OPTIONS IN THE AGRICULTURE NEGOTIATIONS

Note by the Chairman

Addenda

1. The documents attached (MTN.GNG/AG/W/1/Add.2-11) are addenda to the Note on Options which was circulated as document MTN.GNG/AG/W/1 on 24 June. As stated to the Negotiating Group, these addenda are aimed at exploring certain options in greater detail. Like the Note on Options to which they refer, they are issued on the Chairman’s own responsibility, are not exhaustive, and are without prejudice to participants’ positions on these or other issues which may also need to be considered further.

2. Square brackets are used in various places in the addenda to highlight outstanding or additional options. Their use does not imply that the text outside the brackets is considered to be agreed.
Product Coverage

The following product coverage could be considered in relation with paragraph 2 of the options paper.

(a) Harmonised System Chapters 1 to 23 less fish and fish products.

(b) Plus

Heading 2401 (un-manufactured tobacco)
Heading 3301 (essential oils)
Ex-Heading 3501 (casein; less casein glues)
Ex-Heading 3502 (albumins; less albumins unfit for human consumption)
Ex-Heading 3502 (albuminates and albumin derivatives)
Headings 4101 to 4103 (hides and skins)
Headings 4301 to 4302 (undressed and dressed furskins)
Headings 5101 to 5103 (wool and animal hair)
Heading 5201 (raw cotton)
Heading 5202 (cotton waste)
Heading 5203 (cotton, carded or combed)

Suggestions on possible additions to this list are expected. When reviewing the product coverage there will be a need to co-ordinate with other negotiating groups.
Domestic Support: The Basis for Exemption from the Reduction Commitment (Green Box)

(Paragraphs 8-13 of AG/W/1 refer)

1. Certain forms of support with either no, or minimal, trade distortion effects or effects on production may be excluded from the commitment to progressive and substantial reduction. This support may take the form of direct payments to producers or government expenditure and revenue foregone on programmes involving transfers to producers. It may include programmes aimed at providing general services to agriculture and the rural community; domestic food aid; public stockholding for food security purposes ...

Criteria for exempting policies from the reduction commitment

2. Domestic support policies for which exemption from the reduction commitment is claimed must meet the fundamental requirement that they have no, or at most a minimal, distortive effect on production and trade. To this end, all policies for which exemption is claimed must conform to the following basic criteria:

(a) the support in question must be provided through a publicly-funded government programme (including government revenue foregone) not involving transfers from consumers; and,

(b) the support in question must not have the effect of providing price support to producers.

3. Exempt policies may involve either government expenditure (or revenue foregone) on the provision of services or direct payments to producers. In both categories policies for which exemption is claimed must conform to certain additional conditions as set out below.

4. Government Service Programmes

(a) General services

Expenditures (or revenue foregone) in relation to programmes which provide services or benefits to agriculture or the rural community without involving direct payments to producers or processors. Such programmes, which include but are not restricted to the following list, must meet the general criteria in paragraph 2 above and policy-specific conditions where set out below:

research, including general research, research in connection with environmental programmes, and research programmes relating to particular products;

pest and disease control, including general and product-specific pest and disease control measures, such as early warning systems, quarantine, eradication etc.;

training services, including both general and specialist training facilities;
extension and advisory services, including the provision of means to facilitate the transfer of information and the benefits of research to producers and consumers;

inspection services, including general inspection services and the inspection of particular products for health, safety, grading or standardization purposes;

marketing and promotion services, including market information, advice and promotion relating to particular products (but excluding expenditure for unspecified purposes that could be used by sellers to reduce their selling price or confer a direct economic benefit to purchasers); and

infrastructural services, including: electricity reticulation, roads and other means of transport, water supply facilities, dams and drainage schemes, and infrastructural works associated with environmental programmes. 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.

(b) Domestic Food Aid

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 should be subject to a means test or other objective criteria related to need. 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. The volume of such aid shall not be influenced by annual production fluctuations and food purchases by the government shall be made at current market prices. The financing and administration of the aid shall be transparent.

(c) Public stockholding for food security purposes

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

The volume and accumulation of such stocks shall not be influenced by annual production fluctuations and 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 more than the purchase price.

Direct Payments to Producers

5. ...
Domestic Support: The Definition of the AMS

(Paragraphs 17-19 of AG/W/1 refer)

1. The AMS would be calculated on a product-specific basis for each product receiving market price support, direct payments, or any other product-specific subsidy (including revenue foregone) not exempted from the reduction commitment. Specific AMSs for each product would be expressed in total monetary value terms in domestic currency. [Support which is generally available for all products, would be totalled into one non-product specific AMS in total monetary terms. The coverage of such an AMS would be sector-wide rather than applying only to the products for which a product-specific AMS is calculated.]

2. Support at both the national and sub-national level would be included. The AMS would be calculated at the farmgate level. Policies directed at agricultural processors would be included to the extent such policies benefit the producers of the products.

3. The AMS would be calculated for three broad groups of policies i.e. those that fall under the categories of: market price support, non-exempt direct payments and other non-exempt policies.

4. Market price support: including any measure [, other than a border measure,] which acts to maintain producer prices at levels above those prevailing in international trade for the same or comparable products, and taking account of levies or fees paid by producers. Market price support would be calculated as the level of support extended through these policies using the gap between a fixed external reference price (expressed in national currencies) and an agreed internal price multiplied by the quantity of [eligible] production. The fixed external reference price would be based on [19___19___] data and would be subject to reassessment in [19__]. The fixed reference price would be adjusted for quality differences as necessary.

5. Non-exempt direct payments (including revenue foregone): including deficiency and like payments, and taking account of levies or fees paid by producers. [Non-exempt direct payments which are dependent on the difference between the world price and an internal price, e.g. deficiency payments, would be calculated as the level of support extended through these policies using the gap between a fixed external reference price (expressed in national currencies) and an agreed internal price price multiplied by the quantity of [eligible] production. The fixed external reference price would be based on [19___19___] data and would be subject to reassessment in [19__]. The fixed reference price would be adjusted for quality differences as necessary.] Non-exempt direct payments [which are not dependent on price (i.e. are unrelated to the world or domestic prices)] would be measured using budgetary outlays.

6. Other non-exempt policies, including non-exempt revenue foregone, input subsidies (e.g. investment subsidies, credit and other financial input assistance) and other policies such as marketing cost reduction measures, and taking account of input taxes. Such policies would generally be measured using government budget outlays or revenue foregone. In cases
such as subsidies for irrigation water and interest concessions, the means to calculate the effects of the subsidies would be the difference between the price (interest rate) paid by producers and the price (interest rate) paid by other users of the water (or other users of similar finance) multiplied by the quantity of water (finance) used.

7. [Adjustments would be made to allow governments of particular countries to compensate producers for some of the effects of [excessive rates of] inflation.]

8. [Adjustments would be made in either the AMS or the reduction commitment for those products for which effective supply controls are in operation.]
Domestic Support: The Definition of Equivalent Commitments

(Paragraph 20 of AG/W/1 refers)

1. For those products for which the calculation of an AMS is not practicable, commitments equivalent to those undertaken via the AMS would be made. Such commitments would depend on the types of policies in operation.

2. For those products for which a form of production aid or direct payment is used, disciplines would take the form of the agreed reductions applying to the production aid or direct payment and/or the quantity of production [eligible to receive them].

3. For those products for which there is price support (e.g. the withdrawal of product or storage), agreed reductions would be made on the basis of an agreed internal price and/or the quantity of production [eligible to receive that price].

4. Equivalent commitments for other direct payments would use total budgetary outlays or revenue foregone. Equivalent commitments for other non-exempt policies would generally be measured using government budget outlays or revenue foregone. In cases such as subsidies for irrigation water and interest concessions, the means to calculate the effects of the subsidies would be the difference between the price (interest rate) paid by producers and the price (interest rate) paid by other users of the water (or other users of similar finance) multiplied by the quantity of water (finance) used.

5. [Any non-product specific policies not captured in the sector-wide AMS would be treated in the same manner as product-specific policies above.]

6. [Adjustments would be made to allow governments of particular countries to compensate producers for some of the effects of [excessive rates of] inflation.]
Domestic Support: Special and Differential Treatment

(Paragraph 23 of AG/W/1 refers)

1. Special and differential treatment for developing countries in respect of domestic support would reflect the recognition by participants that assistance to encourage agricultural and rural development is an integral part of the development programmes of developing countries. In addition to the general exemptions from reduction commitments available under the "green box", the following special provisions could apply:

(a) Support policies which fall into the "amber" category may, where implemented as part of agricultural and rural development programmes in developing countries, be exempt from reduction. Such policies must satisfy agreed criteria relating, inter alia, to persistent economic deficiencies in the agricultural sector and to minimal trade distortion. They would be subject to notification and monitoring. Investment subsidies which are generally available to agriculture in developing countries are to be included in this exempt category, as is support to producers to encourage diversification from the growing of illicit narcotic crops.

(b) Where developing-country support falls within the scope of reduction commitments, the developing countries concerned would have the flexibility to implement reductions within the range of [x to y] per cent of the reduction rate applying to developed countries.

(c) The timeframe for implementation and completion of reduction commitments by developing countries would be extended up to an additional [z] years.
1. The policy coverage of tariffication would include all border measures other than ordinary customs duties such as: quantitative import restrictions, variable import levies, minimum import prices, discretionary licensing, non-tariff measures maintained through State trading enterprises, voluntary export restraints, other policies as may be agreed and any other schemes similar to those listed above, whether or not the measures are maintained under country-specific derogations from obligations provided for by rules and disciplines.

2. The calculation of the tariff equivalents would be made in a transparent manner using data, data sources and definitions that are made available to all participants. Following the estimation of initial tariff equivalents, their rates would be subject to scrutiny and review with a view to adjustment as necessary by interested participants prior to their consolidation.

3. Data used would be for the [19__ to 19__] period.

4. Calculations would be carried out for all agricultural products traded. This implies that:

   (i) calculation would primarily be made at the four-digit level of the HS;

   (ii) wherever appropriate, as in the case of individual fruits and vegetables, calculation would be made up to the six-digit level of the HS;

   (iii) for transformed and processed agricultural products, calculation would generally be made by multiplying the tariff equivalent(s) for the agricultural input(s) [or substitute(s)] by the proportion(s) of the agricultural input(s) [or substitute(s)] in the transformed and processed agricultural products. [For products treated in this manner, the tariff equivalent would also include the current level of industrial protection. However, the total tariff equivalent would be no larger than that implied by a price gap between the domestic price and the world price for the transformed or processed product concerned.]

5. The initial tariff equivalents would be adjusted, where necessary to take account of differences in quality or variety using an appropriate coefficient.

6. External prices would be, in general, actual c.i.f. unit values for the importing country; where c.i.f. unit values are neither available nor appropriate, external prices would be either: (i) appropriate c.i.f. values of a near country; or (ii) estimated from f.o.b. values of [an] appropriate major exporter[s] adjusted by adding an estimate of insurance, freight and other relevant costs to the importing country.
7. Except in exceptional circumstances, the external prices would be converted to domestic currencies using the annual average market exchange rate for the same periods as the price data.

8. The internal price would be the average price ruling in the domestic market or an estimate of that price where no data is available.

9. Initial tariff equivalents would be expressed as ad valorem or specific rates.

10. Where the tariff equivalents resulting from these guidelines are negative or lower than the current bound rate, the initial tariff equivalent may be established at the current bound rate or on the basis of national offers [or at [x] per cent (or the specific equivalent of [x] per cent)].
Market Access: Minimum Access Commitments

(Paragraph 35 of AG/W/1 refers)

1. Minimum access commitments could apply in a number of contexts, notably in connection with products subject to tariffication, products on which prohibitive tariffs apply, and/or products on which non-tariff measures could be maintained on whatever grounds as may be agreed. In all cases clarification is required on some technical elements such as those outlined below.

2. The general basis on which minimum access could be created include: minimum access opportunities to increase access to [x] per cent of domestic [production] [consumption]; and, the allocation of new access on an MFN basis. The commitments would not be to guarantee that imports actually take place, but to provide minimum access opportunities.

3. In some cases, data for production or consumption may not be readily available. In this situation, one possibility may be the use of constructed data (an estimate of production or consumption).

4. Certain other technical aspects of such a commitment remain to be decided. In the case of processed products the commitment could be taken at the tariff line level for each individual product. Alternatively, if products are grouped into broader categories (e.g. a generic category for "wheat", "cereals", or "beef", or a category for milkfat and protein for dairy products), imports and domestic [production] [consumption] of processed products up to the first and second stage of processing could be taken into account on the basis of coefficients.

5. In the latter case, translating a minimum access level for a broad product category (e.g. beef or wheat) into commitments at the individual tariff line level (e.g. for frozen carcasses versus fresh cuts, or wheat versus flour versus pasta) needs examination. Options include: the allocation of product-specific import licences prior to the beginning of the marketing period in proportion to the requests for licences; the allocation of licences on a first-come-first-served basis throughout the period until the minimum access opportunities have been filled; the allocation of a minimum import of [y] per cent of [production] [consumption] per tariff line with the remaining [x-y] per cent available for some other form of allocation; or the allocation of access to "major" products with the provision of opportunities for request/offers negotiations for other products. Special provisions may be necessary for perishable products.

6. In terms of implementation, a number of options have been suggested including: tariff rate quotas; tariff equivalents set at the "correct" level to ensure that the minimum access commitment is met; or the use of the present border measures.

7. The level of tariffs applying to the minimum access and the duration of the minimum access opportunities remain to be agreed.
8. The relationship of minimum access opportunities to other aspects of the negotiations such as a possible special safeguard for agriculture will have to be addressed at an appropriate stage.
Market Access: Special and Differential Treatment

(Paragraphs 39-40 of AG/W/1 refer)

1. The suggested guidelines for tariffication allow participants some flexibility in establishing tariff equivalents, notably with regard to data availability and special circumstances that may be particularly relevant to developing countries. Where the tariff equivalents resulting from the use of the guidelines are negative or lower than the current bound rate, the initial tariff equivalent may be established at the current bound rate, on the basis of national offers or by some other agreed means.

2. Should a special safeguard to facilitate the process of reform be introduced, scope may be given for developing countries to have the flexibility to extend the period of application of the special safeguard and/or to suspend any further tariff reductions on the product(s) in question for an agreed period. In addition developing countries would continue to have the possibility to make use of the provisions of Article XVIII.

3. For other aspects of commitments on market access, such as provisions on current and minimum access opportunities and the treatment of products subject to existing tariffs only, the application of special and differential treatment remains to be considered following agreement on the general modalities.

4. Once the general reduction commitment is negotiated and agreed, special and differential treatment could include that developing countries have the flexibility to implement their commitment within the range of [x to y] per cent of that applied by developed countries and/or that the timeframe for implementation by developing countries would be extended by up to [z] years.

5. Further, in implementing the commitments on market access, developed countries would take fully into account the particular needs and conditions of developing countries by providing for a faster rate of improvement of access opportunities for agricultural products of particular interest to these countries, including tropical agricultural products.
Export Competition:
Export Subsidies to be subject to the terms of the Final Agreement

(Paragraphs 44-48 of AG/W/1 refer)

1. The following generic criteria and related illustrative list of export subsidy practices are suggested as a basis for further consideration.

Generic Criteria

2. "The provision by governments or their agencies of subsidies to producers or exporters of primary agricultural products which are legally contingent upon export performance or which in practice are tied to actual or anticipated exportation or export earnings, as well as any form of subsidy which results [in the price or return to producers of a product, when exported, being higher than world market prices or returns, or] in the sale of such products for export at a price lower than the comparable price charged for like products to buyers in the domestic market."

Illustrative List of Export Subsidy Practices

3. (a) The provision by governments or their agencies of direct subsidies, including payments-in-kind, to a producer, a firm or an industry contingent in law or in fact upon export performance or export earnings.

(b) Payments to producers of a product which result in the price or return to producers of that product when exported being higher than world market prices or returns, including the repayment at less than full value of product specific governmental loans or advances to producers in respect of which repayment is based on a price that is lower than the comparable price for the like product prevailing in the domestic market.

(c) The provision of financial assistance in any form by governments or their agencies to export income or price stabilization schemes operated by producers, marketing boards or other entities which enjoy a monopoly of, or play a predominant rôle in, the marketing and export of an agricultural product.

(d) The sale or disposal for export of publicly owned stocks at less than their acquisition value except bona fide food aid transactions.

(e) Assistance to reduce transport and freight costs in respect of exports.

(f) Assistance to reduce the cost of marketing exports (other than generally available export promotion advisory services) including handling, upgrading and other processing costs.

(g) Export performance-related taxation concessions or incentives other than the remission of indirect taxes.
(h) Export credits provided by governments or their agencies on less than fully commercial terms.

(i) Subsidized export credit guarantees or insurance programmes.

(j) Subsidies on agricultural products contingent on their incorporation in products that are exported.

(k) Subsidies on exports of agricultural products which are financed from the proceeds of a levy on producers of that product, or on producers of the primary product from which the exported product is derived, under programmes in whose establishment, operation or financing governments are directly or indirectly involved.

(l) Any other export subsidy practice in the sense of paragraph 2 above.
Export Competition: Special and Differential Treatment

(Paragraphs 54-55 of AG/W/1 refer)

1. The basic options are whether all countries using export subsidies should, without exception, undertake reduction commitments on the same basis, or whether developing countries should be fully or partially exempted from such commitments.

2. Approaches for special and differential treatment in the context of specific export subsidy reduction commitments would include: that individual developing countries would not be required to undertake such commitments provided that their levels of export assistance do not exceed predetermined de minimis levels; that developing country reduction or freeze commitments be contingent on a degree of harmonization in levels of export assistance having first been achieved as between heavily subsidizing and other exporting countries; and that reduction or freeze commitments to be undertaken by developing countries would apply only where their share in world export trade in a given product exceeds a predetermined level.

3. Where reduction commitments are undertaken by developing countries, the scope for longer timeframes and/or lower rates of reduction would be another aspect of special and differential treatment for consideration.

4. The options in terms of the rules and disciplines that would eventually govern export competition, would depend on the nature of the framework that might be adopted.

5. As regards possible negative effects of the reform process on net food-importing developing countries, one option would be the development of guidelines under which the availability of basic foodstuffs to the least developed and net food-importing developing countries would be assured. Such guidelines could outline the general principles or criteria for ensuring the availability of adequate supplies of basic foodstuffs in the form of recommendations for consideration by the relevant international bodies and for appropriate action by Contracting Parties.