

Boxed In? Implications of WTO Rules and Rulings for Farm Policy

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“21st Century Farm Policy: Challenges and Opportunities”

Fargo, North Dakota

October 30, 2005





Agenda

- Current WTO rules and U.S. farm policy
 - The “boxes” in a nutshell
 - The cotton case ruling
- Doha Development Agenda talks
 - U.S. proposal to limit some types of support
 - Implications for U.S. farm policy



WTO rules

- Current WTO rules limit
 - Certain policies that support farm prices/income
 - Export subsidies
 - Import tariffs and other trade restrictions
- My focus: Current and future WTO rules limiting price/income support policies

The WTO “boxes”

- Remember what Forrest Gump said about a box of chocolates? “You never know what you’re gonna get.”
- WTO boxes are defined and labeled, but they also hold at least a few surprises



The green box

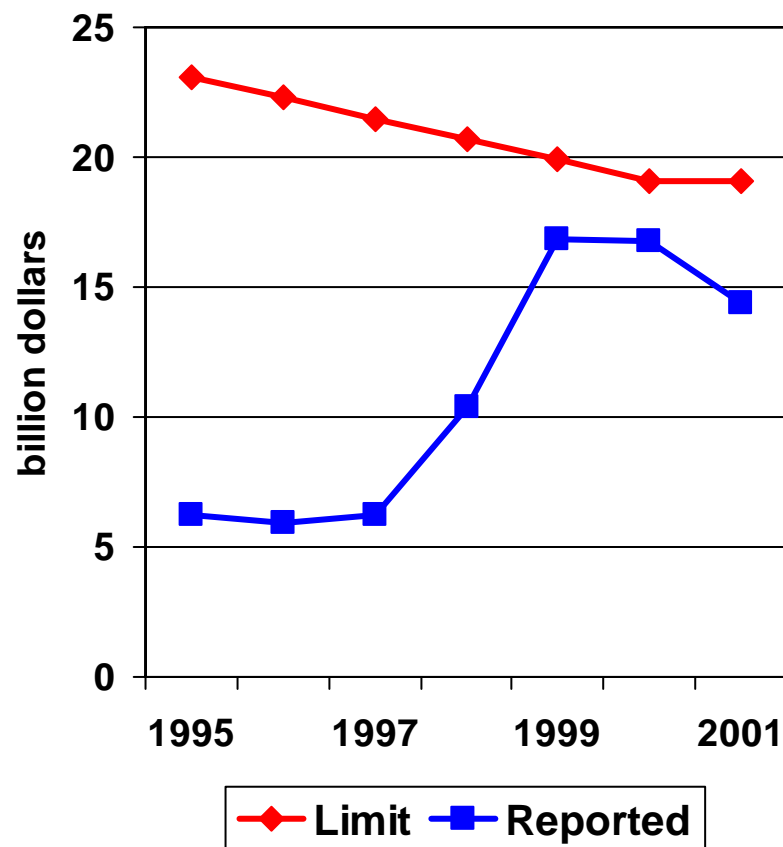
- Policies that have at most a small impact on production and trade
- WTO does NOT restrict green box subsidies
- Examples
 - CRP, EQIP, other conservation programs,
 - Food stamps and other nutrition programs
 - Agricultural research and more
- U.S. has argued that PFC and direct payments belong in the green box
- But—surprise—a recent WTO ruling says direct payments don't belong in the green box

The amber box

- Policies that DO affect production and trade
- WTO sets limits based on 1986-88 support levels
- Examples: marketing loan benefits, milk and sugar price supports, counter-cyclical payments (?), crop insurance (?)
- The U.S. level of amber box subsidies is NOT the same as government spending on farm programs
 - Excludes certain subsidies (direct payments?)
 - Uses formulas rather than budget costs to estimate value of sugar and milk price supports
- Lots of arguments only an accountant could love about what should count and how

U.S. amber box subsidies

- Under current WTO rules, U.S. limit: \$19.1 billion in “total current AMS”
- U.S. has not reported subsidies in excess of limit
- Note that last reported year is 2001
- Has been controversy over what U.S. should report





The blue box

- ❑ Created as a place to put subsidies that are somewhere between green and amber
- ❑ There are no limits on the current blue box, but proposals call for limiting the new blue box (more later)
- ❑ No current U.S. policies are in the blue box as currently defined (our pre-1996 deficiency payments were blue)
- ❑ 2003 reforms are intended to shift a lot of EU subsidies from amber and blue to green
- ❑ A 2004 WTO framework agreement appears to make counter-cyclical payments eligible for a redefined blue box



De minimis subsidies

- Trust me, you don't want to know



De minimis subsidies

- OK, OK, I'll try
- In brief, certain subsidies don't count toward limits if their value is small enough
- The U.S. has taken advantage of the rules to exclude from our amber box calculations
 - Market loss assistance payments from 1998-2001
 - Crop insurance benefits
 - And speculation is U.S. might use it for counter-cyclical payments

Cotton case

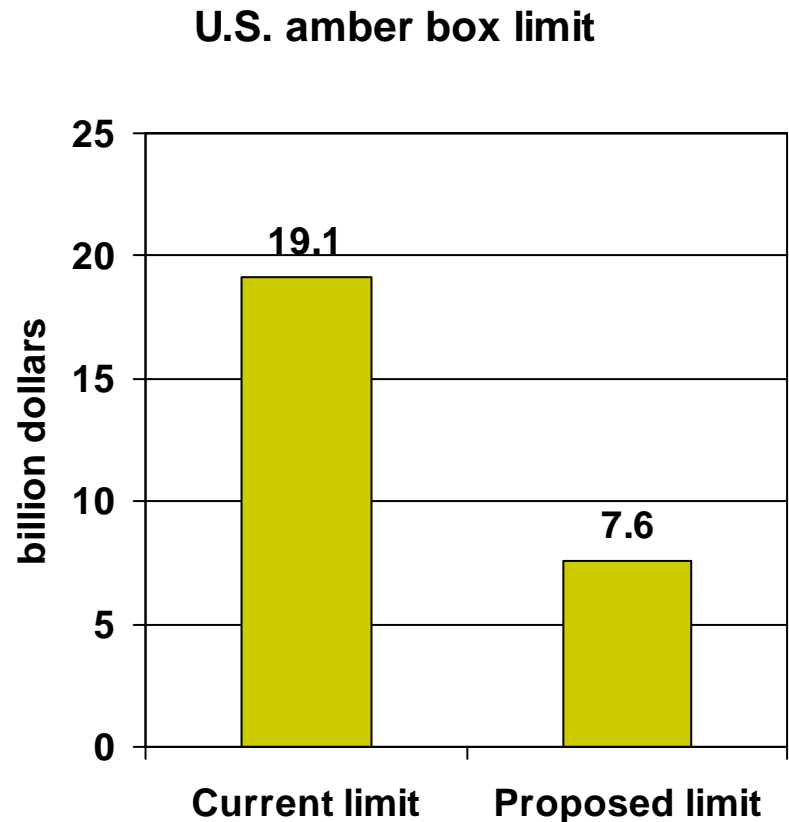
- Final WTO ruling found
 - Certain cotton subsidies (Step 2) violate WTO commitments and were to be stopped by July 2005
 - Some aspects of U.S. export credit guarantees for cotton and many other commodities also violate WTO rules
 - Marketing loans and counter-cyclical payments encourage cotton production and contribute to harm to Brazilian cotton producers
 - Direct payments do not qualify for the green box because subsidies are tied to production—fruit and vegetable restrictions

Aftermath of cotton case

- Administration has proposed to eliminate Step 2 and modify export credit guarantee program
- Senate Ag. Committee has voted to eliminate Step 2, but not until next summer
- U.S. has not reported amber box subsidy estimates for 2002-2004 (how to report direct payments?)
- Other cases are brewing against U.S. rice (Uruguay) and corn (Canada) programs
- Reminder: Rulings don't automatically translate into policy changes

U.S. WTO proposal

- U.S. has proposed 60% reduction in amber box limit
- Counter-cyclical payments would be shifted to blue box
- Limits on amber and blue box subsidies would probably require policy changes



Projected 2006 U.S. amber box support with current policies (million dollars)

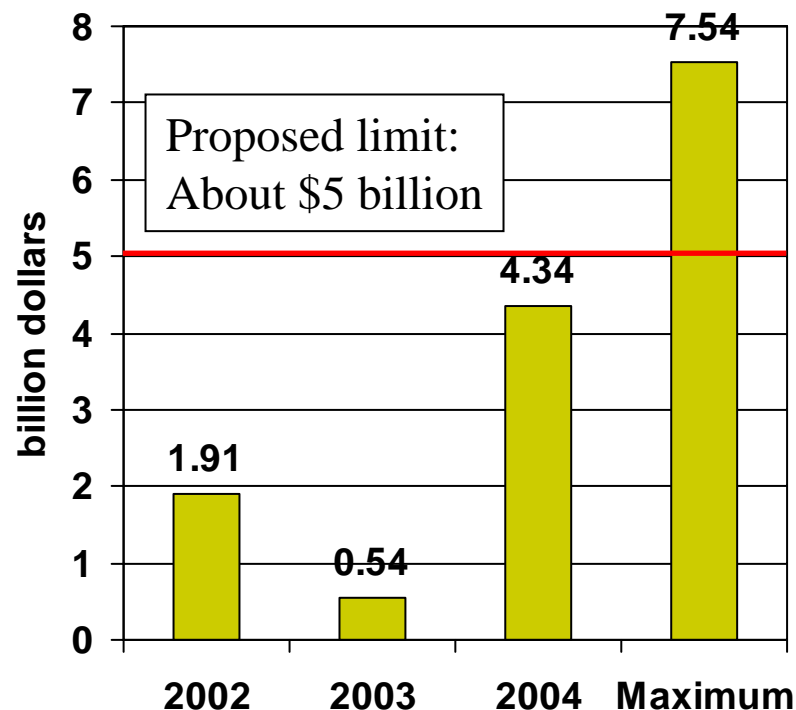
Milk	4,740
Soybeans	1,407
Cotton	1,452
Corn	1,340
Sugar	1,285
Rice	341
Wheat	158
All other	294
Total	11,018

Assumes direct and countercyclical payments are not in the amber box. U.S.-proposed limit on amber box support after the phase-in period: \$7.6 billion

U.S. counter-cyclical payments and the proposed blue-box limit

- U.S. proposal would limit new blue box to 2.5% of value of ag. production—about \$5 billion
- Actual counter-cyclical payments between 2002 and 2004 were below the proposed limit
- But if all crop prices were low at the same time, payments could exceed the proposed limit

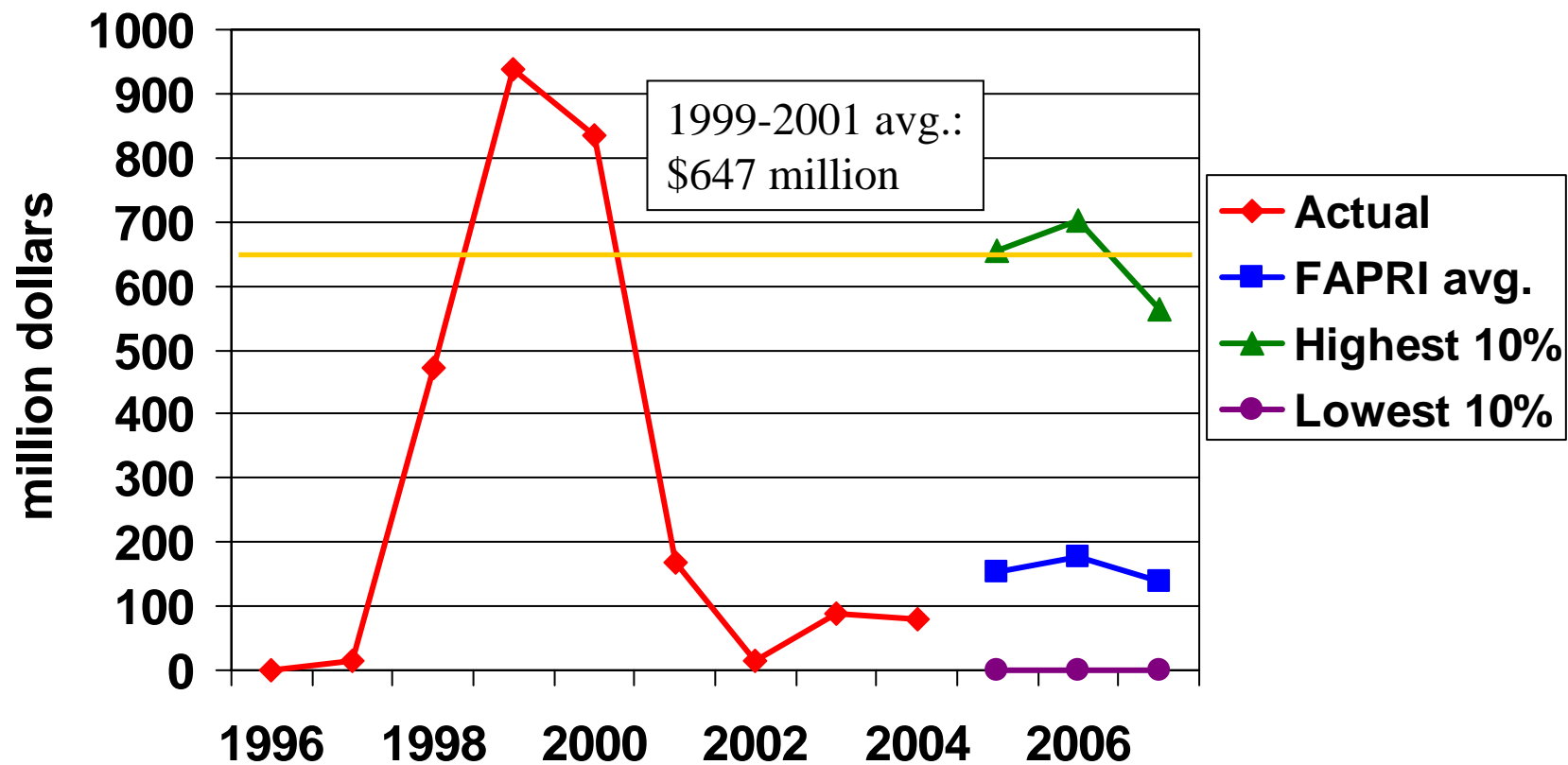
U.S. counter-cyclical payments



Commodity-specific limits

- U.S. also proposes to limit support to each commodity to the 1999-2001 average
- This could prove important for some commodities in some years
- Marketing loan expenditures, for example, can vary a lot from year to year
- So, with current policies, such commodity specific limits might occasionally be exceeded

Wheat marketing loan benefits



Source: FAPRI 2005 stochastic baseline of 500 alternative futures, March 2005

Implications of U.S. proposal

- If the U.S. proposal were adopted, it would probably require some policy changes
- How much policies would have to change depends on future commodity prices
 - If prices are high, the proposed limits would only require small changes in current policies
 - But big changes might be required when prices are low and current programs would yield large loan deficiency payments and counter-cyclical payments

How policies might change if U.S. proposal is adopted

- Lots of options
- Could keep current basic structure of programs
 - Reduce loan rates and target prices
 - Reduce milk and sugar price support levels
 - If desired, increase direct payments to compensate, since they would not be limited
- Or make a more fundamental shift in policy
 - ???

But remember...

- The preceding discussion assumes
 - Other countries agree to the U.S. proposal
 - Congress approves legislation implementing the agreement
- But
 - Many other countries want even deeper U.S. cuts
 - Some also want to prohibit “box shifting”
 - That would mean we couldn’t offset reduced marketing loan or counter-cyclical payments with increased direct payments or other green box supports
 - And I won’t speculate on what Congress will or will not do