UNOFFICIAL GUIDE TO THE REVISED DRAFT MODALITIES — AGRICULTURE

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< th working documents (see http://www.wto.org/english/tratop_e/agric_e/chair_workdoc_nov07_e.htm
can then be discussed politically, and in comparison with other subjects, particularly non-agricultural market access (NAMA).

In that sense, a tremendous amount of progress has been made since September, clarifying the issues, refining the approach so that it is tech

BASICS

- The negotiations aim to reform agricultural trade principally in three areas (the “three pillars”): domestic support, market access, and export subsidies and related issues (“export competition”).
- The “modalities” would spell out how to achieve this, including steps to be taken each year over a period.
- After the “modalities” have been agreed, they would be translated into cuts in tariffs on thousands of products, and reductions in subsidies and support. These would be part of the final deal.
- Formulas in the “modalities” would describe the basic cuts in tariffs, support and subsidies. For domestic support and tariffs, “tiered” formulas are used: if support or a tariff is high (ie, in a higher tier) it will be cut more steeply. Export subsidies would be eliminated.
- Not one-size-fits-all: the basic formulas for developing countries prescribe gentler cuts over a longer period. On top of that, a range of flexibilities would allow countries to deviate from the basic formulas, either totally or for some products, particularly in market access. This is designed to take account of countries’ different vulnerabilities, the liberalization already undertaken by new members, and a range of special circumstances for some products in different countries.
- New or revised rules and disciplines would also be in the “modalities”: these are as important as the formulas and are part of the deal. They include reducing the potential that permitted domestic support could distort trade, ensuring the methods of administering quotas do not themselves impede trade, and disciplining export finance, exporting state trading enterprises and international food aid so that they do not provide loopholes for export subsidies.

JARGON BUSTER

BOXES — categories of domestic support.

AMBER BOX — domestic support considered to distort production and trade, eg, by supporting prices or being directly related to production quantities, and therefore subject to reduction commitments. Officially, “aggregate measurement of support” (AMS)

SOME DETAILS

DOMESTIC SUPPORT

BACKGROUND EXPLANATION: Cutting trade-distorting domestic support would operate simultaneously through three layers of constraints. First, each category of supports would be cut or limited:

- AMBER BOX (the most distorting, with direct links to prices and production, officially AGGREGATE MEASUREMENT OF SUPPORT or AMS)
- DE MINIMIS (Amber Box but in smaller or minimal amounts)
- BLUE BOX (less distorting because of conditions attached to the support)

Second, For each of these, there would also be some constraints on SUPPORT FOR INDIVIDUAL PRODUCTS (“PRODUCT-SPECIFIC”).

Third, on top of that would be cuts in the permitted amounts of all three combined:

- “OVERALL TRADE-DISTORTING DOMESTIC SUPPORT” (OTDS)

(News reports of some countries being asked to cut their supports to certain amounts of dollars or euros are referring only to that last “overall” discipline.)

IN THE 2007 and 2008 REVISED DRAFTS: The cuts would be achieved by two methods:

1. TIERED FORMULAS. Like the tariff formula, the formulas for the AMBER BOX and OVERALL DISTORTING SUPPORT are also expressed as “tiers” with.8(rsrT0 T0 e4)7(AMcSe a (C TD0 Tc90VpeGe)4.1(th3u0.0001 T

(Therefore, for some developed countries, the base level = Amber Box commitment + 15% of production)

DEVELOPING COUNTRIES. Those with Amber Box commitments: cut by two-thirds of the formula cut. (Par.7) Those without Amber Box commitments, including net-food-importing countries, would make no reductions, but would have to stay within the base amount of support. (Pars.6, 10) (Modified)

RECENT NEW MEMBERS. New members who joined very recently, and some others with low incomes (Saudi Arabia, FYR of Macedonia, Viet Nam; Albania, Armenia, Georgia, Kyrgyz Rep, Moldova) would make no cuts. Others would make two-thirds of the formula's cut. (Par.9) (More detail. Two-thirds cut is new)

AMBER BOX (i.e. FINAL BOUND TOTAL AMS)

(Par.13) (Unchanged)

- Highest tier (above $40bn, i.e. EU), cut by 70%.
  (EU's currs

MARKET ACCESS

TARIFF REDUCTION FORMULA: THE BOTTOM LINE

The tiered reduction formula is the MAIN APPROACH for cutting tariffs (from ceilings legally bound in the WTO). Products are categorized by the height of the starting bound tariff (Year 0 in the charts below). Products in higher tiers have steeper cuts. Eventually a single percentage cut will be negotiated for use in each tier: the present text contains ranges of possibilities (eg, 66%–73% in the top tier for developed countries).

In the 2008 text, the numbers remain unchanged (for details see charts on next page). For developing countries, the standard cuts in each tier would be two-thirds of the equivalent cut for developed countries. The numbers in the formulas are among the narrower set of more political issues that will probably only be settled later when compared with non-agricultural market access and possibly other issues, and the negotiations go to a more political level.

However, the general tiered formula will not apply to all products. Some flexibility is spelt out for some products (details below), including those that are politically "sensitive" and those that are "special" because they affect food security, livelihood security and rural development in poorer countries.

Developing countries have more exceptions, particularly the smallest and most vulnerable among them — the text lists around 45 small and vulnerable economies, meaning that OVER HALF OF DEVELOPING COUNTRIES that are not least-developed would be eligible for even smaller reductions (Annex I). Least-developed countries and some recent new members will not have to make any cuts (Pars.145–6).

THE CHARTS (next page) are only provided to illustrate how the formula works and to allow developed and developing countries' cuts to be compared. The solid lines compare developed and developing countries' cuts from starting tariffs that are mid-points in the developed countries' lower three tiers and arbitrarily 100% in their top tier. The dotted lines show cuts from mid-tier or 150% in the top tier, for developing countries.

The charts show that in each case the maximum and minimum cuts suggested by the ranges do not produce very different results, particularly in the lower tiers. Eg, for developed countries a 10% tariff would be cut to 4.8%–5.2%; for developing countries to 6.53%–6.8%. But the cuts to be made by developing countries are clearly less than those of developed countries. Eg, a 100% tariff would be cut to 27%–34% in a developed country, but only to 56.7%–58.7% in a developing country.

Note that the SPECIAL TREATMENT FOR DEVELOPING COUNTRIES can sometimes work doubly. Not only are the cuts in each tier gentler, but many products (such as those with a 100% tariff) fall into a lower tier in the formula (top tier for developed, upper middle tier for developing), meaning that the cut is even gentler.

The only products that are in the same tier for both developed and developing countries are those with tariffs above 130% (top tier), those with tariffs of 30%–50% (lower middle tier), and those with tariffs below 20% (bottom tier).

However, the tariff formula is by no means the whole story …

Developed countries

Top tier: tariffs above 75% — cut by 66-73%
Upper middle tier: tariffs below 75%, above 50% — cut by 62-65%
Lower middle tier: tariffs below 50%, above 20% — cut by 55-60%
Bottom tier: tariffs below 20% — cut by 48-52%

Subject to a minimum average cut of 54%. If the formula gives a smaller average, then additional reductions would be made. (Pars.62-63)

Developing countries

Top tier: tariffs above 130% — cut by 44–48.7%
Upper middle tier: tariffs below 130%, above 80% — cut by 41.3–43.3%
Lower middle tier: tariffs below 80%, above 30% — cut by 36.7–40%
Bottom tier: tariffs below 30% — cut by 32–34.7%

Plus a maximum average cut of 36%. If the average is more than that, the cut by the formula can be reduced. (Par.64–65)

FLEXIBILITIES IN BRIEF: DEVIATIONS AND EXEMPTIONS FROM THE BOTTOM LINE

For developing countries these could be quite extensive, and in some cases the bottom-line formula could be the exception rather than the rule, or it could be discarded completely:

- SENSITIVE PRODUCTS (available for all) would have smaller cuts than from the formula, but with new quotas allowing imports at lower tariffs (“tariff quotas”) to provide some access to the market. Deviations would be one-third, half or two-thirds of the cut, with the tariff quota adjusted in relation to the deviation. (More details below)

- MAXIMUM AVERAGE CUT (developing countries) — 36%. Developing countries could reduce the formula’s cuts in order to stay within that average maximum. (Par. 65) (Unchanged)

- SMALLER MAXIMUM AVERAGE CUT (45 small and vulnerable economies) — 24% possible. This group of developing countries could choose to make even smaller cuts than the formula — which in any case is 10 percentage points less than the normal formula for developing countries — in order to stay within that lower average maximum cut. Any products deviating from the formula would be “special products” and some would be exempt cuts (see below). (Pars.66, 124 and Annex I) (Modified and clarified as “special products”)

- WOULD NOT HAVE TO MAKE ANY TARIFF CUTS: least-developed countries, “very recent” new members (Saudi Arabia, FYR of Macedonia, Viet Nam), small low-income recent new members (Albania, Armenia, Georgia, Kyrgyz Re

- SMALLER THAN FORMULA CUTS (other recent new members) — up to 7.5 percentage points less, and no cuts on tariffs of 10% or less, starting one year after their current membership deals have been implemented fully and perhaps with two additional years to implement the new agreement. (Pars.67–71) (7.5 percentage points is new, previously 5 points)

- SPECIAL PRODUCTS (developing countries) — smaller cuts for 8%–12% or 8%–20% of products whose selection (beyond the minimum 8%) is guided by indicators (Annex F). Of these perhaps up to 6% of products would have tariffs cut by 8% or 15%, another up to 6% might have 12% or 25% cuts with possibly up to 8% of products exempt any cut. (Pars.123–125) (See above for small and vulnerable economies. Recent new members have different conditions.)

TARIFF CAP

No mention. However, developed countries with more than 4% (previously 5%) of products (either only those that are charged duty — “dutiable” — or all of them) whose tariffs end up at levels above 100% have to provide a larger increase in tariff quotas than they would normally (Par.76, last sentence). (Modified)

(In his 17 July 2007 press conference, Amb.Falconer described this as an “incentive” for countries to

A major question is the extent of disaggregation for identifying “sensitive products” and for the tariff quotas. Must a sensitive product be a broad category such as “cheese”? Or can it be “hard cheese”, or even more detailed such as “cheddar cheese”? (“Partial designation” is the term for using subcategories or parts of categories to identify sensitive products.)

This is a problem for two reasons. First, domestic consumption is going to be the yardstick for new or expanded tariff quotas, but data are not usually available for narrow categories of products. Therefore consumption has to be estimated using “proxies”, a subject of divergent opinions. Second, subcategories of products can be substitutes (which means they can compete with each other), so the distinctions are not always clear-cut.

The new text describes how this would work and includes options for a minimum quota or quota expansion (“safety net provision” or “floor”) to cover cases where trade figures used (as “proxies”) to estimate domestic consumption are exceptionally low because of trade barriers. (See Annex C of paper for details.)

ADDITIONAL CRITERIA AND OTHER ISSUES

“TARIFF ESCALATION” (the problem of higher tariffs on processed products than on raw materials, which

EXPORT COMPETITION

EXPORT SUBSIDIES

Eliminate by the end of 2013 (developed countries), with half cut by the end of 2010, and options offered for cutting the subsidized quantities in the period (unchanged). New: the elimination date for developing countries would be 2016. (Pars.153–155)

EXPORT CREDITS, EXPORT CREDIT GUARANTEES OR INSURANCE PROGRAMMES

These would be disciplined to avoid hidden subsidies and ensure the programmes operate on commercial terms. Proposed conditions include limiting the repayment period to 180 days, ensuring programmes are self-financing (ie, not making losses over a period), etc. This revision greatly simplifies the text on self-financing: instead of listing criteria it just refers to recovering costs "to a commercially viable standard", over a "rolling" period of four or five years. (Annex J)

For developing countries providing credit, the 180-day maximum repayment term would be reached in three steps over a period, probably three years. Least-developed and net food-importing developing countries would be allowed 360 days to repay (previously 270 days). Some additional flexibility in special

OTHER ISSUES

MONITORING AND SURVEILLANCE

The text includes new proposals for a flexible institutional structure based on the WTO's regular Agriculture Committee. It includes clearer obligations on member governments to keep each other informed (through "notification") on what they do under the agreement, and to set up enquiry points. The surveillance mechanism would be reviewed every five years. (Annex M)

(The following remain in square brackets with no other text, indicating no narrowing of opposing views.)

[SECTORAL INITIATIVES] (Duty-free trade in a particular sector)

[DIFFERENTIAL EXPORT TAXES] (Higher export duties on raw materials than on processed products — the mirror image of tariff escalation)

[GEOGRAPHICAL INDICATIONS] (Names of products — often food — that are identified by their origin and characteristics)

THE ANNEXES

Annex A: United States — Product-Specific Blue Box Limits (left blank, to be finalized) (new)
Annex B: The Green Box ("Annex 2 of the Agreement on Agriculture shall be amended as follows") (modified)
Annex C: Basis for the Calculation of Tariff Quota Expansion (new)
Annex D: Tariff Escalation Provisional Potential List (to be finalized) (new)
Annex E: Tariff Quota Underfill Mechanism (nATJ-1PXefwTċI0to (ATJTq.30.000n)5..lla]N a