



Globally Competitive US Agriculture System

Issue in Brief

In recent years world agriculture has become much more competitive. Although U.S. agriculture remains naturally competitive and continues to be economically strong, if the US is to maintain its position, Congress must adapt and change current agricultural policies, programs and public investments.

AAGC Position

US agricultural policies, programs and public investments must promote and enhance, not detract from, the natural market competitiveness of US Agriculture. Otherwise there will be limited growth and opportunity for US agriculture in the coming years.

Analysis

US agriculture continues to be globally competitive with productive land, a favorable climate, a high level of production technology, skilled growers, ready access to capital and risk management services, and large investments in agricultural processing, marketing and transportation infrastructure. In recent years though, competing countries, particularly in South America, have improved their position. Globalization has resulted in many of the factors of agricultural production being highly mobile and available to all producers around the world. For example, plant genetics, pesticides, and farm machinery are manufactured and sold into every major agricultural producing country by international firms. In addition, competitor countries continue to make investments in transportation infrastructure.

For the US to maintain its competitive position in the world environment, US agricultural policy, programs and public investments must change to meet these new challenges. Congress has made great improvements in agricultural policies since the days of annual acreage reduction programs, zero planting flexibility, and the use of non-recourse commodity loan rates to maintain US prices above world market clearing levels. However, further adjustments will be necessary to promote and maximize U.S. agricultural competitiveness in the years ahead.

In new farm legislation, Congress must adjust policy and programs to provide a farm income safety net that finally eliminates distortions in market signals to US growers. Otherwise US policies will continue to blunt rather than add to the natural competitiveness of US agriculture.

Specifically, Congress must design farm legislation that -

- Replaces trade distorting domestic supports with WTO-consistent policies
- Allows market forces to reward and foster enhanced quality or specialty crop production
- Reforms the Conservation Reserve Program to eliminate the retirement of all non-erodible, non environmentally sensitive farmland
- Provides a safety net that is not market distorting and is not subject to continual challenge from trading partners through the World Trade Organization

In addition to fashioning a non-market distorting farm income safety net, the US government must also play a strong role in promoting US competitiveness through aggressive public investment in agricultural research, transportation infrastructure, rural development and biotechnology.

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AAGC Mission: To advocate and support policies that promote U.S. agricultural competitiveness and foster opportunities for growth in domestic and export markets

AAGC Principle #1: Encourage design of U.S. government support programs for agriculture that:

- * Comply with U.S. obligations under the WTO
- * Minimize distortion in the market signals that drive production decisions
- * Encourage further liberalization of agricultural trade.

AAGC Principle #2: Support conservation programs that minimize the idling of productive land to achieve environmental and other policy goals.

AAGC Principle #3: Oppose attempts by the U.S. government to create artificial incentives to build government or private stockpiles of grain, except for emergency humanitarian purposes.



U.S. Agricultural Programs and the World Trade Organization

"U.S. agriculture needs to shape farm programs that: avoid inconsistent trade distortions under the WTO; promote the competitiveness of U.S. crop and livestock production and provide predictability for producers and users alike."

Issue in Brief

The U.S. is a key member of the World Trade Organization (WTO), which provides the principle forum for regulating and negotiating multilateral trade agreements. As a key member, the U.S. must support agricultural policy that is consistent with U.S. trade commitments and complies with our obligations within the WTO. The WTO can influence agricultural policy of its members through: (1) existing trade commitments, (2) ongoing trade negotiations, and (3) trade dispute settlement outcomes.

The U.S.-Brazil cotton dispute, litigated in the WTO, illustrates the impact that litigation could have on U.S. farm programs. In the 2004 case, the WTO ruled that various aspects of the U.S. cotton program were inconsistent with U.S. trade commitments. The ruling, which exposed particular vulnerability in production and price-linked support programs, effectively put on notice other U.S. farm programs with similar characteristics such as corn, wheat, rice, soybeans, sugar, and dairy. Absent change to such programs, the marketing loan and counter-cyclical payment provisions of existing farm programs could be challenged by Brazil and other countries encouraged by the success of the cotton case.

AAGC Position

The AAGC supports changing U.S. farm income support programs so that they are consistent with U.S. trade commitments and comply with our obligations within the WTO.

Analysis

The overall trade outlook is important to U.S. agriculture because exports currently account for 27% of the value of agricultural production and about one-third of harvested acreage is exported. The U.S. economy as a whole is tied to continued growth in worldwide income and demand, which is stimulated by trade liberalization and market access gains. The AAGC is a staunch supporter of multilateral trade reform and believes the level of ambition in "commercially meaningful" market access is rightly the focal point for U.S. agriculture.

In its February 2006 baseline projections to 2015, USDA predicts steady growth in the world economy resulting in strong, steady growth in global trade of agricultural commodities, including livestock and poultry products. In fact, USDA's analysis suggests that while the US ethanol production grows very quickly to consume over 2 billion bushels of corn annually, income growth in the rest of the world will also continue. Much of the world income growth will occur in developing countries, where consumers will shift to more meat in their diets, which requires more feed grains for meat production. To meet this feed grain demand, agricultural trade will remain vital to maintaining a growing, prosperous US agriculture.

In this environment, U.S. agriculture needs to shape farm programs that: avoid inconsistent trade distortions under the WTO; promote the competitiveness of U.S. crop and livestock production in order to make the most of future export opportunities; and provide predictability for producers and users alike, to facilitate needed investments.

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Alliance for Agricultural
Growth & Competitiveness

Conservation Programs in the 2007 Farm Bill

Issue in Brief

The 2007 Farm Bill provides an important opportunity to continue moving conservation programs toward addressing targeted environmental needs on sensitive lands and moving away from land-idling programs.

no detrimental effect on US conservation goals. US taxpayer money spent to idle the land in CRP would be put to much more effective conservation use on working crop lands.

AAGC Position

The AAGC supports conservation programs on sensitive lands, encourages the development of more conservation programs on working lands, and recommends minimizing programs that idle productive land.

Land devoted to production of the major crops in the US has been steadily declining as land around expanding cities and towns is continually leaving agriculture for development. This trend continues in the face of substantial subsidies for ethanol and biofuels production and an increase in the renewable fuels standard. The Administration and Congress has committed to improving U.S. energy independence, primarily through the use of renewable fuels. Iowa State economist Dr. Robert Wisner has estimated that ethanol production could utilize as much as 5 billion bushels of U.S. corn by the year 2012. This represents nearly 43 percent of USDA's baseline estimate for corn production by 2012 and more than 25 percent of U.S. grain production. While crop production technology continues to improve – corn yields are expected to grow by 6 percent by 2012, with slower growth in yields for soybeans and wheat – the demand for biofuels is likely to strain U.S. grain production.

Analysis

Conservation programs have always enjoyed wide support with growers and the general public, so it seems likely there will be further movement by the Congress toward direct payments for conservation related programs. As part of this expected trend in farm legislation toward even more emphasis on conservation, the Congress needs to re-focus the largest conservation program, the Conservation Reserve Program (CRP), toward less idling of large tracts of agriculturally productive land and toward more specific conservation practices such as buffer strips and riparian areas.

U.S. wheat production faces a particular challenge as a large amount of CRP is currently focused in the Great Plains wheat growing region. In order to increase U.S. wheat production in the coming years, a refocused CRP must be a priority. Without substantive program changes, the U.S. will become less competitive over time and the opportunities for growth in U.S. agriculture will greatly diminish, with more and more of the world's agricultural growth taking place in efficient agricultural exporting countries, such as South America or those in the Black Sea region.

To put the size of the CRP in perspective, if CRP were a crop, it would be the fourth largest crop behind corn, soybeans and wheat. Another comparison is that the crop land idled every year in the CRP is nearly 60 percent of the average planted crop acreage in Canada – one of the major competitor countries of the United States.

USDA has previously reported that about one half of the CRP is estimated to be Class I and II land, the very best land for agricultural production in the United States. By nearly any measure there are large acreages of very productive land that could be released from the CRP with

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Grain Stocks: Is there a Role for the Federal Government?

Issue in Brief

Federal farm programs to subsidize government-owned and private grain storage have largely been eliminated, except for humanitarian programs. While there has been some recent discussion of reviving federal storage programs, the history of these programs is one of high taxpayer costs, market distortion, and inefficient delivery of farm program benefits.

AAGC Position

The AAGC opposes returning to US government owned or financed storage programs.

Analysis

Artificial stockpiling of grain has proven to be misguided government policy, contributing to inefficient use of government funds, depressed market prices for producers, and an impediment to market adjustment when relative shortages and surpluses develop. A modest program of stocks for humanitarian and emergency needs, such as the 4 million metric tons stored under the current Emerson Trust, should remain as government's only role in stock holding.

Under the farmer-owned reserve program, the federal government paid farmers 26 cents per bushel annually to store grain. Economic analysis conducted during that time demonstrated, however, that the additional grain stored through government incentives created disincentives for private stock ownership, forcing private stocks downward. The reduction in stockholding by the private sector meant that a payment of 26 cents annually for the FOR bushel was only contributing approximately $\frac{1}{4}$ of a bushel of grain to total carryout stocks. So, in essence, the government was paying almost \$1 per year for the marginal addition of 1 bushel to total stocks. A similar policy in today's markets would result in a similar market reaction, and make such a program prohibitively expensive.

While the goal of the farmer-owned reserve of the 1970s and 1980s was to stabilize prices, it ultimately depressed farm prices on a continuous basis. While such stocks were isolated from the market within a prescribed price band, the fact that the stock existed was a known market factor, contributing to less risk that buyers might confront any significant price run-up, and resulted in a less aggressive market bidding situation for the grains

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