



# WTO Domestic Support Framework: Green Box and other 'exempt' support flexibilities

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# DOMESTIC SUPPORT / SUBSIDIES

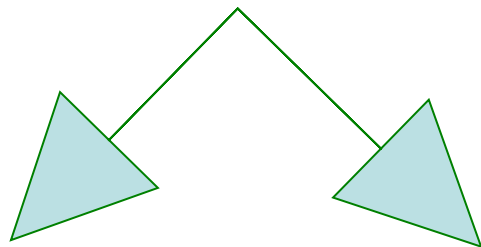
- ❖ Two separate WTO agreements on subsidies:
  - ❖ Agriculture Agreement (**AoA**) and Subsidies Agreement (**ASCM**)
- ❖ Fundamental thrust is the same: restrict recourse to **harmful** subsidies (both AoA & ASCM apply simultaneously)
- ❖ Different approach in the two agreements with regard to domestic subsidies :
  - ❖ ASCM: how to deal with negative **effect** of harmful subsidies (**trade remedies** available to **affected Members**)
  - ❖ AOA: How to **use** subsidies (Binding guidance to the **subsidizing Members**);

# Domestic Support

- ❖ One of the most innovative aspects of AoA
- ❖ Broad categorization ("Boxes") of domestic support measures:(depends on **policy designs/implementation**)
  - ❖ Non or minimally distorting support (**exempt** i.e. no monetary limit)
  - ❖ Support deemed as distorting with potentially negative/harmful effects on others (**non-exempt**, i.e. subject to reduction commitment or limit)
- ❖ Detailed policy criteria were agreed for **exempt** policies (contained in the AoA rules)
- ❖ Numerical limit on **non-exempt** domestic agricultural subsidies in the Schedule
- ❖ To facilitate a change in the design of support policies so as to contain their negative spill-over effect on others



# Domestic Support: Classification of domestic support policies



## EXEMPT MEASURES (Detailed Criteria for policy makers)

Offering scope for governments for policies whose potential distorting effect on trade and production is minimal or less:

## NON-EXEMPT MEASURES Residual category (no criteria)

subject to **annual** monetary limit  
(i.e. **Total AMS** commitment level in the Schedule or **de minimis** limit)

**Encouraging a reform process  
towards “exempt” support measures**



# Total domestic support

*exempt from reduction*

*subject to reduction*

No/minimal  
effects on  
trade or  
production

Production-  
limiting  
programmes

Development  
programmes

Trade-  
distorting  
support

**Green Box**  
(policy criteria)

**Blue Box**  
(policy criteria)

**Art. 6.2**  
(policy criteria)

**Amber Box**  
(\* *de minimis* amounts exempted)



# Domestic support

- **Criteria-based rules**

- Exempt from monetary limit
- Need to respect the **criteria**
- Detailed criteria/requirements prescribed

- **Monetary limit based rules:**

- When exemption criteria not respected
- Detailed methodology to **calculate** support/subsidy
- Annual monetary limit on support/subsidies



# Green Box (Annex 2 of AoA)

## Fundamental objective

No, or at most minimal, trade-distorting effects or effects on production

## Basic criteria

- Assistance through governmental budget
- No elements of **price support** (support should NOT be in the form of raising effective price of products):
  - Government raising prices in the market (minimum/guaranteed prices);
  - Ex-post topping-up of prices received in the market, based on a target/guaranteed price or other factors;

Once basic criteria are fulfilled, specific Green Box support options may be chosen based on **policy-specific criteria**



# Green Box – Policy-specific criteria

## General services, including:

- Research
- Pest and disease control
- Training
- Extension/advisory services
- Inspection
- Marketing and promotion
- Infrastructural services
- .....

- Public stockholding for food security, and
- Domestic food aid

## Direct payments, including:

- Decoupled income support
- Income insurance and income safety-net
- Relief from natural disasters
- Structural adjustment assistance
  - producer retirement
  - resource retirement
  - investment aids
- Environmental programmes
- Regional assistance programmes



# General Services (para 2 of Annex 2)

- Budgetary expenditure in offering services to the agriculture sector: research, training, extension and advisory, infrastructure services etc.
  - Provision of public goods
  - Towards a more enabling policy environment for agriculture
- **No direct payment** to producers
- Numerous possibility of 'general services' support measures
  - Some examples of general services are listed in the AoA
  - But the list is not exhaustive
  - Bali Ministerial Decision (**WT/MIN(13)/37**)
    - Support related to soil conservation and resource management, drought management, issuance of property titles etc.

- Numerous possibilities for governmental support and intervention (some explicitly listed in para. 2):
  - Agricultural research
  - Training to farmers
  - Pest and disease control
  - Extension and advisory
  - Marketing and promotion
  - Agricultural infrastructure
    - Physical infrastructure (rural roads, silos, rural markets etc.)
    - Institutional infrastructure (farm cooperatives, land registry systems etc.)
- For infrastructural services (physical infrastructure like water supply, drainage, storage etc.): support for capital works only (creation of public infrastructure) and **no subsidies for inputs or operating cost**

# Public stockholding for food security (Para 3 of Annex 2)

- Programmes inspired by food security considerations
- Expenditure in governmental intervention to buy and store food commodities (under market conditions):
  - No element of **price support** during acquisition of food
  - Pre-determined food security stock targets (intervention not driven by production fluctuations)
- No need for the government to necessarily engage in purchasing/storing food:
  - Private sector may be roped in and government paying the cost of storage or distribution of food

## Domestic Food Aid (Para 4)

- Budgetary expenditure towards the provision of domestic food aid to needy population
- Food purchases by relevant agencies at current market prices;
- Developing countries (**S&D**): food stocks could be used to run domestic food aid programmes

# Direct Payments to Producers

- Pure income support (paragraphs 5-6 of Annex 2):
  - Payment amount need to be delinked/decoupled from production parameters (e.g. production, prices, land area)
  - May be established based on historical/base (rather than current) data on land area of eligible crops
  - Will require creation and maintenance of “base” data of eligible crops/producers
- Direct payments based on specific policy objectives (paragraphs 7 to 13 of Annex 2):
  - Payments against Insurance programmes (§7)
  - Support to compensate losses from natural disasters (§8)
  - Structural adjustment (e.g. Investment aid to disadvantaged farmers) (§9-11)
  - Payments to facilitate environmental objectives (§12)
  - Support to farmers in disadvantaged regions (§13)

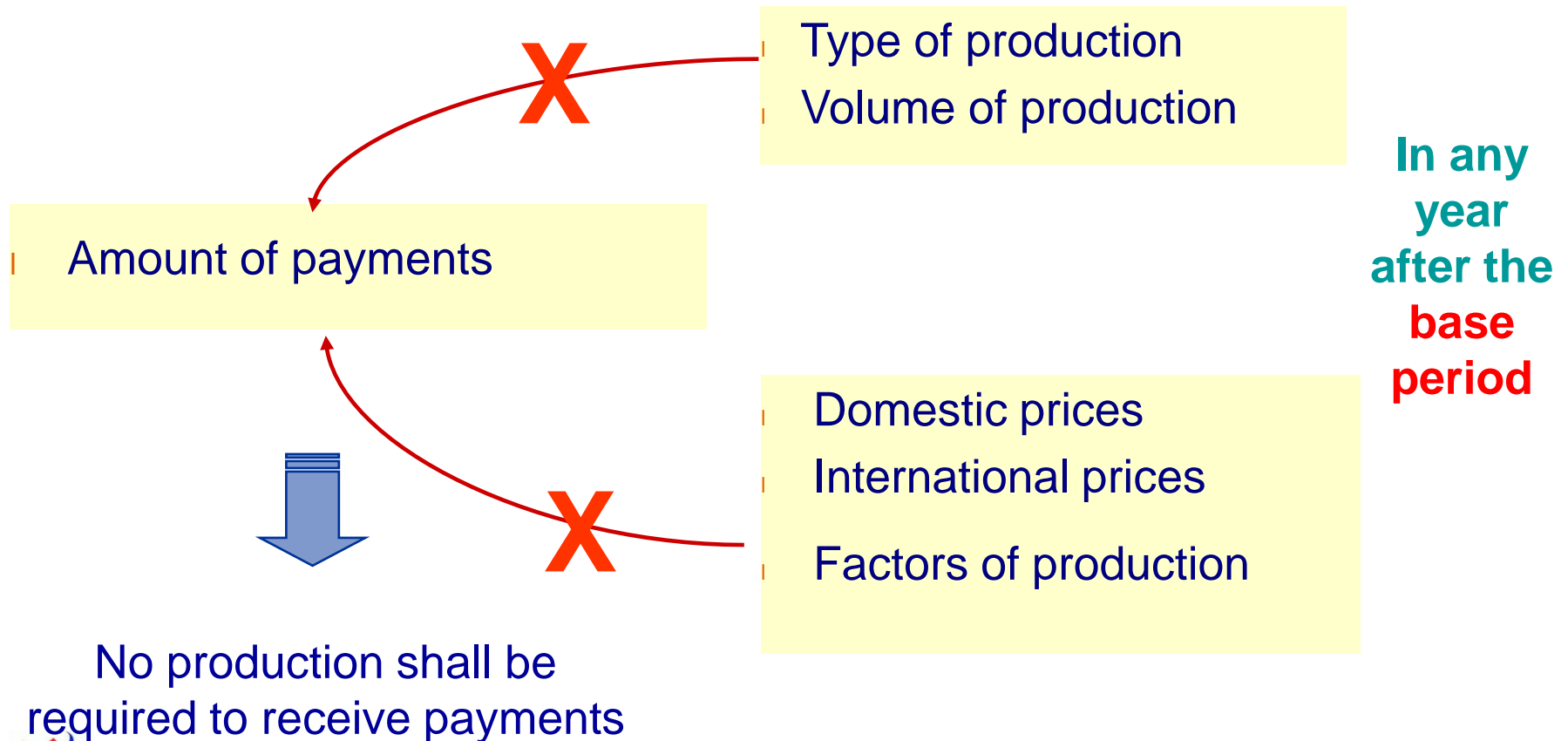
# **“Decoupled” income support**

(paragraph 6 of Annex 2)

- Direct payments to farmers to support their income
- “Decoupling” criteria to ensure that payments doesn’t affect producer expectations and their current production decisions
- Payment amounts not to depend on current production parameters (**production, prices or factors of production**)
- No production shall be required to receive payments

# “Decoupled” income support (para 6 of Annex 2)

Eligibility – clearly-defined criteria ...in a defined and fixed base period



# Income Insurance Programmes

## (paragraph 7 of Annex 2)

- One of the direct payment categories within **Green Box**
- For seeking Green Box classification, the following criteria needs to be met:
  - **No product-specificity**: 'whole farm' insurance, payments to depend solely on **income** and not relate to type or volume of production or prices or production factors
  - Payments should trigger only when **income loss** exceeds **30%**
  - **Indemnities** should be less than **70%** of the income loss
- If the above conditions are not met, the programme would need to be reported under the non-exempt **Amber Box** category.



# Agricultural Insurance Programmes

- ❖ Agricultural Insurance: transfer of risk (of loss) from farmers to insurer against the payment of a premium
- ❖ Conventional Insurance products at the level of individual farmers:
  - ❖ Based on loss of 'yield' (production-based)
  - ❖ Based in loss/drop in prices (price-based)
  - ❖ Based on loss of 'revenue' ('yield & price')
    - ❖ For Individual crops
    - ❖ For the 'whole farm'
- ❖ Designing insurance products, numerous challenges:
  - ❖ **Often highly costly products** (large number of farmers; data challenges especially on individual farmer basis, difficulty in diversification of risks (e.g. multiple claims from a catastrophe), **(governmental subsidies!)**)

# Agricultural Insurance and WTO rules

## ❖ Green Box provides for the exemption of support for Agricultural Insurance:

- ❖ Paragraph 7 of Annex 2: Revenue-based insurance, indemnities to trigger upon a minimum loss of 30%

### Various Insurance products and Green Box paragraph 7 criteria

1. Insurance based on losses of individual farmers		✓
1(i) Loss of 'yield'		✗
1(ii) Loss of 'price'		✗
1(iii) Loss of 'revenue' or 'income'	On the basis of individual crops	✗
	On a 'whole farm basis'	✓
2. Insurance based on regional or weather-based index		✗

## ❖ Users of Green Box paragraph 7

Australia (2016)	AUD million	285
Canada (2015)	CAD million	279
EU(2017)	€ million	190
Russian Federation (2014)	US\$ million	173



# Payments for relief from natural disasters

(paragraph 8 of Annex 2)

- Governments can compensate the producers for losses caused by natural disasters through:
  - Compensation payments directly to affected producers, or
  - Government-supported crop **insurance** schemes
  
- Payments to trigger when production loss exceeds **30%**
  
- **Indemnities** payments following a disaster should not exceed total losses (e.g. loss of income, livestock, land or production factors)
  
- Payments may, for example, include towards the veterinary treatment of animals affected by disasters or compensation for loss of animals

# Structural Adjustment Assistance

(paragraphs 9-11)

## ➤ Possibilities to support producers towards **structural adjustment**:

- Not adhoc or stabilization-type of policies
- To address deeper, structural constraints faced by producers
- Usually with medium to long-term perspectives

## ➤ Three distinct possibilities under the Green Box:

- **Producer retirement** (§9 Annex 2): Support to **producers** to facilitate them **to retire** from agriculture (or to move to other activities)
- **Resource retirement** (§10 Annex 2) : Enabling land and other **productive resources** to move away from agriculture
- **Investment aids** (§11 Annex 2) : Offering assistance in the form of **investment aids** towards physical and financial restructuring of producers facing **structural disadvantages**.

# Environmental Payment programmes

(paragraph 12 of Annex 2)

- **Direct payments** may be provided to producers for their participation in government's environmental programmes
  - This could relate to production methods or use of inputs
  - Water conservation practices etc.
- Payments shall be limited to extra costs or loss of income incurred by producers in complying with the government programme
- The support category deals with the 'direct payments' to producers. If government incur expenditure in buying capital instruments etc for environmental purposes (say for waste water treatment), that will be “**general services**” under paragraph 2 of Green Box

# Regional assistance programmes

(paragraph 13 of Annex 2)

- **Direct payments** to producers in 'disadvantaged' regions:
  - Region is recognized using neutral and objective criteria
- Payments to be made available to all producers in the disadvantaged region
- Payments to be limited to extra cost of production in the disadvantaged region
- Payments NOT to depend on volume or type of production or prices in a given year
- Payment may depend on factors of production (say land area) but payment shouldn't increase after a threshold factor level

# Designing a Green Box Support Measure

- Need to ensure that the support is NOT in the form of raising effective price of products:
  - Avoiding minimum/target price based support systems
- What are the possible policy objectives?
  - Governmental expenditure towards creating a more enabling policy environment without making direct payment to producers:  
**General Services**
  - **Food security:** Stocking of food and facilitating consumers' access to food
  - **Direct payments** to producers, multiple possibilities
    - from pure income support to direct support based on numerous specific policy considerations

## Green Box

- Measures can be used freely, as long as they meet Annex 2 criteria
- New programmes can be introduced and old ones can be modified (**notification obligation**)
- Continuous obligation to ensure that programmes are and remain Green



## Article 6.2 Development Programme

Development programmes exempt from reduction:  
only for developing countries

- **investment subsidies** generally available to agriculture
- **input subsidies** generally available to low-income or resource poor producers
- **Diversification subsidies** to encourage diversification from growing illicit narcotic crops

# Input vs investment subsidies

- **Input subsidies:** govt reducing the cost of variable inputs e.g. subsidy for feed, seed, fertilizer, water, electricity etc.
  - Tax rebates, interest concessions or budgetary transfers to input providers.
- **Investment subsidies :** govt subsidies for fixed asset investments
  - Spending on capital goods; Govt may reduce their acquisition price for producers (i.e. assets here are privately owned)
  - What if capital assets are publicly owned? Support towards public infrastructure under '**general services**' (not including subsidies for inputs or operating costs)

# Blue Box

## (Article 6.5 of AoA)

- Direct payments under **production-limiting** programme
  - production quota, set-aside a part of land, levies etc.
- Support conditional on the recipient farmers being subject to production limitation
- Payment to be based on past/historical area and production
- Not fully decoupled:
  - payment may, for example, depend on current prices,
- Recourse by very limited number of Members (EU, Iceland, Japan, Norway, UK, USA and China): not a politically easy choice

# **Q&A and classification exercise**

**THANK YOU**

