

## WTO Agreement on Agriculture and its Implications

### Introduction

The Agreement on Agriculture forms a part of the Final Act of the Uruguay Round of Multilateral Trade Negotiations, which was signed by the member countries in April 1994 at Marrakesh, Morocco and came into force on 1st January, 1995. The Uruguay Round marked a significant turning point in world trade in agriculture. For the first time, agriculture featured in a major way in the GATT round of multilateral trade negotiations. Although the original GATT – the predecessor of the World Trade Organisation (WTO) – applied to trade in agriculture, various exceptions to the disciplines on the use of non-tariff measures and subsidy meant that it did not do so effectively. The Uruguay Round agreement sought to bring order and fair competition to this highly distorted sector of world trade by establishment of a fair and market oriented agricultural trading sector.

The root cause of distortion of international trade in agriculture has been the massive domestic subsidies given by the industrialised countries to their agricultural sector over many years. This in turn led to excessive production and its dumping in international markets as well as import restrictions to keep out foreign agricultural products from their domestic markets. Hence, the starting point for the establishment of a fair agricultural trade

regime has to be the reduction of domestic production subsidies given by industrialised countries, reduction in the volume of subsidised exports and minimum market access opportunities for agricultural producers world-wide. The obligations and disciplines incorporated in the Agreement on Agriculture, therefore, relate to (a) market access; (b) domestic subsidy or domestic support; and (c) export subsidy.

### Salient Features

The Agreement on Agriculture contains provisions in the following three broad areas of agriculture and trade policy:

(a) **Market Access:** On market access, the Agreement has two basic elements:

(i) Tariffication of all non-tariff barriers. That is to say, **non-tariff barriers such as quantitative restrictions and export and import licensing etc. are to be replaced by tariffs to provide the same level of protection.** Tariffs, resulting from this “tariffication” process together with other tariffs on agricultural products, are to be reduced by a simple average of 36% over 6 years in the case of developed countries and 24% over 10 years in the case of developing countries. With India being under balance of payments

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cover (which is a GATT-consistent measure), we had not undertaken any commitments with regard to market access and this has been clearly stated in our schedule filed under GATT. **The only commitment India has undertaken is to bind its tariffs on primary agricultural products at 100%; processed foods at 150%; and edible oils at 300%.**

(ii) The second element relates to setting up of a **minimum level for imports** of agricultural products by member countries as a share of domestic consumption. Countries are required to maintain current levels (1986-88) of access for each individual product. Where the current level of import is negligible, the minimum access should not be less than 3% of the domestic consumption, during the base period and tariff quotas are to be established when imports constitute less than 3% of domestic consumption. This minimum level is to rise to 5% by the year 2000 in the case of developed countries and by 2004 in the case of developing countries. However, special Safeguards Provisions allow for the application of additional duties when shipments are made at prices below certain reference levels or when there is a sudden import surge. The market access provision, however, does not apply when the commodity in question is a 'traditional staple' of a developing country.

(b) **Domestic support:** Provisions of the Agreement regarding domestic support have two main objectives – first to identify acceptable measures that support farmers and second, to deny unacceptable, trade distorting support to the farmers. **These provisions are aimed largely at the developed countries where the levels of domestic agricultural support have risen to extremely high levels in recent decades.**

All domestic support is quantified through the mechanism of total **Aggregate Measurement of Support (AMS)**. AMS is a means of quantifying the aggregate value of domestic support or subsidy given to each category of agricultural product. Each WTO member country has made calculations to determine its AMS wherever applicable. Commitment made requires a 20% reduction in total AMS for developed countries over 6 years. For developing countries, this percentage is 13% and no reduction is required for the least developed countries. The base period external reference price on which the reductions were calculated was 1986-88.

AMS consists of two parts—**product-specific subsidies and non-product specific subsidies**. **Product-specific subsidy refers to the total**

**level of support provided for each individual agricultural commodity, essentially signified by procurement price in India. Non-product specific subsidy, on the other hand, refers to the total level of support for the agricultural sector as a whole, i.e., subsidies on inputs such as fertilisers, electricity, irrigation, seeds, credit etc.**

There are **three categories of support measures that are not subject to reduction under the Agreement, and support within specified de-minimis level is allowed. These three categories of exempt support measures are:**

1. **Measures which have a minimum impact on trade** and which meet the basic and policy specific criteria set out in the Agreement (the so-called **Green Box** measures in the terminology of WTO). These measures include **Government assistance on general services** like (i) research, pest and disease control, training, extension, and advisory services; (ii) public stock holding for food security purposes; (iii) domestic food aid; and (iv) direct payment to producers like governmental financial participation in income insurance and safety nets, relief from natural disasters, and payments under environmental assistance programmes.

2. **Developing country measures otherwise subject to reduction which meet the criteria set out in paragraph 2 of Article 6 of the Agreement (the so-called 'Special and Differential Treatment' or the S&D Box)**. Examples of these are (i) **investment subsidies** which are generally available to agriculture in developing countries; and (ii) agricultural input services generally available to **low income and resource poor** producers in developing countries.

3. **Direct payments under production limiting programme** which conform to the requirement set out in paragraph 5 of Article 6 of the Agreement (the so-called **Blue Box** measures). These are relevant from the developed countries point of view only.

**Under the de-minimis provision of Article 6.4 of the Agreement, there is no requirement to reduce support in this residual category whose value in any year, in the case of product specific support does not exceed 10% for developing countries of the total value of production of the basic agricultural product in question or of the value of total agricultural production in the case of non-product specific support. Where the support is below 10 per cent, as in the case of India, product-specific and non-specific de-minimis ceiling may be raised to those levels.**

## PEACE CLAUSE

The Agreement on Agriculture contains a “due restraint” or “peace clause” (Article 13) which regulates the application of other WTO agreements on subsidies in respect of agricultural products. The Article provides that Green Box domestic support measures cannot be the subject of countervailing duty action or other subsidy action under the WTO Agreement on Subsidies and Countervailing Measures, nor can they be subject to actions based on nullification or impairment of tariff concessions under the GATT. Other domestic support measures which are in conformity with the provisions of the Agreement on Agriculture may be the subject of countervailing duty actions, but due restraint is to be exercised by Members in initiating such investigations. Further, in so far as the support provided to individual products does not exceed that decided in the 1992 marketing year, these measures are exempt from other subsidy action or nullification or impairment action. Export subsidies conforming to the Agreement on Agriculture are subject to countervailing duty actions, but here also due restraint is to be exercised by Members in initiating such investigations. The peace clause remains in effect for a period of nine years from 1995, i.e., the entry into force of the WTO Agreement.

## COMMITTEE ON AGRICULTURE

The Agreement on Agriculture is overseen by the Committee on Agriculture which reviews progress in the implementation of commitments mentioned above. The Agreement also calls for further negotiations to be initiated before the end of the fifth year of implementation. The Agreement is thus coming up for review at the end of 1999.

India has not undertaken any commitments under the Uruguay Round Agreement on Agriculture (AoA) which constrain us from following our developmental policy with regard to agriculture or which entail any action on our side immediately. We would, however, need to study the implications of removal of quantitative restrictions on market access, subsidy to farmers and tariffs on imports. The structure of the Agreement on Agriculture as it exists today seems to be slightly imbalanced, since it enables countries subsidising the agriculture sector heavily to retain a substantial portion of their subsidies upto the end of the implementation period while those countries which were not using these measures earlier are prohibited to use these measures in future beyond the de-minimis limit. We have to find ways to bring about more equity into the structure of the Agreement.

(c) **Export subsidies:** The Agreement on Agriculture lists several types of subsidies to which reduction commitments apply. However, such subsidies are virtually non-existent in India as exporters of agricultural commodities do not get direct subsidy. Even exemption of export profits from income tax under Section 80-HHC of the Income Tax Act is not among the listed subsidies. It is also worth noting that developing countries are free to provide three of the listed subsidies, namely, reduction of export marketing costs, internal and international transport and freight charges.

In general, it may be noted that the virtual explosion of export subsidies in the industrialised countries in the years leading to the Uruguay Round was one of the key issues addressed in the agricultural negotiations. While under

GATT 1947, prohibition of export subsidies for industrial products has been effective since 1956, in the case of agricultural primary products, such subsidies were only subject to limited disciplines which, moreover, did not prove to be operational or effective. As a result, in the 1970s and 1980s, success in international markets for agricultural products was increasingly determined by the financial power and largesse of national treasuries rather than the efficiency and marketing skills of agricultural producers and exporters. Export subsidies also became a major factor in depressing or destabilising world market prices for many agricultural commodities. The Uruguay Round marked a radical departure from the earlier GATT disciplines in the areas of agricultural export subsidies. Members are required to reduce the value of direct export

subsidies to a level of 36% below the 1986-90 base period level over a six year implementation period. The quantity of subsidised export is to be reduced by 21% over the same period. In the case of developing countries, the reductions are two-thirds those of the developed countries over a ten-year period and there are no reductions for least developed countries. Under the Agreement, export subsidies are defined as “subsidies contingent on export performance” and the list covers export subsidy practices such as direct export subsidies contingent on export performance; sales of non-commercial stocks of agricultural products for export at prices lower than comparable prices for such goods in the domestic markets; producer-financed subsidies such as government programmes which require a levy on production which is then used to subsidise the export of the product; cost-reduction measure such as subsidies to reduce marketing costs for exports including handling costs and costs of international freight; internal transport subsidies applying only to exports; subsidies on incorporated products i.e., subsidies on agricultural products such as wheat contingent on their incorporation in export products made of wheat etc. All such export subsidies are subject to reduction commitments in terms of both the volume of subsidised export and budgetary outlays for such subsidies. As indicated earlier, such measures are virtually non-existent in India and, hence, the issue of reduction of export subsidy on agricultural products is not of particular relevance for India.

### **Product coverage**

The Agreement defines agricultural products by reference to the harmonised system of product classification. The definition covers not only basic agricultural products such as wheat, milk and live animals, but the products derived from them such as bread, butter, other dairy products and meat, as well as all processed agricultural products such as chocolates and sausages. The coverage includes wines, spirits and tobacco products, fibres such as cotton, wool and silk, and raw animal skins destined for leather production. Fish and fish products are not included nor are forestry products.

### **Implementation period**

The implementation period for the country-specific commitments is the six-year period commencing in 1995. However, developing countries have the flexibility to implement their reduction and other specific commitments over a period of upto 10 years. Members had the choice of implementing their concessions and commitments on the basis of calendar, marketing (crop) or fiscal years. A WTO Member's implementation year for tariff reduction may thus differ from the one applied to export subsidy reductions. For the purpose of the 'peace clause' the implementation period is the nine-year period commencing in 1995.

### **Implications of the Agreement**

Implications of the Agreement would differ from country to country and would depend largely on the overall agricultural scenario in the country. Indian agriculture is characterised by a preponderant majority of small and marginal farmers holding less than two hectares of land, less than 35.7% of the land, is under any assured irrigation system and for the large majority of farmers, the gains from the application of the science & technology in agriculture are yet to be realised. Farmers, therefore, require support in terms of development of infrastructure as well as extension of improved technologies and provisions of requisite inputs at reasonable cost. India's share of world's agricultural trade is of the order of 1%. There is no doubt that during the last 30 years, Indian agriculture has grown at a reasonable pace, but with stagnant and declining net cropped area it is indeed going to be a formidable task to maintain the growth in agricultural production. The implications of the Agreement would thus have to be examined in the light of the food demand and supply situation. The size of the country, the level of overall development, balance of payments position, realistic future outlook for agricultural development, structure of land holdings etc. are the other relevant factors that would have a bearing on India's trade policy in agriculture.

Implications of the Agreement on Agriculture for India should thus be gauged from the impact it will have on the following:

- i) Whether the Agreement has opened up markets and facilitated exports of our products; and
- ii) Whether we would be able to continue with our domestic policy aimed at improving infrastructure and provision of inputs at subsidised prices for achieving increased agricultural production.

### **Implications - Short Term**

As far as opening of markets and **impact on trade in agriculture** is concerned, it may be noted that the share of developing countries in world exports of food remained at 44% and of agricultural raw materials increased insignificantly from 32% in 1994 to 34% in 1996, that is the post-Agreement period. The average growth of developed countries imports of agricultural products increased by just 1% during 1994-96. Nearer home, agricultural exports of ten Asian developing countries increased from US \$ 49252 million in 1994 to US \$ 55902 million in 1996. India's share in total agricultural exports from developing Asia is 8%, behind China's 19%, Thailand's 17%, Malaysia's 14% and Indonesia's 10%. India's exports of agricultural products have increased from US \$ 4151 million in 1993-94 to US \$ 7054 million in 1997-98. No tangible opening up of the markets has thus been noticed

in the post-Agreement period so far. However, it may be premature on this basis to assess the long-term impact of the Agreement on opening up of markets.

**Regarding freedom to pursue our domestic policies, it is quite evident that in the short term India will not be affected by the WTO Agreement on Agriculture. The safeguards** provided for developing countries give enough manoeuvre to insulate ourselves from any major impact of trade liberalisation in agricultural commodities.

India has been maintaining quantitative restrictions (QRs) on import of 825 agricultural products as on 1.4.97. **QRs are proposed to be eliminated** within the overall time frame of six years in three phases – 1.4.97 to 31.3.2003. (All our trading partners barring the US have agreed to this phase-out plan and dispute with the US is pending with Dispute Settlement Body of WTO for adjudication). Within the provisions of the GATT Agreement India has bound tariffs at high levels of 100%, 150% and 300% for primary products, processed products and edible oils respectively. **Therefore, the QRs can be replaced with high import tariff in case we want to restrict imports of these commodities.**

In India, for the present, the minimum support price provided to commodities is less than the fixed external reference price determined under the Agreement. Therefore, the AMS is negative. Theoretically, therefore, we could increase the product-specific support upto 10%, the only restraint being the fiscal sustainability in the country's context.

#### **Implications - Long Term**

As mentioned earlier, for a large majority of farmers in different parts of the country, the gains from the application of science and technology in agriculture are yet to be realised which would require infrastructural support, improved technologies and provision of inputs at reasonable cost. The Agreement on Agriculture thus recognised this and **developing countries have been given the freedom to implement such policies** under Article 6 relating to differential treatment, but any attempt in future to dilute provisions relating to differential treatment for developing countries could affect us adversely.

Regarding the **impact of liberalisation of trade in agriculture** in the long term, Indian agriculture enjoys the advantage of cheap labour. Therefore, despite the lower productivity, a comparison with world prices of agricultural commodities would reveal that domestic prices in India are

considerably less with the exceptions of a few commodities (notably oilseeds). Hence, imports to India would not be attractive in the case of rice, tea, sunflower oil and cotton. On the whole, **large scale import of agricultural commodities as a result of trade liberalisation is ruled out.** Even the exports of those foodgrains which are cheaper in the domestic market, but are sensitive from the point of view of consumption by the economically weaker sections are not likely to rise to unacceptable levels because of high inland transportation cost and inadequate export infrastructure in India. Through proper tariffication, however, we will have to strike a balance between the competing interest of 10% farmers who generate marketable surpluses and consumers belonging to the economically poor sections of the society.

It is also argued that because of increasing price of domestic agricultural commodities following improved export prospects, farmers would get benefits which in turn would encourage investment in the resource scarce agricultural sector. With the decrease in production subsidies as well as export subsidies, the international prices of agricultural commodities will rise and this will help in making our exports more competitive in world market. Given our agro diversity, we have the potential to increase our agro exports in a substantial way. In the words of Shri A.V. Ganesan, "There will be growing pressure from the farmers to realise higher prices for their produce and to narrow the gap between the domestic and external prices. Our industrialists are pressing for a 'level playing field' vis-a-vis foreign enterprises; our farmers will press for a 'level playing field' for the prices of their products vis-a-vis international prices. Both the pattern of production and price expectations will increasingly be influenced by the demands and trends in world markets. On the one hand, the price incentive could be the best incentive and could give a strong boost to investment in agriculture as well as adoption of modern technologies and thereby to the raising of agricultural production and productivity. On the other hand, the rise in domestic prices would put pressure on the public distribution system and accentuate the problem of food subsidy. Furthermore, freedom to export agricultural products without restrictions will also need shedding the long-nurtured inhibition against their imports. The nature and character of State intervention and State support will have to undergo qualitative changes in order not only to realise the opportunities for exports, but also to cope with the implications of our agriculture coming into increasing alignment with the international market place".

# Review of WTO Agreement on Agriculture : Likely issue for negotiations

The Agreement on Agriculture, entered into by WTO Member Countries in 1995, would be coming up for review at the end of this year. The full text of the Agreement is available on website address [www.wto.org/wto/legal/finalact.htm](http://www.wto.org/wto/legal/finalact.htm). Article 20 of the Agreement on Agriculture (AoA) points the way to further negotiations on agriculture. As a run up to the same, the WTO Committee on Agriculture has instituted a process of analysis and information exchange wherein informal papers are presented by various member countries highlighting implementation problems as well as areas of the agreement which need amendment, modification and further clarity.

While Article 20 mandates further negotiations, there is neither a fixed agenda nor a timetable for the same, which could probably mean that this process would simply be the beginning which could last for some years. These negotiations may cover several issues depending upon the position of different groups of countries.

The Agreement on Agriculture contains provisions in following three broad areas of agriculture and trade policy:

**a) Market access** envisages tariffication of all non-tariff barriers (that is removal of quantitative restrictions and export and import licensing).

**b) Domestic support** measures or subsidies are disciplined through reduction in the total Aggregate Measurement of Support (AMS) and area of export subsidies is also a trade concern for India as these measures affect the export of developing countries, rendering them uncompetitive when compared to subsidised exports of the developed countries. Further, they also result in distorting the world prices of agricultural commodities and thereby adversely affecting those developing countries which are net importers of foodgrains.

## Likely Issues for negotiations

1) “**Non Trade Concerns**” include food security and the need to protect the environment. India is particularly concerned with the issue of food security which involves not only access to food but also adequate supply of food and stability in its supply.

**In India’s paper presented to the Committee on Agriculture, we have argued for additional flexibility by appropriate adjustments to the provisions of the Agreement on Agriculture, in order to enable us to pursue our legitimate non-trade concerns. India believes that a focussed discussion on the subject will contribute to increased awareness to the non-trade concerns of countries like India, such as food security and rural employment, and thus enable the WTO Members to deal with the subject of continuation of the reform process in the agriculture sector with sensitivity to these concerns.**

2) Another area which needs to be flagged relates to implementation problems particularly in the area of domestic support. There are several problems relating to **Aggregate Measurement of Support**. India’s notifications on AMS are available at website address [www.wto.org/wto/online/ddf.htm#G/AG/N/IND/1](http://www.wto.org/wto/online/ddf.htm#G/AG/N/IND/1). There are problems of systematic calculation. Likewise, there is no clarity regarding treatment of negative Aggregate Measurement of Support and “eligible production”. There are also some genuine mistakes in certain calculations arising out of mistakes in base period prices, currency rates etc. With regard to the Aggregate Measurement of Support, the options that may be considered are as follows:

- Set product-specific AMS as compared to total AMS
- Further sharp reduction in de-minimis limits
- Allow developing countries to recalculate AMS/revise schedules

- Raise de minimis levels
- Even higher de minimis for basic foodstuffs
- Exempt strictly food security measures
- Correct/clarify methodological problems

3) **The special and differential treatment** accorded to developing countries under the Uruguay Round is another area for concern. These special provisions, designed to take into account the constraints faced by many developing countries in taking advantage of trading opportunities due to structural problems, inadequate infrastructure, lack of resources etc. have not yielded the desired results in implementation of the Agreement. **It is felt that the existing imbalance and problems of implementation of the Agreement should be a high priority item in the next round.**

4) The Agreement also mandates a further **reduction of bound tariffs** which could take the modality of either 'across the "board" or "border" tariff reduction or the use of a formula to cut higher tariffs at greater rates and negotiating a ceiling on agricultural tariffs'.

5) There is also need to clarify and strengthen certain existing provisions of the Agreement on Agriculture which allow a certain degree of flexibility in the application of border and domestic and stabilisation measures. This pertains to the operation of the **Special Safeguard Clause (SSG)** of the Agreement on Agriculture. The special safeguard provisions allow the imposition of an additional tariff where certain criteria are met. The criteria involve either a specified rapid surge in imports (volume trigger), or, on a shipment by shipment basis, a fall of the import price below a specified reference price (price trigger). In case of the volume trigger, the higher duties only apply until the end of the year in question. In case of the price trigger, any additional duty can only be imposed on the shipment concerned. The additional duties cannot be applied to imports taking place within tariff quotas.

Members have the right to invoke for tariffied products special safeguard provisions of the Agreement on Agriculture. The right to make use of the special safeguard provisions has been reserved by 36 Members and for a limited number of products in each case. Since access to

the SSG is not universal, either in terms of product or countries, views on its continuation in the Agreement on Agriculture are solicited.

**India favours universal accessibility to the special safeguard clause since this was denied to most developing countries on account of the fact that it was linked to the tariffication process.**

6) The future of State Trading Enterprises in a multilateral system would also be an important subject for review in the forthcoming negotiations.

7) Operation of non-tariff barriers in the name of **Sanitary and Phytosanitary Standards (SPS)** is also going to form an important issue in the review of the Agreement. With progressive reduction of high tariffs, concern has been expressed regarding the increasing propensity of a number of countries to use Sanitary and Phytosanitary Standards to restrict exports from developing countries.

India has been articulating its concern with regard to the non representativeness of the international Sanitary and Phytosanitary Measures which are framed by developed countries without taking into account the peculiar needs and situation prevalent in the developing countries. The developing countries in particular are directly affected by such partisan and impractical standards, since they not only restrict market access, thereby acting as non-tariff barriers, but also involve high costs of achieving impractical and unrealistic standards. The special dispensation for developing countries envisaged in the SPS Agreement should be translated into reality by Members. This could be given effect to not only by providing a longer transitional period so as to enable the developing and least developed countries to integrate themselves effectively into the multilateral trading system, but also by providing them with a level playing field through adequate technical assistance on fair and reasonable terms.

8) Another contentious issue is administration of **tariff rate quotas**. The administration of tariff rate quotas can take place in various ways. These include entrusting import exclusively to State Trading Enterprises or producer

organisations; auctioning of tariff quotas; limitations on imports of particular products under broadly defined tariff quota commitments (broad banding); making imports under tariff quotas conditional on absorption of domestic production of the product concerned. Several defects are noticed in administration, such as allocation to preferential suppliers and to non-members; low fill rates and problems in monitoring of administration of tariff rate quotas. **The modalities with regard to administration of tariff rate quotas need to be ascertained.**

9) There are certain support measures which are exempt from reduction commitments and have been enumerated in what is popularly known as the “green box”. This is so since these measures have “no, or at most minimal, trade distorting effects on production” and do not have the effect of providing price support to producers. Examples of such measures are Government expenditure on **agricultural research; pest control; inspection and grading of particular product; marketing and promotion services etc.; financial participation by Government in income insurance and income safety net programmes; payment for natural disasters; structural adjustment programmes; payments under environmental programmes; payments under regional assistance programmes; public stock holding for food security (PDS) and domestic food aid programmes.**

The Green Box also provides for the use of direct payments to producers which are not linked to production decisions. i.e. although the farmer receives a payment from the Government, this payment does not influence the

type or the volume of agricultural production. It is thus, **“decoupled”**. **A review of the measures listed under the Green Box, which may require a tightening of criteria or re-classification may also be examined.**

10) There could be likely pressure of re-negotiations of the **“Peace Clause”** i.e. Article 13 of the Agreement on Agriculture. The Agreement on Agriculture contains a “due restraint” or “peace clause” (Article 13) which regulates the application of other WTO agreements to subsidies in respect of agricultural products. The Article’s provisions provide that Green Box domestic support measures cannot be the subject of countervailing duty action or other subsidy action under the WTO Agreement on Subsidies and Countervailing measures, nor can they be subject to actions based on non-violation, nullification or impairment of tariff concessions under the GATT. Other domestic support measures which are in conformity with the provisions of the Agreement on Agriculture may be the subject of countervailing duty actions, but due restraint is to be exercised by Members in initiating such investigations. Further, in so far as the support provided to individual products does not exceed that decided in the 1992 marketing year, these measures are exempt from other subsidy action or nullification or impairment action. Export subsidies conforming to the Agreement on Agriculture are subject to countervailing duty actions, but here also due restraint is to be exercised by Members in initiating such investigations. **The peace clause remains in effect for a period of nine years from the entry into force of the WTO Agreement.**

*(Text of papers circulated by India in the WTO -II)*

## FOOD SECURITY - AN IMPORTANT NON-TRADE CONCERN

The objective of the Agreement on Agriculture (AoA) was to bring about discipline in one of most distorted sectors of trade by inter alia disciplining the unrestricted use of production and export subsidies, as well as by reducing import barriers, including non-tariff barriers. Thus, the AoA sought to limit the extent of support granted by individual countries and attempted to ensure that countries adopt a more liberal policy as far as agricultural trade was concerned. At the same time, as indicated in the preamble, the AoA recognized non-trade concerns (NTCs) of countries. These NTCs amongst others, included food security and the need to protect the environment.

2. However, this fine balance between trade and non-trade concerns, as mandated in the preamble does not appear to have been fully reflected in the provisions of the Agreement and consequently in its implementation. The major thrust of the Agreement appears to be based on the hypothesis that liberalisation is the panacea of all ills in the agricultural sector. While this may be tenable from a conventional economic view point, such reasoning does not take into account the problems faced by a number of developing countries, which because of certain underlying constraints, have to necessarily take into account non-trade concerns such as food security, while formulating their domestic policies. This is particularly true of developing countries where a significant percentage of the population is not only dependent on the agricultural sector for its livelihood, but is also surviving just around the 'poverty line'. In such countries a purely market oriented approach may not be appropriate. Instead, for some countries, it may be necessary to adopt, what we would like to term a 'market plus' approach, in which non-trade concerns such as maintenance of the livelihood of the agrarian peasantry and the production of sufficient food to meet domestic needs are taken into consideration. We, therefore, feel that at this juncture it is important to closely examine this aspect of the AoA, so as to ensure that the reform process in the agriculture sector takes into consideration the food security and other non-trade concerns of countries like India.

3. Ensuring food security, that is the access of the population to sufficient food to meet its nutritional requirements is a basic objective of governmental policies in agrarian developing countries. Hence, food security issues cover not only issues related to the availability and stability of food supplies but also to issues of access to this supply i.e., related to the resources that may be needed to procure the required quantity of food. It is, therefore, clear that issues related to food security are sensitive issues and hence countries in which a large percentage of population is dependent on this sector, would like to have a certain degree of autonomy and flexibility in determining their domestic agricultural policies. These policies would naturally be geared towards improving productivity, enhancing income levels, reducing vulnerability to market fluctuations, ensuring stability of prices etc. Inter alia this would be achieved through reliability of production and supplies, so that seasonal variations in access to food are minimal. It is for this reason that national production policies have been central to domestic agricultural policies, not just for developing countries, but also for the developed countries who are net importers of food, as has been brought out in the papers recently submitted by Norway and Japan. It is, therefore, clear that in this sense food security is a legitimate national concern and has been so recognised by the FAO. In fact, during the World Food Summit of 1996 "the importance for food security of sustainable agriculture, fisheries, forestry and rural development in low and high potential areas" was explicitly recognised. This recognition of the importance of food security even for low potential area clearly underlines a developmental perspective which goes beyond mere trade concern, and is therefore, germane to the outlook and interest of developing countries.

4. Let us, therefore, examine both the external and internal dimensions of this problem particularly from the perspective of developing countries.

5. Countries which argue and support rapid liberalisation of the agricultural sector, contend that global food sufficiency would in a way ensure food security since countries could then produce what they are most competent and efficient in while importing the rest of

their food requirements. Such an argument presupposes that all countries would at all times have sufficient foreign exchange to procure their food requirements internationally. This assumption is obviously not true since not all developing countries would be in a position to import foodgrains even if these were available at competitive prices, due to their limited foreign exchange reserves. Moreover, these countries often face cross sectoral pressures on their available funds, which further limits their capacity to procure internationally. This problem is further compounded in case there are unforeseen variations in the international prices.

6. Similarly, there are various internal constraints which, if not appropriately addressed, would severely limit the capacity of developing countries to increase domestic production to at least a certain minimum percentage of their requirement. Firstly, holdings are small and the majority of farmers belong to the small and marginal category. This limits any attempts to introduce mechanised farming and also constrains the adoption of new technologies unless accompanied by large scale extension programmes. Consequently, the productivity is low and the total production varies substantially, since a large percentage of the agricultural sector continues to be at the mercy of the vagaries of nature. Further, only a small percentage of what is produced finds itself in the market, the rest being used by the small and marginal farmers for sustenance or for simple barter. At the same time, there is increasing pressure on land from non-agricultural users, both because of the rising level of urbanisation as also because of the geographic spread of industries. If this limitation on the availability of agricultural land is viewed in the context of the growth in populations, which most of the developing countries invariably face, it would be clear that the only way in which agricultural growth can be sustained and the objective of food security attained, would be through increased governmental support in the use of inputs, particularly in terms of irrigation, electricity, fertilisers, pesticides, technical know-how, high yielding varieties, infrastructural development, market support etc.

7. It is, therefore, clear that there are significant external and internal ramifications of attaining the objectives of food security. While it may not be possible to immediately ensure that developing countries are able to produce at least a certain minimum percentage of their annual food requirement, this is a goal which has to be pursued,

particularly in light of the constraints that developing countries would face in adopting an external solution to this problem. Recognising the percentage of small farmers in the agricultural sector of most developing countries it is clear that a major part of the financial burden of increased inputs would have to be met through government subsidies. It would need to be recognised that the small farmer would not be able to meet his principal responsibility without adequate support from government. Public intervention would, therefore, be necessary in order to achieve these national goals.

8. Finally, it needs to be said that agricultural self reliance forms a vital underpinning for the growth of the GDP of agrarian developing economies since good agricultural production provides purchasing power to a large majority of a population, which in turn spurts industrial growth. Self-sufficiency in food production has, therefore, specific developmental perspective as opposed to a purely commercial perspective. Hence, it is our view that developing countries need to be provided the requisite flexibility within the AoA to pursue their legitimate non-trade concerns. More specifically, developing countries need to be allowed to provide domestic support in the agricultural sector to meet the challenges of food security and to be able to preserve the viability of rural employment, as different from the trade distortive support and subsidies presently permitted by the Agreement. It is, therefore, important that a differentiation is made between such domestic support measures which are presently being used to carve out a niche in the international trade and between those measures which would allow developing countries to alleviate rural poverty.

9. India is anxious that the AIE (Analysis and Information Exchange) process must, therefore, examine the manner in which developing countries can be provided additional flexibilities by appropriate adjustments to the provisions of the AoA, in order to enable them to pursue their legitimate non-trade concerns. India believes that a focussed discussion on the subject will contribute to increased awareness about the non-trade concerns of countries like India, such as food security and rural employment, and thus enable the WTO Membership to deal with the subject of continuation of the reform process in the Agriculture sector with sensitivity to these concerns.

(Dated 16 Nov., 1998)

## Q & A WTO Agreement on Agriculture

**Q. 1. What are the main features of the WTO Agreement on Agriculture which are of concern to India?**

**Ans.** The main features of the WTO Agreement in Agriculture which are of concern to India are:

- i) India has been maintaining Quantitative Restrictions (QRs) on import of 825 agricultural products as on 1.4.1997. Under the provisions of the Agreement, such Quantitative Restrictions will have to be eliminated. India has sought to remove them in three phases within an overall time frame of six years upto 31.3.2003. These Quantitative Restrictions will have to be replaced with appropriate tariffs.
- ii) The Agreement also imposes constraints on the level of domestic support provided to the agricultural sector. In India's case, it may have in future some implications on minimum support prices given to farmers and on the subsidies given on agricultural inputs. However, the Agreement allows us to provide domestic support to the extent of 10% of the total value of agricultural produce.
- iii) Disciplines on export subsidy do not affect us as India is not providing any export subsidy on agricultural products.
- iv) The Agreement allows unlimited support to activities such as (i) research, pest diseases control, training, extension, and advisory services; (ii) public stock holding for food security purposes; (iii) domestic food aid; and (iv) Income insurance and food needs, relief from natural disasters and payments under the environmental assistance programmes. Moreover, investment subsidies given for development of agricultural infrastructure or any kind of support given to low income and resource poor farmers are exempt from any commitments. Most of our major rural and agricultural development programmes are covered under these provisions. Therefore, the Agreement does not constrain our policies of investments in these areas.

**Q. 2. Does the Agreement impinge on our domestic policy of giving of subsidy to agriculture and also, will it affect the operation of our Public Distribution System in any manner?**

**Ans.** The Agreement neither circumscribes ability to pursue the domestic policies of giving subsidy to

agricultural sector, nor does it affect the operation of our public distribution system in any manner. The non-product specific support calculated in terms of the Agreement in 1995-96 was 7.52% of the total value of production against 10% allowed under the Agreement. Public Distribution System is exempt from any discipline as it is covered under 'public stock holding for food security purposes' and 'domestic food aid' clauses of the Agreement which provide such exemption from any commitments in this regard.

**Q. 3. On how many agricultural items are Quantitative Restrictions (QRs) being maintained in India at present?**

**Ans.** India has been maintaining Quantitative Restrictions on imports of 825 agricultural products as on 1.4.1997. These Quantitative Restrictions are now being gradually removed. India has undertaken to remove Quantitative Restrictions on all products in three phases spread over six years upto 31.3.2003.

**Q. 4. What are the safeguard measures that can be taken to protect the interests of our agricultural sector once QRs are phased out?**

**Ans.** India has already reserved the right to impose high levels of import duties of 100%, 150% and 300% on primary products, processed products and edible oils respectively. The Quantitative Restrictions can easily be replaced with high import tariffs in case there is need to restrict import of these commodities for ensuring welfare of our farmers. Therefore, ability to restrict import of any commodity is not constrained in any manner by the provisions of the Agreement.

**Q. 5. What are the prospects and opportunities for increasing agricultural exports from India as a result of the WTO Agreement on Agriculture?**

**Ans.** It is expected that reduction in export subsidy and domestic support to the agricultural sector by the developed countries may lead to a decrease in production in those countries and, therefore, will give scope for expansion of exports from the developing countries. India, with its cheap labour, diverse agro-climatic conditions and large agricultural sector can definitely gain through expansion of international trade in agricultural products. However, the concerns relating to quality of products for seeking markets in the advanced countries needs to be addressed on an urgent basis.

*(Source : Ministry of Agriculture)*

# Glossary of terms      Agriculture

- AoA:** Agreement on Agriculture, which formed part of the Uruguay Round Agreement signed by member countries including India in April 1994 and became operational with the establishment of the WTO from 1st January, 1995.
- AMS:** Aggregate Measurement of Support. This is a means of quantifying the aggregate value of domestic support or subsidy given to each category of agricultural products. Each WTO member country has made calculations to determine its AMS level wherever applicable. AMS consists of two parts — product-specific and non-product-specific.
- De Minimis:** Under the De Minimis provision of the Agreement, there is no requirement to reduce trade distorting domestic support or subsidy where the aggregate value of support does not exceed a certain limit or ceiling. In the case of developing countries, the De Minimis ceiling is 10%.
- Green Box:** This refers to policies or support measures which have a minimum impact on trade and are, therefore, free from reduction commitments.
- Tariff Quota:** A quota that allows for import of a commodity at less than the general applied rate. (e.g., if a country applies a general tariff of 100% on a particular commodity and then allows a limited quantity, say 20,000 tonnes, to be imported at a lower rate of say, for 20%).
- Peace Clause:** A clause in the Agreement on Agriculture which regulates the application of other WTO Agreements (such as the Agreement on Subsidies and Countervailing Measures etc.) to subsidies given in respect of agricultural products. Peace Clause is also known as the “due restraint” clause.
- SPS Measures:** Refers to the Agreement on Application of Sanitary and Phytosanitary Measures which concerns the application of food safety and animal and plant health regulations.
- Food Security:** This is among the important non-trade concerns (NTCs) of countries including India. Food security covers not only the availability and stability of food supplies but also the issue of access of the population to sufficient food to meet its nutritional requirements and is a basic objective of government policies in agrarian developing countries.
- Cairns Group:** The group of agricultural exporting countries comprising both developed and developing countries. The member countries of the of the Cairns Group are: Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay.

# Monthly update from PMI/Geneva

(15th April 15th May, 1999)

## **Budapest Ministerial Conference**

An informal Ministerial Meeting was held on 27-28 May, 1999 in Budapest as a run-up to the Seattle Ministerial Conference to be held late this year. The Indian delegation was led by the Commerce Minister Mr. Ramakrishna Hegde and included the Special Secretary, Mr. N. N. Khanna and Ambassador to the WTO, Mr. S. Narayanan. The main objective of this Ministerial meeting was to emphasise the participating countries' commitment to the new negotiations to be started after the Seattle Conference. India once again reiterated its stand on the importance of faithful implementation of WTO agreements while highlighting the difficulties experienced in the process of implementation and cautioned against overloading the WTO's negotiating agenda. All the participants supported that the Seattle Ministerial Declaration should be clear, concise and explicit so as to avoid different interpretations.

## **Dispute Settlement Body**

The April meeting of the Dispute Settlement Body (DSB) took note of India's final status report indicating that India had implemented the recommendations of the DSB in the Patents dispute between India and US. It may be recalled that in the light of the Panel and Appellate Body reports in the matter, India had earlier amended its Patents Act to comply with the transitional provisions of the TRIPs Agreement viz., Article 70.8 (mail box) and Article 70.9 (grant of EMRs subject to fulfilment of certain conditions).

## **Council for Trade in Services**

The Council for Trade in Services had set up in May 1999 the Working Party (WP) on Domestic Regulation. This Working Party subsumes the former WP on Professional Services and will, in addition, deal with the mandate provided in Article VI of the GATS (General Agreement on Trade in Services) Agreement.

## **Accession of Estonia to the WTO**

At its meeting held on 21 May, 1999, the General Council adopted the report of the Working Party on the Accession of Estonia to the WTO, and approved the accession of Estonia to the WTO pursuant to Article XII of the Marrakesh Agreement Establishing the WTO on terms set out in the attached Protocol of Accession. Upon ratification of the Protocol by the Estonian authorities, Estonia will become the 136th Member of the WTO.

# SAARC Initiative on WTO : First Consultative Meeting of SAARC Commerce Secretaries Forges Common Agenda

Pursuant to a decision taken at the Third Commerce Ministers Meeting, Dhaka, February 2-3, 1999 and endorsed by the Council of Ministers at Nuwara Eliya, the Commerce Secretaries of the SAARC Member countries met in New Delhi on 10-12 May, 1999 for their First Meeting to consult on issues of mutual concern and with a view to adopting a common position well in advance of the forthcoming Third WTO Ministerial Meeting which is scheduled to be held in Seattle. The Meeting was attended by representatives of all Member States.

The meeting concluded on May 12, 1999 with the SAARC countries (India, Pakistan, Bangladesh, Sri Lanka, Nepal, Bhutan and Maldives) agreeing on common strategies on a wide range of WTO-related issues covering areas like intellectual property rights, agriculture, textiles, services, investment, competition policy, industrial tariffs, market access for exports of developing countries and various implementational issues.

**The meeting agreed to set up a Forum on intellectual property rights** to be called the SAARC Intellectual Property Forum and also agreed that the First Meeting of the Forum should be held before the meeting of the SAARC Commerce Ministers at Male in September 1999. The meeting also endorsed the principal areas identified for collective action in the area of trade-related aspects of intellectual property rights as follows :

- (a) transfer of technology
- (b) protection of bio-diversity
- (c) higher level of protection for geographical indication of goods; and
- (d) operationalising special and differential (S&D) treatment clauses in favour of developing countries.

**In the agricultural sector, market access** was highlighted as a major issue for countries of the SAARC region and in this context, the SAARC Commerce Secretaries have made a series of recommendations which include the need for effective and meaningful reduction in tariffs of the developed countries, particularly for products originating in developing and the least developed countries (LDCs); **issues arising out of the continued use of sanitary and phytosanitary measures as protectionist measures by developed countries hindering market access of countries of the region; and the need for SAARC countries to maintain adequate safeguards while providing access to their markets in view of the overriding security concerns of developing countries.** It was also agreed that developing countries must be provided requisite flexibility in pursuing domestic policies aimed at enhancing agricultural production and recommended that the support given to production of foodgrains in developing countries should be exempt from reduction commitments. Further, LDCs should be allowed to retain adequate flexibility in the use of subsidies in products of specific interest to them. SAARC countries also felt that state trading in foodgrains would be necessary for developing countries to administer a price support mechanism for their farmers and for containing inflation.

The Uruguay Round and the subsequent **negotiations in services** had not yielded significant returns to the developing countries, particularly in regard to market access in terms of **movement of natural persons** and hence, there was need to remove the existing imbalances in the General Agreement on Trade in Services (GATS) taking into account the interests of developing countries.

Regarding **implementation issues**, the meeting **emphasised operationalising of special and differential treatment provisions available to developing countries in the entire range of WTO agreements and recommended that this should be done without any linkage to other negotiations**. Efforts will be intensified for deepening and broadening of concessions already provided under the S&D clauses in various WTO agreements, emanating from Part IV of GATT which already provides for a development dimension and also the commitments made by developed countries in Articles XXXVII and XXXVIII of the GATT.

Noting the move to overload the **WTO agenda with new issues**, which were premature and whose implications were not adequately examined, the SAARC countries also outlined their view on these **new issues**, namely, industrial tariffs (i.e. problems facing most developing countries due to steep

decline in tariffs effected by them over the last few years); implications of the proposed **multilateral agreement on investment** where it was felt that development dimensions of the trade investment linkage needed to be clearly understood especially the freedom of developing countries to direct investment to priority areas; **government procurement** disciplines which required examination at greater length having regard to its implications for domestic industries; the issue of widening the environmental window in multilateral trading system which could result in new forms of protectionism; and the social clause issue where it was noted that the Singapore Ministerial Conference had already rejected the linkage of labour standards with trade and, therefore, the SAARC countries would continue to adhere to the position already taken.

## Schedule of Meetings at the WTO, Geneva : June 1999\*

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1-6-99	:	Committee on Specific Commitments
2-6-99	:	Sub-Committee on Less Developing Countries
4-6-99	:	Committee on Trade and Development
4-6-99	:	Working Group on Relationship between trade and investment
8-11/6/99	:	Special Committee on Technical Barriers to Trade
9-6-99	:	Committee on Market Access
10-11/6/99	:	Working Group on Interaction between Trade and Competition Policy
14-6-99	:	Committee on Rules of Origin
14-15/6/99	:	Council for Trade in Services
15-6-99	:	Committee on Trade in Civil Aircraft
15-6-99	:	Working Party on GATS Rules
15-6-99	:	Sub-Committee on Least Developed Countries
16-6-99	:	Dispute Settlement Body
16-6-99	:	Committee on Budget, Finance and Administration
16-18/6/99	:	Textile Monitoring Body
21-6-99	:	Committee on Rules of Origin
21-22/6/99	:	Special General Council (3rd Ministerial Conference)
22-6-99	:	Working Party on Professional Services
24-25/6/99	:	Committee on Agriculture
24-25/6/99	:	Trade Policy Review Body (Egypt)
25-6-99	:	Committee on Rules of Origin
28-29/6/99	:	Working Group on Transparency in Government Procurement
29-30/6/99	:	Committee on Trade and Environment
29-6-99	:	Committee of Participants on the expansion of Trade in Information Technology Products.

\*Source : WTO / Geneva as on May 31,1999

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