

Chapter 3. WTO 11th Ministerial Conference - Buenos Aires: What's at stake for domestic support in the context of agricultural negotiations

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>> Introduction

With the stagnation of the Doha Round, the WTO has started a process known as “*early harvest*”. The first results were achieved four years ago in Bali¹⁷, the process continued in Nairobi and is expected to have some outcomes in Buenos Aires, during the **11th Ministerial Conference of the WTO (MC11)**. In this context, the question is what to expect in Buenos Aires, especially in agriculture.

The WTO Agreement on Agriculture includes rules for three pillars: **Market Access** (the use of trade restrictions, such as tariffs on imports), **Export Competition** (the use of export subsidies and other government support programmes that subsidize exports) and **Domestic Support** (the use of subsidies and other support programmes that directly stimulate production and distort trade). For the first one, given that it is a topic closely related to the non-agricultural negotiations (NAMA), it is going to be difficult to have results only in agriculture. The second one had some results during Nairobi, but nothing more until now. The last one is going to be the focus of this paper.

According to a Statement by the Chairman of the Committee on Agriculture in Special Session¹⁸, Ambassador Stephen Ndūn’Gū Karau (Kenya), communications held with Members showed the **nearly universal support among them for an outcome on Domestic Support**. Most consider that limiting domestic support is a priority for MC11. However, Members recognize the contextual difficulties involved in this topic and have revised their expectations about what is achievable in December. There is also consensus that **whatever the outcome at MC11, it should not be considered as a final outcome on Domestic Support, as work will continue thereafter**.

Proposals on this pillar could address the topic as a whole or emphasize the components considered to be the most trade-distorting. Different options could include reductions of current commitment levels or cuts on the *de minimis* levels. It would even be possible to negotiate new rules. However, nothing is as yet defined.

>> Importance of domestic support

The current framework of trade negotiations is characterized by relatively low prices in relation to former years and an Agenda 2030 for Sustainable Development that aims to end hunger and poverty, ensuring global food security.

Likewise, in recent years, changes have been made in agricultural policies implemented by both developed and developing countries, with a notable increase in support to producers granted by emerging economies such as China, India, Indonesia, Turkey and Thailand.

¹⁷ It was announced on February 22 by the WTO that the Trade Facilitation Agreement (TFA) had entered into force, having surpassed the minimum requirement of 110 ratifications from Members.

¹⁸ <http://goo.gl/NSPBER> - Statement by Amb. Stephen Ndūn’Gū Karau to the Committee on Agriculture in Special Session - 1 June 2017.

In addition, there are new factors of global uncertainty related to the outcome of the referendum in favor of Brexit, Trump taking office in the USA, the threat of protectionism and the stagnation in negotiations of mega-regional agreements.

In this context, production subsidies have returned to the center of the scene and the WTO has gained importance in its role, not only as a means for conflict resolution, but also as a forum where countries can agree on future commitments in order to avoid proliferation and increase of trade-distortive agricultural subsidies.

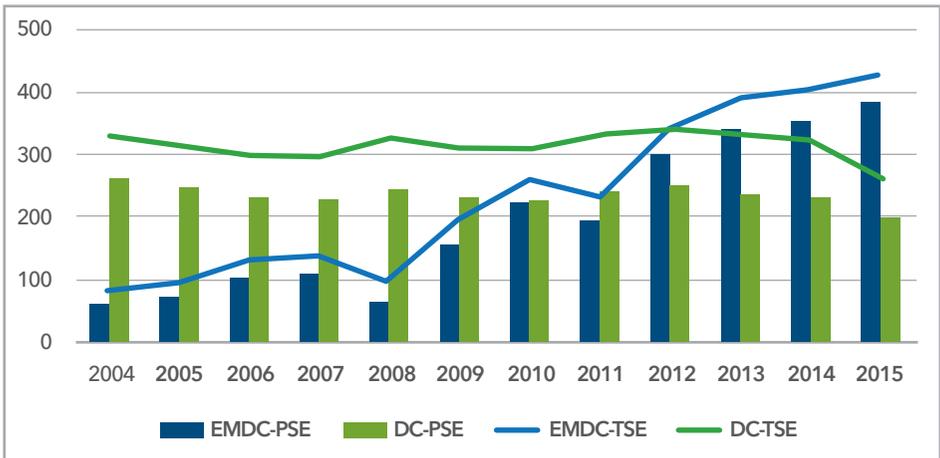
In order to illustrate the importance of domestic support in agriculture, we take two indicators from OECD as a reference: the **Total Support Estimate (TSE)** and the **Producer Support Estimate (PSE)**¹⁹.

The first one (TSE) consists of transfers to agricultural producers (PSE), to consumers and to support general services in the agricultural sector. The Percentage of TSE represents the total transfers expressed as a share of Gross Domestic Product (GDP).

On the other hand, the PSE, which is the indicator we used for our analysis below, measures the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers, measured at farm gate level and arising from policy measures, regardless of their nature, objective or impacts on production or income.

As displayed in Graph 1, both indicators (TSE and PSE) show the same trend: developing countries have been raising the amount of support given while developed countries have been lowering it. Notwithstanding, support granted by developed countries remains high.

GRAPH 1: Producer (PSE) and Total Support Estimate (TSE). Billion USD



EMDC: Emerging Markets and Developing Countries / DC: Developed Countries

Source: Generated by the authors based on data from OECD (2016). As the 2015 data for Russia is not available, it was assumed to be similar to 2014.

¹⁹ It includes estimates for the value of transfers provided by market access measures, such as tariff and tariff quotas, input subsidies, direct payments coupled and decoupled to prices or production.

This is due to the remarkable increase in the amount of subsidies given to agricultural producers in China since 2008, via price support, government procurement and direct payments. With total support estimated at about USD 340 billion in 2015, agricultural support in the Asian giant is vastly higher than that granted by the USA and the EU: more than four times what the USA gives and three times the EU. China's support explains the 80% of emerging markets and developing countries (EMDC in the graph) subsidies.

At this stage, it is important to point out that there is no PSE data for India, one of the biggest subsidizers among emerging countries. So, it is possible that if such data existed, the percentage of EMDC would increase even more.

In the following table (Table 1) the previously mentioned tendencies can be observed. China turns out to be the main subsidizing country, with 48% of the total subsidies given by the countries analyzed, with a growth of 866% in the last 10 years.

On the other hand, Japan, the European Union and the United States, show a reduction of between 6% and 15% in the amounts of support given. Nonetheless, the three of them remain among the main subsidizers. Indonesia follows in China's footsteps, as does Korea, but on a smaller scale.

At the aggregate level, there was an inversion in the share of the subsidies given by Emerging Markets and Developing Countries (EMDC) and Developed Countries (DC) in the past 10 years. It is noted that in the period 2003-05 DCs accounted for about 80% of subsidies, while in recent years EMDCs have taken the lead and reached 62% (mainly explained by China).

TABLE 1: Main Countries - Producer Support Estimate (PSE)
Million USD

Country	AVG 2003-05	AVG 2013-15	Share % total	Δ 10 years
China	29.213	29.213	48%	↑ 866%
EU28	124.469	124.469	18%	↓ -15%
Japan	46.472	46.472	7%	↓ -9%
USA	39.320	39.320	6%	↓ -6%
Indonesia	3.037	3.037	5%	↑ 942%
Korea	19.348	19.348	4%	↑ 9%
EMDC-PSE	65.836	360.463	62%	↑ 448%
DC-PSE	246.644	224.619	38%	↓ -9%
Total	312.480	585.082	100%	↑ 87%

Source: Generated by the authors based on data from OECD (2016).

In terms of products, as presented in Table 2, the main subsidized include cereals, meat and sugar. Rice is the product that receives more subsidies; in average value for the years 2013 to 2015 the PSE exceeds USD 63 billion. It is followed by pork and bovine meat, which collect around USD 31 billion each.

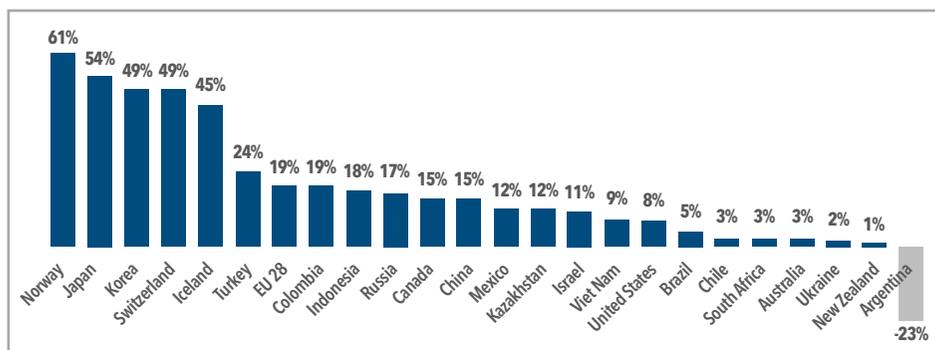
TABLE 2: Main Products - Producer Support Estimate (PSE) Million USD

Product	AVG 2013-15
Rice	63.781
Pork meat	31.943
Bovine meat	31.512
Corn	27.526
Milk	23.663
Wheat	18.820
Poultry meat	10.345
Sugar	8.880

Source: Generated by the authors based on data from OECD (2016).

Another interesting indicator is the percentage of PSE that represents the transfers to agricultural producers expressed as a percentage or share of the gross farm revenue. Graph 2 displays that indicator for selected countries.

GRAPH 2: Producer Support Estimate (% PSE) Three year average (2010-12)



Source: Generated by the authors based on data from OECD and Agrimonitor-IADB.

It is noticeable that there are some countries like Norway, Japan, Korea and Switzerland, where more than half of their gross farm receipts came from transfers (subsidies) from consumers and taxpayers. In the case of the EU, the percentage of transfers rises to almost 20% and in the USA, to 8%. While in all other countries we observe positive transfers to agricultural producers, in the case of Argentina the figure is negative mainly due to the effect of export taxes. This means that in net terms the Argentine agricultural sector subsidizes other sectors of the economy.

>> Methodology

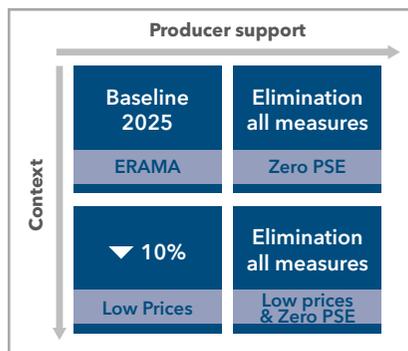
As mentioned previously, we used the PSE indicator as a reference point for our analysis. To understand the methodology used, it is important to know that the PSE can be split into different kinds of support. In order to run the simulations in this article, the PSE categories were modelled considering the following parameters²⁰:

- **Market price support:** Modelled as a gap between domestic and external price. However, tariffs were modelled separately, and left out of the simulations, given that they are part of the “*market access*” pillar. Intervention price policies in most countries were also modelled explicitly.
- **Payments based on output:** Modelled as an increase in producer price.
- **Payments based on input:** Modelled as a reduction in production costs.
- **Payments based on income, area or animal numbers:** Modelled as an increase in land revenues, although the payments were excluded in the cases where production is not required.
- **Other payments:** Not modelled.

>> Scenarios

With the aim of providing more tools to allow the negotiators to reach a consensus and to address the importance of this topic, in this section an impact analysis was done of a full domestic support elimination in the context of two different scenarios (See Chart 1. Simulated Scenarios).

CHART 1: Simulated Scenarios



In the first case, the **baseline scenario** reflects INAI Foundation’s **ERAMA 2025** (World and Argentine Agribusiness Reference Scenario), which consists of a long-term outlook for the levels of international trade, production and consumption of the main agricultural goods, constructed by means of the PEATSim-Ar simulation model of the INAI Foundation and experts validation.

²⁰ The modelling was based on OECD (2009) “*The PSE Manual*”

The second scenario was called **Low Prices** as a result of a simulation of a 10% drop in world food demand. This drop in demand, in turn, affects international prices, so that some subsidy programs that remained latent in the baseline scenario are now activated.

Table 3 below summarizes the results for world trade in both scenarios and for the case when full elimination of subsidies occurs (Zero PSE). As is noticeable, in the baseline (ERAMA) it is expected that world grain and oilseed imports would reach USD 154 billion by the year 2025. Thus, in the case of domestic support elimination the import value rises to USD 179 billion, an increase of 16.4%.

TABLE 3: World grain and oilseed imports



Source: PEATSim-Ar model simulation

On the other hand, under the low prices scenario, imports display a drop of 21.8% to USD 120 billion (from the baseline scenario). In this scenario, the elimination of domestic support would allow it to reach USD 142 billion of imports, which represents an increase of 17.6% in trade flows.

Therefore, the **elimination of domestic support is a matter of importance for exporting countries** under a baseline scenario, and even more in a context of low prices when some support programs are activated.

Similar conclusions can be reached if the data for specific products is analyzed. As displayed in Table 4, for Argentina, Brazil, Paraguay and Uruguay (ABPU countries), the elimination of producer support would imply increases in exports for all meats. In fact, the impact on pork would be remarkable. Positive results can also be seen for milk powder, rice, wheat, soy, cotton and even sugar.

It is important to note that the soybean row includes beans as well as oil and meal. Even though the aggregate effect is positive, the simulation causes an increase on bean exports and a decline in oil and meal. This occurs because China is assumed to demand greater amounts of beans, prioritizing local crushing. Thus, this behavior arises from the *ceteris paribus* assumption (“everything else constant”), which is not necessarily realistic given that a total subsidy elimination would probably be accompanied by other policy changes.

TABLE 4: ABPU net export changes
2025 - Δ 000 tons and %

	Baseline		Low prices	
	Δ	Δ %	Δ	Δ %
Beef	67	1,8%	101	3,4%
Poultry	118	1,8%	90	1,5%
Pork	217	24,0%	191	27,8%
Whole dry milk	34	13,4%	54	28,3%
Rice	46	1,4%	521	21,1%
Wheat	670	8,7%	1.483	25,4%
Corn	-3.701	-4,3%	-7.063	-9,2%
Soybean*	3.934	2,5%	3.422	2,3%
Cotton	30	2,2%	19	1,5%
Sugar	2.727	10,8%	2.673	11,1%

Source: PEATSim-Ar model simulation

* Includes oil and meal

Table 5 exhibits the increases on imports for the main importing countries and products under both scenarios when a full elimination of subsidies is simulated. There it can be seen, for example, how China would significantly increase its imports of wheat or rice. The impact is larger in the low prices scenario than in the ERAMA, given that the role of the intervention price policy is greater when there are lower world prices. The increase in the purchases of soy and sugar is also very important in both scenarios in China, as well as the case of pork in Japan.

TABLE 5: Net import changes
2025 - Δ 000 ton

		Baseline	Low prices
China	Soybean	40.420	38.091
	Rice	7.459	24.627
	Wheat	2.289	20.478
	Sugar	3.311	3.147
	Cotton	387	190
EU-28	Soybean meal	2.595	2.414
	Sunflower oil	32	67
	Beef	32	42
Indonesia	Rice	7.126	4.841
	Corn	2.020	2.247
	Sugar	364	360
Japan	Pork	1.141	1.128
	Barley	765	737
	Sugar	137	165

Source: PEATSim-Ar model simulation.

>> The road ahead

At the **Ninth Ministerial Conference in Bali** (2013), Ministers adopted the “*Bali Package*”. A series of decisions on agriculture that included: an agreement to negotiate a Permanent Solution to the Public Stockholding for Food Security Purposes and to refrain from challenging breaches of domestic support commitments resulting from developing countries’ public stockholding programmes for food security, provided certain conditions are met (regarding notification and not causing adverse effects on other Members food security); a call for greater transparency in the administration of tariff quotas; and an expansion of the list of general services eligible for green box assistance (not subject to non-distorting limitations).

During the **Tenth WTO Ministerial Conference held in Nairobi** (2015), the “*Nairobi Package*” involved six Ministerial Decisions on Agriculture, Cotton and Least Developed Countries (LDC) issues. The main result was the decision to eliminate export subsidies for agricultural products and to establish disciplines on export measures having equivalent effect. Developed countries would immediately eliminate export subsidies, except in the case of a few agricultural products, while developing countries have longer terms to do so.

The question is **what to expect** in agricultural issues during the **Eleventh Ministerial Conference**, to be held in Buenos Aires in December. Ambassador Stephen Ndün’Gū Karau, current Chairman of the Committee on Agriculture (CoA), has pointed out in a recent report to the CoA in Special Session²¹ that the domestic support pillar remains as one of the priority issues for Members to address in December.

In particular, in order to understand how domestic support may be dealt with during the MC11, there are different proposals that have been submitted to the Committee on Agriculture. On the one hand, the group of **Least Developed Countries** and the **African, Caribbean and Pacific States** presented documents that advocated a substantial reduction in subsidies applied to agricultural trade. On the other hand, the **CAIRNS Group** of agricultural exporting countries distributed a document²² that develops the group’s objectives for MC11 and beyond, establishing elements of a possible outcome in terms of domestic support and other areas. In addition, some members of this group presented a technical analysis, which describes four different scenarios of restrictions on agricultural subsidies aimed at limiting the different types of support.

One of the most well-known has been the joint proposal²³ submitted by **Brazil and the European Union**, co-sponsored by Colombia, Peru and Uruguay, on measures to support agricultural production and food security. It is a restricted access document but, according to a European press release, its objective is to limit/restrict market distortions generated by domestic support measures (production subsidies) and to ensure equal conditions for farmers, taking into account the particular needs of developing countries. The submission proposes to establish conditions of fair competition among WTO members by limiting agricultural subsidies that distort markets in proportion to the size of the agricultural sector in each country. It also recognizes that Least Developed Countries would be exempt from limits and other developing countries could provide more aid and would have more time to adjust.

²¹ JOB/AG/107 - Report by Amb. Stephen Ndün’Gū Karau to the Committee on Agriculture in Special Session - 25 July 2017.

²² JOB/AG/91 - The Cairns Group’s objectives for MC11 and beyond - Communication by the Cairns Group - 19 May 2017.

²³ JOB/AG/99 - Proposal on domestic support, public stockholding for food security purposes and cotton from Brazil, European Union, Colombia, Peru and Uruguay - 17 July 2017.

Recently, several countries have circulated new proposals on domestic support. For example, **Japan**²⁴ presented a document of the relevant elements for discussion in domestic support. Likewise, **China and India**²⁵ unveiled a proposal to phase out the Aggregate Measurement of Support (AMS) to reduce distortions in global agricultural trade. The **G10**²⁶ also distributed a document on agricultural negotiations and domestic support in view of the MC11.

In this respect, Amb. Karau highlighted that Members could be divided into two large groups regarding the expectations for the MC11: those in favor of an overall limit (either fixed or floating) and those who support the elimination of the AMS²⁷ entitlements as a prerequisite for any other reform of domestic support.

With regard to the overall limit, he clarified that there are different views on what it should apply to, both in the short run and at a later stage (whether or not to include subsidies from Blue Box²⁸ and Article 6.2.²⁹), and whether it should be complemented by disciplines for product-specific support (anti-concentration). Other ideas were also suggested, considering per capita support and inflation rates. With reference to AMS, on the other hand, some Members required a substantial reduction while others demanded its complete elimination for developed countries, or making it correspond to the value of production in the case of developing Members.

Concerning **product-specific limits**, opinions ranged from setting general caps to setting per capita constraints, including a reduction of the per product support that exceeds the *de minimis*³⁰ level allowed.

The ambassador also mentioned the **red lines and/or sensitivities** expressed by Members, mainly related to Article 6.2. of the Agreement on Agriculture and *de minimis* for Developing Members, an overall limit based on the value of production, the Blue Box, and product-specific disciplines.

According to Karau, the views expressed by the delegations show evidence of interest in achieving results in the MC11 regarding public stockholdings for food security purposes, domestic support, cotton and export restrictions, but not for the rest of the issues. In general terms, while some consider that substantial results are still possible, others raise serious doubts.

An additional important issue about domestic support is the **notification status**. For the negotiations it is crucial to have information on what the Members are doing to support their farmers. However, only less than 25% of Members of the WTO can be considered to be up-to-date in their notifications to 2014.

²⁴ JOB/AG/104 - Important elements for domestic support discussion - Communication by Japan - 18 July 2017.

²⁵ JOB/AG/102 - Elimination of AMS to reduce distortions in global agricultural trade - Submission by China and India - 18 July 2017.

²⁶ JOB/AG/103 - Agricultural negotiations on domestic support in view of MC11 - Communication by the G10 - 18 July 2017.

²⁷ It includes distortive measures of trade and production, subject to limits (the Current value could not exceed the Consolidated level) and reduction commitments. Total AMS includes total aid per product-specific and non-specific.

²⁸ It includes trade-distorting measures but are subject to production limitation programs. Currently the only two countries that register use of this type of aid are the EU and Japan.

²⁹ Corresponds to subsidies granted through Development Programs applied by Developing Countries (may include subsidies to investments, inputs, etc.) and are not subject to reduction commitments.

³⁰ Level of minimum trade-distorting aid allowed: 5% of the value of agricultural production for developed countries, 10% for developing countries and 8.5% for China.

On **Public Stockholding for Food Security Purposes**, Members presented their well-known positions, with proponents considering that their 2014 proposal should be the basis for the negotiations for the Permanent Solution, and the non-proponents rejecting the proposal as it stands.

Moving on to the other pillars, there has been an increase of interest in the negotiations for **Market Access**, with some Members identifying, including in their latest submissions, specific topics of interest such as the special safeguard on agriculture, tariff escalation, tariff simplification, tariff peaks or tropical products. However, this is an area closely related with NAMA, so is going to be difficult to achieve results only for agriculture.

The chairperson understands that Members expressed a wide range of views on the likelihood of an outcome on this pillar. It seems to be that some of the countries thought incremental steps would be feasible at MC11 (for example on tariff peaks, escalation, simplification and in-quota duties), whereas others considered that a commitment to pursue market access negotiations post-MC11 would be a realistic outcome. Likewise, other Members found it difficult to reach advances in this topic.

In terms of the negotiations on Market Access, while some Members would like to have concrete discussions on specific elements, others considered it would be better to focus on a work programme. Others thought that they should focus on transparency and updated information in order to prepare the groundwork for future work and outcomes.

Another issue is the **Special Safeguard Mechanism (SSM)**. The proponents seek an SSM to address imports surges, price volatility and food security objectives whereas the other side cannot envisage an SSM in the absence of a market access outcome.

With regard to the pillar of **Export Competition**, there has not been a discernible shift in negotiating positions since July, and actually since the Nairobi Ministerial. Members recognized this is not a priority for MC11. However, what really matters now is the **implementation** of the Nairobi Decision. Australia was the first country to comply with the commitment made in the MC10, notifying the WTO of its intention not to use agricultural export subsidies again by eliminating this entitlement from the schedules of commitments.

Amb. Karau, mentioned that a couple of Members suggested that some Sanitary and Phytosanitary (SPS) issues could be part of the deliverables for the next MC meeting, but recognized that they were still considering which body would be the most appropriate forum to discuss their submission.

>> Final remarks

As is evident, domestic support really matters for exporting countries.

In the framework of the XIMC, it is essential to achieve results in agriculture, in order to give a positive signal to deal with the new context and to strengthen the WTO as a field of policy formation and definition of multilateral rules.

According to the President of the Committee on Agriculture, there are some things that need to be taken into account for the next Conference. First of all, the latest contacts with Member states show the willingness to move forward in domestic support negotiations and target trade-distorting supports, including cotton. In fact, Amb. Karau revealed that the discussions confirmed that reducing trade-distorting domestic support is a priority

for virtually all delegations. Nevertheless, there is still significant difference in how to go about it.

This could be addressed as a whole or by highlighting the most distorting components. One option could be the reduction of consolidated levels (AMS) or maybe of the *de minimis* levels. As we have seen recently, this last one seems to be the path of granting aids that is growing exponentially, particularly in developing countries such as China. Or why not, new rules could be negotiated. However, there is still nothing definite.

In addition, the enforcement of commitments is fundamental. It is important to develop new definitions but it is also essential to comply with existing rules in a scenario of uncertainty. In this regard, it is necessary and appropriate to follow up on the cases in the Dispute Settlement Body (DSB) such as the US case against China for subsidies to agricultural producers.

Likewise, it is important to note the need to have updated notifications of domestic support and other sanitary or technical measures likely to create unjustified barriers to trade. Also, it is necessary to carry out different analyses, measuring the impact of the current proposals in Domestic Support. It is also very important to analyze the other pillars and eventually develop some alternative proposals.

It is worth highlighting the support that has been provided through various international forums to the multilateral trading system and the holding of an upcoming meeting of the successful MC.

For instance, at a meeting of Ministers of the Organization for Economic Co-operation and Development (OECD), special mention was made of the need to strengthen WTO negotiations, dispute settlement and monitoring functions, and the commitment to work together to reach a successful 11th Ministerial Conference. In particular, the need to press for the removal of market distorting aids and to recognize the right to use legitimate WTO-consistent trade defense measures to address such practices was emphasized.

The G20 was not far behind and at the twelfth Group Leaders Summit they committed to working together to make the WTO Ministerial Conference in Buenos Aires a success. They stated that they will cooperate to ensure that trade rules and commitments are effective and enforced, as well as improving negotiation, monitoring and dispute settlement mechanisms.

Finally, at the regional level, the Mercosur Member States, through a Presidential Declaration, committed themselves to working together to ensure that positive and substantive results are achieved at the MC11. Moreover, they reaffirmed the need to promote and strengthen the rule-based, open, transparent, inclusive, non-discriminatory and equitable multilateral trading system that has the WTO as a cornerstone. Presidents called for coordinating efforts to achieve results in the MC11 to ensure the continuity of the process to reform international trade rules in agricultural products, in particular, on the domestic support pillar, and in the elimination of the fisheries subsidies.

Argentinian Ministers, during an informal meeting of a group of Ministers in Oslo in October 2016, said that *"it would be impossible to be in Buenos Aires and not have an outcome on agriculture"* and one could add: Domestic Support would be the best starting point.