Farm subsidies under WTO

Agriculture 9/07/04

By Shahid Kardar

ONE of the most contentious and intractable issues under the WTO relates to the phasing out of agriculture-related subsidies. The rich and industrialized countries are forcing developing countries to accept their suggestions on the definition of agricultural subsidies that should be permitted for the continuation of the huge domestic dole-outs to their farmers of one billion dollars per day.

They argue that only input, production or price-related subsidies that "distort trade" should be eliminated while subsidies covered under the "blue box" and "green box" mechanisms, whereby direct income support is provided to farmers, should be allowed. The definition of the "blue box" subsides have been expanded to include direct payments by the US government to farmers cultivating cotton, wheat, corn, rice, etc., on the basis of fixed areas and yields with reference to past production, thereby allowing it to make support payments of $9-10 billion per year. These are over and above the subsidy that the US government provides in the form of export credits, credit guarantees and food aid.

The "blue box" subsides are being justified on the plea that they do not distort trade being in the form of direct payments to farmers and not linked to production, while the "green box" subsidies cover those provided in the name of environmental protection and for agricultural research and development.

The primary reason why such subsidies are being justified as non-trade distorting is because only the developed countries can provide support of this nature to their farmers. Since developing countries do not have the financial resources to provide their farmers with similar support, they have little option but to seek a ceiling on total support in the hope of preventing the Europeans, Americans, Japanese and Australians from agreeing to cut some subsidies simply to shift them to the "green box" category, which, as explained above, in reality operates like an income insurance scheme that protects rich country farmers from the vagaries of international mar- enable them to maintain their lifestyles, thanks to the direct payments received under the "green box" mechanism.

The obvious question that arises is that if rich country farmers have to be provided price support, why should the same logic not apply to poor farmers living at a subsistence level from their only assets — their meagre land holdings — and who represent the majority of the world population living off agriculture.

It would be unrealistic to insist on the removal of all agriculture-related subsidies at a rapid pace; the recent increase in the number of member-countries of the EU to 25 is not going to make it any easier. We have to adopt a more pragmatic and constructive approach, not forgetting that successive governments in Pakistan have taken a long time to withdraw fertilizer subsidies, and there is a continuing challenge to remove the subsidy on wheat. Hence, we would be naive to demand that rich country governments should agree to cut farm subsidies outright and overnight.

Furthermore, as far as we are concerned, we do not have the financial wherewithal to sustain a large agricultural subsidy bill without a substantial cut-back in defence expenditures. Also, it would be unrealistic to expect the developed countries to reduce subsidies and open up their markets without developing countries being willing to make reciprocal commitments.

Strategically, therefore, (since there is a more sympathetic audience for such a view in the developed countries) we should be seeking free (duty- and quota-free) access to the markets of developed countries, especially for cotton. Moreover,

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It is estimated that after the adoption of the US Farm Bill of 2002, close to 45 per cent of a American farmers' income comes from the subsidy granted by the government, while a European farmer gets close to $25,000 per acre of sugar beet.

All this boils down to poor farmers in developing countries, growing cotton and sugarcane/beet, having to continue to face unfair competition as a result of unjust rules of the game and being denied access to markets of developed countries, despite the rhetoric on markets being best vehicles for ensuring efficiency. It appears that the mechanism of free and unfettered market access and the accompanying cruelties of market volatility are only to be used to browbeat poor farmers of developing countries.

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in view of its importance, we should lobby for keeping food production for domestic consumption out of the purview of the agreement on agriculture, — demand a "food security box" to meet our concerns on sensitive agricultural crops, along with a special safeguard for ensuring food security.

We should also be able to argue our case for provisions that allow for support to small marginal farmers or, for developmental reasons, to the agriculture sector generally.

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