

**Committee on Agriculture
Special Session**

**G-20 SUBMISSION
GUIDELINES FOR MODALITIES
SENSITIVE PRODUCTS IN DEVELOPED COUNTRIES**

The following communication, dated 17 December 2007, is being circulated at the request of the G-20.

I. INITIAL CONSIDERATIONS

1. Clarity and transparency in the results of the market access provisions for developed Members are fundamental requirements for the successful conclusion of the Doha Round in view of well-established negotiating linkages with the domestic support pillar and the need to achieve balance and proportionality in market access in developing Members.

2. The G-20 has always maintained that transparent multilaterally negotiated results are the only way to achieve ambitious results and to ensure a meaningful pro-development outcome in this Round. Therefore, in light of the Uruguay Round experience, it is the view of the Group that full modalities should clarify all aspects related to the preparation of Members' commitments lists, reducing to the minimum the uncertainties related to the scheduling process. In no other area these considerations are more relevant than on sensitive products.

3. Without clarity, transparency and predictability on negotiating results on sensitive products, horizontal negotiating processes destined to compare the value of the negotiating package in agriculture with the outcomes in other areas of the single undertaking, particularly in view of paragraph 24 of the Hong Kong Ministerial Declaration, will be rendered meaningless. Consequently, the level of domestic consumption data per tariff line or product should be agreed to in an Annex to the modalities that should include not only the methodology, but also the results of its application. Therefore, in cases where domestic consumption of a product or tariff line is not provided in advance, the designation of a sensitive product or tariff line shall not take place.

4. Consequently, adequate full modalities on sensitive products rest on considerations regarding four orders of factors:

- (i) Clarity, transparency and predictability on the level of MFN TRQ expansion for those products designated as sensitive products;
- (ii) Scheduling of tariff quotas;
- (iii) Other intervening elements such as in-quota tariffs and TRQ administration rules;
- (iv) Level of ambition.

II. FULL MODALITIES ON SENSITIVE PRODUCTS

5. In order to arrive at full modalities, it is necessary to clarify all methodological steps, including those pertaining to data sets, to move from domestic consumption to "new access opportunities" (TRQ expansion) in terms of physical units (tonnage).

III. DOMESTIC CONSUMPTION

6. Domestic consumption is the basic concept for the treatment of sensitive products. Without reliable domestic consumption figures it would be impossible for Members to avail themselves of sensitive products provisions. Preferably, domestic consumption should be sourced from internationally verifiable data available in multilateral sources like OECD. Such figures are based on national data regarding balance of supply (Production minus Exports plus Imports plus Variation of Stocks) and should cover human, feed and industrial consumption. Since historical series have been available for relatively long periods of time, international domestic consumption statistics appear to be relatively stable and, in principle, provide a reliable starting point to calculate TRQ expansion.

IV. DATA ISSUES

Base Period

7. All data used in the negotiations, consumption and trade data should be referred to the most recent available period in keeping with existing practices. In case of trade data, the most recent COMTRADE data dates back to 2005. Therefore, the base period for trade data should be 2003-2005.

Noise in Trade Data

8. In cases of exceptional circumstances, where a trade or an SPS restrictive measure is in place, affecting normal trade flows, ad hoc solutions, including via resorting to Olympic averages, should be considered in order to attenuate the effects of these restrictions.

V. METHODOLOGY

Domestic consumption and sensitive products: Product-level approach *versus* "Partial Designation"

9. We are confronted with two divergent options on how to pass from overall domestic consumption to the TRQ expansion¹:

- (i) Product approach (proposed by the Cairns' Group) - apply the suggested expansion (4-6%, as proposed in the Chair's text) to the domestic consumption of the entire product and this outcome will represent the overall amount of the Doha Round TRQ;

¹ Although the term TRQ expansion has been widely used, the Doha Round tariff quotas are not necessarily going to be the same in number and coverage as the existing ones. They are, therefore, new tariff quotas, not to be confused with new tariff quotas for products which are not the object of an existing tariff quota. The following terminology is suggested:

- a) **Existing bound TRQs** – TRQs as scheduled in the Uruguay Round or accession protocols
- b) **Doha Round TRQs** – TRQs resulting from Doha Round negotiations, referred to as "TRQ expansion". In the view of G-20 those can only cover products which are presently the object of an existing tariff quota, since only those could be designated as sensitive.
New TRQs – TRQs on products that are not in the scope of existing TRQs. Not accepted by G-20.

- (ii) Partial Designation (preferred option by importers) – define TRQ expansion at either six or eight digit level through a process of sorting out the participation of the tariff lines in the overall domestic consumption.

10. At this juncture of the negotiations, the route to be taken is to be reflected on the numbers for TRQ expansion, which, in a given level of ambition, should be higher if partial designation is used.

11. As to the partial designation, the flaws associated with trade weighting to assign domestic consumption at the tariff line level (8-digits) are well established particularly in the case of lines with low trade. In practice, partial designation will imply downsizing the overall TRQ expansion via leakages in two steps, so that the figures originally suggested by the Chair of 4-6% expansion will result in significantly smaller TRQ expansion, if the majority of tariff lines in a sector are not designated as sensitive. This problem tends to be more acute in products that are more "open" in terms of sub-sectors and tariff lines and with low concentration of trade in lines to be designated as sensitive. This is particularly the case in dairy products.

SOME PROBLEMS IDENTIFIED IN RELATION TO PARTIAL DESIGNATION

Processed products

12. Discussions regarding the way processed products are going to be considered are a source of concern to the G-20, as not only they may lead to solutions that lack transparency, but also risk decreasing the level of ambition by either decreasing headline numbers of domestic consumption or by diverting domestic consumption away from basic products. This is uncalled for as processed products correspond to one of the forms of disappearance included in domestic consumption (industrial consumption). Moreover, processed products seldom do count with tariff quotas and, consequently, in accordance with the G-20 positions on this matter (see G-20 paper on sensitive products, dated 19 October 2005) shall not be designated as sensitive.

13. The G-20's strong preference is to avoid the road of adjustments due to processed products. If such adjustments are inevitable, they should not result in either reopening of headline figures or significant decreases in allocations of consumption to basic products. In any event, any adjustments should be transparent and supported by available, verifiable, and recent data. If not, the designation of the sensitive product at the tariff line concerned shall not take place.

Scheduling of tariff quotas: aggregation level

14. Once the TRQ expansion is defined, a Doha Round tariff quota shall be established in the schedules in the format that would be applied when the results of the negotiation enter into effect. The G-20 is of the view that a single "basket" tariff quota shall be established including all sensitive tariff lines for a product. Therefore, sub-allocations or scheduling of multiple tariff quotas will be prohibited. This simple step would allow the market to play a larger role in defining importing levels of the different sensitive products, thus reducing the influence of the TRQs as measures to administer trade. Moreover, "basket" tariff quotas would render it simpler to reach agreement on issues like the definition of a floor.

VI. ESTABLISHMENT OF A FLOOR

15. Resorting to a trade weighting proxy, as suggested by the partial designation method, as a means to allocate consumption is likely to generate allocations that are unrepresentative of consumption patterns. Under-estimation of consumption will take place where product sectors are disaggregated and trade is not concentrated in lines to be designated as sensitive.

16. If a partial designation approach is adopted, a "floor" should be negotiated to provide comfort and certainty that a minimum tariff quota expansion will take place where a Member designates as sensitive low trade tariff lines. In principle, such comfort and certainty could be provided through a floor to be established directly at the level of the consumption figure for product concerned irrespective of the number of lines designated as sensitive ("Global Safety Net"). It goes without saying that in cases where the allocation method adopted results in TRQ expansion higher than the floor, those results will prevail. Conversely, where results are below the floor, it will be used instead.

VII. OTHER INTERVENING FACTORS

17. The G-20 recalls that although in-quota tariffs and TRQ administration are presented in the Framework as stand-alone issues, they may affect significantly the outcome of the compensation provided by TRQ expansion of sensitive products. We also wish to highlight the role played by the Special Agricultural Safeguard (Article 5 of the Agreement on Agriculture) as a means to restrict outcomes in market access as, in many instances, it serves as a permanent additional duty and, therefore, should be eliminated as of the first day of the implementation period.

In-quota Tariffs

18. The July 2004 Framework established that TRQ expansion will provide compensation for avoiding the formula cut. The establishment of in-quota tariffs would impair the value of compensation for resorting to the deviation from formula cuts. The G-20, therefore, proposes that such in-quota tariffs for sensitive products be set at zero.

Tariff Quota Administration

19. The value of tariff quota concessions varies significantly depending on the way a TRQ is administered. Administration by the exporting country would be impossible with MFN TRQs, but transparency mechanisms should be devised and alternatives for unfulfilled tariff quotas should be considered.

VIII. LEVEL OF AMBITION

20. The G-20 holds that a satisfactory solution of all elements having a bearing on final TRQ expansion level for products designated as sensitive is a necessary condition for a negotiation on the final level of ambition. Consequently, decisions on methodology and on other intervening factors having impact on the final level of ambition should be corrected in the modalities.
