

THE REGULATION OF AGRICULTURAL SUBSIDIES WITHIN THE WORLD TRADE ORGANIZATION

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Only after the collapse of all previous negotiations, it was clear that the problem of the integration of agriculture in multilateral trading system is more complex and requires a more comprehensive approach. Very useful in the realization of arguments for the protection of agricultural producers who guarantee placement, subsidies are often the instrument in the implementation of agricultural policy, especially in developed countries. Since they are seen as trade barriers with a very distorting influence, the WTO was to start negotiations for their reduction. During the Uruguay Round it was managed to give their definition, categorization, and reach consensus for a gradual reduction and eventual abolition of export subsidies. However, after this initial success there was the absolute collapse of the negotiation process. This paper focuses on the explanation of negotiation efforts through comparative analysis of the Agreement on agriculture and the latest proposal in order to solve the problem of subsidies (Doha 2008).

Key words: agreement on agriculture; domestic support; export subsidies; reduction; AMS.

РЕГУЛИРАЊЕ НА ЗЕМЈОДЕЛСКИТЕ СУБВЕНЦИИ ВО РАМКИТЕ НА СВЕТСКАТА ТРГОВСКА ОРГАНИЗАЦИЈА

Веднаш по колапсот на сите претходни преговори, јасно е дека проблемот со интеграцијата на земјоделството во мултилатералниот трговски систем е многу сложен и побарува подетален пристап. Многу корисни во реализацијата на аргументите за заштита на земјоделските производители кои гарантираат вложување, субвенциите се често инструмент во имплементацијата на земјоделската политика, особено во развиените земји. Бидејќи се гледа на нив како на трговски бариери со искривено влијание, Светската трговска организација (СТО) започна преговори за нивно редуцирање. За време на Уругвајската средба е изменадирано давање нивна дефиниција, категоризација, и е постигнат консезус за постепена редуција и евентуална аболација на извозните субвенции. Сепак, по овој иницијален пристап, дојде до апсолутен колапс во процесот на преговорите. Овој труд се фокусира на објаснување на преговарачките напори низ компаративна анализа на Договорот за земјоделство и последниот предлог со цел решавање на проблемот на субвенциите (Doha, 2008).

Клучни зборови: договор за земјоделство; домашна поддршка; извозни субвенции; редуција; AMS

1. THE LEVEL OF SUBSIDIES IN DIFFERENT COUNTRIES

The fourth Ministry WTO Conference which took place in Doha, the capital of Karat, in November 2001, aimed to make an agreement among the members of the WTO regarding the Agenda for development counted on the beginning of the ne-

gotiation about the opening of worldwide markets for agricultural and industrial products. The new round of negotiation was launched, known as “The Round from Doha” which presents the first more serious attempt of the International Union to reduce the agricultural subsidies and protection existing in developed countries. Instead of resulting into a big step forward significant agreement about

the liberalization, at the end of The Doha Round in 2006, the members of the WTO once again prolonged the reaching indispensable decisions, the benefit of which developed countries and countries in development can have. The USA and EU were mostly accused of the failure, where the subsidies are the highest in the world. The USA and EU did not accept the modalities for the protection and subsidies reduction of their agriculture, though they agreed on that in Doha.

Governments use subsidies for many reasons, some are easier to understand and support than the others. Subsidies are implemented in order to build the infrastructure, to redistribute income, to help poor consumers or with various other economic aims. The economic analysis tells us that some of the aims could be reached more efficiently in some other way. Theory also proves that subsidies result into the distorting of trade and give artificial competitive advantage to exporters. According to the International Trade the importance of subsidies among commercial partners is directly related to the distorting effect on specific section of exchange. Not considering whether subsidies can be justified from the point of national prosperity or not, they provoke reactions which annul their original value. The rules of the WTO exist in order to balance the potential tension between the rights of subsidies using and imperative that those subsidies do not disturb the ways of the International Trade.

Subsidies are hard to define. The definitions are usually related to specific aims and they vary within this domain. Subsidies can be related to the Governmental budget costs. It can present the public procurement of goods or services below the market price. Or it can simply be considered as the consequence of the Governmental intervention which affects the level of prices. Most subsidies definitions imply the transfer from Government to private entity which is "unreturned", i.e. the equivalent contribution is not received. This basic element about the unreturned contribution is the part of the definition of the World Trade Organization within the agreement on subsidies and compensational measurements.

The models of economic simulations suggest that subsidies in agriculture result in the lack of prosperity. Regarding their distorting character, their abolition brings economic benefit but the effect can be unfavorable for net importers. Subsidies supporting in a large country reduces the world price of subsidized agricultural products and foodstuffs. The importers of those products have

the biggest benefit of such low price. Net importers of agricultural products and foodstuffs lose their market share.

Aggregate details (according to the WTO "Trade Policy") suggest that the level of subsidies significantly differ among developed countries. Countries in development use subsidies less than it is standard in regard to their national income. Available information is as follows:

- Developed countries, 21 of them, spent \$21 billion on subsidies in 2003;
- The world total figure at that moment is \$300 billion,
- During the period from 1960 to 2004 the level of subsidies in the USA is the half of GDP;
- EU registers much higher level of subsidies, whereas Japan is in the middle position.

Sectional diversification can also be noted regarding the level of subsidies. For the selected countries the table looks like this:

Table 1

Sectional analysis of the subsidies of the selected members of the WTO, annual standard in 1999–2002

	Agriculture	Industry	Horizontal*
Australia	30	51	19
European Union	42	8	50
EU (15)	1	19	80
Japan	78	22	0
USA	60	8	32

Source: The secretary of WTO: *Subsidies, trade WTO and the subsidies*, p. 89.

*Subsidies which could not be located in particular section

Columbia and Brazil demonstrate the low level of agricultural subsidies (less than 20%). The share of agricultural subsidies in India is 50%.

2. AGREEMENT ON AGRICULTURE AND AGRICULTURAL SUBSIDIES

By the end of the Uruguay Round of negotiation, the international exchange of agricultural products stays beyond the multilateral trade rules established within GATT. Previous efforts to involve it into the negotiation (the fourth member of GATT) so as the implementation of basic principles of the International Trade Policy on the ex-

change of agricultural products remained unsuccessful, initially because of the confrontation and clashes between the EU and USA. This question was of a great importance for the countries in development, yet the developed parts of the world were not ready to abandon the protective foreign trade policy run in this sector. Agricultural subsidies were regulated differently than non-primary products. Contracting parties could use the export subsidies for agricultural products in the area where the industrial ones were abolished. The only condition was that the export of those agricultural products covers the right part of the world export (Article XVI: 3 GATT). Thus the Uruguay Round resulted in reaching the Agreement on Agriculture (in further text about AOA). New rules comprised by the Agreement on Agriculture are related to: (1) access to market, (2) support to domestic production and (3) subsidizing and other forms of supporting the export of agricultural products, which present their three pillars. Developed countries agreed on the reduction of domestic (internal) support to the production and trade for about 20% during 6 years, starting from 1995, for the basic period from 1980 to 1990. They also agreed to cut the value of export subsidies for 36% for that period. For developed countries the reduction is 13% and 24% retrospectively during the period of 10 years. The least developed countries were not included in this reduction.

Measurements of the domestic support to agricultural production were divided into three different categories (so called the Box programs) regarding the distorting effect which they have. All countries-members agreed on reduction of investing into the “**Amber Box**”¹ programs. Three categories of support within the “Amber Box” programs were allowed for the countries in development: the subsidies of investments, the subsidies of input for agriculturists who have low yields or not have qualitative recourses, so as the programs which prohibit the illegal production of narcotic herbs.

In the case when a member of the WTO is not incorporated into the agenda of reductions, any kind of internal support which does not belong to the numbered categories has to be on the **de minimis** level (Article 7 AOA). In fact the *De minimis* articles represent the highest level up to which the productive-distorting support in many mostly de-

prived countries can go without having the obligation of reduction. The *De minimis* provides flexibility in the level of reductions for the rest mostly developed countries with established obligations of the level support reduction.

According to the Article 6.5.a. AOA, the direct payment within the program of limiting production (**blue box**)² will not be obliged with the reduction of domestic support.

Measurements within the **Green Box**³ program do not produce or produce minimal distorting effects on trade and production. These measurements are not obliged by reduction and do not have financial limit in the WTO. They are equally implemented in developed countries and the countries in development. Regarding the countries in development, the state subsidized programs for nourishing jeopardized inhabitants are allowed. The *Green box* provides issuing experimental programs, ecological researches, programs regarding the promotion of products, control, and standardization. The *Green box* implies direct payment to agricultural producers if they do not affect the type and volume of agricultural production (programs for structural adjustment, the help in the case of natural disasters, etc.). Measurements aimed to agricultural and rural development of the countries in development have the special treatment within this group. The reasons for the exceptions to the reduction of obligations are thoroughly noted in the Annex 2 AOA. There are demands for the revision of these subsidies since the expended high amounts of money do not make distortion minimal. Opinions remain clashing on that level⁴.

The series of data notified by the WTO show the significant reduction of support during the period from 1995 to 2001. The members of the WTO are mostly late with providing data regarding current total AMS (Total Aggregate Measurement of Support), thus it is very difficult to obtain current data. The data are mostly represented on the basis of series of data of 21 countries (Australia, Brazil, Colombia, Cyprus, Czech Republic, the EU, Hungary, Iceland, Israel, Japan, Morocco, New Zealand, Norway, Poland, Slovak Republic, Slovenia, South Africa, Switzerland–Liechtenstein, Thailand, Tunisia and the United States) about which complete information is obtained. For 21 coun-

¹ Article 6 AOA

² Article 6.5 AOA

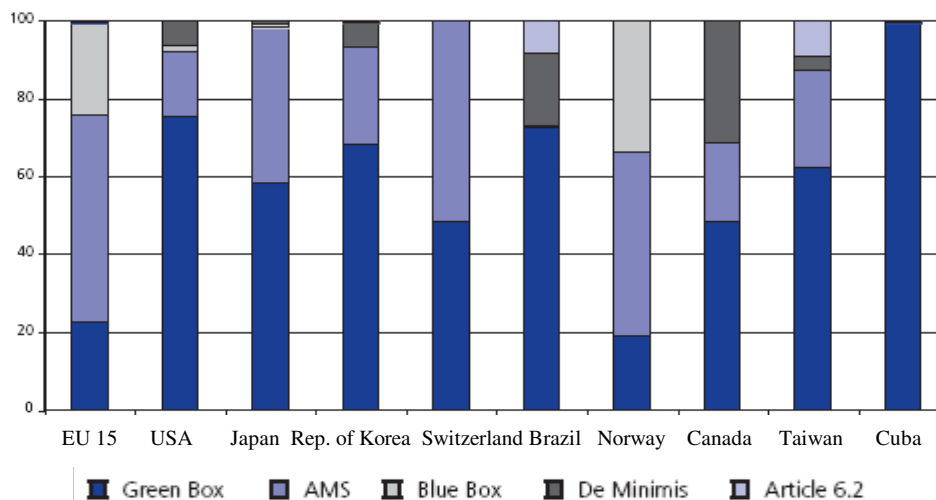
³ Annex 2 AOA

⁴ http://www.wto.org/english/tratop_e/agric_e/negs_bkgmd13_box_es_e.htm

tries, which are members of the WTO, the total AMS was falling on average of 7.2%. The standard level of domestic support was half reduced, from \$115 billion in 1995 to \$60.1 billion in 2001. During this period the reduced annual consumption on the blue box is 6.9%, 5.7% on the measurements from the Article 6.2 (exceptions and special treatments) and 2.6% on the measurements from the green box. The only component of domestic support which shows the increase during this period of 6 years is the *de minimis* which is

almost tripled, from \$3.8 billion to \$9.6 billion in 2001.

The following graph shows the composition of domestic support in top 10 countries providers. AMS in the *green box* is dominated. The countries in which AMS contains almost the half of domestic support are the EU (15), Switzerland and Norway. The *green box* is dominated in all countries in development. The *de minimis* is important for Brazil, Canada, The Republic of Korea and the USA. The *blue box* figures only in Norway and the EU (15).



Source: The WTO secretary: *Subsidies, trade WTO and the subsidies*, p. 135.

Graph 1. Countries-leaders in implementation of domestic support (1995–2001)

The Table 2 shows ten members of the WTO with the largest share of domestic support expressed in American dollars.

Table 2

Leaders in domestic support implementation (expressed in \$billion)

Ordinal number	Member of WTO	Total domestic support
1	EU (15)	96.1
2	USA	66.2
3	Japan	41.8
4	The Republic of Korea	7.5
5	Switzerland–Lichtenstein	4.6
6	Brazil	3.5
7	Norway	3.0
8	Canada	2.6
9	Thailand	1.9
10	Cuba	1.3

Source: The WTO secretary: *Subsidies, trade WTO and the subsidies*, p.89, period 1995–2000

The longer period is observed because of the decrease of effect of the variable power of the American dollar.

The highest degree of support is present at three members: EU, USA and Japan. After those countries the amount of support abruptly decreases.

The export subsidies for agricultural products were abolished in AOA (Article 3.3 AOA). The expansion of the export subsidies in years preceding the Uruguay Round was the main reason of their entering the negotiation. The export subsidies became the main factor of the destabilization of the world market price of numerous agricultural products. The Article 3.3 AOA established new rules for the agricultural export subsidies.

In the Article 9.1 AOA there are subsidies most often used in practice:

- the contingent of direct subsidies effecting the export production rate;
- the sale of non-commercial supplies of export agricultural products at price lower than com-

parative price of those products on the domestic market;

- the Governmental programs which subsidize certain part of agricultural production;
- subsidies that cover the marketing costs of export products;
- the transport subsidies;
- subsidies for products incorporated into export product (e.g. wheat and biscuit).

All these subsidies are obliged to reduction regarding quantities ready for export so as budget

expense. The realization of AOA is supervised by the Agricultural Committee.

The table below shows that the EU stays dominant regarding export subsidies, in despite of significant reductions. Then Switzerland follows, then the USA and Norway are on the third and fourth place. The export subsidies share in the overall agricultural production in the USA is marginal. Norway is the only country where the percentage of domestic support has been significantly reduced in recent years.

Table 3

Export subsidies costs, 1995 – 2000 (\$million and percentage)

	1995		1996		1997		1998		1999		2000	
	amount	%	amount	%	amount	%	amount	%	amount	%	amount	%
EU	6314	88.8	6748	89.7	4797	87.7	5976	90.1	5628	89.6	2462	87.1
Switzerland	446	6.3	369	4.9	295	5.4	292	4.4	290	4.6	189	6.7
Norway	83	1.2	78	1.0	102	1.9	77	1.2	128	2.0	45	1.6
USA	26	0.4	121	1.6	112	2.1	147	2.2	80	1.3	15	0.5
Rest	243	3.4	202	2.7	166	3.0	144	2.2	151	2.4	116	4.1
Total	7112	100.0	7519	100.0	5473	100.0	6636	100.0	6278	100.0	2826	100.0

Source: The WTO secretary: Subsidies, trade WTO and the subsidies, p. 138.

The Agreement on subsidies and compensatory measurements is also a big step towards defining subsidies and their rules in this domain. The Agreement is implemented in every country.

3. THE MODALITY DRAFT IN THE AGRICULTURAL DOMAIN DATING 8TH DECEMBER 2008

After seven years of debating, it was made a new draft of potential prosperity in solving problems because of which all previous rounds of negotiation failed. The problem of “three pillars” was not solved by this, yet it presents the proposal from the point of countries members involved in previous negotiations.

The proposal for domestic support reduction is realized through several levels and phases. Firstly, every category (*amber box*, *de minimis*, *blue box*) is individually limited. Then, within every category there will be some limits for productively specific products. Thirdly, there will be reductions in allowed limits for all three categories together, reported in Overall Trade-Distorting Domestic Support. According to the definition *Overall Trade-Distorting Domestic Support – TDS* represents the total final limiting overall AMS, allowed

de minimis limit expressed in money terms and allowed limit of the *blue box* support. The basic period is counted from 1995–2000. Within these modalities, reduction will be realized in two ways. The first one is by *tiered* formula i.e. countries with higher percentage of domestic support will have higher reduction. *Tiered* formula is used for final limiting overall AMS (see table 4). Secondly, limit for the *de minimis*, *blue box* is defined even within support to every product. Limit is most often the average consumption in the period from 1995 to 2000.

Table 4

Final limiting overall AMS-tiered formula

Intervals	The limits of intervals (\$billion)	The amount of reduction (%)
1	>40	70–83
2	15–40	60–70
3	<15	37–60

Source: TN/AG/W/3, p.17.

OTDS or Overall Trade-Distorting Domestic Support:

- The highest tier (over \$60 billion), 80% reduction;
- The middle tier (\$10 billion- \$60 billion), 70% reduction;
- The lowest tier (below \$10 billion), 55% reduction.

According to the estimate⁵, EU has the highest tier. Overall Trade-Distorting Domestic Support for 15 countries is €110.03 billion. The reduction would lower the upper limit to €22.06 billion. The countries with middle tier are the USA and Japan. The average figure for the USA is \$48.2 billion and \$14.46 billion after the reduction. OTDS in Japan proceeds 40% of the production value, so that reductions reach 75%. Within this proposal the start reduction of 33% is also planned for the USA, EU, Japan, i.e. for the countries with the highest amount of subsidies. Implementation lasts 5 years for P3 and 8 years for ZUR.

– Amber Box (AMS). Overall reductions are: EU-70%; USA/Japan-60%; Rest-45%. Higher reductions are in countries where AMS is higher in percentage than production, and these are: Japan, Norway, and Switzerland⁶.

– De minimis. Developed countries reduce support to 2.5% of production. Countries in development reach the reduction of support to 6.7% of production during three years. There will be no support reduction for poor farmers⁷.

– Blue Box. Limit is 2.55 of production (developed countries), 5% (countries in development) with limits for individual product⁸.

– Green Box. AOA (Annex 2) will be revised regarding developing programs ratification and more strict criteria for developed countries. ZUR members of the WTO will not be obliged by the reduction of support regarding: the support to agriculture contained in developing programs, generally disposed investing support and the subsidies of input in agriculture. The control and monitoring over realization of their programs will be enforced.

CONCLUSION

Chronologically represented development of the negotiations for subsidies abolition within the

WTO implies their great importance for implementation of fair and free trade. The awareness of their distorting effect, so as the trade distortion increases from their initial defining in the 4th Article of GATT to final seeking the appropriate modality for their total abolition (elimination of all forms of export subsidies is expected by 2013), and within the negotiations in Doha. It is also evident that the main ‘offenders’ for high amount of subsidies (first of all domestic support subsidies) we can find among high developed countries (EU, USA, Japan, and Norway). It is a fact that in most transitive economies, the support to agriculture is much lower than the standard in developed countries, so that there is an increase of pressure on agricultural producers’ protection on more and more concurrent global market. If we compare the structure of domestic support allocated in the amber, blue and green box, it is inevitable to conclude that the countries in development are far more disciplined in allocating their domestic support into structural and developing projects. The question, will the modality of agriculture, dating December 2008, finally see the daylight, stays to wait. Nevertheless, the arguments for free trade will find their way, be that through a multilateral or bilateral system.

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⁵ Paragraph 3

⁶ Paragraph 13

⁷ Paragraph 33

⁸ Paragraph 35, 36, 37

