Oxfam Briefing Note

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Square pegs in round holes:
How the Farm Bill squanders chances for a pro-development trade deal

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When trade ministers from 35 countries gather in Geneva at the World Trade Organization [WTO] for what is being billed yet again as a last-ditch attempt to forge a Doha trade deal, they will be forced to meet an unwelcome guest: the 2008 US Farm Bill. With a host of newly bolstered subsidies that will hurt farmers in developing countries, as well as higher farm payment rates, squeezing the new Farm Bill into the 'boxes' defined under existing WTO obligations will be a remarkable trick. That speaks poorly about the willingness of the US to accept new disciplines on agricultural subsidies, and demonstrates that the US Congress is unwilling – thus far – to take the necessary steps for a new trade agreement that would prioritize development.

Current proposals to liberalize trade in agriculture and other goods and services without sufficient safeguards will reduce the ability of developing countries to weather shocks like the current food price crisis, especially if rich countries make only cosmetic reforms to their farm subsidies. Rushing into a deal that restores political reputations and accommodates vested interests will not help promote development or offer a solution to the food price crisis. US trade negotiators arrive in Geneva burdened with explaining the contradiction between the stated goal of an 'ambitious' Doha Round and the reality of increased protectionism and trade-distorting subsidies.

History repeats itself

A mere six months after the Doha Development Agenda was launched in November 2001, the US Congress enacted a new Farm Bill that dramatically increased farm subsidies and contradicted the Doha mandate: 'we commit ourselves to comprehensive negotiations aimed at … reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.'

The 2002 Farm Bill landed with a thud in the middle of the negotiations and highlighted the contradiction of US negotiators pressing for aggressive trade liberalization among trading partners while the USA was unwilling to liberalize its own agricultural tariff and subsidy regime, and deadlock ensued. The 2008 Farm Bill is only likely to cement the deadlock.

Unfortunately, poor people in developing countries attempting to pull themselves out of poverty through trade are the victims of this deadlock. The Doha Round was launched with the explicit purpose of helping developing countries. The Doha Declaration states: 'The majority of WTO Members are developing countries. We seek to place their needs and interests at the heart of the Work Programme. …' Delivering on this promise could make a difference to people living in poverty. Developing countries must be given flexibility and tools to foster development, rather than harsh market liberalization that risks destabilizing food security and rural livelihoods. For decades, unfair trade rules have systematically undermined the productive capacity and regulatory institutions of poor countries, as developed countries dumped massively subsidized commodities on international markets. The Doha Declaration recognizes the different situations and capacities of countries by endorsing 'special and differential' treatment for developing countries.

Unfortunately, current negotiating texts do not adequately accommodate the needs of developing countries, while offering generous 'special and differential' treatment for rich countries. In particular, special concessions are given to the US – and the US alone – for calculating trade-distorting agricultural subsidies, offering the USA wider margins for trade-distorting domestic support than other countries. With these kinds of exceptions riddling the texts, a deal could actually be a step backward for many developing countries.

While the European Union [EU] Common Agriculture Policy [CAP] underwent reforms in 2003, they may already be out of date. Proposed new rules will require future spending cuts but may not demand enough structural reforms to end dumping.

Rich countries need to take the first steps to demonstrate that a pro-development deal is possible and will benefit developing countries. Unfortunately, the US Congress has undermined the Doha Round at a critical point with its trade-distorting Farm Bill. It would take a major act of courage and decision to set the negotiations back on course.

The bloated Farm Bill saunters on to Geneva

'I think more fundamentally even, this Farm Bill just heads in the wrong direction in terms of our international obligations. It's no secret our current farm programs under current law have come under enormous fire for their adverse impact on developing regions of the world and their ability to increase their agricultural production because they can't compete against the farm subsidies of the developed world. How does this bill respond? This bill responds by increasing trade-distorting supports on 17 out of 25 of the commodities that we provide. This is moving, clearly, in the wrong direction in terms of helping the world sustain themselves through food production.' Deputy US Agriculture Secretary Charles F. Conner[1]

'I want to write a Farm Bill that's good for agriculture. If somebody wants to sue us, we've got a lot of lawyers in Washington.' Representative Collin C. Peterson, Chair of the Agriculture Committee of the US House of Representatives[2]

Not only does the 2008 Farm Bill contradict existing obligations at the WTO, it also defies the objectives of the Doha Development Agenda by maintaining, and in many cases increasing, trade-distorting agricultural subsidies and market protections in the USA.

Box 1: What is the Farm Bill?

The Farm Bill is a sweeping law renewed every five years that governs US farm, food, and conservation policy. The legislation supports domestic poverty and nutrition programs, public agricultural research, agricultural trade, investments in food safety, economic development in rural areas, international food aid, and agricultural subsidies. A majority of the funding in the Farm Bill is allocated to domestic poverty and nutrition programs. About one-third of the funding goes to farm subsidies. However, only one-quarter of US farmers receive commodity subsidies. Of these, the top 10 percent receive 75 percent of payments.

New Farm Bill increases subsidy rates

Although US farmers are enjoying very high prices and record farm income – an average of $89,000 per farm[3] – the US Congress actually expanded government farm subsidies in the 2008 Farm Bill. The 2008 Farm Bill maintains the structure of the 2002 Farm Bill, with three main forms of farm payments: direct payments, counter-cyclical payments [CCPs], and marketing loans. (See Annex 1.)

While maintaining this structure, the Congress increased payment rates for many commodities by raising the prices at which payments are made. For the most trade-distorting payments – loan-deficiency payments – Congress raised trigger prices for wheat, barley, oats, oilseeds, and graded wool.

For CCPs, Congress raised target prices for wheat, soybeans, sorghum, barley, oats, and oilseeds. In addition, Congress added new commodities to the subsidy list: dry peas, lentils, and large and small chickpeas.

Table 1:
Target Prices Increase for Most Crops

	2004-07	2010-12
Wheat	$3.92/bu	$4.17/bu
Corn	$2.63/bu	$2.63/bu
Sorghum	$2.57/bu	$2.63/bu
Barley	$2.24/bu	$2.63/bu
Oats	$1.44/bu	$1.79/bu
Cotton	$0.724/lb	$0.7125/lb
Rice	$10.50/cwt	$10.50/cwt
Soybeans	$5.80/bu	$6.00/bu
Oilseeds	$0.101/lb	$0.1268/lb
Peanuts	$495/ton	$495/ton
Dry Peas	n/a	$8.32/cwt
Lentils	n/a	$12.81/cwt
Sm. Chick.	n/a	$10.36/cwt
Lg. Chick.	n/a	$12.81/cwt

Actual US agricultural subsidy payments are currently low because of high commodity prices. (See Annex 2.) Most US subsidy payments are price-dependent: high when prices are low and lower when prices are high. But the laws are what matter, and the new Farm Bill will mean that US farm subsidies will skyrocket if commodity prices fall for any reason, as they did in 2003 when total payments exceeded $25 billion in trade-distorting support.[4] For example, in the 2002 Farm Bill, if prices for commodities fell, CCPs could be as high as $5 billion. But Oxfam calculates that if crop prices drop in the future, the full CCPs for the five major crops – corn, wheat, soybeans, rice, and cotton – would rise to $7.6 billion under the 2008 Farm Bill.[5]

In addition to increasing payment rates for the existing trade-distorting subsidies, the 2008 Farm Bill creates completely new trade-distorting subsidy programs: a ‘permanent disaster fund’ and the Average Crop Revenue Election [ACRE] program. In addition, the 2008 Farm Bill expands US dairy and sugar programs, although the Farm Bill reconfigures the US dairy program to reduce the subsidy’s costs under WTO definitions.

Food aid: a missed opportunity

In the middle of a global food price crisis, which has increased both the cost of humanitarian food aid and the global demand for assistance, Congress did little to improve or reform the outdated US food aid system. While Congress removed the explicit mention of market development as a goal for US food aid, it did very little to assure that food aid does not cause commercial displacement or depress local food markets. The Farm Bill does nothing to restrict or reduce 'monetization', the selling of food aid on local markets to generate cash – a very wasteful practice that can displace commercial food sellers in developing countries.

The Farm Bill will continue to 'tie' food aid by requiring that the overwhelming majority of US food aid be purchased from US sources and shipped on US vessels. Tying food aid in this way greatly increases the costs and delays the delivery of urgently needed assistance. President Bush had proposed to 'untie' up to one-quarter of US food aid so that food could be purchased on local or regional markets, reducing travel distances and speeding delivery. Instead, Congress only approved a small pilot project for local and regional procurement.

Box 2: Reasons why the 2008 Farm Bill is trade-distorting

1. Raises target prices for CCPs.
2. Raises marketing loan rates for loan deficiency payments.
3. Creates new countercyclical and marketing loan programs for pulses, oilseeds, and chickpeas.
4. Maintains planting restrictions on 'decoupled' payments (direct payments).
5. Removes payment limits on marketing loans.
6. Creates a new permanent disaster fund.
7. Reinstates a part of the illegal Step 2 program for cotton.
8. Creates new dairy support measures.
9. Increases the loan rates for sugar.

Squeezing support into the boxes

The current Doha draft agriculture modalities text on domestic support proposes a cut in overall trade-distorting support [OTDS] of 66 to 73 percent, including a cut of 60 percent to the Amber Box, the most trade-distorting subsidies. This would reduce permissible US Amber Box subsidies from $19.1 billion to $7.6 billion annually. This is a significant cut in permissible subsidies, but only high commodity prices resulting in low subsidy payments make it possible for the US to squeeze its current subsidy programs into this box. Fitting US trade-distorting subsidies into the Amber Box will also require some creative accounting and probably a large amount of 'box shifting' to stay within proposed new limits.

Direct payments losing ground in the Green Box

The US currently notifies direct payments as Green Box subsidies because they are decoupled from prices and production. Direct payments for all commodities total more than $5 billion each year. However, the US classification of direct payments is subject to dispute. The appellate ruling in the Brazil cotton case found that the US direct-payment program exceeds the parameters for Green Box support because payment eligibility requires a producer to grow or have previously grown a specified commodity and denies payments to farmers who grow fruits, vegetables, and wild rice.

The instructions handed down from the Brazil case were simple: reclassify or reform. The USA has done neither. If a Doha deal is reached, direct payments will have to be classified as Amber Box or possibly as Blue Box payments. This may push the USA over its limits under new rules in a Doha agreement.

Counter-cyclicals stay afloat in the revised Blue Box

The USA does not currently use Blue Box subsidies. The draft negotiating text revises the Blue Box definition to include payments that 'do not require production' in addition to those that 'limit production.' This revision has been a strategy by the USA to make space for its CCPs.

Since the 2002 Farm Bill was enacted, the USA classified CCPs as non-product-specific support [NPS]. This reporting gimmick puts CCPs under the 'de minimis' clause.[6] But this is a highly debatable classification, given that CCP payments are tied to production of specific commodities and are therefore product-specific [PS]. And rather than being minimal, they are a substantial part of expenditures.

The latest negotiating text places an overall limit on the Blue Box at 2.5 percent of the total average value of agricultural production from 1995 to 2000. For the US, this would cap total Blue Box subsidies at about $4.5 billion annually. PS support is limited to the average value of support for a particular product over the 1995–2000 period for all Members. An exception is made for the US, setting its limit somewhere between 110 and 120 percent of the possible legislated maximum CCP under the 2002 Farm Bill. Blue Box support for cotton must be one-third of the limits set for all other commodities. Given projected high crop prices, these proposed disciplines may squeeze out some of the 'water', or space between limits and actual expenditures, but will not cut current CCP spending, even for cotton.

Box 3:

WTO subsidy classification system, Uruguay Round

Green Box: non- or minimally trade-distorting

Blue Box: trade-distorting but production limiting

Amber Box: trade-distorting and subject to limits and cuts

De minimis: trade-distorting but below a small percentage of total production

New Farm Bill subsidies sink the Amber Box

With a current ceiling of $19.1 billion, the USA faces little constraint on Amber Box payments – although Brazil and Canada have each launched WTO disputes claiming the USA has violated the spending limits. But a Doha agreement that lowered the Amber Box limit to $7.6 billion would create pressure on the US programs. Dairy expenditures are roughly $5 billion annually at the WTO – making up roughly 75 percent of US Amber Box support. Sugar figures around $1 billion. Raising the loan rates for sugar in the 2008 Farm Bill will increase US sugar support by nearly $400 million annually.

The 2008 Farm Bill creates a new permanent disaster fund and a new revenue-insurance program (ACRE), both of which should count as Amber Box subsidies. Each of these new programs could be very costly. The permanent disaster fund is budgeted for $3.8 billion over the next five years. The US Department of Agriculture estimates that ACRE payments alone could reach as high as $16 billion a year if corn prices were to drop back to $3.25 a bushel and most corn farmers were to participate in the program. High ACRE payments are very likely if adverse weather impacts, such as the recent floods in the USA, persist. While corn prices are projected to remain high for the next decade, this program pays out on individual farmers' losses. In other words, yield losses could equal big payments even if prices stay high.

The USA may attempt to claim these new programs as de minimis support rather than Amber Box. However, the current Doha draft negotiating text would lower the de minimis threshold for the USA from about $10 billion to $5 billion or less. So both the de minimis category and the Amber Box could be very crowded – especially if prices decline or the US experiences serious production problems.

Cotton: Failing the litmus test

Cotton has become a symbol of the unfairness of the global trading system and emblematic of developing countries' ambition in the Doha Round. Cotton occupies a pivotal role in the livelihoods of tens of millions of poor people as a vital source of income and a key commodity for foreign exchange, investment, and economic growth. In West Africa alone, ten million people depend on cotton for their livelihoods. For these households, the state of the world's cotton economy has a critical bearing on their ability to put food on the table, educate their children, and sustain their health.

Farm Bill sustains cotton subsidies

Under the 2008 Farm Bill, US cotton producers will harvest about $1 billion annually in subsidies over the next five years.

Table 2: US cotton subsidies*

	2007	2008	2009	2010	2011	2012
DP	464	611	611	611	611	611
CCP	1,281	686	588	369	313	373
LDP	105	36	10	3	3	6
MLG	7	6	3	1	1	2
TOTAL	1,841	1,333	1,210	984	927	990

Source: Congressional Budget Office

*DP - direct payment, CCP - counter-cyclical payment, LDP - loan deficiency payment, MLG - marketing loan gain

Unfortunately, the 2008 Farm Bill fails to make structural reforms to US cotton programs. The two significant changes to the cotton program in the 2008 Farm Bill are a small reduction in the target price for CCPs – by $0.0115 per pound – and a reintroduction of the Step 2 program for domestic cotton mills. The latter is a subsidy program for millers and exporters of US cotton eliminated by Congress in 2006 after the WTO appellate body ruled it a prohibited subsidy in the Brazil cotton case. The 'new' Step 2 program will cost about $80 million annually.

In the 2008 Farm Bill, Congress sought to make the Step 2 program WTO-compliant by specifying that the consumer subsidy is available 'regardless of origin' rather than applying exclusively to US cotton consumption. However, WTO Members would have a viable claim that this program is still prohibited because the US mill industry uses nearly 100 percent US cotton. As a practical matter, the only beneficiary of this program will be the US cotton industry, constituting a de facto local content subsidy.

Tighter WTO disciplines might not catch cotton

The latest WTO text attempts to live up to the 2004 July Framework to reduce cotton subsidies further and faster than other commodities. However, the USA has shown no willingness to accept such a deal, even though it constitutes only modest reform.

While the current text would prevent payments from reaching exorbitantly high levels like $2.8 billion as notified in 2001 (see Annex 3), it would not even cut into current levels of spending and, as such, would not impact the US cotton industry for the foreseeable future.

A careful analysis of the new Doha text indicates that the USA would be limited to between $517 million and $565 million per year in cotton payments under the new Blue Box definition. Projected counter-cyclical spending on cotton will average just $465 million per year over the life of the 2008 Farm Bill. This means that the current negotiating text will not reduce current or projected trade-distorting cotton subsidies. Likewise, Amber Box constraints are unlikely to bite into US cotton subsidies under the current negotiating text. The proposed formulas would bind cotton spending in the Amber Box at roughly $181 million per year, which is still not low enough to curb current spending.

EU: 2003 CAP reforms don’t pass 2008 tests

While the EU did not just undergo a revision of its farm programs, it isn’t off the hook either. Current proposed WTO texts would require at least some future reforms, but as usual, everything depends on how the EU plays the game. Will the EU be fair or foul to developing countries?

The July 2008 text proposes between a 75 and 85 percent cut to OTDS for the EU, lowering limits between €27.5 billion and €16.5 billion, respectively. The most recent EU WTO notification in 2003–4 records EU OTDS at €56.7 billion, while projected payments in 2006–7 will drop to €30.1 billion. Thus, even a 75 percent cut would force the EU to make some changes.[7] (See Annex 4.)

But as usual, the devil is in the details. Decoupled payments – those that are unrelated to price or production – are considered benign by WTO standards. The 2003 CAP reforms began a process of decoupling most EU farm supports.

By the next time the EU notifies to the WTO, the 2003 CAP reforms will reflect a significant shift from Blue Box to Green Box spending. Blue Box spending is projected to drop from €24.8 billion down to €4 billion, actually creating €2 billion in ‘water’ for the EU based on what’s on the table. Furthermore, spending in the Green Box is projected to expand from €22 billion to €38 billion in 2006.

While the concept of the boxes is to encourage Members to move from more trade-distorting to less trade-distorting forms of support, this implies that the payments in the Green Box are truly decoupled. To date, the EU Single Farm Payment [SFP] still remains under scrutiny, calling the disciplines on the table into question. The SFP has been criticized because, just like the US direct payment, fruit and vegetable growers are ineligible for payments, and some level of production is also required.[8]

So to what extent can the EU really claim to cut spending if what it is really doing is box shifting? The EU, too, must commit to stricter disciplines that make deeper cuts in actual spending levels, not just 'water.' Otherwise the proposed text will be no more than a license to continue dumping and undermining the livelihoods of the poor.

The Farm Bill turns its back on Doha

'There's pressure on us to change the Farm Bill because that's the only way we can get a trade deal. Now, I'm sorry, but I've had enough of these trade deals. And unless we can get something good out of it, I don't give a darn if we get one.' Representative Collin C. Peterson[9]

When the US Congress wrote the Farm Bill, the Doha Round was hardly a consideration. Congress was concerned with the budget, satisfying farm lobbies, and paying for new programs, but not trade or the impact of US farm programs on the poor. As a result, the 2008 Farm Bill maintains and expands trade-distorting subsidies and protectionism.

In order to demonstrate US commitment to a pro-development Doha Round, the USA should:

1. **Take the first step**. The 2008 Farm Bill has created a public relations nightmare for the USA at the upcoming Mini-Ministerial Meeting. The best way to make progress would be to make a new offer to reform US farm programs and cut real spending. This must come first, before demanding concessions from developing countries.
2. **Implement the WTO Brazil cotton case ruling**. The WTO dispute body has ruled repeatedly that US cotton subsidies violate WTO law. Continued refusal to implement the ruling undermines the credibility of the USA and, ultimately, the WTO itself as a forum for resolving trade disputes. The USA must commit to reforming or reclassifying the direct-payment program, reforming and effectively limiting trade-distorting cotton subsidies, repealing the new Step 2 program, and fully reforming US export credit guarantee programs.
3. **Agree to tighter disciplines**. Proposed new disciplines are not tight enough to cut real spending or prevent box shifting. The USA should commit to disciplines that cut actual spending, in particular for cotton. Both the USA and the EU should commit to disciplines that prevent box shifting and end dumping.
4. **Stop demanding harsh reciprocity**. This is the Doha Development Round, not the Doha tit-for-tat round. Rich countries must stop demanding harsh concessions from developing countries in agricultural market access, non-agricultural market access, and services, especially when rich countries are unwilling to make real reforms to their agricultural support programs. Developing countries must retain the right to protect vulnerable livelihoods and promote development and food security.
5. **Reform food aid**. Tighter disciplines are needed on food aid at the WTO. The US food aid program is an obstacle to reform at the WTO. While some minor advances were made in the 2008 Farm Bill to use some funds for local and regional purchases, the USA must go further at the WTO and move to cash food aid except in emergency cases in which there are shortages and in-kind donations from the USA are most appropriate.

Annex 1

2008 Farm Bill programs unraveled

Direct payments are annual fixed payments based on historical production and yields for producers of eligible crops. (Fruit and vegetable producers remain ineligible.) From 2009 to 2011, payments are made on just 83.3 percent instead of the normal 85 percent of base acres. Levels are restored in 2012.

CCPs are based on historical production and yields and make up the difference between the prevailing market price and an established target price. The structure for CCPs remains unchanged, but Congress has increased the target prices for several commodities – wheat, soybeans, sorghum, barley, oats, and oilseeds – and added new ones for dry peas, lentils, and large and small chickpeas.

The **Marketing Loan Program** makes payments based on the difference between the market price and a support price (called the loan rate) and current levels of production. Loan rates for some commodities – wheat, barley, oats, oilseeds, and graded wool – are all increased. Marketing loan benefits are no longer limited.

ACRE, introduced in the 2008 Farm Bill, is an optional revenue insurance program. Payments equal the difference between a state's actual revenue for a specific crop and expected revenue. The guaranteed revenue cannot change more than 10 percent from year to year. Expected revenue is based on a five-year average of yields and a two-year average of national prices. Direct payments and marketing loan benefits are reduced by 20 and 30 percent, and limits are lowered to $32,000 and $72,000, respectively. This program is likely less trade-distorting than other payments, but it does not meet the criteria for existing or the proposed new Green or Blue Boxes and thus must be classified as Amber Box.

The **permanent disaster fund,** also newly created, is intended to provide timely payments to producers in the event of a disaster and bypass the process of requesting ad hoc disaster payments. Producers must participate in the crop insurance program in order to be eligible. Payments vary depending on the value of the crop insurance policy. More expensive policies that cover higher levels of losses will pay out more.

The **sugar program** is a complex system of quotas and tariffs designed to keep the domestic price of sugar high and the cost to the US government at zero. In the 2008 Farm Bill, the loan rate for sugar is increased by a quarter of a cent per year for three years, to 18.75 cents for cane sugar and 24 cents for beet sugar, up from 18 cents and 23.25 cents, respectively.

The **dairy program** consists of several types of price support and direct-payment programs. In the main program, a minimum support price for milk is continued at $9.90 per cwt for milk. In the 2008 Farm Bill, separate price supports are created for cheddar cheese, butter, and nonfat dry milk at $1.13 per lb, $1.05 per lb, and $0.80 per lb, respectively.

Payment limits under the 2008 Farm Bill remain limited at 2002 levels: $40,000 and $65,000 per person for direct payments and CCPs, respectively. These may be doubled for recipients with spouses. All limits on marketing loan programs are eliminated.

Adjusted gross income [AGI] **limits** are tightened from $2.5 million to $750,000 and forbid those with higher incomes from collecting direct payments. Persons with a nonfarm AGI in excess of $500,000 are prohibited from collecting all crop subsidies. For married couples, the limits and benefits are doubled.

Annex 2

Projected US subsidies by crop and program under the 2008 Farm Bill

US$ Millions

Cotton	2008	2009	2010	2011	2012	Total
DP	611	611	611	611	611	3,055
CCP	686	588	369	313	373	2,329
LDP	36	10	3	3	6	58
MLG	6	3	1	1	2	13
TOTAL	**1,333**	**1,210**	**984**	**927**	**990**	**5,444**

Corn	2008	2009	2010	2011	2012	Total
DP	2,095	2,095	2,095	2,095	2,095	10,475
CCP	0	0	2	6	12	20
LDP	0	1	2	4	8	15
MLG	6	3	1	1	2	13
TOTAL	**2,101**	**2,099**	**2,100**	**2,106**	**2,117**	**10,523**

Soybeans	2008	2009	2010	2011	2012	Total
DP	602	602	602	602	602	3,010
CCP	0	0	1	2	3	6
LDP	0	3	7	11	16	37
MLG	0	0	1	1	2	4
TOTAL	**602**	**605**	**611**	**616**	**623**	**3,057**

Wheat	2008	2009	2010	2011	2012	Total
DP	1,118	1,118	1,118	1,118	1,118	5,590
CCP	0	0	1	8	16	25
LDP	0	0	0	1	1	2
MLG	0	0	0	0	0	0
TOTAL	**1,118**	**1,118**	**1,119**	**1,127**	**1,135**	**5,617**

Rice	2008	2009	2010	2011	2012	Total
DP	425	425	425	425	425	2,125
CCP	0	6	13	12	16	47
LDP	10	20	21	22	27	100
MLG	0	14	16	16	20	66
TOTAL	**435**	**465**	**475**	**475**	**488**	**2,338**

Source: Congressional Budget Office March 2008 Baseline
DP - direct payment, CCP - counter-cyclical payment, LDP - loan deficiency paymnet, MLG - marketing loan gain

Annex 3

Calculating limits for cotton in the Amber Box

In the current WTO draft agriculture modalities text, PS coverage in the Amber Box provides specific treatment for the US. Where the limits for PS Amber Box payments are set at the average expenditures from 1995 to 2000 for every other WTO Member, the US limits require a far more complex calculation, undoubtedly to ensure higher limits. Amber Box limits for the USA are calculated by:

1. figuring the average PS support for an individual commodity from 1995 to 2004;
2. taking the average PS support from 1995 to 2004 as a percentage of the total average Aggregate Measure of Support [AMS] – Amber Box subsidies – from 1995 to 2000; and
3. using the percentage derived in step 2 above and applying it to the average PS for the individual commodity over the period from 1995 to 2004 (figure achieved in step 1).

For cotton, the average PS AMS for 1995 to 2004 is $1.1 billion. The average total AMS for the period from 1995 to 2000 is $10.4 billion. The percentage of cotton-specific support of total US PS AMS from 1995 to 2000 equals 11.03 percent. 11.03 percent of average cotton-specific AMS from 1995 to 2004 ($1.1 billion) equals $1.02 billion.

However, there are also further reductions that apply specifically to cotton in order to uphold the 2004 July Framework Agreement and the Hong Kong Ministerial Declaration, which call on support for cotton to be cut further and faster than all other commodities. Below is the formula for calculating cotton AMS limits:

$$\text{Reduction for Cotton} = Rg + \frac{(100 - Rg) * 100}{3 * Rg}$$

The general reduction in AMS is the 60 percent cut to OTDS. When 60 is plugged into the equation (Rg), the resulting cuts to cotton AMS are 82.2 percent. When the 82.2 percent cut is applied to the $1.02 billion limit on PS AMS to cotton, the Amber Box cotton payments are bound at $181.69 million.

Cotton PS Support		US AMS	
1995	0.00	1,995.00	6,213.86
1996	0.00	1,996.00	5,897.66
1997	465.62	1,997.00	6,238.41
1998	934.68	1,998.00	10,391.85
1999	2,353.14	1,999.00	16,862.28
2000	1,049.75	2,000.00	16,802.59
2001	2,810.11	2,001.00	14,413.06
2002	1,186.79	2,002.00	9,637.30
2003	434.91	2,003.00	6,950.03
2004	2,238.42	2,004.00	11,628.92
avg 95-04	**1,147.34**	**avg 95-00**	**10,401.11**

Cotton Specific AMS Limit = 1,020.78
Cotton Reduction of 82.2% = 181.70

Source: US WTO Domestic Support Notifications, in USD millions

Annex 4

EU cuts to OTDS under July 2008 texts

Estimated cuts to EU overall trade-distorting support – 75% reduction (€ billion)						
	AMS	**De minimis**	**Blue**	**Green**	**OTDS**	**Overall Cut**
Uruguay Round ceiling	67.2	22.3	20.9	No ceiling	110.305	75%
Proposed ceiling	20.1	11.1	5.6	No ceiling	27.6	
EU domestic support	25.8	1.9	3.6	36.6	31.3	
Required change	- 5.7	9.2	2	0	- 3.7	

Estimated cuts to EU overall trade-distorting support – 85% reduction (€ billion)						
	AMS	**De minimis**	**Blue**	**Green**	**OTDS**	**Overall Cut**
Uruguay ceiling	67.2	22.3	20.9	No ceiling	110.305	85%
Proposed ceiling	20.148	11.1	5.6	No ceiling	16.5	
EU domestic support	25.8	1.9	3.6	36.6	31.3	
Required change	- 5.7	9.2	2	0	- 14.8	

Source: Oxfam International, based on the International Food Policy Research Institute and International Food and Agricultural Trade Policy Council analysis (June 2008)

Notes

[1] Conference briefing call with reporters on 9 May 2008, transcript from Federal News Service.

[2] Libby Quaid (2007) 'Farm Bill divides lawmakers, President Bush', Associated Press, 14 January.

[3] US Department of Agriculture, Economic Research Service (2008) '2008 Farm Income Forecast', www.ers.usda.gov/Features/FarmIncome (last checked by author 9 July 2008).

[4] Geoffrey S. Becker (2006) 'The "Farm Bill" in Brief', RS22131, Washington, DC: Congressional Research Service.

[5] Note: The Farm Bill raises countercyclical payment rates midway through the term of the Farm Bill. This figure applies for the later years, 2009–12.

[6] If the combined total of all non product specific support notifications does not exceed 5 percent of the value of all agricultural production, roughly $5 billion for the US, then the support is considered de minimus and is not counted against Amber Box limits.

[7] S. Jean, T. Josling, and D. Laborde (2008) 'Implications for the European Union of the May 2008 Draft Agricultural Modalities', Geneva: International Center for Trade and Sustainable Development.

[8] A. Swinbank and R. Tranter (2005) 'Decoupling EU farm support: Does the new single payment scheme fit within the Green Box?' *The Estey Center Journal of International Law and Trade Policy* 6(1): 47–61.

[9] Forrest Laws (2007) 'Peterson: Doha deal had better be good', *Delta Farm Press*, 30 January.

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