

Agriculture and Commodities Division



WORLD TRADE
ORGANIZATION

Thematic Seminars

29 March 2023 – 10:00-13:00, 15:00-18:00 (CEST)

30 March 2023 – 10:00-13:00 (CEST)

Session 3: Domestic Support

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Current Economic and Food Situation

1. “The largest cost-of-living crisis of the twenty-first century to date” (UN GCRG)

- Due to severe price shocks
 - Food, Energy, Fertilizer
 - Maritime transport costs
 - Rising interest rates and exchange rate changes

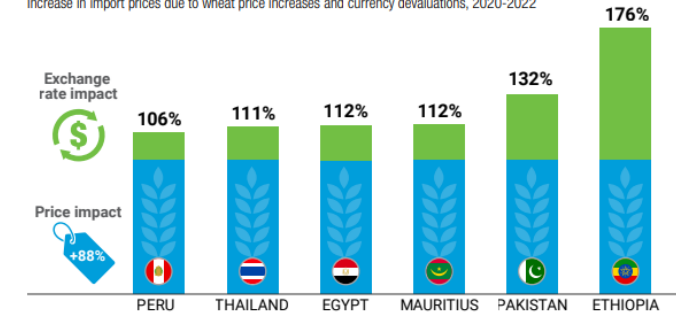
2. Pandemic, climate change and other challenges have limited peoples’ and countries’ capacity to cope

- More than 20 million people are forcibly displaced each year due to climate change effects (UNHCR)
- Globally, 60 per cent of the poorest countries are in debt distress or at a high risk of debt distress (IMF)

3. Food system has shown limited resilience against major shocks

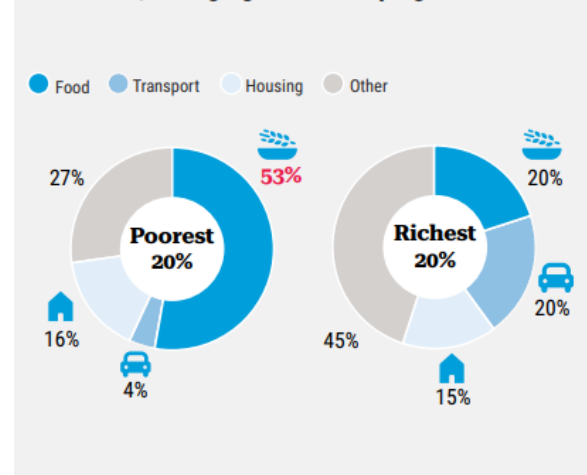
- Food insecurity has risen dramatically: 349 million people across 79 countries are acutely food insecure (WFP)
- Prevalence of undernourishment is also on the rise

Figure 3. Exchange rates can increase wheat import prices
Increase in import prices due to wheat price increases and currency devaluations, 2020-2022



Source: UNCTAD Double Burden

The poorest will be the hardest hit as food prices rise: Composition of consumption expenditure by household, emerging and developing economies



Source: UN Global Crisis Response Group, based on FAO.

Longer term developments

1. Not on track with SDG achievements

- SDG 2: Zero Hunger
 - "End hunger, achieve food security and improved nutrition, and promote sustainable agriculture"
- SDG 10: Reduced Inequality
 - Implement the principle of special and differential treatment for developing countries, in particular LDCs, in accordance with WTO
- SDG 17: Partnerships to achieve the Goals
 - Significantly increase the exports of developing countries, in particular with a view to doubling the LDC's share of global exports by 2020

2. Trade has lifted millions out of poverty and is a requirement for food security but not all have benefitted

- Rising inequality
- Slow or even no reduction of food insecurity



Some Development Issue

1. Domestic Support reflects the unique character of agriculture

- Vulnerable to uncontrollable events such as natural disaster
- Importance for food security and beyond

2. Trade distorting

- Form of support vary greatly by country
- Several currently used forms are trade distorting

3. Support causes tensions

- Agricultural exporters
- Lower income countries in particular LDCs who cannot afford to subsidise their agriculture sectors

4. Required balance of trade rules

- The need to ensure that domestic support does not harm producers elsewhere
- With the need to increase resilience of food systems and investment in agriculture



Current Use of Domestic Support

Domestic Support has risen in recent years

- Total support to agriculture USD 817 bill. per year (2019-2021) from USD 720 bill. (2018-2020)
 - OECD economies: USD 346 bill.
 - Non-OECD Emerging (11): USD 464 bill.
 - Individual producers **17% of gross farm receipts in OECD** countries
 - Individual producers **13% of gross farm receipts in Emerging** countries
- In WTO notifications no clear trend (but time lag for some members)
 - For example, 10 major traders around USD 130 bill. between 2015 and 2018 (all notified support under Article 6 added up)
 - But, some significantly increased and some decreased
 - **Developed 5 major traders support 4.9%** of value of production (2018)
 - **Developing 5 major traders support 3.2%** of value of production (2018)
 - All domestic support (incl. green)
 - Developed 5 major traders: **20%**
 - Developing 5 major traders: **9%**



Economic effects are significant

1. Increase support

- Assuming full use of policy space (trade-distorting support increases to USD 1.3 trillion)
- Global agricultural production is projected to increase by 6 percent and global prices will drop by 8 percent (IFPRI)

2. Reducing support

- Eliminating support to land and capital has an impact on trade and output (here output changes, %)

	EU	USA	China	South Asia	South East Asia	Latin America	MENA	Ghana	South Africa
Cereals	-2.37	-0.05	-0.11	0.11	0.08	0.35	0.42	-0.11	0.82
Vegetables, fruit, nuts	-0.32	2.04	-0.3	-0.09	-0.16	-0.69	0	-0.13	-0.08
Oil seeds	-8.28	1.19	-5.25	0.33	0.6	2.16	1.78	0.19	1.23
Crops nec	-2.15	-0.54	-2.95	0.36	0.77	1.6	2.24	2.88	2.92
Cattle,sheep,goats,horses	-2.03	1.01	0.29	0.22	0.05	0.16	0.27	0.77	0.06
Animal products	-6.31	1.35	0.93	0.06	0.97	0.82	1.07	0.79	3.71
Meat: cattle,sheep,goats,horse	-1.3	0.47	0.81	0.47	-0.02	0.05	0.08	0.34	0.05
Meat products nec	-4.53	1.14	0.62	0.14	1.58	1.19	0.75	1.66	1.24
Vegetable oils and fats	-2.12	0.27	-1.03	0.22	0.86	0.54	0.4	0.78	0.61
Dairy products	-2.88	0.49	0.74	0.02	0.94	0.16	0.76	1.8	0.5
Sugar	-0.32	0.7	-0.16	0	-0.07	-0.1	0.16	-0.31	0.12
Food products nec	-0.91	0.16	-0.05	0.04	0.23	0.1	0.18	-0.2	0.44
Beverages and tobacco products	-0.24	-0.03	-0.04	0	-0.01	-0.01	-0.02	0	0.04

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Issues with Domestic Support to be addressed

1. **WTO rules, are they fit for purpose?**

- Current WTO rules may have disciplined domestic support to some extent (transparency, shift to green box, ...)
- BUT seem to fail to reduce the large amounts of trade distorting support still provided
 - To those who have historically provided large Domestic Support
 - And growing support in some economies

2. **Assymetry in AoA in current total AMS**

- Vast majority of domestic support entitlements for trade distorting support under Article 6.3 held by developed countries

3. **Enough space for public investment in agriculture and food systems to make them more stable and resilient ?**

- Development box (Article 6.2)
- Green box (Annex 2) allows unconstrained spending on programs that are thought to have limited effects on trade
 - including for research,
 - pest and disease control,
 - rural infrastructure, and
 - extension and advisory services



Looking ahead

1. **Facilitate trade, improve the functioning of markets, and enhance the role of the private sector** (joint statement FAO, WFP, WB, WTO)

- Countries should minimize trade distortions, strengthen the provision of public goods, [...] to contribute meaningfully to improved food security outcomes.
- funding should be reformed and repurposed in ways that strengthen the resilience and sustainability of the agri-food system
- such as the adoption of good agricultural practices, research and innovation (including in fertilizer application efficiency and alternatives to synthetic fertilizers), extension and advisory services, improved infrastructure and logistics, and digital technologies that improve productivity sustainably

2. **Broader context**

- Enable developing countries, in particular LDCs, to pursue their food security objectives
 - This implies that an appropriate policy space is available
 - This implies also that countries' fiscal space and financial means are available.



Thank you!

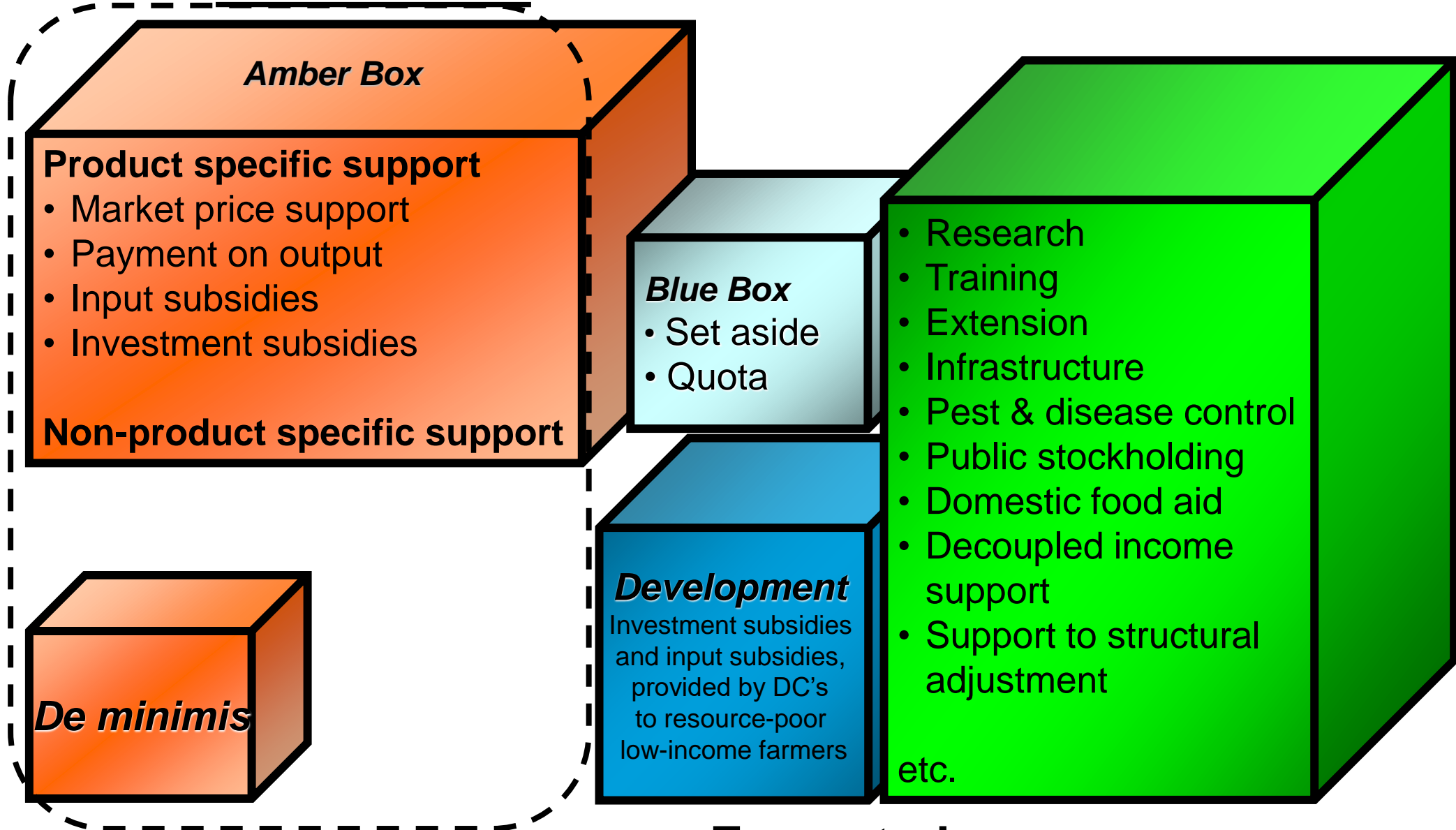
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Measures with commitments

Domestic Support



Exempted measures