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# 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)

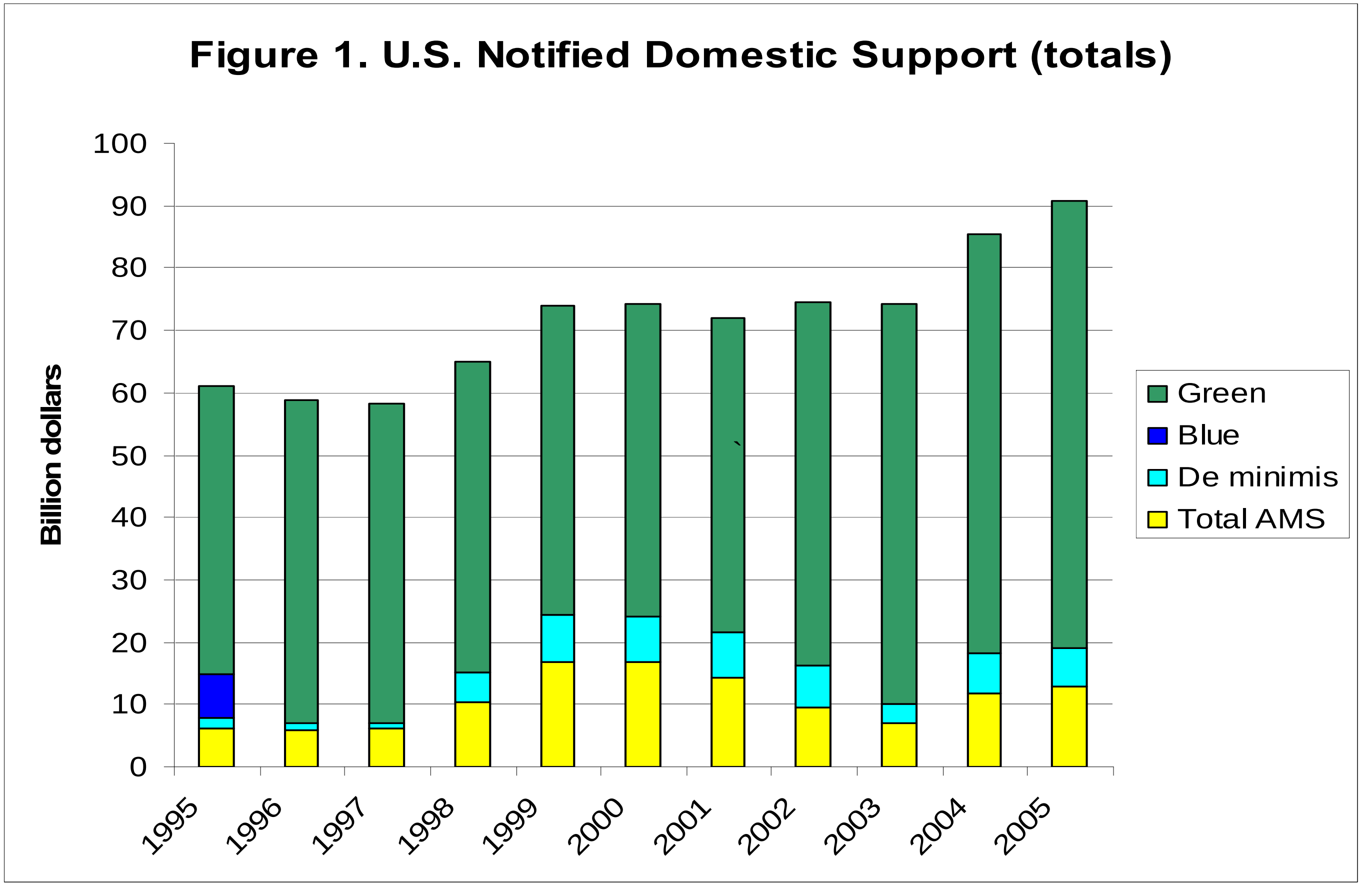
# Domestic Support in the DDA

- 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

# Impact on US

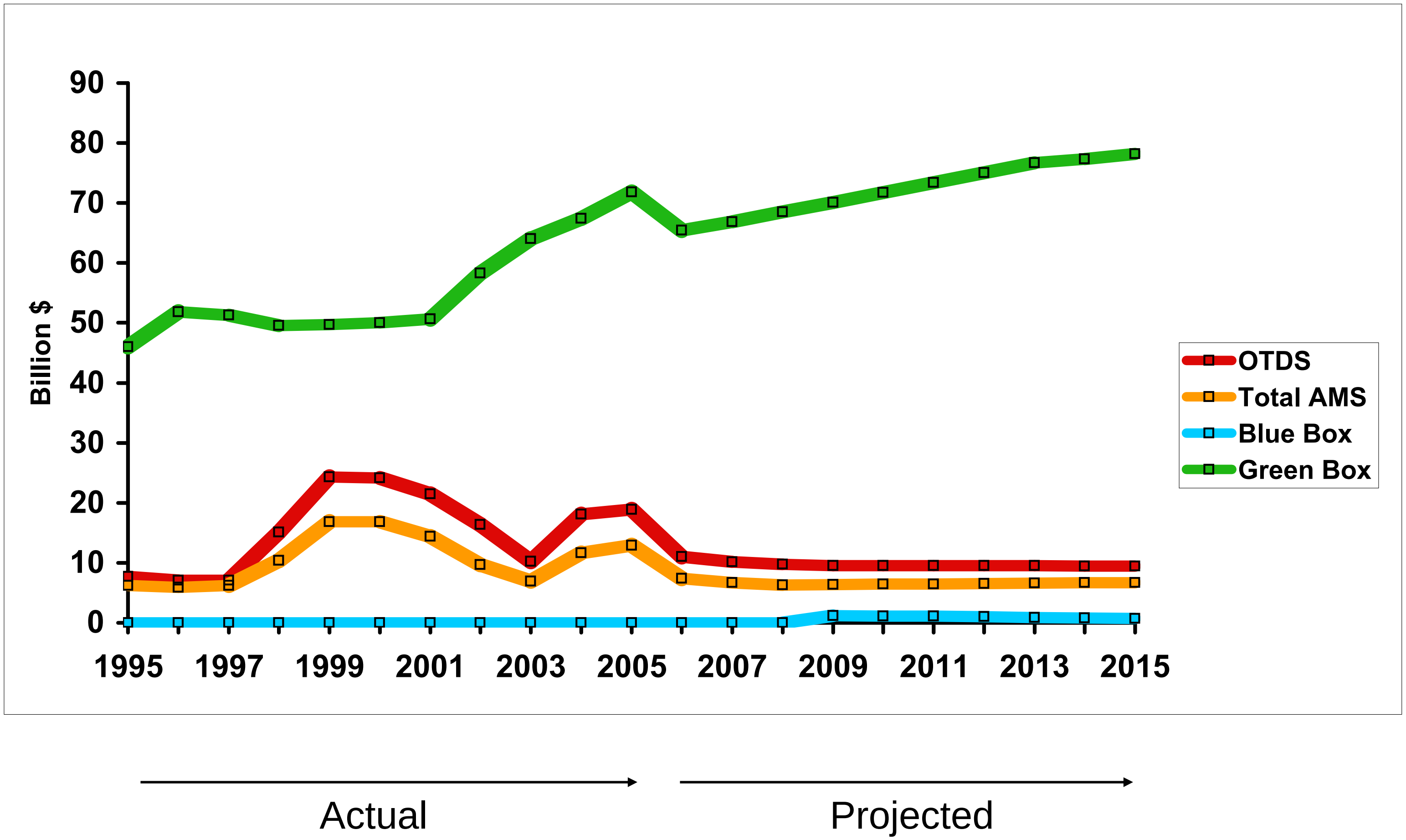
- US started with low support in 1995-1998 period
- Rise in domestic support levels started with “emergency payments” in 1998-2002 and was institutionalized in 2002 Farm Bill
- Position of US is now largely defensive
- 2008 Farm Bill reauthorized main programs and did not move (significantly) towards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

# U.S. notified domestic support




Source: WTO notifications (after Blandford)

# Actual and projected US WTO notifications



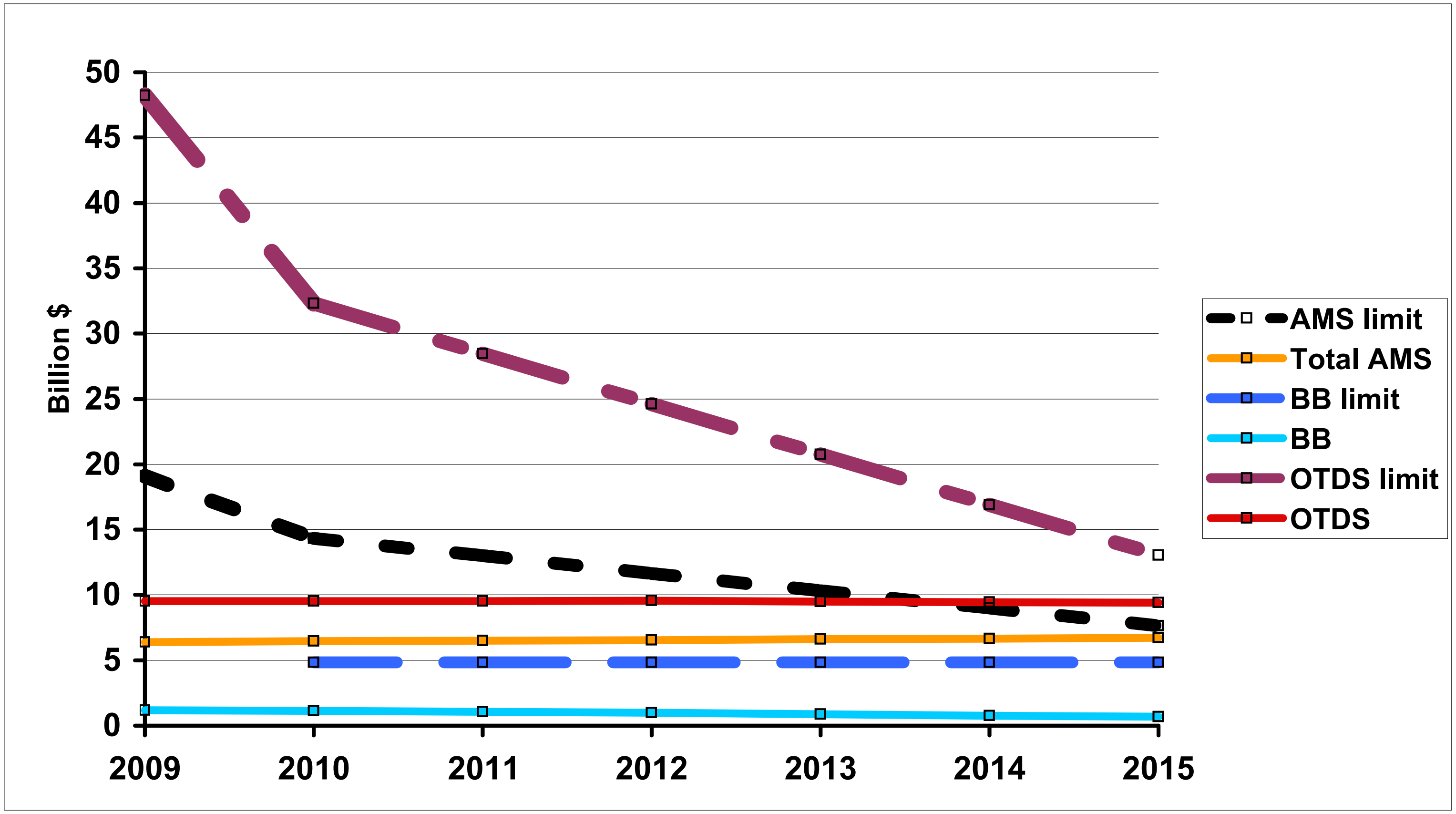

Source: WTO notifications and Blandford's estimates

# The support modalities for the US

| | Base<br>$ billion | -60% | -73% | -82% |
|---|---|---|---|---|
| OTDS | 48.2 | 19.3 | 13.0 | |
| AMS | 19.1 | 7.64 | | |
| Cotton AMS | 0.80 | | | 0.14 |

Blue Box cap = $4.85 billion

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



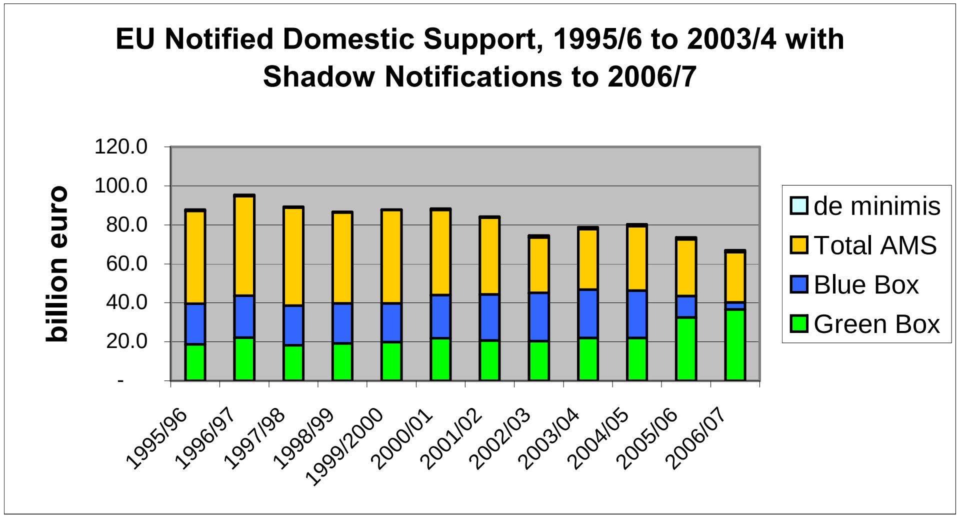

Source: own estimates

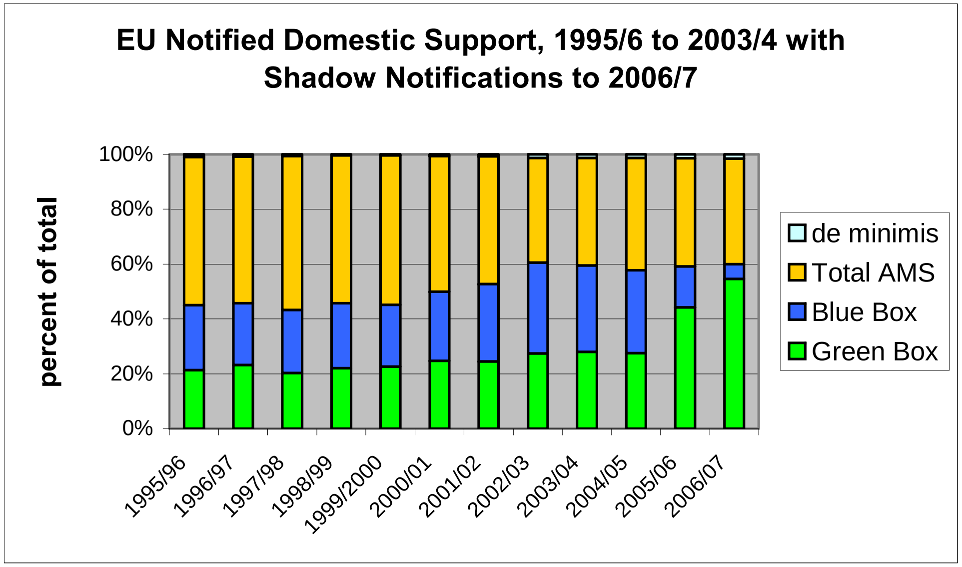
# Impact on US Policy

- 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

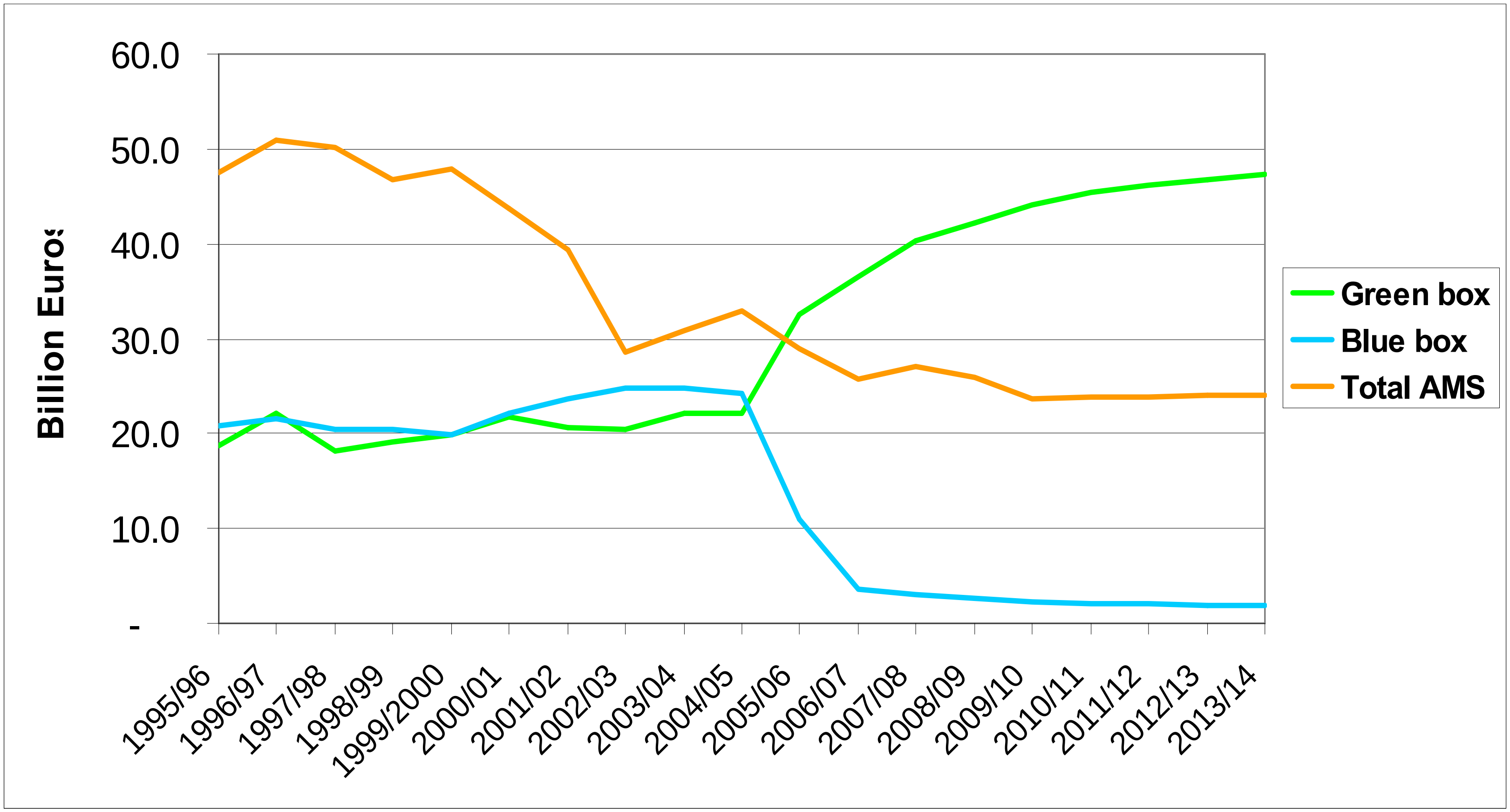
# Domestic Support and the EU

- 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
120.0
100.0
80.0
60.0
40.0
20.0
-
1995/96
1996/97
1997/98
1998/99
1999/2000
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
de minimis
Total AMS
Blue Box
Green Box


EU Notified Domestic Support, 1995/6 to 2003/4 with Shadow Notifications to 2006/7
percent of total
100%
80%
60%
40%
20%
0%
1995/96
1996/97
1997/98
1998/99
1999/2000
2000/01
2001/02
2002/03
2003/04
2004/05
2005/06
2006/07
de minimis
Total AMS
Blue Box
Green Box

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

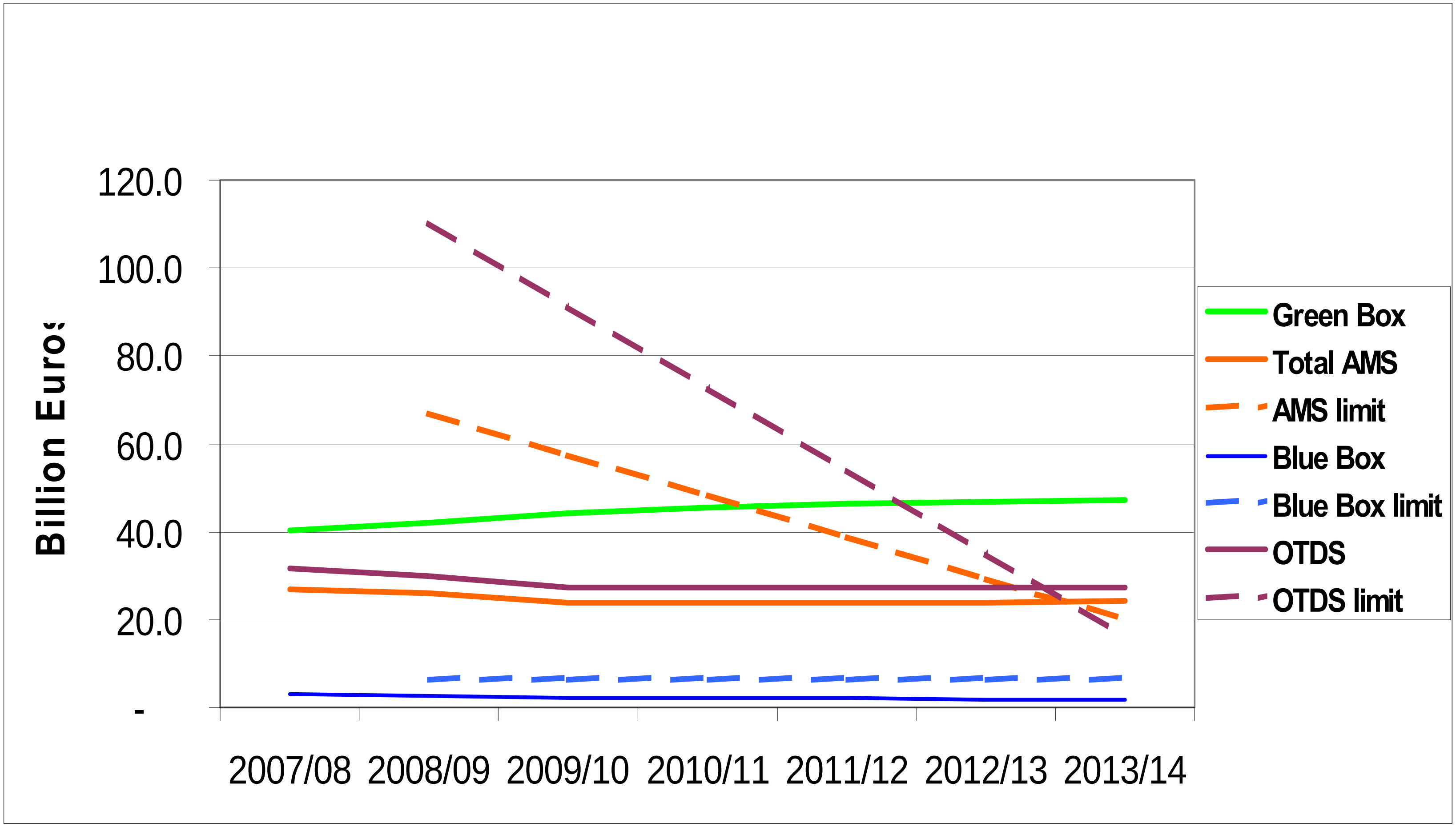


# The support modalities for the EU

| | Base billion Euro | -75% | -85% | -84% |
|---|---|---|---|---|
| OTDS | 110.3 | 27.6 | 16.5 | |
| AMS | 67.2 | 20.1 | | |
| Cotton AMS | 0.80 | | | 0.12 |

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

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

# 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

| | Average 1995-2000 | Notified 2003/04 |
|---|---|---|
| | million euro | |
| Durum supplements | 1,019.8 | 1,113.0 |
| rice payments | 59.9 | - |
| total | 1,079.7 | 1,113.0 |

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