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Agri-Environment and Rural Development in the Doha Round

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Executive summary

Introduction

Aimed at shedding light on the possible options for developing countries to make use of agri-environmental and rural development measures within the framework of the WTO, this paper surveys those programs used in the Quad that are considered non or at most minimally trade distorting, non-discriminatory and otherwise consistent with current WTO rules. Furthermore, it tries to illustrate the possible outcomes in the ongoing negotiations in the WTO on the Agreement on Agriculture (AoA) from a developing country viewpoint, related to the types of mechanisms surveyed above.

Hereby, the survey focuses on those measures, which have been notified by WTO Members under the so called Green Box (Annex 2 of the AoA) as this is the AoA instrument which allows for unlimited spending on domestic support measures that are not more than minimally trade-distorting. Hereby, the notification practice of WTO Members is serving as a starting point. Nevertheless, due to rather weak transparency and notification requirements, it is difficult to determine whether all notified Green Box measures are really green or not. The major stumbling block here is that there is no definition so far on what is "at most minimally trade distorting." Such a vague term would need to be defined by WTO dispute settlement panels, but there have been no related cases brought to them yet.

In this survey, special attention is drawn on EU practice as the European trade bloc has established a separate pillar in its Common Agricultural Policy (CAP) which exclusively deals with rural development and agri-environment. In the case of the EU, the paper looks at the legal framework on RD and agri-environment at the EU level, while further taking four national/regional programs as examples for how Member States have been implementing the EU framework legislation on RD. The other Quad countries are addressed in the sequence (Canada, United States and Japan) as this order best reflects the degree of engagement the individual countries have shown in agriculture-related conservation and rural development policies.

Sustainable agriculture practices in Quad countries

Within its Agenda 2000 reform package, the EU has introduced a new rural development policy which streamlines rural development measures implemented in its Member States. All measures falling under this pillar of the Common Agricultural Policy (CAP) are notified under the Green Box. These fall into two groups. Firstly, the new accompanying measures of the 1992 McSharry reform, such as early retirement, agri-environment and afforestation, as well as the less-favoured areas (LFA) scheme. Second, the measures to modernize and diversify agricultural holdings, which are farm investment, setting up young farmers, training, investment aid for processing and marketing facilities as well as additional assistance for forestry, and promotion and conversion of agriculture. The EU also provides finance for the new initiative for rural development, Leader+. This initiative aims to encourage and support a series of small-scale pilot approaches to integrated rural development at local level in selected rural areas. Furthermore, in the course of the internal EU mid-term review of the current CAP, the European Commission recently tabled a proposal suggesting an extension of the existing accompanying measures to better address concerns about food safety and quality, to help farmers to adapt to the introduction of demanding standards and to promote animal welfare.

Trading partner Canada has established the Canadian Adaptation and Rural Development (CARD), national and regional adaptation programs that provide assistance to the sector in the area of research, innovation, capturing market opportunities, environmental sustainability, food safety and quality, human resource capacity building and rural development. Various initiatives are being implemented under the CARD program such as the Agricultural Environmental Stewardship Initiative (AESI) which helps the agricultural and agri-food sector continue working on a number of priority environmental issues or the Canadian Rural Partnership (CRP) initiative, a cross-sectoral initiative supporting community development in rural and remote Canada. Notified Green Box measures include investment and research programs, various measures encouraging natural resource conservation and environmentally sound farming practices.

Agricultural legislation in the United States attaches high importance to environmental programs in agricultural policy, focusing on measures to convert highly erodible cropland to approved conservation uses (including long-term retirement), reconvert farmland back into wetlands, and encourage crop and livestock producers to adopt practices that reduce environmental problems, on a cost-sharing basis. Furthermore, research and advice has increasingly focused on promoting sustainable farming practices. Programs notified under AoA Annex 2 comprise several environmental measures supporting the protection of wetlands, grassland and wildlife habitat, as well as promoting the adoption of environmentally sound management practices.

For its part, Japan generally provides support for irrigation and drainage, and the readjustment of agricultural land. Agri-environmental programs are important aspects of agricultural policy and include measures encouraging farmers to adopt sustainable agricultural practices that reduce the amount of fertilizer and pesticide usage as well as improve the quality of soil with composting. Japan has notified under the Green Box a program promoting the appropriate environmental management in dairy farming and a direct payment scheme for farmers who continue farming activities in hilly and mountainous areas.

Possible impacts of the current agriculture negotiations

The starting point here are the WTO domestic support rules applying to developing countries. According to the WTO Agreement on Agriculture (AoA), there are four different categories of domestic support measures: the so called Amber Box (covering classical trade distortive subsidies such as price interventions and coupled payments), the Blue Box (partly decoupled payments under production-limiting programs), the Special and Differential (S&D) Treatment Box (certain input and investment subsidies for developing countries only) and the Green Box (decoupled payments which are at most minimally trade distorting). It is the Green Box which expressly allows Members to pay farmers compensation for income loss for those located in disadvantaged regions or for producers implementing environmental programs. Although it is commonly perceived that support provided through the trade distortive Boxes (Amber, Blue and S&D) can also serve environmental and rural development objectives, the Green Box is the tool in the AoA which can be used to address agri-environmental and rural development aspects in an only minimally trade distorting manner. With respect to the accessibility to the Box, principally the same rules apply to both developed and developing countries. Therefore it can be said that both developed and developing are currently on equal footing under AoA rules as far as not more than minimally trade-distorting support pursuing conservation and rural development objectives is concerned.

Since early 2000, WTO Members have been negotiating at the Committee on Agriculture (CoA) on how to continue the fundamental reform program for the liberalization of the world's farming sector. With the newly launched Doha Round, Members agreed to negotiate "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies and substantial reductions in trade-distorting domestic support” in the field of agriculture. The negotiations are set to be concluded by the end of 2004, with negotiation modalities to be agreed until March 31, 2003.

In these ongoing negotiations, three main groupings have emerged. A cautious group comprising European and other Northern countries promotes the maintenance of the current concept embodied in the AoA and to take account of non-trade concerns (NTCs) in the further liberalization process. The ambitious camp of net-food exporters such as Cairns Group countries and the United States call for significant progress in market access and the elimination of both export subsidies and trade distortive domestic support. And third, the special consideration group of developing countries (such as those from the Like-Minded and the African Group) demand further flexibility for developing countries to protect and support their markets so that they can achieve and/or maintain their competitiveness.

Accordingly, the ambitious group demands transparent, criteria-based and reduced use of Green Box payments, while the cautious party intends to develop the Green Box as a flexible tool with which negative domestic non-trade effects of trade liberalization can be buffered and absorbed. The special consideration group also asserts such flexibility, but only for their particular domestic concerns such as food security and rural development, as well as reducing disparity in levels of domestic support among countries and easing the harm caused by developed country trade distortion. The cautious camp also asserts rural development as a non-trade concerns applying to all countries, but most other Members are rejecting this. In the environment debate, some Northern countries such as Norway believe that some environmental concerns also needed to be addressed outside the Green Box, whereas others such as Cairns Group members think only significant trade liberalization can help the environment. The main argument of countries like Norway, Japan, etc., is that agriculture is multifunctional as it not only has an economic function, but also addresses non-trade concerns such as environment, food security, rural development and poverty alleviation. The Cairns Group rejects such assertions.

Linked to the negotiations on the Green Box is the idea to inscribe a new Development Box in the AoA as proposed by the Like-Minded Group. This Box would target low income and resource-poor (LI/RP) farmers and secure supplies of food security crops (FSCs) allowing developing countries to exempt these FSCs from their reduction commitments and to maintain or renegotiate high tariffs on them. Furthermore, the LMG believes developing countries should be provided with a simplified safeguard mechanism to protect FSCs, with expanded domestic support provisions applying to LI/RP producers. Similar ideas were brought up when Members were reviewing the current S&D regime on domestic support anchored in the AoA. The ambitious group opposes this proposal, saying that a Development Box would impede south to south trade and would go against the spirit of the Doha mandate. For their part, promoters of agricultural multifunctionality indicated they should be provided with the same degree of flexibility to meet their own non-trade interests relating to the environment, rural development and food security.

The possible outcomes of the negotiations

Taking into account the very broad and rather general discussion among Members on the points at issue, the paper is only making a rough forecast and analysis on how the current situation could change from the perspective of developing countries. Nevertheless, when looking at the agriculture mandate for the current negotiations in the Doha Round, it appears that developing countries can make a strong argument that while protection and support is further being dismantled through the reform process, they need to be able to gain—or at least maintain—sufficient flexibilities to address their development needs including food security and rural development. With respect to environmental objectives, it is rather the notion of non-trade concerns (NTCs), which could back up demands to provide room in the AoA for pursuing environmental goals. But in order to get a picture of how these broad negotiation guidelines could materialize into concrete results, it is necessary to look at the different strategies pursued by the main negotiation groupings.

The members of the cautious group, which have traditionally been protecting and supporting their agriculture markets, want to make sure that—despite progressing liberalization—there will be enough room for them to continue providing farmers with larger sums of support. As a result, this group wants to retain an instrument (such as the Green Box) through which larger amounts of subsidies can be paid to their farming sector to sustain a minimum degree of farming activity.

On the other hand, the main goal of the ambitious group is to achieve quick and real liberalization of international agriculture markets so that Members can better exploit their competitive advantage in the farming sector. Besides abolishing the Amber Box and the Blue Box, they further want to limit Members' overall Green Box spending as they take the view that any kind of support—even if decoupled from production—has production encouraging effects. Moreover, they want to strengthen the Green Box provisions to reduce and/or avoid trade-distorting effects of certain programs notified under the Box.

The special consideration camp's objective is to level out certain imbalances in WTO agriculture rules while providing developing countries with significant flexibilities to address their development concerns. They argue industrialized countries, on the other hand, need to drastically bring down their subsidies to create a level playing field. With respect to the recognition of NTCs, this group is very skeptical and consider NTCs just as another argument for industrialized countries to further protect and support their markets.

Trying to forecast the possible outcomes of the negotiations, three scenarios seem likely:

- Firstly, the ambitious and the special consideration camps could find common ground and push through a scenario under which Members' general ability to support would be cut and narrowed down significantly, with certain flexibilities tailored for developing countries only.
- Secondly, the cautious and the special consideration group could join forces and push for new flexibilities generously given to both developing and developed countries.
- Thirdly, and most likely, would be a compromise between the key objectives of the three camps which would significantly cut Amber Box support, export subsidies and widely expand market access. The Green Box would largely remain uncapped, but strengthened and clarified. Developing countries would gain more flexibility to address their particular concerns such as rural development and food security, either through expanding the Green Box, by setting up a Development Box or by widening the applicability of measures under the S&D Box. Such an outcome seems to reflect best the priorities and objectives set out in the agricultural mandate of the Doha Declaration.

Assuming that the Green Box will be the main tool provided for addressing development and other non-trade objectives, it appears that a definition of what is only minimally trade distortive will gain importance after the conclusion of the Doha Round. In the negotiations more detailed provisions for the individual sub-categories of Green Box support could be developed. But in order to create general criteria for minimal trade distortiveness, Members need to initiate the creation of a body of case law on this issue by challenging AoA-inconsistent Green Box subsidies under the Dispute Settlement Mechanism (DSM).

Implications for the relevant measures in use

Looking at a recent Cairns Group proposal on domestic support it can be seen that they want to strengthen the Green Box provision dealing with direct payments (including structural adjustment, environment and regional assistance) while capping overall spending on direct payments under the Green Box. As well, they hope to subject certain support sub-categories in the Box to reduction commitments. The Cairns Group paper further proposes to strengthen transparency, notification and review mechanisms to ensure programs meet the criteria set out in the Green Box. In terms of S&D, Cairns offers to retain access to the S&D Box for developing countries as well as to grant the current domestic support flexibilities to least-developed countries (LDCs).

In terms of detail, the Cairns Group *inter alia* demands that payments under environmental programs should be less than the extra costs involved in complying. A controversial point could be that the EU's environmental programs offer income foregone, additional costs as well as the financial incentive necessary to encourage farmers to make agri-environmental undertakings. The new suggestion brought forward by Cairns could thus be seen as an indicator that the Group is considering current practice, like by the EU, as too generous regarding the amount of the overall compensation. Moreover, by calling for payments not to be "related or based on the volume of production," the new Cairns Group proposal seems to target agri-environmental practices where farmers are required to grow and harvest certain crops to be eligible for the payment.

Looking at the issues from a developing country perspective, it seems likely that developing countries would be granted special and differential treatment. Here the rather weak Cairns Group S&D offer should not be used as the main indicator as it can be expected that the Like-Minded Group, the African Group, developing country Friends of Multifunctionality as well as Members in transition and newly acceded Members will be able to push the negotiations more towards an outcome that would take better account of the needs and priorities of disadvantaged countries.

In summary, it appears that after the conclusion of the Doha Round and during its implementation, developing countries will be provided with at least the same degree of flexibility to use the Green Box as they currently enjoy. In fact, it seems likely that disadvantaged WTO Members will gain further policy spaces to pursue development objectives such as food security and rural development, either through an expanded Green Box or through other instruments.

Conclusion

In terms of strategies for negotiations, developing countries should consider which of the three outlined outcome scenarios they would prefer:

- Under scenario one, developing countries would be provided with certain flexibilities to pursue their typical development objectives such as food security and rural development, but no further flexibility to pursue agri-environmental objectives could be achieved here.
- Turning to scenario two, such outcome would give developing countries a great amount of policy space to pursue their particular development goals as well as to

address non-trade concerns such as the environment in general, even outside the Green Box.
- An outcome in terms of scenario three would grant special and differential treatment to developing countries, which takes into account their specific development constraints. On the other hand, they would be allowed to address some of their non-trade concerns through support which has only minimal effect on trade and production.

Therefore, the following negotiation positions could be recommended for developing countries pursuing agri-environmental and rural development objectives:

- Create, as part of S&D, a new tool in the AoA for developing countries to be able to effectively address their particular developmental concerns such as food security and rural development.
- Maintain, at least for developing countries, the applicability of the Green Box as it stands now to allow Members to address rural development and agri-environmental objectives through targeted, transparent and only minimally trade distorting measures. Here it would be desirable that detailed criteria be created determining when and to what extent a minimal link between support and production factors is tolerable.
- The *de minimis* threshold should be increased for developing countries.
- The peace clause should be renewed and modified for developing countries so as to exclude measures provided under the proposed Development Box as well as under the Green Box from actionability.

Addressing the options for domestic sustainable agriculture policies in developing countries, it is generally observed that the world's agriculture trade system is progressively moving towards an open-market system, a process which is desirable from both a trade as well as a sustainable development point of view. Transforming domestic support regimes towards decoupled and only minimally trade distorting support schemes will have mostly positive effects as it limits distortions, but still provides countries with flexibilities to pursue legitimate agri-environmental and rural development objectives. Nevertheless, while liberalizing national farming sectors it is further imperative that appropriate mechanisms are set up that provide competitively disadvantaged farmers with income and secure food conditions.

Against this background, there appear to be three possible options for developing countries to develop their domestic sustainable farming policies:

- Developing countries devote all their available capacities to safeguard their small and poor farmers from being sidelined by things like growing competition through efficient support measures. They use their flexibilities to provide production-linked support to the fullest extent as, on the one hand, such payments are easier to administer and as they help creating basic food security by increasing production of staple crops. Support to rural development in general and to the environment would rank lower. This option could be recommended for developing countries with small financial resources, with large shares in rural low income population, with highly insecure food conditions and only a few environmentally sensitive areas.

- Developing countries take a systemic and long-term approach on agri-environment and rural development by developing comprehensive national, regional and local programs which promote agricultural conservation and a viable farming sector in a comprehensive but production-decoupled manner. So developing countries could draw on the experiences made by developed countries when designing and implementing such policies. This approach should be taken by rather advanced developing countries with appropriate financial manoeuvrability.
- Combining the above approaches, the developing country would direct a sufficient share of its available funding to those targets where the country has identified the highest degree of developmental importance such as food security. To that end, the country makes full use of the flexibilities provided in the AoA. However, these measures are embedded in a broader rural development and agri-environmental strategy and are designed in way so that they can be transformed to policies eligible under the Green Box as well. Developing countries that are expecting high growth rates, that have large incidence of rural population and that contain large areas with high environmental importance, should consider this approach.

Introduction

Objective of the paper

Many developing countries are currently in the process of restructuring their economies towards a more market-oriented production. This process had been initiated *inter alia* by efforts under the auspices of the World Trade Organization (WTO) to progressively liberalize international markets. More than 100 developing countries are now Members of the WTO. Since its establishment in early 1995, it became evident that progressively subjecting national production to market forces can have both positive and negative effects on Members' economies, societies and environment. In the case of agriculture, especially developing countries—some of which have shares in rural population of sometimes more than 70 per cent—are facing problems to ensure that their people depending on rural employment are not sidelined by growing competition and that the environment is not disproportionately harmed by factors such as land abandonment or increasingly intensified farming practices.

Nevertheless, the WTO Agreement on Agriculture (AoA) provides Members—both developing and developed—with certain flexibilities to pursue sustainable development objectives like protecting the environment as well as preserving a viable rural farming sector. Mostly developed countries have gained some experience in developing such policies since they had to restructure their rural production sectors already with the beginning of industrialization. Especially, the four countries of the so called Quad—the European Union, the United States, Japan and Canada—are granting large sums to farmers to support their economic viability as well as to encourage environmentally sound farming practices. The EU, in particular, has developed a unique pillar of its common agricultural policy(CAP), which is exclusively designed to address rural development and agri-environmental objectives.

Therefore, it could be of interest for developing countries (and particularly for those who have just recently joined the WTO) to take a look at the programs used in the Quad which are conditional on, or specifically aimed at, natural resource conservation and preservation of a viable rural farming sector. Developing countries could use these practices as templates and starting points for developing their own national and regional agriculture-related environment and development policies. Focusing on the programs, which are in conformity with WTO rules, it would then be necessary to analyze whether developing countries are provided with the same or even a higher degree of flexibility under the AoA to implement such measures. Taking into account that WTO Members are in negotiations on further agriculture trade liberalization since early 2000 and that they agreed last November to conclude ambitious negotiations by the end of 2004,[1] it needs to be considered whether the relevant rules of the AoA as modified by the possible outcomes of the negotiations could potentially expand or restrict the application of currently used conservation and rural development measures. Departing from this factual background, an effort could finally be made to lay out possible options for developing countries in terms of developing domestic sustainable agriculture policies and with respect to supporting such policies in the ongoing WTO negotiations through adequate positions and strategies.

[1] WTO Members at the Fourth Ministerial Conference from November 9 to 14, 2001 in Doha, Qatar, launched a new comprehensive trade round including agriculture, which is scheduled to be concluded by January 1, 2005.

Structure

Aimed at pursuing the objectives outlined above, this paper is divided into three main sections:

Section 1 is aimed at surveying those existing agriculture-related conservation and rural development programs that are considered non or at most minimally trade distorting, non-discriminatory and otherwise consistent with current WTO rules.

Section 2 tries to illustrate the possible outcomes in the ongoing negotiations in the WTO on the Agreement on Agriculture (AoA) from a developing country viewpoint, related to the types of mechanisms surveyed above. As such, it will:

- Briefly introduce the relevant AoA rules with particular emphasis on flexibilities provided for developing countries.
- Set the context through compilation and explanation of relevant agriculture negotiation positions, groupings and dynamics, as well as an overview of the negotiation developments so far. Here the section devotes some time to discussion of a possible development box as well as a potential expansion of the principle of special and differential treatment (S&D).
- Aim at looking ahead to the possible outcomes of the negotiations under the Doha Round, while linking possible results with the agricultural mechanisms identified in the Section 1. Here the paper also makes an attempt to examine whether the application of some of those measures, which are now classified as at most minimally trade distorting, might be expanded or restricted through modified WTO agriculture rules.

The Conclusion of the paper will, based on Sections 1 and 2, lay out a number of possible options for developing countries in pursuing those objectives, both in terms of strategies and positions in the ongoing negotiations and in terms of domestic sustainable agriculture policies even in the absence of major changes to the multilateral rules. Here, as appropriate, links will be drawn between possible negotiation outcomes and the agricultural mechanisms identified in Section 1.

Methodology

Section 1 of this paper is aimed at looking at those agriculture-related conservation and rural development programs which are considered non or at most minimally trade distorting, non-discriminatory and otherwise consistent with WTO rules.

However, it is difficult to identify those programs in use that meet the requirement of consistency with WTO rules. This stems largely from the fact that the provisions of the WTO agreement dealing with such regimes—the WTO Agreement on Agriculture (AoA)—are designed in a manner that is more flexible than specific, so that it is not possible to make a comprehensive assessment on the basis of the relevant AoA provisions. What can be said is that Annex 2 of the AoA (the so-called Green Box) was developed by WTO Members during the Uruguay Round to capture those "domestic support measures" meeting the "fundamental requirement" that they have "no, or at most minimal, trade-distorting effects or effects on production." Such freely granted measures can be applied by all WTO Members without limits on overall spending. Thus is it appears reasonable to particularly focus on such Green Box measures. Measures falling under the so called Amber Box, however, can be excluded from the survey as this box is meant to comprise those support measures, which are clearly trade distortive (i.e. market price support) and which are therefore subject to reduction commitments. Also the special and differential treatment (S&D) Box can be neglected at this stage as it has clearly tradedistorting elements[2] and as it is—most importantly—only eligible for developing countries. Furthermore, as many Members regard the remaining type of support such as so called Blue Box measures (direct payments under production-limiting programs) as not being fully decoupled from production,[3] it seems appropriate to exclude such measures from the survey as well.

When trying to identify which measures used are in full compliance with Green Box provisions (and which would thus be at most minimally trade distortive), one quickly realizes that this is a challenging task. The problem is that the requirements set out in Annex 2 of the AoA (Green Box) are so broad that any determination of what is trade distortive, and what is not, would clearly belong in the realm of speculation. However, as Members are required to notify those new or modified measures, which they consider exempt from reduction commitments (i.e. those falling under the Green Box, Blue Box and S&D Box),[4] it is self-evident to take the Green Box notification practices of WTO Members as starting points. But it should be noted that there has been a lot of debate in the Committee on Agriculture (CoA) reviewing such notifications on whether certain measures notified as green could really be considered green or not. To give an example, the EU appears to notify spending on improvement of processing and marketing of agricultural products under the Green Box,[5] whereas Canada is putting the processing-based component of its AESA program[6] in the Amber Box.

Unfortunately, there is hardly any official documentation available on these internal discussions. The main reason for this is that there has yet been no dispute settlement ruling on such issue.[7] At first sight, and in the face of some heated debates on various notified support items[8] (which sometimes involved spending several billion USD), this lack of disputes may seem absurd.[9] The main answer for this curiosity is two-fold. First, some Members might refrain from challenging their trading partners' notification practices through the WTO Dispute Settlement Mechanism (DSM) as such action would very likely provoke the challenged party to look at the complainant's own Green Box measures with closer scrutiny. Second, the net effect of removing a successfully challenged Green Box measure from the Green to the Amber/Blue Box would have so far been zero. The Blue Box is eligible for all Members and can principally be used without limits on the amount of spending. As well, all relevant Members have been so much below their

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[2] The S&D Box is addressed in AoA Article 6.2. As measures falling under this support category would normally fall under the Amber Box (for input subsidies, see AoA Annex 3, para 13), it can be assumed that such measures cannot be regarded as only minimally trade distorting.

[3] See AoA Article 6.5 (the Blue Box). As some Members consider Blue Box support as trade distorting, they advocate for its elimination. Other Members such as the EU would like to keep it in place.

[4] AoA Article 18.3. Members are further requested to submit annual notifications on their expenditures in all domestic support categories.

[5] See Section 1.1.3.1.4.

[6] See section 1.2.2.7.

[7] The only WTO Dispute Settlement Body (DSB) going in this direction would be the panel report in Canada – Dairy (WT/DS103/RW2 and WT/DS113/RW2, 26 July 2002) which, however, addressed the question whether Canada has – through its commercial export milk (CEM) scheme – provided export subsidies in excess of its quantity commitment levels.

[8] A good example is the debate that took place on the U.S. notifying zero Blue Box expenditures for the year 1996 (see G/AG/N/USA/17), whereas it had previously notified US$6 billion under the Blue Box for 1995 (see G/AG/N/USA/10). In return, in its notification for 1996 it put some US$5 billion as "decoupled income support" in the Green Box, a sub-category of the Box where it had notified zero spending for 1995. Furthermore, the U.S. described the new Green Box measures as "payments made to producers and landowners based on acreage and production in a prior base period," a formulation quite close to the one contained in the Blue Box provisions.

[9] It should be noted that AoA Article 13 (the peace clause) would not prevent Members from challenging notified Green Box measures that they consider more than minimally trade distortive.

allowed ceiling for Amber Box support that they would have had enough space to capture additional expenditures taken away from the Green Box as well. All in all, challenging an illegal Green Box measure through the DSM would have been inefficient, as the succumbed complainant could have effectively maintained the support measure. Nevertheless, the further the progressive liberalization of agriculture markets proceeds,[10] and the more Members are obliged to bring down their trade-distorting support, the greater the possibility is that successfully removing a measure from the Green Box could really hit the challenged Member as it might not be able to simply reshuffle its outlays. As a result, a first dispute settlement ruling in this problem area might be in the foreseeable future.

Therefore, the survey in Section 1 of the paper will focus only on those measures which have been notified by Members under the Green Box. Proposals made by Members during the negotiations on a possible redesign of the Box will be addressed in Section 2 of the paper.

As far as conservation and rural development programmes in the European Union (EU) are concerned, it should be noted that the EU has developed—through the Agenda 2000 reform process—a new pillar of its Common Agricultural Policy (CAP), which is exclusively targeted at rural development policies (including agri-environmental). This so called "second pillar" of the CAP had been notified by the EU under AoA Annex 2 (Green Box).[11] Additionally, when looking at the EU's recent WTO notification on its domestic support expenditures,[12] it appears that all spending on rural development of the EU has been notified under the Green Box[13] as well.[14] Nevertheless, the EU Regulation setting up the EU's new rural development policy[15] is only an enabling act for EU Members States, which—for their part—need to develop their own national and regional rural development (RD) plans/programs based on the legal framework established at the EU level. However, none of these national/regional RD schemes based on Agenda 2000 have been notified to the WTO so far.[16] Therefore, for the time being, it seems appropriate to focus only on the legal framework on RD at the EU level. In addition, the paper will take four national/regional programs as examples of how EU Member States have been implementing the EU RD framework regulation.

It should be further noted that the EU has also modified its scheme of direct payments to farmers (mainly compensatory payments for income losses due to reductions in price support)[17] by linking these payments to meeting certain environmental requirements (cross-compliance).[18] This cross-compliance requirement certainly has some positive effects on the environment, but it does not really change the character of the direct payments, since cross-compliance is not a payment, only a condition. Furthermore, the EU's direct payment schemes are mainly notified under the Blue Box (not minimally tradedistorting), so that this paper will exclude the issue of cross-compliance from its survey.

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[10] As it is likely to happen through the Doha Round currently underway.
[11] G/AG/N/EEC/17.
[12] G/AG/N/EEC/38.
[13] Almost all payments under the different Green Box sub-categories are based on EU Council Regulation 1257/1999 implementing the CAP's rural development policy. Furthermore, under "(a) General Services, research (i)" the notification refers to Council Regulation 1260/99 that implements the Leader+ programme.
[14] The EU's Agriculture Directorate-General has further confirmed this presumption.
[15] Council Regulation (EC) No. 1257/1999.
[16] Firstly, they need to be notified to the European Commission, which reviews them comprehensively.
[17] These direct payments fall under the "first pillar" of the CAP (market regime).
[18] See Council Regulation (EC) No 1259/99, Article 3.

Section 1 will start with an examination of EU programs, taking into account that—out of the four Quad countries it is the EU, which is taking the most systemic approach to rural development and agri-environment.

The other Quad countries—the United States, Japan and Canada—have notified a wide range of conservation and rural development programs under the Green Box. Therefore, this survey will concentrate on those measures notified as green, which have clear links to conservation and rural development. In the case of the U.S., the paper will further introduce the relevant programs set up by the new U.S. Farm Bill (2002 Farm Security and Rural Investment Act). The paper addresses the three countries in sequence—Canada, U.S. and Japan—as this order best reflects the degree of engagement the individual countries have shown in agriculture-related conservation and rural development policies (according to the number of relevant programs exclusively notified under the Green Box).

In Section 2, the paper looks—from a developing country point of view—at the relevant legal provisions in the AoA relating to domestic support. It gives an overview of the process and the state of play of the relevant negotiations in the Committee on Agriculture (CoA) It also attempts to assess in what general direction the negotiations could go and whether the application of currently used conservation and rural development programs could be limited or restricted. Taking into account the very broad and still rather general discussion amongst Members on the points at issue, the paper will only attempt a very rough forecast and analysis of how the current situation could change from the perspective of developing countries. In this context it should be noted that the first clear and more detailed negotiating positions can only be expected to emerge in the forthcoming negotiations. Key discussions on domestic support and other related issues were scheduled to take place in September and November 2002.

The Conclusion makes an attempt to present some options for developing countries, both in terms of strategies and positions in the ongoing negotiations, and in terms of domestic sustainable agriculture policies even in the absence of major changes to the multilateral rules. Here, as appropriate, links will be drawn between possible negotiation outcomes and the agricultural mechanisms identified in the first part of the paper. Nevertheless, no in-depth analysis is anticipated on which programs used in developed countries could be adequate for developing countries.

ICTSD, Geneva, November 2002

Section 1: Sustainable agriculture practices in Quad countries

1.1 European Union (EU)

1.1.1 General

It is the Common Agricultural Policy (CAP), modified through the Agenda 2000 reform package, which provides the basic legislative framework for agricultural policy in the European Union (EU) for the period 2000–06. Agenda 2000 incorporated a number of new measures into the CAP, including the so called "second pillar" of the CAP, such as measures aimed at improving agri-environmental performance, promoting rural development and structural adjustment. These measures are co-financed by EU Member States. Other measures, such as marketing and promotion, research and extension and input subsidies are also either co-financed or entirely financed by EU Member States. A mid-term review of the Agenda 2000 CAP reform package is currently being undertaken by the European Commission (EC), which has recently submitted a comprehensive reform proposal to both the European Council and the Parliament.[19]

1.1.2 Rural development and conservation policies in the CAP

With the Agenda 2000 CAP reform package, a new rural development policy streamlines rural development measures. A feature of the new rural policy is that EU Member States are given more flexibility in designing their own programs, allowing them to be tailored to the specific conditions facing their rural areas.[20]

At the EU level, nearly 50 per cent of expenditure has been allocated to the four CAP "accompanying measures" including agri-environment, early retirement schemes, afforestation of agricultural land and support for less-favoured areas (LFAs). Agri-environmental measures are now a compulsory part of rural development programs and out of the 22 rural development measures for which EU support is offered, it has attracted the highest share of payments.[21]

The EU also provides finance for the new initiative for rural development, Leader+. This initiative aims to encourage and support a series of small-scale pilot approaches to integrated rural development at local level in selected rural areas, typically where there are between 10,000 and 100,000 inhabitants, throughout the EU. It also emphasizes co-operation and networking between rural areas.[22]

The total EU contribution for Leader+ over the 2000–06 period will be over EUR 2 billion, financed by the European Union agriculture budget under the European Agricultural Guidance and Guarantee Fund (EAGGF) Guidance Section. Some 73 programs have been submitted, of which nearly half have now been adopted by the European Commission.

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[19] EU document COM (2002) 394 final, July 10, 2002.
[20] OECD, Agricultural Policies in OECD Countries, Paris 2002, page 91.
[21] *Ibid*, page 92.
[22] See http://europa.eu.int/comm/agriculture/rur/leaderplus/index_en.htm.

1.1.3 The single rural development measures

The framework for Community support for sustainable rural development was set by Council Regulation (EC) No 1257/1999 on May 17, 1999 on support for rural development from the European Agricultural Guidance and Guarantee Fund (EAGGF). It accompanies and complements other instruments of the common agricultural policy and the Community's structural policy. Its objective is to introduce a sustainable and integrated rural development policy governed by a single legal instrument to ensure better coherence between rural development and the prices and market policy of the common agricultural policy (CAP), and to promote all aspects of rural development by encouraging the participation of local actors.[23] In this spirit, the new rural development policy under Agenda 2000, aims to:

- Improve agricultural holdings.
- Guarantee the safety and quality of foodstuffs.
- Ensure fair and stable incomes for farmers.
- Ensure that environmental issues are taken into account.
- Develop complementary and alternative activities that generate employment, with a view to slowing the depopulation of the countryside and strengthening the economic and social fabric of rural areas.
- Improve living and working conditions and promote equal opportunities.

The rural development measures eligible under Council Regulation 1257/1999 fall into two groups:

Firstly, the new accompanying measures of the 1992 McSharry reform such as early retirement, agri-environment and afforestation, as well as the less-favoured areas (LFA) scheme. Secondly, the measures to modernize and diversify agricultural holdings, which are farm investment, setting up young farmers, training, investment aid for processing and marketing facilities as well as additional assistance for forestry, promotion and conversion of agriculture.

1.1.3.1 Measures linked to environmental conservation

1.1.3.1.1 Agri-environment

Support can be granted to farmers who, for at least five years, use agricultural production methods designed to protect the environment and maintain the countryside (agri-environment) in order to promote farming methods which are compatible with the protection of the environment, environmental planning in farming practice, extensification, the conservation of farmed environments of high natural value and the upkeep of the landscape.

This aid is calculated on the basis of *income forgone*, *additional costs* and the *financial incentive* needed to encourage farmers to make agri-environmental undertakings. However, such aid may not exceed EUR 600 for annual crops and EUR 900 for specialized perennial crops. Aid for all other land uses may not exceed EUR 450 per hectare per year.

In its recent notification,[24] the EU has notified spending on agri-environment under Annex 2 (Green Box) of the Agriculture Agreement para 12 (environmental programs).

[23] EU DG Agriculture, at http://europa.eu.int/sca/leg/en/lvb/l60006.htm.
[24] G/AG/N/EEC/38.

1.1.3.1.2 Less-favoured areas (LFAs) and areas subject to environmental constraints

Farmers in less-favoured areas (LFAs), like mountain areas, areas affected by specific handicaps and other areas to be treated in the same way as LFAs, may be supported by compensatory allowances to ensure continued and sustainable agricultural land use, preservation of the countryside and the fulfilment of environmental requirements.

To that end, farmers undertake to pursue their farming activity for at least five years, applying usual good farming practice meeting the requirements of the protection of the environment, maintenance of the countryside and sustainable farming. Therefore, no aid will be paid where residues of prohibited substances or substances authorized but used illegally are found on a holding.

The size of the *compensatory allowances* must *effectively compensate* for handicaps, but *without leading to overcompensation*. They, therefore, range between EUR 25 and 200 per hectare, taking account of relevant regional development objectives, natural handicaps, environmental problems and type of holding.

Farmers in areas subject to environmental constraints may also receive support of up to EUR 200 per hectare to cover the additional costs and losses of income resulting from implementation of Community environmental rules.

EU expenditure on LFA programs is currently notified under para 13 (regional assistance programmes)[25] and para 12 (environmental programs) of the Green Box.[26]

1.1.3.1.3 Investments in agricultural holdings

Support for investments in agricultural holdings is granted to *improve agricultural incomes and living, working and production conditions*. Such investments must pursue certain objectives: reducing production costs, improving or diversifying productive activities (except those for which there are no market outlets), promoting product quality, the natural environment, health and hygiene conditions or animal welfare.

Only economically viable farms, which comply with minimum environmental, hygienic and animal welfare standards, and where the farmer possesses adequate competence, are eligible.

Although the total amount of aid granted may not exceed 40 per cent of the investment, the ceiling is set at 50 per cent in LFAs. These ceilings may be increased to 45 per cent and 55 per cent respectively.

The EU has currently notified spending on investment in agricultural holdings under para 11 (structural adjustment through investment aids).[27]

1.1.3.1.4 Improving processing and marketing of agricultural products

Firms which are economically viable and comply with minimum environmental, hygienic and animal welfare standards may receive support for investments to *improve the processing and*

[25] *Ibid.*
[26] See G/AG/N/EEC/17.
[27] See G/AG/N/EEC/17 and N/EEC/38.

marketing of agricultural products. The objective of this measure is to increase the competitiveness and added value of agricultural products by rationalizing processing procedures and marketing channels, applying new technologies, monitoring quality and health conditions, encouraging innovation and protecting the environment. No support is available for investments at the retail level or investments in the processing or marketing of products from third countries.

Community support may cover up to 50 per cent of eligible investments. It must in all cases contribute to improving the situation of the basic agricultural sector.

It appears that expenditures under this category have been notified under Green Box para 2 (f) (marketing and promotion services).[28]

1.1.3.1.5 Forestry

Support may be granted to private forest owners or municipalities for the management and sustainable development of forestry, the preservation of resources and the extension of woodland areas, so as to maintain the economic, ecological and social functions of woodland in rural areas.

Such aid is aimed at:

- *improving non-farm land* through measures including afforestation, investments to enhance the value of forests and improve the harvesting, processing and marketing of forestry products, and opening up new outlets for forestry products;
- *afforestation of farm land* through covering the costs of planting and maintenance and to compensate farmers for income forgone (aid may amount to between EUR 725 and 185 per hectare per year depending on the farmer's characteristics); and
- *preserving woodlands*, where their protective and ecological role is in the general interest and where the cost of preventive measures exceeds the income from silviculture and maintaining fire breaks (support for these measures can vary between EUR 40 and 120 per hectare per year).

Aid for forestry measures is currently notified under Green Box para 12 (environmental programs).[29]

1.1.3.2 Other rural development measures

1.1.3.2.1 Early retirement

Support may be granted to farmers over 55 years of age but not yet of retirement age, who *decide to stop all commercial farming activity definitively* after having farmed for at least 10 years before stopping. Support is also available to farm workers (family helpers or paid farm workers) of the same age, belonging to a social security scheme, who have devoted at least half of their working time to farm work during the five years before stopping.

The goal is to ensure that older farmers have enough income and can be replaced (provided the holding is profitable) or their land reassigned to non-agricultural uses (i.e., forestry, the creation of ecological reserves, etc.). Farmers who retire early in this way can receive up to EUR 15,000

[28] See G/AG/N/EEC/38.
[29] *Ibid.*

per year (maximum EUR 150,000 in total) up to the age of 75. If they already receive a retirement pension from a EU Member State, the support becomes a pension top-up. Farm workers can receive up to EUR 3,500 per year (maximum EUR 35,000 in total) up to normal retirement age.

If the retiring farmer is replaced, the farmer taking over the holding must take over all or part of the land released, possess adequate competence and continue to improve the viability of the holding for at least five years.

In its recent notification, the EU notified spending on early retirement schemes under Green Box para 9 (structural adjustment assistance through producer retirement programs).[30]

1.1.3.2.2 Setting-up of young farmers

The aid for young farmers targets heads of holdings who are under 40 years of age, possess adequate competence and are setting up in farming for the first time. Their holdings must be viable and comply with minimum standards regarding the environment, hygiene and animal welfare.

The aid consists either of a single premium of up to EUR 25,000 or an interest subsidy on loans taken on with a view to covering the costs of setting up.

EU aid for young farmers has been notified under para 11 structural adjustment through investment aids[31] and apparently—to the extent it is linked to compliance with environmental standards—also under para 12 (environmental programs).[32]

1.1.3.2.3 Vocational training

Support for vocational training is intended to improve the occupational skill and competence of persons involved in agricultural and forestry activities, to help them redeploy production, apply production practices compatible with the protection of the environment, maintenance of the landscape, hygiene and animal welfare, and manage their holdings better.

Spending under this category seems to be notified under para 2(c)[33] and/or para 2 in general (general services).[34]

1.1.3.2.4 Facilitating the development and structural adjustment of rural areas

Community support may also be granted to *activities not covered by the above measures*, but which contribute to converting and improving farming activities. Such activities include land reparcelling, development of key services in rural areas, renovation of villages and protection of heritage, promotion of tourism and craft activities, etc.[35]

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30 *Ibid.*
31 *Ibid.*
32 See G/AG/N/EEC/17.
33 Annex 2 paragraph 2(c) covers "general services: training services, both general and special training facilities."
34 See G/AG/N/EEC/38 where the EU also put certain measures under "other farm services (iii)." There is no corresponding sub-paragraph in para 2 of Annex 2, but its chapeau provides that eligible programs under para 2 "are not restricted" to the listed categories.
35 Spending under this category cannot be clearly allocated to the paragraphs/sub-paragraphs of Annex 2; but is seems that the named services could fall under Green Box paras 11 and 13.

1.1.3.3 The LEADER+ initiative[36]

Article 20(1)(c) of Council Regulation (EC) No 1260/1999 of June 21, 1999 lays down general provisions on the Structural Funds establishing a Community Initiative for rural development, called Leader+.

The aim of Leader+ is to encourage and help rural actors to think about the long-term potential of their area. It seeks to encourage the implementation of integrated, high quality, original strategies for sustainable development designed to encourage experimenting with new ways of enhancing the natural and cultural heritage, reinforcing the economic environment in order to contribute to job creation and improving their community's organizational abilities.

As a result, Leader+ functions as a laboratory which aims to encourage the emergence and testing of new approaches to integrated and sustainable development that will influence, complete and/or reinforce rural development policy in the EU.

Leader+ is currently notified under Green Box para 2(a) (general services: research).[37]

1.1.4 Some selected programs implemented by EU member states[38]

Council Regulation (EC) No 1257/1999 is only an enabling act, so farmer's do not carry out activities solely on the basis of its text, and there are no programs operated by the European Commission. All rural development programs are developed by national or regional authorities and checked by the Commission for conformity with legislation in force.

1.1.4.1 Programme for Revitalizing Rural Areas (CLÁR) (Ireland)[39]

As a lot of rural decline problems arise from the vicious circle that pertains to providing services in areas where the population is decreasing, CLÁR—a targeted investment program in rural areas—was launched in October 2001 to reverse this trend and to ensure priority development in these areas of greater need.

The 16 regions selected for inclusion in the program are mainly those that have suffered the greatest population decline since 1926. Each area needs to have a minimum population of 4,000 people and a maximum population of less than 30,000 people. The average population loss in all these regions is 51 per cent and the total population that will benefit from the program is 284,000.

CLÁR is operating through two basic instruments:

- Reprioritizing of investments under the National Development Plan (including physical infrastructure, social infrastructure and community infrastructure) to ensure that these areas get priority of investments under the plan and
- A EUR 25.4 million dedicated fund over two years (2002–2003) to provide matching funding to government departments and other state agencies for special projects, including some not included in the NDP that are urgently needed for rural

[36] Notified under Green Box para 2(a) (general services: research), see G/AG/N/EEC/38.
[37] See G/AG/N/EEC/38; Council Regulation 1260/99 is establishing the LEADER + program.
38 For an overview on all national/regional programs, see http://europa.eu.int/comm/agriculture/rur/countries/index_en.htm and http://europa.eu.int/comm/agriculture/envir/programs/evalrep/text_en.pdf.
39 See http://www.gov.ie/daff/AreasofI/Clár_Programme/Intro.htm.

development. The bulk of this money will be spent on public and community projects like broadband, roads, physical infrastructure, social infrastructure, community infrastructure and infrastructure for the provision of facilities for the very young.

Priority will be given to co-funded projects to be undertaken by other state agencies and in the case of community development also by the local community. Particular consideration will be given to projects that provide basic social infrastructure such as childcare, care of the elderly and other social services for the vulnerable groups.

Special consideration will also be given to economic infrastructure, such as enterprise centres, small broadband projects and other basic infrastructure, which would have a clear benefit in terms of employment creation, thus providing opportunities to local people who otherwise would have limited employment expectations.

1.1.4.2 Agricultural water resource management (Germany)

(As provided in Rural Development Support Program for North Rhine-Westphalia)[40]

From an ecological perspective, irrigation is to be considered environmentally harmful as it leads to high energy and water consumption and—potentially—to nitrate leachate in the groundwater. Therefore, this support program is aimed at reducing water consumption by 10 to 30 per cent through the application of new technologies and processes.

Priority is given to:

- Technical improvement of irrigation systems through irrigation technology that is environmentally friendly and saves both energy and water. Measures include up grading (35 per cent support, max. EUR 5,250) and converting (20 per cent support, to a maximum of EUR 12,000) of older systems as well as the procurement of new and environmentally friendly facilities (20 per cent support, to a maximum of EUR 12,000).
- Improving irrigation management through practical methods for determining the optimal date/demand for irrigation (like using computer-based models) and through modern methods and processes to determine soil humidity (35 per cent support, to a maximum of EUR 2,625).

Support can be granted to agricultural, horticultural producers and corporations, associations and co-operatives.

General eligibility criteria include:

- For businesses/parts of businesses, only if income is deriving from agriculture and forestry
- For co-operatives, only if designed for at least six years and
- Proof of husbandry for the last three years.

[40] See http://www.munlv.nrw.de/sites/arbeitsbereiche/landwirtschaft/laendl.htm.

1.1.4.3 Energy crops scheme (Great Britain)[41]

(Under the England Rural Development Programme, ERDP)

Energy crops are carbon neutral over their life cycle[42] and therefore, in substitution for fossil fuels, have the potential to reduce carbon dioxide. They are a renewable source of energy that offers a new opportunity for rural areas. The Energy Crops Scheme (ECS) makes £29 million available for the establishment of energy crops. The scheme has two elements:

- The ECS provides establishment grants for Short Rotation Coppice (SRC) energy crops (either willow or poplar) and miscanthus[43] and
- Aid is offered to help short rotation coppice growers establish producer groups.

Under the scheme, farmers can receive:

- £1,600 or £1,000 per hectare for establishing SRC, depending on land type.
- £920 per hectare for establishing miscanthus.
- Up to 50 per cent of setup costs for SRC growers forming producer groups.

To be eligible, farmers must grow at least three hectares of energy crops and have an agreement to supply the harvested crop to an energy producer located within a reasonable radius of the growing land. Crops can be grown for power generation, combined heat and power or heat-only uses. Applications are subject to environmental checks to ensure the environmental impacts are minimized.

1.1.4.4 Less-Favoured Area (LFA) measure (Spain)[44]

In Spain, the less-favoured areas take up 80 per cent of the land on which 38 per cent of the population live.

Beneficiaries of the LFA measure

The beneficiary must meet the following conditions:

- Farming as the main source of income or holding a priority holding either individually or as a member of an agricultural holding constituted as a co-operative or as an agricultural processing company.
- Residing in the district in which the holding is located or in one of the bordering districts included in the LFA.
- Undertaking to maintain agricultural activity for five years at least after the date the allowance is paid, except in the event of force majeure.
- Undertaking to farm in a sustainable manner by using farming practices suited to local characteristics.

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[41] See also http://www.defra.gov.uk/erdp/pdfs/promo/ecspromo.pdf.
[42] Disregarding the energy necessary to grow, harvest and process them.
[43] Miscanthus – a giant grass originating in Asia – is non-food crop yielding high quality lignocellulosic material which can be used in a number of ways, including energy and fibre production, thatching and industrial use.
[44] See internal document of the EU STAR (Agricultural Structures and Rural Development) Committee.

Holdings shall meet the following conditions:

- Be entirely or partly located in a LFA;
- Have a maximum livestock load of one livestock unit (LU) per hectare of forage area. If the average rainfall exceeds 800 mm per year, is shall not exceed two LU per hectare;
- Have an area of agricultural land over two hectares, except for the Canary Islands, for which it will be one hectare maximum; and
- Be registered in the Agricultural Holdings Register of the Autonomous Communities.

Less-favoured areas

The program includes a list of clearly described LFAs. They are divided into:

- Mountain areas (covering 42 per cent of national territory);
- Depressed areas (36 per cent of national territory); and
- Areas with specific handicaps (one per cent of national territory).

Amount of aid

Basic Module:

- Mountain areas: EUR 75 per hectare;
- Depressed areas: EUR 45 per hectare;
- Areas with specific handicaps: EUR 120 per hectare;
- The minimum sum received is EUR 300; and
- The maximum amount per hectare is EUR 200.

1.1.5 New accompanying measures under the European Commission's CAP mid-term review proposal

In the course of the mid-term review of the Agenda 2000 currently underway, the European Commission (EC) has tabled communication proposing to consolidate and strengthen the EU's rural development focus by increasing the scope of the accompanying measures and widening and clarifying the scope and level of certain measures.[45]

The European Commission proposes to extend the scope of the accompanying measures to better address concerns about food safety and quality, to help farmers to adapt to the introduction of demanding standards, and to promote animal welfare.

Firstly, the EC suggests adding a new food quality chapter into the rural development regulation.[46] It will provide support to:

- Encourage farmers to participate in quality assurance and certification schemes recognized by the Member State or the EU including geographical indications and designation of origin and organic farming. Incentives will be offered under this indent to farmers who, on a voluntary basis, produce according to the requirements of such schemes. The schemes concerned must be open to all producers who respect the conditions specified. Aid will be paid on a flat rate basis per holding for a period of maximum 5 years.

[45] See EU document COM(2002) 395 final.
[46] Council Regulation (EC) No 1257/1999 of 17 May 1999.

- Producer groups for the promotion activities of agricultural products designated under quality assurance and certification schemes recognized by the Member State or the EU including geographical indications and designation of origin and organic farming.

Secondly, the EC proposes the introduction of a chapter meeting standards to help farmers to adapt to demanding standards based on EU legislation in the field of the environment, food safety and animal welfare as well as implementing farm audits. This will include:

- The possibility to pay temporary and degressive aid to farmers to help them implement demanding standards based on EU legislation in the fields of environment, food safety, animal welfare and occupational safety standards and which will become part of good farming practice or required minimum standards. Introduction and respect of such standards can entail additional costs and obligations for farmers and initially lead to loss of income. The aim of the measure would be to encourage a more rapid and widespread adoption of such standards. Aid would be payable in the form of a degressive annual compensatory payment for a period of maximum of five years, up to a maximum of EUR 200 per hectare in the first year.
- Support for farm audits. Farmers would receive flat-rate aid to help them meet the costs of such audits, which would identify and propose improvements in current performance with regard to statutory environmental, food safety, animal health and welfare and occupational safety standards.

Thirdly, the Commission proposes to introduce into the agri-environment chapter the possibility of offering animal welfare payments for efforts that go beyond a mandatory reference level in line with agri-environment schemes. In addition, it is proposed to increase the fixed co-financing rate for these measures by a further 10 points. These changes should be accompanied by actions to increase public awareness and promotion of agri-environmental schemes.

1.2 Canada

1.2.1 General

National and regional adaptation programs under the Canadian Adaptation and Rural Development (CARD) program provide assistance to the sector in the area of research, innovation, capturing market opportunities, environmental sustainability, food safety and quality, human resource capacity building and rural development. In 2001, the federal, provincial and territorial ministers of agriculture agreed on an action plan to develop a new agricultural policy framework (APF).[47] The priorities set out are food safety and quality, environment, science and research, sector renewal and skills development, and risk management.[48]

Various initiatives are being implemented under the CARD program.[49] $10 million Cdn will be invested over the next three years in the Agricultural Environmental Stewardship Initiative (AESI) to help the agricultural and agri-food sector to continue work on a number of priority

[47] See http://www.agr.gc.ca/cb/apf/agreement_e.html.
[48] OECD, Agricultural Policies in OECD Countries, Paris 2002, page 81.
[49] Note that Canada has notified in its recent DS:1 notification (G/AG/N/CAN/43) a sum of $33.9 million Cdn of grants and contributions under CARD as “non-Product Specific AMS” (Amber Box).

environmental issues, including soil health, wildlife habitat, biodiversity, greenhouse gas emissions and water quality.

The Canadian Rural Partnership (CRP) initiative, a cross-sectoral initiative supporting community development in rural and remote Canada, is now in the last year of its implementation and work is underway to determine the need for, and shape of, a follow-up initiative.[50]

1.2.2 Conservation and rural development measures notified under the Green Box

1.2.2.1 Grow Ontario Investment Program

The purpose of the Grow Ontario Investment Program is to *provide grants for approved research, marketing and competitiveness projects related to agriculture, food and broader rural economic sectors* in order to encourage private sector investment in those projects. This program aims at leading to a competitive agri-food industry and a more diversified rural sector by attracting and maintaining investment in the production, food processing and value-added industries, encouraging the formation of strategic alliances between industry players and improving access and utilization of new technologies in rural communities.

Farm and food sector groups, rural business groups and organizations representing the broader rural sector are eligible to submit applications for grants. Grants are allowed for up to 70 per cent of the eligible cost of projects having a total cost under $50,000 Cdn. For programs with a total cost of over $50,000 Cdn, grants are allowed for up to 50 per cent of the eligible costs. Grants are not ordinarily approved for projects having a total cost of $500,000 Cdn or more.

The program has been notified under AoA Annex 2 (Green Box) para 2 (general services).[51]

1.2.2.2 Surplus Water Irrigation Initiative

The purpose of the Surplus Water Irrigation Initiative is to provide financial assistance to irrigation associations and other organizations to *plan and develop environmentally sustainable irrigation projects* in the province of Manitoba.

The program provides funds for projects involving infrastructure support, area management, applied research, demonstration and technology transfer, environmental monitoring, public awareness, education, and communication. It does not involve direct payments to producers or processors. It does not provide assistance for the irrigation of land on producer farms.

The program has been notified under Green Box para 2 (general services).[52]

1.2.2.3 Soil Conservation Program

The Soil Conservation Program is a two-year program designed to assist producers in *reducing soil degradation due to erosion*, while achieving compliance with any new or existing environmental protection legislation. The program provides financial incentives to assist farmers

[50] OECD, Agricultural Policies in OECD Countries, Paris 2002, page 82.
[51] See Canada's notification to WTO, G/AG/N/CAN/29.
[52] See notification G/AG/N/CAN/29.

in adopting practices that improve agricultural production while contributing to the protection of wetlands and water courses.

Overall, a total of $70,000 Cdn is available as an incentive to land owners so they may construct erosion control structures and convert cultivation practices to strip cropping on appropriate agricultural lands.

The Soil Conservation Program provides assistance of up to 25 per cent of the cost of the measure or $20 Cdn per acre to convert to strip cropping. The maximum assistance available is $7,500 Cdn per farm. Eligible projects include installation of grassed waterways, shelterbelts, terraces and hedgerows. Shelterbelts and hedgerows qualify for assistance at the rate of $.40 Cdn per tree to a maximum of $1,500 Cdn per farm.

The program has been notified under Green Box para 12 (environmental programs).[53]

1.2.2.4 Agriculture and Environmental Resource Conservation Program (AERC)

The Agriculture and Environmental Resource Conservation Program (AERC) is a three-year program designed to assist producers to *achieve compliance with new or existing environmental protection legislation*. The program will provide financial and technical assistance for a wide range of on-farm conservation projects.

Assistance provided is in the form of an incentive that partially *offsets the cost of implementing sustainable practices* identified in the Environmental Farm Plan. Priority compliance issues are measures to prevent manure from leaching into groundwater or entering a watercourse and measures to prevent discharge of eroded soil into a watercourse. The maximum assistance is up to $30,000 Cdn in any year per applicant. Eligibility is based on completion of an Environmental Farm Plan, including an action plan. Payment is made after inspection of the implementation of the measure.

The program has been notified under AoA Annex 2 (Green Box) para 12 (environmental programs).[54]

1.2.2.5 Farm Environmental Stewardship Program (New Brunswick)

This program is to assist farmers in the adoption of technology and management practices to minimize the impact of agricultural practices and activities on the environment. There are two components to the program: Watercourse Protection and Chemical Management.

Objectives and activities under the Watercourse Protection component include:

- the construction of appropriate fencing along watercourse buffer zones to control livestock and maintain watercourse buffer zones to improve water quality;
- to prevent degradation of water quality by protecting watercourses from livestock and/or machinery by establishing a water source for livestock away from the watercourse or constructing suitable watercourse crossings for livestock and/or machinery (excluding a farm bridge); and

[53] See notification G/AG/N/CAN/38.
[54] See Canada's notification to WTO, G/AG/N/CAN/38.

- improve water quality by reducing nutrient and sediment losses by stabilizing stream banks along environmentally sensitive watercourses through the establishment of appropriate riparian buffer strips and construction of complementary river bank protective systems as required to protect watercourses and prime agricultural land from bank erosion.

Objectives and activities under the Chemical Management component include:

- assistance for necessary equipment to mix and prepare chemicals for crop application at the field site rather than at the water source site to eliminate the potential pollution of water sources during mixing of chemicals; and
- assistance for storage facilities specifically designed for the safe storage of hazardous materials to minimize possible health and environment hazards.

The program is available to producers or groups of producers. All projects must meet all environmental laws and regulations and require prior approval by New Brunswick regulatory bodies before financial assistance is approved. Financial assistance is 50 per cent of the approved project costs up to a maximum of $8,000 Cdn per year.

The program had been notified under the Green Box para 12 (environmental programs).[55]

1.2.2.6 Agri-Food Research and Development Initiative (ARDI) (Manitoba)

The Agri-Food Research and Development Initiative (ARDI) provides contributions to *fund agricultural research and development projects related to value-added processing*, diversification, new technologies and market opportunities in Manitoba. Activities undertaken may include general and specific research projects, marketing and promotion projects, extension and advisory, and training. Eligible program areas include commodities that are well established and present additional growth or development, new or alternative commodities that present opportunities for development, innovative development of machinery or equipment for production or processing enhancement, biotechnology and sustainability of the resource base and the environment. The Manitoba Association of Agricultural Societies administers ARDI.

The program has been notified under Green Box para 2 (general services).[56]

1.2.2.7 Alberta Environmentally Sustainable Agriculture

The objective of the Alberta Environmentally Sustainable Agriculture (AESA) program is to *enhance adoption of environmentally sustainable practices* by the agriculture and processing sectors. It addresses a broad range of environmental issues including soil, water and air quality and biodiversity.

The AESA program provides funding and technical assistance to transfer new technology and information to farmers, ranchers and processors, to conduct research to enhance the adoption of environmentally sustainable practices and to monitor the impact of the agri-food industry on soil and water quality.

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[55] See notification G/AG/N/CAN/44.
[56] See notification G/AG/N/CAN/44.

There are four components:

- The Farm Based component provides financial, professional and technical assistance to support integrated municipal environment planning, technology transfer and integrated farm resource management. Eligible projects include those that promote the reduction of the impacts of agricultural production on soil, water, biodiversity and air resources, and increase efficiency of the use of energy and other inputs. Funds are provided on a cost shared basis to a maximum of 75 per cent of total costs.
- The Resource Monitoring component monitors change on the quality of soil and water resources as affected by the agri-food industry. Monitoring is required to increase knowledge of the impact of industry practices on the environment and to monitor progress in reducing these effects (Annex 2 paragraph 2(d)).[57]
- The Research component supports applied research to develop better management practices and technologies for the crops, livestock and agricultural processing. Emphasis is placed on multi-disciplinary, integrated research studies to reduce the effects of agricultural production and processing systems on soil, water, air and biodiversity resources and to reduce waste.
- The Processing Based component provides assistance for education and training initiatives, industry development projects including feasibility studies, environmental impact assessments, engineering consulting, waste management assessment services, packing development advice and technology transfer.

The Farm Based, Resource Monitoring and Research components have been notified under Green Box para 2 (general services), whereas the Processing Based component has been included as non-product specific support in the Aggregate Measurement of Support (AMS) (Amber Box) as it involves direct payments to processors.[58]

1.3 United States (U.S.)

1.3.1 General

The Federal Agriculture Improvement and Reform Act of 1996 (1996 FAIR Act), which has recently been replaced by the 2002 Farm Security and Rural Investment Act, provided the basic legislation governing farm policy for the 1996–2002 period. The FAIR Act attached high importance to environmental programs in agricultural policy, focusing on measures to convert highly erodible cropland to approved conservation uses (including long-term retirement), to reconvert farmland back into wetlands and to encourage crop and livestock producers to adopt practices that reduce environmental problems, on a cost-sharing basis. Furthermore, research and advice have been increasingly focusing on promoting sustainable farming practices.[59]

As far as spending on rural development is concerned (some US$2.7 billion), the U.S. further supports rural utilities, housing and businesses through emergency supplemental funding for areas recovering from natural disaster in the form of housing programs, community facilities grants, and water and waste grants and loans. Under the Fund for Rural America, the U.S.

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57 This sub-paragraph includes "extension and advisory services, including the provision of means to facilitate the transfer of information and the results of research to producers and consumers."
58 See Canada's notification, G/AG/N/CAN/44.
59 OECD, Agricultural Policies in OECD Countries, Paris 2002, page 146.

provides loans and grants to expand research, education and development efforts in rural communities. In addition, grants have been available to develop essential community facilities in rural areas experiencing severe unemployment and economic depression.[60]

1.3.2 Programs notified under the Green Box

1.3.2.1 The Wetlands Reserve Program (WRP)

The Wetlands Reserve Program (WRP) is a voluntary program that provides *technical and financial assistance to eligible landowners to restore, enhance, and protect wetlands*. Landowners have the option of enrolling eligible lands through permanent easements, 30-year easements or restoration cost share agreements. The program is offered on a continuous sign-up basis and is available nationwide. This program offers landowners an opportunity to establish, at minimal cost, long-term conservation and wildlife habitat enhancement practices and protection.[61]

The WRP has been re-authorized in the Farm Security and Rural Investment Act of 2002 (Farm Bill).

WRP participants receive financial and technical assistance in return for restoring and protecting wetland functions and values. Additionally, they see a reduction in problems associated with farming potentially difficult areas and they get incentives to develop wildlife recreational opportunities on their land.

The WRP has so far been notified under AoA Annex 2 (Green Box) para 12 (environmental programs).[62]

1.3.2.2 The Environmental Quality Incentives Program (EQIP)[63]

The Environmental Quality Incentives Program (EQIP) is a voluntary conservation program that *promotes agricultural production and environmental quality as compatible national goals*. Through EQIP, farmers and ranchers may receive financial and technical help to install or implement structural and management conservation practices on eligible agricultural land.

EQIP was re-authorized in the Farm Security and Rural Investment Act of 2002 (Farm Bill).

EQIP activities are carried out according to a plan of operations developed in conjunction with the producer. Contracts for confined livestock feeding operations require development and implementation of a comprehensive nutrient management plan (CNMP). This plan is approved by the local conservation district. Practices are subject to NRCS technical standards adapted for local conditions. Farmers and ranchers may elect to use an approved third-party provider for technical assistance.

EQIP may pay up to 75 per cent of the costs of certain conservation practices important to improving and maintaining the health of natural resources in the area. Incentive payments may be made to encourage a producer to adopt land management practices, such as nutrient management, manure management, integrated pest management, irrigation water management

[60] *Ibid*, page 150.
[61] See WRP Program Manual at http://www.nrcs.usda.gov/programs/farmbill/2002/pdf/WRPPrDes.pdf.
[62] See U.S. notification G/AG/N/USA/28.
[63] See EQIP Fact Sheet at http://www.nrcs.usda.gov/programs/farmbill/2002/pdf/EQIPFct.pdf.

and wildlife habitat management, or to develop a CNMP and components of a CNMP. Limited resource farmers and beginning farmers may be eligible for up to 90 per cent of the cost of conservation practices.

The EQIP has so far been notified under the environmental programs category of the Green Box.[64]

1.3.2.3 The Wildlife Habitat Incentives Program (WHIP)[65]

The Wildlife Habitat Incentives Program (WHIP) is a voluntary program that *encourages creation of high quality wildlife habitats that support wildlife populations of National, State, Tribal and local significance*. Through WHIP, the Natural Resources Conservation Service (NRCS) provides technical and financial assistance to landowners and others to develop upland, wetland, riparian and aquatic habitat areas on their property.

WHIP has been re-authorized in the Farm Security and Rural Investment Act of 2002 (Farm Bill). Through WHIP, NRCS works with private landowners and operators, conservation districts as well as Federal, State and Tribal agencies to develop wildlife habitat on their property. Funding for WHIP comes from the Commodity Credit Corporation.

Since WHIP began in 1998, nearly 11,000 participants have enrolled more than 1.6 million acres into the program. Most efforts have concentrated on improving upland wildlife habitat, such as native prairie, but there is an increasing emphasis on improving riparian and aquatic areas. The 2002 Farm Bill greatly expands the available tools for improving wildlife habitat conditions across the nation.

The WHIP has so far been notified under the Green Box para 12 (environmental programs).[66]

1.3.3 New Programs under the Farm Security and Rural Investment Act of 2002 (Farm Bill)

In general, the new U.S. farm legislation emphasizes conservation on working land by increasing funding for the Environmental Quality Incentives Program and establishing a new Conservation Security Program (CSP), which pays producers to adopt or maintain practices that address resources of concern. Land retirement programs are expanded, placing particular emphasis on wetlands. Funding is expanded for farmland protection. A new Grassland Reserve Program is created to assist landowners in restoring and conserving grassland. A new provision aims at ensuring regional equity in conservation funding.[67]

1.3.3.1 Conservation Security Program (CSP)

This newly created program will provide payments to producers for maintaining or adopting structural and/or land management practices that address a wide range of local and/or national resource concerns. As with EQIP, a wide range of practices can be subsidized. But CSP will focus on land-based practices and specifically excludes livestock waste handling facilities. Producers can

[64] See U.S. notification G/AG/N/USA/28.
[65] See WHIP Fact Sheet at http://www.nrcs.usda.gov/programs/farmbill/2002/pdf/WHIPFct.pdf.
[66] See U.S. notification G/AG/N/USA/37.
[67] See http://www.ers.usda.gov/Features/farmbill/analysis/conservationoverview.htm.

participate at one of three tiers, but higher tiers require greater conservation effort and offer higher payments. The lowest cost practices that meet conservation standards must be used.

1.3.3.2 Grassland Reserve Program (GRP)

This newly established program will assist owners, through long-term contracts or easements, in restoring grassland and conserving virgin grassland. Up to two million acres of restored, improved or natural grassland, rangeland, and pasture, including prairie can be enrolled. Tracts must be at least 40 contiguous acres, subject to waivers. Eligible grassland can be enrolled under 10 to 30 year contracts or permanent easements.

1.3.3.3 Other new programs

Other new programs including the Great Lakes Basin Program for Erosion and Sediment Control, Grassroots Source Water Protection, Desert Terminal Lakes, and Conservation Corridor Demonstration have been introduced by the 2002 Farm Bill.[68]

1.4 Japan

1.4.1 General

In Japan, budgetary support is provided for irrigation and drainage, and the readjustment of agricultural land. Prefectural and local governments provide infrastructure and extension services. Agri-environmental programs are important aspects of agricultural policy and include measures to encourage farmers to adopt sustainable agricultural practices that reduce the amount of fertilizer and pesticide usage as well as improve the quality of soil with composting. A direct payment scheme for farmers in hilly and mountainous areas was introduced in 2000 to prevent the abandonment of agricultural land and maintain environmental benefits such as control of erosion and downstream flooding.[69]

Programs promoting environmental conservation and reducing the adverse environmental effects of agriculture include financial support for farmers' groups and local governments for introducing environmentally-friendly farming practices that reduce excessive use of fertilizer and pesticides, and to set up agricultural facilities for recycling. Japan provides financial support for the improvement of rural infrastructure, such as constructing roads and sewerage systems.[70]

1.4.2 Programs notified under the Green Box

1.4.2.1 Support Program for Reduction of Environmental Burden Due to Dairy Farming

This program provides assistance to dairy farmers who practice appropriate management to tackle environmental problems, in order to contribute to the maintenance of favourable environments. Thereby the environmental burden, which is due to livestock manure, is being reduced through proper environmental management as a useful resource.

[68] See brief description at http://www.ers.usda.gov/Features/farmbill/titles/titleIIconservation.htm.
[69] OECD, Agricultural Policies in OECD Countries, Paris 2002, page 115.
[70] *Ibid*, page 116.

The amount of payments is limited to the extra costs necessary for dairy farmers to carry out appropriate environmental management, is in line with the Law Concerning the Appropriate Treatment and Promotion of Utilization of Livestock Manure, and is determined according to the scale of grasslands and/or forage field holdings of individual eligible dairy farmer.

The program has been notified under Green Box para 12 (environmental programmes payments).[71]

1.4.2.2 Direct Payment to Farmers in the Hilly and Mountainous Areas

This program provides direct payments for farmers who continue farming activities for at least five years under the community agreements. The eligible farmlands for the payments should be somehow unsuitable for agricultural production, with certain reasons such as steep sloping and should be at least one hectare in size. At the same time, they should be within the specific areas designated by various laws, which deal with unsuitable areas, such as the Law on Special Measures for Depopulated Areas and the Mountainous Village Development Law. The amount of payments farmers receive is determined by multiplying the area of eligible farmlands by the amount per unit area, which is predetermined according to the types of farmlands. The aforementioned amount per unit area is equivalent to 80 per cent of the gaps of production costs between normal farmlands and the eligible farmlands.

The program has been notified under Green Box para 13 (regional assistance programs).[72]

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[71] See Japan's WTO notification G/AG/N/JPN/62.
[72] *Ibid*.

Section 2: Possible impacts of current Doha Round

This section seeks to assess the extent to which the outcomes of the agriculture negotiations under the current Doha Round of WTO negotiations could potentially impact—from a developing country perspective—the applicability of the types of agri-environmental and rural development measures surveyed in the previous section. After briefly describing the relevant provisions of the WTO Agriculture Agreement (AoA) relating to domestic support schemes, this section will provide an overview on the current status of the relevant negotiations. Building on these starting points, an attempt is made to look ahead and predict the possible results of the trade round currently underway, speculating on whether, and to what extent, currently used agriculture-related government aid pursuing conservation and rural development objectives could be expanded or restricted.

2.1 WTO domestic support rules for Developing Countries

2.1.1 General

WTO Members consider policies that support domestic prices or subsidize production in some other way, to promote overproduction, which results in fewer imports. This leads, on the other hand, to export subsidies as well as low-priced dumping on world markets. At the outset of the Uruguay Round (UR) leading to the establishment of the WTO, the negotiators' intention was to classify support to agriculture in three groups by setting a comparison with traffic lights: red (unauthorized), amber (subject to discipline) and green (freely granted). Such a classification is aimed at categorizing domestic measures according to their trade impact. In the course of the negotiating process itself, negotiators simplified this framework and agreed to distinguish between support that can significantly impact trade, which should be subject to a reduction commitment (Amber Box measures), and support that can be considered as having no or at most minimally trade distortive effects (Green Box measures). At the last stage of the AoA negotiating process, a new category of support measures, the Blue Box was introduced within the draft agreement.[73] The choice of the color reflected the different nature of Blue Box direct payments, which are linked to factors of production but not to price and volume of output, and which are implemented under production-limiting programs.[74]

Notably, the AoA is the result of a pure negotiation process in which the Parties of the General Agreement on Tariffs and Trade (GATT) tried to strike a balance between a range of agriculture trade-related country positions. To that extent it was never intended to meet any objective standard and some of the provisions may be more comprehensible as negotiation compromises than on the face of it.

2.1.2 The Amber Box

The AoA's general rule concerning domestic support states that the aggregate level of all domestic support (AMS) must be reduced by 20 per cent (13.3 per cent for developing countries) at the end of the implementation period in 2000 (2004 for developing countries). The AMS is an aggregate of all direct and indirect government support to an economic sector expressed in

[73] This category of support had originally been introduced to allow the EU to allocate its compensatory payments (headage payments compensating the fall in price support) and the U.S. its deficiency payments.
[74] It should be noted that there is also the so called special and differential treatment (S&D) Box (AoA Article 6.2), which will be addressed later in this paper.

monetary value. As defined in the AoA, however, the calculation of the AMS contains an important number of loopholes. Product specific subsidies are excluded from the AMS calculation when their monetary value is equal to or less than five per cent (10 per cent for developing countries, 8.5 per cent for China) of the value of production for this product (the so called *de minimis* threshold). The same exemption applies to non-product specific subsidies, which are calculated separately. *De minimis* support, however, must not exceed 1992 levels.[75] Additionally, support provided under the Blue Box and Green Box as well as the Special and Differential Treatment (S&D) Box (see below) are further excluded from the AMS calculation. As a result, the Amber Box includes only non-exempt trade distorting domestic support.

Thirty countries[76] have commitments to reduce their non-exempt domestic support in the Amber Box and all other Members had AMS at or below the de minimis ceiling and are therefore not obliged to reduce AMS. On the other hand, they are not allowed to exceed the *de minimis* level with their Amber Box expenditures.

2.1.3 The Blue Box

Direct payments under production-limiting programs aimed at paying farmers to produce less fall under the Blue Box and are also excluded from the AMS calculation.[77] The exemption applies if payments are based on fixed areas, on determined production levels or are made on 85 per cent or less of the base level of production. The inclusion of Blue Box subsidies in the base period AMS created a significant (but artificial) reduction in countries' current AMS without requiring real change in policy or expenditure for a large chunk of Amber Box subsidies. The 1992 EU/U.S. Blair House Agreement[78] tailored this provision to ensure that much of the existing policy in this area[79] remained untouched in the AoA. Just as *de minimis* support, annual Blue Box expenditures must not exceed 1992 levels so as to be fully exempt from remedial action.

Currently, the only Members notifying the WTO that they are using or have used the Blue Box are: the EU, Iceland, Norway, Japan, Slovakia, Slovenia and the U.S. (now no longer using the box).[80] Nevertheless, the Box is also open for those Members that have so far not been using it.

At the moment, the Blue Box is a permanent provision of the agreement. However, some countries want it scrapped because they regard payments under the Box only partly decoupled from production[81] or they are proposing commitments to reduce the use of these subsidies. Others such as the EU and Japan say the Blue Box is an important tool for supporting and reforming agriculture and for achieving certain non-trade objectives, and argue that it should not be restricted as it distorts trade less than other types of support.

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[75] Otherwise, the peace clause (described below) does not fully apply (see AoA Article 13(b)(ii) and (iii)).

[76] Argentina, Australia, Brazil, Bulgaria, Canada, Colombia, Costa Rica, Cyprus, Czech Republic, EC, Hungary, Iceland, Israel, Japan, Jordan, Korea, Mexico, Morocco, New Zealand, Norway, Papua New Guinea, Poland, Slovak Republic, Slovenia, South Africa, Switzerland, Thailand, Tunisia, U.S. and Venezuela; see G/AG/NG/S/1.

[77] See AoA Article 6.5.

[78] This bilateral EU/U.S. agreement was taken as the base for the later AoA.

[79] Supra footnote 70.

[80] See WTO backgrounder at http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd08_domestic_e.htm.

[81] The payments under the Blue Box are not limited to compensation for not producing. Additionally, a government can require farmers to produce to be eligible for such payments and they can also make the size of payments directly dependant on the volume of production, provided it is no more than 85 per cent of the production in the base period.

2.1.4 The Green Box

The measures falling under this category are also excluded from the AMS calculation[82] and are not—unlike *inter alia de minimis* and Blue Box measures—subordinated to any restriction on subsidy amounts. The main feature of Green Box subsidies is that they must have no or minimal trade distorting effect or effects on production. They are explicitly listed in Annex 2 of the AoA and cover a wide range of policy instruments. However, it should be noted that several developing and developed countries are arguing that overall Green Box spending must be capped, as even decoupled support payments are an incentive to enter/stay in the farming business which has trade distorting effects according to these Members.

The first category of Green Box subsidies includes a series of government programs aimed at:

- promoting the sector performance (such as marketing services, research, inspection, training and infrastructure, including infrastructure related to environmental programs);
- dealing with food security concerns through the provision of food aid and stockholding for food security; and
- encouraging restructuring or privatization through investment aid.

Other subsidies are related to income support for producers, which need to be decoupled from key market variable such as production levels, prices, inflation and exchange rate:

- direct payments and income support determined by reference to income or status;
- insurance schemes to tackle income loss risk, including special measures related to natural disasters;
- income incentives for producers' retirement or for resource retirement; and
- compensation for income loss for producers located in disadvantaged regions or for producers implementing environmental programs (related to fulfilment of specific production methods or inputs).

2.1.5 The Special and Differential Treatment (S&D) Box

This Box[83] allows developing countries to provide investment subsidies (like low cost agricultural credits) generally available to all their farmers, input subsidies (for fertilizer, pesticides and irrigation) to low income or resource poor (LI/RP) producers, as well as support to encourage shift from illicit narcotic crop production. In order to be fully exempted from remedial action, S&D Box spending must not exceed 1992 levels.[84]

Domestic support meeting the above criteria is generally exempted from the AMS calculation. Nevertheless, an exemption has been made for WTO newcomer China because, although the exemption rule set out in the S&D Box generally applies to the nation, the amount of the support provided under the Box needs to be included in China's calculation of AMS (Amber Box).[85]

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[82] See AoA Article 6.1 and Annex 2.
[83] See Article 6.2 of the AoA.
[84] See AoA Article 13(b)(ii) and (iii).
[85] See http://www.wto.org/english/news_e/pres01_e/pr243_e.htm. In principle, under this academic construct China is treated like a developed country (with the only difference that its *de minimis* level is 8.5 per cent instead of 5 percent) as any Member could take recourse to the measures described in AoA Article 6.2, but whose expenditures would normally be factored into the AMS calculation. According to the WTO Secretariat, this policy should be regarded as a political statement as it attributes developing country status to China.

2.1.6 The Peace Clause

The Peace Clause (AoA Article 13, Due Restraint) protects Members using subsidies, which are in compliance with the AoA from being challenged under other WTO agreements such as the Agreement on Subsidies and Countervailing Measures (SCM).[86] The peace clause will expire at the end of 2003, unless Members agree on its continuation. The EU and Japan, as well as several others, support an extension of the Peace Clause beyond its deadline in 2003, whereas many developing countries (such as the Like-Minded Group, see below) want to see it maintained for developing countries exclusively. However other Members (such as those from the Cairns Group, see below) are advocating against any form of renewing the Peace Clause.

2.1.7 Assessment

As it can be seen from the above, principally the same rules apply to both developed and developing countries as far as only minimally trade distorting support is concerned. Both groupings have unlimited access to the Green Box, which is the instrument provided in the AoA to capture harmless subsidies. This conclusion is particularly valid with respect to conservation-related agricultural subsidies as only the Green Box explicitly addressed environmental policies (Annex 2, para 2(g) and para 12).

It should be noted that some also consider the Blue Box an important tool to pursue agriculture-related environmental objectives. Nevertheless, Blue Box subsidies are commonly perceived to be more than just minimally trade distortive. Both developed and developing countries have equal access to the Box.

With respect to rural development, it is again the Green Box that is most targeted at such objectives, offering the possibility to provide *inter alia* structural adjustment as well as regional assistance. However, the S&D Box is also aimed at encouraging agricultural and rural development by allowing for investment aids and input subsidies to be grated to farmers in developing countries.[87] Although this sort of support cannot be regarded as minimally trade distorting,[88] the S&D Box constitutes a tool only open to developing countries through which certain rural development objectives can be pursued.

Finally, classical trade distorting subsidies such as price support and coupled direct payments could also be used to preserve a viable rural farming sector or even to target certain environmental objectives. In this regard, developing countries have a greater flexibility since they can exclude both product specific and non-product specific subsidies worth 10 per cent (8.5 per cent for China) of their agricultural production from the AMS calculation.[89]

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[86] Agricultural subsides could be actionable under the SCM Agreement as they are specific, i.e., granted to a defined group of enterprises. In the event such subsidies cause “adverse effects to the interests of other Members” (SCM Article 5), injured Members can take recourse through the Dispute Settlement Mechanism or impose countervailing measures (SCM Article 7 and Part V).

[87] Only to low income and resource-poor farmers in the case of input subsidies.

[88] Input subsidies are generally to be included in the AMS calculation (Annex 3, para 13), i.e., they are considered trade distorting. Furthermore, the S&D Box does not contain the general requirement that support provided under the Box needs to be non, or at most minimal, trade distortive (as required in the Green Box).

[89] Nevertheless, it should be remembered that many developing countries are not allowed to use Amber Box support beyond their *de minimis* as they had not scheduled AMS exceeding the *de minimis* threshold during the Uruguay Round. According to the logic of the AoA, those who had AMS above *de minimis* needed to reduce it progressively (but,in some cases,are still significantly exceeding *de minimis* for the time being), whereas those who had AMS below or at *de minimis* have to abide by the set benchmark.

In conclusion, it can be said that currently both developed and developing are on equal footing under AoA rules as far as only at most minimally trade distorting support pursuing conservation and rural development objectives is concerned.

2.2 Overview of the relevant agriculture negotiations since 2000

2.2.1 General

WTO Members have been holding special (negotiating) agriculture sessions at the Committee on Agriculture (CoA) since early 2000 as mandated by the Agreement on Agriculture (AoA), which provides for a continuation of the fundamental reform program for the liberalization of the world's farming sector through ongoing negotiations (Article 20). In this first phase, 45 formal negotiating proposals plus four technical notes from 121 countries were tabled at seven CoA negotiating sessions. The first phase began in early 2000 and ended with a stocktaking exercise on March 22–23 and 28–29, 2001.

In the second phase, the special (negotiating) meetings were largely informal, with a record of proceedings taking the form of a summary report prepared by the chairperson to formal meetings. Besides that, these informal sessions were only documented in form of so called non-papers or formally non-existent and, therefore, not to be published or derestricted submissions, which are principally aimed at initiating further discussion on new lines of negotiation as well as developing and fine turning already submitted proposals. This informal negotiation style had been chosen in order to provide Members with more flexibility to indicate movements and potential compromises, because in an informal environment they are not committed to binding statements. During Phase 2, some 100 non-papers from a wide range of both developing and developed countries were tabled at all together five negotiating sessions of the CoA.

On November 9–14, 2001, Members convened at Doha, Qatar to launch at new trade round with mandated negotiations on various trading sectors including agriculture. Members *inter alia* agreed to negotiate "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade distorting domestic support."[90]

Paving the way for the next stage of the ongoing WTO agriculture negotiations, Members agreed in end-March 2002 on a 12-month work program so as to respect the March 31, 2003 deadline for the establishment of the so called modalities as provided for in the Doha Declaration[91] which had been adopted at the Fourth WTO Ministerial Conference held in Doha. These modalities will set out targets—including numerical targets—as well as rules-related elements based on which Members will subsequently prepare their individual schedules.

According to the work program for this Modalities Phase, Members addressed each pillar of the Agreement on Agriculture (AoA) separately and in sequence: export subsidies, competition and restrictions, market access and domestic support. Following a wrap-up meeting scheduled for November 18–20, Members envisaged having a draft overview paper on the various modalities options ready for circulation by December 18, 2002. In the follow-up process, the first draft modalities are scheduled to be circulated prior to the February 2003 meeting, which would then be finalized at the last seven-day session of the modalities phase from March 25–31, 2003.

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[90] Doha Declaration, para 13.
[91] The Doha Declaration provides in para. 14 that "Modalities for the further commitments, including provisions for special and differential treatment, shall be established no later than March 31, 2003."

Members further set January 1, 2005 as the date by which the agriculture negotiations are to be concluded (together with the whole trade round).

2.2.2 State-of-play of key domestic support-related issues

2.2.2.1 General

In principal, three main groupings have emerged during the first two negotiating phases. First, there is the so-called cautious group comprising inter alia European and other Northern countries such as the EU, Norway, Switzerland, Japan and Korea, promoting the maintenance of the current concept embodied in the Agreement on Agriculture (AoA), and the further liberalization of agricultural trade only carefully while duly taking into account so called non-trade concerns (NTCs). Second, there is the ambitious camp representing the net-food exporters of the Cairns Group[92] and the U.S.,[93] which call for significant increases in market access and the elimination of both export subsidies and trade distortive domestic support. And third, there is the special consideration group comprised mostly of developing countries spearheaded by regional or interest groupings such as the Like-Minded Group[94] and the African Group.[95] This grouping proposes to overrule the one-fits-all approach taken by the AoA for the benefit of disadvantaged Members, which need further flexibility with respect to market access, domestic support and export competition in order to achieve and/or maintain their competitiveness. In this debate, the primary proposals were to inscribe a so called Development Box into the AoA and/or to advance the concept of special and differential treatment (S&D) for developing countries.

2.2.2.2 Negotiations on the Green Box

Following the discussions on the Green Box (allowing for domestic support payments that are decoupled from production and agreed to be minimally trade distortive), the negotiating split becomes especially visible. While the ambitious group demands transparent, criteria-based and reduced use of Green Box payments, the cautious party intends to develop the Green Box to a flexible tool with which negative domestic non-trade effects of trade liberalization can be buffered and absorbed. The special consideration group also asserts such flexibility, but only for their particular domestic concerns such as food security and rural development, as well as reducing disparity in levels of domestic support among countries and easing the harm caused by developed country trade distortion. This group also seeks to significantly restrict developed countries' manoeuvrability regarding Green Box eligibility.

Due to fundamentally different concerns and, in particular, significant discrepancies between the financial resources at hand, the single positions of Members and groupings have been diverging more and more in the course of the negotiations. For example, some Members like Japan and Norway even question the most essential feature of Green Box payments like decoupling. Others such as the Like-Minded Group and, interestingly,[96] the EU highlight the requirement of

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[92] Including Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

[93] It should be noted that the new U.S. Farm Bill 2002 has caused some confusion among Members about whether the U.S. is going to stick to its ambitious approach to agriculture trade liberalization, which it was taking so far.

[94] Cuba, Dominican Republic, El Salvador, Haiti, Honduras, Kenya, [India], [Nigeria], Pakistan, Sri Lanka, Uganda and Zimbabwe.

[95] The African Group comprises all African WTO Members.

[96] In contrast to Norway's and Japan's approach, Members such as the EU and Switzerland promote the concept of multifunctionality (stressing the link to agricultural production), but demand that NTC should be addressed through the Green Box in a production-neutral manner.

production neutrality and the requirement that payments must not be determined by production factors. Argentina (Cairns Group member) even seeks to remove certain payments from the Box, which it does not regard being trade distorting (decoupled income support and subsidized income insurance and safety nets) as well as to develop and/or advance notification and evaluation criteria for disaster relief, investment aids, environmental programs and regional assistance. For its part, the U.S. agreed that the Green Box needed to be addressed to ensure non-distortion while also meeting, as a general recognition, evolving concerns. European as well as transitional countries generally have objected to capping the Green Box, pointing to the fundamental criteria of non or minimal distortion.

2.2.2.3 Rural development

Generally agreeing that rural development is important for developing countries for alleviating poverty and developing national economies, Members have been discussing whether rural development was also a legitimate concern for developed countries. Whereas the cautious group is supporting this premise, developing countries either oppose this position or stress that there were major differences in the situations prevailing in developed and developing countries.[97] Other developing countries[98] were less condemning, but demanded that actions taken by developed countries to promote rural development must not be used in a protectionist way.

Japan pointed out that maintaining a certain level of rural development was important for all countries, and that thus flexibility in rules of domestic support (also outside the Green Box) was needed in order to secure coexistence of agriculture in rural areas in each country. Principally on the same lines, Norway argued that agricultural production was to be continued in order to provide agricultural employment. However, according to Norway, the Green Box alone was not sufficient to provide incentive to sustain production. Both Japan and Norway took the view that developing countries needed more flexibility in policy design for pursuing their rural development objectives. For its part, the Like-Minded Group argued that—for developing countries—the Green Box needed to be expanded to cover measures promoting productivity and production. Additionally, it said that Article 6.2 (S&D Box) should be expanded to include measures further outlined in its proposal on a possible Development Box for developing countries (see below).

2.2.2.4 Environment

In the environment debate, discussions were led by the two most extreme camps: the ones who believe that some non-trade concerns could only be addressed through mechanisms outside market forces and the ones who see significant trade liberalization as the only way to deal with non-trade concerns.

Consequently, especially Japan and Norway, both of which belong to the cautious group, all well as the Cairns Group of food exporting nations comprised of Canada, Australia, and several Latin American and South-East Asian countries were featuring in these discussions. The debate principally revolved around the question of whether environmental concerns are adequately addressed by targeted, transparent and non or minimally trade distorting measures while making use of already existing AoA tools (the Green Box). The use of existing WTO instruments and

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[97] A developing country representative described the distinction as one between "folklore and survival."
[98] Mostly those belonging to the Friends of Multifunctionality group, see below.

provisions is being promoted by those calling for a quick liberalization of the farming sector, such as the U.S. and the Cairns Group.[99] In contrast, Friends of Multifunctionality like Norway, Japan and Korea believe that agriculture is a unique trading sector vis-a-vis, for instance, trade in industrial goods. They argue that agriculture has a multifunctional character as it not only has an economic function, but also addresses non-trade concerns such as environment, food security, rural development and poverty alleviation.

Box 1: Multifunctionality

The concept of Multifunctionality

According to this concept, agriculture is multifunctional because it is not limited to the sole function of producing food and fibres but it also has a number of other functions. Agriculture provides services, which are linked to the land and are mainly of a public good character (joint production). Apart from its production function, agriculture encompasses other functions such as the preservation, the management and enhancement of the rural landscape, the protection of the environment, including against natural hazards, and a contribution to the viability of the rural areas. These functions are not simply externalities of the agricultural production function, i.e.,undirected side effects, and are not embedded into an institutional and political context. Such functions are often interdependent with agricultural production.

The Friend of Multifunctionality

The cautious group (EU, Japan, Korea, Norway and Switzerland) plus WTO Member Mauritius were able to create a coalition of some 50 WTO Members (Friends of Multifunctionality)[1] which are acknowledging every country's legitimate right to pursue non-trade objectives also through means other than market forces as it was necessary to maintain a certain level of domestic agricultural production to address these objectives. They identified three main non-trade concerns:

Rural development: "…while the priorities of various countries are diverse, all the countries need to preserve or develop the economic and social environment necessary to maintain rural population. Agricultural activity plays an important role in this endeavour…"

Food security: "…all countries have to ensure food security for their people, through a mixture of domestic production, imports and, where appropriate, public stockholding…"

Environmental protection: "…All countries reaffirmed the importance of agriculture for issues such as conservation of biological diversity, maintenance of farmed landscape…"[2]

[1] Including China, Chinese Taipei, Israel, various African countries, some countries in economic transition, etc.
[2] See Press Release for NTC-IV Ministerial Meeting, Rome, 14 June 2002.

2.2.2.5 The Development Box

Predominantly, it has been the Like-Minded Group (LMG) of developing countries that has pushed for a Development Box since Phase 1 of the agriculture negotiations.[100] At the February 4–6, 2002 negotiating session of the CoA, which concluded the second phase of the negotiation under AoA Article 20, it further tabled a non-paper[101] on the Box proposing that its provisions, which would apply only to developing countries, should consist of enhanced flexibilities rather than specific prescribed policies. According to the LMG document, the Box should target low income and resource-poor (LI/RP) farmers and secure supplies of food security crops (FSCs) and should allow developing countries, *inter alia*, to exempt these FSCs from their reduction commitments and to maintain or renegotiate high tariffs on them. Furthermore, the LMG believes, developing countries should be provided with a simplified safeguard mechanism so as to protect FSCs, with expanded domestic support provisions applying to LI/RP producers. Cairns

[99] Or ambitious group.
[100] See WTO document G/AG/NG/W/13.
[101] The Development Box, Non-Paper by Cuba, Dominican Republic, El Salvador, Honduras, Kenya, Nigeria, Pakistan, Sri Lanka and Zimbabwe, February 1, 2002.

Group developing countries opposed this proposal, arguing that it would impede south-to-south trade between developing countries, which should be promoted through the negotiations. They also took the view that some of the ideas went against the direction set in the Doha Ministerial Declaration[102] as all Members had committed themselves to "substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade distorting domestic support" as well as to the establishment of a "fair and market-oriented trading system through a program of fundamental reform."[103]

In another non-paper, Switzerland largely agreed with the need of flexibility for developing countries to pursue food security/rural development policies as proposed by the LMG, but cautioned that only temporary and well-targeted measures could avoid the creation of a two-tier system permanently exempting developing countries from WTO rules.

Other developed countries, such as the EU, U.S., Japan and those from the Cairns Group also opposed the idea of different sets of rules for developed and developing countries. In respect to the question, as raised in the Swiss proposal, whether to establish sub-categories for especially disadvantaged developing countries such as net food-importing developing countries (NFIDCs) or small island developing states (SIDS), some developed countries cautioned this would go against the spirit of the AoA which intended to set out rules applying to the whole WTO Membership. Furthermore, many developing country Members warned that establishing separate rules applying to different developing country groupings could split the solidarity amongst them. Japan and Norway,[104] together with some transition economies, stated that issues such as food security and rural development would also apply to them, an idea that was rejected by many developing countries.

Box 2: Proposed Development Box provisions regarding domestic support

For developing countries:

AoA Article 6.2 (S&D Box) should be expanded to include:

- Support promoting the integration of LI/RP farmers, particularly through subsidized credit and similar capacity building measures
- Measures taken to increase domestic production of staple crops for domestic consumption (including input subsidies and any other kind of product specific support provided to LI/RP farmers) and
- any spending on transportation costs for FSCs from surplus to deficit parts of a country.

In terms of product specific support, the *de minimis* should be calculated on an aggregate basis and negative product specific AMS (negative AMS)[1] should be allowed to be offset against positive non-product specific support.

Annex II, paragraph 13 should be revised in order to allow governments to target regional assistance plans to LI/RP farmers exclusively.[2]

[1] The concept of negative AMS applies if in the calculation of the AMS, domestic support prices are lower than the external reference price (so as to ensure access of poor households to basic foodstuffs), thereby resulting in negative product specific support. In that case, many Members suggest as an example the WTO Document Compilation of Outstanding Implementation Issues Raised by Members (JOB(01)/152/Rev.1) – Members shall be allowed to increase their non-product specific support by an equivalent amount.
[2] For the time being, Annex II paragraph 13 provides that all producers be eligible for such assistance.

[102] The negotiating session where Members addressed the Development Box was held after the November 9–14, 2001 WTO Ministerial Conference.
[103] See Doha Declaration para. 13.
[104] Both of which are net food-importing countries.

Thus it appeared that most developed countries are opposed to the idea of permanently excluding developing countries as such, or sub-groups of them, from already existing and/or newly agreed commitments under the AoA. To avoid that the S&D language embedded in the Doha Declaration[105] would be used by the Friends of the Development Box[106] as an argument to legitimize such a two-tier system, developed countries and Friends of Multifunctionality such as the EU, Japan and Norway have been indicating that they would then demand the same flexibility to meet their own non-trade interests relating to the environment, rural development and food security.

2.2.2.6 Special and differential treatment (S&D)

Drawing on the Development Box debate, discussions on S&D were mainly ignited by submissions from the African Group[107] together with some LMG members[108] as well as India. Talks revolved around the question of whether more protection/support or market orientation was the solution. While most Members agreed that S&D had a high priority in the post Doha agenda and was an integral part of the agriculture negotiations, Members such as the U.S. pointed out that the Ministerial Declaration set S&D within the overall objective of achieving a fair and market-orientated agricultural trading system, so that all Members should participate in the reform program.

In terms of domestic support, both the African Group/LMG and the Indian paper principally reiterated the measures outlined in the LMG paper on a possible Development Box (see above).

Box 3: Special and Differential Treatment (S&D) in the AoA

AoA Article 15 contains the general "…recognition that differential and more favourable treatment for developing countries is an integral part of negotiation…" In terms of detail, developing countries have been provided with more flexibility to implement their reduction commitments within ten years (six for developed countries).

In addition, the reduction commitments for developing countries with respect to tariffs, trade-distorting domestic support as well as export subsidies were approximately a third less than those entered into by developing countries.

Article 9.4 is another concrete S&D provision in the AoA, which exempts certain export subsidies on marketing and internal transport and freight costs from developing countries' reduction commitments.

In the area of domestic support, the S&D Box (Article 6.2) is another example where developing countries were provided with differential and more favourable treatment.

Least-developed countries (LDCs) were not required to undertake any reduction commitment (AoA Article 15.2).

Many developing countries such as those of the Like-Minded Group (LMG) would like to see S&D developing to a horizontal concept, which applied across the board. In particular, S&D serves as a justification for the Development Box as proposed by the LMG for example.

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105 S&D shall be "operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development." (para. 13).

106 Principally comprising the LMG members together with some additional African countries such as Senegal. It was reported that Indonesia, a Cairns Group member, would like to join the group as well.

107 Comprising all African WTO Members.

108 Cuba, Dominican Republic, El Salvador, Honduras, Kenya, Pakistan and Sri Lanka.

2.2.2.7 *De minimis*

Following the discussions regarding the *de minimis* threshold in the AMS calculation (Amber Box), there appears to be a general willingness from both developing[109] and developed[110] countries to look at the *de minimis* levels for developing countries and possibly transition economies as most of these countries are bound by *de minimis* ceilings rather than AMS reduction commitments. Proposals include bringing the *de minimis* threshold up to 20 percent.[111]

2.3 Possible outcomes of agriculture negotiations under the Doha mandate

Here the paper makes an attempt to assess in what general direction the current trade negotiations on agriculture could go. Taking into account the very broad and still rather general discussion among Members on the points at issue, the paper will only try to make a very rough forecast and analysis on how the current situation could change from the perspective of developing countries. In this context it should be noted that the first detailed negotiating positions can only be expected to emerge in the forthcoming negotiations. Key discussions on domestic support took place in September and are likely to be continued at an November meeting of the CoA.

The agriculture mandate

As far as domestic support is concerned, WTO Members agreed last year in Doha to negotiate "substantial reductions in trade-distorting domestic support." (Doha Declaration, para 13). Here it should be kept in mind that it is more than unclear whether this wording covers a renegotiation of the Green Box at all. The Cairns Group would answer this question at least with "Yes, partly" as it regards uncapped Green Box support to be distortive in its aggregate. Furthermore, the Group takes the view that some sub-categories in the Box allow for measures which have some increased risk to be trade distorting. On the other hand, the cautious group is arguing that the Green Box itself is not distorting trade as it requires measures to be at most minimally trade distortive. Nevertheless, Members such as the EU agree that some of the Annex 2 provisions needed to be strengthened to ensure transparency, targetedness and only minimal trade distortion.

Furthermore, it was agreed that S&D for developing countries "shall be an integral part of all elements of the negotiations, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development."

Moreover, Members took "note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.[112]

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[109] Such as those of the LMG, African countries, etc.
[110] E.g., the EU and Norway.
[111] LMG, G/AG/NG/W/13.
[112] Both Article 20 of the AoA and its preamble mention the relevance of NTCs.

Looking at the agriculture mandate, it appears that developing countries can make a strong argument that, while protection and support is further being dismantled through the reform process, they need to be able to gain—or at least maintain—sufficient flexibilities to address their development needs including food security and rural development. With respect to environmental objectives, it is rather the notion of NTCs, which could back up demands to provide room in the AoA for pursuing environmental goals.[113] Nevertheless, in order to get a picture of how these broad negotiation guidelines could materialize into a concrete result, it is necessary to recall the key priorities and objectives pursued by the three main camps in the discussions.

The three main strategies

The members of the cautious group, which have traditionally been protecting and supporting their agriculture markets, want to make sure that—despite progressing liberalization[114]—there will be enough room for them to continue providing farmers with large sums of support. They argue that support was crucial to preserve a viable farming sector necessary to address NTCs such as rural development and environmental conservation. As a result, this group wants an instrument (such as the Green Box) through with large sums can be paid to the farming sector to sustain a minimum degree of farming activity. However, taking into account Members' general objection to any production-linked approach, countries like Norway and Japan now seem rather isolated in their positions, especially since the EU, as the strongest cautious group member, opposes payments determined by production under the Green Box. Additionally, should the cautious Members generally consider allowing Green Box measures in which there is a production-linkage, they would contradict their stated desire to maintain the Green Box uncapped. It has been their main argument that unlimited Green Box spending could not harm others as it only allows for subsidies with minimal impact on production and trade.

On the other hand, it is the main goal of the ambitious group to achieve quick and real liberalization of international agriculture markets so that the ambitious countries can better exploit their competitive advantage in the farming sector. Besides abolishing the Amber Box and the Blue Box, they further want to limit Members' overall Green Box spending as they take the view that any kind of support—even if decoupled from production—has production encouraging effects. Moreover, they want to strengthen the Green Box provisions to reduce and/or avoid trade distorting effects of certain programs notified under the Box.[115] Although this group is generally trying to avoid differentiated treatment between groups of countries, it appears that the Cairns Group is also willing to consider certain additional flexibilities given to developing countries.[116]

For its part, the special consideration camp's objective is to level out certain imbalances in WTO agriculture rules by providing developing countries with significant flexibilities to address their development concerns. Industrialized countries, on the other hand, need to bring down their subsidies (amber, blue and green) drastically so as to create a level playing field. With respect to the recognition of NTCs, this group is very skeptical as they consider NTCs just as another argument for industrialized countries to further protect and support their markets.

[113] Environment is surely not a classical concern of developing countries, many of which consider it only as an argument for industrialized countries to maintain protection and support.
[114] I.e., in the long run, low tariffs across the board and the elimination of Amber Box, the Blue Box and export subsidization.
[115] Regarding programs targeting rural development and the environment, it is not clear yet whether Cairns Group countries like Argentina and Australia already have concrete green programs in mind or whether they are rather anticipating that certain industrialized countries might tend to shift programs to the Green Box that were previously notified as blue or amber.
[116] Especially as some developing country members of the Group, like Indonesia seem to like the Development Box approach.

Three possible scenarios

Firstly, if the ambitious and the special consideration camps could find common ground, a possible result of the negotiations could be a scenario under which Members' general ability to support would be cut and narrowed down significantly, with certain flexibilities tailored for developing countries only. This outcome, however, seems less likely as it would be politically impossible for Members such as the EU and Japan to significantly modify their domestic farm policies already within this round. Moreover, the described scenario would imply that principally all developing countries would manage to build a strong coalition against the EU et al. Developing countries, however, are divided into the special consideration ground and those belonging to the Friends of Multifunctionality camp, which are acknowledging NTCs for all Members. Many of the latter have close ties with the EU[117] for example and hope to maintain preferential market access to the lucrative European market.

Secondly, in the event the cautious and the special consideration group joined forces, such a coalition could try to push for new flexibilities generously given to both developing and developed countries. This option of having a Development Box for developing countries and a separate but similar instrument for countries' non-trade concerns would be a major step back in the global agriculture trade reform from a free trade point of view. Such a result would contravene the Doha agriculture mandate as well as be contradictory to the open-market negotiation position of the Cairns Group. Also the U.S. has traditionally prevented such an approach. However, as the U.S. is now pursuing a broader agenda[118] and as the trading interests between the developing[119] and the developed[120] Cairns Group members seem to become more and more diverse,[121] it remains to be seen to what extent the liberalizing camp of the WTO Membership will be able to prevent the flexibility oriented faction from advancing using S&D as well as a more operational recognition of non-trade concerns. It should be noted, however, that if the EU and other industrialized Members want to launch WTO negotiations next year on inter alia investment and competition they will have offer something in agriculture to the members of the Cairns Group so as to have them on board with respect to negotiations on the Singapore issues.[122]

The third and most likely outcome would be a scenario constituting a compromise between the key objectives of the three camps. Meeting the demands of the ambitious group, Members would have to agree on significant cuts in AMS, export subsidies as well as on expanded market access. This, in return, would imply that the Green Box would largely remain uncapped so as to allow cautious Members to address their NTCs. Nevertheless, the Cairns Group could only agree on such approach if strengthened and clarified Annex 2 provisions would prevent the EU, *et al.*, from shifting trade distorting support from the other boxes to the Green Box. Lastly, also the special consideration group would need to be accommodated by providing developing countries—and eventually also other groups of disadvantaged countries[123]—with more flexibility

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117 Such as the African, Caribbean and Pacific (ACP) countries.

118 The ongoing discussions on the new U.S. Farm Bill allows for such presumption.

119 Note that the Philippines proposed alternative modalities on new tariff reduction commitments; see Box 4.

120 Note that Canada tabled a separate proposal on domestic support.

121 It was reported by a Like-Minded Group Member that Indonesia, a Cairns Group member, would like to join the Friends of the Development Box. Observers inside the negotiations further reported that some Cairns Group members had been quite critical of each other's proposals and statements recently.

122 The Doha Declaration states that "explicit consensus" amongst the WTO Membership is needed to start negotiations on investment, competition, government procurement and trade facilitation (so called Singapore issues) at the forthcoming WTO Ministerial Conference in September 2003.

123 E.g., countries in economic transition, single commodity producers, acceding countries, etc.

to address their particular concerns such as rural development and food security. This could be done by expanding the Green Box, setting up a Development Box or by widening the applicability of measures under the S&D Box. It appears that such outcome would best reflect the priorities and objectives set out in the agricultural mandate of the Doha Declaration.

Box 4: Summary of the communication of the Philippines

Cairns Group member the Philippines tabled an interesting proposal aimed at interlinking tariff reductions with reductions in export subsidization and domestic support, as well as to setting up a "responsive mechanism that penalizes the persistence of trade distorting support and rewards their timely reduction and eventual elimination."

Pursuing a two-stage approach on tariff reductions, the WTO Member suggested bringing down tariff peaks and tariff escalation to a harmonized level within the initial three-year phase, with further reductions from this level during the second three-year period However, developing countries should only be required to enter in phase two in the event that all developed counties have eliminated export subsidies and "substantially reduced their production and trade distorting support."

Departing from an earlier proposal on a special and differential countervailing measure (SDCM) as tabled last October by several Members, the Philippines tabled a detailed formula for additional duties available to importing developing countries on products exported from countries that provide "trade distorting export competition and domestic support measures" on such products.

Assuming that the Green Box will be the main tool provided for addressing development and other non-trade objectives, it appears that a definition of what is only minimally trade distortive will gain importance after the conclusion of the Doha Round. However, it is rather unlikely that Members will be able to develop general criteria for minimal trade-distortiveness. It will be on Members to initiate the creation of a body of case law on this issue by challenging AoA-inconsistent Green Box subsidies under the Dispute Settlement Mechanism (DSM). One should therefore rather expect Members to develop in the negotiations more detailed provisions for the individual sub-categories of Green Box support. Under this approach it also appears more likely that criteria could be developed, outlining how much and what kind of production link is tolerable with a view to minimal trade-distortiveness. In this regard, the expiration of the peace clause—be it by the end of 2003 or later—will play a major role.

2.4 Relevant measures potentially impacted by changes in WTO agriculture rules

Even if it is assumed that the outcome of the agriculture negotiations under the Doha mandate will match with the last scenario described above, it is still very difficult to assess in what way such results could impact the application of the conservation and rural development programs outlined in Section 1 of this paper. This mainly stems from the fact that the discussions have not been detailed and advanced enough so far to allow for such assessment.

It was argued earlier in this paper that the negotiation will need to take into account demands voiced *inter alia* by the Cairns Group that the Green Box provisions needed to be strengthened. Looking at the recent Cairns Group proposal on domestic support,[124] it can be seen that Cairns wants to strengthen the Green Box provision dealing with direct payments (including structural adjustment, environment, regional assistance) while "commit[ing] to a mechanism that will cap

[124] Non-paper of Cairns Group (without Canada and Fiji), Domestic Support – Specific Input, tabled at a September 27 CoA formal special session; see Appendix 2.

the amount of expenditure allowed on direct payments in Annex 2 and reduce the expenditure in paras 5 [direct payments in general], 6 [decoupled income support], 7 [income insurance and safety nets] and 11 [structural adjustment aid provided through investment aids] in order to prevent any potential distortions." This would mean that overall spending on direct payments under the Green Box would be capped, while support provided under the sub-categories described in Annex 2, paras 5–7 and 11 would further be subject to reduction commitments.

It should be noted in this context that Cairns Group member Argentina had earlier submitted a non-paper[125] where it suggested even to remove paras 5–7 from the Green Box as it had identified these categories as those which could most likely be abused. Thus the reduction commitment option seems to be a compromise between diverging intra-Cairns positions.

In addition, to ensure compliance with the criteria set out in Annex 2, the recent Cairns Group paper further proposes to "strengthen transparency, notification and review mechanisms to ensure programs meet the criteria in Annex 2." This demand seems to be key for providing for a clean Green Box as the current notification and monitoring practice, as indicated earlier in this survey, seems not to be appropriate.

In terms of S&D, Cairns offers to "retain Article 6.2 exemptions [S&D Box] for developing countries" as well as to "retain access to existing domestic support arrangements for least-developed countries." Departing from this proposal, this would mean that developing countries would be subject to all the revisions of the Green Box as suggested in the Cairns Group paper. In its earlier paper, Argentina had originally proposed that S&D should apply in the context of stricter notification and evaluation procedures. This would have meant that developing countries can retain more flexibility when designing and applying their domestic Green Box programs. However, the recent joint Cairns Group proposal on domestic support does not provide any additional flexibilities for poorer countries except that they could still make use of the current S&D Box.

In terms of detail, the Cairns Group would like to modify the general direct payment provision of the Green Box (para 5) by inserting a clarification that "direct payments shall be based on activities in a fixed and unchanging historical base period." Here the Group seems to react to the recent U.S. farm bill which partly allows farmers to update their base acres and yields. Generally, as such U.S. direct payments are made on crops grown in the base year, but not in the payment year, they qualify as decoupled Green Box payments. However, the EU and some Cairns Group Members argue that in allowing the base areas to be updated, the payments, for the first year at least, become recoupled as farmers will receive payments for the different crops according to their recent actual planting. Moreover, they take the view that for subsequent years, the U.S. government has created an expectation among farmers that future updating of base crops will be allowed, thereby further breaking the decoupled status of the fixed payments. By proposing to base payments on "fixed and unchanging historical base periods," Cairns appears to address this very issue.

Regarding structural adjustment assistance provided through producer retirement programs (para 9) or resource retirement programs (para), Cairns proposes to limit the payments in time.

With respect to structural adjustment assistance provided through investment aids (para 11), the Group's proposal suggests to clearly define the term "structural disadvantages" to decouple

[125] Green Box Measures: Approach for a Work Programme, tabled at September 24–26, 2001 CoA session.

payments from inputs into the production and to prevent the possibility of updating the base yield and related factors. In doing so, the onus would be put on the subsidizing Member to explain why an area has been declared structurally disadvantaged and, eventually, to justify the amount seen as required to compensate for the disadvantages.

With respect to environmental programs (Annex 2 para 12) Cairns requires the amount of compensatory payments under environmental programs to be "less than the extra costs involved in complying with the government program and not be related to or based on the volume of production."[126] Additionally, the Group proposed to delete the part stating that the requirements set out in environmental programs "include conditions related to production methods and inputs."

Lastly, on regional assistance programs (para 13), the Cairns Group again aims to prevent the possibility of updating base yields

With regard to environmental programs, a controversial point could be that the EU is offering in its environmental programs income foregone, additional costs as well as the financial incentive necessary to encourage farmers to make agri-environmental undertakings. Even the current wording of Annex 2 para 12(b), however, only allows for payments limited to "the extra costs or loss of income." Here it could thus be disputable whether such financial incentive is tolerable, and if so, what size would be acceptable. Cairn's demand that the payment should be less than the extra costs could thus be seen as an indicator that the Group is considering current practice—such as by the EU—as too generous in regards to the amount of the overall compensation.

Another point is the issue of "conditions including production methods and inputs." (para 12(a)). Using the example of the English Energy Crops Scheme,[127] Cairns seems to consider it controversial whether requiring farmers to grow and harvest energy crops is a condition linked to production methods and inputs, or rather to a production output. Calling for payments not to be "related or based on the volume of production," the new Cairns Group proposal seems to exactly target such agri-environmental practices.

Departing from the recent Cairns Group proposal on the Green Box, it can be said that after the conclusion of the current trade round, the main users of green conservation and rural development programs might find themselves in a situation where they have to demonstrate in what way their programs are designed to meet the requirement of the respective Green Box provisions. In the course of an eventual review of the programs already in use, some Members might focus on issues such as the size of compensatory payments under *inter alia* environmental or structural adjustment programs. To what extent the review would further focus on production linkages in the programs will very much depend on the cautious group's ability to convince the WTO Membership that agriculture is multifunctional and is thus conditional on at least a minimum degree of production.

Looking at the issues from a developing country perspective, it seems likely that developing countries would be granted special and differential treatment. In this respect, the S&D offer presented by Cairns—such as retaining the S&D Box for developing countries and the current domestic support arrangements for LDCs—should not be used as the main indicator,

[126] Annex 2 para 12 – as it stands now – provides that the amount of the compensation be "limited to the extra costs or loss of income involved…"
[127] See page.

particularly in the face of the growing strength of the special consideration camp and the emerging intra-Cairns Group frictions as in the case of Canada and some developing members like Indonesia. Thus, the 2001 non-paper tabled by Argentina could serve as a template as it would at least exempt developing countries from stricter notification and evaluation rules so that they had more flexibility when designing and applying their domestic Green Box programs. However, one should expect that the Like-Minded Group, the African Group, developing country Friends of Multifunctionality as well as Members in transition and newly-acceded Members will be able to drive the negotiations more towards an outcome that would take better account of the needs and priorities of disadvantaged countries.

In summary, it appears that after the conclusion of the Doha Round and during its implementation, developing countries will be provided with at least the same degree of flexibility to use the Green Box as they currently enjoy. In fact, it seems likely that disadvantaged WTO Members will gain further policy spaces to pursue development objectives such as food security and rural development, either through an expanded Green Box or through other instruments.

Conclusion

Here the paper makes an attempt to present some options for developing countries, both in terms of strategies and positions in the ongoing negotiations, and in terms of domestic sustainable agriculture policies. The strategic options laid out assume only the objective of optimal flexibility to pursue agriculture-related conservation and rural development objectives through domestic support schemes. Other considerations, in relation to tariffs, export subsidies, or even the treatment of industrialized countries, will not be included in the considerations below.

Negotiation strategies

In terms of strategies for negotiations, developing countries should consider which of the three outcome scenarios outlined in Section 2 of this paper they would prefer.

Under scenario one, developing countries would be provided with certain flexibilities to pursue their typical development objectives such as food security and rural development. This would most likely be achieved through instruments outside the Green Box (such as the Development Box or expanded S&D Box). The advantage here would be that support granted under such new or modified tools would not necessarily have to abide by the requirement to be only minimally trade distortive. Nevertheless, such subsidies would need to target low income and resource-poor (LI/RP) farmers and the production of staples and/or food security crops. Other wider rural development support could not be grated under such instrument. Furthermore, agri-environmental objectives could not be pursued here. Regarding the Green Box, it appears that at least developing countries will not face much restriction of the current applicability. But it is clear that a negotiation outcome as described in scenario one would start a process that would lead—in the long run—to significant restrictions in Green Box use for both developed and developing countries. Furthermore, it should be noted that flexibilities given to developing countries as part of S&D might only be a temporary measure provided for the time during which the particular disadvantages persist.

Turning to scenario two, such outcome would give developing countries a great amount of policy space to pursue their particular development goals as well as to address non-trade concerns in general. Such flexibilities could also be provided through tools outside the Green Box so that support measures addressing development and non-trade objectives (including the environment) would not be subjected to the requirement to have only minimal impact on production and trade. However, such outcome of the Doha Round would represent a major step back in global agriculture trade reform and could ultimately "spell out the end of rules-based trade within WTO,"[128] as some skeptical observers caution. In any case it appears that such outcome would not be desirable from either a trade or a sustainable development perspective as too much flexibility granted to Members would ultimately weaken the key WTO principles of predictability and non-discrimination.

An outcome in terms of scenario three could have two advantages for developing countries. First, they would gain flexibilities to effectively address their most needed development goals. Second, as the Green Box would largely remain untouched, developing countries would further be able to address non-trade objectives such as rural development and the environment, but only in a

[128] Joachim von Braun, Peter Wobst and Ulrike Grote, New Development Aspects of Agricultural World Trade, *BRIDGES Between Trade and Sustainable Development*, Year 6 No. 5, pages 7–8.

minimally trade distortive manner. Therefore, developing countries would be granted special and differential treatment, which takes into account their specific development constraints. On the other hand, they would be allowed—just as the whole WTO Membership—to address some of their non-trade concerns (NTCs) through support which has only minimal effect on trade and production.

Therefore, the following negotiation positions could be recommendable for developing countries pursuing agri-environmental and rural development objectives:

- Create—as part of S&D—a new tool in the AoA (Development Box)[129] for developing countries to be able to effectively address their particular developmental concerns such as food security and rural development.
- Maintain—at least for developing countries—the applicability of the Green Box as it stands now to allow Members to address rural development and argi-environmental objectives through targeted, transparent and only minimally trade distorting measures. Here it would be desirable that detailed criteria be created determining when and to what extend a minimal link between support and production factors is tolerable.
- The *de minimis* threshold should be increased for developing countries.
- The peace clause should be renewed and modified for developing countries so as to exclude measures provided under the proposed Development Box as well as under the Green Box from actionability.

Options for domestic sustainable agriculture policies

The possible outcome of the current trade round under the Doha mandate indicates that the world's agriculture trade system is progressively moving towards an open market system. This process is desirable from both a trade as well as a sustainable development point of view as, firstly, liberalized trade can be a motor of growth in developing countries. Secondly, dismantling agricultural support with strong impacts on production—and therefore potentially leading to overproduction and over-intensification—can reduce harm otherwise caused to the environment. Therefore, transforming domestic support regimes towards decoupled and only minimally trade distorting support schemes will have mostly positive effects as it will limit distortions, but will still provide countries with flexibilities to pursue legitimate agri-environmental and rural development objectives. Nevertheless, liberalizing national farming sectors too quickly can also have severe social implication, particularly in developing countries with high shares in rural population. History has shown that the poor and small farmers face the biggest problems when adjusting to changing economic conditions. Furthermore, persistent financial and resource capacity constraints in many developing countries often prevent them from providing their farmers with aid necessary to preserve their economic viability. Being left to their own resources, rural populations are often forced to exploit ecological resources beyond sustainable yields, thereby sometimes causing considerable harm to the environment. It is therefore imperative that appropriate mechanisms are set up that provide competitively disadvantaged farmers with income and secure food conditions.

Against this background, there appear to be three possible options for developing countries to develop their domestic sustainable farming policies:

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[129] Especially for countries like China it seems more appropriate to create a new tool in the face of its commitment to use the S&D Box only up to the *de minimis* level.

Under option one, developing countries devote all their available capacities to safeguard their small and poor farmers from being sidelined by growing competition through efficient support measures. Especially when pursuing food security objectives, developing countries should use their flexibilities to provide production-linked support to the fullest extent. On the one hand, such payments are easier to administer and because they help create basic food security by increasing production of staples and other food security crops, on the other. Support to rural development in general and to the environment would only be granted if the most necessary developmental needs are met and/or the special flexibilities given to developing countries have ceased to apply. This option could be recommendable for developing countries with very small financial resources, with large shares in rural low income population, with highly insecure food conditions, but with only few environmentally sensitive areas.

According to option two, developing countries take a systemic and long-term approach on agri-environment and rural development by developing comprehensive national, regional and local programs which promote agricultural conservation and the viability of a viable farming sector in a comprehensive but production decoupled manner. Thereby developing countries could draw on the experiences made by developed countries when designing and implementing such policies. The programs used by WTO Members such as the EU, the U.S., Japan and Canada could serve as templates for developing domestic sustainable agriculture policies in poorer countries. In doing so, developing countries should anticipate that WTO provisions governing such support regimes are being strengthened increasingly, both in terms of targetedness and transparency, but also as far as trade distortion is concerned. As a result, they should take duly into account that measures to be developed are designed in a way that their compliance with AoA Annex 2 (Green Box) can be easily demonstrated. This approach should be taken by rather advanced developing countries with appropriate financial manoeuvrability.

Option three could be a combination of both approaches. Under this scheme, the developing country would direct a sufficient share of its available funding to those targets where the country has identified the highest degree of developmental importance (such as food security). To that end, the country makes full use of the flexibilities provided in the AoA. However, these measures are embedded in a broader rural development and agri-environmental strategy, and which are designed in way so that they can be transformed to policies eligible under the Green Box as well. So the country serves three objectives. First, it sets the most urgent agriculture-related development objectives as priorities. Second, it addresses wider rural development concerns and environmental objectives at the outset and third, it organizes the country's conservation and rural development policy so that it can easily be brought in full compliance with WTO agricultural rules applying to the whole Membership. Those developing countries, that are expecting high growth rates, that have large incidence of rural population and that contain large areas with high environmental importance, should consider this approach.

Appendix 1: AoA Annex 2 (Green Box)

Annex 2

Domestic support: the basis for exemption from the reduction commitments

1. Domestic support measures for which exemption from the reduction commitments is claimed shall meet the fundamental requirement that they have no, or at most minimal, trade distorting effects or effects on production. Accordingly, all measures for which exemption is claimed shall conform to the following basic criteria:

   (a) the support in question shall be provided through a publicly funded government program (including government revenue foregone) not involving transfers from consumers and
   (b) the support in question shall not have the effect of providing price support to producers;

   plus policy specific criteria and conditions as set out below.

Government Service Programs

2. General services

   Policies in this category involve expenditures (or revenue foregone) in relation to programs which provide services or benefits to agriculture or the rural community. They shall not involve direct payments to producers or processors. Such programs, which include but are not restricted to the following list, shall meet the general criteria in paragraph 1 above and policy specific conditions where set out below:

   (a) research, including general research, research in connection with environmental programs, and research programs relating to particular products;
   (b) pest and disease control, including general and product specific pest and disease control measures, such as early warning systems, quarantine and eradication;
   (c) training services, including both general and specialist training facilities;
   (d) extension and advisory services, including the provision of means to facilitate the transfer of information and the results of research to producers and consumers;
   (e) inspection services, including general inspection services and the inspection of particular products for health, safety, grading or standardization purposes;
   (f) marketing and promotion services, including market information, advice and promotion relating to particular products but excluding expenditures for unspecified purposes that could be used by sellers to reduce their selling price or confer a direct economic benefit to purchasers; and
   (g) infrastructural services, including electricity reticulation, roads and other means of transport, market and port facilities, water supply facilities, dams and drainage schemes, and infrastructural works associated with environmental programs. In all cases the expenditure shall be directed to the provision or construction of capital works only and shall exclude the subsidized provision of on-farm facilities other than for the reticulation of generally available public utilities. It shall not include subsidies to inputs or operating costs, or preferential user charges.

3. Public stockholding for food security purposes[130]

   Expenditures (or revenue foregone) in relation to the accumulation and holding of stocks of products which form an integral part of a food security program identified in national legislation. This may include government aid to private storage of products as part of such a program.

   The volume and accumulation of such stocks shall correspond to predetermined targets related solely to food security. The process of stock accumulation and disposal shall be financially transparent. Food purchases by the government shall be made at current market prices and sales from food security stocks shall be made at no less than the current domestic market price for the product and quality in question.

4. Domestic food aid[131]

   Expenditures (or revenue foregone) in relation to the provision of domestic food aid to sections of the population in need.

   Eligibility to receive the food aid shall be subject to clearly defined criteria related to nutritional objectives. Such aid shall be in the form of direct provision of food to those concerned or the provision of means to allow eligible recipients to buy food either at market or at subsidized prices. Food purchases by the government shall be made at current market prices and the financing and administration of the aid shall be transparent.

5. Direct payments to producers

   Support provided through direct payments (or revenue foregone, including payments in kind) to producers for which exemption from reduction commitments is claimed shall meet the basic criteria set out in paragraph 1 above, plus specific criteria applying to individual types of direct payment as set out in paragraphs 6 through 13 below. Where exemption from reduction is claimed for any existing or new type of direct payment other than those specified in paragraphs 6 through 13, it shall conform to criteria (b) through (e) in paragraph 6, in addition to the general criteria set out in paragraph 1.

6. Decoupled income support

   (a) Eligibility for such payments shall be determined by clearly defined criteria such as income, status as a producer or landowner, factor use or production level in a defined and fixed base period.
   (b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period.
   (c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.

[130] For the purposes of paragraph 3 of this Annex, governmental stockholding programs for food security purposes in developing countries whose operation is transparent and conducted in accordance with officially published objective criteria or guidelines shall be considered to be in conformity with the provisions of this paragraph. This includes programs under which stocks of foodstuffs for food security purposes are acquired and released at administered prices, provided that the difference between the acquisition price and the external reference price is accounted for in the AMS.

[131 & 6]For the purposes of paragraphs 3 and 4 of this Annex, the provision of foodstuffs at subsidized prices with the objective of meeting food requirements of urban and rural poor in developing countries on a regular basis at reasonable prices shall be considered to be in conformity with the provisions of this paragraph.

(d) The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period.
(e) No production shall be required in order to receive such payments.

7. Government financial participation in income insurance and income safety net programs

(a) Eligibility for such payments shall be determined by an income loss, taking into account only income derived from agriculture, which exceeds 30 per cent of average gross income or the equivalent in net income terms (excluding any payments from the same or similar schemes) in the preceding three-year period or a three-year average based on the preceding five-year period, excluding the highest and the lowest entry. Any producer meeting this condition shall be eligible to receive the payments.
(b) The amount of such payments shall compensate for less than 70 per cent of the producer's income loss in the year the producer becomes eligible to receive this assistance.
(c) The amount of any such payments shall relate solely to income; it shall not relate to the type or volume of production (including livestock units) undertaken by the producer or to the prices, domestic or international, applying to such production or to the factors of production employed.
(d) Where a producer receives in the same year payments under this paragraph and under paragraph 8 (relief from natural disasters), the total of such payments shall be less than 100 per cent of the producer's total loss.

8. Payments (made either directly or by way of government financial participation in crop insurance schemes) for relief from natural disasters

(a) Eligibility for such payments shall arise only following a formal recognition by government authorities that a natural or like disaster (including disease outbreaks, pest infestations, nuclear accidents, and war on the territory of the Member concerned) has occurred or is occurring and shall be determined by a production loss which exceeds 30 per cent of the average of production in the preceding three-year period or a three-year average based on the preceding five-year period, excluding the highest and the lowest entry.
(b) Payments made following a disaster shall be applied only in respect of losses of income, livestock (including payments in connection with the veterinary treatment of animals), land or other production factors due to the natural disaster in question.
(c) Payments shall compensate for not more than the total cost of replacing such losses and shall not require or specify the type or quantity of future production.
(d) Payments made during a disaster shall not exceed the level required to prevent or alleviate further loss as defined in criterion (b) above.
(e) Where a producer receives in the same year payments under this paragraph and under paragraph 7 (income insurance and income safety net programs), the total of such payments shall be less than 100 per cent of the producer's total loss.

9. Structural adjustment assistance provided through producer retirement programs

(a) Eligibility for such payments shall be determined by reference to clearly defined criteria in programs designed to facilitate the retirement of persons engaged in marketable agricultural production or their movement to non-agricultural activities.
(b) Payments shall be conditional upon the total and permanent retirement of the recipients from marketable agricultural production.

10. Structural adjustment assistance provided through resource retirement programs

(a) Eligibility for such payments shall be determined by reference to clearly defined criteria in programs designed to remove land or other resources, including livestock, from marketable agricultural production.
(b) Payments shall be conditional upon the retirement of land from marketable agricultural production for a minimum of three years, and in the case of livestock, upon its slaughter or definitive permanent disposal.
(c) Payments shall not require or specify any alternative use for such land or other resources that involves the production of marketable agricultural products.
(d) Payments shall not be related to either the type or quantity of production or to the prices, domestic or international, applying to production undertaken using the land or other resources remaining in production.

11. Structural adjustment assistance provided through investment aids

(a) Eligibility for such payments shall be determined by reference to clearly defined criteria in government programs designed to assist the financial or physical restructuring of a producer's operations in response to objectively demonstrated structural disadvantages. Eligibility for such programs may also be based on a clearly-defined government program for the reprivatization of agricultural land.
(b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period other than as provided for under criterion (e) below.
(c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.
(d) The payments shall be given only for the period of time necessary for the realization of the investment in respect of which they are provided.
(e) The payments shall not mandate or in any way designate the agricultural products to be produced by the recipients except to require them not to produce a particular product.
(f) The payments shall be limited to the amount required to compensate for the structural disadvantage.

12. Payments under environmental programs

(a) Eligibility for such payments shall be determined as part of a clearly defined government environmental or conservation program and be dependent on the fulfilment of specific conditions under the government program, including conditions related to production methods or inputs.
(b) The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government program.

13. Payments under regional assistance programs

(a) Eligibility for such payments shall be limited to producers in disadvantaged regions. Each such region must be a clearly designated contiguous geographical area with a definable economic and administrative identity, considered as disadvantaged on the basis of neutral and objective criteria clearly spelt out in law or regulation and indicating that the region's difficulties arise out of more than temporary circumstances.

(b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period other than to reduce that production.
(c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.
(d) Payments shall be available only to producers in eligible regions, but generally available to all producers within such regions.
(e) Where related to production factors, payments shall be made at a degressive rate above a threshold level of the factor concerned.
(f) The payments shall be limited to the extra costs or loss of income involved in undertaking agricultural production in the prescribed area.

Appendix 2: Excerpt 27 September Cairns Group proposal

7623

Committee on Agriculture, Special Session
September 27, 2002
Domestic Support
Specific Input: Cairns Group132 Negotiating Proposal

Attachment: Tightening the Green Box, Amendments to Annex 2

The Cairns Group proposes the following changes, inter alia, to Annex 2 of the Agreement on Agriculture. The changes are in capitals.

5. Direct payments to producers

   (A) Support provided through direct payments (or revenue foregone, including payments in kind) to producers for which exemption from reduction commitments is claimed shall meet the basic criteria set out in paragraph 1 above, plus specific criteria applying to individual types of direct payment as set out in paragraphs 6 through 13 below. ALL BASE PERIODS SHALL BE NOTIFIED.
   (B) Where exemption from reduction is claimed for any existing or new type of direct payment other than those specified in paragraphs 6 through 13, it shall conform to criteria (b) through (F) in paragraph 6, in addition to the general criteria set out in paragraph 1. THESE DIRECT PAYMENTS SHALL BE BASED ON ACTIVITIES IN A FIXED AND UNCHANGING HISTORICAL BASE PERIOD.

6. Decoupled income support

   (a) Eligibility for such payments shall be determined by clearly defined criteria such as income, status as a producer or landowner, factor use or production level in a defined, FIXED AND UNCHANGING HISTORICAL base period.
   (b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the base period.
   (c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.
   (d) The amount of such payments in any given year shall not be related to, or based on, the factors of production employed in any year after the base period.
   (E) PAYMENTS TO INDIVIDUAL PRODUCERS SHALL BE AVAILABLE FOR NO MORE THAN THREE YEARS AND SHALL NOT BE RENEWED.
   (F) No production shall be required in order to receive such payments.

7. Government financial participation in income insurance and income safety net programs

   (a) Eligibility for such payments shall be determined by an income loss, taking into account only income derived from agriculture, which exceeds 30 per cent of average gross income or the equivalent in net income terms (excluding any payments from the same or similar schemes) in the preceding three TO FIVE year period or a three year average based on the preceding five-year period, excluding the highest and the lowest entry. Any producer meeting this condition shall be eligible to receive the payments FROM THE GOVERNMENT.
   (b) The amount of such payments BY GOVERNMENTS SHALL RESTORE A PRODUCER'S INCOME TO NO MORE THAN 70 PER CENT OF HIS INCOME DERIVED BY THAT PRODUCER FROM AGRICULTURE IN THE AVERAGING PERIOD USED TO TRIGGER ELIGIBILITY FOR PAYMENT.
   (c) The amount of any such payments shall relate solely to income DERIVED FROM AGRICULTURE OF THE FARM ENTERPRISE AS A WHOLE. It shall not relate to the type or volume of production (including livestock units) undertaken by the producer or to the prices, domestic or international, applying to such production or to the factors of production employed.
   (d) Where a producer receives in the same year payments under this paragraph and under paragraph 8 (relief from natural disasters), the total of such payments shall be less than 100 per cent of the producer's total loss.

8. Payments (made either directly or by way of government financial participation in crop insurance schemes) for relief from natural disasters

   (a) Eligibility for such payments shall arise:

      (i) IN THE CASE OF DISASTERS only following a formal recognition by government authorities that a natural or like disaster (including disease outbreaks, pest infestations, nuclear accidents, and war on the territory of the Member concerned) has occurred or is occurring and shall be determined by a production loss which exceeds 30 per cent of the average of production in the preceding three-year period or a three-year average based on the preceding five-year period, excluding the highest and the lowest entry.
      (ii) IN THE CASE OF GOVERNMENT FINANCIAL PARTICIPATION IN CROP INSURANCE SCHEMES, ELIGIBILITY FOR SUCH PAYMENTS SHALL BE DETERMINED BY A PRODUCTION LOSS WHICH EXCEEDS 30 PER CENT OF THE AVERAGE OF PRODUCTION IN AN ACTUARIALLY APPROPRIATE PERIOD.
      (iii) IN THE CASE OF THE DESTRUCTION OF ANIMALS OR CROPS TO CONTROL OR PREVENT DISEASES NAMED IN NATIONAL LEGISLATION OR INTERNATIONAL STANDARDS, THE PRODUCTION LOSS MAY BE LESS THAN THE 30 PER CENT OF THE AVERAGE PRODUCTION REFERRED TO ABOVE.

   (b) Payments made UNDER PARAGRAPH 8 shall be applied only in respect of losses of income, livestock (including payments in connection with the veterinary treatment of animals), land or other production factors due to the natural disaster OR DESTRUCTION OF ANIMALS OR CROPS in question.

(c) Payments shall compensate for not more than the total cost of replacing such losses and shall not require or specify the type or quantity of future production.
(d) Payments made UNDER PARAGRAPH 8 shall not exceed the level required to prevent or alleviate further loss as defined in criterion (b) above.
(e) Where a producer receives in the same year payments under this paragraph and under paragraph 7 (income insurance and income safety net programs), the total of such payments shall be less than 100 per cent of the producer's total loss.

9. Structural adjustment assistance provided through producer retirement programs

(b) Payments shall be conditional upon the total and permanent retirement of the recipients from marketable agricultural production AND SHALL BE TIME LIMITED.

10. Structural adjustment assistance provided through resource retirement programs

(d) Payments shall not be related to either the type or quantity of production or to the prices, domestic or international, applying to production undertaken using the land or other resources remaining in production. PAYMENTS SHALL BE TIME LIMITED.

11. Structural adjustment assistance provided through investment aids

(a) Eligibility for such payments shall be determined by reference to clearly defined criteria in government programs designed to assist the financial or physical restructuring of a producer's operations in response to objectively demonstrated structural disadvantages. Eligibility for such programs may also be based on a clearly defined government program for the reprivatization of agricultural land. SUCH STRUCTURAL DISADVANTAGES MUST BE CLEARLY DEFINED.
(b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production OR INPUTS INTO THE PRODUCTION (including livestock units) undertaken by the producer in any year after A FIXED AND UNCHANGING HISTORICAL base period, other than as provided for under criterion (e) below.
(c) The amount of such payments in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period.
(d) The payments shall be given only for the period of time necessary for the realization of the investment in respect of which they are provided.
(e) The payments shall not mandate or in any way designate the agricultural products to be produced by the recipients except to require them not to produce a particular product.
(f) The payments shall be limited to the amount required to compensate for the structural disadvantage.

12. Payments under environmental programs

(a) Eligibility for such payments shall be determined as part of a clearly defined government environmental or conservation program and be dependent on the fulfilment of specific conditions under the government program..
(b) The amount of payment shall be LESS THAN THE EXTRA COSTS INVOLVED IN COMPLYING WITH THE GOVERNMENT PROGRAM AND NOT BE RELATED TO OR BASED ON THE VOLUME OF PRODUCTION.

13. Payments under regional assistance programs

(b) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken by the producer in any year after the FIXED AND UNCHANGING HISTORICAL base period, WHICH SHALL BE NOTIFIED, other than to reduce that production.

THE CAIRNS GROUP WOULD LIKE TO STRENGTHEN TRANSPARENCY, NOTIFICATION AND REVIEW MECHANISMS TO ENSURE PROGRAMS MEET THE CRITERIA IN ANNEX 2.

Appendix 3: Excerpt of EU's DS:1 notification for marketing year 1999/2000

Domestic support: European Communities
Reporting period: Marketing year 1999/00

Measures exempt from the reduction commitment: Green Box

Measure Type 1	Name and description of measure with reference to criteria in Annex 2 2	Monetary value (Mio EURO) 3	Data Source[1] 4	Comments 5
(a) General Services				
Research (i)	Improvement of production potential through animal and plant selection and of production techniques through testing of machinery, development of experimental centres, pilot projects and demonstration projects, and salaries of personnel.	1,355.7		Council Regulation 1260/99
Pest and disease control (ii)	Plant and animal health control and protection, supply of vaccines. salaries of personnel and launching aid for livestock health protection groups.	1,137.5		Commission Regulations 3868/92, 719/96
Training services (iii)	Establishment of agricultural training centres, grants for course attendance and salaries of advisors.	163.1		Council Regulation 1257/99
Extension and advisory services (iv)	Establishment of inter-regional advisory centres, and training and employment of advisors.	303.5		Council Regulation 1257/99
Inspection services (v)	Livestock inspection services, quality control, and remunerating and training inspectors.	326.1		Council Regulation 1287/95
Marketing and promotion services (vi)	Aid to encourage establishment of producer groups and ease administrative overheads, schemes to improve marketing network, quality and presentation of produce, certification and protection of geographical indications.	1,071.9		Council Regulations 2200/96, 2202/96, 1257/99
Infrastructural services (vii)	Arterial drainage, collective irrigation schemes, provision of electricity and water supply, farm roads, construction of reservoirs and flood protection.	2,352.8		Council Regulation 1257/99
Other farm services (viii)	Launching services for mutual aid, farm relief, farm management and introduction of accounting on the farm.	16.9		Council Regulation 1257/99
(b) Public Stockholding for Food Security Purposes		20.0		
(c) Domestic Food Aid	Distribution of agricultural products to deprived persons, school milk and consumption aid programs.	277.8		Council Regulation 3730/87

Measure Type 1	Name and description of measure with reference to criteria in Annex 2 2	Monetary value (Mio EURO) 3	Data Source[1] 4	Comments 5
(d) Decoupled Income Support	Agri-monetary aid.	957.5		Council Regulations 3813/92
(e) Income Insurance and Income Safety Net Programs		0.0		Council Regulation 1527/95
(f) Payments for Relief from Natural Disasters	Compensatory payments in respect of weather, restoration of agricultural production potential and natural disasters.	365.5		Council Regulations 1654/86, 3606/86, 2052/88, 3222/88
(g) Structural Adjustment Assistance provided through Producer Retirement Programs	Compensation payments to farmers at least 55 years old leaving agriculture and aid for early retirement from farming.	793.1		Council Regulations 1257/99
(h) Structural Adjustment Assistance provided through Resource Retirement Programs	Set aside at least 20 per cent cultivated land to be left fallow, wooded or used for non-agricultural purposes and compensation for grubbing up, leaving or suspending production.	122.0		Council Regulations 1257/99, 1493/99
(i) Structural Adjustment Assistance provided through Investment Aids	Construction of processing, packaging and storage centres and equipment, and land improvement (levelling, fencing, etc.). Aid for farm modernization granted through subsidies or equivalent interest concessions as well as purchase of machinery and equipment, animals, buildings and plantations, etc. Aid for young farmers.	2,308.7		Council Regulations 1257/99
(j) Environmental Programs	Protection of environment and preservation of the countryside, control of soil erosion, extensification, aid for environmentally sensitive areas. Support and protection of organic production by creating conditions of fair competition, aid for forestry measures in agriculture and conservation of genetic resources in agriculture.	5,458.7		Council Regulations 1257/99
(k) Regional Assistance Programs	Specific measures for the benefit of certain disadvantaged areas (French overseas departments, Azores, Madeira, Canary Islands, Aegean Islands) and other less-favoured areas (LFA) and mountainous areas.	2,899.7		Council Regulations 1257/99
(l) Other		0		
Total Green		19,930.5		

[1] FEOGA financial report 2000 and national sources.

Appendix 4: Excerpt of Canada's DS:1 notification for marketing year 1998

Domestic support: Canada
Reporting period: 1998

Measures exempt from the reduction commitment: Green Box

Measure Type 1	Name and description of measure with reference to criteria in Annex 2 2	Monetary value of measure in year in question ($ million) 3	Data Sources 4	Comments* 5
a) general services				
i) Research, Annex 2, para 2(a)				
federal, federal/ provincial		308.7	Public Accounts of Canada, AAFC estimates	FY, mainly AAFC's Research Branch, but also includes research-related expenditures notified under DS:2 G/AG/N/CAN/29, the Agri-Food Research and Development Initiative (Manitoba), Programme agroenvironnemental de soutien à la stratégie phytosanitaire, and the Canada-Alberta Value-Added Industry Development Fund
provincial		94.1	Provincial Ministries of Agriculture	FY, agricultural research expenditures, including those notified under DS:2 G/AG/N/CAN/29 and DS:2 G/AG/N/CAN/38, and including the Alberta Environmentally Sustainable Agriculture Program – Research Component
ii) Pest and disease control, Annex 2, para 2(b)				
federal, federal/ provincial		4.5	Public Accounts of Canada, AAFC estimates	FY, mainly pest prevention
provincial		7.3	Provincial Ministries of Agriculture	FY, mainly pest prevention and veterinary services
iii) Training services, Annex 2, para 2(c)				
federal, federal/ provincial		–		
provincial		68.7	Provincial Ministries of Agriculture	FY, mainly grants to agricultural training institutions

Measure Type 1	Name and description of measure with reference to criteria in Annex 2 2	Monetary value of measure in year in question ($ million) 3	Data Sources 4	Comments* 5
iv) Extension and advisory services, Annex 2, para 2(d)				
federal, federal/ provincial		17.3	Public Accounts of Canada, AAFC estimates	FY, mainly advisory services
provincial		167.0	Provincial Ministries of Agriculture	FY, mainly government extension programs, including extension-related expenditures notified under DS:2 G/AG/N/ CAN/29 and DS:2 G/AG/N/ CAN/38, and including the Alberta Environmentally Sustainable Agriculture Program - Farm Based and Resource Monitoring Components
v) Inspection services, Annex 2, para 2(e)				
federal, federal/ provincial		325.3	Public Accounts of Canada, AAFC estimates	FY, mainly Canadian Food Inspection Agency (formerly known as AAFC"s Food Production and Inspection Branch) and Health Canada
provincial		28.0	Provincial Ministries of Agriculture	FY; mainly product inspection and lab services
vi) Marketing and promotional services, Annex 2, para 2(f)				
federal, federal/provincial		57.7	Public Accounts of Canada, AAFC estimates	FY, mainly AAFC'ss Market and Industry Services Branch, but also includes marketing and promotion-related expenditures notified under DS:2 G/AG/N/ CAN/29
provincial		7.9	Provincial Ministries of Agriculture	FY, marketing and promotion programs in various provinces including expenditures notified under DS:2 G/AG/N/CAN/38
vii) Infrastructural services, Annex 2, para 2(g)				
federal, federal/ provincial		60.8	Public Accounts of Canada, AAFC estimates	FY, mainly Prairie Farm Rehabilitation Administration and Green Plan
provincial		53.1	Provincial Ministries of Agriculture	FY, mainly irrigation and drainage projects, including infrastructure-related expenditures notified under DS:2 G/AG/N/CAN/29

Measure Name and Type 1	description of measure with reference to criteria in Annex 2 2	Monetary value of measure in year in question ($ million) 3	Data Sources 4	Comments* 5
viii) Other general services, Annex 2, para 2 (not specified elsewhere);				
federal, federal/ provincial		–		
provincial		4.4	Provincial Ministries of Agriculture	FY, mainly Agriculture Service Board grants in Alberta
b) public stockholding for food security purposes Annex 2, para 3		None		
c) domestic food aid Annex 2, para 4		None		
d) decoupled income support Annex 2, para 6		None		
e) income insurance and income safety net programs, Annex 2, para 7				
federal, federal/ provincial		65.2	AAFC estimates	FY, consists of Alberta Farm Income Disaster Program (G/AG/N/CAN/8) and Prince Edward Island Agricultural Disaster Insurance Program (G/AG/N/CAN/29)
provincial		9.5	Provincial Ministries of Agriculture	FY, consists of the Whole Farm Insurance Program (British Columbia)
f) payments for relief from natural disasters Annex 2, para 8		None		
g) structural adjustment assistance provided through producer retirement programs Annex 2, para 9		None		
h) structural adjustment assistance provided through resource retirement programs Annex 2, para 10		None		
i) structural adjustment assistance provided through investment aids Annex 2, para 11		None		
j) environmental programs Annex 2, para 12				
federal, federal/ provincial		–		
provincial		19.5	Provincial Ministries of Agriculture	FY, mainly management of soil and water and manure in Quebec, but also includes the Soil Conservation Program (PEI) (G/AG/N/AGR/CAN/38) and the Farm Environmental Stewardship Program (New Brunswick)

Measure Type	Name and description of measure with reference to criteria in Annex 2	Monetary value of measure in year in question ($ million)	Data Sources	Comments*
1	2	3	4	5
k) regional assistance programs, Annex 2, para 13		None		
l) other Annex 2, para 5				
federal, federal/provincial		1.0	AAFC estimates	FY, consists of technology innovation under the Quebec/Canada agreement
provincial		–		
Total Federal, Federal/Provincial		840.6		
Total Provincial		459.4		
Total Federal, Federal/Provincial & Provincial		1,299.9		

* AAFC = Agriculture and Agri-Food Canada; FY= fiscal year; SY= stabilization year

Appendix 5: Excerpt of United States' DS:1 notification for marketing year 1998

Domestic support: United States
Reporting period: Marketing Year 1998

Measures exempt from the reduction commitment: Green Box

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
(a) General services:	4,738	6,796	7,146	
Agricultural Research Service (ARS)				
Agricultural Research Service	496	726	712	Research and advisory function. Acquires, maintains and disseminates information. Includes National Agricultural Library functions. Conducts research on a wide variety of topics, including soil and water conservation, plant and animal sciences, human nutrition, and integrated agricultural systems.
Buildings and Facilities	23	31	56	
Miscellaneous Contributed Funds	3	13	14	
Tennessee Valley Authority (TVA)				
Agricultural institute	4	0	0	Research and advisory function. Conducts research on problems related to agricultural development, environmental quality, and fertilizer material and practices. Started in October 1992, Agri. 21 provides information about family farming and profitability using sustainable and environmentally friendly methods.
National fertilizer development	53	0	0	
Agriculture 21 Farming Systems	0	0	0	
Pollution prevention/model site demo	0	0	0	Research and advisory function. A research program aimed at helping chemical dealers and farmers prevent ground water contamination.
Waste management program	0	0	0	Research and advisory function. Research on development of efficient wetlands and of organic plant food and cattle feed from agricultural wastes (broiler litter), and other creative waste management methods.

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
Cooperative State Research, Extension, and Education Service (CSREES)				
Cooperative State Research Service	281	402	430	Research function. Provides grants to state agricultural research establishments. Participates in co-operative planning with state research institutions.
Buildings and facilities	0	49	61	
Extension Service	325	420	413	Advisory function. Participates with state co-operative extension system on applied education, information and technology transfer.
National Agricultural Library (NAL)				
National Agricultural Library	11	(see note>)	(see note>)	Research and advisory function. Acquires, maintains and disseminates information. Outlays included in ARS, above, since 1995 (appropriations were $20 million in 1998).
Rural Business and Co-operative Development Service (RBCD)				
Agricultural Cooperatives Service	4	5	5	Research and advisory function. Provides farmers and USDA administrators information related to co-operatives.
Alternative Agricultural Research	0	8	8	Research function. Provides assistance in developing new products from agricultural and forestry material and animal byproducts.
Animal & Plant Health Inspection Service (APHIS)				
Salaries & Expenses	308	489	505	Inspection/pest and disease control function. Protects animal and plant resources from destructive pests and diseases.
Buildings & Facilities	3	9	7	
Miscellaneous Trust Funds	5	9	14	
State programs for agriculture (FY outlays, net of fees and taxes)[2/]	2,196	3,067	3,334	State governments provide a number of generally available services. Includes extension, marketing and research. Excludes state credit programs. Amount reported is net of producer fees and taxes paid for various services.

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
Grain Inspection, Packers and Stockyard Administration (GIP&S)				
Grain inspection salaries and expenses[3/]	7	10	11	Marketing/inspection functions. Establishes standards. Provides for official inspection and implementation of the system of standards for marketing.
Inspection and Weighing Service	(2)	1	2	
Packers and Stockyards Administration[3/] [1997 revised]	9	11	13	Conducts surveillance and investigatory activities to protect producers and consumers from unfair trade practices.
Food Safety Inspection Service (FSIS)				
Salaries and Expenses	370	570	592	Safety/inspection function. Provides in-plant inspection to assure safety and quality of meat and poultry and the accuracy of labelling.
Inspection and Grading of Farm Products	1	4	5	
Agricultural Marketing Service (AMS)				
Marketing Services	34	42	42	Marketing function. Develops marketing standards and provides news and inspection services. Grants to states for projects, such as improving marketing information and developing grading standards.
Payments to States and Possessions	1	1	1	
Perishable Agricultural Commodity Act Fund	4	10	8	Uses license fees to take legal actions against unfair buyer trade practices. Grading and certification services are provided on a fee-for-service basis.
Miscellaneous Trust Funds	81	109	102	
Office of Transportation	2	0	0	Marketing function. Identifies transportation issues and provides information. Transportation function moved to AMS, above.
Economic Research Service (ERS)				
Economic Research Service	45	48	55	Research and advisory function. Performs economic research and analysis for the public, congress and the executive branch.
Miscellaneous Contributed Funds	0	0	0	

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
National Ag. Statistics Service (NASS)				
National Ag. Stat. Service	59	90	124	Research and advisory function. Provides official estimates of resource utilization, production and prices of agricultural products.
Miscellaneous Contributed Funds	0	0	0	
Executive Operations				
World Agricultural Outlook Board (WAOB)	2	3	3	Research and advisory function. Provides economic information about current outlook and situation for commodity supply and price. Outlays combined with other executive operations outlays after 1994. Obligations for WAOB were US$2.6 million in 1997 and US$3.2 million in 1998.
Natural Resource Conservation Service (NRCS)				
Conservation Operations	386	637	596	Advisory function. To promote conservation of soil and water, NRCS provides technical assistance, conducts soil surveys and assesses erosion factors (formerly activity of SCS).
Resource Conservation and Development	26	29	32	Assists individuals and localities to develop area-wide plans for resource conservation and development. Some cost shared payments prior to 1994.
Departmental Administration				
Outreach for Socially Disadvantaged Farms	0	3	1	Advisory function. Community-based organizations receive grants and contracts to provide outreach and technical assistance to disadvantaged farms. Assists producers in the community in their farm ownership and operation, and in their participation in government programs. No direct payments.
(b) Public Stockholding for Food Security:	0	0	0	
(c) Domestic food aid:	19,158	35,963	33,487	

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars) 1/ 1986–88	1997	1998	Description of program
Food & Consumer Services (FCS)				
Food Program Administration	80	106	102	Food programs providing access to more nutritious diets for low income people and children.
Food Stamp Program	11,813	22,857	20,141	Low income people receive financial assistance to help purchase nutritious food.
Nutrition Assistance for Puerto Rico	852	(see note>)	(see note>)	Food Stamp Program in Puerto Rico combined with Food Stamp Program (above).
Special Milk Program	16	(see note>)	(see note>)	Provides milk service in schools and institutions having no other federally assisted food programs. Outlays reported in Child Nutrition Program outlays (below).
Child Nutrition Programs	4,050	8,265	8,565	Cash and commodities to assist children attain adequate diets. Includes special milk, school lunch and breakfast, homeless children, and other programs.
Special Supplemental Nutrition program for Women, Infants, and Children	1,711	3,866	3,902	Food supplements to improve health of low income mothers, children, elderly.
Food donation program	189	0	139	Provides cash or commodities to improve diets of elderly, Indians and Micronesians.
Commodity Assistance Program (CAP)	0	319	125	CAP includes these previously separate programs: Commodity Supplemental Food, Emergency Food, assistance to Indian Reservations and to Pacific Islands, and Nutrition for the Elderly.
Commodity Supplemental food program	12	(see CAP, above)	(see CAP, above)	Food supplements to improve health of low income mothers, children and the elderly.

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
Temp. Emergency Food Assist. Prog. (TEFAP)	48	(see CAP, above)	(see CAP, above)	Helps states to purchase and distribute food to the needy.
Center for Nutrition Policy and Promotion (CNPP)[4]	0	0	0	Research and information function. Develops and implements programs to strengthen nutrition research information and education. Funded through the Food Program Administration Account in 1996 to 1998 (1998: US$2.2 million).
Human Nutrition Information Service (HNIS)				
Human Nutrition Information Service[4]	9	(see note>)	(see note>)	Functions transferred to Agricultural Research Service and to the new Center for Nutrition Policy and Promotion. Conducts survey of nutritional needs and diet possibilities. Provides consultation and information to the public.
Agricultural Marketing Service (AMS)				
Section 32 (AMS)	378	550	513	Funds purchases of commodities distributed to needy people through the FNS food programs described above.
(d) Decoupled income support:	0	6,286	5,659	
Farm Service Agency				
Production Flexibility Contract Payments (crop year)	0	6,286	5,659	Payments made to producers and landowners based on acreage and production in a prior base period, as specified in the Federal Agricultural Improvement and Reform Act of 1996.
(e) Income insurance and safety net programs:	0	0	0	Note: All revenue and income insurance programs are included in Supporting Table DS:9, as part of the entry for USDA Crop Insurance programs.
(f) Payments for relief from natural disasters:	1,388	161	1,411	

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars) 1/ 1986–88	1997	1998	Description of program
Farm Service Agency (FSA)				
Non-insured Crop Disaster Assistance Program (NAP, crop year) [1997 revised]	0	22	53	Under the 1994 Federal Crop Insurance Reform Act, producers of crops not currently insurable under other programs receive benefits, if it is determined by the USDA that there have been yield losses greater than 35 per cent for the area and greater than 50 per cent for the individual farm.
Crop disaster payments (crop year)	1,332	0	1,341	Under the Food Security Act of 1985, the Disaster Assistance Acts of 1988 and 1989 and subsequently, assistance was provided to crop producers suffering from natural disasters. Assistance could be provided when there were production losses of at least 30%. 1998 outlays authorized by the Omnibus Consolidated and Emergency Supplemental Appropriations Act (P.L. 105–277, October 21, 1998). 1998 amount for the green box is the amount for single-year crop disasters (US$1,338 million). Multi-year crop disaster funds are reported in Supporting table DS:9 (US$577 million). US$430 million was designated for 1999 crop insurance subsidies to be notified for the 1999 AMS.
Emergency feed program (fiscal year)	53	38	0	Compensates livestock producers for feed crop disasters.
Emergency feed assist. Program (fiscal year)	5/	5/	5/	Compensates livestock producers for feed crop disasters.
Forage assistance program (fiscal year)	0	0	0	Compensates livestock producers for pastures damaged by drought or related conditions (1988 Disaster Assistance Act).
Disaster Reserve Assistance Program (fiscal year)	0	40	1	Compensates livestock producers for losses of feed crops in authorized counties. Cash reimbursements provided for up to 30% of cost of feed replacement if county and producer both have losses of at least 40%.

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
Livestock Indemnity Program (fiscal year)	0	49	5	Compensates producers for livestock losses from recent disasters.
Tree assistance program (fiscal year)	0	0	3	Compensates producers for loss of tree seedlings due to drought or related conditions (1988 Disaster Assistance Act).
Emergency loans[6]	3	12	8	Provides loans to cover actual losses sustained by farmers in disaster areas.
(g) Structural adjustment through producer retirement programs:	0	0	0	
(h) Structural adjustment through resource retirement programs:	532	1,691	1,731	
Farm Service Agency (FSA)				
Conservation Reserve Program	194	20	38	Critical soil erosion is reduced through 10-year rental agreements to establish permanent cover crops on cropland.
Commodity Credit Corporation (CCC)				
Conservation Reserve Program	0	1,671	1,693	Funding was shifted to CCC, starting in 1996. See above description of the program.
Dairy termination program (FY payments)	338	0	0	Payments were made to producers agreeing to terminate production for a 5-year period.
(i) Structural adjustment through investment aids:	132	89	93	Payments were made to producers agreeing to terminate production for a 5-year period.
Farm Service Agency (FSA)				
Farm Credit Programs (previously FmHA programs)[6/]	132	86	91	Program includes (i) short-term and long-term loans made at preferential interest rates and (ii) guarantees of private loans. Eligibility (clearly defined in regulations) determined by status as owner-operator of a family-sized farm in situations of structural disadvantage (can not obtain credit elsewhere).

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
State Mediation Grants	0	3	2	Grants provided to states to assist producers having problems meeting credit obligations. Assistance must be provided through certified agricultural loan mediation programs.
(j) Environmental payments:	202	266	297	
Farm Service Agency (FSA)				
Agricultural Conservation Program[7/]	166	64	23	Conservation of soil and water is achieved through cost share agreements.
Emergency Conservation Program	6	32	26	Assists in funding emergency conservation measures necessary to restore farmland damaged by natural disasters.
Soil and water loans program[6/]	0	0	0	Low interest loans and loan guarantees to assist farmers to use sound soil and water conservation practices.
Wetland Reserve program (also see NRCS part)	0	33	88	Conservation and restoration of wetlands through long-term agreements. Producers must implement a conservation plan and retire crop acreage base. The 1996 Farm Act authorized funding through the CCC starting in 1997.
Natural Resource Conservation Service				
Great Plains Conservation Program[7/]	19	5	4	Cost share contracts for three to 10 years are used to help landowners implement long term conservation measures.
Colorado River Basin Salinity Control[7/]	2	3	1	Water quality for downstream users is enhanced by information/cost sharing.
Water Bank Program	9	10	8	Conservation of wetlands are achieved through 10-year contracts with producers.

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
Wetland Reserve Program (also see FSA part)	0	47	33	Conservation and restoration of wetlands through long-term agreements. Producers must implement a conservation plan and retire crop acreage base.
Farms for the Future	0	0	0	Provides loan guarantees and interest assistance to state trust funds to help finance programs to protect and preserve farmland.
Wildlife Habitat Incentives Program	0	0	5	Provides technical assistance and cost share assistance to landowners to develop habitat for upland wildlife, wetlands wildlife, endangered species, fish and other wildlife. Funds come from CCC under five to10 year contracts. First outlays are fiscal year 1998. Established by 1996 Farm Act.
Commodity Credit Corporation (CCC)				
Farmland Protection Program	0	3	7	Conservation plans are made and easements purchased through state, tribe or local government agencies to protect topsoil by limiting conversion to non-agricultural uses. Conservation plans must be carried out over 30 years or more of the easement term.
Conservation Program Technical Assistance	0	20	41	Technical assistance, including financial assistance, is provided by the CCC through the Environmental Quality Incentives Program (EQIP) and other programs. A conservation plan must be submitted before receiving cost share and incentive payments.
Environmental Quality Incentives Program	0	49	61	Encourages farmers and ranchers to adopt practices that reduce environmental and resource problems. Half of the funds are targeted to livestock production practices.

Agency and program, by measure and type (some agency names have changed)	Outlays (million dollars)[1/] 1986–88	1997	1998	Description of program
(k) Payments under Regional Assistance Programs:	0	0	0	Note: Regional outlays moved to category (a) general services, above (no direct payments made).
(l) Other:	0	0	0	
Grand Total[8/]	**26,151**	**51,252**	**49,824**	

[1]Unless otherwise specified, data are outlays for fiscal years. Outlays were excluded from domestic U.S. tables if not related directly to internal support of production agriculture. Wages, salaries and administrative expenses were excluded except where such outlays reflect the level of services provided to agriculture.
[2]Fees and taxes were estimated from partial data for 1986, 1987, 1995 to 1999. Complete data available for 1988–92.
[3]Outlays for Grain Inspection and Packers and Stockyards were combined in the Budget document. Outlays for each separately estimated from appropriations.
[4]Former Human Nutrition Information Service functions were transferred to the Agricultural Research Service (ARS) and the new Center for Nutrition Policy and Promotion, Food and Consumer Service (FCSA).
[5]Value of subsidy on feed distributed under the Emergency Feed Assistance Program is unavailable. Pounds of feed so distributed were: 1,880,009 for FY 86; 4,678,875 for FY 87; 316,893,702 for FY 88; and 820,944,327 for FY 89. There were 829,538 pounds distributed in FY 1995 and 162,000 pounds distributed in FY 1996. There was no feed distribution under this program for FY 1997 and FY 1998 since the program was suspended through 2002 by the Federal Agriculture Improvement and Reform Act of 1996.
[6]Derived as the difference between FmHA and commercial interest rates times the value of loans made during the year. Data also include budget outlays for recognized losses on FmHA loan guarantees. Farm Credit System Programs (FCS) are not included because loans made in 1986–88 were not subsidized. The Farm Credit Amendments Act of 1986 forbids the FCS from underpricing its competition. Also, the FCS interest rates are greater than commercial rates, after adjusting announced rates for the mandatory stock purchase requirement paid by borrowers without compensation.
[7]The functions of the following programs are combined after 1995 into a new program called the Environmental Quality Incentives Program (EQIP, see CCC, above) under the Federal Agriculture Improvement and Reform Act of 1996: Agriculture Conservation Program, Great Plains Conservation Program, Water Quality Incentives Program and Colorado River Basin Salinity Control Program. Separate funding for EQIP was also provided starting in 1997.
[8]Totals for 1986–88 were revised in 1997 to correct errors in original formula.

Appendix 6: Excerpt of Japan's DS:1 notification for marketing year 1998

Domestic support: Japan
Reporting period: fiscal year 1998

Measures exempt from the reduction commitment: Green Box

Measure Type 1	Name and description of measure with reference to criteria in Annex 2 2	Monetary value of measure in year in question billion Yen 3	Data Sources 4
(a) General services	Research: General research, research in connection with environmental programs and research programs relating to particular products.	82.1	Documents of Budget
	Plant protection: General and product specific pest and disease control measures.	10.4	Documents of Budget
	Animal health control: General and product specific animal health control for livestock and animal medicine inspection.	5.3	Documents of Budget
	Extension services: Education, extension and advisory services, and programs for practical application of new technologies.	40.7	Documents of Budget
	Facilitation of management of agricultural organizations: Facilitation of training and advisory services through agricultural organizations.	72.8	Documents of Budget
	Compilation of statistical data and information: Compilation and provision of statistical data and information for producers and consumers.	7.2	Documents of Budget
	Promotion of soil conservation and low-input farming: Extension and advisory services, research programs for soil conservation and low-input farming.	0.4	Documents of Budget
	Extension and infrastructural services for technological improvement of agricultural production: Extension and advisory services, research programs and infrastructural services for technological improvement of agricultural production.	59.0	Documents of Budget

Measure Type 1	Name and description of measure with reference to criteria in Annex 2 2	Monetary value of measure in year in question billion Yen 3	Data Sources 4
	General services for livestock industry including extension and infrastructure: Infrastructural services, extension and advisory services on technologies, and information services for promotion of livestock products.	97.6	Documents of Budget
	Programs for improvement of food marketing, processing and consumption: Providing marketing information to consumers, research related to food or agricultural products processing, marketing promotion and inspection.	20.3	Documents of Budget
	Inspection and information services for agricultural production materials: Inspection, research, extension and advisory services for agricultural machinery, fertilizers, agricultural chemicals, seeds and seedlings.	8.4	Documents of Budget
	Infrastructural services for agricultural sector and rural area: Construction of irrigation/drainage facilities and rural roads, and land consolidation.	1,552.4	Documents of Budget
	Disaster rehabilitation services: Reconstruction of irrigation/drainage facilities and rural roads damaged by natural disasters.	87.2	Documents of Budget
	Infrastructural services for market facilities: Provision or construction of market facilities.	13.8	Documents of Budget
	Advisory services for structural improvement: advisory services for effective farm land utilization.	51.8	Documents of Budget
	Personnel expenses for Government officials.	198.9	Documents of Budget
(b) Public stockholding for food security purposes	Public stockholding: Public stockholding of rice, wheat, barley, soya beans and feedgrains.	46.8	Documents of Budget

Measure Type 1	Name and description of measure with reference to criteria in Annex 2 2	Monetary value of measure in year in question billion Yen 3	Data Sources 4
(c) Domestic food aid	School lunch programs: Supply of rice, milk and fruit juice for schoolchildren at subsidized prices.	9.3	Documents of Budget
(f) Payments for relief from natural disasters	Agricultural insurance scheme: Government subsidies on premiums of agricultural insurance.	57.6	Documents of Budget
	Natural disaster relief loans: Loans for relief of damaged farmers by natural disasters.	0.3	Documents of Budget
(g) Structural adjustment assistance provided through producer retirement programmes	Farmers' pension programs: Payments of pension to retired farmers on condition of transfer of the management.	85.4	Documents of Budget
(h) Structural adjustment assistance provided through resource retirement programmes	Programs for reduction of number of livestock: Payments for slaughtering of sows and cows to avoid overproduction of pork and milk.	0.5	Documents of Budget
(i) Structural adjustment assistance provided through investment aids	Agricultural loans: Interest concessions for government programmed agricultural loans.	54.3	Documents of Budget
(j) Environmental programmes	Payments for conversion from rice production: Payments for maintaining paddy fields in environmentally good condition through growing any plants other than rice or other appropriate managements.	116.7	Documents of Budget
	Support program for reduction of environmental burden due to dairy farming: Payments to dairy farmers who practice appropriate management to tackle environmental problems	6.7	Documents of Budget