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CANADA'S DOMESTIC AGRICULTURAL SUPPORTS AND THE WORLD TRADE ORGANIZATION

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INTRODUCTION

The treatment of agricultural subsidies (or "supports") is one of the most difficult issues facing trade liberalization efforts at the World Trade Organization (WTO). The WTO and its predecessor, the General Agreement on Tariffs and Trade (GATT), have successfully negotiated eight rounds of negotiations aimed at reducing tariffs and enhancing transparent, market-oriented, rules-based trade. However, it was not until the 1986-1994 Uruguay Round that WTO members were able to reach any agreement on liberalizing trade in agricultural goods.

The Uruguay Round's Agreement on Agriculture was thus a landmark development. Signed in 1993, the Agreement was intended to strengthen the rules governing agricultural trade with the aim of establishing a fair and market-oriented trading system, as well as to improve predictability and stability for both importing and exporting countries. It achieved modest progress on liberalizing trade in agriculture by imposing binding commitments on member countries to lower protective barriers in three main areas: market access, export competition and domestic support.

In the area of market access, countries agreed to replace their existing non-tariff barriers with tariffs. This was done in such a way that the tariffs provided the same level of protection as the non-tariff barriers they replaced. These duties were then subject to a gradual reduction: by 36% over the 1995-2000 period in developed countries; and by 24% over a ten-year period (1995-2004) in developing countries.

Similar provisions existed for export competition. Developed countries agreed to lower their trade-distorting export subsidies by 36% over six years, while developing nations had ten years to implement a 24% rollback.

However, it was the inclusion of domestic support that was perhaps the most significant element of the Agreement on Agriculture. By signing the Agreement, member countries formally recognized that domestic support policies, particularly those that encourage production, distort international trade in agricultural goods.(1) Further, through its devised system of colour-coded "boxes," the Agreement clearly distinguished between those domestic supports believed to distort trade and those believed not to do so.

Although the Uruguay Round's Agreement on Agriculture marked the first real progress at the WTO towards liberalizing trade in agriculture, it was only a first step. Indeed, the issue of domestic agricultural supports is figuring prominently in the current Doha Round of WTO negotiations. Member countries have proposed a wide variety of changes to the Agreement on Agriculture, many of which, if agreed to, could have significant implications for Canada.

This paper provides a brief overview of the domestic support provisions contained in the 1993 Agreement on Agriculture, including an examination of the types of supports that are included in the colour-coded "boxes" used by the WTO to identify which subsidies are permissible and which were (and will continue to be) subject to reductions. The paper also examines Canada's agricultural support programs and where they fit in these "boxes." Finally, it looks at the potential for further reduction in domestic agricultural supports at the current Doha Round of WTO negotiations.

DOMESTIC SUPPORT PROVISIONS OF THE AGREEMENT ON AGRICULTURE

A. Reduction Schedule for Agricultural Subsidies

In the Agreement on Agriculture, it was agreed that the total level of domestic support (such as production subsidies) provided by governments in industrialized countries to agricultural producers was to be lowered by an average of 20% from 1986-1990 levels. In developing countries, the decrease was to be 13%. For industrialized countries, this reduction

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(1) H. de Gorter and M. Ingco, *The AMS and Domestic Support in the WTO Trade Negotiations on Agriculture: Issues and Suggestions for New Rules*, Agriculture and World Development, The World Bank Group, September 2002.

was phased in over a six-year period beginning in 1995. Developing countries had ten years (to 2004) in which to implement their commitments.

The Agreement did not set a reduction schedule for each eligible subsidy, but instead did so at an aggregate level only. This overall subsidy level is known as the total "Aggregate Measure of Support" (or AMS). The total AMS includes all product-specific supports, as well as all non-product-specific subsidies.

In the Agreement on Agriculture, each country that had eligible domestic supports (28 WTO members, including the European Community as a single member) committed itself to reducing those subsidies according to a given schedule. Members were permitted to lower their subsidies at a faster rate, but supports could not exceed an assigned maximum level in each given year. After six years, once supports had been reduced by 20%, the maximum allowable AMS would hold steady at the new level until a new agreement was reached. Countries were, and continue to be, free to set their AMS levels anywhere between zero and their maximum allowable AMS level. For example, Canada's current AMS threshold is $4.3 billion, but in 2000 Canada provided $848 million in eligible AMS supports.

While the WTO agreement placed a "ceiling" on how high the AMS could be in any given year, a type of "floor" exists as well. This is known as the *de minimis* provisions of the Agreement. Under the *de minimis* provisions, once the value of a product-specific support falls below 5% of the total value of production of that good, no further reductions are required. A similar threshold exists for subsidies not tied to any specific product – so long as these subsidies are less than 5% of the total value of agricultural production in any given year, they need not be reduced.(2)

B. Categories of Agricultural Support – The "Boxes"

While the Agreement on Agriculture committed WTO member countries to reduce their overall levels of domestic support, in fact, only certain types of subsidies were subject to reduction commitments. In WTO parlance, subsidies are categorized according to a series of colour-coded "boxes." Initially these were intended to resemble traffic lights. "Red box" measures were forbidden ("stop"), "amber box" instruments were to be reduced ("slow down") and "green box" subsidies were exempt from reductions ("go ahead").

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(2) In developing countries, the *de minimis* threshold is 10%.

However, the "traffic light" analogy did not hold for long. Member countries were unable to agree on any measures that should be banned outright, meaning that there are no "red box" subsidies identified in the Agreement on Agriculture. In addition, the Agreement also produced a fourth colour, the "blue box," created at the insistence of negotiators from the European Union (EU) and the United States, who demanded greater flexibility in applying their respective agricultural policies to the new international rules. Each of these "boxes" – green, amber and blue – is discussed below.(3)

1. Unrestricted Supports: The Green Box

Green box measures are those that are permissible under the WTO Agreement on Agriculture. They were exempt from the domestic support reduction commitments described above. In fact, green box supports can be increased without limit and not violate the WTO agreement. Green box supports apply to developed and developing countries alike, although the latter are afforded some special provisions.(4)

To qualify as green box measures, agricultural policies must not be trade-distorting, or at the very least, have a negligible effect on trade. These policies must also involve direct government funding; subsidies that arise from charging higher prices to consumers do not qualify. As well, green box measures cannot have the effect of providing price support to farmers. In other words, funds cannot be tied to production levels or market prices. The specific criteria for green box subsidies are set out in Annex 2 of the WTO Agreement on Agriculture.

There are two broad types of subsidy that, subject to the general criteria and some measure-specific criteria, qualify as green box supports: government service programs, and direct payments to producers. Examples of the types of government service programs that qualify as green box supports include: programs that fund agricultural and environmental research; agricultural training programs; health and safety inspection services; marketing and promotion services; infrastructure services, including electricity, roads, ports, water supply, etc; stockpiling programs for food security; and the provision of basic food aid for those in need.

As mentioned above, direct payments to producers qualify as green box subsidies only so long as they do not link payments with farmers' production decisions. This is called "decoupling." Examples of direct payments to farmers eligible under the green box criteria

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(3) This information is taken from the WTO Web site.

(4) Developing countries are permitted greater scope within the green box category to engage in government stockpiling for food security purposes, as well as subsidized food prices for the very poor.

include: decoupled income support measures; insurance, safety-net and disaster-relief payments; a range of programs to assist with structural adjustment; and some environmental and regional assistance programs.

2. Restricted Supports: The Amber Box

Amber box programs are those domestic supports that are considered to distort production and trade. These include measures used to support agricultural prices, or subsidies directly related to production quantities. For example, any program that guaranteed a minimum price for an agricultural commodity, or one that paid farmers a certain amount per acre sown or per tonne of yield, would qualify as an amber box support.

In general, this type of agricultural support is considered to be trade-distorting because it disrupts economic signals; farmers receive prices for their products that do not reflect prevailing economic conditions. This can encourage overproduction of commodities, squeeze out imports, and lower world prices. As such, these supports are subject to limits under the Agreement on Agriculture. The amber box is defined in Article 6 of that agreement.

As mentioned above, the Agreement on Agriculture committed industrialized countries to reduce eligible subsidies by 20% over a six-year period. These reductions all had to come from amber box subsidies because green and blue box subsidies (discussed below) were exempt.

3. Blue Box Supports

Blue box subsidies are somewhere in between the green and amber boxes. Blue box programs include domestic supports that require producers to limit their output. These programs are considered to be trade-distorting, and would otherwise have been placed in the amber box. However, since they limit production, these programs are considered to be less distorting than other types of agricultural support; as mentioned above, agricultural subsidies are typically considered to result in overproduction. A subsidy that limited production would thus be considered preferable to one that did not.

There is currently no limit on spending on blue box subsidies. Conditions for blue box programs are set out in paragraph 5 of Article 6 of the Agreement on Agriculture. Canada does not have any domestic supports that fall into this category.

C. Notification Obligations

Members are required to file annual reports to the WTO Committee on Agriculture on the extent of their domestic support measures.(5) Countries are required to catalogue and tally their subsidies in each of the three categories of support (blue, amber and green) and provide the AMS calculations where relevant. Members are also required to notify the Committee of any new measures in exempt categories. The most recent year for which Canada has filed a report is 2000, submitted in the spring of 2005.

CANADA'S AGRICULTURAL SUPPORT PROGRAMS

According to the schedule of AMS reductions in the WTO Agreement on Agriculture, Canada's maximum allowable AMS fell from $5.2 billion in 1995 to $4.3 billion in 2000. It will remain at that level pending the outcome of a new agriculture agreement at the WTO.

Although Canada is entitled to provide up to $4.3 billion in eligible amber box agricultural supports, its actual AMS levels have been far below its allowable limit. In 1995, Canada's eligible AMS support was $777 million, while in 2000 it reached $848 million. Payments can fluctuate considerably from one year to the next.

As mentioned above, 2000 is the latest year for which Canada has submitted a report on its AMS support to the WTO.(6) Data exist on the value of subsidies in more recent years, but these have not been officially broken down by colour-coded box and submitted to the WTO. Moreover, because Canada's agricultural support programs are frequently adjusted, modified or replaced, it is difficult to estimate Canada's total AMS beyond 2000. Canada's 2000 agricultural supports are summarized below. A discussion of Canada's most recent major agricultural support – the Canadian Agricultural Income Stabilization Program (CAIS) – and how it would fit into the WTO's colour-coded boxes follows.

A. Canada's 2000 Green Box Programs

In 2000, Canada provided $2.32 billion in green box support to farmers, up from $1.75 billion in 1999. Just over three-quarters of this total came from the federal government or though shared federal-provincial programs.

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(5) Least-developed countries are required to report only every two years, and developing countries can also request a temporary exemption from the annual reporting requirement for amber box subsidies.

(6) This report was submitted on 22 March 2005 and is available at the WTO Web site, http://www.wto.org/english/tratop_e/agric_e/agric_e.htm.

Of the two eligible categories of green box support – government service programs and income support to farmers – most of this $2.32 billion (about 60%) was spent on the former. Within that category, the two largest areas of expenditure were: $411 million on research, mostly done through the research branch of Agriculture and Agri-Food Canada (AAFC); and $435 million on inspection services, primarily through the Canadian Food Inspection Agency and Health Canada (see Table 1).

Table 1
Canada's "Green Box" Supports – 2000
($ million)

Government Services	
Research	410.8
Pest and Disease Control	23.0
Training Services	71.8
Extension and Advisory Services	201.1
Inspection Services	434.5
Marketing and Promotional Services	63.4
Infrastructure Services	94.5
Environmental Programs	73.2
Other General Services	5.0
Other	0.4
Income Supports	
Decoupled Income Support	360.0
Income Insurance and Income Safety-Net Programs	576.6
Regional Assistance Programs	0.9
Total	**2,315.2**

Source: WTO Committee on Agriculture.

Three income support programs were included in Canada's green box measures in 2000. About $557 million was paid out through the Agriculture Income Disaster Assistance Program (AIDA), an indirect predecessor to the present-day CAIS. In addition, $360 million was paid out in decoupled income support programs though the Canada-Saskatchewan and Canada-Manitoba Adjustment Programs. Finally, a small amount went to provincial regional assistance spending in Quebec.

B. Canada's 2000 Amber Box Programs

In 2000, agricultural supports under the amber box category totalled just under $2.3 billion. However, because of the *de minimis* floor provisions in amber box subsidies, only a small portion of this total counts against Canada's $4.3 billion total AMS limit.

Canada's amber box provisions can be divided into two main types – those specific to certain products, and non-product-specific supports.

1. Non-Product-Specific Supports

Canada provided $1.2 billion in non-product-specific AMS in 2000. This was equivalent to 3.8% of total farm income that year, meaning that this category of amber box supports fell under the 5% *de minimis* threshold (Table 2). In other words, the value of this type of agricultural support was small enough that it did not count towards Canada's allowable level of subsidies.

Table 2
Canada's "Amber Box" Supports – 2000
($ million)

Non-Product-Specific Aggregate Measures of Support	
Net Income Stabilization Account (NISA)	381.0
NISA Enhancement	52.8
Crop Insurance	347.7
Waterfowl Crop Damage Compensation	6.4
Canadian Adaptation and Rural Development Fund (CARD)	35.8
Provincial Programs	349.1
Provincial Credit Concessions	51.6
Federal Credit Concessions	-27.9
Others	10.9
Total	**1,207.4**
Total Value of Production in 2000	**31,746.6**
Non-Product-Specific AMS as % of Total Production	**3.8**

Source: WTO Committee on Agriculture.

The following are the major federal or shared federal-provincial programs that were included in Canada's submission of non-product-specific amber box supports:

- *The Net Income Stabilization Account (NISA) and NISA enhancement*. NISA was one of the programs rolled into CAIS.

- *Crop Insurance*. Canada's crop insurance program is now called Production Insurance.

- *The Canadian Adaptation and Rural Development Fund (CARD)*. This program has since been replaced by the Advancing Canadian Agriculture and Agri-Food Program (ACAAF).

2. Product-Specific Supports

Canada provided just under $1.1 billion in product-specific agricultural supports in 2000. However, for many products, the level of support was below the 5% *de minimis* threshold. For example, subsidies for wheat and durum totalled $83.9 million in 2000, but since that subsidy accounted for only 2.9% of the total value of wheat production that year, the $83.9 million does not count against Canada's total allowable agricultural subsidy. Indeed, as shown in Table 3, of the 22 listed agricultural products, only 6 had subsidy levels high enough to count against Canada's $4.3-billion limit under the Agreement on Agriculture. In all, $848 million out of the $1.1 billion in product-specific supports counted towards Canada's allowable agricultural supports that year.

Table 3
Canada's "Amber Box" Supports – 2000
Product-Specific Aggregate Measures of Support

	Value ($ million)	As a % of Total Production Value
Wheat and Durum	83.9	2.9 *de minimis*
Barley	37.3	2.8 *de minimis*
Oats	19.2	5.8
Corn	189.6	17.9
Canola	6.1	0.3 *de minimis*
Soybeans	104.7	13.0
Other Grains, Oilseeds and Forage Crops	7.8	0.7 *de minimis*
Sugar Beets	0	0 *de minimis*
Apples	4.9	2.4 *de minimis*
Potatoes	8.9	1.3 *de minimis*
Honey	0.4	0.6 *de minimis*
Dry Beans	6.5	5.0 *de minimis*
Tobacco	20.7	5.7

Table 3 (cont'd) Canada's "Amber Box" Supports – 2000 Product-Specific Aggregate Measures of Support		
	Value ($ million)	**As a % of Total Production Value**
Other Crops	3.8	0.1 *de minimis*
Beef	64.4	0.9 *de minimis*
Pork	18.4	0.5 *de minimis*
Sheep	7.6	8.5
Milk	506.3	12.6
Chicken	0	0 *de minimis*
Turkey	0	0 *de minimis*
Eggs	0	0 *de minimis*
Other Livestock	0.1	0.1 *de minimis*
Total	**1,090.8**	
Less *de minimis* product-specific AMS	242.6	
Total eligible product-specific AMS	**848.2**	

Source: WTO Committee on Agriculture.

Product-specific agricultural supports in Canada were distributed through a number of different programs. The following federal or shared federal-provincial programs were included in Canada's submission of product-specific amber box (AMS) supports:

- *The Market Revenue Program*. This is a price-protection program for grains and oilseeds producers in Ontario. It compensates producers if crop prices fall below a price support threshold. This program is being phased out as CAIS provides a similar function.

- *The Advance Payments Program (APP)*. The APP provides interest-free cash advances of up to $50,000 to allow producers to store crops and market them later in the year when prices may be higher.

- *Leasing of Hopper Cars*. This is for the transportation of grains and oilseeds.

- *System Improvement Reserve Fund*. This was related to the upgrading of rail transportation infrastructure. It is no longer in place.

- *Dairy Subsidy*. This was a direct subsidy and does not include price supports under the supply-management system. Canada does not consider supply management to be a subsidy.

C. Canada's Current Agricultural Supports

In 2000, Canada provided $848 million in eligible total AMS supports to domestic agriculture producers, while it was entitled to provide as much as $4.3 billion under the terms of the Agreement on Agriculture. In recent years, however, a series of challenges in the Canadian agricultural sector have prompted a tremendous increase in domestic support for Canadian farmers. In 2002, poor weather conditions in the prairies led to low yields in most major field crops. The following year saw the discovery of bovine spongiform encephalopathy (BSE) in Alberta and the subsequent closure of the U.S. border to live cattle and certain cuts of meat. As a result of these and other factors, farmers experienced a dramatic decline in net farm incomes – to record low levels in 2003.

In 2004, direct payments to farmers reached $4.9 billion, up from $2.8 billion in 2000. While these figures are not directly comparable to those submitted to the WTO Committee on Agriculture, they do suggest that Canada's future reports on total AMS levels will show an increase. To illustrate, crop insurance payments (production insurance) – listed as a non-product-specific amber box support – grew from $348 million in 2000 to nearly $1.2 billion two years later. In 2003, eligible payments fell back to $417 million.(7)

Unfortunately, because of the complexity of Canada's agricultural support programs, it is impossible to determine Canada's total AMS more recently than for 2000 without access to the precise data and methodologies used to calculate which programs, or which elements of which programs, qualify as amber box supports. For example, Canada's main income support program, CAIS, is partially a green box program and partly amber box, depending on the level of coverage farmers choose. Thus, all that can be safely determined is that while Canada provided only $848 million out of a possible $4.3 billion in AMS in 2000, that figure is certainly much higher in 2005.

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(7) Agriculture and Agri-Food Canada estimates that the long-run average government contribution to crop insurance was 56% of total contributions. As such, the figures listed here – those submitted to the WTO – represent 56% of total indemnities under the Crop Insurance Program. These data are available in AAFC's 2003-2004 *Departmental Performance Report*, http://www.tbs-sct.gc.ca/rma/dpr/03-04/AAFC-AAC/AAFC-AACd34-PR_e.asp?printable=True.

DOMESTIC SUPPORT AND THE CURRENT ROUND OF WTO NEGOTIATIONS

When the current Doha Round of WTO negotiations began, it was with the promise that talks would focus on securing trade-related benefits for developing countries. High on the priority list was liberalization of trade in agricultural goods. Many developing countries called for greater access to markets in the industrialized world and for greater restrictions to be placed on trade- and market-distorting agricultural subsidies in countries such as the United States and in the EU. These objectives were endorsed by all countries as part of the Doha Ministerial Declaration in 2001. As paragraph 13 of that declaration states:

> We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme… [W]e commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.

However, while countries agreed to these general objectives, making progress proved to be difficult. Wealthy countries, notably the United States and EU, were reluctant to lower their agricultural subsidies and allow greater market access. They sought concessions from developing countries in exchange for doing so. Many developing countries, on the other hand, felt that rich countries had been the primary beneficiaries of previous trade agreements and that the Doha Round was to focus on their own specific concerns.

The first sign of progress towards breaking this impasse came on 31 July 2004 when the WTO General Council unanimously adopted an agreement on a framework for modalities to liberalize agricultural trade within the Doha Development Agenda. In essence, this means that countries agreed on what will form the subject matter of subsequent negotiations.

The framework spelled out a number of specific negotiating topics on market access, export subsidies and domestic support. Notably, WTO members made a commitment to eliminate export subsidies, considered to be the most egregious form of market-distorting subsidy. In addition, the framework calls for "substantial overall tariff reductions" to improve market access. This will be done in such a way that higher tariffs are subject to the deepest cuts. Some flexibility is allowed for "sensitive" products, but even in those cases, members made a commitment to "substantial improvement" in market access through a combination of tariff reductions and tariff quota expansions.

While these developments will likely yield the most significant benefits in terms of liberalizing trade in agricultural goods and removing market distortions, progress was made in the area of domestic support as well. The framework agreement commits WTO members to negotiate in the following areas:

- *Harmonizing reductions in the amber category of trade-distorting domestic support*: Although subsidy levels have fallen, there remain large differences in agricultural supports around the world. The framework agreement commits countries with higher levels of trade-distorting supports to make greater reductions in those supports "in order to achieve a harmonizing result."

- *Further reductions in subsidies and the de minimis levels*: Countries are considering by how much to further reduce amber box subsidies. Also under discussion is whether or not the *de minimis* levels should be lowered beyond their current 5% threshold.

- *A review of, and further disciplines to be potentially placed on, blue box programs*: Some countries see the blue box category as valuable because it provides countries with a way to phase out amber box supports without causing too much hardship. Others want to set limits or reduction commitments on blue box supports. Still others want to remove the category entirely. The framework agreement proposes a cap on blue box programs so that they do not exceed 5% of the value of total agricultural production over an historical period.

- *A review of green box programs*: Some maintain that the payments made by certain countries under the green box category are so large as to be trade-distorting. Among the subsidies under review are direct payments to producers, including decoupled income supports; and government-supported insurance, income, and safety-net programs. On the other hand, some countries believe the opposite to be true – that the current criteria for green box supports need to be expanded to better accommodate non-trade concerns such as environmental protection. Under the framework agreement, green box criteria will be reviewed and clarified to ensure that all domestic supports in that category meet the basic concepts and principles of the green box.

The July 2004 framework agreement is but a first step, but it commits WTO members to potentially significant reductions in allowable trade-distorting domestic supports in agriculture. While there is considerable work yet to be done in negotiating the details, members hope to be in a position to reach an agreement at the Hong Kong Ministerial in December 2005.

Although it is impossible to say how Canada might be affected by the outcome of any such agreement on domestic agricultural supports, the impact is likely to be not too severe. As stated above, Canada's total AMS payments in 2000 were only a fraction of the allowable $4.3 billion. While subsidies have increased considerably since then, those increases were largely due to exceptional circumstances. Even under much stricter conditions, it is not likely that Canada would have to cut its domestic agricultural supports significantly in order to comply with any new WTO agreement.

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