Domestic Support Issues in the Uruguay Round and Beyond

Economic and Policy Analysis Directorate
Policy Branch

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Preface

This report is part of the Trade Research Series that Agriculture and Agri-Food Canada (AAFC) is undertaking to support discussions in connection with multilateral and bilateral trade negotiations. The purpose of the series is to create an inventory of research that will make it easier for stakeholders to identify concerns, issues and opportunities associated with such discussions. The research is for the most part directed to areas in which little or no information has been circulated rather than to areas in which a broad base of literature already exists. More information on the Trade Research Series is available on the AAFC website at *www.agr.ca/policy/epad* or by contacting Brian Paddock, Director of the Policy Analysis Division, Policy Branch (e-mail: *Paddobr.em.agr.c*a or phone: (613) 759-7439).

The Uruguay Round Agreement on Agriculture provides commitments in three areas: market access, export competition and domestic support. The introduction of domestic support discipline along with the discipline on border measures in an agreement governing international trade was a path-breaking step. This report explains the domestic support provisions of the Agreement on Agriculture, concentrating on the Aggregate Measurement of Support (AMS) and the so-called "green box". It examines the representation of Canada's domestic support in accordance with the Agreement, and discusses possibilities for further discipline on domestic support.

Executive Summary

The Uruguay Round of international trade negotiations of the General Agreement on Tariffs and Trade (GATT) was completed in 1994. Members of the World Trade Organization (WTO) started implementing their commitments under the Uruguay Round Agreement on Agriculture (URAA) in 1995. The implementation period for agricultural commitments runs for six years (1995–2000) for developed country Members. At the end of this period Members must stay within their commitment levels, which means that the URAA sets the context for agricultural policy making for many years. Moreover, negotiations began in 1999 on the continuation of the process of achieving substantial progressive reductions in support and protection.

This report explains the provisions of the URAA as they relate to domestic support, concentrating on the Aggregate Measurement of Support (AMS) and the exemptions of certain support from the AMS (such as "green box" and "blue box" support). It highlights the domestic support information provided by Canada. The report also examines major domestic support issues that may be the subject of discussion in the continued negotiations on agricultural trade liberalization.

The distinction between domestic policies that distort trade and those that do not is crucial, making it possible to focus on the policies that distort trade and to develop methods for disciplining them. Attempts to discipline all support in agriculture, whether trade-distorting or not, would likely have met considerable opposition in the Uruguay Round.

The URAA discipline takes the form of a commitment to reduce over time, the yearly amount of trade–distorting domestic support. Policy support below a certain percentage of the value of production is exempt from discipline ("*de minimis*" exemption). Certain types of policy support in

developing country Members are also exempt. Two other important exemptions exist: the "blue box" and the "green box".

The "blue box" exempts direct payments under production-limiting programs from reduction. The reason for this provision was to make it easier for the European Union (EU) and the United States (U.S.) to meet their respective reduction commitments. The EU put its 1995 compensatory payments under the 1992 reform of the Common Agricultural Policy in the "blue box", thus escaping the reduction commitment. The U.S. put its 1995 deficiency payments in the "blue box", but claimed that the subsequent Production Flexibility Contract payments meet the criteria of the "green box".

The "green box" exempts domestic support that has no, or at most minimal, trade-distorting effects or effects on production from reduction. Two basic criteria apply: the support must be government-funded (not involving transfers from consumers), and the support must not have the effect of providing price support to producers. A number of policy-specific criteria and conditions also apply.

The "green box" and "blue box" are also significant in that they define support that is eligible for the provisions of the peace clause. This provision exempts "green box" support from the threat of countervailing duties and provides some shelter from other trade remedy provisions for "blue box" support. The provisions of the peace clause are limited in time. Although they apply beyond the implementation period for developed countries, they expire in 2003.

The URAA introduced a monetary measure of the amount of trade-distorting support: the Aggregate Measurement of Support (AMS). The commitment to reduce trade-distorting domestic support is taken on the Total AMS. The Current Total AMS for the current year must not exceed the Member's yearly Total AMS commitment. The AMS includes the two basic forms of support: government expenditures and transfers from consumers (market price support).

The Total AMS is the sum of product-specific AMS amounts calculated for each product and a non-product-specific AMS. In some situations it is not practicable to calculate market price support, in which case an Equivalent Measurement of Support (EMS) is calculated and included in the Total AMS.

Members are required to notify domestic support to the WTO Committee on Agriculture. Yearly notifications of Current Total AMS enable other Members to verify that trade-distorting support is not provided above the Total AMS commitment. Members also notify new and modified programs which they claim meet the criteria of the green box and do not need to be included in the Total AMS.

Annual Total AMS notifications consist of information on support organized in a given way: green box support in one table, market price support in another table, etc. The standard format facilitates review of a Member's notification in the Committee on Agriculture. The notifications of new and modified programs also follow a given layout.

Canada's domestic support notifications account for support through federal, provincial and federal-provincial programs. They rely on data collected from many sources and for various purposes, including Public Accounts, estimates of government expenditures and transfers, and Producer Subsidy Equivalents (PSEs).

Canada's annual commitment level was about $5.2 billion in 1995, declining to about $4.3 billion in 2000 and remaining fixed thereafter. In 1995, Canada's Current Total AMS amounted to $777 million. The large margin below the commitment level is partly explained by the fact that the commitment level was established on the basis of support in 1986–88 and that many large support programs of that period have since been eliminated. Canada also notified about $2.1 billion in "green box" support in 1995. For 1996, Canada notified a Current Total AMS of $619 million and "green box" support amounting to $1,995 million.

Most of Canada's Current Total AMS in 1995 and 1996 consisted of market price support to milk. Some other support, notably non-product-specific AMS, was excluded from Current Total AMS because it fell below the *de minimis* exemption level of five percent of value of production. Crop Insurance and contributions to Net Income Stabilization Accounts (NISAs) were major components of the non-product-specific AMS.

The round of WTO negotiations that started in 1999 is expected to address further disciplines on trade-distorting domestic support. The Uruguay Round discipline on such support has been thought weak because the base level of support for the commitments was unusually high: the commitment is agriculture–wide rather than product–specific. Some trade–distorting support is excluded from reduction commitments ("blue box" support) or may have been excluded because of lack of precision in the "green box" criteria, and the depth of the reduction commitment is small relative to autonomous cutbacks in support.

Strengthened discipline on trade-distorting domestic support can be achieved through many means. They include such ways as changing the special and differential provisions that apply to developing country Members, lowering the percentage level of the *de minimis* exemption, and revising the criteria of the "green box". While some of the "green box" criteria may need to be tightened such that trade-distorting support is clearly ineligible for "green box" treatment, other criteria may need to be expanded such that all support that is not trade-distorting is eligible for the "green box". Other possibilities regarding the "green box" include a cap on "green box" spending or on the total of all support, i.e. the sum of AMS support, "blue box" support and "green box" support. It might also be possible to eliminate the "blue box" classification, given that only one Member (EU) now makes significant use of that classification.

Improvements in the techniques for measuring AMS and taking commitments could also contribute to further discipline on trade-distorting domestic support. Some support that is currently excluded from the AMS might be brought into the estimation, such as some tax concessions, and also support provided by sub-national jurisdictions of many Members. Taking the reduction commitment on the basis of product-specific AMS (and a non-product-specific AMS) rather than the current agriculture-wide commitment would strengthen discipline, making it impossible to switch support among products and effectively increase support to some products.

The choice of base period for new commitments on trade-distorting domestic support is closely tied to the depth of a new reduction commitment. A crucial consideration is whether to continue ceiling commitments from the commitments established in the URAA or to identify a new base level for future reductions. Other questions have a bearing on these choices as well, such as the extent to which and how excessive rates of inflation might be considered in meeting commitments on trade-distorting domestic support.

Overall, there is considerable potential to achieve further discipline on trade-distorting domestic support in the current negotiations. This potential includes improvements in the concept of what constitutes support that should be disciplined, and improvements of a technical and measurement nature. Additional possibilities may be identified and proposed in the process of negotiations.

Acronyms

AMS	Aggregate Measurement of Support
ASA	Agricultural Stabilization Act
ASRA	Assurance-Stabilisation du Revenu Agricole
CAP	Common Agricultural Policy
CWB	Canadian Wheat Board
EMS	Equivalent Measure of Support
EU	European Union
FIDP	Farm Income Disaster Plan
GRIP	Gross Revenue Insurance Plan
GATT	General Agreement on Tariffs and Trade
NISA	Net Income Stabilization Account
NTSP	National Tripartite Stabilization Program
OECD	Organisation for Economic Cooperation and Development
PSE	Producer Support Estimate
SDR	Special Drawing Rights
URAA	Uruguay Round Agreement on Agriculture
WGTPP	Western Grain Transition Payments Program
WGSA	Western Grain Stabilization Act
WGTA	Western Grain Transportation Act
WTO	World Trade Organization

Introduction

The Uruguay Round of international trade negotiations of the General Agreement on Tariffs and Trade (GATT) was completed in 1994. Members of the World Trade Organization (WTO) started implementing their commitments under the Uruguay Round Agreement on Agriculture (URAA) in 1995. The implementation period for agricultural commitments runs for six years (1995–2000) for developed country Members and ten years for developing country Members. At the end of this period Members must stay within their commitment levels, which means that the URAA sets the context for agricultural policy making for many years to come. Moreover, negotiations began in 1999 on the continuation of the process of achieving substantial progressive reductions in support and protection.

This report explains the provisions of the URAA as they relate to domestic support, concentrating on the Aggregate Measurement of Support (AMS) and the so-called "green box". It highlights the domestic support information provided by Canada. The report also examines major domestic support issues that may be the subject of discussion in the continued negotiations on agricultural trade liberalization.

Chapter 1: Background

Domestic support and trade distortions

Before the Uruguay Round, many negotiating rounds had failed to liberalize trade in agriculture. The URAA broke new ground by explicitly addressing one of the stumbling blocks of earlier rounds, i. e. the trade distortions arising out of domestic support policies in agriculture. The URAA recognized that, in addition to border measures such as import barriers and export subsidies, the prevalence and nature of many complex domestic schemes to support agriculture had effects beyond national borders. These effects arise from the increase in production generated by certain types of support. Effective reduction of trade distortions in agriculture therefore depended on discipline not only on border measures but also on trade-distorting domestic policies.

The key in resolving the question of how to bring domestic agricultural support into negotiations on international trade was the distinction between domestic policies that distort trade and those that do not. This distinction made it possible to focus attention on the kinds of policies that do distort trade and to develop methods for disciplining them. Attempts to discipline all support in agriculture, whether trade-distorting or not, would have faced even more opposition than introducing discipline on trade-distorting policies alone. The outcome then could have been no or, at most, ineffectual reduction of trade distortions resulting from domestic support in agriculture.

Disciplining trade-distorting domestic support

The URAA subjects all domestic support in agriculture to discipline, although a number of specific exceptions apply.[1] The discipline takes the form of a commitment to reduce, over time, the yearly amount of trade-distorting domestic support. Policy support below a certain percentage of value of production is exempt from discipline ("*de minimis*" exemption—see below). Certain types of policy support in

1. The wording of the URAA with regard to what domestic support means is support ". . . in favour of agricultural producers." (URAA, Art. 6.1).

developing country Members are also exempt. Two other exemptions exist: the "blue box" and the "green box".

The "blue box" (URAA, Art. 6.5) exempts direct payments under production-limiting programs from being counted in the amount of trade-distorting domestic support that is subject to reduction. The reason for this provision was to make it easier for the EU and the U.S. to meet their respective reduction commitments. The EU put its compensatory payments under the 1992 reform of the Common Agricultural Policy (CAP) in the "blue box", thus escaping discipline, and the U.S. put its 1995 deficiency payments in the "blue box". A few other Members have also taken advantage of the "blue box" provisions, including Norway, Iceland and the Slovak Republic, but Canada has not.

The "green box" (URAA, Annex 2) exempts domestic support that has "no, or at most minimal, trade-distorting effects or effects on production" (Annex 2, para. 1) from reduction commitments. Two basic criteria apply: the support must be government-funded (not involving transfers from consumers), and the support must not have the effect of providing price support to producers. A number of policy-specific criteria and conditions also apply.

The "green box" and "blue box" are also significant in that they define support that is eligible for the provisions of the peace clause (URAA, Art. 13, entitled "Due Restraint"). This article exempts green support from the threat of countervailing duties and provides shelter of a similar nature to blue support. Support below the *de minimis* level and support that is subject to reduction commitment enjoy the same shelter as blue support. The provisions of the peace clause are limited in time[2]. Although they apply beyond the implementation period for developed countries, they expire after nine years from 1995.

The URAA also introduced a monetary measure of the amount of trade-distorting support provided by each Member. Such a measure was needed to enable a Member to take a commitment to reduce its trade-distorting domestic support through the implementation period and to enable other Members to verify that a Member's commitment was met. The measure developed for this was the Aggregate Measurement of Support (AMS).[3]

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2. The peace clause also extends some shelter against trade remedy actions to certain export subsidies.
3. Technically, the AMS means "the annual level of support, expressed in monetary terms, provided for an agricultural product in favour of the producers of the basic agricultural product or non-product-specific support provided in favour of agricultural producers in general, other than support provided under programmes that qualify as exempt from reduction under Annex 2." (URAA, Art. 1(a).)

Chapter 2: Using a Measure of Trade-distorting Domestic Support

Reduction commitments on Total AMS

The "aggregate" in AMS refers to the aggregation of support of many kinds, such as market price support and various kinds of direct payments. This is a summation across policies. The amount of trade-distorting domestic support that is subject to reduction is expressed in the Total AMS, where "total" refers to a summation across all products.[4] In other words, the reduction commitment applies to the total of all trade-distorting support, not to the support provided to individual products or through individual policies or policy types.

The commitment to reduce trade-distorting domestic support was taken on the basis of a Base Total AMS, calculated for the base period 1986–88. A developed country Member is committed to reducing its Total AMS 20 percent over the six–year implementation period.[5] The reduction takes place in equal annual steps of 3 1/3 percent each. In effect, the Base Total AMS from 1986–88 was reduced 3 1/3 percent (equals 96 2/3 percent) and became the ceiling commitment for 1995. From 2000 onward, each Member's ceiling is 80 percent of the Base Total AMS.[6]

4. The URAA refers to "product" or "basic agricultural product" where it might be equally appropriate to refer to "commodity". The specific terminology may not be important as long as it is remembered that the purpose is to capture support accruing at the farm level, regardless of whether farms produce products or commodities.
5. A developing country Member's reduction commitment is 13.3 percent over a ten-year period. Least developed country Members have no reduction commitments.
6. Negotiations started in 1999 on continuing the process of achieving substantial progressive reductions in support and protection. One possible outcome of those negotiations is a strengthening of the domestic support discipline. See "Future Directions for Disciplines on Domestic Support" later in this report.

To demonstrate that its domestic support commitment is honoured, each Member calculates a Current Total AMS for each year of the implementation period. As long as the Current Total AMS is no higher than the Total AMS commitment for the year in question, the domestic support commitment is honoured.[7]

Components of Total AMS

Total AMS consists of several components: product-specific AMS amounts calculated for each product and a non-product-specific AMS (also, in some cases, an Equivalent Measurement of Support (EMS)—see below). Both national and sub-national (such as provincial or state) support is counted in AMS unless the support is exempt, for example, by being classified as "blue box" or "green box". The methods for calculating the various components of Total AMS are given in URAA, Annex 3.

One important feature of AMS is that it incorporates the two basic forms of policy support: transfers from consumers (called market price support) and transfers from taxpayers (whether in the form of budgetary outlays or government revenue foregone). AMS is thus a broader measure than just government expenditures. It is akin to such other measures of support as the Producer Subsidy Equivalent (PSE) of the OECD and the Government Transfers estimate in Canada.[8]

Market price support is by definition part of a product-specific AMS. It is calculated by multiplying a price gap by a production quantity. The price gap is the difference between "a fixed external reference price and the applied administered price." Normally the administered price is higher than the reference price (the reference price is often a border price). The fixed external price, which is the 1986–88 average price, will be the same for the Base Total AMS and for each Current Total AMS. The fixity of the external reference price means that, if the administered price is kept unchanged, the price gap is no larger in, say, 1998 than it was in 1986–88 even if the border price has declined. The size of the price gap is thus independent of international market price variations and depends only on controllable policy parameters, such as the administered price.

The amount of market price support also depends on production quantity or volume, which is the production "eligible to receive the applied administered price." Depending on how Members apply the administered price, the

7. Technically, the annual and final domestic support commitments are found in Part IV, Section I of each Member's Schedule.
8. See Appendix 1 of this report.

eligible quantity can in some cases be only a fraction of total production, while in other cases it may be all production. Fees and/or levies are subtracted from market price support.

An EMS is calculated for products that receive price support but for which the calculation of market price support through standard methods is not practicable.[9] If it is not practicable to use the administered price and eligible quantity, budgetary outlays may be used to estimate the EMS. Methods for calculating EMS are given in URAA, Annex 4.

Many direct payments are part of a product-specific AMS, but some may be part of the non-product-specific AMS. Direct payments are most often represented in AMS by budgetary outlays.[10]

Numerous other policies are also represented in Total AMS, often in the non-product-specific component. Such policies include input subsidies of various kinds, such as credit concessions or certain freight subsidies. The accounting method can be either government expenditure or a price gap method, which is particularly useful with regard to credit concessions.

The decision on whether to include certain policy support in AMS hinges on several criteria. For example, policy support not specific to agriculture is not included, nor are administrative costs of implementing support policies. Payments made to processors are included if the support in the end accrues to farmers. Support provided in the form of income tax concessions are not counted in AMS.[11]

Assessing the policy or program against the criteria of the "green box" determines whether the support is considered trade-distorting or not (i.e. whether it has no or only minimal trade-distorting effects or effects on production) and thus whether it should be accounted for in AMS. Some Members also make an assessment against the "blue box" criteria.

9. Relatively few Members (11) included EMS in their Base Total AMS. Seven Members used EMS in their 1995 domestic support notifications. Canada has not used EMS either in Base Total AMS or in notifications.
10. Certain direct payments—those that depend on a price gap—may be represented through a price gap method involving a fixed reference price. Very few Members (Canada is not one of them) used this option.
11. This obviously means that the AMS is less aggregated in terms of policy coverage than might be warranted in a comprehensive measure of trade-distorting policy support. It was thought, however, when the AMS was estimated for the base period, that the practical difficulties of measuring income tax concessions on a consistent basis across Members were too daunting.

De minimis exemption

Both the Base Total AMS and the Current Total AMS provide for a *de minimis* allowance of five percent of value of production (ten percent for developing country Members) (URAA, Art.6.4). This means that a product-specific AMS of less than five percent of the value of production of that product need not be included in the Total AMS.[12] Likewise, if the non-product-specific AMS is below five percent of the value of all agricultural production it need not be counted in Total AMS. The *de minimis* exemption thus works at the level of product-specific and non-product-specific AMS, not at the level of Total AMS.

A Base Total AMS of zero means that product-specific support can be provided only at less than *de minimis* levels for each product. It is not possible to offset support above the *de minimis* level for one product by support for another product being below its *de minimis* level. If support for a product is above the *de minimis* level, this support generates a Current Total AMS greater than zero. Also, a Base Total AMS of zero means that non-product-specific support can be provided only at less than the *de minimis* level for the sector as a whole.

Constituent data and methodology

In measuring the Base Total AMS for 1986–88, Members needed to balance two contradictory desires. One was to establish as high a Base Total AMS as possible. A high Base Total AMS would allow more flexibility to provide AMS support in the implementation period. The possibility of choosing the higher of the support levels in 1986 or 1986–88 average was one way to accommodate the desire to estimate a high Base Total AMS. While there may also have been a desire to exaggerate Base Total AMS through manipulation of data and methods, this was tempered by the prescription that the "constituent data and methodology" used in Base Total AMS must also be used in Current Total AMS (URAA, Art. 1(h)(ii).) Exaggerated components of Current Total AMS are not to the advantage of a Member struggling to stay below its annual ceiling commitment.

The constituent data and methodology provision also means that it would not necessarily have been to a Member's advantage to avoid using the *de minimis* exemption in the base period in order to raise Base Total AMS. By doing so, the Member would have foregone the opportunity to reduce Current Total AMS by using the *de minimis* exemption for some components.

12. The value of production to be used is that of the "basic agricultural product", i. e. a farm product at the farm gate. Members are not allowed to measure value of production at a later stage in the value chain, which would have reduced the percentage AMS and made it easier to claim the *de minimis* exemption.

Effects of inflation

The discipline resulting from the commitment to maintain Current Total AMS below the ceiling level is tightened in actual fact by the effects of inflation. A given nominal amount of ceiling commitment imposes an increasingly tight constraint on Current Total AMS as inflation proceeds. Some inflation-prone Members avoided this tightening of discipline by taking an AMS commitment in another country's currency (such as the US dollar) or in Special Drawing Rights (SDR).

The review process in the Committee on Agriculture allows for consideration of the influence of excessive rates of inflation on the ability of a Member to abide by its AMS commitment (URAA, Art. 18.4). The URAA does not, however, specify how this would work. Experience so far shows that some Members have employed various indexing methods to express Total AMS in inflation-adjusted terms for consideration by the Committee.

Peace clause

One of the achievements of the URAA was agreeing on the due restraint provisions (URAA, Art. 13), also known as the peace clause. These provisions shelter certain forms of support from international challenges under the WTO. The duration of this shelter is nine years, which is longer than the implementation period for developed countries, and extends through the year 2003.

The peace clause shelters three kinds of support: "green box" domestic support, trade-distorting domestic support (AMS, "blue box" support, *de minimis* support, and some domestic support in developing countries), and certain export subsidies. The kind of shelter provided to each of these categories is different.

The peace clause makes "green box" policies non-actionable for purposes of countervailing duties and other WTO challenges. It makes trade-distorting support (AMS, "blue box" support, *de minimis* support, and some domestic support in developing countries) subject to the imposition of countervailing duties if such support can be shown to have caused injury. Such support is exempt, however, from certain other WTO challenges as long as the support, on a product-specific basis, does not exceed the level of support decided during the 1992 marketing year.

This latter provision translates into a potential curtailment of product-specific support in certain situations. For example, a Member's Current Total AMS could be far below the ceiling commitment, and the Member concerned might for some reason be tempted to increase product-specific AMS support or "blue box" support. The 1992 level of support to each product would then impose an effective ceiling on such support.

Chapter 3: Notification Requirements

The WTO Committee on Agriculture reviews Members' progress in implementing their domestic support commitments. The review is based on information contained in notifications provided by each Member. There are two major kinds of notifications relating to domestic support: an annual domestic support notification dealing with "green box"support and Current Total AMS, and intermittent or *ad hoc* notifications of new or modified support policies for which a Member claims "green box" status.[13]

Both kinds of notifications require that certain information be provided and that it be provided in certain specified formats. This requirement is intended to ensure that the Committee on Agriculture has access to all the relevant information it needs for reviewing a Member's implementation of its commitments, and to facilitate the interpretation of this information. The notification requirement and the agreed-upon formats provide a certain international transparency in spite of the often fiendish complexity and ever-changing nature of domestic support schemes.

Annual notification

The annual domestic support notification is to be submitted to the WTO within 120 days of the end of the year in question. Many Members, including Canada, experienced difficulties in submitting the first annual notification, i.e. the 1995 notification. The delays usually resulted from the work load involved in collecting and organizing the proper data for the first time since the 1986–88 data were provided. The 1996 and later notifications have come forth with somewhat greater ease.

13. Annual and *ad hoc* notifications also need to show, if applicable, a Member's "blue box" support and certain support exempt from the reduction commitments of developing countries.

The annual domestic support notification comprises ten basic sections: Table DS:1 and Supporting Tables DS:1 to DS:9.[14]

- *Table DS:1* compares Current Total AMS with the annual commitment level. The Current Total AMS is taken from Supporting Table DS:4.
- *Supporting Table DS:1* lists support in the "green box".
- *Supporting Tables DS:2 and DS:3* report other programs exempted from AMS that are referred to in Art. 6.2 and 6.5, i.e. certain programs in developing countries and the "blue box". (Canada does not report anything in Supporting Tables DS:2 and DS:3.)
- *Supporting Table DS:4* calculates Current Total AMS, based on data taken from Supporting Tables DS:7, DS:8 and DS:9. This key table enables the comparison against Base Total AMS, appropriately reduced. Supporting Table DS:4 should contain value of production data in order to ascertain whether some AMS components are *de minimis* and, if so, to demonstrate the *de minimis* calculation.
- *Supporting Table DS:5* reports market price support, including the applied administered price, the fixed external reference price and the eligible production.
- *Supporting Table DS:6* reports direct payments on a product-specific basis.
- *Supporting Table DS:7* reports other product-specific support (such as product-specific input subsidies) and tallies all product-specific AMS from Supporting Tables DS:5, DS:6 and DS:7. These product-specific AMS totals reappear in Supporting Table DS:4.
- *Supporting Table DS:8* reports product-specific EMS (EMS is not used by Canada). Amounts from this table would also reappear in Supporting Table DS:4.

14. Having both a Table and Supporting Tables can be a source of confusion, although it is most often clear from the context what is meant. The Domestic Support notification follows a precise template, described in the WTO document "Notification Requirements and Formats." [G/AG/2 30 June 1995.]

- *Supporting Table DS:9* reports non-product-specific support, and its total reappears in Supporting Table DS:4.

A key piece of information required in all supporting tables is the identification of the source of the data used in estimating or reporting the support component. The identification facilitates the verification of the domestic support information against other sources of policy information. There is also room for comments on such things as methods used. Notes on methodology often appear as an integral part of the notification or as an annex.

Ad hoc ("new or modified") notification

Notifications are also submitted on an *ad hoc* basis for new and modified domestic support measures to be exempt from reduction on the basis of satisfying the "green box" criteria.[15] Policies introduced in the interim period between 1988 and 1995 need not be notified under this procedure, according to conventions that have developed in the Committee on Agriculture. The inclusion of such policies in the 1995 annual notification (Supporting Table DS:1) is taken as a claim for "green" status, which of course does not establish them as meeting the "green box" criteria. The review by the Committee on Agriculture often identifies a need for further information on such policies to support their claimed conformance with the criteria.

15. The notification requirement also applies to other policies for which exemption from the reduction commitments is claimed, such as certain developing country policies and "blue box" policies.

Chapter 4: Canada's Domestic Support ("Green Box" and AMS)

Canada submitted its 1995 domestic support notification in 1997 and its 1996 notification in early 2000[16]. They include support under federal, provincial and federal-provincial programs. The calculation of the Current Total AMS and the total "green box" support relies on numerous data sources. The process of collecting data on provincial government support for the yearly Government Transfers estimate is utilized for most provincial government expenditure or support items and for certain federal-provincial programs. Additional sources, such as Public Accounts, are also needed, and further program information is needed for the correct determination of green or AMS status and placement under the proper heading in the notification.

The data underlying the 1995 "green box" amount are mostly for the 1995/96 fiscal year. Data for the 1995 Current Total AMS refer to a combination of 1995/96 fiscal year, 1995/96 crop year (marketing year), 1995 stabilization year and 1995 calendar year. This procedure avoids the difficulties of allocating data between different types of year, but requires consistency from year to year in keeping the definition of the "AMS year" the same. Thus, the 1996 Current Total AMS refers to 1996 and 1996/97 years.

Appendix 1 discusses similarities and differences between Total AMS and total "green box" for the WTO and three other measures of policy support: Producer Subsidy Equivalents (PSEs) for the OECD, and Canada's Government Transfers and Canada's Government Expenditures.

16. The WTO document identifiers are, respectively, G/AG/N/CAN/17 and G/AG/N/CAN/35.

Levels in recent years

Canada's Base Total AMS (calculated for 1986–88) was $5.376 billion. The annual commitment level for each year in the implementation period (i. e. reduced by 3 1/3 percent per year) is then calculated, as shown in Table 1.

Table 1: Canada's annual commitment levels

1995	1996	1997	1998	1999	2000
		billion			
$5.197	$5.017	$4.838	$4.659	$4.480	$4.301

Canada's 1995 domestic support notification showed a Current Total AMS of only $777.4 million (or $0.777 billion). This amount is about 15 percent of the annual commitment level for 1995. The 1996 Current Total AMS was $618.7 million.

The large reduction between 1986–88 and 1995 is explained by numerous changes in policy, such as the termination of the Agricultural Stabilization Act (ASA), the Western Grain Stabilization Act (WGSA) and subsidies under the Western Grain Transportation Act (WGTA), the reduction in industrial milk subsidies, the absence of pool deficits of the Canadian Wheat Board and major *ad hoc* stabilization programs in 1995, and the phasing out of the National Tripartite Stabilization Program (NTSP) and the Gross Revenue Insurance Program (GRIP).[17] Moreover, the non-product-specific component was just barely above the *de minimis* level in 1986–88 and below in 1995 and 1996, thus removing a large amount from being counted in Current Total AMS (see Table 2).

17. GRIP was introduced only after the 1986–88 base period but was also largely phased out by 1995.

Table 2: Canada's Base Total AMS and Current Total AMS

	1986–88 Base Total AMS ($ million)	Current Total AMS ($ million) 1995	1996
a. Exempt "green box"	1,671	2,098	1,995
b. Product-specific AMS	4,559	1,079	973
c. Less: product-specific AMS support excluded as *de minimis*	247	302	354
d. Non-product-specific AMS (excluded if *de minimis*)	1,064	954	787
Base Total AMS (= b - c + d)	5,376	n.a.	n.a.
Current Total AMS (= b - c)	n.a.	777	619

Note: Non-product-specific AMS was **not** below the *de minimis* level in 1986–88 but was so in 1995 and 1996.
n.a. Not applicable

Canada's "green box" support amounted to $2,098 million in 1995 and declined to $1,995 million in 1996. The 1997 "green box" support is expected to decline however, as the Western Grain Transition Payments Program (WGTPP) no longer made payments in the 1997/98 fiscal year.

Canada expects to submit its 1997 domestic support notification in 2000.

Main components and methods of Canada's domestic support

Current Total AMS equals the sum of all product-specific AMS plus non-product-specific AMS less *de minimis* product-specific AMS (if any) less *de minimis* non-product-specific AMS (if applicable).

Canada's 1995 Current Total AMS of $777 million is equal to the sum of product-specific AMS for milk and sheep. Product-specific AMS for all other basic products, valued at $302 million, is excluded on grounds of being *de minimis* for each product. Non-product-specific AMS, valued at $954 million, is also below the *de minimis* level. The 1996 Current Total AMS is composed in a similar way.

Milk AMS in 1995 and 1996 consists almost entirely of support provided through three policy instruments: the butter support price, the skim milk support price, and the subsidy on industrial milk. The first two make up Canada's only market price support component (Supporting Table DS:5), reflecting the Canadian Dairy Commission's support prices.

Eligible production in 1995 was measured by total production of butter and of skim milk powder, respectively[18] (calendar year). In line with dairy policy changes between 1995 and 1996, the 1996 eligible production of butter was measured by total production, less product sales for further processing in Classes 5a, 5b and 5c, less total exports, plus that portion of exports that had received the support price. The eligible production of skim milk power was measured in the same way.

The yearly amount of the industrial milk subsidy (Supporting Table DS:6) is extracted from the Public Accounts of Canada (fiscal year). The amount of the industrial milk subsidy in 1996 was smaller than in 1995, reflecting mainly the reduced rate of subsidy.

Although supply management schemes apply to chickens, turkeys and eggs in Canada, there is no market price support component in product-specific AMS for these products. Because no administered price is applied, market price support is not calculated for these products.

The remainder of the 1995 and 1996 Current Total AMS is largely accounted for by Quebec's contribution to the sheep/lamb account of its stabilization program, *Assurance-stabilisation du revenu agricole* (ASRA). This amount is counted in the "Provincial Direct Payment" item for sheep in Supporting Table DS:6 (stabilization year). Contributions to other commodities in ASRA, particularly red meats and grains, were much larger in magnitude, but are *de minimis*. Very little provincial support, whether product-specific or non-product-specific, is counted as AMS support as most provincial support qualifies for inclusion in the "green box". Moreover, much of the provincial support, as well as federal-provincial and federal support, counted as AMS is excluded from the Current Total AMS on grounds of being *de minimis*.

Even larger than Canada's product-specific AMS for milk and sheep, but nonetheless *de minimis*, is all non-product-specific support (Supporting Table DS:9). Some payments under programs reported in Supporting Table DS:9 satisfy some criteria for inclusion in the "green box", but since they do not satisfy all of the criteria for any of the policy types they cannot be placed in the "green box". Such programs include certain federal-provincial programs that, among other activities, provide grants or contributions to farmers in ways that do not ensure that "green box" criteria are met.

18. Thus, it is not the production of milk or industrial milk that constitutes eligible production in the calculation of market price support.

The two prominent safety net programs, Crop Insurance and Net Income Stabilization Account (NISA) (along with NISA enhancements), are placed in the non-product-specific category. Crop Insurance is counted using total indemnities, multiplied by governments' long term share of total contributions (56 percent). Crop Insurance does not fit the "green box" category "Payments for relief from natural disasters." (Annex 2, para. 8), failing to meet both the averaging period criterion and the coverage level (trigger) criterion. These criteria are that payments be triggered only when the production loss exceeds 30 percent of the average production in the preceding three-year period or the preceding five-year period excluding the highest and lowest years (i.e. when production is less than 70 percent of average production). In Canada, Crop Insurance yield coverage is based on average yields over a large number of years (10–15 years), and coverage levels generally exceed 70 percent, reaching up to 90 percent of average yield, depending on crop and province.

Crop Insurance was put in the non-product-specific category. This placement would have been particularly advantageous if commitments had been taken on each product AMS (and non-product-specific AMS) instead of Total AMS. Low indemnities for some crops could then offset high indemnities for another crop in the same year within the non-product-specific AMS. The non-product-specific placement is also consistent with where the U.S. placed its crop insurance.

NISA is counted as the contributions by governments to producers' accounts, including bonus interest. The criteria for the "green box" category decoupled income support (Annex 2, para. 6) require that support payments be determined by income in a "defined and *fixed* base period," which excludes contributions to NISA. The "green box" category for income insurance and income safety-net programs (Annex 2, para. 7) requires that the producer's income falls below 70 percent of average gross income (or the equivalent in net income) in the preceding three-year period or the preceding five-year period excluding the highest and lowest years for payments to qualify as green. Moreover, payments to producers have to be less than 70 percent of the producer's income loss. These criteria thus exclude contributions to producers' NISAs from the "green box".

NISA is placed in the non-product-specific AMS category since government contributions to producers' accounts (and producers' withdrawals) are based on measures of aggregate income from all eligible commodities, not from specific commodities.

Most major safety net programs were counted in AMS in 1995 and 1996. The total reported support for GRIP, NTSP, NISA (including enhancements), Crop Insurance, and ASRA in Quebec equalled $830.1 million in 1995, of which only $4.9 million was not *de minimis* (ASRA for lamb in Quebec). The corresponding amounts in 1996 were $690.2 million and $5.0 million, respectively. The amounts to be reported for NISA and Crop Insurance in 1997 AMS would not be significantly different from 1996 amounts, although the amounts do depend on such things as growing conditions, yields and indemnities and net eligible sales.

The major safety net programs in Canada's domestic support notifications are outlined in Table 3.

Table 3: Major safety net programs in 1995 and 1996

	Amount in AMS ($ million) 1995	1996	PS= product-specific NPS= non-PS
GRIP—Gross Revenue Insurance Program	20.2	0	PS; *de minimis*
NTSP—National Tripartite Stabilization Program	0	0	PS; *de minimis*
NISA—Net Income Stabilization Account	289.1	296.8	NPS; *de minimis*
NISA—Net Income Stabilization Account—Enhancement[a]	153.9	33.0	NPS; de minimis
Crop Insurance	159.8	138.4	NPS; *de minimis*
ASRA Quebec (10 commodities) Assurance–stabilisation du revenu agricole	207.1	222.0	PS; most *de minimis*
Total	**830.1**	**690.2**	

[a]Includes federal portion of Saskatchewan's GRIP surplus allocated to NISA enhancements

Note: The following items were not counted in Total AMS: Saskatchewan's Crop Sector Companion Program (no payments to farmers); Alberta's Farm Income Disaster Program (FIDP) and PEI Agricultural Income Disaster Insurance (not in AMS—are "green").

The largest individual amount reported in the 1995 and 1996 "green box" is the WGTPP, represented by the amount shown in Public Accounts for 1995/96 and 1996/97, respectively. Other major items are federal and provincial expenditures on research, training, extension and advisory services, as well as federal expenditures on pest and disease control and inspection services. Canada reported no "green box" expenditures in 1995 and 1996 in six categories: Public stockholding for food security purposes, Domestic food aid, Payments for relief from natural disasters, Structural adjustment assistance provided through resource retirement programs, Structural adjustment assistance provided through investment aids, and Regional assistance programs. Income insurance and income safety-net programs, consisting of the Alberta Farm Income Disaster Program and the Prince Edward Island Agricultural Income Disaster Insurance Program, were reported in the 1996 "green box".

Canada notified two programs under the *ad hoc* new and modified procedure for "green box" programs in 1995. These are the WGTPP (G/AG/N/CAN/5) and the Farm Income Disaster Program (FIDP) (G/AG/N/CAN/8) in Alberta. In 1999 Canada notified a further 15 programs as "green box" expenditures (G/AG/N/CAN/29). These comprise the Agricultural Disaster Insurance Program in Prince Edward Island, Contributions to the Canadian Broiler Hatching Egg Producers Association, the Nova Scotia Research and Development Program for Grain and Forage, the National Transition Scheme for Apples, the Ontario Research and Development Fund Program, the Grow Ontario Investment Program, the Arable Acres Supplementary Payment, the Canada-Alberta Hog Industry Development Companion Program, the Sheep Development Fund in Alberta, the Canada-Alberta Beef Industry Development Fund, the Canada-Alberta Sugar Beet Development Companion Program, the British Columbia Investment Agriculture Fund, the Canada-British Columbia Peace River Agriculture Development Program, Non-Traditional Livestock Extension in Manitoba, and the Surplus Water Irrigation Initiative in Manitoba.

Chapter 5: Future Directions for Disciplines on Domestic Support

Need for and form of discipline on domestic support

The 1994 URAA initiated a process of substantial progressive reductions in agricultural support and protection. The process not only continues through the implementation period but also through the negotiations initiated in 1999. Moreover, until those negotiations are completed, Members have to abide by their commitments under the URAA, specifically the level of commitments applying at the end of the implementation period in 2000. Although many Members have not yet articulated their objectives, the negotiations may consider further disciplines on trade-distorting domestic support.

The rationale for further discipline on trade-distorting domestic support would stem from the view that the URAA commitments on domestic support so far have had only limited impact on reducing agricultural trade distortions, and that the impact of the URAA has been mainly in the areas of market access and export subsidies. There were six reasons cited for the weakness of domestic support discipline in the URAA:

- Total AMS commitments were taken on a base period when abnormally high support and protection were provided (1986–88).
- The Base Total AMS was biased toward the high end of 1986–88 support because of the possibility of taking credit for policy change since 1986 (such as counting the higher of 1986 and 1986–88 average support components).
- The AMS commitment was aggregated on an all-product, sector-wide basis (Total AMS) rather than on a product-specific basis.
- Certain trade-distorting programs (“blue box”) were excluded from reduction commitments.

- The lack of precision in the "green box" criteria may allow some trade-distorting support to escape discipline.
- The depth of reduction (20 percent for developed countries) is low relative to the autonomous budget cutbacks already undertaken by many Members and relative to what many analysts thought necessary to force policy change in others.

The most fundamental question to be raised in the negotiations is whether to maintain discipline on trade-distorting domestic support. Domestic support discipline played a key role in allowing a conclusion of the Uruguay Round. It would therefore be surprising if such discipline were not maintained in a future trade agreement.

The second question then is how further discipline on trade-distorting domestic support might be achieved. Again, the steps of first establishing a distinction between "green" and AMS support in the Uruguay Round and then introducing the quantitative technique of taking commitments on the trade-distorting part of domestic support were pathbreaking. Expecting these achievements not to be jettisoned justifies an assumption that they will be maintained in one form or other.

Special and differential treatment

The URAA accepted that developing countries require more favourable treatment in committing to and implementing agricultural trade liberalization. For example, reduction commitments are smaller, *de minimis* levels are higher, and implementation periods are longer. What constitutes a developing country, however, was decided mainly by self-identification and the acceptability of this to Members. Specific criteria for which Members should have access to the advantageous "special and differential" treatment were not articulated. Since the time of entering the URAA, some Members, such as Korea, have progressed along the development scale. Members may want to reassess in the next round what "special and differential" provisions should apply and to which Members they should apply.

De minimis support

The URAA exempts trade-distorting domestic support within the *de minimis* level from reduction commitments. The rationale for this exemption is a combination of the expectation that only a little trade distortion arises from a very low level of support and the practical difficulties in measuring domestic support with great precision. Judicious use of *de minimis* exemptions, balancing support within the five percent of value of production for each product and the five percent for non-product-specific support, allows trade-distorting support up to

10 percent of value of production. For developing countries the corresponding theoretical maximum is 20 percent of value of production. The justification for allowing *de minimis* exemptions as high as these can be questioned. Seeking a lower *de minimis* cutoff however, would need to take into consideration the practical problems in measuring domestic support. Reducing the *de minimis* cutoff would not necessarily achieve tighter discipline on domestic support if measurement issues (real or claimed) were to "soften the edges" of what was being measured.

In extremis, the use of a specific AMS commitment could be abandoned, and instead Members would commit not to exceed a certain *de minimis* level. This *de minimis* level might need, through negotiations, to be set higher than the five percent level. The overriding interest in transparent measurement of domestic support would not be compromised by this approach.

The "green box"

Several concerns about the "green box" have been identified. For example, the "green box" is considered to include criteria that are not articulated well enough for use in policy guidance. The criteria are so broad that they may allow clearly trade-distorting policies to escape discipline and yet so restrictive that they rule out even non-trade-distorting policies. The wording "at most minimal trade-distorting effects or effects on production" is also open to interpretation.

The criteria making up the "green box" provisions might thus need to be changed in the negotiations. An expansion of the criteria could make previously ineligible policies eligible. Such an expansion may or may not be desirable but should not be ruled as an outcome of negotiations. An expansion could allow some support to be counted in the "green box" instead of AMS. A tightening of the criteria could make some currently eligible policies no longer eligible for the "green box". A tightening might make certain environmental payments in the EU ineligible but could hypothetically also apply to other currently "green" programs.

More fundamental questions concerning the "green box" may be raised in the negotiations. It might be proposed that the notion of a "green box" be abandoned altogether, the rationale being that any kind of policy support will necessarily have some effect on production and hence on trade. The same rationale would be used to support proposals to introduce a cap on "green box" spending, i.e. a commitment not to exceed a certain level of support in the "green box". It might also be proposed that a cap or reduction commitment apply to the total of all support, i.e. the sum of all AMS support, "blue box" support and "green box" support.

The "blue box"

The introduction of the "blue box" was also a result of the EU-U.S. Blair House agreement toward the end of the URAA negotiations. The EU and the U.S. effectively escaped the Total AMS discipline on domestic support. There is no time limit on the validity of the "blue box", so in effect the absence of Total AMS discipline on "blue box" support is perpetual. The peace clause (Art. 13) is of course limited in time to nine years, so the particular status it provides to "blue box" support is also limited to nine years.

Many observers thought it implicit that at least the EU compensatory payments, but not necessarily U.S. deficiency payments, would be subject to a sunset clause. While the language of the URAA does not stipulate any time limits on the programs concerned or on the "blue box" provisions themselves, their future will be hotly debated. As it turns out, the U.S. eliminated its deficiency payments related to target prices but the EU shows no sign of moving toward elimination of compensatory payments. In these circumstances any implicit past understanding on time limitation is likely to be matter for negotiation.

Elimination of the "blue box" would nevertheless be in keeping with an overall move toward reducing support and protection in agriculture, especially the trade-distorting kinds of support. The possibility of "blue box" elimination in the round should therefore not be ruled out. If this elimination happens, there will be implications for the starting point for continued reductions of trade-distorting support. Equity between those Members that have reduced support before or during the 1995–2000 implementation period and those that have not will be a matter for discussion.

Measurement techniques

Regardless of the base years chosen for renewed AMS commitments, some issues involving the techniques for estimating AMS may need to be reviewed to strengthen the commitments to reduce trade-distorting support. The continued availability of EMS could also be discussed in this context.

For example, the use of a fixed reference price in the calculation of market price support could be a candidate for review. Is it reasonable to exempt effectively a part of trade-distorting support when international prices fall below their level in the base period? This situation occurs when the administered price is kept constant while international prices fall far enough. The size of the estimated market price support also depends on how Members interpret what is an "applied administered price", with the attendant difficulties in achieving effective discipline in some cases. Moreover, what quantity constitutes "eligible production" in measuring market price support may need to be examined.

Other measurement issues could include accounting for government revenues foregone under certain kinds of policy support (including income tax concessions), possibly increasing the scope of policy coverage beyond the current relatively narrow delimitation to farm level alone. Some support provided through processors is accounted for but the coverage and the measurement techniques are not particularly clear or consistent.

Improving coverage and transparency of support provided at sub-national levels could also be considered (EU member states and states/regions etc. within EU member states, U.S. states, Japanese prefectures, etc.). The shared policy responsibility for agriculture in Canada has had the result that questions of coverage and transparency of sub-national policies in Canada are very thoroughly scrutinized during the preparation of Canada's notification. This is not necessarily the case for Members where sub-national levels of government have less responsibility for policy than in Canada. It may also mean that sub-national support in Canada attracts particular attention by other Members in the WTO Committee on Agriculture.

Method of taking commitments

During much of the Uruguay Round the interest in committing to reduce an AMS centered on product-specific commitments (and a non-product-specific commitment). One result of the EU-U.S. Blair House agreement (toward the end of the URAA negotiations) was to make the AMS commitment sector-wide ("Total"). Much of the "lack of bite" of the URAA discipline on domestic support has been attributed to this sector–wide nature of the commitment. The reasoning is that support can be switched between products as market conditions change, effectively making it possible to increase trade-distorting support to a product that benefited from little or no such support in the base period. Given the experience of the URAA, the issue of product-specific AMS commitments versus Total AMS commitment may well be raised in the negotiations.

For example Canada's Current Total AMS in 1995 consisted only of product-specific support to two product sectors: sheep and milk. The other product-specific AMS amounts and the non-product-specific AMS were below the *de minimis* level. If commitments had been taken on a product-specific basis, *ceteris paribus*, the 1995 milk AMS ($772 million) would have been below the ceiling commitment ($835 million). The sheep AMS would not have been below its ceiling commitment, however. It is thus clear that the question of taking product-specific commitments needs careful scrutiny, including assessment of the factors the would help or hinder Canada's ability to maintain support in each product sector (as well as non-product-specific) below a ceiling commitment.

Base period

In taking new commitments on trade-distorting domestic support, two avenues are possible. One is to continue reductions from the commitment level in effect in the year 2000, i.e. indirectly basing continued reduction commitments on the original base period of 1986–88. The other way is to calculate a new base AMS (or Base Total AMS) for a new base period. This base period could be a selection of years in the implementation period of 1995–2000, or a selection of years from the period of negotiations starting in 1999. The same considerations as in the Uruguay Round regarding advantages and disadvantages of certain years and methods would come into play.

Continuing indirectly from the 1986–88 base would provide more flexibility to Members that have reduced support in the 1995–2000 period, relative to 1986–88. These Members include Canada and the U.S. They would find themselves with ample room below the ceiling, at least in the early years of the new implementation period. How much room would be available toward the end depends, *inter alia*, on the depth of a new reduction commitment. On the other hand, having already reduced their level of trade-distorting support, these Members may not need this flexibility.

Members that have not reduced trade-distorting support significantly during the implementation period, or have used the "blue box" to remain within their commitments (such as the EU) would be relatively indifferent between rebasing the Base (Total) AMS or continuing from the 1986–88 base. Of course, the preference of such a Member would also depend on the fate of the "blue box" itself.

Depth of cut

The 20 percent reduction commitment of the URAA has been cited as too small to be a tool to impose real discipline on trade-distorting domestic support. Some Members nevertheless face problems in carrying out the domestic policy changes needed to stay below their commitment level. At the same time some Members, including Canada and the U.S., have reduced support to a level much below their commitment level. The EU is also below its commitment level, accomplishing this with the help of placing some support in the "blue box". The size of a new reduction commitment would therefore be determined only in conjunction with decisions on several other dimensions of a new AMS commitment. To mention only a few, these dimensions include choice of base period, availability of the "blue box", measurement techniques, and treatment of *de minimis.*

Consideration of inflation

By the time new AMS commitments are taken, Members will have much more experience in how to present information on nominal amounts of Current Total AMS and to seek consideration of the effects of excessive rates of inflation. For some Members these are not important issues, but others will have had to face the question directly in notifying Current Total AMS under the URAA. Various techniques are being used, and it might be desirable to seek an understanding of how "excessive rates of inflation" would best be taken into account when reviewing how Members abide by their commitments, including a definition of "excessive".

Such an understanding might also apply to approaches to dealing with rapid and/or large changes in a Member's exchange rates. Exchange rate changes affect the border price in domestic currency. A drop in the value of a Member's currency will often result in an increase in the applied administered price. The fixed external reference price of course remains unchanged in domestic currency. (After all, it is "fixed".) The effect of the drop in currency value is an increase in the amount of market price support. The effect of exchange rate changes could perhaps be dealt with as a measurement technique or transparency issue.

Continued AMS ceiling commitments

At the end of the implementation period in 2000, Members' ceiling commitments on trade-distorting domestic support will be at 80 percent of the Base Total AMS established for 1986–88. A further reduction in the ceiling commitment would strengthen domestic support discipline. The most straightforward way to establish continued ceiling commitments would be to continue the reduction at a certain annual rate as during the URAA implementation period, starting from the 80 percent level of 2000.

The length of the new implementation period and the end point of the reductions will determine the size of the annual reduction. The end point could be established as resulting from the same reduction rate as in the URAA implementation period, or it could result from larger or smaller annual reductions. For example, annual reductions of 16 percentage points over five years would eliminate trade-distorting domestic support, while annual reductions of 3 1/3 percentage points over six years would yield a final ceiling commitment of 60 percent of the 1986–88 Base Total AMS.

The continued ceiling commitments could be explicitly based on the 1986–88 Base Total AMS. Basing them on the year 2000 final commitment level would mean that they were implicitly based on that same Base Total AMS. Alternatively, reduction commitments could start from a new base to be established for some year after 2000. In any case, for a new implementation period of a given length, the critical parameters will be the end point of the reductions and the size of the annual reductions to arrive there. This is complicated however, by the fact that some new WTO Members may still be in the process of carrying out reduction commitments for several years into the future. Such Members may need to take larger annual reductions to come down to a ceiling commitment at the end of the new implementation period that is a certain percentage of their Base Total AMS (which was established for a more recent period than 1986-88).

Members would have different preferences about continuing from the Uruguay Round Base Total AMS or starting from a new base. These preferences would depend on what kind of policy change they have carried out during the URAA implementation period. For example, having shifted "blue box" support or AMS support to the "green box", or having eliminated it, could enable a Member to start from a new, lower base without feeling particularly constrained. Some Members might even see an advantage in starting with a new, lower base: it would be impossible for policy makers to backslide from the policy reforms already carried out. On the other hand, Members who had reduced support only at the pace of the annual URAA reduction commitments would not be able to enter a new reduction phase from a lower base than the one remaining at the end of the URAA implementation period.

The future of the "blue box" is important for how ready some Members might be to consider alternative ways to continue reducing AMS ceiling commitments. For example, eliminating the "blue box" would force the EU to consider various actions involving its compensatory payments. The EU could eliminate compensatory payments while perhaps at the same time introducing genuinely "green" programs. While it would continue to be attractive for the EU to maintain ceiling commitments based on a level of support that includes the compensatory payments (or the market price support which these payments replace), it would not be particularly important for the EU to do so. The result would only be ample flexibility in terms of the room available below the ceiling on trade-distorting domestic support. Alternatively, the EU could keep compensatory payments but would start counting them in AMS. Doing so would use up much of the room below the current ceiling commitment, which is based on a level of support that includes the market price support which the compensatory payments replace.

By starting to count compensatory payments in AMS the EU would find itself with a relatively high level of AMS, compared to its URAA commitment. This situation is in contrast to Members like Canada and the U.S., where the level of AMS support has been reduced before and during the implementation of the URAA (in Canada by means of expenditure reduction, in the U.S. by means of shifting to payments claimed as “green” in 1995, 1996 and 1997). If new ceiling commitments on AMS were to be taken as a continuation of those established in the URAA, Canada would have plenty of room below the ceiling commitment. If, on the other hand, new ceiling commitments were to be taken based on the level of trade-distorting support provided in a year after 1995, Canada would face much tighter limits. The situation could be different for the U.S., as a result of large payments in 1998, 1999 and 2000 constituting AMS support.

Another issue arises when a Member has either changed the nature of ongoing policy support in such a way that it now fits in the “green box” or has reduced AMS support significantly since 1995. How important will it be for such a Member to seek to maintain a high base, compared to accepting the much lower base AMS that would result from measuring AMS for a year after 1995? If the policy change is permanent, there would be no need for a high base AMS. On the other hand, it might be a handicap to have to stay below a low ceiling when other Members, who had carried out only the minimal policy change required under the URAA, could go into a new implementation period with a generous ceiling commitment.

A somewhat different question arises when it is not the policy that has been changed but the criteria that govern the placement in AMS or “green box”. For example, if certain “green box” criteria are changed such that a support policy qualifies as “green”, what are the implications for the base AMS in the new implementation period? If the policy existed in 1986–88, the new base would need to account for the change in criteria that removed an existing, ongoing policy from discipline under the ceiling.

The opposite question arises if the "green box" criteria are changed such that a policy no longer qualifies as "green". This means that the support will need to be included in the new base as well as in the current measurement during the new implementation period. Considerations involving the best base as well as in the current measurement during the new period for measuring such support (highest level of support?) will enter into a Member's preferences for how the new base level of support is to be established.

Peace clause

The peace clause is considered to have been an important, or perhaps necessary, inducement for Members to begin a policy re-instrumentation away from trade-distorting support (such as AMS and "blue box" support) toward "green box" support. Other avenues do exist for a Member to minimize the threat of countervailing duties, but they may be less practical or secure than ensuring that policies meet the criteria of the "green box". These considerations point in the direction of some Members being interested in keeping the peace clause in a new agreement. Even if such interest does not extend to keeping the whole peace clause, Members may be interested in keeping certain elements of it, such as the shelter provided to "green box" support.

The current peace clause or elements of it might be modified in several ways in a new agreement. For example, the limited duration of its applicability might be changed to permanence. This change might be possible if the future expiration of the peace clause were no longer needed as an additional incentive to continue the process of reducing support and protection. There could also be changes to the contents of particular elements of the peace clause, depending on changes being made in the categories of support (such as "green box", "blue box", *de minimis*, and AMS) mentioned in the current clause.

Allowing the peace clause to expire would remove both the shelter provided to qualifying domestic support and the incentive to shift from non-qualifying toward qualifying support for trade remedy reasons. Subsidies in agriculture, whether qualifying for the "green box" or not, would lose the special status they now enjoy with regard to certain provisions of the GATT 1994 and the Agreement on Subsidies and Countervailing Measures.

Chapter 6: Conclusions

The URAA broke new ground in multilateral trade agreements by introducing discipline on trade-distorting domestic support. Previous rounds of negotiations had not been able to address effectively the roots of many of the distortions in agricultural trade because those negotiations had been limited to dealing with border measures only.

The URAA achieved discipline on trade-distorting domestic support through several innovations. It separated support instruments in two major categories: those that have no or at most minimal trade-distorting effects or effects on production ("green box" support) and those that do not meet the criteria for the "green box". The URAA introduced a summary measure of the amount of trade-distorting support provided, with specifications for how to measure such support: the Aggregate Measurement of Support (AMS). It laid down procedures to ensure that Members reduce their amounts of trade-distorting support during the course of the implementation period: commitment levels, notification requirements, and review in the Committee on Agriculture.

Many Members had reduced trade-distorting domestic support before 1995, the first year of the implementation period. Staying below the commitment level on domestic support is therefore not a challenge for these Members. Others face difficulties in keeping trade-distorting domestic support below the commitment level, rooted in a reluctance to undertake the policy reforms needed to do so. Some Members stay below their commitment level because of the particular ways in which trade-distorting domestic support is counted or not counted in the AMS. The provisions of the "blue box" is a case in point: support that meets certain criteria may, even if it is trade-distorting, be left out of the Current Total AMS.

Canada is one of the countries that has reduced trade-distorting domestic support considerably since the 1986–88 base period for domestic support commitments. Consequently, Canada's Current Total AMS in 1995 was less than $0.8 billion, which was much below that year's ceiling commitment of $5.2 billion. The corresponding amounts in 1996 were close to $0.6 billion and $5.0 billion. Significant elements in Canada's 1995 and 1996 "green box" support were the payments under the WGTPP. Major AMS components of Canada's policy support in 1995 and 1996 were NISA, Crop Insurance and market price support for dairy. Certain rules for calculating Current Total AMS allow the elimination of support amounts that are small (*de minimis*) in relation to value of production. Applying these rules resulted in market price support for dairy being left as the dominant component of Canada's 1995 and 1996 Current Total AMS.

WTO negotiations seeking to achieve substantial progressive reduction in support and protection in agriculture are underway. It is expected that discipline on trade-distorting domestic support will remain as one of the building blocks in a new agreement. But there are many elements of the current domestic support discipline that may be discussed and changed.

The current URAA domestic support discipline has been called weak and in need of strengthening. Strengthening discipline on domestic support may take the form of addressing any of five issues:

- the aggregation of the AMS commitment to a Total AMS, covering the total of support for all products and non-product-specific support;
- the exclusion of certain trade-distorting support by means of the "blue box";
- the nature of the "green box" criteria, which may not discriminate sufficiently well between support that distorts trade and production and support that does not distort;
- the depth of the reduction commitment, the length of the implementation period, and the base level of support from which reductions are made;
- the possibility of capping all support, whether of the AMS, "blue box", or "green box" type.

The negotiations may also need to include questions of a more technical nature:

- What should be the base period for the renewed reduction commitments? Should they continue from the end point of the current commitments, to be reached in 2000 for developed countries, or should a new base be defined?
- What level of support should be considered *de minimis* level and how should the *de minimis* exemptions be applied?
- In what ways might the measurement techniques for AMS be improved—such as the use of a fixed external reference price, identification of applied administered prices and eligible quantities?
- Might the policy coverage be expanded to include, for example income tax concessions, and to account more thoroughly for sub-national support?
- How could the approaches to dealing with excessive rates of inflation and changes in a Member's currency value be improved?

The special and differential treatment accorded developing countries could be reviewed to guard against these provisions being used to provide support in trade-distorting ways.

A major issue for discussion is the continuation of the peace clause and the shelter it provides to three kinds of support ("green box", "blue box" and export subsidies) against international challenges under the WTO. The peace clause is slated for elimination after the year 2003. Pressures to extend it or to let it expire will depend on the extent and nature of policy change that Members have carried out by that time and the consequent moderation or continuation of their perceived needs for shelter by means of the peace clause.

Overall, there are many opportunities in the ongoing round of negotiations to strengthen discipline on trade-distorting support. Experience with implementing the URAA helps to identify some of the ways to accomplish this. Ideas originally proposed but eventually left out of the URAA may also be revived and discussed in the negotiations. These ideas include product-specific commitments and the absence of the "blue box" category of support. Creative proposals not yet contemplated may further add to the complexity of negotiations on domestic support discipline.

Appendix 1: Aggregate Measurement of Support and "Green Box Support" in Relation to Government Transfers, Government Expenditures and Producer Subsidy Equivalents

The starting point in preparing Canada's domestic support notification is information regarding federal, federal-provincial and provincial program names and the associated amount of support. This information is based on the information used for Government Transfers. It is complemented with information prepared for Government Expenditures and what individual provinces propose, as well as other information on federal and federal-provincial programs. AMS and "green box" support include a number of expenditures from provincial Public Accounts that are not counted in Government Transfers, such as food processing assistance benefiting farmers and general "rural" programs such as 4-H. Overall, the differences in program coverage between Government Transfers and AMS and "green box" support are minor.

There are some differences between Government Transfers and AMS and "green box" support in terms of methods for estimating support or transfers. First, some regulatory transfers in Government Transfers, such as benefits from fluid milk pricing, are not counted in AMS and "green box" support. Second, in Government Transfers large capital projects, such as irrigation, are amortized over a period of time, while AMS and "green box" support counts those expenditures at the federal level as they appear in Government Expenditures (mainly based on Public Accounts). Third, the Government Transfers process allocates every support measure among commodities while AMS and "green box" support does not allocate "green" support to commodities and allocates only some of the other measures to individual commodities. Support that is not product-specific is reported in the non-product-specific category.

The amount of support reported in the notification is most often the amount shown in Public Accounts, but for some programs particular measurement techniques are used. Most credit concessions, for example, are represented through an interest-rate gap method. Earlier years' stabilization programs (not NISA) were generally reported as the government share in what was paid to producers for a stabilization year.

Data from different sources refer to different kinds of year (such as fiscal, marketing, crop, or calendar year). Adjusting and allocating data based on one kind of year to another would not necessarily produce a better estimate than using the original kind of year of each data source. The AMS estimates are thus expressed for an "AMS year", using data from various kinds of years for various programs. Maintaining the same kind of year for each program in the AMS reporting over time thus ensures consistency between years in estimated support levels. Programs in the "green box" are all expressed on a fiscal year basis.

The measurement of AMS in many ways coincides with that of the OECD's Producer Subsidy Equivalent (PSE—more recently renamed Producer Support Estimate). Nevertheless, the measures diverge on several key points. The PSE, for example, does not distinguish between "green box" and trade-distorting (AMS) support. The calculation of market price support is also different. The AMS uses a fixed external reference price whereas the PSE uses a reference price that changes each year. Moreover, the PSE measures market price support in all cases where the domestic price is maintained higher than the border price with the help of tariffs (such as poultry meat, eggs and all milk), not just when an administered price is applied (as in the case of butter and skim milk powder).

AMS and "green box" support and the PSE also differ with respect to disaggregation of provincial expenditures. AMS and "green box" support use disaggregated program information and data for each province, whereas the PSE in Canada uses quite aggregated expenditures for each province. The overall amounts of provincial expenditures accounted for in AMS and "green box" support and in the PSE therefore do not differ much, but the attention given to classification and sorting of individual program expenditures does differ.

The commodity coverage in AMS and "green box" support and PSE also differs. While AMS and "green box" support count all agricultural commodities (based on commodity coverage in Statistics Canada's Farm Cash Receipts), the PSE for Canada covers 11 basic products representing about 80 percent of farm cash receipts.

For the 1995 AMS year, Canada reported a total of $4.1 billion in AMS and "green box" support (prior to subtracting *de minimis* amounts). This amount compares to $4.9 billion in Government Transfers in 1995/96, $5.3 billion in Government Expenditures in 1995/96, and $5.2 billion in OECD PSE in 1995.[19]

19. Source: "Farm Income, Financial Conditions and Government Assistance Data Book", Ottawa: September 1997. Tables C.1 and D.1; "Agricultural Policies in OECD Countries—Measurement of Support and Background Information 1997." Paris: OECD, 1997. Table III.27. A change in policy coverage in OECD PSE for all countries, reported in "Agricultural Policies in OECD Countries—Monitoring and Evaluation 1999," changed the amount of OECD PSE somewhat in all years. The revised OECD PSE for Canada in 1995 was $5.4 billion.