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Look who is subsidising agriculture

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Under the World Trade Agreement (WTA) which came into effect on 1 January 1995, the developed countries committed themselves to a reduction in aggregate measurement support (AMS) to agriculture by 20 per cent over a period of five years taking 1986 as the benchmark. Countries wherein existing support was less than 5 per cent, were exempt from reduction commitment.

In view of prevailing high support — in majority of the cases, much in excess of the *de minimis* level of 5 per cent — the developed countries were, thus, obliged to undertake the required reductions. On this, available data on OECD (Organisation for Economic Cooperation and Development) countries — also referred to as the Think Tank of rich industrial nations — reveals some startling trends.

During 1986/88, the value of agricultural production in OECD countries was about US $500.7 billion. Out of this, the total support to agriculture — comprising support to producers and expenditure for general services, viz., research, marketing and infrastructure for agriculture — was US $258.7 billion. In percentage terms, this worked out to 52 per cent.

By the year 1997, the value of agricultural production had increased to US $626.2 billion. The support to agriculture increased to US $265.0 billion. In percentage terms, even though, significantly lower at 42 per cent, this was fortuitous in view of sharp increase in value of agricultural production caused primarily by increase in international prices of agricultural products.

The period was also marked by significant change in the composition of AMS. Thus, the share of payments to producers in overall support declined from 85 per cent during 1986/88 to 81 per cent in 1997. On the other hand, the share of expenditure on general services went up from 15 per cent during 1986/88 to 19 per cent during 1997.

During the last two years, however, there has been an unprecedented surge in support to agriculture in these countries. Thus, even as the value of agricultural production declined from US $626.2 billion in 1997 to US $548.5 billion in 1999, the support zoomed from US $265 billion in 1997 to US $300.2 billion in 1999. During 1999, the AMS was 55 per cent, which was even higher than the 1986/88 level.

Significantly, much of the increase in support between 1997 and 1999 went to producers. This is reflected in the increase in their share from 81 per cent in 1997 to 84 per cent in 1999. Correspondingly, the share of general services declined from 19 per cent in 1997 to 16 per cent in 1999. At 84 per cent, support to producers in 1999 was quite close to the level in 1986/88.

The overall averages for the OECD group mask substantial differences within it. Whereas, in countries like Australia and New Zealand, the share of support in agricultural production is less than 10 per cent, in the most heavily protected and subsidised economies like Japan and Korea, this is as high as 85 per cent.

From the above, it is abundantly clear that far from undertaking reductions as per their commitments under WTA, the developed countries have significantly raised domestic support to agriculture. This in turn, has led to depressed prices of agricultural products in the international market thereby denying developing countries like India, opportunities for increasing their exports.

This could have yet another adverse fall out. Since, in computation of AMS, international prices are used as the benchmark which are depressed since 1998, a re-look could result in questioning our long held position that Indian agriculture is 'negatively' subsidised. If, using current data, support turns out to be positive and exceeding the *de minimis* level of 10 per cent, we could be under pressure to undertake reduction!

In view of above, and to ensure that developing countries get the intended benefits in terms of increase in agricultural exports and farm incomes, the developed countries should take urgent steps for bringing down their domestic support to the required levels.

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