

**Committee on Agriculture  
Special Session**

**G-20 REACTION ON THE  
AGRICULTURE CHAIR'S CHALLENGE PAPER**

Export Competition

The following communication, dated 21 May 2007, is being circulated at the request of the G-20.

---

**EXPORT SUBSIDIES**

- The G-20 recalls that the Hong Kong Declaration mandates the parallel elimination of all forms of export subsidies by 2013, in a progressive and parallel manner.
- The G-20 supports the Chair's logic on volume and value commitments, which reflect the existing schedules and the structure of Article 9.2 of the Agreement on Agriculture. Therefore, volume and value are the only basis for the phasing-out of export subsidies, which is supported by the entire Membership, except one.
- Accordingly, taking into consideration the Chair's suggestion in paragraph 54 and the requirement to meet the Hong Kong Mandate (Paragraph 6), the G-20 is of the view that the G-20/Cairns Schedule for the Elimination of all Forms of Export Subsidies (JOB(06)/148) remains a sound time-frame for the phasing out of exports subsidies. The G-20 reiterates the following steps for the implementation period: at least 50 per cent in the first year; an additional 30 per cent to be progressively implemented by the middle of the implementation period; and the remaining portion to be progressively implemented by the end of 2013. Nonetheless, provided that the integrity of 2013 as the end date is maintained, the G-20 is ready to examine the Chair's 50%-50% suggestion at the end of paragraph 54.
- Reflecting special and differential provisions, the G-20 reiterates that developing country Members should benefit from longer implementation period, as stated in the Hong Kong Declaration. The Hong Kong Declaration also states that developing country Members will continue to benefit from the provisions of Article 9.4 of the Agreement on Agriculture for five years after the end-date for the elimination of all forms of export subsidies.
- The G-20 recalls the decision taken in Hong Kong regarding the elimination of all forms of export subsidies granted to cotton by developed countries.

**FOOD AID**

- The G-20 appreciates that the Chair's text incorporates some of the Group's contributions on food aid. But in some other points it goes beyond what the Group believes is consistent with the Mandate.

- The G-20 emphasizes that its approach is consistent with the Hong Kong Ministerial Declaration, which states that the provision of *bona fide* food aid should not be jeopardized by WTO disciplines to be developed. Disciplines should ensure the elimination of commercial displacement without compromising humanitarian considerations and the effectiveness of Food Aid.
- The design of disciplines in this area should be such as to carve-out *bona fides* food aid in a safe-box. All other situations outside the safe-box are to be disciplined in order to avoid loopholes for the continuation of export subsidies and to prevent commercial displacement.
- The G-20 agrees with the Chair's general provisions which would apply to food aid (paragraph 57):
  - Needs-driven
  - Untied from commercial exports of goods and/or services
  - Not linked to market development objectives of the donor country
  - Fully grant form
- On the "Safe Box", the G-20 reiterates the view that the trigger for the Safe Box constitutes a fundamental test, entails important consequences in terms of disciplines and is a keystone of the system.
- The G-20 notes that paragraph 61 of the Chair's text provides an open-ended enumeration of the bodies and agencies that could trigger the appeal. However, the G-20 believes that the trigger should be restricted to the relevant and specialized UN agencies (including the Consolidated Appeal System and the World Food Program) and the International Committee of the Red Cross and the International Federation of Red Cross and Red Crescent Societies.
- The G-20 is of the opinion that food aid in the Safe Box should conform to the following structure:
  - A declaration of emergency by the recipient country or the Secretary General of the United Nations;
  - Such declaration should be followed by a needs assessment on a multilateral level by the relevant and specialized UN agencies (including the Consolidated Appeal System and the World Food Program) and the International Committee of the Red Cross and the International Federation of Red Cross and Red Crescent Societies;
  - A call for food aid in the Safe Box could also be done through an appeal from the relevant and specialized UN agencies (including the Consolidated Appeal System and the World Food Program) and the International Committee of the Red Cross and the International Federation of Red Cross and Red Crescent Societies;
  - The assessment of needs shall be notified no later than [X] months following the declaration of emergency.
  - *Post-facto* ratification of food aid, whose delivery was prior to the declaration of emergency as above, should ensure that the food aid is *bona fide*, and disciplines should be developed to ensure that it will not lead to commercial displacement.
  - The G-20 is also examining the potential role of specialized regional inter-governmental organizations in the disciplines on food aid.
- On in-kind operations in non-emergency situations (paragraph 68), the G-20 understands that they tend to generate commercial displacement both at the origin of food aid operations, as well as in the recipient country, as they dislocate commercial sales from other providers and as they may

also affect local agriculture. In-kind operations should be disciplined and phased-out in ways to be determined.

- In-kind food aid by developing countries in fully grant form should be permitted.
- With regard to re-exports of food aid, the G-20 agrees with the Chair's assessment. The humanitarian nature of food aid operations rules out the possibility of re-exportation of food aid, in order to avoid its entering the international commercial chain. Re-exportation of food aid in any form should be prohibited, it being understood that transboundary shipment of food aid stocks being operated by intergovernmental agencies in response to urgent need.
- The G-20 agrees with the Chair's approach that monetization of food aid is of an exceptional nature and should be disciplined (paragraph 70). Food aid may be monetized, under exceptional circumstances, to fund activities that are directly related to the delivery of the food aid to - or facilitating procurement of agriculture inputs, where necessary by - the final recipients. The G-20 reiterates that monetization should only be carried out under the auspices of a UN agency and the recipient governmental authority, to ensure that there is no risk of commercial displacement and disincentive to local production.
- The G-20 agrees on the need for provisions on notification as well as monitoring and surveillance mechanisms (paragraph 71). Regular updating of information regarding appeals launched by the United Nations system and the ICRC will be required to keep the Committee on Agriculture abreast of recognitions of emergency situations, the trigger for the derogations of disciplines contained in the Safe-Box. It would also be of value to count with regular information concerning dispatch of needs assessment teams, and the evolution of situations that may give rise to an emergency situation.

## **STEs**

- Concerning the definition of an exporting state trading enterprise on paragraph 73 of the Chair's text, the G-20 understands the disciplines of Article XVII of GATT are sufficient for the operations of exporting STEs. In respect of agriculture products, where the existing WTO rules such as the GATT, the AoA, the SCM Agreement and the ADA do not clearly provide for the elimination of export subsidies and do not prevent circumvention of export-subsidy elimination commitments, the G-20 believes that such disciplines should be established.
- In reference to paragraph 74 of the Chair's text, paragraph 3(A) of Annex J of the Draft Modalities should be corrected so as to reflect current rules on export subsidies.
- The G-20 recalls that all developing country Members should have the right to maintain the monopoly status of exporting STEs. In relation to paragraph 77 of the Chair's paper, the G-20 recalls the stand-alone Mandate provided by the July 2004 Framework regarding developing countries.
- Disciplines covering operations of enterprises, whether or not they are conferred monopoly status, should allow to meet the objectives of food security and price stability in developing countries.

## **EXPORT CREDITS**

- The G-20 welcomes the Chair's text on export credits, export credit guarantees or insurance programmes. They are among the most technically challenging issues in these negotiations.
- In the Hong Kong Ministerial Declaration, Members agreed that export credits, export credit guarantees (ECG) or insurance programmes to support exports of agricultural products should be self-financing, reflect market terms, and should not circumvent real commercially oriented disciplines. As developing-country needs and interests are at the heart of the Doha Development Round, the G-20, though not suggesting legal drafting, proposes some principles that should guide the draft modalities:

### **A. ECGs permanently disadvantage developing countries.**

- ECGs enable governments to make their own creditworthiness (and therefore their borrowing rates) available to borrowers. Since developed countries have much better creditworthiness and lower borrowing rates than developing countries, ECGs from developed countries are much more valuable.
- ECGs involve no cash outlay at the time of grant, so they are a cheap way for developed countries to support exports. To match ECGs, developing countries need to offer direct credits.
- The G-20 understands that effectively disciplining the use of ECGs by developed countries constitutes a major contribution to level the playing field.

### **B. The proposed disciplines scale back the existing disciplines on "benefit"**

- Under current rules, ECGs are export subsidies:
  - a. if a government ECG confers an advantage, in that it offers terms that could not be obtained in the marketplace ("benefit"):
    - the guarantee is offered on better-than-market terms (e.g. premium, tenor, principal cover, interest cover) (Article 1.1(b) SCM); OR
    - the guarantee improves the terms of an underlying loan when compared to a commercial loan (e.g. finance costs or duration of loan) in a manner that is not offset by the fees charged for the guarantee (Article 14(c) SCM);
  - b. if a government ECG program charges premium rates inadequate to cover the long-term operating costs and losses of the programs (item (j) SCM) ("self-financing").
- Under the chairman's "challenges" paper and the June 2006 Draft Modalities, the benchmark is essentially the "self-financing" principle, i.e. item (j) SCM. Although limiting ECGs to tenors of 180 days is a good start, the vague references to "market-based" or "risk-based" premium rates are not sufficient to include the existing "benefit" disciplines. Governments must charge rates that cover all of the risks of providing ECGs, and not just part of some of the risks.
- The G-20 understands that to in order to establish a level playing field, the "benefit" standard must be used.

### **C. Measuring the Cost of ECG Programs**

- The Chair's paper does not describe the "costs" that would be included in assessing whether ECG programs are self-financing. To ensure a level playing field, the relevant "costs" must be those that a commercial entity would incur in providing ECGs. These include: (1) administrative costs; (2) losses caused by default; (3) restructuring and rescheduling of the debt which shall be written-off and deemed to be a loss; (4) the cost of the loan funds guaranteed; and (5) an appropriate profit margin.
- Because developed countries have much lower costs of funds, the cost of capital will always be much lower. In addition to the cost elements mentioned above, a uniform cost of funds must, therefore, apply to all WTO Members, e.g. the prime rate<sup>1</sup> offered by a group of commercial banks.
- In measuring costs, self-financing should be deemed to operate in a manner by which the premiums charged cover all operating costs and losses over a period of 2 years.

### **D. Adequate Transparency Measures**

- Members granting ECGs must demonstrate, within 30 days following the end of the commitment period, on a program- and transaction-specific basis, that ECGs for scheduled products (in excess of commitments) and unscheduled products (any exports) do not constitute export subsidies.
- Failure to provide notifications prevents other Members from enforcing the rules. If transparency rules are not respected, the burden of proof must shift in dispute settlement to the subsidizing Member to demonstrate compliance with its commitments (cf. Article 10.3 of the Agreement on Agriculture).

### **E. Special Circumstances Related to Importing Developing Countries**

- The G-20 agrees with the Chair's approach that disciplines on ECGs should make appropriate provision for differential treatment in favour of least-developed and net food-importing developing countries, in line with Paragraphs 24 and 26 of the July 2004 Framework.
- More favourable terms for export financing support in respect of exports of basic foodstuffs to developing and least-developing country Members may be provided in exceptional circumstances.
- These ideas will be further developed by the G-20.

### **F. Developing countries as providers of export credits, export credit guarantees or insurance**

- The test of market consistency of the programmes should take into account the particular market conditions regarding financial operations involving developing countries. Consequently, the disciplines regarding terms and conditions of export credits, export credit guarantees or insurance *programmes* carried out by developing countries should be adapted to meet these particular conditions.

---

<sup>1</sup> Prime rate is defined as the interest charged by lenders to their most creditworthy borrowers, and is always considerably higher than LIBOR.