

# **U.S. Farm Policy Through a WTO Lens**

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**Presented by David Orden**  
**USDA Economists Group Seminar**  
**Washington DC, February 2011**

# Seminar is Based on the U.S. Chapter in the Forthcoming Book:

"We now need to build on the achievements of the Uruguay Round by completing the long overdue Doha Development Agenda. The authors of this study include experts who have played a leading role in the design of these disciplines. It is a formidable contribution to a subject of global importance."

*Honorable Tim Groser, New Zealand Trade Minister and former Chair of the Doha Agriculture Negotiations*

"This book deserves great praise. It answers almost all the pertinent questions raised in the international context on domestic support and is a clear reference for negotiators, experts, researchers, lawyers, politicians and other readers."

*Franz Fischler, former Commissioner for Agriculture, European Union*

"This excellent book provides a bright torch with which to examine existing and proposed disciplines. It is essential reading for those who wish to understand the domestic support issues in the current round of negotiations."

*Joseph W. Glauber, Chief Economist, US Department of Agriculture and former US Special Doha Agricultural Envoy*

"Finally a group of authors has had the courage and stamina to provide us with a systematic analysis of how major countries deal with the WTO disciplines on farm support. No longer do we need to rely on fragmentary information. This is a book for which we have waited eagerly."

*Stefan Tangermann, former OECD Director for Trade and Agriculture*

"The country-specific analysis allows academics and practitioners to get the real picture behind the notifications. Policymakers around the world now have an informed choice between undoing the Uruguay Round accomplishments and progressive self-reform based on international trade rules."

*Christian Häberli, former Chair of the WTO Committee on Agriculture*

"An excellent contribution to the literature on agricultural policy and trade and a remarkable input to encourage and promote the WTO agricultural negotiations to agreement."

*Masayoshi Honma, Professor of Agricultural and Resource Economics, University of Tokyo, and 2004–2010 member of the IFPRI Board of Trustees*

David Orden, is Professor and Director of the Global Issues Initiative of the Institute for Society, Culture and Environment (ISCE) at Virginia Polytechnic Institute and State University. He is also Senior Research Fellow at IFPRI.

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WTO Disciplines on  
Agricultural Support

## WTO Disciplines on Agricultural Support

Seeking a Fair Basis for Trade

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BLANDFORD  
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# WTO Disciplines on Agricultural Support

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- **This project evaluates the many compliance (legal) and evaluation (institutional and economic) issues related to WTO disciplines on domestic support over a 14-year period (1995 – 2008) since the Agreement on Agriculture came into effect**
  - **Projects the analysis forward under the Agreement or a possible Doha outcome**
  - **14 authors provide focused analysis:**
    - L. Brink (WTO structure, negotiations, rules and disputes); T. Josling and A. Swinbank (EU); D. Blandford and D. Orden (US); Y. Godo and D. Takahashi (Japan); I. Gaasland. R. Garcia and E. Vardal (Norway); A. Nassar (Brazil); M. Gopinath (India); F. Cheng (China); and C. Cororaton (Philippines)**
  - **Yields insights related to 7 inter-related questions:**
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# Key Issues in the Analysis

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## Have the notifications

- Demonstrated compliance with countries' commitments
- Contributed to greater international transparency about support policies and levels of support
- Provided accurate and meaningful measurements of the support given to farmers
- Tracked accurately changes in the nature of domestic support policies

## Have the WTO disciplines

- Contributed to reform of agricultural policies and reduction of trade distortions
- Contributed to policy convergence among countries

**To what extent would the proposed (2008) Doha disciplines provide tighter constraints on trade-distorting domestic support and more substantial incentives for policy reform**

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# **Today, We Focus on the U.S.**

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- **Unique payments-based countercyclical policies**
- **Components of U.S. Current Total AMS (CTAMS)**
- **Has the U.S. been compliant?**
- **Possible Doha Limits**
- **ACRE versus “Fixed” Direct Payments in the 2012 Farm Bill**

# United States

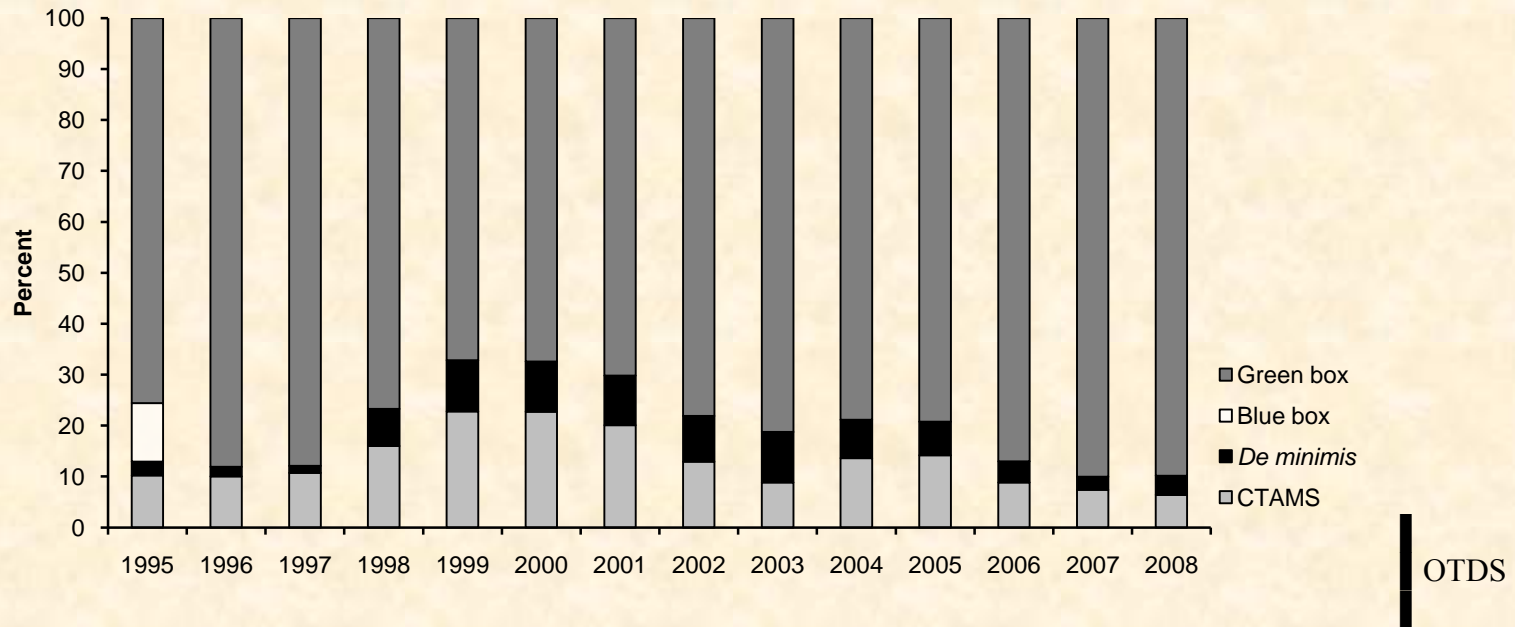
## Unique Reliance on Safety-Net Payments

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- **Three farm bills since WTO established (1996, 2002, 2008)**
  - **Specific farm bill outcomes have reflected prevailing market conditions**
    - **1996, U.S. abandoned the Blue Box and adopted payments notified as Decoupled Income Support; retained loan-rate programs**
    - **By 1998, countercyclical (Market Loss Assistance) payments had been reintroduced – less tied to specific crops than earlier deficiency payments; Institutionalized in 2002 farm bill**
    - **2008 left countercyclical/loan programs in place; revised dairy support basis; introduced optional ACRE revenue stabilization / guarantee program**
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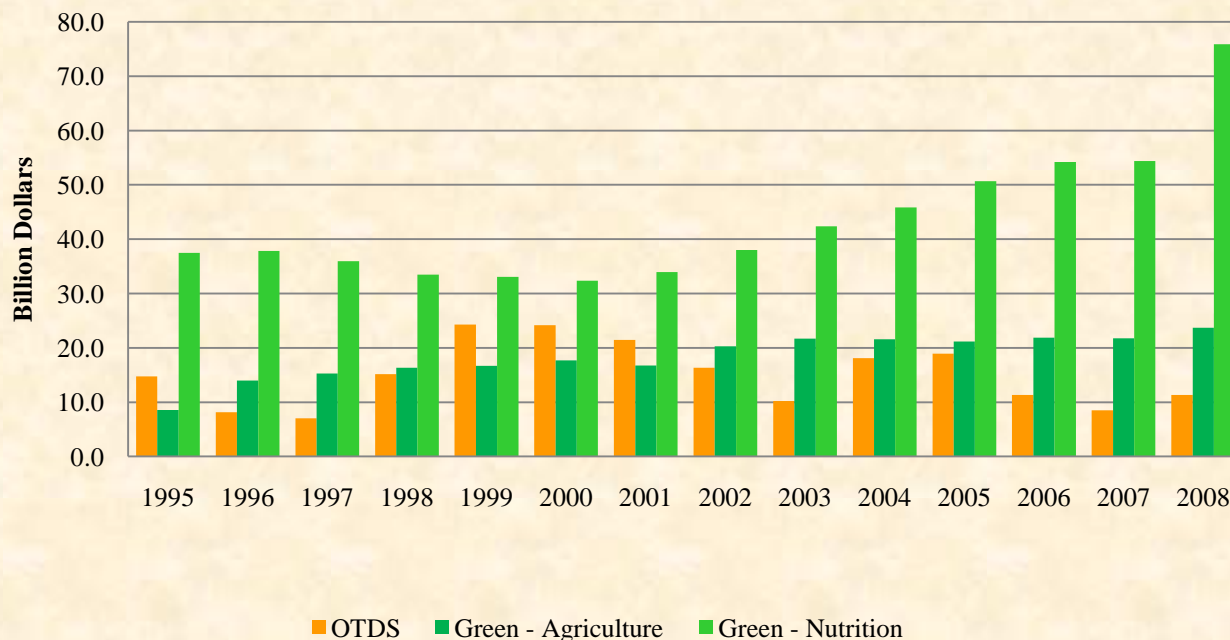
# U.S. Support in Aggregate



Of all the support for agriculture, under the existing WTO Agreement on Agriculture only the CTAMS is subject to a fixed nominal cap. “Trade-distorting” support is excluded from CTAMS as *de minimis* if it is either less than 5% of the product-specific value of production or less than 5% of the total value of agricultural production if the policies are not product-specific. The Doha negotiations introduce the measurement Overall Trade Distorting Support (OTDS) which is the sum of CTAMS, *de minimis* and blue box support, and would subject this sum to a nominal cap as well (see discussion below of the 2008 draft Doha proposals).

# U.S. - OTDS versus Green Box Support

## OTDS and Green Box Agriculture and Nutrition



**U.S. exempt Green Box support exceeds CTAMS in most years. The U.S. Green Box includes support for production agriculture and nutrition programs on which expenditures are greater.**



# Components of CTAMS

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- **Non-exempt Direct Payments to Farmers**
- **Other Subsidy Expenditures**
- **Market Price Support (MPS) measured in a particular way:**

**WTO MPS =**

$$\begin{aligned} & \text{[Administered Price – Fixed External Reference Price]} \\ & \quad \times \text{[Eligible Quantity]} \end{aligned}$$

**Note: The WTO MPS differs from an annual nominal value of protection or the MPS calculated by the OECD:**

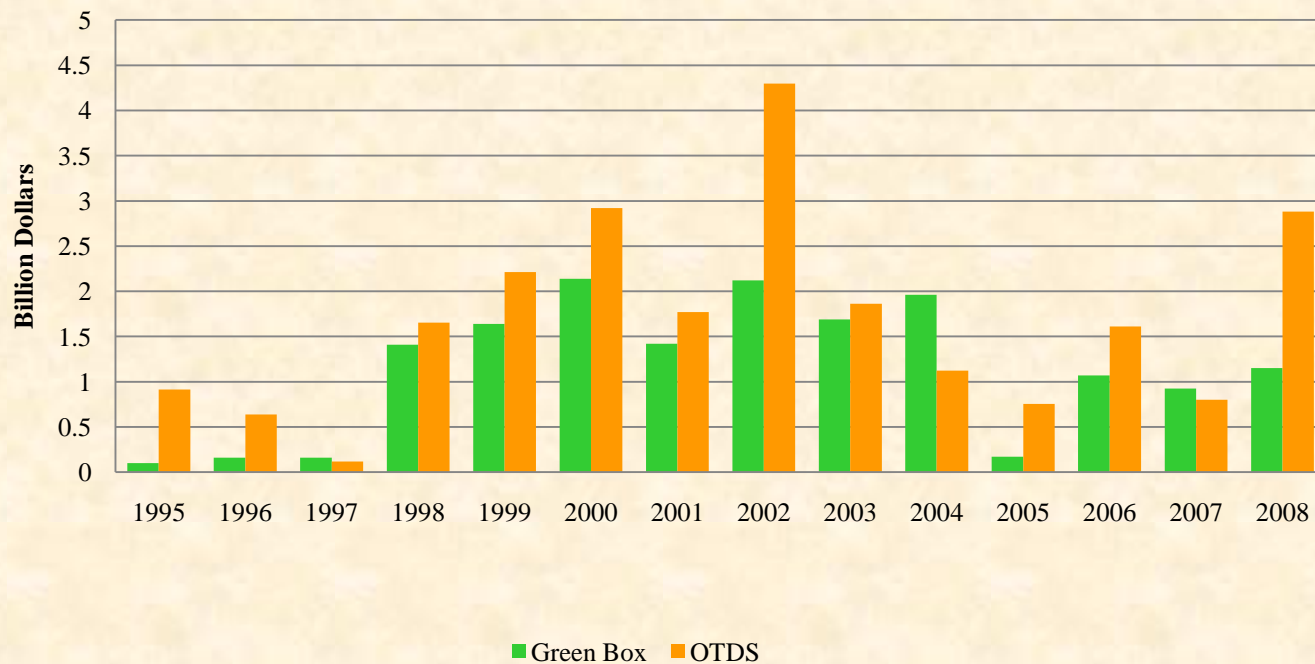
**OECD MPS =**

$$\begin{aligned} & \text{[Domestic Price – Equivalent External Reference Price]} \\ & \quad \times \text{[Domestic Production]} \end{aligned}$$

- **Excludes *de minimis***
  - **U.S. CTAMS is subject to a limit of \$19.1 Billion in the WTO**
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# U.S. - First Form of Safety-Net Payments

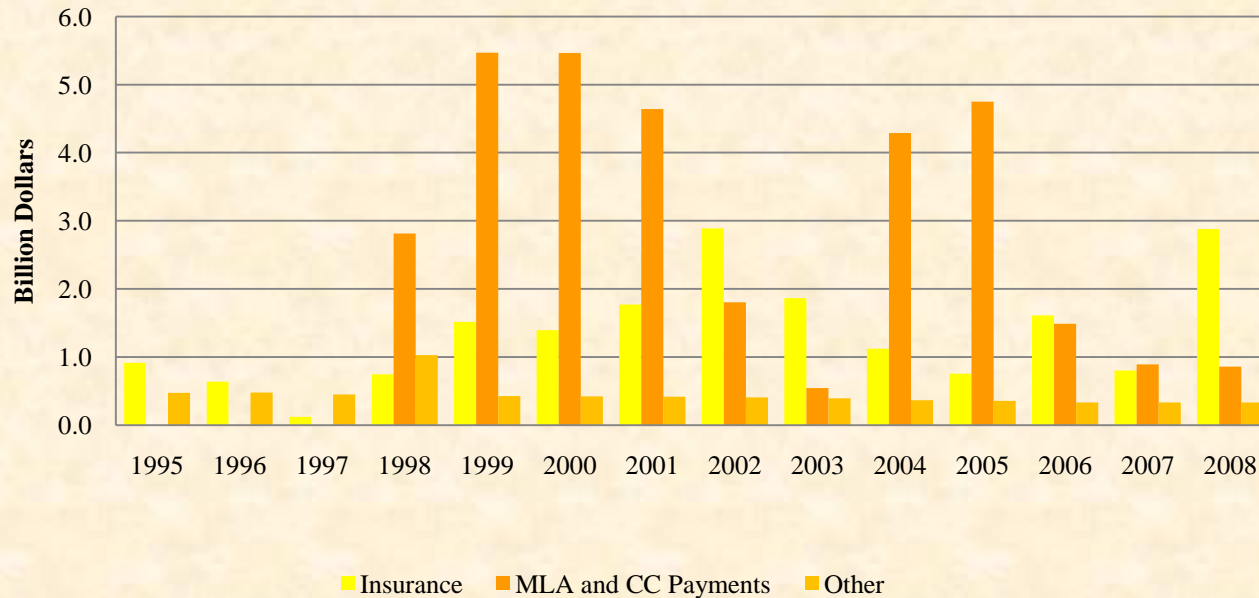
## Disaster Assistance and Crop/Revenue Insurance



**Some U.S. disaster assistance support meets the criteria for the Green Box but most disaster assistance and crop/revenue insurance subsidies are under OTDS measures.**

# U.S. - Second Form of Safety-Net Payments

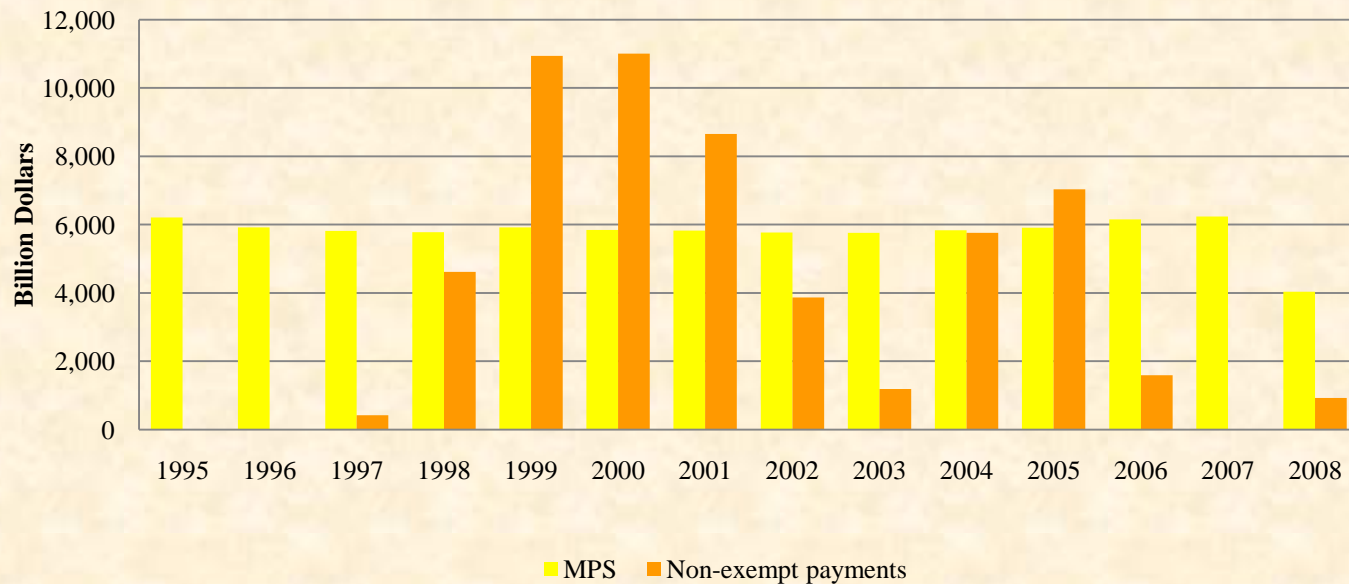
Non-product-specific *de minimis* AMS Support



**The non-product-specific *de minimis* exemption from CTAMS is important to the U.S. The U.S. reports its insurance programs, Market Loss Assistance and Countercyclical Payments, and some other support in this category.**

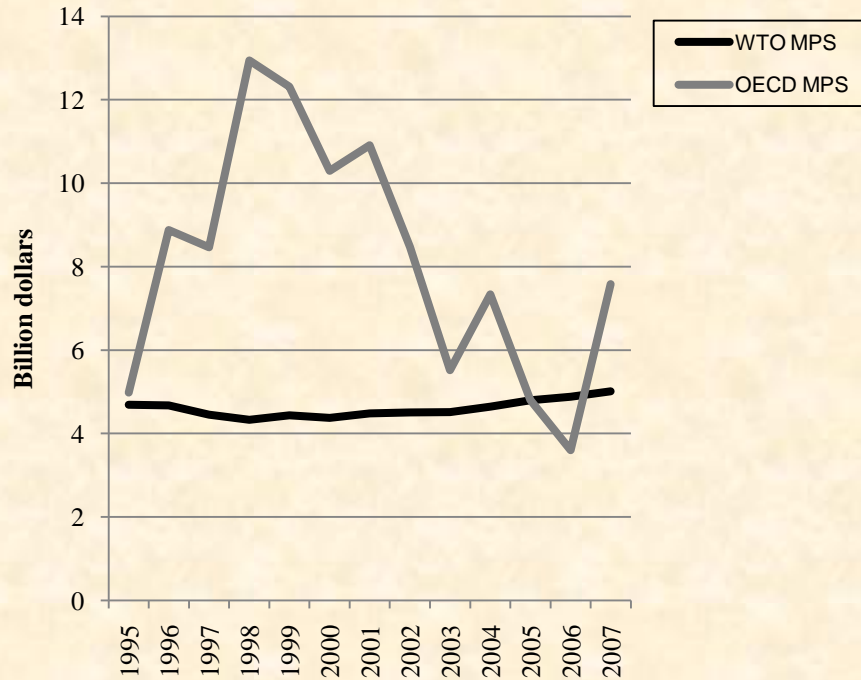
# U.S. – Third Form of Safety-Net Payments

Non-exempt Payments versus MPS

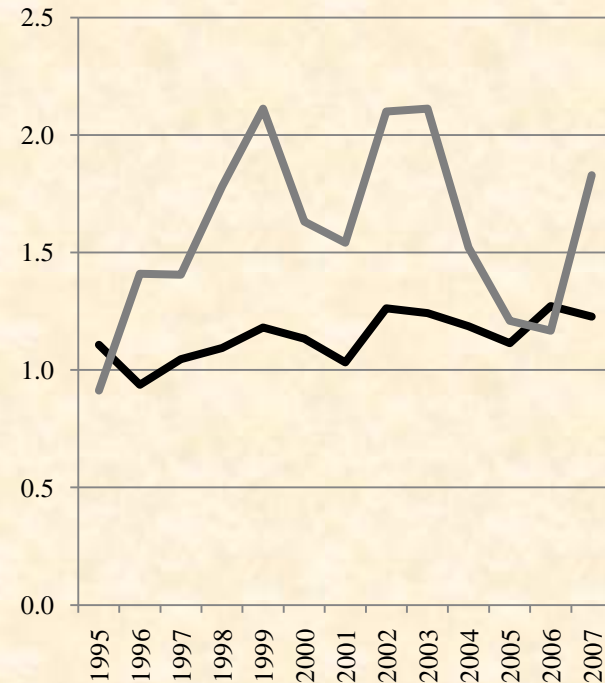


**CTAMS includes the WTO measurement of Market Price Support and non-exempt payments. The market price support remained relatively constant until dairy MPS declined due to change in the support program in the 2008 farm bill. Payments are highly variable in response to actual market prices.**

# U.S. - Notified MPS versus OECD MPS



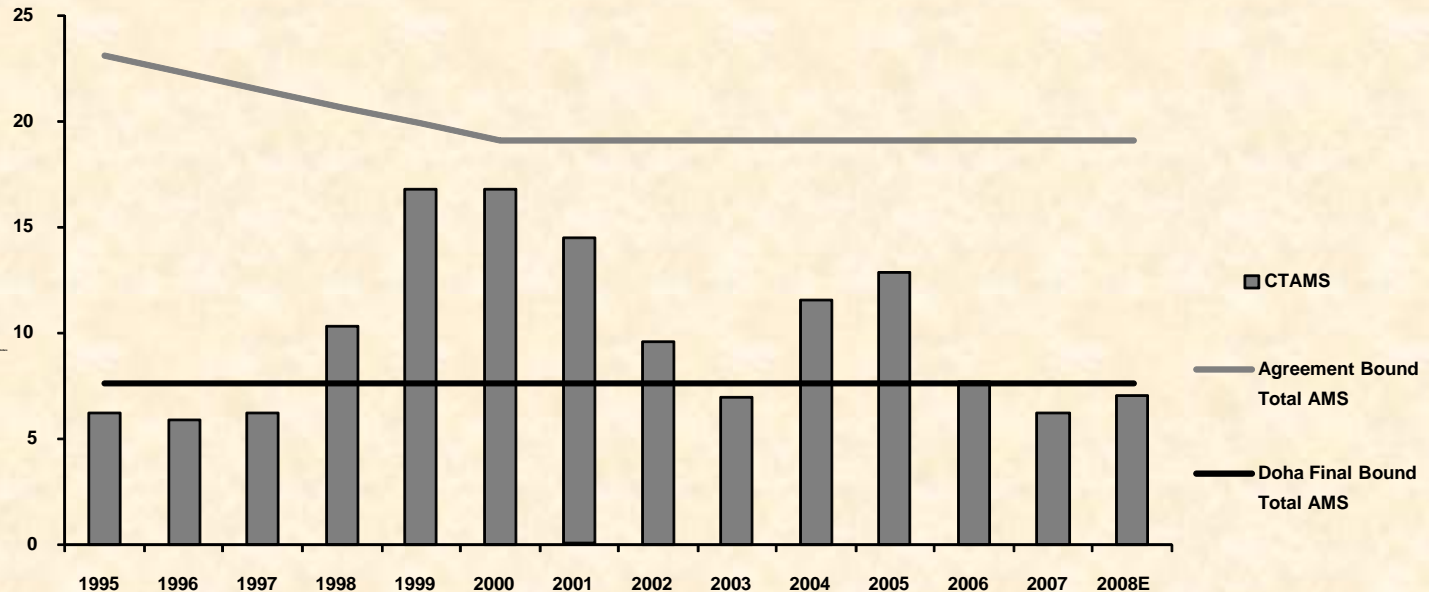
**Milk**



**Sugar**

**The WTO measure of MPS has understated market price support as measured by OECD.**

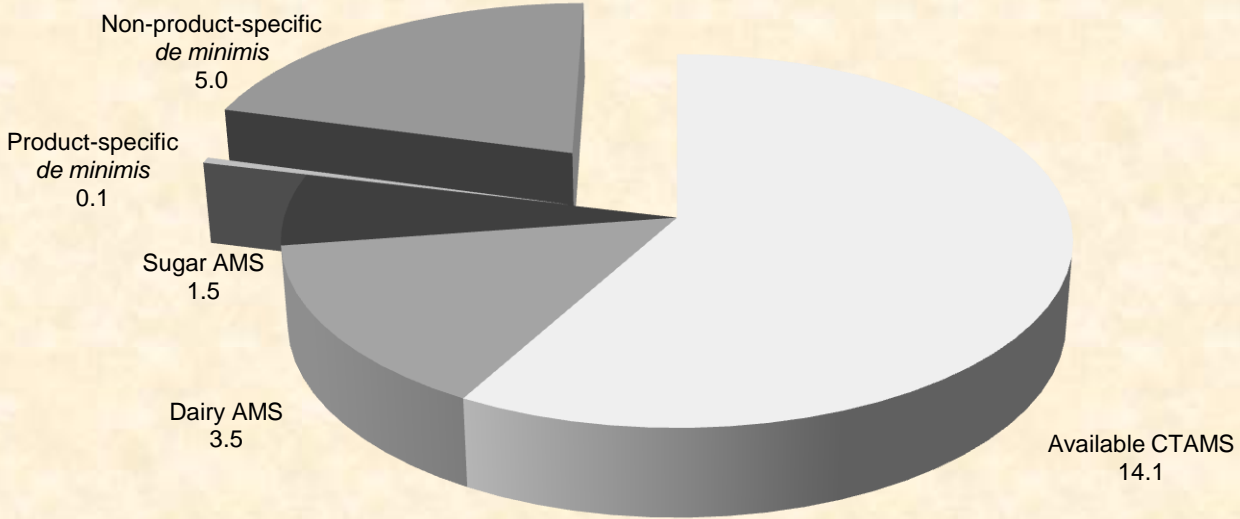
# United States CTAMS



**With Green Box and *de minimis* support excluded from CTAMS, the U.S. has been below its commitment of \$19.1 billion. Past CTAMS support in some years exceeds the limit of \$7.6 billion being discussed in the Doha negotiations as a future commitment (see later slide), but not in recent years when non-exempt payments have been low.**



# Projected Mid-2010s U.S. Support Compared to WTO Commitment



Billion dollars

**Projections for 2016 show the U.S. to be far below the \$19.1 billion limit on CTAMS, leaving \$14.1 billion of “Available CTAMS.” Projected *de minimis* product-specific and non-product-specific support are not counted in projected CTAMS.**

# Doha Rules and Commitments (proposed)

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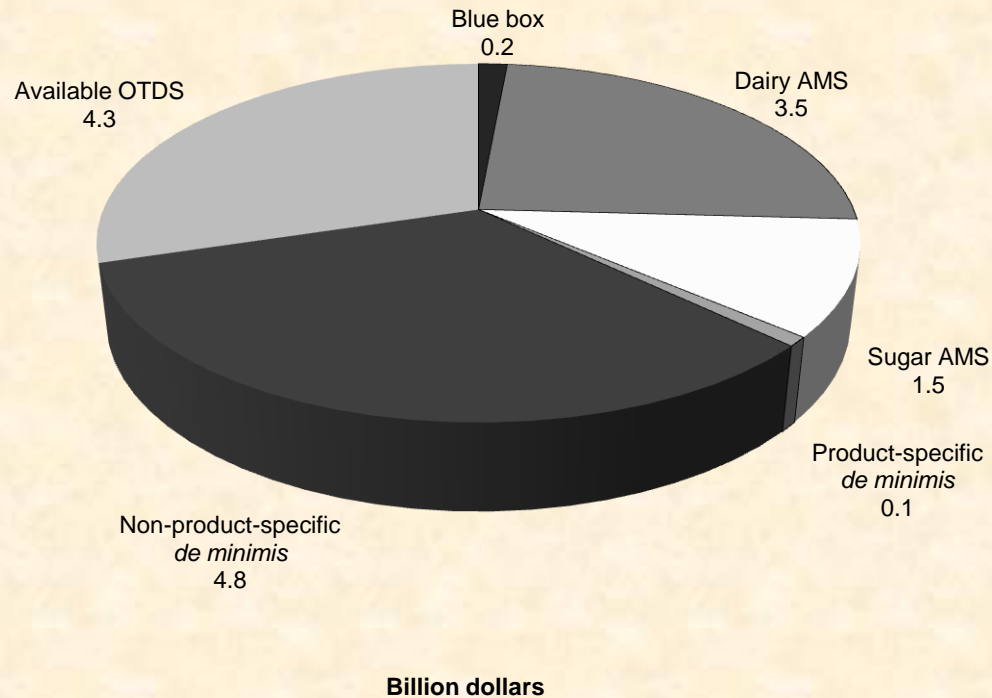
**Compared to the Agreement, the December 2008 proposed Doha domestic support text:**

- **Reduces Final Bound Total AMS**
  - **Reduces *de minimis* thresholds**
  - **Imposes limits on OTDS**  
(Blue Box + CTAMS + *de minimis*)
  - **Imposes limits on Overall Blue Box**
  - **Imposes product-specific limits on AMSs and Blue Box**
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# Doha Implied Commitments (proposed)

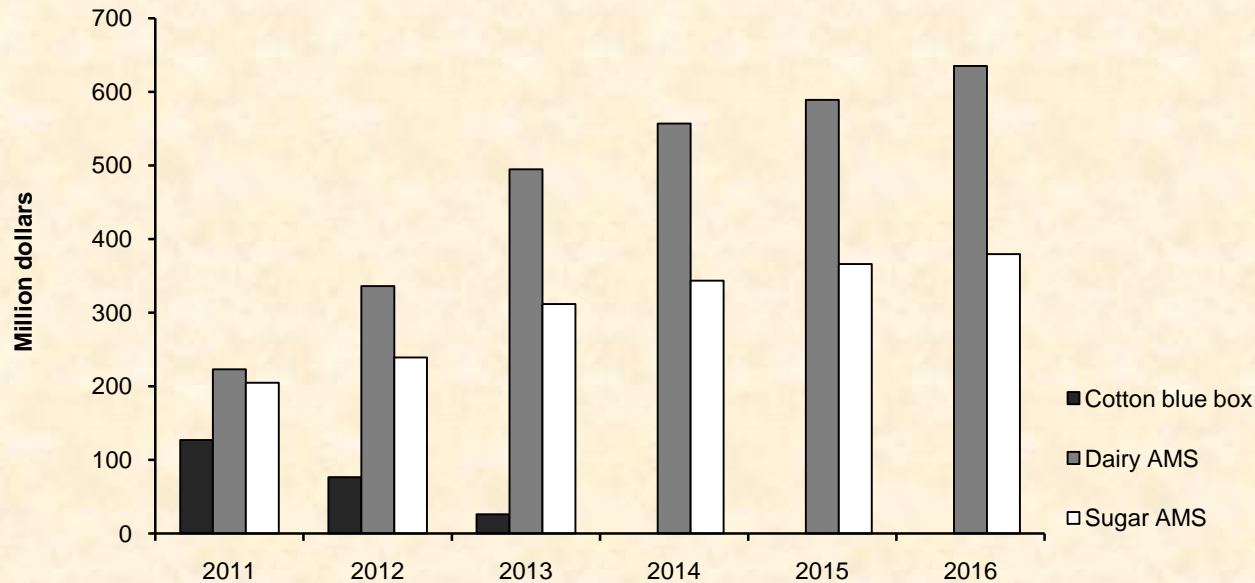
	<b>European Union</b>	<b>United States</b>	<b>Japan</b>
	(bill. euros)	(bill. dollars)	(bill yen)
<b>Pre-Doha Final Bound Total AMS</b>	<b>67.2</b>	<b>19.1</b>	<b>3,972</b>
<i>Proposed reduction</i>	70%	60%	70%
<b>Proposed FBTAMS</b>	<b>21.7</b>	<b>7.6</b>	<b>1,192</b>
<i>As % 2008 Value of Production</i>	7.3%	2.3%	13.8%
<b>Base OTDS</b>	<b>115.4</b>	<b>48.5</b>	<b>5,448</b>
<i>Proposed reduction</i>	80%	70%	75%
<b>Proposed Bound OTDS</b>	<b>23.1</b>	<b>14.5</b>	<b>1,362</b>
<i>As % 2008 Value of Production</i>	7.8%	4.3%	15.7%
<b>Proposed Blue Box Limit</b>	<b>5.6</b>	<b>4.9</b>	<b>246</b>

# Projected Mid-2010s U.S. Support Compared to Potential Doha WTO Commitments



Projections for 2016 show the U.S. to be somewhat below the Doha negotiations proposed \$14.5 billion limit on OTDS, leaving \$4.3 billion of “Available OTDS.” About \$2 billion of this projected availability comes from redefinition of dairy MPS starting in 2008. Projected *de minimis* product-specific and non-product-specific support are counted in projected OTDS.

# U.S. – Potential Product-Specific Caps



**Amounts by which proposed U.S. product-specific caps are projected (in the book) to be exceeded**

**(since then, dairy MPS has been reduced and cotton prices have increased)**

**Selected other AMS caps (billion dollars)**

**Corn \$1.11; Soybeans \$1.12; Wheat \$0.23**

# Potential ACRE Payments vs. Doha Product-Specific Constraints

Crop	2009	2010	2011	2012
	----- Billion \$ -----			
<b>Corn</b>				
Average Revenue Payments	\$1.40	\$1.25	\$1.35	\$1.37
Maximum Revenue Payments over Forecast Cases	\$6.05	\$5.64	\$5.89	\$5.99
Number of Forecast Cases Exceeding Proposed Doha WTO Product-Specific Cap	3	3	3	3
<b>Soybeans</b>				
Average Revenue Payments	\$2.10	\$1.64	\$1.03	\$1.03
Maximum Revenue Payments over Forecast Cases	\$6.25	\$5.43	\$3.89	\$3.92
Number of Forecast Cases Exceeding Proposed Doha WTO Product-Specific Cap	4	4	4	4
<b>Wheat</b>				
Average Revenue Payments	\$0.79	\$0.66	\$0.41	\$0.44
Maximum Revenue Payments over Forecast Cases	\$1.93	\$1.71	\$1.15	\$1.23
Number of Forecast Cases Exceeding Proposed Doha WTO Product-Specific Cap	7	7	5	5
<b>Total Average Revenue Payments</b>	<b>\$4.29</b>	<b>\$3.56</b>	<b>\$2.78</b>	<b>\$2.84</b>

**The optional ACRE program adopted in 2008:**  
Offers moving-average revenue guarantee with no fixed support triggers

**Sign up is about 15-20 percent of corn, soybean and wheat base acreage**

**Using historical national price and and state yield/acreage variability (percentage basis), payouts under ACRE can exceed product-specific Doha caps with 100% sign up**

**Source: Zulauf and Orden (2010)**



# Key Issues in the Analysis: Conclusions

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# WTO Disciplines and U.S. Policy

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- **The path of U.S. policy would have been hard to predict when the WTO Agreement on Agriculture was adopted in 1995**
- **The U.S. has not faced binding constraints on domestic support under the WTO: the rules have mattered but have been porous**
- **The U.S. has preserved the safety-net-payments character of its support measures under the Agreement**
- **Under the Agreement, essentially anything is feasible in domestic support in the mid 2010s**
- **Compliance assessment becomes more interesting with a Doha Agreement**
  - **Safety-net framework leaves the U.S. vulnerable to tighter limits**
  - **U.S. will utilize the MPS rules to increase its latitude for other OTDS support**
  - **Broadly, it has some latitude with the Doha disciplines, but could face binding constraints under certain policy choices**



# **U.S. Farm Policy Through a WTO Lens**

**THANK YOU**

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