



## WTO'S 11TH MINISTERIAL CONFERENCE – BUENOS AIRES WHAT'S AT STAKE FOR DOMESTIC SUPPORT<sup>1</sup>

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### INTRODUCTION

With the stagnation of the **Doha Round**, the WTO has started a process known as “early harvest”. The first results were achieved four years ago in Bali<sup>2</sup>, the process continued in Nairobi and it is expected to have some outcomes in Buenos Aires, during **the 11<sup>th</sup> Ministerial Conference of the WTO**. In this context, the question is what to expect in Buenos Aires, especially in agriculture.

The Agreement on Agriculture of the WTO has rules for three pillars: **Market access** (the use of trade restrictions, such as tariffs on imports), **Export competition** (the use of export subsidies and other government support programmes that subsidize exports) and **Domestic support** (the use of subsidies and other support programmes that directly stimulate production and distort trade). For the first one, given that it is a topic closely related to the non-agricultural negotiations (NAMA), is going to be difficult to have results only in agriculture. The second one had some results during Nairobi, but nothing

more until now. The last one is going to be the focus of this paper.

According to a report by Mr. Vangelis Vitalis, current chairperson of the WTO agricultural negotiations, there are some issues to take into account for the next Conference. Recent submissions by Members on Domestic Support show a will to take negotiations forward and to target trade-distorting domestic support, including cotton. This could be by addressing it as a whole or by emphasizing the components considered the most trade distorting. Different options could include reductions of current commitments levels or cuts on the *de minimis* levels. It would even be possible to negotiate new rules. However, nothing is yet defined.

### IMPORTANCE OF DOMESTIC SUPPORT

The current framework of trade negotiations is characterized by relatively low prices in relation to the last years, an Agenda 2030 for Sustainable Development that aims at the end of hunger and poverty, ensuring global food security.

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<sup>1</sup> On February 21<sup>st</sup> during a policy seminar of IFPRI, titled “Global food security and the WTO: The role of Mercosur countries”, the INAI Foundation presented an analysis on domestic support, based on this paper.

<sup>2</sup> It was announced on February 22<sup>nd</sup> by the WTO that the Trade Facilitation Agreement (TFA) has now entered into force, having surpassed the minimum requirement of 110 ratifications from members.

Likewise, in recent years changes have been made in agricultural policies implemented by both developed and developing countries, with a notable increase in support to producers granted by emerging economies such as China, India, Indonesia, Turkey and Thailand.

In addition, there are new factors of global uncertainty related with the outcome of the referendum in favor of Brexit, Trump taking office in the USA, the threat of protectionism and the stagnation of negotiations of mega-regionalist agreements.

In this context the production subsidies have returned to the center of the scene and the WTO has improved its role, not only as a forum for conflict resolution, but also as a place where countries can agree on future commitments in order to avoid proliferation and increase of trade-distortive agricultural subsidies.

In order to illustrate the importance of domestic support in agriculture, we take two indicators from OECD as a reference: the **Total Support Estimate** (TSE) and the **Producer Support Estimate** (PSE)<sup>3</sup>.

The first one (**TSE**) consists of transfers: to agricultural producers (PSE), to consumers and to support general services in the agricultural sector. The Percentage of TSE represents the total transfers expressed as a share of GDP.

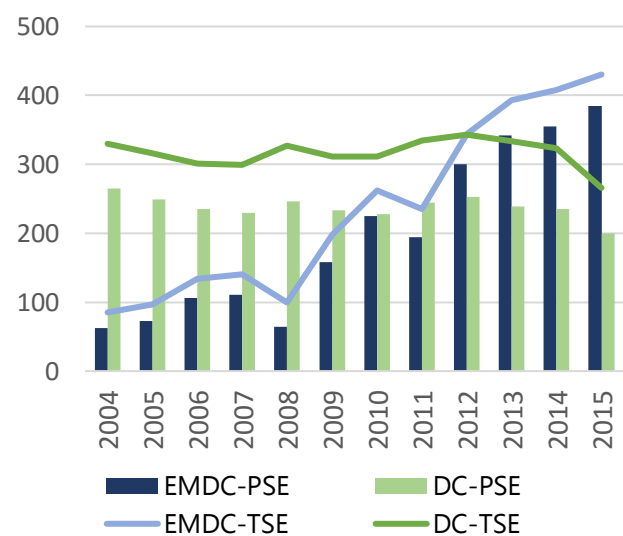
On the other hand, the **PSE**, which is the indicator we used for our analysis, measures the annual monetary value of gross transfers from

consumers and taxpayers to support agricultural producers, measured at farm gate level and arising from policy measures, regardless of their nature, objective or impacts on production or income.

As it is showed in the **Graph 1**, both indicators (TSE and PSE) show the same trend: developing countries have been raising the amount of support given while developed countries decreasing. Despite that, support granted by developed countries remain high.

This is due to the remarkable increase of the amount of subsidies given to agricultural producers in China since 2008, via price support,

**Graph 1. Producer (PSE) and Total Support Estimate (TSE). Billion USD**



**EMDC:** Emerging Markets and Developing Countries  
**DC:** Developed Countries

Source: Generated by the authors based on data from OECD (2016). As the year 2015 data for Russia is not available, it was assumed similar to 2014.

<sup>3</sup> It includes estimates for the value of transfers provided by market access measures, such as tariff and tariff quotas, input subsidies, direct payments coupled and decoupled to prices or production.

government procurement and direct payments. With total support estimated at about \$ 340 billion in 2015, agricultural support in the Asian giant are vastly higher than those granted by the USA and the EU: more than four times what the USA gives and three times the EU. China's support explains the 80% of emerging markets and developing countries subsidies.

In the following table (Table 1) it can be observed the previously mentioned tendencies. China results the main subsidizing country, with 48% of the total subsidies given by the countries analyzed, with a growth of 866% in the last 10 years.

On the other hand, Japan, the European Union and the United States, show a reduction in the amounts of support given between 6% and 15%.

**Table 1. Main Countries - Producer Support Estimate (PSE) Million USD**

Country	AVG 2003-05	AVG 2013-15	Share % total	Δ 10 years
China	29.213	282.273	48%	↑ 866%
EU28	124.469	106.342	18%	↓ -15%
Japan	46.472	42.406	7%	↓ -9%
USA	39.320	37.126	6%	↓ -6%
Indonesia	3.037	31.665	5%	↑ 942%
Korea	19.348	21.125	4%	↑ 9%
<b>EMDC-PSE</b>	<b>65.836</b>	<b>360.463</b>	<b>62%</b>	<b>↑ 448%</b>
<b>DC-PSE</b>	<b>246.644</b>	<b>224.619</b>	<b>38%</b>	<b>↓ -9%</b>
<b>Total</b>	<b>312.480</b>	<b>585.082</b>	<b>100%</b>	<b>↑ 87%</b>

Source: Generated by the authors based on data from OECD (2016).

Nonetheless, the three of them remain among the main subsidizers. Indonesia follows in the footsteps of China, and Korea as well, but on a smaller scale.

At the aggregated level, there was an inversion in the share of the subsidies given by Emerging Markets and Developing Countries (EMDC) and Developed Countries (DC) in the past 10 years. It can be noticed that in the period 2003-05 DCs accounted for about 80% of subsidies, while in recent years EMDCs have taken the lead and reached 62% (mainly explained by China).

At this stage, it is important to point out that there are no PSE data for India, one of the biggest emergency countries subsidizers. So it is possible that if such data exists, the percentage of EMDC would increase even more.

Among the main products subject to subsidies are cereals, meats and sugar (See Table 2.).

**Table 2. Main Products - Producer Support Estimate (PSE) Million USD**

Product	AVG 2013-15
Rice	63.781
Pork meat	31.943
Bovine meat	31.512
Corn	27.526
Milk	23.663
Wheat	18.820
Poultry meat	10.345
Sugar	8.880

Source: Generated by the authors based on data from OECD (2016).

**Chart 1** displays the percentage of PSE that represents the transfers to agricultural producers expressed as a percentage or share of the gross farm revenue.

As it can be noticed, there are some countries like Norway, Japan, Korea and Switzerland where more than half of their gross farm receipts came

from transfers (subsidies) from consumers. In the case of the EU, that percentage of transfers rises to almost 20% and in the USA, to 8%. While in all other countries we observe positive transfers to agricultural producers, in the case of Argentina the figure is negative mainly due to the effect of

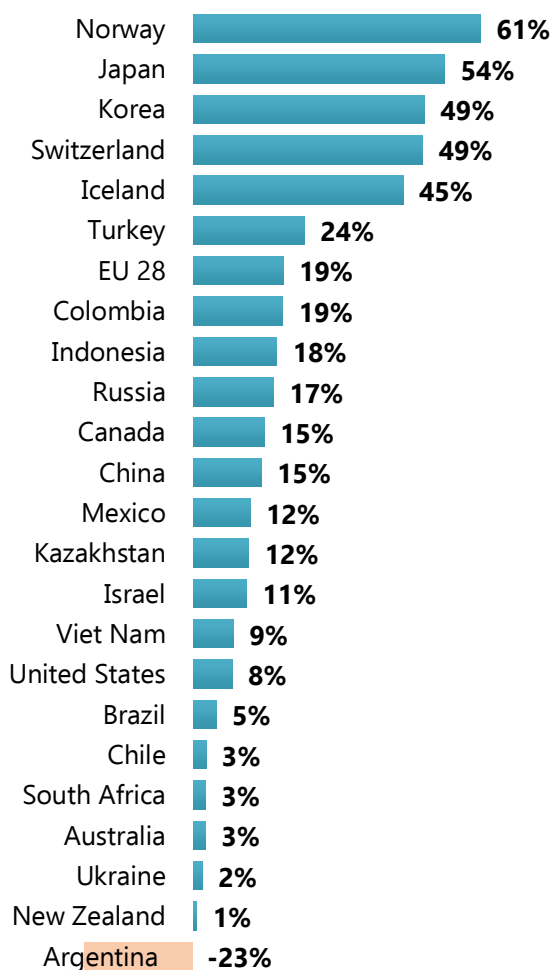
Argentinian agricultural sector subsidizes other sectors of the economy.

## METHODOLOGY

As it was mentioned before, we took the PSE indicator as a reference for our analysis. To understand the methodology used, it is important to know that the PSE can be split into different kinds of support. In order to run the simulations in this article, the PSE categories were modelled considering the following parameters<sup>4</sup>:

**Chart 1. Producer Support Estimate (% PSE)**

*Three year average (2010-12)*



Source: Generated by the authors based on data from OECD and Agrimonitor-IADB.

- **Market price support:** Modelled as a gap between domestic and external price. However, tariffs were modelled separately, and left out of the simulations, given that they are part of the “market access” pillar. Intervention price policies in most countries were also modelled explicitly.
- **Payments based on output:** Modelled as an increase in producer price.
- **Payments based on input:** Modelled as a reduction on production costs.
- **Payments based on income, area or animal numbers:** Modelled as an increase on land revenues, although the payments were excluded in the cases where production is not required.
- **Other payments:** Not modelled.

## SCENARIOS

With the aim of providing more tools to allow the negotiators to reach a consensus and to address the importance of this topic, in this section it was run an impact analysis of full domestic support

export taxes. This means that in net terms

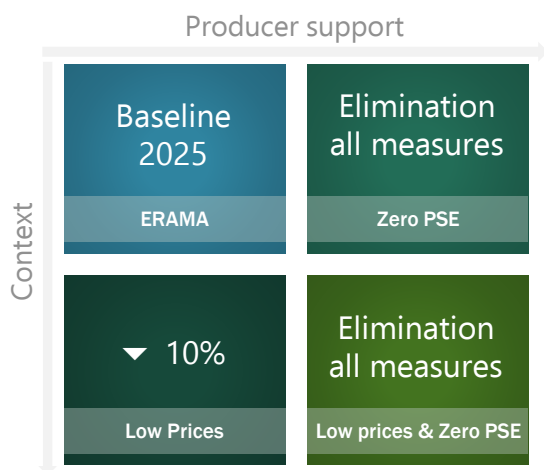
<sup>4</sup> The modelling was based on OECD (2009) “The PSE Manual”

elimination in the context of two different scenarios.

The baseline scenario reflects INAI Foundation's **ERAMA 2025** (World and Argentine Agribusiness Reference Scenario), which consists of a long-term outlook for the levels of international trade, production and consumption of the main agricultural goods, constructed by means of the PEATSim-Ar simulation model of the INAI Foundation and experts validation.

The second scenario was called "**Low Prices**", where a 10% drop in world food demand has been simulated. This, in turn, affects international prices, so that some subsidy programs that remained latent in the baseline are now activated.

**Chart 2. Simulated Scenarios**



**Table 3** below summarizes the results for world trade. In the baseline, it is expected that world grain and oilseed imports would reach 154 billion dollars by the year 2025. In the case of domestic support elimination, import value rises to 179 billion dollars, an increase of 16.4%.

**Table 3. World grain and oilseed imports**

2025 - Billion USD

154 ERAMA	179 Zero PSE	▲ 16.4%
% Change		
120 Low Prices	142 LP & Zero PSE	▲ 17.6%

Source: PEATSim-Ar model simulation

On the other hand, under the low prices scenario, imports display a drop of 21.8% to 120 billion dollars. In this case, the elimination of the domestic support would allow to reach 142 billion dollars of imports, what represents an increase of 17.6%.

Therefore, the **elimination of domestic support is a matter of importance for exporting countries** under a baseline scenario, and even more in a context of low prices.

Similar conclusions can be reached if the data for specific products is analyzed. As it is displayed on **Table 4**, for Argentina, Brazil, Paraguay and Uruguay (ABPU countries), the elimination of producer support would imply increases in exports for all meats. Yet, the impact on pork would be remarkable. Positive results can also be seen for milk powder, rice, wheat, soy, cotton and even sugar.

**Table 4. ABPU net export changes**
*2025 – Δ 000 tons and %*

	Baseline		Low prices	
	Δ	Δ%	Δ	Δ%
<b>Beef</b>	67	1,8%	101	3,4%
<b>Poultry</b>	118	1,8%	90	1,5%
<b>Pork</b>	217	24,0%	191	27,8%
<b>Whole dry milk</b>	34	13,4%	54	28,3%
<b>Rice</b>	46	1,4%	521	21,1%
<b>Wheat</b>	670	8,7%	1.483	25,4%
<b>Corn</b>	-3.701	-4,3%	-7.063	-9,2%
<b>Soybean*</b>	3.934	2,5%	3.422	2,3%
<b>Cotton</b>	30	2,2%	19	1,5%
<b>Sugar</b>	2.727	10,8%	2.673	11,1%

Source: PEATSim-Ar model simulation

\* Includes oil and meal

It is of importance to note that the soybean row includes beans as well as oil and meal. Even though the aggregate effect is positive, the simulation causes an increase on bean exports and a decline on oil and meal. This occurs because China is assumed to demand greater amounts of beans, prioritizing local crushing. Thus, this behavior arises from the *ceteris paribus* assumption ("everything else constant"), which is not necessarily realistic given that a total subsidy elimination would probably be accompanied by other policy changes.

Then, **Table 5** exhibits the increases on imports for the main importing countries and products. There it can be seen, for example, how China would significantly increase its imports of wheat. The impact is larger in the pessimistic scenario than in the ERAMA, given that the role of the intervention price policy is greater when there are lower world prices. The increase in the purchases of soy and sugar is also very important in both

**Table 5. Net import changes**
*2025 – 000 ton*

		Baseline	Low prices
<b>China</b>	Soybean	40.420	38.091
	Rice	7.459	24.627
	Wheat	2.289	20.478
	Sugar	3.311	3.147
	Cotton	387	190
<b>EU-28</b>	Soybean meal	2.595	2.414
	Sunflower oil	32	67
	Beef	32	42
<b>Indonesia</b>	Rice	7.126	4.841
	Corn	2.020	2.247
	Sugar	364	360
<b>Japan</b>	Pork	1.141	1.128
	Barley	765	737
	Sugar	137	165

Source: PEATSim-Ar model simulation

scenarios in China, as well as the case of pork in Japan.

## THE ROAD AHEAD

At the Ninth Ministerial Conference in Bali (2013), Ministers adopted the "Bali Package". A series of decisions on agriculture, which included: an agreement to negotiate a Permanent solution to Public Stockholding for Food Security Purposes and to refrain from challenging breaches of domestic support commitments resulting from developing countries' public stockholding programmes for food security provided certain conditions are met; a call for greater transparency in the administration of tariff quotas; and an expansion of the list of general services eligible for green box assistance (not subject to non-distorting limitations).



During the Tenth WTO Ministerial Conference held in Nairobi (2015), the "Nairobi Package" involved six Ministerial Decisions on Agriculture, Cotton and Least Developed Countries (LDC) issues. The main result was the decision to eliminate export subsidies for agricultural products and to establish disciplines on export measures having equivalent effect. The developed countries would immediately eliminate subsidies to the exports, except in the case of a few agricultural products, while the developing countries have longer terms to do so.

The question is what to expect in agricultural issues during the XI Ministerial Conference, to be held in Buenos Aires in December.

In particular, in order to understand how domestic support may be dealt with during the XIMC, there are different proposals that have been submitted to the Committee on Agriculture. One of the most important<sup>5</sup> ones, co-sponsored by Mercosur members, among others, puts forward **four different options to limit different kinds of domestic support**, and stresses that cotton should be addressed with more ambitious commitments and shorter implementation periods.

The paper suggested that countries could consider comprehensive limit on trade-distorting support; cuts to farm support levels using existing WTO categories; disciplines aimed at reducing the concentration of support on particular products; and new measures to address types of

domestic support that serve as *de facto* export subsidies because of their effects on products that are exported to world markets<sup>6</sup>.

Moreover, a second paper<sup>7</sup> presented a statistical analysis to identify the domestic support policies that cause the largest distortions to global trade.

An additional important issue about domestic support is the **notification** status. For the negotiations it is crucial to have information on what the Members are doing to support their farmers. However, only less than 25% of Members of the WTO can be considered up to date in their notifications to 2014.

Moving on to the other pillars, there has been an increase of interest in the negotiations for **Market Access**, with some Members identifying, including in their latest submissions, specific topics of interest such as the special safeguard on agriculture, tariff escalation, tariff simplification, tariff peaks or tropical products. However, this is an area closely related with NAMA, so is going to be difficult to have results only for agriculture.

With regard to **Export Competition** there has not been a discernible shift in negotiation positions since July, and actually since the Nairobi Ministerial.

On **Public Stockholding for Food Security Purposes**, Members presented their well-known positions, with proponents considering that their 2014 proposal should be the basis for the negotiations for the Permanent Solution, and the

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<sup>5</sup> Brazil, Argentina, Chile, Colombia, Paraguay, Peru and Uruguay

<sup>6</sup> Farm Exporting Countries Intensify Reform Push, Despite US Post-Election Uncertainty. BRIDGES, VOLUME 20 - NUMBER 39. 17 November 2016

<sup>7</sup> Submitted by Argentina, Australia, Colombia, New Zealand, Paraguay, Peru, Uruguay and Viet Nam.

non-proponents rejecting the proposal as it stands.

The proponents and others seek a **Special Safeguard Mechanism** (SSM) to address imports surges, price volatility and food security objectives whereas the other side cannot envisage an SSM in the absence of a market access outcome.

## FINAL REMARKS

As can be seen, domestic support really matters for exporting countries.

In the framework of the XIMC, it is essential to achieve results in agriculture, in order to give a positive signal to deal with the new context and to strengthen the WTO as a field of policy formation and definition of multilateral rules.

According to the report of Mr Vitalis of the Committee on Agriculture, there are some things that need to be taken into account for the next Conference. First of all, the latest contacts with member states show the willingness to move forward in domestic support negotiations and target trade-distorting supports, including cotton.

This could be addressed as a whole or by highlighting the most distorting components. One option could be the reduction of consolidated levels (MGA) or maybe of the de minimis levels. As we have seen recently, this last one seems to be the path of granting aids that is growing exponentially, particularly in developing countries such as China. Or why not, negotiate new rules. However, there is still nothing defined.

In addition, enforcement is fundamental. It is important to develop new definitions but it is also essential to comply with existing rules in a scenario of uncertainty. In this regard, it is necessary and appropriate to follow up the cases made in the Dispute Settlement Body (DSB) such as the US case against China for subsidies to agricultural producers.

In the same way, it is important to remark the need to rely on updated notifications of domestic support and other sanitary or technical measures likely to create unjustified barriers to trade.

Although, it is necessary to carry out different analyses, measuring the impact of the current proposals in Domestic Support. It is also very important to analyze the other pillars and eventually develop some alternative proposals.

Argentinian Ministers, during an informal meeting of a group of Ministers in Oslo in October 2016, said that "it would be impossible to be in Buenos Aires and not have an outcome on agriculture". And it is possible to add: Domestic Support would be the best starting point.