

**Committee on Agriculture
Special Session**

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

Domestic Support

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

GENERAL COMMENTS

- The Chair's text on domestic support indicates some perceptions of the "centres of gravity" on various issues. The G-20 initially recalls that the "centre of gravity" does not necessarily correspond to balance. Balance will not be found by averaging negotiating positions; balance can only be found by reference to the Mandate and to the outcome in other areas of the negotiation. Moreover, the concept of "centre of gravity" has not been uniformly applied across the issues in Domestic Support, including in respect of AMS cuts and Product-Specific AMS caps, details of which are developed below.
- The G-20 is of the view that any outcome in the negotiations must be based on the mandates contained in the Doha Declaration, the July 2004 Framework and the Hong Kong Declaration. Those agreements incorporate the balances achieved so far in the negotiations. Those balances will have to be reflected in the final text.
- The "centre of gravity" in Domestic Support should reflect the commitment to undertake effective cuts. This is especially so in relation in the OTDS, a number that, beyond its technical significance, also has a political dimension to the DDA. The G-20 believes, in this respect, that what should be discarded are the "high teens" and not the "lower teens". A number that delivers effective cuts reflects the only possible balance.
- A "centre of gravity" in Domestic Support must also incorporate, as pointed out in the Chair's text, a combination of cuts and disciplines. Both are important and complementary. The G-20 feels that there is a need to strike a better balance between the two in the Chair's approach.

OVERALL TRADE-DISTORTING SUPPORT (OTDS)

- The G-20 believes that effective cuts in OTDS constitute the central benchmark of the Domestic Support pillar. In this line, the G-20 shares the view contained in the Chair's text, in paragraph 4, which assesses that the *"difficulty to conceive how any number that leads to an actual increase in overall support could be sensibly described as being an 'effective cut'"*. The G-20 result of US\$ 12 billion of OTDS for one Member remains broadly consistent with the Mandate given current levels of expenditures.
- In this sense, the G-20 underlines that cuts in OTDS that significantly depart from the "low teens" would not deliver on the Mandate for effective cuts. Furthermore, there should be no "exchange

rate" between cuts in OTDS and higher levels of market access in developing countries, as suggested in paragraph 8 of the Chair's text.

- The Doha Declaration Mandate determines the objective of "*substantial reductions in trade distorting domestic support*". In keeping with this instruction, the July 2004 Framework indicates that the overall cut constitutes the central element of the pillar to which all other elements of domestic support – AMS, Blue Box and *de minimis* – should adjust to.
- In terms of disciplines, the G-20 is of the view that OTDS cuts must be associated with specific disciplines by product. However, there is a limit for the effectiveness of disciplines in relation to the final number in OTDS. Above a certain number in OTDS, disciplines can no longer deliver. Consequently, as the final number in OTDS departs from the very "low teens", negotiations in Domestic Support suffer a double setback – in terms of the mandate for "substantial cuts" and of the need for "effective disciplines" by product.
- As to S&D, given the difference in *de minimis* entitlements between developed and developing countries (5 and 10 per cent of total value of production, respectively), the G-20 recalls the decision reached in Hong Kong regarding OTDS for developing countries.

AMS

- Regarding AMS cuts, the G-20 recalls the Hong Kong decision to place the EU in the higher band and the USA and Japan in the middle band.
- The G-20 understands that the figures in AMS should also adapt to the OTDS cut.
- The G-20 notes that the Chair's text seems to be selective in determining what constitutes "working hypotheses" across the three bands for AMS cuts. The G-20 proposal on AMS cuts already represents a balanced result not only for the first tier, but also for the second and third tiers as well. Therefore, it is the only equitable working hypothesis.
- Furthermore, developed countries that have disproportionately high AMS entitlements should undertake additional cuts. In this regard, the G-20 supports the Chair's discussion on "additional effort" in paragraph 18 and expects a more ambitious contribution from the EU.
- As regards S&D, developing country Members with AMS will undertake a cut of 2/3 of the cut to be undertaken by developed Members in the first band. The G-20 agrees with the Chair's text that continued access to the provisions of Article 6.2 of the AoA is a given.

BLUE BOX

- The G-20 considers of fundamental importance to ensure that the Blue Box will, indeed, be used as a real instrument for reform.
- As previously stated, the G-20 is of the view that in order to comply with the instructions contained in paragraphs 13 to 15 of the July Framework to the effect that Blue Box payments are less trade-distorting than AMS, the conditions listed below should be met:
 - (i) The programmes should be such that their distorting effect is less significant than AMS programmes;

- (ii) The creation of a new Blue Box should not increase the overall availability of subsidies per product as compared to a representative base-period, except in the case of new users;
 - (iii) Blue Box programmes will be notified, monitored and subject to surveillance so as to ensure that their implementation will be in line with its stated objectives.
- The G-20 shares the Chairman's view on paragraph 30 that the reduction of the Blue Box ceiling from 5 per cent to 2.5 per cent of the value of agricultural production for developed countries is a noteworthy contribution in the direction of curtailing the Blue Box distorting effects.
 - The ceiling of 2.5 per cent should be applied from the beginning of the implementation period to any current or new developed-country Blue Box user. Notwithstanding this, the Group considers it is important that we continue to explore the possibility of bringing further down the Blue Box capping levels at the end of the implementation period, particularly in light of requirements for carrying out ongoing reforms.
 - As previously stated in the G-20 proposal on the issue, S&D provisions apply to the Blue Box.

DE MINIMIS

- The G-20 agrees with the Chair's logic that the level of reductions to both product and non-product specific *de minimis* should be such to adjust to OTDS commitments and should not generate additional policy space.
- As for S&D, the G-20 recalls that it has already been agreed that developing country members with no AMS entitlements shall be exempt from reductions in *de minimis*.
- For those developing country members with AMS entitlements, their reduction should be determined in relation to overall reductions of trade-distorting domestic support, bearing in mind that those developing countries that allocate almost all *de minimis* support for subsistence and resource-poor farmers will be exempt. No minimal cut on *de minimis* should be required for those developing countries.

DISCIPLINES

Product-Specific AMS Caps

- The G-20 recalls that the July Framework indicates that product-specific AMS is to be capped at the respective average levels according to a methodology to be agreed. A key methodological step would be to define a historical base period.
- For developed Members, despite recognizing the strong support – except one Member – for the 1995-2000 base period for product-specific AMS cap, the G-20 is surprised to note that the Chair's text ignores this period as the centre of gravity, but instead goes on to present three options for the consideration of Members. As the G-20 has indicated in its previous submission, the base period 1995-2000 in itself constitutes a middle-ground compromise, as it provides for the longest and most diverse sample of data available for the negotiation, encompassing various price situations in a balanced way.
- For developing Members, they may use their own implementation period of the Uruguay Round (1995-2004) or the implementation period of developed members (1995-2000).

- Choosing 1999-2001 for developed countries as base period would imply defining product-specific caps at unrealistically low international prices and, consequently, defining the caps at very high levels. The caps thus calculated would be fixed at levels so high that they would defeat the purpose of the discipline, particularly in a context of AMS reduction. For instance, the overall sum of product specific caps in the USA proposal would amount to US\$16.1 billion, while the final total AMS for the USA would reach US\$7.6 billion. In practice, such a difference would imply that some products could maintain their current support levels without undergoing any reform, a result that is clearly not in accordance with the spirit and the letter of the Mandate.
- A view was expressed that very strict product-specific caps, if carried out as of the first day of the implementation period, would imply steep reductions of AMS not in line with the staging of AMS cuts. This is true of those Members that have increased AMS expenditures in the implementation period. Although there is no justification to make us move away from the 1995-2000 base period, the G-20 believes that the implementation of the product-specific caps could be phased-in in tandem with the staging of AMS reductions, so as to allow for a smoother implementation of the new product ceilings, provided that the Member concerned shows requisite flexibility and is ready to reciprocate.
- As an integral part of all elements in this negotiation, special and differential treatment shall be ensured for all developing countries. Considering the special circumstances of developing Members, such as low applied levels, few supported products, discontinuous use of AMS and budgetary constraints, these may grant product specific AMS for each product up to the maximum level in either of the following alternative product specific caps, without prejudice to the total bound AMS commitment:
 - (i) The average applied levels during the implementation-period; or
 - (ii) Two times the Member's product-specific *de minimis* level; or
 - (iii) A percentage of 20 per cent of the total bound AMS in any year.

Blue-Box Disciplines

- Despite our acknowledgement of the relevance of the reduction of the Blue Box capping, the G-20 holds that this step by no means exhausts the need for further disciplines. Indeed, percentages tend to be deceptive. In the case of the USA, 2.5 per cent of the value of its agricultural production is equivalent to US\$4.8 billion, an amount that is sufficient to affect significantly particular products.
- The G-20 takes note of the Chair's suggestions on Blue Box disciplines. The G-20 is of the view that, in the Blue Box, anti-concentration alone cannot deliver the effectiveness required to discipline expenditures. A mere anti-concentration discipline will neither be effective to avoid increasing volumes of support in most commodities, nor resolve *per se* the problems of box-shifting and product-shifting.

Combined AMS/Blue Box Product-Specific Cap

- The G-20 takes note of the Chair's observations on a Combined AMS/Blue Box Product-Specific Caps.

- The G-20 remains to be convinced that methods alternative to product-specific Blue Box cap could deliver on the Mandate of effective disciplines. Nevertheless, the G-20 is open to examine alternative methods provided that such methods will be effective in limiting the levels of expenditure by commodity.

COTTON

- The G-20 recalls its Declaration on Cotton, on the occasion of the WTO High-Level Session on Cotton (Geneva, 15-16 March 2007).
 - The G-20 reaffirms its commitment to the mandate of Paragraph 4 of Annex A of the July 2004 Framework Agreement to address cotton ambitiously, expeditiously, and specifically in relation to all trade-distorting policies affecting the sector.
 - The G-20 fully supports paragraph 11 of the Hong Kong Declaration addressing the overall objectives in domestic support: "*(...) as an outcome for the negotiations, trade distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable.*"
 - The Group supports the Cotton-4 proposal regarding the reduction in the specific measure of support applicable to cotton (TN/AG/GEN/22).
 - In order to avoid trade-distorting subsidy concentration on cotton, the G-20 shares the Cotton-4 objective that product-specific AMS cap applicable for cotton shall amount to one third of the final capping resulting from the historical average for that product for developed country.
 - The base period for product-specific AMS caps for cotton shall be 1995-2000.
 - Similarly, disciplines on blue box support will ensure that such payments are less trade-distorting than AMS measures and include product-specific provisions.
 - The G-20 and the Cotton-4 remain engaged with a view to address effectively the problem of concentration of subsidies in cotton.
 - Special and differential treatment for developing-country Members shall be properly addressed.
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