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RE-VISITING AGRICULTURAL POLICIES IN THE LIGHT OF GLOBALISATION EXPERIENCE: THE INDIAN CONTEXT

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WTO and Domestic Support under USA Farm Act 2014: Implications for Developing Countries

I

INTRODUCTION

Agriculture subsidies in developed countries have been a major stumbling block in Doha Round negotiations. Developed countries are providing huge subsidies to agriculture sector and thereby create distortions in the international market. Some of the developed countries are enjoying comparative advantage due to large amount of subsidies and thus, adversely affecting the welfare of millions of farmers in developing countries like India. Among the developed countries, USA is one of the prominent providers of trade distorting support to agriculture sector. Agricultural support in USA led to fall in international prices of agricultural commodities. USA is giving huge support to farmers under various programmes which are governed by USA Farm Act. The agricultural and food policy in USA is governed under a multi-year farm Act. The Farm Act 2008 governed policy for various aspects of agriculture sector like farm commodity support, nutrition assistance, trade and international food aid, agricultural research, farm credit, rural development, bio energy, and forestry etc., which was scheduled to expire in 2012. After three years of discussions and deliberations, Farm Act 2014 was enacted. The 2008 Farm Act has cost $284 billion over five years. The Farm Act 2014 is projected to cost $956 billion over next 10 years (Chite, 2014). The USA Farm Act 2014 has restructured as well as repealed many programs related to different commodities. Direct Payments, Counter-Cyclical Payments (CCPs), Average Crop Revenue Election (ACRE) Program, are repealed under Farm Act 2014. This Act introduced new programs like Agriculture Risk Coverage (ARC) and Price Loss coverage (PLC) to protect farmers in terms of revenue and price loss respectively. This Act makes several changes to the existing federal crop insurance program. With cotton not covered by the ARC or PLC program, a new crop insurance policy called Stacked Income Protection Plan (STAX) is made available for cotton producers. For other crops, a similar type of policy called Supplemental Coverage Option (SCO) is introduced by Farm Act 2104.

In this context, the main objective of this paper is to critically examine the commodity and insurance programmes of USA Farm Act 2014 with reference to domestic support under Agreement on Agriculture and Doha round negotiations. First section of the paper deals with introduction, while Section 2 is related to AoA

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Provision and Methodology. Section 3 shows the trend in domestic support to USA agriculture sector. Section 4 highlights the main provisions of USA Farm Act. Section 5 is related to mapping of various programmes under different boxes and implications for the developing countries. Section 6 summarises the main findings of this study.

II

METHODOLOGY AND PROVISIONS RELATED TO DOMESTIC SUPPORT

AoA provides the methodology to estimate domestic support to agriculture sector. The key aim of reducing domestic support is to correct trade distortions with a view to promote efficient allocation and use of world resources. The Aggregate Measurement of Support (AMS) is the annual level of support in monetary terms extended to the agricultural sector. 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 (1) non-product specific subsidies such as those provided for irrigation, electricity, credit, fertilisers, seed etc. (2) 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. A member is not required to include product-specific and non-product specific support if it is below de-minims limit.[1] The de minimis limit for product specific support is fixed at 5 per cent (developed countries) and 10 per cent (developing countries) of that Member's total value of production of a basic agricultural product during the relevant year (Article 6.3). In case of non-product specific support, de minimis limit is fixed at 5 per cent (developed) and 10 per cent (developing) of that Member’s total value of agricultural production. The Amber Box subsidies are considered to be trade distorting and subject to progressive reduction commitments from base year 1986-88 level. Domestic support exceeding the maximum limit in the base year 1986-88 was to be reduced by 13.3 per cent for developing countries and 20 per cent for developed countries over an implementation period of six year for developed countries ending 2001 and ten years for developing countries ending 2005. It is noteworthy that reduction commitments are applicable only at aggregate level not at product specific level. There are some subsidies, which are required in the long term interest of maintaining natural resources, environmental protection and improving the farmer’s income. These are not to be included in the AMS and are grouped in ‘Green Box’. However, these should meet the fundamental requirement of having minimal trade distorting effects. Direct payments under production-limiting programmes (Blue Box: Article 6.5[2]) are also exempted from reduction.

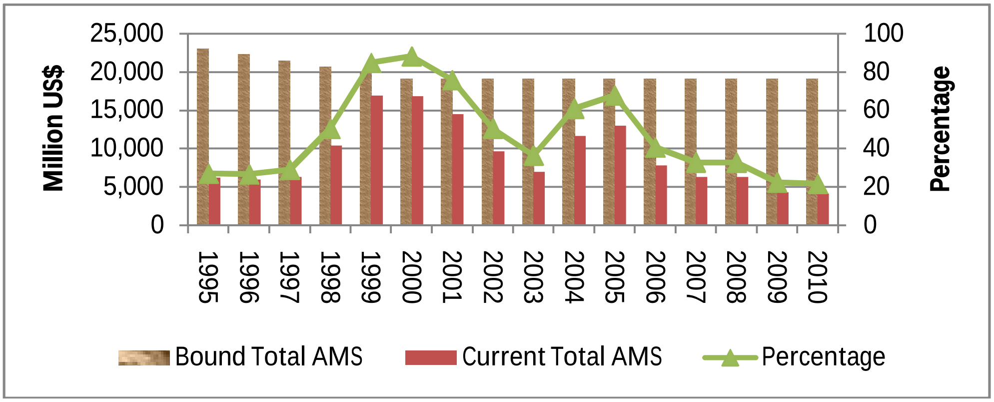
In this study, domestic support data on various boxes like Amber, Blue and Green Box is collected from USA’s notification to WTO. This study is descriptive in nature and uses descriptive statistic. It involves economic and legal analysis of various provisions of USA Farm Act 2014. It reviews domestic support notifications of USA for various years. This study highlights the shortcoming in USA's domestic support notification to WTO and its impact on product-specific support to agriculture sector. Various programs under USA farm Act are also mapped into various boxes of AoA.

III

TREND IN DOMESTIC SUPPORT TO AGRICULTURE IN USA

Being a developed nation, USA has reduction commitments related to Amber Box subsidies with base period being 1986-88. During the base period (1986-88), USA provided $23 billion Amber Box support to agriculture sector and therefore, USA committed to reduce base year domestic support to $19 billion by 2001. As Doha negotiations still continue, the final bound AMS for USA is remain at the same level of year 2001 i.e., $19 billion and current AMS of USA should remain within the limit of final bound AMS. USA can provide AMS above the de-minimis limit but should remain within final bound AMS. In that sense, USA got more flexibility in comparison to the countries where AMS was below the de-minimis level during the base period 1986-88.

About the component of current AMS of USA, non-product specific support always remain within the de-minimis level, i.e., 5 per cent of value of production, but product specific support for many products was higher than the de-minims limit. However, current AMS which is the sum of product and non-product specific support remains within the limit of final bound AMS and it accounted for 22 per cent of bound AMS in 2010 (Figure 1).



Source: USA's domestic support notifications to WTO. (http://www.wto.org)

Figure 1. Trend in Current AMS in Comparison to Bound AMS for USA.

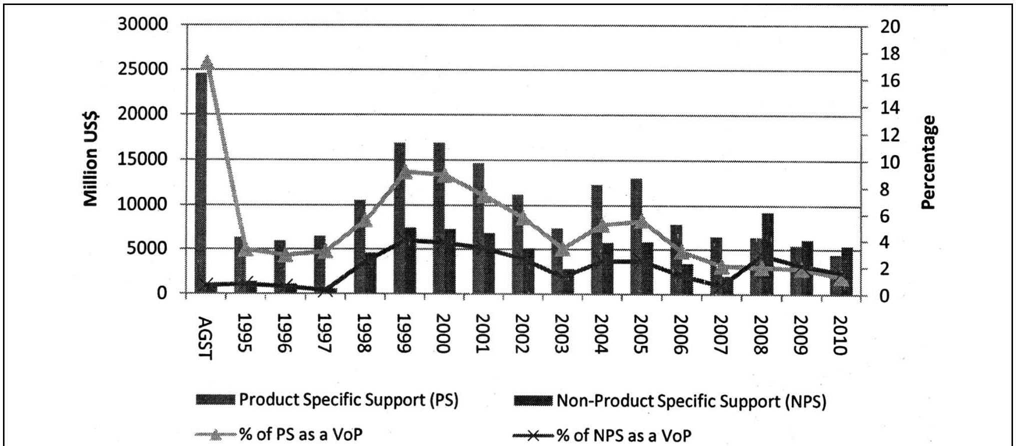
The composition of domestic support reveals that USA mainly provides domestic support in the form of Amber Box and Green Box. USA provided Blue Box support only for one year and after that it discontinue this support. Green Box support, which is considered as minimal trade distorting support, has shown upward trend during 1995-2010 (Table 1). Current AMS has declined in recent years. Aggregate product specific and non-product specific support both in absolute terms as well as value of production (VoP) has shown downward trend due to high international prices of agricultural commodities in recent years (Figure 2).

TABLE 1. TREND OF DOMESTIC SUPPORT TO AGRICULTURE SECTOR IN USA

(Millions US $)

Year (1)	Current total AMS (2)	Green box (3)	Blue box (4)	Year (5)	Current total AMS (6)	Green box (7)	Blue box (8)
1995	6214	46041	7030	2003	6950	64062	
1996	5898	51825	-	2004	11629	67425	-
1997	6238	51252	-	2005	12943	72328	-
1998	10392	49820	-	2006	7742	76035	-
1999	16862	49750	-	2007	6260	76162	-
2000	16843	50057	-	2008	6255	86218	-
2001	14482	50672	-	2009	4267	103213	-
2002	9637	58322	-	2010	4120	120531	-

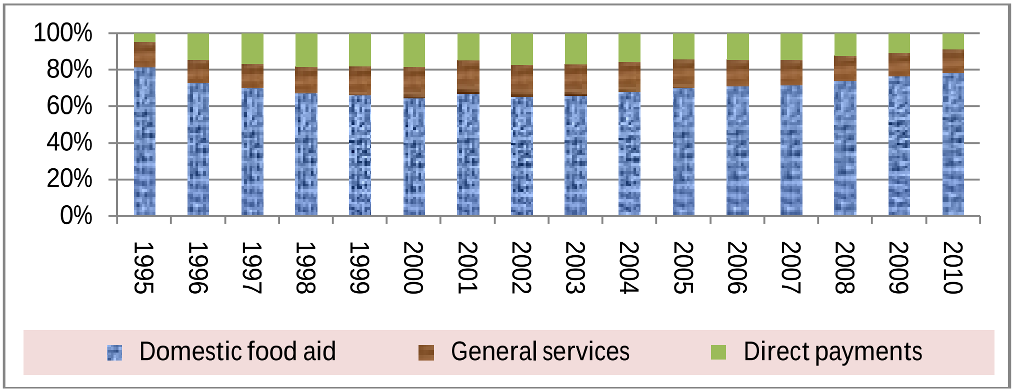
Source: USA's domestic support notifications to WTO. (http://www.wto.org).



Source: USA's domestic support notifications to WTO. (http://www.wto.org).

Figure 2. Trend in Product and Non-Product Specific Support in USA.

Green Box support is dominated by domestic food aid as it accounted for about 78.7 per cent of USA's Green Box in 2010 (Figure 3). General services which includes research, extension, inspection, marketing and others comes at a second position with a share of about 12.6 per cent during 1995-2010. Direct payments in the form of decoupled income support, payment for relief from natural disasters, resource retirement programmes, investment aids and environmental has shown upward trend. Within direct payments, decoupled income support and environmental programmes have major share during 1995-2010.



Source: USA's domestic support notifications to WTO. (http://www.wto.org).

Figure 3. Components of Green Box.

Reduction commitment related to domestic support is applicable at the aggregate level and therefore a member can concentrate or give domestic support mainly to few products/ crops provided the aggregate support remain within the final bound AMS limit. Due to absence of any rule related to cap on product-specific support, many developed countries concentrated domestic support only on few products. This led to huge impact of domestic support on the international prices of few crops/products.

Trend of product specific support reveals that USA's product specific support was mainly concentrated on few crops. Product specific support as a percentage of calculated AMS was highest for the dairy product followed by sugar. Support to eight products namely dairy, corn cotton, rice, wheat, soybean and sugar accounted for 99 per cent of total product specific support in 2010 (Table 2). Product-specific support as a percentage of value of production also provides the evidence of highly subsidised agriculture sector of USA in the past which is creating trade distortion in international trade (Table 3).

For cotton, this percentage was 0.44 in 1995, which increased to 74.16 per cent in 2001 but decline to 1 per cent in 2010. One of the reasons for decline in product-specific support was due to notifying Counter-Cyclical Payments (CCPs) as a non-product specific support rather than as product specific support. In case of sugar, this percentage was more than 50 per cent for the most of years during 1995-2009. USA's dairy sector is also highly subsidised in terms of product-specific support as a percentage of value of production as well as calculated AMS. Concentration of domestic support in USA is creating havoc in the international market for agriculture goods. Overall, given the current AMS is much below the bound AMS and the fact that there is no product specific cap under AoA, USA has still enough flexibility to increase trade distorting support.

TABLE 2. TREND IN DOMESTIC SUPPORT FOR SELECTED CROPS

(*per cent of aggregate product specific support*)

Years (1)	Aggregate product specific support Million US$ (2)	Dairy (3)	Peanuts (4)	Corn (5)	Rice (6)	Wheat (7)	Soybeans (8)	Sugar (9)	Cotton (10)	Total (11)
		Per cent								
AGST	24569	23	1	32	4	17	1	4	10	92
1995	6313	74	7	1	0	0	0	17	1	99
1996	5959	79	5	0	0	0	0	15	0	100
1997	6482	69	5	2	0	1	1	16	7	100
1998	10558	43	3	15	0	5	12	10	9	97
1999	16891	28	2	15	3	6	17	7	14	91
2000	16906	30	3	16	4	5	21	7	6	92
2001	14708	30	2	9	5	1	25	7	19	99
2002	11227	56	1	2	6	0	0	12	11	88
2003	7386	64	0	3	7	1	0	17	6	99
2004	12309	38	0	25	1	1	4	10	18	98
2005	13061	39	1	34	1	0	1	9	12	98
2006	7913	64	0	0	0	0	1	16	17	99
2007	6497	77	0	0	0	0	0	19	3	100
2008	6374	62	0	0	0	0	0	18	18	99
2009	5451	55	0	2	0	8	4	23	3	95
2010	4398	65	0	0	0	3	0	29	2	99

Source: USA's domestic support notifications to WTO. (http://www.wto.org).

TABLE 3. TREND IN DOMESTIC SUPPORT FOR SELECTED CROPS

(*per cent of value of production*)

Year (1)	Dairy (2)	Peanuts (3)	Corn (4)	Rice (5)	Wheat (6)	Soybeans (7)	Sugar (8)	Cotton (9)
AGST								
1995	23.1	40.7	0.1	0.8	0.1	0.1	51.1	0.4
1996	20.3	29.0	0.1	0.3	0.1	0.1	44.4	0.0
1997	21.0	30.5	0.7	0.4	0.4	0.3	49.3	6.8
1998	18.7	30.2	8.1	1.2	7.6	9.5	49.6	19.4
1999	19.9	35.9	14.9	35.3	17.4	23.4	56.3	53.9
2000	24.4	48.8	15.1	59.5	14.7	29.0	57.3	21.3
2001	18.0	30.4	7.0	82.5	3.5	28.7	52.3	74.2
2002	30.4	11.0	0.9	72.6	0.4	0.3	63.1	27.0
2003	22.2	2.6	1.0	30.9	1.4	0.1	55.1	6.9
2004	16.9	4.0	12.5	7.7	1.2	2.8	66.5	39.1
2005	19.2	10.6	20.2	7.6	0.4	0.4	61.6	28.5
2006	21.4	3.0	0.1	0.1	0.0	0.3	52.8	27.2
2007	14.1	0.3	0.0	0.2		0.0	58.2	4.0
2008	11.3	1.2	0.0	0.1	0.0	0.0	54.5	28.4
2009	12.3	0.9	0.3	0.8	4.0	0.7	48.7	3.3
2010	9.0	0.7	0.0	0.3	0.9	0.0	38.7	1.0

Source: USA's domestic support notifications to WTO. (http://www.wto.org).

IV

COMMODITY AND INSURANCE PROGRAMME UNDER USA FARM ACT 2014

The Farm Act 2014 is projected to cost $956 billion over next 10 years. The Congressional Budget Office (CBO) projected that if the mandatory programs of the

Farm Act 2008 were to continue, they would cost $973 billion over the next 10 years (2014-23). Compared to the baseline, the Farm Act 2014 reduces projected spending and the deficit by $16.6 billion over 10 years (Chite, 2014). Nutrition or expenditure related to food security will account for 79 per cent under this Act. Share of commodities programme had declined under this Act but expenditure on crop insurance increased in comparison to CBO projection. Recent domestic support notifications show that the share of commodities programmes had declined due to high prices of agricultural commodities in international market.

TABLE 4. BUDGET FOR FARM ACT 2014: BASELINE AND PROJECTED OUTLAYS

(*Million US$*)

2014 Farm Bill Titles (1)	CBO baseline May 2013 (2)	Share in CBO baseline (per cent) (3)	Projected outlays (2014 Farm Act) (4)	Share in projected outlay (percent) (5)	CBO score (change to outline) 2014 Farm Act (6)
Commodities	58,765	6.04	44,458	4.65	-14,307
Conservation	61,567	6.33	57,600	6.02	-3,967
Trade	3,435	0.35	3,574	0.37	139
Nutrition	7,64,432	78.57	7,56,432	79.09	-8,000
Credit	-2,240	-0.23	-2,240	-0.23	0
Rural development	13	0.00	241	0.03	228
Research	111	0.01	1,256	0.13	1,145
Forestry	3	0.00	13	0.00	10
Energy	243	0.02	1,122	0.12	879
Horticulture	1,061	0.11	1,755	0.18	694
Crop insurance	84,105	8.64	89,827	9.39	5,722
Miscellaneous (incl. NAP)	1,140	0.12	2,363	0.25	953
Total, direct spending	9,72,905	100	9,56,401	100	-16,504
Change in revenue					104
Net impact on the deficit					-16,608

Source: Congressional Budget Office (CBO).

TABLE 5. REPEALED PROGRAMMES

Programme (1)	Notified (2)
Repeal of Direct Payments: effective 2013	Green Box
Repeal of Counter-Cyclical Payments: effective 2013	Amber Box: non-product specific support
Repeal of Average Crop Revenue Election Program: effective 2013	Amber Box: non-exempt product specific direct payments

Source: USA Farm Act 2014 and USA's domestic support notifications to WTO. (http://www.wto.org)

The Farm Act 2014 eliminated direct payments, CCPs (Box 1), and ACRE[3] program to address the budget constraints facing the U.S. Government by reducing overall agricultural spending and better targeting farm programs. USA notified direct payments as Green Box support, whereas CCP and ACRE were treated as Amber Box support on the basis of provisions provided under Agreement on Agriculture (AoA) and trade distorting nature of these programmes. Though, it seems that USA eliminated trade distorting support to agriculture, but USA introduced new trade distorting support. ARC and PLC programmes are introduced to protect farmers in terms of revenue and price loss respectively. A farmer can choose between these two programs linked to a decline in either price or revenue.

BOX 1: COUNTER CYCLICAL PAYMENTS (CCPS)

Under the 2008 Farm Act, CCPs are available whenever the commodity's effective price is less than the target price. the counter cyclical payment for a particular commodity is determined as:

Payment rate = (Target price) – (Direct Payment Rate) – (Higher of Commodity Price or Loan rate)

CCP = ([Base Acres] x 0.85) x (Payment Yield) x (Payment Rate)

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' signifies the national average market price that is received by the producers during the marketing year. The target price was announced under Farm Act 2008 for covered commodities. Loan rate is the price per unit (pound, bushel, bale, or hundredweight) at which the Commodity Credit Corporation provides commodity-secured loans to farmers for a specified period of time. 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.

Source: Farm Act 2008.

PLC is a price protection programme which makes a farm payment when farm price for a covered crop declines below its "reference price" set in Farm Act. PLC replaced CCP programme which was introduced under Farm Act 2002. The reference prices under PLC are higher than the prices under CCP. The payments are issued when the effective price or market price of a covered commodity is less than the respective reference price for that commodity. The payment is equal to 85 per cent of the base acres of the covered commodity times the difference between the reference price and the effective price times the program payment yield for the covered commodity. It allows updating the base acres and yield. The potential trade distortions caused by the PLC program relative to the CCPs have increased because of updation of base acres and payment yield. It sets higher target prices for the covered crops to raising the possibility of expand production if a crop's target price is above market prices. It is to be noted that cotton crop is not covered by PLC though cotton farmers received payments under CCPs.

Farm Act 2014 introduced a revenue-based program, called Agriculture Risk Coverage (ARC), which is designed to cover a portion of loss to a farmer when crop revenues decline. Farmers may select ARC as an alternative to PLC. Like the PLC program, ARC payments are made on 85 per cent of base acres. The first step for commodity programme sign up under Farm Act 2014, famers have to give information for base acre and programs yield to receive payments under various programmes of Farm Act. Payments are triggered when actual crop revenue drops below 86 per cent of historical or "benchmark" revenue. Farmers can select coverage at either the county or individual farm level. Under ARC, the revenue guarantee is set at 86 per cent of historical revenue (i.e., the producer absorbs the first 14 per cent of the shortfall) at either the county or farm level (to cover more localized losses). The government then pays for the next 10 per cent of the loss. Any remaining losses are backstopped by crop insurance if purchased by the producer. ARC and PLC are separate from a producer's decision to purchase crop insurance. However, farmers selecting the PLC (but not ARC) are also eligible to purchase an additional subsidised crop insurance policy to protect against "shallow losses" called the Supplemental Coverage Option (SCO). Farmers in USA will continued to receive loan at subsidized rate under Marketing Assistance Loans programme to avoid distress sell. Loan rate for the covered commodities are more and less same as in Farm Act 2008 except for adjustment to upland cotton. The Farm Act 2014 sets a $125,000 per person cap on the total of PLC, ARC, marketing loan gains and loan deficiency payments. There is also an eligibility requirement based on adjusted gross income (AGI). For AGI limits, the Farm Act changes the AGI limit to a single, total AGI limit of $900,000.

The Farm Act 2014 increases funding for crop insurance relative to baseline levels by an additional $5.7 billion over 10 years due to two new insurance products i.e. (1) STAX for cotton and (2) SCO for other crops. STAX for producers of upland cotton where a new section to the Federal Crop Insurance Act is added that provides farmers with an extra revenue loss coverage option. Similarly, for other crops, the Farm Act 2014 makes available an additional policy called SCO, based on expected county yields or revenue, to cover part of the deductible under the producer's underlying policy.

V

DOHA ROUND NEGOTIATIONS AND USA FARM ACT 2014: SOME CONCERN FOR DEVELOPING COUNTRIES

As mentioned in section 3, USA's current AMS was 4.12 billion US$ for year 2010, whereas bound AMS was 19 billion US$. Therefore, USA has enough flexibility to increase Amber Box under Farm Act without breaching commitment related to domestic support under AoA. However, USA Farm Act has major implications for commitments related to domestic support under Doha Round negotiations.

5.1. *Provisions Related to Domestic Support under Doha Round Negotiations*

During the Doha negotiations, various modalities were discussed since 2001. WTO document, TN/AG/W/4/Rev.4 provides the latest provisions to reduce domestic support in agriculture sector. It is to be noted that these are the proposals on the negotiating table and has no binding effect until Doha Round concludes. About domestic support, 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 – Overall Trade Distorting Support (OTDS) and (4) Clarifying the Green Box criteria. In Doha round, all developed countries will have to substantially reduce trade distorting support and those with higher levels of support have to make deeper cuts from the "bound" or ceiling levels. Blue Box support will also be capped. If after taking cuts in individual components, the overall support exceeds the ceiling, then additional cuts will have to be made in the individual components. The 6th December 2008 draft modalities text proposes a tiered formula for reduction of OTDS and final bound AMS. It also suggests a range of cuts in each tier as indicated in Table 6. These reductions are to be made in six equal steps over a period of five years. Similarly, there are provisions for the product specific support, de minimis and Blue Box support.

TABLE 6. REDUCTION IN OTDS AND FINAL BOUND AMS

	OTDS		Final Bound AMS	
Tier	Threshold (US$ billions)	Cuts	Threshold (US$ billions)	Cuts
(1)	(2)	(3)	(4)	(5)
1	> 60	80 per cent	> 40	70 per cent
2	10-60	70 per cent	15 - 40	60 per cent
3	< 10	55 per cent	< 15	45 per cent

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

5.2 *USA Domestic Support and Doha Round Negotiations*

Final bound OTDS of USA is about $48 billion and would have to reduce final OTDS by 70 per cent to bring down it to $14 billion in six steps over a period of five years after the conclusion of Doha Round (Table 7). USA's final bound total AMS specified in part IV of a member schedule is $19 billion and therefore, USA comes under second tiered of Final bound AMS. As the applicable cut on final bound AMS of USA is 60 per cent, thus it would be reduced to $7.6 billion over a period of five years.

TABLE 7. CALCULATION OF FINAL BOUND OTDS OF USA

(*Million $*)

(1)	(2)
Final Bound Total AMS specified in Part IV of a Member's Schedule; plus	19,103.29
10 per cent of the average total value of agricultural production in the 1995-2000 base period; plus	19,413.93
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 per cent

Source: Calculation on the basis of USA's notification to WTO and WTO document, TN/AG/W/4/Rev.4

A major loophole in AoA was related to unbound product specific domestic support provided. Therefore, a member has discretion to concentrate its domestic support only on few products. During the Doha negotiations, product-specific support limit is now applicable and thus it will check concentration of domestic support to agriculture sector. De-minimis limit is also reduced from 5 per cent to 2.5 per cent for the developed countries. Doha negotiations also put a cap on Blue Box subsidy in comparison to uncapped support in AoA. It seems that USA would undertake substantial cut in domestic support to agriculture sector. However, USA seeks carve out in Doha round to escape from reduction commitment.

5.3 *Carve-out for USA under Doha Negotiations for Blue Box and Farm Act 2014*

With the provisions related to OTDS, bound AMS and product specific cap under Doha round negotiations, it would be difficult for USA to provide huge domestic support to agriculture sector. To get more flexibility, USA seeks to broaden the definition of Blue Box support to agriculture sector given under Art 6.5 of AoA. As a result, general council's decisions of I August 2004 expanded the criteria to include in Blue Box direct payments that do not require production.

BOX 2. NEW DEFINITION OF BLUE BOX

Agriculture modalities dated 6 December, 2008 broaden the definition of Blue Box.

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:

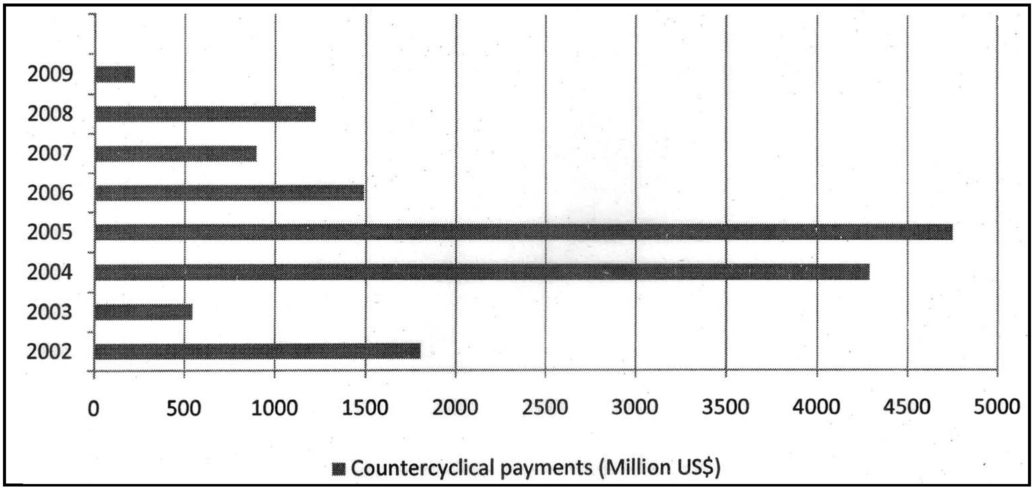
B Direct payments that do not require production if:

- such payments are based on fixed and unchanging bases and yields; or
- livestock payments are made on a fixed and unchanging number of head; and
- Such payments are made on 85 per cent or less of a fixed and unchanging base level of production.

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

This is a new addition to Blue Box for the USA. USA wanted to notify CCPs under Doha Round as Blue Box. It is to be noted that USA 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 USA to shift its support from Amber Box to Blue Box. USA has notified its CCPs as non-product specific support under Amber Box. Initially USA claimed that CCPs are decoupled and therefore, does not provide any incentive to farmers. However, in "United States – Subsidies Upland Cotton Case", Brazil successfully challenged the trade distorting subsidy of USA. Due to upland cotton case, USA has notified CCPs in Amber Box as a non-product specific support to agriculture sector. CCPs increased from $1.8 billion in 2002 to $4.7 billion in 2005 but decline in recent years due to increase in international prices of agricultural commodities in recent past (see Figure 4).

USA argues 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 there payments are product-



Source: USA's domestic support notifications to WTO. (http://www.wto.org).

Figure 4. Trend in Countercyclical Payment (Million Dollars).

specific as the target price is related to a particular product. In Doha negotiations, USA is treating CCPs as Blue Box support and on that basis determining product specific Blue Box cap. In WTO notifications, USA is treating CCPs as non-product specific, but in Doha negotiations demanding product specific cap for the same programme. In other words, notification of CCPs as non-product specific support is questionable and USA should notify this programme as product specific support. It is to be noted that domestic support to specific product declined after 2002 because CCPs were treated as non-product specific support. Many developing countries raise this issue and argued that USA is under estimating product specific support. By broadening the definition of Blue Box, USA wants to shift this programme to Blue Box. USA seeks product specific flexibly because modality set deminimis limit as 2.5 per cent and also cap product specific support. By seeking new definition of Blue Box, USA seeks the flexibility given under Table 8. Without broadening the definition of Blue Box, USA would not able to support farmers under this Box.

TABLE 8. PRODUCT-SPECIFIC BLUE BOX CAPS UNDER ANNEX A

(Million $)

Crop (1)	110 per cent (2)	120 per cent (3)
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.

USA Farm Act 2014 repealed CCPs and introduced PLC which is similar to CCPs but more trade distorting support. The target price under PLC is much higher than CCPs and therefore it will create more trade distortion. Given the past trend, USA most probably will notify PLC as non-product specific support. Developing country should oppose it as PLC is a product specific support due to product specific target price as given under Table 9. It is most likely that USA will still seek to broaden the definition of Blue Box to shift PLC from Amber Box to Blue Box. This move will dilute the main objective of Doha round i.e. effective reduction in trade distorting support to agriculture sector and it will adversely affect the welfare of low income or resource poor farmers in developing and least developing countries. Besides PLC, ARC and Market loan assistance programme will distort international trade in agriculture sector. ARC most likely will be notified as non-exempt product specific support. Market loan assistance programme will continue to be notified as product specific support.

TABLE 9. TARGET PRICE OF VARIOUS CROPS UNDER CCP AND PLC

(in US$)

Commodity (1)	Quantity measure (2)	Target prices under CCP (3)	Target prices under PLC (4)
Wheat	Bushel	4.17	5.50
Corn	Bushel	2.63	3.70
Grain sorghum	Bushel	2.63	3.95
Barely	Bushel	2.63	4.95
Oats	Bushel	1.79	2.40
Upland cotton	Pound	0.71	n.a
Long-grain rice	Hundredweight	10.50	14.00
Medium-grain rice	Hundredweight	10.50	14.00
Peanuts	Ton	495.00	535.00
Soybeans	Bushel	6.00	8.40
Other oilseeds	Hundredweight	12.68	20.15
Dry peas	Hundredweight	8.32	11.00
Lentils	Hundredweight	12.81	19.97
Small chickpeas	Hundredweight	10.36	19.04
Large chickpeas	Hundredweight	12.81	21.54

Source: Farm Act 2014 and 2008.

5.4: *USA Farm Act and Crops Insurance*

Responding to the concerns of farmers across America, this Act strengthens and improves insurance coverage for agricultural crops. The federal Crop Insurance Program (CIP) makes available subsidized crop insurance to producers who purchase a policy to protect against individual farm losses in yield, crop revenue, or whole farm revenue. With cotton not covered by the ARC program a new crop insurance policy called STAX is made available for cotton producers. STAX sets a revenue guarantee based on expected county revenue. For other crops, a similar type of policy called Supplemental Coverage Option (SCO), based on expected county yields or revenue, is made available. The farmer subsidy as a share of the policy premium is set at 80 per cent for STAX and 65 per cent for SCO. STAX is a revenue insurance programme and can be used with the existing Crop Insurance program (CIP). The USA has removed all the direct and CCPs for the cotton sector in the recent Farm Act that caused serious injustice to the other developing countries. The key question will be whether the decline in the distortionary support by elimination of DP's and CCP's will offset the effects of the new programs introduced. The STAX is a coupled payment because the subsidies are based on the changes in the market revenues with the changes in the prices and yields and is based on the planted acres. The STAX program was introduced in response to the increased international pressures within the ambit of WTO commitments. The STAX program gives the farmer an extra revenue loss coverage option as it require farmers to pay just 20 per cent of the Premium subsidy while rest 80 per cent would be paid by USA government. The STAX program can be used in addition to the regular CIP and makes up for the "shallow losses" that are not covered under CIP. Similarly, SCO can be treated as coupled support to agriculture sector.

About the WTO provisions, crop insurance premium subsidy is treated as non-product specific AMS in USA notifications. Annex 2, Para 7 (c) of AoA prescribe that amount of any such payments (Government financial participation in income insurance and income safety-net programmes) shall relate solely to income; it shall not relate to the type or volume of production (including livestock units) undertaken by the producer; or to the prices, domestic or international, applying to such production; or to the factors of production employed. But STAX and SCO are differentiating between different crops. Therefore, these programmes are not satisfying the conditions of Annex 2 (Green Box). These payments should be treated as Amber Box support. As STAX is cotton specific, all the payment including premium subsidy should be come under product specific support. Similarly, SCO payments will come under Amber Box support. Though USA, repealed direct payment, counter-cyclical and ACRE programme, farmers will get support as usual under the insurance programmes, ARC, PLC and Market assistance programme. These programmes will influence the production decisions of farmers and thus distort the international prices, which in turn will have implication for agriculture sector in developing countries.

VI

CONCLUSION

Agricultural policy of USA under various Farm Act has adversely affected the welfare of millions of resource-less and poor farmers in the developing countries. Huge domestic support to agriculture sector has led to the artificial comparative advantage for the USA. The USA very effectively exploits the loopholes in AoA and concentrated domestic support in few agricultural products. For example current AMS always remain within the bound AMS limit. However, product specific support of eight products, i.e., dairy, corn cotton, rice, wheat, soybean, peanut and sugar accounted for more than 90 per cent of calculated AMS. It led to decline in international prices of agricultural products like cotton, which was a major factor for farmers' distress in cotton producing developing countries. During the Doha negotiations new concepts and provisions related to domestic support are discussed and still on the negotiating table. Doha negotiations aim at substantial reductions in trade-distorting domestic support. However, USA seeks some special provisions related to domestic support.

Though, Farm Act 2014 has repealed Direct Payments, CCPs, ACRE but agriculture sector in USA will continue to get trade distorting support under commodity programmes like PLC, Agriculture ARC and Market Loan Assistance programme. By introducing premium subsidy under new insurance programmes i.e. STAX and SCO, USA Farm Act 2014 will distort international trade. As USA seeks to shift Amber Box support to Blue Box under Doha Round negotiations to escape from effective reduction in domestic support to agriculture sector, developing countries should oppose the carve out related Blue Box.

NOTES

1. De minimis limit is the minimal amounts of domestic support that are allowed even though they distort trade — up to 5 per cent of the value of production for developed countries, 10 per cent for developing countries.

2. Part IV, Art 6 (para 5) of AoA define blue box as: 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 provide domestic support under blue box without any limit provided the programme should be compatible with Art 6.5 of AoA.

3. As authorised by the 2008 Farm Bill (Food, Conservation, and Energy Act of 2008), producers on eligible farms may elect to participate in the Average Crop Revenue Election (ACRE) Program. Under the ACRE Program, producers may receive revenue-based payments as an alternative to receiving price-based counter-cyclical payments. Wheat, barley, and oats, grain sorghum and corn, upland cotton, Rice (medium and long grain), soybeans, other oilseeds, peanuts and pulse crops are eligible for ACRE payments.

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