

The Revised Draft Modalities

US export competition and domestic support

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Analysis of the revised draft modalities - coverage

1. Brief review of important issues
2. Brief outline of specific conditions applicable to the United States
3. Broad implications for future U.S. agricultural policies

Contextual issues

1. U.S. supports the elimination of export subsidies and is willing to impose disciplines on export credits and related measures
2. Tighter domestic support disciplines acceptable if significant progress made on market access in other countries
3. Domestic support policy disciplines are highly politically contentious, export competition policies less so (but there are still issues!)
4. Difficulties in reaching agreement on a new Farm Bill are reflective of the complexities

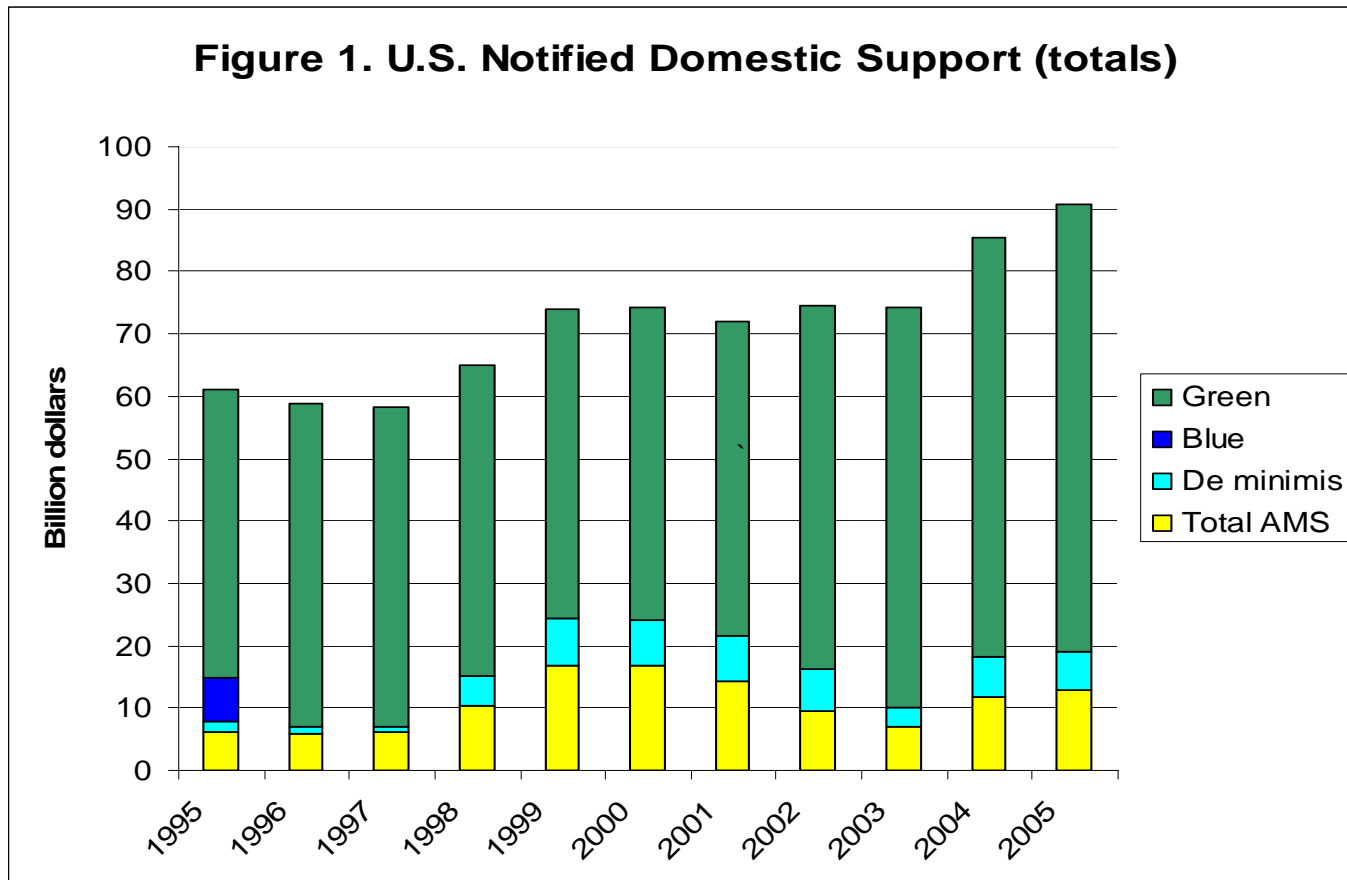
Export competition Programs and proposals

1. Market development – Green Box
2. Export subsidies – Elimination
3. Export credit guarantees – Elimination of intermediate-term credits; move to a “self-financing” basis
4. Food Aid – Move to grant form, limitations on monetization

Export competition Implications

1. Direct export subsidies little used in recent years (EEP, DEIP) or eliminated (Step 2 for cotton) but still have political support
2. Export credit guarantees already in the process of being modified, although more changes may be needed for “self-financing”
3. Food Aid – funding for this still has support but programs are under pressure (high prices); political resistance to reliance on grants could be a threat to future funding

U.S. notified domestic support



Source: WTO notifications

U.S. domestic support

Observations from history

1. Coupling of support to prices means substantial variation in notifications possible from year to year
2. *De minimis* important for keeping within Total AMS binding
3. Green Box status of direct payments important for keeping within Total AMS binding
4. Green Box and non product-specific support (NPS) both increasingly important in notifications

The support modalities

Specific U.S. provisions

1. Special provision for calculation of product-specific (PS) AMS limits
2. Expansion of the Blue Box criteria to include counter-cyclical (price-linked) payments
3. Special provision for the calculation of PS Blue Box limits
4. Larger reduction in the AMS limit for cotton than for other commodities, and an accelerated reduction schedule

The support modalities

A few numbers

	Base \$ 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

The support modalities

Some issues

Product-specific (PS) AMS limits

- 16 of 45 notified commodity categories would have a zero binding
- 7 commodity categories subject to the three-year phase-in of their bindings
- Of these, only dairy and sugar not subject to additional reductions in the binding due to the 130 percent restriction
- Cotton binding superseded by the special reduction provisions

The support modalities

Some issues

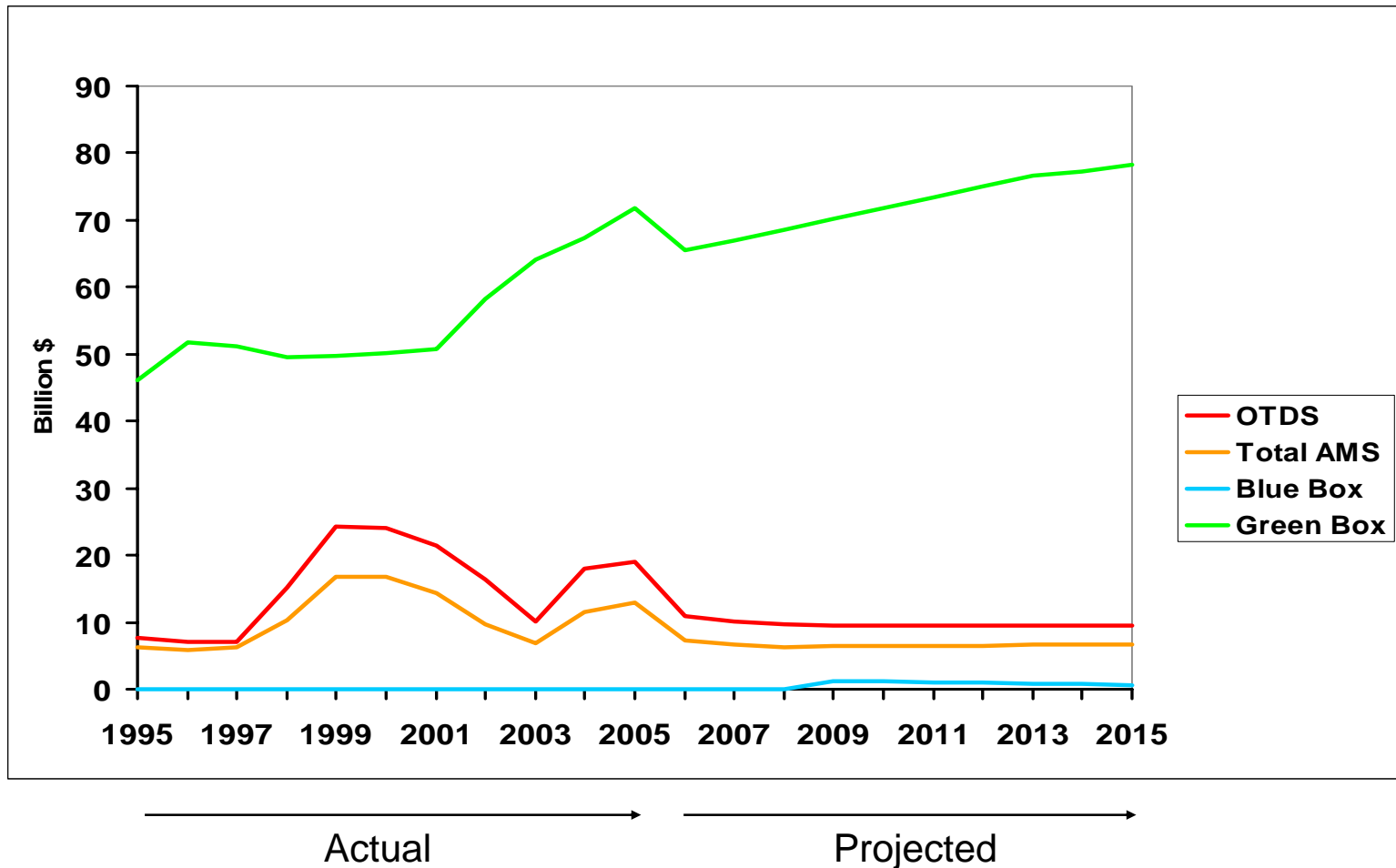
Product-specific Blue Box limits

- 110% and 120% bindings are below legislated maximum CCPs for all CCP commodities
- Box-switching option – shift of PS AMS to PS Blue to provide for legislated maximum not feasible for corn, cotton, sorghum and wheat

Projections of impact of the modalities

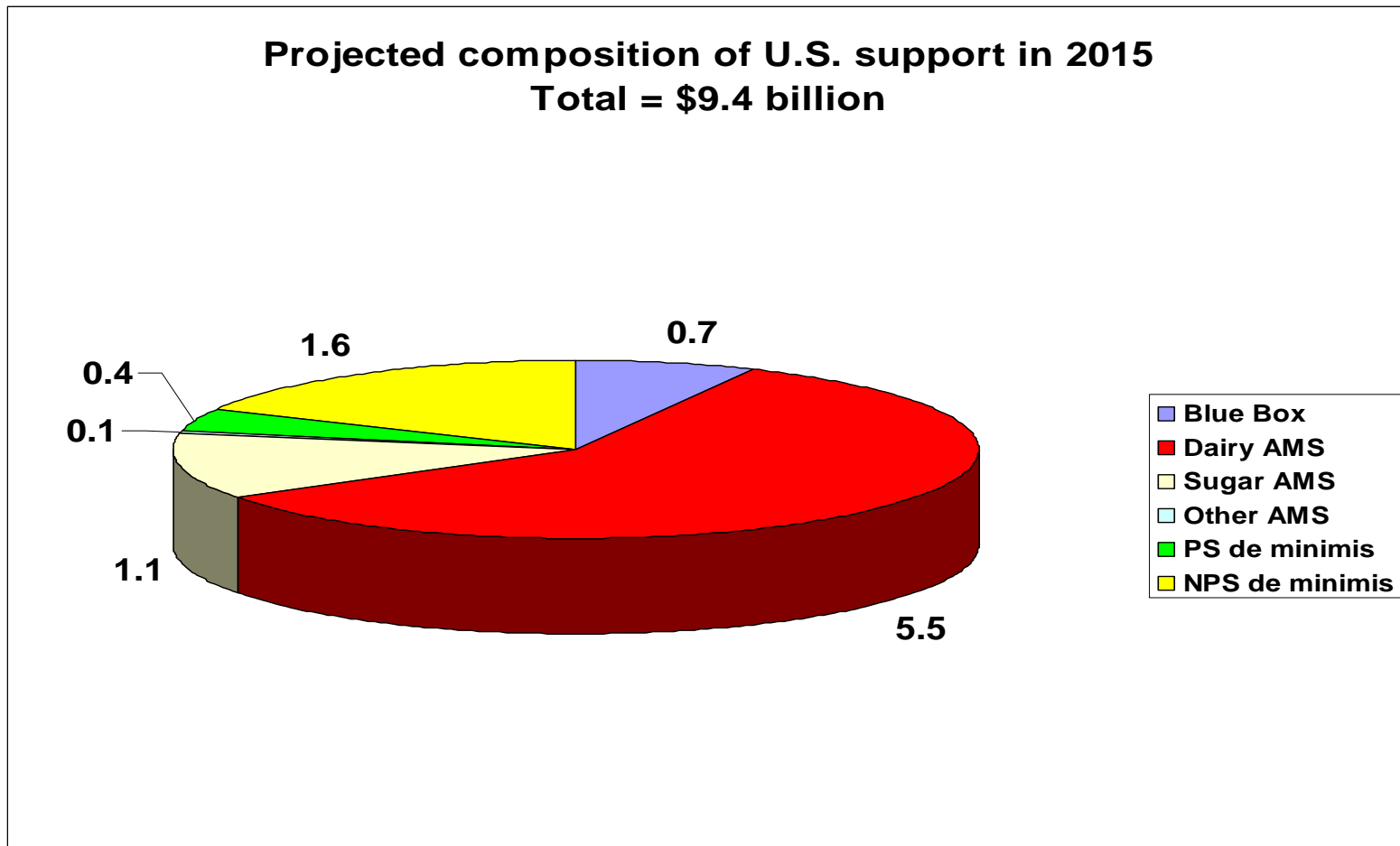
1. Use of the Blandford-Josling domestic support simulator
2. Latest USDA baseline for production and prices except for cotton (prices from Texas Tech study)
3. Program parameters from the House version of the 2008 Farm Bill, but no account taken of possible counter-cyclical revenue payments (i.e., we probably underestimate the NPS AMS)
4. Assume DDA agreement implemented 2010-2015 and that House Farm Bill parameters apply throughout
5. Assume “most restrictive” WTO modalities – greatest reductions and fastest phase-in

Actual and projected WTO notifications

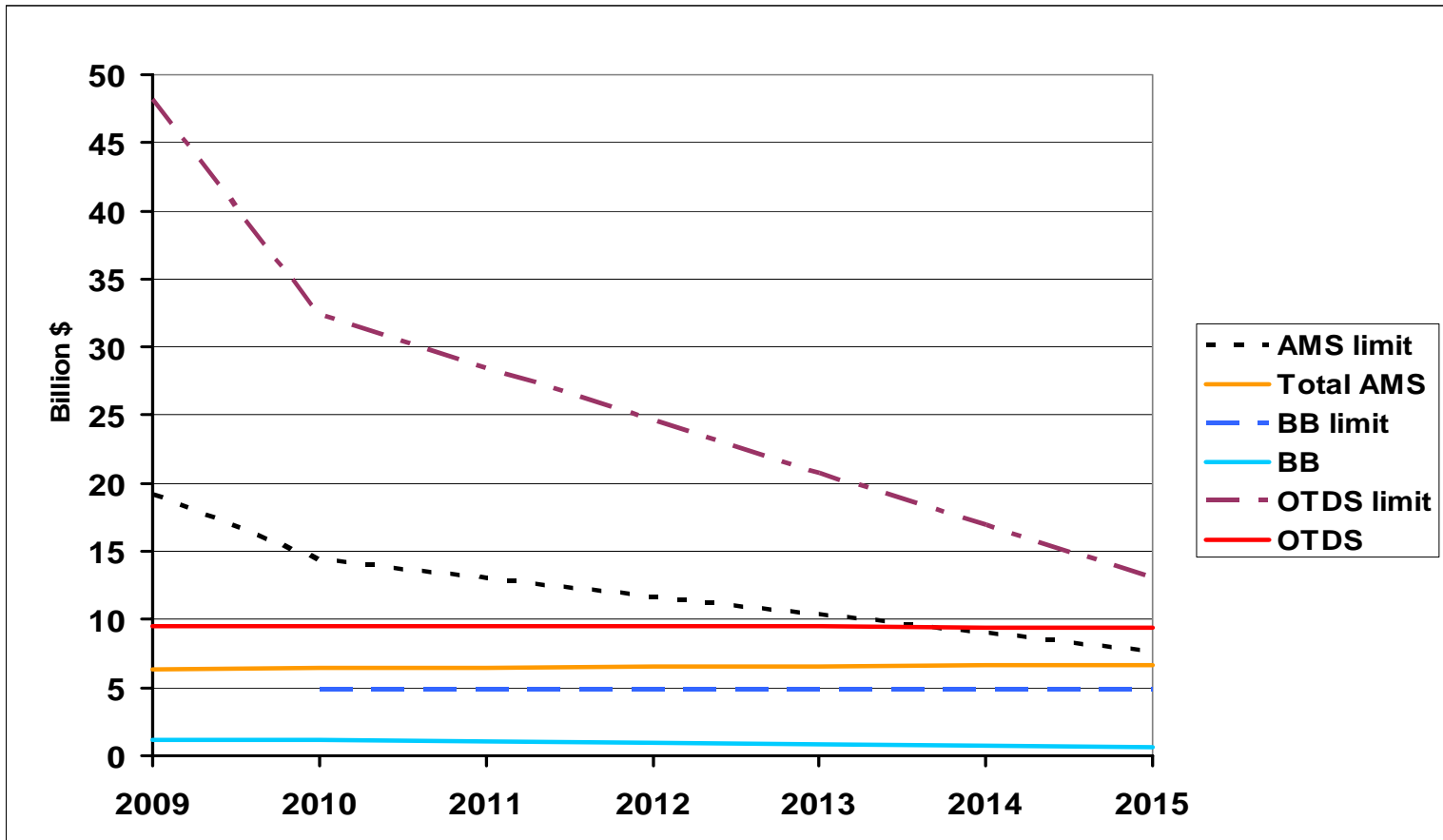


Source: WTO notifications and own estimates

Future composition of support



Impact of new WTO support limits

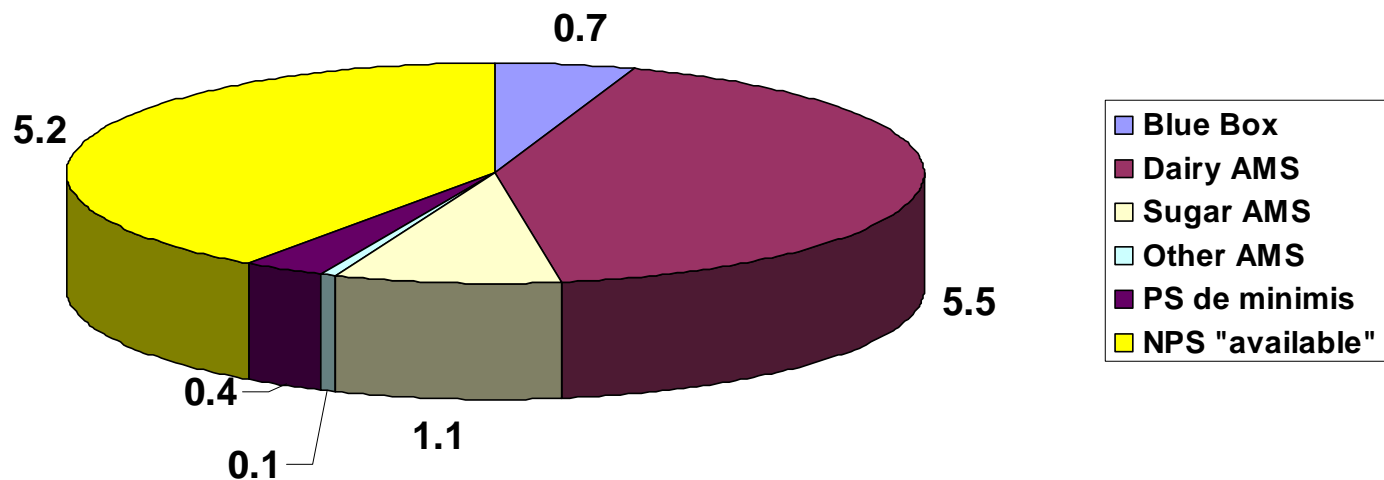


Impact of the support modalities

1. OTDS, Total AMS, and Blue Box limits do not become binding if prices remain high
2. But considerable “water” is squeezed out
3. Product-specific bindings important for dairy and sugar (AMS) and for cotton (Blue)
4. “Policy space” might still exist through shift of support to NPS and, in particular, to the Green Box

Policy space in the OTDS

Figure 5. Projected composition of U.S. support in 2015 and available NPS (billion \$)



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