CHAPTER-IV

WTO AND FOREIGN TRADE POLICY IN INDIA

4.1 Introduction

In order to ensure smooth trading relations internationally and maximize global trade after Second World War, an international institution in the form of General Agreement on Tariffs and Trade (GATT) was setup. Its objective was to work for reducing tariff on international trade in goods and provide a forum for negotiation on trade disputes and trade related issues among nations. The GATT mandated for trade in goods. The WTO, which replaced GATT in 1995 mandated for trade in goods as well as services and issues affecting international trade. Hence, WTO has considerably greater influence on trade among nations. The present chapter discusses various provisions of WTO and its implications and influence on agricultural sector in India.

4.2 The World Trade Organization

The WTO is a multilateral framework (an agreement among governments) for conduct of international trade in goods and services and also for protection of intellectual property rights, i.e., patents, copyrights, trademarks, etc and for discussion of trade related issues. The WTO has a set of multilateral agreements primarily on the rights and obligations (of governments) that prescribes for governments in formulation of rules, procedures and practices related to international trade.

The WTO, which was established in 1995, replaced the GATT with a much broader mandated. The GATT existed since 1947. The US and the UK were the main architects, though there were 23 members in the beginning of which 12 were those that are now called the developing countries. The GATT was essentially a framework for reduction of tariffs (customs duty) until 1979 (end of Tokyo Round of negotiation), when certain disciplines were elaborated in the non-tariff areas, like subsidy given by governments, dumping by firms, licensing in case of import control, valuation of customs duty at the time of import of a product, etc. As a result of the Uruguay Round of negotiations (1986-94), the WTO was created in the beginning of 1995 and the GATT was made a part of it. WTO members are
negotiating further trade liberalization under Doha Development Agenda, launched in November 2001.

**Coverage of issues**

The WTO disciplines are in three parts: (i) for the trade in goods, contained in the GATT and some specific agreements on goods; (ii) for the trade in services, contained in the General Agreement on Trade in Services (GATS) and (iii) for the protection of Intellectual Property Rights, contained in the Agreement on Trade Related Aspects of Intellectual Property Rights (Agreement on TRIPs). The principle objective of the WTO is to work for reduction of tariff on international trade. There is an agreement called the Dispute Settlement Understanding (DSU) for enforcement of the rights and obligations and for resolving disputes between governments in areas covered by agreements of WTO.

**Goods**

The Uruguay Round of GATT negotiation from 1986 to 1994, formulated a set of additional comprehensive agreements on the subjects of agriculture, sanitary and phyto-sanitary measures, textiles and clothing, technical barriers to trade, trade-related investment measures, anti-dumping, customs valuations, pre-shipment inspection, rules of origin, import licensing, subsidies and other safeguard to pave the way for formation of WTO in 1995. The provisions of these new agreements override those of the GATT 1994, in case of any conflict between the two.

**Services**

The General Agreement on Trade in Services (GATS) contains the disciplines in the area of services. It was felt that since formation of GATT, trade in services has grown many fold and is likely to constitute a large proportion of trade as services increase in developing countries, bringing services to the fold of WTO makes sense.

**Dispute settlement**

The dispute settlement understanding (DSU) provides framework and procedure for settlement of disputes between members on enforcement of rights and obligations contained in the agreement of WTO. These agreements are in the form of annexes to the main agreement that created the WTO. It is titled: “Marrakesh Agreement Establishing the World Trade Organization”, in short “WTO Agreement”. All these texts are compiled in one place
in the WTO publication “The Result of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts”.

**Institutional framework of WTO**

The highest decision making body in the WTO is the ministerial conference that meets at least once in two years. So far, these conferences have been in Singapore (1996), Geneva (1998), Seattle (1999), Doha (2001), Cancun (2003), Hong Kong (2005) and Geneva (2009). In between the ministerial conferences, functions of the ministerial conference are conducted by the General Council. There are councils for specific areas: Council for Trade in Goods for the implementation of agreements on goods, Council for Trade in Services for implementation of the GATS and Council for TRIPs for the implementation of agreements on TRIPs, and council for trade related investment measures (TRIMs). All the members of the WTO are members of all these bodies.

**Decision making process at the WTO**

Decisions are generally taken in the WTO by consensus, which has been specifically defined. A decision will be deemed to have been made by consensus “if no Member, present at the meeting when the decision is being taken, formally objects to the proposed decision”. If consensus is not possible, the decision is required to be taken by voting. There is the system of one-member-one vote and decision is generally by majority. For very special purposes, higher majority is prescribed. For example, a decision on interpretation of an agreement or a waiver of an obligation needs three-fourths majority. Amendments require two-thirds majority or in some matters acceptance by all members. In actual practice, voting is not resorted to; difference is settled by prolonged consultations and decisions.

**Principle of non-discrimination**

The most basic principle in the GATT/WTO system is that there should be free and open competition in trade through non-discrimination between imports from different countries and between imported goods and domestically produced goods. Towards this end, two provisions form the main pillars of the system: most favored nation treatment and national treatment. These are explained below.

Most Favored Nations (MFN) treatment: It provides that there must not be any discrimination as between different Member countries in the matter of treatment that a member extends to
them. The title is derived from the requirement that any concession given by a country has to be extended to all WTO Members.

There are some permitted exceptions to the MFN rule, for example:

a. Two countries or a group of countries may form regional trading agreement and may extend low tariffs to one another without giving this benefit to those outside the arrangement.

b. Developing countries may get special benefits from other countries and they may have special arrangements among themselves without others getting the benefits.

National treatment: It is a commitment by a country to treat foreign products in the same manner as they would treat domestic products (provided that the foreign products are “like” their domestic counterparts). A country is prohibited from providing less favorable treatment to an imported product than provided to a like domestic product. An exception to the national treatment is provision of subsidy for the production of domestic products under certain disciplines without providing such subsidy to the like imported product.

Another basic principle of WTO is that tariffs should be the only instrument for controlling trade. Following are some of the exceptions to this principle:

1. Countries are permitted to impose quantitative restrictions on imports if they face balance of payment problems.

2. Articles XX and XXI of GATT 1994 provide specific reasons for invoking exceptions. Some of the reasons include protection of its essential security interests; protection of public morals; protection of human, animal and plant life or health; conservation of exhaustible natural resources etc.

Tariffs

In general the goods exported from a country to another country have to be allowed unrestrained entry into the latter. However, a country may apply tariff, i.e., customs duty, on a product at the time of import. Tariff normally product has three functions: (i) it provides revenue to the government (ii). It protects the domestic product from competition with the imported product as the latter becomes more costly because of the tariff and (iii) it is an instrument in development policy for discouraging non-priority import like, for example,
luxury goods, while encouraging priority imports like capital goods and industrial intermediates. As the imported product becomes more costly with the levy of tariff then what would be the situation without it, the tariff has a restraining effect on the import.

Through successive rounds of tariff commitments, countries have progressively bound tariffs on a large percentage of products. As a result of the Uruguay Round commitments, India bound 69.8 percent of its tariff lines on industrial products. In respect of these products, India has agreed to an upper ceiling on applied duties. However, India has the flexibility to apply any level of tariffs in respect of the remaining products, which are called unbound tariff lines.

**Classification of Products for taking commitments and levying tariffs (HS system)**

National tariffs are organized in the form of tables that consists of “tariff classification numbers” assigned to goods and a corresponding tariff rate. The way in which an item is classified for tariff purpose will have an important and palpable effect on the duties charged. The WTO does not contain rules regarding tariff classifications. In the past, countries had their own individual systems. However, as trade expanded, countries began to recognize the need for more uniform classifications, which resulted in the drafting of the Harmonized Commodity Description and Coding System, or the HS system in 1988. Today, most countries use a common harmonized system of six-digit tariff numbers. The latest revision of the HS which is in force is the HS Revision of 2007 (HS 2007).

The HS is a commodity classification system in which articles are grouped largely according to the nature of the materials of which they are made. The HS contains approximately 5000 headings and subheadings covering all articles in trade. These provisions are organized in 96 chapters and sections which, along with the interpretive rules and legal text of the Harmonized System. The HS was developed and is maintained by the World Customs Organization (WCO), an independent intergovernmental organization with over 160 member countries based in Brussels, Belgium.

Countries have the flexibility to adopt a more disaggregate and detailed system of tariff classification beyond the common six-digit HS. However, the detailed codes beyond the common six-digit HS vary from country to country. For instance, India imposes tariffs based on HS 2007, but at eight-digit level. Japan imposes tariffs based on HS 2007, but at nine-digit level. This prevents an accurate comparison of tariffs at the disaggregated product level across countries. However, comparison of tariff at the product level across countries is
generally undertaken by taking average tariffs of all disaggregated products within the broad six-digit HS category.

The main advantage of using a detailed system of tariff classification beyond the six digits HS, is that it provides countries greater flexibility to apply different tariffs on similar disaggregated products. If the tariff were to be applied at the six digit level, it may not have been possible to impose lower customs tariff on boneless meat of lambs, while according higher protection to meat of other products.

WTO members have bound their tariff lines on variety of formulations. These broadly include ad valorem and non-ad valorem basis. Ad valorem tariff is a tariff that has been calculated as a percentage of the value of an imported good. On ad valorem bindings are generally expressed in the following four different formulations. Specific duty is when specific units of currency are levied per unit of quantity (e.g. weight, surface, piece, head, etc.). Compound duties is said to be levied when a duty comprising an ad valorem duty to which a specific duty is either added or subtracted. Mixed duties are a conditional choice between an ad valorem duty and a specific duty, subject to an upper and/or a lower limit. Other formulations include a residual category, that is, duties are determined by complex technical factors. For example, the percentage content of agricultural component (sugar, milk, alcohol content, etc.) determines the amount of the duty.

4.2 WTO: The Negotiating Forum

The WTO is essentially a permanent negotiating forum in which trade issues are most important. Three basic tariff negotiations are: 1) Negotiations are to be on a reciprocal and mutually advantageous basis; 2) Concessions are to be bound; and 3) It has applied on a MFN (Most Favored Nation) basis (Article I of the GATT). Tariff binding is fundamental in the GATT context; it is on the basis of claims that bindings have been violated that a member may initiate dispute-settlement procedures. The inclusion of the new issues and the creation of the new institution, the WTO, was to transform the multilateral trading system. The developing countries, excluding South Korea and transition economies such as Poland, account for only 10% of the domestic support payment. The major users of domestic support

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3 India in the GATT and WTO, Institute of international economics (2003), page 99.
among the developing countries are Brazil, Thailand, Venezuela, South Africa, Israel and Colombia. The least developed countries have a negligible share in the total domestic support. Argentina; Israel, South Korea, South Africa and Tunisia are closer to 80% of their respective ceilings on the domestic support. Brazil provides mainly the Green Box type support and less than 10% of the support is of the Amber Box type. Thailand and Colombia access to Green Box support than domestic support. The shares of Green Box type and domestic support are more or less equal in the case of South Africa and Israel. Nearly one-third of the total support in South Korea is domestic support. Venezuela provides more domestic support than Green Box support. India provides product-specific domestic support in the form of Minimum Support Price. International prices were higher than the domestic prices for all commodities except sugarcane and tobacco, the product specific Aggregate Measurement of Support is essentially negative for India during the year 1986–88. The total non-product specific support provided for fertilizers, water, seeds, credit and electricity during the reference period is Rs 45.8 billion.

4.3 The GATT and Developing Countries

The GATT event from the perspective of developing countries was the grant of a 10-year waiver from the MFN clause with respect to tariffs and other preferences of trade to different developing countries. The United States withdraw GSP status from Chile in 1987 because Chile did not provide its workers “internationally accepted” rights. Some of the more advanced developing countries benefited to a greater extent from the GSP and expanded their exports to industrialized countries. Tariffs and other barriers in industrialized countries on their exports were reduced to a smaller extent than those on exports of industrialized countries in each round of the MTNs. Products in which they had a comparative advantage, such as textiles and apparel, were taken out of the GATT discipline altogether. Agriculture, sector of great interest to developing countries, largely remained outside the GATT framework. “Concessions” granted to developing countries, such as the inclusion of Part IV on trade and development and the Tokyo Round enabling clause on special and differential treatment. The other interpretation is that developing countries, are misguided pursuit of the import-substitution strategy of development, in effect opted out of the GATT. India’s early start in industrialization before the East Asian countries, India certainly would have grown faster under an outward-oriented policy regime.
4.4 Labor, Environmental Standards, and the WTO

The implementation of labor standards in international trade agreements dates back to the charter of the International Trade Organization. Article 7 of the stillborn organization stated, “The members recognize that unfair labor conditions, particularly in the production for export, create difficulties in international trade, and accordingly. Various administrations in the United States, both Democratic and Republican, unsuccessfully proposed the inclusion of a labor standards article in the GATT during several rounds of MTNs. Political parties have made similar proposals in national parliaments in several European countries and also in the European Parliament.

The demand for the formal inclusion of a “social” clause in the mandate of the WTO was raised after the painful and lengthy negotiations of the Uruguay Round had been completed and almost held the negotiated agreement hostage. The agreement was signed, but with an understanding that the topic of labor standards could be discussed by the preparatory committee for the WTO. First two ministerial meetings of the WTO in Singapore and Geneva, in 1996 and 1998 respectively, Recently, imposing tariffs on steel on the grounds that imports were hurting domestic industry and signing a bill providing large subsidies to agriculture, has reflected this image.

4.5 WTO Rules on TBT

The WTO Agreement on Technical Barriers to Trade aims to ensure that mandatory technical regulations, voluntary standards, and testing and certification of products do not constitute unnecessary barriers to trade. The basic rule is that technical regulations should not be more trade-restrictive than is necessary to meet their legitimate objectives. The latter include national security requirement, the prevention of deceptive practices and the protection of human health or safety, animal or plant life and health, or the environment. Necessary international standards must be used as a basis for technical regulations, except for climatic, geographical, or technological factors. Technical regulations on product requirements should be in terms of performance rather than design or descriptive characteristics. A Good Practice applies regarding the preparation, adoption, and applications of standards. The results of conformity assessment procedures in exporting countries must be accepted if these are equivalent to domestic ones. Members are to negotiate mutual recognition agreements for conformity assessment procedures and apply the MFN and national treatment principles while permitting participation of foreign certification bodies. The transparency disciplines relating to publication of regulations are contained in Article X of the GATT. SPMs may not
unjustifiably discriminate between members, be more trade-restrictive than required to achieve their objectives, or constitute a disguised restriction on international trade. International standards, guidelines, or recommendations unless it can be proven with scientific evidence that an alternative is preferable. SPMs must be based on scientific principles, including an assessment of the risks to human, animal, or plant life or health. It must take into account risk-assessment techniques developed by relevant international organizations. The committee on SPMs grants developing countries specified, time-limited exceptions from meeting the requirements of the Agreement. An enquiry point must exist to provide answers to SPM-related queries from trading partners and to provide relevant documents.

4.6 The Uruguay Round Agreement, India, and Developing Countries
The Uruguay Round Agreement (URA) agreed on traditional GATT issues such as reductions of tariffs and tariff bindings, a not completely successful attempt to bring agricultural trade under multilateral disciplines, a major revamping and strengthening of the Dispute Settlement Mechanism (DSM), phasing out of the Multi-Fiber Arrangement (MFA) that was an egregious violation of GATT principles, an agreement on Trade-Related Investment Measures (TRIMs) and Trade-Related Aspects of Intellectual Property Rights (TRIPS), and a new General Agreement on Trade in Services (GATS). India’s full integration with world markets could potentially have significant effects on world prices of certain agricultural commodities (e.g., rice, vegetable oils, and fats).

Uruguay Round commitments by India have begun to affect its trade policies, but there is still substantial trade protection in place. India increased the proportion of tariff lines it bound from 6 percent before the Uruguay Round to 67 percent as part of its commitments in the agreement concluding the round. Tariffs for nonagricultural goods, with few exceptions, were bound at 40 percent for finished goods and 25 percent on in-termedate goods, with the reductions from applied levels to the bounds to be completed by 2005.

After some hesitation, and after having been ruled against by the WTO’s Dispute Settlement Mechanism (DSM) on a complaint from the United States, India has finally brought its domestic patent laws into conformity with what is required under the TRIPS agreement. Under the TRIMs agreement, India notified the TRIMs maintained by it and has since eliminated them. Under the Information Technology Agreement, India is committed to
eliminating tariffs on 95 tariff lines by 2000, on 4 lines by 2003, on 2 lines by 2004, and on the remaining 116 lines by 2005.

India suggested the balance of payments provision of Article XVIII (B) of the GATT in an effort to delay the implementation of its commitment to phase out its existing quantitative restrictions (QRs) on about 2,300 tariff lines consisting mostly of consumer goods. It entered into bilateral agreements with Australia, Canada, Japan, and the European Union for the pace of phase out of QRs after these countries had filed a complaint against India with the WTO. The United States, not agreed on DSM ruled against India. India appealed against the ruling on the grounds that the DSM has no jurisdiction for ruling on the use of balance of payments provisions and that the WTO balance of payments committee should handle the matter.

India’s outweighed average of bound tariffs on manufactured imports was as high as 51 percent (Mattoo and Subramanian 2000,). In agriculture, like most other countries, India has participated in the shameful exercise of “dirty tariffication” and bound its rates at 100 percent on primary commodities, 150 percent on processed goods, and 300 percent on edible oil products. According to Mattoo and Subramanian (2000) the difference between bound rates and applied rates in 2000 exceeded 50 percent in 656 out of 673 tariff lines. Before the URA, India had bound its tariff at zero for some commodities. Since the URA, these bounds have been renegotiated and set at much higher levels. India, as a developing country, has availed itself of the full range of allowed exceptions and has made no commitments whatsoever with respect to market access or reduction of subsidies or tariffs. The WTO is a supranational agency that tramples over the sovereignty of its members to serve the interests of transnational corporations at the expense of the world’s workers and the environment had no merit whatsoever.

Many developing countries had concluded that, the URA was unbalanced in that it included TRIPs and TRIMs agreements that overall certainly did not benefit them in the short run (and probably not in the long run) in return for a back-loaded phase out of the MFA. In terms of market access, even after the URA commitments on reductions were allowed for, tariff peaks and tariff evaluation remained—and they mostly affected the exports of developing countries. The developing countries did not anticipate the out-lines of the eventual TRIPs agreement when they consented to include intellectual property in the Uruguay Round agenda. Developing countries justifiably feared that any compromise on their part on issues to be included in the negotiating agenda would hurt them in subsequent negotiations. With the high
perceived cost to them of the final TRIPs agreement very much in mind, they were less willing to compromise on including items (e.g., the so-called Singapore issues relating to investment, competition policy, trade facilitation, and transparency in government procurement) in the agenda of any future round might be costly for them.

4.7 Anti-Dumping Actions

Dumping is said to occur if the export price of a product is below the costs of production, i.e. when products are sold in an export market for less than what is charged in its home market for the same product. Dumping is not prohibited, but certain rules are to be followed by governments that seek to offset dumping duties may not be imposed if dumping margins are less than two percent, or level of injury negligible, or market share of a firm is less than three percent and cumulatively less than seven percent for exporters each supplying less than three percent.

Table 4.1 Investigation imitated by Top ten users of anti dumping measures 1995-2010

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Source: WTO: Economic Survey 2010-11
Anti-dumping investigations initiated by all countries started falling after reaching a peak in 2001, numbering 165 in 2007. However, in 2008, they again rose to 213. While they fell marginally to 209 in 2009, there seems to be a downward movement in 2010, with only 69 investigations initiated in the first half of the year (Table 4.1). India’s anti-dumping initiations fell from 55 in 2008 to 31 in 2009. In the first half of 2010, there were 17 anti-dumping initiations by India. During 2010-11 (up to 31 December 2010), the Directorate General of Antidumping and Allied Duties has initiated 13 fresh anti-dumping investigations. The products involved are certain hot rolled flat stainless steel products, azodi carbon amide, sewing machine needles caustic soda, paranitroaniline, stainless steel cold rolled flat products of 200 series having width below 600 mm, stainless steel cold rolled flat products of 400 series having width below 600 mm, soda ash, opal glassware, melamine, morph line, georgics and aniline-III. The countries involved in these investigations are the European Union, Korea, South Africa, Taiwan, the USA, China PR, Thailand, Norway, UAE, Kenya, Iran, Pakistan, Turkey, Ukraine, Indonesia, Japan, and Malaysia.

4.8 Special products and safeguards
Safeguard provisions allow for temporary suspensions of obligations under the agreement. They function as both insurance mechanisms and safety valves. They provide governments with the means to renege on commitments when the need arises. Special and Differential treatment will be provided to developing countries through measures such as longer implementation periods and smaller cuts. Only developing countries will be able to designate Special Products for more flexible treatment, based on criteria of food security, livelihood security and rural development needs. They will also have recourse to a Special Safeguard Mechanism (SSM) to take measures against sudden import surges. The inclusion of these concepts was a key priority for G-33 countries.

4.9 Negotiations on TRIPs
TRIPs were one of the more difficult issues on the UR agenda, both politically and technically. Many developing countries favored disciplines on trade in counterfeit goods, but they opposed inclusion of TRIPs in the WTO agenda. The greater protection of IPRs would strengthen the monopoly power of multinational companies.

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4 Doha round briefing series vol 3 Dec 2004 page no 3.
Developing countries, led by India, argued that GATT was not the right place for setting and enforcing IP standards. The enforcement of IPRs in developing countries would entail adjustment costs. The TRIPs agreement became an integral part of the WTO. The areas of intellectual property that it covers are copyrights and related rights (i.e. the rights of performers, producers of sound recordings and broadcasting organizations); trademarks including service marks; geographical indications including appellations of origin; industrial designs; patents including the protection of new varieties of plants; the layout-design of integrated circuits; and undisclosed information including secrets and test data. The agreement establishes minimum substantive standards of protection, prescribes procedures and remedies which should be available to enforce rights, makes the general dispute-settlement mechanism to address TRIPs-related issues, and extends principles such as transparency, national treatment, and MFN. TRIPs agreement includes provisions for protection of geographical indications. The use of geographical indications that misled consumers as of the origin of goods is to be prevented. Geographical indications for wines and spirits are given more effective protection. As regards patents, at least twenty-year protection is to be provided for inventions, including processes and products. The permitted exclusions from patent ability comprise plants and animals, other than microorganisms, as well as essentially biotechnological processes. Plant varieties have to be given protection. Inventions may be excluded from patent ability for reasons of morality, public order, or therapeutic, diagnostic, or surgical usefulness. There are detailed rules concerning compulsory licensing and government use of patents without the owner’s authorization.

**Income Insurance’ Scheme**

Developing countries need to worry about ‘green box’ subsidies because they actually operate like an ‘income insurance’ scheme for farmers in industrialized countries. They protected from the volatility of the global markets. Economists suggested elimination of agricultural subsidies (and that includes ‘green box’ payments) actually changes nothing. Land has a great influence and the withdrawal of subsidies would mean that farmers change the cropping pattern. Such a change doesn’t have a significant impact on reducing global prices and therefore there is no economic sense in facing out agricultural subsidies.

**4.10 Small Industry and Globalization**

United Nations Conference on Trade and Development (UNCTAD) initiated a programmed called Strategies and Preparedness for Trade and Globalization in India. The overriding
objective of this project, according to UNCTAD, is to assist the government of India and other stakeholders at the national, state and local levels to assess impacts and opportunities emerging from globalization to build capacities to influence evolving international trade rules, and to enhance preparedness for globalization. The emphasis will be on institutions and sectors with the greatest potential to affect the poor.

4.11 Trade in Services
The introduction of services on the MTN agenda reflects their increasing importance in domestic economies and international trade. As services are intangible, barriers to trade do not take the form of import tariffs. Trade barriers in services take the form of prohibitions, QRs, and government regulations. The GATS applies to measures imposed by members that affect the consumption of services originating in other member states (Article I).

India has emerged as one of the fastest growing exporters of services in the world. Services contribute over 30 percent of the total exports of India, while globally this ratio is only about 20 percent. Between 1992 and 2003, India's service exports increased more than fivefold, from $4.9 billion to $25 billion. As a result of the robust growth of service exports and emigrant remittances, after a very long period the current account of India turned positive in 2001-02.

4.12 Agriculture in WTO
Agriculture was kept outside the purview of GATT till 1995. However, UR has succeeded in bringing agriculture on the main track of GATT and agriculture trade is now firmly within the multilateral trading system. All the member countries of WTO are committed to follow set of rules embodied in WTO Agreement on Agriculture which covers:

(i) Domestic support,

(ii) Market access i.e., tariffs, and restrictions on imports and exports, and,

(iii) Export subsidies.

The agreement-sought reduction in trade distorting domestic policies like price interventions and subsidies; reduction in export subsidies; replacing quantitative restrictions on trade with tariffs and reduction in tariffs to encourage more and freer trade. It was projected that trade liberalization and implementation of Agreement on Agriculture (AOA) would bring large benefits to the developing countries through improved access to the developed countries’
markets, increased trade and better pricing environment for tropical and other products of interest to the developing countries. The Uruguay Round AOA was first step towards the reforms in agriculture trade.

The Article XX of the Uruguay Round agreement on agriculture required WTO members to review the agreement after about five years, i.e. by the end of 1999 or beginning of 2000, for continuing the reforms started with the Uruguay Round. This provided opportunity to review the effect of implementation of UR AOA, and, in the light of this experience, move further towards establishing free, fair, and market-oriented agricultural trading system. Negotiations for the next Round of AOA were started in March 2000 and have passed through several phases. Presently, there is a complete stalemate as the WTO members could not come to an agreement. The reason for the delay and stalemate in concluding the new round is the sharp differences among the members on various aspects of AOA. Implementation of UR commitments has been a tough task for several member countries and it has exposed vulnerability of various segments of agriculture to global market forces. In most of the cases expectations placed on UR AOA or promises related to this did not materialize. The trade liberalization and implementation of AOA would bring large benefits to the developing countries through improved access to the developed countries’ markets, increased trade and better pricing environment for tropical and other products of interest to the developing countries. However, there was a distinction between reality and the promise. The biggest challenge to the developing countries' agriculture in the post WTO period was posed by unprecedented and unforeseen decline in international agricultural prices. The prices of cereals, fish, sugar, cotton and beverage started declining after 1996 onwards and lows. This makes exporters from underdeveloped countries loose export markets and export becomes uncompetitive for them.

4.13 Subsidies
It is an important issue in the GATT system. Subsidization may pertain to import-competing industries or export on export subsidies, the Hong Kong Declaration agreed on elimination by end 2013, and there is also a stipulation for front-loading (i.e. for most reduction to take place at the start of implementation). As Das (2006) has commented: "There is no reason for export subsidies to continue at all; hence the bulk of the developed countries' export subsidies, say 90 per cent, should be eliminated right at the end of the first year of implantation period of the outcome of the negotiations." The reduction in tariff and domestic support provides an
opportunity for increased market access and competitiveness in that country, third country will get the benefit in reduction in export subsidies.\textsuperscript{5}

**‘Green Box’ Subsidies**

The ‘Green Box’ covers subsidies must not involve price support that is expected to cause minimal or no trade distortions. Direct income support for European, Japanese farmers, and US, which is formally decoupled from production levels and prices. ‘Green box’ also includes subsidies granted in the name of environment protection and preservation, and for agricultural research and development.

The G-20 (group of countries that stood up on the issue of agriculture at the Cancun Ministerial) too refrained from driving home the point realizing that maintaining the status quo on domestic support on the ‘Green Box’ (and to some extent through the ‘Blue box’) will be catastrophic for millions of farmers have already been hit badly cheap agricultural imports and unfair rules. The governments are not standing up collectively to demand the removal of all kinds of agricultural subsidies as a prerequisite to further consultations.\textsuperscript{6}

**4.14 Technical regulations Standards**

Products standard, technical regulations and certification systems are essential to international trade. Both standard and regulation are technical specifications for a particular product. A standard is voluntary, usually being defined by an industry or by a non-governmental standardization body. Technical regulations are mandatory and legally binding, and are usually imposed in order to safeguard public or animal health, or the environment. In developed economies, the number of standards far exceeds the number of technical regulations. Certification systems comprise the procedures to be followed to ensure that products conform to the relevant standard or regulation.

\textsuperscript{5} Market avenues for agricultural under globalization and liberalization.( Naveen p Singh and RP Singh Divs. of agri economics) Page no 157

\textsuperscript{6} WTO and Agriculture ‘Green Box’ Subsidies must go Devinder Sharma (Economic and political weekly May 2004).Page 1997.
4.15 Trade-related Investment Measures (TRIMs)

Trade-related investment measures (TRIMs) are policies used by governments to force foreign investors to attain certain performance standards, such as local content requirements and export performance requirements. Any country with a large market has high import tariffs; this may induce foreign firms to invest for local production (so-called tariff wall-jumping). The government may then impose TRIMs on such investments. TRIMs were one of controversial topics on the agenda of the UR negotiations. Many developing countries were of the view that TRIMs were beyond the scope of the GATT, and that the GATT was not necessarily the appropriate forum for such an agreement. However, the TRIMs agreement emerged as a compromise. All TRIMs that are inconsistent with the GATT must be notified to the WTO Secretariat, and members must eliminate such measures within two, five, or seven years (for industrialized, developing, and least developed countries, respectively). The experience around the world during the pre-TRIPS era of the use of the compulsory licenses has not been very encouraging.\(^7\)

4.16 Trade in goods

The customs tariff is in principle the only instrument of protection allowed under the WTO. There are two basic rules under the GATT with respect to tariffs. First, tariffs must be non-discriminatory (Article I). The main exceptions to the MFN rule apply in case of members of regional integration agreements, providing tariff preferences in favor of developing countries, or in case of confronting imports from a non-member country. Second, members are encouraged to bind tariffs. The tariff concessions in the form of bound tariff rates are inscribed in each member’s tariff schedule (Article II). By binding its tariff, a member undertakes not to impose on a specific product tariff, which is higher than the bound tariff rate. Also, bindings have tended to be at or near applied rates.

Tariff escalation is closely related to the concept of effective protection. Tariff escalation exists if duty rates on raw materials and intermediates are lower than rates on processed commodities that embody the relevant inputs. This poses difficulty to generate value added home, as the low tariffs on raw materials becomes a disincentive to value-added processing for exports. Tariff escalation was noticed in the case of natural-resource-based products like

\(^7\)Non- solution of TRIPS problems Economic and political weekly( C Niranjan Rao ,Jan-2006)
metal ores, minerals, forestry products, and fish and fishery products. As a result of the importance of these products for developing countries, a specific negotiating group was established in the Uruguay round to lower tariff barriers and reduces tariff escalation.

4.17 Quantitative Restrictions
Despite the fact that GATT rules basically prohibit the use of QRs, governments use them to protect domestic import-competing industries. QRs have been particularly prevalent in trade in agricultural products, textile and clothing, and steel. Article XI-XIV of GATT address QRs. Article XI prohibits them in principle. Article XII allows QRs to be used for balance-of-payments (BOP) reasons. The basic obligation imposed on members in Article XI-1 is to refrain from introducing or maintaining QRs. QRs are banned not only because of economic considerations, but also to prevent government from circumventing tariff bindings. The GATT recognizes that QRs may be enforced by means of licenses. There is a separate Agreement on import licensing procedures. There are requirements to enhance transparency of licensing systems, publication requirements, the right of appeal against decisions, and the length of license validity.

4.18 Sanitary and Phyto-Sanitary Measures (SPMs)
Technical Barriers to Trade (TBT) and Sanitary and Phyto-sanitary (SPS) issues in food sector the main objective is to protect risks to human beings, animals and plant life. The guiding principles should be transparency and avoidance of arbitrary SPS standards. In the negotiations, implementation issues are not adequately addressed. These mainly include reasonable interval / longer time frame for the developing countries to comply with other countries, new SPS measures, review of agreement at frequent intervals, participation of developing countries in setting SPS standards, technical and financial assistance to establish mechanisms, follow-up procedures, etc. The time framework for compliance for the developing countries should be raised from the present 6 months to 12 months. Similarly, 60 days period to react to revisions is a quite short for the developing countries.

There is lack of experts/specialists and lawyers about international law and science technology. Major steps should be to review SPS agreement at regular intervals, monitor the use of international standards, provide technical assistance to needy member countries and address the concerns of member countries in respect of special and differential treatment, rationalizations, specific trade concerns, use of ad-hoc consultations, and to liaise with the Codex, OIE and IIPC.
Sanitary and Phyto-sanitary Measures (SPMs) are requirements that are imposed by governments to ensure the safety of products for human or animal consumption, or to safeguard the environment. Most governments establish minimum standards that products, plants or animals must meet for entry to their territory. These norms are applicable equally to foreign and domestically produced goods, plants, or animals. And phased out progressively as Bop situation improves. Article XIV provides legal; cover to take measures to safeguard public morals, order, health, security, consumer protection, and privacy. Specific commitments on national treatment and market access apply only to service sectors listed by members, subject to sector-specific qualifications, conditions, and limitations. Trade in goods embodying IP has increased substantially. The industrialized market economies contended that inadequate protection of IP in technology-importing countries reduced their competitive advantage in the high-technology area, due to trade in counterfeit goods. As technologies for duplication became more advanced and the reproduction of IP easier and cheaper, trade in goods embodying stolen IP became a contentious issue.

4.19 Intellectual Property Rights

The technology must focus on the poor marginal and small farmers, who own nearly 80% of the farm holdings being less than 2 ha. Several national Acts have been passed and amended, and international treaties concluded over the years regarding IPR related issues. The scope of IPR covers seed, agro-chemicals, tools, input delivery, controlled systems, post-harvest agriculture, food products, non-food products etc. Now, prior approval of National Biodiversity Authority has been made mandatory for seeking IPR on innovations using national bio-resources and associated traditional knowledge. Patenting is highly challenging, it included plants and animals, gene sequence, single nucleotide sequences, etc. in the developed countries. The impact of such patenting is likely to cripple research on the patented biodiversity in the developing countries. Patenting improves science, technology & socio-economic development a country. The patents have to benefit the public, and the patented products should be available to the public.

Intellectual property (IP) can be defined as information with a commercial value. Intellectual property rights have been defined, as a mix of ideas, inventions, and creative expression on which there is a public willingness to bestow the status of property. IP protection contributes to more rapid disclosure of inventions.
4.20 Doha Development agenda

The negotiating agenda of the WTO has expanded over time with inclusion of topics such as investment, competition, government procurement, trade facilitation, labor standards and environment policies. The first four are termed as ‘Singapore Issues’ as these topics were included in agenda, the second ministerial meet at Singapore (1997), trade and investment are related, with increase in intra-firm trade and globalization of production. Competition policy can be defined as a set of rules and disciplines maintained by governments relating to agreements between firms that restrict competition. Environmental concerns about the limits to growth and the rapid depletion of global natural resources called for environmental policies. The environmental policies reduce the ability of enterprises located in countries with high standards to compete with those that operate in nations with low standards. The objective to include labor standards was to initiate discussions on the introduction of a Social Clause specifying minimum standards, as a pre-condition for market-access. The inclusion of these areas was strongly opposed by developing countries, on grounds that as these are non-trade issues, and even though trade-related the WTO not being the competent forum to negotiate. The Seattle Ministerial meet (1999) could not reach a consensus on many of these issues, and attempt to include labor standards was not agreed by the developing countries. Therefore it was planned to reach a consensus at the Doha in 2001. Cheap subsidized imports would pose a serious threat to food and livelihood security of millions of Indian farmers.8

The Doha Round is the latest round of trade negotiations among the WTO membership. Its aim is to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules. The work programme covers about 20 areas of trade. The Round is also known semi-officially as the Doha Development Agenda as a fundamental objective is to improve the trading prospects of developing countries.

The Round was officially launched at the WTO’s Fourth Ministerial Conference in Doha, Qatar, in November 2001. The Doha Ministerial Declaration provided the mandate for the negotiations, including on agriculture, services and an intellectual property topic, which began earlier. In Doha, ministers also approved a decision on how to address the problems developing countries face in implementing the current WTO agreements.

8 "Quit Doha trade talks if concerns not addressed “The Times of India( Jun2008)
The Doha Declaration explained

The November 2001 declaration of the Fourth Ministerial Conference in Doha, Qatar, provides the mandate for negotiations on a range of subjects, and other work including issues concerning the implementation of the present agreements. The negotiations take place in the Trade Negotiations Committee and its subsidiaries. Other work under the work programme takes place in other WTO councils and committees. This is an unofficial explanation of what the declaration mandates.

The work programme

The 21 subjects listed in the Doha Declaration (and the paragraphs that refer to them). Most of these involve negotiations; other work includes actions under “implementation”, analysis and monitoring:

Implementation-related issues and concerns

“Implementation” is short-hand for problems raised particularly by developing countries about the implementation of the current WTO Agreements, i.e. the agreements arising from the Uruguay Round negotiations.

In Doha this important question was handled in two ways. First, ministers agreed to adopt around 50 decisions clarifying the obligations of developing country member governments with respect to issues including agriculture, subsidies, textiles and clothing, technical barriers to trade, trade-related investment measures and rules of origin.

Agreement on these points required hard bargaining between negotiators over the course of nearly three years.

Many other implementation issues of concern to developing countries have not been settled, however. For these issues, Ministers agreed in Doha on a future work programme for addressing these matters.

In paragraph 12 of the Ministerial Declaration, ministers underscored that they had taken a decision on the 50 or so measures in a separate ministerial document (the 14 November 2001 decision on “Implementation-Related Issues and Concerns”) and pointed out that “negotiations on outstanding implementation issues shall be an integral part of the Work Programme” in the coming years.
The ministers established a two-track approach. Those issues for which there was an agreed negotiating mandate in the declaration would be dealt with under the terms of that mandate.

Those implementation issues where there is no mandate to negotiate, would be the taken up as “a matter of priority” by relevant WTO councils and committees. These bodies are to report on their progress to the Trade Negotiations Committee by the end of 2002 for “appropriate action”.

4.21 Value-added Exports
The value-added exports are most evident in the recent Targeted Export Assistance (TEA) program mandated by Congress and administered through the Foreign Agricultural Service (FAS) of the United States Department of Agriculture (USDA). The program supplements other export promotion activities of that agency.

The TEA program and according to unofficial FAS estimates, value-added agricultural exports in June, 1986, exceeded bulk commodity exports for the first time. While this correlation does not prove cause and effect, it suggests that the TEA program is worth taking seriously. Value-added products constituted 38 percent of U.S. agricultural exports in 1983, but 61 percent of global agricultural trade. The value-added she for key agricultural exporters included 74 percent for the European Community (EC), 57 percent for Brazil, 78 percent for New Zealand and 95 percent for Spain (U.S. Department of Agriculture). Semi processed products such as flour, oilseed products and meats account about half of the global trade in value-added and high-value products for.

The other half is divided between highly processed foods such as dairy products and food preparations, and high-value unprocessed commodities such as fresh fruits and vegetables. The focus on value addition in the agro sector is vital for comprehensive development of the rural economy, Mckinsey indicates that food in India has an economic multiplier of 2-2.5 i.e., for every rupee of revenue from food, the economy at large gets Rs. 2-2.50.⁹

⁹ The Hindu: Agro Industries: the lure of value addition (Feb,2004).
In developing countries, a switch toward processed and other manifests this prepared food products. The beneficiaries of these changes tend to be dairy products, meat, and processed vegetable, fruit and cereal products.

4.22 Domestic Support

The WTO categorizes domestic support programs by the degree to which they distort price formation in agricultural markets. WTO member countries have agreed to specific spending limits on the most highly market-distorting domestic programs—amber box programs while allowing member countries the ability to intervene in national agricultural policy by shifting their support to certain categories that are exempt from restrictions such as the green box.

In addition, certain market-distorting programs are exempted from spending disciplines under special circumstances—the blue box contains market-distorting but production-limiting programs, while the de minimis exclusions (one at the individual product level, the other at the aggregate level) comprise market-distorting policies that are deemed benign because spending outlays are small relative to a country’s overall agricultural sector.

The WTO’s agreement on agriculture (AoA) distinguishes between different types of domestic support. Firstly a distinction is made between "trade-distorting" and non-trade-distorting subsidies. Members are obliged to fix, maximum levels for trade-distorting subsidies and to reduce some of the allowed maximum levels. For subsidies considered non-trade-distorting (the Green Box), there are no maximum levels, and thus members can increase these subsidies without limit. The Green Box subsidies (such as payments to farmers to protect the environment) are supposed to be “decoupled” from production, and thus they supposedly do not distort trade; however some experts have pointed out that many of these subsidies are also distorting in that they provide grants to recipients which assist them to maintain farming as a variable occupation, and that without these payments some of the farms or some of their production would not exist. Food inflation in India started accelerating in beginning of 2008, though food production during 2006 -07 and 2007-08 had reached a record level registered more than 5 percentage growth.10

10Understanding the nature and causes of food inflation Economic & political weekly (Ramesh Chand Feb 2010).
4.23 Extent of Subsidies and Support to Agriculture

Industrialized countries account for 88 percent of the total domestic support payments (Hoekman et al., 2002). Organization for Economic Cooperation and Development (OECD) countries is the primary users especially the EU, Japan and the United States. The current total Aggregate Measure of Support shows a decline from USD 120 billion in 1995 to USD 75 billion in 1999. However, the total support to agriculture remains very high. In 1999, the total support to agriculture reached an estimated USD 356 billion, or 1.4 percent of GDP for the OECD as a whole (Braun et al., 2002). The Total Support Estimate (TSE) for the year 2000 was USD 360.5 billion accounting for 59 percent of the agricultural GDP. The Total Support Estimate amounted to USD 318 billion (Euro 338 billion) in 2002 (OECD, 2003).

Around three-quarters went to producers while 17 percent went to general services – sector-wide policies and institutional services such as research, education, inspection and control, and marketing. TSEs for many countries are greater than 1 percent of their GDP. The Producer Support Estimate to farmers (PSE) in OECD countries reached USD 235 billion (EUR 249 million) in 2002, which is around the same level as in 2001. This support represented 31 percent of the total farm receipts (per cent PSE) in the OECD countries, the same as in 2001 (OECD, 2003). In the EU, the PSE as per cent of the agricultural output has remained at around 40 since 1995. In the US, the share has increased from about 15 percent during 1995–97 to about 25% during 1998–2001.

Production-linked support is still dominant in the OECD countries. The share of output-based support (market price support and output payments) and input subsidies remained at 76 percent of producer support in 2002. These measures are among the most production and trade distorting, and are the least effective in transferring income to farmers or in targeting the provision of environmental benefits.

A reduction in the most distorting forms of support in some countries has been accompanied by the introduction of other forms of support, which are potentially less distorting. However, the magnitude of such support is so high in the EU and USA.

The support levels to agriculture in the EU and US have not reduced since the implementation of the Uruguay Round began in 1995. In fact we observe an increasing trend of PSE in both the EU and the US. On a per hectare basis the producer support estimate in the EU is more than Euro 700 and in the US it is around $125. In both the cases there is an upward trend in the producer support estimate. On a per farm basis the support was more than Euro...
15,000 in 2001 and in the US it was around $23,000. A comparison of the level of protection as measured by the amber box subsidies with the producer Support Estimates suggests that while the amber box commitments have been fully utilized in the recent years, the support levels in other forms have also been increasing.

**Post WTO Trade Regime: India**

Wide-ranging economic reforms introduced in India during 1991 boosted agricultural trade (exports as well as imports), and the net trade surplus in agriculture increased from $2 billion during 1992-93 to $4.33 billion during 1995-96. The trade got a fillip with WTO agreement during 1995, thereby resulting in net trade surplus reaching $ 6.8 billion in 1996-97. However, problems of downward trend in exports, increase in imports, sharp year to year fluctuations in net trade, erosion of self-reliance, etc, started soon thereafter, despite further liberalization of trade. These trends raise questions about further liberalization of trade in general and specific commodities in particular, and the implications of present agreement including ongoing negotiations on Agreement on Agriculture (AOA) in WTO, etc.

There has been an unprecedented decline in the global prices of agricultural commodities, severely hitting earnings from agricultural exports of the countries. India too could not gain much from WTO and global liberalization, though India generally performs better than the other countries when the international price situation is favorable. As the exports are becoming increasingly competitive, it is not possible to promote exports without improving produce quality, efficiency and cost reduction. From the analysis of the trade scene and suggested future strategy by commodities it is evident that: India is facing challenges in traditional export items; the challenge is not from the developed countries, but from the developing countries; major import of vegetable oils are from the developing countries (Malaysia and Indonesia); and India has done well in export of high value products to the developed countries. Export of raw products like cotton, wheat, sugar, coffee and tea is likely to become very competitive and India would be required to relook into the benefit of promoting export of these commodities. Export prospects are brighter with soybeans, oilseeds, oil meal and cake, fruits and vegetables, and fruit preparations.

The Agreement on Agriculture of WTO recognizes free and market oriented trading system in agriculture. During 1986-88 (the base years of WTO), the international prices of most agro products were more than India's domestic prices. Then, India was expecting stability in international agricultural prices due to reduction of subsidies by the developed countries.
under WTO commitments. But, international agricultural prices, except for paddy, have declined and now India's domestic prices are more than international prices. The share of agro products in India's total exports has not increased during the post-WTO period (1995-2008). It is well known that, domestic subsidy, high tariff and export subsidy by developed countries are major constraints for developing countries to export to developed countries. Under new trade regime of WTO, India has liberalized her global imports, the removal of Quantitative Restrictions (QR) on imports has been increased from a level of 61 percent tariff lines in April 1996 to 95 percent tariff lines in April 2001 under GATT article XI. Only 538 items (5 percent tariff lines) are QR, which are permissible under GATT article XX and XXI during the year 2005. India has bound all its agricultural tariffs under the WTO agreement on agriculture.

4.24 Status of Gujarat Agriculture recent decades

In the preliminary analyses of state level trends, it was observed that the main sources of Gujarat’s agricultural growth post 2000 have been massive boom in cotton production, the growth in the high value sector comprising livestock and fruit and vegetables, and also wheat production, steady-rate of growth of 9.6 percent per year in agriculture. It was a sharp contrast to the medium growth rate of 2.9 percent per year in the national GDP for agriculture and allied sectors. The highly remunerative minimum support prices (MSP for cotton, wheat and other crops announced by the central government have provided strong incentive to farmers to increase production. For Gujarat farmers, of particular significance has been the high MSP for cotton since the Cotton Corporation of India has sizeable procurement operations in states. Export demand for cotton has been strong too. During recent years, Gujarat has emerged as India’s largest cotton-production state and major cotton supplier to china. Table: 4.2 shows annual average growths of major sectors and crop in Gujarat during 1992-93 to 2005-06 maximum coefficient of variation was maize followed by total pulses.

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### Table: 4.2 Annual Average growths of major sectors and crop: Gujarat (1992-93 to 2005-06).

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total food grain</td>
<td>7.3</td>
<td>4.2</td>
<td>11.0</td>
<td>3.4</td>
</tr>
<tr>
<td>Total cereals</td>
<td>8.6</td>
<td>3.7</td>
<td>11.0</td>
<td>3.2</td>
</tr>
<tr>
<td>Total pulses</td>
<td>5.3</td>
<td>6.9</td>
<td>11.7</td>
<td>4.0</td>
</tr>
<tr>
<td>Paddy</td>
<td>12.0</td>
<td>1.6</td>
<td>8.6</td>
<td>3.9</td>
</tr>
<tr>
<td>Wheat</td>
<td>12.8</td>
<td>4.0</td>
<td>23.1</td>
<td>2.3</td>
</tr>
<tr>
<td>Maize</td>
<td>10.3</td>
<td>3.5</td>
<td>159</td>
<td>4.9</td>
</tr>
<tr>
<td>Total cash crops (excluding cotton)</td>
<td>10.5</td>
<td>4.3</td>
<td>19.2</td>
<td>2.8</td>
</tr>
<tr>
<td>Cotton</td>
<td>10.5</td>
<td>3.9</td>
<td>36.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Total others</td>
<td>3.3</td>
<td>3.2</td>
<td>0.4</td>
<td>7.2</td>
</tr>
<tr>
<td>Total fruit and vegetables</td>
<td>2.6</td>
<td>2.9</td>
<td>14.4</td>
<td>0.5</td>
</tr>
<tr>
<td>Banana</td>
<td>2.5</td>
<td>9.6</td>
<td>12.1</td>
<td>1.6</td>
</tr>
<tr>
<td>Potato</td>
<td>5.8</td>
<td>4.4</td>
<td>11.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Livestock</td>
<td>5.0</td>
<td>0.7</td>
<td>6.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Milk</td>
<td>4.9</td>
<td>0.7</td>
<td>6.9</td>
<td>0.9</td>
</tr>
<tr>
<td>Total agriculture and livestock</td>
<td>5.4</td>
<td>3.9</td>
<td>11.2</td>
<td>1.8</td>
</tr>
</tbody>
</table>

Source: Economic & political weekly: Dec 2009

### 4.25 WTO Implication on Gujarat Agriculture

Agriculture in GATT/WTO

The agreements on agriculture, which affect on Indian agriculture, are

- Sanitary & Phyto-Sanitary (SPS) measures
- Agreement on Technical Barriers to Trade (TBT)
- Trade related Intellectual Property Rights (TRIPS)
India has not been able to fully exploit the potential of trade, reduced subsidies in developed countries and hence increased prices in international trade; table 4.3 shows the likely impact of WTO on Gujarat agriculture.

### Table 4.3 WTO and Gujarat Agriculture

<table>
<thead>
<tr>
<th>Issues</th>
<th>Gujarat’s Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Product Specific Subsidies</td>
<td>Favorable for India as a whole since base year subsidies were below 10% of total value of product/product group value</td>
</tr>
<tr>
<td>Product specific subsidies</td>
<td>Of the 20 products where India provides a MSP only 3 products groundnut, tobacco and sugarcane have positive subsidies but still&lt;10%</td>
</tr>
<tr>
<td>Market Access (Imports)</td>
<td>Minimum market access (of 3%) does not apply to India since it is under BOP cover in GATT.</td>
</tr>
<tr>
<td>Export Subsidies for Agro-products</td>
<td>Gujarat’s major export commodities (oilseeds, deoiled cakes, isabgul, etc.) receive no direct export subsidies. In any case, norms relaxed for developing countries.</td>
</tr>
<tr>
<td>Market Access (Export)</td>
<td>Overall favorable for India. Specifically Gujarat can clearly target heavily subscribed commodities abroad, e.g. dairy products</td>
</tr>
<tr>
<td>Sanitary &amp; Phytosanitary measures</td>
<td>Important aspects as Gujarat agro-industry moves up the value chain. Quality aspects need to be emphasized more than the price competitiveness in exports promotion.</td>
</tr>
<tr>
<td>Indirect competition(Via imports of value added products)</td>
<td>Gujarat sectors likely to see long term impact: oilseeds (Indirect threat from edible oil imports), Horticulture (imports of fruit-juices, Mango pulps, etc.) and value added products (imports of ice-cream, However, increased competition is likely to help Indian Processors to improve quality aspects and become more competitive in long term.</td>
</tr>
<tr>
<td>Impact of TRIPS</td>
<td>Positive impact to the farmers procuring latest technology from abroad, in future it is expected to boost investments in R &amp; D on agriculture.</td>
</tr>
</tbody>
</table>
### Post-WTO trade scenario for major commodities and implication

<table>
<thead>
<tr>
<th>Products</th>
<th>Trade scene</th>
<th>Main factor</th>
<th>Future Policy &amp; strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil cake</td>
<td>Export adversely affected</td>
<td>East Asia crisis &amp; GM varieties in USA, Argentina and Brazil</td>
<td>Improved varieties of oilseeds, required reduction of subsidies in USA.</td>
</tr>
<tr>
<td>Cotton</td>
<td>Export adversely affected, Imports increased</td>
<td>Decline in domestic production &amp; subsidies in USA.</td>
<td>Required elimination of domestic support in USA. Technology to compete with Bt cotton.</td>
</tr>
<tr>
<td>Spices</td>
<td>Export adversely affected</td>
<td>Competition from Vietnam, Indonesia, Sri Lanka and other developing countries.</td>
<td>Improved domestic production not required too much protection for developing countries.</td>
</tr>
<tr>
<td>Horticulture</td>
<td>Exports increased more scope.</td>
<td>Rising demand for high value and processed food</td>
<td>Required improved market access; improve processing, packaging and transportation.</td>
</tr>
<tr>
<td>products</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rice</td>
<td>Export adversely affected. Import threat</td>
<td>Competition from Vietnam, Thailand</td>
<td>Improved competitiveness of domestic production</td>
</tr>
<tr>
<td>Wheat</td>
<td>Export adversely affected</td>
<td>Low price and subsidies and support in EU and US.</td>
<td>Required elimination of export subsidies and domestic support in OECD.</td>
</tr>
</tbody>
</table>

Source: Gujarat industries commission, Gujarat Govt. Publication, CMIE, 2008

### 4.26 Agro & Food Processing Sector in Gujarat

Global Food and Beverage industry has been valued at US $ 3668.3 billion in the year 2005. In the Global food processing industry Asia-Pacific is accounting for 31.10 percent of global market. India is the World’s second largest producer of food, next to China and has potential to be number one.
Gujarat is one of the few states, which have comprehensive Agro-Industrial policy, & Vision 2010 document for integrated development of agriculture and agro based industries. Gujarat is one of the most industrialized states in India and has strengths in agro based industries in terms of natural resources, established industrial infrastructure, vast pool of technically skilled manpower, and enterprising farmers.

The food supply chain can be subdivided into a number of sectors. agriculture, horticulture, fisheries and aquaculture are the primary producers, the manufacturers who process the food for ready to eat or cook format together with the packaging companies are in the intermediate stage, and the retailers, wholesalers and caterers are in the last stage of the supply chain. At each stage value is added by the new ownership such as processors, distributors, packers, etc. and the cost and profits are part of the business. The food items can go to the final consumer from any of the three stages: from farmers in the form of fresh produce, to the caterers directly from the manufacturer, and finally from the retailer (small or big) to the consumer.

The comparative advantage of Gujarat over the rest of India in various commodity groups including agri-products. The measure used for the purpose is the coefficient of Revealed Comparative Advantage (RCA). At the outset, it is important to distinguish between’ exports from Gujarat’ and 'exports originating from Gujarat.' This is because Gujarat has the longest coastline in the country with several seaports and even an airport having international links.

The exports products from Gujarat were mainly from: (i) Gujarat Maritime Board (GMB) ports; (ii) Kandla sea port; (iii) Ahmedabad airport; (iv) Mumbai sea port; (v) JNPT port (Mumbai); and (vi) Mumbai airport. While the first three are Gujarat-based, the remaining three are Mumbai-based. By considering the origin of commodity-wise cargo from Gujarat-based outlets, the report estimated that out of the total exports worth Rs171.98 billion from these outlets, exports originating from Gujarat are of the order of Rs 111.67 billion. Methodologically, this is ideal. However, since similar data were not available2 for Mumbai-based outlets, the data from the four Inland Container Depots from Gujarat and trade reports were analyzed. It was estimated that exports worth Rs 383.29 billion from Mumbai-based outlets originated from Gujarat. Although these are not ideal estimates, they may be considered good approximations under the current state of data availability. The total exports originating from Gujarat during 2000-01 were estimated at Rs494.96 billion. For the same year, thus, Gujarat accounts for a little more than one-fifth of the total exports of 2,384.90 billion from the country. Compared to other parameters like population, income,
manufacturing, new investments, etc., Gujarat’s share in the national exports is remarkably high. Thus, it is possible to establish from the survey results that Gujarat has a definite comparative advantage in the export activity over other states in India Gujarat has a higher share in the national exports of a commodity than its share in the total national exports.

There are 11 commodity groups accounting for all exports of agri-products from Gujarat. The share of Gujarat in the total agro-product exports in the country works out to 12.8 per cent. However, there are other commodity groups like gems and jewellery and petroleum products where Gujarat’s share in the nation’s exports is well above 70 per cent.

Export of spices and spice products from India has crossed five lakhs tons for the first time during the year 2009-10. Despite the economic slowdown in major consuming markets, the export of spices has recorded an all time high both in volume and value in 2009-10. The export during the year has been 5, 02,750 tons valued ` 5,560.50 crores (US $1,173.75 million) against 4, 70,520 tons valued ` 5,300.25 crores (US $1,168.40 million) in the last financial year. Compared to last year, the export has shown an increase of seven per cent in volume and five per cent in rupee value. In dollar terms, the increase is 0.5 per cent.

The spices export during 2009-10 has also exceeded the target in terms of volume, rupee value and dollar terms of value. Against the export target of 4,35,000 tons valued 4,500.00 crores (US$1,000.00 million) for the year 2009-10, the achievement of 502,750 tons valued `5,560.50 crores (US$ 1,173.75 million) is 116 per cent in quantity, 124 per cent in rupee value and 117 per cent in dollar terms of value. In the export basket of spices and spice products, spice oils and oleoresins including mint products like mint oils, menthol crystals, and menthol powder contributed 34 per cent of the total export earnings. Chilli contributed 23 per cent followed by cumin 10 per cent, turmeric seven per cent and pepper six per cent. During the year 2009-10, Indian spices and spice products reached more than 140 countries in the world. The leading among them are USA (16 per cent), Malaysia (eight per cent), China (seven per cent), UAE (six per cent), and UK (five per cent).

The post Uruguay round experience has been a mixed one for agricultural trade in India. While exports in certain areas, have registered a high growth, in certain other areas, the growth rate has not been satisfactory. Exports of rice (basmati and non-basmati), coffee, tobacco, dairy and poultry products, spices, groundnut, guar gum meal, oil meal, fresh fruits and vegetables, meat and its preparations, raw cotton including waste, and paper/wood products have shown significant growth. Exports of pulses, castor oil, and marine products
have not shown significant growth. At the global level, average bound tariffs have been reduced in the Uruguay round. However, measures like, tariff escalation, variable tariffs, complex tariffs and also certain nontechnical barriers still persist. Domestic support and export subsidies continue to remain high in a few developed countries. For most high-value agricultural products, including fruits and vegetables, fish, beef, poultry products, and spices, many importing countries have developed new standards, besides tightening existing standards. These factors have acted as inhibiting forces in actualizing the export growth potential of the country. Other factors that have led to limited exports include infrastructure inadequacies, poor quality awareness, and poor post-harvest management. Agricultural commodities which are vulnerable to global competition and which are crucial for food and livelihood security have been kept out of the purview of these agreements. Besides, stringent rules of origin norms and built-in safeguards have been put in place to protect the interest of farmers.

4.27 Indian Export-Import policy affecting Agro-based Industries

The Export-Import policy announced on March 31, 1992, gave the Exim policy, for the first time, validity for a period of five years and it coincided with the Eighth Plan Period (1992-97). The important objectives of the policy were stated as follows, (i) globalization of foreign trade (ii) enhancing the competitiveness of industry, agriculture, and services by improving export capabilities (iii) Improving the quality and image of products abroad (iv) Boosting exports by giving more access to raw materials, intermediates and components (v) insistence on cost-effective import substitution and self-reliance (vi) reducing the importance of quantitative licensing discretionary controls (vii) improving R&D and technological capabilities (viii) streamlining exim procedures.\(^\text{12}\)

Under the Exim policy, imports of capital goods under the EPCG (Export Production Capital Goods) scheme were allowed at a reduced level of duty of 15 percent. The export obligation was stipulated as 4 times of the CIF value of the imports. Since 1992, acknowledged that trade can flourish only in a regime of substantial freedom. It also recognized the need for reasonable stability of the policy, by making the duration of the policy five years. The policy aims at simplification and transparency.

\(^\text{12}\) Review of trade policies in India Geeta Bisaria( Page 101-105).
The EXIM Policy (1997-2002) coincided with the ninth plan and it sought to consolidate the gains of the previous policy and to further carry forward the process of liberalization. Exim policies are.

To accelerate the country’s economy with a view to derive maximum benefit from global market opportunities.

To stimulate steady economic growth access to essential raw materials, intermediates, components, consumables and capital goods required for production. To enhance the technological strength and efficiency of agriculture, industry and services, create new employment opportunities, and encourage the attainment of internationally accepted standards of quality. EXIM Policy for the period 2002-2007 contains a comprehensive packages, it removes all restrictions on exports. The policy enhances during the Tenth Five Year Plan by 2007 the value of export of USD 46 billion to more than USD 80 billion. It has increased a compound annual growth rate of 11.90 per cent per annum.\textsuperscript{13}

India’s Foreign Trade Policy (FTP) for the period 2009-2014 was announced on August 27, 2009. The policy of an objective of achieving an annual export growth of 15percent with an annual export target of US$ 200 billion by March 2011; and thereafter up to 2014, it is planned to have high export growth path of around 25% per annum. The long-term policy objective for the Government is to double India’s share in global trade by 2020.\textsuperscript{14} In the present FTP the government has decided to provide a special thrust to the employment intensive sectors. Agriculture continues to be important sector in the present FTP.

The government has decided to continue with the DEPB Scheme unto December 2010, to provide a stable policy environment conducive for foreign trade and income tax benefits under Section 10(B) for 100% export oriented units for one additional year, till 31st March 2011. Facilitates insurance coverage and exposure for exports through ECGC Schemes has been ensured till 31st March 2010.

The government encourages diversifying products and markets through rationalization of incentive schemes including the enhancement of incentive rates through the FTP, which have been based on the perceived long term competitive advantage of India in a particular product group and market. The Government seeks to promote Brand India through six or more ‘Made

\textsuperscript{13} Agri export advantage Foreign trade policy: 2009-14 Sep 2009

\textsuperscript{14} Review of trade policies in India Geeta Bisaria( Page 101-105).
in India’ organized across the world every year. Technological upgradation of exports is sought to be achieved by promoting imports of capital goods of different sectors under EPCG at zero percent duty. Under the present Foreign Trade Policy, Government recognizes the achievements of exporters based on their export performance and designate them as ‘status holders’. To upgrade the export sector, status holders will be permitted to import capital goods, duty free (through Duty Credit Scripts equivalent to 1 percent of their FOB value of exports in the previous year), of selected groups.

Some of the policy on Agriculture and Food exports is:

- The incentive has been raised from 2.5 percent to 3 percent, under Focus Market Scheme (FMS).
- The incentive has been raised from 1.25 percent to 2 percent. Under Focus Product Scheme (FPS).
- A single window system to facilitate export of perishable agricultural produce. The system will involve creation of multi-functional nodal agencies.

4.28 India in the GATT and the WTO

India was one of the 23 founding Contracting Parties to the General Agreement on Tariffs and Trade (GATT) that was concluded in October 1947. The country’s leaders served as spokesmen for developing-country concerns in the discussions that led to the GATT, and India has often led groups of less developed countries in subsequent rounds of multilateral trade negotiations (MTNs) under the auspices of the GATT. India’s participation in these international economic negotiations is illustrative of it’s (and other developing countries’) ambivalence towards importance of trade and of the world trading system in accelerating development.

The developing countries argued that many of the WTO’s rules are biased against their interests, and that this situation must be rectified.

Among the arguments was the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement puts onerous burdens on the developing countries (raising the cost of consumer products such as medicines, and hindering innovation and technology upgrading); the Trade-Related Investment Measures (TRIMs) Agreement prohibits on investment measures such as local content policy that are useful development tools; and their agriculture agreement has
allowed the developed countries to maintain their high protection in this sector. The WTO is based on the principles of non-discrimination, free trade and promotion of fair competition among the member countries. About 95 percent of the global trade is governed by the rules and regulations of WTO. The Quad countries (USA, EU, Canada and Japan) with their share of 80 percent of the global trade, dominate the decision-making of WTO. There is no wonder, then, why the Hong Kong meet and the subsequent mini-ministerial could not solve many of the contentious issues including the farm subsidies except for the developed country agreement to consider phasing out in 2013.

Despite India's problems with its agricultural sector in the context of world trade, India has leading positions in the production of many agricultural commodities. A look at domestic and world prices for major states show that in most of the years domestic prices are higher than world prices. (Chand, 2002a). International prices of agricultural commodities are highly volatile and are characterized by cyclic variations. Among these, prices of food grains, edible oils, sugar and cotton have fluctuated around a static mean whereas prices of dairy products and fish have been moving up and down with a rising trend.

4.29 Growth in agricultural trade

Table 4.4 reveals the share of India in the global merchandise exports that had experienced a secular decline for a long time since the early 1950s, has been slowly limping up for some time now. However, it is yet to touch even half the mark of the 1950 figure of 2 percent

<table>
<thead>
<tr>
<th>Year</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>2.0</td>
</tr>
<tr>
<td>1960</td>
<td>1.2</td>
</tr>
<tr>
<td>1970</td>
<td>0.7</td>
</tr>
<tr>
<td>1980</td>
<td>0.4</td>
</tr>
<tr>
<td>1990</td>
<td>0.5</td>
</tr>
<tr>
<td>2000</td>
<td>0.7</td>
</tr>
<tr>
<td>2005</td>
<td>0.8</td>
</tr>
<tr>
<td>2009</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Author’s collection from various resources
In four out of the first five years of the present decade, exports registered a robust growth of over 20 percent. The export growth of 24.1 percent achieved in 2004-05 is the highest recorded in the last three decades. Yet, it appears to be very difficult to achieve the target of 1.5 percent share of the global exports, set by the foreign trade Policy 2002-09, by the end of the decade.

While export growth has not very encouraging, imports have been increasing, driven mostly by the boost in the oil import bill due to the escalating crude prices. (In 2004-05, for example, while the volume growth of oil import was only 5.5 percent, the oil import bill shot up by 45.1 percent). Between 1999-2000 and 2004-05 both exports and imports have risen by about 115 percent but between 2000-01 and 2004-05 while exports have increased by 78 percent, imports have gone up by 112 percent. Non-oil imports, particularly of capital goods and other industrial goods, have also been very buoyant. Imports of some items like gold and silver have been rising steeply. The non-oil trade balance, which remained in surplus during 2000-01 to 2003-04, turned into a deficit of $4.8 billion during 2004-05 and this with a huge oil trade deficit resulted in a historic, peak merchandise trade deficit at $27.8 billion during 2004-05. The import growth of 37 percent in 2004-05 was the highest since 1980-81. The trade deficit during the first six months of 2005-06 alone amounted to $23.5 billion, higher by about 66 percent than the corresponding period of the previous year. The expansion of non-oil imports, resulting in large non-oil trade imbalance, accounted for a major share of this trade deficit. Rising non-oil imports, however, is an indicator of buoyant growth of the domestic industry.

Agriculture: Negotiating modalities

The agriculture negotiations began in 2000, under a commitment members made in the 1986–94 Uruguay Round to continue reform in the trade. They were brought into the Doha Round when it was launched in 2001. Broadly, the objective is to reduce distortions in agricultural trade caused by high tariffs and other barriers, export subsidies, and some kinds of domestic support. The negotiations also take into account social and political sensitivities in the sector and the needs of developing countries.

The way or method of doing something — in the Doha Round these are blueprints for the final deal, e.g., how to cut tariffs, and reduce agricultural subsidies and support, along with flexibilities to deal with various sensitivities. Once the modalities have been agreed, countries
can apply the formulas to tariffs on thousands of products and to various support programmes.

The negotiations aim to reform agricultural trade principally in three areas: market access, domestic support and export subsidies. The modalities spell out how to achieve this.

**Market access: tariffs, tariff quotas and safeguards**

For wheat, rice, beef, sugar, cheese, potatoes, pineapples, etc - how deep the cuts on tariffs would be for these depends on how high the current tariff is: higher tariffs have higher cuts, ranging from 50 percent to 66-73 percent subject to a 54 percent minimum average for developed countries; 33.3 percent to 44-48 percent for developing whether the product is “sensitive” (all countries) or “special” (developing): sensitive products would have cuts of only 1/3, 1/2 or 2/3 of the normal cut but with a quantity allowed in at a lower quota; special products would also have smaller cuts, and some might be exempt completely.

Whether the applied tariffs are lower than the bound tariffs, cuts are made from legally bound rates. Tariffs actually charged can be lower. If a developing country has a bound tariff of 100 percent but only charges 25 percent, the bound tariff would be cut by 42.7 percent i.e., cut to 57.3 percent. That means no change in the 25 percent tariff actually charged, with room to more than double the tariff.

The country's status: least-developed countries would make no cuts on any products, developing countries in general would make smaller cuts and have more flexibilities than developed, small and vulnerable economies would make even smaller cuts with even more flexibilities, and countries that recently joined the WTO would also have special terms.

**Support for farmers and for agriculture**

Support for prices, or for earnings according to how much is produced or sold, would be substantially cut but not eliminated. Countries providing large amounts of this “distorting” support would cut it the most; many are already reforming their programmes. They and the rest would still be allowed a conceptually small or “de minimis” amount limited to 2.5 percent of the value of production for developed countries, 6.7 percent for developing. For individual products this type of support would also be limited to avoid concentration.
But a wide range of support for agriculture as a whole would be allowed without limit under the “Green Box”, considered non-trade distorting, i.e., for development, infrastructure, research, agricultural extension, structural adjustment, etc. Conditions would be tightened to prevent direct income supports, etc, from stimulating production.

**Export subsidies**

These would be eliminated by 2013, including subsidies hidden in export credit, disciplines on state trading enterprises and non-emergency food aid.

When ministers came to negotiate “modalities” in Geneva in July 2008, Director-General Pascal Lamy said they had agreed tentatively on a number of issues but were stuck on the “special safeguard mechanism” for developing countries.

Overall trade distorting domestic support (Amber + de mini mis + Blue). EU to cut by 80 percent; US/Japan to cut by 70 percent; the rest to cut by 55 percent. “Down payment” (immediate cut) of 33 percent for US, EU, Japan, 25 percent for the rest. Bigger cuts from some other developed countries, such as Japan, whose overall support is a larger percent of production value. Cuts made over 5 years (developed countries) or 8 years (developing).

Amber Box (AMS). Overall, EU to cut by 70 percent; US/Japan to cut by 60 percent the rest to cut by 45 percent Bigger cuts from some other developed countries who’s AMS is larger percent of production value. Also has down payment.

Per product Amber Box support: capped at average for notified support in 1995-2000 with some variation for the US and others. Countries’ caps to be annexed to these “modalities”

De minimis. Developed countries cut to 2.5 percent of production. Developing countries to make two-thirds of the cut over three years to 6-7 percent (no cuts if mainly for subsistence/resource-poor farmers, etc). (Applies to product-specific and non-product specific de minimis payments)

Blue Box (including “new” type). Limited to 2.5 percent of production (developed), 5 percent (developing) with caps per product.

Green Box. Revisions — particularly on income support, to ensure it really is “decoupled” (i.e., separated) from production levels, and on developing countries’ food stockpiling — and tighter monitoring and surveillance.
MARKET ACCESS

Tariffs would mainly be cut according to a formula, which prescribes steeper cuts on higher tariffs. For developed countries the cuts would rise from 50 percent for tariffs below 20 percent, to 70 percent for tariffs above 75 percent, subject to a 54 percent minimum average, with constraints on tariffs above 100 percent (For developing countries the cuts in each tier would be two thirds of the equivalent tier for developed countries, subject to a maximum average of 36 percent)

Some products would have smaller cuts via a number of flexibilities designed to take into account various concerns. These include: sensitive products (available to all countries), the smaller cuts offset by tariff quotas allowing more access at lower tariffs; Special Products (SP, for developing countries, for specific vulnerabilities). Developed countries will scrap the old “special safeguard” (available for “tariffied” products). The option for them to keep some has been removed. More proposed details of the new “special safeguard mechanism” for developing countries are in an additional paper.

Export competition

Export subsidies to be eliminated by end of 2013 (longer for developing countries). Half of this by end of 2010. Revised provisions on export credit, guarantees and insurance, international food aid (with a “safe box” for emergencies), and exporting state trading enterprises. The new agriculture negotiations chairperson, Ambassador David Walker of New Zealand, has been holding talks on unsettled issues arising from the December 2008 draft, and on the technical task of creating “templates” — blank forms prepared for members’ “schedules” (or lists) of commitments, and for data used to calculate the commitments, some of the data to be in “supporting tables” attached to the schedules of commitments. The commitments themselves will be prepared after “modalities” are agreed — the “modalities” contain formulas for calculating the new commitments on tariffs, tariff quotas and support. But the forms and data needs will be identified with the “modalities”, which is why the work is being undertaken now.
Agriculture: Work in WTO

The current negotiations

WTO members agreed to initiate negotiations for continuing the agricultural trade reform process one year before the end of the implementation period, i.e. by the end of 1999. These talks began in early 2000 under the original mandate of Article 20 of the Agriculture Agreement. At the November 2001 Doha Ministerial Conference, the agriculture negotiations became part of the single undertaking in which virtually all the linked negotiations were to end by 1 January 2005.

The Original Mandate

Article 20 of the agriculture agreement continuation of the reform process.

Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

(a) The experience to that date from implementing the reduction commitments;

(b) The effects of the reduction commitments on world trade in agriculture;

(c) non-trade concerns, special and differential treatment to developing-country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and

(d) What further commitments are necessary to achieve the above mentioned long-term objectives.

4.30 Issue of Agro-Business Trade

TBT Agreement is intended to ensure that WTO members do not use technical regulations and standards as disguised measures to protect domestic industries from foreign competition. In international trade law, health and environmental standards and regulations, labeling, symbols, packaging and markings can be considered as technical barriers to trade. In the agro-food sector, the TBT Agreement applies to all rules other than those specifically covered by the SPS Agreement. The TBT Agreement does not permit requirements for the labeling of
some products whereby "like products" remain unlabeled (Article 2.1). For example, Genetically Modified (GM) crop commodities that have been assessed and found to be "substantially equivalent" to their conventional counterparts would be considered "like products," and, thus, would not require specific labeling. Critics of the WTO stance argue that "substantially equivalent" is an unacceptable outcome of the risk assessment of GM products and assert that these products are not "like products" for purposes of labeling and the fact that it can be subjected to labeling would not be viewed as a legitimate objective within the context of the TBT Agreement.

4.31 Challenges to Indian Agricultural industry
With the WTO agreement and consequent Sanitary and Python Sanitary (SPS) measures, Indian agro-processing sector has faced non-tariff barriers for its products. Several past instances are there to prove this. Interestingly, many countries are setting their health standards at a level higher than the internationally accepted standards. For example, in the case of tobacco exports, the internationally prescribed level of Dichloro-Dimethyle Trichlorehthane (DDT) residue is 4 parts per million (ppm), while Japan and the USA have set their level at less than 1 ppm. The idea is to block tobacco exports originating from countries like India. Another instance is shrimps exports from India.

4.32 Features of SPS and IPR
The main goal of the SPS Agreement is to prevent SPS measures from having unnecessary negative effects on international trade and from being misused for protectionist purposes. However, the agreement fully recognizes the legitimate interest of countries in setting up rules to protect food safety and animal and plant health, and allows countries to give these objectives priority over trade, provided there is a demonstrable scientific basis for their food safety and health requirements. The need for specialist scientific or technical knowledge makes restrictions imposed for health and safety reasons much more difficult to challenge than some other barriers to trade. The requirement that the SPS measures be based on scientific evidence helps secure trade policy objectives is perceived by some environmental and consumer protection groups in some developed and developing countries as a dangerous limitation to the right of governments to take precautionary measures to protect their citizens and the environment against risks that can have irreversible effects.
The implementation of the new SPS Agreement has raised significant problems for developing countries. Some result in the lack of capacity to develop the institutional arrangements that permit them to meet their SPS-related WTO commitments. Even if the capacity exists, these commitments are costly to implement: standards, along with testing and certification, represent between 2 and 10% of overall product costs, which impose a burden on agriculture in the developing countries.

**Operational Dimensions**

The features of future trade in agri-business solemnly depend upon identification of critical control points (CCP) and patenting of critical limits (CL) related to HACCP.

A Critical Control Point (CCP) is defined as "any point step or procedure at which control can be applied and a food safety hazard can be prevented, eliminated (or) reduced to an acceptable level of SPS". The identification of critical control points is based upon the assessment of severity and likely occurrence of hazards and upon what can be done to eliminate, prevent or reduce the hazards at a process step.

**4.33 Formula of Tariff cuts**

The cutting tariffs in the modalities agreement is a tiered approach based on the principle that higher tariffs have higher cuts. Developed country tariff cuts would range from 50 percent to 70 percent, but subject to an overall 54 percent minimum average cut (Table 4.5). The legally bound rates" which could be substantially higher than rates actually applied. The range for developing countries would be two-thirds of the equivalent tier for developed countries (i.e., 33.3 percent to 46.7 percent), subject to a maximum average cut of 36 percent. Least-developed countries and so-called small and vulnerable economies would be exempt from any tariff cuts. Very recent new members of the WTO also would be exempt from new market access commitments.15

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15 WTO Doha round: implication for US Agriculture page 5
### Table 4.5 Tiered Formula Tariff Cuts

<table>
<thead>
<tr>
<th>Tier</th>
<th>Developed Countries</th>
<th>Developing Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current tariff</td>
<td>Reduction</td>
</tr>
<tr>
<td>Bottom</td>
<td>0% to - 20%</td>
<td>50%</td>
</tr>
<tr>
<td>Lower Middle</td>
<td>&gt; 20% to - 50%</td>
<td>57%</td>
</tr>
<tr>
<td>Upper Middle</td>
<td>&gt; 50% to - 75%</td>
<td>64%</td>
</tr>
<tr>
<td>Top</td>
<td>&gt; 75%</td>
<td>70%</td>
</tr>
<tr>
<td>Average cut</td>
<td>Minimum</td>
<td>54%</td>
</tr>
</tbody>
</table>

Source: calculations from secondary data.

### 4.34 Safe guards Special products, Sensitive Products

All countries (developed and developing) can declare certain products as "sensitive" to shield them from the full impact of general tariff cuts. In return they must let in an additional quota of imports at a lower tariff. Developed countries can designate up to 4 percent of products (as measured by tariff lines) as sensitive and would apply tariff cuts that are one-third, one-half, or two-thirds of the modalities-proposed formula tariff cut. Canada and Japan are demanding up to 6 percent and 8 percent, respectively. Developing countries can designate up to 5.3 percent of products as sensitive. The larger the deviation from the modalities-proposed formula cut, the greater would be the amount of in-quota market access. For example, countries that reduce the normal tariff cut by one-third must admit a quota of 3 percent of domestic consumption. Similarly, a 3.5 percent quota accompanies a reduction of half of the normal tariff cut, and a 4 percent quota accompanies a reduction of two-thirds. In addition, sensitive products with tariffs above 100 percent must increase their quota by an additional 0.5 percent of domestic consumption. The United States recently indicated that developed countries could exercise the option of designating a higher number of tariff lines (i.e., greater than 4 percent) as sensitive products only if they agree to a proportionately substantial increase in market access. Environmental, health and sanitary standards required by developing countries are sometimes perceived as new non-tariff barriers to trade by developed countries. These are as important as traditional WTO issues such as tariffs and QRs, as they have significant effects on market access. Environment-related trade measures can take several forms such as, technical standards and regulations, certain sanitary and
phytosanitary (SPS) measures, packaging regulations, labeling requirements, non-automatic licenses, quantitative restrictions, taxes and charges and non-government requirements.¹⁶

**Special Products**

Developing countries can designate up to 12 percent of tariff-line farm products as "special" for reasons of food and livelihood security or rural development. Up to 5 percent of these can be exempt from any tariff cuts, while the other portion may receive lower tariff cuts. However, the average tariff cut on all special products must be 11 percent.

**Safeguards**

The draft modalities identify two types of safeguards that are available to temporarily protect importing countries from unexpected surges in imports—Special Agricultural Safeguard (SSG) and Special Safeguard Mechanism (SSM).

**Special Agricultural Safeguard (SSG)**

An SSG permits a country to re impose or raise tariffs if, because of an import surge, certain price or quantity triggers are met. However, an SSG may not raise tariffs above the pre-Doha "bound rate." For developed countries the number of products eligible for SSG would be reduced to 1 percent of product tariff lines and would be eliminated after seven years. Tariff quota expansion rules apply if the product has been declared sensitive. Developing countries could apply the SSG to not more than 2.5 percent of their tariff lines, although this number is expanded to 5 percent for small and vulnerable countries.

**Special Safeguard Mechanism (SSM)**

The SSM is a controversial proposed new safeguard mechanism that could be used by developing countries to temporarily protect producers of special products when imports surged. The U.S. counterproposal was for a higher SSM trigger of 40 percent above average trade levels and tariff increases that would not exceed existing bound rates. According to USTR, the modality proposed by India and China would reduce existing market access, thus offsetting potential market access gains under proposed tariff cut modalities , USTR

¹⁶*Trade Liberalization and Poverty in India* UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT page 32
estimated that a 10 percent trigger would have enabled China to invoke the SSM in eight of the last ten years for soybeans, and India to restrict trade in six of the last nine years for palm oil. Table 4.6 shows U.S. Domestic Support WTO commitment current and proposed.

Table: 4.6 U.S. Domestic Support Average Outlays Compared with WTO CommitmentsCurrent and Proposed

<table>
<thead>
<tr>
<th>Category</th>
<th>Avg. Outlay</th>
<th>Current WTO Limits</th>
<th>Doha Modalities Prop</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$US bilion</td>
<td>$US bilion</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Status</td>
<td>$US bilion</td>
<td>Status</td>
</tr>
<tr>
<td></td>
<td>Unbound</td>
<td>Bound, with tiered cuts</td>
<td></td>
</tr>
<tr>
<td>OTDS</td>
<td>$16.1</td>
<td>$9.9</td>
<td>(due to blue box)</td>
</tr>
<tr>
<td></td>
<td>$48.2²</td>
<td>$14.5</td>
<td>Totaling 70%</td>
</tr>
<tr>
<td>Amber box</td>
<td>$10.7</td>
<td>$7.0</td>
<td>Each country</td>
</tr>
<tr>
<td>(Bound AMS)</td>
<td>$19.1</td>
<td>60%</td>
<td>$7.6</td>
</tr>
<tr>
<td>Amber box (per product bound)</td>
<td>varies</td>
<td>varies</td>
<td>Av. support of 1995-2000)</td>
</tr>
<tr>
<td>Blue box</td>
<td>$0.6</td>
<td>$0.0</td>
<td>Unbound</td>
</tr>
<tr>
<td>Blue box (product specific)</td>
<td>-</td>
<td>None</td>
<td>Bound at 110% or 120%of2002-07 av.</td>
</tr>
</tbody>
</table>

\[17\] WTO Doha round page 6, inside U.S. trade, U.S. push for change on sensitive farm products meets resistance, October 23, 2009
| De Minims non-product specific | $4.4 | $2.7 | Bound at 5.0% of TVP | $9.7 | Bound at 2.5% of TVP4 | $4.9 |
| De Minims: | Bound at 5.0% of commodity specific | $0.3 | $0.2 | SCVP³ | $9.7 | Bound at 2.5% of TVP4 Unbound but tighter | $4.9 |
| Green Box | $55.6 | $75.9 | Unbound | — | qualifying criteria | — |


1. These figures are specific to the United States. The level and timing of proposed reductions in domestic support commitments vary across both category and WTO Member status, e.g., developed versus developing country. See source for more information.

2. Assumes a value of $9.7 billion each for the two de minimums exemptions and the blue box, plus the $19.1 billion amber box limit.


4. Based on the average annual total value of agricultural production (TVP) for the 1995-2000 periods.

U.S. outlays are from official U.S. notifications of domestic support outlays as submitted to the WTO. AMS—aggregate measure of (trade-distorting domestic) support is Agreement on Agriculture. OTDS—overall trade-distorting domestic support = amber box + blue box + de minimis exclusions. SCVP - total value of agricultural production for a specific commodity. WTO Doha round: implication for US Agriculture.

4.35 Current state of Agro-based Industries in India

In India, 52 percent of total land is cultivable as against 11 percent in the world. All 15 major climates of the world, snow bound Himalayas to hot humid southern peninsula; Thar Desert to heavy rain areas all exist in India. There are 20 agro-climatic regions and nearly 46 out of 60 soil types. India is the centre for biodiversity in plants, animals, insects, microorganism and accounts for 17 percent animal, 12 percent plants and 10 percent fish genetic resources of 18 WTO Doha round: implication for US Agriculture page 4
the globe. In the livestock sector, India has 16 percent of cattle, 57 percent of buffalo, 17 percent of goats and 5 percent of sheep population of the world. Agriculture contributes 24.2 percent to GDP, 15.2 percent of total exports and provides employment to 58.4 percent of country’s workforce. Planned development of agro based industries essentially requires high degree of linkage and interface between agriculture and industries.

**As per (FICCI report of October 2004 India)**

1. Second highest fruit and vegetable producer in the world (134.5 million tones) with cold storage facilities available only for 10 percent of the produce.

2. Second highest producer of milk with a cold storage capacity of 70,000 tones.

3. Fifth largest producer of eggs. Investments in cold chain required to store 20% of surplus of meat and poultry products during 10th plan requires Rs 500 Crore (US$100M)

4. Sixth largest producer of fish with harvesting volumes of 5.2 million tones.

Investment required is estimated to be Rs 350 Crore (US$ 70M). The agro industry have not received as much attention as agriculture, agriculture contributes about 25 percent of India’s GDP the value added by the processing industry is only 8 percent of total food production. The Food processing industry has an important role to play in linking the farmers to the final consumers in the domestic as well as the international markets. Food processing combined with marketing has the potential of solving the basic problems of agricultural surpluses, wastages, rural jobs, and better remuneration to the growers. In the next ten years, food production is expected to double.

These produces, if processed and marketed smartly, can make India a leading food supplier of the world. India with a population of 1.08 billion (growing at about 1.7 % per annum) provides a large and growing market for food products. Food products are the single largest component of private consumption expenditure, accounting for as much as 49% of the total spending. Furthermore, the upward mobility of income classes and increasing need for convenience and hygiene is driving demand for (a) perishables and non-food staples and (b) processed foods. Also, eating out is a booming practice in urban India and processed foods are accepted as alternative to the home cooked food because of the convenience it offers. Also, with the globalization of trade and availability of high speed logistics, food retailers in

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developed countries are sourcing an year-round supply of fruits and vegetables from developing countries. Thus, both for local consumption as well for export there is a year round opportunity for fruits and vegetables, meat and poultry products and ready to eat processed foods.

The processed food industry should introduce innovative new products of high quality at low cost in small package sizes in ready to eat format to cash on this booming opportunity. HLL, ITC, MTR and others have introduced some innovative heat and eat dishes with reasonably good packaging. But there is lots of manual handling and hence food hygiene and quality are suspect. Multinational companies have entered the food value chain in India, Cargill and Conagra in agro-inputs, Tropicana in food processing and Metro in wholesaling. Local companies like Dabur, MTR, ITC, Godrej, and Amul are aggressive across the value chain. However, the pace is slow in the food sector compared to the other sectors such as IT and Pharma. There are no billion-dollar players in India in the food industry where as China and Philippines have several large players with sales exceeding US $ 1 billion. Planned development agro-based industries can improve the prospects of millions of farm families to enhance their income besides generating employment opportunities.

4.36 The Food Supply Chain in India
India has a huge opportunity to become a leading global food supplier if only it has the right marketing strategies and of course agile, adaptive and efficient supply chain. India has diversity in terms of its population with several religious groups with different food habits and culture. This diversity should be used to advantage to become the “Halal Food Hub”, the “Organic food hub”, the “Vegetarian food hub” the “Sea food hub” among others. The food supply chain is complex with perishable goods and numerous small stakeholders. In India, the infrastructure connecting these partners is very weak. Each stakeholder: farmers, wholesalers, food manufacturers, retailers all work in silos. Also, demand forecasting is totally absent and the farmers try to push what they produce in to the market. Data integration, financial flow management, supply-demand matching, collaborative forecasting, information sharing, goods movement synchronization through efficient transport scheduling,

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20 Challenges in the field of Agriculture and Agro industries: Agriculture industry interface (chand, and Mathur), 1998, page 34
are very well practiced in high technology industries with immense benefits. These best practices should find their way in to the food supply chains. Cold chain logistics supply chains should take advantage of technology improvements in data capture and processing, product tracking and tracing, synchronized freight transport transit times for time compression along the supply chain and supply-demand matching.

4.37 Export Trends and Opportunities in India
India has been a traditional exporter of raw agricultural products like spices. Export of raw products has resulted in huge loss to Indian economy. After GATT agreement and WTO membership, processed products manufactured as per international norms only offered at competitive prices, can be exported. However, our processed products mostly do not meet the international standards. India’s share in over US$ 300 billion world trade in agricultural commodities is less than 1 percent. Agricultural exports used to be of the order of 30.6 percent of the total exports during 1980-81, which came down to 19.4 percent by 1990-91. Currently, it is at about 16 percent due to rapid growth in other sectors as well. Processed fruit and vegetable products have considerable export potentials and if it is properly utilized, growers, processors, traders as well as national economy will benefit. It requires correct assessment of world market, high quality of raw produce, high quality of processed product and competitive production cost.

4.38 Quality Control & Standards in India
Food processing industries cover a large spectrum of products of plant and animal origin. Quality has got to be maintained for domestic as well as export markets. In this respect, a number of organizations have come up for the formulation of standards and for monitoring their quality. These can be classified into two groups; a) compulsory legislation and b) voluntary standards.

Bureau of Indian Standards (BIS)
The activities of BIS in the field of agro-processing are twofold: a) formulation of Indian standards and b) their implementation through its voluntary and third party certification system. BIS has on its record over 700 Indian Standards related to food-grains and their products, bakery and confectionery items, sugar, edible starches and their products, processed fruit and vegetable products, protein rich foods, stimulant foods like tea, coffee and coca, alcoholic beverages, spices and condiments and food products of animal origin like milk and meat, fish, poultry etc. These standards, in general, cover raw materials permitted and their
quality parameters, hygienic conditions under which the product is manufactured and packaging and labeling requirements. The standards also prescribe, where required, freedom from toxic substances and contaminants.

In addition to the product specifications, which include both raw materials and final product, the Bureau of Indian Standards has brought out standards on glossary of terms for various industries and hygienic codes applicable to most of the food processing industries. To ensure that processed foods are free from pathogenic or spoilage microorganism, limits are gradually being introduced in various specifications. In addition, separate standard methods of test for the sensory parameters have been laid down.

Containers are as important as the contents, as these may impart toxic elements to the food products and could pose potential dangers to health and safety, if they are not of the requisite quality. Indian Standards cover 6 thermoplastics namely, polypropylene isomers and ethylene acrylic acid have been published which describe the requirement of the particular thermoplastic and necessary additive along with their limits.

Informative labeling is also a very important area and the level should contain sufficient information to enable the consumers to know about positive nutritional characteristics such as protein, fat, dietary fiber etc., negative characteristics such as pesticides, residues, toxins etc. as also information regarding ingredients used, food activities, net contents etc. In this area, the Bureau has brought out a Code of Practice for labeling of Pre-packed foods covering general guidelines for labeling and guidelines on claims and nutritional labeling. However, in this area, much work still remains to be done.

**Demand for Value-Added Products**

It is well recognized that as disposable personal income increases over time, the demand for food changes and consumers spend less of their income on food and buy proportionally more quality foods than in the past. In developing countries, a switch toward processed and other manifests this prepared food products. The beneficiaries of these changes tend to be dairy products, meat, and processed vegetable, fruit and cereal products.

The path of world economic growth is clouded because of uncertain-ties about debt repayment, commodity prices and trade restrictions. But a consensus seems to exist that real per capita disposable income will grow at least moderately over the next two decades. When coup-led with expected population growth, this should lead to increased demand for value-
added products. But at least two factors ought to be of concern to U.S. exporters and policymakers. The global dispersion of modern technology has eroded the U.S. competitive advantage in many products as low cost labor has become technologically skilled in competing countries. Trade competition has intensified as low cost producers have cut into traditional U.S. domestic and foreign markets.

Trade policies have also changed the nature of competition in value-added trade. EC subsidies for processed fruits and vegetables have encouraged excess production, Japan's citrus quotas have restricted imports and U.S. sugar quotas have favored high cost producers. As a general rule, trade restrictions are more severe for value-added products than they are for bulk products. They will continue to make it difficult for the United States to exploit the market demand for those products in which they have a comparative advantage.

Several examples illustrate the changed nature of competition facing the United States. The frozen broccoli and cauliflower industry in Mexico was really initiated by Birdseye Corporation through the establishment of a modern plant and the subsequent training of growers. Over the past decade, the industry has grown, product quality has improved to at least U.S. standards and labor has become more efficient. The result is that raw product is received in the processing plant at half the cost experienced in California plants, and finished products are shipped to the United States at prices, including a tariff, that are unprofitable for many U.S. producers. A similar situation is found in the tomato processing industry of Turkey although the trade impact on the United States is not direct. These are value-added products competing with U.S. products in trade. Competition in the textile world is well documented and serves to underline the difficulty of increasing exports of cotton-based products from the United States. Added competition from newly developed horticultural industries in the Mediterranean basin and in Thailand also poses competitive problems for the United States in expanding its export volume.

At the outset it should be recognized that promotion efforts by individual producers and exporters probably produce the best results in terms of increased sales. Federal efforts should not be undertaken as a substitute for private initiative. Within this constraint, however, there is a value in recognizing where potential gains might be made. As a first step, a public agency could examine those products that have a high level of economic impact in areas in which they are produced and might be less sensitive to labor costs than other products.
The high labor input to value-added and high-value products makes them particularly sensitive to competitors with low labor costs. A strategy to minimize risk is to identify commodity groups with relative high output multipliers but lower labor use multipliers. The following commodity groups emerge from such an analysis: dairy products, wines, grain mill products and livestock.

Dairy products are attractive, because they have a large gross output multiplier, 3.7, but a relatively low labor use multiplier, 28.1. They would be less sensitive to low wage labor competition than other products and yet provide a high multiplier effect in producing areas. This is a highly protected product, however, and increasing export levels will be very difficult. Livestock is interesting because its labor use is low and therefore it is less sensitive to competition. Meat products share similar multiplier characteristics with livestock and the price markup is relatively low.

The WTO which was established in 1995 replaced the General Agreement on Tariffs and Trade (GATT) with a much greater mandated the GATT existed since 1947. Trade liberalization and implementation of Agreement on Agriculture (AOA) would bring large benefits to the developing countries through improved access to the developed countries’ markets, increased trade and better pricing environment for tropical and other products of interest to the developing countries.

The share of agro products in India's total exports has not increased during the post-WTO period (1995-2008). The WTO Agreement on Agriculture (AoA) has not made major impact on world agricultural exports. Gujarat’s Agriculture and market access, WTO (Imports) minimum market access (of 3 percent) does not apply to India.

Gujarat’s major export commodities (oilseeds, de oiled cakes, isabgul, etc.) receive no direct export subsidies. The WTO Agreement on technical barriers to trade aims to ensure that mandatory technical regulations, voluntary standards, and testing and certification of products do not constitute unnecessary barriers to trade. Gujarat is one of the few states which have comprehensive Agro-Industrial policy & Vision 2010 document for integrated development of Agriculture and Agro based industries.

The EXIM Policy to accelerate the country’s economy with a view to derive maximum benefit from global market opportunities. Gujarat is one of the most industrialized states in
India and has strengths in Agro based industries in terms of natural resources, established industrial infrastructure

Uruguay Round commitments by India have begun to affect its trade policies, but there is still substantial trade protection in place. Dumping is not prohibited, but certain rules are to be followed by governments that seek to offset dumping duties may not be imposed if dumping margins are less than two percent.

India has emerged as one of the fastest growing exporters of services in the world. Services contribute over 30 percent of the total exports of India, while globally this ratio is only about 20 percent during 1990-91. Many developing countries were of the view that TRIMs were beyond the scope of the GATT, and that the GATT was not necessarily the appropriate forum for such an agreement.

UNCTAD is assisting the government of India and other stakeholders at the national, state and local levels to assess impacts and opportunities emerging from globalization to build capacities to influence evolving international trade rules, and to enhance preparedness for globalization. The SSM is a controversial proposed new safeguard mechanism that could be used by developing countries to temporarily protect producers of special products when imports surged.

To stimulate steady economic growth access to essential raw materials, intermediates, components, consumables and capital goods required for production. To enhance the technological strength and efficiency of agriculture, industry and services, create new employment opportunities