

Working Paper WP94-3

December 1994

TRENDS AND DEVELOPMENTS IN UNITED STATES

AGRICULTURAL POLICY: 1993-1995

Philip Vande Kamp and C. Ford Runge

Center for International Food and Agricultural Policy

**University of Minnesota
1994 Buford Avenue, 332 C.O.B.
St. Paul, Minnesota 55108-6040 U.S.A.**

**Phone: (612) 625-8713
FAX: (612) 625-6245**

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*This paper will be published in the *Review of Marketing and Agricultural Economics*, (Australia) forthcoming.

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¹ Graduate Research Assistant and Professor respectively, Center for International Food and Agricultural Policy, Department of Agricultural and Applied Economics, University of Minnesota.

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Trends and Developments in United States Agricultural Policy: 1993-1995

Abstract

A number of factors including budget pressures, emphasis on environmentally sensitive agriculture, emphasis on finding agricultural export markets, and anti-agricultural program sentiment have fueled a climate for change in United States agricultural policy. Whether significant changes will occur depends on the political strength of agricultural interest groups and on the compromises which can be reached between them. Several notable achievements have been accomplished in recent domestic agricultural policy legislation. The 1995 farm bill will define the commodity and conservation programs for the next five years. In addition to domestic developments, there have been history-setting accomplishments in reducing barriers to international agricultural trade. The tri-partite North American Free Trade Agreement became effective January 1, 1994. The Uruguay Round Agreement of the General Agreement on Tariffs and Trade was completed in late 1994 and will become effective in 1995.

1. Introduction

Significant developments have occurred in both domestic and international agricultural policy in the period reviewed here. On the international scene, the North American Free Trade Agreement (NAFTA) and the recently ratified Uruguay Round Agreement of the General Agreement on Tariffs and Trade (GATT) mark serious progress in opening international markets to agricultural trade. The effects on agriculture may not be immediately noticeable, but over time, will result in increased trade and net farm income. On the domestic side, several important pieces of legislation have been passed including the Department of Agriculture Reorganization Act and the Federal Crop Insurance Reform Act. The 1995 farm bill, which will be completed next year, will set the stage for domestic agricultural policy in the next five years.

Significant influences in current agricultural policy developments in the United States (U.S.) will be addressed first. The second section will include recent developments in domestic agricultural policy, including discussions leading up to the 1995 farm bill debate. Next will be a description of the recently implemented North American Free Trade Agreement and an early

assessment of its effects on trade. Finally the proposed Uruguay Round Agreement of the GATT will be examined.

2. Influences in U.S. Agricultural Policy Development

Although a range of factors contribute to the development of agricultural policy, six are currently significant influences on domestic and international agricultural policy. How these influences will affect policy development depends on the public support they garner and whether they can be pursued jointly with current agricultural interests.

First, environmental and agricultural sustainability interests have made a swift entry into the arena of agricultural policy development. On the domestic scene, both the 1985 and 1990 farm bills greatly expanded conservation policies. Environmental interests have also influenced both the development of the Uruguay Round agreement of the GATT and especially the North American Free Trade Agreement.

Second, pressures to reduce the federal deficit may result in important changes in domestic agricultural policy. Budget pressures combined with increased emphasis on conservation measures in agriculture have threatened to reduce domestic agricultural price and income support programs especially in context of the upcoming 1995 farm bill debate.

Third, increased emphasis on export markets for agricultural products has led to U.S. emphasis on a variety of trade agreements such as the Uruguay Round of GATT and NAFTA. Future efforts may entail the expansion of NAFTA to include more countries and the negotiation of other international trade agreements.

Fourth, domestic agricultural policies will be more influenced by these international trade accords than in the past. To conform to, and reap the benefits of, these agreements, domestic policies must comply with negotiated trade pacts. Under the recently completed Uruguay Round agreement of GATT, for example, domestic subsidies to farmers must remain below a specific level. Failure to comply may result in bitter trade disputes and may require settlement under a forum offered by the new World Trade Organization (WTO) or NAFTA.

Fifth, support for decoupling agricultural subsidy payments from production quantities is increasing. This reflects the effort to allow farmers to react to market conditions. In addition, reducing subsidies based on production quantities is frequently an objective in trade negotiations. An equitable way of converting from production-based subsidies to non-production-based subsidies must be found for this reform to be successful.

Finally, an anti-agricultural program sentiment currently exists in the U.S. which could negatively affect future federal support for farmers. This attitude stems from the opinion that most federal farm program subsidies go to the largest farmers.

3. Domestic Agricultural Policy

Of the previously discussed factors influencing agricultural policy, the two most important for domestic policy include the effort to reduce the budget deficit and the increased emphasis on environmental questions. Congress is continually looking for programs to cut or reduce and agriculture has not been exempt from this effort. The recent elimination of subsidies to mohair and wool in 1993, and the phasing out of subsidies to honey, demonstrate the vulnerability of agricultural programs. At the same time, environmental and sustainability considerations have

become more important in domestic agricultural policy.

Although partisan battles and resulting "gridlock" have characterized the Congress during 1993-94, several important pieces of agricultural legislation have been passed. The two most prominent, passed in late 1994, include an overhaul of the Federal Crop Insurance Program and the reorganization of the Department of Agriculture. Although Congress will wait until 1995 to begin debate on the next 5 year farm legislation plan,³ discussions by the U.S. Department of Agriculture and interested groups have already begun. The overhaul of the Federal Crop Insurance Program and the reorganization of the U.S. Department of Agriculture will be discussed first, followed by an examination of current proposals for the 1995 farm bill.

3.1 Federal Crop Insurance Reform Act of 1994

An overhaul of the Federal Crop Insurance Program was implemented in an effort to improve farmer participation and eliminate extremely expensive ad hoc disaster payments. In recent years, farmer participation of the federal crop insurance program has been only approximately 30 percent while disaster payments to agriculture have averaged 1.6 billion annually from 1989 to 1994. In the same years, federal outlays for the federal crop insurance program have averaged \$844 million per year (United States Department of Agriculture, Economic Research Service, 1994b). Congress fashioned legislation which combines the federal crop insurance program and disaster payments into a more cost effective and manageable plan. The new program, which will go into effect in 1995, provides farmers with basic catastrophic loss coverage and increases subsidies to premiums for optional higher level crop insurance.

³ Every fifth year, U.S. price and income support programs and conservation programs are reviewed by Congress and new legislation is implemented for the next 5 years.

The basic coverage, which has no premium, offers protection against yield losses greater than 50 percent at a payment rate of 60 percent of the expected market price (Benenson, 1994b). A processing fee of \$50 per crop per county with a minimum of \$200 per county and \$600 overall will be assessed with the option of purchasing coverage at higher levels.

A special permanent disaster program, with the same benefits as the basic catastrophic loss coverage, was implemented for situations where insurance is not provided for specialty crops, such as floriculture, ornamental nursery crops and turfgrass sod. In order to wean Congress from handing out disaster payments, the legislation also revoked Congress' ability to pass ad hoc disaster bills for farmers. To ensure farmer participation, enrollment in the basic catastrophic loss coverage will be required to obtain federal loans and benefits under commodity and conservation programs.

Although proponents of the new insurance program claimed that it would eventually save millions of dollars each year, budget rules for Congressional spending require that any initial increases in mandatory spending required for implementing and administering the program be offset by decreases in other agricultural programs. After some debate, a compromise was reached in which enough money from mandatory agricultural spending accounts was found to cover expenses for fiscal years 1995, 1996 and part of 1997. Funding for the remainder of fiscal year 1997 and the following years will need to be found later. Success of this program will depend on Congress' ability to refrain from granting disaster payments and on future Congressional appropriations.

3.2 Department of Agriculture Reorganization Act of 1994

Although reorganization of the U.S. Department of Agriculture has already been in progress for several years, in late 1994, Congress passed legislation authorizing the Secretary of Agriculture to make some fundamental changes in its organizational structure. The Department of Agriculture reorganization plan, which includes both the Department's main office in Washington, D.C. and numerous field offices, was developed by the administration as part of President Clinton's "reinventing government" campaign. It calls for a 7 percent reduction in Washington-based staff and the merger of some agencies including the elimination of the well-known Soil Conservation Service (SCS). Whereas conservation programs are currently scattered across several agencies, the plan relocates most land and water conservation programs under a newly created agency, the Natural Resources Conservation Service. A new Agriculture Service Agency is created, combining the Agricultural Stabilization and Conservation Service (ASCS), Federal Crop Insurance Corporation (FCIC) and the farm lending activities of the Farmers Home Administration (FmHA) (Benenson, 1994a). Field offices for commodity and conservation programs, crop insurance and farm lending will be consolidated to streamline services and provide "one stop shopping" for farmers. As a result, 1200 field offices will be closed.

Reflecting the increased emphasis on food safety and the expanding regulation affecting agriculture, two more notable changes were made. The top position in the Food Safety and Inspection Service was elevated from assistant secretary to undersecretary, and an office for risk assessment was created which will perform risk and cost-benefit analyses of new regulations in agriculture that have a national impact over \$100 million per year.

While the Department of Agriculture reorganization and the Federal crop insurance reform

were the two most important recent pieces of legislation, the 1995 farm bill will set the stage for agricultural price support, income support and conservation policies for at least the next five years.

3.3 A Forward Look at the 1995 Farm Bill

The 1995 Farm Bill debate will begin in Congress in 1995 but some proposals for changes have already been developed by special interest groups and analysts in the Department of Agriculture. Although it is difficult to predict the outcome, it may be enlightening to discuss the major factors that will play into the debate and some of the proposals currently being discussed.

In addition to pressures to reduce the Federal budget deficit and the thrust to make agriculture more environmentally responsible, several other factors are expected to influence the development of the 1995 farm bill. These include changing demographics, anti-agricultural program sentiment and increased involvement of a variety of interest groups.

Changing demographics in the U.S. has slowly led to less rural congressional representation. With less percent of the population living in rural areas, farmers are receiving less representation in Congress, which may affect the current discussions and final form of the 1995 farm bill. Furthermore, only approximately one-third of farm operators grow "program crops." Increased specialization in crop production has led to the concentration of commodity program benefits in the Corn Belt and Plains. The result has been a decrease in the broadness of support for commodity programs.

Increasing anti-agricultural program sentiment has also led some to argue that the current

agricultural programs are outdated and need to be completely overhauled or eliminated. This position may be driven by the concern that farmers who receive the largest amount of benefits are those least likely to need risk protection or income subsidy. In fact, since most farm payments go to farm households that have above average U.S. incomes, farm policies are sometimes argued to be regressive in nature.

Another factor is the increased involvement of various interest groups in agricultural policy debates. Consumer, environmental and agribusiness interest groups are playing an increased role in agricultural policy discussions and are expected to continue to do so in future agricultural policy debates.

Both farm price and income support and conservation programs are under review during this discussion stage of the 1995 farm bill. Proposals range from extensions of current programs with minor modifications to fundamental changes in the current agricultural programs. Current proposals for incremental changes in commodity programs and conservation programs will be discussed first, followed by proposals to fundamentally change U.S. agricultural programs.

3.3.1 Farm Price and Income Support Programs⁴

Given the current emphasis on sustainability and environmental issues, and the fact that extensions or increases in conservation programs must generally be offset, under budget rules, by decreases in other agricultural program spending, many proposals have focused on options to reduce the cost of commodity programs. The key question is: How much will commodity programs have to be cut in order to extend or fund new conservation programs? One proposal

⁴ For a description and origin of the specific commodity program components see Erdman and Runge (1990), Cochrane and Runge (1992), Runge and Vande Kamp (1992).

which was advanced by the administration in 1993 was to increase the number of "flex acres" which are not eligible for deficiency payments.

The flex acres program is designed to decouple subsidy payments from planting decisions and give farmers the ability to react to market conditions. Under 1994 program provisions, producers are allowed to plant any eligible "flex" crop on up to 25 percent of any program crop acreage base while maintaining the current level of program base acreage (U.S. Department of Agriculture, Agricultural Stabilization and Conservation Service, 1994). Fifteen percent of the base acreage is not eligible for deficiency payments. The additional 10 percent, which is optional, is eligible for deficiency payments if it is planted to the original program crop but not eligible if not planted to the program crop. Increasing the non-payment flex acres to a level greater than 15 percent would reduce program costs by decreasing deficiency payments. In addition, increasing the optional flex acres above 10 percent would reduce deficiency payments in cases where farmers choose to plant something other than the original program crop.

Another recommendation to cut program costs has been simply to reduce target prices. The difference between the target price and the loan rate or market price, whichever is less, multiplied by the units of crop production, makes up the deficiency payment. Reducing target prices would decrease deficiency payments to farmers, and would, in turn, lessen program costs. Although the 1985 farm bill reduced target prices by approximately 10 percent, they have remained unchanged since 1990. This proposal is consistent with significant public support of phasing out income and price support programs.

Other proposals call for decreasing the limit on the total annual deficiency payments per farm from the current level of \$50,000 to say, \$20,000 (Cochrane and Runge, 1992). Since large

agricultural producers are less likely to need subsidies, this would limit the payments they could obtain. Increases in the acreage reduction program (ARP) would also decrease program costs. The ARP is a land retirement program in which farmers reduce planting of their program crop acreage base by a certain percentage to become eligible for commodity program benefits. While ARP was required for most program crops in recent years, in 1994 it was required only for the cotton support program. ARP reduces the acreage upon which deficiency payments must be made, thus decreasing the cost of commodity programs. While some argue that ARPs may be needed to reduce program costs, others call for the removal of ARP requirements. Some contend that increased ARPs may result in significant decreases in production leading to reduced exports of some U.S. crops.

3.3.2 Conservation Programs

For the most part, U.S. commodity and conservation programs have traditionally been voluntary. Although this is frustrating to some interest groups with conservation and environmental objectives, farmer interest groups are loath to give up these programs in exchange for mandated requirements. With the combination of budget pressures and a decrease in commodity program benefits however, the ability to rely on incentive payments with linkages to these voluntary commodity programs to meet environmental and sustainability goals may diminish. The result is likely to be increased pressure from environmental groups to rely on mandates, with penalties or fines for noncompliance, to meet environmental goals. This pressure may be resisted by the new Republican Congress, but the diminished attraction of the voluntary commodity programs makes conflicts over environmental policy and how best to implement it

likely.

Programs to reduce nonpoint source pollution and preserve wetlands have also gained increased attention in the last several farm bills. The 1985 and 1990 farm bills (Food Security Act of 1985 and Food, Agriculture, Conservation and Trade Act of 1990) implemented a number of conservation programs in agriculture including the Conservation Reserve Program (CRP), Conservation Compliance (CC) and the Wetlands Reserve Program (WRP). Also included were the "sodbuster" and the "swampbuster" provisions. These two measures deny farmers a range of federal benefits if they convert swampland or environmentally sensitive land to cropland.

Conservation Reserve Program (CRP)

The Conservation Reserve Program, which makes annual per acre payments to farmers for allowing highly erodible land to lie fallow for 10 years, is up for debate in the 1995 farm bill discussions. The CRP, which was implemented in 1985, has resulted in 36.4 million acres (8 percent of U.S. cropland) removed from agricultural production. This land is planted to an approved cover crop such as grass or trees. Although the CRP has been costly -- \$1.8 billion per year in recent years -- it has resulted in a significant reduction in soil erosion levels in some areas. Erosion reductions have averaged 19 tons per acre per year on CRP land. This is a 22 percent reduction in U.S. cropland erosion compared to erosion levels before CRP (United States Department of Agriculture, Economic Research Service, 1994a).

The first 10-year contracts, which commenced in 1986, included 2 million acres, and are due to expire in 1995. A total of twenty-two million contract acres will expire in 1996 and 1997. Although CRP contracts expiring in 1995 would have allowed farmers to bring this land back into

production in 1996, former Secretary of Agriculture Mike Espy announced in August 1994 that land owners who have CRP land due to expire in 1995 will have the option of extending the contract for one additional year. The extension was granted so that land owners have the option of not bringing the land into production before Congress deals with CRP in the context of the 1995 Farm Bill. Due to the expense of the program, it is unlikely that the CRP will be funded at the same level as in recent years. However, significant pressure exists from the environmental community for the program be continued in some form, and the administration has expressed its support for extending it. The CRP is also supported in some quarters because it reduces output, deficiency payments, and hence commodity program costs. However, critics have pointed out that it has removed many productive acres, disadvantaging the U.S. in international trade.

Current discussions on the future of CRP center around the targeting of land to achieve maximum environmental benefits at lower cost. Due to the standards initially used to determine eligible land, some of the land currently in the CRP is not particularly environmentally sensitive or fragile. The question which arises is how to renew CRP land which gives the greatest environmental benefit. This will require a broadened set of eligibility criteria, over and above soil erosion, such as soil productivity, surface and groundwater quality, vulnerability to nitrogen leaching or pesticides, and wildlife habitat. Also under review is the method of negotiating the per acre annual payment to farmers for land entered into the CRP. Past experience has shown that many per acre payments for CRP land have been excessive.

The use of long term easements in the CRP, as used in the Wetlands Reserve Program (WRP), has also been examined. Long term easements are somewhat more costly than limited-term contracts, and landowners are often reluctant to sign away property rights in perpetuity.

Wetlands Reserve Program (WRP)

Due to limited allocations from Congress, the Wetland Reserve Program has had limited success since its inception in 1985. Under the WRP, the Agricultural Stabilization and Conservation Service (ASCS) of the United States Department of Agriculture purchases easements, in lump sum payments, from owners of qualifying cropland who are willing to restore and protect prior converted wetlands and areas adjacent to wetlands. The WRP is "for the purpose of restoring the hydrology and vegetation and protecting the functions and values of wetlands for wildlife habitat, water quality improvement, flood water retention, ground water recharge" (Department of Agriculture, Agricultural Stabilization and Conservation Service, Wetlands Reserve Program: Interim Rule, 1994, p. 3773), and other reasons.

Early in 1994, Congress passed legislation which expanded the number of states participating in the WRP from 8 to 20. The bill declared that \$66,675,000 be allocated to the WRP for 1994 to enroll no more than 75,000 acres. However, a future enrollment target for the WRP is 975,000 acres by 2000. Achieving this target heavily depends on whether annual Congressional allocations to the program are forthcoming. In the Budget Reconciliation Act of 1994, Congress allocated \$93.2 million to the WRP for fiscal year 1995, a significantly lower amount than the Administration's recommended \$240.9 million (Katz, 1994). Still, the allocated amount reflects nearly a 40 percent increase over 1994.

Conservation Compliance Provisions (CCP)

Conservation Compliance Provisions implemented in the 1985 farm bill links conservation programs with the commodity programs. CCP requires certain environmental plans on farms as a

condition of eligibility for commodity payments, and is thus argued to achieve environmental targets without expending additional federal funds. The conservation compliance legislation requires all farmers with fields designated as highly erodible land (HEL)⁵ to have an approved conservation plan by 1990 and to implement the plan by January 1, 1995. Failure to comply with these requirements results in loss of future benefits such as price support payments, crop insurance, disaster payments, Conservation Reserve payments, storage and commodity loans and subsidized agricultural loans. In the original legislation, an approved conservation plan was any combination of management and structural soil conservation practices (crop tillage, crop rotation, terraces, waterways) which reduced erosion levels to the "long term sustainable rate of erosion." Later, claims that the original conservation plans would cause financial hardship led to a relaxation of the erosion standard and the development of alternative conservation plans which took into consideration economic and technical feasibility and other factors.

Although implementation of the approved conservation systems is not required until January 1, 1995, a March 1994 status review found that 96 percent of HEL fields, totaling 149 million acres, had an approved conservation system and that two-thirds of this acreage (98 million acres) have fully implemented these conservation plans (Canning and Vande Kamp, 1994). The Conservation Compliance Provision is expected to significantly reduce soil erosion on the targeted land. Of the area already with an applied conservation plan, the average annual post-compliance erosion rate per acre is estimated to be about one-third of that prior to program.

Conservation compliance is costly to implement and administer. Each individual

⁵ A field, or parcel of land, is designated to be highly erodible land (HEL) if at least 50 acres or more than 33% of the field has an erosion rate greater than 8T (8 times the long term sustainable rate of erosion).

conservation plan must be approved and staff members must verify application of the plans.

Although staff requirements for conservation compliance may decrease after 1995, implementation and administration costs must clearly be considered when future legislation is developed.

The essential difficulty with conservation compliance, as noted above, is that it depends on the benefits of the commodity programs as a "hook" to induce compliance. If the benefits of the commodity programs are reduced, farmers may decide not to participate in them which in turn reduces incentive to comply. Therefore reducing commodity program benefits to fund conservation programs is a balancing act in which too much reduction in benefits from commodity programs may result in less compliance with the CCP and higher levels of erosion in some areas.

Moreover, the application of CCP is limited to areas and producers growing "program crops," which receive most of the federal subsidies. Many vegetable, fruit, livestock, and dairy producers do not participate in commodity programs and thus have little incentive to comply with CCP. Roughly 30 percent of highly erodible land is on farms that do not participate in farm programs. Moreover, CCP is targeted mainly to highly erodible land, to the exclusion of many other environmental issues, although efforts are underway to expand its scope. These include proposals to require producers to comply with certain pesticide and fertilizer restrictions and other management practices in environmentally vulnerable areas. This would, of course, add to the burden on commodity program participants and thus could push some farmers to not participate.

Barring extreme changes to the CCP in the 1995 farm bill, the continued effectiveness of CCP will hinge on what happens to commodity program funding in the upcoming farm bill.

Green Payments

A new initiative under discussion for 1995 involves the use of "green payments," to be paid to farmers in exchange for their adoption of conservation and environmentally sensitive practices. Such payments could be made in addition to, or in lieu of current income and price support payments. Specific details regarding these proposals are still in development, including how they should be implemented, toward what environmental practices the payments should be targeted, and whether or not they should replace current price and income support programs.

Conflicting Incentives

As U.S. commodity and conservation programs have become increasingly complex, there is a growing sense that the incentives faced by farmers have become so complicated and often contradictory, that new approaches may be needed. The CRP, for example, pays farmers to retire land for which deficiency payments pay farmers to crop intensively: the latter increases farmers' opportunity cost of putting land into the CRP, thus bidding up federal rental payments for CRP land and increasing government costs. Similarly, the newly implemented Federal Crop Insurance Program may result in increased willingness by farmers to till high risk areas or be less likely to place land into environmental reserves. These problems have led some to argue that the current agricultural programs are obsolete and that a complete overhaul is needed. A proposal for fundamental reform, which has been discussed at length both by nongovernment organizations and the Department of Agriculture, is Revenue Assurance.

3.3.3 Revenue Assurance Proposal

The Revenue Assurance Proposal, which was developed by an Iowa Farm Bill Study Team in late 1993, proposes guaranteeing participating farmers 70 percent of a 5-year moving average of revenues. While reserve programs and commodity loan programs would be continued, this plan would replace deficiency payments, disaster payments, acreage reduction and parts of Federal crop insurance. Additional levels of coverage could be purchased by farmers from private corporations or a government agency. Although the Iowa plan assumes that government pays for basic protection, other means of funding including producer premiums have been discussed.

Farming enterprises which would be covered would depend on the available level of funding. If revenue assurance was made available for all crop enterprises, and not just current program crops, the amount of available funds would be spread more thinly and benefits would likely decrease for current program crops and increase for non-program crops. Including livestock operations in a Revenue Assurance Program would be prohibitively expensive.

A recent analysis of the proposal found that revenue assurance would provide more risk reduction per dollar of program cost than current programs (Harwood, et al., 1994). Also, because revenue guarantees are based on historical levels of revenue, farmer receipts from the program will not result from subsidies above current price levels as under current commodity programs. This has the advantage of making the program more a revenue stabilization program than a subsidy, and is thus more likely to gain its support among non-farm interest groups.

Revenue Assurance is similar to Gross Revenue Insurance Plan (GRIP) implemented in Canada in 1991. The Canadian Plan is made up of two separate optional programs, crop insurance and revenue protection. Support for the Canadian plan is provided jointly by farmers, provincial governments and the federal government (Agriculture Canada, 1994). Coverage levels,

which differ between provinces, range from 70 percent to 90 percent of long term average revenue. Although recent reports find the Canadian Plan to be more expensive than originally anticipated, the Canadian experience may be useful in the development of a feasible revenue assurance plan for U.S. agriculture.

The Iowa Plan does not address conservation issues. Although elimination of the current commodity programs would result in loss of incentives for producers to comply with the Conservation Compliance Provisions, it may be possible to link the CCP to participation in Revenue Assurance. These details will have to be worked out if support for the proposal becomes significant. The Revenue Assurance proposal could become a model upon which other proposals of immediate or gradual change can be built.

Can we expect a major overhaul of U.S. agricultural price and income support programs in the 1995 farm bill? Historically, Congress has been inclined toward incremental rather than fundamental change. Some members of Congress have even proposed extending the 1990 farm bill, as written, for two or more years. Given the increased backing for conservation and environmental measures, including the CRP, it is likely that it too will be continued, but due to its cost at lower levels. However, to continue to fund the CRP and other conservation programs with reduced allocations for agricultural programs, significant pressures will exist to reduce deficiency payments and limit the cost of other agricultural price and income support programs. As this "slow squeeze" takes hold, farmers may increasingly decline to participate, hastening the need for non-incremental reforms. We turn now to another source of reform pressure: the international trade environment.

4. North American Free Trade Agreement (NAFTA)

After several years of negotiations, NAFTA, a trilateral trade agreement between Canada, Mexico and the United States, was narrowly passed by the House and later by the Senate in November 1993, signed by President Clinton on December 8, 1993 and was implemented January 1, 1994. The pact sets out separate terms for liberalizing U.S.-Mexico and Canada-Mexico trade while the earlier U.S.-Canada free trade agreement, implemented on January 1, 1989, was incorporated into NAFTA and continues to apply. The all-trade-encompassing agreement set a precedent for including environmental and labor concerns into a trade accord. After completing negotiations of the original trade agreement in December 1992, environmental and labor interest groups attacked the agreement as being a threat to both the environment and U.S. jobs. This led to the negotiation of two supplemental accords: an environmental agreement and a less ambitious labor agreement (Bradsher, 1993). Although these attachments gained the support of some environmental groups, labor groups, in general, continued to oppose the pact.

Key agricultural components of the pact include the gradual elimination of nontariff and tariff barriers for agricultural products while providing safeguard provisions and country-of-origin rules. On January 1, 1994, all nontariff barriers which were not simply eliminated, were converted to tariff rate quotas (TRQs) or ordinary tariffs. An average of recent trade levels was used to set the TRQs.

On a broad range of agricultural commodities, tariffs were eliminated immediately after NAFTA took effect resulted in roughly one-half of U.S.-Mexican bilateral agricultural trade becoming duty free. The phaseout period for tariffs and TRQs on most remaining agricultural commodities is 5 or 10 years. For a few highly sensitive products, including sugar and orange

juice for the United States and corn and dry beans for Mexico, duties will be gradually eliminated over 15 years. Hence, the elimination of tariffs will be complete in 2008. The TRQs are generally increased at 3 percent per year and will be eliminated at the end of the transition period. The base tariff levels and phaseout periods for the principle agricultural products traded between the U.S. and Mexico are described in Table 1.

{INSERT TABLE 1 HERE}

During the first 10 years that NAFTA is in effect, special safeguard provisions are provided for a select group of agricultural commodities. These provisions allow the importing country to impose a tariff on imports above a designated quantity. The tariff level must be the GATT most-favored-nation rate or the rate when NAFTA was implemented, whichever is lower. Seasonal imports of fresh tomatoes, eggplant, chili peppers, squash, watermelons, and onions define the commodities for which the United States can apply this special safeguard. Included also are strict county-of-origin rules to ensure that NAFTA benefits go only to goods produced in the North American region. This eliminates the possibility that NAFTA members could serve as a platform for exports from non-NAFTA countries to other members.

4.1 Institutional Arrangements

Under NAFTA, a Free Trade Commission is established to supervise the implementation of the agreement and to resolve any disputes which may arise regarding its interpretation or application. This central institution is composed of ministers or cabinet-level officers designated

by each country. Decisions are made by consensus. The Commission, in turn, oversees a Secretariat comprising national sections. All three member countries will be responsible for establishing a section and designating an individual to serve as secretary for its section. Assistance will be provided to the Commission by the Secretariat and other committees and dispute settlement panels as established by NAFTA. The agreement creates a number of committees and working groups including a Committee on Agricultural Trade to monitor the implementation and administration of the agricultural features of the pact.

Dispute resolution procedures are also spelled out, including consultations between countries and, in cases in which an expeditious settlement is not reached, the selection and functioning of a dispute resolution panel.

4.2 Environmental Provisions of NAFTA

Although the original NAFTA text claimed commitment to implementing NAFTA in a "manner consistent with environmental protection and to promoting sustainable development," a supplemental accord, the North American Agreement on Environmental Cooperation (NAAEC), was negotiated in 1993 to further address environmental concerns. The main NAFTA text declares that specific international environmental agreements regarding ozone depleting substances, endangered species, and hazardous wastes will take precedence over the trade obligations of NAFTA (North American Free Trade Agreement Between the Government of the United States of America, the Government of Canada, and the Government of the United Mexican States, 1993). This assured participants that NAFTA will not curtail a country's right to take action under these environmental agreements. In addition, the main agreement underscores

the right of each country to choose the level of protection for human, animal, health or the environment that it considers appropriate.

To strengthen the environmental provisions of NAFTA, the supplemental agreement, NAAEC, creates a formal independent commission to address environmental concerns, the new Commission on Environmental Cooperation (CEC) (Office of the United States Trade Representative, 1993b). Its purpose will be to broaden cooperation between members of NAFTA, to promote ways of assessing and mitigating transboundary environmental problems, to promote greater public access to information on hazardous substances, and to serve as a point of inquiry for public concerns over the effect of NAFTA on the environment. Three environmental cabinet-level ministers or equivalent representatives (one from each of the NAFTA partners) make up the Council, which in turn administers the Commission. In addition, an independent Secretariat, which reports to the Council, was created, to be led by a Council-appointed director. Finally, a joint advisory committee made up of an equal number of representatives from each country will advise the Council in its deliberations. The level of independence of the Secretariat has been an issue of controversy; some feel this independence threatens (or unduly limits) U.S. sovereignty while others call for even greater independence (Magraw, 1994). In response to public submissions, the Secretariat will complete fact-finding reports and the Council will discuss issues relevant to the submissions and fact finding reports. Conflicts arising from the perceived failure of one party to enforce its environmental laws may result in a referral of the matter to a dispute settlement panel. In the end, the dispute settlement process may lead to sanctions if a party fails to correct matters of nonenforcement.

Several other "parallel" negotiations are in progress including the funding of

environmental infrastructure projects in the U.S.-Mexico border region and the creation of a North American Development Bank (Office of the United States Trade Representative, 1993a).

4.3 Supplemental Agreement on Labor

The supplemental Agreement on Labor Cooperation creates a new commission very similar to the one created by NAAEC (Office of the United States Trade Representative, 1993c). The Labor Commission is made up of a Council of 3 members, the top cabinet-level labor official from each country. An independent International Coordinating Secretariat (ICS), comprising an executive director and staff, will provide technical assistance to the Council. Each country will appoint a National Administrative Office (NAO) to be a point of contact and communication between national governments and the Commission. The NAO will be responsible for disseminating information on labor matters. Each country will determine the functions, powers and staffing of its NAO.

The objectives of the Supplemental Agreement on Labor are to promote improved labor laws and standards, advance key principles such as protection against child labor, right to strike and collective bargaining, freedom of association and various minimum employment standards. The agreement is intended to encourage voluntary compliance with certain standards and sanctions are intended to be used only as a last resort.

4.4 An Early Assessment of NAFTA

Although it may be too early to be conclusive, trade flows are significantly higher after the first five months of NAFTA. Although it is difficult to attribute such changes to NAFTA alone, U.S. agricultural exports to Mexico rose 12 percent while agricultural imports from Mexico rose

7 percent from January through May 1994 compared to the same period in 1993 (United States Department of Agriculture, Economic Research Service, 1994d). Figure 1 shows total U.S. agricultural exports to Mexico for the first 5 months of 1994 compared with 1993 exports and a five year average. Similarly, Figure 2 shows total agricultural imports from Mexico.

{INSERT FIGURE 1 AND FIGURE 2 HERE}

Among the agricultural export increases in the first 5 months of 1994 are beef export increases of 52 percent, due to Mexico's elimination of tariffs on beef; poultry export increases of 27 percent, and corn export increases of 350 percent. Some of the increases for poultry and corn may be due to front loading of exports in the early months of 1994 due to pressure to export before a predefined tariff rate quota (TRQ) was reached. These early trade flow increases suggest that as tariffs are decreased trade will continue to expand.

5. General Agreement on Tariffs and Trade (GATT)

After seven years of negotiations, the Uruguay Round (UR) of Multilateral Trade Negotiations was completed on December 15, 1993. The Final Act, including the Schedule of Commitments for each country, was signed by 111 countries at the Marrakech Ministerial Meeting on April 15, 1994. The UR Agreement is a historical trade accord for agriculture. It is the first GATT agreement which truly attempts to open world agriculture markets (Food and Agriculture Organization of the United Nations, 1994). Although the negotiated opening of agricultural markets was quite moderate, it paved the path for future reductions in barriers to agricultural trade.

The agreement, which must first be ratified by each of the participating countries, was passed in a lame duck session by the U.S. House of Representatives on November 29 and the U.S. Senate on December 1, 1994. It is set to go into effect in 1995 and provides a six year implementation period for developed countries and a ten year implementation period for developing countries. If ratified immediately, in late 1994, it will be fully implemented by 2000 and 2004 for developed and developing countries respectively.

Discussion of the agricultural agreement (only one of 15 separate negotiating areas) may be divided into four sections: export subsidies, market access, internal supports, and sanitary and phytosanitary rules.

Export subsidies which must be reduced include direct subsidies, sale from stocks by government at prices lower than domestic market prices, subsidized export marketing costs, and special domestic transport charges. Using 1986-90 as the base period, the volume of subsidized exports must be reduced 21 percent and a reduction of 36 percent in federal outlays for export subsidies must occur. Equal annual reductions must occur from 1995 to 2000 for the United States. Under certain conditions, countries may use 1991-92 levels as the initial levels but the final levels must remain the negotiated reductions from the base period.

Table 1 shows the U.S. Uruguay Round commitments regarding export subsidies. The volume of subsidized exports and annual export subsidy outlays for major export commodities are shown for both the first and last year of the implementation period. From the table, one can see that wheat secures the most export subsidies but also takes the largest cut in federal subsidy outlays in absolute terms. Out of the three areas of commitments for the U.S. (export subsidies,

market access, and internal supports), export subsidies are the most affected by the UR agreement.

{INSERT TABLE 2 HERE}

To increase market access, all non-tariff barriers such as quotas, variable levies, licensing, minimum import prices, state trading measures and voluntary restraint agreements must be converted into ad valorem tariffs using 1986-88 as a base year. The agreed tariff reductions are 36 percent on average with a minimum reduction of 15 percent over the 6 year implementation period. For developing countries, the cuts are 24 percent on average with a minimum of 10 percent.

In cases where there are currently no significant imports, minimum access levels in 1995 will be granted at 3 percent of domestic consumption of the base of 1986-88, and be increased to 5 percent of the base year by the end of the implementation period. This will be achieved using a tariff rate quota system, with tariffs set at Most Favored Nation rates. Commodities for the U.S. which were subject to tariffication are shown in Table 2. This table shows the tariff rate quotas and tariff rates at both the pre-UR levels and after the implementation period.

{INSERT TABLE 3 HERE}

The UR agreement divided internal supports into two groups: policies which have minimal or no production or trade distorting effects, and those which do. No reductions are required for those in the former category. For the latter group, total support measured by a total Aggregate Measure of Support (AMS) must be reduced 20 percent for developed countries and 13.3 percent

for the developing countries. Here, reductions are based on total levels of support and not on individual commodities.

A number of non-trade distorting domestic policies are permitted including conservation measures, crop insurance, disaster assistance, income payments not based on production and others. In addition, a number of direct payment policies are to be excluded from the calculation of AMS if they satisfy certain conditions. The conditions are met if the direct payments are decoupled, or made on 85 percent or less of production in the base period, or based on fixed area and yield or on a fixed number of livestock. This, in general, allows current domestic price and income support policies in the U.S. to be exempted from reductions.

Under the UR agreement, the sanitary and phytosanitary measures allow countries to use GATT rules and the new World Trade Organization (WTO) to halt the use of unjustified health regulations to block imports. The new agreement supports the use of science-based rules in determining food safety and plant and animal health.

The provisions dealing with Sanitary and Phytosanitary Standards (SPS) were dominated in the negotiating phases by the developed countries. There is growing apprehension amongst developing countries that the scientific standards and procedures necessary to comply with SPS Standards in the future may prove beyond the technical or financial means of developing countries. Even with special and differential treatment, the net effect could be to deny market access in food and alimentary products, notably in processed meat products, livestock, and poultry, unless the agreement is very carefully implemented (Petrey and Johnson, 1993).

The United States is concerned that the food safety standards adopted are not lower than existing U.S. standards. The Agreement makes clear that countries are free to adopt more

stringent standards if they believe existing international standards are inadequate. In particular, Congress wishes to prevent consumers being exposed to any risk from cancer-causing chemicals in processed food (Office of the U.S. Trade Representative, 1994d).

As a result of the agreement, world prices for temperate zone products are forecast to rise five to ten percent, since in the past they have been highly subsidized, especially by developed countries. In contrast, prices of tropical products are expected to be unaffected. Some projections predict significant benefits for U.S. agriculture. An increase of 1.6 to \$4.7 billion in U.S. agricultural exports by 2000 is projected by the U.S. Department of Agriculture. Net farm sector income is expected to increase 1.1 to 1.3 billion dollars (United States Department of Agriculture, 1994c). On the other hand, the committed reduction in tariffs is expected to result in an annual net loss of \$275 million in agricultural tariff revenues by 2000.

The UR agreement is not likely to have major direct effects on the development of domestic U.S. agricultural policy, since the commodity programs, as they currently stand, are in full compliance with U.S. commitments. However, the Export Enhancement Program (EEP) will have to be cut back to comply with U.S. commitments on export subsidies. Some adjustments will occur in imports, but they are quite modest.

The UR agreement also establishes the World Trade Organization (WTO). The WTO will include all of the UR agreements under one legal framework (Sutherland, 1994). It creates a unified dispute settlement system which is more credible and more effective than its predecessor. It was formed, in part, to improve the implementation of country commitments and to eliminate "free riding" in the opening of world markets.

The politics of the GATT approval process in late November, 1994 resembled in

many ways those of NAFTA, with horse-trading and special interests dominating the final debate. Approval in the House was assumed, but the Senate proved to be a more difficult fight, with textile interests and Senator Jesse Helms (R-North Carolina) fighting the agreement on one hand, and the new majority leader, Robert Dole (R-Kansas) seeking special concessions on unrelated issues (e.g., capital gain tax cuts) on the other hand. In the final analysis, the vote was too important not to lead to approval.

In conclusion, the UR Agreement on Agriculture takes steps which will have some impacts on both U.S. imports and exports, although these are likely to be modest. The key achievement of the Uruguay Round has been to initiate the process of opening global agricultural markets, a process that will require continued impetus and scrutiny in the years ahead.

6. Summary

The forces and factors influencing agricultural policy in the United States are several. First, budget pressures continue to play a significant role and will remain a driving force in the 1995 farm bill debate. A tradeoff between agricultural price and income support programs, and conservation programs, resulting from severe budget pressures is also apparent in the discussions leading up to the 1995 debate. More remote, but still significant, are recent developments in international agricultural policy where a primary objective has been increased access to export markets. U.S.-Mexico agricultural trade under NAFTA shows an increase in both imports and exports. The Uruguay Round Agreement of the GATT and the WTO are also part of the new landscape of U.S. agricultural policy. The new Congress now awaits debate on the 1995 farm bill.

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Figures 1-2
Tables 1-3

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