

CHAPTER III

The Agreement on Agriculture (AoA) is one of the most contentious issues within the WTO framework. The three disciplines of the AoA – Market access, reduction of the domestic and export subsidies remain at the core of the WTO Agreement. With increased global intercourse, Indian Agriculture is impacted– more adversely than otherwise by the disciplines of the AoA and the global subsidy regime on agriculture. This chapter attempts to understand various important clauses within the AoA and draws on the experience of India to analyse the impact of the AoA on the Indian Agriculture. The implications of the AoA on the Indian agriculture as well as the decadal experiences on various disciplines of the AoA by India and the other countries and its impact on the Indian Agriculture is at the core of this Chapter.

IMPLICATIONS OF THE AoA-AN AGREEMENT OF UNPARELLED SWEEP AND ADDS NEW DIMENSIONS IN THE INDIAN CONTEXT OF WORLD TRADE AND MULTILATERISM

The issue of liberalization of world trade in Agriculture had been eluding negotiators, since the inception of GATT in 1947. This was primarily due to the political compulsions of Europe, USA and some other developed countries. Owing to socio-economic pressures these countries devised protectionist mechanisms against the rigors of international market and free trade of agricultural products, especially through a series of subsidies – both for protecting their market against imports as well as for penetrating other markets through subsidized exports. This has caused huge surpluses of agriculture produce to accumulate in developed countries. This in-turn distorted world trade in agriculture through the accumulation of surplus grain stock. As a net result, these policies of the developed countries depressed world prices of agricultural commodities and distorted world trade in agriculture – much to the disadvantage of the developing countries as they were never in a position to subsidise their agriculture to the extent the developed countries could afford. As per various estimates the subsidy bill of some of these developed countries exceed USD 1 billion every day aggregating to over 365 billion USD per annum.

It is estimated that the Support given by various developed countries to their agricultural sector aggregated to USD 182 BILLION USD IN 1996, USD 280 BILLION USD IN 1997 and USD 362 BILLION USD IN 1998. These figures, it must be noted are estimates only and are based on various sources and hence there could be minor variations in these figures. This document is not attempting to reconcile these figures per se and would at best use them for the purposes bringing out broad pointers in the subsidy regime. This figure however has been corroborated by the Annual report of the WTO for the year 2002.

The net effect of this gigantic subsidy regime has resulted in strong agricultural lobbies with high political pressures in these countries. The correction of the distortion of

world trade in agricultural goods through a containment of these subsidies and thereby leading to the increased agricultural trade became the crux of the negotiations on agriculture during the Uruguay Round (1986-94).

The ostensible plea of the developed countries was to constantly point out to the decline in the agriculture in the share of their national incomes as a fundamental reason to justify this enormous subsidy regime. But the fact of the matter is that the decline in agriculture was relative in these countries, as it was industry and services sector that began dominating the national income. Simultaneously the political concerns of each of the developed country and emerging strategic importance of food security, social pressures resulting in food security concerns and self-sufficiency factors. For instance, the share of Agriculture in the National Income of USA is approximately 2% whereas the share of services sector is approximately 75%. To this extent the share of Agriculture in total income is negligible. But despite the 2% share in the national income of the USA, agriculture occupies a disproportionate higher share in the national debates as well as economic importance there.

In fact, Agriculture in some of the developed and Market based economies was state controlled or State managed. This resulted in the regulation, subsidization and state control of agriculture to an exceptional degree. State purchased often at un-competitive prices and distribution at administered prices. A direct result of the above policies had a consequential debilitating effect on distorting agricultural trade world over. This financial leveraging and artificial price mechanism of Agricultural produce resulted in Agriculture becoming competitive even in countries that had no competitive advantages. Axiomatically put, this meant that those countries that had competitive advantages could not sell their products in these countries, which could afford such high cost subsidization, even if market access were allowed, or Tariffs and Non-tariff barriers kept to a minimum. Simultaneously because of their huge subsidies to their farmers, these countries had encouraged production over and above their consumption levels resulting in surplus Agricultural stock. This subsidized production was used to penetrate the markets of other countries, which also resulted in distortion of world trade.

The AoA thus aimed at dismantling domestic and external subsidy policies of the developed countries, which protected their domestic farm lobby. These policies contrived to pay higher prices to the farmers that would not have been possible had world trade in agriculture been free. This was done through a composite policy formulation consisting of *inter alia* domestic support price policies, tariff quotas, export enhancement programs, price stabilization measures, import licensing, high tariffs, and imposition of very strict SPS¹ norms on imports. Also the farmers in some of these countries were supplied inputs such as electricity, fertilizers, irrigation, transport at below cost or in some cases, free. The AoA seeks to dismantle the policies relating to the maintenance of subsidies and thus is expected to give a substantial

¹ SPS: Sanitary and Phyto Sanitary norms are an Agreement within the WTO regime

impetus to the world trade. All these skewed policies of the state, especially by some of the developed countries had lead to inefficiency of Agriculture world over. This is contrary to the fundamental principles of market economy and the WTO sought to correct this distortion through the Agreement on Agriculture (AoA).

Naturally in view of the debatable issues involved, the AoA was one of the most contentious, critical and significant agreements, which was negotiated during the Uruguay Round. The issues contained in this agreement have been very convoluted and has been the subject of controversial negotiations, detailed discussions and acrimonious debates, especially amongst developed nations on the issue of subsidy reductions and increase in market access. As other subjects, Agriculture was brought into the discipline of the Multilateral Trading system with effect from January 1, 1995 through an Agreement on Agriculture. The provisions of the Agreement on Agriculture are not similar to that of Industrial goods but are an important landmark Agreement on the way to a freer trade regime in this sector. This Agreement is self-contained codes for International trade in Agriculture and also commits the WTO members for future liberalization.

As per the key provisions of the Agreement, the developed countries would meet their agreed commitments of the Uruguay Round in a phased manner under the Agreement within 6 years, i.e., by the year 2000, whereas the commitments of the developing countries would be met within the next 10 years, i.e., by the year 2004. The least developed countries were not required to make any significant reductions.

This document seeks to provide answers to the following questions: First, what were the lessons to be learned from the Uruguay Round of negotiations and implementation of the rules, how can these lessons be applied to the next round? Second, what benefits were there, if any, to date for developing countries in liberalization and rural poverty? Third, what are the new issues on agriculture, and what is the best means to move forward? What should be India's negotiating strategy in the forthcoming rounds of negotiations?

SAILENT FEATURES OF THE AGREEMENT ON AGRICULTURE CONTAINED IN THE URUGUAY ROUND²:

The Uruguay Round (UR) and Agreement on Agricultural (AoA) and trade in agriculture for the first time was bought into the disciplines of global trading system. In broad terms, the AoA attempted integration of the agriculture into the global trade through the following three basic points:

² The primary objective of the AoA is to increase market access for farm products. While this is sought to be done through the other measures discussed subsequently, some analysts have pointed out that the critical concerns of the developing countries including poverty alleviation, food security and job opportunities have not been adequately addressed. In their opinion this Agreement has sought to deal only with the problems of the developed countries and has substantially ignored the opinions of he developing countries.

- **“Tariffication”** was aimed at conversion of a range of protection (quotas, voluntary restraints, minimum prices, and so forth) into bound tariffs. Some of these especially as fixed by the developed countries are shamefully high, but are now at least transparent and comparable. Given that tariffication led to tariffs for some products in the United States, the European Union and Japan in the hundreds of percentage points, the 36 percent average cut guaranteed by the UR for 1996-2000 was a small step, but the first step nevertheless. The UR also stipulated a minimum access requirement of 3 percent of the market rising to a total of 5 percent of the market (note that tariffs are to be applied on the minimum access volumes).
- **Disciplines** on export subsidies on agricultural products meant commitment to no new subsidies, with some programmed cuts on the existing ones.
- **Classification** of domestic support into boxes of “green,” “blue,” and “amber,” depending whether they are trade distorting or not, with some reduction commitments.

The key point is that while this integration itself was a very significant strategic development, the actual gains experienced by the developing countries in the post UR regime through agricultural trade liberalization were only modest. **For instance, tariffs on agricultural products currently average over 40 percent, compared to around 4 percent for industrial products. To quote some specific examples cited recently in the Washington Post: in the United States, there is a 244 percent tariff on sugar and 174 percent tariff on peanuts; in the European Union, the tariff on beef is 213 percent; and wheat in Japan faces a 353 percent tariff. The high tariffs coupled with the heavy subsidy regime already maintained by the developed countries ensured that the benefits of bringing agricultural trade as envisaged by the AoA was reduced to a theoretical exercise.**

The WTO Agreement on Agriculture contains provisions on major policy recommendations on other issues. These are:

- Objectives as contained in the Preamble to the AoA.
- Market access
- Special Safeguard measures
- Domestic support
- Export subsidies.
- Public stockholding and food security issues
- Ministerial declaration concerning least-developed countries and developing countries importing net food

Other Agreements that might have a significant impact in the liberalization of International Agricultural Trade are:

- Impact by the Intellectual property regime. (TRIPS)
- Sanitary and Phyto-Sanitary Measures
- General Agreement on Trade in Services (GATS) - distribution services on the retail sector
- Trade related Investment Measures (TRIMS)

This document seeks to restrict its analyses to the implications contained in the AoA and for the sake of brevity does not attempt to enlarge the sweep of this study to include the implications of other agreements on the agriculture trade, though their impact may be as significant as the AoA itself.

PREAMBLE TO THE AoA - EXPLAINED TO UNDERSTAND THE DIMENSIONS LAID OUT THEREUNDER

The AoA seeks to have a long-term objective of “establishing a fair and market oriented agricultural trading system and that a reform process should be initiated through the negotiation of commitments on support and protection and through the establishment of

strengthened and more operationally effective GATT rules and disciplines”. Further the AoA provides for “progressive reduction in the agricultural support and protection sustained over an agreed time, resulting in correction of the distortion in world trade”. This is achieved through binding commitments in the three areas as already mentioned of Market access, domestic support, and export competition.

The agreement provides that the particular needs of the developing countries shall be met by providing greater improvement in the opportunities for agricultural products of particular interest to these members. The agreement seeks to have measures having regard to non-trade concerns, including food security, environmental safety, special and differential treatment for developing and least developed countries, and seeks to take into account the negative impact of the reform process on the least developed and net food-importing developing countries.

Numerical targets for cutting subsidies and protection		
The reductions in agricultural subsidies and protection agreed in the Uruguay Round		
	Developed countries	Developing countries
	6 years: 1995–2000	10 years: 1995–2004
Tariffs		
average cut for all agricultural products	-36%	
minimum cut per product	-15%	
Domestic support		
cuts in total (“AMS”) support for the sector	-20%	
Exports		
value of subsidies (outlays)	-36%	
subsidized quantities	-21%	
Notes: Least-developed countries do not have to reduce tariffs or subsidies. The base level for tariff cuts was the bound rate before 1 January 1995; or, for unbound tariffs, the actual rate charged in September 1986 when the Uruguay Round began. Only the figures for cutting export subsidies appear in the agreement. The other figures were targets used to calculate countries’ legally binding “schedules” of commitments. Each country’s specific commitments vary according to the outcome of negotiations. As a		

This Special and Differential treatment (Article 15) as mandated under the AoA is by and large through two means – one by giving an extended period of time – 10 years as against 6 for the developed countries for the implementation period and secondly providing a gradual reduction of various trade distorting measures as compared to the developed countries. Besides these the AoA does not offer any other significant differential treatment to the developing countries such as a waiver from the SPS Measures or allowing the levy of Countervailing measures, which would have been more substantial viewed from the context of the developing countries. In view of the critical fiscal position of the various developing countries the special and differential treatment offered to the developing countries was reduced to a theoretical exercise and did not translate into any major benefit to the developing countries. This is simply because developing countries did not have the necessary fiscal muscle to continue their subsidy regime and were themselves involved autonomous subsidy reduction process.

The WTO regime while seeking to distinguish between the disciplines at the textual level that is sought to be imposed on the global trade in agriculture in comparison with the industrial goods, it is crucial to understand that the fundamental assumption of the AoA is that agricultural products are capable of being subjected to the disciplines of the global trade regime, much like their industrial counterparts. This is exceptionable as the dynamics of the market forces as well as the laws of economics, operating on industrial goods cannot be and should not be applicable or extended to the agricultural products. This militates against the fundamental law of economics, as we understand. The WTO regime precisely attempts the contrary by seeking to equate global trade in agriculture with global trade in manufactured goods. This is fraught with unfathomable impact on the national economics and despite a decadal experience on the AoA, this still remains outside the realms of our understanding. There needs to be an intense debate on this particular issue of assuming that global trade in agriculture is possible in a manner akin to manufactured goods and perhaps the Preamble of the AoA needs to be reviewed in this context. Unless this is done, we may start our arguments itself on a fallacious plane and would consequently distort the subsequent debates that would follow. And this is not as simple as it seems on superficial examination, especially for a country like India. **Unless this proposition is thoroughly debated within India and all the dimensions of treating agricultural products on par with the industrial products examined, it would be far fetched to subject Agricultural products to the disciplines of AoA.**

We now proceed to analyse other issues in greater detail.

MARKET ACCESS UNDER THE AOA – ACCESS WITH CAVEATS- GENERALLY DENIED TO MANY DEVELOPING COUNTRIES THROUGH INCOMPREHENSIBLE MEASURES

Restricting market access ensures that domestic producers of agricultural products are “protected” from international competition. This is done in two ways: by imposing

Tariffs and also through putting up non-tariff barriers. Non-tariff barriers to trade are expressed as quotas, Quantitative restrictions, variable levies, minimum import prices, discretionary licensing, state trading measures, voluntary restraint agreements etc., which act as a deterrent to free, and fair trade. The cardinal principle of the WTO regime has been that the Non-tariff barriers need to be abolished and converted into an equivalent tariff. This process is called as Tariffication of the non-tariff barriers (NTBs) by the AoA. The AoA seeks to:

- Remove quantitative restrictions on imports
- Tariffication of the non-Tariff barriers
- Establishment and subsequent elimination of Tariff Rate quota and
- Reduction of Tariffs through a self-commitment code.

It is to be noted once NTBs are abolished they cannot be reintroduced. This is so because the AoA provides for their conversion into Tariffs and these are supposed to be Bound – that is, committed and such commitment cannot be rolled back.

Under the AoA each country had committed to certain tariffs instead of non-tariff barriers, which they committed to dismantle. This process of replacing the non-tariff barrier with the tariff barrier is called tariffication process. About 40 countries gave such commitments. And predominantly these were the developed countries. However these countries because of the protectionist trend pegged these tariffs at a very high rate and this is referred to as dirty tariffication. This is where countries like India lost out on the AoA. One such example could be Japan, which had a Bound rate of 800% on certain imports of Agricultural products into Japan. According to footnote 1 of the AoA the process of tariffication includes quantitative import restrictions, variable import levies, discretionary import licensing, non-tariff measures maintained through state trading enterprises, Voluntary export restraints, and other “border measures” other than customs duty. It is to be noted that the definition is an inclusive definition and not an exhaustive definition.

Ordinary tariffs and those resulting from tariffication mentioned above, in case of developed countries are to be reduced by an average of 36% with minimum rate of reduction of 15% for each tariff item over a 6-year period. This provision is quite interesting. While it is

Who has tariff quotas?

43 WTO members currently have a combined total of 1,425 tariff quotas in their commitments. The numbers in brackets show how many quotas each country has.

Australia (2)	El Salvador (11)	Nicaragua (9)
Barbados (36)	EU (87)	Norway (232)
Brazil (2)	Guatemala (22)	Panama (19)
Bulgaria (73)	Hungary (70)	Philippines (14)
Canada (21)	Iceland (90)	Poland (109)
Chile (1)	Indonesia (2)	Romania (12)
China (10)	Israel (12)	Slovak Rep (24)
Chinese Taipei (22)	Japan (20)	Slovenia (20)
Colombia (67)	Korea (67)	South Africa (53)
Costa Rica (27)	Latvia (4)	Switzerland (28)
Croatia (9)	Lithuania (4)	Thailand (23)
Czech Rep (24)	Malaysia (19)	Tunisia (13)
Dominican Rep (8)	Mexico (11)	United States (54)
Ecuador (14)	Morocco (16)	Venezuela (61)
	New Zealand (3)	

For more details, see WTO Secretariat background paper “Tariff and other Quotas” TN/AG/S/5, downloadable from

http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm#secretariat

sought to reduce the overall Tariffs by 36% in the first 6 years of the WTO regime, this provisions calls for a minimum reduction of 15% for individual Tariff line. Hence the overall reduction of 36%, is the weighted average reduction. Of course some other experts have argued that the reduction could be a simple average. What is critical is that the reduction in individual in Tariff line. This helps the developed countries to choose the product, which needs to be “protected” and consequently the effective rate of reduction of Tariffs, is minimal being restricted to 15% that too over a period of 6 years. This in the opinion of some analysts restricts the market access for agriculture in certain developed countries and has not benefited developing countries that could have otherwise penetrated those markets. This is another instance where we lost out on the AoA.

Further, developing countries are required to reduce tariffs by 24% with a minimum of 10% in 10 years. This reduction was based on the 1986-88 Tariff base and fixing a Tariff equivalent of the Non-tariff measures adopted. The reasons for fixing 1986-88 as a base is not far to seek. It was during this period that the Uruguay Round commenced and each of these developed countries sensing the possible stipulations in the AoA just then increased their Tariffs so as to position themselves better during the forthcoming negotiations. To this extent the decline of 36% of Tariffs, from a rather high base, by the developed country has only minimal impact of creating additional market access for the developing countries.

Developing countries, who were maintaining Quantitative Restrictions due to balance of payment problems, were exempt from the above requirements (refer footnote 1 on the AoA). They were given the option of adopting either the Tariffication of the NTBs or as an alternative, were allowed to offer bound tariff levels without any reference to the Tariffication formula. At the end of this period, it is expected that the tariffs are Bound and in future may not be expected to be raised, except under certain specified circumstances.

Tariffs after Tariffication were very high in certain cases. This did not result in any meaningful increase in market access. To ensure meaningful market access it has also been stipulated as a minimum commitment that minimum access equal to 3% of domestic average annual consumption in 1986-88 will have to be allowed for the year 1995 rising to 5% at end of the implementation period – which stands at 2000 for developed countries and 2004 for developing countries.

The provisions of imposing minimum imports as explained above on countries even if they do not require to import at all or need to import smaller quantities deserves our special attention. Some analysts object to this imposition of these conditions as these are against the spirit of free trade. Further in the view of some agriculturists and economists this has very serious repercussions for a country like India. In India as per some estimates, over 70% of the agricultural production does not enter the markets and is meant for direct consumption by the small and marginal farmers. Consequently

only 30% of the production enters market. However this minimum market access of 3% and 5% is based on ACTUAL CONSUMPTION and not on the quantity that enters the markets. Therefore in effect this assumes a larger dimension that originally envisaged. For instance, if we assume India's consumption of food grains during this period to be say 180 MT, only 50-60 MT would have entered the market and the balance been used for self consumption. However the Minimum Access opportunity provides for importing 5.4 MT being 3% of 180 MT as stipulated in the AoA. This quantity of 5.4 MT actually works out to over 10-12% of the quantity of 50-60 MT that enters the market. In effect the argument of these economists has been that for the consumption of Minimum market access opportunity one has to exclude self-consumption and provide for the same based on actual quantities of Agricultural produce that enters the market. This they fear would significantly destroy the small and marginal farmers as it is well understood that the ability of the Indian farmer to withstand the forces of global competition is limited. It is interesting to note that the Report by THE CELL on WTO constituted by the Government of Karnataka has in its report opined a contrary view. It has assumed that "India being a high population density country, the market share of 3% or 5% of the base level of 1986-88 would be quite negligible at present." What is critical is the quantity of agricultural produce that is entering the markets and not what is produced.

It must also be noted that the AoA mandates that this minimum access opportunity would have to be provided by having very low tariffs for imports up to these levels. Despite all these efforts the average increase in world trade in agricultural products during the period 1995-2001 is estimated to grow at less than 1% annually

These fundamental issues point to one important aspect that implicitly remains at the core of this document – the lack of adequate preparation and understanding of the issues involved. And what is critical is that even as on this date we seem to ignore these fundamental issues and get seemingly embroiled in certain peripheral issues. Addressing these fundamental issues is sine qua non to any debate that will follow this document.

SPECIAL SAFEGUARD MEASURES-ATTEMPTS AT SAFEGUARDING THE INTERESTS OF THE DEVELOPED COUNTRIES WITHOUT ANY ADEQUATE RECIPROCITY FOR THE INTERESTS OF THE DEVELOPING COUNTRIES

Special safeguard provision (SSP) allows the imposition of additional duties when there are either import surges above a particular level or particularly low import prices³ as compared to 1986-88 levels. This is to be seen as a derogation of the market access clause of the AoA, that is for those products for which Tariffication process has been completed. It is to be noted that the Agreement on Safeguards also is applicable for Agricultural

Special safeguards: who has reserved the right?

39 WTO members currently have reserved the right to use a combined total of 6,156 special safeguards on agricultural products. The numbers in brackets show how many products are involved in each case, although the definition of what is a single product varies.

Australia (10)	Indonesia (13)	Poland (144)
Barbados (37)	Israel (41)	Romania (175)
Botswana (161)	Japan (121)	Slovak Republic (114)
Bulgaria (21)	Korea (111)	South Africa (166)
Canada (150)	Malaysia (72)	Swaziland (166)
Chinese Taipei (84)	Mexico (293)	Switzerland-
Colombia (56)	Morocco (374)	Liechtenstein (961)
Costa Rica (87)	Namibia (166)	Thailand (52)
Czech Republic (236)	New Zealand (4)	Tunisia (32)
Ecuador (7)	Nicaragua (21)	United States (189)
El Salvador (84)	Norway (581)	Uruguay (2)
EU (539)	Panama (6)	Venezuela (76)
Guatemala (107)	Philippines (118)	
Hungary (117)		
Iceland (462)		

For more details, see WTO Secretariat background paper "Special Agricultural Safeguard" G/AG/NG/S/9/Rev.1, downloadable from

imports. But these special safeguard provisions are applicable under the AoA are to be differentiated with the provisions contained under the Agreement on Safeguards. The significant difference to these two is that the safeguard action under the Agreement on Safeguards can be taken only if the imports cause "serious injury" or "threaten to cause serious injury", while special safeguard action can be taken without demonstrating any adverse effect on domestic production. It may be noted that article 5.8 of the AoA allows for the use of the Special safeguard provisions or the Safeguards under the separate agreement on Safeguards, as alternatives only and are not to be used cumulatively.

The following are the conditions that are the prerequisite for the imposition of these special safeguards (SSG):

- Complete Tariffication⁴
- A symbol "SSG" has been marked by the member against the particular product in its schedule

Special Safeguards provisions can be applied if either of the two triggers have arisen – Price and Quantity trigger. Price trigger refers to the average cost of imports of the product during the 1986-88 period. If the prices of current imports fall below the

³ The reference price used to invoke the provisions shall be the average c.i.f. unit value of the product concerned or otherwise shall be an appropriate price in terms of the quality of the product and its stage of processing. According to Footnote Number 2 to the AoA, this needs to be publicly specified and made available to the extent necessary to allow other members to assess the additional duty that may be levied.

⁴ One view is that SSG are for the benefit of the developed countries, which have completed their tariffication process. Developing countries were more concerned with continuing their QRs and did not thereby qualify for the SSG. However they can take recourse to the measures prescribed under the Agreement on Safeguards, which is quite stringent as compared to the SSP under the AoA. To this extent the developed countries may be placed at an advantageous position.

average cost of imports during that period, it facilitates members to impose Special safeguards. The AoA provides that the members will publicly notify the trigger price. In case the Special Safeguard measure is taken on the Trigger price⁵, there is graduated scale of imposition of this duty when the import price declines. This is explained as follows:

- If the difference between the Trigger price and import price is 10% of the Trigger price or less, no additional duty can be imposed.
- If the difference is more than 10% but less than 40%, then the additional duty than can be levied could be 30% of the amount that exceeds 10%
- If the difference is more than 40% but less than 60%, then the additional duty than can be levied could be 50% of the amount that exceeds 40% plus the amount of duty mentioned in the previous paragraph
- If the difference is more than 60% but less than 75%, then the additional duty than can be levied could be 70% of the amount that exceeds 60% plus the amount of duty mentioned in the previous paragraph
- If the difference is more than 75%, then the additional duty than can be levied could be 90% of the amount that exceeds 75% plus the amount of duty mentioned in previous paragraph

The import price is to be converted into domestic currency for the purposes of this computation. World over currencies of various developing countries have been falling as compared to the currencies of other developed countries, more specifically the US Dollar. This would mean that the any fall in the import price would be neutralized by the corresponding devaluation in the price of the currency of the country of imports. To this extent this provision of Special safeguard is superfluous. This would in effect prevent developing countries, especially India, which has experienced a steady fall in the value of the Rupee Vis-à-vis the US Dollar, to take advantage of this measure.

Quantity Trigger on the other hand is a combination of two components – change in domestic consumption and the net increase in the import quantity. The determination of the increase in the import quantity is done with the help of the following scale:

- If imports are less than 10% of the domestic consumption, 125% of the average quantity of imports of the previous three years
- If imports are more than 10% but less than 30% of the domestic consumption, 110% of the average quantity of imports of the previous three years.
- If imports are more than 30% of the domestic consumption, 105% of the average quantity of imports of the previous three years.

It is pertinent to note that the AoA has been drafted in a manner to enable members to take Special Safeguard measures even for a lower level of increase of import when penetration level is already high and vice versa. The net implications of these are that

⁵ This mechanism is applied only for Price Trigger and not for Quantity Trigger.

the AoA would like to have at-least the market access levels of the previous years maintained.

The above working shall determine the base trigger level. SSP are impossible if the base trigger level as computed above multiplied by the average quantity of imports during the three preceding years is cumulated with the absolute volume change in the domestic consumption of the product concerned⁶. This is subject to a minimum limit of 5% of the average quantity of imports. The change in the domestic consumption is measured as the difference between the year for which data is available and its immediately preceding year. The sum of the actual increase in the domestic consumption and in import quantity is the quantity trigger level. SSP provision shall be resorted to when the volume of imports of the products are declining.

Under the AoA the member can increase in the duty structure of imports but cannot impose any quantitative restrictions. The AoA provides for the following conditions in the imposition of the additional duty:

- The additional duty must not exceed one thirds of the prevailing Customs duty
- The period for which the Duty shall be maintained shall be only till the yearend of the year in which it is imposed.

Again a very interesting conditionality imposed by the AoA. In effect once a market has been open, the quantitative restrictions cannot be imposed to rollback the quantities imported, though additional duties may be imposed. This again is for a very short time. In the opinion of some of leading economists this has ramifications for a country like India. This is because once India opens her imports, the quantity levels have to be maintained and cannot be rolled back.

In many countries the already prevailing Customs rate is already at Tariff peaks for many agricultural products. An imposition of an additional duty over and above this Tariff peak would render the markets out of bounds for exports from countries like India. However countries, which are able to subsidize their exports like say the USA, could use their subsidy program to penetrate even these markets.

Under Paragraph 2 of the Article 4, imports under current market access commitments shall be taken into account for determining the volume of imports required for invoking the Volume Trigger. However such imports under market access commitments⁷ are beyond the purview of SSP. Other conditions include giving necessary notice in writing to the Committee on Agriculture, latest within 10 days of

⁶ The wordings used in Paragraph 4 of Article 4 seems to indicate that this duty computation has to be done on a product to product basis and not on Tariff line basis. This is important.

⁷ This is to ensure that the current market access programs are not disturbed by any levy and this Minimum access would necessarily maintained. Thus this condition of the AoA has much wider ramifications than originally understood. It is estimated in some developing countries even a 3% market access to foreign farm products shall have disastrous consequences.

imposing the SSP. In case of SSP arising out of Volume Trigger, methodologies and used to allocate the changes to individual Tariff lines shall be set out. Members may give an opportunity to other interested members in respect of the conditions of application of such action.

DOMESTIC SUPPORT – A COMPLEX FORMULAE FOR REDUCTION OF SUBSIDIES THAT IS NEVER TO HAPPEN

Subsidies, support and commitment given to the agricultural sector are collectively termed “Total aggregate Measurement of Support”(AMS). This is the sum of all aggregate of measurement of support for basic agricultural products; all non-product-specific aggregate Measurement of support and all equivalents thereof. The initial level, which forms the basis for commitment levels during the implementation period, is called the Base Total Aggregate Measurement of Support. The support provided during any year of the implementation period is called the Current Total AMS. The Final Bound Commitment level is the maximum total permissible total AMS in the last year of the implementation period⁸. Further members are to meet the commitments regarding the Annual Bound commitments level for that year. This would give the maximum permissible Total AMS levels in the respective years during the implementation period. The final commitment is thus on the reduction of the Total AMS.

AMS computation has two components – the rate measure and the quantity covered by the particular measure of support. Thus within the aggregate commitment of support, there is flexibility in choosing the products covered, quantity of the products that members seek to cover, and the extent of the support measure. Members while seeking to meet its commitments may alter this mix. With the option to alter the mix the remaining commitments to reduce the total AMS, it is feared that members could resort to strategies that may nullify the expected benefits to the world trade in agriculture despite seemingly seen to reduce the AMS

The various kinds of support given to domestic farmers are categorized as Amber, Green and Blue⁹. Those placed within the Amber Box are considered as trade distortionary by the AoA and seeks to eliminate them progressively. These subsidies are those, which directly¹⁰ influence the market prices, influence the choice of crop and

⁸ Under Article 1(f) of AoA, implementation period generally means a six-year period commencing in the year 1995 except for those exemptions as listed out in Article 13.

⁹ We seem to have lost out on the subsidies that is segregated box wise – Green, Blue and Amber. Being a large country that has millions of farmers India has devised her own mechanisms of distributing its subsidies. For instance, India’s distribution of fertilizer through its Fertilizer Companies would fall under the Amber Box and hence would be regarded as Trade distortionary and thereby sought to be eliminated. On the contrary if we distribute the said subsidy directly to the farmer as de-coupled payments or payments to keep the land fallow would fall under the Green Box and be treated alternatively.

¹⁰ What is direct and Indirect was left to the framers of this agreement to decide with little or no Indian participation.

the quantity to be produced. These subsidies include fertilizers, electricity, lower interest rates, and market price support. All these subsidies are taken into account while computing the Aggregate Measurement of Support¹¹ (AMS). The domestic support policies, the total support given in 1986- 88, that is, the base total AMS should be reduced by 20% in developed countries (13.3% in developing countries) over the period of implementation. In effect, for a developed country, the Final Bound commitment level would be the Base Total AMS reduced by 20%. This reduction is to be done uniformly during the implementation period. It is once again reiterated that reduction commitments refer to total levels of support and not to individual commodities.

Certain domestic support measures are exempted from the computation of the AMS and thereby beyond the purview of the reduction commitments. The AoA refers to such exempted items in Article 6 as well as the Annex 2 to the AoA. Under Article 6 of the AoA:

- Policies which amount to domestic support both under the product specific and non-product specific categories at less than 5% of the value of production for developed countries and less than 10% for developing countries¹² are excluded from any reduction commitments.
- Direct payments under production limiting programs provided such payments are based on fixed area or yields, such payments are made on 85% or less of the base level of production¹³
- Development programs of developing countries that encourage agricultural and rural development¹⁴.
- Agricultural input subsidies generally available to low-income farmers

Under Annex 2 of the AoA domestic support policies for which exemption from reduction commitments is sought shall meet the following two criteria:

- It has to be provided by a publicly funded program of the government including government revenue forgone and
- The support shall not have the effect of providing price support to producers.

Another very peculiar stipulation of the AoA has been that assistance program shall not involve direct payments to producers. For instance the fertilizer industry in India,

¹¹ Though AMS is computed on a product-by-product basis, the commitments for reduction apply to the aggregate amount. This hypothetically allows countries to shift support from one product to another while meeting the overall reduction commitments. The impact of the same is not yet documented and has remained a theoretical exercise. This impact needs to be examined in greater detail.

¹² It may be important to note that India has a negative AMS, as explained below. Hence the issue of reducing the subsidies to fall in line with the requirement of the AoA is superfluous in the context of Indian scenario.

¹³ These are called Blue Box Measures

¹⁴ These are called special measures for the Special and Differential Treatment or the S&D box.

government fixes Maximum Retail Price (MRP) at which companies should sell their fertilizers to farmers. In order to make fertilizers available to farmers at affordable prices, this MRP is fixed by government and difference between the cost of production as determined by the government and MRP is reimbursed to industry. In this way is a subsidy to farmers is being routed through fertilizer industry, as there is no alternative by which fertilizers can be made affordable to millions of farmers. But this has been termed as trade distorting subsidy by the AoA. Subsidies provided by industrial nations to agriculture are enormous compared to that provided by India (Canada-3.093; EC-114.50; Japan-58.885; USA-54.009; OECD-282.780; India-7.247-in USD billion). This makes Indian agricultural products uncompetitive in international markets. It may be noted that these developed countries were not even willing to discuss the reduction of subsidies, which they have committed to WTO (as evident at Doha). However despite their huge amount of subsidy they have been able to camouflage the same through the stipulations under the AoA. This is simply because these were borne out of their experiences.

Policies which have no or at most minimal trade distorting effects on production are excluded from any reduction commitments. The list of exempted green box policies includes such policies, which provide services or benefits to agriculture, or the rural community,

- Research programs,
- Pest and disease control, training services,
- Marketing and promotion services¹⁵,
- Inspection services,
- Providing infrastructure services¹⁶,
- Public stock holding¹⁷ for food

Who can subsidize exports?

25 WTO members can subsidize exports, but only for products on which they have commitments to reduce the subsidies. Those without commitments cannot subsidize agricultural exports at all. Some among the 25 have decided to greatly reduce their subsidies or drop them completely. In brackets are the numbers of products involved for each country.

Australia (5)	Iceland (2)	Romania (13)
Brazil (16)	Indonesia (1)	Slovak Rep (17)
Bulgaria (44)	Israel (6)	S Africa (62)
Canada (11)	Mexico (5)	Switzerland-
Colombia (18)	New Zealand (1)	Liechtenstein (5)
Cyprus (9)	Norway (11)	Turkey (44)
Czech Rep (16)	Panama (1)	United States (13)
EU (20)	Poland (17)	Uruguay (3)
Hungary (16)		Venezuela (72)

The agreement includes certain temporary exemptions for developing countries, allowing them to subsidize marketing, cost reduction and transport (Art 9.4)

For more details, see WTO Secretariat background paper "Export subsidies" TN/AG/S/8, downloadable from

http://www.wto.org/english/tratop_e/agric_e/eqoti_e.htm#secretariat

¹⁵ Includes marketing information, advice and promotion relating to particular products. Usually for our farmers such information is never available and is one of the significant deterrent in higher realization from their produce. The cost of this information may be very low due, but quite significant from the viewpoint of the farmers.

¹⁶ This includes water supply facilities, proving roads, electricity networks, market and port facilities, dams, drainages and other expenditure relate to the capital works only. It shall however exclude portions related to on-farm facilities. It shall not include the subsidies to the inputs or preferential user charges.

¹⁷ Expenses relating to the accumulation of stocks forming a part of the food security program are exempt. It is critical to note that India's Public Food Distribution Program (PDS) falls within the Green Box. Contrary to the opinions expressed in some quarters that India has to dismantle her PDS system as being

- security purposes,
- Domestic food aid¹⁸,
 - Financial participation by the government in insurance and safety-net program,
 - Payments for relief on account of natural disasters,
 - Structural adjustment programs caused through producer retirement,
 - Resource retirement and investment aids,
 - Payments under environmental programs,
 - Payments under regional assistance programs and certain de-coupled payments to producers including direct payments to production limiting programs provided certain conditions are met.

Special and Differential Treatment provisions are also available for developing country members. These include purchases for and sales from food security stocks at administered prices provided that the subsidy to producers is included in calculation of AMS. Developing countries are permitted untargeted subsidized food distribution to meet requirements of the urban and rural poor. Also excluded for developing countries are investment subsidies that are generally available to agriculture and agricultural input subsidies generally available to low income and resource poor farmers in these countries.

EXPORT SUBSIDIES - MAINTAINED FOR THE PURPOSES OF GAINING MARKET ACCESS IN DEVELOPING COUNTRIES

The Agreement contains provisions regarding member's commitment to reduce Export Subsidies. Developed countries are required to reduce their export subsidy expenditure by 36% and volume by 21% in 6 years, in equal instalments (from 1986-1990 levels). For developing countries the percentage cuts are 24% and 14% respectively in equal annual instalments over 10 years. The Agreement also specifies that for products not subject to export subsidy reduction commitments, no such subsidies can be granted in the future.

The following are the subsidies that are subject to reduction commitment under the AoA

- Subsidies that are contingent on export performance¹⁹ or payment contingent on an agricultural product being incorporated in the exported product
- Exports by government of stocks at prices lower than the comparable domestic price.

incompatible with the Green Box provisions of the AoA, it is to be noted that India's PDS program is WTO-AoA-Green Box compatible.

¹⁸ Expenditure in relation to the provision of domestic food aid to the needy section of the population, through a transparent mechanism is exempt.

¹⁹ These include payments made by the government to an industry, producers, co-operatives or associations and marketing board directly or payments-in-kind.

- Payments financed by government on account of its action on the export of Agricultural products, whether or not these payments are financed from the public accounts or through a levy imposed on the agricultural products.
- Subsidies to reduce the costs of marketing the exports of Agricultural products²⁰. However the widely available use of export promotion and advisory services are excluded.
- Internal freight and transport of export shipments at rates offering subsidies when compared to domestic shipments. This provision is not applicable to developing countries.

Under the AoA a member is expected to reduce his export commitments during the implementation period. This is supposed to be based on the following two parameters:

- Budgetary outlays on export subsidies in the Agricultural sector and the
- Quantity of exports

The reduction commitments for the above parameters are:

- 36% reduction in the budgetary outlays for developed countries (24 % for developing countries)
- Reduction in such subsidized exports by 21% for developed countries (14% for developing countries)

A member has an obligation of not violating his commitments. However the AoA provides for some flexibility. In any year from the second to the fifth the prescribed annual commitment levels may be exceeded, provided:

- The cumulative budgetary outlays till date from the date of implementation does not exceed 3% of the base period level
- The cumulative quantity till date of the implementation period does not exceed 1.75% of the base period quantity
- The budgetary outlays and the quantity at the end of the implementation period are not more than 64% and 79 % respectively of the 1986-90 base period levels (The corresponding figures for the developing countries are 76% and 86%)
- The total budgetary outlays and quantity over the whole implementation period does not exceed the commitment levels under the AoA

Whether in the developed or developing countries, the respective governments perceive serious problems in dismantling subsidy regimes. This is amply demonstrated by the fact that the subsidy reduction commitments incorporated in the WTA, have been phased over a period of 6-9 years. Moreover, the proposed reductions in subsidy levels are 20 per cent for the developed countries and 13.3 per cent for developing countries. This is to moderate the adverse fall out and facilitates smooth transition.

²⁰ These include the handling, upgrading, and other processing costs and the costs of international transport and freight.

PREVENTION OF CIRCUMVENTION OF COMMITMENTS

The AoA provides that the members shall not apply the other export subsidies in manner that leads to the circumvention of the commitments made. Further, members have undertaken to work towards disciplining the provisions of export credit, insurance programs, and guarantee on exports and be governed by such provisions thereafter.

The AoA also mandates that a member who exports quantity in excess of the reduction commitment level must ensure that such a quantity is not subsidized. Donors of food aid must ensure:

- Such aid is not linked to commercial exports of agricultural products
- Such an aid shall be on terms provided for on the Food Aid Convention 1986
- The Food aid transactions shall be carried out in accordance with the FAO principles of surplus disposals and consultative obligations including the system of Usual Marketing requirements (UMRs)

DISCIPLINES ON EXPORT PROHIBITIONS AND RESTRICTIONS

Members under the AoA are to introduce export prohibitions or restrictions on Agricultural products only after giving due consideration to the effects of such measures on the importing member's food security. They are expected to give notice in writing in advance to the Committee on agriculture comprising on such information as the nature and the duration of such measures and if necessary have consultation with other members having substantial interest as an importer.

It is also important to note that this Article is not applicable²¹ for developing countries unless they are a net food exporter of the specific product under consideration.

EXEMPTION FROM THE SUBSIDIES AGREEMENT

Domestic support measures that fully conform to the provisions of Annex 2 of the AoA shall be treated and those measures that fully conform to the provisions of Article 6 of AoA and are de-minimis:

²¹ It is critical to note that India has now emerged as a net food exporter in all-major food items with the sole exception of edible oil and other sundry items. Hence India is also bound under this Article to a very large extent and has to give due consideration to the effects of restrictions measures in the importing member's food security.

- As non-actionable subsidies for the purposes of countervailing duties and exempt from the imposition of countervailing duties and due restraint shall be shown in initiating any countervailing investigations
- Exempt from the provisions of Article XVI of GATT and Subsidies Agreement²² provided such measures do not grant support to a specific commodity in excess of that decided during the 1992 marketing year.
- Exempt from the actions based on the non-violation nullification or impairment of the benefits of the tariff concessions accruing to other member and from the actions based on non-violation nullification or impairment of the benefits of Tariff concessions accruing to another member under Article II provided such measures do not grant support to specific commodity in excess of the limits decided during the 1992 marketing year
- All these would require due restraint to be exercised by members before initiating any countervailing duty and investigations.

REVIEW THROUGH COMMITTEE ON AGRICULTURE

The AoA provides for the review of the implementation of the commitments negotiated by members in the Uruguay Round by a committee²³. The issues covered by the Committee are:

- Due consideration shall be given to excessive rate of inflation prevailing in any member country preventing any member from meeting its domestic support commitments.
- Domestic support measure notified or any new measure introduced or modification of existing measure for which exemption from reduction commitment is sought
- Annual review of overall growth in Agriculture Trade and also to bring to the notice of the Committee any measure, which it considers to have been notified by another member.

DISPUTE SETTLEMENT

Disputes on issues under the AoA shall be resolved through the provisions of the Understanding on Rules and Procedures Governing the Settlement of Disputes.

MANDATED NEGOTIATIONS - HELD IN BREACH

The following are the issues that are taking into account under negotiations mandated under the AoA, one year before the end of the implementation period:

²² However a determination of the injury or threat thereof is made in accordance with Article VI of the GATT 1994, would enable the levy of Countervailing duties.

²³ Committee on Agriculture shall be established under Article 17 of the AoA

- The experience arising from implementing the reduction commitments on various support measures
- Effects of such commitments on world trade in agriculture
- Discuss future commitments on reduction of support measures
- Address non-trade concerns arising out of the implementation of the AoA
- Issues connected with the special and differential treatment to developing country members
- Establish a fair and market oriented agricultural trading system.

Amber box: who can use it?

34 WTO members have commitments to reduce their trade-distorting domestic supports in the amber box (i.e. to reduce the "total aggregate measurement of support" or AMS). Members without these commitments have to keep within 5% of the value of production (i.e. the "de minimis" level) — 10% in the case of developing countries.

Argentina	Hungary	Norway
Australia	Iceland	Papua New Guinea
Brazil	Israel	Poland
Bulgaria	Japan	Slovak Republic
Canada	Jordan	Slovenia
Chinese Taipei	Korea	South Africa
Colombia	Lithuania	Switzerland-Liechtenstein
Costa Rica	Mexico	Thailand
Croatia	Moldova	Tunisia
Cyprus	Morocco	United States
Czech Republic	New Zealand	Venezuela
EU		

For more details, see WTO Secretariat background paper "Domestic Support" TN/AG/S/4, downloadable from http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm secretariat

DOMESTIC SUPPORT: AMBER, BLUE AND GREEN BOXES²⁴

In WTO terminology, subsidies in general are identified by "boxes", which are given the colours of traffic lights: green (permitted), amber (slow down — i.e. be reduced), red (forbidden). In agriculture, things are, as usual, more complicated. The Agriculture Agreement has no red box, although domestic support exceeding the reduction commitment levels in the amber box is prohibited; and there is a blue box for subsidies that are tied to programs that limit production. There are also exemptions for developing countries (sometimes called an "S&D box").

The 'amber box'

For agriculture, all domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box. The total value of these measures must be reduced. Various proposals deal with how much further these subsidies should be reduced, and whether limits should be set for specific products rather than having overall "aggregate" limits.

²⁴ WTO Agriculture negotiations The issues, and where we are now

The 'green box'

In order to qualify for the "green box", a subsidy must not distort trade, or at most cause minimal distortion. These subsidies have to be government-funded (not by charging consumers higher prices) and must not involve price support. They tend to be programmes that are not directed at particular products, and include direct income supports for farmers that are not related to (are "decoupled" from) current production levels or prices. "Green box" subsidies are therefore allowed without limits, provided they comply with relevant criteria. They also include environmental protection and regional development programmes. Canada has proposed setting limits on all "boxes" combined, which would mean limits on green box subsidies as well.

Some countries say they would like to review the domestic subsidies listed in the green box because they believe that some of these, in certain circumstances, could have an influence on production or prices. Some others have said that the green box should not be changed because it is already satisfactory. Some say the green box should be expanded to cover additional types of subsidies.

The 'blue box'

The blue box is an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal (*de minimis*) levels. It covers payments directly linked to acreage or animal numbers, but under schemes which also limit production by imposing production quotas or requiring farmers to set aside part of their land. Countries using these subsidies — and there are only a handful — say they distort trade less than alternative amber box subsidies. Currently, the only members notifying the WTO that they are using or have used the blue box are: the EU, Iceland, Norway, Japan, the Slovak Republic, Slovenia, and the US (now no longer using the box).

At the moment, the blue box is a permanent provision of the agreement. Some countries want it scrapped because the payments are only partly decoupled from production, or they are proposing commitments to reduce the use of these subsidies. Others say the blue box is an important tool for supporting and reforming agriculture, and for achieving certain "non-trade" objectives, and argue that it should not be restricted as it distorts trade less than other types of support. The EU says it is ready to negotiate additional reductions in amber box support so long as the concepts of the blue and green boxes are maintained.

THE STORY OF THE BOXES AS DEFINED BY THE WTO OFFICALLY – THE CRUX OF THE ISSUE AND THE BONE OF CONTENTION²⁵:

Amber box

All domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box, which is defined in Article 6 of the Agriculture Agreement as all domestic supports except those in the blue and green boxes. These include measures to support prices, or subsidies directly related to production quantities.

These supports are subject to limits: “de minimis” minimal supports are allowed (5% of agricultural production for developed countries, 10% for developing countries); the 30 WTO members that had larger subsidies than the de minimis levels at the beginning of the post-Uruguay Round reform period are committed to reduce these subsidies.

The reduction commitments are expressed in terms of a “Total Aggregate Measurement of Support” (Total AMS) which includes all supports for specified products together with supports that are not for specific products, in one single figure. In the current negotiations, various proposals deal with how much further these subsidies should be reduced, and whether limits should be set for specific products rather than continuing with the single overall “aggregate” limits. In the Agriculture Agreement, AMS is defined in Article 1 and Annexes 3 and 4.

Blue box

This is the “amber box with conditions” — conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production (details set out in Paragraph 5 of Article 6 of the Agriculture Agreement).

At present there are no limits on spending on blue box subsidies. In the current negotiations, some countries want to keep the blue box as it is because they see it as a crucial means of moving away from distorting amber box subsidies without causing too much hardship. Others wanted to set limits or reduction commitments, some advocating moving these supports into the amber box.

Green box

The green box is defined in Annex 2 of the Agriculture Agreement.

In order to qualify, green box subsidies must not distort trade, or at most cause

²⁵ Source: www.wto.org

minimal distortion (paragraph 1). They have to be government-funded (not by charging consumers higher prices) and must not involve price support.

They tend to be programmes that are not targeted at particular products, and include direct income supports for farmers that are not related to (are “decoupled” from) current production levels or prices. They also include environmental protection and regional development programmes. “Green box” subsidies are therefore allowed without limits, provided they comply with the policy-specific criteria set out in Annex 2.

In the current negotiations, some countries argue that some of the subsidies listed in Annex 2 might not meet the criteria of the annex’s first paragraph — because of the large amounts paid, or because of the nature of these subsidies, the trade distortion they cause might be more than minimal. Among the subsidies under discussion here are: direct payments to producers (paragraph 5), including decoupled income support (paragraph 6), and government financial support for income insurance and income safety-net programmes (paragraph 7), and other paragraphs. Some other countries take the opposite view — that the current criteria are adequate, and might even need to be made more flexible to take better account of non-trade concerns such as environmental protection and animal welfare.

BASIC LESSONS FROM THE IMPLEMENTATION OF THE URUGUAY ROUND AGREEMENTS

This is not the place for a detailed examination of lessons learned from the experience of the eight-year-long UR negotiations and their aftermath. However, some broad conclusions, most of which are widely supported, can be stated briefly here:

- Negotiations on rules were more complex than market access talks; gains were less “automatic”
- Significant policy distortions remain and the mechanism within the WTO to address these issues is unable to do the needful in any effective manner
- Agreements emerged that were not beneficial to many countries, especially least-developed economies.
- Effective participation of many developing countries in WTO negotiations remains in doubt.
- Livelihood issues were never considered and this is where countries like India lost heavily
- Implementation issues remain of several UR agreements, including the AoA.
- Information often does not exist, and even when information does exist, there is a lack of transparency.
- Rules and commitments are not linked to development.

- Development priorities have been neglected.
- Implementation timetable were unrealistic.
- Technical and financial assistance was insufficient and not always properly targeted; that is; commitments were not binding so that assistance was often not forthcoming.

EXPERIENCES OF THE URUGUAY ROUND AGREEMENT ON AGRICULTURE AND EXPLAINING THE CONSEQUENTIAL SHORTCOMINGS

The shortcomings of the WTO are becoming more and more obvious. The decadal experience of the developing countries with the AoA has not been a pleasant affair. In many instances, tariff bindings are at very high rates and offer limited market access opportunities. The tariffication process allowed scope for considerable discretion, resulting in agricultural tariff bindings being sometimes far above actual protection rates. Consequently, agricultural tariffs remain high and in addition there is substantial disparity among countries and across commodities. In contrast to manufacturing tariffs, many of which are now of the order of 5 to 10 percent, agricultural tariffs are, on average, 62 percent, with tariffs peaks of over 500 percent. Average commodity tariffs range from 50 to 91 percent, with the highest tariffs set for tobacco, meats, dairy, and sugar and sweeteners. The high tariffs currently existing in the agricultural sector restrict trade and this mostly hurts the developing countries.

Another important aspect of tariff profiles that emerged from the AoA is that tariff rates vary over a wide range. Triple-digit tariffs are in place alongside zero tariffs. Increases in tariff dispersion can intensify the distortion effects of tariffs. Empirical evidence suggests that dispersion of tariffs as measured by domestic and international “spikes” increased for most OECD countries in 1996 relative to 1993. Available evidence also suggests that tariffs tend to increase with the level of processing, although the extent of escalation differs greatly across countries. Moreover, agricultural bindings are not always transparent. Transparency and comparability of agricultural tariffs is impaired by the use of non-ad valorem tariffs such as specific or mixed tariffs. Twenty-five WTO members, from both developing and industrial countries, have non-ad valorem bindings on more than 50 percent of their agricultural tariff lines.

In OECD countries, tariff protection is very high in many sectors, including dairy (116 percent) grains (78 percent), livestock (82 percent), and sugar and sweeteners (64 percent). OECD tariffs in other sector are relatively low. Because tariff spikes for sensitive commodities characterize OECD countries’ tariff profiles, there is a large dispersion in their tariffs across commodities. Non-OECD countries tend to have higher average tariffs than OECD countries, although less disparity across commodity groups. Non-OECD countries use mega-tariffs (more than 100 percent) more than OECD countries. However, particularly for developing countries, the tariffs actually applied may be considerably lower than the bound rates. For example, the 1998

applied rate for Latin American countries of 13 percent is less than one-third of their average final bound rate of 45 percent.

The market access provisions have, paradoxically, caused a proliferation of TRQs in agricultural trade, reflecting the high levels of tariffs prevailing in the agricultural sector. TRQs were introduced to establish minimum access opportunities where there had been no significant imports (less than 5 percent of domestic consumption) before the tariffication process or to maintain current access opportunities where the tariffication would otherwise have reduced market access conditions. TRQs are two-tier tariffs that allow some fraction of domestic consumption requirements to be imported at a low tariff (in-quota), while any imports above the minimum access commitments are charged a much higher (over quota), and often prohibitive, tariff.

The distribution of TRQs among countries and product groups reflects the incidence of tariffication. More than 80 percent of all TRQs are concentrated in five of the 12 product groups concerned by tariff quotas. More than one-quarter of all TRQs apply to fruits and vegetables, dairy products, and oilseeds. Although TRQs cover only 6 percent of tariff lines, they are prevalent in the sensitive sectors of meats, dairy, sugar, and cereals. Only 37 of the 142 WTO members (September 2001) use TRQs. They are concentrated in a small set of countries and commodities. Three countries, Norway (17 percent), Poland (8 percent) and Iceland (7 percent), account for one-third of all TRQs and three commodity groups, fruits and vegetables (26 percent), meat (18 percent), and cereals (16 percent), for 60 percent of all TRQs (Appendix table A.3).¹² All OECD countries, except Turkey, have tariff quota commitments shown in their Schedules with a total of around 700 individual tariff quota commitments. The provision that allowed TRQs to replace former quantitative restrictions was critical to bringing the UR to a successful conclusion.

Although not as economically efficient as tariffs, TRQs are, in general less trade distorting than are non-tariff barriers. It can be argued that TRQs increase market access, since, in contrast to import quotas, there is no explicit ceiling on imports under this system. However, TRQs, are second-best policy instruments because they retain many of the characteristics of non-tariff barriers that might impede market access. Countries are not obliged to import quantities corresponding to the TRQs, and the "fill-rate" of many of TRQs has been low. Between 1995 and 2000, on average, TRQs OECD countries have been only two-thirds filled. Simple average fill rate for the OECD countries as a whole declined from 66 percent in 1995 to 59 percent in 1999.

Tariff quotas may not be filled for various reasons. One reason could be that economic conditions, including deficient import demand and changing competitiveness in the importing country, have changed since the reference period. A second reason might be that the method by which TRQs are administered can also

influence trade and the likelihood of being filled. Most licensing systems lead to the establishment of vested interests and built-in rigidities. In fact, the degree of TRQs utilization varies among methods of quota allocation. The precise method of administration of TRQ could operate as a second -tier level of protection over and above that provided through the tariffs. Further, TRQs are often allocated totally to specific supplying countries under preferential agreements, thereby limiting market access by other countries. Exhibit many of the most market-distorting aspects of a non-tariff barrier. Over-quota tariff rates for most commodities in many countries are at triple-digit levels. The average over-quota tariff for 25 countries out of 40 is higher than 62 percent. Seven OECD countries have average over-quota final bound tariffs of more than 130 percent.

Agricultural Tariffs (Percent)

Country	Tariffs (All lines)	In-quota Tariff (TRQ lines)	Over-quota Tariff (TRQ lines)	TRQ lines As a share Of total
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OECD				
Australia	4	10	25	2
Canada	23	3	139	22
Czech Republic	12	28	48	14
European Union	30	17	78	28
Hungary	29	26	40	50
Iceland	113	49	181	57
Japan	58	22	422	21
Korea, Republic of	66	19	314	25
Mexico	43	48	148	13
New Zealand	7	0	7	1
Norway	142	262	203	55
Poland	48	31	59	85
Slovak Rep.	13	30	42	21
Switzerland	120	75	210	42
United States	12	10	52	24
Non-OECD				
Argentina	35	7	42	1
Brazil	37	132	137	38
Colombia	87	79	151	6
Israel	75	148	115	20
Morocco	65	26	109	17
Tunisia	110	106	248	10
Malaysia	25			
India	114	65	179	1
Indonesia	48			
Pakistan	101	27	91	12
Thailand	35			

In general, in-quota tariffs are less than 50 percent, but a few very high tariffs raise the simple average. Thus, the high in-quota and over-quota tariffs significantly impede agricultural trade. These results provide support to the argument that the establishment of tariff quotas could hamper market access and trade flows.

Nevertheless, it should be pointed out that the fundamental issue is not the existence of TRQs per se, but rather the predominance of many very high tariffs.

While we have discussed in adequate measure the implications of the WTO regime we also need to understand as to how we have devised our subsidy regime and understand its efficacy and its implications. The next chapter deals with the composition of our subsidy, its size in comparison with the global subsidy regime and the impact it has on the agricultural sector in India.