Editorial

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Rewrite the Agreement on Agriculture

The Agreement on Agriculture, drawn up when the World Trade Agreement came into force six years ago, is inequitable and heavily loaded in favour of developed countries. Though the developing nations expected to gain handsomely from international trade in agricultural products, they have hardly anything to cheer about. The Government should, in the current round of negotiations, impress upon the developed countries the need to rewrite certain provisions of the AoA to make it fair and non-discriminatory, says **Uttam Gupta.**

IN THE last six years since the World Trade Agreement (WTA) came into force, developing countries, including India, have not been able to get the desired benefit from international trade in agricultural commodities. A major reason for this is that the developed countries have not honoured their commitments — in regard to domestic subsidies, export subsidies, market access and import tariff — under the Agreement on Agriculture (AoA).

In regard to the aggregate measurement support (AMS) expressed as a percentage of the value of agricultural production, taking 1986 as the base, developed countries were required to reduce this by 20 per cent over five years. But if the existing AMS was less than 5 per cent — commonly known as the *de minimis* level — no reduction was required. On the other hand, developing countries were required to reduce AMS by 13.3 per cent over nine years, the *de minimis* level in their case being 10 per cent.

For India, as the existing AMS was negative — according to an estimate, minus 31 per cent (this includes minus 38 per cent product-specific subsidy and 7 per cent non-product specific subsidy), it was free from any reduction commitment. In fact, the Agreement allowed for the possibility of not only completely wiping out the negative subsidy, but also increasing it to 10 per cent of the value of agricultural production.

For developed countries, the existing AMS being higher than the *de minimis* level of 5 per cent, they were required to undertake reduction. In OECD countries, during 1986, total support to agriculture — comprising producers' support and support to general services (research, marketing and infrastructure for agriculture) was $258.7 billion. As a percentage of the value of agricultural production, this was 52 per cent.

By 1997, even as support to agriculture increased to $265.0 billion, as a percentage of the value of agricultural production, it declined to 42 per cent. The decline was fortuitous in view of sharp increase in value of agricultural production, caused primarily by the increase in international prices of agricultural products. In the subsequent two years, there was a massive increase in support rising to $300.2 billion in 1999 which, in percentage, terms worked out to 55 per cent.

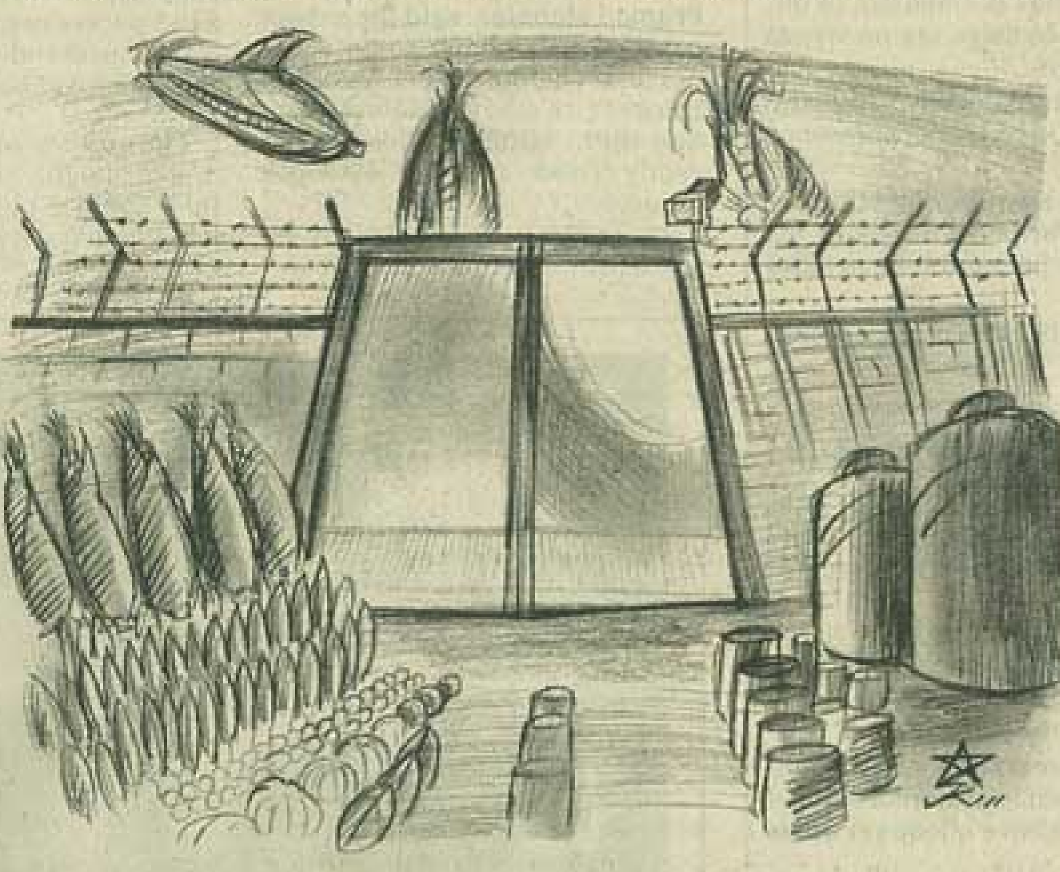
Clearly, the developed countries have not honoured their commitment, as reflected in the rising AMS level, from 52 per cent in 1986 to 55 per cent in 1999. Even if they had met the target, for OECD countries, a reduction of 20 per cent over the base year would have led to an AMS of 42 per cent. Ironically, even this would have been substantially higher than the maximum of 10 per cent that India can maintain as per obligations under the WTO.

Let us look at import tariff. Under the AoA, developed countries were required to bring about a reduction of 36 per cent over five years (for developing countries, the reduction commitment was 24 per cent over nine years). However, considering the fact that during the base year, they had declared the bound rates at very high levels (to reflect the prevailing position of domestic prices being substantially higher than international prices), even after the reduction, the resulting tariff would still remain high.

The reduction of 36 per cent over five years was proposed as a 'simple average', the minimum reduction in each tariff line being 15 per cent. The developed countries exploited this by undertaking small percentage reductions in areas requiring heavy protection from cheaper imports from developing countries, on the one hand, and high reduction in areas of least interest, on the other, to ensure compliance with the overall percentage reduction as envisaged under the Agreement.

As a consequence, developed countries continued to maintain import tariffs at very high levels; for instance, 300 per cent on sugar and over 400 per cent on banana in EEC; almost 1000 per cent on rice in Japan, and so on. In contrast, the import duty in India is much lower — 50 per cent on wheat, 80 per cent on rice, 60 per cent on sugar and 70-75 per cent on edible oils. As in the AMS, import tariffs in developed countries are much higher than in developing countries.

The developed countries were required to reduce export subsidies by 36 per cent over five years (for developing countries, the reduction commitment was, again, 24 per cent over nine years). Herein also, they have undertaken the least reduction in areas with tremendous export potential, and heavy reduction in less important items to ensure 'on-paper' compliance with the overall average. While this has enabled them to maintain a high level of export subsidy, developing countries such as India which did not subsidise exports or where subsidy levels were low, in the base year, do not even have the option of introducing/raising subsidy, as the same is prohibited under the Agreement.



In the area of providing "minimum market access", all member-countries were required to increase the share of imports in domestic consumption of agricultural products from 3 per cent to 5 per cent. Whereas developed countries were required to achieve this over five years, for developing countries, the time frame was nine years. Considering the substantially higher value of domestic consumption in countries such as India , the same percentage increase was bound to generate far greater market access for developed countries.

The AoA also provided for a TRQ (tariff rate quota), under which a member country can import a certain minimum quantity at concessional import duty (this is generally substantially lower than the 'normal' rate/duty applicable to import outside the quota). Unfortunately, this has also not been of much help to developing countries in gaining market access, as developed countries have not only kept the overall quota size low, but also resorted to allocating this primarily to partner countries under the preferential trading arrangement (PTA) — for instance, import by the US from Mexico under NAFTA (North American Free Trade Association).

Under the erstwhile GATT regime, the developed countries had built up gigantic subsidy regimes which enabled their farmers to produce huge exportable surpluses and, thus, virtually dominate international markets. At the same time, by maintaining exorbitant import tariffs, they converted their domestic markets into virtual fortresses. By agreeing to include agriculture in the Agenda for the Uruguay round of negotiations and subjecting their subsidies/tariff regimes to multilateral rules under the WTO, they promised to put an end to all this.

Notwithstanding the above, and contrary to the legitimate expectations of developing countries to gain handsomely from international trade in agricultural products, in retrospect, they have hardly anything to cheer about. And the prime reason for this is that the AoA was inequitable and discriminatory and heavily loaded in favour of developed countries from the word go. True, the developing countries, including India, made the mistake of signing such a deal. But, though late, the Government should seize the opportunity offered by the current round of negotiations to impress upon developed countries the need for taking a *de novo* look at the AoA with a view to restructure and re-write the relevant Articles/provisions to make it fair, equitable and non-discriminatory.

In regard to the AMS, for instance, the Agreement should provide for all developed countries achieving the *de minimis* level of 5 per cent — within the specified time-frame — irrespective of the prevailing level in the base year. This will prevent an anomalous situation of the kind under the existing AoA, whereby a country can maintain an AMS as high as 42 per cent and yet, be fully compatible with the WTO.

Likewise, in respect of import tariff, member- countries should be required to achieve a pre-determined target over a specified time-frame. Thus, for any commodity/group, all developed countries should be required to aim at a uniform tariff of, say, 'x' per cent (this should be reached irrespective of existing levels). This will help avoid the present highly distorted pattern of import duties on any given item, ranging from a low of 50 per cent to as high as 300-400 per cent.

The target-oriented approach should be followed in regard to export subsidies as well. A country where the existing subsidy is lower, or no subsidy is given at all, should be allowed to raise it to the targeted level. Such a dispensation will provide a level playing field to the developing countries which, under the existing AoA, have been prevented from introducing new subsidies or raising subsidies from the prevailing low level.

There is an urgent need for introducing transparency in the administration of the TRQs which, in the past, have been misused by the developed countries. Apart from fixing the quota size at realistic levels, all developing countries, including those outside the PTA blocs, should be given equal opportunity in allocation. Alternatively, the TRQ regime should be completely dismantled.

(The author is Chief Economist, The Fertiliser Association of India, New Delhi. The views are personal.)