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India's Interests in the Doha Round of Negotiation on "Agriculture"

*Pranav Kumar**

Introduction

There are no two opinions that the agricultural sector in India dictates the general pattern of growth and distribution in the Indian economy. It provides employment to 40 million farm households comprising 67 percent of the total population and its contribution to the gross domestic product is about 25-26 percent. Besides supplying the much-needed nutrition to over one billion people and raw materials to the industry, the agriculture sector in India is playing a significant role in earning foreign exchange.

Despite numerous long-standing constraints such as unpredictable monsoon, vast patches of drought and flood-prone areas, low public investment, proliferation of marginal and small holdings, varying availability of agriculture input across regions, the sector has achieved respectable growth rates and made India self-sufficient in food grain production. Today India is among the first ten countries in the world in the production of most crops.

One of the main challenges facing India is to produce enough food for her increasing population. As there is no more surplus land fit for cultivation, India has to strive to develop productivity on existing cultivable area. For this to happen public investment in agriculture needs to be stepped up as after 1980-81 it is on the decline. Thus, it requires some major policy initiatives to meet existing and future challenges.

Till 1991, when India initiated a major economic reforms programme, policies and strategy for agricultural growth and development focused almost entirely on internal factors and the country followed a highly protective trade policy. Except for a few traditional commercial commodities (like jute and tea), trade in agriculture was subjected to measures like quantitative restrictions, canalisation, licenses, quotas and high tariff rates. However, this scenario has witnessed significant changes in the era of economic reforms initiated in 1991 and with the implementation of the WTO Agreement on Agriculture (AoA) since 1995.

Liberalisation of world trade in agriculture has opened up new vistas of growth. India has a competitive advantage for exports of several agricultural commodities because of near self-sufficiency on inputs, 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, fruits and vegetables, castor and tobacco. For certain commodities like *Basmati* rice, India has a niche market access in spite of competition. Agricultural export has a sizeable share of about 15-20 percent in total exports of the country. Agricultural imports are about 5-6 percent of total imports. Only a few commodities like edible oil, cotton, pulses and wood and wood products are imported.

The Indian agricultural sector is vast and diversified and thereby it has both defensive and offensive interests. In view of this fact India is a member of two developing-country coalitions of WTO Members, the G20 and the G-33. Whereas G-20 is more focused on the reduction of domestic support and elimination of export subsidies by developed countries in order to make developing-country products more competitive (this, in a sense, is an offensive interest), the G-33 is focused on resisting deep tariff cuts in agriculture, and also providing for adequate flexibilities in the form of Special Products and a Special Safeguard Mechanism, which is clearly a defensive interest.

Agricultural Trade Liberalisation in India

During the last five decades there has been a highly interventionist trade policy practiced by India, which discriminated against agriculture, particularly in the category of basic foods such as cereals. International trade in cereals by the private sector was practically banned during the period 1950-95, with the exception of *Basmati* rice exports and maize imports for the poultry sector. These restrictions were supplemented by substantial control over pricing, procurement, stocking, marketing and transport of food grains at the domestic level.

When India embarked on the process of comprehensive economic liberalisation in 1991, the agriculture sector was not on the agenda. It mainly touched upon the external sector, industrial sector and fiscal reforms. Trade policy

* *Policy Analyst, CUTS International*

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reform was undertaken as a part of larger external sector reforms, including devaluation of the rupee and gradual dismantling of import, export, and exchange controls.

Although very little headway was made in the matter of liberalisation of agricultural trade, the devaluation of the rupee in 1991 made many Indian agricultural products competitive in the international market. The exports of all merchandise including the exports of agricultural products from India recorded a significant increase in growth during the 1990s. Besides this, gradual liberalisation of trade in India and the process of dismantling controls also contributed to the growth of agricultural exports. The total agricultural exports recorded an annual growth rate of 8.12 percent during the nineties compared with a low growth of only two percent during the eighties.[1]

The Post-WTO Era

A major impetus towards agricultural sector liberalisation in India came after the establishment of the WTO in 1995. India is a founder member of the WTO. In order to fulfill its obligations under the WTO AoA, India has undertaken several policy measures to reform its farm sector. India's obligations under the WTO AoA fall mainly under three broad areas: market access, domestic support and export subsidies.

Under the three pillars of the Uruguay Round Agreement of Agriculture, India was not obliged to undertake any commitments on at least two of them. Firstly, India was not required to reduce its domestic subsidy levels, as its aggregate measurement of support (AMS) was much below the cut-off point of 10 percent of the value of its total agricultural production and it was in fact negative in case of product-specific support. Secondly, India has not subsidised its exports of agricultural commodities, and hence, it remains unaffected by the export subsidy reduction commitments. The only commitment was on market access – that is, reduction of import tariffs and tariffication of quantitative restrictions (QRs). Initially India continued with QRs citing balance of payments (BoP) factor. However, the BoP justification for India's continued use of QRs has come under increasing pressure because of the increase in foreign exchange reserves. In the Export-Import Policy of 2001 India removed QRs on 715 agricultural items and thus, the obligation to replace QRs by tariffs has, by and large, been fulfilled (see Box 1).

India's Negotiating Strategy in the Doha Round

India has made one of the most comprehensive submissions on agriculture to the Doha Round of negotiation by the WTO Members. It has submitted its initial negotiating proposals in the areas of market access, domestic support, export competition and food security with the objective of protecting food and livelihood security and creating increased market access opportunities with a view to promoting its agricultural exports. Indian proposals submitted in January 2001 can broadly be classified into the following two categories:[2]

- Increasing the flexibility enjoyed by developing countries by the creation of a 'Food Security Box' for providing domestic support to the agriculture sector under the special and differential treatment provisions as also for further strengthening of trade defence mechanisms with a view to ensuring food security and to take care of livelihood concerns.

- Demanding substantial and meaningful reductions in tariffs including elimination of tariff peaks and tariff escalation, substantial reductions in domestic support and elimination of export subsidies by the developed countries so as to get meaningful market access opportunities.

India's submission was taken into account while finalising the Doha Work Programme on agriculture. Although, there is no explicit mention of food security box, but elements of food security and rural development are included in the Doha Round text.

Cancun and Beyond

The 5th Ministerial Conference of the WTO held at Cancun, Mexico in 2003 proved to be a turning point in the history of multilateral trade negotiations. Although the meeting did not adopt any declaration but for the first time developing countries realised their collective strengths. One of the major achievements at Cancun was the formation of the G-20 alliance, which put large developing countries like Brazil and India on equal footing in trade negotiation.

Box 1: India's QR Abolition

In late 1990s at the Dispute Settlement Body (DSB) of the WTO US and some other countries challenged India's QR regime on the plea of BoP position. In view of its improved position on foreign exchange reserves, India lost the plea for retention of QRs on account of BoP position at the DSB. According to the understanding arrived at between the parties regarding the reasonable period of time for correcting the discrepancy (latest by March 2001), in 1999-2000 India removed its QR on 714 items including 142 agricultural commodities. On the occasion of announcing the Export and Import Policy on 31st March 2001, India removed its QR on the remaining 715 items, thereby ending the much-maligned "*License Permit Raj*". After its decision to remove QRs, under the GATT Article XXVIII India was allowed to renegotiate the tariff bindings on those commodities for which it had very low or zero tariff bindings. Consequently, in December 1999, India successfully negotiated and the binding levels were suitably revised upward to provide adequate protection to the domestic producers. Out of these low bound tariff lines, bindings on 15 tariff lines, which included skimmed milk powder, spelt wheat, corn, paddy, rice, maize, millet, sorghum, rapeseed, colza, mustard oil, fresh grapes were revised to a level ranging between 45 percent to 75 percent.

Table 1: G-20 Proposal on Tariff Reduction in Agriculture			
Developed Countries		**Developing countries**	
Number of Bands 4		**Number of Bands 4**	
Thresholds in (AVEs)	Linear Cuts	Thresholds in (AVEs)	Linear Cuts
0 =20	45%	0=30	25%
>20=50	55%	>30=80	30%
>50=75	65%	>80=130	35%
>75	75%	>130	40%
High tariffs & Cap	Cap: 100%		Cap: 150%
Source: G-20 Proposal, October 2005			

The G-20 alliance brought together a group of developing countries to negotiate collectively with other WTO Members, particularly the US and the EU and especially for seeking the elimination of their trade-distorting agricultural subsidies. The group is led by Brazil and other important members include Argentina, China, India and South Africa.

After the formation of G-20, the WTO Members of this alliance abandoned individual submissions. India, being one of the leaders of G-20, started making its submissions on agriculture through this group. On issues relating to the Doha Round of negotiation on agriculture, India is a member of another alliance called G-33, which is mainly demanding adequate safeguards and policy space for poor developing countries.

Hong Kong Ministerial

The 6th Ministerial Conference of the WTO held at Hong Kong, China in 2005 had, right from the beginning, a limited objective. It was already very clear from the progress of negotiation at Geneva that the gap between the different positions of various countries in almost all areas of negotiation was too wide to be bridged in a five-day Ministerial where 149 countries were negotiating.

The primary objective of the Hong Kong Ministerial was, therefore, to try and finalise a development package for least developed countries. There was also a requirement to show some progress on the Cotton Initiative, which is of a great concern to a large number of African cotton producing countries. On Agriculture, the objective was primarily (as popularly mentioned) to top up the convergences available from the report of the Chairman of the Trade Negotiations Committee to the maximum extent possible.

Some major gains for India from the Hong Kong Ministerial Conference are the following[3].

- India would not be required to make any cuts in *de minimis* support as well as any overall cut in trade-distorting domestic support. As per the existing criteria, India is entitled to provide ten percent of the annual value of agricultural production as product-specific *de minimis* support and a further ten percent as non-product-specific *de minimis* support. This would mean that both the Central and the State governments would be free not only to continue with the existing subsidy programmes but could also increase the same.

- It was also agreed that there would be parallel elimination by developed countries of export subsidies and disciplines on export measures would be completed by the end of 2013 with a substantial part to be realised by the end of first half of the implementation period – that is, 2010. Although the exact value of the export subsidy/ export credits is only of the order of around US$10bn, the fact that 50 percent of the same would be eliminated by 2010 would mean that one could expect a rise of 3-5 percent in the world market prices of specific crops like sugar, cotton and certain dairy products, which mostly receive these export subsidies. Here again, the key question would be whether the developed countries would actually reduce the amount provided to their farmers or indulge in box shifting to provide the same amount of support or even increase it. However, since export subsidies are the most trade-distorting, their phased elimination, as and when it actually happens, would surely have an impact on the world market prices of some agricultural commodities.

- It was also agreed that developing countries like India would continue to benefit from the provisions of Article 9.4 of the AoA for five years after the end date for elimination of all forms of export subsidies. This means that India would be permitted to provide transport and marketing subsidies for export of agricultural products till the end of 2018.

- As regards India's defensive interests, the major achievement at Hong Kong was an agreement that developing countries will have the flexibility to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development. It must, however, be realised that treatment of such Special Products are still subject to negotiation even though it was agreed in the July 2004 Framework that more flexible treatment would be accorded to Special Products.

- Developing country members would also have a right to recourse to a Special Safeguard Mechanism (SSM) based on import quantity and price triggers. The inclusion of price triggers was a significant achievement, as there was a widespread objection to this being a part of SSM. However, the precise arrangements are to be further negotiated.

Under the market access pillar, the only agreement was that there would be four bands for structuring tariff cuts. Threshold for these four bands for both developed and developing countries as well as the cuts in each band are to be negotiated. As per the G-20 proposal (See Table 1), the four bands proposed for developing countries are 0-30, 30-80, 80-130 and 130 percent and beyond. The cuts in the highest band would be 40 percent with lower cuts of 35, 30, and 25 percent respectively in the other bands.

However, the overall cut will not exceed 36 percent on average. In so far as the developed countries are concerned the G-20 proposal is that these countries should take an average cut of at least 54 percent with cuts in the highest band of 75 percent. Disciplines in the Blue Box and other product-specific caps, and tightening of criteria for Green Box subsidies are also to be negotiated.

Correction in the distortions in agriculture trade would be based on the effectiveness of these disciplines and their implementation. On the issue domestic support to agriculture - over 85 percent of them are provided by the developed countries. The US has agreed to an overall cut of 53 percent while the EU has agreed to an overall cut of 70 percent. The proposed cuts by the US are not really an effective cut. Negotiations are continuing to have more effective cuts.

India's Approach after Hong Kong

India has a highly diversified agricultural economy, which is inextricably linked with the livelihoods of about 60-70 percent of its population. While all three pillars of the Doha Round of negotiation on agriculture – market access, domestic support and export competition – are closely linked, it is the market access issue that is most critical to India. Some agricultural products are vulnerable even with the existing levels of protection. Even though there is water between the bound and applied tariff rates on several commodities, this is a required developmental space and hence, negotiation should only be made on bound rates.

Special Products (SPs) and SSM are identified as important instruments to protect food security, livelihood security and rural development needs. Special Products could be identified with the aid of several objective parameters that relate to these criteria. Given that the global trade in agriculture is highly volatile, and that subsidised products could result in import surges and/or depressing domestic prices, 35 crops on each of which at least five million people are dependent should be safeguarded. Though SSM could be a generic defensive mechanism to safeguard developing countries' agricultural interests, it is, however, important to ensure that SSM is used for all agricultural products of India. Given the large heterogeneity of agricultural products on which significant sections of India's population are dependant, the best course to take for safeguarding their interests would be to ensure that the tariff reduction formula did not result in tariffs, which are below applied levels.

In market access, a smaller number of tiers for tariff reductions by developing countries and a large number of tiers for developed countries would be more beneficial to India. Harmonisation of tariffs was not desirable on grounds of equity – tariffs are, by and large, the only effective developmental instruments (*vis-à-vis* trade policy) that developing countries have for protecting the interests of population dependent on agriculture as a source of food and employment. Movement on the part of India on the market access pillar needs to be contingent on real and effective movement on the part of the developed countries on domestic support and export competition pillars.

Substantial and effective reductions in domestic support of developed countries are considered essential and a pre-requisite to any market access commitments by developing countries. Cascading effects of depressed prices, owing in part to subsidisation by the developed countries, result in lower prices and returns to farmers in India. Also the current practice of box-shifting on the part of the developed countries and shifting product-specific subsidies should be limited. It must also be ensured that the Green Box remains least trade distorting. The need to discipline absolute levels of subsidy as well as the subsidy levels relative to domestic production is understood to be equally important. The 20 percent reduction in AMS, *de minimis* and Blue Box subsidies would not translate into any meaningful reduction in domestic support, as the commitment level for AMS and *de minimis* are much higher than the support actually provided. An important outcome in domestic support reduction should be harmonisation, product-specific support caps, tightening of Blue Box and Green Box criteria and improved monitoring mechanism of implementation.

All forms of export subsidies would need to end by a credible end date (2013 as per the Hong Kong Ministerial Declaration). Developing countries should be given an additional grace period for providing certain types of export subsidies. In the case of specific products, such as cotton and sugar, both domestic and export markets were affected by export subsidies of the developed countries and hence, emphasis needed to be placed on the elimination of support to these products on a priority basis. A product-wise approach for the elimination of export subsidies by the developed countries would help developing countries.

India's agricultural exports may be modest in absolute terms, but have been growing well in the last few years. Tariff peaks in the developed countries on several agricultural products of export interest to India need to be addressed.

Conclusions

At present, India is not a major exporter of farm products. The share of agriculture in its total exports has continuously declined over the last two decades. In 1980, the sector had approximately 30 percent share in total country exports, which came down to 18 percent in early 1990s and declined further to 10 percent at present. India, however, is considered to be one of the major potential farm exporters as the Doha Round of negotiation on agriculture is expected to bring about significant increase on trade in agriculture and to specifically benefit the developing countries. The withdrawal of subsidies by the developed countries is expected to raise prices of agricultural products and make developing countries' exports more competitive.

On the other hand, opening of several barriers to agricultural trade is likely to pose some critical challenges. The first daunting challenge for a country like India will be to find institutional mechanisms to protect their millions of small and marginal farmers who constitute an overwhelming majority of cultivators. Another likely challenge emanates from the fear that excessive imports could adversely affect local production and thereby, could seriously jeopardise the livelihood of a very large population dependent on agriculture.

Keeping in view the above-mentioned challenges, the future negotiation on agriculture must endeavour to make the special and differential treatments for developing countries, both in countries' new commitments and in any relevant new or revised rules and disciplines, mandatory. The new S&DTs should be effective in practice and should enable developing countries meet their needs, particularly on food security, livelihood security and rural development.

Domestic policy changes must follow the developments, which are taking place at the multilateral level. Since the philosophy behind trade liberalisation is maximisation of global welfare through efficiency gains, mapping out of comparative advantages across countries for different commodities in a dynamic setting is a necessary basis for a meaningful negotiation. The developed countries are very well equipped with technical and legal expertise, even though these capabilities are used for advancing their case towards perpetuation of domestic support to agriculture and restriction of market access. On the other hand, the capabilities of developing countries, including India, are poor in this respect despite their approach and line of action on matters relating to agricultural trade being justifiable on theoretical as well as practical grounds. Therefore, there is a need to give a high priority to the development of these skills in the country.[4]

Endnotes

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