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Meeting the Challenges in Developing Countries  
An Asian Perspective

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Introduction / background

Agriculture continues to play a dominant role in South Asian economies. As for Sri Lanka although its relative importance has declined gradually since the 1960's. By 1999, the share of agriculture in the GDP stood at 17 per cent and agriculture employment amounted 36 per cent. The rural economy continues to be highly influenced by the agriculture sector and the opportunities and potential for expansion lie within this sector. Furthermore, the development of the rural areas is critical for Sri Lanka since 75 per cent of the population is still classified as rural.

The agriculture sector in Sri Lanka was historically characterised as dualistic with the plantation sector producing cash crops for the export markets and the non-plantation sector producing food crops which dominated production. In the past, the food production sector, was fairly protected from cheap imports and enjoyed State support aiming at providing economic benefits to large number of small farmers and increasing food self-sufficiency. A reasonable level of self-sufficiency was an important objective considering food security concerns and the aim to reduce the foreign exchange outlays on food imports, since foreign exchange earnings were erratic and depended itself on the export of agriculture exports such as rubber, tea and coconut, that faced unstable world markets.

With the gradual opening of the economy since 1997, the protection to the food-producing sector declined and by the entry into force of the AoA of the WTO Sri Lanka had already reached 'compliance' by unilateral liberalising its agriculture sector. The current applied customs tariffs for most agricultural products in Sri Lanka is 35 per cent except for rice, potatoes, onions, and tobacco on which tariffs are higher.

The elimination of non-tariff barriers to the food-producing sector and fixing the applied tariffs at low levels led not only to a surge in imports but also to a negative impact on crop area and production. Increasing import dependence may have deleterious effects on food security due to the lack of foreign exchange earnings, as was indicated before. In addition, alternative employment opportunities in agriculture or elsewhere are limited, particularly in the rural areas.

On the other hand, key sectors of interest to developing countries and Sri Lanka in particular, such as processed agricultural products and textile continue to be protected and distorted at the international level due to high tariffs, non-tariff measures and massive subsidisation. Taking the case of trade in agriculture: the share of developing countries in world agricultural trade increased only slightly over the period from 1990 through 1999,

from 40,5 to 43 per cent (WTO statistics). On the other hand, OECD total estimates of support stand at US\$ 311 billion which is around double the value of exports from developing countries.

Tariff escalation and tariff peaks, have forced developing countries to limit to the production for export of few commodities or cash crops which face volatile prices and ever deteriorating terms of trade. Twenty per cent of Sri Lanka export earnings are derived from agriculture exports consisting mainly of tea, rubber and coconut.

If protection via tariffs and subsidies were lowered in developed countries, even the poorest countries would expand exports. According to some estimates, for example, if the QUAD countries provided duty free access to low-income countries in Africa, net agricultural exports would rise by 6 per cent.

Therefore, both tariff and non-tariff measures **prevent the full realisation of the export potential of developing countries and severely limit their capacity to mobilise resources to ‘finance’ their own development process. Although the Uruguay Agreement on Agriculture represented a first step in bringing agricultural trade to the multilateral trading system much remains to be done to establish a fair and level-playing-field in agriculture. Technical co-operation and capacity building in this context are vital for developing countries to diversify their agricultural exports, to increase productivity by adopting good agriculture practices (GAP), Good Veterinary Practices (GVP), Good Manufacturing Practices (GMP) and Good Hygiene Practices (GHP) which will enable them to become more competitive in international markets.**

Support level is inadequate

The bulk of domestic support to agriculture in Sri Lanka is provided through non-trade distorting measures such as research, extension and infrastructure development. Support measures are provided through public funded government programmes and do not involve transfers from consumers, nor do they have the effect of providing price support to producers.

**There is however, an immense gap between the desired and actual level of investment in the agricultural sector, due mainly to budgetary reasons.** Agricultural production has demonstrated declining trends over the last ten years in most sectors except in tea, paddy, fisheries and milk production. The increasing population, decreasing land availability, rising costs of production and declining profit margins have contributed to productivity declines.

Food production and the implementation of the Marrakech Decision

For Sri Lanka it is of utmost importance to increase agricultural productivity and food production for a growing population. Currently, almost 90 per cent of agricultural imports constitute food products while these represent less than 20 per cent of agricultural

exports. Being a Net Food Importing country, Sri Lanka has insisted in the provisions of the Marrakech Decision being fully implemented.

The Marrakech Decision aims at tackling the structural problem of agriculture backwardness in LDCs and NFIDCs through the provision of technical and financial assistance directed to improve agricultural productivity and infrastructure in these countries. In addition, it calls for adequate levels of food aid and availability of short term financing to maintain the normal level of food imports. That is, to avoid that the urgent need to meet an increased food bill deviate resources from long-term development objectives, including agriculture development. Given the particular circumstances of Sri Lanka the implementation of the Marrakech Decision is of great importance. The implementation of the Decision has been extensively consulted with no concrete results so far, as part of the implementation discussion within the WTO. **Therefore, in the absence of a concrete multilateral solution to the second component of the Marrakech Decision namely technical and financial assistance to improve productivity and infrastructure, bilateral assistance should be increased thro' Green Box measures to address these concerns.**

Current structure for dealing with food safety and implementing the SPS/TBT agreements

A critical area of interest for Sri Lanka is the development of capabilities to implement the SPS and TBT Agreements of the WTO. Sri Lanka is still in the process of implementing these agreements and emerging issues has restricted the capacity of the country to assess the legitimacy of national as well as international SPS and TBT standards. **It is crucial that the implementation of these agreements be made within a coherent and broaden policy framework that would guarantee not only the possibility of expanded exports but also that the objectives of public health and others are met at the national level.**

In Sri Lanka the food control infrastructure is comprised of a high level Advisory Committee (FAC) which also functions as an advisory body to the Ministry of Health on all issues related to food safety. The import and export inspections is carried out by the food and drug inspectorate of the Ministry of Health in coordination with custom authorities.

On the other hand, the Sri Lanka Standard Institution (SLSI) is the national body responsible for setting and monitoring food standards and is also a national enquiry point for the implementation of the SPS Agreement. In this capacity SLSI is responsible for the dissemination of information to exporters, regarding changes to trade partners' product standards in various industries. As relate to food items, the SLSI adheres to international health and safety standards and guidelines, such as Codex standards, as strictly as possible.

SLSI representatives participate in FAC meetings in conjunction with a multidisciplinary group of experts from different governmental bodies and private sector representatives, consumers as well as producers. The FAC meets regularly and has three sub-committees: technical sub-committees for standards and regulations, national codex committee, and the co-ordination committee.

There is however, need for greater level of co-ordination among the different agencies and the extent to which the organisational aspects of the food safety system can respond to the growing demand of sophistication in managing risks in food at the national level and related to trade.

Moreover, the legislative framework needs to be redefined to incorporate a thorough approach towards food safety based on lowering the impact of food hazards throughout food chain rather than emphasising end product testing and penalisation. These are the principles embodied in the standards and guidelines developed at the international level, brought to the WTO by the SPS and TBT agreements. Therefore, these practices are essential for the expansion of trade.

Although improvements have been made at the level of public awareness towards food safety and information on standards within the industry, there is still lack of information regarding prevailing SPS measures and the degree of consistency with the WTO agreements.

The impact of standard on Sri Lanka exports

In addition to the traditional exports of cash crops -tea, rubber and coconut other products have the potential to increase their participation in exports markets: shrimps, fresh fruits and vegetables, floricultural products, organic crops, spices, etc.

The capacity to meet the high standards required in the export markets will be critical for expanding trade in these products. For example, the quality of floricultural products demanded by the European Union traders and consumers is extremely high. Standards include assortment, size, uniformity, marking, packaging and presentation. To meet these standards is a real challenge for Sri Lanka and trade is unlikely to grow until Sri Lanka raise standards considerably. Moreover, complying with packaging standards is also vital for exports since the packaging of products must comply with the waste management policies of the importing country.

**The magnitude of the loss of not meeting international standards can be considerable.** A recent study (Herath, 2001) undertaken on the beverages and spice sectors in Sri Lanka calculated the loss in volume of potential spice exports at 5,500 mt during '99/2000, foreign exchange loss to due to non-compliance was US\$2.9 m. per year and unemployment loss was 2400. Further, it was indicated that cost of compliance with quality requirements in terms of providing training to traders and farmers would cost US \$ 2 m. Moreover, lack of quality requirements was identified as one of the main reasons for the decline in exports of coffee, cocoa and cardamom for the last ten years, although the production volume had not changed.

Sri Lanka's exports of meat products to a neighbouring country us adversely affected due to non-transparent nature of SPS measures and application of such measures without published quarantine parameters. The process of evaluation of application for import

permit is repeated with every application to the same product and this cumbersome procedure has caused enormous delays in issuing import permits.

#### Specific Technical Assistance needs

The highly sophisticated systems embodied in the principles and guidelines adopted by standard setting international organisations pose an enormous challenge to developing countries.

The Hazards Analysis and Critical Control Points system (HSCCP) HHH embodied in the codex standards, for example, is a main concern for small enterprises since they are constrained with the trained and skilled human resources for implementing the system and keeping up with the detailed data required to determine, at the different stages, if the target safety level has been achieved.

Moreover, if such a thorough approach towards food safety is to be adopted, awareness about SPS and TBT standards among the different participants in the food chain and trade channel should be generally improved. Education campaigns and awareness programs should be carried out. According to estimates on the cost of such programmes for the spice and beverage industry would mount to US\$ 1.954 million for two training programmes covering all traders involved. The current budget allocation for training reach only 3 per cent of the requirement...therefore, there is a need to mobilise resources, including from the private sector to achieve this task.

Resource constraints have also severely limit investment in infrastructure for the implementation of sophisticated standards related to food safety. There are only three accredited laboratory facilities in the country. The Government Analytical Laboratory which is the oldest and reasonably equipped lacks however, facilities for monitoring pesticides residues, mycotoxin and heavy metal. Undertaking risk analysis is difficult due to the lack of infrastructure but also due to the lack of trained and skilled personnel and developed methodology for carrying those analyses. Other areas in which capacity building needs have been identified are those related to equivalence, import/export inspection and certification systems.

The need of trained and skilled personnel can not be understated. Qualified personnel is required not only at the public sector for the modernisation of the food safety system and implementation of the WTO obligations related to this area. The role of producers and private sector in general is essential. It is of utmost importance for developing countries to be able to challenge the SPS and TBT measures of importing countries when these do not comply with international standards and are applied as a disguised barrier to trade. A thorough understanding of the rights and obligations within WTO agreements - including the DSU is therefore required.

Skilled personnel would contribute to an effective participation of Sri Lanka in the standard setting organizations. By this is meant not only the attendance to the meetings but also being capable of bringing to those meetings the national and regional-SAARC- views

on standards and food safety considerations, and analysing the effects of proposed standards on Sri Lanka trade opportunities. There is also need to establish a regional data base on food borne diseases, the information of which could be used in the risk assessment and standard setting process.

### Biotechnology and GMOs

One important issue of interest and concern for Sri Lanka is the commercialisation of GMO products (e.g. from seeds to food products containing GMOs). What may be the implications of those products for the environment and public health? Could labelling solve some of the concerns derived from the commercialisation of these products? What is the potential for agriculture in Sri Lanka derived from the use of biotechnology? What impact may this technology have on the trade potential of the country?

The government of Sri Lanka has taken a comprehensive approach towards this issue within the implementation of the Convention on Biological Diversity and the Cartagena Protocol on Biosafety. Furthermore, agriculture biotechnology has in fact been identified as a priority for the country.

Research institutes, universities and government departments carry out research in biotechnology. However, infrastructure development, including human resources and investment in biotechnology continue to be inadequate. One of the shortcomings of the current system is the lack of interest and involvement of the private sector in this area that could add to resources for investment. The use of this technology could improve agriculture productivity but there are still areas in which a more thorough understanding of its implications is required.

### Regional initiatives

There is interest to work at the regional level among the SAARC countries, to pool resources and to up date the infrastructure and institutional framework of food safety systems within the region. It is acknowledged that a regional approach towards the implementation of SPS measures could expand trade within the region and SAARC countries are committed to that.

There is lack of legal consistency and harmonisation of standards, methods and procedures among countries. The region must revise domestic legislation to meet the international standards and within that framework, regional initiatives on SPS matters could be undertaken. One key area in which requires much attention is the inadequate supply of information necessary for the evaluation of the impact of SPS standards on public health and trade. This is an issue derived from the lack of such information systems at the national level, as explained before, and the development of such systems are of utmost importance.



In addition, the region as a whole lacks the financial resources necessary to up date inadequate existing facilities for quality testing, certification and accreditation. Qualified human resources are also scare.

#### Concluding remarks

- Technical cooperation is an important complementary component to the mobilisation of national resources for development. Not a substitute of legitimate trade opportunities that should be available to the country under a fair and level-playing-field trading environment.
- The implementation of the WTO agreements in different areas are seen as parcel of the overall development policy of the country, not as an aim in themselves.
- The modernisation of the food safety system is therefore a priority from the perspective of public health and the realisation of international standards is seen also as a key component of a policy geared to benefiting from market access opportunities provided by international trade.
- The technical co-operation needs are large for developing the regulatory, technological and institutional frameworks required for the modernisation and development of a coherent system on food safety which will enable to upgrade the existing facilities for quality, testing, inspection, certification and accreditation..
- At the institutional level, capacity building of human resources is key. The articulation of the private-public sector would also contribute to define priority areas for the country and mobilise resources for the modernisation of the food safety system. Enhancing the institutional framework would also contribute to guarantee the implementation of long term policies towards food safety and provide for continuity.
- At the regulatory level, cooperation is required in the endeavour to harmonise legislation with international standards and understanding the implications of those standards. Equally important would be improving the effective participation of Sri Lanka in the standard setting bodies.
- At the technological level, cooperation is badly needed for establishing an adequate physical infrastructure to meet the sophisticated requirements embodied in the international standards.

# Agriculture Negotiations : Modalities and beyond.....



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## « A Developing Country Position and Perspective »

by

K.J. Weerasinghe  
Permanent Representative  
of Sri Lanka to the WTO



# A developing country.....

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- Introduction.
- Chairman's First Draft – 17 February.
- Mixed views on –
  - NGOs
  - EC
  - Members
  - Financial Times
- My comments are from **a Developing Country** perspective.



# Interlinkage – Market Access and other Two Pillars

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Many developing countries -

- Undertaken autonomous liberalization.
- Tariff is the only boarder measure.
- Low bound tariff levels.
- Not market distorters.
- Market access commitments should commensurate with reduction commitment in other pillars.



## Market Access

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- Positive side
  - Reduction from bound tariff.
  - Acceptance of concept of strategic product (SP) - 10% reduction.
  - Proposed SP products should be exempted from reduction.
  - De-link from SSM.
  - If, a reduction to apply, should be for over 120% tariff lines.
  - Full liberalization of tropical products.
  - Should not be a “best endeavour clause” &
  - Should be a binding commitment.



# Tariff Reduction Formula

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- Recognize high tariff be reduced and need to harmonize (over 90% and 120% with higher reduction rate).
- 20% and 120% subject to same treatment seem unfair.
- 20% subject to minimum of 23%.
- Below 20% subject to minimum of 17%-need to have minimum tariff.
- Should create a new band between 20% and 120% to achieve equity.
- Is 10 Year implementation period reasonable?.



# Special Safeguard Mechanism

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- Para 24 – 25 - SP products eligible to Art 5 of AoA.
- SP subject to 10% reduction not eligible, de-link from SSM.
- Products already covered with SSG will qualify for SSM.
- Anomaly ? Inequity to perpetuate (Guatemala 107, Costa Rica 87, Columbia 56, Mexico 293)
- Does not address the concerns of those who asked for a SSM.
- Countries with lower bound should be able to use.
- Article 5 ineffective, inflexible.
  - When will the review be completed ?
- Can developing countries undertake commitments without a decision on the type of SSM.



# EXPORT COMPETITION

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- Export subsidies –
- Elimination would go in line with Doha Mandate.
- Time frame appears to be too long, as developing countries are asked to reduce tariff over the same period.
- Reduction commitments should be undertaken on desaggregated or product specific basis.
- Only 23 developed and 9 developing countries have the right to provide subsidies.
- Hence S & D provision of little interest.
- Proposal to mainain Art 9.4 for transport and marketing - Art.9.1 D & E is positive.
- Exports subsidies and its link to Marrakesh decision.





## Export - Credit

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- Special provision made for export financing programme for developing countries.
- Special provisions for financing of basic food stuffs imported by NFIDCs.
- For most products 180 days maximum credit suggested.
- At least 30 months should be given to NFIDCs



## FOOD AID

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- Propose to substitute Art 10.4 with a new article-should be a broader concept.
- Should look at from recipient's point of view as well.
- Food aid in the form of untied financial grant for purchase of food.
- Food aid is in fully grant form.
- Establishing a link with Article 18.6 and FAO surplus disposal consultative obligations and UMR to ensure compliance is positive.



# DOMESTIC SUPPORT

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- The general framework is preserved.
- Specific and targetted modifications to green box.
- Green box expanded to include environmental and conservation programmes.
- Under S & D
  - Flexibility for some programmes (Green box).
    - Domestic support for production of staple products.
    - Payment to small scale farmers – rural viability, cultural heritage.
  - De-minimis exemption upto 10 per cent maintained.



## Art. 6.2 Special Provisions for Developing Countries

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- Proposes to expand Art. 6.2
- Recognition of low income resource poor farmers is important (LIRPF)
- There are many programmes proposed to cover problems related to LIRPF eg. Capacity building measures..... Risk management of agri products.....Marketing supporting programmes etc.
- Some resemble Green box programmes (conservation – para 12 annex 2 - environmental programme).
- Lack of financial resources is the main concern.
- Article 6.2 measures should be protected from SCM measures.



# SUMMARY

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- The target tariff reduction for developing countries ambitious.
- Concerns on reduction in lower bound tariffs should be addressed.
- Concept of SP should be translated to effective measures.
- Need for effective and flexible safeguard mechanism.
- Cannot draft schedules until new SSM has been developed.
- Article 6.2, amendments are important – should be protected from SCM.
- Expansion of Green box measures under S & D treatment for developing countries is recognized.