

**Block**

# 8

## **AGRICULTURE AND INTERNATIONAL CONTEXT**

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### **UNIT 26**

**Foreign Trade in Agricultural Goods** **5**

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### **UNIT 27**

**International Commitments** **26**

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## BLOCK INTRODUCTION

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Agriculture has been a major contributor to our exports right from the time of independence. But for close to four decades the profile of our exports was confined to some specific crops. This is because the policy of our foreign trade in agriculture was restrictive till the beginning of 1990s. However, in the 1990s, due to WTO commitments, there was pressure on India to open up the agricultural sector also for foreign trade. The process of liberalization of agricultural sector for foreign trade was thus begun by the mid-1990s and carried through in stages. Against this background, the present block deals with two specific themes viz. 'foreign trade in agricultural goods' and 'international commitments'. Brief outline of the two units covering these two themes is as follows.

Focusing on 'foreign trade in agricultural goods', **Unit 27** discusses three specific aspects viz. (i) the factors that promote or curtail foreign trade in agricultural goods in general (i.e. without necessarily restricting it to India and taking a global view in general); (ii) the trends in exports and imports of agricultural goods in India during the period 1995-2012; and (iii) the policy framework within which the issue of foreign trade in agriculture has been governed during the 1990s with a specific focus on the changes that have been introduced in it in the late-2000s. The presentation brings out that there has been a steady improvement in the aggregate volume of our foreign trade in agriculture from about 9 percent of GDP contribution by the 'agriculture and allied' activities in 1996-97 to reach the level of 18.8 percent in 2011-12. The policy emphasis has been to double India's share in global agricultural merchandise by 2020.

**Unit 28** deals with the theme of 'International Commitments'. The unit explains: (i) the areas of international concern in agricultural trade; (ii) issues of health/hygiene and technical standards; (iii) the path laid out for negotiations among WTO member countries in the Doha Development Agenda; (iv) the implications of 'international commitments' on Indian agriculture in particular; and (v) what steps India should take in order to benefit from the imperativeness of international trade commitments? As the concluding unit of the course, the two units of the block exposes you to the issues of foreign trade in agriculture, the opportunities in terms of trade liberalisation, the directions in which preparations are needed to be taken by India so as to be able to get the benefit from international trade in agriculture, etc.

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## UNIT 26 FOREIGN TRADE IN AGRICULTURAL GOODS

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### Structure

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### 26.0 OBJECTIVES

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After reading this unit, you will be able to:

- discuss the factors influencing international trade in agriculture;
- analyse the trends in India's agricultural exports/imports;
- specify the classificatory framework for agricultural exports/imports as provided in the India Trade Classification (ITC) Harmonised System (HS);
- distinguish between the trade policy instruments of 'quantitative restrictions' and 'tariffs' for their relative efficiency vis-à-vis their economic implications;
- state the major agricultural trade agreements signed by India; and
- indicate the elements of New Trade Policy (2009-14) highlighting the measures initiated for boosting our agri-exports;

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### 26.1 INTRODUCTION

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In the previous units of this course, you have read about the importance of agriculture in India's exports. For instance, in Unit 7 (section 7.4.3) you have read that the export earning from agriculture was more than 50 percent of our total export earnings but has come down in the recent years. This decline was despite an increasing trend in the total

volume of exports and imports in agricultural goods over time attributed to economic growth and diversification of the economy. Again, in Unit 20 (section 20.2.7) we noted that the global market for agricultural products is a different platform than the domestic market as the domestic producers need to conform to higher quality standards demanded by consumers in other developed markets/countries. In light of this, while it is important to adopt measures for boosting our agricultural exports, it is equally necessary to focus on strategies that are in consonance with the limitations and potential of our agriculture sector. Against this background, in the present unit we begin by taking a general look at the factors that govern the environment for international trade in agriculture. In doing this, we shall familiarize ourselves with the conditions that influence the international trade in agricultural goods impacting on the demand and prices of agricultural products. This is followed by a study of broad trends in our exports and imports of agricultural products. Subsequently, we shall study the priorities identified by the government to reorient our export of agricultural products under its New Foreign Trade Policy for Agri-exports aimed at boosting the share of Indian agricultural exports.

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## **26.2 FACTORS INFLUENCING TRADE IN AGRICULTURE AND ITS IMPLICATIONS**

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In order to understand the factors that influence trade between two nations we must first know about why countries trade? Countries engage in trade for a number of reasons. **One**, a country may be deficit in a particular resource or raw material (e.g. oil) which it attempts to make up through imports from countries rich in that resource in order to facilitate production of other goods or services that use the resource. **Two**, it could be the lack of capital and required technology in a country to produce value-added products like processed foods or machinery, equipments and industrial products and technology products (like cars, construction equipment and software). Countries which are abundant in labour tend to produce labour intensive products like clothing and consumer goods which are imported by countries that lack labour and where labour costs are high. Similarly, countries which have abundant land tend to produce land-intensive commodities like agricultural products. In short, countries tend to produce commodities in which they have a relative advantage and trade in other commodities.

Thus, (i) the diversity in natural resources, (ii) differences in consumer tastes and preferences, and (iii) differences in costs of production are the major factors that drive trade between nations. These factors that influence trade can therefore be broadly classified as (i) economic; (ii) policy related and (iii) institutional factors. These factors together determine the competitiveness of a country which affects its trade. Further, as these factors are dynamic and change over time, they result in changes in the types of commodities traded and the sources of imports and destinations of exports.

With the policies of globalisation, there has been a rapid growth in processed and high-value agricultural food products. This has in turn led to a revolutionary spread of retail super markets across countries. While this is described as a 'second wave' of globalization in the modern era, this has also given rise to issues connected with: (i) environmental degradation (i.e. air, water, bio-diversity, etc.), and consumer (including animal) welfare, (ii) climatic change, etc. These issues, coupled with the scope for using agricultural crops for biomass fuel, have kept the issue of agricultural trade high on the international agenda. In this scenario, major factors affecting international (or foreign) trade in agriculture can be broadly identified as follows.

### **26.2.1 Economic Factors**

Factors such as the levels of income and production as reflected by the gross domestic

product of a country, the level of prices in an economy, demand for commodities, cost of production of commodities and exchange rates are the major economic factors that influence trade between nations.

**Gross Domestic Product:** The gross domestic product (GDP) of a country reflects the level of economic activity (i.e. total goods and services being produced in an economy) and income in the country. This influences consumption levels and thus the demand for commodities. It is also an indication of the extent of industrialisation in the country and the level of development of infrastructure. A high GDP, therefore, implies high levels of income and production in the country. As GDP rises, imports may rise because: (a) demand for foreign consumer goods rises; and (b) foreign inputs may be a part of the goods produced in a country. This, in turn, drives exports. The GDP, in turn, is affected by trade as net exports are one component of a country's GDP ( $\text{GDP} = \text{consumption} + \text{investment} + \text{government expenditure} + \text{net exports}$ ).

**Demand, Supply and Prices:** The demand for agricultural commodities is influenced by the consumers' tastes and preferences. The supply of agricultural commodities depends upon the availability of resources and the production capabilities in terms of available technology. The prices of agricultural produce are influenced by demand-supply situation and efficiency of the markets. While the supply constraints (i.e. limited land area) in the face of demand growth (i.e. due to population and rising per capita income) contribute to pushing-up the farm product prices, productivity growth lowers the costs of farm production. However, for the productivity growth to result in lower prices for consumers, it is necessary that the productivity growth should out-pace the growth in food and non-food demand for agricultural produce. Further, inefficiencies in the markets affect the efficient distribution of agricultural produce (across regional and international boundaries) contributing to volatility in prices. In recent times, this feature has given rise to food-riots in countries experiencing food shortage. This is described as the 'corrosive economic impact of market instability'. These issues call for policy attention for facilitating agricultural trade barriers. Demand being dynamic, it is influenced by increased exposure and growing awareness induced by developments in communications. All these factors have resulted in rapid growth in processed and high-value agricultural food products in the recent decades. This has led to a revolutionary spread of organised retailing in food products across countries. So much so, this has been described as a 'second wave' of globalization in the modern era. This has also positively impacted imports of processed food products.

**Exchange Rates – Costs of Imports and Prices of Exports:** The exchange rate is the price of a currency in terms of another currency. Demand for a particular currency leads to fluctuations in the exchange rates. Exchange rates influence the costs of imports and the prices received for exports, thus affecting the terms of trade and the balance of trade. The relative prices of foreign and domestic commodities determine the demand for imports. If the price of a domestic commodity rises relative to the price of the same imported good because the country's currency exchange rate appreciates, then the demand for the foreign commodities increases. Similarly, a country's exports will depend upon the importing country's output and prices relative to those commodities.

**Commodity Prices and Terms of Trade:** Due to the perishable nature of goods and poor storage facilities in developing countries, the gains of rise in agricultural productivity do not get passed on to producers/consumers to the extent it is warranted by higher productivity. The lacuna on this front results in the appropriation of productivity gains by the processors who in most cases are industrialists with capital and storage facilities. This is not so for industrial goods as the markets for these goods are not only imperfect but the products can easily be stored due to their non-perishable nature. This allows

the manufacturers to retain the benefit from productivity increases. In other words, there is a tendency for the 'terms of trade' to go against the 'rural periphery' and in favour of the 'industrial centres'. Due to these reasons, the upward movement of agricultural prices (witnessed in the recent past for many years at a stretch), is feared to prevail on a long-term basis. Globally, this upward trend is attributed largely to three main phenomena viz. (i) rapid growth in emerging countries (like China, India and Brazil) with its implication for dietary improvements; (ii) volatility in oil prices raising energy costs in agriculture which in turn have led to governmental subsidies for bio-fuel manufacture; and (iii) the apparent stagnation in technical progress in agriculture due to declining research expenditures. With the highly populous and emerging economies becoming food self-sufficient, their need for food imports would be minimised. This would have implications for food prices in international markets.

### **26.2.2 Policy Related Factors**

Policies are formulated and implemented by countries to facilitate or to restrict trade and also to meet international commitments. The instruments used are various forms of taxes or other barriers to encourage or restrict trade. Restrictions on trade are usually necessitated by the need to protect domestic producers or industries. Relaxations are provided to encourage exports and generate a conducive environment for industries producing for the export markets. Certain policies are necessitated by the need to meet international commitments such as market access and tariffication under the WTO regime which are discussed in more detail in the next Unit.

**Taxes and Tariffs:** Taxes are an important policy instrument used to regulate trade. A tariff is a tax that is imposed on an imported commodity. A tariff applied on a commodity that is also produced domestically generates revenue for the country which can be used for government expenditure. In situations where domestic producers are likely to be negatively affected by imports, high tariffs are applied in order to make the imported commodity more costly and discourage such imports. The opposite is the case for a commodity which is not produced in adequate amounts required for domestic consumption. For instance, in the case of edible oils the government of India has kept the tariffs low as domestic production of oilseeds and edible oils is insufficient to meet the demand. Through such a policy, not only the interests of domestic producers are safeguarded but they are also motivated to increase the domestic production.

**Non-tariff Barriers to Trade:** Non-tariff barriers can take several forms such as: (i) a complete ban on imports; (ii) import quotas and quantitative restrictions; (iii) and food safety and quality restrictions. When a particular commodity or industry needs to be protected or when the domestic consumers' welfare is at stake, a complete or partial ban may be imposed on exports or imports of a commodity. Among agricultural commodities in recent years, this measure has been resorted to from time to time in case of rice exports. Quantitative restrictions in the form of limits on quantities that can be imported in a given year have been used to restrict imports of commodities in order to protect domestic farmers. Under the WTO stipulations, however, all member countries have to remove all quantitative restrictions in a phased manner and undertake tariffication.

An important form of non-tariff barrier that has emerged after the WTO came into existence relates to restrictions of imports on grounds of safety and quality. Another contentious issue is the use of subsidies for promoting exports. Many countries continue to subsidise exports thus making their products cheaper than the importing countries domestic commodities.

**Export Policy and Market Instability:** Discouraging agricultural imports with a view to protecting the domestic cultivators against undesired imports (a phenomenon called ‘dumping’ by countries with excess production not only to off-load food stock but also as a result of aggressive export policies of selling goods below the production cost to capture markets) and encouraging subsidised exports for achieving an export-push have been policies pursued by many countries. In India, higher exports of foodgrains have been a feature since the 1990s. This has been despite the fact that the prices that our grains have received in the global market have been much less than the standard international prices. For instance, in 2001, wheat was sold for \$103 per tonne whereas the ruling price at that time was \$130. A surprising feature of export-push policy is that such exports are heavily subsidised. For instance, in 2001, the economic cost for a tonne of wheat was Rs. 8300 to the FCI while it was exported at a price of Rs. 4000 per tonne. More recently, in 2012, a decision to export excess stock of wheat at a huge subsidy of Rs. 1 billion was taken. Such a move has raised concerns by some activists who are against such exports in the face of serious malnutrition existing within the country. However, the ‘economic rationale’ of such policies are linked to factors like: (i) the estimated loss (at Rs. 20,000 crore) to the exchequer on account of loss of foodgrains stored unscientifically due to rodents, moisture, etc. is huge; (ii) the contribution to inflation is assessed as more from the supply/price of commodities like sugar, cereals and vegetables and least from foodgrains like wheat/rice due to which export of surplus wheat is considered prudent; and (iii) internationally, there is a deficit in supply due to chronic drought experienced in some of the wheat exporting countries like USSR. Further, the requirement to meet the commitments of the National Food Security Act (vide unit 19, section 19.5.4), is much less than the current stocks in the FCI godowns. Nonetheless, it is a fact that countries adopt practices of levying export taxes for maintaining stability of supply within a country and impose high tariffs to protect the domestic producers from such imports. Such practices, however, lead to international market instability by creating a situation of surplus farm products in some countries and shortage of foodgrains in some other countries. In other words, besides lowering the transmission of price movements between domestic and international markets, the very rationale for production of goods by a country with comparative advantage for optimum welfare is defeated by such policies.

**Domestic Concerns Versus International Trade Compulsions:** Policies for establishing a balance between the domestic objectives of food security, market stability and minimising macroeconomic imbalance (caused by heavy agricultural subsidies) with those of easing trade barriers for international trade in agriculture have to contend with domestic political compulsions. Further, the domestic policies of countries have been influenced by significant sums of money spent by lobbyists standing to gain from policies of protectionism. Studies have established close links between the compulsions for policies to cater to domestic agricultural concerns on the one hand and the negative spillovers of such policies to the preferred environment for international trade in agriculture on the other. A critical dimension for the establishment of required equation between the two is that of ‘how crude oil prices influence food prices’. To establish a threshold price of crude oil at which food prices become further unaffected by it, the prospects of bio-fuel from agriculture has surfaced as a potential variable into the trade equation.

### 26.2.3 Institutional Factors

Infrastructure for trade, both imports and exports, plays a major role in determining the level of trade of a country. In case of agricultural trade, infrastructure gains importance because of the perishable nature of the commodities. Efficient transportation and handling facilities are essential pre-requisites for agricultural trade. So is efficient communication



infrastructure. In the case of commodities like fruits and vegetable and flowers, cold chains play a very important role in maintaining the quality of the produce and enhancing its shelf life.

Along with the physical infrastructure, facilities for treatment of commodities for ensuring certain quality parameters also influences international trade. For example, several countries require fruits to be vapour-heat- treated before they are accepted.

**Check Your Progress 1** [answer in about 50 words using the space given]

- 1) State in brief the two reasons why countries engage in foreign trade.

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- 2) What are the major factors which influence foreign trade in agricultural goods?

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- 3) State the condition which needs to be met in order that the benefit of productivity increase in agriculture can reach the consumers in the form of lower prices.

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- 4) Which phenomenon of recent occurrence is described as the ‘corrosive impact of market instability’? What are the economic factors that have primarily contributed for its occurrence?

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- 5) Which are the features of product/market, distinguishable between agricultural and industrial goods, that affect the terms-of-trade to go against agriculture?

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6) State the three main global phenomena which are feared to keep the upward trend in agricultural prices to continue to prevail. How would this affect the food prices in the international market?

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7) What is dumping? What is the main reason why it is practiced?

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8) What has been the concern of activists on the recent decision of Indian government to export subsidised foodgrains? What economic rationale could you indicate for such a decision?

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9) State the two consequences of curtailing exports/imports of agricultural products by taxes/tariffs on international markets?

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10) What dimensions of domestic concerns have had to be contended with in evolving policies required for the establishment of a preferred environment conducive for international trade in agriculture?

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11) How are institutional factors especially important in international trade in agriculture?

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## 26.3 INDIA'S AGRICULTURE TRADE

For analysing the changing trends in India's agricultural trade, we need to know about the sources of data on India's exports and imports. The Directorate General of Commercial Intelligence and Statistics (DGCIS) under the Ministry of Commerce compiles the data on trade. These are published regularly in monthly and annual time series. Annual data are also available on the website of the Ministry of Commerce. Publications of many other organisations like the RBI, Ministry of Finance (MoF), Central Statistical Organisation (CSO), etc. also report trade data. In particular, the RBI publishes the data on trade in its publication on the Handbook of Statistics on the Indian Economy, the MoF in its Annual Economic Survey reports and the CSO in its annual publication Statistical Abstract. While these publications contain mostly broad annual data, detailed information by commodity (called HS data outlined below) and sources of imports and destination of exports (which indicates direction of trade) are available in the DGCIS publication. The data on exports of agricultural and allied products are published for 15 principal commodity groups, viz. (i) tea, (ii) coffee, (iii) rice, (iv) wheat, (v) cotton, (vi) tobacco, (vii) cashew, (viii) spices, (ix) oil, (x) fruits and vegetables, (xi) processed fruits and juices, (xii) marine products, (xiii) sugar & molasses, (xiv) meat products, and (xv) other agricultural products. The corresponding data on import of agricultural and allied products are published under four broad commodity heads viz. (i) cereals and related products, (ii) edible oils, (iii) pulses, and (iv) sugar. While these relate to goods classified under 'bulk consumption goods' (like food, agricultural raw materials, cotton tobacco, etc.), a few other agri-items imported like paper, crude rubber and pulp are separately published under 'other bulk items'. In the analysis of India's imports discussed in section 26.3.2 below, the above three items are clubbed under 'others' making the imported items under agriculture and allied products a total of five commodity groups. The data on both exports and imports for these specified commodity items are published separately in rupees and dollar terms. Analysis of trade may also require trade data for other countries. Such international data on trade are available from the World Bank and the Food and Agriculture Organisation (FAO). FAO's website carries data on various aspects under the name of FAOSTAT. Commodity-wise and country-wise data can also be accessed at the website of the International Trade Centre, Geneva.

From the point of view of data/information on trade statistics, the publication on 'India Trade Classification (Harmonised System)' [ITC (HS)] of exports and imports [published by the Directorate General of Foreign Trade (DGFT), Ministry of Commerce] is another important source of data. For agriculture and allied products, we can illustrate the classification made in the ITC (HS) at two levels viz. sections and chapters. At the broad 1-digit sectional level, the ITC (HS) makes four classification for agricultural and allied products viz.: I – live animals, animal products, etc.; II – vegetable products; III – animal or vegetable fats and oils, etc.; and IV – prepared food stuffs, beverages, etc. At the second level (at 2-digit level) of disaggregation, called HS chapters, the agricultural products are further distributed into eight processed food products (codes within brackets) viz.: (i) dairy products, eggs, honey, etc. (04); (ii) animal & vegetable fats and oils, etc. (15); (iii) preparations of meat, fish, etc. (16); (iv) sugar and sugar confectionery (17); (v) cocoa and cocoa products (18); (vi) preparations of cereals, starch or milk, pastry cook products (19); (vii) preparations of vegetables, fruits, nuts, etc.; and (viii) miscellaneous edible preparations (21). At the highest level, the commodities are classified at the 6-digit level in the ITC (HS). The ITC (HS) codes are modified and updated from time to time to account for change in technology/products.

We shall now study the trends in India's agricultural exports and imports with a focus on understanding: (i) the trends in exports of agricultural commodities as a ratio of total exports/imports i.e. exports/imports in agriculture plus non-agricultural commodities; (ii) the leading products which dominate the exports in terms of their relative share/rank; and (iii) the growth rate in exports/imports over specified 5-yearly time periods of 1990s/2000s.

### 26.3.1 Trends in Exports

Over the period 1996-2011, there is a declining share in the total value of agricultural exports expressed as a percentage of total exports for 'all products' (Table 26.1). The decline is from 20.5 percent in 1996-97 to 9.7 percent in 2010-11. There is an increase in this respect to 12.3 percent in the year 2011-12. While this decline is in relative terms, in terms of absolute values (and at current prices), however, there is a steady increase in the total value of agricultural exports by more than 4.5 times (from Rs. 243.6 billion in 1995-96 to Rs. 1103 billion in 2010-11) over 1996-2011 and by 7.4 times when we consider the provisional figures for 2011-12. The other inferences that can be drawn from the data in this regard are as follows.

**Table 26.1: Export of Principal Commodities in Agricultural and Allied Products – 1997-2012**

(Rs. in billions)

| Commodity  | 1996-97         | 2000-01         | 2005-06         | 2010-11         | 2011-12          |
|--|-----------------|-----------------|-----------------|-----------------|------------------|
| 1. Tea   | 10.4            | 17.9            | 17.3            | 33.5            | 41.4             |
| 2. Coffee  | 14.3            | 11.9            | 15.9            | 30.1            | 45.3             |
| 3. Rice  | 31.7 (III)      | 29.3 (III)      | 62.2 (III)      | 115.9 (IV)      | 241.2 (II)       |
| 4. Wheat   | 7.0             | 4.2             | 5.6             | 0.01            | 10.2             |
| 5. Cotton  | 15.8 (V)        | 2.2             | 29.0 (V)        | 131.6 (II)      | 216.2 (III)      |
| 6. Tobacco   | 7.6             | 8.7             | 13.3            | 39.9            | 40.1             |
| 7. Cashew  | 12.9            | 20.5 (V)        | 25.9            | 28.5            | 44.5             |
| 8. Spices  | 12.0            | 16.2            | 21.2            | 80.4            | 131.8            |
| 9. Oil   | 35.0 (II)       | 20.5 (IV)       | 48.8 (IV)       | 110.7 (V)       | 117.6            |
| 10. Fr. & Veg. (F&V)                                     | 5.8             | 8.4             | 21.3            | 49.1            | 57.1             |
| 11. Processed fruits/juices                              | 10.9            | 13.2            | 15.9            | 36.7            | 54.6             |
| 12. Marine products                                      | 40.1 (I)        | 63.7 (I)        | 70.4 (II)       | 119.2 (III)     | 165.9 (IV)       |
| 13. Sugar & Molasses                                     | 10.8            | 5.1             | 6.0             | 56.3            | 89.8             |
| 14. Meat and related                                     | 7.1             | 14.7            | 27.5            | 89.6            | 141.1 (V)        |
| 15. Others   | 22.5 (IV)       | 36.6 (II)       | 72.0 (I)        | 181.5           | 396.5            |
| <b>A: Total (1 to 15)</b>                                | <b>243.6</b>    | <b>272.9</b>    | <b>452.2</b>    | <b>1103.0</b>   | <b>1793.3</b>    |
| Share of Top Five Ranking Products (%)                   | 145.1<br>(59.6) | 170.6<br>(62.5) | 282.4<br>(62.5) | 658.9<br>(59.7) | 1160.9<br>(64.7) |
| <b>B</b> Total Exports (Agricultural + non-agricultural) | 1188.2          | 2035.7          | 4564.2          | 11429.2         | 14592.8          |
| <b>A as % of B</b>                                       | <b>20.5</b>     | <b>13.4</b>     | <b>9.9</b>      | <b>9.7</b>      | <b>12.3</b>      |
| Agl. exports indexed to 1995-96 = 100                    | 100.0           | 111.9           | 185.4           | 452.2           | 735.3            |
| <b>5-yearly Growth Rate (%)</b>                          | -               | <b>2.3</b>      | <b>10.6</b>     | <b>19.5</b>     | -                |

Source: RBI, Handbook of Statistics on the Indian Economy, 2012.

Note: (i) Roman numbering within brackets denote the top five products in value terms.

(ii) Figures for 2011-12 are provisional.

- 1) The top five leading products which together account for nearly 60 percent of agricultural exports include: rice, cotton, oil and marine products. The other product in this group is that of the miscellaneous items clubbed under 'others' whose share in the overall agricultural exports have steadily increased over 1996-2012 to occupy the top position among all the commodity items in agriculture. The top position had been attained by this 'other products' group by the year 2005 and has since increased steadily by 5.5 times over the years 2006-12.
- 2) Other products which have steadily increased their exports are: tobacco, cashew, spices, fruits & vegetables, processed fruits and juices and meat & meat products.
- 3) Indexing the value series (to 1995-96 = 100 by applying the multiplying factor  $100 \div 243.6$  i.e. the value for the base year) for enabling the temporal comparison of growth rates over the three five-year periods of 1996-2000, 2000-05 and 2005- 10 (or 1997-2011 by taking the terminal year points), we see that the agricultural exports over the period 1996-2010 have steadily grown at a compound annual average of 2.3 percent, 10.6 percent and 19.5 percent respectively. By these trends, the period of 2005-10 has been the most productive for agricultural exports.
- 4) The long term average compound annual growth rate in agricultural exports over the 15-year period of 1997-2011 is 10.6 percent and over the 16-year period of 1997-2012 it is 13.3 percent. Such a long term growth rate evens out the year-to-year variations and provides a more balanced picture of the export performance. By this yardstick, the Indian agricultural exports have performed steadily better particularly over the later years of 2000.

### **26.3.2 Trends in Imports**

The trend in the value of agricultural imports has increased from Rs. 75.3 billion in 1996-97 to Rs. 866.2 billion in 2011-12 (at current prices). The increase is by 11.5 times over the 17-year period of post-reform years i.e. over 1996-2012 [Table 26.2]. However, as a proportion of total agricultural imports with that for 'all products', it has declined from 5.4 percent in 1996-97 to 3.7 percent in 2011-12. In terms of commodity products, bulk of our imports is for 'edible oils' followed by other agri-products (i.e. 'others') and pulses. The relative shares of cereals and sugar are very small. In particular, in 2011-12, the combined relative share of cereals and sugar has shrunk from 5.3 percent in 2010-11 to less than 1 percent in 2011-12. [Note: These percentages, not reflected in Table 26.2, can be calculated by taking the totals in **A** as 100]. Converting the value of agricultural imports to a constant base (of 1996-97 = 100) so as to off-set the effect of rise in prices and afford temporal comparison, we can draw three other inferences as follows.

- 1) The 5-yearly average annual growth rates in agricultural imports have increased from 7.2 percent over 1996-2000 to 14.4 percent during 2000-05 and to a further high of 24.9 percent over 2005-10;
- 2) The percentage of total agricultural foreign trade (i.e. imports + exports) to total agricultural & allied GDP exports (last row: Table 26.2) has increased from 9 percent in 1996-97 to 18.8 percent in 2011-12. These trends are indicative of the gradually growing liberalisation of trade regulations in agriculture; and
- 3) Comparing the two totals in agricultural exports and imports (**C** and **A** in Table 26.2), we see that India has consistently been a net-exporter of agricultural commodities (i.e.  $C - A > 0$ )

**Table 26.2: Import of Bulk Consumption Goods in Agricultural and Allied Products – 1997-2012**

(Rs. in billions)

| <b>Commodity</b>                                       | <b>1996-97</b> | <b>2000-01</b> | <b>2005-06</b> | <b>2010-11</b> | <b>2011-12</b> |
|--|----------------|----------------|----------------|----------------|----------------|
| <b>1</b>   | <b>2</b>       | <b>3</b>       | <b>4</b>       | <b>5</b>       | <b>6</b>       |
| 1. Cereals and related                                 | 4.9            | 0.9            | 1.6            | 5.5            | 3.4            |
| 2. Edible oils   | 29.3           | 59.8           | 89.6           | 298.6          | 462.4          |
| 3. Pulses  | 8.9            | 5.0            | 24.8           | 71.5           | 87.7           |
| 4. Sugar   | 0.03           | 0.3            | 6.5            | 27.9           | 3.1            |
| 5. Others  | 32.2           | 40.4           | 85.5           | 228.9          | 309.6          |
| <b>A: Total (1 to 5)</b>                               | <b>75.3</b>    | <b>106.3</b>   | <b>208.0</b>   | <b>632.4</b>   | <b>866.2</b>   |
| <b>B Total Imports (All Products: Agl. + non-Agl.)</b> | 1389.2         | 2308.7         | 6604.1         | 16834.7        | 23459.7        |
| <b>A as % of B</b>                                     | <b>5.4</b>     | <b>4.6</b>     | <b>3.1</b>     | <b>3.8</b>     | <b>3.7</b>     |
| Agl. imports indexed to 1995-96 = 100                  | 100.0          | 141.4          | 276.7          | 841.1          | 1152.0         |
| 5-yearly Growth Rate (%)                               | -              | 7.2            | 14.4           | 24.9           | -              |
| <b>C Total Agl. Exports</b>                            | 243.6          | 272.9          | 452.2          | 1103.0         | 1793.3         |
| <b>Total Trade (A + C)</b>                             | 318.9          | 379.2          | 660.2          | 1735.4         | 2659.5         |
| <b>D Agl. &amp; Allied GDP</b>                         | 3531.42        | 4606.08        | 6377.72        | 12698.88       | 14173.66       |
| <b>Ratio of C to D (%)</b>                             | <b>9.0</b>     | <b>8.2</b>     | <b>10.4</b>    | <b>13.7</b>    | <b>18.8</b>    |

Source: RBI, Handbook of Statistics on the Indian Economy, 2012.

Note: Others include: paper, rubber, pulp, etc. agri-products

**Check Your Progress 2** [answer in about 50 words using the space given]

1) Which three government sources publish data on India's agricultural trade? Which is the principle agency that collects this data?

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2) What are the first two levels in which the ITC (HS) publishes the data on trade called as? State the names of the eight agricultural products that are included in the ITC (HS) in its second level of classification.

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3) State the principal agricultural and allied commodities for which data on exports is published.

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- 4) What are the five broad commodity heads on which data on import of agricultural and allied products published?

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- 5) Over the period 1996-2011, what has been the trend (in percentage terms) in our agricultural exports?

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- 6) Identify the five top agricultural commodities which have together dominated and led the Indian exports? Which of these have steadily improved its rank/share in the recent years?

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- 7) For making temporal comparison of agricultural growth over different time periods, what particular precaution needs to be taken by way of computational need? Illustrate how this adjustment is effected in a data series for the data on agricultural imports presented in Table 26.2.

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- 8) In terms of growth rate in agricultural exports, over the period 1996-2012, which particular sub-period has been the most productive for the Indian agricultural exports?

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- 9) Over the long term period of 1997-2012, what has been the rate of growth in agricultural exports? What does this growth rate indicate on the overall export trend for agricultural products in India?

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- 10) Indicate the broad trend in agricultural imports over the period 1997-2012.

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- 11) In terms of commodity groups, in the years 2010-11 and 2011-12, what has been the trend in the combined share of cereals and sugar imports?

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- 12) What does the trend in the ratio of 'total agricultural foreign trade' to 'total agricultural & allied GDP' convey for the period 1997-2012?

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## 26.4 TRADE POLICY

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The trade policy in India is governed by the provisions specified in the export-import policy (or the EXIM Policy) announced by the Ministry of Commerce and Industry. The broad EXIM policy is announced once in five years. The present EXIM policy covers the period 2009-14. The EXIM policy is updated every year on the 31<sup>st</sup> of March and the modified procedures announced become applicable from the 1<sup>st</sup> of April of each year. Such modifications incorporate the announcement made in the general budget in which measures like: (i) slashing/increasing of customs duties to make imports cheaper/costlier; (ii) levying of additional duties or its lowering to make the exports costlier/cheaper; (iii) changes inbound tariff rates; etc. are announced. Having followed a closed door import-substitution policy till the beginning of 1980s, India entered into a partial phase of trade liberalisation first for industrial goods in the 1980s and later towards the second half of 1990s for agricultural goods. In view of this, our



focus on studying the liberalisation policies in agriculture would be confined to measures initiated in the post-1990s. Further, in view of the two specific instruments viz. imposition of: (i) quantitative restrictions; and (ii) tariffs [commonly used in controlling the foreign trade], we shall mainly focus on the changes in these two respects. The other area of policy pursuit relates to bilateral and multilateral agreements reached between countries to promote trade. In light of this, we shall be including in our review in this section an illustrative account of some specific agreements.

### **26.4.1 Quantitative Restrictions and Tariffs**

Conceptually, quantitative restrictions usually refer to ‘quotas’. The economic impact of import quotas, in particular, is to make domestic prices for imported goods costlier. Tariffs on the other hand impose a duty or levy on the imported or exported goods without restricting the quantity of imports or exports. Thus, while the effect of imposing a ‘tariff’ on the price of the commodity is similar to quotas, there is also a major difference between the two. The difference is that while the tariff yields revenue to the government, quotas do not yield any revenue. On the contrary, if it is an import tariff it helps importers to earn higher profits at the cost of a distortion in price levels. This is particularly true in the case of monopoly in the market as an ‘import quota’ results in higher domestic price than with an ‘import tariff’. In other words, the cost of quota for the importing countries is higher than that of tariffs. The revenue generating function is thus the distinguishing characteristic of tariffs in addition to the fact that it is an easier instrument for use in trade negotiations.

The pace of reforms in agriculture picked up in India after 1993-94. The taxation on agricultural imports in India consist of three components viz. (i) a basic duty, (ii) an additional countervailing duty (equal to VAT and other taxes applicable to similar products produced domestically), and (iii) a surcharge of 2 percent (the revenue from which is used for primary education funding including mid-day meals to school children). The rates of tariff on these three components have varied over the years. In keeping with the WTO guidelines, the quantitative restrictions on the import of agricultural commodities like: (i) wheat and wheat products; (ii) rice; (iii) pulses; and (iv) oilseeds were removed soon after 2000. By the year 2005-06, the average tariff for the eight HS-chapter agricultural products (indicated above) had been substantially reduced with the average tariff for the ‘eight processed food HS-chapters’ being brought down to 37.6 percent. In terms of the rates for specific products, however, the total import tariff applied for food products (in 2005-06) ranged from 30 percent (for cocoa and cocoa preparations and miscellaneous edible preparations) to 75.5 percent (for animal & vegetable fats and oils) [Table 26.3].

Import of food products were particularly encouraged in two situations viz. (i) continuous shortage in the domestic supply of certain food items (e.g. pulses) or (ii) a temporary disruption in the supply disturbing the functioning of domestic processing industries (e.g. cotton and sugar). Although the reduction in the total import tariff was substantial for food products (compared to the levels prevailing before: e.g. the peak average tariff for agricultural commodities in 1986 was 150 percent and in 1992 it was 115 percent), considering that in 2006-07 nearly 90 percent of industrial tariffs were at 12.5 percent, the tariffs for agricultural products (at 37.6 percent) were still three times higher than the average level of tariffs applicable for non-agricultural goods. The margin of difference in this respect between the agricultural and non-agricultural goods was consistent with the facts that: (i) the opening up of the markets for industrial goods was begun earlier; and (ii) the agricultural markets were not only opened up a few years later but was meant to be kept insulated from competitive pressures by a policy of gradual opening-

up of the sector in stages. The latter, in particular, is due to reasons of domestic concerns peculiar to the agrarian character of Indian economy where a majority of workers are not only dependent on subsistence agriculture but the institutional support systems required for improving their efficiency/productivity levels are as yet not adequately developed.

**Table 26.3 Average Tariffs (%) for Processed Food Products in India :  
2005-06**

| HS Chapter Code | Description of Food Product in the HS Chapter  | Average Tariff (%) |
|-----------------|--|--------------------|
| 04              | Dairy products, eggs, honey, etc.              | 34.1               |
| 15              | Animal & vegetable fats and oils, etc.         | 75.5               |
| 16              | Preparations of meat, fish, etc.               | 34.1               |
| 17              | Sugar and sugar confectionery                  | 35.4               |
| 18              | Cocoa and cocoa preparations                   | 30.0               |
| 19              | Preparations of cereals, starch or milk, etc.  | 31.2               |
| 20              | Preparations of vegetables, fruits, nuts, etc. | 30.2               |
| 21              | Miscellaneous edible preparations              | 30.0               |
|                 | <b>Average of 8 processed food chapters</b>    | <b>37.6</b>        |

Source: WB, 2008, p-12.

### 26.4.2 Trade Agreements

Trade agreements are contractual arrangement between two or more states. They are called bilateral trade agreements (BTAs) if the involvement of countries are limited to two and multilateral trade agreements (MTAs) if the number of countries involved are more than two. In most countries, international trade is regulated by barriers like tariffs, nontariff barriers like QRs, etc. Trade agreements aim at reducing such barriers establishing the required 'level playing field' for trade related benefits for the countries involved. The extent of concessions decided determines whether the agreement is a free trade agreement or a preferential trade agreement. In view of the fact that neither of the countries would become a signatory to a trade agreement unless there is a perceived gain, *reciprocity* is a necessary feature of all trade agreements. Another common feature is that of the most-favoured nation (MFN) clause which prohibits the possibility that a signatory to the agreement can later offer a lower tariff benefit to another country. Trade agreements usually also include the 'national treatment of nontariff restrictions' clause by which is meant that the countries involved would not undo the offered tariff benefits with the imposition of non-tariff barriers like: (i) discriminatory regulation; (ii) selective excise taxes; (iii) quotas; or (iv) special licensing requirements.

India has so far concluded more than 40 trade agreements of which about 11 (or 27 percent) are MTAs and 30 (73 percent) are BTAs. For instance, the agreements SAFTA (South Asia Free Trade Agreement) and APTA (Asia Pacific Trade Agreement) are MTAs. Another example of a MTA is the Mercosur Preferential Trade Agreement (MPTA) signed between India and the group of four Latin American countries (viz. Brazil, Argentina, Uruguay and Paraguay) in which 14 agro-food commodities exported from Mercosur countries to India and 11 agro-food products exported from India to the Mercosur countries are accorded preferential treatment. Among the BTAs, the Comprehensive Economic Cooperation Agreement (CECA) between India and

Singapore is an example where agro-food items have been included for liberalised tariff treatment. Significantly, in the CECA between India and Singapore, out of a total of 11,666 products, as many as 1446 (i.e. 12.4 percent) products are agro-food items.

### **26.4.3 New Foreign Trade Policy (2009-14) and Agri-Exports**

The new Foreign Trade Policy announced for the period 2009-14 has two main objectives viz. (i) doubling of India’s exports of goods and services by 2014; and (ii) doubling of India’s share in global merchandise (which was about 1.5 percent in 2008) by 2020. The policy seeks to encourage exports through a mix of measures like: (i) fiscal incentives, (ii) institutional changes, (iii) procedural rationalisation and (iv) efforts to enhance market access by diversification of export markets. In particular, to boost India’s agri-exports, a special scheme by the name of ‘Special Agriculture and Village Industry Scheme’ (or Vishesh Krishi and Gram Udyog Yojna: VKGUY) has been launched. To accommodate the policy’s objective of promoting employment generation in rural and semi-urban areas, the VKGUY aims at exporting the: (i) agriculture produce and their value-added products; (ii) minor forest produce and their value-added variants; and (iii) other products as notified from time to time. Further, to reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced under the new trade policy.

### **26.4.4 Adverse Impacts**

There are also adverse impacts of trade policy aimed at boosting exports. These are experienced in the short run when the institutional systems are not well established to support and protect the small farmers. Such impact arises due to change in tastes and preferences of people leading to rise in demand for specific type of goods, switchover in cultivation practices due to expected demand but a sudden dip in demand/prices due to change in conditions, etc. For instance, misleading price signals contributed to cropping pattern shifts for vanilla in Kerala, soyabean in Maharashtra, etc. In fact, the prices of all other crops grown in Kerala was falling while only that of vanilla was rising. The abnormal increase in the price of vanilla was due to a sudden fall in production in Madagascar (the highest vanilla exporting country). However, with the production getting resumed in Madagascar the change in situation reduced its price steeply with the domestic producers in Kerala who had switched over to produce vanilla, not being able to switch-back their production to their earlier crop (coffee). Such situations lead to undue hardship to mitigate which a well charted and deeply penetrated crop insurance scheme supplemented by other institutional systems are needed. As noted in the previous units, many such support systems are developing gradually but are not as yet well developed in India. These and other matters of international relevance need to be duly catered to by suitable policy and institutional mechanisms. We will study more about them in the concluding unit (unit 27) of this course.

### **Check Your Progress 3 [answer in about 50 words using the space given]**

- 1) What are the two specific instruments used for regulating foreign trade? Which one of these is more preferred and why?

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2) Which particular feature of ‘tariffs’ distinguishes it from ‘quantitative restrictions’ (QR)? How does an ‘import tariff’ influence the price levels?

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3) For which four specific products the QRs on agricultural imports were removed by the year 2001 in India?

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4) By the year 2005-06, to what extent the average tariff for the ‘eight processed HS-food chapters’ had been brought down in India? Despite this reduction, how did it compare with the corresponding level of tariff for non-agricultural goods?

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5) In which two situations, import of food products are particularly encouraged in India?

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6) Do you think that the differential in tariff rates between the agricultural and non-agricultural goods was consistent from a policy angle? If so, what rationale could you suggest in support of this?

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7) Distinguish between the BTAs and MTAs. What is the general aim of trade agreements? What is a necessary feature of all trade agreements?

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8) What is meant by the MFN status? What does the inclusion of MFN clause essentially imply for a signatory country?

9) State one example each of BTA and MTA concluded by India in agriculture.

10) Mention the two specific objectives of India's New Foreign Trade Policy (2009-14)? Which is a particular scheme introduced in it to boost India's agri-exports?

11) Mention the situations under which the policy of promoting agri-exports could work against the interests of some farmers. What measures are required to protect them from such situations?

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## 26.5 LET US SUM UP

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Theoretically, in periods of high economic growth, the pace of foreign trade also is expected to increase. Consistent with the high growth rates experienced by the Indian economy, this expectation is borne true in respect of foreign trade in Indian agriculture for the period 1996-2012. India has adopted the policy of gradual opening up of its agricultural sector to foreign trade. In its first phase of liberalisation of the sector, it removed the quantitative restrictions on agricultural commodity imports by the year 2001. Later, import tariffs for agricultural products was reduced. The long term average growth of agricultural exports over the period of 1996-2012 is 13.3 percent and that in agricultural imports 11.5 percent. Considering the combined volume of exports and imports, and relating it to total agricultural GDP, the extent liberalisation of trade achieved in Indian agriculture over the period 1996-2012 is seen to be a significant

two times i.e. from 9 percent in 1996-97 to 18.8 percent in 2011-12. Further, the government has instituted a 'Special Agricultural Produce Scheme' and taken measures to set up exclusive Agricultural Export Processing Zones for promoting the agricultural exports from the country. By these measure, it aims at doubling its current share of global exports by 2020. The government has also concluded many bilateral and multilateral trade agreements in which the share of agricultural commodities is gradually increasing. While these steps are expected to increase India's share in global trade, there would be adverse impacts of such policies too in the short run. To counter such adverse impact, expansion of institutional support systems on the fronts of agricultural insurance and strengthening the various other support services are needed.

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## 26.6 KEY WORDS

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### Tariffs

: Tariffs are customs duty levied on imported goods. They give a price advantage to locally produced (i.e. domestic) goods over similar goods which are imported. They also provide revenue to the government. The 'Uruguay Round' of WTO talks committed the countries to cut 'tariffs' and 'bind' their customs duty to rates beyond which their increase would not be a unilateral affair. The subsequent round of talks in Doha continued the efforts in this direction on 'agricultural and non-agricultural' market access.

### Quantitative Restrictions (QR):

Commonly refers to 'import quotas'. They restrict the volume of goods that can be imported by laying a ceiling on the quantity that can be imported. The effect of QR is the same as that of import tariffs i.e. higher domestic prices for imported goods.

### The ITC-HS System

: Refers to the 'harmonized commodity description and coding system' for trading commodities. As trade between countries expanded, the need for such a harmonised or uniform classification was felt. As a result, in 1988 the HS system was evolved as a system of six-digit classificatory framework for commodities that are traded between countries. It is thus a classification assigned to goods along with a tariff rate. The HS classification are reviewed on a regular basis so as to keep pace with technological development. The signatories to this international convention are not allowed to modify the scope of the 'sections, chapters, heading or sub-headings of the harmonised system'. This is done with the objective of maintaining a uniform administration of the HS. The abbreviation ITC-HS stands for India Trade Classification – Harmonised System.

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## 26.7 SOME USEFUL BOOKS AND SELECT REFERENCES

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- 1) Economic Survey 2012, Ministry of Finance, Government of India.
- 2) Handbook of Statistics on the Indian Economy, RBI, Government of India.
- 3) OECD (2007), Agricultural Policies in Non-OECD Countries, Chapter 5 – India, pp 92-94.
- 4) World Bank (2008), Trade Policy Overview Report, Chapter 3. [<http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1168296540386/ch3.pdf>]
- 5) Understanding International Trade in Agricultural Products: One Hundred Years of Contributions by Agricultural Economists, American Journal of Agricultural Economics, Vol. 92 (2), January 2010, pp 424-446.

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## 26.8 ANSWERS/HINTS FOR CYP EXERCISES

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### Check Your Progress 1

- 1) See section 26.2 and answer.
- 2) See section 26.2 and answer.
- 3) See section 26.2.1 and answer.
- 4) See section 26.2.1 and answer.
- 5) See section 26.2.1 and answer.
- 6) See section 26.2.1 and answer.
- 7) See section 26.2.2 and answer.
- 8) See section 26.2.2 and answer.
- 9) See section 26.2.2 and answer. [international market instability and lowered transmission of price movements between domestic and international markets].
- 10) Food security, market stability, macroeconomic balance and bio-fuel subsidies.
- 11) See section 26.2.3 and answer.

### Check Your Progress 2

- 1) See section 26.3 and answer.
- 2) See section 26.3 and answer.
- 3) See section 26.3 and answer.
- 4) See section 26.3 and answer.
- 5) See section 26.3.1 and answer.
- 6) See section 26.3.1 and answer.
- 7) See section 26.3.1 and answer.

- 8) See section 26.3.1 and answer.
- 9) See section 26.3.1 and answer.
- 10) See section 26.3.2 and answer.
- 11) See section 26.3.2 and answer.
- 12) See section 26.3.2 and answer.

**Check Your Progress 3**

- 1) See section 26.4 and answer.
- 2) See section 26.4.1 and answer.
- 3) See section 26.4.1 and answer.
- 4) See section 26.4.1 and answer.
- 5) See section 26.4.1 and answer.
- 6) See section 26.4.1 and answer.
- 7) See section 26.4.2 and answer.
- 8) See section 26.4.2 and answer.
- 9) See section 26.4.2 and answer.
- 10) See section 26.4.3 and answer.
- 11) See section 26.4.4 and answer.





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## **UNIT 27 INTERNATIONAL COMMITMENTS**

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### **Structure**

- 27.0 Objectives
- 27.1 Introduction
- 27.2 Areas of International Concern in Agricultural Trade
  - 27.2.1 Market Access
  - 27.2.2 Domestic Support
  - 27.2.3 Export Subsidies
- 27.3 Issues of Health/Hygiene and Technical Standards
  - 27.3.1 Sanitary and Phytosanitary (SPS) Measures
  - 27.3.2 Technical Barriers to Trade (TBT) Agreements
- 27.4 The Doha Development Agenda (DDA)
- 27.5 Implications of International Commitments
  - 27.5.1 Trade Competitiveness
  - 27.5.2 Food and Livelihood Securities
  - 27.5.3 Marginal and Small Farmers
- 27.6 Approach to WTO Commitments
  - 27.6.1 Way Forward
- 27.7 Let Us Sum Up
- 27.8 Key Words
- 27.9 Some Useful Books and Select References
- 27.10 Answers/Hints to Check Your Progress (CYP) Exercises

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### **27.0 OBJECTIVES**

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After reading this unit, you will be able to:

- outline the unique features of international trade in agriculture vis-a-vis the multi-functionality character of agriculture;
- describe the major areas of international concern in the context of ‘trade in agriculture’;
- discuss the issues arising on account of health/hygiene and technical standards in terms of the SPS and TBT requirements;
- state the principles which are expected to be met under the TBT agreement;
- highlight the achievement and the trough areas of the Doha Development Agenda;
- explain the implications of international commitments for Indian agriculture; and
- indicate the approach to be followed by India so as to gain from the opportunities generated by the establishment of ‘free and fair’ international trade regime.

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## 27.1 INTRODUCTION

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Agriculture is a politically sensitive issue and, therefore, liberalization of this sector is a difficult proposition. Besides, on account of agriculture's multi-functionality character, both the developed as well as the developing countries have a lot at stake to protect their agriculture on one or the other grounds. For developing countries like India, agriculture is not only an economic activity but is a way of life and livelihood of a majority of rural workforce. Further, food security is a major concern for these countries as price volatility in the international market has the potential to jeopardize the livelihood status of large number of persons engaged in it. In developed countries (such as the EU and the US), on the other hand, the difficulty in agricultural trade liberalization arise because of huge subsidies provided to the farmers which indirectly help the large agri-business companies to get cheap raw materials for their processed products and thereby have a competitive edge over their counterparts in the international markets. This is the reason why even after more than fifteen years of implementation of WTO, progress on Progress on the implementation of the complete provisions of the WTO regulations has been slow despite an all round realisation that free trade in agriculture in the true sense of the term would be beneficial to all the countries.

Agriculture was brought under the multilateral trading system of WTO for the first time after the conclusion of the Uruguay Round (UR) negotiations during 1986-94. The UR envisaged elimination of all sorts of trade distortions in agricultural trade through: (i) reducing export and production subsidies; (ii) removal of import barriers; and (iii) elimination of all non-tariff barriers. Towards this end, the WTO aims to commit its members to make trade in agriculture 'free, fair and market oriented'. The 'Agreement on Agriculture' (AoA) is prepared by the WTO with this objective in view. Against this background, in this unit you will first read about the major areas of international concern relating to agricultural trade. The commitments carry major implications for the agricultural sector of developing countries in particular. For instance, in the absence of effective compliance of reduction in export and production subsidies, removal of the quantitative restrictions (QRs) on trade would attract greater flow of cheap agricultural imports disturbing the domestic prices and thereby affecting the well-being of poor farmers. You will, therefore, study the implications of the international commitments for Indian agriculture in particular in this unit. Given these implications and anticipating the challenges lying before the countries in arriving at an agreement of trade in agriculture, Article 20 of the AoA makes a provision for negotiations on international commitments. A ground work for further negotiations in the ensuing meetings was laid in the Doha round of discussions held in Qatar in 2001. This is in the form of an 'agenda' for future discussions focusing on 'development and opening-up of markets in agriculture, manufacturing and services'. In light of this, you will read about the progress and modalities of Doha Development Agenda (DDA) as applicable to agriculture in the present unit. Finally, given the imperativeness of facing the challenges posed by these developments, you will study the strategy required to be adopted in the WTO discussions and the steps needed to be taken for improving the competitiveness of Indian agriculture in order to be in a position to gain in the post-AoA regime.

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## 27.2 AREAS OF INTERNATIONAL CONCERN IN AGRICULTURAL TRADE

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The world trade in agriculture is highly distorted due to heavy export and domestic subsidies given by industrialised countries to their farmers on the one hand and offering little market access by them to the agricultural products of developing countries on the

other. The AoA establishes an agenda for the progressive liberalisation of agricultural trade through: (i) improved *market access*; (ii) the decoupling of *domestic support* from production levels or prices; and (iii) the elimination of *export subsidies*. Through these, the agreement seeks to bring about a structural change in global agricultural trade with a less distorted trading regime in which the more efficient producers would stand to gain. The AoA has thus the three areas on which it focuses, namely, market access, domestic support and export subsidies. We now discuss each one of these below.

### 27.2.1 Market Access

The agreement on market access has two dimensions viz. (i) reduction of tariffs; and (ii) minimum market access through tariff rate quota (TRQ). The measure on reduction of tariffs requires that all non-tariff barriers (NTBs) on imports [like quantitative import restrictions (QRs), variable import levies, minimum import prices and discretionary import licensing procedures, etc.] should be replaced by a single 'bound' tariff rate. Further, such a bound tariff is to be determined keeping the equivalent of 'nominal protection accorded' to the agricultural goods in the base period (taken as 1986-88) of the country concerned. The final tariffs resulting from such a procedure, together with other tariffs on agricultural products as the case may be, were to be reduced by a simple average of 36 percent (or a minimum of 15 percent per tariff line) by the year 2000 in the case of developed countries and 24 percent (with a minimum reduction of 10 percent per tariff line) by the year 2004 in the case of developing countries. The least developed countries (LDCs) are exempted from such reduction commitment but are required to bind the tariff to their base period level without increasing the level of protection above the base level.

The agreement on providing minimum market access is stipulated through 'tariff rate quota' (TRQ). There will be two effective tariff rates: a lower tariff rate applicable to imports below the prescribed volume of quota and a higher tariff applied on imports in excess of the prescribed quota volume. Further, each member country has to import a minimum level of agricultural products determined as a share of domestic consumption. Countries are also required to maintain their base year level of access for each individual product and where the base level of import in the base year is negligible, the minimum access should not be less than 3 percent of domestic consumption during the base period. This minimum level was to increase to 5 percent by the year 2000 in the case of developed countries and by 2004 in the case of developing countries. There is also a 'special safeguards provision' (SSP) allowing for the application of additional duties when shipments are made at prices below certain reference levels or when there is a sudden increase in imports. The market access provision does not apply when the commodity in question is a 'traditional staple' of a developing country. India has bound its tariff rates on primary agricultural products at 100 percent, on processed foods at 150 percent and on edible oils at 300 percent. The actual tariff rates on various agricultural products have, however, been much lower than the bound rates.

It is, therefore, potentially likely that the developing countries could get relatively better access to the markets of developed countries if the higher reduction requirement in the case of developed countries is fully and unequivocally implemented. However, developed countries may still maintain higher levels of protection due to ambiguities in the agreement. For instance, the un-weighted average reduction of 36 percent in tariffs allows differential treatment for commodities. Thus, a country could meet the aggregate reduction of 36 percent by reducing the tariff on less important products with little or no decline in the tariff on more important products. This type of approach would imply that the actual tariff may provide as much protection as the NTBs. At

present, agricultural tariffs in the developed countries are much higher than that on the industrial products. Further, the minimum access tariff quota commitments have been kept at relatively higher levels of aggregate leaving considerable flexibility to domestic importers. Such practices amount to restricting the market access by going against the spirit of commitments undertaken.

**Check Your Progress 1** [answer in about 50 words using the space given]

- 1) State the reason why the implementation of WTO commitments has not progressed much on international trade in agriculture so far.

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- 2) In which three areas/dimensions was the Uruguay Round of negotiations envisaged to eliminate trade distortions in agricultural products?

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- 3) State in what way the WTO-AoA commitments implicate the agricultural sector of developing countries like India?

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- 4) What is the background for evolving the Doha Development Agenda (DDA)? What does the DDA basically provide?

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- 5) In terms of which three basic respects/areas, does the AoA aim to establish an agenda for progressive liberalisation of agricultural trade? In what way does it propose to achieve its objective?

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6) What is meant by ‘bound tariff rate’? How is it determined?

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7) By what respective level and by which time points were the developed and the developing countries were required to reduce the ‘final tariffs’ for their agricultural products?

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8) By what mechanism is the objective of ensuring ‘minimum market access’ proposed to be achieved by the AoA? Under what circumstances does the market access provision not apply to a country?

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9) What does SSP mean? When are they proposed to be applied?

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10) Do you think that the developing countries can benefit from the establishment of earmarked levels of ‘reduction requirement’? Why?

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11) Which particular ambiguity in the proposed tariff structure can still be used to work in favour of developed (and against the interest of developing) countries?

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## 27.2.2 Domestic Support

Domestic support basically comprises subsidies provided by a country to its agriculture. These subsidies may be product specific or non-product specific. The AoA classifies these supports into: (i) trade-distorting; and (ii) non-trade distorting. Only the trade distorting subsidies are obliged to reduction commitment as per the AoA regulation. Broadly, domestic support measures are classified into four distinct categories and are designated as: (i) green box measures; (ii) blue box support; (iii) special and differential (S&D) treatment; and (iv) the amber box support/measures.

**Green Box Measures:** The green box measures comprise the support given to agriculture having 'nil' or minimum distorting effects on agricultural trade. The AoA sets out a number of general and measure-specific criteria which, when met, allow such measures to be placed in the Green Box. Such measures are exempt from reduction commitments and can be increased without any financial limitation. They must be provided through a publicly-funded government programme (including government revenue foregone) not involving transfers from consumers and must not have the effect of providing price support to producers. While the provision of green box measures applies to both the developed and the developing countries, in case of developing countries special treatment is provided in respect of government food security programmes for providing subsidized food items to urban and rural poor.

**Blue Box Support:** The 'blue box' consist of support (e.g. subsidies linked to specified product not increasing with the production levels) provided for limiting the agricultural production. They are relevant from the point of view of developed countries as the policy related to the 'direct payment to producers' is rarely found in developing countries. They cover payments directly linked to acreage or animal numbers. Such support limits production by imposing production quotas including the requiring of farmers to set aside part of their land. The blue box is an important tool for supporting and reforming agriculture and for achieving certain non-trade objectives such as environment protection.

**Special and Differential (S&D) Treatment:** The special and differential treatment apply only to developing countries and are of the nature of general investment support for agriculture like input subsidies to low-income and resource-poor farmers. They include purchases from food security stocks bought at administered prices provided the subsidy to producers is included in the calculation of 'aggregate measure of support' (explained below). Further, the developing countries are permitted untargeted subsidised food distribution to meet the requirements of the urban and rural poor. Also excluded for developing countries are investment subsidies that are generally available to low income and resource poor farmers.

**Amber Box Support/Measures:** These are domestic support measures like the minimum support prices or subsidies tied to production levels. These are considered to distort production and trade and are hence subjected to the reduction commitments.

**Aggregate Measure of Support (AMS):** The support under the above measures is calculated under two heads: (i) a product-specific 'aggregate measure of support' (AMS) and (ii) support provided to agricultural producers in general (called non-product specific subsidies). The product-specific AMS is calculated by subtracting the domestic price from the international price and multiplying the resultant figure by the quantity of production. Thus, if the international price is lower than the domestic price of a commodity, the product-specific AMS will be positive. As an illustration consider the domestic price of a commodity as Rs. 1000 and the international price of the same

commodity as Rs. 800. The product specific AMS (leaving out the quantity produced multiplier) is therefore:  $1000 - 800$  which is positive. On the other hand, if the international price is Rs. 1200, the multiplying component of product-specific AMS is  $(1000 - 1200)$  which is negative.

India does not provide any product specific support other than the minimum support price (MSP) for some agricultural products. During the reference period (1986-88), India had the price support programmes for 22 products with a total product specific AMS of Rs. (-) 24,442 crores during the base period. Also, during the base reference period, the total non-product specific AMS was only Rs. (+) 4581 crores. Thus, taking both the product specific and the non-product specific AMS into account, the total AMS was (-) Rs. 19,861 crores which worked out to about (-) 18 percent of the value of total agricultural output. Corresponding calculations for the year 1995-96 show that the product specific AMS was (-) 38 percent and the non-product specific AMS 7.5 percent 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 AoA. With this, our aggregate AMS was below the level of 10 percent permitted. In general, since the commencement of WTO, the prices of agricultural commodities in the international market have been higher than the domestic administered prices in India. Consequently, the product-specific AMS of India has been negative. In recent years, especially after July 2008, the international prices have been lower than the domestic support prices of agricultural commodities in India making the AMS positive.

**Non-product Specific Subsidies (*De minimis*):** These refer to the total level of support for the agricultural sector as a whole i.e. subsidies on inputs such as fertilisers, electricity, irrigation, seeds, credit, etc. Under the AoA, the developed countries are permitted to provide farm subsidies equivalent to 5 percent of their total value of agricultural output while the corresponding percentage for a developing country is 10 percent. Two criteria are used to identify non-trade distorting support: (i) it must be paid out of the government budget; and (ii) it must not have the effect of providing a price support for the producer. Consequently, these measures comprise of government services such as: (i) agricultural research; (ii) disease control; (iii) infrastructure; (iv) extension and buffer stocks for food security purposes; (v) domestic food aid; (vi) direct payments to producers; (vii) decoupled income support; (viii) government assistance in income insurance and income safety-net programmes; (ix) payment under environmental and regional assistance programmes; (x) payments for relief from natural disasters; (xi) assistance to help farmers restructure agriculture; (xii) marketing and promotion services; etc. Wherever the aggregate value of the support given is not exceeding the ceiling of 5/10 percent of value of total agricultural production in question, under the *de minimus* provisions of the AoA, there is no requirement to reduce such domestic support in that year.

**Controversy on Blue Box Subsidies:** The decoupling of domestic support has emerged as one of the most controversial issues in the WTO ministerial conferences. In particular, the exclusion of the 'blue box' products meant to limit production from reduction commitments is treated as unfair discrimination against developing countries like India. It is argued that the subsidies under the blue box support distorts trade and should therefore be duly subjected to trade discipline measures. In recent years, due to implementation of AoA provisions, while the amber box support has declined in many developed countries, support under blue and green box policies has significantly increased. In other words, the developed countries have been shifting domestic support from the prohibited amber box to the permissive categories of green and blue boxes.

### 27.2.3 Export Subsidies

The commitment on export subsidy is on two counts viz. (i) reduction in the total quantity of export covered by the subsidy; and (ii) reduction in the total budgetary outlays on export-subsidies. Developed countries had to reduce the quantity of subsidised export by 21 percent and expenditure on export subsidies by 36 percent by 2000. The corresponding levels for developing countries were 14 and 24 percent respectively to be achieved by 2004. The subsidies given on transport, processing and packaging of agricultural exports of both developed and developing countries are exempted from the reduction requirements.

Relatively larger export subsidies of developed countries carry the effect of severely limiting the export potential of developing countries as most of developing countries are not in a position to provide export subsidy to agricultural products due to severe budget constraints. In light of this, even after meeting the reduction requirements, developed countries continue to enjoy substantial subsidization of their agricultural exports. India does not provide any of the export subsidies listed for reduction commitments in the AoA. The only subsidies available to the exporters, before 2004, were in the form of exemption of profits from export sales in income tax (under section 80-HHC) and subsidies on costs of freight, marketing and international/internal transport on export shipments of livestock products.

#### Check Your Progress 2 [answer in about 50 words using the space given]

- 1) Which particular type of 'domestic support' is subjected to reduction commitments? Why?

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- 2) What is a product-specific AMS? How is it computed?

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- 3) What does a negative sign for a product-specific AMS imply?

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- 4) Give examples of some non-trade distorting subsidies. What limit is set under the AoA in this regard?

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5) What are the two criteria applied for the identification of a non-trade distorting support?

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6) Why is the exemption of 'blue box support measures' from reduction commitment controversial?

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7) What are the two counts on which the commitment on export subsidy is required to be reduced? Do you think the developing countries stand to gain from this reduction?

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### **27.3 ISSUES OF HEALTH/HYGIENE AND TECHNICAL STANDARDS**

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Import of food products that are safe and harmless to the health of domestic consumers, animal, and plants is the major concern of importing countries. Consequently, governments of importing countries have introduced mandatory laws and regulations to protect the health and safety of their consumers from unsafe and unhygienic imported food products. However, a country could sometimes use them as barriers to restrict the import of food products from other countries. In order to safeguard against such a misuse, the Sanitary and Phytosanitary (SPS) measures and Technical Barriers to Trade (TBT) agreements were incorporated into the WTO Multilateral Agreements.

#### **27.3.1 Sanitary and Phytosanitary (SPS) Measures**

The AoA defines the SPS measure as any measures applied to: (a) protect animal or plant life or health within the territory of the member country from risks arising from the entry, establishment or spread of pests, diseases, disease-carrying or disease-causing organisms; (b) protect human or animal life or health within the territory of the member country from risks arising from additives, contaminants, toxins or disease-causing organisms in foods, beverages or feedstuffs; (c) protect human life or health within the territory of the member country from risks arising from diseases carried by animals,

plants or products thereof, or from the entry, establishment or spread of pests; and (d) prevent or limit other damage within the territory of the member country from the entry, establishment or spread of pests.

There are two basic principles of the agreement: (i) the principle of *non-discrimination* and the principle of *scientific justification*. In its pursuance of the need for harmonization with regard to food safety, the SPS agreement has identified and chosen certain standards, guidelines and recommendations established by international bodies known for their specialisation and expertise in human, animal and plant health areas. These standards are accepted as the benchmarks against which measures and regulations of a member country are assessed. The agreement on SPS ensures that these measures should not be arbitrary, discriminatory and protectionist and should be based on scientific justification. However, in practice, many developed countries are setting their standards [which is permitted under the WTO] at levels higher than the internationally prescribed norms. Further, standards are often adopted without the participation of developing countries and without taking into consideration their problems and constraints.

As the international standards are usually made in conformity with the standards prevailing in the developed countries, compliance of these measures by the developing countries have proved difficult restricting the exports from these countries. These measures thus become trade barriers when: (i) the domestic standards are lower than that for imports; (ii) standard conformity processes differ across countries; or (iii) when a country does not recognize the measures of the other country. In view of these factors, food safety has continued to rank high on the political agenda in developed countries. This can be partly explained by the fact that food safety is a 'good' with a high-income elasticity of demand, i.e. as income increases, the demand for food products with higher SPS measures also increase. The consumer organisations and NGOs throughout the world have also become more assertive in protecting the human, animal and plant life or health from unhygienic and unsafe food products. Both these factors have contributed to promoting a negative effect on the prospect of export from developing countries like India.

In compliance of the SPS measures, for the developing countries there are two type of costs: (i) the production cost; and (ii) the conformity cost. Production costs comprise of new inputs and technology costs involved in the production of goods as per the SPS requirements. The conformity costs include the cost of certification and control. The total cost of compliance is higher in developing countries than in the developed countries. This is because the fixed cost of establishing appropriate SPS control system is spread over a much smaller volume of exports. Further, as the SPS standards are more consistent with the standards prevailing in the developed countries, any new SPS requirement would involve relatively more cost in the developing countries. This has made the products of developing countries less competitive in the international market, adversely affecting the volume of exports from these countries. For instance, due to the high standard of SPS measures adopted by the developed countries, particularly the EU, the entry of Indian meat and dairy products in their markets has virtually become impossible. Further, if export of one country is banned in a country on the ground of non-compliance of SPS commitments, price of that product may decline in the domestic market too. This has the potential of leading to employment and income loss in the production sector of the country.

Notwithstanding the above difficulties experienced by the developing countries in the short run, there is no doubt that in the long run better SPS standards should lead to the lessening of health risks and benefit the consumers. However, the manner in which

these standards are being enforced has led to three type of problems for the developing countries. **First**, there are institutional problems such as what should be the point of inspection and conformity (internal or the point of entry) and who should provide the scientific basis to settle disputes. Further, the technical assistance to help exporters to match these requirements has been lacking. **Second**, with the changing of SPS standards periodically, scaling-up the levels to be attained, the costs of compliance are becoming increasingly prohibitive. **Third**, regardless of the fact that the AoA encourages multilateral agreements on mutual recognition of equivalence of specified SPS measures, member countries enter into bilateral equivalence agreements. This practice favours imports from some countries over others resulting in discrimination against other members.

### 27.3.2 Technical Barriers to Trade (TBT) Agreements

The agreement on TBT includes technical regulation standards and conformity of assessment procedures. Technical regulations are mandatory requirements of governments intended to prevent deceptive practices so as to protect human and animal health as well as the environment. The objective of TBT Agreement is, therefore, to ensure the technical requirements and standards including packaging, marking and labeling requirements. It recognizes the responsibility and right of the governments to take necessary action to ensure that their legitimate objectives are met but the adopted trade measures are non-discriminatory and non-protectionist. The Agreement on TBT consists of 15 articles and three annexes. But in short, the TBT agreement aims at meeting five principles.

**Principles of TBT Agreement:** Although the objective of TBT agreement is to protect consumers and environment, a large number of the measures actually protect the interest of domestic producers. This is particularly so in the case of developed countries, which obstructs the market access for developing countries' products many times on the presumption that the latter's standards are not compatible to that of the former. In case of agricultural products, whenever tariffs on these products are lowered in the developed countries, such measures are likely to become increasingly significant. This is because of the potential of such reductions to affect the market share for the products of different countries. For an effective compliance of TBT agreement it is, therefore, necessary that the following principles should be duly adhered in letter and spirit. At the same time, it is equally necessary for the developing countries to improve their quality standards so that the compliance of these principle are duly enabled.

- **Non-discrimination** — in terms of preparing, adopting and applying technical regulation and conformity assessment procedures.
- **Harmonization** — in terms of developing and using international standard. Codes of 'good practice' should be elaborated to meet this requirement.
- **Least Trade Restrictive Measures** — for avoiding unnecessary impediments to trade.
- **Equivalence** — in terms of entering agreement between trading partners for adopting technical requirements on mutual recognition of conformity assessment procedures.
- **Transparency** — to base all standards and regulations on published and notified regulations/guidelines. Members should receive time to comment on new regulations with appropriate enquiry points established to facilitate exchanges regarding regulations, standards and other related matters.

## 27.4 THE DOHA DEVELOPMENT AGENDA (DDA)

Article 20 of the AoA makes provision for negotiations in the international commitments. The Doha Development Agenda (DDA) has further elaborated the negotiating mandate provided in the Article 20. The agenda focuses on development and opening of markets in agriculture, manufacturing and services. The implementation process of the DDA was supposed to end in December 2004. However, progress in the implementation of the agenda has so far been far from satisfactory due to ‘conflict of interests’ of different groups of countries. The agenda includes: (i) cutting tariffs on industrial goods and services; (ii) phasing out subsidies to agricultural producers; (iii) reducing barriers to cross-border investment; and (iv) limiting the use of antidumping laws. In this section, we shall focus only on agriculture related issues.

The agriculture related issues that dominate the DDA are: (i) reducing the high level of trade distorting domestic subsidies given by rich countries to their agriculture; (ii) harmonising the quantum of agriculture export subsidies; and (iii) lowering the tariffs on export of agricultural products by developing countries. The DDA envisages: (i) reducing the total AMS; (ii) lowering the ‘*de minimis*’ thresholds for a number of countries; and (iii) introducing a limit on the blue box measures. It also emphasizes to discipline the green-box measures that allow unlimited support to agriculture of developed countries and restrict other potentially production-centric and demand destabilising measures like the ‘bio-fuels programs’ in the United States, the European Union, and Brazil. The latter is particularly due to the potential contribution of bio-fuel programmes to: (i) affect the food prices in the international market and (ii) thereby have implications for the global food security.

**Major Achievements of DDA:** The DDA could achieve success in making the EU, US and Japan agree to undertake big reductions on trade distorting agricultural subsidies. This is a significant achievement of the DDA when compared to the previous rounds of negotiations of WTO. Another important feature of DDA is that the S&D treatment was explicitly mentioned with respect to the ‘*de minimis*’ programs for subsistence and resource-poor farmers in developing countries, like India. In light of this, India has been rigorously negotiating on the DDA focusing broadly on four issues: (i) food security; (ii) market access; (iii) removal of distortions in export subsidies; and (iv) reduction in the domestic subsidies. With these, from a developing country perspective, India emphasizes that the issue of food and livelihood security of developing countries needs to be given priority in the negotiations on DDA. Towards this, India has proposed the introduction of a ‘Food Security Box’ in the AoA particularly for facilitating the protection of resource poor small and marginal farmers on food and livelihood security grounds.

**Points of Trough in the DDA:** The DDA is still an unfinished agenda as even after one decade of declaration of DDA, agricultural trade is still subjected to various protections. The political considerations have quite often restricted a nation to be more open for these negotiations. Developing countries’ concerns have not yet been adequately addressed in the negotiations on the agenda. It is, however, generally believed that if the DDA is implemented in letter and spirit, it would provide immense gains to the developing countries like India. It has not yet been possible for the WTO to arrive at a consensus on reducing the huge subsidies paid by the industrialized countries to their farmers which continues to threaten the livelihoods of poor farmers in the developing countries. In light of these, the ministerial meeting of the WTO held in Geneva in 2011 concluded that the DDA is going nowhere and that in its present form it is unlikely to reach its logical conclusion any time soon.

**Check Your Progress 3** [answer in about 50 words using the space given]

- 1) Which two specific safeguards have been incorporated into the WTO agreements to protect the consumers of the importing countries? What do these two safeguards basically aim at protecting?

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- 2) What is the basic objective of the SPS measures? What are its two basic principles?

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- 3) State the three situations when the SPS measures could become barriers for trade.

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- 4) Identify the two factors that have kept the issue of 'food safety' high on the political agenda of developed countries.

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- 5) What are the two types of cost involved in conforming to the SPS measures for the developing countries? What do these two basically comprise?

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- 6) How does non-compliance of SPS measures for export affect employment and income loss in the domestic sector of the economy?

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7) Despite the SPS measures, why has discrimination in trade matter continued to prevail?

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8) What is the basic objective of the TBT regime? State the principles that a TBT agreement must aim to meet in order that it works well.

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9) What are the three agriculture related issues that dominate the Doha Development Agenda (DDA)?

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10) For what reason was the WTO ministerial conference held in Geneva in 2011 compelled to express a dismal opinion on the progress of WTO implementation process?

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## **27.5 IMPLICATIONS OF INTERNATIONAL COMMITMENTS**

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International commitments have major implications for Indian Agriculture. However, since India is a net-exporter of agricultural products, it is expected that India and other developing nations and transition economies would stand to gain in agricultural trade if the AoA is implemented effectively and trade distortions are removed. The impacts of these commitments can be explained in terms of three major aspects as follows.

### **27.5.1 Trade Competitiveness**

Trade competitiveness depends on two factors viz.: (i) productivity; and (ii) the cost of

production. After implementation of WTO regulations, it was envisaged that distortions in agricultural trade would be reduced and scope for exports of products from developing countries would increase. Such a fair trade regime was first of all expected to help the efficient producers through better prices for their products and later for the benefits of growth to reach the lower rungs of agricultural workers also in time. However, the experience of last one and a half decade of implementation of WTO regulations shows that heavily subsidized large scale mechanized agriculture in developed countries has made the agriculture of developing countries less competitive in the global market. In other words, the non-compliance of international commitments by the industrialised countries has affected the developing countries' producers from realising increased profits. Further, various loopholes in the AoA has provided scope for developed countries to heavily subsidise their agriculture. Thus, although the AoA has achieved a great deal in terms of defining the rules for international trade, its achievement in terms of market opening/access has been limited.

The discussions, agendas, proposals and arguments made by the developed countries in the meetings of various committees and ministerial conferences reveal that while the developed countries (particularly, EU and US) bargain for better market access for their agricultural products in the developing countries [through negotiations on tariff reduction and raise in tariff rate quota (TRQ)], they avoid negotiations for reduction of domestic support and elimination of export subsidies in their own countries. As a result, agricultural prices in the international markets have been substantially depressed, affecting the trade competitiveness of developing countries like India.

As already noted, India has removed its QRs. Further, its total AMS has been consistently negative for many agricultural products. Also, India does not provide any of the export subsidies to the agricultural products listed for reduction commitments. Thus, if the developed countries comply with their part of commitments, it would stabilise the international prices of agricultural products making the developing countries' products more competitive in the world market. However, if there is increase in the world prices, it could adversely affect the welfare of less developed countries which are net-importers of food grains. Therefore, whether a country would gain or lose in case of a specific product due to trade liberalisation would depend on whether it is a net-exporter or net-importer of that product. On overall basis, India is a net-exporter of agricultural products. Hence, if all trade related distortions are removed, India could stand to gain in her share of the agricultural exports.

### **27.5.2 Food and Livelihood Securities**

In developed countries 3 to 5 percent population depend on agriculture. But in most of the developing countries more than 50 percent population directly depend on agriculture. Trade liberalization cannot ensure food security, but any volatility in the food prices in the international market can adversely affect the agricultural producers' livelihood status. In view of this, special safeguards are required to protect the food and livelihood needs of poor farmers for which both demand-side and supply-side factors must be taken into consideration. The food security issue not only covers the availability and stability of food supplies but also the issues of access to this supply in terms of resources needed to procure the required quantity of food. In view of these, countries in which a large percentage of population are dependent on agriculture would like to have a certain degree of autonomy and flexibility in determining their domestic agricultural policies towards improving productivity, enhancing income levels, reducing vulnerability to market fluctuations, ensuring price stability, etc.

India wants requisite flexibility within the AoA for the developing countries to pursue their legitimate non-trade concerns. In general, developing countries need to be allowed to provide domestic support to their agriculture to meet not only the challenges of food security but its correlates like viability of rural employment. The fact that developing countries need sufficient safeguards to protect the food and livelihood securities of their poor has been highlighted by India and several other countries in the WTO negotiations on agriculture. These safeguards assume even greater significance in view of the fact that the AoA has remained quite ineffective in disciplining the agricultural subsidies in the developed countries.

### **27.5.3 Marginal and Small Farmers**

As per the latest Agricultural Census 2010-11, the total number of operational holdings in India was 138 million in 2010-11. The decadal growth in the number of operational holdings over the period 2001-11 was 22.5 percent while the corresponding increase of small farmers is 8.9 percent. Due to this growth/increase, the combined share of the two segments has increased from 82 percent to 85 percent over the ten year period 2001-2011. Marginal and small farmers now constitute 44 percent of total operated area and 85 percent of operational holdings. Sustaining the livelihood needs of 85 percent of farmers of the country is one of the key development and policy challenges for India.

The small holding character of Indian agriculture limits the capability to introduce mechanized farming and constrains the adoption of new technologies unless accompanied by large scale extension programmes. The only way to sustain agricultural growth and achieve the objective of food security is through increased government support in the use of inputs like irrigation, electricity, fertilizers, pesticides, technical know-how, HYV seeds, infrastructural development, and market support. A major part of the financial burden of increased inputs will have to be met through government subsidies. Small farmers' needs should therefore be duly addressed in the WTO negotiations as these farmers cannot compete with the large-sized mechanized farming of developed countries. Market access in the absence of reduction of domestic support and export subsidies given in US, Japan and other developed countries would have serious adverse consequences for India if the trade liberalisation policies are pursued without the fulfilment of commitments by other countries.

## **27.6 APPROACH TO WTO COMMITMENTS**

Removal of QRs, in the presence of highly trade distorted export and domestic subsidies given by industrialized nations to their farmers, has already shown its adverse consequences for our agriculture. India should, therefore, negotiate rigorously on the DDA for the reduction of developed countries' domestic support and export subsidies for increased market access through reduced above-quota tariffs. Further, as India has negative product-specific AMS, we would substantially gain if the commitments on the reduction of support to their agricultural producers by the developed countries is fulfilled. As India does not provide any export subsidies to agriculture, her strategic move in the WTO should therefore be to put pressure on reduction of domestic support and elimination of export subsidies. As India has already removed QRs on agricultural imports, there could be adverse effects on some of agricultural products such as butter and cheese. For this, keeping relatively high bound tariffs in such cases could be beneficial to absorb the fluctuations in the international prices of these products. Indian negotiators must holistically consider all the legal, economic, and political aspects of various WTO provisions to protect the country's interests in the WTO conferences and meetings. In the short-term, the country should try to promote export of agriculture and livestock



products to the neighbouring countries where similar or lower quality standards exist. The long-term strategy must be to create an efficient institutional framework to comply with the SPS and TBT provisions so that the huge potential of the market can be exploited in the future. Further, compliance of the SPS measures would also facilitate improvement in the domestic human, animal and plant health that could provide a big gain to the country in future.

### **27.6.1 Way Forward**

In the years to come, Indian agriculture and also that of many other developing countries, may be benefitted from the WTO regulations if the AoA is implemented in letter and spirit and trade-related distortions are removed. To tap this opportunity, we have to adopt a two-fold strategy in India. **First**, we have to enhance the competitiveness of our agriculture in the global market which basically is made up of two components: (i) the price competitiveness; and (ii) the product-quality. India has to mobilize support of similar developing countries in various WTO forums to achieve reduction of production and export subsidies in the industrialised countries. **Second**, quality of products is one of the most important determinants of export. In present times, consumers are more quality-conscious and demand products that are safe and harmless to their health. Therefore, effective regulatory system is to be evolved to ensure the quality of the products fulfilling the SPS and TBT requirements. The existing legislations for regulating and monitoring the food quality are required to be suitably amended to make them SPS and TBT compatible.

**Further Measures for Improving Competitiveness:** Most of India’s agricultural products are not at par with the international standards. Therefore foreign collaboration in export-oriented projects of agriculture could be encouraged so that the benefits under the market access provision of the WTO could be realised. Foreign collaboration may enhance professionalism in agribusiness as very few Indian agricultural products enjoy brand equity in European and North American markets. State governments can make conditions of investments with foreign collaboration for agricultural projects conducive. With the greater volatility in the global market of agricultural products, huge decline in international prices can be disastrous for Indian farmers. Oilseed producers in the country have already faced problems due to such price volatility. Therefore, suitable policy actions are to be taken to protect the farmers from the implications of such shocks.

#### **Check Your Progress 4** [answer in about 50 words using the space given]

- 1) State the reasons why despite the implementation of WTO regulations for the last 15 years, developing countries have not been able to get the expected returns.

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- 2) Do you think India would gain by agricultural trade if the WTO regulations are applied in a free and fair manner? Why?

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- 3) What are the safeguards needed to protect the livelihood needs of poor farmers in the developing countries?

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- 4) To what extent has there been an increase in the small holding character of Indian farmers over the period 2001-11? In the light of this characteristic of Indian agriculture, what measures are needed to duly address the concerns of small farmers in the WTO negotiations?

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- 5) For insulating the adverse effects of fluctuations in international prices, and for dealing effectively in the WTO negotiations, what measures are needed to be taken by India?

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- 6) What are the elements of the two-fold strategy to be adopted in the 'way forward' to be able to benefit/gain from the trade liberalisation measures in Indian agriculture?

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- 7) State some further initiatives that can be taken by the state governments in India to improve the Indian agricultural competitiveness in international markets?

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## 27.7 LET US SUM UP

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Agriculture is a politically very sensitive issue and therefore liberalization of this sector is a difficult task. In view of this, both the developed as well as the developing countries would like to have some kind of protection for their agriculture on various grounds. The AoA aims to eliminate distortions in agricultural trade through reducing export and production subsidies and by removing import barriers including the non-tariff barriers (NTBs). However, even after one and half decades of implementation of WTO regulations, world trade in agriculture is still highly distorted, mainly because the developed countries have not kept to their commitments of reducing the support extended to their agricultural producers. As reduction requirement in the case of developed countries is higher than that of developing countries, theoretically it is expected that the developing countries can get relatively better access to the markets of developed countries. However, this requires simultaneous measures to be taken by the developing countries for making their products compatible with the SPS and TBT measures. In view of the loopholes in the AoA, there is ample scope for developed countries for maintaining high levels of protection by resorting to measures in one or the other form. This practice is termed as '*dirty tariffication*' and is seen to be practiced particularly for politically sensitive products. Exemptions have been duly granted for 'decoupled' support which refers to payments that are not related to current production levels, output prices, input use or input prices (green box measures) and support subject to production limitations (blue box support). The decoupling of domestic support has emerged as one of the most controversial issues in the WTO ministerial conferences. The artificial distinction created between price support and input subsidies on the one hand and 'green box' and 'blue box' subsidies on the other, and excluding the latter from the reduction commitments, is considered unfair discrimination against the developing countries like India. Developed countries also use the SPS and TBT issues to restrict the entry of agricultural products from developing countries. As the international standards are usually made in conformity of the standards prevailing in the developed countries, compliance of these measures by the developing countries raises the cost of production reducing their competitiveness.

Indian agriculture would stand to gain if the DDA is implemented effectively and India makes adequate investment in irrigation, transport, research and extension, the expenditure on which is exempted from domestic support reduction commitments of WTO. Some of India's low tariff bindings could be renegotiated. Calculation of price support within the product-specific AMS is not clearly defined particularly on the credit adjustment for products with negative AMS. The existing legislations for regulating and monitoring the food quality are required to be suitably amended to make them SPS and TBT compatible. Modernising of agricultural processing will not only enhance our export market potential but also aid in improving the domestic food quality.

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## 27.8 KEY WORDS

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**Multi-functionality character of agriculture** : Refers to the multiple functions that agriculture performs for the society. Apart from providing food, fodder, fuel and raw materials to the agro-processing industries, agriculture also performs functions ranging from socio-economic to environmental functions. For developing countries like India, agriculture is a major source of livelihood of rural people and a source of providing physical and economic access to food.

In developed countries, on the other hand, to augment the eco-system services of agriculture, huge subsidies to protect the soil fertility and environment by limiting the agricultural production is provided. Thus, food safety, food security, environmental protection and rural employment are the main concerns that require policies and investment at multiple levels. In light of this, in the negotiations of WTO meetings, multi-functionality of agriculture has been used as an important argument by both the developed and the developing countries to protect their agriculture.

**Tariff Rate Quota**

- : This is the measure used to stipulate the ‘minimum market access’ for agricultural products. Under this, there will be two tariff rates: a lower tariff applicable for volume or quantity imported below the prescribed limit and the other, a higher tariff rate applied to quantities imported above the prescribed limit.

**Aggregate Measure of Support (AMS)**

- : The AMS is an indicator to know whether the cumulative support extended is within the permissible limits or not. It is product-specific in the sense that the AMS indicator is calculated for each product separately. Based on the two prices viz. the domestic price and the international price for a commodity, the difference between the two prices, multiplied by the quantity of production of that commodity within the country in that year, is taken as the AMS value. This value (i.e. the AMS value) is negative when the domestic price is less than the international price in which case no further steps to reduce the extent of support extended is needed to be taken. Even when the value is positive, so long as it is below the 10 percent level prescribed as admissible for developing countries, no steps to minimise the support extended is called for. In other words, the AMS value indicates to the country’s administrators whether any corrective mechanism is needed to be taken in the direction of reducing the extent of trade distorting support provided to their farmers or not.

***De minimis***

- : All domestic support to the agricultural sector or agricultural producers ***not*** exempted under any of the WTO provisions (i.e. green, blue, S & D) are subject to ‘reduction commitments’. However, even here there is a stipulated minimum amount of support permitted beyond which only the reduction commitment becomes mandatory.

The specification of this limit is what is termed as 'de minimis'. In other words, even though some supports qualify to be trade-distorting, the *de minimis* provision sets an acceptable limit as a ceiling for such product-specific support. The *de minimis* ceiling is 5 percent (of total value of production of that particular agricultural product in the year) for developed countries and 10 percent for developing countries.

- Decoupled support** : Refers to payments that are not related to current production levels, output prices, input use or input prices (green box measures) and support subject to production limitations (blue box support).
- SPS and TBT Measures** : Refer to measures aimed at protecting the importing country's welfare in terms of the hygiene, health and environment of consumers i.e. man, animal, plants, environment, etc.

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## 27.9 SOME USEFUL BOOKS AND SELECT REFERENCES

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- 1) Chand Ramesh (2002), *Trade Liberalization, WTO and Indian Agriculture*, Mittal Publications New Delhi
- 2) Chakraborty Debashis (2004), Recent Negotiation Trend on Agriculture under WTO, RGICS Working Paper No. 47, 2004, Rajiv Gandhi Institute for Contemporary Studies.
- 3) Deodhar, S.Y. (1999), WTO Agreement and Indian Agriculture: Retrospection and Prospects, IIMA Working Paper #99-11-06, Indian Institute of Management, Ahmedabad.
- 4) Dhar Biswajit. Agriculture and the WTO: An Indian Perspective  
<http://wbwto.iift.ac.in/Downloads/WSII/WTO%20and%20Indian%20Agriculture.pdf>
- 5) Kumar Rajiv and Swapna Nair (2009), *India: Strategies at the Doha Development Agenda — July and Beyond*, Working Paper, Indian Council for Research on International Economic Relations, New Delhi.
- 6) Martin Will and Kym Anderson (2008), "Agricultural Trade Reform Under the Doha Agenda: Some Key Issues", *The Australian Journal of Agricultural and Resource Economics*, Vol.52, pp. 1–16.
- 7) Some useful links:  
WTO, Agreement on Sanitary and Phytosanitary Measures, Geneva, World Trade Organisation. [http://www.wto.org/english/docs\\_e/legal\\_e/15-sps.pdf](http://www.wto.org/english/docs_e/legal_e/15-sps.pdf)  
WTO, Agreement on Technical Barrier to Trade. Geneva, World Trade Organisation  
[http://www.wto.org/english/docs\\_e/legal\\_e/17-tbt.pdf](http://www.wto.org/english/docs_e/legal_e/17-tbt.pdf)  
WTO, Agreement on Agriculture, Geneva, World Trade Organisation  
[http://www.wto.org/english/docs\\_e/legal\\_e/17-tbt.pdf](http://www.wto.org/english/docs_e/legal_e/17-tbt.pdf)

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## 27.8 ANSWERS/HINTS FOR CYP EXERCISES

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### Check Your Progress 1

- 1) See section 27.1 and answer.
- 2) See section 27.1 and answer.
- 3) See section 27.1 and answer.
- 4) See section 27.1 and answer.
- 5) See section 27.2 and answer.
- 6) See section 27.2.1 and answer.
- 7) See section 27.2.1 and answer.
- 8) See section 27.2.1 and answer.
- 9) See section 27.2.1 and answer.
- 10) See section 27.2.1 and answer.
- 11) See section 27.2.1 and answer.

### Check Your Progress 2

- 1) See section 27.2.2 and answer.
- 2) See section 27.2.2 and answer.
- 3) See section 27.2.2 and answer.
- 4) See section 27.2.2 and answer. 5 percent of total value of agricultural output for developed countries and 10 percent for developing countries.
- 5) See section 27.2.2 and answer.
- 6) See section 27.2.2 and answer.
- 7) See section 27.2.3 and answer.

### Check Your Progress 3

- 1) See section 27.3 and answer.
- 2) See section 27.3.1 and answer.
- 3) See section 27.3.1 and answer.
- 4) See section 27.3.1 and answer.
- 5) See section 27.3.1 and answer.
- 6) See section 27.3.1 and answer.
- 7) See section 27.3.1 and answer.
- 8) See section 27.3.2 and answer.
- 9) See section 27.4 and answer.
- 10) See section 27.4 and answer.

**Check Your Progress 4**

- 1) See section 27.5.1 and answer.
- 2) See section 27.5.1 and answer.
- 3) See section 27.5.2 and answer.
- 4) See section 27.5.3 and answer.
- 5) See section 27.6 and answer.
- 6) See section 27.6.1 and answer.
- 7) See section 27.6.1 and answer.



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