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(Draft - Comments Welcome)

Agricultural Export Subsidy Reform Imperatives

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Background

Before the Uruguay Round Agreement (URA), agricultural export subsidisation was a fairly common practice to dispose off surplus stocks, particularly among the developed countries of the world. Export subsidisation rather than the comparative advantage was the key force that steered the world agricultural trade. During the UR of negotiations, the member countries came to an agreement that competitive exports had to be encouraged by way of reduction in export subsidies. To achieve this objective certain disciplines were put in place on the use of export subsidies.

The developed country members had to reduce their budgetary outlays on export subsidies by at least 36 percent and the quantity exported by 21 percent over a period of 6 years. And, the developing country members had to reduce their budgetary outlays and quantities exported over a period of 10 years by 24 per cent and 14 per cent, respectively. Under the agreement each member country, which had reduction commitments, was required to state annual reduction commitments with respect to both subsidised quantities exported and the expenditure on these exports.

If either the value of export subsidies or subsidised volumes remained below their commitments levels, the committed limits in the later years could be exceeded to the extent of total of earlier shortfalls. This rollover element or the downstream flexibility was permitted from the second year onwards until the fifth year of the implementation period. It was also agreed that under all circumstances, by the end of the implementation period, the budgetary outlays and quantity commitments could not be greater than 64 percent and 79 percent of their base period levels (1986-88). Accordingly, these export subsidy reduction commitments were defined for 22 product groups.

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However, to accommodate, higher levels of export subsidies of the European Union (EU), which had continued to grow even after the base period a front-loading provision was negotiated. This allowed the EU and the United States (US) to set their quantity reduction commitments on subsidised exports at a level higher than the base level if the quantities exported in the year 1991-92 were greater than the estimated base level quantities. As a consequence of this the EU used this provision for poultry, cheese, other dairy products, eggs, and tobacco as well and the US invoked this provision for rice, eggs and vegetable oils, among other products.

There are only 25 member countries that used direct export subsidies as defined under the Agreement on Agriculture (AOA) in the base period and have reduction commitments. As these are high cost support measures, mainly the developed countries have been the prime users of export subsidies. Among the 25 members that have export subsidy reduction commitments, EU is by far the biggest user of export subsidies and accounted for about 70 per cent share of the total export subsidies for all the 25 members in the base period (Table 1). The main items, which accounted for the bulk of the export subsidies in the EU, included bovine meat, wheat, coarse cereals, butter and other milk products. The US, which occupied the second place with a share of 6.2 per cent provided these subsidies for mainly wheat and skimmed milk powder, which together cornered 75 per cent share of the total value of this support in the base period.

Among various agricultural products the exports of which are subsidised, largely, there are five groups of commodities – diary products, beef (including other meat), wheat, coarse cereals and sugar, which account for a little over 87 per cent share of the total value of export subsidies for all the commodities (Table 2). Of this the dairy products alone account for about 29 per cent share.

2. The Use of Export Subsidies during the Implementation Period

Since the base period, the usage of export subsidies at the aggregate level has been low when compared with the levels of commitments that the member countries made. On an average the utilisation has been high in the case of Norway (91 per cent), Cyprus (89 per cent), US (85 per cent), EU (84 per cent) and Poland (83 per cent) (Table

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3). But, in other countries the rates of utilisation of the export subsidies are quite low and some of the members did not even make use of export subsidies.

Table 1: Country-wise value of Export Subsidies			
Country	Base (US $ billion)	Final (US $ billion)	Main Products Benefiting from Subsidies
EU	13.16	8.42	Bovine meat, wheat, coarse grains, butter and other milk products
USA	1.17	0.75	Live animals, wheat, bovine meat and cheese
Brazil	0.94	0.71	Sugar and fruits and vegetables
Poland	0.74	0.47	Meat preparations and fruits and vegetables
Mexico	0.73	0.55	Sugar and cereal preparations
Canada	0.52	0.33	Wheat and coarse grains
Switzerland	0.44	0.28	Dairy products
Hungary	0.42	0.27	Poultry meat, pig meat, wheat and fruits and vegetables
Colombia	0.38	0.29	Rice, cotton and fruits and vegetables
S. Africa	0.23	0.15	Fruits and vegetables, cereal preparations, wheat and sugar
Czech Republic	0.23	0.15	Diary products and fruits and vegetables
Romania	0.19	0.14	Cereal preparations, sugar, bovine meat and fruits and vegetables
Bulgaria	0.17	0.13	Fruits and vegetables, meat, tobacco and wheat
Turkey	0.16	0.10	Fruits and vegetables and wheat
New Zealand	0.14	0.09	All products
Norway	0.11	0.07	Cheese, pig meat and butter
Australia	0.10	0.07	Dairy products
Slovak Republic	0.09	0.06	Dairy products, cereals preparations and bovine meat
Israel	0.06	0.05	Fruits and vegetables, plants and cotton
Venezuela	0.04	0.03	Rice and coarse grains
Indonesia	0.03	0.02	Rice
Iceland	0.03	0.02	Sheep meat and dairy products
Uruguay	0.00	0.00	Rice and butter
Cyprus	0.00	0.00	Fruits and vegetables and alcohol
Total	20.09	13.17	
Source: WTO			

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Table 2: Product-wise Export Subsidies (Quantity and Value)				
Products	Quantity (Million tonnes)		Value (US $ billion (1990-91 exchange rate)	
	Base	Final	Base	Final
Wheat and wheat flour	49.61	40.36	3.48	2.24
Coarse grains	20.58	16.26	2.26	1.45
Rice	0.60	0.50	0.23	0.17
Butter and butter oil	0.62	0.49	2.00	1.28
Skimmed Milk Powder	0.58	0.48	0.75	0.48
Other milk products	3.33	2.74	1.88	1.20
Cheese	0.54	0.43	0.82	0.52
Sugar	6.30	5.07	1.73	1.18
Fruits and vegetables	9.27	7.58	0.80	0.52
Oilseeds	2.51	1.98	0.13	0.08
Vegetable oils	1.59	1.37	0.20	0.13
Oil cakes	0.03	0.03	0.01	0.00
Cotton	0.10	0.08	0.09	0.06
Beef	1.58	1.27	2.80	1.80
Pig meat	0.61	0.48	0.51	0.32
Poultry meat	0.73	0.58	0.32	0.21
Sheep meat	0.03	0.03	0.03	0.02
Eggs	0.17	0.13	0.13	0.08
Tobacco	0.23	0.19	0.10	0.07
Source: WTO.				

Table 3: Country-wise use of Export Subsidies since the beginning of the Implementation Period (as a percentage of total value of the committed level)							
Country/Group	1995	1996	1997	1998	1999	2000	Average
Australia	0	0	0	3	4	0	1
Brazil	0	0	0	0	n.r.	n.r.	0
Bulgaria	n.r.	n.r.	0	0	0	n.r.	0
Canada	58	5	0	0	101	n.r.	33
Colombia	59	76	125	152	0	0	69
Cyprus	86	44	129	98	n.r.	n.r.	89
Czech Republic	51	34	34	33	47	50	42
European Union	65	85	82	91	107	74	84
Hungary	23	22	18	21	37	n.r.	24
Iceland	61	10	1	0	0	n.r.	14
Indonesia	0	0	0	0	0	0	0
Israel	69	63	20	15	33	0	33
Mexico	0	0	17	60	n.r.	n.r.	19
New Zealand	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	0
Norway	69	45	94	78	170	n.r.	91
Panama	n.r.	n.r.	n.r.	n.r.	n.r.	n.r.	0
Poland	1	116	149	63	103	66	83
Romania	0	0	0	48	32	n.r.	16
Slovak Republic	32	28	56	56	71	62	51
South Africa	15	52	45	3	4	2	20
Switzerland-Liechten.	81	81	34	55	n.r.	n.r.	63
Turkey	71	89	72	70	71	72	74
Uruguay	0	0	0	0	0	n.r.	0
United States	35	50	70	73	199	n.r.	85

Source: WTO "Export Subsidies" Background paper by the Secretariate.

Notes: Simple average use of export subsidy commitment levels across all relevant product groups in per cent (excluding zero-use notifications)

Relatively higher international prices in the earlier years of the implementation period (that is 1995 and 1996), depreciation of the exchange rates and budgetary constraints in the latter years, particularly in some of those countries that are going through structural adjustment programmes, are the main reasons for the low use of export subsidies.

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At the commodity group level, however, the use of export subsidies varies across commodities. There are a few commodities for which the rates of utilisation have exceeded the upper limits, thanks to the downstream flexibility, which allowed the members to carry forward the unutilised amounts of the earlier years over to the next years. The key products where the actual use has exceeded the upper ceiling include – eggs in 1998, skim milk powder and other milk products in 1999 and pig meat in 1998 and 1999, respectively (Table 4).

Table 4: Commodity specific use of Export Subsidies since the beginning of the Implementation Period (as a percentage of the total volume of the committed level)

	Commodity Group	1995	1996	1997	1998	1999	2000	Average
1	Wheat and wheat flour	7.0	26.0	25.0	29.0	45.0	62.0	32.3
2	Coarse grains	27.0	44.0	34.0	60.0	96.0	6.0	44.5
3	Rice	12.0	30.0	23.0	23.0	25.0	31.0	24.0
4	Oilseeds	0.1	0.1	0.0	0.0	0.0	6.0	1.0
5	Vegetable oils	11.0	8.0	6.0	1.0	5.0	3.0	5.7
6	Oilcakes	0.0	0.0	0.0	0.0	0.0		0.0
7	Sugar	16.0	24.0	38.0	32.0	42.0	43.0	32.5
8	Butter and butter oil	25.0	48.0	33.0	31.0	40.0	45.0	37.0
9	Skim milk powder	53.0	50.0	43.0	59.0	105.0	44.0	59.0
10	Cheese	80.0	80.0	69.0	53.0	78.0	82.0	73.7
11	Other milk products	81.0	84.0	87.0	79.0	101.0	83.0	85.8
12	Bovine meat	62.0	76.0	65.0	52.0	63.0	51.0	61.5
13	Pig meat	56.0	45.0	36.0	123.0	122.0	28.0	68.3
14	Poultry meat	52.0	49.0	50.0	54.0	50.0	78.0	55.5
15	Sheep meat	7.0	3.0	3.0	3.0	1.0	0.0	2.8
16	Live animals	28.0	36.0	24.0	3.0	6.0		19.4
17	Eggs	75.0	56.0	89.0	101.0	94.0	83.0	83.0
18	Wine	15.0	34.0	16.0	1.0	0.2	0.0	11.0
20	Fruit and Vegetables	24.0	33.0	35.0	33.0	18.0	21.0	27.3
21	Tobacco	9.0	5.0	2.0	3.0	0.0	0.0	3.2
22	Cotton	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: WTO "Export Subsidies" Background paper by the Secretariate.

Despite the lower rates of utilisation and committed reduction during the implementation period, the final committed volumes of subsidised exports still remain very high and account for a significant proportion of the total world trade in some of the commodities, at least. This is particularly true for skimmed milk powder, butter and butter oil, wheat, beef and coarse grains (Table 5). Though in comparison to the base year, the ratios of exports that could be subsidised to the total world trade have come down, but the final ratios are still quite excessive.

For example, around 53 per cent and 38 per cent of the total quantities of skimmed milk powder and butter and butter oil traded in the world in 2000 could still be subsidised. Similarly, in the case of wheat and beef, 33 per cent and 23 per cent of their total quantities traded in the world during the same year could be supported through export subsidies. Such large volumes of the final committed subsidised exports indicate the level of distortions that could be caused to the world trade of these selected products.

Table 5: Total World Trade and Subsidised Volumes (Selected Products)

S. No.	Products	Total World Trade (Million tonnes)		Subsidised Volumes (Million tonnes)		Subsidised Volumes as a proportion of Total World Trade (Per cent)	
		1995	2000	1995	2000	1995	2000
1	Wheat and wheat flour	116.17	129.01	52.45	42.67	45.15	33.08
2	Coarse grains	112.01	119.30	28.16	22.25	25.14	18.65
3	Rice	22.51	23.16	0.80	0.67	3.55	2.88
4	Butter and butter oil	1.37	1.30	0.63	0.50	45.99	38.30
5	Skimmed Milk Powder	1.22	1.17	0.75	0.62	61.48	53.05
6	Cheese	2.46	3.10	0.56	0.45	22.76	14.38
7	Sugar	35.60	34.97	6.34	5.10	17.81	14.59
8	Fruits and Vegetables	100.82	114.09	9.27	7.58	9.19	6.64
9	Vegetable oils	26.31	25.13	1.59	1.37	6.04	5.45
10	Oil cakes	45.41	49.05	0.03	0.03	0.07	0.05
11	Cotton	5.88	5.00	0.10	0.08	1.62	1.64
12	Beef	5.09	5.57	1.58	1.27	31.04	22.80
13	Pig meat	3.81	5.10	0.61	0.48	16.01	9.41
14	Poultry meat	5.29	7.95	0.73	0.58	13.80	7.30
15	Sheep meat	0.88	0.96	0.03	0.03	3.41	2.60
16	Eggs	0.79	0.96	0.17	0.13	21.52	13.54

Source: WTO, FAO and Computed.

As a matter of fact, if one looks at the levels of exports that benefit from export subsidies in those countries, which subsidise their exports heavily, one finds atrociously high levels, which indicate how efficient exporters are being crowded out by the inefficient exporters. Take the case of EU, which is the largest user of export subsidies among the 25 users of export subsidies. The subsidised volume commitments for some of the products such as wheat and wheat flour, coarse grains, butter and butter oil, skimmed milk powder and bovine meat are much higher than their actual levels of exports during the period from 1995 to 2000 (Table 6). In the case of coarse grains and butter and butter oil the permissible levels of exports were more than double of their actual volumes of exports.

Table 6: The European Union's Subsidised Volume (quantity) Commitments of Selected Products as a proportion of EU's Actual Exports (Per cent).

		1995	1996	1997	1998	1999	2000	Average
1	Wheat and wheat flour	167.3	118.6	138.6	122.8	93.6	99.6	123.4
2	Coarse grains	370.0	267.8	272.9	131.7	88.5	100.4	205.2
3	Sugar	27.8	35.7	18.3	15.6	17.1	16.1	21.7
4	Butter and butter oil	227.9	237.4	251.3	260.3	260.6	259.3	249.5
5	Skim milk powder	89.3	142.1	109.9	170.0	104.8	97.3	118.9
6	Cheese	83.3	78.0	75.7	82.0	86.9	77.4	80.5
7	Bovine meat	114.8	110.7	104.2	137.4	104.1	161.1	122.1
8	Pig meat	69.5	62.9	58.4	48.3	34.8	36.4	51.7
9	Poultry meat	52.3	48.2	41.7	34.9	31.6	26.0	39.1

Source: Computed.

These incredibly high numbers show the level of flexibility that the export subsidising countries have in supporting their exports even after the implementation period is over. This provides evidence to the fact that the export subsidy levels for the base period were abnormally high. Thus, in the current rounds of negotiations if the final committed levels are taken as a reference point for further reductions, they will bring about very little change in the level of distortions in world trade. Therefore, a lower starting base, about 50 to 60 per cent of the agreed limits would make a much better

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sense, as the cuts would be small and the objective of complete elimination of export subsidies would be easily met in the next round of implementation.

3. The Existing Coverage of Export Subsidy Measures

Under the current agreement there are three forms of export subsidies that fall under the reduction commitments. These include - (i) disposal of stocks at prices below the domestic market price; (ii) subsidies financed through a levy on the product or one of its agricultural inputs; and (iii) subsidies that reduce the cost of marketing exports. The other forms of export subsidies such as export credit schemes and food aid if the food aid was not tied to commercial exports in any way and if it was in accordance to FAO Principles of Surplus Disposal and Consultative Obligations, were excluded from the reduction commitments. The omission of both these measures has been found to have a trade distorting effects, which are discussed below.

3.1 Officially Supported Export Credit Schemes

The export credit schemes financed through public resources, which include direct credit, lower rates of interest and guarantees or insurance for loans mainly reduce the cost of purchasing a commodity or a product. In their absence if the same product or a commodity were bought from a private trader the cost to the buyer would be much higher. Thus, government sponsored export credit schemes have a similar impact on distorting trade as the direct export subsidies have. Although the use of export credits is not restricted to the developed countries, but as these are also high cost measures, some of the developed countries have been the main users of export credits.

Among the countries for which the data on export credits are available, the US is the largest user of export credits and also the provider of subsidies on such credit. Of the average value of export credits - US $ 6.95 billion extended by the OECD countries (between 1995 to 1998), the share of US was 46 per cent (Table 7). And, of the estimated value of subsidies of about US $ 301 million in 1998, the US alone accounted for 86 per cent of that amount. Among the selected groups of commodities for which the break up of exports are readily available - cereals, vegetables, livestock and processed commodities account for the bulk of the export credit (74 per cent) as well as subsidies on export credit (73 per cent) (Table 8).

Table 7: Country-wise use of Export Credit and Subsidies (1995 to 1998)

	1995 (US $ million)	1996 (US $ million)	1997 (US $ million)	1998 (US $ million)	Average (US $ million)	Subsidy (1998) (US $ million)	Rate of Subsidy (Per cent)
Australia	1106	2014	2130	1553	1701	5.1	0.3
Canada	570	697	1239	1108	904	13.6	1.2
EU	985	989	1151	1254	1095	23.8	1.2
Hungary	0	38	12	19	17	0.0	0.0
Korea	0	33	46	46	31	0.1	0.2
Norway	0	0	0	0	0	0.0	3.8
USA	2843	3188	2845	3929	3201	258.0	6.6
Total	5504	6959	7423	7909	6949	300.6	3.8

Source: OECD

Table 8: Commodity-wise use of Export Credit and Subsidies (1995 to 1998)

	1995 (US $ million)	1996 (US $ million)	1997 (US $ million)	1998 (US $ million)	Average (US $ million)	Subsidy (1998) (US $ million)	Rate of Subsidy (Per cent)
Livestock	728	778	1057	1260	956	20.7	1.6
Vegetables	867	962	944	1299	1018	42.9	3.3
Cereals	2063	2838	2753	2222	2469	134.1	6.0
Oils and fats	186	139	197	253	194	14.3	5.6
Processed	528	638	734	793	673	18.1	2.3
Skins and hides	213	313	300	241	267	5.4	2.2
Wool and hair	47	552	477	538	404	1.8	0.3
Others	872	739	961	1305	969	63.5	4.9
Total	5504	6959	7423	7911	6949	300.6	3.8

Source: OECD

Though the estimates of the rates of subsidies on these exports credits are small at the aggregate level, 3.8 per cent of the total value of export credits. However, there are considerable variations among different countries and so is the case with various

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commodities (Tables 7 and 8). The rates of subsidies vary from about 0.2 per cent in the case of Korea to about 3.8 per cent in the case of Norway and 6.6 per cent in the case of US. And, in the case of selected groups of commodities, the rates of subsidies range from 0.3 per cent for wool and hair to 6 per cent for cereals.

Considering these relatively low levels of subsidies in export credits, it could be argued that the provision of subsidised credits has very little trade distorting impact on world markets. But, the current low levels of such support are no guarantees that their use may not increase in the future, particularly in the developed countries of the world because they can afford to raise the levels of export credits as well as subsidies.

In fact this has already started happening. The fact that the use of export credits increased from US $ 5.5 billion in 1995 to US $ 7.9 billion in 1998 clearly suggests that the use of export credits is increasing as direct export subsidies are reduced for the reason that there are no disciplines on export credits. This is also indicated by the significant increase in the ratio of export credits to export subsidies in the US during the period from 1995 to 1998 (Figure 1). These changes make it amply clear that the exemption of export credits from the disciplines that have been imposed on direct export subsidies may provide an easy window for countries to support their exports.

Further, the argument that export credits are used to help least developing and net food importing countries to overcome the financial constraints faced by those countries is not borne by the data. The data show that bulk of the export credit, about 89.5 per cent of the total, mainly goes to the developed countries (average value from 1995 to 1998) (Table 9). The net food importing countries and the least developing countries account for only 10.3 per cent and 0.2 per cent share of the export credit, respectively. These facts show that the beneficiaries of these export credits are mainly the developed countries and not the net food importing and least developed countries. Thus, it seems that the main objective of export credits is to achieve competitive advantage over other competing countries, mainly the developing countries, which do not have the resources to run such elaborate and comprehensive support programmes.

Hence, as in the case of direct export subsidies the use of export credits should also be disciplined to encourage competitive exports, which is the main objective of the AOA.

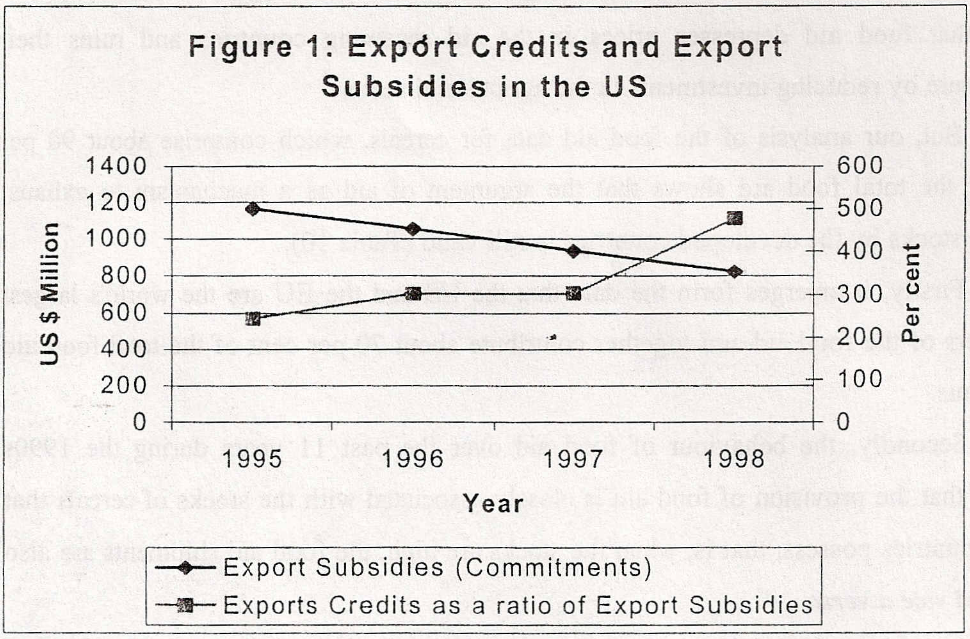

Table 9: Direction of Export Credit (US $ million)				
	Least Developed Countries	Net Food Importing Countries	Developed Countries	Total
1995	14.7	724.0	4765.3	5504.0
1996	16.6	737.0	6205.4	6959.0
1997	20.7	790.2	6612.1	7423.0
1998	18.2	607.5	7283.3	7909.0
Average	17.6	714.7	6216.5	6948.8

Notes:

1. Total for Australia, Canada, European Union, Hungary, Korea, Norway and the United States of America.

3.2 Food Aid

There is a vast literature on the genesis of food aid and its evolution over time. Some argue that food aid was basically to dispose of surplus stocks (Ruttan, 1993) and further economic interests along with humanitarian considerations (Clay and Stoke 1991). There are others, who argue that with the emergence of programmes and projects linked to aid under the World Food Programme the use of food aid as a mechanism to get rid of surpluses has reduced over time (Singer, Woods and Jennings, 1987). Studies also show that food aid depresses prices in the aid receiving countries and ruins their agriculture by reducing investments in the agricultural sector.[2]

But, our analysis of the food aid data for cereals, which comprise about 90 per cent of the total food aid shows that the argument of aid as a mechanism to exhaust surplus stocks by the developed countries is still valid (Table 10).

Firstly, it emerges form the data that the US and the EU are the world's largest providers of the food aid and together contribute about 70 per cent of the total food aid shipments.

Secondly, the behaviour of food aid over the past 11 years during the 1990s reveals that the provision of food aid is closely associated with the stocks of cereals that these countries possess, that is, when the stocks are high, the food aid shipments are also high and *vice a versa*.

Table 10: Food Aid Shipments of Cereals by the USA and the EU and their Stocks of Cereals (1990 to 2000)

Year	Food Aid Shipment of Cereals (Million tonnes)	Share of Cereals in total Food Aid (Per cent)	Food Aid Shipment of Cereals by the US (Million tonnes)	Food Aid Shipment of Cereals by the EU (Million tonnes)	Share of the US and EU in total Food Aid (Per cent)	Stocks of Cereals with the US and the EU (Million tonnes)$
1990	13.4	0.9	7.3	2.6	73.7	91.6
1991	13.6	0.9	6.7	3.3	74.0	107.0
1992	15.1	0.9	8.5	3.3	77.6	93.7
1993	13.0	0.9	8.1	2.0	78.0	124.9
1994	9.4	0.8	4.3	2.5	72.1	79.5
1995	7.4	0.9	3.0	1.7	64.5	83.2
1996	5.6	0.8	2.3	1.1	60.2	48.2
1997	6.2	0.9	2.8	0.9	59.0	64.3
1998	11.3	0.9	6.4	1.6	70.8	93.8
1999	11.2	0.9	7.3	1.4	77.4	116.6
2000	8.5	0.9	4.7	0.7	63.9	107.7

Source: Developed from FAO Statistical Databases.
Notes: $ Aggregate carryover stocks at the end of national crop years.

[2] See Dudley and Sandilands (1975), Bovard (1993) and Mann (1968).

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Thirdly, it also appears that the grant of food aid is not demand driven but is more determined by the supply in those countries that supply aid. This too can be confirmed from the experience of the 1990s. During the 1990s, mid 1990s was a period of very high prices, which means that the demand from those countries that needed supplies of food desperately must have been very high. Thus, more aid should have been provided during this period of high prices. On the contrary, because the prices of food in the international market were high, these countries sold their surpluses in the world markets and reduced the aid component.

Thus, as long as the food aid system remains bilateral, there is every possibility that much of the food aid will continue to distort trade.[3] Therefore, as is the case with the use of export credits, the mechanisms of delivering food aid should also be made more transparent and brought under the umbrella of multilateral negotiations to evolve clear rules, which give equal preference to all the member countries.

4. The AOA and Exporting State Trading Enterprises (STEs)

The right of WTO member countries to give import or export monopolies to state or other enterprises is recognised in Article XVII of the General Agreement on Tariffs and Trade (GATT). The only disciplines on these enterprises are that they are supposed to act in accordance with commercial principles, in a non-discriminatory manner and provide information on import mark-ups when requested by trading partners (Hoekman, 1995). In the Uruguay Round, it was agreed to improve the possibilities of surveillance of STEs by requiring countries to notify them to the GATT for review by a working party. A definition of STEs was also provided, under which such enterprises are defined as - Governmental and Non-Governmental enterprises, including marketing boards, which have been granted exclusive or special rights or privileges, including statutory or constitutional powers, in the exercise of which they influence through their purchases or sales the level or direction of imports or exports.

[3] According to the World Food Programme (WFP), the use of bilateral food aid has become more important than multilateral food aid through the WFP.

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State trading is quite widespread both in the developed as well as developing countries. These STEs are used to manage some elements of the agricultural trade, which varies from country to country. Some of these such as the Commodity Credit Corporation of the US and the Japanese Food Agency are responsible for handling a wide variety of commodities, while others such as the Australian Wheat Board, the Canadian Wheat Board and the New Zealand Dairy Board are entrusted with the task of managing only one or two relevant commodities.

The main concerns with respect to STEs are related to the ways in which such organisations affect trade through their anti-competitive behaviour. It has been argued that despite attempts to tighten the rules, the continuing right to employ government owned or sanctioned import and export monopolies is a major loophole in the AOA. The concern is that these enterprises have access to cheap government credit and often compete unfairly with the private trade because they can offer better terms to the buyers. Hence rules must be framed to end exclusive export rights and eliminate use of government funds, to establish requirements for notifying costs of acquisition and pricing of exports.

But, it has also been argued that in the current agreement, there are disciplines on these enterprises, under which they are supposed to act in accordance with commercial principles, in a non-discriminatory manner and provide information on import mark-ups when requested by trading partners.

The key issues that need to be resolved before framing further rules in this regard are – (i) the extent to which a STE distorts trade, and (ii) equal treatment to all the trading entities both public and private.

Given that there is very little that is known about these aspects of the STEs. Till the time these issues are settled the best way to handle this issue is to allow private trade to compete and co-exist with such enterprises. This will encourage competition and also remove the single desk status of the state trading enterprises.

5. The AOA and Restrictions on Exports

Within the framework of the rules of the AOA export controls are normally barred, but the use of export taxes is thought to be harmless. The Article XI prohibits the

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use of restrictions on exports, but makes an exception with respect to temporary export prohibitions and restrictions to avert critical shortages of food products and other products that are essential to the exporting country. Further disciplines (Article 12) mandate that such measures should be notified as soon as feasible and that consideration should be given to food security needs of the importing country in making decisions on putting restrictions on exports.

The food importing countries argue that restrictions on imports are not consistent with an open trading system. And, restrictions on exports should be treated in the same manner as restrictions on imports. This has been the key demand of net food importing countries and their argument is that these restrictions have a harmful impact on their economies. This matter is being treated with a fair degree of importance to balance the rights and obligations between exporting and importing countries.

An ideal way of resolving this issue is to convert all quantitative restrictions on exports into export taxes and discipline the use of such taxes.

6. Proposals for Further Reforms in Export Subsidy Measures

Any proposal to reform export subsidies should take into account what the member countries are hoping to achieve in the current rounds of negotiations. A careful analysis of the proposals that have been made during the first two rounds of negotiations shows that there are primarily three types of suggestions on the future reforms in export subsidies.[4]

(a) The direct export subsidies provided by a few selected member countries should be reduced substantially and eliminated completely by the end of the next implementation period.

(b) The provisions related to the special and differential treatment (Article 9.4), which grant freedom to the developing and the least developing countries to subsidise certain export related expenses should be further strengthened till the time export subsidies get completely eliminated.

[4] The groups of countries that support such a view include - The African Group of countries (G/AG/NG/W/142), The Cairns Group (G/AG/NG/W/11), India (G/AG/NG/W/102), Egypt (G/AG/NG/W/107/Rev.1)

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(c) Reforms must be initiated under Article 10.2 to develop disciplines governing the use of export credits, credit guarantees, insurance programmes and food aid.

There are some differences in the proposals on the procedures that need to be followed in carrying out further reductions, but the majority view is clearly in favour of eliminating export subsidies completely in the next round of implementation.

The Doha Declaration also endorses these opinions, which is evident from the following paragraph:

"Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; **reductions of, with a view to phasing out, all forms of export subsidies**; and substantial reductions in trade-distorting domestic support."

Based on the above and the analysis carried out in the earlier sections of the modalities for further reforms in the area of export subsidies should include the following.

6.1 Coverage of Export Subsidies

Further commitments on disciplines on export subsidies must include all the forms of export subsidies, comprising of direct export subsidies, export credits, rates of interest, credit insurance and food aid.

6.2 Further Reductions

As was discussed before, that the earlier base period export subsidy levels were abnormally high. And, if in the current negotiations the final committed levels are to be taken as a reference point for further reductions, they will bring about very little change in the level of distortions in world trade.

Therefore, a lower starting base should be taken as the reference point for carrying out future reductions in export subsidies. There could be three new bases:

(i) 50 to 60 per cent of the final agreed limits, which has been proposed by a majority of member countries

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(ii) 76 per cent of the final committed levels assuming that if these countries were to carry out further cuts, the new level would have been 24 per cent lower by the end of 2004

(iii) The actual quantities subsidised and the real value of subsidised exports in 2000

The remaining balance should be reduced in equal instalments over the remaining five years of the implementation period, by 20 per cent so that by the end of the implementation period (2010) the export subsidies get completely eliminated.

Further limits and cuts in agricultural export subsidies should be commodity specific, preferably at the six or the eight-digit level of classification. This is will bring reduction commitments on export subsidies at par with market access commitments. In the case of market access, the reduction commitments on tariffs are at the individual commodity specific level. This will also plug the loophole of switching support from one product to another.

The provision of downstream flexibility should be completely done away with.

For developed countries the exemptions available under the peach clause should not be extended after the expiry of the peace clause (Article 13 of AOA).

As a special and differential measure, the provisions under Article 9.1 (d) & (e) that have been granted for the developing countries without any reduction commitments under Article 9.4 of AOA should be retained as such. And, these should be exempt from countervailing duties and actions based on Article XVI of GATT 1994 and the agreement on Subsidies and Countervailing Measures (SCM) till the time these countries graduate and their per capita income levels have risen above US$ 1000.

6.3 Export Credits, Lower Rates of Interest and Credit Insurance

The analysis carried out in the paper clearly demonstrates that the main beneficiaries of these export credits are mainly the developed countries and not the net food importing and least developed countries. The objective of such programmes is quite clearly to achieve competitive advantage over other competing countries, mainly the developing countries, which do not have the resources to run such elaborate and comprehensive export credit programmes. Countries that have the resources can easily extend credit facilities to boost their exports. These are obviously forms of export subsidy, and should be subjected to the same set of disciplines that govern export subsidies and the WTO is the right forum for negotiations on these measures of supporting exports.

The developed countries should not subsidise the rates of interest, both directly or indirectly through the guarantees on loans, which effectively lower the rate of interest on the credit that is advanced to the exporters of agricultural products.

Any type of support, which is provided through these programmes should be treated on par with direct export subsidies and should be subject to the same disciplines that would be applicable in the case of direct export subsidies.

As a special and differential measure, the provisions related to export credits should grant exemptions to the developing countries. And, these measures should be exempt from countervailing duties and actions based on Article XVI of GATT 1994 and the agreement on SCM till the time their per capita income levels have risen above US$ 1000.

6.4 Food Aid

A more forward looking solution to the problem that plague food aid is to evolve a fully multilateral system of food aid, under which an independent and impartial multilateral agency within the Food and Agriculture Organisation (FAO) should be made responsible for determining food aid needs and delivering food.

The donors should contribute the requisite funds for buying food from the world market at the prevailing world market prices.

The advantage of such a system would be that the requirements of food aid will be reflected in the world demand and will not have a depressing effect on world prices. And, all the market participants would share the gains of such a system equally.

6.5 Exporting State Trading Enterprises (STEs)

Establish mechanisms to know the extent to which STEs distort trade *vis a vis* their private counterparts.

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Allow the co-existence of such enterprises with private trade to encourage competition.

4.6 Export Restrictions and Taxes

Convert all quantitative restrictions on exports into export taxes and discipline the use of such taxes.

To conclude export subsidies of any kind are the most trade-distorting agricultural policies through which a handful of countries are allowed to get rid of surpluses created by excessive subsidisation and protection. They have a very negative and detrimental impact on the agricultural sector of those countries, which are efficient producers of agricultural commodities. Given that they have large damaging effects and are unfair they should be eliminated completely by the end of the next implementation period. This will bring agricultural trade at par with industry, where these subsidies were forbidden 40 years ago.