



**AGRICULTURE AND TRADE POLICY
BACKGROUND NOTE**

UNITED STATES OF AMERICA



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INTRODUCTION

Agricultural sector plays an important role in the US. This brief addresses main issues related to the overview of agricultural sector, domestic support, and trade policy, discussion of policy changes, recent reforms and developments in the US. The last section presents an example of the WTO dispute process regarding the US domestic subsidy.

OVERVIEW OF AGRICULTURAL SECTOR

The overview of the US agricultural sector is summarized in Table 1. As can be seen, the share of agricultural population in the total population is quite low (1.56 %) and the share of agriculture in the GDP is also low at around 1 %. However, total agricultural value added is quite high (almost US\$ 159 billion).

Table 1. Overview of Agricultural Sector in the US, 2010

Total Population	315.791.000
Agricultural Population	4.941.000
Share of Agricultural Population, %	1.56
Total Land Area, ha.	914.742.000
Agricultural Land Area, ha.	403.451.000
Share of Agricultural Land Area, %	44.10
GDP, current US\$ (1000000)	15.094.000
Agricultural value added, current US\$ (1000000)	158.800
Share of Agriculture, % of GDP	1.05

Source: FAOSTAT, 2012; WDI, 2012.

Production

The US is major producer of many commodities in the world. Major commodities produced in the US in terms of quantity are maize, soybeans, and cow milk (Table 2).

Table 2. Main Production of the US, 2010

Commodity	Quantity (MT)	Value (Int \$1000)
Maize	316165000	26714587
Soybeans	90605500	23575706
Cow milk, whole, fresh	87474400	27161602
Wheat	60062400	8593450
Sugar beet	29060800	1250021
Sugar cane	24820600	760853
Potatoes	18337500	2886295
Chicken Meat	16338100	23272104
Tomatoes	12858700	4752113
Cattle Meat	11212000	30287828

Source: FAOSTAT, 2012.

Trade

The US is the main exporter of many agricultural commodities in the world. Major export items of the US in terms of value are soybeans, maize, wheat and cotton, while the major import items are distilled beverages, wine, coffee, beer, and natural rubber (Tables 3-4).

Table 3. Main Exports of the US, 2010

Commodity	Quantity (MT)	Value (Int \$1000)
Soybeans	42350556	18586268
Maize	50906268	10110465
Wheat	27629318	6751010
Cotton lint	2962304	5747637
Pig meat	1240779	3531197
Chicken meat	3297309	3407812
Cake of Soybeans	8354882	3102601
Beef&Veal	629750	2871916
Rice - total (Rice milled equivalent)	3782510	2354057
Almonds Shelled	396069	1807378

Source: FAOSTAT, 2012.

Table 4. Main Imports of the US in 2010

Commodity	Quantity (MT)	Value (Int \$1000)
Bever. Dist.Alc	1392186	5741557
Wine	938418	4461891
Coffee, green	1280298	4173489
Beer of Barley	3185029	3748459
Rubber Nat Dry	891688	2883300
Beef&Veal	681196	2472086
Pastry	689273	2253477
Bananas	4114891	1974545
Fruit Prp Nes	1155237	1902894
Tomatoes	1532492	1879535

Source: FAOSTAT, 2012.

AGRICULTURAL SUPPORT

According to the producer and consumer support estimates of OECD (2012a-b), total support estimate is approximately US\$ 147 billion in 2011. This value consists of a producer support estimate (PSE) (US\$ 30.5 billion), a consumer support estimate (CSE) (US\$ 35.7 billion), and a general service support estimate (GSSE) (US\$ 75.4 billion). The reform process of the US agricultural policies has been characterized by a shift towards the adoption of less production- and trade-distorting forms of support (OECD, 2012b). For instance, PSE as a percentage of total value of production decreased from 22 % in 1986-88 periods to 8 % in 2011. While support based on output also decreased significantly, GSSE jumped to US\$ 75.4 billion (51.4 % of TSE) in 2011 from US\$ 13.6 billion in the period of 1986-88.

Table 5. Estimates of Support to Agriculture, US\$ Million

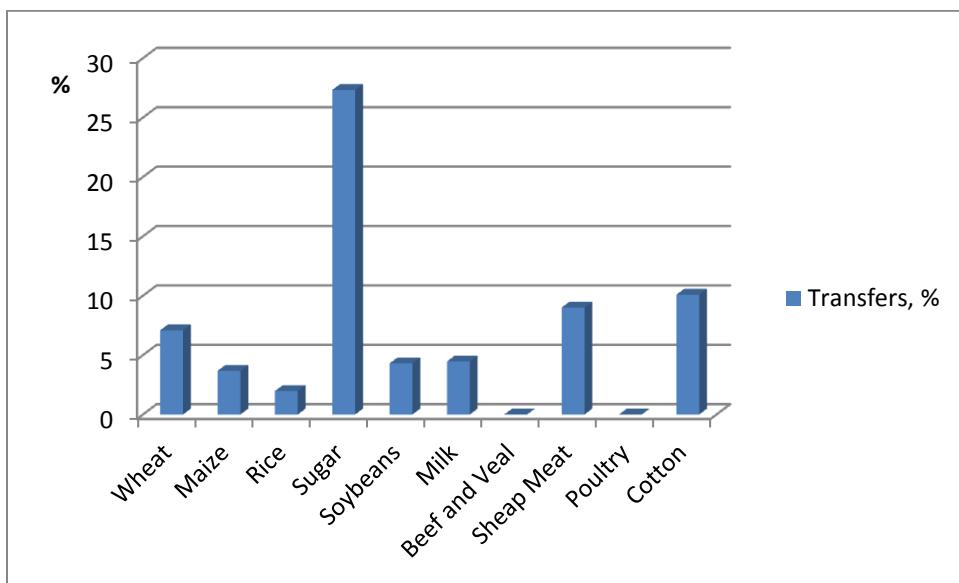
	1986-88	2011
Total Value of Production	143 469	372 261
Total Value of Consumption	123 032	318 951
Producer Support Estimate (PSE)	36 411	30 579
Supports Based on Output	16 188	3 590
Payments Based on Input Use	7 061	9 871
Payments Based on Area and Income	12 231	8 653

Payments Based on Non commodity Criteria	592	2 566
Percentage PSE	22	8
Producer NPC	1.13	1.01
Producer NAC	1.28	1.08
General Service Support Estimate (GSSE)	13 682	75 476
GSSE as a share of TSE	22.8	51.4
Consumer Support Estimate (CSE)	-3.794	35 732
Transfer to Producers from Consumers	-12 746	-3 469
Other Transfer From Consumers	-1 432	-1 442
Transfer to Consumers from Taxpayers	10 089	40 643
Excess Feed Cost	294	0
Percentage CSE	-3	13
Consumer NPC	1.12	1.02
Consumer NAC	1.03	0.89
Total Support Estimate	60 182	146 698
Transfer From Consumers	14 177	4 911
Transfer From Taxpayers	47 436	143 229
Budget Revenue	-1 432	-1 442
Percentage TSE , GDP	1.28	0.97

Source: OECD, 2012b.

Producer single commodity transfers, which show the ratio of commodity specific transfers to the value of receipts from the production of that commodity, are presented in Figure 1. As can be seen sugar, sheep meat, and cotton receive relatively higher supports in terms of transfers compared to other commodities.

Figure 1. US Producer Single Commodity Transfers (Ratio of Transfer to Value of Receipts) in Selected Commodities, %, 2011



Source: OECD, 2012a

Domestic Support

The current US agricultural policies are determined primarily by the Food, Conservation, and Energy Act of 2008 (the *Farm Bill*), which authorizes agricultural programmes for 2008-2012, recently extended to include coverage through September 2013. Main instruments used are summarized below (USDA, 2012; WTO, 2010)

Direct Payments: Farmers with historical base acres for wheat, corn, other feed grains, upland cotton, rice, soybeans, other oilseeds, and peanuts are eligible for direct payments. The payments are based on historic planting and yield and no current production is required.

Marketing Assistance Loans and Loan Deficiency Payments: Marketing assistance loans are available through the Commodity Credit Corporation (CCC) for eligible producers. After harvest, a producer can take a marketing loan equal to the loan rate multiplied by the quantity offered for loan up to the total produced. The loan may be redeemed by repaying the capital plus interest. Alternatively, when market prices are below the loan rate, the ownership of the crop can be transferred to the CCC or the loan can be repaid based on local market prices, with interest waived. When the loan rates are below market prices, loan deficiency payments provide an alternate benefit

for producers who forgo taking loans. These producers receive payments equivalent to the value gained by producers allowed to repay loans at local market prices.

Counter-cyclical Payments Program: These payments are made to farmers with base acres of the same historically produced commodities as covered by Direct Payments, as well as several pulse crops. The payments are based on the difference between a target price and current market price or the loan rate (whichever is higher), less the Direct Payment rate. Payments are made on the same historical base as for Direct Payments and no current production is required.

Average Crop Revenue Election (ACRE) Program: ACRE was introduced in 2008 as an alternative to the counter-cyclical payments. The program provides payments to producers when area (state) and farm level revenue losses fall below revenue benchmarks based on rolling average yields and prices. Payments are limited by producers' historical base and program participants forgo Counter-cyclical Payments and accept lower Direct Payments and lower loan rates.

Nutrition: There are various nutrition programs in the US such as Supplemental Nutrition Assistance Program, National School Lunch Program, the School Breakfast Program, and the Summer Food Service Program. The total spending on nutrition programmes under the United States Department of Agriculture (USDA) was about US\$ 93.85 billion in 2010 out of a total USDA budget of US\$ 135.52 billion

Credit: The USDA Farm Service Agency provides loans to disadvantaged farmers for purchasing farmlands, investment in buildings, or operating expenses. The emergency farm loans are provided in the times of natural disasters.

Research: The USDA has a wide-ranging research programme implemented primarily through the Agricultural Research Service, other State agencies, and universities. Coordination among these various institutions aims to improve efficiency of research activities.

Conservation: Participation in these programs is voluntary in general and includes reducing soil erosion, enhancing water supply and quality, protecting habitat, reducing damages caused by disasters. Farmers can benefit from support instruments such as rental payments, cost share assistance, and financial incentives in return for improvement of the land and other related resources. Programs include both land retirement and programs on actively farmed land (working

lands). Commodity programs also have conservation cross-compliance requirements related to soil erosion and wetland preservation.

Crop Insurance and Disaster Assistance Programs: Crop insurance is delivered by the private sector at subsidized rates under terms set by the Federal Crop Insurance Corporation and administered by the USDA Risk Management Agency.

Commodity Specific Supports

Sugar: Sugar processors may borrow against the product at the loan rate and redeem the loan by repayment or by forfeiting the crop to the CCC. In addition, sugar is subject to annually determined domestic marketing allotments, which potentially restrict marketing and are aimed to prevent sugar being transferred to the CCC in forfeit. Imports are restricted under a tariff rate quota (TRQ). Under the Refined Sugar Re-Export Program a company may obtain a licence to import sugar duty-free for refining and export.

Dairy: Price support is provided through purchase prices set out in the Farm Act. The CCC offers to purchase butter, cheddar cheese, and non-fat dry milk at the prices set out in the 2008 Farm Act when market prices fall below those levels. These purchases may be resold at specified prices (at least 10 percent above the purchase price).

Cotton: The Economic Adjustment Assistance Program provides a payment to domestic users of upland cotton from any source for specified uses, including modernizing plants or equipment. Domestic users and exporters of extra-long staple cotton also receive payments when world market prices fall for four consecutive weeks below U.S. prices and below 134 % of the loan rate for extra-long staple cotton.

Trade Policy Instruments

The Office of the United States Trade Representative (USTR) is responsible for developing the overall trade policy of the United States. Agricultural trade policy of the US is administered by the Foreign Agricultural Service (FAS) of the United States Department of Agriculture (USDA). Main trade policy instruments are explained below.

Export subsidies: The Dairy Export Incentive Program (DEIP) provides subsidies through the CCC to exporters of dairy products. The determination of subsidies is based on an evaluation of both the export and domestic markets for that commodity, and was awarded for dry milk, butter, and cheese (WTO, 2010). DEIP has been used in only one marketing year (2008-09) since 2003. In addition, most agricultural products are eligible for the Export Credit Guarantee Program (GSM-102). Under this program, the USDA provides guarantees for credits extended by private banks in the United States to approved foreign banks for purchases of agricultural products by foreign buyers.

Export promotion: The FAS is responsible for the Market Access Program (MAP), which provides financial assistance to approved organizations for overseas marketing and promotional activities, such as fairs, market research, consumer promotions for retail products, technical capacity building, and seminars to educate overseas customers. Assistance for brand promotion is restricted to small-sized entities, cooperatives, and producer associations

According to the WTO (2012), the average applied agricultural MFN tariff is 8.9 %, which is relatively low compared with some other WTO Members. However, there are large variations in the rates depending on the commodity (tobacco, oilseeds). The highest tariffs are on dairy products, sugar, and beverages&tobacco (Table 6).

Table 6. Tariffs and Imports by Product Groups, the US, 2011

<i>Product Groups</i>	<i>MFN Applied Duties</i>			<i>Imports</i>	
	<i>Average</i>	<i>Duty Free in %</i>	<i>Maximum</i>	<i>Share in %</i>	<i>Duty-Free in %</i>
Animal Products	2.4	31.0	26	0.4	25.3
Dairy Products	19.1	0.3	92	0.1	13.7
Fruits, Vegetables	4.9	20.1	132	1.2	25.5
Coffee, Tea	3.2	53.5	23	0.5	75.9
Cereals&Prep	3.5	21.0	54	0.6	32.4
Oilseeds, Fats, Oils	4.5	24.0	164	0.3	38.7
Sugar	16.6	2.9	123	0.2	5.1
Beverages&Tobacco	15.4	27.3	350	1.0	52.2
Cotton	4.6	38.3	19	0.0	78.3
Other Agricultural Prod.	1.2	59.1	67	0.3	65.4
Fish&Fish Prod.	0.9	81.9	35	0.8	90.7
Minerals&Metals	1.7	61.0	38	12.6	74.2
Petroleum,	1.3	0	7	14.6	0
Chemicals	2.8	40.7	7	10.3	67.5
Wood, Paper	0.5	90.2	14	3.5	92.6
Textiles	7.9	15.1	42	2.0	11.5
Clothing	11.7	2.8	32	3.9	0.8
Leather, Footwear	4.0	38.9	56	2.5	19.7

Non-Electrical Machinery	1.2	65.0	10	13.8	82.1
Electrical Machinery	1.7	48.4	15	13.4	66.6
Transport Equipment	3.0	55.7	25	11.1	13.5
Manufactures	2.3	45.1	46	6.9	73.0

Source: WTO, 2012.

The United States has reserved the right to use the Special Agricultural Safeguard on 189 tariff lines, mostly dairy products, sugar products, products containing sugar and/or dairy ingredients, and cotton (WTO, 2010). The price-based safeguard has been applied much more frequently (53 times in 2008).

DISCUSSION OF POLICY CHANGES

According to the WTO (2010), the US notification in 2007 stated the total support to agriculture as US\$ 84.65 billion. Out of this value, US\$ 76.2 billion was notified under the Green Box, of which US\$ 54.4 billion was for domestic food aid, US\$ 5.2 billion was notified as Direct Payments under decoupled income support, US\$ 4.3 billion was annual outlays by states for services, and US\$ 1.9 billion was for the Conservation Reserve Program.

Based on this notification, the Amber Box support in the United States represents a small portion of total support notified to the WTO. Marketing assistance loan programmes for cereals, oilseeds and cotton provides producers guaranteed minimum prices by paying a compensation for decrease in market prices below the loan rates determined in the Farm Act. Counter-cyclical payments also provide some compensation for holders of historical base acres if season average prices fall below the target prices less the direct payment rates. However, with the exception of upland cotton, there have been essentially no marketing loan payments since 2005 because market prices have been greater than the Farm Bill loan rates.

Among proposed new farm programs currently under discussion, some propose to base payments on planted area rather than on historical base area, a significant departure from the decoupled payment system, although payments would be limited by total historical base area. One of these possible alternatives proposes elimination of direct payment and counter-cyclical payment system and aims to replace them by revenue insurance programs. Babcock and Paulson study (2012) imply that if

these programs are adopted as proposed with the new Farm Bill¹ overall production will not change so much due to the inelastic US crop acreage response of most of the products to the profitability under the current prices. However, they found that the effects of a new Farm Bill including these programs would be more significant if prices decline for some specific crops. With price declines, this proposed program could potentially distort planting decisions of US farmers leading to higher planting acreages for wheat and cotton, and consequently leading to lower world prices. According to Babcock and Paulson, developing countries that export these products (Argentina, India, Brazil, and West Africa) would suffer losses under these conditions.

The producer support and tariff levels decreased substantially compared to 1986-88 level. However, some of the decline in producer support can be attributed to high world prices. In addition, the basic legislation act of 2008 indicated little additional progress in achieving market orientation (OECD, 2012b). Although the agricultural support is lower compared to other OECD members, there is still room for less trade distorting and more market oriented policies. OECD recommends that future agricultural policies should be more transparent, targeted, flexible, and equitable (OECD, 2011). Specifically, some commodity programmes (dairy and sugar support) can be replaced by decoupled supports. Current export subsidies and high level of out of quota tariffs can be reduced in the context of WTO rules. As a major player in world agricultural trade, any policy action taken by the US will have considerable impacts on world producers and consumers. Therefore, the policies should consider global concerns such as climate change, environment, food security, and producers in developing countries.

¹ The previous 2012 Farm Bill process ended with an extension of most programs under the 2008 Farm Act through September 2013. Consideration of new farm legislation begins again with the new Congress and although previously proposed programs may be considered and adopted, entirely new proposals may also be brought forward.

Brazil-US WTO Cotton Subsidy Dispute

According to the WTO Dispute Settlement Section (2012) there are many disputes regarding the implementation of WTO obligations related to the domestic subsidies, export subsidies, and import restrictions of certain agricultural commodities. This section presents a brief history of US-Brazil upland cotton dispute.

Brazil requested consultations with the United States regarding prohibited and actionable subsidies provided to US producers, users and exporters of upland cotton, as well as legislation, regulations, statutory instruments and amendments providing such subsidies (including export credits), grants, and any other assistance to the US producers, users and exporters of upland cotton, on 27 September 2002. Brazil contended that these measures were inconsistent with the obligations of the United States under the related articles of WTO. Following Brazil, Zimbabwe, India, Argentina and Canada requested to join the consultations. The Dispute Settlement Body (DSB) established a Panel at its meeting on 18 March 2003 after the request by Brazil. Argentina, Canada, China, Chinese Taipei, the European Communities, India, Pakistan and Venezuela reserved their third-party rights to participate in the Panel's proceedings. Following a communication from the United States, on 20 March 2003, Brazil indicated, in conformity with paragraph 1 of Annex V that it considered the following third-county markets as relevant: Argentina, Bangladesh, Colombia, Germany, India, Indonesia, Italy, Portugal, Philippines, Slovenia, South Africa, South Korea, Switzerland, Thailand and Turkey. On 19 May 2003, the Director-General composed the panel. On 8 September 2004, the panel report was circulated to Members. The panel found that:

- agricultural export credit guarantees are subject to WTO export subsidy disciplines and three United States export credit guarantee programmes are prohibited export subsidies which have no Peace Clause protection and are in violation of those disciplines;
- the United States also grants several other prohibited subsidies in respect of cotton;

- United States' domestic support programmes in respect of cotton are not protected by the Peace Clause, and certain of these programmes result in serious prejudice to Brazil's interests in the form of price suppression in the world market.

At its meeting on 21 March 2005, the DSB adopted the Appellate Body report and the Panel report. The resulting DSB recommendations and rulings include the recommendation that the United States withdraw, within six months of the date of adoption of the Panel report the following prohibited subsidies: (i) the export credit guarantees under the GSM 102, GSM 103 and SCGP export credit guarantee programmes in respect of exports of upland cotton and other unscheduled agricultural products supported under the programmes, and in respect of one scheduled product (rice); (ii) Section 1207(a) of the Farm Security and Rural Investment (FSRI) Act of 2002 providing for user marketing (STEP2) payments to exporters of upland cotton; and (iii) Section 1207(a) of the FSRI Act of 2002 providing for user marketing (STEP2) payments to domestic users of upland cotton. The compliance panel was established it was found that with respect to the measure taken by the United States to comply with the DSB recommendations and rulings, United States had failed to comply with the DSB recommendations.

On 25 August 2010, Brazil and the United States notified the DSB they had concluded a Framework for a Mutually Agreed Solution to the Cotton Dispute (Framework). Brazil and the United States also agreed to hold consultations not less than four times a year for of obtaining convergence of views in respect of a solution to the Cotton dispute. The Framework also provides that, upon enactment of successor legislation to the US Food, Conservation and Energy Act of 2008, Brazil and the United States will consult with a view to determining whether a mutually agreed solution to the Cotton dispute has been reached. The joint communication also specified that as long as the Framework is in effect, Brazil will not impose the countermeasures authorized by the DSB.

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