

MULTILATERAL TRADE
NEGOTIATIONS
THE URUGUAY ROUND

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Negotiating Group on Agriculture

NEGOTIATING GROUP ON AGRICULTURE

Indian Proposal

1. The persistent and growing agricultural protectionism in some industrialised countries, both in its restrictive and distortive aspects, constitutes the principal problem to be dealt with in the negotiations on Trade in Agriculture. The protectionist policies and techniques of those countries have not only restricted export opportunities for exporting countries but have also resulted in increasing the instability in the world agriculture markets. Elimination of such protectionism and integration of agriculture with the discipline of the General Agreement would lead to expansion of and greater stability in world trade in agriculture.

2. In developing operationally effective GATT rules and disciplines towards this end, it is essential to recognize the developmental role of agriculture in developing countries. Historically, farm price support and procurement measures have played a very important role in stimulating agricultural production in industrialised countries. There is a strong case for elimination of such protectionism in industrialised countries; conversely, the role of agricultural support measures for the economic development of developing countries must be fully recognized.

3. Most of the proposals for reform of the trading system in agriculture are based on the features of agriculture in industrialised economies. Those features include relatively low share of agriculture in GDP, low level of agricultural employment, high yields and labour productivity, large-scale mechanised farming and allied practices and extensive public subsidisation of agricultural activity. These proposals have tended to overlook vastly different features of agricultural situation in a large number of developing countries and consequently, the unique role that the agricultural sector has to play in the process of development of their economies.

4. It is useful to recall the distinctive features of the agricultural situation in developing countries:

- i) While the contribution of agriculture to Gross Domestic Product is very low, many times constituting a single digit percentage, in industrialised countries, the share of agriculture in developing countries' GDP is

very high, in many cases, ranging between one-third to three-fourth or more of the GDP.

- ii) In developing countries, agricultural sector provides livelihood for a large majority of the population. Unlike in many industrialised countries, where the percentage of economically active population engaged in agriculture ranges between less than 2 per cent to about 9 per cent, in developing countries, the percentage is far higher, reaching more than 60 per cent in many cases.
- iii) In many industrialised economies, agriculture is not the determinant factor for the growth of economy as a whole. For a developing country like India, the proposition that for any rate of growth of national income, there must be a corresponding rate of growth in the supply of necessities, has proved to be an essential condition of development. The role of agriculture in ensuring stable supply of basic wage goods acquires crucial importance in the development policies.
- iv) In contrast to agri-business in the industrialised countries, the agricultural situation in developing countries is characterised by peasant farming and predominance of small and uneconomic holdings. Owing to the acute pressure of population and lack of alternative job opportunities, the agriculture is characterised by both overcrowding and low productivity. Chronic poverty afflicts a large number of small and marginal farmers and a growing number of landless agricultural workers. The situation is characterised also by inequality of assets and incomes.
- v) Unlike in industrialised countries, the factor and product markets in the agricultural sector in developing countries are characterised by vast imperfections. Small and marginal farmers are greatly handicapped on account of their inability to secure access to credit

for purchase of inputs. Even when credit is available, the risk associated with lending to such farmers induces money-lenders to charge high rate of interest, which constitutes a serious disincentive for investment in agricultural improvements. Given the acute subsistence needs, the output is often sold at distress prices.

- vi) Due to the low levels of per capita income and the existence of vast segments of subsistence economy, the income elasticity of demand for food is very high. Household budgets allocate a large proportion to the foodstuffs. This situation is in stark contrast with that in industrialised countries, where income elasticity for food is very low and the proportion of household expenditure on food is very small.

5. The special features outlined above lead to some important policy conclusions. Given this situation, there can be hardly any plausible scenario in which free trade in agricultural products could promote economic development or raise general welfare levels in developing countries. Labour released from agriculture, consequent upon a hypothetical free import regime, cannot be feasibly redeployed in other sectors of the economy. Nor can growing requirement of necessities to sustain a given rate of growth, be left to be determined by vagaries of notoriously unstable world market and the uncertain and inadequate availability of foreign exchange resources. In developing economies, economic development remains primarily the function of agricultural development.

6. The peasant economy characteristics make private benefits greatly diverge from social benefits in respect of development of agricultural infrastructure. Lack of adequate accumulation of surplus in great majority of agricultural households prevents any development of such facilities in the private sector. Government initiative for development of public sector infrastructural facilities is essential for productivity improvements in agriculture. The pricing of the services and output which result from such facilities, is done on the basis of marginal rather than average costs. Where social benefits are substantially higher than private benefits, subsidies are welfare improving and necessary for efficiency.

7. Given the imperfect factor and product markets and the inequality of assets and incomes in the agricultural sector, Government action, whether it is in the shape of supply of subsidised credit and other inputs to the farmers or in the form of price support measures, has to be seen as a response to structural imperfections and cannot be equated with the restrictive or distortive Government intervention prevalent in industrialised countries.

8. Price fluctuations for agricultural commodities do not have merely a marginal impact on the producers and consumers in developing economies. Given the strong agro-base for industrial development both from the demand and supply sides, such fluctuations could be disastrous and can have serious economic as well as socio-political consequences. The price support mechanism and allied public distribution system with their subsidy elements have to be viewed in this context.

9. The special characteristics of agricultural situation in developing countries and the developmental role that the agricultural sector has to perform demand a strong leadership role from the State. It is not possible to leave the solution of the problems to the care of market forces. Nor would it be correct to characterise the performance of this role simply as trade distortive or restrictive and, therefore, undesirable. Equally, it is important to recognize that increasing domestic agricultural production and productivity is a sine qua non of development and developing countries should have the right to apply whatever measures considered necessary to achieve this objective.

10. In integrating trade in agriculture with the strengthened and more operationally effective GATT rules and disciplines, the development dimension should be fully elaborated and treated as an integral part of the system. The long-term framework for trade in agriculture should ensure scaling down/elimination of distortions and restrictions originating in the industrialised countries within a specified time frame. To this end, the framework should include the following elements:

- i) The elimination of all provisions for exceptional treatment whether maintained under waivers, protocols of accession or other derogations;

- ii) Elimination of all subsidies and other Government support measures having an effect on agricultural trade;
 - iii) Prohibition on the use of non-tariff measures not specifically provided in the GATT;
 - iv) A binding of all tariffs on agricultural products at a low level;
 - v) Reduction or elimination of the trade distortive effect of sanitary and phyto-sanitary measures.
11. As far as developing countries are concerned, the framework should include the following provisions:

- (a) General: It is recognised that increasing domestic agricultural production and productivity is the sine qua non of the development of developing countries. The special characteristics of the agricultural situation in developing countries and the pivotal position of the agriculture sector in the development process demand a strong leadership role from the State.
- (b) Government Measures to increase agricultural production and productivity and to ensure stability and equity are recognised as an integral part of the development programme of developing countries. Such measures may involve direct or indirect government support, which may include subsidy or price control. They may be commodity specific or general. They may be designed with different social groups or regions in view or may be applicable across the board. There should be a presumption that the use of such measures does not have an effect on agricultural trade.

The following is an illustrative list of such measures:

- (i) Measures to develop infrastructural facilities, including Research and Development;
- (ii) Production subsidies in the shape of subsidised credit or other inputs;
- (iii) Price support measures;
- (iv) Stabilisation of supplies and prices through stocking and distribution policies;
- (v) Consumer subsidies including dual pricing.

- (c) Export Subsidies: In a situation in which the developed countries endorse a prohibition on the use of all subsidies, developing countries should be willing to examine the feasibility of understanding obligations in respect of export subsidies, consistent with their development and competitive needs.
- (d) Tariffs: As in the case of tariffs on industrial products, reduction of tariff on agricultural products should remain a voluntary exercise for developing countries, in accordance with their individual development, financial and trade needs.
- (e) Quantitative Restrictions: The exceptions to the general rule on elimination of quantitative restrictions should continue to apply to agriculture in developing countries. Special mention needs to be made in this connection of balance of payments restrictions (Article XVIII:B) and temporary export restrictions for dealing with critical shortage of foodstuffs and other products (Article XII:2a).

In addition, a new sub-clause should be added to Article XI, recognizing the right of developing countries to apply quantitative restrictions to ensure stable and adequate supplies of basic wage goods indigenously.