

The WTO(?)
and
Competing Policy Issues

Paul Drazek
DTB Associates

Farm Foundation and ERS Conference
Washington D.C.
September 17, 2003

The Cancun Framework Agreement

Where were we in relation to
U.S. objectives when the talks
stalled?

The “Three Pillars”

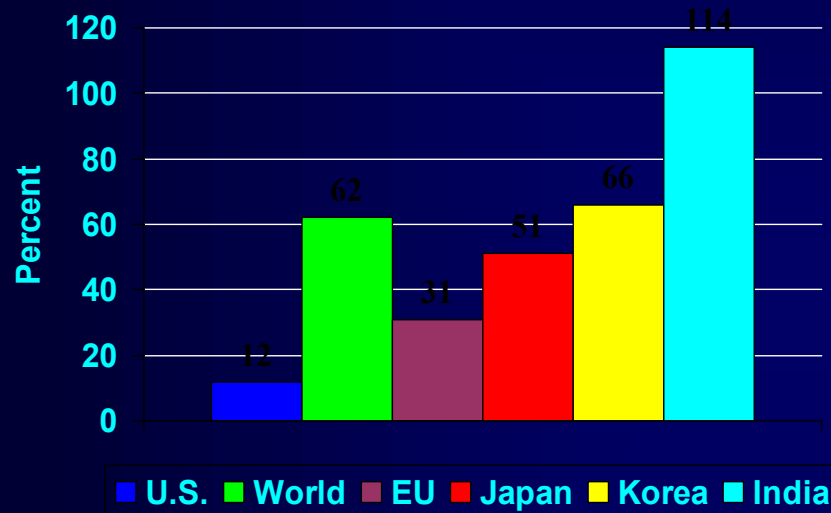
- *Market access*
- *Export competition*
- *Domestic support programs*

Principal U.S. Ag Objectives:

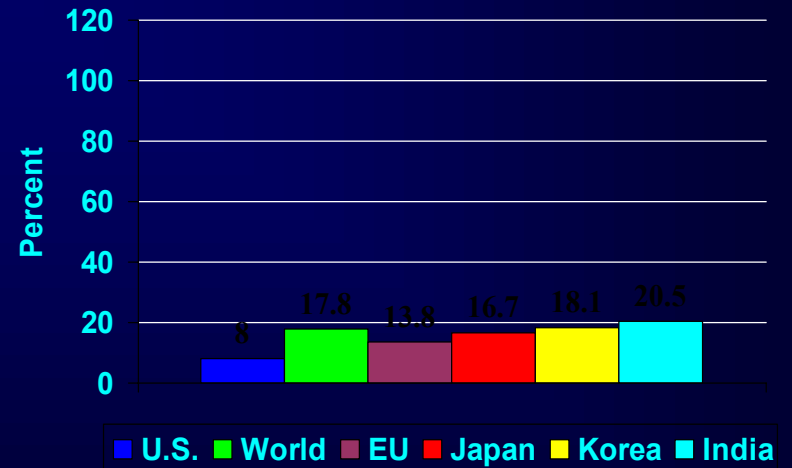
- **Pillar one:** Increase foreign market access and reduce disparities in tariffs (Swiss formula for all products and countries).

Market Access

Current Average U.S. and Foreign Agricultural Tariffs



Effect of U.S. Harmonization Approach



How does the framework paper address market access?

U.S. objectives:

- Harmonize tariffs (Swiss formula);
- No exceptions;
- Increase TRQ's;
- Same formula and numbers for both developed and developing

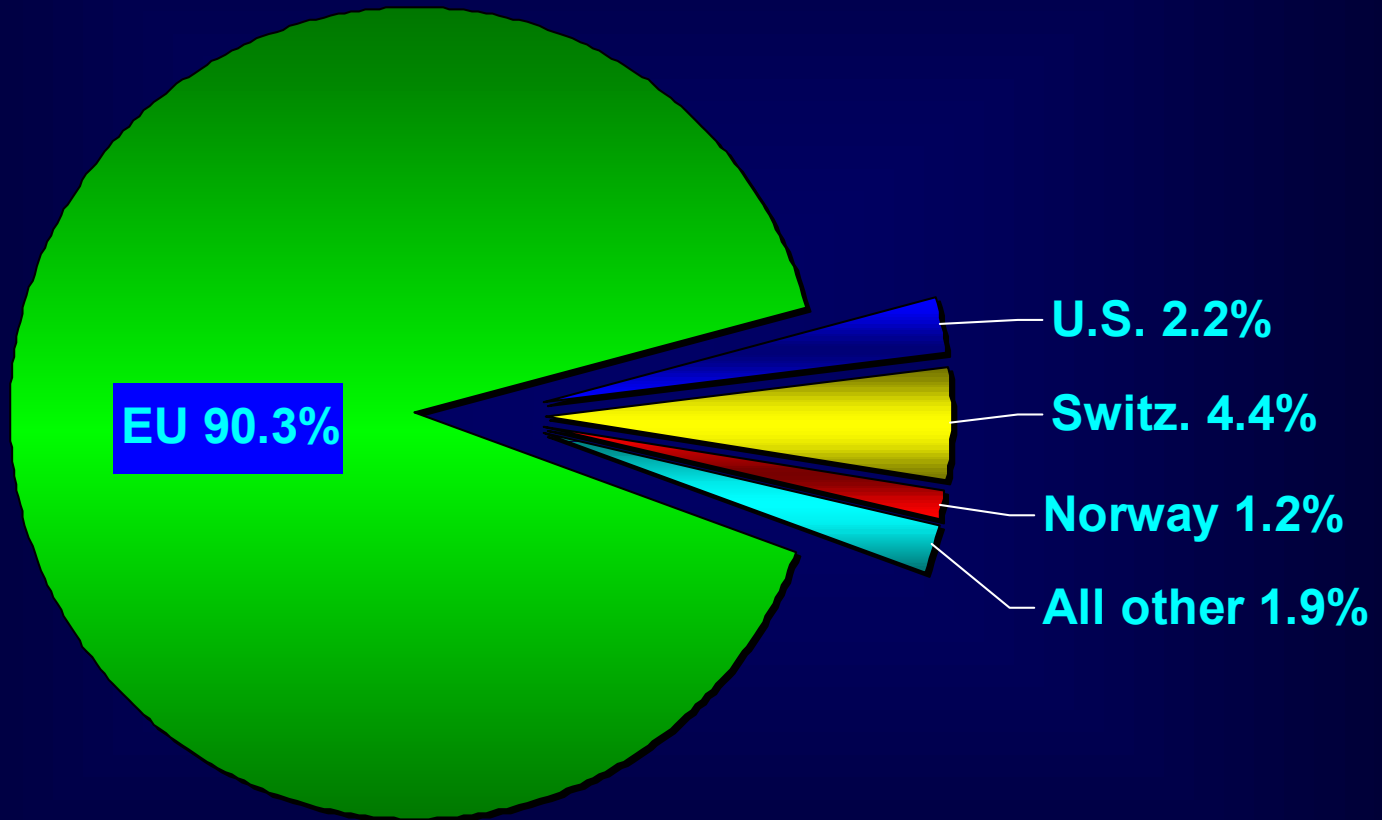
Framework paper:

- Blended approach: Swiss formula for most, but not the most sensitive;
- Some tariffs must be zero
- Tariff cap [with exceptions?]
- Same modalities for both developed and developing [different numbers]

Principal U.S. Ag Objectives:

- **Pillar one:** Increase foreign market access and reduce disparities in tariffs (Swiss formula for all products and countries).
- **Pillar two:** Eliminate export subsidies and subsidy elements of STE's; deal with export credits through strengthened WTO rules.

Export Competition



How does the framework paper address export competition?

U.S. objectives:

- Eliminate all export subsidies;
- Strengthen rules on export credits rather than numerical limits;
- Eliminate monopoly practices of export STE's.

Framework paper:

- Eliminate for all products of interest to developing countries;
- Reduce with view to phase out others;
- Parallel action on subsidy elements of export credits and STE's.

Principal U.S. Ag Objectives:

- **Pillar one:** Increase foreign market access and reduce disparities in tariffs (Swiss formula for all products and countries).
- **Pillar two:** Eliminate export subsidies and subsidy elements of STE's; deal with export credits through strengthened WTO rules.
- **Pillar three:** Reduce and harmonize trade-distorting domestic supports; eliminate the blue box (later changed); maintain the green box.

Refresher on the Famous Colored Boxes:

Amber: Trade distorting

Blue: Trade distorting but subject to production controls

Green: Non-trade distorting (e.g. research, conservation, non-product specific de-coupled payments)

“De Minimis”: Trade distorting but green if it is non-product-specific and less than 5% of the value of production.

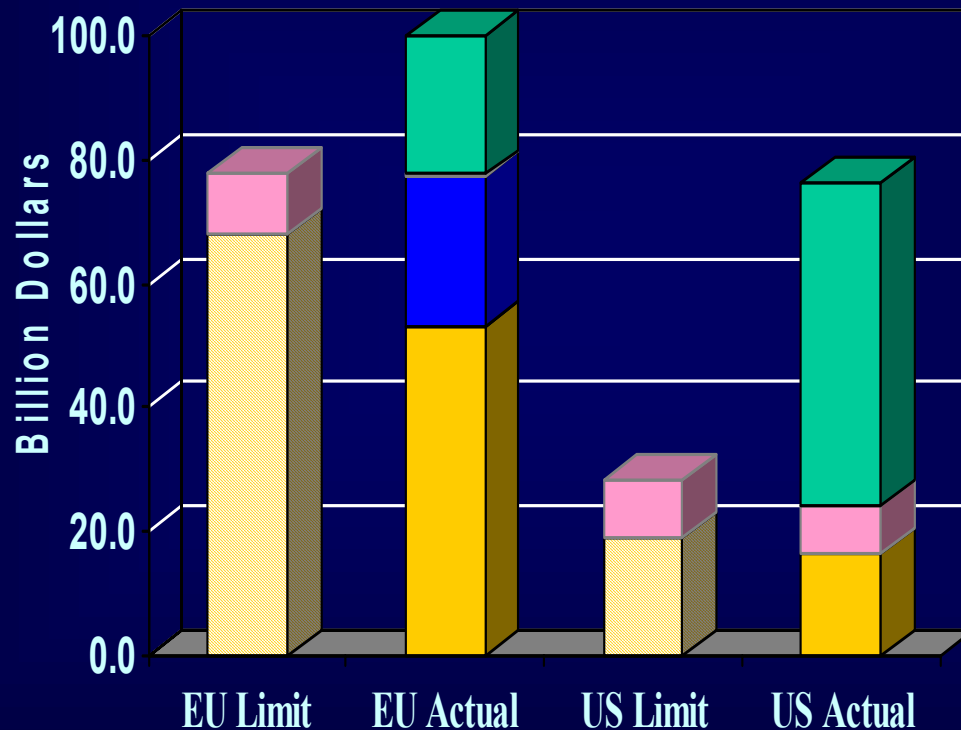
What U.S. Programs Have Gone in Each Box?

- U.S. price support programs (dairy, sugar, peanuts), LDPs, marketing loan gains are classified as **amber**.
- The U.S. put deficiency payments based on 85% or less of base production in the Blue Box until it gave up the program in 1996. The U.S. no longer uses the Blue Box.

- **AMTA payments** were eligible for the **Green Box** because they were fixed in the 1996 farm bill at \$35 billion over 7 years and paid on the basis of historical, not current production. They qualified for **Green Box** because payments were “not related to [current] prices, production or factors of production....”

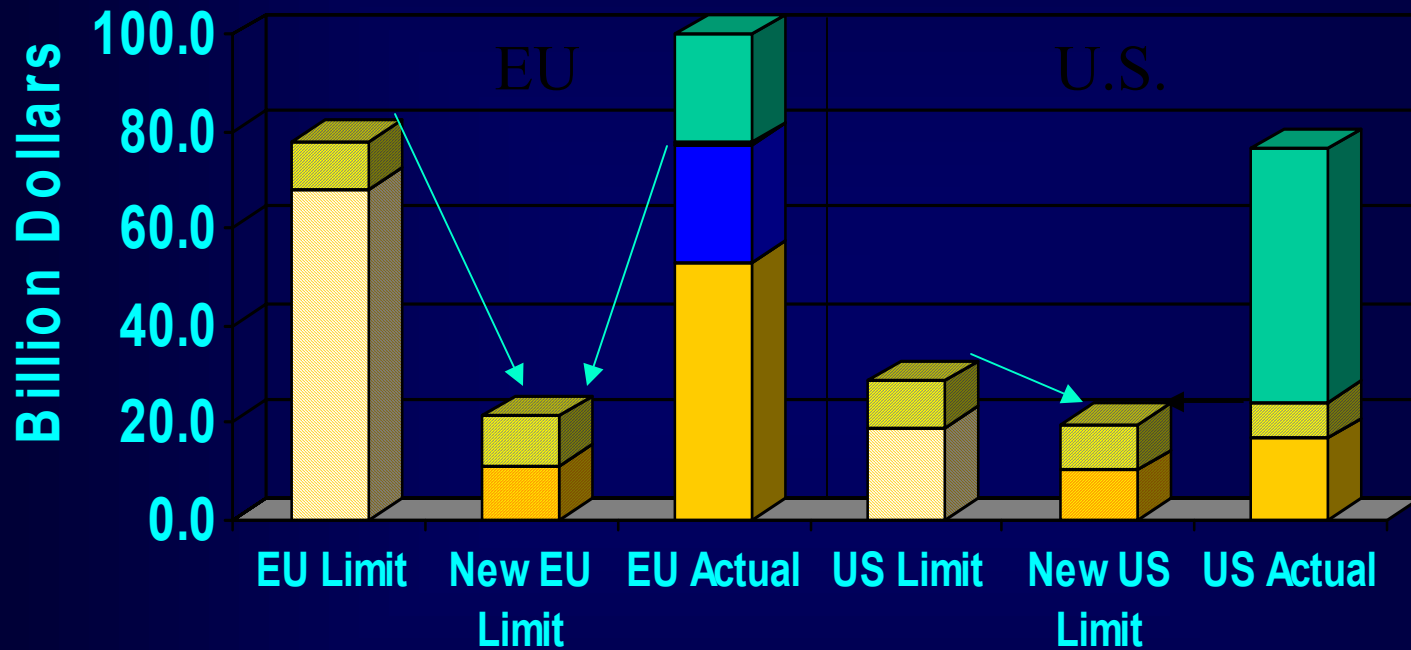
- Supplemental AMTA's (Market Loss Assistance Payments (1998-2001)) were notified as **amber** but classified as “**De Minimis**” because
 - (1) they totaled less than 5% of the value of U.S. production (i.e, less than around \$10 billion), and
 - (2) they were not “product specific”.
- Therefore they were not included in the \$19.1 billion U.S. WTO amber box limit.

Comparison of Current U.S. and EU Domestic Supports Including Green Box Supports (Unlimited)



■ WTO Limit ■ Amber Box ■ Blue Box ■ De Minimis ■ Green Box

What Would Happen Under the U.S. Proposal



WTO Limit
 New WTO Limit
 Amber Box
 Blue Box
 De Min
 Green Box

How does the framework paper address domestic supports?

U.S. objectives:

- Harmonize amber box at 5% of value of production;
- Create new blue box at 5% of value of production to cover U.S. countercyclical supports;
- Maintain green box and de minimis uncapped.

Framework paper:

- Reduce amber box supports by a range to be decided [provides for possibility of harmonization];
- New blue box starting at 5%, but phased down;
- Review green box criteria; reduce de minimis; new overall limit.

Other Issues

- Peace clause: the framework paper would have extended it; now it is certain to expire.
- Cotton: the framework offered possibility of sectoral negotiations to benefit cotton-producing developing countries; these negotiations will not take place.
- Geographical indications: No specific language in the text.

Would the framework have achieved U.S. objectives?

Maybe yes, maybe no.

Everything would depend on the numbers in the brackets, and those would probably not have been filled in until the next Ministerial.

Given the right numbers, the framework could result in a very good deal for the U.S.; given the wrong numbers, it could be very bad.

Why did the U.S. decide to expand the blue box rather than eliminate it?

Would Section 1104 Counter-Cyclical Payments Qualify as Non-Product-Specific De Minimis?

Language of Section 1104 sounds very “product specific”

- *“The Secretary shall make counter-cyclical payments to producers...with respect to the covered commodity”*
- *“...if the Secretary determines that the effective price for the covered commodity is less than the target price...”*
- *“The payment rate used to make countercyclical payments with respect to a covered commodity...”*

And the statute lists separate target prices for eight crops.

(\$000s)

COMMODITY CREDIT CORPORATION
FY 1999 THROUGH 2002 ACTUAL MARKET LOSS ASSISTANCE PAYMENTS

1

| COMMODITY | CROP YEAR | FY 1999 | FY 2000 | FY 2001 | FY 2002 | Total CY |
|-----------------------|-----------|-----------|------------|-----------|---------|-----------|
| Corn | 1998 | 1,307,578 | -10 | 94 | -37 | 1,307,625 |
| | 1999 | | 2,543,804 | 560 | -223 | 2,544,141 |
| | 2000 | | 2,542,349 | 2,341 | -165 | 2,544,525 |
| | 2001 | | | 2,156,282 | 266 | 2,156,548 |
| | TOTAL FY | 1,307,578 | 5,086,143 | 2,159,277 | -159 | |
| Sorghum | 1998 | 141,532 | -7 | -36 | -2 | 141,487 |
| | 1999 | | 276,556 | 40 | -19 | 276,577 |
| | 2000 | | 275,659 | 289 | 46 | 275,994 |
| | 2001 | | | 235,795 | -5 | 235,790 |
| | TOTAL | 141,532 | 552,208 | 236,088 | 20 | |
| Barley | 1998 | 59,089 | 1 | 1 | 0 | 59,091 |
| | 1999 | | 114,672 | 18 | -12 | 114,678 |
| | 2000 | | 113,740 | 206 | -14 | 113,932 |
| | 2001 | | | 97,260 | 40 | 97,300 |
| | TOTAL | 59,089 | 228,413 | 97,485 | 14 | |
| Oats | 1998 | 4,236 | 0 | 1 | 0 | 4,237 |
| | 1999 | | 8,407 | 3 | -1 | 8,409 |
| | 2000 | | 8,305 | 8 | 0 | 8,313 |
| | 2001 | | | 6,881 | 0 | 6,881 |
| | TOTAL | 4,236 | 16,712 | 6,893 | -1 | |
| Total Feed Grains | | 1,512,435 | 5,883,476 | 2,499,743 | -126 | |
| Wheat | 1998 | 744,677 | 39 | -10 | -13 | 744,693 |
| | 1999 | | 1,445,038 | 399 | -311 | 1,445,126 |
| | 2000 | | 1,442,770 | 1,969 | -295 | 1,444,444 |
| | 2001 | | | 1,223,166 | 204 | 1,223,370 |
| | TOTAL | 744,677 | 2,887,847 | 1,225,524 | -415 | |
| Rice | 1998 | 237,960 | 0 | 25 | -61 | 237,924 |
| | 1999 | | 464,544 | 142 | -214 | 464,472 |
| | 2000 | | 463,263 | 517 | -10 | 463,770 |
| | 2001 | | | 397,531 | 108 | 397,639 |
| | TOTAL | 237,960 | 927,807 | 398,215 | -177 | |
| Upland Cotton | 1998 | 316,229 | -17 | -42 | -16 | 316,186 |
| | 1999 | | 613,251 | 236 | -140 | 613,347 |
| | 2000 | | 611,746 | 1,054 | -75 | 612,725 |
| | 2001 | | | 523,641 | 183 | 523,824 |
| | TOTAL | 316,229 | 1,224,980 | 524,889 | -16 | |
| Dairy | 1998 | 200,012 | 0 | 0 | 0 | 200,012 |
| | 1999 | | 44 | -36 | -2 | 6 |
| | 2000 | | 122,507 | 307 | -5 | 122,809 |
| | 2001 | | | 672,274 | -370 | 671,904 |
| | TOTAL | 200,012 | 122,551 | 672,545 | -377 | |
| TOTAL ALL COMMODITIES | | 3,011,313 | 11,046,661 | 5,320,916 | -1,111 | |

USDA is reporting market loss assistance payments on a product-by-product basis...

But product-specific payments cannot be “De Minimis”