
UNIT 27 INTERNATIONAL COMMITMENTS

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27.0 OBJECTIVES

After reading this unit, you will be able to:

- outline the unique features of international trade in agriculture vis-a-vis the multi-functionality character of agriculture;
- describe the major areas of international concern in the context of ‘trade in agriculture’;
- discuss the issues arising on account of health/hygiene and technical standards in terms of the SPS and TBT requirements;
- state the principles which are expected to be met under the TBT agreement;
- highlight the achievement and the trough areas of the Doha Development Agenda;
- explain the implications of international commitments for Indian agriculture; and
- indicate the approach to be followed by India so as to gain from the opportunities generated by the establishment of ‘free and fair’ international trade regime.

27.1 INTRODUCTION

Agriculture is a politically sensitive issue and, therefore, liberalization of this sector is a difficult proposition. Besides, on account of agriculture's multi-functionality character, both the developed as well as the developing countries have a lot at stake to protect their agriculture on one or the other grounds. For developing countries like India, agriculture is not only an economic activity but is a way of life and livelihood of a majority of rural workforce. Further, food security is a major concern for these countries as price volatility in the international market has the potential to jeopardize the livelihood status of large number of persons engaged in it. In developed countries (such as the EU and the US), on the other hand, the difficulty in agricultural trade liberalization arise because of huge subsidies provided to the farmers which indirectly help the large agri-business companies to get cheap raw materials for their processed products and thereby have a competitive edge over their counterparts in the international markets. This is the reason why even after more than fifteen years of implementation of WTO, progress on Progress on the implementation of the complete provisions of the WTO regulations has been slow despite an all round realisation that free trade in agriculture in the true sense of the term would be beneficial to all the countries.

Agriculture was brought under the multilateral trading system of WTO for the first time after the conclusion of the Uruguay Round (UR) negotiations during 1986-94. The UR envisaged elimination of all sorts of trade distortions in agricultural trade through: (i) reducing export and production subsidies; (ii) removal of import barriers; and (iii) elimination of all non-tariff barriers. Towards this end, the WTO aims to commit its members to make trade in agriculture 'free, fair and market oriented'. The 'Agreement on Agriculture' (AoA) is prepared by the WTO with this objective in view. Against this background, in this unit you will first read about the major areas of international concern relating to agricultural trade. The commitments carry major implications for the agricultural sector of developing countries in particular. For instance, in the absence of effective compliance of reduction in export and production subsidies, removal of the quantitative restrictions (QRs) on trade would attract greater flow of cheap agricultural imports disturbing the domestic prices and thereby affecting the well-being of poor farmers. You will, therefore, study the implications of the international commitments for Indian agriculture in particular in this unit. Given these implications and anticipating the challenges lying before the countries in arriving at an agreement of trade in agriculture, Article 20 of the AoA makes a provision for negotiations on international commitments. A ground work for further negotiations in the ensuing meetings was laid in the Doha round of discussions held in Qatar in 2001. This is in the form of an 'agenda' for future discussions focusing on 'development and opening-up of markets in agriculture, manufacturing and services'. In light of this, you will read about the progress and modalities of Doha Development Agenda (DDA) as applicable to agriculture in the present unit. Finally, given the imperativeness of facing the challenges posed by these developments, you will study the strategy required to be adopted in the WTO discussions and the steps needed to be taken for improving the competitiveness of Indian agriculture in order to be in a position to gain in the post-AoA regime.

27.2 AREAS OF INTERNATIONAL CONCERN IN AGRICULTURAL TRADE

The world trade in agriculture is highly distorted due to heavy export and domestic subsidies given by industrialised countries to their farmers on the one hand and offering little market access by them to the agricultural products of developing countries on the

other. The AoA establishes an agenda for the progressive liberalisation of agricultural trade through: (i) improved *market access*; (ii) the decoupling of *domestic support* from production levels or prices; and (iii) the elimination of *export subsidies*. Through these, the agreement seeks to bring about a structural change in global agricultural trade with a less distorted trading regime in which the more efficient producers would stand to gain. The AoA has thus the three areas on which it focuses, namely, market access, domestic support and export subsidies. We now discuss each one of these below.

27.2.1 Market Access

The agreement on market access has two dimensions viz. (i) reduction of tariffs; and (ii) minimum market access through tariff rate quota (TRQ). The measure on reduction of tariffs requires that all non-tariff barriers (NTBs) on imports [like quantitative import restrictions (QRs), variable import levies, minimum import prices and discretionary import licensing procedures, etc.] should be replaced by a single 'bound' tariff rate. Further, such a bound tariff is to be determined keeping the equivalent of 'nominal protection accorded' to the agricultural goods in the base period (taken as 1986-88) of the country concerned. The final tariffs resulting from such a procedure, together with other tariffs on agricultural products as the case may be, were to be reduced by a simple average of 36 percent (or a minimum of 15 percent per tariff line) by the year 2000 in the case of developed countries and 24 percent (with a minimum reduction of 10 percent per tariff line) by the year 2004 in the case of developing countries. The least developed countries (LDCs) are exempted from such reduction commitment but are required to bind the tariff to their base period level without increasing the level of protection above the base level.

The agreement on providing minimum market access is stipulated through 'tariff rate quota' (TRQ). There will be two effective tariff rates: a lower tariff rate applicable to imports below the prescribed volume of quota and a higher tariff applied on imports in excess of the prescribed quota volume. Further, each member country has to import a minimum level of agricultural products determined as a share of domestic consumption. Countries are also required to maintain their base year level of access for each individual product and where the base level of import in the base year is negligible, the minimum access should not be less than 3 percent of domestic consumption during the base period. This minimum level was to increase to 5 percent by the year 2000 in the case of developed countries and by 2004 in the case of developing countries. There is also a 'special safeguards provision' (SSP) allowing for the application of additional duties when shipments are made at prices below certain reference levels or when there is a sudden increase in imports. The market access provision does not apply when the commodity in question is a 'traditional staple' of a developing country. India has bound its tariff rates on primary agricultural products at 100 percent, on processed foods at 150 percent and on edible oils at 300 percent. The actual tariff rates on various agricultural products have, however, been much lower than the bound rates.

It is, therefore, potentially likely that the developing countries could get relatively better access to the markets of developed countries if the higher reduction requirement in the case of developed countries is fully and unequivocally implemented. However, developed countries may still maintain higher levels of protection due to ambiguities in the agreement. For instance, the un-weighted average reduction of 36 percent in tariffs allows differential treatment for commodities. Thus, a country could meet the aggregate reduction of 36 percent by reducing the tariff on less important products with little or no decline in the tariff on more important products. This type of approach would imply that the actual tariff may provide as much protection as the NTBs. At

present, agricultural tariffs in the developed countries are much higher than that on the industrial products. Further, the minimum access tariff quota commitments have been kept at relatively higher levels of aggregate leaving considerable flexibility to domestic importers. Such practices amount to restricting the market access by going against the spirit of commitments undertaken.

Check Your Progress 1 [answer in about 50 words using the space given]

- 1) State the reason why the implementation of WTO commitments has not progressed much on international trade in agriculture so far.

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- 2) In which three areas/dimensions was the Uruguay Round of negotiations envisaged to eliminate trade distortions in agricultural products?

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- 3) State in what way the WTO-AoA commitments implicate the agricultural sector of developing countries like India?

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- 4) What is the background for evolving the Doha Development Agenda (DDA)? What does the DDA basically provide?

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- 5) In terms of which three basic respects/areas, does the AoA aim to establish an agenda for progressive liberalisation of agricultural trade? In what way does it propose to achieve its objective?

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6) What is meant by ‘bound tariff rate’? How is it determined?

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7) By what respective level and by which time points were the developed and the developing countries were required to reduce the ‘final tariffs’ for their agricultural products?

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8) By what mechanism is the objective of ensuring ‘minimum market access’ proposed to be achieved by the AoA? Under what circumstances does the market access provision not apply to a country?

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9) What does SSP mean? When are they proposed to be applied?

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10) Do you think that the developing countries can benefit from the establishment of earmarked levels of ‘reduction requirement’? Why?

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11) Which particular ambiguity in the proposed tariff structure can still be used to work in favour of developed (and against the interest of developing) countries?

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27.2.2 Domestic Support

Domestic support basically comprises subsidies provided by a country to its agriculture. These subsidies may be product specific or non-product specific. The AoA classifies these supports into: (i) trade-distorting; and (ii) non-trade distorting. Only the trade distorting subsidies are obliged to reduction commitment as per the AoA regulation. Broadly, domestic support measures are classified into four distinct categories and are designated as: (i) green box measures; (ii) blue box support; (iii) special and differential (S&D) treatment; and (iv) the amber box support/measures.

Green Box Measures: The green box measures comprise the support given to agriculture having 'nil' or minimum distorting effects on agricultural trade. The AoA sets out a number of general and measure-specific criteria which, when met, allow such measures to be placed in the Green Box. Such measures are exempt from reduction commitments and can be increased without any financial limitation. They must be provided through a publicly-funded government programme (including government revenue foregone) not involving transfers from consumers and must not have the effect of providing price support to producers. While the provision of green box measures applies to both the developed and the developing countries, in case of developing countries special treatment is provided in respect of government food security programmes for providing subsidized food items to urban and rural poor.

Blue Box Support: The 'blue box' consist of support (e.g. subsidies linked to specified product not increasing with the production levels) provided for limiting the agricultural production. They are relevant from the point of view of developed countries as the policy related to the 'direct payment to producers' is rarely found in developing countries. They cover payments directly linked to acreage or animal numbers. Such support limits production by imposing production quotas including the requiring of farmers to set aside part of their land. The blue box is an important tool for supporting and reforming agriculture and for achieving certain non-trade objectives such as environment protection.

Special and Differential (S&D) Treatment: The special and differential treatment apply only to developing countries and are of the nature of general investment support for agriculture like input subsidies to low-income and resource-poor farmers. They include purchases from food security stocks bought at administered prices provided the subsidy to producers is included in the calculation of 'aggregate measure of support' (explained below). Further, the developing countries are permitted untargeted subsidised food distribution to meet the requirements of the urban and rural poor. Also excluded for developing countries are investment subsidies that are generally available to low income and resource poor farmers.

Amber Box Support/Measures: These are domestic support measures like the minimum support prices or subsidies tied to production levels. These are considered to distort production and trade and are hence subjected to the reduction commitments.

Aggregate Measure of Support (AMS): The support under the above measures is calculated under two heads: (i) a product-specific 'aggregate measure of support' (AMS) and (ii) support provided to agricultural producers in general (called non-product specific subsidies). The product-specific AMS is calculated by subtracting the domestic price from the international price and multiplying the resultant figure by the quantity of production. Thus, if the international price is lower than the domestic price of a commodity, the product-specific AMS will be positive. As an illustration consider the domestic price of a commodity as Rs. 1000 and the international price of the same

commodity as Rs. 800. The product specific AMS (leaving out the quantity produced multiplier) is therefore: $1000 - 800$ which is positive. On the other hand, if the international price is Rs. 1200, the multiplying component of product-specific AMS is $(1000 - 1200)$ which is negative.

India does not provide any product specific support other than the minimum support price (MSP) for some agricultural products. During the reference period (1986-88), India had the price support programmes for 22 products with a total product specific AMS of Rs. (-) 24,442 crores during the base period. Also, during the base reference period, the total non-product specific AMS was only Rs. (+) 4581 crores. Thus, taking both the product specific and the non-product specific AMS into account, the total AMS was (-) Rs. 19,861 crores which worked out to about (-) 18 percent of the value of total agricultural output. Corresponding calculations for the year 1995-96 show that the product specific AMS was (-) 38 percent and the non-product specific AMS 7.5 percent of the total value of production. We can further deduct from these calculations the domestic support extended to low income and resource poor farmers provided under Article 6 of the AoA. With this, our aggregate AMS was below the level of 10 percent permitted. In general, since the commencement of WTO, the prices of agricultural commodities in the international market have been higher than the domestic administered prices in India. Consequently, the product-specific AMS of India has been negative. In recent years, especially after July 2008, the international prices have been lower than the domestic support prices of agricultural commodities in India making the AMS positive.

Non-product Specific Subsidies (*De minimis*): These refer to the total level of support for the agricultural sector as a whole i.e. subsidies on inputs such as fertilisers, electricity, irrigation, seeds, credit, etc. Under the AoA, the developed countries are permitted to provide farm subsidies equivalent to 5 percent of their total value of agricultural output while the corresponding percentage for a developing country is 10 percent. Two criteria are used to identify non-trade distorting support: (i) it must be paid out of the government budget; and (ii) it must not have the effect of providing a price support for the producer. Consequently, these measures comprise of government services such as: (i) agricultural research; (ii) disease control; (iii) infrastructure; (iv) extension and buffer stocks for food security purposes; (v) domestic food aid; (vi) direct payments to producers; (vii) decoupled income support; (viii) government assistance in income insurance and income safety-net programmes; (ix) payment under environmental and regional assistance programmes; (x) payments for relief from natural disasters; (xi) assistance to help farmers restructure agriculture; (xii) marketing and promotion services; etc. Wherever the aggregate value of the support given is not exceeding the ceiling of 5/10 percent of value of total agricultural production in question, under the *de minimis* provisions of the AoA, there is no requirement to reduce such domestic support in that year.

Controversy on Blue Box Subsidies: The decoupling of domestic support has emerged as one of the most controversial issues in the WTO ministerial conferences. In particular, the exclusion of the 'blue box' products meant to limit production from reduction commitments is treated as unfair discrimination against developing countries like India. It is argued that the subsidies under the blue box support distorts trade and should therefore be duly subjected to trade discipline measures. In recent years, due to implementation of AoA provisions, while the amber box support has declined in many developed countries, support under blue and green box policies has significantly increased. In other words, the developed countries have been shifting domestic support from the prohibited amber box to the permissive categories of green and blue boxes.

27.2.3 Export Subsidies

The commitment on export subsidy is on two counts viz. (i) reduction in the total quantity of export covered by the subsidy; and (ii) reduction in the total budgetary outlays on export-subsidies. Developed countries had to reduce the quantity of subsidised export by 21 percent and expenditure on export subsidies by 36 percent by 2000. The corresponding levels for developing countries were 14 and 24 percent respectively to be achieved by 2004. The subsidies given on transport, processing and packaging of agricultural exports of both developed and developing countries are exempted from the reduction requirements.

Relatively larger export subsidies of developed countries carry the effect of severely limiting the export potential of developing countries as most of developing countries are not in a position to provide export subsidy to agricultural products due to severe budget constraints. In light of this, even after meeting the reduction requirements, developed countries continue to enjoy substantial subsidization of their agricultural exports. India does not provide any of the export subsidies listed for reduction commitments in the AoA. The only subsidies available to the exporters, before 2004, were in the form of exemption of profits from export sales in income tax (under section 80-HHC) and subsidies on costs of freight, marketing and international/internal transport on export shipments of livestock products.

Check Your Progress 2 [answer in about 50 words using the space given]

- 1) Which particular type of 'domestic support' is subjected to reduction commitments? Why?

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- 2) What is a product-specific AMS? How is it computed?

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- 3) What does a negative sign for a product-specific AMS imply?

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- 4) Give examples of some non-trade distorting subsidies. What limit is set under the AoA in this regard?

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5) What are the two criteria applied for the identification of a non-trade distorting support?

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6) Why is the exemption of 'blue box support measures' from reduction commitment controversial?

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7) What are the two counts on which the commitment on export subsidy is required to be reduced? Do you think the developing countries stand to gain from this reduction?

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27.3 ISSUES OF HEALTH/HYGIENE AND TECHNICAL STANDARDS

Import of food products that are safe and harmless to the health of domestic consumers, animal, and plants is the major concern of importing countries. Consequently, governments of importing countries have introduced mandatory laws and regulations to protect the health and safety of their consumers from unsafe and unhygienic imported food products. However, a country could sometimes use them as barriers to restrict the import of food products from other countries. In order to safeguard against such a misuse, the Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT) agreements were incorporated into the WTO Multilateral Agreements.

27.3.1 Sanitary and Phytosanitary (SPS) Measures

The AoA defines the SPS measure as any measures applied to: (a) protect animal or plant life or health within the territory of the member country from risks arising from the entry, establishment or spread of pests, diseases, disease-carrying or disease-causing organisms; (b) protect human or animal life or health within the territory of the member country from risks arising from additives, contaminants, toxins or disease-causing organisms in foods, beverages or feedstuffs; (c) protect human life or health within the territory of the member country from risks arising from diseases carried by animals,

plants or products thereof, or from the entry, establishment or spread of pests; and (d) prevent or limit other damage within the territory of the member country from the entry, establishment or spread of pests.

There are two basic principles of the agreement: (i) the principle of *non-discrimination* and the principle of *scientific justification*. In its pursuance of the need for harmonization with regard to food safety, the SPS agreement has identified and chosen certain standards, guidelines and recommendations established by international bodies known for their specialisation and expertise in human, animal and plant health areas. These standards are accepted as the benchmarks against which measures and regulations of a member country are assessed. The agreement on SPS ensures that these measures should not be arbitrary, discriminatory and protectionist and should be based on scientific justification. However, in practice, many developed countries are setting their standards [which is permitted under the WTO] at levels higher than the internationally prescribed norms. Further, standards are often adopted without the participation of developing countries and without taking into consideration their problems and constraints.

As the international standards are usually made in conformity with the standards prevailing in the developed countries, compliance of these measures by the developing countries have proved difficult restricting the exports from these countries. These measures thus become trade barriers when: (i) the domestic standards are lower than that for imports; (ii) standard conformity processes differ across countries; or (iii) when a country does not recognize the measures of the other country. In view of these factors, food safety has continued to rank high on the political agenda in developed countries. This can be partly explained by the fact that food safety is a 'good' with a high-income elasticity of demand, i.e. as income increases, the demand for food products with higher SPS measures also increase. The consumer organisations and NGOs throughout the world have also become more assertive in protecting the human, animal and plant life or health from unhygienic and unsafe food products. Both these factors have contributed to promoting a negative effect on the prospect of export from developing countries like India.

In compliance of the SPS measures, for the developing countries there are two type of costs: (i) the production cost; and (ii) the conformity cost. Production costs comprise of new inputs and technology costs involved in the production of goods as per the SPS requirements. The conformity costs include the cost of certification and control. The total cost of compliance is higher in developing countries than in the developed countries. This is because the fixed cost of establishing appropriate SPS control system is spread over a much smaller volume of exports. Further, as the SPS standards are more consistent with the standards prevailing in the developed countries, any new SPS requirement would involve relatively more cost in the developing countries. This has made the products of developing countries less competitive in the international market, adversely affecting the volume of exports from these countries. For instance, due to the high standard of SPS measures adopted by the developed countries, particularly the EU, the entry of Indian meat and dairy products in their markets has virtually become impossible. Further, if export of one country is banned in a country on the ground of non-compliance of SPS commitments, price of that product may decline in the domestic market too. This has the potential of leading to employment and income loss in the production sector of the country.

Notwithstanding the above difficulties experienced by the developing countries in the short run, there is no doubt that in the long run better SPS standards should lead to the lessening of health risks and benefit the consumers. However, the manner in which

these standards are being enforced has led to three type of problems for the developing countries. **First**, there are institutional problems such as what should be the point of inspection and conformity (internal or the point of entry) and who should provide the scientific basis to settle disputes. Further, the technical assistance to help exporters to match these requirements has been lacking. **Second**, with the changing of SPS standards periodically, scaling-up the levels to be attained, the costs of compliance are becoming increasingly prohibitive. **Third**, regardless of the fact that the AoA encourages multilateral agreements on mutual recognition of equivalence of specified SPS measures, member countries enter into bilateral equivalence agreements. This practice favours imports from some countries over others resulting in discrimination against other members.

27.3.2 Technical Barriers to Trade (TBT) Agreements

The agreement on TBT includes technical regulation standards and conformity of assessment procedures. Technical regulations are mandatory requirements of governments intended to prevent deceptive practices so as to protect human and animal health as well as the environment. The objective of TBT Agreement is, therefore, to ensure the technical requirements and standards including packaging, marking and labeling requirements. It recognizes the responsibility and right of the governments to take necessary action to ensure that their legitimate objectives are met but the adopted trade measures are non-discriminatory and non-protectionist. The Agreement on TBT consists of 15 articles and three annexes. But in short, the TBT agreement aims at meeting five principles.

Principles of TBT Agreement: Although the objective of TBT agreement is to protect consumers and environment, a large number of the measures actually protect the interest of domestic producers. This is particularly so in the case of developed countries, which obstructs the market access for developing countries' products many times on the presumption that the latter's standards are not compatible to that of the former. In case of agricultural products, whenever tariffs on these products are lowered in the developed countries, such measures are likely to become increasingly significant. This is because of the potential of such reductions to affect the market share for the products of different countries. For an effective compliance of TBT agreement it is, therefore, necessary that the following principles should be duly adhered in letter and spirit. At the same time, it is equally necessary for the developing countries to improve their quality standards so that the compliance of these principle are duly enabled.

- **Non-discrimination** — in terms of preparing, adopting and applying technical regulation and conformity assessment procedures.
- **Harmonization** — in terms of developing and using international standard. Codes of 'good practice' should be elaborated to meet this requirement.
- **Least Trade Restrictive Measures** — for avoiding unnecessary impediments to trade.
- **Equivalence** — in terms of entering agreement between trading partners for adopting technical requirements on mutual recognition of conformity assessment procedures.
- **Transparency** — to base all standards and regulations on published and notified regulations/guidelines. Members should receive time to comment on new regulations with appropriate enquiry points established to facilitate exchanges regarding regulations, standards and other related matters.

27.4 THE DOHA DEVELOPMENT AGENDA (DDA)

Article 20 of the AoA makes provision for negotiations in the international commitments. The Doha Development Agenda (DDA) has further elaborated the negotiating mandate provided in the Article 20. The agenda focuses on development and opening of markets in agriculture, manufacturing and services. The implementation process of the DDA was supposed to end in December 2004. However, progress in the implementation of the agenda has so far been far from satisfactory due to 'conflict of interests' of different groups of countries. The agenda includes: (i) cutting tariffs on industrial goods and services; (ii) phasing out subsidies to agricultural producers; (iii) reducing barriers to cross-border investment; and (iv) limiting the use of antidumping laws. In this section, we shall focus only on agriculture related issues.

The agriculture related issues that dominate the DDA are: (i) reducing the high level of trade distorting domestic subsidies given by rich countries to their agriculture; (ii) harmonising the quantum of agriculture export subsidies; and (iii) lowering the tariffs on export of agricultural products by developing countries. The DDA envisages: (i) reducing the total AMS; (ii) lowering the '*de minimis*' thresholds for a number of countries; and (iii) introducing a limit on the blue box measures. It also emphasizes to discipline the green-box measures that allow unlimited support to agriculture of developed countries and restrict other potentially production-centric and demand destabilising measures like the 'bio-fuels programs' in the United States, the European Union, and Brazil. The latter is particularly due to the potential contribution of bio-fuel programmes to: (i) affect the food prices in the international market and (ii) thereby have implications for the global food security.

Major Achievements of DDA: The DDA could achieve success in making the EU, US and Japan agree to undertake big reductions on trade distorting agricultural subsidies. This is a significant achievement of the DDA when compared to the previous rounds of negotiations of WTO. Another important feature of DDA is that the S&D treatment was explicitly mentioned with respect to the '*de minimis*' programs for subsistence and resource-poor farmers in developing countries, like India. In light of this, India has been rigorously negotiating on the DDA focusing broadly on four issues: (i) food security; (ii) market access; (iii) removal of distortions in export subsidies; and (iv) reduction in the domestic subsidies. With these, from a developing country perspective, India emphasizes that the issue of food and livelihood security of developing countries needs to be given priority in the negotiations on DDA. Towards this, India has proposed the introduction of a 'Food Security Box' in the AoA particularly for facilitating the protection of resource poor small and marginal farmers on food and livelihood security grounds.

Points of Trough in the DDA: The DDA is still an unfinished agenda as even after one decade of declaration of DDA, agricultural trade is still subjected to various protections. The political considerations have quite often restricted a nation to be more open for these negotiations. Developing countries' concerns have not yet been adequately addressed in the negotiations on the agenda. It is, however, generally believed that if the DDA is implemented in letter and spirit, it would provide immense gains to the developing countries like India. It has not yet been possible for the WTO to arrive at a consensus on reducing the huge subsidies paid by the industrialized countries to their farmers which continues to threaten the livelihoods of poor farmers in the developing countries. In light of these, the ministerial meeting of the WTO held in Geneva in 2011 concluded that the DDA is going nowhere and that in its present form it is unlikely to reach its logical conclusion any time soon.

Check Your Progress 3 [answer in about 50 words using the space given]

- 1) Which two specific safeguards have been incorporated into the WTO agreements to protect the consumers of the importing countries? What do these two safeguards basically aim at protecting?

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- 2) What is the basic objective of the SPS measures? What are its two basic principles?

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- 3) State the three situations when the SPS measures could become barriers for trade.

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- 4) Identify the two factors that have kept the issue of 'food safety' high on the political agenda of developed countries.

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- 5) What are the two types of cost involved in conforming to the SPS measures for the developing countries? What do these two basically comprise?

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- 6) How does non-compliance of SPS measures for export affect employment and income loss in the domestic sector of the economy?

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7) Despite the SPS measures, why has discrimination in trade matter continued to prevail?

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8) What is the basic objective of the TBT regime? State the principles that a TBT agreement must aim to meet in order that it works well.

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9) What are the three agriculture related issues that dominate the Doha Development Agenda (DDA)?

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10) For what reason was the WTO ministerial conference held in Geneva in 2011 compelled to express a dismal opinion on the progress of WTO implementation process?

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27.5 IMPLICATIONS OF INTERNATIONAL COMMITMENTS

International commitments have major implications for Indian Agriculture. However, since India is a net-exporter of agricultural products, it is expected that India and other developing nations and transition economies would stand to gain in agricultural trade if the AoA is implemented effectively and trade distortions are removed. The impacts of these commitments can be explained in terms of three major aspects as follows.

27.5.1 Trade Competitiveness

Trade competitiveness depends on two factors viz.: (i) productivity; and (ii) the cost of

production. After implementation of WTO regulations, it was envisaged that distortions in agricultural trade would be reduced and scope for exports of products from developing countries would increase. Such a fair trade regime was first of all expected to help the efficient producers through better prices for their products and later for the benefits of growth to reach the lower rungs of agricultural workers also in time. However, the experience of last one and a half decade of implementation of WTO regulations shows that heavily subsidized large scale mechanized agriculture in developed countries has made the agriculture of developing countries less competitive in the global market. In other words, the non-compliance of international commitments by the industrialised countries has affected the developing countries' producers from realising increased profits. Further, various loopholes in the AoA has provided scope for developed countries to heavily subsidise their agriculture. Thus, although the AoA has achieved a great deal in terms of defining the rules for international trade, its achievement in terms of market opening/access has been limited.

The discussions, agendas, proposals and arguments made by the developed countries in the meetings of various committees and ministerial conferences reveal that while the developed countries (particularly, EU and US) bargain for better market access for their agricultural products in the developing countries [through negotiations on tariff reduction and raise in tariff rate quota (TRQ)], they avoid negotiations for reduction of domestic support and elimination of export subsidies in their own countries. As a result, agricultural prices in the international markets have been substantially depressed, affecting the trade competitiveness of developing countries like India.

As already noted, India has removed its QRs. Further, its total AMS has been consistently negative for many agricultural products. Also, India does not provide any of the export subsidies to the agricultural products listed for reduction commitments. Thus, if the developed countries comply with their part of commitments, it would stabilise the international prices of agricultural products making the developing countries' products more competitive in the world market. However, if there is increase in the world prices, it could adversely affect the welfare of less developed countries which are net-importers of food grains. Therefore, whether a country would gain or lose in case of a specific product due to trade liberalisation would depend on whether it is a net-exporter or net-importer of that product. On overall basis, India is a net-exporter of agricultural products. Hence, if all trade related distortions are removed, India could stand to gain in her share of the agricultural exports.

27.5.2 Food and Livelihood Securities

In developed countries 3 to 5 percent population depend on agriculture. But in most of the developing countries more than 50 percent population directly depend on agriculture. Trade liberalization cannot ensure food security, but any volatility in the food prices in the international market can adversely affect the agricultural producers' livelihood status. In view of this, special safeguards are required to protect the food and livelihood needs of poor farmers for which both demand-side and supply-side factors must be taken into consideration. The food security issue not only covers the availability and stability of food supplies but also the issues of access to this supply in terms of resources needed to procure the required quantity of food. In view of these, countries in which a large percentage of population are dependent on agriculture would like to have a certain degree of autonomy and flexibility in determining their domestic agricultural policies towards improving productivity, enhancing income levels, reducing vulnerability to market fluctuations, ensuring price stability, etc.

India wants requisite flexibility within the AoA for the developing countries to pursue their legitimate non-trade concerns. In general, developing countries need to be allowed to provide domestic support to their agriculture to meet not only the challenges of food security but its correlates like viability of rural employment. The fact that developing countries need sufficient safeguards to protect the food and livelihood securities of their poor has been highlighted by India and several other countries in the WTO negotiations on agriculture. These safeguards assume even greater significance in view of the fact that the AoA has remained quite ineffective in disciplining the agricultural subsidies in the developed countries.

27.5.3 Marginal and Small Farmers

As per the latest Agricultural Census 2010-11, the total number of operational holdings in India was 138 million in 2010-11. The decadal growth in the number of operational holdings over the period 2001-11 was 22.5 percent while the corresponding increase of small farmers is 8.9 percent. Due to this growth/increase, the combined share of the two segments has increased from 82 percent to 85 percent over the ten year period 2001-2011. Marginal and small farmers now constitute 44 percent of total operated area and 85 percent of operational holdings. Sustaining the livelihood needs of 85 percent of farmers of the country is one of the key development and policy challenges for India.

The small holding character of Indian agriculture limits the capability to introduce mechanized farming and constrains the adoption of new technologies unless accompanied by large scale extension programmes. The only way to sustain agricultural growth and achieve the objective of food security is through increased government support in the use of inputs like irrigation, electricity, fertilizers, pesticides, technical know-how, HYV seeds, infrastructural development, and market support. A major part of the financial burden of increased inputs will have to be met through government subsidies. Small farmers' needs should therefore be duly addressed in the WTO negotiations as these farmers cannot compete with the large-sized mechanized farming of developed countries. Market access in the absence of reduction of domestic support and export subsidies given in US, Japan and other developed countries would have serious adverse consequences for India if the trade liberalisation policies are pursued without the fulfilment of commitments by other countries.

27.6 APPROACH TO WTO COMMITMENTS

Removal of QRs, in the presence of highly trade distorted export and domestic subsidies given by industrialized nations to their farmers, has already shown its adverse consequences for our agriculture. India should, therefore, negotiate rigorously on the DDA for the reduction of developed countries' domestic support and export subsidies for increased market access through reduced above-quota tariffs. Further, as India has negative product-specific AMS, we would substantially gain if the commitments on the reduction of support to their agricultural producers by the developed countries is fulfilled. As India does not provide any export subsidies to agriculture, her strategic move in the WTO should therefore be to put pressure on reduction of domestic support and elimination of export subsidies. As India has already removed QRs on agricultural imports, there could be adverse effects on some of agricultural products such as butter and cheese. For this, keeping relatively high bound tariffs in such cases could be beneficial to absorb the fluctuations in the international prices of these products. Indian negotiators must holistically consider all the legal, economic, and political aspects of various WTO provisions to protect the country's interests in the WTO conferences and meetings. In the short-term, the country should try to promote export of agriculture and livestock

products to the neighbouring countries where similar or lower quality standards exist. The long-term strategy must be to create an efficient institutional framework to comply with the SPS and TBT provisions so that the huge potential of the market can be exploited in the future. Further, compliance of the SPS measures would also facilitate improvement in the domestic human, animal and plant health that could provide a big gain to the country in future.

27.6.1 Way Forward

In the years to come, Indian agriculture and also that of many other developing countries, may be benefitted from the WTO regulations if the AoA is implemented in letter and spirit and trade-related distortions are removed. To tap this opportunity, we have to adopt a two-fold strategy in India. **First**, we have to enhance the competitiveness of our agriculture in the global market which basically is made up of two components: (i) the price competitiveness; and (ii) the product-quality. India has to mobilize support of similar developing countries in various WTO forums to achieve reduction of production and export subsidies in the industrialised countries. **Second**, quality of products is one of the most important determinants of export. In present times, consumers are more quality-conscious and demand products that are safe and harmless to their health. Therefore, effective regulatory system is to be evolved to ensure the quality of the products fulfilling the SPS and TBT requirements. The existing legislations for regulating and monitoring the food quality are required to be suitably amended to make them SPS and TBT compatible.

Further Measures for Improving Competitiveness: Most of India’s agricultural products are not at par with the international standards. Therefore foreign collaboration in export-oriented projects of agriculture could be encouraged so that the benefits under the market access provision of the WTO could be realised. Foreign collaboration may enhance professionalism in agribusiness as very few Indian agricultural products enjoy brand equity in European and North American markets. State governments can make conditions of investments with foreign collaboration for agricultural projects conducive. With the greater volatility in the global market of agricultural products, huge decline in international prices can be disastrous for Indian farmers. Oilseed producers in the country have already faced problems due to such price volatility. Therefore, suitable policy actions are to be taken to protect the farmers from the implications of such shocks.

Check Your Progress 4 [answer in about 50 words using the space given]

- 1) State the reasons why despite the implementation of WTO regulations for the last 15 years, developing countries have not been able to get the expected returns.

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- 2) Do you think India would gain by agricultural trade if the WTO regulations are applied in a free and fair manner? Why?

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- 3) What are the safeguards needed to protect the livelihood needs of poor farmers in the developing countries?

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- 4) To what extent has there been an increase in the small holding character of Indian farmers over the period 2001-11? In the light of this characteristic of Indian agriculture, what measures are needed to duly address the concerns of small farmers in the WTO negotiations?

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- 5) For insulating the adverse effects of fluctuations in international prices, and for dealing effectively in the WTO negotiations, what measures are needed to be taken by India?

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- 6) What are the elements of the two-fold strategy to be adopted in the 'way forward' to be able to benefit/gain from the trade liberalisation measures in Indian agriculture?

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- 7) State some further initiatives that can be taken by the state governments in India to improve the Indian agricultural competitiveness in international markets?

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27.7 LET US SUM UP

Agriculture is a politically very sensitive issue and therefore liberalization of this sector is a difficult task. In view of this, both the developed as well as the developing countries would like to have some kind of protection for their agriculture on various grounds. The AoA aims to eliminate distortions in agricultural trade through reducing export and production subsidies and by removing import barriers including the non-tariff barriers (NTBs). However, even after one and half decades of implementation of WTO regulations, world trade in agriculture is still highly distorted, mainly because the developed countries have not kept to their commitments of reducing the support extended to their agricultural producers. As reduction requirement in the case of developed countries is higher than that of developing countries, theoretically it is expected that the developing countries can get relatively better access to the markets of developed countries. However, this requires simultaneous measures to be taken by the developing countries for making their products compatible with the SPS and TBT measures. In view of the loopholes in the AoA, there is ample scope for developed countries for maintaining high levels of protection by resorting to measures in one or the other form. This practice is termed as '*dirty tariffication*' and is seen to be practiced particularly for politically sensitive products. Exemptions have been duly granted for 'decoupled' support which refers to payments that are not related to current production levels, output prices, input use or input prices (green box measures) and support subject to production limitations (blue box support). The decoupling of domestic support has emerged as one of the most controversial issues in the WTO ministerial conferences. The artificial distinction created between price support and input subsidies on the one hand and 'green box' and 'blue box' subsidies on the other, and excluding the latter from the reduction commitments, is considered unfair discrimination against the developing countries like India. Developed countries also use the SPS and TBT issues to restrict the entry of agricultural products from developing countries. As the international standards are usually made in conformity of the standards prevailing in the developed countries, compliance of these measures by the developing countries raises the cost of production reducing their competitiveness.

Indian agriculture would stand to gain if the DDA is implemented effectively and India makes adequate investment in irrigation, transport, research and extension, the expenditure on which is exempted from domestic support reduction commitments of WTO. Some of India's low tariff bindings could be renegotiated. Calculation of price support within the product-specific AMS is not clearly defined particularly on the credit adjustment for products with negative AMS. The existing legislations for regulating and monitoring the food quality are required to be suitably amended to make them SPS and TBT compatible. Modernising of agricultural processing will not only enhance our export market potential but also aid in improving the domestic food quality.

27.8 KEY WORDS

Multi-functionality character of agriculture : Refers to the multiple functions that agriculture performs for the society. Apart from providing food, fodder, fuel and raw materials to the agro-processing industries, agriculture also performs functions ranging from socio-economic to environmental functions. For developing countries like India, agriculture is a major source of livelihood of rural people and a source of providing physical and economic access to food.

In developed countries, on the other hand, to augment the eco-system services of agriculture, huge subsidies to protect the soil fertility and environment by limiting the agricultural production is provided. Thus, food safety, food security, environmental protection and rural employment are the main concerns that require policies and investment at multiple levels. In light of this, in the negotiations of WTO meetings, multi-functionality of agriculture has been used as an important argument by both the developed and the developing countries to protect their agriculture.

Tariff Rate Quota

- : This is the measure used to stipulate the ‘minimum market access’ for agricultural products. Under this, there will be two tariff rates: a lower tariff applicable for volume or quantity imported below the prescribed limit and the other, a higher tariff rate applied to quantities imported above the prescribed limit.

Aggregate Measure of Support (AMS)

- : The AMS is an indicator to know whether the cumulative support extended is within the permissible limits or not. It is product-specific in the sense that the AMS indicator is calculated for each product separately. Based on the two prices viz. the domestic price and the international price for a commodity, the difference between the two prices, multiplied by the quantity of production of that commodity within the country in that year, is taken as the AMS value. This value (i.e. the AMS value) is negative when the domestic price is less than the international price in which case no further steps to reduce the extent of support extended is needed to be taken. Even when the value is positive, so long as it is below the 10 percent level prescribed as admissible for developing countries, no steps to minimise the support extended is called for. In other words, the AMS value indicates to the country’s administrators whether any corrective mechanism is needed to be taken in the direction of reducing the extent of trade distorting support provided to their farmers or not.

De minimis

- : All domestic support to the agricultural sector or agricultural producers ***not*** exempted under any of the WTO provisions (i.e. green, blue, S & D) are subject to ‘reduction commitments’. However, even here there is a stipulated minimum amount of support permitted beyond which only the reduction commitment becomes mandatory.

The specification of this limit is what is termed as 'de minimis'. In other words, even though some supports qualify to be trade-distorting, the *de minimis* provision sets an acceptable limit as a ceiling for such product-specific support. The *de minimis* ceiling is 5 percent (of total value of production of that particular agricultural product in the year) for developed countries and 10 percent for developing countries.

- Decoupled support** : Refers to payments that are not related to current production levels, output prices, input use or input prices (green box measures) and support subject to production limitations (blue box support).
- SPS and TBT Measures** : Refer to measures aimed at protecting the importing country's welfare in terms of the hygiene, health and environment of consumers i.e. man, animal, plants, environment, etc.

27.9 SOME USEFUL BOOKS AND SELECT REFERENCES

- 1) Chand Ramesh (2002), *Trade Liberalization, WTO and Indian Agriculture*, Mittal Publications New Delhi
- 2) Chakraborty Debashis (2004), Recent Negotiation Trend on Agriculture under WTO, RGICS Working Paper No. 47, 2004, Rajiv Gandhi Institute for Contemporary Studies.
- 3) Deodhar, S.Y. (1999), WTO Agreement and Indian Agriculture: Retrospection and Prospects, IIMA Working Paper #99-11-06, Indian Institute of Management, Ahmedabad.
- 4) Dhar Biswajit. Agriculture and the WTO: An Indian Perspective
<http://wbwto.iift.ac.in/Downloads/WSII/WTO%20and%20Indian%20Agriculture.pdf>
- 5) Kumar Rajiv and Swapna Nair (2009), *India: Strategies at the Doha Development Agenda — July and Beyond*, Working Paper, Indian Council for Research on International Economic Relations, New Delhi.
- 6) Martin Will and Kym Anderson (2008), "Agricultural Trade Reform Under the Doha Agenda: Some Key Issues", *The Australian Journal of Agricultural and Resource Economics*, Vol.52, pp. 1–16.
- 7) Some useful links:
WTO, Agreement on Sanitary and Phytosanitary Measures, Geneva, World Trade Organisation. http://www.wto.org/english/docs_e/legal_e/15-sps.pdf
WTO, Agreement on Technical Barrier to Trade. Geneva, World Trade Organisation
http://www.wto.org/english/docs_e/legal_e/17-tbt.pdf
WTO, Agreement on Agriculture, Geneva, World Trade Organisation
http://www.wto.org/english/docs_e/legal_e/17-tbt.pdf

27.8 ANSWERS/HINTS FOR CYP EXERCISES

Check Your Progress 1

- 1) See section 27.1 and answer.
- 2) See section 27.1 and answer.
- 3) See section 27.1 and answer.
- 4) See section 27.1 and answer.
- 5) See section 27.2 and answer.
- 6) See section 27.2.1 and answer.
- 7) See section 27.2.1 and answer.
- 8) See section 27.2.1 and answer.
- 9) See section 27.2.1 and answer.
- 10) See section 27.2.1 and answer.
- 11) See section 27.2.1 and answer.

Check Your Progress 2

- 1) See section 27.2.2 and answer.
- 2) See section 27.2.2 and answer.
- 3) See section 27.2.2 and answer.
- 4) See section 27.2.2 and answer. 5 percent of total value of agricultural output for developed countries and 10 percent for developing countries.
- 5) See section 27.2.2 and answer.
- 6) See section 27.2.2 and answer.
- 7) See section 27.2.3 and answer.

Check Your Progress 3

- 1) See section 27.3 and answer.
- 2) See section 27.3.1 and answer.
- 3) See section 27.3.1 and answer.
- 4) See section 27.3.1 and answer.
- 5) See section 27.3.1 and answer.
- 6) See section 27.3.1 and answer.
- 7) See section 27.3.1 and answer.
- 8) See section 27.3.2 and answer.
- 9) See section 27.4 and answer.
- 10) See section 27.4 and answer.

Check Your Progress 4

- 1) See section 27.5.1 and answer.
- 2) See section 27.5.1 and answer.
- 3) See section 27.5.2 and answer.
- 4) See section 27.5.3 and answer.
- 5) See section 27.6 and answer.
- 6) See section 27.6.1 and answer.
- 7) See section 27.6.1 and answer.



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