

NEGOTIATIONS ON WTO AGREEMENT ON AGRICULTURE

Proposals by India in the areas of: (i) Food Security, (ii) Market Access,
(iii) Domestic Support, and (iv) Export Competition

Proposal on Food Security

1. It is enshrined in the Preamble to the Agreement on Agriculture (AoA) that commitments under the reform programme for trade in agriculture should be made in an equitable way among all Members, having regard to non-trade concerns, including food security. Article 20 of the Agreement, which mandates negotiations for continuation of the reform process, also recognises that non-trade concerns, such as food security should be taken into account in the negotiations. Food security is defined by FAO as the physical and economic access for all people at all times to enough food for an active, healthy life with no risk of losing such access and as such is directly connected with livelihood in the developing countries. The food security concerns can be meaningfully addressed in the current negotiations only by ensuring that disciplines, especially in the area of market access and domestic support, sub serve the food security interests of developing countries.

2. Agriculture is a way of life, in most developing agrarian economies. Rapid growth of agriculture is essential for ensuring food security and alleviation of poverty. In developing countries agriculture still contributes significantly to their overall GDP and it employs a large proportion of the work force. The land holdings are, however, very small, unirrigated and dependent on the vagaries of nature. Further, the agricultural practices are labour intensive with relatively low intensity of farm inputs. Consequently, the farm productivity in such countries is low. As most farmers in countries like India are engaged in subsistence land farming, their participation in international trade is quite marginal. The food needs and supply gaps in developing countries are developmental problems and thus all their policies for agricultural development aim at harnessing the potential for increasing productivity and production in the agricultural sector. Given these characteristics of agriculture in developing countries with meagre domestic support and the virtual absence of export subsidies, it is obvious that developing countries are not in any way responsible for the current distortions in international trade in agriculture.

3. The critical importance of the agriculture sector in developing countries as also its distinctive characteristics vis-à-vis developed countries can be appreciated from the following factors:

- (i) Agriculture continues to be the main employer in low-income countries. It employs over 70 per cent of the labour force in low-income countries, 30 per cent in middle-income countries and only 4 per cent in high-income countries¹.

¹ UNCTAD 1999 'Examining Trade in the Agricultural Sector, with A View to Expanding the Agricultural Exports of the Developing Countries, and to Assisting them in Better Understanding the Issues at Stake in the Upcoming Agricultural Negotiations', TD/B/Com.I/EM.8/2, 23 February 1999.

- (ii) It is a significant contributor to GDP in developing countries. Between 1990 and 1996 contribution of agriculture as a proportion of GDP was on an average 34 per cent for low income countries as compared to 8 per cent for upper middle income countries, and 1.5 per cent for the high income countries of the OECD.
- (iii) Agriculture also continues to be an important source of foreign exchange and revenue for developing countries. In 1996 for example, while the 'share of agricultural exports in the total merchandise exports was in excess of 50 per cent for about a quarter of 55 developing countries, this share was in excess of 30 per cent for about half of these countries.
- (iv) Food consumption accounts for a large share of expenditure out of the total household income in developing countries, while in developed countries, it accounts for a small and decreasing proportion. Therefore, even small changes in agricultural employment opportunities, or prices, can have major socioeconomic effects in developing countries. For most developing countries, the need is to raise agricultural productivity and increase production, particularly of basic foodstuffs. In contrast, in developed countries the primary concern appears to be to maintain some sort of parity of income between the small proportion of the work force in farming and those in industry.
- (v) The social and economic vulnerability of agriculture in developing countries is generally reflected in parameters such as substantial contribution of agriculture to their GDP, low level of commercialisation of agriculture, low productivity, weak market orientation, preponderance of small and marginal uneconomical operational landholdings, lack of infrastructure, dependence on monsoon, susceptibility to natural calamities, and dependence of a very large percentage of population on agriculture for their livelihood etc. Such vulnerability fully justifies the extension of special provisions to the developing country members for ensuring their food and livelihood security concerns.

For all the above reasons and also because it would not be possible for developing countries to provide alternative sources of employment for the rural poor, it is critically important that agriculture remains a viable source of livelihood to the large percentage of population dependent on it.

4. Accordingly, it is felt that food security which is not only of great economic relevance but also a very important socio-political concern in large agrarian economies like India needs to be addressed up-front in the ongoing negotiations on agriculture.

5. The low-income developing countries would like to be able to produce their food requirements, in the light of constraints that a number of developing countries have faced in the past in procuring their foodgrain requirements from international markets. Moreover, since a majority of the population is dependent on agriculture for their livelihood in these countries, such countries being able to have a certain level of self-sufficiency would also facilitate in taking care of a large number of the work force engaged in agriculture.

6. The extent to which the food gap of developing countries can be met by imports is also constrained many a times by their meagre foreign exchange resources. The entry of large consuming countries in the world food grain markets can lead to an upswing in the prices, which would in turn compound the problems of these countries. Besides, the world commodity market for basic food grains is significantly more volatile than the domestic food grain market in most of the developing countries. International price fluctuations, if transmitted to the domestic economies of developing countries, can seriously affect the prices of food grains and food entitlement of the poor. The inadequate physical and institutional infrastructure for managing large quantities of import of food grains and their distribution particularly in rural areas further makes it undesirable for the developing countries to depend on imported food for meeting their domestic requirements.

7. Further, the ability of farmers to respond to market signals through a shift in the cropping pattern or a relocation in order to maintain their income entitlements is hampered on account of low literacy levels, limited infrastructural facilities and dependence of a very large number of farmers and agricultural labourers on this sector.

8. The income entitlements of majority of people in the developing countries are directly linked to domestic agricultural production. In a liberalized trade policy framework, this entitlement is often threatened due to surge in subsidised imports. Several commodities like wheat, coarse grains, oilseeds, vegetable oils, sugar, dairy products, fruits and vegetables which are of great significance for food security in developing countries have been subjected to high levels of export subsidies by the developed countries. By artificially depressing the international prices, these subsidies in developed countries lower the farm incomes of otherwise efficient producers in importing countries and thus adversely affect their livelihood. It is in this context of high trade distortions being practised in developed countries that the developing country members would require an appropriate level of tariff protection. As such any reduction in tariffs by the developing countries could be considered only after substantial reduction in trade distorting domestic subsidies and elimination of export subsidies. For the same reasons the developing countries should be allowed to revise the bound levels of their sensitive items, which may have been bound at low levels during the earlier negotiations, to levels at which similar categories of products were bound during the Uruguay Round of negotiations.

9. FAO in its paper on 'Issues at stake relating to Agricultural Development, Trade and Food Security' has concluded: "significant progress in promoting economic growth, reducing poverty and enhancing food security cannot be achieved in most of these countries without developing more fully the potential capacity of the agriculture sector and its contribution to overall economic development". Given the diverse conditions and varying stages of agricultural development in developing countries, the need for making relevant provisions to enable them to pursue policies aimed at increasing agricultural production and productivity is thus necessary. From the present structure of the Green Box it is observed that most of the provisions are not widely used by the developing world, tailored, as they have been to the conditions prevalent in the developed countries. It is therefore, imperative that the Green Box should have provisions for the general development of agriculture including its diversification in developing countries, which in turn would help them to take care of their rural employment and food security. For instance, input subsidies given by developing countries for crops wherein productivity levels are below the world average should be covered under the Green Box. Sufficient flexibility should, therefore, be allowed to developing countries to administer such policies.

10. Another possible option for providing the necessary support to the farm sector in developing countries which in turn would lead to increased production helping them to achieve a certain amount of self sufficiency in food grains could be by way of exempting the product specific support given to low income and resource poor farmers from AMS calculations. This would be in addition to what has already been provided in Article 6.2 of the AoA for exempting non-product specific support provided to low-income resource poor farmers.

11. Another aspect of AoA to be reviewed is the product coverage as prescribed in Annex 1 of AoA. It is observed that commodities like rubber, jute, coir and forestry products are excluded from the ambit of the Agreement despite the fact that they are primary agricultural products and are a source of livelihood for a sizeable rural population in developing countries. The justification for inclusion of the above mentioned products is the same if not greater than for products like raw hides and skins, animal hair, furskins etc., which are already covered under Annex 1.

12. Experience in implementation of the Agreement has shown that despite the disciplines mandated under it, the playing field continues to be uneven between the developed and developing countries. The structural imbalances of the Agreement as also the wide divergence in the agricultural policies being practised in various countries appear to be the main contributors to this scenario. The

ongoing negotiations, therefore, provide a good opportunity for taking suitable measures for rectification of the anomalies, which have surfaced during the implementation of AoA in the last 6 years. Thus, a number of suitable measures in the areas of market access, domestic support and export subsidies would necessarily have to be addressed in a co-ordinated manner so as to enable the developing countries to take care of their food security and livelihood concerns.

13. It is by now well established that despite reduction commitments, the level of distortions in agricultural trade continues to be high. The anticipated benefits in terms of an increase in exports for developing countries have consequently not materialized. On the other hand to maintain the income entitlement of people engaged in agriculture it is imperative that the developing countries are allowed to maintain tariffs commensurate with their development and trade needs while at the same time undertaking relevant measures to enhance productivity and improve the quality of output. In this context, it should also be noted that the "Food Security and Livelihood Concerns" of developing countries are on a totally different plane and should not be confused or equated with the non-trade concerns advocated under "Multi functionality of Agriculture" by a few developed countries with a view to provide legitimacy to and thereby perpetuate their trade distorting subsidies. A very low percentage of the population in the developed countries is engaged in agriculture and the livelihood of their population is not under any threat as it is in most developing countries. Further, despite having an underdeveloped agricultural sector, developing countries do not wish to practise trade distortions and would instead demand the removal of all trade distorting support from the current Agreement for the entire membership.

Proposals

For large agrarian developing countries like India, food security is an important and integral element of national security. Physical access to food in developing countries can be ensured only through a certain minimum level of self-sufficiency. Further, the subsistence and livelihood of farmers in large agrarian economies can also be seriously jeopardised due to cheap/subsidised imports. Other factors like the limitations of developing country farmers to change to other crops or to shift from agriculture to manufacturing or services, and the inability of developing countries to set apart required foreign exchange resources for making purchases from the volatile global markets, as also the difficulties in ensuring timely distribution of imported food grains to remote and backward areas are also significant issues in safeguarding the food security and livelihood in these countries. Given the fact that more than 50 per cent of the population in most of the developing countries is totally dependant on agriculture for their livelihood, the following measures would constitute a '**Food Security Box**' for developing countries:

- (i) All existing provisions of Annex 2 of AoA except paras. 5,6 & 7 should be continued, being an integral part of the food security measures required to be taken by developing countries;
- (ii) All measures taken by the developing countries for poverty alleviation, rural development, rural employment and diversification of agriculture should be exempted from any form of reduction commitments;
- (iii) Flexibility to be given to developing countries in the manner of providing subsidies to key farm inputs, which nevertheless should continue to be accounted for in the Non-product specific support AMS calculations;
- (iv) In addition to the provisions contained in Article 6.2 of Agreement on Agriculture, relating to agricultural investment and input subsidies, Product specific support given to low income and resource poor farmers should also be excluded for AMS calculations;

- (v) Negative Product specific support to be permitted to be adjusted against positive Non-product specific support;
- (vi) Appropriate level of tariff bindings to be allowed to be maintained by developing countries as a special and differential measure, keeping in mind their developmental needs and high distortions prevalent in the international markets so as to protect the livelihood of their very large percentage of population dependent on agriculture. The appropriate levels of tariff bindings will have to necessarily relate to the trade distortions in the areas of market access, domestic support and export competition being practised by the developed countries;
- (vii) Low tariff bindings in developing countries, as could not be rationalised in the earlier negotiations, should be allowed to be raised to the ceiling bindings for similar category of products, committed during the Uruguay Round;
- (viii) A separate safeguard mechanism on the lines of the Special Safeguard provisions (Article 5 of AoA) including a provision for imposition of Quantitative Restrictions under specified circumstances, should be made available to all developing countries irrespective of tariffication in the event of a surge in the imports or decline in prices and to ensure food and livelihood security of their people;
- (ix) Developing country members should be exempt from any obligation to provide any minimum market access;
- (x) The product coverage of the Agreement on Agriculture requires rationalisation by including primary agricultural commodities such as rubber, primary forest produce, jute, coir, abaca and sisal etc. which are much more agricultural than hides and skins which are already covered under AoA.

Proposal on Market Access

1. One of the important objectives of the world agricultural trade reforms is to expand market access opportunities across products and countries. The process of tariffication and reduction in tariffs was expected to provide market access to products from efficient producers of agricultural commodities. Even after six years of implementation of the Agreement on Agriculture (AoA), the access for products from developing countries, however, continues to be impeded in the developed country markets due to their high trade distorting domestic support policies coupled with high tariffs, tariff peaks, tariff escalations and a plethora of non-tariff barriers. A detailed analysis of these factors has already been made in an earlier paper, submitted by a group of developing countries including India (G/AG/NG/W/37 dated 28 September 2000).

2. India would further like to highlight the fact that the opening of the markets, in the post Uruguay Round phase, has taken place mainly in the developing countries. The share of exports from developing countries, which constitute over three fourths of the WTO membership, continues to remain around 30 per cent of the world trade in agriculture². This is less than what it was 25-30 years ago. The anticipated increase in exports from developing to developed countries, thus, has not materialised. Among the three major developed regions, Western Europe is the most important market for agricultural exports from developing countries, but the share of total agricultural exports from developing countries into Western Europe has declined from 28½ per cent in 1994 to 28 per cent in 1998. The share of agricultural exports of developing countries into Japan has also fallen from 14½ per cent to 11½ per cent during this period.³

3. In several country studies done by FAO on implementation of the Agreement on Agriculture in developing countries, it has been observed that there was "asymmetry in the experience between the growth of food imports and the growth of agricultural exports. While trade liberalisation had led to an almost instantaneous surge in food imports, these countries were not able to raise their exports".⁴ It has further been observed that the process has marginalised small producers and added to unemployment and poverty. The studies conclude that the challenge for these countries lies in being able to maintain an appropriate mechanism to safeguard the livelihood of the people engaged in agriculture.

4. Given the volatility of agricultural commodity markets and the inability of farmers in developing countries to bear risks arising out of violent fluctuations in international prices, an effective safeguard mechanism for preventing a surge in imports becomes absolutely essential for preserving the livelihood of farmers. The provision of general safeguards available under the Agreement on Safeguards would be extremely difficult to invoke, as farming in developing countries is an unorganised family based economic activity involving a majority of the population. Moreover, the time taken to invoke these provisions would render the entire proceedings infructuous, as by the time action is taken, farmers would have already suffered due to the adverse impact of volatile markets. There is thus a requirement for providing an effective safeguard mechanism on the lines of the Special Safeguard provisions (Article 5 of AoA) including provisions to put quantitative restrictions, which could be used by developing countries irrespective of tariffication for all products that they consider sensitive. On the same count developing country members must be allowed to maintain existing level of tariff bindings keeping in mind their developmental needs and the high distortions prevalent in the international market.

² UNCTAD 1999 'The World Commodity Economy: Recent Evaluation, Financial Crises, and Changing Market Structures', Trade and Development Board Commission on Trade in Goods and Services, and Commodities, TD/B/COM. 1/27, 16 July.

³ WTO, G/AG/NG/S/6 Agricultural Trade Performance by Developing Countries 1990-98

⁴ FAO, 1999 'Synthesis of Country Case Studies'. FAO Symposium on Agriculture, Trade and Food Security, Geneva 23-24 September, 1999.

5. Agriculture is a way of life, in most developing agrarian economies. Rapid growth of agriculture is essential for ensuring household food security and alleviation of poverty. In developing countries agriculture still contributes significantly to their overall GDP, employs a large proportion of the work force, despite having uneconomical very small, unirrigated land holdings dependent on the vagaries of nature. Further their agricultural practices are labour intensive with relatively low intensity of farm inputs. Consequently, the farm productivity is low. As most farmers in countries like India are engaged in subsistence land farming, their participation in international trade is very marginal. The food needs and supply gaps in developing countries is a developmental problem and thus all their policies for agricultural development aim at harnessing the potential for increasing productivity and production in the agricultural sector. Given these characteristics of agriculture in developing countries and the absence of export subsidies and meagre domestic support, it is obvious that developing countries are not in any way responsible for the current distortions in international trade in agriculture.

6. It is by now well established that the selective extension of high domestic support and export subsidies to a few commodities in the developed countries has not only eroded the competitiveness of products originating in developing countries but has also introduced an unfair competition for local producers and threatened their livelihood. Therefore, any tariff reduction commitments can be considered by developing countries only after substantial reduction has actually been effected by the developed countries in all the three areas of market access, domestic support and export subsidies.

7. The preamble of the Agreement on Agriculture recognises that the process of reform of trade in agriculture initiated during the Uruguay Round is a continuing process. The mandated negotiations would only carry forward the commitments made under the reform programme. Thus, it is important that for the currency of the negotiations the reform process should be continued and not come to a standstill. Moreover, experience in the implementation of the agreement is an important component of the ongoing negotiations and it is by now well established that the anticipated benefits of liberalisation of trade in agriculture have not materialised for developing countries. It is, thus, important that the WTO membership particularly the developed countries undertake to carry forward the reform process during the currency of the negotiations at an accelerated pace. As a proof of their commitment to the reform process and also to ensure that the reform process continues even during the negotiations, a down payment by way of bringing down their tariffs by at least 50 per cent from the level existing as on 1.1.2001 during the first year of negotiations itself would go a long way in building confidence among the less developed members of the WTO.

8. It has been observed that many products of export interest to developing countries will continue to face high tariffs as the AoA commitments "required reductions on an unweighted average basis for each country's agricultural products, thereby leading to maintenance of high tariffs on some products like sugar, rice or dairy products by making substantial reductions on less sensitive tariff lines in which there is little trade".⁵

9. The average tariffs in OECD countries in 1995 were 214 per cent for wheat, 197 per cent for barley, 154 per cent for maize.⁶ A joint UNCTAD/WTO Study⁷ on the post Uruguay Round Tariff Environment for exports from developing countries (1997) reports that QUAD countries maintain an extremely large variation of tariff rates. Their tariff peaks reach 350 per cent and above in extreme cases for some products of interest to developing countries. One fifth of the peak tariffs of the US, a quarter of those of EU, about 30 per cent of those of Japan and about one seventh of those of Canada

⁵ ABARE 2000.6 The Impact of Agricultural Trade Liberalisation on Developing Countries, 2000

⁶ FAO, 1996 'Policy Options for Developing Countries to Support Food Security in the Post Uruguay Round Period'. Panos Konandreas and Jim Greenfield, Rome.

⁷ UNCTAD (TD/B/Com. 1/14), The Post Uruguay Round Tariff Environment for Developing Country Export, 1997.

exceed 30 per cent. The Study further reports that the most important areas with the highest tariff rates include the major agricultural staple foods, cereals, meat, sugar, milk, butter and cheese as well as tobacco products and cotton. In EU, for instance, the out of quota tariff for bananas is 180 per cent; in Japan these tariffs range between 460 to 600 per cent for dried beans, peas and lentils and in the U.S., groundnuts in shell attract a tariff of 164 per cent. This Study also emphasizes that even after full implementation of the AoA, tariff wedges will continue to be significantly high on account of tariff escalation, which is a major factor preventing developing countries from diversifying and increasing their share of processed agricultural exports. Recently Japan has levied a tariff of about 1000 per cent on rice.

10. Article 13 of the Agreement on Agriculture is one of the outstanding examples of AoA having actually awarded special and differential treatment in favour of developed countries. During the operation of this clause developed country support policies have enjoyed exemption from possible countervailing actions in certain situations as specified in the Article. This has further skewed the terms of trade in favour of developed countries. With a view to making the playing field even, it would be appropriate that the peace clause is abolished for developed countries. However, developing countries should as a special and differential treatment be given the flexibility of use of peace clause for a period of at least 10 years.

11. The Special Treatment provided under Section A of Annex 5 of AoA which is presently enjoyed by only 3 or 4 countries for a few agricultural products like rice and cheese, should be done away with and tariff should be the only measure to regulate the imports.

12. The tariff rate quotas (TRQs) established to provide minimum market access opportunities have also perpetrated trade distortions by legitimising quantitative restrictions, generating quota rents and denying market access to new corners. Allocation of quota licences with wide differences between inquota and out of quota tariffs in the OECD food importing countries has a potential to generate excessive quota rents. Non-transparent administration of TRQs and preferential trade arrangements has contributed to low quota fill in several commodities. It is, thus, strongly felt that the TRQ system should not be allowed to be 'embedded' in the trade rules as it could easily become a form of 'managed' trade, which would be a retrograde step in terms of the progressive liberalisation envisaged in the agricultural sector⁸.

Proposals

- (i) An appropriate formula with a cap on tariff bindings should be evolved to effect substantial reduction in all tariff levels including peak tariffs and tariff escalations in developed countries. The developed countries should make a down payment by way of bringing down the tariff bindings, as on 1.1.2001, by 50 per cent by the end of the year 2001.
- (ii) As a special and differential measure, the developing country members should be allowed to maintain appropriate levels of tariff bindings keeping in mind their developmental needs and the high distortions prevalent in the international markets. The appropriate levels of tariff bindings will have to necessarily relate to the trade distortions in the areas of market access, domestic support and export competition being practised by the developed countries.
- (iii) A separate Safeguard mechanism on the lines of the Special Safeguard provisions (Article 5 of AoA) along with a provision for imposition of Quantitative Restrictions under specified circumstances, should be made available to all developing countries irrespective of

⁸ Josling & Rae, World Bank and WTO Conference on Agriculture, and the new trade agenda (October 1-2, 1999)

tariffication, in the event of a surge in the imports or a decline in prices and to ensure the food and livelihood security of their people.

- (iv) Even after the abolition of the peace clause (Article 13 of AoA), as a special and differential provision, measures taken by developing countries under Annex 2 (Green Box) and other domestic support measures conforming to Article 6 of AoA shall be exempt for a period of ten years from imposition of countervailing duties under the Agreement on Subsidies and Countervailing Measures and Article XVI of GATT 1994 and shall also be exempt from actions based on non-violation nullification or impairment of the benefits of tariff concessions under paragraph 1 (b) of Article XXIII of GATT 1994.
- (v) Tariff Rate Quotas (TRQs) should be eventually abolished. In the intervening period, there should, however, be substantial expansion of TRQs administered by developed countries. There should also be greater transparency in administration of TRQs by prescribing guidelines for complete uniformity across countries and products, adopting a common base period for calculating domestic consumption for minimum market access commitment by the developed countries, mandatory filling up of TRQs by developed countries and stricter application of the MFN principle in allocation of TRQs with special preference being given to developing countries having less than \$ 1000 per capita annual income. Allocation of TRQs should be for specific products and not for aggregated commodity groups.
- (vi) Developed country members should not be allowed to use SPS measures for protectionist purposes by prescribing overly stringent trade restrictive SPS measures for denying market access to developing countries.
- (vii) Developing country members should be exempt from any obligation to provide any minimum market access.
- (viii) The provision of Special Treatment as provided in Section A of Annex 5 of AoA, which is enjoyed by a very few countries for a few products, should be removed as it is against the basic principles of GATT.

Proposal on Domestic Support

1. The long-term objective of the Agreement on Agriculture (AoA) to "establish a fair and market-oriented agricultural trading system", was sought to be achieved "through the establishment of strengthened and more operationally effective GATT rules and disciplines". One such set of disciplines comprised the domestic support reduction commitments, which were undertaken under the AoA by Member countries with an aim to correct price distortions and allow market forces to determine the level and composition of agricultural production.

2. A significant feature of AoA was the distinction between support measures that were considered trade distorting and therefore, subject to discipline and those with "no or at most minimal trade distorting effects" and which could be allowed to be maintained without any ceiling or reduction commitments. Some countries complied with the reduction commitments regarding Aggregate Measurement of Support (AMS) by restructuring their domestic support policies/programmes. Some of them have also shifted their potentially 'trade distorting' measures from the Blue Box into the Green Box. An analysis based on Secretariat Paper (G/AG/NG/S/12 dated 15.6.2000) reveals that there is an appreciable increase in expenditure under the Green Box in 1997/98 over the base period in major developed countries. In most cases it has also resulted in an overall increase in the quantum of support to their agricultural sector. Certain countries have also taken undue advantage by including the quantum of Blue Box support in their initial base period calculations of AMS, as in the subsequent years there were no reduction commitments for this category of Blue Box support. Such countries thus, got the unintended benefit of being able to achieve reduction in their domestic support without actually having to effect any reduction.

3. Among the Green Box measures, the expenditure on 'de-coupled income support' and direct income payments has increased substantially during the implementation period. The share of the total direct payments under the Green Box measures is estimated to have increased from 23 per cent in 1995 to 43 percent in 1998 (G/AG/NG/S/2 - 19 April, 2000). The 'de-coupled' support and other supports under paras. 5, 6 & 7 of Annex 2 (Green Box) and the production limiting subsidies under Article 6.5 (Blue Box) of AoA are not as minimally trade distorting as is made out on account of the following reasons:

- (i) The ability of the farmers to take risk as well as to make farm investments substantially increases if support in the form of assured payments including de-coupled income support is provided, since such payments entail insurance and wealth effects.
- (ii) These direct payments encourage greater use of farm inputs and enhance access to technology leading to over-production, which in turn distorts agricultural markets.
- (iii) De-coupled or direct payments can be a powerful incentive to maintain or increase current production in the expectation of receiving higher levels of future support.
- (iv) De-coupled or direct payments have been found to increase land values resulting in maintenance of land in farming rather than putting it to some other economically better use.
- (v) De-coupled or direct payments heavily subsidise the cost of production, which enables the receivers of such support to capture a substantial share in the export markets at the cost of more efficient producers.

4. The provisions of Annex 2 of the AoA particularly paras. 5, 6 & 7 have enabled high subsidising countries to enhance their overall level of support to agriculture. This is evident from the Producer Support Estimate (PSE) figures for all OECD countries, which have increased from US\$ 246 billion in 1986-88 to US\$ 283 billion in 1999. For a few developed countries, the PSE is not only high as compared to the base period but has also risen sharply since 1997⁹. As also borne out by data from OECD, Total Support Estimate (TSE) in OECD countries in 1999 amounted to US\$ 361 billion which is much higher than the \$308 billion TSE figure during the period 1986-88. This TSE figure of OECD countries is approximately six times of the total value of the current annual agricultural production in India.

5. Agriculture is a way of life, in most developing agrarian economies. Rapid growth of agriculture is essential for ensuring household food security and alleviation of poverty. In developing countries agriculture still contributes significantly to their overall GDP and employs a large proportion of the work force. The land holdings are, however very small, un-irrigated and dependent on the vagaries of nature. Further, the agricultural practices are labour intensive with relatively low intensity of farm inputs. Consequently, the farm productivity in developing countries is low. As most farmers in countries like India are engaged in subsistence farming, their participation in international trade is marginal. The food needs and supply gaps in developing countries is a developmental problem and thus all their policies for agricultural development aim at harnessing the potential for increasing productivity and production in the agricultural sector. Given these characteristics of agriculture in developing countries with meagre domestic support and the virtual absence of export subsidies, it is obvious that developing countries are not in any way responsible for the current distortions in international trade in agriculture.

6. Moreover, developing countries suffer from an inherent disadvantage of limited financial resources as compared to resource rich countries, and are, therefore, not in a position to have a high subsidy regime. Article 7.2 (b) of the AoA also institutionalises this disparity by allowing the high subsidising countries to maintain 80 per cent of their base level AMS while prohibiting the low income countries from going beyond the *de minimis level* of 10 per cent of the value of their agricultural production. This makes the AoA provisions inequitable and discriminatory. It is also noted that most of the items in Annex 2 are not widely used in the developing world, tailored, as they are to the conditions prevalent in the developed countries. Given the diverse conditions and varying stages of agricultural development in developing countries, the need for making some additional provisions to enable them to pursue policies aimed at increasing agricultural production and productivity is thus necessary. For instance, input subsidies given to crops wherein productivity levels are below the world average should be covered under the Green Box. Sufficient flexibility should therefore be allowed to developing countries to administer such policies through the Green Box.

7. The social and economic vulnerability of agriculture in developing countries is generally reflected in parameters such as substantial contribution of agriculture to their GDP, low level of commercialisation of agriculture, low productivity, weak market orientation, preponderance of small and marginal farmers, uneconomical operational landholdings, lack of infrastructure, dependence on monsoons, susceptibility to natural calamities, and dependence of a very large percentage of population on agriculture for their livelihood etc. Such vulnerability fully justifies the extension of special provisions to the developing country members for ensuring their food and livelihood security concerns.

8. Another possible option for providing the necessary support to the farm sector in developing countries, which in turn would lead to increased production, helping them to achieve a certain amount of self-sufficiency in food grains, could be by way of exempting the product specific support given to

⁹ OECD(2000), Agricultural Policies in OECD Countries: Monitoring and Evaluation, Paris.

low income and resource poor farmers from AMS calculations. This would be in addition to the exemption given to non-product specific support provided to this category of farmers under Article 6.2 of the AoA.

9. It was expected that with the domestic support reduction commitments under AoA, production of agricultural products (notably cereals) in highly subsidised countries would fall and the output in nonsubsidising and, therefore, low-cost producing countries would expand by 2000¹⁰. However, as a consequence of the asymmetrical provisions of the AoA and their lackadaisical implementation by the developed countries, the post-AoA experience establishes that the anticipated production changes in terms of levels and locational shifts have not materialised. This is also borne out by the recent FAO production estimates, which indicate that there has been insignificant change in World cereal production between 1995 and 1999.

10. Moreover, selective extension of high domestic support to a select few commodities in developed countries has effectively neutralised the competitiveness and the potential market access that would have been available to developing countries. For example, commodities of interest to developing countries like dairy, meat, sugar, poultry, cereals and fruits and vegetables etc. have been extended maximum support/subsidies in developed countries, which has negated the comparative advantage of developing countries in these commodities.

11. Article 13 of the Agreement on Agriculture is one of the outstanding examples of AoA in fact having accorded a special and differential treatment in favour of developed countries. During the operation of this clause, developed country support policies have enjoyed exemption from countervailing action. This has further skewed the terms of trade in favour of developed countries. With a view to making the playing field even, it would be appropriate if the peace clause were abolished for developed countries. However, developing countries as a special and differential measure should be allowed the use of peace clause for a further period of at least 10 years. It is also felt that a rationalisation of the subsidies/support exempt under Article 13(a) & (b) is required. While Annex 2 measures, which are minimally trade distorting, should continue to be exempt under Article 13(a) during its currency for developed countries, the 'trade distorting' measures under Annex 2 (paras. 5, 6 & 7) should actually be clubbed with the measures listed out in Article 13(b) as they are as trade distorting as the Blue Box payments covered under Article 6.5 and thus do not merit separate treatment.

12. During the course of implementation of AoA, certain operational problems have also been encountered by the developing countries in the calculation of AMS for the purpose of estimating the domestic support. These include effect of inflation and exchange rate fluctuation on the methodology of calculation of AMS. The rate of inflation varies widely between countries. The average prices in developing countries in 1996 were 656 per cent higher than in 1990 compared to only 19 per cent in industrialised countries (International Financial Statistics Yearbook quoted in AIE/33).

13. The depreciation in currencies has also rendered any comparison between the base year and current year AMS figures quite meaningless. For example, the value of the Indian currency (Rupee) in 1999-2000 has depreciated by over 70 per cent of its value in 1986-87 vis-à-vis the US dollar.

14. In the context of calculation of AMS, it is observed that in calculating the "product specific" or market price support component of AMS, if an Applied Administered Price is lower than the External Reference Price (ERP), the result will be a negative figure. The non-product specific support, given the nature of methodology of its quantification, will either be zero or a positive figure only. The Aggregate Measure of Support, as the name itself implies, is the sum of all measures comprising

¹⁰ FAO(1995), Impact of Uruguay Round on Agriculture, Rome.

domestic support to the agricultural sector. It is only such a summation of negative and positive support, which truly reflects the total domestic support given to the agricultural sector. Thus, negative AMS values, which are indicative of the fact that an Administered Price is at a lower level than the corresponding External Reference Price, should be reflected appropriately through negative figures. Members should, accordingly, be able to use negative Product specific support to offset positive Non-product specific support to arrive at Aggregate Measure of Support under the Agreement.

15. Besides, the provisions for S&D treatment for developing countries also need to be spelt out in terms of concrete obligations taking into account their experience in implementation of the AoA, the differing levels of economic development, the role of agriculture in economics with a large rural population and the need to preserve food and livelihood security taking into account the vulnerability of their agricultural sector.

16. In view of the uneven playing field due to continued high level of distortions in agricultural trade, it is extremely important that developing countries have the flexibility to use appropriate policies to address the problems facing their agricultural sector. The developing countries do not intend to use these measures for achieving an unjustified share in the world market. The ongoing negotiations are, thus, an appropriate opportunity to take stock of the fact that the trade policies being practiced by developed countries have created serious trade distortions and need to be effectively disciplined. Necessary corrective action will have to be taken to allow the emergence of developing countries as equal trading partners.

17. The preamble of the Agreement on Agriculture recognises that the process of reform of trade in agriculture initiated during the Uruguay Round is a continuing process. The mandated negotiations would only carry forward the commitments made under the reform programme. Thus, it is important that during the currency of the negotiations the reform process should be continued and not come to a standstill. Moreover, experience in the implementation of the agreement is an important component of the ongoing negotiations and it is by now well established that the anticipated benefits of liberalisation of trade in agriculture have not materialised for developing countries. It is, thus, important that the WTO membership particularly the developed countries undertake to carry forward the reform process during the currency of the negotiations at an accelerated pace. As a proof of their commitment to the reform process and for continuing the reform process, a down payment during the first year of negotiations itself would go a long way in building confidence among the less developed members of the WTO.

Proposals

- (i) Direct Payments along with decoupled income support and Governmental financial participation in income insurance and income safety-net programmes (paras. 5, 6 & 7 of Annex 2) as well as direct payments under production limiting programmes (Art. 6.5) should be included in the non-product-specific Aggregate Measurement of Support and should be subject to reduction commitment so as not to exceed the *de minimis* level, i.e., 5 per cent (for developed countries) and 10 per cent (for developing countries) of the value of that Member's total agricultural production (Article 6.4).
- (ii) Product specific support provided to low-income resource poor farmers should be excluded from the AMS calculations, as is the case for the non-product-specific support as per para. 6.2 of AoA.
- (iii) The total domestic support should be brought down below the *de minimis* level within a maximum period of three-years by developed countries and in five years by the developing country Members. The developed countries should make a down payment by the end of the

year 2001, through a 50 per cent reduction in the domestic support from the level maintained during the year 2000; or by the amount as is higher than the *de minimis*, whichever is lower.

- (iv) A suitable methodology of notifying the domestic support in a stable currency/basket of currencies should be adopted for taking into account the incidence of inflation and exchange rate variations.
- (v) Negative product specific support figures should be allowed to be adjusted against the positive non-product-specific AMS support figures.
- (vi) While product specific support should be calculated at the aggregate level, support to any one particular commodity should not be allowed to exceed the double of the *de minimis* limit of that commodity, as prescribed under Article 6.4.
- (vii) Support extended under paras. 5,6 and 7 of Annex 2 should be shifted from Article 13 (a) to 13 (b) of the Peace Clause. However, the Peace Clause must lapse as already provided in AoA.
- (viii) The provisions of Article 6.4 of AoA should prevail over the stipulation contained in Article 13 (b) (ii) of the Agreement.
- (ix) After the abolition of the peace clause (Article 13 of AoA), as a special and differential provision, measures under Annex 2 (Green Box) and other domestic support measures conforming to Article 6 of AoA shall be exempt from imposition of countervailing duties under the Agreement on Subsidies and Countervailing Measures and Article XVI of GATT 1994 and shall also be exempt from actions based on non-violation nullification or impairment of the benefits of tariff concessions under paragraph 1 (b) of Article XXIII of GATT 1994.
- (x) All measures taken by developing countries for poverty alleviation, rural development, rural employment and diversification of agriculture should be exempted from any reduction commitments.

Proposal on Export Competition

1. Agriculture is the only sector of the world economy still marked by the existence of export subsidies. The disciplines evolved in the Uruguay Round Agreement on Agriculture have proved to be grossly inadequate to correct these most trade distorting policies maintained by about 25 WTO member countries. The developing country members of WTO have serious concerns in regard to these subsidies as they destabilise and depress the international market prices impacting adversely farm incomes in developing countries.

2. Export subsidies encourage inefficient production of agricultural commodities in developed countries while discouraging domestic production in food importing countries. They also introduce an unfair competition for the local producers and are totally inconsistent with a market-oriented framework for world agricultural trade. The principal commodities, which have high incidence of export subsidies, include wheat, coarse grains, oilseeds, vegetable oil, sugar, dairy products and fruits and vegetables, which also happen to be products of export interest to many developing countries.

3. Under the export subsidy reduction commitments for the developed countries, the value of subsidies is to be reduced by 36 per cent from the base period 1986-90 and the volume of subsidised exports is to be decreased by 21 per cent in six years. The measurement of the reductions of the subsidies is to be on the basis of commodity aggregates.

4. The information on the use of subsidies with respect to volume commitments and budgetary outlay commitments indicates that by and large all the countries have complied with their overall reduction commitments at the aggregate level. However, as per the data compiled by WTO Secretariat, the actual use of subsidies in terms both of budgetary outlays and volume has increased for some particular items in major subsidising countries between 1995 and 1998. (G/AG/NG/S/5, 11 May, 2000)

5. The implementation of AoA during the last about 6 years has also revealed that many member countries have shifted export subsidies between products from year to year so as to target a few specific commodities and have also 'rolled over' unused subsidies to the following year resulting in a cumulative depressive effect on prices in that year, eroding the competitive advantage of other exporting countries. There is thus an immediate need to formulate effective measures to prevent the rolling over of unused subsidies to the next year.

6. The export credits, guarantees and insurance programmes have not been included in the export subsidy reduction commitments under AoA. Mainly resource rich countries in order to maintain and enhance their exports operate these schemes, which are actually in the nature of export subsidisation. The absence of clear guidelines governing export subsidisation in the AoA has led to circumvention of export subsidy reduction commitments. The provision of export credit guarantees and price discounts for buyers substantially influences the quantity and direction of exports. The operation of such schemes has also to a great extent neutralised the effects of export subsidy reduction commitments under the Agreement.

7. Article 16 of the Agreement on Agriculture refers to the Ministerial Decision on Measures Concerning Possible Negative Effects of the Reform Programme on Least Developed and Net Food Importing Countries thereby making it an integral part of Agreement. The concept of food aid, a prominent form of external assistance, is by nature and intention specifically designed to enhance food security. It refers to some external resource transfer, normally in kind of food commodities, which provides food directly to beneficiaries in the recipient country or to the government in support of its food security or other developmental objectives. Food aid essentially evolved from surplus disposal programmes of the early 1950s. In recent times however, it has undergone a lot of changes and has become increasingly complex. Some of the proposals by other member countries have

highlighted the fact that the current provisions of Article 10.4 of the Agreement on Agriculture need to be revised and strengthened to prevent the abuse of food aid mechanism. The alarming tendency of donor countries to increase aid with a view to developing their markets negates the very spirit of this mechanism. The ongoing negotiations should immediately address this issue to bring about greater transparency in the provision of food aid, which should be offered regardless of the world market prices. The recent General Council decision directing the Committee on Agriculture to follow-up on the Ministerial Decision is a first step towards this direction, which however, needs to be, complemented by the entire membership by suggesting suitable guidelines for food aid as distinct from export subsidies.

8. Another significant dimension of the current provisions on disciplining export subsidies under AoA is that countries, which notified the use of export subsidies in their original schedules could continue to use them, albeit in a restrained manner, while the countries which did not notify the use of subsidies in their original schedules are not permitted to introduce them thereafter (Article 3.3). Besides, AoA deprives the developing country members of their right to provide export subsidies, which are otherwise permitted under Article 27, read with Annex VII of the Agreement on Subsidies and Countervailing Measures (ASCM). There is thus every need to restore the rights negotiated by the developing countries under the ASCM.

9. The preamble of AoA recognises that the process of reform of trade in agriculture initiated during Uruguay Round is a continuing one. Thus, it is extremely important that during the currency of the negotiations, the reform process should be continued and not come to a standstill. Moreover, the experience in the implementation of AoA is an important component of the ongoing negotiations and it is by and large well established that the anticipated benefits of liberalisation of trade in agriculture have not materialised for the developing countries. It is therefore important that the WTO membership particularly the developed countries undertake to carry forward the reform process at an accelerated pace even during the negotiations. As a proof of their commitment to the reform process and for carrying it forward, it is proposed that developed countries should make a down payment during the year 2001 by way of effecting a reduction of 50 per cent in the value as well as in the volume of subsidised exports from the level existing on 1.1.2001.

Proposals

- (i) Export subsidies on all agricultural products should be eliminated in the first 2 years of implementation, both in terms of export subsidy outlays and subsidised volumes. As a down payment, the subsidy outlays and subsidised volumes should be reduced by 50 per cent from the level maintained in the year 2000 by the developed countries by the end of 2001.
- (ii) During the transition period also, no 'rolling over' of unused export subsidies should be allowed.
- (iii) All forms of export subsidisation including export credit, guarantees, price discounts and insurance programmes etc. in developed countries should be added to the export subsidies and should be subjected to the overall disciplines applicable to export subsidies.
- (iv) Taking into account the needs and special conditions of developing countries:
 - The existing special and differential treatment for developing countries under Article 9.4 of the AoA should continue; and
 - Special dispensation for developing countries provided under Article 27 read with Annex VII of the Agreement on Subsidies and Countervailing Measures should prevail over Article 8 of AoA.

- (v) Article 13 (c), which gives protection to export subsidies that conform to the provisions of part (v) of AoA, should be abolished forthwith.
 - (vi) After the abolition of the peace clause (Article 13 of AoA), the provisions under Article 9.1 (d) & (e) permitted to be used by developing countries without any reduction commitments under Article 9.4 of AoA should be retained as such and should be exempt from countervailing duties and actions based on Article XVI of GATT 1994 and the Agreement on Subsidies and Countervailing Measures.
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