The status of the WTO DDA negotiations and the Mediterranean products: Domestic Support

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Domestic Support in the DDA round negotiations

- significance of “real” cuts
- the new modalities draft
- EU and US interests in Domestic Support

Domestic Support and Mediterranean products

- extent of cuts
- timing and impact on policy
Domestic Support in the DDA

- Importance more political than economic
- G-20 and other developing countries have zeroed in on US and EU domestic support
- Cuts have to be substantial and “real”
- Problem is that, in a high price period, support does not cost much in US
- EU however has the policy space for major cuts
Domestic Support in the DDA

• Falconer draft of May 19 has full text on DS with relatively few open decisions
• Both US and EU have “accepted” cuts within the range in the Falconer text (subject to agreement in other areas)
• Ministers will need to strike final deal on cuts
• Some difficulties anticipated “back home” after the Ministerial (US Congress, French)
Domestic Support in the DDA

• New indicator introduced: Overall Trade Distorting Support (AMS plus Blue Box plus 10 percent of VOP)

• Reduced by … depending on level of Base OTDS (1995-2000 average)
  – EU in top tier (75 or 85 percent cut)
  – US in second tier (66 or 73 percent cut)
  – Most countries in third tier (50 or 60 percent cut)
Domestic Support in the DDA

• Final Bound Total AMS to be reduced by … percent depending on URAA bindings
  – EU in top tier (70 percent)
  – US in second tier (60 percent)
  – Most countries in third tier (45 percent)

• Product-specific limits: AMS pegged at average of 1995-2000
Domestic Support in the DDA

- Blue Box definition changed to include payments based on fixed acres and head even if no supply control is in effect.
- Blue Box limited to 2.5 percent of Value of Production in 1995-2000 base period.
- Product-specific Blue Box payments capped at 1995-2000 levels (EU) or function of “legislated maximum permissible expenditure” applied to 2.5 percent VOP (US).
Domestic Support in the DDA

• De Minimis amounts cut by [50][60] percent

• Cotton support has to be reduced by more and in shorter time (C4 proposal still in text)

• Reduction of AMS by 82 (US) or 84 (EU) percent in two years

• Blue Box for cotton one-third of other product limits

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Impact on US

• US started with low support in 1995-1998 period
• Rise in domestic support levels started with “emergency payments” in 1998-2002 and was institutionalized in 2002 Farm Bill
• Position of US is now largely defensive
• 2008 Farm Bill reauthorized main programs and did not move (significantly) towards trade-neutral policies
Figure 1. U.S. Notified Domestic Support (totals)

Source: WTO notifications (after Blandford)
Actual and projected US WTO notifications

Source: WTO notifications and Blandford’s estimates
The support modalities for the US

<table>
<thead>
<tr>
<th></th>
<th>Base $ billion</th>
<th>-60%</th>
<th>-73%</th>
<th>-82%</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTDS</td>
<td>48.2</td>
<td>19.3</td>
<td>13.0</td>
<td></td>
</tr>
<tr>
<td>AMS</td>
<td>19.1</td>
<td>7.64</td>
<td></td>
<td></td>
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<tr>
<td>Cotton AMS</td>
<td>0.80</td>
<td></td>
<td></td>
<td>0.14</td>
</tr>
</tbody>
</table>

Blue Box cap = $4.85 billion

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Consistency of US Domestic Support notifications with new WTO support limits (higher cuts)

Source: own estimates
Impact on US Policy

- US will be “safe” for the life of the 2008 Farm Bill if prices stay firm
- Most “water” squeezed out so that limits are binding by that time
- By 2013 (next Farm Bill) further reform will be needed
- Cosmetic changes to administered prices for milk could also keep AMS down
- Blue box constraints could be a problem for US
Domestic Support and the EU

• High levels of EU domestic support have been target of US and other exporters in DDA

• CAP reforms (1992, 1999, 2003 and 2004) have changed the profile of EU domestic programs

• Will the DDA Modalities cap the CAP?
EU Notified Domestic Support, 1995/6 to 2003/4 with Shadow Notifications to 2006/7

- **Billion euro**

- **Percent of total**

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Notifications of Domestic Support, EU, 1995/96 to 2003/04, with Shadow Notifications to 2006/07 and Projections to 2013/14
## The support modalities for the EU

<table>
<thead>
<tr>
<th></th>
<th>Base billion Euro</th>
<th>-75%</th>
<th>-85%</th>
<th>-84%</th>
</tr>
</thead>
<tbody>
<tr>
<td>OTDS</td>
<td>110.3</td>
<td>27.6</td>
<td>16.5</td>
<td></td>
</tr>
<tr>
<td>AMS</td>
<td>67.2</td>
<td>20.1</td>
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<tr>
<td>Cotton AMS</td>
<td>0.80</td>
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<td>0.12</td>
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</tbody>
</table>

**Blue Box cap = 5.57 billion euro**
Consistency of EU Domestic Support notifications with new WTO support limits (higher cuts)
Domestic Support Impact

• CAP will be “safe” until 2012
• “Water” squeezed out so that limits are binding by that time
• By 2013 further reforms will be needed
• 2013 is start of next budget cycle and reforms are on the cards for that reason
• Cosmetic changes to administered prices for fruits and vegetables could also keep AMS down
• Blue box constraints not a problem for EU
Mediterranean Goods

- US has (almost) no AMS for Mediterranean goods
- Product-specific limits not an issue
  - $142.92 limit for tobacco
  - $35.54 limit for Sunflower
- Non-product-specific AMS includes $2 million for CA/NY Tree Assistance program
- Blue Box limit for Sunflower could be set at $8.1 million
**Mediterranean Goods**

- Situation is very different in EU

<table>
<thead>
<tr>
<th>Product</th>
<th>AMS Limit</th>
<th>2003/04 notification</th>
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</thead>
<tbody>
<tr>
<td>Med Products</td>
<td>million euro</td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>463.7</td>
<td>420.7</td>
</tr>
<tr>
<td>Olive oil</td>
<td>1,909.9</td>
<td>2,649.1</td>
</tr>
<tr>
<td>Tobacco</td>
<td>962.4</td>
<td>923.9</td>
</tr>
<tr>
<td>Table grapes</td>
<td>247.1</td>
<td>185.2</td>
</tr>
<tr>
<td>Lemons</td>
<td>359.2</td>
<td>329.4</td>
</tr>
<tr>
<td>Oranges</td>
<td>389.5</td>
<td>329.4</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>3,146.4</td>
<td>1,887.8</td>
</tr>
<tr>
<td>Tomatoes for processing</td>
<td>340.5</td>
<td>315.9</td>
</tr>
<tr>
<td>Total above</td>
<td>7,818.7</td>
<td>7,041.4</td>
</tr>
</tbody>
</table>

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Mediterranean Goods

• But none are likely to be binding
• Reform has moved rice, olive oil and tobacco support (largely) to green box
• Processed fruit and vegetable support has also been shifted
• Alternative ways of notifying support for fresh fruit and vegetables would reduce AMS without changing domestic prices
Mediterranean Goods

- Some Blue Box payments in EU

<table>
<thead>
<tr>
<th></th>
<th>Average 1995-2000</th>
<th>Notified 2003/04</th>
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<tbody>
<tr>
<td></td>
<td>million euro</td>
<td></td>
</tr>
<tr>
<td>Durum supplements</td>
<td>1,019.8</td>
<td>1,113.0</td>
</tr>
<tr>
<td>rice payments</td>
<td>59.9</td>
<td>-</td>
</tr>
<tr>
<td>total</td>
<td>1,079.7</td>
<td>1,113.0</td>
</tr>
</tbody>
</table>

Blue Box product-specific limits not likely to be binding
Summary

- Domestic Support reductions will impinge on US at end of 2008 Farm Bill period
- Low prices between now and then would cause some product-specific problems (but not for Specialty Crops)
- “Real” cuts may be elusive (current OTDS is about $11 billion, so a cap of $13 billion will not have an impact)
- The ability to put a lid on US trade-distorting spending is surely appealing to other countries!
Summary

• Domestic Support limits will be binding on EU, at least from 2013
• CAP reform has given EU considerable space in AMS and Blue Box
• Continuation of reform would suggest that this space will not be needed
• EU can therefore effectively “sell” its AMS and Blue Box cushion for market access
Summary

• EU Mediterranean goods have enjoyed AMS support in the past, but reform has shifted most of this support to the green box

• AMS constraints will not be a problem: small changes in notification can cause AMS to fall

• EU will be looking for benefits from GI issues to be able to sell the package at home

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