

**Everybody knows that the boat
is leaking:
How Norway thwarts its WTO commitments**

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by

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1. Introduction

The World Trade Organization (WTO) has as its primary purpose to open domestic markets to international trade for the benefit of all. The system's overriding purpose is to help trade to flow as freely as possible. The Uruguay Round produced the first multilateral agreement that addressed trade issues in the agricultural sector in a comprehensive manner. This was a significant first step towards greater order, fair competition and a less distorted sector internationally.

Norway is a economically advanced country in north-western Europe, and as with many other economically developed countries agriculture is a sector that receives financial support through government policies and is protected from international competition. The sector's contribution to GDP is well below one per cent and together with forestry contributes less than three per cent of total employment, as measured in standard man-years of labour. Production is concentrated in a narrow range of activities, primarily dairy and livestock production (WTO 2004; NILF 2007).

When the WTO was created in 1995 the level of protection in Norwegian agriculture was high. Because one the major aims of the Uruguay Round of negotiations was to discipline and reduce agricultural support one would expect to see policy effects in countries such as Norway. As will be shown in this article the effect of the agreement on government support for agriculture has been minimal.

Norwegian agricultural policy is aimed at maintaining high levels of agricultural activity in all parts of the country, implying that self-sufficiency is a goal along with other non-production related objectives. These objectives are to ensure that small-scale farming contributes to: (1) rural development, employment and settlement; (2) the supply of environmental public goods, linked to the preservation of the rural landscape; (3) long-term food security; and (4) consumer welfare linked to production methods that improve the health of animals and plants (WTO 2001a; NILF 2007). To meet these objectives, a number of agricultural policy instruments are employed, including border protection to support internal market prices (such as tariff-based import regulations) and budgetary domestic support. Agricultural products not produced domestically are generally subject to low or zero tariffs. However, for products that are produced domestically high tariff protection is used as a means

of supporting domestic prices and farm income (WTO 2001a). According to the WTO (2004), 44 percent of Norway's bound tariffs rates (most-favored nation rates) for agricultural lines have prohibitive tariffs exceeding 100 percent, mostly ranging between 100-400 per cent.

In addition to the protection provided through high tariffs and market access quotas, farmers are recipients of domestic support from the national budget. Norway's high domestic support levels are reflected in a high producer support estimate (PSE) value. According to the OECD (2012), Norway's PSE was 58 percent in 2011, meaning that the country ranked first among OECD members, followed by Switzerland, Korea and Japan.

This article serves two purposes. First, we conduct a WTO-consistent assessment of Norwegian agricultural programs and policy since 1995. Most important, we highlight cases where Norway has found ways to work around its WTO-commitments in order to avoid policy reform. The paper is organized in four sections. Section 2 provides a review of key elements of domestic agricultural policy. In section 3 Norway's WTO official agricultural support notifications, as required under the terms of the Uruguay Round Agreement on Agriculture (URAA), are examined and compliancy is assessed in terms of the aggregate measurement of support (AMS) commitments during 1995-2010. Conclusions are offered in Section 4.

2. Domestic Agricultural Policy

To meet its agricultural policy objectives, Norway's domestic support programs have been accompanied by a restrictive trade policy. Direct support is provided through various price and income support instruments, production subsidies and investment measures. Direct payments are differentiated to account for geographical differences and farm size (NILF, 2007). Regulatory and other policy measures that aim to stabilize and support domestic market prices feature prominently. Trade instruments (i.e., tariffs, tariff-rate quotas and export subsidies) provide the backbone for domestic price support.

Target prices are an important element in market regulation. These are determined annually for the main agricultural products (i.e., dairy, meat products and eggs) through negotiations between the Norwegian government and the two farmers' unions. Farmer-owned cooperatives are given the responsibility to regulate sales in domestic agricultural markets to ensure that farm gate prices stay close to the target prices (NILF, 2007).

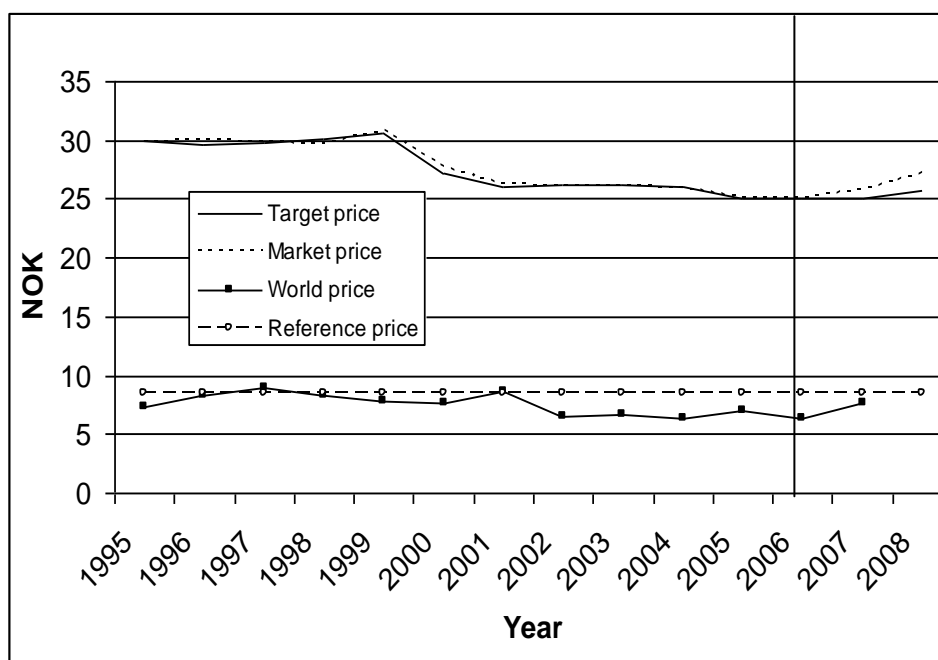
There are several institutional and regulatory arrangements that contribute to ensuring that the market price remains close to the target price. First, market access restrictions provide the necessary protection to enable target prices to be set above border prices. Prohibitive MFN tariff rates mean that imports are limited to relatively small tariff-rate quotas (with in-quota tariff rates that typically are above 100 percent). Second, the cooperatives, being responsible for regulating the markets, are exempt from anti-trust laws relating to pricing practices and market concentration, and, consequently, have relatively high market shares.¹ Third, any farmer who is not a member of a cooperative is legally obliged to contribute to the financing of the marketing functions performed by the cooperative, e.g., storage or export. Finally, the Norwegian Agricultural Authority (NAA) is charged with temporarily reducing applied tariffs on imports whenever the market price exceeds the target price by more than the specified upper limit for two consecutive weeks.² There have been times when the applied tariff has been lowered to keep the market price below the upper limit (NILF, 2007). In addition to subsidized exports of cheese, which take place on a regular basis, export subsidies have been employed to prevent domestic price from falling too far below the target price for other products (primarily other dairy products and meat).

To illustrate the typical price pattern in the domestic market, data for poultry for 1995-2008 are presented in Figure 1. The dotted line represents the domestic market price, which has moved in lock step with the annually negotiated target price, depicted by the solid line. At the bottom of the chart are the corresponding border price and the fixed 1986-88 reference price notified in Norway's Uruguay round domestic support commitments.³

¹ For some products, e.g., dairy, the market share of the cooperative exceeds 90 percent. However, in other commodity categories, particularly fruit and vegetables, market shares are below 50 percent.

² The NAA is an agency of the Ministry of Agriculture and Food, which is responsible for ensuring that all agricultural schemes and regulations are administered uniformly across the country.

³ The border price of poultry was chosen to be comparable with the domestic price. It is taken from the OECD PSE database, table 4.6, and is defined as a "border reference price (f.o.b.)", referred to as line VII.1 in the table. This price includes processing costs.



Sources: NAA (2009) and OECD (2007)

Figure 1. The market for poultry. Prices 1995-2008

Figure 1 shows that the domestic price is far higher than the border price (by 250-300 percent), which is made possible by a prohibitive tariff (425 percent). Furthermore, it is apparent that there is a very high correlation between the target price and the market price. Although the graph only illustrates the price pattern for poultry, the situation is similar in most other regulated markets in that there is a general tendency for a high degree of correlation between the market price and the target price. The correlation is perfect for grains. It is very high for the various meat products and milk, although it is weaker for fruits and vegetables due to the somewhat greater price variability associated with these products.

3. Domestic support: WTO commitments, compliancy and composition of support

Despite ushering in trade rules and agreements that were intended to introduce discipline on international agricultural markets, the WTO provided net agricultural importing countries such as Norway considerable flexibility in managing their agricultural policy. But commitments have been introduced. An accomplishment of the Uruguay round was that a countries' domestic support should be notified. The notifications should follow a scheme where support should be grouped under one of the following headings: Aggregate measure of

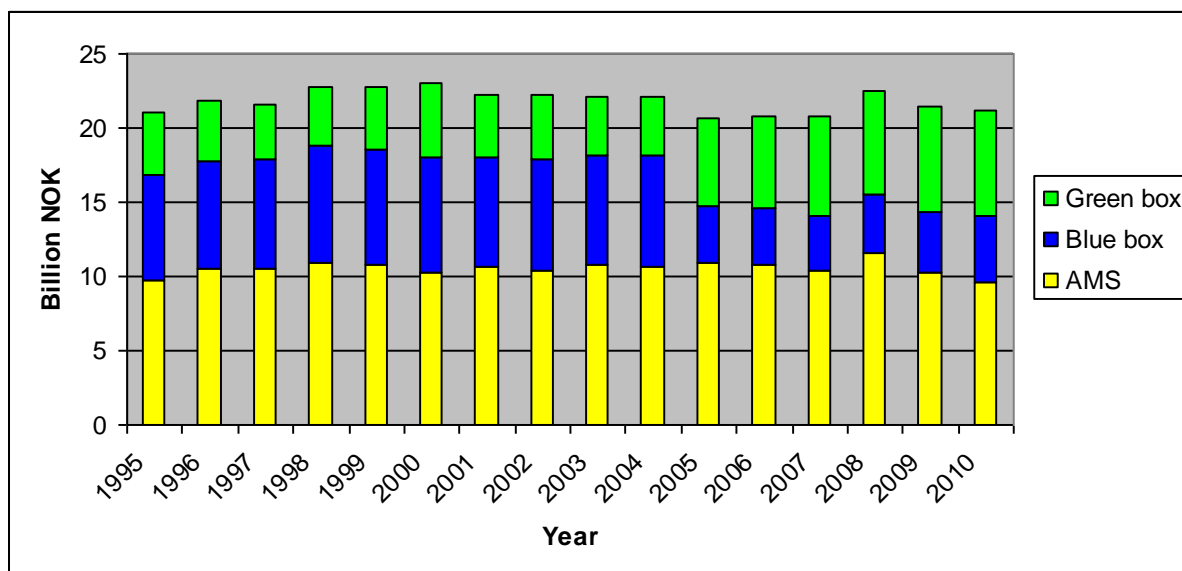
support (AMS) or amber box support as it is often referred to, green box or blue box support. Under AMS any agricultural programs that encourage production through subsidization of the cost of inputs into production or support of market prices for agricultural outputs are reported. Support schemes with no or minimal trade-distorting effect can, according to Annex 2 of the URAA, be placed in the green box. This type of support must be provided through a publicly-funded government program not involving transfers from consumers, and cannot have the effect of providing price support to producers. Programs listed under the blue box relates to payments connected to production with quotas or production ceilings

In the next sections Norway's WTO commitments from 1995 are reported.⁴ These notifications are made in Norwegian krone (NOK). For readers who are unfamiliar with the value of the Norwegian currency, the approximate exchange rate against the USD in August 2012 was NOK 5.83, which is in the lower end of the rates over the last 25 years. A more representative value of the USD in terms of NOK would be to take the average value over the last 25 years, which is approximately NOK 7.50.

3.1. Norway's notifications

In Figure 2 the value of Norwegian current total AMS and the value of the three different types of domestic support are presented for the years 1995 to 2010, which is the last year Norway has notified support for.

⁴ Notification documents submitted by Norway to the WTO on domestic support can be accessed through the WTO's documents on-line database. These documents have a document symbol, G/AG/N/NOR/.



Source: WTO notification documents (G/AG/N/NOR/ various years);

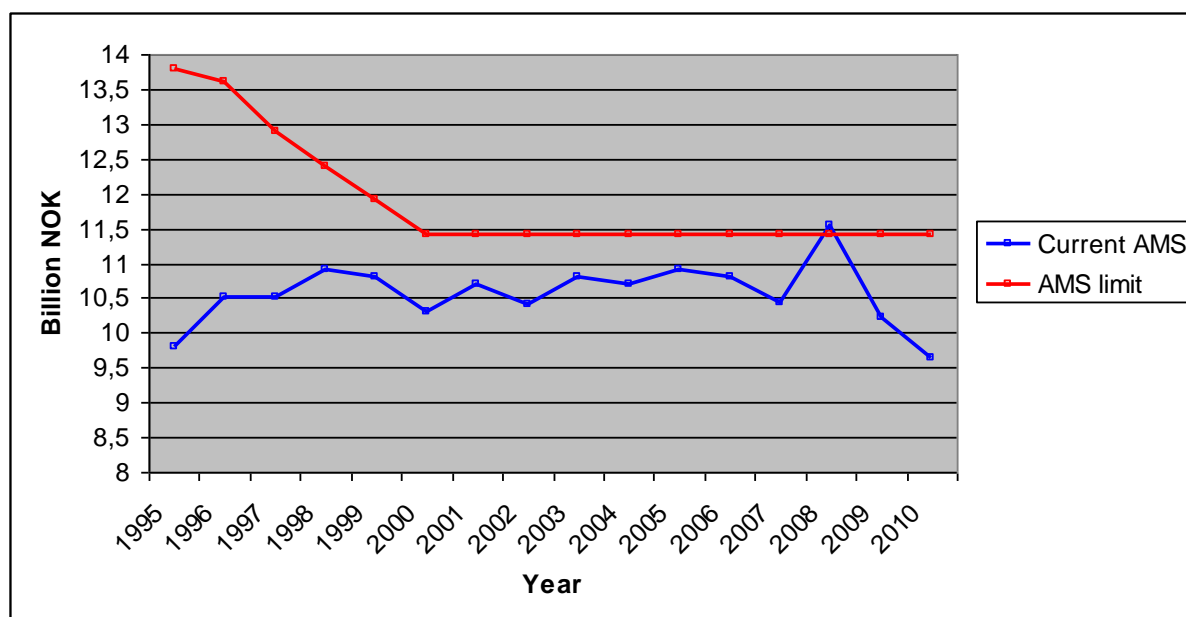
Figure 2: Norway's Domestic Agricultural Support Notification 1995-2010

We see that the total notified support has stayed more or less constant through the period. The same is true for the AMS support, the lowest section of the bar (in yellow) in Figure 2. That means that the sum of blue and green box has also been more or less constant. The most distinguished feature of the figure is seen in the share between blue and green support. In 2005 the blue box notification dropped significantly, while the green box notification increased accordingly.

3.2. WTO commitments and compliancy in domestic support

Amber box support

During the Uruguay Round negotiations of the GATT, Norway established a base rate of its total value of AMS during 1986-88 at NOK14.3 billion. Norway's commitment required a 20 percent reduction in AMS from the base rate over the implementation period, 1995-2000. From 2000, the final bound total value of AMS has been NOK11.4 billion. The bound rate of total AMS is the kinked line (in red) drawn in Figure 3.



Source: WTO notification documents (G/AG/N/NOR/ various years);

Figure 3: Current total AMS relative to AMS bindings. Norway, 1995-2010

The bound rate decreases between 1995-2000 in accordance with the annual reduction commitments and then levels off at the new current total AMS ceiling after 2000.⁵

The lower line (in blue) in Figure 3 is notified AMS. We see that the gap between the bound rate and the actual annual value narrowed, particularly from 2000 to 2007. In 2008 the AMS-notification surpassed the commitment. The last two years the AMS notification has decreased in particular the last year which is reported, 2010. The explanation and discussion around this is postponed to the next section 3.3.

Looking at the details in Norway's AMS notification, more than 90 % is in the form of market price support⁶, which is the difference between an administered price (that is, a target price that is agreed to by the Ministry of Agriculture and Food and producer groups, or fixed farm-gate prices in the case of grains) and an external reference price (border price),

⁵ AMS is calculated in nominal terms. Consequently, there will be a decrease in the AMS commitment level in real terms if a general price increase is considered.

⁶ In addition to price support, there is product-specific support that comes in the form of non-exempt direct payments. These are relatively small deficiency payments provided to milk, bovine, and sheep production. Other product-specific support includes transport subsidies to meats and eggs, and a farm feed adjustment (which is considered an associated fee). The feed adjustment value is subtracted to reduce the domestic support that is provided to livestock and milk producers for having to buy concentrated feed at a price above the world market price. Under the AMS support is also reported payments made under product-specific equivalent measurements. These are subsidies related to marketing, storage and transport of fruit, berries and vegetables. We also find Non-product-specific AMS and associated fees and levies include insemination subsidies and taxes on fertilizers and pesticides, respectively.

multiplied by the eligible production. Price support is essentially support that consumers pay for in the form of higher food prices rather than involving a budgetary outlay. The target prices (primarily on livestock meat products, eggs, milk and potatoes) are supported through trade-regulating market access restrictions and export management. This ensures that the internal domestic market prices are close to the targeted prices.

Green box support

There are no ceilings or reduction commitments in the value of support under the green box type of agricultural programs. Table 1 lists the most important programs under the green box category.

Table 1. Principal programs notified and calculated under green box, 1995-2010

| PROGRAMS | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|----------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Research and similar | 971 | 1023 | 707 | 828 | 880 | 909 | 899 | 803 | 875 | 990 | 557 | 627 | 829 | 818 | 876 | 903 |
| Grain price support | 694 | 506 | 747 | 725 | 663 | 716 | 718 | 540 | 529 | 671 | 7 | 6 | 7 | 6 | 7 | 6 |
| Investment aid | 763 | 741 | 654 | 713 | 849 | 771 | 858 | 853 | 632 | 664 | 599 | 613 | 632 | 444 | 625 | 549 |
| Vacation scheme | 1413 | 1426 | 1281 | 1326 | 1394 | 1480 | 1400 | 1539 | 1161 | 1191 | 1183 | 1202 | 1174 | 1232 | 1261 | 1276 |
| Landscape scheme | 161 | 180 | 180 | 188 | 217 | 264 | 264 | 318 | 292 | 249 | 3395 | 3613 | 3943 | 4157 | 4186 | 4356 |
| Others | 114 | 215 | 106 | 109 | 272 | 886 | 177 | 284 | 392 | 221 | 124 | 126 | 133 | 206 | 137 | 147 |
| Total | 4116 | 4091 | 3675 | 3889 | 4275 | 5026 | 4316 | 4337 | 3881 | 3986 | 5865 | 6187 | 6718 | 6863 | 7092 | 7237 |

Source: WTO notification documents (G/AG/N/NOR/ various years);

During the years up to 2004, the largest single-entry line item listed under green box support was the “Vacation and replacement scheme”. This program gives refunds for expenses during holidays and alleviates financial difficulties due to illness and is a part of the welfare scheme to farmers. This kind of support is not mentioned in the Annex 2 of the URAA. The support is quite substantial, constituting about 20 % of the total green box support notified. Since this scheme in reality can have an equivalent effect as a subsidy to farm labor, it can be argued that the scheme has, in fact, stimulated production. In addition, because the payment that is made under this scheme is either based on the number of animals or the acreage in production, this also appears inconsistent with the production-neutral requirement that must be met under green box support. Member countries could challenge Norway’s placement of this program under the green box, requiring the notification of such support under AMS instead.

Another questionable measure is the grain price support program notified under the Annex 2 heading of public stockholding for food security purposes. During 1995-2004, the payment was given to processing industries that use Norwegian grain, and constituted a price-reducing subsidy because the payment was provided on a *per kilogram* basis. A second item notified under the public stockholding heading was expenses incurred by the government in regulating the grain price. Neither of these items complies with the Annex 2 criteria for public stockholding for food security purposes.⁷ In the latest notifications by the Norwegian government (2005-2010), the grain price support has been removed from the green box.

The “Research, advisory and training support programs” are services provided by the government, which are categorized as “General services” by the WTO. In accordance with Annex 2 of the URAA, “General services” are targeted to agriculture or the rural community, but should not involve direct payments to producers or processors.

The “Investment aid” includes the expenditures from the Agricultural Development Fund. The investment aid is given under the WTO rubric of “Structural adjustment assistance provided through investment aids”, which in Norway’s stated case is given as an aid for structural adjustment and rural development services. Increasingly these funds have been redirected towards stimulating new business activities, in addition to “traditional farming”, in rural areas. However, increasingly less of this support is being given as investment support for traditional agricultural production activities (NILF 2007). This line item accounts for about 8 percent of the total notified green box support. The most important WTO conditions for this kind of support are that the payment shall not give a producer the incentive to produce a certain product, and that the payment shall only compensate and assist the financial or physical restructuring of a producer’s operations from the structural disadvantages, to be given only for the period necessary for the realization of the investment (GATT 1994).

Since 2005 environmental payments have become the largest green box category of support for Norway. These consist of payments under the acreage and cultural landscape scheme, but also include smaller programs such as a subsidy for organic production. Earlier, payments under the acreage and cultural landscape scheme were notified in the blue box, but in 2005 they were included in the existing National Environmental Program. An environmental plan must be followed by participants and acreage must be managed in an

⁷ “Expenditures (or revenue foregone) in relation to the accumulation and holding of stocks of products which form an integral part of a food security programme identified in national legislation. This may include government aid to private storage of products as part of such a programme. Food purchases by the government shall be made at current market prices and sales from food security stocks shall be made at no less than the current domestic market price for the product and quality in question” (GATT 1994, p. 58).

environment-friendly manner. A farmer receives a specified payment per hectare as a reward for compliance. In addition, payments are provided on an activity-specific basis to help cover the costs of implementing certain types of production techniques. The NAA claims that the acreage and cultural landscape scheme complies with green box criteria. However, this is questionable. First, in order for farmers to receive support, production (active farming) is necessary. Second, to be classified as an environmental payment, according to the Agreement, the amount should be limited to the loss of income or additional costs involved with compliance with an environmental program. The payments in this case do not seem to be related to additional costs or income foregone.

Blue box support

Support schemes classified under the blue box fall under three types: (1) payments based on fixed area and yields; (2) payments made on 85 percent or less of the base level of production; and (3) livestock payments made on a fixed number of head. As with the value of green box support programs, there was no WTO commitment requiring a ceiling on the value of blue box support. Table 2 lists all the programs under the blue box as notified from 1995-2010.

Table 2. Principal programs notified under blue box, 1995-2010

| PROGRAMS | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------------------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Landscape schem | 2751 | 3209 | 3305 | 3752 | 3176 | 3123 | 2969 | 3023 | 2976 | 3003 | 0 | 0 | 0 | 0 | 0 | 0 |
| Structural support | 1539 | 1483 | 143 | 1425 | 1394 | 1330 | 1176 | 1306 | 1214 | 1175 | 1067 | 1008 | 951 | 1025 | 972 | 1091 |
| Deficiency milk | 450 | 432 | 434 | 433 | 450 | 428 | 382 | 414 | 416 | 421 | 409 | 380 | 431 | 452 | 464 | 523 |
| Deficiency meat | 506 | 512 | 516 | 523 | 512 | 473 | 539 | 537 | 518 | 540 | 564 | 539 | 471 | 625 | 582 | 600 |
| Headage support | 1871 | 1611 | 1678 | 1748 | 2142 | 2317 | 2265 | 2251 | 2236 | 2295 | 1874 | 1866 | 1872 | 1879 | 2120 | 2181 |
| Total | 7117 | 7246 | 7375 | 7880 | 7674 | 7669 | 7330 | 7531 | 7360 | 7434 | 3915 | 3794 | 3725 | 3982 | 4138 | 4395 |

Source: WTO notification documents (G/AG/N/NOR/ various years); NILF; SN

The “Structural income support” (to dairy farmers) and the “Regional deficiency payments” for milk and meat production are categorized as payments on 85 percent or less of base level production.⁸ The aim of the regional deficiency payments is to even out the profitability or income between farmers who are located in more remote areas with those farmers who are located closer to urban markets.

⁸ The way we have calculated blue box support for 2005-07 differs slightly from what is notified to the WTO during 1995-2004. One reason is that until 2002, the payments given to the acreage and cultural landscape scheme were only reported as aggregated payments. Some elements of this payment are parts of the green support.

The “Headage support”, a per unit livestock payment, is the largest blue box income-support payment. This support is supposed to even out the differences in profitability among different lines of production and among farms of different size.

In 2007, another change was introduced by the Norwegian Agricultural Authority whereby the support to grazing livestock, which earlier was considered part of “headage support” under the blue box, was included in the National Environmental Programme and was claimed to be green box (MAF 2006). Because the support was labeled as a component of an environmental program, it was re-classified even though the nature of the payment had not changed. Hence, NOK 3 billion of the NOK 7.5 billion blue box support in 2004 has been shifted into the green box.

3.3. Playing the “Japanese card”

Playing the “Japanese card” is our phrase for what happens if a country lowers the AMS support by abolishing the administered price on a specific product. By doing so the product in question can be excluded from the market price support computation (see Orden et al. (2011), and consequently, the AMS-support will be reduced automatically. Japan was the first country to follow this strategy.

In 1997, Japan reduced its notified AMS substantially by changing its rice policy. Administered prices for rice were eliminated, although the government continued to acquire rice for food security stocks (Godo and Takahashi 2008). There was little real change in the Japanese rice market since domestic producers were protected by a tariff rate quota with a prohibitive over-quota tariff. Many other WTO countries have since lowered their AMS support by abolishing or redefining the purpose of administered prices thereby removing market price support from the AMS calculation.⁹

The Norwegian Ministry of Agriculture and Food has on several occasions announced that it will abolish certain domestic administered prices, as a means of reducing its current total AMS. From 1 January 2007, an equivalent reference price for poultry meat replaced the former administered price. In a proposition to the parliament (MAF 2005), it was argued that this would remove market price support for poultry meat from the AMS calculation and reduce total AMS support by NOK 800 million. In May 2008, in negotiations between the farmers’ unions and the Ministry of Agriculture and Food, it was agreed to increase prices on most agricultural products. At the same time administered prices for pigs and sheep was

⁹ According to Brink (2008), other countries, notably Australia, EU, Mexico, South Africa, Switzerland and the USA have also adopted this strategy.

replaced by reference prices, thereby removing these products from the AMS support calculation. This action was taken in order to avoid a violation of the AMS ceiling. Nevertheless the AMS ceiling was violated in 2008, as was shown in Figure 3. Further action therefore had to be taken. In 2009 the market price support for beef was removed from the AMS calculation. Since this is an important product, it really helped, as Figure 3 clearly reflects.

3.4. Box shifting

According to the current WTO requirement on domestic support, a country is not restricted as to the size of blue box support. But future WTO rounds are likely to introduce ceilings on the blue box support. The negotiation in the current Doha round can serve as an example. Here it is proposed a limit on blue box support, while green box support is allowed to continue unrestricted. Countries may therefore have an incentive to redefine its policy measures so that these can be notified as green box. Norway has undertaken considerable preparation to justify such box shifting. The “acreage and cultural landscape scheme” is an example. In 2005 this scheme was included as an important element in the National Environmental Programme (MLSI 2004, MLSI 2005 and MAF 2005). For a farmer to be eligible for support an environmental plan must be followed and land must be managed in an environmentally friendly manner. The farmer receives a per hectare payment for compliance. There is additional support to help cover the cost of implementing certain types of production techniques, provided on an activity-specific basis. The national regulatory body, the Norwegian Agricultural Authority, has claimed that this support complies with green box criteria.¹⁰ Clearly this can be seen as an attempt from the Norwegian policymakers to meet a specified Doha cap under the blue box.

4. Conclusions

The URAA reduction requirements have not affected Norwegian agricultural policy or programs. Norway has in fact managed to expand agricultural output relative to the 1986-88 base period, and as we have pointed out AMS and total support have remained stable during 1995-2010.

¹⁰ This can be questioned since green box criteria require that a payment can only compensate for additional costs or income foregone through complying with an environmental program.

Accept from one occasion, Norway has complied with its URAA commitments. Although Norway's notifications comply with the URAA commitments, we argue that several of the entities put into green box are questionable. For example, the "Vacation and replacement scheme" and the "Grain price support programme" seem to be amber support masked as green support. Also, it is an open question whether the "Acreage and cultural landscape scheme" complies with the URAA that states that the payment can only compensate for the loss of income involved with complying with an environmental program. As argued in Blandford et al. (2010), the motivation for this box shifting is that Norway, as a consequence of an agreement in the Doha round may be required to reduce the blue box support. Blue box shifting is a way of avoiding such demands.

In 2008 Norway surpassed the AMS-ceiling, and on several occasions Norway has been on the very edge of the ceiling. In these cases, Norway's response has been to abolish administered prices on certain products, thereby excluding the corresponding market price support from the AMS calculation. In this way, Norway has been able to keep up production and forestall agricultural restructuring. Even if this is legal, it is clearly against the intentions of the WTO principles.

As is pointed out by Blandford et al. (2010), the current modalities under the Doha Round negotiations could result in more binding reduction commitments on Norwegian agriculture. An elimination of export subsidies will mainly affect milk and cheese, but also beef and pork. The combination of increased market access and reduced domestic support should have more serious consequences on domestic price and production levels. Nevertheless, repackaging of current domestic support (masking amber box subsidy as green box) or eliminating "redundant" policy (that is, by removing administrative prices) could forestall much agricultural restructuring.

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We conduct a WTO-consistent assessment of Norwegian agricultural programs and policy since 1995. Most important, we highlight cases where Norway has found ways to work around its WTO-commitments in order to avoid policy reform. On several occasions Norway has been on the edge of breaking the amber box commitment. In these cases, Norway's response has been to abolish target prices on certain products, thereby excluding the corresponding market price support from the amber box calculation. In this way, Norway has been able to keep up production and forestall agricultural restructuring. Even if this is legal, it is clearly against the intentions of the WTO principles. We also argue that several of the entities put into green box are questionable. For example, the "Vacation and replacement scheme" seem to be amber support masked as green support.



SNF

Et selskap i NHH-miljøet

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