WORLD TRADE ORGANIZATION

JOB/AG/100

17 July 2017

(17-3872)

Committee on Agriculture
Special Session

Original: English

EFFECTIVELY CONSTRAINING TRADE-DISTORTING DOMESTIC SUPPORT USING FIXED CAPS

SUBMISSION BY NEW ZEALAND, AUSTRALIA, CANADA AND PARAGUAY

The following submission, dated 17 July 2017, is being circulated at the request of the aforementioned Members.

I. KEY POINTS

- Fixed caps could meaningfully constrain future spending limits in a way that floating limits, based on a percentage of the value of production (currently growing at over 10% on average for major Members), would not.
- Introducing fixed caps on trade-distorting domestic support, expressed as numerical/monetary values, would provide global markets, exporters and Members with transparency and certainty on Members' domestic support limits.
- Fixed caps would support the reform process without increasing the transparency burden on Members, as they do not entail any additional notifications.

II. BACKGROUND

1. There is a consensus among the WTO's diverse Membership that existing limits on trade-distorting domestic support do not provide sufficient discipline. Any new disciplines which address this problem must effectively constrain spending but be transparent and easy to calculate. It is essential that exporters and producers be able to predict the upper limits of Members' domestic support outlays, allowing them to predict market behaviour and hedge against risk. It is also essential that Members providing such support are certain that they will not breach their commitments due to external factors (such as an unexpected value of production drop). Fixed numerical caps on Members trade-distorting domestic support commitments are the only means of calibrating overall limits which meet all these objectives.

III. FIXED CAPS ARE AN EFFECTIVE MEANS OF CONTINUING THE REFORM PROCESS

2. Fixed caps would establish enduring and meaningful constraints on trade-distorting domestic support over time. This would incentivize governments to continue reforms which move away from trade-distorting domestic support. Floating limits based on a percentage of annual value of production (VoP) will, for the majority of Members, grow annually and therefore become a less meaningful constraint on spending. This would do nothing to combat the existing asymmetry between Members that provide trade distorting subsidies and Members which do not, whether due to a lack of resources or a policy decision.

IV. FIXED CAPS PROVIDE MEMBERS AND GLOBAL MARKETS WITH GREATER CERTAINTY

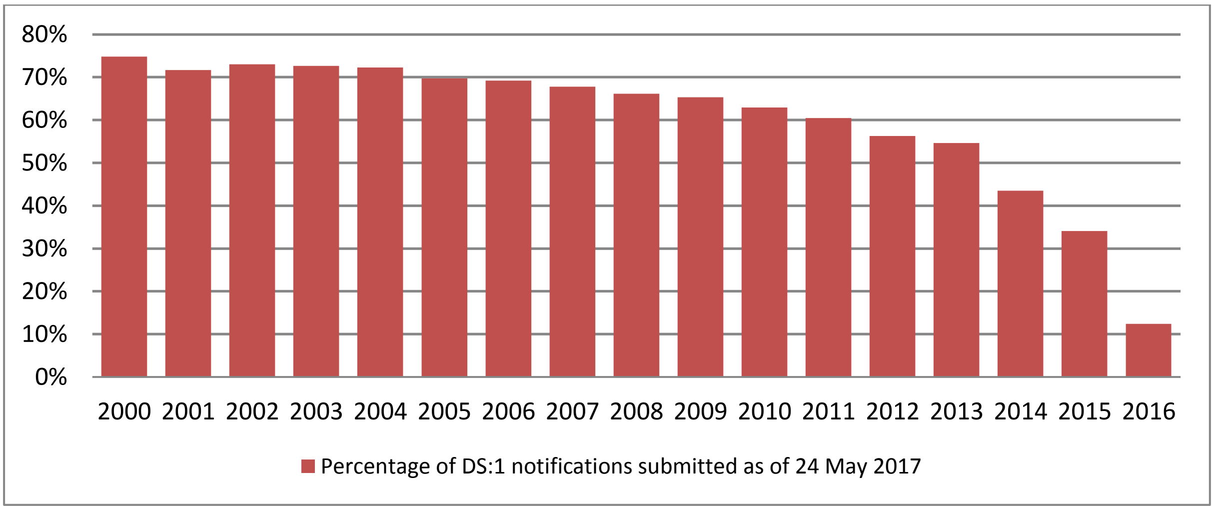
3. A fixed cap expressed as a numerical/monetary value would be a single figure that does not alter or change over time. The maximum levels of Members' future outlays would thus be known with absolute confidence. A variable limit based on a percentage of VoP, on the other hand, is a

limit that changes – potentially significantly – year-on-year, making it considerably more difficult to predict both for the market, and for the Member itself. Fixed caps would provide certainty and transparency as the maximum amount of permissible trade-distorting domestic support can be predicted with complete accuracy. This will allow Members to more efficiently allocate budgets for future years, and provide the market with greater confidence around domestic support outlays and the accurate assessment and monitoring of Members' compliance with their obligations.

V. FIXED CAPS PROVIDE TRANSPARENCY WITHOUT INCREASING THE NOTIFICATION BURDEN

4. The transparency and certainty provided by fixed caps would come without any additional burden on Members, either through the individual notification obligations or in the WTO Committee on Agriculture review process. Fixed caps do not require additional annual notifications as they are fixed and immutable. Moreover, compliance with the caps can be easily demonstrated through minor adjustments to the existing DS:1 notification. As Graph 1 indicates, many Members have already fallen considerably behind in their notifications. Members' compliance with their domestic support (DS:1) notification obligations is at less than 70% over the past 11 years.[1] Fixed caps would ensure such Members can continue to focus on getting up to-date with their current obligations without having to grapple with additional notification requirements.

Graph 1 – DS:1 Notifications submitted by Members[2]



Source: G/AG/GEN/86/Rev.28.

VI. CONCLUSION

5. In direct contrast with a floating limit, introducing fixed caps on trade distorting support would meaningfully constrain trade distorting outlays, create predictability for markets and Members, create little to no administrative burden and should be easily accommodated within existing notification practices. Fixed caps therefore offer a legitimate and viable way forward on curtailing what the majority of Members have identified as an unacceptable level of permissible trade distorting support under the existing Agreement on Agriculture.

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[1] In document G/AG/GEN/86/Rev.28, the Secretariat notes that only 25 Members have a 100% compliance rate, while 31 Members with an obligation to notify have never submitted a DS:1 notification.

[2] DS:1 notifications are required to be submitted annually by all Members with base and annual commitment levels specified in Section I of Part IV of their Schedules. All other Members, except Least-Developed Country (LDC) Members, should submit an annual Table DS:1 notification. LDC Members are required to submit Supporting Tables DS:1 to DS:3 every other year.