A Study On India Agriculture & World Trade Organization (WTO)

Dr. Minakshi Kumari*

Introduction-A mini-Ministerial negotiation meeting at WTO was held on July 21-29, 2008 at Geneva to achieve a breakthrough in Doha round collapsed. The ongoing debate over agricultural trade liberalization focuses on how best to eliminate policy distortions that arise from price supports, producer subsidies, import protection and export subsidies. Although the most recent attempts to reach an agreement under the Doha Development Agenda (DDA) have been unsuccessful to date, the push for greater trade liberalization is unrelenting so it seems that further reform of the world agriculture market is inevitable. The WTO's Agreement on Agriculture (AoA) has far-reaching implications for the global farm trade and economic prospects of developing and least developed countries which are assessed in the study. The book is useful for the students and researchers of economics, agricultural marketing, commerce, business administration and law. The book is also worthwhile to: policymakers, planners, trade development agencies, opinion makers, negotiators, practitioners and all those interested in the elimination of rural poverty and improving welfare of Indian farmers in enriching their understanding of the impact of WTO on pattern of world farm trade, India's comparative advantage in farm trade, intricacies of the WTO rules and the present state of Indian agriculture vis-a-vis the WTO obligations.

After over 7 years of negotiations, the Uruguay Round multilateral trade negotiations were concluded on December 15, 1993 and were formally ratified in April 1994 at Marrakesh, Morocco. The WTO Agreement on Agriculture was one of the many agreements which were negotiated during the Uruguay Round.

The implementation of the Agreement on Agriculture started with effect from 1.1.1995. As per the provisions of the Agreement, developed countries would complete their reduction commitments within 6 years, i.e., by the year 2000, whereas the commitments of the developing countries would be completed within 10 years, i.e., by the year 2004. The least developed countries are not required to make any reductions.

The products which are included within the purview of this agreement are what are normally considered as part of agriculture except that it excludes fishery and forestry products as well as rubber, jute, sisal, abaca and coir.

SALIENT FEATURES

The WTO Agreement on Agriculture contains provisions in 3 broad areas of agriculture and trade policy: market access, domestic support and export subsidies.

Market Access

This includes tariffication, tariff reduction and access opportunities. Tariffication means that all non-tariff barriers such as quotas, variable levies, minimum import prices, discretionary licensing, state trading measures, voluntary restraint agreements etc. need to be abolished and converted into an equivalent tariff. Ordinary tariffs including those resulting from their tariffication are to bereduced by an average of 36% with minimum rate of reduction of 15% for each tariff item over a 6 year period. Developing countries are required to reduce tariffs by 24% in 10 years. Developing countries, as were maintaining Quantitative Restrictions due to balance of payment problems, were allowed to offer ceiling bindings instead of tariffication.***Special safeguard*** provision allows the imposition of additional duties when there are either import surges above a particular level or particularly low import prices as compared to 1986-88 levels.It has also been stipulated that **minimum access,** equal to 3% of domestic consumption in 1986-88, will have to be established for the year 1995 rising to 5% at the end of the implementation period.

Domestic Support-For domestic support policies, subject to reduction commitments, the total support given in 1986-88, measured by the Total Aggregate Measure of Support (total AMS), should be reduced by 20% in developed countries (13.3% in developing countries). Reduction commitments refer to total levels of support and not to individual commodities. Policies which amount to domestic support both under the product specific and non-product specific categories at less than 5% of the value of production for developed countries and less than 10% for developing countries are also excluded from any reduction commitments. Policies which have no or at most minimal trade distorting effects on

***Magdh University, Bodh Gaya**

production are excluded from any reduction commitments OGreen Box'- Annex 2 of the Agreement on Agriculture). The list of exempted green box policies includes such policies which provide services or benefits to agriculture or the rural community, public stock-holding for food security purposes, domestic food aid and certain de-coupled payments to producers, including direct payments to production limiting programmes, provided certain conditions are met.

Special and Differential Treatment- provisions are also available for developing country members. These include purchases for and sales from food security stocks at administered prices provided that the subsidy to producers is included in calculation of AMS. Developing countries are permitted untargeted subsidised food distribution to meet requirements of the urban and rural poor. Alsoexcluded for developing countries are investment subsidies that are generally available to agriculture and agricultural input subsidies generally available to low income and resource poor farmers in these countries.

Export Subsidies-The Agreement contains provisions regarding members' commitment to reduce Export Subsidies. Developed countries are required to reduce their export subsidy expenditure by 36% and volume by 21% in 6 years, in equal instalments (from 1986 -1990 levels). For developing countries, the percentage cuts are 24% and 14% respectively in equal annual instalments over 10 years. The Agreement also specifies that for products not subject to export subsidy reduction commitments, no such subsidies can be granted in the future.

INDIA'S COMMITMENTS

Market Access-As India was maintaining Quantitative Restrictions due to balance of payments reasons (which is a GATT consistent measure), it did not have to undertake any commitments in regard to market access. The only commitment India has undertaken is to bind its primary agricultural products at 100%; processed foods at 150% and edible oils at 300%. Of course, for some agricultural products like skimmed milk powder, maize, rice, wheat, millets etc. which had been bound at zero or at low bound rates, negotiations under Article XXVIII of GATT were successfully completed in December, 1999, and the bound rates have been raised **substantially.**

Domestic Support-India does not provide any product specific support other than market price support. During the reference period (1986-88), India had market price support programmes for 22 products, out of which

19 are included in our list of commitments filed under GATT. The products are - rice, wheat, bajra, jowar, maize, barley, gram, groundnut, rapeseed, toria, cotton, Soyabean (yellow), Soyabean (black), urad, moong, tur, tobacco, jute and sugarcane. The total product specific AMS was (-) Rs.24,442crores during the base period. The negative figure arises from the fact that during the base period, except for tobacco and sugarcane, international prices of all products was higher than domestic prices, and the product specific AMS is tobe calculated by subtracting the domestic price from the international price and then multiplying the resultant figure by the quantity of production.

Non-product specific subsidy is calculated by taking into account subsidies given for fertilizers, water, seeds, credit and electricity. During the reference period, the total non-product specific AMS was Rs.4581 crores. Taking both product specific and non-product specific AMS into account, the total AMS was (-) Rs.19,869crores i.e. about (-) 18% of the value of total agricultural output.

Since our total AMS is negative and that too by a huge magnitude, the question of our undertaking reduction commitments did not arise. As such, we have not undertaken any commitment in our schedule filed under GATT. The calculations for the marketing year 1995-96 show the product specific AMS figure as (-) 38.47% and non-product specific AMS as 7.52% of the total value of production. We can further deduct from these calculations the domestic support extended to low income and resource poor farmers provided under Article 6 of the Agreement on Agriculture. This still keeps our aggregate AMS below the **de minimis**level of 10%.

Export Subsidies

In India, exporters of agricultural commodities do not get any direct subsidy. The only subsidies available to them are in the form of (a) exemption of export profit from income tax under section 80-HHC of the Income Tax Act and this is also not one of the listed subsidies as the entire income from Agriculture is exempt from Income Tax per se. (b) subsidies on cost of freight on export shipments of certain products like fruits, vegetables and floricultural products. We have in fact indicated in our schedule of commitments that India reserves the right to take recourse to subsidies (such as, cash compensatory support) during the implementation period.

MANDATED NEGOTIATIONS-Article 20 of the Agreement on Agriculture (AoA) mandates that negotiations for continuing the reform process in agriculture will be initiated one year before the end of the implementation period. As the implementation period for developedcountries culminated at the end of the year 2000, the negotiations on the Agreement on Agriculture have begun in January 2000.

These negotiations are being conducted in special sessions of the WTO Committee on Agriculture (COA) at Geneva. The following are the broad parameters for carrying out negotiations:

- Experience of member countries in implementation of reduction commitments till date;
- The effects of reduction commitments on World Trade in Agriculture;
- Non-trade concerns, special and differential treatment to developing country members and the objective of establishing a fair and market oriented agricultural trading system; and
- Identifying further commitments necessary to achieve the long-term objectives of the Agreement.

During extensive deliberations in the WTO Committee on Agriculture and in the General Council, member countries had agreed to broadly adhere to the mandate of Article 20 of the Agreement. In pursuance of the same, in the first phase of the negotiations, members have submitted 47 negotiating proposals, which were discussed in Seven Special Sessions of the CoA. With the approval of the Cabinet Committee on WTO Matters, India also submitted its negotiating proposals to the WTO on 15th January 2001, in the areas of market access, domestic support, export competition and food security. These proposals were drawn up and drafted based on the inputs received from wide ranging consultations with various stakeholders and keeping in view India's objectives in the negotiations, which are to protect its food and livelihood security concerns and to protect all domestic policy measures taken for poverty alleviation, rural development and rural employment as also to create opportunities for expansion of agricultural exports by securing meaningful market access in developed countries. India also co-sponsored two papers, one on "Market Access" along with 11 other developing countries and another on "Export Credits for Agricultural Products" along with 9 other countries/group of countries.

India is naturally endowed with diverse and varied agro climatic conditions and a vast reservoir of resources and soil regimes for growing a wide variety of crops for domestic consumption and export. Added to this is the large community of knowledgeable farmers who have been able to adapt themselves to the changing requirements of growth and diversification dictated by the global scenario. Promotion of agricultural exports is looked upon as an important instrument for boosting growth in the rural and "real economy" and creating conditions for improving the returns to the farmers.

We are also aware that Government of India's EXIM POLICY (2002-2007) endeavours to give necessary momentum and direction to the country's export drive. The world trade regime under the WTO has also opened up new export possibilities and new vistas for the farmers to earn higher values for their produce. The WTO, in fact the Agreement on Agriculture (AoA), provides new opportunities for export of agriculture products and, in this respect, India is yet to take advantage of the emerging opportunities to enlarge its trade, particularly with the widening of the global market.

Export Competitiveness of India's Agricultural Products-India has a competitive advantage in several commodities for agricultural exports because of near self-sufficiency of inputs (except fertilizers and pesticides), relatively low labour costs and diverse agro-climatic conditions. These factors have enabled export of several agricultural commodities over the years such as marine products, cereals, cashew, tea, coffee, spices, oil meals, fruits and vegetables, castor and tobacco. For certain commodities like Basmati Rice, India has a niche market access in spite of competition.

The ten most important agricultural products that currently cover more than 80 per cent of the trade in the world market are coarse grain, cotton, rice, soybean, sugar, spices, tea, tobacco, vegetable oil and wheat, commodities in which India has a dominant production. Apart from these, fruits and vegetables (the second largest producer with 150 million tonnes), spices (world's largest producer, with over 3million tonnes) milk (being the largest producer with 91 million tonnes), poultry (5th largest with 842 million) meat products (with 417 million livestock, the largest in the world), fisheries (8000 km of coastline; 7th largest producer with 6 million tonnes) offer tremendous potential for export. Horticulture occupies about 12 million ha, which accounts for about 7 per cent of the total cropped area. The annual production is about 150 million tonnes. India's share in world production is nearly 10 per cent in fruits and 14 per cent in vegetables. India produces 50 per cent of world's mangoes, 19 per cent of banana, 36 per cent of cashew nut, more than 10 per cent of onion, 38 per cent of cauliflower, 28 per cent of green peas etc. Despite all this, our share in the world exports of fruits and vegetables is only about 1 %. And it is only about 2 per cent of the fruits and vegetables produced in the country are processed and there is considerable potential to increase it to about 10 per cent.

An area that emerges as high potential one for exports in the years ahead, among the agricultural exports, is the processed food products. The export of fresh fruits and vegetables and processed fruits and vegetables continue to remain a mere 6 % of the total value of exports, despite the institutional support to boost their exports, though there are indications of a steady rise in their exports. Processed items include fruit pulps and concentrated pulps, juice concentrates, canned fruits and vegetables, dehydrated vegetables and frozen fruits and vegetables. The level of processing in our country is very low and varies from sector to sector, and is estimated at 2 % in case of fruits and vegetables. Even in developing countries such as Malaysia (80 per cent) and Thailand (30 per cent), it is very high. Similarly, value addition in India is estimated at 7 % as compared to 45 % in The Philippines and 23 per cent in China.

Within the country, there are wide variations in productivity levels. Punjab, Haryana, Andhra Pradesh, Tamil Nadu and Kerala may have attained productivity levels of a world standard. But other regions are way behind. Thus, the issue of competitiveness is also region specific. A regionally differentiated strategy, taking into account the agronomic, climatic and environmental conditions is, therefore, sought to be pursued to realize the full potential of yield in every region.

Comparative advantage, in itself, is a relative concept and it depends upon the relative changes in the international market. A major difficulty faced by India in the international market is the high level of subsidies given by developed countriesfor their Agri-exports. Hence, it is imperative to evolve concrete strategies to make Indian agriculture competitive and enhance its efficiency. For this purpose, on the one hand, we should be seeking substantial reduction in the support given to agriculture by developed countries, on the other hand, Indian agriculture would also require to be supported to maintain and improve its competitiveness.

The annual increase in India's exports on account of WTO and the enlarged market share is estimated to be US$ 1.25 billion, marginally less than what has been estimated by the Ministry of Commerce at US$ 1.5 billion to 2 billion. A study carried out by National Council for Applied Economic Research (NCAER), which had covered 17 agricultural commodities, had rated rice, banana, grapes, sapota and litchi as highly export competitive. Raising the level of productivity and quality standards to internationally competitive levels is one of the major challenges following the dismantling of quantitative restrictions on imports, as per the WTO Agreement on Agriculture. For several commodities, our national productivity is less than the world average. There is potential for enhancing crop productivity and thereby increasing Agri-exports.

Credit Facilities to Agri-Exports

Institutional agencies and banks have been playing an important role in extending credit and other support to agriculture and in the promotion of exports. Nationalised commercial banks have been providing credit support by way of pre-shipment and post-shipment. Other support facilities may include foreign exchange transactions including forward cover, provision of cross-currency options, weekly trends in forex markets, providing country profiles and risk, credit, status report of overseas trading partners, market intelligence, counselling, risk management and optional hedging of foreign exchange exposures in the long term perspective, consulting services on exchange controls, import-export policy and other formalities in foreign trade, Inputs supplied to contract farms by exporters as raw materials for export and sanctioning the line of credit to processors, financing bulk purchase of inputs etc. Given the thrust on Agri-exports and the advent of WTO, we need to have a fresh look at the financial assistance being extended to promote agricultural exports with a view to making it more export-friendly. Apart from banks, the other institutions involved in export promotion include the commodity Boards like Coffeeand Tea Boards, the Spices Board as also the Agriculture and Processed Food Products Export Development Authority (APEDA).

Reference

- **[Dhuruva89] DhuruvaNarayana,V.V& Prasad, B.S.N :** "Soil and Water Conservation for better land & water management", Indian Farming 39(7):17-18

- **[FCDC98]:** Federal Geographic Data Committee of U.S. Geological Survey Report No: FGDC-STD-001-1998, GDC-STD-006, and also see https://www.startkart.no/isotc211/scope.html
- **[Fisher64] Fisher,J.J :** ”The Role of Natural Resources in Economic Development: Principles and Pattern” in (Eds) H.F.Williamsons and J.A.Buttrick, 1964, pp 32
- **[GBSingh2K] G.B.Singh :** ”Green Revolution in India – Gains and Pains”, 21st Indian Geography Congress, Nagpur (India), January 2-4, 2000.
- **[Guissepi91] :** GuissepiA.Forgionne 1991 “Decision Technology Systems : A Step Toward Complete Decision Support”, Information Management Systems, Vol. 8, No 4, Fall 1991, Auerbach Publishers
- **[ISDA-95]:** National Conference on “Informatics for Sustainable Agricultural Development” (ISDA-95),organised by National Informatics Centre, in collaboration with the Ministry of Agriculture and the Ministry of Rural Development, 25-26 May, 1995, VigyanBhawan, New Delhi.
- **[KVS2K] K.V.Sundram :** ”The Small Framer Development Strategies For The Next Millennium”, presented at National Institute of Rural Development, Hyderabad, 2000
- **[Lewis] Lewis,W.A :** ”The Theory of Economic Growth”
- **[Mollet84] Mollet, J.A :** ”Planning for Agricultural Development”, Croom Helm (London & Canberra), St.Martin’s Press, New York, 1984
- **[NBFGR2K]** National Bureau of Fish Genetic Resources (NBFGR) – “Digitization of database – Fish Genetic Resources’ Planning and Methodology Review” under National Agricultural Technology Project (NATP) , 28-29, January, 2000
- **[openGIS]:** see https://www.opengis.org
- **[Panda96] Panda.R.K:** ”Possible Impact of New Economic Policy on Agricultural Credit, Farm Investment, and Productivity”, Agricultural Situation in India, Vol.53, No.6, 1996, PP-391
- **[Randawa89] Randawa, N.S :** ”Soil Resource Conservation for Agricultural developments”, Indian Farming 39(7): 12-16
- **[Randhawa&Sundaram90]Randawa,N.S&Sundaram, K.V :** ”Small farmers Development in Asia and the Pacific : Some

lessons for strategy formulations and Planning”, FAO Economic and Social development Paper No. 87, FAO/UN, Rome, 1990

- **[VMRao&Hanumappa99] Rao, V.M &Hanumappa, H.G:** ”Marginalisation Process in Agriculture – Indicators, Outlook and Policy Implications”, Economics and Political Weekly, 34(52), December 25-31, 1999, PP (A133 – A138)