



SUBSIDIES AND SUPPORT IN WORLD AGRICULTURE: IS WTO PROVIDING LEVEL PLAYING FIELD?

Table 7: Commitment level of export subsidies on selected commodities by various countries (Rs per kg)

Country/Product	1995	1996	1997	1998
Australia				
Butter & butter oil	7.63	10.03	5.56	5.02
Skim milk powder	5.32	5.69	4.59	4.32
Cheese	6.41	6.56	5.74	4.31
Brazil				
Vegetable oils	0.10	0.14	0.17	0.15
Sugar	0.35	0.34	0.32	0.30
Canada				
Wheat and its Flour	0.45	0.47	0.38	0.39
Vegetable Oils	0.14	0.11	0.08	0.09
Oilcakes	0.14	0.13	0.13	0.11
Butter	146.23	59.14	62.73	51.20
Skim Milk Powder	24.57	33.70	34.87	33.29
Cheese	49.34	44.22	26.77	20.25
EC				
Wheat and wheat flour	8.02	2.97	2.96	2.82
Rice	2.82	1.75	1.33	1.54
Sugar	3.95	4.73	3.57	3.53
Butter and butteroil	315.58	333.11	232.57	290.89
Skim milk powder	44.50	74.02	49.41	65.12
Cheese	45.87	46.84	41.69	48.17
Hungry				
Apple	10.81	5.74	10.84	0.00
Turkey				
Apples	5.30	2.79	3.30	7.05
Wheat flour	0.28	0.31	0.22	0.09
USA				
Wheat	0.73	0.89	0.78	0.76
Rice	0.17	0.17	0.16	0.10
Vegetable oil	3.81	1.74	0.97	1.14
Butter & butteroil	22.68	78.17	78.82	186.81
Skim milk powder	23.94	125.51	32.79	38.86
Cheese	5.41	4.94	4.21	1.48

Export subsidies provided by EEC constituted over 50 per cent of the export price earned by it on butter and butter oil and over 20 per cent in the case of skimmed milk powder. USA too had given subsidies that formed over 50 per cent of the export price earned on butter & butter oil and skimmed milk powder. These facts show that level of export subsidy provided by developed countries like North America and members of EC are so high that they cause serious trade distortions.

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Table 8: Export subsidies actually given by various countries (Rs per kg)

Country/Product	1995	1996	1997	1998
Canada				
Butter	50.03	5.63	--	--
Skim Milk Powder	20.48	2.08	--	--
EEC				
Wheat and wheat flour	0.41	0.45	0.28	0.83
Rice	1.57	2.48	0.91	0.90
Sugar	2.04	3.62	4.35	4.73
Butter and butteroil	58.08	141.03	59.47	73.83
Skim milk powder	15.43	33.12	16.25	38.06
Cheese	33.79	23.38	14.88	16.23
Hungry				
Apple	0.87	0.09	0.35	--
Turkey				
Apples	0.00	1.77	1.82	1.34
USA				
Butter and butteroil	0.00	37.44	17.86	2.33
Skim milk powder	3.32	103.80	27.56	52.89
Cheese	2.08	2.47	3.53	1.42

Conclusions

Above discussion shows complex nature and enormity of global agriculture subsidies and support. It also shows that WTO agreement provides enough room for manoeuvring subsidies to provide protection to domestic produce. Level of subsidies is so high in developed countries that level playing field in agriculture trade is a far cry. To counter adverse effect of such support and subsidies on Indian agriculture following suggestions are made:

1. In the next round of negotiation in WTO, India should seek clubbing of all kinds of support to agriculture in one category and seek some parity among developed and developing countries.
2. In order to reduce the advantage to developed agriculture due to high government support, other member countries should have the freedom to impose protective tariff linked to differences in domestic support.
3. In order to counter the adverse impact of GBS in other countries on domestic produce, we need to pay serious attention to infrastructure development, which has been deteriorating for quite some time.

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Introduction

The main aim of WTO agreement on agriculture was to encourage fair trade in agriculture by removing trade distortions resulting from differential levels of input subsidies, price and market support, export subsidy and other kinds of trade distorting support. The agreement envisaged phased reduction in various kinds of support being given to agriculture by the member countries. Based on this, it was anticipated that implementation of agreement on agriculture (AoA) would raise international prices of agricultural commodities and would improve export prospects for countries like India. However, contrary to the predictions, international agricultural prices in post- WTO period have declined sharply and in most cases they have turned lower than the domestic prices, creating favourable situation for imports. This has raised serious concerns, and answer is being sought as to why international prices dropped to unimaginably low level, throwing a challenge to domestic production of several agricultural commodities. Similarly, as member countries are required to remove all kinds of quantitative restrictions on all imports from 1st April 2001, serious concern is expressed about implementation of various clauses relating to domestic support and export subsidy by developed countries. There is also a genuine concern to know whether the AoA is providing level playing field to domestic producers.

In order to address these issues we look into the structure of domestic support and export subsidies in agriculture and examine whether WTO agreement has reduced trade distortions due to domestic support provided to agriculture by different countries.

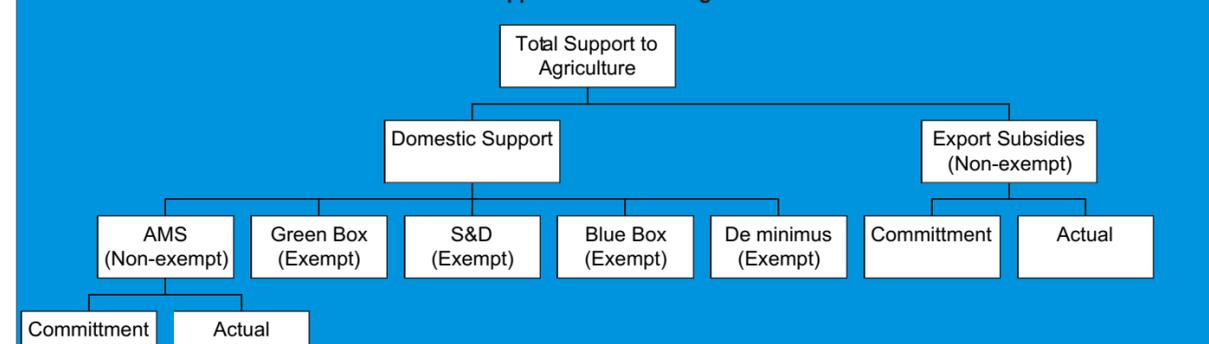
Different Types of Support

WTO agreement envisages two kinds of support to agriculture, viz. domestic support and export subsidies (Box 1). The domestic support is further classified into five categories: (a) aggregate measure of support (AMS) which includes product specific and non-product specific support (b) green box support (c) blue box support (d) *de minimus* support and (e) special and differential (S&D) treatment box. Out of these, WTO agreement requires reduction only in AMS and export subsidies, whereas, support under all other heads is exempted. The non exempt support can be further grouped into two types, one representing commitment of a country to WTO and the second showing actual levels of AMS and export subsidy provided by the member countries.

Aggregate Measure of Support includes (a) sum total of subsidies on inputs like fertiliser, water, credit, power etc and (b) market price support measured by calculating the difference between domestic administered market price and external reference price (world price) multiplied by quantity of production eligible to get applied administered price. If domestic prices are lower than the world reference price, then (b) is negative, and if this negative component is higher than input subsidies then AMS turns out to be negative.

The term AMS gives the impression that it is sum total of all kind of support. As most of the developing countries were familiar only with support in the form of input subsidies and price and marketing support, at the time of signing of GATT agreement the developing countries got the impression that reduction in AMS would imply reduction in overall support to agriculture.

BOX 1: Support Structure in Agriculture



These countries were not quite familiar with the support in different forms of direct payment to producers, infrastructural services, pest control, environment programme etc which as per WTO agreement is clubbed under green box and which is exempt from reduction commitments. With the implementation of WTO agreement, several member countries realised the seriousness of green box subsidies, level of export subsidy and AMS in developed countries' agriculture. It is now said that developed countries shifted support from non-exempt categories to exempt category that is providing their produce advantage over the produce of developing countries. When one considers several kinds of support extended to agriculture by developed countries it looks more apt to describe "Aggregate Measure of Support" as "Partial Measure of Support".

In order to compare magnitude of support given by different countries we have computed different kind of support as per cent of GDP from agriculture or per unit of output while export subsidies have been computed per physical unit of export of given commodity.

Aggregate Measure of Support

Committed and actual level of aggregate measure of support (AMS) for agriculture sector as a whole for selected countries are presented in Tables 1 and 2 respectively. Among the selected countries, member nations of European Economic Community (EC) and Japan have notified highest level of commitments, which exceed 40 percent of their total GDP from agriculture sector while Canada and USA rank third and fourth. In the latest year, for which this information is available, Canada could extend AMS upto 26 percent of its GDP agriculture. Similarly, USA could use 12.6 percent of GDP agriculture to provide input subsidy and products specific support.

Country	1995	1996	1997	1998
Argentina	0.51	0.50	0.43	0.34
Australia	4.05	4.09	2.52	2.94
Brazil	1.08	1.03	0.92	1.60
Canada	33.30	32.22	28.96	26.30
EC	53.03	49.25	44.24	42.14
Japan	50.26	42.67	44.02	43.45
Thailand	4.77	4.48	4.06	2.98
United States	16.60	15.47	13.87	12.60

Actual use of AMS by EC and Japan exceeded 30 percent of their GDP agriculture during the first 3 years following formation of WTO. United States of America and Canada were providing around 4 percent of GDP as AMS. This way EC and Japan were using 64 to 73 percent and USA used about 26 to 29 percent of their AMS option permissible under WTO commitments (Table 3). Percent of commitment actually used show that developed

countries can still significantly enhance input subsidies and price support to their agriculture, without violating their obligation to WTO.

Country	1995	1996	1997	1998
Argentina	0.73	0.50	--	--
Australia	1.08	1.07	0.63	0.69
Brazil	0.31	0.36	0.28	--
Canada	4.98	3.97	--	--
EC	32.75	32.89	--	--
Japan	36.72	30.65	31.23	--
Thailand	3.45	2.69	3.21	2.34
United States	4.47	4.09	4.03	--

-- Not available

Country	1995	1996	1997	1998
Argentina	144	100	--	--
Australia	27	26	25	23
Brazil	28	35	30	--
Canada	15	12	--	--
EC	64	67	--	--
Japan	73	72	71	--
Thailand	72	60	79	78
United States	27	26	29	--

-- Not available

Information on domestic support for some individual commodities was also available from WTO notification by member countries. This information was computed by using level of domestic production as the denominator and is presented in Table 4. For the base line period, Canada, USA and Japan had notified very high level of domestic support, which provides them lot of cushion to protect their produce. In the case of wheat, EC had notified domestic support to the tune of Rs 4.62/kg while Canada and USA notified Rs 2.29 and Rs 2.82. USA had notified domestic support of Rs 28 and Rs 7 per kg of cotton and sugar. Actual support given to sugar by EC and USA ranges between Rs 5 and 15, which in some of the years was higher than even international price of sugar. In contrast to this, domestic support for wheat, rice and cotton in India was negative in 1995.

There is a serious anomaly in the WTO procedure of computing AMS which measures output price support by comparing current domestic price against fixed international reference price in the base year 1986-88. Because of this, with the passage of time, AMS can turn positive and high merely due to inflation in developing countries like India. This may soon lead to a stage when production support by developing

countries like India exceeds the *de minimus* level, ruling out future possibility of price support.

Product	Country	Baseline*	1995	1996	1997	1998
Wheat	Canada	2.29	0.04	0.09	--	--
	EC	4.62	1.16	1.23	--	--
	USA	2.82	0.00	0.00	0.02	--
	India	--	-4.74	--	--	--
Rice	EC	7.69	10.24	9.34	--	--
	Japan	108.22	68.85	64.59	57.64	--
	Thailand	0.86	0.53	0.86	0.64	0.75
	India	--	-3.19	--	--	--
Cotton	EC	0.07	0.11	0.08	--	--
	USA	27.77	0.27	0.03	4.13	--
Sugar	India	--	-5.65	--	--	--
	EC	13.82	14.92	14.74	--	--
-- Not available	USA	7.10	5.67	5.19	5.28	--
	India	--	0.21	--	--	--

*\$ Converted to Rupee at exchange rate of year 2000

Green Box Support (GBS)

Support under this category is not included in AMS as this is deemed as less distortionary. The category includes items like decoupled income support, research expenditures, pest control measures, training & extension expenses, inspection, marketing service and promotion expenses and infrastructure expenses. Some of the direct payments are also listed in this category. There is ambiguity in head and expense classification, which makes GBS highly contentious.

Highest green box support to agriculture is provided by USA which spend more than 1/3rd of its GDP on this support (Table 5). Japan uses one fourth of its GDP agriculture towards green box provisions. Green box support in Canada and European countries is around 13 percent of GDP. Among the developing countries Brazil provides about 3 percent of GDP for GBS while in Thailand this support is around 7 percent. The estimate of green box expenditure for India is available only for the year 1995. In this year, the country used 2.34 percent of GDP agriculture for GBS, most of which was on public stock (foodgrain) holdings.

Country	1995	1996	1997	1998
Argentina	0.00	0.81	1.23	--
Australia	6.76	7.24	5.47	7.49
Brazil	5.07	2.60	3.14	--
Canada	13.53	12.84	--	--
EC	12.47	13.50	--	--
Japan	32.16	25.04	25.72	--
Thailand	7.30	8.52	6.77	6.12
United States	33.11	35.98	33.08	--
India	2.34	--	--	--
-- Not available				

Total Domestic Support (TDS)

In order to have an idea about total domestic support, all such measures were added together and their proportion in GDP agriculture in selected countries is presented in Table 6. Total domestic support (excluding export subsidy) exceeded 50 percent of the GDP in EC and Japan while USA uses about 38 percent of GDP agriculture for such support. Support to agriculture in Canada accounts for one fourth of its GDP agriculture. In the case of India, if we do not account for negative AMS, then total support to agriculture was 9 percent during 1995.

Country	1995	1996	1997	1998
Argentina	--	1.54	1.67	--
Australia	7.86	8.36	6.06	8.21
Brazil	5.75	3.23	3.67	--
Canada	26.63	24.18	--	--
EC	59.95	58.19	--	--
Japan	68.14	54.91	56.78	--
Thailand#	11.87	13.97	10.13	9.22
United States	43.80	40.89	37.63	--
India@	8.97	--	--	--

TDS includes AMS, green box, blue box, S&D and *De minimus*
Exclude *de minimus* support
@ Exclude current AMS which was negative in 1995.
-- Not available

Export Subsidy

Export subsidy is quite common among European countries and in North America. In some of these countries domestic prices rule higher than international prices. In order to maintain this price level for agriculture in domestic economy and to encourage disposal of surplus in outside market, these countries provide huge export subsidy. As per the WTO commitment, developed countries are required to reduce expenditure on export subsidy by 36 percent and volume of subsidised export by 21 percent during 1995 to 2000. The committed and actual level of these subsidies is presented in Table 7 and 8 respectively.

As per the commitment, EC could provide export subsidy of Rs 232 to 333 on one kg of butter & butter oil and Rs 44 to 74 on skim milk powder and cheese. EC members could give per kg subsidy of Rs 3 on wheat and wheat flour and Rs 3.50 on sugar. Export subsidy commitments of USA and Canada on dairy products are particularly high.

Actual export subsidy by EC in 1998, per kg of export, was Rs 74 on butter and butter oil, Rs 38 on skim milk powder and Rs 16 on cheese and close to Rs 5 on sugar. In the same year USA provided export subsidy of Rs 53 on skim milk powder.