

# WORLD TRADE ORGANIZATION

RESTRICTED

G/AG/NG/W/16

23 June 2000

(00-2591)

Committee on Agriculture  
Special Session

Original: English

## NOTE ON DOMESTIC SUPPORT REFORM

### NEGOTIATIONS ON AGRICULTURE

#### SUBMISSION FROM THE UNITED STATES

The Uruguay Round Agreement on Agriculture (URAA) brought agricultural domestic support programs under discipline for the first time in the history of the GATT, by capping and reducing the level of trade-distorting support Members could provide. As we near the end of the implementation of the URAA and the expiration of the peace clause, and embark upon new negotiations to continue and strengthen the reform process, the United States proposes that further rules should substantially reduce trade-distorting support in a manner that addresses disparities in support levels while simplifying the way in which all forms of domestic support are disciplined.

At the same time, the United States recognizes the importance of domestic programs that promote sustainable agriculture and rural communities in a manner that minimizes distortions, and proposes that there be a provision, building upon current rules, for exempt programs deemed to promote these objectives in ways that minimize trade distortions. Additionally, developing and least developed countries should be given additional flexibility to provide criteria-based support that is an integral part of their individual development programs.

#### REDUCING TRADE-DISTORTING SUPPORT TO PROPORTIONATE LEVELS.

The United States proposes a formula-based approach that will result in levels of support that are more proportionate among WTO members at the end of implementation than they are now. Each member with a final bound AMS in its schedule will commit to reduce the level of non-exempt support, starting from the final bound AMS, to a new final bound level that is equal to a fixed percentage of the member's value of total agricultural production in a fixed base period (see example at the end of the paper). Each member is obligated to reduce its non-exempt support in equal annual installments during the implementation period. At the end of the implementation period, each member would be permitted to provide non-exempt support no greater than the fixed percentage of the value of its total agricultural production in a fixed base period.

Reducing the level of disparity in members' non-exempt domestic support commitments is the most effective way to substantially reduce the level of trade-distorting support and ensure that all forms of production-linked support are disciplined. Expressing the final bound domestic support commitment as a fixed percentage of the total value of agricultural production is the best approach, since 1) it ensures that all Members provide equivalent levels of support relative to the size of their agricultural sector, 2) it avoids penalizing countries based on their relative factor endowments (land, population, etc.), and 3) data on the value of agricultural production are readily available and have already been used during the implementation period to perform the *de minimis* calculation.

It is vital that disparities be addressed, since they allow countries with disproportionately high support ceilings to subsidize their farmers to overproduce, thus displacing trade and encouraging producers to engage in environmentally-harmful practices (such as higher input use, cultivating environmentally fragile lands, etc.). These trade-distorting subsidies can have particularly harmful effects on developing countries, which may not have the means to provide the high levels of support to their producers as developed countries.

#### SIMPLIFYING DOMESTIC SUPPORT DISCIPLINES.

During the implementation period, some members have observed that the current classification system for domestic support is too complicated and difficult to apply to certain support measures. The United States proposes that the domestic support disciplines be simplified into two categories: exempt support, as defined by a criteria-based list of measures that have, at most, minimal distortions, and non-exempt support, which would be subject to the reduction commitment described above. The *de minimis* provision contained in Article 6.4 of the Agreement on Agriculture would be maintained in its current form. Other methodological provisions of the support calculation could be reviewed by a technical working group on domestic support.

#### SUPPORTING SUSTAINABLE AGRICULTURAL AND RURAL DEVELOPMENT WITH MINIMAL DISTORTIONS.

Taking into account the need of the reform process to address non-trade concerns and development objectives unique to developing and least developed countries, the United States proposes that criteria-based support measures, building on current provisions of the URAA, be exempt from reduction in order to promote sustainable, vibrant agricultural and rural communities in a manner that is at most, minimally trade-distorting. In addition to current provisions, these criteria-based exempt measures could address new policy directions, such as:

- Farm Income Safety-Net and Risk Management Tools: It is clear that as support levels are reduced and producers are increasingly exposed to market signals, members need to be able to provide farm safety-net and risk management tools to help their farmers and ranchers adjust to new market conditions.
- Environmental and Natural Resource Protection: Environmental protection has already been identified as a non-trade concern that members want to be able to address through the reform process. Using targeted policies, members should be able to help farmers and ranchers adopt environmentally-sound production practices that conserve and protect natural resources, which will benefit producers and consumers alike and is crucial to agricultural sustainability and food security.
- Rural Development: Equally vital to agriculture sustainability are vibrant, economically-viable rural communities. Programs that invest in rural infrastructures, promote economic development, and provide technical assistance and information to empower local communities can be highly beneficial in enhancing rural development.
- New Technologies: Supporting alternative technologies and biobased products that work in concert with the environment while providing significant and far-reaching economic benefits should also be considered. For example, research and pilot projects to facilitate the development of biomass practices to help capture carbon dioxide is just one example of how new technologies could be used to benefit the environment and improve soil quality and productivity.

- Structural Adjustment: To address the effects of trade liberalization, members should be able to facilitate structural adjustment in agriculture, for example, through decoupled income support and other market-oriented measures that assist farmers and ranchers adaptation to new economic conditions. Structural adjustment programs should also address the unique challenges facing countries engaged in privatization efforts and the transition to a market economy.

In all cases, exempt measures must be targeted, transparent, and designed to minimize impacts on other WTO Members, particularly developing countries.

The United States recognizes the unique development challenges facing developing and least developed countries, and supports the exemption of additional criteria-based support measures deemed essential to the development objectives of these countries, as presented on page 6 of the U.S. proposal.

# U.S. Proposal on Domestic Support: *The Proportionate Commitment*

- For example, if a country's value of production equaled 300 Local Currency Units (LCUs) in the base period, and the commitment was set at 10 percent, then the country's new final bound support level would be 30 LCUs.
- The country would be required to make equal annual cuts from the final bound AMS in their current schedule (50 LCUs) to the new final bound support level (30 LCUs) over the implementation period (designated as years a through e).

