

The February 2008 Draft Modalities

US domestic support and export competition

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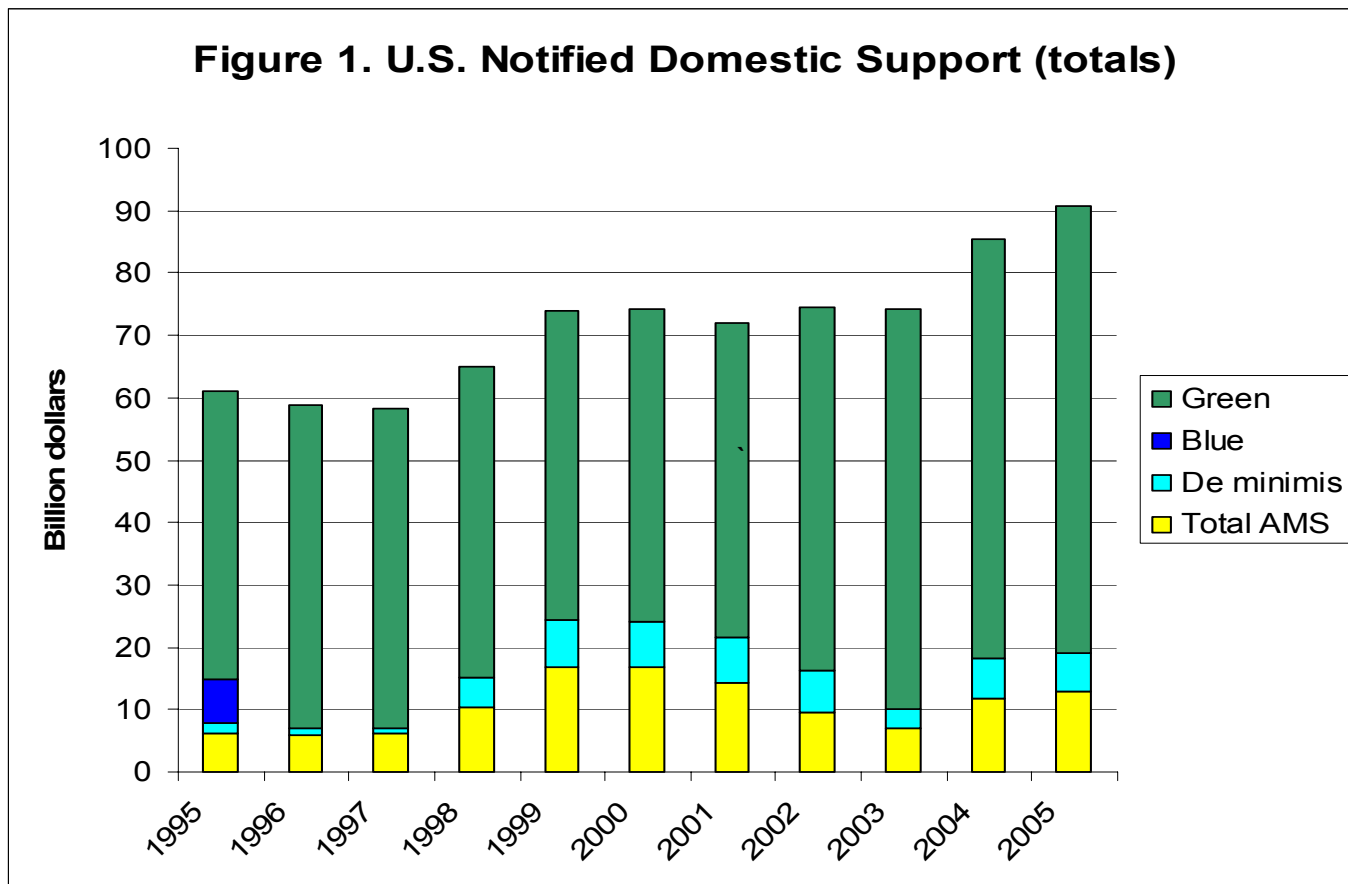
Analysis of the revised draft modalities - coverage

1. Contextual issues
2. Key conditions applicable to the United States
3. Implications for future U.S. policies

Contextual issues

1. Trade-off between domestic support disciplines and market access
2. Elimination of export subsidies by other countries (e.g., EU) would be a major plus
3. Domestic policies are difficult to change - the new Farm Bill!

U.S. notified domestic support



Source: WTO notifications

U.S. domestic support – observations from history

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

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 – 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 bindings
- 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- Cotton binding superseded by the special reduction provisions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 – issues

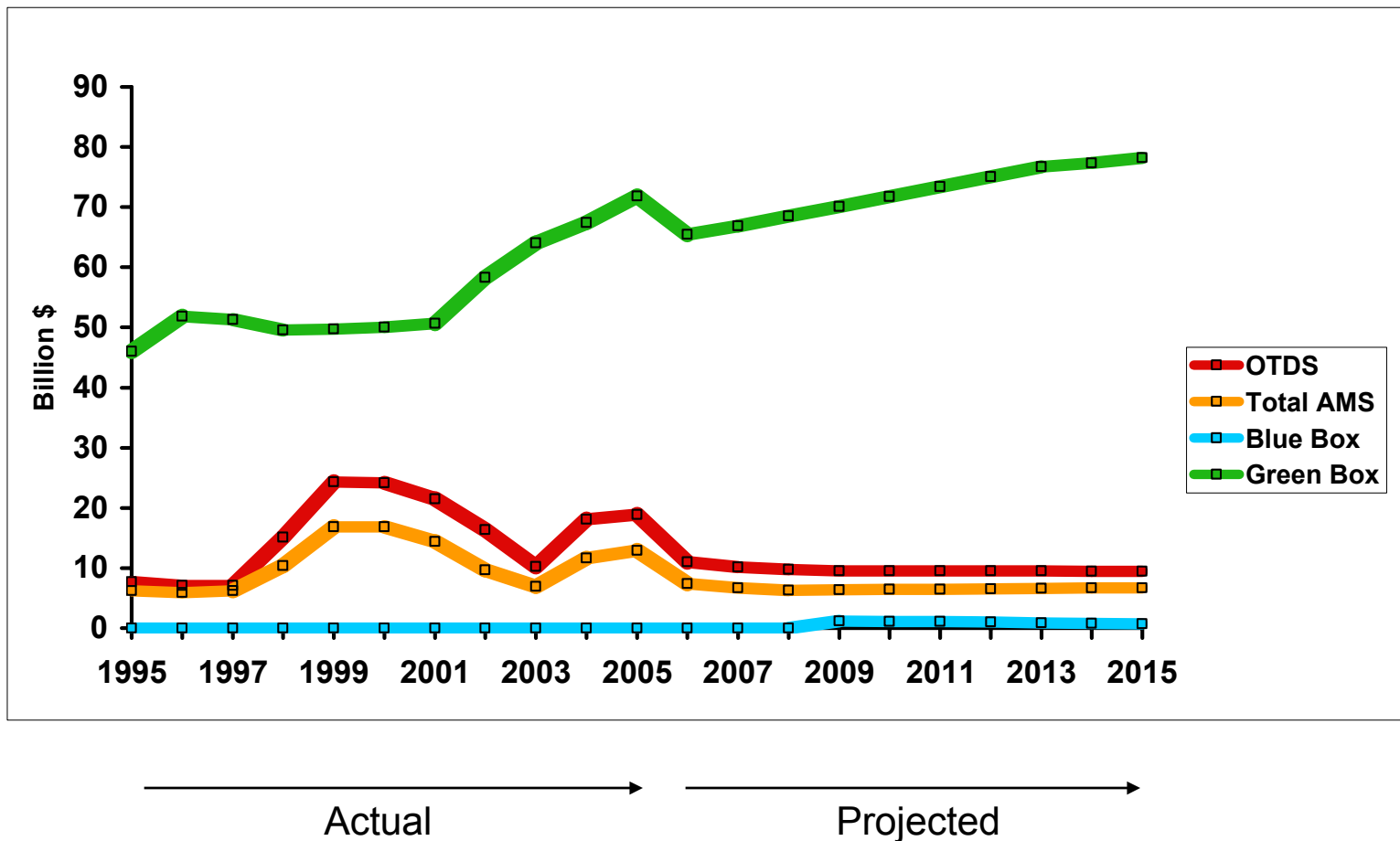
Product-specific Blue Box limits

- 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 the impact of the modalities

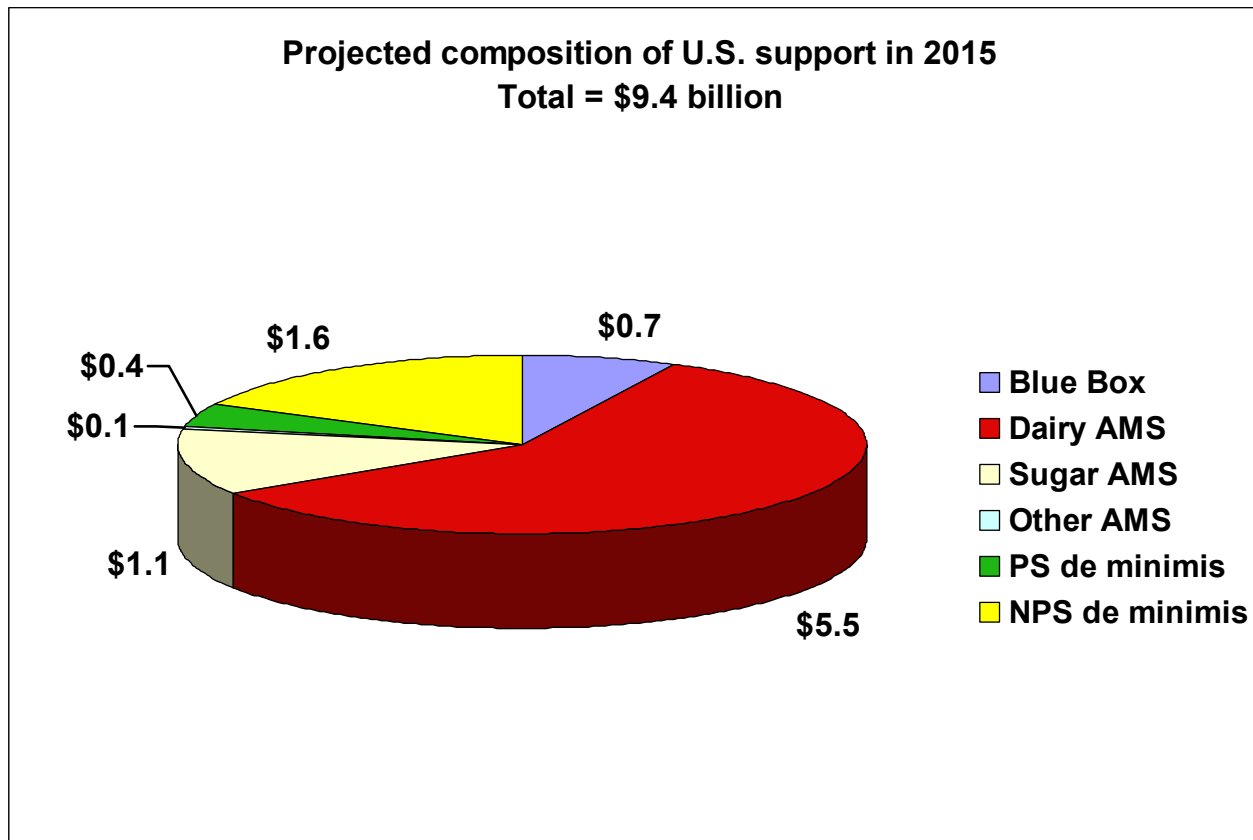
1. Use of the Blandford-Josling domestic support simulator
2. Latest USDA baseline for production and prices except for cotton (prices from Texas Tech study)
3. Program parameters from the House version of the 2008 Farm Bill – no counter-cyclical revenue payments (i.e., we probably underestimate the NPS AMS)
4. Assume DDA agreement implemented 2010-2014 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

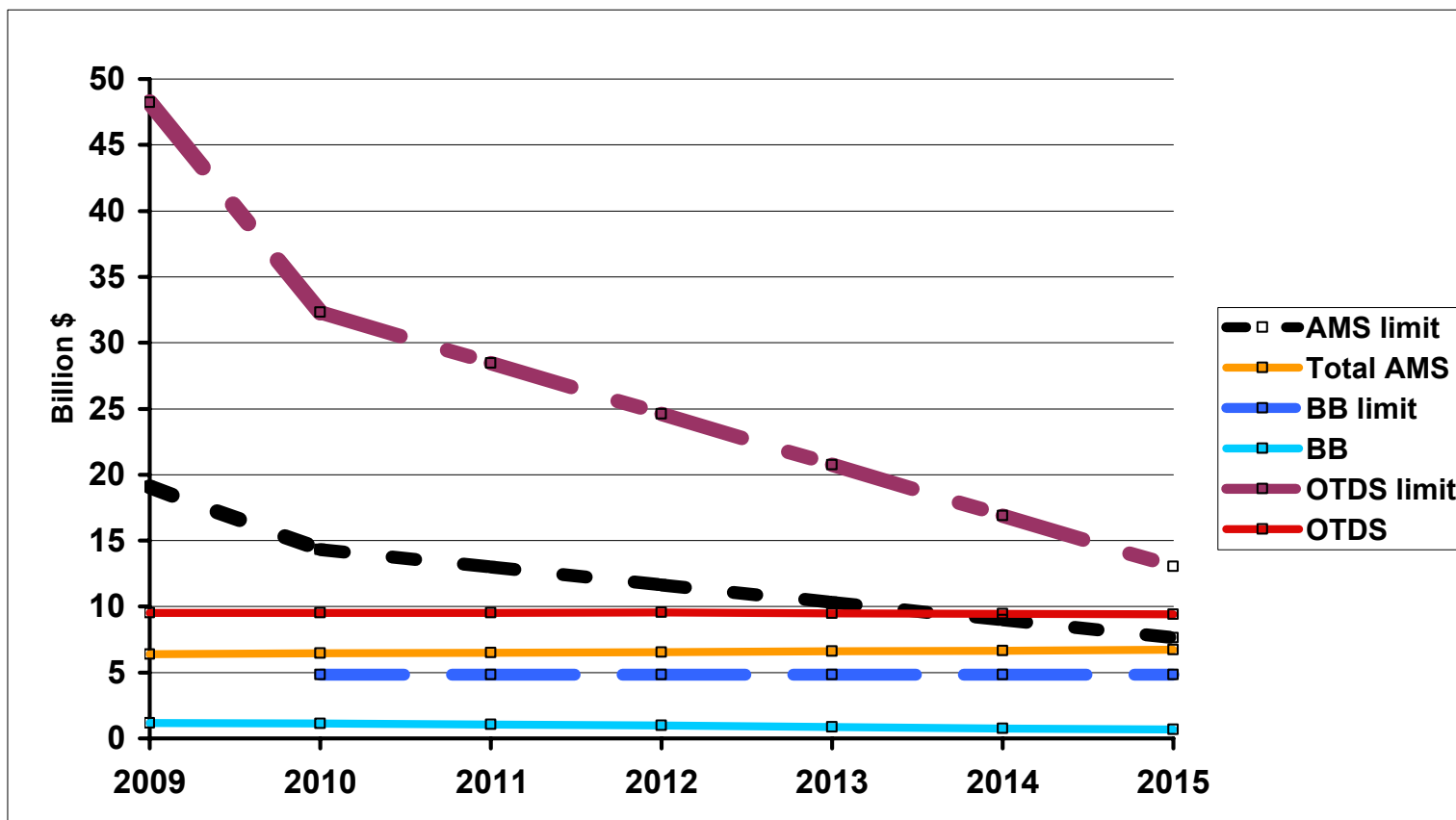


Source: WTO notifications and own estimates

Future composition of support



Impact of new WTO support limits



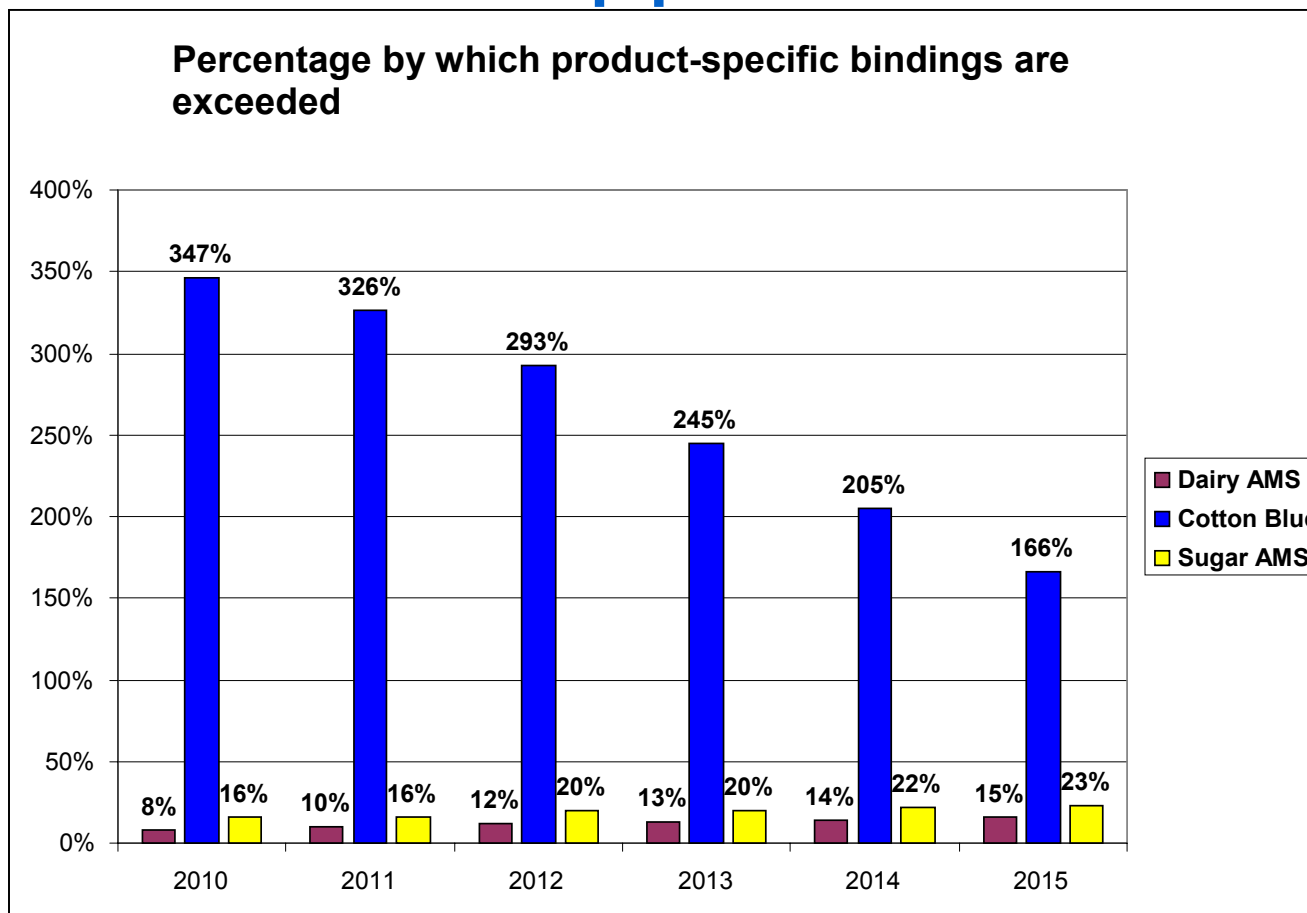
Source: own estimates

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 are important for dairy and sugar (AMS) and for cotton (Blue)



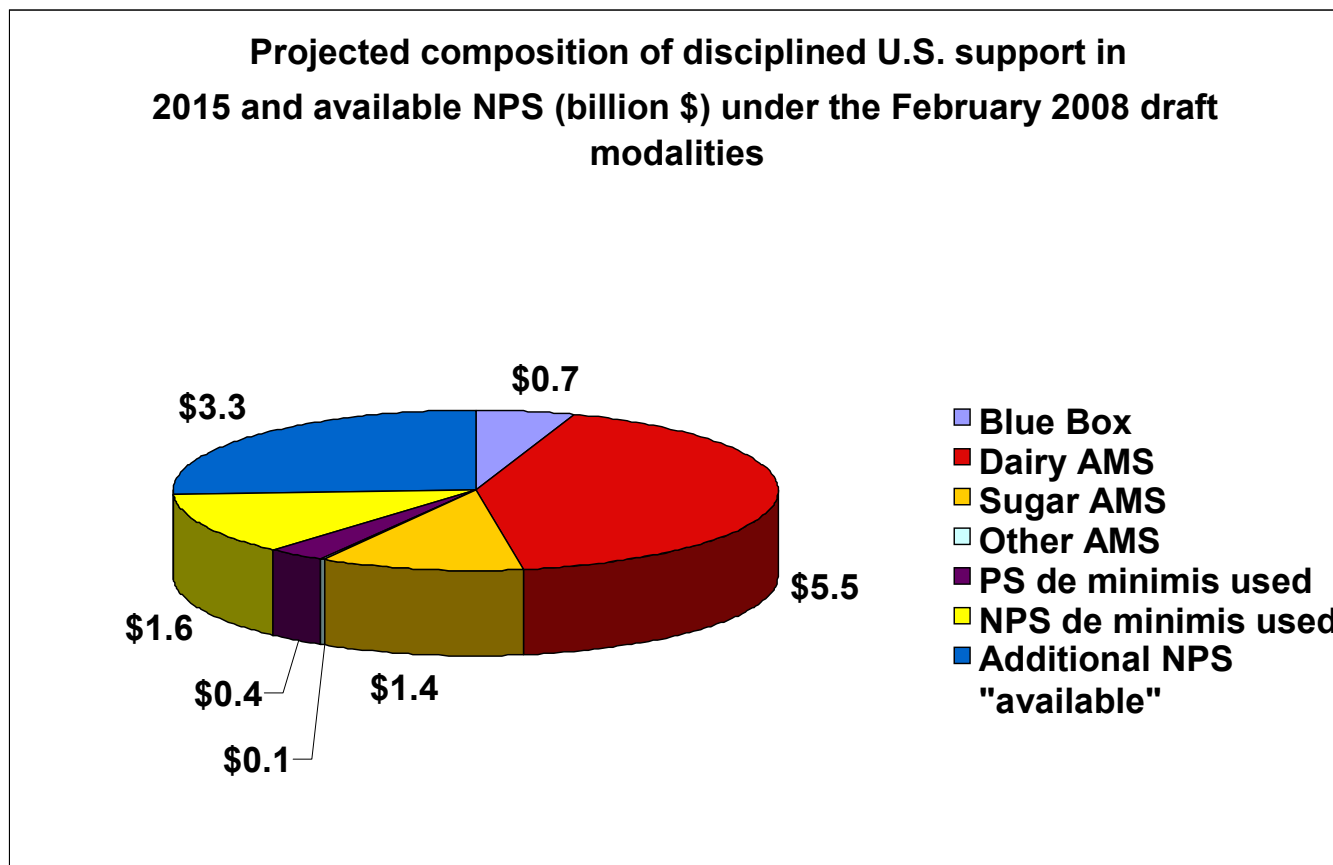
Impact of the support modalities



Impact of the support modalities

- “Policy space” would still exist through shift of support to NPS and, in particular, to the Green Box

Policy space in the OTDS



Export competition

1. Export subsidy activity low (EEP, DEIP)
2. Export credits already modified following cotton case ruling – switch to short-term credits (<180 days)
3. Provision for full cost recovery could require some additional changes
4. Food aid – reduced emphasis on in-kind aid

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