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UNDERSTANDING WTO AGREEMENT ON AGRICULTURE

This bulletin includes technical and latest development on products, systems, techniques etc. reported in journals, companies' leaflets and books, and based on studies and experience. The technical information on different issues is on different areas of plant operation. It is hoped that the information contained herein will be useful to readers.

The theme of information in this issue is **Understanding WTO Agreement on Agriculture.** It may be understood that the information given here is by no means complete.

In this issue ...

1. INTRODUCTION

The Indian Dairy industry is slowly awakening to the fact that the global trade of dairy products, as that of any agricultural products, is guided by the World Trade Organization (WTO) Agreements. There is, however, inadequate perception of the important provisions of WTO Agreements and how these would affect our domestic dairy industry. This issue highlights the important provisions of the Agreement on Agriculture (AoA), one of the important Agreements of WTO. The next issue would detail out the implications of these and other provisions on Indian dairy industry and the challenges before it to face.

Details of the WTO and its functions are given in the Technews Issue No.22 (WTO, CODEX and IDF).

The WTO (successor to the General Agreement on Trade and Tariffs: GATT) Agreements came into force from January 1995. These Agreements are also known as Uruguay Round of Multilateral Trade Agreements. The Agreement is to be implemented over a period of six years by developed countries, i.e. by 2000, and ten years by developing countries, i.e. by 2004. The least developed countries (LDCs) are not required to undertake reduction commitments included in the Agreement on Agriculture (AoA), one of the important WTO Agreements.

The AoA incorporates obligations and disciplines related to the following three aspects of agricultural production and trade:

* Market access/tariffication
* Domestic support
* Export subsidy

2. MARKET ACCESS

- Quantitative restrictions (QRs) on imports and exports to be eliminated. Government of India has removed QRs on all dairy products since April 2001.

- All non-tariff trade barriers to be converted into equivalent tariffs. These tariffs to be bound and/or reduced within the implementation period. The base period taken for tariff estimation was 1986-88. India bound its tariffs for dairy products without any provision of reduction.

- Those countries which have tarriffied non-tariff measures are entitled for Special Safeguard (SSG) provision, under which they can impose additional duty on import of a product when either the volume of imports exceeds or the price of imports falls below the reference trigger levels. India is not entitled to this provision.

- At the time of Uruguay Round negotiations, India was permitted to maintain QRs for balance-of-payments (BoP) reasons. Hence, India did not have to tariffy non-trade barriers, and was also exempted from the requirement to provide minimum market access opportunities to exports of other countries.

- In the negotiations prior to the UR, India had bound milk powders at zero duty. This was re-negotiated in 1999 and the bound tariff was raised (see table on the next page).

Table: Import tariffs on dairy products

Description	Bound rate of duty (%)	Applied basic duty (2001-2002) (%)
Fresh milk and cream with fat content not exceeding 6%	100	35
Fresh milk and cream with fat content exceeding 6%	40	35
Skimmed milk powder (SMP) and whole milk powder (WMP)	0	15: upto 10,000 tonnes per year 60: beyond 10,000 tonnes per year
Other concentrated milk or cream- including milk for babies etc.	40	35
Butter, dairy spreads, ghee (melted butter), butteroil.	40	35
Cheese including powdered/grated and processed cheese.	40	35
Yoghurt and others including butter milk	150	35
Whey and whey concentrates/powders	40	35
Other whey products	150	35

3. DOMESTIC SUPPORT

- The AoA has categorized domestic supports provided by governments to their producers into three categories based on whether they have low or minimal trade distorting effects or high trade distorting effects. Those measures that are considered to have minimal trade distorting effects, such as 'green box', 'blue box' and 'special' measures are exempted from requirement of reductions. However, other measures that have high trade distorting effects, known as 'amber box' or total 'aggregate measurement of support (AMS)' measures, are subjected to reduction requirements.

- 'Green box' measures have minimal effect on trade and can be used freely. These measures include government services such as research, disease control, infrastructure, extension, buffer stocks for food security purposes, domestic food aid, direct payments to producers, decoupled income support, government assistance in income insurance and income safety net programmes, payments under environmental and regional assistance programmes, payments for relief from natural disasters, assistance to help farmers restructure agriculture, marketing and promotion services.

- Also exempted are measures grouped under 'blue box'. These include direct payments to producers to limit production. These mainly concern developed countries. These supports can not exceed a country's 1992 level.

- Another group of measures exempted from reduction requirement includes government assistance to encourage agricultural and rural development in developing countries and agricultural input subsidies to low-income and resource-poor producer in developing countries. These measures can be used freely as per Special and Differential Treatment for Developing Countries clause.

- All other measures are grouped in 'amber box' or AMS, and are subjected to reduction requirement. The AMS consists of two parts:

* Product specific subsidies, that is, the difference between the administered prices (minimum support prices in India) and external reference prices (c.i.f. prices of imports and f.o.b. prices of exports), times the quantity of production which gets such support.

* Non-product specific subsidies, that is, subsidies on inputs such as fertilizers, electricity, irrigation etc.

- Where the product-specific subsidies expressed as a percentage of the value of the production of the relevant basic agricultural production or the non-specific subsidies expressed as a percentage of the value of the entire agricultural production came to less than the *de minimis* level of 5 percent (10 percent for developing countries), there was no requirement for reduction.

In other cases, countries were required to reduce their total AMS by 20 percent over a period of six years (by 13.33 percent over a period of ten years for the developing countries) starting from 1995. The base period taken for AMS calculation was 1986–88.

- India does not provide any product-specific subsidy to any milk product. The main non-product-subsidies provided in India are fertilizer subsidy, irrigation subsidy, subsidy on electricity, subsidy on seeds and credit subsidy, which were around 7 percent during 1999-2000, lesser than the *de minimis* of ten percent. Even then, input subsidies given to resource poor farmers in developing countries are exempt from reduction requirements. India, therefore, is not required to reduce levels of producer subsidies.
- Some assistance provided to agricultural development by the

government in India qualifies as 'green box' measures and are exempted from reduction requirement. Relevant to milk production, these measures include research, pest and disease control, training services, extension and advisory services, marketing and promotion services, inspection services, provision of livestock health facilities and infrastructure services.

- Some other support measures provided by the government are also exempted from any reduction commitment for developing countries. These measures are subsidies for milch animals, small farmer development assistance and assistance to small-holders for easy access to inputs.
- Decoupled support (in the 'green box') and support provided under the production limiting programmes (in the 'blue box') were exempted from cuts, therefore, the reductions in trade-distorting domestic support have been easily met by most countries. These commitments only applied to aggregate domestic support rather than support to individual commodities, thus permitting high support levels to continue for the more sensitive commodities.
- Three countries, the United States, European Union and Japan, account for 90 per cent of total domestic support (i.e. AMS, blue box, green box, *de minimis*, and special and differential treatment) for the OECD area as a whole. Green Box subsidies can be provided by governments and not subject to reduction. This is the only category of supports under the Agreement where no limits are set on supports. One of the key requirements of the implementation of the Agreement on Agriculture in 1995 was that domestic

support, measured in terms of Aggregate Measure of Support (AMS) only was to be reduced. However, despite these reductions, overall levels of supports on the whole have increased, rather than decreased.

4. EXPORT SUBSIDIES

- Export subsidies are provided by a country to make its commodities globally competitive. The AoA has listed six types of export subsidy measures subjected to reduction requirements from the 1986-1990 base period levels. Developed countries are required to reduce the value of export subsidies by 36% and quantities benefitting such subsidies by 21% over a period of six years starting 1995 (24 and 14% respectively over 10 years for developing countries). A country cannot provide an export subsidy if it is not specified in its list of commitments.
- Developing countries are exempted from reduction commitment in respect of export marketing costs, internal and international transport and freight charges.
- Export credit guarantees and export promotion programmes are not included as export subsides.
- India does not provide any of the export subsidies listed for reduction commitments in the Agreement. The only subsidies available to exporters are in the form of (a) exemption of profits from export sales in income tax (under section 80-HHC) and (b) subsidies on costs of freight, marketing and international and internal transport on export shipments of milk products. The first one is not covered in the list of subsidies given by the

WTO. The second one is allowed to be practiced without any reduction commitment by developing countries. India can avail of this flexibility.

- The main users of export subsidies are the EU, followed by Switzerland, the USA and Norway.

- The EU is the world's largest exporter of dairy products and its use of substantial export subsidies has a depressing effect on world market prices. Practically all milk powder and butter exports as well as a substantial portion of cheese exports by the EU are subsidized. According to notifications to the WTO, the average EU subsidy applied to SMP exports in 1998-99 was the equivalent of 42 per cent of average wholesale domestic price of the products. Similarly, in the same year the average subsidy applied to the US SMP exports represented about 44 per cent of the average domestic market price. Moreover, the dairy products accounted for the largest expenditures on export subsidies in the post-WTO period. In 1998, the US provided export subsidies on dairy reaching 90 per cent of the US volume limit.

- Subsidized exports by the EU and the US alone have a major impact on the global dairy market because they represent a significant proportion of total trade. In 1998-99, as much as 35 per cent of SMP, 27 per cent of butter and 20 per cent cheese entering world market were subsidized.

- The extensive use of export subsidies (mainly the EU and the US) in world trade in dairy products reduces the prices received by all non-subsidizing countries and has adverse effect on the prices in importing countries.

5. SUMMARY

This issue has summarized the important provisions of Agreement on Agriculture, one of the important Agreements of WTO. The intention of these provision was to discipline the international trade of agricultural commodities and to provide developing countries more opportunity in the global market.

Unfortunately, the experience so far has been discouraging: global market has become more distorted and developing countries have been the big losers. Future negotiations on WTO Agreements do not hold high hopes.

The implications of WTO Agreements on Indian dairy industry and the necessity to meet the challenges would be presented in the next issue.

TECHNEWS ISSUES OF 2000

1. No.24 (January-February): Quality of Raw Milk
2. No.25 (March-April): International Standards for Food Contaminants
3. No.26 (May-June): Refrigeration Plant Troubleshooting: 1. Equipment
4. No.27 (July-August): Refrigeration Plant Troubleshooting: 2. System
5. No.28 (September-October): Milk and Health
6. No.29 (November-December): Understanding WTO Agreement on Agriculture