

FINANCIAL TIMES

June 21, 2012 5:58 pm

Senate approves US farm bill

By James Politi in Washington

In a rare burst of bipartisanship, the Senate approved its version of a five-year farm bill, a \$1tn piece of legislation that defines the relationship between the US government and agriculture.

In some ways, this year's effort marks the end of an era. Amid mounting pressure to cut support for one sector of the economy that has been booming in recent years, lawmakers eliminated a [controversial scheme worth \\$5bn in direct payments to farmers](#) – regardless of whether they planted crop or not – that became a poster child for excessive spending.

In addition, Republicans and Democrats endorsed further reductions to agricultural commodity subsidy, conservation and food stamp expenditures – including limits on help for wealthy farmers – for a total of \$23bn in savings for the US government over the next decade.

The bill – which passed by a 64-35 margin and now moves to the House of Representatives – could give the US the higher ground in its talks with trading partners around the world who have frequently demanded cuts to America's farm subsidies.

"The fact that they are going to get it done is a significant step forward," says Bill Reinsch, president of the National Foreign Trade Council, which campaigns for open trade and a revival of multilateral talks. "The US stepped up – now I would ask the European Union: what are you going to do?"

But the details of the legislation – as approved by the Senate – could be harder, rather than easier, for the US to defend abroad. While direct payments and other subsidies have been scrapped, US farmers will still benefit from a crucial government safety net in the form of expanded crop insurance through a "shallow loss programme" that would help guarantee certain farmers' revenues.

And while direct payments are considered the most blatant form of subsidy, this also makes it the most transparent, placing it in the WTO's "green box" of permitted support plans. However, the new crop insurance scheme could be placed in the WTO's "amber box" of trade-distorting subsidies subject to certain limits, analysts say.

"The new hand with which they give is more distorting than the previous one," says Sallie James, a trade policy analyst at the libertarian Cato Institute. "These people are not serious about reform."

Brazil is among the countries that will be watching closely how the bill moves through the House, since it has been mired in a longstanding [dispute with the US over America's cotton subsidies](#).

"The hope is that there have been enough changes to the cotton programme that the Brazilians will be OK with it," says Mary Kay Thatcher, senior director of congressional relations at the American Farm Bureau.

The US agricultural lobby – knowing that it was in the crosshairs as a result of America's new budgetary restraint given the good fortunes of its industry in recent years – made an early effort with lawmakers to support modest cuts in order to preserve basic protections for farmers.

"[The agriculture committee] is the only committee that is reauthorising a bill and putting some of the savings towards deficit reduction," Ms Thatcher says.

Overall, the cost of the new farm bill – which will last five years – is almost \$1tn, the overwhelming majority of it to come from ballooning spending on food stamps. The legislation in the Senate does make some small reforms to the food stamp programme – for example, preventing lottery winners from getting nutritional assistance – but lawmakers in the House may seek more.

The path to passage in the House is not clear. Although the chairman of the agriculture committee has vowed to move forward with it, Eric Cantor, the majority leader, suggested it was time for a "pause".

Still, getting to this point has not been without the usual congressional and lobbying drama. The bill pitted Midwestern corn and soybean farmers – who were satisfied with the shift towards crop insurance – against southern peanut and rice farmers – who fought harder for direct payments and target prices.

Meanwhile, John McCain, the Republican senator from Arizona, drew attention when he took to the floor of the Senate to rail against some of the measures included in the bill, from a new government office to inspect catfish to funding for a study on the health benefits of peas, lentils and garbanzo beans. Not to mention a special carve-out for popcorn. "There isn't a kernel of evidence that they need this subsidy," Mr McCain said.

So despite the encouraging direction in this farm bill, Mr Reinsch of the NFTC also adds: "You know the farmers, they're not going to be high and dry, they never are."