

Report No. 48

## WTO and Negotiation on Agriculture

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*The Centre for Policy Dialogue (CPD), established in 1993, is an innovative initiative to promote an ongoing process of dialogue between the principal partners in the decision-making and implementing process. The dialogues are designed to address important policy issues and to seek constructive solutions to these problems. The Centre has already organised a series of such major dialogues at local, regional and national levels. These dialogues have brought together ministers, opposition frontbenchers, MPs, business leaders, NGOs, donors, professionals and other functional groups in civil society within a non-confrontational environment to promote focused discussions. The expectation of the CPD is to create a national policy consciousness where members of civil society will be made aware of critical policy issues affecting their lives and will come together in support of particular policy agendas which they feel are conducive to the well being of the country. The CPD has also organised a number of South Asian bilateral and regional dialogues as well as some international dialogues.*

*In support of the dialogue process the Centre is engaged in research programmes which are both serviced by and are intended to serve as inputs for particular dialogues organised by the Centre throughout the year. Some of the major research programmes of CPD include The Independent Review of Bangladesh's Development (IRBD), Governance and Development, Population and Sustainable Development, Trade Policy Analysis and Multilateral Trading System, Corporate Responsibility, Governance, Regional Cooperation for Infrastructure Development and Leadership Programme for the Youth. The CPD also carries out periodic public perception surveys on policy issues and developmental concerns.*

*As part of CPD's publication activities, a CPD Dialogue Report series is brought out in order to widely disseminate the summary of the discussions organised by the Centre. The present report prepared under the CPD programme on Trade Policy Analysis and Multilateral Training System, contains the highlights of the dialogue held at CPD Dialogue Room, Dhaka on November 29, 2001 on the theme of **WTO and Negotiation on Agriculture**.*

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## **Dialogue Report on WTO and Negotiation on Agriculture**

### **The Dialogue**

The Centre for Policy Dialogue (CPD) organised a dialogue titled *WTO and Negotiation on Agriculture* on November 29, 2001 in the CPD Dialogue Room, Dhaka. The dialogue was organised under CPD's programme on Trade Policy Analysis and Multilateral Trading Regime (TPA) being implemented in collaboration with Centre for Trade Policy and Law (CTPL), Ottawa. Dr. Donald McClatchy, a prominent agricultural economist from Canada presented the keynote paper. Dr. Debapriya Bhattacharya, Executive Director of the Centre for Policy Dialogue, moderated the session. The dialogue was attended by a cross section of people including policy makers, entrepreneurs, academics, development activists, agriculturists, journalists and other professionals. Two other Canadian experts who attended the dialogue were Mr. Ramesh Chaitoo, a trade policy analyst of CTPL and Ms. Maryse Robert, a senior trade specialist of the Organization of the American States, (OAS). This report presents a resume of Dr. McClatchy's presentation on *WTO and Negotiation on Agriculture* and the constructive exchange of views and ideas among the participants that followed his presentation.

### **Welcome Address by Dr. Debapriya Bhattacharya**

Dr. Bhattacharya initiated his welcome address by expressing his delight at the presence of Dr. Donald McClatchy, the keynote presenter of the session, who is one of the leading agricultural economists of Canada. He informed the audience that the Canadian experts have come to Bangladesh in connection with the Trade Policy Analysis (TPA) programme, which CPD is implementing in collaboration with CTPL over the last few years. Speaking about the focus of the TPA programme, Dr. Bhattacharya informed the participants that under this programme CPD has been conducting a number of research studies on trade related issues, which are critical to Bangladesh's strengthened global integration. Under this programme CPD also prepares trade related policy briefs for the government, undertakes training programmes and capacity building activities and manages trade related information and database. Referring to the just concluded second

*Trade Policy Appreciation Workshop* on the theme of *WTO and Bangladesh* jointly organized by CPD and CTPL, Dr. Bhattacharya said, “ For taking the full advantage of the presence of these eminent scholars who have flown all the way from Canada to Bangladesh, we have organized today’s dialogue exclusively focusing on the agriculture sector of Bangladesh.”

Before inviting Dr. McClatchy for his presentation the moderator informed the participants about the presenter’s distinguished research career. Dr. McClatchy obtained his PhD in Agricultural Economics from Purdue University in 1973. From 1973 to 1997 he held progressively senior positions in Canada’s Federal Department of Agriculture and retired as Deputy Director of the International Trade Policy Directorate. Dr. McClatchy provided technical assistance on agricultural production and trade policy matters to governments in Turkey, Moldova, Georgia, the Ukraine, Russia, Syria and Zambia. He is also the agricultural policy consultant for a multi-year CIDA funded project to provide trade policy assistance to the six countries in the Organization of Eastern Caribbean States (OECS). Through CTPL he has assisted Russian and Ukrainian officials in preparing their respective country positions related to base period Aggregate Measure of Support (AMS). He has helped these countries prepare policy briefs, documents and negotiating position papers for preparing these countries for their accession to the WTO.

### **Keynote Presentation by Dr. Donald McClatchy**

Dr. McClatchy mentioned in the beginning that the purpose of the paper was to stimulate a discussion which will assist those responsible for decision making as regards Bangladesh’s evolving negotiating strategies in the agricultural area. He mentioned that Bangladesh and other least-developed countries (LDCs) do have commonalities of interests with developing countries (DCs) on many issues of common interest. Nevertheless, he viewed that the best way for the LDCs will be to focus on their own limited negotiating resources and ‘capital’ for obtaining extra ‘special and differential’ concessions.

Terming the unhappiness of the developing countries as regards the Uruguay Round not having yielded a balanced outcome in agriculture as justified, Mr. McClatchy said that

their market access benefits have been minimal. He thought that the developed country policies created large distortions and instabilities in the world markets and have allowed these to continue. He thought that it would be wise for DCs to continue to insist on a linkage between outcomes in the three areas in the agricultural negotiations which included export subsidies, domestic support and market access. Developing countries should also resist significant reductions in their agricultural tariff bindings.

Talking on the TRQ issue (Tariff Rate Quotas) which have featured prominently in the discussions on *market access*, Dr. McClatchy said that the most important TRQ issue for DCs is their lack of access to TRQ allocations. Dr. McClatchy observed that many DME's provide most or all of their TRQ amounts on a previously-negotiated, country-specific basis—often largely to other DMEs though it has been suggested that quotas which are not made globally-available should not be counted in the TRQs.

On *tariff negotiation* Mr. McClatchy noted that a multi-pronged approach was adopted during the Uruguay Round. Within the bounds of a formula which imposed minimum cuts on all tariff lines together with a simple average aggregate reduction, countries entered into bilateral negotiations using a “request and offer” approach to determine specific reductions for individual products- he pointed out.

A key point for the developing countries, in the opinion of Dr. McClatchy, is the *starting point* for reductions. It refers to whether any agreed reductions (in bound tariff rates) would begin from existing levels of tariff bindings or from existing (or recent past) levels of the corresponding applied tariff.

Deliberating over the *export competition* issue, Dr. McClatchy raised the following points:

Regarding *export subsidy reductions*, he pointed out that in the context of having no right to use export subsidies, the interest of Bangladesh, like most of the developing countries,

would seem to be to achieve elimination of the use of export subsidies by the DMEs as rapidly as possible.

Talking on *export subsidy definitions*, Mr. McClatchy pointed out that since Bangladesh did not have agricultural exporting State Trading Enterprises (STEs) as a recipient and importer, She will have to assess whether she stands to benefit or lose from a tightening of the international disciplines in these areas.

As regards *export restraints*, Dr. McClatchy was of the opinion that any new disciplines in this area could potentially imply the need for policy changes by the Bangladesh government since Bangladesh still maintains several export prohibitions and restrictions in the agricultural area.

With regard to *domestic support*, the presenter mentioned that Bangladesh has nothing to lose and much to gain from substantive reductions in permitted levels of the more trade-distorting types of domestic support. He said, the *de minimis* limit faced by countries such as Bangladesh is effectively a limit on product-specific support for each individual farm commodity which results from the way the AMS is currently defined and calculated. The existing DC *de minimis* (10 percent of the value of production for “product-specific” support and another 10 percent for “non-product-specific” support) allows countries like Bangladesh to provide up to 20 percent of the value of production in “amber” (non-exempt) support, over and above whatever it provides in “green” (exempt) support- the presenter added.

Elaborating the interests of Bangladesh as regards the special and differential treatment options, Dr. McClatchy viewed that like other developing countries, it would be to Bangladesh’s interest to be allowed to prevail on issues such as ‘starting point’ for tariff cuts, reduction or elimination of tariff escalation, clarification of the rules concerning the variation of applied tariffs over time, substantial reductions or elimination of export subsidies, substantial reductions in AMS limits and/or new total domestic support limits, elimination of ‘blue box’ and so on.

Dr. McClatchy mentioned that the key market access S&DT provision of the Uruguay Round applying to Bangladesh, as an LDC, is the exemption from reduction obligations on tariff bindings. Identifying Bangladesh as one of those developing countries which resort to tariff escalation, he mentioned that Bangladesh's average applied tariffs on food products are 16 percent at the first stage of processing, 23 percent at the semi-processed stage, and 29 percent at the fully-processed stage.

Dr. McClatchy observed that, it would obviously be in Bangladesh's interests to continue to lobby strongly for unilateral EU tariff elimination on most products from LDCs. He argued that the potential benefits for Bangladesh will presumably be higher if any such concession is made only to LDCs, rather than to DCs in general.

Focusing on the need to minimize DC tariff preference erosion, and non-discrimination in preferences, Dr. McClatchy recalled that in the Uruguay Round, there was no obligation for countries to extend the negotiated reductions in their most favoured nation (MFN) tariffs to the corresponding Generalised System of Preferences (GSP) and other preferential tariffs which existed at lower levels. Consequently a considerable erosion in these tariff preferences occurred.

Highlighting the *export competition* area of the S&DT options, Dr. McClatchy mentioned that Bangladesh is entitled to the use of certain types of export subsidies until 2006 without being subject to reduction commitments. As an LDC, Bangladesh would any way be exempt from reduction commitments. He said, on principle, Bangladesh will also want to secure commensurate relief from any new disciplines or commitments on export subsidies or export credits.

Commenting on the *domestic support* area of the S&DT options, he reiterated out that as a DC Bangladesh is entitled to a *de minimis* limit of 10 percent of the value of farm production on *product-specific amber support* and an additional 10 percent on *non-product-specific amber support*. As its existing support is well below these limits,

Bangladesh, like most other LDCs, does not really benefit from the exemption for LDCs from AMS reduction commitments.

In identifying the negotiating goals for Bangladesh, Dr. McClatchy attempted to identify some of the areas where potential benefits lie for Bangladesh agriculture and pointed out the following potential benefits to be gained by Bangladesh from a successful negotiation on agriculture:

- better access to DME markets (lower tariffs, removal of tariff escalation) for export products while retaining existing bilateral or LDC preferences as much as possible;
- significant reduction or elimination of the existing high level DME subsidies (export & domestic, possibly including 'green' ones)
- retention of the ability to protect producers against world market downswings without violating WTO commitments;
- retention of maximum scope for own farm development expenditure (in support of food security, agricultural diversification, rural development, again without violating WTO commitments);
- prevention of 'environmental', 'food safety', and other concerns becoming acceptable grounds for a new generation of agricultural protective measures in DMEs;
- maximum access to agri-food sector technical assistance and food aid on favourable terms.

Pinpointing the negotiating strategies for Bangladesh in Agriculture, Dr. McClatchy suggested that Bangladesh should decide how broad the negotiations must be for the required trade-offs to come about. He thought, if Bangladesh (or DCs generally) has more to get than to give in agriculture, then trade-offs between agriculture and other sectors may have to be considered.

Dr. McClatchy presented the following strategies with regard to Bangladesh's negotiations in agriculture:



- *Prioritize and place relative values on negotiation goals as much as possible:* As for example, he arranged some priorities in the following order:
  - Concessions in the market access area (e.g., all DME tariffs and quotas on LDC products eliminated)
  - Special safeguard (SSG) or equivalent made broadly available to LDCs or DCs for sensitive commodities.
  - Elimination of export subsidies.
  - Major reduction in DME domestic support levels.
  - Expanded scope for agricultural development spending (via a bigger ‘development box’ or a higher *de minimis*).
- *Identify which of the identified priority areas may not require the expenditure of LDC “negotiating capital”*
- *Come to the table with specific proposals*
- *Enter the negotiations with already identified “fall back” and “bottom line” positions on the various issues in which engaged.*

## **Open-floor discussion**

### ***Export subsidy and trade in agriculture***

The moderator, Dr. Debapriya Bhattacharya initiated the discussion on this issue. He identified the issue of subsidy in agriculture as a source of much debate among the experts and the trade negotiators. He particularly pointed out that the agriculture-dependent developing and least developed countries are, in most cases, not in a position to subsidize this sector; however, paradoxically agriculture sector enjoys huge subsidy in the industrial developed economies where the contribution of agriculture to the GDP is rather low. Major General (Rtd.) Amjad Khan Chowdhury, President of Bangladesh Agro-Processors’ Association (BAPA), suggested that trade negotiators from both the developed and the developing countries have to strive for working out a mechanism so that subsidies in agriculture are removed in the near future. Regarding abolition of export subsidy, Dr. Bhattacharya pointed out that the position taken at Doha is very confusing

since the relevant sentence of the declaration reads “*phasing out doesn’t mean elimination of subsidy.*” Dr. Abdur Razzaque, Director General of Bangladesh Agricultural Research Institute (BARI), pointed out that it is not possible for Bangladesh to take a *common position* in terms of subsidy in agricultural trade. This is because on the one hand Bangladesh enjoys comparative advantage over other producers in the world market in some agricultural products and on the other hand in most of the years she has to import substantial amounts of food products. “Therefore, Bangladesh’s position as regards the issue of export subsidy should be *product specific*” he opined.

### ***Domestic support***

The keynote presenter suggested limited government spending in support of agriculture, which should be a certain percentage of the total value of the agricultural GDP. Mr. McClatchy thought that like most of the developing countries Bangladesh is already operating at the *de-minimis* level and has nothing to lose but much to gain from substantive cuts in permitted levels of domestic support. “Such cuts would impact almost entirely on DME countries and would contribute the *levelling* of the currently very tilted field”-he explained. Making a point of departure, Professor Mustafizur Rahman, Research Director of CPD said that simply because Bangladesh’s limits are well-below *de-minimis* level she cannot remain complacent on this issue in the future trade negotiations. Professor Rahman argued that though currently Bangladesh is not a major exporter of agricultural products, in case she graduates into an agri-products exporting country in future, she may indeed come to need the permitted levels of domestic support.“ Dr. Jahangir Alam Khan, Member Director (Agri Economics) of Bangladesh Agricultural Research Council (BARC) regretted that though the trade *distorting* domestic support issue is highlighted in different international forums, the issue of *production distorting support* doesn’t receive due attention. Criticizing the Developed Market Economies for their continuing *distortion of production* through special support, Dr. Khan proposed that the developing countries should come together for preventing the developed countries from artificially keeping the level of food production low and distorting the market. Countering Dr. Khan’s observations, Dr. McClatchy noted that the DME policies of destroying the products were basically aimed at increasing the output in

contrast to the popular belief. Thus it is not true that this policy leads to price hike in the world market by lowering production - he added.

### ***Trade related Technical Assistance in Agriculture***

Dr. Abdur Razzaque, Director General of BARI pointed out that diversification of crop production is a precondition for expansion of trade in agriculture. Mentioning that currently 56 types of agricultural commodities, other than rice, are being exported from Bangladesh, he said, “We have adopted an integrated approach for substantially enhancing the production level of the hybrid crops”. According to Dr. Razzaque, more technical assistance is required for growing high value crops in Bangladesh. Major General (Rtd.) Amjad Khan Chowdhury, President of BAPA thought besides technical assistance, financial assistance is also required to upgrade the agro processing facilities in Bangladesh. Dr. Razzaque informed in this connection that his institution is planning to submit a report to the government focusing on the areas requiring technical assistance.

### ***The green-box: yes or no to investment***

Stressing the need for technical support in enhancing productivity and competitiveness of Bangladesh’s agriculture, Dr. Quazi Shahabuddin, Research Director of Bangladesh Institute of Development Studies (BIDS), observed that Bangladesh needs substantive investment in ‘green box’ because ‘green box’ cannot be separated from ‘development box’. In substantiation of his argument, Dr. Shahabuddin mentioned that Bangladesh has comparative advantage in the production of some flowers, fruits and vegetables; however, for commercial horticulture the need for technical support cannot be denied. “It is interesting to see how ‘green box’ items can be separated from the ‘development box’ ones.” Responding the keynote presenter pointed out that on the one hand, it is uncertain whether Bangladesh would be able to spend a lot of resources on ‘green box’ programmes while a large number of programmes are currently available in Bangladesh which belongs to the other “boxes”.

Former Agriculture Secretary of Bangladesh, Dr. A.M.M. Shawkat Ali made an intervention by saying that conclusions/suggestions of different research works, often conflicting with each other, have put Bangladesh on the horns of a dilemma. “For

instance, research works conducted under the auspices of the Ministry of Agriculture suggested that Bangladesh should not go for the programmes contained in the 'development box' however, the FAO, on the other hand, recommended for 'higher development box' - he added. Dr. Ali was of the opinion that the need of the day is to find out the points of convergence in those research findings. Commenting on the different technical barriers to trade (TBT), the former Agriculture Secretary said that for countries like Bangladesh technical assistance is a must to cope with the difficulties relating to standards of the sanitary and phytosanitary measures.

### ***Enhanced attention to agriculture***

Dr. A.M.M. Shawkat Ali observed that trade related issues of interest to Bangladesh in agriculture has been de-emphasized over the years; lack of awareness both inside and outside the government is responsible for that. "Even the negotiating areas have remained unidentified" - he went on to say, "only after identifying the issues of negotiation, we can sequence those." Dr. Mirza Azizul Islam, former Director of the UNESCAP, pointed out that during the Doha ministerial meeting Bangladesh delegation was preoccupied with industry and service sectors and hardly enough attention was paid to the agriculture sector — not because this sector bears no importance for Bangladesh rather it indicates that the delegation was sent to Doha without proper groundwork - he added." Dr. Noel Magor, Project Manager of PETRRA, IRRI opined that a lot of preparation is required for trade negotiation in agriculture since agriculture remains to be one of the most critical areas in the entire gamut of international trade. "It seems that adequate attention to the related issues was not paid earlier. For choosing the future path, Bangladesh should set a task force involving all the stakeholders" - Dr. Magor observed.

### ***Inter-ministerial hassle***

In the opinion of Dr. Mirza Azizul Islam, the process of identifying negotiating agendas has already suffered a setback as a consequence of the traditional bureaucratic hassle prevalent in the policy making circles of Bangladesh. "It is still not clear to us as to which agency of the government – Ministry of Agriculture or Ministry of Commerce – should play the lead role in agricultural negotiations"- he lamented. Dr. Donald McClatchy

suggested that Bangladesh needs to define exactly what is agriculture. “Currently a host of ministries including agriculture, forestry, livestock and fisheries etc. are dealing with the various issue; however, one particular ministry should be assigned to smoothly carry out the negotiating tasks” – he suggested. Mr. Hasanul Huq Inu, General Secretary of the Jatiyo Samastantrik Dal (JSD) thought that forces of globalization have put countries like Bangladesh into a very disadvantageous position. This was because Bangladesh is far from being adequately prepared for coping with the attendant challenges. Talking about bureaucratic hassles, Mr. Inu noted that Bangladesh has made democratic transition just a decade back and, during the transition, major concerns facing the toiling masses, have escaped the attention of the upper echelons in the governmental machinery. As a consequence, despite being the *play ground* of the marginalized millions (who constitute the overwhelming majority of the society), agriculture has remained simply a frontier issue” — he observed. Awareness building and education of the masses may be one answer to this age-old complexity-he viewed.

### ***SAARC Constituency on Agriculture***

Responding to CPD chairperson Professor Rehman Sobhan’s query as to whether there was a SAARC constituency on agriculture during the Doha ministerial, Dr. Debapriya Bhattacharya informed the audience that there was a common position between India, Pakistan and Bangladesh on service sector; however, in case of agriculture India was more engaged than any other SAARC country. Taking part in the discussion on this issue, Dr. McClatchy informed the participants that India presented a very comprehensive position paper on agriculture during the Doha ministerial. “There was not an exclusive SAARC position notwithstanding the fact that Pakistan and Sri Lanka were joined by India and other like minded groups in negotiations on agriculture”-he added. Major Gen. (Rtd.) Amjad Chowdhury thought that along with the SAARC constituency, Bangladesh also needs to cooperate with the Cairn Group and seek support from most of the developing countries for facilitating duty and quota free entry of her processed agro-products into their markets. Dr. Sajjad Zohir of BIDS pointed out that often the interests of one particular country may be in conflict with other countries; in such cases

Bangladesh should be prepared to go alone rather than wasting time in vain in building alliances.

**Concluding Remarks by the Moderator:**

In his concluding remarks, Dr. Debapriya Bhattacharya mentioned that agriculture is a very critical area in international trade negotiations. Agriculture bears added significance for Bangladesh as the sector is the source of livelihood for the vast majority of the people of this country. Stressing the need for adequate groundwork for successful negotiation on trade in agriculture, he noted, “much remains to be done in this regard and CPD's efforts are aimed at addressing this gap.” Thanking all the distinguished participants for making time for the dialogue, he said, “The interests you have shown today at this dialogue would certainly inspire CPD to organize more such dialogues in future focusing on the crucial development issues which concern Bangladesh’s interests, national, regional and global.” The CPD Executive Director particularly thanked the three Canadian experts for their valuable contributions to the dialogue and the workshop which preceded the dialogue.

## List of Participants

(in alphabetical order)

<i>Dr A M N Shawkat Ali</i>	Former Secretary, Agriculture
<i>Mr Nurul Anwar</i>	Farm Sramik Federation (BAFLF)
<i>Dr Debapriya Bhattacharya</i>	Executive Director, Centre for Policy Dialogue
<i>Mr Ramesh Chaitoo</i>	Centre for Trade Policy and Law (CTPL), Ottawa
<i>Maj Gen Amjad Khan Chowdhury (Rtd)</i>	Chief Executive, Property Development Ltd. & President, Bangladesh Agro-Processors' Association
<i>Dr Uttam Kumar Deb</i>	Research Fellow, Centre for Policy Dialogue
<i>Mr Hasanul Huq Inu</i>	Secretary General, Jatiyo Samastantrik Dal (JSD)
<i>Dr M Azizul Islam</i>	Former Director, UN-ESCAP
<i>Ms Sylvia Islam</i>	Development Advisor, CIDA/UTC
<i>Mr M J H Javed</i>	Programme Associate, Centre for Policy Dialogue
<i>Ms Wais Kabir</i>	Chief Scientific Officer Bangladesh Agricultural Research Council (BARC)
<i>Dr Jahangir Alam Khan</i>	Member/Director (Agri Economics) Bangladesh Agricultural Research Council (BARC)
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<i>Dr Donald McClatchy</i>	Centre for Trade Policy and Law (CTPL), Ottawa
<i>Dr M A Hamid Miah</i>	IRRI Representative in Bangladesh
<i>Dr Mustafa Mujeri</i>	Visiting Fellow, BIDS
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