton Subsidies on Africa* (2002), at http://www.oxfam.org.uk/what_we_do/issues/trade/bp30_cotton.htm.

¹⁰² *E.g.*, Editorial, *Harvesting Poverty: The Unkept Promise*, NEW YORK TIMES (Dec. 30, 2003), which states:

The club of rich nations that wrote the rules of global trade has been aggressive in dismantling barriers when it comes to industrial goods and services, in which they hold a comparative advantage. But they refuse to do the same when it comes to agriculture. Politically powerful farm lobbies in Japan, Europe and the United States are not willing to face global competition on fair terms. So agriculture remains the hypocritical asterisk to our fervent free-trade and free-enterprise creed.

Some critics have retorted that trade liberalization would not necessarily help the poorest countries, and in fact the chief problem experienced by poor countries that limits their exports is that country's own domestic policy, not other countries' subsidies.¹⁰³

Domestic Winners and Losers of Trade Liberalization. A recent study by the Food and Agricultural Policy Research Institute (FAPRI) outlines who it assesses winners and losers would be under the U.S. proposal that generally decreases domestic subsidies that affect production.¹⁰⁴ Livestock producers would generally enjoy increased prices, cotton and sugar producers would face decreased income, and most grain and dairy producers would see little change. Producers, however, will look at more than just the predicted prices under a new trade agreement. Farmers will also assess risks inherent in changing policy – such as the risk that the price predictions will not prove true. Like many people, and especially those with a very great capital investment, producers may be adverse to change.

F. Trade Promotion Authority

Trade Promotion Authority (formerly known as Fast Track negotiating authority, now known as TPA) provides the President the ability to present negotiated trade agreements to Congress for its approval on an up or down vote.¹⁰⁵ Without this authority, Congress has the ability to amend the agreements when they are considered. Such amendments would likely cause a multi-lateral trade agreement to completely unravel. Thus, many observers see the availability of TPA as a key ingredient to U.S.'s involvement in the Doha round. A major complicating factor is that TPA will terminate on July 1, 2007.¹⁰⁶

Part II. How Trade Policy Will Affect Future Farm Policy

The article has thus far discussed the most significant current domestic and trade policy affecting agriculture. The remainder of the article will examine how these different strains of policy may interact in the near future with an eye toward the rural attorney's obligation to counsel their clients.

A. Timing of the next Farm Bill and completion of the Doha Round

A perfect storm may be brewing for United States farm policy in the next year: (1) The 2002 Farm Bill will expire at the end of the 2007 growing season, (2) the President's Trade Promotion Authority is set to expire in July 2007, and (3) the Doha round of WTO negotiations is scheduled to be completed in 2006. In reality, the Doha Round may extend beyond the end of 2006, but many question whether it

¹⁰³ Arvind Panagariya, *Agricultural Liberalization and the Least Developed Countries: Six Fallacies*, a Columbia University policy paper appearing at http://www.columbia.edu/~ap2231/Policy%20Papers/Fallacies_Agriculture.pdf. The paper argues that the poorest countries will actually be hurt by trade liberalization because many of them are food importers which rely on low prices and that many of the countries already have access to the EU market with no tariffs.

¹⁰⁴ Bruce Babcock, *Unfair Trade: Culprits and Victims*, IOWA AG REVIEW 2 (Winter 2006).

¹⁰⁵ 19 U.S.C. § 3803.

¹⁰⁶ *Id.*

will matter once TPA expires,¹⁰⁷ so pressure is exerted on members of the WTO to come to an agreement in late 2006 or early 2007. On the domestic front, this means that Congress needs to determine whether to move forward with the drafting of the next Farm Bill or whether to extend the 2002 Bill and rewrite it after the Doha Round is either completed or completely failed.

The Administration has made clear that it wants to move forward with the drafting of the Farm Bill notwithstanding what occurs with the Doha negotiations. Secretary of Agriculture Johanns made clear in early March that he strongly opposes any extension of the 2002 Farm Bill.¹⁰⁸ Meanwhile many of the commodity groups and general farm organizations that have been relatively happy with the 2002 Farm Bill seek to extend its provisions into at least 2008.¹⁰⁹ The position of interest groups and elected officials creates an interesting juxtaposition. Many of those, such as USDA, that tend to champion free trade and the need for the U.S. to be a good trade citizen, argue that we should not wait for WTO to write the next farm bill and the U.S. should move forward on its own timetable.¹¹⁰ At the same time, a number of groups that tend to be concerned that U.S. policymaking has been abdicated to the WTO actually argue that the U.S. should wait for the conclusion of the Doha Round before writing the next Farm Bill.¹¹¹

A possible reason for this seeming paradox is the fact that most farm groups fear that the next Farm Bill will feature cuts to overall agricultural spending. The result is that farm advocates simply want to extend the relatively generous 2002 Farm Bill as long as possible, while others would like to rewrite the 2002 Farm Bill as soon as possible to seek budgetary savings.

Notwithstanding the different factions' budgetary concerns, U.S. policy makers may see another factor that could determine the timing of the next Farm Bill: additional WTO challenges. The Brazil Cotton decision highlighted some of the vulnerabilities of U.S. commodity programs beyond just the cotton program. The status of the direct payments was put in question when the WTO ruled that they could not be categorized as green box payments; thus those payments would likely be categorized within the amber box. Meanwhile many question how countercyclical payments would be categorized if they were challenged. Given that the payments are based on market prices, it is likely that the counter

¹⁰⁷ Some point out that it is in Congress purview to extend TPA. This paper acknowledges that possibility but does not make that assumption.

¹⁰⁸ Forrest Laws, *Johanns Says No to Farm Bill Extension*, WESTERN FARM PRESS (Mar. 6, 2006).

¹⁰⁹ *The Kiplinger Agricultural Letter* (Mar. 3, 2006). This newsletter predicts that the 2002 Farm Bill will be extended, though not until mid-2007. The article points out that many farm groups would prefer to have the next Farm Bill debated in 2008, a presidential year when federal candidates tend to be more sensitive to certain constituencies.

¹¹⁰ Laws, *supra* note 108.

¹¹¹ American Farm Bureau Position Paper on the Farm Bill, at <http://www.fb.org/issues/backgrd/farmbill06.301.doc> ("AFBF believes it is preferable to negotiate a WTO agreement that accomplishes our objectives with respect to market access and harmonization of domestic support and *then* modify our domestic programs to the extent necessary. This approach avoids undertaking changes that may not help us achieve our objectives in the negotiations. It is important that the negotiations on market access and domestic support be clearly defined **before** we draft a new farm bill or accept significant budget reductions.") (emphases in original).

cyclical payments would be categorized under the amber box. One organization in particular raised the specter of WTO challenges in the corn, cotton and rice programs.¹¹²

Depending on the level of threat of these possible challenges, policy makers may need to ensure that the Doha Round results in an agreement that allows for current domestic policy, for instance ensuring that countercyclical payments are somehow exempted from the Aggregate Measure of Support, or policy makers will need to change the Farm Bill programs to come into line with WTO obligations. The third alternative is to face the possible consequences of a successful WTO challenge.

Which begs the question: What policies could be included in the next farm bill?

B. Provisions of the New Farm Bill

This section considers some possible policy options for the next farm bill in light of trade developments. The logical place to start is to consider current commodity program policy.

Direct payments. Although once thought to be shielded from WTO scrutiny because they were generally decoupled from production, direct payments are no longer shielded from challenge after the Brazil Cotton Case ruled that the fruit and vegetable limitations do have an effect on production decisions and thus cannot be categorized in the green box.¹¹³ A supposed easy way to address the problems with direct payments would be to remove the fruit and vegetable restrictions. This would likely mean that Congress would need to find other ways to assist fruit and vegetable growers.

While direct payments are generally popular with producers and landowners with acreage and yield base, members of the general public can look at these payments with a jaundiced eye. It can be difficult for policy makers to make the typical arguments in support of subsidies for direct payments because: (1) The payments do not necessarily provide a safety net for producers from the inherent risks in farming because the payments are not based on the exigencies of Mother Nature or the market; and (2) the payments provide relatively minimal apparent public benefit by requiring minimal conservation requirements, unlike other conservation based payments such as the Conservation Reserve Program, Conservation Security Program, or Environmental Quality Incentive Program, which require extensive conservation efforts.

Nevertheless, policy makers are sure to look at direct payments as a key component of the next farm bill because producers see these payments as providing them the greatest amount of flexibility in planting decisions.

Countercyclical payments. Many believe countercyclical payments are also likely to fall into the amber box.¹¹⁴ Although one could argue that they do not affect production because the payment does not depend on a farmer producing a crop, they are dependant on market prices and thus likely to fall out of the green box.¹¹⁵ U.S. negotiators, however, have discussed changing the Agreement on

¹¹² Oxfam International, *Truth or Consequence: Why the EU and the USA Must Reform Their Subsidies, or Pay the Price* 15-17 (Nov. 2005), at http://www.oxfam.org.uk/what_we_do/issues/trade/bp81_truth.htm.

¹¹³ See *supra* notes 78 to 85 for a discussion on the how the Brazil Cotton Case considered direct payments.

¹¹⁴ See *supra* note 37 and accompanying text for an explanation of countercyclical payments.

¹¹⁵ Agreement on Agriculture, *supra* note 46, Annex 2, 1(b) provides that a domestic support measure may not be exempt from reduction commitments if it has "the effect of providing price support to producers."

Agriculture in the Doha Round to make it clear that CCP's would be included in a category that would not go toward the Aggregate Measure of Support, such as the blue box.

CCP's have become popular with producers because they do provide the safety net that was lacking in the 1996 Farm Bill. Without changes to the current Agreement on Agriculture, however, the continued use of CCP's would likely be categorized as an amber box domestic support and put the U.S. at an increased risk of WTO challenges.

Marketing loan programs. The payments that clearly fall within the amber box are the marketing loan gains, loan deficiency payments, and commodity certificates.¹¹⁶ Producers have come to rely on these payments for providing a price floor for their commodities. If the Doha Round or the new farm bill do not somehow move direct payments or countercyclical payments out of the amber box, policy makers may need to consider decreasing the amount of marketing loan payments.

Conservation measures. Many observers argue that the answer to the WTO dilemma is to increase conservation spending and decrease spending on commodity programs. One program in particular, the Conservation Security Program,¹¹⁷ might provide a vehicle for increased spending on water quality and soil conservation because it pays farmers to engage in these practices on working lands. CSP was new in the 2002 Farm Bill, and although it has suffered some setbacks because of funding and limited availability, the program continues to be popular among producers because all producers, no matter what they grow, are eligible.

Other conservation programs, such as Environmental Quality Incentives Program¹¹⁸ and the Grassland Reserves Program,¹¹⁹ also provide farmers incentives to engage in sound conservation practices. These two programs, along with CSP, tend to garner more support among producers because they allow the producers to continue using the land to gain income. Another widely used program, the Conservation Reserve Program,¹²⁰ is more popular with environmentalists and outdoor enthusiasts because it takes land out of production and preserves the land almost exclusively for conservation and wildlife purposes.

Rural Development. Beyond conservation, people are also considering whether some of the commodity program resources could be diverted to Rural Development programs. These programs either assist in bolstering the infrastructure of rural communities or helping rural businesses start up. For example, a program in the 2002 Farm Bill called Value Added Producer Grants provides assistance for business planning as well as capital infusion for promising businesses in rural areas.

A particular area that has garnered a lot of interest is helping businesses that produce biobased products, such as fuel or plastics made from corn or lubricants made for soybeans. As domestic policy makers search for ways for the U.S. to become more energy independent, they are looking to promote domestic biobased energy such as ethanol or soydiesel.

¹¹⁶ The U.S. has reported marketing loan benefits in the amber box. Randy Schnepf, *Agriculture and the WTO: Limits on Domestic Support*, Congressional Research Service 6 (May 10, 2005), at <http://www.nationalaglawcenter.org/assets/crs/RS20840.pdf>.

¹¹⁷ 16 U.S.C. § 3838.

¹¹⁸ 16 U.S.C. § 3839aa.

¹¹⁹ 16 U.S.C. § 3838n.

¹²⁰ 16 U.S.C. § 3831.

Most of the rural development programs are safe from WTO scrutiny because they fall squarely in the green box. Certain provisions, however, especially those related to bioenergy, could run into WTO restrictions. For instance, some are concerned that the increased demand for ethanol resulting from a recent federal mandate¹²¹ requiring the petroleum industry to increase their use of renewable fuels from 4 billion gallons a year in 2003 to 7.5 billion gallons a year in 2007 may cause an influx of imported ethanol.¹²² In response to these new imports, some in Congress have considered policies to ensure that the increased demand will benefit domestic producers. Such policies could include requirements that certain refineries or processors use domestic commodities. Policies that expressly prefer domestic products over exports could run afoul of trade obligations.

Payments related to decreased production. Another approach would harken back to pre-1996 policy that used land idling in conjunction with government-owned reserves. Essentially, the program would continue to utilize the non-recourse marketing loans and would accept forfeited grain into farmer-owned storage facilities when the loan rate exceeded the market price.¹²³ The program would pay farmers to store the grain and would release the grain when market prices reached a higher level. To encourage higher prices, Congress would give the Secretary of Agriculture the power to manage supply by requiring farmers who participate in the program to set aside land in times of surplus.¹²⁴ The apparent advantage to this program is that it builds reserves for weather disasters and is designed to let the Secretary use supply management so that the market clears the surplus. Deficiency payments that acted much like the 2002 Farm Bill countercyclical payments provided farmers further protection from low prices. Critics of this approach feared that the reserve served as a drag on the market because global buyers always figured in the excess supply into pricing decisions. Furthermore, some criticized the level of involvement the government had in production decisions.

Certain parts of this approach, such as the target payments, would likely fall into the blue box because the target payments could be conditioned on the producers agreeing to limit their production per USDA's determination. It is less clear how the WTO would treat the government storage program because the system is designed to affect prices by tamping down price spikes and leveling off price valleys.

Buyouts and State Block Grants. Two less likely but interesting scenarios are the use of buyouts or state block grants. One could look to the tobacco buyout in the 2002 Farm Bill for an example of how Congress could decide to eventually discontinue domestic support but compensate landowners and producers who have invested in the sector assuming that the subsidies would continue.¹²⁵ Such an

¹²¹ P.L. 109-058 (Aug. 8, 2005).

¹²² See Joel Severinghaus, *Why We Import Brazilian Ethanol*, Iowa Farm Bureau Federation, at <http://www.iowafarmbureau.com/programs/commodity/information/pdf/Trade%20Matters%20column%20050714%20Brazilian%20ethanol.pdf> (answering the title's question: "Simple economics: U.S. ethanol demand now exceeds U.S. ethanol supply, so imports will make up the difference. And Brazil can produce ethanol from sugarcane more cheaply than we can make it from Iowa corn.").

¹²³ Tracy Bruckner, *et al.*, *Toward a Global Food and Agriculture Policy*, Leopold Center for Sustainable Agriculture (Jan. 2005), at <http://www.leopold.iastate.edu/pubs/staff/policy/globalag.pdf>.

¹²⁴ *Id.*

¹²⁵ See generally Jasper Womach, *Comparing Quota Buyout Payments for Peanuts and Tobacco*, Congressional Research Service (Oct. 14, 2003), at <http://www.nationalaglawcenter.org/assets/crs/RS21642.pdf>.

approach would likely look to acreage and yield bases, much like the direct payment formula, to determine a lump sum payment to producers. Obviously this approach has appeal to those who would like to see the subsidies terminated. It is unlikely that such a buyout would violate WTO obligations because the buyout would not directly affect production decisions.

Another novel idea would take the budget for commodity programs and dispense it to the states in the form of block grants. The states could then decide how to support farmers and rural communities. This approach raises a myriad of question, most significantly: How would the money be divided? Where would the states spend the money? How a WTO panel would view this idea would depend on whether the states decide to implement programs that would affect production or distort world market prices.

C. What does this all mean for practitioners serving those in rural communities and the agricultural and food sectors?

Stay flexible. There has hardly been a time when the future of farm policy has been more in question. Federal budget deficits, uncertain trade obligations, and significant pressure from the mainstream media and others suggest that spending on farm bill commodity programs may be threatened. But as any long-time observer of Washington D.C. farm policy will attest, the commodity programs possess significant momentum. No one can predict whether Congress will simply continue the commodity programs, whether significant resources will be diverted to conservation and rural development payments, or whether the next farm bill will be the beginning of the end of significantly-subsidized agriculture. What is sure is that all of these options will be on the table. As farm clients consider new purchases, investments in rural businesses, and business organization planning, rural attorneys may want to consider whether the decision will commit the producer to a particular approach that may not be viable in the future.

One particularly interesting consideration from the Brazil Cotton Case is that land that was dedicated to base acres may no longer be subject to the fruits and vegetables limitation to maintain eligibility for most program payments. Given that the WTO Appellate Panel found that the inclusion of this limitation barred direct payments from being characterized as decoupled, United States policy makers may consider lifting the fruits and vegetable limitation in an effort to recharacterize direct payments in the green box. This development could open new business opportunities for certain farmers to raise fruits and vegetables on base acres in the future.

Get to know your local Natural Resources Conservation Services officer and Rural Development staff. Many local practitioners know how important it is to engage the county USDA Farm Service Agency offices in an effort to determine the particular details and requirements under the commodity programs. With the 2002 Farm Bill as a harbinger for the future, it is likely that attorneys will need to go next door or to the next county to get acquainted with the USDA Natural Resources Conservation Service office and the USDA Rural Development office. These two agencies spearhead many new programs, such as the NRCS with the Conservations Security Program and Rural Development with the Value Added Producer Grants. As with most new federal programs, kinks need to be worked out as the programs evolve, but those who have a continuing relationship with NRCS and Rural Development will have open lines of communication on the best new options and information.

Investigate New Business Ventures. The need to get to know your local Rural Development staff is based on the skyrocketing interest in start up ventures related to things such as ethanol plants, biodiesel plants, and wind farms. Many of these efforts are partly premised on the idea that most farmers currently have a lot of equity tied up in farmland, equity that could be leveraged to bring new business to the area. Given the increased demand for some of these products, many of the ventures

make good business sense. Some, however, are at best a risky proposition and at worst just a bad idea. Rural attorneys need to pay special attention to issues of control, liability, and profit sharing in these deals that are sometimes pitched as grassroots, farmer operations, but are actually black holes for farmer's equity.¹²⁶

Consider Payment Limits Impacts. Up until the last two years, very few producers in certain parts of the country, such as the upper Midwest, found themselves bumping up against statutory payment limits. That changed in 2005 with the large LDP's. For instance, for the first time it was not uncommon for a Central Iowa farmer to exceed the \$75,000 limit for market loan gains and LDP's. Setting aside the controversy surrounding the appropriate level and whether to allow exceptions, it is very unlikely that farms will get smaller or that the payment limits will get larger. This means that more and more producers in different parts of the country will be looking for legal advice to ensure that they are not violating the federal law and regulations.

Conclusion

Trade policy has always played a major role in the evolution of the U.S. agricultural sector. With the 1994 Agreement on Agriculture resulting from the WTO Uruguay Round, trade policy started to play an even more important role in domestic farm policy. As we move deeper into 2006, the intersection of these two policies becomes more prominent with the negotiations of the Doha Round that may result in a new WTO agreement on agriculture, and Congress considering what to do as the 2002 Farm Bill expires in 2007. If the Doha Round fails, Congress will need to consider the implications of the Brazil Cotton Case and whether current policy may open the U.S. to more WTO challenges. No one can predict the result of this geopolitical chess match, but one can assume that the agricultural policy landscape is poised to change in the next few years. These changes will ultimately affect the rural attorney's practice because they could significantly change the rules of the game for the attorney's clients.

¹²⁶ A small book discussing the opportunities and pitfalls of certain producer marketing may be downloaded from the National Agricultural Law Center website. DOUG O'BRIEN, ET AL. THE FARMER'S LEGAL GUIDE TO PRODUCER MARKETING ASSOCIATIONS (2005), at <http://www.nationalaglawcenter.org/research/#producermarketing>.