



AN OVERVIEW OF THE MODALITIES

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Assess modalities in terms of:

- Ambition – compare to Uruguay Round
- Impact – on new trade opportunities/ challenges and domestic reform
- Key outstanding issues – for ministers
- Factors influencing prospects
- Conclusions



Ambition: trade reform a continuum

- Eliminate export subsidies, disciplines on other forms of export assistance – major achievement
- All trade distorting domestic support subject to substantial reduction/cap on tiered basis [50-85% for developed], NEW – commodity specific caps for AMS and blue box
- Tiered formula tariff cuts significant[48-73%], flexibilities provided to help manage politics but deviations disciplined to limit erosion (proposed average reduction of 54% helpful safety net)



Impact of modalities – greatest on developed countries

- Export subsidies finally eliminated – new disciplines on export credits, food aid and export STE's
- OTDS great innovation – mainly caps, not reductions in high price environment/commodity specific limits in AMS and blue box/shift to green support encouraged
- Market access: compensatory TRQ expansion for sensitive product deviations from tariff formula
- Greatest potential impact on most distorted sectors: dairy, sugar, rice, cotton – pressure to move support to green direct income payments and/or de-link price supports from production costs and make stop/loss



Implications for US

- disciplines on food aid and export credit - price for export subsidy elimination and disciplines on export STE's
- Cap of around \$13 billion on non-green domestic support for much deeper cuts on EU support, special treatment for US AMS and blue box product specific limits, NO REDUCTIONS OR LIMITS ON GREEN SUPPORT
- Agricultural tariffs in developed countries cut by average of around 54%, most sensitive products cut by 23-24% with TRQ expansion of 2-6% of consumption, depending on deviation from formula and existing import share



Developing countries: differential treatment but export interests

- More advanced would have reductions 2/3 of developed, longer transition period (8 vs 5 years), no reductions for LDC's
- Consistent with Doha Ministerial Declaration special treatment for range of vulnerable groups plus Special Product/Special Safeguards
- Emerging markets liberalization important for South/South trade as well as North/South

Outstanding issues for ministers



- OTDS reduction numbers, especially US
- Tariff formula/average tariff reduction numbers (special safeguards likely remain for handful of products)
- TRQ expansion numbers/number of sensitive tariff lines
- Number of Special Product tariff lines, depth of cuts (SSM treatment balancing item)



Modality agreement in May/June?

- Ministers could be reluctant to show bottom lines unless convinced conclusion in 2008 real
- Prospects improved if bipartisan US Congressional assurance that “fast track” approval process will be used for Doha
- Ambition in agriculture matched by NAMA. Final balance fine-tuned by Services/Rules outcome
- Confidence builders: assurance initial offers will correspond to modalities/offsetting concessions if unilateral deviations, no new country specific TRQ’s



Other Issues for Final Deal

- Reform continuation: resume by date certain
- Peace clause – only for limited time and for maximal result
- Geographical indications – something needed
- Effective verification process – must know if any unilateral deviations in initial offers
- Additional export control disciplines – importers more sensitive to security of supply given recent actions



Modality status

Two options:

- (1) Approved by ministers as “the basis”,
or
- (2) Left to Chair to issue on own
responsibility and used as “a basis” for
tabling initial offers

Second option could also capture
progress to-date if negotiations
delayed beyond 2008



CONCLUSIONS

- Credible and worthwhile deal within reach, substantive follow-up to Uruguay Round U-turn
- Flexibilities provide means to manage import sensitivities
- Crime if not pinned down when prices high and adjustment easier
- EU reforms have facilitated ambition, now up to North America to step up