The Future of Green Box Measures

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Introduction

Should all farm subsidies be subject to a ceiling under international rules? Two decades ago, at the end of the Uruguay Round, trade ministers decided that they should not be, by shielding a class of farm support from any cuts or upper limits. These payments – dubbed “green box” support by trade negotiators – are required under WTO rules to cause no more than minimal trade-distortion. They typically include support ranging from general services – such as farm research, pest control, or advisory services – through to domestic food aid, decoupled income support, disaster relief, investment aid, and environmental programmes. In contrast, “amber box” payments are recognized as trade-distorting and were capped and reduced as part of the Uruguay Round deal.

The idea of exempting production and trade-neutral subsidies from reduction commitments was first proposed by the US in September 1987, shortly after the Punta del Este Ministerial Conference, and was echoed one month later by the EU. At that time, developed country farm groups that had benefited from past protectionist policies strongly opposed any specific compromise on agriculture. In this politically charged environment, the proposal had the merit of providing an adjustment mechanism that could offset the potential losses that farmers might incur. In doing so, it also played a significant role in neutralizing opposition to the Round. In exchange for bringing agriculture within the disciplines of the WTO and committing to future reduction of trade-distorting support, subsidizing countries would be allowed to retain support measures that caused no more than minimal trade-distortion to pursue various public policy objectives. In a field so heavily riddled with controversy, this one fragile point of consensus has been the hinge upon which the whole WTO reform process has depended.

Since the end of the Uruguay Round, traditional providers of farm support have indeed reduced their trade-distorting support – albeit not as much as their trading partners had hoped. However, this move has often been accompanied by a proportionate increase in green box subsidies, prompting some analysts to talk about a “box shifting” phenomenon. While the architects of the WTO Agreement on Agriculture clearly intended to encourage governments to shift support away from more trade-distorting measures and towards those that are “decoupled” from trade and production, some analysts have queried to what extent certain green box measures are in fact less trade-distorting.

At the same time, green box support has been steadily growing in a number of ‘emerging’ economies such as China or India – most of which only have limited possibilities to use other types of measures. As a result, green box payments represent today by far the largest share of global agricultural support. As an ever greater proportion of subsidies are notified as “green box”, maintaining the fragile balance

1 Defined in Annex 2 of the WTO Agreement on Agriculture.
2 Stancanelli (2009).
3 Bellmann and Hepburn (2009).
4 Galperín and Doporto Miguez (2009).
achieved in the Uruguay Round increasingly depends on WTO Members’ ability to preserve the integrity of the green box category, by ensuring that such measures do not cause more than minimal trade-distortion. From a sustainable development perspective, understanding the impact of those measures also requires enhanced attention.

The present article reviews the current status of negotiations on green box subsidies. It then looks at recent national agriculture reforms with a particular focus on the EU, the US, China and India, identifying the various instruments used by those WTO Members and their underlying policy objectives. Finally, section 3 suggests possible ways forward to reform green box disciplines both in the short and longer term.

1. The negotiating process

The immediate negotiating mandate for work on the green box in the Doha Round was provided by paragraph 16 of the July 2004 Framework, WT/L/579. This specified that:

“Green Box criteria will be reviewed and clarified with a view to ensuring that Green Box measures have no, or at most minimal, trade-distorting effects or effects on production […]”

At the Hong Kong Ministerial in December 2005, Ministers then added that this review should ensure that developing country programmes were also effectively covered by the criteria:

“... Green Box criteria will be reviewed in line with paragraph 16 of the Framework, inter alia, to ensure that programmes of developing country Members that cause not more than minimal trade-distortion are effectively covered.”

Efforts to “review” green box criteria in the first years of the Doha negotiations led to negotiating texts in this area being widely seen as having “stabilized” by the time of the July 2008 mini-ministerial – when the trade talks came closest to agreement before subsequently breaking down. While the EU and G-10 group of countries with heavily-protected farm markets had initially sought to expand the scope of measures in this area, agricultural exporters in the Cairns Group pushed for more rigorous disciplines and tighter measures. Meanwhile, the African Group and other developing countries sought to expand flexibilities for developing countries. With the first two sets of demands effectively cancelling each other out, the draft text largely reflected developing country calls for more flexibility for their own less trade-distorting farm support schemes. Exporting countries also took a conscious decision to focus their efforts on reducing ceilings for support that is recognized as trade-distorting under WTO rules.

Since 2007–08, however, very little active discussion had taken place on the mandated review until the Bali Ministerial Conference, which saw Members agree to a handful of developing country proposals that had emerged from this process. In the run-up to the ministerial, the G-33 coalition, spearheaded by India, singled out two specific green box proposals from the 2008 draft text, for inclusion in the “Bali package”. The first, which was relatively uncontroversial, consisted in listing a range of support

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5 Mandated in paragraph 16 of the 2004 July Framework (WTO 2004), and in paragraph 5 of the Hong Kong Ministerial Conference declaration in 2005 (WTO 2005). See also Hepburn and Bellmann (2009).

6 Hepburn and Bellmann (2009).

7 WTO (2013).
policies used predominantly in developing countries (e.g. land rehabilitation, drought management, and rural employment and farmer settlement programmes) as general government services under the WTO "green box". The second – which was much more controversial – proposed that current WTO farm subsidy rules be relaxed to allow governments more flexibility to buy food from low-income and resource-poor producers at administered prices as part of their food-stockholding programmes. Under existing WTO rules, government expenditure incurred while building stocks and reserves for food security are considered as green box measures as long as certain conditions are met, including that the food purchase takes place at market prices. If the stocks are acquired and released at an administered price set by the government, the difference between this administered price and a fixed external reference price – established at the end of the Uruguay Round – must be accounted for as a trade-distorting subsidy or "amber box" payment, and is therefore subject to WTO limitations.8

Over recent years, however, administered prices have increased significantly compared to the fixed reference price, with several countries believed to be at risk of breaching their amber box ceiling. India in particular fears being in such a situation after implementing the adoption of its National Food Security Act in a way that is widely expected to extend the provision of subsidized food grains under the Public Distribution System. To address this concern, India has proposed removing the obligation to account for the difference between the administered price and the fixed reference price as an amber box subsidy. Instead, it has proposed that such price support schemes be considered compatible with the “green box” and not be subject to any limitations.

Although the proposal was already reflected in the 2008 draft negotiating text9 and considered as "stabilized" as part of a broader package of subsidy and market access reforms, it became highly controversial the moment it was taken out of this context. In fact, disagreement over the G-33 proposal brought the whole Bali negotiations to the brink of collapse, before eventually culminating in agreement on a "peace clause". This committed countries to exercise “due restraint" in challenging developing country food-stockholding programmes, on the condition that countries wishing to take advantage of this flexibility share additional information about the nature and scale of the support provided under these schemes. The peace clause itself was described as an "interim" mechanism that would apply while countries negotiated a permanent solution for adoption by the WTO’s eleventh ministerial conference – due to be held in 2017.

Six months after Bali, however, India signalled that it was unwilling to support progress on other issues – such as the trade facilitation agreement protocol of amendment – unless it saw evidence of progress towards a permanent solution to the concerns it had raised in Bali.10 As other WTO Members were reluctant to accept New Delhi’s proposals for a revised timeline for agreement on such a solution, India withheld its support for the adoption of the new trade facilitation deal on 31 July 2014, leading negotiators from other countries to caution that confidence and mutual trust among countries negotiating a post-Bali agenda could suffer as a result. The fate of future rules on green box support is therefore likely to be conditioned on the extent to which progress can be made on these related discussions in talks at the WTO.

8 For the majority of developing countries, this amber box limit is set at a de minimis of 10 per cent of the value of production (8.5 per cent in the case of China).
10 ICTSD (2014e).
2. What are countries doing with their green box payments?

In the aftermath of Bali, establishing a new basis for consensus requires trade negotiators and policy-makers to understand not just the evolving policy tools being used by other WTO Members, but also the underlying objectives that these instruments are intended to help achieve as well as their potential effects. Yet, in the absence of a new global consensus on farm subsidy rules, policies at the national level have evolved significantly since the Doha Round was launched, in 2001 – and have also moved in different directions.

Figures 1 and 2 provide an overview of the evolution of domestic support spending in the EU, the US, China and India, both in absolute terms and as a share of the value of agricultural production. Overall, the EU and the US account for the largest green box spending: support by both Members has increased steadily since the early 2000’s. While such a trend has been accompanied with a continuous reduction in trade-distorting support in the EU, this does not seem to be the case in the US. China's green box spending has been going up rapidly since 2003, reaching nearly USD 86 billion in 2008, an amount comparable to the USD 86 billion spent in the US or the USD 89 billion spent in the EU in the same year. Contrary to India which shows a large and growing use of input and investment subsidies under Article 6.2, most of China’s support is in the green box. When calculated as a share of total agricultural production, both India’s and China's green box spending seems to follow a rather flat trend at roughly 5 and 10 per cent of the value of production respectively, compared to a much higher 20 per cent in the EU, 35 per cent in the US.

![Figure 1: Domestic support spending in USD million](image-url)

Source: WTO notifications and communication from the Cairns Group sourced from the Members’ Transparency Toolkit and DS:1 notifications and other sources (RD/AG/29/Rev.1, 28 May 2014)
The composition of "green box" spending also varies considerably among WTO Members and, with it, the trade-distorting potential of their respective programmes. While some programmes have remained relatively uncontroversial, others have attracted more criticism: these include decoupled income support payments or regularly-awarded disaster assistance – which may encourage continued production on marginal lands. A closer look at the EU, the US, China and India illustrates perfectly how different WTO Members have privileged different approaches and policy instruments.

Overall, as shown in figure 3, the EU largely focuses its support on direct payments, essentially through decoupled income support, whereas the US privileges domestic food aid, notably through its food stamps programme (which accounts for the bulk of US green box spending). China, on the other hand, puts much more emphasis on infrastructural services, extension services, research and pest and disease control, while India prioritizes public stockholding for food security purposes. These differences in the use of the various "green box" policy tools largely reflect different conceptions of agricultural support and often larger societal preferences or imperatives that cannot easily be ignored in any reform process. The following sections briefly describe the situation prevailing in those four countries.
In the EU, environmentalist groups campaigned relentlessly for a reformed Common Agricultural Policy (CAP) that would provide "public money for public goods". The new CAP will require farmers to respect additional environmental requirements as a condition for receiving support\(^\text{11}\) – although environmentalists have decried some aspects of the final outcome as "greenwash". Despite the success of the bloc in shifting towards less trade-distorting farm support\(^\text{12}\), the legislation arguably still raises several questions about how farm policy design relates to broader public policy goals. Is the funding built around the environmental objectives, or is it the other way round? Is support for "public goods" proportional to the costs incurred by producers?\(^\text{13}\) And are direct payments set to become a permanent feature of the European landscape, or instead a temporary adjustment tool?\(^\text{14}\)

Despite the scope for expanding coupled support under the new CAP,\(^\text{15}\) the constituencies that sought to reverse the "decoupling" direction established by successive previous reforms have only been partially successful – not least because of fiscal pressures on EU Members in the aftermath of the 2008 economic slowdown and the crisis in the eurozone.\(^\text{16}\)

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\(^\text{11}\) Matthews (2011).
\(^\text{12}\) ICTSD (2014a).
\(^\text{13}\) Brunner and Huyton (2009).
\(^\text{14}\) Tangermann (2011).
\(^\text{15}\) ICTSD (2013).
\(^\text{16}\) For further details, see Tangermann, this volume, and Tangermann (2011).
In the US, the new 2014 Agriculture Act abolishes direct payments to producers – seen by many as impossible to justify politically when high prices have buoyed farm incomes to new levels. In their place, Washington has introduced subsidized insurance programmes for price and revenue that are largely built around the model of the former countercyclical payments and the ACRE revenue programme that was set up under the previous Farm Bill. As it is very likely that the new schemes will be classed as “amber”, and the direct payments were “green”, the government could be seen to be moving away from the logic of gradually decoupling support from production, enshrined at the end of the Uruguay Round in the WTO’s Agreement on Agriculture. At the same time, the increase in the number of US citizens who need help to buy food has precipitated a steady rise in “food stamp” spending, which is notified as domestic food aid in the green box. The overall share of farm support classified as green has therefore grown in recent years. The sizeable gulf between current outlays on trade-distorting support and WTO ceilings means that there is plenty of scope for spending in this category to increase – a likelihood if prices fall and also a probable outcome of the increase in commodity-specific “trigger prices” under the new legislation.

China’s fast-growing farm support schemes appear to be designed in part to rectify problems arising from historical under-investment in the agricultural sector – a legacy, as in many developing countries, of a tendency to tax rather than subsidize farming until quite recently. Support also appears to be geared towards reducing the large, growing disparities between rural and urban incomes: although average revenues are rising both in cities and the countryside, urban dwellers have consistently seen their incomes rise much faster than their rural counterparts. Although in absolute terms farm support in China is now around the level of EU farm subsidies, it is almost all classified as “green”, with a small amount of support in the trade-distorting de minimis category – allowed to be up to 8.5% of the value of production in China’s case, but in practice believed to be much lower. Chinese officials are also at pains to point out that the country’s per capita support levels are far below equivalent levels in other parts of the world. To date, China’s farm support is heavily focused on payment for “general services” such as infrastructure, with some support also provided in the form of decoupled support payments based on historical production levels. As the precise arrangements for providing this type of support vary across provinces, the actual degree of decoupling appears to vary, with support in different administrative regions linked to the production of one or more staple crops.

India’s agricultural domestic support has also grown dramatically in recent years with a particular emphasis on input and investment subsidies in developing countries – article 6.2 of the Agreement on Agriculture – which shelters payments for fertilizers, irrigation, electricity and seeds. Although input subsidies of this type would otherwise be seen as trade-distorting, WTO rules exempt these payments from any limits, on condition that they are provided to “low-income or resource-poor

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17 See Smith, this volume, and Smith (2014).
18 ICTSD (2014).
20 Ni (2013).
21 Xie (2009).
22 ICTSD (2011a).
23 ICTSD (2011) and (2014f).
producers”. Food purchases at administered prices are also important in the country’s overall policy framework: as mentioned above, fearing that these risk breaching ceilings on trade-distorting de minimis support, New Delhi has called for developing countries to be granted more flexibility when these purchases contribute to public stockholding initiatives for food security purposes, a sub-category of green box support under current rules. According to India, such flexibilities are needed for developing countries to support low-income and resource-poor producers, while providing food aid to poor consumers and WTO rules should not get in the way of its Members’ ability to achieve food security. On the other side of the spectrum, developed countries, as well as a number of developing countries, have expressed concern that such a proposal would affect the fundamental requirement of the green box — to cause no more than minimal trade-distortion. Others fear that surplus stocks built through such schemes could eventually be dumped on world markets, affecting producers in other countries and undermining food security elsewhere.

3. The way forward

The creation of the green box has arguably been a major factor providing incentives to reform agricultural policies and promoting a shift towards more decoupled payments to farmers. Yet, as green box measures have become the main form of agricultural support, maintaining the integrity of the category is essential. The draft 2008 “modalities” text contains a number of proposals aiming at strengthening or refining existing criteria based on the experience so far. One of these suggests, for example, that the basis of certain payments should be a “fixed and unchanging historical base period”. Another G-20 proposal from 2005 proposes to ensure that green box payments are targeted at farms with low levels of income, landholding and production. Yet, the question of whether a given measure has more than a minimal effect on trade and production is an empirical issue that can hardly be assessed ex ante. Research has shown that even the most apparently “decoupled” policies still tend to have some trade impact and, with the rapid increase in green box spending in some parts of the world, even a small trade impact per dollar may no longer be small if multiplied by a large number of dollars.

In the longer term, it might therefore be sensible to envisage some alternative approaches. As suggested by Tangermann (2013), a first step could consist in making a distinction between two rather different broad categories of policies covered by the green box. On the one hand, certain measures aim at correcting market imperfections and ensuring the delivery of public goods, such as biodiversity conservation, watershed management, or climate change mitigation. Measures such as infrastructure development, market information, agricultural research and development, extension services and other investments in “human capital” would also fall in this category. These measures essentially refer to areas where persistent market failures provide a solid rational for government intervention. Even though some limited production and trade impacts could still result from these policies, there would be no clear logic for constraining them under the green box as long as those market failures persist and the measures fulfil the existing criteria.

26 See Hepburn and Bellmann (2009).
On the other hand, measures primarily aiming at providing income support to farmers might need some form of limitation. Although these may play a critical role in facilitating reforms by compensating negative income effects resulting from cuts in the more trade-distorting measures, they arguably ought not to be provided on a permanent basis and should therefore be time-limited. As such, they should therefore also be differentiated from general social protection regimes. While income support could still provide farmers with the necessary breathing space to adjust to changes in the policy environment, limiting such payments would alleviate concerns around “box shifting” and provide greater parity between governments with high fiscal revenues and those without.

In the short term, however, negotiators might prefer to conclude quickly the unfinished business of Doha – perhaps at a reduced level of “ambition” – before moving on to address the growing number of new issues that the trading system will need to cope with in today’s fast-changing market and policy environment. Under this scenario, a more considered reform of green box criteria is likely to be an issue for a subsequent set of trade talks at the multilateral level. That said, the controversy around public stockholding suggests that, even under such a scenario, discussions on the green box are likely to be part of any eventual Doha deal.

As discussed by Montemayor in this volume, several options have been suggested to find a permanent solution on public stockholding. Most of these focus on adjusting the way in which price support is being calculated. However, if the green box category were to be modified to allow purchases of food at administered prices, Members would have to reconcile the notion of price support with the imperative of generating no – or at most minimal – trade distortions. One option to achieve this has been suggested by Diaz-Bonilla (2013). It starts from the realization that in the case of rice in India, while the administered price has been well above the 1986–88 external reference price, it has consistently been below the world market price (see figure 4).

27 Tangermann (2013).
This means that, in pure economic terms, there has been no trade-distortion created by the administered price even if — from a WTO legal perspective — the administered price is considered a trade-distorting subsidy. Diaz-Bonilla therefore suggests that, if the administered price is at or below the market price, it should not be considered as providing price support and therefore could be considered green box compatible. A similar argument is made by Matthews (2014).

Finally, and regardless of what happens on the Doha front, it would appear sensible to improve transparency and help monitor policy development by requiring that notifications provide more detail on the implementation of the measures to be covered by the green box, so that their potential trade impact can be more effectively assessed and their green box status can be challenged, if necessary.28

**Conclusion**

There is a risk that, without progress on farm subsidies in the multilateral trading system, the issue of reform will once again be left on the side-lines. Regional and preferential trade agreements, including the "mega-regional" talks aimed at developing trans-Atlantic and trans-Pacific trade agreements, have tended to focus more on market access issues and, increasingly, on regulatory convergence, rather than on farm subsidies. Failure to establish updated rules in this area will continue to leave small producers in those countries with limited financial resources at the risk of unfair competition from producers in other countries.

28 See also Josling in this volume.
Arguably, the failure to update global trade rules – including through establishing a new consensus on support that should be exempt from cuts or ceilings at the international level – also has real costs in the long term. India’s call for more flexibility to be granted to developing countries that purchase food at administered prices is ostensibly about the circumstances under which such support should be classified as “green box”. Yet, at a deeper level the proposal is also an expression of the growing difficulty in convincing domestic constituencies that rules established two decades ago are still a viable basis for governing today’s fast-changing markets for food and agriculture.

Negotiators could once again usefully revisit the question that delegates in the Uruguay Round initially asked themselves: should all farm subsidies be subject to a ceiling under international rules? If not, what sort of payments should be exempt? While WTO Members have traditionally taken a narrow approach to answer this question, looking essentially at the extent to which payments affect third countries, a more considered response might also seek to place farm policy and its effects on trade within the broader context of sustainable development, and the set of policy goals that the international community has developed in this area. While purists might argue that all government interventions “distort trade” in agricultural markets in some respects, a case can clearly be made that governments need to be able to provide at least some types of market-correcting support to the farming sector in order to provide for certain public goods.

Building a new consensus around the role of public goods in food and farming could be a first step towards ensuring this broader coherence between regulatory systems and global policy objectives. At the same time, with the rules at the WTO essentially reflecting the concerns of developed country policy-makers over two decades ago, any new set of disciplines would need to respond effectively to the need to ensure that both poor producers and consumers are not adversely affected by farm support policies in markets and jurisdictions elsewhere.

29 ICTSD/FAO (2013).
References


