



## CONFRONTING THE ISSUES

### **Future Farm Bills/Green and Blue Box Programs AFBF Policy Development May 2006**

#### **Issue:**

The United States operates in a global economy today. In this global economy, those countries with farm programs that distort agricultural trade will be under pressure to reform those programs. This pressure could come from the current round of negotiations in the World Trade Organization (WTO) or through future litigation similar to that seen in the Brazil cotton case. If changes were to be made to farm programs, what might a blue or green box compensation programs look like?

#### **Background:**

Future international agreements and pressure from possible future international litigation are likely to encourage the United States to shift agricultural support from amber box (the most trade-distorting, such as the marketing loan program) programs to blue box (less trade-distorting) and green box programs (non-trade-distorting such as direct payments and most environmental and insurance programs) that have less of an impact on global trade. There are several options for accommodating such a shift.

Blue box programs as proposed in the Doha negotiations 2004 framework could include a modified counter-cyclical program (CCP), similar to that included in the 2002 Farm Bill legislation. While the spending limit on a new blue box would likely require minor modifications to the CCP, payments could still be made to stabilize the income of grain, oilseed and fiber producers so long as payments were tied to not more than 85 percent of a historical production base. Based on current discussions, the blue box cap would likely be high enough, given the 2002-2005 U.S. spending, to provide most of the support currently being provided.

One option for “green boxing” U.S. farm policy would involve modifying traditional farm programs to eliminate trade distortions. One example of this would be to restructure insurance programs to provide all crop and livestock producers with a minimum safety net. Options range from individual commodity insurance policies that are not unlike current crop insurance policies to whole farm revenue insurance programs **with both a yield and a price dimension**. While the existing WTO agreement language provides some insight on the designs of such a program, such an initiative would best be launched with the final WTO Doha agreement language in hand to avoid future litigation problems.

Another option for “green boxing” U.S. farm programs also includes strengthening the environmental component of farm programs as a vehicle for supporting improved stewardship of agriculture’s natural resource base. A move in this direction would have to consider restrictions on what would qualify as “environmental” through the WTO and what share of farmer costs could be used to determine payments.

It is important to keep in mind in this discussion of changes to farm programs that amber box (or trade-distorting) programs would be reduced – *not eliminated*. One of the challenges of developing a less trade-distorting farm policy will be to effectively meld amber, blue and green box programs into a package that best fits the needs of America’s farmers and ranchers. The reduced amber box expenditures would be reserved to fund the most trade distorting programs needed to ensure U.S. agricultural price competitiveness and offset the most serious downturns in the major commodity markets. The U.S. program would make no apology for operating within the box guidelines. For example, an insurance-oriented redesign of U.S. policy could use a green box program to provide minimum protection at the 70 percent level, combined with the blue box as outlined in the 2004 framework and amber box payments that could bring the support more in line with historical levels.

Effectively redesigned, a package of amber, blue and green box programs could be used to minimize – but not eliminate – the impact of WTO-related changes in farm supports.

### **Farm Bureau Policy:**

#### **National Farm Policy, #29, starting with line 58:**

We support an extension of the current farm bill until a new World Trade Organization (WTO) agreement is reached. We support extending concepts of the Farm Security and Rural Investment Act of 2002 into the next farm bill. However, if changes are necessary, consideration should be given to the following:

- (1) Reduced complexity while allowing producers increased flexibility to plant in response to market demand;
- (2) Maintenance of a farm income safety net while encouraging efficiency...;
- (3) Driven by the needs of production agriculture;
- (4) Be compliant with WTO agreements;
- (5) Provides a “green box” compliant compensation program for fruit and vegetable growers. If this is not accomplished, we oppose elimination of the planting prohibition;
- (6) Trade-distorting domestic support (amber box) may be reduced in exchange for an economically proportionate increase in agricultural market access and elimination of export subsidies. Such a reduction in U.S. “amber box” supports should be offset by a transfer to fully funded “green and blue box” eligible programs. This could be accomplished through working lands conservation programs, risk management, the Market Access Program (MAP), enhance crop insurance, revenue assurance or government programs that increase producer profitability that may include direct payments; and
- (7) Inclusion of a commodity loan program.

### **Questions:**

1. How do we respond to critics who contend that U.S. farm programs depress global commodity prices and represent a de facto export subsidy?
2. To what extent should AFBF consider shifting trade-distorting commodity program spending into blue or green box compliant programs?
3. What would the impacts be of “green boxing” as outlined?