

ECN 330 – OUTLINE OF LECTURE SESSIONS – MODULE 3

Sessions 6-8. WTO Rules/Commitments on TIGs: Analyzing Subsidies and Domestic Support

1. Subsidies and Domestic Support (DS)

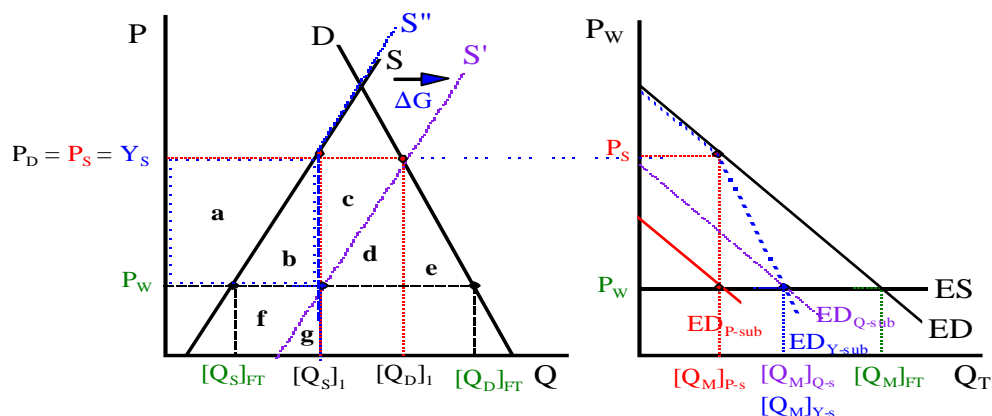
- 1.1. Multilateral treatment of subsidies prior to UR-GATT
 - 1.1.1 No formal operational definition of subsidy
 - 1.1.2 Development of subsidy rules
- 1.2. Subsidies under the GATT structure within the WTO: General obligations and disciplines
 - 1.2.1 WTO Agreements on Subsidies and Countervailing Measures and on Agriculture

Trade in goods (TIG)	Services	Intellectual Property	Trade disputes
GATT	GATS	TRIPS	DSM
WTO Agreement on Subsidies and Countervailing Measures; WTO Agreement on Agriculture; and annexes	Annexes		
Schedule of commitments for agriculture: bound rates of domestic support and export subsidies	Schedule of commitments		

- 1.2.2 Definition of a subsidy
 - [1] Legal aspects of the definition: three elements
 - [2] Specificity condition
- 1.2.3 Types of support by objective
 - [1] Domestic programs: support of price, output, input, income or marketing functions
 - [2] Export subsidies: trade-related objective
- 1.2.4 Treatment of subsidies by type of good: industrial and agriculture
 - [1] Industrial good: right light (prohibited) subsidy and green-light subsidy (allowable)
 - [2] Agricultural good: green, blue and amber (yellow) box support
 - [a] Categories based on degree of trade distortion: green least – amber most distorting
 - [b] Bound rates and reduction commitments
- 1.2.5 Overview of the basic WTO principles in regards to subsidies
- 1.3 Subsidies and dispute settlement (policy responses to a subsidy) – module 4
 - 1.3.1 Adverse effects: injury, serious prejudice, and nullification of benefits
 - 1.3.2 Subsidies and countervailing measures (CVM)
- 1.4 EU treatment of subsidies: contrast with multilateral system
 - 1.4.1 State aid
 - 1.4.2 Disallowable support, allowable support and possibly allowable support

2. Economics of Subsidies and Domestic Support

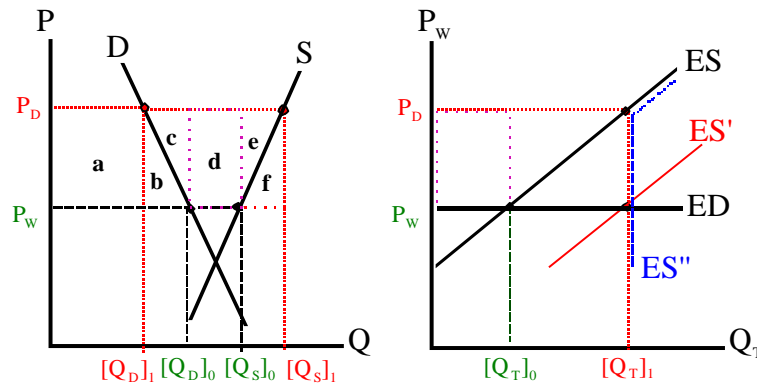
- 2.1 Tax-support equivalence of a MA restriction: economic, trade and welfare effects
- 2.2 Import subsidy equivalence: price, production, income support for given level of output/income
 - 2.2.1 Price support at the same level of MA support/protection
 - 2.2.2 Production support at the same level of output
 - 2.2.3 Income support at the same level of output and income support at level of price support



2.3 Export subsidy and cross-subsidization

2.3.1 Types and objectives of export subsidies

- [1] Per unit export subsidy (ES') or incentives for a targeted volume of exports (ES'')
- [2] Cross-subsidization from domestic to foreign consumers, i.e., $P_D \neq P_w$
- [3] Other export measures: special export zones, export credit guarantees, promotion



2.3.2 Comment on the economics and politics of ES

- [1] Spillovers and beneficiaries
- [2] Additionality and graduation conditions
- [3] Interplay with other measures - net trade reversals – module 3 assignment

3. Agricultural Subsidies: Country-Specific DS and ES Commitments

3.1 Background into agricultural policy/programs pre-UR-GATT

3.2 DS rules and commitments: "green box"

3.2.1 Green box economic rationale and examples

3.2.2 Commitments in "agricultural schedules": selected countries

3.3 DS rules and commitments: "blue box"

3.3.1 Blue box economic rationale and examples

3.3.2 Commitments in "agricultural schedules": selected countries

3.4 DS rules and commitments: "amber box"

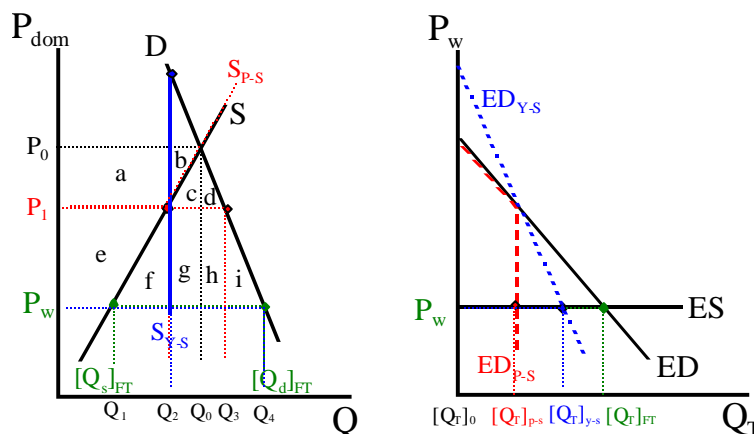
3.4.1 Amber box economic rationale and examples

3.4.2 Types of amber box measures: product-specific, non-product-specific, de minimis

3.4.3 Background on and evolution of agricultural programs in US and EU

3.4.4 Commitments in "agricultural schedules": selected countries

3.5 Amber box ($S_{P,S}$) and blue box ($S_{Y,S}$) non-equivalence for a given level of support



3.6 Country-specific ES commitments

3.6.1 Background: no disciplines or enforcement; subsidy war of 980s

3.6.2 Countries negotiating the right to use ES

3.6.3 Usage by country and product category

3.6.4 ES outlays and reduction commitments (volume, value) and usage: US, EU, Norway

3.7 Aggregate Measure of Support (AMS)

3.7.1 Calculation of bound AMS and current total AMS (total amber box less de minimis)

3.7.2 Reduction commitments in "agricultural schedules": selected countries

4. Incompatibility/incoherence between WTO rules and economic theory

- 4.1 WTO's measurement of support is not theoretically consistent
- 4.2 WTO treats market access as if separate from domestic support
- 4.3 Methodological inconsistency in computation of market price support
- 4.4 Right to legitimate fiscal policy can be limited by incoherent WTO rules on use of a subsidy
- 4.5 Logic of categorization of subsidies based on trade effect is inconsistent with theory
- 4.6 Measuring support: Theory (OECD's PSE) vs WTO in practice (AMS) – measure production distortion rather than trade distortion

5. Post UR-GATT and Doha Proposals for DS, ES

- 5.1 State of DS and ES by large countries, 2001-07: US and EU ag policies
- 5.2 Doha proposals for support commitments
 - 5.2.1 Overall trade-distorting support (OTDS), AMS and BB ceilings and reduction commit
 - 5.2.2 Complying with cuts in AMS: Case of Norway
 - 5.2.3 Complying with Doha blue box ceiling: Case of Norway
 - 5.2.4 US compliance with Doha AMS ceiling
 - 5.2.5 EU compliance with Doha AMS ceiling
- 5.3 Bali elimination of ES
 - 5.3.1 Usage of ES, % by volume
 - 5.3.2 Negotiated ES volume vs TRQ volume: Norway's trade reversals

6. Synthesis: Policy Space to Respond to Risk and Uncertainty

- 6.1 Risk and uncertainty imply market failure
 - 6.1.1 Type of risks in agriculture
 - 6.1.2 Implication of risk and uncertainty
- 6.2 Appropriate responses to risk
 - 6.2.1 Policy, private initiatives or public institutional responses
 - 6.2.2 Policy intervention and ambiguous results: moral hazard and adverse selection
 - 6.2.3 Policy response and interplay with private behavior
 - Do WTO rules and commitments limit LDCs' policy space?
- 6.3 Case of market or price instability on the domestic market – market risks, food insecurity
 - 6.3.1 Stabilization through buffer stocks
 - 6.3.2 Limiting market access to stability domestic market

6. Synthesis: Policy Space to Respond to Risk and Uncertainty

Type of risk	Risk to whom or risk of what	Risk Management Responses		
		DS programs and/or support through SOEs	MA restrictions, use of ES or support of STEs	Private sector initiatives or institutions
1. Destruction or deterioration of physical product	Risk to farmer: loss in yield or poor production	Disaster relief; subsidized crop insurance, input subsidy	Trade policy is an inappropriate response	Private crop insurance; yield futures contracts; input suppliers
	Handlers cannot move sufficient volume or experience loss			Private insurance: transit or storage insurance
2. Farm income or world ag prices are too low	Discourages farmer/exporter from assuming risk	Price floor, income support with storage subsidy	Export subsidy or losses through a STE	Forward contracting or futures market; marketing board
3. Food price increase in poor net food importing nation	Food inaccessible to consumers or too expensive for handler/user	Price ceiling; consumption subsidy; buffer stock/strategic reserves	Import subsidy to private firm or STE; export tax or restriction	Forward contracting or futures marketing; marketing board
4. Price and/or income instability upward or downward	Macroeconomic instability from unstable development	Stabilize price or income through price/income support; buffer stock; strategic reserve program	Tariff, import controls as a means to support price; ES; export credit or promotion program; state commodity agreements or STE	Price discovery system with merchandising strategies that include forward/futures contracts; cooperatives, commodity associations
	Ag sector diversifies rather than specializes			
	Failure in ag credit markets	State rural credit or credit subsidy		Private ag lending firms; micro-credit
5. Production instability or market instability (Multifunctional concerns)	Uncertainty discourages handlers	Storage subsidy or state-owned reserves; buffer stocks or strategic reserves	MA restrictions to protect production levels	Market cannot supply enough public goods without regulation or subsidy intervention
	Food insecurity			
	Market failure: insufficient public good provided	Green box measures to target landscape, environment, rural viability, etc		

Review Questions: Module 3

Sections 1-2. How are subsidies covered under the Agreements and rules of the WTO? How do the WTO principles apply in the context of subsidies? What is the WTO definition of a subsidy and what are the meanings of the various categories of subsidies? What types of subsidies are there? What are the objectives of various subsidies? How does the WTO categorize subsidies? What types of subsidies are actionable and which are non-actionable? What are the consequences of a subsidy by one member country on other member countries? What does specificity mean in the context of a subsidy? What are the economic and trade implications of different types of subsidies: product-specific supports (e.g., production subsidy, price support and income support), non-product-specific support, export subsidies, etc? How do the categories of subsidies apply in the context of industrial goods? When is subsidy a more appropriate instrument over a trade policy measure (i.e., for which policy objectives)? What are incompatibilities or inconsistencies between the WTO treatment of subsidies (in practice) and economic theory's view of subsidies?

Sections 3-5. How did the WTO Agreement on Agriculture reform the use of agricultural programs and policies? Did these rules apply discipline to international agricultural trade? What is the meaning behind the categories of green, amber (yellow) and blue box subsidies? Why does this distinction make sense from an economist's perspective (i.e., the trade and welfare implications)? Why do these distinctions not make sense from an economic perspective? How do these categories relate to the basic principles of the WTO? What commitments did member countries have to take on agricultural subsidies? For a given amount of support to producers, how does an amber box measure differ from a blue box measure in trade and welfare terms? How do domestic support measures relate to market access restrictions and vice-versa? What is the meaning of least-trade distorting in the context of a subsidy or domestic support? What is a good subsidy (bad subsidy) from an economic perspective? What is the aggregate measure of support and how is it calculated? How serious have member states taken their agricultural support commitments? Has the UR-GATT really introduced disciplines and reform/liberalize national and international agricultural markets? Would the Doha round be an improvement over what the UR-GATT started? What is the definition of an export subsidy and what are the economic implications of an export subsidy? What commitments did member countries take on export subsidies? How does an export subsidy relate to domestic support and market access restrictions? What are other export competition issues are being debated at the WTO?

Section 6. How do risk and uncertainty affect welfare and trade? How is agricultural multifunctional? Should issues involving the agricultural sector be considered non-trade concerns? What is the economic implication of doing so? Why does the presence of risk or uncertainty in any type of market (agricultural or industrial product markets) justify policy or regulatory intervention? Do commitments on agriculture limit the policy space governments have to respond to social concerns involving agriculture? Given some specific type of risk to the agricultural sector, which economic actor is affected and what are appropriate policy alternatives to deal with the risk (e.g., a subsidy, market access restriction or some other institutional response)? If the risk is in an agriculture market and domestic support is an alternative policy response, then which type of domestic support can effectively deal with the risk (e.g., green, amber or blue box support)?