

Agriculture: why the EU, US offers are not good enough

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Though there are problems in all the critical areas of agriculture, viz., market access, domestic subsidy and export subsidy, the key questions are in the domestic subsidy of the developed countries. The EU and US have offered to cut respectively their amber box subsidy by 70 and 60 percent, their de minimis subsidy by 80 and 50 percent, their blue box subsidy to a ceiling of 5 and 2.5 percent of the agricultural production and their total trade distorting subsidy (TDS) by 70 and 53 percent. All these have the appearance of very impressive cuts. But in reality these proposals will not result in any reduction in the applied TDS in case of the US and the TDS already planned by the EU for 2008; in fact these can even be increased. The mystery is explained below.

There are two points to be taken into account in this regard. First, the proposed percentages of cuts will be from the levels permitted by the WTO Agreement on Agriculture (AoA); but the actually applied level in case of the US and the planned level for 2008 in case of the EU are already smaller. (see the figures in table).

The important factor is how much the newly reduced level will be lower than the actually applied level/planned level, irrespective of whatever is the permissible level. Second, there have been frequent shifts of the applied subsidy from one box to the other in these countries. The market access or safety against subsidised import depends on the total subsidy, irrespective of which box it is in. Thus what is really relevant is the proposed change in the actually applied level/planned level of the TDS. There is also the important effect of green box subsidy.

The total TDS for the EU and US are respectively 110 billion Euro and US\$ 48 billion (year 2000, the last implementation year for current obligations in the AoA). The reduced levels according to their offers will be respectively 33 billion Euro and US\$ 23 billion. Although the applied level of the EU for the year 2000 is 64 billion Euro which will indeed be reduced by the cut, their own planned applied level for the year 2008 (when perhaps the new WTO commitments will start getting implemented) is 26 billion Euro which is less than the proposed reduced level by as much as 7 billion Euro. This will give them the option of raising their applied subsidy at that time. For the US, the applied level for the year 2000 is US\$ 21 billion. This gives them the option of raising the applied level by as much as US\$ 2 billion. Hence these countries have really not proposed any sacrifice in these negotiations from their side; they are in fact ensuring the possibility of increasing their applied/planned levels of subsidy.

The G20 has suggested reduction by 70-80% in the TDS; but it will not go far as it will still keep it at a significant level. What is needed is elimination of TDS in the developed countries by a specific date, except for some small de minimis.

Table: Total Trade Distorting Subsidy (TDS) (billion)

Countries	Currency	Total TDS (year 2000)	Level of total TDS after proposed reduction	Applied TDS (year 2000)
EU	Euro	110 bil	33 bil (after 70% cut)	64 bil (26 bil in 2008)
US	US\$	48 bil	23 bil (after 53% cut)	21 bil

An important point to note is that the proposed reduced levels of total TDS for the EU and US are still 13% and 12% of their agricultural production (year 2000) respectively which is quite high. Moreover such overall subsidy amounts concentrated on selected products may result in massive subsidisation of those products. Hence there is a need to have an effective ceiling on TDS on individual products until it is abolished. This ceiling should not be based on past historical levels of subsidisation but on some clearly specified level as a percentage of the value of production or price.

Further, a new escape route is sought to be created by opening an additional door to the blue box. This is mainly to allow the US to give counter-cyclical payments to farmers (higher amounts when prices are lower). The amounts projected for 2005 and 2006 on this account are US\$ 4 billion and US\$ 6 billion respectively. Opening a new window for giving subsidy is contrary to the objective of eliminating/reducing subsidy; hence this new route should be closed altogether.

But the massive escape route is the green box with the amounts of US\$ 50 billion and 22 billion Euro in 2000 respectively in the US and EU and the possibility of unlimited increase in future. The developed countries do not want to put any discipline on it except having some clarification of the criteria. No ceiling is being countenanced. Thus the green box, particularly its window of "decoupled income support" (para 6 of Annex 2 of AoA), will continue to be the route to give farmers unlimited amounts as subsidy. Group 20's proposal has the objective of disciplining this box, but it has not given any specific quantitative criteria.

It is necessary that the criteria for the green box, particularly the decoupled income support, should include eligibility of farmers in terms of their lower economic status (for example, those having income from all sources less than 10 percent of the average income in the country) and also a ceiling on payments to individual farmers in a year.

In fact, there is a need for an annual ceiling on total subsidy (TDS plus green box) paid to a farmer. The first step should be to limit the payment only to individual farmers, making the corporate bodies ineligible. The next step should be to put an annual ceiling on payment to a farmer.

Types of domestic subsidy in agriculture

“Amber Box” subsidy: the domestic subsidy covered by Article 6.2 of the WTO Agreement on Agriculture (AoA), technically called the Aggregate Measurement of Support (AMS) and measured mainly in terms of the difference between the domestic price and the international price. It is subject to reduction.

“Blue Box” subsidy: the domestic subsidy covered by Article 6.5 of the AoA. It is a direct payment to producers based on area/yield and not subject to reduction in the AoA at present.

“De-minimis” subsidy: for product specific subsidy in the developed countries, it is 5 percent of the production of that product and, in addition, for non-product specific subsidy, it is further 5 percent of total agricultural production. For the developing countries, it is 10 percent of both.

“Trade-distorting” subsidy: It is the total of amber box, blue box and de-minimis subsidies.

“Green Box” subsidy: the domestic subsidy covered by Annex 2 of the AoA. It includes various types of direct payments to producers. It is not subject to reduction in the AoA as it is claimed to be non-trade-distorting.

In market access, the difference in the proposed percentages of cuts is not such as cannot be reconciled. But the real problem here is the escape route through the stipulation of sensitive products where the cut may be much smaller. The EU is proposing 8 percent of the tariff lines (it has 2200 tariff lines) to be sensitive. The US suggests that the sensitive products be limited to 1 percent of the tariff lines. If the figure is somewhere between the two, the sensitive products will still be large in number where the tariff reduction will be at much lower rate. What is needed here is to ensure that the major developed countries do not continue to protect a significant portion of their production through the route of sensitive products.

In respect of eliminating the export subsidy, the EU is not specific on the date, whereas the US and Group 20 have suggested 2010 for elimination. That itself is a very soft approach as it would have been rational to call for the abolition of export subsidy right from the date of implementation of the new agreement.

The developed countries have not given adequate attention to the G33 proposals for special products and for special safeguard mechanism (SSM) for the developing countries to protect their agriculture from imports. The G33 proposal on SSM is quite modest as it limits the safeguard to raising tariffs and does not include the quantitative restriction on import which is a more direct and effective way of protecting the farmers. But even such modest proposal has not been taken seriously by the major developed countries.

These are some of the major differences in the area of agriculture. In the recent negotiations, the EC is reported to have said firmly that it could not go beyond what it has already offered. Further it linked its offer to the developing countries' making concessions in the areas of NAMA and services. The US would also welcome such linkage.

In this background, the prospects for Hong Kong are unpredictable, even bleak. The developing countries have refused to succumb so far. The pressures are on, but too much is at stake for them. Now with ample information available to them, they are able to identify their interests clearly and are unlikely to be rushed into unfair and iniquitous results. One can only repeat what the New York Times advised the developing countries in its editorial on 11 November 2005: “Stand fast...(and do) not give a single additional concession...”.