



The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search

<http://ageconsearch.umn.edu>

aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

No endorsement of AgEcon Search or its fundraising activities by the author(s) of the following work or their employer(s) is intended or implied.

*Policy Space in Agriculture Under the
WTO Rules on Domestic Support*

Lars Brink
Independent Advisor, Canada

Presentation delivered at the 2013 Annual Meeting
of the International Agricultural Trade Research Consortium (IATRC)
Clearwater Beach, FL, December 15-17, 2013

Policy space in agriculture under the WTO rules on domestic support

Lars Brink

International Agricultural Trade Research Consortium (IATRC)
Annual Meeting
15-17 December 2013, Clearwater, Florida

Lars.Brink@hotmail.com

Policy space for domestic support

- Agreement on Agriculture defines AMS
 - Aggregate Measurement of Support
 - Price support measured differently from economic measurement
- Agreement limits only AMS support
 - Individual AMSs: limits apply for 75% of WTO members
 - Total AMS: bound non-zero limit for 25% of WTO members
- Country's policy space defined by
 - Right to exempt support under some policies when calculating AMSs
 - Size of its limits on AMS support

Criteria-based exemptions

- **Eligibility of support to be exempt depends on policy criteria**
 - Blue box: Article 6.5
 - Development box: Article 6.2
 - Green box: Annex 2
- **Different countries have different rights to use some exemptions**
 - Developing; developed; China
- **Exemptions mean some policy space is without limits**

Exemptions from AMSs

- **Blue box: All members**
 - **Unlimited space for support**
 - Certain payments, if policies meet criteria
- **Development box: Developing countries (not China)**
 - **Unlimited space for support**
 - Certain investment subsidies, input subsidies, and other support, if policies meet criteria
- **Most of Green box: All members**
 - **Unlimited space for support**
 - Certain general services, expenditures and direct payments, if policies meet criteria

Qualified exemption from AMSs: developing countries

– Some domestic food aid

- Policy A: fails some Green box para. 4 criterion, but policy ...
 1. Provides foodstuffs at subsidized prices etc., and
 2. Conforms with fn (footnote) 5&6 of Green box
 - Then: unlimited space for expenditures

– Some accumulation and holding of stocks

- Policy B: fails some Green box para. 3 criterion, but its operation ...
 1. Is transparent and meets published objective criteria, and policy ...
 2. Conforms with first half of fn 5 and with fn 5&6 of Green box
 - Then: unlimited space for expenditures
- Policy C: same as Policy B, meets B.1 and B.2, but also ...
 1. Stocks are acquired and released at admin. prices*: second half of fn 5
 - Then: conditionally unlimited space for expenditures
 - » Conditional on accounting for a price gap in the AMS

* Note: use of administered prices may contravene Green box paragraph 1.b

Exemptions based on policy criteria

<i>If policy conforms with ...</i> • What may be exempted from what?	Developing Countries	China	Developed countries
<i>Article 6.5 “blue box”</i> • Direct payments exempted from Current Total AMS?	Yes	Yes	Yes
<i>Article 6.2 “development box”</i> • Subsidies and support exempted from Current Total AMS?	Yes	-	-

Exemptions based on policy criteria

<i>If policy conforms with ...</i>	Developing countries	China	Developed countries
<ul style="list-style-type: none"> What may be exempted from what? 			
<i>Article 6.5 “blue box”</i>			
<ul style="list-style-type: none"> Direct payments exempted from Current Total AMS? 	Yes	Yes	Yes
<i>Article 6.2 “development box”</i>			
<ul style="list-style-type: none"> Subsidies and support exempted from Current Total AMS? 	Yes	-	-
<i>Annex 2 “green box”, para. 1 <u>and</u>:</i>			
<i>Footnote 5 (first half) and footnote 5&6 of para. 3</i> <i>Accumulation and holding of stocks (no administered prices)</i>			
<ul style="list-style-type: none"> Expenditures exempted from AMSs? 	Yes	Yes	-

Exemptions based on policy criteria

<i>If policy conforms with ...</i> • What may be exempted from what?	Developing countries	China	Developed countries
<i>Article 6.5 “blue box”</i> • Direct payments exempted from Current Total AMS?	Yes	Yes	Yes
<i>Article 6.2 “development box”</i> • Subsidies and support exempted from Current Total AMS?	Yes	-	-
<i>Annex 2 “green box”, para. 1 <u>and</u>:</i>			
<i>Footnote 5 (first half) and footnote 5&6 of para. 3</i> <i>Accumulation and holding of stocks (no administered prices)</i> • Expenditures exempted from AMSs?	Yes	Yes	-
<i>Footnote 5 and footnote 5&6 of para. 3</i> <i>Accumulation and holding of stocks; stocks acquired and released at administered prices</i> • Expenditures exempted from AMSs?	Yes, if price gap in AMS	Yes, if price gap in AMS	-

Exemptions based on policy criteria

<i>If policy conforms with ...</i> • What may be exempted from what?	Developing countries	China	Developed countries
<i>Article 6.5 “blue box”</i> • Direct payments exempted from Current Total AMS?	Yes	Yes	Yes
<i>Article 6.2 “development box”</i> • Subsidies and support exempted from Current Total AMS?	Yes	-	-
<i>Annex 2 “green box”, para. 1 <u>and</u>:</i>			
<i>Footnote 5 (first half) and footnote 5&6 of para. 3</i> <i>Accumulation and holding of stocks (no administered prices)</i> • Expenditures exempted from AMSs?	Yes	Yes	-
<i>Footnote 5 and footnote 5&6 of para. 3</i> <i>Accumulation and holding of stocks; stocks acquired and released at administered prices</i> • Expenditures exempted from AMSs?	Yes, if price gap in AMS	Yes, if price gap in AMS	-
<i>Footnote 5&6 of para. 4</i> <i>Provision of foodstuffs at subsidized prices</i> • Expenditures exempted from AMSs?	Yes	Yes	-

Exemptions based on policy criteria

<i>If policy conforms with ...</i> • What may be exempted from what?	Developing countries	China	Developed countries
<i>Article 6.5 “blue box”</i> • Direct payments exempted from Current Total AMS?	Yes	Yes	Yes
<i>Article 6.2 “development box”</i> • Subsidies and support exempted from Current Total AMS?	Yes	-	-
<i>Annex 2 “green box”, para. 1 <u>and</u>:</i>			
<i>Footnote 5 (first half) and footnote 5&6 of para. 3</i> <i>Accumulation and holding of stocks (no administered prices)</i> • Expenditures exempted from AMSs?	Yes	Yes	-
<i>Footnote 5 and footnote 5&6 of para. 3</i> <i>Accumulation and holding of stocks; stocks acquired and released at administered prices</i> • Expenditures exempted from AMSs?	Yes, if price gap in AMS	Yes, if price gap in AMS	-
<i>Footnote 5&6 of para. 4</i> <i>Provision of foodstuffs at subsidized prices</i> • Expenditures exempted from AMSs?	Yes	Yes	-
<i>Paras. 2-13 other than footnote 5 and footnote 5&6</i> <i>General services, expenditures, direct payments</i> • Support exempted from AMSs?	Yes	Yes	Yes

Limits on AMS support

- ***De minimis* limits on AMSs: 98 countries**
 - 10% of value of production for 93 developing countries
 - 8.5% for China
 - 5% of value of production for 4 developed countries
- **Bound Total AMS: 32* countries**
 - 17 developing countries
 - 15 developed countries
 - Ranging from USD 0.5 million to USD 99 billion

De minimis levels

- One *de minimis* level for each individual AMS
 - All product-specific AMSs and the non-product-specific AMS
 - Levels are calculated from values of production
 - All members with AMSs need to calculate *de minimis* levels
 - *De minimis* levels are limits or thresholds: “allowances”
- *De minimis* limits if country has no Bound Total AMS
 - No individual AMS may exceed its *de minimis* level
- *De minimis* thresholds if country has Bound Total AMS
 - Individual AMSs may exceed their *de minimis* levels

Bound Total AMS

- **Single amount in country's WTO Schedule**
 - **Fixed nominal amount in a given currency, except:**
 - » Argentina and Mexico: fixed in currency value of a base year
 - **Countries without Bound Total AMS show zero, nil or blank**
- **Bound Total AMS is ceiling on certain applied support**
 - **Current Total AMS**
 - Sum of all AMSs that exceed their *de minimis* levels
 - Partial measurement of applied AMS support
 - **Current Total AMS must not exceed Bound Total AMS**

Space for AMS support

<i>This article ...</i> <ul style="list-style-type: none"> Stipulates that ... 	Developing countries		China	Developed countries	
	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS	<u>without</u> Bound TAMS	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS
Number of countries =	93	17	1	4	15
<i>Article 6.4 de minimis levels</i> <ul style="list-style-type: none"> Levels are a% of values of production of individual products and all of agriculture 	a = 10%	a = 10%	a = 8.5%	a = 5%	a = 5%

Space for AMS support

<i>This article ...</i> • Stipulates that ...	Developing countries		China	Developed countries	
	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS	<u>without</u> Bound TAMS	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS
Number of countries =	93	17	1	4	15
<i>Article 6.4 de minimis levels</i> • Levels are a% of values of production of individual products and all of agriculture	a = 10%	a = 10%	a = 8.5%	a = 5%	a = 5%
<i>Article 7.2(b) General discipline</i> • Any single AMS may be as large as its <i>de minimis</i> level, but no larger	Applies	-	Applies	Applies	-

Space for AMS support

<i>This article ...</i> <ul style="list-style-type: none"> Stipulates that ... 	Developing countries		China	Developed countries	
	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS	<u>without</u> Bound TAMS	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS
Number of countries =	93	17	1	4	15
<i>Article 6.4 de minimis levels</i> <ul style="list-style-type: none"> Levels are a% of values of production of individual products and all of agriculture 	a = 10%	a = 10%	a = 8.5%	a = 5%	a = 5%
<i>Article 7.2(b) General discipline</i> <ul style="list-style-type: none"> Any single AMS may be as large as its <i>de minimis</i> level, but no larger 	Applies	-	Applies	Applies	-
<i>Article 6.4 de minimis exemption and Art. 7.2(a)</i> <ul style="list-style-type: none"> Any AMS exceeding its <i>de minimis</i> level must be included in Current Total AMS 	Applies*	Applies	Applies*	Applies*	Applies

* But without a Bound Total AMS, country's Current Total AMS is limited to zero, and Art. 7.2(b) applies

Space for AMS support

<i>This article ...</i> <ul style="list-style-type: none"> Stipulates that ... 	Developing countries		China	Developed countries	
	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS	<u>without</u> Bound TAMS	<u>without</u> Bound TAMS	<u>with</u> Bound TAMS
Number of countries =	93	17	1	4	15
<i>Article 6.4 de minimis levels</i> <ul style="list-style-type: none"> Levels are a% of values of production of individual products and all of agriculture 	a = 10%	a = 10%	a = 8.5%	a = 5%	a = 5%
<i>Article 7.2(b) General discipline</i> <ul style="list-style-type: none"> Any single AMS may be as large as its <i>de minimis</i> level, but no larger 	Applies	-	Applies	Applies	-
<i>Article 6.4 de minimis exemption and Art. 7.2(a)</i> <ul style="list-style-type: none"> Any AMS exceeding its <i>de minimis</i> level must be included in Current Total AMS 	Applies*	Applies	Applies*	Applies*	Applies
<i>Article 6.3 Bound Total AMS</i> <ul style="list-style-type: none"> Current Total AMS may be as large as Bound Total AMS, but no larger 	-	Applies	-	-	Applies

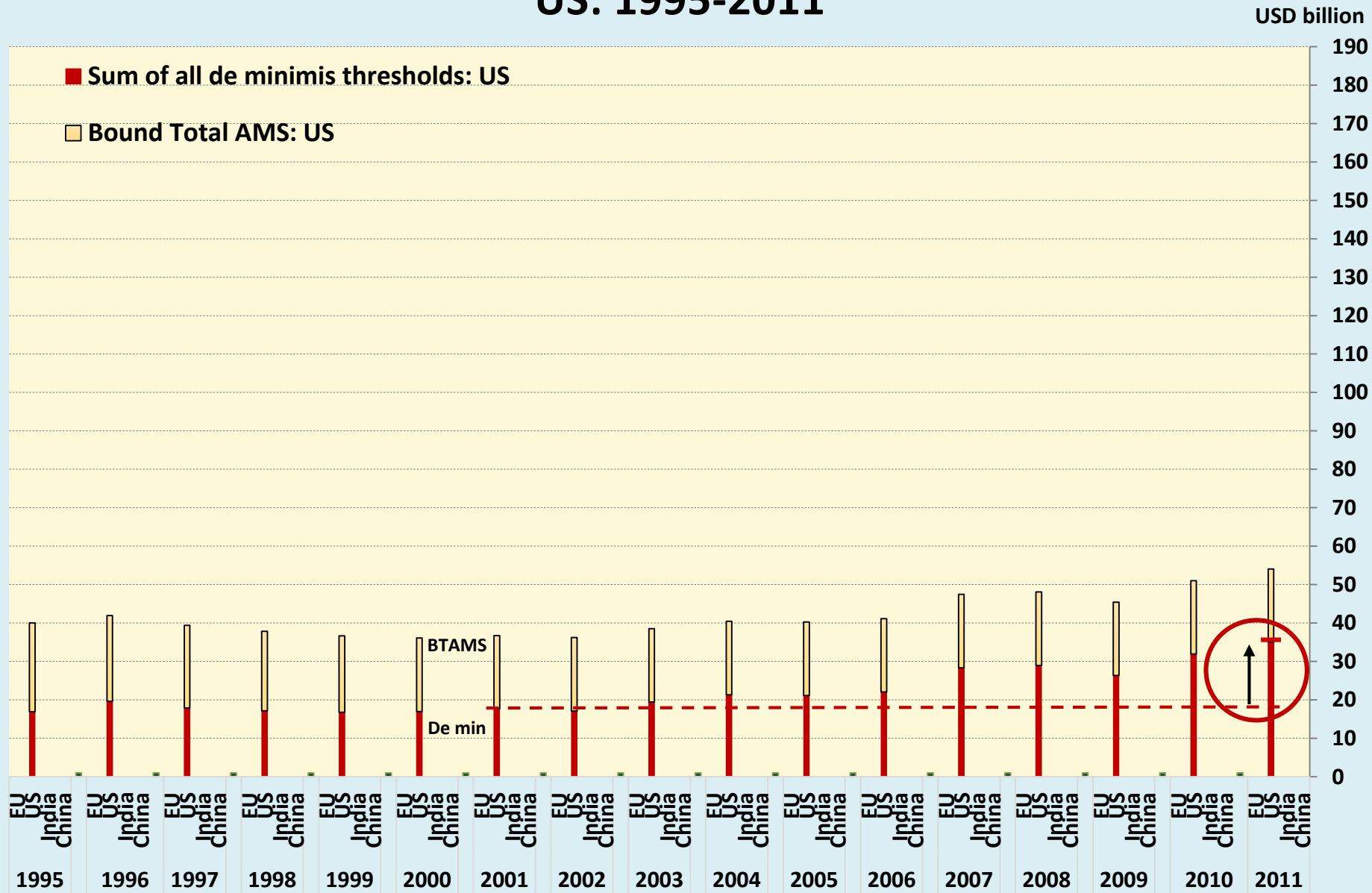
* But without a Bound Total AMS, country's Current Total AMS is limited to zero, and Art. 7.2(b) applies

Values of production VOP are growing

- Declining relative importance of Bound Total AMS
 - Relative to *de minimis* thresholds, Bound Total AMS declined
 - Increased VOP from 2001: US +98% and EU +89%
 - » *De minimis* thresholds increased by same proportion
 - Bound Total AMS is fixed from 2001
 - » EU Bound Total AMS increased in US\$ because euro appreciated
- VOP grew faster in India and China than in US and EU
 - Increased VOP in from 2001: India +156% in INR and China +210% in CNY
 - *De minimis* limits increased by same proportion
 - VOP grew faster in China than in India
 - » Currency depreciation (India) and currency appreciation (China) amplify the difference in VOP growth in USD terms

Bound Total AMS and Sum of all *de minimis* thresholds

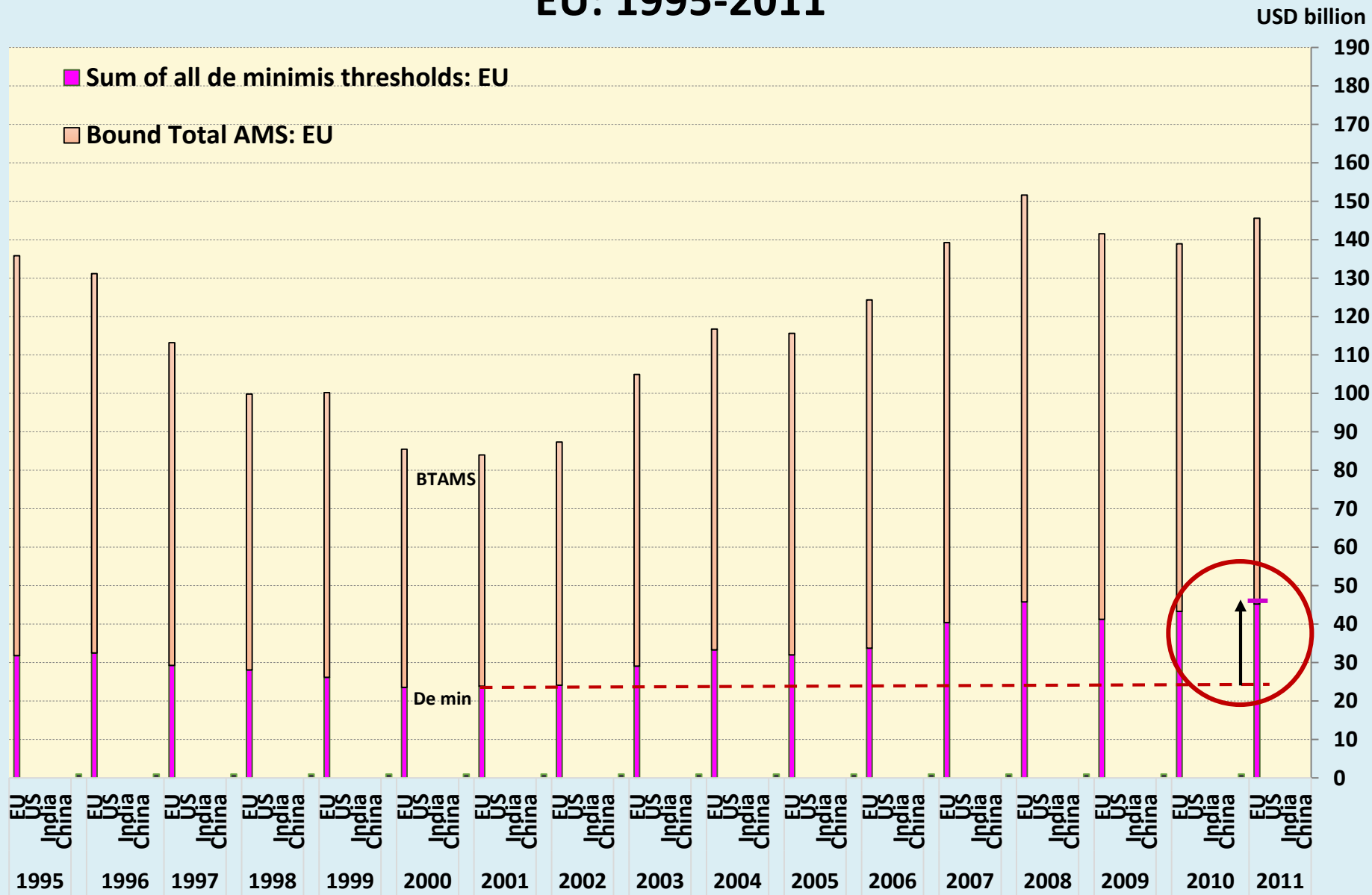
US: 1995-2011



Note: Sum of all de minimis thresholds is potential: de minimis percentage times 2 times FAOSTAT gross production value in agriculture.

Bound Total AMS and Sum of all *de minimis* thresholds

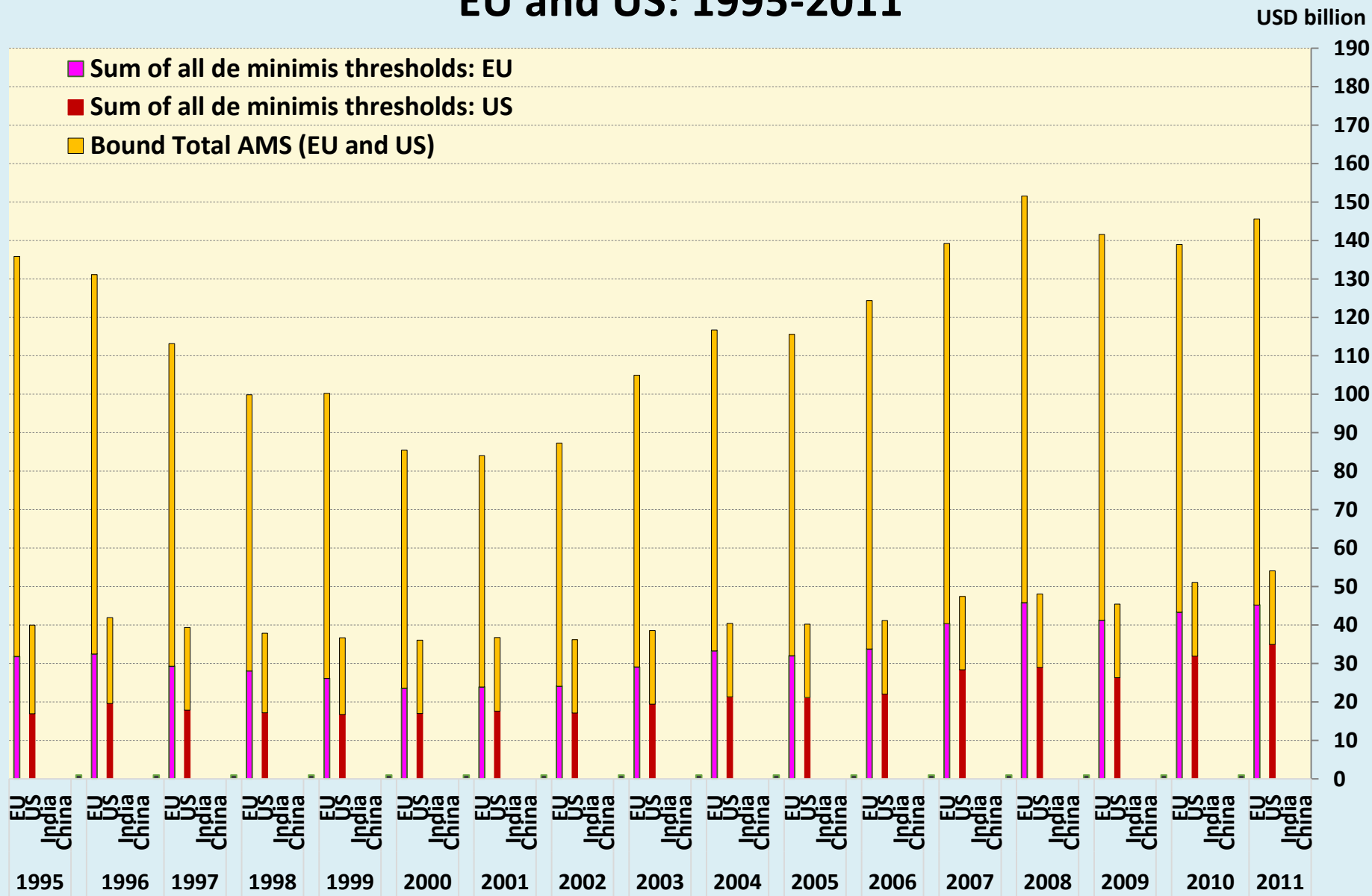
EU: 1995-2011



Note: Sum of all de minimis thresholds is potential: de minimis percentage times 2 times FAOSTAT gross production value in agriculture.

Bound Total AMS and Sum of all *de minimis* thresholds

EU and US: 1995-2011



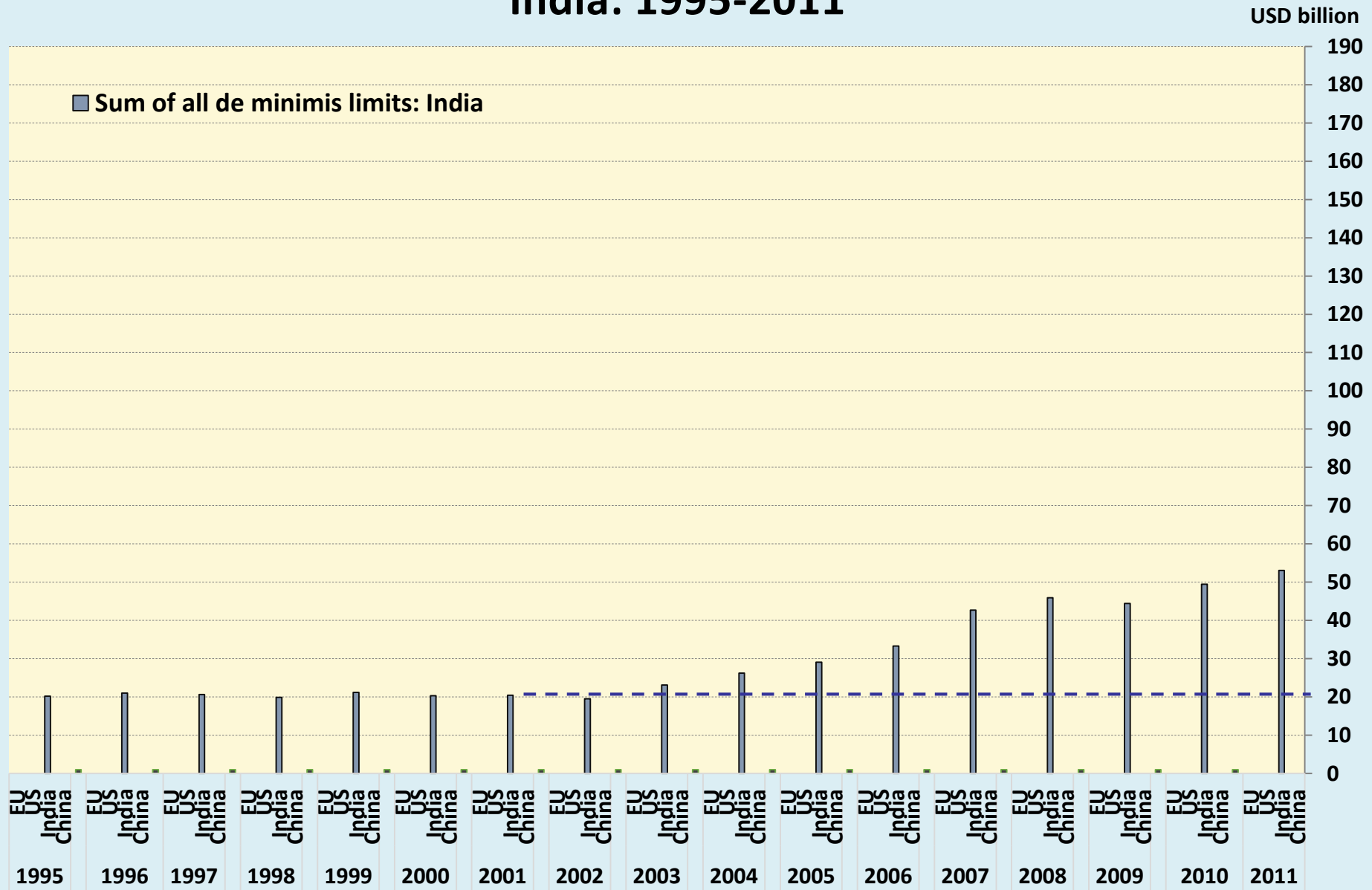
Note: Sum of all de minimis thresholds is potential: de minimis percentage times 2 times FAOSTAT gross production value in agriculture.

Values of production VOP are growing

- Declining relative importance of Bound Total AMS
 - Relative to *de minimis* allowances, Bound Total AMS declined
 - Increased VOP from 2001: US +98% and EU +89%
 - » *De minimis* allowances increased by same proportion
 - Bound Total AMS is fixed from 2001
 - » EU Bound Total AMS increased in US\$ because euro appreciated
- **VOP grew faster in India and China than in US and EU**
 - Increased VOP in from 2001: India +156% in INR and China +210% in CNY
 - *De minimis* limits increased by same proportion
 - VOP grew faster in China than in India
 - » Currency depreciation (India) and currency appreciation (China) amplify the difference in VOP growth in USD terms

Sum of all *de minimis* limits

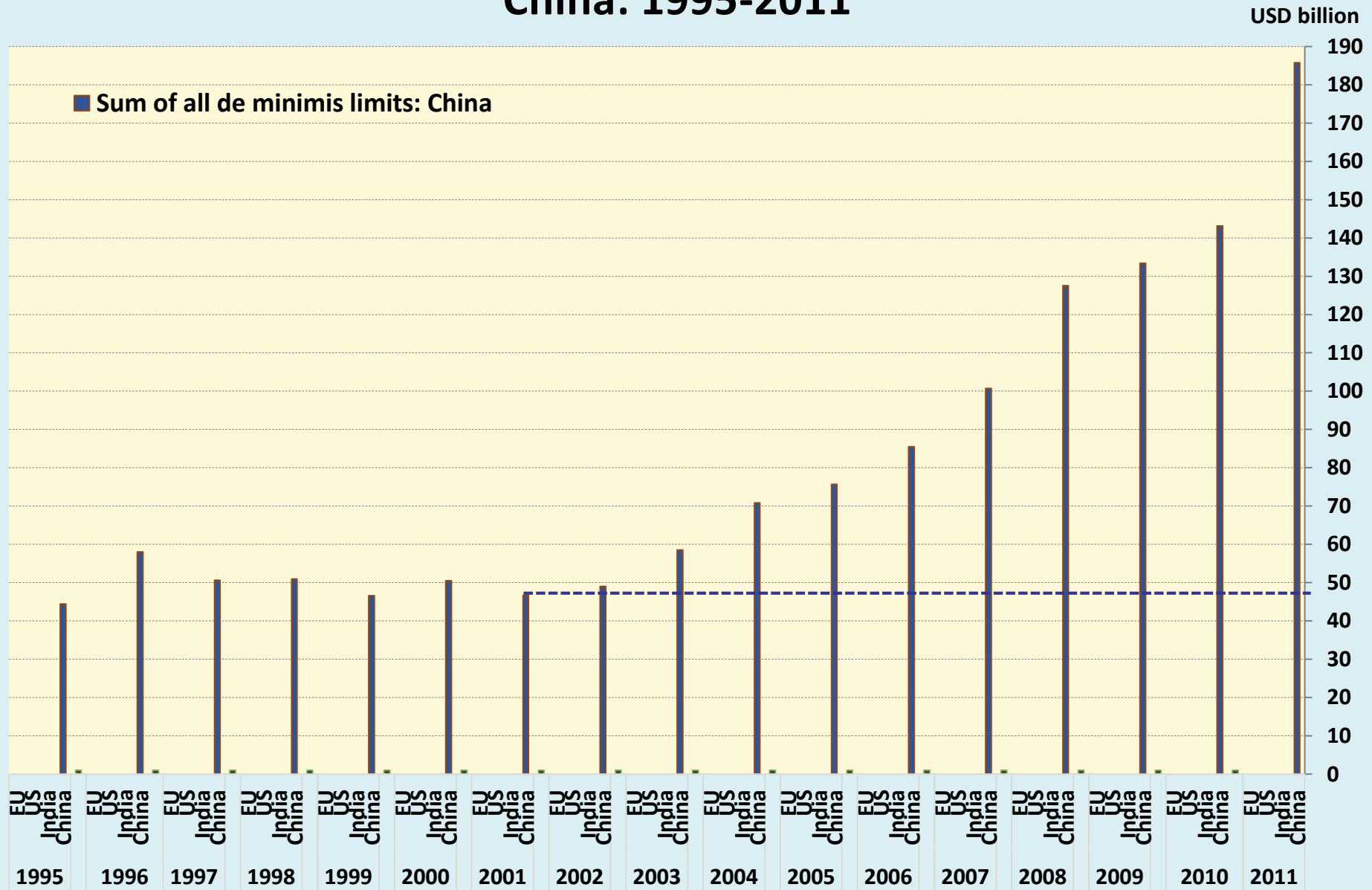
India: 1995-2011



Note: Sum of all de minimis limits is potential: de minimis percentage times 2 times FAOSTAT gross production value in agriculture.

Sum of all *de minimis* limits

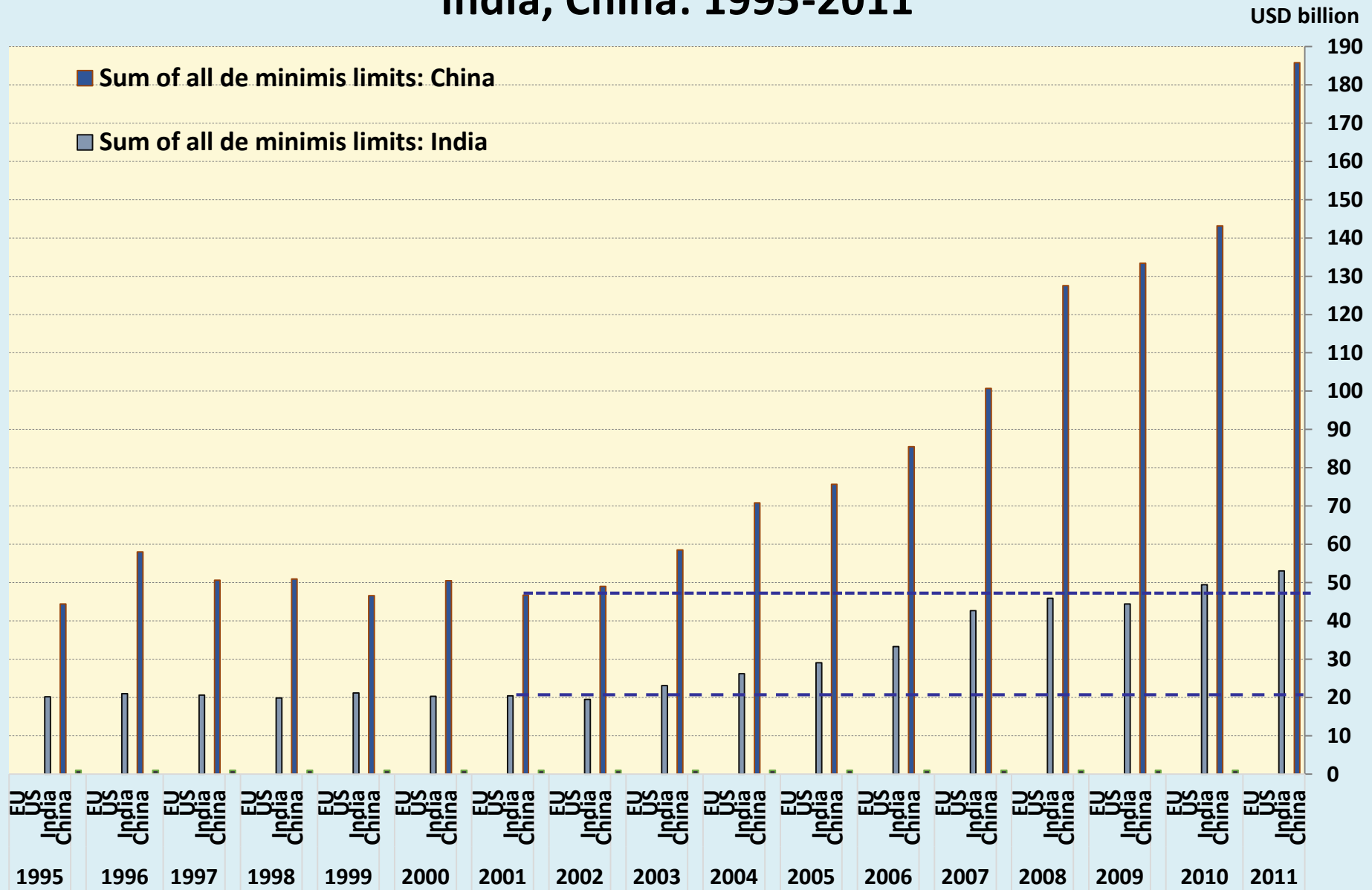
China: 1995-2011



Note: Sum of all *de minimis* limits is potential: *de minimis* percentage times 2 times FAOSTAT gross production value in agriculture.

Sum of all *de minimis* limits

India, China: 1995-2011



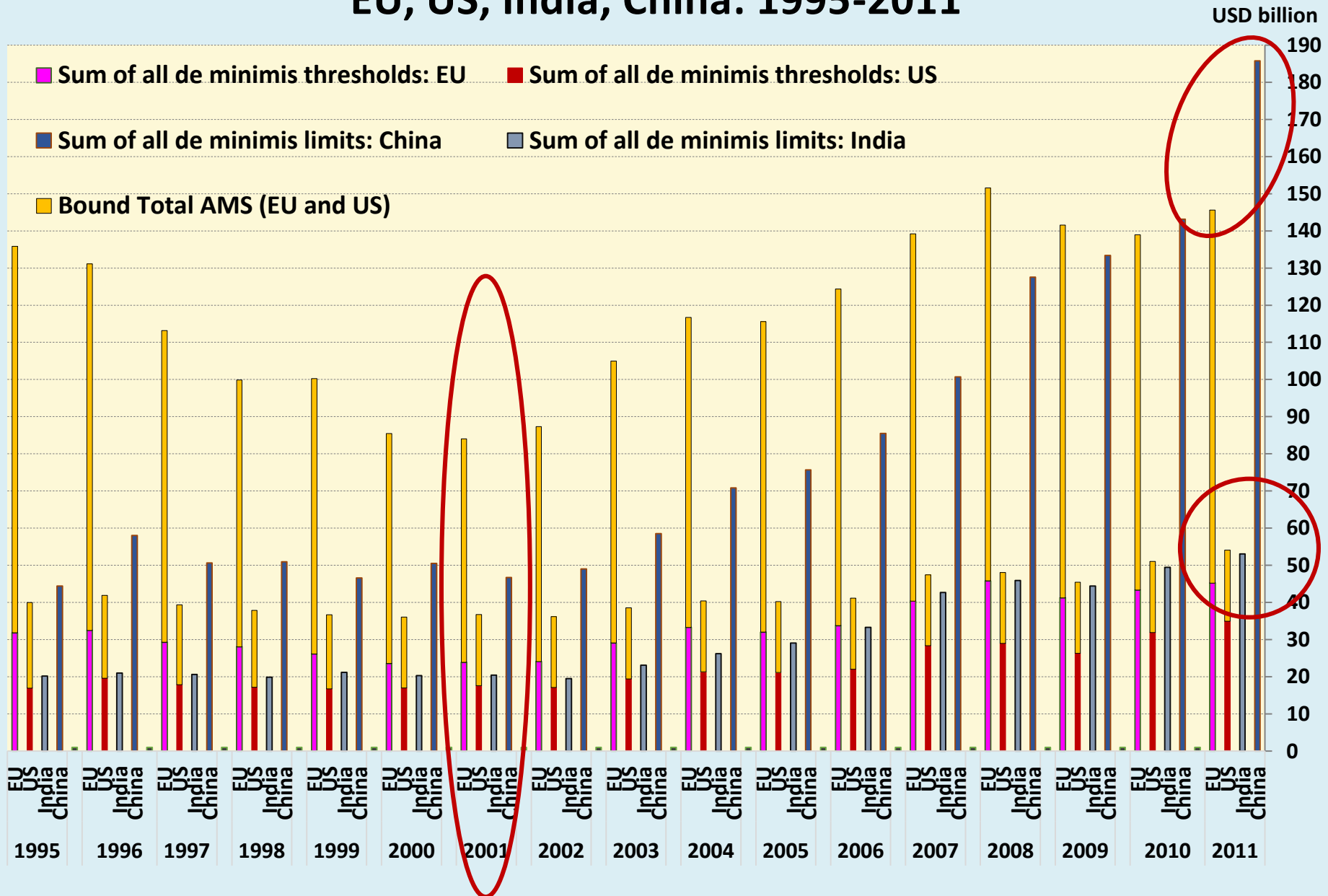
Note: Sum of all *de minimis* limits is potential: *de minimis* percentage times 2 times FAOSTAT gross production value in agriculture.

Changing relative space for AMS support

- China has space for more AMS support than EU
 - China: *de minimis* limits only
 - EU: *de minimis* thresholds and Bound Total AMS
- India has space for almost same AMS support as US
 - India: *de minimis* limits only
 - US: *de minimis* thresholds and Bound Total AMS
- What is practical AMS space? Usable AMS space?
 - Sum of all *de minimis* limits is fully usable space, but only in theory
 - » Assume all products are supported & support is perfectly managed
 - Sum of all *de minimis* thresholds and Bound Total AMS is not fully usable
 - » Not even in theory, assuming all products are supported and perfect management
 - » An AMS cannot be below and above its *de minimis* threshold at the same time

Bound Total AMS and Sum of all *de minimis* allowances

EU, US, India, China: 1995-2011



Note: Sum of all *de minimis* allowances is potential: *de minimis* percentage times 2 times FAOSTAT gross production value in agriculture.

Bali 2013 text on public stockholding

- **AMS limits or Bound Total AMS may be exceeded**
 - Without being challenged through dispute settlement
- **Effect: unlimited space for some kinds of price support**
- **Circumscribed in several ways, e.g.,**
 - Only pre-existing programs in developing countries
 - Excess related to programs under footnote 5 in Green box
 - Includes acquisition and release at administered prices
 - “Price gap in AMS” condition in footnote 5 can make AMS very large
 - Requirements to provide timely and specified information
 - Must ensure that acquired stocks do not distort trade

Conclusion: the AMS world is changing

- Criteria-based exemptions from limits on AMS support
 - Some are clear-cut, some require very careful scrutiny
- Share of Bound Total AMS in policy space is declining
 - *De minimis* levels increase; Bound Total AMS is fixed
- Relative policy space among countries is shifting
 - Value of production growing faster in some countries
 - Result - not in practice but in theoretical numbers:
 - » China now has more space for AMS support than the EU
 - » India now has about same space for AMS support as the US
 - Bound Total AMS plus *de minimis* thresholds gives more flexibility
 - » But not all such space is usable - not even in theory

Thank you!

Lars.Brink@hotmail.com

Grateful for support from the Global Issues Initiative, Virginia Tech

References

Brink, L. 2009. WTO constraints on domestic support in agriculture: past and future. *Canadian Journal of Agricultural Economics* 57(1): 1-21. DOI: 10.1111/j.1744-7976.2008.01135.x

Brink, L. 2011. The WTO disciplines on domestic support. In *WTO Disciplines on Agricultural Support: Seeking a Fair Basis for Trade*, ed. D. Orden, D. Blandford and T. Josling. Cambridge: Cambridge University Press.

Brink, L., D. Orden and G. Datz. 2013. BRIC agricultural policies through a WTO lens. *Journal of Agricultural Economics* 64(1): 197-216. DOI: 10.1111/1477-9552.12008

Orden, D., D. Blandford, T. Josling, and L. Brink. 2011. WTO disciplines on agricultural support: Experience to date and assessment of Doha proposals. IFPRI Research Brief 16. www.ifpri.org/publications/wto-disciplines-agricultural-support