Chapter – Three

Agreement on Agriculture of WTO: Overview of Commitments, Role, and Stands of India

The World Trade Organization (WTO) is an organization with the intention of liberalizing and supervising international trade. The organization deals with trade regulation between countries. The functions of the World Trade Organization (WTO) was formed officially on the first of January in 1995 under the Marrakesh Agreement with goals of liberalizing and supervising international trading among participating countries. A framework is provided by the WTO to negotiate and formalize agreements of trade and a process of dispute resolution aimed at enforcing adherence of participants to signed WTO agreements by member government’s representatives. Negotiations on the Doha Development Round is attempted to be completed by the organization, launched in 2001 with a focus explicitly to address developing countries’ needs.

3.1 WTO Goals

The goals behind the functions of WTO were set out in the Marrakesh agreement preamble, and these included:

- Expanding the trade production in services and goods
- Ensuring real income and demand for steady growth.
- Ensuring full employment
- Raising living standards.

The achievement of these objectives will happen while allowing for optimized use of the resources of the world in accordance with the objectives of sustainable developments and while seeking to preserve and protect the environment. The Marrakesh preamble also mentions specifically the need to assist
countries that are developing, and especially, the least developed countries and secure growing shares of international trading.

3.2 Most Important Functions

Among all the WTO functions, there are two that are considered most important by analysts. These are:

- It gives a provision for settling dispute and for negotiations in a forum.
- It oversees the operation, administration and implementation of the agreements.

In addition, it is the duty of the World Trade Organization to propagate and review the national policies of trade and to guarantee the transparency and coherence of these policies by surveillance of making economic policy around the globe. Another WTO’s priorities, is assisting, least developed and transitioning countries in adjusting to disciplines and rules of WTO through technical training and cooperation.

3.2.1 Additional Functions of the WTO

As today’s society goes on with globalization, there is a vital importance that the trading systems managed by the need for an international organization. As there an increase in trade volume, issues such as violation of intellectual property, subsidies, trade barriers and protectionism come up due to every nation’s different rules of trading. The WTO serves as the nation’s mediator when problems arise. As a matter of fact, it could be said that the World Trade Organization one of the organizations most important in the globalized society of today and it can also be referred to as the result of globalization. Also, the World Trade Organization is an economic analysis and research center. Regular global trade picture assessments in its annual research reports and publications on specified topics are something the organization produces. The WT0 also closely cooperates with the other 2 system components, the World Bank and the IMF. Here is a great article entitled Advantages of International Trade and What to Watch Out for you might want to check out.
It is the duty of the World Trade Organization to go about facilitating operation, administration and implementation and further the objectives of the Multilateral Trade Agreements and this Agreement and shall also provide the operation, administration and implementation framework of the multilateral Trade Agreements.

With its view of achieving global economic policy making coherence, the World Trade Organization shall, when appropriate, cooperate with the affiliated agencies of the International Bank for Reconstruction and Development and with the International Monetary Fund.

Among its members, the WTO shall provide forum for the negotiations forum concerning their trade multilateral relations in matters that the Agreement in the Annexes to this Agreement deals with.

Part of the functions of the World Trade Organization is to get the Understanding on Rules and Procedures Governing Dispute Settlement administered.

The Trade Policy Review Mechanism shall be administered by the WTO

### 3.3 Structure of WTO

There are almost one hundred fifty-three WTO members that account for more than ninety-seven per cent of world’s trade. Around thirty others are negotiating members. The entire membership makes decisions and this is by consensus, typically. It is also possible to have a vote majority but the WTO has never used this and under the GATT, which was the WTO’s predecessor, this was extremely rare. In all the parliament of the members is where all the WTO agreements have been ratified. The Ministerial Conferences is the top level WTO decision making body which meets a minimum of one time every couple of years.

### 3.3.1 Decisions Making

An organization that is ‘member-driven and rules based’ is how the WTO describes itself. Every decision is made by government members and the rules are negotiation outcomes among each member. Votes are foreseen by the WTO Agreement where a
consensus is not reached, but the consensus practice dominates in the decision-making process.

3.3.2 Trade Policies

There is a trade policy framework established by the WTO; it does not specify or define outcomes. In other words, it is concerned with rule setting of the games of trade policy. There are five principles that are particularly important.

3.3.3 Safety Valves

Governments are able to get trade restriction in certain circumstances. The agreements of the WTO permit every member to take measures to protect plant, animal and public health and also to protect the environment.

3.3.4 Transparency

Members of the WTO need to get their regulations of trade published, and have a response for information requests made by the others for institutions to be maintained that allow for decision reviews of administration that affect trade and to inform trade policy changes to the World Trade Organization. These internal requirements of transparency are facilitated and supplemented by periodic reports that are country-specific. The system of WTO also attempts to improve stability and predictability, discouraging the use of measures like quotes to set limits of import quantities.

3.3.5 Enforceable and Binding Commitments

The WTO members made commitments of tariff in multilateral negotiations of trade and on accessions which are enumerated in a concessions list. These lists, also called schedules, establish that a country is able to alter binding if it has already gone through negotiations with its partners in trade. This is also known as ‘ceiling bindings.’ Negotiations with trade partners could mean offering compensations for trade loss. If there is no obtained satisfaction, the country that complains might invoke the WTO procedures for settlement disputes.
3.3.6 Reciprocity

This reflects both desires to limit free riding scopes that could arise due to the rule of MFN and a desire to gain better foreign market access. A point related is that for nations to go through negotiations, it is a necessity that their gain for doing this would be more than the available gain from liberalization that unilateral. For such gains to materialize is intended to be ensured by reciprocal concessions.

3.3.7 Non-discrimination

There happen to be 2 primary components of non-discrimination including the national treatment policy and the MFN or the most favored nation rule. In the main WTO rules on intellectual, services and goods property, both are embedded, but their precise nature and scope differ in these arenas. The rule of MFN requires that WTO members need to apply on all trade conditions identical with other members of the WTO. Grant one person a special favor and you need to do the same with all other members of WTO. In other words, all members of the WTO need to be granted the conditions most favorable with which trading is allowed in certain types of products by a WTO member. Here is a course might want to check out entitled Success in Global Business that will develop the cultural and commercial skills need to be an international business successes.

3.4 India’s Commitments with Agreement on Agriculture

3.4.1 Market Access

As India was maintaining Quarantine Restrictions due to balance of payments reasons (which is a GATT consistent measure), it did not have to undertake any commitments in regard to market access. The only commitment India has undertaken to bind its primary agricultural products at 100 per cent; processed foods at 150 per cent and edible oil at 300 per cent. Of course, for some agricultural products like skimmed milk powder, maize, rice, spelt wheat, millets etc. which had been bound at zero or at low bound rates, negotiations under Article XXVIII of GATT were successfully completed in December, 1999 and the bound rates have been raised substantially.
3.4.2 Domestic Support

India does not provide any product specific support other than market price support. During the reference period (1986-88), India had market price support programmes for 22 products, out of which 19 are included in our list of commitments filed under GATT. The products are: rice, wheat, bajra, jawar, maize, barley, gram, groundnut, rapeseed, toria, cotton, soyabean, (yellow), soyabean (black), urad, moong, tur, tobacco, jute and sugarcane. The total product specific AMS was (-) Rs. 24,442 crores during the base period. The negative figure arises from the fact that during the base period, except for tobacco and sugarcane, international prices of all products was higher than domestic prices, and the product specific AMS is to be calculated by subtracting the domestic price from the international price and then multiplying the resultant figure by the quantity of production. Non-product specific subsidy is calculated by taking into account subsidies given for fertilisers, water, seeds, credit and electricity. During the reference period the total non-product specific AMS was Rs. 4581 crores. Taking both product specific and non-product specific AMS into account, the total AMS was (-) Rs.19,869 crores i.e., about (-) 18 per cent of the value of total agricultural output. Since our total AMS is negative and that too by a huge magnitude, the question of our undertaking reduction commitment did not arise. As such, we have not undertaken any commitment in our schedule filed under GATT. The calculations for the marketing year 1995-96 show the product specific AMS figure as (-) 38.47 per cent and non-product specific AMS as 7.52 per cent of the total value of production. We can further deduct from these calculations the domestic support extended to low income and resource poor farmers provided under Article 6 of the Agreement on Agriculture. This still keeps our aggregate AMS below the de-minimis level of 10 per cent.

3.4.3 Export Subsidies

In India, exporters of agricultural commodities do not get any direct subsidy. The only subsidies available to them are in the form of i) exemption of export profit from income tax under section 80-HHC of the Income Tax Act and this is also not one of the listed subsidies as the entire income from Agriculture is exempt from Income Tax per se. ii) subsidies on cost of freight on export shipments of certain products like fruits, vegetables and floricultural products. We have, in fact, indicated in our
schedule of commitments that India reserves the right to take recourse to subsidies (such as, cash compensatory support) during the implementation period.

### 3.5 Mandate Negotiations

Article 20 of the Agreement on Agriculture mandates that negotiations for continuing the reform process in agriculture will be initiated one year before the end of the implementation period. As the implementation period for developed countries culminates at the end of the year 2000, the negotiations on the Agreement on Agriculture have begun this year. These negotiations are to be conducted in special sessions of the WTO Committee on Agriculture at Geneva. The following are to be the broad parameters for carrying out negotiations:

- Experience of member countries in implementation of reduction commitments till date.
- The effects of reduction commitments on World Trade in Agriculture.
- Non-trade concerns, special and differential treatment to developing country members and the objectives of establishing a fair and market oriented agricultural trading system are the other objectives of the negotiations.
- What further commitments are necessary to achieve the long term objectives of the Agreement.

During extensive deliberations in the WTO Committee on Agriculture and in the General Council, member countries have agreed to broadly adhere to the mandate of Article 20 of the Agreement. Members have also agreed to submit their proposals by the end of year 2000.

### 3.6 State of Play

Through formal and informal discussions in the Committee on Agriculture, the WTO membership has been debating on various issues of concern to them. The demarcation in various groups of countries has now become clearer. The EU, certain Nordic countries like Norway and Japan are on the one side, wanting to continue their subsidy regimes in agriculture, whereas the Cairns group of countries who are
naturally endowed agriculture producers, are totally opposed to the trade distorting subsidies and the protectionist regime being practiced by EU and Japan. The United States, though opposing EU and not completely with the Cairns group either, forms the third dimension. The developing countries are somewhere in the middle, not having decided whether or not to form a 4th dimension. The Cairns group of countries, votaries of unrestricted trade, comprises a group of 18 major agricultural exporting countries. They have listed the elimination of export subsidies and domestic subsidies as goals of the ongoing agricultural negotiations at the World Trade Organisation. They have also called for better information and analysis of tariff rates, quota administration, export subsidies, domestic support programmes and market access as well as members position on bio-technology and Genetically Modified Organisms. The U.S agenda for negotiations would be driven by further trade liberalisation in the agricultural sector, which would benefit US interests. There is likely to be an emphasis on global tariff reduction on agricultural products, greater transparency and improved disciplines on state trading enterprises, proper implementation of tariff rate quotas and greater disciplines on bio-technology, as well as, further strengthening of the sanitary and phytosanitary agreement.

The European Union is more vulnerable to attack in the WTO on the issue of its distortion of markets through domestic subsidisation of agriculture. In the context of further liberalisation, EU would strongly defend its "Blue Box" policies. They feel that in case Blue Box is to be abolished, the WTO contracting parties will have to agree to change of the present rules in the Agreement on Agriculture. The EU would be pressing at the international level for improvements in food safety and food quality standards as well as in supporting environmental and social sustainability. It is, thus, apparent that EU intends to maintain protection of its agricultural industry at the highest possible level while maximising concessions to be gained in other country markets. The Japan highlights the importance of the multifunctional role of agriculture, food security and a fair balance between rights and duties of importing and exporting countries from the standpoint of a net importer of farm products.

India's position has been articulated in WT/GC/W/152. Briefly, it has been emphasised that Article 20 of the Agreement adequately reflects both the emphasis
and context in which these negotiations should be entered upon. The most important aspect of the negotiations would be to address implementation problems up front, in the areas of market access, domestic support, export subsidy, notification requirements & technical assistance. The inadequate implementation of special & differential provisions in the above mentioned areas is a cause of particular concern to us. India has suggested that an in-depth analysis and assessment of the effect of the Uruguay Round on the trade of developing countries should be an essential pre-requisite of any negotiations. We have also drawn attention to the peculiar agricultural scenario obtaining in large agrarian economies like India, where rural employment and production of sufficient food to meet the domestic requirements are of paramount importance. Thus, for addressing food security issues, a certain degree of autonomy and flexibility is required by developing countries in their domestic policies. These concerns have been articulated not with the intention of creating a negotiating base but with the hope that the forthcoming negotiations would provide us adequate opportunity to pursue our legitimate trade and non-trade concerns.

3.7 Agriculture Negotiations: India’s Stand

The agricultural sector is India’s most vulnerable sector. With the livelihood of around 847 (around 70 per cent population) million people in the country being dependent on agriculture, India’s interests in the negotiations on agriculture are mainly defensive. India’s offensive interests lie in reducing the heavy subsidisation in developed countries. India’s interests in agriculture have always been dictated by the need to safeguard millions of small farmers who operate the majority of farm holdings in the countryside. Agriculture determines the very social fabric of India and is more a way of life and means of livelihood than a question of commerce. Further, India has 25 agro-climatic zones that, on the one hand, provide diversity to crop cultivation and, on the other, make crop rotation within a farm extremely difficult. Given these complexities in agriculture, India has essentially defensive interests in agriculture. India’s bound rates and applied agricultural tariffs are among the highest in the world.

Further, the government has considerable flexibility to increase customs duties on most agriculture products, as there is a substantial gap between the existing
bound rates and applied customs duty. To illustrate, the bound rate on some edible oils is 300%, but the applied customs duty is 100%. Thus, the government has the flexibility to raise customs duty on some edible oils. However, in respect of certain products like olive oil, the bound rate and applied customs duty are the same 45% leaving almost no flexibility for raising customs duty, even if the need were to arise in the future. Keeping its agrarian crisis in view, India had made a strong pitch for according adequate tariff protection to certain products by designating them special products. The products within agriculture regarding which India is extra sensitive with respect to trade liberalization due to their potential for huge employment-generation and livelihood concerns include cereals, edible oils and oilseeds and dairy products. Other agricultural products produced by small farmers and, therefore, sensitive for India are spices, ginger, sugarcane, etc. These need to be protected against deep tariff reduction.

As part of G33, India has strongly supported the need for developing countries to have a Special Safeguard Mechanism (SSM) which would allow them to impose additional tariffs when faced with cheap imports or when there is a surge in imports. However, developed countries and some developing countries have sought to impose extremely restrictive requirements for invoking SSM, which would render this instrument ineffective. As far as agriculture is concerned, overall there does not appear to have been any major shift in India’s negotiating stand. It has firmly resisted making deep tariff cuts on agricultural products. At the same time, it is aggressively pushing developed countries to reduce their farm support. However, as part of the G20 it has diluted its stand on green box and blue box (subsidies provided for limiting production) subsidies. At the Cancun Ministerial meeting in 2003, the G20 had sought a cap on green box subsidies and rejected any expansion of blue box subsidies. However, by the time the 2004 July Framework was concluded both these demands appear to have been abandoned. India also does not seem to have made any headway in obtaining the right to apply quantitative restrictions on agricultural imports, a demand repeatedly made by stakeholders such as farmers’ organisations and NGOs.

While India’s negotiating strategy has been defensive, in general, there are several products in which it may have an export interest. These include cereals,
meat, dairy products, some horticultural products and sugar, which may see a growth in export opportunities with reductions in tariff. India’s negotiating strategy should also be cognizant of the export opportunity that may be unleashed in the processed food sector, which has seen significant growth over the past few years. It is here that the decision at Hong Kong to eliminate export subsidies by 2013 assumes importance.

3.8 Likely Issues for Negotiations and Possible Stand for Indian

3.8.1 Market Access

a) High agricultural tariffs and tariff peaks being applied by some WTO members are significant barriers to meaningful market access opportunities. We would have to very carefully articulate it as India will need to have a reasonable level of tariff protection for taking care of its food security and rural employment concerns.

b) Tariff escalation is another factor, which discourages developing countries from diversifying from primary commodity production to processed value added agricultural products for export purposes.

c) The operation of tariff rate quotas in a non-transparent and complex manner limits trade opportunities of new suppliers, particularly from developing countries. In this context, thus, guidelines on TRQ allocation and administration would be sought so as to enhance market access opportunities. It may be desirable to press for the elimination of tariff rate quota system itself.

d) Certain aspects of sanitary and phytosanitary measures which limit market access particularly for exports of developing countries would also figure prominently in the forthcoming negotiations.

e) The special safeguard provisions, which are available to only a few Member countries, would also be coming up for review and India would press for its availability to all developing countries.
3.8.2 Domestic Support

a) During the course of implementation of obligations/commitments, a number of member countries particularly from the developing world have experienced difficulty in calculating and notifying their aggregate measurement of support (AMS) on account of the following factors:-

- Financial/resource constraints limit the capacity of most developing countries to provide support to their agricultural sector even up to the de minimis level.
- Lack of clarity in the agreement with regard to the treatment of negative AMS and "excessive inflation", reduces the flexibility provided to developing countries during the Uruguay Round to address their domestic policy concerns.

b) Such implementation issues which would require clarification during the current negotiations.

c) The 'Green Box' should be revisited for a further tightening of criteria as it currently incorporates various provisions for support, many of which are not non-trade distorting. Moreover, as it is currently designed, it is not of much assistance to developing countries as it does not reflect their support programmes.

d) The ‘Blue Box’ measures which refer to direct payments to farmers under production limiting programmes which are currently exempt from AMS reduction commitments, should either be totally dispensed with or alternatively should be subject to reduction commitments.

e) Ways and means to incorporate increased flexibility in the level and use of de minimis support would also be discussed.

3.8.3 Export Subsidies

a) Export subsidies are universally acknowledged to be the single most trade distorting impact in agriculture because of their potential of displacing
developing countries exports. There would be a strong demand for a complete outlawing of export subsidies, India would also press for it. However, as long as the export subsidies are permitted to be given by any country above the de minimis limit provided under the WTO's Subsidies and Countervailing Measures agreement, India would also have the right to give export subsidies upto an appropriate level.

b) Establishment of disciplines in the field of export credits, guarantees and deferred payments which have a negative effect on prices and competition in the world agricultural market, would be insisted and India would like it to be also included under the disciplines of Export Subsidies.

c) On account of ambiguity in the existing language of the Agreement on Agriculture, certain countries are resorting to ‘rolling over of export subsidies’. This practice would need to be suitably addressed as it amounts to negation of reduction commitments.

3.8.4 Non Trade Concerns

The Non-Trade Concerns (NTC’s) including food security and the need to protect the environment, alluded to in Article 20 of the Agreement on Agriculture would be taken into account during negotiations. Food Security for India is not only availability of sufficient food but also adequate means to procure the same. Eminent agricultural economists and scientists like Dr. Swaminathan also believe that food security is economic access to food. Accordingly this has ramifications for employment and livelihood. For developing countries like India which are still grappling with the twin problems of poverty and unemployment, the production of food and economic access to it are primary objectives. As opposed to this certain developed countries are advocating multifunctional character of agriculture which essentially signifies that agriculture has functions other than providing food and fibre and also includes the protection of environment and maintaining the economic viability of rural areas. Viewed against the needs of developing countries concerns about the maintenance of rural landscape appear to be hollow. Any attempts to try and equate the two different scenarios and continue heavy subsidization of agriculture would be resisted. The concept of multi functionality needs to the
examined from the perspective of developing countries. Here, we would like to highlight the fact that the non-trade concerns of developed countries and those of developing countries differ not only in content but in priority also. For countries like India, multi-functionality of agriculture is best manifested in its ramifications in areas such as food security, employment and the elimination of poverty in rural areas. Moreover, these issues are neither emotive nor undefined but are practical and harsh realities which decision makers have to confront when addressing issues of agricultural policies. The need to provide employment opportunities in predominantly rural agrarian areas is one of the main NTCs which India would like to see addressed.

3.8.5 Biotechnology

Biotechnological inventions are increasingly affecting agricultural production and trade. New genetically engineered varieties of crops have increased productivity and are more pest resistant. This has important ramification for increasing productivity which is of central concern to almost all developing countries. To this extent, we would support carefully controlled use of biotechnology in agriculture. At the same time, there are environmental concerns relating to biotechnology. It is feared that Genetically Modified Organisms (GMOs), not having been fully tested for their effect on human health or the environment, should be treated as a class apart. There are also fears that new technologies like the so called ‘terminator gene’ could imbalance the ecosystem if it spreads beyond controlled production areas.

3.9 Strengthening of the Special & Differential Treatment

Special & Differential Treatment accorded to developing countries under the Uruguay Round would be another area of importance to developing countries. These special provisions were designed to take into account the constraints faced by many developing countries in taking advantage of trading opportunities due to structural problems like inadequate infrastructure, lack of resources etc. The existing imbalance and problems of implementation of the agreement would be a high priority item in the next round.

Thus, the 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 free 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.