WTO Domestic Support in Agriculture: Estimating the Future Constraints

Lars Brink
brinkLa@agr.gc.ca

Presented at the Annual Meeting of the International Agricultural Trade Research Consortium (IATRC)
Washington, D.C., 7-9 January 2008
Background

• DDA negotiators need to agree on modalities
  – Members will use the modalities to prepare draft schedules of commitments

• Domestic support commitments
  – Ceilings not only on Total AMS, as now, but also on other measurements of distorting support

• Rules of new agreement also in modalities
  – Follow rules in future to calculate what support counts against which ceiling, e.g.:
    • green box criteria
    • blue box criteria
    • de minimis percentages
DS in Draft Modalities

• Draft modalities prepared in July 2007
  – DS significant share of modalities text
    • 46 paragraphs out of almost 200
  – OTDS, Total AMS, PS AMSs, Blue, PS blue, de minimis percentage, cotton

• Example
  – Harmonizing tiered reductions for OTDS and Total AMS
    • Need to place Members in three tiers

• But: Special rules for many other groups of Members
  – About 29 combinations groups and “treatment”
  – “Additional effort”, S&D, RAM, SLIRAMET, NFIDC, etc.
Purpose and Method of Analysis

• Examine size and nature of shifts in support entitlements
  – From present to future (after reductions)
  – By group of Members identified in draft modalities
  – For each type of commitment or rule

• Place each Member in applicable group

• Estimate present and future entitlement of each group
  – Not examined: PS disciplines (AMS, blue)
  – Note: 21 December 2007 Working Docs not incorporated
Data and Assumptions

• VOP if possible; otherwise agriculture GDP
  • World Bank: World Development Indicators

• Establish Base OTDS, FB Total AMS and Blue ceiling
  – Each Member’s local currency (1995-2000 VOP)
  – Convert to US$; sum across Members in applicable groups

• Reduce from Base OTDS and FB Total AMS as per draft modalities, for each Member
  – Convert to US$; sum across Members in applicable groups

• De minimis allowances
  – “Present” calculated from 2001-03 VOP (most complete data)
  – Convert to US$; sum across Members in applicable groups
  – Project group VOP to 2023 in US$
    • 15 years after 2008 completion of DDA
  – Reduce de minimis percentages as applicable
  – Calculate 2023 de minimis allowances
Data Challenges

• Data challenges
  – VOP for components of Base OTDS and for future *de minimis* allowances
    • Effect of difference between agr GDP and (larger) VOP?
    • Effect of anchoring analysis of all amounts (past and future) on 2006 value of US$?

• Particular needs
  – EU27: Calculate 1995-2000 bases and VOP
  – Particular situations
    • “additional effort” Members
    • 40% and 25/80% clauses in blue
### Overview of Groups within 123 Members

<table>
<thead>
<tr>
<th>Developed countries (21)</th>
<th>OTDS</th>
<th>Total AMS</th>
<th>De min.</th>
<th>Blue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td></td>
<td>1 (EU27)</td>
<td>1 (EU27)</td>
<td></td>
</tr>
<tr>
<td>Tier 2 additional effort</td>
<td></td>
<td>1 (Japan)</td>
<td>1 (Japan)</td>
<td></td>
</tr>
<tr>
<td>Tier 2</td>
<td></td>
<td>1 (USA)</td>
<td>1 (USA)</td>
<td></td>
</tr>
<tr>
<td>Tier 3 additional effort</td>
<td></td>
<td></td>
<td></td>
<td>3</td>
</tr>
<tr>
<td>Tier 3</td>
<td>14</td>
<td></td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>SLIRAMET</td>
<td>4</td>
<td>1</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Without Total AMS commitment</td>
<td>8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General</td>
<td></td>
<td>17</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>Special case</td>
<td></td>
<td>1</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Developing countries (102)</th>
<th>With Total AMS commitment</th>
<th></th>
<th></th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>NFIDC</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>RAM</td>
<td></td>
<td></td>
<td></td>
<td>2</td>
</tr>
<tr>
<td>Subsistence and resource-poor</td>
<td></td>
<td></td>
<td></td>
<td>?</td>
</tr>
<tr>
<td>Without Total AMS commitment</td>
<td></td>
<td>86</td>
<td>86</td>
<td>86</td>
</tr>
<tr>
<td>General</td>
<td></td>
<td></td>
<td></td>
<td>101</td>
</tr>
<tr>
<td>Special case</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
</tbody>
</table>

Note: EU27 counted as one, Switzerland-Liechtenstein counted as one. SLIRAMET: Small Low Income Recently Acceded Members with Economies in Transition; NFIDC: Net Food Importing Developing Countries; RAM: Recently Acceded Members.
## Commitments: Share of World Total Before and After DDA Implementation

<table>
<thead>
<tr>
<th></th>
<th>OTDS</th>
<th>Total AMS</th>
<th>Blue box</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before</td>
<td>After</td>
<td>Before</td>
</tr>
<tr>
<td><strong>EU27</strong></td>
<td>39%</td>
<td>15%</td>
<td>54%</td>
</tr>
<tr>
<td><strong>USA</strong></td>
<td>13%</td>
<td>9%</td>
<td>11%</td>
</tr>
<tr>
<td><strong>All developed</strong></td>
<td>72%</td>
<td>37%</td>
<td>91%</td>
</tr>
<tr>
<td>Developing with Total AMS</td>
<td>8%</td>
<td>12%</td>
<td>9%</td>
</tr>
<tr>
<td>Developing without Total AMS</td>
<td>20%</td>
<td>50%</td>
<td>NA</td>
</tr>
<tr>
<td><strong>All developing</strong></td>
<td>28%</td>
<td>63%</td>
<td>9%</td>
</tr>
<tr>
<td>of which: China</td>
<td>10%</td>
<td>26%</td>
<td>NA</td>
</tr>
<tr>
<td><strong>All Members</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

NA: not applicable
## De minimis Allowances: Share of World Total
Before and After DDA Implementation

<table>
<thead>
<tr>
<th>Calculated from VOP</th>
<th>Before 2001-03</th>
<th>After 2001-03</th>
<th>Year 2023 2001-03 + 21%</th>
<th>Year 2023 2001-03 + 21%</th>
<th>VOP instead of GDP 2001-03</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Developed</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>31%</td>
<td>17%</td>
<td>15%</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td><strong>Developing</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>69%</td>
<td>83%</td>
<td>85%</td>
<td>89%</td>
<td>87%</td>
</tr>
<tr>
<td><strong>All Members</strong></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>
Discussion

• OTDS
  – Base OTDS:
    • 72% of world total in developed countries
    • 28% in developing countries
      – Mainly VOP-based Base OTDS in developing countries

  – New OTDS commitments
    • 37% of world total commitments in developed countries
      – Their share of commitments about half of share of Base OTDS
    • 63% in developing countries
      – China alone accounts for 26% of world total

• Total AMS commitments
  – Some reduction of share of developed countries in world total commitments
  – But developed countries to account for more than 80% of world total
De minimis Allowances

• World VOP in agriculture
  – Developed countries: less than half; developing: more than half

• Before reducing de minimis percentages:
  – Developed countries 31% of world total allowances
  – Developing countries 69%

• After reducing de minimis percentages
  – Developed countries less than 20% of world total allowances
  – Developing countries more than 80%

• Assume agriculture sector in developing countries grows faster than in developed countries (nominal VOP)
  – By 2023
    • developed countries: 15% of world total de minimis allowances
    • developing countries: 85%
Sensitivity Analysis

• Apply lower end of draft modalities OTDS cuts instead of upper end
  – Developed countries’ share of world total entitlements to OTDS is 8 percentage points larger (45/55 instead of 37/63)

• If all developing countries were to use proper VOP instead of GDP in agriculture
  – Their share of world total *de minimis* allowances increases by a couple of points
    • Note: China already uses proper VOP
Future Entitlements of Developing Countries

- Continued small share of world sum of Total AMS commitments

- But: their sum of OTDS commitments is 50% larger than developed countries’
  - As percentage of their respective VOP

- De minimis allowances
  - 80-90% of world total in developing countries
    - Although only a bit more than half of world total agr VOP
  - Their share of world total set to increase
    - As their VOP grows faster than developed countries’ VOP
No Limit on Some Distorting Support

• All developing countries can use Article 6.2 without limit
  – Certain investment subsidies and input subsidies
  – Input subsidies are highly distorting support (OECD)
    • distorts more than price support, more than output payments

• At least one developing country escapes ceiling on blue box payments

• New suggestions regarding developing countries
  – Certain price support to be exempt from limits
  – Some backtracking on accession commitments of recent Members
Experience of Applying Draft Modalities

• Identification of many different groups of Members
  – Very complex job to evaluate Members’ draft schedules
  – “What percentages should apply to this Member?”

• End result in world totals not necessarily much different
  – But potential for large differences of treatment between Members in different groups

• Many developing countries do not have data on VOP
  – Their OTDS commitments to be based on agr GDP?
Conclusion

• Most developed countries take much greater reductions than most developing countries (as intended)

• Developing countries’ entitlements to distorting support
  – Reduced only modestly, if at all
  – No limit on certain distorting support

• DDA agreement on agriculture based on draft modalities
  – Constrains all non-green support in developed countries
  – Constrains only some distorting support in developing countries
  – Developing countries’ limits & allowances are considerably larger, in relation to VOP, than developed countries’

• Long term: 2023
  – Many developing countries becoming more able to support agriculture
    • + Russia, Ukraine etc.
  – Some may choose to support agriculture more than now
  – Ample or unlimited future room to provide distorting support