

The Changing Structure of Domestic Support and its Implications for Trade

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Today's Farm Support Issues

- **In an era of strong demand, should we be concerned with support to agricultural production?**
 - **With high prices and farm incomes since 2008, significant farm support programs remain in place in developed countries (e.g. the EU and US). What is forthcoming for these policies?**
 - **The WTO provides a legal framework of disciplines on domestic support but renegotiation (strengthening) of these disciplines has faltered since 2008. Does this matter?**
 - **Are policies changing in developing countries to provide more support for agriculture?**
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Plan of the Presentation

- **Review the existing WTO disciplines on domestic support and those proposed but not locked in during the Doha negotiations**
 - **Examine EU and US support under the WTO disciplines**
 - **Discuss current proposals for continuation of EU and US support**
 - **Examine agriculture and agricultural support in the BRIC countries (Brazil, Russia, India and China)**
 - **Concluding Remarks**
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References

Orden, D., D. Blandford and T. Josling (editors). 2011. *WTO Disciplines on Agricultural Support*. Cambridge University Press.

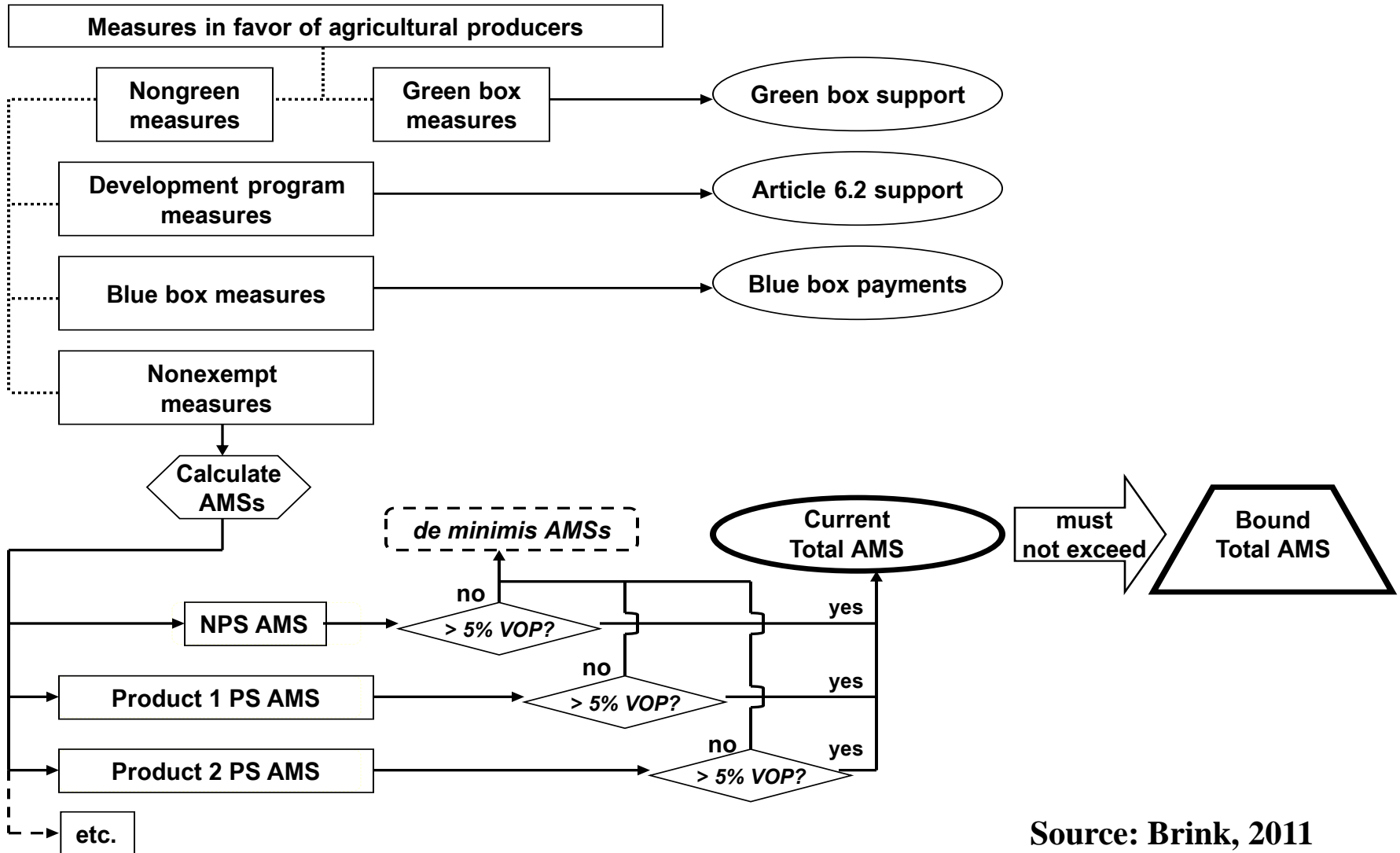
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Bureau, J.C., D. Laborde and D. Orden. 2013. “Developed Country Agricultural Policies: Continued US and EU Support in Absence of a New World Trade Agreement.” Forthcoming in IFPRI’s *Global Food Policy Report*, February.

WTO Disciplines on Agricultural Support chapter updates:
www.gii.ncr.vt.edu/WTO.html

Schematic of Domestic Support Rules



Source: Brink, 2011

Components of the AMS Support

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

WTO MPS =

**[Administered Price – 1986-88 External Reference Price]
x [Eligible Quantity]**

Economic MPS =

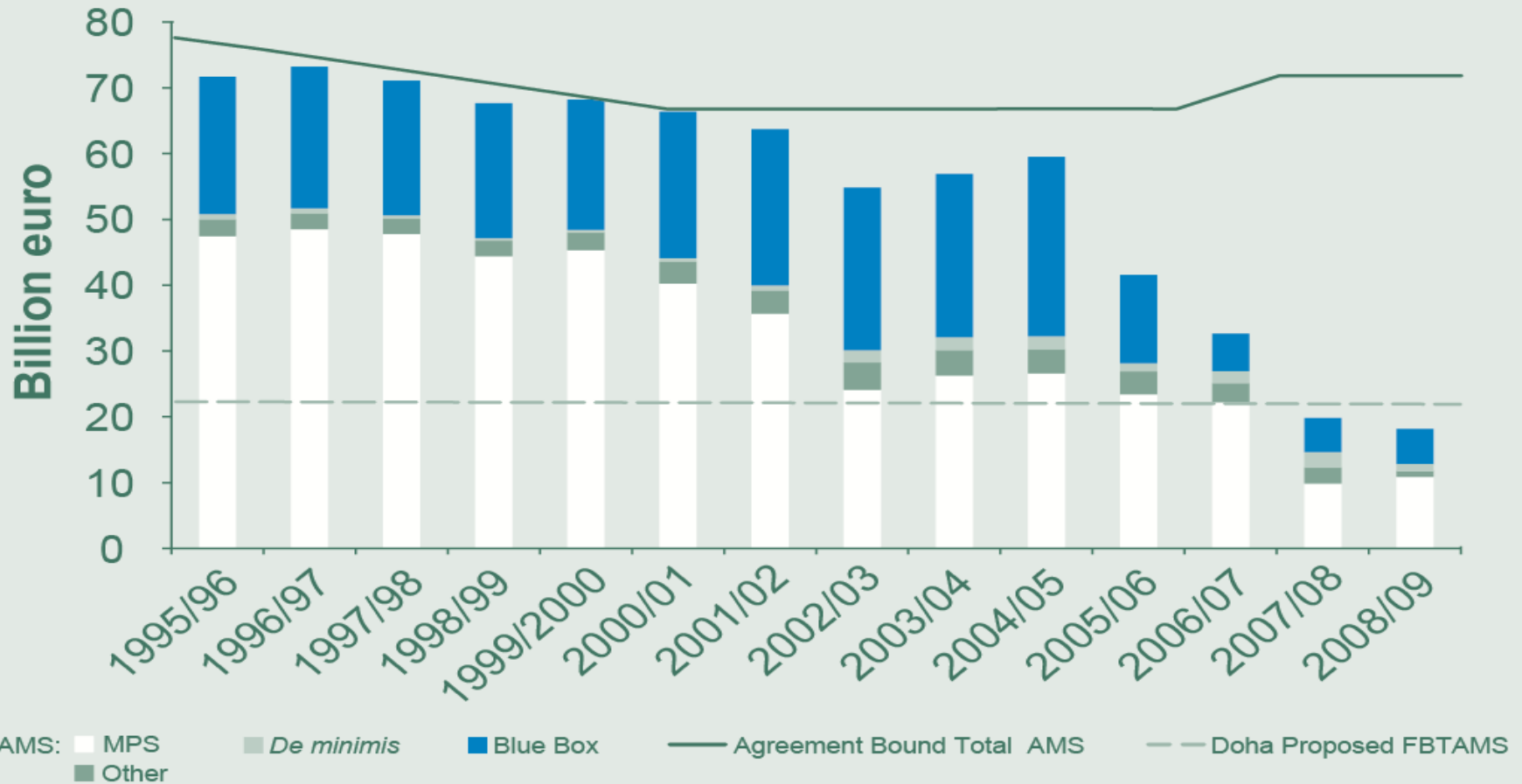
**[Domestic Price – Current External Reference Price]
x [Domestic Production]**

Existing and Proposed Doha Commitments

Member	Currency of Notification	Agreement→Doha Commitments		Additional Proposed Constraints		
		Ceiling	<i>De minimis</i> % of Production Value	OTDS	Blue Box	Product-specific Limits
		<i>Nominal Limit</i>		<i>Nominal Limit</i>	<i>Nominal Limit</i>	<i>Rules</i>
United States	<i>US\$ billion</i>	19.1→7.6	5→2.5%	14.5	4.9	Yes
European Union	<i>€ billion</i>	72.2→21.7	5→2.5%	23.8	6.5	Yes
Japan	<i>¥ billion</i>	3,973→1,192	5→2.5%	1,363	246	Yes
Norway	<i>NOK billion</i>	11.4→5.4	5→2.5%	9.5	3.6	Yes
Brazil	<i>US\$ billion</i>	0.9→0.6	10→6.7%	8.3	2.4	Looser
China	<i>RMB billion</i>	—	8.5%	584.4	116.9	Looser
India	<i>US\$ billion</i>	—	10%	25.6	5.1	Looser
Philippines	<i>PHP billion</i>	—	10%	117.2	23.4	Looser

WTO Notifications of Agricultural Support (OTDS Categories)

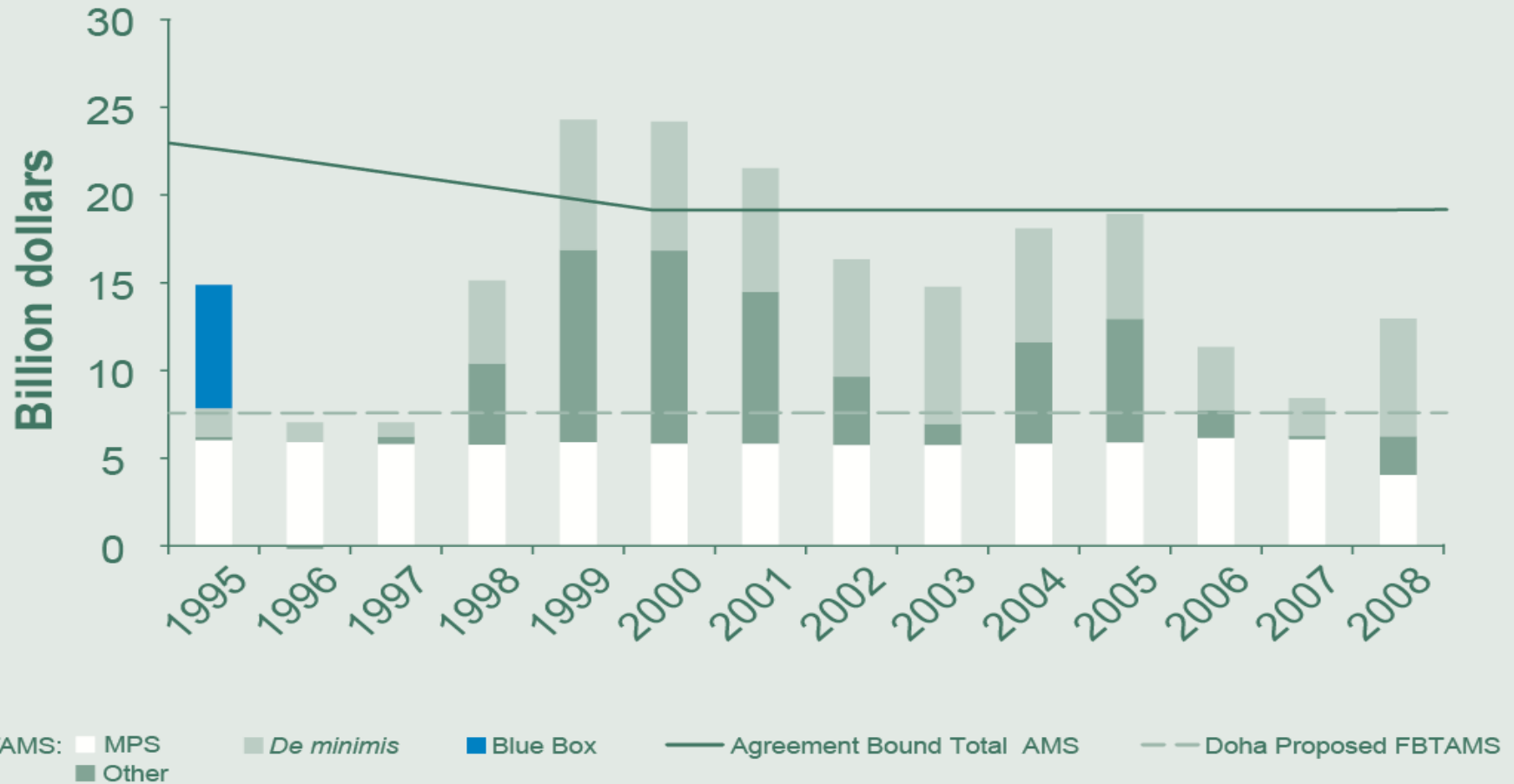
EU



Note: Agreement Bound Total AMS and Doha Proposed FBTAMS are constraints on CTAMS.

WTO Notifications of Agricultural Support (OTDS Categories)

US



Note: Agreement Bound Total AMS and Doha Proposed FBTAMS are constraints on CTAMS.

Future EU Policy (Post-2013 CAP)

- **EU to continue decoupled direct payments near Euro 40 billion per year**
 - “Decoupled direct payments provide today’s basic income support and support for basic public goods desired by European society” European Commission, 2010
 - Some redistribution, redesign and targeting of support “to add value and quality in spending”
- **EU considering some safety net programs as seen in the US**

Component	% of National Ceiling	Optional or Compulsory
Greening	30%	Compulsory
Natural Constraints	5% maximum	Optional
Young Farmers	2% maximum	Compulsory
Small Farmers	10% maximum	Compulsory
Coupled Support	Up to 10%	Optional
Basic Payment	Remainder	Compulsory

Source: Swinbank, 2012

Future US Policy (Pending Farm Bill)

- **Pending Farm Bills:**

- **Eliminate Direct Payments and replace Countercyclical Payments and ACRE with strengthened within-year and multiple-year guarantees against “shallow losses” not covered by existing insurance programs**

CBO Estimates of Effects of US Farm Bill Proposals on FY2013-22 Expenditures

Farm Bill Title	Billions Dollars (10-year totals)	
	Estimated Spending under 2008 Farm Bill	Range of Anticipated Increase or Decrease
Farm support programs	152.8	-14.1 to -14.4
Commodity programs	62.9	-19.4 to -23.6
Crop insurance	90.9	5.0 to 9.5
Conservation	64.1	-6.1 to -6.4
Nutrition	772.1	-4.0 to -16.1
All other titles	3.8	1.0 to 1.7
Total	992.8	-23.1 to -35.1

Future US Policy (Pending Farm Bill)

- **Within-year new programs for “shallow losses”**
 - **Two approaches: 1) cover at no cost a fixed range of farm-level or county-level losses based on moving average revenue guarantee (ARC, RLC) or 2) county-based coverage linked to insurance coverage of individual farms based on within-year prices/revenue and with farmer paying part of the premium (SCO, STAX)**
 - **Multiple-year new revenue guarantee program (ARC, RLC) with moving-average target (Senate Bill) versus new countercyclical payment program (PLC) with higher fixed target prices and more closely coupled to current production (House Agriculture Committee)**
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Schematic of the Proposed US Programs

Antecedent	Shallow Losses	Multi-Year Losses
Countercyclical Payments	----	PLC
Crop Insurance, SURE	SCO, STAX	STAX (with minimum price)
ACRE	ARC, RLC	ARC, RLC

These US farm bill proposals are a casualty of failure of the Doha Round and will make it harder for the US to negotiate tighter constraints in the future

Estimated Payments from Proposed Programs

Average Expected ARC and STAX Payments per Acre

CBO Baseline Prices							Lower Prices						
	2013	2014	2015	2016	2017	Average		2013	2014	2015	2016	2017	Average
Corn	13.83	15.25	16.22	16.35	13.96	15.12	Corn	21.82	34.76	40.51	40.76	29.84	33.54
Rice	24.74	22.71	16.65	16.64	16.30	19.41	Rice	37.49	50.78	53.23	44.88	35.86	44.45
Soybeans	9.75	10.00	9.85	9.85	9.17	9.72	Soybeans	14.90	22.19	26.21	25.05	18.73	21.41
Wheat	8.09	7.20	4.92	4.81	4.85	5.97	Wheat	9.38	11.27	10.63	10.51	8.38	10.03
Cotton (STAX)	25.87	27.60	29.51	31.34	33.03	29.47	Cotton						
							Min price	31.01	48.34	65.11	67.17	69.17	56.16
							No min price	23.51	25.07	26.79	28.44	29.94	26.75

Average Expected PLC Payments per Acre

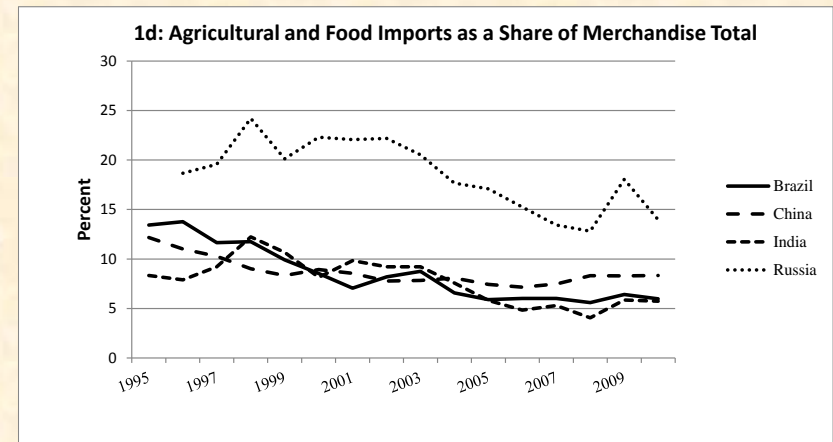
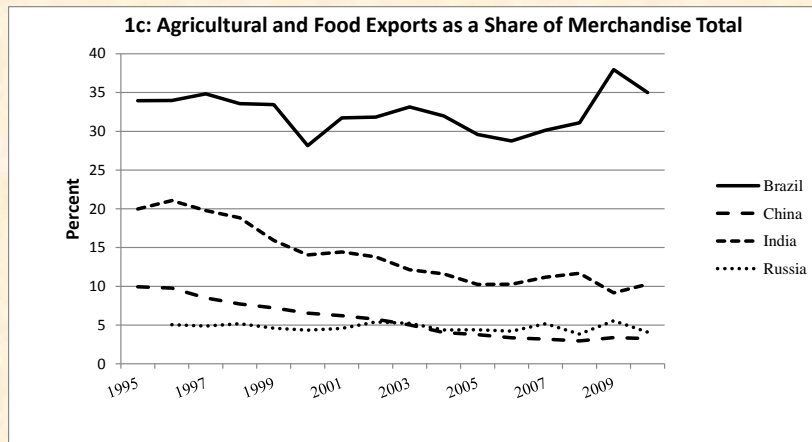
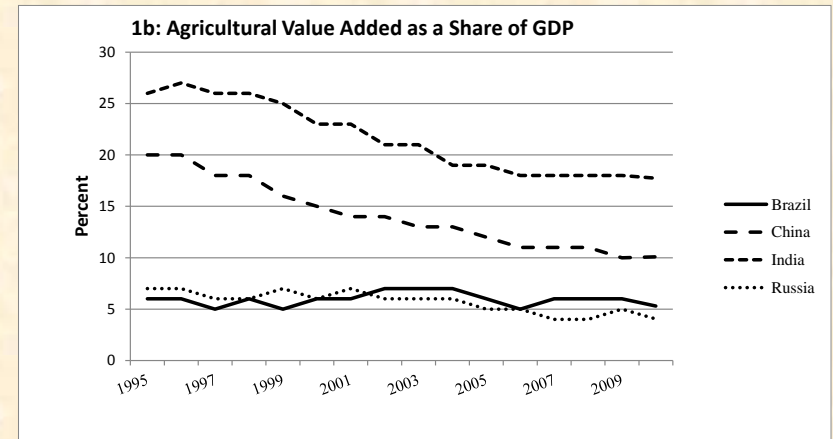
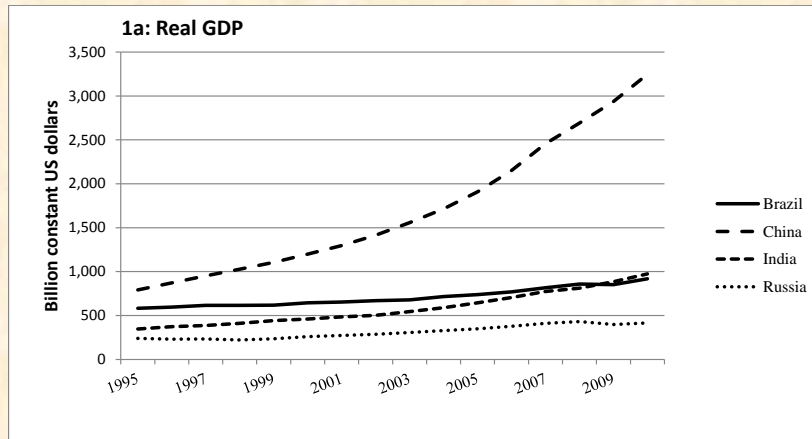
CBO Baseline Prices							Lower Prices						
	2013	2014	2015	2016	2017	Average		2013	2014	2015	2016	2017	Average
Corn	5.60	4.35	3.96	3.82	3.58	4.26	Corn	22.33	56.30	100.49	100.49	100.49	76.02
Rice	73.55	61.29	62.10	60.88	58.30	63.22	Rice	161.52	248.21	322.35	322.35	322.35	275.36
Soybeans	1.48	1.10	0.93	0.89	0.81	1.04	Soybeans	10.08	32.40	63.56	63.56	63.56	46.63
Wheat	8.56	7.87	6.82	6.06	5.37	6.94	Wheat	23.27	41.83	59.31	59.31	59.31	48.61

Source: Babcock and Paulson, ICTSD Issue Paper No. 45, 2012

Effects of EU and US Policies on Production, Prices and Trade

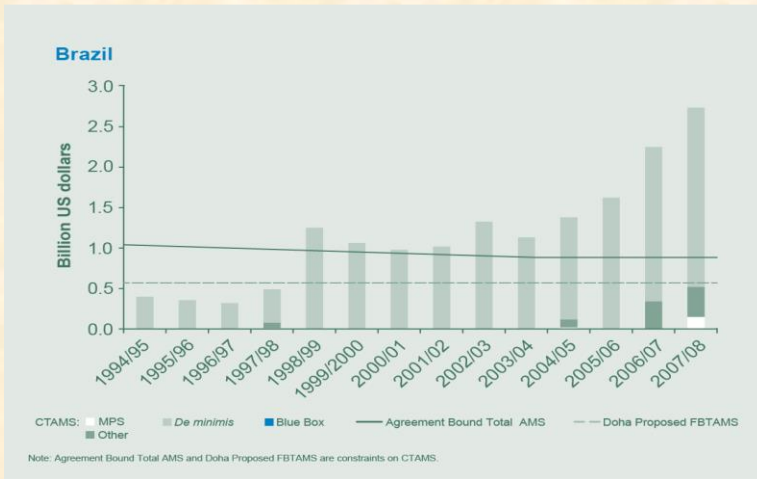
- **Evaluating effects always complicated: effects on importers/exporters; net producers/consumers within each country; under different market conditions**
- **No convergence of policies; no definitive answers on policy effects**
 - **EU policies less distorting than former price support but level of transfers high relative to farm income**
 - **US moving toward measures subject to WTO commitment limits, but expenditures will be relatively low if world prices remain high**
- **US policies become more distorting if world prices fall—exactly the circumstances in which producers abroad face increased stress**
- **Some recent estimates:**
 - **Elimination of its green box policies reduces EU production of various products by 0.3% (sugar) to 3.1% (oilseeds). Producer prices increase from 0.5% (sugar) to 5.9% (milk). Percentage effects on EU trade are larger (from small base values) (Mittenzwei, Britz and Wieck, 2012)**
 - **Under proposed US farm bill programs, US planted acreage increases by -0.29% (soybeans) to 4.4% (cotton) at CBO baseline prices and from -2.26% (soybeans) to 12.9% (cotton) under a lower price scenario (Babcock and Paulson, 2012)**

Agriculture in the BRIC Economies

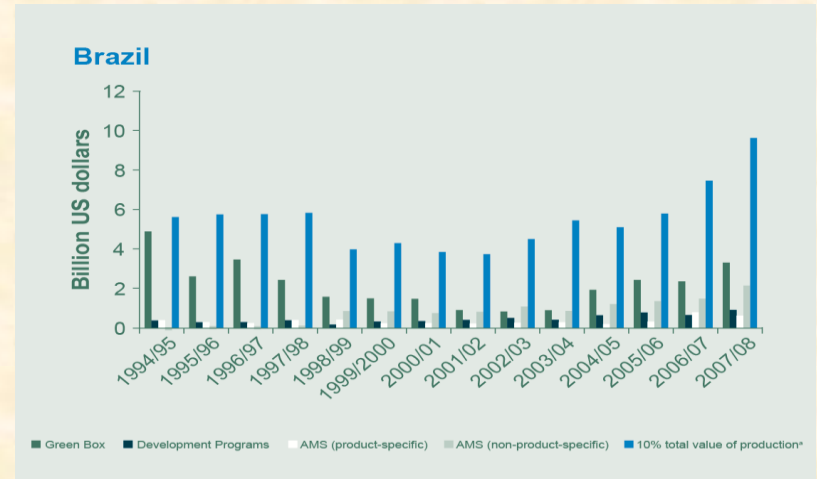


Domestic Support of Brazil, India and China

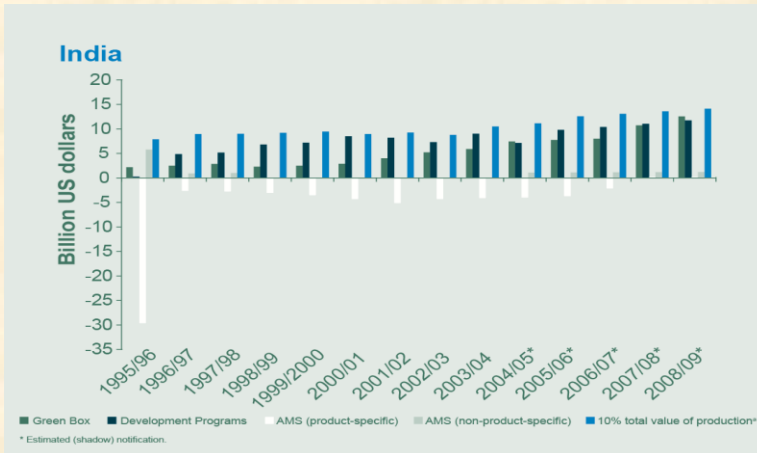
Panel a



Panel b



Panel c



Panel d



Recent Support in India

(Billion US dollars)

Input Subsidy	2004	2005	2006	2007	2008	2009
Fertilizer	3.53	4.17	5.79	8.07	16.68	11.17
Electricity	4.00	4.39	4.36	5.13	5.99	NA
Irrigation	2.74	3.23	3.75	4.84	5.15	NA
Other	0.81	1.28	1.05	3.75	7.22	NA
Total	11.08	13.06	14.95	21.80	35.04	11.17
Value of Production	124.7	144.6	157.7	202.6	195.6	211.9
Subsidy as a Share of Value of Production (%)	8.9	9.0	9.5	10.8	17.9	NA

Source: Gopinath, 2012

Russia's Base Years Support

(Thousand US dollars)

	2006		2007		2008	
	AMS	% of VOP	AMS	% of VOP	AMS	% of VOP
Product-specific AMSs						
Hemp and flax	5.5	45.3%	7.3	41.3%	14.5	60.8%
Sheep	8.8	5.1%	15.1	2.5%	<i>dm</i> 27.0	3.4% <i>dm</i>
Reindeer	17.0	70.0%	30.0	117.4%	35.0	65.7%
Horse	-	-	1.2	0.7%	<i>dm</i> 8.3	5.3%
Non-product-specific AMS	3,744.9	6.3%	3,827.2	5.1%	5,596.1	5.6%
Subsidies for operating inputs	1,455.5		756.6		1,969.3	
Subsidies for capital inputs	482.3		560.3		647.8	
Credit concessions	1,318.9		1,618.8		1,858.6	
Subsidies for crop insurance	245.4		143.1		174.7	
Rail freight rates	94.2		101.5		63.0	
Production subsidies	148.7		196.0		338.6	
Other subsidies	-		450.8		544.2	
Current Total AMS	3,776.2		3,864.4		5,653.9	

Source: Compiled by Brink, 2012

Russia's WTO Commitments

Accession Commitments

- **Bound Total AMS of US\$ 9 billion in 2012 and 2013 declining to US\$ 4.4 billion in 2018**
- **Product-specific support cannot exceed 30% of non-product-specific support through 2017**
- **As a developed country, *de minimis* allowances are 5% of value of production and Russia is not eligible for Article 6.2 (development box)**
- **Final Bound Total AMS is 4.5% of 2010 value of production compared to 1.1% for Brazil, 6.7% for the US and 21% for the EU**
- **Shifting below *de minimis* for non-product-specific support would open latitude for substantial product-specific support for certain commodities**

Possible Doha Commitments

- **Depend on whether Russia is treated as a RAM or VRAM. If RAM:**
 - **Base OTDS of US\$ 10.2 billion declines to Final Bound OTDS of US\$ 6.5 billion**
 - **Bound Total AMS declines from US\$ 4.4 to US\$ 3.1 billion**
 - ***De minimis* allowances decline from 5% to 4.2%**
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Summing Up

- **We started with a set of questions about today's farm support issues**
 - I reiterated the importance of disciplines on domestic support even in an era of high prices
 - **Reviewed the existing and proposed Doha disciplines on domestic support and examined notifications of support by the EU and US**
 - **Highlighted the shift to decoupled transfers to farmer in the EU versus emergence of new safety net programs in the US, with adverse direct and indirect effects**
 - Reviewed some estimates of the direct effects of these policies
 - **Concluded the breakdown of the Doha negotiations matters**
 - **Examined the domestic support of the BRIC countries**
 - Accession of China and Russia to the WTO brings their support under some disciplines
 - Developing-country subsidies need further monitoring
 - Subsidies may have increased since 2008, but each country also has a unique policy history affecting its measures and shift at the margin may not be too large so far
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