

- Product-Specific De Minimis allowance reduced to 2.5% of Value of Production of product
- Immediate implementation

Developing Countries

- **OTDS** (Amber+Blue+De Minimis) reduction = 2/3 of 55%
 - OTDS limit does not apply to **LDC**.
 - No reduction for e.g. China as it has no FBTAMS. Question is whether bound by Base OTDS. > Not certain, DM could be read to overrule Base OTDS concept. >> Huge Amber Box allowance then for China (= 17% of current VOP).
- **Amber Box** (AMS) = 30% cut (=2/3 of third DdC tier) over 8 years but:
 - No cut for DgC with FBTAMS under URAA ≤ USD 100 million
 - No cut for **LDC** and **NFIDC**
 - No cut for Members without Final Bound Total AMS (FBTAMS) limit under URAA, e.g. **China**
 - A few other DgC (e.g. RAM) categories with no cuts.
- **Blue Box** support becomes subject to ceilings:
 - Overall BB ceiling of 5% of Value of Production during 1995-2000 or 1995-2004 base
 - Product Specific (PS) limits to Blue Box spending based on historical expenditure.
- Reduction of **De Minimis** allowances:
 - Non-Product Specific (NPS) De Minimis allowance reduced to 6.6% of total Value of Production (from 10%)
 - Product-Specific (PS) De Minimis allowance reduced to 6.6% of Value of Production of product
 - Applied after 3 years
 - Exempted from reduction:
 - RAMs without FBTAMS (e.g. China which will continue to have 2 x 8.5% [PS and NPS] of VoP)
 - NFIDC

c. Export Competition

General remarks

The phase-out in 2013 was offered by the EU in 2005 in Hong Kong and galvanised the Ministerial Conference. The parallelism with all other export measures is postulated in paragraph 6 of the HK Declaration. In addition, the concept of the Single Undertaking applies of course: Xcomp will have to be part of the overall DDA agreement.



Details

- **Export Subsidies** to be phased out by 2013
- **Export credits & guarantees**
 - Max repayment period for export financing support = 180 days
 - X financing programmes shall be self-financing over 4 years period
- **State Trading Enterprises** – enhanced discipline
- **Food Aid** – more discipline

d. **Assessment**

- Current ag modalities date from December 2008 (**Rev 4**).
- **10 so-called outstanding issues** in ag modalities. Common view is that they will only be decided in the end-game of the DDA negotiation. NAMA and Services need to move before (gateway issues).
- One of the 10 outstanding issues –**Tropical Products/Preference Erosion** - has seen significant progress due to an agreement between EU, ACP and Latin American countries in conjunction with the Bananas agreement in December 2009. India opposes for time being but critical mass would seem to be behind the understanding.
- Views on Rev 4:
 - EU (and many other members): Rev 4 is good balance. Note that EU not under pressure; Member not asking for further concessions from EU.
 - US: possibly not satisfied, Market Access (MA) ambition in emerging countries possibly too low/uncertain for US ag lobbies to push for DDA.
 - Brz (and other Emergings): Rev 4 is ok but if ambition is raised in NAMA or Services from what it was in July 2008 then need for raised ag ambition, especially on MA, on part of DdC. They point to para 24 of Hong Kong declaration ("comparably high level of ambition in market access for Agriculture and NAMA").

US takes exception to claim that there was balance in July 2008. In US' view, Emergings promised to deliver on NAMA (and services) so as to reciprocate DdCs' ag offer – made in an end game spirit - but they did not deliver.

Interesting where EU stands on assessment of July 2008 situation. Seems that EU would have signed on to deal even in the absence of full clarity on ambition in NAMA and Services.

- [Through modalities clarification meetings of Members in early 2011 some sense that for some Members {US} fundamental problems with modalities in certain areas *outside* of outstanding issues: e.g. DS allowance for China, scope of DgC flexibilities such as Specific Products. This begs question whether Rev 4 can be focal point for all Members once political will to carry DDA forward is refund.]
- For EU, important to note that current ag modalities of December 2008 covered by ag reforms already enacted (especially reform of 2003). Will not go further than this **mandate**. In



particular, reform debate of **CAP after 2013** does not imply any further margin for concessions in Geneva.

- Exception to coverage by current CAP is **export refunds** (Xrefunds) where Rev.4 foresees phase-out by 2013. This would need to be enacted in future EU law. However, EU already made the political offer for phase-out in 2005 in Hong Kong Ministerial, to be sure as part of the Single Undertaking.
- EU is interested in obtaining compensation for these reforms by having DDA deal secure gains in NAMA and Services. Different from US where, if anything, Farm Bills have gone in opposite direction to Rev 4.
- While it is second-biggest ag exporter, EU has been defensive on ag but this time not with back against the wall – especially on DS - thanks to CAP reforms (different during Uruguay Round).
 - Notable exception from being defensive = **GIs**. But no result to show for so far on GIs due to US, AUS, NZ resistance.
- Important decoupling in 2003 CAP reform which allowed shift of bulk of support to non- or minimally trade-distorting Green Box.
- CAP reforms allowed greater market orientation for EU agriculture. And get need for **Sensitive Products** flexibility in MA to shield some products from full tariff cuts (MA matter).
- On **Domestic Support**, CAP reforms allow EU to offer 70% Amber Box cut = ambitious (80% cut of overall trade distorting support [OTDS]!).
 - However, this already anticipated through CAP reforms and some trading partners may take changes, after almost 10 years, for granted. Moreover, these days less excitement about DS cuts due to high (commodity) prices. e.g. EU intervention buy-ins not frequent, US' applied support counter-cyclical support structure is low.
- Concerning DS discipline for DgC, due to possible **cumulation of DgC flexibilities** under Rev 4 uncertain MA gains including on Emergings' markets. The lack of clarity ("black box" according to US) on how Emergings will use DgC flexibilities exacerbates the situation – US presumably assumes worst, e.g. soybeans shielded from any effective tariff cuts.

Example: Being a **RAM**, China does not need to reduce bound tariffs that are currently bound at less than 10%. In addition, it can designate 13% of its TLs as **Special Products**. The overall average cut on those lines needs to be 10% but this would allow for a result which exempts ~10% of TLs from any tariff reduction. In addition, China can designate 5.3% of TLs as **Sensitive Products** on which, e.g., it takes a 38% cut in the second band (between 30% and 80% duty). It can choose to, e.g., further reduce this cut to 19% for 1.76% of TLs. On the 1.76% it does not need to apply TRQ expansion. In practical terms, according to a study by ICTSD based on Rev 4 the impact of the flexibilities is that China's average trade weighted bound tariff may only be cut by 2.6% (with a net reduction of the average applied tariff of only 1.1%).

- As regards **Export Restrictions** (XR), little discipline in Rev 4 as food crisis "only" dates from 2007/8 and 2009. In Uruguay Round, focus was on access *to* markets (= imports), not so much supply *from* markets. XR in 2007-2009 found by World Bank to have doubled price spikes which had been caused by classical supply and demand side circumstances. Current

effort is to look into XR in regular Committee on Agriculture and clarify understanding of rules. Work in the Negotiating Group is also rendered difficult by virtue of the absence of XR in the DDA mandate.

III. CAP REFORM 2013

a. Facts

- **Timeline** is for adoption in 2013, possibly second half. To note: EP is co-legislator after Lisbon Treaty.
- Objectives of Commission **legislative proposals** from 12 October 2011 are:
 - To ensure sustainable ag in EU guaranteeing food security
 - To address challenge of climate change and environment
 - To provide for fair (re-)distribution of direct payments
- Question of **budget** and whether sufficient funds will be available for above objectives. Is part of the discussion concerning the EU overall budget. See the Multi-Annual Financial Framework (MAFF) as relevant instrument. First proposals from June 2011 (DG Budget) to keep CAP expenditure intact at constant prices; would lead over time to reduction in adjusted prices.

b. Assessment

- **CAP 2013** will not bring radical changes to support structures. New decoupled income support scheme ("Basic Payment") aims at redistribution (towards New Member States) mainly.
- In particular, no or little ramification on trade (and development):
 - Decoupling of aid remains central plank
 - Some support to remain coupled (Amber) because of concerns about abandonment
 - Some support to remain Blue Box
 - Green Box support (incl. direct payments) to be better targeted ("greening")
- Consequently, little change for EU's position in DDA. [In particular, no margin for further concessions.]
- Important to stress that CAP has come a long way and **major and bold reforms** have been implemented. CAP has moved to support structures which are no longer predicated on trade-distorting support in accordance with WTO classification (Amber Box + Xrefunds = less than 10% of EU ag budget). Different from US trends in Farm Bills.
- For further background, the EU is by far the **world's biggest importer** of farm goods. Imports from developing countries make up to 70% of overall sales (ahead of the US, Japan, Canada, Australia & New Zealand combined).

