

Should the Green Box be Modified?

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Introduction

- Green Box links trade reform and domestic policy reform
 - Moving away from trade-distorting domestic support was key step in improving agricultural markets
 - Moving away from support of commodity prices to payments to farmers was a key step in targeting policy and reducing surpluses

Introduction

- But Green Box is still controversial
 - May hide policies that have trade impacts
 - May exclude policies that have legitimate environmental or social objectives
 - May hinder attempts to pursue rural development
 - May distort competition with developed countries

Introduction

- Renegotiation of Green Box not contemplated within DDA
 - Opposition from EU, US, etc.
- “Review and Clarification” of Existing Criteria was agreed in Framework
 - Several papers tabled on the topic
 - Not much discussion in period up to July 2006

Introduction

- Issue of Green Box is however linked to DDA agricultural talks
 - Tied to reduction of Amber (and Blue) Box supports
 - Conditions for green box become more crucial
 - Agreement on Green Box criteria necessary for stability of URAA domestic support rules
 - May need to be included in “built-in” agenda

Introduction

- The IPC discussion paper addresses these issues:
 - Can one ensure that Green Box criteria do not allow for avoidance of disciplines on trade-distorting subsidies?
 - Can one ensure that policies aimed at objectives other than farm income are not unduly impeded?
 - Can one make sure that criteria allow developing countries to pursue desirable development policies for agriculture?
 - What changes have been proposed in the DDA?
 - How might US and EU policy be impacted by changes in Green Box criteria

General Criteria

- No (or at most minimal) trade distorting impact
 - Publicly funded program: no transfer from consumers
 - No price support for producers
- But what about consumer payments for countryside amenities?
- And what about support for types of agricultural enterprise (e.g. grazing land) that involve a marketable output?

Specific Criteria

- Provision of General services
 - Research
 - Pest and disease control, inspection
 - Training and extension
 - Marketing and promotion
 - Infrastructure
- But these can certainly increase production
- Provision of public goods (non-specific subsidies) not considered in WTO to be trade-distorting
- Issue of impact on competitiveness not addressed

Specific Criteria

- Stockholding, domestic food security, domestic food aid
 - Stabilizing domestic markets should have no negative impacts on imports over time
 - Increase effective demand for food, which can be imported food
 - If food aid limited to domestic production could be vulnerable to challenge under SCM

Specific Criteria

- Payments for income support, insurance, disaster relief, disadvantaged regions
 - Income payments have to be de-linked from volume of production (or resources employed) after base period
 - Limits on payments under insurance and disaster relief
 - Regional payments must be generally available and are limited to the cost of the “disadvantage”

Specific Criteria

- Structural Adjustment payments allowed
 - Producer retirement – permanent exit from agriculture
 - Resource retirement –three year land retirement from “marketable agricultural production”
 - Investment aids – but could be a “specific subsidy” and could result in additional output

Specific Criteria

- Payments under environmental programs
 - Can be linked to production, but limited to the extra cost of complying with the regulations
 - Linkage to production usually acts to reduce supply (but may increase supply of other products)
 - Little scope for incentives over and above costs
 - Challenge of environmental programs relatively unlikely

Conceptual Problems

- Decoupling key to Green Box criterion: price-linked and production-linked policies can cause serious prejudice to other producers
- But may not be best concept for non-income objectives
 - Provision of public goods may require joint production of a private good
 - Stimulus to rural development may call for output-related policies
 - Food security may be tied to local production

Legal Problems

- No challenge as yet to Green Box notification (even after Cotton panel opinion on fruit and vegetable exemption)
- Challenges possible for environmental subsidies that give incentives (i.e. more than cost of compliance)
- Challenge possible for subsidies that are linked to non-production of other products
- Subsidies could be actionable under SCM even if not challenged as Green Box
- Subsidies found to constitute export subsidies could be prohibited even if notified as Green Box

Empirical Problems

- Decoupled payments may have measurable output effects
 - Income effects: producers may choose to stay in production in the short run if they can cover (variable) costs
 - Investment may increase if payments overcome capital constraints
 - Risk-aversion of producers may be reduced by increased incomes
 - Expectations of re-basing direct payments may cause producers to maintain production
 - Exit from industry may be slowed

Negotiating Proposals

- Early positions in DDA
 - US – do not change
 - EU – expand Green Box to include environmental, animal welfare, food security, rural development payments
 - Cairns Group – move safety net, investment, some direct payments into AMS
 - Canada – establish a cap for Green Box payments

Negotiating Proposals

- G-20 establishes position in 2005
 - Separate public good payments from direct payments
 - Constrain direct payments
 - Modify criteria to minimize wealth and insurance impacts
 - Eliminate need for keeping land in agricultural uses
 - Prevent updating of bases
 - Limit investment aids to base period production
 - Capping payments when other support is high

Negotiating Proposals

- Other developing countries take positions on need for Green Box to be development-friendly
 - Exemption from specific constraints (e.g. on subsidy component of public stock purchases and food aid)
 - Relax constraints on income insurance payments, crop loss relief, regional assistance

Negotiating Proposals

- July Framework commits countries to a review and clarification
- Links improved monitoring and surveillance to Green Box
- Hong Kong Ministerial confirmed the agreement
- Little substantive discussion by July 2006
“suspension” of talks

Monitoring

- Effective monitoring is important to the acceptability of the Green Box (as well as of other aspects of domestic support)
- G-20 introduced some suggested improvements
 - Sub-committee to examine notifications
 - Increase timeliness and transparency of notifications
- Little progress in negotiating these changes
- Adherence to current rules would be useful

Use of Green Box (1995-2001)

- About 50 percent of all domestic support is Green Box
- Most payments from US, EU and Japan
- Not much change over this period
- Green Box will have expanded in EU post 2001 with reforms in 2003
- Other countries have modest Green Box support

Figure 1. US Domestic Support

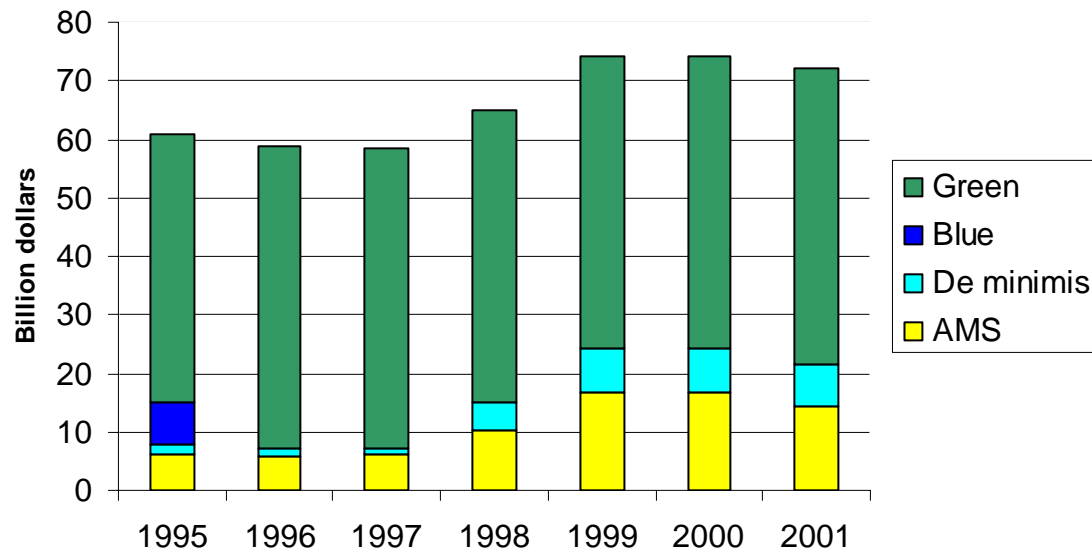


Figure 3. EU Domestic Support

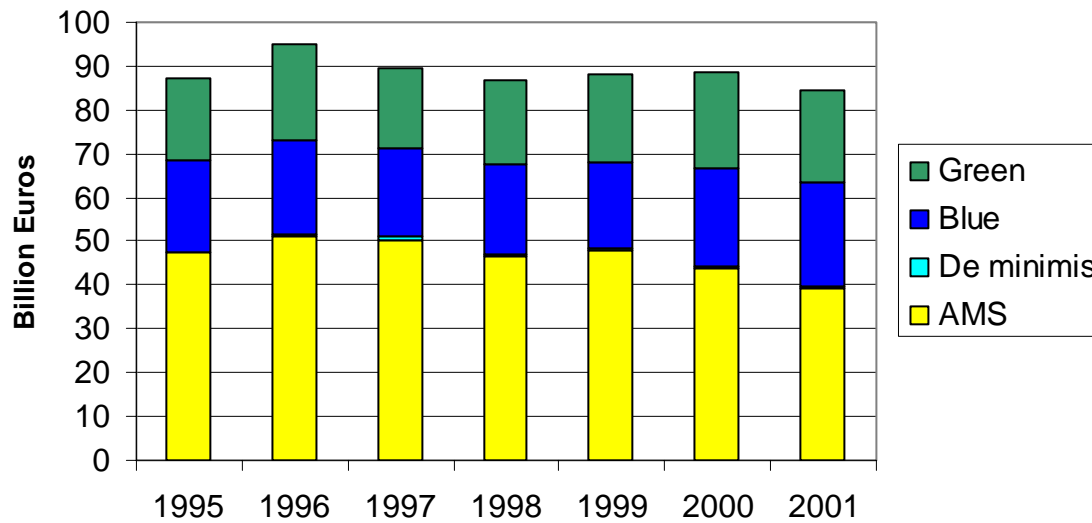


Figure 4. Japan Domestic Support

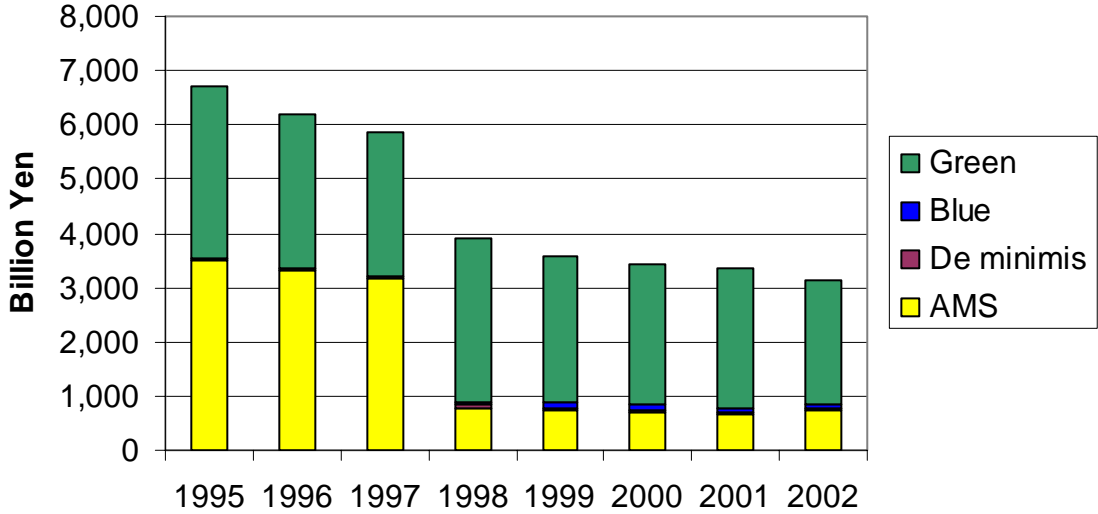


Figure 5. Trends in Total Notified Domestic Support

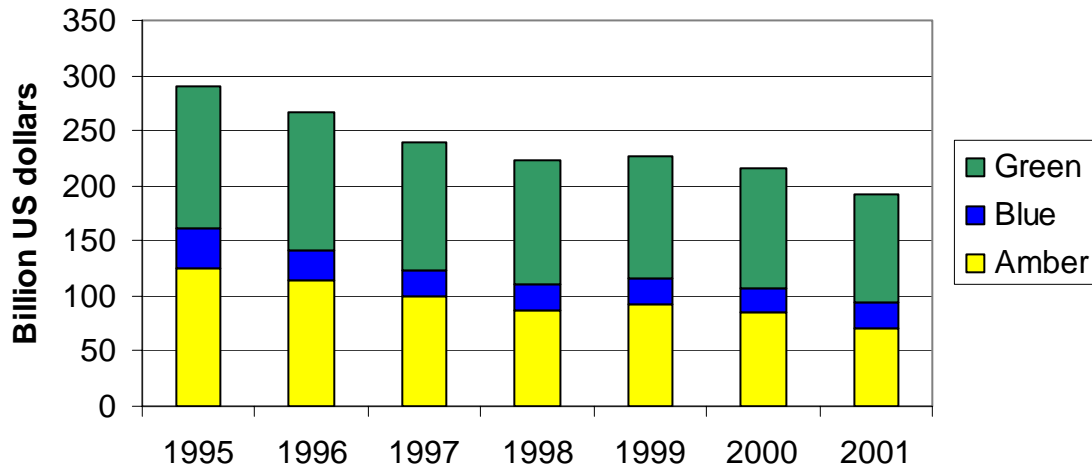
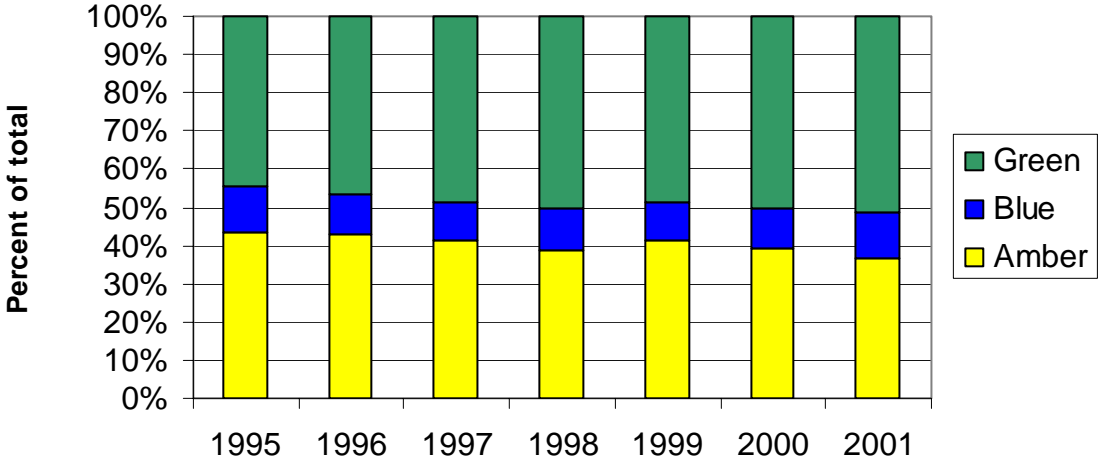


Figure 6. Composition of Total Notified Domestic Support



Green Box and Domestic Reform

- US considering switch to “green box” instruments
 - Expansion of conservation payments
 - Extension of ethanol subsidies
 - Farm revenue insurance
- EU has moved most direct payments into “green box” programs
 - Single Farm Payment system
 - Biodiesel subsidies

Green Box and Domestic Reform

- Problems of consistency with Green Box rules
 - Conservation payments cannot have incentives
 - Ethanol subsidies could be in AMS if paid on marketable agricultural production
 - Single farm payment may still have production link

Conclusion

- Economic rationale for Green Box tied to decoupling support from price and production
 - Strength lies in less trade distortion
 - Weakness lies in imperfect fit for non-income objectives (e.g. public good provision)
- Political rationale for Green Box is as a “safe haven”
 - For decoupled income support
 - For policies addressing “non-trade concerns”

Conclusion

- Need to establish criteria that can give some shelter (from reduction commitments) to payments designed to provide public goods
- Need to guard against wealth and insurance effects of direct payments
- Need to get wide agreement that these criteria are sufficient to improve the trade rules for agriculture

Conclusion

- No time to conclude such a review and clarification within timeframe of (restarted) DDA
- Could be part of DDA if postponed
- Should be part of a “built-in” agenda for the next set of talks on agriculture

Thanks for listening

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