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Assessing the 2002 Proposals of the United States, Canada and the Cairns Group for WTO Discipline on Domestic Support
by
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Abstract

The United States, Canada and the Cairns Group proposed disciplines on distorting domestic support in agriculture at the WTO Committee on Agriculture in July and September 2002. This paper assesses the key features of the 2002 proposals: green box provisions, blue box provisions, *de minimis* exemptions, the starting point for reductions, the nature of the reduction commitment, the depth of cuts, the implementation period for cuts, down payments, overall caps, and special and differential treatment of developing countries. The maximum distorting support (the sum of the maximum *de minimis* support and any entitlement to AMS or Total AMS that remains after reduction) is calculated for the United States, the European Union, Brazil, and Canada, based on projected values of production at the end point of implementation.

The 2002 proposals of the United States, Canada and the Cairns Group are similar in seeking to reduce or eliminate blue box support and to reduce support over five years in developed countries. The proposal of the Cairns Group is found to be extremely ambitious, allowing no support other than green box support in developed countries, combined with a reduced scope for exempting support on green box grounds. Developing countries could still provide distorting support up to *de minimis* levels. Canada's proposal would also require the elimination of AMS entitlements but is less extreme in that all Members could provide *de minimis* support as under present rules. Canada's proposal would improve the classification of green box and non-product-specific support, make green box support immune to the threat of countervail, and cap the sum of amber, blue and some green support. The U.S. proposal is found to be only modestly ambitious, perpetuating Members' AMS entitlements, albeit at lower, more harmonized levels. No change is proposed in the rules for classifying support in the green box or as non-product-specific versus product-specific, which would continue to exempt large amounts from commitment.

The Cairns Group proposal would extend considerable leeway to developing countries as special and differential treatment, while the Canadian and U.S. proposals seek to discipline distorting support wherever it is provided. Altogether, Canada's proposal would appear to be more practical and more equitable and hence perhaps more effective than the proposals of the Cairns Group and the United States in bringing about substantial reductions in trade-distorting domestic support.

Assessing the 2002 Proposals of the United States, Canada and the Cairns Group for WTO Discipline on Domestic Support

Introduction and Context

The Doha Process

The Doha Development Agenda (DDA) of the World Trade Organization (WTO) was agreed upon by Ministers in November 2001. With regard to agriculture, the DDA refers to the objective of the Uruguay Round Agreement on Agriculture (URAA) of establishing a “fair and market-oriented trading system through a program of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets”. Specifically concerning domestic support in agriculture, the negotiations under the DDA aim at “substantial reductions in trade-distorting domestic support”.

Ministers also agreed that special and differential treatment for developing countries shall be part of the commitments, rules and disciplines to be negotiated, so as to enable developing countries to take account of their development needs. This is generally understood to mean that the disciplines on trade-distorting domestic support would constrain such support in developing countries less than in developed countries.

Most developing countries presently have a zero commitment on Total AMS (Aggregate Measurement of Support). Ideas about reducing AMS or Total AMS from present commitments do not apply to Members with zero commitments. Of the 148 Members of the WTO (133 if counting EU-15 as one), only 34 have non-zero commitments on Total AMS. About 100 of the 148 WTO Members are developing countries. Out of these 100 developing countries, 15 have a non-zero commitment on Total AMS.[1] Moreover, within this group of 15 developing countries, the placement on the development scale is very disparate. For example, the group includes Korea and Mexico, which are OECD members.

The process of negotiations on agriculture started in early 2000 as stipulated in the URAA. In 2000 and 2001 Members submitted proposals, many of which included suggestions on how to achieve the goal of substantial

[1] The following 15 countries are often labeled developing countries and have commitments on Total AMS: Argentina, Brazil, Colombia, Costa Rica, Cyprus, Israel, Jordan, Korea, Mexico, Morocco, Papua New Guinea, South Africa, Thailand, Tunisia, Venezuela.

reductions in trade-distorting domestic support. In 2002 a series of meetings of the WTO Committee on Agriculture in special session saw further proposals from a range of Members regarding domestic support.

The 2002 Proposals

The United States elaborated on its earlier proposals in July 2002 and Canada and other Cairns Group Members tabled proposals in September.[2] Other WTO Members also submitted proposals incorporating a variety of ideas on discipline on trade-distorting domestic support, often restating or elaborating on proposals tabled earlier in the process. These Members include India, Sri Lanka, China, Japan, Norway, and the "transition economies" (former planned economies in Eastern Europe and Asia).

The 2002 proposals of the United States, Canada and the Cairns Group address, among other things, the following features:

- green box,
- blue box,
- *de minimis* exemption,
- starting point for reductions,
- nature of the reduction commitment (so-called disaggregate or aggregate, i.e., commitment on AMS by product or on the sector-wide Total AMS),
- depth of cuts,
- implementation period for cuts,
- down payments (large reduction in the first year of implementation),
- overall cap (ceiling commitment on the sum of amber, blue and all or part of green support),
- exemption for distorting support in developing countries (Art. 6.2 of the URAA), and
- other special and differential treatment of developing countries.

Numerous other WTO Members have suggested a variety of changes to the existing domestic support discipline. While some of the proposed changes seem to fit with the objective of the DDA to substantially reduce trade-distorting domestic support, the fit of some other proposed changes is not obvious. Some

[2] The United States' proposal is available at U.S. Department of Agriculture, 2002a; Canada's proposal is available at Agriculture and Agri-Food Canada, 2002a and 2002b; the Cairns Group's proposal is available at The Cairns Group, 2002. In this note "the Cairns Group" refers to the group of Cairns Group countries (Argentina, Australia, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, and Uruguay) aligning themselves with this Cairns Group proposal. One Cairns Group country (Canada) submitted its own proposal on domestic support.

relatively high-support countries (e.g., Switzerland, Norway and Japan) seek to introduce a new paragraph in Annex 2 for animal welfare measures, make smaller cuts in distorting support to products that are not exported, and expand the set of policies to be exempted on green box grounds. Others (e.g., some developing countries) propose to radically reduce the scope for developed countries, but not developing countries, to provide distorting or any kind of domestic support. Some countries that were centrally planned or have recently become WTO Members propose that they be given treatment like the special and differential provisions for developing countries (e.g., exemptions from and delays in meeting new commitments). This paper discusses only the 2002 proposals of the United States, Canada and the Cairns Group, not the proposals of other Members.

Outline of Paper

The paper analyzes the 2002 proposals to assess how domestic support discipline would evolve from the present if each proposal was accepted and implemented. The assessment is based on two kinds of analysis. First, the key features of the proposals are compared. The comparison covers differences in commitments and in how support is classified in terms of being exempt from commitment. Second, the maximum distorting support allowed under each proposal is evaluated for the United States, the EU, Brazil, and Canada. This maximum amount is derived as the sum of any support commitments(s) and a certain amount of support that is exempt from commitment as *de minimis*. The evaluation is carried out for a future year (around 2010) when the proposed commitments would be implemented and also (in the case of the Cairns Group and U.S. proposals) for a more distant and indefinite future year by which further reductions would be undertaken. The conclusions assess the ambition, practicality, equity, and effectiveness of the three proposals.

Key Features of the 2002 Proposals of the United States, Canada and the Cairns Group

The key features of each of the three proposals are laid out in Table 1. Specific changes proposed to the green box (Annex 2 of the URAA) are shown in Table 2.

Green Box (Annex 2 of the URAA)

The Cairns Group's and Canada's proposals include specific suggestions for changing some policy-specific criteria of the green box in order to ensure that programs claimed as green "have no, or at most minimal, trade-distorting effects or effects on production"¼. These specific changes would affect only paragraphs 5-13 of Annex 2 (i.e., direct payments to producers and not general services, public stockholding, or domestic food aid). The changes proposed by the Cairns Group and Canada are discussed below in relation to the U.S. and the EU notified support programs.

The United States' proposal suggests maintaining the present basic criteria of the green box (publicly-funded programs not providing price support) and is silent on changing any policy-specific criteria.

Blue Box

All three proposals consider blue box support to be trade distorting and hence they all seek to eliminate the exemption of blue box support from commitment. Support that is presently classified as blue would thus in future count against some ceiling on distorting support. In the case of the Cairns Group and the U.S. proposals, the ceiling would be the same as the new commitment(s) established for AMS by product or Total AMS. This amounts to requiring immediate (at the beginning of implementation) inclusion of a country's blue support in its Current AMS. Only few countries now provide large amounts of both AMS support and blue box support. However, the EU would face an immediate need to drastically reduce the sum of blue and AMS support to stay below its new commitment on AMS or Total AMS.[4]

Canada's proposal does not seek to include blue payments in AMS. Instead, a separate commitment to reduce blue payments to zero over five years could apply (the same period as Canada proposes for eliminating Total AMS).[5] This would go some distance towards matching the EU idea to keep the concept of the blue box, although only for a certain length of time and still subjecting it to reduction and eventual elimination.

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[3] Quote from para. 1, Annex 2, of the URAA (WTO 1994).

[4] The EU established its URAA Total AMS commitment on the basis of policy support in place in 1986-88. This included a large amount of market price support, which was then partially and gradually replaced by area and headage payments in the years 1993 to 1995. The EU notifies these payments as blue box support that does not count against the Total AMS commitment. The EU could now not fit the sum of market price support, non-exempt payments, and blue box support below its Total AMS commitment.

[5] The reduction to zero would take place over nine years for developing countries.

De minimis Exemption

The proposals of the United States, Canada and the Cairns Group are identical in keeping the *de minimis* exemption at 10 percent for developing countries. Canada and the United States also suggest keeping the five percent level for developed countries. The Cairns Group, however, proposes that even those five percent would be eliminated over time for developed countries. That would allow those countries to provide support only in ways that meet the (revised) green box criteria and, if direct payments, in amounts subject to cap and reduction.

AMS or Total AMS and the Starting Point of Reductions

The Canadian and U.S. proposals are identical in that they see the commitment remaining as a Total AMS commitment, not a product-specific one, and the final bound commitment in Members' schedules as the starting point for reductions. The Cairns Group proposal would also base the starting point on the final bound commitment on Total AMS in the schedules. However, that proposal would require calculating a new AMS commitment for each product, which would have to correspond to the final bound Total AMS commitment.[6]

AMS and Total AMS

The Cairns Group does not suggest how the scheduled Total AMS commitment would be allocated to individual products. Several alternatives are possible, all equally arbitrary. For example, the Uruguay Round (UR) final bound Total AMS could be allocated to products in proportion to each product's contribution to the UR 1986-88 Base Total AMS, or in proportion to each product's contribution to Current Total AMS in a recently notified period. In either case, it would be necessary to design a rule for whether or not a product that received *de minimis* support would be in the set of products with new product-specific AMS commitments.[7]

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[6] A confusing terminological twist has made inroads in the discussions of the nature of the new commitment(s). The notion of product-specific AMS commitments on a number of separate products is often called disaggregated commitments. However, in the URAA (Article 1) definition of AMS - the Aggregate Measurement of Support - the word "aggregate" refers to aggregation across policy types (e.g., market price support, payments) in calculating all the support a specific product receives. The URAA does not refer to the summing of several product-specific AMS amounts into a Total AMS as aggregation.

[7] Assume the final bound Total AMS commitment was 100. Product A received 10, Product B received 20, and Product C received 30. Product B's 20 was below 5 percent of its value production, so it was *de minimis* exempt. Current Total AMS was thus 40 although all AMS support totaled 60. Would the new product-specific commitments

Alternatively, Members could be given entirely free rein to allocate the final bound commitment entitlements across products as they see fit, without being tied to some historical pattern. This would require governments to arbitrate themselves among competing demands of commodity sectors, without being helped by rules agreed upon by Member governments.

Regardless of the technique chosen to split final bound Total AMS into product-specific AMS commitments, the non-product-specific AMS would also need to be considered. The Cairns Group proposal does not mention non-product-specific AMS. Still, the URAA recognizes that some AMS support is genuinely non-product-specific in the sense that it is provided to agricultural producers in general without distinguishing between particular products. Some forms of credit concessions would fall in this category, as would input subsidies where the input is not specific to the production of particular crops or livestock, such as fuel tax rebates. If there was no non-product-specific AMS commitment, the non-product-specific support would need to be allocated to individual products in order to establish the product-specific AMS commitments. Such an allocation would be arbitrary and would effectively discard the URAA notion of non-product-specific support.

The motivation behind the Cairns Group's insistence on product-specific AMS commitments is unclear. It could be driven by a belief that product-specific commitments would be more effective than a Total AMS commitment in eliminating AMS entitlements above *de minimis* levels. Or the Cairns Group may see a need to impose product-specific AMS reductions during the implementation period (i.e., five years for developed countries). It could also be driven by a desire to set the clock back to the UR, when for a long time it was expected that commitments would be product-specific. This was later thwarted by the United States and the then European Communities in the Blair House agreement.

Both the Cairns Group and Canada propose to eliminate AMS (i.e., reducing it to zero over time). This would leave only *de minimis* support (see below). *De minimis* support is product-specific by definition in the URAA (along with the category labelled non-product-specific). The product-specificity of the final outcome is therefore the same in the Cairns Group and Canadian proposals.

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be 10/60*100 = 17 for Product A, 33 for Product B, and 50 for product C? Or would they be 10/40*100 = 25 for Product A, 0 for Product B, and 75 for Product C?

AMS and U.S. soybeans

The desire of the Cairns Group for product-specific commitments during the implementation period could be rooted in the need to forestall additional situations where a country introduces large distorting support to one product which had little or no such support in the base period. The case of soybeans in the United States is an obvious example. In 1986-88 U.S. soybeans received negligible support. Product-specific commitments in the UR would therefore have meant that no more than *de minimis* support could have been provided to soybeans from 1995 onwards.

The 1996 U.S. farm act introduced marketing loan assistance to soybeans, followed by eligibility of soybeans for support under other authorities, including the 2002 farm act. Support under marketing assistance loans (loan deficiency payments and marketing loan gains) has been notified as AMS support for 1999, and much of the later support would also need to be included in AMS for soybeans. Consequently, soybean AMS in 2002 could amount to as much as $1,400 million, mainly comprising loan deficiency payments and marketing loan gains.[8] Under product-specific commitments, the maximum (initial) soybean support allowed might have been of the order of only $200 million or as much as $2,300 million, depending on whether soybeans' share of the $19.1 billion Total AMS commitment is calculated from 1986-88 or 1999 data.[9]

The case of U.S. soybeans is one particularly egregious example of product-specific support having increased drastically since 1986-88. Other examples can be found, including several smaller crops in the EU (bananas, hemp, flax fibre, and potatoes for processing).[10] However, it is worth noting how few actual examples there are. For example, among the about 650 products for which Members have notified specific support, only about 60 show support having at least doubled since the 1986-88 base period (WTO 2002). In most cases the amounts involved are small, often having been reported as zero on *de minimis* grounds in 1986-88 and as a small positive amount in later year.

[8] It is assumed the United States classifies policies as product-specific and non-product-specific in the same way as in earlier years.

[9] Soybean AMS and Base Total AMS in 1986-88 amounted to $248 mill. and $25,470 mill., respectively. 248/25,470*19,100=186. Soybean AMS and Current Total AMS in 1998 amounted to 1,275 mill. and 10,392, respectively. 1,275/10,392*19,100=2,343.

[10] Although the support has not yet been notified, the United States may provide another example of increasing product-specific support in 2002: marketing loan assistance to pulses introduced in the 2002 farm act.

In many cases the increase in support since 1995 has been possible because the Member's Total AMS commitment has been large enough to accommodate increases not just for one product but for several. The reason the Total AMS commitment was so large was that support measured for many specific products in 1986-88 was large. Going to product-specific commitments now would just distribute the large Total AMS commitment to individual products, whether in proportion to 1986-88 support or in proportion to more recent support. This would allow distorting support to be raised for many individual products, without needing to reduce support for some other product.

The fact that many product-specific commitments would still be large enough to accommodate large amounts of support weakens the argument that product-specific commitments are needed because they prevent shifting within the Total AMS commitment. Product-specific commitments would be effective, however, in preventing more situations like that of U.S. soybeans, where large support was introduced to a product that had almost no support in the base period.

Many developing countries have a zero commitment on Total AMS. They can therefore provide only *de minimis* distorting support to specific products. This contrasts with the sometimes large amounts of such support that many developed countries would be entitled to provide for several years even under product-specific commitments.

Groups representing products that have enjoyed high support in recent years might resist a reduction in support to their particular product so that support to another product can be introduced or increased under a binding Total AMS commitment. For example, would U.S. cotton growers contemplate reducing cotton support so that support could be introduced for beef or increased for corn? It is hard to see product-specificity of commitments being necessary to the achievement of discipline on distorting support during the five year implementation period, given the rapid reduction of even a Total AMS commitment that would take place during those years.

End Point of Reductions and Depth of Cut

Both the Cairns Group and Canada would reduce all AMS entitlements to zero, allowing only *de minimis* support after the five-year implementation period (100 percent cut in AMS). The United States would reduce

Total AMS entitlements to five percent of the total value of production in agriculture in the 1996-98 period.[11] The U. S. proposal would additionally allow the same *de minimis* support as under the URAA. The depth of cut is therefore never as much as 100 percent, although the end points are more harmonized than present commitments.[12]

The Cairns Group would also reduce the *de minimis* percentage for developed countries during implementation and eventually eliminate it at some future date to be agreed in negotiations. The cut in distorting support, from the starting point of the final bound UR commitment, is therefore larger than 100 percent. This paradoxical outcome of the Cairns Group proposal stems from the inclusion in Current AMS, from year to year, of an increasing amount of support that was previously exempt on *de minimis* grounds.[13]

The U.S. proposal seeks agreement "in the negotiations to a specific date for the elimination of all trade-distorting support" (U.S. Department of Agriculture 2002a). However, the documents summarizing and illustrating the U.S. proposal do not refer to the eventual elimination of all trade-distorting support (see, for example, U.S. Department of Agriculture 2002b and 2002c). Moreover, under the same heading where the United States proposes elimination of all trade-distorting support, the United States also indicates that "[c]urrent rules for excluding low levels of support would be maintained". Altogether, this suggests that the proposed elimination would apply to non-*de minimis* support only.

The U.S. proposal thus sees the same eventual end point as the Canadian proposal. However, that end point would be reached only at some undefined date farther into the future, not at the end of the five- (or nine-) year implementation period proposed by Canada.

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[11] The U.S. proposal in U.S. Department of Agriculture 2002a does not indicate the years for observing the value of production. However, it has been made clear elsewhere (e.g., U.S. Department of Agriculture 2002b) that 1996-98 are the contemplated years.

[12] The harmonized commitments under the U.S. proposal would be more equal than the harmonized commitments resulting from a harmonizing formula under large range of parameter values (see, e.g., Brink 2001).

[13] As the ceiling of the ground floor room (AMS commitment) is lowered from above, the floor is also lowered and the ceiling height in the basement (*de minimis)* is reduced until, eventually, both the room ceiling and the basement ceiling are on the basement floor.

Implementation Period and Down Payment

All three proposals would reduce or eliminate support in developed countries over five years. The five-year implementation would apply also to developing countries under the U.S. proposal, while the Cairns Group and Canada would allow developing countries to implement over nine years.

The Cairns Group would combine the five-year implementation period with a 50 percent down payment in the first year for developed countries. "Down payment" means a large cut in the first year of implementation, followed by smaller yearly cuts in the rest of the implementation period. Developing countries would not make a down payment under the Cairns Group proposal. Canada proposes a 50 percent down payment applying to developed and developing countries alike, while the U.S. proposal does not mention down payment.

Overall Cap

The idea of an overall cap refers to capping the sum of AMS support (*de minimis* and Total AMS), blue box support, and certain green box support. The Cairns Group does not explicitly mention such a cap, but it is implied by the combination of commitments on blue box and AMS support with a cap on some green box support and reduction of some other green box support. Canada calls for an overall cap on the sum of amber, blue and all green box support other than general services, public stockholding for food security, and domestic food aid. That cap would not prevent a change in policy to provide support in forms that meet the (revised) green box criteria instead of the more distorting forms that have to be classified as blue or AMS support.

The U.S. proposal does not mention an overall cap.

Support to Specific Products

The proposals of the Cairns Group and Canada seek stronger rules to prevent product-specific support being improperly classified as non-product-specific support. The importance of properly accounting for product-specific support has been highlighted by how the United States has notified Market Loss Assistance payments (AMTA top-ups). Members' questions in the WTO Committee on Agriculture have revealed doubt about the non-product-specific nature of these payments. However, calling these payments non-product-specific exempts them from being counted against the U.S. Total AMS commitment as long as the non-product-specific category remains below the *de minimis* threshold.

The United States does not suggest better rules for what constitutes non-product-specificity but proposes that product-specific limits be negotiated on some products. This is introduced as a "sectoral initiative", i.e., the products concerned would be those for which zero tariffs and zero export subsidies could also be agreed among a set of WTO Members.

Developing Country Provisions

Developing countries are allowed to exempt support under certain types of policies (mainly certain investment subsidies and input subsidies under development programs) from commitment, in accordance with Art. 6.2 of the URAA. The Cairns Group would keep the provisions of this Article and possibly enlarge the set of policies that developing countries could exempt from commitment. Canada would keep Art. 6.2 without change. The United States suggests that Art. 6.2 be eliminated, and instead specific support programs would be identified whose support would be exempt from commitment. These programs would be oriented towards subsistence, resource-poor, and low-income farmers. The United States would also engage with developing countries to address their transitional and development objectives.

Several other provisions in the three proposals allow for treating developing countries differently from developed countries. All three would allow larger *de minimis* exemptions for developing countries than for developed countries. The Cairns Group would, additionally, allow only developing countries to keep *de minimis* exemptions while they are eventually eliminated for developed countries.

The Cairns Group and Canada would allow longer implementation periods for developing countries, while the United States does not make that distinction. The Cairns Group would also enable developing countries to implement reduction commitments without the initial down payment required for developed countries. Provisions having to do with implementation period and down payment would apply, it appears, only to the 15 developing countries with present commitments on Total AMS.

Applying proposed provisions to the United States, the EU, Brazil, and Canada

Scope of Calculations

This section applies the rules and commitments proposed by the United States, Canada, and the Cairns Group to agriculture in the United States, the EU, Brazil, and Canada. These four Members are all significant agricultural exporters, each has a non-zero Total AMS commitment, and each provides domestic support in favour of agricultural producers, although differing in extent and nature. The analysis calculates the maximum distorting support these Members can provide in future years and examines the implications of the proposed provisions for classification of support into exempt and non-exempt categories and other provisions that would apply to domestic support under each proposal.

The Cairns Group proposes a five year implementation of commitments (nine years for developing countries) and the United States proposes implementation over five years. However, the Cairns Group and the United States also suggest further reductions of support to be completed by a more distant future year to be deciced by negotiations. The Cairns Group suggests elimination of *de minimis* support in developed countries by that distant future year, while the United States suggests eliminating the Total AMS commitment by then.

The maximum distorting support is calculated for the end of five (nine) years of implementation and for a more distant future year. The three proposals are thus compared across four Members and two future years.

The maximum distorting support in this analysis is the sum of (1) any commitment on AMS or Total AMS and (2) some of the distorting support that can be exempt from commitment on *de minimis* grounds. Including *de minimis* support deviates from the usual exclusive focus on AMS entitlements. Still, support to a product can not at the same time be *de minimis* exempt and count as AMS support. The calculation therefore arbitrarily includes only half of the sum of all possible product-specific *de minimis* amounts (the entire non-product-specific *de minimis* is included).[14]

The maximum amounts of distorting support are also calculated for the situation where the final bound commitments from the UR continue to apply in the future year (after five or nine years of implementation and in a more distant future year). In this case, the UR Total AMS commitment is added to the *de minimis* amounts resulting from the projected future values of production (half of product-specific and all non-product-specific *de minimis*). Brazil's UR final bound Total AMS commitment is much smaller than half of the product-specific *de minimis* amount. This generates the odd situation that the calculated maximum distorting support (the sum of half of product-specific and all non-product-specific *de minimis* support plus

[14] For example, the U.S. theoretical future maximum of $32 billion ($10 billion in Current Total AMS, $11 billion in non-product-specific *de minimis*, and $11 billion in product-specific *de minimis*) is not achievable. If all products were supported only up to their *de minimis* thresholds, there would not be any products with a Current AMS, and Current Total AMS would be zero. A product with a Current AMS can not at the same time be a product supported only up to the *de minimis* threshold.

the UR commitment) is smaller than the sum all product-specific and non-product-specific *de minimis* amounts. It is therefore assumed that the maximum distorting support is the larger amount, i.e., the sum of all *de minimis* amounts.

The calculation of maximum distorting support relies on projections of future values of production. The *de minimis* thresholds depend wholly on these projections. The values of production of the agriculture sectors of the United States, the EU, Brazil and Canada are projected into a future year based on the amounts notified for 1996-98.[15] The projection is simply a 10 percent increase in the case of the United States, the EU and Canada and a 20 percent increase for Brazil.[16]

The determinants of the maximum distorting support are outlined in Table 3. The calculated amounts are shown in Table 4 and in Figure 1. The following discussion relies on these tables and the figure.

Maximum Distorting Support

The Cairns Group proposal would allow only *de minimis* support after five years (nine in developing countries), with a reduced *de minimis* percentage for developed countries. Developed countries would then need to eliminate also it by some more distant future year. This would mean zero support in the United States, the European Union, and Canada, other than green box support. Brazil would be able to provide up to $14 billion in *de minimis* support, plus green box and Art. 6.2 support.

Canada's proposal would allow only *de minimis* distorting support after five (nine) years, keeping the present percentages unchanged (i.e., a more generous provision than that of the Cairns Group). This would amount to $22 billion in the United States, compared to the UR maximum of $36 billion. The reduction in the EU would be even larger, from a UR-based maximum of $85 billion to $24 billion. Brazil could provide up to $14

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[15] Establishing values of production is not simple. U.S. notifications report a value of production that does not seem to be published elsewhere. The EU reports values of production that correspond to published values, but the definition of the published time series seems to have changed. Brazil has not notified its value of production for 1996. The evolution of some series of cash receipts or similar variable could be used as a proxy, but even these series are rarely forecasted for any length of time. The projection used here is not specific to any particular future year but is intended to relate to a year some time around 2010, i.e., at the end of 5 years of implementation starting in 2006 (9-year implementation for Brazil under the Cairns Group and Canada proposals).

[16] Agricultural production in Brazil is increasing very rapidly and has the potential to continue increasing rapidly (see, e.g., Schnepf et al. 2001). A larger percentage increase is therefore applied in the case of Brazil.

billion and Canada could provide $2.0 billion. In the more distant future year, Canada's proposal would continue to allow *de minimis* support for all Members.

The U.S. proposal would allow the United States up to $27 billion per year after five years, compared to $36 billion under current commitments.[17] The corresponding maximum sum of AMS support and *de minimis* support for the EU would be $29 billion under the U.S. proposal, compared to $85 billion under current EU commitments. Brazil could provide up to $14 billion under the U.S. proposal and Canada up to $2.4 billion.

The U.S. proposal would not reduce the scope to exempt distorting support as green or as non-product-specific *de minimis.* The calculated maximum distorting support under the U.S. proposal therefore includes support subject to commitment arising from fewer measures than under the Cairns Group and Canadian proposals.

Green Box Criteria

The three proposals differ not only in the specifics of the commitment and the *de minimis* exemption but, equally important, in how support policies are classified for the purpose of commitment. The United States has not proposed to change the present criteria for the green box or the determination of what constitutes non-product-specific support. The Cairns Group and Canada have proposed improvements in these areas.

The Cairns Group and Canada propose that support classified as "Direct payments to producers" (para. 5 of Annex 2) must be based on a fixed and unchanging historical base period. This criterion would also apply to "Decoupled income support" (para. 6 of Annex 2). Decoupled income support would be payable for maximum of three years. Applying these criteria to the U.S. Direct Payment program would help to ensure that these payments could not be classified as green box support but as AMS support. This would use up some of the unused room within the U.S. commitment(s) on Total AMS or AMS. The EU classifies its ongoing "Agri-monetary aid" as decoupled income support. Further analysis is needed regarding the ability of this program to meet the new criteria relating to a fixed and unchanging base period and a maximum longevity of three years and the possible need to reclassify it as AMS support.

[17] $27 billion calculated as: $10 billion in support counted towards Total AMS (5 percent of 1996-98 value of production), plus about $11 billion in non-product-specific *de minimis* support (5 percent of future $220 billion), plus 5-6 billion in product-specific *de minimis* support (half of 5 percent of future $220 billion).

Neither the United States nor the EU has classified any support as “Income insurance and income safety nets” in recent notifications.

The revised criteria proposed by the Cairns Group and Canada for programs classified as “Relief from natural disasters” (para. 8 of Annex 2) would make it possible to accommodate a realistic averaging period in crop insurance under the criteria and also clarifying the size of the loss establishing eligibility in case of destruction of animals or crops for disease control. The United States and the EU deliver payments through many different programs under this heading, but most of them are not likely to be affected by the change in criteria.

The Cairns Group proposal (but not Canada’s proposal) suggests a time limit on payments in the case of producer retirement and resource retirement programs (paras. 9 and 10 of Annex 2). Depending on the specific limit agreed, this could disqualify some U.S. and EU programs from green box status (e.g., the U.S. Conservation Reserve Program, the dominant part of what the United States notifies under these headings).

Both the Cairns Group and Canada propose to improve the criteria for payments under “Structural adjustment assistance provided through investment aids” (para. 11 of Annex 2). The changes require the structural disadvantage to be clearly defined, and the payment to be based on a fixed and unchanging historical period. This could put into question the classification of large amounts of EU payments under this heading, where the present classification seems based more on the stated purpose of the program than on a clear definition of structural disadvantage. The United States notifies minimal amounts under this heading.

For payments under “Environmental programs” (para. 12 of Annex 2), the Cairns Group and Canada propose identical changes. They seek to make the criteria clearer and less prone to allowing green box classification of programs that distort production and trade (this includes disqualifying payments that are related to production volume). The United States classifies relatively little support under this heading, whereas the EU claims numerous and massive subsidies as environmental payments. The proposed change in criteria is likely to impinge on the green box status of some of these EU payments.

The Cairns Group proposes that regional assistance payments be based on a fixed and unchanging historical period, similar to what is proposed for some other green payments. The United States notifies no regional assistance payments, and the EU claims a large amount every year under this heading.

Assessment

The 2002 domestic support proposals of the Cairns Group, Canada and the United States have in common that they seek to reduce distorting domestic support to agriculture. This is in contrast to the suggestions of some other Members, who seek to allow increases in distorting support. The three proposals are also similar in seeking to implement the new commitments of developed countries over five years. However, the three proposals differ in their ambition to reduce distorting support.

Support above *de minimis*

The United States in particular seeks to maintain Members' entitlement to provide distorting support above *de minimis* levels. For some Members the entitlement corresponds to a large amount of money, although of course this needs to be seen in relation to the size of the Member's agriculture sector. For the United States itself the yearly entitlement would be $10 billion in distorting support in addition to any *de minimis* support. This entitlement compares to the U.S. final bound commitment from 2000 onwards of $19.1 billion. The proposed reduction of the commitment is less than half of the present U.S. commitment.

The 2002 U.S. Farm Security and Rural Investment Act legislates ongoing large support through 2007, much of it in forms that do not meet the criteria for exemption from commitment. Implementation of new commitments might start in 2006. The legislated support amounts could make it difficult for the United States to contemplate the 50 percent cut in the first year of implementation (down payment) proposed by the Cairns Group and Canada.

The U.S. $10 billion commitment after implementation would be close to the $10.4 billion in Current Total AMS notified by the United States for 1998. This means that the United States would carry out reductions in its commitment over five years, only to end up with an entitlement to provide distorting support in about the same amount as in 1998. It is hard to reconcile that idea from one of the major agricultural subsidizers with the DDA aim of a substantial reduction in trade-distorting domestic support.

De minimis Support

The proposals of the Cairns Group and Canada would eliminate the entitlement to provide distorting support above *de minimis* levels. The Total AMS commitment (Canada's proposal) or all AMS commitments (the Cairns Group proposal) would be zero at the end of implementation. The United States could in this case provide 5 percent of value of production as non-product-specific *de minimis* support as well as 5 percent of value of production of each product as *de minimis*. This could add up to $16-17 billion of distorting support, which is the same as the present *de minimis* allowance.

However, the Cairns Group proposal would reduce also the *de minimis* percentage during the five years of implementation for the United States and other developed countries. The size of that reduction has not been specified, but it would be undertaken with a view to the eventual elimination of *de minimis* support in developed countries by some indefinite year to be determined in negotiations. This total ban on all distorting support is quite an extreme position. The extreme nature of the Cairns Group proposal is underscored by the fact that it would leave *de minimis* allowances intact for developing countries. Thus, Brazil could provide $14 billion in distorting support, while such support would be banned in the United States, Canada, the European Union, and all other developed countries.

The Cairns Group's desire to allow up to *de minimis* levels of distorting support only for developing countries is partly based on the idea of treating developing countries in special and differential ways. It is not obvious that this should be enshrined as a right to provide ongoing distorting support. Distorting support distorts whether it is provided by developed or by developing countries. It seems odd that the best way to meet the DDA aim of substantially reducing trade-distorting domestic support would be to increase the difference between the *de minimis* percentages of developed and developing countries from five points to ten points.

Green Box Criteria

Canada's proposal falls between the Cairns Group and the United States in terms of how they would address problems with the green box exemption of policies from commitment. The United States sees no problem with the present criteria for exempting support from commitment and has not proposed any change in the green box criteria. This could be based on the U.S. view that some large U.S. payment programs should be classified in the green box in spite of, in the view of some Members, not complying with the present relevant criteria. A change in the criteria to more clearly rule out the classification of such programs as Production Flexibility Contract payments and Direct Payments would require the United States to count outlays under such programs towards its future Total AMS commitment or fit them in under any *de minimis* allowance.

The changes proposed by the Cairns Group and by Canada for Decoupled income support and Investment aids are very similar in nature. The base period for direct payment programs, including decoupled income support and structural adjustment assistance through investment aids, would be a fixed and unchanging historical period. This would address questions about the non-distorting nature not only of some U.S. payment programs but also that of numerous EU payment programs. The Cairns Group and Canada also propose that decoupled income support be paid only over three years, which would make green box classification impossible for ongoing payments such as U.S. Direct Payments.[18]

The Cairns Group and Canada proposals would relax somewhat the present three-year criterion applying to eligibility under Income insurance and income safety-net programs. This would effectively allow green box status for programs that some Members already seek to classify as green. At the same time, these two proposals would make green income insurance and income safety net programs less generous, in that payments could only raise the producer's income up to 70 percent of average income, instead of paying up to 70 percent of the income loss. This would eliminate situations under the present criteria where payments can bring one producer's income up to 91 percent of average income[19], while another producer receives a market income of 71 percent of average income and is not eligible for any payment.

Some Members have claimed crop insurance programs as green even if the averaging period for historical production does not meet the three-year or Olympic five-year requirement. The Cairns Group and Canada would address this by essentially allowing an averaging period that makes sense, given the actuarial or actual experience of crop insurance in the Member country.

Cap on or Reductions in Green Box Support

The Cairns Group also proposes to cap direct payments in the green box, while Canada proposes that green direct payments count towards an overall cap on the sum of certain green and all blue and amber support. With blue and amber support being subject to reduction commitment, Canada's proposal would allow a shift of support from the more distorting amber and blue forms to the same amount of less distorting green box compatible forms. The Cairns Group proposal would be more constraining in that a reduction in amber support would not generate room to increase green support correspondingly.

The more extreme nature of the Cairns Group proposal is evident in the cuts that would apply to certain kinds of green box payments. The Cairns Group suggests cutting expenditures on decoupled payments, income insurance and income safety nets, and structural adjustment through investment aids (the criteria for

[18] The Cairns Group also proposes that only time-limited payments would qualify for green box classification under the headings of Producer Retirement and Resource Retirement. Depending on the number of years allowed, this might disqualify the U.S. Conservation Reserve Program from being classified as structural adjustment through resource retirement.

[19] Market income of 70 percent of average income plus 70 percent of the 30 percent income loss.

classifying payments under these headings would also be tightened). The size of the reduction has not been indicated.

Minor Differences between the Cairns Group and Canada's Proposals

Other difference between the Cairns Group proposal and Canada's proposal may be of minor importance. For example, regarding commitments on distorting support, the Cairns Group proposes a separate AMS commitment for each product (not explicit whether this would include a non-product-specific AMS). As the Cairns Group proposes to reduce the commitments to zero over five years (nine years for developing countries), the product-specific commitments would apply only during those five years.

Canada also proposes to reduce the entitlement to provide distorting support, but would retain the commitment on Total AMS. Since this commitment would go to zero over five year (including a cut by half in the first year of implementation), it would severely constrain the ability to provide distorting support during those years even without the commitment being product-specific.

Importantly, the necessary conversion of the existing Total AMS commitment into a number of product-specific AMS commitments (and possibly a non-product-specific one) under the Cairns Group proposal would open up incentives for Members to manipulate the process and results. This could even erode the effectiveness of the resulting set of commitments, compared to what was intended.

Maximum Distorting Support

The different level of ambition of the three proposals shows in the amount of distorting support that could be granted after implementing the new commitments and in a more distant, indefinite, future year.[20]

The extreme nature of the Cairns Group proposal is evident in that developed countries could, first, provide only *de minimis* support at a declining percentage and, eventually, no distorting support (no AMS support, no blue box support, no *de minimis* allowance), and only reduced, more tightly defined, green box payments.

[20] Recall that the maximum distorting support under United States proposal derives from a smaller set of policies than in the case of the Cairns Group and Canada proposals. The United States is more generous in allowing support to escape commitment as green or non-product-specific *de minimis* support.

The low ambition of the U.S. proposal is evident in the large amount of allowed support. It could comprise many billions of dollars of distorting AMS support for the United States and the EU, plus *de minimis* support of similar magnitudes. There would be no clamping down on the practice of exempting large amounts of support as non-product-specific *de minimis* on questionable grounds. It could, additionally, comprise unlimited green box payments and other green box support, with no closing of loopholes in what is classified as green box payments. At some undetermined future year the United States proposal would allow only *de minimis* support, like Canada's proposal, but with looser rules on what could otherwise be exempt.

The numerical assessment of the bottom line of the three proposals speaks for itself (see Table 4 and Figure 1). At the end of five years, the United States could provide $11 billion in distorting support under the Cairns Group proposal and $27 billion under the U.S. proposal. Similarly, the EU would be allowed $12 billion and $29 billion, respectively. Canada would be allowed $1.0 and $2.4 billion, respectively. Brazil, on the other hand, could provide $14 billion under the Cairns Group and United States proposals at the end of nine years. The amounts allowed in the three developed countries at the end of five years are half as large (*de minimis)* under the Cairns Group's proposal as under Canada's.

In a more distant future year, the Cairns Group would allow zero distorting support in the United States, the EU and Canada. Under Canada's and the United States proposals, all three countries would be allowed *de minimis* amounts in that distant future year. Brazil would be able to provide $14 billion (*de minimis)* in that distant future year under any of the three proposals.

The reduction in distorting support would be the greatest for the EU: a reduction by $73 billion over five years under the Cairns Group proposal and by $56 billion under the U.S. proposal. The United States would face a reduction of $25 billion over five years under the Cairns Group proposal but only a $9 billion reduction under the U.S. own proposal. Under Canada's proposal, the EU and U.S. five-year reductions would be in between those of the Cairns Group and U.S. proposals. In a more distant future year, the reductions in the United States would be the same as in Canada's proposal.

As a developing country Brazil would not need to reduce distorting support at all under any of the three proposals (this is because Brazil's present commitment is small relative to the maximum *de minimis* amounts). A developing country whose present commitment is large relative to its maximum *de minimis* amounts would face smaller reductions under the U.S. proposal than under the Cairns Group's and Canada's proposals.

Conclusions

The 2002 proposals of the Cairns Group, Canada and the United States differ greatly in how much they would reduce developed countries' distorting domestic support. The differences seem rooted in how the proponents view the results of applying the provisions and commitments resulting from the UR.

Developing and developed countries in the Cairns Group see the discipline on trade-distorting support under existing commitments as insufficient. This is amplified by how some Members (such as the United States) have interpreted the URAA rules to exempt large amounts of support from commitment. For example, Brazil has voiced concern over U.S. support to cotton and soybeans and EU support to sugar, and Thailand has shown concern over U.S. support to rice. The frustration with the workings of the present rules and commitments has fueled the Cairns Group's desire to radically turn the tables on developed countries and their entitlements to support agriculture in distorting ways. The Cairns Group proposal would not only eliminate all such support in developed countries but would also circumscribe more tightly what support can be exempt on green box grounds and reduce some such support.

Canada, as a developed Cairns Group country, shares the frustration of Cairns Group colleagues over the large amounts of ongoing support the United States and the EU provide, sometimes under questionable interpretations of what is exempt from commitment. Still, Canada estimates that some small amount of support, even of the distorting kind, will likely be needed in agriculture. Canada has developed policies that are exempt from commitment as non-product-specific *de minimis* support and is not pushing to eliminate the *de minimis* allowance, judging perhaps that the likelihood of this being achievable is small. Canada's proposal would also rein in current practices that erode the effectiveness of the commitments. It is also characterized by seeking to reduce distorting support wherever it is provided, whether in developed or developing countries.

U.S. policy is now at a point where proper classification of support would risk breaching the present commitment. Large parts of U.S. agriculture expect ongoing government largesse. This has helped to shape a proposal with only modest ambitions to rein in the large amounts of distorting U.S. support. For example, the ongoing support under the 2002 U.S. farm act would make it difficult for the United States to undertake a 50 percent reduction ("down payment") in the first year of implementation. The modesty of U.S. ambition also means that much of the distorting support in other countries, including the EU, would remain unaffected by the provisions proposed.

The United States has not proposed to improve the rules for exemption from commitment (whether green or non-product-specific *de minimis*), but argues for a harmonizing formula to reduce Members' commitments.

This formula would not only leave some Members with large entitlements to continue to provide such support but would also allow large amounts to remain exempt from those commitments.

Canada is positioned between the two extremes of the Cairns Group and the United States, accepting small amounts of ongoing distorting support but wanting to improve the rules that allow green box exemptions and classification of essentially product-specific support as non-product-specific. Moreover, Canada calls for an overall cap on all types of support - a reaction to the large amounts that have been perpetuated through U.S. and EU legislation. Altogether, Canada's proposal would appear more practical and more equitable and hence perhaps more effective than the proposals of the Cairns Group and the United States in bringing about substantial reductions in trade-distorting domestic support.

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Table 1. Key Features of Domestic Support Proposals by the Cairns Group, Canada, and the United States

Key feature	Proposal from:		
	Cairns Group[1]	**Canada[2]**	**United States[3]**
Green box (Annex 2)	- Make criteria clear, precise (Table 2) - Include only support that does not distort production and trade - Cap direct payments - Reduce expenditure under paras. 5, 6, 7, and 11 (decoupled payments, income safety nets, investment aids)	- Make criteria clear, precise (Table 2) - Include only support that does not distort production and trade - Count direct payments in green box towards overall cap that also includes amber and blue	- Keep "basic criteria" (publicly funded - program; not providing price support to producers)
Blue box (Art. 6.5)	- Eliminate exemption from commitment - Count support against AMS commitments	- Eliminate exemption from commitment - Reduce to zero over 5 years (9 years for developing countries)	- Eliminate exemption from commitment - Count support against Total AMS commitment
De minimis (Art. 6.4)	- Eliminate 5% exemption for developed countries over time - Keep 10% exemption for developing countries	- Keep 5% exemption for developed countries - Keep 10% exemption for developing countries	- Keep 5% exemption for developed countries - Keep 10% exemption for developing countries
AMS or Total AMS	- Product-specific disaggregated AMS	- Total AMS	- Total AMS
Starting point of reductions	- Developed countries: UR 2000 commitment; developing countries: UR 2004 commitment - Recalculate UR commitments to apply to specific products	- Developed countries: UR 2000 commitment; developing countries: UR 2004 commitment	- Developed countries: UR 2000 commitment; developing countries: UR 2004 commitment
End point of reductions	- Reduce all AMS commitments to zero	- Reduce Total AMS commitment to zero	- Reduce Total AMS commitment to 5% of total 1996-98 value of prod. in agriculture
Depth of cut	- 100%	- 100%	- Harmonizing but never 100%
Implementation period	- 5 years for developed countries - 9 years for developing countries	- 5 years for developed countries - 9 years for developing countries	- 5 years for developed countries - 5 years for developing countries

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Table 1 (cont'd) Key Features of Domestic Support Proposals by the Cairns Group, Canada, and the United States

	Cairns Group[1]	**Canada**[2]	**United States**[3]
Down payment in first year	- 50% in first year for developed countries only	- 50% in first year	- No down payment
Overall cap	- Not explicit but implied by cap and reduction of some green box support, combined with commitment on amber and blue	- Cap overall support: sum of amber, blue, and some green support (not paras. 2, 3 and 4: general services, public stockholding for food security, domestic food aid)	- None
Additional discipline on specific products	- Reduce possibility that product-specific support is classified as non-product-specific support - Seek quicker reduction in support to significantly exported products	- Reduce possibility that product-specific support is classified as non-product-specific support	- Negotiate product-specific limits on trade-distorting support on some products (sectoral initiatives)
Art. 6.2 (exempts certain support in developing countries	- At least keep present Art. 6.2	- Keep present Art. 6.2	- Identify specific programs to be exempt (for subsistence, resource-poor, and low-income farmers)
Developing countries treated differently from developed countries	- Larger *de minimis* exemptions - Keep *de minimis* exemptions for developing countries but eventually eliminate for developed countries - Longer implementation period - No down payment needed in developing countries - Possibly enlarge Art. 6.2 exemptions - Keep existing arrangements for least developed countries (no commitment)	- Larger *de minimis* exemptions - Longer implementation period - Keep present Art. 6.2	- Larger *de minimis* exemptions - Identify specific programs (see above) - Address transitional and development objectives
Other	- Seek to ensure that reductions in trade-distorting support are substantial and effective	- Make legitimate green box measures non-actionable for the purpose of countervailing duties	- Set date for elimination of all trade-distorting support

[1] The Cairns Group's proposal is available at The Cairns Group (2002); [2] Canada's proposal is available at Agriculture and Agri-Food Canada (2002a) and (2002b; [3] The United States' proposal is available at U.S. Department of Agriculture (2002a).

Table 2. Specific Changes Proposed for the Green Box (Annex 2) by the Cairns Group, Canada and the United States

Paragraph in Annex 2 of URAA	Proposal from:		
	Cairns Group[1]	Canada[2]	United States[3]
Para. 1 (fundamental requirements, basic criteria)	No change to "fundamental criteria".	No change proposed.	Keep basic criteria.
Paras. 2 (General services), 3 (Public stockholding for food security), 4 (Domestic food aid)	No change proposed.	No change proposed.	No change proposed.
Para. 5 (Direct payments to producers)	Reduce expenditures. 5(a) Notify base periods. 5(b) Base payments on fixed and unchanging historical period.	5(b) Base payments on fixed and unchanging historical period.	No change proposed.
Para. 6 (Decoupled income support)	6(a) Base eligibility on fixed and unchanging historical period. 6(e) Pay only up to three years; do not renew.	6(a) Base eligibility on fixed and unchanging historical period. 6(e) Pay only up to three years; do not renew.	No change proposed.

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Table 2 (cont'd) Specific Changes Proposed for the Green Box (Annex 2) by the Cairns Group, Canada and the United States

	Cairns Group[1]	**Canada**[2]	**United States, [3]**
Para. 7 (Income insurance and income safety nets)	7(a) Base eligibility on three-to-five years (*instead of three only*). Clarify that payments refer to payments from government (*instead of any payments*). 7(b) Restore producer's <u>income</u> to no more than 70% of triggering income (*instead of compensating for up to 70% of the income <u>loss</u>*). Base amount of payment on whole-farm income (*instead of any income regardless of source*).	7(a) Base eligibility on three-to-five years (*instead of three only*). Clarify that payments refer to payments from government (*instead of any payments*). 7(b) Restore producer's <u>income</u> to no more than 70% of triggering income (*instead of compensating for up to 70% of the income <u>loss</u>*). Base amount of payment on whole-farm income (*instead of any income regardless of source*).	No change proposed.
Para. 8 (Relief from natural disasters)	8(a) In crop insurance, base eligibility on the loss being larger than 30% of the average production in an actuarially appropriate period (*instead of the 3-year or olympic 5-year average*). In case of destruction of animals or crops for disease control, the production loss may be less than 30% of the average production (*instead of basing eligibility on a production loss larger than 30%*).	8(a) In crop insurance, base eligibility on the loss being larger than 30% of the productive capability in an averaging period that reflects the Member's actual experience (*instead of the 3-year or olympic 5-year average*). In case of destruction of animals or crops for disease control, the production loss may be less than 30% of the average production (*instead of basing eligibility on a production loss larger than 30%*).	No change proposed.
Para. 9 (Producer retirement programs)	9(b) Make payments time limited.	No change proposed.	No change proposed.
Para. 10 (Resource retirement programs)	10(d) Make payments time limited	No change proposed.	No change proposed.

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Table 2 (cont'd) Specific Changes Proposed for the Green Box (Annex 2) by the Cairns Group, Canada and the United States

	Cairns Group[1]	**Canada**[2]	**United States**[3]
Para. 11 (Investment aids)	11(a) Require that structural disadvantage be clearly defined. 11(b) Ensure that payments do not relate to production inputs. Base amount of payment on fixed and unchanging historical period.	11(a) Require that structural disadvantage be clearly defined. Base amount of payment on fixed and unchanging historical period.	No change proposed.
Para. 12 (Environmental programs)	12(a) Continued eligibility for payments based on fulfilment of specific conditions that do not explicitly include production methods or inputs (*instead of explicitly including production methods or inputs*). 12(b) Make payment less than the extra cost of complying with the program (*instead of payment being limited to extra costs or loss of income*). 12(b) Make payment explicitly not related to production volume.	12(a) Continued eligibility for payments based on fulfilment of specific conditions that do not explicitly include production methods or inputs (*instead of explicitly including production methods or inputs*). 12(b) Make payment less than the extra cost of complying with the program (*instead of payment being limited to extra costs or loss of income*). 12(b) Make payment explicitly not related to production volume.	No change proposed.
Para. 13 (Regional assistance programs)	13(b) Base payments on fixed and unchanging historical period. Notify base periods.	No change proposed.	No change proposed.

[1] The proposal of the Cairns Group is available at The Cairns Group (2002); [2] The proposal of Canada is available at Agriculture and Agri-Food Canada (2002a) and (2002b; [3] The proposal of the United States is available at U.S. Department of Agriculture (2002a).

Table 3. Determinants of Maximum Distorting Support after Implementing Commitments

	Proposal from:		
	Cairns Group[1]	**Canada**[2]	**United States**[3]
Determinants of maximum distorting support after implementation period for DDA commitments and any negotiated more distant future year	- Developed countries: in five years, less than 5% of value of production (perhaps 2.5%?) of each product (*de minimis* only); eventually going to zero at an indefinite year to be negotiated - Developing countries: in nine years, 10% of value of production of each product (*de minimis* only); eventually remaining at *de minimis*	- Developed countries: in five years, 5% of value of production of each product (*de minimis* only); remaining at *de minimis* - Developing countries: in nine years, 10% of value of production of each product (*de minimis* only); remaining at *de minimis*	- Developed countries: in five years, about 10% of value of prod., consisting of: Total AMS plus *de minimis*, where Total AMS is 5% of value of 1996-98 production, and *de minimis* is 5% of value of production of each product, eventually going to 5% of value of production of each product (*de minimis* only) at an indefinite year to be negotiated - Developing countries: in five years, about 15% of value of production, consisting of: Total AMS plus *de minimis*, where Total AMS is 5% of value of 1996-98 production, and *de minimis* is 10% of value of production of each product; eventually going to 10% of value of production of each product (*de minimis* only) at an indefinite year to be negotiated

[1] The Cairns Group's proposal is available at The Cairns Group (2002); [2] Canada's proposal is available at Agriculture and Agri-Food Canada (2002a) and (2002b; [3] The United States' proposal is available at U.S. Department of Agriculture (2002a).

Table 4. Total AMS Commitment, Maximum Distorting Support, and Reduction in Maximum Distorting Support

	Present commitment (from 2000 or 2004)		Proposal from:								
			Cairns Group[1]			Canada[1]			United States[1]		
				In 5 years	Eventually		After 5 years	Eventually		After 5 years	Eventually
Total AMS (US$ bill.)	USA	**19.1**	USA	**zero**	**zero**	USA	**zero**	**zero**	USA	**$10.0**	**zero**
	EU	**67.2**	EU	**zero**	**zero**	EU	**zero**	**zero**	EU	**$10.9**	**zero**
	Brazil[2]	**0.9**	Brazil	**zero**	**zero**	Brazil	**zero**	**zero**	Brazil	**$0.9**	**zero**
	Canada	**2.7**	Canada	**zero**	**zero**	Canada	**zero**	**zero**	Canada	**$0.9**	**zero**
Maximum distorting suppport (US$ bill.) (Total AMS + ½ of PS *de minimis* + NPS *de minimis)*	USA	**35.6**	USA	**$11**	**zero**	USA	**$22**	**$22**	USA	**$27**	**$22**
	EU	**85.0**	EU	**$12**	**zero**	EU	**$24**	**$24**	EU	**$29**	**$24**
	Brazil[2]	**11.4[2]**	Brazil	**$14**	**$14**	Brazil	**$14**	**$14**	Brazil	**$14**	**$14**
	Canada	**4.2**	Canada	**$1.0**	**zero**	Canada	**$2.0**	**$2.0**	Canada	**$2.4**	**$2.0**
Reduction in maximum distorting support (US$ bill.)			USA	**$24.6**	**$35.6**	USA	**$13.6**	**$13.6**	USA	**$9.1**	**$13.6**
			EU	**$73.2**	**$85.0**	EU	**$61.2**	**$61.2**	EU	**$56.2**	**$61.2**
			Brazil	**zero**	**zero**	Brazil	**zero**	**zero**	Brazil	**zero**	**zero**
			Canada	**$3.2**	**$4.2**	Canada	**$2.2**	**$2.2**	Canada	**$1.8**	**$2.2**

[1] The proposals are available at The Cairns Group (2002), Agriculture and Agri-Food Canada (2002a) and (2002b, and U.S. Department of Agriculture (2002a), respectively. [2]The $11.4 billion for Brazil under ongoing UR commitment is the sum of $0.9 bill. in Total AMS commitment, ½ of future PS *de minimis*, and full future NPS *de minimis*. The larger $14 bill. which is used in the analysis is the sum of full PS and NPS *de minimis.* Brazil would implement over 9 years under the Cairns Group's and Canada’s proposals.
Source: Table 5.

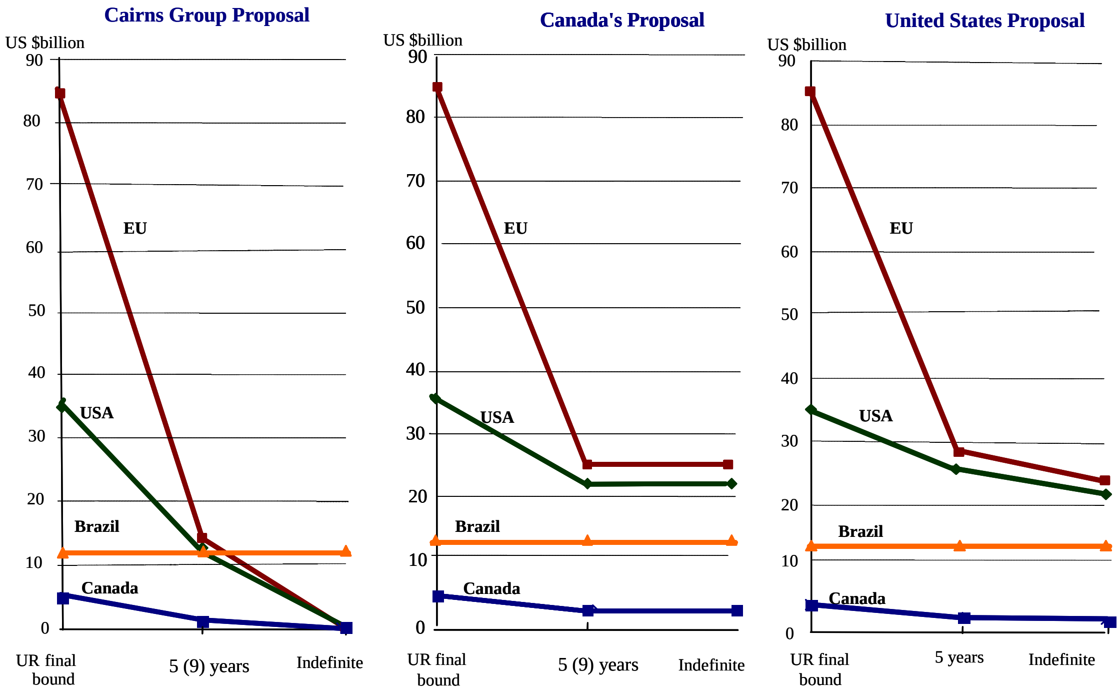
Table 5. Calculation of *de minimis* and Maximum Amounts of Support after 5 (9) Years of Implementation

		USA (US$)	EU (€)	Brazil (US$)	Canada (C$)	Notes
Total AMS commitment in 2000 (2004)	mill.	19,103	67,159	912.1	4,301	=US$2,688
Value of production (VOP) 1996	mill.	205,701	219,700	not available	28,051	
Value of production (VOP) 1997	mill.	203,884	217,800	58,353	29,015	
Value of production (VOP) 1998	mill.	190,886	213,500	58,543	28,739	
Average VOP 1996-98	mill.	200,157	217,000	58,448	28,602	
Future Total AMS commitment (U.S. proposal)						
5% of average VOP 1996-98	mill.	10,007.9	10,850.0	2,922.4	1,430.1	
Rounded to billions	bill.	10.0	10.9	2.9	1.4	
Projected future value of production						
Average VOP in 1996-98 + 10%	mill.	220,173	238,700	not applicable	31,462	
Average VOP in 1996-98 + 20%	mill.	not applicable	not applicable	70,138	not applicable	
Rounded to billions	bill.	220.2	238.7	70.1	31.5	
De minimis allowance in future year						
5% (Brazil 10%) of projected future VOP	mill.	11,008.6	11,935.0	7,013.8	1,573.1	
Rounded to billions	bill.	11.0	11.9	7.0	1.6	
1/2 of PS *de minimis* in future year	bill.	5.5	6.0	3.5	0.8	
2.5% of projected future VOP	mill.	5,504.3	5,967.5	not applicable	786.5	
Rounded to billions	bill.	5.5	6.0	not applicable	0.8	
Continued UR commitments and *de minimis*						
Total AMS	bill.	19.1	67.2	0.9	4.3	
1/2 of Product-Specific *de minimis*	bill.	5.5	6.0	3.5	0.8	
Non-Product-Specific *de minimis*	bill.	11.0	11.9	7.0	1.6	
Maximum future support	bill.	35.6	85.0	11.4	6.7	= US$4.2
Cairns Group's proposal						
Total AMS (no AMS at end of implementation)		0.0	0.0	0.0	0.0	
Product-Specific *de minimis* (2.5%; 10%)	bill.	5.5	6.0	7.0	0.8	
Non-Product-Specific *de minimis* 2.5%;10%	bill.	5.5	6.0	7.0	0.8	
Maximum future support	bill.	11.0	12.0	14.0	1.6	= US$1.0
Canada's proposal						
Total AMS (no AMS at end of implementation)		0.0	0.0	0.0	0.0	
Product-Specific *de minimis*	bill.	11.0	11.9	7.0	1.6	
Non-Product-Specific *de minimis*	bill.	11.0	11.9	7.0	1.6	
Maximum future support	bill.	22.0	23.8	14.0	3.2	= US$2.0
United States' proposal						
Total AMS	bill.	10.0	10.9	0.9	1.4	
1/2 of product-specific *de minimis*	bill.	5.5	6.0	3.5	0.8	
Non-Product-Specific *de minimis*	bill.	11.0	11.9	7.0	1.6	
Maximum future support	bill.	26.5	28.8	11.4	3.8	= US$2.4

* For Brazil: 5% of Brazil's future VOP exceeds Brazil's $0.9 bill. UR commitment; assume UR commitment continues.

Sources: VOP: Notifications to the WTO Committee on Agriculture; UR commitments: Members' Schedules (Part IV, Section I).

Figure 1. MDS under 2002 Proposals of the Cairns Group, Canada and the United States



Source: Table 4