

# ***Cotton Case, WTO Negotiations, and Farm Spending***

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# Farm Programs Implicated in WTO Cotton Case

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- Export (\$3 bil.) – Step 2, export credit programs (GSM)
  - Prohibited subsidies, must eliminate
- Domestic (\$1 bil.) – marketing loan program, counter-cyclical payments (CCP), Step 2
  - Eliminate/remove effect of subsidy
- Administration actions taken – changed GSM programs, requested Congress to eliminate Step 2

# Budget Proposals

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- Administration
  - Base marketing loans on historical yields
  - Payment limits
  - 5% payment reduction
- Senate Agriculture Committee
  - Eliminate Step 2 as of August 1, 2006
  - 2.5% payment reduction
  - Will reduce commodity payments by \$1.3 billion over 5 years

# U.S. WTO Proposal

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- **Amber box:** cut AMS by 60% over 5 years (incl. marketing loans)
- **Product specific AMS caps:** 1999-01 base
- **Product and non-product specific *de minimis*:** cut by 50%, from 5% to 2.5% of current value of production
- **Blue box:** cap at 2.5% of base period value of production (CCPs)
- **Green box:** no substantial changes, no cap

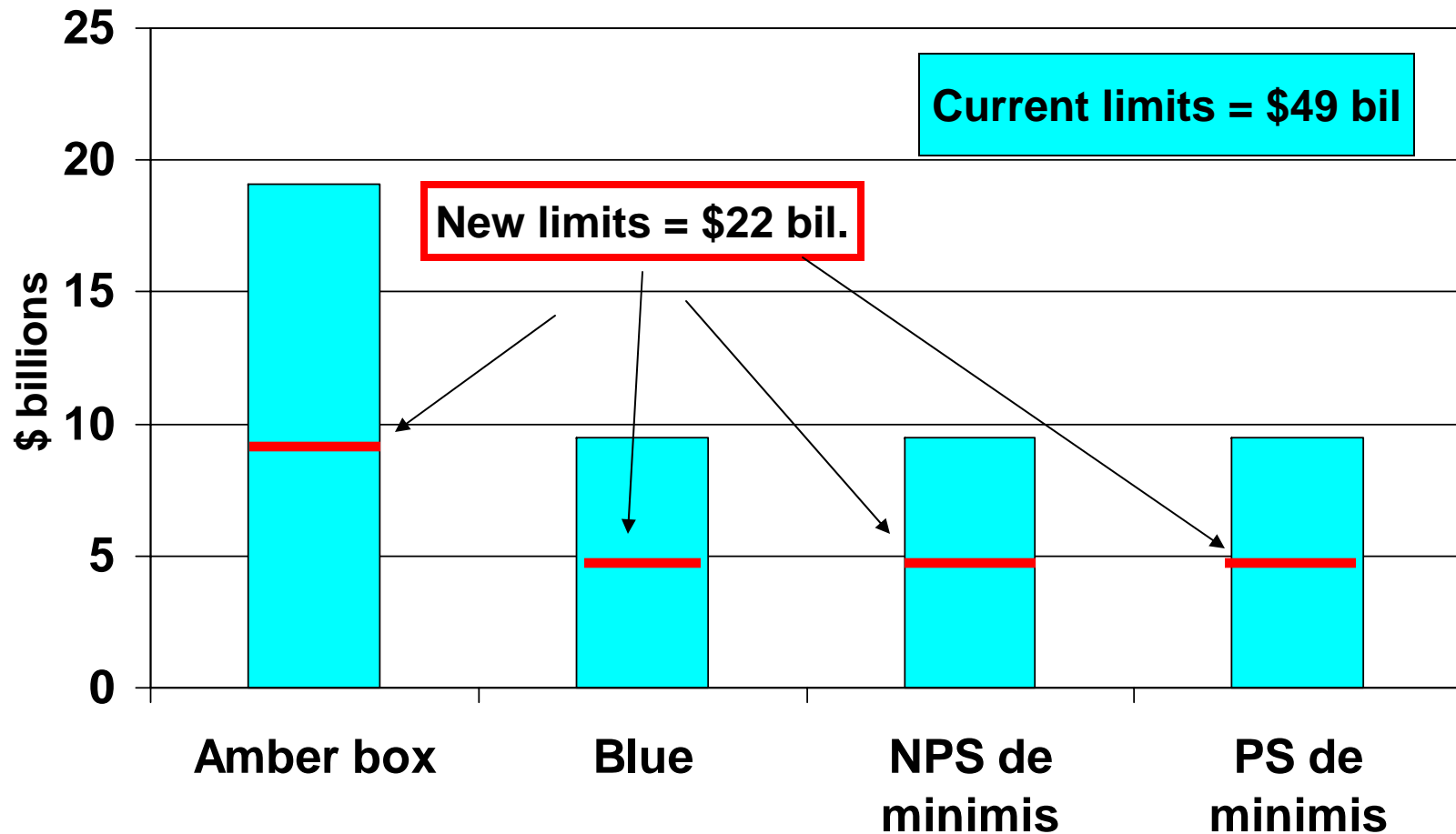
# What Does the U.S. Proposal Mean ?

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- **Amber box:** Cut \$19.1 billion to \$7.6 billion, estimated 2005 AMS is about \$14 billion
- **Blue box:** Maximum CCPs are \$7.6 billion; 2.5% is about \$5 billion; current CCPs are about \$6-6.5 bil.
- **Non-product specific *de minimis*:** Allowed level cut to 2.5%, about \$5 billion

# Illustration of U.S. Proposal

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# EU and G-20 Proposals

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- EU – will cut AMS 70%, lower for U.S. and Japan
  - Need blue box, de minimis at 1.75%
  - Product specific caps, but no reduction
- G-20 – EU cut AMS 80%, U.S. and Japan 70%
  - Product specific cap blue on blue, no price link
  - Product specific caps, then reduce
- U.S. – EU and Japan must cut AMS 83%

# Implications for Cotton?

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- **Budget proposals**: compliance deadlines are already here, could help over time
  - Step 2 elimination a real plus
  - Reductions in payments could help on serious prejudice, but not clear
- **WTO proposals**: too late for cotton compliance, will have to address in 2007 farm bill
  - Could have implications for loan program
  - Could have implications for CCPs