PolicyPennings by Dr. Daryll E. Ray

A 60% reduction in amber box payments? - Don't worry, Be happy!

US farmers should not interpret the suspension of World Trade Organization (WTO) negotiations earlier this summer as a signal that they can put trade issues out of their mind and move on to other more pressing policy issues like the 2007 Farm Bill or even a one or two year extension of the 2002 bill—quite the contrary. This interlude provides an opportunity to step back and look at the anatomy of the proposals and what they may mean for the long-term shape of the US agricultural program.

US trade officials seem to be saying one thing to trade negotiators from other countries and another thing to US farmers. In pressing for further concessions on tariffs and gaining access to international markets, US officials and US based supporters of the WTO process emphasize the size of the cut the US is offering—60 percent in the amber box Aggregate Measure of Support, from $19.1 billion to $7.6 billion. The US is also offering to cut blue box payment limitation from 5 percent of the value of agricultural production to 2.5 percent.

In talking to US farmers they seem to change their tune. In the background you can almost feel the Jamaican rhythm with Bobby McFerrin singing the Bob Marley tune "Don't worry, Be happy" as some of the strongest supporters of the trade deal tell US farmers that, given the unutilized capacity, the 60 percent is really 20 percent. "Don't worry, Be happy."

Much of the US amber box support money can be shifted out of the amber box and into the green box. There it can be used for conservation, environmental and rural development programs as well as subsidized income insurance and direct payments that are not linked to the production of any commodity. "Don't worry, Be happy."

The reductions do not take place all at once. The 60 percent reduction is to be phased in over 5 years, with a 5 year break. It is not until the last 5 years of the 15 year program that all trade distorting subsidies have to be shifted out of the amber box and into non-trade distorting measures. "Don't worry, Be happy."

In addition, reducing the cap on the blue box—the hope is to be able to shift Counter-Cyclical Payments into the blue box—from 5 percent to 2.5 percent is no big deal. After all, these payments go to crop farmers who account for one-third of the value of production while the cap is based on the value of total agricultural production so the amount available is still pretty high. "Don't worry, Be happy."

Sugar beet producers in the rich land of the Lake Agassiz basin that surrounds the Red River in eastern North Dakota and western Minnesota may be able to survive trade liberalization. But to do so, the land prices will have to be much lower than they are at present. "Don't worry, Be happy."

Corn and soybean farmers in the Midwest have everything to gain from a trade deal. After all as the countries with high population growth experience the economic growth that results from trade liberalization, their citizens will begin to demand more protein in their diet. With increased market access, that protein will come from animals fed with US produced corn and soybeans. "Don't worry, Be happy."

"Don't worry, Be happy" does indeed come to mind when folks make statements about trade rule implications, but so do words-of-comfort-and-consolation.

A couple of weeks ago we looked at the promises and perils of market access suggesting that if history is any indicator of what might happen, US farmers may not want to bet the farm on market access. This article is available online at: http://www.agpolicy.org/articles06.html.

In the next several columns we will look at each of the issues we have just raised. The question is: Would crop farmers really be singing "Don't worry, Be happy" or singing along with Tennessee Ernie Ford's rendition of Merle Travis' "You load sixteen tons, whadaya get? Another day older and deeper in debt"?

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