AGREEMENT ON AGRICULTURE: "WHICH WAY NOW?"

INTRODUCTION

The wheel of life moves on; socio-economic fabrication of a country changes; shades of cultural denominations transforms through transition. But, like basic human values, invariant with progress of science and civilization; basic human needs of food, clothing and shelter can neither be discarded nor be replaced. And here lies in the importance of agriculture.

According to Kuznets, agriculture plays a significant role through - product contribution wherein increase in net output of agriculture results in rise in national product, factor contribution for industrial sector and market contribution by providing a market for purchasing consumer as also capital goods like machineries from other sectors at home or abroad. Thus, agriculture makes it possible for other sectors to emerge and grow, and for international flows to develop.

Although preconditions to take-off require transition from agricultural to industrial economy, developing countries can hardly afford to undermine agriculture. This is specially so when majority of the population in such countries eke out their living through various agricultural and allied activities.

When present policy orientation of every nation rests on "development" paradigm, the need to exchange goods, services, technology etc. between developed and developing nation has been felt necessary. Nullifying Twain's fore vision : "East is East and West is West; never the twain shall meet" , the two ultimately met en route seamless world trade. The journey was initiated through GATT and now moving with WTO.

However, impact of WTO on different sectors of developing nations remains a contentious issue. Agriculture stands at the apex of debate. The world trade in agriculture will no longer be standing at the threshold of liberalized market. Now it has stepped into an era of free competition. Such a situation presupposes dismantling of tariff and non-tariff barriers and reduction of subsidy on agricultural products to reach a liberalised trade regime and enhanced market access as enshrined in the Agreement on Agriculture (AoA) under Uruguay Round of WTO. On one hand, maintenance of food security concern, reluctance in cutting down agricultural subsidies by the developed countries and on the other, pressure on developing countries to reduce their subsidies, ultimately converges into a more dispute-storming environment. This is more so when the agricultural sector of developing countries are more often than not negatively subsidised (considering international price differentials developing nations remain taxed and not subsidised).

WTO AND AOA

"The Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations" under GATT, signed by ministers in Marrakesh on 15 April 1994 embraces agreements on different sectors of an economy. Uruguay Round Agreement on Agriculture found the light of the day in 1995.

The members in the Agreement on Agriculture "Committed to achieving specific binding commitments in each of the following areas: market access; domestic support; export competition".

The Agreement on Sanitary and Phytosanitary Measures and the Ministerial Decision concerning Least-Developed and Net Food-Importing Developing countries also came under the purview of negotiations on Agriculture.

MARKET ACCESS

Article 4 of Agreement on Agriculture provides market access concessions related to bindings and reductions of tariffs, and to other market access commitments. AoA replaces all quotas and other non-tariff barriers into tariff and the process of such conversion is referred to as "tariffication". Here the concept of "tariff-quota" has come in vogue which is explained in Figure 1.

Market access concession is aimed to fulfill the objective of the Agreement "to correct and prevent restrictions and distortions in world agricultural markets" so that developing countries can enjoy enhanced market access.

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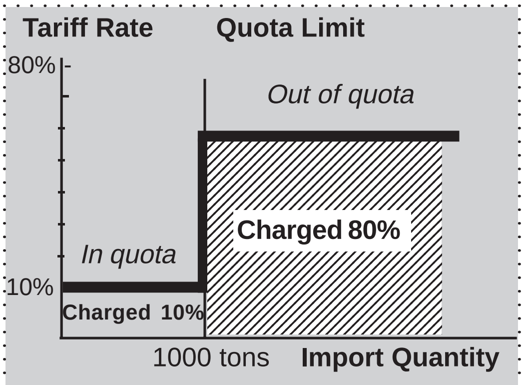
Developing countries do not have to cut their subsidies or lower their tariffs as much as developed countries, and they are given extra time to complete their obligations. The participants in the Uruguay Round agreed that developed countries would cut the tariffs (the higher out-of-quota rates in the case of tariff-quotas) by an average of 36%, in equal steps over six years which would be 24% cuts over 10 years for the developing countries. Least developed countries do not have to cut their tariffs.

DOMESTIC SUPPORT

The policy of domestic support to safeguard the agricultural producers from surging imports or swiftly falling prices has become a convention in more or less every economy all over the world. Such policies of subsidised production encourage over-production which ultimately culminates into low-priced dumping on world markets. Considering this resultant distortion, the Agreement on Agriculture distinguishes between support programmes that stimulate production directly, and those that are considered to have no direct effect.

Figure 1: A tariff-quota

This is what a tariff-quota might look like



Imports entering under the tariff-quota (up to 1,000 tons) are charged 10%. Imports entering outside the tariff quota are charged 80%. Under the Uruguay Round agreement, the 1,000 tons would generally be based on actual imports in the base period or an agreed “minimum access” formula. Tariff quotas are also called “tariff-rate quotas”.

Source: http//www.wto.org

Following the traffic light approach of subsidies in WTO terminology, the AoA contains three boxes - amber (slow down - i.e. support measures related to trade distortion to be reduced), green (no distorting effect on trade and permitted to continue subsidies) and considering more complicated issues of agriculture there is a blue box for subsidies that are tied to programmes that limit production.

Amber Box

As defined in Article 6 of AoA, all domestic support measures including support prices, or subsidies directly related to production quantities which distort production and trade (with some exceptions) and therefore, have to be cut back fall into this box. Such reduction commitments are expressed in terms of a “Total Aggregate Measurement of Support” (Total AMS). Here, “Total AMS” for the agricultural sector covers all support provided on either a product-specific or non-product-specific basis which does not qualify for exemption and is to be reduced by 20 per cent (13.3 per cent for developing countries with no reduction for least-developed countries) during the implementation period.

However, a minimum level of domestic “de minimis” minimal supports of 5% of agricultural production for developed countries and 10% for developing countries are allowed under the Agreement.

Blue Box

This is referred to as “amber box with conditions” - conditions designed to reduce distortion. Any support which would normally be placed in the amber box, is put in the blue box if the support also requires farmers to limit production. This box is mainly applicable for developed nations but not that relevant for developing nations where production-limiting programmes are not generally practiced.

Green Box

Subsidies which do not have any trade distortion impact or at most cause minimal distortion fall under green box. Subsidies and support measures like basic Research & Development, domestic food aid and food security, environmental assistance and regional development programmes etc. fall under this category. These measures must not involve any price support to farmers and instead of charging higher prices from consumers the required fund for subsidies will be provided by the government.

In a nutshell, there exists no limit for “Green box” subsidies, provided they comply with the policy-specific criteria set out in the Agreement.

Needless to say, if the developing nations can reap the benefits of these provisions under “Green box” subsidies properly, it would help them much in developing their domestic agricultural sector. However, it presupposes rigorous implementation of Amber Box policies by the developed countries so that the developing nations can sail the voyage in a truly “fair and market-oriented trading system.”

EXPORT COMPETITION

The negotiations under this area embrace manifold issues like export subsidies, export credits, food aid etc.

Export Subsidies

The commitments for export subsidies implies a phasing out of total budgetary outlays and quantity commitments under export subsidies from the final bound levels. Taking averages for 1986-90 as the base level, developed countries have agreed to cut the value of export subsidies by 36% over the six years starting in 1995 (24% over 10 years for developing countries). Developed countries have also agreed to reduce the quantities of subsidized exports by 21% over the six years (14% over 10 years for developing countries). Least developed countries do not need to make any cuts.

If a country has not specified the agricultural products for export subsidy and if such products are not mentioned in a member’s lists of commitments, that country will not be entitled to avail of such export subsidies.

Export Credits

There is also the proposal to make the subsidy component of any officially supported export credits, export credit guarantee and insurance programmes subject to reduction in line with the reduction of export subsidies.

Food Aid

Participants generally agree (i) that nothing in the WTO should hinder the delivery of food aid in cases of real need (“genuine food aid”), and (ii) that the objective of WTO disciplines in this area is to prevent food aid being used as an instrument of surplus disposal .

SPECIAL AND DIFFERENTIAL TREATMENT

Under Article 15 of AoA the provision for differential and more favourable treatment for developing countries has been specified as “an integral part of the negotiation”. Developing countries have given the flexibility to implement reduction commitments over a period of up to 10 years and under certain conditions are allowed to use subsidies to reduce the costs of marketing and transporting exports. Least-developed country Members shall not be required to undertake reduction commitments.

In Doha Declaration 2001 there exists provision for special and differential treatment for developing countries. The declaration puts special emphasis in enabling developing countries to meet their needs, particularly in food security and rural development.

AoA & DCs - LONG LONG WAY TO RUN

As “power corrupts man”, likewise economic and political El Dorado might have also shaken the roots of ‘level playing field’ principle. Statistical data corroborate the fact that Developed Countries (DCs) prefer more to be preachers than to be followers of Article 20 of the Agriculture Agreement : ‘substantial progressive reductions in support and protection’ through use of subsidies in world trade of agriculture. The rate of agricultural subsidy in DCs is moving north, instead of showing any decline.

It deserves mention here that the DCs pick up those foreign-exchange-invigorating commodities from its trade basket and endow them with greater volume of support which have already win over global market share significantly.

Some more of the supporting facts enunciating how economic world powers, even after their agreement to continue reform process in agricultural trade, with clever manipulation of subsidy reduction commitments has in reality increased the support to farmers are depicted in Box 1. The natural corollary is opening up of risks rather than market size for the developing nations.

WHO WILL BEAR THE BRUNT: IMPACT OF AoA ON DEVELOPING COUNTRIES

The attack on developing countries is mainly two-pronged. The first line of attack comes through insurmountable resistance faced by developing countries in obtaining better world market access in agricultural trade. The second line of invasion is channelised through surging cheap import of the developed countries, thereby creating adverse impact on domestic production as also breeding distorting effect on domestic country’s Balance of Payment and price structure.

The Preamble to the Uruguay Round Agreement of WTO is vibrated with resonating resonance : “ there is need for positive efforts designed to ensure that developing countries, and especially the least developed among them, secure a share in the growth in international trade commensurate with the needs of their economic development.” Here, naturally bobs up the question as to how far the DCs wish to propel up the development momentum of developing nations through fair and unrestricted trade in agriculture? This is specifically so when the developing countries, in general, enjoy comparative advantage in line of export of agricultural products.

A study by the Food and Agricultural Organisation of the United Nations (FAO) reveals that tariff peaks and high import duties continue to block exports from the developing countries.

The present arrangements for Special and Differential Treatment to benefit the developing nations are found to be grossly inadequate. Moreover, the special provisions have hardly been framed up with proper understanding of nature of the soil of concerned developing countries. More surprisingly, 36 developed countries are rigorously imposing special safeguard provisions with clever manipulations showing that agriculture importsare creating distortions in their domestic markets. These countries have used this provision 399 times till 1999.

Veering round to the sanitary and phytosanitary measures under negotiation on agriculture in WTO, the stumbling block faced by the developing countries becomes clearly visible. Sanitary and Phytosanitary Measures is a separate agreement on food safety and animal and plant health standards. Such measures earmark the standard and set out the basic rules ‘only to the extent necessary to protect human, animal or plant life or health.’ There is also special emphasis in the Agreement that there should be no arbitrary or unjustified discrimination between countries having ‘identical or similar conditions’.

Box 1

Australian Trade Minister Mark Vaile mentioned the 10 year $US180billion US Farm Bill as trade distorting saying that “….the sheer size of …. US Farm policy will hurt the farmers around the world – particularly in developing countries.”

Subsidy has increased in the OECD countries since the base year 1986-88 from US $247 billion to US $274 billion in 1998.

In the United States subsidy to mere 9,00,000 farmers has increased by 700 times since 1996.

Switzerland provides 100,000 Swiss Franc subsidies to its mountain farmers per annum, whereas the developing countries are not allowed to offer any differential treatment for their mountainous region.

Canada is breaching the WTO rules as the country still now is providing high subsidy to its dairy products. The issue is raised by its trading partner New Zealand, wherein the latter claims that “Canada’s illegal export subsidies cost New Zealand about US$35 million a year.”

Country	Product	% share of global production	Domestic Support 1995	1998 (in US $)
U.S.	Corn	40%	32 million	1.53 billion
	Soyabeans	50%	16 million	1.27 billion
	Wheat Second largest producer in world	11%	5 per cent to	55 million
	Cotton	largest share in global production	Increase by 900mn during the period	
EC	Common Wheat		Increase by 750mn during the period	
	Sugar		Increase by 550mn during the period	

Source: Implementation of the Agreement on Agriculture:Issues and Options - Biswajit Dhar & Sudeshna Dey

Facts prove otherwise. Cite for gross discretionary and discriminatory policies followed by the DCs where numbers of developing countries allowed to export of fresh, chilled or frozen poultry meat varies from none in Australia, one in Canada and five in US to 15 in EU.

Moreover, modern agricultural Biotechnology also plays an important role in cost structure of agricultural products. Developing countries are disadvantaged, as they have little access to such cost-effective modern technologies and this aspect has not given proper emphasis while reviewing and revising tariff structures.

INDIAN SCENARIO

Agriculture : An Engine of Growth in India

Sustained growth of agricultural production and self-sufficiency in food economy are the sine qua non for overall development in India. Agriculture accounts for nearly 30% of India's GDP and employs over 60% of the workforce. The dependence of majority of Indian population on agriculture is illustrated in Table 1.

Such dependence makes clear manifestation of high positive correlation between sustainable development in Indian agriculture and well-being of majority of the population.

It is worth mentioning here that India has always enjoyed comparative advantage in the agricultural sector. The commendable performance of agricultural sector is also reflected in its low ICOR (Incremental Capital Output Ratio) in comparison to other sectors of the economy (Table 2).

Scoreboard of Subsidies in Indian Agriculture

When the changed trade scene calls for a full assessment of the impact of WTO on all domestic sectors, agriculture commands greater attention in India. The impact of liberalisation of agriculture as a whole and consequences of Agreement of Agriculture on production, price structure and trade in particular needs proper introspection and evaluation from Indian perspective.

India is actually having negative Total Aggregate Measure of Support considering international price effect, implying thereby, there should be no compulsion to reduce tariffs by 13% by 2004.

India does not provide any export subsidies which attract reduction commitments under GATT. The only benefit provided to the agriculture sector in India is exemption from Tax under 80 HHC, which in no way can be classified as a subsidy. For most of the agricultural products also India does not use any of the other subsidies, such as subsidies for marketing costs, freight which are allowed for developing countries. Agricultural subsidies as a percentage of total agricultural GDP stands at the lowest point in India in comparison with some developed countries *(Figure 2)*.

Green Box provisions, encompassing wide fields of expenditure on R&D, domestic Food Aid and assistance for public stocking of food, food security, insurance etc. have also not been fully utilised in Indian agriculture. Neither India has claimed nor utilised Safeguard Measures available to selected developing countries.

Moreover, European Union proposed a new rice regime under which fixed quota for India will be 1.55 lakh tones. Completely at variance with the basic objective of WTO it would benefit US , a substantial supplier of rice to EU, at India's cost.

India was forced to dismantle the quantitative restrictions (QRs) on agricultural commodities and products latest by April 1,2001. The immediate outcome was surging import of cheap and highly subsidised agricultural products like skimmed milk powder, edible oils, sugar, tea, arecanut, apples, coconut etc insulated into the veins of domestic agrarian economy. Only during 1995 to 2000, imports of agricultural commodities and products in India depicted three-fold increase - from about Rs.50, 000 million in 1995 to over Rs.1, 50,000 million in 1999-2000.

Figure 2 : Agricultural Subsidies

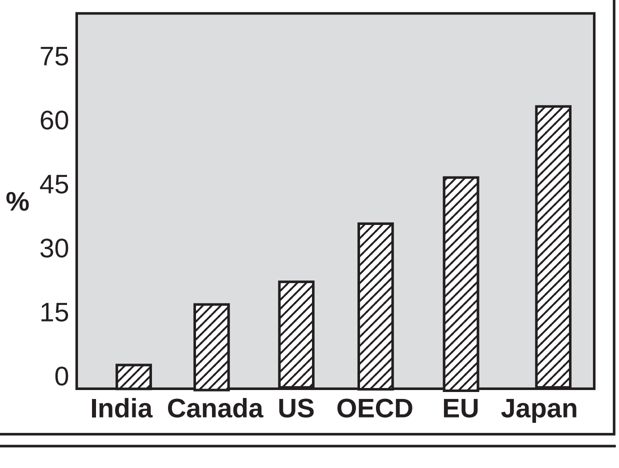


Table 1: Population and Agricultural Workers

(In Millions)

Year	Total Population	Average Annual Exponential Growth Rate(%)	Rural Population	Cultivators	Agricultural Labourers	Other workers	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1981 @	683.3	2.20	523.9 (76.7)	92.5 (37.8)	55.5 (22.7)	96.6(a) (39.5)	244.6 (100.0)
1991+	846.3	2.14	628.7 (74.3)	110.7 (35.2)	74.6 (23.8)	128.8(a) (41.0)	314.1 (100.0)

@ Total and rural population of India in columns 2 and 4 includes population of Assam worked out by interpolation as 1981 Census could not be held in Assam due to disturbed conditions. The data on workers in columns 5-8 exclude Assam.

+ Total and rural population of India in columns 2 and 4 includes the projected population of J & K as 1991 Census could not be conducted in J & K due to disturbed conditions. The data on workers in columns 5-8 exclude J & K.

Note:- Figures in parentheses represnt percentage to the total.

Source: Registrar General of India, New Delhi.

HKH Region : A Special Case Study

Various concessionary clauses under AoA and social and economic fabrication of Hindukush region are self-explanatory to consider this region as “least developed areas”. Accordingly support measures in multilateral trade rules are required for assuring food security and achieving developmental goals in mountain areas of HKH. Herein comes the issue of WTO Agreement on the farmers’ rights to livelihood in the Hindukush Himalayan Region in India.

The problem of market access as also non-availability of seeds are nothing but increasing the plight of the farmers. Liberalisation of agriculture with indiscriminate adoption of chemical fertilisers without judging the nature of the soil becomes completely detrimental.

While the developed countries have erected ingenious mechanisms even under AoA to protect their domestic food economy, the developing countries hardly possess resources to safeguard their mountainous region. In sharp contrary to the vowed AoA, Farmers of HKH region in India face increased trade barriers and reduced market access in exporting products to developed countries. This is coupled with cheap import from developed countries to nip many small and marginal farmers in the bud.

Domestic support measures and special differential treatment provision under AoA hardly finds application in HKH region in India because of resource crunch. Poor infrastructural facilities like transport, telecommunication etc. leaves the agriculture of this region to be “vagaries of nature”.

Where AoA castes a lurid screen of lament

Economic and social well being are intertwined with the chord of equity and social justice. This applies for domestic economy as also against overall global arena. Removal of Quantitative Restrictions and import liberalisation for agricultural products resulting in decline of domestic agricultural commodity prices in India since 1999-2000 are economic phenomenon. But reflected into social fabrication, it had led to a spate of farmers’ suicides in Punjab, Rajasthan, Andhra Pradesh, Karnataka and Kerala.

India is the fourth largest producer of rubber in the world and Kerela alone produces roughly 95 per cent. But now import liberalsation has drastically slashed the price of raw rubber by 33 per cent. Nearly eight lakh small farmers engaged in rubber cultivation are passing through nightmarish conditions. Their onerous burden of debt only promotes suicides.

Table 2 : Structure of Growth and ICOR under Different Sectors of the Economy

Sl. No.	Sector	ICORs		% Share of GDP	
		Eighth Plan	Ninth Plan (4 years)	1996-97	2001-02
1.	Agriculture & Allied Sectors	1.6	6.3	28.5	24.3
2.	Manufacturing	7.1	17.4	18.2	16.8
3.	Electricity, Gas & Water	20.7	19.2	2.4	2.5

Note: These are implicit ICORs calculated over the Plan period.

Source: Planning Commission, New Delhi.

Coconut prices have crashed down from Rs 10 to Rs 2 putting the coconut farmers livelihood at stake. Rubber has plummeted from Rs 60 to Rs 16. Majority of the small and marginal farmers (peasants) are selling their piece of land to corporate or MNC at very nominal prices. This at a time distorts domestic agricultural and rural structure of the economy. Migrantion of these landless farmers into cities is mere tranformation of disguised agricultural unemployment into open urban unemployment.

ALTERNATIVE PATH

Indian agricultural economy is too price uncompetitive in comparison to developed countries. Therefore, domestic reforms in agriculture merits urgent attention. The first and foremost strategy would be institutional reforms in agriculture where land reform measures needs stringent implementation. This will boost private investment in agriculture and make the sector competitive in world economy.

Another element of domestic agricultural reform is diversification of Indian agriculture. Such diversification has to be backed by domestic demand and future export potential. Development of proper infrastructure for agro-processing and creation of product-specific export markets in other countries have become the need of the hour.

Due to complementarity of demand, agriculrure and industry are interconnceted through both forward and backward linkage effects. Here both the sectors create market for one another. The alternative paths, therefore, are to be found out through serious efforts to strengthen the linkages between agriculture and industry and also through evolving a long term comprehensive strategy to counter the non-tariff barriers imposed by developed countries who are ignoring the basic principles of AOA.

CONCLUSION

More one delves deep into the pros and cons of Agreement on Agriculture and traverses through its various articles and commitments accepted by member countries, more one gets perplexed and prostrated. The paradox lies in two sides of the same coin. It is really astonishing to note how DCs simultaneously exploiting and ignoring the principles of AoA andgoing on subsidising and protecting their agricultural economy. Developing countries, endowed with inadequate and insufficient support and concessions, are struggling hard to create a niche in the world market of agricultural product.

Since agriculture enjoys pride of position in most of the developing nations, such elusive flow of "development" trickles down to majority of the population. Vicious circle of poverty starts operating with low purchasing power resulting from low wages and unfavourable terms of trade in agriculture leading to low demand for capital goods, low inducement to invest, low capital formation; all of which culminates into low income and then again to low purchasing power. If "inducement to invest is limited by the size of the market" then opportunity of accessing the world over market is sure to boost up and set the economy to higher and higher growth trajectory.

The "golden path" of development for the developing nations lies in equipping itself with 'efficiency' and 'competitiveness' for making steadfast strides in global markets where India and the developing countries should urge the developed nations to implement their promises under AoA and open up their markets equitably. How long will the developing nations be waiting for sweet smell of success in a free and fair global trade environment?

RECOMMENDATIONS

- There should be a level playing field under Agreement on Agriculture (AoA) wherein the developed and developing nations will enjoy the same benefits of trading. No country should be allowed to play the role of dictator and force least developed or developing nations to be follower only because the former has better bargaining strength out of their economic and political supremacy than the latter.
- There should be provision of some compensatory rules which need to be enacted and implemented stringently for those countries which are making clever manipulations of AoA rules and creating barriers to free market access and fair trade practices.
- The social impact of AoA, specially on developing nations need to be considered carefully. Developing nations should be given special treatment. The implementation of the rules should be taken seriously.
- The exporting commodities in which the developing countries enjoy comparative advantage should be given adequate encouragement so that developing countries can reap the benefit of opening up the economy where developed nations should be provide enhanced market access.
- In India, the marginal and small farmers hardly have the proper and adequate information regarding impact of WTO as a whole and AoA in particular. So, there should be senitisation programmes for farmers and dissemination of knowledge.
- As a special case, the livelihood of the farmers of Hindukush Himalayan Region in India should be given special attention and all support measures should be implemented meticulously keeping in view of the traditional wisdom of cultivation in this area as also providing adequate measures to reap the benefit of trade.

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