

# Options for WTO Negotiations on Agriculture Domestic Support

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*This information note analyses various options for negotiating agricultural domestic support, drawing on ideas that have been put forward at the WTO. It examines the implications of various approaches for countries' actual support levels as well as for their maximum permitted ceilings under WTO rules, and looks in particular at those products that are especially important to low-income countries.*

## 1. Introduction

At the United Nations, governments have agreed to end hunger and all forms of malnutrition by 2030, as part of the 17 Sustainable Development Goals. One of the targets used as a means to achieving this goal includes, “correcting and preventing trade restrictions and distortions in world agricultural markets.”

Since the tenth ministerial conference of the World Trade Organization (WTO) in Nairobi in 2015, negotiators from different countries and groups have put forward a number of different ideas and suggestions on agricultural domestic support. While some negotiators argue that new disciplines need ultimately to lead to lower levels of applied trade-distorting support, others emphasise that any new rules ought to redress historical imbalances in allowable support levels—with many considering both objectives to be important. The bulk of the organisation’s membership favour an outcome in this area at the WTO’s eleventh ministerial conference, due to be held in Buenos Aires, Argentina in December 2017.

This information note summarises some of the findings of a longer paper on agricultural domestic support by ICTSD (2017). It explores various recent ideas that governments have put forward on this subject, with a view to helping negotiators and other actors better understand how these might affect actual levels of support as well as the maximum permitted ceilings under WTO rules.

## 2. Approaches Based on the Existing Structure of the WTO Agreement on Agriculture

A first set of ideas involves cutting support using the categories under the WTO’s existing Agreement on Agriculture. These categories include highly trade-distorting “amber box” subsidies calculated using the Aggregate Measure of Support (AMS); *de minimis* support; production-limiting “blue box” support; and Article 6.2, which is a clause in the WTO Agreement on Agriculture that allows developing countries to provide certain types of input and investment subsidies without limits.



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## Box 1: Existing WTO rules on agricultural domestic support

**Amber box:** domestic support for agriculture considered to distort trade and therefore subject to reduction commitments.

**De minimis:** minimal amounts of domestic support that are allowed even though they distort trade—up to 5 percent of the value of production for both product-specific and non-product-specific support in developed countries. Most developing countries are allowed twice this limit.

**Blue box:** support that is similar to amber box subsidies, but with constraints on production or other conditions designed to reduce the distortion, and currently not limited under WTO rules.

Some agricultural exporting countries have argued that AMS and *de minimis* support need to be targeted aggressively, especially when this support is used by the world's largest producers and exporters. Others, particularly developing countries, want Article 6.2 to remain unchanged.

Concerns remain that this approach to cut support using categories under the WTO has been tested in the past with limited success and might also do little to correct current imbalances in the maximum permitted support levels across countries.

### 3. Overall Cap Approaches

A second set of ideas focuses on a cap on all trade-distorting support as a basis for future gradual cuts over time. This could either be a fixed limit (e.g. based on a past reference period) or a variable ceiling (e.g. a share of the value of agricultural production (VoP), which measures the actual production output of a country). Many developing countries have said any new ceiling should lower the gap between current permitted maximum levels and actual applied levels of trade-distorting support.

While some countries would like a cap to include all types of trade-distorting support listed under the Agreement on Agriculture, others have explicitly excluded input and investment subsidies for low-income, resource-poor farmers.

Negotiators would also need to agree on whether countries could provide *de minimis* support on top of the overall cap. Regardless of how it would be defined, however, the purpose of such an overall cap would be to bind existing levels of support and to serve as a basis for further gradual reduction over time.

This information note examines these options by looking at historical support levels provided by major economies, based on government data reported to the WTO. It explores scenarios with a fixed cap set at 5, 10, or 20 percent of VoP, either in a fixed base period (2008-10), or as a share of the current VoP.

On the basis of the most recent WTO notifications, only some negotiating options would seem to lead to effective cuts in applied levels of trade-distorting support. Looking at Figure 1, while a low cap set at 5 percent of farm output would not require the European Union (EU) to reduce actual applied trade-distorting support levels, this would nonetheless be below current applied support levels in Japan (and possibly also Canada), and would be only slightly above those in the United States (US). At the same time, a much less restrictive cap set at 20 percent of farm output might actually be higher than the existing ceilings some countries have agreed to respect at the WTO under existing rules: this would be the case for Canada, the US, and (in the case of a floating, or variable, cap) also the EU. Establishing such a cap would still constrain existing flexibilities if the new limit were to include *de minimis* support and blue box payments in addition to AMS entitlements.

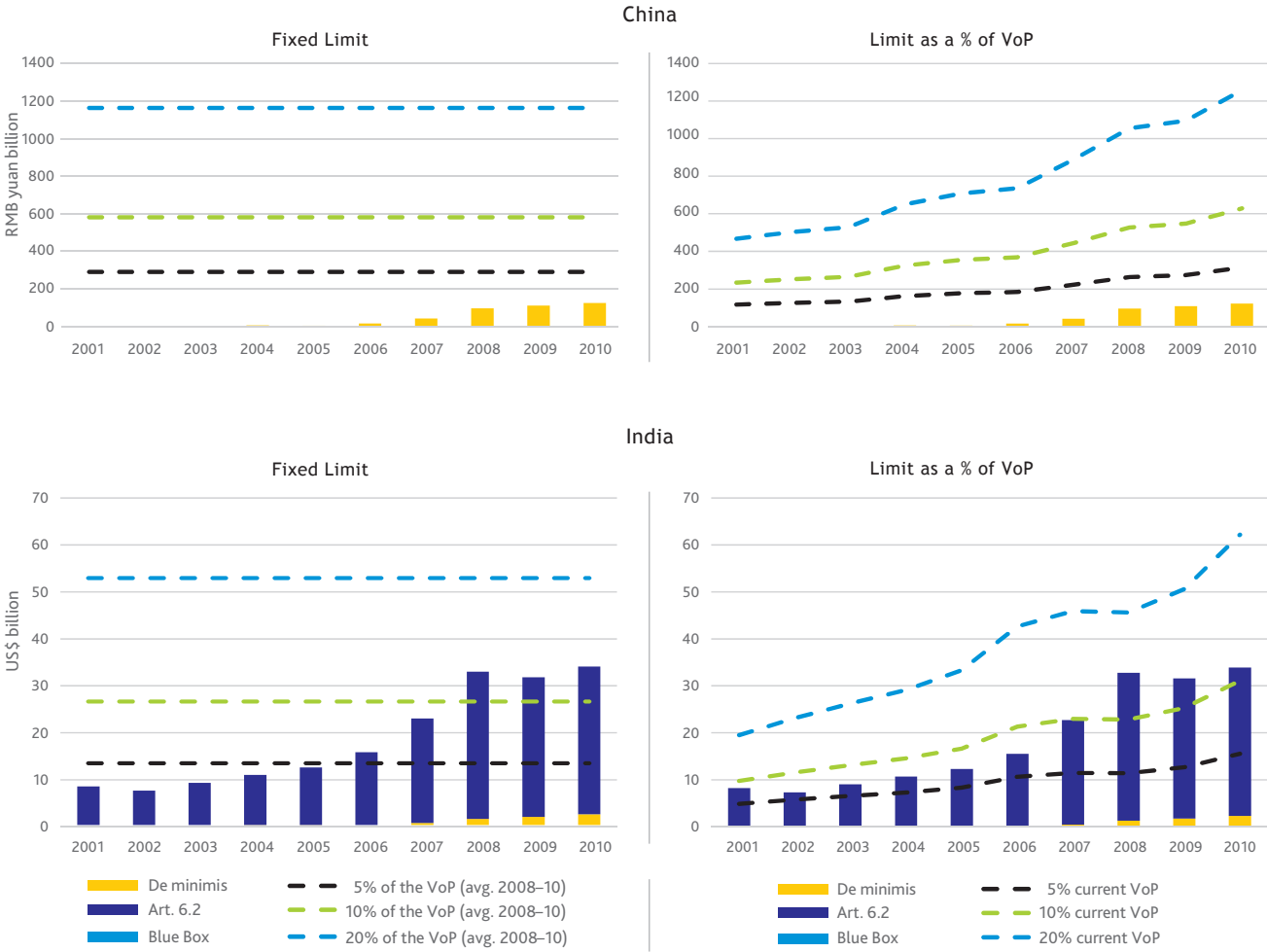
**Figure 1: Options for setting an overall limit on trade-distorting support**



Source: Authors' calculations based on WTO notifications

Although China and India have not submitted official farm subsidy data to the WTO for the years since 2010, applied levels of trade-distorting support are considerably lower than 5 percent of the VoP—unless India’s input and investment subsidies to low-income, resource-poor producers are also included in the calculation. For those countries, none of the tested scenarios would require effective cuts in applied support (Figure 2). However, with the exception of a scenario in which *de minimis* is capped at 20 percent of current VoP (i.e. the status quo), all scenarios would impose additional constraints on those countries. This would be a significant departure from draft negotiating texts tabled in the past. Proposals for a cap would therefore need to accommodate the specific circumstances of different members and be phased in gradually over a multi-year implementation period. A hybrid approach between a fixed and a floating, or variable, cap could also usefully be considered.

**Figure 2: Options for setting an overall limit on trade-distorting support**



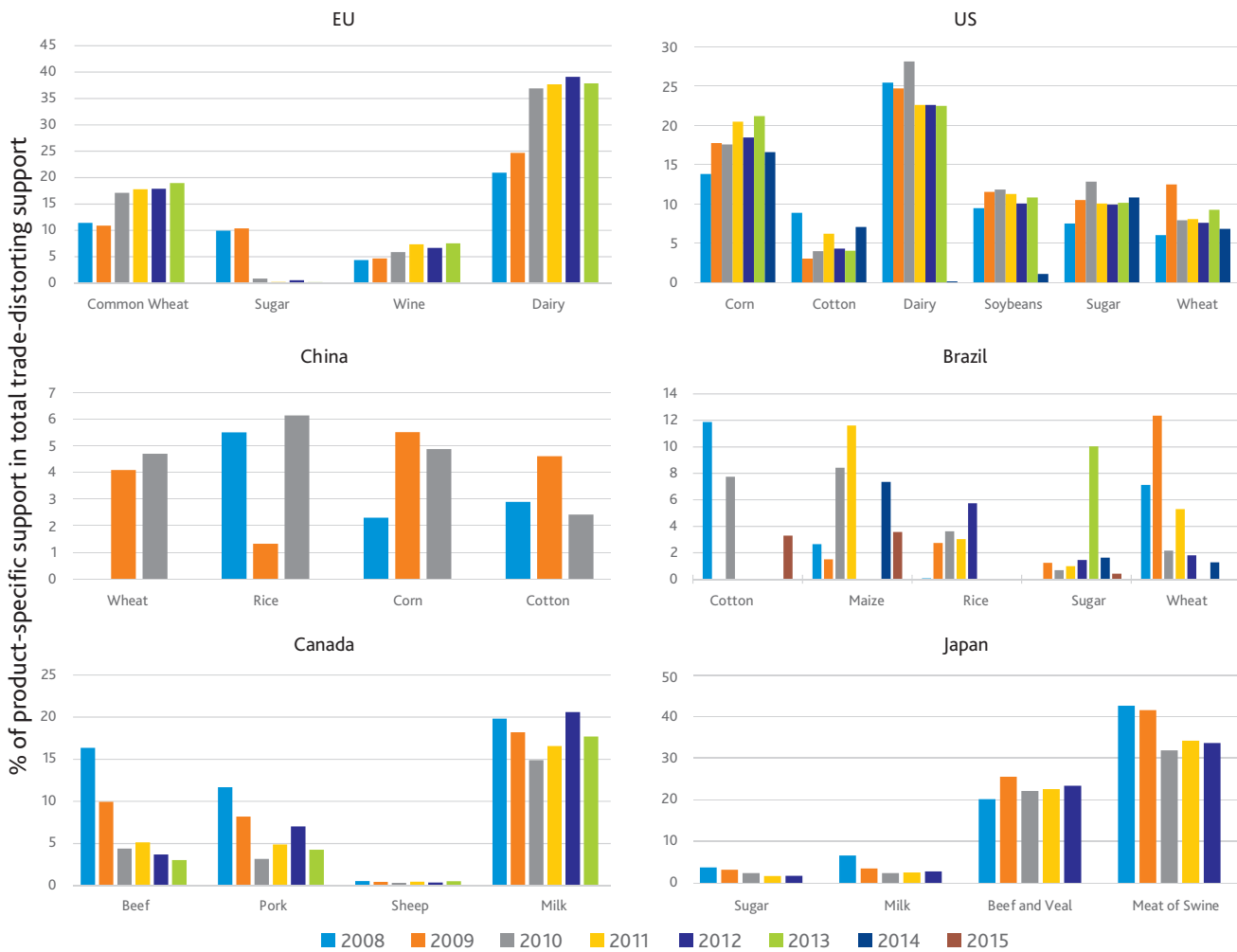
Source: Authors’ calculations based on WTO notifications

**4. Product-specific Disciplines and Anti-concentration Approaches**

A third set of ideas have focused on avoiding excessive concentration of support by establishing disciplines, or rules, on product-specific support. Here again, developed and developing countries support agriculture differently, with a larger share of developed countries’ trade-distorting support being devoted to product-specific interventions and developing countries preferring non-product-specific support (e.g. fertiliser subsidies).

In South Korea, rice alone accounted for 70 percent of all trade-distorting support, while in the EU this share represented 35 percent for dairy and nearly 20 percent for wheat. In the US, dairy and corn accounted for nearly 40 percent of all trade-distorting support, while in Japan the share for pork and beef together represented nearly two-thirds of the total level.

**Figure 3: Product-specific support as a percentage of all trade-distorting support**



Source: Authors' calculations based on WTO notifications

Negotiators have suggested several options for product-specific disciplines. The first option would consist in fixing a product-specific ceiling defined either as a fixed limit or as a percentage of the VoP. Another possible approach could involve defining a product-specific limit as a certain percentage of total trade-distorting support. Similarly, in a third approach, the product-specific limit could be defined as a certain percentage of the total trade-distorting support allowed under a new overall cap. Finally, an innovation proposed by the least developed countries (LDCs) as one option to deal with cotton could consist in setting a limit on transfers to cotton producers expressed as a percentage of gross agricultural revenue from cotton.

Overall, however, the high variations in the level of product-specific support across commodities and countries may make it difficult in the short term to set a uniform limit for all products, unless specific exceptions or flexibilities are envisaged. A possible way to overcome this problem could be to set limits based on historical levels with gradual reduction commitments.

## 5. Approaches to the Treatment of Trade Distortions

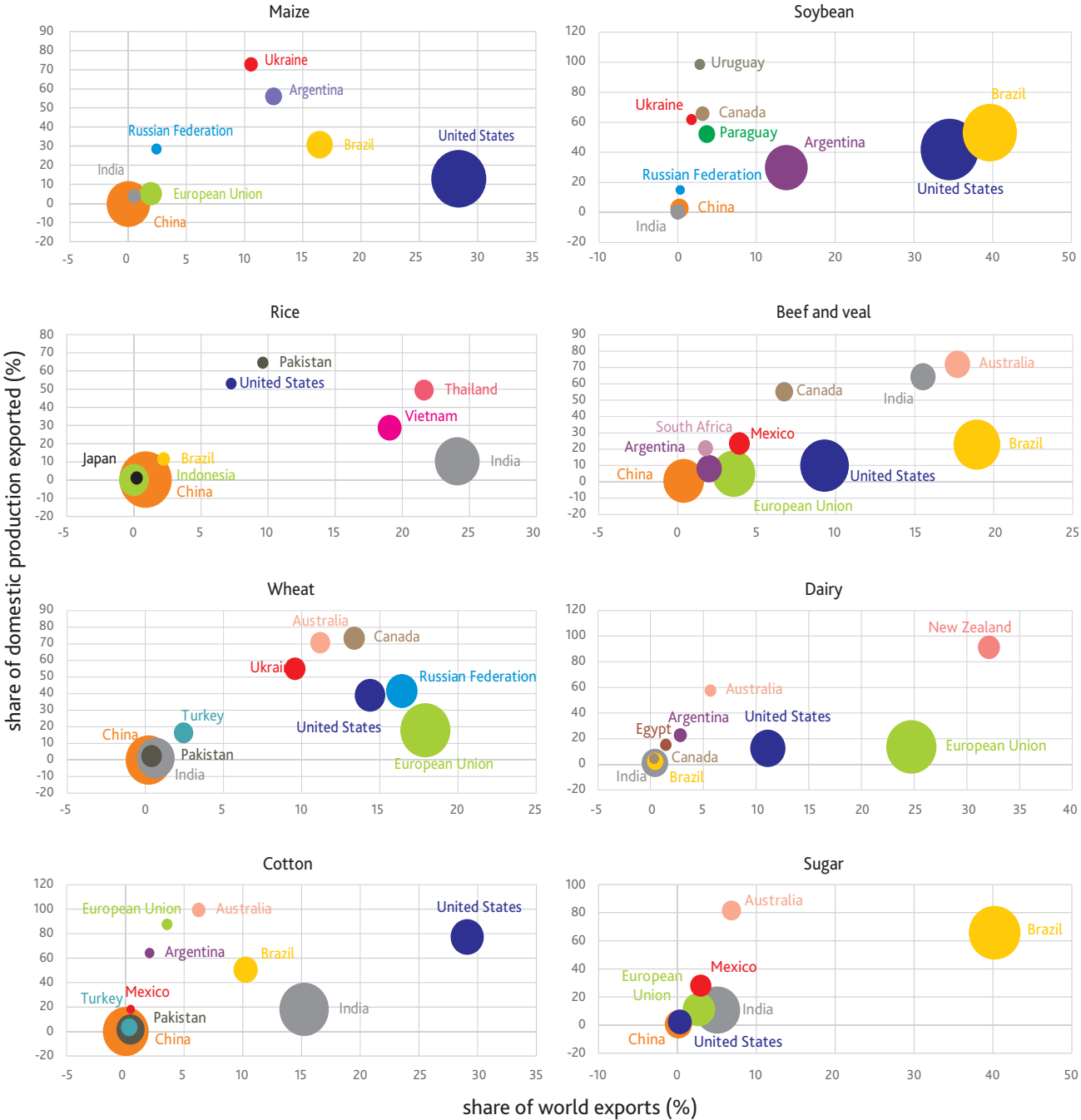
Finally, several ideas regarding the treatment of trade distortions have focused on calibrating the levels of commitments based on different factors.

As in the past, numerous WTO members continue to emphasise the need for special and differential treatment for developing countries, LDCs, small vulnerable economies, and net food-importing developing countries. Special and differential treatment may entail that countries falling within these groups be exempt from any reduction commitments related to domestic support, as well as be eligible for technical assistance and capacity building.

However, other options include taking into consideration factors such as the significance of trade flows, production volumes, or the impact on poor countries when designing disciplines on support.

Figure 4 examines the extent to which selected countries play an important role in the production and trade of eight heavily-traded and subsidised commodities. Larger circles represent greater volumes of production in a given country, while those that are closer to the right hand side of the horizontal axis account for a large share of world exports of the commodity concerned, and those that are closer to the top of the vertical axis export a greater share of their total production. Consequently, countries represented with large circles that are towards the corner of the top-right quadrant have the potential to affect global markets more significantly than others, in the event that they provide substantial levels of trade-distorting support for the product concerned. These figures should therefore be combined with country specific data on intensity of support provided to the respective products.

**Figure 4: Top producers and exports as a percentage of production**

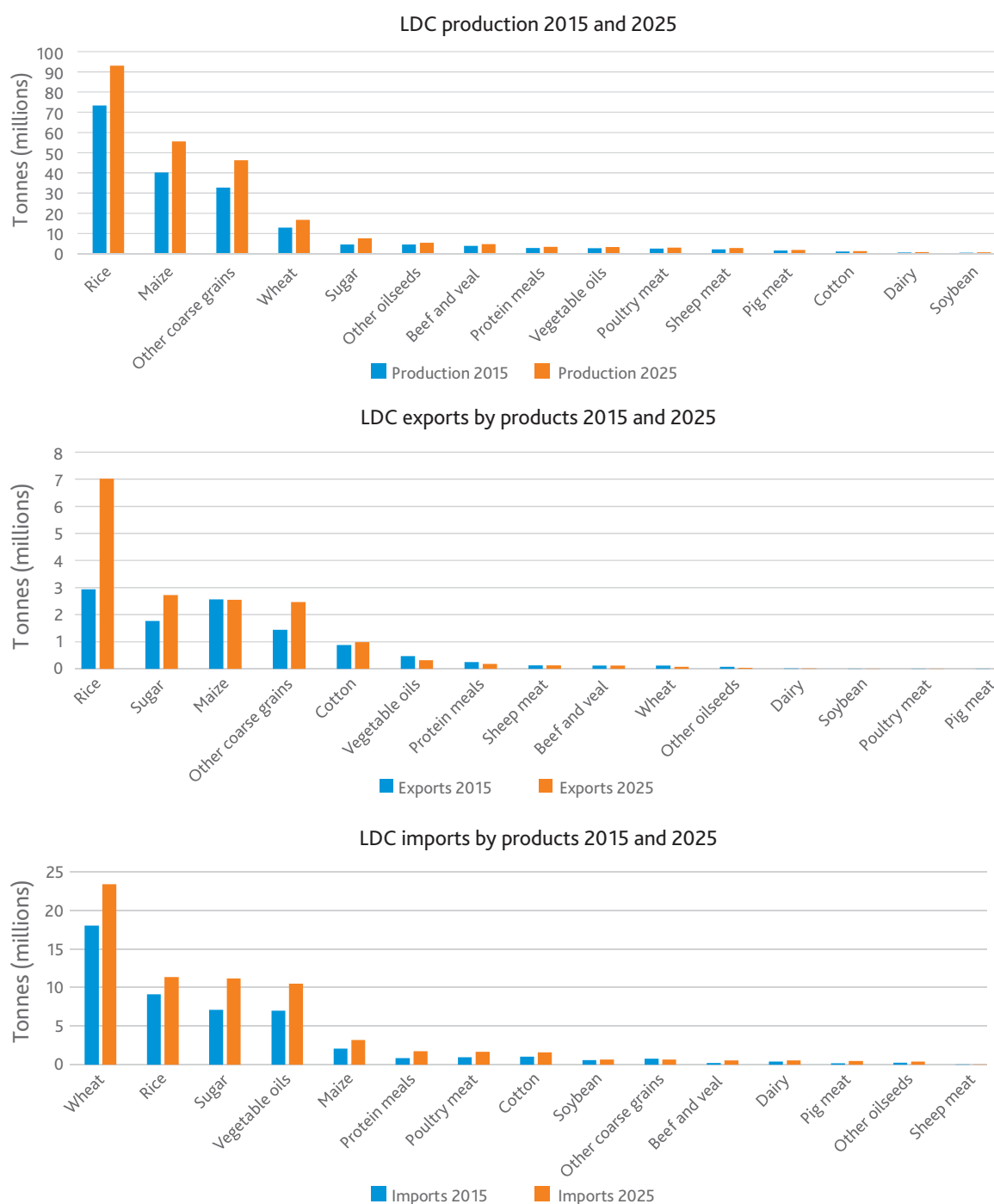


Source: Authors' calculations based on OECD-FAO Agricultural Outlook database (data for 2015)

Countries could consider developing an index, or a formal indicator, combining different variables such as the volume of production, the share of domestic production being exported, the share of world exports the country accounts for, and the support intensity, probably defined as product-specific support as a share of the VoP. Under this approach, the index would provide for each WTO member a coefficient which would in turn inform the level of commitment to be undertaken by the country.

Similarly, developing stronger disciplines on distortions affecting products of particular significance to LDCs could be considered. Using analysis in the Agricultural Outlook prepared by the Organisation for Economic Co-operation and Development (OECD) and the UN Food and Agriculture Organization (FAO), it is possible to identify a set of products which are of particular importance to the group, either because they are expected to be produced in large volumes by LDCs, or because they are exported or imported in large volumes. While rice and maize stand out as being especially significant in this respect, other heavily distorted products are seemingly less important to the group (such as beef, pork, and dairy).

**Figure 5: Products of special interest to least developed countries**



Source: Authors' calculations based on OECD-FAO Agricultural Outlook database

## 6. Conclusion

Negotiators at the WTO's eleventh ministerial conference will need to achieve a careful balance between agriculture and other issues. Among other things, they will need to consider how best to achieve progress on agricultural trade issues while also giving due consideration to countries' sensitivities, including in the area of domestic support.

There is widespread recognition that negotiators will need to take meaningful steps to redress historical imbalances in maximum permitted levels of trade distorting support, while establishing an adequate framework to discipline applied support levels in the future.

The broad ideas already put forward provide a useful starting point for further discussions on how best to shape future disciplines. Policymakers and negotiators now need to consider how such ideas can be further refined and elaborated so as to contribute towards more equitable and sustainable markets for food and agriculture.

## Reference

ICTSD. 2017. *Negotiating Global Rules on Agriculture Domestic Support: Options for the WTO's Buenos Aires Ministerial Conference*. Geneva: International Centre for Trade and Sustainable Development (ICTSD). <http://www.ictsd.org/node/99366>

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