WTO Agreement on Agriculture

Frequently Asked Questions

Monographs on Globalisation and India – *Myths and Realities*, #4

कट्स CUTS
Twenty Years of Social Change
1984 to 2003

0314

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Published by

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CUTS Centre for International Trade, Economics & Environment
D-217, Bhaskar Marg, Bani Park
Jaipur 302 016, India
Email: citee@cuts.org
Website: www.cuts-international.org

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Cover Photo
Courtesy - The Economic Times

Layout by

Sanjay Jain
CUTS, Jaipur

Printed by
Jaipur Printers P. Ltd.
Jaipur 302 001

ISBN 81-87222-86-7

First Published: July 2003
First Reprint: September 2005

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#0314 SUGGESTED CONTRIBUTION Rs.50/$10

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Foreword

This is the fourth monograph of the series entitled Globalisation and India – Myths and Realities, which we launched in September 2001. The first three were a big success. We received both bouquets and brickbats. Many have praised for our dispassionate analysis of the processes of globalisation, while others have criticised our middle path approach. Constructive criticism is welcome, which will help us to do better.

Former Chief Minister of Madhya Pradesh and Chairman of the Parliamentary Standing Committee on Commerce, Mr. Kailash Joshi wrote: "For the first time, this monograph has treated the most important subject impartially bringing out the real challenges India is facing from the World Trade Organisation (WTO) treaty with its factual analysis to take advantages for the benefit of our beloved nation."

The second monograph, ABC of the WTO, is about the World Trade Organisation, which has become the vehicle for globalisation. It placed facts in simple language, countering certain myths associated with this global body, which has become a type of a super regulator, going beyond its usual remit of international trade in goods and services.

The third one is on the ABC of the FDI. It concerns with the role of Foreign Direct Investment (FDI) in promoting economic growth and development in the South.

This monograph, the fourth one, deals with the issues of WTO and the Indian agriculture. Indeed, it is an issue, which generates passions, not only in our country, but also throughout the world. Our effort is to place some facts and figures with respect to trade in agriculture and India's position and let the people judge whether the WTO can be beneficial for our farmers or not.

Unfortunately, the WTO Agreement on Agriculture is a unique example of special and differential treatment[1] to rich countries like the European Union (EU), the United States (US), Japan and Canada. In fact, many of them opposed the inclusion of agricultural trade under the WTO, but agreed at the end. Textiles and clothing too was outside the scope of General Agreement on Trade and Tariffs (GATT), and was brought in the Uruguay Round (UR).

It was developing countries and traditional agricultural exporters (known as the Cairns Group), who argued for the liberalisation of trade in agriculture. Agriculture has been protected for long in rich countries and therefore the resistance to put it under the GATT discipline. The inclusion of agriculture in WTO negotiations attracted many developing countries to accept other onerous commitments under the GATT, such as Trade Related Intellectual Property Rights (TRIPs).

During the initial years of the UR negotiations, agriculture remained dormant. Perhaps, everyone was trying to settle other issues first. After almost six years of negotiations and when the dust nearly settled down in Geneva, the US and EU came to loggerheads over reduction commitments on domestic subsidies to their agriculture. The 1992 Blair House Accord[2] between these two giants cleared the way for the successful completion of the Uruguay Round, which led to the formation of the WTO in 1995.

The Agreement on Agriculture, which was finally adopted, contained various escape routes for subsidies, called as traffic lights: green box; blue box, and amber box. The agreement was that some subsidies would be banned outright while many others will be gradually reduced through future negotiations as a built-in agenda.

Thus, agriculture negotiations have always been a sticky issue, and a deal breaker. Two examples will substantiate the point. Many civil society activists believe that the street demonstrations were the main reason for the failure of the Seattle Ministerial Conference in 1999. This is far from truth. The meeting failed for several reasons, and the primary one was the failure of the EU and US to come to terms on further reduction of agriculture subsidies. The same could have been repeated at Doha, the venue of the fourth ministerial conference of the WTO in November 2001. Trade ministers overstayed for a day to reach a deal, not due to India’s opposition to negotiations on new issues, like competition policy, investment, but because Pascal Lamy, the European Trade Commissioner, took more time than expected to convince the French Government in agreeing with his proposal on agriculture.

The importance of agriculture, as ‘the’ deal breaker in multilateral trade negotiations, can further be understood from the following statement made by Lamy, while speaking at a meeting with the civil society in New Delhi immediately after the Doha Ministerial: “We [the EU] have agreed to address [in the Doha Ministerial Declaration] only the trade-distorting subsidies and not the whole gamut of subsidies. We have seven million farmers in Europe to protect". In response to an intervention about the 130 million farmers in India, he tersely responded that it is the Government of India who should take care of their interests.

It is true that EU subsidies to agriculture distort trade, but at the same time this (Lamy's remark) is the central message of what India should do in future on the issue of agriculture and the world trading system. But are we on the right path for creating an environment so that Indian farmers can benefit from the opportunities under the rules-based multilateral trading system? Unfortunately, that is not the case and, most of the time, the positives never see the light of the day because in our country (and in many others) politics takes precedence over economics and not the other way.

Before the Doha Ministerial, the Government of India organised a Conference of Chief Ministers to discuss WTO and the Indian agriculture. The Prime Minister addressed the delegates. Next day the media was full of stories, covering concerns showed by our Chief Ministers about how the WTO is gobbling up the farming community. Nobody even whispered about the opportunities that the rules-based system could offer. Of course, threats are there, but enough safeguard mechanisms are available to deal with them and, more importantly, they can be turned into opportunities.

In the words of Verghese Kurien, the father of the White Revolution in India, the milk cooperative movement was an answer to the threat that our farmers were facing in 1950s – they did not have markets to sell and get better price. Today, AMUL, the premium Indian brand of milk products is competing with multinationals in the country and outside and is, in fact, in a better position to take advantage of the reduction in subsidies to milk production in the EU than companies such as Nestle.

Unfortunately, the Government has done little to engage the public in the debate on opportunities and threats in the WTO regime. For example, they came out with a booklet stating that as per the WTO Agreement on Agriculture, India is not obliged to import a minimum of three percent of its domestic consumption of agricultural commodities. The public has misconstrued it, resulting in ill-informed debates. Many such examples are in that publication, but no efforts were made for information dissemination widely to the public by engaging NGOs.

After the above-mentioned Chief Ministers' Conference, the Trade Policy Division called a meeting of the Advisory Committee on International Trade. I happen to be a member of that and asked why there was not even an attempt to discuss with the Chief Ministers about the opportunities in the WTO system. Believe it or not, there was a pin drop silence. Nobody responded, not even the minister!

Therefore, as a responsible civil society organisation working to making this world a better place to live in, we take up the mantle. The mandate comes from numerous letters we receive everyday from the citizens of this world seeking better information on WTO and related issues.

I am sure this monograph, dealing with simple questions coming to common man's mind, will serve its purpose of generating a well-informed debate in the country on what India should do in future on the issue of agriculture and the world trading system.

Jaipur **Pradeep S. Mehta**
May 2003 **Secretary General**

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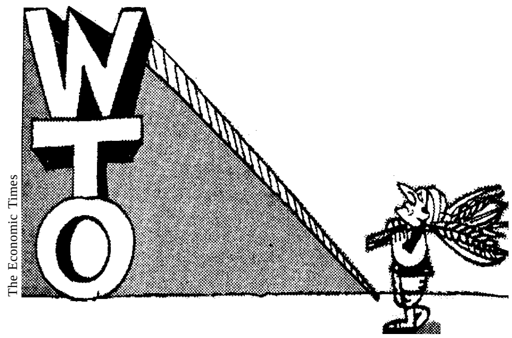

What is the WTO Agreement on Agriculture?

The WTO (World Trade Organisation) Agreement on Agriculture (AoA) deals with three broad areas, namely market access[3], domestic support[4] and export subsidies[5]. Negotiations on the AoA were held as part of the Uruguay Round, which lasted from 1986 to 1994. In April 1994, the AoA was signed as part of the Marrakesh Agreement establishing the WTO. The AoA came into force with effect from 1st January 1995, i.e. the date on which the WTO came into being. The AoA, having 21 articles, forms a part of the WTO.

The long-term objective of the AoA is to establish a fair and market-oriented agricultural trading system. Under the agreement, the WTO members made commitments of providing market access, regulating domestic support and containing export subsidies. At present, the AoA is under review and the WTO members are negotiating for changes in its provisions and country-specific commitments.

The following box briefly explains the role of market access, domestic support and export subsidies.

Basic Structure of the WTO AoA

Market Access

a) Aims at dismantling all barriers other than tariffs[6], such as quantitative restrictions[7] (QRs), quotas, import restrictions through permits, import licensing etc. These are popularly known as non-tariff barriers.

b) These barriers are to be replaced by tariffs, which would be then progressively reduced. Tariffs average cut were to be 36 percent for all agricultural products (on an average) and 15 percent in terms of minimum cut per product by the developed countries between 1995-2000, and 24 percent and 10 percent, respectively by developing countries by 2004.

c) Though, developing countries can maintain non-tariff barriers on agricultural products, which are part of their staple diet but must gradually reduce them over a ten-year period from the date the AoA came into force.

Domestic Support

a) The objective of such provisions is to identify acceptable measures of support to farmers and to discipline those supports to farmers, which could directly affect international trade in agricultural commodities.

b) They are directed at reducing the level of subsidies to domestic producers. The total domestic support/Aggregate Measurement of Support (AMS) for the sector is to be reduced by 20 percent by the developed countries between 1995-2000 and 13 percent by developing countries by 2004.

Export Subsidies

a) They are aimed at limiting impacts on agricultural trade due to subsidies and promoting competition among different market players.

b) Export subsidies were to be reduced by 36 percent in value and 21 percent in terms of subsidised quantity by the developed countries between 1995-2000, and 21 percent and 13 percent, respectively by developing countries by 2004.

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The Financial Express

What is the present status of negotiations on agriculture?

The negotiations on agriculture started in the year 2000 and received guidelines from the Doha Ministerial Conference of the WTO, which was held in November 2001. The Doha Declaration builds on the work already undertaken in the agriculture negotiations, confirms and elaborates the objectives, and sets a timetable. Along with almost all the other negotiations under the Doha Agenda, the agriculture talks are scheduled to end by 1st January 2005.

Many members have submitted proposals for negotiations. These have enabled the members to understand the positions of different countries better with regard to reforms in trade in agriculture.

On the basis of these proposals, a draft overview paper was prepared in December 2002 for comprehensive negotiations. This included proposals for modifying the existing commitments as well as the new commitments, which were asked by the WTO members.

In February 2003, the Chairperson of the Agriculture Committee of the WTO, Stuart Harbinson, prepared a draft of the modalities of negotiations. Following comments from WTO members, this was revised in March 2003. The 31st March 2003 was the deadline for establishing “modalities” for agriculture negotiations. However, members failed to meet this deadline as many critical issues were to be resolved.

In a meeting held on 31st March, Stuart Harbinson told delegations that the failure to meet the deadline was certainly a setback. He added that many delegates have told him that they are committed to continue working on the issues before them. Supachai Panitchpakdi, Director General of the WTO, welcomed the willingness of participants to continue working on agriculture modalities and stressed the importance of maintaining momentum in other areas of negotiations, such as services, industrial tariffs, trade and environment and reforming WTO rules, so that "positive linkages" with the agriculture negotiations can be established. It was argued that significant progress in some areas often provides negotiators with an incentive to overcome their differences even on the most politically sensitive questions.

Table 1: Negotiating Time Table

January 2000	Agriculture negotiations begin under Uruguay Round mandate
November 2001	Doha Ministerial outlines objectives and timeline: • substantial improvements in market access; • reductions of, with a view towards phasing out, all forms of export subsidies; • substantial reductions in trade-distorting domestic support; • modalities (i.e., formulas and rules) established no later than March 31, 2003; and • negotiations conclude by January 1, 2005
March 2002	Stuart Harbinson selected as Chairperson and negotiating schedule established.
December 2002	Preparation of 'Overview Paper' by the Chairman, Stuart Harbinson.
March 31, 2003	Modalities established*
September 2003	Submission of comprehensive draft commitments at 5th Ministerial.
January 1, 2005	Negotiations conclude.
January 1, 2006	Implementation of tariff and subsidy cuts agreed to in the negotiations.

*Deadline could not be met.

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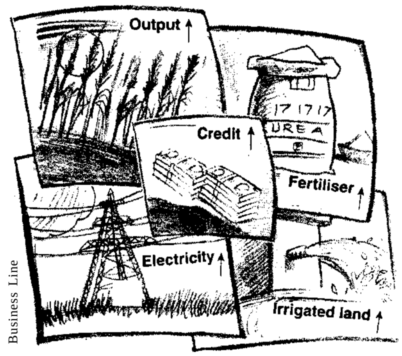

What are the special and differential treatments for developing and least developed countries under the WTO AoA?

The Preamble to the AoA states the following by recognising special and differential treatment (S&DT) for developing and least developed countries: "In implementing their commitments on market access, developed country Members to take fully into account the needs and conditions of developing country Members by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to those Members, including the fullest liberalisation of trade in tropical agricultural products; the possible negative effects of the implementation of the reform programme on least-developed and net-food importing developing countries to be taken into account".

At the Doha Ministerial Conference, these countries argued that they have faced problems in implementing many S&DT provisions. They also pointed out that even S&DT of binding nature have had of little meaning for them as they do not have resources to operationalise them.

However, according to many developing and least developed countries, seven years of S&DT operations after the WTO came into existence, have resulted in very little benefits.

Table 2 illustrates special and differential treatments for developing and least developed countries.

Table 2: Special and Differential Treatments for developing and least developed countries		
Commitments by Developed Countries	**Provision for Developing Country Members**	**Provision Specifically for Least-developed Country Members**
Average tariff reduction of **36 percent**, with minimum cut per tariff line of **15 percent.**	Average tariff reduction of **24 percent**, with minimum cut per tariff line of **10 percent**. Option to establish ceiling bindings[8] for previously unbound agricultural tariffs.	Exempted
Trade-distorting domestic support (Total Aggregate Measurement of Support or Total AMS) to be reduced by **20 percent.**	Trade-distorting domestic support (Total Aggregate Measurement of Support or Total AMS) to be reduced by **13.3 percent.**	Exempted
De minimis provision allowing exclusion of product-specific and non-product specific trade-distorting domestic support of less than **5 percent** of the total value of production of the product concerned or total agricultural production, respectively.	*De minimis* provision allowing exclusion of product-specific and non-product specific trade-distorting domestic support of less than **10 percent** of the total value of production of the product concerned or total agricultural production, respectively.	Exempted
Export subsidy reduction commitments of **21 percent** in terms of subsidised export volume and **36 percent** in terms of budgetary outlays.	Export subsidy reduction commitments of **14 percent** in terms of subsidised export volume and **24 percent** in terms of budgetary outlays.	Exempted
Developed country Members to implement reduction commitments over a period of **6 years.**	Developing country Members to implement reduction commitments over a period of **10 years.**	Exempted

Contd...

Commitments by Developed Countries	**Provision for Developing Country Members**	**Provision Specifically for Least-developed Country Members**
	During the implementation period, no requirement to undertake commitments in respect of subsidies to reduce the costs of marketing exports and of government-provided or mandated internal transport and freight charges on export shipments on terms more favourable than for domestic shipments.	
	Investment subsidies generally available to agriculture, agricultural input subsidies available to low-income or resource-poor producers, and domestic support to domestic producers to encourage diversification from illicit narcotic crops to be excluded from reduction commitments and not included in Total AMS.	
	Disciplines on export prohibitions and restrictions not applicable, unless the developing country Member is a net-food exporter of the specific foodstuff concerned.	
Developed country Members to take action as provided for within the framework of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net-Food Importing Developing Countries. Committee on Agriculture to monitor the follow-up to this decision.		

Contd...

Commitments by Developed Countries	Provision for Developing Country Members	Provision Specifically for Least-developed Country Members
	Special and differential treatment to developing country Members, to be taken into account in the continuation of the reform process.	
	Special and differential treatment with regard to public stockholding for food security purposes. This may include government aid to provide storage of products as part of such a programme.	
	Special and differential treatment with regard to domestic food aid.	
	Certain annual notification requirements in the domestic area may be set aside, on request, by the Committee on Agriculture.	Certain notifications only to be submitted every other year.

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Does the WTO AoA takes note of concerns of developing and least developed countries regarding their food security?

The answer is yes. This is known as a non-trade concern and the WTO AoA has specific provisions to take this into account.

For example, the expenditure made for accumulation and holding of stocks of products for the purpose of food security would be exempted from the calculation of aggregate measurement of support or AMS (domestic subsidies).

However, even these activities aimed for food security are subject to additional conditions. For example, such expenditure should be an integral part of a food security programme identified by national legislation and the beneficiaries have to be targeted on the basis of a clearly defined criteria related to nutritional objectives.

With regard to net food-importing developing countries (NFIDCs), a special decision was taken at Marrakesh, Morocco at the time of the signing of the WTO agreement. It called upon developed countries to compensate NFIDCs, if they experience negative effects as a result of higher food prices or because of reduced availability of food aid.

Many developing countries have now put forward proposals for a 'development box' in the AoA, which would provide special provisions for dealing with their problems of food security, rural poverty, etc. The emphasis is on targeting low-income farmers who lack resources, and to secure production of staple foods.

Proposed means include exemptions from commitments on staples; the possibility of negotiating higher tariffs on imports of staples; allowing developing countries to use simple safeguards to protect staples; and an international food security fund.

Article 16 of the WTO AoA
Developed country Members shall take such action as is provided for within the framework of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food Importing Developing Countries. The Committee on Agriculture shall monitor, as appropriate, the follow-up to this decision.

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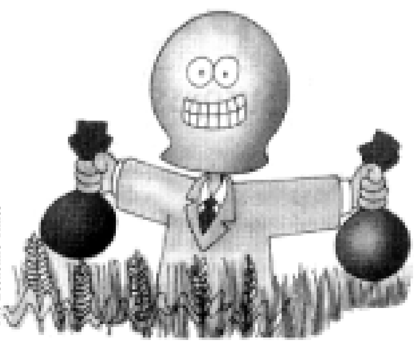
The Economic Times

What are green, amber and blue boxes in the WTO AoA?

The WTO AoA distinguishes between three types of domestic supports, grouped into 'boxes': green (permitted), amber (to be reduced as per a member's commitments), blue (subsidies that are tied to programmes that limit production).

Green box measures are those, which do not impact international trade directly and are excluded from any reduction commitments. For example, agriculture support policies, research and development, pest and disease control, training, advisory services etc. However, such measures must be from the government to producers and must not be direct price support to producers.

Amber box measures are certain price support policies to farmers. They are calculated on a product-by-product basis. WTO members have made commitments to reduce them over time. However, for developing and least developed countries reduction commitments are lower than that of developed countries.

Blue box includes direct payment to producers under production limiting programmes and it is based on the amount of land holdings and numbers of animals. They are relevant to developed countries only. The following box explains 'Aggregate Measurement of Support'.

Aggregate Measurement of Support

As per the WTO AoA, the aggregate measurement of support (AMS) is the annual level of support expressed in monetary terms for those domestic support measures, which come under amber box and where government funds are used to subsidise farm production and income. If this amount is more than ten percent of the total value of agricultural production in a year, then a country is obliged to reduce it.

AMS consists of two parts – product specific support and non-product specific support. The product specific support is the difference between domestic support prices (e.g. minimum support price in India) and external reference prices (including production cost, insurance and freight prices of imports and free on board prices of exports), multiplied by the quantity of production, which gets such support. The non-product specific support is the subsidy on agriculture inputs, like fertilisers.

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The Economic Times

Have developed countries implemented their commitments as per the WTO AoA?

The answer is both yes and no. It is yes, because many commitments are implemented by taking recourse to loopholes in the WTO AoA. For instance, the developed countries were to make cuts on tariffs at a simple average of 36 percent, subject to a minimum of 15 percent. This flexibility in tariff reduction has caused high degree of disparity in tariff structure. For example, for sensitive and highly protected products, many developed countries have made their bound tariff rate very high and then reduce it by only 15 percent, thus the actual bind rate remains quite high – in the case of rice in Japan the actual bind rate is 400 percent.

It is no, because there has been no significant reduction in either domestic support or export subsidies in agriculture in the European Union, USA and Japan.

Many of these countries have increased domestic subsidies under the guise of blue box and green box. During the implementation period, they have resorted massively to the blue box measures (as practiced by the European Union) or to decoupled support and direct payments under the green box (as practiced by the US), with the result of that the total domestic support in the Organisation for Economic Co-operation and Development (OECD) countries has registered an increase. In sectors like cereals, sugar and dairy products, high tariff levels are still maintained.

This shows that many provisions of the AoA are, in fact, special and differential for the benefit of developed countries. Table 3 shows agricultural support in select developed countries in terms of "producer support estimate" (PSE), which is an indicator of the annual monetary value of gross transfer from consumers and taxpayers to support agricultural producers.

Table 3: Rich Pickings for OECD Farmers

2001 Handouts	**PSE ($mn)**	**PSE (in percentage)**
European Union	93,083	35
Japan	47,242	59
South Korea	16,838	64
Mexico	6,537	19
Norway	2,173	67
Switzerland	4,214	69
Turkey	3,978	15
United States*	49,001	21

*Notes: The percentage PSE is the ratio of the PSE to the value of total farm receipts. * In May 2002, additional support of $180bn over ten years was approved by the US Congress.*

Source: Business World, 30 December 2002

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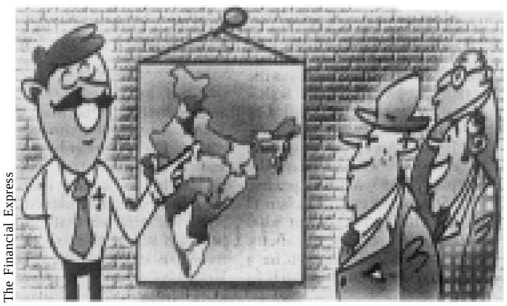
The Financial Express

What are India's obligations under the WTO AoA?

On market access, the agreement states that there can be no restrictions on farm trade except through tariffs. This means that non-tariff barriers such as quantitative restrictions (QRs) on imports (i.e. quotas, import restriction through quotas, import licensing etc.) were to be replaced by tariffs or duties on imports to provide the same level of protection to domestic agriculture and thereafter, tariff levels are to be progressively reduced.

India had bound its tariffs at 100 percent for primary products, 150 percent for processed products and 300 percent for edible oils. However, actual tariff rates are much less than these bound rates.

The country has not made any commitment to provide minimum market access opportunities to the extent of three percent of its domestic consumption *(WTO Agreement on Agriculture: India's Proposals, Ministry of Commerce & Industry and Ministry of Agriculture, March 2001).*

India is not required to reduce its domestic subsidy levels, as its AMS is much below the cut-off point of ten percent. India has not made any commitment in this regard.

The agriculture and allied sector that contributed 14 percent to the total export basket in 2000 received export credit support of only nine percent from the commercial banking system. Though export subsidy through credit is prohibited under the WTO, India enjoys the concession as its gross domestic product

(GDP) per capita is below $1000. Thus, India's export credit to the agriculture sector is known as concessional export credit, which is compatible with the WTO norms.

Enhancing the Availability of Export Credit
Export credit agencies all over the world enjoy support by way of interest subsidy so that they can promote national exports. The objective is to neutralise competition between the home country exporter and a government-sponsored competitor from another country whose government is capable of offering credit at a rate better than global market conditions. A OECD study (An Analysis of Officially Supported Export Credits in Agriculture) shows: • India, in the past, has not treated export credit as a strategic tool. • Export credit in India is considered to be costly relative to other competing countries. • Agriculture exports from India can pick up quickly, if officially supported export facilities are given up in other developed and developing countries.
Source: Medium Term Export Strategy 2002-2007, Government of India

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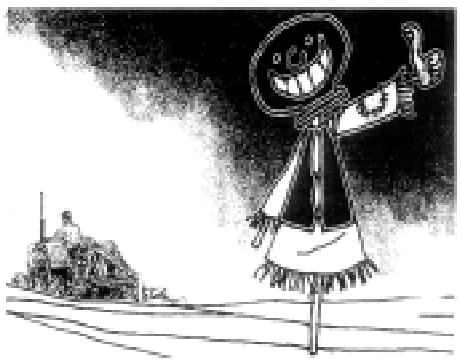

Business Standard

Is the WTO AoA obstructing subsidies to the Indian agriculture?

There have been concerns that subsidies for Indian farmers will no longer be possible under the WTO AoA. This is not true, because India is under no obligation under the WTO AoA to reduce any subsidies given to its farmers. This is because the aggregate value of subsidies given to Indian farmers is well below the ceiling[9] prescribed in the AoA.

Calculations have been made by experts that in the base years 1986-87, 1987-88 and 1988-89, both product specific and non-product specific subsidies provided by the Government of India and state governments to the farming sector were negative, as per the formula adopted in the WTO AoA. This negative subsidy was to the extent of Rs. 19,000 crores (approximately US$3.6bn).

Moreover, developing countries, like India, have been provided with three additional exemptions from calculating the aggregate value of subsidies, namely:

- investment subsidies, which are generally available to agriculture;
- agriculture input subsidies, generally available to low-income and/or resource-poor farmers; and
- domestic support to producers to encourage diversification from growing illicit narcotic crops.

The following box gives the explaination of negative domestic support to agriculture.

India's Domestic Support to Agriculture is Negative

In India, the domestic support to agriculture is largely in the form of lower farm inputs prices. The Ministry of Commerce estimates the non-product based subsidy at around seven percent of the value of agricultural output. In India, agricultural commodity prices are depressed, as is evident from the negative product based subsidy (-38 percent). Thus, AMS in the country is also negative (-31 percent). In developing countries like India, with significant proportion of poor in the country, agricultural commodity prices are deliberately kept low. Therefore, chances of negative (as compared with international prices) product-based subsidy will keep on nullifying the higher non-product based subsidy in India.

Another study by the Indian Council for Research on International Economic Relations (ICRIER) pointed out that for the year 1999-2000, the product-specific support is negative for most of the products. It is positive but still less than ten percent for three products, viz. sugarcane, soya bean and cotton.

Source: Jha, Brajesh 2001, Indian Agricultural and the Multilateral Trading System and ICRIER 2002, WTO Agreement & Indian Agriculture

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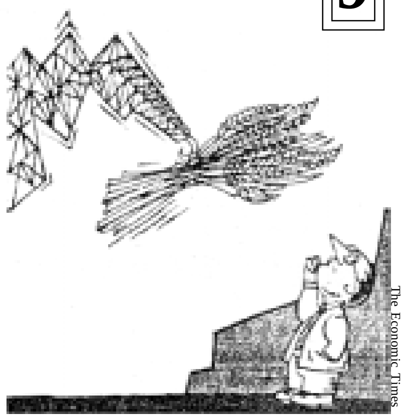

Is the WTO AoA affecting the public distribution system of India?

The operations of the public distribution system (PDS) in India are not meant for providing subsidies to the farmers. They are subsidies for poor consumers to meet their food requirements. Such consumer subsidies, under certain grounds, are exempted from any reduction and/or removal of commitments as per the WTO AoA.

Thus, the WTO AoA will not affect our PDS. Furthermore, India has stated in its Schedule of Commitments to the WTO that concessional sales of foodgrains through the PDS and other schemes, with the objective of meeting the basic food requirements as a social safety net, are in conformity with the provision of the WTO AoA. This Schedule has been verified and accepted by all the WTO members.

The following box quotes the clause of the WTO AoA, in regard to the stockholding for food security.

Article 21, Annex 2 - Domestic Support: The Basis for Exemption from the Reduction Commitments

Public Stockholding for Food Security Purposes

Expenditure (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 loss than the current price for the product and quality in question.

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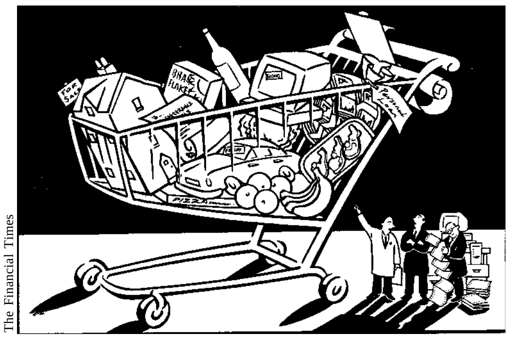


The Financial Times

Is India becoming a dumping ground for cheap agricultural imports?

The answer is no. Contrary to concerns in some circles that liberalisation of imports resulting from the lifting of quantitative restrictions on agricultural products would lead to surge and dumping of agricultural products, thus adversely affecting the Indian farmers, the value of such imports in aggregate terms has come down to about US$1.8bn in 2001 from US$2.9bn in 1998-99 and from US$2.8bn in 1999-2000.

In 2000-01, the country's agricultural imports were only US$1.8bn, much lower than the agricultural exports, which were more than US$6bn. Agricultural imports in 2000-01 constituted only 3.7 percent of the country's total imports. In recent years, the share of agricultural imports in the total imports has floated around five to six percent. (see table 4)

The country has considerable flexibility to counter the flooding of the market by cheap agricultural imports by increasing tariffs up to the bound rates, as committed under the WTO AoA. The Government of India, in fact, raised the import tariff for many agricultural products such as tea, coffee, pulses and edible oils in the budget of 2001-02.

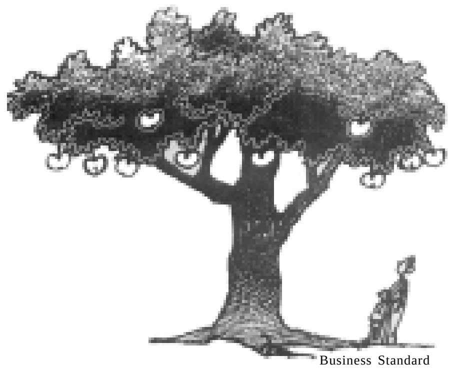
It can also take safeguard action under the WTO Agreement on Safeguards, if there is a surge in imports causing serious injury or if there is a threat of serious injury to the domestic producers.

Table 4: Agriculture Imports (value in US$mn)

	1998-1999		1999-2000		2001-20001	
Commodity	**Value**	**Percentage to Total Agricultural Imports**	**Value**	**Percentage to Total Agricultural Imports**	**Value**	**Percentage to Total Agricultural Imports**
Cereals	288	9.9	222	7.8	19	1.0
Pulses	169	5.8	82	2.9	109	5.9
Milk & cream	3	0.1	25	0.9	2	0.1
Cashew nuts	230	7.9	276	9.7	211	11.3
Nuts & fruits	159	5.5	136	4.8	175	9.4
Sugar	264	9.0	256	9.0	7	0.4
Oil seeds	2	0.1	4	0.1	2	0.1
Veg. Oils	1,804	61.8	1,857	65.0	1,334	71.8
Total Agricultural Imports	2,919	100.0	2,858	100	1,858	100.0
Percentage of Agricultural imports to total Imports	6.9	-	5.8	-	3.7	-
Total Country Imports	42,389	-	49,671	-	50,536	-

Source: Economic Survey, 2001-2002

11



What are the possible benefits for India from the WTO AoA?

The WTO AoA aims for liberalisation of international trade in agricultural commodities. It has been argued that as a result of such a rules-based system, international prices of agricultural commodities would move upwards, favouring domestic producers.

This is expected to increase the production of exportable commodities. The scale of increase, however, would depend on response to international prices. Many researchers have studied likely implications of liberalisation on different sectors of the Indian agriculture. Brief excerpts from selected studies are produced in the following box.

Effects of Liberalisation on Indian Agriculture

Parikh *et al* indicated that liberalisation triggers growth in agriculture, and the impact is more when this is combined with the liberalisation in manufacturing sector. Therefore, liberalising the agriculture sector alone is not advisable. In the short run, trade liberalisation in agriculture, however, may increase poverty. This stresses the need for strong safety nets for the poor. *Parikh, K. S., N. S. S. Narayana, Manoj Panda and A. Ganesh Kumar: Strategies for Agricultural Liberalisation: Consequences for Growth, Welfare and Distribution, Economic and Political Weekly, Vol. 30, No. 39, 1995*

One of the findings of Subramanian was that liberalising the agriculture sector would increase poverty, especially when the rise in agricultural commodity prices are not proportionate with the production. However, the reduction in tariffs on manufacturing will help in reducing poverty. Thus, liberalisation in the manufacturing sector should precede that in agriculture. *Subramanian S: Agricultural Trade Liberalisation and India, OECD Development Centre Studies, Paris, France, 1993*

Sharma, Gulati and Pursell have assessed the impact of agricultural trade liberalisation on major crops of India. The study indicated that liberalising agriculture alone would raise the domestic price of rice by 6.6 percent, of wheat by 6.4 percent and of sugarcane by 4.5 percent from their current levels. Prices of coarse cereals would, however, fall by 10 percent, of pulses by 9 percent and of edible oils by 38 percent. These changes would affect the cropping pattern. Following the liberalisation, they argued, there are reasonable gains in income, employment, wage rate, and tax revenue. A combined index of all these gains, called efficiency index, went up by 4 percent. *Sharma, A, A. Gulati and G. Pursell: Agricultural Trade Liberalisation and Efficiency Gains: An Analysis of Major Indian Crops, Economics Progress Report No. 128, ICRISAT, Hyderabad, India, 1998*

Ramesh Chand studied the effects of trade liberalisation on selected crops. It showed a sharp positive impact on net return following trade liberalisation in the production of exportables like rice and maize. The impact was negative for importables, such as rapeseed. *Chand, Ramesh: Effect of Trade Liberalisation on Agriculture in India: Commodity Aspects, Working Paper No. 45, CGPR Centre, Bogor, Indonesia, 1999*

12

What could be India's positions in the current negotiations of the WTO AoA?

India's stand on agriculture negotiations has to be an integral part of the overall position it takes on trade liberalisation. The following issues need to be considered:

- On tariff bindings (the maximum tariff that can be imposed on a particular product), some experts suggest that India should ask for a large reduction in tariff peaks prevailing in developed countries on specific products. It must, however, be understood that it is a double-edged weapon because India will also have to lower its tariff peaks. India must, however, try to ensure special and differential treatment with respect to specific commodities, which are of its interest.
- It should negotiate a reduction in the complexity of the agriculture tariffs of developed countries.
- India should ask for a total abolition of the tariff rate quotas regime[10] (TRQ). If that is not possible, an expansion of TRQs should be preferred so that in-quota rates become applicable to all imports, not selectively, which is a case at present. Non-performing tariff quotas, or quotas which are not filled because of the lack of domestic demand, should be eliminated. Also, the administration of TRQs should be made more transparent and equitable.
- Another issue, which relates to market access, is special safeguards (SSG), which are available only to 38 countries. It allows them to impose import restrictions, subject to certain conditions. This provision is highly discriminatory against developing countries. Therefore, it should be abolished or made universally applicable.

- With respect to domestic support, developing countries should first ask for a reduction in the domestic subsidies given by the developed countries. The manipulation of shifting the subsidy to the exempted categories (green box) should not be allowed. All types of subsidies should be summed up together and not allowed to exceed an appropriate proportion of the total value of the agriculture production.

India's Contribution to Modalities for Negotiations

While making contributions to modalities for negotiations on agriculture, India said that no developing countries or group of countries should feel dissatisfied with the outcome on agriculture in the negotiations, even while these negotiations are taking place against the backdrop of a 'single undertaking' on all negotiations. To elicit an outcome on agriculture to the advantage of all developing countries, the notion of 'reciprocity' in the negotiations will need to be moderated to incorporate the development needs and concerns of developing countries.

Endnotes

1. ***Special and Differential Treatment (S&DT)*****:** The concept that exports of developing countries should be given preferential access to markets of developed countries, and that developing countries participating in trade negotiations need not reciprocate fully the concessions they receive. They also enjoy longer timeframes and lower levels of obligations for adherence to the rules.

2. ***Blair House Accord*****:** An agreement reached on 20 November, 1992 between the United States and the European Community on three changes to the draft Uruguay Round outcome on Agriculture. First, there would be a reduction in the volume of subsidised exports from 24 percent to 21 percent Second, some domestic subsidies paid directly by governments to producers would be exempt from the reduction commitment. Third, the *peace clause* giving immunity against complaints on subsidies being reduced was extended. These changes left intact the principles to govern trade in agriculture following the conclusion of the round, but they gave participants greater flexibility in implementing them. The Blair House Accord enabled a restart of the multilateral negotiations, but its initial favourable reception faded away once it became clear that it had not resolved the fundamental difference on market access between the two parties. The accord was altered in December 1993, and this removed the final difficulty standing in the way of the UR outcome on Agriculture.

3. ***Market Access*****:** One of the most basic concepts in international trade. It describes the extent to which a good or a service can compete with locally-made products in another market. In the WTO framework, it is as a legalistic term outlining the government-imposed conditions under which a product may enter a country under non-discriminatory conditions.

4. ***Domestic Support/Aggregate Measurement of Support (AMS)*****:** It is the annual level of support expressed in monetary terms for all domestic support measures where government funds are used to subsidise farm production and incomes. The annual level of support has to be reduced as a result of the Uruguay Round negotiations. Domestic support measures with minimal impact on trade do not have to be reduced.

5. ***Export Subsidies*****:** Government payments or other financial contributions by governments provided to domestic producers or exporters if they export their goods and services.

6. ***Tariffs*****:** A duty or tax levied at the border on goods going from one customs territory (usually one country) to another. It can be levied as a fixed sum per unit of the imported good, *a specific tariff*, or it can be based on a percentage rate of the value of the import, a so-called *ad valorem* tariff.

7. ***Quantitative Restrictions*****:** Limits or quotas on the amounts of particular commodities that can be imported or exported during a given period. They are usually measured by volume, but sometimes by value.

8. ***Ceiling Bindings*****:** The concept in the WTO of binding all, or large sections, of a tariff at a specified level, often with a comfortable cushion above the applied tariff rates. Countries that undertake to bind their tariffs are under a legal obligation not to increase these bound levels.

9. ***Bindings*****:** A binding (also called concession) is a legal obligation not to raise tariffs on particular products above the specified rate agreed in GATT negotiations and incorporated in a country's Schedule of Concessions.

10. ***Tariff Rate Quotas Regime*****:** Nowadays, among WTO members, agriculture products are protected only by tariffs. All non-tariff barriers had to be eliminated or converted to tariffs as a result of the Uruguay Round (the conversion was known as tariffication). In some cases, the calculated equivalent tariffs- the original measures that were tariffied- were too high to allow any real opportunity for imports. So a system of tariff-rate quotas was created to maintain existing import levels, and to provide minimum access opportunities. This means lower tariffs within quotas, and higher rates for quantities outside the quotas.

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   This is a summary report of the South Asian Regional Training Seminar organised by CUTS-CITEE (Centre for International Trade, Economics & Environment) from July 25-27, 1997. *pp 20, #9712*

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   This study reveals that the existence of escalating tariff structure, particularly in developed countries, results in "third-best" allocation of resources. It also harms environment, development and the balance of trade.
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This study shows, with some evidence, that the provisions in the TRIPs agreement concerning bio-technology are of great concern to the developing world. According to the new GATT agreement, all bio-technology products may be patented. Nearly 80 percent of all bio-technology patents are currently held by large multinationals.
pp 19, #9709, Rs.100/US$30, ISBN: 81-87222-02-6

7. **Non-trade Concerns in the WTO Agreement on Agriculture** (Research Report)
This research report, written by Dr. Biswajit Dhar and Dr. Sachin Chaturvedi of the Research and Information System for the Non-Aligned and Other Developing Countries, New Delhi, provides a detailed analysis of non-trade concerns, covering the various dimensions indicated by the Agreement on Agriculture of the World Trade Organisation.
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pp 49, #0004, Rs.100/US$30, ISBN: 81-87222-36-0

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13. **Existing Inequities in Trade – A Challenge to GATT** (Discussion Paper)
A much-appreciated paper written by Pradeep S Mehta, presented at the GATT Symposium on Trade, Environment & Sustainable Development, Geneva, 10-11 June, 1994, which highlights the inconsistencies in the contentious debates around trade and environment.
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14. **Unpacking the GATT – Bilingual** (Guide)
This publication provides an easy guide to the main aspects of the Uruguay Round agreements in a way that is understandable by non-trade experts. It also contains enough detail to make it a working document for academics and activists. *pp 107, Rs.60/US$5*

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In this paper, the author focuses on the findings of a 1998 case study into the European Commission's ban of fishery products from Bangladesh into the EU, imposed in July 1997.

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