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AGRICULTURE: EXPLANATION

Domestic support

The present rules and commitments on agriculture are often called the “Uruguay Round reform programme” – they were negotiated in the Uruguay Round and they include reductions in subsidies and protection as well as other disciplines on the trade.

The conceptual framework

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Agreement on Agriculture:

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The agricultural package of the Uruguay Round has fundamentally changed the way domestic support in favour of agricultural producers was treated under the GATT 1947. A key objective has been to discipline and reduce domestic support while at the same time leaving great scope for governments to design domestic agricultural policies in the face of,

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and in response to, the wide variety of the specific circumstances in individual countries and individual agricultural sectors. The approach agreed upon is also aimed at helping ensure that the specific binding commitments in the areas of market access and export competition are not undermined through domestic support measures.

The main conceptual consideration is that there are basically two categories of domestic support — support with no, or minimal, distortive effect on trade on the one hand (often referred to as “Green Box” measures) and trade-distorting support on the other hand (often referred to as “Amber Box” measures). For example, government provided agricultural research or training is considered to be of the former type, while government buying-in at a guaranteed price (“market price support”) falls into the latter category. Under the Agreement on Agriculture, all domestic support in favour of agricultural producers is subject to rules. In addition, the aggregate monetary value of Amber Box measures is, with certain exceptions, subject to reduction commitments as specified in the schedule of each WTO Member providing such support.

The Green Box

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The Agreement on Agriculture sets out a number of general and measure-specific criteria which, when met, allow measures to be placed in the Green Box (Annex 2). These measures are exempt from reduction commitments and, indeed, can even be increased without any financial limitation under the WTO. The Green Box applies to both developed and developing country Members but in the case of developing countries special treatment is provided in respect of governmental stockholding programmes for food security purposes and subsidized food prices for urban and rural poor. The general criteria are that the measures must

have no, or at most minimal, trade-distorting effects or effects on production. They must be provided through a publicly-funded government programme (including government revenue foregone) not involving transfers from consumers and must not have the effect of providing price support to producers.

Government service programmes

The Green Box covers many government service programmes including general services provided by governments, public stockholding programmes for food security purposes and domestic food aid -as long as the general criteria and some other measure-specific criteria are met by each measure concerned. The Green Box thus provides for the continuation (and enhancement) of programmes such as research, including general research, research in connection with environmental programmes, and research programmes relating to particular products; pest and disease control programmes, including general and product-specific pest and disease control measures; agricultural training services and extension and advisory services; inspection services, including general inspection services and the inspection of particular products for health, safety, grading or standardization purposes; marketing and promotion services; infrastructural services, including electricity reticulation, roads and other means of transport, market and port facilities, water supply facilities, etc; expenditures in relation to the accumulation and holding of public stocks for food security purposes; and expenditures in relation to the provision of domestic food aid to sections of the population in need. Many of the regular programmes of governments are thus given the “green light” to continue.

Direct payments to producers

The Green Box also provides for the use of direct payments to producers which are not linked to production decisions, i.e. although the farmer

receives a payment from the government, this payment does not influence the type or volume of agricultural production (“decoupling”). The conditions preclude any linkage between the amount of such payments, on the one hand, and production, prices or factors of production in any year after a fixed base period. In addition, no production shall be required in order to receive such payments. Additional criteria to be met depend on the type of measure concerned which may include: decoupled income support measures; income insurance and safety-net programmes; natural disaster relief; a range of structural adjustment assistance programmes; and certain payments under environmental programmes and under regional assistance programmes.

Other exempt measures

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In addition to measures covered by the Green Box, two other categories of domestic support measures are exempt from reduction commitments under the Agreement on Agriculture (Article 6). These are certain developmental measures in developing countries and certain direct payments under production-limiting programmes. Furthermore, so-called *de minimis* levels of support are exempted from reduction.

Developmental measures

The special and differential treatment under the Green Box aside, the type of support that fits into the developmental category are measures of assistance, whether direct or indirect, designed to encourage agricultural and rural development and that are an integral part of the development programmes of developing countries. They include investment subsidies which are generally available to agriculture in developing country Members, agricultural input subsidies generally available to low-income

or resource-poor producers in developing country Members, and domestic support to producers in developing country Members to encourage diversification from growing illicit narcotic crops.

Blue Box

Direct payments under production limiting programmes (often referred to as “Blue Box” measures) are exempt from commitments if such payments are made on fixed areas and yield or a fixed number of livestock. Such payments also fit into this category if they are made on 85 per cent or less of production in a defined base period. While the Green Box covers decoupled payments, in the case of the Blue Box measures, production is still required in order to receive the payments, but the actual payments do not relate directly to the current quantity of that production.

De minimis

All domestic support measures in favour of agricultural producers that do not fit into any of the above exempt categories are subject to reduction commitments. This domestic support category captures policies, such as market price support measures, direct production subsidies or input subsidies. However, under the *de minimis* provisions of the Agreement there is no requirement to reduce such trade-distorting domestic support in any year in which the aggregate value of the product-specific support does not exceed 5 per cent of the total value of production of the agricultural product in question. In addition, non-product specific support which is less than 5 per cent of the value of total agricultural production is also exempt from reduction. The 5 per cent threshold applies to developed countries whereas in the case of developing countries the *de minimis* ceiling is 10 per cent.

Reduction commitments

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Twenty-eight Members (counting the EC as one) had non-exempt domestic support during the base period and hence reduction commitments specified in their schedules. The reduction commitments are expressed in terms of a “Total Aggregate Measurement of Support” (Total AMS) which includes all product-specific support and non-product-specific support in one single figure. Members with a Total AMS have to reduce base period support by 20 per cent over 6 years (developed country Members) or 13 per cent over 10 years (developing country Members). In any year of the implementation period, the *Current* Total AMS value of non-exempt measures must not exceed the scheduled Total AMS limit as specified in the schedule for that year. In other words, the maximum levels of such support are bound in the WTO.

In the case of Members with no scheduled reduction commitments, any domestic support not covered by one or another of the exception categories outlined above, must be maintained within the relevant “product-specific” and “non-product-specific” *de minimis* levels.

Aggregate Measurement of Support

Price support measures have been the most important type of policy measure within the non-exempt category. Price support can be provided either through administered prices (involving transfers from consumers) or through certain types of direct payments from governments. For the purpose of Current Total AMS calculations, price support is generally measured by multiplying the gap between the applied administered price and a specified fixed external reference price (“world market price”) by the quantity of production eligible to receive the administered price. Calculation details are specified in Annexes 3 and 4 of the Agreement on Agriculture and also incorporated into Members’ schedules by way of

references to Supporting Material. For each product, the implicit subsidy of price support measures is added to other product-specific subsidies — a product-specific fertiliser subsidy, for example — to arrive at a product-specific AMS which is then evaluated against the applicable *de minimis* threshold. Non-product-specific subsidies are calculated separately and, as in the former case, are included in the Current Total AMS only if they exceed the relevant *de minimis* level. The example in [the box](#) illustrates the calculation of the Current Total AMS for a developed country (5 per cent *de minimis* threshold) in year Y.

Example: Calculation of the current total AMS

Member X (developed country), year Y

Wheat:

- > Intervention price for wheat = **\$255** per tonne
- > Fixed external reference price (world market price) = **\$110** per tonne
- > Domestic production of wheat = **2,000,000 tonnes**
- > Value of wheat production = **\$510,000,000**
- > Wheat AMS (AMS 1)
($\$255 - \110) x 2,000,000 tonnes = **\$290,000,000**
(*de minimis* level=\$25,500,000)

Barley

- > Deficiency payments for barley = **\$3,000,000**
- > Value of barley production = **\$100,000,000**
- > Barley AMS (AMS 2) = **\$3,000,000**
(*de minimis* level=\$5,000,000)

Oilseeds:

- > Deficiency payments for oilseeds = **\$13,000,000**
- > Fertilizer subsidy = **\$1,000,000**
- > Value of oilseeds production = **\$250,000,000**
- > Oilseeds AMS (AMS 3) = **\$14,000,000**
(*de minimis* level=\$12,500,000)

Support not specific to products

> Generally available interest rate subsidy = **\$ 4,000,000**

Value of total agricultural production = **\$860,000,000**

> Non-product-specific AMS (AMS 4) = **\$4,000,000**

de minimis level=\$43,000,000

Current total AMS (AMS 1 + AMS 3)= \$304,000,000

Equivalent Measurement of Support

Where it is not practicable to calculate a product-specific AMS as set out in the Agreement, provisions are made of an “Equivalent Measurement of Support” (EMS). The EMS is generally calculated on the basis of budgetary outlays — the money spent by governments to support a product, for example, rather than market price support calculated with respect to a fixed external reference price.

Notification obligations

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All Members must notify the Committee on Agriculture the extent of their domestic support measures. This requires a listing of all measures that fit into the exempt categories: the Green Box, developmental measures, direct payments under production limiting programmes (Blue Box) and *de minimis* levels of support. In addition, where the existence of measures requires it, AMS calculations must be undertaken by Members that have scheduled domestic support reduction commitments and the Current Total AMS must be notified. Where a Member without such scheduled commitments has support measures which are not covered by one or other of the exempt categories, a notification must be made

showing that such non-exempt support is within the relevant *de minimis* levels. Special formats have been developed by the Committee on Agriculture in order to facilitate compliance with the notification obligations.

The requirement to notify is annual, except in the case of least-developed country Members which are only required to notify every other year. Developing country Members can also request the Committee to set aside the annual notification requirement for measures other than those falling into the Green Box or the developmental or Blue Box categories.

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