Introduction

The 2002 Farm Act provided direct and countercyclical payments to farmland owners with a history of producing program crops—wheat, feed grains, upland cotton, rice, peanuts, and oilseeds. Both direct and countercyclical payments depend on base acreage and program yields, which reflect historical use of the land and the associated yields for program crops. Planting and harvesting may be restricted for program participants. In particular, payments may be forfeited if a producer plants and harvests wild rice, fruit (including nuts), and vegetables (other than lentils, dry peas, and mung beans) (hereafter, simply referred to as fruit and vegetables) on base acreage.

Planting restrictions have become a focal point of policy discussions in recent years, largely because of a case brought by Brazil to the World Trade Organization (WTO) against U.S. cotton programs. The WTO appellate body ruled in March 2005 that, because of planting restrictions on fruit and vegetables, U.S. fixed direct payments for cotton partly depend on current plantings and thus could not be considered "minimally trade distorting" under terms of the Agreement on Agriculture.[1] This legal ruling draws into question whether the United States can continue to claim that direct payments for any program commodity are a "green-box" support, exempt from WTO obligations, without eliminating the restrictions (see box, "Categories of WTO Domestic Support Policies").

If direct payments were categorized as "amber-box" policy for purposes of WTO notification (member countries report all spending on agricultural programs to the WTO), the United States would run a higher risk of exceeding its $19.1 billion ceiling on domestic support negotiated under the Uruguay Round. The risk would be particularly high in years when low prices lead to large Federal expenditures under other commodity programs (e.g., marketing loans).[2] Thus, eliminating planting restrictions has been suggested as a necessary step for the U.S. to remain within its current WTO spending limits.

Industry groups are divided on the issue of whether or not they favor relaxing planting restrictions. Given the magnitude of base acreage and the small size of acreage for fruit and vegetables, growers are naturally concerned about the price-depressing effects of potential shifts of production (Antle).

Categories of WTO Domestic Support Policies

A traffic light analogy is used to categorize WTO domestic support policies and to place them in one of four colored policy boxes:

Red: Prohibited policies that must be stopped. No domestic support policies are in this category.

Amber: Policies subject to careful review and reduction over time.

Blue: Payments made in conjunction with payment-limiting programs.

Green: Policies considered to have little or no effect on production or trade and are not subject to any limitations.

[1]Schnepf provides an overview of the ruling in the Brazil cotton case. The legal ruling of the WTO appellate body is available at http://www.wto.org/english/tratop_e/dispu_e/find_dispu_documents_e.htm.

[2]For discussion, see Sumner, pp. 9-14.

But processors argue that they would be subject to lower risks of localized crop problems (e.g., diseases that can render fields unsuitable for vegetable production). Additionally, processors, particularly in the Midwest, view planting restrictions as a competitive obstacle. They argue that restrictions limit supply and opportunities for procurement close to plants, imposing higher procurement costs. This argument carries special force in areas where vegetables were traditionally grown but where base acreage expanded under the 2002 Farm Act (as a result of base acreage updating and the addition of historic soybean acreage), leaving a much smaller share of nonbase acreage. Althoff and Gray note that the proportion of Indiana cropland designated as base acreage (and hence subject to planting limitations) increased from 57 percent to 93 percent as a result of program changes under the 2002 Farm Act. Nationally, base acreage increased from 211 million acres to 269 million acres (Young et al.).