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THE BLUE BOX AND OTHER SUPPORT MEASURES TO AGRICULTURE

The outcome of the Uruguay Round Agreement on agriculture (URAA)

1. At the outset of the UR, the negotiators' intention by setting a parallelism with traffic lights, was to classify support to agriculture in three groups: red (unauthorised), amber (subject to discipline) and green (freely granted). Such a classification aimed at classifying domestic measures according to their trade impact but with no or little consideration to other goals.

2. In the course of the negotiating process itself, negotiators simplified this framework and agreed to distinguish essentially between support that can significantly impact trade, which should be subject to a reduction commitment (amber box measures) and support that can be considered as having no or at most minimally trade distortive effects (green box measures). The general assumption underlying the reduction commitment is that support based on price and/or the volume of output may lead to a significant trade impact. This is the case of amber box measures, while other measures, even if linked to a certain degree to production, are not subject to reduction commitments under the URAA.

3. At the last stage of the URAA negotiating process, following the Blair House agreement, a new category of support measures, the blue box was introduced within the draft agreement. The choice of the colour reflected the different nature of blue box direct payments, which are linked to factors of production but not to price and volume of output, and which are implemented under production-limiting programmes. The colour chosen for this category did not specifically intend to identify, in one direction or another, the degree of the impact on trade. As matter of fact, most of the blue box measures identified were new at that time and their potential effect on production and trade was little known.

The objective of the European Community

4. The negotiating process will address the need for further commitments to discipline support, consistent with the long-term objective of substantial progressive reduction in agricultural support. In order to do so, it is important to assess the effects, in particular on trade, of the various support schemes presently used by members.

5. The EU experience has proven that blue box direct payments have been very useful tools to be used in the reform of domestic policies, in the direction set by the WTO. The 1992 reform of the Common Agricultural Policy (CAP) has been translated into a shift from market price support to blue box payments. It has ensured transparency of support policy and allowed for restoring market balance. The market orientation of producer decisions has been significantly improved. The latest CAP reform, the so-called Agenda 2000, has further improved the possibility of farmers to react to market signals.

6. In view of these positive results, blue box direct payments can be expected to continue to be an important tool for further agricultural reform. Therefore, more consideration should now be given to the latest developments in the area of measurement of the impact and efficiency of support measures, as well as needs for correcting market failures. At the same time, the EC does not call into question the trade impact of amber box measures and the need for further reduction commitments on such measures.

The impact of Blue box measures

7. The OECD Policy Evaluation Matrix (PEM)¹ is an attempt to assess, under a single analytical framework, the various impacts of support measures, including their transboundary effects. Quantitative findings of the PEM modelisation work that has been achieved so far on arable crops confirmed and refined the common understanding that support given to producers in one country spills over to other countries through trade and world prices but that spillovers vary significantly according to measures. “Estimated results obtained from the simulation analysis suggest that as compared to market support, area payments in one country or region, whether tied to a requirement to plant or not, lead to smaller production, trade and welfare impacts on other countries or regions”¹

8. In its summary, the PEM report specifies that “the effects of a given amount of support may differ substantially among the support measures used to provide that support. Area payments, even when assumed to be implemented with a requirement to plant, were found to be relatively more income efficient and less trade distorting than market price support, payments based on output, or payments based on variable input use. Payments based on variable input use were found to be the most inefficient and production distorting...In the analysis, there were substantially less spillover effects from area payments than for any other form of support studied”¹. The robustness of these results has been confirmed by sensitivity analysis performed by the OECD. Notably the estimate of the effects of CAP 92 reform as calculated by the model are close to the observed trend. It shows that the CAP 92 adjustment - the significant shift from market price support to blue box payments - resulted in a major decrease of the trade impact of CAP support measures.

9. In conclusion considering the considerable reduction in trade impact brought about by this new type of policy support and its success in meeting domestic concerns in the process of agricultural reform, the EC wishes to stress that the concept of the blue box, like that of the green box, must be maintained.

¹ - “A matrix approach to evaluating policy: preliminary findings from the Policy Evaluation Matrix (PEM) pilot studies of crop policy in the EU, the US, Canada and Mexico”, Feb 2000, OECD