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TRADE IN AGRICULTURE AND REDUCTIONS IN SUBSIDIES

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I. Introduction

1. Agriculture provides a livelihood for more than two-thirds of the world's population. For them, it is the key driving force for economic and social growth. It is the mainstay of developing countries and determines the social and economic fabrics.

2. In several developing countries in Asia and Africa and in other parts of the world, the bulk of the population depends overwhelmingly on agriculture. More than 50% in the developing countries depend on agriculture for their livelihood. The UNCTAD Trade & Development Report, 1998, indicates that agriculture's share of the labour force in low-income countries was as high as 74.4% in West Africa and 78.5% in Eastern and Southern Africa in the year 1990. A similar situation prevails in India and in several other parts of Asia.

3. Despite the employment of such large numbers in agriculture, their contribution to the gross domestic product is relatively low, reflecting low productivity and unfavourable terms of trade. The lack of adequate infrastructure in developing countries to process, store and transport agricultural products, and the inadequate availability of capital at a reasonable rate of interest, further add to the farmers' burden. Inadequate processing facilities and a dearth of adequate research and development facilities only make matters worse.

4. Marketing continues to be a major handicap, particularly since most farmers belong to the small and marginal category, with very little financial resources at their command to wait for better prices, despite their stocks.

5. However, the developed countries have been investing huge sums of money to preserve agriculture, which provides employment for 3 to 4% of their population.

II. Doha Ministerial Declaration

6. Not surprisingly enough, the Doha Declaration, through its paragraphs 13 and 14, provides:

"(13) ... We recall the long term objective referred to in the Agreement to establish a fair and market oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agriculture markets. We confirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations, we commit ourselves to comprehensive negotiations aimed at: substantial improvement in market access; reduction of, with a view to phasing out, all forms of export subsidies and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.

(14) Modalities for the further commitments, including provisions for special and differential treatment, shall be established no later than 31st March, 2003,xxx"

III. Key issues and questions

7. The Committee on Agriculture has organised regular sessions to address the major concerns voiced in the Declaration such as the so-called three pillars of the Agreement on Agriculture, i.e. market access, export competition and domestic support. Also, special and differential treatment has remained as an integral part of all elements of the negotiations as per the Declaration, while non-trade concerns have also been taken into consideration.

Market access

8. In this regard, the points involved are the modalities to be employed for reducing tariffs and other means to improve market access, such as expanding market access opportunities through tariff quota access commitments. Other points involved in this connection are tariff quota administration and special safeguards, other market access issues related to certain non-trade concerns, and special and differential treatment in relation to both the negotiation of further access commitments and rules.

9. With regard to tariff reduction formulas, many countries raise the need to tackle tariff peaks and tariff escalation. There is a strong and widespread support for the flexible, simple average reduction formulas used in the Uruguay Round, i.e. a 36% average reduction target with a minimum cut of 15% for developed countries.

10. Another group of countries supports another Swiss type formula leading to the harmonisation of developed participants' tariffs, which fixes the maximum tariff at 25% *ad valorem* for any tariff item, at the end of the implementation period.

11. To achieve a compromise among these two divergent opinions, a formula advocating gradual simple average reduction has been outlined. The underlying principle of this formula is "the higher the tariff, the greater the required average reduction rate". Of course, under each of these options, special and differential treatment would generally apply in the form of lower tariff reduction targets and a longer implementation period.

12. Many developing countries are seeking maximum flexibility in some areas in order to address their food security, rural development and livelihood security concerns. In this regard, a significant number of developing countries have welcomed the inclusion of the concept of Special Products (SP) which would be eligible for significantly lower reduction rates. However, many among the developing world like these products to be fully exempted from reduction commitments.

13. Other developing countries have raised concerns regarding the implications of this concept for South-South trade. Also, some developed and developing countries have expressed their concern regarding the possible creation of a large loophole and emphasised the need for real improvements in market access.

SP products

14. Here, the question arises as to how developing country products should be classified as "SP", and also whether this should be done by way of self-declaration or via objective criteria to be specified.

Export competition

15. The Doha Ministerial Declaration aimed at "reduction of, with a view to phasing out, all forms of export subsidies". In order to achieve this, areas like export subsidies, export credits, food aid and State trading export enterprises are to be addressed.

Export subsidies

16. In this case, the modalities relating to the target expressed in quantitative terms, the implementation period and path as well as the related special and differential treatment are to be determined.

Food aid

17. Two divergent views emerge in this regard, namely, whether food aid should be triggered on the basis of appeals by United Nations Specialised Agencies only or whether a broader concept is preferable. Differences also prevail as to the provision of aid for other purposes and whether food aid should be exclusively provided in full grant form.

Export restrictions and taxes

18. A number of countries call for the prohibition or progressive reduction/elimination of export restrictions and export taxes, while some other countries do not agree to such proposals.

Domestic support

19. This area remains a major point of conflict where a proposal for a 50% cut in Blue Box payments or the inclusion of Blue Box payments in the AMS and the respective S&D modalities are being debated. There is also a proposal for the reduction of Amber Box support by 60% (for developing countries 40%) and to cap product-specific Amber Box support. The alternatives to the above two proposals are tied to the depth of reform expressed in quantitative terms, the implementation period and the corresponding modalities under S&D treatment.

20. With regard to the Green Box, a number of participating countries have proposed stringent new measures including a cap on Green Box payments and the elimination of certain forms of direct payments to producers. Many others want the total exclusion of the Green Box provision in order to substantially reduce trade-distorting domestic support as per the Doha mandate.

Least Developed Countries

21. The least developed countries (LDCs) argue that they should not be required to undertake reduction commitments. Also, they demand that developed countries provide duty- and quota-free access to their markets for all imports from LDCs.

Recently acceded Members

22. The question arising in this case is whether recently acceded Members should have special flexibility and whether that flexibility should be in the form of more time to implement the reduction commitments. Such countries also support wide-ranging flexibility in the areas of market access and domestic support.

Certain other groups

23. A further question is whether other groupings such as small island developing States, other vulnerable developing country groupings or transition economies should have special flexibility.

IV. The views*Developed world*

24. Basically, there is a very sharp division of viewpoints with regard to agriculture. The developed countries that are the big exporters of agricultural products want market access to bigger and newer markets. They have come to a point that trade in agriculture within the developed countries cannot expand beyond a point. But the high tariff walls raised by developing countries like India and the others have become the biggest impediment to the developed countries' efforts to expand their market access. Hence, they strongly support a substantial reduction in the bound tariffs of such countries, which are currently high.

Developing world

25. The above view on agriculture, i.e. that of the developed countries, is not shared by the developing world. For them, it is an overly mercantilist approach. While agriculture is treated as agro-business in several countries, for most of the world's countries it is a way of life and an issue of livelihood and survival.

26. The developing world thinks that the level of ambition in the market access pillar is pitched considerably higher than for domestic support and export competition, thus creating imbalance. They say that the way in which various categories of tariff reduction have been constructed also imposes a disproportionately high burden on developing countries. Hence, the level of ambition in this respect should be lowered considerably before any agreement can be reached.

27. Many developing countries have, since the beginning of the negotiations, supported the the reform process in the agricultural sector on the assumption that substantial reductions in domestic support and export subsidies would level the playing field for them.

28. In many countries, however, the product-specific support as a proportion of the value of production is as high as 56.3% for sugar, 53.9% for cotton, 48.7% for wool, 42.1% for sunflower oil, 36% for peanuts, 35% for rice, 23% for sugarcane and even 40% for dairy products.

29. By making use of existing flexibilities, major developed countries that are exporters of certain commodities have increased support substantially by many percentage points. This means exporting these products at prices 25-75% lower than even their cost of production without infringing any of the existing WTO disciplinary measures.

30. This has created imbalances in the process of liberalisation characterised by unilateral opening-up of markets by developing countries while major developed countries refrain from trade-distorting domestic support and export subsidies, export credits, etc. This would simply not be in the interest of a large number of developing countries as they would be deprived of the only method of protecting their farmers from unfair competition even on their domestic markets.

31. A further argument put forward by the developing countries is that market access cannot be equated with tariffs alone. Market access depends on a whole range of factors inclusive of non-tariff barriers of various kinds, initiative restrictions including tariff rate quotas and the administration of tariff rate quotas, SPS, TBT measures and also the extent of subsidy and domestic support given to agricultural products in developed countries.

32. Article XXVIII bis and XXXVI of GATT clearly enumerate the factors to be borne in mind when negotiating tariff levels for developing countries. These include not only the concept of 'less than full reciprocity', but also a recognition of the individual development, financial and trade needs of developing countries and their revenue requirements.

33. Countries like India and China have one third of the world's population, varied climatic zones and produce almost everything under the sun. On the other hand, one hundred WTO member countries have less than five million inhabitants.

34. So, the vast number of farmers are to be protected. However, in these countries, payment cannot be made to Blue Box farmers or decoupled farmers. Farmers can only earn a living if prices are stable. And if the tariffs are opened up, they may not get those benefits.

35. They therefore demand that until and unless the distortions are removed, no tariff can be reduced.

SP & SSM

36. The developing countries want the special products (SP) category and special safeguard measures (SSM) for agricultural products which can be treated as a S & D measure. They want to declare some agriculture products on their own as belonging to the SP category, on the strength of which the special protection tariff could be imposed.

V. Non-trade concerns

37. While there is an agreement on geographical indication issues, environmental measures and animal welfare, both of which are non-trade issues, are hotly contested. Basically, the European nations are raising such issues. These are treated as trade-depressing effects by the developing nations.

VI. Conclusion

38. The Doha Ministerial Declaration should be adhered to in letter and spirit. While the gradual phasing-out of trade-distorting subsidies and export support with their ultimate elimination should be the main target in the next Cancún Round of negotiation, tariff reduction should also be a phased and gradual process, thus giving developing countries an opportunity to prepare for a future level playing field.