



WTO AGREEMENT ON AGRICULTURE AND ITS IMPACT ON INDIA

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Abstract: The Agreement on Agriculture (AOA) was enforced when the World Trade Organisation (WTO) was established on 1st January 1995. A series of trade negotiations and rounds were held under GATT which led to the formation of the developed system for trade. The sole organisation that governs and promotes international trade is the World Trade Organization. The negotiations also produced the Agriculture Agreement, which aims to reduce the countries' agricultural subsidies and other forms of assistance for domestic farmers. Since agriculture provides the primary means of subsistence for the majority of people in developing nations like India, the WTO's globalisation of agriculture is a constant source of worry for them. In India around 45% of the workforce is engaged in the agricultural sector and contributes around 15% of the GDP of the nation. The government of India has set a target to double the agricultural exports to the US dollar 60 billion and also to double the income of the farmers by 2022-23¹. In order to achieve this target, several measures were taken. However, it is important that such measures taken shall be in compliance with the country's commitments to the Agreement on Agriculture. The major pillars of the AoA—domestic assistance, market access, and export subsidies—have proved problematic for India in a number of ways. The clauses of the AoA that benefit wealthy nations and allow them to continue providing substantial agricultural subsidies so long as they do not violate AoA obligations have generally had an impact on poor nations. Over the past few years, there have been substantial developments in the Indian agriculture industry. The WTO regime is to be used to maximum advantage to protect the interest of developing countries like India. However, the problem identified is whether the Agreement on agriculture is in fact fair to the developing countries like India.

Index Terms- WTO, Agreement on Agriculture, Market access, Domestic assistance, Export subsidies.

¹ WTO and Indian Agriculture Issues, Concerns and Possible Solutions, Policy Paper 102, NAAS, New Delhi (2021), <http://naas.org.in/Policy%20Papers/policy%20102.pdf>

I. INTRODUCTION

Agriculture has a major role to play in developing countries as around 70% of the poorest people in the world live in rural areas. Governments have always intervened in the agriculture sector more than in any other sectors. Indian agriculture has undergone a significant transformation over the past few years including institutional reforms and technological breakthroughs. The GATT contained provisions relating to agriculture however, it contained certain loopholes. It allowed the countries to use non-tariff measures such as quantity restrictions like import quotas and subsidies. This heavily distorted the agricultural trade. Market access for most agricultural products were restricted through tariffication, tariff reduction and access opportunities. The Uruguay Round paved the way to the first comprehensive trade rules specifically for agriculture. This was a significant step towards a less distorted sector and a sector with better order and fair competition. The Agreement converted those non-tariff barriers on agricultural products to tariffs and focused on its reduction. In developing countries, the schedule for reduction was more relaxed whereas in the least developed countries the reduction was altogether exempted. The agreement allows the government to provide support to their rural economies through policies that do not affect the trade. Thus, it allow the governments in the developing and least developed countries, to be flexible in the way they implement the Agreement and their obligations under the Agreement. In the meanwhile, some rich countries protect their producers through export subsidies and other domestic support. On the contrary, the developed countries forced the developing countries to open up their markets and liberalise agricultural trade. So, the real question at hand is whether the AOA has been effective and fair enough in the promotion of agriculture in different countries.

II. THEORETICAL FRAMEWORK

The general structure of the WTO agreements for trade in goods and services is divided into three segments. The General Agreement on Tariffs and Trade (GATT), General Agreement on Trade in Services (GATS), and Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) all contain the general disciplines. It also contains other agreements and annexes that address the unique needs of particular industries or problems, such those related to agriculture, food safety regulations, plant and animal health protection, textiles and apparel, and others. The third component consists of the schedules established by various nations that grant market access to specific international goods and service providers.

III. AGREEMENT ON AGRICULTURE

The Agreement has established various rules and obligations mainly on three areas – market access, domestic support and export subsidies.

Market access

Prior to Uruguay Round, agricultural imports were restricted by quotas and other non-tariff measures. AoA prohibited the use of non-tariff barriers including quotas and import restrictions on agricultural products and introduced tariffication which required all non-tariff barriers on the agricultural products to be replaced by a bound tariff. This will ensure that an equivalent and nominal protection is given in the base period.² The Article 4.2 of the AoA has expressly prohibited certain non-tariff measures which were used on agricultural goods previously at the time of import and export. These include quantitative import restrictions, variable import levies, minimum import prices, discretionary government powers when import licence is issued, voluntary export restraint agreements and non-tariff measures maintained through state trading enterprises.

Domestic Support

The WTO tries to strike a balance between liberalising and reducing governmental support. The Agreement has categorised the domestic support in two categories wherein one category lists down those that distort trade and other which does not. The support that does not distort trade or that which minimally does has been included in the “Green Box”. Those listed in this box are allowed without any limit. It covers the government service programmes and direct payments. It includes special treatment for developing countries as a part of their development programmes. The “Blue Box” includes the measures that reduce the impact partially by limiting production. Such support that distorts trade is included in the “Amber Box”. This support stays within the limit. However, all countries are allowed a minimum amount of support known as “de minimis” even if it distorts trade. However, the support stays within a percentage of the value production.³

Export Subsidies

The AoA outlawed agricultural export subsidies except in certain specified circumstances. This is dealt under Article 3.3 and 8 of the Agreement. These include direct export subsidies provided by the government, products released from non-commercial stock for a lower price, payments on exports of agricultural products financed by the government, subsidies that reduce cost etc.⁴ Hence none of the export subsidies as provided under Article 9.1 is allowed to be subjected to agricultural products. Furthermore, it is important to note that the developing

² Parthapratim Pal, Implementation Issues of the Agreement on Agriculture and its Implications for Developing Countries, AGRIS, Economic Research Foundation, India (2013)

³ The WTO Agreements Series Agriculture, World Trade Organization, 3rd ed.

⁴ *Ibid*

countries have certain additional rights under special and differential treatment provisions wherein they are allowed to subsidise exports.

The countries are given the privilege to restrict exports temporarily to maintain the availability of foodstuffs or other essential products and prevent its shortage. This is provided under Article XI: 2(a) of the GATT and in Article 12 of the Agriculture Agreement⁵. The countries imposing the ban of the food export should consider the food security of the importing countries before any restrictions are imposed. This should be notified to the WTO membership by submitting an agreed standard form called the Table ER:1.

Apart from this, in order to protect poor countries relying on imports from the rise in the price of food imports, a Ministerial Decision on Measures on Possible Negative Effects of the Reform Programme on Least-Developed and Net Food Importing in Developing Countries was adopted in the Marrakesh agreement. Also, it was agreed upon that any agreement on agricultural export credit should favour the least developing and the developing countries who are net food importers.

IV. AGRICULTURE COMMITTEE

Under the provisions of Article 17 of the Agreement on Agriculture, the Committee on Agriculture (CoA) was established. It consists of all WTO members, and among its observers are potential WTO members and a few global government agencies engaged in agriculture. The Committee oversees and monitors the implementation of the Agriculture Agreement, offers a forum for members to consult one another on trade-related issues related to agriculture, reviews the implementation of this Agreement through questions and answers, and also keeps track of changes in the agriculture trade and the implementation of different decisions. The group typically holds three to four annual sessions, with the possibility of additional meetings as deemed appropriate.

V. INDIA'S COMMITMENTS ON WTO AGREEMENT ON AGRICULTURE

Agriculture has been one of the key points of discussion in the WTO. It has greater relevance for India because of its large population dependent on agriculture for food and employment. The share of the agriculture in the national GDP of India which is as huge as 24%, where almost 69% of the people are dependent on agriculture for their livelihood. India is the second largest agricultural producer in the world even though the yields are very low compared to the production in developed economies. India was maintaining a Quantitative Restriction as there was unfavourable balance of payment situation. For this reason, it did not implement the provision of Market Access laid down in the WTO Agreement on Agriculture. India however pledged to buy primary agricultural items at 100%, processed foods at 150%, and edible oils at 300%. A few agricultural commodities, such as skimmed milk powder, rice, maize, millets, etc., had zero or low bound rates. In December 1999, the talks required by Article XXVIII of the GATT came to an end, and the binding rates were significantly

⁵ Xiaozhen Li & Wei Wang, WTO Agreement on Agriculture: A Developing Country Perspective, 1 J. POL. & L. 19 (2008).

increased. Additionally, India does not offer any product-specific support, simply support for market prices. Also, with respect to the export subsidies, the exporters of the agricultural commodities in India did not get any direct subsidy. The only subsidies available to them are in the form of exemption of export profit from the income tax under Section 80-HHC of the Income Tax Act, subsidies on cost of freight on export of fruits, vegetables and floricultural products⁶.

VI. ISSUES INVOLVED

Promotion of agricultural exports is an important measure to boost the growth of the economy in India especially in the rural areas. India has been pursuing agricultural policies that prioritise welfare while adhering to the rules established by the WTO under the AoA. At the WTO, India has encountered numerous problems with regard to domestic support, market access, export subsidies, and food security. There are various issues under the AoA which are against the interest of the developing country members like India. There is inequality in the domestic subsidy discipline which can distort the trade. Domestic support by the developed countries is to be reduced substantially. AoA also permits the Members to take specific emergency measures to protect the countries from a sudden drop in prices or an increase in imports. In recent years, counter notifications in the form of questions during CoA meetings have repeatedly challenged India's support programmes at the WTO. India's price support programme, which is the foundation of its food security, has also come under criticism in the WTO.

VII. MINIMUM SUPPORT PRICE AND WTO AGREEMENT

The minimum support price is a price cap set by the Indian government to safeguard the interests of the nation's farmers in cases where crop prices fall sharply during any production year. In these circumstances, the government's agencies will buy the crops from the farmers for the minimum support price set by the government each year, which is the market price of the crops. Due to the fact that MSP is not protected by the green box, they must adhere to the reduction obligations. Under the terms of the agreement on agriculture, MSP falls under the ambit of the domestic support pillar. As long as the total aggregated measure of support (AMS) for all developing countries is less than or equal to 10%, the WTO has stipulated in the agreement that the countries do not have to adhere to the reduction pledges. Taking the base period as 1986-88 the total product service AMS was negative 38.47% and non-product AMS was 7.52% which is way less than the minimum levels of domestic support permitted by the WTO.⁷

India has been creating a public distribution system and ensuring that those who are below the poverty line have access to food by using the subsidies made possible by the AoA. When India expanded the distribution system to reach two-thirds of the population under the Food Security Act of 2013, objections were voiced at the WTO.

⁶ WTO and Its Implications on Indian Agriculture, National Institute of Agricultural Extension Management, <https://www.manage.gov.in/studymaterial/WTO.pdf>

⁷ WTO and Indian Agriculture Issues, Concerns and Possible Solutions, Policy Paper 102, NAAS, New Delhi (2021)

To deregulate the Indian agricultural industry and bring it into line with the world trading system, the Prime Minister of India proposed three new laws through the Parliament in 2020. But ever since, farmers have been protesting these rules across the country. Farmers feared that the implementation of the new laws will eventually lead to abolition of Minimum support Price (MSP) which would in turn result in the exploitation of farmers by the private firms. They consider the laws as Corporate-Friendly and Anti-Farmer. Farmers opposed the bill believing that the corporations would end up dominating the Indian Agricultural Sector and they would eventually lose the negotiating power in the market.

VIII. ANALYSIS

India has been able to maintain the domestic policy instruments for the promotion of agriculture and set a subsidy target on the supply of foodgrains. Domestic policies of the nation like the Minimum Support Price (MSP), the Public Distribution System (PDS), as well as other input subsidies to the agricultural commodities are not against the Agricultural Agreement of WTO. The provisions contained in Green Box have given India the opportunity to provide support to the agricultural sector through extension services, pest and disease control, marketing and promotion services, infrastructure development, etc. The Indian Government has used this privilege to its advantage by engaging in the business of handling, transportation and storage of food grains.

IX. SUGGESTIONS AND CONCLUSION

For a nation like India, physical access to food can be ensured only through a certain minimum level of self-sufficiency⁸. Furthermore, the livelihood of the farmers in India are jeopardised due to subsidised imports. More than 50%⁹ developing countries are dependent on agriculture for their day-to-day living. Specific measures would constitute a 'Food Security Box' for developing countries such as –

- i. Exemption from the obligation to provide any minimum market access,
- ii. products covered under AoA should include primary agricultural products such as rubber, primary forest produce, jute, coir, etc in addition to the hides and skins which are already covered under the agreement.¹⁰

This would help the developing countries for alleviating poverty ensuring rural development, providing higher level of rural employment and diversification of agriculture. India needs to push for the elimination of the AoA's asymmetries, particularly the AMS, which allow the developed nations to offer the trade-distorting support stated in the Amber Box. The measures that weaken the provisions for special and distinctive treatment should

⁸ Negotiation on WTO Agreement on Agriculture, World Trade Organisation, Committee on Agriculture Special Session, 15 January 2001.

⁹ Negotiation on WTO Agreement on Agriculture, Ministry of Commerce and Industry, Committee on Agriculture Special Session (01-0284), <https://commerce.gov.in/international-trade/india-and-world-trade-organization-wto/negotiations-on-wto-agreement-on-agriculture/>

¹⁰ *Supra Note 7*

be opposed by emerging nations as well. There is also a need to address the external reference prices (ERP) since most developing countries implement the price support policies. Apart from these there is a need to look out for a simple, effective and operable Special Safeguard Mechanism (SSM) and a need to improve the infrastructure for agricultural exports. Finally, it shall be beneficial if India has a market intelligence unit in the embassies so as to track the agricultural and trade policies of the respective countries and provide feedback to the Government of India.

India being an agrarian nation, most of the population is still dependent on agriculture for their livelihood. Among all the agreements brought into by the WTO, the AoA is the one that is most important for a developing country like India. WTO had introduced the agreement on agriculture with an aim to provide a fair market to the farmers and create a stable and predictable international agricultural market. Understanding the magnitude of effects of WTO on the Indian agricultural sector is not an easy attempt. There have been studies taken place in the past to quantify the effects of the agreement and trade liberalisation on the Indian agricultural market. The disappointing fact is that the actual effect of the agreement is not very satisfying as AoA fails to recognise the real difference among the countries. It suggests that all nations can benefit from the same liberalisation policies. It also allows the developed countries to buy themselves extraordinary exceptions to the rules which the developing countries cannot do. Also, AoA is based on the assumption that agriculture is operated under commercial conditions. However, in reality agriculture is not commercial in nature in most of the developing countries like India, where it is carried out by farmers living on farming and do not have any other source of income. In many cases most of them are landless agriculturists. It is hard for them to face the international competition thus resulting in large scale unemployment and breakdown of the economy. Hence protection of agriculture in developing countries is even more critical and therefore AoA should be more humane and considerate when imposing agriculture restriction provisions on agriculture in developing countries.

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LITERATURE REVIEW

1. **Xiaozhen Li & Wei Wang, *WTO Agreement on Agriculture: A Developing Country Perspective*, 1 J. POL. & L. 19 (2008).**

The author in this article has critically analysed the extent to which the WTO has taken into consideration the interest of the developing nations in the Agreement on Agriculture. The author has also discussed about the special and differential treatment provided to the developing countries and its effect, the extent to which the special and differential treatment can be given and some of the reforms that was to be considered in Doha Round. Furthermore, the author has researched on the three main issues relating to agriculture- Market access, domestic support and export subsidies. The researcher however, is of the opinion that the AoA had a disappointing effect on the developing countries. The market access provisions were supposed to rise the share of global agriculture export, however the share remained steady since the implementation of the agreement. The reason was due to the unfulfilled promises by the developed countries and the troubles faced by the developing countries by the AoA. The disappointment of the developing countries echoed the idea of a development round at Doha. The Doha round emphasised the need for special and differential treatment for developing countries in area of agriculture. However, the author has opined that the draft submitted by the US, EU and OECD are still disappointing and controversial. The draft did not represent the members fairly and also did not provide adequate respect to the needs of the developing countries. the author states that the AoA has ignored the differences among the countries by suggesting the same liberalization policies to all nations and has also allowed the rich countries certain exceptions to the rules which the developing countries do not enjoy.

2. **Carmen G. Gonzalez, *Institutionalizing Inequality: The WTO Agreement on Agriculture, Food Security, and Developing Countries*, 27 COLUM. J. ENVTL. L. 433 (2002) (pg. 439-468)**

The author has discussed about the formation of WTO as an international trading system. The Uruguay round negotiated various agreements pertaining to agriculture, sanitary and phytosanitary measures, textiles and clothing, technical barriers to trade, anti-dumping and several others. Prior to the Uruguay Round, agricultural commodities were altogether exempted from the requirements of GATT. Through WTO Agreement on

Agriculture the agricultural commodities were subjected to multilateral trading rules. The author has discussed the conditions relating to agricultural policy in developed countries prior to Uruguay Round wherein there was high level of protectionism. Agriculture was entirely exempted from the GATT rules and obligations. This has been an important issue for developing countries as they primarily relied on agriculture as the primary source of revenue. There were also quantitative restrictions such as quotas and embargoes. However, agricultural products were subjects to several exemptions from the prohibition.

GATT did not address the health and safety regulations. On account of the necessity and the significant impact of these regulations on trade, sanitary and phytosanitary standards were discussed in the Uruguay negotiations. The developing countries also taxed agricultural producers in order to maintain the affordability of the foods. The author has also discussed about the major provisions of the WTO Agreement on Agriculture. However, the criticism on the agreement is that it allowed the developed countries to maintain the subsidies and import restrictions which distorted the trade, thus affecting the objectives of the agreement.

3. Jamie Morrison & Alexander Sarris, *WTO Rules for Agriculture Compatible with Development, Food and Agriculture Organization of the United Nations, Rome (2007) (pg. 13-53)*

The authors in this article have stated that the developing countries are under the pressure to reduce the trade barriers to the entry. The authors opine that it is important to distinguish between different types of countries. Policy flexibility is maintained for some category of countries so as to support their agricultural sector. Whereas the countries that have already developed are put under certain intervention. There is a relation between agriculture and the overall growth of the nation. In the course of development of the country the agricultural sector has a great role to play. The appropriate trade policy in an agricultural sector largely depends on the extent to which the agricultural sector is able to produce exportable products. The policies focus in promoting the opportunities for developing countries to increase exports in international markets. The authors have also studied various research reports in this research paper, wherein the authors have concluded that liberalisation policies along with state withdrawal have been introduced too early for agricultural commercialization in many poor economies. The researchers have also argued in this paper that there is a need to analyse the appropriate trade policy at different stages of development of agricultural sector. For accelerating the growth as well as to reduce poverty a variety of appropriate trade policies are to be enacted for agriculture.

4. *The WTO Agreements Series Agriculture, World Trade Organization, 3rd ed.*

This series provides for the WTO Agreement on Agriculture and its main objective. The Agreement on Agriculture (AoA) was entered into in 1995 and its main aim was to reform agricultural trade. The developed countries were to reform over six years and the developing countries were to do so over 10 years. Agriculture was covered under the General Agreement in Tariffs and Trade however; numerous exemptions were applicable which obstructed the imports. Many major agricultural products like cereals, meat, dairy, sugar and others faced trade barriers. Therefore, WTO aims to bring a balance between agricultural trade and liberalisation. This also include non-trade concerns such as food security, rural development and environmental protection. The AoA establishes three pillars. These are market access, domestic support, export competition. The agreement covers specific products and commodities including farm produce, processed product, alcoholic and non-alcoholic products, tobacco products and others but exclusively excludes fish, fishery products, forestry products and such others. The Committee on Agriculture was set up under the agreement as WTO body comprising all the members of the WTO. Thus the 1994 agreement was the first step towards protecting or supporting the trade in agriculture from being distorted by subsidies. Developing countries are allowed a number of special rights often termed as special and differential treatment. Agricultural goods and services are also covered by the GATT and other WTO agreements including agreements dealing with food safety, animal and plant health under sanitary and phytosanitary measures, technical barriers to trade, GATS, TRIPS etc. The agriculture agreement will prevail in case there is conflict with any other agreement.