Facts on Global Reform

Office of the United States Trade Representative **www.ustr.gov**
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Implications of the U.S. Agriculture Proposal on Trade-Distorting Domestic Support

Background

The World Trade Organization (WTO) distinguishes between

(1) farm programs that provide an incentive to produce one product instead of another, or reward farmers for producing additional quantities, and

(2) farm programs that have minimal or no distorting effects on production and trade.

Production, and therefore trade-distorting, policies are subject to constraints under WTO rules, with support limits established under several criteria. Non-distorting policies, referred to as "green box" programs, are allowed without any quantitative limit, as long as the policies conform with WTO established criteria. Trade-distorting policies are measured using a WTO calculation called the "aggregate measurement of support" (AMS). The AMS calculates support to producers through direct payments, price support and other advantages.

Under current WTO rules, for any particular year countries are obliged to maintain support across all agricultural commodities below a set level. The U.S. ceiling for amber box support is $19.1 billion. In addition to "green box" programs, trade-distorting support that is below a de minimis level (5% of the value of production for any particular product, or 5% of the value of total agricultural production for non-product specific programs) is not counted towards the annual ceiling. However, once support exceeds the 5% level, it all counts toward the "amber box" ceiling – in effect you can have a product-specific de minimis program or an amber box program, but not both. Additionally, support under programs that meet criteria for production-limiting programs, so called "blue box" programs, are also excluded from the annual calculation against the "amber box" ceiling.

WTO members agreed to a framework for substantially reducing trade-distorting domestic support in July 2004. As with tariffs, all cuts are to be from WTO allowed levels, agreed and "bound" under the last multilateral trade negotiation. The framework calls for greater harmonization in allowed level of trade-distorting domestic support by cutting "amber box" and total trade-distorting domestic support using a tiered formula: the higher a WTO member's allowed level of support, the greater the cut it must undertake. Caps will be established on "amber box" support on a product-specific basis. The framework also calls for reductions in the *de minimis* levels for product and non-product specific support. In addition, the framework establishes a cap on the "blue box" at 5% of the value of agricultural production, and expands the definition to include payments that do not require production with further negotiation over the definition. The "green box" criteria will be reviewed to ensure programs are minimally or non-trade distorting.

U.S. Proposal

The United States proposed on October, 10, 2005, as part of a comprehensive proposal involving all areas under negotiation, specific elements for domestic support reform in developed countries. Key components include:

- Amber box: 60% cut for the United States, with an 83% cut for the EU
- Blue box: further reduction of the 5% cap to 2.5%
- *de minimis*: a 50% reduction in the current allowance (from 5% to 2.5%)
- Overall trade-distorting support: 53% cut for the United States, 75% for the EU.
- Green box: no material changes in the criteria, and no cap on expenditures
- Litigation protection: protection against WTO challenges if a member controls support below new, lower, allowed levels.

Specifically, the U.S. proposal would have the following effect on allowed U.S. support for trade-distorting programs. Non-trade distorting programs, such as animal welfare, conservation, environment, infrastructure, research, pest and disease control, food stamps, etc. would not be limited.

	Current Allowed	**Applied (2005, estimate)**	**October Proposal**	**Type of Program Eligible**
Amber ***Most Trade Distorting***	19	14	7.6	Marketing Loan Program, Dairy Price Support, Sugar Price Support
Blue ***Less Trade Distorting***	unlimited	6	5	Counter-cyclical Payments

U.S. support, Billion US Dollars, data rounded

For the European Union, the proposal would have the following effect:

	Current Allowed	**Applied (2005, estimate)**	**October Proposal**	**Type of Program Eligible**
Amber ***Most Trade Distorting***	88	36	15	Price support Intervention
Blue ***Less Trade Distorting***	unlimited	20	8	Compensatory Payments

EU. support, Billion U.S. Dollars in current exchange rates, data rounded

The proposal addresses the primary concerns of our trading partners, the amber and blue boxes, but establishes real constraints on the size of programs we could operate. In fact, the U.S. amber box would face a cut of 46 percent in the estimated applied rate for 2005 and the combined amber and blue would fall from $20 billion in 2005 to a maximum of $12.6 billion. Congress would have the discretion to design specific programs, but would be subject to these specific limits. The proposal would also allow Congress to maintain “green box” programs, as well as continue a counter-cyclical type program in the future, although subject to a support limit.