WORLD TRADE ORGANIZATION

AGENDA - Examining the impact of Tariff and Non-Tariff Measures with emphasis on Carbon Border Taxes

Letter from the Executive Board

Greetings Delegates!

We extend you a heartfelt welcome to this meeting of the World Trade Organization in AMIG'2023. In this conference, the agenda for the committee is set to be "Examining the impact of Tariff and Non-Tariff Measures with emphasis on Carbon Border Taxes".

We hope this year's annual conference is one filled with great experiences and memories. With this background guide we intend to convey you our expectations for this committee, some basic footing for your research as well as answer some questions related to the agenda. It took us a fair amount of time to make such a detailed guide for you all and we expect you to read through it thoroughly seeing that this agenda may seem complicated at one point of time.

We have included links to help you set a basic understanding of the agenda. Within the committee our intervention would be minimal and we would like you all to take control of the flow of the committee with constructive speeches and lobbying. It would be ideal if you refrain from diverging from the agenda and devise moderated caucus topics and solutions which bring productive discussions to the committee.

Be well versed about the WTO, its procedures and its mandate as well as that of your portfolio's before framing your arguments. Please adhere to the Rules of Procedure and remember that usage of the internet is strictly prohibited. We are looking forward to a fruitful and interactive conference with you over these 3 days and are curious to see you perform well in such a committee. Please feel free to approach us in case you have any doubts or problems.

Regards,

Ayden Sharma (Director General)

Aditya Singh (Deputy Director General)

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Committee Overview

WORLD TRADE ORGANIZATION

"Protectionism does not produce wealth, and Free Trade and Economic Openness are in everyone's interest"

This quote by French Economist Thomas Piketty, truly captures the essence of WTO's objective.

The negotiations and deliberations, for a global trade governing body started after the Second World War. You might have read in your history books about the Bretton Woods Conference, that resulted in the establishment of IBRD and IMF, in that same conference the thought for creation of a trade organization emerged.

You will be surprised to know that USA's cold attitude stalled its creation. Thus, rather than making a full-fledged organization, a temporary multilateral agreement was reached, in Geneva in 1947 called the GATT (General Agreement on Tariff and Trade). The GATT had limited power and mandate, also it was just an Agreement, not a full-fledged organization.

Thus, in the Uruguay Trading Round, the formation of World Trading Organization, was finally achieved, and on 1st January 1995, WTO came into existence.

WTO and GATT- Comparative Analysis

The WTO, had expanded Power, Mandate and Organization, the following points act as a testimony:

1) Unlike the GATT, WTO could regulate international trade of agricultural and textile products.
2) It also had under its ambit Intellectual Property Rights(IPRs), this is in the future paved way for singing of TRIPS Agreement between WTO Member States
3) Lastly, WTO had authority to act faster, compared to the slower and bureaucratic GATT

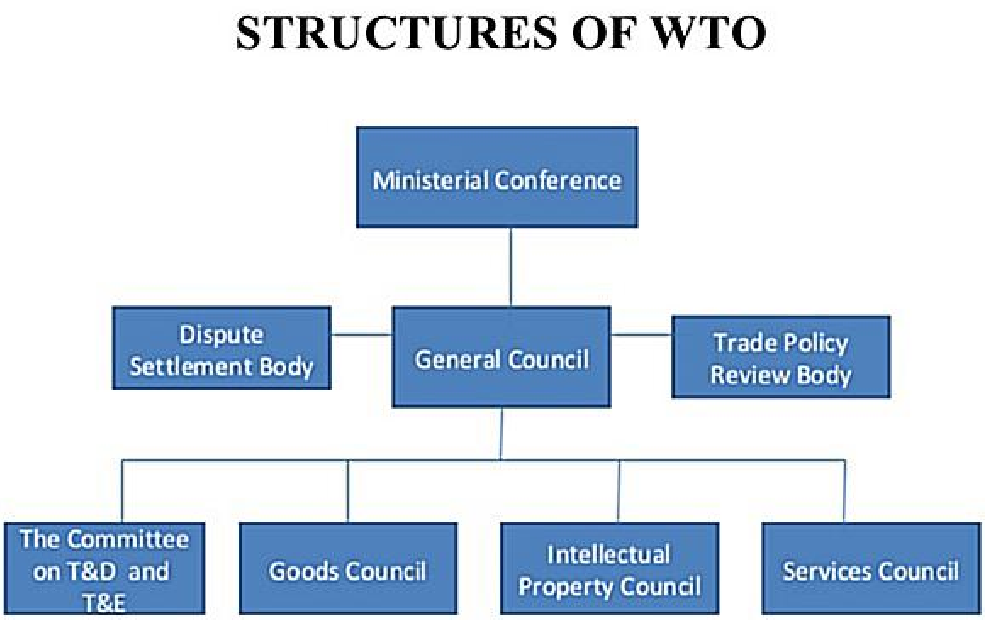
Guiding Principles of WTO

- Liberalize International Trade, by removing Tariff Barriers and Quotas.
- Ensure Equality and Non-Discrimination amongst Member States, in terms of International Trade.
- Encourage International Trade by creating favorable domestic and international market conditions.

Structure of WTO

The topmost decision making body of the WTO is the Ministerial Conference which meets every two years. It consists of Trade Ministers of member states. The WTO's 12th Ministerial Conference (MC12) took place from 12 to 17 June 2022 at WTO headquarters in Geneva.

The second tier bodies are the General Council, Dispute Settlement Body and Trade Policy Review Body.The General Council acts on behalf of the Ministerial Conference on all WTO affairs. It meets as the Dispute Settlement Body and the Trade Policy Review Body to oversee procedures for settling disputes between members and to analyze members' trade policies



Mandate of the WTO

The mandate of the WTO has its source as the Marrakesh Agreement , the founding Agreement of WTO. In general terms it's functions/responsibilities can be defined as -

1) Negotiating Trade Rules

2) Overseeing WTO Agreements

3) Maintaining Open Trade

4) Settling Disputes

Introduction

The agenda for the committee is "Examining the impact of Tariff and Non-Tariff Measures with emphasis on Carbon Border Taxes"

WTO seeks to minimize tariff and non tariff measures in order to promote free and unrestricted world trade. Our Committee's agenda is aimed at discussing two of such measures, Carbon Border Taxes and Agricultural Subsidies at length.

These two topics have been elaborated in further sections of the guide. Carbon Border Taxes are a Tariff Measure whereas Subsidies are a part of Non Tariff Measures.

We will first start with certain definitions for clarity -

Tariff Measures - Tariffs are taxes imposed by countries on export and import. They restrict trade by raising the price of goods concerned and also boost Government revenue. One result of the Uruguay Round was countries' commitments to cut tariffs and to "bind" their customs duty rates to levels which are difficult to raise

WTO schedules of concessions, often referred to as "goods schedules", are legal instruments that form an integral part of the General Agreement on Tariffs and Trade (GATT) and the WTO Agreement. These schedules describe the treatment a WTO member must provide to traded goods of other WTO members. This includes so-called "bound" or maximum duties. Goods schedules are one of the main WTO tools to ensure transparency, security and predictability for world trade.

We will primarily be focusing on CARBON BORDER TAXES as a Tariff Measure.

Non Tariff Measures- Non Tariff Measures are policy measures other than ordinary customs tariffs that can potentially have an economic effect on international trade in goods, changing quantities traded, or prices or both.Industrialized countries use non-tariff barriers to protect local industries against foreign competition. Common examples of non-tariff barriers include licenses, quotas, embargoes, foreign exchange restrictions, and import deposits.

According to UNCTAD. Non Tariff Measures (NTMs) affect 90% of global trade. We will be focusing on Agricultural Subsidies. Subsidies are considered as a NTM as they can influence global trade. A nation can heavily subsidize its products which can adversely affect producers of other countries where that product is exported.

We will be primarily focusing on agricultural subsidies as a Non Tariff Measure.

Classification of Non Tariff Measures is as follows:-

International Classification of NTMs

Imports	Technical measures	A	Sanitary and phytosanitary measures
		B	Technical barriers to trade
		C	Pre-shipment inspection and other formalities
	Non-technical measures	D	Contingent trade-protective measures
		E	Non-automatic import licensing, quotas, prohibitions, quantity-control measures and other restrictions not including sanitary and phytosanitary measures or measures relating to technical barriers to trade
		F	Price-control measures, including additional taxes and charges
		G	Finance measures
		H	Measures affecting competition
		I	Trade-related investment measures
		J	Distribution restrictions
		K	Restrictions on post-sales services
		L	Subsidies and other forms of support
		M	Government procurement restrictions
		N	Intellectual property
		O	Rules of origin
Exports		P	Export-related measures

CARBON BORDER TAXES

Definition - Taxes or Duties that exporters have to pay if they export products having excess carbon footprint to a region or block which implements such a taxation regime.

The objective is to -:

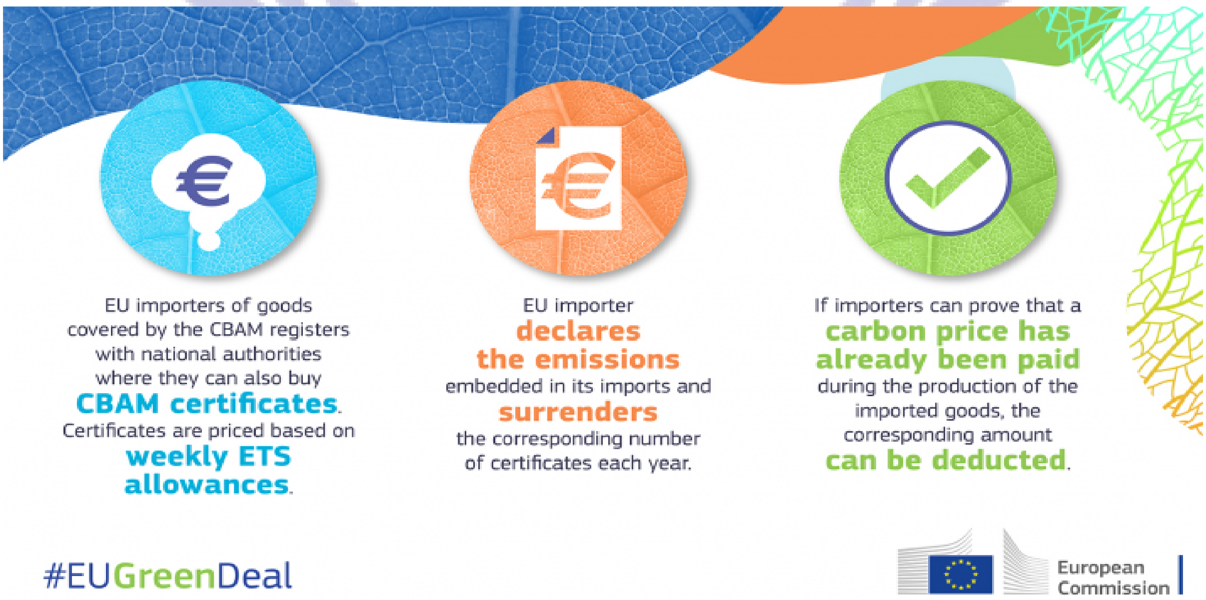
1) **Reduce carbon leakage** – When domestic companies move out their production facilities to countries which less stringent regulations

2) **Ensure Equity-** In cases where foreign companies export carbon intensive products and threaten domestic industries.

The CBAM (Carbon Border Adjustment Mechanism) proposed by the European Union is a notable example of Carbon Border Taxes.

Case Study- CBAM Carbon Border Adjustment Mechanism -

The Carbon Border Adjustment Mechanism drafted by the European Union adjusts the price of imported goods, depending on their carbon footprint to domestic price of such goods made by EU. In simple terms, an export of steel consignment from India may be worth 10,000 euros but was manufactured under less stringent environmental regulations in compared to EU, so the EU may decide a reasonable levy or duty that it will impose on the exports from India to bring it in tandem to the domestic price of steel in the EU. In the EU the Emissions Trading Scheme is in place which makes firms pay the price for the carbon they use.

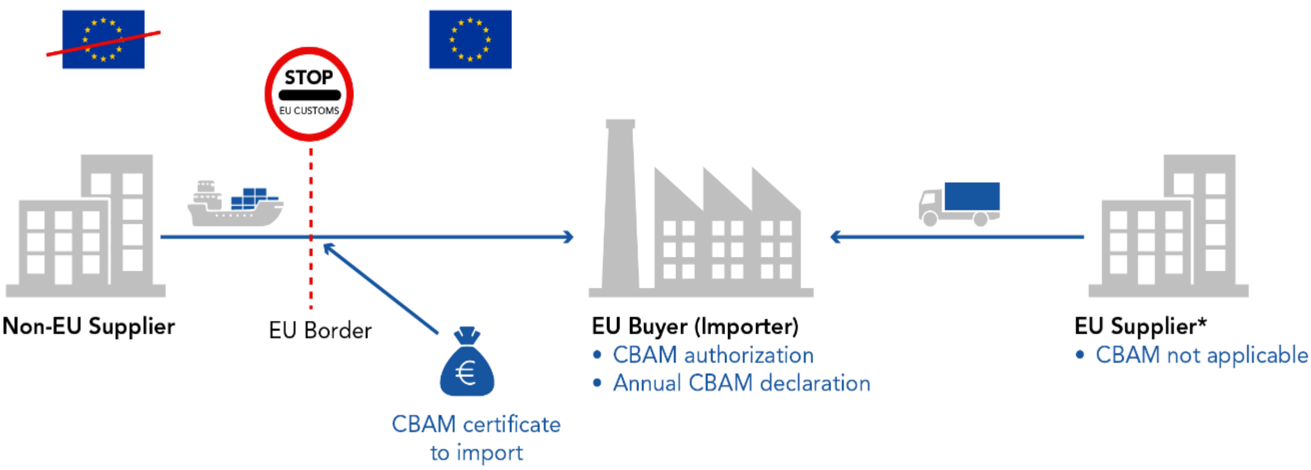


Currently the following goods are in scope of the CBAM: iron and steel, cement, fertilizers, aluminum, electricity, and hydrogen.

The CBAM itself will enter into application in its transitional phase on 1 October 2023, with the first reporting period for importers ending 31 January 2024.

The CBAM ensures that the EU does not face Carbon Leakage and domestic firms do not move their production out of the EU to take advantage of lax environmental regulations in other countries.

EU Carbon Border Adjustment Mechanism simplified illustration



* Including goods originating from Iceland, Liechtenstein, Norway, and Switzerland
Source: The Conference Board, 2022

Legality of Carbon Border Taxes with reference to WTO/ GATT Rules

1) Most Favored Nation Rule

According to Article 1 of the General Agreement on Trade and Tariff (GATT) " any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties."

This means that countries cannot discriminate between like products exported by two different countries on any basis and must ensure equity in all their actions.

2) **Import Duty Ceiling**

As per Article 2 of the GATT, every member state cannot levy duties which exceed the limit agreed in Schedule annexed to Article 2 of the GATT. There is a concern that the duties imposed on grounds of carbon emissions may exceed the limit as agreed upon in the schedule. There are exceptions to Article 2 which can validate such duties even if they exceed the limit. Notable exception is regarding categorization of the duty as an Internal Regulation.

3) **National Treatment Rule**

In case the EU considers the carbon border tax as an internal regulation , it can be in conflict with Article 3 of the GATT (National Treatment Rule). This rule prohibits discrimination between foreign and domestic products after they have reached the domestic market.

So if the EU puts an internal regulatory tax based on carbon emissions of the product it can amount to a violation. Also, the EU has allocated free ETS (Emissions Trading Scheme) permits to domestic producers which will continue along with CBAM implementation. 43 percent of the available ETS emissions allowances have been allocated for free to European firms. This is another area which needs to be debated.

4) **Exemption under Article 20 of the GATT**

The entire CBAM can be possibly exempted under Article 20 of the GATT on the following grounds. Article XX(b) of GATT 1994 permits trade measures that are 'necessary to protect human, animal or plant life or health' and Article XX(g) permits measures 'relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption

Potential issues that question the rationality of proposals such as CBAM

1) **Burden on Developing Countries**

Carbon Border taxes such as the CBAM proposed by the EU put economic strain on developing countries having export-oriented economies. This economic strain is a tacit financing for Climate Change which owes its roots to reckless exploitation of natural resources by developed countries in earlier times.

For instance, Western Europe and the United States, which enjoy some of the highest levels of well-being, are responsible for more than 45% of global historical emissions from the industrial revolution to 2015. It is often argued that countries that have emitted more greenhouse gases should also bear more significant mitigation and adaptation duties, as there is a strong correlation between the level of historical emissions and present-day benefits. With the 2 ℃ (or 1.5 ℃) target, emissions are a limited resource. Due to the historical emissions of developed countries, there is too little resource left. If developing countries would like to increase the level of well-being of their citizens to a similar level to those of the developed world by releasing the required amount of greenhouse gas emissions, they would have difficulties fulfilling their mitigation and adaptation duties. This means that benefits enjoyed by developed countries that stem from historical emissions could be seen to come at the loss of developing ones.

2) **Potential for Trade Hostility**

The main aim of the World Trade Organization was to liberalize multinational trade and provide for a suitable dispute settlement mechanism. There can be an argument that carbon border taxes antagonize that very purpose and complicate the myriad of duties that are still in existence in international trade. They also lead to possible trade hostility that can have harmful consequences.

The US and the EU have launched a powerful combination of industrial policy, subsidies, and trade restrictions to motivate businesses at home and abroad to reduce greenhouse gas emissions. In the US the new Inflation Reduction Act includes $400 billion in subsidies for renewable energy and electric vehicles that contain a minimum amount of North American parts. This provision is already returning US companies' investment to the United States and attracting foreign investors such as BMW, Mercedes-Benz, Stellantis, and Toyota. The EU has launched the European Green Deal and a carbon border adjustment mechanism (scheduled to go into effect in October 2023), which imposes an "emissions tariff" on imports. For developing economies, the trade aspects of these initiatives look like "Fortress US" and "Fortress EU": Rich countries responsible for the most climate-threatening emissions are locking others out of the fortresses their prosperity built.

Some Positive aspects which make frameworks such as CBAM rationally coherent

1) **Effective solution to negative externality**

Externalities are the benefits or harm caused by firms to bystanders for which they are not paid or penalized. Externalities can be either positive or negative. Positive externalities construe a benefit to society whereas negative externalities harm social well-being. Increase in green cover due to government construction, improvement in air quality due to use of electric vehicles are some examples of positive externalities. Examples of negative externalities include environmental pollution by factories, traffic congestion due to cab aggregators like Uber etc.

The purpose of a carbon tax is to internalize this externality. What this means is that the final price of the good should include the external costs and not just the private cost. It is similar to the 'polluter pays principle.' – which was incorporated into international law at the 1992 Rio Summit. It simply means those who cause environmental costs should be made to pay the full social cost of their actions.

2) **Inspire free riding nations to take actions**

It has up to now proven difficult to induce countries to join in an international agreement with significant reductions in emissions. The fundamental reason is the strong incentives for free riding in current international climate agreements. Free riding occurs when a party receives the benefits of a public good without contributing to the costs. In the case of the international climate-change policy, countries have an incentive to rely on the emissions reductions of others without taking proportionate domestic abatement. There are several incentives to free ride. The most fundamental is that economic growth is still closely tied to GHG emissions, therefore countries may look to free ride since costly GHG abatement is likely to hinder their rate of economic growth.

China, for example, was responsible for over 20% of the world's greenhouse gas emissions in 2010 but has a relatively low vulnerability to the impacts of climate change.

Alternative Measures

1) International Cap and Trade System for emission allowances

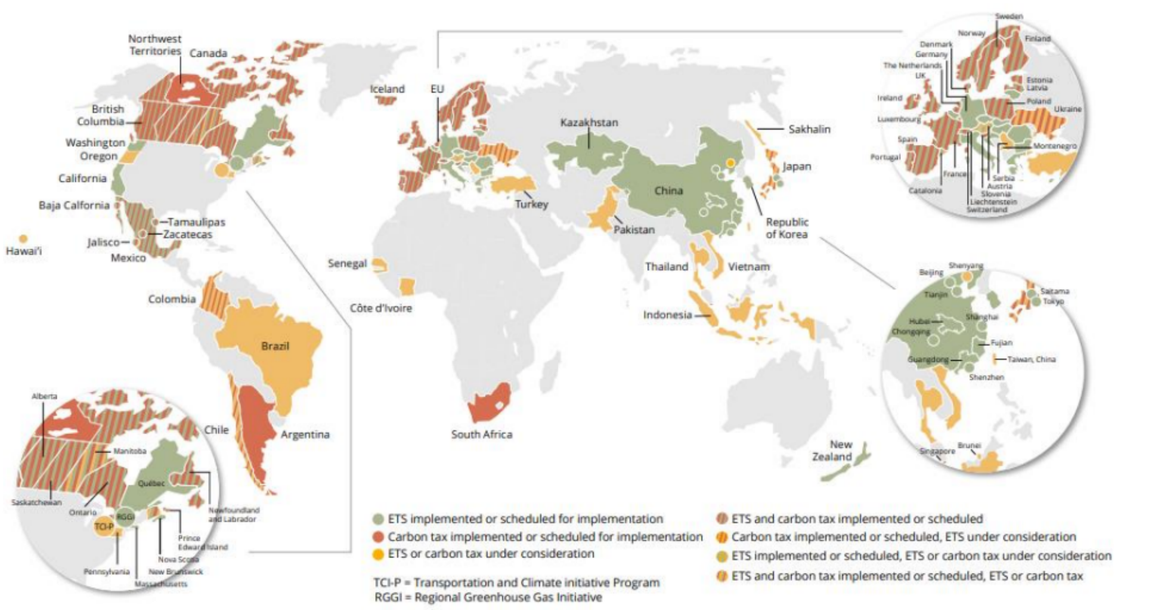
Each member state can voluntarily put into force a Cap-and-Trade System which treats emissions as a commodity and auctions emission rights to domestic firms. In a cap-and-trade system, the government sets an emissions cap and issues a quantity of emission allowances consistent with that cap. Emitters must hold allowances for every ton of greenhouse gas they emit. Companies may buy and sell allowances, and this market establishes an emissions price. Companies that can reduce their emissions at a lower cost may sell any excess allowances for companies facing higher costs to buy.

This does not infringe on sovereignty of nations but suffers again from the drawback that it is voluntary and completely up to the discretion of member states. The number of emissions rights may be decided based on an official target submitted by member states to the United Nations.

The World Bank's State and Trends of Carbon Pricing (May 2018) reports that there are 51 implemented or scheduled carbon pricing initiatives worldwide. These include ETSs in Switzerland, South Korea, New Zealand and several US states and Canadian provinces, as well as national-level carbon taxes. The International Carbon Action Partnership (ICAP) estimates that emissions trading now covers 15% of global emissions.

China officially launched a major national emissions trading scheme in December 2017 after piloting seven schemes at local government level. It plans to introduce the national scheme first to the energy sector, with full implementation by 2020, to become the largest ETS in the world. The scheme has been lauded for its scale and ambition, which could mean that China's emissions start to decrease before 2030.

Figure 2 Map of carbon pricing 2021



Source: The World Bank, May 2021

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member states. The number of emissions rights may be decided based on official target submitted by member states to the United Nations.

2) **Climate Clubs**

Climate Clubs are associations of nations which join to protect carbon leakage from their countries while enacting regulatory provisions like carbon taxes. The original Climate Club definition was coined by Nordhaus, in which he advocated for firm climate commitments by countries with penalties for failure as opposed to voluntary measures in the Paris Agreement.

A simplistic example of how a club might operate: Country A has an established national carbon price which trades in some form of Emissions Trading System. This country wishes to protect its industry from leaking out to Country B who, for any number of reasons, does not have a national carbon price. In a Climate Club, Country B would be invited to translate robust domestic policies or regulations which limit emissions into an 'implied carbon price.' Perhaps Country B gives substantial subsidies to green industries or taxes fossil fuel companies harshly or allows permitting in renewables a much easier path than drilling for oil, or possesses a strict methane leak reduction system, or does not allow the use of fertilisers made from fossil fuel derived nitrogen ammonia (all being examples). These policies could be translated into a shadow carbon price that is then used to offset any emissions tariffs that in Country A is seeking to impose.

Naturally, determining the exact value of these policies in terms of a hard carbon price equivalent is not without substantial difficulty and would be subject to fierce negotiations. But the advantages of such a system would be numerous including greater inclusivity and being more 'just' given the likelihood that developing countries could participate. Additionally, countries would be incentivised to do more with the existing policy levers they have at hand.

In case more affluent and climate-leading countries could incentivise developing countries with technology transfer and finance to enter an implied carbon price trade partnership then the issue of carbon leakage could be addressed without a CBAM.

A Climate Club would be a more feasible solution than a CBAM between countries when one side has little prospect of implementing its own version of a CBAM.

AGRICULTURAL SUBSIDIES

Subsidies are monetary or financial assistance provided to producers by the Government of a country. For example, in country “Z” the government aims to subsidize production of food grains, then the Government can implement various types of subsidies like fertilizer , electricity subsidies when such inputs are used for grain production.

Let’s take the example of fertilizer subsidy, suppose the market price of fertilizers in country Z is 500 Rupees per packet. The Government by providing subsidy to the farmers will make it available to them at 400 Rupees and pay the rest (100 Rupees) from its own treasury to the fertilizer producer.

WTO Agreement on Agriculture:-

Agricultural trade is essential to the world economy and individual economies especially that of developing countries in Asia and Africa where small scale farmers have gained ground. AoA was negotiated as part of the Uruguay Round of multilateral trade negotiations conducted from 1986 to 1994 held under the General Agreement on Tariffs and Trade (GATT), which eventually led to the establishment of the WTO in 1995.

The agreement was meant to maximize trade flows at a time of surplus agricultural production. It required Members to open markets and to reduce domestic and export subsidies. Yet, as surplus is replaced by shortage, Members are increasingly concerned about food security and the impact of agriculture on climate change. And contemporary agricultural policies crystallize around ‘sustainable intensification’, where domestic production is promoted, but not at the expense of future production.

Provisions and Obligations Overview:

- **Market Access:** Member countries must provide fair and non-discriminatory market access for agricultural products by reducing tariffs and trade barriers.
- **Domestic Support:** Trade-distorting subsidies (Amber Box) should be reduced, while non-trade-distorting support measures (Blue Box and Green Box) are encouraged.

- **Export Subsidies:** Gradual reduction and eventual elimination of export subsidies is required.
- **Special and Differential Treatment:** Developing countries are granted flexibility and longer timeframes for compliance to address their specific challenges.
- **Transparency and Notification:** Member countries must provide transparent and timely information about their agricultural policies and measures.
- **Dispute Settlement:** The AoA establishes a framework for settling disputes related to agricultural trade through consultation and the WTO's dispute settlement process.
- Categorisation of Subsidies-

  Subsidies have been provided widely throughout the world as a tool for realizing government policies, in such forms as grants, tax exemptions, low-interest financing, investments, etc. They act as a barrier to trade, by distorting the competitive relationships that develop naturally in a free trading system. Exports of subsidized products may harm the domestic industry producing the same product in the importing country. Similarly, subsidized products may gain artificial advantages in third country markets and negatively impact other countries' exports to those markets.

The categories in the AoA are created to help classify different types of support and subsidies that countries provide to their agricultural sectors. These categories are important because they determine how much a particular support measure may distort trade and impact other countries.

1) Challenges to AoA:

- Developing countries often emphasize the historical disparities in agricultural development and support between themselves and developed countries. They argue that developed countries had already established strong agricultural sectors with significant government support before the AoA was negotiated.
- The market access requirements of the WTO Agreement on Agriculture produced very little liberalization in the highly protected markets of OECD(countries. But many developed countries evaded the underlying objective of these requirements by engaging in the setting of tariff equivalents for non-tariff barriers at an excessively high level.
- It is also said to increase inequities between developed and developing countries with respect to the availability of export subsidies as a tool of agricultural policy.
- Developing nations also face the crisis of food security partly influenced by climate change as well and according to them restrictions on policies aimed to combat this issue limit their ability to provide necessary support to vulnerable populations and maintain self-sufficiency in food production.

- Subsidies by developed nations promote interests of domestic farmers but put exporting countries like India at an unfair disadvantage as it can lead to oversupply, lower prices, and trade imbalances. This can negatively impact farmers from other countries and hinder their ability to compete.
- India raised the debate on Public Stock Holding (PSH) at the WTO primarily due to concerns related to food security and the impact of trade rules on its domestic agricultural programs. The challenges discussed earlier were part of this debate and developed countries argue exporting from PSH would help generate revenue, manage surplus, promote trade integration and bring price stabalization.

2) Subsidies And Countervailing Measures Agreement:

SCM Agreement is a framework that addresses the issue of subsidies provided by governments to industries and their impact on international trade. While subsidies can be beneficial for domestic production, they can also distort trade and create an uneven playing field for businesses operating in the global market.

The SCM Agreement establishes rules and disciplines to regulate the use of subsidies and provides a framework for addressing unfair trade practices resulting from subsidized imports. It sets out the conditions under which subsidies are considered permissible or prohibited, and it defines the criteria for determining whether a subsidy has caused material injury to domestic industries of another WTO member.

The agreement allows WTO members to take countervailing measures, such as imposing additional duties or tariffs, to offset the adverse effects of subsidized imports. These measures aim to restore fair competition and protect their domestic industries from unfair competition. It provides a mechanism for resolving disputes related to subsidies through the WTO's dispute settlement system, helping to maintain a rules-based trading system.

Detrimental Impact caused by Subsidies

1) International Dumping by Developed Countries

Generally, developing countries have a comparative advantage in producing agricultural goods, but low crop prices encourage developing countries to be dependent buyers of food from wealthy countries. So local farmers, instead of improving the agricultural and economic self-sufficiency of their home country, are forced out of the market and perhaps even off their land. This occurs as a result of a process known as "international dumping" in which subsidized farmers are able to "dump" low-cost agricultural goods on foreign markets at costs that unsubsidized farmers cannot compete with. Agricultural subsidies often are a common stumbling block in trade negotiations. In 2006, talks at the Doha round of WTO trade negotiations stalled because the US refused to cut subsidies to a level where other countries' non-subsidized exports would have been competitive.

2) Environmental Impact

Subsidies result in overuse of resources as prices which otherwise act as signals in a market economy are not allowed to function. For example, a subsidy for electricity for irrigation purposes can lead to farmers growing water intensive crops in areas where they are not suited. Thereby leading to over usage of water and subsequent ground water depletion. In case of subsidies for meat production, The environmental impact is high due to the resource and energy requirements that go into production of feed for livestock throughout their lifespan, for example, a kilogram of beef uses about 60 times as much water as an equivalent amount of potato The subsidies contribute to meat consumption by allowing for an artificially low cost of meat products.

3) Trade Distortion

Subsidies distort trade as they interfere with principles of free and equitable international trade by providing undue support to exporters of one country which makes their products competitive at the cost of producers of other countries. This leads to trade distortion if subsidized production is significant enough to affect the international price of that commodity.For example, let's suppose there are 2 countries A and B. The Government of country A subsidizes the export of wheat, meaning that it pays a price of wheat production that farmers would have to bear. Ths, farmers of Country A can now export at a cheaper price which will affect wheat producers of Country B.

Case Studies on Subsidies:

- **India** -

  Background: Minimum Support Price (MSP) ensures a minimum price for farmers' produce, protects them from market fluctuations, and promotes food security. The government procures crops at MSP to support farmers' incomes. MSP has implications for domestic and international trade dynamics, affecting market prices and export competitiveness. Concerns have been raised about its potential distortion of global agricultural markets.

  Impact: MSP has been crucial in providing income stability to farmers and incentivizing production of important crops. It has helped ensure a minimum price for farmers' produce, protecting them from market uncertainties. The MSP system has played a significant role in ensuring food security and supporting rural livelihoods in India.

  Challenges: Implementing MSP effectively poses challenges, such as targeting small-scale farmers, regional disparities in procurement operations, and fiscal sustainability. Critics argue that MSP can lead to market distortions, potentially affecting domestic and international trade dynamics. Striking a balance between supporting farmers, addressing market concerns, and promoting efficient procurement and distribution remains a policy challenge.

  Minimum support price comes under the pillar of domestic support under the agreement of agriculture. Since the MSP is not covered under the green box(the support which does not distort trade) they have to comply with the reduction commitments. The World Trade Organization also laid down in the agreement that the countries do not have to comply with the reduction commitments if the total aggregated measure of support(AMS) is below or up to 10% for developing nations. There are varied views on whether India complies with the 10% commitment.

- **European Union-**

  Background: Annually the EU spends around 50 billion EUR on the **Common Agricultural Policy (CAP)** with the aim of supporting farmers' income and the production of agricultural public goods like landscape and a clean environment. CAP provides direct payments, market interventions, and rural development programs. These subsidies aim to ensure stable incomes, market stability, and sustainable farming practices within the EU. The EU has faced criticism for high levels of agricultural support, leading to trade disputes with other countries. Reforms have been implemented to align CAP with international trade rules and promote sustainable agriculture.

Impact: CAP subsidies have had a significant impact on EU agriculture. Direct payments provide income stability to farmers and support rural livelihoods. Market interventions, such as price support and import tariffs, aim to stabilize agricultural markets. Rural development programs promote sustainable farming practices and address rural challenges. CAP has played a crucial role in maintaining food production levels and supporting farmers' incomes within the EU.

Challenges: CAP subsidies have faced criticism for potential trade distortion and market inefficiencies. High levels of agricultural support within the EU have been a subject of trade disputes with other countries. Reforms have been necessary to address concerns regarding overproduction, price distortions, and environmental sustainability. Balancing the objectives of supporting farmers, promoting competitiveness, and ensuring environmental stewardship remains a challenge.

- **United States-**

  Background: The Farm Bill incorporates commodity subsidies, crop insurance, and conservation programs. These subsidies aim to stabilize farm incomes, mitigate risks, and promote environmentally friendly practices. They have been subject to criticism for potentially distorting global markets and favoring larger-scale producers. Trade disputes have arisen due to perceived unfair advantages provided by these subsidies.

  Impact: Farm Bill subsidies have had significant impacts on US agriculture. Commodity subsidies provide income support to farmers, ensuring stability and encouraging production. Crop insurance helps manage risks associated with adverse weather or market conditions. Conservation programs promote sustainable farming practices and environmental conservation.

  Challenges: US agricultural subsidies have faced criticism for potential market distortions and inequitable distribution of benefits. Critics argue that subsidies disproportionately favor larger-scale producers and can contribute to overproduction. Trade disputes have arisen due to perceived unfair advantages provided by these subsidies. Balancing the need to support farmers, promote sustainable practices, and address trade concerns poses ongoing challenges.

- **Malawi-**

  Background: Malawi's Farm Input Subsidy Program (FISP) aims to support smallholder farmers with access to agricultural inputs. It provides subsidies for fertilizers, seeds, and other inputs to enhance smallholder productivity. It targets vulnerable farmers to improve food security and rural livelihoods. The program has implications for domestic agricultural production, food security, and poverty alleviation. It has faced challenges related to targeting beneficiaries effectively, distribution efficiency, and long-term sustainability.

  Impact: FISP has had significant impacts on smallholder farmers in Malawi. By reducing the cost of inputs, it has improved access to essential agricultural resources, leading to increased yields and improved food security. The program has played a vital role in supporting rural livelihoods and reducing poverty among small-scale farmers.

  Challenges: FISP faces challenges related to targeting beneficiaries effectively, ensuring efficient distribution of inputs, and ensuring the long-term sustainability of the program. Questions have been raised about the program's effectiveness in reaching the most vulnerable farmers and its potential impact on market dynamics. Balancing the need for subsidy support, market competitiveness, and long-term sustainability presents ongoing challenges for FISP in Malawi.

Questions to Consider

1. Are carbon border taxes appropriate within legal frameworks and can their legality be judged?
2. What impact do carbon border taxes leave on third world economies ?
3. How can we ensure that developing nations can comply with mechanisms such as CBAM ?
4. What are the alternatives to CBAM ?
5. Is the Agreement on Agriculture true to its legal text or can it be improved ?
6. Are subsidies beneficial for developing countries ?
7. Does India as a developing country comply with the 10% limit on agricultural subsidies?
8. Are subsidies in developing countries necessary keeping in mind the goal of food security ?

Suggested Readings:

What is the Carbon Border Adjustment Mechanism ?

Legality of CBAM

Alternatives to CBAM

What are subsidies ?

What is the Agreement on Agriculture ?

India’s agricultural subsidies - Compliance with 10% limit

Agricultural Subsidies