

## AGRICULTURAL SUBSIDIES IN THE WTO GREEN BOX

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 nonetheless suggests that green box payments can affect production and trade, harm farmers in developing countries and cause environmental damage. By bringing together new research and critical thinking, this book examines the relationship between green box subsidies and the achievement of sustainable development goals, and explores options for future reform.

RICARDO MELÉNDEZ-ORTIZ (co-founder and Chief Executive), CHRISTOPHE BELLMANN (Programmes Director) and JONATHAN HEPBURN (Programme Officer for Agriculture) are based at the International Centre for Trade and Sustainable Development (ICTSD)

# AGRICULTURAL SUBSIDIES IN THE WTO GREEN BOX

Ensuring Coherence with Sustainable  
Development Goals

Edited by

RICARDO MELÉNDEZ-ORTIZ

CHRISTOPHE BELLMANN

JONATHAN HEPBURN



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Ricardo Meléndez-Ortiz, Christophe Bellmann, Jonathan Hepburn  
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Shaftesbury Road, Cambridge CB2 8EA, United Kingdom  
One Liberty Plaza, 20th Floor, New York, NY 10006, USA  
477 Williamstown Road, Port Melbourne, VIC 3207, Australia  
314–321, 3rd Floor, Plot 3, Splendor Forum, Jasola District Centre, New Delhi – 110025, India  
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TABLE OF CONTENTS

<i>List of contributors</i>	<i>page</i> viii
<i>Preface</i>	xvii
<i>Acknowledgements</i>	xxiii
<i>List of abbreviations</i>	xxv
1 Overview	1
CHRISTOPHE BELLMANN AND JONATHAN HEPBURN	
PART I The recent evolution of agricultural trade policy reform	17
2 The historical context of the green box	19
NÉSTOR STANCANELLI	
3 Doha Round negotiations on the green box and beyond	36
JONATHAN HEPBURN AND CHRISTOPHE BELLMANN	
4 The reform of the EU's Common Agricultural Policy	70
ALAN SWINBANK	
5 Farm policy reform in the United States: past progress and future direction	86
DAVID ORDEN	
6 Agricultural trade policy reform in Japan	121
MASAYOSHI HONMA	
PART II The focus, extent and economic impact of green box subsidies	135
7 An analysis of EU, US and Japanese green box spending	137
JESÚS ANTÓN	
8 Green box subsidies and trade-distorting support: is there a cumulative impact?	239
CARLOS GALPERÍN AND IVANA DOPORTO MIGUEZ	

vi	TABLE OF CONTENTS	
9	The distributional structure of green box subsidies in the European Union and France	258
	VINCENT CHATELLIER	
10	The distributional structure of US green box subsidies	304
	HARRY DE GORTER	
	<b>PART III Green box subsidies and developing countries</b>	327
11	Agricultural subsidies in the WTO green box: opportunities and challenges for developing countries	329
	ANDRÉ NASSAR, MARIA ELBA RODRIGUEZ-ALCALÁ, CINTHIA COSTA AND SAULO NOGUEIRA	
12	Use of green box measures by developing countries: an assessment	369
	BISWAJIT DHAR	
13	A Chinese perspective on the green box	399
	JIANMIN XIE	
14	African countries and the green box	412
	ABENA ODURO	
	<b>PART IV Green box subsidies and the environment</b>	425
15	The environmental impact of green box subsidies: exploring the linkages	427
	RONALD STEENBLIK AND CHARLES TSAI	
16	The environmental impact of EU green box subsidies	468
	ARIEL BRUNNER AND HARRY HUYTON	
17	The environmental impact of US green box subsidies	496
	JANE EARLEY	
18	Biofuels subsidies and the green box	530
	TIMOTHY JOSLING AND DAVID BLANDFORD	
	<b>PART V Looking forward: how can change take place?</b>	569
19	Improving monitoring and surveillance of green box subsidies	571
	ANDREA CERDA	

	TABLE OF CONTENTS	vii
20	EU subsidy reform: options for achieving change TERESA CAVERO	583
21	Subsidy reform in the US context: deviating from decoupling ANN TUTWILER	604
22	Agricultural trade policy reform in Japan: options for achieving change KAZUHITO YAMASHITA	618
23	Towards a green box subsidy regime that promotes sustainable development: strategies for achieving change PEDRO DE CAMARGO NETO AND RENATO HENZ	633
	<i>Appendix: Text of Annex 2 of the WTO Agreement on Agriculture (“the green box”)</i>	647
	<i>Index</i>	654

## LIST OF CONTRIBUTORS

JESÚS ANTÓN is a Senior Economist with the Organization for Economic Cooperation and Development (OECD), where he has worked since 1998. From 2005 to 2007 he was seconded to the Spanish Ministry of Agriculture, Fisheries and Food, where he served as advisor to the Secretary General of Agriculture and Food. He has published extensively on agricultural trade policy and economic issues, and in particular on the decoupling of agricultural support from production.

CHRISTOPHE BELLMANN is the Programmes Director at the International Centre for Trade and Sustainable Development (ICTSD). He holds a Masters in International Relations from the Graduate Institute for International Studies, Geneva. Before joining ICTSD, Mr. Bellmann worked with the UN Economic Commission for Latin America and the Caribbean (ECLAC) and with the Swiss Coalition of Development Organizations.

DAVID BLANDFORD is a professor, and former department head, in the Department of Agricultural Economics and Rural Sociology and professor in the School of International Affairs at Penn State University. He was formerly a division director at the OECD in Paris and a professor at Cornell University. He teaches courses in agribusiness at Penn State and conducts research into food and agricultural policies, including their environmental, trade and rural development aspects.

ARIEL BRUNNER is EU Agriculture Policy officer with the environmental NGO BirdLife International. His main work is in advocating CAP reform and better implementation of the EU rural development policy. Before moving to Brussels he was following the implementation of EU nature conservation legislation in Italy for LIPU, the local BirdLife partner. As part of this work he has been involved in debates around the 2003 mid-term reform and national implementation of cross compliance and rural development as well as in designation of the country's Special Protection Areas (Natura 2000) network.

## LIST OF CONTRIBUTORS

ix

TERESA CAVERO is a senior policy researcher with Oxfam International, where she has worked since 2004. She is responsible for Intermón Oxfam's research on Economic Justice (trade, agriculture and climate change), the strategic planning of research, supervision of implementation and financing, and development of concrete research pieces.

ANDREA CERDA is a senior official in the *Oficina de Estudios y Políticas Agrarias* (ODEPA), a subordinate agency of the Chilean Ministry of Agriculture, where she has worked since 1996. Her field of expertise is related to international trade agreements, international trade rules, the World Trade Organization (WTO) and agricultural trade. In March 2008, she was appointed Deputy Director for International Affairs at ODEPA, in which capacity she has participated in multilateral and bilateral trade negotiations on behalf of the Ministry of Agriculture; represented the interests of the agricultural sector and advised the government on negotiating options; coordinated the participation of the Ministry of Agriculture in international organizations and fora such as the FAO, IICA, APEC and OECD; and supervised the production of statistics, analysis and publications relating to trade agreements and agricultural trade. She has also worked as a consultant for the FAO and as a university lecturer in international economics.

VINCENT CHATELLIER is a research engineer at the French Institute for Agricultural Research (INRA). His research interests include the consequences of the successive reforms of the EU's Common Agricultural Policy, agricultural subsidies and the way in which these are allocated to farmers, and analysis of the diverse forms of French and European agricultural production. He has published widely on CAP reform, subsidies and agricultural policies.

CINTHIA C. COSTA received her Ph.D. in Applied Economics from the University of São Paulo. Currently she is a professor at the University of São Carlos, Sorocaba campus (UFSCar) in São Paulo, Brazil. Until January 2008 she worked as a senior researcher at the Institute for International Trade Negotiations (ICONE). As part of ICONE's team she worked on several projects with the World Bank, OECD and IDB. Her main field of study includes quantitative analysis focusing on Brazil's international trade negotiations, particularly the WTO.

PEDRO DE CAMARGO NETO previously served as Secretary of Production and Trade with the Brazilian Ministry of Agriculture. During his time in office, he was responsible for agricultural negotiations in the WTO, FTAA, Mercosur



and other bilateral agreements from 2000 to 2002. He is currently President of ABIPECS, the Brazilian Association of Pork Producers and Exporters, and has also served as President of the Sociedade Rural Brasileira, Brazil.

HARRY DE GORTER teaches and conducts research on the political economy and applied welfare economics of agricultural trade policy at Cornell University. Much of his recent work has been on agriculture and the WTO negotiations, especially the impact on developing countries. Prior to Cornell, he worked for the International Trade Policy Division of the Canadian Government. He has long been actively involved in advising many governments and organizations on issues related to agriculture trade policy, including the EU, FAO, G-20, IMF, OECD, UNCTAD, WTO and the World Bank.

BISWAJIT DHAR is a professor and head of the Center for WTO Studies at the Indian Institute of Foreign Trade. Dhar received his Masters degree and Ph.D. in Economics from Jawaharlal Nehru University, New Delhi. He has served as Senior Fellow at the Research and Information System for the Non-aligned and Other Developing Countries, New Delhi; and as a Senior Consultant to the Planning Commission of the Government of India, June to August 1997. He has also worked as a lecturer at the Institute for Studies in Industrial Development, New Delhi, and in the Corporate Studies Group of the Indian Institute of Public Administration, New Delhi. Dr. Dhar has published widely on a range of international trade and development issues.

IVANA DOPORTO MIGUEZ is an economist at the *Centro de Economía Internacional* (CEI), Buenos Aires, Argentina, where she has worked since 2005. Her areas of specialization are agricultural economy and multilateral agricultural trade within the framework of the Doha Round. She was awarded a Bachelor of Science degree in Economics from the University of Belgrano, and finished a Postgraduate course in Economics at the Torcuato Di Tella University. She is currently attending a Master of Science in Finance at the CEMA University.

JANE EARLEY currently works for the Earley and White Consulting Group in Alexandria, USA. Previously, she served as Director and Senior Manager of Agriculture Markets work for the World Wildlife Fund, where she focused on international agriculture and trade policy-oriented work on standards and certification of commodities ranging from biofuels to sugarcane. Ms. Earley is a former trade negotiator in the Office of the US Trade Representative, with wide experience in environmental and trade issues affecting emerging markets and developing economies.

## LIST OF CONTRIBUTORS

xi

CARLOS GALPERÍN is a senior economist at the CEI, Buenos Aires, Argentina, where he has worked since 1998. His areas of specialization are trade policy, economic impact of trade agreements, agricultural trade and environmental economics. He is also a researcher at the University of Belgrano, and lectures on undergraduate and graduate courses at the University of Lomas de Zamora, CAECE University, National Technological University and the University of Buenos Aires. Galperín has a Bachelor of Science degree in Economics from the University of Buenos Aires, and a Master of Science degree in Economics and Business Administration from the *Escuela Superior de Economía y Administración de Empresas* (ESEADE), Argentina.

RENATO ANTONIO HENZ works in the Agricultural Policy Secretariat of the Brazilian Ministry of Agriculture (SPA/MAPA). From 1995 to 2007 he served as an advisor on the agricultural trade component of negotiations in the following international fora: WTO, MERCOSUL, bilateral free trade agreements and the FTAA. He was also the Ministry of Agriculture representative in the Brazil Trade Defense Technical Group (GTDC) and in the MERCOSUL Trade Defense and Safeguards Committee (CDCS). He currently works as General Coordinator of Studies and Agricultural Information at the Secretariat.

JONATHAN HEPBURN is Programme Officer for Agriculture at the International Centre for Trade and Sustainable Development (ICTSD). Before joining ICTSD, he represented Oxfam International to the World Bank and IMF in Washington DC, and led Oxfam's global campaign on aid, debt and the Millennium Development Goals. Previously, he worked on trade, development and human rights issues with the Quaker UN Office, Geneva. He has written on various issues related to politics, rights and public policy, including on trade and development issues, development financing, intellectual property rules, and food, agriculture and biodiversity.

MASAYOSHI HONMA is a professor at the Department of Agricultural and Resources Economics, in the Graduate School of Agricultural and Life Sciences, at the University of Tokyo. He graduated from Obihiro University of Agriculture and Veterinary Medicine (BSc.), completed his Master's Degree at the Graduate School of Agriculture of the University of Tokyo, and completed his Doctorate at the Graduate School of Economics, Iowa State University, USA (Ph.D).

HARRY HUYTON is currently a policy advisor at the Environment Agency, the environmental protection agency for England and Wales, a member of

the Network of European Environmental Protection Agencies. He works on land use, climate change and renewable energy policy. Previously, he was agriculture policy officer for the RSPB, BirdLife International partner in the UK, where he led on CAP reform policy and was the Chair of the BirdLife International agriculture taskforce. He has an MSc. in Environmental Technology and a BSc. in Natural Sciences.

TIMOTHY JOSLING is Senior Fellow at the Freeman Spogli Institute for International Studies, Stanford University, and Professor Emeritus at Stanford's Food Research Institute. Professor Josling's work focuses on agricultural trade and food policy issues, as well as economic integration, with a special emphasis on the World Trade Organization, the EU Common Agricultural Policy and US-EU trade relations. Before taking his current positions at Stanford University, he has held positions at the London School of Economics and the University of Reading in the United Kingdom.

RICARDO MELÉNDEZ-ORTIZ is co-founder and Chief Executive of the International Centre for Trade and Sustainable Development (ICTSD). His previous experience encompasses responsibility in a diverse range of capacities at the interface of international trade and sustainable development. These include: General Director and co-founder, *Fundación Futuro Latinoamericano* (1994 to 1996, Quito); Chargé d'Affaires, Counsellor and First Secretary, Colombian Mission to the International Organizations in Geneva (1990 to 1994); Principal Advisor, Colombian Minister of Economic Development (1988 to 1990, Bogotá); Consultant to UNDTCP (1988, Bangkok); and Chief of Administration, Office of the President of Colombia (1987 to 1998, Bogotá). Mr Meléndez-Ortiz was a negotiator and delegate for Colombia in the Uruguay Round, the UNCED process, UNCTAD VIII, the Climate Change Convention, Intergovernmental Panel on Climate Change, the Montreal Protocol and bilateral trade and investment-related negotiation processes. He also acted as Spokesperson for the G-77 in several fora and served as Chair of the UN Standing Committees on Commodities and Trade Preferences.

ANDRÉ NASSAR is Director-General of the Institute for International Trade Negotiations (ICONE), Brazil. His main fields of work at ICONE have included multilateral, regional and bilateral negotiations; modeling of quantitative scenarios and supply and demand long-term projections of agricultural products; agricultural trade policies in developed and developing countries; and WTO disputes. He was a Member of the Brazilian Technical Group

## LIST OF CONTRIBUTORS

xiii

for the Doha Round agricultural negotiations coordinated by the Ministries of External Relations and Agriculture of the Brazilian Government, and a Collaborator for the G-20 as an expert in agricultural world markets, at the request of the Brazilian Government. He served as an expert in projections and international market analysis for sugar and ethanol of COPERSUCAR (2002 to 2003), and has conducted a number of consultancies and research projects with the Inter-American Development Bank, the World Bank, FAO, UNDP and other international organizations.

SAULO NOGUEIRA is a senior researcher and coordinator for emerging markets at the Institute for International Trade Negotiations (ICONE). He is the coordinator of the Asia Latin America Agri-Food Research Network (ALARN) project, and works on agricultural trade policies in developing countries, as well as the WTO negotiations. He was a researcher at the Institute for Trade and Commercial Diplomacy (ITCD) in Washington; a trade analyst and manager at the Brazilian Machinery Manufacturers Association (ABIMAQ); and did internships at various international organizations like the OAS (Organization of American States), the CTBTO (Comprehensive Nuclear Test-Ban-Treaty Organization), and UNIDO (United Nations Industrial Development Organization).

ABENA ODURO is a Senior Lecturer in the Department of Economics at the University of Ghana, Legon, where she has worked since 1989. She teaches macroeconomic theory and international economics at the undergraduate level, and international trade theory and international economic relations at the postgraduate level. From 1999 to 2004 she worked at the Centre for Policy Analysis (CEPA), Ghana, first as Project Officer and later as a Core Research Fellow; in 2003, she also served as visiting lecturer at the Council on African Studies at Yale University. Oduro has published widely on trade, poverty and development, undertaken a number of research consultancies, and delivered public lectures on the areas of her expertise.

DAVID ORDEN is professor and director of the Global Issues Initiative of Virginia Tech's Institute for Society, Culture and Environment, Alexandria, Virginia, and Senior Research Fellow at the International Food Policy Research Institute (IFPRI), Washington DC. He is engaged in active research and public policy education programs on the economics and political economy of domestic support policies, international trade negotiations and technical barriers to trade. Orden has been a Visiting Fellow at the University of New South Wales in Australia (1990), chairman of the International

Agricultural Trade Research Consortium (1996 and 1997) and Visiting Professor at Stanford University (1998 to 1999).

MARIA ELBA RODRIGUEZ-ALCALÁ is currently an instructor and Assistant Director of Undergraduate Studies in the Department of Agricultural Economics at the University of Missouri-Columbia. Until December of 2007 Maria worked as a senior researcher at the Institute for International Trade Negotiations (ICONE), Brazil. As a member of the research team in ICONE, Maria also coordinated a regional project in partnership with the Inter-American Development Bank (IDB) and the agricultural private sector in the MERCOSUR countries, Argentina, Brazil, Paraguay and Uruguay. Prior to joining ICONE, she worked as an academic coordinator in the Department of Agricultural and Resource Economics at Washington State University.

NÉSTOR STANCANELLI is a former negotiator who represented Argentina during the Uruguay Round. He is currently Director of the *Centro de Economía Internacional* (CEI), Buenos Aires, Argentina. Ambassador Stancanelli's publications have addressed a range of issues related to trade liberalization, and include various papers on the effect of the Uruguay Round on economic development in Latin America.

RONALD STEENBLIK's professional career spans three decades, in industry, academia, the US federal government and inter-governmental organizations, generally on policy issues related to natural resources, the environment or trade. At the time of writing the chapter for this volume he was Director of Research for the Global Subsidies Initiative (GSI), a program of the International Institute for Sustainable Development which aims to improve information on the extent and effects of subsidies (especially those that are harming developing countries or the environment). Prior to joining the IISD, he was a Senior Trade Policy Analyst in the Trade Directorate of the OECD. In that capacity he made important contributions to the WTO negotiations on environmental goods and services, both through the research he undertook on specific topics and as a participant in WTO symposiums and meetings of the WTO's Committee on Trade and Environment.

ALAN SWINBANK is Professor of Agricultural Economics and Director of the Centre for Agricultural Strategy at the University of Reading. His research focuses on the farm and food policies of the EU, and the process of agricultural and food trade liberalization in the WTO. Recent papers have appeared in the *European Review of Agricultural Economics*, *Comparative European Politics*,

## LIST OF CONTRIBUTORS

XV

*Journal of Common Market Studies*, *Journal of World Trade* and the *Estey Centre Journal of International Law and Trade Policy*. His most recent book, co-edited with Richard Tranter, is *A Bond Scheme for Common Agricultural Policy Reform* (CABI Publishing, 2004). Recent research has been funded by the European Commission (under Frameworks V and VI), the UK's Department for International Development (DFID) and the Commonwealth Secretariat.

CHARLES TSAI holds degrees from the University of California, Davis, the London School of Economics and the Monterey Institute of International Studies in California. His professional experiences span the Committee on Regional Trade Agreements of the World Trade Organization (WTO); the Board of Foreign Trade in Chinese Taipei working with WTO accession-related issues; the Agency for International Trade Information and Cooperation (AITIC) in Geneva assisting less-advantaged countries to advance their interests in WTO negotiations; and the Organization for Economic Cooperation and Development (OECD), where his research has resulted in publications spanning agriculture, regional trading arrangements, regulatory reform, trade in healthcare services between developed and developing countries and issues relating to trade and structural adjustment.

ANN TUTWILER is the Managing Director for Trade and Development at William and Flora Hewlett Foundation. Prior to joining Hewlett, she was President and Chief Executive Officer of the International Food and Agriculture Trade Policy Council, an organization that she co-founded in 1987. The International Policy Council is dedicated to developing and advocating policies that support an efficient and open global food system and sustainable production and distribution of safe, accessible food supplies. She served as Associate Director of the Council from its inception until 1992. She has published dozens of articles and edited two books on international agriculture policies, and speaks widely on a variety of agricultural policy issues.

JIANMIN XIE is a Counselor for Agriculture Negotiations in the Permanent Mission of China to the World Trade Organization in Geneva. Previously, he worked as the Division Director of the Investment Planning Division under the Department of Development and Planning in the Ministry of Agriculture, mainly in charge of Agriculture Investment Planning and Policy Analysis on agriculture. He studied economics at the People's University of China in Beijing from 1982 to 1986, where he later obtained his Masters Degree in Economics in 2002. He studied at the University of Oxford under a visiting scholarship in 1991.

KAZUHITO YAMASHITA graduated from the Faculty of Law at the University of Tokyo, before earning masters degrees in public administration and applied economics from the University of Michigan, and a doctorate in agriculture from the University of Tokyo. He has held a number of senior positions in government, including serving as Director of the GATT Affairs Division, Director of the Rural Development Division, Deputy Director-General of the Rural Development Bureau in the Ministry of Agriculture, Forestry and Fisheries, and as Counsellor in the Japanese Mission to the European Union. He is currently a Senior Fellow at the Research Institute of Economy, Trade and Industry (RIETI).

## PREFACE

Agriculture remains the main source of livelihood for more than 2.6 billion people in the world, the majority of whom are located in developing countries. Rising incomes, urbanization and shifting consumption patterns have increased food consumption in most areas of the world. However, despite spectacular increases in food production per capita, major distributional inequalities in access to food persist. In 2006, the proportion of children under five who are undernourished declined from 33 per cent in 1990 to 26 per cent in 2006, and more than 140 million children in developing countries were underweight – suggesting that governments may well miss the target of halving, between 1990 and 2015, the proportion of people who suffer from hunger.<sup>1</sup>

At the same time, 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.

It is widely recognized that government policies are significant drivers of food production and consumption patterns, both locally and globally. Massive production and export subsidies, notably in the EU and US, continue to stimulate over-production, while imports of politically sensitive products remain heavily protected through an armada of tariff and non-tariff measures. Such policies have in turn undermined developing countries' ability to promote rural development, develop their export sectors and to protect their vulnerable rural populations from unfair competition. While budgetary concerns, political controversy and demands from trading partners have initiated a move away from the most damaging types of subsidies, a significant proportion of developed country spending remains linked to farm production levels.

1 UN Millennium Development Goals 2008 report.



The reform of the global agriculture trading system initiated during the Uruguay Round with the objective of establishing a “fair and market oriented trading system” plays a major role in this process. The establishment during the Uruguay Round of a special category of subsidies that are exempt from reduction commitments on the grounds that they have “no, or at most minimal, trade-distorting effects or effects on production” was arguably a critical moment in moving towards a new consensus on agricultural trade policy. 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.

However, there are now also growing concerns that payments being notified in the green box do not necessarily always fulfill the criteria of causing not more than minimal trade distortion – concerns raised by many developing countries, but also by a number of developed country exporters. At the same time, critics have argued that the current green box criteria essentially address developed country concerns and do not necessarily accommodate the types of minimally trade-distorting programs prevailing in the South. Developing countries have thus called for the rules on green box subsidies to be changed so as to minimize effects on production, and to ensure that their own current and future needs are properly covered. To what extent are the fears of the green box’s critics justified? And to what extent is the rhetoric of its defenders borne out by reality?

If agricultural trade policy is indeed to be transformed so that it truly promotes equity, food security and sustainable livelihoods, a wider community of stakeholders needs to be involved in the policy formulation process in both developed and developing countries. Accurate, up-to-date and reliable information needs to be made available on the issues at stake, and policy-oriented, ground-breaking research needs to be produced. This book aims to contribute to this process by bringing an authoritative collection of research and opinion pieces to the attention of a wider audience. It is the result of a two-year enquiry process involving a wide range of trade and agriculture officials, independent thinkers, experts and activists through a rich and open dialogue.

The chapters presented here are intended to move away from a debate which has been too often characterized by the ritual repetition of

well-worn negotiating positions, and towards a reinvigorated discussion that is informed by empirical evidence, considered opinion and creative, critical thinking. By bringing this analysis to the attention of decision-makers, negotiators and a wider audience in both developed and developing countries, we hope to ensure that trade policy-making in this area more effectively addresses broader public policy goals.

The book is divided into a number of different sections. The first part seeks to examine the recent evolution of agricultural trade policy reform, looking in particular at developments in the EU, the US and Japan, and seeking also to situate the green box within the context of these historical reform processes. Part 2 examines the focus, extent and economic impact of green box subsidies, using empirical evidence to characterize the scope and nature of current programs. Parts 3 and 4 examine green box subsidies and their relationship with development objectives and the environment, while a final section provides five different perspectives on how future change can take place.

### **Part I: The evolution of agricultural trade policy reform**

This section opens with a chapter by Ambassador Néstor Stancanelli, who represented Argentina during the 1986–1994 Uruguay Round negotiations: this chapter sets out the origins of the green box during these negotiations, explores the political processes and economic context that led to its genesis and discusses its current significance in the context of the movement towards a fair and market-oriented agricultural trading system. A chapter by Jonathan Hepburn and Christophe Bellmann then describes the current state of negotiations on the green box under the Doha Round, looking at the different interest groups that are involved, and examining the various stages through which the debate at the WTO has evolved. Three chapters then examine the recent evolution of trade policy reform in the three WTO members which make greatest use of these payments – the EU, the US and Japan. Professor Alan Swinbank traces the history of European policy reform in recent decades, and explores efforts to decouple agriculture from production, looking at both the internal and external context of policy evolution. Professor David Orden examines current and future issues facing US farm policy in a historical context, and examines the ways in which the 1995–1996 reforms of the main commodity programs have since been reversed with the re-institutionalization of counter-cyclical payments in 2002. He also analyzes the relevance of WTO disciplines for trade policy reform in the US, and explores a number of possible future trends. Completing the analysis of the evolution of

farm policy reform in these three WTO members, Professor Masayoshi Honma examines the restructuring of Japanese agriculture in recent years. He focuses in particular on the challenges involved in moving away from an agricultural sector that is heavily characterized by large numbers of part-time farmers operating on relatively small areas of land, towards one which is more competitive in the global economy.

### **Part II: The focus, extent and economic impact of green box subsidies**

In Part 2, Jesús Antón seeks to map out an objective overview of the state of green box subsidy spending in the EU, the US and Japan, by looking at green box spending in the wider context of subsidy spending as a whole. Argentinean economists Carlos Galperín and Ivana Doporto Miguez then examine whether green box subsidies, when provided in combination with those categorized elsewhere at the WTO, have a cumulative effect which ultimately leads to significant effects on production and trade. Finally, two chapters analyze the distributional structure of green box subsidies: one, by Vincent Chatellier, examines the situation in the EU and France, and another, by Harry de Gorter, looks at the US. The chapter by Vincent Chatellier analyzes the distribution of payments under different types of green box programs, including both historical trends and expected future patterns following the implementation of the 2003 reform of the EU's Common Agricultural Policy, and looks at the implications of this distributional structure for the achievement of broader public policy goals. Professor Harry de Gorter then explores the distribution of green box payments in the US, providing an estimate of the distribution of payments by commodity as well as by farm size.

### **Part III: Green box subsidies and developing countries**

In a wide-ranging overview, four researchers from the Brazilian *Instituto de Estudos do Comércio e Negociações Internacionais* (ICONE) offer their insights into the opportunities and challenges faced by developing countries in this area. André Nassar, Maria Rodriguez-Alcalá, Cinthia Costa and Saulo Nogueira present an analysis of the historical experience with green box subsidies, discuss some of the theoretical issues that need to be addressed and review the main negotiating proposals that have been put forward during the Doha Round. Complementing this analysis, the chapter by Biswajit Dhar provides a wealth of data on the extent to which

developing countries currently use the various types of green box programs, and examines a number of significant trends that emerge. Dhar also puts forward some initial suggestions on how the existing criteria might be modified in order better to reflect developing country needs. Two further chapters in this section explore the relevance of the green box for China and for African countries. A chapter by Jianmin Xie explores some of the key issues at the national and global level, discusses trends in both developed and developing country spending, and examines the future role of the green box in achieving public policy objectives in China. Finally, the chapter by Abena Oduro looks at green box subsidies from the perspective of African countries: she examines in particular the specific conditions that characterize African agriculture in order to determine the extent to which existing green box criteria, and proposals to modify them, provide adequate policy space for countries in this region to address the particular problems that they face.

#### **Part IV: Green box subsidies and the environment**

In Part 4, a chapter by Ron Steenblik and Charles Tsai examines the environmental effects of green box subsidies, and points to paths which decision-makers could explore in order to minimize negative impacts and maximize positive ones. Two further chapters look more specifically at the environmental impacts of green box subsidies in the EU and US. A chapter by Ariel Brunner and Harry Huyton demonstrates how, 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. Complementing this analysis, Jane Earley's chapter on the US situation provides an exhaustive analysis of the different types of environmental impact that are associated with the 12 primary categories of green box programs, and concludes by providing a number of recommendations for mitigating these effects. Finally, a chapter by Professor Tim Josling and Professor David Blandford explores the complex web of issues in the area of biofuels, looking at the green box in the larger context of WTO rules on subsidies, as well as current practice and policy frameworks in a number of countries.

#### **Part V: Looking forward: how can change take place?**

In the final section, a number of experts provide their perspectives on how the current subsidy regime can be reformed. Three chapters again

examine the situation in the EU, the US and Japan. A chapter by Teresa Cavero explores the political relationships between key actors involved in the CAP reform in the EU, examining in detail the influence of different interest groups and the implications this could have for rural development, the environment, developing countries, climate change and migration. Looking at the US, Ann Tutwiler uses the debate over the 2007 Farm Bill to provide a snapshot of the different interest groups, coalitions and constituencies that are seeking to influence agricultural trade policy in the US over the coming five years and beyond. The author provides an overview of the main issues around US green box payments and the decoupling process in the US, and situates the current ongoing efforts at reform in the context of debate in recent decades. For Japan, a chapter by Kazuhito Yamashita demonstrates the extent to which moves to decouple support from production have only been partially successful in Japan, particularly in the case of rice, and shows how the significant political influence of part-time farmers, through agricultural cooperatives, has influenced the decisions of political parties and trade policy-makers. Two other chapters examine some of the systemic issues facing the existing international framework. One of these, by Andrea Cerda, presents concrete practical options for reforming the existing monitoring and surveillance system so that it functions more effectively, given that major subsidizing countries have repeatedly lagged several years behind with their subsidy notifications, and the difficulties in matching notified spending with actual programs in individual countries. Finally, a chapter by Pedro de Camargo Neto and Renato Henz proposes options for subsidy reform, with a view to achieving the “fair and market-oriented” agricultural trading system which WTO members have agreed to establish. Recognizing that the green box must eventually form the core of the “permanent” domestic support disciplines in agriculture, after the elimination of other trade-distorting measures, the authors emphasize the need for the integrity of the criteria in this area, whilst also pointing to the role of litigation as a tool for enforcing rules and disciplines that have already been agreed.

*Ricardo Meléndez-Ortiz, Christophe Bellmann  
and Jonathan Hepburn*

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*Ricardo Meléndez-Ortiz, Christophe Bellmann  
and Jonathan Hepburn*

## LIST OF ABBREVIATIONS

ABARE	Australian Bureau of Agricultural and Resource Economics
ABIMAQ	Brazilian Machinery Manufacturers Association
ACP	African, Caribbean and Pacific group
ACRE	Average Crop Revenue Election program
AFBF	American Farm Bureau Federation
AFL-CIO	American Federation of Labor and Congress of Industrial Organisations
AIE	Analysis and Information Exchange
AITIC	Agency for International Trade Information and Cooperation
ALARN	Asia Latin America Agri-Food Research Network
AMS	Aggregate Measurement of Support
AMkS	Agricultural Marketing Service
AMTA	Agricultural Market Transition Act
AMTAcc	Agricultural Market Transition Accounts
ANOVA	analysis of variance
AoA	WTO Agreement on Agriculture
APEC	Asia-Pacific Economic Cooperation
APHIS	Animal and Plant Health Inspection Service
ARS	Agricultural Research Service of the United States Department of Agriculture
ASAP	Alliance for Sensible Agricultural Policies
ASCM	Agreement on Subsidies and Countervailing Measures
ASEAN	Association of South-East Asian Nations
AWU	Agricultural Work Unit
CAD	Contrat d'Agriculture Durable (Sustainable Agriculture Contract)
CAE	Conseil d'Analyse Economique
CAFOs	Concentrated Animal Feeding Operations
CAITEC	Chinese Academy for International Trade and Economic Cooperation
CAP	Common Agricultural Policy of the European Union
CAssP	Commodity Assistance Programme
CBD	Convention on Biological Diversity
CBI	Caribbean Basin Initiative
CBO	US Congressional Budget Office
CCC	Commodity Credit Corporation



xxvi	LIST OF ABBREVIATIONS
CCIA	Climate Change Initiative for Agriculture
CCP	countercyclical payments
CEAP	Conservation Effects Assessment Project
CEC	Commission of the European Communities
CEI	Centro de Economía Internacional
CENTAD	Centre for Trade and Development
CEPA	Centre for Policy Analysis
CG-18	Consultative Group of 18
CIDE	Contribuição de Intervenção do Domínio Econômico
C.i.f.	cost, insurance and freight (price)
CMO	Common Market Organisation
CNPP	Centre for Nutrition Policy and Promotion
COP	Céréales, oléagineux, protéagineux (cereals, oilseeds, pulses)
COPA-COGECA	Committee of Professional Agriculture Organisations – General Confederation of Agricultural Cooperatives in the European Union
CPC	Communist Party of China
CPE	Coordination Paysanne Européenne
CRP	Conservation Reserve Program
CRS	Congressional Research Service
CSP	Conservation Security Program
CSREES	Cooperative State Research, Extension, and Education Service
CTBTO	Comprehensive Nuclear Test-Ban Treaty Organization
CTE	Contrat Territorial d'Exploitation (Territorial Contracts of Farming)
DDT	Dichloro-Diphenyl-Trichloroethane
DFID	UK Department for International Development
DG Competition	EU Directorate-General for Competition
DGAGRI	EU Directorate-General for Agriculture and Rural Development
DGIS	Dutch Ministry of Foreign Affairs
DP	Democratic Party (Japan) – opposition party
DSB	Dispute Settlement Body
EAGGF	European Agricultural Guidance and Guarantee Fund
EC	European Community
ECLAC	Economic Commission for Latin America and the Caribbean
EEC	European Economic Community
EFTA	European Free Trade Association
EIS Act	Energy Independence and Security Act (2007)
EPA	Environmental Protection Agency
EQIP	Environmental Quality Incentives Program
ERS	Economic Research Service of the United States Department of Agriculture