Hanoi 15 December 2001

General report on Analysis

of vietnam agricultural policy Under the context of WTO

Executive Summary

I. Introduction

Integration into the world economy has become a vital strategy of Vietnam Communist Party and Government. Achievements during 10 years of renovation (Doi Moi) have shown that integration into global economy plays an important role in enhancing economic growth.

Our country has been on the way to integrate step by step into regional and international economies. This process was marked by the fact that in 1995 Vietnam became an official member of ASEAN, 3 years later - in 1998 - APEC member, especially in 2000 - a signatory party of Bilateral Trade Agreement with United State of America. Recently, we have been preparing documents and implementing negotiations to join WTO. Vietnam's negotiation has been undertaken in the context of a new round of multilateral trade negotiation. The trend to push up trade liberalization in agriculture has been maintained. It is increasingly difficult for Vietnam to carry out a negotiation in agriculture, because , on the one hand, we have to base on existing rules of WTO, on the other hand, we have been forced to follow the trends in a new round of multilateral trade negotiation.

Vietnam is an agricultural country with rural population of 70 percent. The economic development level is still very low. Integration will bring both opportunities and challenges to Vietnam.

During the last few years, reforms undertaken in institution and policy have shown our positive integration and changes to adapt to a new economic development stage of the country.

Thanks to technical assistance from ISG, a research paper on analysis of Vietnam's agriculture policy in relation with WTO has been attracted our attention with objectives:

- Initially assess the relevance of existing policies
- Identify opportunities and challenges on integration process
- Provide recommendation for policy making
- Draw important lessons and experience from other countries

II. Contents

The report consists of 3 parts :

- ***Part 1***: To present regulation of WTO in agriculture, mainly contents of Agreement on Agriculture, which is considered a frame for comparison with Vietnam's policy. WTO's rules are numerous and complicated. This research paper will synthesize and simplify those regulations in order to help readers understand core provisions of WTO in agriculture.

- ***Part 2***: To evaluate the current context of Vietnam's agricultural policy in comparison with the rules of WTO on the following aspects:

  + Import tariff policy

  + Non-tariff policy

  + Domestic support and Export subsidy

This part focuses on analysing existing policies of Vietnam and assessing initially their relevance with the WTO principles.

- ***Part 3***: To point out strategy of Vietnam agricultural policy during integration process.

Based on the analysis of the previous parts, to draw lessons from other countries, and to make recommendation for the future agricultural policy of Vietnam.

- ***Appendix***:

  + Data tables and experience of some countries

  + Assessment of plant diseas control in Vietnam on the basis of SPS Agreement

III. methodologies

To carry out discussions between expert groups on the contents of research, assign preparation of thematic reports, then to make summary and complete a general report, to organize workshops to get comments for the research paper.

Iv. Constraints

- Limited knowledge on the rules of WTO

- Financial limit on research paper

- Assessment of domestic support and export subsidy in this research paper only has based on data of outlay from State budget during the period 1996-1998 (revenue forgone and support from provincial budget have not been available in statistical data).

Thus, this paper could be used for reference only.

Report

Policy system applied in agriculture is very broad, including production management policy, production relations, social policy, etc, which form an overall policy for agriculture and rural development. This research focuses only on analysis of Vietnam's existing agricultural policy concerning relevant rules of WTO, especially the Agreement on Agriculture and Sanitary and Phyto-sanitary (SPS) Agreement.

Matters of protection, support and subsidy in agriculture still remain a controversial ones during the existence of GATT and WTO. Since early 1950s, GATT has tried to make this type of market transparent, but then failed. Kenedy Round (1963-1967) and Tokyo Round (1973) approached to a modest result. Only at Urugoay Round, when US shared its view point with other countries in Cairn Group regarding to agriculture trade liberalization, the result of negotiation on agricultural trade showed more optimistic signs, one of which is the birth of Agreement on Agriculture - a ground-breaking step in pushing up trade liberalization in agriculture. Agreement not only regulates tax and non-tariff barriers but also clearly indicates domestic support and export subsidy applied for agricultural commodities. These measures have negatively influenced on trading in agriculture of developing countries, of which the main source of foreign currency earning comes from export of agricultural products.

Based on the rules in this Agreement, acceding parties have carried out their negotiation to join WTO.

Part 1
WTO Agreement on Agriculture

Agreement on Agriculture has set up a legal framework for trading in agriculture to constantly comply with the GATT rules, whilst push up trade liberalization in agriculture. Under this Agreement, there are 3 main committed areas:

I. Market Access: Tariff and Non- tariff barriers

1. Tariff regulation

Under Agreement on Agriculture, countries are required to abolish immediately non-tariff measures in agriculture by converting them into tariff (tariffication)

a. Commitment on tariff binding

Acceding country should be required to bind its tariff rate to ensure that the future tariff not exceeding initial commitment (called bound tariff rate). If it would like to raise its tariff rates exceeding the level of commitment, it will have to renegotiate on the basis of corresponding concession.

Generally, there are 3 levels of binding tariff rates:

+ Binding tariff rates will be lower than applied rates, showing Member's will to reduce tariff rates, and specific commitment on the reduction schedule.

+ Binding tariff rates have remained at the applied rates (the existing rates)

+ Binding tariff rates will be higher than applied rates, i.e a country is likely to increase its tariff rate, not exceeding the committed rates (called the ceiling binding tariff rates). Broadly, developing countries usually have committed by this way to ensure a legal security rather than market access.

It is not necessary to have commitment on 100 percent of imported products (excluding for agricultural products)

b. Other commitment relating to tax policy

- *Most Favored Nation clause (*MFN) requires that tariffs and other regulations should be applied without any discrimination between member-countries.

- *National Treatment* (NT) bans countries from discriminating between imported products and domestic ones, in the context of the levies, fees, internal taxes or in application of any internal regulation.

- Protection for domestic industry is made only through tariffs, the use of quantitative restrictions (quota, license….) is prohibited.

- Other fees (except for export- import tariff, anti-dumping duty, service charges, internal taxes levied on both domestically produced and imported goods) in accordance with commitment on tariff concession should be listed in the Member's schedule to ensure that, in the future, these fees do not be rised higher or other form of fees shall be applied in comparison with commitments .

- Implementation of subsidy measures: if preferential tax and tax concession applied to enterprises or special sectors are considered subsidy measures, they shall be required to comply with the regulations of Agreement on Subsidy.

For agricultural commodities, apart from complying with the mentioned above regulations, there are some additionally ones, including:

✓ Commitment of 100 percent of agricultural product tariff lines

✓ Tariffication of non-tariff barriers and commitment of the binding ceiling tariff levels. Tariff is considered the only measure to protect domestic industry.

Three (3) exemptions to protect domestic industry, however, are existing:

- Measures are carried out under provisions regarding balance of payment.

- Measures are undertaken in accordance with the general provisions in GATT 1994 (for example safeguard measures, general exemptions, Article XX, GATT 1994).

- Countries are able not to apply tariffication of some goods and offer a special minimum market access opportunities for certain volume of imported goods .

Tariff equivalent rate of tariffication calculated on the basis data in 1986-1988 plus the applied tariff rate will form the total tariff rate. Schedule and the rate to reduce the total tariff rate are shown as followed:

Table 1

Countries	Implementation period	The rate of reduction
Developed	1995 – 2000	A 36% reduction in tariff equivalents (with the minimum set 15%)
Developing	1995 – 2004	A 24% reduction in tariff equivalents (with the minimum set 10%)

2. Market Access

To overcome the fact that the import tariff rate is very high after tariffication, Agreement on Agriculture indicates 3 concrete definitions about market access opportunity, in terms of which imported value within this band shall be offered by a low tariff rate.

- *Current access opportunities*: they are granted to the volume of imported commodities, which is equal to an average of imported volume of base period (1986-1988).

- *Minimum access opportunities*: In 1995, they are required to be no less than 3 percent of the base period (1986-1988) domestic consumption of the designated products. Then they are increased to 5 percent in the end of 2000 for developed countries and till the end of 2004 for developing countries.

- *Special minimum access opportunities* (applied to products which are not subject of tariffication): For developed countries, they are 4 percent of the domestic average consumption of the designated products during the base period 1986-1988, thereafter, are increased by 0.8 percent of the corresponding domestic consumption in the base period per year for the remainder of the implementation period until the end of the year 2000. For developing countries, they are 1 percent of the annually domestic consumption, 2 percent in 1999 and 4 percent in 2004 respectively.

3. Special Safeguard Provisions (SSG)

Apart from the application of safe guard measures to limit import of goods increasing quickly in order to protect local production according to Article XIX of GATT- 1994, Agreement on Agriculture allows WTO Members to use SSG measures, which does not require any signal (or tendencies) of bad impacts on local production provided that the goods has been tarifficated and marked "SSG" in the tariff table. The safe guard measures for agricultural products would be applied in the following cases:

- The price at which imports of that product may enter the customs territory falls below a trigger price and/or
- The volume of imports of that product entering the customs territory of the Member country exceeds a trigger level.

Trigger price, which is determined on the basis of the average c.i.f import price in the period 1986-1988, will be submitted to Agriculture Committee by the Member and then will be publicly informed.

II. Domestic Support

Agreement on Agriculture classifies domestic supports into different boxes in terms of their effects on agricultural trade, including:

1. Amber Box

This support is non-exempted and shall be reduced. It is quantified in total Aggregate Measurement of Support (AMS).

Current total AMS	= product- specific domestic support	+ non- product specific domestic support	+ equivalent domestic support

Total AMS shall be calculated by outlay from State budget and revenue forgone. Member countries shall be required to commit their total AMS for each year and the final ceiling level of AMS.

Table 2

Countries	**Implementation period**	**Rate of reduction**
Developed	1995 – 2000	Reduction of 20% in "amber" domestic support measures expressed in the form of AMS
Developing	1995 – 2004	Reduction of 13.3% in "amber"

	domestic support measures expressed in the form of AMS

De-minimis percentage

Agreement on Agriculture provides a "de minimis" level of 5 % of production value of the product for developed countries or 10 % for developing countries. If product- specific AMS represents less than the "de minimis" percentage, it can be exempted from the commitment of reduction.

2. Green Box

These support measures are exempted from the reduction commitment because they have no or at most minimal trade distorting effects on production. They conform to the following basic criteria:

◊ The support shall be provided through a publicly-funded government program, not involving transfers from consumers; and

◊ The support shall not have the effect of providing price support to producers.

This type of support composes of following measures:

a. General Services

Policies in this category involve expenditure (or revenue foregone) in relation to programs which provide services or benefits to agriculture or the rural community, such as research, pest and disease control, training services, extension and advisory services, inspection services, marketing and promotion services, infrastructure services, etc.

b. Public Stockholding for food security purposes

c. Domestic food aid

d. Direct payment to producers, including

- Income support, which is determined by clearly-defined criteria, such as income, status as a producer or landowner, factor use or production level (not related to type of production, factors of production employed, and scale of production)
- Government financial participation in income insurance program.

- Payment (made either directly or by way of government financial participation in crop insurance schemes) for relief from natural disasters
- Structural adjustment assistance provided through producer retirement programs (to facilitate the retirement of persons engaged in marketable agricultural production or movement to non-agricultural activities)
- Structural adjustment assistance provided through resource retirement programs (to remove land or other resources, inclusively livestock, from marketable agricultural production)
- Assistance provided through investment aids to facilitate producers' operations in response to objectively demonstrated structural disadvantages.
- Payments under environmental programs
- Payments under regional assistance programs
- Others

3. Blue Box

These support measures are exempted from the reduction commitment.

a. Special and differential treatment for developing countries

Agreement on Agriculture indicates that developing countries shall not be required to reduce such types of supports, as following:

- Assistance provided through investment aids by Government
- Input subsidy generally is available to low-income or resource-poor producers
- Support to encourage diversification from growing illicit narcotic crops

b. Direct payments under production-limiting programmes (mainly for developed countries) if:

- Such payments are based on fixed area and yield; or
- Such payments are made on 85% or less of the base level of procuduction; or
- Livestock payments are made on a fixed number of heads

III. Export Subsidy

Pursuant to this Agreement, member countries shall be required to reduce export subsidy through the implementation period (in 1995-2000 for developed countries, and 1995-2004 for developing countries). The reduction shall be applied for both State expenditure on export subsidy and subsidized export volume.

Table 3

Country	Developed	Developing
Reduction in budgetary outlays on export subsidy	36%	24%
Reduction in quantities of subsidized exports	21%	14%

In details, member countries shall reduce following export subsidy:

- ♦ Direct subsidies provided by Governments or their agencies relate to the result of export performance;
- ♦ Subsidies on agricultural products contingent on their incorporation in exported products;
- ♦ The sale or disposal for export by Government or their agencies of non-commercial stocks of agricultural products at a price lower than the comparable price charged for the like product to buyers in the domestic market;
- ♦ Payments on the export of an agricultural product that are financed by virtue of Governmental action;
- ♦ The provision of subsidies to reduce the costs of marketing export of agricultural products, including handling, upgrading and other processing costs, and the costs of international transport and freight;
- ♦ Internal transport and freight charges on export shipments, provided or mandated by Governments, on terms more favorable than for domestic shipments; [1]

Generally speaking, countries, which are in the negotiation process to entry WTO, usually have to commit on a higher and more strict level in comparison with that of existing WTO members for the cause of preferential conditions they shall offer new members.

[1] Developing countries are permitted to apply this measure of export subsidy

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Part 2

Agricultural policy of Vietnam Under WTO framework

I. Import tariff policy in agriculture

In our existing MFN import tariff schedule, there are 6,285 tariff lines with 19 levels ranging from 0 to 100 percent. An average import tariff rate for the whole country is 16 percent (including the rate at 0 percent) and 24 percent (excluding the rate at 0 percent) [2].

As far as agricultural products concerned, there are 836 tariff lines with 12 levels ranging from 0 to 100%, accounting for 13.3% of the total tariff lines. An average import tariff rate is 24 per cent (including the rate at zero percent) and 28 percent (excluding the rate at 0 percent).

Comparing import tariff rate in agriculture with the general import tariff structure :

Import tariff rates (%)	**Number of import tariff lines**		**Proportion (%of tariff levels)**	
	Countrywide	**Agriculture**	**Countrywide**	**Agriculture**
0	2060	113	32.8	13.5
1- 10	1746	139	27.8	30.4
12 – 30	1153	112	18.3	26.1
35 – 50	1255	221	20	26.4
60	11	-	0.2	-
80 –100	60	30	0.9	3.6
Total	**6,285**	**836**	**100**	**100**

Structure of agricultural products in terms of import tariff rates:

- <u>*Tariff rates at 0%:*</u> This rate is levied on seeds and breeds, all kinds of animal furs, skin and cotton used for the industries of leather tanning, textile and garment. These items are mainly inputs for agricultural and industrial production, which are not domestically available or not enough.

- <u>*Tariff rates at 1- 10%:*</u> Other live animals (excluding for breeds), livestock sub-products (bones, viscera...), maize, wheat, barley, oat, broken cereal, coarse flour, crude vegetable

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[2] According to MARD: (Sum of tax rate x the number of tax rate)/ total of tax rate

oil, oil seeds (soybean, sesame, cotton seed, castor oil), sugar beet, sugar cane, soybean cakes, distiller's grain, animal feed, processed plant products (resin, shellac...), materials used to braid, silk, dry latex. These commodity groups, which are domestically unavailable or in low demand, mainly are input for domestic processing industry.

- *Tariff rates at 15- 30%:* Fresh and frozen meat, milk, all kinds of fresh vegetables, rice, raw sugar, spice (garlic, onion, ginger, basil, pepper...) tobacco leaves, tea, semi- processed coffee. This group can be domestically produced and has comparative advantages for export and is not required to import.

- *Tariff rates at 40 - 50%:* Fresh fruits of all kinds, refined vegetable oil, refined sugar, processed products (tea, coffee, vegetables, meat, confectionery), products from cereal (breads of all kinds, cakes,). These products bring about high added value, however, our processing industry has not caught up with the required pace of agricultural production. They are not highly compatible, and therefore are protected by high import tariff rates.

- *Tariff rates at 80 - 100%:* Wine, beer, soft drink and tobacco products. They are domestically produced to meet domestic demand, have a high profit and luxurious goods, which are not encouraged to import.

In the process of formulating and implementing import tax policies , the following difficulties and disadvantages are emerged:

- Due to transitional and developing economy, tariff and non-tariff policies usually have kept changing appropriately with the requirement of economy. Development strategy for each agricultural branch has not been clearly determined or continuously adjusted. Therefore, the definition of international commitments is affected and does not have been for a long- run.

- In agriculture, output of one branch is input of others, i.e protection in one-branch wills has impact on others. For example, growers of maize and soybean propose to increase import tariff rates to facilitate their domestic production, while other people involving in livestock will prefer to minimize import tariff rates on these inputs, because they would like to decrease their production cost. A similar situation occurs in other industries, such as salt, paper production, etc.

- Some agricultural branches, despite their very small scale, are main livelihood of an area. It is hard for Government to protect all those products, but without protection, the socio-economic situation of such entire area will be seriously influenced.

- For some other products, though, at present, they have a small scale of production and the import tariff rates are low, but they are potential for development. Which solution should be made to ensure that such development potential would be brought into full in the future?

It is impractical to formulate an import tariff schedule in order to protect and support agriculture. For instance, in paddy production, we are likely to produce only some kinds of hybrid rice seed. Scientists, producers would like to levy high import tariff rate on this item to protect domestic industry. They argue that this measure will facilitate development of seed production, while farmers need cheap rice seed with high quality regardless their origins (domestically produced or imported ones).

Comments on import tax policy of Vietnam in agriculture

Agricultural commodities are protected through higher tariff rates in comparison with industrial ones (an average tariff rate in agriculture is 24%, while general average rate is 16%), but if compared with developed countries, it is not significant.

There are numerous tariff rates at many levels (12 levels ranging from 0 to 100%).

Processed products are protected through higher tariff rates than unprocessed or crude ones, while the common trend in the world is vice versa. This fact indicates that our processing industry has not developed yet, and some of them have been young industries.

Beverage industry is highly protected, because it brings huge revenue for State budget and its luxury products are not enhanced to consume.

Not only tariff but also non- tariff measures are used to protect domestic industry. Vietnam usually applies import prohibition or import licenses to limit importation whenever our economy has a requirement to protect domestic production. This fact has revealed that we have still remained a command and administration management style. While many countries flexibly use regulation on quality, SPS measures to support and protect their domestic products, Vietnam does not pay much attention on this issue.

We have not issued any legal documents regulating other possible tariffs, such as ad valorem tariff, in-quota tariff, countervailing duty, anti-dumping duty, seasonal duty.....

II. Non -tariff measures

In recent years, Vietnam have made its progress to create more favorable trade and investment policies in accordance with international regulations. However, Vietnam still imposes various non- tariff barriers on some products.

1. Policy relating to control specific commodity groups

Few years ago, early each year, Prime Minister has promulgated annual Decision on import-export controlling measures.

From 1 May 2001, import-export activities in Vietnam are controlled during a 5-year period 2001-2005 under the Decision No 46/2001/QD-Ttg. This is regarded as a step towards overcoming instability in policies. Long term import-export management regime for 5 years, on the one hand, would facilitate enterprises to work out their long-term business plan. On the other hand, this Decision has formulated more opened corridor to wipe out complex administration regime; to abolish some non-tariff barriers; to employ more economic tools consistent with our integration process into regional and global economy.

Under the Decision No46/2001/QD/TTg, there are some non-tariff measures as following:

a. Quantitative restriction

a1) Import and export Prohibition

In the import-export prohibition list during the period 2001-2005, there is only one agricultural product- cigarette, cigars and other types of tobacco. Banning importation of tobacco products has been explained on the basis of section (b) in the Article XX - GATT 1994 that this prohibition aims at human health protection. However, it is difficult for Vietnam to prove that its regulation does not violate Article III- GATT 1994 on non-discriminatory treatment when our already- existing tobacco enterprises, including some foreign joint- ventures, have developed. Thus, it is considered a protection of domestic industry.

a2) Quotas

Under the Article 6 in the Decision, Government abolishes quota of rice export. In the past, quota for rice export had been granted annually in January and September on the basis of balancing domestic demand and supply, seasonal conditions as well as considering international demand and price. Abolishment of rice export quotas has paved the way for domestic producers to access to the world market.

Article 6.4 of the Decision, however, specifies "Prime Minister shall consider necessary measures to effectively intervene in rice market". Controlling measures in emergency circumstances reflects that Government pays more attention on one of the major export products of Vietnam and the importance of food security.

a3) Import Licensing system

There are 2 agricultural commodities under restrictive import-licensing requirement by Ministry of Trade:

- Refined vegetables oil

In 2000, importation of several vegetable oils (palm oil, sesame oil, peanut oil, soybean oil) are managed under non- automatic import licensing system. Shifting this commodity to the list of items imported under licensing system of Ministry of Trade (MOT) in 2001 has not caused any change, because in fact, MOT has not granted import license for this commodity. Therefore, the process to phase out import license of this item since 31 December 2001 (in accordance with the Decision No 46/2001/ QD- TTg) has been regarded as a measure to abolish non-tariff barrier.

- Raw sugar and refined sugar

These commodities are products being subjects to the import-licensing list during the period 2001-2005.

In accordance with AFTA Agreement , sugar has belonged to the Sensitive List of Unprocessed Agricultural Products of which deadline for tariff reduction to 0-5 percent is year 2010 and elimination of quantitative restriction will come to an end on 1 January 2006. Thus, Decision No46 is completely consistent with AFTA commitments.

Pursuant to the rules of WTO, above non- tariff barriers to support domestic industry are required to be phased out.

a4) Licensing system of sector Ministry

Decision No46 implies that some groups of import- export commodities are subjects of the licensing list of sector Ministries. Relevant Ministries have guidelines for import and export on the principle that licenses are not used but they provide technical criteria and regulate nature of products' use. Agricultural products of those groups are under management of Ministry of Agriculture and Rural development (MARD), including seeds and breeds and all kinds of insects, which require to experiments. Based on results of the experiments, MARD will decide whether permit them imported into Vietnam territory or not. If permitted, goods will be imported based on demand, no quantitative restriction, import licenses to be applied.

For genetic sources, import license from MARD is required. Besides, MARD is also responsible for issuing export licenses for some rare and precious animals and plants, seed and breeds.

b. Price control measures

Minimum pricing list

Use of minimum-buying price list as the base of price determinant for calculation of import tax is considered a trade distortion. Every year, Ministry of Finance, in collaboration of Ministry of Trade and General Department of Customs, issues State pricing management List and minimum price list to calculate import tariff. According to data through several years, it is obvious that the number of products being subjects to these lists has fallen from 34 (in 1999) to 21 (in 1997) and 15 (in 1999).

Under Decision 164/ 2000/ QD- BTC dated 10 October 2000, currently 7 commodity groups are belonged to this list. Among them, there is only one agricultural product, which is beverage of all kinds (in Chapter 22 of current import- export schedule). As the result, in comparison with Decision No 68/ 1999/ QD/ BTC dated 1 July 1999, sugar was moved out from this list. However, as mentioned above, importation of sugar will hardly happen in the following 5 years, therefore, in fact it will not cause any impact, if sugar is not included in the minimum-pricing list.

Use of minimum pricing list for taxation of imported goods has violated Article VII (regarding custom value of taxation in GATT 1994). GATT 1994 specifies that customs value of imported goods shall be their transaction value or transaction value of similar or identical goods sold for export to the same country of importation. No customs value shall be determined on the basis of the selling price in the country of importation of goods produced in such country or administered price or non- reasonable customs value. Moreover, methods or basis to determine customs value of goods shall be stable and publicly notified. In accordance with Customs Law (approved on 12 July 2001), however, Government will consider to transform , since 1 January 2002, Vietnam's existing pricing system into pricing system based on standards of GATT/WTO through legal tools. This action reflects a positive progress of our country to carry out a reform in legal framework to comply with integration process.

2. Policy relating to enterprises

From 31 July 1998 (under Decree No 57/1998/ND/CP), 100 percent of Vietnamese owned enterprises (except for foreign enterprises operating under Foreign Investment Law in Vietnam) are entitled to import and export goods in accordance with the provisions in their Business Registration Certificates. Nonetheless, focal importers of certain commodities have still existed as a non- tariff barrier to protect domestic production and prevent trade liberalization.

In the period 2001-2005, generally, Government has not assigned any focal importers and exporters of agricultural commodities. Article 6 - Decision No46- stipulates that focal point in rice importation- exportation is phased out. In addition, Decree No44/2001/ND-CP dated 2 August 2001 on amendment and supplement of some Articles in Decree No57/1998-ND/CP indicates that Vietnamese businessmen have the right to export all kinds of goods, except those fall in the list of import-export prohibited products, regardless sectors and type of commodities stated at their Business Registration Certificates. That means from now onwards enterprises of all economic sectors are permitted to export rice if they have import-export registration code at local Customs Departments.

However, for rice markets requiring Governmental intervention and agreement, MOT will appoint implementing enterprises and control transaction conditions (including participation in bid) with partners who are assigned by the importer's Government. Quantity of exported rice in G to G contracts will distributed to provinces on the basis of local rice-commodity volume , then the Head of People Committee will directly appoint implementing local enterprises, considering benefit of representatives, who sign the contracts.

Trend to phase out focal exporters of agricultural products is right on the way towards trade liberalization consistent with WTO rules on State trading enterprises. This trend, in its turn, will have a positive impact on strengthening competitions between enterprises in collecting and exporting agricultural products for the sake of both farmers and exporters.

3. Technical Standards

Due to the low level of development, Vietnam for the time being almost does not use technical barriers to protect its domestic production.

Up to now, in Vietnam, there are Decree No 92/CP dated 27 November 1993 on plant protection and quarantine and Ordinance No 93/CP dated 27 November 1993 on veterinary activities, which relate to pest and disease control. These legal documents stipulate that all kinds of animals and animal products shall only be moved from one to another locality, exported, imported or transited through Vietnam after being inspected and thereby their veterinary sanitation conditions being certified by Sanitary Inspection Certificate which shall have been issued by authorities of Vietnam.

Vietnam has been a full member of L' Organization International Des Epizootic (O.I.E) and Asia-Pacific Plant Protection Council (APPPC). According to some experts, existing regulation system of Vietnam on pest and disease control is so quite adaptable with WTO regulation regarding its contents and transparency. In fact, however, this regulation has been ineffectively implemented in both terms of human health protection and protection barriers for domestic production.

Measures on quality and standard management are also in conformity with WTO, but in general they are still not comprehensive and have weakness.

III. Domestic support and export subsidy

Vietnam is an agricultural economy with rural residents accounting for 70 percent of population. Agriculture's share in GDP is about 24%. As a key economic sector, agriculture plays an important role in development and economic stability of the whole economy; it is also simultaneously a sector that Government has supported much for many years.

In any country, support in agriculture tends to increase in accordance with the level of industrialization and modernization. Vietnam is not exempted.

Data used for analysing in this paper is outlay from State budget during the period 1996-1998, without calculation of revenue forgone.

1. Domestic Support

a. Green Box

For many years, Government has mainly invested in agriculture through these measures. In 1996-1998, VND 6,850 billion was annually invested into agriculture through this box, focusing on:

- Science research: In the period 1996-1998, Government has spent VND 200-260 billion per year on scientific research of agricultural sector, of which VND 80-120 billion through MARD belonging Institutes. Investment level has gradually increased, but still low. According to the report of Institutes, a half of this amount has been used to cover the administration cost that is the reason why application of results from science research to producers is limited.

- Training: The agricultural system consists of 5 universities, 30 tertiary, secondary and vocational training schools of various fields including planting and farming, breeding, veterinary, plant protection, agricultural mechanics, forestation, food processing, accountancy, etc... From 1996 to 1998, VND 120-140 billion annually has been spent on training agricultural technicians, economists, specialists and workers.

- Extension: In 1993, Decree No13/CP dated 12 March 1993 regulating extension services was promulgated. Up to now, national network of agricultural extension services has been established from Governmental level (Department of agricultural and forestry extension of MARD) to provincial and district ones (including 61 provincial extension centers, extension divisions in 70 percent of districts). Expenditure on extension has been spent for paying salary of extension staffs, training courses, and setting up performance points and administration cost. Extension on commune level operates on voluntary basis, which gets a partly financial assistance, therefore advanced technology transfer to farmers is limited, especially in difficult communes situated in highly mountainous and remote areas.

- Agricultural infrastructure: Government has spent VND 3,000 billion annually on building, upgrading irrigation and drainage system, dams, technical infrastructure of institutes, colleges, veterinary and plant protection stations (excluding roads).

- Public Stockholding for food security purposes: National stockholding activities for food securities include: rice (about 500, 000 tons per year), reservation of some varieties of maize, vegetables, veterinary drugs, pesticides, etc....

- *Environmental programs*: Prime Minister has issued Decision No327 dated 15 September 1992 on greening barred land and hills (Program 327 for short) and Decision No773 on the utilization of unoccupied land, alluvial ground. Now they are changed into 5 million ha afforestation program (program 661).Each year it receives VND 300 billion from State budget.

- *Payments under regional assistance programmes*: including such activities:

+ Programs on resettlement, migration, new economic zones

+ Support of transportation fees for transporting food, salt, fertilizers and pesticides from plain areas to mountainous ones and for transporting agricultural products from mountainous areas to plain ones.

+ Programs on economic and social development of Mekong River Delta, Central High Land, North Mountain areas are in accordance with this criteria. Due to the fact that they are combined programs, the data has not been available.

- *Food aid*: supplying food for the poor in difficult mountainous and remote areas or somewhere coping with natural disasters.

- *Payment for relief from natural disasters:* To help farmers to relief from natural disaster, for instance support in electricity price for irrigation or drainage, financial aid to buy plant seeds, veterinary drugs, plant protection.....Land use tax exemption was made for some kinds of plants in natural disaster hit areas.

- *Plant protection and veterinary*: prevention and fighting against diseases

In compliance with the rules of WTO, due to our shortage of financial resource, we have not applied many kinds of subsidies, such as: de-coupled income support, structural adjustment assistance provided through producer retirement programmes, structural adjustment assistance provided through resource retirement programmes (to remove land or other resources, inclusively livestock, from marketable agricultural production), assistance provided through investment aids, income insurance and income safety-net programmes...

- *Job creating program*: Our socio-economic program in which eligible recipients are taught efficient production/ business methods, then are granted preferential loans to develop their owned production so as to generate more employment and incomes, is included in this Box.

b. Blue Box

Pursuant to criteria of this Box, it is possible to classify into:

- *Investment support:* Through preferential credit program of Development Assistance Fund in accordance with the Law on Promotion of Domestic Investment: The Government supports interest rate differentials to enable banks to charge preferential interest they have granted. The Government may either freeze or write- off bad debts in agricultural sector.

- *Input subsidies* generally available to low-income or resource-poor producers and those who live in difficult areas: Government has established Bank for the Poor to lend at preferential interest rate which is a half lower than the formal interest rate to expand their production. Eligible recipients are those who are poor people living in mountainous, central coastline, remote areas. The Government supports interest rate differentials, freeze or write-off bad debts.

- *Support to encourage diversification from growing illicit nacrotic crops*: The Government supports people replacing illicit nacrotic crops to other crops by supporting breeding plants, plant varieties/ species, breed. instructing techniques and controlling this diversification process.

During the period 1996- 1998, annually, Government has granted VND 532 billion in agriculture through these support measures, dividing into:

- Investment support: VND 183 billion
- Input support: VND 333 billion
- Support to encourage diversification from growing illicit nacrotic crops: VND 15.6 billion

c. AMS Box

Majority Government's supports under this Box has originated from Price stabilization Fund: interest rate assistance for enterprises for purchasing rice, sugar, pork...once the market prices fall too low to drive producers to lost (mainly rice; other commodities, like sugar, pork, cotton, etc, are very low in quantity and irregularly occurred).

From 1999, Price Stabilization Fund has been moved to Export supporting Fund. Hence, it is worthwhile to further consider whether this support measure still belongs to AMS or shift into export subsidy measure, though its contents are unchanged .

In 1999, Government promulgated some Decisions relating to solutions for difficulties of sugar industry, in which, outlays from State Budget were spent to support enterprises which are in debt and to compensate the difference level on exchange rate.

Market price supports, consisting of rice export quota (since 2001 they have been phased out), import license of sugar, paddy purchase at a minimum price, are measures to distort domestic market price. The total support value in AMS was VND 86.7 billion (without calculation of non- tariff equivalent support of sugar, which was estimated at VND 1,700 billion due to applying import license making domestic price 30-40 percent higher than the world price).

Assessment of Vietnam's domestic support level in comparison with the rules of WTO

- Almost domestic support measures have belonged to Green Box (share of which was 91.7 percent of the total value of domestic support during the period 1996-1998).

- Support measures in Blue Box accounted for 7.12 percent.

- Support measures in AMS box was lower than WTO permitted level at 10 percent of total value of agricultural production (in 1999, our agricultural production value was VND 121, 000 billion). With calculation of value of non- tariff equivalents for sugar, which was VND 1,700, our support value in AMS did not exceed 2 percent of total agricultural production value.

(*While proportions of Thailand's domestic support: in Green box: 66.8 %; Blue Box: 9.7%; AMS: 23.5%, database of 1997*)

However, this does not mean that our policy has completely complied with the rules of WTO. There exist several unsuitable issues as follows :

- The support measures belonging to the Amber Box seem to lean to alternative options, rather than pursuing a plan or program approved by the Government before. Category as well as the quantity of goods subject to be supported are dependent much on practical contingency (unpredictable)

-Target group entitled to support are enterprises, mainly State owned enterprises (SOEs). The discrimination between SOEs and other economic sectors still remains due to lack of criteria to create equality between them. Direct support to producers (farmers) is very limited, especially for poor people, and those in difficult areas (while other countries such as Malaysia, Thailand...) apply this kind of support on a large scale.

In 2001, Government's policy on domestic support has increased in terms of assistance through producers: agricultural land use tax concession for coffee, rice, areas with special difficulties and areas vulnerable to natural disaster, support vaccination to pig raising areas.

2. Export Subsidy

Before 1998, Government did not award any direct subsidy from State budget.

Since 1998, due to financial crisis, currency of some Asian countries and Russia have been seriously devaluated. World price of agricultural commodities have sharply fallen, affecting production and life of farmers. Government has been forced to increase its subsidy.

- Year 1998

Export subsidy was given to canned pineapple exported to US (assistance for importation of pineapple bud was put in domestic support measures)

Under the Decision No178 of Prime Minister, the Government provides interest rate support to enterprises which export some farm products (meat, vegetables) in the form of granting loans at preferential lending interest rate of 0.2 percent per month lower than the normal interest rate applicable for export credit loans that commercial banks are generally imposing.

- Since 1999 onwards

Export Supporting Fund was established. Some kinds of subsidy from this Fund are as followed:

+ Rice:

  - Interest rate support for purchasing rice for temporary reserve

  - Compensate lost on rice export

+ Vegetables and fruits

  - Support to import pineapple bud

  - Support to export canned cucumber, pineapple and plum

+ Coffee:

  - Compensate lost on coffee export in 1999-2000

- Interest rate support for purchasing coffee for temporary reserve

+ Pork:

- Support to export pork meat

+ Sugarcane :

- Support to import sugarcane varieties

+ Tea

- Support to import tea varieties

(The name of this Fund is relevant to export subsidy, therefore, export subsidies from this Fund are calculated in this group of subsidy. In fact, assistance through importation of seeds of all kinds is likely to be calculated in domestic support)

Some comments on export subsidy of Vietnam in relation with the rules of WTO

Level of export subsidy is very low. However, the trend to rise export subsidy in terms of both commodities and volume subsidized is existing. For example with rice: the quantity subsidized has increased from 1 million tons to 2 million tons. Similarly, coffee has been added to the list of commodities subsidized with a large volume, compensation of loss in coffee trading.

Mainly SOEs are granted export subsidy. This fact is not appropriate in terms of equality between enterprises.

Like domestic support, Vietnam export subsidy is only on short term basis, so it is difficult for policy makers to work out long term plans.

Since 2001, the establishment of Export supporting credit Fund is considered a new measure which is consistent with the rules of WTO. Besides, Government has adopted new measure, for example awards for export performance of 4 commodities: rice, coffee, pork, and canned vegetable.

Two (2) kinds of export subsidy which developing countries are permitted to apply, are (i) internal and external freight support (ii) trade promotion cost. However, they are still not used to subsidize export of agricultural products in our country.

(Experience of Thailand in agricultural assistance- refer to Appendix III)

Part 3

Orientation of state's agricultural policies
During integration process

I. View points on domestic industry protection and agricultural support

Increasing assistance in agriculture can be seen as inevitable trend for any country carrying out industrialization and modernization process. Our development strategy in agriculture is export-oriented. Therefore, tax policy to protect domestic industry and promote export has been an essential measure. In the context of integration, however, policy in the coming time must fulfill the following requirements:

- To comply with the international regulations and provisions on which we have made commitment

- Tax reform must be in accordance with other policy in agriculture, especially with domestic support measures to strengthen competitiveness of agricultural branches.

- To be adaptable with practical conditions of our country, which is a poor country and in the lack of financial resource to support.

- Support must, on the one hand, enhance the development of domestic industry, on the other hand, does not make producers be dependent on the State's subsidy

- To create a non-discriminatory business environment between enterprises of all economic sectors in order to facilitate well-done businessmen

Assistance should be undertaken in production stage to raise competitiveness of each branch (reducing price, increasing productivity and quality standards) rather than direct subsidize export.

Ii. policy Orientation

1. Import tariff policy

In accordance with the provisions and time schedule we have committed with regional and international bodies (AFTA, APEC, IMF, Myazawa....), 2 milestones for trade liberalization in agriculture have been determined: in 2006 when completing provisions of

AFTA and in 2020- APEC. Due to the similarity of products among ASEAN countries, the year 2006 shall be ever greatest and most immediate challenge for our agricultural products.

The Government has policy to protect domestic production with selected goods and time limitation, fitting with international integration process. Basing on classification of competitiveness of products, the level of protection will be set up. In agriculture, there are 3 levels of protection:

- *Protection at a low level*: This level is mainly applied for exported unprocessed products or input for processing industry, such as pepper, rubber, peanuts, maize, soybean, etc..;

- *Protection at an average level*: Commodities those are domestically produced and in a low demand for importation, for example fresh vegetables, meat, etc...are subjects of this protection level

- *Protection at a high level*: applied for processed products

To ensure the success, a closed combination between tax policy and non-tariff one, between domestic support and investment policy is necessary to make policy system unified, which will assist development of agricultural branches and development of processing industry and farm trade.

Future import tariff policy will aim at reducing both tariff rates and the number of tariff levels and just remain several tariff levels so as to create equality among products, and to encourage development of commodity with high competitive advantages.

2. Non- tariff measures

Non-tariff measures are usually applied in both developing and developed nations to protect agriculture. In the status of a developing country at a low level of development, it is necessary for Vietnam to build up a appropriate protection strategy to satisfy requirements of integration and domestic production development.

In the coming time, when undertaking negotiations to join WTO, it will be difficult for Vietnam to maintain and rely on quantitative restriction, for instance import prohibition, import quotas, import licenses... Therefore, non-tariff measures in agriculture in the future should be flexibly applied, but consistent with the rules of WTO.

- ***Technical and SPS measures***

Due to the special features of agricultural commodities in comparison with others, technical and SPS measures, if they are used flexibly, they will be legal barriers to foreign exporters.

WTO permits member countries to use technical rules, necessary SPS measures to protect human health and consumers' benefit, unless these measures have caused distortion on international trade.

However, it is not accidentally when developing countries rarely use these measures. In Vietnam, we are lack of complex legal framework, the weakness in issuing standards and knowledge weakness in setting and applying SPS measures, technical control measures… All these weaknesses have affected feasibility and effectiveness of the above measures.

Thus, we should steadily formulate a complex policy, promulgate Ordinance on Sanitary and Phytosanitary measures, technical control principles provided with a detailed list of commodities, procedure, monitoring parameters, technical testing standards…aiming to create a legal barrier to agricultural products imported, and at the same time to protect agricultural production, as well as human health and environment.

- ***Anti- dumping measures***

Vietnam needs to issue Ordinance on anti-dumping measures based on the regulation of WTO Agreement on anti-dumping to prevent dumping commodities imported causing the danger for domestic market, affecting negatively to agricultural products.

- ***Safeguard and special safeguard***

So far, Vietnam has not issued any legal document to formulate a legal basis to apply safeguard measures WTO permit to apply when the domestic industry is in danger or threatened by the increasingly imported products.

In the coming time, Vietnam should promulgate a Law on safeguard measures (in accordance with the standards in Agreement on Safeguard of WTO) to protect domestic industry.

Moreover, only for agricultural products, Agreement on Agriculture indicates that countries are granted the right to apply special safeguard measures for some certain products which are protected by tariff and are preserved by SSG in the committed implementation period. This condition is less required because it is not necessary to prove that domestic industry is in danger and bearing a threat of injury.

- ***Subsidy and countervailing measures***

WTO permits member countries to maintain support measures which do not distort trade or affect benefit of other countries. Besides, developing nations will be awarded priorities of special and differential treatment to ensure equal principles in trade operation and form a " playing yard" for all member countries of WTO. WTO has agreed the point of view that subsidy is a legal and important measure of developing countries.

Under Article IX of Agreement on Agriculture, Vietnam with the status of a developing country is able to flexibly use export subsidy on agricultural commodities. Further more, other kinds of subsidy relating to credit for export, insurance for export, until now are not regulated by any unified principle, thus, many countries have utilizing them to avoid their commitments on cutting export subsidy. In short, concerning the practical aspects, Vietnam is likely to make the most use of this kind of support measure to facilitate domestic enterprises to improve and strengthen their competitiveness.

Apart from this, Vietnam can expand the scope of applying support measures belonging to Green Box, such as support for development research, for upgrading equipment to meet the environmental standards, investment support for agricultural infrastructure, etc.., which WTO allows to use because they are indirectly promote domestic industry, strengthen productivity and competition.

- ***Seasonal Duty***

Seasonal duty is the way to impose different import duty rates on one tariff line depending on the time for which products are levied. Simultaneous application of seasonal duty in combination of ad valorem tariff and specific duty, etc… will meet the requirement of Agreement on Agriculture and strengthen the flexibility of tariff on products levied by seasonal duty.

- ***Tariff quota ITRQ)***

TRQ is the mechanism in which, low tariff rates are imposed on the in-quota import volume and high tariff rates are levied on the out- quota import volume. The difference between in-quota and out-quota tariff rate sometimes will be several hundred percentage. TRQ is a dominant feature of trade in agriculture, thus Vietnam should focus on setting a clear TRQ schedule of actually protected commodities.

- ***Measures relating to environment***

At present, utilization of environment measures as a screen for commercial issues is popular trend in the world. Vietnam should study to utilize this measure as a non-tariff barrier to protect domestic industry, simultaneously has a reasonable basis to force its partners to phase out certain measures for restriction of imports from Vietnam.

3. Domestic support

a. Green Box

Government should increase its investment in agriculture through this box, such as building infrastructure, program of improvement seed and breed, science and technology, training, extension service, support for difficult areas, environment, etc... Income insurance, assistance for farm producers, which are exempted from reduction, should be appropriately applied.

b. Blue Box

- Expanding the scope of eligible people to enjoy preference, as well as preferential investment level, especially investment for renewing equipment, processing and storing farm commodities. They are key stages to increase added value for farm products (with preferential interest rate).

- Supports for the poor and difficult areas: ASEAN countries has experienced to give free breed and materials to poor people in difficult areas. In Vietnam's situation, it is necessary to expand the scope of eligible people enjoying preferences; attach loan with guidance for poor people to do business and manage their capital.

- Government has granted a part of its budget to help people to replace nacrotic crops by other crops. However, the assistance amount has not been enough for these people to improve their life. Consequently, in some areas, they would like to continue their life with illicit nacrotic crops. In the coming time, an increasingly outlay from State budget will be required to assist these areas.

c. AMS Box

A support policy regarding to a specific program or projects for each branch, each area should be made to ensure effectiveness when implementing. We aim at a publicly stable support policy in certain period of time and expanding eligible people to enjoy this policy.

At present, MOT in corporation with MARD are submitting to Prime Minister projects on exporting pork and fruits, vegetable. If these projects are approved, requirement of WTO shall be met.

4. Export Subsidy

Export subsidy is very essential for agriculture in export oriented policy. Concerning conditions and situations of Vietnam, it is necessary to grant export subsidy in the following forms:

- Transfer Export supporting Fund into Commodity Development Fund for key commodities (rice, coffee, pepper, cashew nuts, tea, forestry products...) under the spirit of Resolution No 09 of Prime Minister based on the revenue got when selling goods at high price and price support once it falls down within one commodity item. Commodity Item Development Fund shall be eligible with the rules of WTO.

- Set up an import- export bank

- Support export under 2 subsidy forms which are usually applied by developing countries: internal and external freight, marketing cost, inclusively re-processing, packing, etc.

- Replace direct export subsidy by assistance to strengthen competitiveness and to support directly to producers (input for agricultural production: reducing import tariff on materials, exemption of agricultural land used tax, increasing support in using new varieties....)

In short, we still remain agricultural support and subsidy at a low level, while the need of assistance in agriculture has been raised along with the process of the industrialization and modernization.

In order to utilize opportunities and at the same time to minimize the negative impact on agriculture during integration process, it is crucial to undertake the following issues in an uniform manner :

- To adjust domestic policies in compliance with the rules of WTO in appropriate with Vietnam’s situation

- To improve competitive capacity of individual commodity items, group of goods and ability of enterprises.

- To undertake negotiation to reach the highest level of tariff and non- tariff measures, as well as other assistance policy in agriculture.

Appendix 1

Commitment of WTO members in agriculture

In accordance with Agreement on Agriculture, member countries are required:

+ Abolish all non-tariff barriers and to convert them into tariff measures;

+ Commit on the ceiling tariff rates;

+ Reduce non- exempted domestic support measures and export subsidies.

However, the implementations of their commitments among WTO members are very different, as followed:

1. Market Access

a. Agricultural products are imposed by high tariff rate and reductions of tariff rates are uneven

- For almost countries, over 10 percent of the total tariff lines has tariff rate higher 15%. 10 out of 18 countries (Table 1- Appendix) even have 95 percent of their total tariff lines with tariff rate of 15% or higher. Milk, meat, wheat flour and sugar are subjects to be imposed by high tariff rate. Binding tariff commitment at 0 percent in different countries are also not similar. In comparison with industrial products, agricultural commodities are levied by much higher tariff rate. Even for those countries, which applied market access of high tariff weighted products through their in-quota tariff, the average tariff rate of agricultural goods still remains at a level of 17.3 percent.

A method commonly applied to convert non-tariff barriers into tariff equivalents is based on the price differential principle: it is calculated by difference between price of that product when it is protected through non- tariff barriers and its price when abolishing all measures of protection.. However, in fact, it is difficult to determine prices of products in the condition without protection. Thus, they usually base on the world price of that product. The period 1986-1988 was selected as a based period. But in that time, several developed countries had imputed a high price on agricultural products while the world price of the same products in the world markets was low. Therefore, tariff equivalents of some products calculated by the above mentioned way were extraordinarily high. As a result, big importers of agricultural commodities have had so high equivalent tariff rates that the importation to these markets nearly could not happen. For example:

Table 4

- Canada	Butter (360%), cheese (289%), egg (263.3%)
- EU	Wheat (388.8%)
- Japan	Beef (213%), wheat (167,7%), lamb (144%)
- US	Sugar (244.4%), cashew nut (173.8%), milk (82.6%)

***Source**: UNCTAD, TD/B/WG. 8/2 Add.1, 26/7/1995*

- During the tariff reduction process, developed countries usually keep their high tariff rates on the formerly high tariff weighted products and decrease tariff rates levied on the formerly low tariff weighted products. By this way, on one hand, they satisfy the requirement of the average reduction under Agreement on Agriculture, on the other hand, their real protection level of sensitive products still remains at a high level (even after reduction). For instance with wheat, EU, Japan, Poland, Switzerland have imposed a tariff rate at 142.3, 422.9, 143.2, 477.6 percent respectively and committed to decrease by 36, 15, 36 and 15 percent respectively. As the result, till the year 2000, the tariff rate should be 106.3, 407.9, 107.2 and 462.6 percent respectively.

Furthermore, exporters will involve in trouble when accessing to some markets in EU, for instance, for EU internally produced agricultural products, tariff system also consists of tariff rates which are levied based on some specific criteria such as material resources or seasonal feature or the input price, etc....

b. Tariff dispersion in the tariff schedule of some countries

In comparison with industrial products, the average tariff dispersion of agricultural products is far higher. The big disparity in tariff rates applied to different agricultural commodities shows that the highly practical protection level of specific agricultural products still remain. In fact, the total tariff rates and the tariff dispersion have a closed relation with escalation of tariff rates (tariff rates imposed on processed farm products are higher than preliminarily processed ones). According to calculation of OECD, during processing cocoa, tariff rates on the sub products at next stage of production are 3 times higher than that at the previous stage. The escalation of tariff rate also takes place in the production process of coffee, soybean, tobacco in Malaysia and Eastern Europe.

However, for some commodities, sugar for example, there is no escalation of tariff rate. The reason is that tariff rates imposed on the raw material of this kind of product at the initial processing stage is greatly high.

b. TRQs are not equally allocated, leading to disputes

TRQs allocated between member countries and between groups of agricultural products are different. Over 80 percent of TRQs focused on 5 out of 12 groups of agricultural products. About 1/ 4 of the total TRQs is imposed on vegetables, fruits. Other 4 groups significantly influenced by quotas are meat, cereal, milk products and oil seeds. 9 countries applying TRQs for many commodities are:

Table 5

Unit: number of commodities

Norway	Poland	Iceland	EU	Bulgaria	Hungary	South Korea	Colombia	Venezuela	US
232	109	90	87	73	70	67	67	61	54

Source: *WTO Secretariat (G/AG/NG/S/7)*

Moreover, TRQ allocation problem still remains a controversial one. At present, countries applying different way to allocate TRQs: based on the demand, priority of first-come, first-served, bid, traditional relations, based on state trading enterprises.

d. Regulation and standards of products

Product standards remain a key issue in market access. The difference between countries in terms of product standards as well as their complexity of regulation has made farm exporters be in difficulty.

For example, although EU became a signatory party of bilateral Agreement on mutual recognition of product standards with Australia, Canada, New Zealand, Switzerland, US, and Japan (undertaking negotiation- as a time to June/ 2001), in the future it is forecasted that market access opportunity for food exporters to these markets will become more tough due to influence of food security policy applied in EU.

e. Special Safeguard measures

Poland, Hungary and Switzerland are countries preserving safeguard rights on many commodities. However, it was clearly that there was a reduction of using SSG measures. From 1995 to 1999, there was only 8 countries and groups of countries applying these measures. EU, Japan, South Korea, US, Switzerland, Poland, Hungary are the countries applied SSG when price of that product entering the customs territory of the Member country has fallen below a trigger price. Slovakia has applied SSG when the volume of imports of that product entering the customs territory of the Member country exceeded a trigger level.

2. Domestic Support

a. Reduction in AMS Box remains a nominal definition

Total domestic support value in AMS has reduced but product specific domestic support has increased. As to April 2000, 30 out of 136 member countries have committed to reduce AMS support. However, commitment frame of member countries has seemed in theory. Reduction commitment on total AMS is such a broad definition that Governments of Member countries could flexibly use it to increase their product specific domestic support without violating reduction commitment on total AMS. In US, for instance, from 1997 to 2000, its total outlay from State Budget on agriculture increased by 3 times, exceeding the reduction of agricultural production value of this country. In 2000, US paid directly to farmers nearly USD 30 billion- a support measure exempted from reduction commitment. Therefore, this direct payment has exceeded a half of net income from agriculture.

Moreover, some bottle necks from the practice of applying Agreement on Agriculture, which relates to domestic support reduction, have been raised by some developing countries. Countries with a big support amount (mainly developed countries) have enjoyed a great benefit when they remain 80 percent of the total of trade distortion subsidy (after 6 years) while developing nations (hardly using trade distortion support measure) are not allowed to subsidize for farmers more than are 10 percent of their total agricultural production value.

The total AMS has fallen, but the support measures belonging to Green Box and Blue Box have raised.

Table 6

Domestic Support in Green box, Blue box and AMS of EU and US

European Union *(Billion ECU)*	Base period (1986-88)	1995	1996	1997
Green Box	9, 233.4	18, 779.2	22,130.3	
Blue Box	-	20,843.5	21,520.8	
Product- specific AMS (inclusively “de minimis”)	73,644.9	49,823.4	50,751.5	
Non- product specific AMS	-	776.7	728.4	
Total (Green Box, Blue Box, de minimis and AMS)	82,878.3	90,222.8	95,131	
United State *(Billion USD)*				
Green Box	24,098	46,041	51,825	51,249
Blue Box	--	7,030	--	--
Product- specific AMS (inclusively “de minimis”)	24,659	6,310.877	5,867.84	6,474.668
Non- product specific AMS	901	1,386	1,115	568
Total (Green Box, Blue Box, de minimis and AMS)	49,658	60,767.877	58,807.84	58,291.668

Sources*: OECD in Figures, 1999; WTO, 'Domestic Support' , AIE/S2 /Rev.2, 23 September 1999; OECD in Figures, 1996*

For various developed countries, especially US and EU, supports in Green Box have doubled. This fact has proved that countries tend to restructure domestic support program, move trade distorting support measures into " less trade distorting measures" through changing support program in prohibited AMS to Green Box, thus they can prevent the actual reduction of domestic support. US, for example, payment to farmers to compensate the difference between market price and imputed price (price support- requirement to reduce) has changed to flexible payment for production (belonging to Green Box- exemption from reduction).

In fact, developed nations have used mostly support measures in Green Box (refer to Table 7)

Table 7

Domestic support in green box

Measures	Developing Countries (46) (percentage of countries stating to apply these measures)	Developed Countries (11) (percentage of countries stating to apply these measures)
General Service		
- Research	67	100
- Pest and diseas control	50	91
- Training service	43	55
- Consultant Service	59	91
- Inspection Service	30	73
- Marketing and Promotion Service	41	64
- Infrastructure Service	52	55
- General Services (not determined)	28	45

Measures	Developing Countries (46) (percentage of countries stating to apply these measures)	Developed Countries (11) (percentage of countries stating to apply these measures)
Direct payment to producers		
- De- coupled income subsidy	4	27
- Income insurance programs	9	27
- Crops insurance to prevent natural	24	91
disasters	2	27
- Structural adjustment assistance		
provided through producer retirement	2	45
programs		
- Structural adjustment assistance	15	64
provided through resource retirement		
programs	30	45
- Structural adjustment assistance	20	36
provided through investment aids	20	27
- Environmental programs		
- Regional assistance programs		
- Other support measures (not determined)		
Public Stockholding for food security purposes	17	45
Domestic food aid	15	27

***Source**: WTO, Supporting tables relating to commitments on agricultural products in Part IV of the Schedules, G/AG/AGST/ Vols 1-3. WTO, Geneva cited in Greenfield and Konandreas 1996, Food Policy Vol. 21 'Uruguay Round Commitments on Domestic Support: their implications for developing countries".*

b. Utilization and transparency of domestic support in Green Box

- Pursuant to Agreement on Agriculture, domestic support in Green Box have hardly or less affected the production scale. In fact, it is difficult to determine the relation between income support and increasing cost and profit, especially when the domestic support rises to USD billions. Farmer - recipients of income subsidy (despite of this subsiidy is unrelated to their fields, produced quantity, production materials, domestic and international prices....) on the one hand, will get more money to invest into production, purchasing equipment and advanced technology. On the other hand, the above income subsidy indirectly maintain the agricultural land without moving it into other use.

US is the applicant of this measure. According to several researchers, despite not directly involving in production, Green Box support of US substantially influenced production, cause:

(i) This measure not only affects income and social welfare of farmers, but also restricts risks in their future production.

(ii) Farmers expect a similar support reaction from Government in the future

(iii) Company leaders will find a long term incentive to reallocate resources in agriculture

There is no obvious standard to classify a support measures whether belonging to Green Box or not. Definition " not or at minimum level distort trade" is differently understandable. Whether member countries can ensure that farmers' surplus income support (usually in form of direct payment) are not spent on input, so to expand production or not?

c. Domestic support measures in Blue Box

Support measures in Blue Box are exempted from reduction. Therefore, some countries, including EU countries, have continued to increase value of this support measure and said " direct payment in Blue Box is a useful tool to renew domestic policy consistent with the rules of WTO" [3]. In 1992, reform in common agricultural policy (CAP) shifted support measures in the form of market price subsidy to payment under Blue Box. In the latest CAP

[3] Extracted from " European Community Proposal- The Blue Box & Other Support Measures to Agriculture"

reform, so called "2000 Agenda", EU provided many measures belonging to Blue Box to satisfy farmers' reaction to the changes of markets.

Beside measures applied to imported products, European Committee spent EURO 45 billion on CAP in 1999, to make agriculture becoming the biggest recipient of State budget of EC (accounting for 45 percent of State budget). OECD estimates that the level of support to agricultural producers during 1998-1999 in EU reached a record as that in the period 1986-1988. Direct payment (belonging to production restriction) has increased and shared 1/ 4 of the total domestic support. Many price subsidy measures for cereal, milk, meat products have changed into direct payment to producers under CAP in 1999.

3. Export subsidy

a. Situation and the trend of export subsidy

As to April 2000, 25 out of 136 member countries have made commitment on the export subsidy for 428 groups of their products. Agricultural commodity groups enjoying the biggest export subsidy are wheat, sugar, meat, butter, milk products and vegetables. However, export subsidy actually used by these countries has been relatively small in comparison with the committed level (Refer to Table 8)

Table 8

Commitment on the volume of agricultural products granted export subsidy during the period 1995-1998

Unit *: Thousand tons*

Commodities	**1995**		**1996**		**1997**		**1998**	
	Commi t- ment	Actual subsidy	Commit - ment	Actual subsidy	Commit - ment	Actual subsidy	Commi t- ment	Actual subsidy
Wheat and wheat flour	59452	4350	55463	14410	51871	13038	48277	14023
Raw seed	28156	7666	23471	11845	22301	8826	21129	15311
Fruits and vegetable s	8057	1923	7679	2619	7460	2686	6904	2407
Sugar	6342	1032	4699	1459	4553	2061	4243	1884
Milk	3505	2267	3322	2321	3161	2059	2977	2589
Beef	1633	1020	1560	1178	1483	962	1258	729
Oil seeds	2799	5	2697	4	2596	0	2491	0

Developed countries, which have still remained export subsidy in agriculture, are US, EU, Canada, Australia, New Zealand, Norway, Iceland, Switzerland.

In the above said group, EU shared 90 percent of export subsidy in agriculture, which was informed to WTO. In 1998, EU spent approximately ECU 5.4 billion on export subsidy, accounting for 58 percent of EU export subsidy commitment in that year (approximately ECU 9.2 billion). Almost commodities, such as sugar, pork and wine, exceeded properly committed level in 1998.

US export subsidy has reduced from USD 8 billion (in 1995) to USD 148 million (in 2000) and continued showing the downward trend.

Australia, New Zealand, Canada, though preserving export subsidy right, have hardly applied this support measure. In fact, many countries have changed export subsidy measures into other exempted measures. For example, Agricultural Code of US in 1996 have replaced Export subsidy Fund by Trade promotion Fund (belonging to Green Box).

Developing countries also rarely use this support measure, partly due to their limited outlay spent on this support measure.

b. Export credit and export insurance program, export guarantee

At present, there is no clear regulation on export credit and other programs, as export insurance, export guarantee. The report G/AG/NG/S/13 (June 2000) of WTO Agricultural Committee on reviewing export credit and relevant tools indicates: "Under the notification requirement of WTO, there were no notification of data on outlay from budget and revenue forgone relating to export credit used to subsidize, or no specific data relating to subsidized export volume of farm products enjoying support from such measure. Recently, an emerging problem is that Agreement on Agriculture requires member countries to notify database relating to such measures in ES Table 1, except for measures involving in one or some sub-paragraphs in Article 9.1 (Export subsidy is subject to be reduced under Agreement on Agriculture)."

A recent research carried out by OECD indicates that almost developed countries use export credit. The total of export credit granted by US in 1998 was equivalent to USD 191 million, exceeding its total export subsidy at the same year - USD 147 million [4].

Several countries think that export credit is necessary and would like to reach to an international agreement on this issue.

c. Food and food stuff Aid

Apart from the aim to help developing countries, which have experienced budget deficit and deficit in balance of payment, food and food stuff aid is considered a measure to solve the excessive food and food stuff in developed countries- a measure affecting greatly to trade-reducing price of agricultural products in markets of aid recipients.

Existing paradox is the fact that mostly food and food stuff aid programs are provided when the world price is low, rather than when it is high. Developing countries (usually food and food stuff importers) have to suffer from serious deficit in balance of payment when the world price of farm commodities raise.

[4] Source: ABARE Current Issues (July- 2001)

Therefore, the current issue which many countries are interested in is what should be done to prevent using food and food stuff aid programs as a disguised measure to subsidize export without violating aid purpose for residence in developing countries.

Appendix II

Experience of New member countries in agricultural negotiation

This appendix focuses on the results of negotiation relating to agriculture of China and other 12 new members of WTO (joining WTO after its establishment- in 1995) as to January 2001 (they are Ecuador, Mongolia, Bulgaria, Panama, Kirgizia, Latvia, Estonia, Jordan, Georgia, Croatia, Albania, Oman) and drawing lessons for Vietnam in agricultural negotiation.

1. Commitment on Market Access

a. Tariff Commitment

- All above countries (13 countries) have committed binding tariff lines on agricultural products in different HS (at 4, 6 or 8 digit level). It affects the way to calculate the average tariff rate and compare that of numerous countries.

China at the time joining WTO have undertaken simple tariff reduction level from 36.2 percent in 1992 to 17.4 percent in 1998 and reached to the final average level at 15 percent (at the time to entry WTO) with the tariff rate fluctuating from 0 to 65 percent, excluding cereal with the higher tariff rate (74 percent).

China also has granted a big tariff cut on tariff rates levied on the US highly competitive fruit, from an average level at 31.5 percent to 14.5 percent (until the latest time on January 2004), as following:

Commodities in priority	Initial Tariff rates (%)	Bound tariff rates (%)
Beef	45	12
Grape	40	13
Wine	65	10
Cheese	50	12
Poultry Meat	20	10
Pork	20	12
Average Level	**31.5**	**11.5**

Source : *Summary US - China Bilateral WTO Agreement*

- Bulgaria, Kyrgyz, Latvia, Jordan, Georgia and Croatia have committed on binding specific and mixed tariff. However, ad valorem tariff equivalents of these kinds of duty have not calculated yet.

- Average tariff rate imposed on farm products which 12 member countries have committed are different: fluctuating from 10.4 percent to 34.9 percent. However, a few countries in a common trend have committed an average tariff rates higher 30 percent.

- Different countries have a different commitment on binding tariff and differently indicated them. Mongolia and Panama themselves only listed some tariff lines (98 and 550 tariff lines respectively). The rest were committed at the same rate. For Mongolia, listed tariff lines were at 18.4 percent while the rest were 20 percent. For Panama, they are 26.1 percent and 30 percent respectively.

b. Tariff quotas (TRQ)

- Ecuador applied TRQs on 17 commodities in HS at 6 digit to 8 digit level, Bulgaria- 90 commodities at 8 digit number ; Panama- 57 at 8 digit number , Croatia- 9 at 4, 6 and 8 digit number ; Mongolia, Estonia, Albania, Jordan, Oman have not applied TRQs.

- China applies TRQs on 10 commodities (in HS at 8 digit level); they are wheat, maize, rice (long, middle and short grain), soybean oil, palm oil, canola oil, sugar, wool, cotton [5]. 7 out of 10 above commodities will be subjects of TRQ expansion from 1 January 2004,

[5] Table 5- Appendix

excluding palm oil, soybean oil and canola oil from 2005. However, based on data committed by China, quota limit has sharply risen during implementation period. For example, quotas on soybean oil, palm oil, canola oil and rice during 2001-2005 have increased by 69.36 %, 50.85%, 68.15% and 60% respectively. For sugar, China not only committed to increase quota limit to 15.77% from 2001 to 2004 but also to decrease its in-quota tariff from 20% to 15% in the same period.

China also committed that if the TRQs of one out of three above vegetable oil commodities automatically increase, TRQs of the 2 rest commodities will increase at the same pace.

TRQ allocation and reallocation in China must follow a determined procedure under transparent and objective criterias, ensuring utilization of all allocated TRQs. In details:

+ State development and planning Committee (SDPC) is appointed as an agency receiving and processing TRQs application. Detailed conditions of TRQs application will be publicly informed in central newspapers a month before the dead line of application- usually from 15 to 30 October.

+ The total TRQ will be allocated to eligible people no later than 1 January each year.

+ In the first year, despite TRQs allocated through State trading enterprises or legal entities in other economic sectors, SDPC will allocate quotas on the basis of first-come and first-served regime, according to the applicants' requirement, business history, production ability and other commercial criteria, which will be announced a month before the application period. Not less than 10 percent of TRQs will be allocated to the first time applicants.

+ If in the first year, the TRQs are ended, in the following years, they will be allocated no less than those of the previous year. If enterprises do not use all the TRQs allocated in that year, allocation of TRQs in the following years will be reduced based on the proportion of using TRQs of the latest year.

+ Reallocation of the excessive TRQs is implemented on the basis of public, transparent and in accordance with criteria as initial quota allocation. Registration time is from 1 to 15 September and list announcement is on 1. October.

c. Rights on trading agricultural products

Previously, only State trading enterprises have the rights on trading agricultural products. In the negotiation to join WTO, China was forced to permit private enterprises trading agricultural product excluded 2 commodities- cereal and tobacco.

d. Special Safeguard

Article 5 in Agreement on Agriculture specifies that the right on application of special safeguard would be used in some special cases. 2 out of 12 new member countries have applied this right- Panama with 6 commodities in HS at 6 digit level and Bulgaria- with 21 commodities in HS at 6 and 8 digit level.

2. Domestic Support

One of the most difficult problems in this measure is to determine the base period undertaken in negotiation. Almost countries base on the latest period with adequate of data, except for Bulgaria. Report of WTO working mission on Bulgaria has noted: " A 3 year earlier period in comparison with the latest period will be accepted, due to insufficient expression of this country's context, which was influenced by US embargo on Former Federal Republic of Yugoulavia "

Pursuant to Agreement on Agriculture, support measures belonging to Green Box are not restricted. However, product- specific domestic support and non-product specific domestic support in Member's calculation of its Current AMS should be required to reduce if they exceed de minimis percentage- 10 percent of agricultural production value for developing countries. In other words, Member countries shall be exempted from reduction of total AMS, if the total domestic support is equivalent or does not exceed the eligible level.

In fact, domestic support of 12 new member countries belonging to Green Box are less than the de minimis. This has sprung partly from the financial shortage. Thus, most of the above countries have committed to set AMS at 0.

China's Current total AMS is lower than the permitted level (in the base period 1986-1988, China's Total AMS was equivalent to 2 percent of value of domestic agricultural production), therefore, China was required to commit total AMS at zero.

Apart from this, negotiation on permitted domestic support has been very tough. China would like to be regarded in the status of a developing country which will be exempted from reduction of domestic support, which does not exceed 10 percent of value of farm production. However, due to the fact that China has been one of the biggest agricultural producers in the world (annual total value in agriculture reaches to USD 250 billion and China enjoys a high competitiveness of many farm products [6]), the final concession on the

[6] Extract: " Announcement of US representative on a detail of the agreement between US and China on the issue of China's entry to WTO"

percentage of support permitted was 8.5 percent for both general support and product-specific support.

Furthermore, a specific support measure used by new member countries have been carefully considered. Oman was an example. When undertaking negotiations, its Government has been required to provide a complete research on technical and economic feasibility for agriculture, livestock and processing to make an evidence that no support directly paid to farmers. Its Government, however, had assisted to introduce reform in the fields relating to agricultural activities. Upon negotiation process, Working Mission has reached to unified view that Oman could refer to Article 6.2 (special and preferential provisions for developing countries) and Article 6.4 (b) (developing country shall be supported by 10 percent of value of agricultural production) in Agreement on Agriculture.

3. Export Subsidy

- China's export subsidy falls to zero for any agro- products after WTO entry.

- The rest of 12 new member countries (excluding Bulgaria, Croatia and Panama, which could maintain export subsidy with reduction commitment) shall be forced to commit no export subsidy. Oman has committed no application of any kind of export subsidy upon joining WTO. Latvia was under obligation not to subsidize export though in the base period (1994-1996), it granted export subsidy for milk powder, canned milk, cheese, butter and buckwheat. Latvia also pointed out its plan to raise direct investment in agriculture oriented on using designed programs to upgrade effectiveness and competitiveness ensuring the concord of its farm products with the world standards.

- Bulgaria has brought out a ceiling restriction on export subsidy of wheat and wheat flour, flower seeds, some kinds of fresh and frozen vegetable, wine, tobacco, white and yellow cheese, live animals, certain kinds of meats, eggs and relevant products in terms of their volume and value. Committed level in the transitional period and the final commitment have been publicly announced in its commitment schedule.

- Croatia has carried out a reform in its system of export subsidy. It has been a long process requiring a full land registration to facilitate Government and Agricultural and Forestry Ministry to determine areas owning a less favorable natural conditions and other decisive factors in export subsidy.

Lesson for Vietnam in the negotiation process and making policy

- Market Access

Development trend of WTO indicates that trade in agriculture will be steadily liberalized. As the result, Vietnam can not maintain its current high tariff rates on all agricultural products. Especially, tariff rates levied on wine, beer, vegetable oil and mineral water should be significantly reduced. Therefore, it is necessary to select strategic commodities and groups of commodities in order to decrease an average tariff rate in agriculture to 15-20 percent.

It will be difficult for Vietnam to keep current non- tariff barriers. We shall be required to abolish quantitative restriction and be able to preserve sole traders in distribution of certain commodities. Thus, Vietnam should consider to use new technical measures, such as Sanitary and Phytosanitary measures, Technical controlling measures and measures belonging to Blue Box, preferential treatment for developing countries… However, we need a careful preparation for increasingly difficulties in application of technical and SPS measures, because rules in this field will be more and more tight and developing nations at low scientific and technical level will be fallen into trouble.

Vietnam is able to carry out negotiation to remain TRQs on some agricultural products. However, according to experience of China, we need to have a specific plan and transparent quota allocation regime.

- Domestic support

When calculating AMS, member countries are allowed to keep domestic support at permitted level (10 percent of total value of agricultural production for developing countries). Negotiation process of China was an evidence for this fact. At present, numerous developing countries has shown their worries that the result in China's negotiation will be an obstacle for the coming negotiation of developing nations in accepting a high trade liberalization level. Thus, Vietnam will jump into unfavorable position when negotiating a 10% de minimis.

Learning experience from Oman and some countries, taking full advantages of special and differential treatment for developing countries, Vietnam shall be able to intensify domestic support measures through general research service, introduction of new reforms in agriculture to farmers….Besides, Vietnam should consider choose the best base period for negotiation process.

- Export subsidy

According to experience of newly negotiating countries, probably Vietnam should be required to commit completely phasing out export subsidy for farm products. However, our country can study to apply export subsidy in relevant production stages as transport, package and marketing….

Issue definition - action plan proposals to improve the relevance of

Vietnam's agricultural policy under WTO framework

Issue definition	Proposed activities	Proposed Objectives and Output
1. Awareness of WTO's regulation and international customs	**- Improving awareness, knowledge about WTO in agricultural sector and other international regulations.**	**Thanks to clear awareness about WTO regulation, specialists, therefore, will orient their activities in accordance with the framework of international integration process.**
- International regulations are complicated and mixed. Not only people in general but also enterprises, local authorities, even those involving in making policy and implementing policy have restricted knowledge about this issue. Therefore, policies are made without consideration of their compliance with WTO's rules.	**Methods:** **- Train specialist – lecturers in order to have knowledge about this issue.** **- Organize training courses, which are carried out by Vietnam's specialist- lecturers in numerous areas.** **- Set up training programs with the contents about WTO issues and teach them in 2 economic management colleges of agriculture sector.**	**- To set up and adjust appropriate policy** **- To enhance knowledge on opportunities and challenges when integrating, thus, enterprises themselves have to adjust their activities to strengthen competitiveness.**
2. Study tour and survey on local practice of implementing agricultural support policies.	**- Make surveys in provinces. Data collected from pilot surveys are basis to determine country wide data.**	**- To evaluate comprehensively relevance of agricultural policies on both central and local levels under the framework of WTO**
- Local authorities are entitled to support agriculture by outlays from its local budget with	**- Methods:**	**- To compare Vietnam's policy with that of other countries in the region, then make**

numerous support measures. However, due to restricted statistical capacity, it is hard to get the data. **- Local specialists are in the lack of necessary knowledge, so they could not correctly list relevant data. So that, it is hard to determine the relevance of local policies.**	**+ Design sample tables** **+ Organize training courses** **+ Collect, summarize and analyse**	**recommendation submitted to Government.**
3. Review support policies in agriculture of Vietnam under the framework of WTO and other international commitments	**Collect all regulation documents and data** **Review, analyse**	**To create a range of steps to adjust agricultural policies appropriate with international regulations.**
4. Economic integration strategy in agriculture has not been available yet.	**Set a study group and work out strategy**	**To form an unified and stable development strategy during integration process.**