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Taking Stock and Looking Forward on Domestic Support in Agriculture

Lars Brink and David Orden

Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2019 Annual Meeting: Recent Advances in Applied General Equilibrium Modeling: Relevance and Application to Agricultural Trade Analysis, December 8-10, 2019, Washington, DC.

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Taking Stock and Looking Forward on Domestic Support in Agriculture

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**Presentation of Draft Commissioned Paper
International Agricultural Trade Research Consortium (IATRC)
Annual Meeting
8-10 December 2019, Washington DC**

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Domestic support world is changing

- **WTO Agreement on Agriculture (AoA) dates from 1994**
 - Initial IATRC appraisals: Modest results
 - Continued negotiations under Doha from 2001
 - 2008 milestone: Rev.4 tackled many things but no agreement
 - Later Ministerial meetings: Progress on a few issues; others remain
 - 2011 comprehensive review of domestic support: 8 members
 - Orden, Blandford and Josling (eds.)
- **Levels and types of support have shifted**
 - China and India now report largest amounts
 - Disputes and counter-notifications on China's and India's market price support (MPS)
- **Emerging new policy priorities**
 - Especially climate change but also many other issues

Part of process for paper

- Organized two sessions contributing to preparation of paper
 - WTO Public Forum, Geneva (October)
 - *Emerging Policy Priorities and the Domestic Support Rules*
 - » Hassapoyannes and Blandford; Matthews; Moriani; Kessie
 - IAAE symposium with Nanjing Agr. University (November)
 - *China's Agricultural Policies: Working within the WTO Rules*
 - » Orden and Brink; Xie, Grant and Zhu; Yu

Structure of paper

1. Domestic support in the AoA: Rules and policy space

2. Review econ analysis of green box exemptions and market price support

3. Evolution of domestic support since 1995 among WTO members

4. Implementation of commitments: Review by CoAg

5. Implementation of commitments: Disputes and alternative calculations

6. Domestic support issues under negotiation

7. Emerging policy priorities and domestic support provisions in AoA

8. Conclusions: Possible ways forward

— Presentation focuses on four topics

- Changing domestic support landscape over time**
- Insights from challenges of MPS calculations**
- Accommodation of emerging policy priorities in AoA**
- Key considerations moving forward**

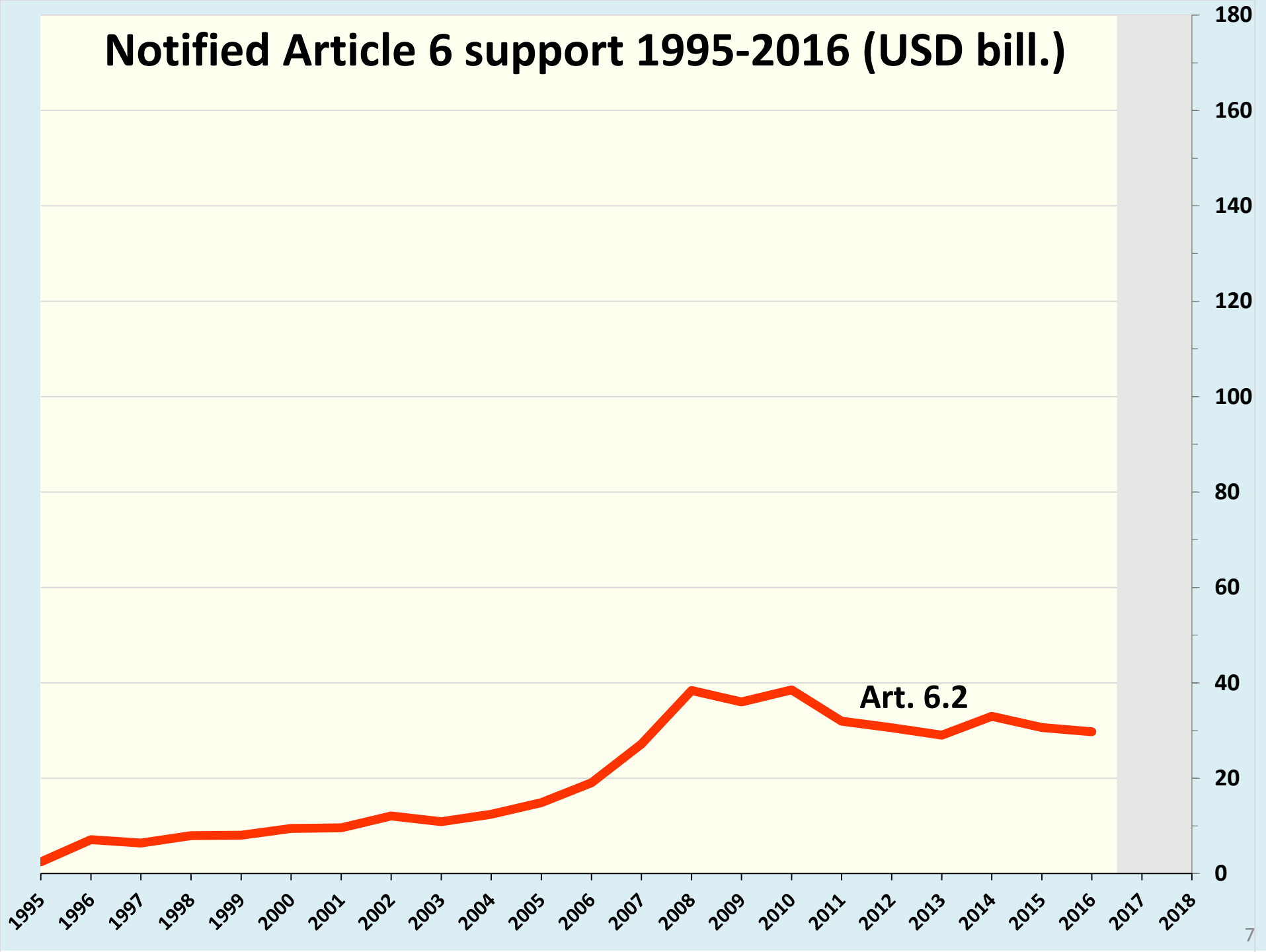
Limits and support notified to WTO CoAg

- **Some – but only some – domestic support is limited**
 - Measurement towards limits differs from economic support
 - Limits are increasing
 - Most limits are a percentage of values of production (VOP)
 - Most nominal VOPs are increasing
- **Support is increasing: Trend from around 2002**
 - Nominal amounts
 - USD 563 bill. in 2016: sum of limited and unlimited notified support
- **Support is concentrated among only few members**
 - 5 members accounted for 92% of all notified support in 2016
 - China, United States, EU, India, Japan
 - Many other members' notifications missing for recent years
 - Missing notifications will not change this predominance

Composition of support has changed

- Article 6 support (all support other than green box)
 - Art. 6.2 exemption rising from 2003: Now significant
 - 25% of all Art. 6 support in 2016; India's input subsidies dominate

Notified Article 6 support 1995-2016 (USD bill.)



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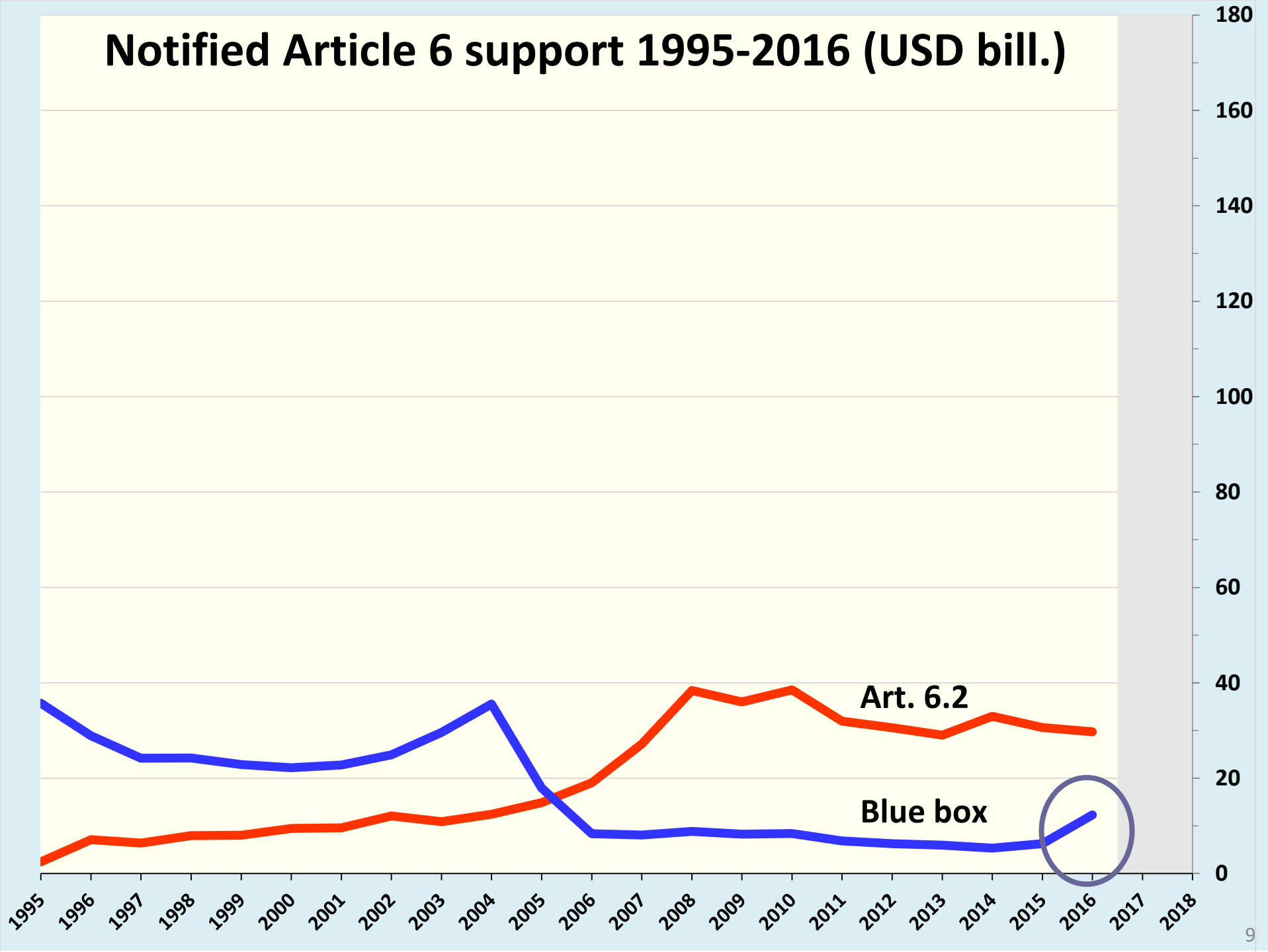
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- Forward-looking question: might US 2019 MFP be claimed as blue?

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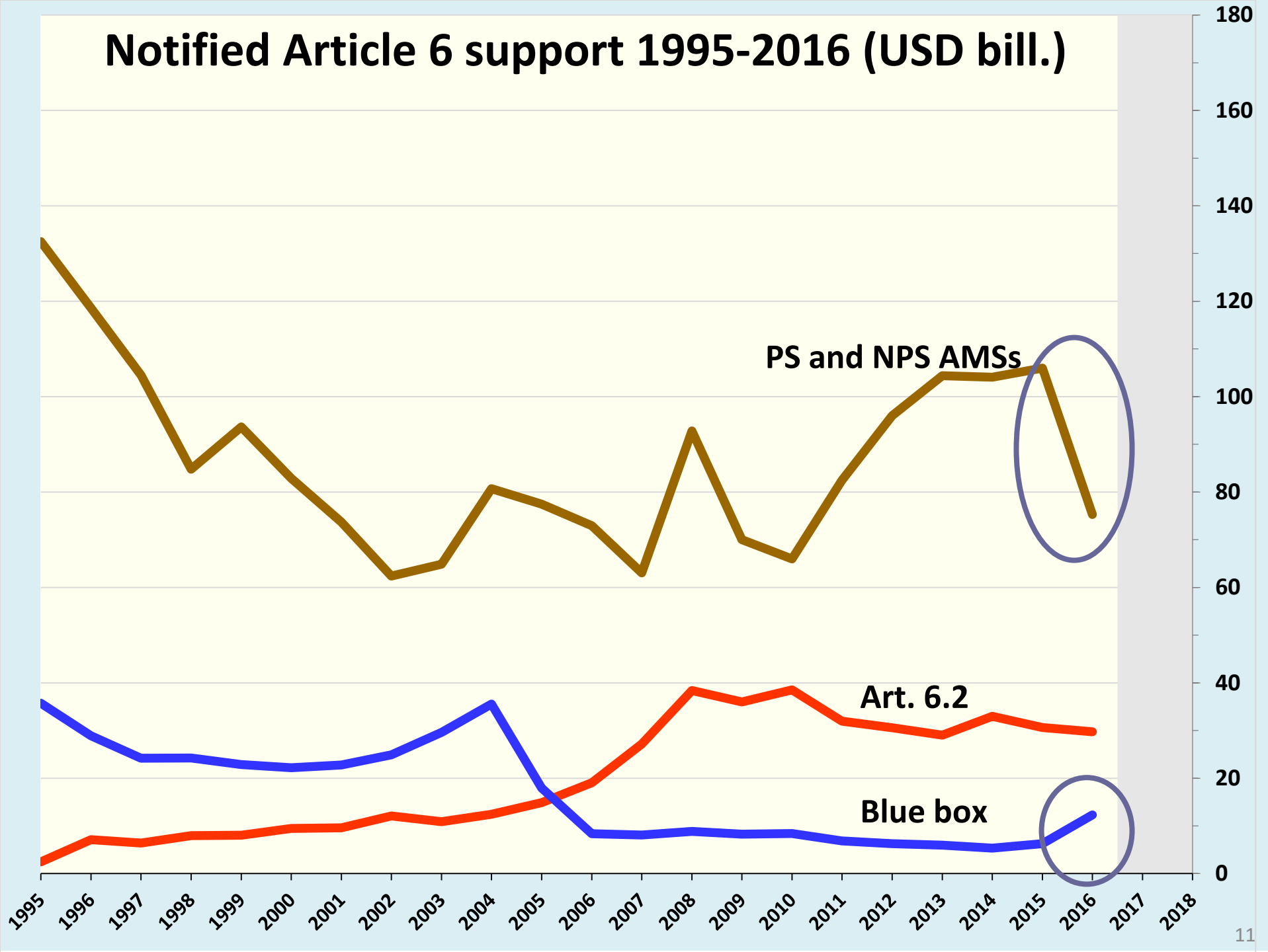
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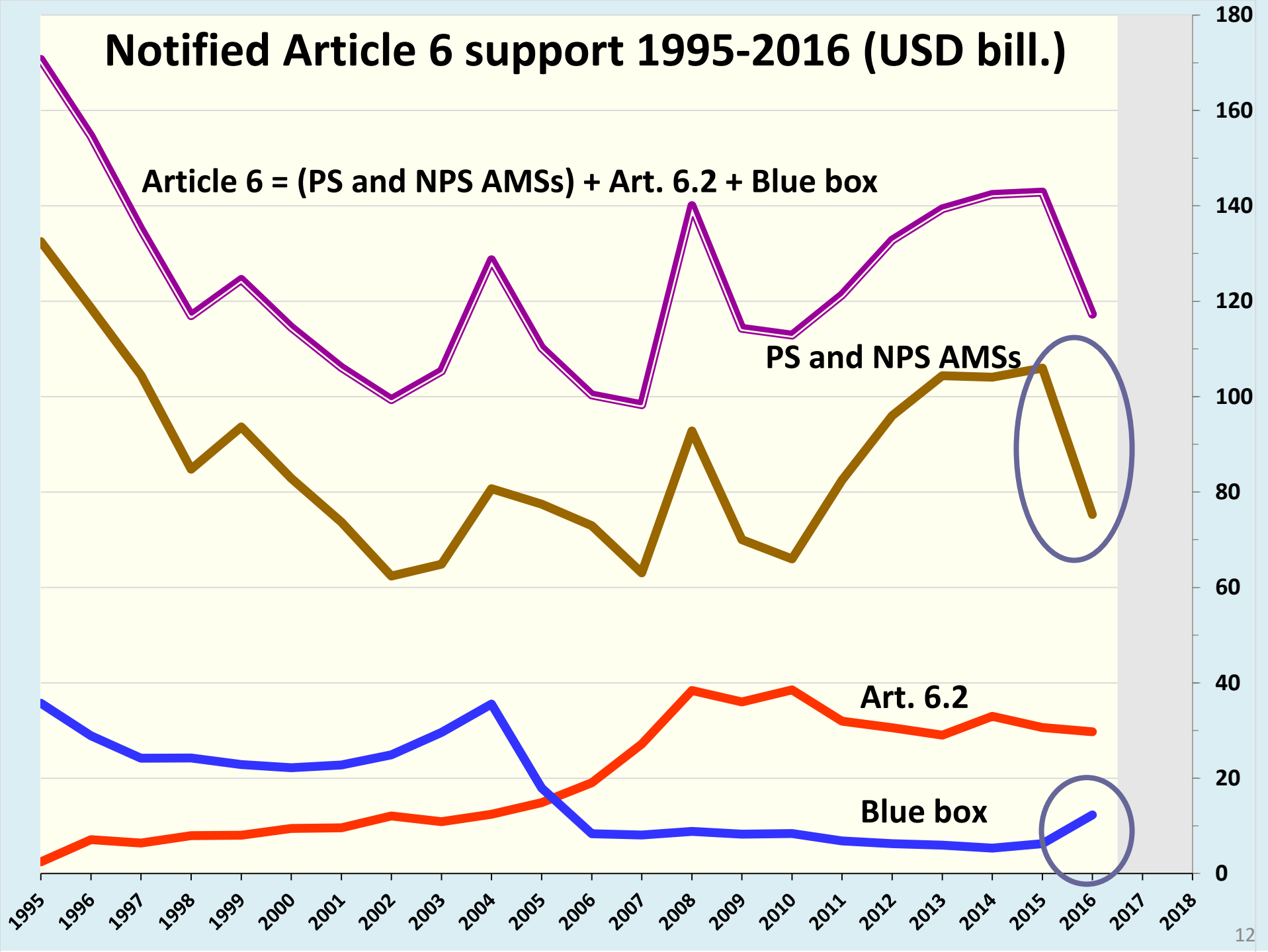
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 - Summed to USD 75 bill. in 2016 for all notifying members
 - China's USD 23 bill. in 2016 was largest AMS support of a single member even after a large decline from 2015

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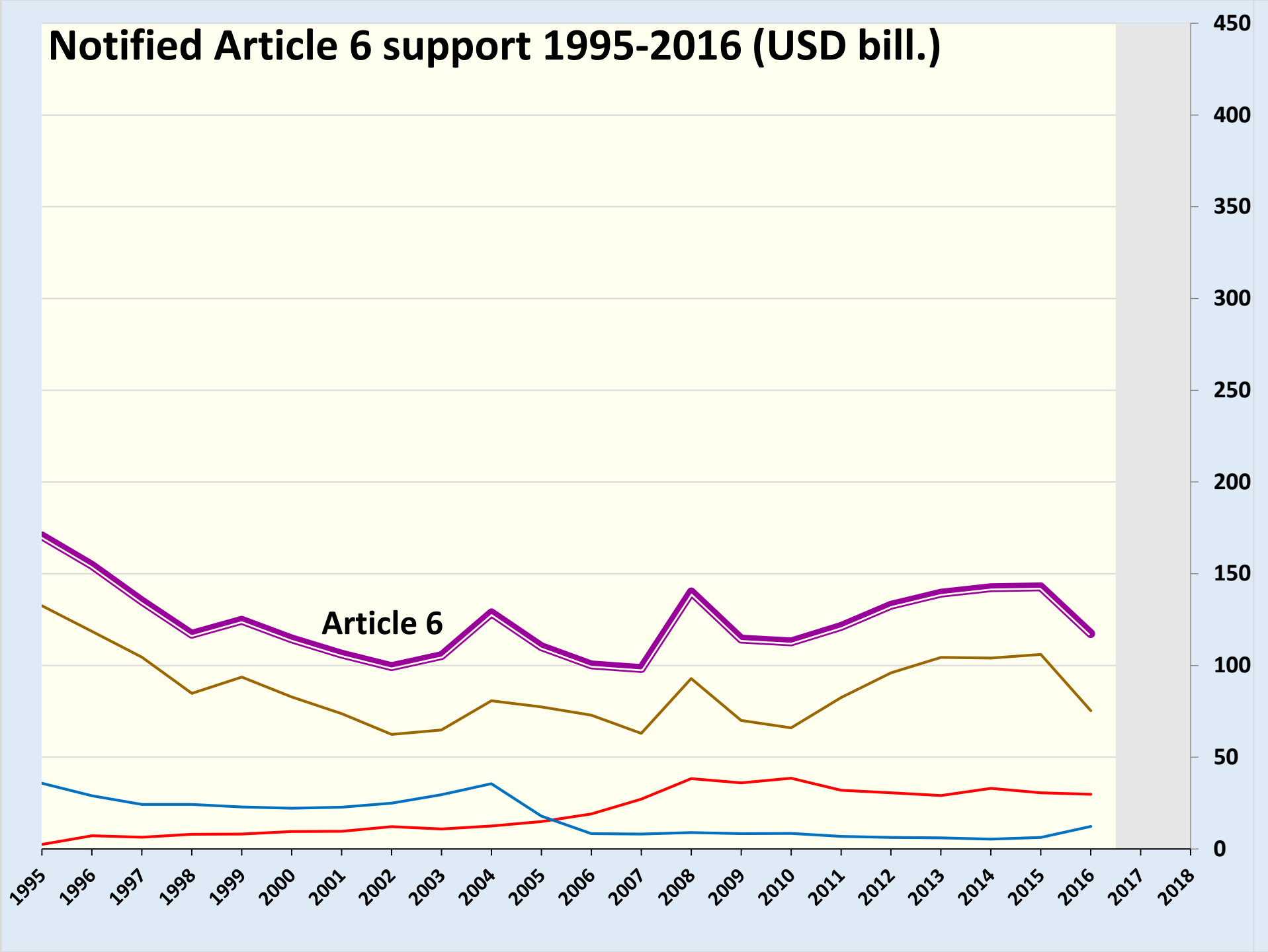
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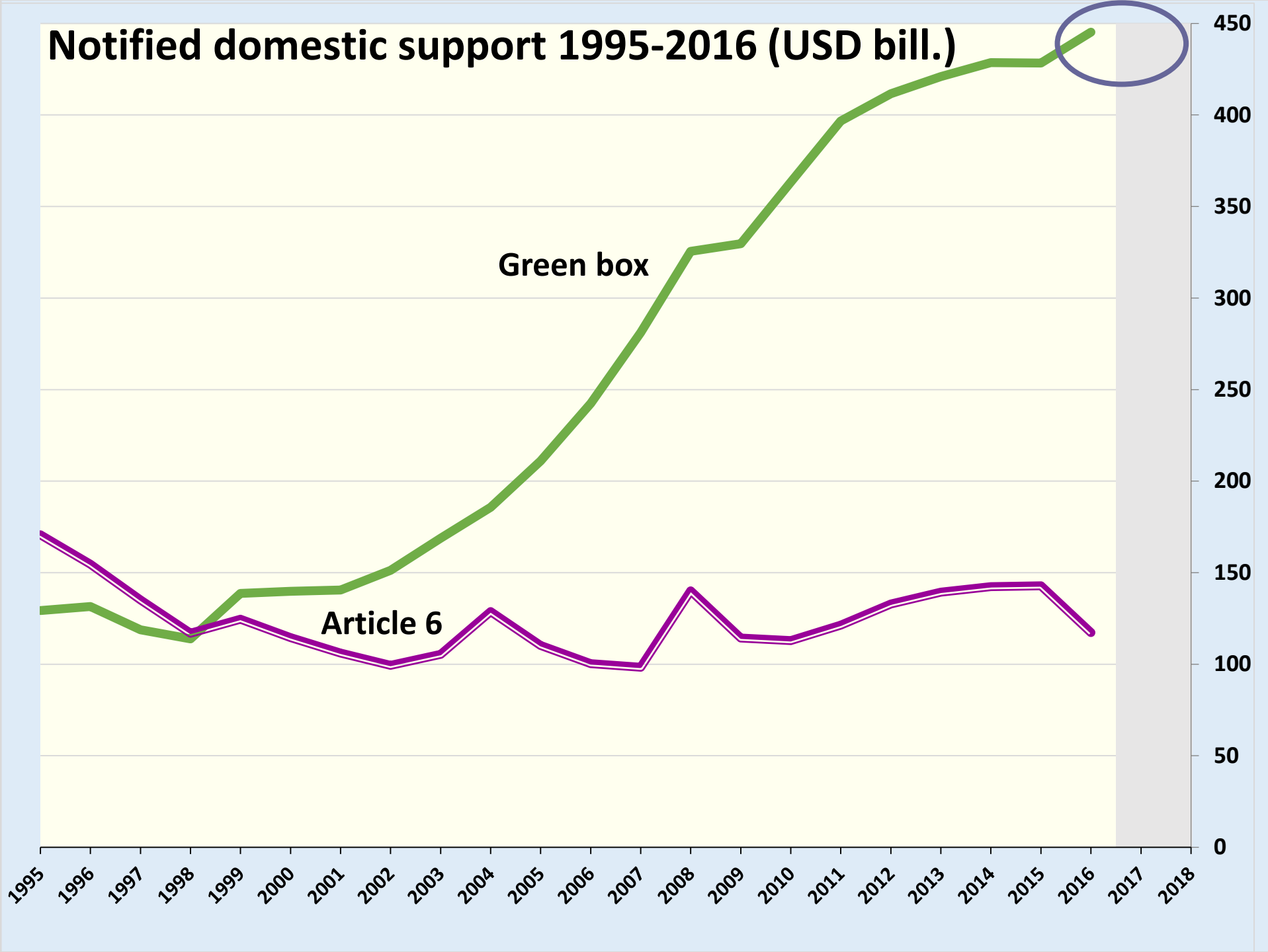
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- **Green box (Annex 2): Rapid increase from 2002**
 - EU and China direct payments to producers (income, env., regional)
 - US domestic food aid; China general services (infrastructure)

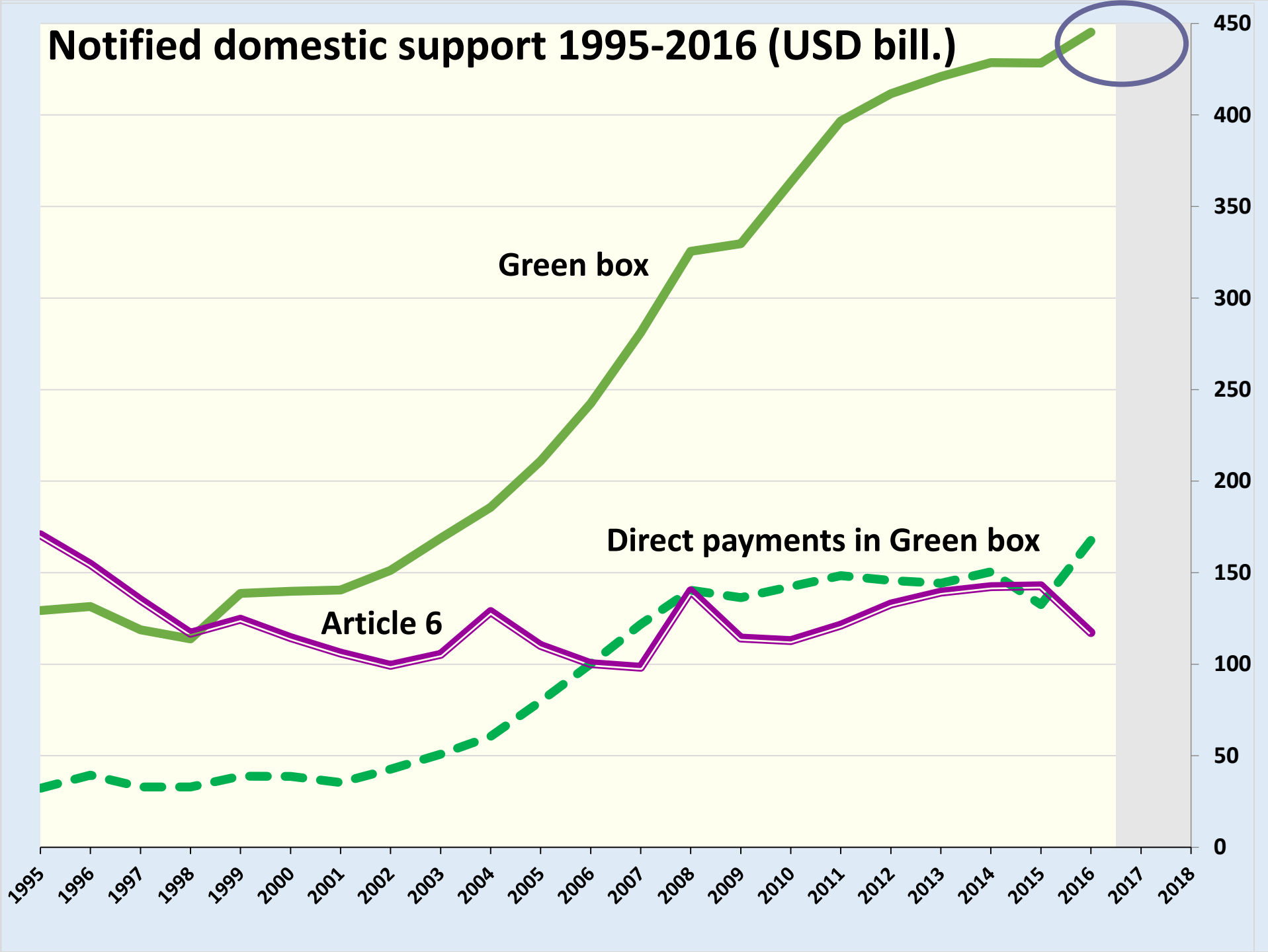
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Measuring and using WTO MPS

- Experience of two disputes, one more underway
 - Korea (2000), China (2019), India (Panel composed)
 - Highlights role of two policy variables and a constant
 - Eligible production
 - Applied administered price
 - Fixed external reference price FERP
- Also views from Art. 18.7 counter-notifications on India
- MPS is part of a product's AMS
 - Limits on AMSs: 8.5% (China); 10% (India) of product's VOP
- WTO limits may help constrain economic price support

Negotiated method to calculate WTO MPS

- $WTO\ MPS_t = [Applied\ Admin\ Price_t - FERP_{fixed\ years}] \times [Eligible\ Production_t]$
 - Each element of WTO method differs from economic method
- Eliminate administered price and WTO MPS disappears
 - Even if nothing changes in producers' market circumstances
- Reference price FERP lags current prices by many years
 - Price gap differs from opportunity cost in world markets
- Eligible production can be capped by policy decision
 - Lower quantity than total production gives lower WTO MPS
 - Interpretation of dispute rulings: *Korea-Various Measures on Beef* and *China-Agricultural Producers*

US-China dispute on WTO MPS for grains

China-Agricultural Producers DS511

- Rising economic price support in 2012-2015
 - Wheat, Indica rice, Japonica rice and corn
- US claim: WTO MPS for each crop exceeded 8.5% of its VOP
- Panel ruling in April 2019; compliance by 31 March 2020
- Panel found:
 - Eligible prod'n: all prod'n in provinces where program operated
 - Panel saw no evidence of quantitative limits on procurement at AAP
 - FERP: use 1996-98 as in accession documents
 - Contrary to AoA stipulation of 1986-88
 - MPS exceeded 8.5% of VOP in all years: wheat and rice
 - MPSs between 21% and 32% of VOP in 2015
 - Corn: price support terminated in 2016, Panel declined to rule

WTO rules help curb economic support

- China reduced support prices between 2015 and 2019
 - Wheat ↓ 5%; not enough by itself to bring MPS within limit
 - Indica rice ↓ 9-11%; not enough by itself to bring MPS within limit
 - Japonica rice ↓ 16%; likely enough to bring MPS within limit
- China set cap on quantity to be procured at support price
 - Wheat: cap of 37 mill. tonnes for 2020 announced 12 October 2019
 - More than procured in latest 8 years (29.5 mill. tonnes in 2016)
 - Indica rice: will need to cap eligible production (procurement)
 - Can be larger than past procurement quantities
- Combined policy settings make China's $MPS \leq 8.5\%$ of VOP
 - Domestic prices still likely to exceed international prices
 - Important role of border measures, e.g., TRQ administration

India's MPS: Different context and issues

- India's notifications: MPS within 10% limits or nil
- Counter-notifications: wheat, rice, cotton, sugarcane, pulses
 - Submitted by United States, Australia, Canada
 - Large positive WTO price gaps => MPS much larger than limits
 - Wheat and rice: making $MPS \leq 10\%$ of VOP would require larger than 60% cuts in support prices or setting caps on eligible production below past procurements
 - Cotton, sugarcane, pulses: MPS between 47% and 100% of VOP
 - Economic price gaps have been negative for many products
- Ongoing disputes on excess support for sugarcane
 - Initiated by Australia, Brazil, Guatemala
 - Economic price gap: positive and much larger in recent years

Emerging policy priorities and the AoA

- **AoA objective: prevent and correct distortions in world agricultural markets**
 - “having regard to” food security and protecting environment
 - Recognizes, e.g., productivity growth, farm income, regional dev’t
- **Stronger profile now for certain policy priorities**
 - **Some formally articulated and also others**
 - Paris Agreement on climate change; UN Sustainable Development
 - » Climate change mitigation and adaptation; Zero hunger
 - Generally: Sustainable use of land, water and biodiversity resources
 - » Such as ecosystem services, water management, biosecurity
- **AoA accommodates support for most (all?) priorities**
 - General services, green box payments, room within AMSs

Climate change: Overriding policy concern

- Climate change policies directly involve agriculture
 - Highlighted in our IATRC session at WTO 2019 Public Forum
 - Recall AoA: domestic support “in favour of agricultural producers”
- Support producer adaptation to climate change
 - Motivation and responses can be same as for other support
 - Response can take form of lack of adaptation or “maladaptation”
 - Larger crop insurance subsidy => Producer chooses same crops as before
- Pay producers to mitigate climate change
 - Shift land and livestock practices: cuts gases and sequesters carbon
 - Revenue stream for mitigation performance
 - Similar to payments for environmental performance
 - Green box env. criteria may accommodate payments for mitigation

Way forward: Change what matters most

- **Context now is different from Uruguay Round**
 - Ministers of finance, trade, agriculture are not in crisis mode
 - But claims of excessive support are finding traction
 - AoA rules and commitments are out of date
 - Trade negotiating practices and WTO itself are under stress
 - China and India are major actors supporting agr. producers
- **Very few high-support members, such as five or ten**
 - Use as opportunity to agree on change with the most impact
 - Make small number tighten their rules and commitments
 - Changes for all other members can be more generous
- **Changes to take effect only with some years' delay**
 - No need to change today's policies immediately: more palatable

Way forward: Key considerations

- Consider trade-offs in updating AoA
 - Art. 6.2 and blue box to face limit and BTAMS to decline to nil
 - Make direct payments in green box subject to limit?
 - Rationalize several dimensions of MPS
 - E.g., ERP to be moving average and eligible production to make economic sense and calculate only if there is positive economic MPS
- Climate change is crucial among emerging priorities
 - Producer payments support adaptation to climate change
 - Exempt from limits only if green box compliant
 - Producer payments result in mitigation of climate change
 - Not likely to be an incentive to produce agricultural products
 - Clearer criteria for performance-based payments may be warranted
 - » In future: pay producer for measured mitigation performance?

A photograph of a gravel path winding through a dense green forest. The path is light-colored and leads into the distance, surrounded by lush green trees and foliage. The scene is captured from a low angle, looking down the path.

Thank you!

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