Appendix—Overview of U.S. and EU Commodity Programs

Dairy

**United States**

The two major Federal dairy programs are the milk price support program and the Federal milk marketing orders. Under the milk price support-purchase program, the Commodity Credit Corporation (CCC) will buy at the support purchase prices any butter, cheddar cheese, or nonfat dry milk that meets specifications. Support purchase prices are set to ensure that manufacturing milk prices average at least the support price for milk. Milk marketing orders are established to help create orderly marketing conditions for the benefit of both milk producers and dairy product consumers. The milk marketing orders establish different classes and prices for milk of different uses, and set minimum prices for the various use classes. Dairy market loss payments provide a price safety net for dairy producers. A monthly direct payment is to be made to dairy farm operators if the monthly Class I price in Boston (Federal Order 1) is less than $16.94 per hundredweight. Payments are to be made on up to 2.4 million pounds of milk per year per organization. The Dairy Export Incentive Program (DEIP) subsidizes exports of dairy products, removes products from the domestic market, and plays an important part in milk price support. Dairy products are also protected from import competition by high tariffs—the average U.S. tariff on dairy is 43 percent, and seven megatariffs apply (Gibson et al.)—and limited imports of dairy products are assured by tariff-rate quotas.

**European Union**

Products covered by the CAP dairy regime include fresh, concentrated, and powdered milk; cream; butter; cheese; and curd. Support mechanisms include tariffs and tariff-rate quotas on imports, export subsidies, and intervention buying of surpluses. A marketing quota on milk with stiff fines on over-quota production aims to prevent serious overproduction. Dairy producers may qualify for per-cow payments for suckler cows.\(^1\) Consumption subsidies encourage use of milk and butter for certain groups of consumers and skimmed milk powder for feed. The dairy sector has eluded major reform, with only marginal reductions in the butter intervention price enacted in the 1992 reforms. The Agenda 2000 reform delayed cuts in dairy support prices until after 2005/06.

Meat and livestock

**United States**

**Cattle, hogs, poultry, and sheep.** U.S. government assistance to the (nondairy) livestock sector is limited to emergency measures approved for a specific scope and period of time to address the needs of producers suffering losses due to drought, hot weather, disease, insect infestation, flood, fire, hurricane, earthquake, severe storms, or other natural disasters. Such emergency measures were enacted under the Livestock Indemnity Program and the Livestock Assistance Program. When livestock producers are experiencing financial stress, USDA may purchase meats for domestic feeding programs to help strengthen prices. In 1999, payments were made to small hog producers to help re-establish their purchasing power under an infrequent use of Section 32 of the Agricultural Act of 1935. U.S. tariffs on imports of beef, pork, and poultry meat are low to moderate, and tariff-rate quotas provide for limited imports of beef at lower tariffs.

**European Union**

**Beef and veal.** The beef and veal regime covers both live cattle and meat, and uses both price support and direct payments to support beef producers’ incomes. Price support mechanisms include intervention buying and storage, private storage aid, tariffs and tariff-rate quotas on imports, and export subsidies. Intervention purchasing is available only for certain quality grades. Producer payments have become a more important means of supporting incomes of beef producers following the 1992 CAP reform, and payments to beef producers have risen as price support has declined. Payments, or premia, are made on a per-animal, or headage basis, and include payments to producers to encourage beef production, to even out supply over the year, and to undertake less-intensive production, and to compensate for support price reductions. Under the Agenda 2000 reforms, the intervention price for beef is being reduced by 20 percent over 3 years beginning in 2000. The support price cut will be partially offset

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\(^1\) A suckler cow is defined for purposes of the EU policy as a cow or in-calf heifer belonging to a meat breed or born of a cross with a meat breed, and belonging to a herd intended for rearing calves for meat production.
by higher producer payments. Beginning in July 2002, intervention is replaced by private storage aid and “safety-net” buying-in triggered by low beef prices.

**Pork and poultry.** The pork and poultry regimes provided support primarily through border measures—import protection and export subsidies. Although there are provisions for intervention in the pork market, intervention is seldom used. There is no intervention for poultry. Price support for pork and poultry is provided by tariffs and export subsidies; tariff-rate quotas ensure minimum import access to the EU market for both commodity groups. Private storage aid may be offered to provide additional support to pork prices in times of surplus. The pork regime covers both live pigs and pork and processed pork products; poultry covers live poultry and poultry meat.

**Sheepmeat.** Sheep and sheepmeat producers are supported through a combination of price support and producer payments. Prices are supported through private storage aid when market prices warrant and import tariffs. Tariff-rate quotas ensure minimum import access levels for sheepmeat, goat meat, and live sheep and goats. Sheep producers receive additional support through annual premia for ewes, paid on a per-animal basis, and subject to limits. Producers in less-favored areas and who raised sheep in hilly areas receive additional per-animal payments, subject to limits. Export subsidies are available but seldom used.

**Grains**

**United States**

Producers of wheat, rice, and feed grains (corn, barley, oats, and grain sorghum) benefit from direct payments, counter-cyclical payments, the commodity loan program, disaster assistance, and subsidized crop and revenue insurance.

With full planting flexibility introduced in the 1996 Farm Act and retained in the 2002 Farm Act, many grain producers, who previously had to maintain their grain acreage to preserve commodity program benefits, could shift to other crops. Wheat is eligible for export subsidies under the Export Enhancement Program (EEP) program, but has not received EEP bonuses since 1995. Barley exports received a one-time EEP bonus in 1997. Average tariffs on grains and grain products are low.

**Rice.** The main government programs affecting rice producers are direct and counter-cyclical payments and the marketing loan program. Rice farmers also benefit from emergency and supplemental assistance. Tariffs on rice are low. Rice is eligible for export subsidies under EEP, but no EEP bonuses have been available for rice exports since 1995.

**European Union**

Grains are covered under the regime for arable crops. All grain produced within and imported into EU countries (wheat, barley, corn, rye, oats, sorghum, other minor grains, and some grain products) is covered (rice is covered under a separate regime). Grains are covered by a combination of support price, producer payments, and mandatory set-aside. The intervention price is the same for all grains covered by the regime. Grain intervention prices are being cut 15 percent under Agenda 2000. Grain producers receive compensatory payments to offset price cuts. Compensatory payments are paid to producers on a per-hectare basis, and are based on the average historical yield in the region. Producers are required to set-aside a portion of their land and receive a set-aside payment for area idled, but small producers are exempt from this requirement. There is a limit on total arable crops area, and penalties are assessed if area exceeds the limit. Additional support is provided by tariffs and export subsidies. In the Uruguay Round Agreement on Agriculture (URAA), the EU converted its previous variable levies to tariffs and further agreed that the duty-paid import price of grains would not exceed 155 percent of the intervention price. Export subsidies are also limited under the URAA.

**Rice.** A separate regime for rice is similar to the grains regime, but no set-aside is required, and a tariff-rate quota is in place as compensation for former exporting countries after the 1995 enlargement.

**Oilseeds**

**United States**

Soybean producers became eligible for direct and counter-cyclical payments in the 2002 Farm Act. Soybean producers benefit from marketing loan provisions of the commodity loan program, and subsidized crop and revenue insurance. Tariff protection for soybeans and soybean meal is zero or low, but imported soybean oil faces a moderate tariff.
**Peanuts.** Under the 2002 Farm Act, the peanut marketing quota system was eliminated and peanuts are treated similarly to “program” crops such as grains and cotton—with direct payments, counter-cyclical payments, and marketing loan provisions available to peanut producers. Farmers no longer have to own or rent peanut marketing quota rights to produce for domestic edible consumption. Compensation (a “buyout”) is provided to quota holders for elimination of the peanut quota system. All farmers with a history of peanut production during 1998-2001, whether quota-holders or not, are eligible for fixed direct payments and for counter-cyclical payments based on an established target price.

**European Union**

Oilseeds (rapeseed, sunflowerseed, soybeans, and linseed for oil) are under the arable crops regime (see “Grains”), but differ in important respects from the grains program. Oilseed producers receive compensatory payments, but there is no price support—oilseeds trade within the EU at close to the world market price. Consequently, no export subsidies are required. The area of subsidized oilseed production is limited by the terms of the U.S.-EU “Blair House” Agreement, and oilseed producers (except small producers) are required to set aside a minimum 10 percent of their land to qualify for payments. There is a zero tariff on oilseeds and meal and a low or nominal tariff on vegetable oil other than olive oil.

**Sugar**

**United States**

The three main elements of U.S. sugar policy are the price support loan program, the tariff-rate quota (TRQ) import system, and supply control through marketing allotments. The loan program supports the U.S. price of sugar by making loans to processors of domestically grown sugarbeets and sugarcane. The United States establishes separate TRQs for imports of raw cane sugar and for imports of certain other sugars, syrups, and molasses. The tariff-rate quota system ensures that there is an adequate supply of sugar at reasonable prices for both consumers and producers. U.S. commitments under international trade agreements, including the North American Free Trade Agreement (NAFTA), affect the level and allocation of the TRQs. Tariffs on over-quota imports of sugar are high. The United States also operates the Refined Sugar and Sugar-Containing Products Re-Export Programs to allow U.S. refiners to be competitive in global refined and sugar-containing products markets. The 2002 Farm Act authorized USDA to establish marketing allotments for sugar.

**European Union**

Sugar production is supported through a mixture of price supports and supply controls. Intervention buying of the processed products (raw or white sugar) supports the price of the raw commodity (mostly sugarbeets). Support is limited by a production quota. Producers also pay to dispose of surpluses on the export market through a producer levy on sugar produced within quota. Part of the surplus production (so-called “A” and “B” sugar) is exported with subsidy, while the remaining “C” quota sugar is exported at the world market price. Imports are restricted by tariff-rate quotas, most of which are allocated to beneficiaries of preferential access agreements (African, Caribbean, and Pacific countries, under the Lome Convention; and India, under a similar arrangement).

**Fruits, nuts, and vegetables**

**United States**

Historically, Federal price and income support programs have not directly covered fruit, nuts, and vegetables. Marketing orders and marketing agreements are designed to help stabilize market conditions for fruit and vegetable products. The programs assist farmers in allowing them to collectively work to solve marketing problems. Industries voluntarily enter into these programs and choose to have Federal oversight of certain aspects of their operations. Marketing orders and agreements may:

- maintain the high quality of produce that is on the market;
- standardize packages and containers;
- regulate the flow of product to market;
- establish reserve pools for storable commodities; and
- authorize production research, marketing research and development, and advertising.

There are 36 active marketing agreement and order programs that collect assessment fees from handlers to cover operation and administrative costs of the
programs. Federal Marketing Orders are currently in force for potatoes, onions, tomatoes, citrus, dried fruit, tree nuts, grapes, pears, peaches, cherries, avocados, nectarines, kiwifruit, apricots, papayas, cranberries, melons, and olives. Fruit and vegetables also benefit from crop insurance, ad hoc Federal disaster assistance, western irrigation subsidies, and tariffs.

**European Union**

The fruit and vegetable regime includes all fruit and vegetables grown in the EU, with the exception of potatoes, peas and beans for fodder, wine grapes, olives, and bananas, for which separate arrangements operate. Market prices are supported by a combination of tariffs (including higher tariffs in season for some products), TRQs, and export subsidies. A system of compensation for withdrawal of produce from the market acts as a safety net for certain perishable products in times of oversupply. Withdrawal is limited to a small group of commodities that include tomatoes, apples, oranges, and peaches. Processors of some products (tomatoes, citrus fruit, peaches, and pears) also receive processing subsidies to help defray the higher costs of buying EU products.

**Cotton**

**United States**

Many cotton producers benefit from direct and countercyclical payments, the commodity loan program, subsidized crop and revenue insurance, and market loss assistance payments. Cotton producers benefited significantly from the commodity loan program in 1999-2002, when prices were below the loan rate. Other policies that affect cotton producers’ management decisions include planting flexibility, conservation programs, and environmental regulations. Cotton imports are regulated by TRQs, and over-quota tariffs are high. U.S. cotton exports do not receive export subsidies.

**European Union**

Cotton producers are guaranteed a minimum price (“guide price”), which is realized through production aid paid to cotton processors (ginning operations). Production aid makes up the difference between the (higher) EU guide price and the world market price, and is based on a system of guaranteed national quantities that limit the amount eligible for this aid. Producers are penalized for production in excess of these quantities. Tariffs on cotton are zero or very low. EU cotton exports do not receive export subsidies.