Implementation Issues of the Agreement on Agriculture and its Implications for Developing Countries

PARTHAPRATIM PAL

Introduction

The Agreement on Agriculture (AoA) that was part of the Uruguay Round (UR) of WTO brought agricultural trade, effectively for the first time, under the purview of a multilateral trading system. Agriculture had not only been included in the original GATT of 1947 but given a special status, mainly at the insistence of the United States, who agreed to sign the agreement on condition that there would be exceptions (Section XI of GATT) in the rules for agricultural products. These exceptions allowed the US to continue using Article 22 of its Agricultural Adjustment Act (AAA), which allowed imposition of import quotas and other quantitative restrictions to isolate its domestic market. Flexibility was also allowed with respect to domestic and export subsidies. Over the next forty years agriculture retained its special status and successive GATT rounds did little to impose discipline on agricultural trade.

Prior to the Uruguay Round, trade in agriculture was highly distorted. Market access for agricultural products was limited as most markets were restricted by physical import barriers. The presence of massive domestic subsidies led to overproduction of temperate crops in the developed countries. Coupled with stagnating demand for temperate crops in these countries, this led to excess supply, and export subsidies were used to dump the surplus agricultural output in international markets. This resulted in depressed market prices and, in spite of being low-cost producers of agricultural products, agricultural exporters from developing countries could not compete with the subsidized exports from developed countries. Only a handful of players were active in the global market and this thinness of the global farm trade resulted in high price fluctuations of agricultural commodities.

The Uruguay Round Agreement on Agriculture marked a significant departure from this trend. AoA was an attempt to impose discipline on global agricultural trade by removing trade distortions resulting from unrestricted use of production and export subsidies and import barriers, both tariff and non-tariff. It was expected that the agreement would bring about a structural change in global agricultural trade and a less distorted trading regime in which more efficient agricultural producers would stand to benefit. Early analysis of the likely effect of AoA on world markets predicted that reduction in domestic support and export subsidies in the developed countries would lead to a deepening of world trade in agriculture, a spatial redistribution of agricultural production, an increase in the share of developing countries in global agricultural exports and more transparency in agricultural trade.

However, after five years, empirical evidence shows that the actual impact of AoA on agricultural policies has been far less than expected. It is recognized that implementation problems are the main reason for this shortfall. As the second phase of negotiations is currently on, it is important to evaluate how effective the three disciplines contained in the AoA have been, in addressing the problems of agricultural trade. The following sections look at implementation issues within the three disciplines of domestic subsidy, export subsidy and market access.

Domestic Subsidies

During the Uruguay Round negotiations it was explicitly recognized that domestic support distorts trade and that it is necessary to impose restrictions on it. Domestic support encourages overproduction, which in turn increases supplies in world markets (by reducing import demand or increasing export supply) and depresses world prices. AoA distinguishes between support programmes that directly stimulate production and trade, and those that are considered to have no direct effect. AoA does not impose restrictions on the latter category. Support measures that are exempt from reduction commitments are categorized as 'blue box' and 'green box' subsidies. Production and trade-distorting subsidies are classified as 'amber box' subsidies, and are subject to reduction commitments. AoA allows developed countries to have amber box subsidies up to 5 per cent of the value of agricultural production. This is called the '*de minimis*' level. Amber box subsidies above the *de minimis* level come under reduction commitments. It was stipulated that developed countries should reduce their amber box subsidies from the base period level (1986-88) over a period of five years (1999-2000) by 20 per cent.

Reduction commitments of domestic subsidies proved to be the least constraining during the implementation period of AoA. At the end of the implementation period, it was observed that almost all the countries had fulfilled their WTO commitments. However, it was also observed that most of the developed countries managed to increase their total domestic support to the agricultural sector. Table 1 shows the total support estimates of a number of OECD countries.

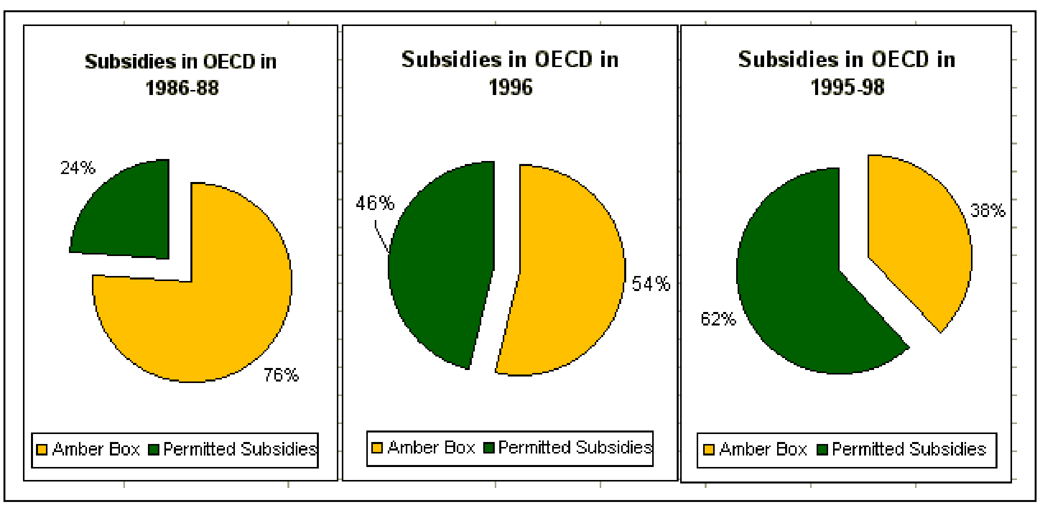
Table 1. Total Support Estimate of Select OECD Countries (in million US $)

			Change from 1986-88 level (+ increase, - decrease)	
Country	**1986-88**	**1999-2001**	**Absolute Change (million US $)**	**Percentage Change**
Australia	1,674	1,376	-298	-17.82
Canada	7,161	5,231	-1,930	-26.95
European Union	109,654	112,628	**2,974**	**2.71**
Iceland	257	156	-101	-39.43
Japan	58,165	64,775	**6,610**	**11.36**
Korea	14,204	21,489	**7,285**	**51.29**
Mexico	1,287	6,999	**5,712**	**443.93**
New Zealand	580	162	-418	-72.02
Norway	2,977	2,489	-488	-16.39
Switzerland	6,151	5,047	-1,104	-17.95
Turkey	3,092	9,649	**6,558**	**212.11**
United States	68,540	95,455	**26,915**	**39.27**
OECD	302,078	329,564	**27,486**	**9.10**

Source: OECD website (www.oecd.org)

It can be seen from the table that the European Union, Japan, Korea, Mexico, Turkey and the United States have increased their total support to agriculture from the base period level. This has been achieved through shifting subsidies from the prohibited amber box to the permissive categories of blue and green boxes (Figure 1).

Figure 1



Source: FAO and OECD statistics

Blue and green box policies were exempted from reduction commitments on the ground that they have a minimal distorting effect on production and trade. However, the concept of 'minimal effect' has not been explained or quantified in the agreement. The dividing line between subsidies given under this category and 'distorting' measures is not clear in many cases. Studies suggest that many blue box measures and some green box measures indeed have a trade-distorting effect and by providing exemptions to these types of subsidy the agreement has allowed distortion in agricultural trade to continue.[1]

Special and Differential Treatment (S&D)

'Special and differential treatment' (S&D) refers to GATT rights and privileges given to developing countries but not extended to developed countries. The Agreement on Agriculture acknowledged that developing countries need special treatment and considered S&D as an integral part of the agreement.

Under AoA, developing countries enjoy S&D in three main areas: market access, domestic support and export subsidies. In all three areas, developing countries are allowed a ten-year (1995-2004) implementation period as compared to five years (1995-2000) for developed countries. The reduction commitments of developing countries in these areas have been about two-thirds that of developed countries. (Table A1 in the appendix shows the reduction schedule for developed and developing countries, for domestic subsidies, export subsidies and market access.)

In the area of domestic subsidies, AoA provides some additional latitude for developing countries. Their *de minimis* level of subsidies is fixed at 10 per cent of the value of agricultural production, as compared to a *de minimis* level of 5 per cent for developed countries. Besides, AoA provides exemption for input subsidies to low-income or resource-poor farmers in developing countries. However, the term 'low-income or resource-poor farmers' is not defined in the agreement. Public stock of foodgrains and food security measures that are targeted at the poor are also exempt from reduction commitments.

The exemption for input subsidies granted to low-income farmers is likely to benefit developing countries, as a large proportion of farmers in these countries are poor. However, in most developing countries, due to fiscal compulsions, the subsidy provided to the agricultural sector is much lower than the *de minimis* level and only a few relatively prosperous countries among them are likely to make effective use of this exemption.

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[1] See India's proposal to the WTO, WTO document nunmber G/AG/NG/W/102.

Export Subsidies

The high level of domestic subsidies apart, the widespread use of export subsidies is perhaps the most disruptive element in the global agricultural markets. Agriculture is unique in this respect, as export subsidies are prohibited in WTO in all other sectors. Export subsidies lead to inefficiencies and high costs that have been borne by consumers and tax-payers in the subsidizing country. Countries which do not subsidize their exports get affected in several direct and indirect ways. In general, export subsidies increase the share of the exporter in the world market at the cost of others; they tend to depress world market prices and make them more unstable because decisions on export subsidy levels can be changed unpredictably, thereby causing random changes in the volume and prices of the exported commodity.

AoA required that both the amount of export subsidies and the quantities that receive export subsidies should be reduced over the implementation period. Though most WTO members reduced export subsidies in the post-Uruguay Round phase, their continued presence led to distortions in global markets. Table 2 shows the export subsidies prevalent in the OECD countries. It can be seen from the Table that European Union is the major user of export subsidies.

Export credit, which has a similar distortionary effect, is not disciplined under AoA. In the Uruguay Round agreement, export credit programmes were not specifically listed as subsidies subject to reduction commitments, but were given a special status that exempted them from such commitments. Although not explicitly mentioned, it was agreed that the talks on export credit would continue in the OECD, and an arrangement placing limits on export credit conditions and terms and the length of credit extension would be negotiated. Though some progress has been made in the OECD regarding disciplining export credits, till date no agreement has been signed on this.

Data show that the use of export credit for agricultural products has gone up in the post-Uruguay Round phase.[5] In the OECD countries, use of export credit has increased from US $ 5.5 billion in 1995 to US $ 7.9 billion in 1998. The US accounts for about 46 per cent of total export credit, while Australia and the EU account for 25 and 16 per cent respectively. In terms of commodities, more than 30 per cent of total export credit is used for cereals.

[5] OECD document COM/AGR/TD/WP/(2000)89.

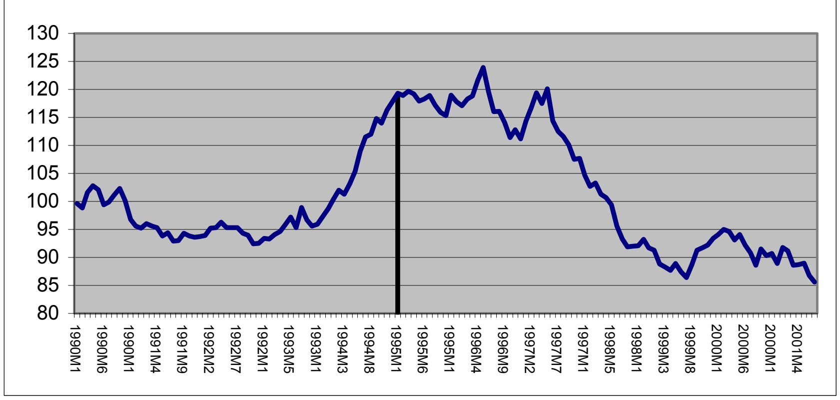
Table 2: Export Subsidies in OECD Countries, 1995-98 (million US $)

	1995	1996	1997	1998
Australia	0	0	0	1
Canada	37	4	0	0
Czech Republic	40	42	40	42
EU	6386	7064	4943	5968
Hungary	41	18	10	12
Norway	83	78	102	77
Poland	0	16	9	14
Switzerland	447	369	296	292
Turkey	30	17	39	29
United States	26	121	112	147

Source: OECD document COM/AGR/TD/WP/(2000)89

Due to the widespread presence of domestic and export subsidies in the developed countries, prices of agricultural commodities continued to remain depressed during most of the post-UR period. Figure 2 shows the index of non-fuel commodity prices for the period January 1990 to July 2001, on a monthly basis.

Figure 2. IMF Non-Fuel Commodity Prices Index



Source: IMF. Note: The vertical line marks the introduction of AoA

The vertical line in the figure marks the introduction of AoA. The figure shows that after a small recovery from 1995 to 1997, commodity prices have recorded a sustained decline. This is contrary to all the simulation exercises carried out after the Uruguay Round, which suggested that there would be significant price increase in the post-UR scenario.

It was also expected that deepening the global agricultural market would lead to a decline in the volatility of agricultural prices in the post-UR phase. However, empirical evidence shows that for many products, price volatilities (measured by the coefficient of variation) have actually increased (see Table 3).

The sustained decline and high volatility of international agricultural prices are evidence of continued distortions in world agricultural trade even after five years of implementation of AoA disciplines. A study by Anderson, Hoekman and Strutt (1999) has estimated that the farm policies of OECD countries, even after the reforms under the UR AoA have been taken into account, cause annual welfare losses of $19.8 billion for developing countries. That is more than three times the losses that developing countries incur from OECD countries' import restrictions on textiles and clothing.[6] On distortions present in agriculture, Stiglitz points out:[4] 'A 40 per cent reduction in agricultural support policies globally contributes almost exactly the same amount to global welfare as a 40 percent cut in manufacturing tariffs (Hertel and Martin 2000). This reflects the huge size of distortions in agriculture relative to manufacturing, despite the fact that manufacturing value added is two-and-half times that of agriculture globally.'

Table 3. Coefficient of Variation of Monthly Prices

Commodity	Jan 1990 to Dec 1994	Jan 1995 to July 2001
Non-Fuel Commodity prices index	**6.36**	**12.25**
Wheat; U.S. number 1 HRW, fob Gulf of Mexico	12.15	25.48
Maize; U.S. number 2 yellow, fob Gulf of Mexico	7.81	26.28
Rice; 5 per cent broken, nominal price quote, fob Bangkok	12.91	21.70
Soybean; U.S., cif Rotterdam	5.81	17.41
Soybean Meal; 44 per cent, cif Rotterdam	5.58	23.60
Soybean Oil; Dutch, fob ex-mill	15.27	23.74
Palm Oil; Malaysia and Indonesian, cif NW Europe	24.90	28.83
Cocoanut Oil, Philippine/Indonesia, cif Rotterdam	25.50	24.17
Fishmeal, 64/65 per cent, any orig, cif Rotterdam	12.95	20.91
Groundnut Oil, US runners, cif European	20.10	14.69
Sugar; International Sugar Agreement price	18.67	26.25
Sugar; US, import price contract number 14 cif	3.46	6.82
Sugar; EC import price, cif European	7.04	9.37

[6] Anderson K, B. Hoekman and A. Strutt (1999), 'Agriculture and the WTO: Next Steps', paper presented at the Second Annual Conference on Global Economic Analysis, Helnaes, Denmark, 20– 22 June.

[4] Stiglitz, Joseph (2000), 'Two principles for the Next Round or How to Bring Developing Countries in from the Cold', *The World Economy*, p. 441.

Coffee, Other Milds, El Salvdor and Guatemala, ex-dock New York	42.57	33.11
Coffee, Robusta, Uganda and Cote dIvoire, ex-dock New York	53.93	38.41
Cocoa, ICO price, cif U.S. & European ports	13.36	21.53
Tea; From July 1998,Kenya auctions, Best Pekoe Fannings. Prior, London auctions, c.i.f. U.K. warehouses	11.15	17.93
Cotton, Liverpool Index A, cif Liverpool	16.98	23.27

Source: Price data from IMF, author's calculation; shaded commodities have decline in price volatility.

It should be also mentioned here that a special favour has been granted to subsidy providers in AoA in the form of the 'peace clause'. The peace clause states that permissible domestic subsidies cannot be subject to countervailing duties during the implementation period, and that other ('amber') domestic support and export subsidies are subject to countervailing (CV) action only if a determination of injury or threat thereof is established as per the Agreement on Subsidies and Countervailing Measures.

Special and Differential Treatment (S&D)

AoA says that no WTO member who did not have export subsidy in the base period has the right to introduce them. It is noteworthy that for non-agricultural items, GATT (under Article 27, read with Annex VII of the Agreement on Subsidies and Countervailing Measures) allows countries with per capita income of less than US $1,000, to introduce export subsidies. This again is an example of the continued special treatment accorded to agriculture.

However, as special and differential treatment to developing countries, Article 9.4 (paragraphs d and e) of AoA allows developing countries certain export subsidies, provided that these are not applied in a manner that would circumvent reduction commitments. The allowed export subsidies are:

> (a) 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 costs of international transport and freight;
> (b) internal transport and freight charges on export shipments provided or mandated by governments, on terms more favourable than for domestic shipments.

Market Access

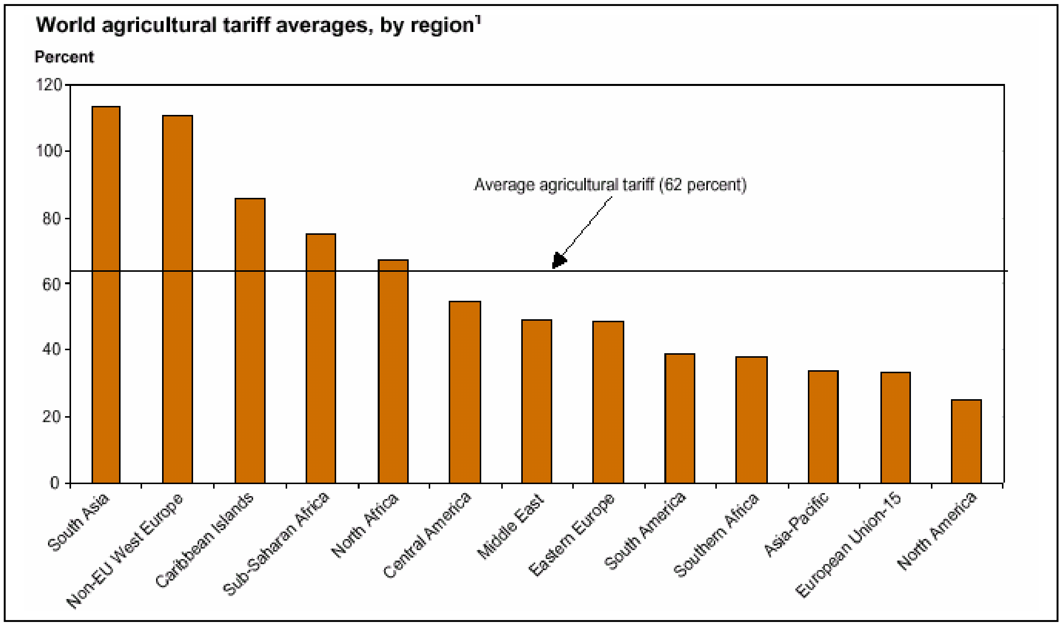
Market access is an area where the UR AoA resulted in a paradigm shift in global agricultural trade. AoA prohibited the use of non-tariff-barriers (NTBs) like quotas and import restrictions for agricultural products[7] and introduced 'tariffication'. Tariffication required that all NTBs on the import of an agricultural product would have to be replaced by a single 'bound' tariff rate so that the resulting protection would be equivalent to the nominal protection in the base period. Nominal protection was measured by calculating the difference between domestic prices and international prices for the reference period, 1986-90. 'Bound' rate implied that the base period tariff rates were to act as ceiling rates. No country was allowed to increase tariff rates beyond the bound rate. AoA then stipulated that the average 'bound' tariff rate of agricultural products would have to be reduced over a period of time with a minimum cut on the tariff rate of each product. Developing countries were given the additional flexibility of offering bound rates for agricultural products. This implied that for fixation of tariff for agricultural items, developing countries did not necessarily have to compute the tariff equivalents but could propose a tariff rate they thought appropriate for the concerned product.

Tariffication led to the concern that it could result in high bound tariffs which, if applied, could be prohibitive for any trade to take place. This gave rise to the concept of 'minimum market access', whereby access WTO members were required to maintain current import access opportunities at a certain minimum level. This was achieved through the 'tariff rate quota' (TRQ), which is a two-level tariff with the rate charged depending on the volume of imports. A lower tariff is charged on imports to ensure minimum market access or the quota volume; a higher tariff is charged on imports in excess of the quota volume.

Empirical studies of effectiveness of the market access reforms report mixed success. One of the biggest achievements of AoA is that for most agricultural products NTBs have been abolished and tariff bindings have been applied. However, the tariff rates on agricultural products still continue to be very high. A study by Gibson et al reports that the world average of agricultural tariff is as high as 62 per cent.[6] Average tariff tends to be higher in developing countries than in developed countries. Figure 2 shows the average tariff rates of different regions of the world. It should be mentioned here that Gibson's study has reported bound rates; the actual rates charged (i.e. the applied rates) are much less than bound rates in most developing countries. For example, the average bound rate for agricultural products in India is about 114 percent but the average applied rate is 30 percent.

[7] Quotas and import restrictions are allowed only in some very special situations, like balance of payments problems, under AoA.
[6] Gibson P., J.Wainio, D. Whitley and M Bohman (2001) *Profiles of Tariffs in Global Agricultural Markets*, Market and Trade Economics Division, Economic Research Service, USDA Report No. 796.

Figure 2



Source: Gibson (2001), MFN Bound Tariff Rates.

The high tariff rate in agriculture is a result of what is known in WTO parlance as 'dirty tariffication'. Countries often intentionally overestimated equivalent tariffs by inflating the gap between domestic and international prices. This practice was used frequently by countries to set some base tariffs for certain sensitive commodities at levels that provided greater protection than had existed in 1986-88. Table A2 in the appendix gives some examples of 'dirty tariffication'.

Though the average tariff in the developed countries is low, most of these countries have managed to maintain a very high level of tariff rates on sensitive products. The guidelines for tariffication in AoA allowed governments considerable flexibility in interpretation and, consequently, most countries interpreted them in ways that best benefited their domestic interests. The commitment of reducing tariffs by 36 per cent was based on a simple average. By making rather large cuts in tariffs for commodities that do not compete with domestic production or large percentage cuts in tariffs that were already very low, the 36 per cent average reduction could be achieved with minimal cuts in politically sensitive tariffs. Taking advantage of this fact, some developed countries have set some very high tariffs, or tariff peaks, reaching 350 per cent or more on sensitive products like dairy, sugar and tobacco. A recent OECD study on border protection showed that actual border protection to agriculture was higher in 1996 compared to 1993, in eight out of ten OECD countries (treating EC as one).[7] Data also suggest that in most developed countries temperate products tend to attract much higher tariff rates than tropical products.

Tariffs in most countries also tend to increase with the level of processing. This is called 'tariff escalation'. Tariff escalation discourages exports of value added commodities. The problems of tariff escalation for developing countries have been explained well in a submission to the WTO by a group of developing countries:[8]

> "As a trade barrier, tariff escalation is becoming more and more of an issue since trade is rapidly shifting to processed products. Furthermore, this is also a major obstacle for developing countries interested in escaping from the cycle of producing and exporting primary products and earning less and less given the deteriorating terms of trade for primary commodities.
>
> Tariff escalation prohibits diversification, which is very important for developing countries' economies, particularly as most of the value added is created at the latter stages of production. Unfortunately, to date, due to the tariff structures in OECD countries, the value added from processing is largely captured by the developed countries."

Developing countries allege that tariff peaks and tariff escalations effectively block developing countries' imports in the developed world. A study on the Quad markets by Hoekman et al has reached similar conclusions. [10] It says that although average tariffs in Quad markets are very low, tariff peaks and tariff escalation have a disproportional effect on exports from the least developed countries (LDCs). The report finds that tariff peak products tend to be heavily concentrated in agriculture and food products, and in labour-intensive sectors such as apparel and footwear.

As far as TRQs are concerned, while they have potentially opened up some new market access opportunities, the 'fill rate' of tariff quotas, has remained very low. A study by WTO shows that between 1995 and 1998, the simple average fill rate for all quotas fell from 66 percent to 62 percent. [11] This low fill rate can be a result of the high level of certain in-quota tariff rates, but is also possible that the lack of transparency in their administration has created problems for market access. Also, the broad product classification for TRQs allowed under

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[7] OECD, (1999), 'Preliminary Report on Market Access Aspects of Uruguay Round Implementation', Document COM/AGR/APM/TD/WP (99) 50, June, Paris.

[8] WTO document number G/AG/NG/W/37, p. 3.

[9] Hoekman Bernard, Francis Ng and Marcelo Olarreaga 2001, 'Tariff Peaks in the Quad and Least Developed Country Exports', CEPR Discussion Paper 2747, March.

[10] 'Market Access: Unfinished Business - Post Uruguay Round Inventory', WTO Special Study No. 6.

UR has prevented opening up minimum access in some sub-products within this broad product category. Finally, the setting of within-quota tariffs under UR has been very uneven and, although many of the TRQs have been opened at low or zero tariffs, there are some cases where within-quota tariffs are so high that imports may not take place. Empirical studies by Gibson et al. show that TRQs are associated with high tariffs and sensitive sectors. The average over-quota tariff is 128, more than double the average tariff for all agricultural products. According to this study, the estimated average in-quota tariff rate is as high as 63 per cent, 1 per cent higher than the overall average. The tariffication process in AoA asked for low or minimal tariff rates for in-quota tariff, but did not quantify this rule. The average in-quota tariff of 63 per cent clearly demonstrates that the spirit of TRQ has been violated in this case.

Special and Differential Treatment (S&D)

As has been already mentioned, during the tariffication procedure developing countries were given an option of declaring ceiling bound rates and not going through the tariffication formula. This option was not available to developed countries. Most developing countries exercised the option and declared bound rates. However, AoA offered some compensation to countries who went through the tariffication formula: a special safeguard (SSG) provision. The SSG is a protectionist measure which can be activated if there is an import surge in the concerned country. As most of the developing countries opted for declaring bound rates, they do not have the right to use the SSG; only 36 of the 140 WTO members have the right to use it. Also, the use of TRQs is reserved for countries who use the tariffication formula. It is believed that TRQ and SSG together have provided better protection and manoeuverability than bound rates. So, on balance, it does not seem that the developing countries have been given more favourable treatment.

Till now it is not clear how much of an impact these S&D measures have had on the developing countries, but preliminary investigations suggest that they have not benefited them much. In a recent paper Whalley has commented that "*The research community has seemingly concluded that SDT has brought the developing countries relatively little*". [11]

[11] Whalley, John (1999), 'Special and Differential Treatment in the Millennium Round', NBER.

Implications for Developing Countries

The discussion in the previous section has shown that though AoA introduced some discipline in world agricultural trade, distortions still exist. Most of the commitments undertaken by developed countries did not prove to be effective because AoA contained too many escape clauses and loopholes to make these commitments really binding. Due to the latitude provided the AoA, most developed countries have managed to fulfill their WTO commitments without introducing any significant reform in their farm sector.

The resultant distortions in agricultural trade are hurting the developing countries most. For the agricultural exporters among developing countries, continuous decline in commodity prices exert a downward pressure on their export earnings. This problem is most severe for countries who depend on agricultural exports for their foreign exchange earnings. In most of the developed countries significant market access barriers still exist for products where most developing countries have export interest. Tariff peaks and tariff escalations effectively peg developing countries to the bottom end of the value chain and force them to continue as primary commodity exporters thereby denying them the advantages of value addition. Also, developing countries are finding it increasingly difficult to match the high SPS standards adopted by developed countries. FAO's investigation has revealed that developing countries are experiencing increasing trade obstacles due to SPS measures.

On the other hand, cheap and subsidized imports from developed countries can create problems for domestic agriculture producers in most developing countries and can lead to a substantial decline in domestic farmers' income. The instability of international commodity prices also introduces uncertainty factors in the domestic markets. It should be pointed out that most developing countries are not privy to the special safeguard (SSG) provisions of AoA, which allows imposing protectionist measures in the event of an import surge.

However, it should be emphasized here that developing countries, especially the agricultural exporters, stand to gain much from further and meaningful liberalization of agricultural trade. So far all the implementation problems of AoA have benefited the developed countries. If these issues can be resolved, developing countries also stand to gain from AoA. A recent paper by ABARE has suggested that even a 50 per cent reduction in total domestic support by the developed countries will result in about $14 billion gain for developing countries.[12]

[12] ABARE, (2000), 'Developing Countries: Impact of Agricultural Trade Liberalization', Australian Bureau of Agricultural and Natural Resource Economics, July.

A second phase of negotiations in AoA is currently on. These negotiations are being conducted under Article 20, an article that committed members to start negotiations on continuing the reform process from the end of 1999. In this second phase developing countries are getting another chance to press for a more liberalized and less distorted trade regime. In this current round of negotiations it is important that the developing countries make their opinions count and manage to plug the loopholes in the existing agreement. However, the task is not easy. The developing countries are a fragmented group and can have conflicting interests. For example, high tariff rates in developed country markets help countries who have preferential tariff agreements in these countries to avoid competition from other developing countries. Therefore, it is in their interest that developed countries maintain a high level of domestic protection. The EU has made this situation even more complicated by allowing duty-free access to its market for the least developed countries. Similarly, net food-importing countries support export subsidies because it lowers their food import bill. But most of these considerations are short-term in nature. Developing countries should understand that a free and fair agricultural trade system will be beneficial for them in the longer run. Unless they manage to forge some sort of a coalition it will be difficult for them to move ahead in the three major areas of agricultural trade reform, that is, market access, domestic protection and export subsidies.

Another area that is equally or even more important for developing countries concerns the issues of food security and rural development. These issues have not been addressed properly in the UR AoA, as its main focus was on reforming developed country farming. If any meaningful trade liberalization takes place in agriculture, it is likely that food prices will increase. It is necessary that developing countries, particularly food-importing countries, are given special privileges to counter this increase in food prices. This was recognized by the UR AoA too. Article 16.1 of AoA mentions:

"Developed country Members shall take such action as is provided for within the framework of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-developed and Net Food-Importing Developing Countries."

This directive turned out to be totally ineffective in providing any assistance to the concerned countries. In this article AoA did not stipulate any obligations but put it as a 'best endeavour' clause. In the next round the developing countries should ask for firm commitments instead of clauses like this. It should also be recognized that developing countries are at a different stage of economic development and their capacity to integrate with the global economy is limited.

Paragraph 13 of the Doha Ministerial Declaration acknowledges these problems and comments:

“We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.”

However, it remains to be seen whether developing countries are actually allowed additional flexibilities to make their transition towards a more open agricultural trade regime smooth and relatively easy.

Appendix

Table A.1.Reduction Commitments for Developed and Developing Countries

	Developed countries **Implementation Period: 1995-2000**	**Developing countries** **Implementation Period: 1995-2004**
Tariffs		
average cut for all agricultural products	-36%	-24%
minimum cut per product	-15%	-10%
Domestic support		
Total AMS cuts for sector (base period: 1986-88)	-20%	-13%
Export Subsidies		
Value of subsidies	-36%	-24%
Subsidized quantities (base period: 1986-90)	-21%	-14%

Least Developed Countries are exempted from reduction commitments

Table A2: Uruguay Round Tariff Bindings and Actual Tariff Equivalents of Agricultural Protection, 1986-2000

Product	Actual Tariff Equivalent (percent) 1989-1993	Tariff Binding (percent) Final Period 2000	Proportional Reduction by 2000	Dirty Tariffication[a] 1986-1988	Binding 2000/Actual Tariff Equivalent 1989-1993
European Union					
Wheat	68	109	36	1.60	1.60
Coarse Grains	89	121	36	1.42	1.36
Rice	103	231	36	2.36	2.24
Beef and Veal	97	87	10	1.00	0.90
Other Meat	27	34	36	1.32	1.26
Dairy Products	147	205	29	1.63	1.39
Sugar	144	279	6	1.27	1.94
All Agriculture					
Unweighted Average	45	73		1.61	1.63
Standard Deviation	57	96		1.58	1.68
United States					
Wheat	20	4	36	0.30	0.20
Coarse Grains	2	2	74	2.00	1.00
Rice	2	3	36	5.00	1.50
Beef and Veal	2	26	15	10.33	13.00
Other Meat	I	3	36	0.67	3.00
Dairy Products	46	93	15	1.09	2.02
Sugar	67	91	15	1.50	1.36
All Agriculture					
Unweighted Average	13	23		1.44	1.77
Standard Deviation	22	35		1.20	1.59

Note: a: Announced base tariff rate as a ratio of actual tariff equivalent in the base period.
Source: Panagariya, Arvind (1999), 'The Millennium Round and Developing Countries: Negotiating Strategies and Areas of Benefits', paper presented at the Conference on Developing Countries and the New Multilateral Round of Trade Negotiations held at Harvard University, November 5-6.