



CONFRONTING THE ISSUES

The 2007 Farm Bill/Fruits and Vegetable Planting Prohibitions AFBF Policy Development May 2006

Issue:

Due to a dispute settlement case in the World Trade Organization (WTO), the United States' direct payments may not be considered a green box (non-trade-distorting) program. That is to say direct payments are not decoupled from production because such payments are not available to program crop producers when they produce fruits and vegetables on acreage that was previously utilized for program crops. Consequently, these payments may not be classified as a green box program. How important is it to maintain this planting prohibition? What changes can be made in the next farm bill to allow direct payments to be classified as green box under WTO rules?

Background:

On March 21, 2005, the Dispute Settlement Body (DSB) of the WTO formally adopted the ruling on a complaint made by Brazil against the United States' upland cotton subsidies. One part of that ruling focused on the classification of the U.S. direct payment program. Brazil argued that the United States' production flexibility contracts and direct payments do not qualify as green box (non-trade-distorting) programs because payments are not allowed for program crop acreage that is planted to fruits and vegetables. In other words, because direct payments are not fully decoupled from production they are not green box programs.

It is important to note that the DSB ruling was focused only on direct payments for upland cotton. The DSB did **not** indicate that direct payments cause price suppression or are trade-distorting. Nor did the DSB indicate in which other box direct payments should be classified. However, it seems clear that the United States will not in the future be able to classify direct payments as green box without risking further litigation from other WTO members.

The easy "fix," to bring the United States into compliance with the DSB ruling and to prevent future litigation on this issue, would be to eliminate the fruit and vegetable planting prohibition in the direct payment program. However, this could have significant impacts on the U.S. agricultural sector. The planting prohibition is designed to prevent program crop producers from shifting into fruit and vegetable production, which in turn prevents the disruption of markets for fruits and vegetables that are currently in balance. The prohibition was also designed to avoid providing program crop producers who shifted to producing fruits and vegetables an unfair advantage over traditional fruit and vegetable producers.

The United States needs green box classification for direct payments to keep amber box outlays (the alternative classification for direct payments) under the WTO spending limit. However, the prohibition or

another mechanism is needed to avoid possible disruption of the fruit and vegetable markets and program equity problems.

How important the prohibition is, in addressing these concerns, relates to how likely program crop producers are to shift acres. USDA's farm income surveys suggest that barriers to entry would discourage most program crop producers from shifting to fruit and vegetable production. However, USDA data also suggests that even a very small shift could significantly disrupt the fruit and vegetable market. As little as a 1 percent shift in program crop acreage would move 3 million more acres into fruit and vegetable production compared to a current base of about 7 million acres. Hence, the planting prohibition does address a critical concern growing out of the U.S. move toward more decoupled farm payments.

If the planting prohibition on fruits and vegetables is removed from the farm the direct payment program, what action or provisions would be an appropriate adjustment from the view point of fruit and vegetable producers? Some of the alternatives currently under discussion include:

- More conservation dollars available via programs such as CSP, EQIP and CRP;
- Develop risk management products, such as revenue insurance for producers;
- Enhance the fruit and vegetable component of the food nutrition programs;
- Programs to enhance market access both domestically and internationally;
- Increase available funds for research on production and invasive species;
- Block grants to states for sales and marketing; and
- Develop a direct payment program for historic fruit and vegetable acreage.

Farm Bureau Policy:

National Farm Policy, #29, Future Farm Policy Design, starting with line 70:

(4) Be compliant with WTO agreements;

(5) Provide a "green box" compliant compensation program for fruit and vegetable growers.

If this is not accomplished, we oppose elimination of the planting prohibition; and

(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 reduction in U.S. "amber box" supports should be offset by a transfer to fully funded "green and blue box" eligible programs.

Questions:

1. Assuming the planting prohibition on fruits and vegetables is eliminated to make current farm program direct payments qualify as "green box", what kind of compensation program(s) should be developed for fruit and vegetable producers?