

The agreement on agriculture – domestic support

Background

The Agreement on Agriculture (AoA) reduction commitment includes reductions in domestic support (government-provided support to the agricultural sector). Domestic agricultural support is particularly high in developed countries. In contrast, developing countries generally provide no support to their agricultural sectors due to Structural Adjustment Programme (SAP) commitments, national government policies or lack of means. Because most developing countries declared zero levels of support in the Uruguay Round, even if they had the funds to support agriculture in the future, they would be prohibited from doing so. Of the 60 per cent of WTO members, who reported a base AMS of zero, all are developing countries.¹

ActionAid recommendations

For developing countries, the WTO should:

- Introduce flexibility in the area of domestic support.
- Allow recalculation of their Aggregate Support Measures (AMS) and higher de minimis² allowances.
- Where production is not meeting basic food security needs, remove domestic support ceilings.
- Make effective commitments to assist agricultural productivity and related infrastructure.
- Make a distinction between the protection and support measures used by developed countries that distort world markets and those used by developing countries to ensure food security or promote agricultural development.
- Apply a serious prejudice provision to all domestic support if subsidised production displaces imports from developing countries, undermines and/or displaces exports from developing countries in third markets.
- Review the Green Box; reduce Blue Box payments; do not extend the Peace Clause (*see technical sections below*).

The issues of concern to ActionAid

- In view of the significant role of agriculture in developing countries, enhancing domestic production is critical for socio-economic development. The AoA domestic support provisions have locked developing countries into providing very little support, if any, to their agricultural sectors.
- Exemptions are primarily expenditure related or require substantial targeting, which make them irrelevant for the bulk of developing countries. In 1996 developed countries spent \$US110,958 on Green Box policies compared to \$US15,776 by developing countries³.
- There are special problems for those developing countries who tax their agricultural sectors (negative AMS support) because if they stop taxing and begin to exceed the de minimis threshold, this will be counted as positive support and thus potentially breach AoA rules.
- Developing countries tend to favour non-product specific support such as input subsidies, however the 10 per cent de minimis⁴ could be a constraint for some countries such as India⁵.
- The unrepresentative base period of 1986–88 has resulted in little adjustment in developed country reduction commitments whilst many developing countries made mistakes during the Uruguay Round in calculating their AMS levels⁶.



The Amber Box – aggregate measure of support provisions

The main way in which support for reductions were set out was based on quantifying all domestic support deemed by the AoA to have distortionary effects on trade – this is called the Aggregate Measure of Support (AMS), otherwise known as Amber Box support.

The AMS quantifies in monetary terms (domestic currency) certain parts of agricultural policies and includes all domestic support policies that are considered to have a significant effect on the volume of production, both at the product level and at the level of the agricultural sector as a whole. For example, market price support forms a major part of the AMS.

The total AMS is a summation of the various components that make up the AMS (including non-product specific and product specific support). Even if a country has no AMS it must regularly calculate the amount spent to make sure it does not exceed the de minimis level (see below).

Developing countries are required to cut their total AMS by 13.3 per cent by 2004. Developed countries are required to make a cut of 20 per cent by 2000. In practice, most developing countries have no AMS reductions to make due to their low or zero base total AMS, which means they can never introduce any price support unless it falls within the exemptions.

Developing countries are exempt from including investment subsidies and agricultural input subsidies in their reduction commitments under the AMS.

Least Developed Countries (LDCs) are exempt from domestic support reduction commitments but cannot exceed the total AMS as established for the base period 1986–88.

There are a number of areas that are excluded from the AMS calculation and not subject to the domestic support reduction commitments.

Green Box policies

These are deemed to have no effect on production and trade. The measures include a range of direct payment schemes (known as developed payments which are not supposed to be linked to production) such as retirement programmes, environmental protection programmes, general services (research, extension, marketing information), domestic food aid and public stockholding for food security purposes.

With the need to reduce Amber Box support, it is not surprising that overall support to developed country agriculture has increased and may continue to do so through the Green Box and the Blue Box, as seen in the table below.

Domestic support of agriculture in the EU and USA

- Given the increasing importance of the Green Box to developed countries and the fact that they are exempt from reduction commitments, more scrutiny is needed on the implications of Green Box policies for production and agricultural trade.

Most developed countries are very supportive of the Green Box as a way to support non-trade concerns such as environment. But it is also a convenient exemption that developed countries can use to continue support to their agricultural sectors. For example, the US may consider classifying its recent US\$14 billion aid payments to farmers as a Green Box measure.

Domestic support of Agriculture in the EU and USA

	AMS commitment	AMS (Amber Box support)	Amber de minimis (Amber Box support)	Blue Box support	Green Box support	Total	Total as % of output value
USA 1996 (US\$ million)	22,287	5,898	1,153	0	51,815	58,866	28.6
EU 1995/96 MECU	78,672	47,526	106	20,846	18,718	87,916	42

Source: adapted from *Agra Europe*, 7 May 1999

Blue Box policies

These relate to the EU's compensatory payments/set-aside programmes under the Common Agricultural Policy (CAP). The Box is a result of the Blair House Accord negotiated at the Uruguay Round between the US and EU⁷ to ensure their interests were protected. The EU and US claimed these sorts of payments did not distort trade because it did not encourage farmers to overproduce. Given that many US and EU domestic support programmes were included in the Blue Box and Green Box, reduction commitments under the AMS were minimal.

- With the help of the Blue Box, the EU's policies have resulted in increased surpluses (rather than a reduction) which are then offloaded into world markets and subsequently depressing world prices that directly undermine developing country agriculture.
- according to the OECD⁸, although EU arable production fell after 1992, output has now increased to where cereal production is greater than before.
- the payments have proved to be a direct stimulus to production
- this is compared to net food importing developing countries and least developed countries that are suffering from a deficit in cereal production.
- the EU will be looking to defend its Blue Box policies in the negotiations, whilst the Cairns Group will strongly push for it to be subject to reduction or elimination.

Peace Clause

The Peace Clause (Article 13 of the AoA) exempts Green Box, Blue Box and export subsidies from challenge until 2003 – another grossly unfair blanket of protection that suits the interests of developed countries – especially the EU. It is not surprising that the EU is looking to extend the Peace Clause beyond the expiry date whilst the Cairns Group and the US are likely to oppose it.

Case Study: The EU and domestic subsidies

The European Union is the biggest culprit as regards agricultural subsidies. Farmers outside of the EU, who lose out to cheap agricultural imports, feel the impact of this. Brussels provides more than 40 billion Euro annually to EU agriculture, resulting in most EU products being directly or indirectly subsidised. Though urban consumers might benefit by cheap EU products in the short run, cheap EU imports hamper longer term development of local economies and agriculture.

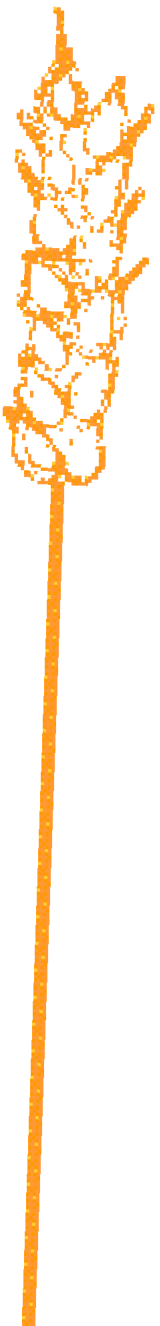
Brussels continues to subsidise Southern European companies by 372 million Euro annually in processing subsidies, putting the long existing local tomato concentrate processing industry in West Africa in crisis. In Senegal one of the two tomato canning factories closed down two years ago due to the increase in imports from the EU. The other Senegalese factory has turned to importing cheap triple concentrate in bulk from Italy, in order to can this into double concentrate, which they sell on the local market. Thousands of local farmers lost an outlet for their tomatoes through this shift in corporate policy, which has also occurred in Burkina Faso and Mali.

Source: Eurostep Dossier on CAP & Coherence: Comparative analysis of level of subsidies (who gets it/controls it). Draft: Coherence in EU Policies towards Developing Countries. Paper prepared by Novib for Eurostep, April 1999.



Footnotes

1. International Food Policy Research Institute, Focus 1, April 1999.
2. Developing countries cannot spend more than 10 per cent of the total value of their agriculture sector on supporting producers. Though this de minimis for developed countries is 5 per cent, under the AMS measures, many developed countries can continue to spend the equivalent of 50 per cent or more of the value of their agricultural production on support to producers.
3. WTO Secretariat background paper 9AIE/S2/REV, May 1999 – based on reporting countries.
4. De minimis Involves support for a particular commodity (or non-specific support) which is allowed to be excluded from the Total AMS calculation if that support is not greater than 10 per cent for developing countries (5 per cent for developed countries).
5. www.fao.org
6. *ibid*
7. The US's deficiency payments which were included in the Blue Box have been eliminated.
8. OECD, Agricultural Policies in OECD Countries, 1998



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