

WTO Public Forum Session 12
Understanding International Disciplines on Agricultural Domestic Support

Organized by the International Food Policy Research Institute (IFPRI)
Tuesday, September 29, 9:00-11:00 AM

Summary¹

Program

Moderator:

Professor David Orden – IFPRI and Virginia Tech

Opening remarks:

H. E. Dr. David Walker – Ambassador, Permanent Representative of New Zealand to the WTO and Chairperson of the Special Session of the Committee on Agriculture

Panel:

Professor Tim Josling – Stanford University

Professor Munisamy Gopinath – Oregon State University

Ms. Valeria Csukasi – First Secretary, Permanent Mission of Uruguay and Chairperson of the Committee on Agriculture

Abstract

Formulating new rules for agricultural domestic support to reduce international market distortions remains a critical challenge facing the multilateral trade system. The WTO domestic support rules are critical but not well understood in this complex policy context. This session brought together researchers and policy practitioners to address the existing and proposed rules and other options to strengthen the rule-based system governing global agricultural support. Two of the panelists drew their analysis from an IFPRI research project that has assessed the implications of the rules relative to the policies of a diverse set of developed and developing countries, including the EU, US, Japan, Norway, Brazil, China, India, and the Philippines.² Support projections through the mid 2010s provide a basis to assess the potential effects of a new agreement.

The session focused on four overarching issues:

1. Has the WTO Agreement on Agriculture been successful in increasing policy transparency in the area of domestic support?
2. Have the rules of the Agreement motivated countries to shift their domestic policies in ways that lessen trade-distorting economic impacts?
3. If new rules are established through the ongoing Doha negotiations, will they translate into a more effective set of incentives to reduce production and trade distortions?
4. What improvements might be made, even going beyond the Doha negotiations, in the way in which domestic support is notified to the WTO?

The constraints on domestic support are an essential part of the disciplines for agriculture, along with improving market access and export competition. It was concluded that transparency has been improved

¹ Prepared by David Orden with input from the speakers, Lars Brink and Roberto Garcia.

² The series of country papers “Shadow Agricultural Domestic Support Notifications” are available in the IFPRI Discussion Paper series (www.ifpri.org): EU (number 809), US (821), Japan (822), Norway (812), Brazil (865), China (793), India (792), and the Philippines (827).

with a consistent database of notifications that mirrors the paths of domestic policies. The changes in policy have mostly reduced the notified Aggregate Measurement of Support (AMS), although some exceptions were noted. The causality of policy reform, or absence of reform, has differed among countries.

The part of the AMS that suffers from analytical ambiguities is the Market Price Support (MPS) as measured for the relevant commodities as the difference between an administered price and a fixed reference price, multiplied by the eligible quantity. This measure in particular overlaps with commitments on market access, and was found to be an imperfect indicator of policy change. A successful conclusion to the Doha negotiations would tighten the domestic support commitments. The new commitments would remove much of the flexibility that countries now have in shifting among categories of support, but would not resolve the ambiguity about MPS.

Monitoring and the disciplines on domestic support could be improved by earlier notifications, by more consistency among countries in the calculation of the AMS, and by possibly separating the MPS from the non-exempt direct payments, as they have different economic impacts. From a pragmatic policy perspective, emphasis was placed on achieving progressive liberalization building on the commitments of the Uruguay Round.

Summary of Presentations and Discussion

If international trade rules are to be effective, countries' compliance with their commitments under the rules must be monitored and enforced. Professor Orden opened the session by emphasizing that the notification process has had substantial success in increasing policy transparency. With annual information available it is possible to make direct links between policy changes and the notified domestic support for the relevant year. However, the notifications as a device to track policies and monitor compliance is hampered when there are significant delays in filing, as the Committee on Agriculture continues to note. By design, the notifications do not encompass forward-looking projections relevant to policy debates focused on the likely effects that decisions will have over a future period. Thus, independent studies provide a valuable complementary source of information for policy monitoring.

In his opening remarks, Ambassador Walker noted that just fifteen years ago the GATT rules were basically ineffective for agriculture and subsidies were substantial. The commitments made through the Agreement on Agriculture constituted a first step toward international disciplines under the three pillars of market access, export competition and domestic support, without which there would be no ceiling commitments. The Doha negotiations have built on this basis and substantial cuts are being considered. These include the willingness of Members to eliminate export subsidies by 2013 declared at the Hong Kong ministerial and the ongoing negotiations around tiered cuts in which countries with higher initial levels of tariffs or domestic support make larger reduction commitments, albeit with some flexibilities built in. Ambassador Walker reviewed the commitments and reductions under discussion for Overall Trade-Distorting Support (defined to include the Current Total AMS, the Blue Box and *de minimis*), the components of OTDS, and product-specific support. He also called attention to negotiations over enhanced surveillance procedures to improve transparency.

Commitments of Developed Countries

As a basis for making judgments about whether domestic policy changes have been encouraged by the existing rules and about the potential impact of a Doha agreement, the panelists reporting on the IFPRI study presented analysis of 1) available notification and, when needed, shadow notifications (what might be expected to be notified when no notification has been made); and 2) projections of likely notifications through the mid 2010s based on anticipated policy decisions and market conditions. Whether the possible

Doha commitments would have been binding on past policies as notified was a particularly relevant question through the early years of the negotiations (2001-06) when the broad outlines of possible commitments were being hammered out. With increased agricultural prices in 2007-08 a new era of higher prices has been widely thought to be beginning. Price projections are subject to uncertainty, but such a shift in prices would have implications for the tightness of domestic support commitments. Projections were undertaken in part to make this assessment.

Across the four developed countries, Professor Josling reported a diversity of experiences likely to encompass those of other countries as well:

- Japan has notified primarily Green Box and Current Total AMS support. Its MPS dropped sharply in 1998 with a change in rice price support policy. This reduced its notified and projected Current Total AMS so much that neither the existing obligations nor possible Doha AMS or OTDS commitments would be binding constraints on projected (or even past) support. However, Japan's notified MPS drops very sharply compared to a slight downward movement in the value of the nominal protection (VNP) for the corresponding commodities, as measured annually based on total domestic production and the difference between domestic and international prices as reported by OECD.³
- For Norway, support is notified in each of the categories of Green Box, Blue Box and AMS. Essentially all its AMS is comprised of MPS which has been about constant at a level close to its commitment. The MPS is also relatively close to the VNP as calculated from total production and annual price gaps. Possible Doha AMS, Blue Box and OTDS commitments would have been binding if they had applied in the past, and are projected to be binding in the future. So Norway will apparently have to make some changes in its policy instruments if a Doha agreement is reached.
- For the EU, notified Blue Box and (later) Green Box support has expanded, while notified Current Total AMS has declined as MPS has been reduced. The MPS reflects policy changes, but now understates the VNP. Possible Doha AMS, Blue Box and OTDS commitments would have been binding on past notified support even with these policy changes. The Doha AMS and OTDS commitments could prove binding on the EU in the future without further reform of its policies.
- The US is perhaps the most complex case. Its Current Total AMS includes relatively little MPS and both Current Total AMS and support notified as non-product-specific *de minimis* are highly sensitive to world prices. The US Current Total AMS has exceeded the potential Doha commitment in 7 of 13 past years and challenges to it having met its existing AMS commitment are well known but not resolved. Projections under relatively strong prices and continuation of its 2008 support policies suggest the Doha AMS and OTDS commitments would not be binding on the US, but its latitude would be relatively small and could dissipate under a variety of plausible circumstances.

In terms of the impact of the Agreement's domestic support rules on policy change and the possible effects of a Doha conclusion for these four developed countries, there are many ways to describe a glass half full. The WTO rules clearly accommodated and encouraged the shift in EU policies and the Doha agreement would continue to take up the slack that the reforms have created under its commitment. The new policy direction was also appropriate for domestic reasons. The US has been close to its Current Total AMS commitment in the past but has gained flexibility recently as a result of higher market prices.

³ OECD also reports a Market Price Support. We use the alternative nomenclature VNP for our calculations for the comparison with the WTO measure. The VNP differs in a few cases from OECD's market price support.

The examination of the behavior of the MPS notifications raises some troubling questions. In both Japan and the EU the fall in the MPS seemed to be ahead of the actual policy impact on producers. The VNP was reduced at a slower pace. So in effect countries have provided some policy latitude for themselves under the AMS commitment by changes that affected the MPS but not producer protection relative to world prices. Much of the assessed latitude for the US under possible Doha AMS and OTDS commitments arises similarly.⁴ The analysis for Norway points out that there may be some options for recasting subsidies by reducing MPS while retaining allowed tariff protection under Doha.

Commitments of Developing Countries

For developing countries, Professor Gopinath also pointed to a range of experiences. Under the existing Agreement:

- India has only notified its domestic support for the period 1995-97, so a set of shadow notifications were computed. India MPS has been mostly negative because its external reference prices have exceeded its administered prices for rice and wheat. The notified eligible quantities are based on levels of procurements which are only a share of total production. Input subsidies, including for electricity and irrigation, fall into two categories: Special and Differential Treatment (Article 6.2) and non-product-specific AMS. This support has been less than the 10-percent *de minimis* allowance. Green Box expenditures have increased to around 8 percent of the value of agricultural production.
- China has only notified its domestic support for 1999-2001, so shadow notifications were again computed. MPS has been mostly negative, with the eligible quantities based on procured quantities. Non-product-specific support has been less than 2 percent of the value of agricultural production (without electricity and irrigation subsidies for which estimates are not available). Input subsidies have increased in recent years, but remain well below China's 8.5-percent *de minimis* allowance. Green Box expenditures are about 10 percent of the value of production.
- The Philippines has notified its domestic support from 1995-2004. MPS has been positive, with rice the key commodity. The gap between administered and reference prices exceeds the gap between current domestic and international prices, but only the fraction of total rice output that is purchased under the price support program is notified as the eligible quantity. Thus, MPS remains well below the product-specific *de minimis* allowances, and well below VNP. The subsidies the Philippines notifies under S&DT average less than 1 percent of the value of production. Green Box expenditures are also quite low.
- Brazil has notified its support for 1995-2004. It has a small AMS commitment (US\$ 912 million). Crop support payment and credit subsidies/debt rescheduling are principal policies. Notified Current Total AMS has been well below Brazil's commitment. Like India, Brazil notifies non-product-specific support both under S&DT and as *de minimis*. These sum to less than 4 percent of the value of production.

⁴ Professor Orden pointed out that dairy prices have fallen sharply in 2009 and the US increased its dairy subsidies in response, providing a cautionary example against assuming world agricultural prices will remain high enough to keep subsidies low. The increased dairy support will not cause the US to exceed its existing Current Total AMS commitment, but under its past notification procedures the level of support provided by the US in 2009 would exceed the level allowed after phase-in of product-specific commitments based on the Doha draft modalities. This illustrates the more substantial disciplines in the Doha negotiations, but changes made to dairy support legislation in 2008 may allow the US to circumvent any such constraint by reducing its notified MPS.

Overall, with respect to these four developing countries the WTO rules and commitments have not significantly constrained domestic support. S&DT offers a category into which subsidies that would otherwise be constrained can be placed when they meet certain development-related criteria. While this allows developing countries to address rural poverty by assisting farmers, it lessens the effectiveness of the WTO rules as they are intended also to guide countries away from trade-distorting forms of support. In practice, even if the support reported as S&DT were included in the AMS for these four countries, the support has been so low that their commitments would not have been binding. If support rises as incomes continue to grow in large countries such as India or China, various interpretations under the rules may prove more important quantitatively in creating latitude. The Doha modalities do not tighten the limits on domestic support except for Brazil which would face a reduced AMS commitment and lower *de minimis* allowances.

Market price support may prove problematic for developing countries in the future. Product-specific support has been well below allowed levels for India, China, the Philippines and Brazil. But if administered prices continue to rise compared to fixed reference prices, positive MPS may need to be notified by India or China or may increase for the Philippines or Brazil. The IFPRI studies point to possible difficulties meeting their rules-based obligations, at least for some commodities in one or more of these countries.

Policy Perspective

Chairwoman Csukasi in her panel remarks made the point that it is incumbent on all Members to participate in the notification and review process. The Committee on Agriculture is undertaking several efforts to improve the capacity of developing countries to provide notifications and the submissions from several developed-country major subsidizers have also improved. Proposed penalties for failure to notify suggested early in the Doha negotiations proved unrealistic. Instead, the Committee on Agriculture has sought to utilize the existing rules to their full capacity and strengthen the process of peer reviews. Ms. Csukasi pointed out that countries can bring up for discussion in the Committee counter-notification showing what they estimate the notifications of domestic support would be from a non-notifying Member, but this has never been done. Hence, tools for an effective notification process appear to be in place but the review process needs to work better.

In terms of the effectiveness of the domestic support commitments, Chairwoman Csukasi noted that the existing disciplines are working because countries are not exceeding their constraints. As a representative of Uruguay, which has low subsidies and agricultural export interests, she pointed out that there are two ways to view the Doha domestic support proposals: that cuts are not enough or that it is not possible to get everything that is wanted in this round. She argued for seeking to finalize the strengthened disciplines of the Doha negotiations. The WTO aims for progressive liberalization and a future round can address the issue that cuts do not go far enough.

Discussion

With session attendance standing room only, a lively discussion followed the presentations by the speakers. Several comments by the audience and panelists addressed whether subsidies were being adequately measured in the US and EU, how Brazil accounted for credit and debt rescheduling subsidies, the absence of accounting for biofuel subsidies, and the potential for the rules to be binding on developing countries. Representatives of farmers' organizations in Switzerland and Mexico decried a perceived loss of sovereignty under the WTO rules. In response, Uruguay's Ms. Csukasi emphasized the importance of the multilateral rules especially to small export-dependent countries. A call was made for making notifications available in a more accessible formats and it was pointed out that the Committee on Agriculture is working on doing so. One member of the audience suggested the review process be

strengthened by use of expert panels, and Professor Josling noted that it ought not to take developed countries much longer to notify to the WTO than to submit their annual policy information to the OECD.

All of these considerations are relevant in a world agricultural economy in which domestic support still abounds, the food supply and sustainable production technologies are uncertain, and markets have been shaken recently by both a sharp commodity price boom and a global financial crisis. For these and other reasons, substantial issues will remain to be addressed in domestic support even if a Doha agreement is reached. The panel concluded that there remains an ongoing policy challenge to make agricultural domestic support policies worldwide more consistent with open markets, environmental progress, and other public-good policy objectives.

Understanding International Disciplines on Agricultural Domestic Support

Tim Josling, Stanford University
WTO Public Forum Session 12
Geneva, September 29, 2009

Constraints on Domestic Support

- Agreement on Agriculture obliged members to notify domestic support
 - Current Total AMS (includes MPS and NE-DPs)
 - Blue Box
 - Green Box
- CT-AMS compared to Final Bound Total AMS

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Issues Addressed

- Have the Domestic Support Notifications increased policy transparency?
- Would the Doha Round if concluded impose more effective constraints on domestic support?
- Do the Domestic Support Notifications monitor the switch toward less trade-distorting instruments of support?
- How might the notification process and the disciplines that are imposed be improved even beyond the Doha negotiations?

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Experience with Developed Countries

- Japan
 - Norway
 - EU
 - US
- Includes the three largest users of domestic support and one high-support small country

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Analysis for each Country

- Pattern of Domestic Support as Notified to the WTO
- Consistency with WTO Bindings
 - AMS under UR schedules
 - AMS under Doha Modalities
 - Blue Box Constraints under Doha Modalities (when relevant)
 - OTDS Constraints under Doha Modalities
- Calculation of alternative to MPS using producer prices, total quantities, and current reference prices (called Value of Nominal Protection -- VNP)

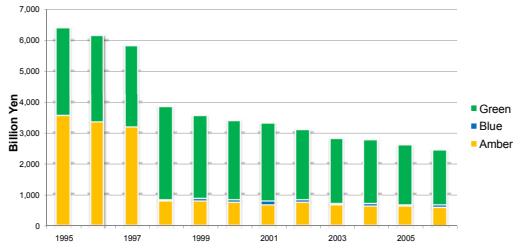
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The Doha Domestic Support Modalities

- Reduction in the Final Bound AMS
- Reduction in *de minimis* allowances
- Cap on Blue Box support
- Cap and reduction in the OTDS (AMS + *de minimis* + Blue Box)
- Product-specific AMS and Blue Box caps

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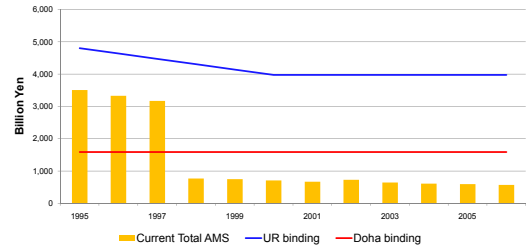
Japan: Domestic Support, 1995-2006



Source: Godo and Diego (IFPRI study) based on WTO notifications

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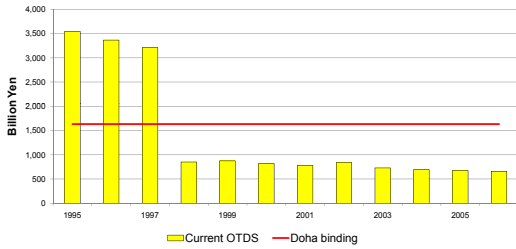
Japan: AMS Compared to WTO Bindings



Source: Godo and Diego (IFPRI study) based on WTO notifications and December 2008 draft modalities

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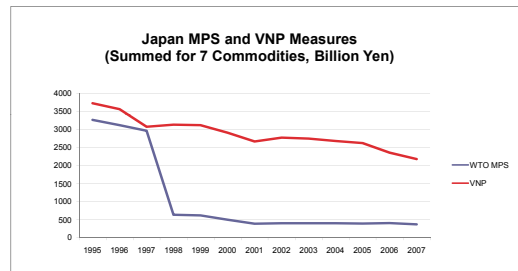
Japan: OTDS Compared to Doha Binding



Source: Godo and Diego (IFPRI study) based on WTO notifications and December 2008 draft modalities

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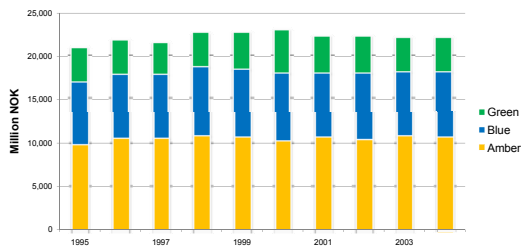
Japan: MPS and Value of Nominal Protection



Source: Josling (IFPRI Study) based on WTO notifications and OECD data

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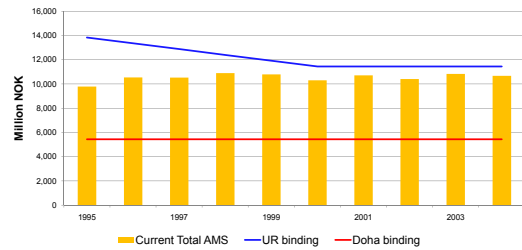
Norway: Domestic Support, 1995-2004



Source: Gaasland, Garcia and Vårdal (IFPRI Study) based on WTO notifications

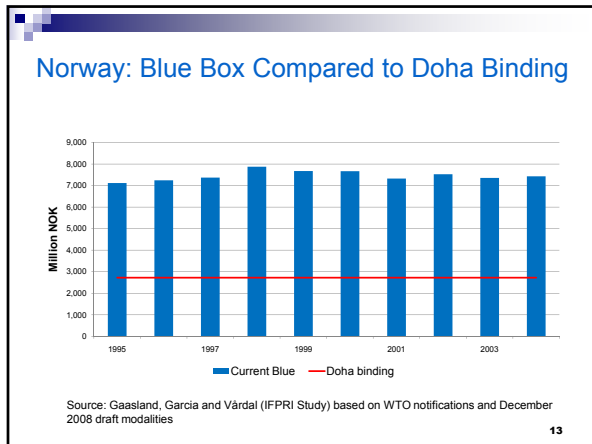
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Norway: AMS Compared to WTO Bindings

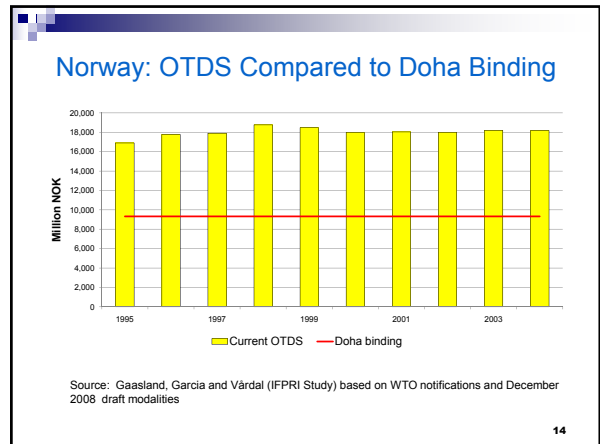


Source: Gaasland, Garcia and Vårdal (IFPRI Study) based on WTO notifications and December 2008 draft modalities

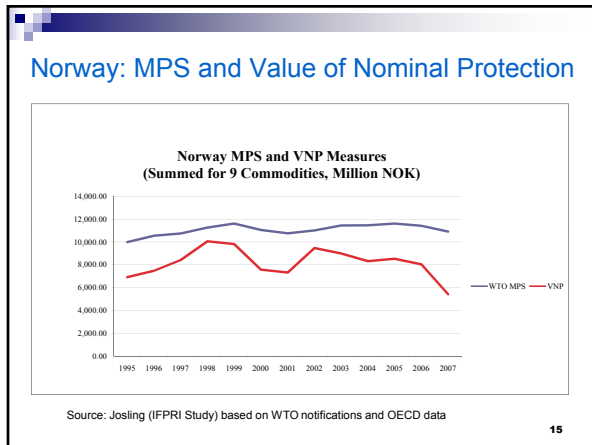
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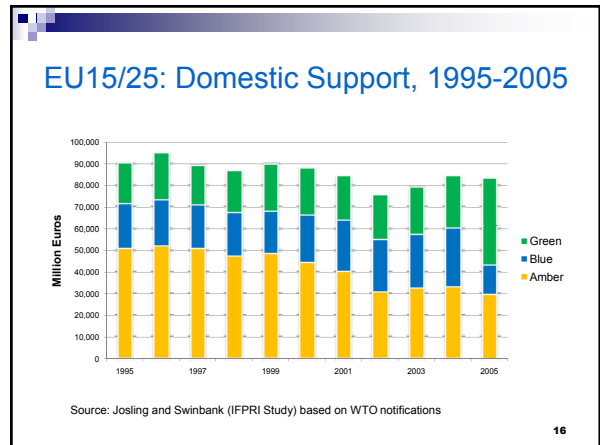
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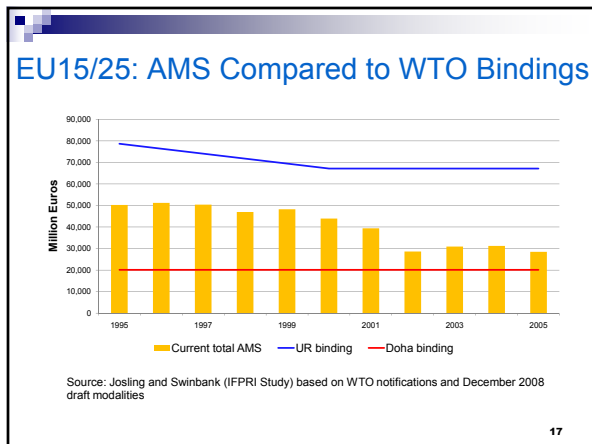
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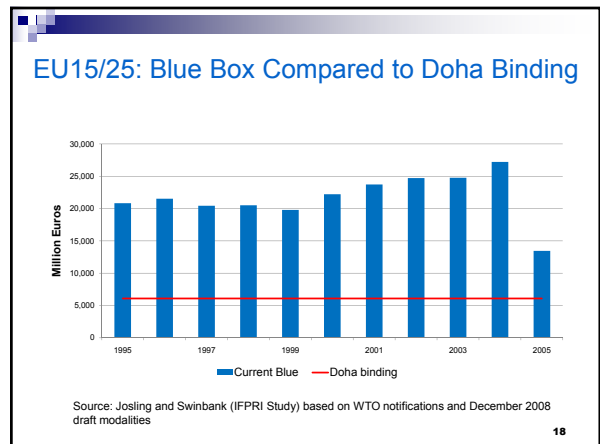
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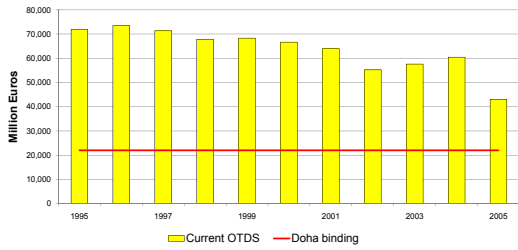


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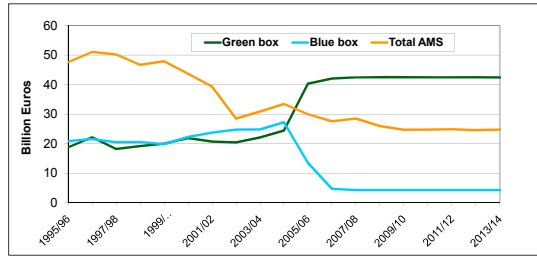
EU15/25: OTDS Compared to Doha Binding



Source: Josling and Swinbank (IFPRI Study) based on WTO notifications and December 2008 draft modalities

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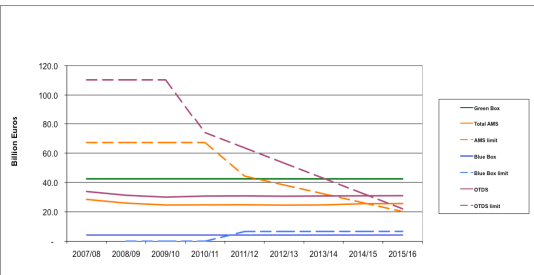
EU15/27: Domestic Support with Projections



Source: Josling and Swinbank (IFPRI Study) based on WTO notifications and OECD data

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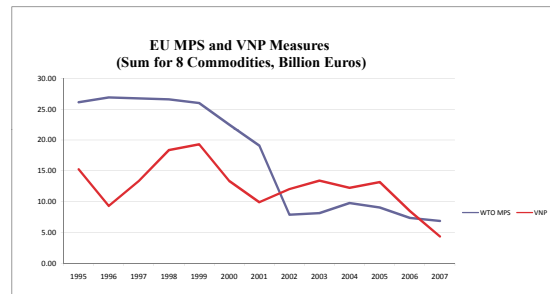
EU15/27: Projections and Doha Constraints



Source: Josling and Swinbank (IFPRI Study)

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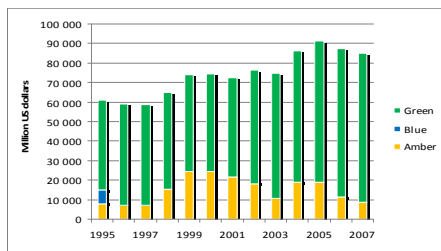
EU15/27: MPS and Value of Nominal Protection



Source: Josling (IFPRI Study) based on WTO notifications and OECD data

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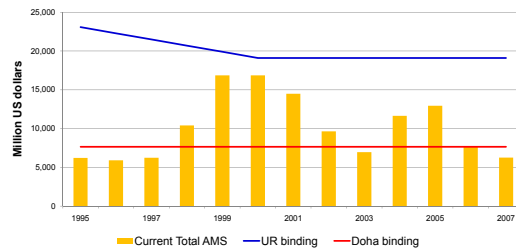
US: Domestic Support, 1995-2007



Source: Blandford and Orden (IFPRI Study) based on WTO notifications

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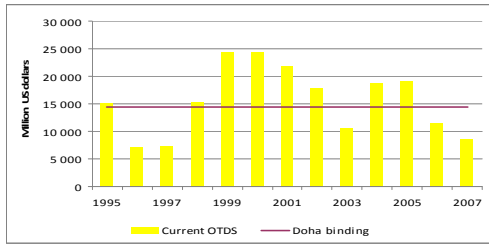
US: AMS Compared to WTO Bindings



Source: Blandford and Orden (IFPRI Study) based on WTO notifications and December 2008 draft modalities

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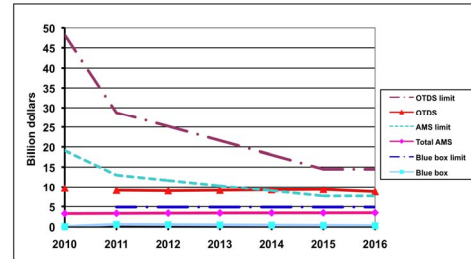
US: OTDS Compared to Doha Binding



Source: Blandford and Orden (IFPRI Study) based on WTO notifications and December 2008 draft modalities

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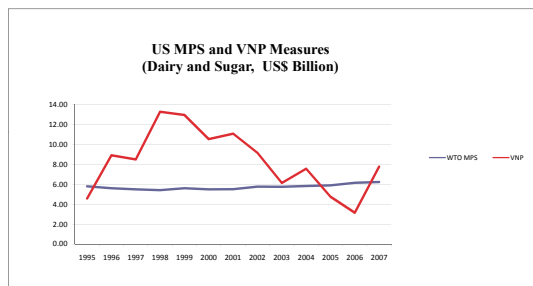
US: Projections and Doha Constraints



Source: Blandford and Orden (IFPRI Study)

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US: MPS and Value of Nominal Protection



Source: Josling (IFPRI Study) based on WTO notifications and OECD data

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Developing Countries' Domestic Support Policies and WTO Disciplines

Munisamy Gopinath
Oregon State University

Public Forum (Session 12), September 29, 2009
World Trade Organization, Geneva

IFPRI Study: The Developing Countries' Cases

- Major Developing Countries' Domestic Support in the Uruguay Round: India, China, Philippines, Brazil
- Implications of the Doha Draft Modalities
- Complications in the Analysis for Developing Countries
 - Time lag in notifying domestic support
 - Access to data can be difficult
 - Significant policy uncertainty
 - Wide disparities in notified policies and public perception

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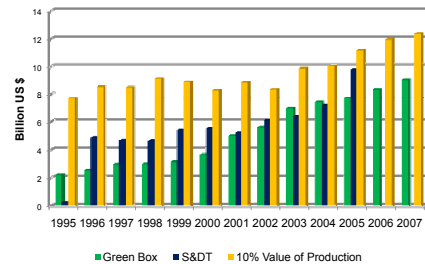
Structure of India's Domestic Support

- Two major instruments: Minimum Support Price (MSP) and input subsidies (fertilizer, electricity, irrigation, credit and seed)
- Official notifications: 1995-1997
- Total AMS Commitment in the Uruguay Round: Zero
- Use of
 - Green Box
 - Special and Differential Treatment (Article 6.2)
 - Product-Specific AMS is mostly negative (ERP exceeds MSP); *de minimis* allowances 10% of value of production
 - Non-Product-Specific support about 1% of value of production; 10% *de minimis* allowance

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Structure of India's Domestic Support

- Green Box and Special and Differential Treatment (Article 6.2)

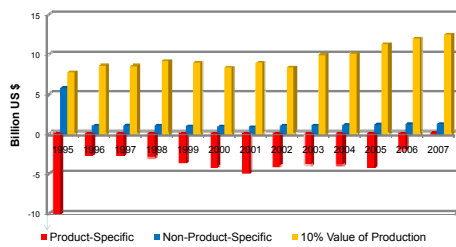


- S&DT predictions for 2006-2007 are not included because of new rural programs
- Gopinath (2008, IFPRI Study) based on WTO notifications

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Structure of India's Domestic Support

- Product- and Non-Product-Specific AMS

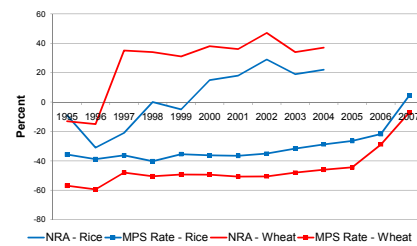


- 1995 Product-Specific AMS is -\$29.62 billion
- Gopinath (2008, IFPRI Study) based on WTO notifications

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India's MPS versus Nominal Protection

- Nominal Rate of Assistance (NRA) versus MPS Rate for Rice and Wheat



- Gopinath (2008, IFPRI Study) based on WTO notifications and World Bank's Agricultural Distortions Database

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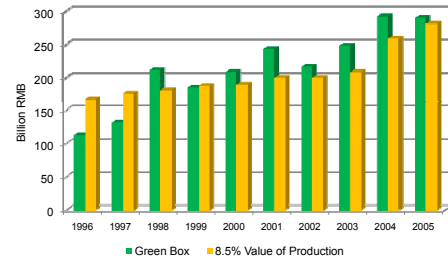
Structure of China's Domestic Support

- Since WTO accession: A mixture of Minimum Price and marketing control (grains), input subsidies (fertilizer) and direct payments (grains)
- Official notifications: 1999-2001
- Total AMS Commitment in the Uruguay Round: Zero
- Use of
 - Green Box
 - Product-Specific AMS is mostly negative; reference prices from 1996-98; 8.5% *de minimis* allowances
 - Non-Product-Specific support about 1% of value of production; 8.5% *de minimis* allowance
- Blue Box is available, but not used
- Article 6.2 is unavailable

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Structure of China's Domestic Support

- Green Box

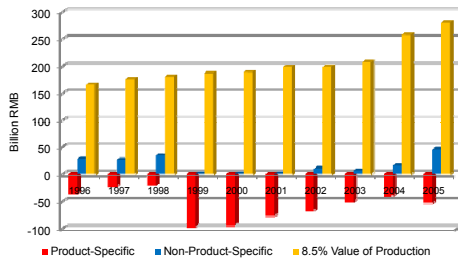


- Cheng (2008, IFPRI Study) based on WTO notifications

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Structure of China's Domestic Support

- Product- and Non-Product-Specific AMS

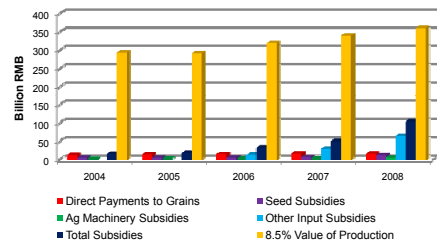


- Subsidies not reported: irrigation, electricity and foregone agricultural taxes (~cuts slack in NPS)
- Cheng (2008, IFPRI Study) based on WTO notifications

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Structure of China's Domestic Support

- Direct Payments to Grains and Input Subsidies



- USDA-ERS/FAS Compilation of China's direct subsidies

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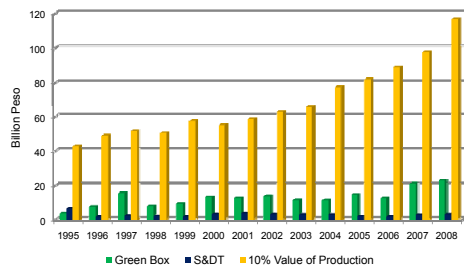
Structure of Philippines' Domestic Support

- Major instruments: Price floor (Administered Price), state-trading (NFA) and input/investment subsidies
- Official notifications: 1995-2004
- Total AMS Commitment in the Uruguay Round: Zero
- Use of
 - Green Box
 - Special and Differential Treatment (Article 6.2)
 - Product Specific AMS is positive, but small; 10% *de minimis* allowances
- Does not notify Non-Product-Specific support; 10% *de minimis* allowance

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Structure of Philippines' Domestic Support

- Green Box and Special and Differential Treatment (Article 6.2)

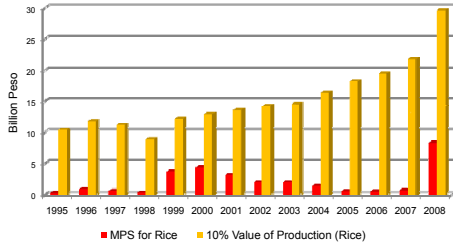


- Cororaton (2008, IFPRI Study) based on WTO notifications

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Structure of Philippines' Domestic Support

- Product-Specific AMS for Rice

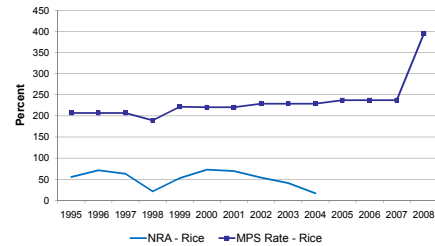


- Corn AMS is relatively small
- Cororaton (2008, IFPRI Study) based on WTO notifications

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Philippines MPS versus Nominal Protection

- Nominal Rate of Assistance (NRA) versus MPS Rate for Rice



- Cororaton (2008, IFPRI Study) based on WTO notifications and World Bank's Agricultural Distortions Database

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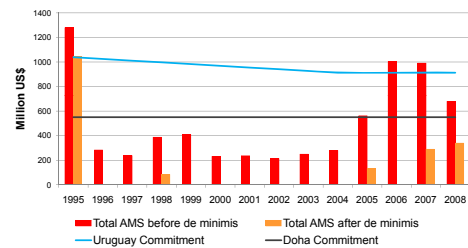
Structure of Brazil's Domestic Support

- Major instruments: Product-specific (equalization) payments; production, marketing and investment credit subsidies (product-specific and non-product-specific); debt rescheduling; some market price support
- Official notifications: 1995-2004
- Total AMS Commitment: US\$ 912.1 million
- Use of
 - Green Box
 - Product-Specific AMS
 - Special and Differential Treatment (Article 6.2)
 - Non-Product-Specific support about 2% of value of production; 10% *de minimis* allowance

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Structure of Brazil's Domestic Support

- Product-Specific AMS

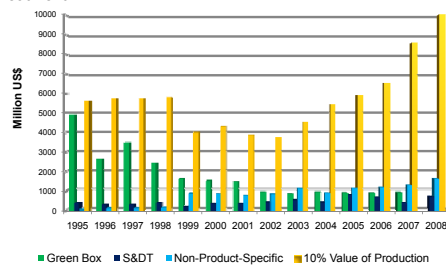


- Nassar and Ures (2009, IFPRI study) based on WTO notifications

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Structure of Brazil's Domestic Support

- Green Box, Non-Product-Specific AMS and Special and Differential Treatment



- Nassar and Ures (2009, IFPRI study) based on WTO notifications

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Forward-Looking Issues for Developing Countries

- Have the Agreement's disciplines constrained agricultural domestic support in developing countries?
- Emerging positive MPS
 - India, China (due to rising administered prices)
 - Eligible production versus total production (all 4 countries)
- Box shifting/classifications
 - Early Shifts: India (NPS to S&DT); Philippines (S&DT to Green Box)
 - Potential issues: e.g. China (How will new grain DPs be classified?)
- Set of notified subsidies varies across countries
 - Electricity, irrigation, credit and others
- Will domestic support of developing countries rather than developed countries emerge as a major WTO issue?

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