

POLICY BRIEF 15 ASH & CAHILL

# Taking a Step Towards Modernizing Agriculture Trade Policy

## Institute for International Trade

## **Executive Summary**

Twenty-eight years after agriculture was brought into the rules-based multilateral trading system, and twenty-two years after negotiations to liberalize trade in agriculture were re-launched at the WTO, too little progress has been made. Unless WTO members put away their well-worn talking points and adopt a fresh approach to modernizing the rules for agriculture trade, the future risks looking much like the past: largely ineffective policies that impose unnecessarily high costs on resource-poor farm families and less well-off consumers and give inadequate attention to the real challenges confronting the sector today - building global food security, enabling livelihoods along the food supply chain, increasing agriculture productivity,

sustaining land, water and biodiversity resources, addressing climate change, and strengthening the resilience of global food systems. This policy brief offers one way forward on two essential elements of the stalled agriculture negotiations: domestic support and public stockholding.<sup>1</sup>

## Where are multilateral negotiations at today?

In a report to the WTO Trade Negotiations Committee on 23 November 2021, the Chairperson of the Committee on Agriculture in Special Session noted the following:

The Domestic Support pillar has been at the heart of the agricultural negotiations since their commencement in 2000. Numerous submissions have been made on this subject by Members emphasizing the shared objective of addressing trade-distorting domestic support (TDDS). It is also the pillar of the negotiations that has been discussed the most...and is the area where the expectations for an outcome at MC12 have been the highest. Indeed, the two topics that are together seen as likely to set the overall level of ambition for an agricultural package at MC12 are domestic support and public stockholding.

Further, the report noted that "Taking into account the limited time left until MC12, and the persistent differences over how to discipline TDDS, it is clear that Members will be unable to achieve a substantive outcome at (MC12)...Given the persistent wide gaps in Members' views, (public stockholding) has turned out to be the most difficult issue in the agriculture negotiations".





#### What needs to change?

Fundamentally, agriculture policies need to be aligned with today's market realities and not continue to focus on conditions that existed decades ago when many existing policies were introduced and when existing trade disciplines were first agreed. It is past time, but not too late, to stop driving the car by looking in the rear-view mirror and instead to start looking ahead through the front windshield.

Support to agriculture has been *notoriously high and often trade distorting* in many (especially developed) economies, with the 1994 Uruguay Round Agreement on Agriculture (URAA) reflecting the complex array of policies in place. In principle, agreed disciplines set out to distinguish between support that is trade distorting ('bad subsidies', subject to limits) and support that is minimally trade distorting, such as spending on research and development (R&D), extension & training, inspection services, and so on ('good subsidies', to be available without limit). In practice, it got much more complicated and a system of differentiated commitment categories (i.e., Boxes) was introduced.

The Amber Box includes domestic support measures that clearly distort production and trade, notably subsidies directly linked to input use and production quantities as well as measures that support domestic prices at levels higher than international prices. The former encompasses various forms of budgetary payments while the latter is estimated as the gap between administered prices on the domestic market and international reference prices that are fixed as the average of the 1986-88 period. These *fixed external reference prices* have remained unchanged since.

The permissible limit to Amber Box support has two components: "*de minimis*" support, equivalent to 5% of the value of agricultural production for developed countries and 10% for developing countries (for commodity specific as well as for noncommodity specific support, i.e., a total of 10 % and 20%, respectively); and a bound aggregate measure of support (AMS) only available to those thirty-two WTO members that had higher support than *de minimis* levels at that time.

There is also a Blue Box, wherein direct payments to farmers under production limiting programmes are permissible, without limits. Such payments are generally viewed as less trade-distorting than Amber Box support as they are based on fixed area, yield, or animal numbers (i.e., not based on current output quantities).

The Development Box provides all developing countries with wide scope to encourage agricultural and rural development, including through input subsidies for low-income or resource-poor farmers, subsidies for new investments, and support for diversification away from illicit narcotic crops. Support under the Development Box (whether trade-distorting or not) is available without limit.

Finally, there is a Green Box for support that is minimally or non-trade distorting and available to all WTO members without limit.



The de minimis component of the limit on Amber Box support across the WTO membership has grown over the past two decades, simply because it is measured as a share of the increasing value of production in many countries. The Amber Box limit is about 1 trillion USD today and is expected to double to 2 trillion USD within a decade<sup>2</sup>. Over 50% of total permissible support is available to just a few very large economies, including three developed and three developing country members of the WTO. Actual support provided is much lower, averaging in the vicinity of 20% of the allowed limit. And as noted above, there are no limits on support provided under the Blue Box, Development Box, or Green Box.

## Identify core reforms for systemic overhaul

Keeping in mind that the shared aim is to remove obstacles to fair trade by progressively reducing - not increasing - production and trade distorting domestic support, the current system of commitments clearly needs a major overhaul. This is not a simple task, and many details will need to be addressed to reflect varying levels of ambition and specific country needs and aspirations.<sup>3</sup> But just a few core reforms would go a long way to modernizing the rules for agriculture trade, making the international system more free, fair, and open for all countries. Specifically, the current categories of commitments need to be greatly simplified, the estimation of price support updated and made economically relevant, the use of truly non-trade distorting support encouraged, and the special needs of less developed economies addressed.

As originally envisaged twenty-eight years ago, a much-simplified system of commitments would essentially need to distinguish between **trade distorting domestic support** (TDDS), subject to limits and progressive reduction, and **non-trade distorting support** (NTDS), available without limit.

Effective new commitments on TDDS imply elimination of the AMS available only to a few WTO members, elimination of the Blue Box utilized by just a few WTO members, and elimination of the highly trade distorting input subsidy component of the Development Box. New commitments for all members to progressively reduce TDDS could then be expressed as a % of the value of production, with more gradual reduction commitments for less developed economies and with general provisions to avoid concentration of permissible support on just a few commodities.

## Update the methodology for estimating market price support

Equally important, the methodology to estimate market price support should be updated. Measuring support via a comparison of currently applied administered prices to thirty-five-year-old *fixed external reference prices* is highly misleading. Annually updated external reference prices (for the most recent 3-year period, for example) would provide more accurate and economically meaningful estimates of current market price support (and the associated trade distortions).

Building global food security, enabling livelihoods along the food supply chain, increasing agriculture productivity, sustaining land, water, and biodiversity resources, addressing climate change, and strengthening the resilience of global food systems does not require TDDS.

Well-defined categories of NTDS should continue to be available to all WTO members, without limit, to address these goals.

Ample policy space would explicitly be available to enable governments to shift their focus towards policy approaches that address these global challenges and the specific needs in their countries, in ways consistent with the shared ambition of free, fair, and open markets. Many WTO members, in particular less developed countries, would benefit from higher, not lower, levels of NTDS that target these common goals.

For some (particularly developing) countries public stockholding is an integral element of the domestic policy response to ensuring food security for vulnerable populations. Public stockholding has been a contentious issue in WTO negotiations as it can significantly distort markets and trade when stocks are accumulated by purchasing from domestic suppliers at prices above international levels or disposed of at lower prices on foreign markets – effectively supporting domestic producers on a discriminatory basis. Yet there are also conditions under which public stockholding would be non-trade distorting.

A well-defined category of NTDS to underpin public stockholding schemes for food security purposes should be available to all WTO members. A major step in creating this category of NTDS is described above, i.e., moving away from estimating support relative to thirty-five-year-old fixed external reference prices to annually updated external reference prices (such as for the most recent 3-year period). If the domestic administered or acquisition price is lower than the updated external reference price then there is, by definition, no support, no trade distortions, and hence nothing to limit or reduce. Of course, if the domestic administered or acquisition price is higher than the updated external reference price then there is TDDS that would be subject to limit and reduction.

Other clarifications are also important. Public stockholding utilized to buffer the impact of price movements, through acquiring and disposing of stocks to increase or decrease prices, would be prohibited. Similarly, disposal of stocks at below market prices for any purpose other than targeted domestic food aid would be prohibited. Alternative, and arguably more effective, approaches to ensuring food security, such as cash transfers or vouchers to vulnerable domestic populations, would not be considered as TDDS under the condition that they not impose any specific obligations on recipient households, such as a requirement to purchase domestically produced food.

#### What next?

The ideas presented here are not new and do not pretend to offer a resolution to the many areas of agriculture policy divergence that persist across WTO members. The aim is much more modest yet nonetheless vital – to illustrate that bringing basic economic principles to bear on the highly divisive political positions that dominate current multilateral negotiations offers a way forward that would benefit all countries. As evident across the Sustainable Development Goals, agriculture and agriculture trade plays a critical role in contributing to sustainable global growth and development. Both climate change and population growth trends suggest that this role will only increase in importance. Status quo agriculture policies are costly and continued inertia in multilateral agriculture trade policy negotiations adds to these costs, unnecessarily. This needs to stop; there are much more effective and nontrade distorting policy options available to countries and to the global community.

This brief has focussed on just two aspects of current negotiations which will need to be pursued across all other areas of interest - market access and export competition as well as domestic support and public stockholding. A useful initial step would see all WTO members at MC12 commit to updating and thereafter maintaining in real time their notifications of agriculture policy developments. This would do much to rebuild trust. At the same time members could agree to use updated external reference prices for the measurement of market price support. Accurate, current, and comprehensive policy information is pre-requisite to carrying out the core reforms described above, and more broadly is an essential element of any meaningful negotiation. And perhaps it would also offer a new beginning that, after twenty-two years, is desperately needed.

### References

<sup>1</sup> This note draws heavily on elements of a wider set of proposals contained in *New Pathways for Progress in Multilateral Trade Negotiations in Agriculture*, an initiative coordinated by Carmel Cahill



and Stefan Tangermann, with co-authors Lars Brink, Shenggen Fan, Joseph Glauber, Anàbel Gonzalez, Tim Groser, Ashok Gulati, Joanna Hewitt, Anwarul Hoda, Alan Matthews, and Guillermo Valles Galmes. See also New.Pathways@ outlook.com

- <sup>2</sup> Australia and New Zealand, JOB/AG/171 https://docs.wto.org/dol2fe/Pages/SS/ directdoc.aspx?filename=q:/Jobs/AG/171. pdf&Open=True
- <sup>3</sup> Numerous proposals have been made by WTO members and various external experts. The views expressed here are the sole responsibility of the authors.

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