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Counter-Cyclical Payments under Doha Negotiations: An Analysis of Agricultural Subsidy Programme of the US

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Abstract

This study has critically examined different aspects of Counter-Cyclical Payments (CCPs) in the context of commitment of United State of America (US) under the Agreement on Agriculture (AoA) and future obligations under recent Doha Round Negotiations. The study has highlighted the shortcomings in domestic support notifications of US to WTO and their impact on product-specific support to the agriculture sector. Earlier, US has argued that CCPs are not a trade distorting support but a decoupled support. However, due to the upland cotton case, the US notified CCPs as Amber Box support, but as a non-product specific support. The US notifications on domestic support have given a distorted picture of the product-specific support to various crops. In Doha Negotiations, the US seeks flexibilities so that CCPs can be placed under Blue Box. In WTO Notifications, the US has treated CCPs as a non-product specific support, but in Doha Negotiations, CCPs are treated as a product-specific Blue Box support. The study has concluded that it is a clear case of box shifting under Doha Round Negotiations.

Key words: Subsidy, Blue Box, counter-cyclical payments, Doha negotiations, Agriculture, WTO notifications, Upland cotton

JEL Classification: F 51, Q17, Q 18

Introduction

Agricultural trade has always been one of the most sensitive issues in the Doha Round negotiations of the WTO. The Doha Round is mandated to focus on the developmental aspects and recognizes the need for special and differential treatment for developing and least developed countries. The developing countries expected that the Doha Round would result in a substantial reform of developed countries' agricultural policies to eliminate the trade-distorting subsidies and provide a more effective access to developed countries' markets. Over the past thirteen years, various draft modalities on agricultural negotiations show that many provisions were crafted for the developed countries, so that these countries may continue to enjoy artificial comparative advantage in agricultural goods and therefore, dilute the development agenda of Doha Round. One of the most contentious issues in agricultural negotiations is the Counter-Cyclical Payments (CCPs) Programme of the US. The US provides huge subsidies to agriculture sector and its agricultural policy has major implications for the trend in international prices of agricultural commodities. The issue of CCPs in the Doha Round emerged because the US seeks to put this trade-distorting subsidy under Blue Box[1] rather than under Amber Box[2]. For this purpose, US plans to broaden the definition of Blue

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[1] Direct payments under production-limiting programmes shall not be subject to the commitment to reduce domestic support if: (i) Such payments are based on fixed area and yields; or (ii) Such payments are made on 85 per cent or less of the base level of production; or (iii) Livestock payments are made on a fixed number of head. Any member country can pro-

Box. However, this policy change, if accepted, will undermine the main objective of Agreement on Agriculture (AoA) as well as of Doha Declaration (Para 13, WT/MIN (01)/Dec/1) to establish a fair and market-oriented agricultural trading system. With this background, the main objective of this study was to critically examine different aspects of CCPs in the context of US commitment under Agreement on Agriculture (AoA) and future obligations under the Doha Round negotiations.

Methodology

For the study, domestic support data were collected from different notifications of US to WTO for the period 1995-2009 and Environment Working Group (EWG) data base for the period 1995-2011. This study is descriptive in nature and uses descriptive statistics. It involves economic and legal analyses of various provisions of CCPs. It reviews the domestic support notifications of US for various years, highlights the shortcomings therein and examines its impact on product-specific support to agriculture. It also briefly discusses the status of CCPs in US upland cotton case and reviews the questions related to CCPs raised in the meetings of WTO Committee on Agriculture (CoA). In addition, Overall Trade Distorting Support (OTDS) of US has been calculated and the possible reduction commitment under Doha Round negotiations has been examined. Finally, flexibilities given to US have been reviewed with reference to Blue Box and CCPs in December 2008 draft modality (WTO document, TN/AG/W/4/Rev.4).

vide domestic support under Blue Box without any limit provided the programme should be compatible with Art 6.5 of AoA.

[2] All domestic support measures, except exempt measures, provided in favour of agricultural producer are to be measured as the 'Aggregate Measurement of Support' (AMS). The subsidies provided to farmers include:
(a) Non-Product Specific subsidies such as those provided for irrigation, electricity, credit, fertilizers, seed, etc.
(b) Product Specific subsidies, which are calculated as domestic prices minus fixed external reference price.
The sum of these two is termed as Aggregate Measurement of Support (AMS) also called Amber Box. The Amber Box subsidies are considered to be trade distorting and entitled to progressive reduction commitments, base year being 1986-88.

Implementation of Counter-Cyclical Payments Programme

The Counter-Cyclical Payments (CCPs) are similar to deficiency payments, which were authorized by the 1973 Farm Act of US. The Federal Agriculture Improvement and Reform Act of 1996 (the 1996 Farm Act) eliminated the deficiency payments. The CCPs were introduced in the US through the Farm Security and Rural Investment Act of 2002 (FSRI Act 2002) and were extended under Farm Act 2008. It may be mentioned here that the commodities covered in the 2002 Farm Act were wheat, corn, grain sorghum, barley, upland cotton, oat, soybean, rice and other oilseeds. The coverage of commodities has been expanded in the 2008 Farm Act to include dry peas, peanuts, lentils, small chickpeas and large chickpeas.

The CCPs provide benefits to the producers with eligible historical production of the covered commodities. It is noteworthy that during the period 1998-2001, the Market Loss Assistance (MLA) payments were made to the farmers besides the fixed amount provided by the Production Flexibility Contracts. These MLA payments were provided to offset the low market prices. During 1998 to 2011, US$ 18 billion were spent under MLA programme (Table 1).

Table 1. Payments under Market Loss Assistance Programme, 1998-2002

Year	Payments (million US$)
1998	2809.14
1999	5464.63
2000	5459.55
2001	4641.43
2002	1.44

Source: EWG data base.

Corn, wheat and cotton accounted for the major share in total expenditure under MLA programme (Figure 1). The FSRI Act 2002 has institutionalized the MLA in the form of CCPs. This programme is administered by the Farm Service Agency (FSA) of USDA.

In addition to direct payments, the Farm Acts 2002 and 2008 authorize CCPs, which are designed to support and stabilize farm income in the years when

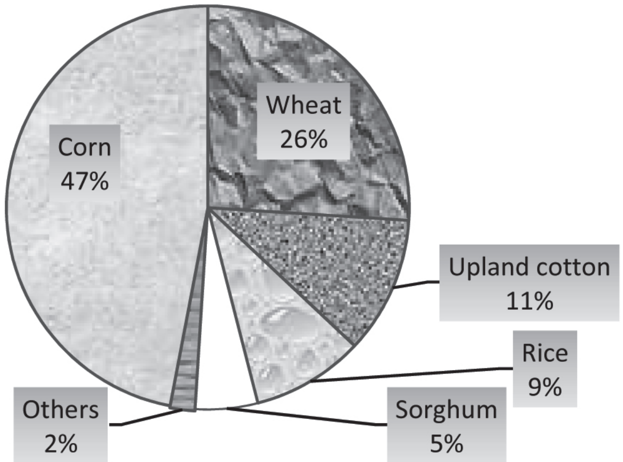

Figure 1. Share of different crops in net market loss assistance
Source: EWG data base

the current prices for historically produced agricultural commodities are less than the target prices (see Table 2 for target prices). Thus, when market prices fall, the payments are made, bigger the fall, higher the payments.

Under the Farm Act 2008, the CCPs are not available to producers who elect to participate in the Average Crop Revenue Election (ACRE) Program. The CCPs are available whenever a commodity's effective price is less than the target price. The effective price of a commodity is the sum of the direct payment rate, plus either the national commodity loan rate or the national average farm price for the crop year, whichever is higher. The Counter-Cyclical Payment amount is calculated as the product of the payment rate, the payment acres and the payment yield. Therefore, the CCP for a particular commodity is determined as:

Payment rate = (Target price) – (Direct payment rate) – (Higher of commodity price or loan rate)

CCP = ([Base acres] * 0.85) * (payment yield) * (payment rate)

The Direct Payment rate was introduced in the Farm Act 2002 replacing the old Production Flexibility Contract (PFC). The Direct Payments are made to producers on the farms for which certain payment yields and base acres are established. Since they depend on the acreage bases and yields, instead of the current production choice of a producer, they were thought to be providing no incentive to increase production of a particular commodity. The term 'Commodity Price'

Table 2. Target price of various crops under counter-cyclical payments

(US$)

Commodity	Quantity measure	2008	2009	2010-12
Wheat	Bushel	3.92	3.92	4.17
Corn	Bushel	2.63	2.63	2.63
Grain sorghum	Bushel	2.57	2.57	2.63
Barely	Bushel	2.24	2.24	2.63
Oats	Bushel	1.44	1.44	1.79
Upland cotton	Pound	0.71	0.71	0.71
Long-grain rice	Hundredweight	10.50	10.50	10.50
Medium-grain rice	Hundredweight	10.50	10.50	10.50
Peanuts	Tonne	495.00	495.00	495.00
Soybeans	Bushel	5.80	5.80	6.00
Other oilseeds	Hundredweight	10.10	10.10	12.68
Dry peas	Hundredweight	NA	8.32	8.32
Lentils	Hundredweight	NA	12.81	12.81
Small chickpeas	Hundredweight	NA	10.36	10.36
Large chickpeas	Hundredweight	NA	12.81	12.81

Source: Farm Act 2008
Note: NA = Not applicable; CCPs for pulses begin with crop year 2009.

signifies the national average market price that is received by the producers during the marketing year. The CCPs rate is highest when the market price is below the loan rate and is equal to the target price minus the direct payment rate minus the loan rate. Base acreage and payment yields are based on the historical parameters specified in the Farm Act 2002. The provisions are unchanged in the Farm Act 2008 for most commodities, except for any newly designated oilseed crop or newly eligible pulse crops. Base acres and payment yields for pulse crops (dry peas, lentils, small chickpeas, and large chickpeas) and other oilseeds are established in the same manner as used for other oilseeds in the Farm Act 2002.

Are CCPs Decoupled or Not?

The US claims that CCPs are decoupled and do not provide incentives to the farmers. Westcott et al (2002) have stated that CCPs do not affect marginal revenue as they are given on the basis of a "constant and pre-determined quantity". As production decisions are directly dependent on the market price signals only and hence CCPs will not have any direct influence on the production decisions. United State Department of Agriculture (USDA) argues that larger farms account for most of agricultural production. Research indicates that these farmers may be less risk averse, which lowers the potential production effects of CCPs due to risk reduction. Overall, CCPs provide little incentive to farmers.

According to Bullington (2005), stated the CCPs are "highly trade-distorting" due to two main reasons. One is the provision of partially updating the payment yield to incorporate more recent production level, and the other relates to the payment rate fluctuations with the market price. While analyzing the impact of Farm Act 2002 on Latin American agriculture, Basco *et al.* (2003) have stated that the CCPs will subsidize the agricultural products and obviously will lower their prices. This would then lead to, as they put it, in 'a kind of dumping' of the commodities in the world market. Oxfam (2005) has shown some reasons which indicates that CCPs are trade distorting. First, calculations being based on current prices, fails to cut down the linkage between subsidies and market conditions casting a shield against the uncertainty of market price fluctuations. Second, farmers' crop choice is indeed affected by the supports and is directed towards the crops getting the payments leading to over production. Westcott (2005) has compared the CCPs with other farm commodity programs in the Farm Act 2002. Marketing loans are fully coupled since they are available on all production and their link to market prices means they affect production decisions of farmers. The direct payments are mostly decoupled, since they are paid on a fixed, historically-based quantity rather than on current production and are not dependent on market prices or other factors that would affect production. The CCPs fall in between these two programs, having some properties similar to mostly decoupled direct payments and other properties akin to fully coupled marketing loans. Like direct payments, CCPs do not depend on current production since they are paid on a fixed, historically-based quantity. However, similar to marketing loans, CCPs are linked to market prices, so there may be some influence on the current production decisions of farmers, which would potentially make CCPs at least partially coupled. Anton and Mouel (2004) have found that if farmers are risk averse, CCPs will have a positive impact on production and will not be decoupled. The results show that because farmers are risk averse and the amount of CCPs is clearly dependent on the current market prices, the CCPs programme induces risk-reducing incentives to produce.

The Case of Subsidies on Upland Cotton

The upland cotton dispute is a landmark case as Brazil successfully challenged the trade distorting subsidies of the US. In September 2002, Brazil initiated consultations with the US regarding prohibited and actionable subsidies provided to the US producers, users and/or exporters of upland cotton. Brazil complained that international cotton prices were significantly suppressed as a result of huge subsidy given by US to agriculture. Later, Brazil requested for the establishment of a panel. This dispute (2003-2009) led to many important decisions, which had many implications for the trade distorting subsidies. The panel found (which was later upheld by the Appellate Body) that the price-contingent subsidies (marketing loan programme payments, user marketing (Step 2) payments, market loss assistance payments, and CCPs) had led to a significant price suppression during the reference period 1999-2000. After the original ruling, the US put an end on the user marketing (Step 2) payments. However, the US did not make any change

Table 3. Trend in counter-cyclical payments, 2002-2009

Year	Counter-cyclical payments (in million US $)
2002	1804.40
2003	544.40
2004	4287.60
2005	4748.70
2006	1487.98
2007	893.38
2008	1219.84
2009	220.54

Source: WTO notifications

in the marketing loan or CCPs programme. Therefore, Brazil again initiated compliance proceedings against the US. Brazil claimed that the effect of the new "basket" of marketing loan and CCPs caused present serious prejudice, *inter alia*, in the form of significant price suppression in the world cotton market. In this context, it is important to mention the analysis by Sumner (2006), wherein he has used a traditional log linear equilibrium displacement model to simulate the effects of removing US cotton subsidy programs on US production, US exports and world prices of cotton. The model simulates the impacts for recent crop years, 1999 through 2005, and for future years, 2006 through 2008. The results show that the effect of marketing loan and CCPs has been lower world prices of cotton by 9.3 per cent and 10.7 per cent in 2005.

WTO Notification of US and Counter-Cyclical Payments

The US has notified CCPs in Amber Box as a non-product specific support to agriculture due to upland cotton case (Table 3). Therefore, it indicates that CCPs are trade distorting subsidies and provide incentive to the farmers. The classifications of CCPs as a non-product specific support by the US is a highly debatable one because according to the provisions of CCPs, these payments relates to production of certain covered commodities and therefore, these should be product-specific.

Due to classification of CCPs as non-product specific support by US, product-specific support to agricultural commodities has declined. Figure 2 shows that product-specific support to cotton has declined after 2001 onwards. It was due to the fact that US notified CCPs as non-product specific support rather than product-specific support.

The Government of India raised this issue in WTO Committee on Agriculture (WTO Document No. G/AG/W/80) and asked:

> "*The CCPs are based on historical production and the difference between a target price and current prices. These payments are product-specific, e.g. for rice, cotton, etc. However, in the domestic support notification, CCPs are treated as non-product specific payments rather than as product-specific payments. Can the US explain this?*"

The US argued that CCPs are reported as non-product specific because payments are based on fixed historical area and yield (i.e. production), not current production. Recipients are not required to produce any product to receive payments. Because any crop can be grown on the base acre, payments cannot be ascribed to a specific product. But provisions of CCPs clearly show that these payments are product-specific. Even environmental group database clearly shows that these payments are product-specific.

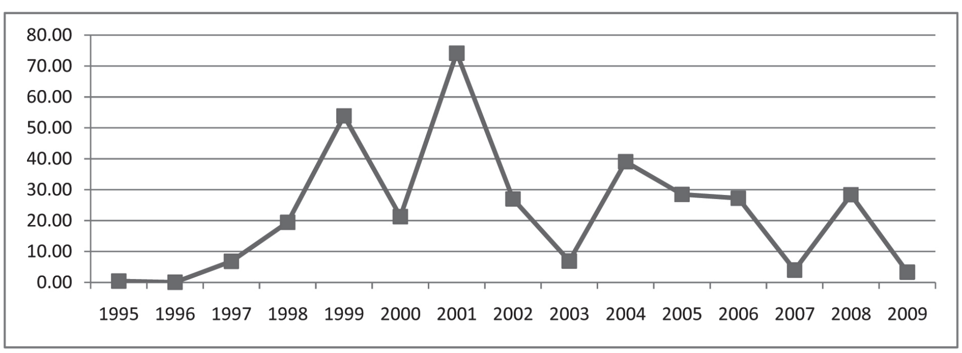

Figure 2. Product-specific support of US as a percentage of value of production: Cotton

Source: US's WTO notification

Table 4. US subsidy under various categories, 1995-2011

Year	Conservation (%)	Disaster payment (%)	Commodity programme (%)	Crop insurance premium subsidies (%)	Total subsidies (million US$)
1995	23	8	58	11	8132
2000	7	6	82	5	24740
2005	11	13	67	10	24309
2010	14	16	39	31	15429
2011	12	6	33	49	15180
Total	13	8	62	17	277292

Source: EWG database

Table 5. Share of CCPs in total commodity payment and total subsidy, 2002-2011

Year	CCPs (million US$)	Commodity programme (million US$)	Total subsidies (million US$)	CCPs share in commodity payment (%)	CCPs share in total subsidy (%)
2002	203	8978	14068	2.27	1.45
2003	2301	11102	18116	20.72	12.70
2004	1122	10234	15342	10.96	7.31
2005	4074	16250	24309	25.07	16.76
2006	4046	11226	17035	36.04	23.75
2007	1130	7134	14431	15.83	7.83
2008	714	6209	17032	11.50	4.19
2009	1170	7776	16348	15.05	7.16
2010	210	5956	15429	3.53	1.36
2011	0.08	4946	15180	0.00	0.00
Total	14970	172267	277292	8.69	5.40

Source: EWG database

The Environmental Working Group (EWG) database gives broad information about US subsidies under various categories. The US government spent US$ 277 billion on subsidies during the period 1995-2011. The commodity programme accounted for 62 per cent of the total subsidies during 1995-2011(Table 4).

Table 5 shows the share of CCPs in total commodity payment and the total subsidy to US agricultural sector. On an average, the share of CCPs in total commodity payment and total subsidy was 8.69 per cent and 5.40 per cent, respectively during 2002-2011. The share of CCPs was highest in the years 2005 and 2006, when commodity prices were low. As international prices of agricultural commodity showed an upward trend from 2007 onwards, the share of CCPs declined.

Table 6 shows the crop-wise counter-cyclical payments. Cotton and corn accounted for 49.52 per cent and 36.01 per cent of total CCPs during 2002-2011, respectively. It clearly shows the concentration of counter-cyclical payments on cotton and corn. Even, these payments were biased towards rich farmers and big corporations. For example, top 10 per cent of total CCPs recipients were paid 76 per cent of the total counter-cyclical payments, as can be seen from Table 7.

Overall, it shows that CCPs programme is an important mode to support famers in the US. By showing CCPs as a non-product specific support, US

Table 6. Share of different crops under CCPs during 2002-2011

Crop	Share	
	million US$	Per cent
Cotton	7412.65	49.52
Corn	5390.56	36.01
Peanuts	948.59	6.34
Rice	596.78	3.99
Sorghum	314.71	2.10
Farm Bill 2008	205.89	1.38
Barley	98.35	0.66
Soybeans	1.54	0.01
Wheat	0.55	0.00
Oats	0.01	0.00
Total	14969.64	100.00

Source: EWG data base

notifications on domestic support have underestimated the product-specific support to various crops. As this programme provides incentive to farmers, it is a trade distorting programme and therefore, should come under Amber Box as a product-specific support to agriculture rather than a non-product specific support.

Doha Negotiations and US Domestic Support to Agriculture

In Doha Negotiations, the US seeks to broaden the definition of Blue Box. Article 6.5 of Agreement on Agriculture (AoA) explains the criteria for Blue Box support as:

(a) Direct payments under production-limiting programmes shall not be subject to the commitment to reduce domestic support if: (i) such payments are based on fixed area and yields; or (ii) such payments are made on 85 per cent or less of the base level of production; or (iii) livestock payments are made on a fixed number of heads.

(b) The exemption from the reduction commitment for direct payments meeting the above criteria shall be reflected by the exclusion of the value of those direct payments in a Member's calculation of its Current Total Aggregate Measurement of Support (AMS).

The WTO document,TN/AG/W/4/Rev.4, provides the latest provisions to reduce domestic support to the agriculture sector. It is noteworthy that these are proposals on the negotiating table and have no binding effect until Doha Round concludes. About domestic support, the Doha negotiations aim at substantial reductions in trade-distorting domestic support by (1) Setting limits where they do not exist (except for Green Box and Art.6.2 subsidies) for example, overall Blue Box, product-specific Blue Box, product-specific AMS; (2) Reducing limits where they exist, for example, AMS, de minimis; (3) Establishing a new constraint – OTDS; and (4) Clarifying the Green Box criteria.

The 6th December 2008 draft modalities text proposes a tiered formula for reduction of OTDS and also suggests a range of cuts at each tier, as indicated in Table 8. These reductions are to be made in six equal steps over a period of five years. The Final Bound Total AMS shall be reduced in accordance with the tiered formula given in Table 9. For the developed country, the reductions would be made in six equal steps over a

Table 7. Percentile-wise concentration of counter-cyclical payments

Percentile of recipients	Payments (%)	Number of recipients	Total payments 1995-2011 (million US$)	Payment per recipient (US$)
Top 1%	35	12,188	5284.20	4,33,558
Top 5%	63	60,943	9477.38	1,55,512
Top 10%	76	1,21,886	11445.66	93,905
Top 15%	84	1,82,829	12555.75	68,675
Top 20%	89	2,43,772	13257.41	54,384
Remaining 80%	11	9,75,091	1712.23	1,756

Source: EWG database

Table 8. Reduction in Overall Trade Distorting Support (OTDS)

Tier	Threshold (US$ billion)	Cuts (%)
1	> 60	80
2	10-60	70
3	< 10	55

Source: WTO document, TN/AG/W/4/Rev.4

Table 9. Reduction in Final Bound Total AMS

Tier	Threshold (US$ billion)	Cuts (%)
1	> 40	70
2	15 - 40	60
3	< 15	45

Source: WTO document, TN/AG/W/4/Rev.4

period of five years. The developing country members would be required to undertake two-thirds of the cuts, in nine equal instalments over a period of eight years. Similarly, there are provisions for the product- specific support, de-minimis and Blue Box support.

As per the provisions given under WTO document,TN/AG/W/4/Rev.4, the base level for reductions in Overall Trade-Distorting Domestic Support (hereafter "Base OTDS") shall be the sum of (1) the Final Bound Total AMS specified in Part IV of a Member's Schedule; plus (2) for developed country Members, 10 per cent of the average total value of agricultural production in the 1995-2000 base period (this being composed of 5 per cent of the average total value of production for product-specific and non-product-specific AMS respectively); plus (3) the higher of average Blue Box payments as notified to the Committee on Agriculture, or 5 per cent of the average total value of agricultural production, in the 1995-2000 base period. Table 10 shows that final bound OTDS of US is about $ 48 billion and US would have to reduce the final OTDS by 70 per cent to bring it down to $ 14 billion in six steps over a period of five years after the conclusion of Doha Round.

The final bound total AMS of US specified in part IV of a Member's schedule is $19 billion and therefore, US comes under second tiered of final bound AMS. As the applicable cut on final bound AMS of US is 60 per cent, it would have to be reduced to $ 7.6 billion over a period of five years. Even US has to reduce de-minimis support by 50 per cent, i.e. cap at 2.5 per cent of the value of production, from the current 5 per cent level.

CCPs in Doha Negotiations and Implications for Developing Countries

With the above provisions, it would be difficult for the US to provide huge domestic support to the agriculture sector. However, US seeks flexibilities in the Doha Negotiations so that it continues to support the agriculture sector. For this purpose, US seeks to broaden the definition of Blue Box support to the agriculture sector. It is arguing that Blue Box is less distorting than Amber Box and has made a demand for expanding the scope of coverage of subsidies in Blue Box beyond the present criteria under which only production-limiting support qualifies under Blue Box category. As a result, general council's decisions of August 2004 expanded the criteria to include in Blue Box direct payments that do not require production. Para 35B of Agricultural modalities dated 6 December, 2008 broaden the definition of Blue Box as follows:

Table 10. Calculation of base level OTDS of US

(in million US $)

1. Final Bound Total AMS specified in Part IV of a Member's Schedule; plus	19,103.29
2. 10 per cent of the average total value of agricultural production in the 1995-2000 base period; plus	19,413.93
3. Higher of average Blue Box payments as notified to the Committee on Agriculture, or 5 per cent of the average total value of agricultural production, in the 1995-2000 base period.	9,706.96
Final Bound OTDS	48,224.19
Applicable cut	70%

Source: Calculations on the basis of US's notification to WTO

Para 35: The value of the following domestic support, provided that it is consistent also with the limits as provided for in the paragraphs below, shall be excluded from a Member's calculation of its Current Total AMS but shall count for purposes of that Member's Blue Box commitments and OTDS:

Para 35B: Direct payments that do not require production if:

(i) such payments are based on fixed and unchanging bases and yields; or

(ii) livestock payments are made on a fixed and unchanging number of heads; and

(iii) such payments are made on 85 per cent or less of a fixed and unchanging base level of production.

This is a new addition to Blue Box for the US. It is a clear case of box shifting (from AMS to Blue Box) as would be evident from the US Notification to WTO. As discussed earlier, the US has notified CCPs under Amber Box. The US has not given any Blue Box support (except in 1995) and now with the new text, the definition of Blue Box will be widened only to allow US to shift its support from Amber Box to Blue Box.

December text or WTO document TN/AG/W/4/Rev.4 (Para 39) sets the overall blue box limit as 2.5 per cent of the average total value of agricultural production in the 1995-2000 base period on the basis of notifications to the Committee on Agriculture (CoA), where they exist. This limit shall be expressed in monetary terms in Part IV of Members' schedules and shall apply from the first day of the implementation period. Though, the overall limit for the US is also 2.5 per cent of the average total value of agricultural production, US is seeking flexibility in determining the product-specific limit.

For example, for the developed countries other than United States, the limit to the value of support that may be provided to specific products as Blue Box entitlements shall be the average value of support provided to those products at an individual product level, consistent with Article 6.5(a) of the Uruguay Round Agreement on Agriculture, during the 1995-2000 period and with notifications to the Committee on Agriculture. In any case where consistent with Article 6.5(a) Blue Box support was not provided for the entire period of 1995-2000, the Member concerned shall use the average value of support for the years notified within that period, provided that there are at least three consecutive notified years within that period.

The product-specific limit for the US is determined in a different manner. For the United States, the limits to the value of support that may be provided to specific products under paragraph 35(b) above shall be (110) or (120) per cent of the average product-specific amounts that would result from applying proportionately the legislated maximum permissible expenditure under the Farm Act 2002 for specific products at an individual product level to the overall Blue Box limit of 2.5 per cent of the average total value of agricultural production during the 1995-2000 period. Table 11 shows that the product-specific Blue Box limit for corn is US$ 2359.8 million and US$ 2574.3 million when inflated by 110 per cent and 120 per cent, respectively. By applying the same methodology, the product-specific Blue Box cap for different crops is given in Table 12.

However, one important question arises here; the US treated CCPs as non-product specific support in WTO notifications, but in the Doha Round it seeks to treat CCPs as a product-specific Blue Box support. Earlier, US has argued that CCPs is not a trade

Table 11. Product-specific Blue Box cap for corn

S.No.	Description	Cap (million US$)
A	Total value of production (1995-2000)	194139.3
B	2.5 per cent of VOP	4853.5
C	Proportion of corn in the legislated maximum permissible expenditure during 2002-07	44.2 %
D =(B*C*1.10)	Product-specific limit: when raised to 110%	2359.8
E = (B*C*1.20)	Product-specific limit: when raised to 120%	2574.3

Source: Calculated on the basis of Annex A of TN/AG/W/4/Rev.4

Table 12. Product-specific Blue Box caps under Annex A
(in million US$)

Crop	110 per cent	120 per cent
Corn	2,359.80	2,574.30
Grain sorghum	106.80	116.50
Barley	32.00	34.90
Oats	5.30	5.80
Wheat	1,041.10	1,135.70
Soybeans	400.40	436.80
Upland cotton	1,009.00	1,100.80
Rice	234.90	256.30
Peanuts	149.50	163.10

Source: WTO document TN/AG/W/4/Rev.4

distorting subsidy, but later, due to upland cotton case, these payments were treated as non-product specific support under Amber Box. Now, US wants to shift these payments as product-specific Blue Box support in Doha Negotiations. It is noteworthy that US Farm Act 2014 has abolished CCPs; however, the carve-out which is demanded by the US is still a part of modality on agriculture under the Doha Round.

This is a special provision for US to continue to provide huge trade distorting support to the agriculture sector. Many developing and least-developing countries suffer considerably due to huge subsidy given in the developed countries. For example, highly subsidised cotton sector in the US is hampering the interests of developing as well as of least-developing countries. In recent agricultural negotiations, the C-4 (the cotton-4) countries, namely Benin, Burkina Faso, Chad and Mali, are demanding reduction of cotton subsidy in developed countries, especially in the US. Due to high subsidy by US, the international prices of agricultural commodities declined till food crisis (Figure 3). International prices have gone up after food crisis and US subsidies to the agriculture sector have shown a declining trend. However, new definition of Blue Box will give a carve-out to the US and will give flexibilities to support the agriculture sector with huge subsidies, when international prices of agricultural commodities decline in future. It will also hamper the interests of India who is a major producer and exporter of rice and cotton. It is to be noted that US Agricultural Act of 2014 abolished the CCPs, but the provisions related to CCPs are still placed on the negotiating table. These flexibilities will allow US to continue support to the agriculture sector without substantial reduction in trade distorting subsidies in future and hampering the interests of developing countries.

Conclusions

This paper has critically examined different aspects of Counter-Cyclical Payments (CCPs) in the context of US commitment under Agreement on Agriculture (AoA) and future obligations under recent Doha Round Negotiations. The study has shown that CCPs programme is an important mode to support famers in the US. Earlier, the US has been arguing that CCPs is not a trade distorting support but a decoupled support. However, due to upland cotton case, the US has notified CCPs as Amber Box support, but as a non-product specific support. The US notifications on domestic

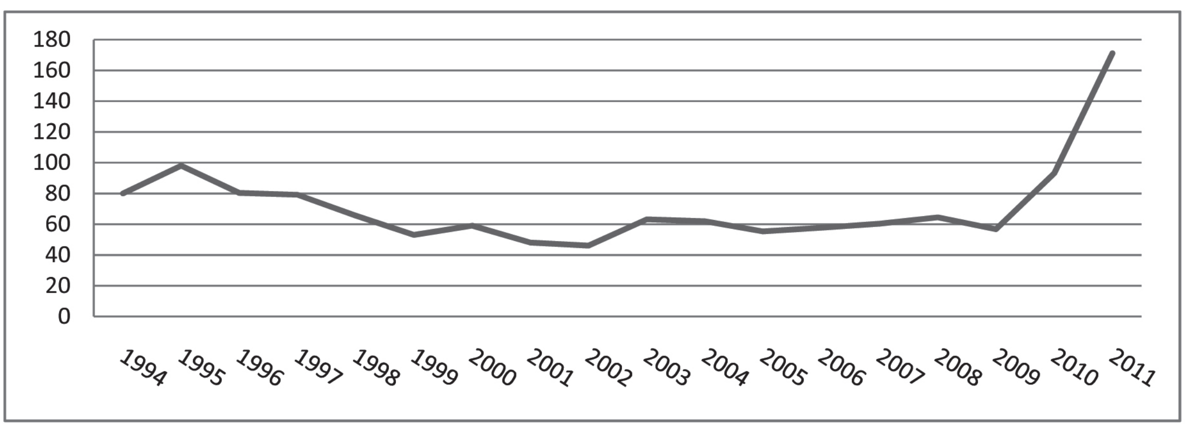

Figure 3.Trend in international cotton prices (COTLOOK, index 'A') (US cents/lb)
Source: FAO

support have given a distorted picture of the product-specific support to various crops. As the provisions of CCPs in the Farm Acts 2002 and 2008 are product-specific, it should come under Amber Box as a product-specific support to agriculture rather than non-product-specific support. In Doha Negotiations, the US seeks flexibilities so that it continues to support the agriculture sector. For this purpose, the US seeks to broaden the definition of Blue Box support to the agriculture sector. New definition of Blue Box will undermine the Doha Round agenda and will give comparative advantage to the US in agricultural trade. Due to this definition, US can place its trade distorting subsidy under Blue Box and thus can continue to support farmers with huge subsidy under CCPs. This is a clear case of box shifting under Doha Round negotiations.

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