CHAPTER 15

Agreement on Agriculture

Summary

The reform programme adopted under the Agreement on Agriculture negotiated in the Uruguay Round tries to bring under the discipline of GATT the trade in agriculture – a sector in which its rules were not always fully applied by all member countries.

Under the reform programme, countries which, in addition to tariffs, applied such measures as quantitative restrictions and variable levies were required to eliminate them by adding the tariff equivalents of the measures to the existing tariffs. Countries were further obliged to reduce the tariffs applicable to imports of agricultural products, including the rates resulting from tariffication, by agreed percentages. Developing countries were however permitted to reduce their tariffs at a percentage rate which was lower than that imposed on developed countries and over a longer time frame. Least developed countries were exempted from the obligation to reduce tariffs.

All countries – developed, developing and least developed – were further required to bind their tariffs against increases in the levels shown in their schedules of concessions. However, developing and least developed countries were given flexibility to give ceiling bindings at rates which were higher than their existing applied and reduced rates.

Under the reform programme, countries using subsidies agreed to reduce by specified percentages export subsidies and domestic support subsidies considered to be trade distorting.

The Agreement provides that negotiations for the further liberalization of trade and improvements in the rules adopted under the reform programme should be launched before the end of 1999.

Overview

Agreement on Agriculture, Preamble

The Agreement on Agriculture establishes a programme for the gradual reform of trade in agriculture. The programme aims at establishing "a fair and equitable market-oriented agricultural trading system" by requiring countries to adopt new disciplines governing both:

- The use of border measures to control imports,
- The use of export subsidies and other subsidies that governments grant to support the prices of agricultural products and assure a reasonable income to farmers.

In order to ensure that the benefits of the reform programme are shared equally among member countries, the Agreement provides that the commitments which countries are required to make, should take into account:

Agreement on Agriculture, Preamble

- Non-trade concerns, including food security;
- The need to protect the environment;
- The need to extend special and differential treatment to developing countries; and
- The possible negative effects which the implementation of the reform programme could have on least developed and net food-importing countries.

The provisions of the Agreement apply to products falling under Chapters 1 to 24 of the Harmonized System and a few other specified products. Its coverage thus includes both primary and processed agricultural products.

For practical reasons, agricultural products are sometimes divided into two groups, viz. tropical products and others. Though there is no agreed definition of tropical products, beverages like tea, coffee and cocoa; cotton and hard fibres like jute and sisal; fruits like bananas, mangoes and guavas; and other products that are almost predominantly produced in developing countries are treated as tropical products. In the years following the establishment of GATT, these products were subject to both high tariffs and internal taxes in most developed countries. As these products are of export interest predominantly to developing countries, priority was given in the past rounds of GATT negotiations to removing the barriers to trade in such products. As a result, even before the Uruguay Round, a large number of these products, in both raw and processed forms, were entering developed markets on a duty-free basis, at low rates on MFN terms or under preferential arrangements.

Most developed countries, however, continued to apply to imports of other agricultural products – like wheat and other grains, meat and meat products – both high levels of tariffs and non-tariff measures such as quantitative restrictions, discretionary licensing and variable levies. The governments' basic objective in providing protection to such products (which are often referred to as temperate zone products) was to guarantee domestic producers prices that were much higher than world prices, in order to assure them reasonable incomes. These policies, apart from reducing trade opportunities for competitive foreign producers, also put heavy burdens on the budgetary resources of governments. This was inevitable, as the high cost of production in excess of domestic requirements could be disposed of in international markets only through export subsidies.

Developing countries also protect their agricultural sector by imposing high tariffs and restrictions on imports.

Border measures

Tariffication

Agreement on Agriculture, Article 4 and footnote 1

The most important aspects of the Agreement on Agriculture are the new rules. These require the countries which applied non-tariff measures (such as quantitative restrictions, discretionary licensing and variable levies) to abolish them by calculating their tariff equivalents and adding these to the fixed tariffs. As a result, countries have established new rates of tariffs for products (mostly temperate zone) to which they previously applied non-tariff measures. The tariff equivalent of non-tariff measures was calculated on the basis of average world market prices for the product subject to non-tariff measures and its internal price in the importing country.

The obligation to tariffy quantitative restrictions was however not applicable to restrictions maintained by developing countries in balance-of-payments difficulties under the provisions of GATT 1994.

Current and minimum access commitments

Exporting countries were apprehensive that, for some products the imports of which were restricted by quantitative restrictions or variable levies, there was a danger that the tariffication process by itself would not have a significant liberalizing effect. The use of current and minimum access commitments was therefore adopted to complement the tariffication process. (*See* box 34 for details.)

> ***Box 34***
>
> ***Agricultural products: current and minimum market access commitments***
>
> *(Agreement on Agriculture, Article 5.2)*
>
> ***Current access commitments***
>
> *A number of countries had special arrangements for imports of meat and other mainly temperate-zone products up to quota limits on either a duty-free or a preferential basis. In order to ensure that such imports are not affected by the application of higher rates resulting from tariffication, importing countries have given current access commitments by establishing tariff quotas to cover imports that were entering the market at lower duty rates. As a result of these commitments, imports up to quota levels are allowed at the lower existing rates. The higher rates ensuing from tariffication are applicable to imports over and above quota limits.*
>
> ***Minimum access commitments***
>
> *For products for which little or no imports took place in the past because of the highly restrictive nature of the then-existing regime, countries were required to give minimum market access opportunity commitments. The commitments provide for the establishment of tariff quotas equal to 3% of domestic consumption in the base period 1986-1988 and rising to 5% by the end of 2000 for developed countries and 2004 for developing countries. Lower rates (specified in the national schedules but generally not greater than 32% of the bound tariffied rates) are applicable to imports up to the quota limits, while the higher rate resulting from tariffication apply to imports over quota limits. As a result of these minimum access commitments, countries will have to import modest amounts of their most restricted products. Products covered by minimum access commitments include meat, dairy products, and specified fresh vegetables and fruits.*

Agreement on Agriculture, Article 5

Special safeguards

The Agreement responds to the concern of importing countries that the removal of quantitative restrictions may lead, despite the tariff equivalents, to sudden increases in imports, by permitting them to impose special safeguards on tariffied products.

The special safeguard provisions allow the imposition of an additional tariff when certain criteria are met. The criteria involve either a specified rapid surge in imports (volume trigger) or, on a shipment-by-shipment basis, a fall of the import price below a specified reference price (price trigger). In the case of the volume trigger, the higher duties apply only until the end of the year in question. For the price trigger, additional duties can be imposed only on the shipment concerned. The additional duties may be charged only on products to which tariffied rates apply and only if a reservation to invoke such safeguards is indicated against the product in the country's schedule of concessions.

Percentage reductions in tariffs

Countries agreed during the Uruguay Round to reduce tariffs (both the new tariffied rates and other tariffs) by fixed percentages. Developed and transition countries undertook to reduce tariffs by an average of 36% and developing countries by 24%. Such reductions are to be made by developed countries over a period of six years from 1 January 1995 and by developing countries in 10 years. The least developed countries, even though they have bound tariffs at higher ceiling rates, were not required to reduce them.

The rules further require that a tariff on an individual product must be reduced by at least 15% by developed countries and 10% by developing countries.

Binding of tariffs

One of the other features of the reform programme is that tariffs (including those resulting from tariffication) applicable to agricultural products have been bound by all countries (developed, developing, least developed and transition) against increases above the levels indicated in their schedules of concessions. This, in addition to the elimination of non-tariff measures through tariffication, is considered one of the major achievements of the reform programme: before its adoption, very few of the tariffs of both developed and developing countries had been bound.

Flexibility for developing countries: ceiling bindings

Developing and least developed countries were given the flexibility to bind their tariffs at ceiling rates, which could be higher than their applied rates or those resulting from reductions agreed in the negotiations. A number of these countries have taken advantage of this flexibility and have given a ceiling binding undertaking not to raise any tariffs applicable to agricultural products over an agreed level (say 60% or 80%). The applied rates in all these countries are significantly lower than their ceiling rates.

Export subsidies and governmental support measures

Apart from high levels of protection, distortions in the international trade in agricultural products are caused by subsidy practices, mainly in some developed countries. While over the years GATT had been able to develop rules for subsidies on industrial products, it had failed to bring under discipline subsidies granted by governments to the agricultural sector. The Agreement on Agriculture contains rules for subsidies on agricultural products.

Export subsidies

Export subsidies are considered the most trade distorting of the subsidies granted by governments. These are given to enable farmers to sell their products in international markets.

Rules applicable to industrial products

The rules on the use of export subsidies for agricultural products differ from those applicable to industrial products. GATT rules have, since early times, prohibited developed countries from using export subsidies on industrial products. The Agreement on SCM, revised in the Uruguay Round, extended this prohibition to the industrial products of developing countries. They have a transition period of up to eight years (up to 1 January 2003) to comply with this obligation. However, least developed countries and countries with per capita incomes of less than US$ 1,000 are currently exempt from this obligation. (*See* chapter 8.)

Rules applicable to agricultural products

Agreement on Agriculture, Article 9

In the agricultural sector, it was recognized that a number of countries relied on the use of subsidies to dispose of their surplus production in international markets. The Agreement on Agriculture requires countries to undertake commitments to reduce their use. Countries are permitted to use the six categories of subsidies listed in box 35, provided they agree to undertake commitments to reduce both the amounts of subsidies (expressed in terms of budgetary outlays) and the quantities of subsidized exports.

It should be noted that the countries that used such subsidies made extensive commitments during the negotiations. These commitments have been incorporated on a product-by-product basis in their WTO schedules of concessions.

Agreement on Agriculture, Article 10

These countries are under an obligation not to exceed the commitment levels shown in their schedules in respect of both budgetary outlays and volumes. They are also under an obligation not to extend the coverage of products for which subsidies can be granted beyond that specified in the schedule.

Table 1 in the annex to this chapter lists the export subsidy commitments undertaken by these countries and the products to which they apply.

Countries which have not given reduction commitments are prohibited from using export subsidies on agricultural products. However, the provisions on special and differential treatment permit developing countries to use two of the types of export subsidies listed in box 35. These are:

- ❑ Subsidies to reduce the cost of marketing exports of agricultural products, including upgrading and other processing costs, and the cost of international transport and freight,
- ❑ Internal transport and freight charges on export shipments on terms more favourable than domestic shipments.

Domestic support subsidies

Agreement on Agriculture, Article 1(a); Article 6

As regards domestic subsidies, the approach of the Agreement is to require countries to accept commitments to reduce trade distorting subsidies. For this purpose, it divides subsidies into three categories: green, blue and amber. Green and blue subsidies are permitted subsidies and to which reduction commitments do not apply. Amber subsidies are subsidies to which reduction commitments apply.

Green box subsidies

Agreement on Agriculture, Annex 2:1

All subsidies that have "no, or at most minimal, trade-distorting effects or effects on production" and do not have the "effect of providing price support to

Box 35

Export subsidies subject to reduction commitments

(Agreement on Agriculture, Article 9.1)

The Agreement on Agriculture establishes six basic categories of export subsidies that are to be reduced by member countries. These are:

- *The provision of direct subsidies by governments that are contingent on export performance;*
- *The sale of non-commercial (publicly owned) stocks of agricultural products by governments at a price lower than the comparable price charged for the like products to buyers in the domestic market;*
- *Payments on the export of an agricultural product that are financed by virtue of government action whether or not a charge on the public account is involved, including payments financed from the proceeds of a levy imposed on the product concerned or on an agricultural product from which the export product is derived;*
- *The provision of subsidies to reduce the costs of marketing exports of agricultural products (other than widely available export promotion and advisory services), including handling, upgrading and other processing costs, and the cost of international transport and freight;**
- *International transport and freight charges on export shipments on terms more favourable than for domestic shipments;* and*
- *Subsidies on agricultural products contingent upon their incorporation in exported products.*

* *Developing countries are not required to undertake reduction commitments in respect of these export subsidy practices (Article 9.4).*

producers" are considered green box subsidies and are exempt from reduction commitments. The Agreement does not unduly restrict the rights of governments to grant subsidies to improve the productivity and efficiency of agricultural production. Box 36 contains an illustrative list of green box subsidy practices.

Blue box subsidies

In addition to the practices listed in box 36, "direct payments under production limiting programmes" are also exempt from reduction commitments provided that:

- Such payments are based on fixed areas or yields;
- Such payments are made on 85% or less of the base level of production;
- Livestock payments are made on a fixed number of head.

These subsidy practices are often referred to as blue box measures.

Amber subsidies

Domestic support

Amber subsidies mainly cover domestic support subsidies that are considered trade distorting. The Agreement establishes a ceiling on the total domestic support (calculated as the Aggregate Measurement of Support, AMS) that governments may provide to domestic producers. In addition, it requires that AMS should be reduced by agreed percentages.

Box 36

Illustrative list of green subsidies granted to producers that are exempt from reduction commitments

(Agreement on Agriculture, Annex 2)

The following are a few examples from Annex 2 of the Agreement on Agriculture which lists subsidy practices that are exempt from reduction commitments, if the specific conditions prescribed by the Agreement are met:

- *Government expenditure on agricultural research, pest control, inspection and grading of particular products, marketing and promotion services.*
- *Financial participation by governments in income insurance and income safety-net programmes.*
- *Payments for natural disaster.*
- *Structural adjustment assistance provided through:*
  - *Producer retirement programmes designed to facilitate the retirement of persons engaged in marketable agricultural production;*
  - *Resource retirement programmes designed to remove land and other resources, including livestock, from agricultural production;*
  - *Investment aids designed to assist the financial or physical restructuring of a producer's operations.*
- *Payments under environmental programmes.*
- *Payments under regional assistance programmes.*

AMS is calculated on a product-by-product basis by using the difference between the average external reference price for a product and its applied administered price multiplied by the quantity produced. To arrive at AMS, non-product-specific domestic subsidies are added to the total subsidies calculated on a product-by-product basis.

The green and blue box subsidies described above are exempt from inclusion in AMS. Further, where support granted to a particular product is less than 5%, expenditure on subsidization of that product is excluded from the reduction commitment. Similarly, a non-product-specific domestic subsidy is excluded from the calculation if it does not exceed 5% of the value of agricultural production. For developing countries, these *de minimis* percentages are 10%.

Developing countries are further permitted, in order to encourage their agricultural and rural development, to exclude from the AMS calculation and thus from reduction commitments the following:

- Investment subsidies generally available to agriculture;
- Input subsidies generally available to low-income resource-poor producers; and
- Subsidies to encourage diversification from narcotic crops.

Countries are required to reduce the AMS calculated on the above basis by specific percentages. Table 2 in the annex indicates the reductions that must be made in domestic support by the countries which have made the related commitments. Developed countries have agreed to reduce AMS by 20% over a period of six years (from 1 January 1995) from the average level reached in the base period 1986-1988. Developing countries are required to reduce AMS by 13 1/3% over a period of 10 years. Because of these commitments, the total amount of AMS granted by countries which have undertaken commitments is expected to fall from US$ 197,721 million in the base period 1986-1988 to US$ 162,497 million by the end of the implementation period. (*See* table 2 in the annex to this chapter.)

Peace clause

Under the provisions of the Agreement on SCM, imports of both subsidized industrial and agricultural products can be subjected by importing countries to countervailing duties if they cause material injury to the domestic industry producing such products. In addition, it is open to a country, which considers that its interests are being adversely affected by the subsidy practices of another country, to challenge the practice by raising the matter under WTO's dispute settlement procedures.

Agreement on Agriculture, Article 13

One of the features of the Agreement on Agriculture is the "peace clause". The clause shields certain types of domestic support policies and export subsidies from remedial actions by other countries at the national and multilateral level.

Broadly, the Agreement provides that products benefiting from green box subsidies which are in full conformance with its provisions shall be non-actionable for the purpose of countervailing actions as well as for challenges in WTO through the invocation of dispute settlement procedures.

Other domestic support measures and export subsidies which are in conformity with the provisions of the Agreement may be the subject of countervailing duty actions, but due restraint is to be exercised by Members in initiating such investigations.This provision on "due restraint" does not apply to domestic support or export subsidy programmes that exceed reduction commitments; governments may investigate such subsidies for countervailing actions.

Net food-importing countries

Agreement on Agriculture, Article 16; Ministerial Decision on Measures concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries

Before concluding this broad overview of the provisions of the Agreement, it is important to note one provision of special interest to developing countries that are net importers of food.

The Agreement recognizes that the implementation of liberalization commitments (particularly the reduction of subsidies) may, by lowering surplus production, adversely affect the overall availability of basic foodstuffs. This may have a negative effect on least developed countries and on developing countries that are net importers of food.

In order to offset these negative effects, it has been agreed that:

- ❑ Action should be initiated to ensure that an increasing proportion of basic food aid is provided to these countries in a fully grant form;
- ❑ Technical and financial assistance should be provided to these countries to improve their agricultural productivity and infrastructure; and
- ❑ Appropriate steps should be taken to encourage financial institutions (e.g. IMF, World Bank) to consider the scope for establishing new facilities or enhancing existing facilities for providing assistance to these countries to help them face difficulties in financing commercial imports as a result of the liberalization measures taken in the Uruguay Round.

Business implications and future negotiations

From the point of business the major achievement of the reform programme has been that a beginning has been made in applying the GATT/ WTO discipline to trade in this sector.

Agreement on Agriculture, Article 18

The Agreement on Agriculture provides that negotiations for the further liberalization of trade in this sector and for improving its rules should commence before the end of 1999. In order to prepare for such negotiations, the Committee on Agriculture has already begun a process of analysis and information exchange. In these discussions, a number of suggestions have been made on steps to be taken during the negotiations, including the following:

- To carry forward the process of liberalization;
- To find solutions to the problems faced by exporting enterprises as a result of the widely differing systems adopted by countries for administering the tariff quotas fixed for the implementation of their current and minimum access commitments;
- To bring the practices of State trading organizations engaged in trade in agricultural products under GATT discipline; and
- To ensure that the rules applicable to trade in agriculture recognize the need of countries to have a sufficient domestic output to provide for food security.

ANNEX

Table 1 Export subsidy reduction commitments, by participant (in millions of United States dollars)

Participant	Export subsidies			Product composition of export subsidies
	Base	Final	Change	
European Union	13 274	8 496	-36	Bovine meat (19%), wheat (17%), coarse grains (13%), butter (13%), other milk products (10%)
Austria	1 235	790	-36	Live animals (45%), wheat (14%), bovine meat (13%), cheese (12%)
United States	929	594	-36	Wheat (61%), skim milk powder (14%)
Poland	774	493	-36	Meat preparations (39%), fruits and vegetables (21%)
Mexico	748	553	-26	Sugar (76%), cereal preparations (21%)
Finland	708	453	-36	Butter (25%), coarse grains (22%), other milk products (13%)
Sweden	572	366	-36	Pigmeat (21%), wheat (21%), coarse grains (17%)
Canada	567	363	-36	Wheat (47%), coarse grains (18%)
Switzerland	487	312	-36	Other dairy products (65%)
Colombia	371	287	-23	Rice (32%), cotton (20%), fruits and vegetables (23%)
South Africa	319	204	-36	Fruits and vegetables (24%), cereal preparations (14%), wheat (13%), sugar (10%)
Hungary	312	200	-36	Poultry meat (30%), pigmeat (26%), wheat (11%), fruits and vegetables (19%)
Czech Republic	164	105	-36	Other milk products (38%), fruits and vegetables (10%)
Turkey	157	98	-37	Fruits and vegetables (36%), wheat (23%)
New Zealand	133	0	-100	Not available
Norway	112	72	-36	Cheese (54%), pigmeat (19%), butter (12%)
Australia	107	69	-36	Other milk products (32%), skim milk powder (27%), cheese (25%), butter (16%)
Brazil	96	73	-24	Sugar (56%), fruits and vegetables (30%)
Slovak Republic	76	49	-36	Other dairy products (19%), cereal preparations (13%), bovine meat (13%)
Israel	56	43	-24	Fruits and vegetables (59%), plants (22%), cotton (17%)
Indonesia	28	22	-24	Rice (100%)
Iceland	25	16	-36	Sheep meat (78%), other dairy products (22%)
Cyprus	19	14	-24	Fruits and vegetables (67%), alcohol (16%)
Uruguay	2	1	-23	Rice (83%), butter (12%)

Source: WTO.

Notes:

1. Commitments converted to US dollars using 1990/91 average exchange rates. Reduction commitments apply to individual product categories as defined in this table.

2. The participants that have submitted schedules and do not maintain export subsidies include: Algeria, Antigua and Barbuda, Argentina, Bahrain, Barbados, Belize, Bolivia, Brunei Darussalam, Cameroon, Chile, Congo, Costa Rica, Côte d'Ivoire, Cuba, Dominica, Dominican Republic, Egypt, El Salvador, Fiji, Gabon, Grenada, Gambia, Ghana, Guatemala, Guyana, Honduras, Hong Kong (China), India, Jamaica, Japan, Kenya, Republic of Korea, Kuwait, Macau, Malaysia, Malta, Mauritius, Morocco, Namibia, Nicaragua, Nigeria, Pakistan, Paraguay, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Singapore, Sri Lanka, Suriname, Swaziland, Thailand, Trinidad and Tobago, Tunisia, Zambia and Zimbabwe. Least developed countries are exempt from export subsidy reduction commitments.

Table 2 Reductions in domestic support to agricultural producers, by participant (in millions of United States dollars)

Participant	Base*	Final	Reduction (%)
Total	**197 721**	**162 497**	**18**
European Union	92 390	76 903	17
Japan	35 472	28 378	20
United States	23 879	19 103	20
Mexico	9 669	8 387	13
Canada	4 650	3 720	20
Finland	4 186	3 349	20
Poland	4 160	3 329	20
Republic of Korea	4 086	3 543	13
Switzerland	3 769	3 016	20
Sweden	3 429	2 743	20
Austria	2 534	2 027	20
Norway	2 247	1 797	20
Venezuela	1 305	1 131	13
Brazil	1 053	912	13
Thailand	866	745	13
Czech Republic	717	574	20
Israel	654	569	13
New Zealand	210	268	20
Hungary	613	490	20
Australia	460	368	20
Slovak Republic	435	348	20
Colombia	398	345	13
Iceland	222	177	20
Cyprus	127	110	13
Morocco	93	81	13
Tunisia	76	66	13
Costa Rica	18	16	13
South Africa	3	2	20

Source: WTO.

* Subsidies granted in 1986 to 1988.