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Why the EU and US Offers on Farm Trade are Not Good Enough

by Bhagirath Lal Das

Proposals for agricultural trade reform put forward by the EU and the US in the WTO fall short of adequately redressing the inequities in this sector.

Though there are problems in all the critical areas of the ongoing WTO agriculture negotiations, viz., market access, domestic subsidies and export subsidies, the key questions concern the domestic subsidies of the developed countries.

The EU and the US have offered in the negotiations to cut respectively their Amber Box subsidies by 70 and 60%, their *de minimis* subsidies by 80 and 50%, their Blue Box subsidies to a ceiling of 5 and 2.5% of the agricultural production, and their total trade-distorting subsidies (TDS) by 70 and 53%. (See box for the definition of these various categories of domestic subsidies.) 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 the 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. Firstly, the proposed percentages of cuts will be from the levels permitted by the WTO Agreement on Agriculture (AoA), but the actually applied level in the case of the US and the planned level for 2008 in the case of the EU are already smaller (see table). The important factor is how much the newly reduced level will be lower than the actually applied level/planned level, irrespective of whatever the permissible level is.

Secondly, there have been frequent shifts of the applied subsidies from one box (or category) to another in these countries. Market access or safety against subsidized imports depends on the total subsidies, 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 subsidies.

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Total trade-distorting subsidies (TDS)

WTO member	Currency	Total TDS (year 2000) reduction	Level of total TDS after proposed	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

The total TDS for the EU and the 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, the EU's 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 thus give the EU the option of raising its applied subsidies at that time. For the US, the applied level for the year 2000 is US$21 billion. This gives it 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 developing-country Group of 20 (G20) has suggested a 70-80% reduction in the TDS, but even this will not go far as it will still keep it at a significant level. What is needed is the elimination of TDS in the developed countries by a specific date, except for some small *de minimis* levels.

An important point to note is that the proposed reduced levels of total TDS for the EU and the 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 subsidization 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 subsidization 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 its 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 handing out subsidies is contrary to the objective of eliminating/reducing subsidies; hence this new route should be closed off altogether.

But the really significant escape route is the Green Box, with amounts of US$50 billion and 22 billion euro in 2000 respectively in the US and the EU and the possibility of unlimited increase in future. The developed countries do not want to put any discipline on this category except having some clarification of the criteria. No ceiling is being countenanced. Thus the Green Box, particularly its window of "decoupled income support" (paragraph 6 of Annex 2 of the AoA), will continue to be the route to give farmers unlimited amounts as subsidies. The G20'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 that is less than 10% of the average income in the country) and also a ceiling on payments to individual farmers in a year. Corporate entities should be excluded from any such payments.

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

In the area of market access in the agriculture negotiations, the difference in the proposed percentages of tariff cuts is not such as cannot be reconciled. But the real problem here is the escape route proposed through the designation of "sensitive products" for which the tariff cut may be much smaller. The EU is proposing that sensitive products can cover 8% of the tariff lines (it has 2,200 tariff lines). The US suggests that the sensitive products be limited to 1% of the tariff lines. If the figure is somewhere between the two, there will still be a large number of sensitive products where the tariff reduction will be at a much lower rate. What is needed here, therefore, 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.

The WTO's Hong Kong Ministerial Declaration has decided to eliminate agricultural export subsidies by 2013. It also contains a stipulation for frontloading, i.e., speedy reduction in the beginning. There is no reason for export subsidies in the developed countries to continue at all; hence the bulk of their export subsidies, say 90%, should be eliminated right at the end of the first year of the implementation period of the outcome of the negotiations.

The developed countries have also not given adequate attention to the developing-country Group of 33's proposals for "special products" and a "special safeguard mechanism (SSM)" for the developing countries to protect their agriculture from imports. The G33 proposal on the SSM is quite modest as it limits the safeguard to raising tariffs and does not include quantitative restrictions on imports, which are a more direct and effective way of protecting farmers. But even such a modest proposal has not been taken seriously by the major developed countries.

The above are some of the major differences in the agriculture negotiations. In recent talks, the EU is reported to have said firmly that it cannot go beyond what it has already offered. Further, it linked its offer to the developing countries' making concessions in the areas of industrial goods and services. The US would also welcome such a linkage.

In this background, the prospects for the WTO negotiations 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 …"

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Types of Domestic Subsidy in Agriculture

Amber Box subsidies: Domestic subsidies 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. This category is subject to reduction.

Blue Box subsidies: Domestic subsidies covered by Article 6.5 of the AoA. These are direct payments to producers based on area/yield and not subject to reduction in the AoA at present.

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

Trade-distorting subsidies: The total of Amber Box, Blue Box and *de minimis* subsidies.

Green Box subsidies: Domestic subsidies covered by Annex 2 of the AoA. These include various types of direct payments to producers. This category is not subject to reduction in the AoA as it is claimed to be non-trade-distorting.

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