WTO and Sugar Subsidy Issue

Recent context:

- A panel set up by the Dispute Settlement Body (DSB) of the World Trade Organization (WTO) has ruled against India's sugar subsidies, and asked it to "withdraw its prohibited subsidies under the Production Assistance, the Buffer Stock, and the Marketing and Transportation Schemes within 120 days from the adoption of report".

Background:

- Australia, Brazil, and Guatemala said India's domestic support and export subsidy measures appeared to be inconsistent with various articles of the **WTO's Agreement on Agriculture** and the **Agreement on Subsidies and Countervailing Measures** (SCM), and **Article XVI** (which concerns subsidies) of the General Agreement on Trade and Tariffs (GATT).
- All three countries complained that India provides domestic support to sugarcane producers that exceeds the de minimis level of 10% of the total value of sugarcane production, which they said was inconsistent with the Agreement on Agriculture.
- They also raised the issue of India's alleged export subsidies, subsidies under the production assistance and buffer stock schemes, and the marketing and transportation scheme.
- Australia accused India of "failing" to notify its annual domestic support for sugarcane and sugar subsequent to 1995-96, and its export subsidies since 2009-10, which it said were inconsistent with the provisions of the SCM Agreement.

- India -- the world's largest sugar producer after Brazil -- has already pledged to refrain from subsidizing sugar exports this year due to high global prices. The government previously approved a subsidy of $475 million for the 2020-2021 growing season.

Global scenario :

- Raw sugar futures hit a four-year high last month as supplies from Brazil were threatened by high energy prices. There are concerns that Brazilian millers may make more ethanol from their cane and less sugar at a time when crops in the country have already been hit by drought and frost.

WTO and Subsidies :

- In WTO terminology, subsidies in general are identified by "boxes" which are given the colours of traffic lights: green (permitted), amber (slow down — i.e. need to be reduced), red (forbidden). In agriculture, things are, as usual, more complicated. The Agriculture Agreement has no red box, although domestic support exceeding the reduction commitment levels in the amber box is prohibited; and there is a blue box for subsidies that are tied to programmes that limit production.
- **Amber box** : Nearly all domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box, which is defined in Article 6 of the Agriculture Agreement as all domestic supports except those in the blue and green boxes. These include measures to support prices, or subsidies directly related to production quantities.
- These supports are subject to limits. "De minimis" minimal supports for both product-specific and non-product-specific support are allowed, defined as a share of the value of agricultural production. This threshold is generally 5% of the value of agricultural production for developed countries,

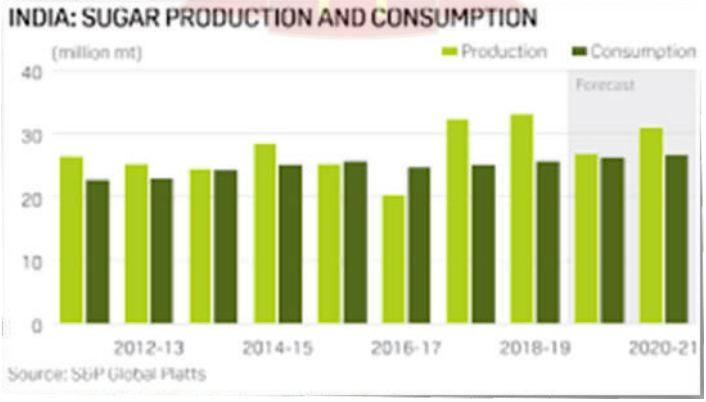
10% for most developing countries — although some WTO members agreed to a different level when they negotiated to join the WTO.

- **Blue box**: This is the "amber box with conditions" — conditions designed to reduce distortion. Any support that would normally be in the amber box, is placed in the blue box if the support also requires farmers to limit production.
- At present there are no limits on spending on blue box subsidies.
- **Green box**: In order to qualify, green box subsidies must not distort trade, or at most cause minimal distortion. They have to be government-funded (not by charging consumers higher prices) and must not involve price support.
- They tend to be programmes that are not targeted at particular products, and include direct income supports for farmers that are not related to current production levels or prices. They also include **environmental protection** and regional development programmes. "Green box" subsidies are therefore allowed without limits, provided they comply with the policy-specific criteria.

Indian sugar industry :

- Sugar has been produced in India since ancient times and then it spread to other parts of the world. Sugarcane is a native of tropical Indian subcontinent and Southeast Asia. In India, sugarcane is planted thrice a year in October, March and July depending on part of the country. Most of the sugar production in India takes at local Cooperative Sugar mills. After gaining Independence, India made serious plans for overall industrial development of sugar industry.

- Sugar industry is an important agro-based industry that impacts rural livelihood of about 50 million sugarcane farmers and around 5 lakh workers directly employed in sugar mills. Employment is also generated in various ancillary activities relating to transport, trade servicing of machinery and supply of agriculture inputs. India is the second largest producer of sugar in the world after Brazil and is also the largest consumer. Today Indian sugar industry's annual output is worth approximately Rs.80,000 crores. There are 732 installed sugar factories in the country as on 31.07.2017, with sufficient crushing capacity to produce around 339 lakh MT of sugar. The capacity is roughly distributed equally between private sector units and cooperative sector units.
- Traditionally, Uttar Pradesh and Maharashtra produce the majority of sugar cane in India. This can be attributed to rich soil surrounding major rivers present in both states. However in 2019 Maharashtra was hit with floods thus affecting total production.
- The processing of sugarcane generates bagasse, molasses and press mud. Indian sugar industry has been using these by-products to generate bioethanol, electricity and many other products over the years.



Developments in sugar policy :

- The year 2013-14 was a water-shed for the sugar industry. The Central Government considered the recommendations of the committee headed by Dr. C. Rangarajan on de-regulation of sugar sector and decided to discontinue the system of levy obligations on mills for sugar produced after September, 2012 and abolished the regulated release mechanism on open market sale of sugar. The de-regulation of the sugar sector was undertaken to improve the financial health of sugar mills, enhance cash flows, reduce inventory costs and also result in timely payments of cane price to sugarcane farmers. The recommendations of the Committee relating to Cane Area Reservation, Minimum Distance Criteria and adoption of the Cane Price Formula have been left to State Governments for adoption and implementation, as considered appropriate by them.

WTO's remarks :

- The panel said that India is acting inconsistently with its obligations under **Article 7.2(b)** of the Agreement on Agriculture.
- The WTO findings say, "the threshold issue...was whether 'market price support' within the meaning of the Agreement on Agriculture only exists when the government pays for or procures the relevant agricultural product."
- India countered by saying that its "mandatory minimum prices are not paid by the central or state governments but by sugar mills, and hence do not constitute market price support", but the panel rejected this argument — claiming that "market price support does not require governments to purchase or procure the relevant agricultural product".
- It also said that "Since India's WTO Schedule does not specify export subsidy reduction commitments with respect to sugar, the panel found that such export subsidies are

inconsistent with **Articles 3.3 and 8** of the Agreement on Agriculture."

India's response :

- The Indian government has said that the panel's findings are "completely unacceptable" to India.
- "The Panel has also evaded key issues which it was obliged to determine. Similarly, the Panel's findings on alleged export subsidies undermines logic and rationale."
- It also said that there would be "no impact" by these on any of India's "existing and ongoing policy measures" in the sugar sector.
- According to the official statement-- "India has initiated all measures necessary to protect its interest and file an appeal at the WTO against the report, to protect the interests of its farmers,"
- "India believes that its measures are consistent with its obligations under the WTO agreements."

Conclusion :

- The present situation of farmers unrest in the nation cannot be ignored and farmers have to be prioritized not only domestically but globally too. According to WTO rules, a WTO member or members can file a case in the Geneva-based multilateral body if they feel that a particular 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.India can appeal the ruling at any point in the next 60 days, a move that would act like a veto because the WTO's appellate body is not functioning.

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