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How Could Africa Be Affected by Product-specific Support for Farm Goods?

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1. Introduction

Since the WTO's Nairobi ministerial conference in 2015, numerous negotiating proposals and other submissions have highlighted the importance of addressing trade-distorting support in agriculture, and in particular the concentration of support on particular products (ICTSD, 2018). However, although ministers in Nairobi declared their "strong commitment" to advancing work on agricultural domestic support, differences between members on this and other topics meant that no consensus outcome or road-map for future work was agreed at the Buenos Aires ministerial conference in 2017. The chair of the WTO negotiating body on agriculture, Guyanan ambassador J.R. "Deep" Ford, is currently consulting with members on this and six other areas with a view to advancing the negotiations (WTO 2018).

African negotiators at the WTO have long argued in favour of updating global rules on domestic support, primarily through their participation in negotiating coalitions such as the African, Caribbean and Pacific (ACP) Group or the C-4 group (comprised of Benin, Burkina Faso, Chad and Mali) which has led calls for action on cotton. The group of Least-Developed Countries (LDCs), which includes numerous African countries, has also put forward negotiating submissions, including on the topic of agricultural domestic support.

It is worth bearing in mind that measures to address product-specific support at the WTO need to be pursued in conjunction with a holistic approach to other types of domestic support which might have trade-distorting effects - including non-product-specific support, blue box support or even payments currently notified as green box programmes. It is also worth noting that many members may see disciplines on overall support levels, such as a cap on this type of support, to be easier to achieve than product specific disciplines. With these caveats in mind, this short policy brief seeks to examine some of the available evidence regarding the implications for Africa of trade-distorting support for specific farm goods, in the context of projected market trends facing the continent in the decade ahead. It builds on similar analysis by ICTSD on how support in the agricultural sector affects LDCs (ICTSD, 2017a; ICTSD, 2017b).

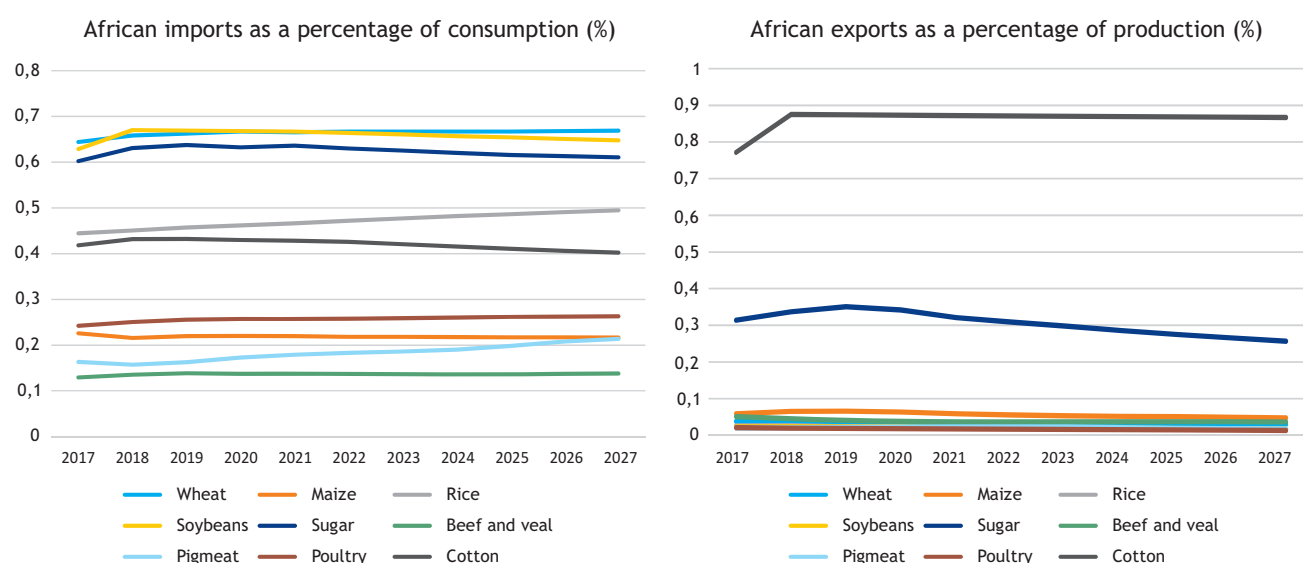


2. Anticipating Market Trends

African countries are expected to face a number of significant challenges in the years ahead, not least due to the implications of climate change for low-latitude countries (FAO 2018). Not only is climate change expected to alter temperature and precipitation patterns, it is also due to increase the incidence and intensity of extreme weather events such as droughts and floods, and to affect pest and disease patterns. While agricultural productivity in most tropical regions is likely to be adversely affected as a consequence, average incomes in many developing countries are expected to rise, especially in urban areas, with consumer demand for more varied and higher-value food increasing accordingly. Projected trends suggest that, while production levels in Africa for many agricultural goods will grow gradually, growth rates for consumption will rise even faster - meaning that imports are likely to become increasingly important in ensuring that African countries can meet demand growth in coming years. The following analysis draws in particular on data from the OECD-FAO Agricultural Outlook to characterize expected trends in markets, with a view to improving understanding of how domestic support may affect producers, consumers and other economic actors in Africa. It focuses in particular on those commodities which are particularly distorted on global markets.

Figure one compares exports of these commodities expressed as a percentage of total production in Africa with imports of the same goods expressed as a percentage of domestic consumption. For the continent as a whole, exports continue to represent a relatively small and declining share of domestic production. With a few exception such as cotton and sugar, where around 90 and 30 percent of the production is exported, the most food crops produced in Africa tend to be consumed locally.¹

Figure 1: African trade outlook in key commodities 2017 - 2027



Source: Authors' elaboration based on OECD-FAO Outlook data.

¹ As noted below, the main export commodities in Africa (such as cocoa, coffee, or tea) do not attract significant domestic support worldwide and therefore are not covered in this analysis.

On the import side, in contrast, African countries tend to show a significant reliance on imports to meet domestic consumption needs. Imports of wheat, soybeans or sugar (for example) represent over 60 percent of domestic consumption. It is also worth noting that while the share of imports tends to remain relatively stable for most commodities in the next 10 years, it is expected to increase significantly for rice and pig meat, and to a lesser extent for wheat.²

Overall, farm products can mostly be categorised into three broad groups:

1. Products for which exports are very significant compared to production and consumption levels (such as cotton or coffee);
2. A second group of products where domestic production and consumption remains much higher than import levels (such as maize, other coarse grains, and roots and tubers);
3. A third group of products for which African countries are large net importers, with imports exceeding domestic production in several cases, and exports being marginal to non-existent. (Products in this group include wheat, poultry, sugar and rice).

3. Products for Which Exports Are Important Compared to Overall Production and Consumption

As noted above, this group of products includes cotton (see figure 2), as well as the broad category of fruit, vegetables and nuts. Drawing on OECD data, ICTSD analysis by Greenville (2017) indicates that both of these product groups are among the top dozen most affected by distortions in global markets.³ For fruit, vegetables and nuts, the OECD-FAO Agricultural Outlook does not include detailed data, although, as Table 1 below shows, many of the most important African exports can be seen to fall within this broad category. Exports also outstrip domestic consumption for a number of other products such as cocoa, coffee and tea, although for many of these products trade is not significantly affected by the provision of domestic support. Quality and food safety issues, including private standards, may also be important for a number of the products in this group.

Table 1: African agricultural exports by value (US\$ 000), 2016

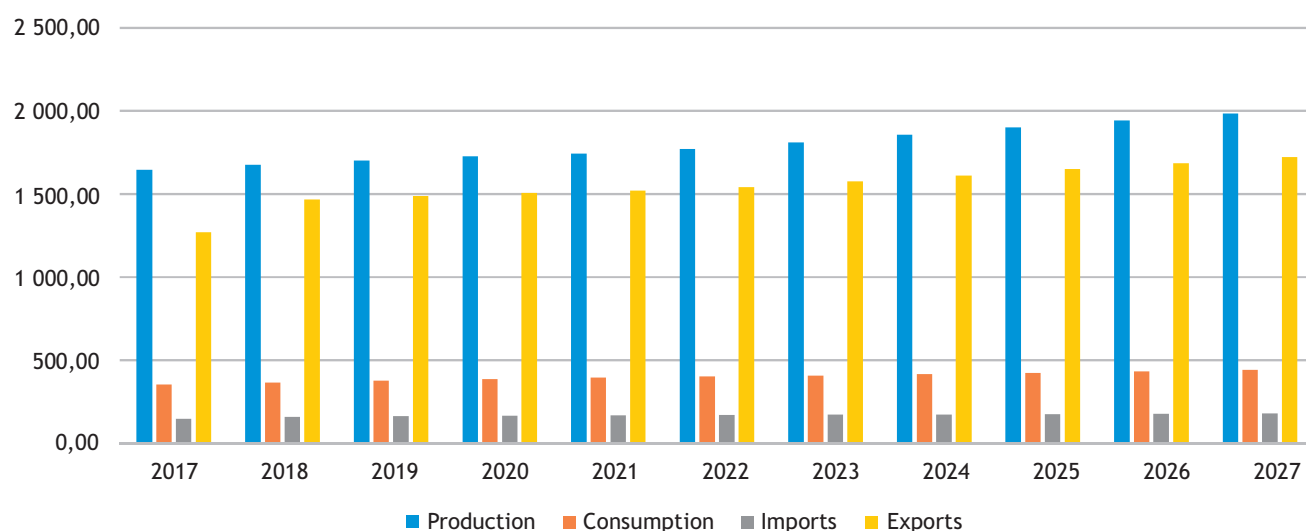
1	Cocoa, beans	6,668,577	11	Food prep nes	947,964
2	Tobacco, unmanufactured	2,114,735	12	Rubber natural dry	846,982
3	Cashew nuts, with shell	2,064,797	13	Cocoa, paste	757,156
4	Coffee, green	1,807,390	14	Wine	687,468
5	Cotton lint	1,338,751	15	Sugar Raw Centrifugal	685,243
6	Crude materials	1,311,477	16	Vegetables, fresh nes	662,043
7	Sesame seed	1,264,308	17	Grapes	650,459
8	Oranges	1,181,072	18	Tomatoes	646,429
9	Tea	998,704	19	Cocoa, butter	540,271
10	Sugar refined	986,929	20	Maize	522,065

Source: FAOSTAT

² To a great extent, projected market dynamics in Africa mirror patterns that are apparent in the ICTSD (2017) analysis of LDCs. However, a few significant differences can nonetheless be identified between the LDC group and the African group. While some non-African LDCs import large amounts of cotton for their textile industries (such as Bangladesh), exports of cotton remain extremely important for African countries, with domestic consumption and imports at very low levels relative to production and exports. Furthermore, African countries' rice imports are set to increase, almost reaching parity with domestic production by 2027 - whereas for the LDC group, domestic production is still due to represent the bulk of overall consumption in a decade's time.

³ The OECD's Producer Support Estimate is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers, measured at farm gate level, arising from policy measures, regardless of their nature, objectives or impacts on farm production or income. As such, it includes the effect of border protection measures (such as tariffs), and uses a different methodology to measure trade-distorting domestic support from that set out in the WTO Agreement on Agriculture.

Figure 2: African countries' production, consumption and trade in cotton ('000 tonnes)

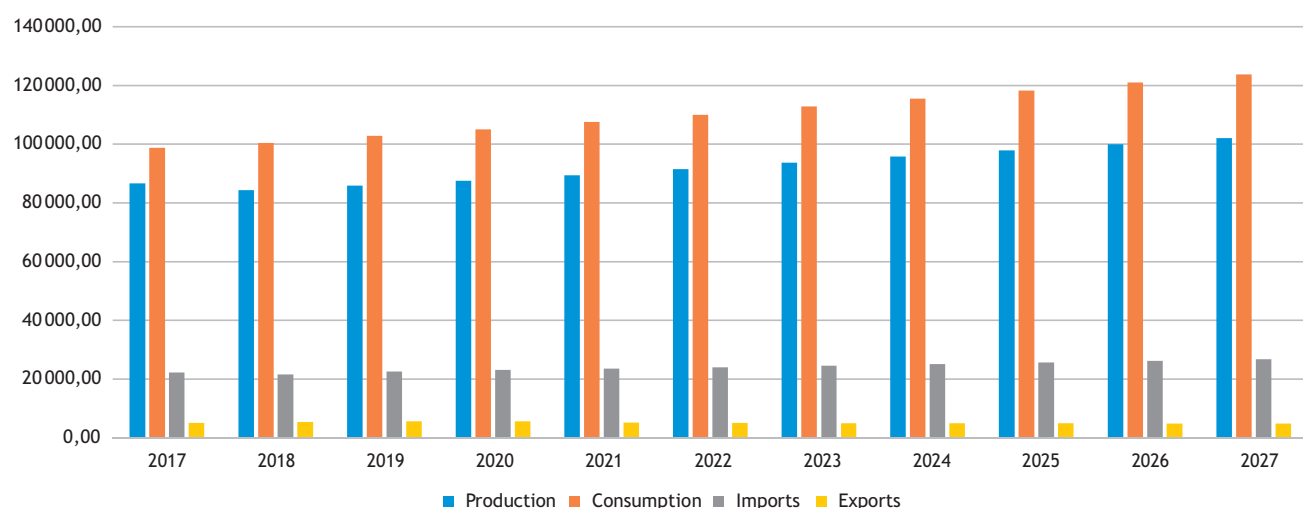


Source: OECD-FAO Outlook.

4. Products for Which Domestic Production and Consumption Continues to Dwarf Trade

A larger number of products fall into this second category. These include various staples such as maize (see figure 3), “other coarse grains” (including sorghum, barley and millet), and roots and tubers; meat products such as beef and veal, sheep meat, and pig meat; products classed as “other oilseeds” (excluding soybeans);⁴ and molasses. Of these, maize, beef and veal, and pig meat are among the products which OECD data indicates are most affected by distortions on global markets (Greenville 2017).

Figure 3: African countries' production, consumption and trade in maize ('000 tonnes)



Source: OECD-FAO Outlook.

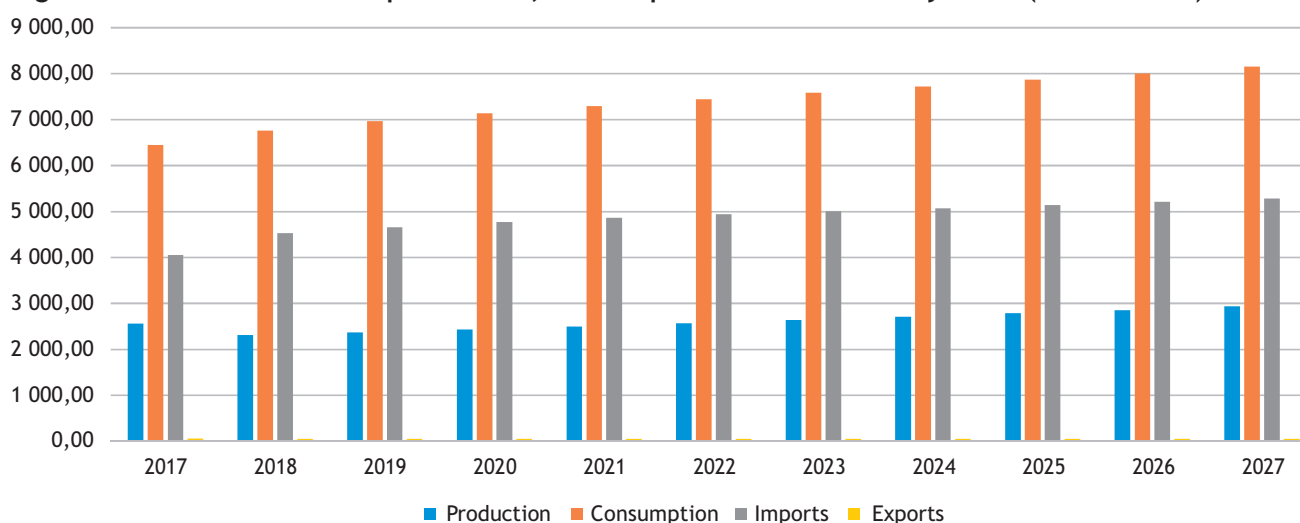
5. Products for Which Exports Remain Small, but Imports Are Expected to Grow Quickly

This category includes wheat; rice; dried distillers' grains (which are expected to be entirely imported, in the absence of domestic production in Africa); soybeans (see figure 4); protein meals; vegetable oils; sugar; and poultry meat. Of these, wheat, rice, sugar, soybeans and poultry are particularly affected by

⁴ This product group includes rapeseed (canola), sunflower seed and groundnuts (peanuts).

distortions on global markets, according to OECD data (Greenville 2017). For some of these products, domestic producers may therefore face unfair competition from abroad, with potentially adverse effects on domestic employment and livelihoods.

Figure 4: African countries' production, consumption and trade in soybeans ('000 tonnes)



Source: OECD-FAO Outlook

6. The WTO Negotiating Context

At the WTO, numerous proposals have been put forward on domestic support, with a number also addressing the question of product-specific payments and the implications of current rules for the concentration of support on particular farm goods. However, countries have advanced different views on how best to address the different types of support set out under WTO rules (see Box 1).

Broadly speaking, agricultural exporting countries such as Australia and New Zealand have tended to argue in favour of an overall cap or ceiling on trade-distorting support, focusing in particular on highly trade-distorting “amber box” and “*de minimis*” payments. China and India have called for trade-distorting amber box support that exceeds *de minimis* levels to be cut as a priority. Brazil and EU have put forward a proposal for addressing domestic support, public stockholding for food security purposes and cotton



Box 1: WTO categories of domestic support

Amber box support: This covers support deemed to be highly trade-distorting under WTO rules, such as market price support or payments that are linked directly to inputs and outputs. It is measured by the “Aggregate Measure of Support” (AMS). Those WTO members that are allowed to provide this kind of support must ensure that it does not exceed a previously-agreed ceiling set out in the country’s commitments at the global trade body.

De minimis support: This covers support which would normally count as “amber box”, but which in the case of developed countries is allowed so long as it falls beneath 5% of the value of production for product-specific support, and 5% of the value of production for non-product-specific support. Most developing countries are allowed to provide twice as much support as developed countries can, although China accepted a lower level of 8.5% for both kinds of support when it joined the WTO.

Blue box support: This category covers certain kinds of direct payments made under production-limiting programmes set out under article 6.5 of the WTO Agreement on Agriculture. It is not subject to a ceiling under WTO rules.

Input and investment subsidies: Developing countries are allowed to provide certain types of input and investment subsidies without limits, according to article 6.2 of the WTO Agreement on Agriculture.

Green box support: This support is allowed without limits, so long as it causes no more than minimal trade distortion. It includes, for example, general services such as research, extension and advisory services, and pest and disease control, as well as direct payments to products, such as those made under income support, investment or environmental programmes.

together - although other countries have argued against linking the questions of domestic support and public stockholding. LDCs have been among those calling for limits on product-specific domestic support, in addition to an overall cap (ICTSD 2017b). At the same time, the C-4 group of West African cotton producing countries have advocated for stronger action on cotton, including in the area of domestic support. Other countries and coalitions have also advanced numerous negotiating proposals and submissions (ICTSD 2018).

In December 2017, immediately before the Buenos Aires ministerial conference, African countries also submitted a draft ministerial decision on domestic support, which highlighted four distinct areas. The decision would have committed countries to further negotiations after the conference, with a view to substantially reducing trade-distorting domestic support. It would have committed countries with existing AMS entitlements to eliminate these, with a view to reducing the concentration of support on specific products. Countries would also commit to developing new disciplines on blue box support, with a view to phasing out this category of support programmes. Finally, WTO members would reaffirm that green box measures cause no more than minimal trade distortion, and develop strict criteria for green box direct payments (set out under paragraphs 5 to 13 in Annex 2 of the Agreement on Agriculture).

In the area of product-specific support, a number of issues remain to be resolved. These include how countries might best balance requirements for an overall cap with disciplines on product-specific support; and whether and how members can fast-track more rigorous requirements on trade-distorting support on products of importance to LDCs or other low-income countries (ICTSD 2018). A number of different options and approaches have been put forward in the negotiating process. These include: setting a product-specific ceiling as either a fixed ceiling or as a share of the value of production; setting a product-specific ceiling as a share of total trade-distorting support provided; or setting a product-specific ceiling as a percentage of total trade-distorting support allowed under a new overall support cap.

7. Trends in the Provision of Product-specific Domestic Support

Drawing on the most recent government notifications of product-specific domestic support to the WTO, data reveals significant differences in trends across countries and over time.⁵ Figure five provides an overview of the intensity of such support over time. For the countries listed, it gives examples of product specific trade distorting support expressed as a percentage of the value of production. The bars reflect the variations observed since 2008 by showing the maximum and the minimum amount provided during the period, while the blue dot represents the average support granted during the years for which notifications are available. Finally, the red dotted line represents the *de minimis* limit applying to the respective WTO Member.

In the EU, product-specific support as a share of the value of production has declined dramatically over the last decade, as the bloc has moved away from “coupled” payments linked to the volume and type of production. While ten years ago, the EU’s product-specific support for sugar and tobacco represented over 90% and almost 70% of the value of production respectively, subsequent reforms have meant that product-specific support was below the 5% *de minimis* threshold for all products except wheat.⁶ In the case of the US, product-specific support for sugar, cotton and peanuts was consistently above five percent of the value of production and up to 35 percent for cotton. Support for sugar, in contrast, has been consistently above 40 percent and up to 65% of the value of production in certain years. All three products are important for African countries. Japan’s product-specific support appears to be concentrated on four main agricultural product groups, with sugar, beef and veal, and meat of swine consistently between 20% and 60% of the value of production in the 2008-2014 period. Like the EU, Canada’s product-specific support seems to represent a downward trend for the years notified, with many products now falling below the *de minimis* threshold. In contrast, Switzerland - although a small player on global agricultural markets - had product-specific support levels well above *de minimis* for several products, with support for poultry at around 80% of the value of production, bovine meat at above 60%, and swine meat, tobacco, oilseeds and sugar beet all above 30%. Product specific support for beef, pork and poultry has however been eliminated in recent years.

According to their most recent WTO notifications, developing countries’ product-specific support levels are still some way below the *de minimis* ceiling, although delays in notification mean that this data may be quite out of date in some cases. Figures reported by the governments of China, Brazil and South Korea indicate that product-specific support fell below the *de minimis* threshold for all products in the most recent year for which data is available. In the case of China, product-specific support was below 3% of the value of production for products benefitting from this type of support, although data is not yet available for years after 2010.

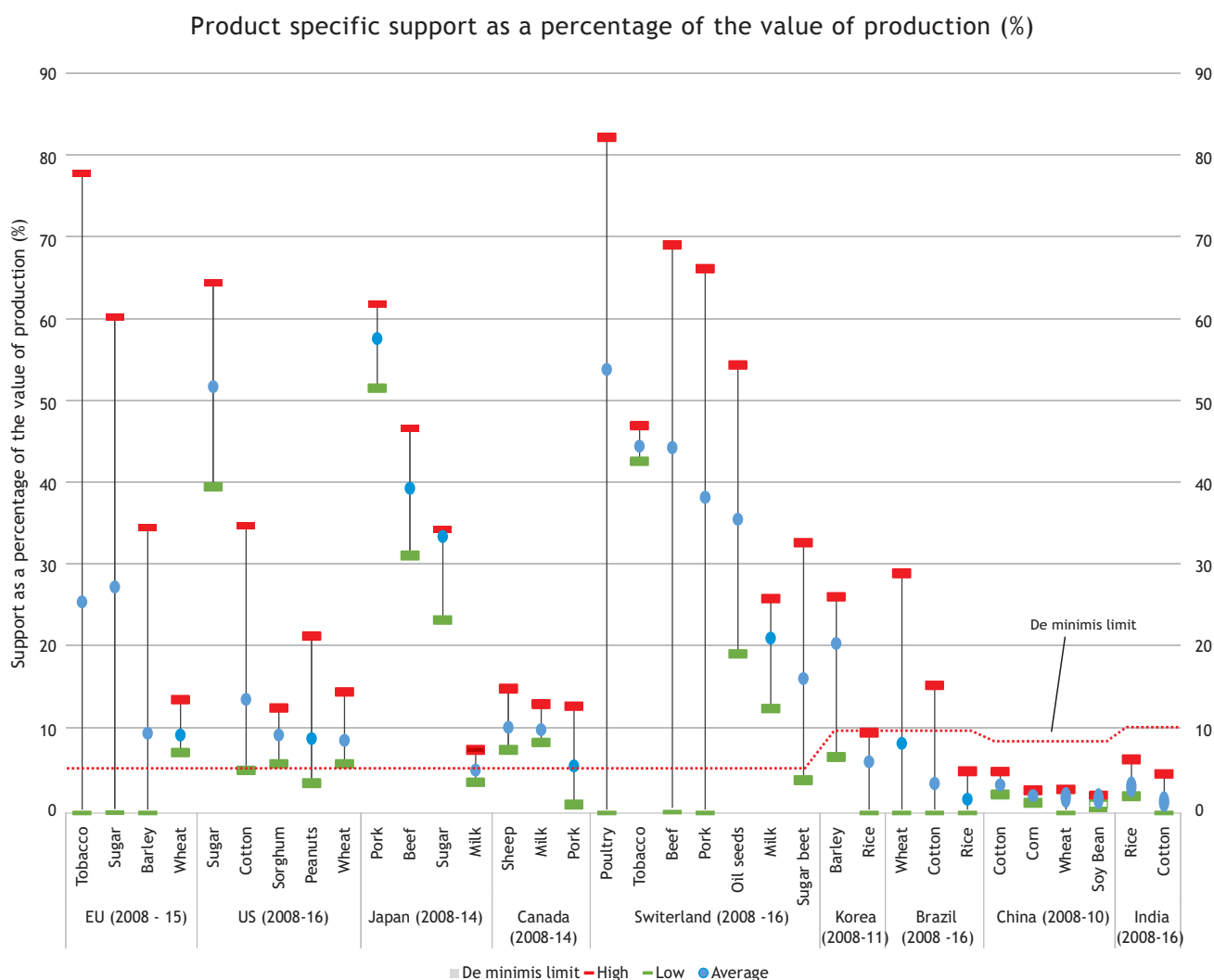
Besides intensity, another metric can give a different sense of the extent to which product-specific support is concentrated on a few products, namely the share of product-specific support in total trade-distorting support. Using the same type of representation, figure 6 provides an overview of product specific support expressed as a percentage of total non-green box support.⁷ The most recent data reported by governments to the WTO indicates that, in the EU, product-specific support for dairy has represented on average 34 percent of all trade-distorting support, with wheat at around 16 percent. Similar data for the US indicates that dairy support has mostly been over 20 percent before it was eliminated in 2015. Corn has been oscillating between 13 and 21 percent of all trade distorting support, wheat between 5 and 12 percent and cotton between 3 and almost 9 percent. In Japan, product-specific support for meat of swine and for beef and veal has represented around a third and a quarter of all trade-distorting support respectively. Canada’s product-specific support for milk has mostly been around 20 percent of all trade-distorting support, but increased to nearly 27 percent in 2014, the most recent year for which data is available.

5 Significant delays in reporting data to the WTO hamper efforts to produce accurate analysis of support in recent years.

6 Product specific support for dairy remains also consistently above the 5% *de minimis* limit but is not shown in this graph because the EU does not notify the value of production for such products.

7 The calculation of non-green box support includes product specific support, non-product specific support, blue box measures and support provided under AoA article 6.2.

Figure 5: Product specific support intensity in selected WTO members since 2008

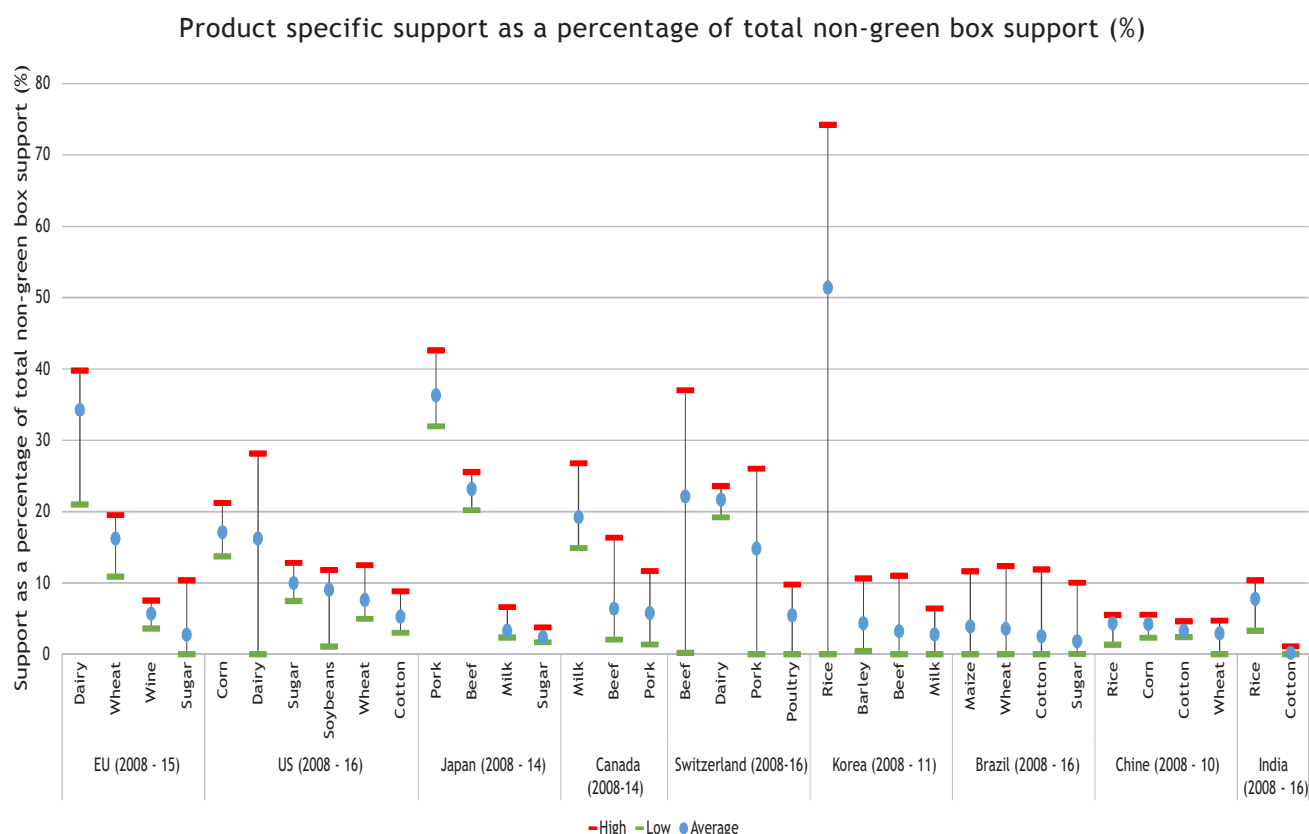


Source: Authors' elaboration based on WTO notification

While the most recent available data for Brazil and China indicate that product-specific support represents less than five percent of total trade-distorting support for most products, data for Korea from 2011 suggests that this type of support for rice was as high as 74% of the total.

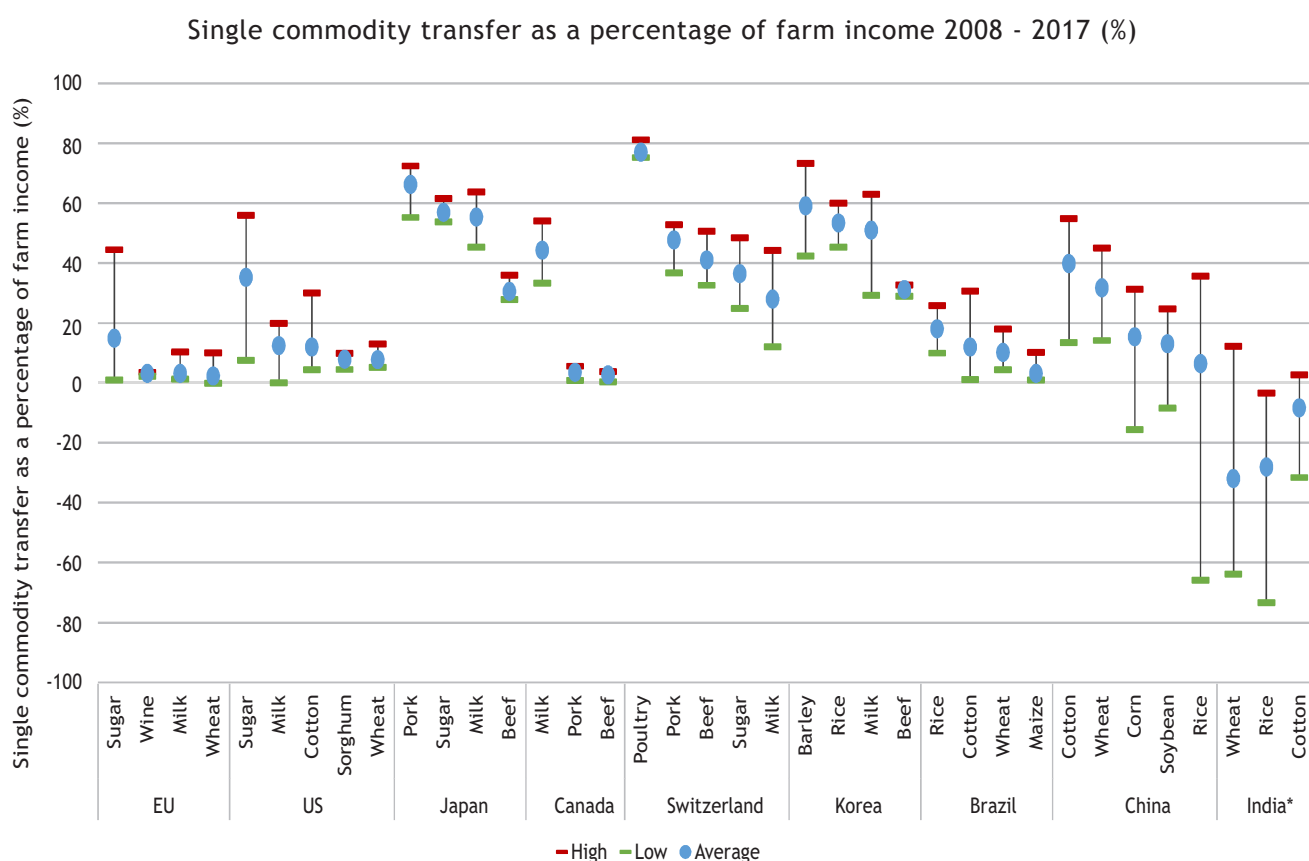
A third way to analyse product specific support consists in looking at the share of farm income that is accounted for by product specific support. The OECD data on single commodity transfer calculates this share for all OECD countries and a few emerging economies. The method used by the OECD differs however slightly from the WTO approach, by focusing more on measuring the distorting effect of different government measures including tariff protection: as such, it cannot be directly compared with the results provided above. The main advantage however consists in the fact that the OECD provides a consistent set of data up to 2017 for a large number of countries (2016 for India), including those who are delayed in their WTO notification such as Korea or China. Finally, by reflecting the combined effect of different policies, the OECD data arguably provides a more accurate estimate of the trade distorting effect of support policies. Figure 7 shows the percentage of farm income being derived from support policies between 2008 and 2017. In the case of India and to a lesser extent China, the OECD data shows negative levels of support including rice, wheat, cotton or soybeans implying that farmers were taxed rather than subsidized. While this was mostly the case in China up until 2008 - 2009, this situation still largely prevails in the case of India for most commodities.

Figure 6: Product specific support concentration in selected WTO members since 2008



Source: Authors' elaboration based on WTO notification

Figure 7: Product specific support as a share of farm income in selected WTO members since 2008



*Figures for India only cover the 2008-2016 period

Source: Authors' elaboration based on OECD PSE database

8. Conclusion

African countries are expected to become increasingly dependent on imports of agricultural products in coming years, in part as a result of demographic changes and rising average incomes. At the same time, climate change and other pressures are expected to place strains on domestic farm productivity levels and production capacity, with small farmers in remote areas especially vulnerable to shocks associated with extreme weather events in particular. In this context, African countries' exports of key commodities such as cotton or certain fruit, vegetables and nuts may be vulnerable to the effects on global markets of trade-distorting support to producers in other world regions, due to the price-depressing effects this support can have on world markets.

However, the effects of this type of support may also be particularly significant on domestic markets in Africa, especially for certain types of producers in import-competing sectors, and may also have important implications for food security. While domestic production and consumption of maize, other coarse grains, and roots and tubers mostly dwarfs trade in these goods, the situation is different for a number of other staple foods, including wheat and rice, both of which are among the top dozen products most affected by trade distortions. Similarly, African countries' imports of sugar, soybeans and poultry are expected to grow rapidly in the coming decade: the significant levels of trade-distorting support for these farm goods could mean that the impact of projected trends on domestic producers in Africa causes greater disruption to domestic markets than would otherwise be the case.

While government delays in reporting data on trade-distorting support to the WTO mean that available figures are in many cases several years out of date, data on product-specific levels indicate that a number of countries have historically concentrated support on a limited number of farm products - including those of importance to African countries - and that a number of countries furthermore have continued to do so more recently.

Measures to limit the concentration of product-specific support could therefore be a useful complement to other efforts at the WTO aimed at tackling trade distortion, such as an overall cap on trade-distorting support levels - especially if the concerns and priorities of African countries and LDCs are taken into account in determining how these are designed. Fast-tracking action in this area would represent a meaningful contribution that WTO members could make to the achievement of the objectives set out under Sustainable Development Goal 2, and in particular to the commitment to *“correct and prevent trade restrictions and distortions in world agricultural markets”* set out under target SDG 2b.



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Citation: Hepburn, J., and C. Bellmann. 2018. *How Could Africa Be Affected by Product-specific Support for Farm Goods?* Policy Brief. Geneva: International Centre for Trade and Sustainable Development (ICTSD).

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ICTSD is grateful for the support from its core donors including the UK Department for International Development (DFID); the Swedish International Development Cooperation Agency (SIDA); the Ministry of Foreign Affairs of Denmark (Danida); and the Netherlands Directorate-General of Development Cooperation (DGIS).

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ISSN 1817 356X