

**MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND**

RESTRICTED

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SUBMISSION OF THE UNITED STATES
ON COMPREHENSIVE LONG-TERM AGRICULTURAL REFORM

The Mid-Term Agreement for agriculture approved by the Trade Negotiations Committee on April 7, 1989 (MTN.TNC/11), states that:

- o not later than the end of 1990, participants will agree on a long-term agricultural reform program and the period of time for implementation;
- o the long-term objective is to provide for substantial progressive reductions in agricultural support and protection, sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets;
- o the strengthened and more operationally effective GATT rules and disciplines, which would be equally applicable to all Contracting Parties, and the commitments to be negotiated, should encompass all measures affecting directly or indirectly import access and export competition;
- o proposals to achieve these objectives are to be submitted by December 1989.

In accordance with these guidelines, the United States hereby submits to the Contracting Parties a comprehensive proposal for agricultural reform. The comprehensive nature of this proposal recognizes the wide variety of internal and border measures employed across countries and commodities, and the complex interaction among these policies. The broad array of policy instruments is categorized into four subsets: import access, export competition, internal support and sanitary and phytosanitary measures. The United States proposal calls for reform in all four areas, and these reforms should be viewed as integral parts of a comprehensive package and not as four separate proposals. Our comprehensive proposal is designed to guide agricultural production and trade toward a market oriented system governed by strengthened and more operationally effective GATT rules and disciplines and to integrate agriculture fully into the GATT.

The United States proposal is designed to correct and prevent the many problems and distortions of current agricultural policies. These include costs to consumers and taxpayers that exceed \$275 billion annually; incentives for overproduction; subsidized disposal of surpluses; internal support systems that distort trade and inhibit market development; and import barriers that misallocate resources, reduce the level of food purchases, and limit consumer choice.

Less evident failures of current policies also are becoming an increasing concern. Costs involved in disposing of surplus production have instilled in governments and producers a fear of promising new technologies. High price support that encourage production at the expense of sound management have led to excessive use of chemical fertilizers and pesticides, heightening social concerns over water quality, food safety, and other environmental issues. Moreover, poor land management, soil erosion, and deforestation are too often the results of today's highly subsidized agricultural systems.

Under the U.S. proposal, the structural rigidities of present systems would be gradually replaced by a more market-oriented environment in which farm income and other objectives could be achieved at far less cost, program benefits would be distributed more equitably among farmers everywhere, and opportunities for market growth would be enhanced. Producers would be free to chose the mix of production that best fits their resource base, unshackled from policies that discourage efficiency and new product development. Marginal land and land damaged by soil erosion, deforestation or poor land management could be improved by reforestation or conservation programs. Developing countries would benefit from increased trading opportunities. Bona fide food aid would not be affected under the proposal. The continuation of food aid programs would help ensure an adequate supply of food for developing country importers. Food security would be enhanced through the elimination of export restrictions and prohibitions for reasons of short supply and reform of other trade-distorting policies. Such reforms would increase production efficiency and availability of food for all citizens of the world.

To achieve a fair and market-oriented agricultural trading system, the United States proposal encourages the transformation of many existing internal support measures to policies that will be less trade-distorting. Traditional forms of support that are directly tied to production and price levels would be phased out over a ten-year period. Certain other policies that are less often abused but still capable of significant distortions would be reduced over the ten-year period through the use of an aggregate measure of support and subjected to GATT disciplines. Minimally trade-distorting policies would be permitted.

All non-tariff import barriers would be converted to tariffs and, along with pre-existing tariffs, would be reduced over time. Export subsidies would be phased out over five years. Export restrictions imposed for short-supply reasons and export tax differentials would be eliminated. For sanitary and phytosanitary measures, disciplines are proposed that would establish new procedures for notification, consultation, and dispute settlement. These procedures would require the use of sound scientific evidence in the development of health-related

measures and would recognize the principle of equivalency in order to prevent the imposition of unwarranted trade barriers. Respected international scientific organizations would be asked to provide standards and scientific evidence to enhance settlement of disputes.

Agricultural trade reform requires the active participation of all Contracting Parties. Strengthened and more operationally effective GATT rules and disciplines should be applicable to all Contracting Parties. At the same time, the United States understands the distinctive needs of developing countries, particularly with respect to infrastructure. Developing countries may need longer time frames for adjustment. As indicated in the Punta del Este Declaration and confirmed in the Mid-Term Agreement, contributions of developing countries to the negotiations should reflect their individual levels of economic and agricultural development.

PRODUCT COVERAGE

The United States proposes that the rules, disciplines and transition mechanisms outlined in this paper apply to the commodities listed in Annex 1.

IMPORT ACCESS

OBJECTIVE

The objective is to orient domestic production to market forces through conversion of all non-tariff barriers to bound tariffs and ultimately reduce all agricultural tariffs to zero or low levels. After an agreed transition period, all import protection would be in the form of tariffs.

RULES AND DISCIPLINES

The United States proposes that:

- o all waivers and derogations, protocols of accession and grandfather clauses that allow derogations to existing GATT rules for import access be eliminated;
- o variable import levies, voluntary restraint agreements, minimum import prices, and other import barriers not explicitly provided for in the GATT be prohibited;
- o GATT Article XI: 2(c) be eliminated.

In addition, Contracting Parties would discontinue the use of restrictive import licensing and other import barriers prohibited under current GATT rules. All disciplines would be applied equally to marketing boards and other state-trading

organizations. Article XVII should be strengthened along the lines proposed by the United States in the Negotiating Group on GATT Articles.

IMPLEMENTATION

A. Tariffs

All tariffs, including those resulting from conversion of non-tariff barriers to tariffs, would be bound on January 1, 1991 and then reduced over a ten-year transition period to final bound rates to be negotiated. The final tariffs would be at zero or low levels.

B. Non-tariff measures

Non-tariff barriers include policies such as quotas, variable levies, import restrictions or prohibitions administered in connection with marketing boards and state trading operations, voluntary restraint agreements, restrictive licensing practices, and other import restrictions and prohibitions.

As a first step in the process of liberalizing import access, no new non-tariff measures would be permitted and existing non-tariff barriers would be replaced with a tariff-rate quota on January 1, 1991.

Tariff-rate quotas will permit an orderly transition from the extremely high levels of import protection provided by some current non-tariff barriers to a tariff-based import regime. They will ease the transition for importing countries, while ensuring some degree of minimum access for exporting countries. They will also permit an orderly phase-out of country-specific import quotas.

The initial quota for each commodity (tariff-line item) would be set at a level equivalent to (1) the level of imports existing in 1990 or some recent historical period, or (2) a negotiated minimum level of imports in the case of import prohibitions or virtual prohibitions. Tariffs within the quotas would be bound at agreed upon rates.

Bound tariffs would be the only form of import protection on imports outside the quota. In our July discussion paper on tariffication, we proposed that the initial tariff be based on the gap between world and domestic prices for each commodity (tariff-line item) where trade is now affected by non-tariff barriers. Tariff rates could be expressed on an ad valorem or per unit basis and would be calculated on the basis of average prices for 1986-1988.

Liberalization of import access would be achieved by

- (a) a progressive annual reduction of over-quota tariffs to final bound rates; and
- (b) expansion of initial quotas by agreed minimum amounts during the transition period.

At the end of the ten-year transition period, Contracting Parties would remove any remaining quotas and the final bound tariffs would be the only form of import protection.

SAFEGUARD MECHANISM

During the transition period, a special safeguard mechanism would operate to protect against import surges. The mechanism would have two trigger levels:

- (a) If the previous year's imports of a particular commodity were less than three percent of domestic consumption, the safeguard would be triggered if imports in the current year exceeded 160 percent of the previous year's imports.
- (b) If the previous year's imports of a particular commodity were equal to or greater than three percent of domestic consumption, the safeguard would be triggered if imports in the current year exceeded 120 percent of the previous year's imports.

A different safeguard mechanism may be needed for perishable commodities.

Once the safeguard mechanism is triggered, a country would be allowed to revert back a specified level of tariff protection for the remainder of the year. A shorter time period may be appropriate for perishable commodities. At the end of the year, the tariff snapback would be terminated and further tariff reductions would be implemented in accordance with the agreed schedule.

At the end of the transition period, safeguard actions will be permitted in accordance with Article XIX as revised during the Uruguay Round negotiations.

EXPORT COMPETITION

OBJECTIVE

The objective is to orient more effectively domestic production to market forces through the elimination of all export subsidies

and export prohibitions and restrictions on products covered by the Negotiating Group on Agriculture.

I. EXPORT SUBSIDIES

RULES AND DISCIPLINES

Contracting Parties would agree not to grant any form of subsidy on exports of the products listed in Annex 1. A proposed illustrative list of prohibited export subsidies is contained in Annex 2. At this point, the proposed list is the Illustrative List of Export Subsidies contained in the Subsidies Code. However, the United States reserves the right to propose amendments to this list to ensure that it is consistent with any changes that may be agreed upon in the Subsidies Negotiating Group and/or to ensure that it precludes export subsidies which could be specific to the agricultural trading system. Conforming amendments to the GATT instruments would need to be made to implement these new rules on export subsidies.

Only bona fide food aid would be exempt from this prohibition. However, the United States recognizes that there is a need to develop improved disciplines on food aid to ensure that such activities meet the needs of developing countries but do not distort normal commercial sales. New rules may need to be developed to govern the granting of food aid. The Contracting Parties would have to agree on guidelines which would clarify such issues as the conditions under which food aid may be provided, the categories of countries eligible, the kinds of commodities which could be provided and permissible terms, i.e. what concessional arrangements would be acceptable.

IMPLEMENTATION

A five-year period is proposed for the phase-out of export subsidies.

The basis for the phase-out could be either government expenditures and revenue losses in the base period, or quantities of commodities receiving export subsidy benefits.

II. EXPORT RESTRICTIONS AND PROHIBITIONS

RULES AND DISCIPLINES

Remove from GATT Article XI 2.(a) permission for GATT Contracting Parties to restrict or prohibit exports of agricultural food products to relieve short supply. This change was proposed earlier in a U.S. submission which addressed food security (MTN.GNG/NG5/W/61).

If a Contracting Party maintains export taxes, duties or charges on products that are used as inputs for the production of other products, and if such taxes, duties or charges are higher than the rate charged on the secondary products, then the differential between such taxes, duties or surcharges must be progressively reduced and eliminated. The purpose of this provision is to prevent countries from using a differential export tax structure to discourage exports of raw materials and thereby ensure a ready supply of artificially low-priced inputs for domestic processing industries.

IMPLEMENTATION

The change proposed in the first paragraph of the section above should be implemented in one step on January 1, 1991.

Elimination of the differential in export charges would take place on the same schedule as the phase-out of export subsidies (five years).

INTERNAL SUPPORT

OBJECTIVE

The objective is to orient more effectively domestic agricultural policies to market forces through substantial progressive reductions in trade-distorting elements of internal support policies.

GENERAL APPROACH

The Uruguay Round negotiations should address all domestic government programs, including programs of subnational units of governments and government sponsored organizations. The agricultural negotiations should focus on the wide range of domestic government programs that are unique to the agricultural sector.

To facilitate discussion of internal support programs, reference is made to general policy categories rather than specific policies. These general categories are intended to cover all internal support measures in the agricultural sector, including programs for producers, processors and consumers. The categories are listed in Annex 3. The categories are based on general characteristics shared by specific internal support measures. At this stage in the negotiations, general policy categories provide a sufficient basis to move forward. More precise attention to specific policies will be required at later stages in the negotiations.

There are wide variations among these policy categories with respect to the level of government support and the magnitude of

trade distortion that exists. Although in the long-run nearly all policies that transfer resources to the agricultural sector have some effect on producer and processor incentives, and hence on output, certain methods of granting support have a significantly greater effect on the current agricultural trading system. These forms of support are directly tied to production or prices and should be phased-out over the transition period. Support from other policies, less abused but capable of significant distortions, would be reduced and subject to GATT disciplines. On the other hand, policies that are minimally trade-distorting would be exempt from commitments to reduce support. This would allow Contracting Parties to use such policies to pursue national objectives, such as resource conservation and environmental enhancement and development, while minimizing distortions in world agricultural trade.

Our three-tiered approach to domestic subsidy discipline can be summarized as follows:

Policies to be phased out:

1. Administered price policies;
2. Income support policies linked to production or marketing;
3. Any input subsidy that is not provided to producers and processors of agricultural commodities on an equal basis;
4. Certain marketing programs (e.g. transportation subsidies);
5. Any investment subsidy that is not provided to producers and processors of agricultural commodities on an equal basis.

Policies to be disciplined:

Other programs not elsewhere specified including, but not limited to, input or investment subsidies provided to any producer or processor of agricultural commodities on an equal basis and certain policies from categories listed elsewhere that do not meet the agreed upon criteria for permitted policies or policies to be phased out.

Permitted policies:

1. Income support policies not linked to production or marketing;
2. Environmental and conservation programs;
3. Bona fide disaster assistance;
4. Bona fide domestic food aid;
5. Certain marketing programs (e.g. market information, most market promotion programs, inspection and grading);
6. General services (e.g., research, extension and education);
7. Resource retirement programs;
8. Certain programs to stockpile food reserves.

Certain government programs which affect agriculture along with other sectors of the economy are more appropriately addressed in other Negotiating Groups. Examples include rural development programs that provide subsidies to all rural residents (small-town residents as well as farmers or processors of agricultural products) or government-funded highway systems.

RULES AND DISCIPLINES

New GATT rules must be devised that establish detailed criteria identifying policies to be phased-out and permitted policies. Support from all policies that do not fit these criteria would be subject to specific disciplines as outlined below. Conforming amendments to the GATT instruments would need to be agreed upon to implement these new rules. The rules would be equally applicable to national and sub-national policies.

A. Policies to be phased out

Any government program or policy meeting the following descriptions would be prohibited after a ten-year transition period:

- o policies, other than border measures, that have resulted in or are designed to result in domestic prices higher than prices prevailing on the world market;
- o income support payments to producers that do not meet the criteria for permitted policies (see below);
- o subsidies on inputs or investments that are not provided to producers or processors of agricultural commodities on an equal basis;
- o marketing subsidies that do not meet the criteria for permitted policies (see below).

New GATT disciplines should lead to the eventual elimination of these policies during a ten-year transition period. In order to ensure that the policies subject to these new prohibitions are carefully and unambiguously defined, the new GATT disciplines should be accompanied by a detailed interpretive note that would provide unambiguous definitions of the affected measures. In addition, provision should be made in the new rules for the periodic review and updating of the prohibited policy list.

B. Permitted policies

Government programs or policies meeting the following descriptions would be included in this category:

- o direct income payments to producers that are not tied to current production, prices, the cost of production or marketings of agricultural commodities;
- o programs for the development and implementation of bona fide conservation and environment protection plans and practices;
- o disaster assistance keyed to bona fide production losses;
- o bona fide domestic food aid;
- o marketing programs that do not confer an economic benefit --in the form of price discounts, cash or in-kind payments, etc.--on the purchaser at any level of the marketing chain;
- o general services that do not provide direct price or income support or subsidized inputs to producers, processors or consumers;
- o programs to remove land or other production factors from agriculture or to facilitate the transition process; and
- o programs for stockpiling food reserves that do not provide direct price or income support or subsidized inputs to producers, processors or consumers.

These policies would not be subject to the commitment to reduce support and protection agreed to at the Mid-Term Review. As with the list of policies to be phased-out, explicit criteria identifying permitted policies should be carefully defined in an interpretive note.

C. Policies to be disciplined

All policies that do not meet the criteria for permitted policies nor fit within the criteria for policies to be phased-out would be subject to specific GATT disciplines designed to prevent their use in ways that would nullify or impair concessions or cause serious prejudice or material injury to a Contracting Party.

In addition, Contracting Parties would negotiate reductions in support granted through this category of policies. Commitments in this regard would be expressed in terms of an agreed upon aggregate measure of support (AMS). These reduction commitments, together with the new GATT disciplines, should further reduce trade distortions and ensure that Contracting Parties do not simply transfer resources from one distorting policy to another as the former are phased out.

IMPLEMENTATION

Commitments on internal support would be implemented over a ten-year period.

A. Policies to be phased out

Contracting Parties would be free to choose the transition mechanism best suited to their particular policies. For example, Contracting Parties using administered price policies could progressively reduce either administered prices, or the amount of production eligible for price supports, or both. However, each Contracting Party will be required to choose a mechanism that will lead to reductions in equal annual steps over the transition period and culminate in the elimination of the policy in question. Commitments should be made by policy and, in most cases, by commodity as well.

B. Policies to be disciplined

An AMS approach would provide a convenient method of reducing support from these policies. The Producer Subsidy Equivalent developed by the OECD provides one such approach; others could be developed. The AMS level would be bound at progressively reduced rates over the transition period. The AMS calculation would include all types of government support that are not explicitly prohibited or permitted under new GATT rules. Since border measures would not be included, many of the methodological problems presently associated with AMS calculations could be avoided. Commitments would be implemented through a negotiated level of linear cuts in the AMS over the transition period.

SANITARY AND PHYTOSANITARY MEASURES

OBJECTIVE

To provide a mechanism for notification, consultation and dispute settlement which would ensure that measures taken to protect animal, plant and human health are based on sound scientific evidence and recognize the principle of equivalency.

GATT RULES AND DISCIPLINES

The United States proposes that Article XX(b) be amended to provide that:

nothing in the agreement shall be construed to prevent the adoption or enforcement by any Contracting Party of measures necessary to protect human, animal or plant life or health, provided that these measures are consistent with sound scientific evidence and recognize the principle of equivalency.

To elaborate on the above amendment, GATT instruments should be drafted to provide that:

The appropriate standards or guidelines of the Codex Alimentarius Commission, the International Office of Epizootics, the International Plant Protection Convention or, as appropriate, other scientific organizations, open to full participation by all Contracting Parties e.g. the World Health Organization for situations involving hazards to human health and the environment, shall be considered by a panel in determining whether a measure designed to provide an acceptable level of protection is consistent with sound scientific evidence.

A measure shall be deemed to be based on sound scientific evidence if the measure is equivalent to the appropriate standard established by an organization included above or if the measure was developed using information and analysis comparable to that used by such organization. However, if there is not an international standard or guideline, or if a Party maintains a measure which is not equivalent to or has not been developed using information comparable to that used in an international standard or guideline, then Parties may still avail themselves of the dispute settlement procedures under the agreement.

Measures which are not identical but which have the same effect in ensuring an acceptable level of protection shall be deemed to be equivalent.

In addition, GATT instruments should be drafted to provide that a notification, consultation and dispute settlement system having the following elements is available:

Notification

Each Contracting Party shall notify the GATT Secretariat of any proposed sanitary and phytosanitary regulation involving processes and production methods, product specifications and inspection and certification systems, as well as concluded bilateral agreements, which could have a significant effect on the trade of other Contracting Parties, it being understood that such notification would of itself be without prejudice to views on the consistency of measures with, or their relevance to, rights and obligations under the General Agreement.

Notifications shall cover any technical regulations, standards bilateral agreements or certification systems which have been adopted or proposed by central government bodies, by non-governmental bodies which have legal power to enforce a technical

regulation, or by regional standardizing bodies in which relevant bodies within parties' territories are members or participants.

The GATT Secretariat will, when it receives a sanitary or phytosanitary notification, circulate copies to all Contracting Parties and all interested international standardizing and certification bodies and draw the attention of developing country Contracting Parties to any notification relating to products of particular interest to them.

The normal time limit for comments on notifications shall be sixty days. Contracting Parties shall discuss comments upon request and take these comments and the results of these discussions into account.

Each Contracting Party shall ensure that an inquiry point exists through which sanitary and phytosanitary notifications can be forwarded to the GATT Secretariat, copies of all final regulations can be obtained, and all relevant inquiries can be directed.

Informal Consultations

Contracting Parties shall respond to requests for consultations promptly and attempt to conclude consultations expeditiously with a view to reaching a mutually satisfactory conclusion.

If a dispute is not resolved by consultations, the Contracting Parties involved in a dispute may request an appropriate body or individual to use their good offices with a view to the settlement of the outstanding differences between the Parties. The Contracting Parties are particularly encouraged to use the good offices of the international scientific organizations established to address sanitary and phytosanitary measures, i.e., the Codex Alimentarius Commission, the International Office of Epizootics and the International Plant Protection Convention.

Dispute Settlement

Provisions regarding dispute settlement should be considered in consultation with the Negotiating Group on Dispute Settlement.

Existing National Approval Process

Some Contracting Parties maintain a domestic regime which generally requires the certification or approval of a broad class of products (e.g., pharmaceuticals or pesticides) which may affect human, animal or plant life or health prior to the use or sale for use of those products within its territory. Before any other Contracting Party may initiate dispute settlement proceedings under this instrument, it shall have attempted to obtain certification or approval of the product in question in

accordance with the rules of that regime, provided that the regime is intended to address a class of products which includes the product in question, that the regime uses reasonable and scientifically-based procedures and evidentiary standards to evaluate such products and that the regime's treatment of foreign products is no less favorable than that accorded to like products of national origin.

Relationship to International Standards and Organizations

The Codex Alimentarius Commission, the International Office of Epizootics, the International Plant Protection Convention, or other appropriate international scientific organizations shall be asked to provide a list of individuals with technical expertise in various areas. Regarding the consistency of a measure with sound scientific evidence, dispute settlement panels shall give primary consideration to the technical judgment of a technical advisory group composed of individuals selected from the appropriate list, its composition subject to the consent of the interested Contracting Parties.

In food safety, the following standards of the Codex Alimentarius and the associated scientific information and analysis shall be deemed to be based on sound scientific evidence: acceptable levels for food additives, maximum residue limits for veterinary drugs, allowable levels of environmental contaminants, maximum residue limits for pesticides, methods of analysis and sampling, and codes and guidelines of hygienic practice.

In the area of animal health, the risk assessment guidelines developed under the auspices of the International Office of Epizootics for the use of the parties shall be deemed to be based on sound scientific evidence.

In the area of plant health, the risk assessment guidelines developed under the auspices of the International Plant Protection Convention for the use of the parties shall be deemed to be based on sound scientific evidence.

For matters not covered by the aforementioned standards or guidelines on food safety, animal health and plant health, the appropriate standards or guidelines of other scientific organizations open to full participation by all Contracting Parties shall be deemed to be based on sound scientific evidence.

If there is not an appropriate international standard or guideline, or if a Contracting Party maintains a measure which is not equivalent to or has not been developed using information and analysis comparable to that used in an international standard or guideline, then a Contracting Party shall have the option of using other experts, evidence, organizations, or other relevant

sources of scientific information to show that its measures are consistent with sound scientific evidence.

National Treatment

The products of the territory of any Contracting Party shall be accorded treatment no less favorable than that accorded to like products of national origin in respect to all sanitary or phytosanitary laws, regulations, requirements, measures or approvals for use.

IMPLEMENTATION

Conforming amendments to the GATT instruments should be fully in effect in 1991.

TECHNICAL ASSISTANCE

The strengthening of the GATT approach to sanitary and phytosanitary measures may pose particular difficulties for developing countries. The Contracting Parties should evaluate the probable effects on developing countries of the enhanced GATT sanitary and phytosanitary procedures. If warranted by the results of this evaluation, the appropriate international organizations, for example the U.N. Food and Agriculture Organization, might be contacted for technical assistance. The assistance provided might focus on strengthening the regulatory mechanisms of developing countries, particularly with regard to food safety and plant health, and could also facilitate the establishment of inquiry points where needed.

SPECIAL AND DISTINCTIVE TREATMENT FOR DEVELOPING COUNTRIES

Meaningful agricultural trade reform requires the active participation of all Contracting Parties. The new GATT rules and disciplines proposed for import access, export competition, internal support and sanitary and phytosanitary measures should be applicable to all Contracting Parties.

Developing countries with relatively advanced economies and/or well-developed agricultural sectors would be expected to comply fully with the implementation mechanisms identified in other sections of this paper. However, the United States understands the distinctive needs of less developed countries, particularly with respect to infrastructure, and the difficulties some may have in implementing the transition schedules proposed for internal support and import access. In order to determine such needs, criteria related to the level of agricultural and overall development would need to be taken into account. The degree to which any developing country departs from the implementation schedules outlined in other parts of this paper should be

commensurate with that country's demonstrated need for exceptional treatment.

Less developed countries would be allowed to maintain agreed upon final bound tariffs on agricultural products at moderate levels commensurate with a particular country's demonstrated need for exceptional treatment. As the overall economic performance of the country improves, these tariff levels would be progressively lowered to final bound rates comparable to those in effect for other Contracting Parties. Less developed countries would also be allowed to maintain certain subsidies for the purpose of long-term agricultural development, provided they agree to progressively reduce such subsidies as the performance of their agricultural sector improves or the performance of their overall economy improves.

For products of priority export interest to developing countries, the negotiations should seek to provide reductions in trade barriers and internal support policies by developed countries on an accelerated basis.

ANNEX 1

PRODUCT COVERAGE

The United States proposes that the following products be subject to negotiations in the Negotiating Group on Agriculture. References are in accordance with the Harmonized System.

- o Chapters 1 through 23 (agricultural and fisheries products)
- o Heading 2401 (unmanufactured tobacco)
- o Heading 3203 (coloring of vegetable or animal origin)
- o Heading 3301 (essential oils)
- o Headings 3501-3503 (casein, albumin and gelatin)
- o Headings 4101 through 4103 (hides and skins other than furskins)
- o Headings 4301-4302 (undressed and dressed furskins, not made into apparel)
- o Headings 4401 through 4412 (wood and selected wood products)
- o Headings 5101-5103 (wool and animal hair, not carded or combed, waste)
- o Heading 5201-5202 (raw cotton and waste)

ANNEX 2

ILLUSTRATIVE LIST OF PROHIBITED EXPORT SUBSIDIES

- (a) The provision by governments of direct subsidies to a firm or an industry contingent upon export performance.
- (b) Currency retention schemes or any similar practices which involve a bonus on exports.
- (c) Internal transport and freight charges on export shipments, provided or mandated by governments, on terms more favorable than for domestic shipments.
- (d) The delivery by governments or their agencies of imported or domestic products or services for use in the production of exported goods, on terms or conditions more favorable than for delivery of like or directly competitive products or services for use in the production of goods for domestic consumption, if (in the case of products) such terms or conditions are more favorable than those commercially available on world markets to their exporters.
- (e) The full or partial exemption, remission, or deferral specifically related to exports, of direct taxes or social welfare charges paid or payable by industrial or commercial enterprises.
- (f) The allowance of special deductions directly related to exports or export performance, over and above those granted in respect to production for domestic consumption, in the calculation of the base on which direct taxes are charged.
- (g) The exemption or remission in respect of the production and distribution of exported products, of indirect taxes in excess of those levied in respect of the production and distribution of like products when sold for domestic consumption.
- (h) The exemption, remission or deferral of prior stage cumulative indirect taxes on goods or services used in the production of exported products in excess of the exemption, remission or deferral of like prior stage cumulative indirect taxes on goods or services used in the production of like products when sold for domestic consumption; provided, however, that prior stage cumulative indirect taxes may be exempted, remitted or deferred on like products when sold for domestic consumption, if the prior stage cumulative indirect taxes are levied on goods that are physically incorporated (making normal allowance for waste) in the exported product.

(i) The remission or drawback of import charges in excess of those levied on imported goods that are physically incorporated (making normal allowance for waste) in the exported product; provided, however, that in particular cases a firm may use a quantity of home market goods equal to, and having the same quality and characteristics as, the imported goods as a substitute for them in order to benefit from this provision if the import and the corresponding export operations both occur within a reasonable time period, normally not to exceed two years.

(j) The provision by governments (or special institutions controlled by governments) of export credit guarantee or insurance programs, of insurance or guarantee programs against increases in the cost of exported products or of exchange risk programs, at premium rates, which are manifestly inadequate to cover the long-term operating costs and losses of the programs.

(k) The grant by governments (or special institutions controlled by and/or acting under the authority of governments) of export credits, at rates below those which they actually have to pay for the funds so employed (or would have to pay if they borrowed on international capital markets in order to obtain export credit), or the payment by them of all or part of the costs incurred by exporters or financial institutions in obtaining credits, in so far as they are used to secure a material advantage in the field of export credit terms.

Provided, however, that if a signatory is a party to an international undertaking on official export credits to which at least twelve original signatories to the Agreement are parties as of 1 January 1979 (or a successor undertaking which has been adopted by those original signatories), or if in practice a signatory applies the interest rates provisions of the relevant undertaking, an export credit practice which is in conformity with those provisions shall not be considered an export subsidy prohibited by this Agreement.

(l) Any other charge on the public account constituting an export subsidy in the sense of Article XVI of the General Agreement.

ANNEX 3

INTERNAL POLICY CATEGORIES

POLICIES TO BE PHASED OUT

Administered price policies, including administered prices (loan rates, intervention prices, others) resulting from dual pricing policies, state control, marketing boards, domestic price controls and consumer levies; certain subsidies to processors; etc.

Income support policies, including income and price stabilization payments keyed to production, price or cost of production; marketing loans; payment to convert production from one commodity to another; headage payments; etc.

Marketing subsidies, including transportation subsidies provided only to agricultural outputs, programs that provide price discounts to purchasers, etc.

Input subsidies that are not provided to producers or processors of agricultural commodities on an equal basis, including subsidies on fertilizer, pesticides, water from irrigation projects, production credit, subsidized raw materials (feed ingredients or raw materials for processed products), fuel or electricity subsidies, etc.

Investment subsidies that are not provided to producers or processors of agricultural commodities on an equal basis, including government provision of subsidized capital, long-term loans, breeding stock or perennial stock, farm modernization or consolidation programs, etc.

PERMITTED POLICIES

Direct income payments to producers or processors that are not linked to current production, price, cost of production, or marketings of agricultural commodities, including flat-rate income transfers not linked to current production, etc.

Environmental and conservation programs, including funding to assist the adoption of bona fide conservation practices, etc.

Disaster assistance keyed to bona fide production losses, including disaster payments, crop insurance, disaster relief, etc.

Domestic food aid based on need, including food donations, food stamps, programs for particular consumer groups, etc.

Marketing programs that do not confer an economic benefit--in the form of price discounts, cash or in-kind payments, including market development programs meeting this criteria, market information programs, inspection and grading programs, etc.

General services, including government-funded research, extension, pest and disease control, education programs, etc.

Resource retirement programs, including direct payments to remove land or other production factors from agriculture, retraining programs, early retirement schemes, etc.

Programs for stockpiling food reserves that do not provide direct price or income support or subsidized inputs to producers, processors or consumers

POLICIES TO BE DISCIPLINED

All other agricultural programs not elsewhere specified, including, but not limited to:

- o certain policies that do not meet criteria developed for permitted programs or policies to be phased-out;
- o input subsidies provided to any producer or processor of agricultural commodities on an equal basis, including subsidies on fertilizer, pesticides, water from irrigation projects, production credit, subsidized raw materials (feed ingredients or raw materials for processed products), fuel or electricity subsidies, etc.
- o investment subsidies provided to any producer or processor of agricultural commodities on an equal basis, including government provision of subsidized capital, long-term loans, breeding stock, or perennial stock, farm modernization or consolidation programs, etc.