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Negative Elements in AMS: Meaning and Consequences

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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?

| | | | Normal | Recognize all negatives | Treatment of negatives | | |
|------|---------------------|---|--------|-------------------------|------------------------|--------------------|------------------|
| \$/t | Admin price | + | 90 | 40 | | | |
| \$/t | Reference price | - | 60 | 60 | | | |
| \$/t | Price gap | = | 30 | -20 | | | |
| Mt | Eligible production | * | 20 | 20 | Set MPS to 0 | | |
| \$M | MPS | = | 600 | -400 | 0 | | |
| \$M | Payments | + | 300 | 300 | 300 | Set gross AMS to 0 | |
| \$M | Gross AMS | = | 900 | -100 | 300 | 0 | Set net AMS to 0 |
| \$M | Levies | - | -250 | -250 | -250 | -250 | -250 |
| \$M | Net AMS wheat | = | 650 | -350 | 50 | 250 | 0 |
| \$M | Net AMS beef | + | 260 | 260 | 260 | 260 | 260 |
| \$M | Current Total AMS | = | 910 | -90 | 310 | 10 | 260 |

Selected Examples of Negative Elements

| | | In 1986-88 | | In notifications | |
|----------------|-------------------|-----------------|----------------|--|---------------------------------|
| | Policy | Treatment | Effect on Base | Treatment | Effect on CTAMS |
| Tunisia | Neg price gap | Set AMS to zero | Increase | Recognize neg AMS | Reduction |
| Jordan | Neg price gap | Set AMS to zero | Increase | Set neg AMS to zero | No reduction |
| Norway | Pesticide levy | Reduce AMS | Reduction | Recognize neg AMS | Reduction |
| EEC | Co-resp. levy | Reduce AMS | Reduction | Set neg AMS to zero (not same policy) | No reduction |
| USA | Crop Ins. premium | Reduce AMS | Reduction | Reduce AMS | No effect (<i>de minimis</i>) |

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

Larger picture and Doha

- **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!
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