

WTO Negotiations on Agriculture and Developing Countries by Anwarul Hoda and Ashok Gulati, Oxford University Press, New Delhi, 2008, ISBN-10: 0-19-569256 X, pages 294, price Rs 595

The General Agreement on Tariffs and Trade (GATT) 1947 marks the starting initiative for the liberalisation of world trade and the industrialised countries made great strides in lowering trade barriers. However, till about 1994, agricultural products remained out of this mainstream view of liberalisation. The Uruguay Round signed in 1994 by 120 countries brought in for the first time the liberalisation of world trade in agriculture. India was one of the leading developing nations which initiated from the very beginning of the Uruguay Round of discussions in 1986 that agriculture should be brought within the purview of GATT. The need for liberalisation in the world trade in agriculture was felt due to extensive subsidisation by the developed countries which led to distortion in the prices of agricultural commodities making it difficult for the poor and developing countries like India to have access to the markets of agricultural products in the developed and developing countries. The Articles of Agreement on Agriculture were laid down to govern trade and production policies on agriculture. The experience with its implementation, however, raised serious doubts on the soundness of the agreement. Actual liberalization remained very meager. While there have been series of meets/talks at World Trade Organisation (WTO) fora, no consensus as such has been arrived on the trade in agriculture related issues.

With agriculture remaining the bone of contention for developed and developing countries, negotiations on the issue are likely to continue for a few more years. Recognising the significant positive impact that the success of these trade negotiations can bring in establishing a fair and harmonious agricultural trading system, the authors of the book have attempted to provide a vivid picture of the issues involved and the prospective strategy for the developing countries. The book that is the result of a collaborative effort of Indian

Council of Research on International Economic Relations (ICRIER) and International Food Policy Research Institute (IFPRI) essentially traces the developments in the WTO negotiations on agriculture till the Geneva meeting of the WTO in July 2006 that ended with a deadlock on account of differences amongst different countries on agricultural issues. Against the backdrop of the pros and cons of the current negotiation strategy, the authors have proposed a revised negotiating strategy for India and have further justified the suitability of this strategy for all developing countries.

The book starts with a detailed presentation of the preexisting rules and practice under GATT 1947 as they evolved from 1947 to 1994. This is then followed by an elaborate analysis of the provisions of the WTO's Agreement on Agriculture and the modalities under which the WTO members undertook specific commitments on the three issues of market access in agriculture, trade distorting domestic support and export competition. The book also examines the implementation experience of key members of the WTO post Uruguay Round. The book observes that economic distortions remained in place in the principal industrialised countries. In the EC, the process of tariffication led to prohibitively high tariffs. In the United States, the Uruguay Round failed to bring any significant reduction in the market access barriers and domestic subsidies for cotton, dairy products, peanuts, and sugar, which were the main products traditionally supported in that country. Furthermore, the Uruguay Round commitments on domestic support did not constrain the United States from enacting the Farm Security and Rural Investment Act of 2002, which greatly increased spending on domestic support.

There has been a growing perception of a major flaw in the design of the Agreement on Agriculture. The agreement was based on the premise that certain support measures have no or minimal distorting effects on trade and production. Decoupled income support whereby payments were not related to production, price or the use of factors of production was considered to belong to this category.

Further, supportive agricultural policies of developing countries including India such as input subsidies and minimum support prices remained unaffected by the disciplines of the Agreement on Agriculture. Also, there were large differences of opinion amongst the various developing countries on the issue of market access. Polarisation of views on agriculture among members was one of the reasons for the failure of the Fifth Ministerial Session at Cancun in September 2003. In July 2006 at the Geneva meet, the impasse was once again due to the lack of concrete progress towards developing the modalities for reduction of domestic support and market access in agricultural negotiations.

The book has observed that developing countries as efficient producers of agricultural products in general, must make all possible efforts to achieve fundamental reform of world agriculture. For them to seek reduction in support and protection by all countries is a better strategy than pursuing the objective of keeping their own market access restrictions at a high level. They can never compete with the major industrialised countries in extending domestic support or granting bounties on exports. It is true that agriculture in developing countries could be threatened by the levels of subsidisation prevailing in the industrialised countries, but the remedy lies in getting the latter to make steep reductions in these levels rather than in asking for the ability to maintain and even raise the high applied tariff levels in developing countries. Importantly, the book has also pointed out that there has to be a fundamental shift in the approach of India and other developing countries in another respect as well. They need to place less emphasis on special and differential (S&D) treatment and more on equal treatment. There was little value in the developing countries, having been allowed in the Uruguay Round to make reductions in tariffs at a lower rate and over a longer period while some developed countries retained the possibility of maintaining tariffs in multiples of 100 percent on some key products. For example, the product-specific support for cereals in the EC was higher than 80 per cent

during the implementation period. In the United States also, while the use of export subsidies declined, it was compensated *via* the use of food aid and export financing support. Furthermore, direct payments (decoupled income support and market loss assistance) substituted for export subsidies. The book has shown that domestic support as a percentage of the free on board price peaked at about 50 percent for wheat, 70 percent for cotton, and over 100 per cent for rice in the United States. Thus, the book brings out very clearly that the Agreement on Agriculture was designed in such a way that the principal industrialised countries retained for themselves more beneficial treatment in many ways, while a lower level of flexibility was given to the developing countries.

Based on India's competitiveness in agriculture and drawing lessons from the negotiations undertaken so far, the authors have framed the main elements that should shape India's negotiating strategy in future and have stated that it could also be the negotiating strategy for all developing countries. Like India, many other developing countries that are not part of the Organization for Economic Co-operation and Development (OECD) are low-cost producers of farm products and earn substantial amounts of foreign exchange from exporting these products. They also have large proportions of the population dependent on agriculture for their livelihood. These countries generally use domestic support and export subsidies on a far lower scale than that of industrialised countries. In fact, most of them do not have the financial resources to subsidise agriculture on a scale comparable to that of the OECD countries. A common feature of the tariff profiles of a large number of developing countries is the large gap between the bound and applied levels of agricultural tariffs. Given these commonalities among most developing countries, they could share similar negotiating strategy so as to strengthen their collective bargaining power.

The authors have further gone ahead to suggest that even the net food-importing developing countries (NFIDCs) and the least

developed countries should support this strategy as it will benefit them in the medium to long run if not in the short run. These countries would experience net welfare loss in the short term due to the price raising effect of a genuine worldwide liberalisation of agriculture. The interests of poor African-Caribbean-Pacific Group countries that receive duty-free access to EC or US markets through the 'Everything But Arms' initiative of the EC or the African Growth and opportunity Act of the US might also loose in the short run as reduction of market access barriers by these developed economics on a nondiscriminatory basis would erode their margin or preference. The book observes that a far more efficient way of assisting the NFIDCs would be to transfer resources to them directly or give them food aid rather than keeping the prices down by continuing with the present illiberal regime in world agriculture. Thus, it is in the mutual interest of all developing and least developed countries to support steep reduction of domestic support in the OECD countries. Hence, the authors feel that all countries, in general, should have equal stakes in ridding the world economy of economic distortions.

With regard to market access, the book suggests that the best way to put pressure on the G10 is for the developing countries not to insist on a higher tariff cap for themselves. Equally important, the developing countries should be willing to accept a common ceiling for sensitive and special products as well. The book suggests that 100 per cent should become the common maximum for sensitive and special products, and for other products, the maximum tariff at the end of the implementation period should be in the range of 60-70 per cent *ad valorem*, for both the developing and the developed countries. The authors have noted that in India, only a few products, such as coconut and rapeseed and the oils derived from them, as well as palm oil, would seem to need a higher tariff ceiling. Further, once agreement is achieved on the maximum level or levels of tariff, the task of settling on a formula for tiered reduction will become easier to address.

The outstanding issues in domestic support include the tiered formulae for overall trade-distorting support (OTDS) as well as for

Total aggregate measurement of support (AMS). The best strategy for the developing countries in this situation is to persevere in taking a stand for steep reduction of the OTDS, squeezing the constituent elements in the process. Nevertheless, in order to apply a double squeeze, the developing countries must pursue proposals for reduction in the Final Bound Total AMS, and Blue Box levels. The simplest and most equitable way of reducing the disparity would have been to require the reduction of the OTDS to a percentage of the total value of agricultural production. The authors have suggested that reduction in OTDS to 5 per cent of the total value of agricultural production would have been consistent with the objective of fundamental reform in world agriculture.

In the arena of export competition, the book has suggested that the developing countries should ask for a substantial reduction in the export subsidies by all in the very first year of the implementation period. In the negotiations on disciplines on export financing support, no S&D treatment should be allowed for developing country exporting STEs. Disciplines on food aid should be imposed so as to improve the quality of such aid by ensuring that supplies increase in times of need when international prices are high and decrease when low prices prevail, not the other way around, as is the current experience. The "safe box" should include only emergencies declared or appeals made by international and regional intergovernmental organizations, including the International Committee of the Red Cross and the International Federation of Red Cross and Red Crescent Societies. No other food aid should be allowed be in-kind.

The authors have gone further ahead in suggesting a more smarter move on the part of developing countries. According to them, a still better strategy would be to propose that developing countries be exempted altogether from the application of a formula for the reduction of tariffs. They could be asked to contribute to tariff reduction on a request-offer basis and respond to market-opening

offers on the basis of strict reciprocity. While suggesting the above negotiating strategy, the authors have also rightly emphasised that during the negotiations and even after their conclusion, developing countries must not lose sight of the need to carry out domestic reforms to strengthen their agriculture by rationalising incentives, investing in research, extension, technology, and rural infrastructure; and carrying out institutional reforms.

On the whole, the authors have offered tough but realistic recommendations regarding tariffs, market access, treatment of sensitive or special products, and other aspects of international trade in agriculture. The authors have also beautifully blended the argument for India as the strategy for the whole of developing countries. WTO and its impact upon Indian Agriculture has been a subject matter of heated debates, extreme views and lack of consensus, both within and outside India. Yet today few would contest the fact that the billion-dollars-a-day subsidy doled out by the industrialised countries, coupled with tariff barriers maintained at very high levels, depresses world prices of temperate-zone agricultural products and severely affects the economies of many developing countries. This envisages the need to have determined efforts to set world agriculture right through appropriate strategies and policies. This book could provide valuable inputs to policy makers in the field. It will be of particular interest to researchers as well as students seeking in-depth knowledge of the recent history of agricultural trade talks.

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