Blue Box design does not address crucial questions

Over the last seven columns, we have analyzed the criteria that the World Trade Organization uses to determine whether variously designed domestic agricultural support programs and policies are consistent with the Agreement on Agriculture (AoA), an agreement that was established under the earlier trade regimen, the Global Agreement on Trade and Tariffs. In our discussion of the various trade boxes, we noted that there were conditions placed on the production limiting Blue Box in paragraph 5 of the AoA.

Paragraph 5 (https://tinyurl.com/y99arkae) says "Direct payments under production-limiting programs shall not be subject to the commitment to reduce domestic support if: such payments are based on fixed area and yields; or such payments are made on 85 percent or less of the base level of production; or livestock payments are made on a fixed number of head. The exemption from the reduction commitment for direct payments meeting the above criteria shall be reflected by the exclusion of the value of those direct payments in a Member's calculation of its Current Total AMS [Aggregate Measure of Support]." In the case of the US, the AMS limit is $19.1 billion per year.

For us these policy design requirements are short-sighted. Rather than describing design requirements—fixed areas and yields, 85 percent of the base level of production—paragraph 5 ought to described negative outcomes the AoA seeks to avoid and leave the specifics of policy design to leaders in each nation implementing blue box policies. At this point we are primarily talking about policies that affect the production of grains and oilseeds; policies that work for corn and soybeans are demonstrably not transferrable to dairy or pork production.

Policy makers should instead be asked to answer a series of questions.

First, does the domestic policy configuration end up compensating producers for prices that remain well below the full cost of production (for that country) for long periods of time and transfer those low prices to producers in the rest of the world? If it—the policy configuration—does, then it ought to be placed in the Yellow Box and subject to strict de minimis limits or even declared Red Box (a box that exists only in common usage).

Second, does the domestic policy configuration of an exporting country result in the dumping of grains and/or oilseeds on world markets at prices that are well below the full cost of production for that country? If it does, such a policy should be disallowed under the AoA.

Third, and this is more general, does the policy configuration respond to the well-known and -documented economic characteristics of crop agriculture: the low price-elasticity of supply, the low price-elasticity of demand, and the fixity of resources that need to be preserved over the long-term? If it doesn't, the policy configuration is likely to fail to benefit domestic producers and be extremely expensive for the nation involved.

To put these questions in a positive form, an acceptable Blue Box policy should ensure that prices remain near or above the full cost of production for the implementing country, thus ensuring that no grain or oilseed export can be characterized as dumping. To achieve these goals the policy design would almost certainly have to account for the economic characteristics of crop agriculture. In the case of the US, a major agricultural exporter with a relatively fixed land base suitable for crop production, any higher price that results from Blue Box policies that meet these criteria should be quickly transmitted to every producer of the covered commodities or their substitutes.

At present those most likely to implement Blue Box policies that meet the above requirements are the US, the EU, and Canada. The characteristics of the EU and Canadian crop production, like the US, are 1) they have a relatively fixed area for agricultural production and 2) higher prices that result from these policies are likely to be quickly transmitted to the rest of the world—especially if the three avoid a fight to capture market share. That would leave countries like Brazil and those in the Former Soviet Union to increase their productive area, improving long-term food security for the whole world. From a humanitarian perspective, we should want to increase our productive capacity in agriculture; we just don't need to use all of it all the time.

For an example of a Blue Box domestic agricultural policy configuration that meets these criteria see our columns 890-897 (www.agpolicy.org/articles17.htm).

In addition, we would argue that any nation of the world should be allowed to implement any agricultural policies they can afford and/or desire if they export no production at prices below their full cost of production. This gives each country a degree of food sovereignty over their food supply without fear of ending up before a trade resolution body because they are not importing from a country with lower production costs. Any country ought to be able to implement the Right to Food even if it means subsidizing its producers as part of its responsibilities under the Right to Food: Respect, Protect, Fulfil. This flexibility is particularly important for countries with high levels of food insecurity and the steady exit of farmers from rural regions to major metropolitan areas.

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