# Reality of US Farm Subsidies
## An Analysis of Agricultural Act of 2014

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With the formation of the World Trade Organization in 1995, the United States farm subsidies had moved towards income support, reducing spending on price support measures. The explicit reason was that the WTO had held that the latter forms were more market distorting and had thus put limits on their spending. The new Farm Act 2014 has changed the orientation of farm spending in the opposite direction. Price-based measures are back in focus, and the US seems less concerned about breaching its WTO limits.

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After a delay of nearly two years, lawmakers in the United States (US) passed the new Farm Act in February 2014, thus maintaining the continuity of periodically enacting farm legislations since 1933. The process of framing the Agricultural Act of 2014 (henceforth, Farm Act 2014), which will remain effective until 2018, saw deep a divide in the US Congress regarding the level of support that the farm sector should enjoy, with a dominant segment seeking spending cuts.

The arguments against maintaining the levels of farm spending provided by the previous Farm Act (the Food, Conservation, and Energy Act of 2008) were twofold. First, the previous Farm Act had authorised substantial increase in spending, especially for the two largest components, namely, commodity support and nutrition. The rise in commodity spending triggered a steep increase in net farm incomes by more than 80%, from $70 billion in 2007 to nearly $129 billion in 2013 (AgriBank 2015, Table 4) and therefore maintaining the past spending levels was questioned. Second, the increase in budgetary support for the farm sector in an era of tight budgets, found few supporters.

Farm Act, 2014 has authorised cuts in farm subsidies through changes in the structural underpinnings of farm programmes. It has eliminated "direct payments" programmes, which are supposed to be "decoupled"[1] from current production and prices, while reintroducing supply management programmes (better known as "deficiency payments"), according to which payments are to be based on the difference between a statutorily given target price and the market price. These changes have, in fact, made the commodity programmes in Farm Act, 2014 quite similar to those figuring in the farm legislations prior to the enactment of the Federal Agriculture Improvement and Reform (FAIR) Act in 1996.

The FAIR Act took the first steps towards "decoupling" of farm payments by introducing direct payments, which were extended by subsequent farm acts. The FAIR Act also discontinued the supply management programmes for all major commodities.[2] Importantly, these changes in the farm support policies were effected following the enforcement of the Agreement on Agriculture (AoA) under the World Trade Organization (WTO) in 1995. The AoA classifies direct payments as non-distorting/minimally distorting,[3] while price support and input subsidies are regarded as market distorting.[4] This suggests that the US lawmakers had an eye on the subsidies discipline introduced by the AoA.

This article critically analyses the farm support provided by Farm Act 2014 on two counts. First, the level of support that this legislation is expected to provide would be assessed. Second, it would use yardsticks provided by the WTO to comment on the impact these forms of support sanctioned by the Farm Act 2014 would have on agricultural markets. This exercise will be undertaken by focusing on three of the 12 broad areas (called "Titles") covered by the Farm Act.[5] These are commodity programmes (Title I), nutrition (Title IV) and crop insurance (Title XI), which make up for 93% of the total proposed spending in the Farm Act 2014.

Section 1 focuses on the programmes for supporting individual commodities, both direct and indirect, the latter being largely insurance programmes. Section 2 discusses the nutrition programmes, which make up for the largest component of the spending on Farm Act, 2014. In its notifications submitted to the Committee on Agriculture of the WTO giving account of its farm spending, the US has included spending on nutrition programmes in the "Green Box." The US has therefore suggested that besides meeting the conditions that Annex 2 of the AoA sets for providing domestic food aid by WTO

member countries this component of its farm legislation does not incentivise production. We would critically examine whether the nutrition programmes satisfy the above-mentioned conditions. Section 3 would attempt an overall assessment of the US farm support programmes from the point of view of its conformity with the WTO disciplines on farm subsidies.

## 1 Commodity Subsidies

Subsidies for commodities included in the Farm Act, 2014 are provided through specific commodity programmes as well as crop insurance schemes. The details of these programmes are elaborated here:

**Commodity Subsidy Programmes in Farm Act, 2014:** Three main types of support are included in the new act. These are: first, Price Loss Coverage (PLC), second, Agriculture Risk Coverage (ARC), and, third, Marketing Loan Assistance (MLA). The first two of these are supply management programmes, the likes of which the US has offered to its farm sector for several decades in the past. While PLC provides price assurance to producers, the ARC protects farm revenues. MLA establishes minimum prices for most of the major commodities.

The PLC is a counter-cyclical payments programme[6] and covers all the commodities. The programme protects the producers of the covered crops from a fall in prices below the "reference prices" set in the legislation. One of the major crops benefiting from the "Commodity Programs" in the past, namely, upland cotton, has been excluded from the purview of these programmes in the new farm legislation. The crop has been brought under an insurance programme, the Stacked Income Protection Plan (STAX), which is a result of the restructuring of the subsidies regime that the US had to agree to, following Brazil's successful defence of its complaint before a dispute settlement panel of the WTO against the US farm subsidies' regime.[7]

PLC payments are triggered when the national average farm price for a covered commodity is below its statutorily-fixed "reference price." The payment to a farm is based on 85% of its cropped area during a historical period (called the "base acres")[8] (Establishment of Base Acres and Payment Acres for a Farm 2012; Shields 2014) and the crop yield during this period, combined with the difference between the reference price and the average farm gate price.

The factor determining the payments that the farm owners would enjoy under the PLC is the reference price and the farm gate price. The enhancement of support that Farm Act, 2014 offers to farm producers can be seen by comparing the "reference prices" with the "target price" of Farm Act, 2008 for the covered commodities. Table 1 provides the details.

**Table 1: Comparing Reference Prices and Target Prices**

| Commodities | Target Price (Farm Act, 2008) | Reference Price (Farm Act, 2014) | Difference between Target and Reference Prices |
|---|---|---|---|
| Wheat, $/bu | 3.65 | 5.5 | 51% |
| Corn, $/bu | 2.35 | 3.7 | 57% |
| Sorghum, $/bu | 2.28 | 3.95 | 73% |
| Barley, $/bu | 2.39 | 4.95 | 107% |
| Oats, $/bu | 1.766 | 2.4 | 36% |
| Rice, $/cwt | 8.15 | 14.00; 16.10 for temperate japonica | +72%; +98% for temperate japonica |
| Soybeans, $/bu | 5.56 | 8.4 | 51% |
| Minor oilseeds, $/lb | 0.1188 | 0.2015 | 70% |
| Peanuts, $/ton | 459 | 535 | 17% |
| Peas, dry, $/cwt | 8.32 | 11 | 32% |
| Lentils, $/cwt | 12.81 | 19.97 | 56% |
| Small chickpeas, $/cwt | 10.36 | 19.04 | 84% |
| Long chickpeas, $/cwt | 12.81 | 21.54 | 68% |

Source: Shields (2014).

Table 1 indicates the extent to which farm producers stand to benefit from the current farm act. With the exception of oats, peas and peanut, the "reference prices" are more than 50% higher than the "target prices." Such increases in "reference prices" would provide considerable benefits to the US commodity producers during the current phase of weakening prices. In most of the major commodities, global prices in December 2015 are their lowest levels in the past six years: in case of wheat global prices have not seen the current levels since 2005 (IMF 2015).

Farm producers can choose to get their crop revenue protected against declines using the county ARC programme. Under this programme, payments are made on 85% of base acres when the annual crop revenue is less than 86% of its historical level. Payments under ARC are made when the actual county crop revenue drops below the county revenue guarantee. Producers have the option of choosing that the farm-level protection is provided if they include all covered crops on their farms in the ARC individual coverage option. This option uses individual farm yields for each covered crop and then includes total crop revenue into a single, whole-farm guarantee.

Congressional Budget Office (CBO), the federal agency that provides information relating to the budget to the US Congress, has been estimating the cost of implementing Farm Act 2014 ever since the legislation was on the drawing board. In its January 2016 update, the CBO has estimated that between 2016 and 2018, the ARC and PLC taken together would cost the US taxpayers $19.7 billion, almost 70% higher than what it had estimated when the act was adopted (Weir 2016).

The third support programme, the Marketing Loan Assistance allows producers of eligible commodities to obtain a nine-month non-recourse loan in the immediate post-harvest period at rates specified every year and to store their produce, thus preventing distress selling. This window of support requires producers to pledge their produce as collateral. At the end of the loan period, producers are required to repay the loan along with the accrued interest. However, if the market price is below the loan rate, the producers are allowed to forfeit the crop pledged as collateral to the US Department of Agriculture (USDA). The "loan rate," in effect, establishes a price guarantee and thus qualifies as an "Amber Box" payment. An additional option is currently available for producers of rice or upland cotton. These producers may opt for benefits that are available if the posted county price, or a USDA-announced average world price falls below the respective USDA loan rates.

"Loan rates" for all eligible commodities, barring cotton, have been left unchanged

as compared to those stipulated in the Farm Act, 2008. For cotton, the new marketing loan rate is calculated as the simple average of the adjusted world price for the two preceding marketing years, within a range of 45 cents/lb to 52 cents/lb, as against a fixed 52 cents/lb in the 2008 farm bill.

**Crop Insurance:** Farm legislations include a crop insurance programme that supports producers when they suffer losses due to natural disasters. Although crop insurance has long been provided to the producers, this component of the Farm Act, 2014 has acquired added significance owing to the inclusion of a specific insurance policy for cotton, the STAX. The introduction of STAX was a part of the agreement between the US and Brazil, for settling the long-standing dispute between the two countries on US subsidies on upland cotton. The dispute arose following Brazil's complaint to the WTO in 2002, in which it was pointed out that a number of subsidies enjoyed by the producers of upland cotton, including marketing loans, direct payments, counter-cyclical payments, and export credit guarantees, provided "direct or indirect support to the US upland cotton industry" (WTO 2002: 2),[9] using which the US was able to become the world's largest exporter of upland cotton, with a share of 38% (WTO 2002: 5). This, according to Brazil had adversely affected its production and exports. The dispute settlement process ruled in favour of the complainant, forcing the US to agree to modify the support it was extending to upland cotton.

In the new upland cotton support regime, counter-cyclical payments were eliminated, while marketing loan rates for the commodity were reduced. STAX was introduced, which had the following features:

(i) STAX covers countywide revenue losses of greater than 10% but not more than 30% of expected county revenue, in other words, a loss of at least 10% must occur at the county level before any indemnity is made under STAX.

(ii) Total indemnity payments, including both STAX and other crop insurance, cannot exceed the total insured value of the crop.

(iii) For producers to be covered under the STAX, payment of 20% of the STAX policy premium is mandatory. Federal government pays the remaining 80% share, which is more generous than for other insurance products.

Brazil's persistence with the dispute on upland cotton means that major step has been taken towards resolving the long-pending cotton subsidies issue, which has been consistently been raised by the so-called C-4 countries, Benin, Burkina Faso, Chad and Mali that have lost export revenues due to their inability to compete with subsidised US cotton. Over the decades, the interests of these cotton exporters have been seriously undermined by major economies that have supported large players in the global markets for agricultural commodities. The eventual resolution of the cotton subsidies issue should be a major step towards providing better opportunities to the C-4 countries in global markets.

**Elimination of Direct Payments:** Possibly the most significant of the changes brought about by the Farm Act 2014 is the elimination of direct payments. We have mentioned earlier that the FAIR Act has introduced this form of subsidies in 1996 through the Production Flexibility Contract (PFC), which were in the nature of income transfers as a part of the rethinking on farm subsidies. This form of subsidies was projected as the resolve of the country's farm administration to move towards the use of support measures that did not incentivise the farming communities through price support or input subsidies. Payments under direct payments were based on historical production and a payment rate.

Direct payments became the lynchpin of the US farm support programmes under the AoA. The farm administration argued that direct payments were "decoupled" from current prices and production and hence did not distort the markets. This form of payments was therefore identified as a Green Box measure. While this claim that direct payments introduced less distortion was highly questionable (Young and Westcott 2000: 763 ff),[10] discontinuation of this form of payments signals a major change in the thinking of the US regarding its farm subsidies regime.

For any given farm, the direct payment was derived using three factors: (i) average number of acres planted on the farm during a historical period specified by the Farm Act, (ii) the yield of the crop produced during a historical period, and (iii) a payment rate fixed by the Farm Act. A fixed percentage of this product, again specified by the legislation, was doled out as direct payment. In order to receive the direct payments, farm owners were only required to meet the criteria of having produced a particular crop during a historical period. During the years they received the payments, farm owners had complete flexibility to decide which crops they wanted to plant or even produce nothing at all. A mere statement regarding their status as farmers would entitle them to the payments.

Earlier US farm administrations had supported the continuation of direct payments, doling out more than $46 billion in direct payments to farmers and other producers between 2003 and 2011 (United States Government Accountability Office 2012: 8). However, this form of payments did not stand scrutiny on a number of counts when such an exercise was done prior to the enactment of the Farm Act 2014. The Government Accountability Office (GAO) that made an economic assessment of the direct payments found that these payments could not be justified on three counts (United States Government Accountability Office 2012: 16). One, farm owners received direct payments even in years of record farm income. Two, the payments were made despite the fact that average incomes of farm households were higher than those of the average for all households taken together.[11] And, three, the largest farm received an overwhelming share of direct payments since the payments were based on farm size.[12]

Another important argument that was used against the continuation of direct payments was its impact on the budget. When the FAIR Act introduced the PFC, the US budget deficit was 1.3% of its gross domestic product (GDP), which ballooned to 7% in 2012, the last year of the Farm Act 2008. The US Farm Administration

was therefore under immense pressure to reduce support for the farm sector. Elimination of direct payments became one of the first moves towards responding to this pressure.[13]

Since direct payments were compensating the landowners (as opposed to the tenants, the producers on the land), their impacts on the prices of land and rental rates became an important issue. USDA studies concluded that direct payments resulted in higher prices for buying or renting land since in some cases the payments go directly to the landowners. This raised land values prompting landlords to increase cash rental rates (USDA 2009: 18). However, Kirwan finds that direct payments have an opposite impact, with the tenants capturing 75% of the subsidy. This, he predicts, is due to the less than perfect rental market arising from farm consolidation which results in fewer tenants enjoying increasing "market power in the farmland rental market" (Kirwan 2009: 141). Reliance on subsidies that are linked to prices and outputs, together with the elimination of direct payments, shows a clear change in the orientation of the US farm subsidies. Attempts at decoupling of payments from prices made over the past two decades, an apparent move to reduce the distortions in the agricultural markets, have now been given up. What these changes imply for subsidy commitments that the US has made to the WTO AoA will be discussed below in a later section.

## 2 Nutrition Programmes

Around 80% of the spending in the Farm Act, 2014 has been earmarked for food aid programmes. This sole fact underlines the importance of analysing food aid programmes in the US to develop an understanding of its domestic farm support policies. The Supplemental Nutrition Assistance Program (SNAP), known as the Food Stamp program earlier, is the biggest food aid programme in the US. The discussion here is an attempt to understand motivations for the Food Stamp program and the manner in which it has been implemented, especially in recent years when the SNAP beneficiaries have been linked directly to the "farmers' markets" which have also grown rapidly as a result. This indicates that SNAP is an important policy instrument to stimulate the US agrarian economy and that it is more than a benign pursuit of food security.

The advent of food aid policy in the US has been an integral part of farm support policies and goes back to the early 1930s. Institutionalisation of an expensive farm support programme in the 1930s ran the risk of leading to resentment in the urban areas. Farm support to farmers was also leading to over-production as they were assured of higher prices irrespective of market conditions. It was against this background that the idea of food aid was proposed to achieve the twin objectives of disposing of surplus agricultural production and providing relief to the poor in urban areas, which was carried out through the establishment of the Federal Surplus Relief Corporation in 1933.[14]

To put it simply, food aid policies came up in the US to act as a balancing factor in a surplus-ridden food economy. Various farm acts and food stamp legislations have articulated this connection in a matter of fact way. Title II of the 1956 Agricultural Act (Agricultural Act of 1956)[15] put the responsibility on the US secretary of agriculture to a "program of orderly liquidation" of surpluses. Among the clear objectives of the 1964 Food Stamp Act were the following: (i) to strengthen the agricultural economy; (ii) to help to achieve a fuller and more effective use of food abundances; and (iii) to provide for improved levels of nutrition among low-income households through a cooperative Federal-State programme of food assistance to be operated through normal channels of trade. Commentators have also pointed out that entitlement to food aid programmes has been linked to agricultural surpluses rather than nutritional objectives (Andrews and Clancy 1993: 63). Much of these connections remain unchanged till date.

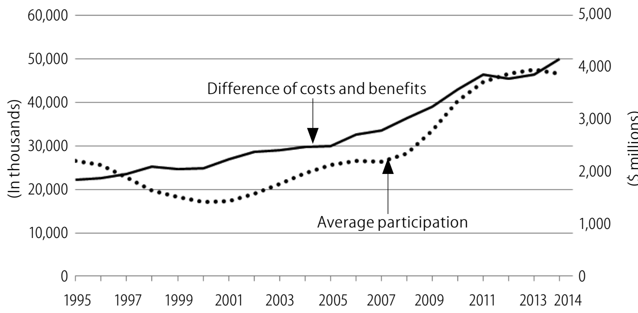
The crucial factor which has allowed the realisation of these objectives for US policymakers is the eligibility criteria. The 1964 Food Stamp Act allowed those households to participate whose income was "determined to be a substantial limiting factor in the attainment of a nutritionally adequate diet" (The Food Stamp Act of 1964). The eligibility criterion was not based on the official poverty line until 1979, when an amendment to the Food Stamp Act made in 1977 became effective (Congressional Budget Office 2013). According to this amendment, any household with an income of 130% of the official poverty line was eligible for receiving the benefits. However, income from 18 potential sources, through which households could receive funds from the government were not to be counted. This approach remains more or less unaltered till date.

Another important factor to be noted is the change in the basket of food items provided in terms of food aid. The 1964 Food Stamp Act provided for giving a "low-cost nutritionally adequate diet." Over time, this principle has been diluted and a wide basket of food items including cereals, meat, fruits and vegetables, dairy products, soft drinks and energy drinks, and even holiday gift baskets can be bought using food aid entitlements (USDA 2015d).

Over the years, two features of the food aid programmes have been particularly noticeable, which are shown in Figure 1 (p 40). The first is the rapid increase in the number of beneficiaries, especially the middle of the previous decade. The second feature is a steep increase in the difference between the costs and the benefits of the programmes, which suggests increasing inefficiency in maintaining the programmes.

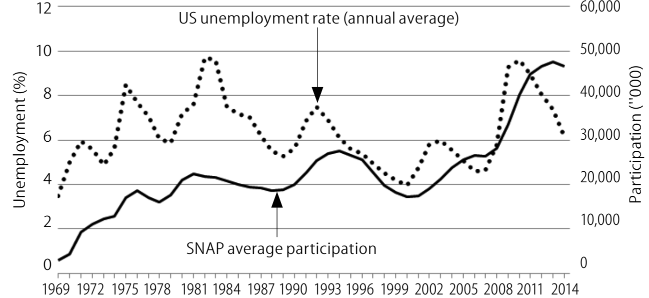
As has been pointed out, the food aid programme in the US has had a direct and stated objective of disposing of surplus agricultural production. This clearly shows that food aid programmes have been an important stimulus for agricultural production in the US economy. The link of the food aid programme to the overall economy is also not very difficult to see. Figure 2 (p 40) shows that there is a clear congruence in the participation in the food stamp programme and unemployment levels in the US economy. During times of higher unemployment, food stamp entitlements help boost overall consumption expenditure

**Figure 1: Supplemental Nutrition Assistance Program (Participation and Costs)**




Source: Data from United States Department of Agriculture.

**Figure 2: Unemployment Rate and SNAP Participation in the US**




Source: Authors' calculations using data from United States Department of Agriculture and Bureau of Labour Statistics.

and hence aggregate demand in the domestic economy.

The connection referred to above is not denied by policymakers in the US. On the contrary, the role of food aid spending as an important stimuli and countercyclical measure is well-recognised in US's macroeconomic policymaking. SNAP was allocated close to $20 billion of the stimulus package that was put in place by the American Recovery and Reinvestment Act (ARRA) of 2009 (Monke et al 2009) The significance of SNAP can be gauged by the fact that three-fourths of the allocations made for agriculture, nutrition, and the rural programmes in the ARRA are accounted for by this programme. The Food and Nutrition Service (FNS) of the USDA has justified the spending on SNAP as provided for in the ARRA on the ground that this programme would bring at least four sets of public benefits. These are: (i) to improve the food security of low-income households; (ii) to create and save jobs; (iii) to stimulate the economy; and (iv) to stabilise the state agencies responsible for SNAP administration. Analysts have pointed out that viewed in terms of stimulating the US economy, the food stamp program/SNAP is among the most effective proposals included in the ARRA. It has been shown that increasing food stamp payments by $1 increases GDP by $1.73 (Table 2) and is much more effective in stimulating the economy as compared to measures like tax cuts.

**Table 2: Implications of the Bush Stimulus Package** (One year $ change in real GDP for a given $ reduction in federal tax revenue or increase in spending)

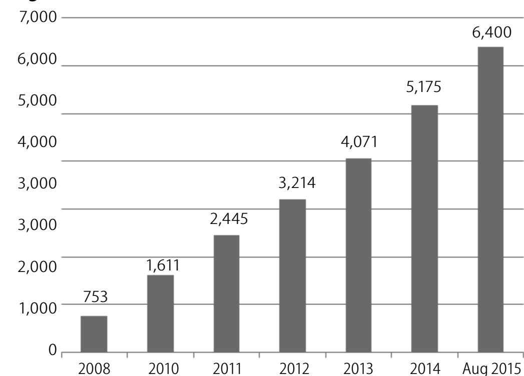
| | |
|---|---|
| Tax cuts | |
| Non-refundable lump-sum tax rebate | 1.02 |
| Refundable lump-sum tax rebate | 1.26 |
| Temporary tax cuts | |
| Payroll tax holiday | 1.29 |
| Across the board tax cut | 1.03 |
| Accelerated depreciation | 0.27 |
| Permanent tax cuts | |
| Extended alternative minimum tax patch | 0.48 |
| Make bush income tax cuts permanent | 0.29 |
| Make dividend and capital gains tax cut permanent | 0.37 |
| Cut in corporate tax rate | 0.3 |
| Spending Increases | |
| Extending unemployment benefits | 1.64 |
| Temporary increases in food stamps | 1.73 |
| General aid to state governments | 1.36 |
| Increased infrastructure spending | 1.59 |

Source: Authors' calculations using data from Zandi (2008).

The US has consistently maintained that there is no direct relation between its food aid policies and the agricultural markets and has accordingly included spending on domestic food aid as a Green Box measure. However, there is one important fact in this regard which needs to be underlined regarding food aid in the US. This pertains to the rapid increase in the numbers of farmers' markets (USDA 2015a) and direct marketing farmers (USDA 2015b) that have become increasingly important for the implementation of the food aid programmes. The Farmers' Market Nutrition Program was established by the Congress in 1992 to provide fresh farm produce for nutrition programmes for women and children. Later it was expanded by allowing SNAP beneficiaries to claim their entitlements by buying items from these markets.

When the Farm Act 2008 was authorised, there were 753 farmers' markets, which accounted for $2.6 million in SNAP entitlement redemptions. By September 2014, the number of farmers' markets had increased to 5,175 and SNAP redemptions were up to nearly $19 million. Figure 3 shows the trend in number of farmers' markets in the US. In June 2015, the USDA announced a further increase in farmers' markets to 6,400, which meant that since 2008, farmers' markets had registered over eightfold increase (USDA 2015c). The increasing importance of farmers' markets is a direct indication of strengthening of state-sponsored linkage between food aid programme and local agricultural production.

**Figure 3: Number of Farmers' Markets in the US**




Source: United States Department of Agriculture.

The stated objective of the US domestic food aid programmes since their inception has been to dispose of the country's surplus food stocks. This intent has become stronger over the years, especially through the authorisation of the farmers' markets to establish an explicit link with the SNAP. This means that the SNAP is creating the demand for providing an opportunity to the farmers to liquidate their stocks of food, and this should be considered as a commercial operation. However, the US has labelled its domestic food aid as a non-market distorting form of subsidy and has included this component as a Green Box measure. The following discussion critically looks at this issue.

## 3 Compatibility with WTO

While adopting the AoA, WTO members had committed to put a check on the market distorting subsidies; that is, those that influence production and prices, thus giving unfair advantages to the recipients of the subsidies in the markets. The largest volumes of these subsidies were given by the OECD countries and therefore the expectation was that the AoA would rein in subsidies, especially those granted by the largest subsidisers, the US and the EU. These expectations have been belied. Table 3 shows the subsidies that the US has granted over the past two decades to support its producers, which have been reported in its domestic support notifications.

Since the WTO was established in 1995 and until the latest year for which data are available, the US has more than doubled its production-related subsidies or domestic support. As mentioned earlier, this increase has taken place largely because of domestic food aid, which accounted for more than three-fourths of the total spending. But, the US has claimed that domestic food aid is a Green Box measure, and it is therefore under no obligation to limit spending on its food aid programmes. This has enabled the US to declare to the WTO that its level of spending on farm subsidies in well within its current limit of $19.1 billion.

**Table 3: US Domestic Support as Notified to the WTO** ($ billion)

| Categories | 1995 | 2000 | 2005 | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|---|---|---|
| Green Box | 46 | 50 | 72 | 86 | 101 | 119 | 125 | 127 |
| of which: Domestic food aid | 37 | 32 | 51 | 61 | 79 | 95 | 103 | 107 |
| Direct income support | 5 | 6 | 6 | 6 | 6 | 6 | 5 | 5 |
| Blue box | 7 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Amber box | 8 | 24 | 19 | 16 | 12 | 11 | 14 | 12 |
| Total subsidies | 61 | 74 | 91 | 102 | 112 | 130 | 139 | 140 |
| Permitted level of subsidies | 23.1 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 | 19.1 |

Source: US notifications to the WTO capturing its domestic support commitments (various years).

Contrary to what the US has declared, we argue that the US domestic food aid programmes should not be treated as a Green Box measure since we had shown in the previous section that it has an explicit link to the market. According to the AoA, farm subsidies can be included in the Green Box if they meet the following parameters. First, they must "meet the fundamental requirement that they have no, or at most minimal, trade-distorting effects or effects on production." Second, these measures should "not have the effect of providing price support to producers."

In Section 2, we had alluded to the counter-cyclical nature of SNAP and its importance in stimulating agricultural production in the US. The growing importance of farmers' markets, which have created a direct link between local agricultural production and government benefits under SNAP, is making this connection more and more obvious. In addition to these factors, the SNAP is also in violation of basic tenets laid down in Annex 2 of AoA rules for food-aid programmes to qualify as Green Box expenditure. These rules require that beneficiaries must be selected on the basis of "clearly-defined criteria related to nutritional objectives" (GATT 1994). As has been pointed out already, eligibility for SNAP is based on an income criterion. In addition to a violation of eligibility criterion, routing of SNAP benefits through farmers' markets also amounts to creating a direct link between agricultural production and food aid. Not only has the US successfully averted any indictment on these issues in the WTO, it has also been successful in preventing demands for genuine reforms to allow pursuit of food security in Third World countries (Dhar and Kishore 2014).

Farm Act, 2014 could hasten the move towards the US breaching its domestic support limit set by the AoA ($19.1 billion), as the fall in market prices in all major commodities would necessitate larger outlays in all programmes to support farm incomes (Schnepf 2015: 29). This reorientation of the US domestic support away from income support towards price support measures will no doubt result in significant stepping up of distortions in global agricultural markets, especially because the US is among the major exporters of all prominent commodities.[16]

It is the wider ramifications of the US's stance towards its commitments (or more precisely, the lack of it) that countries like India must be mindful of. By ignoring WTO's domestic support disciplines, the US is seems to be signalling the withdrawal of its support for the framework of rules provided by the AoA. Its focus is clearly on the preferential trading arrangements, in particular the mega-regional trade agreements like the Trans-Pacific Partnership (concluded in 2015 with 11 other countries) or its engagement with the EU for concluding the Trans Atlantic Trade and Investment Partnership, which exclude the issue of agricultural subsidies and thus legitimise a highly distorted trade in agricultural products.

### NOTES

1 "Decoupled payments are fixed income transfers that do not depend on the farmer's production choices, output levels, or market conditions. Decoupled programme benefits do not subsidise production activities, inputs, or practices. These income transfers do not change per-unit net returns, so they have no direct effect on production decisions for specific commodities" (Burfisher and Hopkins 2004: 7).

2 The products included were wheat, corn, grain sorghum, barley, oats, rice, and upland cotton.

3 Included in either Article 6.5 of the AoA ("Blue Box" payments), or Annex 2 of AoA ("Green Box" payments). The "Green Box" payments are those that do not incentivise the producers of agricultural commodities.

4 Payments made in accordance with Article 6.4 of the AoA, commonly known as the "Amber Box" payments. WTO members must limit their spending on the latter set of subsidies. While for developing countries like India, spending on the "Amber Box" must be limited to 10% of the value of agricultural production, for the developed countries, the limit is 5%.

5 US farm acts are complex pieces of legislations which cover a large number of areas that are directly or indirectly linked to agriculture. Farm Act, 2014 includes 12 "Titles" that are included in Annex 1.

6 Farm Act, 2008, included a programme called the "counter cyclical payments" or CCP, which has been renamed as the Price Loss Coverage or PLC in the new farm act.

7 Brazil made a complaint to the dispute settlement body of the WTO in 2002. This issue would be elaborated in a later section.

8 Farm Act, 2014 allows the farm owners to adopt a convenient period for calculating the "base acres," the area they used for "harvest, grazing, haying, silage, or other similar purposes." It may choose the period 1998 to 2001 crop years, as was provided in the Farm Act, 2008. They can also update individual crop base acres by using actual crop mix (plantings) during 2009–12.

9 Brazil also targeted US's export credit guarantee programmes, namely, GSM-102, GSM-103, and the Supplier Credit Guarantee Programme (SCGP).

10 Several studies have pointed out that the so-called "decoupling" of direct payments was at best partial since the increased incomes from direct payments allowed the producers to invest more on their farms. In addition, assured

income transfers from the government enabled the producers to undertake additional risks with a view to garnering higher returns.

11 In 2010, average farm household income was 25% higher than the average all households.

12 In 2011, top 10% of the recipients received 51% of direct payments.

13 In November 2013, the Congressional Budget Office estimated that removing direct payments from the statute books could result in a saving of about $25 billion in eight years between 2015 and 2023 (Congressional Budget Office 2013: 18).

14 Secretary of Agriculture Henry A Wallace later said of the creation of the FSRC: "Not many people realised how radical it was—this idea of having the government buy from those who had too much, in order to give to those who had too little. So direct a method of resolving the paradox of want in the midst of plenty could never have got beyond the discussion stage before the crisis years of 1933" (Roth 2000).

15 Agricultural Act of 1956, Public Law 84-540, 70 Stat 188, Sec 201.

16 In 2013, the US was the largest exporter of wheat, maize and cotton, the second largest exporter of soybeans and the third largest exporter of rice.

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**Annex I: 'Titles' of Farm Act, 2014**

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| Title I: Commodity Programs |
| Title II: Conservation |
| Title III: Trade |
| Title IV: Nutrition |
| Title V: Credit |
| Title VI: Rural Development |
| Title VII: Research |
| Title VIII: Forestry |
| Title IX: Energy |
| Title X: Horticulture and organic agriculture |
| Title XI: Crop insurance |
| Title XII: Miscellaneous |

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