

# The WTO and the Farm Bill

Tim Josling

FSI, Stanford University

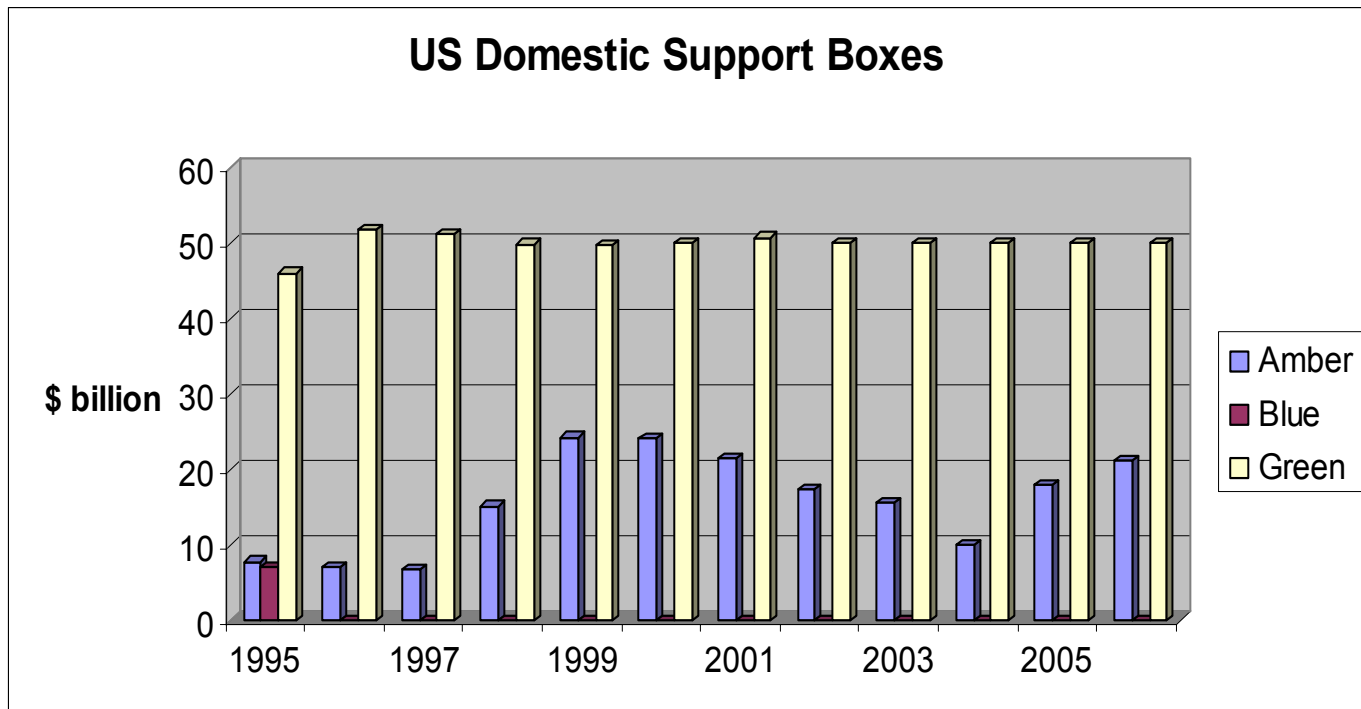
# Brief Comments on Six Issues

- WTO constraints on current programs
- Changes required by cotton panel
- WTO rules for new policies
- Vulnerability to new challenges
- New WTO rules
- Broader picture of US WTO stance

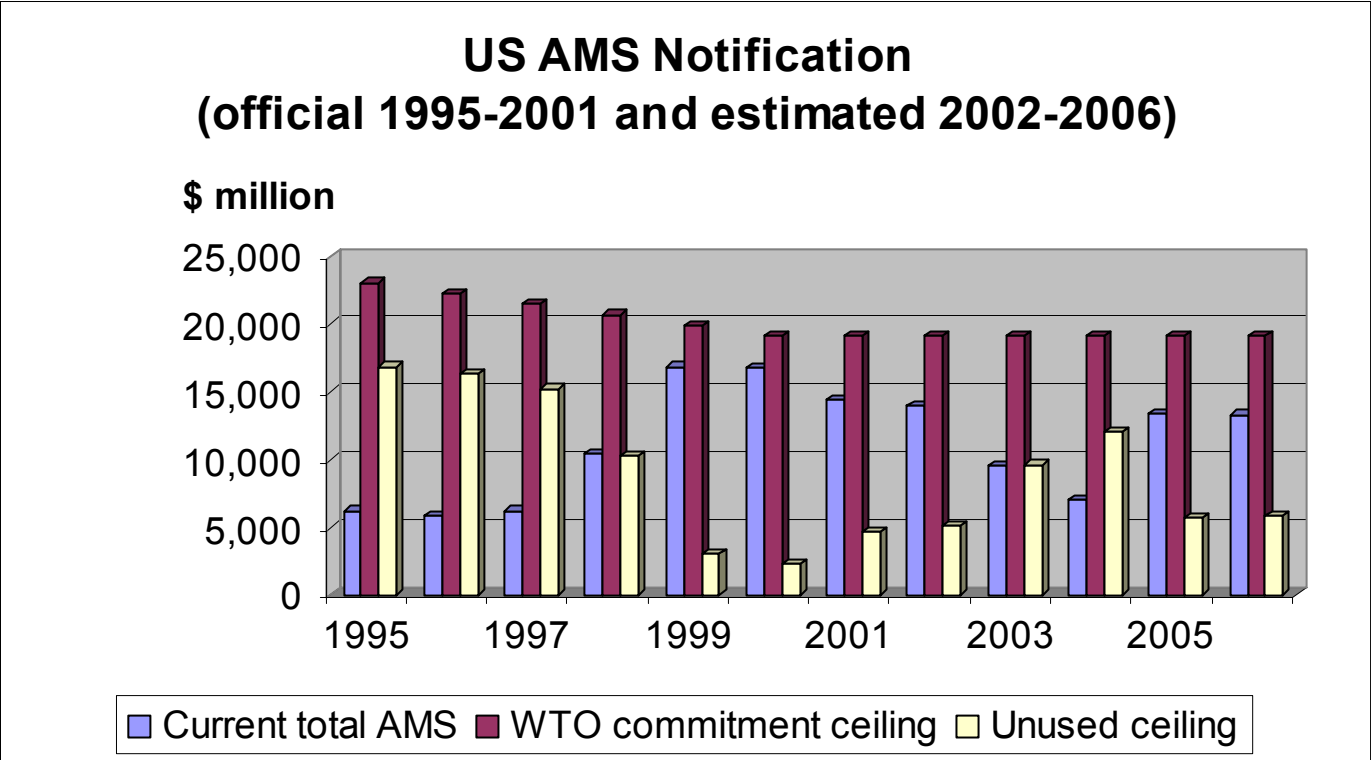
# WTO constraints on current programs

- Latest notification 2001 (1996 Farm Bill)
- Notifications 2002-2005 can be guessed
- AMS rose with 1998 emergency payments
- Stayed high through 2000
- Dropped off by 2004 then rose again
- AMS very variable as a result of CCP

# WTO constraints on current programs



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## WTO constraints on current programs

- US would still be within constraints of UR if notifications are accepted: usage currently at 70 percent of AMS ceiling
- Some vulnerability in periods of low prices
- However, if notification of PFC/Direct Payments were successfully challenged than Total AMS would have exceeded limit
  - 1999 (53 percent);
  - 2000 (33 percent);

# Changes required by cotton panel

- Step 2 subsidies already removed
- Export credit guarantees under modification at present
- Serious Prejudice from Marketing Loans for cotton still not removed
- Panel requested by Brazil to consider US remedial actions
- Not clear what needs to be done to remove SP

# WTO rules and new policies

- Conservation programs can be in green box but need to be specifically tailored
- Incentives for adopting conservation practices (above their costs) need to be unrelated to price or current production
- Subsidies for ethanol are vulnerable if specific to particular producers
- Revenue assurance needs to be actuarially sound

# Vulnerability to new challenges

- Challenges possible under serious prejudice for rice and corn
  - Basis same as for cotton
  - Impact of production on world market
  - Price effect hurts competing producers
- Challenges already under consideration

# New WTO rules

- Changes in Blue Box definition would shelter CCP (in most years)
- Product specific caps on Blue Box would limit this effect
- AMS cuts would imply reductions in ceiling and limit ability of programs to maintain prices
- *De Minimis* cuts would limit ability to subsidize some products
- OTDS cuts may not imply limits over and above individual constraints

# Broader picture of US WTO stance

- Restarting DDA may hinge on US willingness to cut AMS limit by another \$5 billion
- Adding \$5 billion to conservation programs would benefit many farmers
- Converting CCP and ML to revenue assurance would also give flexibility to 2007 Farm Bill

# Broader picture of US WTO stance

- Benefits to the US economy and the world economy suggest this is reasonable bargain
- Benefit to US agriculture also substantial
  - Removal of export subsidies
  - Improved market access
  - Restrictions on EU ability to re-couple subsidies
- Restoration of US leadership in trade issues