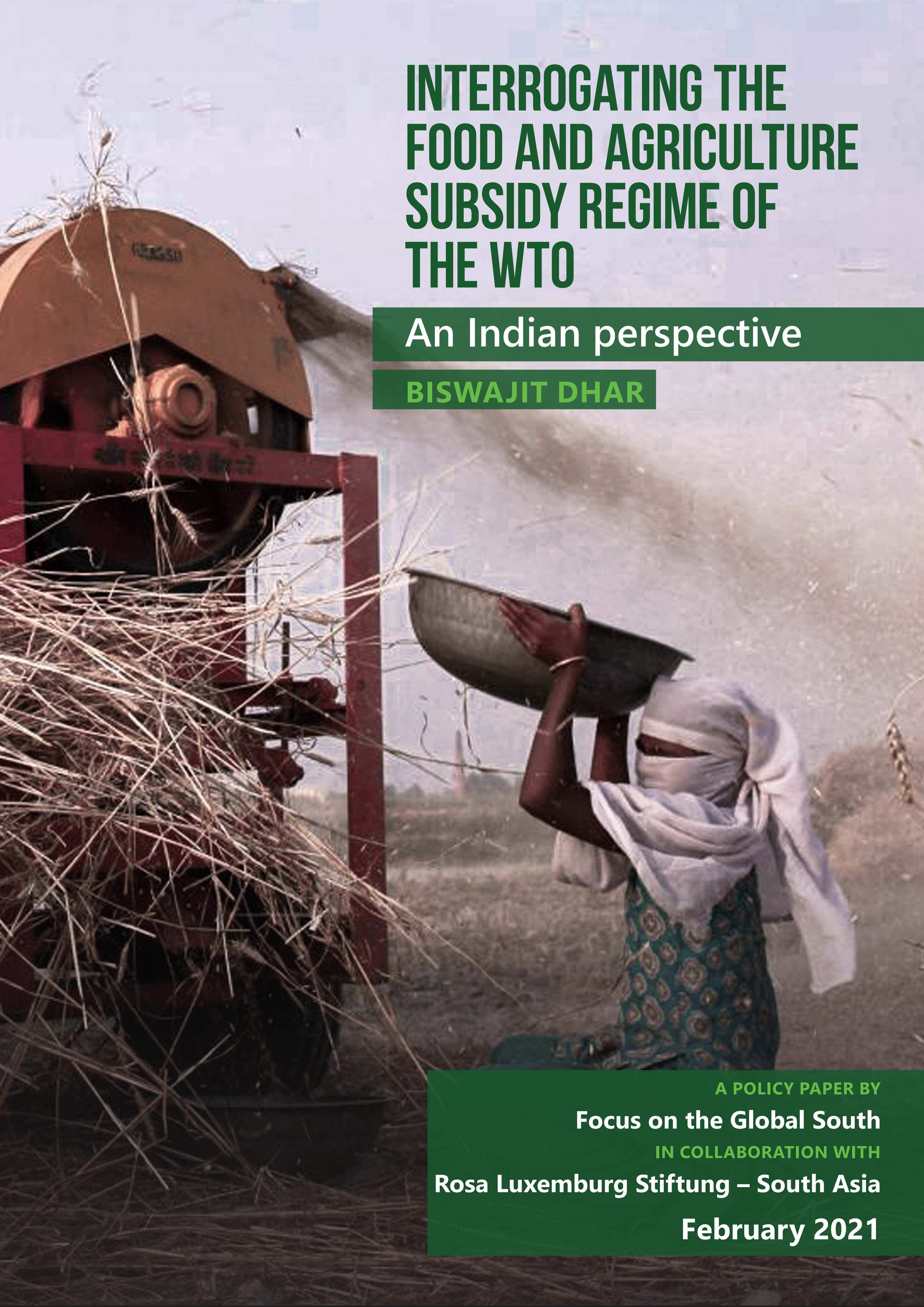
INTERROGATING THE FOOD AND AGRICULTURE SUBSIDY REGIME OF THE WTO

An Indian perspective

BISWAJIT DHAR



A POLICY PAPER BY

Focus on the Global South

IN COLLABORATION WITH

Rosa Luxemburg Stiftung – South Asia

February 2021

Interrogating the Food and Agriculture Subsidy Regime of the WTO: An Indian perspective

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Design: Vikas Thakur

Cover Image courtesy: Quartz India

Images (Inside Pages): Google Commons Images

Published by:
Focus on the Global South with support from the Rosa Luxemburg Stiftung – South Asia office. Focus on the Global South is an activist think tank based in Asia providing analysis and building alternatives for just social, economic and political change.

The publication is sponsored by the Rosa Luxemburg Stiftung with funds of the Federal Ministry for Economic Cooperation and Development of the Federal Republic of Germany.

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February 2021

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INTRODUCTION

The multilateral trading system established in 1948 under the aegis of the General Agreement on Tariffs and Trade (GATT), the predecessor organization of the WTO, developed rules for the entire gamut of trade in goods, with the solitary exception of agriculture. This sector was de facto excluded from the GATT since the mid-1950s after the GATT Contracting Parties (GATT 1955)[1] agreed to waive the obligations of the US under GATT Articles II and XI.[2] The US had requested for the grant of this waiver to enable it to maintain its policies of import restrictions included in Section 22 of its Farm Act (Agricultural Adjustment Act of 1933, as amended).[3] GATT granted the waiver in perpetuity, which implied that agriculture was effectively excluded from its rule making jurisdiction.

It was in the 1986 Uruguay Round negotiations that the GATT Contracting Parties agreed to introduce disciplines in agriculture. While laying down the negotiating mandate on agriculture, the Ministers of these countries agreed that there was "an urgent need to bring more discipline and predictability to world agricultural trade by correcting and preventing restrictions and distortions … so as to reduce the uncertainty, imbalances and instability in world agricultural markets (GATT 1986)." Furthermore, in the mid-term review of the Uruguay Round negotiations conducted in 1988, the GATT Contracting Parties agreed that the long-term ob-

jective of the discipline "is to establish a fair and market-oriented agricultural trading", which required "that a reform process should be initiated through the negotiation of commitments on support and protection and through the establishment of strengthened and more operationally effective GATT rules and disciplines."[4] It was further indicated that the long-term objective was to achieve "substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets."

The Agreement on Agriculture (AoA) adopted at the conclusion of the Uruguay Round negotiations provides a structure of disciplines which seeks to meet the aforesaid objectives. It introduced disciplines in three broad areas: (i) production-related subsidies or "domestic support"; (ii) export competition, which included export subsidies, export credit and international food aid; and (iii) market access, including tariffs and import quotas.

This paper discusses the domestic support regime introduced by the AoA and its implementation by the United States and the European Union, which are the two largest providers of farm subsidies, and India.

I. AN OVERVIEW OF THE SUBSIDIES' DISCIPLINES INTRODUCED BY THE AGREEMENT ON AGRICULTURE

The AoA introduced disciplines on subsidies covering two broad areas, namely, domestic support and export competition.[5] The former includes subsidies granted to the producers of agricultural commodities, while the latter includes all forms of government support provided to agricultural exporters. The following discussion critically reviews the discipline that the AoA has introduced.

The discipline on domestic support is aimed at regulating the subsidies granted to agricultural producers by WTO members. In their use of domestic support measures, governments have relied on two classes of subsidies: (i) market price support, and (ii) budgetary support. The logic used was that while price support distorts markets by providing perverse incentives, budgetary support can be market distorting or market neutral depending on the programmes that are being financed. Thus, while input subsidies have adverse effect on markets, there is a plethora of measures supported by the government and its agencies that are not likely to affect production and/or prices, at least in the shortrun.

In the AoA, domestic support measures have been divided into three categories:

(i) Administered price support for agricultural commodities,[6] for instance, India's minimum support price (MSP) system, and input subsidies, including credit, fertilisers and irrigation subsidies,[7] are included in the "Amber Box."

(ii) "Deficiency payments" or production-limiting payments are included in the "Blue Box."[8]

(iii) "Green Box" includes payments on several measures such as agricultural extension, rural infrastructure, domestic food aid, public stockholding for food security, disaster payments and income support.

Subsidies provided under the latter other two categories, namely, the "Blue Box" and the "Green Box" were considered less market distorting, and, therefore, WTO members are not constrained in their ability to provide subsidies included in these categories.

However, "Amber Box" subsidies had to be reduced or capped, depending on the magnitude of use of these subsidies before the WTO was established. Developed countries providing high levels of "Amber Box" subsidies during the period 1986-88, were required to reduce their subsidies by 20 per cent within 6 years of establishment of the WTO, i.e. by the year 2001. On the other hand, developing countries that were providing relatively smaller levels of this form of subsidies are not allowed to increase their subsidies beyond 10 per cent of the value of agricultural production.

The subsidies' discipline enables developing countries to benefit from a significant exception, which is the support they provide to the "low income and resource poor farmers." This term is not defined, implying that countries have the flexibility to adopt their own yardstick for identifying this category of farmers.

The classification of subsidies used by the AoA into market distorting or otherwise is questionable. Several forms of subsidies that are classified as non-market distorting do impact prices and production. For instance, the production-limiting "Blue Box" support is provided with an explicit intent to influence market prices. Yet another form of subsidies that is included in the exempt category of "Green Box" measures is income support. The form of support is provided on the basis of the production and yield in a historically given base year and is hence notionally "decoupled" from current production. Justifying the inclusion of income support in the "Green Box", the US has argued that the direct payments are determined on past production and yields, and therefore, this form of support has no effect on current production decisions of the producers.

There are some doubts about the veracity of the arguments since direct payments have risk reducing effects that can influence farmers' decisions in the current period. One of the more apparent manifestations of this can be seen in the ability of the US farm producers to fix farm gate prices of products that are considerably below economic costs. This aspect of domestic support would be discussed in greater detail in a later section.

An important form of subsidy included in the AoA is the food subsidy provided to the poor through the public distribution system (PDS), most prominently in India. Since the food crisis in the mid-1960s, the Indian government has been maintaining a PDS, which was universal to begin with, but was restricted after the enforcement of AoA disciplines. The PDS was restricted to those below the poverty line, in order to meet a requirement in the AoA that said that the "[E]ligibility to receive the food aid shall be subject to clearly-defined criteria related to nutritional objectives."[9] The introduction of the National Food Security Act in 2013 has expanded the ambit of the beneficiaries under the PDS.

Countries maintaining PDS are required to account for in their "Amber Box" subsidies, the differences between the prices at which the food grains are procured and distributed, together with the quantities of subsidised food grains distributed. Thus, the 10 per cent cap on this category of subsidies can easily be breached for a country like India, implying thereby that the WTO disciplines on subsidies limits the ability of the governments to provide subsidised food grains to the undernourished.

II. IMPLEMENTATION OF THE COMMITMENTS

The discussion in the foregoing section indicates that the AoA imposes disciplines on the subsidies that India has been heavily reliant on. The capping of these forms of subsidies at 10 per cent of the value of agricultural production could cause considerable disruption in the production processes and would also constrain the government in its ability to provide subsidised food grains to the undernourished. In sharp contrast, the subsidies' discipline would not adversely affect the two largest subsidisers among the WTO members, namely the US and the European Union (EU). The following discussion provides the details.

(A) TRENDS IN INDIA'S DOMESTIC SUPPORT

According to the provisions of the AoA, India's farm subsidies increased from just over \$8.3 billion in 1996-97 to \$56.4 billion in 2018-19. Three patterns are clearly discernible from the trends shown in Table 1. The first is that barring one year, 2017-18, agricultural input subsidies to low income or resource poor producers was the single most important component of India's farm subsidies covered in Table 1. In its notifications submitted to the WTO, India has indicated that 99.43 per cent of farmers are low income or resource poor, as of 2015-16, the last year for which the agricultural census was conducted (WTO 2020). While producers holding small and marginal farms (2 hectares or less) select themselves automatically, small medium holdings (between 2 and 4 hectares) and medium-sized holdings (between 4 and 10 hectares) are included because of relatively poor resource endowments (Government of India 2020: 240). For instance, only a third of the medium holdings are irrigated, thus increasing their uncertainties (Government of India 2020: 244).

Secondly, spending on this component has been lower in recent years. And, finally, "Amber Box" subsidies are the fastest growing component, having increased from less than \$1 billion to near \$10 billion during the past decade, which is not surprising given that subsidies on account of administered price support are calculated with reference to the international prices in the fixed base period, namely 1986-88.

Table 1 : Farm Subsidies Notified by India (in US $ billion)

Years	**Green Box**	**Agricultural input subsidies to low income or resource poor producers (Art. 6.2)**	**Amber Box**	**Total Notified Subsidies**
1996-97	2.5	3.7	2.0	8.3
2000-01	2.9	8.5	-4.3	7.0
2004-05	6.2	10.7	-4.1	12.7
2009-10	17.4	29.9	0.9	48.1
2010-11	24.5	31.6	2.1	58.2
2011-12	18.7	25.4	3.1	47.2
2012-13	18.7	24.2	2.8	45.7
2013-14	18.4	22.8	1.6	42.8
2015-16	18.4	23.6	1.5	43.4
2016-17	19.1	22.8	4.8	46.7
2017-18	31.4	22.6	6.5	60.5
2018-19	22.5	24.2	9.7	56.4

Source: Compiled from the Notifications submitted by India in the WTO Committee on Agriculture

In recent years, India's farm subsidies have been largely accounted for by its spending on four measures:

(i) Agricultural input subsidies to low income or resource poor producers;

(ii) public stockholding for food security purposes;

(iii) administered price support for rice, and

(iv) general services, including spending on research, training services, extension and advisory services, marketing and promotion services and infrastructural services. The following table provides the details

.Table 2 : Main Measures of India's Farm Subsidies (in US $ billion)

Years	**Agricultural input subsidies to low income or resource poor producers (Art. 6.2)**	**Public stockholding for food security purposes**	**General services**	**Product-Specific Subsidy for Rice**
2013-14	22.8	14.8	3.6	2.0
2014-15	24.8	17.2	3.7	2.3
2015-16	23.6	15.6	2.7	2.0
2016-17	22.8	16.3	2.8	2.5
2017-18	22.6	18.0	3.6	3.7
2018-19	24.2	17.2	3.5	5.0

Source: Compiled from the Notifications submitted by India in the WTO Committee on Agriculture

Spending on public stockholding for food security purposes increased after the adoption of the National Food Security Act in 2013. Under this Act, upto 75 per cent of the rural population and 50 per cent of the urban population is legally entitled to receive subsidised foodgrains under the Targeted Public Distribution System. Product-specific support for rice has registered steep increase, almost doubling since 2016-17. This has resulted from the grossly inappropriate methodology wherein subsidies arising from the grant of MSP for a product in any given year are calculated by comparing it with average of international prices during 1986-88. Product-specific support for other products has also increased, and India's "Amber Box" support as a percentage of its value of agricultural production was nearly 3 per cent in 2018-19. Although this figure is still well below the upper limit of 10 per cent, increase in product-specific support over the past few years remains an area of concern.

(B) DOMESTIC SUPPORT SPENDING BY THE UNITED STATES AND THE EUROPEAN UNION MEMBERS

Data provided by the US and the EU in their notifications to the Committee on Agriculture show that domestic support extended by these two members of the WTO to their agricultural sector was the highest among all members of the organisation (Tables 3 and 4).

Table 3 : Farm Subsidies Notified by the United States (in US $ billion)

Years	Green Box	Blue Box	Amber Box	Total Notified Subsidies
1995	46.0	7.0	7.7	60.7
2000	50.1	0.0	24.2	74.2
2005	72.3	0.0	18.9	91.2
2010	20.5	0.0	11.0	131.5
2011	125.1	0.0	14.4	139.5
2012	127.4	0.0	12.1	139.6
2013	133.3	0.0	14.3	147.6
2014	124.5	0.0	13.6	138.1
2015	121.5	0.0	17.2	138.7
2016	119.5	0.0	16.0	135.5
2017	118.2	0.0	12.9	131.1

Source: Compiled from the Notifications submitted by the US in the WTO Committee on Agriculture

Table 4 : Farm Subsidies Notified by the European Union (in billion Euros)

Years	Green Box	Blue Box	Amber Box	Total Notified Subsidies
1995/96	18.8	20.8	50.6	90.3
1999/00	19.9	19.8	47.9	87.7
2004/05	24.4	27.2	31.2	82.8
2009/10	63.8	5.3	10.2	79.3
2010/11	68.1	3.1	7.9	79.1
2011/12	71.0	3.0	7.9	81.8
2012/13	71.1	2.8	7.7	81.6
2013/14	68.7	2.7	6.8	78.2
2015/16	60.8	4.3	9.5	74.6
2016/17	61.7	4.6	9.4	75.5
2017/18	65.8	4.8	9.0	79.6

Source: Compiled from the Notifications submitted by the EU in the WTO Committee on Agriculture

The US has been the largest provider of domestic support among all WTO members. In 2017, the latest year for which data is available, domestic support spending of the US had exceeded $ 131 billion. Although its farm subsidies have been declining consistently since they peaked at $147 billionin 2013, the level of support provided in 2017 was twice more than the level of subsidies in 1995. On the other hand, the EU had reduced its agricultural subsidies until 2009-10, but since then its subsidies have remained almost stagnant. This shows that the EU was able to rein in its subsidies. Yet another evidence of this phenomenon is that while the EU had a membership of 15 in 1995, its membership had increased to 28 in 2017-18.

The difference in the overall trends in providing domestic support notwithstanding, the allocation of subsidies of the US increased from about 67 per cent in 1999 to over 90 per cent in 2010. In case of the EU, the share of the “Green Box” measures in domestic support went up nearly to 83 per cent in 2017-18 from less than 21 per cent in 1995. Almost one-half of the EU’s Green Box spending in 2015-16 was on de-coupled

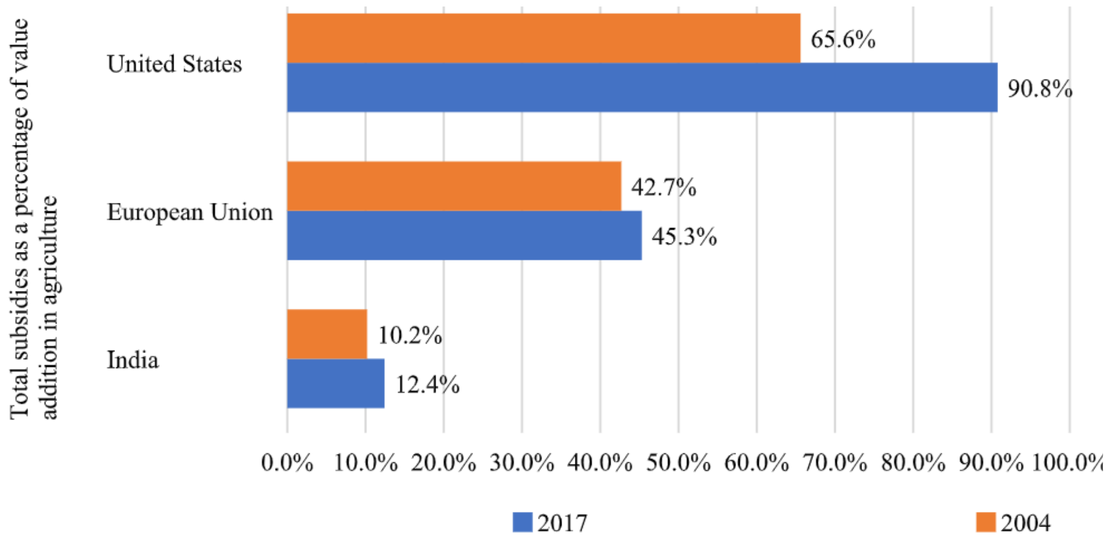
income support, or direct income support. In contrast, the US focused more on its domestic food aid programmes, which have created assured domestic markets for its farm producers.[10] The EU and the US had thus shifted their farm subsidies away from the Amber Box (through what is called box shifting), the spending on which was limited by the AoA.[11]

One of the notable implications of this shift was that the EU and the US enjoy considerable flexibility in their use of domestic support measures since a high proportion of their subsidies need not be reduced or capped. In other words, these members of the WTO were engaged in "Box-shifting", thus making the domestic support discipline almost irrelevant.This benefited their agri-business interests, especially in the international markets where these interests have developed large stakes. Yet another feature of the subsidies granted by these two heavy subsidisers is that the focus of their subsidies has been on products in which they have large export markets. This issue will be discussed in the concluding section.

(C) SIGNIFICANCE OF FARM SUBSIDIES FOR INDIA, THE US AND THE EU

The domestic support provided by the US and the EU, as depicted in the figure below, plays a significant role in driving the agricultural economies in these two WTO members. We had mentioned earlier that the long-term objective of the AoA was to effect "substantial progressive reductions in agricultural support". However, well after two decades after the disciplines were introduced, the US had substantially increased the subsidies in relation to agricultural value addition, while the EU members had maintained their level of agricultural support at fairly high levels. India stands in sharp contrast to these high subsidisers, despite providing support to large numbers of low income and resource poor farmers.

Figure 1 : Significance of Farm Subsidies across Countries



Sources: (i) Subsidies figures from the notifications submitted in the WTO; (ii) Value addition in agriculture for the United States and the European Union members from FAOSTAT; (iii) Value addition for India from the National Statistics Office.

The manner in which the high levels of subsidies benefited these two high subsidisers is briefly explained by comparing the economic costs and the farm gate prices of select crops produced in the US. Figures 1-3 in the annexure capture the trends in cost of production and prices for three critical exports for the US, namely wheat, corn, and cotton during a 30-year period, namely 1990-2019. In all three products, a clearly discernible trend for most years is that their farm gate prices were substantially below the economic costs of production and were also below the international prices. Thus, for fairly long periods, US producers were able to sustain by selling their produce below costs, even if it meant incurring significant amounts of losses.

The remarkable feature of the cost-price trends shown in the figures is that the farm gate prices were systematically kept below the international prices of the respective products. This process of managing the costs and prices was entirely done using the high levels of subsidies. The subsidies have thus provided the US producers two sets of benefits. First, by keeping the farm gate prices (US domestic prices) below the international prices for the subsidised crops, the US producers were provided effective protection from the competitors who would be selling only at the international prices, in other words, farm subsidies acted as implicit tariffs. For instance, in 2017, the US import tariffs on wheat and maize were close to zero while tariffs on cotton were about 2 per cent. Secondly, US producers could dispose of their produce at prices lower than the international prices, thus gaining unfair advantage over competitors.

The implications of targeted use of subsidies by the US and the EU have been felt by several countries, including some of the poorest. For instance, subsidies granted by the US and the EU to cotton growers worsened the economic prospects of some of the West and Central African countries, while dumping of US corn in the international markets have been adversely affecting domestic food security of Mexico, Central America and east and southern African countries (Oxfam 2003; Hansen-Kuhn and Murphy 2017).

In case of the EU, product-specific support was at high levels for a range of products, which included sugar, butter, and wheat, ever since the AoA discipline was introduced. Domestic support for sugar registered steep increase in the middle of the last decade. In case of the former, it increased to over $ 8 billion in 2006-07 (close to twice the value of sugar produced in the EU), while that for butter was over $ 5 billion in 2005-06. However, in the more recent years, although support for both these products had declined considerably, they remained over $ 2.5 billion. In contrast, domestic support for common wheat and milk (including skimmed milk powder) had increased.

Given these tendencies displayed by the US and the EU in the grant of domestic support, it was imperative for the WTO members to develop a roadmap for reducing subsidies. The discussion below provides the outline of a possible approach towards addressing the problems arising from such subsidies.

III. FARM SUBSIDIES AND WHY WE NEED EFFECTIVE DISCIPLINES

One important aspect of the EU-US domestic support programmes has been their focus on commodities in which the two WTO members have considerable presence in the global markets. Tables 5 and 6 list the products that have received high levels of price support in the US and the EU.

Table 5: Products Receiving High Product-Specific Subsidies in the US (in US $ million)

Products	1995	2000	2005	2010	2015	2016	2017
Corn	32.1	2756.7	4490.0	15.1	2362.1	2344.8	2198.8
Sugar	1090.9	1177.5	1199.2	1267.3	1524.9	1517.3	1576.7
Soybeans	16.3	3606.4	69.2	4.5	1391.5	1207.2	1626.7
Wheat	5.0	847.2	28.9	111.9	854.9	911.5	603.8
Cotton	32.0	1049.8	1620.7	81.2	853.1	833.7	952.1
Sorghum	0.5	83.8	139.8	0.0	210.4	167.4	125.1
Rice	11.6	624.4	132.5	9.6	60.1	86.2	64.9

Table 6: Products Receiving High Product-Specific Subsidies in the EU (in million Euros)

Products	1995/96	2000/01	2004/05	2009/10	2014/15	2015/16	2016/17
Butter	4209.7	4443.5	4084.1	2723.0	2850.4	2976.6	3075.9
Common wheat	2593.1	2270.7	1842.4	1917.5	2213.7	2273.6	2119.9
Skimmed milk powder	1806.2	1507.6	1215.7	953.5	1476.4	1558.5	1549.3
Milk	N.A.	N.A.	176.2	671.9	183.3	593.9	210.4

Sources (for Tables 5 and 6): Compiled from the Notifications submitted by the EU and the US in the WTO Committee on Agriculture

As can be seen from Table 3, the EU has provided high levels of subsidies to a few important dairy products and to wheat. Until the middle of the previous decade, producers of sugar were highly subsidised. After the WTO Dispute Settlement Body found that the EU's subsidies on sugar were not consistent with its commitment under the AoA, the sugar subsidies' policy was discontinued.[12]

The US has consistently subsidised all the major cereals. The focus of US subsidies was on countercyclical measures since resource-intensive producers in the US had to be provided high levels of subsidies to remain in business when the prices of these commodities were low. In fact, the obvious rationale for providing the subsidies was to help the EU and the US to maintain their high shares in the international markets, which they had been able to ever since the WTO was established in 1995 (Tables 7 and 8).

Table 7 : The EU's Share in Global Exports of its Highly Subsidised Products (%)

Products	1995	2000	2005	2010	2016
Butter	64.1	55.3	61.9	58.3	57.4
Common wheat	31.7	27.8	27.6	35.0	36.0
Skimmed milk powder	76.5	69.9	63.1	62.4	56.4
Milk	94.2	93.0	90.4	90.6	85.8

Table 8 : The US Share in Global Exports of its Highly Subsidised Products (%)

Products	1995	2000	2005	2010	2016
Corn	77.0	58.2	50.1	46.8	38.0
Soybeans	71.5	57.4	39.2	43.5	42.8
Wheat	31.9	23.7	22.6	19.0	13.1
Cotton	35.1	26.8	38.6	38.2	36.4
Sorghum	83.6	77.4	85.2	61.4	79.2

Sources (for Tables 7 and 8): Compiled from the Notifications submitted by the EU and the US in the WTO Committee on Agriculture

The EU and the US maintained relatively high shares in the global exports of the commodities in which they reported significant levels of product-specific support. However, in most products listed in the above tables, both these WTO members lost their export shares, with the US registering steep declines in its shares in soybeans and wheat, in case of the former due to the rise of Brazil, and in the latter, due to the Russian Federation. Competition faced by the EU and the US in their export markets has become the *raison d'etre* for their reliance on product-specific subsidies.

Tables 7 and 8 indicate that the agricultural sectors in the EU and the US are driven by their interests in trade. In most of the major commodities, and especially in case of the cereals, the EU and the US have high export dependency ratios. These figures become even starker when compared with the corresponding figures from the two largest developing countries, namely, China and India. The following tables list the exports to production ratios for the three main cereals.

Table 9 : Ratio of Exports to Production in Rice (%)

Years	EU	India	US	China
1995	4.9	4.3	38.6	0.0
2000	57.4	1.2	31.0	1.6
2005	60.3	3.0	37.5	0.4
2010	61.3	1.5	34.0	0.3
2016	65.9	6.0	32.6	0.2

Table 10 : Ratio of Exports to Production in Wheat (%)

Years	EU	India	US	China
1995	26.9	1.0	54.6	0.0
2000	24.4	1.1	45.9	0.0
2005	24.4	1.1	47.5	0.3
2010	37.1	0.0	46.0	0.0
2016	45.7	0.2	38.3	0.0

Table 11 : Ratio of Exports to Production in Maize (%)

Years	EU	India	US	China
1995	17.1	0.2	32.0	0.1
2000	20.1	0.3	19.0	9.9
2005	19.4	2.9	16.1	6. 2
2010	26.6	10.6	16.1	0.1
2016	27.1	1.9	14.6	0.0

Sources(for Tables 9-11): Author's calculation based on data from FAOSTAT

The above tables clearly indicate that cereal production in large developing countries like India and China overwhelmingly meets their domestic demand, a complete contrast to the situation in industrialised countries. It must be noted that China and India are

among the largest producers of rice and also produce substantial amounts of wheat, but their exports of these commodities form relatively small shares of the total production. It is clear that while developed countries subsidise their agricultural sector for exploiting global markets, large developing countries use agricultural subsidies essentially to ensure domestic food security and to promote rural livelihoods.

Importantly, the AoA recognises in its preamble that the reform of agricultural policies initiated by the Agreement "should be made in an equitable way among all Members, having regard to non-trade concerns, including food security …",[13] but the rules and disciplines introduced by the Agreement do not, in any manner, operationalise the "non-trade concerns." Further, the agenda for "continuation of the reform process" under AoA spelt out in Article 20 of the Agreement stated that the negotiations should take into account "non- trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural trading system …"

The Doha Ministerial Declaration, the first and the most expansive articulation by WTO members to reform the WTO, recognised the special character of agriculture in developing countries. The Ministers agreed "that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development." (WTO 2001: paragraph 13)

After the failed Cancun Ministerial Conference in 2003 derailed the Doha Development Agenda, WTO members put the process back on track through the so-called "August 1 Decision", which yet again emphasised the need to adopt appropriate agricultural policies for the developing countries: "Agriculture is of critical importance to the economic development of developing country Members and they must be able to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns." (WTO 2004: A-1)

The Doha Round negotiations had considered proposals to amend AoA rules in an effort to make them respond to the needs of food security and rural development in developing countries. Two sets of proposals that made much progress in the negotiations were in the area of market access, namely, the proposal for designating "special products" and the "special safeguard mechanism".[14] Thus, while the need to protect developing country farmers from the uncertainties of the global marketplace was discussed, the fact that these farmers in developing countries needed adequate support from their governments to meet their non-trade concerns like food security and livelihoods did not find much attention.[15]

It follows from the above discussion that there is a strong case to differentiate between agricultural subsidies provided by WTO members on the basis of whether production systems in the countries are geared towards furthering commercial/trade interests or meeting domestic food security. At present, the subsidies' disciplines of the AoA do not consider either the impact of domestic support measures on agricultural markets, or the categories of the producers benefiting from the subsidies, namely, small-scale producers or agri-business. Developing countries, therefore, need to initiate steps to amend the principles on which the AoA has laid down the subsidies' disciplines, and to also ensure that subsidies contribute to the realisation of the twin objectives of food security and rural livelihoods in developing countries. Real reforms in the agricultural subsidies can only occur if the AoA is able to prevent the agri-business to continue its expansion using support from their home governments.

END NOTES

1 See also Trebilcock and Howse,1999: 322.

2 Article II of the GATT required Contracting Parties to make binding commitments in respect of import duties they would impose, while Article XI prohibited the use of quantitative restrictions on imports.

3 The amendment read as follows: "No trade agreement or other international agreement heretofore or hereinafter entered into by the United States shall be applied in a manner inconsistent with the requirements of Section 22." (P.L. 82-50, June 16, 1951)

4 Preamble to the WTO Agreement on Agriculture.

5 Article XVI of the GATT took cognisance of "any subsidy, including any form of income or price support, which operates directly or indirectly to increase exports of any product from, or to reduce imports of any product into, its territory", in addition to those that were used for exports. The AoA introduced binding disciplines on the use of these subsidies.

6 Subsidies granted is calculated by deducting the MSP for a commodity from its average of international prices during the period 1986-88, and then multiplying it with the amount that the government has promised to procure (eligible quantity). This measure has an obvious flaw in that the international price prevailing more than three decades back is the basis for calculating subsidies.

7 As provided in the government budgets.

8 The "Blue Box" support measures were expected to encourage producers to limit their production and avoid creating conditions of glut in the market for agricultural commodities. Producers are thus paid for producing 15 per cent or less than they had done in a pre-determined year.

9 This condition was included in paragraph 4 of Annex 2 of AoA (WTO 2002).

10 For details, see Dhar and Kishore. 2016.

11 Article 6.4 of the AoA imposes limits on the "Amber Box" subsidies, which are 5 per cent of their value of production for developed countries and 10 per cent for developing countries.

12 Brazil was the complainant in the dispute that was initiated in 2002 (WTO 2002b). Subsequently, 24 other countries, including Australia, Canada, China and the United States, joined as third parties. For a summary of the dispute, see WTO 2005.

13 Agreement on Agriculture, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A.

14 Both these proposals were supported by the G-33, a group of 47 developing countries.

15 Some countries proposed that "Development Box" was required to address the developing country concerns. See WTO 2000a.

ANNEXURE

FIGURE 1
COST-PRICE COMPARISONS: US Wheat

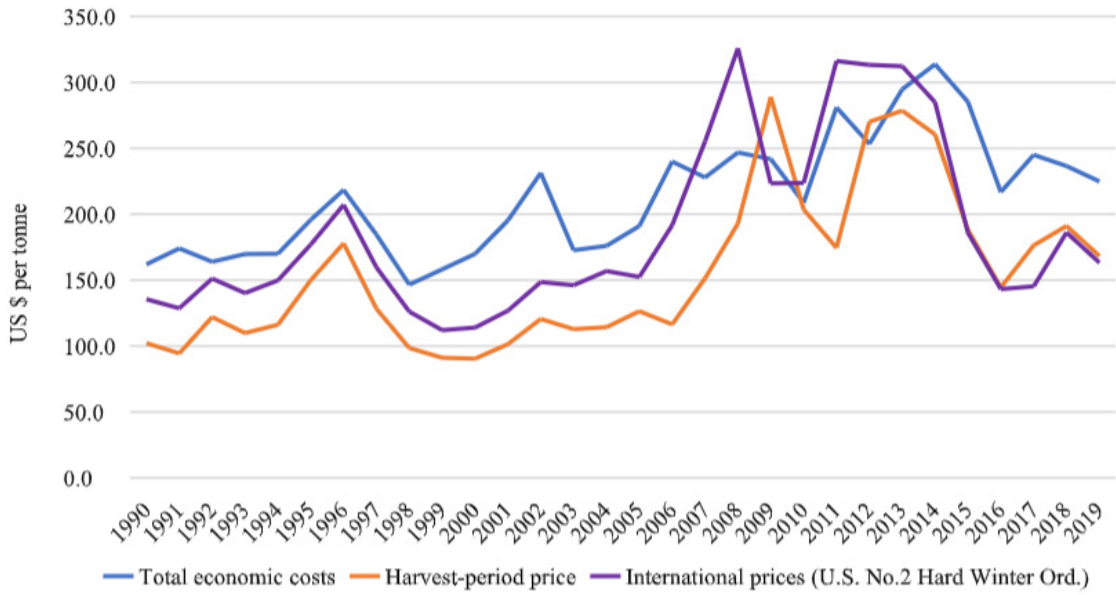


FIGURE 2
COST-PRICE COMPARISONS: US Corn

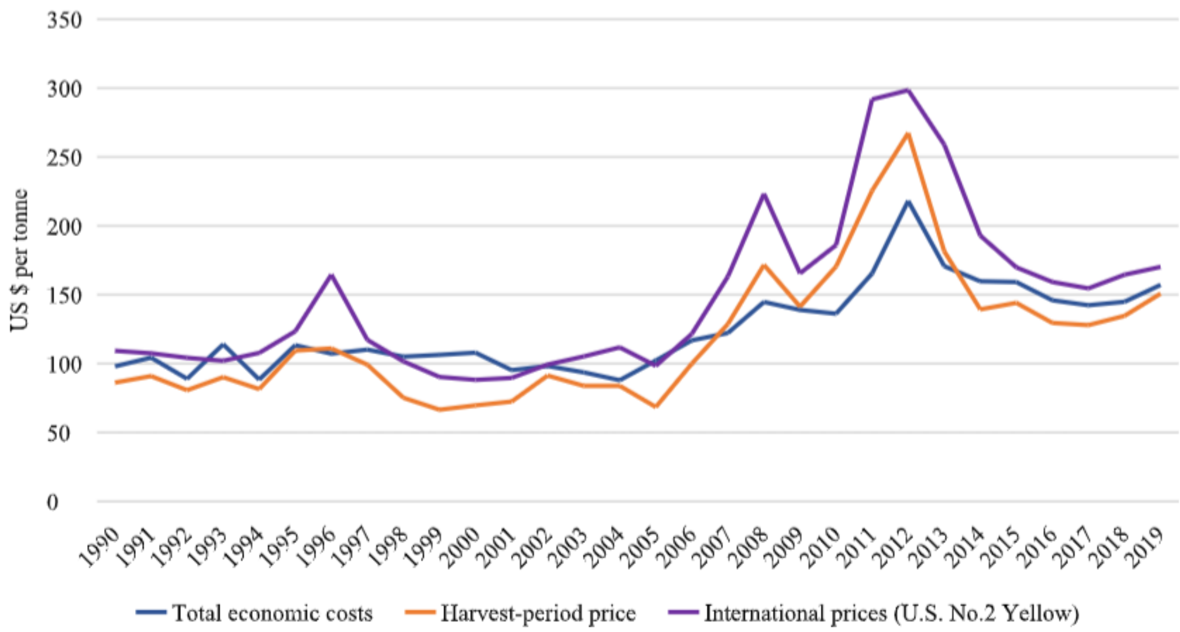
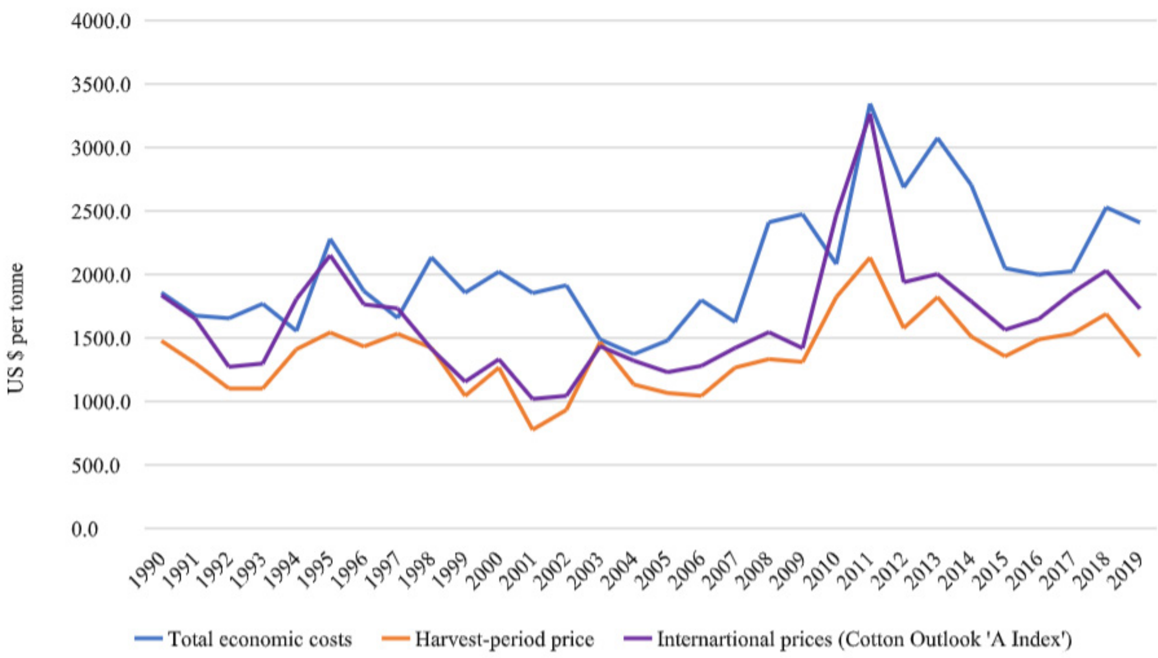


FIGURE 3
COST-PRICE COMPARISONS: US Cotton



Sources for Annex Charts: Total economic costs and Harvest period prices: Commodity Costs and Returns, United States Department of Agriculture; (ii) International prices: IMF Commodity Data Portal.

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Focus on the Global South is an Asia-based regional think tank that conducts research and policy analysis on the political economy of trade and development, democracy and people's alternatives. It works in national, regional and international coalitions with peoples' movements and civil society organisations and has offices in New Delhi, Manila, Phnom Penh and Bangkok

ROSA LUXEMBURG STIFTUNG (RLS)

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The global trade system established in 1948 by the General Agreement on Tariffs and Trade (GATT), the predecessor organization of the WTO, intentionally excluded agriculture from its jurisdiction. The exception, requested by the US, allowed member states to maintain support and protection policies for domestic agriculture.

However, by 1986, at the Uruguay Round negotiations, the GATT decided to change course and establish a market-oriented agricultural trading system, resulting in the 1995 adoption of the Agreement on Agriculture (AoA), which imposes disciplines on domestic agricultural subsidies.

This paper explores the AoA's impact on the farming sectors of the US and the EU—the world's largest providers of farm subsidies—as well as India. Whereas the US and EU have successfully maneuvered around the AoA's disciplines in order to subsidise private agribusiness, the agreement constrains India's ability to provide subsidised food grains to its vulnerable population.