

# WTO and Agriculture



Presentation to 46<sup>th</sup> APPPA Participants

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**July, 2020**

# Why WTO?

- Imagine a situation when many people are driving fast from different directions without traffic lights at road crossings. Will there not be a chaos?
- As road need traffic signals for an orderly movement, so does International Trade require predictability and stability in the rules of business
- And World Trade Organization (i.e. WTO) seeks to provide this



# Objectives

- ❖ The long-term objective of the Agreement on Agriculture (or 'AoA' ) is “to establish a fair and market-oriented agricultural trading system”.
- ❖ Its roles includes:
  - ❖ operating a global system of trade rules,
  - ❖ acting as a forum for negotiating trade agreements; and
  - ❖ settling trade disputes between its members



# How WTO came into Being?

The Uruguay Round of multilateral trade negotiations (1986-1994) resulted in an Agreement establishing the World Trade Organization (WTO), which serves as an umbrella agreement

- It was established on 1 January 1995 with 164 Members and is based in Geneva.
- It is successor to GATT, but subsumed GATT.



# Scope

- ❖ WTO agreements cover goods, services and IPRs.
- ❖ Annexed to the umbrella agreement include:
  - ❖ dispute settlement mechanism, the trade policy review mechanism and the plurilateral agreements
- ❖ The original GATT applied to agricultural trade but it contained a number of loopholes that were exploited by countries, resulting in highly distorted international agricultural trade

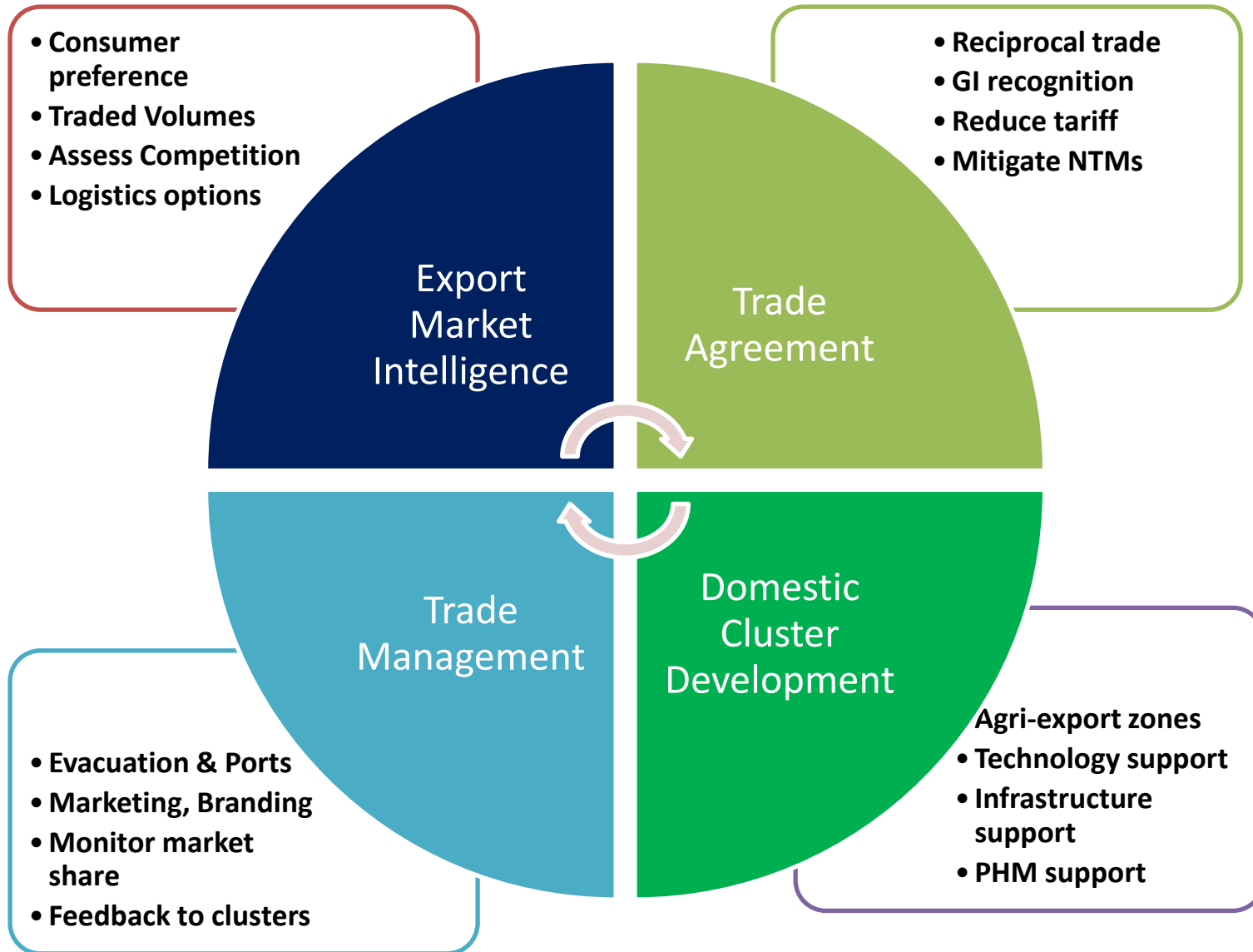


# Pillars of AoA

- ❖ AoA, an important outcome of the Uruguay Round of multilateral trade negotiations, introduced disciplines in three pillars:
  - ❖ market access – *(various trade restrictions confronting imports);*
  - ❖ domestic support – *(subsidies and other programmes);* and
  - ❖ export competition and other government support programmes that subsidize exports.



# Managing Export Supply Chain



Source: Report on Doubling of Farmers Income, Vol. IV (p.169)

Prof. Ashok Vishandass

# Framework (1/2)

- AoA intended to provide a framework for the long-term reform of agricultural trade and domestic policies over a period of time
- includes provisions that encourage the use of less trade-distorting agricultural domestic support policies





# Framework (2/2)

- Although the obligations for developing countries under AoA look less stringent, its provisions enabled developed countries to continue with high subsidies
- Developed countries use various tariff-related measures which led to a distortion of the global agriculture markets



# Doha Ministerial Declaration (1/2)

- ❖ The Doha Ministerial Declaration of November 2001 committed Members to substantial improvements in market access;
- ❖ phasing out of all forms of export subsidies; and
- ❖ substantial reductions in trade-distorting domestic support
- ❖ In 2001, agriculture negotiations became a part of the agenda of the Doha Round of trade negotiations.



# Doha Ministerial Declaration (2/2)

- ❖ Uncertainty prevails over Doha Round
  - ❖ **when or even whether it will be concluded?**
- ❖ Virtually every item of the Doha Round negotiation is considered as part of a whole and indivisible package and cannot be agreed separately. In other words,
- ❖ “nothing is agreed until everything is agreed”. Further, all major decisions in the WTO are normally taken by consensus.



# Subsidies (1/2)

- An agreement to eliminate agricultural export subsidies pushed through, during the Tenth Ministerial Conference of the WTO, in Nairobi in 2015
- But other parts of the agriculture negotiating agenda namely, market access and domestic support, remain deadlocked
- Although the AoA was supposed to result in decline in domestic support in agriculture, overall value of such support increased.



# Subsidies (2/2)

- ❖ The agreement obliged developed countries to reduce the AMS
- ❖ However, only some types of subsidies fall under the AMS
- ❖ While developed countries reduced their AMS, they also increased their exempted subsidies significantly
- ❖ Thereby offsetting the AMS reduction and resulting in an increase in total domestic support



# Kinds of Subsidies (1/5)

- ❖ *Subsidies broadly classified in 3 different boxes*
- ❖ Green Box, blue box and Amber box
  - ❖ **Green Box** includes the amounts spent on Government services such as research, disease control, infrastructure and food security. ...
- ❖ Since no ceiling exists for this box, the most developed countries have kept providing subsidies to their farmers under this box



# Kinds of Subsidies (2/5)

- Many provisions of Green Box support (Annex 2 of the AoA) formulated to allow developed countries to continue providing subsidies without any limit.
- Provision allows the US, just as an example, to provide unlimited subsidy through its Food Stamp scheme.



# kinds of subsidies (3/5)

- ❖ Developing countries are constrained by their de minimis limit in providing support for food security through public stockholding programmes
- ❖ Under Blue Box, subsidies provided to limit production by imposing production quotas or requiring farmers to set aside part of their land
- ❖ No upper bound on the amounts of subsidies under Blue Box





# Kinds of Subsidies (4/5)

- Given the shortage of food production in developing countries, they have not been able to take recourse to this option
- Empirics show that these provisions have been used mainly by the EU and by the US in some years
- AoA resulted in a category of domestic support that can be used by the developed countries without any limit



# Kinds of Subsidies (5/5)

- ❖ Amber box (AMS) Nearly all domestic support measures considered to distort production and trade (with some exceptions) fall into this box
- ❖ Consists of two parts—product-specific subsidies and non-product specific subsidies
- ❖ Any domestic support, not covered under the categories of Green Box, or the Blue Box, is categorized as Amber Box support
- ❖ Includes price support measures and all non-exempt direct payments



# Imbalances in Export Subsidies

- *Huge imbalance and asymmetries in export subsidies*
- *Developed Countries that were providing high export subsidies in the reference period of 1986-1988, acquired the legitimacy to continue to provide export subsidies in future.*
- *Most developing countries did not provide export subsidies during the reference period*
- *Developing countries unable to provide significant export subsidies.*

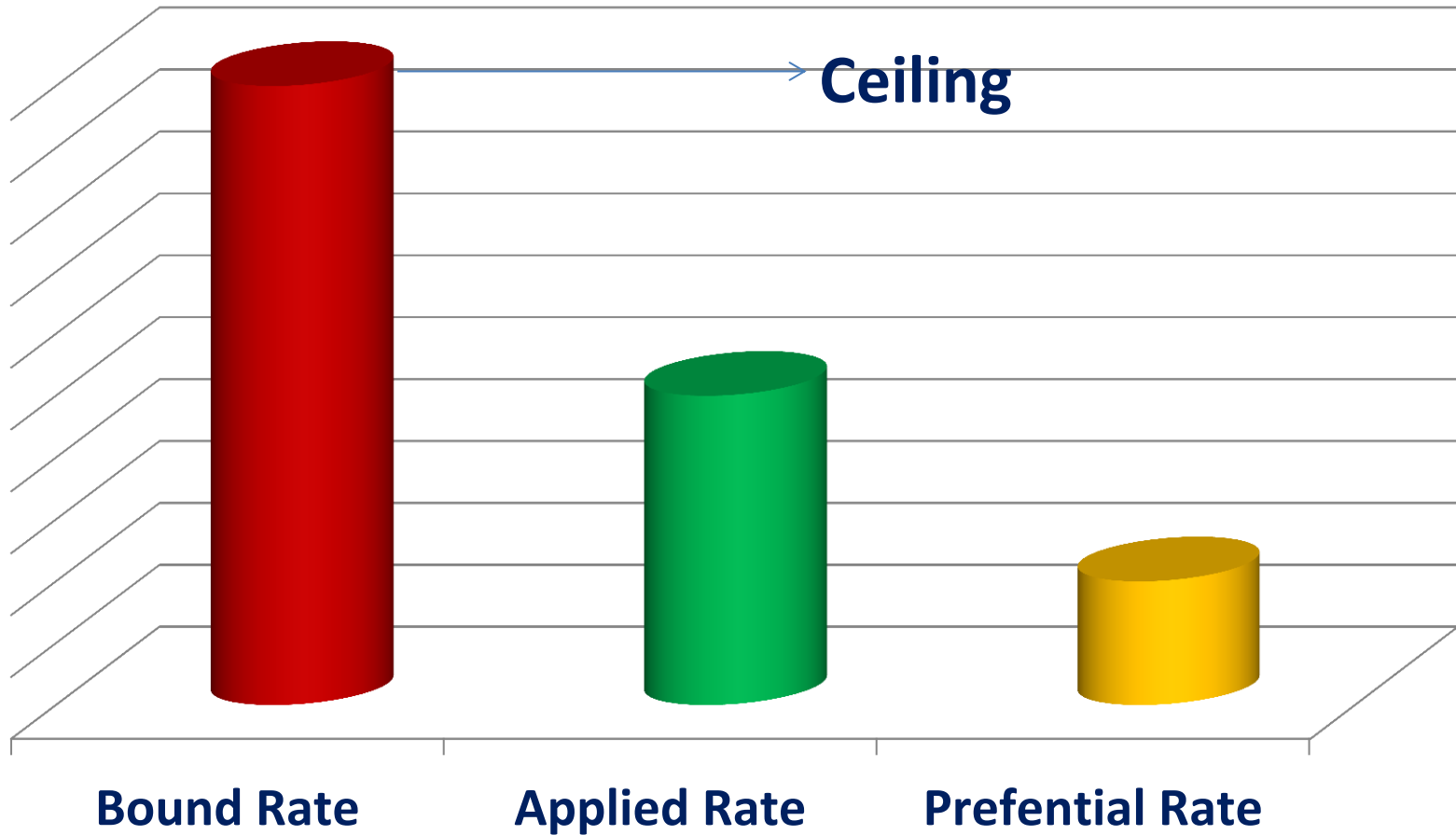


# Tariff Bindings (1/3)

- Quantitative restrictions on agricultural imports put in place in India mainly due to Balance of Payment (BOP) reasons
- Following the Uruguay Round, India only had to bind its tariffs and schedule the bound rates and she submitted binding tariffs ranging from 15 percent upto 300 percent
- Notwithstanding high bound tariffs, the actual applied rates of tariffs on most agricultural products quite low



# Tariff Bindings (2/3)



# Tariff Bindings (3/3)

- ❖ Applied tariff rates in case of India are up to 50 percent only for about 90 percent of tariff lines
- ❖ An important part of India's agricultural support regime is its Minimum Support Price (MSP) for public procurement operations of staple food items
- ❖ Under the de minimis provisions, as a developing country, India is entitled to provide 10% of the total value of production of a basic agricultural product as product specific support and 10% of the value of total agricultural production as non-product specific support




# An Optical Illusion

- ❖ Product Specific Subsidy for MSP operations look large but are not so
- ❖ because current Procurement Prices are compared with the Prices in the reference period 1986-88 i.e. with those prices that prevailed over 30 years ago, and without any adjustment for inflation
- ❖ An statistical flaw in the methodology
- ❖ At the end of the round, higher the MSP, higher is the subsidy component, other things being equal



# Peace Clause (1/2)

-  ***Peace Clause permits developing countries to procure foodstuffs for public stockholding programmes, even if the domestic support that is attributable to the procurement exceeds the ceilings on subsidies specified in the AoA***





# Peace Clause (2/2)

- ❖ WTO facing multiple challenges:
- ❖ Given the slow progress under the Doha Round and the lack of consensus on how to move forward, WTO's negotiating arm is almost paralysed
- ❖ During 2008 and 2013, the Doha negotiations remained in a state of dormancy



# Why Impasse?

- ❖ Not just a short-term disruption
- ❖ WTO cast in the mould of interest of developed world and its rules have curtailed the policy space for developing countries
- ❖ but some developing countries like India have gained in agriculture sector as it is net food exporting country
- ❖ US attempting to marginalize WTO and likely to aggressively seek bilateral deals

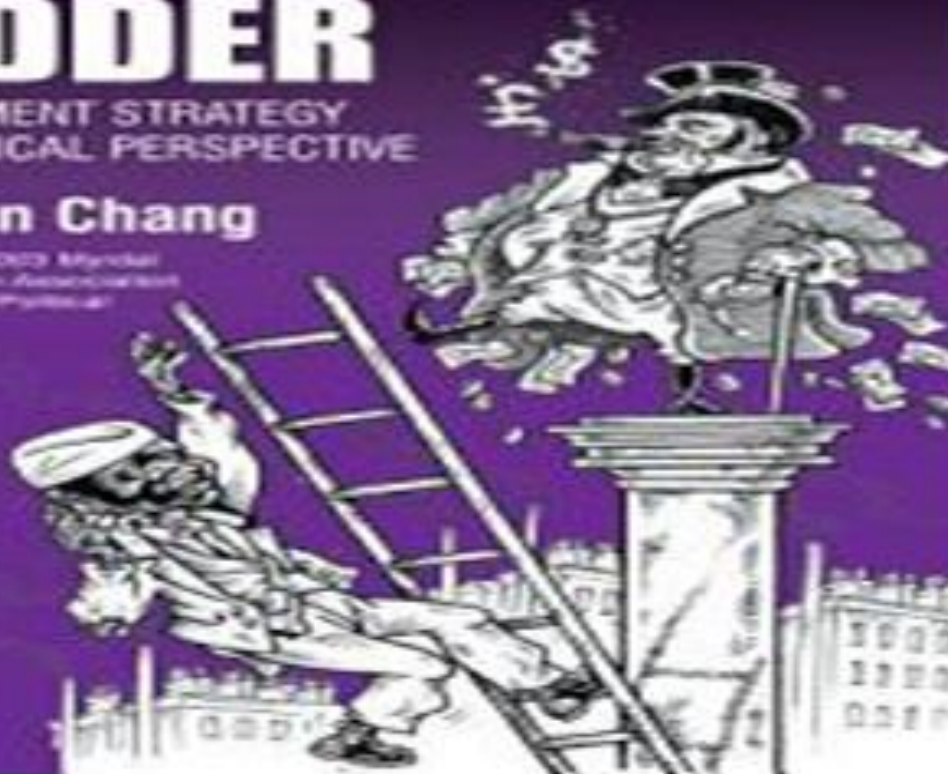


# KICKING AWAY THE LADDER

DEVELOPMENT STRATEGY  
IN HISTORICAL PERSPECTIVE

Ha-Joon Chang

Winner of the 2002 Myrdal  
Prize, European Association  
of Evolutionary Political  
Economy



# Kicking Away the Ladder

- ❖ From 2015 onwards, developed countries and some developing countries no longer endorse the Doha Round....
- ❖ Developed countries have virtually resorted to 'Phenomenon of kicking away the ladder'
- ❖ meaning thereby : once a country attains summit of greatness, she kicks away the ladder by which she has climbed up, in order to deprive others of the means of climbing up after her



# Challenges

- At India's insistence, the WTO Members agreed to put in place an interim mechanism for the issue of public stockholding in relation to support provided for traditional staple food crops in pursuance of public stock holding programmes for food security purposes
- The term '**peace clause**' has been a cause of disquiet ever since India flagged the issue of domestic food security in the WTO negotiations



# Way Ahead

- In the aftermath of Covid-19 with a paradigm shift towards Atamnirbhar, there will be an increasing tendency to reduce dependency on other Nations for key food supplies
- Rules of the game of WTO likely to undergo irreversible changes, sooner than later
- World is changing rapidly and WTO is smart enough to keep pace with emerging changes



# Quiz

1. WTO came into being as a result of which Conference / round of multilateral trade negotiations?  
(a) Uruguay Round, (b) Geneva Round, (c) Marrakesh Ministerial Conference, (d) None of these.
2. In which year was AoA under WTO signed?  
(a) 1948, (b) 1990, (c) 1995, (d) 2000
3. Subsidies on account of public stock procurement (like procurement of agri-commodities at Minimum Support Prices) can be classified under which of the following boxes?  
(a) Blue Box (b) Amber Box (c) Green Box (d) None of these
4. How many Members are there in WTO?  
(a) Less than 100 (b) Between 100 and 140 (c) More than 140 but less than 180 (d) More than 180
5. Is there any connection, if any, between GATT and WTO  
(a) WTO is successor to GATT, (b) WTO subsumed GATT, (c) Both (a) and (b), (d) None of these.



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**Thank you**