Chapter No.4

Impact of agreement on agriculture in Maharashtra

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Impact of WTO Agreement on Agriculture on Maharashtra

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4.1) Introduction

Conventional wisdom on the World Trade Organization negotiations has it that there will be a trade-off between concessions made by industrialized countries in agriculture and concessions made by developing countries in services. What are often overlooked are the linkages between the two sectors, especially the impacts on agriculture of the liberalization of crucial services sectors. At first glance it might seem that the GATS have little to do with agriculture. Its list of 160 service sub-sectors makes little direct reference to agriculture and food: they include just "Services incidental to agriculture, hunting and forestry," "Services incidental to fishing" and "Veterinary services," all within the broad category of "Business Services." Yet the agriculture and food economy around the world has been massively transformed by services. Farmers are increasingly integrated into global food supply chains that strongly influence their production and marketing decisions. Small land-holding farmers are especially dependent on the efficient and equitable provision of services that enable them to participate in these supply chains on affordable terms. Consequently, the liberalization of those services can have a major impact on agriculture especially in developing countries.

4.2) WTO and impact on Agriculture:

India being a member of WTO the GATT accord has its impact on many is as in the Indian context. The major impact would be on the agriculture sector. Trade in agriculture products could not come under the ambit of the GATT because developed countries such as members of the European community and Japan insisted that the resulting GATT resolutions on the trade would involve drastic changes in their domestic agriculture policies. The European Union under the common agricultural policies pursues highly protection of the farmers' interests.

The Uruguay Round began with a goal to reduce or eliminate trade distortions agriculture by doing something about the national agricultural policies that distort production consumption and trade. From the outset this negotiation proved difficult because of differences between prove form and the group proposing restraint. The agreement on agriculture has only in theory favored agriculture in developing countries. But in practice its implementation has seriously affected agriculture in developing countries agreed to reduce these subsidies by 20 percent over 6 years and developing countries by 13 percent over 10 years. However developed countries under Green Box and Blue Box subsidies continue to support agriculture.[1]

4.3) The Dunkel Draft:

In the background the chairman of the negotiating group on agriculture produced a draft that of a negotiating frame. In essence is of calls for the reform on access barriers reform of the export subsidies and the restraint on domestic subsidies. The Dunkel draft envisaged the provision of improved market access and the twin requirements of a 36 percent decrease in budge tray outlays on export subsidies and a 24 percent cut in the subsidized export volume subsequently by the Blair house agreement (1992) between the U.S and the EU it was agreed as follows. That is the Dunkel proposal as accepted by the member countries has its impact on various areas of agriculture namely,[3]

i) Reduction of domestic support in the form of subsidies.
ii) Minimum level of import content in total consumption.
iii) Possibility of disbanding of public distribution system.
iv) Extension of intellectual property protection on agriculture and introduction of seed patenting.
v) Market access.
vi) Export subsidies.
vii) Green box and Blue Box subsidies.

4.4) Impact on public distribution system (PDS):

The GATT accord narcissi late the member countries to produce the agriculture product is market price to sell them at market price. The government however maintains that the PDS is meant to help the consumer and not the farmer.

4.5) Impact on Green Box Subsidies:

Green box subsidies include amounts spent on government services such as research disease control infrastructures and food security. They also include payments made directly to farmer that do not stimulate production such as creation farmers of direct income support assistance to help farmers restructure agriculture and regular assistance programmers' restructure agriculture and direct payment under environment and regular assistance programmer. These definitions are very wide and include all types of government subsidies. This includes expenditure on,

i) Support for research.
ii) Control of past and diseases.
iii) Training extension and advisory services.
iv) Public stock for food security.
v) Direct payment to producers.
vi) Farm income insurance.
vii) Disaster management.
viii) Government financial participation in income, insurance and income safety notes programmer.
ix) Promotion and infrastructural services.
x) Investments subsidies and agriculture input services to resource poor farmers.

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4.6) Impact on Blue Box Subsidies:

Blue box subsidies are certain direct payment made to farmers where the farmers are to limit production certain government assistance programmers to encourage agriculture and rural development in developing countries and other support on a small scale when compared with the total value of the products supported 15 percent or less in the case of developing countries and 10 percent less in the case of developing countries.

The final Uruguay Round agreement consists of two parts one is a set of general commitments which spell out the country schedules that contain the commitment of the country in trams of tariff declared. When non tariff import items are converted to tariff, that tariff reduction on a line by line basis the minimum access concessions and the details surrounding them the level of base year spending and the volume of export subsidies and the schedules of reduction on a year by year basis and the aggregate level of trade distorting domestic supports in the base period and the level of final commitments for reduction.

The agreement in general terms provider for a free market orientation in the sector and in that light a regulatory framework. The basic objectives of the agreement as per the preamble there to be secured the dismantling, of the barriers to trade in the field of agriculture the reduction segment according to the proponents of the agreement of a fair system of export competitions.

The components of blue box are,

i) Direct payment under production limiting programmers'.

ii) Decoupled income supports certain government assistance measures to encourage agricultural and rural development in developing countries.

iii) Structural adjustment assistant provided through producers retirement programmers.

iv) Payment under environmental regional assistance programme.

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4.7) Impact on Export subsidies:

Volume of the subsidized exports to be decreased by 21 percent over six years, and the budgetary is expenditure on export subsidies to simultaneously decrease by 36 percent. The EXIM Policy of Government of India 2002 has emphasized the importance of agricultural exports and nexus between export and openness which effective resource use removal of QRS transport subsidies etc.

Thus even after setting up of the WTO industrialized and developed economics as have several weapons for their advantage which are threats to poor nations. Though these are challenges and problem we have opportunities to improve our agricultural exports also. They are enumerated as given below.

i) A sizable and growing demand for the exportation of crop product like basmati rice in recent years.

ii) There exists a good demand for drum type of wheat in Egypt and West Asian market.

iii) India can boost export of best quality cotton to world market.

iv) There are bright opportunities for the exportation of spices from India.

In the area of export subsidies were subject to reduction commitment. The export subsidy commitment is either in the form of the export quantity reduction commitment. Although several kinds of direct export subsidies are to be reduced by 36 percent below the 1986-1988 level in the case of developed countries over the implementation period of six years. In the case of the developing countries, commitments involve a reduction of direct export subsidies by 24 percent. The least developed countries are, however not subject to any reduction commitment. The quantity of subsides is to be reduced by 21 percent over the implementation period of six years and by 14 percent in the case of developing countries.

4.8) Impact on Distribution services:

Which are of increasing importance for farmers to market their products? Both at the wholesale and the retail level, market power in the distribution sector is increasingly concentrated. This process is already very advanced in most industrialized countries, therefore affecting the export opportunities of farmers in developing countries. Supermarkets are now the main gatekeeper to developed country markets for agricultural produce. To sell in world markets, especially markets for higher value added crops, is increasingly to sell to a handful of large supermarket chains.

Regulations and restrictions in the distribution sector and the impact of GATS Until now, few developing countries have introduced regulations to ensure a more equitable relationship between producers and distribution companies. However, a number of countries have limited the expansion of super- and hypermarkets to protect the traditional small-scale shops and give them more time for adjustment. Malaysia has banned the establishment of new hypermarkets in certain areas until 2009. This can have indirect benefits for farmers and other suppliers, since alternative marketing channels to the supermarkets buying desks are maintained.

A minority of WTO members have made commitments for the distribution and retail sectors in the GATS. Only 29 members made specific commitments for the retailing sector, and only 13 of these are developing countries including the advanced developing countries South Korea and Hong Kong and four African LDCs (Burundi, Gambia, Lesotho and Senegal). Amongst the larger developing countries, only Argentina, Brazil, China and South Africa have made commitments in retailing, the Chinese commitments being a result of its accession negotiations.

The EU has requested a large number of developing countries to make commitments in the distribution sector. It requested full market access and national treatment for its wholesale and retail companies from a total of developing countries: Argentina, Bahrain, Bolivia, Brazil, China, Colombia, Ecuador, Egypt, El Salvador, Honduras, Hong Kong, India, Indonesia, Korea, Kuwait, Malaysia, Mauritius, Mexico (clarification of scheduled exemptions), Morocco, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Singapore, South Africa, Sri Lanka, Taiwan, Thailand, Tunisia, United Arab Emirates, Uruguay, Venezuela and Zimbabwe.'

For another 16 countries, the EU requested to "consider making commitments" without specifying what these should entail: Antigua, Barbados, Belize, Brunei, Costa Rica, Côte d'Ivoire, Cuba, Dominican Republic, Guatemala, Jamaica, Kenya, Macao, Nigeria, St. Kitts and Nevis, St. Lucia, Trinidad and Tobago. The EU has made no requests to LDCs in the distribution sector.

If all countries requested were to commit their distribution as asked for by the EU, the rapid expansion of super- and hypermarket driven supply chains would be very likely, including in countries with a large population of small farmers who rely on domestic markets for the sale of their products. Regulations that would require, for example, retail companies to purchase at least part of their supplies from small producers and farmers and assist them to meet higher product standards, could be challenged through the WTO dispute settlement process as a trade distorting domestic regulation. This challenge could occur even, if the respective requirements were to apply to all large retail companies, since the GATS bans de facto discrimination between domestic and foreign companies. If all or most large retailers were owned by foreign companies, which is not an unlikely scenario, the companies could lobby their Members to launch a WTO dispute by arguing the foreign headquartered companies have to meet requirements of which domestic retailers are exempt. The full commitment to market access and national treatment in the GATS would therefore stop developing countries from moderating the emergence of retail driven supply chains in their domestic markets and at the same time seriously restrict regulations aimed at enhancing the capacity and power of small farmers to supply them on favourable terms.[5]

4.9) Impact on Financial services:

Which are vital for the provision of agricultural credit, especially for smaller farmers who often face major problems in accessing loans from commercial banks on affordable terms if they get credit at all? In meeting the demands of international markets, farmers will need to produce commodities according to international standards and qualities. Significant changes in the production structure may be required in terms of enterprise choice and the degree of specialization, adjustments in farm size and integration of farm production with farm input supply, agro-processing and marketing in the same commodity chain. Agricultural credit can play an important and sometimes crucial role in facilitating these required structural transformations in production and marketing.

The importance of rural credit for small farmers, the quote above highlights the important role of agricultural credit in enabling farmers to meet the quality and marketing requirements of modern supply chains. As shown above, transnational firms increasingly import their requirements into the domestic markets of many developing countries, a process that may be accelerated by the liberalization of distribution and retailing services in the GATTS. Smaller farms need access to sufficient financial resources to adapt their production to these fundamental changes. Even if they want to improve productivity and production only in their traditional activities, they are usually not able to finance the necessary investments from their own resources. At the same time, small farmers are often "unattractive" as clients to commercial banks due to low volumes of loans and high transaction costs. In the 1970s and '80s, many developing countries tried to address the difficulties faced by the agricultural sector through the establishment of state owned or controlled agricultural banks sailing close to the wind 6 institute for agriculture and trade policy that provided credit at subsidized interest rates. The impact of most of these banks was considered disappointing, however, due to a number of factors, including the de facto preference to lend to larger farms, low regulated prices for farm products, high default rates and consequently a continued reliance on government funds to cover losses. As a result, many of these banks and programs were closed or significantly scaled down resulting in a much lower availability of agricultural credit overall.

In Mozambique, liberalization of the rural banking network led to a reduction in the number of rural branches. Farmers heavily dependent on seasonal income, in a country where transport is difficult, were left with no access to credit. In Malawi, the World Bank prescribed privatization of the Smallholder Agricultural Credit Administration, which had indeed been focused on small farmers. It operated successfully with a good loan recovery before it ran into difficulties during a very bad draught in 1992. The renamed and privatized Malawi Rural Finance Company tended to disqualify the poorest farmers by only lending to farmers who also produced a cash crop in addition to maize, the main staple crop.

i) Clients are scattered geographically, making service delivery expensive and information on potential borrowers difficult to obtain and evaluate.

ii) Most farmers tend to borrow at the same time, e.g., in the pre-harvest season and save immediately after harvest. This makes it difficult for rural financial institutions to diversify their portfolios.

iii) Poor farmers own few assets, making it infeasible to secure loans with collateral.

Because of the difficulties faced by commercial banks in servicing smaller farms, many governments and development agencies continue to provide support to reform rural credit institutions, including those focusing on the poorest like the Grameen World Bank in Bangladesh. The link of grassroots organizations of this type with the formal banking sector continues to pose a challenge that may require public interventions. While there is broad agreement among the majority of rural development experts that some form of government assistance to rural finance institutions in developing countries is necessary, there is also agreement that there is no uniform approach among or even within countries and their different farm communities. Consequently, developing countries need a sufficient amount of flexibility to develop, test and implement support measures tailored to the specific needs of their rural poor.[6]

i) Commit acceptance of deposits, lending of all types, financial leasing, all payment and money transmission services, and guarantees and commitments.

ii) Commit provision and transfer of financial information and advisory and other auxiliary financial services.

iii) A request to Korea to remove mandatory lending to small and medium sized Enterprises.

iv) A request to Mexico to permit foreign investment in credit unions, savings and loans companies and development banks, a request to the Philippines to "clarify" why specific requirements on lending to small and medium enterprises and agro-business have not been scheduled in its commitments.

The request of the EU to liberate financial services in developing countries and LDCs poses risks for poor farmers. As the example of Malawi described above has shown, the consequent loss of access to credit can be disastrous for food security and rural employment.

4.10) Impact on Infrastructural services:

Especially water and energy, which are often more difficult to supply is rural areas. In a liberalized and profit driven system for the provision of these essential public services rural populations may be neglected. In the longer term, GATTS commitments could also extend to the distribution of irrigation water, which is essential especially for farmers in developing countries. Transportation, tourism, telecommunications and professional services, especially with regards to agricultural extension, bear on agriculture as well. Requests to liberalize these sectors have been tabled and are not surveyed in this chapter due to space restrictions.

Of the different ways of "trading" services referred to as "Modes of supply" in GATTS "Commercial the impact of GATTS on agriculture By Tobias Reichert with additional research by Tom Lines sailing close to the wind 2 institute for agriculture and trade policy Presence" is most relevant for the agricultural sector. In Mode 3 services are provided "by a service supplier of one Member, through commercial presence in the territory of any other Member." In other words, they're provided by means of foreign direct investment either by establishing a subsidiary in the "importing" country or by buying a domestic company there. Parallel to this bilateral request-offer process for market access, there are multilateral negotiations to clarify and expand certain provisions of the GATS agreement that apply to all service sub sectors.[7]

4.11) Impact on Domestic regulation:

Establishing categories of regulatory or legislative authority exercised by government or their delegated representatives that can have a trade distorting effect. Such categories, still under negotiation and applicable to bilateral commitments already made, include licensing requirements, commercial zoning requirements and requirements pertaining to government authority over environmental protection.

4.12) Impact on Emergency safeguards:

Introducing the option for countries to temporarily remove some of their GATTS commitments if these turn out to have unexpected adverse effects in unforeseen situations.

With the exception of emergency safeguards, all these new rules aim at reducing the policy options of governments in "importing" countries and the multilateral GATTS negotiations are about how far this process should go. The requests and offers made to each other by GATTS members as part of the negotiations are not generally made known to the public. In most cases it is not even made known which sectors are under discussion between one member and another, let alone what changes in them have been suggested.

However the initial requests made by the European Union in July 2002 were made public when the Polaris Institute in Canada released them. Therefore, and because of EU importance in GATTS negotiations, this paper takes the EU's requests as an example of what is asked of developing countries.

4.13) Impact on Environmental services:

Friends of the Earth International calls this GATTS sector a "misnomer" since it mainly concerns water supplies and waste disposal, not the fight against pollution. Although water distribution is not contained in the sailing close to the wind 8 institute for agriculture and trade policy original GATTS classification of environmental services, the EU has requested the liberalization of water distribution for human consumption under this category. So far, there have been no attempts to include the distribution of water for irrigation in agriculture into the environmental services category. In fact, irrigation is not explicitly covered by any of the services categories used for GATTS negotiations. It is therefore unlikely that requests for the liberalization of irrigation water are or will be made during the current round of negotiations.

Farmers, farm workers and the rural population in general will be affected, if the supply of potable water is liberalized under GATTS. There is a long history of privatizing water supplies in developing countries and it is not a happy one. Water charges to the public have increased, water quality has often worsened and it has become harder for poorer people to have access to clean water. In countries as diverse as Bolivia, Ghana, Panama, Tanzania and Trinidad, privatization was either reversed because it failed in its own terms, public protest made sure water distribution was brought back into the public sector, or civil society prevented privatization altogether. If these sectors had been "committed" under GATTS, most such reverses would have been impossible because of the "compensation" that has to be granted and accepted by other WTO members if GATTS commitments are revoked.

In GATTS negotiations, the EU's initial requests targeted environmental services including water in 63 developing countries, including seven LDCs and 14 low income countries. The EU describes its main category for water as referring only to urban main supplies "for human use." The focus on urban supplies implies another type of "cherry picking": Areas with higher population density and higher income are potentially more profitable since they can be supplied with less investment in infrastructure, for example pipes to individual households, than the infrastructure required for more sparsely populated rural areas. If water multinationals take away the wealthier urban clients of publicly owned water services, those services will be unable to use profits from the wealthier clients to invest in rural water distribution, where public water services are unlikely to recover their costs in the short or even medium term. Regulations that require private companies to supply water in both urban and rural areas might come under attack in subsequent GATTS negotiations, as are requirements to lend to the rural sector and small and medium sized enterprises.

If the EU is successful in including the distribution of water for human consumption under the category of environmental services, it may use this as a "foot in the door" to also include irrigation water at a later stage. By far the largest part of freshwater use is for irrigation 70 percent on a global average and well beyond 80 percent in many developing countries. The supply of irrigation water is likely to become more attractive commercially, if the trends towards larger and more market oriented farms in developing countries continues. As shown above, liberalization in other services sectors, most notably distribution is likely to accelerate this process.

As with freshwater distribution, the official list of service sectors used in the GATTS negotiations does not include energy as such. The only reference to it is to "Services incidental to energy distribution" under the heading of "Business Services." Only six countries have committed themselves to GATTS rules in that area. Yet both the EU and the U.S. and several other countries have made detailed proposals to extend GATTS into many areas of energy production and distribution and made numerous requests in this field to others. The EC has made initial requests to 38 developing countries, including two LDC countries.

A particularly large and detailed request on energy services is made to India. Much of the EC request refers to the electricity sector despite the possible implications in higher charges for electricity to run irrigation pumps, the impact of GATTS on agriculture and despite the hard lessons learned from the failed U.S. company Enron's investment in a large, debt-financed power plant in Maharashtra state in the 1990s which, among other things, provoked widespread local protests. That experience alone should be a warning signal against entering into GATTS commitments since they make most liberalization efforts effectively irreversible. Overall, liberalization of the energy sector entails similar risks for the rural population as does the liberalization of freshwater distribution. Private companies are likely to focus on more profitable urban clients and neglect poorer rural clients which are more difficult to supply. In fact, one of the most successful examples of rural electrify action has occurred in South Africa where a publicly owned company extended its services into rural areas.

4.14) Conclusion:

The analysis shows the tremendous potential impact of services liberalization on agriculture in general and on small farmers in developing countries in particular. Against this background, it becomes obvious that safeguards to protect and support small farmers are insufficient if they are based in the Agreement on Agriculture alone. Even if special products and a special safeguard mechanism could be introduced on a meaningful scale (a question that is completely open at the current stage of negotiations) and unfair competition from low priced imports controlled, small farmers can still face serious problems in accessing their domestic markets. The combination of supermarket power, the cost of infrastructure investment to comply with standards and the unavailability of affordable rural credits may leave small-scale farmers with just two choices: limit themselves to subsistence production or give up agriculture altogether.

In many developing countries, the loss of small-scale farmer's access to domestic markets has already started to take place, especially with the liberalization of the retailing sector. A commitment to full liberalization of this sector under the GATTS agreement would make it incredibly difficult to limit and control the dominant position of retailers and introduce regulations in favor of small farmers and businesses. Therefore it is essential to take a comprehensive look at the impacts of all aspects of the WTO negotiations on farmers and farm workers, especially the poorest amongst them. and to ensure that no commitments are made in sectors linked to agriculture that would seriously limit the policy space necessary to protect and support family farmers in a rapidly changing economic environment.

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