
Dairy Policy Brief #8d: WTO Domestic Support Issues

Domestic Support Provisions of the Uruguay Round

The main issue surrounding domestic support programs is their tendency to stimulate domestic production, thus squeezing out imports. Domestic supports may also provide motivation for a country to use export subsidies to move excess product, lowering world prices. In the Uruguay Round Agricultural Agreement (URAA) a distinction was made between domestic support policies that stimulate production and distort trade and programs that have only minimal effects on trade. This categorization resulted in the creation of colored “boxes” to represent the different types of domestic support. Using a traffic light analogy, the *green box* is used for domestic support that has minimal trade effects and can be used freely. Examples of programs that fall into this category are: research, infrastructure and payments to farmers that do not stimulate production. Domestic support that has a direct effect on production and trade was put into an *amber box* and was to be cut under the URAA. Payments made to farmers that required limiting production to be eligible were defined in the URAA to fall within the *blue box* and did not require reductions. The URAA constructed a set of rules that countries must use to calculate a value of the total domestic support each country provides producers. This calculation became a country's *aggregate measure of support (AMS)*. Each country had to calculate its base period (1986-1998) AMS and agree to make cuts from that base period level. Developed countries had to cut their AMS by 20 percent over the 1995-2000 period while developing countries had to cut their AMS by 13 percent over the 1995-2004 period. For the U.S., the base period AMS was \$23.879 billion and the required 20 percent URAA reduction resulted in an AMS ceiling in 2000 of \$19.103 billion. There are 34 WTO members who have commitments to reduce amber box spending in the URAA. The remaining WTO members must keep domestic support within 5 percent of the value of production (10 percent for developing countries).

Domestic Support Proposals in the Doha Round

There have been several proposals in the Doha round for reforms to domestic support. In nearly all cases, the proposals have focused on further reductions or outright elimination of amber box spending. The U.S. proposal called for a 60 percent cut in domestic support which results in a U.S. AMS ceiling below \$8 billion. Other issues continue to be debated regarding matters like *de minimis* rules and further refinement of both the green and blue box definitions. Some countries worry about box shifting as countries reduce amber box spending but offset that decline with green box or blue box spending.

What are important domestic support issues for the U.S. dairy industry?

- ***A Doha round agreement will likely cause Milk Price Support Program (MPSP) reform.*** The current AMS calculation for the MPSP exceeds \$4.5 billion. It is difficult to see how the dairy industry could use up over one-half of the total U.S. AMS level resulting from the proposed U.S. AMS reductions. The agreed-to AMS calculation for the MPSP (similar to all price support programs) is: Milk Production times (Milk Support Price minus Reference Period World Milk Price [\$7.25]).
- ***Other dairy programs will count in the amber box.*** The Northeast Interstate Dairy Compact was included in the U.S. domestic support notifications and suggests that new compact-like programs will also fall into the amber box. Although the U.S. has not provided any domestic support notifications since 2001, once notifications have been made for the period during which the Milk Income Loss Contract (MILC) program operated, it will also fall into the AMS calculation.