

# Agreement on Agriculture

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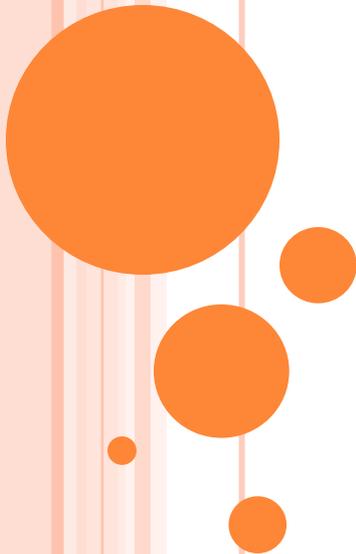
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## Prior to AoA

- After Second World War: Policy of stable production, food prices and national food security.
- The exceptions and exemptions within the GATT: high levels of support in wealthy countries.
- In Developing countries low food-price policies and over-valued exchange rates made the impact on low-income countries even worse.
- Not only did they have to compete with subsidised production and exports in wealthier countries but their own governments often applied export taxes or enforced low procurement prices. The combination of these policies meant agricultural trade was highly distorted.
- In the early 1970s, commodity prices were high and the main subsidisers, the EU and the US. However, demand fell in the early eighties due to recession and high interest rates.
- The growing competition : EU and US. (Export Subsidies)

Simultaneously, numerous commentators from independent economists to inter-governmental organizations began to take a more active interest in agricultural policies. (OECD 1987)

The Cairns Group of exporters of agricultural products, formed in 1986, added to the pressure for reform.

# **AGREEMENT ON AGRICULTURE (AOA)**

- **AoA came into force on 1<sup>st</sup> January 1995.**
- **Before the establishment of WTO , agriculture trade was extremely restrictive and protected.**
- **Quantitative restrictions, Domestic support and export subsidies etc.**
- **Aim: agricultural trade fairer and more market oriented.**
- **Theory of comparative advantage and Level playing field**
- **AoA is essential for ensuring level playing field so that considerations of comparative advantage can have a free and fair play.**



# Agreement on Agriculture

Committee on Agriculture

Market Access

Domestic Support

Export Competition

Other Rules

Tariffs

Tariffication

Reduction Commitments

Tariff Quotas

Special Safeguards

Green Box

Blue Box

S&D Exceptions

Amber Box

*De minimis* rules

AMS Commitments

Reduction Commitments

Anti-circumvention

Food Aid

Export Credits

Special & Differential Treatment

The Marrakesh Decision on LDCs and NIFDCs

Export Restraints

**FAIR TRADE**

AOA

Domestic Support

Market Access

Export

**Three pillars**



## PRODUCT COVERAGE

Defined in [Article 2 and Annex 1 of the AoA](#). This definition of agricultural products is based on the 1992 Harmonised System (HS92), as established and regulated under the World Customs Organization.

Annex 1 defines agricultural products as those within **Chapters 1 to 24** of the Harmonized System (excluding fish and fish products). Hence, the definition does not apply **to fish, fish products, and forestry products**. It covers all agricultural food and beverage products, agricultural fibres and skins including, for example:

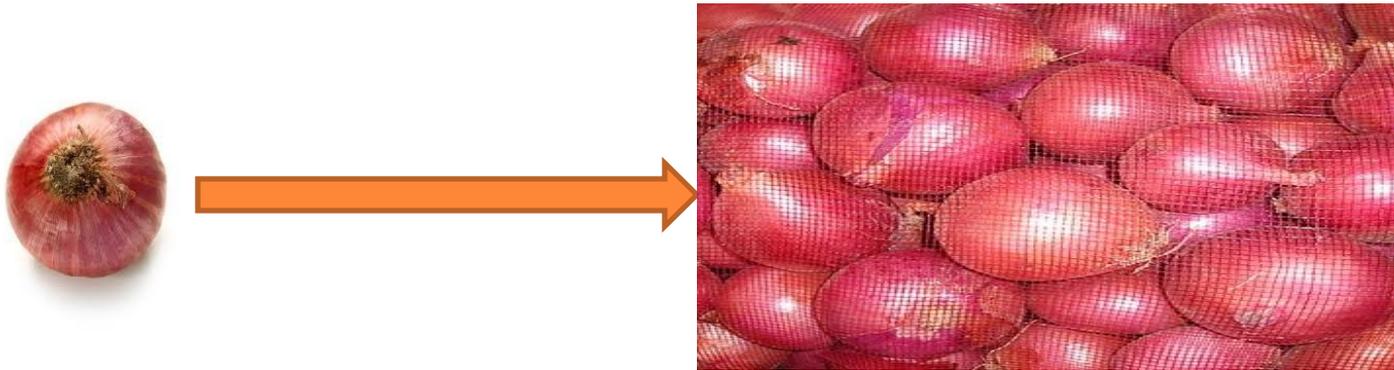
- **Basic agricultural products such as wheat, milk and live animals, as well as products derived there from, such as, bread, butter and meat;**
- **processed agricultural products, for example, chocolate and sausages;**
- **trade in wines, spirits, and tobacco products;**
- **fibres, such as, cotton, wool and silk; and**
- **raw animal skins destined for leather production.**



## Domestic Support (DS): classification

Non-trade distorting or minimally distorting subsidies v. trade distorting subsidies

**Base criteria:** if as result of the subsidy



subsidy = **trade distorting**

Stimulates production



# GREEN BOX

```
graph TD; A[GREEN BOX] --> B[Basic Criteria]; B --> C[No, or at most minimal, trade-distorting effects or effects on production]; B --> D[Assistance: Provided through publicly funded government programme, Not involving transfers from consumers, Not resulting in price support to producers];
```

## Basic Criteria

No, or at most minimal, trade-distorting effects or effects on production

Assistance:

Provided through publicly funded government programme

Not involving transfers from consumers

Not resulting in price support to producers

Example: general services (such as research, pest and disease control, training, extension/advisory services, marketing and promotion, infrastructural services), and direct payments (such as decoupled income support, income insurance and income safety-net, relief from natural disasters, structural adjustment assistance, environmental and regional assistance programmes).

# BLUE BOX

## Article 6.5 of AoA

Direct payments under production-limiting programmes exempt from reduction if:

based on fixed area and yields; or  
made on  $\leq 85\%$  of base level of  
production; or  
livestock payments are made on a  
fixed number of head

# ARTICLE 6.2

Trade-distorting programmes for DgC and LDC  
(that would otherwise be included in the **Amber Box**)

Development programmes exempt from reduction

- investment subsidies generally available
- input subsidies generally available to low-income or resource-poor producers
- support to encourage diversification from growing illicit narcotic crops

## De minimis

- AoA exempts relatively small amounts of Amber Box support from the Total AMS commitment.
- When commitments were established in the Uruguay Round, Members were not required to include in their Total AMS the value of support during the base period 1986-88 that was within *de minimis* levels.

### Product-specific AMS

1. Market Price Support
2. Non-exempt Direct Payments
3. Other product-specific support

### Product-specific EMS

+

### Non-product-specific AMS

=

### Current Total AMS

#### But

If less than 5% (10% for developing country Members) of value of production of a product then zero

#### But

If less than 5% (10% for developing country Members) of value of total agricultural production then zero

Note: Reduction Commitments Apply to Current Total AMS only

## AMBER BOX

In any year of the implementation period and thereafter, a product-specific AMS is to be calculated for each basic agricultural product receiving non-exempt domestic support. Also, non-product-specific subsidies are to be listed and totalled into one non-product-specific AMS.

The following types of support are to be included in the AMS calculation:

- 1. Market price support** is calculated on the basis of the gap between a fixed external reference price and the applied administered price multiplied by the quantity of production eligible to receive the applied administered price;
- 2. Non-exempt direct payments**, which depend on a price gap are calculated by using either the gap between a fixed external reference price and the applied administered price multiplied by the quantity of production eligible to receive the administered price, or by using budgetary outlays; and, non-exempt direct payments based on factors others than price are calculated using budgetary outlays;
- 3. Other subsidies not exempted from reduction commitments** (for example, input subsidies or interest rate subsidies) are calculated using budgetary outlays or the gap between the price of the subsidized good or service and a representative market price for a similar good or service multiplied by the quantity of the good or service.

***The Current Total AMS value of non-exempt measures provided in any given year must not exceed the scheduled Total AMS limit as specified in a Member's Schedule for that year.***

# URUGUAY ROUND REDUCTION COMMITMENTS

	Developed	Developing
<b>Time period</b>	6 years	10 years
<b>Total AMS reduction*</b>	20%	13.3%
<b><i>De minimis</i> limits</b>	5%	10%
<b>S&amp;D exemption</b>		Article 6.2 (investment, input and diversification subsidies)

\*AMS: Aggregate Measurement of Support

\*No reduction commitments for least-developed countries



## Example

### Wheat:

- > Intervention price for wheat = \$255 per tonne
- > Fixed external reference price (world market price) = \$110 per tonne
- > Domestic production of wheat = 2,000,000 tonnes
- > Value of wheat production = \$510,000,000
- > Wheat AMS (AMS 1)  
( $\$255 - \$110$ )  $\times$  2,000,000 tonnes =  
\$290,000,000  
(de minimis level = \$25,500,000)

### Barley:

- > Deficiency payments for barley = \$3,000,000
- > Value of barley production = \$100,000,000
- > Barley AMS (AMS 2) = \$3,000,000  
(de minimis level = \$5,000,000)

### Oilseeds:

- > Deficiency payments for oilseeds =  
\$13,000,000
- > Fertilizer subsidy = \$1,000,000
- > Value of oilseeds production = \$250,000,000
- > Oilseeds AMS (AMS 3) = \$14,000,000  
(de minimis level = \$12,500,000)

### Non-product-specific support:

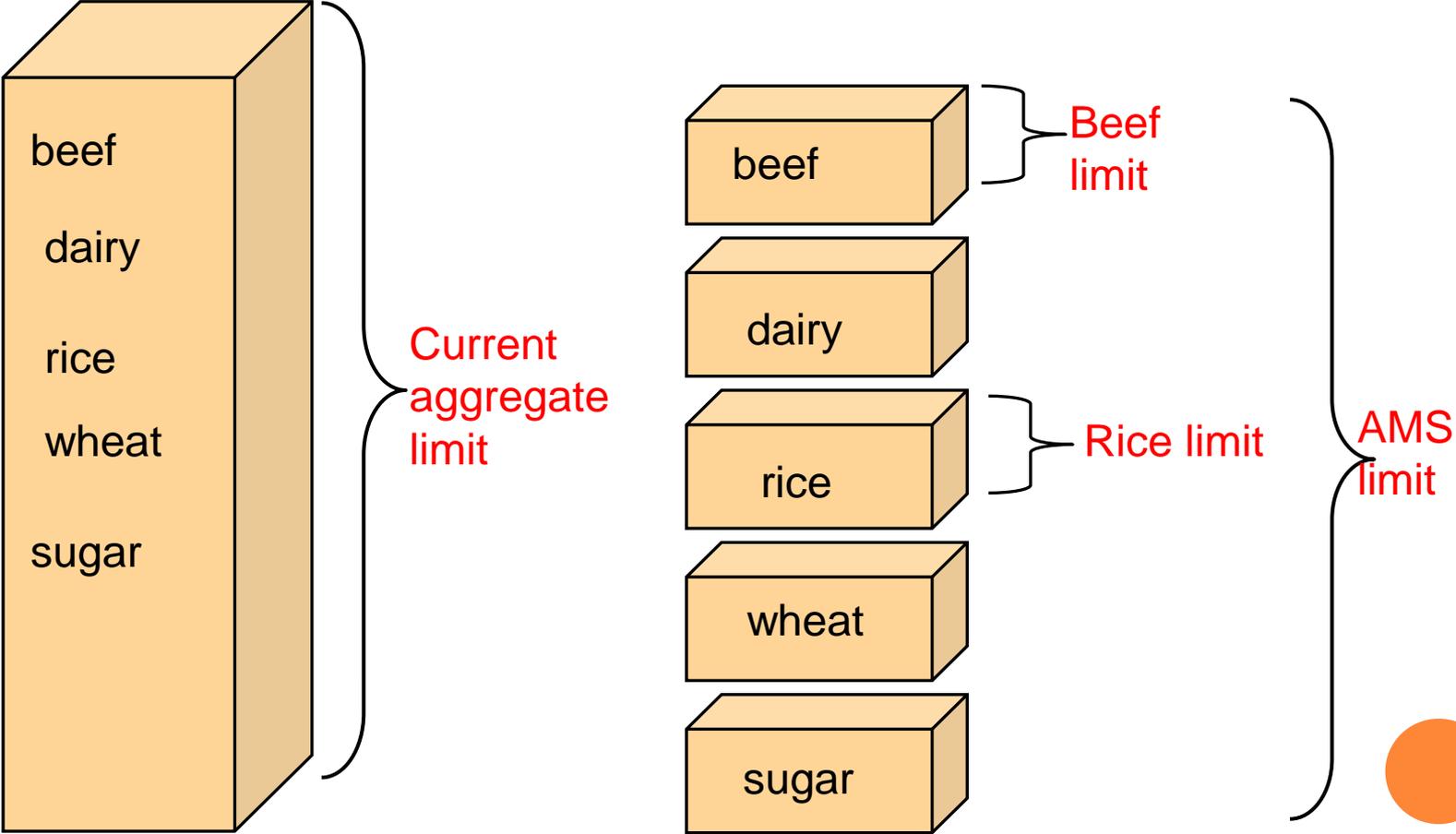
- > Generally available interest rate subsidy =  
\$4,000,000
- > Value of total agricultural production =  
\$860,000,000
- > Non-product-specific AMS (AMS 4) =  
\$4,000,000  
(de minimis level = \$43,000,000)

**Current Total AMS (AMS 1 + AMS 3) = \$304,000,000**

# PRODUCT-SPECIFIC AMS LIMITS

Current situation:  
Aggregate AMS

New product-specific  
AMS limits

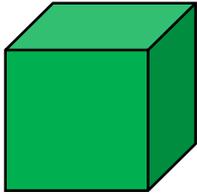


## Final Bound Total AMS by Member

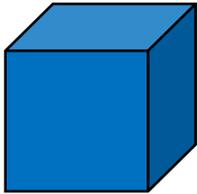
Final Bound Total AMS		in US\$ million, using the exchange rate for the years:									
Country	Currency	Value	2000	2001	2002	2003	2004	2005	2006	2007	2008
Australia	\$A million	472	<b>274</b>	244	256	306	347	360	355	395	396
Brazil	US\$ thousand	912105	912	912	912	912	<b>912</b>	912	912	912	912
Canada	Can\$ million	4301	<b>2896</b>	2777	2741	3070	3306	3549	3792	4004	4031
EC (15)	€ million	67159	<b>61614</b>	59963	63358	75460	82912	83949	83949	91999	98763
Japan	¥ billion	3973	<b>35979</b>	31774	32585	35184	36948	35101	33981	34845	39616
USA	US\$ million	19103	<b>19103</b>	19103	19103	19103	19103	19103	19103	19103	19103



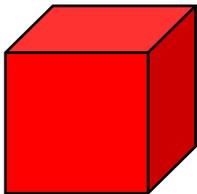
# WHO CAN USE AND WHAT ?



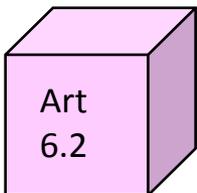
Everybody, without any limit



Everybody, without any limit



Members with Final Bound Total AMS commitment;  
others - up to their *de minimis* limit (Art.6.4)



Developing countries, without any limit

# EXPORT SUBSIDIES

## Definition

Article 1(e): Subsidies contingent upon export performance, including the export subsidies listed in Article 9

## Legal Framework

Unlike DS reduction commitments, these are on product-specific basis

- General prohibition or reduction commitments under Article 3.3 of the AoA for listed export subsidies
- S&D: Article 9.4 - subsidies for marketing and internal transport (during the implementation period)
- Anti-circumvention provisions for non-listed export subsidies (Article 10)

## EXPORT SUBSIDY COVERAGE (ARTICLE 9.1)

- Direct subsidies contingent on export performance
- Sale or disposal for export by governments or their agencies of non-commercial stocks at prices below domestic market price
- Payments on exports financed by government action (including producer financed subsidies)
- Subsidies to reduce cost of marketing, including handling, upgrading, international transport and freight
- Favourable internal transport and freight charges on export shipments
- Subsidies on agricultural products contingent on their incorporation in exported products



## SPECIAL AND DIFFERENTIAL TREATMENT (ARTICLE 9.4)

- During the implementation period,
- provided that these are not applied in a manner that would circumvent reduction commitments,
- Subsidies to reduce cost of marketing, including handling, upgrading, international transport and freight
- Favourable internal transport and freight charges on export shipments



# EXPORT SUBSIDIES

- Reduction of all export subsidies over the base period – 1986-90
  - 36 per cent by value over six years from the beginning of the implementation period, 1995 (24 per cent for developing countries)
  - 21 per cent by volume over six years from the beginning of the implementation period, 1995 (14 per cent for developing countries)



# MARKET ACCESS - BASIC PRINCIPLES

## **Tariffs to be bound & reduced**

- A commitment not to raise applied tariffs of National Customs above bound levels

## **Protect domestic industry by Tariffs only**

- No prohibition or restriction other than duties, taxes or other charges (safeguards, emergency actions permitted in limited circumstances)

# Market Access: Uruguay Round Reduction Commitments

	DEVELOPED	DEVELOPING
Implementation period	6 years 1995-2000	10 years 1995-2004
Average cut	36%	24%
Minimum cut	15%	10%

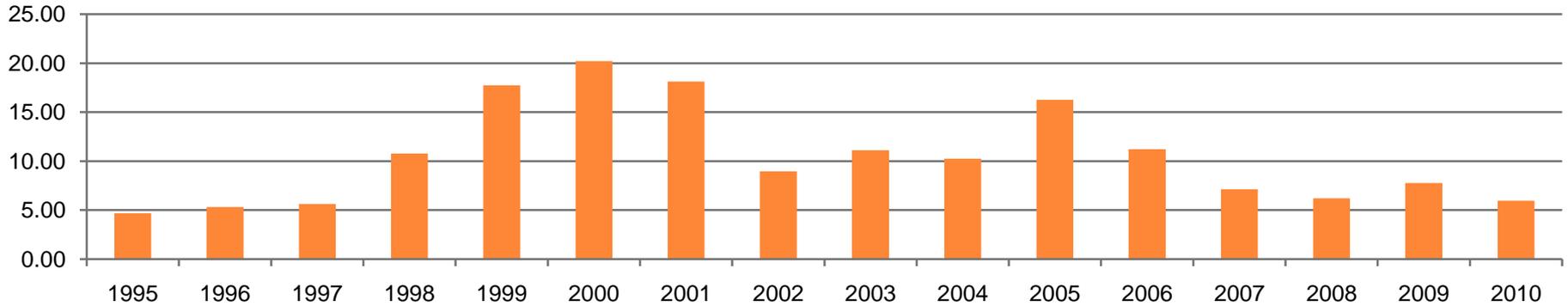
**No reduction commitments for LDCs**

# The reductions in agricultural subsidies and protection agreed in the Uruguay Round

	<i>Developed countries 6 years: 1995–2000</i>	<i>Developing countries 10 years: 1995–2004</i>
<b>Tariffs</b>		
average cut for all agricultural products	-36%	-24%
minimum cut per product	-15%	-10%
<b>Domestic support</b>		
cuts in total ("AMS") support for the sector	-20%	-13%
<b>Exports</b>		
value of subsidies (outlays)	-36%	-24%
subsidized quantities	-21%	-14%

## Total Expenditure = US\$ 167 Billion (1995-2010)

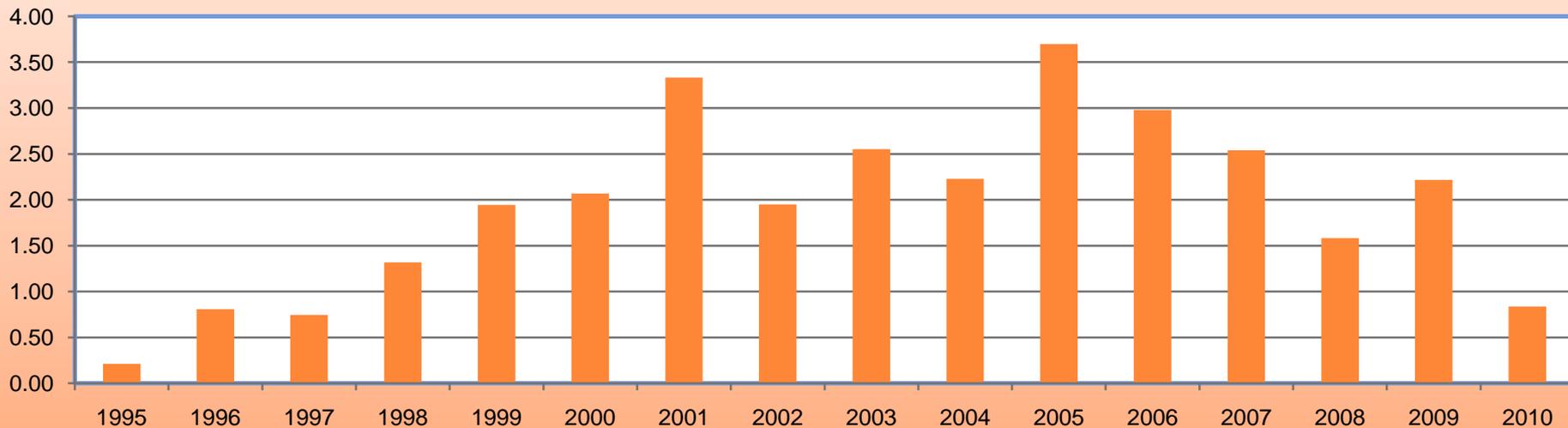
### Total Subsidy in USA (billion US\$)



SOURCE: ENVIRONMENT WORKING GROUP, FARM SUBSIDY DATABASE

## Total Expenditure on Cotton = US\$ 31.04 Billion (1995-2010)

### US Subsidy in Cotton (billion US\$)

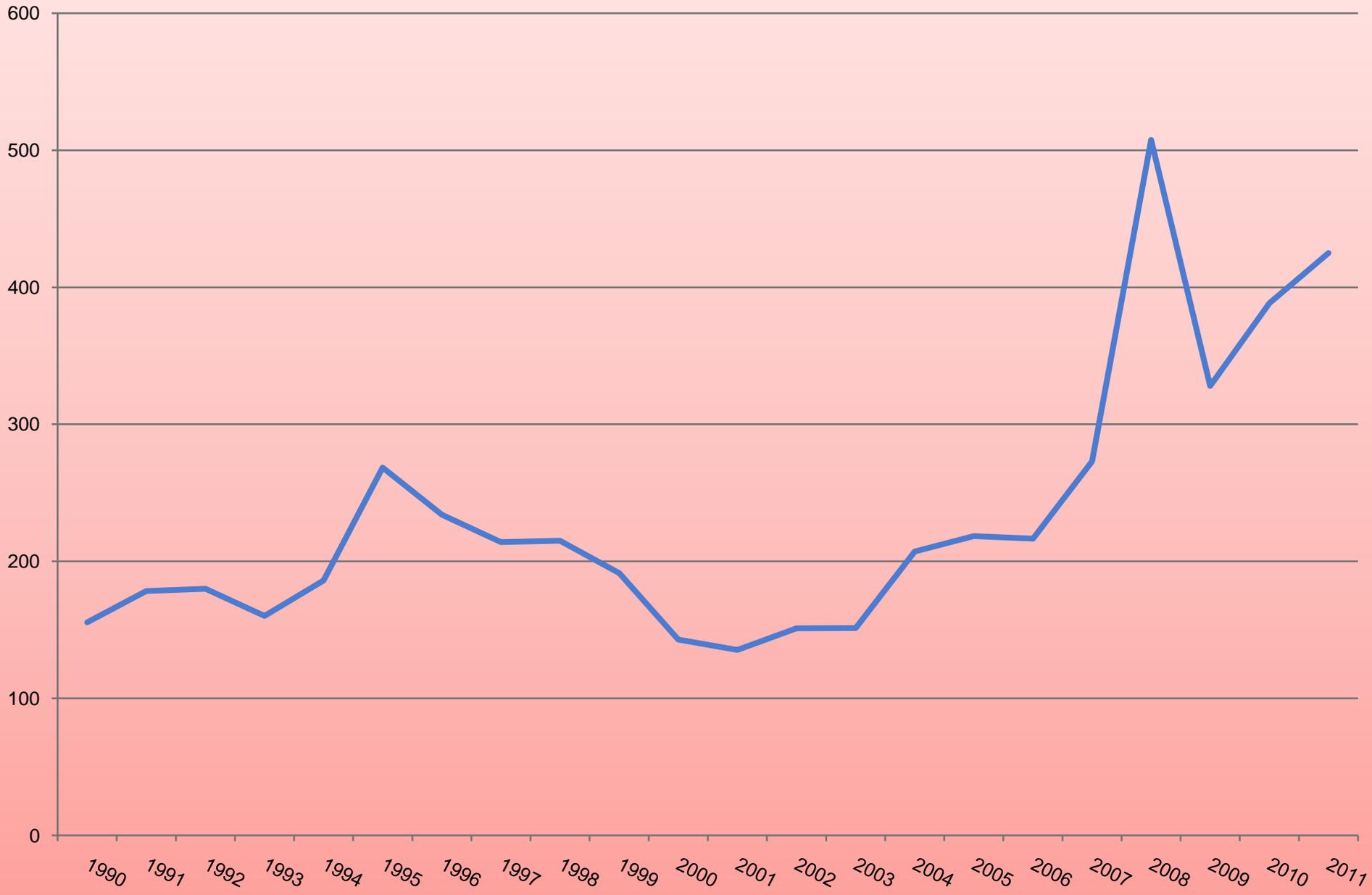


## USA: Product Specific Support as a Percentage of Value of Production (%)

Product	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Dairy	23.13	20.34	21.03	18.74	19.92	24.41	18.01	30.43	22.15	16.91	19.18	21.41	14.07	11.33	12.29
Corn	0.14	0.11	0.67	8.10	14.93	15.07	7.02	0.90	0.95	12.55	20.23	0.06	0.03	0.04	0.25
Rice	0.77	0.34	0.36	1.23	35.33	59.47	82.47	72.64	30.88	7.69	7.61	0.15	0.16	0.12	0.81
Wheat	0.05	0.08	0.44	7.60	17.41	14.67	3.54	0.40	1.35	1.24	0.40	0.03	0.00	0.01	4.01
Soybeans	0.11	0.08	0.26	9.45	23.40	28.99	28.74	0.34	0.14	2.83	0.40	0.32	0.02	0.02	0.67
Sugar	51.09	44.42	49.33	49.64	56.29	57.30	52.31	63.09	55.10	66.49	61.57	52.80	58.17	54.47	48.68
Cotton	0.44	0.05	6.84	19.44	53.86	21.30	74.16	27.01	6.91	39.06	28.46	27.23	4.00	28.36	3.33



# International Price of Rice (US\$/Ton)



**THANK  
YOU**