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From the Director's Desk

Prabir Sengupta

AN agreement among the WTO Member countries on agriculture holds the key for the successful completion of the Doha Round of multilateral trade negotiations. One of the issues on which a deal on agriculture is critically dependent is substantial reduction in domestic subsidies by the developed countries. Developing countries have pointed out that the large doses of domestic support being given by developed countries are artificially depressing global commodity prices. This phenomenon, they argue, is not only stymieing their prospects of enhanced market access, there is also a grave possibility of cheap imports threatening the livelihoods of their poor farmers. Developing countries have thus emphasized that domestic support granted by the developed countries needs to be reined in through an effective discipline.

It is somewhat ironical that developing countries should be making this demand for introducing an "effective" discipline in respect of domestic subsidies after more than a decade has elapsed since the WTO Agreement on Agriculture (AoA) was introduced for addressing the policy induced distortions like domestic support. At the end of the Uruguay Round negotiations, there were expectations that reduction of subsidies (and hence market distortions) would provide help developing country farmers translate their inherent competitive strength into significant income gains from the global market place. These expectations did not reach fruition largely because of two factors: *one*, domestic support discipline of the AoA provided flexibilities to the developed countries to continue giving large doses of subsidies, and *two*, implementation of their commitments by the developed countries left much to be desired.

In the initial years of the Doha Round not much progress on issues relating to domestic support was possible because of wide differences between the developed and the developing countries. The agreement reached between the WTO Members on August 1, 2004 to put the negotiations back on track after the failed Cancun Ministerial Conference represented a serious effort to address the piquant issue of domestic support. This agreement was significant for it sought to strengthen the discipline on domestic support by not only asking for substantial reductions in the so-called trade distorting support (or the AMS), but also by including the "Blue Box" measures that were hitherto outside the AoA discipline.

The Hong Kong Ministerial Conference saw further progress: a working hypothesis was adopted for effecting overall cut in trade distorting domestic support, with higher linear cuts in higher levels of support. WTO Members would now have to expend their negotiating capital for ensuring that the relevant thresholds for the reductions in domestic support are agreed sooner than later.

DOMESTIC SUBSIDIES

Current State of Play and Implications

Biswajit Dhar*

Domestic subsidies by far remain the most trade distorting measure in agricultural trade. The asymmetry arising between developed and developing countries' farm sector is causing serious harm to the growth of free and fair trade as espoused by the WTO. Negotiations on agriculture are currently in progress to discipline the distortions taking place due to domestic subsidies. One of the significant breakthroughs to resolve this deadlock came in the form of July Framework. A working hypothesis is in sight. The paper makes an attempt to highlight the issues involved in the agricultural negotiations, current state of play and its implications.

ONE of the major expectations of the Uruguay Round of Negotiations was that effective disciplines on the functioning of agricultural markets would be put in place through the Agreement on Agriculture (AoA). It was long recognized that lack of any multilaterally agreed rules had resulted in market distortions caused essentially by high levels of protection and subsidies. The latter form of distortion was almost the exclusive preserve of the OECD countries, which could provide the necessary budgetary support for supporting their farming populations. The bulk of the subsidies were in the form of domestic support (or the production related subsidies), which was around US$250 billion for the OECD countries taken together when the Uruguay Round of Negotiations commenced in 1986. Reduction of domestic support was, therefore, a key issue in the disciplining of agricultural markets.

However, the disciplines that were introduced through the AoA can at best be termed as minimalist. The disagreements between the two largest users of domestic support, viz. the US and the EU, which had delayed the conclusion of the Uruguay Round of Negotiations, were ironed out though a bilateral accord, the "Blair House" accord. In 1992, this accord allowed the two major players in the markets for agricultural commodities to seek their levels of comfort while agreeing to "discipline" the markets.

The AoA discipline on domestic support identified three forms of domestic support depending on the nature of the distortions that they caused in the market place. WTO members were expected to rein in subsidies that were seen to be directly affecting prices and production decisions. Two main forms of subsidies of this genre are price support and input subsidies. In the AoA, these subsidies were included in the "Amber Box". But developed countries were not expected to reduce their "Amber Box" subsidies if the spending was less than 5 per cent of the value of production (referred to as "*de minimis*" spending). Besides the exemption from the reduction commitments, *de minimis* spending was excluded from the discipline that the AoA had imposed on "Amber Box" subsidies. The part of "Amber Box" support included in the AoA discipline was covered by the concept of Aggregate Measure of Support (AMS).

However, for subsidies that did not directly influence the markets, including the direct income support (or the so-called "de-coupled" income support), no

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disciplines were introduced. This implied that WTO Members did not have to undertake any reductions in respect of these subsidies, which were included in the "Blue" and the "Green" Boxes. The large subsidy granting countries had thus given themselves considerable latitude in the granting of agricultural subsidies, a fact that become more apparent during the implementation of their Uruguay Round commitments.

Another level of comfort that the developed countries gave themselves in respect of the subsidies discipline provided by the AoA was in the form of the "peace clause". Included in Article 13 of the Agreement, the provisions of this clause gave these countries immunity from any action against the grant of the subsidies by their trading partners until the end of 2003. Under the WTO, anti-subsidy action can be initiated either by using the countervailing measures provided in the Agreement on Subsidies and Countervailing Measures (ASCM) or by taking recourse to the Dispute Settlement Mechanism (DSM).

Implementation Problems with the Domestic Support Discipline

Discussion on the implementation of the disciplines on domestic support provided by the AoA have alluded to the considerable advantages that the large subsidy granting countries, particularly the US and the EU have enjoyed given the structure of the subsidies discipline. This advantage was available to the countries on two counts. *One,* the characterization of domestic support as "trade distorting" and "non-trade distorting" provided the flexibility to these countries to restructure their subsidies regime in a manner that most of the spending fell outside the "discipline" introduced by the AoA. In other words, they were not required to reduce spending on the measures that were outside the AoA "discipline". The *second* advantage that the large subsidy granting countries had was that they could target their use of subsidies in a manner which suited their export interests. Large doses of domestic support were used to lower their commodity prices to artificially low levels, and this helped the countries to find export markets quite easily. The following discussion elaborates on the above-mentioned implementation problems.

Over the past couple of decades, some of the WTO members, particularly the US and the EC (presently EU), have tried to restructure their domestic subsidies in such a manner that the conventional forms of support, in the form of price support and input subsidization, are increasingly being replaced by direct compensation to farmers.

Restructuring of domestic support has, in fact, been a key feature of the implementation of the commitments that these countries have made in the AoA. This has become evident from the manner in which a number of countries have extended this form of support to their domestic agricultural sector.

The implementation of the discipline on domestic support has to be seen largely from the perspective of the US and the EC, two of the larger players in the market for agricultural commodities. The subsidies granted by these members of the WTO were the focus of the agricultural discipline not only since the Organization was established in 1995, but also during the Uruguay Round of Negotiations.

The analysis presented below is based on data obtained from

FIGURE 1

COMPONENTS OF US DOMESTIC SUPPORT (1995-2001)

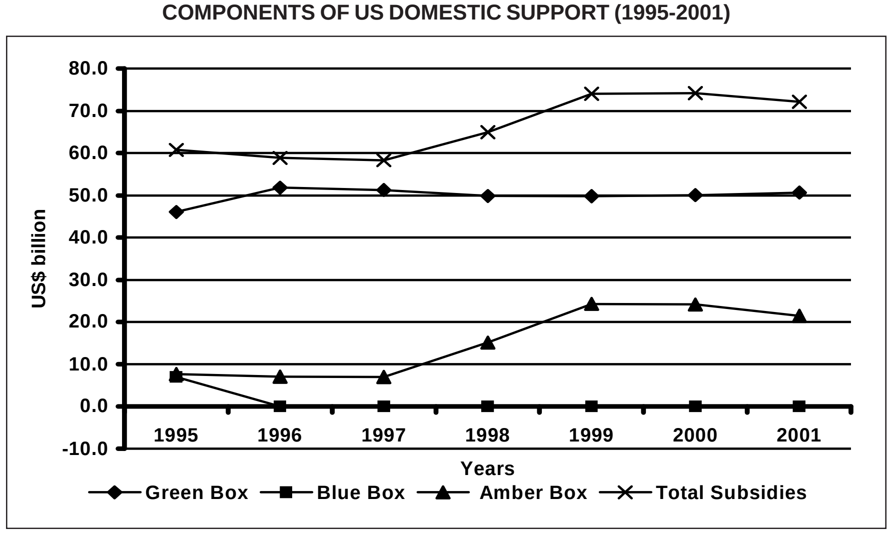
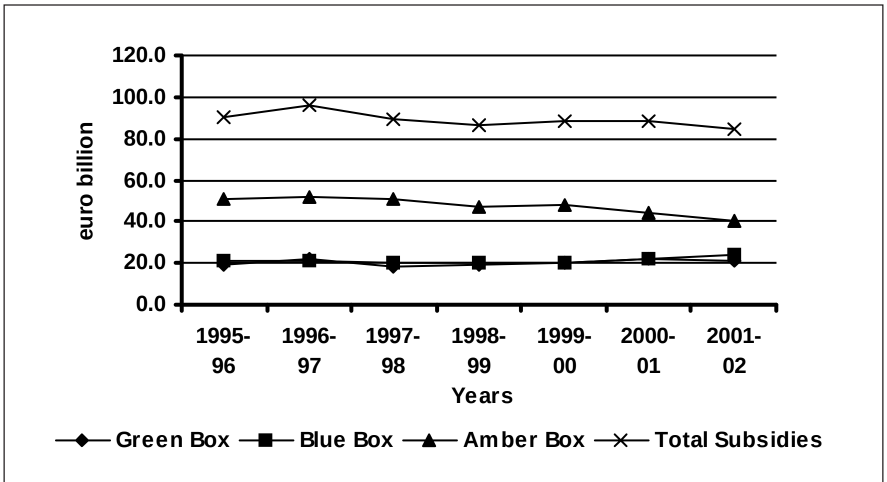


FIGURE 2

COMPONENTS OF EC DOMESTIC SUPPORT (1995-96–2001-02)



the notifications on domestic support to the WTO Committee on Agriculture (Annex Tables 1-3).

The data provided by the US and the EC in their notifications to the Committee on Agriculture shows that domestic support extended by these two members of the WTO to their agricultural sector remained the highest among all the WTO members between the period 1995 and 2000-2001. In 2000-2001, for instance, the EC provided domestic support, which was close to US$79 billion, and in case of the United States the figure was more than US$72 billion in 2001. But while the former had decreased their domestic support by more than 30 per cent in dollar terms in five years,[1] the latter had increased this form of subsidies by almost 20 per cent.

Besides the difference in the overall trends as stated above, the allocation of subsidies of the US and the EC was also at variance. Figures 1 and 2 indicate the differences. The United States had increased its spending on the subsidies exempt from reduction commitments, viz. "Green Box" measures, quite considerably during the first two years of implementation, and as a result, "Green Box" spending accounted for around 88 per cent of its domestic support. In the subsequent years, however, the share of "Green Box" spending came down to about 70 per cent of the total domestic support. In case of the EC, the share of "exempt" subsidies, i.e. "Green" and "Blue" Boxes put together, went up from nearly 44 per cent in 1995 to more than 50 per cent in 2001. This, in other words, implies that both the US and the EC had considerable flexibility in their use of production related subsidies in the WTO because of the high proportion of the subsidies that are not subjected to reduction commitments.

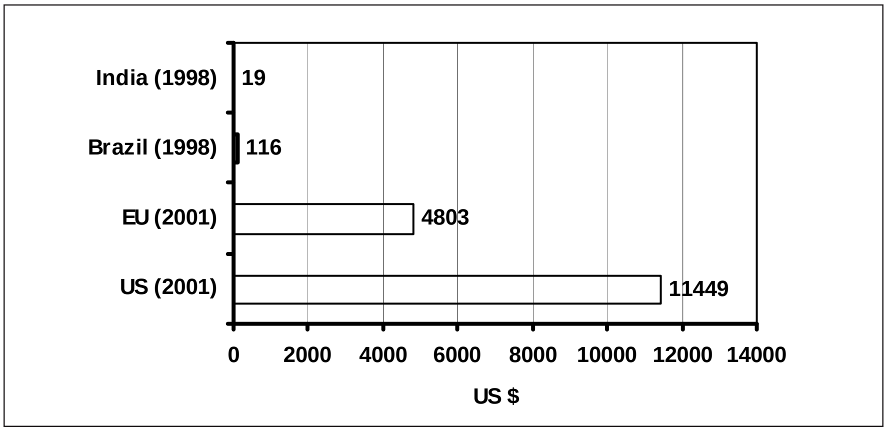
The large volumes of domestic support granted by the US and the EC have two interesting dimensions. The *first* one is the extremely high levels of subsidies that farmers in these countries enjoy *vis-a-vis* as compared to their counterparts in the developing countries. The *second* is the fact that these countries have exercised considerable flexibility in the granting of subsidies, with a view to enhancing their market dominance.

Figure 3 indicates the levels of domestic support granted by the US and the EC in relation to their respective farm populations and compares them with select developing countries. The large differences in the levels of per capita domestic support between the US/EC and the two developing countries appearing in the figure are ample evidence of the benefits that the farmers in the former set of countries enjoy because of the domestic support regimes that are in place.

With the provision of flexibility that the countries are doling out large volumes of subsidies under the AoA appears in the most striking manner in case of product specific support. These countries benefited in two ways. *First*, they were allowed to include product specific support in the Aggregate Measure of Support (AMS) in aggregate terms, and *Secondly*, they could exclude product specific support that was below the *de minimis* level[2] from the AMS. The implication of the latter is that the US could exclude more than US$7 billion of trade distorting support from its total AMS between 1999 and 2001 (the corresponding figure for the EC was between euro 1-2 billion). In the year 2001, the de minimis spending was as much as 32 per cent of the Amber Box subsidies that the country had provided (Annex Table 4).

FIGURE 3

AGRICULTURAL SUBSIDIES/AGRICULTURAL POPULATION



Note: Domestic support figures for the countries pertain to the following years: 1997-98 for Brazil and India; 1999 for the US and 1999-2000 for the EC.

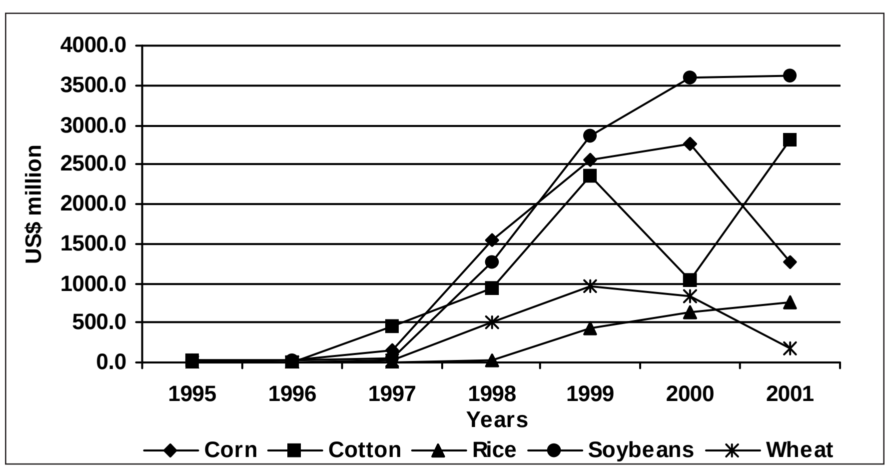
This flexibility was used to good effect by the US to heavily subsidize products in which they had substantial export interests. Producers of four commodities in which the country has the largest share in the total exports, viz. corn, cotton, soybeans and wheat, benefited from very large increases in domestic support after 1997. This was particularly evident in corn and soybeans, commodities in which the share of US in the total global exports exceeded 50 per cent in the late 1990s; the increases in domestic support between 1995 and 2000 were nearly 8500 per cent and 22000 per cent respectively.[3] Support for soybeans continued to increase in the following year, while that for corn declined by over 50 per cent.

The largest proportionate increase in domestic support during the second half of the 1990s was witnessed in case of wheat, a commodity in which the US is the second largest producer having a 25 per cent share of global trade. Support for wheat increased from just less than US$5 million in 1995 to nearly US$974 million in 1999. Subsequently, however, support for wheat was reduced to below US$200 million.

In case of cotton, on the other hand, the product specific support increased from just over US$32 million to 2.8 billion in 2001. Besides the commodities mentioned above, product specific support granted to rice, a commodity in which US has started to emerge as a leading exporter, went up from US$11.6 million in 1995 to US$763 million in 2001.

FIGURE 4

US: PRODUCT SPECIFIC SUPPORT FOR SELECT COMMODITIES



In case of the EC, the product specific support was at high levels for a range of products, which included beef, sugar, butter and wheat, ever since the AoA discipline was introduced. In all these products, however, product specific support declined in terms of US dollar between 1995 and 1999.[4] Beef received product specific support of US$10 billion in 2000-2001, and this high level of support was recorded after the level of support extended in 1995 was reduced by almost 44 per cent. However, in terms of Euros support for beef declined by less than 20 per cent. Sugar, which was the largest recipient of product specific support after beef, also saw a decline in the level of support, although the level of reduction was much less in proportionate terms as compared to beef. Support for dairy products showed mixed tendencies, with butter registering an increase of more than 5 per cent in terms of Euros, while for skimmed milk powder a decrease of almost 17 per cent was registered.

The EC increased domestic support for common wheat by euro 500 million, the largest increase for any single crop in absolute terms, between 1995-96 and 1998-99. This works out to an increase of 20 per cent since this WTO member started meeting its commitments under the AoA. Domestic support extended to maize increased by nearly 28 per cent during 1995-96 — 1999-2000 in terms of Euros. In both the commodities referred to above, prominent members of the Community, including France and Germany, have large trading interests. However, during 2000-2001, the levels of support for both these commodities were reduced.

The above discussion indicates that the two dominant players in the global market for agricultural commodities were targeting subsidies in a manner that provided them with additional advantage during a phase when markets have been opening up in many countries. Product specific support in several countries had increased substantially, which increased the level of distortions in their markets.

These issues began to be highlighted in the review of the AoA, which began in the year 2000. These negotiations were initiated in keeping with the provisions of Article 20 of the AoA which emphasized that the "long-term objective of *substantial progressive reductions in support* and protection resulting in fundamental reform [of agricultural markets] is an ongoing process" (emphasis added). The objectives set forth for the negotiations were therefore aimed at removing all forms of distortions in the markets for agricultural commodities.

The above-mentioned objectives were, however, somewhat diluted in the Doha Ministerial Declaration, which pitch-forked the agricultural negotiations into the comprehensive new round of multilateral trade negotiations. In respect of domestic support, the Declaration called for "substantial reductions in *trade-distorting domestic support*" (emphasis added). This implies that from the very outset, the current round of negotiations were not focused adequately on the so-called less trade-distorting and non trade-distorting forms of support that were included in the "Green" and the "Blue" Boxes. The following discussion tries to provide a snapshot of the agriculture negotiations in the Doha Round.

Disciplining Domestic Support: The State of Play

The proposed discipline on domestic support remains one of the most contentious issues in the agricultural negotiations. The intransigence of the US and the EU on the issue of subsidy reduction has almost blocked the progress on the negotiations. Several attempts have been made to find a negotiated solution, but these have proved elusive thus far. The discussion below recounts some of these attempts.

One of the more significant attempts to break the deadlock in the Doha Round negotiations came in the form of the Decision adopted by the WTO General Council on 1 August 2004 (better known as the "July Framework"). The July Framework was significant for it sought to strengthen the discipline on domestic support by not only substantial reduction in the AMS, but it also tried to extend the discipline to cover the "Blue Box" measures that were hitherto left outside the AoA discipline. In fact the July framework opened the door for discussions on the reductions in all forms of domestic support, and in a spirit that was underlined in the long term objectives of the AoA, as stated above.

In respect of the overall subsidies by the developed countries, there is a working hypothesis, which proposes three bands for effecting cuts as indicated in the table below:

Bands	*Thresholds (US$ bn)*	*Cuts*
1	0-10	31%-70%
2	10-60	53%-75%
3	> 60	70%-80%

While the EU would be in the top band, the US and Japan would be in the second band and all other developing countries would be in the third band.

A similar approach has been proposed for reducing trade distorting subsidies or the AMS. Three bands have been proposed as indicated in the table below:

Bands	*Thresholds (US$ bn)*	*Cuts*
1	0-12/15	37-60%
2	12/15-25	60-70%
3	>25	70-83%

It must be mentioned here that the thresholds relate to the bound levels of AMS and not the applied levels. In case of both the US and the EU, their bound levels of AMS, which denote their permissible levels of granting AMS, were significantly higher than their applied levels. For instance, the total bound AMS for the US was US $ 19 billion in 2001 while the applied levels, or the actual level of AMS, was US$14 billion, while the corresponding figures for the EU were • 67 billion and • 39 billion respectively. This implies that the two major subsidy granting countries would not be affected as much as the figures in the above table would suggest.

As regards the "Blue Box", there is a proposal to cap spending at 2.5 per cent of the value of agricultural production. While this proposal seems to be a step in the right direction, it needs to be emphasized that the proposed cap on the "Blue Box" could be used by the US to increase its total subsidies. The US has not provided any "Blue Box" support after 1995, and the proposed 2.5 per cent cap on this form of support could provide an opportunity to increase farm support by over US$6 billion. Furthermore, the EC, which has been the largest provider of "Blue Box" support, this form of support has been much less than 10 per cent of its value of agricultural production in the past few years. In other words, the adjustment that the EC would have to make while complying with the capping of the "Blue Box", if this proposal is finally accepted, would not be much.

It is imperative that the proposed discipline takes measures for disciplining product specific support, which, as mentioned in the foregoing, has influenced the markets for specific commodities. Several developing countries, including the influential G-20, had proposed that product specific support be capped.

Concluding Remarks

Evolving an effective discipline on domestic support was seen as a key element in the current round of agriculture negotiations. The criticality of this issue increased more since the AoA, which was expected to be the first definitive step towards an eventual elimination of all forms of agricultural subsidies, was nothing more than a document full of good intentions. As a result, the large subsidy granting countries, the US and the EU in particular, were able to continue providing high doses of subsidies to their farming sectors. This has perpetuated the uncertainties in the markets for agricultural commodities and has left the farming populations in many developing countries in a position far worse than they have ever been. The African cotton producers have been the worst hit as they have found their export markets being appropriated by the subsidized products from these two major players in the global agricultural market.

Although the negotiations for introducing new disciplines in the area of agriculture have been in progress for more than seven years, there are considerable differences between the developing countries who are seeking far reaching reforms and the developed countries – the status quoists. An early resolution of the differences does not seem to be in sight and it would require more than the collective negotiating skills of the newly organized developing countries to turn the tide.

NOTES

[1] The decrease was steeper in dollar terms because of depreciation of the Euro. In terms of the Euro, the European Communities reduced their domestic support by a mere 3 per cent between 1995 and 1999.

[2] Article 6 of the AoA provides that WTO Member shall not be required to include in the calculation of its Current Total AMS and shall not be required to reduce product- and non-product specific domestic support which does not exceed 5 per cent of that Member's total value of production of a basic agricultural product during the relevant year.

[3] In terms of US dollar, the increase in product specific support for corn was from US$32 million in 1995 to US$2.8 billion in 2000, while in case of soybeans the corresponding figures were US$16 million and US$3.6 billion in 2001.

[4] In two of these products, viz. wheat and butter, the product specific support went up in terms of the Euro.

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Agricultural Subsidies: Facts and Figures

AGRICULTURE is the main means of livelihood in developing countries. Hence, one would expect that developing countries heavily subsidize agriculture, to promote farmers' interests and protect them from competition from developed countries that can produce at a lower cost, using modern technologies and more efficient means of cultivation.

However, as in many other aspects of world economics, the reality is quite different.

It is the world's richest and most developed countries that subsidize agriculture the most. In fact, the worst offenders are the 30 member countries of the Organization for Economic Cooperation and Development (OECD), an international organization of those developed countries that accept the principles of representative democracy and a free market economy!

The amount of agriculture subsidy totally provided every year by OECD countries like Australia, Canada, European Union countries and the USA, is estimated to be between $280 billion (World Bank estimates) and $300 billion (Oxfam estimates). This amount is roughly six times the total development aid provided by these countries. US subsidies to its cotton-growers alone are three times its foreign aid to Africa!

Apart from displaying hypocrisy about commitments to development of the world's poor, the rich countries' agricultural subsidies severely distort world trade.

High subsidies in developed countries protect the market in these countries from producers in other countries who may produce more efficiently. This protection, which favours a small number of very large farmers and farm corporations, encourages overproduction. The excess production is then "dumped" on the world market. The cheap subsidized products drive down world prices and badly affect the chances of developing countries earning from export of agricultural commodities and products.

Sugar is a good example. The European Union (EU) heavily subsidizes sugar. Fattened by subsidies, European farmers produce sugar in volumes far exceeding those justified by costs of production. In fact, the cost of production of sugar in the EU is among the highest in the world. But, thanks to subsidies, the EU is the world's second largest sugar exporter. Accounting for 18 per cent of world sugar exports, the EU has a strong influence on world prices. A World Bank study estimates that the EU sugar regime has caused world market prices to fall by 17 per cent.

The costly but under-priced EU sugar has been dumped on the international market to the detriment of producers from the developing world such as Mozambique. In Mozambique, one of the world's poorest nations, sugar is a high-potential export crop. The country is one of the world's most efficient sugar producers and the sugar sector is Mozambique's single largest source of employment, employing 23,000 workers in 2001. If more sugar mills could be successfully run, the number of jobs available could rise to 40,000.

Mozambique cannot compete in Third World markets against the subsidized European sugar. In 2001, Europe exported 770,000 tonnes of white sugar to Algeria and 150,000 tonnes to Nigeria. These countries would be natural export markets for competitive African exporters like Mozambique.

Likewise, India, which is the world's largest dairy producer, producing 84 million tonnes of milk through a cooperative network of 10 million farmers in 80,000 villages, wants to export milk products to South East Asia, the Gulf region and the southern Mediterranean region. But it faces stiff and unhealthy competition from subsidized European milk products.

Coupled with World Bank policies, high agriculture subsidies can also directly affect producers in developing countries. For example, in the mid-1990s, Jamaica had to liberalize its imports as part of World Bank adjustment policies. Consequently, subsidized European milk powder started replacing locally produced milk as the input for the Jamaican dairy industry. Most local processors use the cheaper imported powder rather than local milk.

How Much Subsidies

Agriculture subsidies are given to agricultural producers in terms of direct financial support or indirect non-financial support such as government support to agricultural research programmes.

The financial subsidies are broadly of two types:

- Domestic subsidy given for production.
- Export subsidy given for sale abroad.

Domestic Subsidy

Industrialized countries account for 88 per cent of total domestic support payments made globally to agriculture. (Table 1)

TABLE 1

THE BIGGEST PROVIDERS OF DOMESTIC SUBSIDIES (1996 FIGURES)

($ million)

Country	*WTO notification 1996*	*OECD estimates 2004*
Canada	6,769	5,521
EU	121,265	114,274
Japan	56,858	46,924
US	58,899	40,409

Source: OECD database.

Note: All figures in this and the next section of this backgrounder are from *India's Agricultural Challenges*, a 2005 Centad publication edited by Dr Ramesh Chand.

TABLE 2

COMMODITY-WISE BREAK-UP OF DOMESTIC SUPPORT (PERCENTAGE OF TOTAL SUPPORT)

Commodity	*1986-88*	*2002-04*	*2004*
Milk	15.75	20.33	14.00
Rice	9.41	11.10	9.49
Beef and veal	12.26	9.19	12.05
Wheat	6.55	7.69	6.63
Maize	4.32	5.23	5.36
Other grain	3.63	4.60	3.89
Pig meat	4.46	3.61	4.66
Sugar	2.74	2.38	2.79
Oilseed	2.77	2.22	3.23
Poultry	3.01	2.01	3.36
Sheep meat	1.75	1.93	1.76
Eggs	0.57	1.09	0.65
Wool	0.05	0.12	0.05
Other commodities	32.72	28.52	32.09
All commodities	**100.00**	**100.00**	**100.00**

Source: OECD database.

TABLE 3

COUNTRY-WISE PSE GIVEN TO WHEAT CROP AMONG OECD COUNTRIES

Country	*1986-88*	*2002-04*
Australia	0.64	0.56
Canada	8.28	2.76
Czech Republic	0.37	0.04
European Union	46.46	66.45
Hungary	-0.13	0.19
Japan	6.02	6.11
Mexico	1.06	0.91
New Zealand	0.01	0.00
Norway	0.37	0.51
Poland	0.20	1.49
Slovak Republic	0.20	-0.02
Switzerland	1.51	1.08
Turkey	3.97	4.89
United States	25.72	17.60
Total OECD	**100.00**	**100.00**

Source: OECD database.

TABLE 4

COUNTRY-WISE PSE GIVEN TO RICE CROP AMONG OECD COUNTRIES

Country	*1986-88*	*2002-04*
Australia	0.04	0.02
European Union	1.75	1.62
Japan	74.06	68.55
Mexico	0.03	0.07
United States	3.22	2.83
Total OECD	**100.00**	**100.00**

Source: *OECD database*

Developing countries, excluding South Korea and transition economies like Poland, account for just 10 per cent of domestic support payments made globally to agriculture. The major users of subsidies among developing countries are (1996 figures):

- Brazil ($3,235 m) • Thailand ($2,616 m)
- Venezuela ($1,450 m) • South Africa ($1,179 m)
- Colombia ($723 m)

Least developed countries (LDCs) have a negligible share in domestic support payments made globally to agriculture.

India provides product-specific domestic subsidies in the form of a minimum support price (MSP), classified under a Green Box measure, to maintain food security, and non-product support under agricultural input subsidies to low-income or resource-poor farmers in the S&D (special and differential) Development Programmes.

Export Subsidy

In 1995-98, WTO member countries notified export subsidies of $ 10 billion. Developed countries accounted for 90 per cent of the total. Though the level of export subsidy decreased by half in 2000, it was still very high. The EU ($2,517 m), US ($15 m), Switzerland ($188 m) and Norway ($44 m) have the highest levels of export subsidy.

Though export subsidies may have reduced, domestic support has been rising, thus nullifying the benefits of export subsidy cuts. For example, cotton in the US receives no export subsidy and the export and domestic price of its cotton is the same. However, due to high domestic support, this price is less than half the cost of production! And the US accounts for approximately half of the world's total production subsidy for cotton.

The share of developing countries in total export subsidies has been just 5 per cent. Export subsidy in India is in the form of exemption of export profit from income tax, and subsidies on the cost of freight on export shipments of certain products like fruits, vegetables, spices and floriculture products.

Who Subsidizes What?

Agricultural commodities that receive the highest subsidies in developed countries are, in most cases, those that are important to developing countries. For instance, the level of support for wheat, sugar and rice is very high in both the US and the EU.

Domestic Subsidy

Meat, dairy products, cereals and sugar account for 82 per cent of all reported domestic support subsidies (Centad 2005) that are not exempt under the WTO Agreement on Agriculture. (Table 2)

The main providers of these subsidies are the EU, Japan, Norway, Switzerland, the United States and Korea.

The highest subsidizer of ***wheat*** (Table 3) is Japan where, as a percentage of gross farm receipts, the estimated support for producers, or producer support estimate (PSE), is 86 per cent. Other high subsidizers of wheat are:

- Norway (68%) • Switzerland (59%)
- EU (46%) • US (40%)

(Figures in brackets are the PSE as a percentage of gross farm receipts).

In terms of total support given to wheat crop in OECD countries, the EU spends the maximum - to the extent of 66 per cent of total support to wheat crop - followed by the US with 17 per cent.

The highest subsidizer of ***rice*** (Table 4) is also Japan, where PSE as a percentage of gross farm receipts is 86 per cent. Other high subsidizers of rice are:

- Korea (82%) • US (50%) • EU (31%)

Sugar (Table 5) is subsidized most in Switzerland where the PSE percentage is 76. In the EU as a whole it is 48; in Japan it is 42; and in the US it is 55.

Japan, Norway and Switzerland are the highest subsidizers of ***milk*** (Table 6) , with PSE percentage of support being above 70. In the EU it is 44.

Export Subsidy

Milk products account for nearly 40 per cent of the total export subsidy provided globally every year to different commodities. In 2000, the value of export subsidies provided to milk was estimated to be $1,265 m. Other commodities and products that receive high value of export subsidies are processed

TABLE 5

COUNTRY-WISE PSE GIVEN TO SUGAR CROP AMONG OECD COUNTRIES

Country	*1986-88*	*2002-04*
Australia	1.09	1.15
Czech Republic	1.10	0.69
European Union	60.81	57.64
Hungary	0.16	0.34
Japan	11.11	9.01
Mexico	11.52	9.43
Poland	1.70	3.03
Slovak Republic	0.52	0.22
Switzerland	1.23	1.78
Turkey	1.54	8.18
United States	21.92	20.54
Total OECD	**100.00**	**100.00**

Source: OECD database.

TABLE 6

COUNTRY-WISE PSE GIVEN TO MILK & MILK PRODUCTS AMONG OECD COUNTRIES

Country	*1986-88*	*2002-04*
Australia	0.84	0.82
Canada	4.21	4.69
Czech Republic	0.66	0.69
European Union	50.20	43.00
Hungary	0.37	0.89
Japan	8.86	11.11
Mexico	1.59	2.06
New Zealand	0.15	0.04
Norway	2.01	2.65
Poland	-0.33	0.89
Slovak Republic	0.23	0.29
Switzerland	4.26	5.11
Turkey	1.02	1.86
United States	15.94	24.85
Total OECD	**100.00**	**100.00**

Source: OECD Subsidy

products ($468 m), sugar ($363 m) and beef ($353 m). (All 2000 figures.)

These subsidies are provided mainly by developed countries. Canada provides export subsidy to butter and skim milk powder. The EU provides export subsidy to wheat, wheat flour, rice, sugar, butter & butter oil, skim milk powder, and cheese. The US provides export subsidy to butter & butter oil, skim milk powder and cheese. The EU offers export subsidies at 60 per cent of the international price for whole milk powder, and 136 per cent of the international price for butter. Its annual export subsidy in dairy production is more than 1.7 billion euros.

What will Happen if All These Subsidies are Removed?

Various complex calculations have been made to estimate what would happen to world prices, and consequently to economic conditions in developing countries, if the grossly unfair agricultural subsidies were removed.

It is estimated that if the US and Europe removed their farm subsidies, the value of African food exports would *double*. According to an Oxfam study, protection of agriculture in rich countries costs the developing world 60 billion euros a year. The Economic Research Service at the US Department of Agriculture reported in 2001 that full elimination of global trade-distorting agricultural subsidies would result in an annual world welfare gain of US$56 billion.

Even the World Bank agrees. According to a Bank study, full elimination of agricultural subsidies in rich countries would increase global trade in agriculture by 17 per cent, and agriculture exports from low- and middle-income countries would rise by 24 per cent. As a result, total annual rural incomes in these countries would increase by about $60 billion, or roughly by 6 per cent.

Fountain Set, a Hong Kong-listed knitted fabric maker, analyzed that its net profit margin had dipped from 7.8 per cent a year earlier to 4.6 per cent in the company's first half ended February 2004. This was because from September to October 2003 prices had gone up to 43 per cent. Compared with the country's domestic subsidies of $3.7 billion, the subsidy on cotton exports paid by the US government was $350 million in 2004. The US average cotton price was 54.42 US cents on 16 December 2005. It climbed marginally to 55.14 cents per pound on December 20. The US Department of Agriculture claims that the average spot price of cotton has gone up 15 per cent in 2005. [http://www.fibre2fashion.com/news/fibre-news/newsdetails.aspx?news_id=10387 (visited 6 January 2006)]

An ODI Working Paper by Ian Gillson, Colin Poulton, Kelvin Balcombe and Sheila Page estimated that world cotton prices would increase by 15 per cent over the 19-year period of the simulation, as compared with 2002 levels. US cotton production, consumption and net cotton exports declined by 11, 2 and 13 per cent respectively. EU cotton production fell by about 79 per cent, and net cotton imports increased by 143.1 per cent. As world prices rose, Africa increased its cotton exports by 12.3 per cent above the baseline level.

Elimination of agriculture subsidies would also eliminate some bizarre and shameful inequities in the 21st century world. As the World Bank's chief economist Nicholas Stern noted in a lecture at the Centre for Economic Studies, Munich, in 2002, the average European cow receives $2.50 a day in government subsidies, while 75 per cent of the people in Africa live on less than $2 a day.

(*Centad e-newsletter*, April 2006)

No More Free Rides If Doha Dies, Warns US

DEVELOPING countries that export goods to the United States without paying duties could lose that trade preference if there is no world trade pact by the end of the year, a top US politician warned.

"Developing countries should know that a failure to reach an agreement in the Doha Round would further dampen enthusiasm in Congress for extending US preference programmes," Iowa Republican Charles Grassley, Chairman of the Senate Finance Committee, said in the text of a speech seen ahead of time by Reuters. "Some countries have used these programmes as an excuse for not engaging in multilateral negotiations ... this negotiating round has highlighted that some developing countries are very competitive in the international market," he said.

The United States' main trade preference programme, known as the Generalized System of Preferences, expires at the end of the year unless Congress decides to renew it. Member countries of the WTO are struggling to overcome a stand-off in the so-called Doha Round of negotiations, launched in 2001 to cut subsidies and tariffs acting as barriers to international trade, and help to lift millions out of poverty.

The United States currently offers preferential import tariffs from entirely duty-free to reduced rates to a range of countries encompassing both poor African nations and faster-growing export competitors like Brazil.

But many US farm groups worry about Brazil, which is adamant that under world trade rules it is still a developing country despite a booming agriculture sector. Exports of Brazilian soybeans and some grain are a growing competitive threat to US producers.

Mr. Grassley said competitive developing countries "don't necessarily merit preferential treatment, at least in certain sectors." His remarks echoed comments by House of Representatives Ways and Means Committee Chairman Bill Thomas of California that developing countries were not doing enough in world trade talks. Developing countries should have to meet WTO standards on food safety measures and intellectual property rights in order to get preferential treatment for their exports, he said.

Mr. Grassley urged Brazil and India to help unstick the WTO negotiations and warned Brazil not to rely on litigation. Brazil recently won a case at the WTO claiming US cotton subsidies were trade distorting and therefore illegal. "Litigation is costly and unpredictable. Litigation by one party tends to lead to litigation by others," Mr. Grassley warned.

(*The Economic Times*, 26 April 2006)

Subsistence Agriculture Not for Negotiation, Kamal Nath Tells WTO – says Talks Have Not Moved Due to Intransigence of Developed Countries

SHRI Kamal Nath, Minister of Commerce & Industry, has made it clear to the World Trade Organization (WTO) that subsistence agriculture is not for negotiation, nor would any moves that could lead to deindustrialization in developing countries be acceptable. This formed part of the Doha mandate reiterated in the July Framework and must be respected by all, he told the Director General of WTO Mr. Pascal Lamy, while transiting through

Geneva from Hannover. He expressed disappointment that the principal objective of the Doha Round of multilateral trade negotiations — viz., that development dimension should be at the core of the global trade talks – was being lost sight of and there could be no progress in the talks due to the intransigence of developed countries of crucial issues of concern to the developing world such as agricultural market access, domestic support, etc. “Commerce is for negotiations, not subsistence”, Shri Kamal Nath said while addressing a news conference in Geneva.

Reflecting a continued tough stance on key issues, Shri Kamal Nath called upon developed countries to realize that agricultural tariffs were a major instrument for protection of farmers against subsidized imports and “we cannot be expected to give up that protection”, he said. The heavy farm subsidies given by developed countries must be effectively reduced below applied levels as these were trade distorting and countries like India should not be expected to pay a price for developed countries doing something which they should not be doing in the first place. He also spoke strongly against attempts to reinvent or redefine the Doha mandate. In this context, he mentioned, a US proposal on special safeguard mechanism (SSM) in agriculture which, he said, was very retrograde and was against the very spirit of the mandate agreed upon, as it would adversely impact on the interests of developing countries.

On the issue of industrial tariffs or non-agricultural market access (NAMA), Shri Kamal Nath made it absolutely clear that India had provided market access unilaterally since the Uruguay Round – in fact, overall reduction amounted to almost 55 per cent in the last 5 years whereas developed countries like the US and the European Union (EU) had made no reduction at all since the Uruguay Round. He said, they must reduce by 55 per cent to come to parity with India in NAMA before seeking market access in developing countries. He further pointed out that developed countries had provided full protection to develop their own industries and could not now deny developing countries the same.

On Services, he said India had made revised offers in a number of sectors, but this was not matched by offers from the US or the EU.

While reiterating India’s commitment to the multilateral trading system, Shri Kamal Nath made it clear that there could be no compromise on the special & differential (S&D) treatment for developing countries like India in the ongoing negotiations.

(*PIB Release*, 25 April 2006)

EU Blames US for Doha Deadlock

MR. Peter Mandelson, Trade Commissioner for the European Union (EU), labelled the US the biggest single bloc to the faltering Doha Round of trade negotiations. In a speech in Finland, Mr. Mandelson says that World Trade Organization (WTO) member countries must make realistic demands and offers of cuts in tariffs and subsidies.

“At this point in the talks I am looking first to the US for more of this,” he will say, according to an advance copy of his speech.

While the EU has begun to reform its farm subsidy schemes, Mr. Mandelson says, “the US has yet to cut a single dollar or dime from its escalating farm spending”. The talks, which started in 2001, received another jolt when Rob Portman, US Trade Representative (USTR), was moved to the White House and succeeded by his deputy, Susan Schwab.

“The blame game seems to have started already,” said one Geneva-based diplomat. A USTR spokesperson said: “The seamless transition at USTR does not change the need for others to match the offer the US has made,” and said the onus remained on the EU to cut its high tariffs.

The EU has been targeted by the US, Brazil and other agricultural exporters who want farm tariffs lowered, with higher tariffs subject to bigger cuts. The Group of 20 developing countries has asked for average cuts of 54 per cent in farm tariffs and the US has demanded 75 per cent, but the EU has refused, saying such deep cuts are unacceptable both to the EU and to many developing countries that want to protect their farmers.

Most think it extremely unlikely. Peter Balas, deputy director-general in Mandelson’s trade department, recently told a European parliament committee that the end-April date was doomed. He added: “The real deadline is the end of July.”

If they agree the end-April deadline is impossible, ambassadors will debate whether a planned meeting of ministers in Geneva next week should be cancelled or postponed. Mr. Mandelson said a ministerial would make sense only when agreement was imminent. "We are not fixated on the dates for a meeting, but we do want a result," he said.

Talks on farm trade at the WTO have so far focused on peripheral issues such as the agricultural marketing boards used by countries like Canada and Australia, regarded by some other countries as distorting trade. Similarly, talks on industrial goods trade, though not as contentious as the farm talks, appear some way from resolution, officials said.

(*Business Standard*, 22 April 2006)

EU Trade Chief Blames US for WTO Impasse

US Demanding Too Much, Offering Too Little

EUROPE's trade chief blamed the US for a virtual deadlock in global trade negotiations, saying Washington must scale back its demands for sweeping cuts to agriculture tariffs.

With time running out for a WTO deal, the EU, the US and other trading powers have locked horns over how to cut barriers to commerce, raising fears that the Doha Round of negotiations could fail. Hours before diplomats were due to meet in Geneva in a bid to keep the talks moving, EU Trade Commissioner Peter Mandelson said he was "looking first to the United States" for "realism", especially on the politically sensitive issue of farm trade.

"What the US is currently demanding is not acceptable to most WTO members — representing half of humanity in fact — and not implementable in Europe," Mr. Mandelson said in notes prepared for a speech in Helsinki.

The US demands would make farming in Europe impossible to sustain and would hurt poor countries too, he said. "Quite simply, this has to be recognized for the negotiations to make progress, as I want them to do, in agriculture and elsewhere in the talks," Mr. Mandelson said.

"While we, since 2003, have been implementing decisions, the US has yet to cut a single dollar or dime from its escalating farm spending," he said.

Leading developing countries, including Brazil and India, also had to make real cuts, not simply reduce ceilings, in the tariffs they impose on industrial goods such as cars and chemicals which are of key interest for the EU, he said.

Mr. Mandelson has spent much of his 18 months as Europe's trade chief under pressure to go further with the EU's agriculture offer, something opposed by farming countries in the bloc, especially France. He has instead sought to draw attention to what he says are holes in the US proposals.

(*The Economic Times*, 22 April 2006)

"S. Asia Should Focus More on Defensive Interests at WTO"

TRADE experts in India and South Asia have again called for the elimination of all forms of domestic subsidies in agriculture given by the EU and the US in the Doha Round of the World Trade Organization (WTO). They argued that South Asian countries should focus more on protecting their defensive interests rather than advancing their aggressive interests.

In a seminar on "WTO and South Asia—Strategizing Beyond Hong Kong" organized by Centad, Dr. Biswajit Dhar from IIFT pointed out that there was a current confusion among Indian negotiators between aggressive and defensive interests in agriculture. He said that India was exploring offensive interests in the form of value-added agriculture and horticulture, which was a flawed strategy.

He suggested that India should continue to be defensive and work to protect its markets by focusing on subsistence farming, distortions in global trade, possibility of cheaper imports and inadequate disciplines. Dr Dhar argued that agriculture negotiations must focus on people and not look at GDP growth figures as bulk of the people derived their livelihoods from agriculture.

Agreeing with Dr. Dhar, Prof. Jayati Ghosh from the Jawaharlal Nehru University said that increased market access would only serve the interests of agri-business firms who are dominating agricultural marketing worldwide. She pointed out that the current South Asian negotiating positions at the WTO are based on the optimism fueled by booming commodity prices, which could be shortlived.

Prof. Debapriya Bhattacharya from Centre for Policy Dialogue, Bangladesh, underlined the need for taking on board the need of net food importing countries in the current negotiations.

(*The Financial Express*, 22 April 2006)

WTO Modalities Exist More in Breach than in Practice

THE first major month-end deadline for finalizing the modalities for the on-going WTO negotiations is all set to be breached. The disagreement between major members on issues of agriculture and non-agriculture market access (NAMA) is still so stark that the WTO Secretariat has not yet fixed an alternate date for reaching an agreement on modalities.

Members were initially planning to hold a mini-ministerial meeting at the end of April in the presence of WTO DG Pascal Lamy to finalize modalities. However, since the movement on neither agriculture nor NAMA has been satisfactory, the idea of holding the informal meeting has been dropped.

According to sources, members may now hold the next such meeting at the end of June. This would certainly delay the entire process and reduce further the chances of concluding the ongoing Doha Round of talks by the end of calendar year 2006.

In agriculture, there is no agreement on the formula for reducing both subsidies and tariffs. As a result, issues related to special products, special safeguard mechanism and sensitive products also have to be ironed out.

In the area of industrial goods, an agreement on the coefficient for tariff reduction formula still remains elusive. While developed countries are putting a lot of pressure on certain developing countries like India and Brazil, to make ambitious cuts, they maintain that their commitments would be lower than those undertaken by the developed countries because of the provision of special & differential treatment.

(*The Financial Express*, 21 April 2006)

WTO Chief Blames Big Players for Lack of Deal

WORLD Trade Organization head, Mr. Pascal Lamy, said that the big players in four-year-old global trade talks were to blame for lack of a deal and called on African countries to put pressure on the heavyweights.

But with an 30 April deadline for a deal looming, the big players – the United States, the European Union, Brazil, Japan and India – blamed each other and turned to African ministers to press issues.

The WTO's 149 members are supposed to strike a deal on farm and industrial goods but there is little sign of a breakthrough in the so-called Doha Round of talks that began in November 2001.

Mr. Lamy said the talks had made some progress since last year but called on the big players to make a greater effort.

"There remains a need for movement by the big players," he told a conference of African Union trade ministers in the Kenyan capital Nairobi. "It is not that what is on the table is nothing, but it is not sufficient to reach an agreement." He said the big players should offer what he termed "real cuts" in subsidies and tariffs.

The US should accept big cuts in agricultural subsidies, the EU and Japan should make cuts in agricultural tariffs, and some emerging developing countries like Brazil and India should accept cuts in industrial tariffs.

"It is absolutely important that these heavyweights in the coming weeks and days ... help us make forward steps, "said Mr. Lamy. "We need figures. It is for you (African ministers) to push our friends to really help us get there."

(*The Hindu Business Line*, 16 April 2006)

Hard to Keep Offer to Cut Farm Subsidies, Tariffs: US

THE US is finding it tough to keep its offer to cut farm subsidies and tariffs on the table at world trade talks without significant offers from other countries to open their markets, the US farm negotiator said.

"Without something more meaningful on market access it will be difficult even to keep our current offer on the table," chief US agriculture negotiator Richard Crowder said.

Member countries of the World Trade Organization (WTO) face an 30 April deadline to agree on broad formulas for lowering farm trade barriers around the globe, which is seen as a vital step to a pact lowering all barriers to international commerce.

"Clearly we are concerned about the 30 April deadline and whether or not we will meet that," Mr. Crowder said. "But that does not in any way signal a lack of commitment by the US (to) an ambitious and successful Doha Round."

The US has offered to cut its WTO allowance for most trade-distorting domestic subsidies by 60 per cent, and slash tariffs by 55 to 90 per cent if other countries provide access to their markets.

But Brussels says it cannot improve on its offer—deemed unambitious by the US – until Brazil offers to cut tariffs on manufactured goods and services. With Brazil saying it can only move if the US makes bigger subsidy cuts and Europe lowers tariffs further, concern is growing that the 4-½ year-old Doha Round of WTO talks could fizzle out.

An agreement reached at December's WTO Hong Kong ministerial to eliminate farm export subsidies by 2013 showed "WTO members can move when they choose to," Mr. Crowder said.

"The question is, will members choose to move in the coming weeks. I hope so," he added.

The deadline for the Doha Round is widely seen as the expiry in mid-2007 of President Bush's power to negotiate trade deals without deferring to Congress.

Asked what the administration's views were on renewing the so-called Trade Promotion Authority, Mr. Crowder responded: "We're not focused on TPA except as a target that we need to achieve this by. Our efforts are focused on getting this negotiation completed ... and we think we can do that before we run up into that deadline."

(*The Hindu Business Line*, 15 April 2006)

The Doha Development Agenda

Mandelson Briefs EU Member States on Doha; Calls for Ambition and Commitment to April Deadline

EU Trade Commissioner Peter Mandelson has briefed EU ministers on the state of negotiations in the ongoing Doha Round of WTO trade negotiations.

Speaking to journalists afterwards, Mr. Mandelson said that Member States had renewed their "loud and clear" commitment to an ambitious Doha Round in which all parties made commitments that reflected their capacities. He insisted that "the EU is ready to pay more than others, but we must get something in return".

He expressed concern that others had not matched the EU's willingness to "come forward and explore further flexibilities and overtures on the basis of the current offers". He said that the demands of others remained "too high, while their offers remain too low". He said this left the EU with "precious little incentive" to make any further move.

Insisting on the need for retaining focus and ambition, Mr. Mandelson criticized "voices elsewhere, notably in the US Congress", who have questioned the level of confidence and ambition that should be placed in the Doha Round. He called such interventions "unwelcome and untimely".

Insisting on the wider value of a multilateral agreement for the global economy and development, Mr. Mandelson argued: "there is more in the DDA than narrow commercial give and take. All main parties to the talks should be prepared to offer more to get more and to create a bigger deal for the overall economy, with developing countries as the main beneficiaries. This again is one of the main messages given to me today by the EU Member States".

(*www.europa.eu.int*. 11 April 2006)

Take Initiatives on Agri Sops and Break Logjam

THE US needs to move forward on domestic support to break the existing deadlock in the agriculture talks at the World Trade Organization (WTO), according to an ICRIER study. In addition, the European Union (EU) should move ahead on market access, while the developing countries, especially India and Brazil, need to show greater flexibility on industrial goods.

As per the Hong Kong Ministerial mandate, the modalities of the negotiations on agriculture would have to be finalized by 30 April.

The study points out that there is a roadblock in talks with the EU, the US and Japan demanding deeper cuts in industrial tariffs and then willing to offer reduction in support on farm products. The developing countries, on the other hand, are waiting to assess the magnitude of the reduction that the EU, the US and other developed countries would be willing to offer in agriculture subsidies.

The key issue which needs to be addressed is the right level of convergence on the three issues including agricultural domestic support, agriculture market access and non-agriculture market access (NAMA) to move forward.

Currently, the EU, while pressing for more concessions from the developing countries including India and Brazil on industrial tariff and services, has also shown inflexibility on further reduction in aggregate measurement of support.

The US is not willing to spare domestic support to protect its farmers while Japan has taken a protectionist position and is against tariff cap. Though India is supporting taking the Doha Agenda forward, it is unwilling to go further on NAMA. The study says the G-33 proposal contains some specific values on Special Safeguard Measures (SSM) but is without any concrete agreement.

Prescription

The Hong Kong declaration spelt out elimination of export subsidies by 2013. It has also been decided that export subsidies on cotton would be eliminated by 2006-end. It also said that developing countries can self designate products as special products guided by indicators based on the criteria of food security, livelihood security and rural development. Developing countries can also recourse to SSM based on import quantity and price triggers.

On the issue of market access, four bands for structuring tariff cuts have been recognized and there is convergence on a linear based approach for cuts within bands. It has also been decided that tariff escalation would be addressed through a formula while focusing on sensitive products, partially shielded from any tariff cutting formula. In addition, special products and SSM would be an integral part of the modalities and the outcome of negotiations in agriculture.

However, the issues include agreement on thresholds, tariff cap and its size and formula to address tariff escalation. That apart, whether or not special products have automatic access to SSM also needs to be sorted out. The basis for the quantity and price-based SSM would need to be calculated.

On export competition, it has been decided that elimination of export subsidies and disciplines on all export measures with equivalent effect should be completed by 2013-end. The disciplines on export credit, insurance programmes, exporting STEs and food aid would be completed while ensuring that trade distorting monopolistic practices of STEs are eliminated.

(*The Financial Express*, 7 April 2006)

WTO: Agenda Note Still Not Out, Lamy

THE first ever wide ranging consultations of the Government in the farm sector since 2000 - to be held here under the aegis of Food & Agriculture Minister Shri Sharad Pawar in the wake of the arrival of WTO Director General Pascal Lamy — is likely to see sharp differences in viewpoint among "reformist" and "non-reformist" stakeholders on the stand to be adopted by the Centre. The ongoing negotiations on agriculture under the WTO are to be concluded by 30 April.

The Government has not circulated any agenda note to the stakeholders on its current position for the 30 April deadline. "It's ironic that the Government has not made its stand clear to us. We have not been given any note on the subject," a representative of a farm organization stressed. The absence of an agenda for the consultation could mean that several of the stakeholders will reiterate their strong positions against some key issues instead of carrying the discussions forward from the Government's currently adopted position on farm negotiations.

Speaking to farmers after an Oxfam led farm protest on WTO negotiations backed by singer and ambassador for the organization's "Make Trade Fair" campaign Lucky Ali, Mr. Lamy responded to the issue of farmer suicides. He stated, "We agree that there are a lot of imbalances in agricultural trade and it is in order to correct this that India should continue to stay in the talks and convince those like the EU to cut down on farm subsidies."

Among other issues that will crop up at the consultations are aggregate measure of support (AMS), domestic support, minimum level of cuts, Green/Blue box, export subsidies, export *via* state trading enterprises, food aid and special and differential treatment and special products. Viewpoints differ on issues such as geographical indicators and on special products. Differences, though, are likely to be indicators and on issues such as market access. Sources said that some farm organizations are dead against any sort of non-agricultural market access.

(*The Economic Times*, 7 April 2006)

Policy Space Must for Any Modalities in WTO Negotiations: Protection of Rural Interests Cardinal for India, says Kamal Nath

Developing Countries will Lose if Talks Fail: Lamy

APPROPRIATE policy space must be an essential element of any modalities for negotiations in the World Trade Organization (WTO) and its final outcome, Shri Kamal Nath, Union Minister of Commerce & Industry said at a Conference on "WTO and the Doha Round: The Way Forward". Stressing that protection of the interests of millions of farmers was cardinal for India, the Minister said that in agriculture, "it remains central to our collective interests that the trade-distorting subsidies and protection provided by developed countries are eliminated so that a level playing field is established". Agricultural tariffs remained the only instrument of safeguarding the food and livelihood security of our rural poor, he added. Mr. Pascal Lamy, Director General, WTO also participated in the inaugural session of the 2-day Conference which has been jointly organized by the Indian Council for Research on International Relations (ICRIER) and Sir Ratan Tata Trust (SRTT).

Shri Kamal Nath reiterated that while no one could disagree with Mr. Lamy's call for urgency in the negotiations, the fact remained that mere urgency alone could not bring about a fair solution, and that developed countries must recognize the essential development character of the current negotiations and reflect this in whatever they were willing to commit to do. "Only then will we be in sight of a solution", he stressed.

Outlining India's priorities, Shri Kamal Nath said that in agriculture, for India as well as the developing countries in G-20 and G-33 effectiveness of instruments such as special products (SPs) and special safeguard mechanism (SSM) were absolutely vital. In any case, any tariff reduction formula would have to secure what members had already agreed, namely factoring in the different tariff structures of developing countries for thresholds and proportionately lower tariff reduction commitments for developing countries, which should be at least one-third lower than that for developing countries.

Similarly, in non-agricultural market access (NAMA), he stressed the principle of less than full reciprocity in reduction commitments for developing countries, pointing out that "just as SPs and SSM are a gateway issue in agriculture, I am convinced that para 8 flexibilities are a gateway issue in NAMA". Flexibility provisions were a developmental necessity and could not be traded of against any other elements of the modalities, he added.

Mr. Lamy in his special address said the moment of truth was approaching in the Doha Round of negotiations, as the 150 member countries of WTO had agreed in Hong Kong to reach convergence on key numbers in 3 areas – viz., quantum of reduction of domestic subsidies in agriculture, quantum of reduction of tariffs on agricultural products and on industrial products – by 30 April 2006. "India's offensive interests in the Doha Round cut across the entire negotiating agenda and are a sign of India's insertion in a globalized world", he said. India had a lot at stake in these negotiations given its interests across the entire negotiating agenda and given the dynamism of its economy, Mr. Lamy said.

Posing a question as to who would be the main losers from a failure of the Doha Round, Mr. Lamy answered the question as follows: "First would be the developing world, as the opportunity to redress the existing imbalances in multilateral trade relations will diminish. Were this round to fail, developing countries would pay the highest price. Next would be the smallest and weakest economies, for which the multilateral process acts as an 'insurance policy' against the pressure exerted by the strong in bilateral trade accords. The biggest loser, however, would undoubtedly be the WTO, the system that has served the collective interests of 150 different members, and that has ensured a trade opening that is adapted to changing realities and that is based on a consensus between us all".

(*PIB Press Release*, 6 April 2006)

No Compromise on Agriculture or Industry Interests – Timelines Important But Not at the Cost of Development Content - Kamal Nath Tells DG/WTO

REITERATING India's commitment to safeguard its national interests in the current Doha Round of multilateral trade negotiations, Shri Kamal Nath, Union Minister of Commerce and Industry, has said that there will be no compromise on the interests of Indian agriculture or industry in the ongoing negotiations in the World Trade Organization (WTO). During discussions with the visiting Director General of the WTO Mr. Pascal Lamy, Shri Kamal Nath made it clear that "while timelines or deadlines are important, this cannot be at the cost of the development content of the Doha Round which was launched with the aim of reducing global trade imbalances in favour of developing countries". The discussions focused on issues relating to agriculture and non-agricultural market access in the context of the 30 April 2006 deadline mandated in the Doha and Hong Kong declarations for finalization of modalities for negotiations in these two important sectors.

"India is among the largest developing countries in the world where millions of rural people live on less than one dollar a day. Therefore, in agriculture, we have to ensure that the Indian farmer is able to participate effectively in the international market where at present prices are kept artificially low due to heavy subsidies given by developed countries. It must also be recognized that in India the issue is one of subsistence and agriculture is not commerce. Similarly, sensitivities of our domestic industry especially our small-scale and infant industries must be addressed in the negotiations, bearing in mind that the developed countries took more than 50 years to bring their tariffs down so that their indigenous industry could reach where they are today. Our industry needs similar flexibilities", Shri Kamal Nath said.

Mr. Lamy, during at his meeting with the Commerce & Industry Minister as well as at the stakeholder interaction held in New Delhi under the aegis of the Ministry of Commerce-UNCTAD project, pointed out that India had both defensive and offensive interests in the 3 key areas of negotiations, viz., agriculture, industrial tariffs and services. In agriculture, removal of trade distorting subsidies was an important issue for India while in non-agricultural market access also, India had strong offensive interests since the negotiations were aimed at addressing the issues of tariff peaks and tariff escalations against products of export interest to developing countries. India, therefore, had a large stake in the ongoing negotiations, he pointed out.

(*PIB Press Release*, 5 April 2006)

WTO DG to Seek India's Support on Doha Deadline

WITH no breakthrough in sight at WTO despite several rounds of consultations since the beginning of this year, India Inc has urged WTO Director-General Mr. Pascal Lamy to ensure "real progress" in agriculture. Lamy is visiting the capital on April 5 to garner support for progress in the talks to liberalize trade in agriculture, services and industrial goods.

India Inc's view is that negotiations on liberalization of services is progressing smoothly since "plurilateral" consultations have been launched after the Hong Kong ministerial. However, progress on liberalization in agriculture leaves much to be desired. CII Director General N. Srinivasan has fired the first salvo by dashing off a two-page letter to the WTO DG on the need for a breakthrough in agriculture for smooth progress in services and non-agriculture market access (NAMA).

"CII believes that agriculture holds the key to a successful Doha Development Round," says the letter from Shri Srinivasan. It highlighted that WTO was "still battling" for meaningful proposals on key issues like market access, export subsidy and domestic support.

Powerful lobbies have been blocking progress on these areas and lack of breakthrough may result in failure to meet deadlines set at the Hong Kong ministerial where it was resolved to implement the Doha Development Agenda (DDA) by the end of 2006. Several milestones have to be met by the middle of this year to ensure implementation of the agenda by December.

While Mr. Lamy has India's support for taking the DDA forward, Shri Kamal Nath said developing countries should not be forced to go an extra mile on NAMA and agriculture. Officials said India has also put its foot down on key safeguards like special products.

Shri Srinivasan has urged Mr. Lamy to ensure "balance between agriculture and NAMA."

(*The Economic Times*, 3 April 2006)

Mixed Reception for 'Cotton Four' Domestic Support Proposal

A NUMBER of members supported the latest proposal by four African countries on domestic support for cotton, when the sub-committee held its first in-depth discussion on the paper on 27 March 2006, but one – the US – said it would not put the talks on the path to success.

Trade Isssues

The proposal deals with "modalities", in this case how domestic support would be cut. It features a formula that implies cuts in cotton subsidies that are larger than for agriculture as a whole – much larger if the agriculture cuts are modest, the difference narrowing if the agriculture cuts are more ambitious. The period for making the cuts would be one third the time for agriculture as a whole. Both of those objectives were agreed at the Hong Kong Ministerial Conference in December 2005. The four also propose additional disciplines on Blue Box subsidies on cotton.

By the 27 March meeting, delegations had more time to study it. Speaking for the "Cotton Four", Chad said that the objective was to put into practice members' agreement in the 2004 Framework to treat cotton "ambitiously, expeditiously and specifically".

Several delegations supported the proposal, including the European Union (EU), the African Group (Benin speaking), Cuba, Brazil and Nigeria. The EU said the proposal should go beyond domestic support to include the other two pillars of the agriculture negotiations – export competition and market access. For market access, the EU suggested that developed countries, commitment to allow cotton products to be imported duty-free and quota-free should be extended to imports from all developing countries, not only the least developed. Developing countries in a position to do so should make the same offer, the EU went on. And it reminded members that before the Hong Kong Ministerial Conference it had suggested totally eliminating trade-distorting domestic support ("Amber Box" support) for cotton.

Colombia supported the proposal and presented information on difficulties faced by its domestic cotton sector. It also called for developing countries to be given special treatment to allow them to support their farmers. China and Paraguay agreed.

The US said that the treatment for cotton should be discussed after the agriculture "modalities" are agreed, arguing that this proposal prejudges the outcome for farm subsidies as a whole, and diverts attention from them. It said negotiators cannot address the issue of "how much more ambitious" cotton will be before the overall cuts are agreed.

The US objected to the way lower ambition in general would lead to a wider gap between the cuts in agriculture and cotton. This would not lead to success, because an ambitious result in cotton can only be achieved as part of ambitious results for the agriculture negotiations as a whole, the US said.

It also proposed a discussion on which developing countries are ready to join the duty-free, quota-free offer made in Hong Kong.

Benin replied that the Cotton Four's proposal can be used as a basis for finding an acceptable solution.

(*www.wto.org*, 27 March 2006)

US Regrets Lack of Movement at WTO Farm Talks

THE WTO farm talks made no headway on the core issue of market opening, but outlines of a deal are emerging in other areas as an April deadline looms, a senior US official said. "On market access ... the level of ambition is not there, there are big loopholes and we have not really seen real meaningful improvements," said the official.

WTO states are scrambling to reach draft pacts by the end of April on farm and industrial goods, key areas of the Doha Round of free trade talks. Failure could end chances of a full treaty this year and possibly sink the talks altogether. The official said he expected efforts to reach a farm deal to intensify over the next two weeks, with further meetings between various groups of key states, possibly outside Geneva.

In agriculture, the US official said key elements for an accord were there for export competition and domestic support, which along with market access make up the three so-called "pillars" of the farm talks.

On domestic support, or subsidies, both the EU and the US, the major users, have put forward offers for sharp percentage cuts from their current permitted ceilings.

On export competition, the EU cleared the way for a deal with its acceptance last December of an end date of 2013 for eliminating direct export subsidies. But Brussels remains under heavy pressure for deeper tariff cuts from both developed country farm goods exporters, such as the US and Australia, and developing country farm powers like Brazil.

"We are pretty close on export competition and we are pretty close on domestic support, where you just have to figure out what the numbers are," the US official said. "We were hoping to see some real offers on the market access side," he added.

Sensitive Products

The official said that discussions had focused largely on "sensitive products", which are those that will be partially shielded from any tariff-cutting formula that is agreed. Brussels wants to classify 8 per cent of tariff lines as sensitive, although EU officials say privately the bloc is prepared to see this figure fall significantly. It has not spelled out the goods to be covered, but they would be expected to include dairy produce, beef and sugar.

The Doha negotiating mandate also calls for significant market opening even in sensitive products, and talks in Geneva focused on how this could be done. "There is a general recognition that the EU approach is too complex and does not offer enough," the official said. Despite the US official's assertion that an accord appeared near on domestic support, Brazil and the EU are still pressing Washington for further cuts. In particular, they want tighter controls on the so-called "Blue Box", which is farm spending deemed to be a half-way house between significantly market-distorting support and that considered to have little impact on trade.

The US official rejected an EU call for caps on spending on individual crops, saying Washington had already agreed to set a low ceiling for overall Blue Box use and was willing to give guarantees against concentrating cash in a few areas. On food aid, another controversial area of the export competition talks, the official proposals put forward by African states, including a definition of emergency assistance, could provide the basis for an accord.

(*The Financial Express*, 25 March 2006)

Save Small Farmers, Like Japan Does

THE present global trade regime is insensitive to the concerns of small and marginal farmers. It is rather interested in protecting the interests of the farmers having large landholdings and large agri-business corporations.

Incidentally, majority of the national governments are singing the same tune.

The groupings of member countries in the WTO negotiations are generally based on the lines of developed, developing and least developed countries, like G-8, G-20 and G-33. The contentious issue of subsidy is the cause for such groupings. The developed countries have enough resources to render high subsidies and depress the global prices to their advantage. The developing countries are not in a position to provide such high subsidies. The issue of subsidies has become complicated with different boxes like Amber Box, Green Box, Blue Box and shifting of subsidies from one box to another.

Farmers with large landholdings in Europe and agri-business corporations in North America are usually the beneficiaries of the large chunk of the subsidies.

Interestingly there has never been a demand to rationalize the subsidies so that only the small farmers and family farms become the beneficiaries. Rather the negotiations centered on issues like trade-distorting and non trade-distorting subsidies. Even the developed countries tried to justify that some subsidies are necessary for protecting environment and multifunctionality. It is time that WTO resolve this issue by making subsidies eligible for small farmers alone.

The concerns of small farmers should be given utmost importance if the dual objective of trade and development are to be addressed. The countries having majority of small farmers should come together. There are countries both in the developed and the developing world, which have predominantly small farmers. The governments should also focus their attention for development of small farmers.

Realizing the adverse impact of globalization and economic liberalization, China has come out with a new deal for its small farmers. Japan, which is a developed country and has predominantly small farms, is very much concerned about protecting its agriculture.

The country became an importer of its staple food, rice by opening up its market since 1995. Now, 60 per cent of its food requirement is met through imports. It is seeking to protect its agriculture by a number of sensitive products and in return is willing to support developing countries cause for designating special products (SPs) and use of special safeguard mechanism (SSM).

But this would not resolve the problem. The developed countries, being mostly in the temperate zone, grow very few agro produces as compared to developing countries in the tropical zone. The Third World, therefore, cannot protect its farmers with a small number of SPs. The only rational way to protect the small farmers from any possible surge in cheap subsidized imports is to allow countries to impose quantitative restrictions on imports.

Further, developing countries like India should also learn from the Japanese experience of protecting its small farmers through a chain of cooperatives. The apex body, Ja Zenchu with its 47 prefectural units guides the primary cooperatives (called JA) in its functions of marketing, supply of inputs, credit and insurance policies. The government agency, Japan Association for International Collaboration of Agriculture and Forestry also assists NGOs for development of the farm sector.

Unfortunately, the policy-makers in India instead of following this example are encouraging greater involvement of corporate houses in the farm sector. Finally there is a need for a clear cut policy both at the global and national levels to protect small farmers. Countries having predominantly small farmers should come together as one bloc.

(*The Financial Express*, 20 March, 2006)

Address Our Concerns or Call Off Talks, Nath to WTO

TURNING the table on developed countries, Commerce and Industry Minister Shri Kamal Nath has warned the WTO members attending the on-going G-6 meeting in London that if developing countries' concerns in the area of market access are not met, the talks might have to be called off. "We might as well wind up the talks and go home," he said.

The aggressive posture adopted by India is an interesting development as till now it was the

US and the EU that had been showing impatience at the slow progress in talks. The US had threatened to walk out of the talks if its expectations were not met.

The G-6 meeting is being attended by the EU, the US, Brazil, India, Japan and Australia. The six are discussing issues related to the ongoing Doha Round of multilateral trade negotiations of the WTO, especially those related to agriculture and non-agriculture market access (NAMA).

Shri Nath underlined the need for special and differential (S&D) treatment promised to developing countries by insisting that the "level of ambition" in the negotiations should first be expressed in percentage terms rather than in terms of coefficients.

In agriculture, the Minister said that developing countries would be willing to reduce tariffs by two-thirds of the commitments made by the developed countries. Stating that in NAMA, developing countries could match whatever developed countries were willing to do in agriculture, he added that developed countries should, however, undertake 10 per cent higher commitments. The linkage would satisfy the requirements of para 24 of the Hong Kong ministerial declaration which calls for balance in the ambitions in NAMA and agriculture.

The developed countries are, however, not ready to relent. While the EU was unwilling to move forward in agricultural market access, the US was unwilling to move on domestic support (i.e., heavy farm subsidies).

The two, together with some other developed countries, were also pressing countries like India and Brazil to provide more market access in the industrial sector through coefficients for tariff cuts that did not take into account sensitivities of developing countries.

(*The Financial Express*, 12 March 2006)

Lamy Upbeat on WTO Trade Pact This Year

THE WTO Chief Pascal Lamy was quoted as saying he was optimistic that stumbling blocks to a global trade deal can be overcome by mid-year, leading to a full pact by the end of 2006.

But Mr. Lamy, in a newspaper interview, said political leaders must convince electorates that painful concessions — including further cuts to politically explosive farm supports — would be rewarded with greater access for certain goods and services.

The 149-member WTO is struggling to agree on a new deal, known as the Doha Round, by year-end. Negotiators face 30 April deadline to clinch formulas for cutting farm and industrial goods tariffs and reducing trade-distorting subsidies.

"It has to be the first part of this year," Mr. Lamy told the *International Herald Tribune* in Paris. "The notion that this might be the end-game has created focus and a bit of heat." Mr. Lamy said negotiators realized a deal was crucial before politically-sensitive national elections in the United States, Brazil and Mexico in the second half of this year.

His remarks follow a meeting between EU Trade Commissioner Peter Mandelson and US Trade Representative Rob Portman to try to bridge differences on farm issues, the main stumbling block.

Mr. Mandelson said that both transatlantic powers could modify their agricultural stances in the talks if major developing countries made better offers to open their services and industrial goods markets.

"What is on the table is clearly not enough," Mr. Lamy said. "But we are moving steadily toward the necessary top-ups," he added, referring to more concessions for farm subsidies in the United States, farm tariffs in the EU and industrial tariffs in developing countries.

After week-long talks on agriculture, New Zealand's envoy Crawford Falconer, who chairs the negotiations, said that there had been slight progress but a deal was still distant.

(*The Financial Express*, 25 February 2006)

Bush Visit will Skip WTO Issues

THE US President's visit to India will not tone down the belligerence with which New Delhi and Washington fight their cases at the World Trade Organization (WTO).

Post-Hong Kong, the Government is anxious to spurn the US call that developing countries cut agriculture tariffs by up to 90 per cent. India is also devising strategies to counter the US plan to defer actual cuts in its trade-distorting domestic (farm) support. Trade-distorting support for the US farm sector is $21 billion a year.

The US government is keen that the 50 per cent cut, mandated under the Doha Round, is effected on bound rates which average at 44 per cent. Official sources said this is tantamount to "no-cut," as the applied rate (the actual rate now) is 21 per cent.

On non-agricultural market access (NAMA) too, India is firm on its stance that, being a developing country, it should have the option of less than full reciprocity while effecting the tariff cuts. India's applied rates on non-agriculture products saw significant reductions in the recent years. On the other hand, the US has effected less than 1 per cent cut in applied rates in the last five years.

(*The Financial Express*, 24 February 2006)

Farm Panel for Indian Trade Organization

THE National Commission on Farmers (NCF), headed by noted farm expert M.S. Swaminathan, has suggested setting up of an Indian Trade Organization (ITO) with its own boxes for domestic agricultural support on the model of the Blue, Green and Amber boxes of the World Trade Organization (WTO).

It has strongly recommended segregation of subsidies to farmers into two categories those meant for providing life and livelihood saving support to small farmers and those which could be deemed as trade-distorting in the global market.

These suggestions have been mooted in the third report of the NCF submitted to the Government recently. The commission was set up in November 2004 to go into the various issues related to food, agriculture and allied fields.

It said that the proposed ITO could be a virtual organization, specializing in WTO affairs. As such, it could serve as a brain and information bank for enabling the government to take informed and proactive decisions. Besides, it could provide timely advice on potential surpluses and shortages in major agricultural commodities by maintaining a constant watch on trade.

"The ITO will help build a long-term memory system in relation to home and external trade and help checkmate adverse global trade trends by stimulating timely national action," the NCF said in its report. The ITO should serve as a friend and guide to small farm families and provide proactive advice on land use and crop planning. It should help to save resource-poor farmers from the onslaught of the subsidy, technology and capital-driven agri-business paradigm of developed countries.

Besides, the ITO should help to impart trade and quality literacy through a national network of village knowledge centres. It should also monitor the arrangements for sanitary and phytosanitary measures and ensure that the globally accepted Codex alimentarius standards for food safety are maintained, the NCF said. "Without the support of appropriate institutional structures, farm families will face increasing distress," the report stated.

Justifying the need for ITO, the commission pointed out that the total exports of agricultural products, estimated at Rs 34,654 crore in terms of value in 2002-03, constituted only a small proportion, about 6.18 per cent, of the total output of this sector which was reckoned at Rs 560,516 crore in that year.

India had a large home market and, therefore, needed to segregate its modest farm subsidies into global trade distorting and non-trade distorting.

In a globalized economy, there is a need to develop appropriate institutional instruments and policies to safeguard the livelihood of nearly 70 per cent of the population, it said.

(*Business Standard*, 9 February 2006)

'Cotton Four' Preparing New Proposal on Domestic Support

THE four African countries that originally proposed the Cotton Initiative will produce a proposal on cutting domestic support in the "coming days", Benin told the WTO Cotton Sub-Committee on 31 January 2006 in its first meeting since the 13-18 December 2005 Hong Kong Ministerial Conference.

And meanwhile, WTO Director-General, Pascal Lamy has already started his consultations on the development aspects of cotton as instructed by the ministerial conference, the Secretariat reported.

The so-called Cotton Four (Benin, Burkina Faso, Chad and Mali), sub-committee chairperson Crawford Falconer, and some other countries said work on domestic support will be urgently needed if members are to meet the 30 April deadline for "modalities" that was agreed in Hong Kong.

The Hong Kong Ministerial Declaration says that a priority objective is for cuts in trade-distorting domestic support on cotton to be deeper and quicker than those agreed for agriculture as a whole, but does not spell out how much deeper or faster.

With agreement for developed countries to eliminate export subsidies on cotton by the end of this year (2006), the main task is to set up a way to monitor this, Benin said on behalf of the Cotton Four. The four also welcomed the decision to give duty-free and quota-free market access to cotton exports from least-developed countries into developed countries' markets.

Most speakers paid tribute to the efforts key ministers put into the talks in the Hong Kong Ministerial Conference, and their flexibility, so that progress could be made. Some added that the decision still leaves a lot more work to do.

The EU said it had proposed duty-free and quota-free market access for cotton exports from all developing countries, not only the least-developed.

The US stressed that the commitment is definite for cotton products even though the more general duty- and quota-free decision (for all products) allows some exceptions for 3 per cent of products for countries facing difficulties. Following the Hong Kong decision, the real work is on "modalities" for agriculture, the US said.

"Modalities" set detailed outlines – such as formulas or approaches for tariff reductions – for final commitments.

Development Issues

On development issues, the Secretariat reported that WTO Director-General Pascal Lamy is keen to step up his efforts as instructed by the Hong Kong decision, and has already started contacts with those concerned. His special adviser on the Doha Development Agenda will call another consultation meeting on 16 February, continuing the monitoring and exchange of information on development assistance programmes and projects affecting cotton-producing developing countries, particularly in Africa.

The Cotton Four stressed the need for continuing work on this because of the "devastating" effect of depressed incomes in the sector and supported the establishment of a "follow-up and monitoring mechanism" as agreed in Hong Kong.

Future Work

Chairperson Crawford Falconer said that negotiations on the trade side of cotton, like those in agriculture as a whole, will have to take place continuously and not only in scheduled formal meetings, if the 30 April deadline for "modalities" is to be met. He said talks will have to be almost continuous following the 13-17 February "Agriculture Week".

The section on cotton refers to the original July-August 2004 mandate and the three key words "ambitious", "expeditious" and "specific" that describe the treatment to be given to agriculture. In Hong Kong, ministers agreed that:

Export Subsidies: All forms of these for cotton will be eliminated by developed countries in 2006.

Market Access: Developed countries will give duty- and quota-free access for cotton exports from least-developed countries from the start of the period for implementing the agreed reform in agriculture. This period will depend on the outcome of the agriculture negotiations.

Domestic Support: The objective is for trade distorting domestic subsidies for cotton production to be reduced more ambitiously than for agriculture as a whole, and for this to happen over a shorter period. This will therefore depend on the general formula agreed in the agriculture negotiations for cutting trade-distorting domestic supports, and the period of time negotiated. Ministers said they committed themselves to give priority in the negotiations to reach that outcome.

Development Aspects: The consultations set up by the WTO Director-General on this will continue and the ministers noted positive developments. The consultations include regular meetings in the WTO as well as the Director-General's own contacts with donor countries and institutions. Ministers urged him to intensify this, emphasizing "improved coherence, coordination and enhanced implementation", and to explore with the institutions a mechanism to deal with income declines in the cotton sector until the end of subsidies.

They also urged the donor community to increase its assistance and called for South-South cooperation, including on technology transfer. They welcomed the African cotton producers' efforts at domestic reform. The Director-General is asked to continue to produce reports, and to set up "an appropriate follow-up and monitoring mechanism".

(*www.wto.org*, 31 January 2006)

India Urges US, EU to Cut Farm Subsidies

INDIAN Commerce and Industry Minister Shri Kamal Nath asked US and EU to cut farm subsidies and resolve other issues on peak tariffs to make the Doha Round of WTO a success.

"The US and the EU should move if they want progress of the Doha Round," he said after the meeting of key trade ministers. He said the prices of farm products have been artificially kept low by developed nations through heavy dose of subsidies to their farmers, which puts the developing nations at a disadvantageous position. Moreover, he said tariff peaks and escalation must go. He cited the examples of difference in tariff on leather and textile and the finished products.

The WTO circulated a fresh paper on timelines for completing the Doha Development Agenda before 2006-end. According to the new time-table, modalities for agriculture should be established no later than 30 April 2006. As part of the modalities, it seeks the completion of disciplines on export credit guarantees or insurance programmes by 30 April.

The date for eliminiation of all forms of export subsidies should be confirmed only upon completion of modalities, the note said. Member countries have been asked to submit a draft schedule based on modalities by 31 July 2006.

(*The Financial Express*, 29 January 2006)

EU Not Blocking WTO Deal, says Mandelson

EUROPE's trade chief blamed countries such as Brazil and India for blocking a world trade deal, but he raised the prospect of new moves by Brussels on the contentious issue of agriculture if Europe gets access to the markets it most values. With time running out for a new WTO Round, EU Trade Commissioner Peter Mandelson hit back at many of the WTO's most powerful member countries who blame Europe for refusing to go further on farm imports.

"The blockage in the round is not in Brussels, but in those countries failing to come forward with an offer on industrial tariffs and services that goes anywhere near responding to the seriousness of our offers in all sectors of the round," Mr. Mandelson said in a speech in the German capital.

He said Europe was making real sacrifices in farming but it stood to gain no significant access to markets such as fast-growing Brazil and India for high-value industrial goods like cars or chemicals made by European companies. "It is out of the question that we consider another move in agriculture without a much clearer picture of the final result of the negotiation—and a real commitment by others to open their markets further," he said.

With an end-April deadline looming for core issues of the talks, Mr. Mandelson said it was time for intense bilateral talks to ensure all WTO

(Contd. on p. 33)

BOOKS/ARTICLES NOTES

BOOKS

Agricultural Subsidies and Negotiations: Strategies and Options by Partha Pratim Pal, Indian Council for Research on International Economic Relations, Centre for Trade & Development (CENTAD), New Delhi, November 2005.

IN its introductory remarks, the publication says that the July Framework was seen as a major breakthrough in the current round of negotiations. After the Framework was signed, most developing country representatives projected it as a victory that would help protect the interests of the developing countries by eliminating billions of dollars in the farm subsidies. It is undoubtedly true that the July Package is an improvement over the Derbez text and it proposed a number of new measures to reduce domestic subsidies in developed countries substantially. Some of the salient points of the July Framework related with domestic support are as under:

- Reduction of aggregate measure of support (AMS) commitments with higher AMS levels to be reduced by a proportionately higher amount thereby leading to near harmonization.
- Reduction of *de minimis* subsidies by a certain percentage. The July Framework suggests that the Blue Box subsidies should not exceed 5 per cent of the total value of agricultural production during a historical period which is to be decided yet.

Further, it says that closer scrutiny of the July Framework reveals the existence of a few escape clauses which might lead to a much lower level of subsidy reduction than what appears to be possible.

The Doha Ministerial Declaration, it says, calls for "substantial reductions in trade distorting domestic support". With a view to achieving the same, the negotiations would ensure the following:

- S&D Treatment remains an integral component of domestic support. Modalities to be developed will include longer implementation periods and lower reduction coefficients for all types of trade distorting domestic support and continued access to the provisions under Article 6.2.
- There will be a strong element of harmonization in the reductions made by developed members. Specifically, higher levels of permitted trade distorting domestic support will be subject to deeper cuts.
- Each member will make a substantial reduction in the overall level of its trade distorting support from bound levels.
- Final Bound Total AMS and permitted *de minimis* levels will be subject to substantial reduction. Any clarification or development of rules and conditions to govern trade distorting support will be taken into account.

WTO Agreement on Agriculture: India's Proposals, Ministry of Commerce & Industry and Ministry of Agriculture, New Delhi.

THE publication contains India's proposals in respect of WTO issues. On the issue of domestic support, it has submitted a host of proposals. Some of the major ones are as under:

- Direct payments along with decoupled income support and governmental financial participation in income insurance and income safety net programmes as well as direct payments under production limiting programmes should be included in the non-production specific aggregate measure of support (AMS) and should be subject to reduction commitment so as not to exceed the *de minimis* level, i.e., 5 per cent (for developed countries) and 10 per cent (for developing countries) of the value of that Member's total agricultural production.

- Product specific support provided to low income resource poor farmers should be excluded from the AMS calculations, as is the case for the non-product specific support as per para 6.2 of AoA.
- The total domestic support should be brought down below the *de minimis* level within a maximum period of 3 years by developed countries and in 5 years by the developing country members. The developed countries should make a down payment by the end of the year 2001, through a 50 per cent reduction in the domestic support from the level maintained during the year 2000; or by the amount as is higher than the *de minimis*, whichever is lower.
- A suitable methodology of notifying the domestic support in a stable basket of currencies should be adopted for taking into account the incidence of inflation and exchange rate variations.
- Negative product specific support figures should be allowed to be adjusted against the positive non-product specific AMS support figures.
- While product specific support should be calculated at the aggregate level, support to any one particular commodity should not be allowed to exceed the double of the *de minimis* limit of that commodity, as prescribed under Article 6.4.
- Support extended under Paras 5, 6 and 7 of Annex 2 should be shifted from Article 13(a) to 13(b) of the Peace Clause. However, the Peace Clause must lapse as already provided in AoA.
- The provisions of Article 6.4 of AoA should prevail over the stipulation contained in Article 13(b)(ii) of the Agreement.
- After the abolition of the Peace Clause (Article 13 of AoA), as a special and differential provision, measures under Annex 2 (Green Box) and other domestic support measures conforming to Article 6 of AoA shall be exempt from imposition of countervailing duties under the Agreement on Subsidies and Countervailing Measures and Article XVI of GATT 1994 and shall also be exempt from actions based on non-violation nullification or impairment of the benefits of tariff concessions under paragraph 1(b) of Article XXIII of GATT 1994.

Domestic Support, G/AG/NG/S/1, World Trade Organization, Geneva, 13 April 2000.

THE publication says that at the first Special Session of the Committee on Agriculture which took place on 23-24 March 2000, it was agreed that the WTO Secretariat would prepare a background paper on domestic support based on the notifications. It makes an attempt to revise and further update the information compiled from Members' schedules and notifications provided within the framework of the Process of Analysis and Information. It also takes into account the notifications by Members circulated by the Secretariat up to 31 March 2000.

The publication presents domestic support (Total Aggregate Measure of Support) commitment levels by Members for the implementation year 1995 to 1999. In addition, there is an Attachment which gives a broader picture of the trends in domestic support and cover only measures of support subject to reduction commitments.

Globalization and Indian Agriculture
by G.S. Bhalla, Department of Agriculture and Cooperation, Ministry of Agriculture, Government of India, New Delhi, 2004.

THE publication at the outset poses a question, i.e. how the establishment of a free and liberalized trade regime under the WTO Agreement on Agriculture (AoA) would affect the fortunes of the Indian farmers. It also makes recommendations regarding the future course of action for making trade liberalization work for the farmers in general and the small and marginal farmers, in particular.

On the issue of domestic support, the publication says that there were serious problems in the matter of its provisions. The *first* set of problems, it says, arose because of the introduction of Blue Box which permitted the exclusion of trade distorting production linked payments by the developed countries. Further, not only is the total expenditure on Blue Box and Green Box quite high and increasing, but many members were also deliberately shifting expenditure away from the Amber Box to those measures that are exempt from reduction commitments under the Green Box.

Second, the estimates of domestic support for the base year for most of the countries turned out to be historically high because of low world prices during the base period, 1986-88. Furthermore, the reduction of AMS was on the total and not on the basis of individual commodities. Hence, the developed countries got away by making reductions in unimportant commodities while undertaking minimal reductions in the politically sensitive commodities like wheat, rice, sugar and dairy products.

Finally, the modalities for calculation of AMS were not very clear, e.g. impact of inflation in the context of fixed external reference prices at the 1986-89 levels; the treatment of negative AMS; and the definition of "resource poor" farmers for exemption from non-product specific AMS.

Referring to India's proposal, it says that the country has proposed to the WTO that all direct payments, decoupled income support and income insurance and income safety net programmes, direct payments under production limiting programmes, etc., should be included in the non-product specific AMS and should be subject to reduction commitment as per the AoA. India's other suggestions are: the product specific support provided to low income resource poor farmers should be excluded from the AMS calculations; total domestic support should be brought down below the *de minimus* level within a maximum period of 3 years by the developed countries and in 5 years by the developing country members.

ARTICLES

From Uruguay to Doha: Agricultural Trade Negotiation at the World Trade Organization by Thomas C. Beierle, *Resources for the Future*, Washington (USA), March 2002.

THE article says that in the Ministerial Declaration at Doha, members agreed to "substantial reductions in trade-distorting domestic support." However, they continue to disagree on how substantial the reductions should be and what should be considered trade distorting. India has proposed that developed countries bring amber box support — together with all other domestic support — below *de minimis* levels within three years. Developing countries generally prefer that reductions be disaggregated to the product-by-product level so as not to allow shifting within categories to protect certain products. The US has proposed that countries reduce their amber box support to a fixed percentage of total agricultural output — a variant on the existing *de minimis* provisions and a departure from the URAA approach of annual reductions from a baseline.

Mandated Negotiations on Agriculture in WTO by Gopal Naik, *Focus WTO*, Vol. II No. 5, Jan.-Feb. 2001, Indian Institute of Foreign Trade, New Delhi.

THE article says that total domestic support should be brought down below the *de minimis* level within a maximum period of 3 years by the developed countries and 5 years by the developing countries. An appropriate methodology of notifying the domestic support in a suitable basket of currencies should be adopted for taking into account the incidence of inflation and exchange rate variations. Support to any one commodity, it says, should not be allowed to exceed the *de minimis* level. The special treatment provision enjoyed by countries should be done away with and tariff should be the only measure to regulate imports.

Further, it says that greater acceptability of the WTO Agreement on Agriculture by the developing countries can come only through the mandated negotiations as these are expected to address effects of the reduction commitments on the world trade in agriculture, non-trade concerns and special and differential treatment to the developing country members.

India Must Seek Changes in *"De Minimis"* Clause by Harish Damodaran, *The Hindu Business Line*, 2 April 1999, New Delhi, p. 10.

THE article states that India should renegotiate the *de minimis* provision keeping in view the aggregate measure of support (AMS). The present methodology used to arrive at the AMS, it says, goes against the country's interests. India should exert pressure for renegotiation of the *de minimis* clause when the AoA comes up for review at the WTO's Ministerial Conference.

Giving detailed analysis of computing the AMS calculations, the article states that in India's case, the product specific AMS works out to be negative for most of the agricultural commodities. Thus, the negative product specific AMS offsets more than the positive non-product specific AMS, which has been estimated at 7.52 per cent of the value of the country's farm output. For a developing country like India, *de minimis* percentage, it says, has been set higher at 10 per cent.

Keeping in view India's interests, the article makes a point that the country should join hands with the Cairns Group of countries.

In the concluding remark the article states that India needs to challenge the provision which treats product and non-product specific AMS separately and subjects both to individual *de minimis*.

Implementation of the Agreement on Agriculture: An Analysis by Biswajit Dar, Research and Information System for the Non-Aligned and other Developing Countries (RIS), New Delhi.

THE articles makes an attempt to review the implementation of the commitments made to the agricultural sector by the WTO member countries in three key areas, viz. domestic price, export subsidies and market access.

The article has been organized in two parts. While Part I discusses the main issues related with agriculture, Part II looks at the implementation issues.

The article further states that the gross imperfections in the market for agricultural commodities need to be given immediate attention so that the benefits of pursuing reforms in the agricultural sector benefit the developing countries.

Finally, it says that in the area of domestic support, the principles upon which the discipline was introduced by the AoA, need to be reviewed so as to remove the obvious discriminations against the developing member countries of WTO.

Agriculture at the WTO, *Business Standard*, 12 September 2000, p. 11.

THE article provides useful information for successfully negotiating agriculture related issues at the forthcoming Millennium Round under the aegis of the WTO. These are as follows:

- In calculating the aggregate measure of support (AMS), several policies are exempted under green and blue box policies. India has none of these subsidies and it is indeed in India's interest to argue that these be disciplined, if not scrapped.
- India is not a member of Cairns Group, but would do well to align itself with the Cairns Group on the entire canvas of liberalizing agriculture, especially since India's domestic support is below the threshold of 10 per cent.

In concluding remark, the article states that the country has more to gain and less to lose from the liberalization of agriculture.

Hong Kong Ministerial: Just Kept the Issues Alive by Anil K. Kanungo, *Focus WTO*, Vol. VII No. 4, Nov.-Dec. 2005, Indian Institute of Foreign Trade, New Delhi.

IN its opening remarks, the article says that Hong Kong Ministerial is over amid strong protests and hard bargain. What did it achieve? What have been its real tangible gains? As one probes, one finds not much real progress except that it has managed to keep the Doha Development Agenda further negotiable.

Reduction of production related subsidies, the so-called domestic support, it says, poses the biggest challenge to developing countries since developed countries heavily rely on this form of subsidy to realize the maximum gains without harming their farmers.

Although Hong Kong Declaration, it says, has adopted the framework for reduction of domestic support proposed by the G-20 countries, for future negotiations it becomes essential that the group remains united, to ensure that a definite move forward is made. Though the Declaration proposes overall reduction in domestic support, but fails to articulate how a review of criteria for the "Green Box" support, the exempt category of support, which is given to rural infrastructure, research & development and food aid for the poor can be made.

Further, it says that India and other developing countries feel that a situation of despair has not been created where they would lose their competitiveness.

Special Products, Special Safeguards to Protect Farmers: Major Gain for India in WTO Hong Kong Ministerial — Intense Negotiations Ahead, www.commin.nic.in, 21 December 2005.

THE article says that developing countries like India with no aggregate measure of support (AMS) commitments will be exempt from any cuts on their *de minimis* support. Green box criteria, it says, will be reviewed so that programmes of developing country members which have minimal trade distorting effect will be incorporated into the green box. Developing countries like India will continue to benefit from the provisions of Article 9.4 of the Agreement on Agriculture, i.e. they shall be able to continue to provide marketing and transport subsidies for 5 years after elimination of export subsidies, i.e. up to 2018. Developing countries will be able to designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. To safeguard the farmers against surge in import or fall in international prices, developing countries will have recourse to a Special Safeguard Mechanism with both import quantity and price triggers.

Finally, it says that the contours of domestic support reduction formula in agriculture as also the tariff reduction formulae have been given shape. The government will continue to coordinate with various stakeholders in each of the areas so that best results could be obtained thereby protecting interests of the farmers and industry.

High Ambition, Tight Deadlines by Abhijit Das, *The Financial Express*, 28 December 2005, p. 8.

AT the outset, the article states that in agriculture while problems remain in the three pillars — reduction/elimination of tariffs, domestic support and export subsidies —the key issue which needs to be resolved in developed countries pertains to domestic support. Although an agreement was reached at Hong Kong stating that trade-distorting domestic support would be reduced based on three bands, the tough task ahead would be to define the threshold of the bands and the extent of cuts within each. This, it says, would require balancing 80 per cent reduction sought by India and other G-20 countries on the one hand, and 53 per cent offered by the US.

Further, it says that the negotiators would now have to grapple with the nuts and bolts of deciding the threshold of bands and percentage of cuts within each band. Divergences persist on the level of tariff reduction and fixing of tariff caps. EU's demand to keep about 8 per cent of so-called sensitive tariff lines out of the ambit of tariff cuts is highly contentious.

Thus fundamental divergence over the basic approach to treatment of sensitive products needs to be resolved.

Finally, it says that developed countries have so far not shown much flexibility, perhaps under domestic pressure in addressing concerns of developing countries. In terms of adhering to the dates, it is difficult to visualize how the challenges of intricate technical negotiations, particularly in cutting farm support and liberalizing services, will be met. However, if the yardstick of "development" is used to bridge the differences among countries, there could still be a possibility of finalizing some of the crucial elements of the modalities by the stipulated dates.

Hong Kong: Micro Steps, But Firm Ones by Biswajit Dhar, *The Economic Times*, 23 December 2005, p. 20.

THE article states that reduction of production related subsidies, the so-called domestic support, poses the toughest challenge to developing countries since developed countries rely heavily on this form of subsidies. Although the Hong Kong declaration has adopted the framework for reduction of domestic support proposed by the G-20 countries, these countries would have to bring their collective strength to ensure that a definite move forward is achieved.

The declaration proposes a reduction of the overall trade distorting domestic support and reductions in product-specific support besides providing for a review of the criteria for the "Green Box" support, the exempt category of subsidies, which includes spending on rural infrastructure, research & development and food aid for the poor. But the ministerial declaration fails to provide a road-map for addressing the problems caused by the so-called "Blue Box" support, the form of subsidies that is not subjected to any reduction.

The July framework had proposed two sets of flexibilities. In the *first* instance, a certain proportion of the tariff lines would be subjected to tariff cuts lower than that obtained by applying the formula. And, *two*, a certain proportion of tariff lines could be kept unbound. These flexibilities are important as they would allow developing countries to provide higher levels of tariff protection to their sensitive products. The Hong Kong ministerial declaration has put these proposals firmly on the negotiating table.

The Challenge Beyond Hong Kong
by Uttam Gupta, *The Hindu Business Line*, 14 February 2006, p. 10.

THE article says that under the July 2004 Framework Agreement, the developing countries agreed to undertake reduction in the domestic support even if this was lower than the *de minimis* level.

Further, it says that developing countries will have to work much harder in order to be able to create a level playing field for them in international trade. The specifics will have to be steered along the following lines:

- Reduction of domestic support to agriculture by developed countries to the de minimis level of 5 per cent by 2010 with "front loading" of reductions (support currently given under different Boxes needs to be lumped together and reductions applied to the aggregate).
- All forms of subsidy support should be covered by reduction commitments except the support given to the "resource poor" and "low income" farmers.
- Tariff reduction should be agreed upon only with reference to the "bound rates" (applied rate is strictly a prerogative of the member and must not be brought on the WTO table). Likewise, for determining the bound rate on items hitherto unbound, reference to applied rates should be avoided.

No Time for Tea by Sunil Jain and Monica Gupta**,** *Business Standard*, 26 December 2005, p. 10.

AT the outset, the article says that there has been an agreement that domestic subsidies will be cut, but by how much is subject to negotiations. It further states that there is a proposal by which various countries will be put into three bands depending upon their levels of "trade-distorting" domestic support to farmers. The EU will be in the top band where support levels are greater than $60 billion, the US in the middle one where support levels are between $10-60 billion and a third one below $10 billion. The cuts in the top band could be between 70-80 per cent, but the timeframe for this has to be negotiated. It could be between 53-75 per cent for the US and between 31-70 per cent for the rest.

Reducing Agricultural Tariffs Versus Domestic Support: What's More Imporant for Developing Countries? by Bernard Hoekman, Francis Ng and Marcelo Olarreaga, World Bank Policy Research Working Paper 2918, Development Research Group, World Bank, October 2002, Washington DC (USA).

THE article says that high levels of protection and domestic support given to the farmers in developed countries significantly affect many developing countries, both directly and through the price depressing effect of agricultural support policies. It makes an attempt to assesses the impact of reducing tariffs and domestic support for a sample of 119 countries. Least developed countries (LDCs), it says, are disproportionately affected by agricultural support policies. Developing countries as a group would suffer a welfare loss from a cut in support while LDCs would experience a small gain. For both groups of countries, tariff reductions by WTO members will have a positive effect on welfare.

The article stresses the need to give a focused attention to reduce border protection in both OECD and developing countries. For developing countries, tariffs are an important instrument of intervention to the effects of OECD subsidy policies.

Domestic Farm Policies and the WTO Negotiations on Domestic Support
by Tim Josling, Institute for International Studies, Stanford University, 2003.

THE Paper was presented at the International Conference on "Agriculture Policy Reform and the WTO: Where are We Heading?" on 23-24 June 2003 at Capri (Italy). It discusses the WTO constraints on domestic farm policies; the proposals under discussion in the Doha Round, the parallel process of regulation of domestic programmes for non-agricultural goods, significance of the Peace Clause and its expiry; and the implications for domestic farm policy of the Canadian dairy case and those of the US cotton and the EU sugar.

Further constraints on domestic support, it says, can only be removed by evolving a suitable package of measures that satisfy the "bottom line" requirements for the major participants. Finally, the article says that it may be useful to expose domestic support to the rigours of judicial decision if the political process accepts the need for restrictive trade rules and adjusts domestic policies accordingly. If that political acceptance is missing, then the attempts to restrict domestic farm policy within the WTO may lead to continued conflict and ultimately failure.

Case Against the Simultaneous Use of Market Access Restrictions, Domestic Support, and Export Subsidies by Roberto J. Garcia, Discussion Paper: D-31/2004, Department of Economics and Resource Management, Agricultural University of Norway, Norway, http:/www.nlh.no/ior/.

AT the outset, the article says that when market access (MA) restrictions, domestic support (DS), and export subsidies (ES) are simultaneously applied, reduction commitments cannot reform agricultural markets. This approach, it says, would allow policymakers to target production levels and recognize agriculture's multifunctional role, thereby satisfying society's non-trade concerns while liberalizing trade.

The article makes an attempt to show how simultaneous use of various policy measures, as defined and permitted under current rules, have in some cases undermined the disciplines to which WTO Members have pledged themselves. It also studies the meat policy regime, negotiated by Norway and accepted multilaterally, as a case to illustrate how foreign negotiators might approach multilateral talks to seek greater liberalization while respecting the concerns that Norwegian society has earmarked for its agricultural and rural sector.

A more comprehensive econometric analysis of the meat markets, it says, would determine the degree to which production is sensitive to support payments and prices and the degree to which the quantity demanded is affected by changes in prices.

An Analysis of the Agricultural Domestic Support under the Uruguay Round Agreement on Agriculture, United Nations Conference on Trade and Development, 2003/6, 19 November 2003, Geneva.

THE article says that domestic agricultural support is a sensitive issue for all countries producing agricultural commodities. Some countries grant large subsidies to producers, while others cannot afford such expensive policies. The Uruguay Round Agreement on Agriculture was a first step towards improving competition in the field of international agricultural trade. The new agenda of negotiations agreed at the Doha Ministerial Conference sets new challenges for negotiators in terms of market access, export subsidies and domestic support.

The article focuses on "Blue Box" measures in the context of domestic support. Although only a few countries use it, the amounts at stake are important.

Domestic Support and the WTO: Comparison of Support Among OECD Countries by Edwin Young, Mary Burfisher, Frederick Nelson, and Lorraine Mitchell, Economic Research Service, USDA (USA).

AT the outset, the article says that domestic farm support policies are a source of market and trade distortions. The continuing challenge for WTO negotiations on domestic farm policy, will be to obtain effective commitments to reduce agricultural trade distortions, while allowing countries flexibility to use minimally trade distorting policies to achieve their own national priorities.

The article makes an attempt to develop a database that classifies support into production and trade distorting categories that are useful in explaining and comparing the structure of policy across countries and commodities for a consistent timeframe.

Further, it says that distorting effect of policies depends upon both the economic incentives created by programme parameters and the total amount of support provided. This approach permits development of comprehensive and consistent database for trade liberalization and WTO related analysis and comparisons. Over half of the measured total support and three fourths of amber type support in the 12 OECD countries is market price support, with Korea providing over 95 per cent of its support as market price support. While the level of support varies widely among countries, considerable variation in the overall level of support exists among commodities, with milk and sugar generally receiving the highest support.

China's WTO Accession: Conflicts with Domestic Agricultural Policies and Institutions by Hunter Colby, Xinshen Diao and Francis Tuan, International Food Policy Research Institute, Washington, USA, February 2001, http://www.cgiar.org/ifpri/divs/tmd/dp.htm.

THE article examines the implications of WTO accession about China's domestic policies and institutions by identifying its agricultural policies and institutional arrangements.

In terms of domestic support, China, it says, will face a conflict in the operation of its grain stockholding policy. This policy will not be as effective and could become increasingly costly as well, if it is maintained and modified to comply with WTO rules. A WTO compliant grain stockholding policy would be less effective at managing and stabilizing the grain market, but would probably have some efficacy in terms of implementing stock policy. The final design of the WTO-compliant system and the amount of financial resources that the government is willing to commit will be the determining factor to see whether the new system can fulfil the government's current policy goals.

Finally, it says that large number of government programmes that meet the WTO "Green Box" criteria will be increasingly important to China's agriculture. If direct support of agriculture is capped and in some cases reduced, China will need to increase alternative types of support for farmers, including providing increased levels of resources for technical improvements in crop varieties and livestock breeds, rural infrastructure projects, timely market information, and rural development programmes aimed at alleviating poverty. In this way, China's farmers will be able to reduce costs, increase yields, and improve their competitiveness. •

(Contd. from page 25)

members — except the very poorest — offered real access to their markets. He said he continued to hope for an ambitious WTO round that "can still inject new blood" into the world economy. The situation is serious, but not desperate," Mr. Mandelson said.

The US, Brazil and Australia have led a chorus of calls for Brussels to go further with its planned reductions in import tariffs on farm products.

The EU's Executive Commission has said its offer of a 38 per cent average cut in farm tariffs is at the outer limit of its mandate from member states. They include France and other countries deeply opposed to the idea of more agricultural concessions.

In his speech, Mr. Mandelson did not elaborate on what another EU move in agriculture might consist of. He has previously said the number of sensitive products, which would be subject to smaller tariff cuts, could be up for negotiation.

As well criticizing Brazil and India, Mr. Mandelson said Europe would not accept "post-dated cheques written on a promise" by Washington that Congress will back a US offer to cut farm subsidies "on an unquantified basis at some unspecified point in future."

Australia, Canada and New Zealand had to commit to reform monopolies handling the export of agricultural goods, he said. Mr. Mandelson also used his speech to urge EU governments not to fall back on protectionist measures in response to globalization. "In Europe we are prone to look inwards. We are too defensive about changes in the world," he said.

(*The Financial Express*, 24 January, 2006)

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DOCUMENTS

Ministerial Conference
Sixth Session
Hong Kong, 13-18 December 2005

DOHA WORK PROGRAMME

Draft Ministerial Declaration

ANNEX A

Agriculture

Report by the Chairman of the Special Session of the Committee on Agriculture to the TNC

1. The present report has been prepared on my own responsibility. I have done so in response to the direction of Members as expressed at the informal Special Session of the Committee on Agriculture on 11 November 2005. At that meeting, following the informal Heads of Delegation meeting the preceding day, Members made it crystal clear that they sought from me at this point an objective factual summary of where the negotiations have reached at this time. It was clear from that meeting that Members did not expect or desire anything that purported to be more than that. In particular, it was clear that, following the decision at the Heads of Delegation meeting that full modalities will not be achieved at Hong Kong, Members did not want anything that suggested implicit or explicit agreement where it did not exist.

2. This is not, of course, the kind of paper that I would have chosen or preferred to have prepared at this point. Ideally, my task should have been to work with Members to generate a draft text of modalities. But this text reflects the reality of the present situation. There will be – because there must be if we are to conclude these negotiations – such a draft text in the future. I look at this now as a task postponed, but the precise timing of this is in the hands of Members.

3. As for this paper, it is precisely what it is described to be. No more, no less. It is the Chairman's report and, as such, it goes from me to the TNC. It is not anything more than my personal report – in particular, it is not in any sense an agreed text of Members. It does not, therefore, in any way prejudge or prejudice the positions of Members on any matter within it or outside of it. And, it certainly does not bind Members in any way. It should go without saying that the agreed basis of our work is, and shall remain, the Doha Mandate itself and the Framework in the Decision adopted by the General Council on 1 August 2004.

4. As to the character of the paper, I have endeavoured to reflect what I discerned as the wishes of Members when they directed me to prepare this paper. I have tried to capture as clearly as I can such conditional progress and convergence as has developed in the post-July 2004 period. In doing so, I have not tried to brush under the carpet divergences that remain, and the paper tries to be

just as clear on those points. Of course, it is a summary report. As such, it cannot – and does not – recapitulate each and every detail on each and every issue. But I took from Members' comments that they would prefer a paper which could 'orient' further discussion.

5. In that regard, I hope that anyone reading this paper would be able to get a pretty clear idea of what it is that remains to be done. Members made it clear that it was not my task as Chair to prescribe what is to be done next in a programmatic way. My task was to register where we are now, but I confess to having done so with an eye to genuinely clarifying where key convergences exist or key divergences remain, rather than obscuring or overcomplicating matters.

6. My own sense, when I review this myself, is the compelling urgency of seizing the moment and driving the process to a conclusion as rapidly as possible. We have made – particularly since August of this year – genuine and material progress. Indeed, it has come at a relatively rapid pace. It is also clear to me that it has been the product of a genuinely negotiating process. In other words, it has been a case of making proposals and counterproposals. That is why the matters covered in this report have an essentially conditional character. As I see it, the reality is that we have yet to find that last bridge to agreement that we need to secure modalities. But it would be a grave error, in my view, to imagine that we can take much time to find that bridge. As Chair, I am convinced that we must maintain momentum. You don't close divergences by taking time off to have a cup of tea. If you do so, you will find that everyone has moved backwards in the meantime. That, it seems to me, is a profound risk to our process. I would like to believe that this report at least underlines to us that there is indeed something real and important still within our grasp and we ought not to risk losing it. Our over-riding challenge and responsibility is to meet the development objective of the Doha Development Agenda. To meet this challenge and achieve this goal, we must act decisively and with real urgency.

7. The future life of this paper, if any, is a matter entirely in the hands of TNC Members to decide. This, as I see it, is the proper safeguard of the integrity of what has come to be described as a "bottom-up" process.

DOMESTIC SUPPORT

8. There has been very considerable potential convergence, albeit on a manifestly conditional basis.

Overall Cut

- There is a working hypothesis of three bands for overall cuts by developed countries. There is a strongly convergent working hypothesis that the thresholds for the three bands be US$ billion 0-10; 10-60; >60. On this basis, the European Communities would be in the top band, the United States and Japan in the second band, and all other developed countries at least in the third band. For developing countries, there is a view that either developing countries are assigned to the relevant integrated band (the bottom) or that there is a separate band for them.[1]
- Based on post-July 2005 proposals, there has been an undeniably significant convergence on the range of cuts. Of course, this has been conditional. But subject to that feature, a great deal of progress has been made since the bare bones of the July 2004 Framework. The following matrix provides a snapshot:

Bands	*Thresholds (US$ billion)*	*Cuts*
1	0-10	31-70%
2	10-60	53-75%
3	> 60	70-80%

De Minimis

- On product-specific *de minimis* and non-product-specific *de minimis*, there is a zone of engagement for cuts between 50% and 80% for developed countries.
- As regards developing countries, there are still divergences to be bridged. In addition to the exemption specifically provided for in the Framework, there is a view that, for all developing countries, there should be no cut in *de minimis* at all. Alternatively, at least for those with no AMS, there should be no cut and, in any case, any cut for those with an AMS should be less than 2/3 of the cut for developed countries.

Blue Box

9. There is important and significant convergence on moving beyond (i.e. further constraining) Blue Box programme payments envisaged in the July 2004 Framework. However, the technique for achieving this remains to be determined. One proposal is to shrink the current 5% ceiling to 2.5%.[2] Another proposal rejects this in favour of additional criteria disciplining the so-called "new" Blue Box only. Others favour a combination of both, including additional disciplines on the "old" Blue Box.

AMS

- There is a working hypothesis of three bands for developed countries.
- There is close (but not full) convergence on the thresholds for those bands. There appears to be convergence that the top tier should be US$25 billion and above. There is some remaining divergence over the ceiling for the bottom band: between US$12 billion and 15 billion.
- There has been an undeniably significant convergence on the range of cuts. Of course, this has been conditional. But, that understood, a great deal of progress has been made since the bare bones of the July 2004 Framework. The following matrix[3] provides a snapshot:

Bands	*Thresholds (US$ billion)*	*Cuts*
1	0-12/15	37-60%
2	12/15-25	60-70%
3	>25	70-83%

- There is therefore working hypothesis agreement that the European Communities should be in the top tier, and the United States in the second tier. However, while the basis for Japan's placement as between these two tiers has been narrowed, it remains to be finally resolved.
- For developed countries in the bottom band, with a relatively high level of AMS relative to total value of agriculture production, there is emerging consensus that their band-related reduction should be complemented with an additional effort.
- What is needed now is a further step to bridge the remaining gap in positions – particularly as regards the United States and the European Communities, it being understood that this is not a matter to be resolved in isolation from the other elements in this pillar and beyond.
- On the base period for product-specific caps, certain proposals (such as for 1995-2000 and 1999-2001) are on the table. This needs to be resolved appropriately, including the manner in which special and differential treatment should be applied.

Green Box

10. The review and clarification commitment has not resulted in any discernible convergence on operational outcomes. There is, on the one side, a firm rejection of anything that is seen as departing from the existing disciplines while there is, on the other, an enduring sense that more could be done to review the Green Box without undermining ongoing reform. Beyond that there is, however, some tangible openness to finding appropriate ways to ensure that the Green Box is more "development friendly" i.e. better tailored to meet the realities of developing country agriculture but in a way that respects the fundamental requirement of at most minimal trade distortion.

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