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EXAMINING TRADE IN THE AGRICULTURAL SECTOR, WITH A VIEW TO EXPANDING THE AGRICULTURAL EXPORTS OF THE DEVELOPING COUNTRIES, AND TO ASSISTING THEM IN BETTER UNDERSTANDING THE ISSUES AT STAKE IN THE UPCOMING AGRICULTURAL NEGOTIATIONS

Background note by the UNCTAD secretariat

Executive Summary

This note provides a brief survey of issues relevant to expanding developing country's trade in agricultural products, and analyses, from the perspective of these countries, the issues at stake in the upcoming agricultural negotiations. It also flags questions that the experts might wish to consider.

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Introduction

1. At its third session, held from 28 September to 2 October 1998, the Commission on Trade in Goods and Services, and Commodities decided to convene in 1999 an expert meeting on examining trade in the agricultural sector, with a view to expanding the agricultural exports of the developing countries, and to assisting them in better understanding the issues at stake in the upcoming agricultural negotiations (see TD/B/COM.1/22, para. 83(b)). This background note looks at some of the issues relevant to the subject of the expert meeting. Part I reviews the major problems faced by developing countries in the agricultural sector and discusses the prospects for expanding the agricultural exports of developing countries. Part II summarizes some of the key issues at stake in the upcoming multilateral negotiations on agriculture in relation to the interests and concerns of the developing countries.

Part I

EXPANDING THE AGRICULTURAL EXPORTS OF DEVELOPING COUNTRIES: PROBLEMS AND PROSPECTS

2. The agricultural potential of developing countries, the current state of development of that potential and the degree of participation of those countries in international agricultural trade vary widely across countries and regions of the developing world. Natural endowments such as climate and the availability of arable land and freshwater supplies determine to a large extent agricultural potential. Historical trading relations with major trading partners have also been important determinants of the flow and composition of developing countries' agricultural exports.

3. Although the share of agriculture in world gross domestic product (GDP) and the proportion of the labour force employed in it have been declining for some time, for a large number of developing countries the agricultural sector is still a major contributor to GDP. Between 1990 and 1996, agriculture’s value added as a proportion of GDP was on average 34 per cent for low income countries (excluding China and India) as compared to 8 per cent in upper-middle-income countries and 1.5 per cent in the high-income countries of the Organisation for Economic Co-operation and Development (OECD).[1] As a source of employment, in 1994, the agricultural sector employed over 70 per cent of the labour force in low-income countries, 30 per cent in middle-income countries, and only 4 per cent in high-income countries.[2]

4. World trade in agricultural products, which amounted to US$ 580 billion in 1997 (equivalent to only about 11 per cent of world merchandise trade), is of vital importance to many countries, both exporters and importers. Food products account for around three quarters of all agricultural trade, and raw materials account for the remaining quarter. Developing countries account for about 29 per cent of world agricultural exports and a similar percentage of world imports. Agricultural products weigh more heavily in the export structure of many developing countries. For example, in 1996, of 55 developing countries for which comparable data are available, about a half had a share of agricultural products in total merchandise exports in excess of 30 per cent, while a quarter had a similar share in excess of 50 percent.[3]

5. Several aspects of recent trends in the pattern of world trade in agricultural products are noteworthy. Firstly, between 1990 and 1997, the principal sources of growth in world agricultural trade (which grew annually by about 5 per cent during this period) were the intra trade of Asia and North America (which grew annually by 9 per cent and 8 per cent, respectively) and exports from Latin America to western Europe (which grew annually by 8 per cent).[4] Asia, western Europe (excluding intra-European Union trade) and the Middle East are (in that order) the principal net importing regions of agricultural products. In the case of Asia, which now accounts for over 25 per cent of world agricultural imports, strong growth in demand before the East Asian financial and economic crisis of 1997-1998 provided buoyant export markets for most agricultural exports in an environment of relatively firm world agricultural prices, which rose sharply above trend in 1995/1996. However, since 1997, as a result of the crisis, demand in the region has fallen substantially, with a consequent adverse impact on world agricultural prices.[5]

6. While primary products, as bulk commodities, continue to dominate the composition of world agricultural trade, in recent years the share of processed food products (which was 30 per cent of world food exports in 1994) has been rising, reflecting a growing world market for value-added, consumer-oriented food products. For example, for OECD countries, which are the principal exporters of processed food products (accounting for 70 per cent of world exports in 1992), the share of processed foods in their food exports rose from 27 per cent to 37 per cent in the 1980s.[6] Processed agricultural products have also been a dynamic area of export growth in agriculture for developing countries in recent years. For example, while developing country exports of oilseeds and oleaginous fruit grew annually by 0.7 per cent between 1990 and 1995, those of fixed vegetable oils grew by 16.5 per cent.[7]

7. However, a more detailed examination of exports of agricultural processed products reveals that the growing share of developing countries is mainly found in the products at the primary processing stages. World exports of products requiring significant blending, processing and marketing activities, giving the final products a high value-added, are often dominated by developed countries. These products include tropical beverages and spices, which are based on commodities primarily produced in developing countries. Where the shares of developing countries in the export of processed products have increased, this can often be attributed to a large surge in the exports of a few countries or territories in selected products. Examples include rice exports from Viet Nam, poultry exports from Brazil, and vegetable oil exports from Malaysia and Indonesia.

8. Supply-side problems continue to be an important obstacle to export expansion for some developing countries, notably in Africa.[8] For example, between 1986 and 1997, while at the world level per capita agricultural production rose by 7 per cent, it fluctuated considerably around a flat trend for Africa as a whole and fell for many individual African and Central American countries.[9] Although weather and civil wars may have been a factor in some cases, these countries have not been able to make sufficient investments in agriculture or to benefit from an increase in yields due to the utilization of improved seeds and chemical inputs, mechanization and better farming practices in general. Other problems constraining export expansion include difficulties in meeting market requirements in terms of quality, including sanitary requirements, and lack of modern marketing and distribution infrastructures and

skills.[10] The dominant role of large transnational enterprises in the worldwide production, marketing and distribution of some products has also sometimes been a constraining factor. The diverse agricultural situations of a cross-section of developing countries are reviewed below.

9. Notwithstanding the supply-side problems of some developing countries, market access continues to be one of the major factors affecting their trading prospects. Although the Uruguay Round resulted in the elimination of most non-tariff barriers, tariffs in developed countries on agricultural products, especially on processed products, remain quite high, as tariffication has led to many peak tariffs on agricultural products (see Part II below). However, for products which are mainly supplied by developing countries, such as tropical products (e.g. beverages, nuts, fruit, certain oil seeds, spices and flowers), aggregate data suggest that developed countries have cut tariffs by an above-average (i.e. more than 36 per cent) rate of reduction.[11] However, for some developing countries, especially the least developed countries (LDCs), this has meant an erosion of the preferential margins they enjoyed under tariff preferences such as the Generalized System of Preferences (GSP) and the Lomé Convention. In any case, the impact of the Agreement on Agriculture on individual developing countries will vary from country to country depending on each country’s pattern of agricultural production and trade.

10. In addition to the opportunities provided through the multilateral framework, some regional trade agreements involving developing countries have provided additional opportunities for expanding their agricultural exports. This is particularly true of those agreements such as the Southern Common Market (MERCOSUR), the Central American Common Market (CACM) and the Caribbean Community (CARICOM) which have largely liberalized agricultural trade within their region.

The agricultural situation of selected developing countries[12]

11. **Argentina**: Agriculture accounts for 6 per cent of GDP, and for around 10 per cent of total employment. Agriculture and agro-industrial products make up 56 per cent of exports. Argentina is a net exporter of food products. Its main export products are cereals (of which 83 per cent is wheat and maize) and oilseeds (colza, linseed, sunflower, peanuts and soybean); MERCOSUR countries are a major destination for these products. Since the early 1990s, livestock production has been adversely affected by low world prices, intense competition in international markets and changes in world consumer preferences. Pork production has also suffered from increased foreign competition. The agricultural sector has undergone a concentration of farms into larger units with new business organizations and new seeding pools, which have attracted considerable foreign investment and benefited from economies of scale. It has been claimed that certain agricultural exports from Argentina have been displaced or rendered less competitive in third markets by the subsidized exports of certain WTO members, in particular, the European Communities and the United States. Argentina’s exports to the European Union enter under several tariff quotas (including the tariff quota for beef, which covers two-thirds of Argentina’s beef exports to this market). All these quotas have been fully utilized so far. Since the conclusion of the Uruguay Round and the recognition that the country is free of foot-and-mouth disease, Argentina has been eligible for an annual 20,000-ton quota of fresh/frozen beef in the United States market.

12. **Benin**: Agriculture is the country’s principal economic activity, accounting for almost 40 per cent of GDP, about 62 per cent of employment and more than 90 per cent of export earnings. The food import bill is estimated at one-quarter of its total imports. The principal crops are cotton, cassava, maize and yams. Cotton accounts for almost all export earnings. Other branches of agriculture are failing to develop because of uncertain markets and lack of credit. The CFA franc devaluation of January 1994 initially triggered an increase in prices, but was followed by a decline in the value of food imports from countries outside the franc zone. Following the devaluation, overall food production stagnated in 1994 and did not increase significantly in 1995, which led to serious food supply problems in 1996. The Government's decision to raise the administered producer price for cotton by 50 per cent between 1994 and 1996, while maintaining the other administered prices at their old levels, may also be a reason for a shift of production away from food crops to cotton. In 1994, the Government took a decision to prohibit temporarily exports of food crops, in order to ensure food security. Most farms were created or nationalized under the previous regime and are currently under the supervision of the Ministry of Rural Development. However, it seems that, since 1985, these farms have not been maintained. Chemical pollution is a negative aspect associated with cotton-growing, which requires large amounts of pesticides. Brazil has refused entry to some cotton imports from Benin because of the presence of pesticide residues.

13. **Brazil**: Agriculture accounts for around 14 per cent of GDP, and 23 per cent of total employment. Food exports are equivalent to 30 per cent of its total exports, while imports of food and agricultural raw material account for 11 per cent of the total imports. Brazil is the world’s largest producer of coffee and is amongst the largest producers of soybean products, orange juice, cocoa, beef, tobacco and cotton. The share of coffee exports in total exports fell to 6 per cent in 1994 (5.1 per cent in coffee beans and 0.8 per cent in instant coffee). Brazil is the world’s largest and lowest cost producer of sugar cane and refined sugar. Sugar exports have increased dramatically in recent years, despite the system of export taxes. It is almost self-sufficient in food production, except in wheat. Cereals account for around 2 per cent of total imports; other significant agricultural imports include rice and corn. Brazil operates a system of minimum price support for corn, rice and wheat. High levels of price support and import/export restrictions existed previously, but its trade and sectoral policy has been directed towards a more neutral stance. Adaptation has been made particularly difficult by the sector’s historically high levels of indebtedness and, more recently, by the impact of stringent monetary policies on profitability. Rural indebtedness has continued to grow in recent years.

14. **Côte d’Ivoire**: Agriculture accounts for 28 per cent of GDP, and its share in the total labour force is around 63 per cent. Food exports amount to 60 per cent of its total exports, and imports of food and agricultural raw materials are estimated to be around 15 per cent of the total. The major products imported are wheat and rice (accounting for 7 per cent of total imports) and animal products (3 per cent). Subsidized imports of meat from the European Union are said to have prevented the growth of a regional and local bovine industry, as these compete with Sahelian products. The high cost of road transport (in the form of taxes on vehicle imports and road tolls) may place a dual burden on producers, affecting both the supply of inputs and the transport of their products. Cocoa and coffee production account for almost 16 per cent of GDP. Côte d’Ivoire is the world's largest producer of cocoa: it produces around one-third of the world total. Cocoa provides more than one-quarter of the country's

export revenue. Approximately 90 per cent of its coffee and cocoa exports are to the European Union. Côte d’Ivoire has already begun to diversify into the manufacture of instant coffee, cocoa butter and other cocoa products. While Ivorian exports of these products are entitled to duty-free entry into the major consumer market, these advantages have enabled exporters to build up a sizeable market share. The Uruguay Round agreements reduced the market access advantages of Côte d’Ivoire in some products, including cocoa beans, as the European Union's tariff reduction from 3 to 0 per cent will erode the preferential margin for the African, Caribbean and Pacific group of States. Côte d’Ivoire’s exports of bananas enter the European Union duty-free, within the tariff quota provided for in the Lomé convention.

15. **El Salvador**: Agriculture accounts for 13 per cent of GDP and for 30 per cent of employment of the total labour force. Food exports are equivalent to 52 per cent of total exports, and imports of food and agricultural raw material account for 20 per cent of total imports. The most important agricultural products are coffee, basic grains and sugar. Livestock is also an important activity, accounting for 25 per cent of agricultural GDP. Major export crops include coffee, sugar, shrimp and cotton. Coffee exports account for 32 per cent of the total; sugar exports account for the next-largest share of the total. The chicken industry has been growing in the two last decades, and Salvadoran whole chicken is competitive in the international market, but once it is cut into parts, it becomes more expensive than the chicken parts from the United States. Imports of the latter are a concern to local farmers. Exports of chicken from El Salvador to the United States are restricted for sanitary reasons. El Salvador imports a wide range of staple foods, including wheat, rice, meat, vegetables and fruit. El Salvador has insufficient land for significant crop expansion, and so the main source of growth in agricultural output will have to be increases in productivity and competitiveness. Agricultural liberalization, including the reduction of tariffs and non-tariff barriers, was undertaken autonomously before the end of the Uruguay Round. At present, there are no direct support programmes available to producers. More market-oriented policies have benefited producers and processors of sugar. The Salvadoran farming sector is also concerned about the potentially negative effects of the North American Free Trade Agreement (NAFTA) on non-traditional agricultural exports of fruit and vegetables to the United States market, where El Salvador competes with Mexico.

16. **India**: Agriculture accounts for 29 per cent of GDP, and for over 65 per cent of total employment. Agricultural exports were equivalent to about 17 per cent of total exports in 1996/1997, while food imports accounted for less than 5 per cent of total imports. Food exports were around 13 per cent of total exports between 1992 and 1994. Animal and vegetable fats account for over 40 per cent of total agricultural imports, and fruit and nuts for 17.2 per cent. The removal of export restrictions, especially on rice (in 1994), has been a factor in the growth of cereal exports (27.9 per cent of total agricultural exports in 1995/1996), followed by coffee and tea (16 per cent) and animal feed (13.4 per cent). The loss of markets in the former Soviet Union was one of the main causes of an overall decline in exports of traditional products such as tea and coffee. There has been a relative increase in India's trade with Asia and a relative decline in its trade with western Europe. Between 1992 and 1996, the share of imports from Asian countries in India’s total agricultural imports rose from 41 per cent to 54 per cent, and that of exports to Asia grew from 45 per cent to 52 per cent. Despite an impressive rate of growth in recent years, the

agricultural sector faces a number of infrastructural constraints. Although the production of processed fruit and vegetables grew by an impressive 22 per cent, per annum on average between 1992 and 1996, it is estimated that as much as 25-30 per cent of India’s production of fruit and vegetables is wasted every year because of inadequate storage, handling and marketing infrastructure. The commercial processing of fruit and vegetables remains low, at about 1.8 per cent of total annual production. The agricultural sector is supported through a variety of measures, including through product-specific support for rice, wheat and other cereals. With much of the population dependent on the rural economy and a large number of landless labourers and small-scale farmers with little marketable surplus, India maintains a minimum-support-price scheme for agricultural commodities. However, the product-specific aggregate measurement of support (AMS) for each of 19 priority products has been below the 10 per cent *de minimis* level. In addition, because domestic prices are significantly below the base period (1986-1988) external reference prices, India’s total product-specific AMS has been technically negative. The main subsidies provided to the agricultural sector include those for fertilizer production, irrigation and power. There is also a food consumption subsidy through the Public Distribution System, to ensure that all consumers have access to food.

17. **Mexico**: Agriculture accounts for 5 per cent of GDP and around 25 per cent of total employment. Food exports amount to 6 per cent of total exports, and imports of food and agricultural raw materials amount to 6 per cent of total imports. Cereals (notably maize) are the dominant agricultural commodity. Mexico is a large exporter of fresh vegetables, coffee, tomatoes and other fresh fruit; it has also become an important exporter of prepared foods, notably beer, tequila and tinned products. Consumption patterns for agricultural products have also been undergoing rapid changes: per capita consumption of rice and beans, two of Mexico’s staple foods, has declined; maize consumption is increasing but a growing share is being utilized for industrial purposes and feedstock. Such trends point to more diversified consumption patterns. Mexico’s agricultural sector still suffers from insufficient investment, low productivity and regional disparities in production techniques. Three-quarters of the population considered to be living in extreme poverty live in rural areas. The lack of resources, notably land, capital and skilled labour, is a major constraint. Farmers have experienced considerable difficulty in obtaining credit, and have been exposed to high, volatile interest rates associated with high rates of inflation. Commercial banks consider farmers to be a high-risk group, and the credit guarantees they require are out of reach for many farmers.

18. **Republic of Korea**: Agriculture accounts for around 6 per cent of GDP and around 15 per cent of total employment. Exports of food and agricultural raw materials account for 6 per cent of total exports, while food imports account for 11 per cent of total imports. Major crops include rice (around 30 per cent of total agricultural production), vegetables (23 per cent) and livestock (22 per cent). The Republic of Korea’s agriculture relies heavily on small-scale farming, and the sector’s productivity is low. Rice output has been shrinking in the last decade, although the country is still self-sufficient in rice. It produces about 25 per cent (a decline) of its needs for grains and over 90 per cent of its needs for pork and chicken. The primary objective of agricultural policy is to ensure an adequate degree of domestic production for food security and parity between urban and rural incomes. In the past, the Republic of Korea’s support to farming was based on high border protection (including the prohibition of imports) and market price support, but to adjust to the Uruguay Round

commitments it began to implement a new agricultural policy in 1994. The new policy aims at, *inter alia*, increasing competitiveness in rice production by lowering costs and general reforms in the farmland and marketing system. The farming sector does not appear to be well prepared to meet the challenges of liberalization. Income losses in this sector >attributed to the Uruguay Round agreements are expected to reach US$ 4 billion in 2005, contrasting with a net gain of US$ 28 billion for the economy as a whole.

19. **Thailand**: Agriculture accounts for around 11 per cent of GDP and 40 per cent of total employment. Food exports account for 19 per cent of total exports, while imports of food and agricultural raw materials account for 8 per cent of total imports. While the agricultural sector has been growing more slowly than the rest of the economy, agricultural exports have remained substantial. Thailand is one of the largest producer/exporters of rice and natural rubber. Total cereal imports, primarily of wheat, were about US$ 141 million in 1994, compared to exports of about US$ 1.6 billion (basically of rice). In export crops, there has been a slow shift away from coffee and rice into such higher value-added activities as cattle-raising, orchards and fisheries. Chilled and frozen poultry have also been among Thailand's growing agricultural exports. Most poultry breeding stock is currently imported. In recent years, however, Thailand has faced increased competition from new entrants in the Asian market, such as China, and this has restrained export growth. About 80 per cent of production costs are for feed and medicine; the largest component of feed costs is said to be the import tariffs and surcharges imposed on soybean meal, corn and fish meal. About 40 per cent of Thailand's total land area is classified as agricultural holdings by the authorities. The average size of Thailand's 5.1 million farms was about 4.1 hectares in 1991, down somewhat from about 4.3 hectares in 1980. Approximately 70 per cent of total agricultural land is under private ownership, 10 per cent under leasehold, and 12 per cent under tenancy.

20. **Uganda**: Farming is Uganda's dominant economic activity, accounting for 46 per cent of GDP, including substantial non-monetary production, and generated more than 80 per cent of the country's export earnings. Food imports are estimated to be around 10 per cent of total imports. The sector absorbs about 80 per cent of Uganda's workforce, mainly on smallholdings with an average size of less than two hectares. Only tea and sugar are grown on larger plantations. Large areas of unutilized but potentially productive land appear to lie idle. Available data suggest that only about one-third of Uganda's potentially arable land is actually cultivated. Longer-term growth, however, depends essentially on improvements in productivity. Coffee and coffee products are the essential export crops of Uganda, representing over 60 per cent of total export earnings from agricultural and fishery products. Other major export crops include tea, cotton and tobacco. The European Union is Uganda’s principal export market. Coffee is grown predominantly on small holdings, often in combination with subsistence crops such as bananas. Coffee production, however, has been declining in the last decade, due to low world coffee prices and the growth of other cash crops (e.g. tobacco). Major agricultural imports include wheat, sugar and vegetable and animal fats.

21. **Venezuela**: Agriculture contributes only 4 per cent of GDP, and employs 12 per cent of the total labour force. Exports of food and agricultural raw materials are a negligible 2 per cent of export earnings (which are dominated by oil), while the share of food imports in total imports is 16 per cent. Livestock activities (including milk production) account for 46 per cent of

agricultural GDP, followed by crops (40 per cent). Beef imports are negligible, but both poultry and pork production have increased, being facilitated by vertical integration. The rapid growth in poultry production has lowered its price in relation to other meats, making chicken the most marketed meat in Venezuela. Corn is Venezuela’s main staple food. Corn and sorghum account for some 75 per cent of the harvested area for cereals. Corn is mostly produced by small farmers. A downward trend in per capita food production is seen as a sign that Venezuela’s food security is threatened. The new law on agricultural development and food security seeks to integrate the sector into the international market while taking account of economic globalization and the formation of regional blocs. Agricultural activities are exempt from revenue tax and tax on capital assets, while certain agricultural basic food items are exempt from wholesale and consumption taxes. Milk has been traditionally the item most protected by market price support. Assistance to the agricultural sector, however, has fallen significantly, even before the implementation of the Uruguay Round agreements.

Part II

ISSUES AT STAKE IN THE UPCOMING AGRICULTURAL NEGOTIATIONS

22. According to article 20 of the Agreement on Agriculture, new negotiations to continue the reform process are to be initiated by 1 January 2000 taking into account the following: (1) the experience to date with the implementation of the reduction commitments; (2) the effects of the reduction commitments on world trade in agriculture; (3) non-trade concerns, special and differential treatment for developing-country members, and the objective of establishing a fair and market-oriented agricultural trading system; and (4) any further commitments necessary to achieve the long-term objective of a substantial progressive reduction in support and protection.

23. A number of issues, many of which have come to light as a result of experience, with the implementation of the agreements, have been put forward by WTO members for consideration in preparations for the third ministerial conference scheduled to take place from 30 November to 3 December 1999 in Seattle in the United States.

24. Issues relating to market access include:

(1) Ways and means to reduce further agricultural tariffs, including tariff peaks (arising from the tariffication process) and tariff escalation;
(2) Modifications to the tariff rate quota system, ranging from substantial increases in the quantities subject to lower rates to elimination of the quota system, as well as possible disciplines on tariff quota administration; and
(3) Further incorporation of the special needs and conditions of developing countries in market access commitments, including the fullest liberalization of trade in tropical agricultural products.

25. Issues relating to domestic support include:

(1) The future of "Blue Box" measures (proposals range from maintaining the status quo or capping expenditures to outright elimination);

(2) The revision of "Green Box" criteria; and
(3) More explicit recognition and incorporation of non-trade concerns.

26. With respect to export subsidies, the complete elimination of export subsidies is one of the issues raised.

27. Finally, issues relating to horizontal and other issues include:

(1) The future form of special and differential treatment for developing countries in agriculture;
(2) Concrete follow-up action to the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries;
(3) Disciplines concerning the role of State trading enterprises; and
(4) The future of the "peace clause".

28. These issues are discussed below in relation to the interests and concerns of the developing countries.

A. Framework of the Negotiations and the Policy Climate for Reform

29. Two general points need to be borne in mind: the first is the possible framework in which the negotiations on agriculture might take place, and the second is the policy climate for achieving a substantial progressive reduction in support and protection. The commitment in the Uruguay Round agreements is for new negotiations to begin on agriculture, services and aspects of the built-in agenda by 2000. It has been argued that the incorporation of the built-in agenda in a broader "millennium round" might yield more far-reaching results in agriculture, primarily because it would create the possibility for more trade-offs. However, it has also been argued that this approach might provide an opportunity for more powerful trading partners to attempt to exact a price from developing countries in unrelated fields for further substantial liberalization in agriculture.[13]

30. Attention is drawn to several recent developments in national agricultural policies, particularly in those of the developed countries, which are likely to have an influence on the outcome of the upcoming negotiations. The United States 1996 Farm Bill (the Federal Agricultural Improvement and Reform (FAIR) Act) is notable because it replaces the deficiency payments programme with decoupled payments (from current production levels and cropping decisions), and thus renders the Blue Box exemption unnecessary for the United States. The European Union’s "Agenda 2000" reforms of the Common Agricultural Policy (a continuation of the 1992 MacSharry reforms), involving further reductions in internal European Union price support levels (for major commodities such as cereals, beef and dairy products) combined with semi-decoupled (Blue Box) direct payments to farmers, will largely determine the European Union's position in the upcoming negotiations. Japan’s decision to tariffy its import restrictions on rice (beginning in April 1999) will obviate the need to press for an extension of its non-tariffication exemption in the upcoming negotiations, although the level of that tariffication has attracted the concern of its trading partners.

31. Lastly, the duration of the negotiations is likely to be affected by the expiry at the end of 2003 of the so-called peace clause (article 13 of the Agreement on Agriculture), which provides protection from challenges within WTO

to domestic support and export subsidies that conform with the Agreement. To avoid the possibility of endless disputes in WTO, participants are likely to have an incentive to conclude the negotiations before the expiry date and to extend the peace clause to cover the new implementation period.[14]

B. Market Access

32. As noted above, the tariffication process has resulted in very high tariffs in the agricultural sector as compared to the industrial sector. A joint UNCTAD/WTO study found that more than half of the peak tariffs (those in excess of 12 per cent) of developed countries are in the agricultural sector (including the food industry) and the fishery sector, with prohibitively high rates (sometimes exceeding 100 per cent) found mostly among tariffied products.[15] Tariffs on products of major export interest to developing countries such as sugar, tobacco and cotton, as well as processed food, are frequently levied at some of the highest peak rates. In contrast, the study found that agricultural tariffs above 100 per cent were rare in the developing countries.

33. In addition to high tariffs, there is also the continuing problem of tariff escalation. A recent FAO study indicates that, while the extent of nominal tariff escalation in the agricultural sector has been reduced, more than half of the post Uruguay Round tariff wedges (i.e. the difference between the tariffs on processed products and a primary input commodity) in the markets of developed countries still remain positive with an average nominal tariff escalation of 17 per cent.[16] Tariff escalation thus continues to be a matter of concern for developing countries who are interested in enhancing their agricultural processing industries.

34. The profile of post-Uruguay Round tariffs in the agricultural sector has become more complex, especially in the case of the developed countries, because of an increase in the number of tariff lines to accommodate different tariffs applicable to the same product, such as seasonal, in-quota and above-quota tariffs, and the more frequent use of non-*ad valorem* tariffs.[17] An analysis of the use of the tariffs shows that for the major agricultural trading developed countries the proportion of agricultural tariff lines which are expressed in non-*ad valorem* terms ranges from around 22 per cent (for Canada and Japan) and 42 per cent (for the European Union and the United States) to around 90 per cent (for Switzerland). *Non-ad valorem* tariffs are less transparent than *ad valorem* tariffs with regard to their degree of restrictiveness, and they are less easy to compare from one country to another. Non-*ad valorem* tariffs also weigh more heavily against lower-priced imports. For example, the degree of restrictiveness of a specific tariff varies inversely with the unit price of the imported product, while that of an *ad valorem* tariff is constant (i.e. the same proportion) over all unit prices.

35. To ensure that the tariffication of non-tariff measures at high levels would not lead to a reduction of the base-period levels of agricultural trade (current market access opportunities) and would allow a minimum level of imports (equivalent to 3 per cent of the base-period domestic consumption of a product rising to 5 per cent by the end of the implementation period - "minimum access opportunities") to take place, the Agreement on Agriculture provided for the introduction of tariff rate quotas, where a lower duty applies to imports within a quota quantity.[18] Effective market access has been influenced to a large extent by the allocation of quotas to supplying countries and the administration

of such quotas. In many cases, current access opportunities have been pre-allocated to specific suppliers on the basis of their market shares in the base-period or as a result of bilateral negotiations held during the Uruguay Round. While minimum access opportunities are in principle available on a most-favoured-nation basis, often, a considerable portion is effectively earmarked for specific supplier countries, either because of preferential tariffs (under bilateral, regional or interregional preferential trade agreements) which are lower than the in-quota rate, or because of preferential quota provisions.[19]

36. The method of tariff quota administration, which is left to the discretion of each importing country, has had a significant impact on effective market access. For example, the way in which quota import licences have been allocated to importers and the application of specific conditions to the right to acquire the licences in some cases[20] have affected not only the access of suppliers from different countries but also the extent to which quotas have been filled. Numerous cases of quota "under-fill" (when the total in-quota imports fall short of the committed quota quantities) have been reported. In some cases, a lack of market demand for imports has been cited as the main reason. In any case, the proliferation of differing quota administration methods has made it difficult to monitor the implementation of market access opportunities under the tariff quota system.

37. The use of the special safeguard provision of the Agreement on Agriculture is also relevant to the issue of market access. Of the 38 countries eligible to use the special safeguard provision,[21] seven took safeguard actions under this provision between 1995 and 1997. The products of export interest to developing countries affected by such actions included some meat, dairy, cereal and vegetable products.[22] It is important to note that the special safeguard provision under this Agreement, which applies only to "tariffied" products, differs from the general safeguard provisions under GATT 1994 in that a special safeguard action (i.e. the application of an additional duty) can be triggered automatically against specified imports, according to the terms and conditions stipulated in article 5 of the Agreement on Agriculture without the need to prove serious injury to a domestic industry or to hold consultations with a supplier country. It is also noteworthy that many products specified in the special safeguard provision are levied at peak tariffs; thus the special safeguard provides in effect additional protection for already highly protected products.

38. In the area of market access, several options might be worthy of consideration, from the perspective of the developing countries, for the continuation of the reform process in agriculture in the upcoming negotiations. Improved transparency in agricultural tariffs is likely to be of particular importance to developing countries because of the disadvantages these countries face in accessing, and in their capacity to process, information. At the very least, transparency could be improved if future negotiations were to lead to a conversion of all non-*ad valorem* tariffs in the agricultural sector into *ad valorem* rates. The further simplification of tariff schedules by reducing or eliminating the number of multiple tariffs for the same product, associated with seasonal and other tariffs, would be helpful. To tackle the problem of tariff peaks and the excessively high tariffs resulting from tariffication, agreement on the use of a tariff-cutting formula with a tariff-harmonizing effect (for example the "Swiss formula" used during the Tokyo Round) might be the best option from the perspective of developing countries. A harmonization formula should

also be designed to reduce tariff escalation, including the provision of fullest liberalization for tropical products in processed forms.

39. Several improvements in the tariff quota system could be of benefit for developing countries. At a minimum, the volume of imports within the tariff quota could be substantially increased. This could be combined with cuts in the out-of-quota rates and the reduction or elimination of in-quota rates. These measures could be accompanied by improved disciplines to govern the quota allocation and administration system. The reforms should ensure an increase in the effective access opportunities of developing countries - traditional as well as new exporters - as regards the products concerned. Lastly, it could be of interest to developing countries if the special agricultural safeguard were to be eliminated or trigger levels substantially reduced.

C. Export Subsidies

40. Regarding export subsidies, two interrelated facts have been highlighted as issues for consideration in the upcoming negotiations. The first is that, despite the reduction commitments achieved in the Uruguay Round, substantial export subsidies (in both volume and budgetary outlay terms) will remain for those countries which are permitted to use them, particularly the developed countries, after the implementation of the Agreement on Agriculture.[23] The second related fact is that some WTO members have the right to use export subsidies (albeit within bound levels), while others (particularly most developing countries) do not, aside from developing country exceptions under article 9(d) and (e).[24] A substantial further reduction in, or the elimination of, export subsidies would be a step towards the creation of a more level playing field and greater equity among WTO members in the area of export competition. The short-term adverse effects on net food-importing developing countries would, however, need to be recognized and dealt with.[25] Similarly, any negotiation of disciplines on agricultural export credits should take fully into account the needs of LDCs and net food-importing developing countries, in conformity with the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries.

D. Domestic Support

41. Although the commitment to reduce trade-distorting domestic support was one of the major breakthroughs achieved in the Agreement on Agriculture, experience so far has highlighted a number of problems relating to the implementation of this commitment. First, despite the agreed cuts (20 per cent by developed countries and 13 per cent by developing countries) in the base-period (1986-1988), post-implementation levels of permitted AMS will remain quite high. Moreover, the distribution of AMS among WTO members (particularly between developed and developing countries) remains highly skewed. Developed countries are allowed approximately US$ 146 billion in domestic support, amounting to 90 per cent of the total AMS applicable to all WTO members. Only 10 developing countries systematically calculated their base-period AMS; the remainder claimed a zero level.[26] For the majority of the developing countries with base-period AMS, the amounts claimed were below 20 per cent of their individual agricultural GDP, whereas for the developed countries, AMS amounts were equivalent to over 50 per cent of agricultural GDP in many cases.[27] Thus, most developing countries

(whether with or without base-period AMS) might be prevented from utilizing certain support policies in the future.

42. Other issues or problems relating to the commitments on domestic support include the aggregate (i.e. non-product specific) nature of the reduction commitment, the exemption of deficiency and production-limiting payments (i.e. the Blue Box exceptions) from AMS calculations, the need for a more precise definition of policies that qualify for inclusion in the Green Box (i.e. policies with a "minimal effect on production and trade"), technical issues and mistakes regarding the calculation of AMS (including the definition of eligible production, adjustments for inflation, the currency basis and treatment of negative AMS),[28] and ways of addressing the legitimate non-trade concerns of countries (see discussion below).

43. Several options in the area of domestic support might be worthy of consideration, from the perspective of developing countries, for the continuation of the reform process in agriculture. These include a substantial further reduction in AMS, elimination of the *de minimis* level for members with high AMS, substantial curtailment or elimination of Blue Box measures, tightening the policy criteria for inclusion in the Green Box with full account taken of the special needs and conditions of developing countries,[29] allowing developing countries to recalculate their AMS or raising their *de minimis* level to 20-25 per cent (where this can be justified to promote increased production of basic foodstuffs), and correcting or clarifying the methodological problems in the calculation of AMS in a manner favourable to developing countries.

E. Horizontal and other issues

44. In addition to the issues just discussed relating to the main tracks of the reform programme initiated by the Agreement on Agriculture, there are a number of important horizontal and other issues that are likely to be at stake in the upcoming negotiations on agriculture. These include the renewed debate on non-trade concerns, the appropriate expression of special and differential treatment for developing countries in agriculture, concrete follow-up actions to the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed Countries and Net Food-Importing Developing Countries, the linkage with sanitary and phytosanitary issues, disciplines relating to state trading activities, and the activities of private sector enterprises that might distort trade, and the future of the peace clause.

45. The renewed debate on non-trade concerns is about whether countries have legitimate domestic agricultural goals that should be taken into account in efforts to achieve the agreed long-term objective of establishing a fair and market-oriented agricultural trading system. Proponents of non-trade concerns have argued that agricultural activity produces not only marketable goods (i.e. normal agricultural outputs) but also provides society with public goods and services that are a by-product (a "positive externality") of agricultural activity. These public goods include environmental benefits (e.g. landscape preservation, protection from natural hazards and disasters, the maintenance of biodiversity, etc.), rural development (e.g. securing rural employment and balancing regional income distribution), food security and the contribution of agriculture to the economic development of developing countries.[30] This multiple role is termed the "multifunctionality" of agriculture. The importance attached

to each of these elements varies from country to country, depending on geographical, climatic and cultural differences.

46. Some countries, particularly net food-importing developed countries, have argued that there is a need to take into account the multifunctionality of agriculture in future reductions in agricultural support and protection since the positive externalities arising from agricultural activity should be balanced against the envisaged allocative efficiency arising from agricultural trade liberalization. On the other hand, the major exporting countries (e.g. the Cairns Group and the United States) have argued that non-trade concerns should not become a new obstacle to achieving substantial further reduction commitments. They consider that issues identified as non-trade concerns could best be handled within the framework provided by the Green Box criteria. Some other countries have argued that there is a need to reflect non-trade concerns in commitments not only on domestic support but also on market access.

47. The socio-economic roles of the agricultural sector in the economies of developed and developing countries are different. For one thing, a large share of the population in developing countries is still earning a living from the agricultural sector, while in developed countries the share of the population doing so is less than 5 per cent of the labour force. Furthermore, food consumption accounts for a large share of total household income in developing countries, while in developed countries it accounts for a small and decreasing proportion. Thus, even small changes in agricultural employment opportunities, or prices, can have major socio-economic effects in developing countries. For most developing countries, the need is to raise agricultural productivity and increase production, particularly of basic foodstuffs. By contrast, for most developed countries, the concern is to maintain a parity of income between the small proportion of the workforce in farming and those in industry. These fundamental differences in the socio-economic roles of the agricultural sector in developed and developing countries thus raise questions as to whether the existing special and differential treatment provisions of the Agreement on Agriculture are adequate to meet the needs and conditions specific to developing countries.[31] The upcoming negotiations may need to clarify the concept of special and differential treatment for developing countries in agriculture, where the need can be demonstrated.

48. The shortfall between domestic agricultural production and food requirements in many LDCs and net food-importing developing countries is generally met through commercial food imports and food aid. However, in recent years (between 1991-1992 and 1997-1998), because of the reduction of more than 50 per cent in deliveries of food aid to these countries,[32] a greater volume of basic foodstuffs has had to be imported by these countries on commercial terms. The ability of these countries to finance normal commercial imports of such basic foodstuffs depends crucially on their overall export earnings growth, which is a principal determinant of their import capacity, and changes in their food import bills due, in particular, to price factors. In recent years, both of these variables have in general experienced adverse trends. Meanwhile, no special provision has been made by international financial institutions to deal with the Uruguay Round-related short-term financial difficulties of LDCs and net food-importing developing countries with regard to food imports. According to these institutions, this situation is due mainly to technical difficulties in identifying the precise impact of the implementation of the Agreement on Agriculture on world food prices. Thus, an issue for these countries in the

upcoming negotiations is likely to be the consideration of more concrete measures that could be put in place to deal with the problem of inadequate food production and the negative effects of the reform programme on them.

49. Another general issue that will need to be addressed concerns the growing public awareness of the need for sanitary and phytosanitary measures, which could be abused to provide a new form of protectionism. The Agreement on the Application of Sanitary and Phytosanitary Measures recognizes that a country may apply measures that are more restrictive than the relevant international standards, but only if those measures are based on sound scientific evidence. Difficulties have arisen when countries, evoking "precautionary principles", have applied measures to imports of products that are suspected to be health hazards, even though the scientific evidence of such risk is still disputed.[33] There is a need to establish clear procedures in such cases so as to avoid a lowering of established domestic food safety standards, while at the same time preventing a protectionist use of sanitary and phytosanitary measures. Ways should also be found to ensure more effective developing-country participation in the standard-setting process.

50. The prevalence of State trading enterprises in the agricultural sector and their involvement in some countries in the implementation of market access commitments under the tariff quota system have renewed interest in WTO disciplines on the activities of such enterprises.[34] While the Understanding on the Interpretation of Article XVII of the General Agreement on Tariffs and Trade 1994 could be improved to control more effectively the practices of monopolies, it should be recognized that large private trading houses (both private and publicly owned) can also abuse their market power. From the perspective of developing countries, it might be of interest to have multilateral disciplines which cover the anti-competitive practices of both private sector and State trading enterprises.

51. Lastly, a matter which deserves particular mention is the situation, with respect to agriculture, faced by countries currently acceding to the WTO.[35] Although agriculture plays an important role in the economies of most of these countries, in many cases the agricultural and related trade policies of these countries are not yet in place or even defined. Many acceding countries do not have a well-established practice for providing domestic support in agriculture and are still in the process of defining optimal levels and forms of such support. On the other hand, the disciplines in the Agreement on Agriculture are based on the specific and long-standing policies and practices of WTO members. Thus, for example, the choice of an appropriate base period for the AMS calculation poses a problem. Furthermore, in the absence of clearly defined rules in the Agreement with regard to acceding countries, the approach taken by some WTO members is that the provisions of the Agreement are applicable only to original WTO members, and hence the terms of accession for acceding countries are subject to negotiations and a much higher degree of commitments. Indeed, the level of such commitments has been rising. For example, in accession cases in 1995 and 1996, applicant countries were allowed to use special safeguards, but in recent cases none have been permitted. In other areas, countries which acceded recently have been pressed into adopting *de minimis* commitments in domestic support and into binding their export subsidies at zero. Moreover, acceding developing countries, including LDCs, have found it difficult to avail themselves of the special and differential treatment provisions of the Agreement. Thus a considerable imbalance has been created in the basic rights and

obligations of WTO members which, given the transitional nature of the Agreement on Agriculture, should be corrected in the upcoming agricultural negotiations.

III. CONCLUSION

52. The key questions for developing countries in the upcoming negotiations on agriculture are summarized below.

A. Market Access

Tariff reductions and tariff profile:

- Which approach to reducing agricultural tariffs would be most favourable to exports from developing countries, in view of the persistence of tariff peaks and escalation in the markets of developed countries?
- What type of special and differential treatment would effectively support the tariff reductions of developing countries? How should they be formulated?
- What measures would reduce the complexity of the structure of agricultural tariffs (e.g. non-*ad valorem* rates and the multiple classification of tariff lines) of many developed countries?

Market access opportunities (tariff rate quotas):

- Should tariff rate quotas have a built-in phase-out period similar to the one used in the phase-out of the Multi-Fibre Agreement (i.e. should the quota quantity gradually be increased until the in-quota rate applies to all the imports)?
- Could in-quota tariff rates be reduced or eliminated to improve the effectiveness of market access opportunities? Should there be a ceiling on in-quota tariff rates?
- Should non-performing tariff quotas (i.e. quotas which are not filled due to a lack of domestic demand) be eliminated and the in-quota tariff be the only applicable rate?
- What guidelines on the administration of tariff rate quotas would reduce the incidence of quota under-fill?
- What rules could improve the sub-allocation of broadly-defined tariff quotas to specific products?
- Should all market access opportunities be conducted on a most-favoured-nation basis (i.e. should the current access opportunities be opened to other suppliers)? Has the preferential allocation of tariff rate quotas to trade agreement partners been beneficial to developing countries?
- What can be done to give concrete expression to the commitment in the preamble of the Agreement on Agriculture whereby developed-country members, in implementing their commitments on market access, should provide for a greater improvement of opportunities and terms of access for agricultural products of particular interest to developing countries?

Special safeguards and other measures:

- Should the special safeguard be extended into the next agricultural reform process? Could the right to use such measures be extended to developing countries who do not have access to them, for a selected and limited number of basic food commodities?

B. Domestic support

- What is the best way to achieve further reductions in domestic support? Should reduction commitments be product-specific? How should technical problems associated with the calculation of the AMS (e.g. the treatment of "negative" AMS, the definition of "excessive" inflation and the choice of exchange rate basis) be solved?
- Should developing countries which made no AMS reduction commitments be allowed to recalculate their AMS for the next period? If not, could the *de minimis* limit for those developing countries be raised to a higher level, and, if so, under what circumstances?
- What types of special and differential treatment in the area of domestic support are needed to support the agricultural development and food security of developing countries?
- Should the Blue-Box measures (apparently now relevant for only three members, the European Communities, Norway and Slovakia) be allowed to continue?
- In what way should the Green Box criteria be modified in order to incorporate needs and conditions specific to developing countries in agricultural development?
- How should "multifunctionality" non-trade concerns be dealt with?

C. Export subsidies

- Should export subsidies be eliminated through a complete phase-out within an agreed period of time?
- If export subsidies are to be allowed, what approach should be adopted to reduce their level substantially? What types of anti-circumvention measures should be established?
- How can the negotiations on export credits and export credit guarantees be re-activated? Which issues should developing countries pursue, both as importers and exporters?

D. Horizontal and other issues

- Which aspects of special and differential treatment for developing countries require adaptation to respond more effectively to their special needs?
- Should a mechanism to monitor and evaluate the implementation and effectiveness of special and differential treatment be introduced?
- What concrete measures could be adopted to implement the Ministerial Decision on Measures concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing countries?
- What measures in favour of LDCs and net food-importing developing countries should accompany the further reduction (or elimination) of export subsidies, and the disciplines on export credits?
- What is the impact of State trading enterprises on the agricultural trade of developing countries, and what rules, if any, should be established to discipline their activities in relations to the administration of tariff rate quotas, domestic support and export subsidies?
- What has been the impact of the activities of large private-sector trading companies on the agricultural trade of developing countries? Has there been an abuse of market power that warrants competition rules in the agricultural sector?

- How should the linkage between environmental protection and agriculture (or rather the sustainable development of agriculture) be addressed?
- Should the peace clause (article 13 of the Agreement on Agriculture, entitled "Due Restraint") be extended beyond the year 2003?

Endnotes

1. World Bank, *World Development Indicator 1998* (CD-ROM).

2. Ibid.

3. Ibid.

4. See, WTO, *Annual Report 1998: International Trade Statistics, Geneva, World Trade Organization.*

5. Since mid-1997, indices of current prices for food, tropical beverages, and agricultural raw materials have fallen to their lowest levels since 1993. Between June 1997 and end of 1998, prices dropped by 22 per cent for wheat, 38 per cent for coffee, 30 per cent for cotton and 37 per cent for rubber.

6. OECD, *The Uruguay Round Agreement on Agriculture and Processed Agricultural Products*, 1997.

7. See, joint study by UNCTAD and WTO secretariats for ECOSOC, E/1998/55, May 1998.

8. For further discussion see, UNCTAD, *Trade and Development Report, 1998*, Part Two; and also, UNCTAD, *The Least Developed Countries 1997 Report*, Part Two.

9. FAO, *Production Yearbook*, Volume 51, 1998.

10. For further discussion see, UNCTAD, *Strengthening the Participation of Developing Countries in World Trade and the Multilateral Trading System,* Chap. II, TD/375/Rev. 1.

11. GATT, *The Results of the Uruguay Round of Multilateral Trade Negotiations market access for goods and services: overview of the results,* 1994.

12. Source: WTO, <u>Trade Policy Review</u>, Geneva, World Trade Organization.

13. Ibid.

14. Since the coming into effect of the AoA, trade in agricultural products has been the subject of over 40 disputes (i.e. roughly one third of the total) which have been brought before the WTO Dispute Settlement Mechanism. These have involved such matters as tariff quota administration, tariff classification, special tariff preferences, breach of tariff bindings, anti-dumping duties, countervailing duties, safeguards, quantitative restrictions, export subsidies, domestic subsidies, transit and entry restrictions, SPS measures including

matters relating to biotechnology (hormones), testing and inspection practices, TRIPS, and issues relating to national treatment.

15. The study analyses in the post-Uruguay Round tariff structures of Brazil, Canada, China, EU, Republic of Korea, Japan, Malaysia and USA. See *The Post Uruguay Round Tariff Environment for developing country Export: UNCTAD/WTO Joint Study* (TD/B/COM.1/14), 1997.

16. See: Lindland, J., "The Impact of the Uruguay Round on Tariff Escalation in Agricultural Products", ESCP, FAO, 1997. It should be also noted that a negative tariff wedge could lead to a positive tariff escalation in terms of the effective rate of protection (ERP), which takes into account the value-added to domestic producers of the products concerned.

17. Non-*ad-valorem* tariffs include specific tariffs which are a fixed monetary amount per physical unit of the imported product (e.g $20 per kilogram), compound rates (a combination of *ad-valorem* and specific tariffs) and mixed rates (*ad-valorem* rate or specific rate, whichever is higher).

18. About 70 per cent of the total number of tariff quotas (1,366) applicable under the current AoA cover the following products: fruits and vegetables (25.6 per cent of the total), meat products (18.2 per cent), cereals (15.7 per cent)and dairy products (13.4 per cent). Nine OECD countries account for about 38 per cent of the total number of the tariff quotas.

19. Distinctions between minimum and current access opportunities are not made in most Member’s Schedule of Commitments.

20. For instance, import licences may be allocated to producer organizations or state trading enterprises (STEs), which may be influenced by the government’s policy on domestic market control. Conditions, such as concurrent purchase of domestic products may be attached to the licence for in-quota imports.

21. The 38 countries are those members who "tariffied" their NTMs. Note that about sixty developing countries plus 22 LDCs which chose the ceiling-binding approach are not now eligible to use the SSG.

22. Based on the notifications submitted to the Committee on Agriculture in 1995-97, price-based SSGs were invoked by: EU (frozen boneless cut of fowls, boneless cuts of turkey, uncooked poultry preparation other than turkey, sugar and molasses); Japan (certain starches, milk powder, whey, adzuki beans); Republic of Korea (buckwheat, wheat starch, sweet potato starch and groundnuts); Poland (certain cut flowers, white sugar); and the United States (sweetened milk powder, butter, certain cheese, shelled peanuts, sugar, cocoa powder, dough, coffee preparations and milk-based drinks). Volume-based SSGs were invoked by: EU

(tomatoes, cucumbers, oranges including clementines and mandarins, lemons, apples and pears); Japan (raw silk, live swine and pigmeat, evaporated milk, inulin, milk and cream, butter milk); Poland (prepared or preserved tomatoes); and Slovak Republic (ice cream). (Romania also took an SSG action in 1997, but the detailed information was not available at the time of preparing this document).

23. Of the 28 WTO members who reported base-period export subsidies and undertook reduction commitments, 8 were developing countries. Developed countries are the overwhelming providers of export subsidies. For example, their aggregate volume of base- period subsidized exports as a percentage of world exports in 1992 was 40 per cent for wheat, 18 per cent for coarse grains, 52 per cent for butter, 16 per cent for pig meat, 14 per cent for beef and 20 per cent for sugar. See UNCTAD, TD/B/WG.8/2/Add.1, July 1995.

24. Countries which did not indicate the use of export subsidies in the base period are prohibited from using them.

25. Analysis by the FAO indicates that the above-trend increase in the world price of cereals and meat in 1995-1997, with the consequent rise in the cereal import bills of LDCs and NFIDCs, was due in part to the implementation of the AoA, particularly implemented reductions in export subsidies and domestic support. See: FAO, *Assessment of the Import of the Uruguay Round on Agricultural Markets,* CCP 99/12, October 1998.

26. These include Brazil, Colombia, Costa Rica, Mexico, Morocco, Rep. of Korea, South Africa, Thailand, Tunisia and Venezuela.

27. See, P. Konandreas and J. Greenfield, "Uruguay Round commitments on domestic support: their implications for developing countries", Food Policy, vol.21, No. 4/5 September/November 1996.

28. Price support component of the AMS for each year is calculated as the difference between the applied administered price and the nominally fixed external reference price (ERP) in domestic currency (average 1986-88). Thus, a country will face a reduction of its AMS in real terms if it has experienced substantial inflation since the base-period. While the AoA provides that "excessive" inflation should receive due consideration in the implementation of domestic support commitments (Articles 18.4), it does not specify what rate of inflation is regarded as excessive, nor whether and how the initial commitment may be revised due to excessive inflation. Another problem is that a product-specific AMS may be negative should the administered price fall below the fixed ERP. The question is whether such a figure should be subtracted from the current total AMS. Some developing countries have argued that since the AMS is by definition the sum of all subsidies and taxes, and a negative AMS is an implicit tax on farmers, it should be included in the calculation of the total AMS.

29. Green Box measures include: general services (research, pest and disease control, training services, inspection services, marketing and promotion services, and infrastructural services); public stockholding for food security purposes; domestic food aid; decoupled income support; income insurance and income safety-net programmes; payments for relief from natural disasters; structural adjustment assistance; payments under environmental programmes; and payments under regional assistance programmes. In addition, as an expression of special and differential treatment, developing countries are exempted from the reduction commitments regarding: (i) investment subsidies generally available to agriculture; (ii) input subsidies to low-income or resource-poor producers; and (iii) support to encourage diversification from illicit narcotic production.

30. Food security is often a direct objective of the agricultural activity, rather than an externality. As regards the developmental concern, agriculture plays a significantly role in the economic growth of developing countries, especially LDCs where the agricultural sector employs more than half of the labor force and makes the largest contribution to GDP. See for example the special feature on African development which describes major linkages between agricultural development and overall economic growth in Africa in UNCTAD’s *Trade and Development Report, 1998*.

31. The S&D provisions in the AoA include: (i) time-limit derogations (developing countries have flexibility to implement their commitments over a period of 10 years, instead of 6 years for developed countries, and LDCs are exempted from making reduction commitments in all areas of the AoA; (ii) favorable thresholds for reduction commitments (the reduction commitments of developing countries are one third less those of developed countries); (iii) higher "*de minimis*" limit in the domestic support reduction commitments; and (iv) flexibility in obligation and procedures.

32. See "Statement by the Representative of UNCTAD" to the 17th meeting of WTO Committee on agriculture, 17-18 November 1998 (G/AG/GEN/31).

33. Such precautionary actions include several countries’ restrictions against imports of beef and products thereof with perceived BSE risks and the EU’s ban on hormone-treated meat. For further discussion of issues relating to the use of precautionary measures, See D. Roberts, "Implementation of the WTO Agreement on the Application of Sanitary and Phytosanitary Measures: The First Two Years", International Agricultural Trade Research Consortium Working Paper #98-4, 1998.

34. With a view to enhancing transparency, the WTO Working Party on STEs, establish in accordance with para.5 of the understanding on the Interpretation of Article XVII of the GATT 1994, has been collecting information on the activities of STEs and their relationships with governments.

35. About 13 developing countries, including 5 LDCs are currently in the process of accession to the WTO.