PolicyPennings by Dr. Daryll E. Ray

Portman calls for cutting US farm payments by half or more

Reading US Trade Representative Rob Portman's October 12, 2005 press briefing is like listening to the dialogue of a Saturday night poker game, except that for US farmers the consequences are serious. Portman said, "The expectation as you know was that there would be a 50 percent cut in AMS (Aggregate Measure of Support - a measure of the government's financial support of a sector, in this case agriculture). They challenged us to make a 55 percent cut last week, and the week before. We made a 60 percent cut. . . . The truth is that we have spent up to $17 billion in the amber [box] (one of the categories used in the trade negotiations process to signal the level of acceptability of various means of support - amber signaling caution). We can only spend $19.1 billion, that is what we are allowed. A 60 percent reduction even from 17 means it goes down to $7.6 billion. That is a 46 percent cut in muscle and bone. There is no water there. Unlike on the tariff side where we are cutting from bound rates, I am telling you we are cutting from applied rates here, we are cutting into our programs. The Secretary of agriculture said yesterday (October 11) that he cannot operate the programs at that amount. Why? Because the marketing loan program which is the great bulk of that as you know, does not fit within the $7.6 billion left over in amber, so it forces us to reform our farm programs."

Given that perspective it should come as no surprise that in an October 9, 2005 letter to Agriculture Secretary Johanns, Senator Saxby Chambliss, R-GA, Chair of the Senate Committee on Agriculture, Nutrition, and Forestry, wrote "Let me be clear, the Congress will be writing the next farm bill in 2007, and I am deeply concerned the Administration is using the current [trade] negotiations to reshape farm policy without the full input of Congress and grassroots support. . . . I am looking forward to a successful conclusion to the negotiations, but not at the risk of a bad agreement that lacks the support of farmers and ranchers in the United States." (A copy of the full letter is available on the web at http://agriculture.senate.gov/wtosc_usda.pdf.) Chambliss made his comments before Portman's press briefing.

Most of the cuts that Portman is talking about are part of pillar two, the elimination of trade distorting domestic support. With regard to the amber box, if we are reading Portman's statement correctly, the 60% reduction would be applied to the $19.1 billion allowance under current trade rules, limiting payments to $7.6 billion. In addition product-specific caps would be based on payments made during the 1999-2001 period.

Portman is talking about moving the countercyclical payments, which replaced the ad hoc emergency payments that were voted by congress, out of the amber box and into the blue box. The blue box is used for payments that are paid for limiting production or are paid on 85 percent or less of a base level of production. The long term goal for blue box payments is to transition them to non-trade-distorting green box payments.

At the same time that Portman is talking about shifting a potentially large payment into the blue box he is proposing a reduction in the size of the blue box. Again the Saturday night poker game analogy, "the framework agreement in July 2004 established a 5 percent of production cap in the blue box. Right now there is no cap in the blue box. So to be more aggressive there, we said we'll do 5 percent, plus we'll do 50 percent more, we'll do 2.5 percent in blue.

"Again the program that we would consider blue box program, which would be our countercyclical program, can not fit within that number, although current spending is about $5 billion, and the blue box number is about $5 billion, the countercyclical program is authorized at $7.6. And when prices are low, there is more spent there. . . . But the truth is, these are real cuts," said Portman. It seems to us that what we have here is Portman trying to put the proverbial ten pounds of flour in a five pound sack.

In the face of trade proposals like these, it is not surprising that Chambliss has argued that (1) there be no net reduction in the farm safety net, (2) the new blue box should accommodate the US countercyclical program, (3) the period of implementation be longer than the five years proposed by Portman, and (4) product specific caps should not be placed on either the amber or blue box support. In summary, Chambliss wrote, "A final agreement should maximize protection for farmers and ranchers while providing flexibility for new mechanisms to maintain the farm safety net."

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