



India Sugarcane Subsidy under WTO Scrutiny

For Prelims: [World Trade Organisation](#), Sugarcane, WTO's Agreement on Subsidies and Countervailing Measures, WTO's [Agreement on Agriculture](#), General Agreement on Trade and Tariffs (GATT).

For mains: WTO and its role, Issue of sugar subsidy in WTO, Significance of subsidy in sugar industry.

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Why in News?

Recently, the **US** and **Australia** have contended that India is giving sugarcane **subsidies** to its farmers beyond the limits set in the [World Trade Organisation's \(WTO\) Agreement on Agriculture \(AoA\)](#) calling it violative of global standards that can distort global trade.

What is the WTO's Agreement on Agriculture (AoA)?

▪ About:

- The Agreement on Agriculture (AoA) is an **international treaty** established by the [World Trade Organization \(WTO\)](#).
- It was negotiated during the Uruguay Round of the **General Agreement on Tariffs and Trade (GATT)** and entered into force with the establishment of the WTO on 1st January 1995.

▪ Objective:

- AoA is aimed to **remove trade barriers** and to **promote transparent market** access and integration of global markets.
- The AoA aims to establish a **fair and market-oriented** agricultural trading system.
- It sets out rules applicable to all WTO members to provide for **substantial progressive reductions in agricultural support and protection** in their country.

▪ 3 Pillars of AoA:

- **Domestic Support:** It calls for reduction in domestic subsidies that distorts free trade and fair price.
 - Under this provision, the **Aggregate Measurement of Support (AMS)** is to be reduced by 20% over a period of 6 years by **developed countries** and 13% over a period of 10 years by developing countries.
 - Under this, subsidies are categorised into: [Blue Box, Green Box and Amber Box subsidies](#).
- **Market Access:** Market access for goods in the WTO means the conditions, tariff and non-tariff measures, agreed by members for the entry of specific goods into their markets.
 - Market access requires that **tariffs fixed** (like custom duties) by individual countries **be cut progressively to allow free trade**. It also required countries to **remove non-tariff barriers** and convert them to Tariff duties.
- **Export Subsidy:** Subsidy on inputs of agriculture, making export cheaper or other incentives for exports such as import duty remission etc are included under export subsidies.

- These can result in dumping of highly subsidised (and cheap) products in other countries and damage the domestic agriculture sector of other countries.

WTO AGREEMENT ON AGRICULTURE (AoA)

A WTO treaty negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT); formally ratified in 1994 at Marrakesh, Morocco; Came into effect in 1995

FEATURES

- Market access (Promote market access for agricultural products by reducing trade barriers)
- Domestic support (Subsidy Boxes are included in this)
- Export subsidies (Reduce the use of export subsidies, which can distort trade)

SUBSIDY BOXES

Amber Box Subsidies:

- Can distort international trade by making a country's products cheaper in comparison to those of other countries
 - Examples: Subsidies for inputs such as fertilisers, seeds, electricity, irrigation, and Minimum Support Price (MSP)
- Amber box is used for all domestic support measures that are deemed to distort production and trade
 - As a result, the signatories are required to commit to reducing domestic supports that fall into the amber box
- Members who do not make these commitments must keep their amber box support within 5-10% of their value of production. (*De Minimus Clause*)
 - 10% for developing countries
 - 5% for developed countries
- India's MSP program remains under scrutiny, as it exceeds 10% ceiling

Blue box Subsidies:

- "Amber box with conditions" – designed to reduce distortion
- Any support that would normally be in the amber box is placed in the blue box if it requires farmers to limit production
 - These subsidies aim to limit production by imposing production quotas or requiring farmers to set aside part of their land
- At present there are no limits on spending on blue box subsidies

Green Box Subsidies:

- Domestic support measures that don't cause trade distortion or at most cause minimal distortion
- These subsidies are government funded without any price support to crops
 - Also include environmental protection and regional development programmes
- Allowed without limits (except in certain circumstances)



What are the Allegations against India Regarding Violating AoA?

Background of the Incident:

- This allegation follows a previous one from 2019 when Brazil, Australia, and Guatemala initiated a dispute against India at the WTO, alleging that India's sugar subsidies are inconsistent with global trade rules.
- Consequently, a WTO panel in 2021 confirmed the claims, however, India appealed the findings and prevented the panel's report from being adopted by the WTO's Dispute Settlement Body.

Complaint Against India:

- The US and Australia have claimed that India's domestic support measures are inconsistent with various articles of the WTO's [Agreement on Agriculture](#).
 - For the Period 2018-2022, India's Market Price Support constituted over 90% of the value of production of sugar every year against the permitted level of 10% as per WTO's AoA.
- The US and Australia also highlighted a crucial absence in India's reporting claiming that India hadn't included sugarcane or its derivatives in any domestic support notifications since the marketing year 1995-96.
 - This omission has left the WTO without adequate information to assess India's compliance with global trade regulations.
 - Since the WTO's Appellate Body is currently inactive due to the lack of appointed members, no appeals can be decided on until it becomes operational once more.

▪ **India's Stand:**

- In 2022, India had appealed against a ruling of the WTO's trade dispute settlement panel which ruled that the country's domestic support measures for [sugar and sugarcane](#) are inconsistent with global trade norms.
 - In its appeal, India argued that the panel had erred in finding that India's FRP and SAP constitute market price support under the AoA.
- India pointed out the error and said that US-Australia analysis uses the entire sugarcane production in India in a given year for calculating the subsidies, regardless of whether or not the sugarcane was actually delivered to sugar mills for crushing under the Sugarcane (Control) Order.
 - The Sugarcane (Control) Order, 1966 is a regulatory framework that governs various aspects related to sugarcane production, pricing, and trade in India.

Note:

- **Fair and Remunerative Price (FRP):** It is a set price that is determined by the government and serves as the minimum price that sugar mills must pay to farmers for their sugarcane. This price ensures that farmers receive a fair and reasonable payment for their crops.
- **State-Advised Prices (SAPs):** In some States, farmers receive extra payments in addition to FRP for improving production efficiency, and in certain states, sugar mills provide additional payments to farmers through specific state-level support called State-Advised Prices (SAPs).

What is the World Trade Organisation (WTO)?

▪ **About:**

- WTO is an international organisation that regulates and promotes global trade.
- It was established in 1995 and currently has 164 member countries (including the European Union).
- It provides a forum for member countries to negotiate and enforce trade agreements, resolve disputes, and promote economic growth and development.
- It's headquartered in Geneva, Switzerland.

▪ **Origin of WTO:**

- The WTO is the successor to the [General Agreement on Tariffs and Trade \(GATT\)](#), which was created in 1947.
- The Uruguay Round (1986-94) of the GATT led to the WTO's creation.
 - WTO began operations on 1st January 1995.
- The Agreement Establishing the WTO, commonly known as the "Marrakesh Agreement", was signed in Marrakesh, Morocco in 1994.
 - India was one of the founding members of the 1947 GATT and its successor, the WTO.
- Main difference between GATT and WTO was that GATT mostly dealt with trade in goods, the WTO and its agreements could not only cover goods but also trade in services and other [intellectual properties](#) like trade creations, designs, and inventions.

▪ **Dispute Redressal Mechanism of WTO:**

- According to WTO rules, a WTO member or members can file a case in the Geneva-based multilateral **Dispute Settlement Body (DSB)**, if they feel that a particular trade measure is against the norms of the WTO.
 - **Bilateral consultation** is the first step to resolve a dispute. If both the sides are not able to resolve the matter through consultation, either can approach for the establishment of a **dispute settlement panel**.

▪ **Dispute Settlement Body (DSB):**

- The DSB makes decisions on trade disputes between member countries. It consists of all **WTO members**.
- The DSB makes all its decisions by **consensus**.
- The DSB has the sole authority to establish panels of experts to consider the case, and to accept or reject the panels' findings or the results of an appeal.
- It monitors the implementation of the rulings and recommendations, and has the power to authorise retaliation when a country does not comply with a ruling.

- The panel's ruling or report can be challenged at the **WTO's Appellate Body (WTOAB)**.

- However, as of now, the WTOAB is not functioning due to the differences among member countries to appoint members in this body.
- Over 20 disputes are already pending with the appellate body. The US has been blocking the appointment of the members.

Conclusion

The allegations against India's sugarcane subsidies significantly affect international trade dynamics. Moreover, the prolonged dispute resolution process underscores the complexities and challenges associated with enforcing compliance with WTO regulations.

Drishti Mains Question:

Identify key reform areas in WTO amid rising trade disputes. Evaluate impact on India's trade interests and role in shaping global trade future.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims:

Q. With reference to the current trends in the cultivation of sugarcane in India, consider the following statements: (2020)

1. A substantial saving in seed material is made when 'bud chip settlings' are raised in a nurse, and transplanted in the main field.
2. When direct planting of setts is done, the germination percentage is better with single budded setts as compared to setts with many buds.
3. If bad weather conditions prevail when setts are directly planted, single-budded setts have better survival as compared to large setts
4. Sugarcane can be cultivated using settlings prepared from tissue culture.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 3 only
- (c) 1 and 4 only
- (d) 2, 3 and 4 only

Ans: (c)

Q. Consider the following statements: (2017)

1. India has ratified the Trade Facilitation Agreement (TFA) of WTO.
2. TFA is a part of WTO's Bali Ministerial Package of 2013.
3. TFA came into force in January 2016.

Which of the statements given above is/are correct?

- (a) 1 and 2 only
- (b) 1 and 3 only
- (c) 2 and 3 only
- (d) 1, 2 and 3

Ans: (a)

Q. In the context of which of the following do you sometimes find the terms 'amber box, blue box and green box' in the news? (2016)

- (a) WTO affairs
- (b) SAARC affairs
- (c) UNFCCC affairs
- (d) India-EU negotiations on FTA

Ans: (a)

Q. The Fair and Remunerative Price (FRP) of sugarcane is approved by the (2015)

- (a) Cabinet Committee on Economic Affairs
- (b) Commission for Agricultural Costs and Prices
- (c) Directorate of Marketing and Inspection, Ministry of Agriculture
- (d) Agricultural Produce Market Committee

Ans: (a)

Mains:

Q1. What are the key areas of reform if the WTO has to survive in the present context of 'Trade War', especially keeping in mind the interest of India? **(2018)**

Q2. "The broader aims and objectives of WTO are to manage and promote international trade in the era of globalisation. But the Doha round of negotiations seem doomed due to differences between the developed and the developing countries." Discuss in the Indian perspective. **(2016)**

Q3. WTO is an important international institution where decisions taken affect countries in a profound manner. What is the mandate of WTO and how binding are their decisions? Critically analyse India's stand on the latest round of talks on Food security. **(2014)**