Committee on Agriculture, Special Session 13 April 2006
Domestic Support

Chair's Reference Paper

BLUE BOX

Background

Paragraph 13 of the Agreed Framework (Annex A of WT/L/579) states that:

> "Members recognize the role of the Blue Box in promoting agricultural reforms. In this light, Article 6.5 will be reviewed so that Members may have recourse to the following measures:
>
> - Direct payments under production-limiting programmes if:
>   - such payments are based on fixed and unchanging areas and yields; or
>   - such payments are made on 85% or less of a fixed and unchanging base level of production; or
>   - livestock payments are made on a fixed and unchanging number of head.
>
> Or
>
> - Direct payments that do not require production if:
>   - such payments are based on fixed and unchanging bases and yields; or
>   - livestock payments made on a fixed and unchanging number of head; and
>   - such payments are made on 85% or less of a fixed and unchanging base level of production."

Paragraph 14 states:

> "The above criteria, along with additional criteria will be negotiated. Any such criteria will ensure that Blue Box payments are less trade-distorting than AMS measures, it being understood that:
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> - Any new criteria would need to take account of the balance of WTO rights and obligations.
>
> - Any new criteria to be agreed will not have the perverse effect of undoing ongoing reforms."

Paragraph 15 states:

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

Ad memorandum

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

> "The overall base level of all trade-distorting domestic support, as measured by the Final Bound Total AMS plus permitted de minimis level and the level agreed in paragraph 8 below for Blue Box payments, will be reduced according to a tiered formula. Under this formula, Members having higher levels of trade-distorting domestic support will make greater overall reductions in order to achieve a harmonizing result. As the first instalment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support will not exceed 80 per cent of the sum of Final Bound Total AMS plus permitted de minimis plus the Blue Box at the level determined in paragraph 15."

Paragraph 5 of the Hong Kong Ministerial Declaration states, *inter alia,* that:

> "[...] Disciplines will be developed to achieve effective cuts in trade-distorting domestic support consistent with the Framework [...]"

Paragraph 11 of the Hong Kong Ministerial Declaration states, *inter alia,* that:

> "[...] Members agree that the objective is that, as an outcome for the negotiations, trade distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable. We commit ourselves to give priority in the negotiations to reach such an outcome."

Structure for Discussion

1. As noted in my report to the TNC[1] and in my non-exhaustive list of questions[2], I consider that there has been significant convergence on further constraining Blue Box payments.

2. As I stated at the end of the last Agriculture Week, we have a proposal, which seems to be on the way to being acceptable to most, if not all, delegations: to reduce the cap for spending on programmes in the Blue Box of 5 per cent of the total value of agricultural production to 2.5 per cent. This lower cap would in effect introduce a criterion that is additional to those set out in the Framework. It is certainly an undeniable major advance on that Framework. It also takes us well beyond where we were at in Hong Kong. In addition to openness to reducing the cap in that way, I have not detected any rejection of the view that there could still be a legitimate concern that there could be an excessive concentration of generally permitted support on a single, or narrow range, of product(s) under it. In face of that recognition, there is a genuine preparedness to explore viable ways to avoid that happening.

3. This deserves at least four comments. First, I have the sense that there is a basic recognition - reflected in the reduction to 2.5 per cent scenario - that lowering the cap (or, in crude terms, squeezing out the overall quantum of money that might be sloshing about in the first place) is probably the most important single technique for advancing discipline. This is vitally important and must continue to be given firm recognition and consolidation. I do not detect any wish on the part of Members to step back from that to some other second-best approach. Second, other proposals are on the table suggesting other or complementary techniques - some for all Blue Box, some for new Blue Box. They include proposed commodity specific disciplines in various shapes and forms. As of today such specific proposals face strong opposition essentially as being considered to be too intrusive or prescriptive, although a number of Members would evidently prefer them if they could get them. They remain on the table. Third, there is no opposition - at this point at least - to the idea that a non-concentration approach - which is not tantamount to a commodity specific discipline by another name - could also be explored without jeopardising the reduced cap proposal. This - to me at least - dictates that we would be well advised to put our immediate effort into seeing whether this can in fact be made operationally viable. It would not mean that other proposals are dropped - they remain on the table and presumably would be reverted to, should this line of approach prove unproductive. Nor would it mean that this line of approach is in some sense "accepted". It is a hypothesis to be tested. If it works, it works. If not, not. It is, I would suggest, where we should give priority - in purely procedural terms - to carrying forward our technical efforts.

4. Fourth, we need also to remember that, under the Framework, flexibility is to be given where a Member has placed an exceptionally large percentage of its trade-distorting domestic support in the Blue Box, as envisaged in paragraph 15 of the Agreed Framework. The overall cap that we have in mind here needs, evidently, not to have the effect of countering the flexibility that is envisaged. It is clear that, literally applied, it would, in its present form, create such a problem for some Members. But there is, in my perception, no disagreement that we need to find a workable flexibility to deal with such a situation. It need hardly be added that the rationale is precisely not to discourage moves from Amber to the less trade-distorting category of Blue. We will need to ensure that a practicable and equitable approach is devised and I have the sense that Members will be open to addressing this on the basis of a concrete proposal, possibly in the direction of developing a linkage of some proportionality with AMS reduction.

5. There are, of course, other things that can be said and could be covered on this subject, but I do not think we need an elaborated reference paper at this moment to do that. However, there are three more things that I think need to be flagged in particular at this point.

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[1] Annex A of WT/MIN(05)/DEC refers.
[2] JOB(06)/26 refers.

6. We need to deal with the issue relating to potential "newcomers" to the Blue Box – both in terms of new users of the Blue Box as well as new products supported by such payments. One proposed solution could be an offsetting mechanism, which would require new or additional Blue Box expenditure to be offset by a corresponding reduction in AMS support.

7. In addition to the Agreed Framework, Ministers have instructed us in paragraph 11 of the Hong Kong Ministerial Declaration that cotton be treated ambitiously, expeditiously and specifically within the agriculture negotiations and through the Sub-Committee on Cotton. The Hong Kong Ministerial Declaration also states that "the objective is that, as an outcome of negotiations, trade-distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable".

8. A specific proposal as to how to fulfil this mandate with respect to Blue Box payments has been tabled by the Co-Sponsors of the Sectoral Initiative in Favour of Cotton calling for the Blue ceiling for cotton to be one third of the general Blue Box ceiling.[3] Clearly, this issue will need to be addressed urgently and is, of course, intimately related to the basic approaches referred to above including consideration as to what extent modalities for Blue Box criteria can also be applied to cotton or whether any additional criteria are needed.

9. Finally, there is a generally accepted view that improved notification requirements would be desirable to improve transparency of Blue Box measures. The key issue to be resolved is whether notification requirements and formats, which will be developed in the context of horizontal modalities for monitoring and surveillance in agriculture, will be sufficient, or whether there would be a need for any additional/different mechanism with respect to Blue Box measures. Also, there is a question of whether any supporting material should be supplied by Members with a view to establishing the base period data.

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[3] TN/AG/SCC/GEN/4 refers.