

Module 5

Domestic Support Provisions in the Agreement on Agriculture (AoA)

Introduction

The primary instrument for multilateral regulation of international agricultural trade relations is the General Agreement on Tariffs and Trade [GATT]. A number of the perceived weaknesses of the original GATT Agreements with respect to agricultural trade were addressed in the Agreement on Agriculture, contained in Annex 1 to the 1994 Agreement Establishing the World Trade Organization [WTO]. The goal of the Agreement on Agriculture (AoA) is to reduce current and future use of trade-distorting policies and move towards freer agricultural markets in accordance with the organizing principles of GATT. Three distinct types of trade distorting policies that impact agricultural markets are addressed in separate provisions of the Agreement: restricted market access, export subsidies, and domestic support. This section will highlight the domestic subsidy provisions of the AoA.

Objective

After completing this section you should understand the domestic support provisions of the World Trade Organization (WTO) AoA, why they are important to global agricultural trade, and how the provisions have influenced Michigan's agricultural industries.

Some key concepts to be covered in this section are:

- An introduction to the domestic support provisions of the AoA
- Quantitative and qualitative commitments on domestic support policies
- Why domestic support provision commitments are important to Michigan and U.S. agriculture

Section 1 – Domestic Support

Objectives

In this section you will learn about

- the history of agricultural domestic support policies in the GATT and how they influence global agriculture
- some examples of domestic support mechanisms
- and, how the AoA classifies types of domestic support for agriculture.

Introduction

Historically, domestic support policies for agricultural production have been the purview of individual countries. The GATT, established in 1947, did little to regulate levels of domestic support mainly because countries tend to be very protective of agricultural industries, especially those that support a large amount of the populace, or those whose members are very active in the political process (see Modules 1 and 2 for more information). Yet, clearly support for individual domestic agricultural industries has implications for world competitiveness. Establishment of the WTO AoA in 1994 outlined rules on the types and levels of domestic support to be allowed. As countries adjust to the new rules, certain types of traditional agricultural support policies have been reduced (targeted especially at those that distort production and trade) and new policies developed under the AoA. As with the other provisions (market access and export subsidies), special exemptions were made for domestic support in developing countries.

Some Common Types of Domestic Support Measures used in Global Agricultural Markets

| | |
|------------------------------|---|
| Subsidy | Support to agricultural producers which comes in a variety of forms, including price supports, no or low interest loans, reduction in input costs such as fuel or energy, and direct payments to producers. |
| Price Floor/Ceiling | A price guarantee which fixes the price of a good so that it cannot go below a “floor” level or above a “ceiling” level in the domestic market. Price floors and ceilings require monitoring and enforcement to be effective. |
| Marketing Boards or Agencies | State sponsored entities that help in the marketing of agricultural products from a country and in some cases may also support minimum product prices. |
| Direct Payments | Government payments to producers. Direct payments are often tied to the sale or production of some agricultural product or the ownership of agricultural land. |
| Emergency/Disaster Payments | Payments to producers who have suffered a production or marketing disaster. In the U.S., legislative mandate is often required to trigger these payments at the federal level. |

Key Elements of the Domestic Support Provisions of the AoA

As with the market access and export subsidy provisions of the AoA, the domestic support provisions require countries to comply with a globally consistent set of rules. Each member country has agreed to quantitative and qualitative restrictions on the level of domestic agricultural support. Quantitative restrictions are those that cover the total amount of support for

agricultural products among member countries. Qualitative restrictions outline the types of domestic support policies which are allowable under the AoA provisions. The qualitative and quantitative restrictions are especially important as we think about the policies countries use to continue support of agricultural industries.

Boxes in the Domestic Support Provisions

The AoA established three categories, called boxes, in which to classify types of domestic support policies. The boxes correspond with the colors of a stoplight (red, amber, and green) and the colors indicate policies that countries may use as support measures and policies where support must be reduced. For example, policies in the red box are those that are not allowed. Member countries agreed to eliminate these support policies and cannot develop new policies in this category. Amber box policies are those that are considered to distort trade and are subject to reductions within the AoA. Green box policies are considered non-trade distorting and are not subject to limitation. As you might expect, many countries have worked to develop new support policies which fit the green box category.

Conclusion

In this section you have learned what domestic support policies are, why they were not addressed by the GATT until 1994, key elements in the treatment of domestic support policies by the AoA, and how red, amber, and green boxes are being used to classify different domestic support measures.

Key Terms

Domestic support- support in kind or in cash given to producers in the supporting country

Qualitative restrictions- outline the types of domestic support policies which are allowable under the AoA provisions

Quantitative restrictions - cover the total allowable amount of subsidization of agricultural products among member countries

Quiz

1. Domestic support policies classified in the green box by the WTO are not allowed under the domestic support provisions. T or F? (answer F)
2. Domestic support policies were not addressed by the GATT prior to 1994 because they did not exist until then. T or F? (answer F)

Section 2 – Specifics on Domestic Support and the AoA

Objectives

In this section you will learn about

- the commitments WTO member countries have made toward reducing domestic support levels for agriculture
- the quantitative and qualitative restrictions on domestic support
- and, support policies which are included in the AMS and those that are exempt from inclusion.

Introduction

This section will address the specific commitments WTO member countries have made towards reducing levels of domestic support. It will also further discuss the classification system used by the WTO to determine whether a domestic support policy should be counted toward the country's total allowable limit.

Summary of Domestic Support Provisions

| | |
|---------------------------|--|
| Quantitative Restrictions | <ul style="list-style-type: none">• Require a reduction in trade distorting domestic support in 6 years of 20 percent from the 1986-1988 base.• Domestic support is measured by Aggregate Measure of Support (AMS), calculated by commodity and by policy instrument.• Calculation of the AMS is detailed in the AoA• Red and Amber box policies fit into this classification are subject to reduction of the 6 year period |
| Qualitative Restrictions | <ul style="list-style-type: none">• Outline support measures which are allowable under the AoA• Include green box, developmental measures, blue box, and <i>de minimis</i> exemptions |

Quantitative Restrictions – non-exempt support measures

Existing domestic support policies that distort production and trade are not allowed under the AoA and are classified as *amber box* policies. *Amber box* policies are subject to a series of reductions as negotiated by member countries during the Uruguay Round of agreements in 1994. Support levels are expressed in terms of an Aggregate Measure of Support (AMS) and are country specific. Four measures of support make up the AMS:

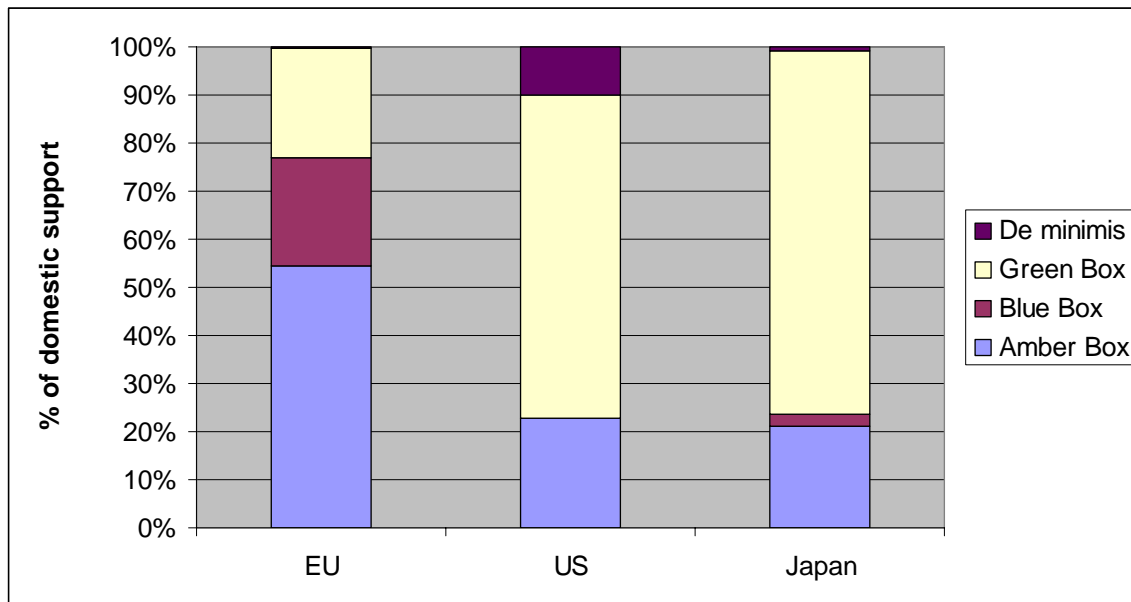
- 1) Product specific AMS – the total amount of support provided for each specific commodity
- 2) Non-product specific AMS – the total amount of support provided to the agriculture sector
- 3) Equivalent measure of support – the total amount of product-specific support which cannot be measured using the AMS methodology
- 4) Total AMS – the total value of all agricultural support, equal to the sum of 1, 2, and 3 above.

Each developed country has committed to reduce AMS levels by 20 percent each year for the term of the agreement. Developing countries must reduce support by 13.3 percent, and least developed countries are exempt from reductions. Member countries must provide notification of the level of AMS on a yearly basis and calculations are done by individual countries. AMS reduction commitments will likely be renegotiated in the next round of WTO negotiations.

Qualitative Restrictions – exempt support measures

Domestic support measures which are classified as exempt from reduction commitments under the AoA fall into one of four categories: the green box, developmental measures, the blue box, and *de minimis* exemptions. It is important to have an understanding of these classifications as they are shaping the future of agricultural support in the U.S. and elsewhere. Graph 1 shows the types of domestic support in use during 1998 by the EU, the U.S., and Japan.

Graph 1. Domestic agricultural support in the EU, US, and Japan by category, 1998



Source: “WTO Agriculture Negotiations: The issues, and where we are now”. Available at www.wto.org. Accessed November 18, 2003.

| Exempt Category | Implications |
|-------------------------------|---|
| <i>The green box</i> | -fundamentally, measures must have little or no influence on trade or production -support must be administered through publicly funded government programs |
| <i>Developmental measures</i> | -direct and indirect support designed to encourage agricultural and rural development in developing countries |

| | |
|------------------------------|--|
| | -examples include investment and input subsidies for the agricultural sector and low-income producers, and production subsidies to encourage production of non-narcotic or illicit crops |
| <i>The blue box</i> | -payments to producers that limit production -must be either based on fixed acreage or yield or on no more than 85 percent of the base level of production (based on 1986-1988 average) -payments to livestock producers must be on a fixed number of head |
| <i>De minimis exemptions</i> | -for agricultural support policies that do not fit one of the above categories, support must be limited to less than 5 percent of the total value of production of the given crop |

Source: "Multilateral Trade Negotiations on Agriculture: A Resource Manual, II". Food and Agriculture Organization of the United Nations. Rome 2000.

Conclusion

In this section you have learned about the specific commitments countries have made to reduce domestic support levels. The AMS is used to determine the level of domestic support in each country, and it is from this initial measure that countries must reduce support by 20 percent from the base over the six year implementation period. Certain types of domestic support are not allowable (red box) while others are allowable and exempt from inclusion in the AMS calculation (green box). Amber box policies are the only policies included in the AMS calculation.

Key Terms

Amber box policies- Support policies which are allowed, with some restrictions, and are included in the AMS total

AMS- The aggregate measure of support. It is used to calculate how "full" a country's amber box is.

Green box policies- Support policies which are allowable under the AoA and are not included in the AMS total

Red box policies- Support policies which are not allowed under the AoA

Quiz

1. If a subsidy is classified as an amber box policy, then it is not included in the AMS calculation. T or F? (answer F)
2. Support measures which are exempt from the AMS calculation include
 - a. Green box support
 - b. Developmental measures
 - c. Red box support
 - d. a. and b. (answer is d.)

Conclusions

In this module you have learned some of the WTO AoA rules on the development and application of domestic support policies. Domestic support can have dramatic impacts on trade, as wealthy countries are more able to support their producers through these measures than are poor countries. Many argue that this fact about domestic support programs can keep the agricultural sectors of developing countries from ever progressing. The AoA requires that all developed WTO member countries reduce their total level of domestic support by 20 percent. However, they made special exemptions for certain types of support deemed not to effect trade (the green box). Many countries have shifted large amounts of traditionally amber box support to the green box by adjusting the types of policies they use to support domestic producers.

Game: Stop and Go Support

In this game, participants will be given a choice of descriptions of domestic support and will be asked to decide whether they fit in the red, amber, or green box of the domestic subsidy provisions of the AoA.



Red Box – Trade distorting domestic policies in excess of those allowed in the amber box fall into the red box.

Amber Box – All trade distorting policies are included in the amber box. Member countries have committed to reducing these policies by 20 percent from levels established in the base period. Examples of policies which fit in this box include support prices and payments based on production.

Green Box – Policies with no, or minimal, impact on trade fall into this box. Green box policies are exempt from inclusion in the 20 percent reduction calculation for amber box policies.

1. The E.U. has decided to support its dairy industry by paying its farmers an extra 2 Euro for every liter of milk they produce. Into which box would this domestic support policy fit? (*Answer: Amber, so long as the payment does not exceed the amount allowed under the AoA*).
2. Canada supports its farmers by providing retirement savings packages that are similar to those offered through large companies in that country. Farmers pay a certain amount into the fund each year and the Canadian government matches that amount. (*Answer: Green, this policy would have little to no effect on trade*).
3. Japan has filled its amber box to capacity through the use of direct farm payments to producers. Recently, rice farmers have been demanding higher prices for their domestic production and the Japanese government has finally agreed to their demands by creating a new rice subsidy that provides payments to rice farmers based on the acreage they plant

each year. (*Answer: Red, Japan cannot create any new trade distorting policies since their amber box is full*).

Glossary

Amber box policies- Support policies which are allowed, with some restrictions, and are included in the AMS total

AMS- The aggregate measure of support. It is used to calculate how “full” a country’s amber box is.

Domestic support- support in kind or in cash given to producers in the supporting country

Green box policies- Support policies which are allowable under the AoA and are not included in the AMS total

Qualitative restrictions- outline the types of domestic support policies which are allowable under the AoA provisions

Quantitative restrictions - cover the total allowable amount of subsidization of agricultural products among member countries

Red box policies- Support policies which are not allowed under the AoA

Sources of More Information

Economic Research Service - www.ers.usda.gov

GlobalEdge - <http://ciber.msu.edu/globalEDGE/default.asp>

U.N. Foreign Agriculture Organization – www.fao.org

World Trade Organization Website – www.wto.org