

WTO and India's farm subsidies



Course:ECO580A

Submitted By:

Avneesh



Importance of Agricultural sector in India

Agriculture has been the backbone of the Indian economy for a long time.

Agriculture is and perhaps will remain for some time, a key issue in the WTO.

The importance of the Indian agriculture sector can be seen from the following factors:

1. The share of agriculture in the national GDP is around 17%.
2. About 66% of population is dependent on agriculture and allied sectors for their livelihood.
3. Nearly 60% of India's total land is used for agricultural purposes.



Agreement on Agriculture

- According to the Agreement on Agriculture, domestic support measures are meant to identify acceptable measures of support to farmers and curtailing unacceptable trade distorting support to farmers.
- Domestic agricultural support is divided into green, blue and amber box subsidies. The agriculture agreement has no red box.
- Green and Blue box subsidies have minimal or no trade distorting effect.
- Amber box subsidies have trade distorting effects .Hence, they have to be gradually phased out.
- India's public procurement through MSP (Minimum Support Price) comes under Amber box subsidies.



MSP(Minimum Support Price)

- **MSP was brought in to protect farmers from the fluctuations in the market.**
- **MSP initially was started as a safety net for farmers through a guarantee that if there produce is left unsold in the market, it will be bought by the government at msp.**
- **It is decided by the Commission for Agriculture Cost and Prices (CACP).**
- **Foodgrains are procured by FCI and pulses and oilseeds are procured by NAFED at MSP.**



Recent case by USA at WTO against India

More recently, US accused India of breaching the 10% limit on Amber box subsidies.

According to USA's department of agriculture, India under-reported its subsidies on wheat and rice.



A mismatch

Differences in India's claim at the WTO and what the U.S. reported



- India notified the WTO that its Market Price Support (MPS) for rice in 2013-14 was just over ₹12,001 crore, which is 5.45% of the total value of production, and well within the WTO's permitted cut-off of 10%

- As per U.S. calculations, the value of India's MPS for rice that year was more than ₹1.7 lakh crore, which is 76.9% of the total value of production

AMS(Aggregate Measurement of Support)

- The trade distorting domestic support is measured in terms of "Total Aggregate Measurement of Support" (Total AMS), which is expressed as a percentage of the total value of agricultural output.
- The Agreement on Agriculture stipulates a reduction commitment of total AMS by 20 per cent for developed countries in 6 years (1995-2000) and by 13.33 per cent by developing countries in 10 years (1995-2004), taking 1986-88 as the base period.
- However, domestic support given to the agricultural sector upto 10% of the total value of agricultural produce in developing countries and 5% in developed countries is allowed. In other words, AMS within this limit is not subject to any reduction commitment.



How to calculate MPS?

- According to WTO:

AMS as %age of total production= ((AAP-FERP)/Market prices)*100

AAP=Applied Administered price(for India, it is MSP)

FERP=(Avg. World market prices for the years 1986-88)

- According to OECD:(basically, OECD uses current world market prices as reference)

MPS=((AAP-world market prices)/Market prices)*100

- Consider the case for wheat in India:

MSP =Rs 17,350 per MT

FERP=Rs 3540 per MT(not adjusted for inflation)

Current Market Prices in Saurashtra=Rs 15500 per MT

Current World Prices=Rs 12,512 per MT

- Now, this MPS should ideally be less than 10% the total value of production of that crop.



Market Prices in various APMC'S				(Source:E-NAM)	
Crop	Market Price in Punjab	Market price in Maharashtra	Market price in Uttar Pradesh	Market price in Tamil Nadu	Avg. Market price
1. Wheat	16600	17880	16500	17900	17220
2. Rice	17500	18900	17200	15680	17320
3. Soyabean	29420	35500	36110	36230	34410
4. Sugarcane	2550	2550	2550	2550	2550
5. Bajra	11730	11810	11670	10900	11500
6. Groundnut	25250	39090	32550	41050	34320
7. Moong	40500	50000	48400	41300	45005
8. Urad	29400	31200	21200	27200	27250
9. Tur	N.A	37500	30550	N.A	34025

1. Wheat	17350	3540	12512	17220
2. Rice	17500	2346	28,636	17320
3. Soyabean	33990	3081	21284	34000
4. Sugarcane	2550	156	2240	2550
5. Bajra	19500	2704	N.A	11500
6. Groundnut	48900	6900	83708	34320
7. Moong	69750	4782	N.A	45005
8. Urad	56000	4385	N.A	27250
9. Tur	56750	5283	N.A.	34025
10. Cotton	54500	17333	32670	40005
11.Gram	44000	4128	N.A.	47920

Issue of Eligible Production

4.10. The MPS calculation methodology contained in Annex 3, paragraph 8, of the AoA directs that the established price gap be multiplied "by the quantity of production eligible to receive the applied administered price."

It indicates that "eligible production" is all of the production entitled or permitted to receive the administered price.

It is the amount of agricultural production that has the rightful claim to receive the AAP, whether or not that amount of production actually received the specified AAP.



Crop	AMS using WTO's formula (assuming eligible production= total production)	AMS using Current world market prices as reference (assuming eligible production= total production)
1. Wheat	80.1%	28%
2. Rice	87.4%	-VE
3. Soyabean	90.9%	-VE
4. Sugarcane	93.8%	7.9%
5. Bajra	146%	NA
6. Groundnut	108.8%	-ve
7. Moong	144%	NA
8. Urad	189%	NA
9. Tur	151%	NA
10. Cotton	69%	55%

Summary and Conclusions

So, we can conclude the AMS is extremely high for some crops. But, these values don't take into account the actual procurement. The whole production is not procured at MSP. Only wheat , rice , sugarcane and cotton are procured by the govt. in significant quantity. For coarse grains and pulses, procurement is around 5-6% only.

Explanations for such high values:

1.) India has experienced high rates of inflation.

Inflation was constantly around 10% in 2007-2013 whereas the developing countries have very low inflation rates(around 2%).

2.)Rupee has depreciated considerably since 1986 w.r.t. US \$.

Year	Exchange Rate
1986	1 US\$=Rs.13.86
2018	1 US\$=Rs.68.13



Way Forward For India

India along with other developing countries have proposed changes to the way AMS is currently calculated in the WTO.

Possible changes are:

- 1.) Adjust ERP for inflation.**
- 2.) Consider depreciation of Rupee w.r.t. to US \$.**
- 3.) Take current market world prices as reference price.**



References

- 1.)Hoda,A. (2017) Public Stockholding and WTO (ICRIER Policy Series)**
- 2.)Narayanan, S. (2013) In the Balance: The National Food Security Act vis-à-vis the WTO Agreement on Agriculture (Mumbai: Indira Gandhi Institute of Development Research)**
- 3.)WTO (2013), Public Stockholding for Food Security Purposes, Ministerial Decision of 7 December 2013, WT/MIN(13)/38, (Geneva: WTO)**
- 4.)Hoda, A., A. Gulati (2013) India's Agricultural Trade Policy and Sustainable Development (Geneva: ICTSD)**

