

Chair's Reference Paper

OVERALL REDUCTION IN TRADE-DISTORTING DOMESTIC SUPPORT

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

"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."

Paragraph 8 states:

"The following parameters will guide the further negotiation of this tiered formula:

- This commitment will apply as a minimum overall commitment. It will not be applied as a ceiling on reductions of overall trade-distorting domestic support, should the separate and complementary formulae to be developed for Total AMS, *de minimis* and Blue Box payments imply, when taken together, a deeper cut in overall trade-distorting domestic support for an individual Member.
- The base for measuring the Blue Box component will be the higher of existing Blue Box payments during a recent representative period to be agreed and the cap established in paragraph 15 below."

Paragraph 15 states:

"Blue Box support will not exceed 5% of a Member's average total value of agricultural production during an historical period. The historical period will be established in the negotiations. This ceiling will apply to any actual or potential Blue Box user from the beginning of the implementation period. In cases where a Member has placed an exceptionally large percentage of its trade-distorting support in the Blue Box, some flexibility will be provided on a basis to be agreed to ensure that such a Member is not called upon to make a wholly disproportionate cut."

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."

Structure for Discussion

Introduction

1. The Agreed Framework, which reaffirmed the Doha mandate calling for "substantial reductions in trade-distorting domestic support", established the concept of an overall reduction in trade-distorting domestic support which it defined as the Final Bound Total AMS plus permitted *de minimis* level and the higher of either Blue Box payments during a recent representative period or 5% of the average total value of agricultural production during an historical period. This overall base level for all trade-distorting domestic support is to be reduced by a tiered formula.

2. There are differences between Members on the function of the cut in overall trade-distorting domestic support. Some look upon this reduction as a sort of residual. Others see the overall reduction as having a more active role and acting as an intrinsic restraint in its own right. Whatever the views of different delegations, the technical task before us is clear: to define those issues that will enable the base level of overall trade-distorting domestic support to be established. We should also seek to narrow the differences concerning the reductions.

3. One initial issue is whether the overall reduction in trade-distorting domestic support should apply to developed Members that do not have AMS commitments. There would appear to be general acceptance that these Members would not be subject to the reduction although they will be subject to the limits to be agreed for *de minimis* and Blue Box.

The components of overall total trade-distorting domestic support

4. The three components of overall trade-distorting domestic support, as stated above, are the Final Bound Total AMS, permitted *de minimis* and the Blue Box. For the first of these, the Agreed Framework is clear – it is the Final Bound Total AMS figures which are contained in Members' Schedules.

5. As regards the second and third elements, however, a similar technical question arises in both cases, namely the question of the relevant base periods. First, it is clear that we will need to agree on a base period to establish the base level of the "permitted *de minimis*". More specifically, the base level of value of production should be established in order to calculate the *de minimis* entitlement.

6. Second, as far as the Blue Box is concerned, we will also need to specify what should be the "recent representative period" with respect to existing Blue Box payments (second bullet of paragraph 8 of the Agreed Framework refers) and to specify the "historical period" with respect to the total value of agricultural production (paragraph 15 refers) so that the Blue Box component can be appropriately determined. So far, I do not detect any disagreement with the proposal made by some delegations that the Uruguay Round implementation period (i.e. the period 1995-2000) be used as a base period for developed country Members. An option of either the period 1995-2000 or 1995-2004 has been suggested for developing country Members. In addition, there does not appear to be any objection to defining total value of production as the gross value of total production of basic agricultural products at farm gate prices.

7. It has been noted that the choice of a base period for both permitted *de minimis* and the Blue Box limit probably does not create a major difficulty because both are based on the total value of agricultural production which may not be expected to vary considerably from one year to another.

8. As regards the methodology to establish the overall base level, in the early discussions some delegations raised concerns about the possible double-counting between the AMS and the "permitted *de minimis*" entitlements and a number of proposals were made as to how to prevent this. However,

others had countered that this concern would be better addressed indirectly by applying a larger cut. We should further explore this avenue as a possible way towards a solution acceptable to all.

The tiered formula

Thresholds

9. 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 countries, in the bottom tier. What this means is that the European Communities is in the top tier, the United States and Japan in the middle tier and all other Members in the bottom tier.

Reduction

10. As regards the depth of cuts in each band, Members are still far apart with respect to the cuts proposed for the lowest tier. In the top and the middle bands, there are smaller divergences but bridging these gaps is not any easier. So far this year, there has not been any further progress and it is time to narrow differences further, bearing in mind the information in the 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).

Tiers	Cuts
1	31%-70%
2	53%-75%
3	70%-80%

11. On the issue of staging, we will need to ensure that the overall trade-distorting support does not exceed, throughout the implementation period, 80 per cent of the base level stipulated in the last sentence of paragraph 7 of the Agreed Framework. Some have also called for "front-loading" of the cuts as they consider that "water" would be built into the base level of the overall trade-distorting domestic support. Others countered that if "water" is to be addressed here, front-loading should apply to other pillars as well.

12. With respect to special and differential treatment elements, it has been proposed that it would involve longer implementation period and a lower reduction rate than the cut for developed countries in the lowest band. Others have suggested that the cut for developing country Members should be less than two thirds of the developed country cut in the lowest tier.

Cotton

13. 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 overall reduction in trade-distorting domestic support element of that mandate. The other elements have been or will be addressed in the relevant reference papers.

14. 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.¹ In that proposal, the Co-Sponsors noted that

¹ TN/AG/SCC/GEN/4 refers.

"ambitious, expeditious and specific" treatment for cotton applies to the overall cut, as well as, covering AMS, *de minimis* and Blue Box.

15. Operationalization of the term "more ambitious" according to the method described by the Co-Sponsors will be based on the values of support for cotton during the Uruguay Round implementation period, i.e. the six-year period from 1995 to 2000. With regard to "implement[ation] over a shorter period of time", the Co-Sponsors have proposed that the time period for the reduction of domestic support for cotton shall be one third of the period agreed upon for the reduction of domestic support in agriculture in general.

16. Clearly, this issue will need to be addressed urgently and is, of course, intimately related to the basic approaches referred to above regarding overall cuts.

Monitoring and surveillance

17. It is generally accepted that appropriate monitoring and surveillance procedures to monitor domestic support commitments will need to be established. One suggestion is for a new Subcommittee on Monitoring and Surveillance to undertake various tasks comprising of a review of notifications, peer review, assessment and evaluation, reporting and surveillance. Another proposal is to enhance the existing format of notifications (for example, to include data on Current Overall Trade-Distorting Support) 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.
