Graphically speaking

# Domestic Farm Programs and the Upcoming

by C. Edwin Young, Frederick J. Nelson, and Randall Schnepf

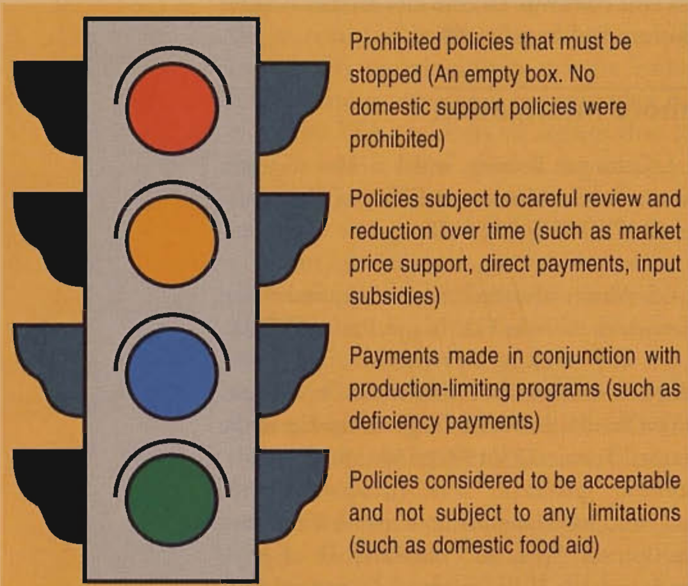
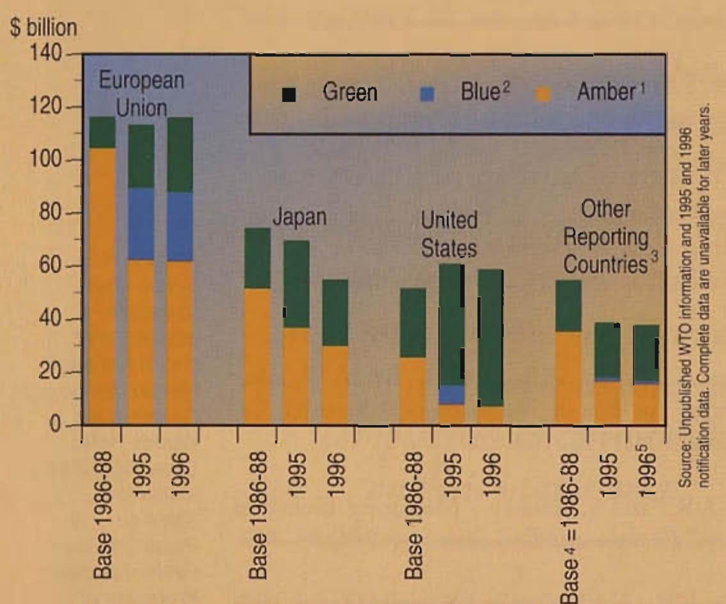



**Figure 1. A traffic light analogy is used to categorize WTO domestic support policies.**




[1] Amber in this chart is the WTO aggregate measure of support (AMS) combined with values exempt under *de minimis* and developing country provisions.

[2] Blue-box expenditures are included with the amber (AMS) box in the base year.

[3] Includes 21 other countries who reported AMS commitments for 1995 and 1996.

[4] Missing base-year data for some countries with relatively small support levels were included by assuming the values were the same in the base year as in 1995.

[5] Missing 1996 year data for some countries were included by assuming the values were the same as in 1995.

**Figure 2. Comparison of domestic support levels**

The Uruguay Round Agreement on Agriculture (URAA) recognizes domestic farm support policies as a source of market and trade distortions. As a result of the Agreement, countries committed to limit spending on domestic agricultural programs presumed to be the most trade distorting and to exempt other programs from any limitations under a set of special conditions. The URAA was a part of broader multisectoral trade negotiations completed in September 1994 that also established the World Trade Organization (WTO). The WTO will begin another round of talks starting this November with a ministerial meeting in Seattle. The continuing challenge for WTO negotiations on domestic farm policy will be to obtain effective commitments to reduce agricultural trade distortions while allowing countries the flexibility they need to achieve their own national priorities.

The URAA recognizes the need for individual countries to use domestic policies to address certain issues, especially those related to equity (aid to the needy, for example), market failure (such as some environmental programs), and the riskiness of farming (through income safety net programs, for example). As a result, selected policies are exempt from reduction commitments, as long as they are considered to be no more than "minimally distorting" of production and trade.

To help define acceptable disciplines for different types of policies, the URAA used a traffic light analogy to refer to different groups, or "boxes," of policies (figure 1). Highly distorting policies that needed to be stopped immediately were listed in the red box (no domestic policies were placed in this category). Policies requiring some limitations and reduction over time because they distort trade were listed in the amber box ("proceed with caution"). Policies considered to be minimally trade distorting and requiring no limitations were considered green box policies if they satisfy certain conditions ("okay to go ahead"). The blue box for policies not immediately subject to any disciplining action was created for payments related to production-limiting programs (U.S. deficiency and EU compensatory payments, for example) as a political expediency.

WTO member countries are required to report to the WTO on their compliance with support reduction commitments. A numerical measure of the value of all trade-distorting (amber box) domestic policies, the aggregate measure of support (AMS), quantifies current support levels relative to agreed-upon support levels in the base period, 1986–88. Preliminary analysis of countries' notifications submitted to the WTO shows that all countries reporting their support levels are meeting their commitments to reduce trade-distorting domestic subsidies from the base level. Most countries reduced their amber-box support by more than the required amount (figure 2).

How did compliance move so rapidly? In part, price-sensitive supports, such as U.S. commodity loan–related benefits, were unusu-

C. Edwin Young is a senior economist and Frederick J. Nelson is an economist, Agriculture and Trade Outlook Branch, and Randy Schnepf is a cross-commodity analyst, Field Crops Branch, Economic Research Service, U.S. Department of Agriculture.

ally high in the 1986–88 base year due to low market prices. A return to higher market prices in 1995–97 automatically reduced price-sensitive program benefits. Some support reductions also resulted from policy changes of several countries since 1986–88. New policies rely less on price support and more on direct payments and green-box policies. The European Union's (EU) reform of its Common Agricultural Policy (CAP) from 1992 to 1995, for example, reduced support prices and increased producer payments linked to production-limiting programs; Japan reduced administered prices, or held them constant since 1986–88; and the United States undertook important reforms under both the 1990 and 1996 Farm Acts that reduced the amount of direct payments included in the blue box and increased the amount of direct payments counted as part of the green-box policies. Beginning in 1996, the United States no longer uses blue-box types of support programs. Production flexibility contract payments under the 1996 Farm Act are reported in the green box because the payment does not depend on current production or prices.

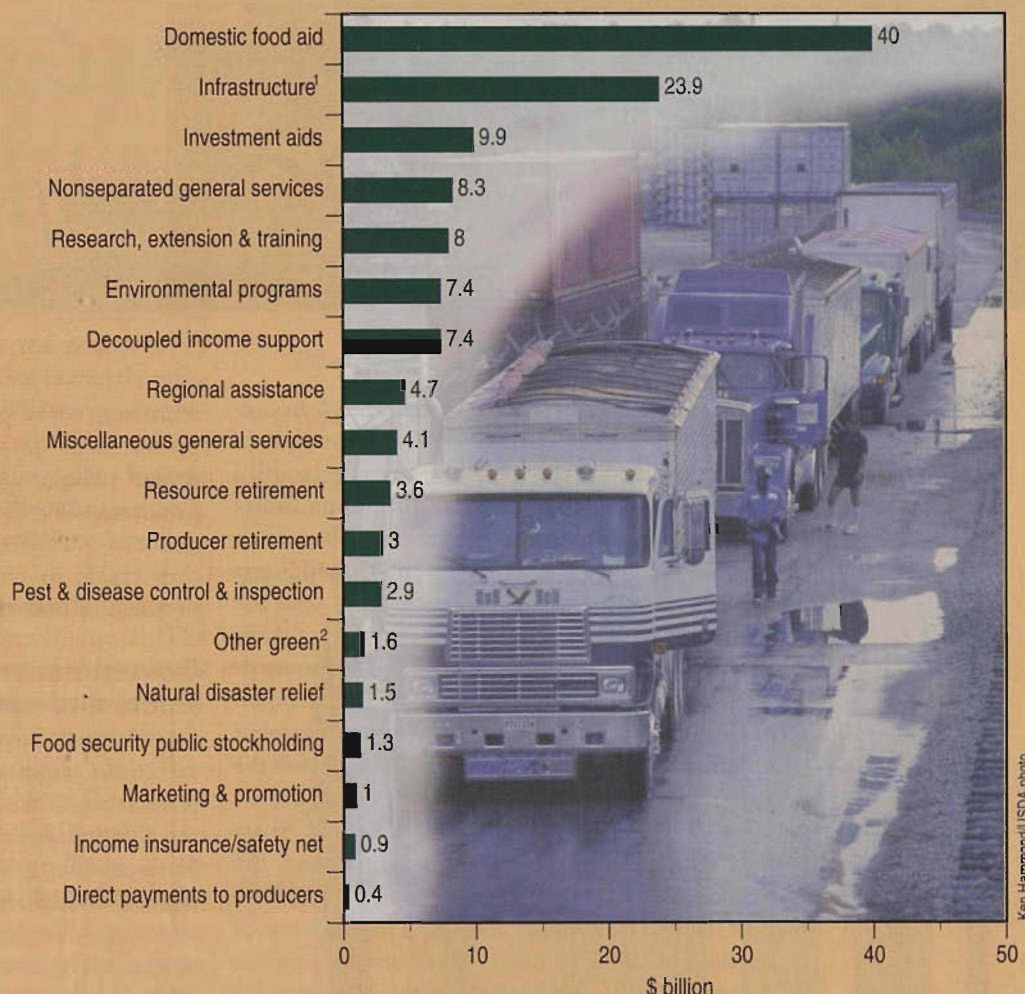
While support from policies believed to have the greatest effects on production and trade has declined in many countries, support from green-box policies increased by 57 percent from 1986–88 to 1996. Most of the $130 billion expenditure on green-box policies in 1996 went for domestic food aid, infrastructure services, investment aids for disadvantaged producers, and other general government service programs (figure 3).

The changes away from amber-box policies and toward more green-box policies presumably reduce production and trade distortions. However, in order to guarantee increased world market orientation, additional domestic support reforms, along with complementary reforms in trade policies, must also take place. A number of questions remain for the next round relating to effects of different types of programs and expenditure levels. And the question of whether other programs reported in the green box have any significant production and trade effects bears further investigation.

## ■ For more information

Visit ERS's WTO Briefing Room (http://www.econ.ag.gov/briefing/wto):

- Explore key issues for the next round of WTO negotiations on agriculture.
- Learn more about WTO rules for agricultural trade, how the Agreement on Agriculture is being implemented, technical barriers facing U.S. exports, and state trading.
- Access ERS reports on the WTO. Use links to visit other WTO web sites.




Note: Total is for 38 countries who notified green expenditures to the WTO as of June 1999.
[1] One of several expenditure types in the "general services" categories. Includes various rural capital works projects.
[2] Includes all other expenditures notified as green, where the type was not specified.

**Figure 3. Green box expenditures by specified categories for countries notifying the WTO, 1996**