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National Agricultural Policies, Trade and the New Multilateral Agenda

Introduction

Over the past decade, and in the absence of coordinated action at the World Trade Organization (WTO), nationally focused agricultural policies have taken the lead in shaping land use, production patterns and ultimately international trade flows. Responding to a rapidly changing environment, large producing and consuming countries are reforming their agricultural policies, exploring new instruments. Such national policies often pursue critical systemic objectives such as food security, poverty reduction, or environmental sustainability. However, they remain largely informed by domestic interests, and their potential negative spill-over effects on third countries are often considered as an afterthought as illustrated by the "beggar thy neighbour" effect of certain isolating policies applied during the food price spikes.

As WTO Members attempt to revive multilateral agricultural talks, a sound understanding of the underlying goals behind these new policies, but also how they are implemented and their potential impact on third countries should therefore inform the crafting of future global disciplines. As a contribution to this debate, this note reviews the main objectives and salient features of agricultural policies in selected large consuming and producing countries, looking at their potential trade distorting effects, their relevance from a sustainable development perspective and their possible implications for multilateral negotiations. In doing so, it builds on the findings of a series of ICTSD studies and policy dialogues, analysing in detail relevant policy changes in seven of the world's largest agriculture importing and exporting countries, namely the EU, US, Japan, China, India, Brazil and Argentina. Given their prominence in world trade, these policies have largely contributed to shaping today's global agricultural landscape. After reviewing the main international trends affecting global agricultural trade, the paper compares the main policies and instruments used by those seven leading players. Finally, a more detailed overview of national policies is provided in seven country briefs which are available on ICTSD's website.

ICTSD

International Centre for Trade and Sustainable Development

1. National Agricultural Policies, Trade and the New Multilateral Agenda

1.1 The Global Agricultural Trade Landscape Has Evolved Drastically Over the Past 15 Years…

Global agricultural markets have evolved significantly since the turn of the century. Trade flows, excluding intra-EU trade, have grown almost threefold to reach US$1 trillion,[1] a trend that is likely to continue in the next decades as a result of sustained demand from a rapidly growing middle class in urban areas and changes in diet. The EU, the US, Japan, India, China, and Brazil remain the largest players, but their relative importance has been declining, not least due to booming imports from Africa.[2] Developing countries' markets now represent a significant part of agricultural trade and an overwhelming share of its growth. Today, developing countries, aside from least-developed countries (LDCs), account for more than 40 percent of world imports compared with 26 percent in 2000 and for more than 45 percent of world exports compared with 34 percent in 2000.[3] Brazil has strengthened its role as a key exporter, representing nearly 10 percent of global exports. India's share of global imports has doubled, but its overall trade surplus has increased significantly to become one of the world's biggest exporters of rice and buffalo meat and a leading player in cotton and sugar trade. Finally, China has seen its trade deficit grow nearly 20-fold between 2005 and 2010 as a result of growing demand from its richer population and now accounts for more than 11 percent of global food imports.[4]

1.2 …and Will Continue to Change in the Future

In the future, the Americas will most likely strengthen its position as the dominant export region, in terms of both value and volume. This growth is fuelled mainly by increased exports of high-value commodities, such as meat, ethanol, sugar, oilseeds, and cotton in response to changing demand. Western Europe will display, on average, a negative trade balance with flat exports. Future import demand should come from Asia, which is expected to exhibit a trade deficit for all commodities, except rice, vegetable oils, and fish by 2023, but income and population growth will also result in increasing food imports from Africa.[5] While agricultural commodity imports will spread over a large number of countries, the Organisation for Economic Co-operation and Development (OECD) and the Food and Agriculture Organization of the United Nations (FAO) predict that exports will become more concentrated among fewer countries.[6] This increased reliance on relatively few countries to supply global markets for some key commodities will result in higher market risks, including those associated with natural disasters or the adoption of disruptive trade measures.

1.3 New Price Trends or Reversion to the Familiar?

Over the past decade, several agricultural commodities have also experienced significant price spikes. These spikes appear to reflect the immediate impact of weather-related production shortfalls in major producer regions, against a backdrop of growing world demand (particularly in developing countries), high energy prices, and low rates of productivity growth in many world regions. The increased demand for crops for the production of biofuels also contributed significantly to the 2008 – 2011 food price spikes and established a new long-run link between energy and agricultural markets.[7] Finally, the biophysical impacts of climate change — including long-term changes in temperatures and precipitation and the increased likelihood of extreme weather events — will further alter crop and animal productivity and ultimately the geography and intensity of trade flows.

1 *See* Laborde (2014).
2 Ibid.
3 *See* Bureau and Jean (2013).
4 *See* Laborde (2014).
5 *See* OECD/FAO Agricultural Outlook 2013.
6 OECD-FAO Agricultural Outlook 2015-2024.
7 *See* De Gorter (2014).

These developments have prompted several experts to argue that we have moved from a demand-constrained market environment characterised by abundant supplies exerting downward pressure on food prices to a supply-constrained market environment where high and volatile prices would become the new normal.[8] However, this point remains hotly debated, particularly in light of recent price declines for several commodities and notably fossil fuel. According to the OECD-FAO *Agricultural Outlook 2015-2014*, prices for all agricultural products are, in fact, expected to decrease in real terms over the next 10 years with productivity growth and low input prices outpacing demand increases, but should remain at a higher level than in the years preceding the 2007-08 price spikes.

1.4 Extreme Price Volatility and Insulating Policies Have Eroded Confidence in Global Markets

The 2007–11 food price spikes have been exacerbated by domestic trade policy measures, such as export restrictions or the removal of tariff protection, fuelling volatility on global markets and ultimately affecting food security in low-income food-deficit countries.[9] While markets for certain agricultural products have always exhibited high volatility, the magnitude and frequency of the price spikes experienced in 2007–08 and again in 2010–11 hit low-income food-deficit countries particularly hard, with significant effects on undernourishment, thereby pushing food security back to the top of the political agenda. Unsurprisingly, as food import bills increased, confidence in global markets as reliable sources of affordable food diminished, and attention turned to support for domestic food production in an attempt to enhance self-sufficiency.[10] As a result, several countries resorted to policies designed to influence domestic prices directly through border measures and price controls or to create incentives for increasing domestic supply.

2. Policy Responses In Large Producing And Consuming Countries

The evolution of domestic agricultural policies in the EU, US, Japan, China, India, Brazil, and Argentina tends to reflect these evolving trends, but the main objectives pursued differ widely. Overall, the variety of national policies introduced by these countries reflects different factors, including a large heterogeneity in natural resource endowments, socio-economic capabilities, political considerations, or more broadly societal preferences. Addressing price and harvest risks has become a central concern in the US, partially reflecting a more volatile environment, while the notion of public money for public goods, including environmental considerations is increasingly factored in under the new EU Common Agricultural Policy (CAP). Japan has traditionally focused on keeping farmers' incomes at decent levels, improving rates of food self-sufficiency, and preserving the role of agriculture in environmental conservation. At the other side of the spectrum, securing domestic supply while reducing income disparities between rural and urban areas remains China's main objective, while India focuses on supporting the livelihood of small farmers and ensuring access to cheap food for consumers. Brazil's main priority is reducing disparities between smallholders and large commercial farmers while keeping productivity high and protecting poor consumers. Finally, Argentina has focused on keeping prices low, limiting inflation, and generating tax revenues from agricultural exports.

The instruments used to pursue those objectives are equally diverse, reflecting national preferences and capabilities. Price support, non-product-specific input subsidies, or investment aids remain the central pillars of large developing country programmes. These schemes are often supported by government-run stockholding programmes for food security and public distribution systems (e.g.

8 *See* Schmidhuber and Meyer (2014).

9 According to Martin and Anderson (2011), in the 2006-08 surge, insulating policies affecting the market for rice or wheat explain 45 and 30 percent, respectively, of the increase in the international rice price. Others also point to the role of speculation as an aggravating factor.

10 *See* FAO et al. (2015).

India, China, or Brazil). General services, including infrastructure, research and development (R&D) or extension services also represent a significant share of total support, as illustrated by the case of Brazil or China. While the EU and Japan continue to have recourse to price support schemes for certain commodities, they increasingly rely on direct payment, general services, and set-aside schemes but maintain significant border protection through tariff peaks, safeguards, and tariff-rate quotas (TRQs) on products, such as rice, wheat, sugar, dairy products, beef, pork, and barley. In the US, the new Farm Bill focuses on subsidised insurance schemes likely to fall under the non-product-specific amber box with limited use of price supports (e.g. sugar). As in the past, however, the bulk of support will be provided as domestic food aid through the food stamps programme. Finally, Argentina has resorted to a variety of export restrictions in the form of taxes, bans, and quotas combined with a series of non-tariff measures, including import licensing. The following section reviews the evolution of these policies, focusing on market access, domestic support, export competition, and export restrictions.

2.1 Toward Reduced Border Protections

Over the past 15 years, market access conditions have been characterised by a downward trend in applied tariffs, as a result of unilateral liberalisation as well as regional trade agreements (RTAs). This has helped reduce market distortions and increase trade in agricultural goods. For the world as a whole, applied most-favoured nation (MFN) duties were cut from an average of 25 percent in 2001 to 19 percent in 2010, and applied duties (including preferential tariffs) from 16 percent to 14 percent. The cut in MFN applied duties was especially steep for developing countries, from an average of 31 percent to 23 percent, with preferential applied tariffs going down to 20 percent in 2010.[11] China, for example, lowered its applied tariffs on a large set of commodities, such as soybean and pork, to meet domestic demand and control inflation.[12] Other countries also suspended tariff protection during the 2007-08 price spikes. As bound rates have not varied much since the Uruguay Round, this has resulted in an increased gap between bound and applied tariffs, particularly in countries like India.

Beyond unilateral measures, the proliferation of RTAs has resulted in the share of world agricultural trade between RTA partners growing steadily and at a faster rate than for manufactured goods. However, sensitive products often are excluded from RTA coverage, allowing countries to maintain tariff peaks to protect farmers from import competition. This is notably the case of sugar or dairy in the US, rice in Japan, and meat in the EU. In spite of this, Bureau and Jean (2013) estimate that, on average, RTAs have increased agricultural and food exports between signatories by 32-48 percent when fully phased in.

Ongoing negotiations, notably under the so-called mega-regionals are likely to result in further market opening or at least enhanced TRQ expansion among participants. The three largest "mega" initiatives — the Transatlantic Trade and Investment Partnership (TTIP), the Transpacific Partnership (TPP), and the Regional Comprehensive Economic Partnership (RCEP) in Asia and the Pacific — currently involve 49 countries and represent more than three-quarters of global GDP and two-thirds of world trade. While some of these negotiations have not yet concluded, the initial ambitions are certainly high. As such, these initiatives are likely to define the road map for trade regulation regimes in the future, with results that involve deeper integration and WTO+ disciplines or liberalisation.

2.2 A Sea Change in Domestic Support Regimes

2.2.1. Toward higher convergence in domestic support levels

While market access conditions have been marked by significant trade liberalisation, domestic support is on the rise. Figures 1 and 2 provide an overview of this evolution in absolute terms and as a share of the value of production, based on the most recent WTO notifications, disaggregated by the type of support used in the US, EU, Japan, China, India,

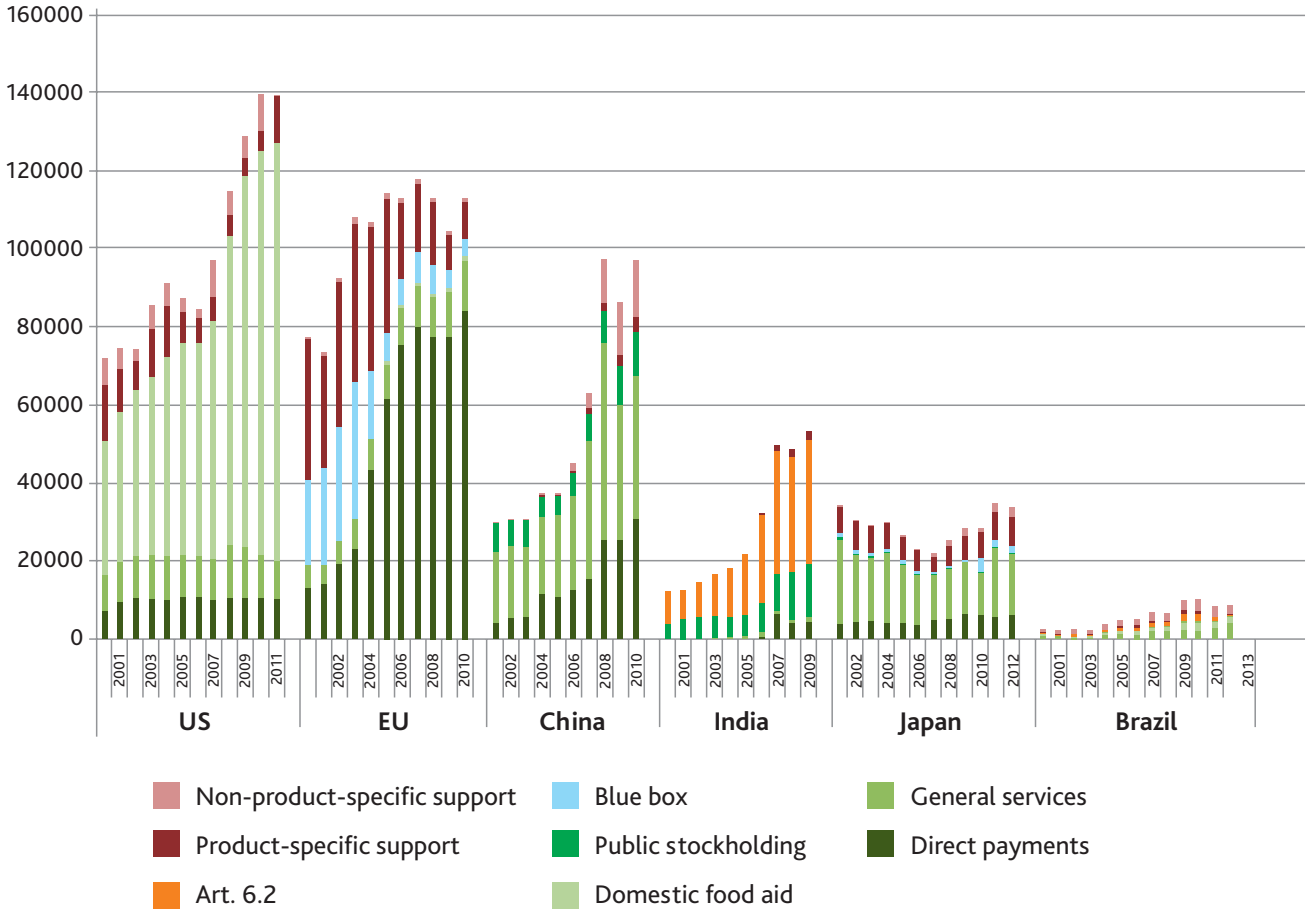
11 *See* Bureau and Jean (2013).

12 Ibid.

13 Green box support refers to payment considered as minimally or non-trade-distorting support and is not subject to reduction commitments in the WTO provided they comply with certain criteria.

and Brazil. With the exception of Argentina where agriculture is still more taxed than subsidised, large emerging countries — particularly India and China — have considerably increased their trade-distorting support to agriculture in an attempt to incentivise domestic supply or support small farmers' incomes. The extent to which such support is sustainable or reaches the intended beneficiaries continues to be debated, but overall, this trend reflects not only the concern of large emerging economies that they cannot rely solely on the global market to feed their populations, but also the need to raise the incomes of significant rural populations or at least reduce growing income disparities with urban areas. Meanwhile, trade-distorting payments in the EU, the US, and Japan have been declining at least compared with the level reached at the end of the Uruguay Round. According to Brink (2014), this is partly explained by policy changes, but also by rising prices. Successive reforms in the EU progressively shifted subsidies from the amber box to the green box[13] by replacing price support with more decoupled income support payments. In the case of the US, decoupled payments replaced some more distorting instruments in the 1996 Farm Bill, but overall, total payments essentially shrank as world prices went up, triggering less support under programmes such as countercyclical payments (CCPs).[14] Finally, modifications in Japan's price support scheme for rice and the move toward production-limiting schemes largely explain lower reported expenditure since 1998, but this policy change has not fundamentally altered the price support effect of Japanese rice policy. In spite of these progressive improvements, recent policy decisions under the new Farm Bill in the US and the new CAP reform in the EU suggest that the trend toward lower trade-distorting support might slow down or even be reversed in coming years.[15]

Figure 1. Domestic Support in USD Mio

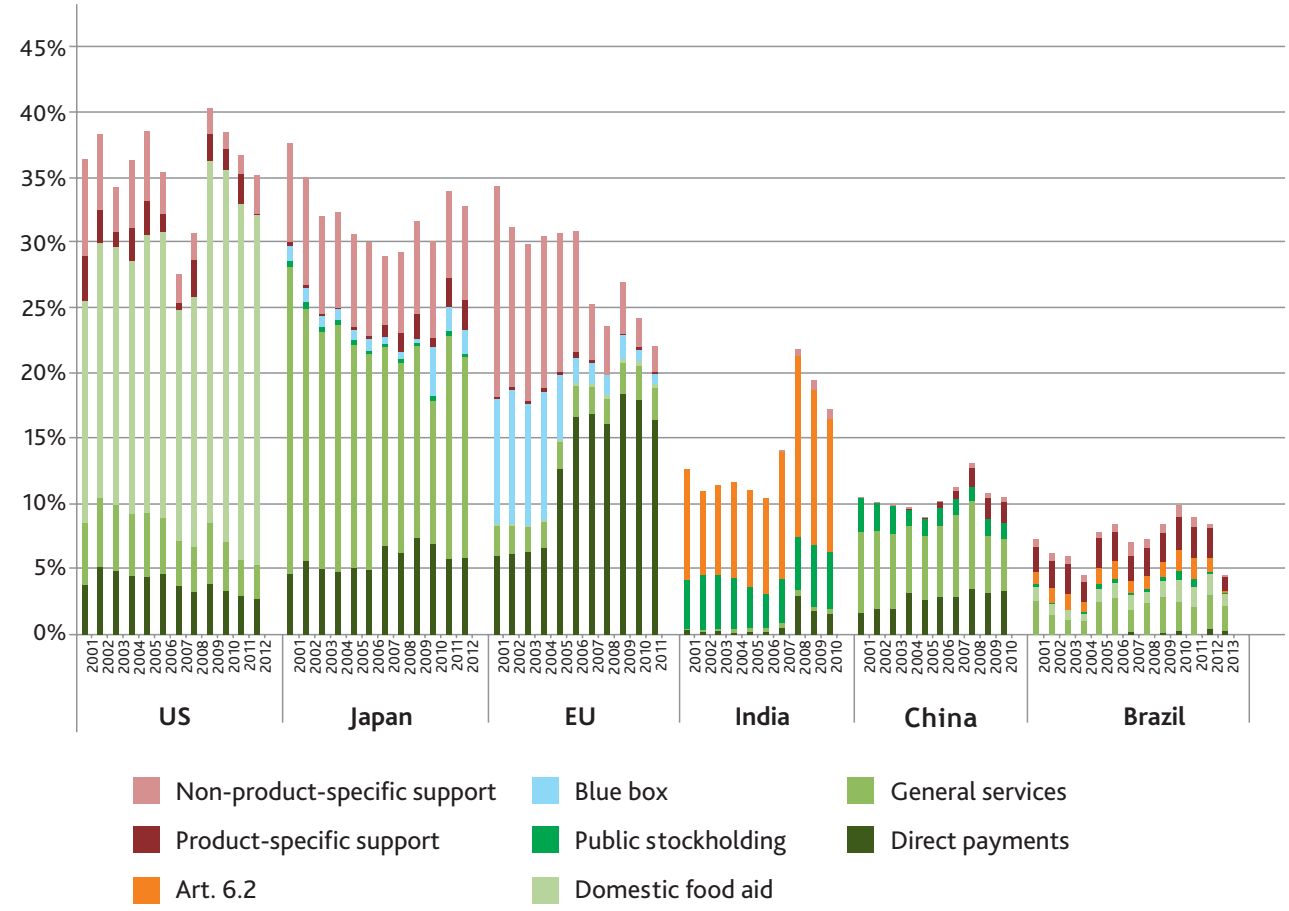


Source: Author's elaboration based on WTO notifications

14 The opposite effect was, however, apparent since 2011 as prices went down.

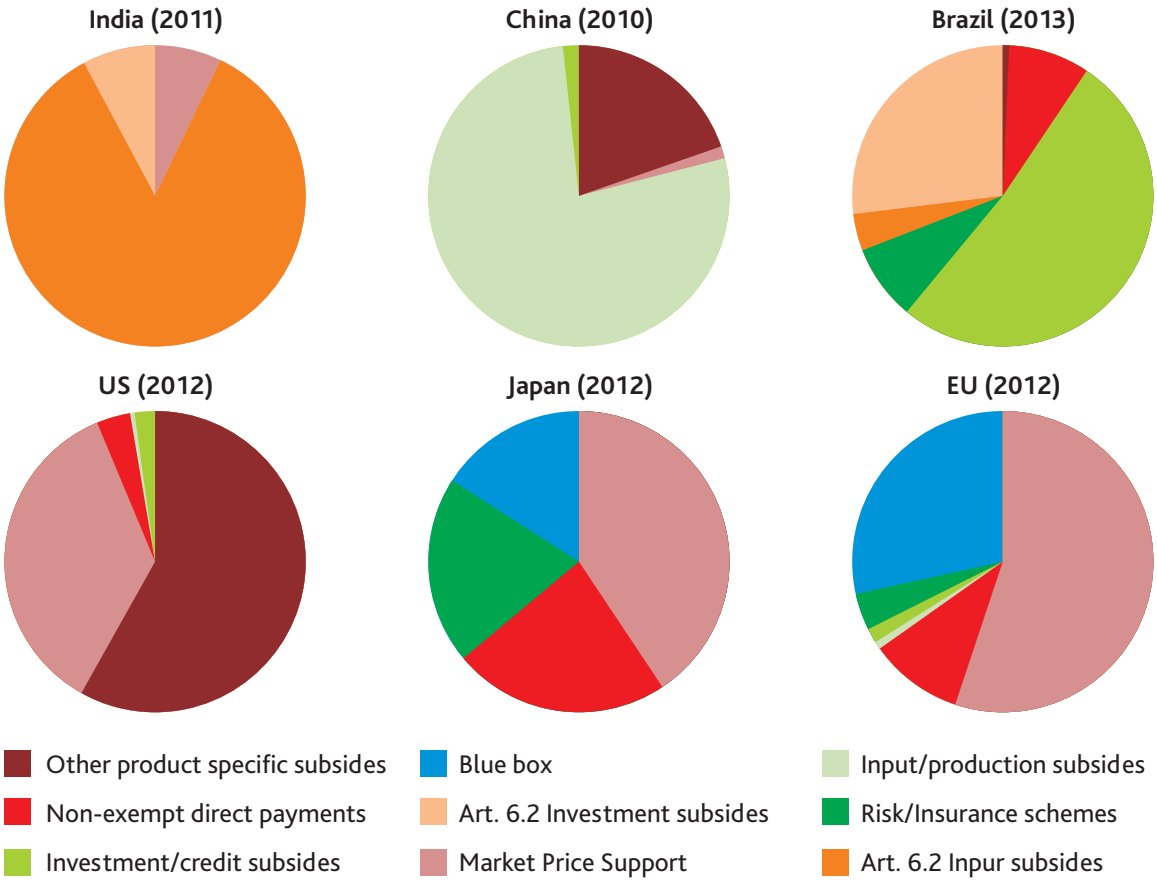
15 *See* BRIDGES, Volume 19 - Number 30, September 2015.

Figure 2. Domestic Support as A Share of the Total Value of Production



Source: Author's elaboration based on WTO notifications

Figure 3. Non-green box support by type of measure



Source: Author's elaboration based on WTO notifications

2.2.2. *The Resurgence of trade-distorting domestic support*

Figure 3 shows the composition of non-green box support in the EU, US, Japan, China, India, and Brazil based on the most recent latest WTO notifications. Overall, price support and general input subsidies have been the main instruments used in China and India, not least because this approach yields quick returns and is relatively easy to operate, as opposed to less trade- distorting direct support, which is often seen as less effective in stabilising food production. Brazil, on the other hand, tends to put more emphasis on subsidies facilitating access to credit and agricultural investment, particularly for small- holder famers. In the case of India and Brazil, a large part of this support is provided generally to low-income and resource- poor farmers and, as such, is exempted from reduction commitments under Article. 6.2 (S&D treatment) of the Agriculture Agreement. In contrast, the US notified most of its trade- distorting support as product- specific measures, a situation thatwhich is likely to change under the new Ffarm Bbill with most new programmes providing non-product- specific support through different insurance schemes (see next section). Finally, the EU and Japan have used a variety of measures ranging from blue box and insurance schemes to direct payment linked to production or market price support. The following sections provide a short description of the main features of those programmes.

From decoupled payments to subsidised insurance schemes: the US approach

In the US, the new Farm Bill eliminates direct payments — considered under the green box under WTO rules — as they became difficult to justify in a relatively high-price environment. It also terminates CCPs and the Average Crop Revenue Election. These schemes have been replaced by new programmes essentially functioning as insurance schemes, protecting farmers from yield and price variation risks. They will add to previous trade-distorting programmes that continue under the new Farm Bill (e.g. marketing loan, sugar price support, or crop insurance premiums). By replacing direct payments with new crop insurance programmes, the Congressional Budget Office estimates that the 2014 Farm Bill will significantly reduce budgetary outlays on average. But, these instruments will likely isolate US producers further from poor local harvests or falls in world prices, inducing potentially significant trade distortions.[16] Furthermore, as illustrated by the new Stacked Income Protection Plan (STAX) for cotton, the triggers for such payments are based on much higher expected production per acre and prices, thereby locking in current relatively high revenue expectations and increasing the risk of large budget outlays under certain market conditions. Under these circumstances, early estimates of possible future price scenarios have raised doubts about the US ability to comply with future commitments under a possible multilateral reform as envisaged under the Doha Round.

Towards more flexibility to re-introduce production-related payments in the EU

In the EU, the new CAP confirms the earlier decision to eliminate supply controls on milk, sugar, and the planting of vines by ending milk quotas in 2015 and sugar quotas in 2017. Coupled payments — i.e. payments linked to the level of production — are confined to sectors with certain difficulties and should be granted only to the extent necessary to maintain current levels of production.[17] In spite of these restrictions, there appears to be greater flexibility for countries to use such instruments compared with the previous CAP, and the list of sectors eligible for coupled support payments has been greatly expanded. As a result, coupled aids have started to grow again, from a projected €2.7 billion (roughly US$3 billion) in 2014 to a projected €4.8 billion (approximately US$5.3 billion) in 2015, an increase of nearly 75 percent.[18]

Sustaining farm income by limiting production in Japan

In the late 1990s, Japan abolished its administered price of rice under the Food Control Law, which resulted in a significant drop in the amount of trade-distorting support notified to the

16 *See* BRIDGES, Volume 19 – Number 1, January 2015.

17 *See* BRIDGES, Volume 17 – Number 23, June 2013.

18 *See* "Two steps forward, one step back: coupled payments in the CAP", blog post by Alan Matthews, April 16, 2015, available at http://capreform.eu/two-steps-forward-one-step-back-coupled-payments-in-the-cap/

WTO. Since then, however, the price has been maintained through other programmes, such as the rice acreage reduction programme or individual household income support. The first is notified as environmental payment (see green box section below) and the second as blue box. In practice, these set-aside schemes encourage diversification and establish maximum limits for rice production, which contributes to maintaining high prices and allowing smaller and part-time farmers with high costs to continue farming. The result has been a reduction of domestic production, the set aside of a large amount of fertile land, and a steadily ageing farming population. In this context and given the high quality of the rice produced, certain experts have argued that reforming the rice policy could unleash a potential for export focusing on high segments of the rice market.[19] Beyond rice, producer-price stabilisation policies continue to apply to beef calves, pork, fruits, vegetables, and some other products, which partially or fully compensate for differences between sales and target prices or historical average prices.

Input and investment subsidies: the main instruments for emerging economies

India has traditionally put particular emphasis on input subsidies as the most significant component of its domestic support programmes. These include irrigation and power subsidies provided through revenue forgone; fertiliser subsidies; credit subsidies; and subsidised distribution of seeds.[20] While these schemes played a critical role in increasing production in India, critics often point to inefficiencies in the delivery of such services by government agencies resulting in waste and delays in the delivery of water for surface irrigation, excess drawing out of ground water through power subsidies, overuse or skewed use of fertilisers and difficulties in getting timely and adequate access to credit. Critics also point to the high contribution of fertiliser subsidies to the fiscal deficit of the central government.[21] In a similar vein, China provides support for diesel, fertilizers, pesticides, farm machinery or improved crop varieties mostly as direct payment per unit of land.[22] In Brazil, the provision of access to credit for investment by poor farmers represents roughly 60 percent of the funds supporting family farming. Such support is justified as a way to correct persistent market failures, which result in insufficient credit allocation to medium-, small- and micro-produce farmers. To the extent that these measures are generally available for low-income and resource-poor farmers, they fall under Article 6.2 of the WTO Agreement on Agriculture and are exempted from reduction commitments, except in the case of China, which has no entitlement to use Article 6.2 under its accession commitments.[23]

Market price support to support small farmers in India and China

Beyond input and investment aid, minimum support prices (MSPs), guaranteed through purchase by state agencies, also represent an important pillar of India and China's domestic support and to a lesser extent that of Brazil. These mechanisms tend to provide a price floor mechanism for farmers by guaranteeing that they will be able to sell their production at a fixed minimum price regardless of market price fluctuations. In India, a MSP is fixed for 24 crops, but only backed only by meaningful purchase for rice, wheat, and cotton. It is announced annually for summer and winter crops on the basis of the recommendation of the Commission for Agricultural Costs and Prices (CACP), which takes into account several factors, including the cost of production, trends in prices, the size of buffer stocks, supply and demand, etc. In practice, however, purchases made to support the MSP have often resulted in actual stocks far in excess of the norms established by the government, despite the country exporting 42 million metric tonnes of wheat in 2012 and 2014.[24] China has also introduced a policy for purchasing grains at a minimum price for rice and wheat in major crop producing areas with the price fixed before sowing. During 2007-12, the minimum

19 Ibid.

20 *See* Hoda and Gulati (2013).

21 *See* Hoda and Gulati (2013).

22 *See* Ni (2013). The fact that programmes tend to be implemented in different ways among provinces makes it difficult to assess the extent to which such payments are input subsidies or decoupled income support in many cases.

23 In the case of China, input subsidies are considered amber box spending and notified as product-specific and non-products specific support.

24 Ibid.

prices for rice and wheat were increased each year on the basis of the growing costs of agricultural production. Finally, China also introduced a cotton price policy involving a minimum guaranteed price, backed by the government's intention to purchase cotton when the price falls below it. According to the ICAC, this policy has translated into purchases of over 9 million tonnes of cotton from domestic crops and over 1 million tonnes of foreign cotton, between 2011 and 2013 according to the ICAC.[25] As a result, by the end of 2012/13, China held roughly 60 percent of global cotton stocks, a policy which first contributed to increasing world prices and is now raising some fear that future releases of stocks could depress world cotton prices. As of 2014, however, China moved away from its practice of building cotton stocks. Instead, a new programme will deliver direct payments to farmers if prices fall below certain government-set targets instead of intervening through purchases to support domestic prices when these fall below a pre-established floor.[26]

The rapid growth of market price support schemes in emerging economies has raised concerns that the payments made under those schemes — and calculated as the difference between the administered price and a fixed reference price based on 1986-88 price levels — might be exceeding the Uruguay Round limit fixed for those countries. Beyond this ongoing controversy, critics essentially point to the high cost of such policies and deficiencies in procurement operations. In India, for example, a recent high-level committee report estimated that less than 6 percent of farmers actually benefited from subsidised food procurement schemes, with a lot of farmers selling their products in the market at prices below the MSP.[27]

2.2.3. The growing importance of "green box" measures

Since the end of the Uruguay Round, traditional providers of farm support have indeed reduced their trade-distorting support. However, this move has often been accompanied by a proportionate increase in green box subsidies considered in WTO jargon as non-or minimally trade distorting. At the same time, green box support has been steadily growing in a number of 'emerging' economies, such as China or India. As a result, green box payments represent today by far the largest share of notified global agricultural support. However, differences in the use of the various "green box" policy tools by these countries reflect different conceptions of agricultural support and often larger societal preferences or economic imperatives. To illustrate this point, figure 4 provides an overview of the composition of green box measures in the US, the EU, Japan, China, India, and Brazil based on the most recent WTO notifications.

Overall the bulk of US green box payments are in the form of domestic food aid, notably through the Supplemental Nutrition Assistance Program (SNAP), also known as food stamps. While relatively uncontroversial from a trade perspective, these payments have been criticised in the drafting of the new Farm Bill and more broadly in the context of the debate about the federal budget deficit, with congressional representatives targeting food stamps as an area where spending could be cut.[28] The EU spends most of its support through direct payment. While these essentially represent decoupled income support, such payments are increasingly conditioned on environmental requirements. Japan's approach combines environmental payments with infrastructure programmes, through extension services, and particularly recently disaster relief programmes. In developing countries, by contrast, the use of green box tools tends to focus more on the use of general services (e.g. Brazil or China) or public stockholding for food security purposes, even though China also spends significant amounts in decoupled direct payments. India dedicates the bulk of its green box support to its public stockholding programme closely related to its food distribution system for poor consumers, while Brazil spends important amounts in domestic food aid notably through its National School Feeding Programme. The following sections provide a more detailed description of these different schemes.

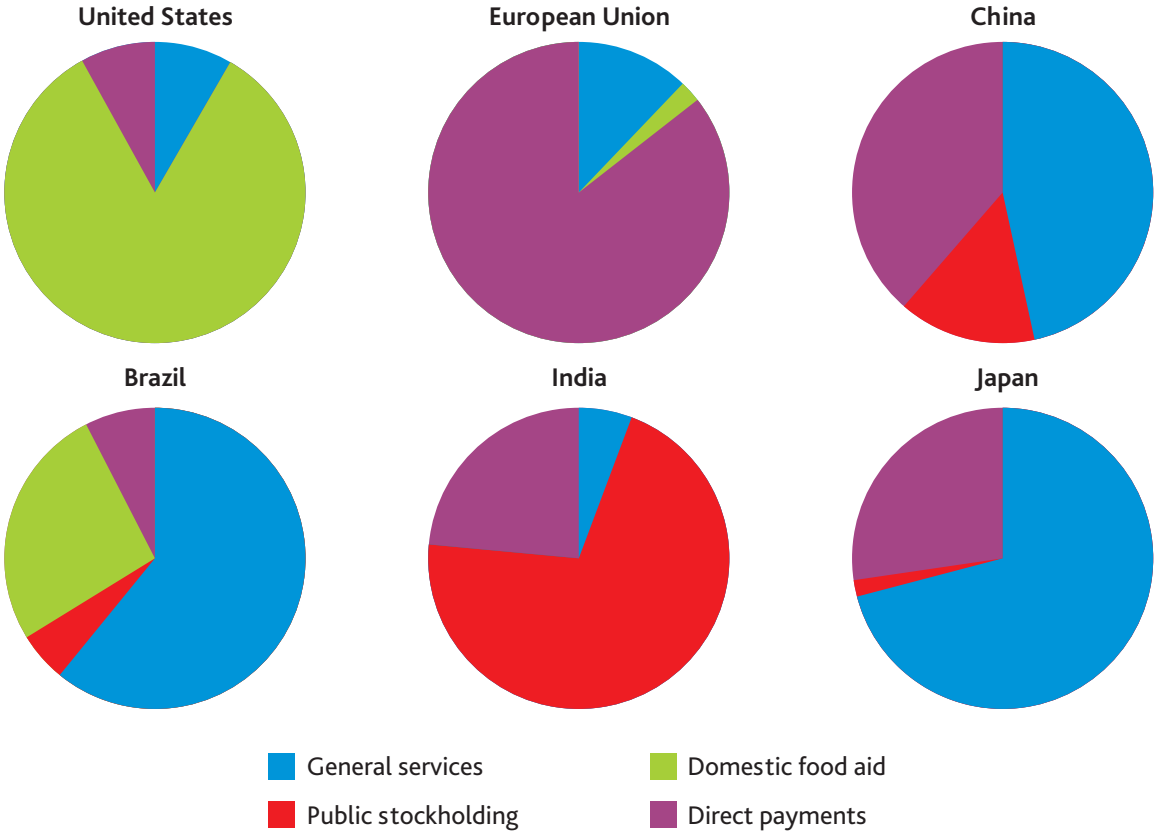
25 *See* ICTSD (2013).

26 *See* Bridges, Volume 18 - Number 2, January 2014 available at http://www.ictsd.org/bridges-news/bridges/news/cotton-trade-china-shift-on-stockpiling-policy-sparks-questions.

27 *See* Bridges, Volume 19 – Number 9, March 2015 available at http://www.ictsd.org/bridges-news/bridges/news/india%E2%80%99s-food-minister-backs-subsidy-reform-plans

28 *See* Smith (2014).

Figure 4. Green box support by type of measure



Source: Author's elaboration based on WTO notifications

Public money for public goods

In the EU, successive reforms starting in the early 1990s progressively replaced price support with direct payments and subsequently delinked income support from production, allowing the EU to place the largest part of its domestic support in the green box. Under the 2013 reform of the CAP, a new basic payment scheme reflecting a uniform level of payments inside each region was introduced for all EU farmers as a form of direct income support. The basic payment is complemented by a series of additional payments funded under the national ceiling provided to each member state. In an attempt to provide "public money for public goods" —a notion increasingly invoked as justification for continued direct payments— a new green payment regulation requires farmers to grow at least three different crops simultaneously to ensure diversification; to maintain permanent grassland; and to establish an ecological set-aside. Some environmentalists have argued, however, that such payments should be better targeted to avoid the risk of them being used as disguised income support and should be proportional to the environmental benefits provided.[29] Other green box measures include an optional co-financed risk management toolkit or larger budget for agricultural food and research to improve competitiveness and to address environmental and climate change challenges.

Toward recoupling in the US

The most striking evolution in US green box measures is the abolition of direct payments to producers. This confirms the trend toward recoupling payments initiated in the 2008 Farm Bill. Contrary to the EU, the notion of public money for the delivery of public goods never really took up in the US context, and as prices went up, such fixed payments were seen by many as impossible to justify to taxpayers. By replacing them with support tied to market prices and yields, the Congressional Budget Office estimates that the 2014

29 *See* Matthews (2011) and Brunner and Huyton (2009).

Farm Bill will significantly reduce budgetary outlays on average. From a trade perspective however, the new subsidised insurance programmes might create more distortions than direct payments, which were delinked from production.

Environmental payment vs price support

In Japan, certain payments aimed at encouraging conversion from rice to other crops under the acreage reduction programme have been notified as an environmental programme under the green box. At the end of the Uruguay Round, Japan justified this because of the many environmental benefits generated by paddy fields, such as biodiversity conservation or water management. However, this move has prompted criticism partly because of the potential price support effect of the programme and because most environmental benefits tend to result from rice production and not from a diversification away from rice.[30] In practice, roughly 1 million hectares of 3.4 million hectares of paddy field have been lost since the introduction of the acreage reduction programme in 1970. In addition, Japan has introduced direct payment schemes for keeping agricultural land in good condition as a way to enhance the environmental and landscape management benefits of agriculture. These payments are also combined with infrastructure programmes, through extension services, and disaster-relief programmes.[31]

Direct payments in China

The majority of China's green box payments are allocated to infrastructural services, extension services, research, pest and disease control, and public stockholding. Making the distinction among rural expenditure between what is directly related to agriculture or not remains challenging as illustrated by some spending for rural public utilities or other general services, such as administrative expenses, salary, water conservation, and meteorology. This has prompted some experts to argue that notified green box expenditure might be slightly overestimated.[32] However, the country also provides direct payments for grain production based on fixed taxable land area. The way this programme is implemented differs across the country, with some provinces limiting the scheme to a certain crop and others providing a greater degree of decoupling.[33] In cases where such payments are limited to certain crops, one could question the extent to which they are effectively delinked from production and, thus, comply with green box criteria. Such differences might, in turn, result in varying conditions of competition among provinces.

Supporting poor consumers in India

In an attempt to secure affordable prices for the poor, India's green box measures are largely notified as public stockholding programmes for food security purposes: such measures are closely related to the purchase of crops under different price support schemes.[34] The National Food Security Bill passed in 2013 seeks to roll out an ambitious food subsidy scheme that will provide 67 percent of the country's citizens the legal right to cheap grain. As a food distribution scheme, the programme would fall under the green box. Its main weakness, however, according to critics is that it relies on the existing public distribution system characterised by high "leakage" — owing to factors ranging from poor targeting to outright corruption or wasteful management of stocks— resulting in about 40-50 percent of grains being lost at the national level.[35] Furthermore, the current programme design may over-emphasise grain production at the expense of other nutritious foods that the poor also need to be able to access at affordable prices. Alternatives considered could include changing the mode of delivery to a system of direct cash transfers targeting directly vulnerable groups without going through the public distribution system. The Unique Identity Card (UID) system currently being established in India could make this approach gradually possible over time.

30 *See* Yamashita (2015).

31 Ibid.

32 *See* Ni (2013).

33 Ibid.

34 *See* Bridges, Volume 18 – Number 30, September 2014.

35 *See* Hoda and Gulati (2013).

General services and domestic food aid in Brazil

Brazil tends to privilege extension and advisory services, infrastructural services, or insurance programmes. Brazil's long-term investment in the sector has arguably played a critical role in the country's systematic increases in agricultural productivity. The country also runs large procurement programmes created to provide both a stable market for family farmers and distribution of food to poor consumers. Its Food Acquisition Programme purchases food at market prices from approximately 200,000 farmers and distributes it to 15 million people each year. The National School Feeding Programme, in particular, purchases at least 30 percent of its food from family farmers and supplies school lunches, reaching roughly one-quarter of the Brazilian population and avoiding the leakage problems faced in India.[36] By combining productivity enhancing investments, land tenure reform and a targeted procurement programme with social protection, Brazil has managed to nearly eradicate food insecurity throughout the country

2.3 Export Competition

While export subsidies represented more than €10 billion (or roughly US$11 billion) a year in the early 1990s, today the use of this instrument has practically disappeared.[37] This decline and the current disappearance of export subsidies are largely the result of past cuts in EU support prices and the decoupling of direct payments combined with recent high prices on the world market. The US too reformed its export credit subsidies, even though Congress voted against turning all food aid into cash aid to buy local products.[38] Yet, neither the EU nor the US formally dismantled their export subsidy instruments, maintaining the possibility to use them in the future even though they are no longer active. Finally, while some of the important agricultural exporting state trading enterprises (STEs) that were operated by developed countries — such as the Canadian Wheat Board — have been reformed or are in the process of being reformed the presence of STEs appears more important in developing countries.

2.4 Export Restrictions

While export subsidy related distortions have shrunk considerably, export restrictions have become more prevalent, particularly during the recent food price spike episodes. Beyond short-term emergency measures to prevent food shortages, certain countries have used such measures on a more permanent basis. In Argentina, for example, the government has emphasised the role of agriculture as a provider of cheap food, an instrument to limit inflation, and as a source of tax revenue to finance public spending and achieve fiscal surpluses. To achieve this, it has imposed export taxes on all products and progressively increased the rates for agro-industrial products (with soy export currently taxed at 35 percent, wheat at 23 percent, corn at 20 percent. or beef at 15 percent, while manufactured goods are taxed at 5 percent) in an attempt to incentivise industrial production. Primary products are also systematically taxed at higher rates than processed products to promote exports of products with local value added and offset tariff escalation on imports applied in destination markets.[39] Beyond taxes, Argentina has imposed a number of export non-tariff barriers (NTBs), including closures of the registry of sales declarations, quotas, or export bans often defined on an ad hoc basis (e.g. on wheat). Here critics point to the fact that this import substitution strategy has failed to achieve its objective. While it helped promote recovery and economic growth during the first years, it failed to generate sustained growth in agricultural exports or to foster the competitiveness of the industrial sector. Inflation rates have remained high, and the negative trade balance in the manufacturing industry has grown significantly over time. The lower domestic price paid to producers combined with a lack of predictability in the application of export restrictions and delays in tax refunds have created unstable prices and fuelled international price volatility, while discouraging domestic production growth. Finally, with the introduction of quantitative export restrictions, exports of wheat and beef, in particular, experienced a

36 *See* Bellmann et al. (2013).

37 *See* Bureau and Jean (2013). The EU used export subsidies as part of a crisis management package for pork in 2008 and for dairy in 2009 but the quantities exported remained limited.

38 Ibid.

39 *See* Regúnaga et. al. (2015).

steep decline and the loss of important markets traditionally supplied by Argentina.[40]

Conclusion

Agricultural markets today look very different from than they did 20 years ago. Policies — as this summary explains — have also evolved during this period. Finally, the negotiating context itself has been transformed by the proliferation of bilateral and preferential deals, including the new mega-regionals, which have created new trading blocs, alliances, and regulatory frameworks. The pace of change is unlikely to slow in the future, as climate change alters temperature and precipitation patterns and heralds a new era of more frequent and intense extreme weather events, in the process significantly affecting markets for food and agriculture and creating new constraints on the ability of governments to improve food security and foster rural development. Better international disciplines could help governments address long-standing problems in the agricultural sector, such as those associated with high levels of trade-distorting domestic support. However, at the same time, they could provide a means to address new types of difficulties with consequences for vulnerable producers and consumers, such as the implications of agricultural export restrictions on people in poor food-importing countries when shocks unexpectedly create spikes on world markets for food.

The diversity of national policy approaches affecting agricultural markets further complicates the challenges associated with updating global rules on trade at the WTO. At the same time, this diversity is arguably also a symptom of the broader lack of consensus at the international level on the extent to which it may be legitimate or desirable for governments to intervene in domestic markets to achieve broader public policy goals. Any attempt to revisit the framework of disciplines that has been inherited from the Uruguay Round will have to start from a serious attempt to engage with the range of policy instruments that countries have devised to pursue their national objectives, as well as an understanding of how these goals themselves relate to the emerging consensus on actions that are needed to achieve sustainable development. Governments are likely to continue to argue that — through trade — actions taken in other countries could help or hinder their efforts to achieve objectives agreed upon by the global community. It is for this reason that an informed understanding of the trade implications of national policy instruments must form the basis of further dialogue and negotiation, along with an assessment of the effectiveness and efficiency of these instruments in achieving stated goals both at home and abroad.

40 ibid.

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