Greenhouse Gas Reduction Policies and Agriculture: **Implications for Production Incentives and International Trade Disciplines** *

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Introduction

- Financial incentives to farmers for climate change mitigation likely to become more prevalent after Copenhagen
- Appropriate time to look at coherence with WTO obligations?
- Look at instruments available for mitigation
- Consistency with Subsidies and Countervailing Measures Agreement (SCM)
- Consistency with Agreement on Agriculture (AoA)

Incentives for what?

- Reduction of GHG emission from crop and livestock production
- Absorption through carbon storage (sequestration)
- Encouragement of alternative crops, including biomass for alternative fuels
- Use of alternative fuels in farm (and processing) operations – co-generation

WTO obligations - issues

1. Do such policy measures constitute a subsidy to agriculture?
2. If so, what type of subsidy (SCM or AoA)?
3. Could they be prohibited or actionable under the Agreement on Subsidies and Countervailing Measures?
4. How would these subsidies have to be notified under the Agreement on Agriculture?

SCM Constraints on Subsidies

- Defines subsidy
  - it must entail a financial contribution;
  - it must be made by a government or any public body within the territory of a Member; and
  - it must confer a benefit.
- Defines Specific Subsidies
- Some Specific Subsidies Prohibited
  - Contingent on exports
  - Local content conditions
- All others Actionable (i.e. can be challenged if causing serious prejudice to the interests of another member)

SCM Constraints on Subsidies

- Incentives to farmers likely to qualify as specific subsidies
  - Sequestration subsidies to farmers (e.g.: direct payments tied to farming practices) presumably a specific subsidy
  - Subsidies for particular practices (e.g.: livestock feeding) also likely to be notified as specific
  - Research on climate change also could be specific if it benefited particular sectors
- All specific subsidies will be actionable but those that reduce production (sequestration, no-till cultivation) unlikely to be challenged
  - Some doubts on how particular policies might be considered:
  - Ability to sell offsets to non-farm sector may not be a subsidy as there is no financial contribution
  - Free allocation of GHG emission permits may also not be a subsidy

AoA Constraints on Subsidies

- Constrains “all of [a member’s] domestic support measures in favor of agricultural producers” (not strictly limited to subsidies)
- Distinction depending on putative degree of trade distortion
  - Green box – non or minimally trade distorting
  - Blue Box – tied to supply control
  - Amber Box – trade-distorting and hence subject to reduction (except *de minimis*)

Subsidies in Green Box?

- Subsidy must have:
  - No, or minimal, effect on production, trade distorting effects
  - Publically funded, not from consumer, and not a price support
- But for environmental payments, additional constraints apply:
  - Part of clearly defined environmental program
  - Limited to extra costs/loss of income from complying

Sequestration Subsidies in Green Box?

- Sequestration subsidies not related to price, not financed by consumer, and part of a defined program
- But are they related to the additional costs?
    - What does it cost to decide not to plough up a pasture?
- Costs are "opportunity costs" and not easily counted
- Farmers may need incentives to join scheme: that would exclude such payments from green box

Subsidies for Cross-Compliance in Green Box?

- Subsidies with Cross-Compliance conditions
  - will usually have no (positive) output effects
  - not consumer financed
- But they may not qualify as environmental payments
  - Cross-Compliance subsidies will tend to overcompensate for additional costs
- Cross-Compliance subsidies may be notified as Direct Payments
  - Only compatible with green box if not linked to current output or prices – **and no production required**

Biofuels Tax-credits as Green Box subsidies

- Is ethanol an agricultural product? If so, tax credits would be included under AoA (benefit to agricultural producer)
- Are they Green Box compatible?
  - Could be considered as environmental payments
  - But no relation to additional costs of participating in environmental scheme
  - Conservation (resource retirement) payments can not be made on land used to produce “marketable agricultural output” (biomass for ethanol?)
- Most likely should be notified as Amber Box (PS-AMS)

Summary

- If agriculture is included in GHG emission mitigation programs, likely to involve subsidies to encourage certain practices
- Subsidies could fall under green box if tied to extra cost of conforming with environmental program
- Cross-Compliance as a condition for direct payments faces hurdle that payments cannot be dependent on production
- Biofuel subsidies (or tax credits) are likely to be Amber Box, as there will be an incentive above additional costs, and will in any case be related to production