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CROP INSURANCE AND THE WTO

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Office of the Chief Economist, USDA
IATRC, December 9, 2012

Outline

- Negotiating history
- Annex 2 provisions
- Prevalence of crop insurance programs
- How countries have notified
- Trade cases involving crop insurance
- Implications for future

1. Negotiating history

- Theoretical work
 - OECD/FAO work on PSEs (Josling, Blandford)
 - *National Policies and Agricultural Trade* (OECD 1986)
- Launch of Uruguay Round
 - US proposal (1987): elimination of all production-distorting subsidies (including crop insurance subsidies) but allow for decoupled support and natural disaster mitigation programs
 - Canada (1988): crop insurance subsidies as “partially-distorting measures”
 - Cairns (1987): exemption for disaster relief but capped
- De Zeuww text (1990): crop insurance excluded from reduction commitments but total exempt support capped
- Dunkel text (1991): Annex 2, paras 7 and 8, no caps
- URAA (1993): same as Dunkel

2. Green Box – Income Insurance and Safety Nets

7. Government financial participation in income insurance and income safety net programs

- 30% income loss (gross or net) compared to 3-year average (or 5-year Olympic average)
- Whole farm, not by commodity
- Payments shall compensate for less than 70 percent of the producer's income loss
- Payments relate only to income, not production or prices

2. Green Box – Natural Disaster Relief

8. Payments (made either directly or by way of government financial participation in crop insurance schemes) for relief from natural disasters

- 30% production loss compared to 3-year average (or 5-year Olympic average)
- Requires disaster declaration
- Cannot compensate for more than the loss (and no more than 100% in conjunction with safety nets)

Implications for insurance

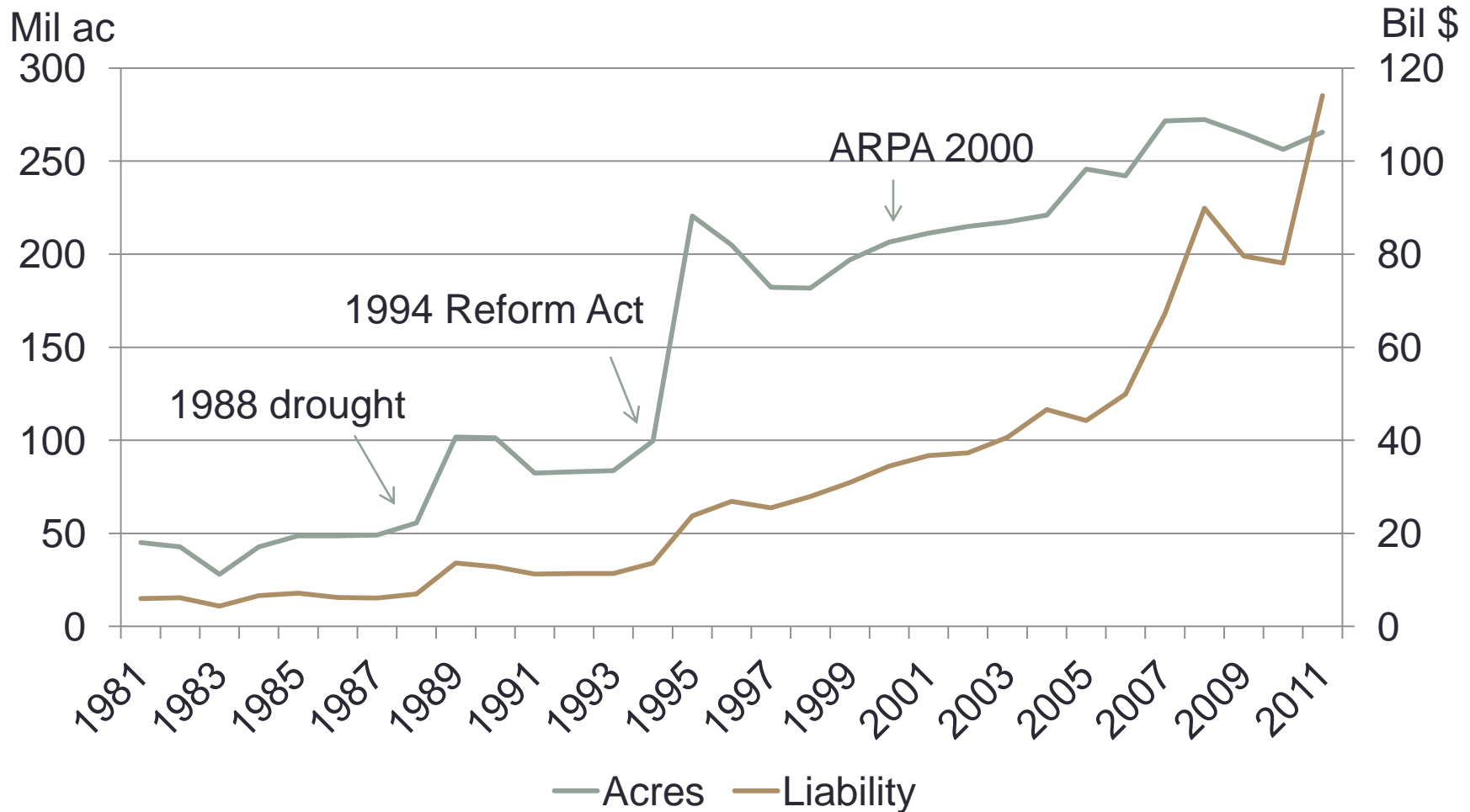
- Criteria at odds with insurance principals:
 - Yield guarantees based on limited data (3-year average or 5-year Olympic average) rather than longer yield histories
 - Need for disaster declaration yet insurance payouts are likely in every year
- Criteria based more on provisions of disaster programs such as were implemented in the US in the 1980s
- Criteria did not anticipate changes which we would see in US crop insurance program:
 - Revenue insurance based on futures prices (rather than past revenue levels)
 - Area products (GRP, GRIP)
 - Margin products which pay based on the difference between output and input prices (eg, LGM-dairy)

3. Growth of insurance programs

- At time of launch of Uruguay Round, only handful of countries had insurance programs (Hazell et al.; FAO)
- Today more than 100 countries offer some form of agricultural insurance (Mahul and Stutley 2010)
- Estimated premium volume in 2007, top 10 markets:
 1. United States \$8,511 mil
 2. Japan \$1,111 mil
 3. Canada \$1,090 mil
 4. Spain \$ 809 mil
 5. China \$ 682 mil
 6. Italy \$ 383 mil
 7. France \$ 366 mil
 8. Russia \$ 315 mil
 9. Iran \$ 241 mil
 10. Argentina \$ 240 mil

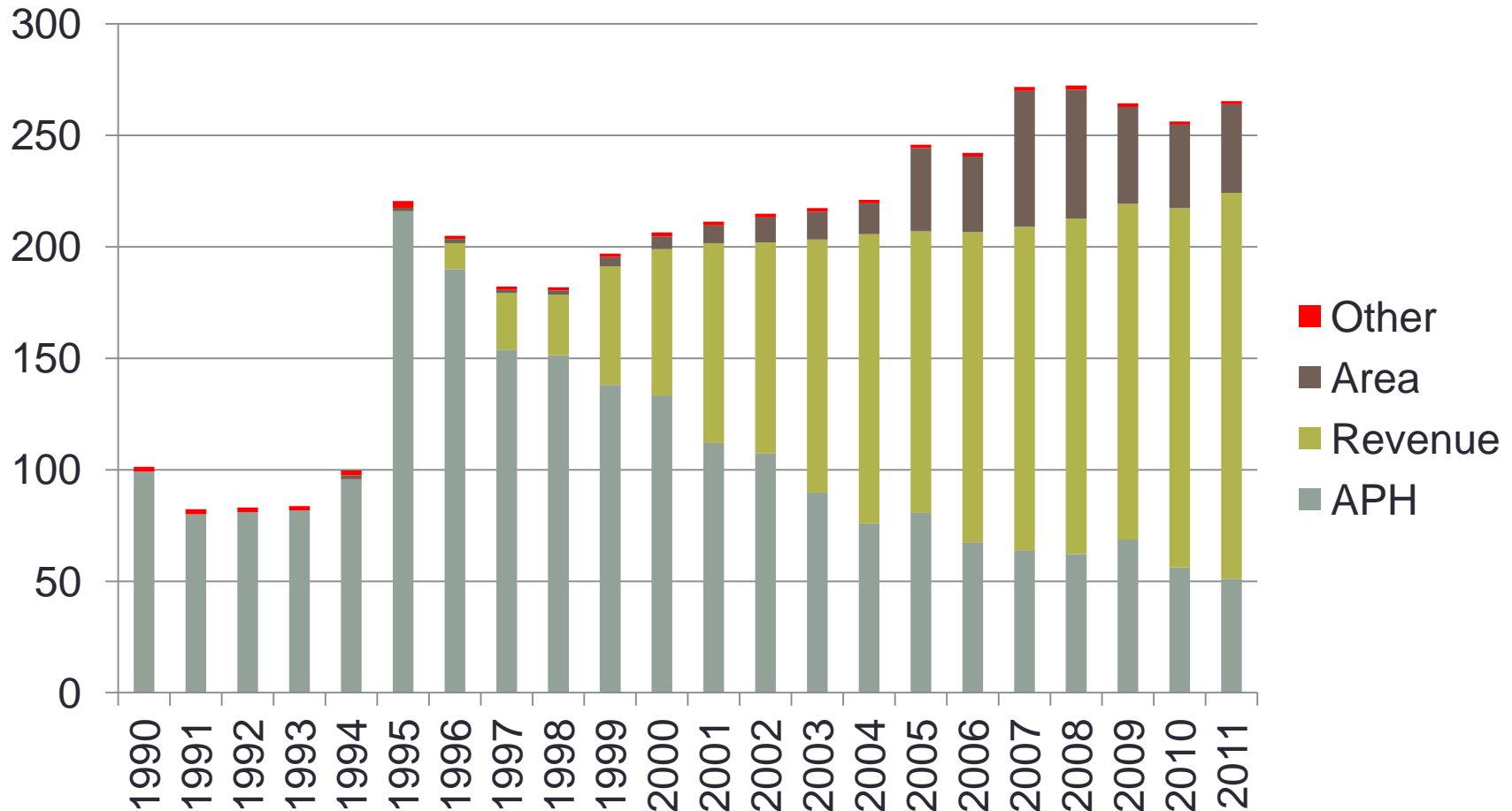
Source: Mahul and Stutley 2010

Growth in the US crop insurance program



Growth in revenue insurance and area plans— neither of which were available in 1993

Mil acres



4. Notifications of insurance programs to the WTO

- How classified: green or amber
- Specificity: product specific or non-product specific
- How measured:
 - Premium subsidy (e.g., EU, Japan, US 2008-10, Canada 2007-09)
 - Net indemnity (e.g., US 1995-2007)
 - Indemnity times percent of subsidized premium (e.g., Canada, 1995-2006)
- How delivery costs notified:
 - Ignored altogether (most countries)
 - Green box (US)—similar treatment to how delivery costs for other costs are treated
 - Implicitly included as part of premium subsidy (France)
- Most countries lack transparency

WTO notifications for selected countries

Country	Year Notified	Currency Unit	Amount notified	How notified	Total AMS
Canada	2009	\$Can	801.3 mil.	NPS amber	1,398.1 mil.
EU	2008	Euro	526.0 mil.	NPS amber	11,795.5 mil.
Israel	2009	\$U.S.	31.9 mil.	Green box, para. 8	513.7 mil.
Japan	2009	Yen	159.9 bil. 47.4 bil.	NPS amber Green, para. 8	564.8 bil.
South Korea	2008	Won	49.06 bil.	NPS amber	33.1 bil.
United States	2010	\$U.S.	4,711 mil. 3,890 mil.	NPS amber Green, para. 2	4,119 mil.

*Source: Smith and Glauber, 2012,
updated based on RMA data*

5. Trade cases: Brazil Cotton

- Peace Clause analysis
 - Is crop insurance specific to cotton?
 - How is the subsidy measured?
- Serious Prejudice analysis
 - How to evaluate different subsidy programs
 - Is crop insurance price-contingent?
 - Determined to be more income support, rather than price support

Trade Cases: CVD actions

- 4 challenges – 3 from Canada against corn subsidies, 1 from China on corn & soybeans
- First issue – specificity
 - All cases found crop insurance to be specific

“The program is considered to be targeted in that, while the program is apparently available to all persons engaged in agriculture, in fact it is not.”

Crop Insurance in CVD Cases (2)

- Second issue – how to measure the benefit
 - Net indemnities
 - Premium subsidies
 - Delivery costs (A&O, underwriting gains)
- Third issue – effects of the subsidy
 - Size of per unit benefit
 - Nature of subsidy less important (no green box)

6. Implications

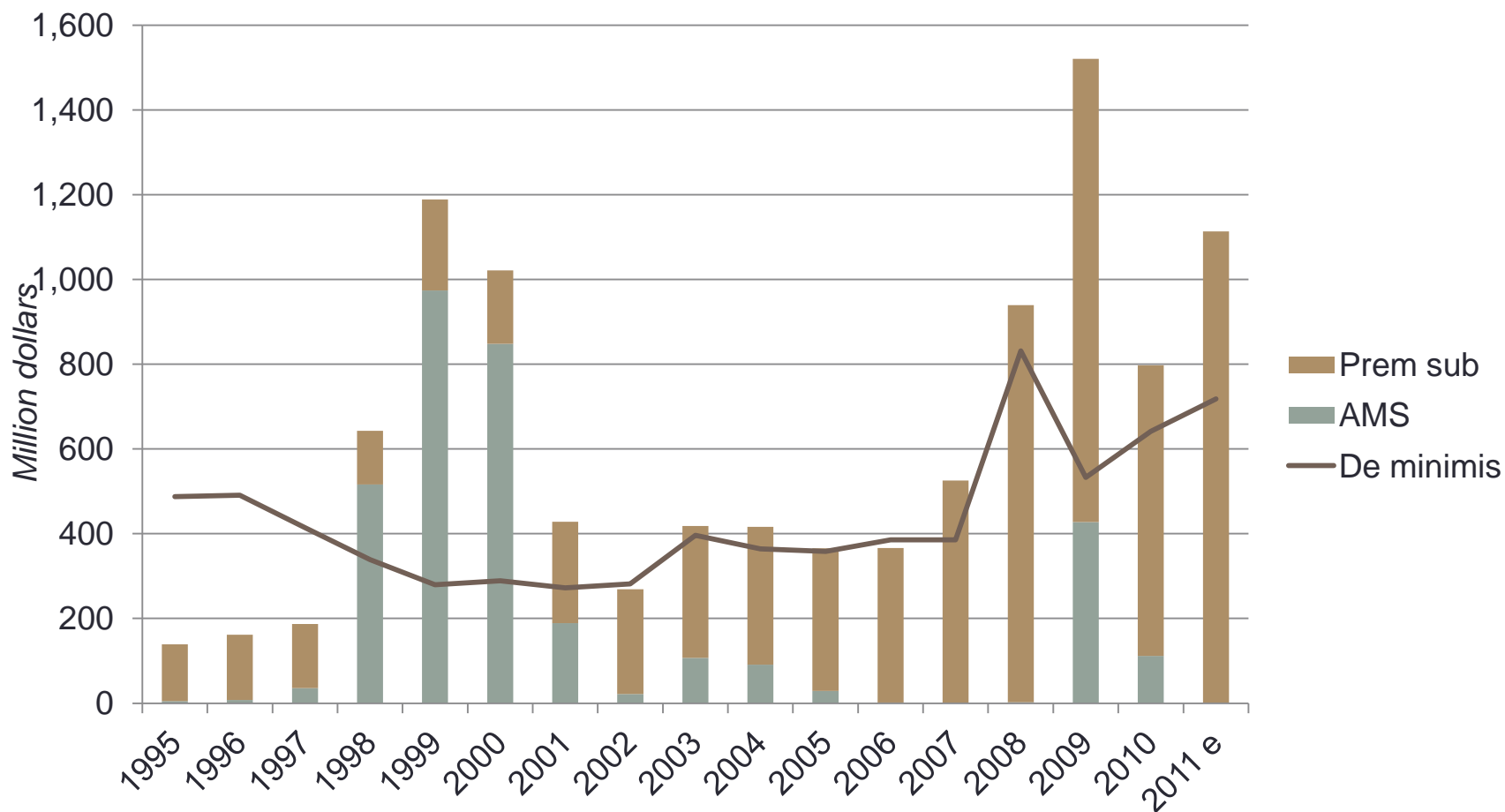
- Potential challenge to categorizing insurance subsidies as non-product specific
- What are the implications of notifying crop insurance subsidies as product-specific amber support?
- Look at corn, cotton, soybeans and wheat—account for over 80 percent of total premium
 - Examine premium subsidies versus net indemnities
 - Add to other amber support for that commodity
- Impact on AMS

Net indemnities versus premium subsidies, 1995-2011

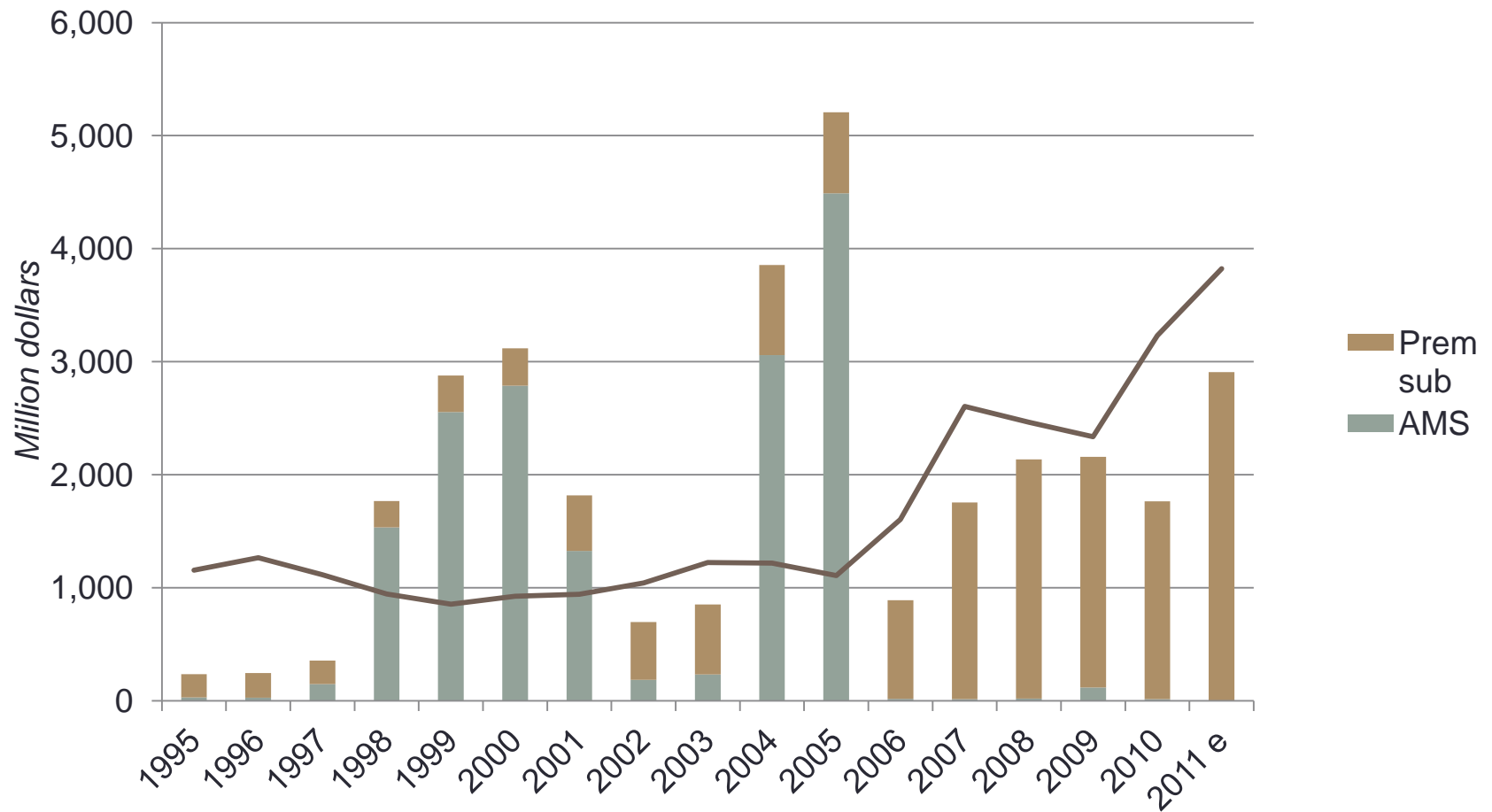
	Average net indemnity (mil \$)	Average premium subsidy (mil \$)	Number of years net indemnities > premium subsidy	Percent
Corn	287.9	945.6	1	5.9%
Cotton	336.1	250.9	12	70.6%
Soybeans	216.6	559.2	2	11.8%
Wheat	399.7	419.5	8	47.1%
All crops	1,726.7	2,741.7	4	23.5%

Wheat

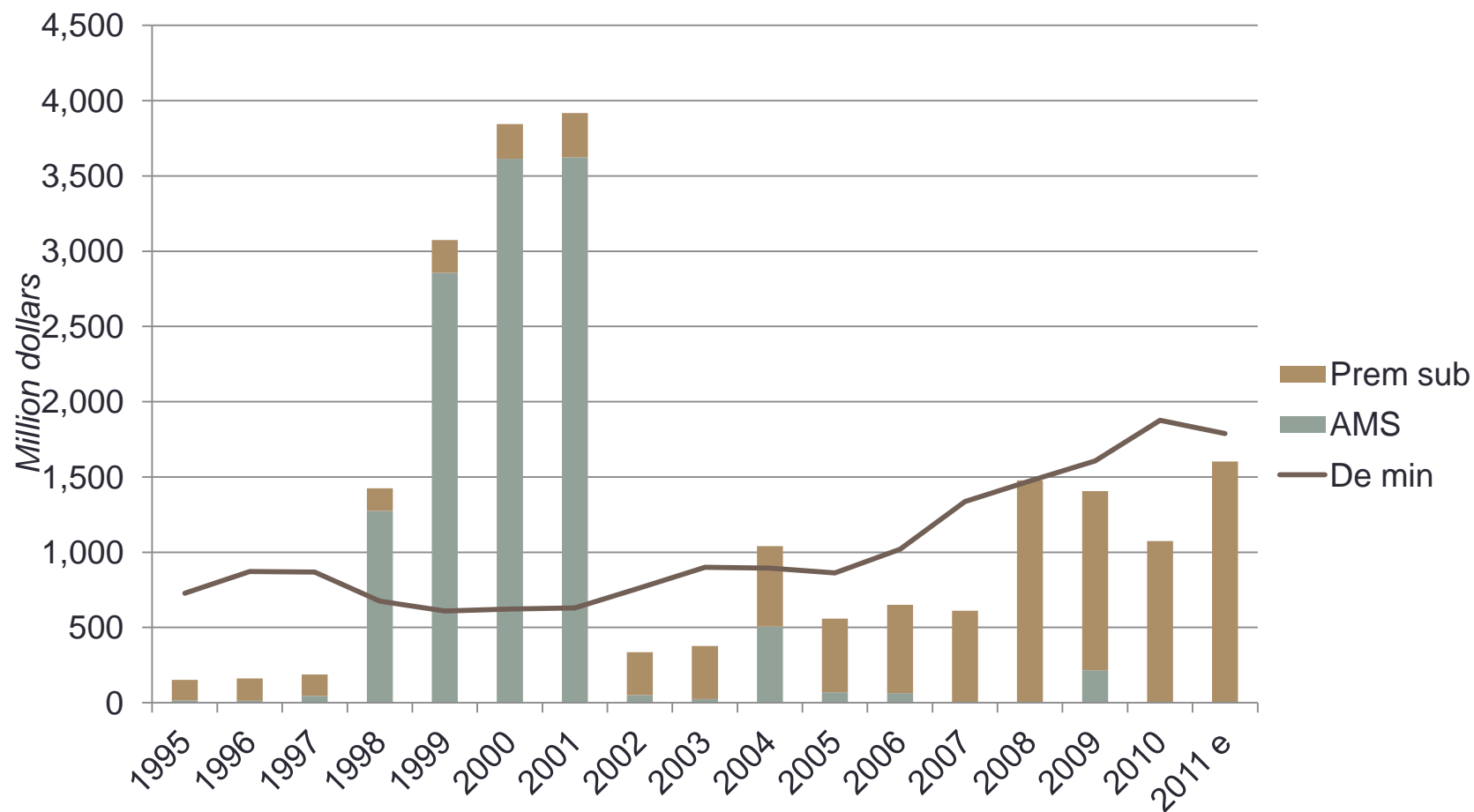
If premium subsidies had been included, AMS would have exceeded de minimis in 12 of 17 years (rather than only 3 as currently reported)



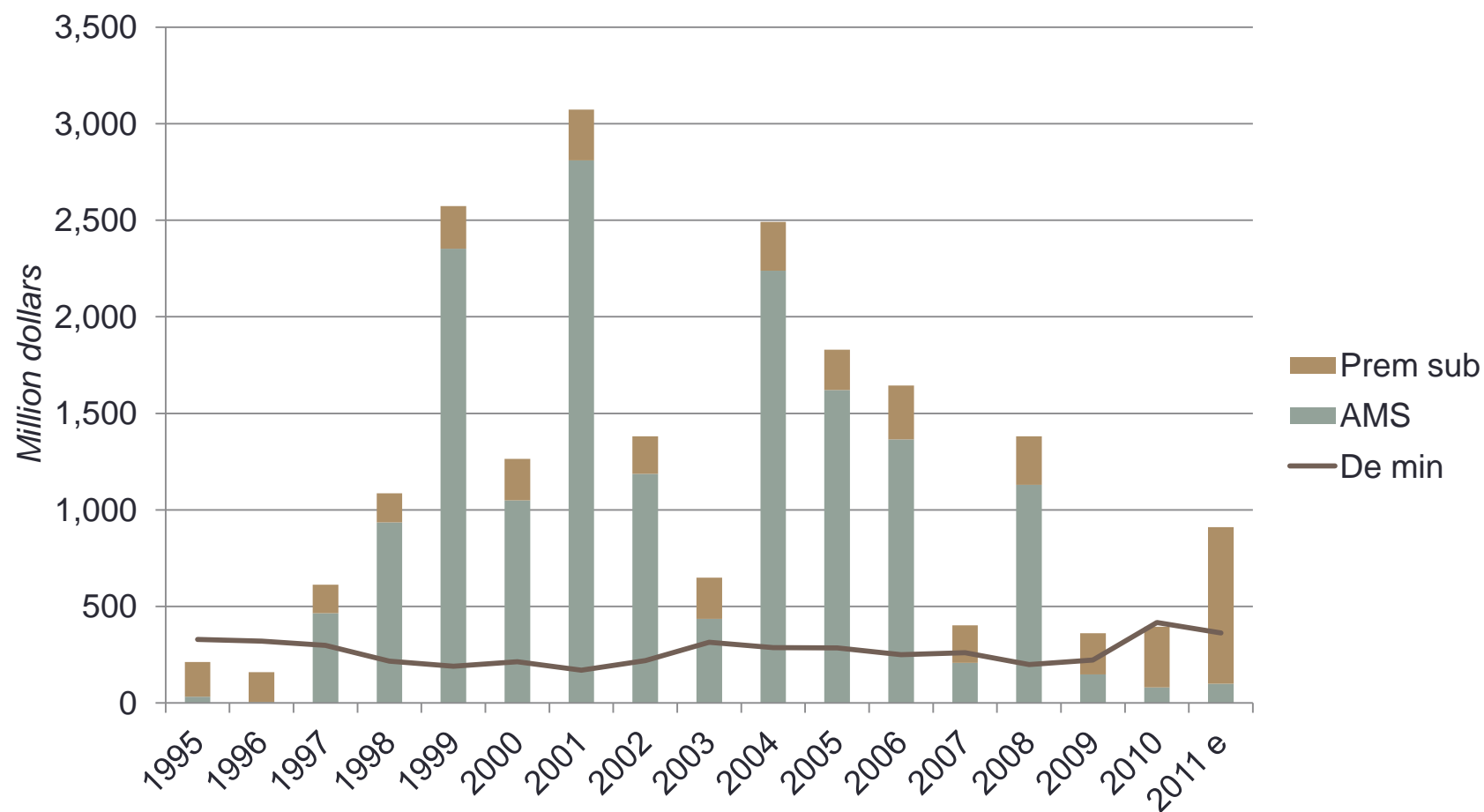
Corn



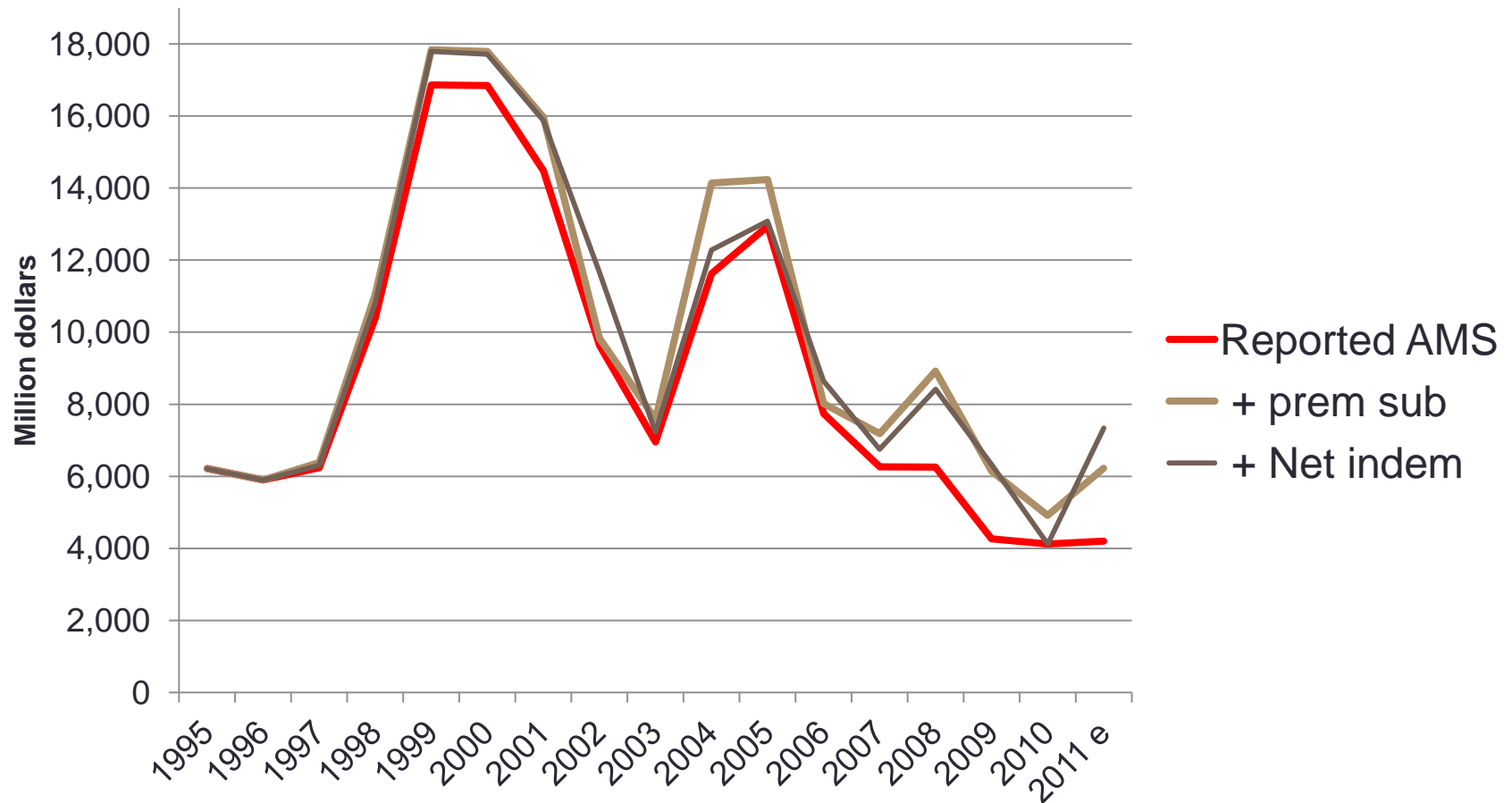
Soybeans



Cotton



AMS Adjusted for Crop Insurance: Wheat, Corn, Cotton, Soybeans



Per-acre subsidies, 2011

Crop	Acres (mil)	Subsidy (mil \$)	\$/acre
Barley	2.1	40.49	19.59
Corn	78.1	2,907.33	37.22
Cotton	13.7	811.23	59.25
Peanuts	1.0	30.49	31.26
Rice	2.3	44.65	19.64
Sorghum	4.3	130.49	30.28
Soybeans	63.6	1,603.83	25.22
Wheat	47.7	1,113.43	23.36
All crops	265.2	7,434.42	28.04

Source: RMA Summary of Business

Conclusions

- While the URAA included provisions to allow for green box treatment of insurance programs, few countries have used the provisions
- Provisions are not necessarily compatible with sound insurance principles
- Did not envision the development of area and crop specific revenue products
- Most countries have notified subsidies as non-product specific, yet most policies are product-specific.
- Likely to be more closely scrutinized as these programs grow in importance
 - “shallow loss” programs in US