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AGRICULTURE AND WTO

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ABSTRACT

Agriculture plays a very important role in the economic growth and development cycle of the vast majority of developing countries. There is a lesser proportion of the population which is dependent on agriculture in advanced countries but this small proportion has a strong lobby. Agriculture remains one of the contentious issues in the WTO negotiations. Developing and developed countries are at loggerheads over the proposed amendments to be included in the Agreement on Agriculture. This paper attempts to cover the important provisions of Agreement on Agriculture, different types of concessions provided by WTO member countries to its farmers, controversial issues and bottlenecks obstructing the successful conclusion of Agriculture related aspects of Doha round of negotiations.

KEYWORDS

Agriculture, Developing Countries, Doha Round, WTO.

INTRODUCTION

Agriculture plays a very important role in the economic growth and development cycle of the vast majority of developing countries. The situation in the advanced countries is different from developing countries. Developed countries are less dependent on agriculture for their economic growth and development. Over the decades this situation has been reflected in persistent demands by developing countries for substantial improvements in access to world markets for their agricultural exports, for more equitable conditions of competition, particularly as regards export subsidies, as well as demands for special and differential treatment in one form or another. As is evident from the negotiating proposals already submitted in Geneva, there is no doubt that developing countries will use the WTO agricultural negotiations now underway to achieve more substantial liberalisation than ultimately proved to be possible in the Uruguay Round.

The most recent collapse of World Trade Organization negotiations occurred in July 2008 because countries were unable to reach an agreement on how to protect farmers in developing countries from the negative effects of greater trade liberalization. Although an attempt was made to restart talks in September 2008, little progress was made, and if talks are to continue, it will not likely be until 2009. The current round of negotiations, titled the Doha Development Agenda ("DDA"), began in 2001 and included an emphasis on the needs of developing countries. However, subsequent negotiations have raised many questions about the commitment of developed countries to the DDA goals and highlighted the increasingly central role of agriculture in the WTO. The Uruguay Round of negotiations, which continued from 1986 until 1994, created both the WTO and the Agreement on Agriculture ("AoA"). Prior to the Uruguay Round, it was commonly believed that the international trade regime did not include agriculture. This can be traced to a 1955 waiver on agricultural import restrictions granted to the United States, which resulted in global disregard of trade rules. The AoA firmly returned agriculture to the WTO trade regime with specific binding commitments regarding market access, domestic support, and export competition. Yet it does not take into consideration non-market aspects of agriculture and food markets, such as the relatively inelastic supply and demand in agriculture, the lack of political and economic power of farmers, and the fact that corporations rather than countries or farmers are the actors who engage in agricultural trade.

The original GATT did apply to agricultural trade, but it contained loopholes. For example, it allowed countries to use some non-tariff measures such as import quotas, and to subsidize. Agricultural trade became highly distorted, especially with the use of export subsidies which would not normally have been allowed for industrial products. The Uruguay Round produced the first multilateral agreement dedicated to the sector. It was a significant first step towards order, fair competition and a less distorted sector. The Uruguay Round agreement included a commitment to continue the reform through new negotiations. These were launched in 2000, as required by the Agriculture Agreement.

AGREEMENT ON AGRICULTURE

The objective of the **Agriculture Agreement** is to reform trade in the sector and to make policies more market-oriented. This would improve predictability and security for importing and exporting countries alike. **The agreement does allow governments to support their rural economies, but preferably through policies that cause less distortion to trade.** It also allows some flexibility in the way commitments are implemented. Developing countries do not have to cut their subsidies or lower their tariffs as much as developed countries, and they are given extra time to complete their obligations. Least-developed countries don't have to do this at all.

The AoA has three central concepts, or "pillars": domestic support, market access and export subsidies.

1. **"Market access"** refers to the reduction of tariff (or non-tariff) barriers to trade by WTO member-states. Under the terms of the agreement, developed countries agreed to cut tariffs by an average of 36% in equal steps over the period 1995-2000, while developing countries agreed to make tariff cuts of 24% over a 10 year period. Least Developed Countries (LDCs) were exempted from tariff reductions. Import restrictions like quotas have been converted to tariffs- a process known as tariffication. Then, over a period of time, these tariffs have been gradually reduced.
2. **Domestic support-** The main complaint about policies which support domestic prices, or subsidize production in some other way, is that they encourage over-production. This squeezes out imports or leads to export subsidies and low-priced dumping on world markets. The Agriculture Agreement distinguishes between support programmes that stimulate production directly, and those that are considered to have no direct effect. Domestic policies that do have a direct effect on production and trade have to be cut back. Domestic support in the agricultural sector is categorised as
 - a) **Amber-box subsidies-** All domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box except those in the blue and green boxes. These include measures to support prices, or subsidies directly related to production quantities. These supports are subject to minimal limits of 5% of agricultural production for developed countries and 10% for developing countries.
 - b) **Blue box subsidies-** This is the "amber box with conditions" — conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production. At present there are no limits on spending on blue box subsidies. Blue

box subsidies are considered somewhat less trade distorting, because while they directly link production to subsidies, they also set limits on production by way of quotas,

- c) Green box subsidies- Measures with minimal impact on trade can be used freely — they are in a “green box” (“green” as in traffic lights). They include government services such as research, infrastructure, etc. Research and training services provided to farmers by the state are one example of such aid. They also include payments made directly to farmers that do not stimulate production, such as certain forms of direct income support, assistance to help farmers restructure agriculture. Green box subsidies were initially considered non-distorting in terms of production and trade, though it is increasingly being recognised that they are at best minimally trade distorting. Direct income support schemes unlinked to production would be typical examples of green box subsidies. The commitments to reducing subsidies made under the AoA were restricted to amber box subsidies alone. This has led to serious anomalies that have effectively undermined the spirit of the AoA. For instance, the EU and the US can get away with providing huge levels of subsidy to their farmers simply by redesigning an amber box subsidy into one that falls into the blue or green box. In theory, the developing world can also play this game, but that is little more than a debating point. After all, developing world governments can hardly afford the quantum of subsidies farmers in the EU, US or Japan get.

The AoA's domestic support system currently allows Europe and the USA to spend \$380 billion every year on agricultural subsidies alone. "It is often still argued that subsidies are needed to protect small farmers but, according to the World Bank, more than half of EU support goes to 1% of producers while in the US 70% of subsidies go to 10% of producers, mainly agri-businesses.". The effect of these subsidies is to flood global markets with below-cost commodities, depressing prices and undercutting producers in poor countries.

EXPORT SUBSIDIES: LIMITS ON SPENDING AND QUANTITIES

The 1995 AoA required developed countries to reduce export subsidies by at least 36% (by value) or by at least 21% (by volume) over the six years. In the case of developing country Members, the required cuts are 14% (by volume) and 24% (by value) over 10 years.

CRITICISMS OF AGREEMENT ON AGRICULTURE

- The AoA has been subject to several criticisms. A valid criticism is that there are imbalances in the AoA because industrialized countries have been able to secure exemptions for some of their policies (like the Blue Box) and were allowed to continue using significant amounts of expenditures for domestic support and export subsidies. Rich countries have the legal room and the resources to implement the variety of policies allowed under that legal text, while developing countries, although having legal room of maneuver, lack the needed financial resources.
- Contrary to the proclaimed intent of AoA to reduce and eliminate the huge agricultural subsidies of developed countries, both the U.S. and EU have retained and even increased their annual farm subsidies to the tune of USD 70- 80 billion each. They were able to do this by classifying their subsidies under the different forms of exemptions allowed by the AoA.
- Without reducing or eliminating such huge subsidies, which have not solved but rather exacerbated the problem of overproduction in developed countries, import dumping and import surges continue to threaten many developing and least developed countries which at the same time were compelled to lower tariffs and to dismantle their protective trade walls in compliance with WTO rules and IFIs' loan conditionalities. Between 1990 and 2000, developing countries cut their average applied tariffs on agricultural imports from 30 percent down to 18 percent.
- And while developing countries complied with liberalization measures, developed countries managed to retain their protectionist walls by using tariff peaks or setting tariffs at a very high level from the base year of implementation, resulting in negligible tariff reduction and insignificant market access for the exports of developing and least developed countries. They have also invoked the Special Safeguards (SSG) provision of the GATT-UR to discriminate against developing country exports.³ No wonder, under these circumstances, the share of developing country in agricultural exports has remained stagnant at around 36 percent during the past two decades.
- Gross imbalances that are built-in in the AoA rules and actual practice of developed countries to further circumvent these rules to their advantage have undoubtedly undermined the food security and rural livelihoods of developing and least developed countries. Evidence abounds. Food imports by developing countries grew by 115 per cent between 1970 and 2001, transforming their combined food trade surplus of \$1bn into a deficit of more than \$11bn. A case in point is rice, which is the staple food for 3 billion people or half of the world's population and the source of livelihood for 2 billion people - mainly smallholders in the South. Tariff cuts on rice imports were forced upon rice-producing developing countries through a combination of IMF and World Bank loan conditionalities and WTO and bilateral trade deals, transforming many of these countries from self-reliant rice producers to net food importers. While most developing countries could barely provide domestic support to their farmers even lower than the 10% de minimis ceiling provided by the AoA, the combined subsidies poured in by the U.S., Japan and EU for their rice sector in 2002 reached US\$16 billion. The U.S., the third largest rice exporter, is subsidizing its rice sector to an amount equivalent to 72% of its cost of production, something that is very obscene because U.S. rice production cost is more than twice the production costs of the two other leading rice exporters, Thailand and Vietnam.

INDIA AND WTO: ISSUES IN AGRICULTURE

India has come under heavy criticism recently for blocking the implementation of a World Trade Organisation (WTO) agreement reached at Bali in December. Proponents celebrated the Bali 'package' as a long-awaited achievement by the WTO, which had failed to reach a significant agreement since 1995. However, critics lamented that the Bali deal was skewed in the favour of developed nations above developing nations. The final package included a Trade Facilitation Agreement (TFA), which aimed to simplify logistics and customs, as well as parallel proposals for food security and agriculture which were important for developing countries. The TFA was controversial because it had required developing countries to invest in sophisticated customs technology regardless of their level of development. It is now uncertain whether the Bali deal will actually be ratified, after India blocked the implementation of the TFA in July, 2014, citing that there had not been enough progress on food security and agriculture issues.

In Bali, India was joined by 33 other developing countries who wanted to amend the existing Agreement on Agriculture in order to protect their ability to continue food security programs, which involve governments buying food from farmers at above market rates in order to stockpile staples like wheat and rice to distribute at subsidised prices for their poorest citizens. The existing rules meant that countries implementing these essential food security programs could face legal challenges if they went above the tight limit set by the WTO. An agreement was made in Bali to implement a temporary "peace clause" which would protect these countries from legal challenges in the absence of a permanent solution.

Ahead of resumption of negotiations in Geneva to end the stalemate over the Bali agreement, India has notified its farm subsidies for six years from 2004-05 to 2010-11 to the World Trade Organization (WTO). India claims that it has not breached the permissible subsidy levels under WTO rules. India had not notified its farm subsidies to the WTO since 2003-04; updating the information is expected to help it answer rich nations' complaints that it doesn't comply with WTO notification requirements, a significant move even as it fights for a permanent solution on food subsidies.

As per the notification, in 2010-11, India's aggregate measurement of support (AMS) for rice, or subsidy for procurement of rice, has been calculated at \$2.3 billion. WTO rules allow such subsidy to be within 10% of the total value of paddy produced in the country. Without revealing the total production figure, India has indicated to the WTO that its subsidy for rice is within the prescribed limit. The commerce ministry had earlier communicated unofficially that its AMS for rice was around 7% of the total value of paddy produced in 2010-11. India's subsidies for wheat remained in the negative, against the prescribed limit of 10%.

Under WTO rules, the domestic price support is calculated as the difference between the fixed external reference price prevailing between 1986-88 and the minimum support price (MSP) provided by the Indian government. India announces MSP for as many as 23 crops but the subsidy is largely restricted to paddy and wheat, where the amount of government procurement is huge.

As the government keeps increasing the MSP every year, the market-distorting subsidy limit according to WTO rules keeps increasing, too, thus threatening to breach the 10% cap prescribed by it. Developing countries including India argue that the reference period of 1986-88 is outdated and that they need to be given

flexibility to stock enough grains for the food security of millions of their poor. At Bali in December 2013, developed countries agreed to find a permanent solution to this issue by 2017, until which time member countries would not be able to challenge poor and developing countries through the WTO dispute settlement mechanism if they breached the 10% cap.

Australia, Japan and the European Union have questioned that while India had minimum support prices in place for 25 crops in 2004-13 (including rice, wheat, cotton, soyabean, sugarcane, bajra, maize, ragi, arhar, moong, urad, nuts, sunflower seeds, sesamum, nigerseed, barley, gram, lentil, rape seed, safflower, toria, copra, and jute), it notified prices for only 12 crops in 2004-05 and just three for 2010-11.

CONCLUSION

The entire discussion of conflict between developing and developed countries over agricultural subsidies could be summed up as follows-

- **Market orientation v. protection:** whether special protection and support should be allowed for developing countries to address their particular situations, or whether liberalization with some flexibility is more effective.
- **Unique v. shared concerns for developing and developed countries:** whether issues such as food security and rural development should be handled uniquely for developing countries, or whether others such as transition economies and developed countries should also be covered.
- **Unique v. shared weaknesses among developing countries:** whether provisions should apply generally to all developing countries, or whether specific groups of developing countries need extra provisions. Underlying this discussion is the question of whether a liberal trade regime would favour some developing countries with inherent advantages in agriculture, or whether other developing countries would be hurt by more liberal trade.

Concerns of developing countries regarding unfair rules of trade in agriculture must be addressed and accommodated into any future WTO negotiations in order to ensure the smooth functioning of WTO negotiations. Developed countries should reduce the subsidies given to domestic agricultural producers, as well as the tariffs on agricultural imports from developing countries. It is also essential that countries recognize that trade may lead to food insecurity in developing countries and take measures to support both subsistence farmers and consumers there. Since the Doha Round began, developed countries have proposed some reductions in their subsidies and to allow some of the poorest developing countries to maintain tariffs on a limited number of products. However, the developing country proposals do not go far enough to fulfill the objectives outlined by the Doha Ministerial Declaration, such as taking into account the development needs of non-industrialized nations, including food security and rural development. Developing countries should continue to work together to build agreements and power blocks to ensure that any future trade agreement embodies the original intent of the Doha Development Agenda.

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