

Unit 7. WTO, Trade Facilitation Agreement and Indian Stand



India and WTO is an important topic for Civil Services Exam, especially UPSC Mains. In 2013, there was a question for mains – “Food security bill is expected to eliminate hunger and malnutrition in India. Critically discuss various apprehensions in its effective implementation along with the concerns it has generated in WTO”. So it’s clear that a bill passed by Indian parliament generated concerns in WTO. The issues connecting India and WTO is not yet over. The present controversy is regarding India’s refusal to sign a crucial trade agreement : Trade Facilitation Agreement.

What is Trade Facilitation Agreement?

Please note in the beginning itself that India is not against Trade Facilitation Agreement (TFA). But deviating from its previous stand, India didn’t sign the TFA pointing some other reasons. We will come to that later.

Now, what is Trade Facilitation Agreement (TFA)? The Trade Facilitation Agreement (TFA) was one among the 10 agreements of the deal the WTO members (including India) had agreed upon in December 2013 Bali Ministerial meeting. The TFA seeks to speed up global trade by reforming customs procedures and cutting red tape.

India had agreed to sign the TFA by July 31st 2014, but with the change in government, we took a different stand.

So what’s the big deal about TFA? We didn’t sign it, so what?

Actually TFA is projected as the most ambitious trade agreement with the potential to generate 1 trillion dollar trade and 2 crore job opportunities. With India refusing to sign it, most of the other 159 member nations of WTO consider a ‘TFA without India’ as meaningless.

So the hope of a global trade agreement under WTO collapsed. TFA was proposed to take effect from July 31st 2015, but it didn't materialize.

Why India backed out from TFA at the last moment?

As pointed out in the beginning, India is not against TFA. The new government under Modi, had a different concern with another agreement. It was because of some 'disagreements' regarding the next agreement that India backed out. Our issue was with Food Security ie. about the Ministerial Decision on Public Stockholding for Food Security Purposes.

So there are two major issues – TFA and Food Security!

The UPA government saw these two issues separately. But NDA government clubbed these two issues together. The new stand is something like this : TFA and Food Security deals can only be signed together. Or in other words, without finding a permanent solution to Food Security problem, India will not sign the TFA!

The Bali Package(2013) had 10 agreements, which can be clubbed under three heads : TFA, Agriculture (Food Security) and Least Developed Nations (LDC). While developed nations' primary attention was on TFA, India's concern was regarding moving ahead without finding a permanent solution to the food security issue. India has been insisting that it would not agree to the TFA unless the entire Bali package, which includes allowing developing countries to buy food from farmers for food security needs, is simultaneously firmed up.

No Permanent solution to the issue of public stockpiling for food security; but only a peace clause under Bali agreement

New Delhi has been seeking a permanent solution to the issue of public stockpiling for food security because under the current rules, subsidies are capped at 10% of value of total production based on 1986-88 prices. India is close to breaching this on account of high inflation over the past few years. India wants inflation to be taken into account when calculating subsidy limits. The country buys rice and wheat from farmers at minimum support prices (MSP) to provide a reasonable income to producers. The stockpile is used to provide heavily subsidised food to the poor.

Peace Clause under Bali agreement

Peace clause' available to India under the Bali agreement that says no member can take action against another on the food subsidy issue till a **final agreement** is reached on the issue, the deadline for which is the 11th ministerial in 2017.

The summary of facts relating to the stand taken by India in the World Trade Organization (WTO) recently (Courtesy: PIB)



- The Bali Ministerial Declaration was adopted on 7 December 2013 on conclusion of the Ninth Ministerial Conference of the WTO in Bali. Ministerial Decisions were adopted on ten issues relating to the Doha Development Agenda which is the agenda for the unfinished Doha Round of trade negotiations, underway in the WTO since 2001.
- Amongst these Ministerial Decisions, two are of particular significance — the Ministerial Decision for an Agreement on Trade Facilitation and the Ministerial Decision on Public Stockholding for Food Security Purposes.
- The Trade Facilitation Agreement is basically aimed at greater transparency and simplification of customs procedures, use of electronic payments and risk management techniques and faster clearances at ports. We have autonomously taken several similar measures such as the 'Indian Customs Single Window Project' announced in the Budget 2014-15 to facilitate trade, under which importers and exporters will be able to lodge documents at a single point, reducing interface with Governmental agencies, dwell time and the cost of doing business.
- The Protocol of the Trade Facilitation Agreement (TFA) was to be adopted by 31 July 2014 by the WTO. After this the Agreement would automatically come into force from 31 July 2015 if ratified by two-thirds of the members of the WTO.
- In contrast to their efforts on Trade Facilitation in the WTO, some developed countries have been reluctant to engage on other issues.
- Seeing the resistance to taking forward the other Decisions, the apprehension of developing countries was that once the process of bringing the Trade Facilitation Agreement into force was completed, other issues would be ignored, including the important issue of a permanent solution on subsidies on account of public stockholding for food security purposes.
- India, therefore, took the stand that till there is an assurance of commitment to find a permanent solution on public stockholding and on all other Bali deliverables, including those for the Least Developed Countries (LDCs), it would be difficult to join the consensus on the **Protocol of Amendment for the Trade Facilitation Agreement**.
- Without a permanent solution, public stockholding programmes in India and other developing countries will be hampered by the present ceiling on domestic support which is pegged at 10 per cent of the value of production and is wrongly considered as trade-distorting subsidy to farmers under existing WTO rules. The existence of such a subsidy element is determined by comparing present day

administered prices with fixed reference prices of the 1986-88 period which is unrealistic.

- The problem is a very real one. Developing countries are finding themselves hamstrung by the existing rules in running their food stockholding and domestic food aid programmes. The developed world too had market price support programmes and was able to move away from such support – though not fully even now – because of their deep pockets. This is not possible for developing countries. It is important for developing countries to be able to guarantee some minimum returns to their poor farmers so that they are able to produce enough for themselves and for domestic food security.
- Developed countries continue to have large entitlements to provide support to farmers. These would have been cut in the Doha Development Round which unfortunately remains unfinished. Had this Round, which has development at its core, concluded as per the agreed timelines and its development agenda, the world would have had an outcome in a single undertaking in which competing interests could have been balanced. Today, developing countries are fighting to keep the negotiations focused on development against the single-minded mercantilist focus of most of the rich developed world on market access issues.
- Overall balance is important even in a limited package of outcomes. The Bali outcomes were negotiated as a package and must be concluded as such.
- It is regrettable indeed that today the WTO is unable to agree even to fast track negotiations on an issue of such importance to millions of subsistence farmers across the developing world, while the rich world can continue to subsidise their farmers unabatedly.
- The matter came up for discussion in the margins of the BRICS Trade Ministers meeting in Brazil on 14 July and the G20 Trade Ministers meeting in Sydney on 19 July. It was also raised by the representatives of some countries in their interactions with the Indian government. On each occasion we explained that India is a signatory to the Bali Decisions, including Trade Facilitation and is not standing in the way of its implementation but is seeking an equal level of commitment and progress in working on the issue of public stockholding which affects the country's livelihood and food security. A permanent solution on food security is a must for us and we cannot wait endlessly in a state of uncertainty while the WTO engages in an academic debate on the subject of food security which is what some developed countries seem to be suggesting before they are ready to engage on this important issue.
- Food security is a humanitarian concern especially in these times of uncertainty and volatility. Issues of development and food security are critical to a vast swathe of humanity and cannot be sacrificed to mercantilist considerations.
- Developing countries such as India must have the freedom to use food reserves to feed their poor without the threat of violating any international obligations. This is our sovereign right. It is our duty to protect our citizens' fundamental rights to life and livelihood.
- Agriculture is the mainstay of the Indian population. In a country of the size of India with 60% of the population dependent on a relatively unremunerative agriculture sector, we cannot give up administered prices. This is the only way we can procure food for the Public Distribution System (PDS), the central pillar on which our efforts to ensure food security, rest. Public stockholding is a widely

used means to ensure food security in many developing countries where agriculture is largely rainfed.

- We have to look after both consumer and producer interests. We have to enable our people to live a life of dignity by ensuring access to an adequate quantity of quality food at affordable prices.
- On 25 July 2014, India made a statement in the WTO General Council conveying, inter alia, that the adoption of the TF Protocol must be postponed till a permanent solution on public stockholding for food security is found.
- India offered suggestions on the procedure to be followed in order to ensure time-bound delivery of an outcome on public stockholding for food security. We also urged that a similar approach be adopted on all other elements of the Bali Package notably the LDC issues.
- The integrity of India's stand is reflected in our unwavering efforts to offer a way forward in the face of criticism. Even on 31 July 2014, India offered a way to achieve not only a permanent solution on the issue of public stockholding for food security but also to implement the Trade Facilitation Agreement in the agreed timeframe as well as deliver favourable outcomes for LDCs.
- We have offered practical suggestions for the way forward. The issue of a permanent solution on public stockholding is a simple one that can be addressed very easily as there are already several proposals on the table. A solution to this simple problem will be a tremendous relief for millions of farmers and poor consumers.
- However, despite India's efforts, our concerns were not satisfactorily addressed.
- The Director General of the WTO reported to an informal meeting of the Trade Negotiations Committee on 31 July 2014 that a solution could not be found to bridge the gap.
- The General Council meeting was, thereafter, formally declared closed without adopting the TF protocol.
- India stood firm on its demands despite immense pressure. The Government of India is committed to protecting the interests of our farmers against all odds. Our farmers work in extremely adverse conditions, most of them at the mercy of the vagaries of the monsoon, aggravated today by climate change. For farmers in many developing countries farming is a subsistence activity, not a commercial one. We are committed to their welfare and there was the support and understanding extended by farmers' organizations in this cause.
- India's stand has resonated across the world and some developing countries stood by India in the VVTO.
- India is an unwavering votary of the multilateral trading system and we reiterate our commitment to the WTO. We continue to believe that it is in the best interest of developing countries, especially the poorest, most marginalized ones among them and we are determined to work to strengthen this institution. The timely correction of any imbalances or anomalies in the working of the system or its rules is critical to ensure that the WTO works impartially and fairly in the interest of all its Members and not just a select few.
- India will be able to persuade the WTO Membership to appreciate the sensitivities of India and other developing countries and see their way to taking this issue forward in a positive spirit. This would be a major contribution by this institution towards 'meeting the global challenge of food insecurity and would convey -a strong message that the WTO is genuinely committed to the cause of development.

Conclusion

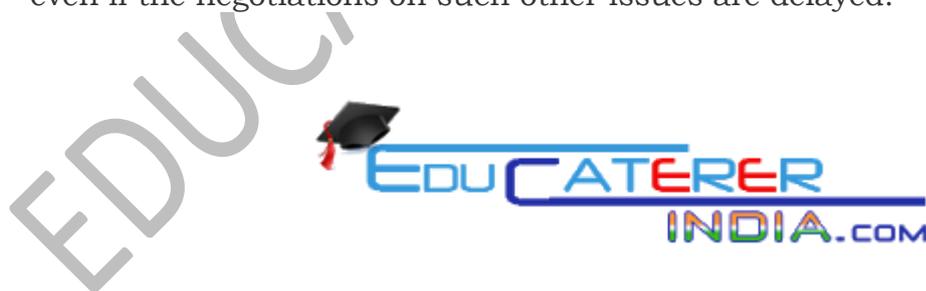
Yes, India backed from its previous stand, but for better reasons. TFA is most likely to help developed nations though it is projected to help developing and underdeveloped nations better. If the betterment of developing and underdeveloped nations was the major intention, stress should be on passing the agreements on other aspects related to agriculture (food security) and LDC. It seems India backed out for better bargaining power. Had India signed the deal on TFA, there might not arise the urgency to find a permanent solution to food security. The present peace clause will end in 2017, and the new impositions may turn unfavorable to India. Having clubbed food security along with TFA, India now asserts that the Bali Package can be voted only together. Let's wait and see how things unfold in future.

Update: India – US Bilateral deal to take TFA forward : Permanent Peace Clause

India and US has struck a deal to take TFA a reality. US proposed a permanent peace clause instead of the temporary peace clause till 2017 on food security issue. The permanent peace clause will exist until a permanent solution to food security is agreed by member nations. This means that there will not be any legal action on India by WTO, if our subsidy crosses 10 percent of the value in 1986-1988. Having avoided the legal action with the permanent peace clause, India has agreed with US to take the TFA forward. Once the same agreement is approved by WTO, TFA can turn as a reality.

Update (28-11-14) : WTO clears Trade Facilitation Agreement

- WTO agreed to delink 'negotiations for a permanent solution on public stock holding for food security purposes' from the agriculture negotiations on other issues under the Doha Development Agenda.
- This would ensure that the negotiations for a permanent solution would continue even if the negotiations on such other issues are delayed.



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