THE CURRENT ROUND OF AGRICULTURAL TRADE NEGOTIATIONS: Should we bother about domestic support?

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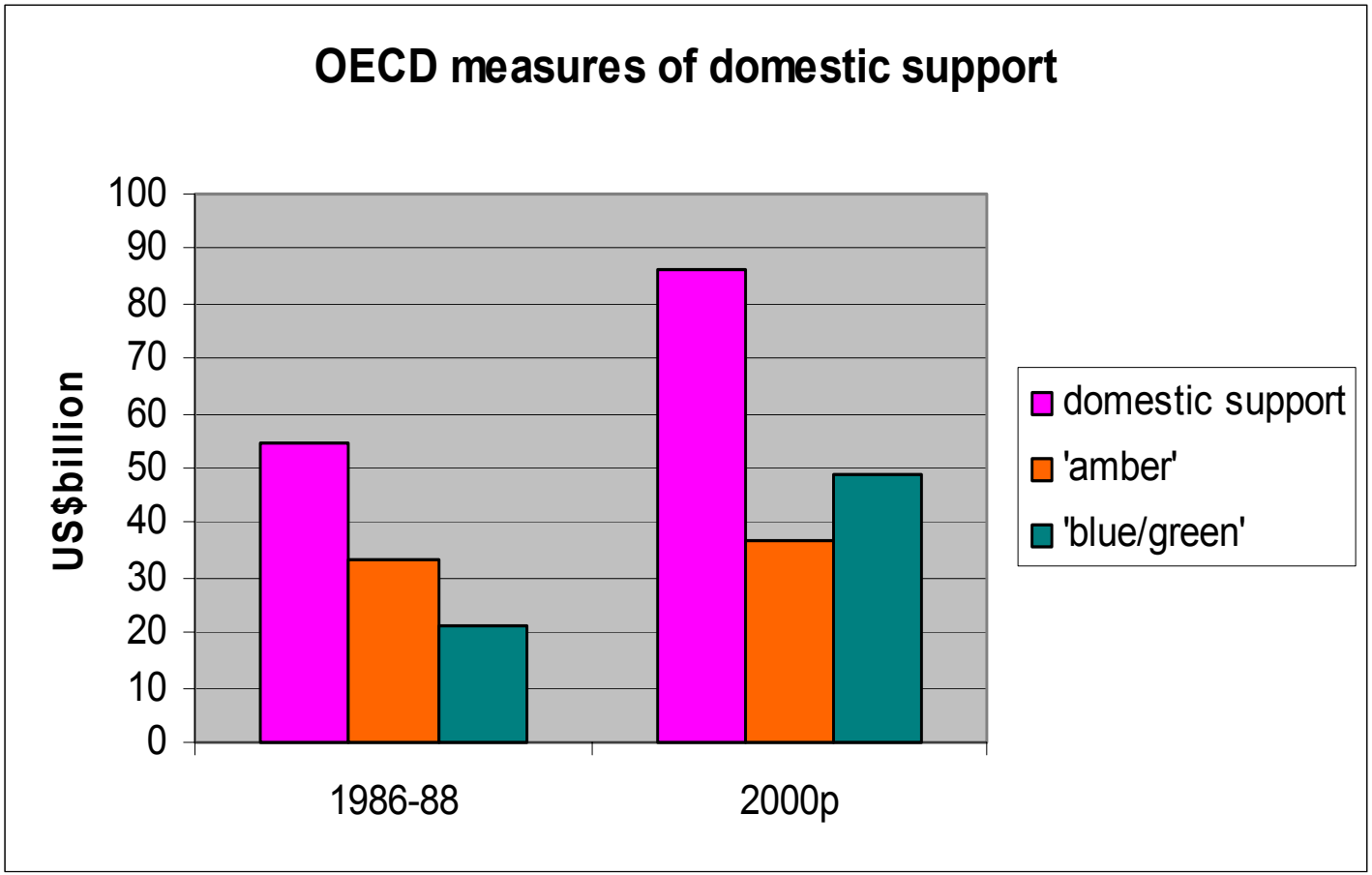
URAA and domestic support

- ‘coupled’: amber box
- Largely ‘decoupled’: blue & green boxes
- Total amber box spending to be reduced by 20%
- Some OECD countries have switched from amber to blue/green policies (CAP, FAIR)
- Least effective component of URAA

- We make use of OECD's PSE data
- We classify:
  - 'amber': payments based on output, or input use
  - 'blue/green': payments based on acreage, animal numbers, farm income
- For OECD as a whole, has been substantial growth in 'blue/green' payments
- But no reduction in 'amber' payments


OECD measures of domestic support
US$billion
100
90
80
70
60
50
40
30
20
10
0
1986-88
2000p
domestic support
'amber'
'blue/green'

Proposals to Doha Round on domestic support

- Retain all 3 boxes, & reduce amber spending
- Formula approach to eventually eliminate amber & blue box spending
- Only 2 boxes: ‘exempt’ & ‘non-exempt’
- Place cap on amber, or total spending in all boxes, in developed countries
- Multifunctionality – ‘Pandora’s box’?

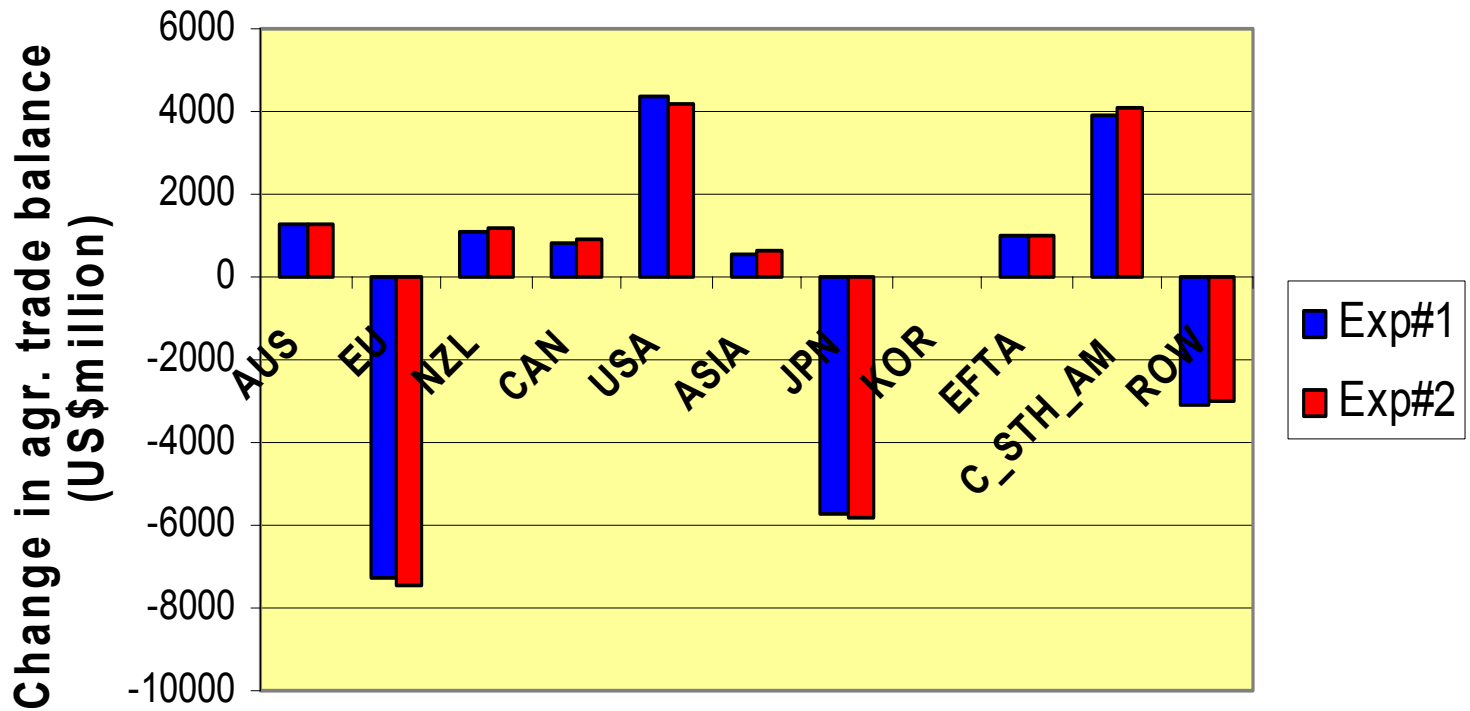
Methodology

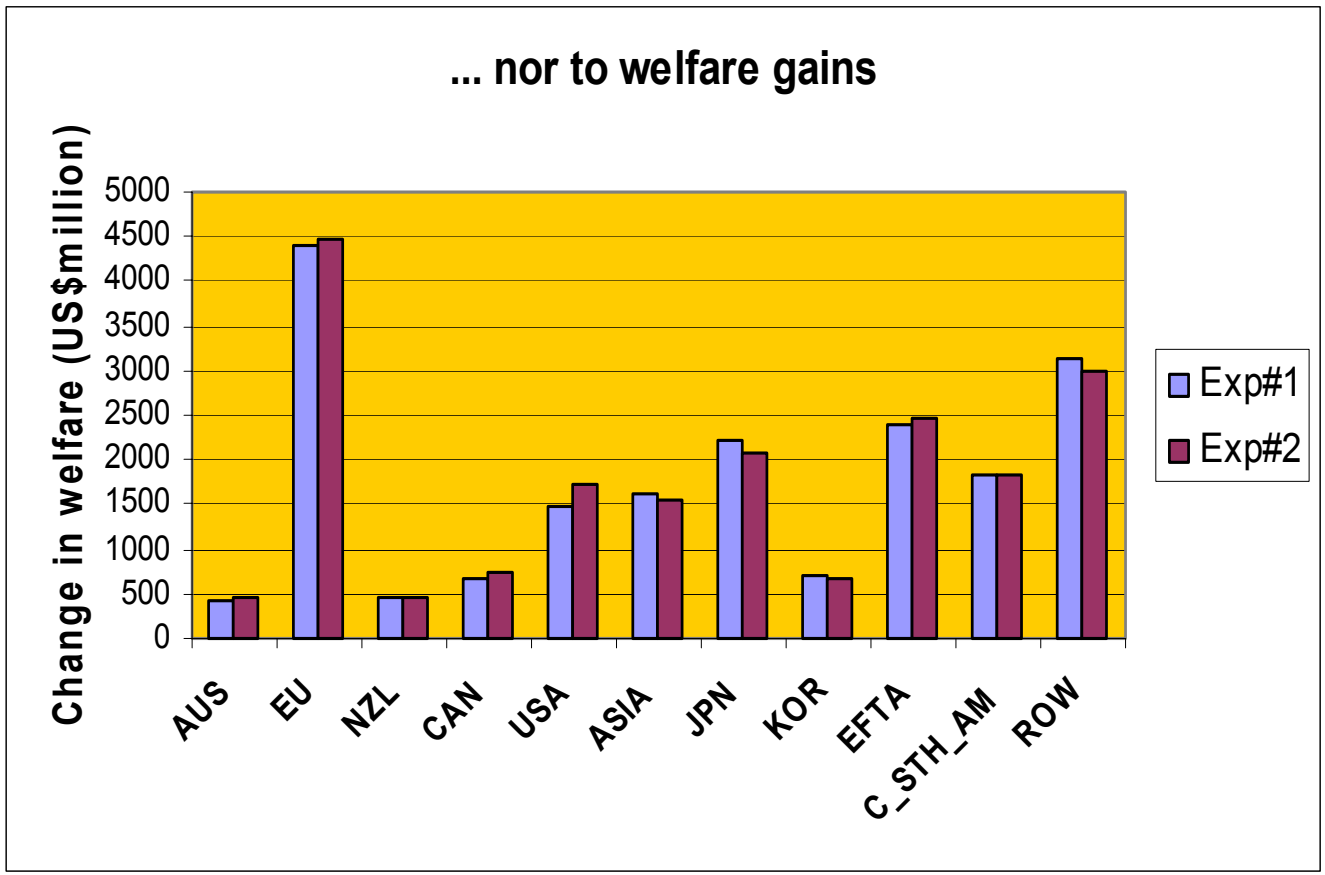
- Used GTAP model
- Version 5 datase (includes domestic support data based on OECD)
- Modified standard model to include variables to measure change in total support payments based on land or capital
- Design 2 domestic support reforms & compare with a base of border reforms only

The experiments

- #1 (Base) 36% cuts to tariff & export subsidy rates in food and agriculture – *total* farm 'blue/green' spending held fixed
- #2 As above, plus a 20% cut in amber (output and int. input subsidy) rates in farming
- #3 As in #2, but we allow total 'blue/green' spending to rise in US, EU & Japan

Cuts to amber payments make little difference to trade...




... nor to welfare gains
Change in welfare (US$million)
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
AUS
EU
NZL
CAN
USA
ASIA
JPN
KOR
EFTA
C_STH_AM
ROW
Exp#1
Exp#2

How decoupled are 'blue/green' payments in GTAP?

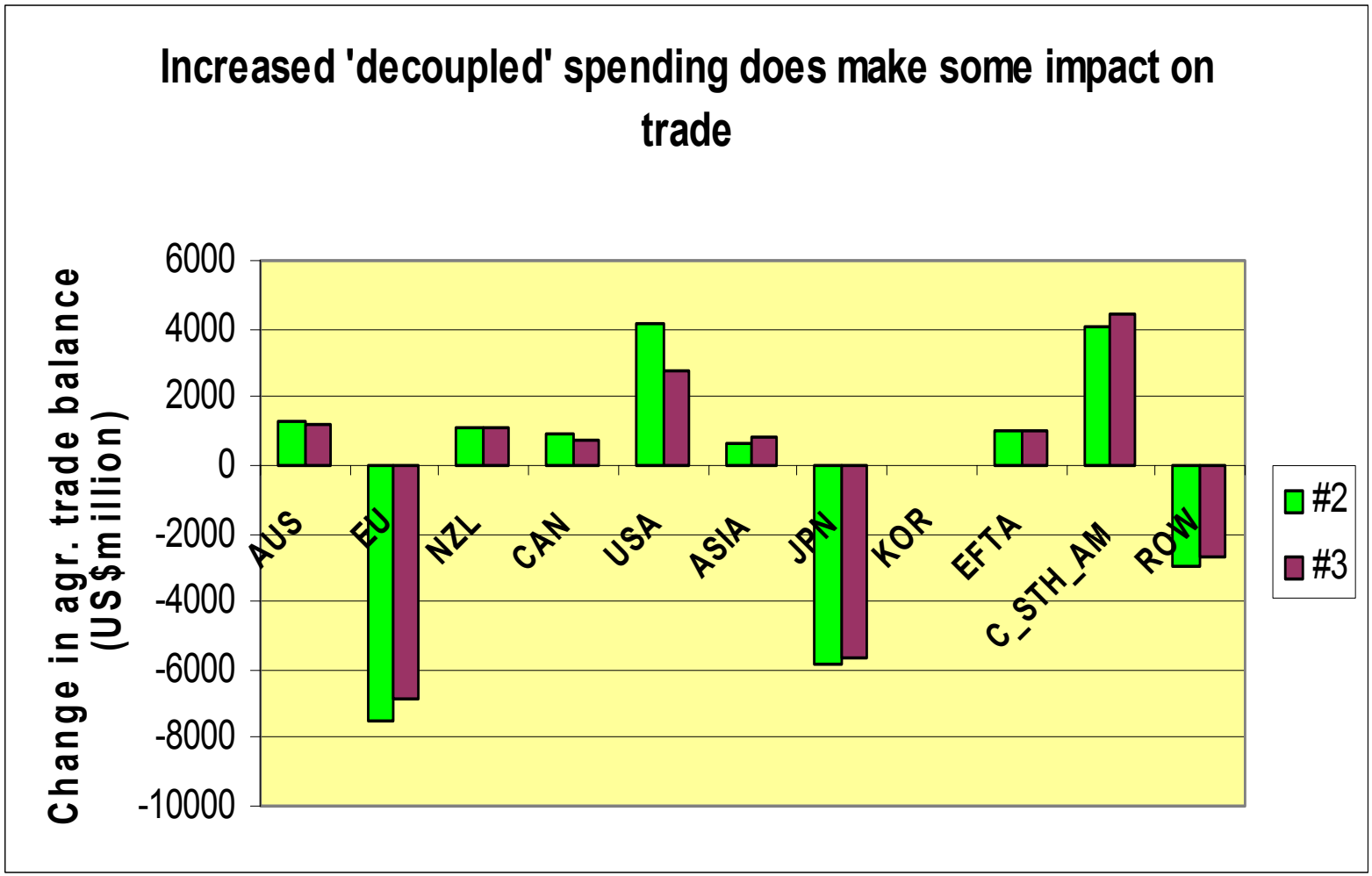
Own-production response (%) to increase in domestic support

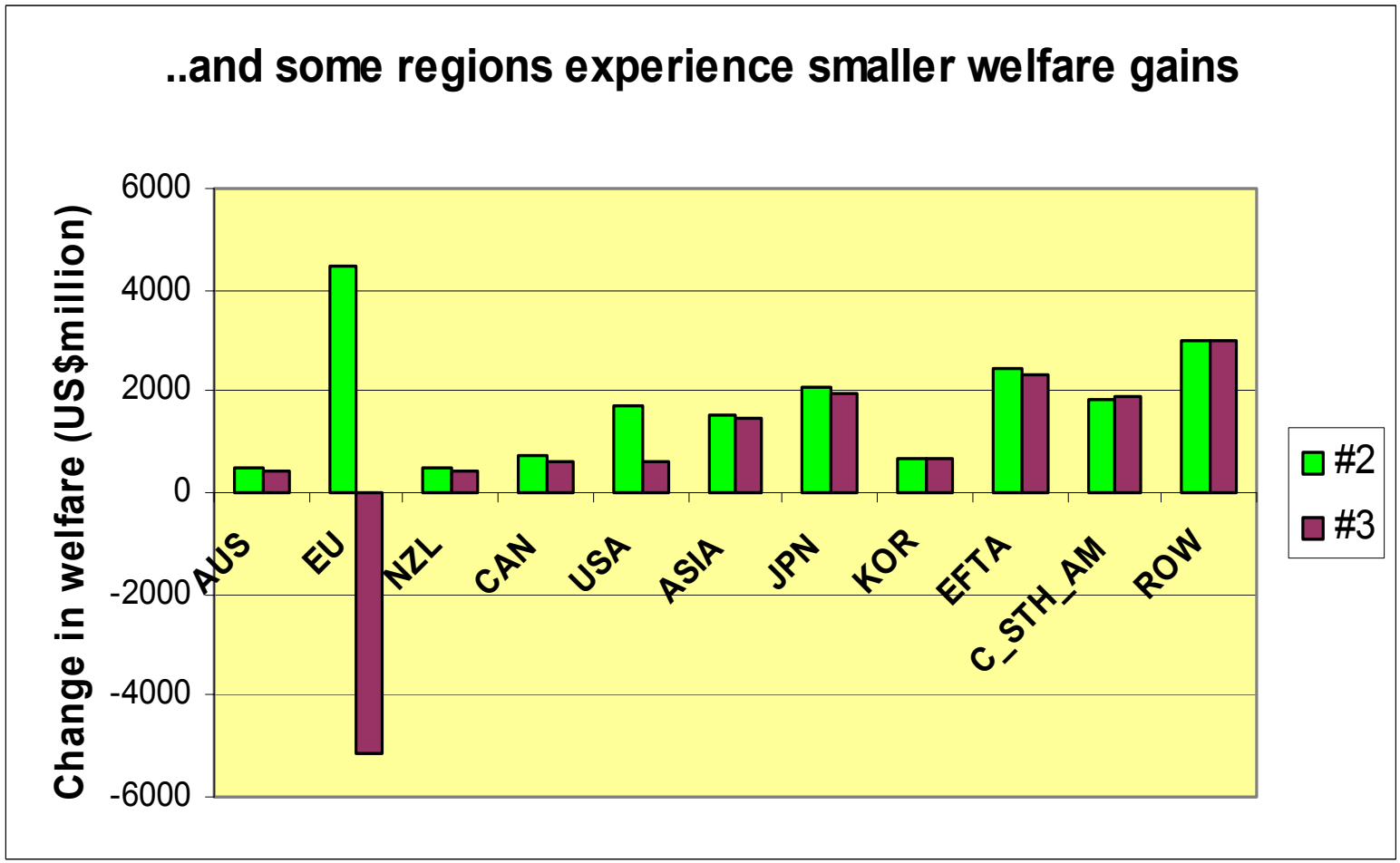
	EU	US
TO_L(i,r) shocked by +10%:		
Wheat	4.44	11.00
Oth_grain	3.63	3.24
Ctl	3.2	4.94
Milk	1.2	1.25
TF_L("land",j,r) shocked by –10%:		
Wheat	0.17	1.42
Oth_grain	0.15	0.28
TF_L("capital",j,r) shocked by –10%:		
Ctl	0.28	0.31
Milk	0.14	0.08

How decoupled are 'blue/green' payments in GTAP?

- Wealth elasticities----
  - US: 0.087 for corn & 0.270 for soybean (Chavas & Holt)
  - From GTAP:

Wealth elasticities: land & capital subsidies	EU	USA
Wheat	0.073	0.125
Oth_grain	0.069	0.023
Oilseeds	0.147	0.032


Increased 'decoupled' spending does make some impact on trade
Change in agr. trade balance (US$million)
6000
4000
2000
0
-2000
-4000
-6000
-8000
-10000
AUS
EU
NZL
CAN
USA
ASIA
JPN
KOR
EFTA
C_STH_AM
ROW
#2
#3


..and some regions experience smaller welfare gains
Change in welfare (US$million)
6000
4000
2000
0
-2000
-4000
-6000
AUS
EU
NZL
CAN
USA
ASIA
JPN
KOR
EFTA
C_STH_AM
ROW
#2
#3

What happens to total domestic support spending in these three experiments?

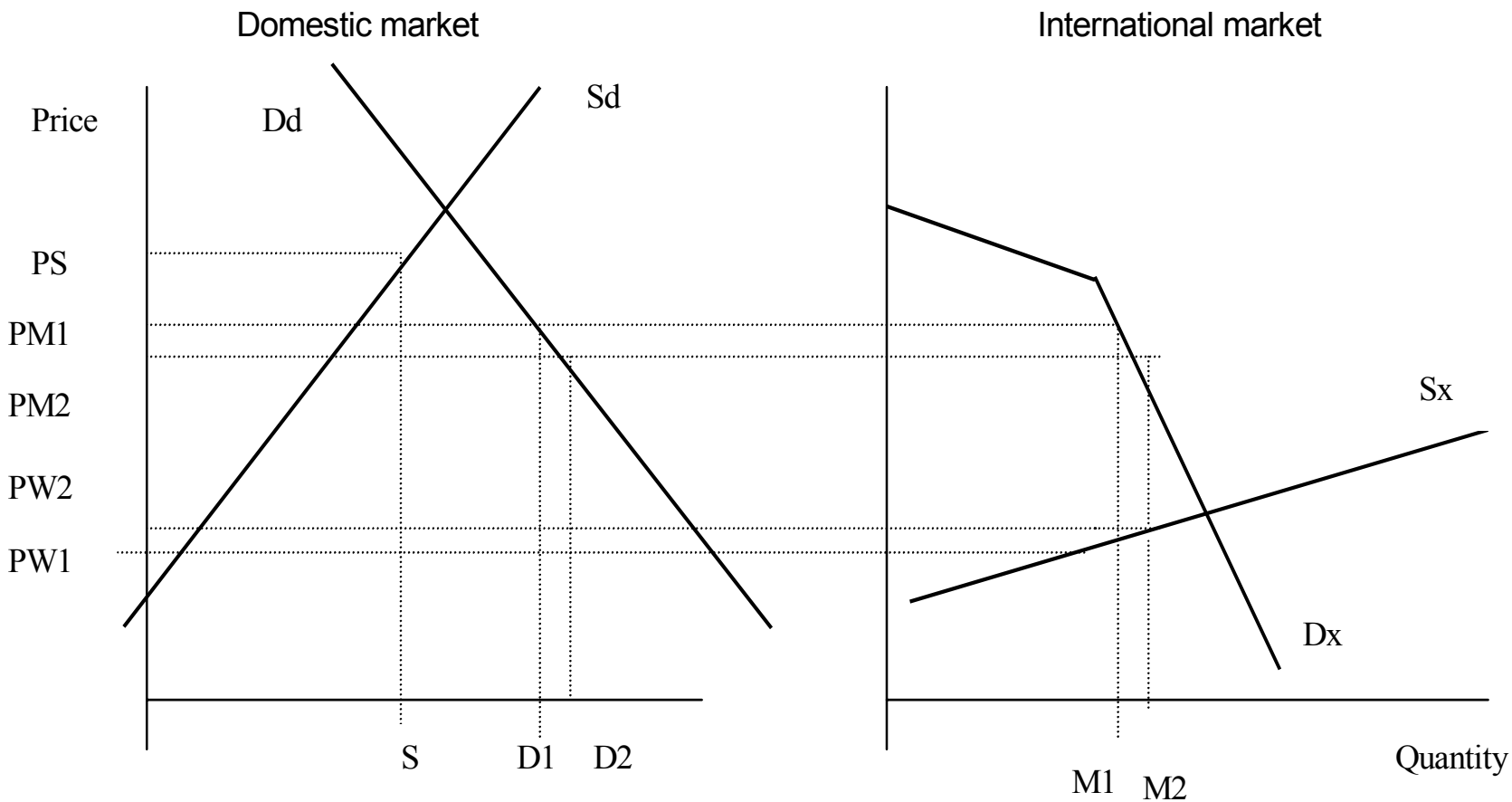
Domestic Agricultural Support Expenditure

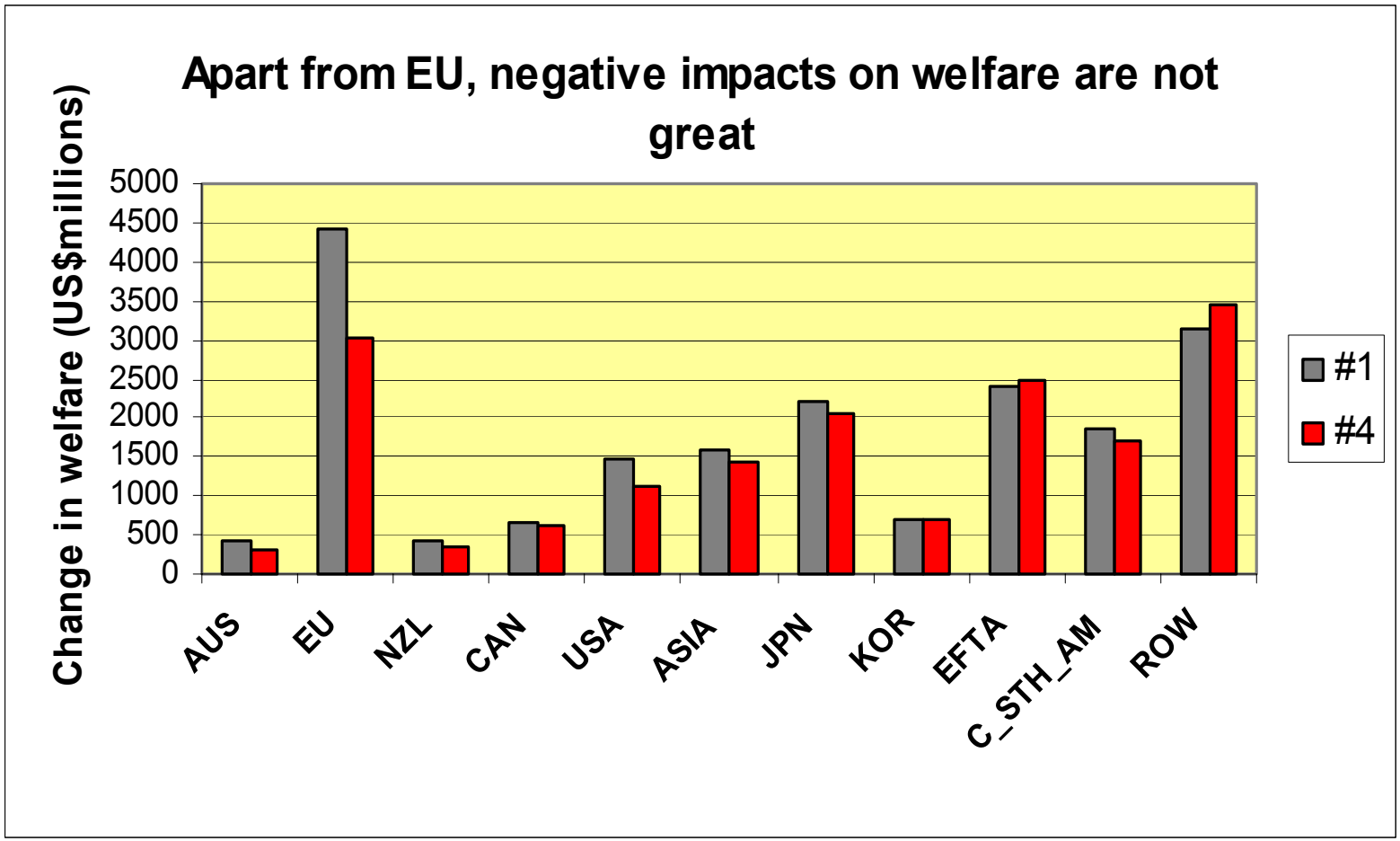
	Base Data (US $million)	Exp#1	Exp#2	Exp#3
		(% change from base data)		
EU				
Output subsidies[a]	816	-2.5	-21.6	-22.3
Int. input subsidies[b]	2104	-5.4	-62.0	-57.9
Land/capital payments[c]	69196	0.0	0.0	43.0
Total domestic support	72116	-0.2	-2.1	45.1
USA				
Output subsidies	5363	3.0	-17.0	-18.2
Int. input subsidies	3840	1.8	-18.6	-19.2
Land/capital payments	18409	0.0	0.0	46.8
Total domestic support	27612	0.8	-5.9	25.0

What might happen if no limits are agreed for any type of domestic support?

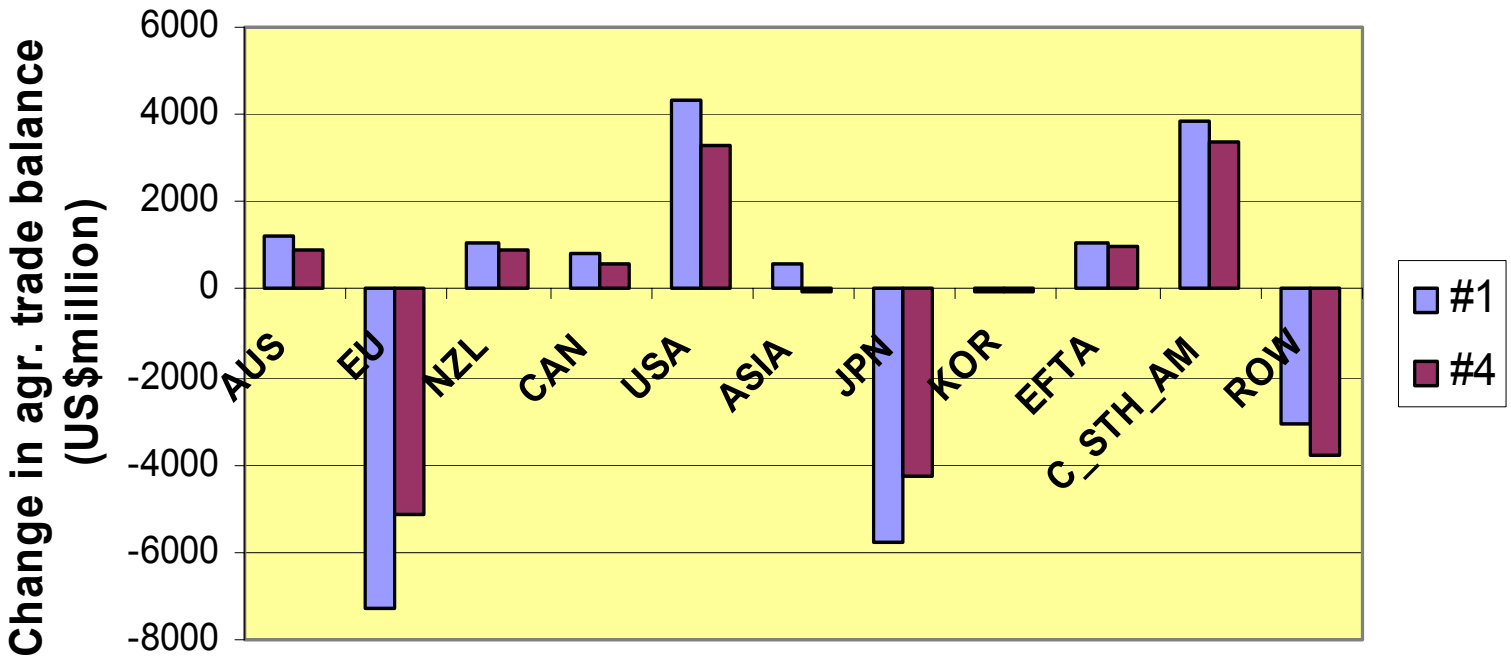
- In final experiment, we allow increases in output subsidies (the most 'coupled') as compensation for tariff cuts
- Permit in EU and Japan (for wheat, other grains, cattle & milk), Japan (rice) and in US (milk)
  - since outputs from these sectors declined when we reformed trade policies (exp#1)

Figure 3 Linkages Between Domestic Support and Trade Policies




Apart from EU, negative impacts on welfare are not great
Change in welfare (US$millions)
5000
4500
4000
3500
3000
2500
2000
1500
1000
500
0
AUS
EU
NZL
CAN
USA
ASIA
JPN
KOR
EFTA
C_STH_AM
ROW
#1
#4

..and many regions still experience improved trade balance



Domestic support spending increases…

Domestic Agricultural Support Expenditure

	Base Data	Exp#1	Exp#4
	(US $million)	(% change from base data)	
EU			
Output subsidies[a]	816	-2.5	1209.4
Int. input subsidies[b]	2104	-5.4	-4.1
Land/capital payments[c]	69196	0.0	-0.5
Total domestic support	72116	-0.2	13.1
JAPAN			
Output subsidies	316	-7.0	2359.4
Int. input subsidies	192	-23.4	-13.5
Land/capital payments	1228	0.0	-2.0
Total domestic support	1736	-3.9	426.6
USA			
Output subsidies	5363	3.0	10.3
Int. input subsidies	3840	1.8	1.3
Land/capital payments	18409	0.0	6.8
Total domestic support	27612	0.8	6.7

Decomposition of Allocative Efficiency Gains by Tax Instrument (US$million)

Tax Instrument	Exp#1	Exp#2
EU		
Primary factor taxes [a]	392	436
Output & int. input taxes [b]	-26	-8
Export & import taxes	4067	4089
Total Allocative gain [c]	4676	4766
ToT gains [d]	-274	-310
USA		
Primary factor taxes	-27	-11
Output & int. input taxes	-144	-89
Export & import taxes	520	518
Total Allocative gain	349	418
ToT gains	1046	1252
Japan		
Primary factor taxes	30	30
Output & int. input taxes	-115	-123
Export & import taxes	3163	3167
Total Allocative gain	3193	3183
ToT gains	-1018	-1161

Conclusions

- Improved market access makes much greater contributions to welfare gains than reforms to domestic support policies
- Developed countries may be persuaded to make deeper tariff cuts if know their domestic support wont be capped
- Tightening domestic support constraints could have negative impact on market access offers
- Reform domestic support once substantial reforms to border policies have been achieved
- Caveat – did we over-estimate decoupling?