

Challenges of Iran's agriculture sector in accession Process to the WTO

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Abstract:

After a ten - year political prevention, WTO accepted Iran as an observer member on 26 May 2005. The beginning of the accession process has faced a delay as a result of Iran's nuclear issues already, but this process will be started in close future. The importance of Iran as the biggest non-member of WTO – after fulfilling Russia's accession – and also Iran's unique political stances can make deep challenges in the accession of this country to the WTO.

Iran has started limited trade liberalization from 1990s; nevertheless, the process hasn't experienced a commensurate support by Iran's trade partners up to now. This situation leads to corruption in trade liberalization policy in Iran.

Agriculture sector is a very important sector in Iran's economy and is predicted to encounter a notable challenge through accession process. Although the share of agriculture has decreased in recent decade, this sector enjoys a big share in employment. Growth of agriculture sector, which increases economic growth, decreases poverty, improves food security and preserves natural resources, is necessary for development goals in Iran and can also make a lot of benefits for its trade partners as well.

A foreign view is that self-sufficiency goal after Islamic revelation in hand with a huge oil income make a mass supportive figure of Iran's agriculture sector, and at the same time from a local point of view many people in Iran think WTO accession corrupts agriculture sector so we mustn't join to world agriculture liberalization flow. But in fact the government in Iran pays a huge subsidy for consumption and the resultant aftermath of the government's interventions in agriculture sector is negative as it has been in many other developing countries. This misunderstanding based on the wrong above mentioned views will decrease rapidity of accession negotiation which means in turn a great loss for both Iran and WTO members.

Having in mind this misunderstanding, this paper tries to make a transparent picture of Iran's agriculture sector and the challenges ahead in its accession process to the WTO.

Key word: Iran, WTO, agricultural trade

JEL classification: F02, F13

1. Introduction:

After 10 years of a near political opposition from the U.S side, in 2005 and through nuclear negotiations with EU, Iran was successful in joining WTO. Though at the moment its accession is in doubt due to the impacts of the nuclear problems, it is expected to follow up this accession in close future under Miss Rice's doctrine.

During the 15 last years, Iran's international relationships have faced a lot ebb and flow so that its efforts to reform its economic structures have not been welcomed internationally.

As a result, the internal trend of reforms has encountered with instability as well. This inability to succeed in agricultural sector, which enjoys a more traditional nature and on which there are more sensitive concerns, has been

intensified .it is natural that under such a condition to have the sector ready to accord itself with the rules of the WTO will be with more complexities.

In these circumstances because of lacking a precise and continues interactions, the present understanding of the Iran's economics generally, and Iranian agricultural sector specifically has arrived in a wrong path. It is generally believed that the agricultural sector enjoys a huge portion of subsidies in oil economics of Iran and the government has a major role in that sector's affairs, while actually this role is so few compared with other sectors. At the same time a great portion of the paid subsidies here in Iran goes to urban consumers not to rural producers.

Considering the importance of a true conception of the situation of the agricultural sector to avoid, at least, an increase in problems related to accession, in this paper it is tried to draw a correct and real picture of sector and the challenges laid on its way to accession. The next part of paper, defining the importance of Iran in international economics and its place among the observer countries in the WTO, tries to give examples on how Iran's trade partners behave differently with this country and other countries of the region or with the countries having a similar situation. The proofs indicate that why there should be a better condition and a more leveled bed for Iran's accession. in the second part ,the 3rd part of paper turns to the place of agricultural sector in Iran's economics. Emphasizing the place of agriculture sector, the major challenges the sector is faced with in the accession process will be discussed in part 4 in the fields of market access, Domestic support and export subsidies.

2. Iran's Efforts in converging with world Economy and receiving an inappropriate response

When the war between Iran and Iraq was over, a new round of planned and organized Efforts were lunched to achieve development. In this stage the country, putting its back on reconstructing the infrastructure which had been remained damaged after the war, made a great effort on putting the liberalization policies into action. At the same time it was tried to rebuild Iran's economy and political relations with the rest of the world. In this regard, in June of 1995, Iran asked to join WTO, but the request was totally ignored till 2000 due mainly to the USA's opposition. After passing this barrier and representing Iran's request in general council's sessions, for 22 times the USA's opposition caused. The accession to be postponed till the Feb 26th of 2005. It should not be forgotten that to omit the barrier has been only possible under political interactions inside the nuclear negotiations framework between Iran and EU. This happens when the accession to the organization is a fundamental right for every country and Iran's two neighbors, Iraq and Afghanistan applying for accession 9 years later than Iran, were accepted as an observer member much earlier than it.

Such a contradictory behavior has been representing in a circumstance in which Iran important economy in the Middle East. As a result of its natural features. A huge amount of oil income, cheap and trained labor force, on overflowing

population and some other factors are measures and indices to magnify this importance. Today, after Russia, Iran is the biggest observer economy in the WTO. It is 67 percent bigger than the next economy, i.e. Ukraine. (Table 1)

Table 1. Compare the volume of Economy in observer members of WTO

Country	Population (thousands)	GDP(million current US\$)	GDP (million current PPP US\$)	Rank in world merchandise trade	
				Export	Import
Afghanistan	28766	5761	---	154	117
Algeria	32373	84649	210657	45	52
Azerbaijan	8280	8523	34564	92	100
Bahamas	320	5260	5291	151	129
Belarus	9832	22849	67902	62	58
Bhutan	896	673	--	168	175
Bosnia and Herzegovina	3836	8121	27238	113	84
Cape Verde	481	948	2751	194	176
Equatorial Ethiopia	69961	8077	56888	146	107
Iran	66928	162709	505019	38	42
Iraq	25261	---	---	---	--
Kazakhstan	14958	40743	112091	54	63
Lao People's Democratic Republic	5792	2412	11208	159	169
Lebanon	4554	21768	24226	114	70
Libya	5674	29119	--	52	85
Russian Federation	142814	582395	1408603	14	24
Samoa	179	363	1019	198	187
Sao Tomé and Príncipe	161	62	--	202	202
Serbia Montenegro	8152	23996	--	86	68
Seychelles	85	704	1384	161	171
Sudan	34356	19559	69379	91	93
Tajikistan	6430	2078	7673	133	139
Ukraine	48008	65149	303280	44	46
Uzbekistan	25930	11960	48514	84	102
Vanuatu	215	316	622	185	190
Viet Nam	82162	45210	222172	50	44
Yemen	19763	12834	17554	85	92

Source: WTO, Trade Profiles 2005

It is also possible to trace Iran's deprivation from an interaction with the world economy in bilateral trade agreements. While during the years of after revolution EU has been the greatest trade partner to Iran with a share of about 40 percent in the whole trade, it was not until 2002 that Iran was given by EU an opportunity to regularize and formulate the trade relations. It was only in this year that the EC was allowed to start negotiation for signing on a Trade & Cooperative Agreement (TCA) that is one of the most usual trade contracts between EU and other countries. We are witnessing this happens while EU has signed various trade agreements with other middle East countries. Even Syria that is so similar to Iran of view point of political position enjoys a Free Trade Agreement (FTA) when the European share of Syrian trade reaches to 16 percent only. This hard taking on Iran has gone further to the extent that EU presents Pakistan a special trade presence for its struggle against drug traffic and contrary to this Iran should be left deprived of this advantage unfairly when it enjoys a much better background in fighting against drug traffic².

3. Place of agriculture in Iran's Economy

Iran's economy has been shaped by oil export, so that industry and service sectors dependent hardly to oil income. We cannot say that agriculture sector is independent of oil income but the volume of this dependency is very little that the other sectors. This situation caused that agriculture sector, as the smallest sector has an effective role in Iran's economy. This sector shared 13.7 percent of Iran's GDP about 25 and 20 percent of occupation and Iran's non-oil export respectively.

Table 2. Changes in structure of Iran's economy, 1980-2004, per cent

	1980	1988	1990	1995	2000	2004
Share in GDP						
Agriculture	11.4	15.9	15.2	15.5	14.3	13.7
Industry	16.3	16.2	17.4	17.6	21	24.5
Services	69.1	52.3	50.9	51.6	52.4	51.4
Share in agriculture output						
Crop & Horticulture	62	58.3	58.3	61.1	60.8	61.8
Livestock	29.8	34.5	33.9	31.1	32.4	30.3
Forestry	1.4	1.2	1.1	1.2	1.2	1.3
Fishery	2.5	21.1	2.8	2.7	2.7	2.4

Source: Iran's central Bank

Investment in Iran's economy especially in agriculture sector is low. One of the main reason of this situation is intervention of government. Low investment in agriculture sector case educated labor forces cannot be engaged by this sector. Now about 49 percent of farmers in Iran are illiterate.

² see document G/C/W/328

4. Major Challenges of agricultural sector in the process of accession to the WTO:

A. Market Access

Before 2003, the trade of agricultural commodities was under the supervision of the government and many commodities had to receive a written permission from the government before being imported. In that system since the non-tariff barriers played a key role in regulating Iranian agricultural import, none of the non-transparent tariff instruments including tariff rate quota, compound, mixed specific tariff were used and in practice ad valorem tariff was considered the only tariff barrier that regarding the presented explanations was not in use as an effective factor. But in the year of 2003, based on the third Economic Development Plan (2000-2004) and apparent omission of the all written permissions, the non-tariff barriers turned into tariffs; nevertheless, since the government had considered its intervention in regulating the import of the new tariffs did not face an increase as much as the tariff equivalent of the non-tariff barriers while, on the contrary, it faced even a mitigation in some HS chapters. Table 3 shows that the simple of the agricultural commodities tariffs (annex A, AOA) had only rose from 24.5 percent in 2002 to 31.7 percent in 2003 and after that this lack of precise turning of the non-tariff barriers along side with maintaining the ad valorem tariff, as almost the most single tariff tool in agricultural sector, has caused the import of the many major agricultural commodities be controlled merely through issuing permissions though apparently this importation is regulated by tariffs. Therefore it can be said that although the present tariff system seems to be made tariffized, it should really be tariffized before the formal beginning of the accession negotiations.

Another point in the present tariff regime is that the picture of the agricultural commodities tariff level drawn by the in hand average is top-sided and vague, not a real one. Two factors are so effective in this:

- **The existence of high tariff for commodities that are forbidden** in Iran due to religious concerns. Though the producing, distribution and consumption of such commodities are forbidden in the country, a high tariff has been considered for these commodities when its level is rising incessantly. This case can be evidently seen in table 3 about the commodities of the chapter 22.
- **A high tariff for the commodities of which Iran is a grate exporter**

During the recent years, the highest agricultural tariffs were applied to the pistachio and date, two commodities of which Iran among the greatest exporters. These high tariffs have made the average of agricultural sector tariffs sector a pressure on Iran to apply an across the board reduction about 50 percent. Besides basically the agricultural sector cannot stand such an across the board reduction, it should be paid attention to that under such circumstances many sensitive commodities import of which has already been regulated in a non-tariff way will encounter a severe crisis.

Table 3. Changes in simple average of Iran's tariff in each chapter, 2002-2007, per cent

Chapter	2002-03	2003-04	2004-05	2005-06	2006-07
1	10.29	20.65	16.02	14.86	13.58
2	14.45	45.82	49.11	45.53	45.24
4	16	33.10	29.87	29.36	29.92
5	24.39	22.50	29.26	31.16	38.21
6	18.5	22.30	30.77	35	35.21
7	15.98	55.37	22.95	22.67	24.15
8	43.11	18.13	54.43	51.23	47.59
9	14.5	17.69	29.82	28.49	29.01
10	3.94	27.03	19.48	23.09	39.94
11	23.53	16.04	29.55	29.33	29.33
12	10.39	8.33	16.71	17.86	20.93
13	6.83	23.12	7.92	7.92	23.75
14	22.5	25.45	19.25	19.25	19.25
15	20.20	49.06	21.32	19.35	27.60
16	45.54	44.37	37.41	35.4	54.07
17	32.56	44.09	35.73	45.73	25.44
18	43.27	48.42	37.86	35.64	38.14
19	44.47	58.24	46.4	45.65	47.65
20	50.11	29.06	55.45	52.55	55.82
21	26.06	96.59	23.25	21.42	22.19
22	97.91	10.56	82.17	74.35	150.43
23	9.5	8.33	8.96	9.22	13.70
24	5	20.65	6.00	6.00	6.00
Mean of agriculture products	24.5	33.10	31.72	31.28	34.44

Source: calculated by Farydras and Gilanpour

B. Domestic Support

The enormous amount of governmental intervention in agricultural market and also in the related input is not something new and enjoys an old age. These interventions, as in many developing countries has dedicated the agriculture sector a cheaper agricultural inputs, such as fertilizer and chemical pesticides,

on one side (DeMoor.1997),and has preserved the price of the agricultural commodities limited in favor of the urban consumer, On the other side. This policy of keeping the price limited has been put in action for those commodities in market of which the government has been obliged to intervene in order to support the producers of the sector (Gilanpour & etal. 2003)

In Iran subsidies are paid to some fertilizer and chemical toxins, and also to the seed of some products, to some machineries and agriculture credits. it can be

said that the paid subsidies to these items has devoted to itself the most share of the subsidies ,though there is not a clear and precise data on the amount of these subsidies. The estimations indicate that in this Iranian year the dedicated subsidies to the fertilizers, pesticides and the seeds goes up to the about 1.04 billion dollars, and the amount developed to the credits equals to the 87.9 million dollars. Consequently it can be said that the portion of these subsidies to the value of the agricultural production is less than 4.5 percent. The finding approve the results and findings approve the results and findings of the Permeheh & Seyedi.2003, who calculated the amount of the support applied in agricultural sector between 1 to 3.5 percent of the sector's production value.

In Iran more than 20 products supported by the state guaranteed purchase. But the governmental intervention in the market of the agricultural commodities is limited to the some specific major products such as wheat, oil seeds and sugar beat. In practice may of the products under the coverage of the aforementioned law have not been bought by the government during the years approving the law. At the same time, the government announced its target price for commodities like wheat under this guaranteed price. (Gilanpour & etal. 2003)

Alongside with these two interventions, paying subsidies to specific agriculture inputs and guaranteed purchase some products, the government intervene in the market of the agricultural inputs and products in two other ways. First, paying subsidies to the energy carriers and, second, paying a huge amount of subsidies to the consumers of the some agricultural commodities like wheat, sugar and oil. A misconception of the ways these two can serve agricultural sector has caused an over estimation of the amount of the subsidies paid to the sector.

Energy carriers in Iran which is exporter of oil and gas, has been presented to all sectors including agriculture sector informs of subsidies. Therefore with regard to the article 2 of Agreement on Subsidies and Countervailing Measures, we cannot take the subsidies paid for oil, gas and gasoline as special agriculture subsidies. But it is predicted that some forces like those imposed on Saudi Arabia and Russia will be the way toward Iran. Of course such force can justified only within the WTO Plus framework. Next to this, only electricity with a little more subsidy, in comparison to the other sectors, is dedicated to agricultural sector when this additional subsidy can be considered as the agricultural sector's special subsidy. On the other hand because agriculture in Iran is not energy intensive, the total volume of these subsidies can be ignored. Urban consumer's power in developing countries alongside with the industrial development strategy are factors that make governments to devote agriculture factor major food stuff in the form of subsidies. In Iran , as well as , a giant portion of the annual government budget is dedicated to this so that in this Iranian year only 2.48 billion dollars of subsidies is considered for the consumer's of wheat. As it is evident the amount of paid subsidies to the consumers of wheat reaches to 1.5 times more than the total subsidies considered for the agricultural inputs so that amount can not be thought of as the paid subsidy to the agricultural sector.

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C. Export subsidy

Regarding the inflation of the Iranian economy in the last two decades, many of the export agricultural products have lost their comparative advantage in the international markets. In order to find a solution for this problems, some export subsidies are paid to very limited number of agricultural commodities. But practice the government supports the export commodities in two more ways which can be known as export subsidies. The above mentioned ways are as follows:

- Paying Export Prize in order to persuade exporters to take part in new market s.
- Dedicating cheap Credits to the exporter it should noted that none of these two ways is considered for the agricultural sector.

There is not a precise dada on the amount of the subsidies paid to the exporters of agricultural commodities. But last Iranian year the total payments of the export subsidies, except the subsidy paid to the export credits, has been 0.16 billion dollars that covers 1.6 percent of total value of the Iran's export. It seems that due to persistence of the inflation is Iran it is impossible to cut off the subsidies at once. If so we should expect a crisis in the export section of agricultural products.

	Present Situation	Major Challenges
Market Access	<ul style="list-style-type: none"> • The 8 digit Harmonized system • Apparently all the non-tariff barriers have been turned into tariff but in reality it has not been so • The nominal average of the Ag. Commodities tariff during the years 2006-07 is increase compared to the previous period. • A Val Orem tariff is the only tariff tool in hand to use. 	<ul style="list-style-type: none"> • In effectiveness of the present tariff tools in regulating importance of the Ag. Commodities. • The present tariff average does not yield a true portrait of the amount of the border support in Iran's Ag. Sector, because: <ul style="list-style-type: none"> ✓ The Import of the some sensitive commodities is controlled by non-tariff barriers. ✓ The tariffs of those commodities forbidden religiously are too high. ✓ The tariff of those commodities which Iran is a great export of is too high. • Due to Iran's economy inflation and due to the governmental intervention the exchanging market, in Iran the level of the tariff in the current level is practically impossible.
Domestic Support	<ul style="list-style-type: none"> • Price support for 20 commodities (price) • Input support is the most important method to support Iranian agricultural sector 	<ul style="list-style-type: none"> • Price support is applied solely for two or tree commodities just in recent years and other commodities are deprived of this support indeed. <ul style="list-style-type: none"> • The amount of support in Ag. Sector through paying subsidies to the inputs is too less that the paid subsidies considered for the consumers of the Ag. Production. <ul style="list-style-type: none"> • Due to statistical problems it is impossible to separate the paid subsidies to the poor farmers. • Due to statistical problems it is also impossible to separate precisely the paid subsidies for each

		<p>commodity especially for non-farm commodities.</p> <ul style="list-style-type: none">• Although there are subsidies for energy carriers in Iran, Ag. Sector does not receive any spatial subsidy for these carriers except for electricity.
Export Subsidies	<ul style="list-style-type: none">• Paying export subsidies to some limited Ag. Commodities.• Presenting export prize in general for taking part in the new markets.• Considering an export credit with an interest rate of a percent.	<ul style="list-style-type: none">• Regarding to the persistence of the inflation in the Iran economy, it is impossible to cut off these subsidies at once.

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