Special Article

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# U.S. Ag Policy— Well Below WTO Ceilings On Domestic Support

The U.S. will be able to meet commitments with the World Trade Organization to reduce domestic support to agriculture without making any further changes in domestic programs through 2000, the final year of the implementation period. The ability of the U.S. to meet its WTO domestic support reduction commitments stems from two main factors that greatly reduce its current and future domestic support levels relative to the 1986-88 base period:

- WTO provisions that specified how domestic support reduction objectives would be defined and implemented, particularly the provisions regarding base period, deficiency payments, and aggregate market price support measures; and

- shifts in U.S. farm programs after 1985 toward increased market orientation and reduced subsidies.

The 1994 Uruguay Round (UR) Agreement on Agriculture requires World Trade Organization (WTO) member-countries to reduce the total amount of trade-distorting domestic support for agriculture by 20 percent from a base period (1986-88) level by the year 2000. In addition to limitations on export subsidies and import barriers, the UR trade agreement provided for restrictions on domestic support because of general concern that domestic support policies have significant indirect effects on trade.

The value of domestic or “internal” support is measured using an annual indicator—the Aggregate Measure of Support (AMS)—that was negotiated during the UR. The AMS is a specially defined measure of the monetary value of government support to agriculture. It was derived from another, more broadly defined measure of support—the Producer Subsidy Equivalent (PSE)—which provided important monitoring information about the overall level of agricultural support during the decade preceding completion of the UR.

The AMS is not designed to replace the PSE as an annual measure of support, but instead to facilitate implementation of UR domestic support reduction commitments. The AMS measures *domestic support policies* that include direct payments to producers financed by budgetary outlays, as well as revenue transfers from consumers to producers as a result of policies that distort market prices.

Domestic reduction commitments for each country, in the form of declining AMS ceiling levels, are phased in over a 6-year period, 1995-2000. During the initial year of the support reduction phase-in—1995—the AMS could not exceed 96.7 percent of the 1986-88 base AMS. This percentage limitation declines until the final phase-in year—2000—when the AMS cannot exceed 80 percent of the base value.

An AMS is calculated for each commodity and domestic policy instrument affecting agriculture, whether commodity or noncommodity-related. However, WTO reduction commitments apply only to the aggregate of the component AMS’s. Therefore, countries have considerable flexibility in deciding which domestic programs to alter in meeting aggregate commitments to reduce domestic support.

The U.S. AMS combines several component measures that are also included in the PSE concept in some form. These components are actual or calculated amounts of: 1) direct payments to producers (e.g., deficiency payments); 2) input subsidies (on irrigation water, for example); 3) the estimated value of revenue transferred from consumers to producers as a result of domestic policies that distort market prices (market price supports); and 4) interest subsidies on commodity loan programs.

One of the most significant aspects of the AMS’s construction was the *inclusion of deficiency payments* in the base period AMS and the *exemption of these same payments* from the AMS calculated for the 1995-2000 implementation period. This had the effect of establishing high commitment ceilings for the AMS—since the ceilings were derived from the base-year AMS—and then virtually guaranteeing that the future AMS levels would be below the ceilings by excluding deficiency payments from the current measures. Such payments were worth $9.7 billion in the 1986-88 base and $7 billion in 1995.

Excluded from the AMS, but included in the PSE, are *trade-oriented policies* that restrict imports or encourage more exports, and some noncommodity-specific policies covered by the PSE concept that were considered by trade negotiators to be non-trade distorting (i.e., *green box policies*) such as research and inspection activities and environmental programs.

The general criteria for exempt status as a green box policy (specified under Annex 2 of the UR Agreement on Agriculture) include policies that have no, or very minor, trade or production distorting effects; are financed entirely by the country's budget and not by the consumer; and do not act as a price support. These policies are excluded from the AMS, even though they may support domestic policy objectives.

One significant *green box policy* category is called "decoupled payments"—payments that are not based on current prices or current production levels. The most notable example are the production flexibility contract payments (PFCP's) that replaced deficiency payments under the Federal Agriculture Improvement and Reform Act of 1996 (1996 Farm Act).

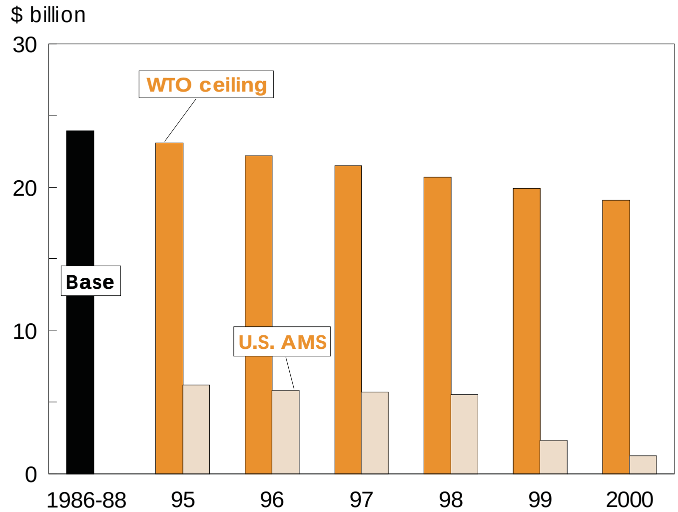
Explicit *trade-oriented policies* excluded from the AMS—e.g., export subsidies and tariff-rate quotas—are dealt with separately in the UR, most of them commodity-specific. To the extent that such trade policies reduce import supplies and/or increase exports and domestic prices, they can also affect the operation and costs of domestic programs (such as those for dairy or sugar). These supply and price effects would result from use of such trade programs even if there were no domestic support policies. As a result of the methodology used, the AMS could be very modest and decline over time, even while producers receive substantial support as a result of trade barriers or decoupled payments.

### *Factors Putting the U.S. In Compliance*

*The choice of 1986-88 as the "base period"* for defining AMS reduction commitments provided a way to take the revolutionary step of disciplining domestic support programs without immediately imposing large adjustments on major players in the agreement, such as the U.S. and the European Union (EU). The base-period choice corresponded to the start of UR trade negotiations. U.S. direct payments and aggregate market price support benefits were abnormally high during 1986 and 1987, so the 20-percent reduction in support called for by the final 1994 trade agreement was an easy target to meet. The 3-year average was used to smooth out year-to-year variations in prices, production, consumption, and trade, providing more even treatment for different commodities and countries.

*Exemption of deficiency payments*. Further increasing U.S. ability to meet its ceiling-level commitments was the WTO provision that allowed deficiency payments to farmers for 1995-2000 to be excluded from a current-year total AMS, even though such payments were included in the base-period AMS. Article 6 of the UR Agreement on Agriculture instructs that direct payments under "production-limiting programmes" shall not be included in the current total AMS if such payments are based on fixed area and yields, or if they are made on 85 percent or less of the base

**U.S. Domestic Support Level to Be a Fraction Of WTO Ceiling**




Deficiency payments are included in the base and WTO ceiling calculations but excluded from actual and forecast Agricultural Measure of Support (AMS) calculations. 1995 actual,1996-2000 forecast.
Economic Research Service, USDA

level of production. U.S. deficiency payments were based on 85 percent of base acreage, and individual farm program yields had been held constant since 1986.

This special provision for deficiency payments, referred to as the *blue box provision*, benefited primarily the U.S. and the EU, and may be an issue in the next round of trade talks. However, this provision was relevant for the U.S. only for 1995, since 1996 farm legislation eliminated the deficiency payment program for all years after 1995.

The production flexibility contract payments initiated by the 1996 Farm Act increased the actual amount of support to agriculture since they replaced deficiency payments that would have been much lower during 1996-2002 based on current USDA longrun price projections. The PFCP's are excluded from the AMS because they are considered to be decoupled payments and qualify as AMS-exempt *green box policies*. The PFCP's meet the definition of "decoupled" since they are financed by the budget and have essentially been predetermined for the entire period 1996-2002—they do not depend on prices or production levels.

With *changes in U.S. commodity programs after 1985*, the level of aggregate domestic support had, by the early 1990's, already declined to less than the specified WTO-ceiling level for the year 2000. Reductions in target prices, rates paid to farmers on commodity loans, and government dairy product purchase prices decreased the level of aggregate support from deficiency payments, commodity loan forfeitures and interest subsidies, and dairy market price supports. A 15-percent reduction in the number of acres eligible for deficiency payments under 1990 farm legislation led to a further lowering of deficiency payments

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## Glossary of Ag Trade Terms

***Agreement on Agriculture.*** Part of the Uruguay Round agreement covering four major areas related to agriculture: market access, export subsidies, internal support, and sanitary and phytosanitary rules. The Agreement on Agriculture is one of 29 individual legal texts included under an umbrella agreement establishing the WTO. The agreement is implemented over a 6-year period, 1995-2000.

***Aggregate Measure of Support (AMS).*** A specially defined measure of the monetary value of the extent of government support to agriculture negotiated in the Uruguay Round of trade negotiations that includes actual or calculated direct payments to producers (e.g., deficiency payments); input subsidies (on irrigation water, for example); the estimated value of revenue transferred from consumers to producers as a result of domestic policies that distort market prices (market price supports); and interest subsidies on commodity loan programs. The AMS forms the basis of computing and implementing domestic support reduction commitments under the UR. The AMS differs from another, broader concept of agricultural support called the Producer Subsidy Equivalent (PSE), because certain PSE policies are excluded from the AMS, and because of the methodology used to compute direct payments and market price support benefits.

***Bound tariff rates***. Tariff rates resulting from WTO negotiations or accessions that are incorporated as part of a country's schedule of concessions. Bound rates are enforceable under Article II of GATT. If a WTO contracting party raises a tariff above the bound rate, the affected countries have the right to retaliate against an equivalent value of the offending country's exports or receive compensation, usually in the form of reduced tariffs on other products they export to the offending country.

***Blue box policies.*** A popular expression to represent the set of provisions in the Agreement on Agriculture that exempts from reduction commitments, those program payments received under production limiting programs—if they are based on fixed area and yields or a fixed number of head of livestock, or if they are made on 85 percent or less of base level of production. Deficiency payments were exempt under this provision, since compliance with acreage reduction programs was required for eligibility, payments were made on no more than 85 percent of established base acreage, and individual farm yields had been fixed since 1986.

***Country schedules.*** The official schedules of subsidy commitments and tariff bindings as agreed to under WTO for member countries.

**De minimis *provision.*** The total AMS includes a specific commodity support only if it equals more than 5 percent of its value of production, and a noncommodity-specific support only if it exceeds 5 percent of the value of total agricultural output.

***Deficiency payment.*** A direct government payment made to farmers who participated in wheat, feed grain, rice, or cotton programs prior to 1996. The payment rate was based on the difference between the target price and the higher of the loan rate or the national average market price during a specified time. The total payment to a farmer was equal to the payment rate, multiplied by a farm's eligible payment acreage and the program yield established for the particular farm. Farmers could receive up to one-half of their projected deficiency payment at the time of program enrollment. If actual deficiency payments, which were determined after harvest, were less than the advance deficiency payment, a farmer had to reimburse the government for the difference.

***Final Act.*** Formally called the "Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations," the Final Act is the legal document containing the texts of all provisions agreed upon during the UR. The signing and adoption of the Final Act initiated the transition from the GATT to the WTO.

***GATT (General Agreement on Tariffs and Trade).*** An agreement originally negotiated in Geneva, Switzerland in 1947 among 23 countries, including the U.S., to increase international trade by reducing tariffs and other trade barriers. The agreement provides a code of conduct for international commerce and a framework for periodic multilateral negotiations on trade liberalization and expansion.

***Green box policies.*** A colloquial term that describes domestic support policies that are not subject to reduction commitments under the Uruguay Round's Agreement on Agriculture. These policies are assumed to affect trade minimally, and include policies related to such activities

during 1991-95. These savings were only partially offset by new spending under marketing loan and loan deficiency payment provisions begun under 1985 farm legislation.

Meeting support reduction commitments would have been relatively certain even if the domestic support provisions of 1990 farm legislation had been continued after 1995. However, the 1996 Farm Act made significant changes in commodity programs for 1996-2002 that further increased the U.S.'s ability to meet WTO commitments.

The future U.S. AMS will be greatly influenced by the phase-out of the current dairy price support program under the 1996 Farm Act, which reduces per-unit dairy price supports (effectuated by government purchases) from 1996 through 1999, and eliminates them after December 31, 1999. A recourse loan program for dairy products will then replace the current program of price supports and government purchases. The Federal Milk Marketing Order system (FMMO) will continue, as revised by the 1996 Farm Act, although its effect on market prices is not accounted for by the AMS. The FMMO probably increases as research, extension, food security stocks, disaster payments, the environment, and structural adjustment programs.

***Loan deficiency payments.*** A provision begun in the Food Security Act of 1985 giving the Secretary of Agriculture the discretion to provide equivalent direct payments to producers who, although eligible to receive marketing loan program benefits or to obtain price support loans for wheat, feed grains, upland cotton, rice, or oilseeds, agree instead not to obtain loans.

***Market access.*** The extent to which a country permits imports. A variety of tariff and nontariff trade barriers can be used to limit the entry of foreign products.

***Marketing loan program.*** Allows producers to repay nonrecourse price support loans at less than the announced loan rates plus interest whenever the world market price or posted county price for the commodity is less than the commodity loan rate plus interest. This results in the producer receiving a marketing loan benefit equal to the difference between the original loan rate (plus interest) and the repayment rate.

***Nonrecourse loans.*** The major government price support instrument, providing operating capital to producers of wheat, feed grains, cotton, peanuts, tobacco, rice, and oilseeds. Sugar processors are also eligible for nonrecourse loans. Farmers or processors who agree to comply with each commodity program provision may pledge a quantity of a commodity as collateral and obtain a loan from the CCC. The borrower may repay the loan with interest within a specified period and regain control of the commodity. Or, the borrower may forfeit the commodity to the CCC to settle the loan without paying any of the accrued interest. (The government has *no recourse* but to accept the commodity as payment in full.) For those commodities eligible for marketing loan benefits, producers may repay the loan at the world price (rice and upland cotton) or posted county price (wheat, feed grains, and oilseeds).

***Nontariff trade barriers.*** Regulations used by governments to restrict imports from, and/or exports to, other countries, including embargoes, import quotas, and technical barriers to trade.

***Notification process.*** The annual process by which member countries report to the WTO information on commitments, changes in policies, and other related matters as required by the various agreements.

***Producer Subsidy Equivalent (PSE).*** A broadly defined aggregate measure of support to agriculture that combines into one total value aggregate, direct payments to producers financed by budgetary outlays (such as deficiency payments), budgetary outlays for certain other programs assumed to provide benefits to agriculture (such as research and inspection and environmental programs), and the estimated value of revenue transfers from consumers to producers as a result of policies that distort market prices.

***Production flexibility contract payments.*** Direct payments to farmers for contract crops through 2002 under the 1996 Farm Act. Payments for each crop are allocated each fiscal year based on fixed percentage shares specified in the act. The percentages were based on the Congressional Budget Office’s March 1995 forecast of what deficiency payments would have been for 1996 to 2002 under 1990 farm legislation.

***Sanitary and phytosanitary (SPS) measures.*** Technical barriers designed for the protection of human health or the control of animal and plant pests and diseases.

***Uruguay Round (UR).*** The Uruguay Round of Multilateral Trade Negotiations under the auspices of the GATT; a trade agreement designed to open world agricultural markets and reduce trade distorting effects of domestic and trade policies. The negotiation began at Punta del Este, Uruguay in September 1986 and concluded in Marrakesh, Morocco in April 1994.

***World Trade Organization (WTO).*** Established on January 1, 1995 as a result of the Uruguay Round, the WTO replaces GATT as the legal and institutional foundation of the multilateral trading system of member countries. It provides the principal contractual obligations determining how governments frame and implement domestic trade legislation and regulations. And it is the platform on which trade relations among countries evolve through collective debate, negotiation, and adjudication.

market prices, but no consensus exists on the magnitude of the price changes, which vary among the different regions and market orders. There is no observable WTO-administered price associated with the FMMO, but current benefits rely heavily on the price floor established by national dairy price supports.

The 1996 Farm Act also eliminated the farmer-owned reserve loan program and the honey and rye price support programs. Wool and mohair payments were already phased out by 1996, following a law signed in November 1993. The 1996 Farm Act also reduced somewhat the price support levels for sugar and peanuts through administration of penalties and marketing assessments, decreased peanut support rates, and elimination of minimum marketing quotas for peanuts. And the interest subsidy on all commodity loans was decreased—producers now pay a higher interest rate. Further, most commodity loan rates are now subject to upper limits, which will reduce the amount of the interest subsidy.

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## The AMS & the Producer Subsidy Equivalent

The Aggregate Measure of Support (AMS) is a combination of various commodity-specific program benefits or costs (e.g., market price support, deficiency payments, and commodity loan interest subsidies) and noncommodity-specific values (e.g., water subsidies, net crop insurance proceeds, and net livestock grazing program costs). The total value of the commodity- plus noncommodity-specific parts of the AMS is adjusted according to WTO rules by subtracting exempt deficiency payments, and individual component AMS's equal to less than 5 percent of their respective values of production.

According to ERS analysis, dairy, sugar, and peanuts are the only commodities with AMS's large enough to be counted in the total U.S. AMS during 1996-2000. Individual commodity AMS's must each have a value of at least 5 percent of their respective values of production before they are counted as part of the AMS—the *de minimis* provision of the Uruguay Round (UR). For purposes of applying the *de minimis* provision, the value of the noncommodity-specific AMS must be at least 5 percent of the total value of production of all agricultural commodities.

The AMS concept was derived from a different aggregate support measure—the Producer Subsidy Equivalent (PSE). The more broadly defined PSE provided important monitoring information about overall levels of support for different commodities and different countries during the decade preceding completion of the UR.

Although the two measures are similar in basic concept, the PSE includes support (or costs) of some policies that are left out of the AMS—such as trade policies and certain *green box policies* assumed by negotiators to be non-trade distorting. Consequently, the value of the PSE for the U.S. exceeds that of the unadjusted AMS in the 1986-88 base period by 46 percent.

Both the PSE and the AMS exclude certain "nonagricultural" programs related to natural resources (such as forestry and fishery), and rural development programs (such as for housing, communities, and public utilities). While the AMS serves a useful purpose for the trade agreement, it does not provide a meaningful alternative to the PSE as an overall, comprehensive measure of agricultural support levels.

*AMS includes only domestic policies*. Unlike the PSE, the AMS excludes support related to trade policies, such as the export enhancement program, valued at $1.7 billion in the 1986-88 PSE. Such trade policies have their own separate, unique restrictions and commitments under the UR. Market price supports are considered domestic policies in the AMS, because they are implemented using announced "administered prices"—e.g., dairy, peanut, and sugar support prices. However, import restrictions—considered to be trade policies—can and usually do support market prices by reducing supplies. Such import restrictions, when effective, reduce the cost of domestic price support programs. Further, any benefit from trade policies due to market prices exceeding administered prices is excluded from the AMS concept.

*AMS excludes non-trade distorting policies*. The AMS only covers policies negotiators agreed to identify as "trade distorting" policies. Non-trade distorting policies related to agriculture must nevertheless be summarized and reported to the WTO in the so-called green box table. Some of the green box policies are covered in the PSE, such as research and extension, inspection services, and disease control programs ("general services" in the green box); "disaster programs" (excluding crop insurance); Federal farm credit programs ("investment aids" in the green box); "environmental and conservation programs;" and the Conservation Reserve Program ("resource retirement programs" in the green box). Non-trade distorting policies included in both the green box and the PSE amounted to $5.2 billion in 1986-88.

U.S. outlays for all non-trade distorting, green box policies amounted to $46 billion in 1995, 76 percent more than in 1986-88. Most of this increase resulted from a 96-percent increase in domestic food program outlays—e.g., food stamps, which are excluded from both the AMS and PSE—which make up four-fifths of the total amount of green box outlays. Nearly all of the green box outlays not in the PSE are related to domestic food programs.

*AMS measures are independent of market prices*. The AMS, unlike the PSE, is not a measure of current support to agriculture because current market prices are not used to calculate the current level of market price support for dairy, sugar, and peanuts, or to calculate the level of support from deficiency payments. Instead, the AMS uses a fixed 1986-88 average world price in its calculation. Thus, the AMS reflects only the effects of changes in program variables under the direct control of the program administrators, and not the subsequent effect of changes in current market prices.

*Payments related to production-limiting programs are excluded from AMS*. Deficiency payments worth $9.7 billion were included in the 1986-88 base year AMS. However, such payments were excluded from the 1995-2000 AMS's under special *blue box provisions* of the UR.

*More commodities are included in the AMS than in the PSE*. Commodities covered by the AMS, but not the PSE, include cotton, peanuts, oats, barley, mohair, honey, minor oilseeds, rye, and tobacco. The AMS's for these commodities in 1986-88 amounted to $2.5 billion, or 11 percent of the total unadjusted AMS.

### *Domestic Support Still Declining*

The U.S. is not only in compliance with WTO commitments but is well below the commitment ceilings. The U.S.'s AMS level is anticipated to average only about 20 percent of the established AMS ceilings during 1995-2000. By 1995, the total AMS for the U.S. had already fallen to only $6.2 billion—just one-fourth the size of the 1986-88 average base-year value and well below the AMS limit of $23.1 billion. USDA's Economic Research Service projects that by 2000, support will be only $1.2 billion, compared with the $19.1-billion limitation, or "ceiling," on U.S. support.

Among the factors helping to put AMS levels so low relative to the base year values are not only the subtraction of deficiency payments as explained above, but also the WTO *de minimis* rule that exempts individual component AMS's if they are less than 5 percent of their respective values of production.

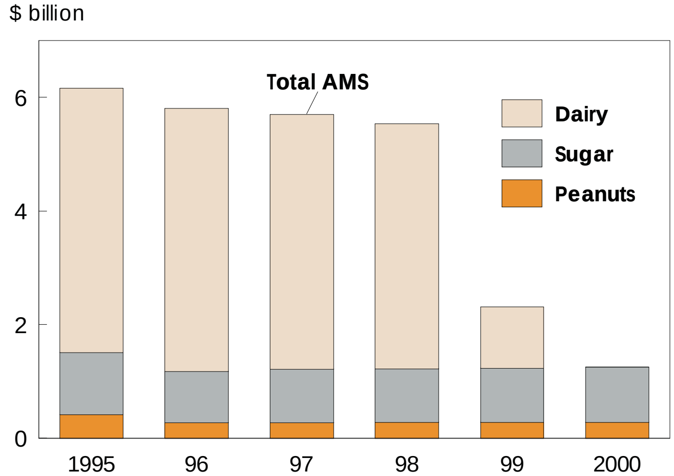
Currently, the principal components remaining in the U.S. AMS are the production levels and per-unit price supports for dairy, sugar, and peanuts, which were only partially modified under the 1996 Farm Act. Wool and mohair AMS's also are included in the 1995 AMS, but the programs no longer exist after 1995. Other commodity AMS's drop out of the 1995-2000 aggregate AMS because of the *de minimis* rule.

The dairy AMS, which accounted for over 75 percent of the total AMS in 1995, will likely fall to zero in 2000 with the phasing out of the "administered" price support level for dairy products. As a result of the dairy program phaseout, the U.S.'s total AMS level is expected to decline from about 27 percent of the WTO commitment ceiling during 1995-98 to only 12 percent of the ceiling in 1999, and finally to 6 percent in 2000.

Dairy's contribution to the AMS depends largely on the difference between the "administered price" for dairy products (per-unit price support, in milk-equivalent terms) and the observed level of an international dairy price in the base period. The market price support for dairy is defined for the AMS as this price difference (price gap), multiplied by the quantity of production. Thus, the elimination of the dairy price support and purchase program implies elimination of the dairy "administered price." This, in turn, implies elimination of the dairy AMS market price support measure which can no longer be calculated as originally defined.

Because the dairy price support program based on government purchases of dairy products will end after December 31, 1999, it was assumed that the marketing year 1999/2000 (October-September) dairy AMS should reflect market price support calculations only for October through December. The dairy market price support would be at the level of $9.90 per cwt for one-fourth of the 1999 marketing year—and zero thereafter. Consequently, the dairy AMS declines from $4.3 billion in 1998 to $1.1 billion in 1999, and to zero in 2000.

**U.S. Total AMS to Decline Sharply With Cuts in Dairy Support**




1996-2000 estimated.
Economic Research Service, USDA

A recourse loan program for dairy products will replace the current program of price supports and government purchases. However, since loans under the new recourse loan program for dairy will have to be paid back (producers cannot forfeit the commodity in lieu of payment), the loans will not establish a price floor for the marketing season as the current purchase price program is intended to do.

Future AMS calculations will account for the changes in dairy policy. But the dairy AMS will be virtually eliminated under current interpretation of the WTO rules. There may still be some as-yet-unknown amount of support from interest subsidies on the recourse loans and from the current dairy indemnity program, but these will probably not be very important in the overall AMS. The Federal Milk Marketing Order programs for dairy will continue, but any remaining benefits of this program are not part of the AMS, as explained above. And the price support currently provided through the FMMO because of the national dairy price support purchase program will no longer exist after 1999.

The *sugar AMS* is 6 percent lower in 1996-2000 than in 1995 because of the assumed effect of the 1-cent-per-pound penalty for forfeiting sugar in lieu of payment under the price support loan program. This penalty, mandated under the 1996 Farm Act, reduces the effective support level from 18 cents per pound to 17 cents.

The *peanut AMS* during 1996-2000 is one-third lower than the 1995 AMS. The decrease is due to a 9.5-percent-lower level of *production eligible* for quota-peanut support and a 10-percent-lower level of *support* for quota peanuts, as mandated by 1996 farm legislation. A fixed minimum marketing quota is not authorized by the 1996 Farm Act.

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There is virtually no chance that the U.S. AMS will exceed its commitment ceilings any time during 1995-2000. Under the existing commodity programs and AMS definitions, any significant increases in the AMS would probably come from increased eligible production of dairy, sugar, or peanuts, from marketing loan or loan deficiency payments, or from increases in subsidies of programs for irrigation, livestock grazing, state credit, or crop insurance.

Marketing loan program benefits and loan deficiency payments, under current programs, could occasionally occur for some individual commodities, as market prices fluctuate around the presumed long-term projections. Producers who participate in government programs are eligible to receive marketing loan benefits or loan deficiency payments when announced commodity loan repayment rates are less than the original per-unit loan rate (i.e., the amount loaned to producers) plus accrued interest. Under these conditions, a marketing loan benefit is realized when a producer who has entered an eligible commodity under loan, repays the loan at the lower repayment rate and retains the difference. A loan deficiency payment is realized when a producer forgoes putting a commodity under loan and claims the difference (loan level minus repayment level) in the form of a direct payment.

Actual benefits from these loan-related payments, however, are not likely to significantly affect the ability of the U.S. to meet its support reduction commitments during 1996-2000. Repayment rates for cotton and rice are based on prevailing world prices, and repayment rates for wheat, feed grains, and oilseeds are based on prices identified by the Secretary of Agriculture (currently “posted county prices”). The Secretary is required by the 1996 Farm Act to establish loan repayment rates that will minimize government stock accumulations and program costs, and that will allow U.S. commodities to be marketed competitively in domestic and international markets.

The baseline methodology used for the AMS projections assumes no shocks in the supply-demand environment that would set the stage for marketing loan or loan deficiency payments—so the projections assume zero values for these payments. Past experience with these programs suggests that producers of rice, cotton, sunflowerseed, or flaxseed would be the most likely candidates for enough marketing loan or loan deficiency payments to make their commodity’s contribution to the U.S. AMS’s non-zero, based on the UR provisions (the individual AMS’s would have to be greater than 5 percent of their value of production to be included).

During 1986-95, the largest annual payment for these commodities totaled $1.2 billion, an amount equal to the U.S.’s projected total AMS in 2000, using baseline assumptions (the totals for dairy, sugar, and peanuts)—well below the UR limit of $19.1 billion in 2000. Thus, there would be no problem meeting U.S. commitments even if marketing loan and loan deficiency payments were to reach historic highs.

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