

# Domestic Support and the WTO

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*Modeling US and EU Policy:  
Focus on Decoupled Payments*  
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# Outline

- Classifying domestic support
- Treatment of decoupled payments under the UR Agreement on Agriculture
- Treatment under the Framework Agreement of July 31
- WTO dispute settlement: US cotton subsidies
- Issues

# Classifying support

	Based on production?	
Based on price?	Yes	No
Yes	Marketing loans Price supports Revenue insurance	CCP MLA
No	Crop insurance Deficiency payments Compensatory payments Diversion payments	Direct payments (US and EU) 0-50/92 payments

# Classifying support under the URAA

	Based on production?	
Based on price?	Yes	No
Yes	Marketing loans Price supports Revenue insurance	CCP MLA
No	Crop insurance Deficiency payments Compensatory payments Diversion payments	Direct payments 0-50/92 payments (?)

# Classifying support under the July Framework Agreement

	Based on production?	
Based on price?	Yes	No
Yes	Marketing loans Price supports Revenue insurance	CCP MLA
No	Crop insurance Deficiency payments Compensatory payments Diversion payments	Direct payments 0-50/92 payments

# Non-product specific payments

- EU direct / compensatory payments
- US direct payments (PFC/DP)
- Market loss assistance payments
- Counter-cyclical payments

# US--subsidies on upland cotton

- Brazil:
  - All US cotton subsidies contribute to price suppression (marketing loans, step 2, PFC, DP, MLA, CCP, crop insurance)
- US:
  - Cotton subsidies tied to actual production are potentially distorting (marketing loans, Step 2) but distortion depends on price levels
  - Subsidies that do not require production are minimally distorting (PFC, DP, MLA, CCP)
  - Crop insurance subsidies are general and minimally distorting

# Panel decision

- Makes distinction between price-based and non-price based policies
- Price-based policies (marketing loans, Step 2, MLA, CCP) contribute to price suppression
- Non-price based policies (PFC, DP, crop insurance) do not contribute to price suppression



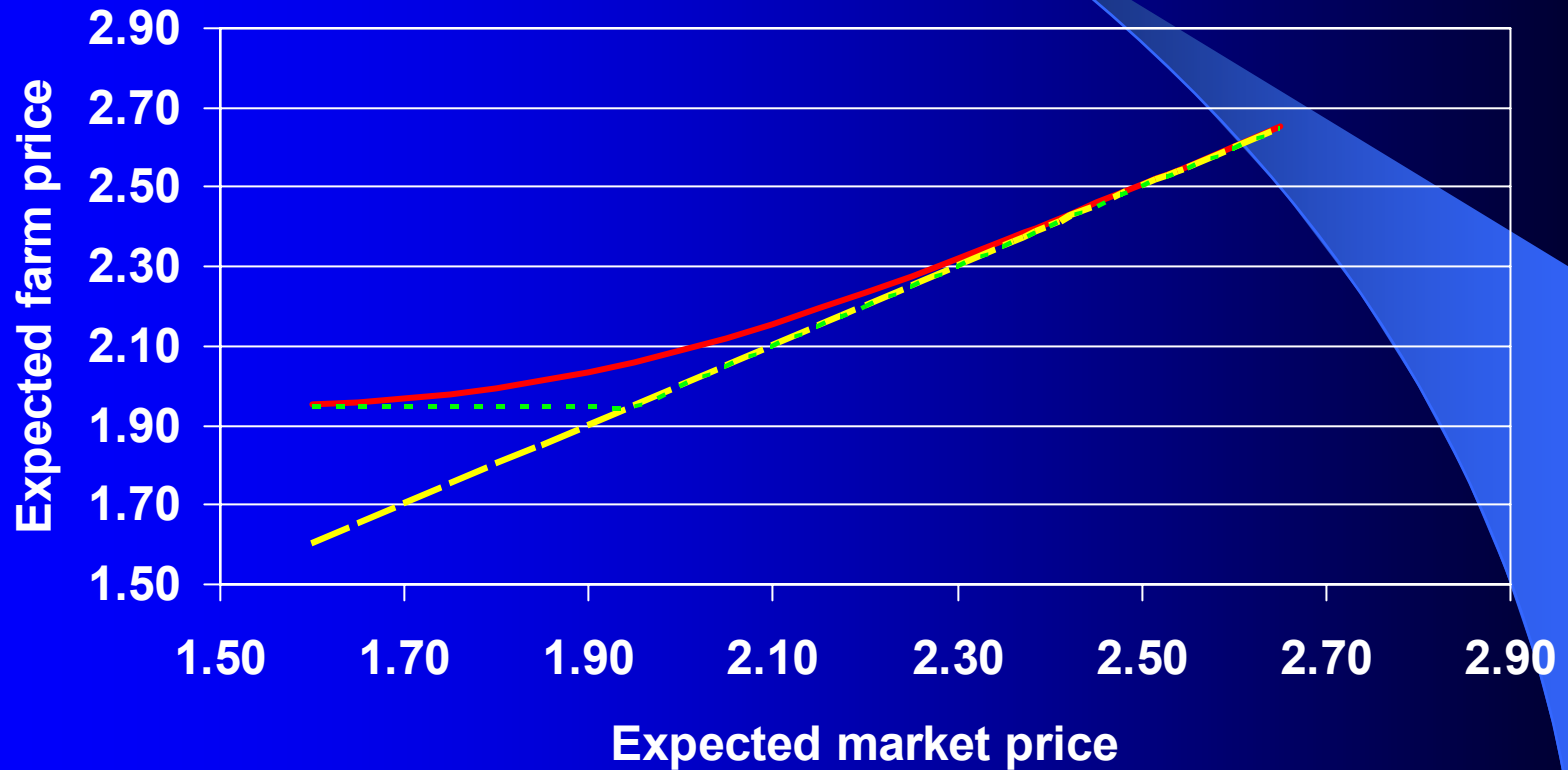
# Issues

- Payments that are linked to same payment base:
  - *Are CCP more green or DP more amber as a result?*
- Restrictions on planting other crops (e.g., fruits and vegetables)
  - Effects of increasing crop bases relative to non-crop base

# Measurement issues

- Variable payments
  - Crop insurance
  - Countercyclical payments
  - Marketing loans
- Ex post measures
  - easy to calculate, but value often dependent on exogenous factors—over or understate effect
- Ex ante measures
  - Captures effects on production, but measurement is difficult/controversial (e.g., options valuation)

# Option valuation



# Conclusions

- Economic effects of subsidies and their legal treatment under WTO largely parallel one another, but new measures challenge old classification
- New disciplines have mirrored changes in support
- Challenge is to understand how new support measures affect production