# WTO green box programs are a “go,” WTO amber box programs can “proceed but under caution and stated limits”

In designing US domestic agricultural support programs, US policy makers consider the extent to which these policies will be viewed as falling within the World Trade Organization (WTO) parameters of the amber box. In WTO parlance, “amber box programs, the most market-distorting programs, are cumulatively measured by the aggregate measure of support (AMS). Certain amber box outlays may be excluded under the de minimis exemptions…. Non-exempted amber box outlays are subject to an annual aggregate spending limit” (Randy Schnepf, https://tinyurl.com/y78dhuqz, the source of all direct quotes in this article).

In the case of the US, the annual AMS is limited to $19.1 billion per year. This amber box limitation is in addition to any green box programs—a concept we examined in the previous column. In 2012, the US spent $127.5 billion on green box programs “including regulatory and market assistance programs, conservation activities, and domestic food programs.”

In describing the market-distorting measures that are the focus of the amber box, Schnepf writes, “the most easily recognized distortion occurs when a program offers price support or income payments based on (i.e., coupled to) the current level of farm activity—either area planted or volume of output. Such an incentive can encourage greater production or output than the market is prepared to absorb and, as a result, tends to lower market prices.”

Using that definition, it can be argued that the two major programs in effect under the 2014 Farm Bill, the Agricultural Risk Coverage (ARC) program and the Price Loss Coverage (PLC) program, fall into the amber box because they provide income support and are linked to current production because farmers have either recently updated their program acres or anticipate that they will be able to do so in the next farm bill.

At the same time, the “decoupled” Direct Payment (DP) program that these programs replaced was considered to be green box because it was not linked to current production. Fair enough, let’s now compare DP with ARC and PLC.

The rationale for placing a policy in the amber box is that the incentives it provides “can encourage greater production or output than the market is prepared to absorb and, as a result, tends to lower market prices.” So, how do the results of the DP policy compare with the results of the current ARC and PLC?

In the absence of the Renewable Fuels Standard, when farmers received the fixed direct payments they farmed all their land every year whether prices were high or prices were low. In fact, when prices were low, individual farmers will tell you that the incentive was to maximize production so they could spread their fixed costs over more units of production. And when a farmer was economically forced to cease production, the land was not idled. It was rented or purchased by a neighboring farmer and kept in production at the same or higher level of production.

Under the ARC and PLC programs that are a part of the 2014 Farm Bill, how have farmers responded to the lower prices we have seen in recent years? As with the DP, farmers have planted nearly all their acres—certainly there has not been a non-weather-related reduction sufficient to have any impact on prices—as prices have steadily declined. They have changed their mix of crops to take advantage of any price differentials among the crops, but the total planted acreage has remained stable.

And, if we look at economic theory that is EXACTLY—yes, if we were texting that would be called "shouting"—what we would expect! Agricultural economists have long-known that crop agriculture operates in a market with a low price-elasticity of both supply and demand. In the short- to medium-run, and we are always in the short- to medium-run, neither producers nor consumers respond sufficiently to low prices to clear surplus production from the market. The result is long periods of low prices interrupted by occasional years of higher prices that result from a major production problem, not a change in policy.

Remember when in the previously column, we said that placing a policy in a colored trade box is not like placing a point outside the box, on the line forming the box, or inside the box. That can be done with precision, but here we have two policies that have the same impact on production—NONE—and yet one is placed in the green box and the other in the amber box.

And when we look at subsidized crop insurance, we get the same result. In fact, in the current absence of a meaningful loan rate and without access to subsidized crop revenue insurance most farmers would have a tough time getting a loan from their banker this spring. In the current economic climate in farm country, crop revenue insurance may be more tightly tied to greater production—than the market is prepared to absorb—than DP, ARC, or PLC.

From the perspective of the lack of impact on production and price-reducing over-production, the placing of various programs into the green or amber boxes can seem quite arbitrary. The "box" distinction being made among the various recent or current programs that are "ex ante" determined to be coupled or decoupled is a theoretical distinction without any meaningful difference in the real world of agricultural production.

This is in contrast to the geometric point on a plane that can be determined to be outside the box, on the line that forms the box, or inside the box with exacting and replicable precision.

*Policy Pennings Column 916*

*Originally published in MidAmerica Farmer Grower, Vol. 37, No. 162, March 23, 2018*

*Dr. Harwood D. Schaffer: Adjunct Research Assistant Professor, Sociology Department, University of Tennessee and Director, Agricultural Policy Analysis Center. Dr. Daryll E. Ray: Emeritus Professor, Institute of Agriculture, University of Tennessee and Retired Director, Agricultural Policy Analysis Center.*
*Email: hdschaffer@utk.edu and dray@utk.edu; http://www.agpolicy.org.*