The 2007 Farm Bill and the WTO Trade Negotiations
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The House of Representatives passed its farm bill in July, the Senate will take up its version this fall, and a deal is starting to emerge in the WTO agricultural trade negotiations. Unfortunately, the direction taken in the House farm bill is threatening to undermine successful conclusion of the trade negotiations.

Much good has been agreed already in the trade negotiations. Consensus has been reached to ban agricultural export subsidies and to reduce import tariffs and domestic support linked to the production of specific commodities. While there is still some disagreement concerning the depth of the cuts and how many exceptions should be allowed for politically sensitive commodities, the differences are narrowing rapidly, and an agreement before Christmas is starting to appear possible.

The House farm bill sends a message to the rest of the world that the United States is not very serious about the trade negotiations. In fact, the House action is seen by the rest of the world as yet another example of the United States’ arrogance and unilateralist approach when it comes to international relations.

When several years ago Brazil took a case to the WTO alleging that the U.S. cotton support program violates international trade law, it also took a case to the WTO against the EU’s sugar policy. Both the US and the EU lost their cases. What is different is the EU immediately set about reforming its sugar policy, while the U.S. thumbed its nose at the WTO and the rest of the world. The U.S. was a year late in repealing a specific cotton export subsidy and has not yet changed the cotton support program to bring it into conformity with the WTO cotton decision. The House action did nothing to correct this or to reduce the vulnerability of other commodity programs based on marketing loans, LDPs, and counter-cyclical payments.

In addition, the House farm bill:

- Raises loan rates and target prices for some commodities.
- Fails to repeal the fruit and vegetable exclusion to qualify for direct payments (also mandated in the WTO Brazil Cotton Decision).
- Extends authority for export subsidies, e.g. Export Enhancement Program.
- Increases sugar support and import protection.
- Mandates Country of Origin labeling.

Each of these provisions entails potential WTO problems. Together they undercut the credibility of the U.S. trade negotiators.
The objective of the WTO trade negotiations is not to reduce the overall support given to agriculture, but to reduce the share of that support that is linked to production of specific commodities, i.e. to move support from commodity-specific to more generic forms of support, e.g. direct payments, conservation, agricultural research or rural development. The EU has made real reforms in its agricultural policy, making it much less trade-distorting. And it is continuing to reduce commodity-specific supports, shifting the money to per-acre payments with strong conservation cross-compliance required. The U.S. started down this path in the 1985 Farm Bill, but reversed course in the 2002 Farm Bill. The rest of the world is waiting to see which way the U.S. goes in the 2007 Farm Bill.