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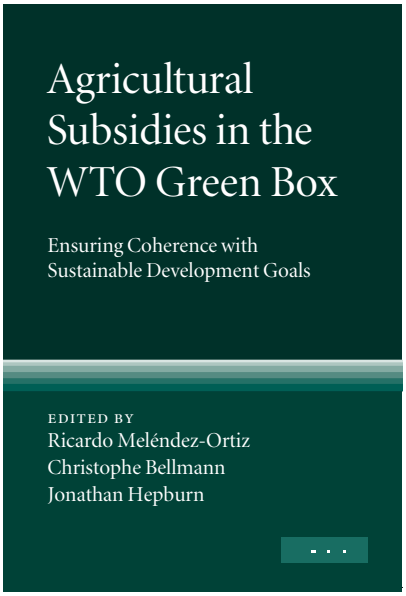
Agricultural Subsidies in the WTO Green Box: Ensuring Coherence with Sustainable Development Goals

Do the World Trade Organization's rules on 'green box' farm subsidies allow both rich and poor countries to achieve important goals such as food security, or do they worsen poverty, distort trade and harm the environment?

Current WTO requirements set no ceiling on the amount of green box subsidies that governments can provide, on the basis that these payments cause only minimal trade distortion. Governments are thus increasingly shifting their subsidy spending into this category, as they come under pressure to reduce subsidies that are more directly linked to production. However, growing evidence suggests that green box payments can affect production and trade, harm farmers in developing countries and cause environmental damage.

This information note summarises some of the findings of the forthcoming ICTSD book *"Agricultural Subsidies in the WTO Green Box: Ensuring Coherence with Sustainable Development Goals"*, eds. Ricardo Meléndez-Ortiz, Christophe Bellmann and Jonathan Hepburn. For further information about this publication, please visit: http://www.cambridge.org/uk



ICTSD

International Centre for Trade and Sustainable Development

Agriculture and sustainable development

Rising incomes, urbanization, and shifting consumption patterns have increased food consumption in many areas of the world. According to the Millennium Ecosystem Assessment, the prospect of providing sufficient food to sustain another 2 billion people by 2020 has rightly focused attention on the very real threats to food security if the productivity of agricultural systems cannot keep pace with this demand. As these systems are under increasing pressure to meet the growing need for food, it is also vital that the environmental challenges associated with food production are addressed effectively – water pollution, pesticide use, land degradation and greenhouse gas emissions, amongst others.

Government policies are a major driver of food production and consumption patterns, both locally and globally. In developed countries, government subsidies have stimulated over-production, while imports of politically sensitive products remain heavily protected using tariffs and other measures. Such policies have in turn undermined developing countries' ability to promote rural development, and develop their export sectors. While national budget concerns, political controversy and demands from trading partners have initiated a shift away from the most damaging types of subsidies, a significant proportion of developed country spending remains linked to farm production levels.

The reform of the global agriculture trading system initiated during the Uruguay Round attempts to correct these inefficiencies by requiring heavily subsidising countries to decrease their level of support over time. However the round also established a special category of subsidies that are exempt from reduction commitments. Developed countries would be allowed to retain subsidies that deliver various kinds of public goods in exchange for bringing agriculture within the WTO system and committing to future reductions of trade-distorting support. Subsequently, the green box has been increasingly seen as representing the future direction of agricultural trade policy, with governments announcing that they will decouple support from production, and notifying an ever-greater share of subsidy spending as green box.

What is the green box?

The WTO Agreement on Agriculture negotiated in the Uruguay Round (1986-1994) includes the classification of subsidies into 'boxes' depending on their effects on production and trade: amber (most directly linked to production levels), blue (production-limiting programmes that still distort trade), and green (causing not more than minimal distortion of trade or production).[1] While payments in the amber box had to be reduced, those in the green box were exempt from reduction commitments. Detailed rules for green box payments are set out in Annex 2 of the Agreement on Agriculture. However, all must comply with the 'fundamental requirement' in paragraph 1, to cause not more than minimal distortion of trade or production, and must be provided through a government-funded programme that does not involve transfers from consumers or price support to producers.

History

The idea of replacing agricultural price support with direct payments to farmers decoupled from production dates back to the late 1950s, when a Panel of Experts, chaired by Professor Gottfried Haberler, was established at the at the twelfth session of the GATT Contracting Parties to examine the effect of agricultural protectionism, fluctuating commodity prices and the failure of export earnings to keep pace with import demand in developing countries. The 1958 Haberler Report stressed the importance of minimising the effect of agriculture subsidies on competitiveness, and recommended replacing price support by direct supplementary payments not linked with production, anticipating discussion on green box subsidies. Only more recently, though, has this shift from price support to producer support become the core of the reform of the global agricultural system.

By the 1980s, government payments to agricultural producers in industrialised countries had caused large crop surpluses, which were unloaded on the world market by means of export subsidies, pushing food prices down. The fiscal burden of protective measures increased, due both to lower receipts from import duties and higher domestic expenditure. In the meantime, the global economy had entered a cycle of recession, and the perception that opening up markets could improve economic conditions led to calls for a new round of multilateral trade negotiations.[2] The round would open up markets in services and high technology goods, and ultimately generate much needed efficiency gains. With a view to engaging developing countries in the negotiations, many of which were "demandeurs" of new international disciplines, agriculture, textiles and clothing were added to the grand bargain.

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[1] *For more information, see http://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm*

[2] *Stancanelli, N. (2009), "The Historical Context of the Green Box", In Agricultural Subsidies in the WTO Green Box: Ensuring Coherence with Sustainable Development Goals. Eds. Meléndez-Ortiz, R., Bellmann, C., and Hepburn, J. Cambridge University Press, UK.*

In leading up to the 1986 GATT Ministerial Conference, developed country farm groups that had benefited from protectionist policies strongly resisted any specific compromise on agriculture. In this context, the idea of exempting production and 'trade-neutral' subsidies from WTO commitments was first proposed by the US in 1987, and echoed soon after by the EU.[3] The proposal appeared to have the merit of providing an adjustment mechanism that could offset the potential losses that farmers might incur as a result of the agricultural reform process. By guaranteeing farmers a continuation of their historical level of support, it also contributed to neutralising opposition to the round. In exchange for bringing agriculture within the disciplines of the WTO and committing to future reduction of trade-distorting subsidies, developed countries would be allowed to retain subsidies that cause 'not more than minimal trade distortion' in order to deliver various public policy objectives.

In a field so heavily riddled with controversy, this one fragile point of consensus has been the hinge upon which an extraordinary reform project has depended. As other types of trade-distorting subsidies have been reduced over time, green box subsidies have come under closer scrutiny. Do green box measures affect production, and do these impacts generate spill-over effects on other countries? Can green box rules be improved in order to reduce the impacts on production? Is it always possible to achieve domestic objectives with 'not more than minimal trade-distorting effects or effects on production?' Are the policy objectives upon which green box subsidies depend themselves well defined?

Evolution of Reform: the EU, US and Japan

Domestic policy makers in the EU began to decouple domestic support from production with the 1992 MacSharry reform, which introduced set-aside schemes for crop production and agri-environmental payments. Since then, agriculture support in the EU has been significantly decoupled from production, and its focus has switched from agriculture to the wider rural economy and the protection of the environment. The 2003 CAP reform created the Single Payment Scheme, which ensured that future payments would no longer be linked to crops grown or animals kept.[4] The expected dramatic increase in green box spending is only partly evident in the EU's subsidy notifications to the WTO, however, as the most recent of these only covers the 2005-06 marketing year (Fig. 2). In the US, the economic philosophy of decoupling began to play a role in farm policy as early as 1981, culminating with the 1996 Freedom to Farm legislation, which completely decoupled a portion of farm payments from production. Since then, decoupled payments have remained an important part of US farm policy even if the move toward decoupling has been stalled or even reversed in the 2008 farm bill (Fig. 1).[5]

Japanese agricultural policy remains dominated by price support and high tariffs on key products such as rice. Japan allocates high levels of green box subsidies in the form of general services, but has eliminated domestic price supports leading to lower annual AMS (Fig. 3). In 2007, a new scheme was introduced under the Farm Management Stabilization Programme to guarantee large-scale farmers a certain level of income, regardless of the commodities produced.[6]

Field of sunflower near Caldarusani Monastery, Flickr. Com Creative Common License 2.2

[3] *Stancanelli, N. (2009), "The Historical Context of the Green Box", In Agricultural Subsidies in the WTO Green Box.*

[4] *Swinbank, A. (2009), "The reform of the EU's Common Agricultural Policy", In Agricultural Subsidies in the WTO Green Box.*

[5] *Orden, D (2009), ''Farm Policy Reform in The United States: Past progress and Future Directions." In Agricultural Subsidies in the WTO Green Box.*

[6] *Homna, M. ". (2009), "Agricultural trade policy reform in Japan", Agricultural Subsidies in the WTO Green Box.*

Figure 1: US domestic support

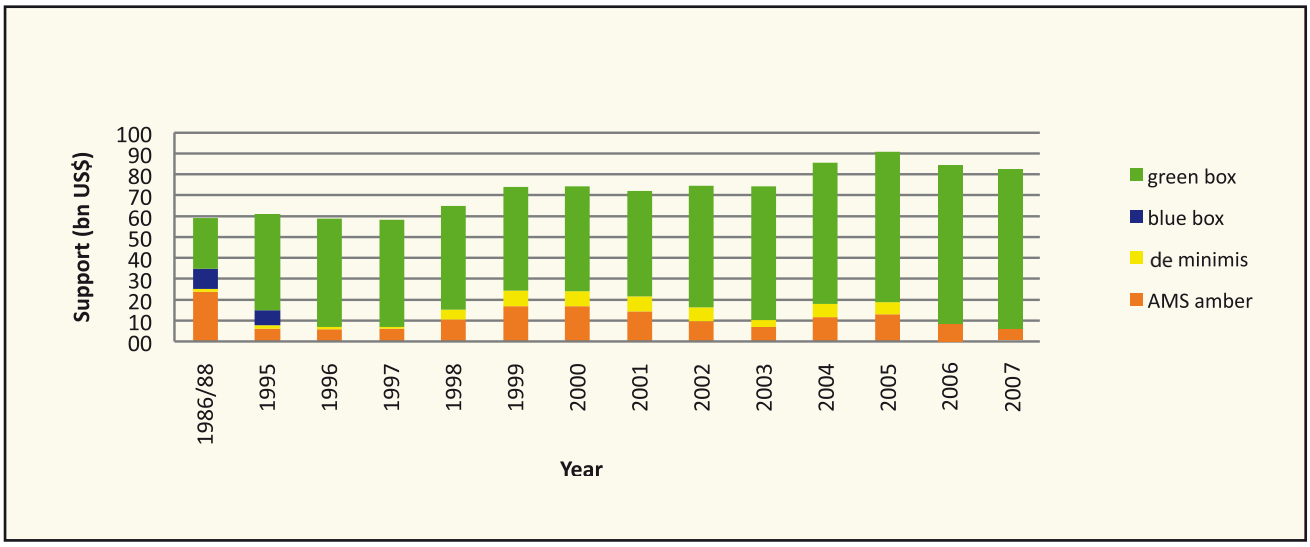


Figure 2: EU domestic support

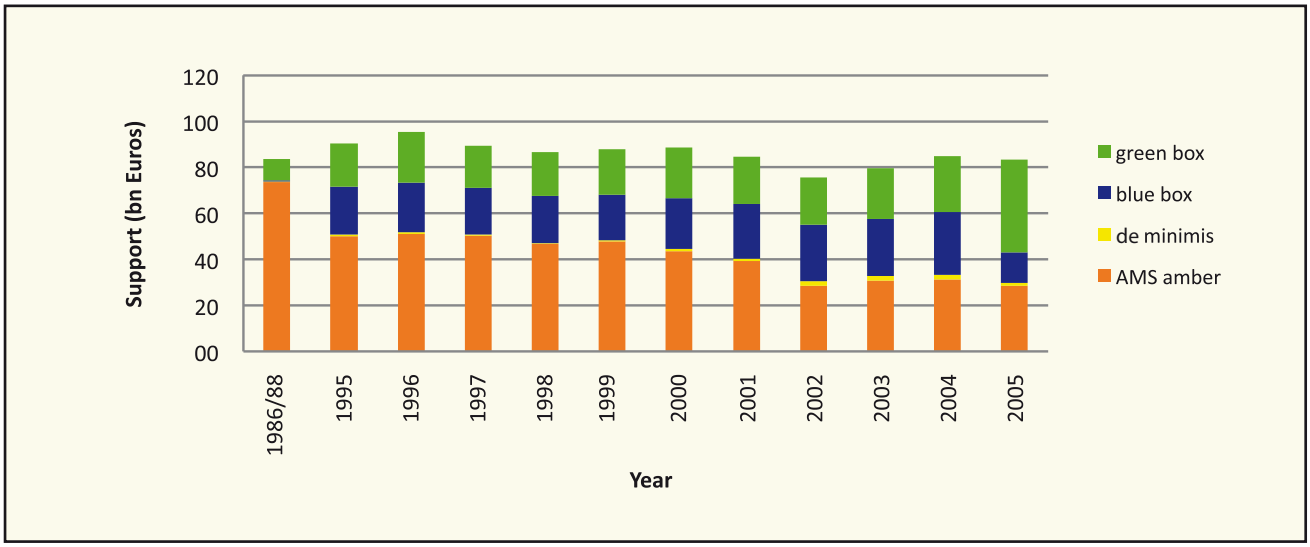
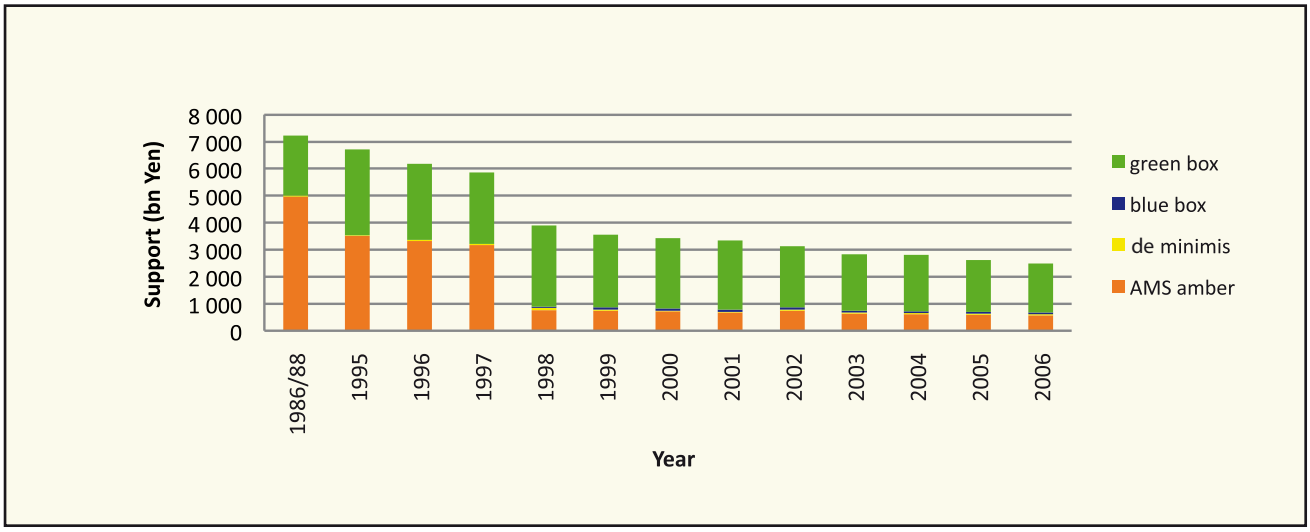


Figure 3: Japan domestic support



Source: Antón, J. (2009), "Agricultural support in the green box: an analysis of EU, US and Japanese green box spending." *Agricultural Subsidies in the WTO Green Box.*

Focus, extent and economic impact: are green box subsidies trade-distorting?

When comparing different countries' green box expenditures, it is important to note that the diversity of payments types in this category means that spending can have very different kinds of effects on trade. In 2007, the US notified US$76.2 billion in green box payments: however, of this, US$54.4 billion was on domestic food aid, which is widely seen as assisting poor consumers at the national level and having relatively little effect on international trade. In contrast, the EU notified in 2005 €48.28 billion (or $90.75 billion, of which €14.73 billion was on decoupled income support ($27.55 bn), a category that has been much more controversial in the eyes of the EU's trading partners. The sharp increase in decoupled income support reflects the result of the EU's 2003 CAP reform, which introduced the new Single Farm Payment for EU producers.

Figure 4: EU Green Box Expenditure

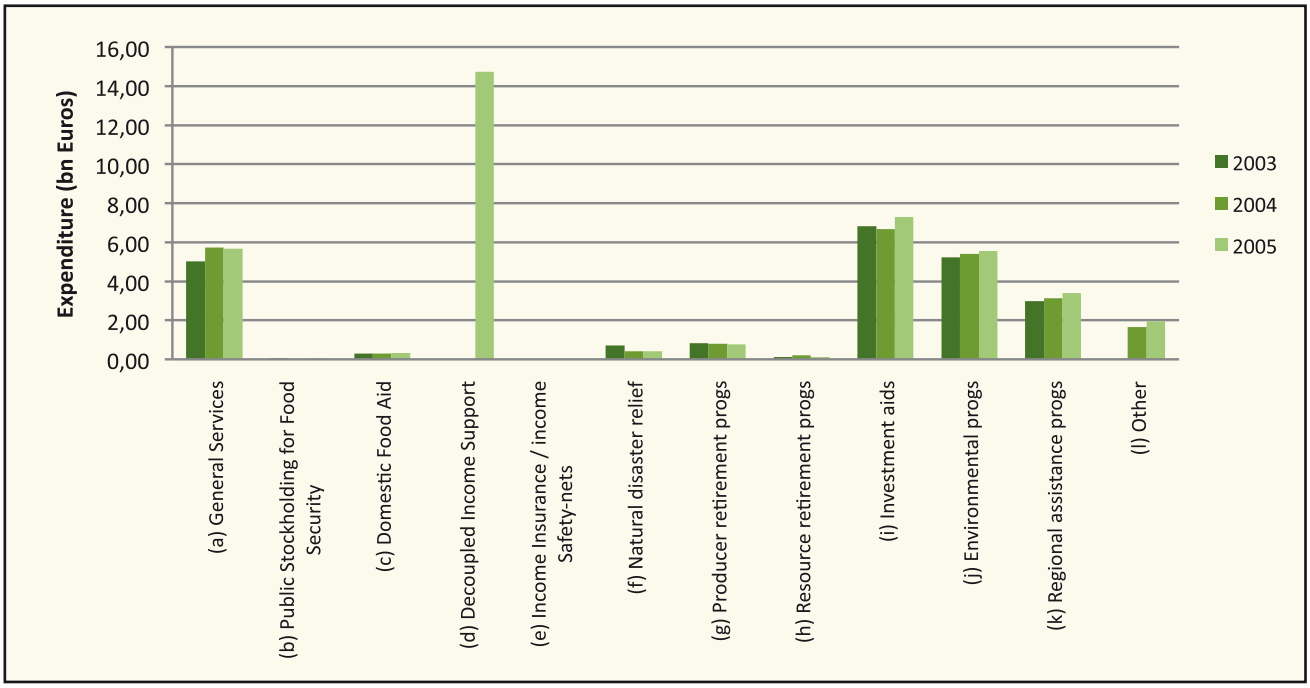


Figure 5: US Green Box Expenditure

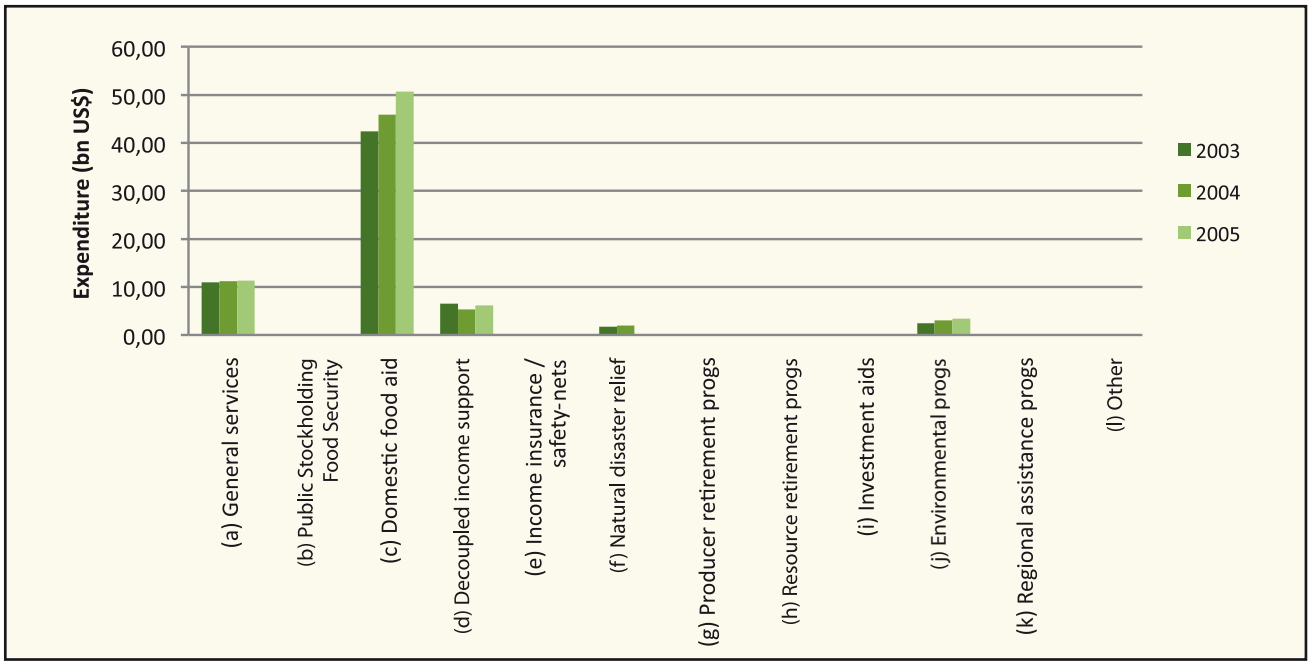
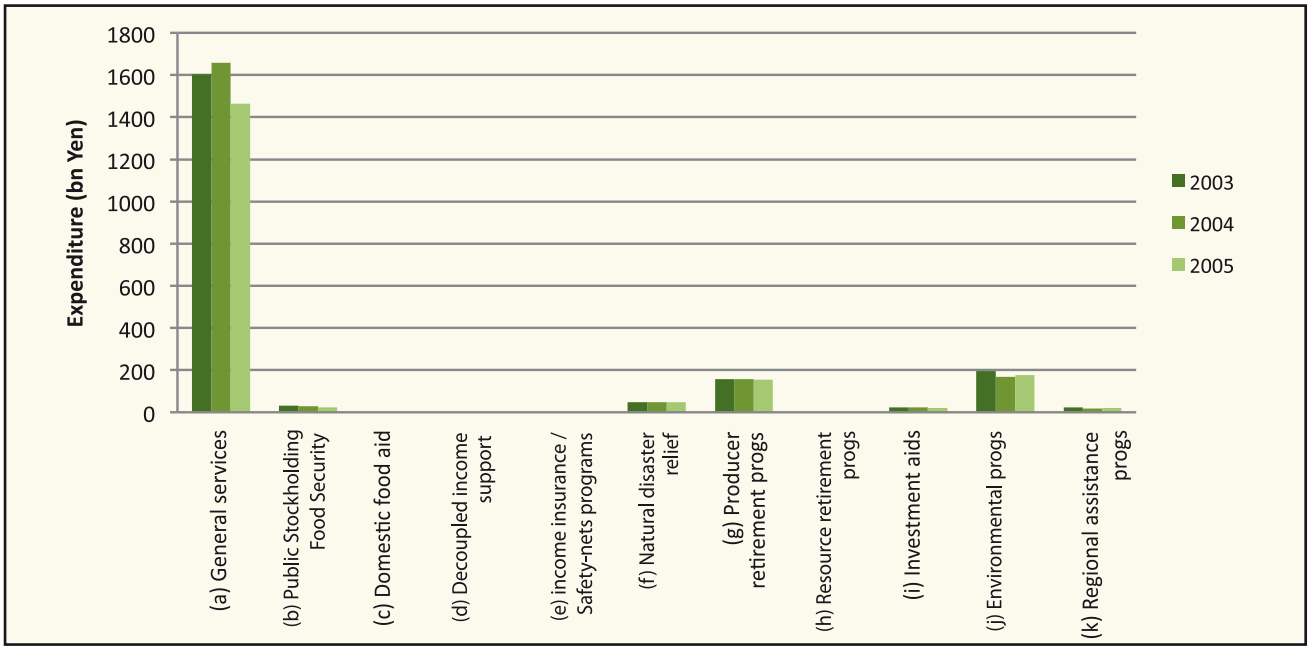


Figure 6: Japan Green Box Expenditure



Source: Antón, J. (2009), "Agricultural support in the green box: an analysis of EU, US and Japanese green box spending." *Agricultural Subsidies in the WTO Green Box.*

One major concern with green box subsidies is whether or not payments made under this category meet compliance requirements described in paragraph 1 of Annex 2 of the AoA. The WTO Panel on the cotton dispute between the US and Brazil[7] for example found that direct payments for cotton farmers in the US did not qualify as green box because producers were prohibited from planting fruits and vegetables, and therefore effectively linked support with production.

Beyond compliance issues, the basic question remains as to whether or not green box subsidies ultimately have distorting effects on production and trade. Would the trade-liberalizing impact of a reduction of one dollar in the amber box be outweighed by the impact of a larger increase in the green box? What types of effects on production and trade may green box subsidies cause?[8] While there are solid arguments in favour of the more decoupled payments, a broad consideration of the economic effects of such programmes suggests that the absence of production and trade effects is very unlikely. In the EU for example, payments under the Single Payment Scheme are related to: the land area at a farmer's disposal in that year; the recipient's status as a farmer; whether the land has been kept in "good agricultural or environmental condition;" and whether various cross-compliance requirements have been respected. All these reinforce the notion that payments are 'related to, or based on, the factors of production employed'. More broadly, existing studies show that green box subsidies encourage agricultural production by creating a guaranteed income stream and a lower perceived income risk for farmers, which raises the potential for overproduction.

Furthermore, cross-subsidisation, when subsidies on a certain crop indirectly finance losses on another crop or on total production, creates an exit-deterrence effect. Farms are encouraged to produce what they otherwise would not, and other farms that would be unprofitable producing only a limited amount, find it profitable to produce a larger amount to qualify for the subsidy.[9] Finally, the G-20 has argued that the accumulation of subsidies, when producers receive simultaneously support classified under different boxes, may present a cumulative impact on the producer's decision of what and how much to produce.

'In the presence of distorting payments, 'green' policies do not properly perform their function. On the contrary, their neutral nature is being abused and they merely follow the general orientation of the distorting policy. As a consequence, 'green' money is merely added to 'blue' and 'amber' moneys and becomes undifferentiated in relation to them.' [10] *- the G-20 developing country group in the WTO*

[7] *US — Upland Cotton, Brazil vs. United States, DS267, http://www.wto.org/english/tratop_E/dispu_e/cases_e/ds267_e.htm*

[8] *Galperin, C. and Miguez, I., (2009) "Green box subsidies and trade-distorting support: is there a cumulative impact?". In Agricultural Subsidies in the WTO Green Box.*

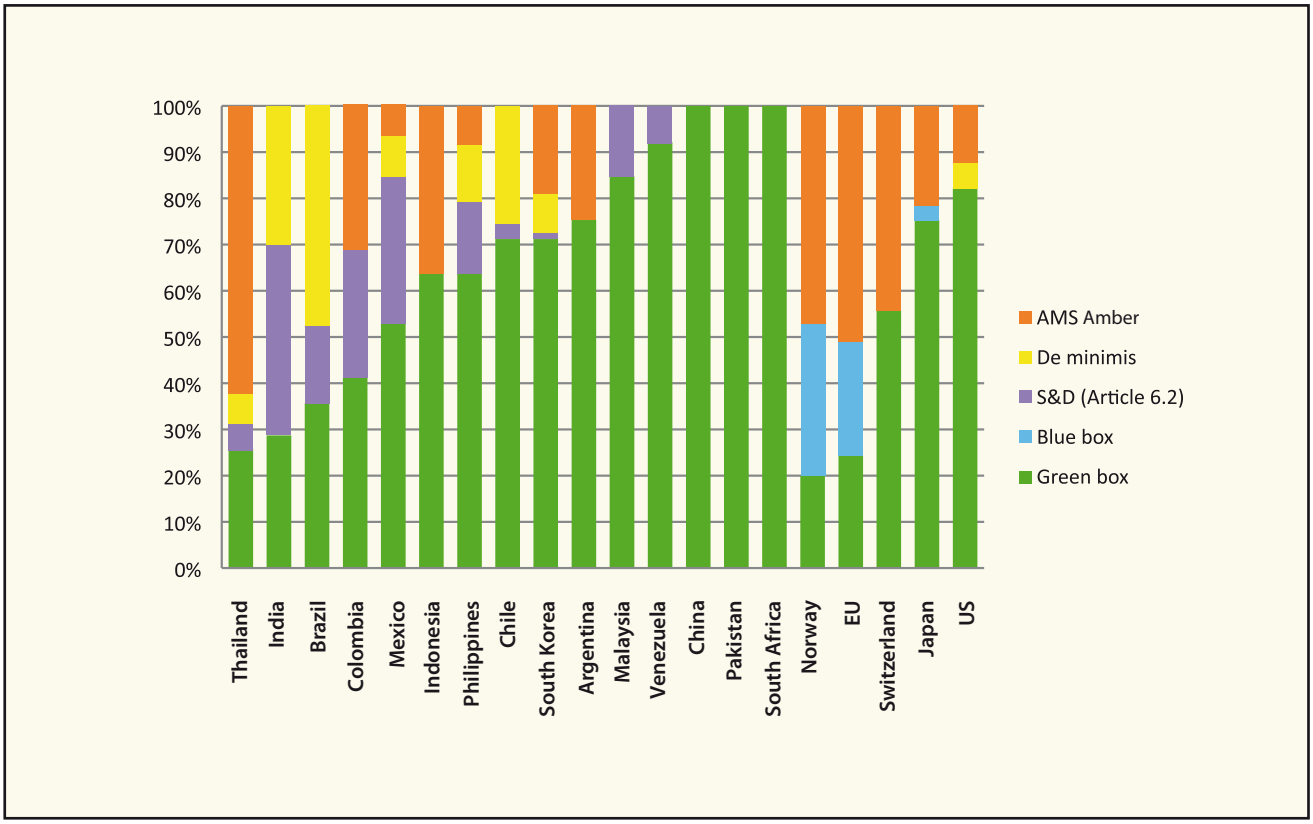
[9] *De Gorter, H. (2009), "The distributional structure of US green box subsidies", In Agricultural Subsidies in the WTO Green Box.*

[10] *WTO document JOB (06)/145 Committee on Agriculture, Special Session, "G-20 Comments on the Chair Reference Paper on Green Box". May 16, 2006*

The green box and developing countries

Agriculture in developing countries has suffered from unfair competition in part due to subsidised exports in developed countries, and chronic underinvestment in infrastructure, research and development. With a a vast share of their population depending on agriculture for their livelihood, developing countries face a set of major challenges: they will have to produce more food, with less water, as more water is being used in cities, and in several cases, with lower productivity resulting from climate change including less precipitation and more extreme weather. To what extent can green box subsidies support such adjustment in the developing world?

Figure 7: Green Box Expenditure as a Share of Total Support



Source: Nassar et al (2009), "Agricultural subsidies in the WTO green box: opportunities and challenges for developing countries," *Agricultural Subsidies in the WTO Green Box.*[11]

An analysis of agriculture subsidy notifications to the WTO by developing countries shows that a large portion of their total domestic support falls under the green box. Nonetheless, the amount spent as a share of agriculture GDP remains very low compared to some developed countries. Among developing countries, payments are highly concentrated among a few, with China accounting for about 80 percent (see Fig. 8).[12] For most other developing countries, green box spending is relatively small in absolute terms. In China's case, the majority of green box support has been concentrated on infrastructural services and public stockholding. China is believed to have provided green box subsidies worth as much as USD 33.8bn in 2005, compared to the USD 50.1bn provided by the EU and the USD 71.8 bn provided by the US. However, support at the individual farmer level is far below the per capita support of developed countries, but also lower than that of several developing countries.[13]

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[11] *Note: for each country, an average value of its last three WTO notifications was calculated. Argentina, 1999-2001; Brazil, 2001-2003; Chile, 2000-2002; China, 1999-2001; India, 1995-1997; South Korea, 2002-2004; Malaysia, 1996-1998; Mexico, 2002-2004; Pakistan, 1997-1999; the Philippines, 1999-2001; Thailand, 2002-2004; South Africa, 2002-2004; Colombia, 2002-2004; Venezuela, 1996-1998; Indonesia, 1998-2000; US, 2003-2005; Japan, 2001-2003; EU, 1999-2001; Norway, 1999-2001; Switzerland, 2002-2004.*

[12] *Dhar, B. (2009), "Use of green box measures by developing countries: an assessment". In Agricultural Subsidies in the WTO Green Box.*

[13] *China has recently announced increases in subsidies, probably green box; however. it is unclear how these will affect future notifications. See "Implications for China of the December 2008 Draft Agricultural Modalities," by Tian Zhihong, http://ictsd.net/i/publications/50467/*

Figure 8: Green Box spending by major developed countries and China

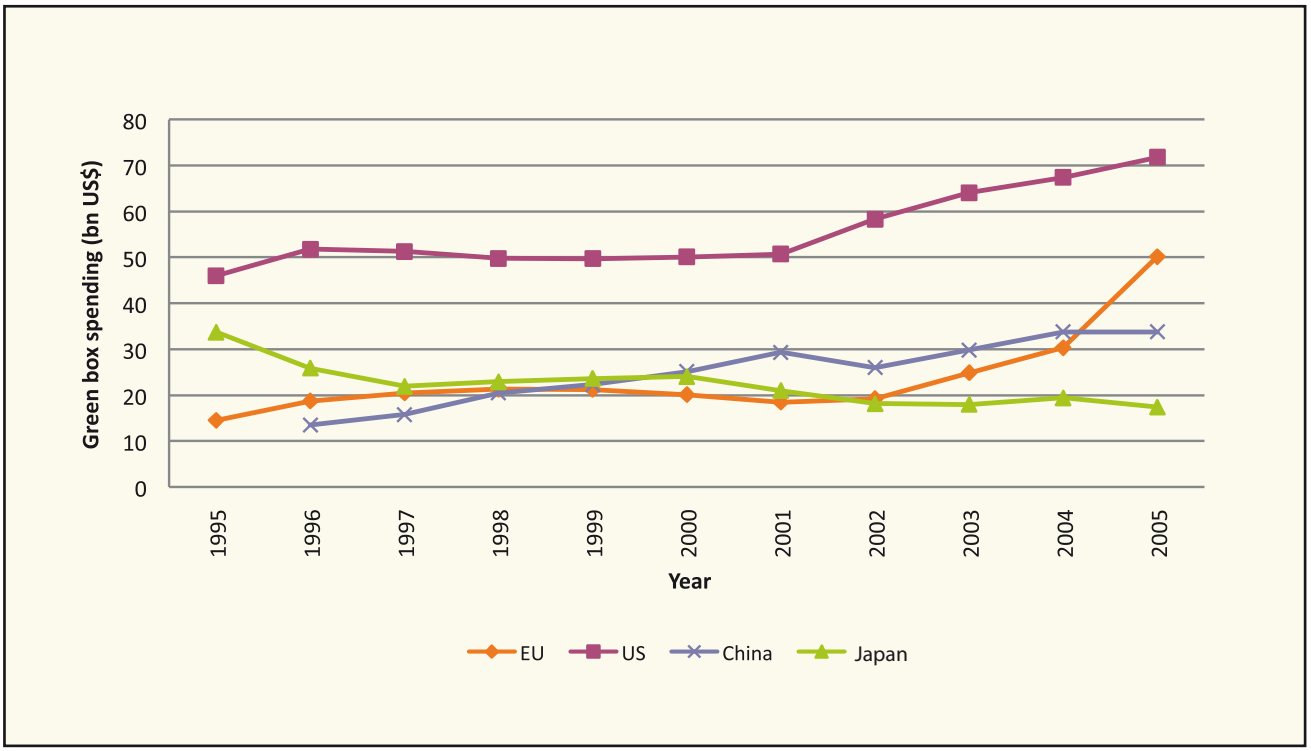
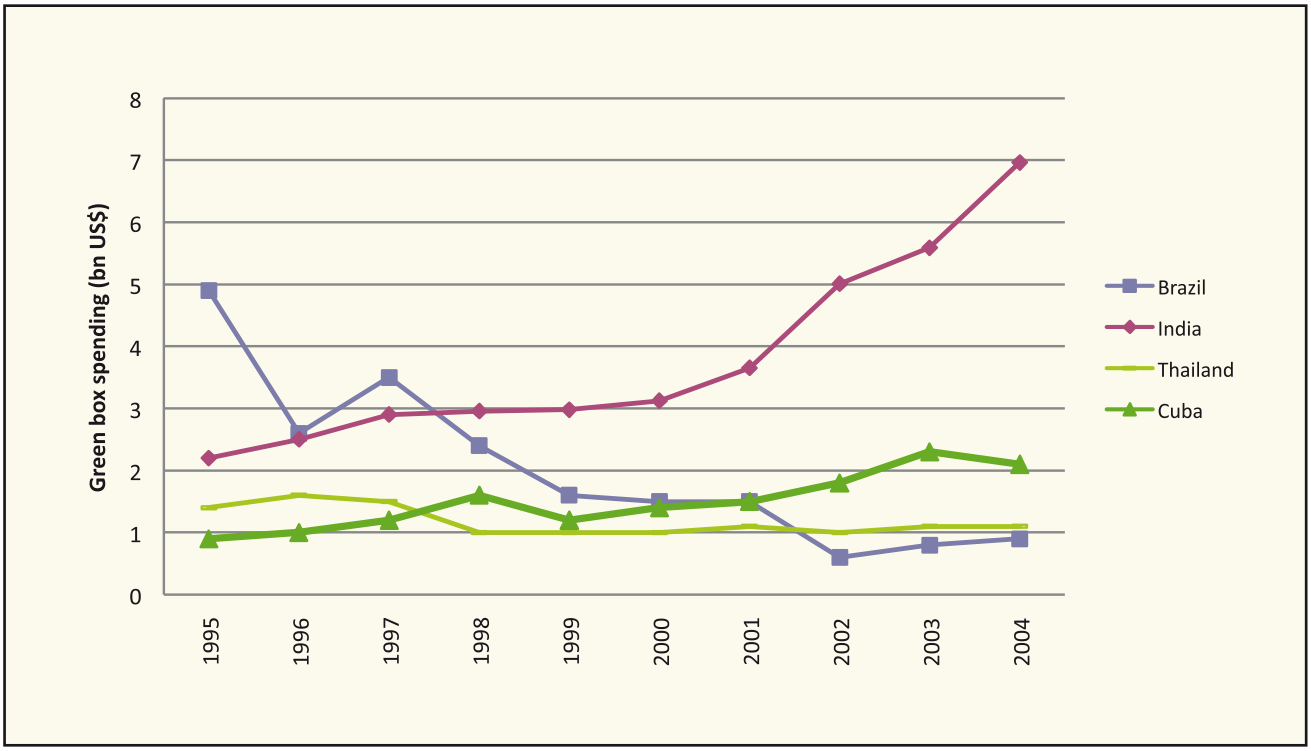


Figure 9: Green Box spending by major developing countries



Source: Papers by Dhar, B., and Antón, J, in *Agricultural Subsidies in the WTO Green Box*; also Tian, Z. (2009) "Implications for China of the December 2008 Draft Agricultural Modalities," and Gopinath, M and Laborde, D, (2008) "Implications for India of the May 2008 Draft Agricultural Modalities," ICTSD/IPC/IFPRI. Data for China (2002-2004) are 'shadow notifications' rather than officially notified figures, as are data for India (1998-2004).[14]

[14] *Projections cited by Professor Tian suggest that, based on China's notifications under current WTO commitments, their total green box expenditure will reach about $67.5 billion by 2013. For more information, see "Implications for China of the December 2008 Draft Agricultural Modalities," by Tian Zhihong, http://ictsd.net/i/publications/50467/. Shadow notification data for India is drawn from Gopinath, M and Laborde, D, "Implications for India of the May 2008 Draft Agricultural Modalities", ICTSD/IPC/IFPRI, online at: http://ictsd.net/downloads/2008/07/126.pdf*

African countries are spending less on agriculture than other developing countries. However, green box spending is decreasing while total public sector spending is increasing, a trend which can be attributed to the emphasis that poverty reduction strategy papers place on social spending as opposed to agriculture.[15]

Overall, the relatively low level of support to agriculture in many developing countries has been seen by some analysts as indicative of a broader pattern of under-investment in developing country agriculture rather than constraints that the green box criteria impose on policy design (see Fig. 10). That said, several countries have argued that certain restrictions in disciplines governing the use of public stockholding for food security purposes, disaster relief, or regional assistance programmes have affected their ability to use green box subsidies.[16]

Figure 10: Green box expenditure and its relevance based on agricultural gross domestic product

		Green box as % of agriculture GDP			
		Low (<10%)		High (>10%)	
Agriculture GDP	High (> US$ 10bn)	India	($128; 2%)	China	($ 250; 14%)
		Brazil	($ 56; 4%)	EU-15	($ 205; 12%)
		Indonesia	($ 36; 0.5%)	US	($ 125; 38%)
		Pakistan	($ 20, 1.7%)	Japan	($ 76; 30%)
		Mexico	($ 24; 8%)	South Korea	($ 22; 22%)
		Australia	($ 20; 6%)		
		Thailand	($ 16; 9%)		
		Argentina	($ 15; 1.7%)		
		Philippines	($ 13; 2%)		
		Colombia	($ 12; 1.5%)		
		Malaysia	($ 11; 2%)		
	Low (> US$ 10bn)	Morocco	($ 7.8; 5%)	South Africa	($ 6.4; 11%)
		New Zealand	($ 7.3; 3%)	Switzerland	($ 4.4; 49%)
		Chile	($ 5.0; 4%)	Venezuela	($ 4.4; 15%)
		Peru	($ 4.7; 3%)	Norway	($ 3.6; 16%)
		Kenya	($ 4.1; 2%)	Israel	($ 1.9; 17%)
		Tunisia	($ 3.3; 2%)	Zambia	($ 1.2; 16%)
		Dominican Republic	($ 2.0; 2%)	Jordan	($ 0.3; 12%)
		Uruguay	($ 1.5; 3%)	Trinidad and Tobago	($ 0.1; 16%)
		Costa Rica	($ 1.5; 2%)		
		Paraguay	($ 1.4; 1.5%)		
		Honduras	($ 0.9; 1.1%)		
		Nicaragua	($ 0.8; 1.2%)		
		Jamaica	($ 0.5; 1.3%)		

Source: USDA, author's elaboration; in Nassar et al (2009). "Agricultural subsidies in the WTO green box: opportunities and challenges for developing countries," *Agricultural Subsidies in the WTO Green Box*.

[15] *Oduro, A. (2009) "African countries and the green box". In Agricultural Subsidies in the WTO Green Box.*

[16] *Oduro argues for example that, in the case of payment for relief from natural disasters, the initial requirement that the production loss should exceed 30 percent is particularly stringent for small-scale farmers for whom a much smaller production loss could have a significant impact on their incomes and welfare. She also recommends exempting developing countries from the condition that payments under regional assistance programmes can only be made when a disadvantaged region is a clearly designated contiguous geographical area with a defined economic and administrative identity. She advocates explicit provision for spending to address land reform and farmer settlement programmes in general and proposes, in the case of public stock holding, the striking out of the requirement that the difference between the acquisition and external reference be included in the calculation of the Aggregate Measure of Support. Proposals along these lines have indeed been under extensive consideration at the WTO, and appear likely to be adopted as part of an eventual Doha Round agreement.*

The green box and the environment

Thriving wildlife, beautiful landscapes and clean water are all products of agriculture. While wider society values these outcomes, this often is not reflected in market value. This may result in a market failure in which sub-optimum levels of these public goods are delivered, resulting in biodiversity decline, water pollution and degraded landscapes and soils. In this context, the question is not so much whether government intervention is needed, but rather whether green box subsidies are the most effective tools in delivering these public goods.

Since the 1980s, subsidies have become a large component of farmers' incomes and consequently of land use decisions. The way in which these subsidies are allocated plays a major role in shaping land use patterns, particularly in the EU and the US, and therefore has important impacts on the environment in rural areas.

Amber box subsidies often create the strongest incentives for increasing outputs, intensifying the use of chemical inputs, and thus negatively affecting the environment. In principle, reducing amber box expenditure and increasing green box expenditure should thus be good for the environment.[17] Modern agriculture's contribution to greenhouse gas emissions is indeed symptomatic of this reality. The production of fertiliser is not only energy intensive; it acidifies the soil, requiring the regular application of lime which in turn produces more carbon dioxide. From an environmental perspective, organic agriculture is probably one of the best alternative production methods available in reducing greenhouse gas emissions and enhancing sustainable practices. In most cases, however, these production methods are not economically viable and require support from the government.[18]

While some green box subsidies are closely targeted at the achievement of concrete environmental goals, others remain little more than disguised income support payments, and some may even provide support for activities that are damaging to the environment. In the EU, the 2003 decoupling reform was effective in removing the incentive to overproduce, while also establishing several schemes with explicit environmental objectives. However, such environmental programmes are only effective if they have clear goals expressed in terms of measurable outcomes and target. Without strict rules to ensure its proper use, Brunner and Huyton argue that the tool will be abused both accidentally and wilfully, as a means for disguising income or even production support. This is particularly apparent in cases where the cost to the farmer is disproportionately small relative to the size of the payments. The authors report that, on a 181-ha arable farm in Cambridgeshire, England, the costs of implementing cross-compliance were approximately €27, although the

Shredded wheat farm by ricmarthur Flickr.com Creative Common License 2.2

[17] *Steenblik, R, and Tsai, C (2009), "The environmental impact of green box subsidies: exploring the linkages". In Agricultural Subsidies in the WTO Green Box.*

[18] *Cavero, T. (2009), "Subsidy reform in the EU context: options for achieving change". In Agricultural Subsidies in the WTO Green Box.*

farm received some €27,000 in direct payments.[19] In the US, Jane Earley goes further in arguing that green box payments have perpetuated environmental problems in that they encourage production on marginal lands, for example through regular disaster assistance or some farm credit, and incentivise maintaining production rather than retiring land in environmentally fragile areas.[20]

For Steenblik and Tsai, some policies are less cost-effective than they might otherwise be, because they have been designed to conform with green box criteria rather than to achieve an environmental objective[21]. For example, the green box requires environmental payments to be based exclusively on "the extra costs or loss of income involved in complying with the government programme." Although this formula can work in intensive agricultural landscapes where payments are being made for some form of extensification, it is much harder to apply to situations where the benefits are already being delivered and there is very little income in the first place. In other words, it is also good economic and environmental sense to focus conservation efforts on maintaining existing biodiversity rather than losing it and paying to recreate it in the future.

Josling and Blandford note the a priori assumption that biofuel subsidies that expand corn and soybean production are ill-suited for the green box. As they note, "payments that take crops off the food market and into the energy market would in 'normal' circumstances be seen to be helping to reduce the oversupply of farm products and raise agricultural prices. From this point of view, why should other activities that are included under rural development policies (for example, the development of ecotourism) be encouraged and rewarded but biofuel production be penalized?" Arguably, the green box was designed for the support of public goods. Josling and Blandford ask whether or not the case could be made that ethanol and biodiesel are beneficial to society and should be encouraged. The question then becomes how to encourage biofuels without discriminating against imported sources of, say ethanol from Brazil, or without providing an incentive to export biofuels.[22]

Pig by Howard Gees , Flickr. Com Creative Common License 2.2

[19] *Brunner, A. and Huyton, H. (2009), "The Environmental Impact of European Union green box subsidies". In Agricultural Subsidies in the WTO Green Box.*

[20] *Earley, J. (2009), "The Environmental Impact of US green box subsidies". In Agricultural Subsidies in the WTO Green Box.*

[21] *Steenblik, R, and Tsai, C (2009), "The environmental impact of green box subsidies: exploring the linkages". In Agricultural Subsidies in the WTO Green Box.*

[22] *Josling, T. and Blandford, D. (2009), "Biofuels subsidies and the green box". In Agricultural Subsidies in the WTO Green Box.*

Rural development and equity

The shift towards decoupled supports designed to sustain farm incomes and the wider rural economy responds partly to a genuine public concern for the welfare of small farmers and for the need to promote equity. As green box support come under closer public scrutiny, this raises the issue of the distributional structure of green box subsidies. It is difficult politically to defend to taxpayers a system that absorbs 50 percent of the European budget, benefits roughly two percent of the population, and concentrates 80 percent of support on 20 percent of farmers.[23]

Similarly, Harry de Gorter finds that, in the US, "the distribution of farm payments is skewed towards the large farm that needs the government payments less. Large farms derive a disproportionate share of their farm income from government payments in total.… Large farms make significant income from farming and so should not need taxpayer support as much as small farmers, yet the former receive by far the largest share of payments."[24] Interestingly, in Japan, Homma argues that if the country's agriculture is to become competitive, direct payments should be targeted to large-scale farmers.[25] Recent assessments of the CAP reform tend to show that in most EU countries the benefits of farm programs were, de facto, passed on to the owners of primary factors such as land or production rights whereas labour only keeps a fraction of the support.[26]

In this context, Teresa Cavero argues that "to tackle properly the needs of small farms, direct payments should not be based on historical acreage or anticipated crop yields but rather on the basis of a farmer's financial need".[27] She notes that a cap on payments, imposing upper and lower limits, is one obvious measure that can be taken – such as the 300,000 euro maximum subsidy per recipient suggested by EU Agriculture and Rural Development Commissioner Mariann Fischer Boel. Cavero points out that "this would affect 0.04 percent of farms, mostly in Germany and the UK, releasing close to €1bn."

In 2005, the G-20 proposed amending the requirements for decoupled income support payments (paragraph 6, Annex 2 of the Agreement on Agriculture). Text proposed for deletion is crossed out, and new insertions are underlined:

> *Eligibility for such payments shall be determined by clearly-defined criteria ~~such as~~ **of low levels of income**, ~~status as a producer or landowner~~, **landholding and production** ~~level~~ in a **notified**, ~~defined and~~ fixed **and unchanging** base period.*

However, in April 2006, the chair of the negotiations on agriculture noted "firm resistance" to all the G-20's proposals on decoupled income support.

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[23] *Cavero, T. (2009), "Subsidy reform in the EU context: options for achieving change". In Agricultural Subsidies in the WTO Green Box.*
[24] *De Gother, H (2009) ''The International structure of US green box subsidies In AG Subsidies in Other WTO Green Box.''*
[25] *Homna, M. (2009), "Agricultural trade policy reform in Japan". In Agricultural Subsidies in the WTO Green Box.*
[26] *See, Bureau and Mahé, "CAP Reform beyond 2013: An Idea for a Longer View", Notre Europe, Studies and Research No 64, 2008.*
[27] *Cavero, T. (2009), "Subsidy reform in the EU context: options for achieving change". In Agricultural Subsidies in the WTO Green Box.*

Doha Round negotiations

In the Doha Round of negotiations at the WTO, efficient agricultural exporters such as those in the Cairns Group have expressed concerns about the extent to which green box programmes may be causing more than minimal distortion to production and trade, and the possibility that existing green box criteria may need to be tightened in order to ensure consistency with the fundamental requirement set out in paragraph 1. A number of developing countries have also expressed similar concerns, with the G-20 in particular emphasising these after its formation in 2003. Both the Cairns Group and the G-20 have historically sought to establish a cap or reductions on green box subsidies.

In contrast, members of the import-sensitive G-10 group of countries, which includes Japan, Norway and Switzerland, have argued that there is only a limited mandate for changes to the green box. They have historically emphasised the role of green box programmes in addressing countries' 'non-trade concerns', and have argued that agriculture has a 'multifunctional' role in delivering other public goods in parallel.

The EU and US have also resisted substantial reform of the green box. The EU has taken positions that are close to those espoused by the G-10, in the past suggesting that, if anything, the green box should be expanded in order to take into account issues such as animal welfare. Like Canada, however, the US has supported modest changes to the green box to cover, for example, experience with implementing disaster relief programmes.

A number of developing countries, including G-20 members and the African Group, have consistently underscored the need for the green box to be amended so as better to reflect developing countries' concerns. Many have argued that the green box, in the form in which it was devised during the Uruguay Round, primarily reflects developed country programmes and is therefore ill suited for developing countries to use. They have pushed for specific changes to rectify what they see as imbalances in the existing text.

Broadly speaking, the resistance of importing countries to many of the more far-reaching proposals put forward by exporting countries, combined with the resistance of the latter to any dramatic expansion of the green box to address additional 'non-trade concerns', has meant that the negotiations have focused relatively heavily on modifications aimed at providing greater flexibility to developing countries.

Figure 11 below summarises the main negotiating positions historically taken by Members, simplifying in some cases the more nuanced arguments around the various issues. While the debate on green box criteria has increasingly narrowed down to a handful of measures that Members feel are politically feasible, some of the issues that negotiators raised early on in the round may still resurface, for example as part of a post-Doha agenda of negotiations on agricultural trade reform.

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Figure 11: Members' positions on some key issues in the green box negotiations

	African Group	'Like-minded group'	G-20	Cairns Group	Canada	US	EU	G-10
Cap / reductions?	Yes	Yes	Yes	Yes	Yes	No	No	No
Ensure base periods are 'fixed and unchanging'?	Yes	Yes	Yes	Yes	Yes	Allow occasional updates	Allow occasional updates	Allow occasional updates
Preclude new types of direct payments?			Yes		Yes	No	No	No
Time limit structural adjustment payments?				Yes	Yes	No	No	No
Substantial new flexibility for developing countries?	Yes	Yes	Yes					
New flexibility for disaster relief payments?	Yes		Yes	Yes	Yes	Yes		
Expand to cover new 'non-trade concerns'?	No	No	No	No	No	No	Yes	Yes

Source: J. Hepburn and C. Bellemann (2009), "Doha Round negotiations on the green box and beyond." *Agricultural Subsidies in the WTO Green Box.*

Looking forward: How can change take place?

Green box reform remains on the agenda of the Doha Round, although – as noted above – negotiations have increasingly focused on a limited set of changes primarily aimed at ensuring that developing countries will be able to make use of this category of payments without undue difficulty. In the meantime, green box criteria could be reinforced through panels and litigation. As an increasing proportion of subsidies are being categorized as green box payments, poor compliance with existing criteria is at least an important an issue as the adequacy of the criteria themselves.

Deficiencies in the current monitoring mechanism relate both to delays in notifications and the type of information notified to the WTO. For example, in the EU, notification reports do not specify how the green box is divided between Member States. Chatellier examines this by comparing the EU's figures with national data in France, and finds that national public expenditures which would theoretically fall into the green box appeared to be higher than those notified by the EU.[28] For Cerda, an effective monitoring mechanism would require "full transparency, making explicit all criteria of eligibility and the specific ways in which they are fulfilled, and providing as much information as possible on type, volume and area of production of payment recipients, starting from base levels.[29]

In the longer term, several authors agree that any significant reform implies a new approach altogether – moving away from the amber, blue and green categories.

[28] *Chatellier, V. (2009), "The distributional structure of green box subsidies in the European Union and France". In Agricultural Subsidies in the WTO Green Box.*

[29] *Cerda, A. (2009), "Improving monitoring and surveillance of green box subsidies". In Agricultural Subsidies in the WTO Green Box.*

The Uruguay Round set the stage for the establishment of a "fair and market oriented agricultural trading system," but this goal still remains to be achieved. As trade distorting measures are phased out, the remaining domestic support would thus include green box measures, paragraph 6.2 (special and differential treatment) and a "de minimis" clause. Under this scenario, de Camargo and Henz argue that a reviewed and improved green box classified as non-actionable subsidies in Part IV of the SCM Agreement would become the central element of the WTO agriculture disciplines as the only support accepted at the end of the reform process.[30]

This approach raises a fundamental question about the underlying purpose of the green box. Are green box subsidies a temporary adjustment tool, or do they perform a permanent function of correcting market failures and delivering public goods? Tutwiler notes that "the concept that tax revenue should provide for public goods that are available to the citizenry as a whole and not be transferred to a few private citizens - or "public money for public goods" - has become a mantra in European policy reform circles, but did not take hold in the United States.[31] From a sustainable development perspective, the notion of targeted, non trade distorting state interventions to address market failure and deliver essential public goods is clearly more attractive. It does however raise a few questions. Are direct payments the best tool for achieving social and environmental goods? Should it be permissible to continue to subsidize production on some of the world's largest and most profitable farms? The possibility of permanent government support inevitably raises the issue of inequity between developed and developing countries, given that the latter probably will not have the resources to provide the support in order to deliver public goods. This calls for a wider debate going beyond trade negotiations and involving the notion of cross-border financing as an integral part of any eventual solution. Unless policymakers and all other stakeholders examine these questions, they arguably risk undermining the entire structure of agricultural policy reform on which the long-term stability of the broader multilateral trading system depends.

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[30] De Camarago Neto, P, and Henz, R. (2009), "Towards a green box subsidy regime that promotes sustainable development: strategies for achieving change". In Agricultural Subsidies in the WTO Green Box.

[31] Tutwiler, A. (2009), "Subsidy reform in the US context: deviating from decoupling". In Agricultural Subsidies in the WTO Green Box.

Agricultural Subsidies in the WTO Green Box: Ensuring Coherence with Sustainable Development Goals

"This book constitutes a long-awaited and valuable contribution to clarifying what has become the core of agricultural negotiations: the fear that abusive migration toward so-called green-box subsidies might render meaningless any apparent progress in reduction of the more obvious distorting modalities. It is a well-balanced and thoughtful analysis of all relevant arguments in the debate and provides trade negotiators with an enlightened guidance to help the Doha Round deliver on its promise of putting world trade to the service of development needs and environmental improvement."

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