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# **Agriculture in the WTO**

## **DOMESTIC SUPPORT: ISSUES AND OPTIONS IN THE AGRICULTURAL NEGOTIATIONS**



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## **Domestic Support: Issues and Options in the Agricultural Negotiations**

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The views expressed should not be taken to represent those of institutions to which the authors are attached.

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## **Executive Summary**

### **Domestic Support Issues in the WTO Negotiations on Agriculture**

*P. Lynn Kennedy, Lars Brink, John Dyck, and Donald MacLaren*

The Uruguay Round Agreement on Agriculture (URAA) broke new ground when it introduced disciplines on domestic support for agriculture. It had long been realized that output-promoting domestic subsidies could distort trade patterns even though they did not involve border measures. But it was widely assumed that countries would not allow such domestic measures to be discussed in trade talks or made subject to binding trade rules and limits on expenditures. The constraints on domestic support measures remain among the most controversial aspects of the URAA, and discussions about the next step in trade policy reform have indicated significant disagreements. These disagreements go to the heart of the objectives of domestic farm policy and the range of instruments that countries can use. This paper describes the current situation, the issues before negotiators, the positions of the main protagonists, and the analytical issues that remain to be resolved.

#### **I. Domestic Support Commitments in the Uruguay Round Agreement**

The URAA established bindings in the area of domestic agricultural support mainly through the limits placed on the Total Aggregate Measurement of Support (AMS). Reduction commitments are intended to constrain domestic support measures that encourage agricultural production or raise consumer prices and are therefore considered to distort potential trade flows.

The URAA also specifies measures not subject to reduction. In addition to the *de minimis* provisions, countries are not required to include in Total AMS direct payments under certain production-limiting programs. More widely applicable are the exemptions for Green Box policies that are considered to have no, or at most minimal, trade-distorting effects or effects on production. The Peace Clause specifies that domestic support measures that fully conform to the Green Box provisions are non-actionable and exempt from a variety of actions (e.g., from the imposition of countervailing duties). In addition, developing countries can exempt a somewhat larger set of policy instruments from reduction.

#### **II. Current Situation**

The close link between the rules relating to domestic support as defined by the WTO and the overall development of agricultural policy means that any discussion of the current levels of support needs to be in the context of the more general trends in farm policy. Domestic support is

highly concentrated in a few countries: the European Union, the United States and Japan account for 90 percent of total domestic support for the OECD area as a whole (OECD, 2001b). This section looks at the extent to which these and some other countries have reduced their “trade-distorting” domestic support measures, as well as other major policy developments.

### III. Problems and Issues

A number of factors potentially limit the effectiveness of the URAA in reducing support for domestic agriculture. These include the following:

- 1) Payments exempt under the Green and Blue Box provisions cover a broad range of support measures. Blue Box policies are still widely characterized as market distorting and many argue that current Green Box policies can result in distortions. Several countries have been able to meet their URAA obligations by shifting support to exempt (Blue and Green Box) policies without reducing their support.
- 2) Since the commitment is on Total AMS, not on product-specific AMS amounts, countries can reduce support for some products, while leaving support for other products untouched (or even raised from original levels).
- 3) The *de minimis* provisions create the potential for the continued support of commodity production at high levels.
- 4) The domestic administered support price may be a poor proxy for the internal market price while the fixed external reference price does not represent the actual border price, which brings into question the measures of price support as defined by the URAA.
- 5) The URAA does not provide specific criteria for determining a country’s development status.

On the other hand, some members feel that the URAA is too restrictive in reducing support for domestic agriculture and neglects “non-trade” concerns. They argue that the survival of their domestic agriculture is necessary for their food security and to provide a continuing stream of environmental and societal benefits that are joint products of agriculture. These countries typically favor retention of the Blue Box and adjustment of the Green Box to more readily accommodate policies that support multi-functional aspects of agriculture.

The perceived areas of ineffectiveness in the URAA identify areas for progress in the next agreement. These issues include the accommodation of “non-trade” concerns; reductions in the AMS (including definition and criteria for exempt policies; consideration of inflation and exchange rate changes; the role of *de minimis* provisions; and total versus product-specific AMS commitments); the role of the Blue Box; the definition and perhaps limitation of Green Box subsidies; the role of the Peace Clause; and the role of special and differential treatment.

## **IV. Members' Positions on Domestic Support**

The paper reviews members' proposals according to a set of choices that face negotiators. In constructing a new agreement, countries must decide whether to sort domestic support measures into categories (boxes) or not. If the choice is not to use boxes, the issue then becomes one of determining the scope of the reduction and the level of cuts for overall support. If the path of categorizing support is chosen, the question arises as to how policies should be defined and classified. The criteria for inclusion of policy instruments in the Green Box are perhaps the major issue for many countries. After the decision to classify policies, the issue of appropriate reductions emerges. A wide range of views is apparent on how to discipline particular types of policy and indeed whether to impose any limits on Green and Blue Box measures. Views also differ on the extent to which developed and developing countries should be required to reduce support.

## **V. Analysis of Options**

The varying country positions highlight the need for more analytical work to identify non-trade-distorting solutions. While questions pertaining to the quantity of support allowable and pace of reductions may be political in nature, identifying those disciplines on domestic support that minimize international market distortions is a task for economists. This section focuses on two general areas of analytical uncertainty: the significance of multifunctionality for the discipline on domestic support and the correct specification of Green, Blue and Amber Box criteria.

## **V. Conclusions**

The paper concludes by raising several issues for the next round of multilateral talks on agriculture. Among these are concerns as to the structure to be adopted for the discipline categories; the type of development box to be established and whether a transition box should be established; whether AMS commitments should be on a product or sector-wide level; how the issue of multifunctional policies should be dealt with; whether allowable protection should be adjusted for inflation or exchange rate changes; and whether the use of *de minimis* should continue and if so, at what level.

If the ultimate objective is to achieve freer trade, the next agreement must create an incentive structure that encourages countries to discontinue the use of trade-distorting domestic support policies. One insight that can be gleaned from the URAA is that a self-enforcing framework can be established that encourages countries to adopt less trade-distorting domestic support policies. A second insight to be gained from the URAA is the need for well-defined criteria.

## TABLE OF CONTENTS

Introduction.....	1
I. Domestic Support Commitments in the Uruguay Round Agreement .....	1
II. Current Situation .....	3
1. AMS Levels .....	4
2. Policy Changes since URAA .....	4
a. United States – FAIR Act .....	5
b. European Union – Agenda 2000 .....	5
c. Asian Countries.....	6
III. Problems and Issues.....	7
1. Effectiveness of the Current Agreement .....	7
2. Issues for the Current Negotiations .....	8
a. The Accommodation of Non-trade Concerns .....	9
b. Further Reductions in AMS .....	9
c. Role of the Blue Box.....	10
d. Limits on Green Box Subsidies .....	10
e. The Role of the Peace Clause .....	10
f. Special and Differential Treatment .....	11
IV. Members’ Positions on Domestic Support .....	11
1. Limits on All Domestic Support .....	11
2. Amber Box Issues .....	12
a. Reductions and Modifications .....	12
b. Developing Countries and the AMS .....	13
3. Blue Box Issues.....	14
4. Green Box Issues .....	14
5. Peace Clause Issues and Non-Countervailability .....	16
6. Development Box Issues.....	16
V. Analysis of Options.....	18
1. Multifunctionality and Trade Distortions .....	18
2. Green Box Criteria .....	20
V. Conclusions .....	21
References .....	23
Appendix.....	39

## **LIST OF FIGURES**

Figure 1: Schema for Considering National Positions on Domestic Support.....	29
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## **LIST OF TABLES**

Table 1: Total AMS Commitments by Member, 1995-99.....	31
Table 2: Use of Total AMS Commitments by Member, 1995-98 (Percentage).....	33
Table 3: Domestic Support by Category, 1995-97 (Percentage) .....	34
Table 4: Initial Positions as Reflected in WTO Position Papers .....	35
Table 5: Level of Support for Various Issues as Indicated in WTO Position Papers .....	37
Table A.1: Domestic Support Positions and Proposals of Selected Countries/Groups .....	40

## IATRC Commissioned Paper

# Domestic Support Issues in the WTO Negotiations on Agriculture

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## Introduction

The Uruguay Round Agreement on Agriculture (URAA) broke new ground when it introduced disciplines on domestic support for agriculture. It had long been realized that output-promoting domestic subsidies could distort trade patterns even though they did not involve border measures. But it was widely assumed that countries would not willingly allow such domestic measures to be discussed in trade talks, to be made subject to binding trade rules and to be subject to limits on the expenditure on such policies. The constraints on domestic support measures remain among the most controversial aspects of the Agreement on Agriculture, and discussions about the next step in trade policy reform have indicated significant disagreements. These disagreements go to the heart of the objectives of domestic farm policy and the range of instruments that countries can use. This paper describes the current situation, the issues before negotiators, the positions of the main protagonists, and the analytical issues that remain to be resolved.

## I. Domestic Support Commitments in the Uruguay Round Agreement

The Uruguay Round Agreement on Agriculture (URAA) established bindings in the area of domestic agricultural support mainly through the limits placed on the Total Aggregate Measurement of Support (AMS). Reduction commitments are intended to constrain domestic support measures that encourage agricultural production and are therefore considered to distort potential trade flows. Members are in compliance with their domestic support reduction commitments in any year in which distorting domestic support (Current Total AMS) does not exceed the corresponding annual or final bound level specified in the member's schedule of commitments.

The AMS is calculated on a product-specific basis for each basic agricultural product receiving market price support, non-exempt direct payments, or any other non-product-specific support provided in favour of agricultural producers in general that is not exempted from a reduction commitment. Support which is non-product specific is totaled into a non-product-specific AMS. The AMS includes support at both the national and sub-national levels. Subsidies included in the AMS include both budgetary outlays and revenue foregone by

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governments or their agents. However, specific agricultural levies or fees paid by producers are deducted from the AMS.

The AMS includes market price support (other than that implemented only through border measures) as well as payments. Market price support is defined as a price wedge multiplied by the quantity eligible to receive the applied administered price. The price wedge for a product is the difference between the applied administered price and an external reference price. The reference price can be an import price (c.i.f.: cost, insurance, and freight included) or an export price (f.o.b.: free on board). Significantly, the reference price is fixed at the 1986-88 level. The applied administered price is not defined in the Agreement and can be (for example) a government purchase price or a minimum price in a price stabilization band. The quantity eligible to receive the administered price is not defined in the Agreement, with the consequence that some countries multiply the price wedge by total production, and others by a lower quantity, such as that actually purchased by an intervention agency. In the latter case, the purchases, perhaps in combination with import regulations, can have the effect of raising the price of the total quantity produced, though the market price support component of the AMS accounts for only a small part of this support.

Fixing the reference price at the 1986-88 level means that the market price support component of the AMS does not vary inversely with changes in the world market prices, as would normally be expected of an indicator of price support. For example, when world market prices drop below the 1986-88 reference price, with an unchanged domestic price, the market price support component remains unchanged (Roberts, Podbury, and Hinchy, 2001).

The Agreement does, however, specify measures that need not be subject to reduction. A member is not required to include in the calculation of its Total AMS or reduce i) product-specific domestic support that does not exceed 5 percent of the member's total value of production of a basic agricultural product during the relevant year; and ii) non-product-specific domestic support that does not exceed 5 percent of the value of the member's total agricultural production. For developing countries, this *de minimis* percentage is 10 percent for both i) and ii).

In addition, countries are not required to include in Total AMS or reduce direct payments under production-limiting programs if the payments are based on fixed area and yields; or made on 85 percent or less of the base level of production; or are livestock payments based on a fixed number of head. Domestic support meeting these criteria is known as Blue Box support. Blue Box exemptions have been claimed mainly by the EU and the U.S., for whom this category was devised. However, in early 2001 Japan claimed Blue Box exemption for certain support to rice from 1998, referring to policy changes that also would allow it not to measure considerable amounts of support previously notified as market price support.

More widely applicable are the exemptions for Green Box policies. Support measures in this category are considered to have no, or at most minimal, trade-distorting effects or effects on production. Measures for which exemption is claimed must meet the following basic criteria: a) the support is provided through a publicly-funded government program not involving transfers from consumers and b) the support does not have the effect of supporting producer prices. In addition, exempt support must meet the policy-specific criteria and conditions applying to the

following categories of government programs:

- 1) general services;
- 2) public stockholding for food security purposes;
- 3) domestic food aid;
- 4) direct payments to producers;
- 5) decoupled income support;
- 6) government financial participation in income insurance and income safety-net programs;
- 7) payments for relief from natural disasters;
- 8) structural adjustment assistance provided through i) producer retirement programs; ii) resource retirement programs; and iii) investment aids;
- 9) payments under environmental programs;
- 10) payments under regional assistance programs.

To ensure that policies that qualify under the Green Box are not subject to challenge by rules that apply to non-agricultural subsidies, the URAA provides for “Due Restraint” by countries in taking such action. The Peace Clause, as this provision is known, specifies that domestic support measures that fully conform to the Green Box provisions are non-actionable and are exempt from a variety of actions, including the imposition of countervailing duties. Other domestic support is also immune to certain actions in some circumstances. The Peace Clause is scheduled to expire at the end of 2003.

Developing countries can exempt a somewhat larger set of policy instruments from commitment and reduction. It was recognized that government assistance to encourage agricultural and rural development is an integral part of the development programs of developing countries. For developing countries, investment subsidies that are available to agriculture and agricultural input subsidies available to low-income or resource-poor producers are exempt from domestic support reduction. In addition, domestic support given to producers to encourage diversification away from illicit narcotic crops is exempt from domestic support reduction. These provisions are known collectively as Article 6.2 exemptions.

## **II. Current Situation**

The close link between the rules relating to domestic support as defined by the WTO and the overall development of agricultural policy means that any discussion of the current levels of support needs to be in the context of the more general trends in farm policy. Domestic support is

also highly concentrated in a few countries: the European Union, the United States and Japan account for 90 percent of total domestic support for the OECD area as a whole (OECD, 2001b). This section looks first at the extent to which these and some other countries have reduced their “trade-distorting” domestic support measures and then at some of the major developments in domestic policy in so far as they are in part a reaction to the constraints imposed by the Uruguay Round.

## 1. AMS Levels

In meeting their Total AMS commitment levels as agreed to in the URAA, members of the WTO were required to provide notification of agricultural support to the WTO Committee on Agriculture. Total AMS commitments and Current Totals (as notified to the WTO) are shown for selected countries in Table 1, for the years 1995 to 1999. The proportion of “allowable” AMS used by selected members is shown in Table 2. With a few exceptions, member countries have adjusted their domestic support policies in order to comply with the agreement. Of the Cairns Group countries<sup>1</sup> only South Africa (97%) and Thailand (79%) were close to the limit on support in 1997; Australia was at 25%, while Costa Rica and New Zealand were apparently providing no support at all through Amber Box policies. The corresponding figure for the European Union (average of 1995 - 1998) is 66%, for Japan (average of 1995 - 1998) it is 58.5%, and for the United States (average of 1995 - 1997) it is 27%.

One way in which countries have been able to reduce their AMS levels to meet their URAA commitments is by shifting domestic support from non-exempt to exempt categories. For example, over 60 percent of domestic support in OECD countries is excluded from reduction commitments (OECD, 2001b). The composition of domestic support by category is presented for selected countries in Table 3. The structure of support ranges from New Zealand with all of its support in the Green Box category to the European Union with less than 25% of its support in the Green Box. Table 3 also shows a consistent trend in shifting domestic support away from the non-exempt categories into the exempt Green and Blue Boxes. This trend can be illustrated by observing the developments in domestic policy over the period since the Uruguay Round.

## 2. Policy Changes since URAA

Over the period since the Uruguay Round there have also been a number of developments taking place with respect to the domestic agricultural policy of individual countries. Some of these developments are in response to the URAA while other changes were the result of internal factors. Most of these new developments have implications for the current negotiations. The following discussion reviews agricultural policy changes that have occurred in the United States, the European Union, and some Asian countries, as they relate to the issue of domestic support.

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<sup>1</sup> The Cairns Group consists of Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay. The apparent overuse of Amber Box support by Argentina in 1995 and 1996 refers to a situation which was addressed in Argentina’s 1998 rectification of its scheduled commitment.

### **a. United States – FAIR Act**

The Federal Agriculture Improvement and Reform (FAIR) Act of 1996 was an attempt to continue the support of domestic farm income while at the same time reducing the role of the government in managing commodity markets. In that respect much of it was in line with the URAA. At the time there was hope that the FAIR Act would provide for a more market-oriented U.S. agricultural sector. The U.S. could in effect remove its main crop payments from the Blue Box.

The FAIR Act was introduced at a time when agricultural prices were relatively high. However, depressed market prices combined with various natural disasters have resulted in dramatic increases in government expenditures in the form of marketing loans under the FAIR Act as well as emergency relief under additional authorities. This has raised the issue of the extent to which current and future US policies are “de-coupled” from output decisions. There are certain provisions of the FAIR Act that could influence planting decisions. If so, they may not be minimally production- and trade-distorting and would therefore not qualify for exempt status under Annex 2 of the Agreement on Agriculture (The Green Box). These provisions include i) production flexibility contracts; ii) crop and revenue insurance; and iii) disaster assistance programs. The challenge for policy makers in the next Round will be to determine clear criteria for categorizing these measures.

### **b. European Union – Agenda 2000**

In March of 1999 the European Union completed negotiations to establish a new framework for its budgetary, regional and agricultural policies in light of the likely enlargement of the EU. The agricultural component of “Agenda 2000” was designed to create the conditions for EU agriculture to be competitive in world markets that are progressively characterized by lowered trade barriers. For the purpose of strengthening market orientation, Agenda 2000 instituted reductions in market support prices for cereals, milk and milk products, and beef and veal. These reductions in support prices will be phased in gradually to provide enough time for producers to adjust to the new pricing conditions. At the same time, direct payments will be used to negate the impact of decreased producer prices, thereby providing income support for agricultural producers. This change in policy is consistent with the URAA agreement in that it will place less pressure on the AMS constraints and shift policies toward the Blue Box.

Agenda 2000 also promotes the concept of multifunctionality. This notion holds that, because of the multifunctional nature of agriculture, agricultural support also provides benefits in non-agricultural areas, such as rural development and the environment. Thus in domestic terms, agricultural policy is increasingly used to provide spillover benefits in other areas. The challenge for policy makers in the WTO will be to determine clear criteria for categorizing production- and trade-distorting measures when the main purpose of these domestic policies is the provision of an externality.

### c. Asian Countries

Since 1995, some Asian countries have initiated policies that seek to support and strengthen domestic agriculture. The set of policies in place before the UR, which were formulated in the 1960s, reflected concerns about conserving foreign exchange, fostering import substitution, maintaining rural employment, boosting rural household income, and preserving smallholder agriculture. The more recent policies are still concerned with rural income, but put a greater emphasis on letting markets work, rather than targeting certain commodity outcomes. Important examples are new policies in Japan, Korea, and the Philippines.

The completion of the UR in 1995 had a significant impact on agricultural policy in the region's two wealthiest WTO members, Japan and Korea. Neither country welcomed the URAA, although they supported other agreements of the Uruguay Round and the establishment of the WTO. To compensate farmers for the reduction in trade barriers and trade-distorting domestic support, both instituted massive spending plans for the sector. Japan announced an extra \$60 billion in spending to restructure agriculture, to be allocated over a 5-year period. South Korea announced 42 trillion won (about \$54 billion at the 1995 exchange rate) to be spent on agricultural restructuring for its farm sector, also for a five-year period. It appears that the extra spending has actually occurred, indicating a significant shift in the direction of policy away from reliance on border measures.

The *Basic Law on Food, Agriculture and Rural Policy* (July 1999) in Japan “thoroughly reviews the postwar agricultural policies...and sets up a new policy-making scheme under the new principles.” “The four basic principles” are securing a stable food supply; fulfillment of multi-functionality of agriculture; sustainable development of agriculture; and promotion of rural areas. Japan retains its huge rice diversion program (notified as a Green Box environmental payment), but has begun a new policy that uses direct payments to compensate farmers for drops in market prices. While rice support payments are claimed in the blue box (because of certain production-limiting provisions), similar direct payments for other commodities will presumably remain in the amber box. Direct payments, in contrast to the market price support they replace, do not affect consumer prices and thus should affect trade less.

The *Agricultural and Rural Basic Law* (Jan. 2000) which was adopted in Korea is part of a shift away from farm assistance to more market-oriented policies intended to improve agricultural productivity. Its underlying objectives are food security; multi-functionality of agriculture; raising farmers' incomes by means of direct payments rather than price support; improvement of rural life; cooperative production and marketing methods; and increasing value-added processing of agricultural products. Despite this, government rice purchases, which affect market prices, continue to be a leading feature of agricultural policy, and ensure that Korea remains perilously close to exceeding its AMS commitment each year.

Other Asian member-countries of the WTO (India, Pakistan, Sri Lanka, Bangladesh, Indonesia, the Philippines, Thailand, Malaysia, Myanmar, Singapore, Brunei, and Mongolia) have developing-country status. Thailand, the Philippines, and India report amber-box policies, chiefly to support rice farmers (by government purchases that seek to raise prices and through concessionary loans). Of the three, only Thailand reports policy support that exceeds *de minimis* levels. The notifications of current domestic policies and the proposals by developing Asian

countries to negotiations about a new multilateral agreement are evidence that these countries still regard government intervention in commodity markets, rather than direct payments to farmers, to be a useful policy tool.

The newer programs in Japan and Korea, and to some extent in South and Southeast Asia, allow greater freedom for labor and capital movement in the rural sector. Few programs now explicitly target greater production of any particular commodity. Instead, in Japan and Korea, safety nets are provided on a commodity basis. If prices fall sharply or natural disasters occur, producers of a certain commodity are assured that the government will ensure a price floor or provide financial assistance. This raises the question regarding their consistency with the minimal production- and trade-distorting criteria to qualify as Green Box policies under the URAA.

### **III. Problems and Issues**

#### **1. Effectiveness of the Current Agreement**

If the URAA is judged purely on the basis of the level of support for agriculture it appears to have had limited impact. In fact, domestic support levels in the European Union and the United States were as high in the late nineties as those in the 1986-88 base period. Support for the agricultural sectors of the main developed countries returned to the high levels seen at the beginning of the Uruguay Round, although the year 2000 did see a modest decline in support in some of these countries (OECD, 2001a). There remain some key sectors, such as dairy and sugar, where adjustments to less production/trade distorting outcomes have yet to take place. In these areas, domestic producer/consumer price wedges with respect to international prices remain relatively large.

The URAA scores somewhat better in terms of the nature of domestic support. The Agreement has reinforced the shift from non-exempt (Amber Box) to exempt (Green Box or Blue Box) domestic support, even if it has not ensured that total support is reduced. Countries have the latitude to provide a wide spectrum of domestic support under the provisions of the Green and Blue Box categories as well as under the *de minimis* provisions. The evaluation of the impact of the domestic support rules in the URAA must therefore rest on how effective this shift has been in reducing trade-distorting policies.

A number of factors limit the effectiveness of the domestic support provisions of the URAA in this regard.

- Several countries have been able to meet their URAA obligations by shifting support to exempt (Blue and Green Box) policies. As a result, some countries have been able to meet their commitments without reducing their support. Some argue that this is a weakness of the current agreement, while others maintain that the shift from Amber Box to Green and Blue Box measures is evidence of its success.
- Blue Box policies are still widely characterized as market distorting.

- Many argue that Green Box policies, as determined using the current criteria, can themselves result in distortions.
- The commitment is on Total AMS, not on product-specific AMS amounts. This allows countries to reduce support for some products, while leaving support for other products untouched (or even raised from original levels).
- The *de minimis* provisions are applied on both a product-specific and sector-wide basis. Providing exemptions in this manner creates the potential for the continued support of commodity production at high levels.
- The market price support component of the AMS is based on the domestic administered support price and a fixed external reference price. The domestic administered support price may be a poor proxy for the internal market price while the fixed external reference price does not represent the actual border price. This brings into question the measures of price support as defined by the Agreement.
- Many countries believe that the Agreement does not provide specific criteria for determining a country's development status.

Despite these caveats it is notable that few countries have taken advantage of the mechanisms set up by the Uruguay Round to challenge the domestic policies of others. In part this reflects the “due restraint” that countries agreed to adopt, which through 2003 limits the extent to which both Green Box and other domestic support policies are actionable. But there have been no legal challenges to the classification that countries have used to place their policy measures in the various boxes<sup>2</sup>. Either the system is working rather well or the rules are deemed to have inadequate teeth to make a challenge worthwhile. If most countries are well within their allowable Total AMS levels, it makes little sense to challenge particular Green Box policies to try to have them declared “Amber.”

## 2. Issues for the Current Negotiations

The perceived areas of ineffectiveness in the current Agreement can be used to identify areas for progress in the next agreement. These issues include the accommodation of “non-trade” concerns; reductions in the aggregate measurement of support (including definition and criteria for exempt policies; consideration of inflation and exchange rate changes; the role of *de minimis* provisions; and total versus product-specific AMS commitments); the role of the Blue Box; limits on Green Box subsidies; the role of the Peace Clause; and the role of special and differential treatment.

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<sup>2</sup> The one exception is the challenge by the United States and Australia of Korea's claim for *de minimis* exemption for its beef support.

### **a. The Accommodation of Non-Trade Concerns**

One of the challenges for the next negotiations involves the identification of ways to reduce trade-distorting domestic support while providing countries with the flexibility to achieve important societal goals. The urgency of this issue will increase as the amount of support allowed within the Amber and Blue Boxes declines. Criteria must be refined to provide clearer definitions of acceptable minimal-trade-distorting domestic policy measures that allow countries to pursue important societal objectives, such as those in the areas of the environmental standards, rural development, food security and poverty alleviation.

### **b. Further Reductions in AMS**

The URAA placed limits on individual countries' Total AMS and reached agreement on reductions, resulting in a final, bound support level. An issue for the next Round will be how much further to reduce these levels, and whether to use as a base for reduction the bound support level or some other value. The bound amount of AMS support varies greatly among countries, with most countries having a zero commitment and some countries having a much higher commitment than others, in relation to the size of their respective agricultural sectors. In addition, negotiators will have to consider the method of reductions. Should support be reduced *by* a certain amount or *to* a certain amount? Reducing support by a certain amount provides advantages to those countries with currently high levels of support. Reducing support to a certain amount would result in a more level playing field among countries.

The current *de minimis* rules specify the levels of support for developed and developing countries that can escape commitment. Negotiators will likely consider whether exemptions under the *de minimis* provisions should be retained. If these provisions are kept, the next logical progression is to determine by how much or to what level the *de minimis* threshold will be reduced. On the other hand, some countries have proposed that developing countries be allowed to increase their exempt level provided under the *de minimis* provisions.

AMS commitments and levels are reported in nominal terms. Because of this, high levels of inflation or fluctuations in the exchange rate will create distortions when evaluating support levels. Negotiators should consider the development of criteria that account for inflation or exchange rate fluctuations in determining a country's AMS level.

During the time since the URAA was reached, a number of countries have shifted significant portions of their domestic support from non-exempt categories into the Green and Blue Boxes, categories that are currently exempt from commitment. One issue related to this involves whether all domestic policies currently categorized as exempt truly fit the criteria of the current agreement. The next agreement may seek more specific policy criteria to determine the status of domestic support. Specifically, the issue of decoupled payments must be addressed and appropriate criteria developed.

As the Agreement currently exists, countries have the flexibility to adjust the level of support among products in the Amber Box, provided the Total AMS does not exceed the

commitment. Setting AMS limits on a product-specific basis would increase the discipline of the Agreement.

### **c. Role of the Blue Box**

Direct payments under certain production-limiting criteria are not used in AMS calculations and are currently exempt from commitment. These Blue Box exemptions are specified in Article 6.5 of the URAA. The reason for this provision was to make it easier for the EU and the U.S. to meet their respective reduction commitments. The EU used the Blue Box for its ongoing compensatory payments under the 1992 reform of the Common Agricultural Policy (CAP) while the U.S. used the Blue Box for its 1995 deficiency payments. Japan placed its rice policies into the Blue Box in 1998, replacing huge levels of rice support formerly subject to reduction in the Amber Box. Other countries utilizing this provision include Norway and, in the past, Iceland and the Slovak Republic. Some argue that the purpose of the Blue Box was transitional and should be phased out, thus encouraging countries to adopt measures that fit the Green Box criteria. Issues concerning the Blue Box involve whether it should be eliminated and at what rate.

### **d. Limits on Green Box Subsidies**

The URAA placed no limits on the level of support or the total amount of expenditures that could be provided within the Green Box framework. In this category, domestic support that has no, or at most minimal, trade-distorting effects or effects on production is exempt from reduction requirements. The two basic criteria for Green Box support are that the support must be government-funded (not involving transfers from consumers), and it must not have the effect of providing price support to producers. A number of policy-specific criteria and conditions also apply. However, the less-than-precise nature of the criteria has left room for interpretation concerning policies allowed within the Green Box. Beyond the clarification of accepted Green Box policies, several countries have called for limits in this category. While the question of limiting Green Box expenditures will be a contentious issue, an area of compromise could involve better definitions regarding which policies have no, or at most minimal, trade-distorting effects or effects on production.

### **e. The Role of the Peace Clause**

The peace clause provides incentive for countries to shift domestic policy instruments toward the Green Box category in order to eliminate the threat of countervailing duties and other actions. One question to ask concerning the future of the peace clause involves the form it should take to encourage the greatest shift toward qualifying support. Should it be of limited duration or permanent? Should it only cover Green Box policies or include other support? If the peace clause were allowed to expire would it eliminate much of the incentive to shift from non-qualifying to qualifying support categories? The outcome concerning the peace clause and its optimal form depends on changes that take place with respect to the various categories of support.

## **f. Special and Differential Treatment**

Developing countries have been afforded special and differential treatment under the URAA. These include a smaller commitment reduction requirement, a higher *de minimis* level, and a longer implementation period. The continuation of Special and Differential Treatment seems likely. In addition to determining the type of Special and Differential Treatment that will be granted, the next Round should develop specific criteria as to which members qualify as developing countries. The question has also been raised concerning the provision of Special and Differential Treatment to transition economies.

## **IV. Members' Positions on Domestic Support**

Most WTO members have by now presented their opinions on the way in which constraints on domestic support should be modified in the current trade negotiations. The main proposals are summarized in the Annex. A general overview of the initial positions as based on the WTO position papers is presented in Table 4. An indication of the level of support for various issues as indicated by these position papers is presented in Table 5. In this section these proposals are discussed using a simple framework indicated in Figure 1. Countries face the choice as to whether to categorize domestic support measures or not. Those that choose not to do so can still restrain the level of support. The issue then becomes one of deciding on the scope of the reduction and the level of cuts. For those that choose the path of categorizing support, the question arises as to how policies should be defined. The criteria for inclusion of policy instruments in the Green Box are perhaps the major issue for these countries. Once one has decided to classify policies the issue of appropriate reductions emerges. A wide range of views is apparent on how to discipline particular types of policy and indeed whether to impose any limits on Green and Blue Box measures. This framework is used in the following discussion of members' proposals.

### **1. Limits on All Domestic Support**

Several proposals indicate that support measures should not be categorized, but the total domestic support of industrial countries should be capped. The group consisting of Cuba, the Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador proposes that all domestic support categories be collapsed into one "General Subsidies" box. A common level of support should be allowed, which is non-actionable. Subsidies of five percent above this level will be 'actionable' for developed countries.

Egypt proposes that developed countries, which currently utilize extensive domestic support mechanisms, should agree to substantially reduce the levels of such support, and, for the purpose of clarity and transparency, grant support on a disaggregated product-by-product basis. Such reductions, with a substantial up-front down payment, should be made across the color gamut of boxes.

Under India's proposal, direct payments along with decoupled income support and governmental financial participation in income insurance and income safety-net programs as well as direct payments under production limiting programs should be included in the non-product-specific AMS. They should also be subject to a reduction commitment so as not to exceed the *de minimis* level, i.e., five percent (for developed countries) and ten percent (for developing countries) of the value of the member's total agricultural production.

Canada offered proposals in addition to those submitted by the Cairns Group. Under the Canadian proposal the agricultural negotiations would pursue and develop an overall limit on the amount of support of all types (Green, Blue and Amber) provided to agriculture, to ensure that the reform program reduces inequities.

## **2. Amber Box Issues**

### **a. Reductions and Modifications**

Several proposals call for the reduction and elimination of the Amber Box policies included in the Aggregate Measurement of Support. Under the ASEAN proposal the AMS would be subject to reduction, leading to elimination. The Cairns Group calls for a formula based approach that will be used to reduce trade and production distorting domestic support, including the AMS, leading to the elimination of such support and thus the removal of disparities in the levels of this support provided by countries.

Morocco targets the AMS of developed countries. Its plan calls for a reduction of 10 percent of the amounts effectively granted during the first year; a further annual reduction during the implementation period with a view to the final elimination of the subsidies; and a 50 percent reduction, if not the complete elimination, of the *de minimis* threshold.

Under the European Union proposal the reform process should be pursued through 1) further reduction in the Total AMS starting from the final bound commitment level; 2) further strengthening of the rules concerning non-product specific domestic support; and 3) reduction of the *de minimis* level for developed countries. Japan proposes that the base level of the Total AMS should be equivalent to the final commitment level in the year 2000 (ceiling) in order to secure the continuity of agricultural policy reform. These views are similar to the position of Poland, which voices its willingness to undertake negotiations for further reduction of bound levels of the AMS, specified in the schedules according to the UR formula. The European Union also proposes that the Amber Box be modified to allow specific discipline to be applied to variable subsidies that boost export performance through providing compensation for variations in market prices.

Mexico's position is that the reduction in the AMS should be as substantial as possible. Given that it is the Amber Box domestic support measures that most distort production and trade, reductions should considerably exceed those applied during the Uruguay Round. These reductions should be greater in the developed countries, where such instruments are used more extensively, than in the developing countries.

Norway proposes that, based on existing bound commitments, the AMS would be divided into domestic support to agricultural production destined for the domestic market and support to export-oriented production. Export-oriented production support would be subject to further reductions.

The United States calls for the establishment of a “non-exempt support category” that would be subject to a reduction commitment. Members with a final bound AMS in their schedules would commit to reduce the level of non-exempt support. These reductions would start from the final bound AMS under the URAA and be reduced to a final bound level equal to a fixed percentage of the members’ value of total agricultural production in a fixed base period. However, according to Japan, it is unreasonable to set the level of AMS as a fixed percentage of each Member’s total agricultural production.

India proposes that a suitable methodology of notifying the domestic support in a stable currency/basket of currencies be adopted for taking into account the incidence of inflation and exchange rate variations. In a similar proposal, Norway recommends that monetary domestic support commitments should be subject to annual inflation adjustments.

The ASEAN countries propose that reduction commitments within the Amber Box be made on a disaggregated level. India and Jordan support the notion that negative product-specific support should be allowed to be counted against positive non-product-specific AMS support. While product-specific support should be calculated at the agriculture-wide level, support to any one particular commodity should not be allowed to exceed the double of the *de minimis* limit of that commodity.

## **b. Developing Countries and the AMS**

A number of countries support “Special and Differential Treatment,” particularly for developing countries. According to the ASEAN proposal, developed countries should no longer be allowed to have the additional flexibility to apply *de minimis*. Kenya proposes that all trade-distorting subsidies utilized by developed countries should be completely eliminated. Developing countries should not be expected to undertake any further liberalization commitments until this is accomplished. The Congo calls for an improvement of the Amber Box, raising the possibility for the least-developed countries to go beyond their base level AMS.

The Cairns Group supports the use of a differentiated AMS formula and commitments for developing countries, while Morocco calls for a rise in the AMS level or at least no commitment to reducing the AMS for the developing countries. To ensure equity and a balance of obligations, Nigeria would allow developing countries to take new measures, for instance in the area of domestic support, up to levels substantially higher than the *de minimis* levels. According to the Transition Economies this concept should be extended, by increasing the *de minimis* threshold applicable to the transition economies. Mexico’s proposal calls for the provisions on special and differential treatment for developing countries with respect to domestic support being maintained and improved; at the same time these measures should be exempt from countervailing measures.

The Indian proposal would have total domestic support brought down below the *de minimis* level within a maximum period of three years by developed countries and in five years by the developing country Members. According to the Indian proposal, developed countries should make a down payment by the end of the year 2001 of 1) a 50 percent reduction in the domestic support from the level maintained during the year 2000; or 2) non-product-specific support provided in favour of agricultural producers in general the amount exceeding the *de minimis* level, whichever is lower. In addition, product-specific support provided to low-income, resource-poor farmers in developing countries should be excluded from the AMS calculations, as is the case for the non-product-specific support.

### **3. Blue Box Issues**

A few countries want the Blue Box to be treated as a modified, constrained Amber Box and eventually eliminated. ASEAN is clear that the Blue Box support must be subjected to substantial reduction commitments leading to its elimination. The Cairns Group support of a formula to reduce the AMS holds for the Blue Box as well. Mexico's position is that, contrary to what was agreed in the Uruguay Round, the amounts allocated to Blue Box programs should be reduced at an accelerated pace. Jordan suggests that domestic support under production limiting programs, which are exempt from the reduction commitment, could be maintained since this can be useful in converting trade-distorting support to less trade-distorting support; however, it should be subject to reduction commitments leading to their elimination. The proposed U.S. categorization of support as exempt and non-exempt would likely place current Blue Box support in the non-exempt category.

A number of countries are quite firm in stating that Blue Box policies should be exempt from reduction. Both the European Union and Japan state that the concept of the Blue Box must be maintained. From the Korean perspective, the Blue Box should be maintained since it can be useful in converting trade-distorting support to less trade-distorting support. Norway also wants the Blue Box maintained. Poland proposes to assure the right of every Member to introduce and maintain Blue Box payments. At the other end of the spectrum, Morocco's proposal calls for the elimination, over a period of five years, of Blue Box subsidies.

### **4. Green Box Issues**

Most countries support the continuation of Green Box measures within the framework of Annex 2 of the Agreement on Agriculture. Mexico's position is that the Green Box and its exemptions should be maintained. While the U.S. does not mention the Green Box, *per se*, policies in its proposed "exempt support category" would have no, or at most, minimal trade distorting effects or effects on production and would be exempt from reduction commitments.

Many countries and groups would like the definition as to what constitutes Green Box policies to be clarified. According to the Cairns Group proposal, basic and policy-specific criteria for Green Box support not subject to reduction and elimination should be reviewed to ensure that all such domestic support meets the fundamental requirements of no, or at most minimal, trade-distorting or production effects. ASEAN states that Green Box measures must

have at most minimal or no trade-distorting or production effects. In order to minimize any possible trade-distorting effects of Green Box measures, Turkey proposes the introduction of clear definitions and sets of rules. Egypt would like measures allowed under Annex 2 to be reviewed for their compatibility with non-trade distortion. Jordan would also like the Green Box maintained, and states that criteria should be reviewed to ensure that all such domestic support meets the fundamental requirements of no or at most minimal trade-distorting effects or effects on production. Morocco is more direct in stating that Green Box measures must be redefined to eliminate measures that create trade distortions.

Korea, Japan, and the European Union are concerned with multifunctionality and its compatibility with the Green Box. According to Korea, the scope and criteria of Green Box should be adjusted to be more flexible so that the multifunctionality of agriculture can be properly reflected. The following measures should also be exempt from reduction commitment:

- a. Compensatory Supports for Multifunctionality of Agriculture;
- b. Supports for Enhancing Income Safety Net;
- c. Supports for Small-scale Family Farm Households;
- d. Supports for Agricultural and Rural Development in Developing Countries.

The European Union proposes that criteria to be met by measures that fall into the Green Box be revisited to ensure minimal trade distortion whilst at the same time ensuring appropriate coverage of measures that meet important societal goals. In addition, the EU proposes that measures aimed at protecting the environment, sustainable vitality of rural areas and poverty alleviation should be accommodated in the Agreement on Agriculture. Such measures should be well targeted, transparent, and implemented in no more than minimally trade-distorting ways.

According to Japan, the requirements for decoupled income support should be improved, in order to reflect the real situation of production. In view of introducing safety-net programs it is appropriate to ease the requirements on measures, such as income insurance and income safety-net programs, as well as the restriction on the rate of compensation concerning those measures.

A few countries call for bounds with respect to the amount of support provided in the Green Box. ASEAN calls for an overall cap on the budget of developed countries allocated for Green Box measures. Morocco would like upper limits imposed for these measures when they have a negative impact.

India proposes that direct payments to producers, decoupled income support, and government financial participation in income insurance and income safety-net programs in developed countries should not be exempt from reductions, but should be considered non-product-specific policies in the Amber Box.

From the perspective of Switzerland, since the Green Box can contain only measures that have little or no impact on production and trade, an absolute multilateral ceiling must be excluded.

## **5. Peace Clause Issues and Non-Countervailability**

According to the group consisting of Cuba, the Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador, the Due Restraint Clause protecting Green Box subsidies from certain trade remedy action should be terminated as soon as possible. Egypt calls for an urgent review of the 'Due Restraint' provisions, as their use constitutes an additional window for some members to unfairly support their agricultural sectors.

Kenya's position is that the Peace Clause should not be extended beyond 2003. However, domestic support measures provided by developing countries within the framework of Food Security/Development Box and those under Article 6.2 should be made totally non-actionable.

Canada proposes that support meeting Annex 2 (Green Box) criteria should be permanently recognized as not countervailable. According to India, after the abolition of the peace clause (Article 13), as a special and differential provision for developing countries, measures under Annex 2 and other domestic support measures conforming to Article 6 (Blue Box) shall be exempt from imposition of countervailing duties and shall also be exempt from actions based on non-violation nullification or impairment of the benefits of tariff concessions.

## **6. Development Box Issues**

Nearly all proposals are supportive of provisions to aid developing countries. The Cairns Group supports enhanced Green Box provisions for developing countries. At the same time they advocate enhanced technical assistance and promotion of international cooperation to assist agricultural and rural development, and food security programs in developing countries. This is similar to the position of the European Union, in which the EU proposes that measures to promote the sustainable vitality of rural areas and the food security concerns of developing countries as a means of poverty alleviation, where appropriate, be exempted from any reduction commitments. The EU also proposes that other ways be examined to provide the necessary flexibility for countries to address development concerns, notably through a revision of the *de minimis* clause for developing countries.

Kenya states that a Development Box should be designed with a view to consolidating, strengthening and operationalizing the special and differential treatment for developing countries. In the same vein, Nigeria calls for negotiators to ensure that all/any measures aimed at enhancing domestic production are exempt from reduction commitments, recognizing the need for 1) flexibility for developing countries in domestic support measures to address the concerns of the rural population for the sustenance of their livelihood and employment; and 2) attainment of a certain degree of food self sufficiency. India sums up this perspective when it states that all measures taken by developing countries for poverty alleviation, rural development, rural

employment and diversification of agriculture should be exempted from any reduction commitments.

Jordan's proposal calls for the exemption of all measures taken by developing countries for poverty alleviation, rural development, rural employment, desert reclamation and diversification of agriculture from any reduction commitments. Direct or indirect measures that are an integral part of the development programs of developing countries, including investment and input subsidies, as identified in Article 6.2 of the present Agreement, must remain exempt from reduction commitments during the next phase of the reform program. Similarly, the Congo supports a development box that allows for all financial undertakings and efforts of least-developed countries. However, consideration should be given not only to a country's level of economic development and geographical situation but also to cases of *force majeure* (war, natural disasters) for the implementation of rules and commitments.

The position of Senegal is that developing countries be allowed the full possibility of giving internal support to the agricultural sector with a view to ensuring food security, preserving jobs in rural areas and reducing poverty; and to introduce flexible measures in their favor for this purpose. Developing countries with low agricultural production should be given flexibility in all instruments relating to agricultural production. This would enable them to undertake reforms necessary for maintaining their level of food production in the short term and significantly improving agricultural productivity in the long term. Senegal envisages replacing criteria in the form of deadlines, which are often fixed arbitrarily, with objectively verifiable economic indicators, based in particular on the level of development or growth of the sector. Provision for revising the deadlines granted to developing countries should be made, in particular as regards the granting of marketing subsidies provided for under Articles 9.4 and 9.1(d) and (e) of the Agreement on Agriculture.

The United States calls for the creation of additional criteria for exempt support measures deemed essential to the development and food security objectives of developing countries. These objectives include facilitating the development of targeted programs to increase investment and improve infrastructure; enhancing domestic marketing systems; helping farmers manage risk; providing access to new technologies that promote sustainability and resource conservation; and increasing productivity of subsistence producers.

From the ASEAN group perspective, measures that are an integral part of the development, diversification, and food security programs of developing countries must remain exempt from reduction commitments during the next phase of the reform program. Turkey echoes this sentiment when it states that domestic support in developed countries over the *de minimis* level should be reduced substantially or be eliminated, while the *de minimis* level for developing countries should be increased to a mutually agreed level. Developing countries should be granted the flexibility to apply *de minimis* on an aggregate basis, instead of a product basis, taking into consideration the changing production conditions. Special and Differential Treatment granted for developing countries should be continued to be exempted from reduction commitments.

Egypt supports the concept of granting greater flexibility to developing country members to increase their levels of domestic support within the framework of Green Box (Annex 2) measures. Korea's proposal states that, given the different developmental stages and conditions across Member countries, each Member country should be able to implement agricultural policies that fit its domestic situation. This argument is extended by Morocco, calling for new provisions to be introduced in the Special and Differential Treatment category that account for the particular conditions prevailing in developing countries.

Norway quite simply states that special attention must be paid to the needs of developing countries in the area of domestic support. From the perspective of the group consisting of Cuba, the Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador, flexibility should be provided to developing countries in the form of a 'Development' box.

While the majority of countries emphasize the needs of developing countries, one group that is often ignored in this "Development" box discussion is the Transition Economies. The Transition Economies, consisting of Albania, Bulgaria, Croatia, the Czech Republic, Georgia, Hungary, the Kyrgyz Republic, Latvia, Lithuania, Mongolia, Slovak Republic and Slovenia, call for the use of exempt investment subsidies and input subsidies for the transition economies

## **V. Analysis of Options**

The varying country positions set forward to this point highlight the need for more analytical work to aid in the identification of non-trade-distorting solutions. While questions pertaining to the quantity of support allowable and pace of reductions may be political in nature, identifying those disciplines on domestic support that minimize international market distortions is a task for economists. This section will focus on two general areas of analytical uncertainty: the significance of multifunctionality for the discipline on domestic support and the correct specification of Green, Blue and Amber Box criteria.

### **1. Multifunctionality and Trade Distortions**

The European Union, Japan, Korea, Norway and Switzerland argue that the multifunctional role of agriculture should be accepted and Japan in particular suggests that Amber Box policies may be required to achieve the objective of obtaining the positive spill-overs from the agricultural sector. In their *Note on Non-Trade Concerns* a group of 27 countries, including the five listed above, recognizes that countries have the right to address non-trade concerns. Those listed include strengthening the socio-economic viability and development of rural areas, food security and environmental protection, and promoting the co-existence of various types of agriculture. The countries involved are supportive of providing flexibility to allow countries to pursue non-trade concerns. However, it is important to note that this statement calls for policies "which should be no more than minimally trade distorting" (WTO, G/AG/NG/W/36/Rev.1, 2000).

Given this sentiment, the question remains as to why special flexibility should be provided for policies designed to achieve non-trade concerns if they would meet, or come close to meeting, minimal trade distorting criteria. Several position statements, including that of the Cairns Group, concede that countries have a right to pursue whatever agricultural policy objectives they wish. However, they argue that the instruments chosen should not distort international markets by introducing by-product distortions.

There is a clear conflict on this issue between the Cairns Group and the United States on the one hand and the supporters of multifunctionality on the other. Whether the results of the economic analysis of joint products and externalities will ultimately convince the latter group of the unnecessary by-product distortions that their adherence to Amber Box policies would create, is an open question. But the more interesting issue is whether one can in fact categorize corrective domestic policies by looking at their output and trade effect. If economic analysis is to have any relevance in the negotiations, then it must have a good claim on this issue.

The issue of multifunctionality raises a key question with regard to how discipline should be placed on domestic support. Categorization in the past has been based, to a large extent, on a policy's presumed output distorting effects. While economic theory indicates that price-based domestic support has the greatest likelihood for output distortions, it is not necessarily the case that output-increasing policies are actually distorting. An efficient domestic policy in an importing country to provide a positive externality (or correct for a negative externality) could increase (or decrease) output. Exporting countries might well claim that their market is being reduced but it is not clear that this constitutes a trade distortion. Thus if countries choose to encourage the production of public goods which incidentally lead to more private good output it is not clear that economic logic can come to the rescue of the complaining exporter. The exporter's case is stronger on political economy grounds, that the public good is a "cover" for the true objective of the policy which is to protect the incomes of the domestic producer. Thus the "multifunctionality" debate has much in common with those over product attributes (health and safety regulations) that are in danger of capture by protectionist interests. The question is not so much whether a trade effect is evidence of an inefficient domestic policy but rather whether allowing certain policy instruments to be used significantly increases the risk of capture by rent-seeking domestic interests.

If output effects are the main focus, rather than the efficiency of achieving domestic objectives, perhaps one can simplify the categorization of domestic support. Can one adopt an explicit categorization of policies based on output effects? Instead of the current Green, Blue, and Amber Box delineations, policies could be categorized as *output-reducing*, *output-neutral* or *output-increasing*. Policies in the output-reducing and output-neutral boxes would be deemed to be consistent with criteria of no trade effects or effects on production (even if they were actually inefficient in terms of their objectives). The policies in the output-increasing box would have to be specifically justified, in effect determining on a case by case basis which are deemed to be efficient and which protectionist. Just as the SPS Agreement introduces the "science" test for the legitimacy of restrictive health and safety regulations, so the Green Box could insist on "efficiency assessment" and countries could be held to a "least trade distorting" standard for domestic policies. However, reviewing efficiency assessment disputes in addition to those under

science would increase the pressure on a Dispute Settlement Body that is already considered by some to be overloaded.

Categorization of policies in this manner would serve to encourage countries that seek to achieve multifunctional criteria to do so through efficient means. In general, policies classified in the Green Box that are designed to address an externality, such as an environmental concern, would have to achieve this goal with a minimum of market distortion. Policies classified in the Amber Box can also achieve a desired outcome, but would have to do so without an excessive level of market distortion. The onus for countries using Blue Box policies would be to show that they had no output effect, and other countries could of course challenge this.

## **2. Green Box Criteria**

The issue of multifunctionality is only one aspect of the broader issue on which economic analysis can be brought to bear. Another is that of the nature of "de-coupling" and hence the criteria for Green Box instruments. In discussing weaknesses of the current agreement, Roberts, Podbury and Hinchy (2001) cite the cases of the U.S., EU, and Japan shifting potentially trade-distorting support into exempt areas. They go on to list conditions that lead to reductions in market distortions, one of which is that measures that are exempted from agreed reductions are in fact minimally market distorting. Brink (2000) raises the issue that the criteria are so broad they permit trade-distorting policies to escape discipline, yet so narrow they rule out certain non-trade-distorting policies. In addition, he considers the phrase "at most minimal trade-distorting effects or effects on production" open to interpretation. It is argued in the proposals of the Cairns Group, ASEAN and Canada that the basic and policy-specific criteria should be reviewed to ensure that instruments which are claimed by Members to fall into this box are truly minimally production distorting. However, in neither proposal is it spelled out exactly which elements of Annex 2 of the URAA are causing concern.

In the list of policy-specific criteria, there are clearly some which are unlikely to be minimally trade distorting, if it is believed that, in general, farmers are risk averse. These include the specific provisions listed in Annex 2, especially in paragraph 2 (General services), paragraph 5 (Direct payments to producers), paragraph 6 (Decoupled income support), paragraph 7 (Government financial participation in income insurance and income safety-net programs), paragraph 8 (Payments for relief of natural disasters) and paragraph 12 (Payments under environmental programs). By providing payments which, in effect, amount to increasing the producer's wealth (paragraphs 2, 5, and 6) or which induce moral hazard (paragraphs 7, 8 and 12), governments are affecting domestic production and hence international trade. Therefore, as a first step in negotiating a revision of the Green Box, these policy-specific criteria ought to be reviewed along with the basic criteria.

In analyzing the criteria for the various boxes, it is imperative that the concept of "decoupled" support be clearly defined. What is decoupled from what? Several different possibilities exist. One variant is that of a payment to a farmer that is not dependent on the price of the product that the farmer sells. The presumption is that this will not influence the farmer's output (planting or harvest) decision at the margin, if the farmer is risk neutral. One could call this "price-decoupling" and it relies on the notion that output is directly influenced by the

(expected) price. But another variant is that a payment be made unrelated to current output. An “output-decoupled” payment appears to be a stronger condition, as it implies that yield and acreage links should also be severed from payments. A third variant tries to break the link between farm payments and some aggregate level indicator, such as farm receipts or even world prices. The individual farm gets the same payment regardless of its current output or the price received for its crop, though there may be some statistical correlation. Individual behavior may not change to induce the payment but collectively the industry is “rescued” and thus aggregate output could respond. The notion of “macro-decoupling” payments from any indicator of the health of the farming sector is problematic and the degree of monitoring and evaluation that would be necessary would be formidable. But this is the concept that seems to be behind many proposals for revising Green Box definitions.

None of these definitions however imply that there is no output effect from a payment. Each is vulnerable to the charge that there is a wealth effect, regardless of whether the payment is untied from current price or output or from the health of the farm sector. But to try to impose rules that would counter the trade effects of changes in wealth would be to risk bringing ridicule on the WTO. More problematic is the possibility that expectations of future prices can effect current output and that expectations of future payments can induce farmers to grow particular crops. Thus the challenge for economists is to better understand the relationship between policy instruments and expectations. The corresponding challenge for trade diplomats and lawyers is to figure out how to write rules that allow a government to take an action which may be output increasing in one context and output neutral under different circumstances.

## V. Conclusions

Since the conclusion of the URAA, many countries have shifted domestic support away from the trade-distorting Amber Box toward the less distorting Blue and Green Boxes. This can be seen in Table 3 in this paper. While some of this shift may be attributed to the URAA, several concerns have arisen regarding the criteria used to classify domestic policies as having minimal trade-distorting effects or effects on production. Evaluating the successes of the current agreement relative to its inadequacies provides useful insights for developing the next agreement.

The next Round will deal with several critical questions. Among these are concerns as to the structure to be adopted for the discipline categories; the type of development box to be established and whether a transition box should be established; whether AMS commitments should be on a product or sector-wide level; how the issue of multifunctional policies should be dealt with; whether allowable protection should be adjusted for inflation or exchange rate changes; and whether the use of *de minimis* should continue and if so, at what level. If the ultimate objective is to achieve freer trade, the next agreement must create an incentive structure that encourages countries to discontinue the use of trade-distorting domestic support policies.

The first insight that can be gleaned from the current Agreement is that a self-enforcing framework can be established that encourages countries to adopt less trade-distorting domestic support policies. The URAA accomplished this by making less trade-distorting support exempt

from countervailing duties and other retaliatory actions. This existence of exempt and non-exempt Boxes combined with a Peace Clause of limited duration created an incentive for domestic support reform in many countries. Negotiators and policy-analysts should consider this as they structure the next agreement.

The second insight to be gained from the current Agreement involves the need for well-defined criteria. Specific definitions must be developed that clearly detail which domestic support policies should be categorized in which domestic support Box. This will be necessary regardless of the classification structure, be it Green, Blue, and Amber Boxes or simply exempt and non-exempt.

Clarification of the criteria is a theme that permeates the various country proposals. For example, a number of countries wish to revisit and clarify the Green Box criteria. As additional concerns are addressed or exemptions provided, specific criteria must be developed regarding allowable policies or eligible countries. In the current Round of negotiations a number of potential situations exist where this will be important. For example, in the creation of a development box, what types of policies are eligible? In addition, what criteria must a country meet to be eligible? Questions of this type must be answered and appropriate criteria developed to avoid the uncertainty and finger-pointing that are associated with inadequate rules.

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## Figures and Tables

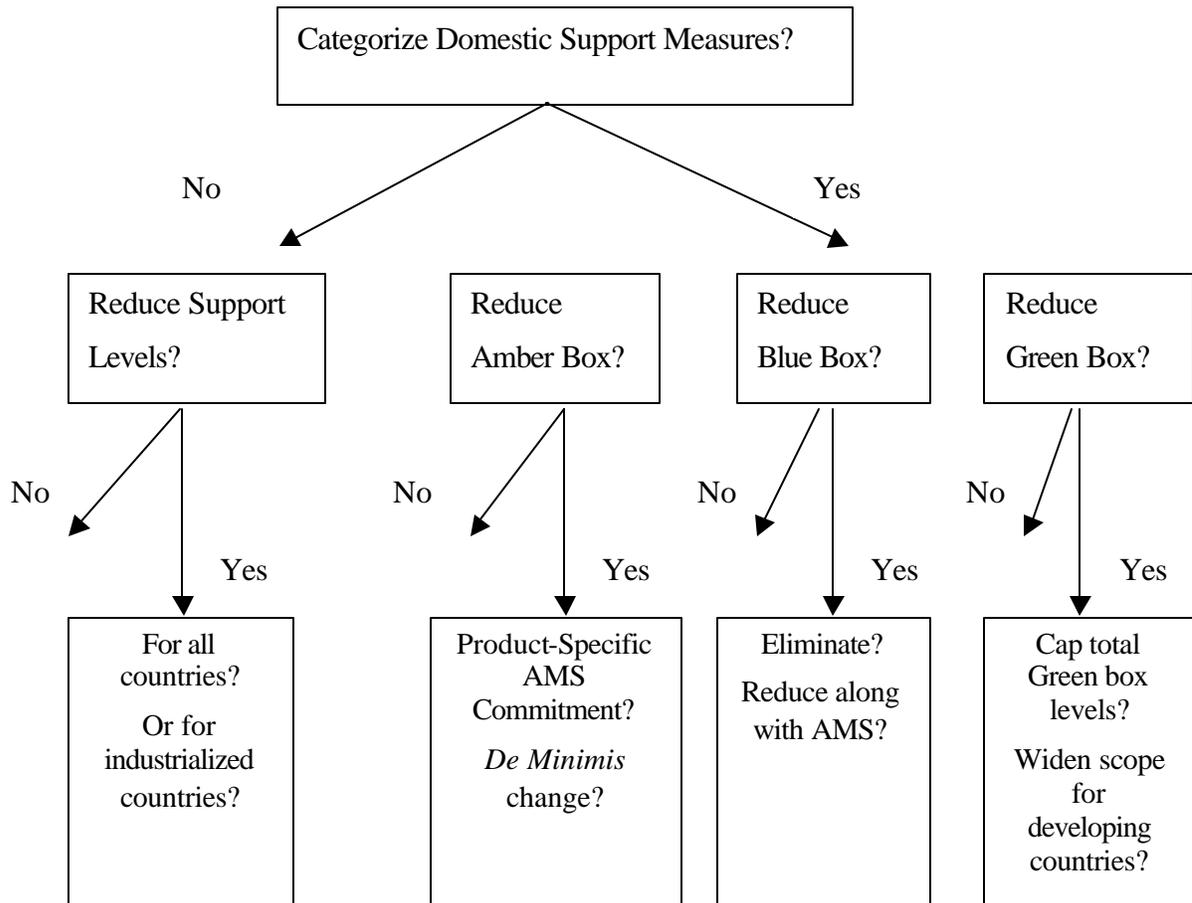


Figure 1: Schema for Considering Members' Positions on Domestic Support

**Table 1: Total Aggregate Measurement of Support (AMS) Commitments by Member, 1995-99**

Member	Currency	1995		1996		1997		1998		1999	
		Total AMS Commitment Level	Current Total AMS	Total AMS Commitment Level	Current Total AMS	Total AMS Commitment Level	Current Total AMS	Total AMS Commitment Level	Current Total AMS	Total AMS Commitment Level	Current Total AMS
<b>Argentina</b>	US million \$	85.38	122.8	84.14	84.14	83.08		81.93		80.78	
<b>Australia</b>	\$A million	570.16	151.72	550.5	144.19	530.84	131.62	511.18	119.71	491.52	
<b>Brazil</b>	US\$ million	103.91	295.03	102.50	363.28	1,010.90	306.84	996.79		982.67	
<b>Canada</b>	Can\$ million	5197	777	5017	618.7	4838		4659		4480	
<b>Colombia</b>	US\$ '000	392465	58109	387165	3961	381858	14393	376555		371251	
<b>Costa Rica</b>	US\$ '000	18153	0	17908	0	17663	0	17417		17172	
<b>Cyprus</b>	£C million	57.6	36.5	56.8	35.5	56.1	25.5	55.3	21.8	54.5	
<b>Czech Republic</b>	K...million	16446.97	1152.49	15879.84	1688.74	15312.71	1053.86	14745.58	1012.98	14178.45	
<b>EC</b>	ECU billion	78.67	50.03	76.37	51	74.07	50.19	71.76	46.68	69.46	
<b>Hungary</b>	Ft million	40851	20949	39443		38034		36625		35217	
<b>Iceland</b>	SDR million	157.2	123.69	151.8	108.1	146.4	108.6	140.9	250.3	135.5	
<b>Israel</b>	US\$ '000	645490	461385	636996	501273	628494	524226	619992		611490	

<b>Japan</b>	¥ billion	4800.6	3507.5	4635	3329.7	4469.5	3170.8	4304	766.5	4138.4
<b>Korea</b>	W billion	2182.55	2075.44	2105.6	1967.36	2028.65	1936.95	1951.70	1562.77	1874.75
<b>Mexico</b>	Mex\$million (91)	28622.3	1364.66	28237.8		27853.2		27468.6		27084
<b>Morocco</b>	DH million	779	94	769	250	758	91	748		737
<b>New Zealand</b>	NZ\$ million	348.30	0	336.29	0	324.28	0	312.27	0	300.26
<b>Norway</b>	NOK million	13834	9786	13357	10529	12880	10526	12403	10886	11926
<b>Poland</b>	US\$ million	4022	254.5	3883	226.5	3745	295.8	3606	300.6	3457
<b>Slovak Republic</b>	Sk million	12252.5	7110.5	11830	6981.8	11407.5	8290.4	10985	7710	10562.5
<b>Slovenia</b>	ECU '000	74730.18	69921.08	72153.28	69239.13	69576.38	69086.07	66999.48	65990.79	64422.58
<b>South Africa</b>	R million	2435.3	1640.33	2351.3	1938.2	2267.4	2198.3	2183.4		2099.4
<b>Switz.-Liech.</b>	Sw F million	5143	4286.6	4966	3663.1	4789	3445.1	4611	3273	4434
<b>Thailand</b>	B million	21816.41	15773.25	21506.64	12932.47	21196.87	16756.58	20887.10	16402.10	20577.33
<b>United States</b>	US\$ million	23083.14	6213.86	22287.17	5897.66	21491.2	6238.4	20695.2		19899.3
<b>Venezuela</b>	US\$ '000	1287221	541784.05	1269826	331261	1252431	456549	1235036		1217642

Source: World Trade Organization (2000) G/AG/NG/S/1 and G/AG/N/JPN/61.

**Table 2: Use of Total Aggregate Measurement of Support (AMS) Commitments by Member, 1995-98 (Percentage)**

Member	1995	1996	1997	1998
Argentina	144	100		
Australia	27	26	25	23
Brazil	28	35	30	
Canada	15	12		
Colombia	15	1	4	
Costa Rica	0	0	0	
Cyprus	63	62	45	39
Czech Republic	7	11	7	7
EC	64	67	68	65
Hungary	51			
Iceland	79	71	74	178
Israel	72	79	83	
Japan	73	72	71	18
Korea	95	91	95	80
Mexico	5			
Morocco	12	32	12	
New Zealand	0	0	0	0
Norway	71	79	82	88
Poland	6	6	8	8
Slovak Republic	58	59	73	70
Slovenia	94	96	99	98
South Africa	67	82	97	
Switz-Liech.	83	74	72	71
Thailand	72	60	79	78
Tunisia	87	77	81	94
United States	27	26	29	
Venezuela	42	26	36	

Notes: The figures in this table represent notified Current Total AMS as a percentage of the Total AMS commitment levels for the respective implementation years.

Source: World Trade Organization (2000) G/AG/NG/S/1.

**Table 3: Domestic Support by Category, 1995-97 (Percentage)**

Country	-----Green Box-----				-----Blue Box-----				-----Amber Box-----				---Special & Differential---			
	Base	1995	1996	1997	Base	1995	1996	1997	Base	1995	1996	1997	Base	1995	1996	1997
<b>Australia</b>	60.85	85.99	90.35	91.18	0	0	0	0	39.15	13.45	9.65	8.82	0	0	0	0
<b>Brazil</b>	73.36	88.19	80.46	85.47	0	0	0	0	18.05	2.33	11.23	7.58	8.6	6.48	8.31	6.95
<b>Canada</b>	22.9	50.77	53.12		0	0	0		77.1	49.23	46.88		0	0	0	0
<b>EC</b>	11.14	20.81	23.27	18.17	0	23.1	22.62	20.44	88.86	56.08	54.11	50.19	0	0	0	
<b>Japan</b>	30.78	47.2	45.56	45.23	0	0	0	0	69.23	52.8	54.38	54.77	0	0	0	0
<b>Korea</b>	42.74	62.66	68.89	68.89	0	0	0	0	56.96	37.02	30.7	30.66	0.3	0.32	0.41	0.45
<b>Mexico</b>	0	60.14			0	0			100	16.05			0	23.82		
<b>New Zealand</b>	25.5	100	100	100	0	0	0	0	74.5	0	0	0	0	0	0	0
<b>United States</b>	48.62	75.77	88.02	87.92	0	11.57	0	0	51.38	12.67	11.98	12.08	0	0	0	0

Source: World Trade Organization (2000) G/AG/NG/S/1 and World Trade Organization (2000) G/AG/NG/S/1/Corr.1.

Notes: Green Box (DS:1) signifies measures which members have placed in the Green Box of measures exempt from reduction.

Special & Differential (DS:2) signifies those measures that, for developing countries, are exempt from reduction commitments.

Blue Box (DS:3) signifies direct payments under production-limiting programs.

Amber Box (DS:4+) signifies measures that do not fit into the exempt categories as set out above.

**Table 4: Initial Positions as Reflected in WTO Position Papers.**

Country	-----Green Box-----			-----Blue Box-----			-----Amber Box-----			---Development Box---	
	No cap	Cap and Reduce	Review Effects	Maintain	Cap and Reduce	Eliminate	AMS Reduced	Eliminate	Disaggregate Commitments	Yes	Separate Developing Country <i>de minimis</i>
African Group			X		X		X			X	X
ASEAN		X	X		X	X	X	X	X	X	X
Cairns Group	X		X		X	X	X	X		X	X
Canada	X										
The Congo			X							X	X
Croatia										X (c)	X
Cuba, et al.										X	
Egypt		X	X		X		X		X		
European Union	X		X				X			X	X
India		X			X		X			X	X
Japan			X	X			X				
Jordan			X	X	X				X	X	
Kenya						X		X		X	

Country	-----Green Box-----			-----Blue Box-----			-----Amber Box-----			---Development Box---	
	No cap	Cap and Reduce	Review Effects	Maintain	Cap and Reduce	Eliminate	AMS Reduced	Eliminate	Disaggregate Commitments	Yes	Separate Developing Country <i>de minimis</i>
Korea				X							
Mexico	X				X		X			X	
Morocco		X	X		X	X	X (a)			X	
Norway	X			X			X (b)			X	
Namibia		X			X	X	X	X	X		X
Nigeria										X	X
Poland				X			X				
Senegal										X	
Switzerland	X										
Transition Economies										X(c)	X
Turkey	X		X				X			X	X
United States	X					X	X			X	

Cuba, et al. suggested consolidation of all subsidies into one box.

(a) For developed countries only. (b) Further reductions on export production. (c) For transition economies.

**Table 5: Level of Support for Various Issues as Indicated in WTO Position Papers.**

ISSUES	Number of Proposals Supporting
<b>Green Box</b>	
<u>No Cap</u>	8
<u>Cap and Reduce</u>	5
<u>Review Effects</u>	10
<b>Blue Box</b>	
<u>Maintain</u>	5
<u>Cap and Reduce</u>	9
<u>Eliminate</u>	6
<b>Amber Box</b>	
<u>AMS Reduced</u>	14
<u>Eliminate</u>	4
<u>Disaggregate Commitments</u>	4
<b>One General Subsidies Box</b>	1
<b>Development Box</b>	
<u>Should Exist</u>	18
<u>Developing Country <i>de minimis</i></u>	11

# **APPENDIX**

## ***DOMESTIC SUPPORT***

### ***POSITIONS AND PROPOSALS***

#### ***OF SELECTED COUNTRIES/GROUPS***

<p>African Group</p>	<p>The basic and policy-specific criteria for “green box” support should be tightened to ensure no, or at most, minimal, distorting effects on trade and production. It should be recognised that several developing countries, in particular small island and land-locked developing countries and LDCs, face budgetary constraints and therefore require stable and predictable conditions of preferential market access to be able to make use of Annex II measures.</p>	<p>The Agreement on Agriculture should be reviewed so as to: (a) increase flexibility in the use by developing countries of the de minimis measures; (b) allow developing countries with zero AMS to provide such support if required under their development programs; and (c) provide that input and investment subsidies available to low-income farmers and to resource-poor farmers will be non-actionable.</p>	<p>The expansion of the scope of S&amp;D treatment in the area of domestic support should allow developing countries to employ policy measures which target the viability of small-scale and subsistence farmers, rural poverty alleviation, food security, as well as product diversification. Such elements should take into account the need to strengthen vulnerable producers and to improve their export competitiveness.</p>	<p>Trade and production distorting domestic support measures in developed countries should be substantially and progressively reduced during the course of the reform program.</p>
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ASEAN	<p>Green box measures must have at least minimal or no trade distorting or production effects.</p> <p>Overall cap on the budget of developed countries allocated for Green Box measures.</p>	<p>Blue box support must be subjected to substantial reduction commitments leading to their elimination.</p>	<p>AMS subject to reduction, leading to elimination.</p> <p>Reduction commitments made on a disaggregated level.</p>	<p>Measures that are an integral part of the development, diversification, and food security programs of developing countries must remain exempt from reduction commitments during the next phase of the reform program.</p>	<p>Developed countries should no longer be allowed to have the additional flexibility to apply de-minimis.</p>
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Cairns Group	Basic and policy-specific criteria for green box support not subject to reduction and elimination will be reviewed to ensure that all such domestic support meets the fundamental requirements of no, or at most minimal, trade-distorting or production effects.	Formula approach will be used to deliver major reductions in trade and production distorting domestic support, including AMS and blue box, leading to the elimination of such support and thus the removal of disparities in the levels of this support provided by countries	Enhanced green box provisions for developing countries.	Differentiated AMS formula and commitments for developing countries.  Enhanced technical assistance and promotion of international cooperation to assist agricultural and rural development, and food security programs in developing countries.
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Canada	Support meeting Annex 2 criteria should be permanently recognized as not countervailable.	Canada proposes that the agricultural negotiations pursue and develop an overall limit on the amount of support of all types (green, blue and amber) provided to agriculture, so as to ensure that the reform program reduces inequities.			
The Congo	Improvement of the Green Box.	Improvement of the Amber Box: possibility for the least-developed countries to go beyond their base level AMS.	Development box should include all financial undertakings and efforts of least-developed countries.	Implementation period should be extended.	Consideration should be given not only to a country's level of economic development and geographical situation but also to cases of force majeure (war, natural disasters) for the implementation of rules and commitments.

Croatia		Emphasizes the necessity of specific provisions that would exempt investment subsidies and input subsidies generally available to agriculture, interest subsidies to reduce the costs of financing as well as grants to cover debt repayment from domestic support reduction commitments that would otherwise be applicable to such measures. It would also increase the de minimis threshold applicable to the transition economies.	
Cuba, et al.	Collapse all domestic support categories into one 'General Subsidies' box.  A common level of support should be allowed, which is non-actionable. Subsidies of 5 per cent above this level will be 'actionable' for developed countries.	Flexibility should be provided to developing countries in the form of a 'Development' box.	The Due Restraint Clause protecting Green Box subsidies from challenge should be terminated as soon as possible

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Egypt	<p>Developed countries, which currently utilize extensive domestic support mechanisms, should agree to substantially reduce the levels of such support, and, for the purpose of clarity and transparency, grant support on a disaggregated product-by-product basis.</p> <p>Such reductions, with a substantial up-front down payment, should be made across the color gamut of boxes. Measures allowed under Annex 2 should be reviewed for their compatibility with non-trade distortion.</p>	<p>Greater flexibility should be granted to developing country Members to increase their levels of domestic support within the framework of Green Box (Annex II) measures.</p>	<p>An urgent review of the 'Due Restraint' provisions is needed, as its use has been proven to constitute an additional window for some Members to unfairly support their agricultural sectors.</p>
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European Union	<p>The concept of the green box must be maintained.</p>	<p>The concept of the blue box must be maintained.</p>	<p>The reform process should be pursued by further reduction in the total AMS starting from the Final Bound Commitment level, by a further strengthening of the rules concerning non-product specific domestic support, and by a reduction of the <i>de minimis</i> clause for developed countries.</p>	<p>The EC propose that measures to promote the sustainable vitality of rural areas and the food security concerns of developing countries as a means of poverty alleviation, where appropriate, be exempted from any reduction commitments.</p>	<p>The EC propose that measures aimed at protecting the environment, sustainable vitality of rural areas and poverty alleviation should be accommodated in the Agreement on Agriculture. Such measures should be well targeted, transparent, and implemented in no more than minimally trade-distorting ways.</p>
	<p>Criteria to be met by measures that fall into the “green box” be revisited to ensure minimal trade distortion whilst at the same time ensuring appropriate coverage of measures which meet important societal goals.</p>		<p>Specific discipline be applied to variable “amber box” subsidies which boost export performance through providing compensation for variations in market prices.</p>	<p>The EC propose that other ways are examined in order to provide the necessary flexibility for countries to address development concerns, notably through a revision of the <i>de minimis</i> clause for developing countries.</p>	<p>Application of the precautionary principle should be clarified.</p> <p>Ensure that labeling schemes are appropriately covered by the WTO.</p>

<p>India</p>	<p>Direct Payments along with decoupled income support and Governmental financial participation in income insurance and income safety-net programs as well as direct payments under production limiting programs should be included in the non-product-specific AMS and subject to reduction commitment so as not to exceed the <i>de minimis</i> level, i.e., 5 per cent (for developed countries) and 10 per cent (for developing countries) of the value of that Member's total agricultural production.</p> <p>The total domestic support should be brought down below the <i>de minimis</i> level within a maximum period of three-years by developed countries and in five years by the developing country Members. The developed countries should make a down payment by the end of the year 2001, through a 50 per cent reduction in the domestic support from the level maintained during the year 2000; or by the amount as is higher than the <i>de minimis</i>, whichever is lower.</p> <p>Negative product specific support figures should be allowed to be adjusted against the positive non-product-specific AMS support figures. While product specific support should be calculated at the aggregate level, support to any one particular commodity should not be allowed to exceed the double of the <i>de minimis</i> limit of that commodity, as prescribed under Article 6.4.</p>	<p>All measures taken by developing countries for poverty alleviation, rural development, rural employment and diversification of agriculture should be exempted from any reduction commitments.</p> <p>Product specific support provided to low-income resource poor farmers should be excluded from the AMS calculations, as is the case for the non-product-specific support as per para. 6.2 of The Agreement on Agriculture.</p>	<p>A suitable methodology of notifying the domestic support in a stable currency/basket of currencies should be adopted for taking into account the incidence of inflation and exchange rate variations.</p>
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Japan	<p>The requirements for decoupled income support should be improved, in order to reflect the real situation of production.</p> <p>In view of introducing safety-net programs it is appropriate to ease the requirements on measures, such as income insurance and income safety-net programs, as well as the restriction on the rate of compensation concerning those measures.</p>	<p>The “Blue Box” measures, which are exempt from the reduction commitment, should be maintained.</p>	<p>It is unreasonable to set the level of AMS as a fixed percentage of each Member’s total agricultural production.</p> <p>The base level of the total AMS should be equivalent to the final commitment level in the year 2000 (ceiling) in order to secure the continuity of agricultural policy reform.</p>
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Jordan	Green Box should be maintained. However, criteria should be reviewed to ensure that all such domestic support meets the fundamental requirements of no or at most minimal trade distorting effects or effects on production.	Domestic support under production limiting programs; which are exempt from the reduction commitment, could be maintained since this can be useful in converting trade-distorting support to less trade-distorting support; however, it should be subject to reduction commitments leading to their elimination.	The adjustment of negative product specific support figures against positive non product-specific AMS support figures should be allowed.	All measures taken by developing countries for poverty alleviation, rural development, rural employment, desert reclamation and diversification of agriculture should be exempted from any reduction commitments.  Direct or indirect measures that are an integral part of the development programs of developing countries, including investment and input subsidies, as identified in Article 6.2 of the present Agreement, must remain exempt from reduction commitments during the next phase of the reform program.
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Kenya	All trade-distorting subsidies utilized by developed countries should be completely eliminated. Developing countries should not be expected to undertake any further liberalization commitments until this is accomplished.	A Development Box should be designed with a view to consolidating, strengthening and operationalizing the special and differential treatment for developing countries.	The Peace Clause should not be extended beyond 2003. However, domestic support measures provided by developing countries within the framework of Food Security/Development Box and those under Article 6.2 should be made totally non-actionable.
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Korea	The scope and criteria of Green Box should be adjusted to be more flexible so that the multifunctionality of agriculture can be properly reflected.	The Blue Box should be maintained since it can be useful in converting trade-distorting support to less trade-distorting support.	Given different developmental stages and conditions across Member countries, each Member country should be able to implement agricultural policies that fit its domestic situation.	The following measures should also be exempt from reduction commitment: Compensatory Supports for Multifunctionality of Agriculture; Supports for Enhancing Income Safety Net; Supports for Small-scale Family Farm Households; Supports for Agricultural and Rural Development in Developing Countries
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Mexico	<p>The green box should be maintained, and hence, the provisions relating to those domestic support measures in favor of agricultural producers that are not subject to a reduction commitment because they conform to the criteria set forth in Annex 2 of the Agreement on Agriculture, as well as the said Annex 2 criteria, should remain unchanged.</p>	<p>Contrary to what was agreed in the Uruguay Round, the amounts allocated to blue box programs should be reduced at an accelerated pace.</p>	<p>The reduction in the Aggregate Measure of Support (AMS) should be as substantial as possible.</p> <p>Given that it is the amber box domestic support measures that most distort production and trade, reductions should considerably exceed those applied during the Uruguay Round.</p> <p>These reductions should be greater in the developed countries, where such instruments are used more extensively, than in the developing countries.</p>	<p>The provisions on special and differential treatment for developing countries with respect to domestic support should be maintained and improved.</p> <p>The measures adopted under Article 6.2 of the Agreement on Agriculture should not be subject to countervailing measures.</p>	<p>The stability of the programs being implemented by many Members, in particular developing country Members, in conformity with the results of the Uruguay Round Agreements, should not be affected.</p>
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Morocco	Green box measures be redefined and eliminate measures that create trade distortions; upper limits be imposed for these measures when they have a negative impact.	Elimination, over a period of five years, of blue box subsidies.	For developed countries: a reduction of 10 per cent of the amounts effectively granted during the first year; a further annual reduction during the implementation period with a view to the final elimination of the subsidies; a 50 per cent reduction, if not the complete elimination, of the <i>de minimis</i> threshold.  For the developing countries a rise in the AMS level or at least no commitment to reducing the AMS.	New provisions be introduced in the Special and Differential Treatment category that account for the particular conditions prevailing in developing countries.
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Namibia	Green Box measures should be quantified and disciplined.	Blue Box measures should be quantified, capped and using a formula be eliminated over a period of time.	De minimis levels and the AMS provisions should be revised to consider countries whose rates are negative or zero.		Supports a time bound, formula approach that will lead to the gradual elimination of all forms of trade distorting domestic support.
Norway	The Green Box should be maintained.	The Blue Box should be maintained.	Based on existing bound commitments, AMS should be divided into domestic support to agricultural production destined for the domestic market and support to export-oriented production. Export-oriented production would be subject to further reductions.	Special attention must be paid to the needs of developing countries in the area of domestic support.	Monetary domestic support commitments should be subject to annual inflation adjustments.

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Nigeria

Negotiations should recognize the need for flexibility for developing countries in domestic support measures to address the concerns of the rural population in this sector for the sustenance of their livelihood and employment; and attainment of a certain degree of food self sufficiency to ensure that all/any measures aimed at enhancing domestic production is exempt from reduction commitments

To ensure equity and a balance of obligations, developing countries should be allowed to take new measures, for instance in the area of domestic support, up to levels substantially higher than the *de minimis* levels.

Poland	<p>Poland proposes to assure the right of every Member to introduce and maintain “blue box” payments.</p>	<p>Poland is prepared to undertake negotiations for further reduction of bound, specified in the schedules, levels of the AMS according to the UR formula.</p>
Senegal	<p>Allow developing countries the full possibility of giving internal support to the agricultural sector with a view to ensuring food security, preserving jobs in rural areas and reducing poverty; introduce flexible measures in their favor for this purpose.</p> <p>Give developing countries with low agricultural production flexibility in all instruments relating to agricultural production, to enable them to undertake reforms necessary for maintaining their level of food production in the short term and significantly improving agricultural productivity in the long term; envisage replacing criteria in the form of deadlines, which are often fixed arbitrarily, with objectively verifiable economic indicators, based in particular on the level of development or growth of the sector; accordingly, make provision for revising the deadlines granted to developing countries, in particular as regards the granting of marketing subsidies provided for under Articles 9.4 and 9.1(d) and (e) of the Agreement on Agriculture.</p>	

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Switzerland

Since the green box can contain only measures that have little or no impact on production and trade, we must exclude an absolute multilateral ceiling.

As regards amber and blue boxes, Switzerland proposes waiting to negotiate the criteria and scope of the different instruments until an understanding has been reached in principle on the instruments to be applied with respect to non-trade concerns.

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Transition

Economies

Exempt investment subsidies and input subsidies for the transition economies.  
Increase the *de minimis* threshold applicable to the transition economies

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Turkey	Turkey supports the continuation of green box measures within the framework of Annex II. In order to minimize any possible trade distorting effects of green box measures, Turkey proposes the introduction of clear definitions and set of rules	Domestic support over <i>de minimis</i> level should be reduced substantially or be eliminated, while <i>de minimis</i> level for developing countries should be increased to a mutually agreed level.  Developing countries should be granted the flexibility to apply <i>de minimis</i> on an aggregate basis, instead of product basis, taking into consideration the changing production conditions.  Special and Differential Treatment granted for developing countries should be continued to be exempted from reduction commitments.
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United States	<p>Domestic support disciplines simplified into two categories: support exempt from any reduction commitment and support that is not exempt from reduction commitment. Exempt support would have no, or at most, minimal trade distorting effects or effects on production; all other domestic support (non-exempt) would be subject to a reduction commitment</p>	<p>Members with a final bound AMS in their schedules to commit to reduce the level of non-exempt support. Reductions would start from the final bound AMS and be reduced to a final bound level equal to a fixed percentage of the members' value of total agricultural production in a fixed base period.</p>	<p>Create additional criteria for exempt support measures deemed essential to the development and food security objectives of developing countries to facilitate the development of targeted programs to increase investment and improve infrastructure, enhance domestic marketing systems, help farmers manage risk, provide access to new technologies promoting sustainability and resource conservation, and increase productivity of subsistence producers.</p>
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