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UNOFFICIAL GUIDE TO THE REVISED DRAFT MODALITIES — AGRICULTURE

19 May 2008

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” 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 li

HIGHLIGHTS OF THIS DRAFT

Numbers in the draft tend to be in square brackets (indicating they are still to be negotiated) and in some cases the text offers ranges (e.g. tariffs) or alternatives (e.g. domestic support). Terms used in this box are explained in the longer summary.

DOMESTIC SUPPORT

(Explanation of the "boxes": http://www.wto.org/english/tratop_e/agric_e/agboxes_e.htm)

- **Overall trade distorting domestic support** (Amber + de minimis + Blue). EU to cut by 75% or 85%; US/Japan to cut by 66% or 73%; the rest to cut by 50% or 60%. "Downpayment" (immediate

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 relatively smaller or minimal permitted amounts defined as 5% of production for developed countries, 10% for developing countries)
- **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 these "modalities": The cuts would be achieved by two methods (these are cuts in permitted ceilings, which may or may not bite into actual spending):

1. **Tiered formulas**. Like the tariff formula, the formulas for the **Amber Box** and **overall distorting support** are also expressed as "tiers" with support in the highest tier having the steepest percentage cuts. Countries with larger support go into higher tiers.

2. **Limits** (or cuts resulting in limits). For **de minimis**, **Blue Box** and ersTc 0.12 T 0 T12ia) 9(y u0 18.3ts)6001c.)6001as)6001gTD

- Developed countries: cut by 50% or 60% (i.e. cap at 2.5% or 2% of the value of production, from the current 5%) (Par.30) (Unchanged)
- Developing countries with Amber Box commitments: cut two-thirds of the above cuts (from the

the percentage cut for cotton = Rg + ((100-Rg)x100)/3xRg

Eg, if the US Amber Box reduction is 60%, as above, then its cut in Amber Box support for cotton would be 82.2% i.e. (60+(40x100/180))%. That is unchanged and remains unsettled.

Blue Box support for cotton would be capped at one-third of what would be the normal limit (Par.55). (Unchanged)

Developing countries with Amber and Blue Box commitments would make two-thirds of developection i6qc foha4whex-11.0(+an

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 replaces most ranges of possibilities (eg, 48%–52% in the bottom tier for developed countries) with single numbers that are roughly midpoints in the previous ranges (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 (Par.138).

The charts (next page) indicate the scale of cuts for the two groups of countries. The purpose is only 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

Developed countries

Developing countries

LATEST: DEVELOPED COUNTRIES

LATEST: DEVELOPING COUNTRIES
Two thirds of developed countries' cuts in each tier

Top tier: tariffs above 75% — cut by 66-73%
Upper middle tier: tariffs below 75%, above 50% — cut by 64%
Lower middle tier: tariffs below 50%, above 20% — cut by 57%
Bottom tier: tariffs below 20% — cut by 50%

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the formula including exemption from cuts, and no need to use indicators. (Pars.65, 119 and Annex I) (Modified)

- **… or smaller cuts by 10 percentage points** (45 small and vulnerable economies, those with "ceiling binding", those with "low homogeneous bindings"). (Pars.65, 119 and Annex I) (Modified)

- **Smaller than formula cuts** (other recent new members) — cuts can be reduced by up to 10% in the two top bands and 5% in the two bottom bands, starting one year after their current membership deals have been implemented fully and perhaps with two additional years to implement the new agreement. (Pars.66–71)

- **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 Rep, Moldova). (Pars.67–70, 145) (Revised)

- **Special products** (developing countries) — The revised text deviation is applied, half a percentage point less if only half the cut is made, or one percentage point less product's share of trade in the broad category, but adjusted to ensure that normally the "core" products — which are usually the most heavily traded — have 90% or more of the category's consumption.

(The HS6 products' consumption figures are assumed to be the same percentages of the product categories' consumption for all members, but for HS8 products, depend on the shares of imports in each country. Note that under the Harmonized System, the HS6 codes are the same for all countries, but beyond that for HS7, HS8, etc, the codes vary from country to country.)

These estimates would be used to **determine quota sizes** when the more detailed products are declared sensitive. Normally, the size of the tariff quota would depend on the estimated consumption of the sensitive products within the same broad product category. And normally, this would have to be a single tariff quota. In a few cases (no more than three product categories), a country could set two tariff quotas within a single category.

Other disciplines, together with some flexibilities, are included to prevent the estimates leading to quotas that are too small — including a minimum quota size ("floor") to cover cases where trade figures used (as "proxies") to estimate domestic consumption are exceptionally low. (A summary of how this works is in the diagram on the next page. See Annex C and Attachment Ai of paper and additional attachments for details.) The chairpetimilwoTJ211et

SENSITIVE PRODUCTS: SUMMARY EXAMPLE OF ESTIMATING DOMESTIC CONSUMPTION FOR TARIFF-QUOTAS

1. DEFINE PRODUCT CATEGORY
i.e. the HS6 products it includes, whether these are “core”, “non-core processed”, or “non-core highly processed”, and their weights in the category’s consumption (Attachment A)

2. CALCULATE CONSUMPTION FOR PRODUCT CATEGORY
balance sheet method: production, adjusted for trade, stockholding to get consumption (Attachment B)

3. STEP 1 ESTIMATE
HS**6** CONSUMPTION
% of Product Category consumption, using **common** core/non-core weights, adapted from % of world trade (Attachment D)

4. STEP 2 ESTIMATE
HS**8** CONSUMPTION
% of HS6 consumption, from % of **member’s** imports (IDB) adjusted for content of basic product (Attachment D)

5. NEW TARIFF-QUOTA ACCESS OPPORTUNITY
(% of domestic consumption of sensitive product, open to all sensitive products in the Product Category, subject to floor — % of category consumption)

DOMESTIC CONSUMPTION

HS6 (A) CORE (eg, 67%)

HS8 (A–1) sensitive

LEAST-DEVELOPED COUNTRIES

Least-developed countries would not have to reduce tariffs. How this and other provisions would work is now simply described with a single sentence: "The provisions of the revised NAMA text are applicable here too." (Par.138)

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. The elimination date for developing countries would be 2016. (Pars.145–147) (Unchanged)