CHAPTER 3

IMPLICATIONS OF WTO AGREEMENT ON AGRICULTURE (AoA) ON INDIAN AGRICULTURE

Purposes of this chapter are following…

1. Examines issues related to the WTO’s Agreement on Agriculture from India’s point of view
2. Problems facing by India due to signing of WTO Agreement on Agriculture
3. Some suggestion and solution to solve the problems which India facing because of Agreement on Agriculture.

Prior to the Uruguay Round (Of WTO), trade in agriculture was highly distorted. Market access for agricultural products was limited as most markets were restricted by physical import barriers. The presence of massive domestic subsidies led to overproduction of temperate crops in the developed countries. Coupled with stagnating demand for temperate crops in these countries, this led to excess supply, and export subsidies were used to dump the surplus agricultural output in international markets. This resulted in depressed market prices and, in spite of being low-cost producers of agricultural products; agricultural exporters from developing countries could not compete with the subsidized exports from developed countries. Only a handful of players were active in the global market and this thinness of the global farm trade resulted in high price fluctuations of agricultural commodities. The Uruguay Round Agreement on Agriculture marked a significant departure from this trend (Pal, 2002)
Agriculture has been, and perhaps will remain for some time, a key issue in the WTO, with the power to influence negotiations, packages and the outcomes of Ministerial Conferences. The AA’s goal was to provide a framework for the leading members of the WTO to make changes in their domestic farm policies to facilitate more open trade. (Randy, 2005). Major global economic benefits were predicted from the establishment of WTO and the agreement on agriculture. One estimate predicted the gain in world gross product at between $35 billion/year in the short run to 73 billion in the long run (Harrison, Rutherford and Tarr 1996; Roberts et al. 1999). The Uruguay Round AOA was first step towards the reforms in agriculture trade. The Article XX of the Uruguay Round agreement on agriculture required WTO members to review the agreement after about five years, i.e. by the end of 1999 or beginning of 2000, for continuing the reforms started with the Uruguay Round. This provided opportunity to review the effect of implementation of UR AOA, and, in the light of this experience, move further towards establishing free, fair, and market-oriented agricultural trading system. Negotiations for the next Round of AOA were started in March 2000 and have passed through several phases.

While the liberalization reforms during this period clearly mark a significant departure from the protectionist past, India has a long way to go in integrating its vast agricultural sector into world markets. We need an assessment of what has happened under the agreement on agriculture. And we also consider the following fact that the role of agricultural sector remains critical as it accounts for about 52 per cent of the employment in India, apart from being the provider of food for the people, fodder for livestock and raw materials to industries. In fact, agricultural sector contributed 12.2 per cent of national exports in 2007-08 (Economic Survey 2008-09). India is proud to have been a founder Member both
of GATT and of WTO and India is a signatory to the Uruguay Round Agreement of the General Agreement on Tariffs and Trade (GATT). This makes it mandatory for India and all member countries to open up their economies to the world market. In this process, agriculture will be a key sector (NAAS, 2001). Over the years, our negotiators have played a prominent role in shaping the contours of the multilateral trading system as it exists today. It is equally sensitive in the Indian context. To understand these sensitivities fully, including India’s emphasis on self-sufficiency, it is important to keep in mind the extreme shortage of food grain that the country faced in the 1950s and 1960s and a little over 700 million people that is about 69% of the population, are dependent on the rural economy for their livelihood. In a nutshell, the AOA was a significant first step towards order, fair competition and market orientation to achieve the goal of reforming the distorted trade in the agricultural sector. (Neera) India also getting some time to cut subsidies because we are a developing country (Under the agreement, the developing countries are not required to cut subsidies or lower their tariffs as much as developed countries, and they have been given extra time to complete their obligations.)

This chapter explores the current pattern of Indian trade in agriculture and changes resulting from trade liberalization. What policy changes are needed? Attention is focused particularly on an appropriate policy response for India.

3.1 AGREEMENT ON AGRICULTURE OF WTO

The Agreement on Agriculture forms a part of the Final Act of the Uruguay Round of Multilateral Trade Negotiations, which was signed by the member countries in April 1994 at Marrakesh, Morocco and came into force on 1st January, 1995. The WTO Agreement on Agriculture together with individual country’s commitments to reduce export subsidies, domestic support and import
duties on agricultural products are significant steps towards reforming agricultural trade between countries (Samuel).

The Agreement on Agriculture has established a framework for negotiations on the core issues; substantial improvements in market access, reductions in trade-distorting domestic support and the phasing out of all forms of export subsidies. The core objective of AoA is to establish a fair and market oriented agricultural trading system. Its implementation period was six years for developed countries and nine for developing countries, starting with the date the agreement on Agriculture came into effect – January 1, 1995. The least developed countries are not required to make any reductions. AoA represents an important improvement towards increased liberalization of the trade rules in the agricultural sector. (AsianDevelopmentBank, 2008.)

The AoA covers basic agricultural products and products derived from these including processed ones. The coverage is further extended to tobacco, wines and spirits, fibers such as cotton, raw silk and wool and also raw animal skins. Fish and fish products and forestry products are excluded from the scope of this agreement. (Shyamasundaran, 2002).

The AoA comprises three sections: market access, domestic support and export subsidies. Negotiators refer to these three sections as the three pillars of the agreement. The following table telling this
Table 3.1 Components of AoA

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>Tariffs</td>
<td>-36%</td>
<td>-24%</td>
</tr>
<tr>
<td>-Average cut for all agricultural products</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Minimum cut per product</td>
<td>-15%</td>
<td>-10%</td>
</tr>
<tr>
<td>Domestic support</td>
<td>-20%</td>
<td>-13%</td>
</tr>
<tr>
<td>Cuts in total (.AMS.) support for the sector</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports Subsidy</td>
<td>-36%</td>
<td>-24%</td>
</tr>
<tr>
<td>-Value of subsidies (outlays)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-Subsidized quantities</td>
<td>-21</td>
<td>-14%</td>
</tr>
<tr>
<td>Source: WTO Web site</td>
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</tbody>
</table>

3.1.1 Market Access

Market access includes

1. Tariffication,
2. Tariff reduction
3. Access opportunities.

AoA prohibited the use of non-tariff-barriers (NTBs) like quotas and import restrictions for agricultural products and introduced ‘Tariffication’. Tariffication required that all NTBs on the import of an agricultural product would have to be replaced by a single ‘bound’ tariff rate so that the resulting protection would be equivalent to the nominal protection in the base period. No country was allowed to increase tariff rates beyond the bound rate. Tariffication
led to the concern that it could result in high bound tariffs which, if applied, could be prohibitive for any trade to take place. This gave rise to the concept of 'minimum market access', whereby access WTO members were required to maintain current import access opportunities at a certain minimum level. This was achieved through the ‘tariff rate quota’ (TRQ), which is a two-level tariff with the rate, charged depending on the volume of imports. A lower tariff is charged on imports to ensure minimum market access or the quota volume; a higher tariff is charged on imports in excess of the quota volume. By 2002, almost all quantitative restrictions on agricultural imports had been abolished. Under normal circumstances, an imported product is expected to have free entry into the importing country. However, a member is allowed to impose a tariff i.e., customs duty on the imported product at the time when it enters the importing country. Tariffs usually serve the purpose of getting revenue for the government and in the case of developing counties it forms an important source of income. Tariffs are used for the protection of the local industry by making domestic products cheaper for a developing country, protecting its domestic produce and farmers. In agriculture, 100 percent of products now have bound tariffs.

**3.1.1.1 India’s Commitment to Market Access**

India is one of the most protected markets for agricultural products in the developing world, and ranks among world’s top five countries with highest agriculture tariffs: Iceland, Norway, Switzerland and South Korea (Laborde, 2007). Due to the size of its rural inhabitants and their dependence on farming, India’s recent trade liberalization agenda does not appear to systematically include the agricultural sector. (Munisamy, 2008).

In the case of market access, India had maintained a two-tier strategy of protection from imports leading up to the Uruguay Round (Pursell, Gulati, and
Gupta 2007). The first tier involves the licensing of and quantitative restrictions on imports of most products including nonagricultural goods. Gulati and Pursell (1993) indicated that nearly 96 percent of tariff lines faced quantitative restrictions in India prior to 1990. In addition to the quantitative restrictions, India maintained high tariffs in the form of three types of import duties: basic customs, auxiliary, and additional. Hoda and Gulati (2007) noted that the basic customs duty has been as high as 200 percent, while the auxiliary duty ranged between 40 and 50 percent.

The list of products with quantitative restrictions significantly overlapped with that of products facing high tariffs, but there were notable exceptions in the latter (for example, rice, maize, and milk products). Given the balance-of-payments exemption, India agreed as part of the AoA to bind tariff rates for commodities that were not bound in earlier negotiations. The ceiling is set at 100, 150, and 300 percent for commodities, processed products, and edible oils, respectively. For those commodities with bound rates from earlier negotiations, pre-1994 tariff levels are retained. Interestingly, the latter group included some key cereals (rice, maize) and milk products at zero tariffs. The improvement in foreign exchange reserves in the late 1990s eliminated the balance-of-payments justification for quantitative restrictions forcing India to renegotiate bound rates for rice, maize, sorghum, milk and milk products, and a few other commodities in 1999. The newly negotiated tariffs, in the range of 40 to 80 percent, included minimum market access in the form of tariff-rate quotas. Hoda and Gulati (2007) reported that the simple average of applied customs duty on agricultural products was 37.0 percent in 2004, while the bound rates averaged 114.8 percent. Finally by 2002, almost all quantitative restrictions on agricultural imports had been abolished. India maintains tariff quotas (TRQs), another WTO-consistent
device of protection, on a limited number of agricultural products, including milk powder and maize.

And in India quantitative restrictions on the imports of commodities like wheat and wheat products, rice, pulses and oilseeds were removed from 2000 onwards.

### 3.1.2 Domestic Support

Agreement on Agriculture distinguishes between support programmes that directly stimulate production and trade, and those that are considered to have no direct effect. AoA does not impose restrictions on the latter category. Support measures that are exempt from reduction commitments are categorized as 'blue box' and 'green box' subsidies.

**Green Box** subsidies are deemed to cause no or minimal trade distortion and hence not subject to reduction under WTO commitments. These include government spending for research, pest and disease control, training services, extension and advisory services, marketing and promotion services, infrastructure provisions, environment programme, relief from natural disasters, decoupled income support etc. **Blue box** subsidies are linked to acreage or animal numbers but under schemes that also limit production by imposing production quotas or requiring farmers to set aside part of their land.

**Amber box** subsidies are considered to be trade distorting such as market price support and are expressed in terms of Total Aggregate Measure of Support (AMS) which is given as one figure. Production and trade-distorting subsidies are classified as 'amber box' subsidies, and are subject to reduction commitments. AoA allows developed countries to have amber box subsidies up to 5 per cent of
the value of agricultural production. This is called the ‘de minimis’ level. Amber box subsidies above the de minimis level come under reduction commitments.

Estimates suggest that domestic farm support in developed countries amounts to about 300 billion US dollars. Such huge subsidies not only create distortion in the domestic markets of these countries, they also distort trade by artificially influencing commodity prices (Parthapratim, 2005) The Human Development Report (HDR) 2005 also finds that the farm subsidy system in developed countries is extremely inequitable. According to the figures quoted in the HDR2005, more than three quarters of CAP (Common Agricultural Policy) support goes to top 10 percent of subsidy recipients.

**Figure 3.1**

![Total support to agriculture](image)

Source: OECD (2002)

In fact after the Uruguay Round, most developed countries have shifted a significant part of the prohibited subsidies (the Amber Box subsidies) to the
permissible Blue and Green Box subsidies, which are supposedly less trade distorting. Currently, Blue and Green Box subsidies account for a significant share of domestic subsidies in many WTO Member countries. It is notable here that in two recent dispute settlement cases WTO has found that subsidies in developed countries are directly responsible for price suppression in the international market. In a dispute between Australia and European Communities regarding export subsidies on sugar (WTO Dispute DS265), the WTO dispute settlement panel has ruled that EC export subsidies have allowed EC to export sugar below its cost of production. Similarly, in another dispute (WTO Dispute DS267), Brazil alleged that US domestic subsidies to its US producers, users and exporters of upland cotton is leading to price suppression in the international market. The WTO Panel Report and the Appellate Body Report have ruled that US domestic subsidies are indeed leading to oversupply of cotton in the international market which is leading to price decline of cotton in the international market.

Farm subsidies distort the production structure of a country by raising crop prices in a country's internal market. Higher prices induce over-production of the subsidized crop. Most agricultural goods are price and income inelastic in nature and therefore, high income countries tend to have a stagnant demand for such commodities. Overproduction and stagnant demand for agricultural goods lead to ‘structural surpluses’ in these countries. This surplus not only squeezes out imports in the already restricted domestic markets, it is also dumped in the international market at a cheaper rate. This leads to price suppression of that commodity in the international market (Parthapratim, 2005).

3.1.2.1 India’s Commitment to Domestic Support
The urban-rural income differential in India is much smaller than that of developed countries. In order to bridge these inequalities, the developed countries generally tend to resort to heavy subsidies to their agricultural sector. The rural-urban divide in India is increasing steadily and it would have to face the same problem as other developed countries are facing at present. However, India could not afford to employ the same balancing strategy as practiced by the developed countries of providing subsidy to the agricultural sector, because its rural population is very large (Kaliappa et al., 2006).

Following table shows the Indian food subsidy-

**Table 3.2 : Quantum of food subsidies released by Government**

<table>
<thead>
<tr>
<th>Year</th>
<th>Food subsidy* (Rs crore)</th>
<th>Annual growth (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999-2000</td>
<td>9,200.00</td>
<td>5.75</td>
</tr>
<tr>
<td>2000-01</td>
<td>12,010.00</td>
<td>30.54</td>
</tr>
<tr>
<td>2001-02</td>
<td>17,494.00</td>
<td>45.66</td>
</tr>
<tr>
<td>2002-03</td>
<td>24,176.45</td>
<td>38.20</td>
</tr>
<tr>
<td>2003-04</td>
<td>25,160.00</td>
<td>4.07</td>
</tr>
<tr>
<td>2004-05</td>
<td>25,746.45</td>
<td>2.33</td>
</tr>
<tr>
<td>2005-06</td>
<td>23,071.00</td>
<td>-10.39</td>
</tr>
<tr>
<td>2006-07</td>
<td>23,827.59</td>
<td>3.28</td>
</tr>
<tr>
<td>2007-08</td>
<td>31,259.68</td>
<td>31.19</td>
</tr>
<tr>
<td>2008-09</td>
<td>43,668.08</td>
<td>39.69</td>
</tr>
<tr>
<td>2009-10</td>
<td>46,906.68</td>
<td>7.42</td>
</tr>
</tbody>
</table>

*Figures up to December 29, 2009.
Department of Food & Public Distribution.*

Product-specific AMS remained negative through 2005 mostly because of the wide gap between ERPs and MSPs. From India’s first submission to WTO about domestic subsidies (document number G/AG/N/IND1 dated 17 June
1998), it can be seen that in 1995-96, India had market price support programmes for 22 products. Among these 22, 19 were reported in the document. Among the products reported in the document, only sugar cane had a support price higher than the external reference price. For all the other products, the MSPs were lower than the corresponding ERPs and hence India’s total product specific support was negative. With regard to Domestic Support, the main instruments is the minimum support price (MSP) for major agricultural commodities. This has been used for most crops: for example, cereals, pulses, oilseeds, and commercial crops (sugarcane, cotton, tobacco, and jute). The decision on MSP is made by the Ministry of Agriculture with recommendations from the Commission on Agricultural Costs and Prices (CACP). Through the MSP, the CACP aims to cover the cost of production of each of the crops, including the imputed value of farm labor, and to provide a reasonable rate of return to farmers (Hoda and Gulati 2007; Pursell, Gulati, and Gupta 2007). To ensure markets operate with MSP as the floor, procurement operations are carried out by public agencies. The FCI is authorized to procure wheat and paddy from farmers, and rice and sugar from millers India’s second and latest submission to WTO about domestic subsidies, however, reports lesser number of commodities under the MSP scheme. The commodities reported in these tables are rice, wheat and coarse cereals (bajra, jowar, maize and barley). The supporting table produced in G/AG/N/IND2 show that all these products had lower MSPs than ERPs for both the marketing years. As a consequence, India’s total product specific supports were negative for both the years.

Non product-specific AMS, by way of fertilizer, electricity, irrigation, credit, and seed subsidies, accounted for 7 percent of the value of agricultural production in 1995. Major inputs supplied at subsidized prices include fertilizer,
electricity, irrigation, credit, and seeds (Gulati and Narayanan 2003). Fertilizer subsidy arises from ensuring a statutory retail price for farmers, which is lower than the per-unit domestic cost of production and the import price for nitrogenous and phosphatic fertilizers. In most years, the import price is lower than the domestic cost of production. In addition to the difference between the statutory retail price and the import price/domestic cost of production, the subsidy also covers the distribution costs of imported fertilizers. For domestic production of fertilizers, a retention price scheme establishes a fixed sales price for each nitrogenous and phosphatic fertilizer manufacturer. The sales price fixed for each manufacturing unit enables farmers to buy fertilizers at the statutory retail price. The government pays for the difference between the cost of production and the fixed sales price and a profit margin for each manufacturing unit. Non product-specific AMS, with the allocation of 80 percent of fertilizer, electricity, and irrigation subsidies under special and differential treatment, accounted for about 1 percent of the value of agricultural production. Alternative support-definition and measurement scenarios show a possible increase in product specific AMS. However, reallocating input subsidies from special and differential treatment to non product-specific AMS would only eliminate some of the slack in the latter’s de minimis exemption.
India does not have any Blue Box payments but India has notified Green Box subsidies. Two major reasons for the growth in the green box support are the public stockholding (food security) expenditures and relief payments for natural disasters. Both components have witnessed significant growth in the 1998-2005 period. Green Box subsidies were around US$ 2,502 million in 1996-97 and US$ 2,873 million in 1997-98. Among the Green Box subsidies a very high percentage (68 percent in 1996-97 and 70 percent in 1997-98) of subsidies went into public
stockholding for food security purposes. In India, we are being told that our Aggregate Measure of Support (AMS) being negative because we have net-taxed their agricultural sector, we can still raise our subsidies to farmers. Therefore, there are no reduction commitments on this issue for India (Deodhar, 2001). In reality, India is committed to do away with agricultural subsidies under the Structural Adjustment Programme of the World Bank and the International Monetary Fund. In any case, India provides only $1 billion worth of indirect subsidies to 550 million farmers!(Sharma) Since the non-product specific support amounts to 7.5 per cent of the value of agricultural production, the aggregate measure of support (AMS) to Indian agriculture could still be well below the deminimis of 10 per cent in terms of the Uruguay Round stipulations (Hanumanth, 2009). According to estimates by Pursell and Gulati (1995), total subsidies on fertilizer, irrigation, electricity and agricultural credit amounted to 2.7 per cent of total GDP or 11 per cent of agricultural GDP.

In its proposals on the negotiations on WTO Agreements on Agriculture, India has suggested that the Aggregate Measure of Support (AMS), as the term suggests, be calculated as a sum of the product-specific and non-product specific support [WTO 2001]. If the product-specific support is still negative in the case of India, then the aggregate measure of support would be below 7.5 per cent of the value of agricultural production. As it is, input subsidies to re re-source poor farmers which come under non-product specific support are exempt from reduction commitments under the WTO provisions. If India avails of this, the non-product specific support may come down to less than half of what is being shown today [Gulati 2001]. In view of this, it may not be in India's interest to fight within the WTO for greater domestic support to agriculture, especially if it
can blunt our opposition to slow reduction in farm support and inadequate access to markets in the advanced countries (Hanumantha, 2009).

Any multilateral rule regarding domestic farm subsidies can have an impact on India through two different routes. The most obvious and direct impact will be on the way the government provides subsidies to its farm sector. A less direct but equally important impact of the rule will be via the trade route (Parthapratim, 2005).

3.1.3 Export Subsidies

The export subsidy discipline requires that export subsidies be subjected to reduction and limiting both in value and quantity. It establishes ceiling on the value as well as volume of subsidized exports. Limits are determined on the basis of the support extended during 1986-88 annual average. The developed countries expected to bring down export subsidies by 36 percent in value and 21 percent in quantity over the six year implementation period of the AoA (during 1995-2000). While the developing countries would have to reduce their subsidies by two-third of the levels stipulated for developed countries i.e by 24 percent in value and 14 percent in quantity.

Export subsidies lead to inefficiencies and high costs that have been borne by consumers and tax-payers in the subsidizing country. Countries which do not subsidize their exports get affected in several direct and indirect ways. Export subsidies are used to cover the price difference between high domestic prices and lower international prices (Parthapratim, 2005). In general, export subsidies increase the share of the exporter in the world market at the cost of others; they tend to depress world market prices and make them more unstable because decisions on export subsidy levels can be changed unpredictably, thereby causing random changes in the volume and prices of the exported commodity.
Nevertheless, 25 percent of the 132 members of WTO have maintained the right to subsidise exports. The most important achievement of the July Framework was that an agreement was reached on elimination of export subsidies in agriculture.

3.1.3.1 India’s Commitment to Export Subsidy

India had few export subsidies around the time of the Uruguay Round of trade negotiations. A primary reason for that is the elimination of a cash compensatory scheme (CCS) for exports as part of the 1991 economic reforms. Prior to that time, the CCS provided cash incentives to exporters and also allowed for payment of marketing and freight costs of exporters. The other major export subsidy appears to be the income tax exemption of profits from exports. Because the latter did not figure in the export subsidy annex of the AOA, India has retained it in the post-Uruguay era. Although CCS has been eliminated, it remains as a justification for export subsidies to wheat and rice in 2002-2005, when the Food Corporation of India (FCI) took on large buffer stocks (Munisamy, 2008). Finally, in India the subsidies on the exports of a set of commercial crops, such as tea and coffee, were withdrawn.

Whereas the WTO enables only 25 countries to provide export subsidies for their agricultural products and commodities, India is keen to support the Cairns Group (food-exporting countries), which demands the elimination of export subsidies, not realising that joining such a group will invite problems on various other fronts (Sharma). In India, the dairy sector has been hit hard by subsidized exports from the EU. In 1999-2000 India imported over 130,000 tonnes of EU skim milk powder. This was the result of EUR 5 million export subsidies that were provided to EU producers. EU subsidies to butter exports are also extortionately high. Consequently, butter oil import into India has grown at an
average rate of 7.7% annually. This has had a dampening effect on prices of ghee in the domestic market. Ironically, India is the biggest producer of milk in the world. What is more worrying for India is that there are now signs of declining productivity growth for many agricultural products in India which will have severe implications for the majority of the population.

3.1.4. SPECIAL AND DIFFERENTIAL TREATMENT FOR DEVELOPING COUNTRIES.

During the ongoing negotiations, some developing countries, including India, have sought a special safeguard mechanism (SSM) to be used by developing countries for addressing situations of import surges or swings in international prices of agricultural products. Apart from additional duties, these countries have sought the flexibility to impose quantitative restrictions under the special safeguard mechanism.

The Preamble to the AoA state the following by recognizing special and differential treatment (S&DT) for developing and least developed countries “in implementing their commitments on market access, developed country Members to take fully into account the needs and conditions of developing country Members by providing for a greater improvement of opportunities and terms of access for agricultural products of particular interest to those members, including the fullest liberalization of trade in tropical agricultural products; the possible negative effects of the implementation on the reform programme on least-developed and net-food importing developing countries to be taken into account.”

Under AoA, developing countries enjoy S&D in three main areas: market access, domestic support and export subsidies. In all three areas, developing countries are allowed a ten-year (1995-2004) implementation period as compared
to five years (1995-2000) for developed countries. The reduction commitments of developing countries in these areas have been about two-thirds that of developed countries.

Besides, aoa provides exemption for input subsidies to low-income or resource poor farmers in developing countries. However, the term ‘low-income or resource-poor farmers’ is not defined in the agreement. Public stocks of food grains and food security measures that are targeted at the poor are also exempt from reduction commitments. The exemption for input subsidies granted to low-income farmers is likely to benefit developing countries, as a large proportion of farmers in these countries are poor. However, in most developing countries, due to fiscal compulsions, the subsidy provided to the agricultural sector is much lower than the de minimis level and only a few relatively prosperous countries among them are likely to make effective use of this exemption.

**Table 3.2**

<table>
<thead>
<tr>
<th>WTO Agreements</th>
<th>Developed Countries</th>
<th>Developing Countries</th>
<th>Least Developed Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>6 years</td>
<td>10 years</td>
<td>Exempt</td>
</tr>
<tr>
<td>SPS</td>
<td>-</td>
<td>2 years</td>
<td>5 years</td>
</tr>
<tr>
<td>TRIPs</td>
<td>1 year</td>
<td>5 years</td>
<td>10 years</td>
</tr>
<tr>
<td>TRIMs</td>
<td>2 years</td>
<td>5 years</td>
<td>7 years</td>
</tr>
<tr>
<td>Import Licensing</td>
<td>-</td>
<td>2 years</td>
<td>-</td>
</tr>
<tr>
<td>Safeguards</td>
<td>Up to 8 years</td>
<td>Up to 10 years</td>
<td>-</td>
</tr>
<tr>
<td>Domestic Input</td>
<td>-</td>
<td>5 years</td>
<td>8 years</td>
</tr>
<tr>
<td>Subsidies</td>
<td>Export Subsidies</td>
<td>2 to 8 years</td>
<td>8 years</td>
</tr>
</tbody>
</table>

Special and Differential Treatment (S&DT) is a cross cutting issue in the current agriculture negotiations, in recognition of the fact that the vast majority of trade distorting support in this sector is provided by a handful of developed
country Members, and that agriculture in many developing countries is not just another economic sector to be bargained over, but is essential to food security, livelihood security and rural development (CUTS 2006).

3.2 Doha Development Round and agriculture negotiation

The Doha Development Round started in 2001 and continues today. The Doha Development Round or Doha Development Agenda (DDA) is the current trade-negotiation round of the World Trade Organization (WTO) which commenced in November 2001. Its objective is to lower trade barriers around the world, which allows countries to increase trade globally. As of 2008, talks have stalled over a divide on major issues, such as agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies.[1] The most significant differences are between developed nations led by the European Union (EU), the United States (USA), and Japan and the major developing countries led and represented mainly by Brazil, China, India, South Korea, and South Africa.


Agriculture has become the most important and controversial issue. Agriculture is particularly important for developing countries, because around 75% of the population in developing countries lives in rural areas, and the vast majority are dependent on agriculture for their livelihoods. The first proposal in Qatar, in 2001, called for the end agreement to commit to substantial improvements in market access; reductions (and ultimate elimination) of all forms of export subsidies; and substantial reductions in trade-distorting support.”
The United States is being asked by the European Union (EU) and the developing countries, led by Brazil and India, to make a more generous offer for reducing trade-distorting domestic support for agriculture. The United States is insisting that the EU and the developing countries agree to make more substantial reductions in tariffs and to limit the number of import-sensitive and special products that would be exempt from cuts. **Import-sensitive products** are of most concern to developed countries like the European Union, while developing countries are concerned with special products — those exempt from both tariff cuts and subsidy reductions because of development, food security, or livelihood considerations. Additional information on the framework of the DOHA Development Round. Brazil has emphasized reductions in trade-distorting domestic subsidies, especially by the United States (some of which it successfully challenged in the WTO [U.S.-Brazil cotton dispute](#)), while India has insisted on a large number of special products that would not be exposed to wider market opening.

The most recent round of negotiations, 23–29 July 2008, broke down after failing to reach a compromise on agricultural import rules. After the breakdown, major negotiations were not expected to resume until 2009. Nevertheless, intense negotiations, mostly between the USA, China, and India, were held in the end of 2008 in order to agree on negotiation modalities. However, these negotiations did not result in any progress.

### 3.3 Problems Facing By India Due To AoA

Five years after the World Trade Organisation (WTO) came into existence, the anticipated gains for India from the trade liberalisation process in agriculture are practically zero. (Sharma). Here I point out some problem:

1. **International Price of Agriculture product is reducing:**
Actually Agreement on Agriculture especially was about reducing the domestic support/subsidies by the developed countries while reducing the tariff and non tariff barriers by the developing countries to enhance market access and more open trade across the countries in agriculture. However due to the widespread presence of domestic and export subsidies in the developed countries, prices of agricultural commodities continued to remain depressed during most of the post-UR Period. Consequently along many developing countries, India reduced tariffs and import duties as well as removed the quantitative restrictions on agricultural import. With such scenario, the international prizes of many agricultural commodities went to its lowest limit in post WTO period and the Indian market started getting flooded with cheap import which increased 270 per cent by volume and 300 per cent in value terms between 1996-97 and 2003-04. A poor Indian farmer, with minimal domestic support can’t compete with the heavily subsidized products from the developed countries. In fact, since 1997, to mid 2004, there were 2500 reported suicides by the poor indebted farmers and many more started moving to the urban areas as unskilled labor leading to a steady decline in the agriculture workforce and its share in Gross Domestic Product.

2. India is facing challenges in traditional export items; the challenge is not from the developed countries, but from the developing countries; major import of vegetable oils are from the developing countries (Malaysia and Indonesia); and India has done well in export of high value products to the developed countries.

3.4 Agreement on Agriculture (AOA): A Critical Review

Wide-ranging economic reforms introduced in India during 1991 boosted the agricultural trade (exports as well as imports), and the net trade surplus in
agriculture increased from $2 billion during 1992-93 to $4.33 billion during 1995-96. The trade got a fillip with WTO agreement during 1995, thereby resulting in the net trade surplus reaching $6.8 billion in 1996-97. However, the problems of downward trend in exports, increase in imports, sharp year to year fluctuations in net trade, erosion of self-reliance, etc., started soon thereafter, despite further liberalization of trade. These trends raise questions about further liberalization of trade in general and specific commodities in particular, and the implications of present agreement including ongoing negotiations on AOA in WTO, etc.

It has been more than ten years since the Uruguay Round (UR) AoA was implemented. The implementation experience shows that domestic subsidy reduction commitments turned out to be the least binding of all WTO commitments. Farm support given by OECD countries still amounts to more than US$300 billion a year, which is about half the total value of international trade in agricultural goods, which in 2003 was around US$674 billion (International Trade Statistics, 2004). Most of the commitments undertaken by developed countries did not prove to be effective because AoA contained too many escape clauses and loopholes to make these commitments really binding. Due to the latitude provided the AoA, most developed countries have managed to fulfill their WTO commitments without introducing any significant reform in their farm sector.

It is noted that, the farmers in OECD countries will become jobless if subsidies are removed? No. In OECD countries the farmers can easily switch to better options quickly as demonstrated in New Zealand, which was heavily subsidizing its sheep farmers until 1984. The population dependency on farm is extremely
thin in these countries. It is not like India, where more than 60 per cent of the population depends on farm.

According to Shiva The World Trade Organization (WTO) Agreement on Agriculture (AOA) imposes an unequal system of global competition on the domestic farm sector, undermining the viability of small farms that are unable to compete with cheaper imports (Shiva).

The AoA also provides opportunities for participation in the international trade to the advantage of Indian farmers. However because of various factors including restrictions on movement of agricultural produce, very high taxes and infrastructural constraints, it has not been possible for our agriculture sector to benefit from the opportunities in the world markets. Our agriculture has also to become more competitive to be able to exploit the opportunities that are increasingly becoming available in the wake of liberalisation and requires stronger policy support in order to become globally competitive.

The resultant distortions in agricultural trade are hurting the developing countries like India most. For the agricultural exporters among developing countries, continuous decline in commodity prices exert a downward pressure on their export earnings. This problem is most severe for countries that depend on agricultural exports for their foreign exchange earnings. In most of the developed countries significant market access barriers still exist for products where most developing countries have export interest. Tariff peaks and tariff escalations effectively peg developing countries to the bottom end of the value chain and force them to continue as primary commodity exporters thereby denying them the advantages of value addition.

On the other hand, cheap and subsidized imports from developed countries can create problems for domestic agriculture producers in most
developing countries and can lead to a substantial decline in domestic farmers’ income. The instability of international commodity prices also introduces uncertainty factors in the domestic markets. It should be pointed out that most developing countries are not privy to the special safeguard (SSG) provisions of AoA, which allows imposing protectionist measures in the event of an import surge. However, it should be emphasized here that developing countries, especially the agricultural exporters, stand to gain much from further and meaningful liberalization of agricultural trade. So far all the implementation problems of AoA have benefited the developed countries. If these issues can be resolved, developing countries also stand to gain from AoA. A recent paper by ABARE has suggested that even a 50 per cent reduction in total domestic support by the developed countries will result in about $14 billion gain for developing countries.

This directive turned out to be totally ineffective in providing any assistance to the concerned countries. In this article AoA did not stipulate any obligations but put it as a ‘best endeavour’ clause. In the next round the developing countries should ask for firm commitments instead of clauses like this. It should also be recognized that developing countries are at a different stage of economic development and their capacity to integrate with the global economy is limited.

However, it remains to be seen whether developing countries are actually allowed additional flexibilities to make their transition towards a more open agricultural trade regime smooth and relatively easy. (Parthapratimpal).

3.5 Summery

WTO is no longer a Utopian, futuristic concept. It is real and its effects extend to all sectors in the economy. India’s agriculture is no exception. The
increasing economic integration of the Indian economy with global processes has brought considerable challenges to the doors of our agricultural sector. With the recent end to the tariff regime, the farmers of India are no longer a protected species. They have no choice but to become competitive to be able to sell their produce in the inter-connected ‘market of the world’ and consequently, maintain the economic viability of their farms (Rahul). At the time of the Uruguay Round Agreement on Agriculture (AOA) India agreed to outline its policies on market access, DS, and export subsidies. However, India excluded itself from reduction commitments on at least two of the three pillars (market access and DS) citing a balance-of-payments exemption (Munisamy, 2008).

The main objective of WTO (World Trade Organization) agreement on agriculture (AoA) was to encourage fair trade in agriculture by removing the trade distorting measures. It was expected that implementation of AoA would raise international prices of agricultural commodities and would improve the exports prospects of the country like India. However, contrary to this, the world prices had declined sharply, became even lower than the domestic prices, creating a more favourable imports rather than exports. India must have greater participation at the negotiating table and must have its own explicit agenda about tariff reductions, market access and substantial reduction of domestic and export subsidies by major developed countries. Further, we should insist for a reduction in production-related support measures and a special and differential treatment for developing countries (the principle is there but needs to be put into operation). Finally a total elimination of export subsidies and any subsidization of export credit and development of transparent disciplines for export credits. These specified actions will help establish a more equitable system of international trade that is not rigged against small farmers in India. The failure
by many of the developed countries to fully implement the AOA’s provisions forms a major obstacle in achieving consensus in the trade talks as far as the India perspective is concerned.

This chapter argues that the India need to ask for more policy space from WTO and should have a menu of policy options available to it to counter problems with international commodity prices. The question for the future is: will these factors frustrate the process of agricultural trade reform initiated by the Agreement on Agriculture and affect the overall credibility of the WTO?

To conclude, Agreement on Agriculture (AOA) alone cannot guarantee freer trade in the food sector. The reason is that due to experience-good and credence-good nature of food products, countries impose many restrictions on imports of food and agricultural commodities. The concerns of importing countries are valid, as they would like to prevent any harm to their citizens, plant and animal life health due to pests and diseases carried-in through imports of food and agricultural products.
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