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## The new United States Farm Bill and its implications for the Caribbean

The new United States Farm Security and Rural Investment Act of 2002 (the new Farm Bill) is likely to have a significant negative impact on Caribbean agriculture and economies. The Bill is expected by many to undermine fledgling Caribbean agriculture, particularly the nascent recovery in commodity production and exports in some countries. But out of adversity can come opportunity. Therefore, the Bill is probably a wake-up call for Caribbean agricultural producers and policy makers to undertake the necessary reforms and restructuring of the sector to develop competitive niches in the market.

Ironically, the Farm Bill was signed into law on 13 May this year on the heels of United States commitment at the World Trade Organization (WTO) Summit in Doha on the need to reduce trade distorting agricultural support. This is seen as no small irony by developing countries. In fact, the Farm Bill was a major reversal of former President Bill Clinton's 'Freedom to Farm Act' of 1996. The Freedom to Farm Act sought to end taxpayer-funded subsidies to United States farmers. However, shortly after the implementation of the Act, commodity prices began a freefall and have remained sluggish. In light of this, the new Farm Bill, according to its proponents, is aimed at promoting a stable and sustainable farm sector to provide an adequate and safe supply of food at reasonable prices in an environmentally responsible framework.

Some United States trade officials have claimed that the Farm Bill was passed in exchange for congressional approval of Trade Promotion Authority (TPA) for President Bush. Undoubtedly, this kind of swap agreement is a likely part of the story, especially given the strength of the Farm Lobby in Congress and the courting of support for the mid-term elections in November. But the exchange agreement is not the whole, nor even the major part of the story. The reality is that the United States Administration has taken a more protectionist stance in its overall trade policy. Administration policy is informed by a number of trade officials who view the United States as being locked in a competitive or rather mercantilist battle with other trading nations. The proof of the pudding is in the eating, and it remains to be seen if the United States will use its TPA, as is claimed, to galvanise liberalisation and free trade in the WTO and prospective Free Trade Area of the Americas (FTAA).

In this Issue Brief, we analyse the major components of the Farm Bill, and examine its implications for Caribbean economies.

## **An Overview of the Farm Bill**

The Farm Bill is a comprehensive and integrated package combining commodity support programmes, conservation systems, trade promotion, nutritional programmes, credit facilities, rural development and research and development. Indeed, the scope of the Bill makes it a forbidding piece of legislation. What then are the key aspects of the Bill that will impact Caribbean agriculture? These main aspects can be found under the leading areas of support outlined above.

Commodity support includes three types of crop subsidy payments. These are the fixed decoupled payments, the loan payments and the new counter-cyclical payments. The fixed decoupled scheme provides a subsidy for each crop grown in the reference period. This scheme is similar to the Agricultural Market Transition Act (AMTA) payments but the subsidies are set higher than the current AMTA rates. Moreover, the scheme is more liberal in that payments are now provided for soya beans and minor oilseeds. Meanwhile, loan payments fall for the most part under what are called loan deficiency payments (LDP). Payments to farmers are calculated as the difference between a fixed price (the loan rate) and a local market price that is estimated by the United States Administration for each county where the given crop is produced. Where the market price is below the loan rate, farmers are guaranteed a direct subsidy to make up the difference. Importantly, LDP is a counter-cyclical support mechanism rising when prices are low and declining as prices increase.

The new counter-cyclical payments are more all-embracing. They entail the payment of subsidies when the overall income of farmers for the selected crops (i.e. the market return plus the fixed decoupled payment plus the LDP) falls below a certain target price. Importantly, the new counter-cyclical payments strengthen protection by guaranteeing that extra finance provided by previous ‘emergency’ payments will be available each year. This means that these payments will not really be made only for emergencies.

Previously, producers received direct payments based on the areas planted in the mid-1990s and yields obtained in the early to mid-1980s. Under the Farm Bill, however, the eligible areas for direct payments are now based on the 1998-2001 areas actually planted and eligible yields are now 93.5% of 1998/2001 yields for counter-cyclical payments. This will lead to a significant increase in the outlays on fixed and counter-cyclical payments, thereby providing substantial protection for farmers. Table 1 below gives an indicative picture of the subsidies provided above the fixed rate benchmark.

**Table 1: Subsidy Rates for Farmers under the Farm Bill**

	2002/03 US \$ /bushel <i>(minor oilseeds &amp; cotton: per lb; rice: per cwt)</i>			Equivalent \$/metric ton		
	Fixed rate	Loan rate	Target price	Fixed rate	Loan rate	Target price
Maize	0.28	1.98	2.6	11.02	77.95	102.36
Sorghum	0.35	1.98	2.54	13.78	77.95	100
wheat	0.52	2.8	3.86	19.11	102.88	141.83
Barley	0.24	1.88	2.21	11.02	86.35	101.51
Oats	0.024	1.35	1.4	1.65	93	96.45
Soybeans	0.44	5	5.8	16.17	183.72	213.11
M. oilseeds	0.008	0.096	0.098	17.64	211.64	216.05
U. cotton	0.0667	0.52	0.724	147.05	1146.39	1635.81
Rice-	2.35	6.5	10.5	51.8	143.3	231.49

Source: Farm Security and Rural Investment Act of 2002", Conference Report, House of Representatives and Senate Notes: Arable rates. The "fixed rate" represents a payment level. Both the "loan rate" and "target price" are target levels of return to be attained as necessary by subsidy payments.

Table 1 above is indicative of the substantial returns to farmers under the Farm Bill. The difference between the fixed rate or base rate payment and the loan rate and target price, gained by subsidy payments, is significant for each crop. For example, although the fixed rate for rice is only US\$2.35 per cwt., the loan rates and target rates are US\$6.50 and US\$10.50 per cwt., respectively. The average difference between the fixed rate and the loan rate for the nine crops in the above table is \$1.98 per lb/cwt. or \$203.77 per metric ton, a huge margin indeed. Meanwhile, the average difference between the fixed rate and the target price is \$2.83 per lb/cwt. or \$79.49 per metric ton.

The Bill has also strengthened conservation and environment programmes through increase in funding, expansion of the current programmes and new incentive mechanisms. Annual funding for the Environment Quality Incentives Programme has been increased from \$200 million to \$1.3 billion. A new Conservation Security Programme and Grassland Reserve Programme has been introduced with funding over the six-year period projected at \$2 billion and \$254 million, respectively.

The United States Congress estimates the overall cost of the Farm Bill at \$296.5 billion over six years. This represents an additional spending of \$51.7 billion. The bulk of the increased spending will be allocated to the commodity programmes and to conservation. Notably, average commodity spending for the period 2003-2007 is expected to rise by some 80% from \$9.3 billion per year to \$16.7 billion. Meanwhile by 2007, conservation programmes are projected to increase by 100% (from \$2 billion to \$4 billion) under the Federal Agriculture Improvement and Reform (FAIR) Act of 1996.

However, given the propensity of the Bill to boost production, thereby causing price-depressing effects on world markets, budget analysts predict that the actual cost will be higher. Estimated spending on commodities is expected to be in the range of \$15 -\$20 billion per year for crops alone. This represents a 70% increase (an 80% increase according to some analysts) on the amount projected at the end of the FAIR Act. In this respect, the Farm Bill represents an important reversal of the movement towards a market-oriented farm policy structure embodied in the FAIR Act.

Interestingly, although the United States has lamented high European Union subsidies to its farmers, the Bill is expected to push United States subsidies per farm to between three and four times European Union levels. In the WTO, the limits are set at \$60 billion for seven million European Union farmers and \$19.1 billion for two million United States farmers. However, the intention of the WTO is not so much for these countries to stay within their targets, but that they move steadily towards reducing farm support. Unfortunately, this principle (liberalisation of the farm sector) has been compromised in the Farm Bill.

The Farm Bill contradicts the United States' pledge to push for the further liberalisation of agriculture within the WTO. It keeps United States farm support technically within the US\$19.1 billion limit set by the WTO Agreement on Agriculture (AOA). But the Bill contravenes the "peace clause" of the AOA and the spirit and intent of the Agreement. The peace clause (Article 13) permits members to challenge support and subsidies that do not conform to the AOA during the implementation phase of the AOA, that is up to the end of 2003. But countries bringing an action would have to establish that United States spending exceeds 1992 level. This would be virtually impossible since WTO members were not required to report their levels of support in 1992. The United States could thus get off on a technicality.

In spite of the potential difficulty, the European Union, Brazil and Argentina, among other countries, are preparing to take action against the United States in the WTO. Of crucial importance is that 63% of the exports of Latin American and Caribbean countries consists of agricultural products, 36% of which goes to the United States market. Brazil has complained that it could lose almost US\$10 billion in exports to third countries over the next four years, while Argentina has projected annual export losses of about \$1.5 billion.

Moreover, criticism of the Bill has come from a number of sources. Economics Nobel Laureate Joseph Stiglitz has described the Bill as "the perfect illustration of the Bush administration's hypocrisy on trade liberalisation."<sup>1</sup> The Backgrounder Magazine, noting that the Farm Bill will mainly benefit large United States agribusiness firms and trading firms such as Monsanto and Archer Daniels Midlands, has described the Bill as "Robin Hood in reverse" – robbing the world's poor to enrich American agribusiness. For instance, the United States is the world's largest exporter of cotton, although it is an inefficient and high cost producer. With subsidies of \$3.4 billion, United States farmers get about 70 to 75 cents per pound for cotton, roughly twice the world market price. Meanwhile, in Mali, where cotton accounts for about half of export receipts, farmers can expect a 10% fall in already weak market prices this year. This is due in no small way to the price depressing effects of United States subsidies.

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<sup>1</sup> Nicole Winfield, "Developing countries tell the US, European Union to stop subsidies, open markets", Associated Press Worldstream, 11 June 2002.

## The Impact of the Farm Bill on the Caribbean

The Farm Bill is expected to have a negative impact on Caribbean agriculture from three main channels. In the first place, the hiking of market distorting subsidies is expected to provide an artificial boost to the competitiveness of United States farmers, allowing them to displace similar Caribbean produce in the United States market. This would be applicable particularly to cotton, sugar and rice, traditional Caribbean products that have entered the United States market. Secondly, the Farm Bill is projected to lead to price-depressing effects on the world market, as subsidised United States producers will be able to flood markets with cheaper products.

The United States accounts for about 20% of world agricultural exports. It is therefore a price-maker in the international market. Analysts have estimated that the Bill could lead to a fall of about 10% to 15% in the prices of agricultural commodities on the world market. Thirdly, and related to the second point, the United States farm exporters will be able to displace domestic producers in the Caribbean by providing cheaper agricultural produce to the regional market. It should be noted that this trend has already been in train with liberalisation in the region, but the Farm Bill is expected to accelerate the process, hastening the decline of regional agriculture.

Jamaican Agriculture Minister Roger Clarke has noted that cheap imported foodstuffs exacted a heavy toll on Jamaican farmers, unable to compete with low-cost subsidised products from the United States. But the net effect of the Bill on the region would depend on its impact on the food-importing countries versus its impact on the food-exporting countries. Food-importing countries, such as Antigua and Barbuda, are likely to benefit from cheaper food imports, but food-exporters such as Guyana could experience lower production and exports.

Further, if the Farm Bill were to lead to greater protectionism in the European Union and other countries as a counter-position, this could have a substantial negative impact on Caribbean agriculture. Any hiking of tariffs or increase in subsidies for European Union agriculture could have a negative impact on Caribbean exports to European Union. The Farm Bill holds the potential to trigger another trade war between the European Union and the United States, coming as it does on the heels of the escalation in United States steel tariffs to 30%. If a trade war breaks out, developing countries such as the Caribbean will be caught in the crossfire of protectionism.

An assessment of the United States relative position in the world in some of the major supported commodities will give an indication of likely negative effects for the Caribbean. The United States has a share of roughly 12% of world exports of rice, which is significant enough to affect world market prices. In 2001-2002, for example, the United States exported 2.8 million tonnes of rice, an increase of 50,000 tonnes from the previous year. CARICOM rice production and export expanded during the 1990s, buoyed by the recovery of the sector in Guyana. The Farm Bill is expected to enhance the capacity of United States farmers to penetrate the Caribbean rice market and to displace regional producers such as Guyana and Suriname.

Sugar exports from the Caribbean have been variable over the 1990s. The sugar industry is on the decline in Barbados and St. Kitts and Nevis but has made a healthy recovery in Guyana. The Farm Bill is expected to boost United States production thereby dampening Caribbean exports to the United States market. Even though Caribbean producers are granted quotas under

the Caribbean Basin Recovery Act, it is not expected that the United States Government would maintain these quotas if the domestic market is saturated as a result of higher output by United States producers on account of the Farm Bill. Any lowering of quotas could squeeze Caribbean sugar receipts since the prices Caribbean countries get on the United States market are higher than world market prices.

Apart from the traditional commodities, the Bill could have a negative impact on Caribbean fruits and vegetable production and trade. The Bill provides an 80% increase in spending for soil conservation programmes that will benefit livestock and fruit and vegetable farmers. These programmes fall under the “green box” type non-actionable subsidies of the AOA. What this means is that fledgling fruit and vegetable farmers, especially for vegetables such as carrots, lettuce and tomatoes could be wiped out by cheaper United States imports. The longstanding irony is that in tourism, a sector where visitors treasure local culture and cuisine, the bulk of the food supply is imported from the United States. To their credit though, countries such as Jamaica (E-basket Programme<sup>2</sup>) and the Organisation of Eastern Caribbean States (OECS) have been trying to increase the supply of fresh fruits, vegetables and meat products to the sector. The reality, however, is that these efforts are likely to be undermined as local suppliers are displaced by cheaper imports from the United States as a result of the Farm Bill. This calls for a rethinking of whether agricultural liberalisation in the context of hefty price supports in countries of the Organization for Economic Cooperation and Development (OECD) is the best road for the Caribbean to follow.

The Farm Bill has to be considered from the perspective of food security and the sustainability of rural livelihoods in the Caribbean. Generally, the region is a relatively food-insecure one with high food import bills. Per capita food imports for seven CARICOM countries averaged US\$209 in 1995. Per capita food imports ranged from a high of US\$412 in Antigua and Barbuda to a low of US\$57 in Guyana. Falling in between the extremes, were Barbados US\$389, Jamaica US\$156 and Trinidad and Tobago US\$171.

The Farm Bill, in the short term at least, could have some beneficial effects. Consumers are expected to benefit from lower prices for wheat, soya products and corn. But in the longer term, by increasing the demand for land, the Bill could lead to the capitalisation of the subsidies in land prices. This could raise production costs and supply of these and other products, resulting in higher costs for Caribbean consumers.

### **The Way forward for Caribbean Agriculture**

In a real sense, the Farm Bill is a wake-up call for regional agriculture. For a long time policy makers and producers have engaged in a self-fulfilling prophecy that the industry cannot compete in local and international markets. Although it is beyond dispute that many of the commodities have not fared well in the market place, there is no reason why competitive niches cannot be developed in segments of the market. The Farm Bill demands an articulate response to agricultural reform and restructuring based on a strategy of domestic food security and competitiveness in local and international markets. In the short term, however, regional

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<sup>2</sup> The E-basket programme in Jamaica uses information technology to match farm output of fruits and vegetables with demand by local hotels to prevent bottlenecks in supply and ensure sustainable farm incomes.

governments should seek a guarantee from the United States Government that benefits under trade arrangements with the United States will not be eroded. But, even with the maintenance of trade preferences, the price depressing effects and the displacement of local production are still potential impacts of the Farm Bill.

On the negotiation front, Caribbean governments should explore the use of safeguard mechanisms in the WTO if commodity prices fall too low or if there is significant displacement of domestic production due to Farm Bill subsidies. But in any event this could only be a temporary measure. In the medium to longer term, there is need for a radical transformation of the agricultural sector in the region. The strategy should be based on productive and competitive systems within a framework of food safety and security and sustainable rural livelihoods. From the productivity and efficiency standpoint, there is need for improved use of appropriate technology, particularly safe biotechnology to develop new and improved crop varieties that are suited to Caribbean conditions. Farm husbandry and management systems should also be upgraded with the use of information technology for record keeping, inventory management and marketing. There is need for renewed focus on human resource development, especially entrepreneurship and training for higher value added activities such as food processing.

## **Conclusion**

The United States Farm Bill is a reversal of the United States active support for trade liberalisation. The very liberal commodity subsidies and other support will give United States producers a substantial advantage in their home and world markets. But probably more important for Caribbean agricultural producers is the potential for significant price depressing effects for some of their major commodities, such as sugar and rice as well as fruits and vegetables. The Bill is expected to undermine the recovery in the sugar and rice sectors in Guyana, for example. The region might also have to contend with the impact of potential retaliatory subsidies by the European Union. This could further undermine its already precarious position in these markets for commodities such as sugar and bananas.

But more than its impact on the trade balance, the Farm Bill has potential for undermining the rural livelihoods through its adverse impact on the domestic fruit and vegetable market. This could lead to an aggravation of rural poverty as local small producers are forced out of production by cheap United States imports. This contradicts the goal of regional governments in promoting sustainable rural communities.

Further, if the FTAA process were to proceed as scheduled, the Farm Bill would give the United States a significant competitive head start in agriculture. The Bill would reinforce the position of United States farmers given their significant economies of scale and productivity advantages. Caribbean countries would have to negotiate hard to prevent any fast-track liberalisation of their agricultural sector. In this respect, regional negotiators should strive to have further liberalisation start from the bound tariffs which are higher, rather than the actual tariffs, as the latter will favour the United States at the expense of the Caribbean.

The crucial thing for the region is that the Farm Bill is a wake-up call. This reinforces the maxim that positive change usually comes out of adversity. Caribbean producers need to take the message of the Bill seriously by transforming their production systems to ensure dynamic and competitive niches in the market place.