Chapter-4
4.1 INTRODUCTION

The economists realized importance of international trade in economic development of a country long ago. Most of the economists were of the opinion that if each country trades according to its comparative advantage and trade is allowed to operate freely without any restrictions then it will lead to maximum welfare. For proper and smooth operation of world trade; General Agreement on Tariffs and Trade (GATT) was established in 1947. Basic objective of GATT was to promote international trade by bringing down tariff barriers and eliminating discrimination in international trade. GATT stood on the principal of “Most Favoured Nation” (MFN) clause. MFN clause implied that if a favour or advantage is extended to one nation by another nation, then that should be made available to all the other member nations unconditionally. It was expected that disputes arising from trade will be settled in mutual manner rather than resorting to international court.

There appeared many failures in the working of GATT. Many conferences were held for negotiating matters related to Tariffs and Non-Tariffs barriers.

"After several years of deliberations beginning from 1987 at Punta-del-Este-Uruguay, World Trade Organization (WTO) came into being on January 1st 1995 in order to enable the members to participate in international business on the basics of international competitiveness in a free and fair trading system. It aimed at strict
adherence to MFN clause, level playing field, certain transition period and free access to market.\textsuperscript{1} Trade in agriculture also came under the purview of WTO.

4.2 AGREEMENT ON AGRICULTURE (AOA)

The WTO agreement on agriculture was one of the many agreements, which was negotiated during the Uruguay round. Initially AoA covered three broad areas of agriculture and trade policy. Market Access, Domestic support and Export subsidies.

4.2.1 Market Access

Market Access involves opening of one's market to the exports of other countries. This includes tariffication, tariff reduction and access opportunities. This involved elimination of non-tariff barriers such as quantitative restrictions (QRs) on imports, import licensing, minimum prices etc.

"Tariffication under the URAA implied conversion of all non-tariff barriers (NTBs) into equivalents tariff barriers. Once NTBs were tariffied a reduction in the base tariff structure was envisaged under a time bound programme by 24 percent over ten years in the case of developing countries and by 36 percent over 6 years for the developed countries. The least developed countries were exempted from these reductions. In cases, where the bound tariffs were either too high, or tariffication was not done completely, there was a call to maintain current market access by providing a minimum access (quota) equal to 3 percent of domestic consumption of a particular product in the base year 1986-88. This minimum access was to be gradually increased to 5 percent of base period consumption.\textsuperscript{2} Market
access required elimination of quantitative restrictions on trade. Some amounts of relaxations were allowed to the developing and least developed nations. India also enjoyed these relaxations on Balance of Payments (BOP) ground. With the improvement in BOP India too had to gradually reduce QRs on imports. India started reducing QRs on imports since 1991 when the process of major economic reforms started. According to economic survey 2001-2002 non-tariff barriers or QRs on India’s imports have been progressively liberalized. From a level of 61 percent tariff lines being free to import as on 01.04.1996, the share of tariff lines without restrictions was increased to around 95 percent on 01.04.2001. Action has been completed on removal of restriction on tariff lines (2714 items) notified to WTO under the BOP cover QRs are, however, still being maintained on about 5 percent of tariff lines (538 items) as permissible under article XX and XXI of GATT on grounds of health, safety and moral conduct.

4.2.2 Domestic support

Domestic support provided to agriculture may either be product specific or non-product specific. The domestic support to agriculture in both these forms is measured as aggregate measure of support (AMS). AMS is the annual level of monetary aid offered to the agriculture sector. Product specific support includes subsidies given to particular product which may be in the form of minimum support prices, while non-product specific support includes subsidies on inputs e.g. Electricity, irrigation, credit fertilizer etc. The AMS should not exceed 10 percent of the total value of agricultural product for developing countries, while for the developed ones the limit was set at 5 percent. In the event of the support exceeding the
limit, developed country was required to reduce it by 20 percent over six years, whereas a developing country got ten years term to reduce it by 13.3 percent. In AMS there is a provision of exemptions for subsidy reduction commitments. These exemption provisions come under “Green Box” and “Blue Box” measures. Financial support given for research, disease control, pest management, expenditure for environmental programme and expenditure done by the government to provide relief in the event of natural disasters come under green box measures. Direct payments to producers like payments not linked to production, government’s financial help in income insurance and income safety, net programme etc are included in blue box measures. As far as India is concerned AMS is well below ten percent level therefore India has no commitment to reduce AMS. Product specific support has been negative while non-product specific support has been positive. Still non-product specific support has remained lower than what is permissible under WTO norms.

4.2.3 Export competition (Subsidies)

The AoA required reduction of export subsidy both in the form of value and quantity. Export subsidies prohibited in AoA are subsidies on exported and exportable items, subsidies given to decrease the cost of marketing the agricultural goods etc. The reduction commitment was greater for developed countries as compared to developing ones. The least developed countries have been exempted from reduction commitments. For the developed nations value of direct export subsidies is to be reduced by 36 percent and the subsidized export quantity by 21 percent over the six years implementation period. Again developing countries have been granted longer time duration for reducing export subsidies. Direct
subsidies have to be reduced to 24 percent and the quantity of subsidized exports by 14 percent, over a period of ten years. The base period is 1986-88. In India, no direct subsidy is provided to agricultural exports. Income tax exemptions are provided on profit from exports, but this is not a problem as the overall agricultural income is exempted from income tax.

4.3 TBT AND SPS MEASURES

Technical barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures are causing a hindrance for India's agricultural export. Technical barriers to trade undertaken include measures to protect public interest such as health, safety and environment. TBT may be in the form of import ban, technical specifications such as food safety regulations, labelling and quality requirements etc. TBT is to be applied on most favoured nation clause. The purpose of SPS measures is to protect human, animal or plant life from risks of diseases, disease - carrying organism or disease - causing organisms. Imports of agriculture products containing additives, toxins, which may cause health hazards, may be banned under SPS provisions. “Sanitary and phyto-sanitary measures include all relevant laws, decrees, regulations, requirements and procedures including, inter alia, end product criteria; processes and production methods; testing inspection; certification and approval procedures; quarantine treatments including relevant requirements associated with the transport of animals or plants or with the materials necessary for their survival during transport; provisions on relevant statistical methods, sampling procedures and methods of risk assessment and packaging and labelling requirements directly related to food safety.” (Swinbank, 1999) SPS agreement gives a country
the right to set their own health and safety standards, but they are to be justifiable on scientific grounds. SPS standards may be different for different countries owing to differences in climate, incidence of pests or diseases in different countries. From Indian point of view SPS measures set very high standards for compliance. India is presently facing difficulty in meeting these high standards owing to the high cost involved in adhering to it.

4.4 WTO NORMS AND THE PROBLEMS FACED BY INDIAN AGRI-EXPORTERS

India has maintained zero or low tariff on most of the imported products as compared to the WTO permissible rates. This has provided market access to developed nations. Developed nations on the other hand have manipulated WTO provisions to serve their interests.

“Developed countries engaged themselves in dirty tariffication. that is, they used data which allowed tariffs to be bound as high as possible. These countries went in for higher reduction in low tariff sectors than in the high tariff ones. Thus, they could reduce tariffs at an average rate of 36 percent but average tariff levels were reduced by less than this percentage. In contrast, India has agreed to tariff bindings of zero percent in some commodities like milk powder which are now being renegotiated to at least 50 percent as the domestic market is witnessing the adverse effects of this already. Punjab is facing the onslaught from imported milk products, prices of dairy products have crashed and the state government has demanded that the central government should impose an anti-dumping duty of at least 60 percent (Singh, 2000).”\(^5\)
"Environment related non-tariff barriers have taken several forms in the last few years. The research and information system for non-aligned and other developing countries (RIS) launched a limited primary data collection exercise in this regard. Discussions with exporters provided a glimpse of the various hurdles they face. A case in point is the experience of an Indian company exporting seedless grapes to a large chain of departmental stores in Europe. Before exporting this company had to fill an elaborate questionnaire which covered issues like the status of its employees and working environment facilities available to them, and the working conditions. The exporters are supposed to meet certain social standards before they could start exporting what the importing country calls 'socially responsible trading'. This departmental chain has actually come out with a code for its exporters which covers apart from social issues, building health centres and getting a new set of imported instruments for fire extinguishing and evacuation belts. The RIS survey shows that the production cost would go up by 35 to 40 percent because of compliance with this code."

"A number of agricultural exports of India are facing SPS-related problems. EC has introduced a high level of protection by reducing the maximum level of presence of aflatoxin for products like peanuts, other nuts and milk. Sachin Chaturvedi and Gunjan Nagpal have cited many examples where India is facing SPS-related problems. Japan food sanitation law prohibits the imports of many citrus fruits from India without any justification (based on primary survey of industries). Japan has imposed zero tolerance clauses on insects on the assumption that these could possibly be present in Indian flowers. This clause is imposed on particular insects, which
are already present in abundance in Japan. There is another problem with regard to quarantine of flowers (APEDA, 2001). The plant quarantine authorities at Japanese airports take a lot of time in the clearance of flower consignments due to elaborate fumigation procedures because of which it takes 5-9 hours to clear a consignment of flowers, which are highly perishable. Many of the south Asian suppliers of flowers are allowed to do pre-shipment inspection at the port of dispatch. In that case it is possible for Japan to post their inspectors at the exit points of flowers. However, the cost of posting inspectors is prohibitively high and would render Indian flowers uncompetitive. Another problem Indian flower exporters face is that Japanese auction houses bring the Indian roses towards the end of the auction process after the entire domestic supply is auctioned and also after flowers from other supplier countries have been auctioned. Since flowers are perishable, this affects their value in market."

Recently on the grounds of pesticide residue Italy and Germany detained Indian spices consignments. Due to high environmental standards set by OECD member nations, the export of tea, agricultural products and processed foods, marine products etc from India may become less competitive.

4.5 QUANTITATIVE RESTRICTIONS REMOVAL AND ITS IMPACT ON THE IMPORTS OF AGRICULTURAL PRODUCTS

There was a great fear in the minds of Indian agricultural producers that the lifting of QRs will lead to flooding of Indian market with imported agricultural products. No doubt a number of agricultural products e.g. fruits, juices, ketchups, meat products etc
have been imported since April 2000 but there has been not much increase in the value of agricultural products imports. According to Economic survey 2002-03, the value of agricultural imports in aggregate terms came down to about US $ 1.8 billion in 2000-01 from US $ 2.8 billion in 1999-2000 there was a marginal increase in 2001-02 in which the value was US $ 2.3 billion. Monitoring of 300 sensitive products' imports has so far revealed that such imports are limited and in aggregate constitute a small proportion of total agricultural imports. India can check the imports by imposition tariffs (bound rate) under WTO. WTO permissible tariff rates are: 112% for nuts, 150% for sugar and coffee, 100% for tea and cotton, 70 to 100 percent for food grains; 45 to 100 percent for edible oils and 40 to 50 percent for fruits. The percentage share of agro-imports in total imports was 3.7% and 4.5% in 2000-01 and 2001-02 respectively.

4.6 TRADE DEFENCE MEASURES

Due to its obligations to WTO India had to remove quantitative restrictions on the imports of majority of its agricultural products. There were great apprehensions in the minds of the Indian farmers that such measures will lead to dumping of agricultural imports and will adversely affect their incomes. To tackle this problem and to build confidence in the minds of the domestic producers necessary defence mechanism was built. Defence measures included appropriate tariffication, at peak custom duty, on the products on which QRS have been removed. Many agricultural and horticultural products, which were on free import list has been brought to the peak rate so that protection of farmers is ensured. For the agriculture products,
which are sensitive provision has been made to renegotiate tariff binding at required higher levels.

As given in Economic Survey 2001-02. EXIM policy announced on 31.03.2001 further provides for the following measures to protect the domestic producers:

- Imports of agricultural products like wheat, rice, maize, other coarse cereals, copra and coconut oil has been placed in the category of state trading. The nominated state trading enterprise will conduct the imports of these commodities solely as per commercial considerations.

- Imports have also been made subject to various existing domestic regulations like Food Adulteration Act and Rules there under, Meat Food Product Order, Tea Waste (control order).

- To ensure that imports of agricultural products do not lead to unwanted infiltration of exotic diseases and pests in the country, it has been decided to subject import of all primary products of plant and animal origin to ‘Bio security and Sanitary and Phyto-Sanitary Permit’. Import of foreign liquor, processed food products and tea wastes have been subjected to already existing domestic regulations concerning health and hygiene.

- Setting up of an early warning system to closely monitor imports of 300 sensitive items on a monthly basis.

Besides the above measures, there is a provision in WTO, which allows members to impose additional duty under certain conditions. To safeguard against dumping and subsidies provided by the exporting country, anti dumping and anti subsidy action may be
undertaken by the importers. In India institutional set up to implement all such provisions effectively exists.

4.7 **WTO'S FIFTH MINISTERIAL CONFERENCE: THE CANCUN SUMMIT**

From time to time negotiations are held between member nations of WTO to discuss various policy issues. WTO granted for special and differential treatment to developing and less developed countries, but there have been many irregularities in their implementations. Developing countries often have to face problems in their exports to the developed world. WTO norms required reduction of domestic support by both developed and developing countries. To provide a level playing field the standard set for percentage of reduction is different for developing and developed world. Still many developed nations continue to provide high subsidies to their farm sector, which leads to excessive production and tends to depress prices. Because of high subsidies provided by the developed nations some of the farm products of developing nations loose their competitiveness. Developed world have taken advantage of ‘green box’ and blue box measures to continue with their policy of subsidization. Thus on the one hand developed nations are pressing for more and more market access for their exports into the developing nations while on the other hand they do not want to do away with subsidies. To discuss these and other such matters WTO’s fifth ministerial conference was held in Cancun from September 10-14, 2003. Apart from the above-discussed issues, other issues highlighted in the conference were:

- It was highlighted that agriculture is the livelihood of the majority of the people in the developing countries including
India. Reduction of import duties on agriculture products will adversely affect the income of the farmers most of whom are extremely poor and have no other source of income to fall back upon. Gross domestic product also depends significantly on agriculture. Thus a fall in income of farmers will lead to a large deterioration in the economic welfare.

- It was also highlighted that the tariff duties imposed by developed nations on some agricultural products e.g. wheat, dairy products, edible oils etc were high and there was a need to reduce them. With the reduction in tariff rates by the developing countries, there should be reduction of input and export subsidies by the developed world.

- The standards set by the developed world on sanitary and phyto-sanitary grounds were very high. It was suggested to bring it down to acceptable level. This will not only provide better export opportunities to the developing countries but also adequate protection to the human, plant and other animal life.

- India took a proactive role to ensure that the interests of the developing countries are suitably incorporated in the final text of the agreements. India, along with four other large countries, viz. Brazil, Argentina, South Africa and China formed a core group at the Summit. Later another seventeen developing countries viz. Bolivia, Chile, Colombia, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, Thailand and Venezuela joined the core group to collectively assert the importance of trade as an instrument for economic development commensurate
to the needs and interests of developing and least developed countries.\textsuperscript{8}

The developed nations wanted greater market access into the markets of developing countries through drastic reductions in tariff rates. They themselves were not willing to reduce the input and export subsidies provided by them to their producers and exporters. Even the relaxations under S & D were found to be inadequate by the developing nations. Therefore there was wide difference of opinion between the two so no consensus could be achieved. Though developing world could not achieve the fruitful result as was expected by them after forming the core group, yet it was better than to be forced to sign a declaration which neglected the interests of the developing world.

**4.8 EXIM POLICY IN RELATION TO AGRICULTURE DURING THE POST REFORM PERIOD – PRE WTO AND POST WTO ERA**

Earlier EXIM policies were restrictive and basically inward looking import substitution oriented policies. Such policies laid greater stress on protection of the domestic industries and believed more in self-sufficiency rather than relying on international trade as an engine of growth. Earlier economists believed that the industry was infant and so could not compete with the products of highly industrialized nations. They also believed that the agriculture was way of life of the majority of the population. The agricultural products were not very competitive both price wise and quality wise. Therefore they did not open the gate for the products of other nations believing that the developed nations had the capacity to supply products at very low prices. They argued that such an inflow of industrial and agricultural products would lead to downfall of
domestic industries and would hurt the interest of the poor farmers. Therefore inward looking imports substitution policy continued for many decades.

In the early 1980's India began to liberalize trade but the process was very slow. It was only since 1991 that EXIM policies with major thrust an export promotion and liberalization were formed. Before 1991 the main features of EXIM policy were high degree of regulation, high tariff rate structure, severe quantitative restrictions, complex licensing schemes and state trading.

In July 1991 when India faced severe balance of payments crisis then it started with the process of radical policy reforms. The trade reforms basically aimed at:

- Removing licensing on most of the imports.
- Bringing out quantitative restrictions on imports and exports.
- Bringing a drastic cut on the tariff rates.
- Elimination of exports subsidies etc.

During the early 1990s the following were the main features of EXIM policy:

- The Export Oriented Units (EOU) and Export Processing Zone (EPZ) schemes were liberalized and extended to agriculture, horticulture, aquaculture, poultry and animal husbandry.
- EOU and EPZ could also export through export trading and star trading houses and install machines on lease.
- EPZ/ EOU units could convert their entire export earning at market rates; and 100% foreign equity participation was allowed in these units.
The EXIM policy (1992-97) modified in March 1993 gave a new thrust to exporters of agriculture and allied sectors.

- Definition of capital goods was enlarged to cover agriculture sector.
- Import duties on specified capital goods for export thrust areas such as food processing; horticulture and floriculture industries were reduced.
- Permission was granted to export-oriented units engaged in agriculture and allied activities to avail for duty free capital goods imports under the EOU/EPZ scheme even if they export only 50% of their output.
- Minimum export price (MEP) on basmati rice, pepper, guar gum, orchids and meat of sheep, goat and buffalo was removed.
- Exports of milk products were decanalised.
- Permission was granted to freely export superfine non-basmati rice subject to an MEP, which was lowered to $200 per ton.
- Exports of mustard seeds and rapeseeds were allowed against quota.
- Exports of wheat products were decontrolled and export of high value durum wheat, non-FAQ Jowar permitted subject to ceiling.
- Cess on sugar exports was waived and cess on pepper exports was also suspended.
- Permission was given to export 50,000 tons of sunflower seeds.

To encourage private sector initiative in food processing, the government had taken several steps:
- Union excise duty on fruit and vegetables products was withdrawn in the 1991-92 budget.

- Foreign equity participation up to 51% and foreign technology agreements were provided automatically. There were no entry barriers in the food processing industry.

As per the Coffee Act, 1942, coffee produced in the country barring in a few areas, was surrendered to the Coffee Board for auction/ sale. This Act however, allowed an Internal Sale Quota (ISQ) to the growers up to a maximum of 30% of the produce. With effect from January 14, 1994 the Coffee Act was amended to provide for raising Free Sale Quota (FSQ) to 50% of the produce which the growers were allowed to sell both in the domestic and in export markets. Coffee Board pooled the balance 50% of the produce for auction. With this amendment the dual auction system for domestic sale and for exports was combined into one auction in the Coffee Board. The government put quantitative restrictions on exports and a ceiling of 110 thousand tones was announced for 12 months period Jan – Dec 1994. The ceiling was subsequently enhanced to 120 thousand tones. Some grades of coffee were banned from export. However, these restrictions were removed with effect from January 1, 1995.

The following policy developments took place since 30 March 1994:

EOU status was given to units engaged in exports of agriculture and allied sectors, which exported at least 50% of their produce as against a minimum of 75% requirement for other sectors.
In early 1990s export quotas of sugar were determined by the government and a nominated agency handled sugar exports.

- During the 1995-96 sugar season, about 8.87 lakh tones of sugar was exported. Sugar export was decanalized and manufacturing units were permitted to pack sugar in 50 kg packages for export purposes. From 5th November 1996 sugar was packed in 1.2 and 5 kgs packs for indigenous use. These packages could be made from any food grade packaging material.

- In September 1996, trade in coffee was totally deregulated. Growers became free to sell their entire production in the domestic or export market without any quantitative restriction or compulsory pooling for sale to Coffee Board.

- In 1994-95 export of flowers was estimated at Rs. 30 crore. More than 200 export-oriented units were identified for accelerating export growth in this area.

- EXIM policy 1997-2002, which was subsequently revived on April 13, 1998 also laid stress on export competitiveness by simplifying procedures, minimizing transaction costs and delays and improving the attractiveness of various schemes.

- Threshold limit for EPCG zero duty scheme was brought down to Rs. 1 crore uniformly for agriculture and allied sector (from Rs. 5 crore) and for food processing sectors (from Rs. 20 crore)

- Exports of oilseeds when exported for consumption purposes, and of vegetable oils were made free without any quantitative and licensing requirements.

To encourage exports of sugar the following steps have been taken recently:
i) The quantitative restrictions on export of sugar have been lifted.

ii) The requirement of registration of quantity to be exported with Agricultural Processed Food Export Development Agency (APEDA) has been dispensed with.

iii) Sugar factories exporting sugar have been allowed exemption from levy on quantity exported until further orders.

In 2001-2002, government decided to undertake legislation to amend the Sugar Development Fund Act, 1982 to enable it to give loans to sugar factories at concessional rate of interest for setting up bagasse based cogeneration of power projects and for production of anhydrous alcohol/ethanol from molasses. These measures are intended to improve the viability of sugar factories. The Act would be further amended to enable the government to defray expenditure on internal transport and freight charges to the sugar factories on export shipments of sugar.9

To enhance exports of agricultural products quantitative/packaging restrictions on exports of various agricultural items were removed in February 2002.

Export Import (EXIM) policy 2002-07 gives a major thrust to agriculture exports by removing export restrictions on designated items. The efforts to promote exports of agro and agro-based products in the floriculture and horticulture sector have been sustained with the notification of 32 Agricultural export zones across the country. Non-actionable subsidies such as transport subsidy have been provided for exports of fruits, vegetables, floriculture, poultry and dairy products. All quantitative restrictions on exports (except a
few sensitive items) have been removed with only a few items being retained for export through State Trading Enterprises.

Policy measures announced in the Union Budget 2002-03 included a comprehensive package for development of Special Economic Zones (SEZ) including entitlement by these zones to procure duty free equipment, raw-materials, components, etc whether imported or purchased locally, further decontrol and deregulation of agriculture sector to encourage higher exports of farm products (with measures like decanalisation of export of agricultural commodities, phasing out of remaining export controls, setting up of more Agro-Export Zones in various states and enhanced incentives for export of food grains).

To improve quality and foster international competitiveness the Ministry of Food Processing Industries is operating plan schemes on the promotion of total quality management including ISO, 9000, ISO 14000, Hazard Analysis and critical control points (HACCP) good manufacturing practices and good hygienic practices.

Bar coding has become central to retailing of food products abroad and will increasingly play a role in India, with the growing sophistication in retailing. The Ministry of Food Processing is working on the promotion of bar coding on all food packaging.

During 2002-03 to give a boost to agro-exports FDI up to 100 percent allowed in tea sector, including tea plantations, permitted subject to compulsory disinvestment of 26 percent equity in favour of Indian partner within a period of five years and prior approval of the State government in case of any future land use change.10
As given in Economic Survey 2001-02 in the EXIM Policy 2001-02, the government announced the proposal to set up agricultural export zones to give importance to the promotion of exports of agriculture products. The basic purpose behind it is developing and sourcing raw-materials and their processing/packaging leading to final exports.

Measures taken to enhance exports from such zone include: financial assistance by developing and extending existing financial assistance to various agricultural exports related activities, fiscal incentives like benefits under export promotion capital goods scheme; exporters of value added agriculture products would be eligible for sourcing duty free fuel for generation of power, provided the cost component of power in the ultimate product is 10% or more and the input-output norms are fixed by the advance licensing committee of the DGFT; input-output norms can also be fixed for sourcing other inputs (like fertilizer, pesticides etc) duty free for cultivation purpose; and entitlement of agricultural exporters to recognition as Export House/ Trading House/ Star Trading House/ Super Star Trading House on achieving only 1/3rd of the threshold limit prescribed for exporters of goods.11

With the changing economic scenario in the world there has been many changes in the economic policies of India. Realizing the importance of international trade and finding no escape from liberalization and globalization, India too has brought about radical changes in its EXIM policies since 1991. With the outward looking EXIM policies it is hoped that there will be increase in exports from India and the share of India in world trade will increase in the near future.
REFERENCES


