3.1. Introduction

Trade policies play a significant role in development of the advanced countries. Countries like USA, Japan Germany and others use their trade policy to restrict their imports and provide a shelter market for the domestic producers so that they could develop rapidly and promote their exports so that their expanding industries secure foreign markets. India did not have a separate trade policy in post-independence era as it was a part of general economic policy. India's trade policy since independence took the form of restricting imports and boosting exports. It also took the form of organizing international trade and bilateral and multilateral trade agreements. In later years it took the form of export promotion through import liberalisation. In 1990s India introduced major structural reforms to improve the efficiency of resource allocation and expand the productive capacity of the economy. Since then, Indian economy has been constantly undergoing drastic reforms. The main objective of these reforms is to shift from inward-oriented policies of the past to an outward looking policy by integrating the domestic economy with world economy through deregulation and competition. In the pre-reform period, India’s trade policy regime was complex and cumbersome.91

During the study period Indian agriculture has experienced changes on two fronts:

1) Domestic policy changes since 1991 and 2) Inclusion of agriculture in WTO since 1995. This chapter includes (i) the developments related to agricultural export under the umbrella of GATT and WTO, mainly after the Uruguay round and (ii) domestic policy measures taken by the government of India for promotion of export of products originating from agriculture sector. After a brief history of how the events at international level led to emergence of GATT, the formulation of WTO and Agreement of Agriculture (AOA) is explored. Thereafter the domestic policies of India mainly a part of Export Import (EXIM) policy reforms from 1991 onwards are listed. They are as follows:

3.2. GATT and WTO

3.2.1. Brief history of General Agreement on Trade and Tariff

The ideology of free flow of trade as the best instrument for global prosperity and peace emerged in the US in early thirties persuaded bilateral agreements with 29 countries before the outbreak of Second World War to bring about mutual reduction of tariffs. This initiation embodied to liberalise world trade through multilateral institution. The wide gap between economic theory and practice in the determination of internal trade policy reminded developing countries the application of theory of comparative advantage of their national policies, which would bring them greatest gains. But in the world of practice, trade policies were formulated within the primary focus on bilateral trade issues and protection of national markets. This gap in the theory and practice was seen by economists as a manifestation of short-sighted political interests, which ultimately led to Second World War through a scrambled market.92

Soon after the Second World War it was realized that effective international institutions had to be created within which nations could collaborate, expand, cooperate and create a new international economic order which would be the basis of security and peace. The US and the UK took the lead for the creation of a strong international economy. Building on this belief both the countries entered into what is known as Reciprocal Trade Agreement Act in 1934. Later on both the countries entered into the Atlantic Charter in the year 1942. Further discussions and deliberations gave birth to the Bretton Woods Agreement in the year 1944. According to this agreement there was a broad agreement at the expert level on the need for a multilateral convention on commercial policy and for an international institution that would supervise its implementation and resolve dispute between countries that subscribe to it. It was agreed that the rules of the convention would be made as precise as possible. There was also an initial agreement such as substantial reduction in tariffs, discrimination in trade to be outlawed, quantitative restrictions to be prohibited, restriction in the use of export subsidies etc. Even though there was a broad agreement amongst the working level

trade policy official and their academic advisors, there was deep fissure persisted between both the countries at governmental level.

The bilateral discussions continued side by side with the Second World War. The monetary policy and development finance progressed quickly leading to the multilateral Bretton Wood Agreement establishing the International Monetary Fund (IMF) and the International Bank for the Reconstruction and Development in 1944. Later on the United State was ready with the proposal for Consideration by an International Conference on Trade and Employment.93

On the basis of the above proposal both the countries agreed to create an 'International Trade Organisation' (ITO), which would oversee the operation of a multilateral code of trade conduct. At the first session of the United Nations (UN) 'Economic and Social Council' the United States (US) proposed a charter for the ITO. The negotiations of the ITO charter took over two years from the Economic and Social Council of the United Nations (ECOSOC) resolution in February 1946. Thereafter the Final Act of the United Nations Conference on Trade and Employment was signed in the year 1948. This Charter is famously known as Havana Charter. The Havana Conference is mainly responsible for the establishment the ITO. Countries having different stages of economic development did not agree to the provisions of ITO draft. The US and United Kingdom (UK) wanted to draft an international trading system that would ensure the efficient use of global resources, reduce the influence of governments on economic affairs and uniformly applied trade law for the entire world. Due to the difference of opinion and perceptions between UK and US regarding the surrender of authority on trade matters, the US administration abandoned its efforts to secure congressional approval for the charter for the ITO. As a consequence of the US backing out other countries also did not proceed to get their parliaments to ratify the ITO charter. Thus the ITO did not take off.

3.2.2. Origin of GATT

The General Agreement on Trade and Tariff (GATT) emerged from the negotiations to create an International Trade Organisation (ITO). The negotiations on the Charter of such organisation, although concluded successfully in Havana in 1948, did not lead to

the establishment of the ITO because the US Congress refused to ratify the agreement. The GATT had been negotiated in 1947, before the ITO negotiations were concluded. Countries which were involved in the 1947 exchange of tariff reduction were anxious because GATT was created as an interim agreement and ITO never came into existence. The GATT was the only concrete result of negotiations. Although the GATT incorporated many of the specific provisions of the ITO, due to its temporary nature it lacked an institutional structure. In the initial years of its operation it did not exist as an entity except once or twice a year when formal meetings of the contracting parties were held. The organizational structure of GATT emerged gradually. Major decisions were taken at the sessions of the contracting parties and it was felt that a standing body was needed. An inter-sessional committee was formed in 1951 to organize voting by air mail to telegraph ballot on issues relating to import restrictions justified for reasons of balance of payments. This committee was replaced by a council of representatives which was given broader powers and responsibilities for day-to-day management.94

Trade through General Agreement on Trade and Tariff was founded in the year 1947 with the primary objectives of prescribing the rules and regulations for international trade. Initially the GATT had 23 members including India. With the passage of time this number increased to 118 members. The vast majority of GATT comprised of developing economies and less developed economies. The fundamental principles of GATT can be enumerated in the following points. World trade should be carried on nondiscriminatory basis; domestic industry should be protected by means of custom, tariff and not through other commercial measures. The GATT serves as a framework within which negotiations can be held to reduce tariff and trade barriers. GATT has provided for reduction of tariff and trade restrictions over a period of time. Another important principle of GATT had been to accord Most Favourable Nation clause (MFN). This clause says that “any advantage, favour, privilege or immunity granted by a contracting party to any product originating in or destined for any country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all contracting parties.”95

94 Ibid

3.2.3. Essentials of GATT Agreement

The GATT has proved to be one of the most influential and respected international institution during the post war era. Though conceived as a temporary arrangement and devoid of elements of the grander design discussed at Havana, the agreement embodied a set of core beliefs held by major countries about how international commerce should be organized and conducted. Principles that are the foundation of the agreement are –

- People will enjoy a higher standard of living if they have free access to all the world’s material and human resource through trade. The lowering and removal of barriers to trade should therefore be an objective for all governments, though they are not obligated to undertake it.

- All countries benefit from the order, fairness and predictability that come with trade relations based on rules rather than on economic weight alone. The principles and standards of acceptable conduct that guide international commerce should therefore be codified and embodied in international commitments of legal character.

- Market forces of demand and supply should be the major regulator of international commerce. Governments should be discouraged from creating direct or indirect barriers of trade, and their interference with market forces should be permitted only in exceptional and specified circumstances.

- If national efforts to promote economic and social objectives affect trade relations, they are of international concern. Countries should respect the legitimate trade interests of other countries in devising and implementing domestic policies and programs, and should seek to avoid harming them.

- Where protection is given it should be afforded only by duties and similar direct charges. The tariff is a visible barrier that readily lends itself to negotiation. Indirect methods of protection should not be used, except for some exceptional circumstances and according to prescribed rules. (Most of the provisions of Agreements are designed to protect the integrity of members’ tariff concessions against nullification or impairment, through such measures as, quantitative restrictions, subsidies, dumping, countervailing duties, customs valuation and formalities, state trading, and government procurement.)
• Trade barriers of all types should be administered on nondiscriminatory basis. Imports should be treated in the same manner as national products in respect of charges and regulations. Any trade benefit conferred on one country should be extended unconditionally to all other suppliers. New preference should not be created by raising trade barriers, and all preferences should be progressively reduced and ultimately eliminated through the liberalization of trade.

• When negotiations to reduce trade barriers are entered into, they should be carried out in such a manner as to establish a balance of mutual advantage.

• If the balance of advantage established in negotiations subsequently disturbed 'nullified or impaired' by the action of a country, solutions should be provided for its restoration. If a mutual solution cannot be reached by consultation the balance can be restored by the measured release of the injured countries from some of their obligations.

• The first three of these points constitute the foundational beliefs of GATT; the remaining objectives are expressed operationally in the Articles of the Agreement itself. The key principles and rules of the GATT are the granting of nondiscriminatory treatment of imported goods from all sources at the border (Article I), and the treatment of imports in the same manner as domestically produced goods once they cross it (Article III).96

For solving common problems, and for resolving trade disputes best use of the above mentioned opportunities for consultation and cooperation provided by the GATT should be deployed. Agriculture trade created problems for the architects of the international trading system from the earlier days of planning for the post war era. It was apparent that the trade rules would have to acknowledge the existence of extensive government involvement in national agricultural industries and trade arrangements that typically accompanied national farm programs. In some countries agricultural policies have deep roots, reaching back over a century. In others, agricultural price and income support policies has been introduced in the interwar years in response to the depression and collapse of agricultural incomes. During war most countries adopted regulatory measures to promote agricultural recovery. By 1945 it could not be anticipated that

trade in farm and food products could soon be exposed to global competition and that special provisions would have to be made for trade in the products of that sector. These provisions took the form of explicit exemptions from the general rules on the use of ‘Quantitative Restrictions (QRs)’ and ‘export subsidies’ for trade in agricultural products. These two ‘agricultural exceptions’ were designed to accommodate the agricultural support programs of the economically advanced countries.

3.2.3.1. Quantitative Restrictions

A key objective of the post war foreign economic policy of the US was to eliminate the use of quantitative trade restrictions. The use of such restrictions had proliferated during the interwar period. They were regarded as the epitome of protectionism, bilateralism, discrimination, and the subordination of market forces in international commerce to government decision. It was accepted that exceptions would be needed for three main purposes.

- To cope with balance of payments difficulties,
- To protect industries in poor countries, and
- To accommodate certain agricultural programs.

These three exceptions were aimed respectively at the countries of Western Europe and the developed countries of the Americas. No prohibition or restrictions other than duties, taxes or other changes, whether made effective through quotas, imports or export licenses or other measures shall be instituted or maintained on the importation or exportation of any product. The provisions of paragraph I of Article XI:2 of General Agreement shall not be extended to –

- Restrictions temporarily applied to prevent or relieve critical shortages of food articles,
- Restrictions necessary for the applications of standards,
- Import restrictions on agricultural product, imported in any form necessary for the enforcement of governmental measures,
- To restrict the quantities of the similar domestic products permitted to be marketed or produced or to remove a temporary surplus.
These agricultural exemptions to the general prohibition against the use of quantitative import restrictions were greatly resented by the member countries from the inception of the general agreement.

3.2.3.2. Subsidies

Production and export subsidies affected trade partners and the competitive relationships between suppliers. And if not subjected to multilateral disciplines, national subsidies might be used to nullify the trade benefits that were expected to flow from agreement to reduce tariffs. It was clear that subsidies could not be banned even in principle. Instead a system of subsidy regulation would have to be devised that focused on controlling and mitigating their trade effects. The regime for regulating subsidies put forward in the suggested charter made a generic provision for all subsidies and separate provisions for export subsidies. However, subject to specified conditions, member countries would be permitted to continue to provide subsidies to the export of 'primary products'. The conditions set out in the Havana charter were the preferred solution of inter-governmental commodity arrangement had been attempted and failed. The ITO has given its permission for export subsidies to be used. The permission would be given only for a limited period and the subsidy would not result in the subsidizing country acquiring 'more than an equitable share of world trade' in the product concerned.

Though contested at every stage, this cautious approach to the approval and regulation of Intergovernmental Commodity Agreements (ICAs) prevail throughout the negotiation of the Havana Charter for the ITO. The objectives of most restrictive ICAs - the 'control agreements' that might regulate production, trade, stock and prices - were carefully specified in the Havana Charter. This could ameliorate serious economic difficulties that may arise for countries from problems in their commodity trade. It provides a framework and a time frame for the development and implementation of economic adjustments to underlying market conditions. It also prevents or moderates pronounced fluctuations in commodity prices. To prevent or moderate pronounced fluctuation in the price of a primary commodity with a view to

97 Improving the conditions of competition in world markets for primary products currently covered by the equitable share criterion in the second sentence of Article XVT.3., of General Agreement.
achieving a reasonable degree of stability on a basis of such prices as are fair to consumers and provide a reasonable return to producers, having regard the desirability of securing long term equilibrium between the focus of supply and demand (Article 57).  

3.2.4. World Trade Organisation

After seven years of protracted negotiations called Uruguay Round of Trade Negotiations – a new rule based trading system with a new apex body, the World Trade Organisation (WTO), equipped with authority of enforcing the commitments, rules and norms of discipline came into existence on January 1995. This Uruguay round of trade negotiations – seventh in the series of such negotiations – was unique in several respects. It covered many new areas such as agriculture, textile, technology, intellectual Property rights (IPRs), trade-related investments, services, etc. It included in its scope, liberalisation of non-tariff barriers, and conceived many new norms and disciplines such as sanitary and phyto-sanitary (SPS) measures, anti-dumping measures, dispute settlement procedures, safeguard measures etc. This has been done with a view to ensure liberalised effective market access and rule-based trade. Unlike the erstwhile GATT, the new institution – WTO – is equipped with legal authority and provisions for enforcement of the rules and disciplines of the new trading system.

Some of the positive achievements of the Uruguay Round of Trade Negotiation that have been incorporated in the Final Act and WTO framework need to be explicitly recognized. Over the past several years, many countries, which were vocal advocates of free trade and free play of market forces, had been adopting many markets intervention policies to serve their own national interests. These practices were indeed a source of distortion of agricultural trade.

98 Timothy et al pp11-18.

99 For example, huge subsidies to the agricultural sector given to the farmers in European Union (EU).

3.2.5. Agreement on Agriculture

The conclusion of the Uruguay Round of negotiations in 1995 and the emergence of the Agreement on Agriculture (AOA) raised the hope of developing countries. Consequently trade in agricultural commodities, be it primary or processed, is made less restricted, with increased market access leading to greater international trade. However, as these and other promises were far from being fulfilled it was resolved at Doha to take a comprehensive look at these issues.\textsuperscript{101} Despite expectations that world trade would expand substantially after the formation of the WTO in 1995, overall merchandise trade as well as agricultural trade ironically shrank, against the backdrop of a sharp slowdown in the world economy. This was not surprising, given that developed countries dominate agricultural trade. Brazil is the only developing country among the 10 top exporters of agricultural commodities, while there are six EU members in the top 10. All 10 top importers of agricultural commodities are developed countries. However, this situation may change in future, as there is some evidence that developing countries are placing more emphasis on new agro-based manufacturing activities for export expansion. Increasing agricultural exports from developing countries can have important benefits. This due to the fact that agriculture remains the major source of livelihood and food security for large sections of the population. If SPS measures become too stringent, the resulting contraction in agricultural exports would have a significant negative impact on such communities.

Throughout the post second world war period, the developed countries resorted to the extensive use of subsidy and other protectionist measures to distort the international trade in agricultural products. The agriculture sector in the developed countries had been subject to rigorous protective measures, which inhibited export prospects of many developing countries including India. The above practices adversely affected the export potentials of developing countries, and India is not an exception. It is widely recognized that developing countries like India have intrinsic competitive advantage in agricultural trade. The restrictive global trade regime in agriculture has become one of the most effective barriers to sustained acceleration of agricultural production and

export. The huge subsidies given by industrialized countries to their agriculture sector led to discrepancies\(^{102}\) in international trade.

The Uruguay Round Agreement on agriculture is an attempt to correct these discrepancies. The agreement can be treated as the foundation for initiating the process of reform in agricultural trade and the establishment of a fair and market oriented agricultural trading system. The signing of the final Act of the Uruguay Round on Multilateral Trade Negotiation at Marrakesh by 120 member countries has herald the liberalisation of world trade in agriculture. The Agreement on Agriculture (AOA) stipulates that all contracting countries shall be obliged to open their domestic markets to imported goods to some extent, reduce farm and export subsidies in a phased manner and convert all protective measures to tariff equivalence.

Broadly speaking the AOA include three well defined areas namely-

- Domestic Support,
- Market Access, and
- Export Subsidies.

### 3.2.5.1. Domestic Support commitments

It is provided that all domestic support in favour of agricultural producers with the exception of measures that have been exempted from reduction shall be reduced by 20 per cent of the total in 6 years for developed countries. For developing countries the reduction commitment is two-third of the general commitment and the time period is over 10 years. AMS\(^{103}\) comprises two elements namely – Product specific AMS, and Non product specific AMS.\(^{104}\)

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102 Subsidies given to producers in developed countries have resulted in overproduction and lower world prices of agricultural goods causing the distortion in international trade for these commodities.

103 Aggregate Measurement of support which means the annual level of support, expressed in monetary terms, provided for an agricultural product in favour of the producers of the basic agricultural product or non-product-specific support provided in favour of agricultural producers in general, other than support provided under programs that qualify as exempt from reduction under Annex 2 of Agreement on Agriculture.

104 Domestic policies that do have a direct effect on production and trade have to be cut back. WTO members calculated how much support of this kind they were providing per year for the
For the purpose of calculating the domestic support to the agriculture sector both product specific AMS and non-product specific AMS shall be taken into account. In case of the developed countries the obligation to reduce domestic support, if the total AMS given to agriculture sector exceeds 5 per cent of the value of the total agriculture production. For developing countries like India this percentage has been set at 10 per cent.

The important feature of the Agreement is that Government service programs are exempt from the reduction commitment and therefore, shall not be taken into account for calculating the total AMS. These include – general services, such as research programs, pest and disease control, training services, extension and advisory services, infrastructural services, including capital expenditure, for electricity, roads and other means of transport, market and port facilities, water supply facilities, dams and drainage schemes, and infrastructural works associated with environmental programs; public stockholding for food security purpose; domestic food aid; direct payments to producers subject to their meeting certain criteria; decoupled income support; government financial participation in income insurance and income safety-net programs; payments for relief from natural disasters; structural adjustment assistance provided through producer retirement programs; structural adjustment assistance provided through resource retirement programs; structural adjustment assistance provided through investment aids; payment under environmental programs; and payment under regional assistance programs.

Apart from the above mentioned generally available exemptions, developing countries have been provided three additional exemptions, namely – investment subsidies which are generally available to agriculture; agricultural input subsidies, generally available to low income or resource poor producers; and domestic support to producers to encourage diversification from growing illicit narcotic crops.

agricultural sector (using calculations known as “total aggregate measurement of support” or “Total AMS”) in the base years of 1986-88. Developed countries agreed to reduce these figures by 20% over six years starting in 1995. Developing countries agreed to make 13% cuts over 10 years. Least-developed countries do not need to make any cuts. (This category of domestic support is sometimes called the “amber box”, a reference to the amber colour of traffic lights, which means “slow down”.)
3.2.5.2. Market Access Commitment

This included the obligations for the reduction of levels of protection for all agricultural commodities covered by the Agreement. For agricultural products normally subject to ordinary customs duties only, 15 to 36 per cent, reduction commitments have to be undertaken in six years. For agricultural products on which non-tariff restrictions apply, there is an obligation to convert these tariffs by an average of 36 per cent over the implementation period. The calculation of the tariff equivalents has to be made using the actual difference between internal price (representing wholesale price) and external price (actual average CIF\textsuperscript{105} values). This provision is known as the comprehensive tariffication requirement.

For developing countries; the reduction envisaged was 24 per cent and it should be achieved over a period of 10 years. It may, however, be stated that this commitment applied only if a country is obliged in the first place to render its import controls in terms of tariffs. It had been provided that import control measures maintained under balance of payments provisions or under other general, non-agriculture specific provisions of GATT are not required to be converted into ordinary customs duties. The developing countries have also been provided with the flexibility of offering ceiling bindings (tariff ceilings) on products covered by the AOA.

Another stipulation in the area of market access is that where there are no significant imports, minimum access opportunities will have to be provided. This has been at 3 per cent of the domestic consumption and rising to 5 per cent by the end of implementation period. Minimum levels of access have, however, not been granted by countries which do not have obligation to tariff non-tariff restrictions (such as those maintained for BOP reasons).

The Agreement contains special safeguard provisions for tariffed products. It says that if the volume of imports of products in a particular year exceeds 125 per cent of average imports in the preceding three years, and the price of the imported products falls below the average of 1986-1988 prices, the country concern may impose a specified duty temporarily for one year to safeguard its agriculture.

\textsuperscript{105} CIF is cost insurance and freight, which means a trader, has to pay the cost of shipment up to the ship, insurance cost of cargo and freight cost up to destination port.
3.2.5.3. Export Subsidy Commitments

A number of subsidy practices have been listed for reduction commitments. These practices are –

1) Direct subsidies contingent on export performance, export sale of non-commercial stocks held by government at a price lower than the price charged to buyers in the domestic market, payment on the export of agricultural product that are financed by virtue of governmental action,

2) Subsidies to reduce the costs of marketing exports of agricultural products including handling, upgrading and other processing costs, and costs of international transport and freight,

3) Internal transport and freight charges on export shipments on terms more favourable than for domestic shipments,

4) Subsidies on agricultural products contingent on their incorporation in exported products.

The reduction commitments have to be made in terms of budgetary outlays as well as quantities. Outlays and quantities have to be reduced by 36 per cent and 21 per cent respectively during the implementation period. As regards export subsidies not listed above, it is provided that they shall not be applied in manner which results in, or which leads to, circumvention of export subsidy commitments. In case of developing countries, the Agreement provides that during the implementation period they shall not be required to undertake commitments in respect of the export subsidies listed in (3) and (4) above.

3.3. Agricultural trade policy of Government of India

Reforms in agriculture began in mid-eighties inspite of budget deficit, trade imbalances and fluctuating exchange rates. Trade liberalisation began with reduction of tariffs on imports from abnormal levels to modest levels, and increase in import-export quotas. In order to reduce burden of subsidy given on fertilizer, power, irrigation and public distribution system (PDS), measures such as increase in prices of fertilizer, and increase in prices at fair price shops for wheat, rice and other products were initiated.
Though, India signed AOA in 1994; the actual process of liberalisation began in 1991 or even earlier i.e. in mid-eighties.\textsuperscript{106}

Indian agriculture policy is aimed essentially at improving food self-sufficiency and alleviating hunger through food distribution. Government of India is not only investing in agricultural infrastructure, the government supports agriculture through number of measures such as minimum support prices (MSP) for the major agricultural crops, subsidies for farm inputs and preferential credit schemes. Under the price support policy, MSPs are set annually for basic staples to protect producers from sharp price falls, to stabilise prices and to ensure adequate food stocks for public distribution.\textsuperscript{107}

Prior to economic reforms, India's peak tariff was at 300%. During 1992-93, the peak rate was reduced to 150%.\textsuperscript{108} The Government also introduced a system of value-based advanced licenses to export houses, trading houses and star trading houses which permitted duty free imports of necessary raw materials as components up to a stipulated ratio of the value of anticipated exports. Even Special Import Licenses (SIL) were issued to certain categories of exports like exports to Asian clearing union countries, deemed export, trading houses and manufacturers who have acquired the ISO 9000 or other international certificating quality. Before the Uruguay Round Agreement (URA), only 5 per cent of India's tariff lines were bound. The Government indicated that after the URA came into force, about 68 per cent of India's tariff lines would be bound.

The Ministry of Commerce in consultation with the related ministries formulates export-import (EXIM) Policy for every five years, which is brought out in the publication of the ministry of commerce, titled 'Export and Import Policy'. Agriculture Trade policy, which is a part of this document is decided in consultation with the Ministry of Agriculture and other related ministries. Except for traditional agricultural exports India followed a very restrictive policy in the past which some people term as

\textsuperscript{106} Bapna S L (2001),"WTO Agreement on Agriculture and India’s Food security,” Implications of WTO Agreement for Indian Agriculture, Centre for Management in Agriculture, IIM, Ahmadabad., p-444.

\textsuperscript{107} Directorate general of Agricultural and Rural Development, European Commission, (2007) "India’s Role in World Agriculture", MAP, Monitoring Agri-trade Policy, No 03-07, December.

‘residual’ trade in the sense that imports were allowed only if necessary for maintaining domestic price; the priority being saving foreign exchange. Likewise exports were allowed if it did not harm the internal price situation. With AOA now many commodities are freely exported and imported or quotas are either removed or made less stringent. Under the EXIM policy food grains (except rice since 1996), sugar, cotton, dairy product export is still under restricted category, but edible oil has been put under open general license (OGL) since 1993. Milk products are decanalized since 1993 though quantitative restrictions are maintained. Onion export is also under restricted category. In case of rice export no MEP (Minimum Export Price) is suggested now, thus making it completely free. Wheat and onion are to be traded by canalizing agency i.e. Food Corporation of India and NAFED respectively. The policy changes introduced under the three EXIM policies which affected the agricultural export during the study period are as under -

3.3.1. EXIM Policy 1992-97

When the Eighth Plan commenced, the three-year Import-Export policy (1990-93), valid until March 1993 was in operation. With a view to reinforcing the trade policy reforms and complementing the fiscal, industrial and investment measures, the new five-year Export-Import Policy (1992-97) was introduced with effect from April 1992. For the first time, the policy was given an export bias. Earlier this policy was known as Import- Export policy; the new policy was titled Export-Import policy (EXIM policy). Several schemes were introduced or modified to eliminate regulatory measures and discretionary controls impinging on free trade. The EXIM Policy 1992-97 was modified in March 1993 giving a new thrust to exports of agricultural and allied sectors, and services in which the country has a comparative advantage. Ironically, minimum export price was introduced to discourage the export of non-basmati and low-grade rice, which would affect the domestic market. This was a step backward from marching towards free trade and also not in the interest of the farmers because the border price for rice was lower than the international price during the early nineties. Also, export of high value durum wheat and of non-fair average quality of jowar was allowed only subject to ceiling. These measures, which were discouraging rather than encouraging exports of cereals, were introduced to build buffer stocks with grains for the use of the public distribution system. The EXIM Policy was modified in 1995 to
boost agricultural exports. Following Provision in this policy were related to agriculture:

(a) In the category of agricultural and food exports only beef and tallow were in the negative list\textsuperscript{109} during 1995-96;

(b) Horticulture and floriculture exports were encouraged by providing various supports to farmers such as airfreight subsidy; and

(c) Quantitative ceiling and minimum export price in respect of rice was abolished. Exports of wheat up to 2.5 million tons in case of non-durum wheat and 0.5 million tons in case of durum wheat was permitted. In the case of coffee, free sale quota was raised to 70 per cent for large producers and 100 per cent for small producers. As a consequence to these policy changes, fruits, vegetables and flowers emerged as export products. EOU\textsuperscript{s} in floriculture facilitated export of the perishable products. Airfreight subsidy provided a boost to these export items.

\subsection*{3.3.2. EXIM Policy 1997-2002}

Some of the major policy changes include (a) the threshold limit for Export Promotion Capital Goods Scheme\textsuperscript{110} (EPCG) zero duty scheme was brought down to \textrsfs{\textcurrency}10 million for agricultural and allied sectors from \textrsfs{\textcurrency}50 million (b) Duty entitlement Pass Book (DEPB)\textsuperscript{111} scheme was modified to neutralize not only the basic customs duty but also the special customs duty which was introduced as a temporary measure in 1998; and (c) Exports of oilseeds for consumption purpose and vegetables were made free without any quantitative and licensing requirements.\textsuperscript{112}

\textsuperscript{109} It is the prohibited Export List which includes the names of articles, export of which is not permitted on religious and environmental considerations.

\textsuperscript{110} The scheme allows import of capital goods for pre-production and post-production at 5% Customs duty subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme to be fulfilled over a period of 8 years reckoned from the date of issuance of license. Capital goods would be allowed at 0% duty for exports of agricultural products and their value added variants.

\textsuperscript{111} Under the scheme, exporters could take credit of the duty paid on the import content of the products exported.

\textsuperscript{112} Ministry of Commerce, Export Import Policy Statements, Government of India, New Delhi (Various Years).
Except for some restrictions on export of wheat and wheat products, coarse grains, sugar and pulses in bulk, almost all other agricultural products were freely exported. Agricultural products which were exported include rice, spices, tobacco, cashew, oil meals, sesame and niger seeds, groundnut, spirit and beverages, guar gum meal, oil seed extractions, shellac, sugar and molasses, horticulture and floriculture products, processed fruits and juices, meat and meat preparations. The international trade in agricultural products was increasingly dominated by concerns of quality to safeguard human health. Importing countries were setting higher standards of quality for food products. It was therefore important for the agro-food-processing industry to improve its functioning by paying attention to hygiene. Processors/ manufacturers were made aware of the high international standards for quality. There was also a need to harmonise domestic standards with international standards, lay down standards for products where there were none but were necessary. Quality standards were revised to meet the changing requirements. For meeting these standards the revision for spices and basmati rice is formulated. Keeping the potential of agriculture in view, there is considerable scope for increasing the share of agricultural and food products in the total export basket. The Government has been giving special attention to this area by providing thrust to agricultural exports through enhanced public investments and by building up conducive policy environment.113

During 1997-98 some important steps were taken to deregulate agricultural trade and remove market restrictions. Cold storage order 1980 and Rice Milling industries (Regulation) Act 1958 were repealed. Futures trading in ginned and baled cotton and jute goods were allowed. International Castor Oil Futures Exchange is being setup at Mumbai. These are important steps in the directions of market liberalisation in agricultural products.114 In 2000-2001 it is announced in the budget that for sensitive agricultural products115, suitable enabling provisions to fix statutory tariff rates at appropriately high levels have been made. These measures provide the necessary


115 Wheat, rice, sugar and edible oils are sensitive from the point of view of price fluctuations.
flexibility for adjusting the applied rates to facilitate suitable supply management of these commodities.\textsuperscript{116}

With a view to promoting agricultural exports from the country and remunerative returns to the farming community in a sustained manner, the concept of the agricultural export zones (AEZ) was floated through the revised EXIM policy of 1997-2002. These zones have been set up for end to end development for export of specific products from a geographically contiguous area. AEZ are to be identified by the State Government, who would evolve a comprehensive package of services provided by all State Government agencies, State agriculture universities and all institutions and agencies of the Union Government for intensive delivery in these zones. Corporate sector with proven credentials would be encouraged to sponsor new agricultural export zone or take over already notified agricultural export zone or part of such zones for boosting agricultural exports from these zones.

Services which would be managed and co-ordinated by State Government/corporate sector and would include provision of pre/post-harvest treatment and operations, plant protection, processing, packaging, storage and related research and development etc. APEDA will supplement, within its schemes and provisions, efforts of State Governments for facilitating such exports Units in AEZ. It would be entitled for all the facilities available for exports of goods in terms of provisions of the respective schemes. The list of agricultural Export Zones is notified under Appendix 15 of the Handbook of Procedures (Vol 1) under the EXIM Policy. It is expected that the states will identify product-specific AEZ for end-to-end development from a geographically contiguous area. They will also have to evolve a comprehensive package of services provided by all state government agencies, agricultural universities, and some Central institutions and agencies for ‘intensive delivery’ in these zones. The AEZ would have access to the Centre’s proposed market access initiative, which will provide market research, warehousing and retail marketing infrastructure in select countries, and direct market promotion activities.

The main approach of the Government Policy has been to maximize agricultural exports in order to earn foreign exchange and provide remunerative prices to the

farmers keeping in view the prime consideration of ensuring adequate availability of essential commodities to the domestic consumers at reasonable prices. Imposing minimum export price and/or ceilings has regulated exports of rice and wheat.

3.3.3. EXIM Policy 2002-2007

All the quantitative restrictions on all the agricultural goods were removed except for a few sensitive items like jute and onions. This EXIM policy intended to boost the export of agriculture. In this effort, it intended to increase the export of wheat and reduce the mounting buffer stocks of food grains.\textsuperscript{117} Other measures taken to boost agricultural export under this policy are - assistance for reducing the marketing cost such as transportation, handling and processing of export of selected agricultural commodities; financial assistance for improved packaging, strengthening of quality control mechanism and modernization of processing units; arranging promotion campaigns such as buyer-seller meets and participation in important international fairs and exhibition.\textsuperscript{118} Further decontrol and deregulation of agricultural sector, to encourage higher exports of farm products with measures like decanalisation of export of agricultural commodities, phasing out of remaining export controls, setting up of more agricultural export zones in various states and enhanced incentives for export of food grains.\textsuperscript{119}

3.3.4. EXIM Policy 2004-09

Under special focus initiatives agriculture is identified as one of the thrust areas with export potential coupled with employment generation in semi urban and rural areas. Special Agricultural produce scheme called Vishesh Krishi Upaj Yojna was introduced to boost the exports of fruits, vegetables, minor forest produce, dairy, poultry and their


\textsuperscript{119} Ministry of Finance, Economic Survey 2002-03, Economic Division, Government of India, New Delhi.
value added products. Export of these products benefit under duty free credit entitlement equivalent to 5 per cent of the F.O.B. Value\textsuperscript{120} of exports.\textsuperscript{121}

3.4. Evaluation of Domestic policies with respect to WTO guidelines

India’s Schedule of Commitments filed in GATT are as follows:

3.4.1. Domestic Support

India does not provide any product specific support other than market price support. From 1980 to 1989, India had market price support programs for 22 products, of which 19 are included in the list of commitments filed in GATT. The products are – rice, wheat, bajra, jawar, maize, barley, groundnut, rapeseed, toria, cotton, soybean (yellow), soybeans (black), urad, moong, tur, tobacco, jute and sugarcane.

3.4.2. Market Access

As stated earlier, the minimum market access commitment applies only if a country is obliged in the first place to render its import controls in terms of tariffs. India was under a balance of payments cover in GATT and was therefore free to maintain quantitative restrictions on imports. India has not undertaken any commitments in regard to market access and this has been made clear in India’s schedule filed in GATT. The only commitment India has undertaken in the area of market access is indicating ceiling tariff level which is 100 per cent for primary products, 150 per cent for processed and 300 per cent for edible oils.

3.4.3. Export Subsidy

Coming to export subsidies, as mentioned earlier, the agreement on agriculture lists six types of subsidies to which the reduction commitments will apply. India does not provide any of these subsidies. The only export subsidy India provides is the exemption of export profit under section 80 HHC of the Income Tax Act 1961 and this is not on

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{120} FOB stands for free on board or freight on board means that the seller is only responsible upto the point of loading the goods, after that whatever happens to the goods like getting damage while being transported or even if it is getting lost the seller cannot be held responsible.
\item \textsuperscript{121} Ministry of Finance, Economic Survey 2005-2006, Economic Division, Government of India, New Delhi.
\end{itemize}
\end{footnotesize}
the list of the subsidies. It is also worth noting that developing countries like India are free to provide two of the listed subsidies, namely, subsidies to reduce the costs of marketing for exports of agricultural products and the costs of international transport and freight and internal transport and freight charges on export shipments. India has indicated in its schedule of commitments that India reserves the right to take recourse to subsidies (such as, cash compensatory support) during the implementation period.

3.5. Summary and Conclusion

India has taken major steps towards trade liberalisation since 1991, partly on its own initiative and partly from its commitments to WTO. During the WTO Second Trade Policy Review of India, the members complimented India for reduction in the tariffs (WTO, 1998). India’s negotiations for upward revision of tariff bindings under Article XXVIII of GATT 1994 in respect of certain agricultural products which were bound during the previous rounds of GATT negotiations at zero or low levels of tariffs warrant attention (WTO, 1998). Upward revision on these tariff bindings for such agro products under Article XXVIII was done with a view to giving the necessary protection to domestic agriculture and agro-industry. This will affect the Indian economy in various ways as long as institutional complementarities is re-established.

The existing productive inefficiency in agriculture is the consequences of heavy protection so far given to the industrial sector. Such domestic failures should be corrected through a proper domestic policy measures such as the removal of all subsidies to farmers; and effective removal of internal and international restrictions on agricultural products, particularly cereals. This implies that India’s trade liberalizing reforms are forced to slow down or could be counter-productive if highly regulated spheres of other markets remain untouched. It has been acknowledged that India can lift and sustain the growth rate from the low 3.5 % per annum to 6.5% per annum through economic reforms. Based on the ratio of total trade to GNP as a proxy of to what extent the economy is involved in world economy, it can be safely asserted that India’s trade has been open now compared to that of the pre - reform period, as the ratio increased from 14.1% in 1980 to 20% in 1999. However, when it comes to an
international comparison, India still has to open her doors. Indian economy can move forward with further reforms and not with restrictions.\textsuperscript{122}

There are several concerns associated with the acceptance of WTO Agreement on Agriculture. These are -

- There is no obligation under GATT Treaty to reduce any of the subsidies given to our farmers. This is because the total aggregate value of subsidies given to farmers namely, subsidies on fertilizers, electricity, seeds, pesticides and cost of credit available to all crops as well as agricultural commodities is well below the ceiling prescribed in the GATT.

- All the developmental schemes of India are exempt from the purview of the agreement. These include India's subsidies for research, pest and disease control, marketing and promotion services, infrastructural services, including capital expenditure for electricity, roads and other means of transport, marketing and port facilities, irrigation facilities, drainage systems and dams etc. for developing countries like India there are some agricultural subsidies which will also not be subject to any ceiling. There are investment subsidies which are generally available to low income and resource poor farmers. The types of subsidies mentioned above account for the bulk of the agricultural subsidies provided in India.

- India has neither provided nor is required to provide minimum access opportunities. Minimum market access opportunities have to be established by those countries which maintain quantitative restrictions for reasons which are inconsistent with WTO. Countries like India which maintain quantitative restrictions for balance of payments reasons (which is consistent with WTO) do not have to establish minimum market opportunities.

- WTO Agreement will affect our Public distribution System (PDS) because operations of PDS in India are not subsidies to the farmers or producer. These are consumer subsidies meant for the rural and urban poor to meet their food

requirements. Such consumer subsidies are exempt from WTO discipline, and this is clearly written in the Agreement. Further, India has stated in its Schedule of Commitments to WTO that concessional sales of food grains through the PDS and other schemes with the objective of meeting the basic food requirements as a social safety net are in conformity with the provisions of Agreement. The Schedule has been verified and accepted by our trading partners. The apprehension is, therefore, a result of inadequate study or understanding of the agreement.

- There are concerns against the “seeds provisions” in the Agreement on TRIPS on alleged ground that farmers will not be able to make across the fence sales, the prices of seeds will increase, and that substantial “payments” will have to be made to those who have developed new plant varieties. It should be clear that Agreement on TRIPS does not impose an obligation to provide patent protection to new plant varieties. Countries are free to choose whether to provide patent protection or protection through a sui generis system. So far as India is concerned, we are bringing out new breeders’ rights. The Ministry of Agriculture has already initiated steps for bringing about or legislation on the subject, the important features of which are likely to be –
  - The farmer can choose the best seed that he likes, at the price that he likes,
  - The farmer can save seed from one crop and use it in the next crop. He can also exchange his seed with other farmers,
  - The farmer can sell his surplus seeds but not under a brand name in case of a protected variety,
  - The farmer can also become a whole-time seed producer and sell protected seed as a commercial enterprise with the consent of the right holder,
  - Our societies shall be free to use all seed varieties, including protected varieties, for experiment and research for developing further new varieties.
o If a company having breeding rights of any particular variety of seed fails to produce sufficient quantities of seeds can provide it to another party to produce that variety of seed and supply it at reasonable prices.123

India has not undertaken any commitments under the Uruguay Round Agreement on Agriculture. The Agreement does not constrain us from following our developmental policy with regard to agriculture. The Uruguay Round Agreement on Agriculture will create opportunities for our agricultural exports. The industrialized countries have to reduce their subsidies and to provide increased market access. Reduction of subsidies will raise the prices of agricultural products in the world market and this will make our exports more competitive. The liberalization measures will create market openings.

On the domestic policy front it is essentially aimed at improving food self-sufficiency and alleviating hunger through food distribution. Government of India is not only investing in agricultural infrastructure but also supports agriculture through number of measures such as minimum support prices (MSP) for the major agricultural crops, subsidies for farm inputs and preferential credit schemes. Through the EXIM Policy government has initiated the schemes to encourage farm exports. Also specialized institutes like APEDA and MPEDA are providing helping hands to the farm exporters.