

**Chair's Reference Paper**AGGREGATE MEASUREMENT OF SUPPORT (AMS) AND *DE MINIMIS****Background***

Paragraph 5 of the Hong Kong Ministerial Declaration states, *inter alia*, that:

"On domestic support, there will be three bands for reductions in Final Bound Total AMS and in the overall cut in trade-distorting domestic support, with higher linear cuts in higher bands. In both cases, the Member with the highest level of permitted support will be in the top band, the two Members with the second and third highest levels of support will be in the middle band and all other Members, including all developing country Members, will be in the bottom band. In addition, developed country Members in the lower bands with high relative levels of Final Bound Total AMS will make an additional effort in AMS reduction. We also note that there has been some convergence concerning the reductions in Final Bound Total AMS, the overall cut in trade-distorting domestic support and in both product-specific and non product-specific *de minimis* limits. Disciplines will be developed to achieve effective cuts in trade-distorting domestic support consistent with the Framework. The overall reduction in trade-distorting domestic support will still need to be made even if the sum of the reductions in Final Bound Total AMS, *de minimis* and Blue Box payments would otherwise be less than that overall reduction. Developing country Members with no AMS commitments will be exempt from reductions in *de minimis* and the overall cut in trade-distorting domestic support [...]"

Paragraph 9 of the Agreed Framework (Annex A of WT/L/579) states that:

"To achieve reductions with a harmonizing effect:

- Final Bound Total AMS will be reduced substantially, using a tiered approach.
- Members having higher Total AMS will make greater reductions.
- To prevent circumvention of the objective of the Agreement through transfers of unchanged domestic support between different support categories, product-specific AMSs will be capped at their respective average levels according to a methodology to be agreed.
- Substantial reductions in Final Bound Total AMS will result in reductions of some product-specific support."

Paragraph 10 states:

"Members may make greater than formula reductions in order to achieve the required level of cut in overall trade-distorting domestic support."

Paragraph 11 states:

"Reductions in *de minimis* will be negotiated taking into account the principle of special and differential treatment. Developing countries that allocate almost all *de minimis* support for subsistence and resource-poor farmers will be exempt."

Paragraph 12 states:

"Members may make greater than formula reductions in order to achieve the required level of cut in overall trade-distorting domestic support."

***Ad memorandum***

Paragraph 11 of the Hong Kong Ministerial Declaration states, *inter alia*, that:

"[...] Members agree that the objective is that, 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. We commit ourselves to give priority in the negotiations to reach such an outcome."

Paragraph 6 of the Agreed Framework (Annex A of WT/L/579) states that:

"The Doha Ministerial Declaration calls for "substantial reductions in trade-distorting domestic support". With a view to achieving these substantial reductions, the negotiations in this pillar will ensure the following:

- Special and differential treatment remains an integral component of domestic support. Modalities to be developed will include longer implementation periods and lower reduction coefficients for all types of trade-distorting domestic support and continued access to the provisions under Article 6.2.
- There will be a strong element of harmonisation in the reductions made by developed Members. Specifically, higher levels of permitted trade-distorting domestic support will be subject to deeper cuts.
- Each such Member will make a substantial reduction in the overall level of its trade-distorting support from bound levels.
- As well as this overall commitment, Final Bound Total AMS and permitted *de minimis* levels will be subject to substantial reductions and, in the case of the Blue Box, will be capped as specified in paragraph 15 in order to ensure results that are coherent with the long-term reform objective. Any clarification or development of rules and conditions to govern trade distorting support will take this into account."

Paragraph 7 states:

"The overall base level of all trade-distorting domestic support, as measured by the Final Bound Total AMS plus permitted *de minimis* level and the level agreed in paragraph 8 below for Blue Box payments, will be reduced according to a tiered formula. Under this formula, Members having higher levels of trade-distorting domestic support will make greater overall reductions in order to achieve a harmonizing result. As the first instalment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80 per cent of the sum of Final Bound Total AMS plus permitted *de minimis* plus the Blue Box at the level determined in paragraph 15."

## Structure for Discussion

### *Introduction*

1. This reference paper addresses three issues related to the Amber Box – reductions in Final Bound Total AMS, the establishment of product-specific AMS caps and reductions in *de minimis*. Other issues relating to domestic support, that is, the Blue Box, the overall reduction in trade-distorting domestic support and the review and clarification of the Green Box are addressed in separate reference papers. Clearly, the modalities will have to address these and a host of other issues before they can be considered complete.

2. Difficult political decisions are needed to decide the cuts in Final Bound Total AMS, the product-specific AMS caps and reductions in *de minimis*. In the areas under consideration in this reference paper, there has been a considerable degree of convergence through Members' proposals. We should remind ourselves that this is no small thing. AMS measures are the most trade-distorting and presumably this should constitute a particularly valuable part of our work. In fact, we are in the zone of cutting the highest of these entitlements by something between 60 and 83%. That is not to underestimate the divisions that remain, but we need now to close the gaps to get to final convergence.

### *Final Bound Total AMS*

#### *Thresholds*

3. The Agreed Framework and the Hong Kong Ministerial Declaration require that Final Bound Total AMS should be reduced by a tiered formula with three tiers. The Member with the highest level of permitted support should be in the top tier, the next two Members in the middle tier and all other Members, including all developing country Members, in the bottom tier. What this means is that the European Communities (with a Final Bound Total AMS of €67.159 billion) is in the top tier, the United States (\$19.103 billion) and Japan (¥3,972.9 billion) in the middle tier and all other Members with AMS commitments in the bottom tier.

#### *Reduction in Final Bound Total AMS*

4. There has been a considerable degree of progress on the actual reductions that should apply in each of the three tiers. However, so far this year, there has not been any further progress and we must now narrow differences, noting the following table which I first prepared for my report to the TNC in JOB(05)/306 of 23 November 2005 (later distributed as TN/AG/21 and as Annex A to the Hong Kong Ministerial Declaration – WT/MIN(05)/DEC).

<b>Tiers</b>	<b>Cuts</b>
1	37-60%
2	60-70%
3	70-83%

5. Exactly what these reductions would mean to the Current Total AMS has been raised and can be derived from Members' notifications and Secretariat background documents like TN/AG/S/4 and TN/AG/S/13. Some of the heaviest users, in both absolute and relative terms, of Amber Box support have not, however, submitted notifications for some years now.

6. As we embark on working towards convergence on AMS cuts, we also need to set out modalities as to the additional effort in AMS reduction to be undertaken by the developed country Members in the lower tiers with Final Bound Total AMS levels that are high relative to the total value of agricultural production. Details are yet to be settled, although it was already signalled that the extent of additional effort would reflect the size of cuts and outcomes in the other pillars.

7. While the issue of exchange rate fluctuations and inflation as they relate to AMS commitments has been raised, many consider that these situations are already addressed by the existing provisions in Article 18.4 of the Agreement on Agriculture. If Members consider that anything above and beyond the existing Article 18.4 is needed, we would need to define what it would be.

8. As regards special and differential treatment for developing country Members, some Members have suggested that the cuts would be less than two thirds of the developed Members' cut along with a longer implementation period.

### *Product-specific AMS caps*

9. The Agreed Framework states that product-specific AMSs are to be capped at their respective average levels according to a methodology to be agreed. In the discussions that have taken place so far on the methodology the focus has been on the average product-specific AMS support provided during a base period. Following requests from some Members, the Secretariat produced a background note (TN/AG/S/15/Rev.1) which summarises the information provided by Members in their notifications on domestic support.

### *Base period*

10. Two alternative base periods have been suggested for the product-specific AMS caps – 1995 to 2000 (or the possibility of choosing 1995 to 2004 for developing countries) and 1999 to 2001. Selection of a particular base period will have a considerable impact on some Members, particularly those countries that have undergone major changes in support policies. To give one extreme example, for one particular Member, the alternative base periods would mean a difference of 160% for AMS support for one product, for another Member it would mean the difference between a substantial amount of AMS support for a product and no AMS support. We can, of course, go on endlessly debating this until one side surrenders. Alternatively, we need some practical solution. One such approach that has been suggested is to use the period 1995-2000 except in cases where support was introduced after the year 2000.

11. Concerning support that is at or below *de minimis* levels during the base period it seems to be reasonably widely accepted that the cap would still be the *de minimis* level or some other percentage of the value of production of that product.

### *Other*

12. Some Members have taken the view that the effectiveness of product-specific caps is to be linked to the effectiveness of the Blue Box criteria which are to be developed and to the need to ensure that non-product-specific support is not used to circumvent the product-specific caps commitments.

13. As regards implementation, and we have not discussed this in detail, Members will need to decide whether the product-specific caps are to be applied from the start of implementation or would they need to be phased in. The phasing in could, for example, be done in tandem with the staging of AMS commitments.

14. With respect to special and differential treatment, it has been proposed that developing country Members would be allowed to provide product-specific support within the cap established by one of the following methods: (i) the average applied levels during the base period 1995-2000 or 1995-2004, as indicated above; (ii) twice the Member's product-specific *de minimis* level; or, (iii) 20 per cent of the total bound AMS in a given year.

### ***De minimis***

15. The Agreed Framework requires that *de minimis* limits should be reduced except for developing countries that devote almost all their *de minimis* to low-income and resource-poor farmers. The Hong Kong Ministerial Declaration extended the exemption to cover developing country Members with no AMS commitments.

16. As I noted in my report to the TNC<sup>1</sup>, a zone of engagement with respect to reductions in *de minimis* thresholds (both product-specific and non-product-specific) has been between 50% and 80% for developed Members. We now need to try to narrow this difference and we also need to consider what should be the reduction for developing countries not covered by the two exemptions mentioned above. In addition, some Members have raised concerns about circumvention of *de minimis* limits by providing non-product-specific support which is effectively concentrated on a narrow range of products.

17. Prior to the Hong Kong Ministerial Conference a number of delegations had also raised concerns related to operationalising the concept of developing countries that devote almost all *de minimis* to low-income and resource-poor farmers. For some Members the exemption for developing countries with no AMS commitments from reductions in *de minimis* has resolved this issue. However, as regards developing countries not covered by the above exemptions, delegations now need to consider what the *de minimis* reductions should be.

### ***Cotton***

18. The Agreed Framework and the Hong Kong Ministerial Declaration have given us a mandate to address cotton ambitiously, expeditiously and specifically, within the agriculture negotiations in relation to all trade-distorting policies affecting the sector. This reference paper addresses only the Final Bound Total AMS, product-specific AMS and *de minimis* elements of that mandate. The other elements have been or will be addressed in the relevant reference papers.

19. A specific proposal has been tabled by the Co-Sponsors of the Sectoral Initiative in Favour of Cotton on how to achieve a more ambitious reduction for cotton in relation to the general result of the agriculture negotiations on domestic support. In that proposal, the Co-Sponsors have proposed a formula for determining the specific rate of reduction of the AMS for cotton. The formula is detailed in TN/AG/SCC/GEN/4. The Co-Sponsors have also proposed that the six-year Uruguay Round implementation period (i.e. the period 1995-2000) should be the base period and that the base value of support (to which the proposed specific reduction formula would be applied) be calculated as the arithmetic average of the values recorded for cotton in Members' Supporting Tables DS:4 of Table DS:1 notifications from 1995 to 2000.

20. With regard to the implementation over a shorter period of time, the Co-Sponsors have proposed that the time period for the reduction of domestic support for cotton should be one third of the period agreed upon for the reduction of domestic support in agriculture in general. They also note that "ambitious, expeditious and specific" treatment also applies to *de minimis* and to the Blue Box in the same way as it applies to the AMS.

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<sup>1</sup> Annex A of WT/MIN(05)/DEC refers.

21. It is clear that the results of the negotiations must deliver on the political commitments made in the Agreed Framework and in the Hong Kong Ministerial Declaration.

***Monitoring and surveillance***

22. Further discussion is needed as to what information, if any, Members would need to submit in the form of supporting material. It was proposed for example that for transparency purposes, Members would be required to provide details of calculations of product-specific AMS caps.

23. Also, it appears to be generally accepted that appropriate monitoring and surveillance procedures for domestic support commitments will need to be established. One suggestion that has been made is for a new Sub-committee on Monitoring and Surveillance to undertake various tasks consisting for example of review of notifications, peer reviews, assessment and evaluation, reporting and surveillance. Another proposal is to enhance the existing format of notifications and ensure timely submissions, including by means of a penalty in Current Total AMS for Members with overdue notifications. Also, in addition to a regular review of notifications by the Committee on Agriculture, in-depth examinations of each Member's notifications (both Table DS:1 and Table DS:2) would be carried out on a rolling basis, with the three Members with the highest amounts of support being reviewed every year.

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