

Should the Green Box be Modified?

An Experts' Discussion

May 4, 2007

Event Summary

By Gene Kim

On May 4, 2007, the International Food & Agricultural Trade Policy Council (IPC) and the Woodrow Wilson International Center for Scholars hosted an experts' discussion on IPC's recently published Discussion Paper by Tim Josling and David Blandford, "Should the Green Box be Modified?"

John Sewell, a Senior Scholar at the Woodrow Wilson International Center for Scholars, introduced the panel, which featured Scott Faber, Water Resources Specialist, Environmental Defense; Jean-Marc Trarieux, Agricultural Attaché, European Commission Delegation to the U.S.; and Kenneth Cook, co-founder and President, Environmental Working Group. Charlotte Hebebrand, Chief Executive of IPC, moderated the discussion.

IPC Member Timothy Josling, Senior Fellow at the Spogli Institute for International Studies at Stanford University, and Professor David Blandford of Pennsylvania State University, presented the paper. Professor Josling prefaced the presentation, stating that although the Green Box concept has been and continues to be very instrumental in moving away from trade-distorting support and will not be renegotiated within the Doha Development Agenda, agreement and consensus on Green Box criteria is necessary for the stability of WTO negotiations and the issue may well have to be included in a built-in agenda for the Doha Agreement implementation period.

The presentation focused on whether existing Green Box criteria may allow for more than minimally trade-distorting domestic support, when they encompass certain environmental programs and other public goods projects. A number of current Green Box specific criteria arguably allow for domestic support that can impact competitiveness and have production and wealth effects, effects on resource retention, on supply and demand, and ultimately trade. Under current rules, public goods programs with legitimate environmental and social purposes are open to challenge because they go hand in hand with the production of private goods. Ultimately, one could consider including a standard that domestic support tied to public goods must be implemented in a "least trade-distorting manner."

Professor Blandford continued the presentation with a description of Green Box proposals put forward by major negotiating parties in the Doha Round. For the United States, the existing Green Box definition is satisfactory. The European Union proposes a broader, more flexible definition for Green Box policies to address public goods issues such as environmental stewardship and animal welfare. In contrast, the Cairns Group and other developing nations are concerned that such changes will lead to production and trade-distorting measures. Furthermore, the Cairns Group, India, and Canada propose tightening Green Box rules and imposing overall caps on Green Box spending.

Developing countries would also like to receive assurances that Green Box criteria allow for development friendly domestic support policies. In the 2003 July Framework, WTO members agreed to a review and clarification of Green Box criteria as part of the Doha Round. Blandford highlighted how the U.S. has historically had sizeable Green Box support whereas the EU has substantially increased its Green Box support over the last few years. This support, he said, will rise with the 2003 CAP reforms since the New Single Farm Payments will most likely be notified as Green Box. Blandford also spoke of components of present or contemplated Green Box support in the U.S. and EU, which could be said to run afoul of existing Green Box criteria as spelled out in Annex 2 of the Uruguay Round Agreement on Agriculture.

Jean-Marc Trarieux of the European Commission began his remarks by agreeing that Green Box issues are a forward-looking topic for trade negotiations beyond the Doha Development Round. He pointed out that there was no mention of modifying the Green Box in WTO Agriculture Chair Crawford Falconer's April 30th paper – an indication of its level of priority in the current round of negotiations.

Existing Green Box rules and policies, he said, serve a critical role in facilitating the transition from a price support to an income support system that is from amber box to green. In the European Union, due to CAP reforms, payments have been and are increasingly being decoupled from production. These reforms have had a clear impact. Today, with approximately 80 percent of agricultural payments decoupled, the EU is the world's largest food importer.

Scott Faber of Environmental Defense focused his remarks on the potential conflicts between existing WTO trade agreements and current – as well as proposed – U.S. agricultural policies. Many of the Green Box policies in the U.S. Farm Bill fall under three categories: research, infrastructure investment, and environmental services. He highlighted the dynamic nature of agriculture and cross-compliance issues between conservation and energy policies as a major point of contention for U.S. farm policy and Green Box provisions. For example, he explained how Green Box payments should not be used to increase production, as in the case of the Conservation Reserve Program (CRP). Under current Green Box rules, opening CRP lands for use as a biomass reserve for haying and baling could arguably be seen as WTO incompatible. Incentive payments (since they pay more than the cost of meeting additional environmental requirements) and environmental program installation payments may also be questionable. Faber also argued that using funds through the Environmental Quality Incentives Program (EQUIP) to fund storage and irrigation infrastructure projects through cost sharing and loans might be viewed as problematic. Mr. Faber suggested modifying the Green Box to clarify Green Box rules, include incentive payments, and promote increased transparency for program payments and beneficiaries. He said that a clearly defined program should be subject to accountability for program payments and incurred costs forgone. Lastly, he referenced more in-depth inquiries in the upcoming paper on soil and water payments through the Conservation Reserve Program and the Conservation Security Program to be published by Environmental Defense.

Kenneth Cook from the Environmental Working Group presented a critical survey of Green Box subsidies in the existing U.S. Farm Bill. As illustrated in the descriptive analysis of his presentation, Mr. Cook demonstrated that a disproportionate share of U.S. farm safety net and crop insurance payments go to a relatively small, concentrated number of congressional districts.

In the United States, current farm bill proposals are seeking to introduce Permanent Disaster Aid in addition to the existing farm safety net. His analysis suggests that the steadily increasing number of disaster aid recipients and the rising cost of program payments are efforts to protect producer revenue rather than to raise coverage levels for catastrophic disaster insurance. He criticized the application of conservation programs on working lands, in which a producer receives a conservation entitlement for meeting already existing statutory requirements, and also expressed concern about being able to market biomass for biofuel production from set-aside land. Such policies encourage rather than discourage production and fail to decouple payments from production. At the same time, he advocated farm bill incentives as the only effective tool to address many environmental problems. He suggested that modifying the Green Box to be flexible for incentives presents a unique opportunity to reform agriculture, improve environmental stewardship, and conservation. Lastly, he echoed David Blandford and Scott Faber's remarks that Green Box reforms must address transparency issues for timely, periodic, and accurate reporting standards for program analysis.

Question and Answer

At the start of the question and answer discussion, Charlotte Hebebrand emphasized that the Green Box is not an issue in ongoing trade negotiations and framed the discussion as an opportunity to set an agenda for reforming the Green Box beyond the Doha Trade Round. She also queried whether the concept of direct payments in exchange for cross-compliance was "culturally" more acceptable in Europe than in the US.

- Is this the right time to address Green Box Issues?

Joe O'Mara, an IPC member and principal at O'Mara and Associates, questioned the relevance and timeliness of the discussion in light of the ongoing Doha Trade Round. In regards to the expiration of the "peace clause" and the subsequent WTO Dispute Settlement Panel ruling in the Brazil Cotton Case, he warned that further complicating negotiations at this critical juncture in the agricultural modalities debate risks further diminishing negotiations or establishing complex, unenforceable rules. He reminded the panel that the agriculture modalities debate is at a critical stage. When the General Agreement on Trade and Tariffs did not establish rules related to agriculture, negotiators wrangled to define the rules and ended up with 75,000 pages of footnotes. Establishing a definition of "public goods" at this time may lead to a repeat of the GATT.

Senior USDA Economist Carol Goodloe pointed out that public good payments were not considered when Green Box criteria were established more than ten years ago and that

the existence of such payments now presents the WTO with a conundrum that will need to be addressed after the Doha Round.

In reference to Mr. O'Mara's remarks, Blandford argued in favor of a simplification of Green Box criteria. Mr. O'Mara recommended that any reforms of Green Box criteria should be initiated through the offices of WTO Director General Pascal Lamy. Director General Lamy could appoint a committee to examine a set of recommendations for Green Box reform led by a neutral chair who is not part of the negotiations.

There was widespread consensus that a review of the Green Box definition in the Doha Round should lead to concrete deadlines to notify and disclose domestic support data, so as to assure timely notifications. Such a provision would create much needed transparency and establish cause for serious prejudice to be more effectively evaluated.

- EU-Planting Restrictions and Experience with Decoupled Payments

Kim Elliot, Senior Fellow at the Peterson Institute for International Economics and the Center for Global Development (CGD), asked about the planting restrictions also found in the EU. Mr. Trarieux responded that according to ERS data the actual impact of planting restriction policies have little influence on production, and that this is likely to be the same in Europe but that the EU could consider addressing this issue in the upcoming health check of the CAP.

Responding to Hebebrand's query about different perspectives on direct payments in the U.S. and the EU, Trarieux indicated that EU farmers have largely made the switch to decoupled support. Member states in Europe have access to a historical system for entitlement through reform or a system of regional averages for entitlements. For a given farmer, there is an impact according to either of the programs. In his opinion, these reforms are easier and more feasible to implement in the European context, and more difficult to envision in the United States. Politically speaking, the redistribution of payments leads to major farm group resistance. In the United States, Senator Tom Harkin, chairman of the Senate agriculture committee, and a number of other congressmen recently wrote a letter to President Bush to request additional incentives and assistance to offset and manage Green Box compliance costs.

Ms. Goodloe conceded that the ensemble effect of U.S. program policies appear more trade distorting than they actually are. She argued that a number of items in the EU's CAP were potentially vulnerable to attack, especially some rural development programs—an uncertain grey area for "Green Box" payments.

- Conservation Programs

Scott Faber commented that the majority of Green Box compliance issues are related to the Conservation Reserve Program. Many of the suggestions in the recommendations for compliance monitoring and sound standards practices represent good programs to follow.

However, receiving Green Box payments for no-till farming on land you have not tilled for 17 years is not something to receive payments for.

- Revenue Insurance

Ann Tutwiler, IPC member and the Hewlett Foundation Managing Director for Trade and Development, asked what a WTO Green Box compliant revenue insurance program would look like.

Professor David Blandford answered that such a program must not be commodity specific and not compensate for more than 70% of losses.

Mr. Cook added that crop and revenue insurance programs and the farm safety net are more critical issues for Green Box compliance than conservation payments. He suggested that policies to reduce premiums presented unique challenges to decoupling payments from production. Crop insurance and disaster aid payment policies will soon surpass the cost of Title I commodity payments. Scott Faber clarified Mr. Cook's statements in more specific terms, saying that crop insurance and revenue levels are not as important as premium levels for crop insurance. He suggested that Group Risk Insurance Protection and Group Risk Plan crop insurance coverage provide superior risk protection to conservation products such as the Conservation Reserve Program or the Environmental Quality Incentives Program.

John Sewell reminded the audience that the reauthorization of the Agricultural Risk Protection Act of 2000 in 2009 represents the closest political juncture to focus debate and advocacy for Green Box issues. Current projections estimate federal spending on crop insurance to reach \$6-7 billion per year, a growing share of farm support.

- Wealth Effects

Barbara Bramble, National Wildlife Foundation, asked the panel what kinds of conservation programs would not have wealth effects. The authors replied that a market-based program with a competitive bidding process to establish payments would be the best model since it would ensure a reasonable reward for services provided and provide the maximum public benefit at the lowest cost. He referred to other market-based instruments for water quality and carbon emissions as models for such a definition of program payments and stated that the Green Box criteria do not forbid creating property rights.

“Should the Green Box be Modified?” and presentations given at this experts' discussion are available on the IPC website at: http://www.agritrade.org/events/green_box.html.