CUTS International

Making Things Happen

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Doha Round: Post-Hong Kong is More Challenging

After having successfully avoided the second possible fiasco at Hong Kong, the Members are now gearing up to face tougher and more intense negotiations in the current year. The year 2006 is going to be crucial for this 150-member world trade rules making body as three deadlines are to be met: 30 April, 31 July and 31 December. The first important challenge is to meet the end April deadline on agreeing to the modalities on eliminating farm export subsidies, and also establishing modalities in non-agricultural market access. Based on agreed modalities, Members are required to submit comprehensive draft schedules by end July. In services too revised timelines have been agreed for requests and offers. Finally the most important end date is to conclude the Doha Round by end of 2006.

Going by past experiences and record it would be a safe bet for anybody to doubt that WTO Members would be able to meet these deadlines. If at Hong Kong there was so much divergence on agreeing only on broad contours of agreement, one can imagine the differences. These, in all likelihood, will emerge once Members start negotiations on specificities. In a true sense there has not been any "deal" at Hong Kong as negotiations on core problems have been postponed. All know that this happened to avoid a second collapse of WTO Ministerial in a row.

Frankly speaking, if we compare the developments at Hong Kong with the "July Package", the progress is minimal. The most contentious and the toughest part of current negotiations is that modalities, which cover time period, formulae and principles for reductions of tariffs and subsidies, have remained unresolved. In addition, despite all talks of a development focus of Doha agenda, there has been a continuous dilution of the "development" mandate. There were at least three issues of vital concerns for least developed countries (LDCs): the cotton initiative, the duty and quota free market access on all products, and the amendment of the Trade Related Aspects of Intellectual Property Rights (TRIPs) agreement to address the public health concerns of poor countries. Unfortunately, developed countries remained non-committal on these critical issues of LDCs.

As already stated, the outcome of Hong Kong is modest, which was not unexpected. The main demand of G-20 to eliminate export subsidies by 2010 was not accepted by the EU; instead a compromise date of 2013 was agreed with some frontloading. This also culminates with the EU Common Agricultural Policy' reform. What is most unfortunate is that the language on export subsidies has been made more complex. The G-20 can no longer say that this will be easy to implement.

However, the text on NAMA gives a sense of comfort to some extent as tariff peaks and tariff escalation would be reduced or appropriately eliminated by using the Swiss Formula with multiple co-efficients. Preference erosion, which is one of the major fears of LDCs, has been recognized in the text. However, still there is no meaningful forward movement on how to negotiate non-tariff barriers (NTBs).

In services new methods and timelines have been agreed to carry forward the negotiations. Since the existing bilateral "requests-offers" proving to be more laborious and time consuming, WTO members adopted a new plurilateral basis in addition to the existing bilateral approach for requests and offers. This alternative format would allow any WTO member or group of members to make requests and offers collectively to other members. India along with the EU and other developed nations supported this shift in methods. But it did not go well with many developing countries who feared that the new rules would make them more vulnerable.

On providing duty and quota free market access to LDCs, the demand of including all products has not been accepted unequivocally. In fact some of the LDCs might be completely denied this preferential market access. The language of the text on cotton is disappointing in contrast to the pressure mounted by the cotton producing least developed countries in West Africa. There is no clear and firm commitment from the US on reduction of domestic subsidies on cotton. Also, with regard to the demand of creating a "special development fund" for the transition period, the US remained non-committal.

The result of the Hong Kong Ministerial shows that WTO members are saddled with a more difficult task for future negotiations. It also means that post-Hong Kong, particularly the year 2006 is going to be more challenging for all WTO Members.

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INSIDE

Much-hyped Crop Insurance Collapse

Interest rates charged on the purchase of a car or a house are nearly half the interest rates charged from farmers to insure crops! The much-hyped crop insurance scheme for farmers has come as a cropper. Farmers in the village of Mahwa in Sikar district have actually been cheated under the scheme. Between April 2001 and June 2005, a loan worth over Rs 71 lakh was disbursed to 448 farmers after deducting a 3.15 percent premium worth over Rs 2.25 lakh. These farmers, after having reported complete crop damage, have not been granted any compensation.

The Hindu Business Line

A shocking point raised by National Bank for Agriculture and Rural Development (NABARD) is that the interest rate on NABARD loans granted to the farmers under the scheme quadruples by the time it reaches the intended beneficiaries. NABARD grants loan at the rate of 5.5 percent, which increases to 11.5 percent. *(HT, 17.10 05)*

WTO Cell in Andhra Pradesh

To create awareness among the farmers about WTO and how it influences them, the Andhra Pradesh Government has opened a WTO cell at the office of the Commissioner of Agriculture in Hyderabad. This WTO Cell would gather the latest information on all global trade agreements related to agriculture, agro-based environment and market prices, and then it would pass this information on to the farmers.

The WTO Cell, which has been created under the Governance Reform Programme supported by the Centre for Good Governance, will prepare a WTO Strategy Document for agriculture in the State. It will guide senior officials of the concerned departments on WTO-related strategies. Moreover, it will conduct market intelligence studies and collect international and national data on prices, cost of cultivation, tariff levels, production and export subsidies etc. "These trends would be analysed by experts who will put them in the right perspective for the farmers and other stakeholders", said an official working at the Cell.

The Cell was inaugurated by the Chief Minister, Dr Y S Rajasekhara Reddy, on the eve of Farmers' Day celebrations.

(BL, 04.11.05)

Marketing Network for Farmers

A four-member delegation led by Prof M S Swaminathan, Chairman of the National Commission of Farmers (NCF) held several rounds of preliminary discussions with farmers of Patiala, Sangrur, Mansa and Bathinda districts. It aimed to arrive upon several recommendations concerning the crop diversification programme in Punjab. These recommendations include:

- Crop diversification would succeed only if there were backward linkages with research and forward linkages with market;
- Punjab Agricultural University should go in for extensive trials of the best available hybrids of BT cotton and rice and recommend suitable hybrids for each agro ecological zone along with Integrated Pest Management (IPM) system;
- The State Land Use Board should have technical capacity to extend proactive advice to the farmers based on meteorological and marketing factors;
- Farmers should be issued Soil Health Cards containing information on the Chemistry, Physics and Micro-biology of the soil;
- Minimum Support Price (MSP) should be linked with Wholesale Price Index (WPI) because of the steep hike in input prices; and
- A Contributing Price Stabilisation Fund to insulate farmers from a significant fall in prices should be set-up. *(TH, 19.10.05)*

EC Certifies India's Organic Produce

Indian organic products would soon get a 'qualification of equivalence' from the European Union (EU) as the standards followed by the Indian certification agencies are comparable to its own. This move will help boost exports of organically grown agricultural products from the country, which are currently placed at 6,700 tonnes against the annual organic output of 1.15 lakh tonnes, according to K S Money, chairman of the Agricultural Processed Food Exports Development Authority.

The abolition of the process of obtaining a double certification will result in savings of 500-1000 Euros (US$600-1200) a hectare, which is the cost of getting a European certification. Money informed this while participating in the inaugural of 'India Organic 2005' at Bangalore. *(BL & ET, 04.11.05; BS, 07.11.05)*

Remarkable Rise in Agri-lending

Institutional credit to farm sector has met 58 percent of its target by the end of August 2005. A sum of Rs 81,679.58 crore has been disbursed to 44.60 lakh farmers against the target of Rs 1,42,000 crore which should be met by March 2006. Public sector banks and regional rural banks constituted major chunk of the disbursement.

Indirect credit to agriculture provided by banks, comprising finance for distribution of fertilisers and other inputs like indirect finance, has grown at an impressive rate of 30.8 percent during the decade ending 2004. The connotation of indirect finance has widened to include a spate of key agricultural activities: financing the distribution of fertilisers; pesticides; seeds; loans up to Rs 40 lakh for allied activities, finance for hire-purchase schemes for distribution/ purchase of farm machinery and implements; and advances to service units managed by individuals or institutions who maintain a fleet of farm machinery and implements.

(ET, 14.12.05 & FE, 18.12.05)

Serious Pest Damage to Crops

"Every year crops suffer pest damage worth Rs 60,000 crores", as informed by Salil Singhal, Managing Director, DPI Industries. Thus, pest control assumes a great significance in the present Indian agriculture scenario. Pesticides play an important role in protecting crops to the level of 20-50 percent. Singhal, however, expressed concern over the fact that there was a lack of seriousness in the government machinery over the proper usage of pesticides.

Although, pesticides sector in India is worth Rs 4000 crores, but the utilisation of pesticides needs to be increased to meet the growing need of crop protection. The government should ensure improved quality of pesticides, define minimum quality standards, and conduct testing of the same before use.

(NN, 10.10.05)

Jute – An Emerging New Source

Owing to its inherent characteristics of eco-friendliness, durability and cost-effectiveness, jute is emerging as a new raw material for lifestyle products and driving a new wave in the fashion and handicraft industries. An all-encompassing increase in demand for jute, from various sectors such as footwear, handicrafts and apparel, home furnishing and jewellery, has benefited the Indian manufacturers.

Since 1999, exports of jute diversified products have increased by more than 150 percent to cross Rs 250 crore mark in the year 2004. Total jute exports were worth Rs 1,147 crore and set to cross Rs 1,250 crore this fiscal year. The labour-intensive jute companies provide employment to almost two lakh artisans working in 12,000 units spread across the country. With India being the largest producer of raw jute and manufacturer of jute goods in the world, the future holds huge promises of increase in exports and employment.

(BS, 03.11.05)

Competition Toughens in Textiles

With the dismantling of textile and apparel quotas, competition among developing and least developed countries (LDCs) has toughened with the latter proposing a vulnerability index to identify products including textiles that are liable to preference erosion. A leading textile exporter, Turkey, in a paper to the Council for Trade in Goods (CTG) in WTO, complained that many of the textiles and apparel exporting countries are facing the risk of being swept away from their traditional export markets.

There is need to establish a 'work programme' for a full and periodic review of global textile and apparel production, export and market circumstances to evolve right remedies within the multilateral trading system (MTS). Industry sources are of the view that India should align itself with like-minded developing countries in the negotiations for evolving modalities of non-agriculture market access (NAMA) in order to secure best gains for the indigenous textiles & clothing (T&C) industry.

(BL, 01.12.05)

Textile Sector More Competitive

In a bid to make the textile industry more competitive, several recommendations have been mooted by the Confederation of Indian Textile Industry (CITI) to the National Manufacturing Competitiveness Council (NMCC). These included:

- technology upgradation fund scheme (TUFS) should be made more attractive for weaving and processing units;
- issue of credit availability should be addressed;
- heavy investment should be made in textile data in order to assist both industry and the government in shaping growth strategies;
- contract labour should be introduced to generate substantial productive employment;
- an exit policy is essential as the current policy hinders investment in the sector;
- high import and anti-dumping duties should be avoided to remove undue protection to fibre producers;
- preferential rules of origin (RoO) for textile products should be incorporated in free trade agreements (FTAs)/preferential trade agreements (PTAs);
- captive generation of energy should be allowed until electricity is supplied at reasonable costs;
- a single window clearance facility should be introduced to reduce transaction costs; and
- withdrawal of textile products under various acts, obligations and reservations as they have outlived their utility.

(FE, 05.12.05)

Expanding Textile Exports

Investment Information and Credit Rating Agency (ICRA) has projected that the size of the textile industry would increase to Rs 3,40,000 crore with the exports share to increase to 38 percent from the current 29 percent of the country's total T&C market. This is attributed to the rising per capita levels, which cause high growth in household demand. Rise in the 15-34 age-group which is the largest consuming class for clothing in India as well as the growth in organised retail are likely to contribute to the increase. Restrictions on China by the US have also served as an opportunity for India.

The Indian exports have started expanding into new markets such as Spain and Italy where exporters have been able to corner a large proportion of niche orders, coming in mainly from fashion industry. Also, in place of yarn and fabrics, finished products would fetch the maximum in terms of net realisation in the country's export portfolio.

(FE, 13.11. 05 & BL, 04.11.05)

Cheap Clothes Mushrooming

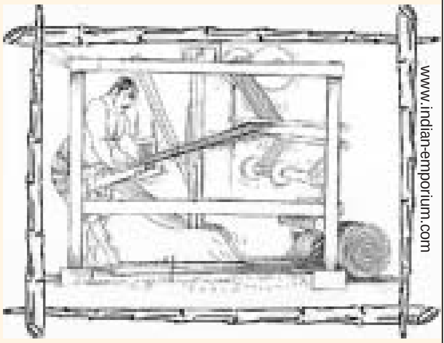
The Indian textile industry is losing over Rs 10,000 crore per annum due to unregulated inflow of second hand clothes, sold as cheap as Rs 10-15 per piece in various cities across the country. Government had allowed import of second hand textile under open general license (OGL) route following the earthquake in Gujarat, in January 2001.

According to industry estimates, over 200 tonnes, comprising 11 lakh pieces of worn clothes, leave Kandla special economic zone (SEZ) everyday for distribution in various cities. This adversely affects employment of 72 lakh workers directly employed in the garment industry, about 80 percent of whom are women supporting family income, and others working in ancillary industries.

(FE, 06.12.05)

'India Brand' for Handloom

In order to boost the handloom and handicraft sectors, President, Dr A P J Abdul Kalam, suggested a five-point strategy. This included:

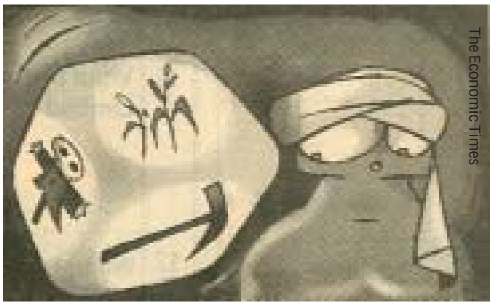


- Exclusive design centres should be established with inbuilt know how from fashion design centres of the country. These can be created on the lines of Tirupur garment design centres.
- An 'India brand' for handloom products should be created in domestic and international markets through business development practices and aggressive marketing.
- Quality yarn material should be made available at reasonable prices to the weavers.
- Greater collaboration amongst all stakeholders – starting from the master weavers in the villages to textile industry and institutions.
- Marketing of products should be arranged through the Internet and exhibitions in marketing complexes.

(BL, 12.12 05 & TH, 13.12.05)

Take Out Excess Farm Labour

Lets Consider certain well-known facts. First, the agricultural sector has grown at 2 percent or less in both the Ninth and Tenth Plan periods. Second, over the last decade the agricultural sector's contribution to gross domestic product (GDP) has declined to around 25 percent while it still accounts for around 60 percent of employment. Third, the terms of trade particularly after 1997 or so have been moving against the agricultural sector (as they did in the 80s). Fourth, there has been a decline in public investment in agriculture since the early 90s and in private investment in the last few years. Finally, agriculture as an occupation, is probably the least remunerative today.



Several supply side measures indicating an attempt to reduce input costs (including price uncertainty) to make farming more profitable, have been introduced by the government. While the objective is laudable, the solution is unlikely to be effective.

Why is farming so unprofitable? This itself needs a qualification. As many surveys have shown most large farmers are doing quite well Yet, the situation of small farmers is dismal. Is the situation of the small farmers likely to improve with the new measures? No, for a number of reasons.

Why do small farmers stay in farming if the returns are so abysmal? This is largely because there is a lack of alternate opportunities in rural areas and because farming for many seems to be a 'natural' occupation.

What does input cost reduction do in this case? Most small farmers cannot afford storage and bring their output to the market immediately after harvest. In this scenario, input cost reduction, if it leads to more production, will lead to a further decline in agricultural terms of trade and per capita income in the rural areas. To the extent that many of the efficiency gains of input costs accrue largely to large farmers (who mainly benefit from input subsidies) the situation of the marginal farmers is worsened.

The solution lies in removing labour force from basic agriculture before effecting cost efficiency. To actualise this, India should develop rural industries which allow excess labour to be taken out of agriculture. The low growth of the manufacturing sector in urban areas (particularly in the last decade) has not created conditions for removal of excess labour in agriculture. Hence, the classic pattern of changes in occupational structure has not been observed. It is here that schemes like the Rural Employment Guarantee (REGS) could help generate employment avenues. With some planning, good politics could coexist with good economics.

(Excerpt from an article by Manoj Pant, ET, 14.10.05)

Will FDI in Retail Help Our Farmers?

Farmers are being offered some retail therapy to forget their woes. Searching for a solution for falling farm incomes, the government has hit upon the idea of allowing foreign supermarkets hawk fruits and veggies to the locals but only in 50,000 sq. ft. shops. This is expected to get farmers a better deal from higher sales, higher prices and a shift towards vertical-integrated food processing. Unfortunately, while the prescription is right, the dosage is wrong.

One, a quick recce of multinational corporation (MNC) supermarket chains in their own country and Southeast Asia reveals that there is no evidence at all that farmers usually get a good deal. The very structure of the business is such that unless large chains offer 'everyday low prices', they do not attract customers and sufficient volumes.

One could argue that even though it is iniquitous, the new deal would still be better than the current situation of Indian farmers. Through contract farming, farmers would be able to improve yields, reduce market risk and get a premium for better quality. Unfortunately, even if all these come true, farmers would still not be better off.

First, contract farming locks in growers with a single large buyer. Unlike a *mandi* with transparent auctions and arm's length transaction between buyer and seller, supermarket chains will fix prices in advance for produce that meets their specifications.

The increase in yields is another mixed blessing. While supermarkets earn, a premium for better quality, farmers will have to dump contract-farming rejects into the local market. That would lower returns for all the other farmers in that area.

Finally, if ends justify the means, would the average housewife benefit from buying *bhaaji* at Tesco or Wal-Mart? The short answer is no. Large format shops are a high-street phenomenon. In households where servants do the shopping, a high-street supermarket is anyway too fancy. Tesco veggies can only be popular with urban professionals for whom convenience of stocking up weekly is uppermost. However, this niche clientele will always be too small to create that exponential increase in demand the government is betting on.

Here's where the Mother Dairy and *Subhiksha* model score. It's in the neighbourhood, cheap, not intimidating, and aggregates farmer produce daily in precisely the way Prime Minister of India, Manmohan Singh desires. So, if the government is genuinely convinced foreign direct investment (FDI) is critical in grocery, let it be allowed minus the sandbag of minimum size.

Farmers can get adequate returns from the market only when demand exceeds supplies. That means finding ways to consume more fresh produce, either by higher food processing or unlocking suppressed demand. Foreign-owned extra-large retail stores are unlikely to do both. When they make money, they drive small grocers out of business by attracting the same customers with below-market prices. When they do not, growers do not gain anyway.

(Excerpt from an article by Nidhi Nath Srinivas, ET, 08.11.05)

SOURCES: BL: The Hindu Business Line; BS: Business Standard; ET: The Economic Times; FE: The Financial Express; HT: Hindustan Times; NN: Nafa Nuksan; TH: The Hindu

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