PolicyPennings by Dr. Daryll E. Ray

WTO: Needs a "blue light (box) special" for agriculture

The recent WTO Cotton Compliance Panel report along with Canada, Brazil, and other countries' exploration of a challenge to the other program crops in the commodity program raises serious questions about the appropriateness of WTO as the instrument for regulating and guiding the international trade of crops and other agricultural products.

The Compliance Panel ruled that the changes that had been made since the 2005 Disputes Panel including the elimination of the Step 2 payments were not adequate to bring the cotton program into full compliance with the Disputes Panel's ruling. Again part of the emphasis was on "the trade distorting effects" of the Marketing Loan Program and the Counter-Cyclical Payment Program. It is that part of the rulings that puts the other program crop in jeopardy.

While we are no fans of the present program tools or any of those under consideration for the new farm bill, we think that the direction the WTO wants to take agriculture will be a disaster for most farmers world-wide. Are we going to have to experience a 1930's-like worldwide farm depression to see that the WTO solution will not work?

We ask that question because much of what we see in the WTO Agreement on Agriculture is based on false assumptions and thus the resulting policies are destined to leave farmers worse off, not better off. One of the faults in the original WTO Disputes Panel analysis is its failure to recognize that the subsidies in the late 1990s were the result of low prices, not the cause of low prices. Combine that with an analysis that looked at cotton, while ignoring other crops, and it is easy to come to faulty conclusions.

The low prices that Brazilian and Franc-Zone African farmers experienced in the 1998-2002 period were the direct result of the elimination of a price floor for US crops that was still partially in place until the adoption of the 1996 Farm Bill.

Replacing the Marketing Loan Program and the Counter-Cyclical Payment Program with a "blue box" inventory/production management program would be more consistent with the nature of agricultural production, than simply eliminating the subsidies altogether. Blue box policies are policies that provide compensation (subsidies) to farmers for engaging in practices that reduce excess production, thus managing commercial inventory levels and maintaining prices at levels that balance the needs of producers and consumers alike.

By failing to accept the legitimacy of an inventory/production management program of some sorts, those who support the Agreement on Agriculture are ignoring the basic characteristics of crop agriculture that are familiar to regular readers of this column. In the face of low prices, it is in the economic interest of individual farmers to minimize the per unit cost of production. One of the easiest ways to accomplish this goal is to adopt yield enhancing technologies as long as the market price remains above the variable cost of production.

Even when the price is below the total cost of production, anything the farmer receives above the variable cost of production can be paid toward fixed costs, minimizing the potential loss. It takes an extremely long period of low prices to result in reduced acreage dedicated to crops.

Given those characteristics of aggregate crop agriculture, maybe what is needed is an international trade mechanism, outside the WTO, that is much more attuned to the unique nature of crop and food markets and the unique role food plays in human society.

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