

**AGRICULTURE NEGOTIATIONS - STATUS REPORT  
KEY ISSUES TO BE ADDRESSED BY 31 JULY 2005**

Assessment by the Chairman

**OVERVIEW**

Behind the phrase 'First Approximation' lies a straightforward objective: to prepare an adequate structure in all three pillars for that more political phase from September to December. We can only make progress incrementally and we can only make progress from a 'bottom up' approach. A 'top down' approach, imposing 'elegant' technical solutions to deeply unresolved political questions, does not work.

That was the whole logic of having developed a 'Framework' rather than attempting the impossible task of moving directly to 'Full Modalities' – i.e. combining structure with the precise rules and fully elaborated formulae to define the level of ambition of the Doha Mandate in precise terms. While we focus on the key issues highlighted in this Paper, I would encourage informal discussion amongst Members aimed at giving greater precision on the level of ambition in the Doha Mandate in the pillars of domestic support and market access. Such informal discussion may assist the formal, text-based negotiation.

As a step in the direction towards that 'First Approximation' for the end of July, I need some clearer guidance from the Membership on some critical areas. Building on what we have already in the Agreed Framework, in my view, we need to have in place by 31 July 2005 the following:

- In the domestic support pillar, the structure of the reduction commitments (not the size of the reductions) relating to Trade-Distorting Domestic Support as well as some elements of the rules (i.e. criteria); in particular it may be possible to develop convergence on aspects of the Green Box by 31 July.
- In the export competition pillar, where we have already both structure and the agreed end point (i.e. 'elimination'), further elaboration of parallel commitments, in particular in the areas of STEs and Food Aid, since we have at least some 'building blocks' for parallel commitments in export credits.
- In the market access pillar, the structure of at least some central elements of the core market access formula, and further elaboration of a number of 'flexibilities' (particularly aspects of Special and Differential Treatment such as SP, but also 'sensitive products');

If we cannot settle these issues, we are simply transferring all these matters to the September to December period with the distinct likelihood that, once more, Ministers will be put in an acutely difficult position. I have the 'AVE lesson' very much in my mind and I hope it is in yours.

**A Development Round - The Crucial Role of Agriculture**

This is a Development Round and I can assure Members that this is at the forefront of my thinking and approach as the Chair. Agriculture is critical to ensuring that we get a 'development return' from the Round. It is critical for two broad reasons:

- The first reason is because many developing country Members and LDCs, including the cotton proponents, either already have substantial economic interests, relative to their economies, in world agriculture markets and can build on this; or, because they can see a future for themselves, once the massive trade distortions are either eliminated or substantially reduced. The interlocking nature of the domestic and international reform 'tracks' here will result in substantial new trade opportunities if we can successfully complete this Development Round.
- The second reason is somewhat different. Many developing countries, and particularly LDCs, have deeply vulnerable people dependent on agriculture. Integrating these parts of their agriculture sectors into any emerging reform framework is deeply sensitive. Such sensitivities have to be accommodated as the reform process takes shape. They have a different character to other countries' sensitivities, politically crucial though they are in steering this reform through successfully, domestically and internationally.

To advance the first aspect of developing country interests – call them 'offensive' or 'export' interests – we must address initially the structure of commitments in all three pillars aimed at the source of the problem.

In practice, we cannot address in the next few weeks all features of the instruments foreshadowed in the Framework to address the second aspect of developing country interests – i.e. instruments designed specifically to take account of the realities of much developing country agriculture, such as SSM. This can only be done when we have some basic structures in place in the domestic support and market access pillars (we have the basic structure in place in the export competition pillar, thanks to key decisions taken in July 2004).

However, I am not suggesting in this paper that all these 'instruments' are to be left aside for the post-July phase of this negotiation. You will see this when you read the pillars on domestic support (Green Box, the Final Bound Total AMS reductions, for example) and market access (the need to have comparable level of specificity in elaborating SP as with 'sensitive products'). But the ineluctable logic of this negotiation, and of this paper, is that we need structure on the matters that are primarily responsible for the large distortions in world agriculture markets.

I do not wish to imply here that the major developed countries are not fully seized of this – that would be quite unfair to the developed countries. In some cases, deep reforms are underway and pave the way for important international reforms. In other cases, some developed countries have only limited work to do to contribute to international reform. All will play their part, of course.

I also have to consider the important matter of the work of the Cotton Sub-Committee, which has two tracks to it – the trade and development tracks. To maintain the confidence of the Membership that the Agriculture Negotiations can indeed deliver concrete results in the field of trade reform related to cotton, we have to have something credible to show for our efforts in the agriculture negotiations in the 12 months that have passed since the adoption of the July 2004 Framework.

## KEY ISSUES FOR JULY

It is particularly important that this paper be read in conjunction with the July 2004 Framework<sup>1</sup>. That paper, endorsed by the Membership, and building on the Doha Mandate, represents the '*acquis*' of the agriculture negotiation to date. There are a number of key matters in the Framework which, for good reasons generally related to a prudent 'sequencing' of such a complex negotiation, are not covered in this discussion paper; their standing in this negotiation remains therefore fully intact. All these issues have been subject to intense and numerous consultations since adoption of the July Framework.

I believe that the Membership fully understands that not all issues – even vital ones – can be progressed simultaneously. There are some issues which, for purely logical reasons, cannot be addressed until certain prior matters become somewhat clearer. That is, there is a certain unavoidable 'sequencing' of issues in any complex negotiation. It is, I would argue, impossible to consider seriously how we factor in, say, 'tariff escalation', or the concerns of Recently Acceded Members, into our market access equation before we have some reasonable shape of the core market access formula. Yet at the same time, given the concerns of Members behind these and other important issues, they cannot be left aside to the last minute.

By the end of July, I thus hope to be in a position to put down a paper capturing the level of convergence on key issues in each of the three pillars of export competition, domestic support and market access. However, I need guidance from the Membership to do this and I need it now.

Realistically, I do not expect any Member, having reflected on the questions I put, to come back to Geneva with an entirely 'new position' fully coordinated with its constituencies, lobbies and political decision-making procedures. Rather, I hope that Members might return with a clearer idea of what is possible, where negotiating 'openings' can be offered to your partners on previously intractable positions – and expect comparable treatment in return. In some cases, you will need to consult your Ministers, at least informally, and give them a frank and honest assessment of how your respective negotiating positions are aligned with the current needs and real timetable for these negotiations.

## ***DOMESTIC SUPPORT***

In this pillar, there are two broad matters that need to be settled by the end of this negotiation: the disciplines and commitments on Trade-Distorting Domestic Support and the review and clarification of the disciplines (rules) to ensure that Green Box measures have no or at most minimal effects on trade and production.

### **Trade-Distorting Domestic Support**

I believe that by 31 July 2005 we need the structure of a tiered formula for the cuts in Final Bound Total AMS and the structure of a tiered formula for cutting overall TDS. Without settling some of the broad parameters on the structure of these formulae, it is difficult to see how far more difficult decisions can be taken in the more 'political phase' from September to December 2005.

Again, I emphasise the relationship here in this pillar and the work of the Sub-Committee on Cotton.

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<sup>1</sup> More accurately expressed, '*Annex A to the 'Doha Work Programme: Decision Adopted by the General Council on 1 August 2004'*'. Since this is universally referred to as the 'July Framework' I prefer to use this term.

There seems general convergence in the Membership around the concept of developing these two tiered formulae on the basis of absolute, not relative, levels of TDS. This reflects a fundamentally important fact: we are focussing on 'fixing the real problem' of the large distortions in world agriculture markets caused by high levels of TDS, not 'scoring a political point'.

Nevertheless, before I were to ask the Membership to formalise a real consensus on this key matter, it is clear that there is an expectation that certain developed countries with very high relative levels of TDS, but which (because of their limited size of their agriculture sectors in world terms, do not constitute large shares on an absolute basis) make a serious contribution to the reform effort. There is, in effect, a 'trade-off' here: the Membership is prepared to be 'reasonable' to them, provided they in turn are 'reasonable' to the Members in this negotiation.

#### *The Formula for Final Bound Total AMS*

Given that we are targeting absolute levels of distortion, it is already clear that any formula we might agree on will be driven by the absolute scheduled levels in three Members: the EC (US\$59.8 billion), the US (US\$19.1 billion) and Japan (US\$35.9 billion)<sup>2</sup>. This already accounts for some 82% of the sum of all scheduled AMS support for all WTO Members.

With respect to the numbers of tiers, most Members are reflecting on either 3 or 4 tiers. I need some clarity here. However, the fundamental question – and it must be addressed now – is where the three largest users of TDS fit into the tiers, whether the tiers number 3 or 4.

There is an additional important question as to how about 17 developing country Members with scheduled Final Bound Total AMS commitments be treated.

Arithmetically, all these developing countries, given their absolute levels of Final Bound Total AMS, would seem to fall into any lowest tier. There appears to be broad convergence on this key point. Is it therefore technically difficult in this context to ensure that the over-arching principle of lesser cuts over longer time frames is met?

#### *Overall Reduction in TDS*

Similarly, the structure of this formula will be driven by the data. There is a high degree of convergence amongst the Members that, with this particular formula, there would be three bands, with the largest single user in the top band and the next two highest users in the middle band. This already provides, in effect, the foundation element of the structure of the overall TDS formula and paves the way for decisions in the post-July phase on the level of harmonised cuts.

The treatment of developing countries in this formula raises complex issues for reasons I do not intend to summarise here<sup>3</sup>. Unless I get clear guidance from the Membership in July, this may need to be resolved in the subsequent negotiating phase from September to December.

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<sup>2</sup> Exchange rates for 2000, the final year for implementation of the results of the Uruguay Round so as to reflect the Final Bound Total AMS in Schedules.

<sup>3</sup> The underlying reason is that most developing countries do not have AMS commitments. It is too complex, and not necessary, to explain here the implications of this in the overall reduction. But the problem is understood and will need to be addressed in the subsequent phase.

### *Product-Specific AMS Caps*

Within the architecture of disciplines over trade-distorting domestic support, we have an agreement in the July Framework to develop product-specific AMS caps.

There are some difficult issues to be negotiated here and, for a variety of reasons, a few countries would face acute difficulties with almost any common base that might be negotiated for the purpose of setting the caps. We will need to address these issues in due course.

The general matter of product-specific AMS caps is something far better addressed in depth when we have greater precision on the structure of the TDS formulae and some insight into the depth of cuts.

### *De Minimis*

For developed countries, this is simply a matter of the size of the cut. The logic of this paper is to put all such matters concerning the size of reductions (i.e. level of ambition) in the domestic support pillar into the negotiation process after the Summer Break.

For developing countries, there are particular sensitivities in the light of the fact that for most developing countries, *de minimis* and the 5% cap on Blue Box entitlements are the only 'allowances' for providing TDS. This is not the right moment to address solutions to these issues, but we need to keep them in mind.

### *Blue Box Criteria*

The review of the criteria of the Blue Box is an important element in the area of trade-distorting support. The objective here is to ensure that Blue Box payments are less trade-distorting than AMS measures. We have a number of proposals and ideas on the table but strictly limited convergence at this stage.

Behind this lies a number of complex negotiating linkages. But a key linkage for many Members relates to the size of cuts in the formulae governing Trade-Distorting Domestic Support. Put in the simplest terms, the more modest the final decision on cutting AMS and *de minimis*, the more pressure Blue Box users, current or potential, can expect to see on additional criteria – even given the provision in the Framework to cap the Blue Box at 5%.

We need further work on this during July. But the size of the cuts will – at least according to the assumptions behind this paper – be a matter for the post-Summer Break negotiating phase.

### **Green Box**

Fundamentally, there are two broad directions, or 'strands' in thinking, involved in this review and clarification:

- Those developed and developing country Members which are at most light users of any form of subsidisation, are seeking reassurance that the complex specific provisions of the Green Box are indeed consistent with the overarching criterion of '*no or at most minimal trade-distorting effects or effects on production*'<sup>4</sup>

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<sup>4</sup> This is the key language from the chapeau to Annex 2 of the UR Agreement on Agriculture.

- The wish of developing countries to introduce new provisions or language that take account of the types of programmes suited to the realities of developing country agriculture and which could meet the fundamental test of at most minimal trade-distorting support. They argue that some provisions of the Green Box are difficult to apply in a developing country context or there is no suitable explicit provision for them.

There is a danger here of the Membership talking past each other. With respect to the first broad direction, those developed countries embarked on deep reform of coupled support policies are deeply concerned that any change to the existing language might have the perverse effect of undermining their reforms.

With respect to the second broad 'strand' or direction in this review and clarification of the Green Box (i.e., introducing 'development friendly' language), those existing large users of the Green Box and some other Members are worried that introducing 'development friendly' language into the Green Box may open a 'Pandora's Box' for large-scale subsidisation by developing countries in the future.

Clearly, both sides need to accept that there are legitimate concerns on both sides and listen carefully and rationally to constructive proposals from each side. I think many understand this.

Ultimately, with respect to introducing some 'development friendly' provisions suited to the specific realities of developing country agriculture, lies a potential 'win-win' outcome. It is in everyone's interests to encourage developing countries to avoid repeating the chequered history of developed countries' subsidisation. That is, in order to achieve their social and other non-trade concerns, it is obviously desirable that developing countries, as they gain increasing financial strength, look directly to the Green Box as the appropriate avenue for policies, targeted at their social, political and other non-trade concerns, rather than utilising trade-distorting support.

We should, in my personal view, accommodate this reform impetus by introducing at least some of the core ideas of the proponents. If we could establish a general political-level understanding on both sides, the specific drafting by technical experts should follow much more easily.

### ***EXPORT COMPETITION***

We already have both structure and the agreed end point ('elimination') in this pillar. The remaining issues are:

- To flesh out the parallel commitments in export credits, STEs and Food Aid. Further progress here is essential by 31 July. We have 'building blocks' in some elements of parallelism. More are required by the Summer Break.
- Defining the 'credible end date' and the implementation path. There is a strong view within the Membership that these issues are better left to the post-Summer Break phase.

We have in practice focussed on identifying which policies, within the scope of export credits<sup>5</sup> with repayment terms of 180 days or below, certain types of Food Aid, and certain practices of exporting STEs, might be considered (in the precise language of paragraph 17 of the Framework) under either of the headings:

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<sup>5</sup> I am using the term 'export credits' to describe 'all export credits, export credit guarantees or insurance programmes', in the more formal language of the Framework.

- 'All forms of export subsidies'
- 'export measures with equivalent effect'

These agreed criteria clearly define the scope of our examination at the general level. Additionally, there are further provisions within the Framework that focus our attention on certain measures. With the above in mind, I would like the Membership to focus on the following matters.

### **Export Credits**

We have already a provision in the July Framework on the key issue – export credits exceeding 180 days: they are to be eliminated. Nevertheless, additional disciplines need to be developed on export credits of 180 days or less. They may be a far smaller problem in world agriculture markets today than long-term export credits, but in a future without long-term export credits, and equally importantly, without export subsidies, the pressure could build – even in countries that are today relying on the other export competition policy instruments - to exploit any 'looseness' in provisions relating to short term export credits.

Further work here will be required. We have made some progress on this deeply technical issue but it is unlikely to be completed by 31 July.

### **Exporting State Trade Entities**

#### *Future Use of Monopoly Powers*

The 'issue of the future use of monopoly powers' remains under negotiation, as specified in the Framework. This more general, and deeply sensitive, question would, in my view, be better considered in the subsequent 'more political' phase from September to December.

#### *Subsidies, Government Financing and Underwriting of Losses*

We have achieved some important convergence of views amongst key participants on the above. Let us take advantage of this progress and move the discussion forward on specific details and so establish at least some 'building blocks' in this area of parallelism.

I recommend we develop, by 31 July, language foreshadowing new disciplines here.

#### *Other Issues*

Beyond subsidies, Government financing and underwriting of losses, we are making little or no progress. I see two problems:

- Some Members are concerned that proposed definitions of entities to be covered by the new provisions could have unintended effects for all manner of entities.
- There is a closely associated concern that some proposals for new disciplines could have unforeseeable legal consequences for what many Members consider legitimate practices.

I need further guidance from the Membership here.

### *Developing Country STEs*

We have an explicit provision in the Framework that STEs in developing countries which enjoy special provisions to preserve domestic price stability, and to ensure food security will receive 'special consideration for maintaining monopoly status'.

I am assuming in this paper that the over-arching question of the monopoly status of even exporting STEs in developed countries is a matter for negotiation in the next, post-Summer Break phase. At that point, I am confident that the special position of such STEs in developing countries with these objectives at the heart of their operations will be taken fully into account.

With respect to developing country STE specific practices – even when their focus is on facilitating their exports rather than the criteria referred to immediately above, it is difficult to take this further, given the lack of convergence on 'other issues'. It may be necessary to take into account the actual impact of such developing country STEs on world trade, since the trade flows concerned are, in many cases, very small.

### **Food Aid**

We have some helpful guidance here in the Framework, but there has been little or no convergence on Food Aid since July 2004. I believe it is essential that some building blocks are put in place by 31 July 2005.

There are proposals on the table that aim to change fundamentally the existing food aid system via WTO disciplines. If there were agreement to do this, it would not be the first time that the WTO had deeply refashioned disciplines and institutional machinery in areas of international cooperation – even in agriculture.

These proposals have generated some concerns. Within the Membership, the main concern is that such potential new disciplines might have negative implications for meeting humanitarian and development needs. This fear is very strongly held by certain Members.

My sense is that all Members firmly believe that any WTO rules aimed at preventing 'commercial displacement' we might develop must not compromise efforts to help the most vulnerable people in developing countries. Their interests must be put first.

With this perspective very much in mind, I suggest that our discussions up to the end of July focus strongly on developing language to ensure that food aid in emergency situations is not compromised. This will provide important reassurance to vulnerable populations as well as ensure that we are making some progress on 'parallelism' with respect to food aid.

A focus in July on emergency situations will need input from those with expertise broader than trade negotiators, given the sensitivities involved.

If this were successful, then beyond July, a number of other major issues will need to be addressed, such as aid in fully grant form, in-kind aid and monetization.

### **MARKET ACCESS**

This is the most complex and least advanced pillar of the three. Conditional, sequential progress is the only way to move forward, given the interrelationship of so many of the market access elements of the Framework. Nothing could have demonstrated this more clearly than the last

intensive consultation on the fullest liberalisation for Tropical Products. At the end of the discussion, a number of delegations (approaching the matter from quite different perspectives) observed that it was impossible to move that question forward without some structure in place in the core market access formula. The same applies to a whole range of issues. This is why I believe that, by 31 July, Members need to reach some convergence on at least some of the basic structural issues of this pillar.

## **Tiers and Formula**

We need to develop a 'single approach' to achieve 'substantial improvements in market access...for all products'<sup>6</sup> with two additional objectives in mind: (a) 'progressivity' – i.e. deeper cuts in higher tariffs; and (b) providing for more flexibility to deal with a range of sensitivities.

With respect to the negotiation of a tiered formula, the discussion to-date has focussed on two schools of thought: proposals to achieve 'progressivity' solely through the number of tiers<sup>7</sup> and proposals that rely both on the number of tiers and on the nature of the formula(e) within the tiers to achieve 'progressivity'. It is unlikely therefore that we can settle by 31 July the number of tiers without agreeing at least on a description of the type of formula(e) to be used within the tiers.

There is a parallel and intimately related discussion taking place on how to deal with sensitivities. The Framework identifies certain 'tools' to address those sensitivities – such as 'sensitive products' and 'Special Products' based on criteria of 'food security, livelihood security and rural development needs'. Additionally, some argue that the formula itself should provide a means to address at least some of those sensitivities.

We should aim to have some agreed structure in place for the market access formula by 31 July. This would require convergence on:

- The number of tiers;
- Their thresholds;
- At the minimum, a description of the nature of the formula(e) within the tiers;
- At the minimum, some further elaboration of how sensitivities might be handled.

Although this will be difficult, I believe it can be done without defining with greater precision the level of ambition<sup>8</sup>, which will be determined in the subsequent phase.

With respect to the 'sensitivities', it would be necessary to take closely into account, as agreed in the Framework, Members' tariff structures and the very sensitive needs related to the Special Products category.

The immediate task prior to the July Agriculture Week is to undertake a process of deep reflection on the above. After that, it may be possible to formulate a straight choice between different combinations of these variables.

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<sup>6</sup> Paragraph 29, last dot point, July Framework.

<sup>7</sup> Broadly speaking, the higher number of tiers, the more 'progressivity' will be achieved, even with a linear formula applied to each tier.

<sup>8</sup> Ultimately, the choice of the nature of the formula(e) within the bands is irrelevant to the level of ambition. One can illustrate this by deliberately extreme examples. A linear (often loosely referred to as 'a Uruguay Round approach' that involved a 99% average cut or a non-linear formula (often loosely referred to as a 'Swiss Formula') with a coefficient of 1000 would cause both sides to this debate to switch sides.

Once again, I recognise that there are many other issues of vital importance to all Members. Matters raised by developing country Members such as SSM, or addressing the issue of preference erosion will take considerable time to elaborate. But, for the reasons summarised in this paper, the Membership has found it impossible to develop convergence on these and other matters without some structure of a market access formula in place.

## **THE SUB-COMMITTEE ON COTTON**

The analysis immediately above needs to take into account the very particular issue of cotton – reflected in the General Council's decision to establish this sub-committee.

Progress in both the development and trade tracks is vital. Within the West and Central African 'proponent countries', intense pressure is building up on their producers with the recent fall in prices. This calls for immediate action on the development front.

With respect to the trade track, I have drawn attention on several occasions in this paper to the need to advance the agriculture negotiations with cotton in mind. Members have already agreed to a mandate for an 'ambitious, expeditious and specific treatment' of cotton within the agriculture negotiations. In this respect, we have received an ambitious proposal from the Proponent Countries to this effect.

If and when some structure emerges more clearly on each of the three pillars in the Committee on Agriculture in Special Session, then a parallel evaluation of their possible implications for the cotton sector can play a powerful role.

Equally, it is obvious that if we do not reach convergence on key points in each of the three pillars by 31 July within the agriculture negotiations generally, it will become increasingly difficult to fulfil the specific mandate for the work of Cotton Sub-Committee, with the Hong Kong meeting only round the corner.

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