

Should the Green Box be Modified?

David Blandford and Tim Josling

Woodrow Wilson International
Center for Scholars

Washington, DC

May 4, 2007



International
Food & Agricultural Trade
Policy Council



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 in 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
 - Not much discussion up to July 2006

Introduction

- Issue of Green Box is 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 permit 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 agricultural development policies?
 - What changes have been proposed in the DDA?
 - How might US and EU policy be impacted by changes in Green Box criteria?

The Current Green Box 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?

The Current Green Box 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

The Current Green Box Specific Criteria

Stockholding, domestic food security and domestic food aid

- Stabilization of domestic markets should have little effect on imports over time
- Can increase effective demand for food, which could be imported
- If domestic food aid confined to domestic production could be vulnerable to challenge under SCM

The Current Green Box 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 to producers in region and limited to the cost of the “disadvantage”

The Current Green Box Specific Criteria

Structural Adjustment Payments

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

The Current Green Box Specific Criteria

Payments under environmental programs

- Can be linked to production, but limited to the extra cost of complying with 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 unless major production linkage involved

The Green Box

Conceptual Issues

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

The Green Box

Legal Issues

- No challenge as yet to Green Box notification (even after Cotton panel opinion on fruit and vegetable exemption)
- Challenges possible for environmental subsidies that provide production incentives (i.e., more than just the 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

The Green Box

Empirical Issues

“Decoupled” payments may have measurable output effects

- Income effects: e.g., 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
- Reduction in risk-aversion may affect production
- Expectations of re-basing direct payments may cause producers to maintain production
- Resource retention: exit from the industry may be slowed

The Green Box

Negotiating Proposals

Early positions in DDA

- US: do not change
- EU: expand Green Box to allow greater scope for environmental, animal welfare, food security, rural development payments
- Cairns Group: move safety net, investment, some direct payments into AMS
- Canada: establish a payment cap

The Green Box

Negotiating Proposals

G-20 establishes position in 2005

- Separate public good payments from direct payments for income support
- Constrain direct payments: target to farmers with low incomes and prevent updating of bases
- Modify criteria to minimize wealth and insurance impacts
- Eliminate requirement to keep land in agricultural uses
- No linkage of investment subsidies to production after the base year
- Cap payments when other support is high

The Green Box

Negotiating Proposals

Other developing countries

- The need for the 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

The Green Box

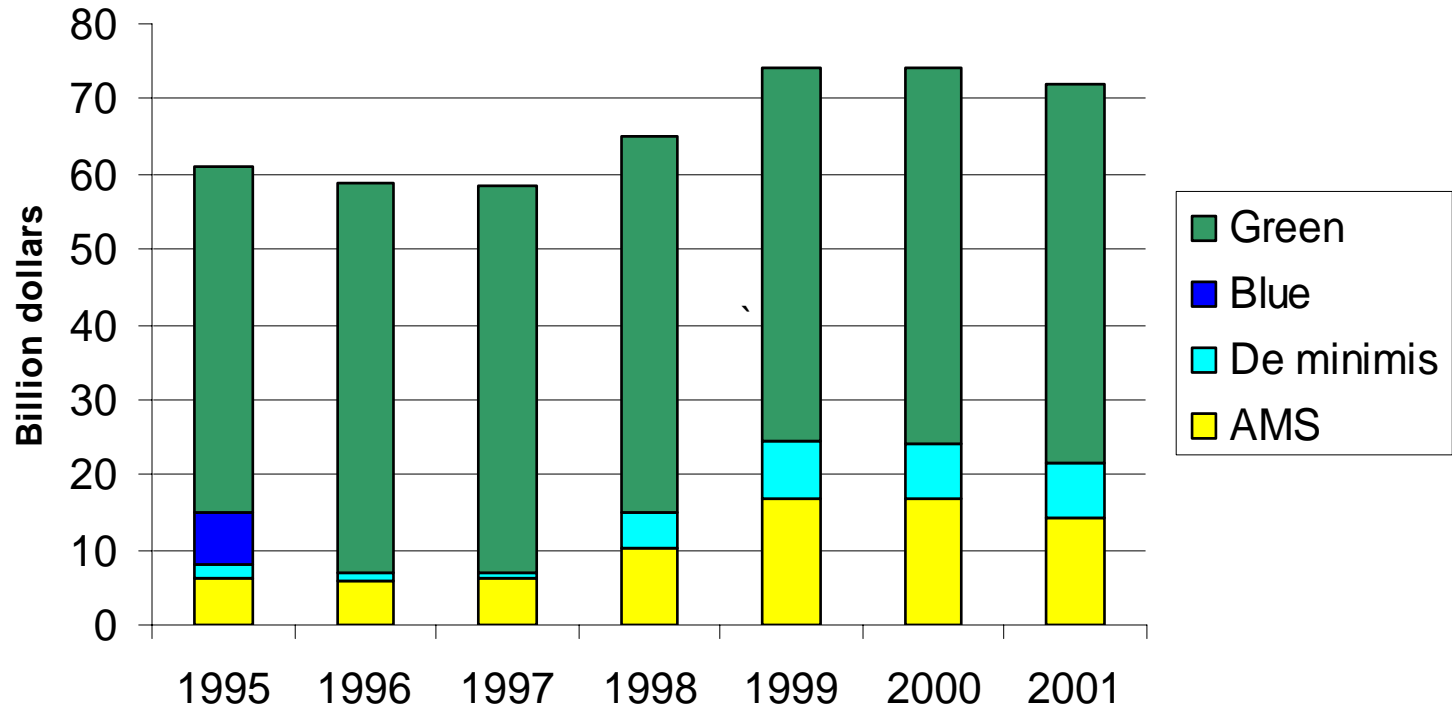
Status in the Negotiations

- 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 the July 2006 “suspension” of talks

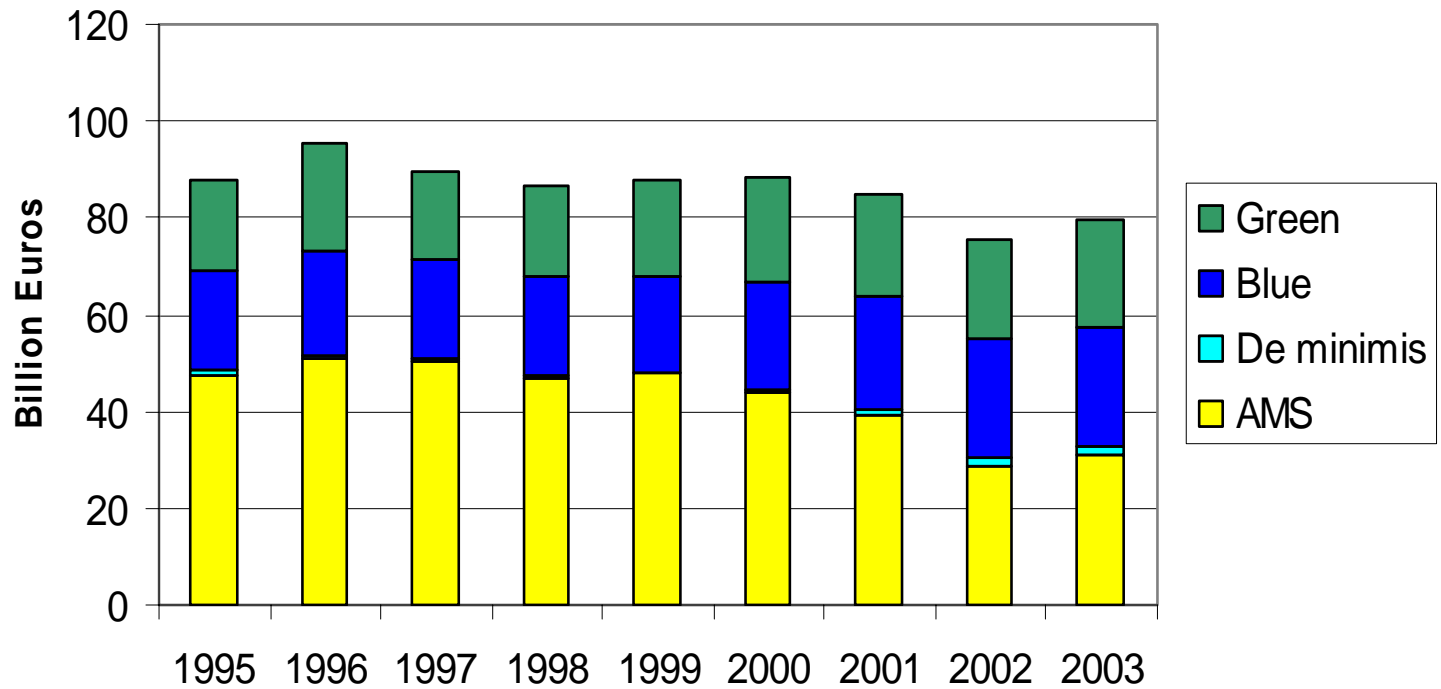
Use of Green Box (1995-2001)

- 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 with reforms in 2003
- Other countries have modest Green Box support

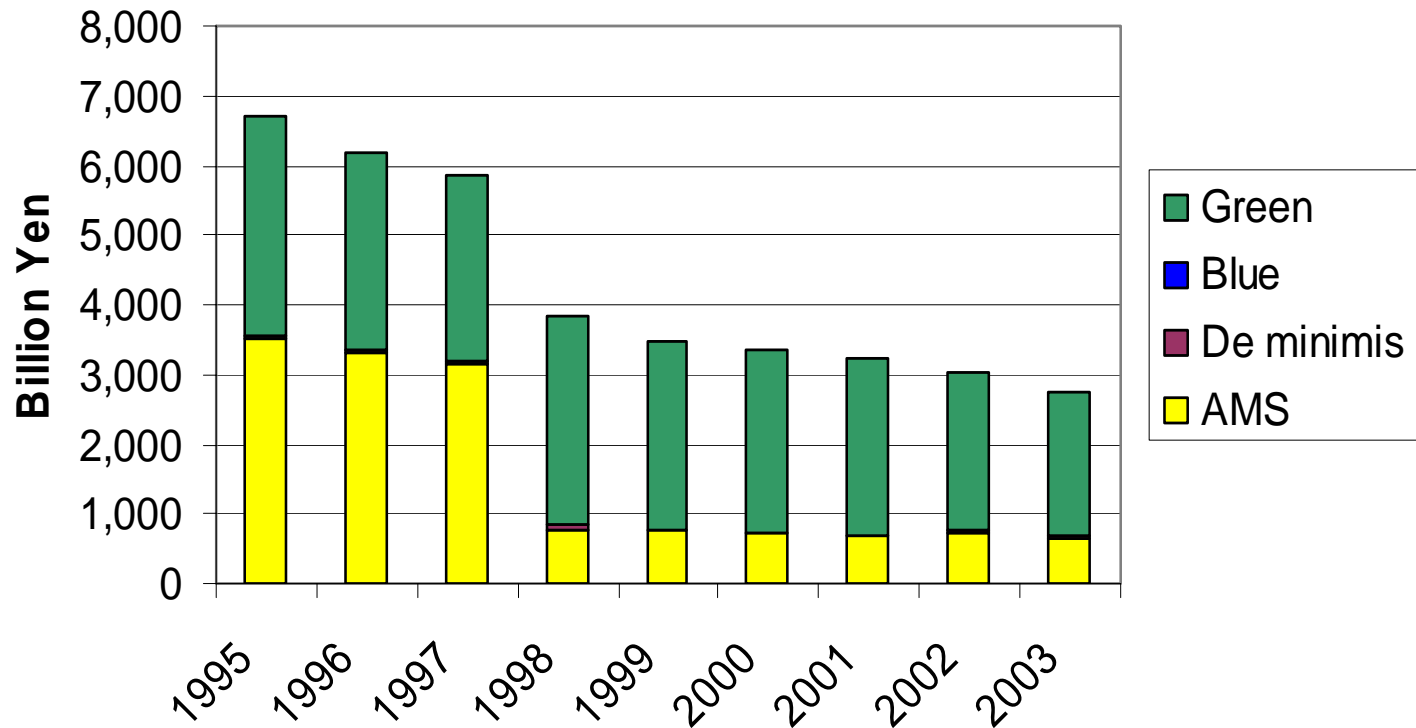
US: Domestic Support



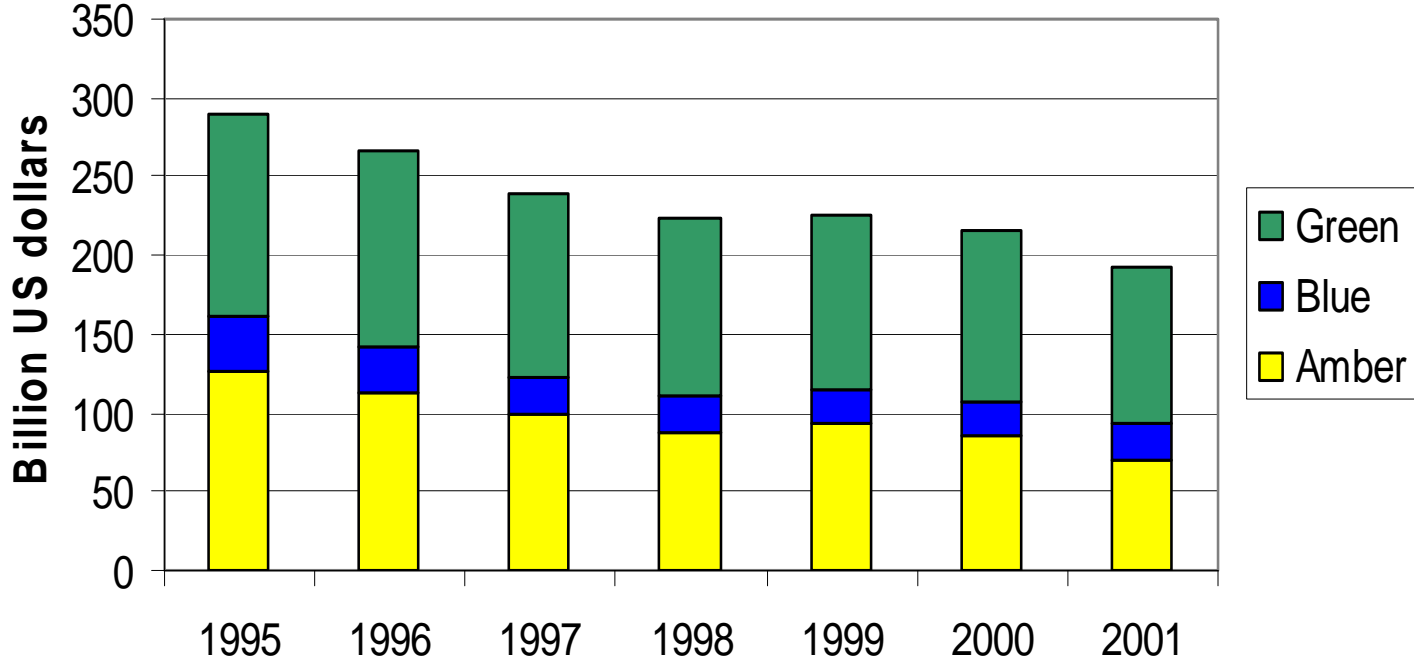
EU15: Domestic Support



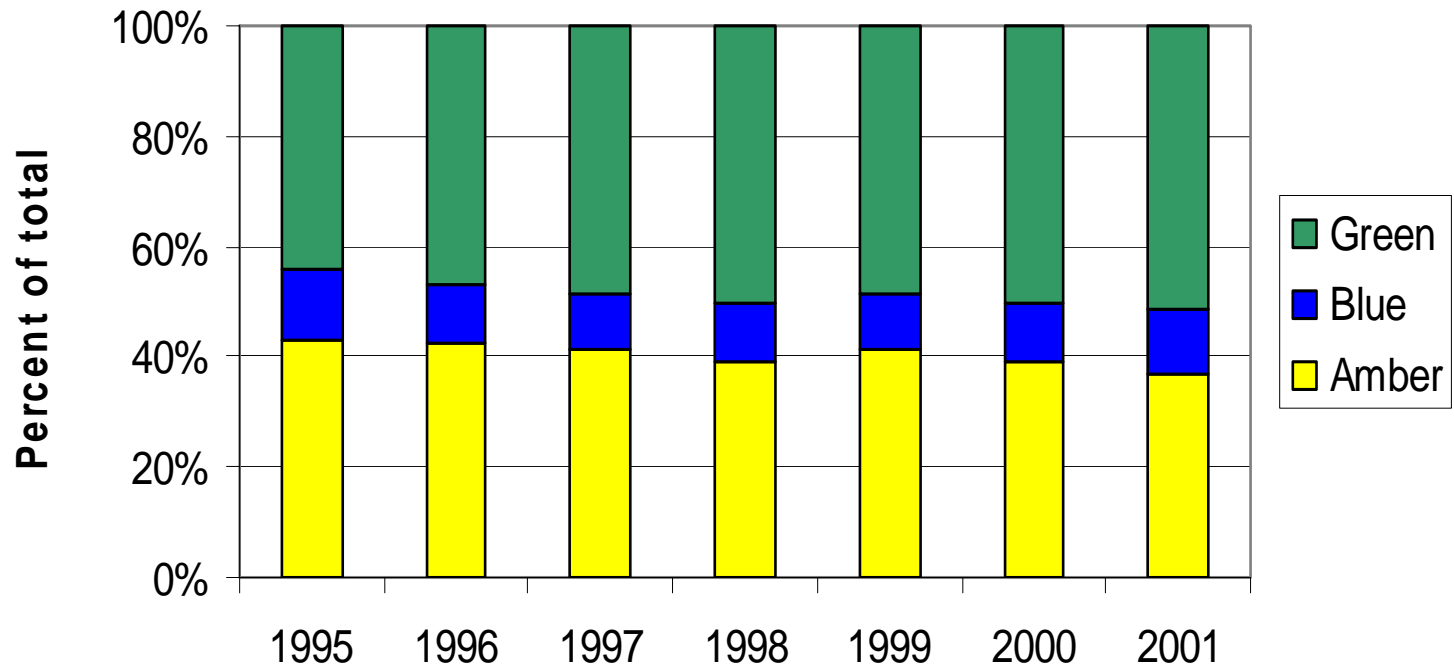
Japan: Domestic Support



Trends in Total Notified Domestic Support



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

The Green Box – Next Steps?

- Little progress to date in negotiating changes
- May be difficult to reach a rapid resolution on refinements to Green Box criteria that would not create problems in the future
- Effective monitoring is important to the acceptability of the Green Box (as well as of other aspects of domestic support)
- Adherence to current rules would be useful – more timely notification, monitoring and surveillance (G-20 proposal stresses this)

Conclusions

- Economic rationale for Green Box is 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”

Conclusions

- 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 obtain broad agreement that the criteria are sufficient to improve the trade rules for agriculture

Conclusions

- No time to conclude a comprehensive 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

Should the Green Box be Modified?

Thanks for listening!

E-mail:

dblandford@psu.edu

josling@stanford.edu



International
Food & Agricultural Trade
Policy Council

