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Investment and Input Subsidies: A Growing Category of Farm Support Exempted from WTO Limits

Lars Brink

Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2015 Annual Meeting: Trade and Societal Well-Being, December 13-15, 2015, Clearwater Beach, FL.

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The background of the slide is a photograph of a gravel path that splits into two directions, leading into a dense forest with green foliage. The path is light-colored and contrasts with the darker green of the trees.

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**International Agricultural Trade Research Consortium IATRC
Annual meeting
13-15 December 2015, Clearwater Beach, Florida**

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WTO Agreement on Agriculture

- Domestic support
 - Support through non-border policies
- Policy space for domestic support: two kinds
 - Exemption space: unlimited support
 - Limited space: **AMS space** (Aggregate Measurement of Support)
- Exemptions: 3 kinds
 - Policy meets green box criteria
 - Policy meets blue box criteria
 - Policy meets Art. 6.2 criteria (in Appendix of this presentation)

Article 6.2: developing countries only

- Can exempt distorting support from Current Total AMS
 - In practice: exempt from individual AMSs
- Certain investment subsidies
 - Criterion: Generally available to agriculture
- Certain input subsidies
 - Criterion: Generally available to low-income or resource-poor producers
- Support for diversification from illicit narcotic crops

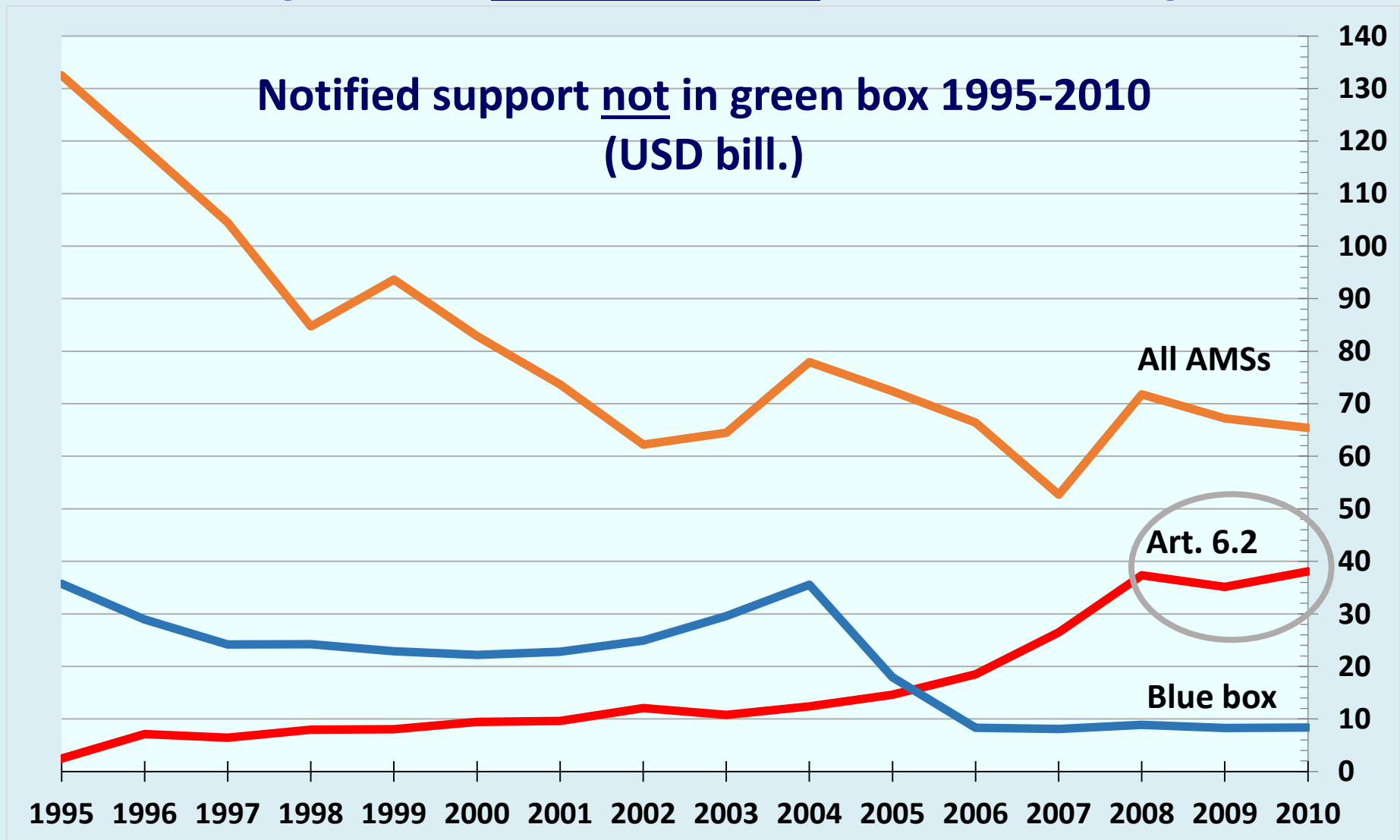
Uneven notification record & transparency

- **Few notifications to WTO CoAg for years after 2010**
 - » Complement WTO data base with recent notifications
- **Spotty record for earlier years**
- **43 countries have claimed Art. 6.2 exemptions** (Appendix)
 - **476 exemptions in 1995-2014**
 - » Several policies in one exemption; “nil” exemptions not counted
- **Few notifications show how policy meets 6.2 criteria**
 - **Descriptions stress purpose, rarely demonstrate compliance**
 - Legal significance of difference in wording of “generally available ...”?

Review notified Art. 6.2 exemptions

- **Convert each country's data to USD**
 - Art. 6.2 exemptions in total
 - Investment subsidies
 - Input subsidies
 - Diversification support
 - Non-separated subsidies: unclear if investment or input subsidy
- **Look at patterns over time**
 - Who exempts how much support under Art. 6.2?
- **Role of Art. 6.2 in future?**

Art. 6.2 exemptions now larger than earlier years' peak blue box exemptions



Source: notifications; IMF exchange rates. All product-specific and non-product-spec. AMSs are counted, whether *de minimis* or not.

Only few major users of 6.2 exemption

- 69 out of the 112 developing countries do not use it
 - No 6.2 exemptible subsidies provided
 - » E.g., policy choice not to use input subsidies
 - No need to exempt eligible 6.2 subsidies - enough AMS space
 - No notification of exemptible or other subsidies
- Much of 6.2 exemptions claimed by only a few of the 43 countries who use it
 - Brazil, Mexico, Viet Nam, Colombia, Sri Lanka, Philippines, ...
 - Less – or much less – than 10% of their values of agr production
 - But the very most is claimed by India ...

India is outlier in size of Art. 6.2 claims

– Very much more than sum of all other countries' claims

- India: 49 % of all investment subsidies claimed as exempt in 2010
- India: 95 % of all input subsidies claimed as exempt in 2010
- India: 88 % of all Art. 6.2 subsidies claimed as exempt in 2010
 - » Note: out of 43 countries, 28 had by Nov 2015 notified for 2010, incl. India, Brazil, Mexico, Colombia, Sri Lanka, Philippines, Malawi, and Zambia. Several of the 28 claimed nil Art. 6.2 exemption for 2010.

Ten countries with largest “recent” Art. 6.2 exemptions

Country (last three years notified)*	Art. 6.2 exemption** (average in last 3 years notified)	Value of Production in agriculture***	Art. 6.2 exemption as % of VOP
	USD million	USD million	
India (2008-2010)	30,975	217,530	14.2%
Brazil (2010-2012)	1,283	191,341	0.7%
Mexico (2010-2012)	1,177	45,560	2.6%
Viet Nam (2007 & 2008)	628	24,689	2.5%
Colombia (2008-2010)	341	18,904	1.8%
Sri Lanka (2011-2013)	266	3,999	6.6%
Philippines (2008-2010)	192	25,311	0.8%
Morocco (2005-2007)	177	8,696	2.0%
Malawi (2009-2011)	153	6,852	2.2%
Zambia (2008, ‘10, ‘12)	115	1,351	8.5%

* Viet Nam 2 years, ** Source: notifications; IMF exchange rates. *** Source: FAO Gross Production Value; current USD million

Art. 6.2 exemptions: total for 1995-2014 as notified, by category

	Investment subsidies	Input subsidies	Non- separated and other	Diversif'n from narcotic crops	<i>Sum of all exempted subsidies</i>	
	USD billion					
42 countries	23.8	18.3	0.4	0.5	42.9	
India	10.5	200.3	-	-	210.8	
<i>Sum of 43 countries (in Appendix)</i>	34.3	218.6	0.4	0.5	253.7	

Source: notifications; IMF exchange rates.

6.2 exemptions vary greatly over time

– Increasing trend

- 26 of 43 countries exempted more in last 3 than in first 3 years notified
 - Eight out of 43: too few years notified to compare

– Large swings for some countries

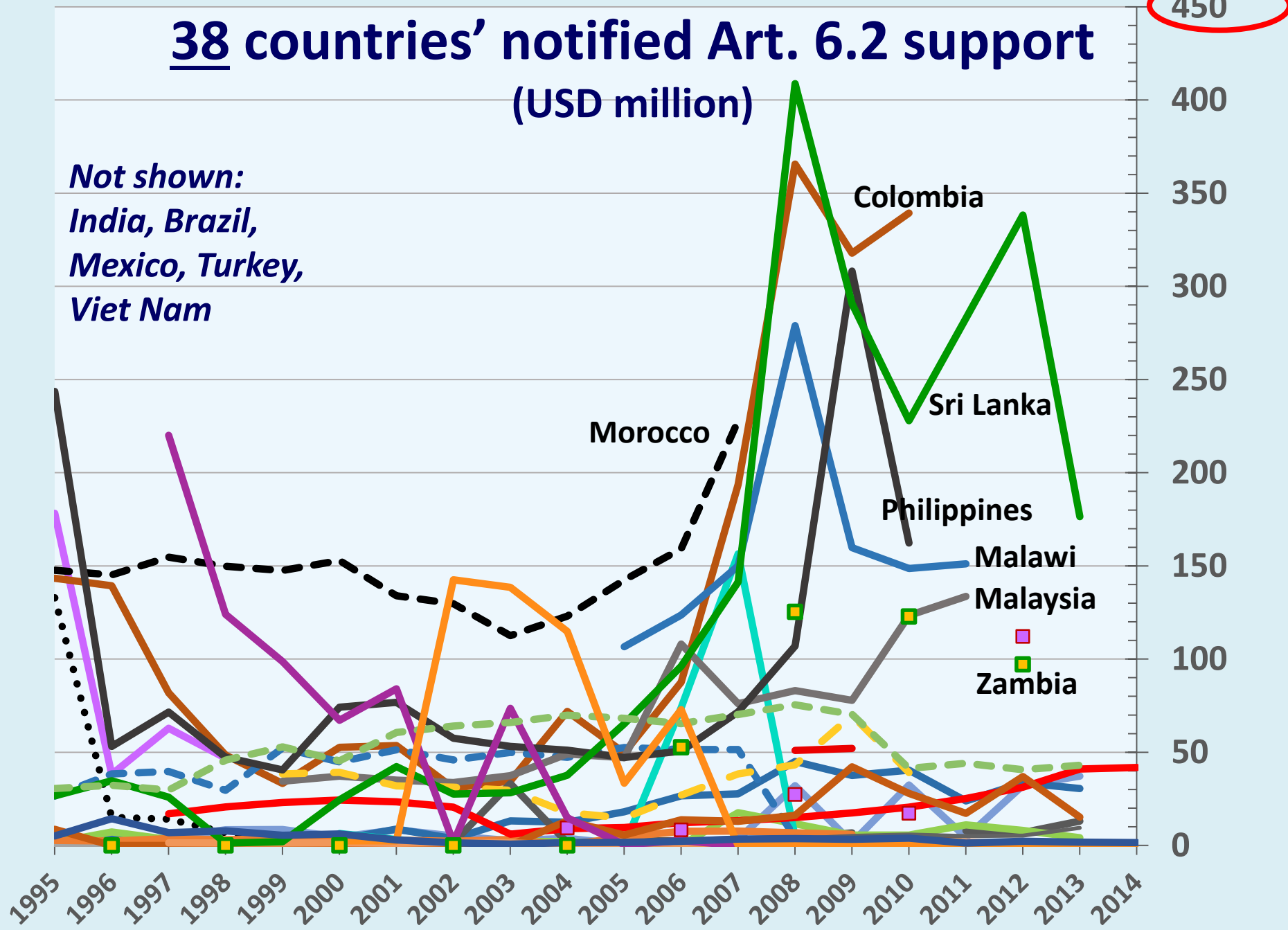
- Uneven reporting or uneven subsidization?

– More input subsidies than investment subsidies exempted by 43-country total in 1995-2014

- But more investment subsidies than input subsidies exempted by 42-country total (not India) in 1995-2014

38 countries' notified Art. 6.2 support (USD million)

*Not shown:
India, Brazil,
Mexico, Turkey,
Viet Nam*



42 countries' notified Art. 6.2 support (USD million)

*Not shown:
India*

Mexico 2002: major
revamping of rural
credit system

Turkey

Viet Nam

Mexico

Brazil

1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014

4,500

4,000

3,500

3,000

2,500

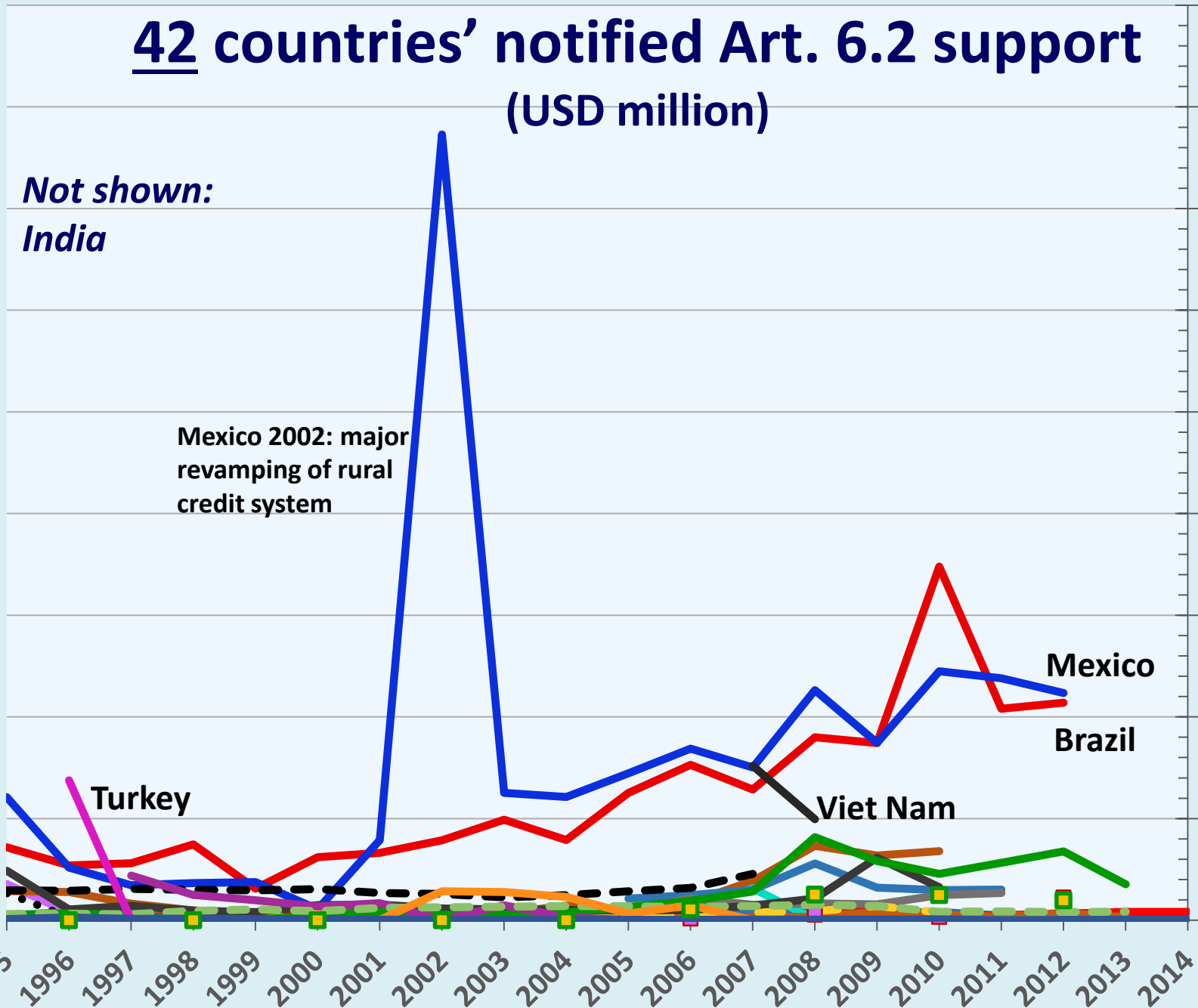
2,000

1,500

1,000

500

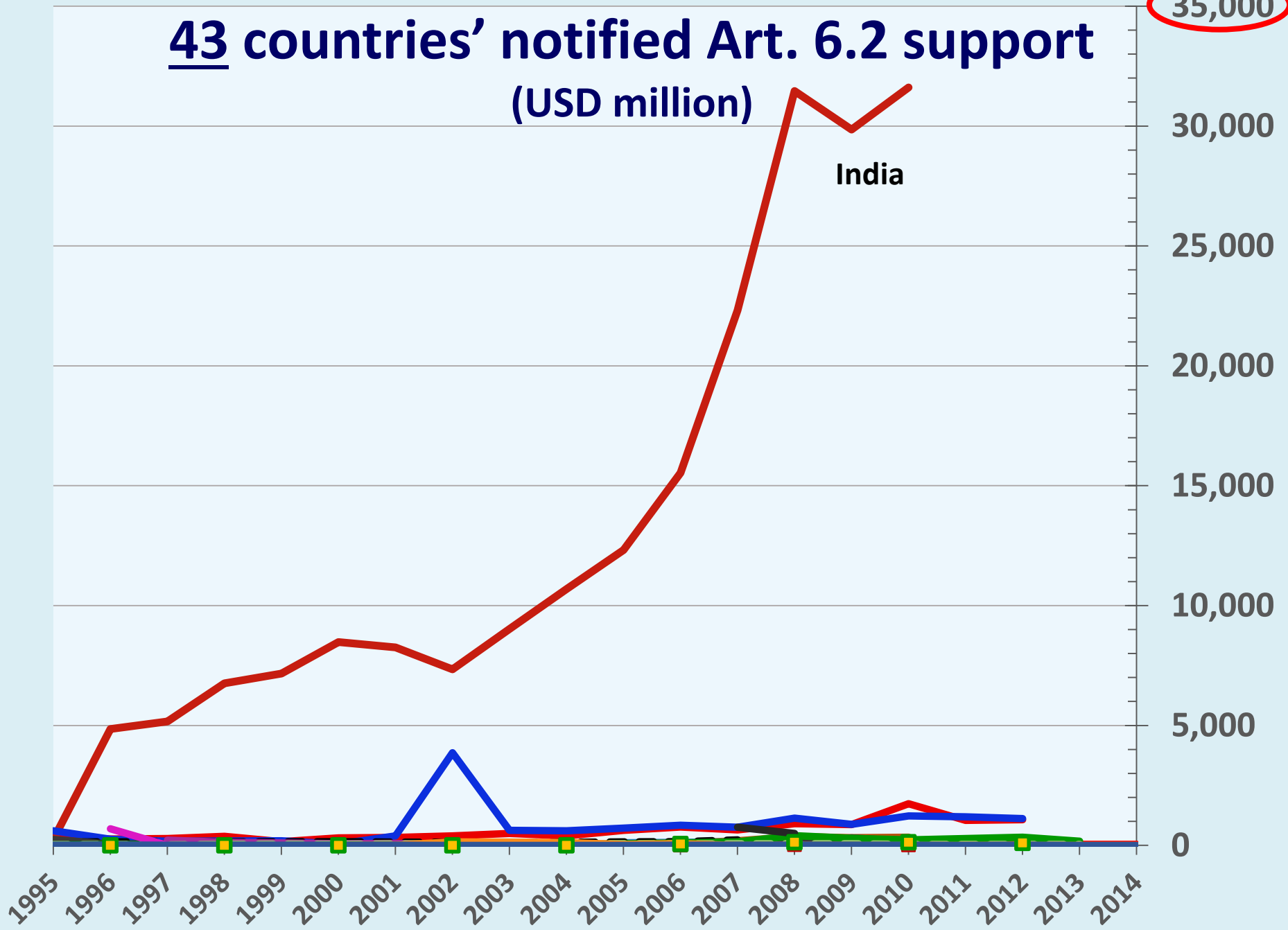
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43 countries' notified Art. 6.2 support (USD million)

35,000

India



6.2: integral part of development program

- How to square with economic effects
 - Input subsidies distort production as much as price support, says economic analysis
- Desirable development effects of distortions?
 - Interpret sizeable literature, including economic analysis
- Investment subsidies vs input subsidies
 - Differential effects on development?
 - May depend on how program is implemented
 - Notif's mostly silent on how program works: weak basis for analysis

Summary of Art. 6.2 use

- **Art.6.2 support: investment subsidies & input subsidies**
 - Exemptible from WTO limits on certain distorting support
- **Many developing countries do not exempt 6.2 support**
 - Some have phased it out while others raised it significantly
- **Large and increasing 6.2 support now being provided**
 - Likely effects: large and increasing distortions of production
- **India overwhelmingly dominates size of 6.2 exemptions**

Art. 6.2 exemption: looking forward

- How effective is Art. 6.2 support for agr. development?
 - Differential effects of investment subsidy and input subsidy?
- Curbs on Art. 6.2 support because of trade effects?
 - Differential trade effects of invest. subsidy and input subsidy?
- Diverging interests among developing countries:
 - Those that do not use Art. 6.2 exemptions
 - » *versus*
 - Those that rely on Art. 6.2 to exempt distorting support not qualifying for green box exemption

Thank you!

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Appendix

Article 6.2 of the WTO Agreement on Agriculture:

- *In accordance with the Mid-Term Review Agreement that government measures of assistance, whether direct or indirect, to encourage agricultural and rural development are an integral part of the development programmes of developing countries, investment subsidies which are generally available to agriculture in developing country Members and agricultural input subsidies generally available to low-income or resource-poor producers in developing country Members shall be exempt from domestic support reduction commitments that would otherwise be applicable to such measures, as shall domestic support to producers in developing country Members to encourage diversification from growing illicit narcotic crops. Domestic support meeting the criteria of this paragraph shall not be required to be included in a Member's calculation of its Current Total AMS.*

The following 43 members' notifications showing a non-zero exemption under Article 6.2 for at least one year had been circulated by November 2015 (China is not eligible for this exemption):

- *Bahrain, Bangladesh, Venezuela (Bol. Rep.), Botswana, Brazil, Burundi, Chad, Chile, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Fiji, Honduras, India, Indonesia, Jordan, Korea, Malawi, Malaysia, Maldives, Mauritius, Mexico, Morocco, Namibia, Nepal, Oman, Panama, Paraguay, Peru, Philippines, Qatar, Senegal, Sri Lanka, Thailand, Togo, Tunisia, Turkey, United Arab Emirates, Uruguay, Viet Nam, Zambia.*