

Agriculture Trade Negotiations After the 'July Package' *The Way Forward for South Asia*

— J. George*

What are the South Asian countries negotiating for and what is the bargaining terrain in the agriculture negotiations of the Doha Round? The common thread linking both these questions is the smallholding farmer dominated agriculture system, with issues of livelihood and development staring before them on the trade track. The vulnerability of these countries is, therefore, immense.

The negotiations have evolved as a battle between arithmetic and legal oscillations that has got converted into political exigencies. The information asymmetry in this is being used by multi-stakeholder processes to ride roughshod over smallholder interests. This was rightly summed up by the Brazilian Foreign Minister Celso Amorim that 'not a deadlock but a padlock' prevailed in the agriculture talks preparatory to the Hong Kong Ministerial.

As things stand today (November 2005), the G-20's submission on the agriculture negotiations appears to be the standard for further deliberations. The proposal is being supplemented by the G-33 submission on Special Products (SPs) as well as on special and differential treatment (S&DT). A discordant note, however, comes from the dominant trading partners – the European Union (EU), Japan and the US – as they protect their farmers' interests while refusing to acknowledge the stakes of smallholding farmers in developing countries.

From Doha to the 'July Package'

The Uruguay Round brought the area of agriculture into the multilateral trade negotiation framework. The preamble of the Agreement on Agriculture (AoA) reiterates that commitments under the reform programme for trade in agriculture should be made in an equitable way, having regard to non-trade concerns including food security. This was also stated in the Doha Declaration, which mandated negotiations for the continuation of the reform process including non-trade concerns.

The main storyline since the launch of the Doha Round in November 2001 has been one of the missed deadlines and elusiveness to reach an understanding to carry forward the negotiations on agreed modalities. The culmination was the failure to reach an agreement at the Cancún Ministerial, although the post-Cancún gain in the trade talks has been the emergence of country coalitions, with the liberalisation process gaining a new meaning.

Nevertheless, when WTO Members agreed on the Doha Round's Work Programme (DRWP) in July 2004 – the 'July Package' – the developed countries succeeded in safeguarding their interests by relegating capacity building and implementing issues into a backburner. Moreover, the 'July Package' shifted the focus from the three pillars of agriculture – market access, domestic support and export competition – to the three entities such as agriculture, non-agricultural market access (NAMA) and services as well as brought in trade facilitation.

The major gains for the developing countries in the 'July Package' relate to *de minimis* and the special safeguard mechanism (SSM) for developing countries, the recognition for transparency and monitoring of 'green box' subsidies, and the aim of reducing the high level of trade distorting subsidies. The caution sounded by many developing countries on box shifting, and hence determination of a historical timeline becomes important during further negotiations when actual numbers determine the arithmetic of agriculture.

The main elements of the original G-20 proposal were that the tariff peaks of the developed countries, whether or not products are sensitive, are subjected to deeper cuts. The interests of least developed countries (LDCs), the recently acceded members and preference erosion, were also addressed for the first time by the G-20. It was further boldly pointed out that the infamous 'give and take' principle is not in the best interest of the developing countries. The EU position on this is now clear, following Trade Commissioner Peter Mandelson's statement that results 'in all areas' are expected or else "we will not have anything".

Pre-Hong Kong Developments in Agriculture Talk

The agriculture trade talks have seen some hectic activities in Geneva, with the negotiations moving in pits and falls. An amicable arrangement emerged in mid-2005 on the contested technical issue of *ad valorem*

*The author is Professor and Head at Faculty of Economics and Development Planning at the Haryana Institute of Public Administration in Gurgaon, India. The views are personal.

equivalents (AVEs). However, the main talk was confined among the five interested parties (FIPs) Australia, Brazil, EU, India and US emerging as the main players in the agriculture parleys.

Market Access

Market access is the main pillar that has got undivided attention by all Members. The threshold bands and the number of bands are key and must precede any discussion on formula selection. The G-20 proposal has emerged as the basis for the discussions. A stocktaking view indicates some interesting points:

- There are four threshold bands in all submissions, but with differences in bandwidth and linear cut percentages.
- The developing countries' threshold bands are similar in the G-20 and EU proposals, but different in the African, Caribbean and Pacific (ACP), G-10 and US proposals. The US submission does not distinguish between the developing and developed country threshold bands.
- G-33 has reiterated that overall average reduction of tariffs by developing countries cannot exceed two-thirds of the average reduction undertaken by developed countries.
- The G-20 and G-33 have rejected the US and EU proposals and have requested them to make further movements. The unified stand of G-20 and G-33 has been in terms of absolute essentials for market access.
- The treatment of sensitive products is an important issue for the EU and G-10. Similarly, the issues of SPs and SSM are important to the G-20, G-33 and LDCs.

Domestic Support

The discussions on domestic support have concentrated on three broad areas: (1) reduction of aggregate measurement of support (AMS), i.e., amber box support; (2) reduction of overall trade distorting domestic support, i.e., amber box + blue box + *de minimis* supports; and (3) the criteria for the new blue box along with disciplines for new and old blue box supports. In addition, a detailed review and clarification on green box criteria has been mandated in the 'July Package'. This has been carried out by G-20 and is on the table for negotiation. Not much, however, has been heard on these suggestions/submissions.

The G-20 proposes that the overall trade distorting support for the developed countries should be considered

in three tiers. The developing countries must necessarily be in different and fundamentally separate bands for overall cuts. As for reductions to *de minimis* support, they are to be made in both product-specific and non-product-specific categories. The levels of cuts have to adjust to the rates of cuts for the overall trade distorting support. However, developing countries without AMS entitlements will be exempted from making any overall reductions as they qualify from exemptions to their *de minimis* elements.

It should be stressed that the outcome of the Cotton sub-committee is crucial and that the domestic support criteria remain flawed in its absence.

Export Competition

The main issue remains the date and schedule for phasing out direct export subsidies as well as export credits and other forms of subsidies. G-20 in its proposal demanded gradual elimination of direct subsidies over five years. The G-20 also argues for elimination of all other forms of subsidies as well as the introduction of transparency and discipline in such support mechanisms.

On the issue of food aid, the G-20 proposal suggests fully untied food aid in the form of grants. The developing countries are concerned since new arrangements will severely impact humanitarian and welfare objectives of the state.

South Asian Agriculture & July Package

It is well recognised that food security and the development of an economic base for improving the quality of lives is paramount to the South Asian countries. Agriculture is an economic activity that is not restricted to a couple of crops or a limited number of livestock products.

Challenges facing South Asian countries in agricultural trade that have been highlighted in studies are the denial of 'fair access' for developing countries to importing countries due to tariff walls, the existence of non-tariff barriers (NTBs), and faulty safeguard measures. In addition, the balancing act of domestic support with the market access pillar has been identified to be of critical significance for developing countries.

The recommended strategy for the Hong Kong Ministerial includes much greater flexibility for SPs and an SSM; addressing preference erosions; working for S&DT as an integral element of the AoA; moving cautiously with

Box 1. Beyond Economics: The Impacts of Agriculture in People's Lives

In 1992, British-born Linnet Mushran moved with her husband to Bhaira village, Himachal Pradesh. The cottage, where they settled, was surrounded by fruit trees and before long, Mushran tried out her granny's jam recipes. Friends convinced her to market her out-of-the-world jellies and marmalades and today the factory of 'Bhaira Jams' produces over 40 types of organic preserves.

The success of 'Bhaira Jams' goes beyond spreading the name of Bhaira around India, however. To begin with, the jams are now the bread and butter for the 50 or so women who make up the factory's workforce. Equally important, though, is how it has emancipated these women – for instance, Ram Kali who lives at the cottage without her family, with 'no husband, and no care in the world'. The women have learnt how to read and write, and they have been able to get bank accounts and take loans. Sarita Devi tells how the jam factory has changed her life. "My standing in the family went up several notches once I started bringing home a steady pay packet", she says, adding with a smile how she has also learnt a smattering of English.

Source: Sunday Express, New Delhi 11.09.2005

lowering bound tariffs and removal/ withdrawal of subsidies. Much disciplining is required in the domestic support and export competition pillars and the G-20 countries should not give up on this as a leverage mechanism.

The G-33 proposals in their references to SPs and an SSM are most commendable and the current discussion is centred on these proposals. As for SPs, the proposal is clear in stating that there are different ways in which different developing countries identify these products. The SSM proposal provides details on its nature and operation in cases of import surges and price depressions relating to agricultural imports by developing countries.

Development Dimensions and Agricultural Sector

The cross cutting issue of development makes it amply clear that agriculture and allied sector activities will be paramount for the developing countries, no matter to which coalition group they belong. In this respect, the most common refrain seen in the literature is that of 'supply-side constraints'.

The general tenor coming out from the 'July Package' is a shift towards a cooperative enabling mechanism to identify less trade distorting instruments. However, not only has a July 2005 deadline been missed, but also there is still a great divergence as one moves towards the Hong Kong Ministerial. Moreover, the 'best endeavour' message in the 'July Package' is disturbing, considering that the implementation-related issues identified at the Doha Ministerial largely remain in the backburner.

South Asian Agriculture Landscape and AoA

The agriculture sector cannot be left to the mercies of market-driven stimulants for growth and sustenance. The crop-based view needs to be replaced by a land-livestock-environment matrix. Indian case studies have demonstrated that domestic market access to smallholding producers ensures sustainability and a proper livelihood security.

Agriculture in South Asia can be identified to rest on three elements: land-based activities, small scale of production set-up and small groups with commitment to network themselves to access markets for their produce. In a typical case, the livelihood security considerations in a household will entail a given cropping scheme and livestock husbandry decisions. The production decisions are not necessarily for the markets. Therefore, the undue haste in trade-driven prescription to productivity enhancement, market integration and convergence of services purely in a one-way street of supply chain is misplaced in the South Asian region to a majority of producers.

This is particularly the case in Sri Lanka, Nepal and Bangladesh, where up to about 90 percent operated land area is in the marginal and small category. It would, therefore, be a blatant violation of economic realities if agriculture in these countries were compared with estate-

Table 1: South Asian Countries Export Growth Rates (in percentage)

Period	India	Sri Lanka	Pakistan	Nepal	Bangladesh	South Asia
90-95	12.31	-2.15	0.62	-4.38	-3.31	7.96
95-00	-2.06	8.32	0.99	1.65	-6.03	-0.54
00-03	9.53	-16.12	4.89	17.37	1.28	5.88
95-03	2.13	-1.58	2.44	7.28	-3.35	1.82
90-03	6.05	3.77	1.05	3.72	-2.85	4.68

Source: Computed from FAO Trade Database

driven plantation crops to make a case for policy changes in the supply chain elements. Since the agricultural production systems are geared towards domestic consumption and, hence, towards food and livelihood security, domains of input and other service suppliers to smallholder agriculture merits an S&DT box with sensitivity.

Agriculture Trade in South Asia

South Asia has a marginal significance in the global export market while imports have some significant ramifications. However, considering that the region is a significant global producer of many primary agricultural products, the trade scenario attains importance for many reasons.

The export performance of the region has been credible during the pre-WTO period. The implementation period, 1995-2000, shows a sharp fall in the growth rates. The overall post-WTO period, 1995-2003, has witnessed an average growth of 1.82 percent in contrast to almost 8.00 percent during the pre-WTO period.

Is the other half of the trade story the same? Unfortunately not. The import side indicates a faster speed in comparison to exports. For instance, the pre-WTO period recorded a growth of 11 percent in the imports to the South Asian region as a whole. India and Pakistan could be given credit for this high import growth in the region, but not entirely, as all the countries reported a growth rate of over 5 percent.

The trade balance, therefore, will be adverse for the region. This is due to an unanticipated and extraordinary decline in commodity prices. Consequently, exports declined and imports spiralled, thereby adversely denting smallholding-dominated farmers' incomes. The impacts on livelihood security in all counts have been disastrous. The experience is still fresh with the countries, and the need for a strong and reliable safeguard mechanism must be appreciated against this backdrop.

Domestic Support

The dominance of smallholding farmers in the South Asian agriculture landscape necessarily implies that the domestic support mechanism prevailing in the region requires a re-examination in the current negotiations. For economies in South Asia livelihood options dominate with a negligible marketed surplus ratio. Therefore, indications are strongly in favour of a new protocol for price support mechanism that has subsistence farming and informal agriculture trade as its major strength. In this context, it should be mentioned that since the South

Table 2: South Asian Countries Imports Growth Rates (in percentage)

Period	India	Sri Lanka	Pakistan	Nepal	Bangladesh	South Asia
90-95	15.44	5.93	11.63	5.94	7.05	11.11
95-00	5.29	3.09	-5.85	8.54	9.32	2.38
00-03	19.45	2.35	-0.47	-14.02	2.74	8.75
95-03	10.39	2.81	-3.86	0.54	6.80	4.73
90-03	13.99	4.61	2.13	4.52	8.95	3.17

Source: Computed From FAO Trade Database

Asian agriculture economy is primarily subsistence-based, not many of them would have AMS reduction commitments or apply *de minimis* reductions.

A credible S&DT package according to the G-33 proposal will make South Asian agriculture better equipped to play the market game. There is recognition of the fact that subsistence farmers gain little relief from competition with low-priced imports – dumping in the South Asian experience. In fact, it has been argued that reducing export dumping is crucially linked to drastically reducing subsidies in the developed countries. The undue advantage of domestic support measures enjoyed by the developed country members must therefore be removed.

Market Access

The market access pillar has been the main concern, in which the leverage mechanism appears to have slipped into the hands of the developed countries. A brief review of the offers on the table indicates that the G-20 proposal is very firm on the issue of regaining the balance between the pillars and also the extent of the reduction commitments.

The developed countries have a tariff structure that is fundamentally different from the developing countries due to their subsistence farming system and, hence, structural adjustment processes appear to be absent in the proposals. The challenge for South Asian agriculture, therefore, is to manoeuvre a way out within the existing framework. The G-20 proposal appears to provide one such window of opportunity.

Export Competition

The aim is to get a commitment for a credible end date and it is a strong demand of the G-20 that the export subsidy must end within five years. The net food importing developing countries (NFIDC) have a case in

this pillar, as food aid has often been used in a different manner over the implementation period. The food aid or any of the export competition elements could be effective mechanisms to legitimise dumping of agricultural commodities in the region.

Concluding Observations

The battle lines in agriculture trade talk are clearly demarcated between the arithmetic and legal complexities where political exigencies and maturity would determine whether or not smallholding producer interests are given primacy over the developed countries' conglomerates.

The major problem emanating in agriculture can be broadly put into three categories: arithmetic, legal oscillations and crafting of trade-impeding NTBs. The move towards different 'tiered formula' in July 2004 saw a 'formula racing' in 2005 that gives primacy to statisticians in the market access deliberations. The shift towards law and trade jurisprudence comes at the expense of improving the livelihood option based on agriculture activities. Finally, the ascendancy of food safety measures since 1995 is not only subversive to the multilateral principles of trade; the seditious strategy and manner of projecting only consumers' interests is shifting undue burden of compliance on the producers of primary agriculture products.

The agriculture talks are crucial for the majority of the WTO Members, with final positions still being worked out. However, the G-20 and G-33 coalitions appear to be firm on a few non-negotiable elements, namely, some real cuts in applied levels of domestic support in dominant trade partners, band-based higher cuts in tariffs than those used in the Uruguay Round, and real time cuts and elimination of export competition elements within a fixed five-year period.

Besides, the ambitious goals on the three pillars, the aim is to address the structural inequities and therefore, significant movement in S&DT is being visualised. If Doha is to be a development round it must address these issues in the agricultural sector in a transparent manner to attain balance and equity among the pillars as well as among the differently endowed Members.

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