

Chapter 2

Domestic Support Under Agreement on Agriculture

2.1 Introduction

The Agreement on Agriculture (AoA) was an outcome of the Uruguay Round of multilateral trade negotiations. Its long-term objective is to establish a fair and market-oriented agricultural trading system. The three main pillars of this agreement are market access, domestic support, and export competition. Within market access, the AoA has specific provisions related to tariff, tariff quota and special safeguards. Provisions related to the Green Box, Amber Box, Blue Box, de minimis limit are covered under domestic support. The third pillar, that is, export competition, has rules related to export subsidies, anti-circumvention, food aid and export credits. All these provisions along with each member's specific commitments to tariffs, domestic support and export subsidies are disciplining the agricultural trade of the WTO member countries. Besides the above rules, the AoA has provisions related to special and differential treatment for developing countries, and non-trade concerns like food security.

2.2 Domestic Support to the Agriculture Sector

Many countries are implementing programmes and schemes for the development of agriculture. Programmes such as price support and input subsidies are trade-distorting support due to their links with current production and prices. However, there are various other programmes such as research, pest management and extension services, etc., which are considered to have minimal direct effect on production or trade. Based on the differential impact in terms of trade distortion, various domestic support programmes are categorised as Amber, Blue and Green Box.

Table 2.1 Membership of selected countries to the WTO

S. no.	Country	Membership of the WTO
1	China	11 December 2001
2	Egypt	30 June 1995 (GATT: 9 May 1970)
3	India	1 January 1995 (GATT: 8 July 1948)
4	Indonesia	1 January 1995 (GATT: 24 February 1950)
5	Jordan	11 April 2000
6	Kenya	1 January 1995 (GATT: 5 February 1964)
7	Morocco	1 January 1995 (GATT: 17 June 1987)
8	Pakistan	1 January 1995 (GATT: 30 July 1948)
9	Tunisia	29 March 1995 (GATT: 29 August 1990)
10	Turkey	26 March 1995 (GATT: 17 October 1951)
11	Zambia	1 January 1995 (GATT: 10 February 1982)
12	Zimbabwe	5 March 1995 (GATT: 11 July 1948)
13	USA	1 January 1995 (GATT: 1 January 1948)
14	EU	1 January 1995
15	Japan	1 January 1995 (GATT: 10 September 1955)

Source WTO (https://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)

Annual notifications of the WTO members to the Committee on Agriculture (CoA) provide an invaluable source of data on domestic support. Except China and Jordan, all other selected countries are founder members of the WTO. Jordan and China joined the WTO in 2000 and 2001 respectively (Table 2.1). Domestic support in selected countries under different boxes is explained in the following sub-sections.

2.2.1 *Green Box*

To be classified under the Green Box, domestic support measures should meet the fundamental requirement of having minimal impact on trade and production. There is no financial limitation for the Green Box under the AoA. All the measures under Green Box shall be provided through a publicly funded government programme not involving transfer from consumer, and it shall not have the effect of providing price support to producers. Besides, policy-specific criteria and conditions given in Annex 2, Paras 2–13 of AoA have to be complied with. The Green Box support includes the measures related to (1) general services such as research, pest and disease control, training, extension/advisory services, inspection, marketing and promotion, and infrastructural services; (2) public stockholding for food security purposes; (3) domestic food aid; and (4) direct payments, including decoupled income support, income insurance and income safety-net, relief from natural disasters, structural adjustment assistance, environmental programmes and regional assistance programmes (WTO 2002).

Table 2.2 Green Box support in selected countries

Country	Year	Currency/unit	Green Box	Green Box component (%)			
				General services	Public stockholding for food security purposes	Domestic food aid	Direct payments
China	2008	Million yuan	593,015	59.9	9.8	0.0	30.3
Egypt	1998	Thousand US \$	1297	100.0	0.0	0.0	0.0
India	2010	Million US \$	19,479	5.8	70.9	0.0	23.3
Indonesia	2011	Billion rupiah	31,247	39.8	6.9	52.9	0.4
Jordan	2010	Million dinar	121	22.2	0.0	77.8	0.0
Kenya	1996	Million shilling	3791	89.5	10.6	0.0	0.0
Morocco	2007	Million dirham	6046	6.1	0.0	82.0	11.8
Pakistan	2012	Million US \$	265	100.0	0.0	0.0	0.0
Tunisia	2009	Million dinar	66	84.7	0.0	0.0	15.3
Turkey	2001	Million US \$	0	0.0	0.0	0.0	0.0
Zambia	2012	Million Kawacha	685,641	56.3	43.8	0.0	0.0
Zimbabwe	1999	Thousand Zimbabwe \$	404,172	57.7	0.0	0.0	42.3
USA	2012	Million US \$	127,441	8.0	0.0	83.8	8.2
EU	2011	Million euro	70,977	12.9	0.0	1.4	85.7
Japan	2012	Billion yen	1877	71.3	1.3	0.1	27.4

Source Domestic support notifications submitted by selected members to the WTO

Table 2.2 provides information about the Green Box support in selected countries based on recent domestic support notifications submitted to the WTO. USA spent US\$127.44 billion in 2012 on Green Box support. Out of the said amount, US \$106.78 million were spent on domestic food aid, which accounted for 83.79 % of the total Green Box support in 2012. Similarly, EU and Japan are also spending huge amounts under different components of the Green Box. Among developing countries, India, Indonesia, Jordan, Morocco and Zambia have spent significant portions of the Green Box support either on public stockholding for food security purposes or domestic food aid.

Though the Green Box support should have “no or at most minimal” trade distorting effect, some programmes under the Green Box, especially decoupled programmes do distort agricultural trade by affecting the wealth or risk behaviour of the producer or reducing costs of production or increasing productivity or acting as an insurance. A study by UNCTAD (2007) concluded that the Green Box support in the USA, European Union and Japan do in fact distort agricultural trade as

programmes under this Box are not fully decoupled. A review of the Green Box support under the AoA is one of the important issues in the Doha Round negotiations.

2.2.2 *Blue Box*

While the Green Box payments are decoupled from both prices and production, payments under the Blue Box can be directly related to current production but with a condition of production limitation. Payments under production-limiting programmes are exempt from reduction commitments if these are based on fixed area and yield or are made on less than 85 % of the base level of production or livestock payments made on a fixed number of heads. Examples of Blue Box support include EU's per hectare compensatory payments for producers of maize based on regional base areas and Japan's rice-farming income stabilisation programme. These payments are assumed to be less trade distorting than the Amber Box due to the condition of production limitation under Article 6.5 of the AoA. It is important to note that any member of the WTO can provide Blue Box support without any limit. However, given the socio-economic situation prevailing in developing countries and the level of agricultural development, this Box is not very helpful for developing countries to provide support to farmers through a production-limiting programme as they are in need of expanding and not limiting their production (Konandreas and George 2014). Among the developed countries, EU, Japan and Norway are currently using the Blue Box to support the agriculture sector (Table 2.3).

2.2.3 *Amber Box*

Amber Box or Aggregate Measurement of Support is defined as the annual level of support in monetary terms extended to the agriculture sector excluding the support under exempted measures. In other words, any domestic support measure to agriculture sector that cannot be included in the Green Box, Blue Box or development programmes (Article 6.2) comes under Amber Box.

Table 2.3 Blue Box support in selected countries

Region	Year	Currency	Value
EU	2011	Million euro	2981.1
Japan	2012	Billion yen	155.2
Norway	2012	Million krone	4744.0

Source Domestic support notifications submitted by selected members to the WTO

During the Uruguay Round, Contracting Parties submitted information about domestic support for the base period (1986–88). If trade-distorting support was higher than the de minimis limit, it became the base total aggregate measurement of support (AMS). In such a case, the member country was required to reduce the base total AMS during the implementation period. Members, who joined or were about to join the WTO after 1995, also had to follow a similar approach but the base period was more recent. The commitments are expressed in terms of total AMS, annual and final bound commitment levels (Article 6.1). Base total AMS is the sum of all trade-distorting domestic support provided in favour of agricultural producers during the base period (1986–88). Annual bound total AMS is the maximum level of support a member can provide during any year of the implementation period. Final bound total AMS is the maximum level of support a member can provide in the last year of the implementation period and thereafter (WTO 2015). Table 2.4 provides information about selected members' schedule of commitments related to domestic support to the agriculture sector. Except Jordan and China, the base period for other selected countries is 1986–88.

Due to the fact that China and Jordan joined the WTO after 1995, the base period for these countries is 1996–98 and 1994–96, respectively. Some of the selected countries have given detailed information about domestic support during the base period. However, no detailed information is available for Egypt and Kenya in their schedule of commitments related to domestic support to the agriculture sector. Some members had submitted their schedule of commitments in US dollars, while other selected countries submitted it in their local currency.

The calculation and provisions related to the Amber Box is provided in Article 6, and Annexes 3 and 4 to the AoA. The Amber Box support provided to farmers include (1) non-product specific support such as those provided for irrigation, electricity, credit, fertilisers, seeds, etc. and (2) product specific support such as price support. A member is not required to include product specific and non-product specific support under the Amber Box if it is below the de minimis limit. The de minimis limit is the minimal amount of domestic support, that is, allowed even though it distorts trade. The de minimis limit for product specific support is fixed at 5 % (developed member) and 10 % (developing member) of that member's total value of production of a basic agricultural product during the relevant year (Article 6.4). In case of non-product specific support, the de minimis limit is fixed at 5 % (developed member) and 10 % (developing member) of that member's total agricultural production. The Amber Box subsidies are considered to be trade distorting and are subject to progressive reduction from the base year 1986–88 level. Domestic support exceeding the de minimis limit in the base year 1986–88 was to be reduced by 13.3 % for developing countries and 20 % for developed countries over an implementation period of six years for developed countries and ten years for developing countries. The domestic support reduction commitment of each member is contained in Part IV of its Schedule of Commitments. A member is considered to be in compliance with its domestic support commitments in a specific

Table 2.4 Selected members' schedule of commitments related to domestic support to the agriculture sector

S. no.	Country	Symbol	Period	Currency in schedule	Fixed ERP	Detailed information about domestic support	Issue date
1	China	WT/ACC/CHN/38/Rev.3	1996-98	Yuan	Yes	Yes	19 July 2001
2	Egypt	G/AG/AGST/EGY	1986-88	Not mentioned	No	No subsidy maintained	Uruguay round
3	India	G/AG/AGST/IND	1986-88	Rupee	Yes	Yes	Uruguay round
4	Indonesia	G/AG/AGST/IDN	1986-88	Rupiah	No	Green Box support information only	Uruguay round
5	Jordan	WT/ACC/SPEC/JOR/2/Rev.3	1994-96	Jordanian dinar	Yes	Yes	01 Dec 1999
6	Kenya	G/AG/AGST/KEN	1986-88	Not mentioned	No	No	Uruguay round
7	Morocco	G/AG/AGST/MAR	1986-88	Moroccan dirham	Yes	Yes	Uruguay round
8	Pakistan	G/AG/AGST/PAK	1986-88	Rupee	Yes	Yes	Uruguay round
9	Tunisia	G/AG/AGST/TUN	1986-88	Tunisian dinar	Yes	Yes	Uruguay round
10	Turkey	G/AG/AGST/TUR	1986-88	Turkish lira	Yes	Yes	Uruguay round
11	Zambia	G/AG/AGST/ZMB	1986-88	Kwacha	No	Green Box support information only	Uruguay round
12	Zimbabwe	G/AG/AGST/ZWE	1986-88	Not mentioned	No	Green Box support information only	Uruguay round
13	USA	G/AG/AGST/USA	1986-88	US\$	Yes	Yes	Uruguay Round
14	EU	G/AG/AGST/EEC	1986-88	ECU	Yes	Yes	Uruguay Round
15	Japan	G/AG/AGST/BRA	1986-88	Yen	Yes	Yes	Uruguay Round

Source Supporting tables relating to commitments on agricultural products in Part IV of the Schedules

year if the current total AMS does not exceed the corresponding annual or final bound commitment level (Article 6.3). Where no total AMS exists in Part IV of a member's schedule, the member shall not provide support to agricultural producers in excess of the de minimis limit (Article 7.2b). Article 6.2 contains a few exemptions to Amber Box for the developing countries. All the direct or indirect government support provided to encourage agricultural and rural development, investment subsidies and agricultural input subsidies provided to low-income or resource-poor farmers in developing countries are exempted from the reduction commitments. Reduction commitments are applicable only at the aggregate level and not at the product specific level. Provided a member's current total AMS is within its commitment level, a member can redistribute support between different products.

Based on information given in members' schedule of commitments related to domestic support, the final bound AMS or maximum cap for selected countries is given in Table 2.5. China, Egypt, India, Indonesia, Kenya, Pakistan, Turkey, Zambia and Zimbabwe had not given AMS support during the base period and therefore, the maximum cap for the Amber Box support for these countries is the de minimis limit. Since Jordan, Morocco, Tunisia, USA, Japan and EU provided Amber Box support above the de minimis limit during the base period, the base total AMS was positive for these countries. Base total AMS was reduced as per the provisions of the AoA during the implementation period which resulted in final bound AMS for these countries.

Table 2.5 Final bound AMS or maximum cap for Amber Box

S. no.	Country	Final bound AMS/maximum cap
1	China	De minimis
2	Egypt	De minimis
3	India	De minimis
4	Indonesia	De minimis
5	Jordan	1,333,973.0 dinar
6	Kenya	De minimis
7	Morocco	685.0 Dirham million
8	Pakistan	De minimis
9	Tunisia	59.3 Dinar millions
10	Turkey	De minimis
11	Zambia	De minimis
12	Zimbabwe	De minimis
13	USA	US\$19103.3 million
14	EU	67.2 billion euro
15	Japan	3972.9 billion yen

Source Domestic support notifications submitted by selected members to the WTO

Table 2.6 Comparison of final bound AMS in selected countries

Country	Currency	Final bound AMS in local currency	Final bound AMS in million US\$ (2012)
Jordan	Dinar	1,333,973.0	1.9
Morocco	Dirham million	685.0	79.4
Tunisia	Dinar million	59.3	38.0
USA	US\$ million	19,103.3	19,103.3
EU	Euro billion	67.2	86,153.8
Japan	Yen billion	3972.9	49,792.0

Source Domestic support notifications submitted by selected members to the WTO

In other words, those countries that were not distorting trade during the base period were penalised, whereas other countries were rewarded with high Amber Box cap due to the fact that these countries were distorting agricultural trade during the base period. Though Jordan, Morocco and Tunisia have the flexibility of final bound AMS, but in absolute terms, it is not very significant in comparison to the final bound AMS of developed countries (Table 2.6).

Under Article 18.2, all the WTO members have to notify their domestic support to the agriculture sector to the CoA for review. With the exception of the least developed country (LDC) members, others have to annually notify domestic support to agriculture sector. The LDC members are, on the other hand, required to notify every two years. Domestic support notification compliance by selected member countries is given in Table 2.7. Some member countries have notified domestic support to agriculture in US dollars, whereas others have used the local currency to notify domestic support.

For all the selected members except Jordan, the current AMS is below the final bound AMS in recent domestic support notification (Table 2.8). For the years 2009 and 2010, Jordan has submitted domestic support notification with and without considering inflation. While considering inflation, the current AMS of Jordan was below the bound AMS for the years 2009 and 2010.

Table 2.9 shows the different components of domestic support in selected countries. Total domestic support includes Green Box, product specific support, non-product specific support, de minimis, Blue Box and support under Article 6.2. Total domestic support in USA and EU is much higher than the domestic support in other selected countries.

Table 2.7 Notification compliance by selected member countries

S. no.	Country	Notification compliance	Currency in notification
1	China	1999–2008	RMB yuan
2	Egypt	1995–1998	US\$
3	India	1995–2010	US\$
4	Indonesia	1995–2011	Rupiah
5	Jordan	2000–2010	Jordanian dinar
6	Kenya	1995–1996	Kenyan shilling
7	Morocco	1995–2007	Dirham
8	Pakistan	1995–2012	US\$
9	Tunisia	1995–2009	Dinar
10	Turkey	1995–2001	US\$
11	Zambia	1996–2012	Kwacha
12	Zimbabwe	1995–1999	Zimbabwe dollar
13	USA	1995–2012	US\$
14	EU	1995–2011	Euro
15	Japan	1995–2012	Yen

Source Supporting tables relating to commitments on agricultural products in Part IV of the Schedules and Notifications submitted by selected members to the WTO

Table 2.8 Comparison of current AMS and bound AMS in selected countries

S. no.	Country	Year	Currency/unit	Current AMS	Final bound AMS
1	China	2008	Million RMB yuan	De minimis	0.0
2	Egypt	1998	000 US\$	De minimis	0.0
3	India	2010–11	Million US \$	De minimis	0.0
4	Indonesia	2011	Billion Rp	De minimis	0.0
5	Jordan	2010	JD	3,585,308.0	1,333,973.0
6	Kenya	1996	Million K Sh	0.0	0.0
7	Morocco	2007	Million DHs	38.0	685.0
8	Pakistan	2012	Million US \$	De minimis	0.0
9	Tunisia	2009	Million dinar	De minimis	59.3
10	Turkey	2001	Million US \$	De minimis	0.0
11	Zambia	2012	Kawacha	De minimis	0.0
12	Zimbabwe	1999	Thousand Zimbabwe \$	De minimis	0.0
13	USA	2012	Million dollar	6863.3	19,103.3
14	EU	2011	Billion euro	6.9	67.2
15	Japan	2012	Billion yen	608.9	3972.9

Source Domestic support notifications submitted by selected members to the WTO

Table 2.9 Component of domestic support of selected countries (million)

Country	Year	Currency/unit	Green Box	Product specific support	Non-product specific support	Total AMS	Blue Box	Art. 6.2	Total domestic support
China	2008	Mn. yuan	593,015	16,765	78,864	95,628	0	0	688,643
Egypt	1998	Thousand US \$	1297	0	0	0	0	2412	3709
India	2010	Mn. US \$	19,479	2282	0	2282	0	31,610	53,371
Indonesia	2011	Bn. Rp	31,247	0	0	0	0	16,440	47,687
Jordan	2010	Mn. JD	121	18	9	27	0	1	148
Kenya	1996	Mn. KSh	3791	0	0	0	0	0	3791
Morocco	2007	Mn. DHs	6046	38	0	38	0	1868	7952
Pakistan	2012	Mn. US \$	265	647	571	1218	0	0	1483
Tunisia	2009	Mn. dinar	66	54	14	67	0	95	228
Turkey	2001	Mn. US \$	0	274	0	274	0	0	274
Zambia	2012	Mn. Ka	68,5641	0	0	0	0	50,0151	1,185,792
Zimbabwe	1999	Mn. Z \$	404	0	0	0	0	0	404
USA	2012	Mn. US \$	12,7441	11,826	309	12,135	0	0	139,576
EU	2011	Mn. euro	70,977	7170	691	7861	2981	0	81,819
Japan	2012	Bn. yen	1877	653	198	851	155	0	2883

Source Domestic support notifications submitted by selected members to the WTO

Note Bn. = billion, Mn. = million

2.3 Product Specific Support and Food Security

Procurement, public stockholding and distribution are the three main aspects of food security. Annexes 2.3 and 2.4 along with Footnotes 5 and 6 establish a link between the Amber Box and the Green Box. The expenditure related to public stockholding and distribution of foodgrains to poor people is permissible under the Green Box support provided the acquisition price and the external reference price is accounted for in the AMS if the stocks are acquired and released at administered prices. In other words, if a member country is procuring foodgrains at administered prices for food security purposes, then that member has to abide by the provisions of product specific support under the Amber Box. Therefore, the flexibility to procure foodgrains at administered price depends on the policy space available in providing the Amber Box support. As mentioned above, for most of the developing member countries, the Amber Box support, which includes product specific and non-product specific support, is capped by the de minimis limit. Given that the administered price is announced for a specific product, provisions related to product specific support under the AoA are relevant.

Product specific support includes market price support, non-exempt direct payments and other product specific support to the agriculture sector. Market price support is calculated using the difference between an external reference price (ERP) and the applied administered price multiplied by the quantity of production eligible to receive the applied administered price (Annex 3.8). For determination of ERP, Annex 3.9 of the AoA states that it shall be based on the years 1986–1988 and shall generally be the average FOB (free on board) unit value for the basic agricultural product concerned in a net exporting country and the average CIF (cost, insurance and freight) unit value for the basic agricultural product concerned in a net importing country in the base period. ERP may be adjusted for quality differences as necessary (WTO 2002). Therefore, to calculate product specific support, the administered price is compared to the ERP based on 1986–88 prices. This is an illogical methodology as product specific support increases over a period of time if inflation is not considered. The AoA is not completely silent on the impact of inflation on domestic support obligation. Article 18.4 of the AoA states that

In the review process Members shall give due consideration to the influence of excessive rates of inflation on the ability of any Member to abide by its domestic support commitments.

Though Article 18.4 does mention inflation, this flexibility depends on the decision of members of the WTO during the review process. A country may need to seek endorsement from CoA in various years which could lead to unpredictability.

Overall, very limited Amber Box support flexibility in comparison to that for developed countries along with illogical methodology to calculate product specific support without considering inflation has curtailed the policy space available for developing countries to implement food security policies through price support.

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