

RESTRICTED
MTN.GNG/MA/W/24
20 December 1993
Distribution Special

(UR-93-0250)

Original: English

Negotiating Group on Market Access

**MODALITIES FOR THE ESTABLISHMENT OF SPECIFIC BINDING COMMITMENTS
UNDER THE REFORM PROGRAMME**

NOTE BY THE CHAIRMAN OF THE MARKET ACCESS GROUP

The present text of the Modalities for the Establishment of Specific Binding Commitments under the Reform Programme (originally issued as part of the Draft Final Act, MTN.TNC/W/FA of 20 December 1991, pages L.19 to L.34) reflects changes to these modalities resulting from the negotiating process. The text is being re-issued for the purpose of completing draft Schedules of concession and commitments in the Agricultural negotiations and for facilitating the verification process leading to the establishment of formal Schedules to be annexed to the Uruguay Round Protocol.

As noted in paragraph 22 of the Modalities, tables of supporting material in their final form are to be communicated to the Secretariat, to enable these tables to be registered and assigned an official GATT document number.

The attention of participants is drawn to the revised Table 4 (Total AMS) which appears in the attachment to Annex 2 (at page 7 of this document).

The revised text is being re-issued on the understanding of participants in the Uruguay Round that these negotiating modalities shall not be used as a basis for dispute settlement proceedings under the MTO Agreement.

1. Specific binding commitments in the areas of market access, domestic support and export competition shall be established in accordance with the modalities set out hereunder.
2. The commitments under the reform programme shall apply to measures maintained by participants relating to products listed in Annex 1, hereafter referred to as agricultural products.

Specific Modalities: Market Access

3. For agricultural products currently subject to ordinary customs duties only, the reduction commitment shall be implemented on the bound duty level or, in the case of unbound duties, on the level applied as at 1 September 1986.
4. For agricultural products currently subject to border measures other than ordinary customs duties, the reduction commitment specified in paragraph 5 below shall be implemented on customs duties resulting from the conversion of such measures ("tariffication"). The modalities of the conversion and other related provisions, including those relating to current access opportunities, and the establishment of minimum access opportunities are set out in Annex 3. The special safeguard provision may be invoked only in respect of these tariffied products.
5. Ordinary customs duties, including those resulting from tariffication, shall be reduced, over the six-year period commencing in the year 1995, on a simple average basis by 36 per cent with a minimum rate of reduction of 15 per cent for each tariff line. Where there are no significant imports, minimum access opportunities shall be established. They shall represent in the first year of the implementation period not less than 3 per cent of corresponding domestic consumption in the base period 1986-88 and shall be expanded to reach 5 per cent of that base figure by the end of the implementation period.
6. Current access opportunities, which during the base period are in excess of the minimum access opportunities as defined in paragraph 5 above, shall be maintained and increased over the implementation period. However, in relation to the expansion of current access, due account shall be taken of reduction commitments in the export competition area.
7. The reductions in ordinary customs duties and expansion of access opportunities shall be implemented in equal instalments. All customs duties, including those resulting from tariffication, shall be bound.

Specific Modalities: Domestic Support

8. All domestic support in favour of agricultural producers, with the exception of measures meeting the criteria set out in Annex IV or elsewhere in these modalities shall be subject to commitments expressed and implemented through Aggregate Measurements of Support calculated as provided for in Annex 5, or, where the calculation of an AMS is not practicable, through Equivalent Measurements of Support calculated as provided for in Annex 6. The base period shall be the years 1986 to 1988. A Total AMS shall be calculated as the sum of the value of all Aggregate Measurements of Support and Equivalent Measurements of Support. The Total AMS shall be reduced during the period of implementation in equal annual instalments and shall be bound, at the end of the period, at a level 20 per cent below the base period level. Credit shall be allowed in respect of actions undertaken since the year 1986.

9. Domestic support measures that cannot be shown to satisfy the criteria set out in Annex 4 or elsewhere in these Modalities shall be included in the base Total AMS.

10. Participants shall not be required to include in the calculation of their base Total AMS:

(i) product-specific domestic support which would otherwise be required to be included where such support does not exceed 5 per cent of the total value of production of a basic product; and

(ii) non-product-specific domestic support which would otherwise be required to be included where such support does not exceed 5 per cent of the value of total agricultural production.

Specific Modalities: Export Competition

11. The export subsidies listed in Annex 7 shall be subject to budgetary outlay and quantity commitments. Outlays and quantities shall be reduced, over a six-year period, commencing in the year 1995 by 36 per cent and 21 per cent respectively. The base period shall be the year 1986 to the year 1990. These commitments shall be established in accordance with the modalities prescribed in Annex 8.

12. Commitments shall include undertakings not to introduce or re-introduce subsidies on the export of agricultural products or groups of products in respect of which such subsidies were not granted during the course of the base period. In addition, commitments may be negotiated to limit the scope of subsidies on exports of agricultural products as regards individual or regional markets. The markets to which such commitments apply shall be specified in the lists of commitments on export competition.

Special and Differential Treatment

13. In keeping with the recognition that special and differential treatment to developing countries is an integral element of the negotiation, the provisions set out in paragraphs 14 to 20 below shall apply in respect of developing countries.

14. In the case of products subject to unbound ordinary customs duties developing countries shall have the flexibility to offer ceiling bindings on these products.

15. Developing countries shall have the flexibility to apply lower rates of reduction in the areas of market access, domestic support and export competition provided that the rate of reduction in each case is no less than two thirds of that specified in paragraphs 5, 8 and 11 above. Developing countries shall have the flexibility to implement the reduction commitments over a period of up to 10 years.

16. The least developed countries shall be exempt from the reduction commitments.

17. In implementing the commitments on market access, developed countries will take fully into account the particular needs and conditions of developing countries by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to these countries, including the fullest liberalization of trade in tropical agricultural products as agreed at the Mid-Term Review, and products of particular importance to the diversification of production from the growing of illicit narcotic crops. Account may also be taken of the guidelines by the Chairman of the Market Access Negotiating Group relating to concessions and other liberalization measures implemented by developing countries.

18. Special and differential treatment in respect of domestic support shall reflect the agreement by participants that government measures of assistance, whether direct or indirect, to encourage agricultural and rural development are an integral part of the development programmes of developing countries.

Accordingly, policy measures specified below which may fall under the reduction commitment in paragraph 8 above shall be exempt from reduction where implemented as part of agricultural and rural development programmes in developing countries:

- (a) investment subsidies which are generally available to agriculture;
- (b) domestic support to producers to encourage diversification from the growing of illicit narcotic crops;
and
- (c) agricultural input subsidies, whether in cash or kind, provided to low-income or resource-poor producers, defined using clear and objective criteria, and which are available to all producers meeting these criteria.

Domestic support meeting the criteria of this paragraph shall not be required to be included in the base Total AMS.

19. In addition to the exemptions listed above, and the general exemptions from reduction commitments specified under Annex 4, special and differential treatment shall apply to the *de minimis* provision concerning reduction commitments on domestic support in paragraph 10 above. The relevant threshold percentage for developing countries shall be 10 per cent.

20. During the implementation period, developing countries shall not be required to undertake commitments in respect of the export subsidies described in Annex 7 paragraphs 1(d) and 1(e).

Lists of Commitments

21. Lists of commitments, together with related supporting tables, shall be submitted in line with Annex 2 no later than the date decided by the Trade Negotiations Committee.

Tables of Supporting Material

22. Tables of supporting material in their final form (Supporting Tables 1 to 11 as appropriate) are to be submitted to the Secretariat to enable these tables to be registered and assigned an official GATT document number. In the case of commitments limiting subsidization (domestic support and export subsidy commitments) reference is to be made, as appropriate, to the relevant Supporting Tables, as contained in this document, in Part IV of the Schedules to be annexed to the Uruguay Round (1994) Protocol.

ANNEX 1

PRODUCT COVERAGE

1. The products in respect of which commitments are to be established are as follows:

- (i) HS Chapters 1 to 24 less fish and fish products, plus
- (ii)

HS Code	29.05.43	(mannitol)
HS Code	29.05.44	(sorbitol)
HS Heading	33.01	(essential oils)
HS Headings	35.01 to 35.05	(albuminoidal substances, modified starches, glues)
HS Code	38.09.10	(finishing agents)
HS Code	38.23.60	(sorbitol n.e.p.)
HS Headings	41.01 to 41.03	(hides and skins)
HS Heading	43.01	(raw furskins)
HS Headings	50.01 to 50.03	(raw silk and silk waste)
HS Headings	51.01 to 51.03	(wool and animal hair)
HS Headings	52.01 to 52.03	(raw cotton, waste and cotton carded or combed)
HS Heading	53.01	(raw flax)
HS Heading	53.02	(raw hemp)

2. The foregoing shall not limit the product coverage of the Agreement on Sanitary and Phytosanitary Measures.

ANNEX 2

LISTS OF SPECIFIC COMMITMENTS

1. Participants shall submit lists of commitments and supporting material established in line with the reduction commitments and the modalities established in relation to each area of the negotiation. The supporting material shall, where specified, form an integral part of the specific commitments to which it relates. These lists shall be communicated to the Secretariat. Unless otherwise stipulated by the participant concerned, lists shall be classified as secret documents. They shall be made available to other participants that have themselves submitted lists.

2. The lists together with the supporting material shall be established in line with the formats in pages L56 to L72 of the DFA. As domestic support reduction commitments are now to be expressed in terms of "Total AMS"; the revised Table 4 in the attachment hereto **replaces** Tables 4 to 6.

Attachment to Annex 2

Table 4 (Revised)

AGRICULTURAL NEGOTIATIONS: LIST OF COMMITMENTS

DOMESTIC SUPPORT: Name of Country

Total Aggregate Measurement of Support

Base Total AMS (Supporting Tables 4 to 10)	Calendar/marketing year applied	Annual commitment levels			
1	2	3	4	5	6...

ANNEX 3

MARKET ACCESS: AGRICULTURAL PRODUCTS SUBJECT TO BORDER MEASURES OTHER THAN ORDINARY CUSTOMS DUTIES

Section A: The calculation of tariff equivalents and related provisions

1. The policy coverage of tariffication shall include all border measures other than ordinary customs duties¹ such as: quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state trading enterprises, voluntary export restraints and any other schemes similar to those listed above, whether or not the measures are maintained under country-specific derogations from the provisions of the GATT 1947.
2. The calculation of the tariff equivalents, whether expressed as ad valorem or specific rates, shall be made using the actual difference between internal and external prices in a transparent manner using data, data sources and definitions as specified in Annex 2. Data used shall be for the years 1986 to 1988.
3. Tariff equivalents shall be established for all agricultural products subject to border measures other than ordinary customs duties:
 - (i) tariff equivalents shall primarily be established at the four-digit level of the HS;
 - (ii) tariff equivalents shall be established at the six-digit or a more detailed level of the HS wherever appropriate, as in the case of certain fruits and vegetables;
 - (iii) for transformed and processed agricultural products, tariff equivalents shall generally be established by multiplying the specific tariff equivalent(s) for the agricultural input(s) by the proportion(s) in value terms or in physical terms as appropriate of the agricultural input(s) in the transformed and processed agricultural products, and take account, where necessary, of any additional elements currently providing protection to industry.
4. External prices shall be, in general, actual average c.i.f. unit values for the importing country. Where average c.i.f. unit values are not available or appropriate, external prices shall be either:
 - (i) appropriate average c.i.f. unit values of a near country; or
 - (ii) estimated from average f.o.b. unit values of (an) appropriate major exporter(s) adjusted by adding an estimate of insurance, freight and other relevant costs to the importing country.
5. The external prices shall generally be converted to domestic currencies using the annual average market exchange rate for the same period as the price data.
6. The internal price shall generally be a representative wholesale price ruling in the domestic market or an estimate of that price where adequate data is not available.
7. The initial tariff equivalents may be adjusted, where necessary, to take account of differences in quality or variety using an appropriate coefficient.

¹But not measures maintained under balance-of-payments provisions or under other general, non-agriculture-specific provisions of the GATT 1994 or of the other Multilateral Trade Agreements in Annex 1(a) to the MTO.

8. Where a tariff equivalent resulting from these guidelines is 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 for that product.

9. Where an adjustment is made to the level of a tariff equivalent which would have resulted from the guidelines provided above, participants shall afford, on request, full opportunities for consultation with a view to negotiating appropriate solutions.

10. The level of tariff equivalent resulting from tariffication shall constitute the base level for the implementation of reduction commitments on market access.

Section B: Requirements concerning current access opportunities

11. Current access opportunities on terms at least equivalent to those existing shall be maintained as part of the tariffication process. Current access opportunities shall be no less than average annual import quantities for the years 1986 to 1988. Where these opportunities are expanded, the expansion shall be in line with the provisions of paragraph 6 of these Modalities. Any such expansion in access opportunities shall be provided on an m.f.n. basis.

12. For existing global or country specific quantitative restrictions, voluntary restraint agreements, voluntary export restraints, specific arrangements providing for imports with reduced import levies and like measures, current access opportunities shall be defined as the quantity of product permitted to be imported under those measures, whether or not that quantity was imported, in the base period. Where imports exceeded the quantity of product permitted to be imported under those measures in the base period, the actual imported quantity shall be considered to be the current access opportunity.

13. For existing non-automatic import licensing, non-tariff measures maintained through state trading enterprises and like measures, current access opportunities shall be defined as the quantity of product imported during the base period.

Section C: Requirements concerning minimum access opportunities

14. Minimum access opportunities shall be implemented on the basis of a tariff quota at a low or minimal rate and shall be provided on an m.f.n. basis.

15. Access opportunities under this commitment shall in general be provided at the 4-digit level of the HS, or wherever appropriate at a more detailed level, and allocated to the tariff lines of internationally traded products. If another level of aggregation is used to implement the commitment the provisions of paragraph 5 of these Modalities and paragraph 14 above shall still apply insofar as practicable. Participants may request consultations on any matter affecting this commitment with a view to negotiating appropriate solutions.

Section D - Special Treatment

(refer to Annex 5, Uruguay Round Agreement on Agriculture)

ANNEX 4

DOMESTIC SUPPORT: THE BASIS FOR EXEMPTION FROM THE REDUCTION COMMITMENTS

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

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

2. General services

Policies in this category involve expenditures (or revenue foregone) in relation to programmes which provide services or benefits to agriculture or the rural community. They shall not involve direct payments to producers or processors. Such programmes, 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:

- (i) research, including general research, research in connection with environmental programmes, and research programmes relating to particular products;
- (ii) pest and disease control, including general and product-specific pest and disease control measures, such as early warning systems, quarantine and eradication;
- (iii) training services, including both general and specialist training facilities;
- (iv) extension and advisory services, including the provision of means to facilitate the transfer of information and the results of research to producers and consumers;
- (v) inspection services, including general inspection services and the inspection of particular products for health, safety, grading or standardization purposes;
- (vi) 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
- (vii) 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 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.

3. Public stockholding for food security purposes²

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

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 Aid³

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 to 13 below. Where exemption from reduction is claimed for any existing or new type of direct payment other than those specified in paragraphs 6 to 13, it shall conform to criteria (ii) to (v) of paragraph 6 in addition to the general criteria set out in paragraph 1.

²For the purposes of paragraph 3 of this Annex, Governmental stockholding programmes 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, including programmes 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.

^{2 & 3}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.

6. Decoupled income support

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) No production shall be required in order to receive such payments.

7. Government financial participation in income insurance and income safety-net programmes

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) Where a producer receives in the same year payments under this paragraph and under paragraph 8 below (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

- (i) 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 Participant 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) 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.

- (iii) 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.
- (iv) Payments made during a disaster shall not exceed the level required to prevent or alleviate further loss as defined in criterion (ii) above.
- (v) Where a producer receives in the same year payments under this paragraph and under paragraph 7 above (income insurance and income safety-net programmes), 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 programmes

- (i) Eligibility for such payments shall be determined by reference to clearly-defined criteria in programmes designed to facilitate the retirement of persons engaged in marketable agricultural production, or their movement to non-agricultural activities.
- (ii) 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 programmes

- (i) Eligibility for such payments shall be determined by reference to clearly-defined criteria in programmes designed to remove land or other resources, including livestock, from marketable agricultural production.
- (ii) Payments shall be conditional upon the retirement of land from marketable agricultural production for a minimum of 3 years, and in the case of livestock on its slaughter or definitive permanent disposal.
- (iii) Payments shall not require or specify any alternative use for such land or other resources which involves the production of marketable agricultural products.
- (iv) 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

- (i) Eligibility for such payments shall be determined by reference to clearly-defined criteria in government programmes designed to assist the financial or physical restructuring of a producer's operations in response to objectively demonstrated structural disadvantages. Eligibility for such programmes may also be based on a clearly-defined government programme for the privatization of agricultural land.
- (ii) 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 (v) below.
- (iii) 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.

(iv) 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.

(v) 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.

(vi) The payments shall be limited to the amount required to compensate for the structural disadvantage.

12. Payments under environmental programmes

(i) Eligibility for such payments shall be determined as part of a clearly-defined government environmental or conservation programme and be dependent on the fulfilment of specific conditions under the government programme, including conditions related to production methods or inputs.

(ii) The amount of payment shall be limited to the extra costs or loss of income involved in complying with the government programme.

13. Payments under regional assistance programmes

(i) 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.

(ii) 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.

(iii) 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.

(iv) Payments shall be available only to producers in eligible regions, but generally available to all producers within such regions.

(v) Where related to production factors, payments shall be made at a degressive rate above a threshold level of the factor concerned.

(vi) The payments shall be limited to the extra costs or loss of income involved in undertaking agricultural production in the prescribed area.

ANNEX 5

DOMESTIC SUPPORT: CALCULATION OF AGGREGATE MEASUREMENT OF SUPPORT

1. An Aggregate Measurement of Support (AMS) shall be calculated on a product-specific basis for each basic product (defined as the product as close as practicable to the point of first sale) receiving market price support, non-exempt direct payments, or any other subsidy not exempted from the reduction commitment ("other non-exempt policies"). Support which is non-product specific shall be totalled into one non-product-specific AMS in total monetary terms.
2. Subsidies under paragraph 1 shall include both budgetary outlays and revenue foregone by governments or their agents.
3. Support at both the national and sub-national level shall be included.
4. Specific agricultural levies or fees paid by producers shall be deducted from the AMS.
5. The AMS calculated as outlined below for the base period shall constitute the base level for the implementation of the reduction commitment on domestic support.
6. For each basic product, a specific AMS shall be established, expressed in total monetary value terms.
7. The AMS shall be calculated as close as practicable to the point of first sale of the product concerned. Policies directed at agricultural processors shall be included to the extent that such policies benefit the producers of the basic products.
8. Market price support: Market price support shall be calculated using the gap between a fixed external reference price and the applied administered price multiplied by the quantity of production eligible to receive the applied administered price. Budgetary payments made to maintain this gap, such as buying-in or storage costs, shall not be included in the AMS.
9. The fixed external reference price shall be based on the years 1986 to 1988 and shall generally be the average f.o.b. unit value for the product concerned in a net exporting country and the average c.i.f. unit value for the product concerned in a net importing country in the base period. The fixed reference price may be adjusted for quality differences as necessary.
10. Non-exempt direct payments: Non-exempt direct payments which are dependent on a price gap shall be calculated either using the gap between the fixed reference price and the applied administered price multiplied by the quantity of production eligible to receive the administered price, or using budgetary outlays.
11. The fixed reference price shall be based on the years 1986 to 1988 and shall generally be the actual price used for determining payment rates.
12. Non-exempt direct payments which are based on factors other than price shall be measured using budgetary outlays.
13. Other non-exempt policies, including input subsidies and other policies such as marketing cost reduction measures. The value of such policies shall be measured using government budgetary outlays or, where the use of budgetary outlays does not reflect the full extent of the subsidy concerned, the basis for calculating the subsidy shall be the gap between the price of the subsidised good or service and a

representative market price for a similar good or service multiplied by the quantity of the good or service.

ANNEX 6

DOMESTIC SUPPORT: CALCULATION OF EQUIVALENT MEASUREMENT OF SUPPORT

1. Equivalent measurements of support shall be calculated in respect of all products where market price support as defined in Annex 5 exists but for which calculation of this component of the AMS is not practicable. For such products the base level for implementation of the domestic support reduction commitments shall consist of a market price support component expressed in terms of equivalent measurements of support under paragraph 2 below, as well as any non-exempt direct payments and other non-exempt support, which shall be evaluated as provided for under paragraph 3 below. Support at both national and sub-national level shall be included.
2. The equivalent measurements of support provided for in paragraph 1 shall be calculated on a product-specific basis for all products as close as practicable to the point of first sale ("basic products") receiving market price support and for which the calculation of the market price support component of the AMS is not practicable. For those basic products, equivalent measurements of market price support shall be made using the applied administered price and the quantity of production eligible to receive that price or, where this is not practicable, on budgetary outlays used to maintain the producer price.
3. Where products falling under paragraph 1 above are the subject of non-exempt direct payments or any other product-specific subsidy not exempted from the reduction commitment, the basis for equivalent measurements of support concerning these measures shall be calculations as for the corresponding AMS components (specified in paragraphs 10 to 13 of Annex 3).
4. Equivalent measurements of support shall be calculated on the amount of subsidy as close as practicable to the point of first sale of the product concerned. Policies directed at agricultural processors shall be included to the extent that such policies benefit the producers of the basic products. Specific agricultural levies or fees paid by producers shall reduce the equivalent measurements of support by a corresponding amount.

ANNEX 7

EXPORT SUBSIDIES SUBJECT TO REDUCTION COMMITMENTS

The following export subsidies shall be subject to reduction commitments:

- (a) The provision by governments or their agencies of direct subsidies, including payments-in-kind, to a firm, to an industry, to producers of an agricultural product, to a co-operative or other association of such producers, or to a marketing board, contingent on export performance.
- (b) The sale or disposal for export by governments or their agencies of non-commercial stocks of agricultural products at a price lower than the comparable price charged for the like product to buyers in the domestic market.
- (c) Payments on the export of an agricultural product that are financed by virtue of governmental action, whether or not a charge on the public account is involved, including payments that are financed from the proceeds of a levy imposed on the agricultural product concerned or on an agricultural product from which the exported product is derived.
- (d) The provision of subsidies to reduce the costs of marketing exports of agricultural products (other than widely available export promotion and advisory services) including handling, upgrading and other processing costs, and the costs of international transport and freight.
- (e) Internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favourable than for domestic shipments.
- (f) Subsidies on agricultural products contingent on their incorporation in exported products.

ANNEX 8

MODALITIES OF EXPORT COMPETITION COMMITMENTS

1. Commitments to reduce budgetary outlays in respect of the export subsidies listed in Annex 7 and to reduce the quantity of exports of an agricultural product on which such subsidies may be provided shall be established in accordance with this Annex.

2. The expressions "outlays" or "expenditure" shall, unless the context otherwise requires, be taken to include "revenue foregone".

Reduction Commitments

3. The annual average for the base period of:

(a) budgetary outlays in respect of the export subsidies listed in Annex 7; and

(b) quantities in respect of which the export subsidies listed in Annex 7 have been provided. shall constitute, respectively, base outlay and quantity levels for the purposes of reduction commitments in respect of the agricultural products or groups of agricultural products referred to in paragraphs 7 through 9 below.

4. Base levels reduced in each year of the implementation period in accordance with paragraph 5 below shall constitute the annual quantity and outlay commitment levels (see: relevant provisions of paragraphs 14 to 20 of these Modalities regarding Special and Differential Treatment; and paragraph 2(b) of Article 9 of the Agreement on Agriculture regarding flexibility in the implementation of reduction commitments).

5. (a) By the conclusion of the implementation period, each participant shall reduce:

(i) the quantities of each agricultural product or group of products specified in this Annex benefiting from export subsidies by 21 percent from the base period level; and

(ii) its budgetary outlays for export subsidies for each agricultural product or group of products specified in this Annex by 36 percent from the base period level.

(b)(i) the reductions specified in subparagraph (a)(i) with respect to the quantities benefitting from export subsidies shall, in the first year of the implementation period, be made to a level at least 3.5 percent below the corresponding base period level and, for the remaining years of the implementation period, in equal annual instalments; provided that if the criteria of subparagraphs (c) or (d) are satisfied, a participant may elect to schedule such reductions of such quantities according to subparagraph (c) or (d), as applicable, whether or not the participant schedules reductions of budgetary outlays for the product or group of products in question according to such provisions.

(ii) the reductions specified in subparagraph (a)(ii) with respect to budgetary outlays for export subsidies shall, in the first year of the implementation period, be made to a level at least 6 percent below the corresponding base period level and, for the remaining years of the implementation period, in equal annual instalments; provided that if the criteria of subparagraphs (c) or (d) are satisfied and the participant has elected

to utilize one of such provisions for purposes of reducing the quantities benefitting from export subsidies for the product or group of products in question, a participant may elect to schedule reductions of budget outlays for such product or group of products according to subparagraph (c) or (d), as applicable.

(c) Reduction to the relevant level specified in subparagraph (a) may be made beginning at levels determined by averaging the corresponding 1991 and 1992 levels if:

(i) the average of the 1991 and 1992 quantities of such agricultural product or group of products benefitting from a participant's export subsidies exceeds the corresponding base period average; and

(ii) the criteria set forth in subparagraphs (d)(i) and (d)(ii) are not satisfied with respect to such agricultural product or group of products; and

(iii) reductions are made in equal annual instalments.

(d) Reduction to the relevant level specified in subparagraph (a) may be made beginning at levels determined by averaging the corresponding average of the 1991 and 1992 levels and the corresponding base period levels if:

(i) the average of the 1991 and 1992 quantities of such agricultural product or group of products benefitting from a participant's export subsidies exceeds the corresponding base period average by 25 percent or more; and

(ii) 40 per cent or more of the quantity in 1992 of such product or group of products benefitting from a participant's export subsidies was exported from publicly-held or intervention stocks; and

(iii) reductions are made in equal annual instalments.

6. Base levels, as well as commitment levels for each year of the implementation period, shall be specified in Schedules.

Product Specificity of Commitments

7. Outlay and quantity commitment levels shall be established for all products or groups of products in any case where exports of such products are subsidized through practices listed in Annex 7 paragraphs (1)(a) through (1)(e), including, in particular:

- | | |
|------------------------------|--------------------|
| (i) Wheat and wheat flour | (xii) Bovine Meat |
| (ii) Coarse grains | (xiii) Pigmeat |
| (iii) Rice | (xiv) Poultry meat |
| (iv) Oilseeds | (xv) Sheepmeat |
| (v) Vegetable oils | (xvi) Live animals |
| (vi) Oilcakes | (xvii) Eggs |
| (vii) Sugar | (xviii) Wine |
| (viii) Butter and butter oil | (xix) Fruit |
| (ix) Skim milk powder | (xx) Vegetables |
| (x) Cheese | (xxi) Tobacco |
| (xi) Other milk products | (xxii) Cotton |

8. This listing shall not preclude the scope for negotiating commitments on particular products within groups of products.

Incorporated Products

9. Base and annual commitment levels shall be established for aggregate budgetary outlays in respect of subsidies on agricultural primary products incorporated in exported products (Annex 7 paragraph 1(f)). This shall not preclude the scope for negotiating commitments on particular incorporated products or, where feasible, on quantities.

Commitments Limiting the Scope of Export Subsidies

10. Limitations on the extension of the subsidization of exports of particular products to specific markets may be specified in Schedules.