WTO ministerial

Beat developed countries at their own game

India's strategy at Cancun should be to get increased market access by beating the developed countries at their own game. To start with, Indian negotiators should force the latter to drastically cut their present high levels of trade-distorting subsidies and import tariffs, says **Uttam Gupta**.

BASED on a microscopic study of the fine print of the recent Agreement between the US and the European Union (EU), an article in the *Economist* gives a fairly good idea of what they are willing to offer all the 146 member-countries of the WTO and to the developing countries, in particular. Take the case of subsidy on exports. The text offers a commitment to eliminate, over time, subsidies on those products of particular interest to the poor countries. What will be the precise time-frame? Which products will be covered? Which are the poor countries? The pact is silent on all these critical points!

The pact links the phase-out of export credits by the US to removal of export subsidies by the EU. The EU subsidises its agricultural exports by a whopping 150 per cent. It has a vested interest in not fixing a deadline for removal of these subsidies. The US will act likewise. Each side is merely passing the buck. The Agreement talks about cutting some import tariffs. While the cut in some product lines will be as per the formula adopted under the Uruguay Round, for others, the modified Swiss formula will be adopted. But there is no mention of products and the quantum of reduction.

Both the EU and the US heavily subsidise their farmers either by keeping their prices artificially high or giving them money directly, based on such things as the number of livestock they keep or the land area they cultivate. In the EU, the domestic support to the farmers works out to a mind-boggling $1.0 billion per day.

The Agreement acknowledges that these domestic support measures lead to trade distortions. And it promises to reduce the measures that most distort trade and to put a cap on direct payments to the producers. It proposes to limit direct payments to 5 per cent of the value of agricultural production. There is nothing new about this.

Under the Uruguay Round, the Agreement on Agriculture (AOA) provided for what is known in WTO jargon as *de minimis* levels — 5 per cent for developed countries and 10 per cent for developing countries. This meant that a member having AMS (aggregate measurement support) less than the prescribed level is exempt from undertaking any reduction. Being developed countries, the EU and the US should have already brought down their total financial support (represented by AMS) to the farmers to the prescribed *de minimis* level of 5 per cent by now. But they played a trick at the time of the drafting of the AOA, just to avoid this.

The draft — as finalised — stated that the developed countries having AMS in excess of the relevant *de minimis* 5 per cent level will reduce their existing support by 20 per cent over five years. For developing countries, the corresponding reduction commitment was 13 per cent over nine years.

This meant that, if for country X the AMS was, say, 50 per cent it was expected to reduce it by only 10 per cent (20 per cent of 50 per cent). As a result, even at the end of five years, it would be subsidising its farmers to the extent of 40 per cent and still remain WTO-compliant. Ironically, the EU and the US (besides Japan) have not even honoured the above mild commitments under the Uruguay Round. Against this backdrop, if now they were to aim at a target of 5 per cent — say, by 2008 — it would have demonstrated some seriousness on their part. But they have maintained a conspicuous silence on the time period.

Unlike the Uruguay Round, where the *de minimis* target of 5 per cent covered — apart from direct support to the producers — all other forms of support, including research, promotion, advisory services, infrastructure spending, etc., the EU-US pact targets only producers' support. This way, they will be able to keep support at the level of their liking and yet claim to have reduced it to 5 per cent.

In the non-agricultural sector, given the already low average tariff on industrial products in developed countries (in the US, this is less than 4 per cent) India may not get much mileage by way of additional market access. That apart, there is a high degree of uncertainty and unpredictability about the precise quantum of reduction offered by the former.

For instance, as per the draft prepared by the Chairman of the NGMA (Negotiating Group on Market Access), the US tariff would go down to 0.8 per cent. This is as per computations by the Delhi-based Research and Information Systems for Non-Aligned and other Developing Countries. However, if the fresh proposals now doing the rounds are to be adopted, the tariff will fall to only 2.1 per cent.

Textiles find a prominent place in India's export basket. Hitherto, trade in textiles has been governed by quotas fixed under the MFA (Multi Fibre Agreement). The MFA will be dismantled at the end of 2004. There is a serious apprehension that developed countries will come up with a host of anti-dumping measures after the MFA is dismantled. This will substantially diminish market access.

The developed countries aregoing full steam ahead in putting up non-tariff barriers (NTB) on a range of commodities across the board. The US has added a new dimension to the NTB by insisting on what is known as CPAT (Certificate of Prevention Against Terrorism). Recourse to these measures will substantially nullify whatever limited gains result from reduction in tariffs. The game-plan of the EU and the US seems to be to make the developing countries believe that they have a lot to gain — from the Cancun Round — particularly in the area of agriculture. And having created this impression, they will try to bring the Singapore issues — investment, trade facilitation, competition policy and government procurement — to the centre-stage.

The Government has embarked on a substantial measure of liberalisation in the areas of trade and investment. It is also not averse to transparency in Government procurement. But it would like to navigate these changes independently instead of subjugating itself to the multilateral agreements under the WTO.

India has opposed the inclusion of these issues on the ground that the Doha Declaration did not provide for it until there was consensus on the modalities. A couple of regional associations, such as SAARC (South Asian Association for Regional Cooperation) have also come out with similar pronouncements. But the developed countries have mastered the art of fomenting divisions within the ranks of the developing countries. Already, Malaysia is reported to have shown some accommodation, especially in regard to investment. The EU and the US will leave no stone unturned in winning over some more important members from developing countries to their viewpoint. In a determined bid to put the Singapore issues on the Agenda of the Cancun Summit, the developed countries are also working from inside at the WTO.

This is revealed by a close reading of the World Trade Report recently released by its secretariat. Specifically, we may refer to the following observations. Success in lowering tariff and non-tariff barriers call for consideration of "beyond border" issues, such as investment and competition policy, on which the developing world, in general, and India, in particular, have serious reservationsNow, contemplate a scenario in which the Singapore issues are on the table and at the same time, the developing countries get very little or nothing by way of market access for their agricultural and industrial products. This would be a deadly combination and seriously detrimental to their interests. What, then, should be our strategy at Cancun? A rejection of the EU-US pact merely on the ground that it does not adequately address the concerns of developing countries (as mentioned in Mr Arun Jaitley's statement) will not work. India should endeavour to beat the developed countries at their own game-plan.

Specifically, our negotiators need to highlight that the developed countries will continue to maintain the present high levels of trade-distorting subsidies and import tariffs. This will take away the main plank of the latter to bring the Singapore issues to the discussion table. This will also help keeping the developing countries' flock together. But, then, how do we get increased market access? The best way to manage this is to stress on the correction of anomalies under the Uruguay Round. Let us tell the developed countries to bring down their AMS to 5 per cent of the value of agricultural production within five years.

Concurrently, we should ask for doing away with multiple boxes (the blue, green, amber, etc). Let there be only one box and all forms of subsidy should be covered by it.

The commitments in regard to reduction of export subsidies and import tariff under the Uruguay Round also suffered from a flaw. Instead of targeting a particular level post-reduction, the target was fixed in terms of reduction by so much per cent. For instance, the import tariff was to be reduced by 36 per cent on an average (this was a simple average) with a minimum reduction of 15 per cent in each product line. With such a tailor-made formula, even after the reduction, developed countries were able to maintain high overall tariffs and prohibitive tariffs on products of special interest to them. We should insist on their giving up this approach and instead stress on achieving specified targets for import tariffs and export tariffs in a given time-frame.

If only we can succeed in getting the deliberations at the Cancun Summit to move on the above course, we would gain substantially in terms of increased market access and consequent boost to our agriculture without really having to go through the route of special dispensations, such as food and livelihood box or any other form of SDT (special and differential treatment).

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