AGREEMENT ON AGRICULTURE OF WTO

Agriculture as an occupation, and a source of living, food and foreign capital is directly linked with the economic and social development of most developing countries and sovereignty and food security of developed countries. Agriculture being in WTO is of much concern to human being, but it is claimed that agriculture has long been regarded as one of the most important areas blocking the way to the strengthening of a liberal trade system. The blockage is said, due to the trade barriers and producer subsidies. It is argued that trade barriers and producer subsidies inflict real costs, both on the countries that use these policies and on their trade partners. Trade barriers: tariffs and non-tariff lower demand for trade partners products, while domestic subsidies can induce an oversupply of agricultural product which depresses and destabilizes world prices. The distorted world prices, in turn, will result in a situation of “deceptive comparative advantage” preventing efficient producers around the world from realizing the benefits of their efforts and of their competitiveness. Domestic subsidies may result and retaining resources in agriculture that can be used more profitably in other sectors of the economy. According to the Agricultural Economic Report No. 797 of the Economic Research Service, Department of Agriculture of USA. European Union Agricultural policies account for 38 per cent of global price distortion. Likewise US accounts for 16 per cent, Japan and Korea for 12 per cent. Tariffs and tariff quotas account for more market distortions than domestic and export subsidies. Tariff and non-tariff quotas account for most of agricultural price distortion around (52 per cent) from agricultural protection and support. Post-Uruguay Round, agricultural tariffs remain high, with a global average rate of 62 per cent and an industrial country average of 45 per cent. Domestic subsidies and export subsidies account for 31 per cent and 13 per cent of global price distortion respectively. In the long-term it is argued that the full elimination of these policy distortion would result in an annual welfare gain of US$ 56 billion, about 0.2 per cent of global GDP. Moreover, it is said that elimination of agricultural trade and domestic
distortions could raise world agricultural prices by about 12 per cent. Therefore, the objective of including agriculture in the multilateral trading system is to limit these distortions and hopefully to completely eliminate them.

Agriculture for the first time has been included into the framework of WTO in 1995 with a new set of rules and principles laid out in what has become known as Agreement on Agriculture (AoA) guiding the international agricultural trade. Agreement on Agriculture calls for agricultural policy reform so that agricultural markets can be increasingly directed by market forces rather than government intervention through subsidies and protectionism measures. The intended agricultural policy reform covers three major areas namely: (a) market access; (b) domestic support; and (c) export subsidies. In addition, there are some agreements related to agriculture under WTO, which could limit access to international trade of agriculture and they are greatly of physical and technical nature. These related agreements include Sanitary and Phytosanitary Agreement (SPS), Safeguard Measures, the special and Differential Treatment (S&D) and Anti-Dumping and Countervailing Duties (AD). Sanitary and Phytosanitary Agreement is concerned with both imports and exports, while safeguard Measures are concerned with imports. Special and differential Treatment and Anti-dumping deal with exports. The implementation period for these reforms was set out at 1995-2000 of five years for developed countries and at 1995-2004 for 10 years for developing countries. The Agreement on Agriculture marked a first step in the process of global agricultural policy reform which would be followed by further reforms by including a provision that member countries resume negotiations on agriculture by December 1999 one year before the end of the implementation period for the developed countries. The main three areas of agricultural policy reform of the Agreement on Agriculture can be dealt with the following as embodied in the publications of United Nations by United Nations

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Conference on Trade and Development (UNCTAD), World Trade Organization (WTO) and Food and Agricultural Organization (FAO).

3.1 Market Access
Market access deals with the trade restrictions confronting imports as measures to protect domestic producers or to develop a competitive domestic agriculture sector. In this regard, the previous quota systems and non-tariff measures are to be replaced by tariffs, that provide more or less equivalent levels of protection. Besides tariffication, "Safeguard" measures can be taken by governments as special emergency actions to protect their producers against falling prices or surges in imports of particularly sensitive products whose non-tariff restrictions have been converted to tariff. Minimum access for imports will be allowed for such sensitive products as a percentage of domestic production.

Under market access commitment, all WTO member countries are required to replace all types of non-tariff barriers with tariff barriers, a process called "tariffication" to cease the introduction of any new non-tariff barriers, and to reduce the level of tariffs within a time-bound programme. Tariffs should be reduced by a single average of 36 per cent over six years up to 2001 for the development countries and 24 per cent for developing countries over 10 years (2005) taking 1995 as a base year for the reduction. The Least Developed Countries are exempted from these reductions. Countries which have not agreed for full tariffication of their non-tariff barriers are supposed to provide minimum access tariff quotas. The minimum access tariff quota is to be established at reduced tariff rates for those basic products where the current market access is less than 3 per cent of domestic consumption. During the implementation period, the minimum access tariff quota is to be raised gradually to 5 per cent of domestic consumption. However, if there is a surge of imports due to unfair trade practices, any country is allowed to impose additional duties depending upon the difference between the import price and the trigger price. In brief, the agreement on agriculture calls for tariffication of all physical controls on agricultural trade and reduction in tariffs under a time-bound period. In this respect, each country is required to submit ceiling tariff bindings for all agricultural commodities.

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3.2 Domestic Support

The main complaint about domestic support or subsidised production is that they encourage over-production. The over-production is said to squeeze out imports or leads to export subsidies and low price dumping on world market. Agricultural agreement distinguishes between domestic support programmes that stimulate production directly and those programmes which have no direct effect on production. In this regard, domestic support programmes such as price and inputs subsidies which have a direct effect on production and trade have to be reduced. On the other hand, domestic policies which have minimum impact on trade can be used freely and they include, research, extension, disease control, and infrastructure and food security. They also include direct payments to farmers who are supposed to limit production or direct payment under environmental and regional assistance programmes. Under domestic support, the agreement provides for a significant reduction of domestic support commitments in each member country. The member countries are committed to reduce what is described as Aggregate Measurement of Support (AMS) by 20 per cent for developed countries and 10 per cent for developing countries, the base period being 1985-1988. The Aggregate Measurement of Support is the annual value of market price support plus non-exempted direct payments and other non-exempted subsidy. It was agreed that if AMS does not exceed 10 per cent of the total value of agricultural commodities in case of developing countries and 5 per cent in case of developed countries, the country is not required to reduce AMS. But, in case AMS exceeds 10 per cent and 5 per cent limits, it should be reduced by 13.3 per cent and 20 per cent for developing and developed countries respectively of the value that does not qualify the exemption during the implementation period. The period of reduction given in six years for developed countries and 10 years for the developing countries. The Least Developed Countries are exempted from these reductions. In calculating the AMS, two types of product support are considered namely, product specific support for main commodities and non-product support for subsidies on various inputs which go to many crops like fertilizers and irrigation. The level of support for each basic product is estimated through: (a) market price support; (b) non-exempted direct
payments; and (c) other subsidies not exempted from reduction commitments. In product specific AMS, the market price support is to be calculated based on the gap between an external reference price (free on board, f.o.b) unit value in a net exporting country and the cost, insurance and the freight (c.i.f) unit value in a net importing country, multiplied by the quantity eligible to receive the administered price. (It is not clear whether the quantity of total production or only the tradable surplus). Non-exempted direct payments are to be computed by using the gap between the external reference price and administered price or by using budgetary outlays whereas input subsidies and marketing cost reduction measures are to be determined by using budgetary outlays. The external reference price needs to be adjusted where necessary for difference in quantity in order to make it comparable to domestically produced output.

The domestic subsidies in general are identified in WTO terminology by boxes given in colours of traffic lights. (a) The Amber box refers to subsidies of a direct effect on production and trade and they have to be reduced. (b) The Green box refers to subsidies with minimum impact on trade and can be used freely. (c) The Blue box refers to certain direct payment to farmers and certain government assistance programmes to encourage agricultural and rural development in developing countries and to ensure food security. Subsidies in Blue box are also permitted. These subsidies are categorised as follows:

a. The Amber Box
For Agriculture, all domestic support measures considered to distort production and trade (with some exceptions) fall under the amber box. The total value of these measures must be reduced. There are proposals regarding by how much further, these subsidies to be reduced and whether limits should be set for specific products than having overall aggregate limits. Around 30 WTO members, mostly developed countries, have commitments to reduce their trade distorting domestic supports in amber box, that is the total aggregate measurement of support – members without these commitments have to keep within 5 per cent of the value of production (the de
minimis level) for developed countries and 10 per cent in case of developing countries.

b. The Green Box
Qualification for the green box implies that a subsidy must not distort trade, or at most cause minimal distortion. These subsidies have to be government funded (not by charging consumers high prices) and must not involve price support. Green box subsidies are allowed without limits and include research, extension, disease control, environmental protection and regional development programmes (infrastructure such as irrigation, feeder roads programmes).

c. The Blue Box
The blue box is the exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal (de minimis) level. The blue box covers payments directly linked to acreage or animal numbers, under schemes which limit production as a result of imposing quota systems, or farmers are required to set aside part of their land. The blue box is considered important by some countries as an important tool for supporting and reforming agriculture, and for achieving certain non-trade objectives.

In addition, developing countries can exclude investment subsidies which are generally available to agricultural producers and agricultural input subsidies generally available to low-income or resource-poor farmers as well as outlays designed to encourage diversification away from the production of narcotic crops under the Special and Differential Treatment provision.

3.3 Export Subsidies
Export subsidies have traditionally been one of the greatest impediments to the development of agriculture for Less Developed Countries. Commitments of member countries in this respect, are to reduce direct export subsidies by 36 per cent from their level in 1986-88 in case of developed countries over a period of six years. On the other hand, direct export subsidies of developing countries are to be reduced by 24 per
cent and the quantity of subsidised exports is to be reduced by 14 per cent. The reduction in case of developing countries are to be carried out over a period of 10 years as against six years for developed countries. The Least Developed Countries are exempted from those reductions. Export subsidies subject to reduction are the direct subsidies paid which include payments in kind; subsidies given to reduce the costs of marketing including internal handling, processing, international transport and freight subsidy on export shipments.

3.4 Agreements Related to Agriculture under WTO

There are some agreements and provisions under WTO framework that are closely related to agriculture which could have their impact on the access of agricultural commodities of Less Developed Countries to global market and to the developed world's market in particular due to technical and financial limitations. These agreements are dealt with in the following:

Sanitary and Phytosanitary Agreement (SPS)
The Agreement on Sanitary and Phytosanitary Agreement (SPS) prevails over the GATT Agreement 1994 and came into force with the establishment of WTO in 1995. The aim of the Agreement is to protect and improve the current human, animal and plant health and the phytosanitary situation of all member countries and protect the members from arbitrary or unjustifiable discrimination due to different sanitary and phytosanitary standards. The SPS standards commonly applied by Governments as they affect imports are: a) import ban; b) technical specifications (process standards, product standards, technical standards); and c) information requirements (labelling requirements). Import bans are generally applied when there is a significant and acute risk about a hazard. Technical specifications are most widely applied to ensure the compliance with pre-determined specifications, whereas information requirements are concerned with appropriately labelled imports.

- Sanitary standards are particularly important for fresh food items, such as meat products, seafood, fruits, and vegetables. Such products are subjected to strict
sanitary measures and consequently the SPS poses a potential constraint to expanded trade.

The key problem of the SPS with regard to the developing countries is the wide gap in the ability to meet international standards between developed and most of the developing countries. This gap cannot be narrowed in the short run, as it requires skilled personnel and considerable investment and at present both are limited in most of the developing countries. Related to this, some of the problems encountered by developing countries were the lack of mutual recognition of their inspections and standards as well as trade harassment. With regard to the mutual recognition of inspections and standards, large importing countries often ask for "sameness" rather than "equivalence" of the standards, while in case of trade harassment, the agreement did not provide clear guidelines.

Trade Related Intellectual Property Rights (TRIPs)
The agreement establishes minimum standards on almost all areas of TRIPs in terms of both the availability of rights and their experiment. Whenever the agreement comes into force, the member countries must have in place the legal procedures and the administrative and legal infrastructure necessary to actually enforce the conferred rights. Any deviation from the standards set forth by the Agreement may lead to a dispute settlement procedure within the WTO. In case of violation, the affected country can apply trade retaliation against the non-complying country in any area covered by the WTO Agreement. Developing countries would like to ensure that naturally occurring materials including gene are not patentable, and to recognise some form of protection for the traditional knowledge of local and indigenous communities.

Since agriculture is the oldest occupation in history after hunting and tree fruit gathering, a substantial accumulation of traditions, innovations of knowledge, and practices has been acknowledged which assisted in crops and trees evolution over time. As a result, the possible development of some form of protection for traditional knowledge is thought through. The adoption of the
Convention on Biological Diversity by WTO has given impetus to this issue by establishing the obligation to respect, reserve and maintain knowledge, innovations and practices of indigenous and local communities embodying lifestyles relevant for the conservation and sustainable use of biological diversity.

The Special and Differential Treatment (S&D)
The Special and Differential Treatment (S&D) is the product of the coordinating efforts of developing countries to correct the perceived inequalities of the post-war international trading system by introducing preferential treatment in their favour across the spectrum of the international economic relations because of the peculiar structural features of the economies of developing countries and distortions arising from historical trading relationships. The S&D treatment trends to emphasise the difference among developing countries with respect to their resource endowments, production capabilities, their economic and social institutions and the capacities for growth and development. It is argued that some countries are economically weak, lacking the human and material resources on which to base a sustained social and economic development, while others have reached the "take-off" stage where the economies begin to generate its own investment and technological improvement so as to make growth virtually self-sustaining. In the other extreme, there are the economies which are close to maturity. These categories are used to justify graduation and to abandon S&D.

Anti-Dumping and Countervailing Duties (AD)
Anti-dumping legislation, based on WTO distinguishes between two forms of dumping: a) price dumping when selling at a lower price abroad than in the home market; b) cost dumping when selling below cost in an export market. There is also non-market economy dumping. There are two types of dumping, namely, incidental dumping and systematic dumping. Incidental dumping usually results from various factors including differences in economic cycles in two markets, price differentiation to initially enter a market and exchange rate fluctuations. Calculation of dumping margin is based on the difference between domestic and export prices, restrictive
interpretation of allowances, systematic exclusion of sales below cost and use of sales above cost as the basis for normal value and use of constructed normal values with unrealistically high profit margins. Dumping is said to occur when sales are made in substantial quantities, that is when the volume of sales below per unit costs represents more than 20 per cent of the volume sold or when the weighted average selling price of the transactions is below the weighted average per unit costs. If dumping occurs and results in an injury, anti-dumping duties may be imposed to offset or prevent injurious dumping in the importing country market.

3.5 Development of Negotiations on Agreement on Agriculture
The WTO Agreement on Agriculture has been a significant step towards reforming agricultural trade. It brought agricultural products under more effective multilateral rules and paved the way for further liberalization for agricultural production and trade. It brought agricultural products under more effective multilateral rules and paved the way for further liberalization for agricultural production and trade. The implementation period of these reforms was set-up at 1995-2000 for developed countries and at 1995-2004 for developing countries. It was agreed that the Uruguay Agreement would be followed by further reforms and the member countries to resume negotiations on agriculture by December 31, 1999 one year before the end of the implementation period for developed countries that is year 2000. The development of negotiation and implementation was mandate to WTO decision making bodies namely, The Ministerial Conference and highest decision-making body, General Council and Committee on Agriculture.

The first Ministerial Conference after entry into the force of WTO was held in Singapore on December 1996. The developed countries pursued the issues they had proposed for that conference which did not take initiatives to obtain action in favour of developing countries. Instead the major goal of developed countries was the adoption was the adoption of the information technology product agreement and the rapid completion of the negotiations on financial services and basic telecommunication issues of their own interest. The developing countries were somewhat taken by a surprise and consequently expressed their discontent and raised
their doubts whether WTO can become a forum for a continuous negotiating process. Because of these events, the Secretary General of UNCTAD suggested that developing countries needed a positive agenda in which they would systematically identity their interests and set realistic objectives. The positive agenda thus became central for UNCTADs work programme on trade on the next three year.

The United Nations Conference on Trade and Developed organized a workshop on March, 1997 at Geneva to follow up the implementation of Uruguay Round. The workshop highlighted the fact that since 1995, the implementation experience has confirmed qualitative gains to WTO member countries from the rule-based agricultural trade environment and the increased transparency and predictability in the pursuit of agricultural trade policy. On the other hand a number of problems were noted with regard to agriculture. Firstly, with tariffication there are very significant tariff peaks in agriculture and a wider dispersion of tariff peaks to comply with the agreed 36 per cent average tariff reductions of Uruguay Round. Most countries tended to reduce their low tariffs by high rates and high tariffs by low rates and apply high tariffs peaks for their products on which they enjoy comparative advantage. The high tariff bindings in some cases are higher than the rates of protection actually applied before the beginning of the implementation period, thus there has been an effective increase in protection and the old barriers to trade have essentially remained unchanged as the case with fruits and vegetables. Secondly, the use of the safeguard mechanisms suggest that some of the old barriers for trade in some products like fruits and vegetables have remained unchanged. The price triggered version has been very problematic as a number of countries have set their trigger prices at a very high levels. Likewise, is the case with the quantity triggered version because it is often switched on and off for very short period and therefore created considerable uncertainties to trade. Thirdly, quota administration has become problematic because of the many new tariff rates quotas which have been established under current and minimum access commitments. These three problems are of particular concern for developing countries as they directly affect the translation of Uruguay Round commitment into real trading opportunities. Fourthly, The use of anti-dumping and countervailing duties and
safeguard indicated that they are likely to be used increasingly against competitive import surges. There is a risk of an increased use of countervailing actions to counter the special and differential treatment allowed to developing countries on subsidies. Fifthly, Effective participation in WTO either in terms of implementation and notifications on pursuing countries interest in negotiation is seen as a real challenge for many countries and in particular for LDCs because of financial and personal constraints. One of the main reasons for the present difficulties with notifications and negotiations is that only recently the countries have realized the implications of what they accepted and signed in Marrakesh. For many of developing countries delegates, there is a pervasive feeling that they do not have an adequate strategy. They knew that they had to resist or to fight some proposals, but overall there is a lack of awareness, what some call a positive agenda for trade liberalization. Sixthly, The developing countries with very few exception, are not adequately prepared. Even the most advanced among them had only a partial awareness of the full implications of the issues under negotiations.

The second conference in Geneva 1998, set up Geneva Ministerial Declaration a preparatory process which would be “proposed driven” thus placing every WTO member under pressure to submit proposals to ensure that the trade issues of its specific interest would not be submitted in future negotiations. This impetus quickened the pace and sense of urgency of work on the positive agenda.

In 1998, a number of intergovernmental and expert meetings were held on several issues like health service, tourism and transport environmental services, etc. At the end of 1999, 249 proposals have been submitted in the WTO preparatory process in more than 20 subject areas of which more than 50% were coming from developing countries and of the submitted proposals 49 proposals addressed Agriculture. Many WTO member countries had expressed their support for launching a new round of multilateral trade negotiations at the Third Seattle Ministerial Conference which to be considered as “Millennium Round”. The matters of priority for many developing countries were: (a) the implementation of special and differential treatment (S&D) in
their favour; (b) correction of imbalances in several WTO Agreements including on subsidies, countervailing measures, anti-dumping, TRIPS.

The third Ministerial Conference was held on 30th November in Seattle. The conference did not launch a new round of multilateral trade negotiations and did not achieve a clear consensus as to the appropriate follow up. Because of the failure of Seattle Conference agriculture negotiations ultimately began in March 2000 and conducted as special session of WTO Committee on Agriculture in Geneva.

The fourth Ministerial Conference was held in Doha in 2001 and launched a new negotiation on a range of subjects including the built in negotiations on agriculture which had already began in 2000 under Marrakesh Agreement – After Doha Conference agriculture has become part of single undertaking in which virtually all the linked negotiations are to end by January 2005. The Doha Ministerial Declaration as an outcome to Doha Ministerial Conference can be summarized in the following:

General

- The Doha Ministerial Conference of 2001 lauded the multilateral trade system for its significant contribution to economic growth, development and employment throughout the past fifty years globally. As a result the conference strongly reaffirm the principles and objectives set out in the Marrakesh Agreement establishing the World Trade Organization in 1995 and pledged to reject the use of protectionism. Yet, as the majority of WTO members, are developing countries, the conference called for placing the needs and interests of the developing countries at the heart of the work programme adopted in Doha Declaration.

- What of great importance is that the declaration reaffirmed the vulnerability of the least developed countries and the special structural difficulties in the multilateral trading system and urged the need for their help to participate effectively and meaningfully in the multilateral trading system.

- In general terms, the declaration strongly reaffirmed the commitment of the WTO member countries to the objective of sustainable development and to up
hold and safeguard an open and non-discriminatory multilateral trading system.

- Based on the above the declaration ensured the commitment of WTO member countries to comprehensive negotiations aimed at substantial improvements in market access, reduction of with a view to phasing out, all forms of export subsidies and substantial reduction in trade distorting domestic support. The declaration also agreed that the Special and Differential treatment of the developing countries should be part of all elements of the negotiations to enable developing countries to effectively take account of their development needs including food security, rural development, protection of environment. The non-trade concerns will be taken into account in the negotiations as provided for in the agreement on agriculture. Moreover, the declaration called Modalities for further commitment including provision for special and differential treatment should be established no later than 31st March 2003 and decided that the Negotiations shall be concluded not later than 1st January 2005.

**Agriculture**

Agriculture is being dealt with in Article 13 &14 of Doha Declaration as quoted below:

Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 members. 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 agricultural markets. We reconfirm 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 improvements in market access; reduction of, with a view to

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33 http://www.wto.org/english/tratop_e/agric_e/negs_bkgmd07_modarities_e.htm
phasing out, all forms of export subsidies; and substantial reduction in trade-distorting
domestic support. We agree that special and differential treatment for developing
countries shall be an integral part of all elements of the negotiations and 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
comissions will be taken into account in the negotiations as provided for in the
Agreement on Agriculture.

Modalities

Modalities for the further commitments, including provisions for special and
differential treatment, shall be established no later than 31 March 2003. Participants
shall submit their comprehensive draft schedules based on these modalities no later
than the date of the Fifth Session of the Ministerial Conference. The negotiations,
including with respect to rules and disciplines and related legal texts, shall be
concluded as part and at the date of conclusion of the negotiating agenda as a whole.
The task of Modalities was entrusted and the Special Session of Agriculture
Committee. After an intensive Sessions and Negotiations the Committee formulated a
draft of Modalities named as Cancun Draft which was submitted to the fifth Session of
the Ministerial Conference held in Cancun, 10-14 September 2003 and adopted by the
General Council on 1st August 2004. Different stands had been taken by member
countries during the intensive sessions and negotiations which can be illustrated by the
below figure:
As illustrated in figure horizontal axis describes the level of ambition and the vertical axis the degree of special and differential treatment. As the players are not playing on the same levelled field they held different positions concerning the two dimensions namely, ambition and differential treatment. Nevertheless the diagram suggests that as a group, developing countries have interest that overlap with European Union (reduce credit subsidies) the United States in elimination of export subsidies and Japan group wants less ambition and more flexible round in multifunctionality that focus on non-trade concerns. The figure suggest that developing countries want substantial reduction in domestic and export subsidies from developed countries and also want more access to developed markets. On the other hand, developed countries want more ambitious and less flexible round that could end up with global liberalized agricultural trade system by eliminating or reducing substantially trade barriers imposed by developing countries. The problem is that developing countries are not a homogeneous group with common interests. Some are food importers, some exporters, while others have preferential access to consider. In an attempt to guide the
parties to a mutually acceptable agreement the Chairman of the Committee on Agriculture circulated in March 2003 a revised version of his first draft of modalities in February 2003. Many countries on either side of the agricultural trade liberalization spectrum found the revised draft inadequate – As a result the first deadline for the agreement on modalities agreed on Doha, was missed and very limited progress was made.

In mid August 2003, European Union and the United States jointly proposed a modalities framework for further reform of agricultural trade but developing countries expressed their disappointment at the framework. The framework does not contain specific figures or ranges for reduction and many issues are left for further negotiations. The draft Cancun, after revisions covered three pillars of Agreement on Agriculture that is (a) market access; (b) domestic support; (c) export competition; and in this regard it is comprehensive it contain formula, rules and special and differential treatment provisions on each of the three pillars but without specifying the level of ambition.

3.6 Framework for Establishing Modalities in Agriculture

- Doha agricultural negotiations are built on the long term objective on agriculture to establish a fair and market-oriented trading system through a programme of fundamental reform. The elements which from the basis for the negotiations of full modalities in the next phase are: (a) the level of ambition set by the Doha mandate will continue to be the basis for the negotiations on agriculture; (b) the final balance will be found only at the conclusion of the subsequent negotiation and within the single undertaking to achieve the balance; (c) the modalities to be developed need to incorporate operationally effective and meaningful provisions for special and differential treatment for members of developing countries. As agriculture is of critical importance to the economic development of developing countries to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns. Non-trade concerns, as referred to on Doha Declaration will be taken into account.
• A draft of Agricultural modalities was formulated by the Special Session of Agriculture Committee and submitted to the Fifth Session of the Ministerial Conference held in Cancun on 14th September 2002 and adopted by the General conference on 1st August 2004. The draft is referred to as Cancun Draft. The reforms covered the three pillars of AoA namely; Domestic Support, Market Access and Export Subsidies. The reforms in the three pillars were supposed to be approached as an interconnected whole and in a balance and equitable manner.

• The Cancun Draft of Agricultural Commodities was formulated as follows:

**Market Access**

The Doha Declaration call for substantial improvement in market access. To ensure that a single approach for both developed and developing countries meets all the objectives of Doha mandate, tariff reduction is to be made through a Tiered Formula that takes into account their different tariff structures. Tariff reduction is to be made from bound rates and substantial overall tariff reductions will be achieved as a final result from negotiations.

Operationally, effective Special and Differential Provisions for developing countries would be integral part of all elements. With regard to tariff-reduction, progressivity in tariff reduction would be achieved through deeper cuts in higher tariffs with flexibilities for sensitive products. Accordingly, the number of bands, the thresholds for defining the bands and the type of reduction in each band are subject to negotiation.

The level of access opportunities should be decided according to the actual agricultural production situation and the progress of the structural reform of each country. Consideration should be given to the different situations of the international supply and demand of each respective product in order to provide flexibility when determining the appropriate level of access opportunities.
Since a certain percentage of the actual domestic consumption during the base period was used for deciding the level of access opportunities during the previous negotiations, the base period should be revived reflecting the latest volume (1986-88) of food consumption in each country. Fresh fruits and vegetables are perishable product harvested in a certain limited season. Therefore, their prices tend to fluctuate and they might be spoiled (damage) in few days. As for such products, the existing procedure for application of safeguard measures which requires an investigation to prove adverse effects of imports and damage to procedures, are often too time consuming to deal with the problems effectively.

Domestic Support

Doha Ministerial Declaration calls for substantial reductions in trade-distorting domestic support. In this regard, modalities to be developed will include longer implementation periods and lower reduction efficient for all types of trade-distorting support. On the other hand, there would be a strong element of harmonization in reduction made by developed countries. Higher levels of permitted trade-distorting domestic support will be subject to a deeper cuts. Each such member will make a substantial reduction to the overall level of its trade distorting support from bound levels to consequently Final Bound Total AMS and permitted de minimis levels as agreed in para 8. Blue Box payment will be reduced according to a Tired Formula. In this formula member having high levels of trade distorting domestic support will make greater overall reductions in order to achieve a harmonizing result. In the first year and throughout implementation period the sum of all trade distorting support will not exceed 80 per cent of the sum of the Final Bound Total AMS plus permitted de minimis plus the Blue Box at the level determined in para 5. The reduction commitment will apply as overall commitment. It will not be as a ceiling on reduction of overall trade distorting domestic support.

- De Minimis

Reduction in De minimis will be negotiated taking into account the principle of Special and Differential Treatment. Developing Countries that allocate all de minimis support for subsistence and resource poor farmers will be exempted.
Green Box

Green Box criteria is to be reviewed and clarified with a view to ensuring that Green Box measured have no or at most minimal, trade distorting effects or effect on production. Such review should take due account of non-trade concerns that stem from multifunctionality of agriculture as well as environment. Decoupled income support and income insurance and income safety net programmes to be considered Green Box. With regard to Decoupled Income Support the amount of payments should be decoupled income from the type or volume of production and factors of production employed. Producers are eligible for payments when the income loss exceeds 30% of average income and the amount of payment should compensate for less than 70% of income loss.

Blue Box

The role of the Blue Box support is recognized in promoting agricultural reforms. Accordingly, certain criteria are to reviewed with regard to direct payments to the producers under production – limiting or other permitted programmes such as payments in case of catastrophes or payments to poor resource and vulnerable farmers. The review must ensure that (a) these payments are based on fixed and unchanging basis and crop yield or numbers of livestock heads; (b) such payments are made on 85% or less of fixed and unchanging base level of production (c) Blue Box support should not exceed 5% of members average total value of agricultural production

Export Subsidies

The Doha Ministerial Declaration calls for reduction of with a view of phasing out, all forms of export subsidies. As outcome of the negotiations, members agree to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date. As an end point, the following will be eliminated by the end date to be agreed: export subsidies as schedules; export credits, export credit guarantees or insurance programmes with repayment point beyond 180 day, terms and conditions related to export credits, guarantee, insurance programmes with repayment of 180 days and
below which are not in disciplines to be agreed. These disciplines will cover
\textit{inter alia}, payment of interest, minimum interest rates, minimum premium
requirements and other elements which can constitute subsidies or otherwise distort
trade. Provision for food aid that is not in conformity with operationally effective
disciplined is to be agreed to prevent commercial displacement.

The Framework Agreement on Agriculture enunciated on 1st August 2004 represented
only the broad contours in terms of general principles and pattern of further reforms.
The Fifth Ministerial Conference while commending the efforts made by the Special
Committee on Agriculture, Stated that much remain to be done in order to establish
modalities and to conclude negotiations no later 30 April 2006 and to submit
comprehensive draft schedule based on the modalities. As a result the Chairman of
the committee on Agriculture submitted Draft Possible Modalities on Agriculture on
22nd June 2006 to the Sixth Ministerial Conference held in Hong Kong. In this Draft
schedules and quantitative measures are provided for the reforms\textsuperscript{34}. The Draft of the
Modalities can be outlined in the following:

\textbf{Domestic Support}

A Tiered Formula is used for reductions in the Final Bound Total along the following
lines:

\begin{itemize}
  \item[i)] Where the Final Bound Total AMS is greater than US$ 25 billion, or the
equivalent in the monetary terms in which the binding is expressed, the
reduction shall be 70-83 \%
  \item[ii)] Where the Final Bound Total AMS is greater than US$ 15 billion and less
than or equal to US$25 billion, or the equivalent in the monetary terms in
which the binding is expressed, the reduction shall be 60-70\%;
  \item[iii)] Where the Final Bound Total AMS is less than or equal to US$ 15 billion,
or the equivalent in the monetary terms in which the binding is expressed,
the rate of reduction shall be 37-60%.
\end{itemize}

\textsuperscript{34} \url{www.wto.org} Committee on Agriculture, Special Session, JOB(06)/199

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1) Developed country Members with high relative levels of Final Bound Total AMS of at least 40 per cent of the total value of agricultural production shall undertake an additional reduction equal to at least half of the difference between the reduction rate specified in their tier and the reduction rate specified in the higher tier.

2) The reduction in Final Bound Total AMS applicable to developing country Members with Final Bound Total AMS commitments shall be two third of the reduction application under i and iii above under Special and Differential Treatment.

3) The product-specific AMS limits specified in each Members schedule shall be the average applied levels of such support provided during the base period (1995 to 2000) and (1999 to 2001).

The current AMS for individual shall not exceed the respective levels established by one of the following methods;

i) the average applied levels during the base period (1995-2000) or (1995 to 2004) as may be selected by the members concerns; or

ii) twice the Member’s product-specific deminimis level; or

iii) 20 per cent of the annual Bound Total AMS in any year.

Deminimis

The de minimis levels pursuant under the Agreement on Agriculture shall be reduced by 50 to 80 per cent or by such amount as would be required to adjust to the rate of cut of Overall Trade Distorting Domestic Support if that is greater. The new de minimis level shall become effective from the beginning of the implementation period and be phased in through equal annual installments over the implementation period.

Special and Differential Treatment

- Developing Member Countries are required to allocate all de minimis support for subsistence and resource-poor farmers with no AMS commitment. The net food importing developing countries members shall be exempted from the reduction in de minimis.
Blue Box

- The value of the following direct payment shall be excluded from a Members' calculation of its Current Total AMS, if such payments are based on fixed and unchanging areas and yields or such payments are made on 85 per cent or less of a fixed and unchanging base level of production; Livestock payments are made on a fixed and unchanging number of head.

- The maximum permitted valued of support shall not exceed 2.5 per cent of the average total value of agricultural production during the base period.

- For developing countries members the maximum permit level for the value of support shall not exceed 5 per cent of the average total value of agricultural production in the base period as Special and Differential Treatment.

- Transparency is required for the products receiving such payments. Members using direct payments shall notified all the parameters referring to any existing or additional criteria at the time when the payment programmes were established. Moreover, all those payments such as base period, production levels, area planted, number of live stock head and other parameters shall be notified at product specific level. No Blue Box payments shall be used until all notification obligation above are complied with timely and accurately.

Overall Reduction of Trade-Distorting Domestic Support: A Tiered Formula

- The Base Overall Trade-Distorting Domestic Support shall be the sum of (i) the Final Bound Total AMS plus (ii) permitted de minimis level expressed in monetary terms plus (iii) the Blue Box level expressed in monetary terms.

- The Base level of Overall Trade-Distorting Domestic Support shall be reduced in accordance with the following tiered formula

i) Where the base level of Overall Trade-Distorting Domestic Support is greater than US$ 60 billion, or the equivalent in the monetary terms in which the binding is expressed, the reduction shall be 70-80 per cent;

ii) Where the base level of Overall Trade-Distorting Domestic Support is greater than US$ 10 billion and less than or equal to US$ 60 billion, or the
equivalent in the monetary terms in which the binding is expressed, the reduction shall be 53-75 per cent;

iii) Where the base level of Overall Trade-Distorting Domestic Support is less than or equal to US$ 10 billion, or the equivalent in the monetary terms in which the binding is expressed, the rate of reduction shall be 31-70 per cent.

- As the first installment of the Overall reduction, in the first year and throughout the implementation period, the sum of all trade-distorting support shall not exceed 80 per cent of the base level of Overall Trade-Distorting Domestic Support. As for the second and subsequent years of implementation, the remaining reduction shall be implemented according to the following schedule:

i) Developing countries and recently acceded members with no AMS Commitments shall not be required to make commitments on reduction in Overall Trade-Distorting Domestic Support. In addition, net food-importing developing country members shall also be exempt from commitments to reduce Overall Trade-Distorting Domestic Support;

ii) For other developing country members with AMS commitments, the applicable reduction for Overall Trade-Distorting Domestic Support shall be two third per cent of the relevant rate specified in as greater than US$10 billion or less than or equivalent to US$ 60 billion.

iii) As the first instalment of the overall cut, in the first year and throughout the implementation period, the sum of all trade-distorting support shall not exceed 80 per cent of the base level of Overall Trade-Distorting Domestic Support.

iv) Commitments relating to reduction in Overall Trade-Distorting Domestic Support shall apply as a minimum overall commitment. If necessary, a Member shall be required to make additional commitment on reduction or limits in Final Bound Total AMS, De minimise and Blue Box in order to achieve the appropriate reduction in Overall Trade-Distorting Domestic Support.
Market Access

Custom duties shall be reduced in equal annual instalments from bound duty levels using the Tiered Formulas as follows:

i) Where the bound duty or ad valorem equivalent is greater than 0 and less than or equal to 20-30 per cent the reduction shall be 20-65 per cent;

ii) Where the bound duty or ad valorem equivalent is greater than 20-30 per cent and less than or equal to 40-60 per cent, the reduction shall be 30-75 per cent;

iii) Where the bound duty or ad valorem equivalent is greater than 40-60 per cent and less than or equal to 60-90 per cent, the reduction shall be 35-85 per cent; and

iv) Where the bound duty or ad valorem equivalent is greater than 60-90 per cent, the reduction shall be 42-90 per cent.

Developing country members shall reduce bound duties in accordance with the following tiered formula:

i) Where the bound duty or ad valorem equivalent is greater than 0 and less than or equal to 20-50 per cent, the reduction shall be 15 slightly less than 65 per cent;

ii) Where the bound duty or ad valorem equivalent is greater than 20-50 per cent and less than or equal to 40-100 per cent, the reduction shall be 20 slightly less than 75 per cent;

iii) Where the bound duty or ad valorem equivalent is greater than 40-100 per cent and less than or equal to 60-150 per cent, the reduction shall be 25 slightly less than 85 per cent; and

iv) Where the bound duty or ad valorem equivalent is greater than 60-150 per cent, the reduction shall be 30 slightly less than 90 per cent.

Tariff Cap

In case the application of the tiered formula a bound duty should be reduced to that level. For developing country member maximum bound duty shall be 150 per cent.
- **Sensitive products**

Each developed member country shall have the right to designate up to 1-15 per cent tariff lines as sensitive products. Developing countries members shall have the rights to designate up to 50 per cent more than the absolute number of tariff lines designated by the developed countries having the highest number of such tariff lines as sensitive products. Bound duties on product designated as sensitive shall be reduced by no less than 20-70 per cent of the reduction that would otherwise have been required by the tiered formula.

- **Tariff Quota Expansion**

The basis for expansion of tariff quotas shall be: domestic consumption expressed in terms of physical units; current bound tariff quota volumes; and current imports of the product concerns. The expansion shall be at least 6 per cent of the domestic consumption or less than two-thirds for the 6 per cent of the domestic consumption of the developing countries. For developing country members, domestic consumption shall not include self-consumption of subsistence production.

3.7 **The Basic Elements for the Negotiations of Full Modalities**

**Market Access**

Developing countries submitted various proposals aimed at protecting and enhancing their food production capacity, particularly in key staples, safeguarding employment opportunities for the rural people protecting farmers from cheap imports. The proposals submitted are to be considered as an integral part of the development box of Doha Declaration.

Four scenarios are undertaken to analyse the proposed reductions

- The first scenario is the ambition scenario which indicates the opportunity cost of forgone gains.
- The second scenario is the Uruguay Round continuation as the least that could be gained from the current round.
• The third scenario is the Harbinson proposal. The proposal contains some elements of tiered formula in that it contains higher cuts in higher tariffs.

• The fourth scenario is the EU-United States proposal "blended formula" the tiered formula in which higher tariff rates are more than lower tariff rates. A rather extreme top down approach is the called Swiss Formula in which tariffs are reduced below a coefficient that becomes the new maximum tariff and the proportional cuts in tariff rises as the tariff rises. The family of the Swiss Formulas can provide a wide range of alternatives between the Swiss Formula and a straight proportional reduction.

The ambition scenario is relatively straightforward as it is based on United States proposal of swiss cut with a maximum tariff of 25 per cent. Cuts are applied on applied rather than bound rates. The proposal is not in focus of developing countries where the gap between bound and applied rates can be significant. The second scenario is the conservative proposal which is an expansion of Uruguay Round approach which implies tariff cuts average 36 per cent with a minimum of 15 per cent for developed countries and 24 per cent for developing countries. The problem is how to specify products qualified for minimum reduction.

For developed countries it is assumed that product with high bound tariff are sensitive product and accordingly tariffs to be reduced as little as possible. For developing countries, the same is applied but the most sensitive products are defined as those which have the smallest differences between out-quota bound and applied tariff rates. Some developing countries have high bound rates, thus the applied rates are only slightly affected.

One difficulty in the negotiations is the determination of the countries that can benefit from certain development box measures as developing countries are diverse with respect to their resource endowments, level of development, degree of integration into the world economy and their current poverty and food security situation. Hence, it is difficult to get agreement as to which countries should receive special and differentiated treatment.
Despite the progress being made in trade liberalization through WTO initiatives, there are still pending issues in general agricultural trade. These issues are related with the many countries implemented their commitment to liberalization. Developing countries alleged that many developed countries use loopholes in the agreement to circumvent liberalization requirements such as:

a. inadequate benefit sharing under the existing system of agricultural trade;
b. growing gap between food surplus in developed countries and food shortage in developing countries;
c. addition support measures;
d. new issues emerging such as in the area of genetically modified organism and the growing concerns by consumer;
e. high tariffs are imposed on value-added processed products from developing countries by developed countries;
f. the increasing use of SPS measures to protect domestic products from competition; and
g. tariff escalation continues to be an issue.

With regard to the minimum market access, the level of access opportunities should be decided according to the actual agricultural production situation and the progress of the structural reform of each country. Consideration should be given to the different situations of the international supply and demand of each respective product in order to provide flexibility when determining the appropriate level of access opportunities.

Since a certain percentage of the actual domestic consumption during the base period was used for deciding the level of access opportunities during the previous negotiations, the base period should be revived reflecting the latest volume of food consumption in each country.

Fresh fruits and vegetables are perishable product harvested in a certain limited season. Therefore, their prices tend to fluctuate or spoiled (damage) in few days. As
for such products, the existing procedure for application of safeguard measures which requires an investigation to prove adverse effects of imports and damage to procedures, are often too time consuming deal with the problems effectively.

Decoupled income support and income insurance and income safety net programmes to be considered as an essential Green Box issues. The amount of payments should be decoupled from the type or volume of production and factors of production employed. For the Income Insurance and Income Safety Net Programmes producers to be eligible for payment when the income loss exceeds 30% of average income. The amount of payment should compensate for less than 70% of income loss.

- With the levels of domestic support, the base level of AMS should be equivalent to the final commitment level in year 2000 in order to secure the continuity of agricultural policy reform. Total AMS should include the impact of multifunctional of agriculture in order to be determined in a realistic manner.

- Japan Negotiating proposal is based upon the fundamental philosophy of co-existence and pursue the following five major points:

  a) Consideration of the multifunctionality of Agriculture;
  b) Ensuring food security, which is the basis of the society in each country;
  c) Redressing the imbalance between rules and disciplines applied to agricultural exporting countries and those applied to importing countries;
  d) Consideration for developing countries; and
  e) Consideration for the concerns of consumers and civil society.

**Domestic Support**

The level of ambition set by the Doha mandate will continue to be the basis for the negotiations on agriculture and the final balance will be found only at the conclusion of the subsequent negotiations and within the single undertaking.
a. As agriculture is of critical importance to the economic development of developing countries, operationally effective and meaningful provisions for special and differential treatment need to be incorporated in the modalities.

b. The modalities should also take into account the ability of developing countries to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns as well as non-trade concerns.

c. The reforms in all three pillars, market access, domestic support and export form an interconnected whole and must be approached in a balanced and equitable manner.

d. With regard to domestic support the negotiations will ensure that special and differential treatment remains an integral component of domestic support. Modalities to be developed will include longer implementation periods and lower reduction coefficient beside a strong element of harmonization in the reductions made by developed members. In addition, each member will make a substantial reduction in the overall level of its trade-distorting support that is the Final Bound Total AMS and permitted de minimis level will be subject to substantial reduction.

e. The overall level of trade-distorting support would be reduced according to a tiered formula. Under this formula members with high levels of trade distorting domestic support will make greater reductions in order to achieve a harmonizing result. The overall cut in the first year and throughout the implementation period the sum of all trade-distorting support will not exceed 80 per cent of Final Bound Total AMS plus permitted de minimis plus the Blue Box.

f. The further negotiations of this tiered formula will be guided by two parameters namely; the commitment will apply as a minimum overall commitment and not to be applied as a ceiling. The base for measuring the Blue Box component would be the higher of the existing Blue Box payments during a recent representative period to be agreed.
g. Considering the Final Bound Total AMS of the domestic support, reduction are to be with a harmonizing and the final bound will be reduced substantially using a tiered approach. In connection with Final Bound AMS reduction in De minimis will be negotiated taking into account the principle of the special and differential treatment.

h. As a large part of the current negotiations is based on the degree of differential treatment, some measures would be added to the green box and comprises various special provisions for developing countries in addressing food security, rural development, rural poverty etc.

i. With regard to Blue Box member may have recourse to the direct payments under production – limiting programmes and other direct payments to be based on fixed and unchanging areas and yield. Such payments are to be made on 85 per cent or less of fixed and unchanging base level of production and number of heads in case of livestock. The Blue Box support not to exceed 5 per cent of the average value of agricultural production during the historical period that to be established in the negotiations.

Export Subsidies

j. With regard to export subsidies Doha Ministerial Declaration calls for “reduction of, with a view to phasing out, all forms of export subsidies”. As an outcome of the negotiations, members agree to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent to effect by a credible end date.

k. By the end date to be agreed the following provisions will be eliminated.
   - Export subsidies as scheduled;
   - Export credits, export credit guarantees or insurance programmes with repayment periods beyond 180 days;
   - Terms and conditions relating to export credits, export credit guarantees or insurance programmes with repayment period of 180 days and below which are not in accordance with disciplines to be agreed. These
disciplines will cover, inter alia, payment of interest, minimum interest rates, minimum premium requirements, and other elements which can constitute subsidies or otherwise distort trade.

- Trade distorting practices with respect to exporting STEs including eliminating export subsidies provided to or by them, government financing, and the underwriting of losses. The issue of the future use of monopoly powers will be subject to further negotiation.

- Provision of food aid that is not in conformity with operationally effective disciplines to be agreed. The objective of such disciplines will be to prevent commercial displacement. The role of international organization as regards the provision of food aid by members, including related humanitarian and developmental issues, will be addressed in the negotiations. The question of providing food aid exclusively in full grant form will also be addressed in the negotiations.

Special and Differential Treatment

- Developing country members will benefit from longer implementation periods for the phasing out of all forms of export subsidies.

- Developing countries will continue to benefit from special and differential treatment under the provisions of Article 9.4 of the Agreement on Agriculture for a reasonable period, to be negotiated, after the phasing out of all forms of export subsidies and implementation of all disciplines identified above are completed.

- Members will ensure that the disciplines on export credits, export credit guarantees or insurance programmes to be agreed will make appropriate provision for differential treatment in favour of least-developed and net food importing developing countries as provided for in paragraph 4 of the Decision on Measures concerning the possible negative effects of the reform programme on the Least-Developed countries. Improved obligations for monitoring and surveillance of all new disciplines as foreshadowed in paragraph 48 will be critically important in this regard. Provisions to be agreed in this respect must
not undermine the commitments undertaken by members under the obligations in paragraph 18 above.

- STEs in developing country members which enjoy special privileges to preserve domestic customer price stability and to ensure food security will receive special consideration for maintaining monopoly status.

3.8 The Implementation Experience of Agreement on Agriculture

Food and Agriculture Organization of United Nations (FAO) initiated a major exercise in 1999 and 2002 to evaluate the experience with implementation of the Agreement on Agriculture (AoA)\(^{35}\) in developing countries. Twenty three case studies were selected and their experience was reviewed and synthesized. The selection of countries included different categories such as least developed countries, net food importing countries and agricultural exporters. The synthesis of the experience is dealt with in as the following:

Market Access

While bound tariffs are high on average, no all developing countries have high bound tariffs on some or all agricultural products despite the option they had in Uruguay Round. If an average of 40 per cent is arbitrary taken as threshold distinguishing between high and low bound rate, one third of the studies had low rates that is below 40 bound rates in the group of countries with high bound rates varied between 50 per cent (Sri Lanka) up to 200 per cent Bangladesh. Applied rates are on average much lower than bound rates. There are at least four reasons why applied rates are so much lower than bound rates. First countries were deliberately continuous in committing the bound rates to allow the maximum amount of flexibility in the future and possibility to maximize their negotiating coverage.

In contrast, the applied rates were low because tariff reforms i.e. reduction and harmonization, had been ongoing for a decade or more prior to the conclusion of the Uruguay Round. Secondly, the regional integration process involving many

\(^{35}\) WTO Agreement on Agriculture, The Implementation Experience, Developing Country Case Studies; Food and Agriculture Organization of the United Nations, Rome, 2003
developing countries in 1990s has been particular important in lowering applied tariffs. Third, some countries with large populations at or near poverty levels have not found it politically feasible to maintain high domestic food prices through tariffs. Fourth, some countries are obliged to set applied rates much below their WTO bound rates because of loan conditionality. But in most cases the reductions were deliberately pursued by developing countries themselves as part of their chosen economic development strategies. It is important to point out that a reduction in applied tariffs does not necessarily mean that production incentives to domestic farmers have been reduced.

In many cases tariff reductions have been pursued in the context of exchange rate adjustments, which have more than compensated farmers for the reduction in tariff protection. Macro-economic factors such as the level of exchange rate of real interest rates, are often of a more significant influence on agricultural production incentives than sectoral interventions such as tariff policies. Applied tariffs on some products notably basic in foods were often higher than average and were often supplemented by additional measures surcharges and various of price band policies. For example, Rice with an average applied tariff on agricultural products of 14.8 per cent in 2000 applied a 57 per cent import duty on dairy products and 150 per cent on dark chicken meat.

The large differences between bound and applied rates imply that most developing countries could continue to give concessions on bound rates. Also it suggest that developing countries might be interested in a tariff-cutting formula which targets an average cut but allows lower cuts on sensitive products. Moreover, it appears that tariffs tend to escalate by degree of processing, providing low tariffs for primary products, a bit higher for semi-processed and high tariffs for processed products.
The following table explains the situation in the selected countries:

Table 4: Bound and applied tariffs

<table>
<thead>
<tr>
<th>Country</th>
<th>Bound rates</th>
<th>Applied rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh*</td>
<td>200% average (except 50% for 13 lines) plus 30%. Other duties or charges (ODCs) on all products</td>
<td>25% average</td>
</tr>
<tr>
<td>Botswana</td>
<td>Average n.a. (mostly in the range of 0-100%)</td>
<td>Average 6% (typically 0-35%; formula duties for 6 lines)</td>
</tr>
<tr>
<td>Brazil</td>
<td>35% average (0-55% range)</td>
<td>11% average (maximum of 20% linked to maximum EUCOSURCET rate)</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>n.a.</td>
<td>14.8%</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>15% (except between 5 and 75% for 25 items)</td>
<td>16.4% (2001)</td>
</tr>
<tr>
<td>Egypt</td>
<td>62% in the base period, to fall to 28% average in 2004</td>
<td>18.5% average (21.8% including ODCs)</td>
</tr>
<tr>
<td>Fiji</td>
<td>40% (except for rice and milk powder bound at 60%, to be reduced to 46% by 2005)</td>
<td>Most agricultural imports 15%, and maximum rate 27%</td>
</tr>
<tr>
<td>Guyana*</td>
<td>100% average plus 40% ODCs</td>
<td>Average n.a. (maximum rate is 40%-the CARICOM CET rate)</td>
</tr>
<tr>
<td>Honduras</td>
<td>35% with some exceptions</td>
<td>11% with some higher rates</td>
</tr>
<tr>
<td>India</td>
<td>116% average (about half of tariff lines at 100% and one third at 150%)</td>
<td>26% average (89% of tariff lines at 50% or lower; 74% between 25% and 50%)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>Quite variable, averaging more than 70%</td>
<td>5% with 0% tariffs on food items except for rice and sugar</td>
</tr>
<tr>
<td>Jamaica</td>
<td>100% average plus 15% ODCs (higher ODCs on 55 lines and three harmonized system (HS) chapter)</td>
<td>Average 20.2% (maximum applied rate is 40%-CARICOM CET rate), additional stamp duties</td>
</tr>
<tr>
<td>Kenya*</td>
<td>100% average</td>
<td>17% average</td>
</tr>
<tr>
<td>Malawi</td>
<td>125% generally except for a few products with ceiling rates of 50%, 55% and 65%</td>
<td>15% average</td>
</tr>
<tr>
<td>Morocco*</td>
<td>65% average (34% for 71% of the tariff lines) plus 15% ODCs</td>
<td>n.a.</td>
</tr>
<tr>
<td>Pakistan*</td>
<td>101% average</td>
<td>Maximum rate 35%</td>
</tr>
<tr>
<td>Peru</td>
<td>30% average (68% for 20 food products)</td>
<td>12% generally with maximum of 20% for some sensitive products</td>
</tr>
<tr>
<td>Philippines</td>
<td>Average 13.26% in 2000; up to 100% initially on sensitive commodities reducing to 30-50%</td>
<td>Average n.a., but 10%, 20% or 30%</td>
</tr>
<tr>
<td>Senegal</td>
<td>30% average + 150% ODCs</td>
<td>Now range from 10% to 20%, initially with WAEMU CET</td>
</tr>
<tr>
<td>Sri Lanka*</td>
<td>50% average</td>
<td>Maximum 35%, with some exceptions</td>
</tr>
<tr>
<td>Thailand</td>
<td>36% average</td>
<td>32% average</td>
</tr>
<tr>
<td>Uganda</td>
<td>80% generally, with some between 40-70%</td>
<td>11.2% average, plus ODCs of 6%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>150% (with a few exception at 25% and 40%)</td>
<td>Applied rates average 4-6% up to 10% by HS chapter</td>
</tr>
</tbody>
</table>


Note: Countries marked with an asterisk appeared in the earlier FAO study, and for these countries, the data are from 1999 or the most recent available year before that date. For other countries, the data are drawn from the national case studies commissioned in 2002.
With regard to Quantitative Quota Restriction, evidence suggests that QRS as a trade measure in developing countries are now a thing of the past.

The case studies demonstrate that tariffs are often the primary, if not the only, trade investment open to these countries to stabilize domestic markets and to safeguard farmers interests in the face of sharp swings in world prices or a surge in imports. Countries have implemented trade remedies legislation to address developing and the use of subsidies by trading partners as well as legislation making possible the use of the emergency safeguard.

General safeguards “anti-dumping” and countervailing measures, emergency safeguards etc are necessary given the volatility of agricultural trade – for example, Brazil in 2001 imposed an anti-dumping duty on imports of milk powder and whole milk from New Zealand and European Union, likewise is Egypt on powdered milk.

The most important is the wide margin which many developing countries enjoy between their applied tariffs and their bound tariffs, as a price stabilization and protection measures thus allowing tariffs to be increased without having to appeal to the special safeguard clause. Some countries, a number of Latin American countries use price band schemes Honduras Peru of variable tariffs. There is a danger if applied tariffs are adjusted regularly in response to changes in world market prices, then there will be interpreted as a variable levy which use is not permitted under Agreement on Agriculture (AoA).

Domestic Support
The amber box contains domestic support which are deemed to be trade distorting, namely Product Related Support (PRS) which value is measured by the Aggregate Measurement of Support (AMS). Developing countries committed themselves to binding their (AMS) level at 1986 – 1988 levels and to reducing this AMS level by 13.3 per cent over the period 1995-2004 while Least Developed Countries were exempted from reduction commitment. For those countries for which data are available levels for recent years have been well below the committed or permitted
levels with exception of Thailand and Indonesia. A number of countries in the sample reported that not only AMS outlays but also Government Budget (GB) outlays have been in decline because of budgetary constraints. In case of some other countries, government support measures have been removed in the context of structural adjustment programme. The following table explains the situation in the selected countries:

Table 5: Summary of information on domestic support measures

<table>
<thead>
<tr>
<th>Country</th>
<th>Information available</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh*</td>
<td>None</td>
<td>PS AMS negative; NPS AMS about 1% of VoP</td>
</tr>
<tr>
<td>Botswana*</td>
<td>GB only</td>
<td>GB level about 3% of VoP</td>
</tr>
<tr>
<td>Brazil</td>
<td>Detailed</td>
<td>PS AMS in 1995 and 1996, respectively, 27% and 23% of permitted levels; NPS AMS de minimis, much of it consisting of credit subsidies</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>GB, SDT, AMS</td>
<td>GB outlays falling; no PS AMS used so far; NPS AMS only for 1998 and 1999</td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>None</td>
<td>Very low</td>
</tr>
<tr>
<td>Egypt</td>
<td>GB and SDT only</td>
<td>---</td>
</tr>
<tr>
<td>Fiji</td>
<td>None</td>
<td>---</td>
</tr>
<tr>
<td>Guyana*</td>
<td>None</td>
<td>---</td>
</tr>
<tr>
<td>Honduras</td>
<td>Only SDT</td>
<td>SDT outlays increased</td>
</tr>
<tr>
<td>India</td>
<td>Detailed</td>
<td>PS AMS negative; NPS AMS about 7.5% of VoP in 1995/96 but fell to about 1% subsequently; SDT not used fully but the right to use reserved; unofficial estimates suggest this would reduce NPS AMS to 2.3% of VoP</td>
</tr>
<tr>
<td>Indonesia</td>
<td>GB, SDT, AMS (rice only)</td>
<td>SDT not used; only in 2000, rice AMS</td>
</tr>
<tr>
<td>Jamaica</td>
<td>GB only</td>
<td>GB outlay about 2% of VoP</td>
</tr>
<tr>
<td>Kenya*</td>
<td>GB only</td>
<td>---</td>
</tr>
<tr>
<td>Malawi</td>
<td>None</td>
<td>---</td>
</tr>
<tr>
<td>Morocco*</td>
<td>Detailed</td>
<td>AMS in current years 12-33% of permitted levels</td>
</tr>
<tr>
<td>Pakistan*</td>
<td>Detailed</td>
<td>PS AMS negative; NPS AMS about 3% of VoP; PS AMS calculated for one crop in 1997-98 and 11 in 1986-88</td>
</tr>
<tr>
<td>Peru</td>
<td>GB and SDT only</td>
<td>GB 5% of VoP; PS AMS 0%; NPS AMS 5.0-6.2% of VoP</td>
</tr>
<tr>
<td>Philippines</td>
<td>None</td>
<td>Very low</td>
</tr>
<tr>
<td>Senegal</td>
<td>GB and SDT only</td>
<td>85% of GB/SDT on water development</td>
</tr>
<tr>
<td>Sri Lanka*</td>
<td>None</td>
<td>---</td>
</tr>
<tr>
<td>Thailand</td>
<td>Detailed</td>
<td>Current AMS 60-80% of permitted levels</td>
</tr>
<tr>
<td>Uganda</td>
<td>GB and SDT only</td>
<td>Minimal support provided</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>GB, SDT, de minimis</td>
<td>No PS AMS</td>
</tr>
</tbody>
</table>

Source: FAO, 2003, WTO Agreement on Agriculture, The Implementation Experience – Developing country case studies, Rome
Note: Countries marked with an asterisk appeared in the earlier FAO study, and for these countries, the data are from 1999 or the most recent available year before that date. For other countries, the data are drawn from the national case studies commissioned in 2002.
The evidence from the case studies suggests that WTO disciplines have not proved constraining to the domestic support policies that developing countries want to implement. Budgetary constraints and previous commitments under structural adjustment programmes (SAPs) in limiting these interventions. But there is a matter of concern that a number of countries which have yet to make any notification of their domestic support outlays to the WTO due to the lack of technical capacity to undertake this onerous task to fulfill their WTO notification obligations and to facilitate their strategic thinking in the context of the current negotiations. In this regard developing countries must be in a position to develop a view of how the AoA disciplines might constraints the future implementation of agricultural development policy.

**Export Subsidies**

Export subsidization was generally, not an issue among the case study countries as export subsidies are not affordable for most developing countries. A number of case studies mentioned the importance of continuing the developing country exemption to allow them to grant subsidies to reduce the cost of domestic marketing and international freight. Most case studies identified that countries had a range of general export assistance schemes in place available to agricultural exporters, such as tax rebates, duty drawbacks, tax exemption, provision of subsidized export finance and export credit guarantees. These subsidies are not specifically referred to in the AoA but are addressed on subsidies and countervailing measures. It is not entirely clear whether it is legitimate to grant such subsidies on agricultural products which all forms of agricultural subsidization are prohibited by the AoA for those countries with zero export subsidy commitment.

**Sanitary and Phytosanitary**

The case studies indicates that many developing countries have either upgraded or reorganized their national SPS systems in response to the introduction of the Agreement. There is a greater awareness of the need for vigilance in protecting consumers from potentially unsafe food and of the need to protect plant and animal health.
The case studies reported only a very limited number of cases where SPS measures taken by developing countries had been challenged by other WTO Members. The few cases were Egypt case regarding the importation of poultry products as it was difficult to ascertain whether or not the imported parts came from poultry slaughtered in accordance with Islamic tradition. Indonesia use the same justification in importing chicken legs from United States. The other is Fiji case of importing sheep meat from New Zealand because of health problem owing to its high fat content.

TRIPS Plant Variety Protection
The case studies did not provide an in-depth analysis of the experience with implementing Article 27(3) of the TRIPS Agreement, but a number of broad conclusions emerged. First, in a number of countries, legislative action is still awaited, and some case studies noted that the legal expertise and resources to develop and enforce this legislation is lacking. Second, the majority of countries where legislation has been introduced have opted to meet their obligations under this Article by a sui generis system, often deriving extensively from the 1991 Union for the Protection of New Verities of Plants (UPOV) Convention. The rights of farmers and local communities as well as the plant breeders are usually recognized under this legislation. Third, many of the case study countries have expressed an interest in exploring the potential benefits of this legislation to protect traditional knowledge concerning traditional medicines and plants, know-how and customs and of the value of obtaining intellectual property protection in commercializing this. Related to this, some countries have worried that overseas companies could use TRIPS protection in their home countries to effectively appropriate into private (and foreign) hands this traditional knowledge. The Indian case study, in particular, documents the way in which the Indian government fought to regain access to particular knowledge which had been patented by overseas companies in Europe and America.

Other major arguments on the implementation of Agreement on Agriculture are put forward by Carla A. Hills and others. Carla A. Hills, stated in his article WTO: Toward The Hong Kong, China Ministerial and beyond – published in Asian
Development Review, vol. 22, 2005 that a successful Doha Development Round has the potential to raise standards of living worldwide, alleviate grinding global poverty, removed inequalities in the trading system and enhance international stability as 148 nations have been negotiating, whether and how to open markets for agricultural products. He added that the negotiations are in trouble because of the lack of political support and that people worldwide are unaware of the tremendous gains that would be captured from successfully concluding the Doha negotiations and the worrisome implications. He suggests that the Doha Development Round is absolutely vital to the world economic growth and political stability. Carla A. Hills advice that more has to be done since economic interdependence has advanced so dramatically over the past couple of decades because of the injected disparities in the trading system. He attributed the injected disparities to the fact that a number of developing countries began to focus their negotiation on obtaining special and differential treatment to avoid opening their markets, rather than on securing permanent market access for their own products. As a result tariffs on many products have remained frozen at levels generally prevalent decades ago. Similarly, little efforts was made to abolish tariff escalation that imposes higher tariffs on value-added products than on their inputs, discouraging both foreign and domestic investment up the value chain. According to Kyn Anderson and William Martin at the (World Bank 2005). These disparities have significant effect on products that poor countries produce sugar etc. These effects result from restrictions by industrialized countries as well restrictions imposed by developing countries which as a group have higher tariffs than industrial countries. In addition a substantial number of developing countries trade primarily with other developing countries. These facts under the importance of opening markets globally and the two-tiered trading system creates disparities.

Most critically negotiations must decide how market access will be widened because:

i) Agricultural tariffs are five times higher than tariffs on industrial goods and account for most of the distortions in agricultural trade;
ii) According to Anderson and Martin of the World Bank (2005) most of the benefit from agricultural reform is generated from increased market access as opposed to dealing with subsidies and supports.

William (2004) reveals that each additional percentage in export growth is associated with an additional 0.15 per cent increase in growth of gross domestic product. According to David Dollar's (2004) 70 per cent of tariff barriers that developing countries face are from other developing countries specially in South Asia.

Increasing farm income has a positive multiplier effect on rural communities. Every $1 in farm income generates an additional $3 in rural wealth, as farmers spend their added funds for rural goods and services (Watkins 2003).

Some developing countries incorrectly assume that they can best ensure their food security by protecting their farm sector. However, studies showed that the proportion of malnourished people and underweight children is higher in countries with weak access to and poor integration with international markets (FAO 2003) isolation from global market is an indication of vulnerability rather than self-sufficiency.

3.9 An Overview on Agreement on Agriculture

Agreement on Agriculture has been subject to many debates. It is argued that agriculture in most developing countries is facing two major limitations, namely, technical and institutional ones which could limit its competitiveness in the global market and its ability to ensure food security and generation of income above subsistence level for the small producers who represent the overwhelming majority in the most of the developing countries. It is added that the small producers will be vulnerable to the supply of the new high cost technology as well as the risks associated with its adaptability and the possible genetic calamity and epidemics.

It is witnessed that, the agro-climatic and agro-ecological and bio-diversity have been adversely affected by environmental changes (i.e. drought, desertification and floods). With these changes, crop and range production could hardly be increased and sustained unless substantial investment is undertaken in irrigation, soil conservation
and others where the Direct Foreign Investment (DFI) is still limited or conditioned. Such substantial investment is beyond the capacities of many developing countries specially the Least Developed Countries. The prolonged secular decline in real prices of agricultural commodities as well as the declining demand for exportable agriculture commodities are still persistent, threatening the growth in national income and the livelihood of rural people of the most developing countries. Moreover, the ability of small producers of developing countries to respond to market signals is limited and hence their gains from global market, the only gainers will be the multinational companies engaged in agricultural production and marketing.

The common critics to Agreement on Agriculture is that it is fundamentally flawed and highly iniquitous and that instead of levelling the playing field in international trade in agriculture it reinforces the monopoly control of wealthier countries and their transnational companies over global agriculture production and trade.

It is argued that Agreement on Agriculture inherently works against the development and food security needs of developing countries. Developing countries by virtue of their huge subsidies should continue supplying developing countries with their highly subsidised agricultural surplus and the developing countries should focus on export crops to earn foreign currency to buy food from rich countries. Thus, developing countries end up becoming more dependent on imports that continually drain their scarce foreign reserves, stunt the growth of their agriculture and economies and weaken their capacities to feed their own population in the long-run.

Agreement on Agriculture focuses merely on further liberalising market of poor countries while it continues protecting the subsidies and protectionist measures such as tariff peaks and other trade barriers such as Sanitary and Phytosanitary, Anti-dumping and Safeguard Measures employed by industrialised developed countries. Reciprocity, which is a principle of the WTO and which directs the trade liberalisation commitments of members has been rendered meaningless. Developing countries have

been misled by rapidly opening up their markets to the dumped imports from the North to gain access to the latter’s huge markets – but their actions were not reciprocated by equally aggressive steps in the North - instead developed countries put up higher tariff walls, tariff peaks and tariff escalation upon tariffication that effectively discriminate against the export of developing countries. Developed countries used to shift trade distorting subsidies to the boxes of non-trade distorting boxes to avoid reduction commitment “green box”. Meanwhile, the exemptions that apply to developing countries are often of no much given the long-term fiscal position of many of these countries. In the end, with such gaping loopholes, the AoA, serves only to legitimise the trade-distorting practices and strengthens of developed countries. Developing countries are prohibited from using the same tools used by developing countries to pursue their development and food security goals in the past decades. While developed countries to retain and even expand their huge agricultural subsidies developing countries are not allowed to raise their subsidies beyond the de

minimise level.

Those who are in favour of AoA argued that Agricultural policy has become so contentious because agricultural earnings are so important to a large number of developing countries while they are targeting the highly protective farm policies of a few wealthy countries in the WTO negotiations. Better access to rich countries markets for their farm produce should be high priority for these developing countries. Some developing countries have been granted access to developed country markets for a selection of products under various preferential agreements. Examples are European Union and African, Caribbean and Pacific (ACP) programme, African Growth and Opportunity Act (AGOA) of the United States to Africa. These schemes reduce demands from preference receiving countries for farm policy reform in developing countries and they exacerbate the concerns of countries that excluded from such programmes thereby made worse off through worsened terms of trade. Such programmes may even be harmful, reducing rather than improving aggregate global and even developing country welfare. These countries, therefore, have been insisting
in the Doha Round on significantly more market access commitments from developed countries before they contemplate opening their own markets further.

Market access opportunities for developing country exporters and specially for poor producers in those countries are to be much more in agriculture than in other sectors. If agriculture was to be ignored in the Doha negotiations there is a risk that agriculture protection would start rising again.

The Uruguay Round was ambitious in scope, by converting all agriculture protection to tariffs, and limiting increase in virtually all tariffs through tariff bindings. Moreover, the process of converting non-tariff barriers into tariff termed tariffication, provided numerous opportunities for backsliding that greatly reduced the effectiveness of the agreed disciplines (Hathway and Ingco 1996). In developing countries, the option for ‘ceiling bindings’ allowed countries to set their bindings at high levels, unrelated to the previously prevailing levels of protection. Hence, agricultural import tariffs are still very high in both rich and poor countries.

Trade reforms in developing countries is seen as important economically to those countries as the reforms by developed countries also from agricultural liberalization. Hence, to delay their own reforms or reforming less than developed countries and thereby holding back South-North growth trade could substantially reduce the potential gains to developing countries. Agricultural is where cuts are needed most. To realize the potential gains from opening up markets, the greatest cuts in bound tariffs and subsidies are required in agriculture. This is because of the very high rates of assistance to the agricultural sector relative to other sectors. Food and agricultural policies are responsible from more than three fifth of the global gain forgone because of merchandise trade distortions.

Subsidy discipline are important but increased market access in agriculture is crucial. The extremely high applied tariffs on farm products are the major reason that food and agricultural policies contribute to 63 per cent of the welfare cost of current
merchandise trade distorting subsidies. Exports subsidies contribute by only 4 to 1 per cent of the welfare cost while tariffs contribute by 58 per cent.

Large cuts in domestic support commitments are need to erase binding overhang. Currently, domestic support for farmers are so much higher than the actual support levels that the 20 per cent cut in total bound Aggregate Measure of Support (AMS) promised in the Agreement. Indeed, a cut as large as 75 per cent for those with most domestic support is needed to get some action specially in case of developed countries. The average bound rate in developed countries is almost twice as high as the average applied rate in developing countries, the ratio is even greater. Therefore, large reduction in bound rates are needed before any improvement is made in market access. To bring the global average actual agricultural tariff down by one third, bound rates would have to be reduced by 45 per cent for developing countries and by as much as 75 per cent for the higher tariffs, for developing countries under a tiered formula.

A complex tiered formula may be little better than proportional tariff cut because of the large binding overhang. A tiered formula for cutting agricultural tariffs would not generate much more global welfare and no more welfare for developing countries than a proportional cut of the same average size. Even large cuts in bound tariffs will accomplish little if exception are allowed for sensitive products. If members succumb to the political temptations to put limit on tariff cuts for the most sensitive products, most of the prospective gains from Doha could evaporate for 2 per cent of agricultural tariff lines to be designated as sensitive products and subjecting then to a just 15 per cent cut, would shrink welfare gains from agricultural reform by three-quarters.

Expanding non-agricultural market access would add substantially to the gains from agricultural trade. A 50 per cent cut in non-agricultural tariffs by developed countries added to the tiered formula or proportional cut to agricultural tariff would double the gains from Doha for developing countries. It would account for about one third of the nearly US$ 300 billion gain from full liberalization.
Farm output and employment would grow in developing countries under Doha. Under Doha scenarios in developing countries with few exceptions the level of output and employment will expand. Poverty could be reduced under Doha. Under full merchandise trade liberalization extreme poverty (earning less than US$ 1) would drop by 32 million in developing countries in 2015 relative to the baseline level of 662 million, a reduction of 5 per cent.

The gain of 300 billion, political will is needed to conclude successfully Doha Declaration on trade and thereby reduce the risk of trade diversion from those bilateral or regional arrangements. The large developed countries can not generate a successful agreement on their own, nor can the Doha Round succeed without a major push by the key traders. They have the capacity and influence to show leadership at the WTO to encourage global economic integration particular by opening their markets to the items of great importance to poorer countries namely farm products. The more that is done, the more developing countries will be encouraged to reciprocate by opening their own markets – accelerating South-South trade in addition to South-North trade.

Abolishing of export subsidies by developed countries, substantial cuts of domestic support, and overhang agricultural tariff bindings are crucial in improving international agricultural trade and generate more gains to the poor and vulnerable agricultural producers.