The Evolution of Trade-distorting Domestic Support

By Lars Brink

Introduction

In addition to addressing border measures, the WTO’s Agreement on Agriculture (“Agreement”) sets rules to govern the provision of support to agricultural producers through domestic measures. It classifies domestic support measures according to given criteria and measures support in prescribed ways. Upper limits apply to support under measures that are not exempted under the criteria. An upper limit on certain supports is bound in the WTO Schedules of 32 countries. The 2008 draft modalities would tighten the limits for developed countries – especially the EU, the US and Japan – and to a lesser extent for some developing countries, while introducing additional limits on several categories of support.

Together, the ten largest agricultural producing countries account for 74 per cent of the world’s value of production in agriculture. This paper focuses on support provided in these countries through measures that do not meet the requirements and criteria in the green box. Non-green box support comprises de minimis AMS, Current Total AMS, blue box support and Article 6.2 support. Blue box and Article 6.2 support is included since it is provided through measures that do not meet the green box requirements and criteria and thus tends to have more than minimal effects on production or trade.

The paper highlights the opposing long-term trends from 1995 in non-green box support provided by the EU, the US, and Japan – a generally declining trend – and by Brazil, China, India, and Indonesia – a generally increasing trend, albeit from nil or very low levels. It also identifies some related issues for the Doha negotiations.

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1  2009-2011 average gross production value in US dollars. Source: FAOSTAT.

2  The requirements and the criteria of the green box (Annex 2 of the Agreement) were designed to identify measures that only minimally distort production and trade or do not distort them at all. Green box support is exempt from limits.

3  An AMS (Aggregate Measurement of Support) aggregates support of different types, such as payments, market price support and input subsidies. An AMS is de minimis if it does not exceed a given percentage of the product’s value of production or the value of production in agriculture. For developing countries, China and developed countries, the percentage is 10, 8.5 and 5 per cent, respectively. All non-de minimis AMSs are added to form the Current Total AMS, a partial measurement of AMS support. Blue box support (exempt from limits) consists of payments under production-limiting programmes that meet certain criteria. Article 6.2 of the Agreement provides for support under measures that are part of development programmes in developing countries and that meet certain criteria, allowing them to be exempt from limits. It comprises certain investment and input subsidies as well as support to encourage diversification from growing illicit narcotic crops.
1. Relevant developments

Figure 1 shows the evolution of non-green box support from 1995 to the year of the latest WTO notification for the EU, the US, Japan and Russia, and Figure 2 shows that evolution for Brazil, China, India and Indonesia. Non-green box support is expressed as a percentage of the country’s value of production in agriculture at domestic prices, which normalizes the level of support relative to the size of the country’s agriculture sector.

1.1 EU, US, Japan and Russia

Having trended downward, non-green box support in the EU, US and Japan is presently much below the levels seen not only in the 1986–88 base period of the Uruguay Round but also at the 1995 start of the implementation of the Agreement (Figure 1). The reduction of the measured support of the EU and Japan is particularly marked. A drop in US support is also clear from the high-support years around 1999. The series without trend for Russia in Figure 1 is based on accession data and its 2012 notification.

The rapid decline in EU non-green box support resulted from policy changes that shifted much of the payment support into forms claimed as green box exempt. The EU also reduced or eliminated a number of administered prices, allowing it to calculate less market price support. The US support fell mainly because payments fell as crop prices rose, a 2008 policy change replaced the administered price for milk with administered prices for dairy products, which made the calculated market price support smaller, and the reporting practice for crop insurance was changed to report less non-green box support. In Japan, the abolition of the administered price for rice in 2008 led to rice market price support no longer being reported, which explains the sudden large decline in non-green box support. Blue box payments were, however, increased.

Figure 1: Non-green box support in the EU, Japan, Russia and the US
(percentage of value of production in agriculture)

Note: Non-green box support includes all AMS support (de minimis AMSs and Current Total AMS) and all blue box support.

Source: Calculated from notifications.
The declines in non-green box support in the EU, the US and Japan are thus explained by policy changes. Some involved administered prices, which reduced the measured support or shifted it to support claimed as green box compliant, and some payments shrank as market prices went up. The flat series for Russia derives from the fact that AMS support and the value of production increased at similar rates. Altogether, by 2008, non-green box support in these four countries had declined to between 5 and 8 per cent of the value of production in agriculture. In the few later years that have been notified, non-green box support levels deviated little from that range: the EU, the US and Russia remained between 3 and 6 per cent and Japan rose to about 11 per cent.

The EU saw new farm legislation in 2013, the US in 2014, and Japan over the course of several years after 2010. Certain elements of these recent initiatives could reduce the measured non-green box support, such as the elimination of administered prices for US dairy products. Other parts could increase said support, such as the additional but limited flexibility in the new EU agricultural policy for payments that do not meet the green box criteria and US crop payments that increase when market prices or revenues decline.

1.2 Brazil, China, India, Indonesia, Nigeria and Turkey

In contrast, Brazil, China and Indonesia show a pattern of increasing long-term trends (Figure 2). In the two latest years notified, however, Brazil, India and Indonesia show significant drops. All of Indonesia's non-green box support, almost all of India's and about one third of Brazil's consist of Article 6.2 subsidies. These are input subsidies (Indonesia), mainly input subsidies (India) or mainly investment subsidies (Brazil). China is not eligible for the Article 6.2 exemption.

Figure 2: Non-green box support in Brazil, China, India and Indonesia
(percentage of value of production in agriculture)

Note: Non-green box support includes all AMS support (de minimis AMS and Brazil's Current Total AMS) and all Article 6.2 support (no blue box support provided).

Source: Calculated from notifications. Values of production: Indonesia from OECD PSE database; India from TN/AG/S/21/Rev.5 (extrapolated from 2007 using data in Brink (2014)).
Turkey and Nigeria are two additional large production countries that make up the set of the ten largest agricultural producers. Turkey, which uses the provisions for developing countries in domestic support, has notified only up to 2001. Economic measurements of support relative to the size of Turkey’s agriculture sector have varied since 2001 but remained in 2013 at a level exceeding the average level of OECD countries (OECD, 2014). It is difficult, however, to extend such economic data to what would be shown in a WTO notification. All of Nigeria’s notifications up through 2011 report that no domestic support was provided. In the overall picture, therefore, one large production country using the developing country provisions (Turkey) offers more economic support to producers than the OECD average, while another such country (Nigeria) provides no domestic support.

1.3 Assessment

The EU, the US, Japan and Russia provided non-green box support at levels between 5 and 8 per cent of value of production in 2008. Unless the long-term declining trend is reversed, they may continue to provide non-green box support at these levels. By 2008, Brazil, China and Indonesia had raised non-green box support to some 2 to 4 per cent of value of production in agriculture, and India had raised it to 16 percent. In 2010, Brazil’s level reached 5 per cent before declining. As economic support to producers in China has increased rapidly since 2008 (OECD 2013), non-green box support may also have increased to some extent. While India’s 2008 level was unusually high compared to trend, non-green-box support as percent of value of production has for some time been much higher than in Brazil, China and Indonesia (Figure 2) and also higher than in the EU, Japan, Russia and the US (Figure 1).

Non-green box support in some large producer countries entitled to all or some of the Agreement’s developing country provisions has thus risen from levels not seen before to levels that rival or even exceed those of the largest developed producer countries. The contrasting trends for large developed and large developing countries may make this new pattern increasingly clear over time. The levels of non-green-box support as a percentage of value of production now significantly overlap for large developed and large developing countries. The last reported levels of four developed countries were about 3, 4, 6 and 11 percent of value of production (Figure 1). The corresponding levels for four developing countries were 1, 2, 4 and 12 (Figure 2). These observations help nuance the picture of how much non-green box support different countries currently provide.

The picture is of course different with regard to the allowed levels of certain types of support under WTO rules. Article 6.2 support is not subject to limits, so Brazil, India, Indonesia, Nigeria and Turkey can provide unlimited amounts of certain investment and input subsidies, within the practical limit of affordability. Blue box support is also without limit; however, among the ten countries, only the EU and Japan now provide such support. When it comes to AMS support, India, Indonesia, Nigeria and Turkey face de minimis limits on individual AMSs at 10 per cent of the values of production (China at 8.5 per cent). These limits increase as nominal prices increase or the values of production increase for other reasons. The 5 per cent for the EU, the US, Japan and Russia define de minimis thresholds.

Figure 2 accounts only for India’s notified data and does not incorporate the still much higher levels suggested in, e.g., Brink (2014).

Farm input subsidization and the sustainability of development are important topics for research and debate.
not limits, and Brazil faces 10 per cent thresholds. Each of these countries has a Bound Total AMS, fixed in nominal terms, which limits the Current Total AMS.

The large size of some countries' Bound Total AMS (as high as some USD 100 billion for the EU) and the long-term reductions in non-green box support have generated a large difference between the Bound Total AMS and the Current Total AMS for the EU, the US, and Japan. This “overhang” for Brazil is smaller in nominal terms. While Brazil, China, India and Indonesia have increased their non-green box support over time, not all or even none of this is AMS support, and any earlier AMS support was very low or nonexistent. China reports AMSs below the de minimis limits, India and Indonesia report no AMSs, and Brazil reports some AMSs below the de minimis thresholds and some above.

In sum, a number of policy changes in some countries have significantly reduced the reported levels of AMS support, and increases in AMS support in other countries have not yet resulted in reported violations of WTO limits.

2. Implications for the WTO negotiations

2.1 Domestic support provisions in draft modalities

The draft modalities of December 2008 would introduce numerous changes in the rules. AMS support would be more limited and blue box support would become limited (see e.g. Brink 2011 for a discussion). The changes would apply differently to countries identified in particular ways, including recently acceded Members. It is unclear how some of the draft modalities would apply to Russia, which only became a WTO Member in 2012.

The draft modalities would reduce the Bound Total AMS for the EU, the US and Japan, as well as for other developed countries and, to some extent, for Brazil and some other developing countries. If countries continue to provide AMS support as in recent years, the large Total AMS "overhang" means that reductions in Bound Total AMS could be feasible without much, if any, policy change. Some countries may not want to reduce their flexibility to increase AMS support in the future in case of a major price drop, for example. Also, for a given distribution of AMSs across products, for some countries, the cut in the de minimis percentage means that more AMSs would be counted in Current Total AMS. A larger Current Total AMS would thus need to fit within a smaller Bound Total AMS.

The introduction of limits on the individual product-specific AMSs would prevent a large increase in AMS support for any given product, at least in developed countries. Since many developing countries have historically provided little or no AMS support, they would be provided with considerable flexibility in setting the limits. While the blue box criteria would be changed to accommodate some additional measures, the total amount of a country's blue box support would be subject to a limit. Limits on blue box payments for individual products would also apply. Some rules-based flexibility would be provided, especially for developing countries.

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6 An AMS may exceed 5 (or 10) percent of value of production but must then be counted in the Current Total AMS. This applies to the 15 developed countries and the 17 developing countries with a Bound Total AMS.

7 Notifying support to the WTO involves an element of good faith. With large margins between applied support and the limits, whether de minimis limits or Bound Total AMS, dilution of the good faith element is unlikely. Small or no margins may inspire a dilution.
The sum of all applied trade-distorting support (*de minimis* AMSs, Current Total AMS, and blue box support and apparently also Article 6.2 support – the draft modalities do not exclude applied Article 6.2 support) would become subject to a limit, which for some developed and most developing countries stays fixed and for other countries declines over time to a fixed level. This measurement of applied support, labelled OTDS (Overall Trade-Distorting Support), would face limits that correspond to about 9, 7, 14, 17, 25, and 25 per cent, respectively, for the EU, the US, Japan, Brazil, China and India when expressed as a percentage of each country's value of production in 1995–2000 or 1995–2004 (Orden et al. 2011). This distribution of entitlements to non-green box support would thus be in clear contrast to the existing distribution of Bound Total AMS, which are large for the EU, the US, and Japan and nil for China and India.

### 2.2 Implications of the evolution of non-green box support

The evolution of support in eight of the ten largest agriculture producing countries illustrates how much the world has changed from the 2001 start of the Doha Round and perhaps even from the 2008 year of draft modalities. The “traditional” high-support countries of the EU, the US and Japan still provide large amounts of non-green box support but much less so than in earlier years: both policies and markets have changed.

At the same time, some large agricultural producers among the emerging countries seem to be raising their non-green box support to levels approaching or matching those of the EU, the US and Japan. These emerging countries are entitled only to provide relatively low levels of AMS support but face no constraint on certain investment subsidies and input subsidies that meet the criteria of Article 6.2. That said, Nigeria, one of the ten largest agricultural producers, provides no domestic support of any kind to its producers.

There is thus a growing need to recognize a differentiation among developing countries. First, some provide relatively large and increasing non-green box support within the developing country provisions on domestic support in the Agreement (Article 6.2 and high *de minimis* percentage), which may continue within the flexibility and allowances envisaged for developing countries in the draft modalities. Second, some will not be in a position to provide generous domestic support of any kind for some time, be it green box compliant or not, e.g. those in a situation similar to Nigeria’s but including many small agricultural producing countries. Third, some now seem to be in a position to offer large non-green box support but choose not to do so (e.g. Chile and South Africa). Increasing non-green box support in countries in the first group would increasingly distort agricultural trade and disadvantage producers in the latter two country groups.

The interests of the many, often small, countries that do not provide much, if any, non-green box support could thus diverge from the interests of those who are looking for enough future latitude to continue increasing such support (AMS, blue box, Article 6.2). In technical terms, this concerns issues such as supporting producers through administered prices and input subsidies, both of which fail to meet the green box criteria for minimally distorting policy measures. It could also concern the measurement of applied levels of trade-distorting support in OTDS with regard to Article 6.2 subsidies.

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8 Expenditures under certain developing country programmes that meet specific criteria, including expenditures under programmes using administered prices to acquire and release stocks, are considered eligible for green box treatment on the condition that a price gap is accounted for in the AMS.
Recognizing the increasing divergence of interests between high-support and low-support developing countries does not lessen the importance of reducing the very large entitlements to AMS support that some other countries now enjoy and of capping blue box support for all. Cutting the limits and introducing new limits on all categories of non-green box support would have little immediate effect on the applied support in countries that have already reduced it to levels far below the potential future limits. They would, however, be unable to raise their non-green box support back to the earlier high levels.

The extent to which the label “high-support developing country” is justified by the size and nature of a country’s support in the future will depend on the presence and size of curbs on non-green box support in a future Doha Agreement and the kind of support the country chooses to provide. With an increasing share of agricultural production taking place in developing countries, producers in developing countries have an increasing stake in a trading system where they are not disadvantaged by more highly supported producers in other countries, be they developed or developing.

**Conclusion**

The pattern of non-green box support to producers is now different from 1995, 2001, and even 2008. The support of some large developed countries is or has been on a downward trend. Some emerging economies are increasing support from earlier non-existent or low levels. Some countries, including many developing countries, are not using the exemptions and allowances to which they are entitled. Increasing use of non-green box support measures, e.g. administered prices, investment subsidies or input subsidies, in countries that did not previously provide such support can work to the future detriment of producers in low-support countries, such as many developing countries. The continued negotiations may need to reconcile the diverging interests of the future high-support and low-support factions of today’s developing country WTO Members.
References


