

ICTSD - IPC ROUNDTABLE

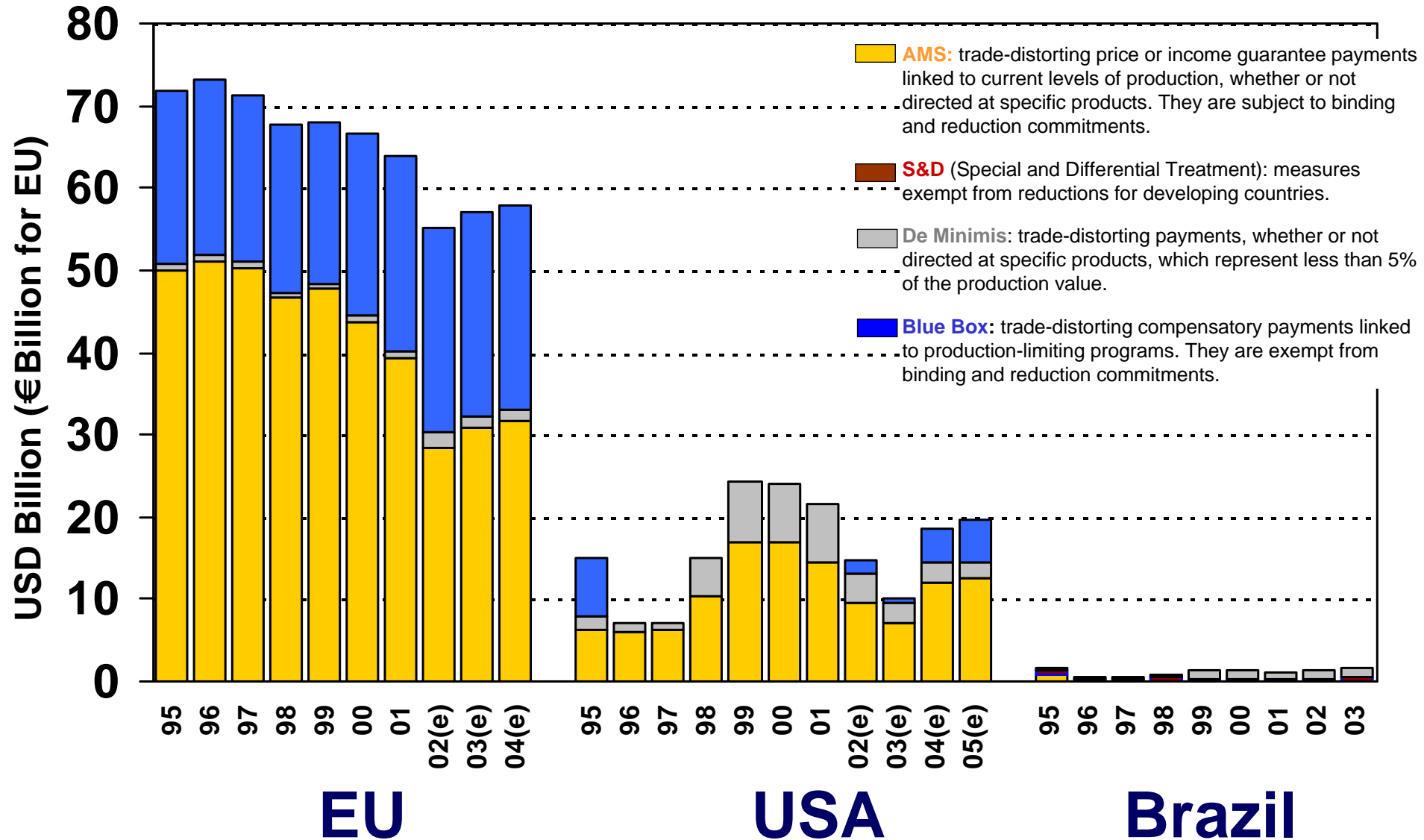
Exploring Options for Making Progress on Agricultural Market Access and Domestic Support

PRODUCT SPECIFIC CAPS ON DOMESTIC SUPPORT

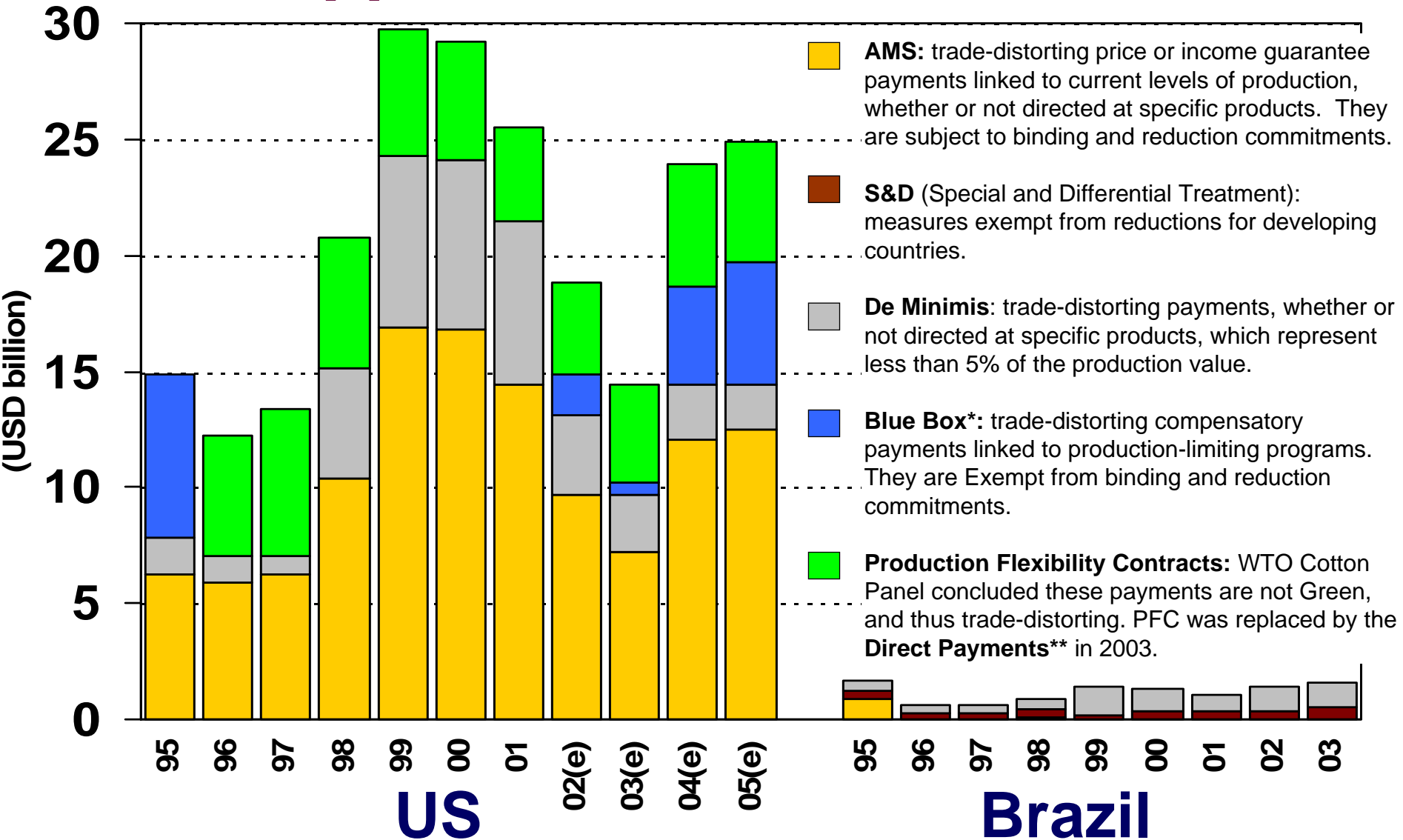
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23 January 2007

WTO: OVERVIEW OF DISTORTIVE DOMESTIC SUPPORT



Trade Distorting Domestic Support at the WTO: US vs. Brazil



Notes: * Counter cyclical payment was classified as blue box. ** data for DP presented in fiscal year.

Source: WTO notifications, USDA-CCC, Icone's estimations.

KEY ISSUES

- Trade-off: AMS and OTDS vs. Product Specific Disciplines
 - \uparrow cuts = \downarrow disciplines; but \downarrow cuts = \uparrow disciplines.
- Cuts and disciplines are necessary to promote integral reforms, reducing the opportunities for box and product-shiftings.
- Proposed individual cuts/ceilings or overall cut are not capable to avoid over-subsidization in specific products.
 - Lower ambition should be compensated by precise product-specific disciplines, which are needed to minimize the distortions caused by domestic policies (mainly their adverse effects on world prices).
- AMS and Blue Box subsidies are product-specific.
 - Learning with the Cotton Case.

United States - Domestic Support Proposed cuts and ceilings (US\$ Million)

	Departure Point	US	EU	G-20
AMS	19,103	7,641	7,641	5,731
Blue Box	9,753	4,877	4,877	4,877
NPS De Minimis	9,753	4,877	1,951	1,483
PS De Minimis	9,753	4,877	1,951	0
OTDS	48,362	22,271	16,419	12,091
Available OTDS	n.a.	17,394	14,468	12,091

**REDUCING
BOX-SHIFTING**

↓

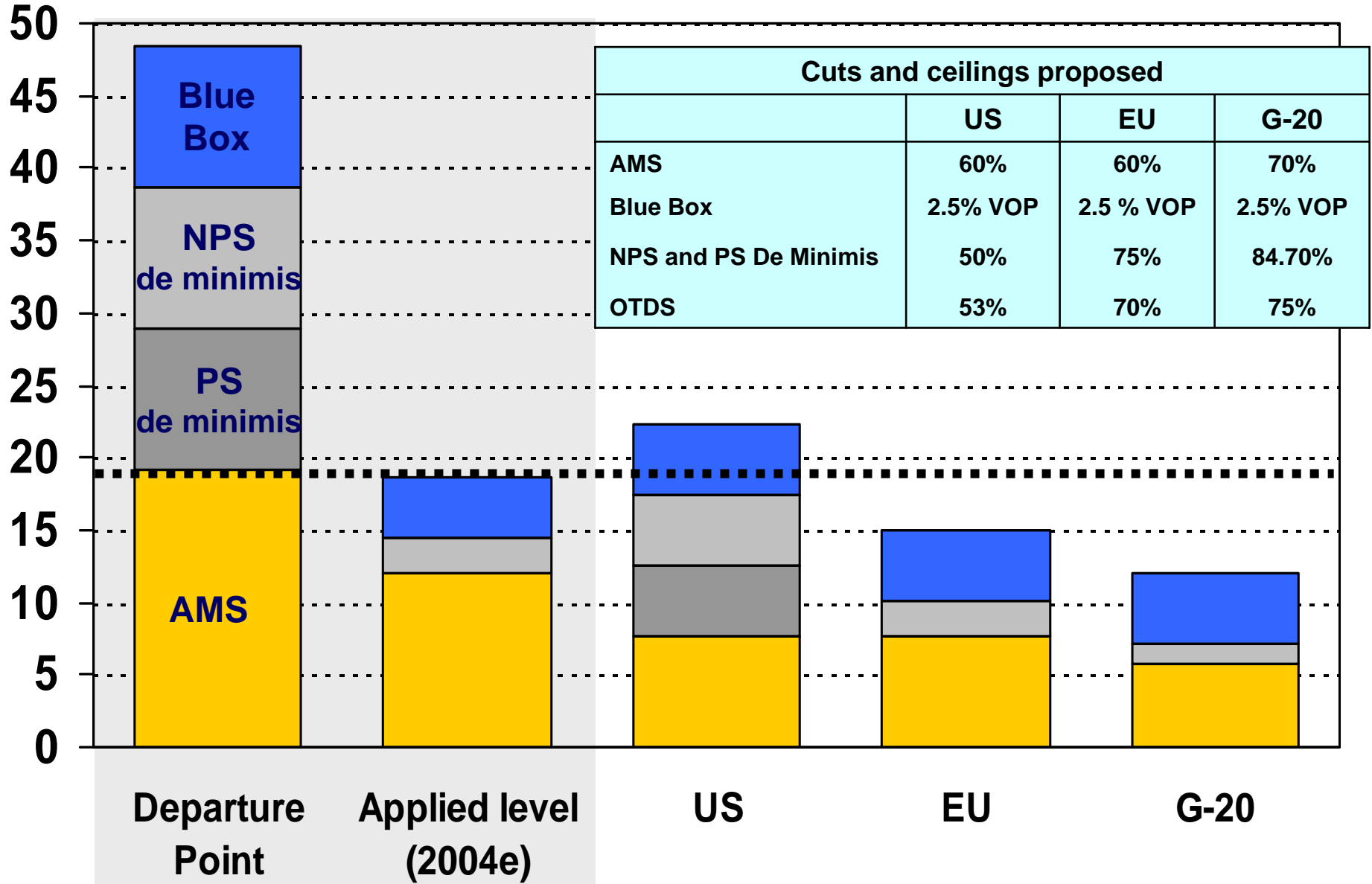
Resulting amount to
implement OTDS
assuming 100% usage
of AMS and BB

Cuts and ceilings proposed for the US DS			
	US	EU	G-20
AMS	60%	60%	70%
Blue Box	2.5% VOP	2.5 % VOP	2.5% VOP
NPS and PS De Minimis	50%	80%	84.7%
OTDS	54%	70%	75%

↓

It should be at
least 64%

US Ag Domestic Support Proposed cuts and ceilings (US\$ Billion)



Notes: (e) estimated. Concerning the EU and G-20 proposals, it is assumed that the PS de minimis will continue unused by the US. Source: WTO

European Union - Domestic Support

Proposed cuts and ceilings (€Million)

	Departure Point	US	EU	G-20
AMS	73,228	12,449	21,968	18,307
Blue Box	20,621	6,447	6,447	6,447
NPS De Minimis	12,893	6,447	2,579	0
PS De Minimis	12,893	6,447	2,579	0
OTDS	119,636	29,909	35,891	23,927
Available OTDS	n.a.	25,342	30,994	12,091

Resulting amount to implement OTDS assuming 100% usage of AMS and BB

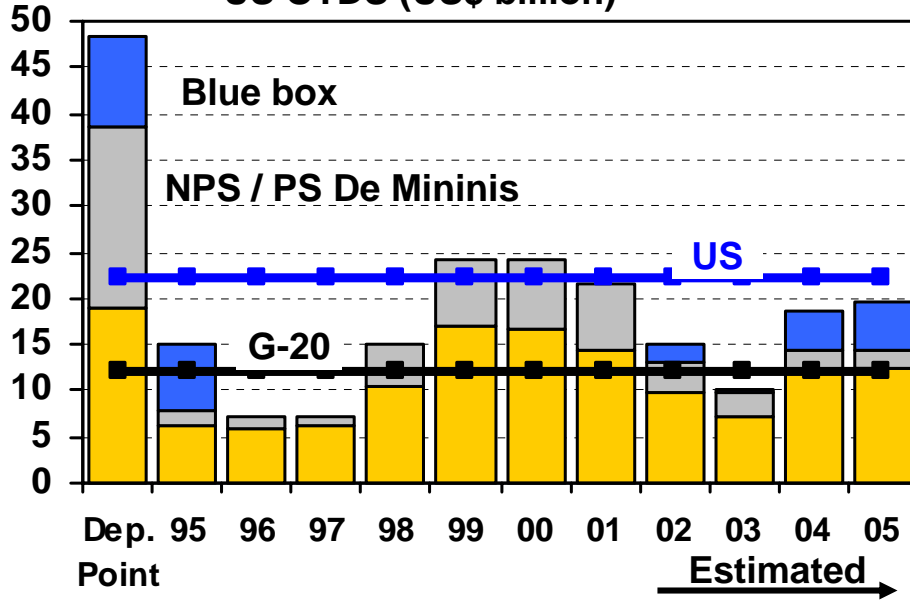
Assuming €4,500 million (2006), NPS De Minimis goes to €1,120

Cuts and ceilings proposed for the US DS			
	US	EU	G-20
AMS	83%	70%	75%
Blue Box	2.5% VOP	2.5 % VOP	2.5% VOP
NPS and PS De Minimis	50%	80%	65%
OTDS	75%	70%	80%

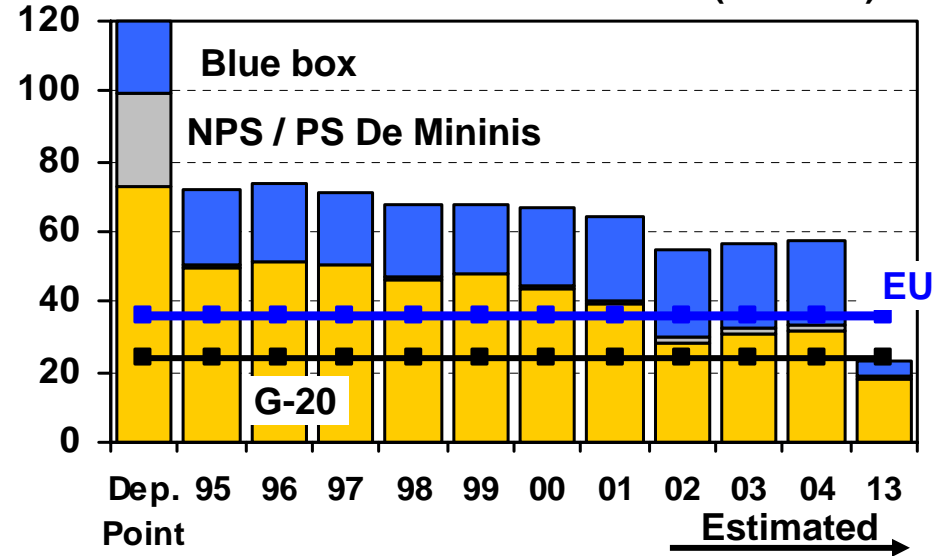
It should be at least 74%

US and EU: OTDS and AMS Reduction according to different proposals (5.0% VOP for Blue Box)

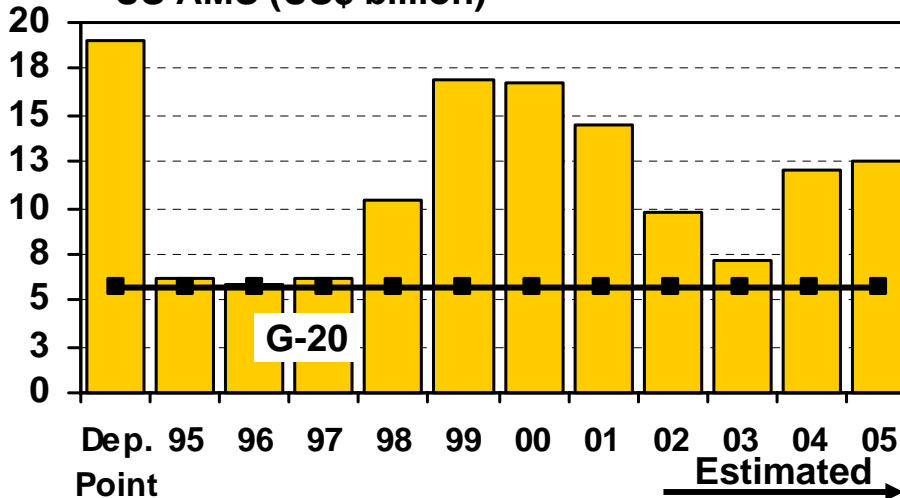
US OTDS (US\$ billion)



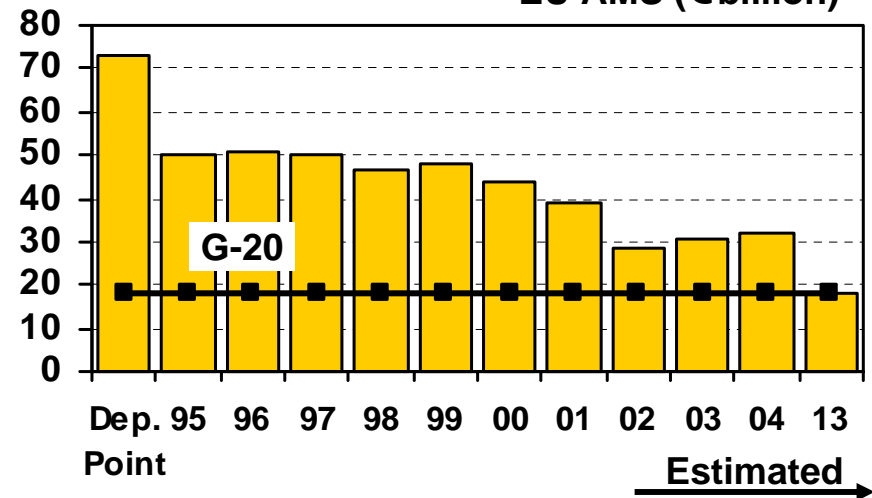
EU OTDS (€billion)



US AMS (US\$ billion)



EU AMS (€billion)



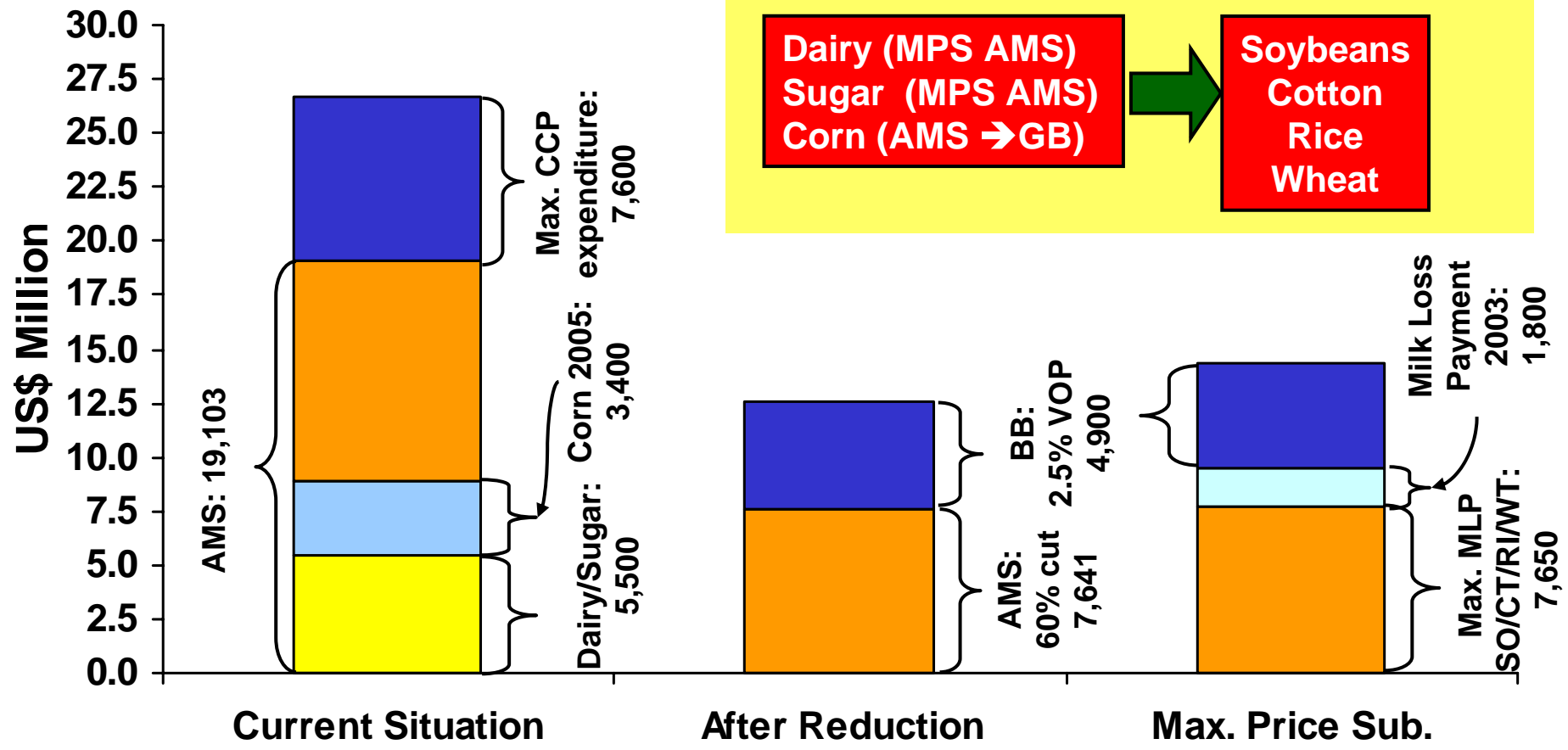
Source: WTO notifications and ICONE's Simulations.

Note 1: Counter cyclical payments for the Blue Box from 2002 to 2005. Note 2: on the starting point, AMS for EU-25

United States: Product-specific disciplines and the reforms of dairy, sugar and corn (US\$ Million)

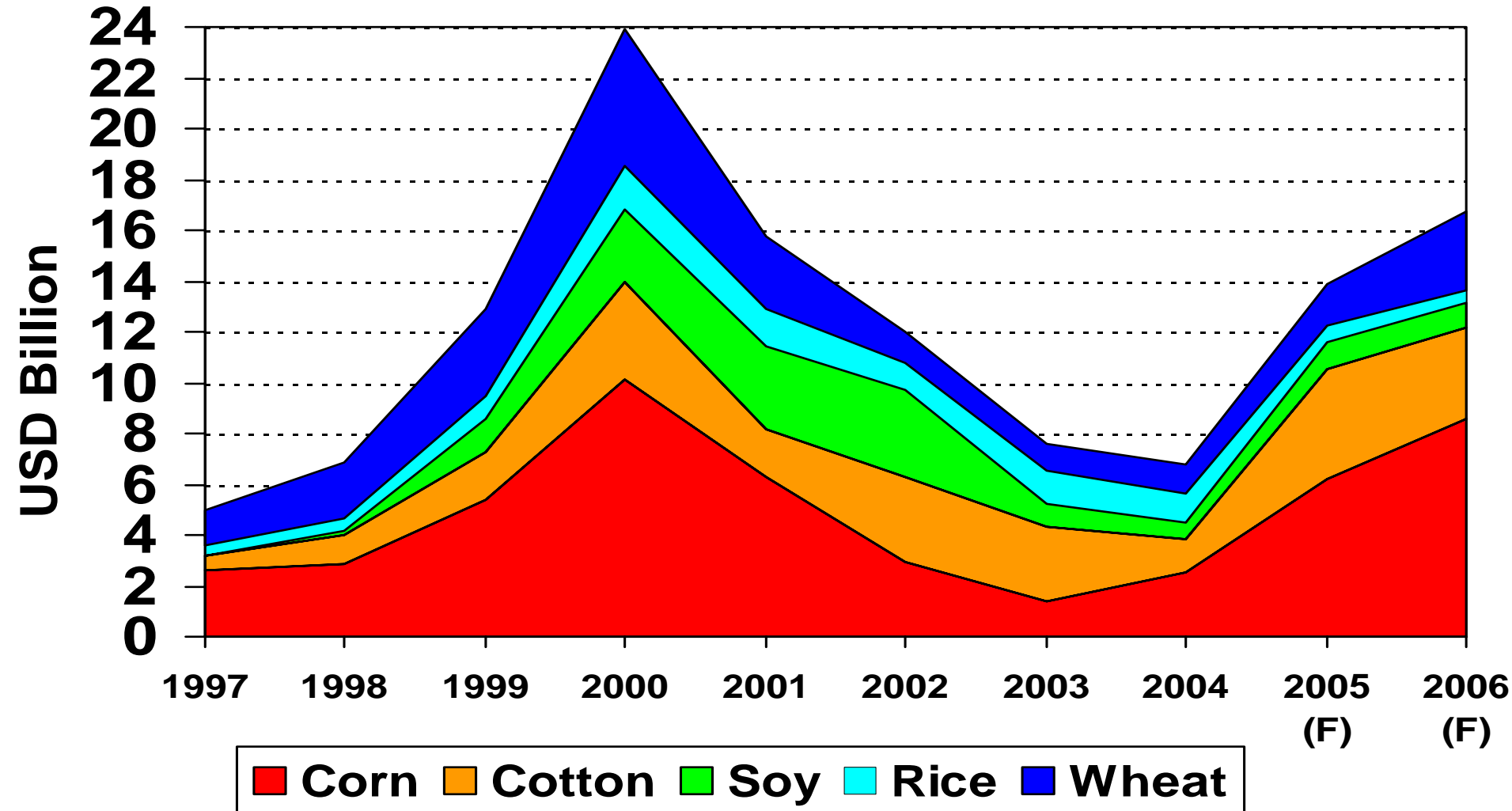
Product-specific disciplines are needed to avoid a huge PRODUCT-SHIFTING:

**Dairy (MPS AMS)
 Sugar (MPS AMS)
 Corn (AMS → GB)** → **Soybeans
 Cotton
 Rice
 Wheat**



Notes: SO (Soybeans), CT (Cotton), RI (Rice), WT (Wheat), CCP (Counter-Cyclical Payments)
 AMS (Amber Box); BB (Blue Box), GB (Green Box); MPS (Market Price Support). Elaboration: ICONE

US: Domestic Support Main Commodities

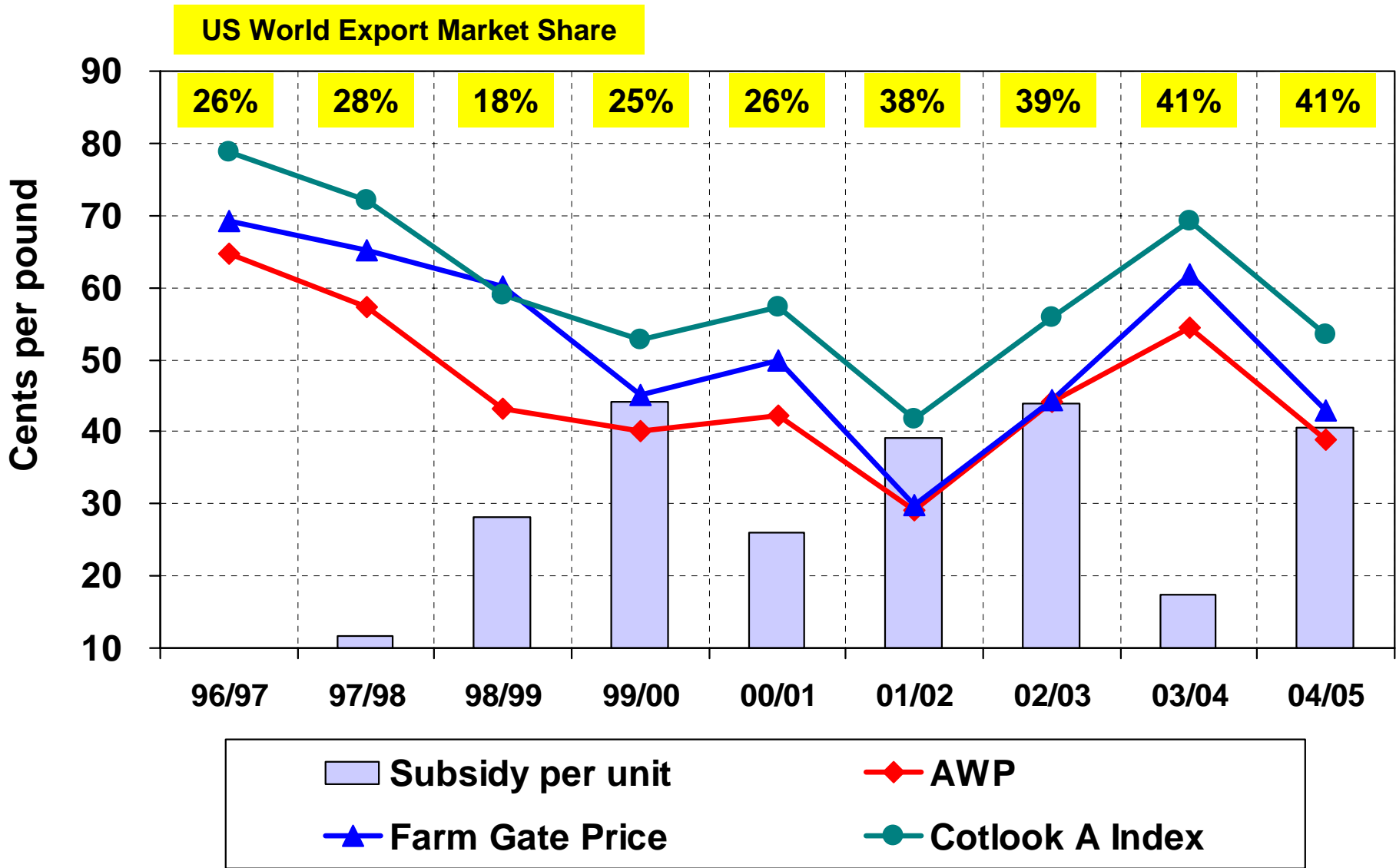


(f) forecast
 Source: USDA-CCC, Fiscal Years. Elaboration: ICONE.

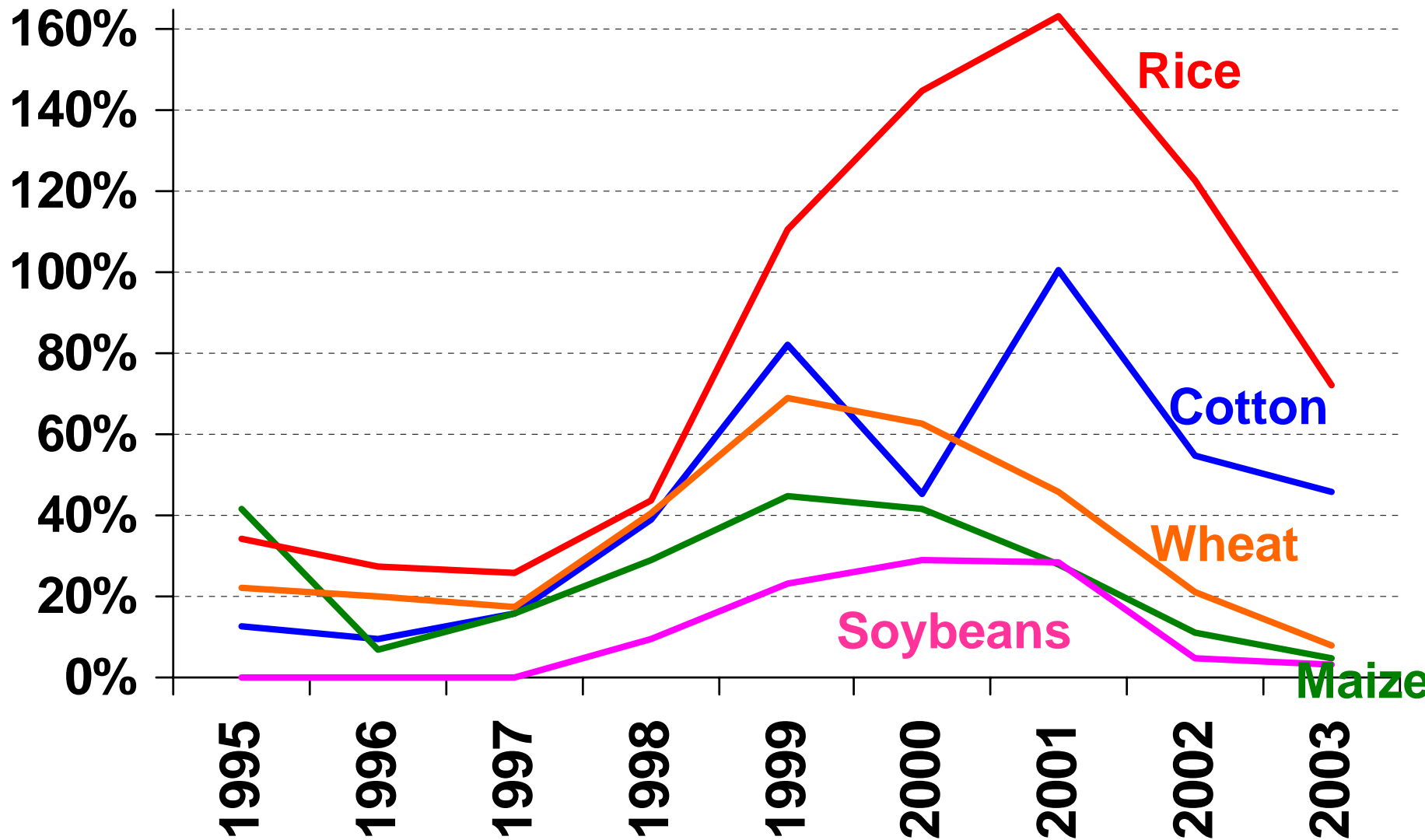
Product Specific Disciplines and Adverse Effects. What Economic Theory recommend us...

- Adverse effects: important concept from the Cotton Case.
- Measuring adverse effects:
 - Effect of domestic subsidies on world markets → capturing the export-effect of domestic subsidy.
 - World price is the key variable → price distortion is distributed over time.
 - Sumner's model: supply response to “price+subsidy” (market-share).
- Designing product-specific disciplines:
 - Target is to minimize adverse effects.
 - Overall capping: amber and blue box.
 - Product capping calculated from an acceptable price-distortion threshold.

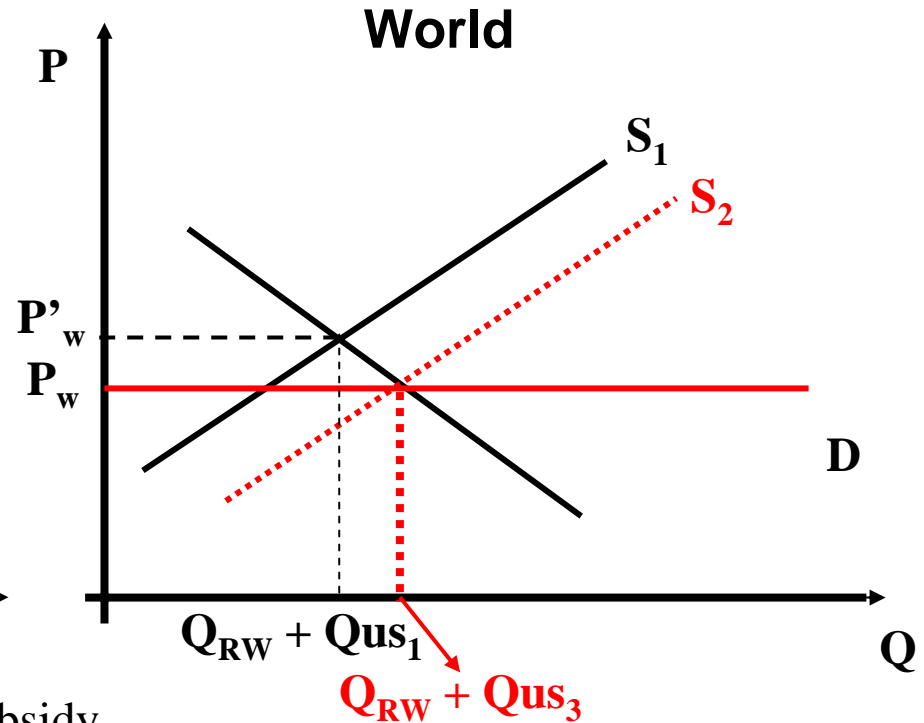
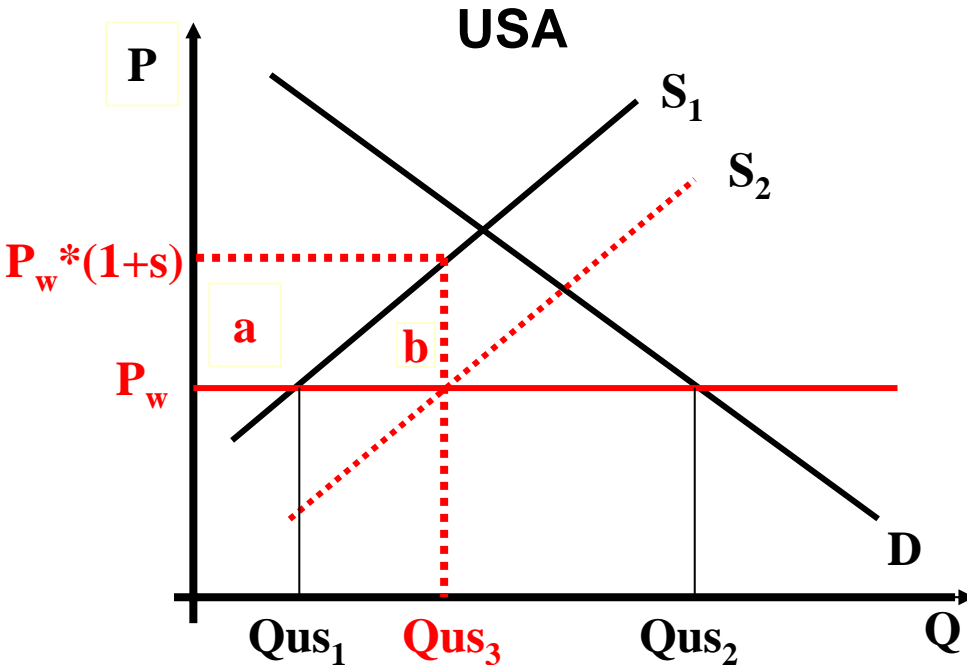
Prices Received by U.S. Cotton Farmers and the World Prices



SHARE OF AGRICULTURAL SUBSIDIES IN US PRODUCTION - BY COMMODITY



Product Specific Capping Disciplines Methodology based on potential adverse effects THE CASE OF THE US



Q_{us1} = volume produced by the US without subsidy

Q_{us3} = volume produced by the US with subsidy

Q_{RW} = volume produced by the rest of the world

$a + b$ = value of the subsidy = S

P'_w = world price without the US subsidy. Total world production = $(Q_{RW} + Q_{us1})$

P_w = world price with the US subsidy. Total world production = $(Q_{RW} + Q_{us3})$.

and: $(P'_w - P_w) / P_w = \text{US subsidy reduction impact on world price} = \frac{dP}{dS} * S$

Product Specific Capping Disciplines

Methodology based on potential adverse effects

THE CASE OF THE US

USA

↑ Farm price ⇒ ↑ USA Supply

World

↑ World Supply ⇒ ↓ world price

how much the world price (P) decreases with 1% increase in the US subsidy (S) = $\left(\frac{dP}{dS} \right)$

Fixed
Found

So, the total reduction in world price is = $\frac{dP}{dS} * S$

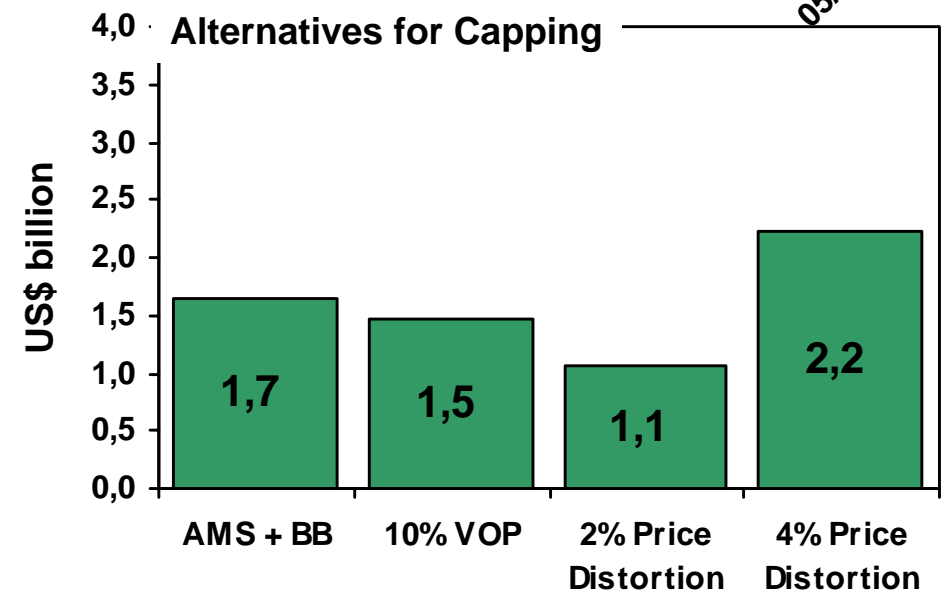
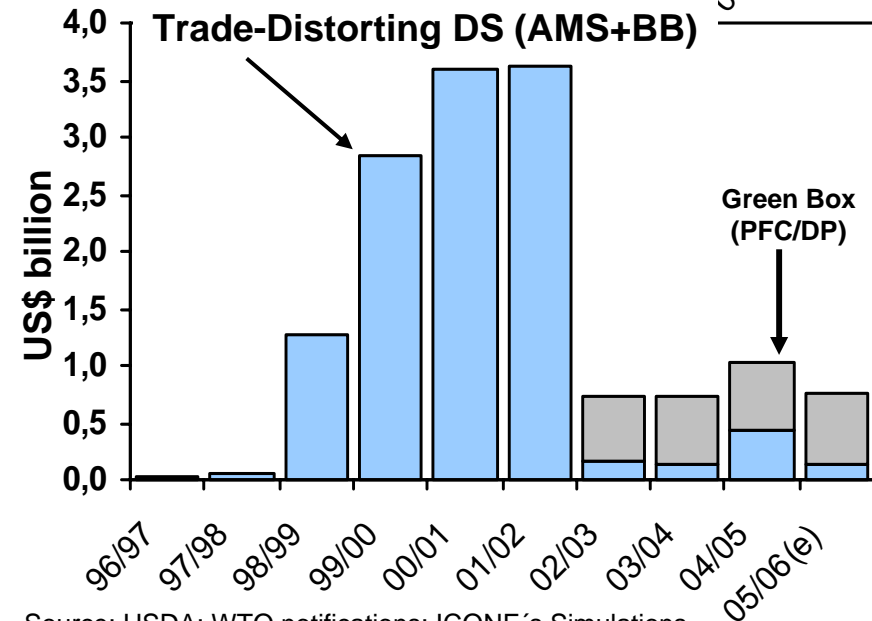
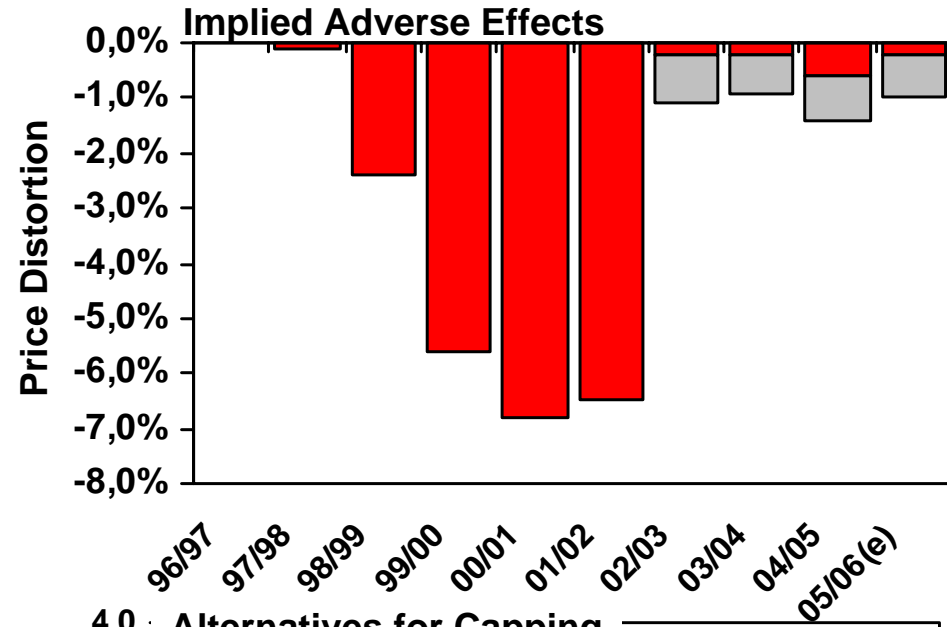
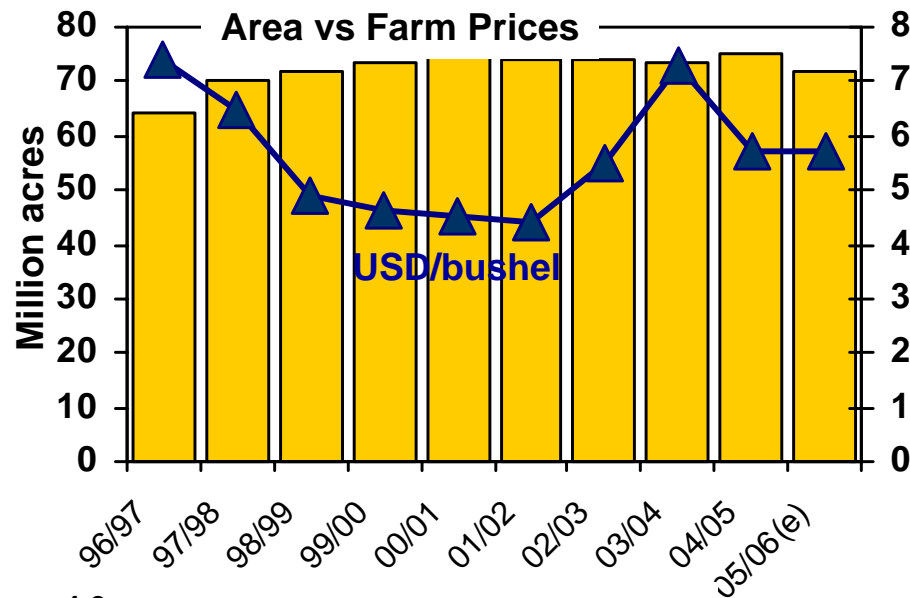
Partial Equilibrium Model

References

- Daniel A. Sumner. **Boxed In: Conflicts between U.S. Farm Policies and WTO Obligations.** Trade Policy Analysis, 32 (December 2005). Cato Institute Center for Trade Policy Studies.
- Daniel A. Sumner. **A Quantitative Simulation Analysis of the Impacts of U.S. Cotton Subsidies on Cotton Prices and Quantities.** (mimeo)

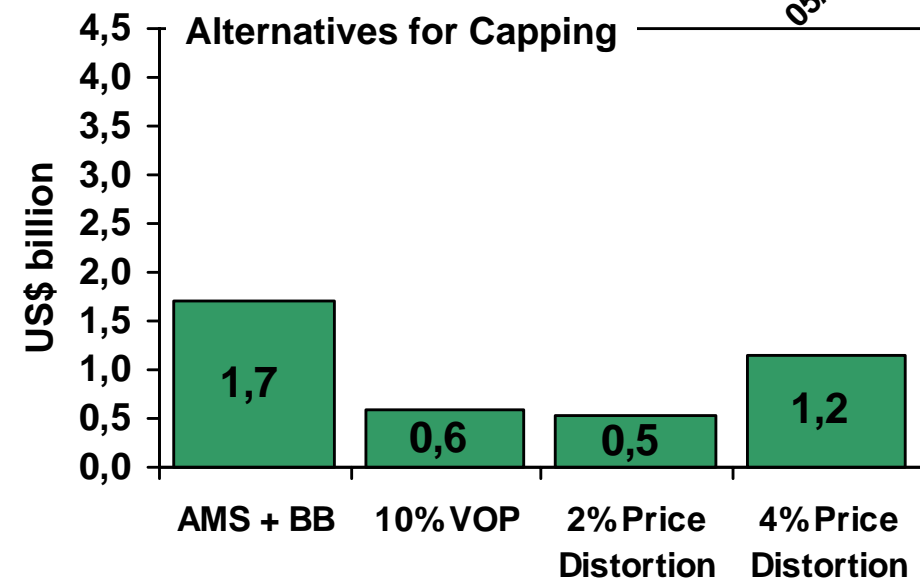
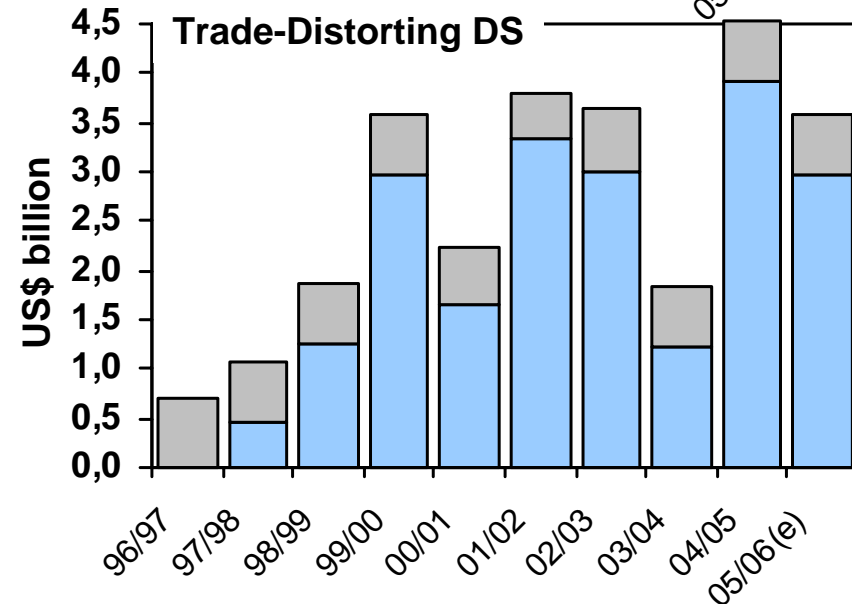
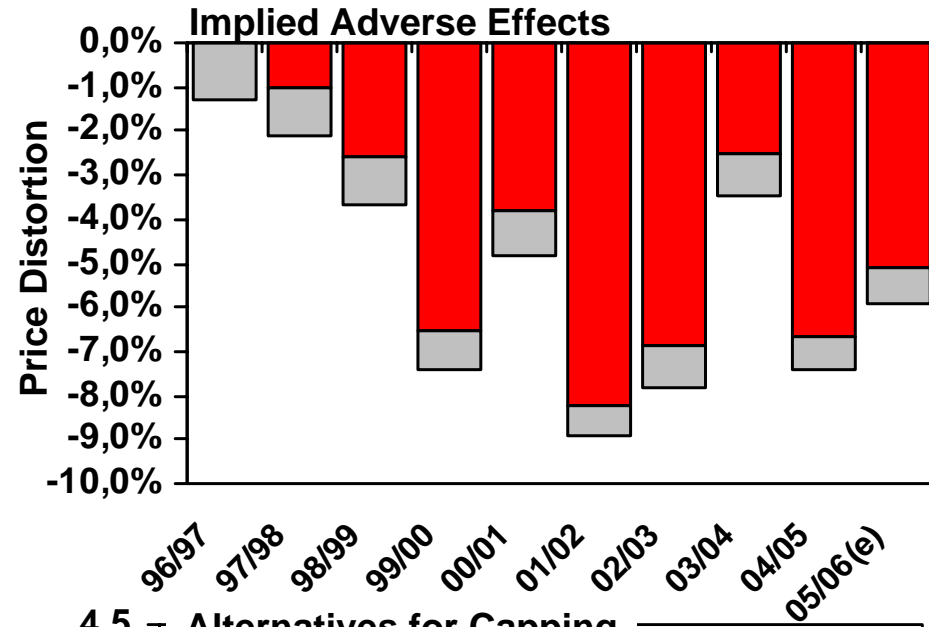
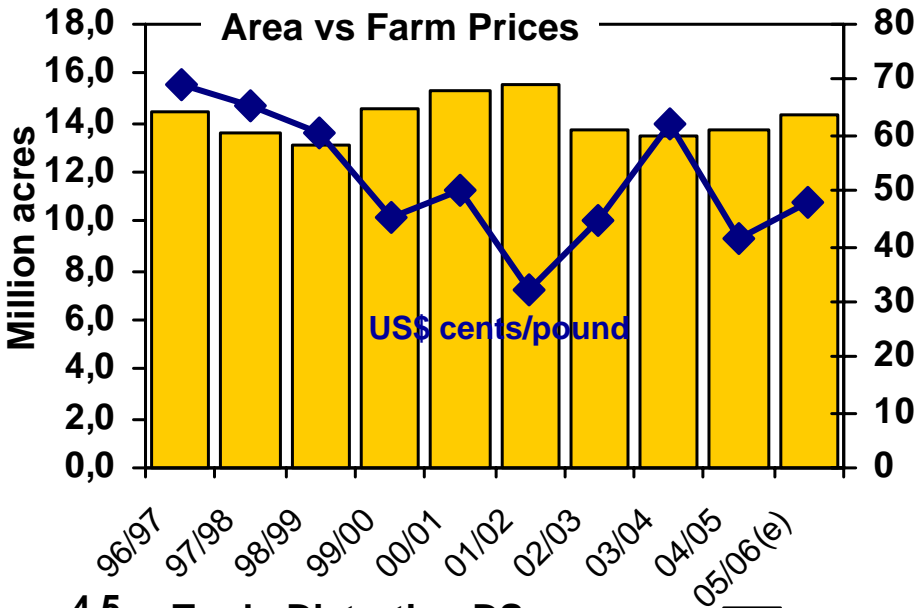
Soybean

Product Specific Capping based on Adverse Effects on World Market



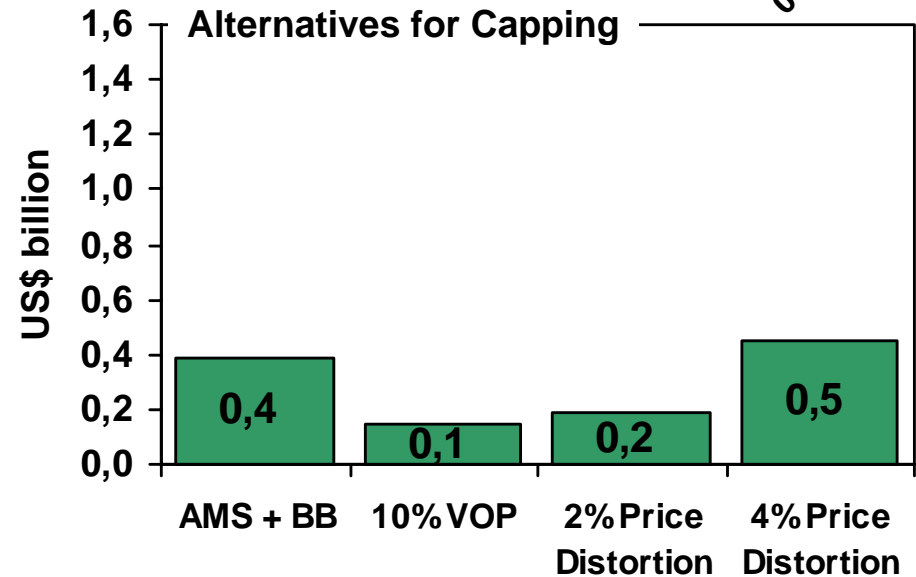
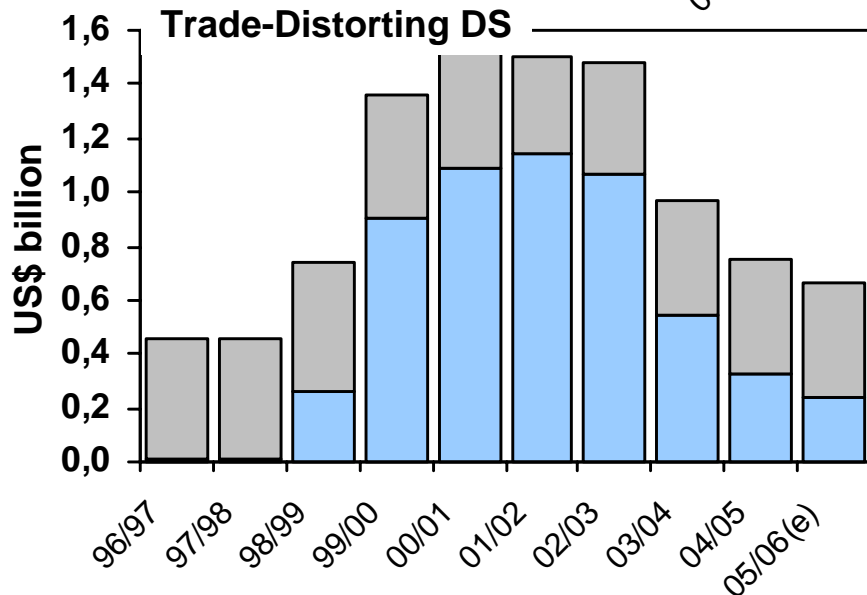
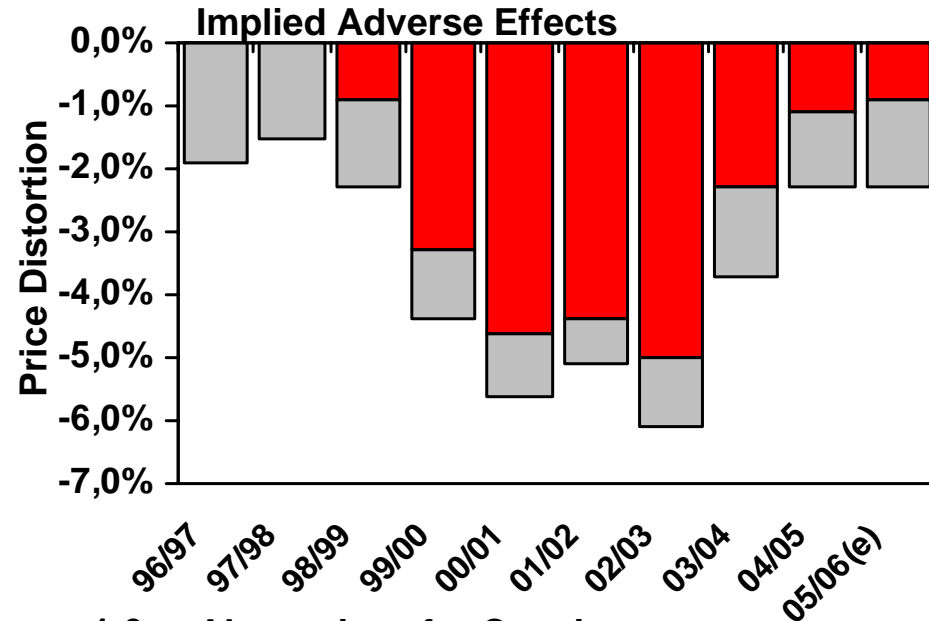
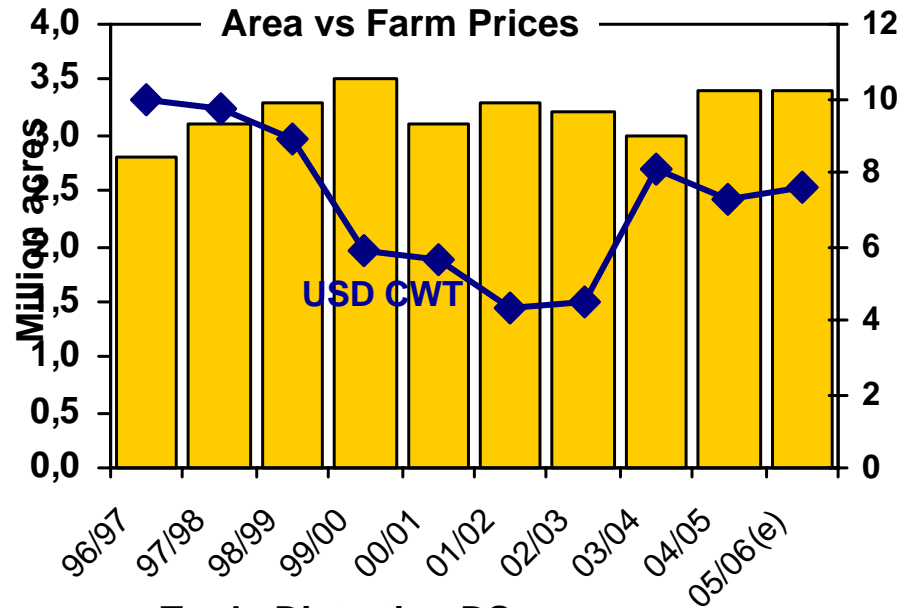
Cotton

Product Specific Capping based on Adverse Effects on World Market



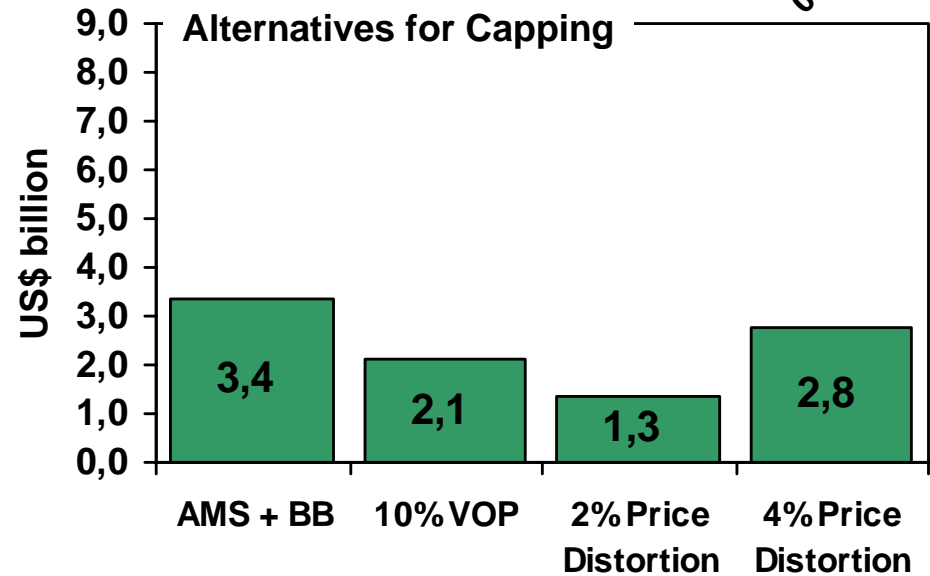
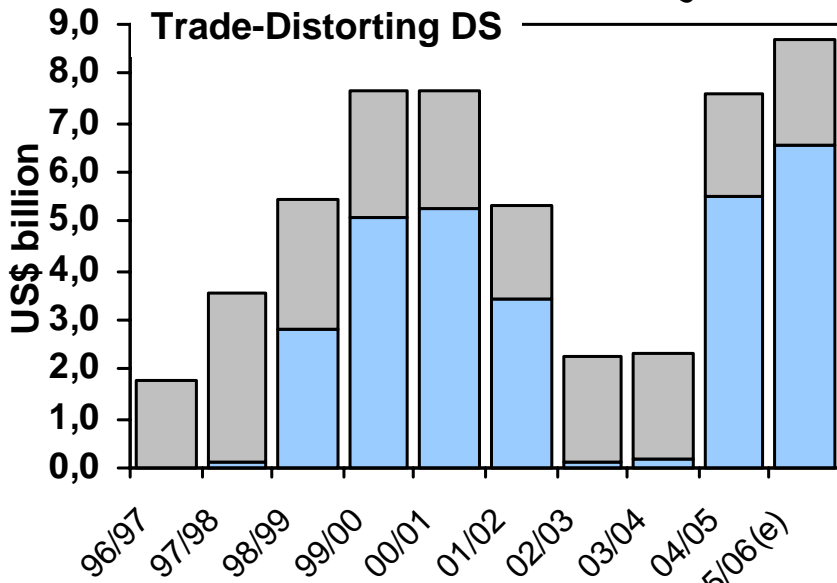
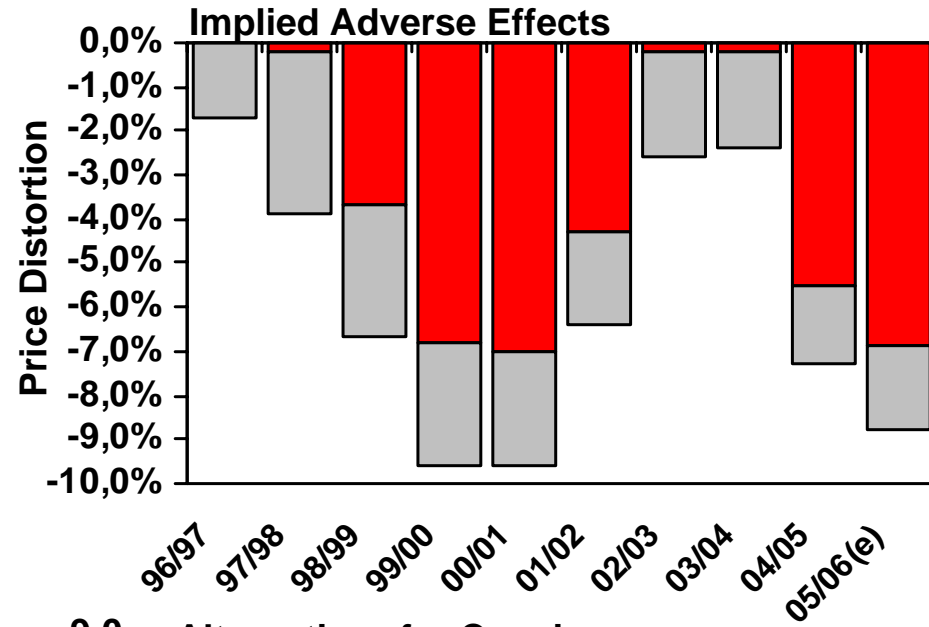
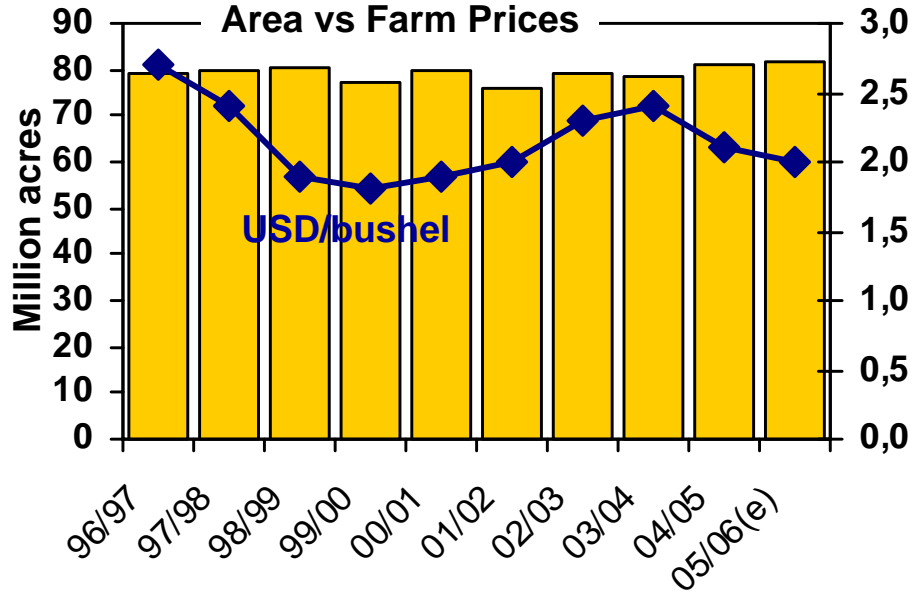
Rice

Product Specific Capping based on Adverse Effects on World Market



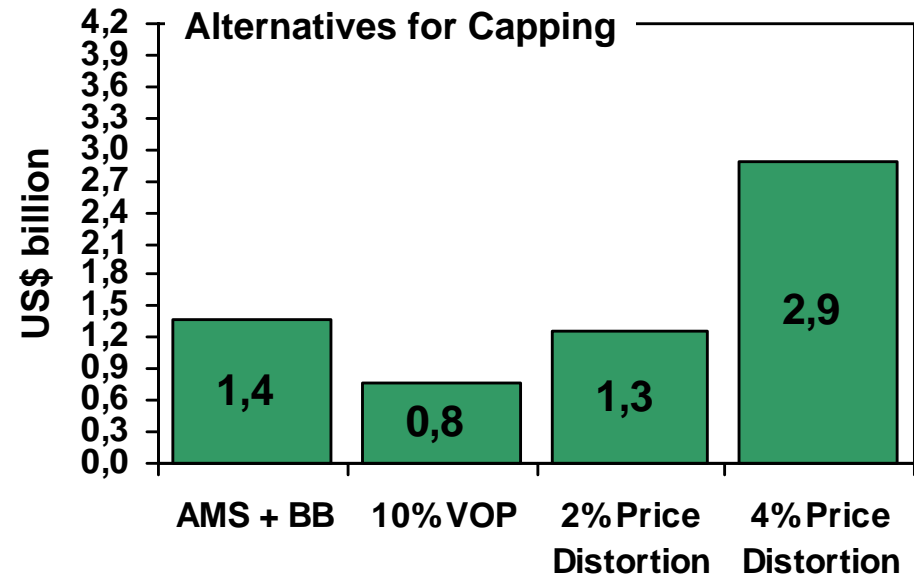
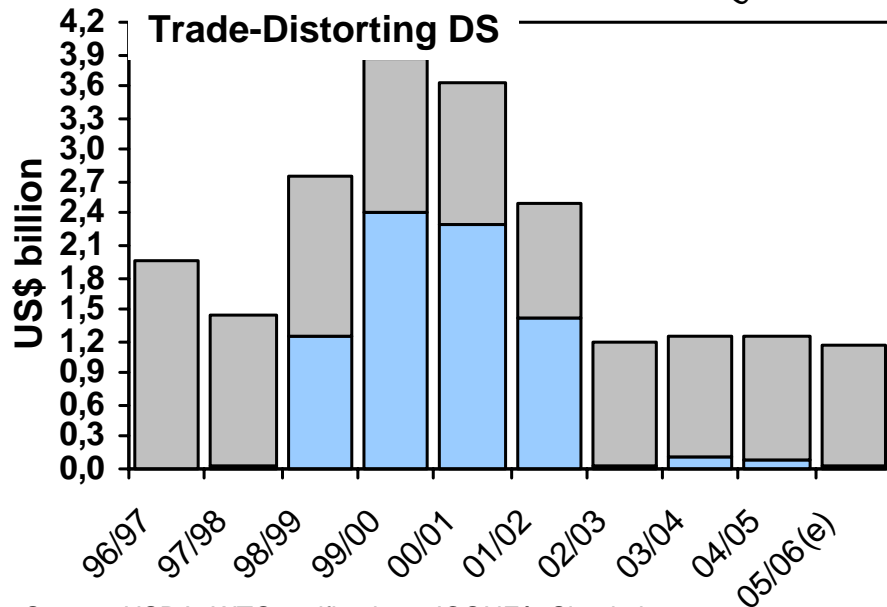
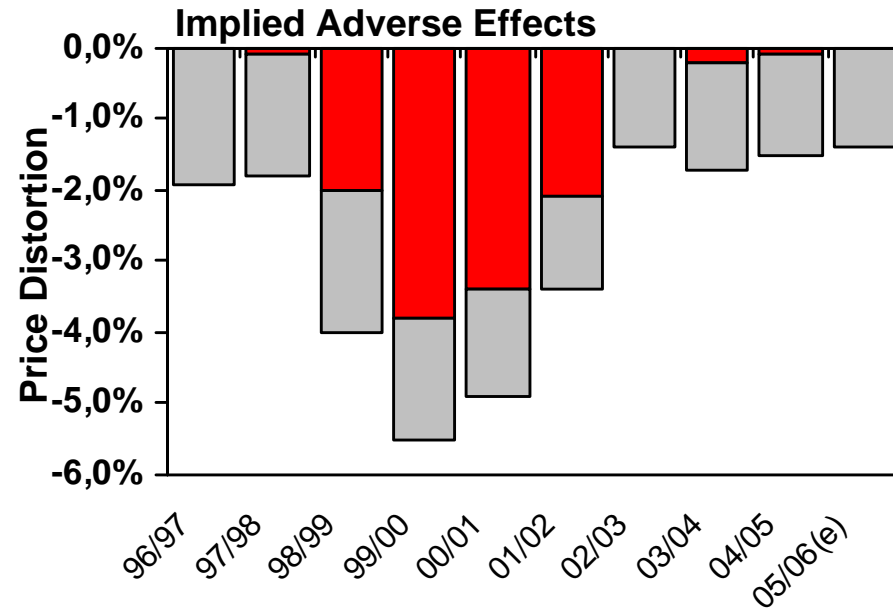
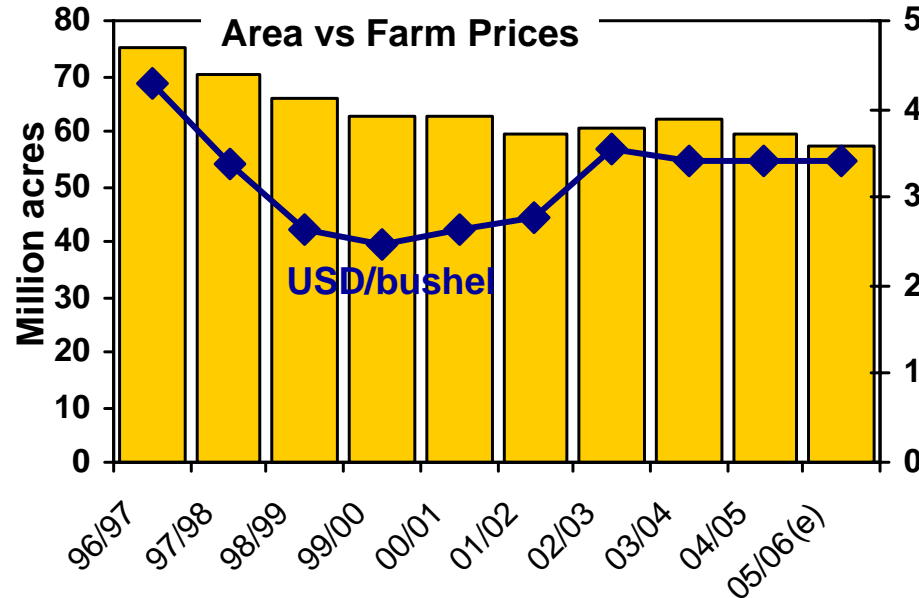
Corn

Product Specific Capping Based on Adverse Effects on World Market



Wheat

Product Specific Capping based on Adverse Effects on World Market





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Mantenedores



Parceiros

