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EU-Brazil proposal on farm support: Strengthening agricultural reforms or undermining them?

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Abstract:

Developing countries are demanding substantial reduction in trade distorting domestic support to agriculture sector by developed countries. Under the existing rules of the AoA, many developing countries are facing lack of policy space to implement measures like price support to increase the income of farmers. Some members of WTO circulated a proposal (EU-Brazil proposal) on OTDS, which seeks a cap on trade distorting spending. This study critically examines the implications of EU-Brazil proposal regarding OTDS on the flexibility for developing and developed countries member to provide domestic support to agriculture. The results of this study show that EU-Brazil proposal is likely to result in steep reduction in policy space for the developing countries. It will further curtail the limited and already insufficient policy space for implementing agricultural policies which are compatible with the socio-economic situation prevailing in the developing country members. On the other hand, USA and EU will undertake negligible or no reduction in trade distorting support to agriculture sector and these countries will preserve their existing flexibilities in future as well. Contrary to Doha Declaration, this proposal would provide special and differential treatment to EU and USA.

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Section 1: Introduction

The agriculture sector plays an important role in developing countries due to its share in the Gross Domestic Product (GDP), employment generation, food security, poverty reduction, rural livelihood and development. Majority of farmers in the developing countries are low income or resource poor. These farmers encounter daunting constraints such as small landholding, lack of institutional support, poor irrigation and infrastructure facilities amongst others. Coupled with this, farmers in developing countries also face unfair competition from highly subsidized agricultural products from developed countries. Massive trade distorting domestic support to the agricultural sector by developed countries is one of the main stumbling blocks for agricultural development in the developing countries. The trade distorting subsidies provided by the developed countries leads to over production, creates artificial comparative advantage for the developed countries while depressing international price of agricultural commodities (ICAC, 2002; Sumner 2003; Schmitz et al. 2006). Highly subsidized agricultural export from developed countries has negative impact on the output markets of low income or resource poor farmers. It has a devastating impact on income and livelihood of farmers in developing countries which leads to farmers' distress (Minot and Daniels, 2001; FAO, 2004; Banga, 2014; Oxfam, 2002 and Curtis, 2011).

To safeguard the interest of farming community in developing countries along with achieving rural development and United Nation Sustainable Development Goals (SDGs), it is important to address the issue of trade distorting domestic support as a priority. The Doha Ministerial Declaration (DMD) called for a substantial reduction in trade distorting domestic support and stressed that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations (Para 13, WTO 2001). The Nairobi Ministerial Declaration (Paragraph 31, WTO 2015) reaffirms the commitment of all the WTO members to advance negotiations on domestic support to agriculture sector. Regrettably, even 16 years of negotiations under the Doha Round, reduction in trade distorting support remains an unresolved issue. WTO members are still engaged in discussion on reforming trade distorting support.

The negotiations on trade distorting domestic support have centred around the following elements: definition of trade distorting domestic support, extent of reduction in trade distorting domestic support by different WTO members, time period over which the reductions would be implemented and special and differential treatment provisions in favour of developing countries, including the LDCs. Considerable progress was made on each of these elements during the initial years of the Doha Round and the most detailed modalities for reduction in trade distorting domestic support are contained in the document TN/AG/W/4/Rev.4 (December 2008 text), commonly referred to as the Rev.4 Text. Under this text, Overall Trade Distorting Domestic Support (OTDS) was specified as the sum of the following three elements: (i) the Aggregate Measurement of Support (AMS), i.e., “amber box” subsidy, (ii) the de minimis support which, in case of the developed countries, for product specific support is 5 percent of production of that product, plus, in case of non-product specific support, 5 percent of total agricultural production (10 percent in case of the developing countries for each) and (iii) the support under Article 6.5 of Agreement on Agriculture, i.e., “Blue Box” subsidy. All these components of OTDS taken together, and separately, were required to be “substantially” reduced. The base period to calculate the OTDS limit is 1995-2000 for the developed countries, whereas applicable base period is 1995-2000 or 1995-2004 for the developing countries. Rev.4 proposes a tiered formula for reduction in base OTDS for the developed country members. It also proposes the special and differential treatment for the developing country members in terms of lower reduction commitments in base OTDS in comparison to the developed country members. Reduction in Base OTDS shall be implemented in five and eight years for developed and developing countries respectively.

There was no substantial movement in the negotiations on reduction trade distorting domestic support after December 2008. The G-33¹ members have called for “global trade reforms that addresses inequities and imbalances in the Uruguay Round Agreement on Agriculture (AOA) so that all WTO Members would be governed by a multilateral trading system (MTS) under the WTO which is not only open, transparent, and market-oriented but also, more importantly, development oriented, fair and provides a level playing field” (WTO 2017a). The ACP² group has proposed (JOB/AG/87 dated 15th November, 2017) to establish a

¹ Also called “Friends of Special Products” in agriculture. Coalition of 47 developing countries pressing for flexibility for developing countries to undertake limited market opening in agriculture

² 62 members from African, Caribbean and Pacific countries with preferences in the EU

binding overall comprehensive limit on the sum of all trade-distorting domestic support, as well as, binding product specific limits on trade-distorting domestic support to avoid subsidy concentration. The ACP group has also stressed that provisions of Article 6.2 of the Agreement on Agriculture should remain unchanged (Third World Network, 2016). Similarly, the LDC group has asked for substantial decrease in trade-distorting domestic support and a reduction of existing asymmetries in permitted domestic support measures. More specifically the LDC group has demanded: (1) a binding overall limit applicable to the sum of all trade distorting domestic support including AMS, Blue Box and permitted *de minimis* limit; (2) a total elimination of product specific support beyond *de minimis* levels, in order to avoid excessive concentration of domestic support on few products; (3) special and differential treatment that takes full account of the development and food security needs of developing countries (Third World Network, 2017). Recently, some members of WTO namely Brazil, European Union, Colombia, Peru and Uruguay circulated a paper (hereafter EU-Brazil paper) on OTDS and demanded a cap on trade distorting spending (WTO, 2017b). Besides OTDS, this proposal also contains elements on issue of public stockholding for food security purposes and cotton.

Developing countries are demanding steep cuts in trade distorting support in developed countries to protect the interest of the resource poor and low income farmers living in developing countries. On the other hand, many developing countries are already facing lack of policy space in order to implement domestic support policies for enhancing the income of farmers which are compatible with the socio-economic situations prevailing in these countries (Sharma, 2016). Further cuts in policy space for developing countries will have an adverse impact on millions of resource poor or low income farmers in developing countries. With this background, the objective of this study is (1) to critically examine the implications of EU-Brazil proposal regarding OTDS on the flexibility for developing and developed countries member to provide domestic support to agriculture; (2) to what extent, if any, does the proposal provide for special and differential treatment for the developing countries as mentioned in Doha Declaration. This study focuses on select developing countries namely India, China, and Brazil; and developed countries USA, EU, Japan, Norway and Switzerland.

Rest of the paper is organized as follows. Section 2 discusses the provision of the Agreement on Agriculture, which are relevant for domestic support. It also provides a brief analysis of the trend in domestic support in some developed countries and developing countries, and

highlights the impact of these subsidies. Section 3 provides a brief description of some of the suggestions contained in the EU-Brazil paper. Sections 4 and 5 simulate the impact of the suggestions contained in this paper on the flexibility to grant domestic support on some developing countries and developed countries respectively.

Section 2: Agreement on Agriculture and trend in domestic support

This section is divided into two subsections. Section 2.1 discusses the provisions related to domestic support in the Agreement on Agriculture (AoA), and section 2.2 analyse trend in domestic support in selected members.

Section 2.1: Provisions relevant for domestic support under the Agreement on Agriculture

The domestic support pillar under AoA is classified into three categories, the Green, Blue and Amber Box. Domestic support measures under Green Box should meet the fundamental requirement of minimal impact on trade and production and shall not have the effect of providing price support to producers. WTO members can spend without any financial limitation on the programmes or measures covered by Green Box. Government service programmes like general services, public stockholding for food security purposes under extremely restrictive conditions, domestic food aid, decoupled income support, government financial participation in income insurance and income safety, payment for relief from natural disasters, structural adjustment assistance etc. are covered under Green Box. For example, USA and India spend US\$124 billion and US\$ 18 billion respectively under Green box (Table 1). Direct payments under production-limiting programmes are covered by Blue Box and are exempted if these are based on fixed area and yield or if there is livestock payments made on a fixed number of heads. Any member country can provide unlimited amount of support under this box without any constraints under the WTO provisions. Only few developed countries like EU, Japan and Norway are providing support under this box.

Table 1: Domestic support in selected member countries as shown in their recent notification

Country	Unit	Latest notification	Green Box	Product Specific	Non-product specific	Blue Box
India	Million US\$	2013-14	18,362	2,050	379	-
Brazil	Million US\$	2014-15	1,634	178	1,725	-

China	Hundred million RMB yuan	2010	5,346	254	977	-
USA	USD million	2014	1,24,483	8,059	5,533	-
EU	Million Euro	2013-14	68,698	7,027	946	2,664
Japan	Billion Yen	2014	1,603	619	208	75
Norway	million NOK	2015	7,626	10,965	186	5,232
Switzerland	CHF (million)	2013	3,821	2562*		

Source: Based on domestic support notifications submitted by members to WTO.

Note: “*” It also includes non-product specific support

All domestic support measures, except exempt measures, provided in favour of agricultural producers are to be measured as the ‘Aggregate Measurement of Support’ (AMS), commonly known as Amber Box. The support provided to farmers under the Amber Box includes (1) product specific price support like price and budgetary support, and (2) non-product specific support such as fertiliser and irrigation subsidies etc. It is to be noted that if product specific and non-product specific support is below the *de minimis* limit then a member is not required to include that support under the Amber Box. *De minimis* limit is the minimal amount of trade distorting domestic support that is allowed under AoA. It may be noted that the *de minimis* limit is not expressed in monetary terms. For developing countries, *de minimis* limit for product specific support is 10% of that member’s total value of a basic agricultural production during the relevant year. In case of non-product specific support, this limit is 10% of that member’s total agricultural production during the relevant year (WTO 2002). For developed country members, the *de minimis* limit is 5%. As China became a member of the WTO in 2001, the applicable *de minimis* limit for China is 8.5%. Product specific market support is calculated by using the gap between a fixed External Reference Price (ERP) based on export or import price of the specific product in 1986 to 1988, and the applied administered price multiplied by the quantity of production eligible to receive the applied administered price (Annex 3 of AoA). Product specific support includes product specific market support and budgetary support to a specific agricultural product. However, the ERP for China is determined on the basis of a three year average during 1996 to 1998. Therefore, to calculate product specific support, the administered price is compared with fixed ERP for an agricultural product.

It is important to note that some members of WTO were giving trade distorting support higher than *de minimis* limit during Uruguay round. These members got the “double dipping” benefit or flexibility to give trade distorting support higher than *de minimis* limit in future as well. However, for those members who were giving trade distorting support below the *de*

minimis limit during base period (1986-88), flexibility to provide Amber Box support was capped at *de minimis* limit. In other words, those countries which were giving huge trade distorting support were rewarded with the flexibility to continue to provide high Amber Box support in comparison to member countries whose trade distorting support was below the *de minimis* limit during the Uruguay round. For example, USA, EU, Japan, Norway, Switzerland and Brazil have the flexibility to provide trade distorting support above the *de minimis* limit. India and China do not have this entitlement as their bound AMS is capped at zero (table 2).

Table 2: Existing flexibilities for selected member countries under AoA

Countries	Bound AMS	Product-Specific de minimis support (% of value of specific product)	Non-Product Specific de minimis support (% of value of total agricultural production)	Blue Box	Flexibility under Article 6.2	Green Box
Developing Members						
India	0	10%	10%	Without limit	Without limit	Without limit
Brazil	912 million US\$	10%	10%		No	
China	0	8.5%	8.5%			
Developed Members						
USA	19103 million US\$	5%	5%	Without limit	No	Without limit
EU	72244 million Euro	5%	5%			
Japan	3973 billion Yen	5%	5%			
Norway	11449 million NOK	5%	5%			
Switzerland	4257 SF million	5%	5%			

Source:

1. Domestic support notifications submitted by members to the WTO
2. WTO (2002) The legal texts: the results of the Uruguay Round of Multilateral Trade Negotiations. Published by the WTO Secretariat

As a special and differential treatment, under Article 6.2 of AoA, developing country members can grant input subsidies to low income or resource poor farmers and investment subsidies generally available to agriculture without any monetary ceiling. While China can provide support through measures of the types described in Article 6.2 of the AoA, the amount of such support will be included in China's calculation of its AMS.

Section 2.2: Trend in Domestic Support under Amber Box in selected countries and its impact

Massive agricultural subsidies in developed countries adversely impact the welfare of millions of poor farmers in developing countries. High trade distorting support along with product specific concentration of support leads to overproduction and depresses international prices of agricultural commodities. As a result, farmers in developing countries suffer due to depressed international prices, lost export opportunities and import surges of subsidised agricultural goods (WTO, 2017c). Many studies have highlighted the adverse impact of huge domestic support provided by developed countries on the farmers living in third world countries.

FAO (2004) has highlighted that the increased excess supply induced by domestic subsidies has a depressing effect on the world market price of cotton. ICAC (2002) observed that removal of US cotton subsidies would result in an average increase in international cotton prices by 22 cents in 2001/02. Result of a study by Sumner (2003) shows that removal of domestic and export subsidies for U.S. upland cotton would lead to increase in international prices of cotton by 12.6 percent. Fousseini Traoré (2007) also supports the depressing effect of subsidies on real world-cotton price. This study assessed the impact of United States cotton subsidies on world cotton price with a simultaneous equations model of world cotton market. A negative and significant impact of these subsidies on cotton price is found in the short run as well as in the long run.

Depressed international price of agricultural commodity had negative impact on the agricultural sector, GDP and livelihood of farmers in developing countries including LDCs. Minot& Daniels (2001) estimate the direct and indirect effects of cotton price reductions on rural income and poverty in Benin. The results indicate that there is a strong link between cotton prices and rural welfare in Benin. A 40 percent reduction in farm-level prices of cotton results in an increase in rural poverty of 8 percentage points in the short-run and 6-7 percentage points in the long run. Oxfam (2002a) concludes that American cotton subsidies are destroying livelihoods in Africa and other developing regions. By encouraging over-production and export dumping, these subsidies are driving down world prices. It has led to loss of 1 percent of GDP and 12 percent of export earning in Burkina Faso. Same trend was also experienced by Mali and Benin.

In case of dairy sector, Oxfam (2002b) stated that European Union agriculture subsidies are destroying livelihoods in developing countries. By encouraging over-production and export

dumping, these subsidies are driving down world prices of key commodities, such as sugar, dairy, and cereals. In a study on dairy sector in Bangladesh, Curtis Mark (2011) found that European dairy farmers have been given a massive subsidy which has enabled them to export cheap milk powder, among other products, on international markets at low prices. In 2005, however, the EU decided to change the nature of those subsidies by ‘decoupling’ them from the production levels of farmers. However, this report shows that the EU’s decoupled subsidies continue to damage dairy farmers in Bangladesh, where millions of poor people support their low incomes through milk production. Schmidt (2016) investigates the impact of the USA and the EU agricultural subsidies on cotton production in Benin and Dairy sector in Kenya. It concludes that these agricultural subsidies and trade policies cause enormous economic losses for Benin and Kenya.

Table 3: Comparison of Bound AMS and Current Total AMS in selected countries

Countries	Unit	Final Bound AMS	Current AMS	Current AMS as a % of Bound AMS	Year
1	2	3	4	$5 = 4/3 \times 100$	6
India	Million US\$	0	0	0	2013-14
China	Million Yuan	0	0	0	2010
Brazil	Million US\$	912	0	0	2014-15
USA	Million US\$	19,103	3,810	20	2014
EU	Million Euro	72,244	5,972	8	2013-14
Japan	billion Yen	3,973	601	15	2014
Norway	Million NOK	11,449	10,739	94	2015
Switzerland	SF million	4,257	2,556	60	2013

Source: Author’s calculation

It is clear that developing countries have suffered and continue to suffer a lot due to trade distorting policies prevailing in developed countries. Due to Bound AMS entitlement, developed countries have the flexibility to provide domestic support above the *de minimis* level as well as concentration of support in few products. On the other hand, majority of developing countries can provide domestic support upto the *de minimis* limit i.e. 10% of value of specific product. Developed countries have huge policy space to further distort international trade by increasing the domestic agricultural subsidies upto bound AMS. For example, EU and USA are using only 8% and 20% of Final Bound AMS entitlement respectively in recent years (Table 3). Except Norway, all other selected developed countries members with Final Bound AMS entitlement have massive policy space to distort international trade in future. This flexibility has enabled developed countries to give high

product specific support as a percentage of VoP. Table 4 shows that bound AMS entitlement allowed USA and EU to provide very high level of support to agricultural products in comparison to their applicable *de minimis* limit i.e. 5% of VoP. On the other hand, product specific support for majority of developing countries is capped at applicable *de minimis* limit i.e. 10% of VoP. In recent years, product specific support has shown downward trend due to high international prices of agricultural commodities. Trade distorting support to agriculture sector is inherently counter-cyclical in nature and therefore, as international price go down, domestic support will increase. Given the existing entitlement under AoA, the developed country can provide domestic support without violating their commitments to WTO. This policy space along with concentration of product specific support in developed countries has devastating impact on the income and livelihood of millions of farmers living in developing countries as mentioned in the above studies.

Table 4: Product Specific Support (PSS) as a percentage of Value of Production (VoP) in USA and EU

USA			EU		
Year	Product	PSS as a % of VoP	Year	Product	PSS as a % of VoP
2005	Corn	20	2003	Butter	67
2001	Cotton	74	2009	Barley	34
2002	Dairy	30	2005	Wheat	16
2002	Mohair	141	2004	Sugar	120
2014	Peanut	16	2002	Tobacco	155
2001	Rice	82	2003	Cotton	139
2014	Sesame	57	2005	SMP	63
2014	Sugar	59	2006	Sugar	177

Source: Based on domestic support notifications submitted by USA and EU

Section 3: EU-Brazil Proposal on Domestic support

This section is divided into two sub-sections. Section 3.1 discusses the main provisions of EU-Brazil proposal on domestic support and Section 3.2 deals with the basic assumption and information for the analysis.

Section 3.1: Provisions related to domestic support in EU-Brazil Proposal

EU-Brazil proposal contains suggestions related to domestic support, public stockholding for food security purposes and cotton. On the domestic support, EU-Brazil paper has proposed an Overall Trade Distorting Support (OTDS) limit for the Developed (DD) and developing (Dc) country members, whereas, LDCs members are exempted from the OTDS limit.

In case of the developed countries, the proposed limit for the OTDS is X% of total value of production (VoP) in 2018. For developing countries, there are two options:

1. Developing Members shall not provide trade distorting domestic support in excess of [X+2%] of the total value of agricultural production as of [2022];
2. Developing Members shall not provide trade-distorting domestic support in excess of [X%] as of [XXXX]. From [2022] until [XXXX], developing Members shall not provide trade-distorting domestic support in excess of [X+Y%] of the total value of agricultural production

The OTDS limit will cover spending under Current AMS (Article 6.3), *de minimis* limit (Article 6.4) and Blue Box (Article 6.5) (subject to terms defined in 12th Ministerial conference). In other words, sum of expenditure under current AMS and *de minimis* limit should not cross the OTDS limit. According to this proposal, the total value of agricultural production for a Member shall be calculated as the average VoP of agricultural products which the Member has notified for the three most recent years for which domestic support notifications have been examined by the Committee on Agriculture. In addition to the OTDS limit, Members shall also continue to respect the existing limits set out in the Agreement on Agriculture on the provision of domestic support. Beside this, it also contains provisions for implementation and transparency.

Section 3.2: Basic information: Data Source, Different scenarios and Assumption

It is important to note that there are two broad models to establish the OTDS limit (1) floating and (2) reference period (like Rev. 4). Under the floating model, OTDS limit for a member is calculated for each year depending on value of production. As VoP increase, OTDS will also increase in monetary terms. Unlike floating model, reference period model fix the OTDS limit based on a percentage VoP in a reference period. In this model, the maximum amount spent on trade distorting is permanently fixed in monetary value and does not change with time. The methodology to establish an OTDS limit under Rev. 4 is also a reference period model, whereas, EU-Brazil paper appears to suggest a floating model to determine the OTDS limit. However, there is some ambiguity in this respect in the EU-Brazil paper.

An analysis is carried out for developing countries including India, Brazil, China and developed countries namely USA, EU, Japan, Norway and Switzerland. The analysis is done

under different scenarios by assuming $X = 5, 10, 15$ and 20% . Value of Production (VoP) data for selected countries is extrapolated based on historical trend growth. It is to be noted that VoP of agriculture sector for Japan (-1.01%) and Switzerland (-1.00%) has shown downward trend during 1995-2014. For the purposes of analysis, simulations for Japan and Switzerland are done based on past growth rate as well as by assuming 3% growth rate in VoP (Table 5).

Table 5: Basic information about Value of Production

	India	Brazil	China	USA	EU	Japan	Norway	Switzerland
Period	1995-2015	1995-2014	1996-2010	1995-2014	1995-2013	1995-2014	2005-2015	1995-2015
Growth rate	8%	7.2	8.9	4.6	3.55	assume 3% (actual -1.01%)	4	assume 3% (actual -1%)
Unit	Million US\$	Million US\$	Million RP	Million US\$	Million EURO	billion Yen	Million NOK	SF million
Data Source	NAS	DS	DS	DS	DS	DS	DS	FAO

Source: As mentioned in Table 2

Note: NAS = National Account Statistics; DS = Domestic support notifications, FAO = Food and agriculture Organisation

Section 4: EU-Brazil Paper and implications for developing countries

Some of the developing countries such as Brazil, Jordan, South Korea and others have the flexibility to provide trade distorting support above the *de minimis* limit as they got the flexibility in the form of bound AMS. However, most of the developing countries such as India, Indonesia, Pakistan including the small economies and least developed countries can only provide trade distorting support upto *de minimis* limit because these countries were providing trade distorting support below the *de minimis* limit during the Uruguay round or base period. Though developing countries are entitled to provide unlimited support under Blue Box but it is difficult for the developing country to use this flexibility as provisions of this Box are not compatible with socio-economic situation prevailing in these countries.

Theoretically, the developing countries can provide trade distorting support under *de minimis* limit upto 20% of VoP i.e. 10% for product-specific and 10% for non-product specific support. In case of China, policy space to provide trade distorting support under *de minimis* limit is 17% of VoP i.e. 8.5% for product-specific and 8.5% for non-product specific support. Reduction in policy space under EU-Brazil proposal depends on value of “X” as well as existing policy space under AoA. As per EU-Brazil proposal, the OTDS limit for the developing countries would be $X+2$.

It is to be noted that EU-Brazil paper proposes that Members shall also continue to comply with the existing limits set out in the Agreement on Agriculture on the provision of domestic support. In other words, positive gain in policy space under OTDS would be effectively equal to zero as member has to abide by the existing provision of AoA. However, a positive gain in terms of OTDS limit implies that member will not undertake any reduction in existing policy space under the AoA. The analysis for developing countries is divided into two sub-sections. Section 4.1 simulates the impact of the EU-Brazil proposal on developing country members without bound AMS. Section 4.1 extends this analysis to Brazil, a country with bound AMS.

4.1 Implications of the proposal for developing countries without Bound AMS

Majority of developing countries like India, China, Pakistan, Kenya and Indonesia etc do not have bound AMS commitment. The existing policy space for India and China under AoA is based on applicable *de minimis* limit i.e. 20% and 17% respectively. Under the proposal, the reduction in their policy space will depend on the agreed value of “X”. In a case $X < 18$, India will face cut in policy space in comparison to its existing limit. At $X = 15\%$, developing countries without Final Bound AMS (except China) will experience cut in policy space by 3% points (Table 6). China will not experience any cut in policy space if $X = 15\%$ as existing flexibility under AoA for China is 17%. Being a developing country, China will be entitled for $(X+2)\%$ which is same as under AoA. It may be noted that for a given value of X, developing country members without an AMS limit will face the same reduction in policy space across different year.

Table 6: Implication for the developing countries (% of value of production)

Description	India	Brazil	China
Agriculture growth	8%	7.2	8.9
Policy Space under <i>de minimis</i>	20.0	20.0	17.0
Policy Space under bound AMS			
2025	0.0	0.3	0.0
2040	0.0	0.1	0.0
Total Policy Space under AoA			
2025	20.0	20.3	17.0
2040	20.0	20.1	17.0
Cut or Gain in Policy Space			
EU-BRAZIL proposal (2025)			
Option 1: $X = 5$ ($dc = X + 2$)	-13.0	-13.3	-10.0
Option 2: $X = 10$ ($dc = X + 2$)	-8.0	-8.3	-5.0

Option 3: X=15 (dc = X+2)	-3.0	-3.3	0.0
Option 4: X=20 (dc = X+2)	0.0	0.0	0.0
EU-BRAZIL proposal (2040)			
Option 1: X=5 (dc = X+2)	-13.0	-13.1	-10.0
Option 2: X=10 (dc = X+2)	-8.0	-8.1	-5.0
Option 3: X=15 (dc = X+2)	-3.0	-3.1	0.0
Option 4: X=20 (dc = X+2)	0.0	0.0	0.0

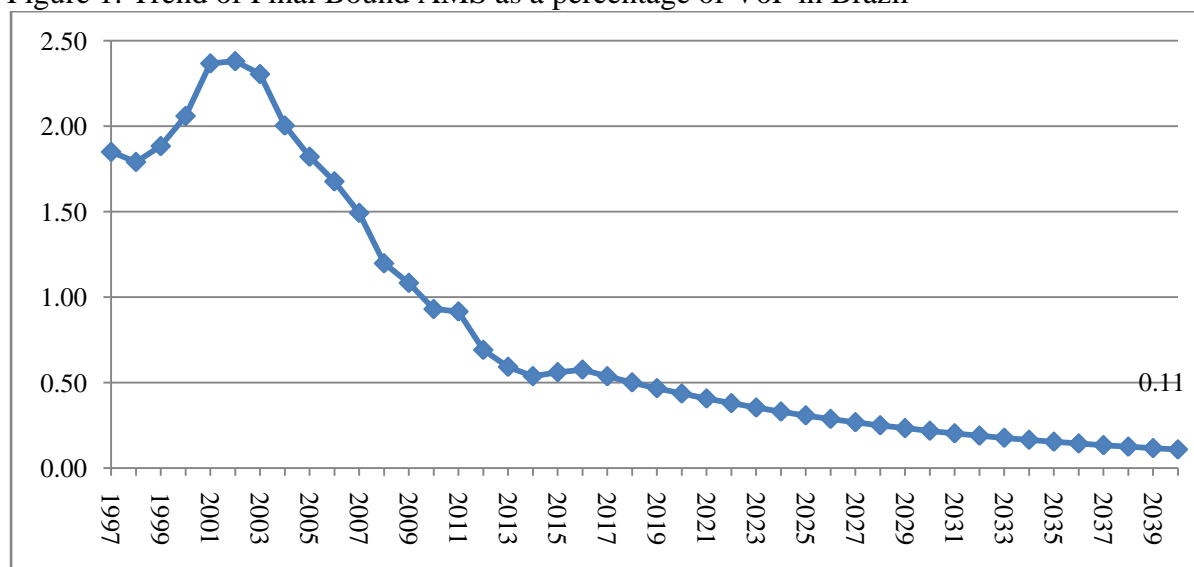
Source: Author's Calculation

Note: dc = developing countries

4.2 Implications of the proposal for developing countries with Bound AMS

Some developing countries including Argentina, Brazil, Jordan, South Korea etc. have the flexibility to provide trade distorting support above the *de minimis* level. In line with other developing countries, their applicable *de minimis* limit is 20% of VoP but they have flexibility of Final Bound AMS. However, the flexibility for these developing countries to provide trade distorting support is very low in comparison to some of the developed country members. Their Final Bound AMS in monetary terms as well as a percentage of VoP is significantly lower than that of the developed countries. Thus, reduction in policy space for these countries will depend on flexibility under *de minimis* limit; Final Bound AMS and value of “X”. Given the fact that the Final Bound AMS for these developing countries is not high, value of “X” will largely determine the policy space along with total *de minimis* limit.

Figure 1: Trend of Final Bound AMS as a percentage of VoP in Brazil



Source: Authors' calculation

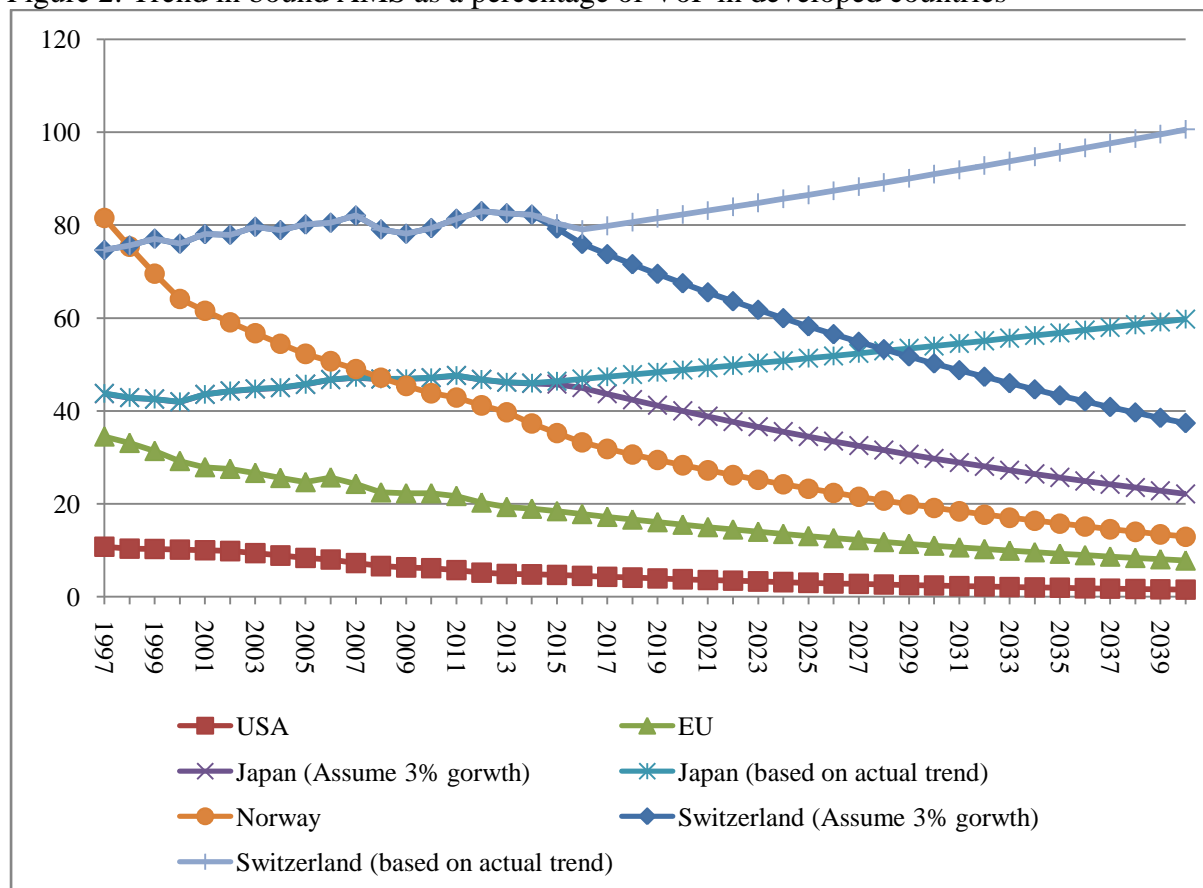
Brazil has the flexibility to provide domestic support above the *de minimis* limit in the form of Final Bound AMS. Final Bound AMS is a fixed monetary value which does not change with value of production. As VoP increase over time, the Final Bound AMS as percentage of VoP will decline (figure 1). For Brazil, under our assumption of the growth rate in VoP, the bound AMS as % of VoP for Brazil is likely to be 0.3 and 0.1 % in 2025 and 2040 respectively. Therefore, the role of bound AMS in determining the policy space for such developing countries is relatively less, as compared to the *de minimis* limit. As flexibility under bound AMS as percentage of VoP tends to zero, there will be a reduction in policy space for Brazil if X is less than 18%. Table 5 shows that Brazil will face cut in policy space under 5, 10 and 15%.

Section 5: Implications of the proposal for developed countries

The Developed countries have the flexibility to provide trade distorting support above the *de minimis* limit as they are entitled for Final Bound AMS under the existing rules of AoA. The *de minimis* limit for developed countries include (1) product specific support which is 5% of VoP of a specific agricultural product; and (2) non-product specific support which is 5% of total value of agricultural production in a relevant year. In other words, theoretically developed countries can provide upto 10% of total value of agricultural production under the *de minimis* limit. Some of developed countries like EU, Japan and Norway etc also provide Blue Box support to agriculture sector. In this study, expenditure under Blue Box is not considered for the analysis as EU-Brazil proposal mentioned that coverage of expenditure under Blue Box is subject to terms to be defined in 12th Ministerial conference.

Cut or gain in policy space will depend on the value of “X”, applicable *de minimis* limit and Final Bound AMS. All the selected countries namely USA, EU, Japan, Norway and Switzerland are entitled for Final Bound AMS which is fixed in monetary terms. Bound AMS as a percentage of VoP will decline and tend to zero over the years if VoP shows an upward trend as shown in figure 2. Therefore, the role of Final Bound AMS as a percentage of VoP in cut or gain in policy space will gradually diminish to zero in long run as VoP moves upwards. However, VoP for Japan and Switzerland has shown a downward trend and therefore, bound AMS as a percentage of VoP has been increasing over past few years. In the case of Japan and Switzerland, the simulation is run under two scenarios: based on (1) actual growth trend, and (2) assuming 3% growth rate.

Figure 2: Trend in bound AMS as a percentage of VoP in developed countries



Source: Author's calculation

In the case of USA, Final Bound AMS as a percentage of VoP will be 3.0% and 1.5% in 2025 and 2040 respectively. This percentage will further tend to zero as VoP increases over the years. At X=15, USA will not face any reduction in policy space by 2025 or 2040 (Table 7). At X=10, USA will experience cut in policy space in 2025 or 2040, but given its AMS entitlement, there will be hardly any cut in policy space in the long run as Final Bound AMS as a percentage of VoP tends to zero. This will shelter the US from undertaking any commitments in reducing AMS.

For EU, Final Bound AMS as a percentage of VoP is higher than the USA. It will be 12.6% and 7.5% in 2025 and 2040 respectively. EU will face policy cut in all scenarios in 2025 but it will not see any reduction in policy space in 2040 if X=20%. It is important to note that if X=15%, while the policy space for EU will be reduced by 7.6% of VoP; however, the reduction will be only 2.5% in 2040.

Table 7: Implication for policy space in developed countries

Description	USA	EU	Japan	Japan	Norway	Switzerland	Switzerland
Growth rate	4.6	3.55	Assume 3%	Actual growth (-1.01%)	4	Assume 3%	Actual (-1%)
Policy Space under <i>de minimis</i>	10	10	10	10	10	10	10
Policy Space under bound AMS							
2025	3.0	13.1	34.5	51.3	23.2	58.2	86.5
2040	1.5	7.8	22.1	59.7	12.9	37.4	100.6
Total Policy Space under AoA							
2025	13.0	23.1	44.5	61.3	33.2	68.2	96.5
2040	11.5	17.8	32.1	69.7	22.9	47.4	110.6
Cut in Policy Space							
EU-BRAZIL proposal (2025)							
Option 1: X=5	-8.0	-18.1	-39.5	-56.3	-28.2	-63.2	-91.5
Option 2: X=10	-3.0	-13.1	-34.5	-51.3	-23.2	-58.2	-86.5
Option 3: X=15	0.0	-8.1	-29.5	-46.3	-18.2	-53.2	-81.5
Option 4: X=20	0.0	-3.1	-24.5	-41.3	-13.2	-48.2	-76.5
EU-BRAZIL proposal (2040)							
Option 1: X=5	-6.5	-12.8	-27.1	-64.7	-17.9	-42.4	-105.6
Option 2: X=10	-1.5	-7.8	-22.1	-59.7	-12.9	-37.4	-100.6
Option 3: X=15	0.0	-2.8	-17.1	-54.7	-7.9	-32.4	-95.6
Option 4: X=20	0.0	0.0	-12.1	-49.7	-2.9	-27.4	-90.6

Source: Author's Calculation

For G-10 countries like Japan, Norway and Switzerland, this proposal implies a steep cut in existing flexibility under all scenarios like $X = 5, 10, 15$ and 20% . It is due to the fact that Final Bound AMS as a percentage of VoP is very high. Therefore the gain of these countries due to $X > 10\%$ will be offset by cut in flexibility under bound AMS. These countries have opposed attempts to put a ceiling on OTDS based on a percentage of the value of overall production (Third World Network 2017b).

Section 6: Conclusions

Under the AoA, majority of developing countries can provide domestic support up to the applicable *de minimis* limit i.e. 10% of VoP. However, the developed countries can provide domestic support up to Final Bound AMS and therefore, are not significantly constrained by the *de minimis* limit. Further, the entitlement to Final Bound AMS provides flexibility to the developed members to give product specific support beyond the *de minimis* limit as well as concentrate trade distorting support in a few agricultural products. On the other hand, in the absence of an entitlement for AMS, developing countries cannot provide support to specific products beyond the 10% VoP *de minimis* limit. Therefore, most developing countries are demanding (1) steep cut in domestic support by the developed countries; (2) ceilings on product specific to prevent concentration of domestic support in a few products; and (3) effective special and differential treatment for the developing countries. Against this background this paper evaluated EU-Brazil proposal in terms of these three criteria. The EU-Brazil proposal disappoints on all three counts. This proposal is silent on product specific ceilings, a discipline that was envisaged in Rev. 4 Modality. Acceptance of this proposal would fail to check concentration of domestic support in few products by developed countries.

As is well known, the AoA is beset with asymmetries and imbalances that adversely affect the interest of developing countries. Acceptance and implementation of the EU-Brazil proposal will tilt the rules further against the developing countries. First, if X is less than 18 , then the policy space available to the developing countries to provide *de minimis* product specific and non-product specific support will be curtailed. Thus in absolute terms, the developing countries would be worse off than what prevails today. Second, as against the current difference of 10% in *de minimis* of developed and developing countries (product specific plus non-product specific), the EU-Brazil proposal would reduce the difference to 2

percentage points. This would make developing countries worse off as compared to the developed countries. Third, for a given value of X, the reduction in policy space measured as a percentage of Value of Production would be higher for the developing countries as compared to some developed countries. Fourth, for a given value of X, the reduction in policy space measured as percentage of Value of Production remains constant across the years for the developing countries. On the other hand, the reduction in policy space for the developed countries declines over time, resulting in no reduction in policy space in the long run. Fifth, as the existing level of AMS support in the developed countries is a small fraction of the Final Bound AMS limit, there will be no real reduction in existing level of AMS support even if the EU-Brazil proposal is agreed and implemented. Overall, in terms of policy space to provide support to poor farmers, the developing countries would be worse off if the EU-Brazil proposal is implemented than they are today in absolute terms and also relative to the developed countries.

The proposal could provide special and differential treatment to the rich farmer USA and EU at the expense of millions of low income or resource poor farmers in the developing countries. Developing countries must exercise caution in negotiations so that any agreed formula related to domestic support is not unfair to millions of farmers in their countries.

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