

How do domestic food programs and renewable fuels fare under WTO?

In our ongoing discussion of the World Trade Organization (WTO) colored boxes that govern how the impact of various domestic agricultural support policies on agricultural trade are seen—distinguishing between acceptable policies and unacceptable ones—there are two others that we have briefly mentioned but not fully discussed: domestic food programs and, in the US, the Renewable Fuels Standards (RFS) program.

Three of the major domestic food programs in the US are the Supplemental Nutrition Assistance Program (SNAP), the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and the National School Lunch Program (NSLP). All three of these nutrition programs along with numerous smaller programs are administered by the United States Department of Agriculture and are a major part of the periodic farm bills.

Expenditures for these programs are reported to the World Trade Organization (WTO) as green box programs because in part they are not linked to current production and thus do not encourage greater production or output than the market is prepared to absorb, consequently they do not result in lower market prices.

But even more important than any potential market impact is the humanitarian aspect of feeding programs. It would be very difficult for an international organization like the WTO to argue against domestic feeding programs when the United Nations has declared that the Right to Food is an essential human right.

But even in the absence of an international declaration, economists from Adam Smith forward have recognized that food is a necessity—Smith called it a “necessary”—and thus different from other products like automobiles and video games.

The major policy issues over domestic food programs in the US are not the trade box they belong in but rather the level of funding and the rules for eligibility for these programs. These issues come to a head each time Congress begins to debate the coming farm bill and 2018 is no different from other farm bill years.

Now, let’s turn our attention to the Renewable Fuels Standards (RFS) program which was first adopted in 2005. The RFS program require a certain quantity of bio-based fuel, initially ethanol derived from corn, to be blended into the nation’s transportation fuel supply. The ethanol mandate was pursued by corn farmers beginning in the late 1990s when corn prices were extremely low and ethanol was seen as a way to utilize surplus corn and raise the price of corn and thus the price of all crops that compete with corn for acreage.

We have not seen any discussion of the status of the RFS under WTO trade rules.

Unlike domestic food programs, the RFS does not rest on moral grounds. When prices were high during the initial years of the boom in the building of ethanol plants, corn for ethanol programs were blamed for the rapid increase in the price of corn and the increase in the number of hungry people elsewhere in the world.

While these two programs seem very different from each other, they function similarly from an economic perspective. Both are demand enhancement programs—they increase demand for agricultural products, which increases their prices. And when the programs are initially put into effect, they have that result; they take excess supplies off the market and prices increase.

This clearly happened in the years following the 2005 adoption of the RFS when corn prices began to increase quite rapidly. The price increases encouraged farmers to bring extra

acreage into production and to eagerly use yield-increasing technologies, and as long as the demand for corn increased as fast as the increase in production, prices stayed well above historic levels.

But demand enhancement programs work to support prices only as long as the demand continues to increase. In that way demand enhancement programs are much like flood control structures (dams).

When Harwood was an undergraduate he took a course in conservation. As a part of that course, the professor talked about dams and their role in providing both protection from floods and as a location for aquatic recreational activities. He then asked the class how they would prioritize those two uses.

Harwood was quick to answer that we should do both. The professor took a pause and explained that all the water that is retained behind a dam for the purpose of aquatic recreation is no different from concrete when a heavy rainfall comes and the top of the dam is breached; the towns downstream are left unprotected.

The same is true with demand enhancement programs. All the bushels of grain that are utilized by both domestic food programs and ethanol programs are like recreational water held behind a dam, when the flood (of production) comes they do nothing to ensure long-term profitable prices.

Maybe that is why trade rules pay little attention to demand enhancement programs. Once the “new” demand is fulfilled, enhancement demand programs become factored into a continuing stable demand.

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