

CANADIAN AGRICULTURE SUPPORT IN THE WTO OBLIGATION CONTEXT



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The article analyses Canada's compliance with WTO commitments on domestic support of agriculture sector. It examines measures and support levels for the period from 1995 to 2015.

Keywords: *Canada, WTO, Agreement on Agriculture, domestic support, Aggregate Measurement of Support, «amber box» measures, «green box» measures, «de minimis», direct payments, decoupled income support.*

The important element of the WTO Agreement on Agricultural (hereinafter- the Agreement) is the commitment of WTO members to reduce potentially trade-distorting domestic support for national producers of agricultural products.

In accordance with Articles 6, 7 and Annex 2 of the Agreement there are two basic categories of domestic support. The first category does not distort trade, or does so minimally. It is called "Green Box" support because it is allowed without any limit. The second category is trade-distorting support called "Amber Box" support. Policies within this category are included in the Aggregate Measure of Support (AMS) subject to reduction commitments [1]. Canada agreed in the Uruguay Round to reduce its AMS from CAD\$5.2 billion in 1995 to CAD\$4.3

billion in 2000. Currently, this value – "bound AMS" – is an annual commitment by Canada as a WTO member for allowable domestic support in agriculture. Annual current AMS must not exceed bound AMS.

Meeting commitments to reduce domestic support for agricultural sector under the WTO, Canada terminated in August 1995 the Western Grain Transportation Act. As a result, transport subsidies were canceled, and the total AMS was already at the level of CAD\$2.1 billion in 1995 [2]. In general, total domestic support within the “yellow box” ranged from Can\$ 1.5 billion to CAD\$3.8 billion between 1995 and 2015 (Figure 1). The maximum level was observed in 2002, as the result of the increase in insurance program costs due to the severe drought in the Western prairies of Canada in 2001/2002.

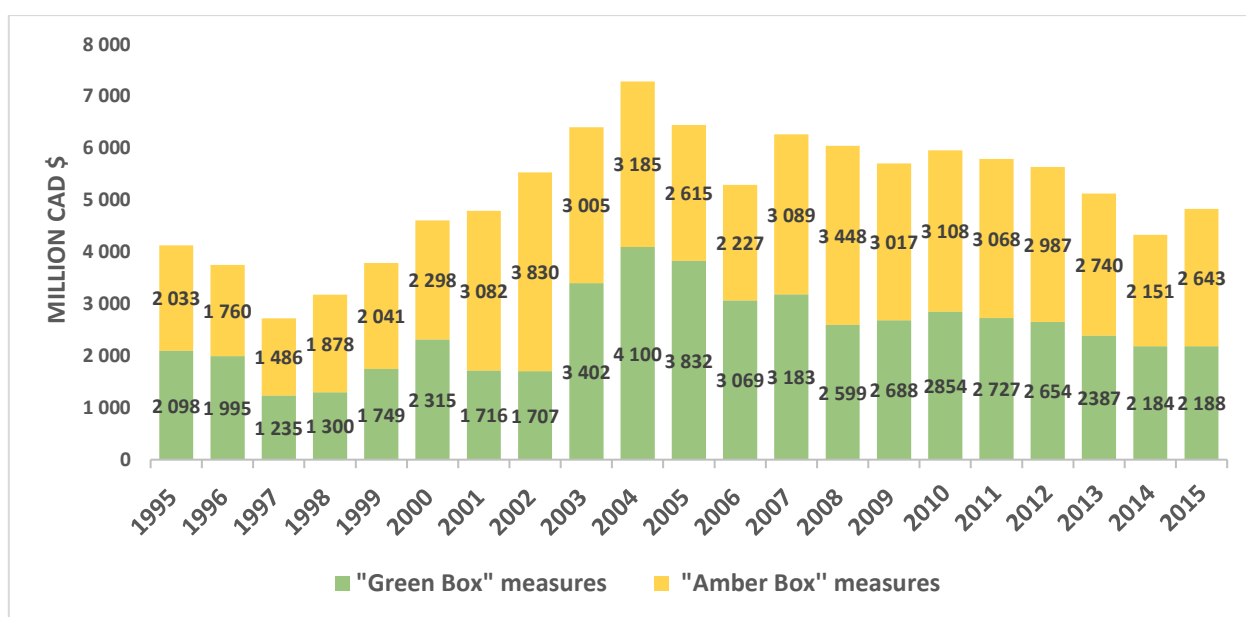


Figure 1. Total domestic agricultural support in Canada in 1995 -2015.

Source: Compiled on the basis of Canada's notifications to the WTO Committee on Agriculture.

AMS is calculated as the annual amount of support to producers of specific products (product-specific AMS) and support that is provided generally (non-product-specific AMS). In accordance with Article 6.4(a) and (b) of the Agreement subsidies are included in current total AMS only if they exceed the relevant *de minimis* level. This “*de minimis*” provision allows exclusion of support not exceeding 5% of output value from AMS both when calculating product-specific AMS and non-product-specific AMS.

Non-product specific AMS in Canada in 1995 – 2015 didn’t exceed *de minimis* level and were not included in current total AMS (Figure 2). The data for 2001 and 2002 are the

exceptions because of the high cost of insurance programs due to the severe drought, as mentioned above). Large AMS portion is connected with realization business risk management (BRM) programs: AgriInsurance, AgriInvest, AgriStability (Table).

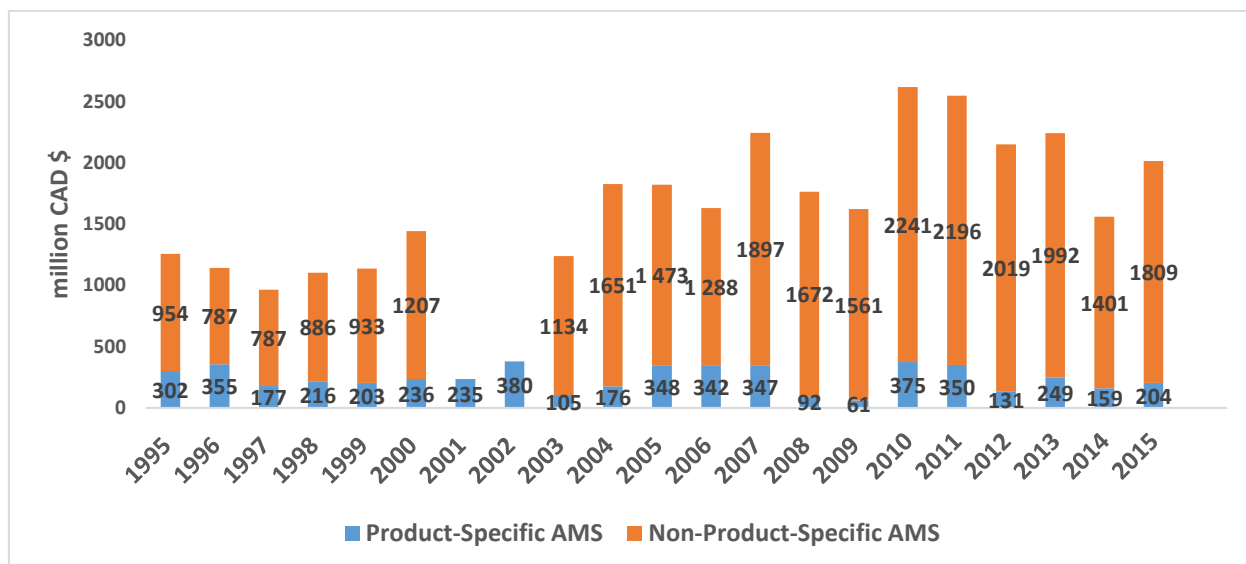


Figure 2. Levels of domestic agricultural support in Canada in 1995 – 2015 not included in current total AMS (Aggregate Measurement of Support) in accordance with *de-minimis* rule.

Source: Compiled on the basis of Canada's notifications to the WTO Committee on Agriculture.

Table. Non-product-specific AMS (Aggregate Measurement of Support) in Canada in 2011 - 2015 (CAD\$ million)

Programs	2011 г.	2012 г.	2013 г.	2014 г.	2015 г.
Stabilization Component of AgriStability	89	62	66	-	-
AgriInsurance	880	1 032	1 167	919	894
AgriInvest	304	345	266	2	279
AgriRecovery Framework	376	49	2	4	-
Advance Payments Program	18	16	20	16	17
Provincial Programs	324	319	270	268	213
Provincial Credit Concessions	17	13	25	26	185
Federal Credit Concessions	55	41	61	57	125
Other	133	142	115	109	96
<i>Total</i>	<i>2 196</i>	<i>2 019</i>	<i>1 992</i>	<i>1 401</i>	<i>1 809</i>
Value of production	50 546	54 816	56 917	57 108	61 302
Current AMS as a Percentage of Value of Production	4,3%	3,7%	3,5%	2,5%	3,0%

Source: Compiled on the basis of Canada's notifications to the WTO Committee on Agriculture

Values of products-specific AMS generally did not exceed the 5% *de minimis* level. The main subsidies included in the current AMS are provided to the dairy sector. This is due to market price support for milk within “supply management” system. In 2003 significant federal government expenditures were allocated to beef producers who suffered losses after the discovery of BSE (bovine spongiform encephalopathy) case in Alberta.

As a result of *de minimis* levels rule, Current Total AMS S from 1995 to 2015 was much lower than the commitment (bound) levels (Figure 3). This indicates that Canada has sufficient capacity to make additional use of the “yellow box” support measures.

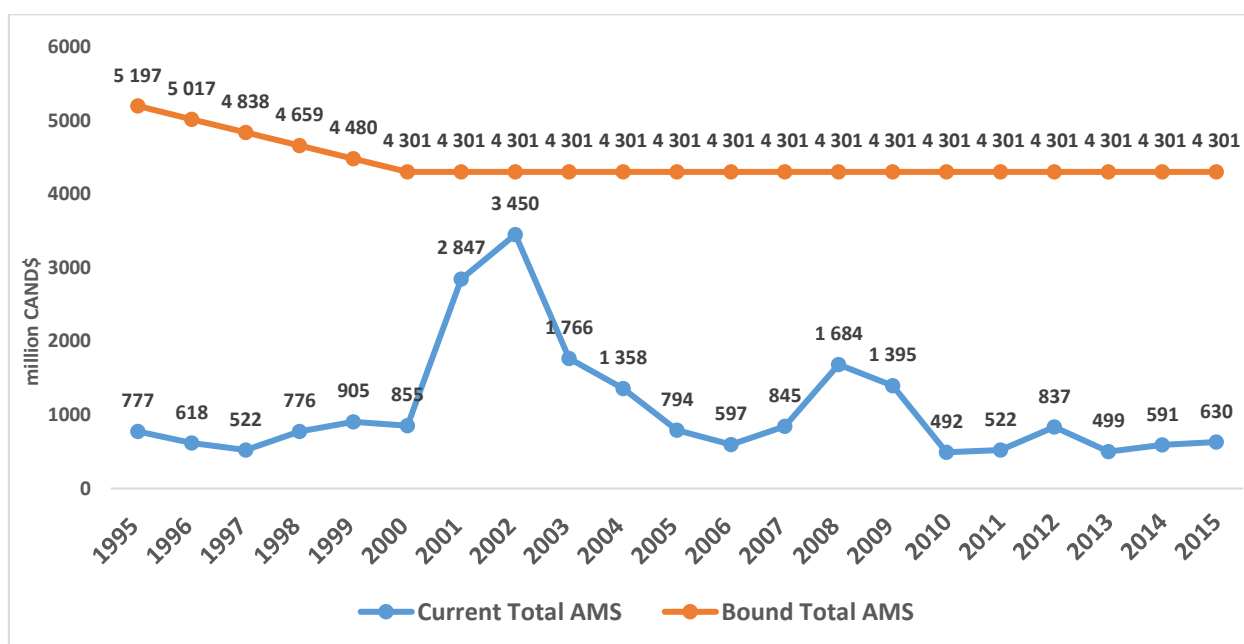


Figure 3. Current and Bound Total AMS (Aggregate Measurement of Support) in Canada in 1995 - 2015.

Source: Compiled on the basis of Canada's notifications to the WTO Committee on Agriculture.

“Green box” measures are excluded from the reduction commitments. In accordance with Annex 2 of the Agreement such measures must be provided through publicly-funded government programs. They must not involve transfers from consumers, and they must not have the effect of supporting prices for producers. “Green box” measures cover two broad categories: government service programs and direct payments.

The first category includes general services, such as research programs; pest and disease control programs; agricultural training, extension and advisory services; inspection services; marketing and promotion services; infrastructural services. Canada uses these types of support extensively, with inspection services and research-related expenditures accounting for the largest

share of total general services expenditure (32% and 24%, respectively in 2015) [3]. The first group of "green box" measures also includes government programs of public stockholding creation for food security, domestic food aid programs. These forms of government support are not used in Canada.

The second group of "green box" measures includes direct payments to agricultural producers. In this case, the government directly pays a predetermined sum to farmers, regardless of market prices. A significant portion of direct payments is intended to support farm income. First of all, it is "decoupled" income support when the amount of such payments is not related to production and does not affect the volume of production and types of products (paragraph 6 of Annex 2 of the Agreement). After elimination of the Western Grain Transportation Act the first "decoupled" payments were made in 1995 and 1996 (CAD\$889 million and CAD\$763 million accordingly) under the Western Grain Transition Payments Program [4, 5] and in 2000 under the Canada-Saskatchewan and Canada-Manitoba Adjustment Programs (CAD \$360 million) [6]. In 2003 and 2004 under the Transitional Industry Support Program and the Farm Income Payment Program the federal government provided "decoupled" income support to farmers as response to drought and to the discovery of BSE in Canada, which resulted in the temporary loss of several export markets [7,8]. Last time "decoupled" income support was provided by the federal government in 2005 under the Grains and Oilseeds Payment Program to producers of grains, oilseeds and special crops that have been affected by the steady decline in the prices of grains and oilseeds over the last ten years [9,10].

The major portion of direct payments under the "green box" measures to support Canadian producers' income is made under Income insurance and income safety-net government programs in accordance with Annex 2, paragraph 7 of the Agreement. Any producer is eligible for a payment when their income loss (which is based on all activities of the farm) exceeds 30 per cent of average gross income or the equivalent in net income terms (excluding any payments from the same or similar schemes) in the preceding three-year period. The Canadian program providing this type of support is a special component of the above-mentioned general income stabilization program "AgriStability" - the Income Disaster Component of the AgriStability Program [11]. It succeeds "Income Disaster Component of the

Canadian Agricultural Income Stabilization (CAIS) Program”. CAIS was the predecessor of "AgriStability" [12].

In general, the large portion of financial resources within "green box" measures in Canada goes to general services (primarily to inspection services and research, as noted above) – up to 84% of support under the “green box”. At the same time, for the US this figure is only 9%, and the main funding goes to the implementation of domestic food aid programs – up to 86% of the total funds allocated to support agriculture under the "green box" (Figure 4).

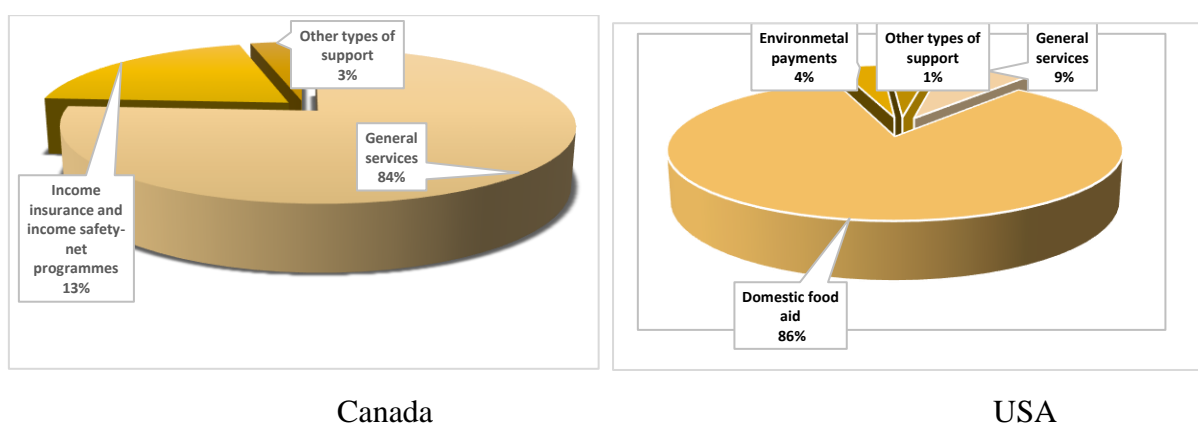


Figure 4. Structure of agricultural domestic support measures exempt from the reduction commitment ("green box" measures) in Canada and the United States in 2015.

Source: Compiled on the basis of G/AG/N/CAN/129, G/AG/N/USA/121.

The presented analysis of support to agricultural producers in accordance with Canada's obligations in the WTO showed that country is compliance with the rules and limits established by the WTO Agreement on Agriculture. The main conclusion is that WTO membership determines the parameters for the formation and implementation of Canada's agricultural policy.

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