

DOMESTIC SUPPORT

Progressive elimination of trade-distorting domestic support in dairy will be achieved through controlling misuse of the green box and product specific caps

The Global Dairy Alliance Position

The overall objective of the GDA is the progressive elimination of all trade-distorting domestic subsidies in developed countries and effective control of misuse of the green box.

For trade-distorting domestic support the GDA position is:

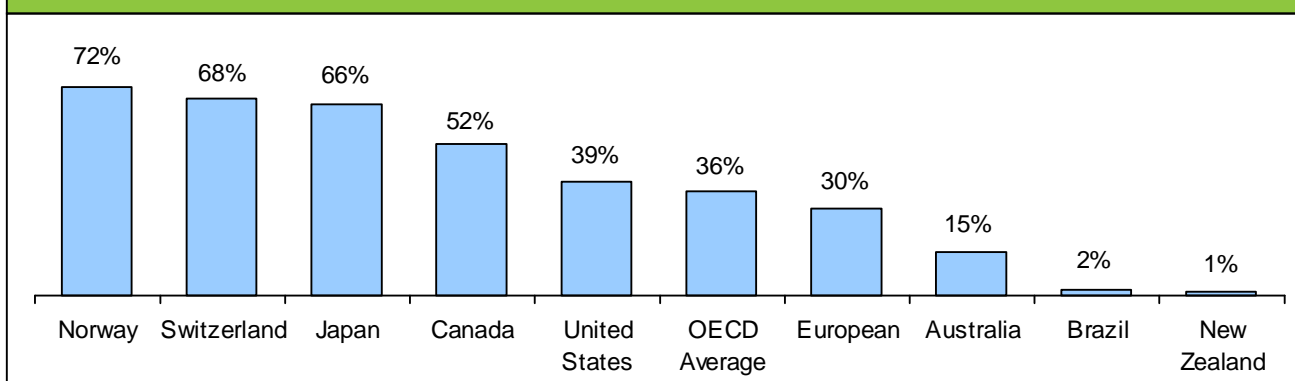
- The Framework Agreement has significant flaws particularly on product specific support. It requires improvement to meet the Doha mandate for “substantial reductions in trade-distorting support”
- Since current entitlements substantially exceed usage, reductions should be from current levels and not just entitlements as well as leading to real cuts in support
- The reduction formula should be truly harmonising so that allowable levels of support are the same for all developed countries. This should be based on a percentage of the value of agriculture production i.e. the largest users make the biggest cuts
- A cap and progressive reduction of all support based not only on AMS to prevent box shifting and misuse of de minimis provisions.

What's the Problem?

Domestic agricultural subsidies do affect efficient producers and exporters such as the industries represented in the GDA. These subsidies continue to subsidise unprofitable producers, insulating them from efficient world markets – to the detriment of their own economies. Thus production is maintained where there otherwise would not be any in the absence of support. This leads to reduced imports and increased exports which, in turn, unnecessarily depress world market prices.

The proportion of milk producer income derived from government regulation, as measured by the OECD's Producer Support Estimate (PSE), remains high relative to PSEs for other agricultural products. The latest edition of 'Agricultural Policies in OECD Countries: Monitoring and Evaluation', indicates an average PSE for milk in all OECD countries of 36%. This is the fourth highest of all the agricultural products evaluated.

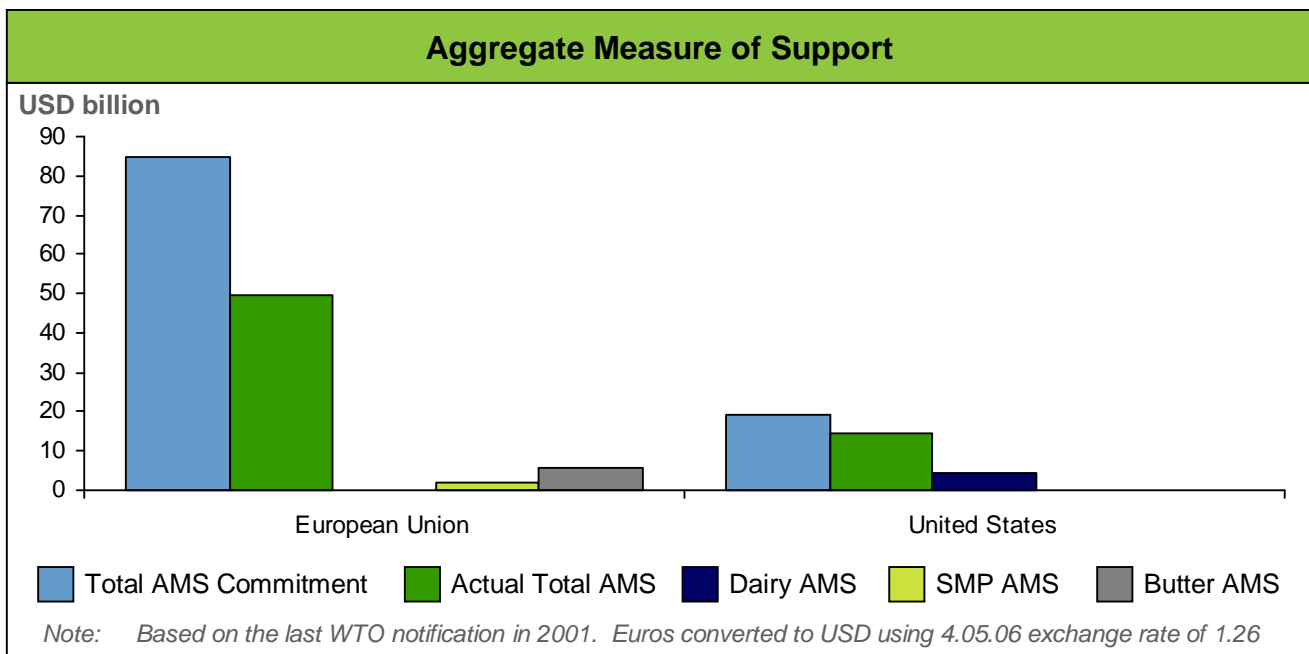
OECD Producer Support Estimate for Milk in 2004



It is generally accepted that the way trade distorting domestic support is calculated under the WTO Agreement on Agriculture - the Aggregate Measure of Support (AMS) - is flawed. This is primarily because of the way price supports are calculated with complete disregard for actual market conditions.

Another problem is that there is inconsistency amongst members on the definitions of product groups making comparisons of 'product specific' support problematic.

Very generous AMS commitments negotiated during the Uruguay Round have meant that domestic support entitlements have generally been underutilised. This means that for some countries even large cuts in 'entitlements' will not affect actual usage of these measures.



What's the solution?

Set an ambitious reduction target

In line with the Doha Mandate requiring reductions in domestic support to be substantial, the GDA believes domestic support on a product specific basis (including AMS, blue box and de minimis) should not exceed 10% of the value of production.

The GDA believes that, for reductions in overall domestic support to be effective, they must be on a product specific basis in all respects – AMS, Blue Box and de-minimis. At present, there are no product specific caps for total trade distorting domestic support. While the Framework Text provides for caps on product specific AMS, it has no provisions for product specific caps for Blue Box or de-minimis measures. This must be rectified.

Reductions must also be made from existing usage, not scheduled entitlements, in order to make a real impact.

Compare like with like

The GDA believes it is important that the target level be harmonised and based on a percentage of the value of production.

Measuring trade distorting domestic subsidies can only be done on an equal basis as a percentage of value of agricultural production. Different currencies, for example, do not allow for direct and fair comparison.

The concept of percent of value of production is not new to domestic support measures – de minimis is measured as 5% of the value of agricultural production.

Stop subsidy shifting

The current Framework contains loopholes that will allow WTO members to reclassify subsidies in different 'boxes' (e.g. from Amber to Blue) so as to avoid having to cut them. This is also known as 'box shifting'.

It is possible, for example, to increase trade distorting domestic support on a product specific basis if AMS support measures are reclassified as Blue Box measures. This is still possible even with an overall cut on all of these measures.

The only way to stop this is to cap and reduce all forms of trade distorting domestic support (AMS, Blue box and de minimis) on product specific basis.