

Impact of WTO Policies on Agriculture¹

Globalization – manifesting in progressive integration of economies and societies has assumed increasing significance in the lives of common people all over the world. The technical ability to ease flow of goods, services, and information across the international borders, has reached immense proportions in the last few decades. In the field of the trade the World Trade Organization (WTO) is the principal international institution responsible for laying down rules for the smooth conduct of trade in goods and services among nations in this globalized world. This is achieved by developing a set of rules of multilateral trading system which aims to remove, inter alia, trade barriers (tariff and non tariff) as well as reduce and eventually remove domestic support and system of export subsidies that distort international trade between nations. These problems of trade distortion are most conspicuous in agriculture sector.

Agriculture is of special significance for developing countries particularly the extreme poor (i.e. those living on one dollar or less per day). It has been estimated that “three quarters of them about 900 million people – live and work in rural areas, most of them as small farmers”². As a matter of fact the relative importance of agriculture in the economic and social life of these countries is much more than that in the developed countries. Table 1 shows that where as agriculture contributes 3% to the GDP and employs only 4% of the population in developed countries the corresponding figures for developing countries are 26% and 70% respectively.

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<http://www.worldtradereview.com/news.asp?pType=N&iType=C&iID=72&siD=14&nID=12114>

² Development Outreach, World Bank Institute, P 10 Volume V, Number 2003

Table 1: Key differences between agriculture systems in developed and developing countries

Parameters	Developed Countries	Developing Countries (including least developed)
Nature of Agriculture System	Commercial/Export Oriented	Subsistence
Share of GDP	3%	26%
Contribution to foreign exchange	8.3%	27%
Population engaged in agriculture	4%	27%

Source: Green, D and Priyadarshi, S. (2001) Proposal for “development Box” in the WTO Agreement on Agriculture, CAFOD and South Centre, Kaukab, R; (2002) Presentation at Agriculture and WTO Seminar, Ministry of Commerce, Government of Pakistan, Islamabad, August, 2002, Action Aid “Food Rights” The WTO Agreement on Agriculture, 2003.

The agriculture was included in the multilateral trading system after the eighth (Uruguay) round of talks under GATT³ on demand of developing countries who had a comparative advantage in this sector and its benefits were being denied to them. This trade round stretched from 1986-1994 and concluded in establishment of WTO and inclusion among others of agriculture in the discipline of WTO. This was achieved by developing countries only after paying a heavy price in the form concessions on many fronts especially intellectual property rights and services.

WTO policies impact agriculture principally through the following agreements⁴:

1. Agreement on Agriculture (AOA)
2. Agreement on Application of Sanitary and Phytosanitary Standards (SPS):
(Dealing with Health and disease related issues)
3. Agreement on Technical Barriers to Trade (TBT):
(Dealing with Regulations, standards, testing and certification procedures, packaging, marking and labeling requirements, etc)

³ General Agreement on Tariffs and Trade, predecessor of WTO

⁴ The Legal Texts-The Results of the Uruguay Round of Multilateral Trade Negotiations, WTO, Cambridge University Press, National Institute of WTO and International Trade Laws, Islamabad

4. Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs):
(Dealing with Patents and copyrights, plant breeders' rights etc).

The preamble of the Agreement on Agriculture (AOA) recalls that the long term objective of the agreement is to establish “a fair and market oriented agricultural trading system”⁵. The way Agreement on Agriculture (AOA) has been implemented so far evoked understandably harsh criticisms from developing countries and civil society organizations in the developed world. At best, Agreement on Agriculture (AOA) has turned to be a modest attempt to lay down some institutional framework and general principles that can be further developed to move towards a fair and market oriented trading system in agriculture. At worst, it has been perceived as legalization of trade distorting practices, being carried out by developed countries by virtue of which market access to foreign agricultural products is denied and domestic support to local agricultural products is continued to be provided.

The three pillars of Agreement on Agriculture are domestic support, market access and export competition. Domestic support falls mainly under three domestic subsidy boxes named after traffic lights as Green, Blue and Amber. **Green Box** subsidies are deemed to cause no or minimal trade distortion and hence not subject to reduction under WTO commitments. These include government spending for research, pest and disease control, training services, extension and advisory services, marketing and promotion services, infrastructure provisions, environment programme, relief from natural disasters, decoupled income support etc. **Blue box** subsidies are linked to acreage or animal numbers but under schemes that also limit production by imposing production quotas or requiring farmers to set aside part of their land. **Amber box**

⁵ Agreement on Agriculture P 33 The Legal Texts-The Results of the Uruguay Round of Multilateral Trade Negotiations, WTO, Cambridge University Press, National Institute of WTO and International Trade Laws, Islamabad

subsidies are considered to be trade distorting such as market price support and are expressed in terms of Total Aggregate Measure of Support (AMS) which is given as one figure. Only Amber Box subsidies are subject to WTO reduction commitments according to an agreed formula. Domestic support can be provided under de minimis provision as well. Developed countries can give subsidies up to the value of 5% and developing countries up to 10% of the value of its agricultural production for non product specific purposes.

Market access provisions under WTO are based on the principles of “tariffs only”. Non tariff restrictions like quotas have been replaced by tariffs but the bound levels of tariffs for agricultural products originating in developing countries are excessively high in developed countries. In Japan, for instance, tariff on rice is up to 1000%⁶ making it very difficult for agricultural products from developing countries to enter and compete in developed country markets. Moreover developed countries have been discouraging value addition at each step in the processing ladder by tariff escalation.

Table: 2 Reduction Commitments under Agreement on Agriculture (AOA)

	Developed Countries	Developing Countries
Implementation Period	6 years i.e. 1995-2000	10 years i.e. 1995-2004
Tariffs	-36%	-24%
Domestic Support (total AMS support for base year 1986-88)	-20%	-13%
Export Subsidies(based period 1986-90)	-36%	-24%

Source: “Trading into future- WTO- The World Trade Organization”, March 2001, P 17

Export subsidies were only allowed to the countries which were granting these at the time of coming in force of Agreement on Agriculture. Table 2 provides details of

⁶ “The Cancun Challenge-Special Report World Trade Talks”, P 64, The Economist, September 6-12th,2003,Vol 368, Number 8340

reduction commitments under various heads of market access, domestic support and export subsidies.

The problems with developing countries is that they don't have fiscal space to even take advantage of the permissible provisions for domestic support available in the form of green box and de minimis measures. Under agreements with IMF and World Bank, or under domestic political pressure (e.g. for food security reasons) they usually have decreased their tariffs much below the bound levels. The developed countries, on the other hand, have maneuvered domestic subsidy boxes and shifted most of the support to green and blue boxes leaving very little for amber box subject to reduction commitments. Studies by South Centre⁷ and Action Aid⁸ quoting statistics from OECD, FAO and UNDP have shown that the total value of domestic support provided by OECD countries in the last decade has in fact been increasing instead of falling which is exactly opposite of the desired goal. Table 3 provides a comparison of their level of domestic support before and after Uruguay Round.

Table 3: Level of Support in agriculture amongst OECD Countries (\$Billions)

Countries	1986-1988(annual average)	1998	1999-2001(annual average)
OECD	302	339	330
US	69	91	95
EU	110	125	113

Source: OECD, 2001 and 2002 Agricultural Policies in OECD Countries: Monitoring and Evaluation, OECD, Paris and Action Aid, Food Rights, WTO and Agreement on Agriculture, 2003

Import barriers (market access restrictions) and domestic subsidies have increased the prices of agricultural products in internal markets of developed countries leading to over production of agricultural products. By providing export subsidies and

⁷ "The Doha Trade Round and Local Communities: The Agriculture Negotiations" Occasional Paper No: 10, South Centre, Geneva.

⁸ "The WTO Agreement on Agriculture" Food Rights, Action Aid Alliance, 2003

export credits developed countries have been able to effectively dump their excess production in international markets causing a fall in prices of agricultural products. Resultantly developing countries exports suffer from low profits due to fall in international prices and in worst scenarios their domestic markets have been lost due to inflow of artificially cheap imports from developed countries. Needless to emphasize that these practices accentuate poverty through loss of jobs and diminution of GDP. Dumping of dairy products and sugar by European Union in African markets is often sited as an example in this regard.

Pakistan committed to bind more than 90% of its agricultural tariff lines with most of these bound at 100%. For cereals, coffee and tea the bound rate varies from 100-150%. Applied tariff rates for agricultural items have been much lower than the bound rates.

Table: 4 WTO tariff bindings and applied rates for selected major products (percentage ad valorem)

Product	Bound Rate	Applied Rates		
		1995	1997	1999
Cereals	100-150	0-6	0-25	0-15
Oil seeds	100	10-70	0-65	0-35
Vegetable oils	100	25-70	25-65	10-35
Live animals	100	15-65	15-65	10-35
Meat	100	35-70	15-65	10-35
Dairy Products	100	25-70	25-65	10-35
Sugar	100	35-70	45-65	25-35
Coffee and tea	100-150	15-70	0-65	25-35
Simple average	100.50			

Source: “Schedule of WTO commitments” by Pakistan and Sarfraz K. Qureshi⁹

Total AMS (Aggregate Measure of Support) in case of Pakistan has been negative and hence without any consequence for reduction commitments. Pakistan had

⁹ Sarfraz K Qureshi, “Agricultural trade policy issues in AOA context for Pakistan”

reported that it did not provide export subsidies in 1995 as it did not have exportable surplus at that time. AOA conditionalities now prohibit provision of any new export subsidies. Pakistan, like many other developing countries has been transferring resources from agriculture to bolster its industry since fifties. Prices of food items have been kept artificially low to cater to the needs of low paid urban labour and middle class.

Developing countries have to face tough resistance to gain access to the markets of developed countries on the basis of food safety, human, animal and plant health and safety standards. These quality standards and disease/pest control measures are based on internationally recognized scientific measures and standards. These are aimed at better quality living for the living beings. WTO Agreement on Sanitary and Phytosanitary Measures (SPS)¹⁰, while recognizing the desirability of maintaining quality standards clearly mentions that these should not be used as trade barriers. Developing countries, however, fear that when pressure on developed countries will force them to decrease their market access tariff barriers, they will resort to more and more use of quality standards as non tariff barriers. In any event developing countries should make serious efforts to comply with these standards. These include Food quality standards as prepared by FAO/WHO Codex Alimentarius Commission, Animal health standards by International Office of Epizootics and Plant health standards by the FAO's Secretariat of the International Plant Protection Convention. This requires creation of awareness amongst the farmers, exporters, middle men and government departments.

The use of fertilizers, pesticides and other chemicals at various stages of crops is highly unscientific in Pakistan and leads to increase of chemical levels beyond

¹⁰ Agreement on Application of Sanitary and Phytosanitary Standards, The Legal Texts-The Results of the Uruguay Round of Multilateral Trade Negotiations, WTO, Cambridge University Press, National Institute of WTO and International Trade Laws, Islamabad

internationally permissive levels. Disease and pest control should be on modern lines to produce quality products. Chains of Laboratories which are internationally accredited and well equipped to deal with the requirements of local exportable produce are required to be established. Overall research and development environment in agriculture sector needs to be enhanced to cater to this challenge.

Another problem for developing countries's agriculture arises out of TRIPS agreement that has made it mandatory for all member countries to accord protective intellectual property rights, which are internationally acceptable, among others to the inventors of new seeds and plant varieties. For centuries farmers had been saving, exchanging, using and selling farm saved seed. Multinational seed companies have now started claiming patent rights over the seed produced through their research by introducing some new gene sequence. Developing countries fear that this will threaten their centuries old farm practices and make their agriculture dependent on these companies. TRIPS states that all countries should protect their plant varieties by patents or through a sui generis system. Developing countries should therefore develop their own sui generis system balancing the rights of plant breeders and local farming communities. The international Union for the Protection of New Varieties of Plants (UPOV) was developed as a sui generis system in Europe and is widely viewed as tilted in favor of plant breeders. There is a need to balance the provisions of TRIPS with that of Convention of Biological Diversity wherein the sovereign rights of nations over their genetic resources is recognized. Multinational companies are criticized for utilizing the biological resources of the developing countries without informed consent of their governments and communities. These companies are able to gain patents on their valuable resources by extracting the basic contents, introducing some change in the gene structure and getting patent rights. The original communities who have been using such

products may not get any information or share in the profits that subsequently accrue to the companies.

Pakistan needs to provide patent protection to its valuable export brands like Basmati Rice, varieties of mangoes, oranges etc. Traditional herbal and pharmaceutical knowledge needs to be documented and their link with community practices and ways of life established. Plant breeders rights legislation requires to be introduced which should be based on our own sui generis system.

WTO has been criticized for paying lip service to the concerns of developing countries in the field of agriculture while pursuing an agenda of developed countries. Under Article 20 of Agreement on Agriculture the review process to ascertain the progress made towards establishing a “fair and market oriented trading system in agriculture” started in the year 2000. In pursuance of this “built in agenda” many proposals have been submitted on the three pillars of market access, domestic support and export competition as well as to make more meaningful and enforceable the “special and differential treatment” provisions. Under pressure of an increasingly assertive civil society, antiglobalization movement that emerged at the time of Seattle Ministerial Conference, developed countries agreed to make more meaningful concessions to developing countries at Doha in 2001. According to Doha declaration a road map was provided for agriculture negotiations. The deadline for agreeing on modalities was March, 2003 which has passed without any agreement.

WTO Ministerial Conference held at Cancun from September 10-14, 2003 has reportedly ended in failure. The issue of contention had been the insistence of developed countries on further negotiations on Singapore issues. Singapore issues also called “The New Issues” consist of cross border investment, competition policies, trade facilitation and government procurement. The developing countries led by India, Brazil and Malaysia had made it clear before the Ministerial Conference that negotiations on

“The New Issues” should not proceed unless there is substantial progress on the ongoing “Doha Development Agenda” especially vis-à-vis removal of trade distortions in agriculture sector by developed countries.

It will be in the interest of Pakistan to voice the concerns of developing countries especially on TRIPS, SPS and special and differential treatment for developing countries. We should, however, work in close coordination with the members of Cairns group of countries, which consists of powerful agricultural exporters like Australia and New Zealand, and try to improve market access to the markets of EU, Japan and USA. Our agricultural products are already working in nearly free and market oriented system unlike more protective developing countries like India and Brazil due to low values of applied tariff. Now is the time that we should struggle to reap benefits of our comparative advantage by removal of distortions in international agricultural trade instead of indulging in just anti rich rhetoric. We need to improve our production, storage, packaging, labeling, testing, processing and marketing facilities on scientific lines to pursue an export led growth strategy with adequate safeguards to ensure that the benefits reach teeming millions of our poor who are dependent on agriculture for their livelihood.