

# WTO's green, amber and red boxes are almost self-explanatory, so what's in the blue box?

We begin our discussion of the agricultural trade blue box by reviewing the rationale for the policies that fit into the amber box.

The amber box rationale boils down to this: to liberalize agricultural trade and provide a level playing field, trade negotiators are concerned about policies that provide farmers in a given country—particularly developed countries—with financial incentives that enable them to maintain greater production than will clear the market. The amber color recognizes that the effect of this policy-enabled greater production and thus higher carry-over levels is a reduction in market prices that disadvantage producers in other countries, particularly export competitors.

The further concern is that these lower prices are quickly felt by producers of the affected crops or their substitutes everywhere in the world—the same is true for higher prices as we saw when US prices shot upward during the implementation of the Renewable Fuels Standard a decade ago.

With concern about greater production that results in lower prices in mind, let us turn our attention to blue box policies. According to the World Trade Organization (WTO) (<https://tinyurl.com/ybjvytrd>), the blue box “is the ‘amber box with conditions’—conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production (details set out in Paragraph 5 of Article 6 of the Agriculture Agreement)”.

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.

Apart from examining the conditions set forth in Paragraph 5, why would production-limiting programs be looked differently from other farm programs? Simple economics! If production is limited in the face of increasing demand—more people and greater meat demand which uses additional supplies of grains and oilseeds—market prices tend to go up and thus we do not have the problem the amber box was designed to counteract, downward trending prices.

But, it is not quite as simple as that. Farming is not automobile production, printing, or the sewing of tee-shirts. And while it is fairly simple to control the production of manufactured products and adjust production levels when demand changes (US industrial capacity utilization percentage runs in the mid-80s), agricultural production is quite different.

Farmers can control the acreage they plant and the inputs they use, but the level of production can vary widely from year to year, depending on weather, diseases, and pests. Thus, in any given year, policy can hold the area planted steady and the production can go either up or down with the corresponding change in prices. In addition, each farmer can generally only make

the decision to produce one time a year; agricultural production cannot be initiated or adjusted mid-season.

What that suggests is that the price-effect of policy should not be the only consideration. Agricultural trade policy should take into consideration the worst-case scenario: production falls below the level needed to meet the demand level for the coming year.

With most non-food items, price increases ration demand as some users put off the purchase of, say, a new computer until prices come back down—maybe even in the same year. While some consumers are inconvenienced, the consequences are not significant.

In the case of foodstuffs, the picture is quite different. In a good year, some 800 million people suffer from bouts of hunger and the risk of death because they do not have the financial resources needed to fully participate in the aggregate market for food. In a bad year, that number can easily jump by 400 million as additional people are priced out of the market.

From a humanitarian perspective that is unacceptable and a clear violation of the Right to Food as recognized by the Food and Agricultural Organization of the United Nations and most nations.

Currently, WTO-adopted agricultural trade policy does not take the worst-case scenario and the Right to Food into account. Trade analysts simply assume that a world-wide market compensates for local variations in production, but that is not always true for the world's most vulnerable.

Next week, we will deal with the second-worst-case scenario and blue box policy elements that deal with both types of worst-case scenarios for the benefit of producers and consumers.

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