*(Preliminary Draft - Comments Welcome)*

# Issues and Options in Market Access for India

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## I. Background

From the point of view of the developing countries there were two kinds of positive actions that the developed countries were required to take to provide greater market access to these countries. Firstly, preferential access to the developed country markets for the products that are of interest to the developing countries.[2] Secondly, implement overall provisions of the agreement in ways that are beneficial or least damaging to the interests of developing countries.[3]

The experience during the implementation period, however, has not been very encouraging with respect to these two provisions. This is despite the fact that the agreement achieved a great deal in terms of defining rules of international trade in agriculture. The main reasons for such a poor state of affairs are several weaknesses in the current in-built provisions of the agreement on agriculture (AOA) and their implementation, which give undue advantage to those countries, which subsidise their agriculture heavily. For example, the existing agreement binds most of the developing countries, which had applied little or had no trade-distorting domestic subsidies a 10 per cent ceiling on the level of domestic support that they can provide to their farmers.[4] On the other hand, the developed countries are only expected to bring down their trade-distorting subsidies by 20 per cent in six years. As a result, the developed countries can retain up to 80 per cent of their trade-distorting subsidies, which are over and above their 5 per cent *de minimis* levels. This is in addition to the freedom to subsidise, which has been granted under the 'Blue Box' and some provisions of the 'Green Box' such as paragraphs 5 and 6 of Annex 2.

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[2] Products that are of interest to developing countries are for example: flowers, fruit and vegetable products, root and tuber products, bananas, nuts, coffee and tea, seeds, oils (including palm oil), meat and dairy products, sugar, cocoa, tobacco and cotton. The list is based on the document *AIE/S13 – Tariff Treatment of Products of Special Interest to Developing Country Members (28 July 1999).*

[3] See Michalopoulos, Constantine (2000),"The Role of Special and Differential Treatment for Devloping Countries in GATT and the World Trade Organisation" The World Bank, Washington, DC.

[4] Support as a percentage of the total value of agricultural output.

Similarly, in the case of export subsidies, only 25 member countries, majority of which are developed countries, are allowed to subsidise their exports and bring down outlays on export subsidies by 36 per cent and subsidised quantities by 21 per cent, respectively. But the other members are barred from introducing new export subsidies because they did not subsidise their exports during the base period. The downstream flexibility clause granted additional freedom to these countries to carry over amounts by which actual outlays or quantities fell short of annual commitment levels.

To make matters worse the bound levels of tariffs continue to be very high for the majority of products that are of interest to the developing countries (Table 1). On top of it, special exemptions under the peace clause made developed country support policies enjoy protection from possible countervailing actions in certain situations as specified in the Article. The establishment of tariff rate quotas as new instruments to enhance market access was also not helpful to the developing countries. This is revealed in low-fill rates of tariff rate quotas because of several reasons such as high tariffs on in-quota imports, considerable discretion in the administration of quotas and also in the application of sanitary and phytosanitary standards.[5] Tariff escalation, Special Safeguards (SSGs), the usage of which is again available to only a handful of member countries, and regional trading arrangements made it very difficult for the majority of developing countries to get a significant market access in the developed country markets.

As a consequence, the gains to developing countries were not as high as one would have expected these to be after the implementation of the agreement. This is reflected in the trends in exports of agricultural commodities (Table 2). The trends indicate that while there has been a slight increase in the share of exports of agricultural products from the developing countries in world trade, the rate of growth in exports, however, has witnessed a slowdown during the six years of the implementation period.

The data reveal that during the period from 1995 to 2000 the average rate of growth in exports of agricultural products from the developing countries was just 1.5 per cent compared to 4.7 per cent rate of growth witnessed during the period from 1989 to 1994. Though, one has to exercise caution in interpreting these numbers because the period under review is also

[5] The information collected by the WTO secretariate shows that the average fill-rates of all quotas varied between 62 per cent in 1997 and 1998 to 65 per cent in 1995. There were wide variations in the fill-rates among various groups of commodities and countries. The average fill-rates of tariff quotas were below 50 per cent in the case of several countries (WTO Secretariate G/AG/NG/S/7).

marked by serious financial crises in the East Asian countries and significant decline in commodity prices, which impacted world trade adversely.

Table 1: Tariff Peaks in Selected Developed and Developing Countries, 1995-98 (percentages)

| Commodity | Bound Rate | | Applied Rate | | Average Number of Tariff Lines above 20 per cent Peak | | Percentage of Countries with Tariff Peaks | |
|---|---|---|---|---|---|---|---|---|
| Rice | 123 | 61 | 71 | 35 | 16 | 7 | 50 | 60 |
| Wheat | 139 | 75 | 127 | 41 | 11 | 11 | 60 | 60 |
| Coarse Cereals | 124 | 81 | 93 | 44 | 18 | 22 | 60 | 55 |
| Oilseeds | 208 | 77 | 179 | 52 | 19 | 9 | 50 | 30 |
| Vegetable oils | 107 | 57 | 90 | 39 | 15 | 32 | 70 | 50 |
| Sugar | 83 | 70 | 75 | 36 | 14 | 11 | 70 | 70 |
| Tea | 95 | 77 | 23 | 50 | 2 | 3 | 15 | 40 |
| Coffee | 70 | 54 | 20 | 32 | 1 | 5 | 15 | 40 |
| Tobacco | 70 | 84 | 61 | 56 | 8 | 10 | 50 | 55 |
| Cotton | 30 | 62 | 29 | 45 | 3 | 2 | 10 | 5 |
| Cocoa | 117 | 43 | 86 | 26 | 15 | 7 | 60 | 60 |
| Fruits and Vegetables | 120 | 51 | 110 | 33 | 161 | 176 | 70 | 55 |
| Dairy Products | 153 | 79 | 119 | 35 | 69 | 35 | 75 | 70 |
| Meat | | | | | | | | |
| Bovine | 192 | 83 | 123 | 49 | 18 | 13 | 65 | 60 |
| Ovine | 134 | 81 | 111 | 69 | 20 | 13 | 45 | 40 |
| Pork | 168 | 73 | 100 | 44 | 31 | 21 | 60 | 50 |
| Poultry | 140 | 73 | 129 | 50 | 34 | 30 | 65 | 55 |
| Other Meat | 90 | 53 | 49 | 37 | 9 | 8 | 45 | 45 |
| | | | | | | | | |

Source: FAO (2002): Commodity Market Review, FAO Rome.

Notes:

This is based on AMAD database, which includes 16 developed countries and 30 developing countries.

The case of India is slightly different. There is an increase in the rate of growth of Indian agricultural exports during the second period (1995 to 2000) in comparison to the first period (1989-94). But, this improvement is mainly due to the economy-wide unilateral reforms, which reduced protection given to the manufacturing sector, introduced convertibility of the rupee on trade account and shaped relatively more open agricultural export policy. These changes have had a much larger impact on exports of agricultural products than the changes brought about by the liberalisation of agricultural trade under the AOA. For example, the huge increase in the exports of agricultural products in 1995 was mainly due to the unilateral liberalisation of rice exports, which raised rice exports from US$ 0.39 billion in 1994 to US$ 1.42 billion in 1995.

Table 2: Trade Performance of Developing Countries and India (1989 to 2000)

| Year | Exports of agricultural products from developing countries as a percentage of total world exports of agricultural products | Annual rate of growth in exports of agricultural products from developing countries | Exports of agricultural products from India as a percentage of world exports of agricultural exports | Annual rate of growth in exports of agricultural products from India |
|---|---|---|---|---|
| 1989 | 28.96 | 2.69 | 0.88 | 21.92 |
| 1990 | 27.47 | 2.30 | 0.94 | 15.71 |
| 1991 | 27.42 | 0.71 | 0.85 | -9.05 |
| 1992 | 25.92 | 2.82 | 0.82 | 5.39 |
| 1993 | 27.33 | -0.13 | 0.99 | 13.92 |
| 1994 | 28.60 | 19.97 | 0.83 | -3.51 |
| 1995 | 29.21 | 16.55 | 1.24 | 69.59 |
| 1996 | 28.99 | 4.20 | 1.26 | 6.50 |
| 1997 | 30.43 | 3.21 | 1.24 | -3.32 |
| 1998 | 30.39 | -4.63 | 1.19 | -7.62 |
| 1999 | 29.31 | -8.09 | 1.11 | -11.16 |
| 2000 | 29.12 | -2.16 | 1.21 | 6.66 |
| | | | | |
| Averages | | | | |
| 1989-94 | 27.62 | 4.73 | 0.89 | 7.40 |
| 1995-2000 | 29.58 | 1.51 | 1.21 | 10.11 |

Source: Estimated from FAO database.
Notes: The exports of fish and fish products are not included in these computations.

Given that the Uruguay Round of Negotiations did not bring about greater trade liberalisation and achieved very little in terms of reductions in both domestic support as well as export subsidies, the current round of negotiations is very critical for the developing countries. Therefore, the removal of the remaining distortions in agricultural production and trade is the key issue for India, which does not subsidise its agriculture. Keeping this in view, the developing countries such as India are looking forward to the current round of negotiations with the hope that a new set of rules will at least address their concerns and provide real and meaningful increase in market access.

**2. Tariff Reductions**

In the last round, the reductions in tariffs were carried out by using a linear cut - 36 per cent by the developed countries over a period of six years and 24 per cent by the developing countries over a period of 10 years. And, these cuts were applied at the aggregate level, which means that countries were able to meet the requirements of the agreement by reducing tariffs on some commodities by 15 per cent (minimum cut in the case of developed countries) and by 50 or 100 per cent on others while carrying out the committed reductions. Such a mechanism of tariff reductions gave countries the freedom to reduce tariffs on some sensitive items by lower rates as compared to the other items.

In the current round of negotiations, members have discussed several proposals to reduce tariffs in the next round of implementation. These include

(i) Complete liberalisation of a few sectors (zero tariffs),

(ii) Reductions from applied rates, which are generally lower than the bound rates,

(iii) Same linear cuts in bound rates, which were used in the last round, and

(iv) Higher linear cut, that is, 40 to 50 per cent reduction in bound rates as proposed in the Tokyo and Kennedy rounds

(v) A blend or a cocktail approach of linear cuts coupled with non-linear reduction of higher bound rates (Swiss Formula).

Of these five approaches, three (first two and the fourth one) have not found favour with most of the members. The first approach, apart from being difficult to carry through is highly inequitable. The main drawback of this method is that it will increase dispersion of tariff

rates among various products and will distort the structure of incentives among various agricultural products by allowing some countries to maintain highly prohibitive tariffs on some of the items.

Likewise, if the reductions in tariffs are to be based on the actual applied rates, in that case there is no meaning of the bound rates. This approach, therefore, has been resisted by a large majority of countries, both developed as well as developing on the grounds that the legal basis for the future reductions can only be the bound rates and not the applied rates.

There is extensive disagreement on aiming at higher cuts of 40 to 50 per cent across the board for all the commodities as well on the grounds that this is a very ambitious target.

Given the lack of support for these three methods, the other two methods, namely, the URA reduction formulae and a blend of linear and non-linear reduction have been found to be the favourites among a large majority of proposals that have been discussed so far.

### 2.1 Bound and Applied Rates of Tariffs on Indian Agricultural Products

In the last round, for countries such as India, where all agricultural products were covered under quantitative restrictions (QRs) for Balance of Payment (BOP) reasons, only ceiling bindings had to be submitted. For these ceiling bindings, there was no upper limit, provided the tariffs had not been bound in the earlier rounds of negotiations. In addition, there was no obligation to reduce these ceiling bindings during the implementation period.

India had previously bound only some of the agricultural tariffs. These included commodities such as rice, coarse grains, dairy products and edible oils, which were bound in the earlier rounds of negotiations – rice and dairy products during Geneva Protocol (1947), maize and millets during Torquay Protocol (1951), sorghum during Dillon Round (1962) and soybean and rapeseed oil in Tokyo Round (1979). But for other products for which no tariffs had been bound earlier, India submitted very high ceiling bindings of 100, 150, or 300 per cent.

To raise bound rates for some the products for which the bound tariffs were low, India initiated negotiations with the trading partners under Article XXVIII of the GATT and renegotiated new bound tariffs. As a consequence of these changes, the distribution of final bound tariffs on agricultural products has now undergone some change. At the 6-digit level of HS classification, there are about 692 tariff lines in agriculture, which are bound. Of these, there are only two items (almonds in shell and shelled) for which the rates of duty are specific

in nature, for others the rates of duties are *ad valorem.* Thus, of the 690 items for which rates of bound duties are *ad valorem*, now only 3.8 per cent of the tariff lines have bound duties, which are below 25 per cent (Table 3). Among these items the bulk includes planting material such as bulbs, tubers, edible fruit or nut tress, vegetable seeds, which in any case should attract low import duties.

The overall distribution of final bound tariffs, however, clearly shows that the bulk of the tariff lines, about 82 per cent, have bound rates, which range between 75 per cent and 150 per cent. And, there are approximately 4 per cent of the tariff lines for which the bound tariffs are 300 per cent.

Table 3: Distribution of Bound and Applied Rates of Tariffs on Agricultural Products

| | Bound Rates | | Applied Rates | |
|---|---|---|---|---|
| Range of tariffs (Per cent) | Distribution of tariff lines (Per cent) | Simple average tariff (Per cent) | Distribution of tariff lines (Per cent) | Simple average tariff (Per cent) |
| 0 ≤ 25 | 3.8 | 18.8 | 15.5 | 11.0 |
| > 25 ≤ 50 | 6.4 | 40.0 | 73.8 | 30.5 |
| > 50 ≤ 75 | 4.3 | 59.2 | 3.6 | 71.6 |
| > 75 ≤ 100 | 49.3 | 99.3 | 5.8 | 95.1 |
| > 100 ≤ 150 | 32.5 | 150.0 | | |
| > 150 ≤ 300 | 3.8 | 300.0 | 1.3 | 179.6 |
| | | | | |
| All | 690 (100.0) | 114.8 | 690 (100.0) | 34.7 |

Source: Developed from World Trade Organisation and Government of India, *Customs Tariff of India.*

Contrary to these high bound tariffs the actual applied rates of tariffs on most of the agricultural products are quite low. The distribution of actual applied tariffs illustrates that for a greater part of the tariff lines, a little over 89 per cent, the actual applied rates are either below or equal to 50 per cent.[6] There are only 9.4 per cent of the tariff lines for which the applied rates of duties range between 50 to 100 per cent. There are only 1.3 per cent of items, mainly alcoholic beverages for which the applied rates are excessively high, more than 150 per cent.

Among various agricultural products, there are in effect only a few items of significance for which bound rates have become a binding constraint. Among edible oils,

[6] This distribution is based on basic customs tariff, which does not include additional duty, which is equivalent to the excise duty on similar products produced in the country and special additional duty, which in equivalent to the sales tax imposed on like products in the domestic market.

soybean oil is one item on which the bound rate of duty is 45 per cent, which is equal to the existing applied rate. The other items in which case the actual applied rates are higher than the final bound rates include alcoholic beverages.

**2.2 Implications of the Alternative Tariff Cuts on the Indian Bound Rates**

An idea about the implications of the further cuts in tariffs can be had from the level of protection/dis-protection provided to various agricultural commodities. For estimating protection/dis-protection provided to a particular products the simplest and the easiest method is the nominal rate of protection (NRP), which takes into account the discrepancies between the domestic and international prices of a product. The concept measures the divergence of domestic prices of different commodities from their corresponding international reference prices that the farmers would have got if there were a free trade. The divergence between domestic prices and international prices (border price-equivalents) measures the effect of government policies on agricultural price incentives.

Because this is a very simple measure, it does not take into consideration the divergence between the domestic and international prices of inputs, which are used in the production of a particular commodity. But, agricultural trade and price policies not only influence prices of final output but also have an effect on the prices of inputs that are used in the production of a product.[7]

To account for the distortions in the prices of both output as well as traded inputs, the effective rate of protection (ERP) is calculated. The ERP, therefore, adjusts the NRP for the protection/dis-protection on tradable inputs used in production and measures the effect on value added per unit of output. Value added here refers to the difference between per unit output price and the value of all traded inputs used to produce one unit of output.

ERP = (Value added at domestic price/Value added at border price-equivalents) - 1

For estimating value added there are two basic methods – Corden method and Balassa method. Both these methods have a simple form and a sophisticated form. In the simple

[7] If the tradable inputs make up only a small fraction of the total cost of production there will be very little divergence between the NRP and the ERP. But, if these inputs form a fairly large fraction of the cost of production, the ERP may differ significantly from the NRP.

Corden method, value added is estimated as value of output minus cost of traded intermediary inputs (fertilisers, pesticides, and seeds). While, in the simple Balassa method, value added is calculated as the difference between value of output minus cost of traded and non-traded intermediary inputs (manure and services, which include handling, transport, electricity and repair and maintenance).

The sophisticated versions of these methods include cost of directly traded inputs and traded components of non-traded intermediaries (fuel and lubricants, agricultural machinery) in the Corden method and cost of directly traded inputs, traded components of non-traded intermediaries and tariffs and subsidies on traded components in the Balassa method, respectively.

For the purpose of this study, we have calculated ERP using sophisticated Corden method – value added is estimated as value of output minus cost of directly traded inputs (fertilisers, insecticides and seeds) and traded components of non-traded intermediaries (fuel and lubricants, agricultural machinery).[8] The cost of cultivation data published by the Directorate of Economics and Statistics (Ministry of Agriculture) have been used in these computations. The other alternative for this type of information is the input-output table, which is used by the Planning Commission. But the main weakness of the input-output table approach is that the information is dated. Therefore, we have used cost of cultivation data for estimating value added.[9]

The domestic price used in these computations could be either procurement/support price or wholesale price while the border price-equivalent is the international price adjusted for transport costs (both international as well as domestic), marketing costs and processing costs necessary to make the commodity comparable.[10] The relevant exchange rate used to convert

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[8] The approach used in this paper is different from our earlier studies (Gulati and Sharma (1997 and 1998), where we have used only one alternative to estimate value added. Only four traded inputs – fertilisers, insecticides, seeds and tractors were included in these computations.

[9] The information on traded inputs such as fertilisers, insecticides and seeds is directly available from the cost of cultivation data. However, information on traded components of services such as machine labour and irrigation is not available directly from the cost of cultivation data. To get this break up, we have relied on the studies such as Kahlon and Tyagi (1988). The relative weights of tractor and diesel oil and lubricants in machine labour are 62 per cent and 38 per cent, respectively. In the case of irrigation water, the relative weights of diesel and lubricating oil, repairs and machinery (pump-sets) are 48 per cent, 25 per cent and 27 per cent, respectively. The ratio of net irrigated area under minor irrigation to total net irrigated area was used to get the share of minor irrigation in total irrigation cost

[10] The international and domestic prices used in these calculations are different from the ones used in AMS calculations. The international prices here are the ones that are quoted in the international markets duly adjusted for transportation costs, handling, processing and marketing expenses. The domestic prices are the wholesale prices of

border prices into comparable domestic currency equivalents can be official exchange rate if there are no distortions in the foreign exchange market. But if there are distortions, i.e., the exchange rate of the domestic currency is not market determined, then the use of official exchange rate could be misleading. Under such situations, it is advisable to use shadow exchange rate for converting international prices into domestic currency.[11]

One of the most common criticisms against the use of international prices for measuring effective incentives is that these are highly volatile and fluctuate wildly. Therefore, one has to exercise due caution in interpreting results of protection coefficients estimated using border prices. To take note of this we have estimated effective protection coefficients using four alternative sets of prices

(i) the current international prices of each year,

(ii) the long-term average international prices (1980-81 to 2000-01),

(iii) the lowest international price during the period from 1980-81 to 2000-01, and

(iv) the variable cost of production of a major exporting country. In this scenario, we hypothesise that the lowest level to which prices of a commodity could fall is the variable cost of production of the major exporting countries. Since, we do not have data on the cost of production for all the major exporting countries, we took variable cost of production for the USA as the minimum benchmark for this exercise for a few commodities for which the cost of cultivation data are available.

### 2.2.1 Effective Protection and Bound Rates

A comparison of the bound rates, applied rates and effective protection for some of the key commodities is exhibited in Table 4. A perusal of the data presented in Table 3 reveals that for a majority of commodities the bound rates of tariffs appear to be prohibitive if they are compared with actual tariffs or with current and past implicit protection. Though, there are significant variations in the effective rates of protection, which are mainly explained by the differences in reference prices used in computations. The main points that emerge from this table are the following.

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the selected commodities in the markets of the important states, which account for a significant share of the output of the selected commodities. And, the period of comparison is the peak marketing season.

[11] We have not estimated the shadow exchange rate but relied on the results of other studies, which put the shadow exchange rate at 20 per cent higher than the official exchange rate during the 1980s (Murty, et al 1992). This adjustment has been carried out for the period from 1986-87 to 1991-92. After 1991-92, the market rate of exchange has been used.

Table 4: Major Agricultural Products – Bound and Applied Rates of Tariffs and Effective Rates of Protection under Importable Hypothesis.

| Product | Tariff Binding (Per cent) | Existing Tariff (Basic duty) (2002-03) (Per cent) | Effective Rate of Protection (Per cent) (1995-96 to 2000-01) | | |
|---|---|---|---|---|---|
| | | | Prevailing International Price | Average International Price during the Period 1980-81 to 2000-01 | Lowest International Price during the Period 1980-81 to 2000-01 |
| Rice | 80 | 70 | -29.30 | -35.66 | 9.00 (10.00) |
| Wheat | 100 | 50 | -37.40 | -40.10 | -19.11 (14.00) |
| Jowar | 80 | 50 | 8.11 | 6.63 | 38.52 (36.00) |
| Bajra | 100 | 50 | -6.88 | -8.56 | 17.94 |
| Maize | 70 | 70 | -12.69 | -13.61 | 15.15(29.00) |
| Barley | 100 | 0 | -14.07 | -12.01 | 13.51 (59.00) |
| | | | | | |
| Gram | 100 | 10 | -22.79 | -22.79 | 14.19 |
| Tur | 100 | 10 | 11.66 | 13.15 | 76.94 |
| | | | | | |
| Groundnut | 100 | 30 | 8.63 | 16.31 | 88.26 (19.00) |
| Rapeseed-Mustard | 100 | 30 | 26.36 | 22.55 | 85.73 |
| Soybean | 100 | 30 | -11.96 | -10.66 | 23.16 (192.00) |
| Sunflower | 100 | 30 | 9.77 | -18.10 | 100.26 |
| | | | | | |
| Groundnut oil | 300 | 85 | 2.57 | 5.97 | 60.54 |
| Rapeseed-mustard oil | 75 | 75 | 63.74 | 74.61 | 156.20 |
| Soybean oil | 45 | 45 | 47.04 | 48.61 | 112.04 |
| Sunflower oil | 300 | 75 | 67.85 | 68.55 | 146.65 |
| Coconut oil | 300 | 85 | 64.78 | 70.73 | 184.88 |
| | | | | | |
| Raw Cotton | 100 | 10 | -41.76 | -37.69 | 5.37 |
| Sugar | 150 | 100 | 17.36 | 26.21 | 66.00 |
| Tobacco | 100 | 30 | -15.62 | 9.34 | 66.06 |
| | | | | | |
| Skimmed Milk Powder | 60 | 60 | 24.61 | 61.28 | 351.89 |
| Butter | 40 | 30 | 19.68 | 53.81 | 204.96 |

Source: Computed.

Notes: Figures in parentheses are with respect to the variable cost of production, the data for which are available for only a few selected products.

(i) For cereals, pulses, raw cotton, sugar and tobacco the bound rates of tariffs are quite prohibitive if they are compared with actual applied tariffs or with current and implicit protection under various alternative scenarios.

(ii) To a large extent this is also true for oilseeds, through there are a few exceptions such as soybean when the variable cost of production in an exporting country is used as a reference price and sunflower when the lowest international price is used.

(iii) In the case of edible oils, almost similar trends were observed. The exceptions in this case include rapeseed-mustard oil and soybean in which case the rates of effective protection were observed to be higher than the bound rates when the lowest international prices used.

(iv) For dairy products also the bounds rates appear to be sufficiently high, but under the extreme situation of very low international prices for an extended period, the implicit protection does work out to be higher than the bound rates.

It emerges from the above that occasionally implicit protection has exceeded the bound rates. Therefore, the bindings in some cases do set a potential upper limit if the conditions, which created high implicit nominal protection during the period under study, were to recur again in the future. In the context of very low international prices for an extended period, however, it is important to bear in mind that these are extreme situations and cannot be used as a basis for tariffs reductions. Normally such situations are best handled through variable levies and special safeguards.

### 2.2.2 Final Levels of Bound Tariffs under Alternative Tariff Cutting Scenarios

Having compared bound rates of tariffs and implicit protection accorded to the major agricultural commodities produced in the country, it would be interesting to know the final levels of tariffs that would emerge after the next round of the implementation period. As mentioned earlier, there are basically three types of scenarios out of which countries will select one for reducing tariffs in the next implementation period.

One of the approaches could be the same linear cut in bound rates, which were used in the last round. Under this the developing member countries will reduce bound tariffs by 24 per cent on an average, the minimum cut being 10 per cent. If this is agreed, then the requirements

of tariff reductions can be easily met by reducing tariffs that are below 100 per cent by 10 per cent and bringing down 150 per cent levels to 100 per cent and 300 per cent levels to 150 per cent, respectively (Table 5).

Table 5: Final Levels of Tariffs under Alternative Tariff Cuts.

| Bound Rates (Per cent) | Uruguay Round Approach (un-weighted 24 per cent cut with 10 per cent minimum) | Uruguay Round Approach (weighted 24 per cent cut) | Capping Maximum Tariff at 100 per cent (10 per cent minimum cut) | 50 Per cent Reduction across the Board | 40 Per cent Reduction across the Board | 10 Per cent cut on Tariffs below 100 per cent and 40 per cent cut on those which are above 100 per cent |
|---|---|---|---|---|---|---|
| 0 | 0.00 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 10 | 9.00 | 7.6 | 9.0 | 5.0 | 6.0 | 9.0 |
| 25 | 22.50 | 19.0 | 22.5 | 12.5 | 15.0 | 22.5 |
| 35 | 31.50 | 26.6 | 31.5 | 17.5 | 21.0 | 31.5 |
| 40 | 36.00 | 30.4 | 36.0 | 20.0 | 24.0 | 36.0 |
| 45 | 40.50 | 34.2 | 40.5 | 22.5 | 27.0 | 40.5 |
| 50 | 45.00 | 38.0 | 45.0 | 25.0 | 30.0 | 45.0 |
| 55 | 49.50 | 41.8 | 49.5 | 27.5 | 33.0 | 49.5 |
| 60 | 54.00 | 45.6 | 54.0 | 30.0 | 36.0 | 54.0 |
| 70 | 63.00 | 53.2 | 63.0 | 35.0 | 42.0 | 63.0 |
| 75 | 67.50 | 57.0 | 67.5 | 37.5 | 45.0 | 67.5 |
| 80 | 72.00 | 60.8 | 72.0 | 40.0 | 48.0 | 72.0 |
| 85 | 76.50 | 64.6 | 76.5 | 42.5 | 51.0 | 76.5 |
| 100 | 90.00 | 76.0 | 90.0 | 50.0 | 60.0 | 90.0 |
| 150 | 100.00 | 114.0 | 100.0 | 75.0 | 90.0 | 90.0 |
| 300 | 150.00 | 228.0 | 100.0 | 150.0 | 180.0 | 180.0 |

Source: Computed.

One of the criticisms of this approach has been that this gives countries the freedom to reduce tariffs on some sensitive items by lower rates as compared to the other items, which is not fair from the point of view of providing increased market access. Thus, members may agree to a weighted reduction, which means that all the bound rates will have to be reduced by 24 per cent by the end of the next implementation period. Such a mechanism will bring down tariffs that are at 10 per cent to 7.6 per cent and those that are at 300 per cent to 228 per cent. This may impose some constraints for a few commodities, the bound rates for which are close

to the applied and implicit protection rates such as soybean oil on which the tariff binding is 45 per cent. This could also become a problem, if more aggressive targets at the rate of 40 to 50 per cent cuts are agreed upon.

The other approach could be a blend or a cocktail approach. The members may agree to cap the maximum ceiling binding at 100 per cent to bring down bound rates that are in excess of 100 per cent. If this is decided, then the commitments of tariff reductions can be met by reducing tariffs that are below 100 per cent by 10 per cent, which would be the minimum cut. Another alternative of this method could be a higher cut (40 per cent across the board) on tariffs that are above 100 and 10 per cent cut on tariffs that are below 100 per cent. These mechanisms will not impose serious constraints on bound tariffs, as the cuts on lower tariffs would be relatively insignificant.

Although, a non-linear reduction such as the use of Swiss formula, which requires higher cut in higher tariffs and is quite effective in reducing tariffs peaks and tariff escalation may impose serious controls on the flexibility granted under the current bound rates. The actual effect of the use of this formula on the bound tariffs, however, depends on the value of the co-efficient used. This coefficient places an upper limit on the permitted tariff (Table 6). In the Tokyo round the upper ceiling was set at 16 per cent for the industrial goods, which is perhaps a very low level to aim at, especially in the case of agricultural commodities keeping in view extremely high levels of the bindings submitted by a majority of countries.

The above analysis shows that if the current provisions of the tariff reductions are to be repeated in the next round, then India can easily meet reduction commitments by reducing higher tariffs by higher margins and lower tariffs by lower margins. Logically speaking, even a tariff level of 100 per cent is prohibitive. Excessively high ceiling bindings militate against the interests of the consumers because producers are organised and are able to lobby for higher tariffs. A very high level of tariffs for some products is not equitable especially when considered in the light of general principles of tariff reform, which emphasise on having low rates, along with reduction of spread or dispersion of tariff rates and eventually to aim for uniformity in tariff rates. Eventually an identical ceiling binding would provide equal protection to all the commodities. As mentioned before, from the efficiency point of view such a tariff will be ideal.

| Table 6: Alternative Levels of Final Tariffs with the Application of Swiss Formula | | | | | | |
|---|---|---|---|---|---|---|
| Levels of Bound Tariffs | Levels of Final Tariffs (Per cent) | | | | | |
| | Coefficient =14 | Coefficient =16 | Coefficient =50 | Coefficient =100 | Coefficient =150 | Coefficient =200 |
| | | | | | | |
| 0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 10 | 5.8 | 6.2 | 8.3 | 9.1 | 9.4 | 9.5 |
| 25 | 9.0 | 9.8 | 16.7 | 20.0 | 21.4 | 22.2 |
| 35 | 10.0 | 11.0 | 20.6 | 25.9 | 28.4 | 29.8 |
| 40 | 10.4 | 11.4 | 22.2 | 28.6 | 31.6 | 33.3 |
| 45 | 10.7 | 11.8 | 23.7 | 31.0 | 34.6 | 36.7 |
| 50 | 10.9 | 12.1 | 25.0 | 33.3 | 37.5 | 40.0 |
| 55 | 11.2 | 12.4 | 26.2 | 35.5 | 40.2 | 43.1 |
| 60 | 11.4 | 12.6 | 27.3 | 37.5 | 42.9 | 46.2 |
| 70 | 11.7 | 13.0 | 29.2 | 41.2 | 47.7 | 51.9 |
| 75 | 11.8 | 13.2 | 30.0 | 42.9 | 50.0 | 54.5 |
| 80 | 11.9 | 13.3 | 30.8 | 44.4 | 52.2 | 57.1 |
| 85 | 12.0 | 13.5 | 31.5 | 45.9 | 54.3 | 59.6 |
| 100 | 12.3 | 13.8 | 33.3 | 50.0 | 60.0 | 66.7 |
| 150 | 12.8 | 14.5 | 37.5 | 60.0 | 75.0 | 85.7 |
| 300 | 13.4 | 15.2 | 42.9 | 75.0 | 100.0 | 120.0 |
| **Source: Computed.** | | | | | | |

For extreme situations, variable import duties or special safeguard is a better mechanism. If the member countries in the next round of the implementation period agree upon larger cuts, in that case some of bound rates may have to be re-negotiated again on equity grounds.

### 3. Tariff Rate Quotas (TRQs)

Under market access commitments in the Agreement on Agriculture (AOA), member countries were are required to maintain current access opportunities and establish minimum access tariff quotas. This minimum access tariff quota was established at reduced tariff rates for those basic products where the current market access was less than 3 per cent of domestic consumption. During the implementation period this minimum access tariff quota had to be raised gradually to 5 per cent of the base period domestic consumption (1986-88). For countries such as India, where all agricultural products were covered under quantitative restrictions (QRs) for Balance of Payment

(BOP) reasons, only ceiling bindings had to be submitted. There were no requirements to establish TRQs.

However, during the re-negotiations to raise zero bound rates India had to grant a few concessions, which led to the establishment of tariff rate quotas for only 5 commodities (Table 7). As the in-quota tariffs for these commodities are low their imports can certainly go up to the agreed limits of tariff rate quotas.

Table 7: Tariff Rate Quotas established for Selected Agricultural Products during the Renegotiations of Tariffs.

| S. No. | Name of the product | TRQ (Metric tonnes) | In-quota Tariff (Per cent) |
|---|---|---|---|
| 1. | Skimmed Milk Powder – in powder granular form of fat content not exceeding 1.5 per cent | 10000 | 15 |
| 2. | Skimmed Milk Powder – not containing added sugar or other sweetening material | 10000 | 15 |
| 3. | Maize (other) | 350000 to 450000 | 15 |
| 4. | Rape, colza or mustard oil, other | 150000 | 45 |
| 5. | Sunflower –seed or safflower oil and fractions thereof | 150000 | 50 |

Source: Government of India (2000), "*Review of WTO Agreement on Agriculture*", Ministry of Agriculture, New Delhi

Therefore, keeping in view the fact that because India has provided minimum market access commitments for only five products, TRQs are not an issue as far as imports are concerned. But, supposing if in the current round of negotiations, countries which do not have minimum market access commitments, are also asked to establish TRQs for all the products. What would be their level? The resulting levels of TRQs for a few selected commodities are shown in Table 8. Obviously, if the base level remains the same as was agreed in the last round (1986-88), the level of TRQs would be lower compared to a base, which is more recent (1996-98).

The calculations also show that the hypothetical levels of TRQs for some of the products are quite high in relation to the quantity traded of these commodities in the world. This includes groundnut oil, liquid milk and to a certain extent rice as well. This implies that

that the establishment of TRQs may become a serious binding constraint keeping in view the thin world markets for these products.

Table 8: Hypothetical values of Tariff Rate Quotas for Selected Agricultural Products.

| Commodity | TRQ at the rate of 3 per cent of 1986-88 domestic consumption (million tonnes) | TRQ at the rate of 3 per cent of 1996-98 domestic consumption (million tonnes) | World Trade in 2000 (million tonnes) | TRQs as a Percentage of Total World Trade | |
|---|---|---|---|---|---|
| | | | | Column 2 as a percentage of column 4 | Column 3 as a percentage of column 4 |
| 1 | 2 | 3 | 4 | 5 | 6 |
| Rice | 1.81 | 2.12 | 23.16 | 7.80 | 9.17 |
| Wheat (Flour) | 1.25 | 1.53 | 129.01 | 0.97 | 1.19 |
| Coarse cereals | 0.58 | 0.50 | 119.30 | 0.49 | 0.42 |
| Gram | 0.02 | 0.04 | 0.74 | 3.14 | 5.37 |
| Milk (liquid) | 0.89 | 1.30 | 6.63 | 13.43 | 19.61 |
| Ghee | 0.01 | 0.01 | 1.30 | 0.54 | 1.09 |
| Mustard oil | 0.04 | 0.08 | 2.70 | 1.49 | 3.02 |
| Groundnut oil | 0.03 | 0.05 | 0.26 | 10.87 | 20.65 |
| Coconut oil | 0.00 | 0.00 | 2.09 | 0.13 | 0.21 |
| Chicken | 0.01 | 0.02 | 8.78 | 0.06 | 0.18 |
| Potato | 0.33 | 0.53 | 7.55 | 4.34 | 6.97 |
| Onion | 0.10 | 0.20 | 3.59 | 2.84 | 5.48 |
| Tomato | 0.07 | 0.16 | 3.74 | 1.86 | 4.16 |
| Sugar | 0.11 | 0.24 | 34.97 | 0.32 | 0.68 |
| Chillies and pepper | 0.02 | 0.02 | 1.33 | 1.23 | 1.23 |
| Tea leaf | 0.01 | 0.02 | 1.48 | 0.82 | 1.23 |

Source: Computed.

From the point of view of exports, the establishment of TRQs has not been beneficial for India because of several problems such as considerable discretion in the administration of quotas, high tariffs on in-quota imports and the application of sanitary and phytosanitary standards. Tariff escalation, Special Safeguards (SSGs), the usage of which is again available to only a handful of member countries, and regional trading arrangements made it very difficult for counties such as India to get a significant market access in the developed country markets.

Take the case of TRQ allocations. There are mainly seven different ways through which the TRQs are allocated. These include methods of - applied tariffs, first-come first-served, license of demand, auctioning, historical relationships, imports through state trading enterprises and imports through producer's groups.

In the first method of **applied tariffs** the imports are allowed in unlimited quantities at the applied tariffs without allocating shares of quotas to importers. In the second method, that is, **first-come first-served**, imports are permitted at the in-quota rates up to the limit specified by the quota and for the quantity, which is above the limit of quota a higher tariff is applied. In the case of **licenses on demand**, licenses are issued based on demand. If the demand for licenses is than the ceiling specified by the quota, the system of distributing licences serves like first-come first served. If the demand exceeds the ceiling set by the quota, the amount is reduced proportionately among all the applicants.

In the case of **auctioning**, either the shares are allocated or licenses are issued through auctioning or a competitive bidding system. In the method of **historical relationships**, the shares are allocated primarily in relation to the past imports of the concerned products. In the other two methods, that is, **imports through state trading enterprises and imports through producer groups**, the rights of imports are granted to a state trading entity in the first case and a group of producers in the second case, which undertake imports.

In addition of these seven methods, countries sometime also use a mixed method, which is a combination of two or more of the above-mentioned methods.

At the aggregate level the use of these methods has undergone a substantial change during the implementation period (Table 9). The main points that emerge from these changes are the following;

(i) Over a period of six years, that is, from 1995 to 2000, the use of applied tariff method for administering TRQs has witnessed a significant decline. In the beginning of the

implementation period this was the most frequently used method of administering TRQs.

(ii) As opposed to the significant decline in the use of applied tariff method the granting of quotas based on historical relationships has emerged as the most commonly used method of granting TRQs. During the year 2000, 60 per cent of all TRQs were allocated to those countries with which the importers had historical relationships.

(iii) Among other methods of administering TRQs, license on demand has also recorded a slight increase during the period from 1995 to 2000. As a consequence of which it has retained its second spot

Table 9: Use of main Tariff Rate Quota Administration methods

| Principal administration method | | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|
| AT | Applied tariffs | 71 | 59 | 61 | 53 | 44 | 29 |
| FC | First-come, first-served | 1 | 3 | 1 | 1 | - | 7 |
| LD | Licences on demand | 28 | 37 | 39 | 35 | 43 | 34 |
| AU | Auctioning | 2 | - | 8 | 10 | 10 | 3 |
| HI | Historical importers | 8 | 22 | 28 | 38 | 38 | 60 |
| ST | State trading | 3 | 3 | 1 | - | 1 | 1 |
| PG | Producer groups | 2 | 2 | 1 | 1 | 1 | 3 |
| OT | Other | 5 | 6 | - | - | - | 2 |
| MX | Mixed methods | 5 | 6 | 9 | 10 | 11 | 11 |
| NS | Non-specified | 3 | 4 | - | - | 7 | - |
| | Excluded [a] | 27 | 13 | 7 | 7 | - | 5 |
| Total sample | | 155 | 155 | 155 | 155 | 155 | 155 |

Source: WTO (2002):"Changes in Tariff Rate Quotas Administration and Fill Rates", A Background Paper by the Secretariate.

The experience with respect to fill rates has also not been very encouraging. The simple average tariff quota fill rates with respect to each of the principal administration methods are shown in Table 10, together with the number of tariff quotas which are included in the calculation of the averages for each category. The simple average fill rates represent the average of the fill rates of all tariff quotas for which data were available. Of the total of 1425

scheduled tariff quotas, fill rates are calculated for 1028, 1081, 1166, 1134 and 849 tariff quotas in the respective years 1995-2000.[12] The data clearly show low levels of fill rates for a majority of quota administration methods barring only a very few exceptions in one or two years.

Table 10: Simple Average Fill Rates of TRQs by Principal Administration Method (1995 to 2000)

| Principal administration method | Simple average fill rates (%) | | | | | | Number of tariff quotas included | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
| Applied tariffs | 71 | 65 | 65 | 70 | 70 | 68 | 489 | 489 | 525 | 502 | 383 | 310 |
| First-come, first-served | 56 | 61 | 47 | 51 | 64 | 60 | 87 | 95 | 144 | 144 | 76 | 51 |
| Licences on demand | 58 | 57 | 54 | 54 | 51 | 51 | 266 | 289 | 277 | 273 | 251 | 236 |
| Auctioning | 26 | 32 | 51 | 34 | 23 | 32 | 39 | 36 | 55 | 43 | 35 | 11 |
| Historical importers | 91 | 77 | 73 | 69 | 63 | 58 | 62 | 79 | 84 | 93 | 60 | 66 |
| Imports by state trading enterprises | 81 | 83 | 90 | 91 | 71 | 72 | 22 | 22 | 20 | 19 | 8 | 8 |
| Producer groups/associations | 74 | 53 | 85 | 78 | 86 | 83 | 8 | 8 | 7 | 7 | 4 | 6 |
| Other | 56 | 61 | 93 | 91 | 99 | 95 | 10 | 11 | 5 | 5 | 4 | 6 |
| Mixed allocation methods | 74 | 83 | 84 | 84 | 73 | 44 | 44 | 45 | 43 | 43 | 23 | 5 |
| Non-specified | 100 | 44 | 57 | 44 | 41 | 86 | 1 | 7 | 6 | 5 | 5 | 1 |
| Overall | 66 | 63 | 62 | 63 | 62 | 60 | 1028 | 1081 | 1166 | 1134 | 849 | 700 |

Source: WTO (2002): Tariff Quota Administration Methods and Tariff Quota Fill, A Background Paper by the Secretariat.

The changes in fill rates following the changes in principal administration methods are summarized in Table 11. The main points that emerge from these changes are the following:

(i) For roughly half of the cases, there was no change in the fill rates.

(ii) Approximately, half the cases of shifts towards applied tariff method led to higher fill rates.

[12] For reasons of consistency among Members, the fill rates have been calculated only up to 100 per cent, i.e. they do not take into consideration "overfilled" tariff quotas. The fill rate is calculated as imports in per cent of the notified volume of the tariff quota. It should be noted, however, that in some cases this notified volume differs from the scheduled quantity. All averages of tariff quota fill rates are calculated as simple averages. Obviously, simple averages have inherent weaknesses, such as masking the differences in terms of quantity and commercial value of the tariff quota product concerned.

| Table 11: Changes in fill Rates due to changes in principal Administration Methods (number of cases) | | | | | |
|---|---|---|---|---|---|
| Change in principal administration method | | Variation of fill rates following changes in principal administration methods | | | |
| From | To | Decrease | Increase | No change | Total |
| AT | LD | 10 | 4 | 6 | 20 |
| | AU | - | 1 | 7 | 8 |
| | HI | 5 | 8 | 5 | 18 |
| | PG | - | - | 2 | 2 |
| AT Total | | 15 | 13 | 20 | 48 |
| FC | AU | 1 | - | - | 1 |
| FC Total | | - | - | - | 1 |
| LD | AT | 4 | 12 | 5 | 21 |
| | FC | - | - | 1 | 1 |
| | HI | 3 | - | - | 3 |
| | PG | - | - | 1 | 1 |
| | OT | - | - | 2 | 2 |
| | MX | 2 | - | - | 2 |
| LD Total | | 9 | 12 | 9 | 30 |
| AU | LD | - | - | 2 | 2 |
| | HI | - | 1 | 7 | 8 |
| AU Total | | - | 1 | 9 | 10 |
| HI | AT | 2 | 2 | 3 | 7 |
| | LD | - | 1 | 2 | 3 |
| | OT | - | - | 1 | 1 |
| | MX | - | - | 1 | 1 |
| HI Total | | 2 | 3 | 7 | 12 |
| ST | LD | - | 1 | 1 | 2 |
| | PG | - | - | 2 | 2 |
| ST Total | | - | 1 | 3 | 4 |
| PG | LD | 1 | - | 1 | 2 |
| | ST | - | - | 1 | 1 |
| | MX | - | - | 1 | 1 |
| PG Total | | 1 | - | 3 | 4 |
| OT | HI | 2 | 3 | 1 | 6 |
| OT Total | | 2 | 3 | 1 | 6 |
| MX | AT | 1 | - | - | 1 |
| | LD | - | - | 3 | 3 |
| | ST | 1 | - | - | 1 |
| MX Total | | 2 | - | 3 | 5 |
| NS | LD | - | - | 1 | 1 |
| NS Total | | - | - | 1 | 1 |
| | | | | | |
| Total number of observations | | 32 | 33 | 56 | 121 |

(iii) On the contrary, only 20 per cent of the shifts towards license on demand led to an improvement in fill rates

(iv) The 35 cases reflecting changes towards the historical importers, suggest that the changes seem to be equally spread between the improvement (34 per cent), deterioration (29 per cent) and stability (37 per cent) of fill rates.

(v) In the case of shifts towards auctions, the level of fill remained unchanged in seventy per cases, dropped in one per cent case, and increased in another case..

These numbers, however, should be interpreted with due caution due to the small sample size as the information relates to only 121 observations, which may not be a representative sample. Further, the establishing a causal link between specific administration regimes and the corresponding fill rates is not easy because a host of other factors may cause fill rates to vary, such as supply and demand factors, inflation, fluctuating domestic or international prices and so on.

**4. Special Safeguards (SSGs)**

Under the AOA's safeguard clause contained in Article 5, SSGs are available for only those countries that have bound their tariff levels using tariffication formulae.[13] And, these can only be used for those products, which were tarrified using the formulae and on imports, which are outside the tariff rate quotas. Currently there are 38 WTO members that have reserved the right to use the special safeguards on 6,072 agricultural products.

This implies that these provisions are not available to the majority of developing countries. The main advantage of SSGs over anti-dumping and countervailing duties is that SSGs can be used without taking much time. On the other hand, to impose anti-dumping and countervailing duties, it has to be established that dumping has actually occurred, there is a threat of material injury and that dumping is the cause of injury. The investigation of all this takes time, therefore, these are not of much use in the agricultural sector.

[13] The gap between the domestic and external reference price during the 1986-88 base period.

The objective of SSG provisions is to allow the use of additional duties over and above bound rates to be applied if certain conditions relating to import surges or declines in external reference prices are met.

However, even in the case of SSGs, quite a few problems have been noticed during the implementation period. Firstly, since price triggered SSGs are used to set additional duties on a shipment-specific basis, it may not be very effective. The reason is that there is an incentive for the exporting firms and importing firms to collude and agree on an invoice price, which is above trigger price. There are two fall-outs – (i) there may be significant rents for private traders and exporting firms, which do not enter into such agreements, may be discriminated against. In addition, under the agreement trigger prices should be equal to the average reference prices during the base period, which in way implies that there should not be any difference between trigger prices and prices used for tariffication. But, trigger prices intended for use by the EU are much higher than the external reference prices, which the EU has used for tariffication.

The positions on SSGs vary from country to country. The USA has questioned the usefulness of these safeguards in the light of high tariff levels and very few instances of triggering these safeguards. New Zealand has challenged the application of price and quantity triggers on the grounds that additional duties have been applied to miniscule quantities of imports and in many cases trigger prices are higher than external reference prices. In addition to this, scepticism has also been expressed due the lack of transparency required by the relevant notifications.

As an alternative it has been proposed that countries may adopt variable import charges, where these charges could be linked to some target variable, i.e., the world price. These import charges could be changed according to fluctuations in this target variable subject to the ceiling of bound rate. However, there are two preconditions - (i) changes in import charges are proportional to the movements in moving average international prices, and (ii) the reference price around which a band is defined should be world price and not some domestic target price different from supply and demand conditions in the market. Through this sort of mechanism, countries may be able to offset variations in import prices by lowering tariffs when price go up, and raising tariffs when prices fall. However, there is lack of clarity in the agreement regarding the legality of price band in the AOA because footnote to Article 4.2 prohibits the use of variable import duties. If this band is considered as an "ordinary customs

duty" it is legal, but if it is considered variable import duty then it is not legal. The current round of negotiations, therefore, should consider these issues related to SSGs and price bands and should appeal for more clarity on these issues.

**5. Importing State Trading Enterprises (STEs)**

As discussed in the case of export 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.

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 import rights and eliminate use of government funds, to establish requirements for notifying costs of acquisition and pricing of imports.

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.

As in the case of export trading enterprises, 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.

## 6. Concluding Remarks

To fulfil the requirements of the providing greater market access to the developing countries the members should aim at farming rules that are beneficial and least damaging to these countries. This can only come about if the developed countries make a down payment by way of bringing down their tariff bindings,[14] domestic support[15] and export subsidies (both in value as well as in volume terms) by 50 per cent in the first year of the implementation period. In addition, provisions must be made provide greater access to developed country markets for all the products that are of interest to the developing countries on MFN basis without any discrimination to all the least and less developed countries, which have a per capita income of below US$ 1000.

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 till the time these countries graduate and their per capita income levels have risen above US$ 1000.

[14] On those items that are of interest to developing member countries, at least.

[15] Domestic support, which is over and above the *de minimus* level.

Further, for the developing countries special exemption provided under Article 27 (read with Annex VII) of the Agreement on Subsidies and Countervailing Measures should prevail over Article 8 of AOA.

The flexibility granted under the S&D treatment of the AOA for the developing countries in the field of market access should be continued and strengthened. Further strengthening should be in the form of greater flexibility in reducing tariffs, particularly on sensitive products to address the concerns of the rural population in this sector for the sustenance of their livelihood and employment.

Extremely low tariff bindings on some of the products in the developing countries, which could not be adjusted in the earlier rounds, should be allowed to be renegotiated keeping in view the bindings for a similar category of products committed during the Uruguay Round. Further, additional flexibility should be provided to the developing countries in reducing tariffs, particularly on sensitive products. In addition to these a safeguard mechanism on the lines of the Special Safeguard provisions (Article 5 of AOA) should be made available to all the developing countries. The need for these provisions arises mainly because of high distortions in world market for agricultural commodities, which continue to plague the world markets.