

FACULTY OF JURIDICAL SCIENCES

Lecture-19



Trade policies prior to the WTO

Although agriculture has always been covered by the GATT, prior to the WTO there were several important differences with respect to the rules that applied to agricultural primary products as opposed to industrial products. The GATT 1947 allowed countries to use export subsidies on agricultural primary products whereas export subsidies on industrial products were prohibited. The only conditions were that agricultural export subsidies should not be used to capture more than an “equitable share” of world exports of the product concerned (Article XVI:3 of GATT). The GATT rules also allowed countries to resort to import restrictions (e.g. import quotas) under certain conditions, notably when these restrictions were necessary to enforce measures to effectively limit domestic production (Article XI:2(c) of GATT). This exception was also conditional on the maintenance of a minimum proportion of imports relative to domestic production.

However, in practice many non-tariff border restrictions were applied to imports without any effective counterpart limitations on domestic production and without maintaining minimum import access. In some cases this was achieved through the use of measures not specifically provided for under Article XI. In other cases it reflected exceptions and country-specific derogations such as grandfather clauses, waivers and protocols of accession. In still other cases non-tariff import restrictions were maintained without any apparent justification.

The result of all this was a proliferation of impediments to agricultural trade, including by means of import bans, quotas setting the maximum level of imports, variable import levies, minimum import prices and non-tariff measures maintained by state trading enterprises. Major agricultural products such as cereals, meat, dairy products, sugar and a range of fruits and vegetables have faced barriers to trade on a scale uncommon in other merchandise sectors.

In part, this insulation of domestic markets was the result of measures originally introduced following the collapse of commodity prices in the 1930s Depression. Furthermore, in the aftermath of the Second World War many governments were concerned primarily with increasing domestic agricultural production so as to feed their growing populations. With this objective in mind and in order to maintain a certain balance between the development of rural and urban incomes, many countries, particularly in the developed world, resorted to market price

support — farm prices were administratively raised. Import access barriers ensured that domestic production could continue to be sold. In response to these measures and as a result of productivity gains, self-sufficiency rates rapidly increased. In a number of cases, expanding domestic production of certain agricultural products not only replaced imports completely but resulted in structural surpluses. Export subsidies were increasingly used to dump surpluses onto the world market, thus depressing world market prices. On the other hand, this factor, plus the effects of overvalued exchange rates, low food price policies in favor of urban consumers and certain other domestic measures, reduced in a number of developing countries the incentive for farmers to increase or even maintain their agricultural production levels.

Agreement on Agriculture

The Agreement on Agriculture (AoA) is a WTO treaty that was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and formally ratified in 1994 at Marrakesh, Morocco. The AoA came into effect in 1995.

- According to its provisions, developed countries were to complete their reduction commitments by 2000 and developing countries by 2004.
- The Least Developed Countries were not required to make any reductions.
- The Agreement covers products that are normally considered part of agriculture but excludes forestry and fishery products and also rubber, sisal, jute, coir and abaca.
- The focus of the AoA is the elimination of what are called “trade distorting” agricultural subsidies.
- According to the WTO, the overall aim of the Agreement is “to establish a fairer trading system that will increase market access and improve the livelihoods of farmers around the world.”