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Implications of WTO Talks on Agricultural Domestic Support for Least Developed Countries

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This information note is based on a longer ICTSD study examining the implications of various negotiating options at the World Trade Organization for the group of least developed countries (LDCs). It looks at historical and projected trends in LDC production, consumption, and trade to highlight products that are important to the group; reviews key elements emerging from negotiating submissions; and assesses how these proposals could affect products of specific interest to the LDCs. It finds that measures to address product-specific support could be an important complement to new limits on overall trade-distorting support, and identifies support for cotton, sugar, and poultry as particularly important for the LDC group as a whole, alongside certain fruits, vegetables, and nuts.

1. Introduction

Under the 2015 Sustainable Development Goals, governments agreed amongst other things to “correct and prevent trade restrictions and distortions in world agricultural markets,” as part of their efforts to end hunger and malnutrition by 2030. The Nairobi ministerial conference of the World Trade Organization (WTO) made substantive progress towards achieving this goal by agreeing to eliminate agricultural export subsidies, while at the same time governments have proposed a number of submissions suggesting different options for negotiating an outcome on agricultural domestic support at the global trade body’s eleventh ministerial conference in Buenos Aires (dubbed “MC11” by trade negotiators) and beyond.

Over the course of 2016 and 2017, a number of new negotiating proposals and submissions have been put forward by WTO members, many of which focus specifically on the area of agricultural domestic support. Together, these submissions provide some indication of the possible contours of an eventual agreement in this area, and also greater clarity on the extent to which different countries’ negotiating positions converge or diverge. A number of questions emerge from the negotiating proposals that have been tabled so far, some of which have been explored in recent analysis by ICTSD. This information note is based on a longer paper which seeks to build on this analysis by examining how various negotiating options could affect the group of states classed as least developed countries (LDCs) by the United Nations.¹



International Centre for Trade
and Sustainable Development

¹ ICTSD. 2017. *What Could WTO Talks on Agricultural Domestic Support Mean for Least Developed Countries?* Geneva: International Centre for Trade and Sustainable Development (ICTSD). www.ictsd.org/node/100354

2. Characterising Production, Consumption, and Trade Across Different LDC Commodity Markets

Drawing on data from the OECD-FAO Agricultural Outlook,² it is possible to characterise agricultural products of particular interest to LDCs as falling into three major groups. First, we examine products for which exports are large compared to production and consumption levels. This is the case, for example, for cotton, and also for coffee or tobacco. A second group of products involve commodities such as maize, rice, and oilseeds, but also beef, pig meat and sheep meat, and roots and tubers, where consumption and production remain much higher than trade. Finally, a third category includes products for which LDCs are large net importers, with imports exceeding domestic production in several cases and exports being marginal to non-existent. Examples of products in this group are poultry, wheat, or soybeans.

2.1. Products for which trade is important compared to overall production and consumption levels

The first category includes products where exports represent a large share of domestic production and consumption. In the case of cotton, for example, OECD-FAO data presented in Figure 1 suggest that imports and exports will remain significant compared to production and consumption levels.

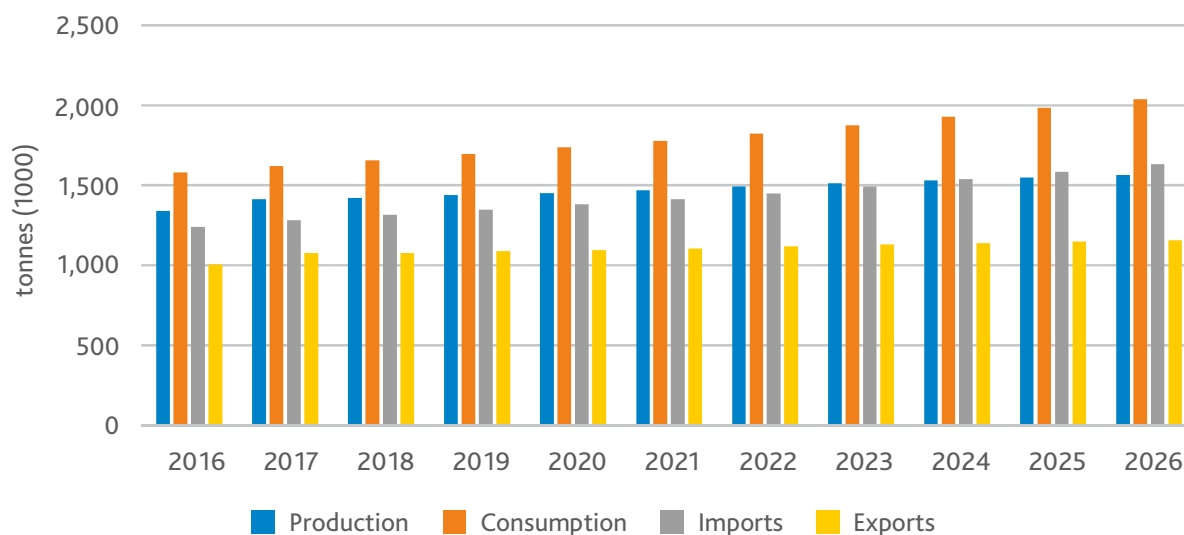
However, many of the most important LDC exports are not fully covered by the OECD-FAO Agricultural Outlook, which excludes categories such as fruit, vegetables, and nuts. Data from the FAOSTAT database³ indicate that top LDC agricultural exports also included coffee, sesame seed, tobacco, beans, and vegetables as significant export products for the group. While trade distortions resulting from agricultural domestic support may not be a significant challenge for some of these export products, distortions on markets for certain fruit, vegetables, or nuts may be significant, along with quality and food safety issues including private standards.



2 OECD-FAO Agricultural Outlook database. Accessed September 2017. www.agrioutlook.org/data

3 FAOSTAT database. Accessed September 2017. <http://www.fao.org/faostat/en/#home>

Figure 1: LDCs' production, consumption, and trade in cotton

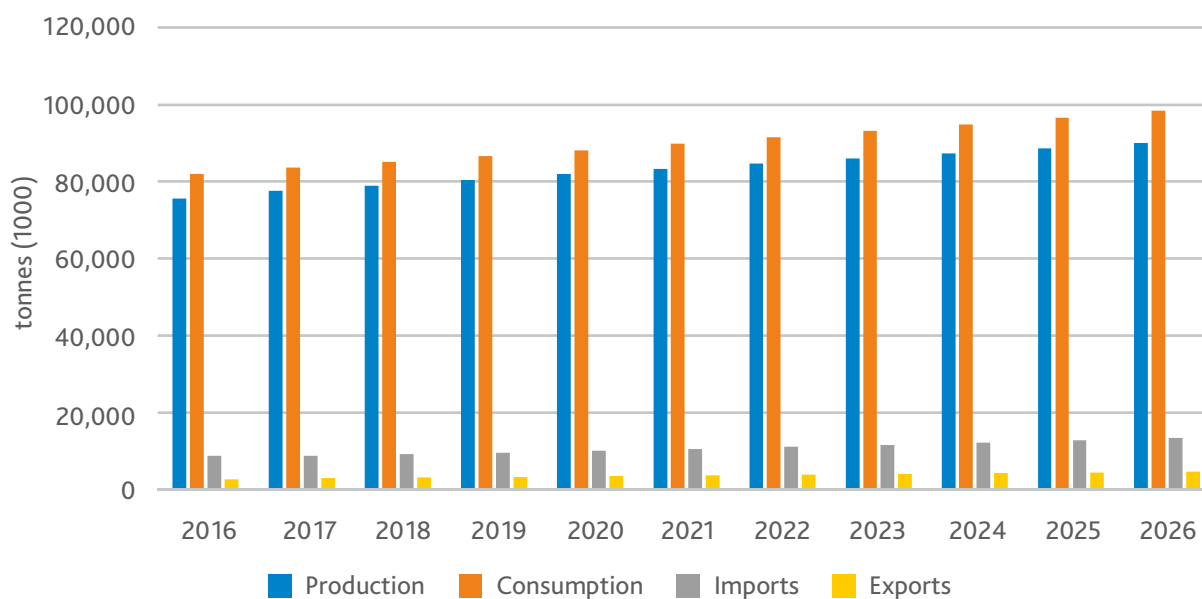


Source: OECD-FAO Agricultural Outlook database

2.2. Products for which domestic production and consumption continues to dwarf trade

This category includes products, such as rice (Figure 2), maize (Figure 3), along with “other coarse grains” (a category including products such as sorghum, barley, and millet), which are likely to be especially significant, in volume terms, for both production and trade in LDCs in the decade ahead. The fact that these goods are produced in LDCs in relatively significant amounts implies that they may play a critical role from a food security, livelihood, or rural development perspective. By reducing trade distortions, new disciplines would reduce the risk that these products are dumped on world markets, thereby generating unfair competition for local producers in LDCs. Distortions in global markets also need to be addressed so as to help tackle the long-term causes of low productivity and underinvestment in LDCs, as the group’s negotiating proposal from January 2017 notes.⁴

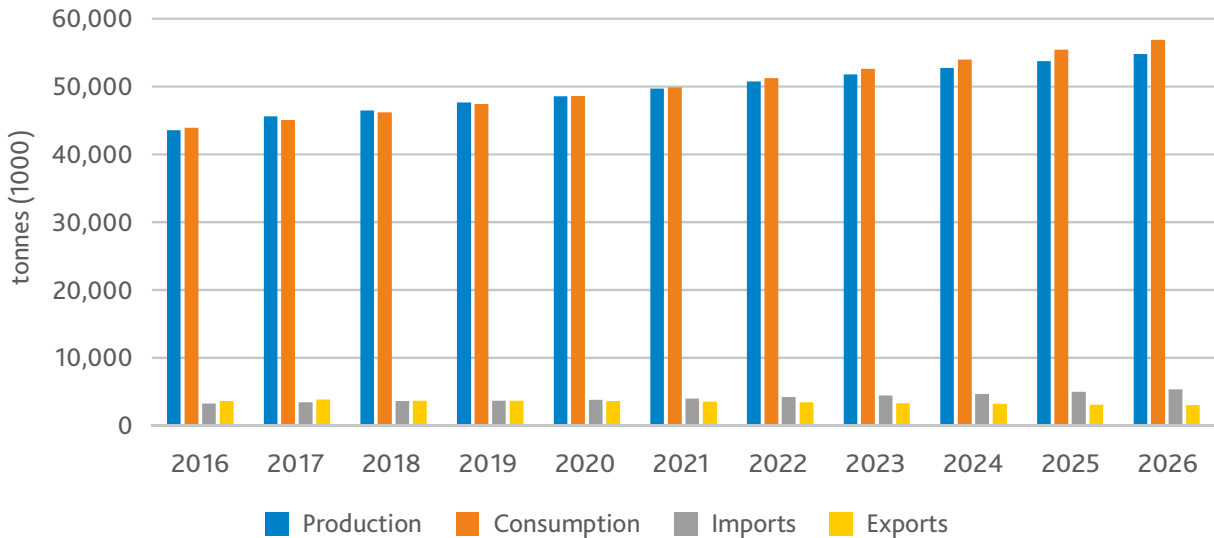
Figure 2: LDCs' production, consumption, and trade in rice



Source: OECD-FAO Agricultural Outlook database

⁴ ICTSD. 2017. “Least Developed Countries Propose New Caps on Trade-Distorting Farm Subsidies at WTO.” *Bridges Weekly* 21(3): 4-6, 2 February. www.ictsd.org/node/98953.

Figure 3: LDCs’ production, consumption, and trade in maize



Source: OECD-FAO Agricultural Outlook database

2.3. Products for which exports remain small, but imports are expected to grow quickly

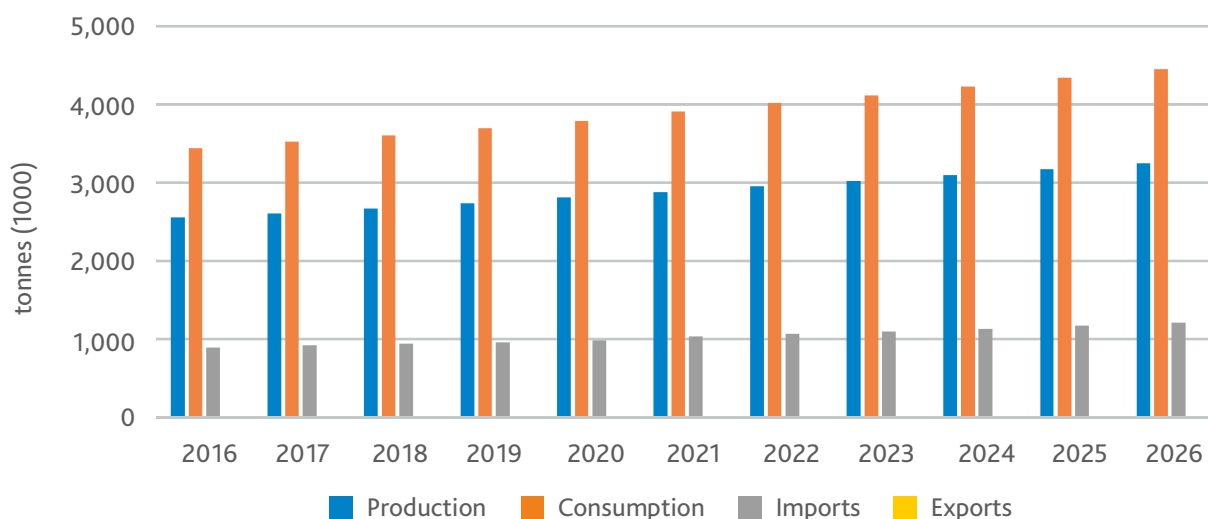
This category includes products for which imports are expected to grow quickly but remain lower than production as is the case with poultry meat (Figure 4) and protein meals. It also includes others for which imports are expected to continue outstripping production, such as sugar (Figure 5), wheat (Figure 6), soybeans, and vegetable oils.

For some of these products, domestic producers may therefore face growing competition from abroad—including in sectors where agricultural domestic support overseas contributes to distortions in international markets. For example, poultry meat is one of eleven product groups identified as being especially affected by trade distortions in analysis by Greenville (2017).⁵



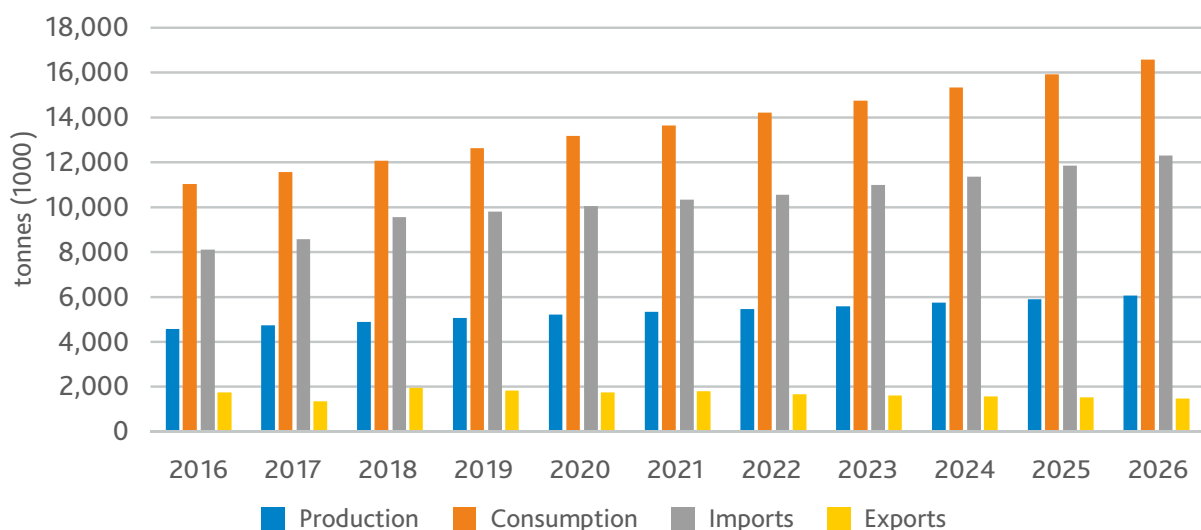
⁵ Greenville, Jared. 2017. *Domestic Support to Agriculture and Trade: Implications for Multilateral Reform*. Geneva: International Centre for Trade and Sustainable Development (ICTSD). www.ictsd.org/node/99232.

Figure 4: LDCs' production, consumption, and trade in poultry meat



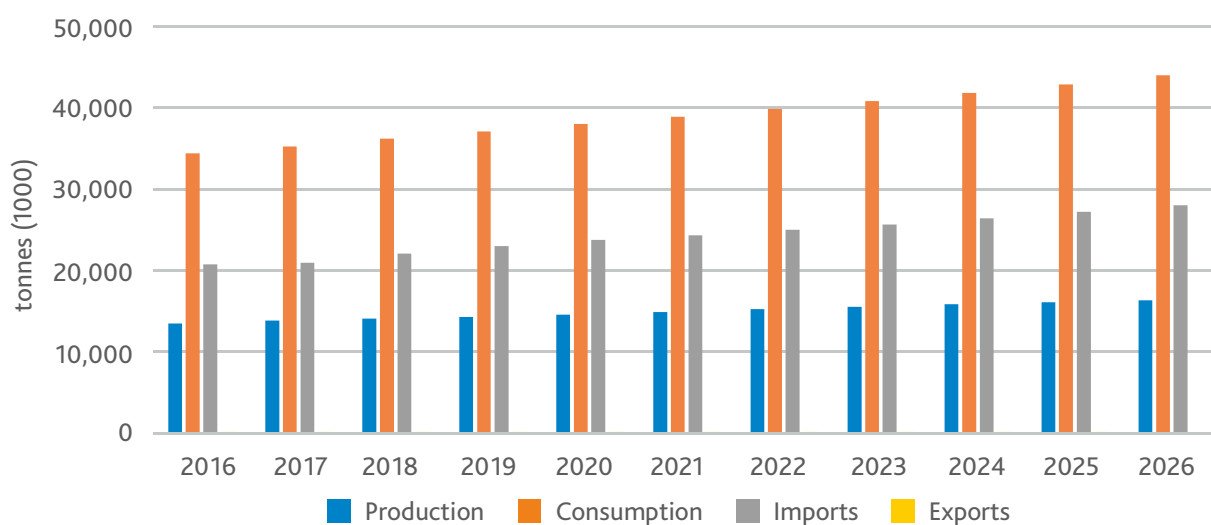
Source: OECD-FAO Agricultural Outlook database

Figure 5: LDCs' production, consumption, and trade in sugar



Source: OECD-FAO Agricultural Outlook database

Figure 6: LDCs' production, consumption, and trade in wheat



Source: OECD-FAO Agricultural Outlook database

In summary, LDCs will need to consider in particular how new disciplines on trade-distorting support and product-specific support limits will affect products of particular importance to them, taking into consideration both similarities and differences across countries within the group. There appears to be a clear need to address distortions in markets where trade is especially important to the group as a whole, notably for cotton, but also for sugar and potentially also for other products of export interest within the broad category of fruit, vegetables, and nuts—such as for groundnuts or fresh vegetables like beans and peas. At the same time, LDCs will need to pay particular attention to the impact of distortions in markets such as rice, maize, and other coarse grains: for these, domestic production is extremely important, although imports are also projected to grow over the coming decade, and markets for many of the products concerned remain highly distorted. Finally, attention needs to be paid to import-competing products, especially where subsidised imports could threaten domestic employment: poultry would seem to be particularly important among this set of products.

3. Implications for WTO Negotiations on Trade-Distorting Agricultural Domestic Support

3.1. What are LDCs proposing for MC11 and beyond?

In its January 2017 negotiating submission, the LDC group has set out the outcomes they are seeking for the talks on agricultural domestic support, with a set of objectives for MC11 placed in the context of the group's longer-term negotiating goals.

In summary, the group has argued that by MC11 countries should agree to establish a limit on trade-distorting domestic support, composed of:

- Trade-distorting “amber box” payments, calculated using the Aggregate Measure of Support (AMS) set out in Annex 3 of the WTO Agreement on Agriculture;
- Production-limiting “blue box” payments, allowed under Article 6.5 of the same agreement; and
- “De minimis” support, i.e. trade-distorting support which falls below a threshold defined as a share of the value of production, under Article 6.4 of the Agreement on Agriculture.

The group has also proposed that, by MC11, WTO members agree limits on product-specific AMS, especially on products of particular interest to LDCs. In particular, they would like to see agreement on limits on trade-distorting support for cotton, expressed either as: a fixed monetary limit; a percentage of the value of cotton production; a percentage of all product-specific support; or a percentage of producers' revenue. In the longer-term, the group argues in favour of a binding cap on trade-distorting support (amber box, blue box, and de minimis support); an elimination of product-specific support that exceeds de minimis levels; and a progressive decrease in permitted levels of trade-distorting domestic support levels.

3.2. What are other WTO members proposing?

With the exception of the US, most major economies and negotiating coalitions have also put forward submissions indicating their preferred outcomes from the talks on agricultural domestic support. These proposals reveal some similarities in negotiating positions adopted by countries and groups which otherwise have conflicting stances, as well as divergences between countries and groups that might be considered to have broadly similar objectives in the talks.

One important difference in approach is between countries that consider that negotiations ought to begin from the starting point of the existing “architecture” in the Agreement on Agriculture, such as the G-10, and others that would prefer to move to a new framework based on an overall cap on trade-distorting support. A submission from China and India calls for the elimination of AMS allowances as a precondition for

further talks, which would also have the effect of leaving countries with a value of production based metric as the yardstick for disciplining future trade-distorting domestic support. Countries have also expressed different views on whether any future ceiling should be defined as a fixed monetary value, or instead as a “floating” limit based on the value of production. More recently, some have also proposed a menu of approaches for disciplining support, which could include establishing a uniform fixed monetary limit for most developing countries.

With the exception of cotton, the EU-Brazil proposal is silent on the issue of product-specific caps or anti-concentration measures. However, a number of other countries have argued that this should be an important outcome of the negotiations.



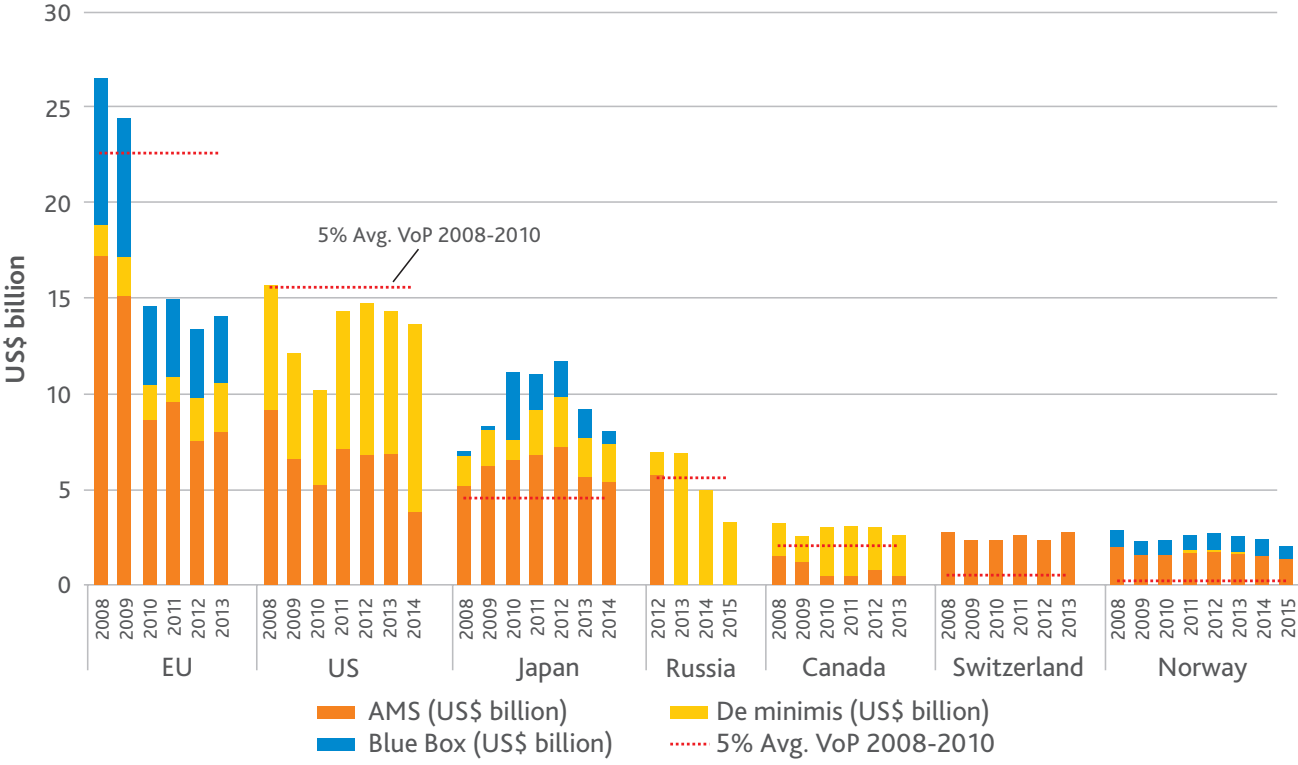
4. Implications of Current Proposals for LDCs

4.1. An overall cap is unlikely to affect applied levels in major agricultural exporters

Trade-distorting payments by WTO members such as the EU and US have declined in recent years, due both to policy changes and rising domestic prices. At the same time, WTO notifications indicate that large emerging countries such as China and India have significantly increased their agricultural domestic support, while remaining below their existing support ceilings. Furthermore, although they are not major agricultural exporters, G-10 countries with highly-protected farm sectors—such as Japan and Switzerland—still provide significant applied levels of trade-distorting support.

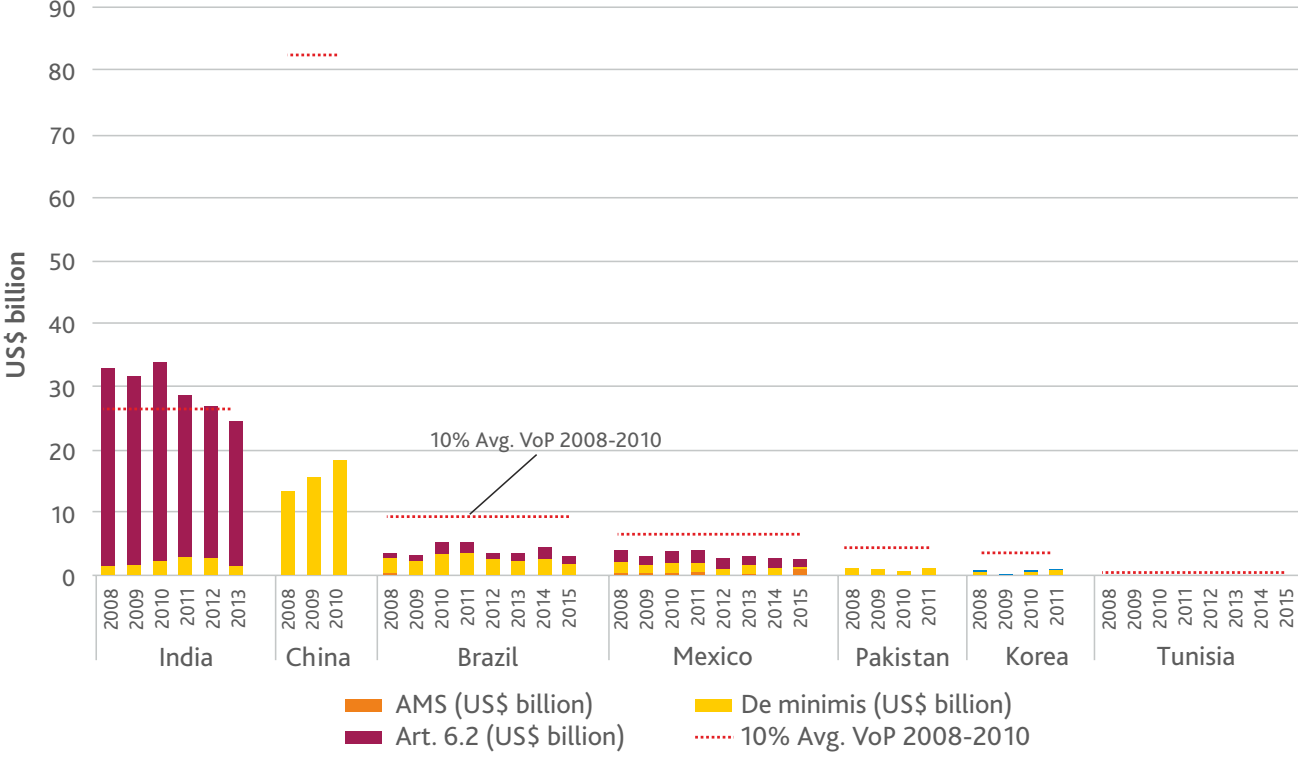
If WTO members did decide to establish a new overall limit on trade-distorting support, it might be expected that this ceiling would not significantly affect existing domestic support programmes in major agricultural producing and exporting countries, at least in the short term. Figures 7 and 8 illustrate this by looking retroactively at the evolution of non-green box support in 14 developed and developing members since 2008. Figure 7 envisages a new overall fixed limit defined as a percentage of the average value of production during a base period (2008-2010). In this scenario, however, the limit applies not only to AMS and de minimis support but also to the blue box. It is arbitrarily set at 5 percent of the current value of production. Such an approach would not only eliminate all AMS entitlements but would also cut the existing de minimis entitlement by half, making it a relatively ambitious scenario.

Figure 7: Implications for developed countries of a fixed monetary limit on AMS, de minimis, and blue box in billion US\$



Source: Authors' elaboration based on WTO notifications

Figure 8: Implications for developing countries of a fixed monetary limit on AMS, de minimis, and blue box in billion US\$



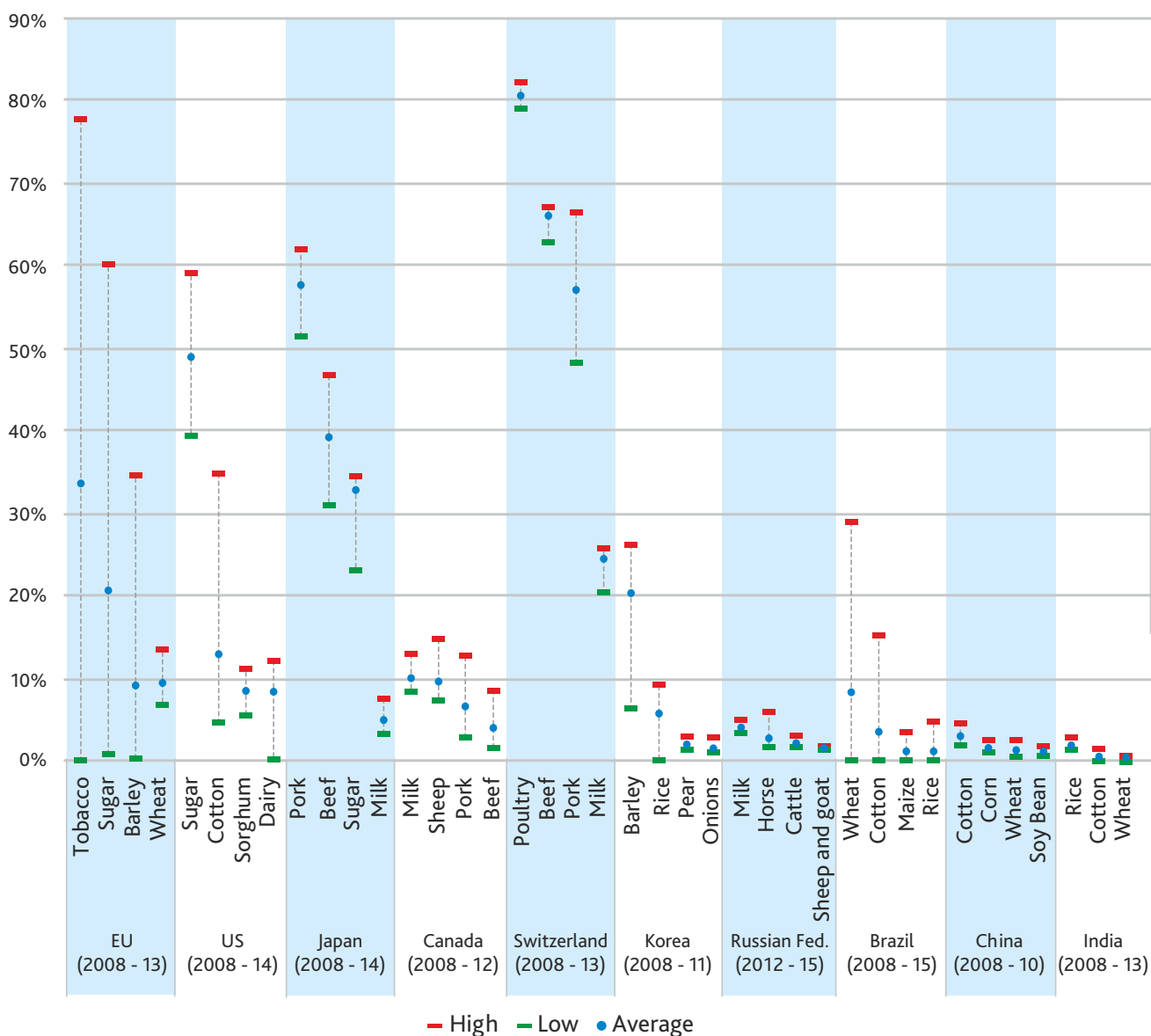
Source: Authors' elaboration based on WTO notifications

As shown in the figures above, such an approach, probably one of the most ambitious options, would not imply any cuts in the current level of support provided by the EU, the US, the Russian Federation, or Canada, at least in the short term. At the same time, it would require significant cuts in the support provided by Japan, Switzerland, and Norway. In other words, it would significantly constrain G-10 countries which are not large agricultural exporters, but would not result in any effective cuts among large players. Although there are many ways in which WTO members could address the political sensitivities of countries that do provide trade-distorting support, LDCs would seem to benefit from disciplines addressing the concentration of product-specific support on a limited set of products, as a complement to any new ceiling on overall trade-distorting support.

4.2. Product-specific disciplines as the decisive factor

To identify products where such support is concentrated, Figure 9 analyses product-specific amber box and de minimis support in 10 developed and developing country members. For each product, the graph shows the average amount of support provided as a percentage of the value of production since 2008, including the maximum and minimum level occurring during this period.

Figure 9: Average product-specific support as a percentage of the value of production since 2008



Source: Authors' elaboration based on WTO notifications

In the EU or Japan, product-specific support represents over 80 percent of trade-distorting subsidies. For example, Figure 9 shows how in the EU, trade-distorting domestic support for sugar corresponded to 20 percent of the value of production, on average, from 2008 to 2013. In certain years, this rose to 60 percent, or fell to zero when the EU reformed its sugar policy. In the US, sugar support has varied between 40 and nearly 60 percent of the value of production, while averaging around 49 percent. Since new policy approaches were adopted in 2014, support has also been concentrated on a small set of products in the US, although to a lesser extent than in the EU. Although in Canada no product receives support exceeding 15 percent of the value of production, support in some G-10 members consistently surpasses 60 percent of the value of production and can reach 80 percent for poultry. In contrast, developing countries tend to provide non-product-specific support, with this recently representing over 90 percent of trade-distorting support in India and Brazil. Indeed, the most recently available WTO notifications indicate that product-specific support in China, India, and other developing countries remains largely below 5 percent of the value of production.

Overall, Figure 9 suggests that product-specific support tends to be concentrated mainly on meat products such as pork, beef and poultry, and on dairy. As highlighted above, these may not be the most critical products for LDCs, with the exception of poultry meat. However, reductions in support provided to sugar or cotton may generate positive impacts for LDCs.



5. Conclusions: An MC11 Outcome That Contributes Towards Fairer Trade in Farm Goods

While governments in LDCs have considerable latitude to support agriculture and rural development by providing public goods such as rural infrastructure or extension and advisory services, reducing distortions in global markets could help incentivise future investment in the farm sector, at the same time reducing unfair competition in export markets for key products such as cotton. The relatively low level of export diversification in many LDCs suggests that it would be important for any WTO outcome to tackle specifically the problems relating to the products of greatest importance to this group of countries.

A negotiated outcome on agricultural domestic support at the WTO would also be important in helping to build consensus around the future direction of policies affecting markets for food and agriculture—not only by establishing agreement on how best to address past imbalances in permitted levels of trade-distorting support, but also in establishing a roadmap for further progress towards the objectives set out in Agenda 2030. Disciplines aimed at supporting the economic integration of LDCs should be a central feature of any such negotiated outcome.

Further reading:

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This information note was prepared by Christophe Bellmann and Jonathan Hepburn with assistance from Anja Zimmermann.

About ICTSD

The International Centre for Trade and Sustainable Development (ICTSD) is an independent think-and-do-tank, engaged in the provision of information, research and analysis, and policy and multistakeholder dialogue, as a not-for-profit organisation based in Geneva, Switzerland. Established in 1996, ICTSD's mission is to ensure that trade and investment policy and frameworks advance sustainable development in the global economy.

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