Negative Elements in AMS: Meaning and Consequences

Lars Brink

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Negative elements in AMS – why an issue?

• Countries treat negative elements differently
  – Stay below commitment level
  – “Loopholes”?  

• Rarely an issue in the past
  – Lots of room within Total AMS commitments  

• Potential to be a future issue
  – Without Doha? — With Doha?
Two factors combine to raise importance

1. Support increases fast in developing countries
   - More support in form of AMS support?
   - *de minimis* allowance is PS AMS constraint for many

2. Tighter Doha constraints on AMS support, esp. for developed countries
   - Lower Total AMS ceiling for several countries
   - Limits on PS AMSs for all countries
   - Lower *de minimis* percentage for quite a few

Incentive to find “loopholes” to avoid violation
What are negative elements in AMS?

- **Negative direct payments**
  - PS

- **Negative interest rate gap in credit program**
  - PS or NPS

- **Levies or fees**
  - PS or NPS

- **Negative price gap in market price support**
  - PS
Overall picture from UR and notifications

- **No great prevalence of negative elements**
  - 1986-88 and accessions: a few negatives, treated in different ways
  - 1995 to 2008
    - 14 countries (10% of members); average 2-3 products each

- **CoAg: EC, USA, Canada, Pakistan, India, Tunisia, Jordan**
  - plus China, Japan, Switzerland, Turkey, Hungary, Venezuela

- **Norway very special case**
  - Negative NPS AMS offsets PS AMSs
    - Total AMS violation if no offset
But questions arise

• Rules for how to treat negatives?

• What role for 1986-88 precedents?

• How do countries actually treat negatives?

• Consequence of treating one way or another?
Rules?

- No mention of negative elements or negative AMSs in URAA
  - AMS is support “in favor of“ producers – can it be negative?

- Can negative elements exist in calculating an AMS?
  - Practice shows: yes (in 1986-88 and notifications)

- Levies and fees “shall be deducted”
  - CoAg format for notifications has two formulas with minus sign
  - Deduction can generate negative MPS or negative AMS

- “Constituent data and methodology” in country’s 1986-88 tables
  - If negatives in 1986-88, treat the same way in notifications
  - How to treat new policies since 1986-88?
  - “In accordance with” Annex 3 overrides “taking into account” 1986-88
Recognize a negative or set it to zero?

- At what step to recognize negative or set to zero?
  - Calculate price gap for MPS
    - gap can be negative
  - Subtract levies or fees from MPS
    - can make net MPS negative
  - Add MPS and payments to form AMS
    - AMS can be negative
  - Subtract levies or fees from AMS
    - can make net AMS negative
  - Sum AMSs to form Current Total AMS
    - negative AMS can reduce CTAMS

- Size of AMSs and Current Total AMS depends on treatment of negatives
### When to set negative to zero?

<table>
<thead>
<tr>
<th></th>
<th>Normal</th>
<th>Treatment of negatives</th>
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<tbody>
<tr>
<td></td>
<td>Recognize all negatives</td>
<td></td>
</tr>
<tr>
<td>$/t Admin price</td>
<td>+ 90</td>
<td>40</td>
</tr>
<tr>
<td>$/t Reference price</td>
<td>- 60</td>
<td>60</td>
</tr>
<tr>
<td>$/t Price gap</td>
<td>= 30</td>
<td>-20</td>
</tr>
<tr>
<td>Mt Eligible production</td>
<td>* 20</td>
<td>20</td>
</tr>
<tr>
<td>$M MPS</td>
<td>= 600</td>
<td>-400</td>
</tr>
<tr>
<td>$M Payments</td>
<td>+ 300</td>
<td>300</td>
</tr>
<tr>
<td>$M Gross AMS</td>
<td>= 900</td>
<td>-100</td>
</tr>
<tr>
<td>$M Levies</td>
<td>- 250</td>
<td>-250</td>
</tr>
<tr>
<td>$M Net AMS wheat</td>
<td>= 650</td>
<td>-350</td>
</tr>
<tr>
<td>$M Net AMS beef</td>
<td>+ 260</td>
<td>260</td>
</tr>
<tr>
<td>$M Current Total AMS</td>
<td>= 910</td>
<td>-90</td>
</tr>
</tbody>
</table>

Set MPS to 0
Set gross AMS to 0
Set net AMS to 0
## Selected Examples of Negative Elements

<table>
<thead>
<tr>
<th>Country</th>
<th>Policy</th>
<th>Treatment</th>
<th>Effect on Base</th>
<th>In notifications</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>In 1986-88</td>
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<tr>
<td></td>
<td>Policy</td>
<td>Treatment</td>
<td>Effect on Base</td>
<td>Treatment</td>
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<tr>
<td></td>
<td>Tunisia</td>
<td>Neg price gap</td>
<td>Set AMS to zero</td>
<td>Increase</td>
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<td></td>
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<td></td>
<td>Recognize neg AMS</td>
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<tr>
<td></td>
<td>Jordan</td>
<td>Neg price gap</td>
<td>Set AMS to zero</td>
<td>Increase</td>
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<td></td>
<td>Set neg AMS to zero</td>
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<tr>
<td></td>
<td>Norway</td>
<td>Pesticide levy</td>
<td>Reduce AMS</td>
<td>Reduction</td>
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<td></td>
<td>Recognize neg AMS</td>
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<td></td>
<td>EEC</td>
<td>Co-resp. levy</td>
<td>Reduce AMS</td>
<td>Reduction</td>
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<td></td>
<td>Set neg AMS to zero</td>
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<td></td>
<td>USA</td>
<td>Crop Ins. premium</td>
<td>Reduce AMS</td>
<td>Reduction</td>
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<td></td>
<td></td>
<td>Reduce AMS</td>
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Sensible practice

• **Yearly notifications**
  – Calculate AMS as net support; let negatives offset positives
  – If net AMS is negative, set **net AMS** to zero
  – Avoids negative net AMS reducing Current Total AMS

• **Averaging over time** for accessions and for Doha PS AMS caps:
  – Recognize yearly negative net AMSs: do not set them to zero
  – Why? Want to measure average net AMS in the period

• **What if period’s average net AMS is negative?**
  – Set period’s average net AMS to zero
    • **Doha PS AMS caps**: invoke *de minimis* threshold rules for actual level of cap
Search for negatives to reduce CTAMS?

• Set administered price below reference price
  – Domestic market price level does not matter
    • Can be as low as administered price (export tax) or higher than border price (import barrier)
  – Extend logic of Japan rice: only admin price matters
  – Get negative price gap if admin price is low enough

• Levy on ruminants -- they emit methane
  • Have to deduct levy from AMS if agr policy
  – Can make AMS go negative

• Use negative AMS to make CTAMS small enough?
How does it matter?

• Are negative elements used as “loopholes”?  
  – Depends on treatment  
    • Some legitimate, some look like loopholes

• What looks like loophole may be legitimate  
  – Panels and AB read URAA very literally  
  – Little room for wishful-thinking interpretation
• Look carefully at draft Doha Agreement
  – Possible future “legitimate loopholes”?

• Evaluating results of Doha
  – Cannot predict all creative interpretations
  – But: temper analysis with possibility of surprises

• Why do they need to be surprises?
Thank you!
Lars.Brink@agr.gc.ca