

Possible impact of the U.S. Agricultural Act of 2014 on the agricultural sector in LAC

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¹. The work of the Center for Strategic Analysis for Agriculture (CAESPA) at IICA is focused on the analysis of strategic issues affecting sustainable development in the Americas. CAESPA is not biased and does not adopt a political position on any topic. Moreover, all the views, positions and conclusions expressed in this article are the sole responsibility of the author(s).

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Introduction

The Agricultural Act, first enacted in 1933 and usually referred to as the Farm Bill, is the primary agricultural and food policy tool of the U.S. Federal Government. A new bill is normally passed every five years, with the U.S. Department of Agriculture (USDA) responsible for implementing it. Since 1973, farm bills have included programs related to commodities, trade, rural development, farm credit, agricultural research, food, nutrition and marketing.

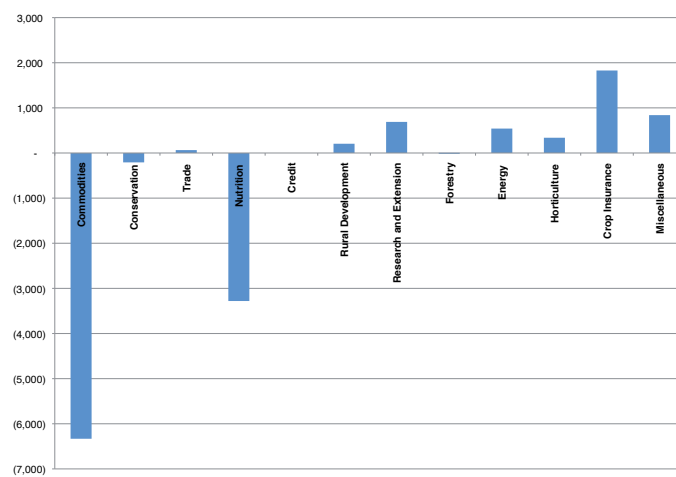
The bill has to be passed by both the Senate and the House of Representatives. Any differences in the versions passed by the two entities are resolved by what is known as a 'conference committee.' Although the farm bill is in effect for a five-year period, Congress is required to estimate its budget for a time horizon of ten years.

The Agricultural Act of 2014 (hereinafter, the 2014 Farm Bill; see H.R. 2014) was finally signed by President Barack Obama on February 7, 2014, following intense interaction between the two houses that lasted two years (for the background, see IICA 2013). The 2014 Farm Bill revokes or modifies several programs included in the previous act, while new supports are created with budgets guaranteed through 2018. The new bill, in force for five years, offers U.S. farmers and consumers safety and stability.

The 2014 Farm Bill calls for not only a slight reduction in total expenditure for the next 10 years, but also substantial changes in the way in which financial resources are distributed among the components (see figure). According to estimates from the Congressional Budget Office (CBO), maintaining the programs established in the Agricultural Act of 2008 (hereinafter,

the 2008 Farm Bill; see H.R. 2008) for another five years would have cost around USD 494 billion, USD 5.4 billion more than the projected budget for the 2014 Farm Bill.

2014 Farm Bill: Estimated effects on the 2014 - 2018 budget (millions of USD)



Source: CAESTA based on CBO data (2014)

The most significant change in the new Act was the elimination of direct payments, counter-cyclical payments and the Average Crop Revenue Election (ACRE) Program, which together accounted for nearly 15% (Chite 2013) of the total budget of the 2008 Farm Bill. The abolition of these programs, under the title dealing with commodities, reduces the federal government's expenditure over a five-year period (through 2018) by roughly USD 21.135 billion, 86% of which was attributable to the direct payments program (CBO 2014). Under the new Act, 70% of those savings will be used to finance new mechanisms to give farmers security, mainly to cover prices and income, fund the Agricultural Disaster Assistance Program and strengthen the support programs for the dairy and cotton sectors, all included in the title on commodities. A further 21%

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of the savings made in the budget were reallocated to strengthen other programs under other titles of the act, some of the most important of which are Crop Insurance (whose budget increased by USD 1.82 billion over five years), Research and Extension, Energy, Horticulture, Rural Development and Trade. The other nine percent represents a projected fiscal saving through 2018—under the commodities title—of USD 1.902 billion, which, when combined with other budget reductions under the nutrition and conservation titles (see figure), makes for a projected total net saving through 2018 of USD 5.312 billion (CBO 2014).

This technical note, which is a continuation of the note on the background to the 2014 Farm Bill (see IICA 2013), deals with the most important changes with implications for LAC. The following analysis takes into account the fact that LAC is not homogeneous but rather a collection of countries with different economic interests, development models, public policy emphases, natural resource bases and agro-ecological conditions. The levels of trade liberalization and economic complementarity with the U.S. also vary from country to country.

Will the elimination of direct payments to farmers help to make the international commodity market more competitive for LAC trade?

The elimination of counter-cyclical payments (as we shall see, the program was replaced with a new price loss coverage program) could potentially have a bigger impact on domestic and international commodity markets (soybeans, peanut, wheat, corn, sorghum, barley, oats, cotton, rice and other oilseeds) than any other change introduced under the new farm bill. In broad terms, counter-cyclical payments were designed to maintain minimum prices, with farmers receiving payments when the effective market price fell below a price floor established by law. Because the program was directly linked to market prices, it had positive, direct effects on agricultural production in the U.S.

Subsidies of this kind may generate vicious cycles in commodity markets, since price falls caused by oversupply trigger counter-cyclical payments that generate artificial incentives to increase not only production but also the supply in the following farming year, pushing prices down even further.

Furthermore, it is thought that the elimination of direct payments will not have serious effects on domestic and international markets, as they are considered one of the measures that distort trade the least (according to the language used in the Agreement on Agriculture (AoA) of the World Trade Organization (WTO)). The payments per unit of product were estimated based on the number of hectares and historical yields, plus a fixed price coefficient, meaning that they were not directly related to actual market performance (supply and prices) and had a minimum impact on production decisions. However, some people believe that direct payments create wealth for producers and generate savings that allow farmers to invest more and make better use of land and more intensive use of inputs, thereby boosting future production levels (INAI 2009).

Finally, the ACRE program was replaced with another income protection program (see below for the insurance program, the risk coverage program, etc.). ACRE was introduced in the 2008 Farm Bill to guarantee farmers the amount of income they would receive (prices and yields) for producing commodities. To do so, they had to renounce counter-cyclical payments (which only guaranteed minimum prices).

Since the benefits available under the ACRE program were linked to prices, yields and planted acreage, the program encouraged U.S. farmers to grow the most widely produced crops, such as wheat, feed grains, corn, a specific type of cotton and soybeans. Since the U.S. is a major player in the global markets of these products, increased supply depressed domestic and international prices, affecting other world competitors, but favoring net importers. Furthermore, discretionary supports were a disincentive for the production of minor crops.

2. Under the Commodity Program, direct payments were assigned the largest budget (approximately USD 4.5 billion annually).

The U.S. accounts for a large proportion of global exports of sorghum (62%), corn (41%), wheat (24%), cotton (21%), rice (9%) and peanuts (9%), crops eligible for direct subsidies under the 2008 Farm Bill. The elimination of these programs should lead, among other things, to a reduction in the incentives to U.S. domestic production, which in turn could ease the downward pressure on international prices. In the Americas, Argentina, Canada, Chile, Paraguay, Uruguay and Brazil are the countries most likely to benefit from the elimination of direct supports, as they are the chief exporters of one or more of the crops mentioned, which compete with those of the U.S. in world markets.

However, it is clearly difficult to predict (until such time as more in-depth analyses are undertaken to quantify the direct and indirect effects of the changes of in the new Act with respect to the 2008 Farm Bill) whether the elimination of direct payments will compensate for or exceed the impact of the new programs and the others left in place (which are discussed below). The key question is whether the price and income coverage and subsidies for insurance premiums distort trade to the same, lesser or greater extent than the direct supports included in the 2008 Farm Bill. Section 2014 Farm Bill and the WTO below

The new price and income protection and security programs give commodity producers a competitive advantage in international markets that it is difficult to equal

The funds freed up by the elimination of direct payments, counter-cyclical payments and the ACRE program are used, among other things, to create two new programs that offer farmers coverage

3. The combined share of Argentina, Canada, Chile, Paraguay, Uruguay and Brazil of global exports of the crops analyzed is as follows: sorghum (27%), corn (24%), wheat (20%), cotton (5%), rice (6%) and peanuts (17%).

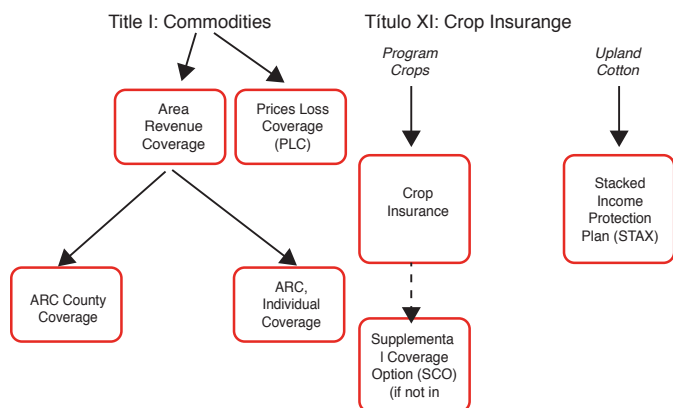
against variations in prices and income, and to boost agricultural insurance and insurance against natural disasters, which become the cornerstone of agriculture risk management in the U.S.

Under the new bill, U.S. farmers must choose between the Price Loss Coverage (PLC) program and the Agriculture Risk Coverage (ARC) program (essentially, income protection). The decision is irreversible and applies throughout the 2014-2018 period. Producers who do not opt for either of the two will automatically receive the benefits of the PLC program from 2015 onward. The budget allocated to the two programs for the next five years is USD 11.643 billion, a reduction of 45% compared to the three programs that were eliminated (direct payments, counter-cyclical payments and ACRE).

Under the first option—the PLC, which replaces counter-cyclical payments—farmers receive a payment if the average market price received during the marketing year is less than the reference price for each crop. If the price is lower than the reference price, farmers who opt for this program have a right to an indemnity equal to 85% of the base acres times the difference between the reference price and the effective price times the yield. Producers have the option of reporting as the reference yield 90% of their farm's average yield during the period 2009-2012 (FSA 2014). On the other hand, the base acres for calculating the subsidies may reflect the planting conditions in 2013 or, alternatively, may be calculated as the average acreage planted with each crop during the period 2009-2012. The reference area will remain the same through 2018.

From 2015 onwards, only farmers who opt for the PLC and participate in the federal insurance program may take out an additional policy (Supplemental Coverage Option-SCO) designed to cover part of the deductible of the insurance. Unlike under the counter-cyclical payments program, farmers must provide evidence of losses incurred (which must also exceed 14%) in order to receive an indemnity.

Price and income protection and safety net programs



With regard to the Agriculture Risk Coverage (ARC) Program (which replaced the ACRE program), farmers have two options to choose from. The first guarantees them 86% of the county benchmark revenue (ARC-County), which is calculated as the average county (not farm) yield times the average national price for the last five harvest years. As in the case of the PLC, payments are equal to 85% of the base acres (not the planted acreage) provided they do not exceed 10% of the county benchmark revenue (price times the county's average yield).

The other option is the ARC-Farm, which also guarantees 86% of the benchmark revenue but, unlike the previous option, is calculated based on the average historical yields obtained for all the eligible crops on the farm. The indemnity in this case is calculated as 65% of the base area times the difference between the guaranteed revenue minus actual revenue, and payments may not exceed 10% of the farm's benchmark revenue.

In both cases, the State subsidy is 65% of the cost of the insurance premium, which clearly encourages producers to sign up for the program. At the same time, and in order to redistribute the supports and focus on small- and medium-scale producers, the act limits total compensation (PLC, ARC and marketing assistance loans) to a maximum of USD 125,000 per year per person, while individuals with gross annual income of more than USD 900,000 are not entitled to benefits of any kind (FSA 2014).

Although cotton producers are not eligible for any of these programs, they have other options under a special program, details of which are to be found in next section.

The combination of programs for different crops is, in itself, a risk diversification strategy; however, decisions can be complex for any farmer, especially because they may be influenced by price expectations during the period 2014-2018 (Zulauf 2014).

Under the new Act, the reference prices for the PLC are significantly different from the prices observed in the market during 2013. The reference prices for all the products included in this program except peanuts, whose reference price was equal to the one observed in the market, are below current prices (2013): sorghum (-7%), rice (-12.5%), corn (-17.7%), barley (-18.2%), wheat (-19.1%), soybeans (-33.9%) and oats (-35.1%). If prices fall during the period of implementation of the Act, these last products are less likely to receive compensation under the PLC. On the other hand, peanut producers signed up with the PLC would surely be entitled to an indemnity.

Furthermore, the implicit reference prices for the ARC are, on average, closer to the prices observed in the market during 2013. In fact, assuming that prices remain unchanged during 2014, sorghum and corn prices would be below the reference price (2.82% and 1.33%, respectively) and, as such, eligible for compensation under the ARC-County option. The implicit prices for the other products would be around 15-24% below the reference prices (oats, -24.9%; barley, -24.0%; rice, 21.5%; soybeans, -17.6%; wheat, -16.7% and peanut, 14.8%), which makes it less likely that producers of those crops would be entitled to compensation for losses. These are only approximate calculations designed to show how the program works; if yields were smaller than expected, the potential for compensation would increase.

4. The spouse can receive an additional equal amount, however.

5. The reference prices established by the new act are: wheat, USD 5.50/bushel (USD 202/t); corn, USD 3.70/bushel (USD 146/t); sorghum, USD 3.95/bushel (USD 156/t); oats, USD 4.95/bushel (USD 227/t); and rice, USD 14.00/100 lbs. (USD 309).

6. Harvest year prices by crop calculated with WASDE data by Zulauf (2014).

The spread of the difference between effective prices and reference prices shows that the best strategy for producers wishing to diversify their risks is to select different programs (PLC or ARC-County) for different products. However, farmers may, if they wish, choose a single program for all the crops on the farm (ARC-Farm). The decision will largely depend on year-to-year price expectations through 2018 at the time when it is taken.

It is important to note that the reference prices set in the 2014 Farm Bill are considerably higher than the target prices established in the 2008 Farm Bill (on average, 48% higher) (Coppess and Paulson 2014). This means that, under the conditions of the new Act, a fall in prices makes it more likely that producers will receive compensation they would not have received under the 2008 Farm Bill.

The programs analyzed, which offer support for prices and farmer's income in the U.S. could, in principle, favor the net commodity importing countries by lowering the cost of food for domestic markets. However, they could also have a negative impact on net exporting countries, which will have to compete internationally under disadvantageous conditions. In LAC, Barbados, Trinidad and Tobago, St. Vincent and the Grenadines, Jamaica, the Dominican Republic and Panama could benefit the most, because in 2011 more than 40% of their calorie supply came from imports (authors' calculations based on data from FAO 2013 and COMTRADE). On the other hand, countries like Argentina, Canada, Brazil, Chile, Paraguay and Uruguay could be affected negatively because, among other things, they are major exporters of one or more of the products covered by the Act.

New policies for the cotton sector

In 2009, the WTO dispute settlement body found in Brazil's favor and granted the country authorization to take retaliatory action against the subsidies granted by the U.S. totaling USD 829 million. The U.S. then

proposed an agreement involving annual payments of USD 147.3 million to deactivate the reprisals.

The new farm bill sought to address the WTO dispute settlement decision of 2009. As a result, the 2014 Farm Bill excluded cotton from the PLCs (formerly, counter-cyclical payments) and the ARCs (formerly, the ACRE). In its place, the U.S. created a special insurance program, called the Stacked Income Protection Plan (STAX) that covers U.S. cotton producers against revenue loss. Under this plan, the government pledges to subsidize 80% of the cost of the insurance premiums payable to cover losses ranging from 10-30% of expected county revenue (making it the highest subsidy of all federal agricultural insurance programs). To make it less attractive to increase production, the compensation will only be paid if actual county revenue attributable to the producer is less than expected county revenue, and provided that the total compensation provided for under the Act is not greater than the value of the crop.

Although the STAX will take effect in 2015, the beneficiaries will be eligible for transition payments in 2014, with a total of USD 558 million available, provided they report cotton base acres in 2013. The support measures will continue in 2015 only in those counties where the STAX is not available. The maximum transition payment is USD 40,000 per year; and producers can report the base acres harvested in 2013 as a reference for the calculation of compensation.

In addition to the STAX, the Act authorizes continuity of the marketing assistance programs for the crop, although the compensation cap is lower. Export subsidies are also extended, with funds earmarked for the export loan guarantee program through 2018. However, substantial changes were made to the latter,

7. The implicit price is only a reference figure because the ARC covers revenue that also depends on yields and is calculated as 86% (the coverage of the ARC) times the Olympic average (eliminates the minimum and maximum) for the last five harvest years (which varies from crop to crop).

8. Barley: 88%, sorghum: 50%, corn: 41%, soybeans: 40%, oats: 34%, and wheat: 32%.

9. Rice, oats, barley, corn, peanuts, soybeans, sorghum, wheat, sunflower, canola, rapeseed, safflower, mustard seed, flaxseed, crambé and sesame seed, peas, lentils and chickpeas.

including a reduction in the length of contracts (from 36 to 24 months) and higher rates for users to ensure that the program's operating costs are met. The Secretary of Agriculture is also authorized to make any changes deemed necessary to the program.

Provided that the U.S. is world's leading exporter of cotton (one fourth of global exports), other world competitors follow with interest US policies on the sector. The new safety net program for cotton would be of interest to mayor exporters such as India, Australia (the world's second- and third-largest exporters), Uzbekistan, Brazil, and to other countries for which cotton is an important crop (i.e. several African nations).

Among importers, China accounts for nearly half of all global cotton imports, primarily from the United States, and could benefit from the new Agricultural Act. Likewise, net cotton importing countries in LAC could benefit from cheaper imports, especially nations that produce little or no cotton, such as Honduras, the Dominican Republic, El Salvador, Guatemala and Peru, which together accounted for just over 53% of the U.S.'s average of USD 2.7 million in exports to LAC over the last five years (35% of its total exports). The U.S. exports an average of nearly one billion dollars' worth of cotton to Mexico (36% of its exports to LAC), which competes with domestic production.

Given the size of the program, and the fact that the new provisions for cotton are specific in nature, they must be included under the Amber domestic support measure (see section 2014 Farm Bill and the WTO below), not to exceed the amount permitted under the WTO Agreement on Agriculture (USD 19.1 billion).

New Margin Protection Program for the dairy sector

In a scenario of high international prices and very strong U.S. exports of dairy products, the 2014 Farm

Bill eliminates three programs that directly supported prices, exports and income in the sector. The programs in question were the Dairy Product Price Support Program (DPPSP), the Milk Income Loss Contract (MILC) and the Dairy Export Incentive Program (DEIP).

Although the support measures included in the new Farm Bill are designed mainly to guarantee producers' profit margins, other programs are authorized that deal with forward pricing, compensation for marketing losses and export promotion. Although the DPPSP was revoked, the new legislation retains the permanent Dairy Price Support Program contained in the 1949 Agricultural Act (Bozic et. al 2014). Also retained are the federal Milk Marketing Orders (Orders) and Sales of Fresh Milk from Farmers to Dairy Processors, under which purchasers of milk (that are not part of a cooperative) can offer forward pricing contracts for class II, III and IV milk instead of paying the minimum prices set at the federal level. Producers are also entitled to compensation if a regulatory agency orders them to remove products from the market due to contamination by pesticides, nuclear radiation or toxic substances (this is known as the Dairy Indemnity Payment Program or DIPP). Finally, the bill finances the Dairy Promotion and Research Program, to augment the development of export markets (Bozic et al. 2014). In addition to all these support measures, the disaster coverage compensates producers for total losses at no cost, apart from an administrative charge of USD 100.

The three eliminated programs that provided direct support for sector prices, exports and income were replaced with a new one called the Dairy Producer Margin Protection Program (DPMPP), which compensates producers when their profit margin at the national level falls below an established minimum. The principal objective of the program is to compensate dairy producers for higher feed costs incurred due to increased use of inputs for bioenergy production. The

10. USD 1.054 billion were budgeted for the period 2014-2018.

11. The CBO anticipated that the STAX program would cost USD 3.5 billion over the next 10 years.

margin is calculated as the difference between income and the feed costs incurred by milk producers. The premium is subsidized by the government and the amount is fixed to prevent producers from trying to maximize compensation.

Under the new DPMPP, dairy producers can decide the margin protection coverage they want based on their production history (the range permitted is between 25% and 90%), at 50 cent increments beginning at USD 4 to USD 8 per cwt. (USD 1.06–2.11/gal.). The bill suggests bigger subsidies for small producers (fewer than 200 cows). The premiums are linked to the amount of the margin insured.

A margin for the previous two months of less than USD 1.06/gal. (USD 4.00/cwt.) triggers a Dairy Product Donation Program which low-income groups will receive food under domestic nutrition assistance programs. The Act also includes other triggers designed to maintain internationally competitive prices, details of which will be made available once the USDA publishes the respective implementing regulations (Dickrell 2014). The new program for government purchases replaced the previous, much more controversial Supply Management Program, which encouraged overproduction and lower prices.

Prices today are much more volatile than they were before the 1990s. Instead of changes of only a few dollars per metric ton, prices now vary by USD 44-66/t from month to month, or USD 110-132/t from year to year (Jesse and Cropp 2008). In this scenario, the new program will alleviate U.S. producers from part of the risk posed by price variations.

The ultimate effects of the replacement of programs that supported the dairy sector are difficult to predict. Firstly, fluid milk prices are not established by supply and demand but rather by product supply and demand conditions for manufactured dairy products (Jesse and Cropp 2008). Secondly, under the new farm bill the government is authorized to purchase unlimited amounts of production surpluses. The impact of this provision will depend on milk prices relative to animal

feed prices. If the margin is low, because of high prices of both inputs and the sale prices of milk, government purchases will not be very effective in pushing up sale prices; on the contrary, they could even send input prices higher. Thirdly, the new Farm Bill establishes a monthly variation in margins based on price forecasts. In the recent past, margins have been high enough not to require any indemnity; however, if prices fall as the years pass, the subsidies could easily exceed the total premiums collected, increasing the fiscal cost of the program considerably.

In recent years, the U.S. dairy sector has been very buoyant and its share of international markets has grown (Raghunathan 2014). Before the new legislation was approved, the projections for the next decade (through 2023) suggested even stronger growth in the future—an annual increase in milk production of between 1.65% and 2.45% and a roughly 7% annual rise in exports of fat (milk-equivalent) products during the period 2015-2017. The inclusion of support measures from the previous bill and the creation of new profit margin protection programs suggest that the U.S. dairy milk sector will become even stronger, increasing its share of the world market.

The impact of the 2014 Farm Bill on the LAC dairy sector could be significant. The region purchases an average of 36% of all U.S. dairy exports (USD 5.145 billion in 2013), and the figure continues to rise steadily.¹² Changes in U.S. policies and the strength of the country's exports will pose a challenge in world markets for competitors like Argentina (which accounts for 43% of all LAC dairy exports), Uruguay (24%) and Chile (7%), the biggest exporters of such products in the region (COMTRADE 2014). Mexican consumers may benefit from the new policies, as bigger supplies may become available at more competitive prices. Mexico is the main destination for

12. The maximum production values over the last three years will be used to estimate the base production to be insured. This figure will be updated annually in line with national average growth.

13. CAESPA calculations based on ITC data.

U.S. exports (USD 932 million or 76% of all exports to LAC). Consumers in the Dominican Republic, Peru, Chile and Panama will benefit to a lesser degree (they account for 2-4% of U.S. exports to LAC).

The new Act provides continuity for the sugar sector, with few changes to the policies already in place

The U.S. is one of the five biggest producers and consumers of sugar. In fact, its sugar production is insufficient to meet domestic demand, so it accounts for nearly 8% of world sugar imports. The policy to support the sugar sector is based on three core elements inherited from the 2008 Farm Bill that will remain unchanged. As a result, the CBO calculates that the budget for the Sugar Support Program will not vary over the next decade.

The first element is price support. By granting short-term loans (with production acting as security for the principal), the U.S. Department of Agriculture guarantees national sugar producers minimum prices (18.75 ¢/lb. for raw sugarcane and 24.09 ¢/lb. for refined beet sugar). If prices fall below the established minimum, producers can hand over their harvest to the government as payment for the loan. If prices are higher than the minimum, producers can sell their produce and pay back the loan.

The second element consists of controls in the domestic market. By assigning producers market quotas (based on harvest forecasts), the USDA controls the amount of sugar available in the local market. The amount assigned usually represents at least 85% of the domestic sugar supply.

The third and last element are tariff quotas. All U.S. sugar imports are controlled by means of tariff quotas that reduce the tariffs payable or eliminate them altogether, depending on the country of origin. Each October 1, the USDA and the U.S. trade representative

establish import quotas for the current year (they usually start with a quota of 1256 million tons, which is the minimum established by the U.S. with the WTO). If there is a shortage of sugar in the domestic market, in mid-year (April 1) the USDA can raise the authorized tariff quotas.

The Sugar Program retains the features of the previous Farm Bill, including the provision whereby, if there is a domestic surplus, government purchases of sugar for food purposes may subsequently be sold to the bioenergy industry to produce ethanol.

As a result of the price support and domestic market and import control programs, sugar prices in the U.S. were, on average, 43% higher than the prices in the international market (between Jan. 2008 and Feb. 2014).¹⁴ However, in the last 36 months, the gap has narrowed significantly.

Over the next four or five years, international sugar prices are expected to fall by an annual average rate of 4% (IMF 2014). Although they will not equal the falls experienced in the last two and a half years (international sugar prices have declined by 47% since September 2011), the reductions in international prices could even lead to them being lower than the minimum prices paid to U.S. producers. With support levels remaining unchanged in the new farm policy, it is to be expected that the difference between international prices and the prices paid to U.S. sugar producers will also remain the same, affecting, in particular, U.S. producers and consumers of sugar-based candies and desserts.

Latin America supplies nearly 90% of U.S. sugar imports, especially Mexico, the Dominican Republic and Brazil, which together export USD 12,000 million in sugar to the U.S. market.

14. Calculations based on data from the USDA (2014a). It refers to the comparison between the raw sugar price in the U.S. (Contract No. 14/16 duty fee paid in New York) vs. the world price of the same product (Contract No. 11-f.o.b. stowed Caribbean port).

The elimination of incentives for the production of ethanol from feed grains and the promotion of the development of second-generation renewable energies will ease the pressure on international prices, especially in the case of corn

The 2014 Farm Bill cuts the global amount of financing for the renewable energy program from USD 1.1 billion (2008 Farm Bill)¹⁵ to USD 694 million, a substantial reduction of 47% (CBO 2014). However, the new bill continues to make the issue a priority and maintains the commitment assumed under the Agricultural Act of 2002 to promote investment in alternative energy technologies and the production of biomass for biofuel production, through education, research and financial assistance programs.

The new Act places special emphasis on diversifying the raw materials used in biofuel production, promoting the development of so-called second-generation energies (those that make use of biomass byproducts), thus avoiding the use of feed grains for the purpose. In recent years, increasing use of corn for industrial purposes has had an impact on grain prices, with implications for the cost of food for humans and feed for animals, also reducing the availability of the commodity for export. Indeed, the fact that the U.S. is no longer the world's leading exporter of the grain has allowed Latin American countries like Brazil to increase their share of the global market.¹⁶ The increasing use of grains, particularly corn, and the development of an important biorefinery infrastructure in the country, is due in large part to the incentives associated with the use of renewable fuel standards (RFS) and not necessarily the Farm Bill.

The new standard proposed for 2014 (EPA 2014), which at the time of writing has yet to be approved, establishes that 9.2%¹⁷ of all fuels must be from renewable sources. This is less than the target set for the previous standard (roughly 41% in advanced biofuel

and 9.7% in corn-based ethanol) (Lane 2013), due to the fact that gasoline consumption in the U.S. is lower than it was expected to be when the (EPA) Act of 2007 was passed. The 2014 Farm Bill also includes a provision eliminating subsidies for gas stations that blend gasoline with biofuel, such as corn-based ethanol (Reuters). This will reduce ethanol consumption in rural areas, where demand for the fuel is greatest. Another incentive that expired in December 2013 and, as at the date of this report has not been renewed, is the tax credit of USD 1.01/gl. that second-generation biofuel producers received when their fuel was used to produce blends.

With a view to promoting second-generation energies, the 2014 Farm Bill extends several programs through 2018. Firstly, it renews the Biomass Crop Assistance Program (BCAP), which was added to the 2008 Farm Bill to provide financial aid to owners and operators of agricultural and forested land who wished to produce biomass, excluding grains and algae, with additional benefits for soil conservation and water quality. The BCAP will receive mandatory funding of USD 25 million per year through to its conclusion in 2018. The Act makes the use of environmentally friendly materials obligatory; makes commodities ineligible for subsidies; subsidizes 50% (previously 75%) of the cost of establishing a plantation; and establishes a cap of USD 45/t for subsidies for the collection, harvest, storage and transportation of biomass sources for a maximum period of two years (Chite, R.M.).

Secondly, the Biomass Research and Development Initiative (BRDI) will receive mandatory funding of USD 3 million per year and optional funding of USD 20 million per year through 2018. This program offers competitive funds, scholarships and financial assistance for technology research, development and demonstration, and processes leading to the commercial production of biofuels and biobased products.

15. The 2008 Farm Bill also included discretionary funds (an additional one billion dollars).

16. Although the strong drought in the U.S. in 2012 that significantly reduced the corn harvest also played a part in this.

17. Cellulosic biofuel, 0.010%; biomass-based diesel, 1.16%; and advanced biofuel 1.33%.

Thirdly, the 2014 Farm Bill allocates USD 3 million annually in mandatory funding and USD 2 million per year in optional funding to finance the Biobased Markets Program through 2018. Introduced in the 2008 Farm Bill, this program requires state agencies to purchase products with maximum biobased content, subject to clearly defined standards and rules. It explicitly excludes forest products.

Fourthly, the Bioenergy Program for Advanced Biofuels is extended through 2018. Established by the 2008 Farm Bill, it provides payments to producers (under contracts) to support and expand production of advanced biofuels. The program will receive mandatory funding of USD 15 million annually.

To complement the aforementioned programs, the Act also extends the Repowering Assistance Program, created to reduce the use of fossil fuels for processing or power in biorefineries.

Last but not least, the Rural Energy for the Americas Program (REAP) continues to be cornerstone of all the clean and renewable energy programs, with an annual budget of USD 50 million. This program provides financial assistance in the form of grants or guaranteed loans, or a combination of the two, for the development and construction of renewable energy systems and energy efficiency improvement projects (eligible entities include agricultural producers and rural small businesses), grants for conducting energy audits and renewable energy development assistance (eligible entities include local governments and universities, state agencies, etc.). The new Act eliminates grants for feasibility studies related to renewable energies, prohibits REAP from funding fuel pumps for dispensing ethanol-gasoline blends and any systems for dispensing energy at retail, and simplifies the procedure for applying for short- and medium-term projects.

This reinforcement of policies intended to promote the production and consumption of clean and renewable energies is expected to spur the growth of both biofuel production and exports, which fell in 2012 and 2013 from the high level reached in 2011 (Glauber 2014). However, these policies are designed to bring about

an increase based on biomass byproducts rather than feed grains. In fact, the USDA estimates that the use of corn as raw material will remain stable at around 35% of national production (Trostle 2014). This will depend not only on the new standards governing the use of renewable fuels, which anticipate lower demand for conventional biofuels (e.g., corn-based ethanol), but also biofuel prices relative to those of other fossil fuels.

The latter suggests, among other things, that the pressure on international corn prices could ease and there could be an upturn in U.S. corn production and exports, which would mainly affect Brazil's export opportunities. At the same time, any fall in corn prices would also ease the pressure on animal feed prices and reduce the costs of cattle and poultry production and, as a result, end prices to the consumer.

Finally, it must be borne in mind that the U.S. is advancing toward energy self-sufficiency (it will produce 99% of the energy it consumes by 2030), with its production of renewable energies growing by 202% by 2030 and the contribution made by natural gas expected to reach 32%. Indeed, the country is now the biggest producer of fuel.

Once the U.S. achieves energy self-sufficiency, its dependence on the Middle East (historically the world's biggest oil supplier) will decrease and it will import less oil from LAC. At the same time, China's demand for energy, especially oil, is growing, leading it to purchase more and step up investment in exploration, exploitation and infrastructure. China's presence should create more markets and financing opportunities for Latin America and, as a result, less dependence on the U.S. (Arriagada et al. 2014).

The 2014 Farm Bill and the WTO

The policies designed to stimulate production in the U.S., the world's biggest producer and exporter of agricultural products, could spark significant changes in the volume and direction of world trade, as well as changes in international agricultural commodity prices.

The WTO Agreement on Agriculture (AoA) classifies domestic support policies according to their trade-distorting effects. It also establishes a maximum limit for domestic support considered to distort trade (referred to as the Amber Box). The maximum limit for such support established for the U.S. in the AoA is USD 19.1 billion. However, if the Doha Round of negotiations is concluded, the ceiling established in the Amber Box could fall to a minimum of USD 7.64 billion annually, based on the offer that the U.S. made at the Ministerial Meeting held in July 2008 (Wailes and Rosson, undated). It should be noted that the U.S. reported Amber Box domestic supports of USD 4.65 billion for 2011, well below the figure offered at the Ministerial Meeting (WTO 2014). Support of this kind has been at its lowest level ever¹⁸ due to the high international prices of commodities in recent years.

In general, the policy measures considered to distort trade are those directly linked (coupled) to prices (subsidies) and production (acreage and yields), or crop-specific measures.

It is very premature to say whether the 2014 Farm Bill is less or more trade distorting than the 2008 Farm Bill. A detailed technical and legal analysis is required—program by program and product by product—taking into account not only the notifications that the U.S. sends the WTO about the new Act, but also the response of other countries with which it competes in international markets. However, even without that information, it is possible to make certain observations.

Firstly, the direct payments provided for in the 2008 Farm Bill indemnified producers with a specific sum, which did not vary according to effective prices or production, thereby insulating farmers from the behavior of the market. Domestic supports of this kind, considered not to distort trade, or to distort it to a minimum degree, are included in the so-called

Green Box under the AoA. The new measures under the 2014 Farm Bill indemnifies farmers only when real losses occur, and are also decoupled from current prices and production decisions.

Secondly, the marketing support and counter-cyclical payments included in the 2008 Farm Bill guaranteed a minimum price floor for each crop. In the first case, the indemnity was based on production and effective prices, and, as such, were considered ‘coupled’ or in the Amber Box, according to the rules of the WTO. The counter-cyclical payments, on the other hand, were based on effective prices and historical production figures, which meant they could be considered partially ‘uncoupled’ and, as a result, their classification (in the Green Box or the Amber Box categories) was controversial (Wailes and Rosson). There will be a lot of discussion as to whether the new PLC program included in the 2014 Farm Bill, which replaces counter-cyclical payments, is less or more trade distorting. Zulauf (2014) argues that the PLC could potentially offer a minimum price, if the market price is between the reference price and the guaranteed price (under the marketing assistance program). Furthermore, the SCO (supplemental insurance) is linked to the current cultivated area and establishes no indemnity cap.

Thirdly, under the ACRE program mentioned at the beginning of this document, indemnities were linked to the base acres and market income, placing them in the Amber Box category. In this case, the question, once again, is whether the new ARC program that replaces the ACRE is less or more trade distorting.

One of the main arguments used to defend the position that the new price and income support programs included in the 2014 Farm Bill would be less trade distorting is that under them the government would be making payments to farmers based on a percentage of the fixed production area (85% of the base acres under the PLC and the ARC-County, and 65% under the ARC-Farm). The fact that this base acre percentage will not change during the life of

18. USD 23.9 billion in the base period 2006-08, USD 10.7 billion during the period 1995-2005 and USD 5.5 billion during the period 2006-2011 (ERS 2013).

the Act (through 2018) means that, according to the U.S. position (Committee on Agriculture 2014), the new supports are decoupled from production. The producer has the option of reporting the planted acres by crop or for the entire farm, according to the acreage planted in 2013; or of reporting average plantings between 2008 and 2012. Another argument put forward to demonstrate that these farmer subsidies are less trade distorting is that they are granted based on the performance of the county where the agricultural operation is located. That is, the producer receives a subsidy only if the yields, revenue and profit margin (the case of dairy products) are lower than a reference value. This means that a producer can receive indemnities regardless of whether he suffers losses due to falls in prices or yields. The reference prices are national average prices, not those that the producer receives.

However, for both the PLC and the ARC, the level of distortion to production decisions and the market will depend, mainly, on the future real gap between the reference prices and the effective prices paid to the farmer. If the reference prices were very low (currently they are an average of 18% lower), they would do little to help the producer mitigate risk. On the contrary, if the reference prices were too high, these programs would prove to be very similar to direct payments, generating indemnities when agriculture is booming (Zulauf 2014). The analysis presented earlier in this document showed that the reference prices (PLC) in the new Act are, on average, 48% higher than the target prices of the 2008 Farm Bill.

One argument against subsidies is that, in practice, they eliminate risks and guarantee producers' incomes, which in any case stimulates production and lowers prices. According to this argument, state supports would be connected, albeit indirectly, to production, prices and trade, which means that they would have a distorting effect. Being such a big player in the markets of the products subsidized, the U.S. tends to contribute to lower international prices, which are then transmitted to the domestic markets of the LAC countries, which,

for the most part, are price takers. The fact that this makes Latin American commodity imports cheaper has a negative impact on local producers who do not enjoy similar supports. At the same time, producers geared to exporting have to compete with lower prices in international markets. The situation could worsen, since when prices fall, the type of supports provided under the 2014 Farm Bill can depress prices still further. This will not be a concern as long as market prices and income remain above the reference values, as they are at present.

Another of the reasons why it is claimed that the harvest insurance and new insurance programs (Supplemental Coverage Option and Stacked Income Protection Plan) included in the 2014 Farm Bill will have a distorting effect is that they are highly subsidized, with producers paying only between 20% (in the case of cotton) and 35% of the cost of the premium. According to the positions of different countries involved in the ongoing discussions of the Doha Round, especially developing countries, the insurance premium subsidies should be regarded as distorting trade and, therefore, reported as Amber Box supports. Currently, the U.S. and the European Union maintain that such supports fall into the category of the Green Box. In general, the counter-argument is that the effect of all state assistance that enhances the domestic or international competitiveness of a product is to distort trade (see G20 2005 and Berthelot 2005).

A constraint or disadvantage for LAC agricultural producers is that their products do not usually have a reference price that would enable them to obtain cover against price fluctuations. In the countries of the region, the insurance cover available is limited to coverage against natural disasters (catastrophes) or yield losses (the most common being indexed insurance, because it is the cheapest and simplest to implement). For the time being, there is little likelihood of LAC being able to offer its agricultural producers coverage for income or profit margins of the kind offered under the new U.S. legislation, and even the European Union's new Common Agricultural Policy (European Commission 2013).

Finally, it is highly likely that the specific support programs for the sugar, dairy products and cotton sectors (discussed above) will be reported as Amber Box measures, since product-specific supports cannot be considered Green Box measures. It should be borne in mind that discretionary supports are a disincentive to the production of other, and especially minor, crops. Even if the Amber Box support ceiling were to be lower than the maximum established for the U.S. when the Doha Round of negotiations concludes, it must be remembered that if the distorting supports are less than 5% of the value of the crop (minimis), they can be excluded and, as a result, exempted from any reduction.

It is clearly difficult to determine (until more detailed analyses are conducted that quantify the direct and indirect effects of the changes from the 2008 Farm Bill introduced into the new Act) whether the effect of the elimination of direct supports will be to offset or exceed the effects of the new programs and the continued existence of others. The key question is whether price and income cover, plus subsidized insurance premiums, would distort trade to the same or a lesser or greater degree than the direct supports provided under the 2008 Farm Bill. The decoupling of the new support mechanisms and current production decisions will depend mainly on the future behavior of both prices and producers' incomes.

The new Supplemental Nutrition Assistance Program (SNAP) creates opportunities for U.S. production of fruits and vegetables, and also opens a potential window for increasing LAC exports to the U.S.

The Supplemental Nutrition Assistance Program (SNAP), previously known as 'food stamps,' provides a subsidy to enable people living below the poverty line to purchase food (SSA 2012). Linked to family income, it is the first time since the 1996 welfare reforms that

major changes have been made to the Food Assistance program (HSCC 2014). In comparison with the 2008 Farm Bill, Title IV of the 2014 Act cuts spending on food by some USD 8 billion during the period 2014-2023 (CBO 2014). However, despite the reduction this program still accounts for nearly 80% of the total budget.

According to CBO figures, the reduction in the budget will affect four percent of the beneficiaries nationwide (around 850,000 households), most of whom will still be eligible for the system but will receive lower monthly benefits, including additional benefits (Greenstein 2014). The cut is also designed to reduce the abuse and misuse of the program as much as possible. Under the previous legislation, for example, there were legal loopholes that allowed families to obtain more stamps if they presented themselves as in need of assistance to pay heating and air-conditioning bills, even if they did not incur such expenses.

Perhaps the most significant change, given its implications for LAC, is the inclusion of assistance and regulations to enable SNAP beneficiaries to purchase healthy food, such as fruits and vegetables (Section 4405). This is due to nutritional health challenges (high rates of overweight and obesity), changes in consumption habits nationwide and, as a result, significant growth in the demand for healthy products—for example, nutrient-rich foods. Section 4002 of the Act requires that program suppliers offer at least seven options in each of three basic food categories (fruits, vegetables, grains, dairy products and meat) and perishable products in at least three of those categories. Without a doubt, this will stimulate local demand for, and imports of, fruit and vegetables, increasing U.S. dependence on imports, which has been growing for the last five years.

This would create greater opportunities for U.S. production under the regulations that give priority to the purchase of regional fruits and vegetables. For example, the 1993 Buy American Act requires government agencies to give preference to U.S. products over imported ones.

However, even though the U.S. is one of the world's largest food producers and exporters, it is a net importer of fruits and vegetables, especially from LAC. In 2013, total imports of fruits and vegetables amounted to more than USD 21 billion, with 81% of fruits and 72% of vegetables being imported from LAC. In the last five years, the U.S. trade deficit with LAC with regard to fruits and vegetables has been widening, reaching more than USD 14 billion in 2013.

Imports of vegetables from LAC have grown 10% annually in the last five years, in line with the growth of total vegetable imports (10%). Mexico accounts for the lion's share (83%), followed by Peru (7%), Guatemala (3%), Costa Rica (2%) and Ecuador (1%). The main products imported by the U.S. from LAC during the period 2009-2013 were tomatoes, bell peppers and asparagus, as well as frozen vegetables and onions. Fruit imports from LAC have also risen strongly, growing by an average of nearly 8% annually in the last five years (in line with the growth of total fruit imports). Most fruits are imported from Mexico (36%), Chile (21%), Costa Rica (11%), Guatemala (10%) and Ecuador (6%), with bananas, grapes, avocados and pineapple leading the way. It is important to emphasize that all the countries mentioned except Ecuador have signed free trade agreements with the U.S., which gives them favorable conditions.

In the circumstances, the change in the rules to incentivize purchases of more fruits and vegetables for SNAP participants is an opportunity for the abovementioned LAC countries that export fruits and vegetables.

Another key element of the changes to the program that must be taken into account is the crosscutting nature of the Act's provisions, including an increase of over 50% in funds to promote the production of fruits, vegetables and organic products in the U.S., to an amount close to three billion dollars. These items will now have access to the agricultural insurance programs that they did not enjoy previously. The Act also doubles the funds

(USD 57.5 million) allocated to help farmers make the transition from conventional to organic production systems, in addition to the USD 75 million earmarked for oversight of the organic food program. Other complementary programs are designed to stimulate local food production. Although these incentives will increase domestic production, the U.S. trade deficit with LAC in fruits and vegetables offers the region's exporters opportunities.

In addition to fruits and vegetables, the Farm Bill includes incentives designed to increase consumption of dairy products and meat. Nearly all the demand for these foods is met by domestic production, however, so the provisions of the Buy America Act are likely to play an important role in prioritizing local production over imports. In the last five years, the U.S. imported an average of USD 5 billion in meat, USD 3 billion in grains and USD 1.5 one billion in dairy products, with 14% of the meat, 21% of the grains and 8% of the dairy products being imported from LAC. It is worth emphasizing that imports of both meat and grains from LAC have increased in the last five years, especially since 2012 following the drought that affected U.S. production. The region could also benefit from the provisions designed to encourage Americans to have a more diversified diet.

Meat imports from LAC have grown by an average of nearly 30% annually in the last five years (compared with a 10% rise in total meat imports). The imports mostly come from Mexico (52%), Nicaragua (18%) and Uruguay (15%). Grain imports from LAC have grown even more strongly, averaging close to 51% annually in the last five years (total grain imports rose by 21% over the same period). Most grain imports from LAC come from Chile (41%), Brazil (24%) and Argentina (24%). Imports of dairy products have also grown over the last five years, at an annual rate of 3%, one percentage point less than total imports of dairy products. They are imported primarily from Mexico (54%) Argentina (15%) and Nicaragua (9%).

The new Farm Bill addresses emerging issues that are also a high priority for LAC

Since 2002, U.S. lawmakers have made a major effort to adapt the new farm bills enacted to emerging issues that pose challenges different from traditional ones. Five of those issues are described below, as they constitute challenges for the development and future sustainability of agriculture that have also become apparent in LAC, and the initiatives adopted in the 2014 Farm Bill could provide input on ways of addressing them.

The first issue is addressed by the Rural Microentrepreneur Assistance Program, for which the Act allocates mandatory spending of USD 3 million per year and USD 40 million annually in discretionary funds for five years. The purpose of this program is to support the establishment of rural microenterprises by means of direct loans and grants (USDA 2014b).

Support for rural entrepreneurs is also becoming a crucial issue in LAC, given the contribution that rural micro- and medium-sized enterprises make to employment, production and national income, as a key instrument for escaping from poverty (Pérez 2000). Some countries in the region might find it useful to analyze the model adopted to support U.S. rural microenterprises, with a view to identifying elements that could be replicated in other latitudes.

The second program of interest is the Value-Added Agricultural Product Market Development Grants Program, created in 2001 to provide financial support to increase producer income and expand marketing opportunities through the creation of new products with value added or the development of new uses for existing products (USDA 2014c). It also supports business planning and development for value added projects. The 2014 Farm Bill establishes a budget for this program of USD 63 million annually and USD 40 million in discretionary funds through 2018. The

grants give priority to initiatives for the development of biobased products, such as the conversion of corn stover to anhydrous ammonia, wood and goat manure into compost, and sorghum to electricity and fertilizer; and other activities including the processing and marketing of locally grown fruits and vegetables into jellies, ice cream and flavored syrups, among many other examples.

Such initiatives, and the budgets allocated to them in the Farm Bill, confirm the importance of having instruments of this kind to support the implementation of concrete actions aimed at increasing value added, preferably in the case of operations that supply raw materials. The actions included encompass the aspects whose concepts and theory are addressed by IICA (Riveros and Heinrichs 2014) under its line of action related to value added. One of the most interesting is designed to facilitate the implementation of renewable energies on the farm, something not usually included in similar instruments applied in others countries in the Americas. The other important type of action are the grants on offer (up to USD 75,000 for economic planning activities and up to USD 200,000 for working capital), which are much bigger than similar incentives in other countries, and the cost-sharing requirement of 50% in cash.

Fostering the development of products with value added, combined with associative undertakings, has been a policy priority in a number of LAC countries, such as Mexico, Chile, Argentina and Brazil. However, the institutional framework in this area remains weak in other countries.

The institutional challenges include interinstitutional articulation and coordination, the use of information and communication technologies, the retention of high-level human talent and the establishment of systems for monitoring and evaluating initiatives (Riveros and Heinrichs 2014).

The third program is the Beginning Farmer and Rancher Development Program (BFRDP), authorized for the first time in the 2008 Farm Bill (Start2farm

2014). This program, operated by USDA, is designed to facilitate training, education, outreach and technical assistance initiatives for young farmers and ranchers.

The new Act increases the funding for the BFRDP to USD 100 million over five years (USD 20 million annually), a 33% increase with respect to the previous bill (Warthesen 2014).

The challenge of training and retaining young people in the countryside as part of the process of generational change is a critical issue for both the U.S. and LAC. Innovative efforts are required to project a positive image of agriculture, make it appealing and attract young people with training, technical assistance and other initiatives aimed at improving access to land, infrastructure and credit.

The fourth program worth highlighting is the Farmers Market and Local Food Promotion (FMLFP) Program. The new Act broadens the scope of the program included in the 2008 Farm Bill to include support for local and regional businesses that process, distribute, accumulate, store and market food locally. The program seeks to incentivize direct marketing channels between the producer and the consumer, community programs and agro-tourism activities (Chite 2014).

The 2014 Farm Bill includes a substantial increase in the funds allocated to this program, rising from USD 33 million in the 2008 Farm Bill to USD 150 million (CBO 2014b). Fifty percent of all funds will be used to market foods locally (Chite 2014).

In another part of the Act, the USDA was asked to collect data on food produced and marketed locally and regionally, and to facilitate interagency collaboration and data sharing on programs related to local and regional food systems.

For LAC, the integration of smallholders into markets, the development of short marketing circuits and the promotion of local food production systems are undoubtedly the key to guaranteeing food and nutrition security in rural areas. The challenge is how

to integrate agricultural production, rural development, family farming and food and nutrition agendas.

The fifth program of interest is Organic Agriculture. According to FAO data (2013b), the U.S. organic food market has experienced strong growth in the last 20 years, increasing from sales of USD 1 billion in 1990 to USD 31.5 billion in 2011. The U.S. Government currently has the Organic Agriculture Research and Extension Initiative (OREI), which finances projects that boost the capacity of producers and processors that have adopted organic standards to grow and market high-quality organic crops (NIFA 2012). The 2014 Farm Bill reaffirms the U.S. Government's commitment to investing in agriculture of this kind, allocating USD 100 million to OREI compared to the USD 78 million earmarked in the 2008 bill (NSAC 2014; CBO 2004).

Finally, mention should be made of other important programs included in the chapter on rural development, such as the Specialty Crop Research Initiative (SCRI) that promotes research and extension on special crops (e.g., fruits and vegetables) through federal agencies, national laboratories, experimental stations, universities and private organizations (Schrader 2014). The 2014 Farm Bill allocates USD 332 million to the initiative for the period 2014-2018. Yet another program is the Conservation Reserve Program (CRP), which indemnifies farmers who replace crops on environmentally sensitive land, improve water quality, prevent soil erosion and reduce the loss of wildlife habitats (FSA 2014). Although the budget of this program was cut in the 2014 Farm Bill, it will still receive USD 3.321 billion over five years (CBO 2014).

In conclusion

The new Act includes comprehensive economic and environmental risk management mechanisms, gives special and differentiated treatment to strategically important sectors, links the supports for the production and marketing of agricultural products with national food and nutrition assistance programs, and addresses

emerging issues that are important for the sustainability of U.S. agricultural and rural development. These policies draw special attention to the need to design similar instruments in LAC countries to afford a sector that faces more risks than other sectors of the economy greater long-term institutional stability and legal security.

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