

## Agriculture in the WTO: After the Chairman's Text

by Bhagirath Lal Das

### Importance of the Text

The Chairman of the Special Session of the Committee on Agriculture in the WTO brought out a text (the Text) on 17 February 2003 laying down the modalities in agriculture negotiations.<sup>1</sup> A new phase has started in the negotiations on the WTO Agreement on Agriculture (AoA) with this step. Governments are expected to give their comments on this text in the Agriculture Committee. After that, the Chairman will bring out another text in March. The talks on agriculture in the WTO are moving fast from one stage to another. It is important for the developing countries to be fully alert to the dangers arising out of this speed as their own concerns are not taken on board.

Finalization of the modalities is the main part of the negotiations on agriculture; the later exercise will generally consist of arithmetical calculations of figures based on the various percentages agreed in the modalities. What is lost in the negotiations on modalities cannot be retrieved in the later stage of the negotiations on agriculture. Hence the developing countries have to endeavour to ensure that their concerns and proposals are fully incorporated in the text on modalities.

The Chairman's text, however, does not address the basic problems in the trade in agriculture. Also, it does not take into account the basic problems of the developing countries in this area, although it touches upon some of these problems in a superficial and ineffectual manner, as will be explained later.

Some important concepts like strategic products in the developing countries and protection of small farms in the developing countries have been introduced, but the treatment accorded to them is very inadequate, as will also be explained later.

Considering the importance of the Text and its contents, it will not be adequate for the developing countries merely to offer comments and suggest amendments to it. It will be almost impossible to make the Text useful from their angle through comments and amendments. What is really needed is to prepare an altogether new text as an alternative to this Text.

In this connection it is relevant to note the press reports on the recent meeting of some trade ministers in Tokyo. According to these reports, a large number of the ministers thought that the Text was inadequate and it was generally felt that although the Text was a catalyst for thinking and further work, it could not be taken as the basis of further negotiations. This situation should also encourage the developing countries to prepare an alternative text and present it for negotiations.

### Nature of the Text

The Text follows the pattern of the Uruguay Round in treating the three areas addressed in the agriculture trade rules - viz., (i) tariffs, (ii) domestic support and (iii) export subsidies - separately and prescribing percentage reductions in these three areas. It also broadly follows the pattern of the special

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and differential treatment of the developing countries in the Uruguay Round in laying down two-thirds reductions by these countries spread over somewhat longer periods in comparison to the reductions to be undertaken by the developed countries.

Tariffs have been bunched into three levels. The reduction percentages are highest for the highest level, with successively lower percentages for the two lower levels. Tariff rate quotas (TRQ) are enhanced and the increase is to be allocated on a most-favoured-nation (MFN) basis. The Special Safeguard provision will continue to be used for five or seven years (two alternatives have been given).

Half of the export subsidies of the developed countries is to be phased out in five years, while the other half will be phased out in nine years.

The "green box" subsidies (which are listed in Annex 2 of the AoA) will continue and can even be enhanced. Half of the "blue box" subsidies (listed in Article 6.5 of the AoA) will be removed over five years, while the other half will continue indefinitely.

60% of the reducible subsidies will be eliminated over five years. The rest will continue.

A category of "strategic products" for the developing countries has been established. There is also the recognition of two specific problems of the developing countries, viz., (i) food security and rural development and (ii) protection of small family farms.

## Gross Inadequacy of the Text

The Text is grossly inadequate in tackling the main problems in the area of agriculture. These problems are:

(i) the playing field in the international trade in agriculture is highly uneven and distorted, and

(ii) the developing countries, apart from suffering from such unevenness and distortion, have additional handicaps because of their weak economies and heavy dependence of their population on agriculture.

The Uruguay Round did not tackle these problems. The AoA, in fact, enhanced the distortions and handicaps, particularly to the disadvantage of the developing countries. Severe imbalances, deficiencies and inequities exist in this agreement. As new comprehensive negotiations have now been launched in this area, it was expected that the situation would improve. But the Text, following the pattern of the Uruguay Round, totally fails to do that. If the Text has its way, the deficiencies, imbalances and inequities will be further enhanced in the years to come. Hence there is a need for the developing countries to take prompt steps towards corrective action.

The deficiencies, imbalances and inequities in the

AoA have been identified and discussed widely in recent years and have been articulated persistently by the developing countries in the WTO. Their roots lie particularly in the following features of the agreement:

(i) It allows the developed countries to use high export subsidies to boost the export of their agriculture products.

(ii) It allows them to use high domestic support to boost their production and export.

(iii) Their "green box" and "blue box" domestic subsidies are excluded from reduction requirement.

(iv) The provision of Special Safeguard (SSG), which is easier to invoke than the general safeguard of GATT 1994, has been framed in such a way that it can be used mainly by the developed countries. The developing countries, except about nine of them, do not have access to it.

There is no rationale for continuing with the export subsidies in the developed countries. Even if their farmers need some support in production, it cannot be for exporting the products to other countries, which jeopardizes the livelihoods of the farmers in those countries.

The domestic support in agriculture that the developed countries have applied extensively and have even enhanced over the years grossly distorts production and trade. A major part of their domestic support (i.e., the "green box" and "blue box" subsidies) is immune from reduction on the grounds that these are not trade-distorting. It is totally misleading to declare that these subsidies are not trade-distorting. After all, these payments are made to the farmers and not to the other sections of the population. These are not general welfare programmes but specific subsidies to farmers. These payments to the farmers enhance their capacity to continue with non-viable farming. Through the support of the non-reducible subsidies, they are able to sell their agriculture products in domestic and foreign markets at prices far below the cost of production. Enough information is now available on such practices and on the damaging effects of the subsidies of the developed countries on the agriculture of the developing countries.<sup>2</sup>

The major developed countries, while technically fulfilling the commitment to reduce their reducible subsidies, have enhanced the non-reducible subsidies, viz., the "green box" subsidies. The result is that in some countries, the total domestic subsidies are now higher than they were earlier. In this manner, the domestic subsidies have been enhanced instead of reduced. It is the formation of the "green box" category in the AoA which provided this loophole.

Further, the SSG provision, whereby a country can take action to protect its farmers against import surges and price falls without having to prove "injury", is available almost exclusively to the

developed countries. The preconditions are fixed in the AoA in such a manner that just about nine of the developing countries can have access to this provision.

The Text ignores all these basic problems. Inclusion of such deficiencies and imbalances in the AoA was bad enough, but to ignore them now after seven years' experience with the implementation of the AoA and after they have been brought out so starkly in various studies, statements and proposals is really very disappointing.

If the Text is approved, the deficiencies and imbalances in agriculture will continue and may even get enhanced, since it contains similar loopholes for distortion as those in the current agreement. The developing countries will suffer severe problems in the agriculture sector, as the livelihood of a very large section of their population will be threatened and there will be a serious setback to their economy.

To facilitate understanding of the deficiency and inadequacy of the Text, some important specific provisions and their implications are listed below.

(i) It allows the export subsidies of the developed countries to continue for nine years, though at progressively reduced rates from year to year. Half of the export subsidies is to be phased out over five years, and the other half over nine years.

(ii) It allows 40% of the currently applicable reducible subsidies of the developed countries ("amber box" subsidies) to continue for an indefinite period; the rest, i.e., 60%, is to be eliminated gradually in five years.

(iii) It allows the major non-reducible subsidies ("green box" subsidies) to continue and even to be enhanced.

(iv) It allows half of the "blue box" non-reducible subsidies to continue indefinitely; the other half is to be eliminated gradually in five years.

(v) While all these subsidies continue, it asks for very substantial reductions in the tariffs of the developing countries, though the required levels are about two-thirds the levels applicable to the developed countries.

(vi) The tariff-reduction formula entails reduction at higher rates for higher tariffs. But the specific ranges into which the tariffs have been clubbed are such that the developed countries will be required to apply higher reduction rates only in a few products; whereas most of their products will be covered by lower reduction rates. Exactly the opposite will be the case with the developing countries. They will be required to apply higher reduction rates in a very large number of products.

(vii) SSG will continue for the developed countries for 5/7 years.

(viii) SSG will continue to be denied to the developing countries. There is, however, a provision

for SSG for the strategic products of developing countries, but only if there has been normal tariff reduction on these products. Thus the developed countries that had distorted trade by applying non-tariff measures earlier and converted them to equivalent tariffs in the Uruguay Round continue to get the benefit of the SSG, while the developing countries that had not applied such trade-distorting measures earlier and thus did not need to convert such measures to tariffs will continue to be denied the use of SSG.

However, there are some positive features of the Text. These are listed below.

(i) There will be duty-free and quota-free entry for the products of the least developed countries in the developed countries.

(ii) In-quota tariff is eliminated for tropical products, either in primary form or in processed form.

(iii) Tariff-rate quotas have been increased, and the increased quantity will be utilized on an MFN basis.

(iv) A category of products, called strategic products, for the developing countries has been established for food security and rural development. But the benefit is only in respect of lower tariff reduction or use of SSG. The identification of these products is to be made at 6-digit level (of the Harmonized System of product classification), which may put constraints on the composition of the list. Even though a category of strategic products has been established which is a positive feature, the treatment given to this category is grossly inadequate.

(v) Developing countries can apply "green box" subsidies for small family farms. It is a positive provision, but the utility for the developing countries is marginal, as they will hardly have the resources to provide such subsidies.

## Necessary Elements of Modalities

As mentioned above, mere suggestions of improvements and amendments to the Text will not serve the purpose of correcting the imbalances, deficiencies and inequities in this sector, or of attending to the special problems of the developing countries. The Text should have an entirely new structure and new priorities. It is necessary for the developing countries to suggest an alternative text for the negotiations.

As mentioned earlier, the Text maintains the general pattern and methodology of the AoA regarding commitments, which is a defective approach. The broad approach of the alternative text should be to give priority to eliminating the basic deficiencies, imbalances and inequities in this area so as to have a "level playing field". And then, side

by side, effective and enforceable provisions should be introduced for the special and differential treatment of the developing countries.

Some essential elements of an alternative text may be the following:

(i) Export subsidies of the developed countries shall be eliminated totally within one year. Quarterly targets of reduction shall be worked out by the member maintaining such subsidies.

(ii) Export credits of the developed countries shall be treated as export subsidies if the terms are in any manner more favourable than those prevailing in the domestic market.

(iii) The "green box" and "blue box" subsidies of the developed countries shall be subject to reduction commitments.

(iv) Domestic support, including the "green box" and "blue box" subsidies, of the developed countries shall be eliminated within five years. Reduction may be effected uniformly over the five-year period.

(v) The developing countries may apply direct import control measures, including quantitative restrictions on imports, in respect of the products from the developed countries maintaining export subsidies and/or domestic support, until the export subsidies and/or domestic support are eliminated. The process of Article XI of GATT 1994 shall be applicable in respect of the quantitative restrictions.

(vi) The broad principle of higher tariff-reduction rates for higher tariffs may be applied. But the tariff ranges for different rates should be put in such a manner that a large number of the products of the developed countries get covered by higher reduction rates. There should also be a ceiling on tariff peaks of the developed countries, e.g., the tariff on any product shall not be above ( %) of the average tariff on agriculture products in a developed country.

(vii) Tariff-reduction percentages for the developing countries shall be half of those applicable to the developed countries and the period of reduction shall be double that applicable to the developed countries.

(viii) Tariff-reduction commitments of the developing countries shall remain suspended until the export subsidies and the domestic support, including the "green box" and "blue box" subsidies, in the developed countries are eliminated. The period of reduction shall start thereafter.

(ix) A developing country may provide domestic support up to a ceiling of 20% of its agriculture production. This ceiling should be only on the aggregate of the domestic support and not on an individual product.

(x) A developing country may provide export subsidies on a product up to a ceiling of 20% of the export price. Export subsidies on a particular product shall not be continuously applied for more than five years.

(xi) A developing country may select a set of

agriculture products as "strategic products" for food-security and rural-development reasons. The identification of the products should be on 4-digit level (and not 6-digit level as in the Text). A developing country will have the option to select up to 50% of the items in its tariff lines relating to agriculture items and designate them as "strategic products".

(xii) Commitments of the developing countries on tariff bindings and domestic-support limits shall not apply to the "strategic products".

(xiii) A developing country may apply quantitative restrictions on the import of "strategic products". In doing so, the process of Article XI of GATT 1994 shall be followed.

(xiv) A developing country may provide support to small farms. Such support shall not be subject to the ceilings mentioned in item (ix) above.

(xv) A developing country may identify critical products which are particularly grown by small farms. Commitments regarding tariff bindings and domestic support shall not be applicable to such critical products.

(xvi) Developing countries may apply Special Safeguard measures. The measures may be in the nature of higher tariffs or quantitative restrictions. The criteria currently mentioned in Article 5 of the AoA should be modified to make it simpler to take recourse to Special Safeguards. For example, the trigger could just be a minimum rise in the import over the previous year or a maximum fall in the price below the previous year.

(xvii) The current "peace clause" contained in Article 13 of the AoA should continue to be applicable to the domestic support provided by the developing countries.

(xviii) There should be duty-free and quota-free entry of the products of the Least Developed Countries into the developed countries.

## Notes

1. WTO document TN/AG/W/1.
2. Important studies on this aspect have been done by ActionAid, CAFOD, Oxfam, FAO, IATP, etc. Some of the findings have been put together by Martin Khor in his paper "The WTO Agriculture Agreement: Features, Effects, Negotiations, and What is at Stake" (November 2002). This paper also gives calculations to demonstrate that "green box" and "blue box" subsidies cannot be claimed to be non-trade-distorting.

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