POLICY BRIEF 23

Post WTO Agriculture Trade and Agenda for Negotiations on Agriculture

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It has been a decade since the WTO Agreement on Agriculture came into effect on 1st January 1995. This appears to be a reasonably long period to know and understand the implications and nature of liberalised trade regime being promoted under the auspices of WTO. Further, it has now become clear that WTO regime of multilateral trade is going to stay and this regime would not be rolled back or reversed, but, its agreements can definitely be modified and changed, through consensus and negotiations, to accommodate major concerns of member countries. A major message from this is that in order to effectively operate in the WTO oriented environment, India should carefully identify the issues of its interest in the global trade and strongly push this agenda in the forthcoming negotiations of WTO beside implementing appropriate domestic policies and strategies that improve competitiveness of Indian agriculture.

This paper analyses the performance of India's agricultural exports and imports during post WTO period and identifies the products based on favourable/adverse and no effect on their trade as implementation of WTO agreement progressed. The paper then identifies the main reasons for favourable/adverse effect on agricultural trade and draws lessons for future negotiations on AOA.

IMPACT OF URUGUAY ROUND AOA

Implementation of UR AOA started from 1st January, 1995 when India had already initiated liberalisation of its economy and trade with economic reforms in June 1991. As a part of these reforms India adjusted its exchange rate to market rate and relaxed restrictions on agricultural exports. This created a favourable environment for agricultural exports. Export earning doubled in three years between 1992-93 and 1995-96. Imports also increased at almost the same pace and net surplus generated by agriculture trade increased from $ 2012 million during 1992-93 to 4337 million during 1995-96. However, after 1996-97 earnings from agricultural exports started moving downward. This downturn continued till 2001-02 after which exports showed some recovery. However, the increase in exports seen during last two years did not help in much improvement in net surplus because of sharp increase in imports in the same years.

Due to sharp year to year fluctuations in export and import, and hence in net trade, the changes in trade can be better captured by taking three yearly averages. These are presented in Table 1 alongwith some other indicators of trade performance. In this Table, years 1992/93 to 1994/95 refer to pre WTO and years 1995/96 to 1997/98 refer to beginning or initial years of WTO. The subsequent period can be called post WTO.

Annual import of agricultural goods increased from $1190 million in the three years preceding WTO to $1996 million in the first triennium beginning with WTO. In the same period exports increased from $ 3725 million to $ 6530 million and resulted in increase in net trade from $ 2534 million to $ 4534 million. This led to increased trade orientation of Indian agriculture as share of imports in GDP agriculture increased from 1.49 percent to 2.01 percent and share of export in GDP increased from 4.76 percent to 6.60 percent. A positive feature of this growth in trade has been increase in surplus generated by agriculture trade which increased from 0.32 percent of GDP agriculture to 0.46 percent. Despite sharp rise in import with the implementation of WTO agreement, amount of exports required to finance import fell down to 30.57 percent compared to 31.96 percent in the pre WTO period.

These favourable changes seen in the initial years of WTO did not last long. During 1998/99 to 2000/01 average export declined by 7 percent whereas imports increased by 64 percent as compared to initial years of WTO. This caused serious setback to trade surplus generated by agriculture which declined to 0.27 percent of GDP agriculture – lower than that recorded in the pre WTO period. Recent three years ending with 2003/04 have seen some increase in agricultural exports but this is much smaller compared to the growth in import. Consequently, amount of exports needed to finance import increased to more than 57 percent which is very high compared to pre WTO and initial years of WTO. Amount of trade surplus generated in this period remained at 0.27 percent of GDP agriculture as was the case during 1998/99 to 2000/01.

Sharp decline in ratio of trade surplus to GDP agriculture and much faster growth in import compared to export in post WTO years have serious implications for further liberalization

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Table 1: Indicators of performance of agriculture trade, before, during and after WTO

Particular	1992/93 to 1994/95	1995/96 to 1997/98	1998/99 to 2000/01	2001/02 to 2003/04
Agricultural imports	1190	1996	3272	4087
Agricultural exports	3725	6530	6060	7141
Net trade	2534	4534	2788	3055
Import as % of GDP agriculture	1.49	2.01	3.12	3.49
Export as % of GDP agriculture	4.76	6.60	5.79	6.36
Net trade as % of GDP agriculture	0.32	0.46	0.27	0.27
Exports required to finance import %	31.96	30.57	54.00	57.22
Index of global agriculture prices	91	102	81	80

of trade and WTO agreement on agriculture. Trade liberalization was anticipated to provide very attractive avenues for growth of agricultural exports. Those who strongly favoured liberalized and free trade argued that increase in import should not be a cause of worry as exports would fetch much higher gain than what would be paid through imports. This argument was further used to make a case for achieving food security through self reliance rather than self sufficiency. This was based on the promise that liberalization of trade would help in much higher increase in exports than in imports and also help in improving efficiency in allocation of resources.

Based on this logic net trade is an indicator of self reliance. Trend in agriculture trade shows that post WTO trade liberalisation did not help much in export growth but it resulted in sharp and continuous increase in import. This caused adverse effect on self reliance in agriculture.

The main reason for adverse impact on farm export and increase in import is sharp decline in international prices of almost all major agricultural products after 1997. This in turn is associated partly with cyclical nature of international prices and partly with increased global competition in export due to trade liberalization. The situation was aggravated by increase in already high level of farm subsidies in OECD countries.

COMPOSITION OF EXPORTS AND IMPORTS

There were considerable variations in export performance of various commodities. Non basmati rice and wheat could not face global competition. Export of oilmeal, which was the second biggest item of export after marine products, suffered serious setback due to decline in international prices and quantity of exports. Export earnings from traditional group consisting of tea, coffee, spices, tobacco suffered mainly due

Table 2: Average annual export and import of selected agricultural products, US $ Million

Products	Pre WTO 1992/93 To 1994/95	Initial WTO years 1995/96 To 1997/98	Post WTO 1998/99 To 2000/01	Post WTO 2001/02 To 2003/04
Export				
Cereals	382	1159	982	1311
Oilmeal	616	871	429	499
Marine product	847	1116	1206	1333
Spices, tea, coffee, tobacco	843	1350	1367	1111
Livestock products	109	230	265	375
Horticulture product	190	280	316	464
Import				
Fruit and nuts excl. cashew nut	77	127	157	157
Pulses	160	259	120	574
Spices	14	29	65	118
Vegetable oil	102	749	1658	1909
Cashew nut	166	209	239	215
Cotton Raw	111	13	213	344
Wood and wood products	185	312	433	553

to sharp fall in international prices as quantity of export in most cases did not decline. Export (value in $) of marine products, and groups of livestock and horticultural products maintained the tempo of growth, continuing from pre WTO period (Table 2). This shows that post WTO situation was favourable to export of high value food products. Export of cotton almost dried up in the post WTO period due to increased demand from domestic textile industry and decline in domestic production. Sugar exports remained occasional as the surplus arose temporarily. This scenario of India's agricultural exports indicate that future negotiations should focus on taking advantage in export of high value food products.

In the case of imports, liberalisation of trade in the initial years of implementation of WTO agreement did not cause much difficulty because international prices of bulk products were quite high in the first three post WTO years. Subsequently, as international prices started falling, India's imports started rising. Level of imports doubled in three years between 1996-97 and 1999-00. This caused lot of disappointment to the country which expected big gain in export earning in the post WTO period through increased market access into developed countries' market. Domestic production of staples came under threat of disruption. International prices of cereals towards the year 2000 and 2001 turned out to be almost half of what they were in the beginning of WTO. This happened when India was having very large stock of rice and wheat. Tariffs turned out inadequate to keep a check on import of cereals and India had to resort to QRs on imports of foodgrains to keep a check on cheap imports. Important lessons from this experience is that India was not able to safeguard domestic production against imports with usual tariff when international prices went low. In order to deal with this kind of situations, India needs either high bound tariff, so that applied tariffs can be raised appropriately, or, special safeguards to regulate imports of sensitive products.

Composition of imports show that most of the increase in agriculture imports took place due to increase in import of edible oil. Vegetable oils accounted for more than three fourth of total increment in agriculture imports in the post WTO period. The other items whose imports increased significantly are pulses, spices, cotton, and wood and wood products.

Imports of items like vegetable oils and wood/wood products have depressed domestic prices and caused adverse impact on domestic production. The import of wood/wood product has resulted into almost collapse of domestic prices of agroforestry species like Poplar. Domestic prices of pulses continued to rule high despite increase in imports. Imports of edible oil was much more than the reduction in production of edible oil. This is evident from the per capita availability of edible oil in the country which remained between 5 to 5.8 kg for a decade till 1992-93 and then steadily increased to more than 9 kg by 2002-03.

THE NEXT ROUND OF NEGOTIATIONS

WTO negotiations for next round started in March 2000 and have entered fifth year now. WTO General Council reached some broad agreement on a framework in July 2004 for further negotiations. The July package and other proposals would now be taken up for finalisation of modalities. The main features of July package are:

- Special and Differential treatment (S&D) is integral part of all the three pillars
- Reduction in Aggregate Measure of Support (AMS) and De minimus by all
- Blue box retained but capped at 5% of output value
- Green box will be reviewed and clarified
- Progressivity in tariff reductions through deeper cuts in higher tariffs with flexibilities for sensitive products
- Substantial improvements in market access for all products
- Members (all including developed countries) may designate tariff lines to be treated as sensitive
- Elimination of export subsidies by a fixed date

A careful assessment of July Package reveals that some expectations being put in it may not materialize and getting S&D in each pillar involves a tradeoff. Also, some aspects, crucial for India, are not adequately addressed.

The main achievement in the July package for India is in the area of export competition. The framework involves complete elimination of export subsidies and discipline on other types of support for exports.

In the area of domestic support the framework agreement on face proposes immediate reduction in the domestic support by 20 percent. But it may not happen like that as the reduction is to be effected on a much higher base which would be sum of trade distorting support, de minimus level and permitted blue box. When there is proposal for separate blue box the rationale of its inclusion in Final Bound Total AMS is not clear. The agreement institutionalizes blue box to provide assistance upto 5% of value of produce. The Green Box would also be there though the package suggests that only non trade distorting or minimal trade distorting measures are included in this box. It needs to be noted that even in the UR agreement Green Box was defined only to include non or minimal trade distorting support but subsequently the box was used to shift amber box support to exempted green box.

The framework permits developing countries to designate list of "Special Products" which would not be subject to market access commitments. In the same breathe the package retains a sort of special safeguard mechanism for "Sensitive Products" which would allow developed countries to deny market access in their countries to the products defined as sensitive.

AGENDA FOR FINAL NEGOTIATIONS

India needs to pay equal attention to what it agrees to do in its own market and economy and what other countries commit to do in their markets. In a liberalised trade both import and export are equally important. Nature of popular opinion in the country is such that any deal that secures protection or freedom from commitment is considered as a great achievement. However, this is only one side of the story. The other side is what protection and freedom from commitment other countries get. India need not be extremely defensive and inward looking. Indian agriculture has some strength which needs to be appropriately used to compete in the global trade.

Major threat from import and adverse impact on export result from low level of international prices. As a net exporting country India stands to gain from increase in international prices. Therefore, India should follow an agenda which leads to reduction in domestic subsidies, other kinds of support and export subsidies, particularly in developed countries, as those subsidies are the major factor for distortions and low level of international prices. Once this is done, the possibility of import threat for several products like dairy, wheat, cotton, sugar would vanish and India would not need any kind of Box to protect the interest of its agricultural producers. This would also enable India to promote agricultural exports. Thus, rather than seeking concessions like food security box or livelihood box the approach should be to address the situation which creates the possibility for seeking such Boxes.

In the area of market access India needs either high bound tariff or S&D provision to regulate unwanted imports. However, taking S&D treatment should not involve trade off to give concessions to developed countries. For instance, the July Package proposes that developing countries will have the flexibility to designate an appropriate number of products as Special Products eligible for more flexible treatment. The package also proposes that Members may designate an appropriate number of tariff lines to be treated as "sensitive". This dilutes the Special Product advantage to developing countries and would adversely affect market access in developed countries. The S&D in the form of special products equip India to check import of selected items while provision for "sensitive products" equip other countries to put check on India's export to them. India should carefully analyse this tradeoff.

Further, there is a big catch in agreeing to "certain percent of tariff line being treated as sensitive products". Taking certain percent of tariff lines imply that a country which produces less number of products or where production is concentrated among a few products would be able to protect much larger domestic production compared to a country which produces large number of products and where production is diverse. In a large sized developing country like India very large number of crops and livestock products are produced. Same percent of tariff lines for such countries would mean having provision to protect relatively much less number of commodities. To take care of this asymmetry, India should propose "products corresponding to a certain % of value of agricultural production" to be treated as sensitive products. This is helpful in taking care of small enterprises which are of very small importance at country level but have great significance to a particular state or area.

The meeting of G 20 held in New Delhi in the month of March 2005 first time strongly raised the issue of market access in developed countries. Alongwith this India and other developing countries should seek reduction in subsidies as quickly as possible.

Summarising India's Agenda

- Blue box should not be included in the calculation of Final Bound Total AMS
- Green box should be unambiguously defined and it should be capped
- Blue box should be opposed
- All export subsidies should be eliminated at the earliest
- Measures like export credit guarantee and insurance should be allowed only to developing countries due to weak institutions
- Tariff reduction should be based on bound tariff.
- Special safeguard mechanism should be allowed only to developing countries as S&D treatment
- Duty free import of tropical products from developing countries in place of TRQ
- Reduction in domestic support and subsidies and improved market access in developed countries.
- The list of Special Products should be based on "certain % of value of output" rather than "certain % of tariff lines".

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