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July 25, 2014 12:56 pm

India’s ‘cereal economy’ threatens WTO deal

By Amy Kazmin in New Delhi

It is 1951, just four years after independence from British colonial rule, and India is facing a serious food crisis after being hit by both floods and a drought, leaving its grain harvest some 4m tonnes short of requirements.

Washington stepped in with urgent food aid, but its efforts to impose conditions on its help left a sour taste in New Delhi’s mouth and an unflinching determination to meet its basic food needs without turning to international assistance or markets.

Today, India is sitting on a 73m-tonne stockpile of rice and wheat – nearly twice the level that experts say is needed for a strategic buffer stock. This mountain of grain, much of it stored outdoors under tarpaulin due to insufficient warehouse space, is the result of extensive subsidies and incentives that have enabled India to become self-sufficient in basic food.

“We created a cereal economy,” says Subir Gokarn, director of research at Brookings Institution India Centre. “That system remains in place, no matter how much consumer preferences have changed.”

This week, India’s financial incentives for farmers were pushed to the forefront of the international stage, as New Delhi dug in its heels saying it would not accede to a World Trade Organisation agreement reached last year on cutting trade-related red tape without a resolution to a simmering dispute over its agricultural subsidies. Its backpeddling threatens to scupper the first concrete WTO deal in two decades.

While New Delhi sees its financial aid to cereal farmers as crucial for its national food security, the US and other countries argue the extensive assistance violates WTO rules, which caps production subsidies.

Wheat-exporting countries are particularly aggrieved that New Delhi periodically dumps some of its wheat surplus into international markets when seeking to cut its unwieldy stockpile, which depresses global prices.

As per a global deal in Bali, countries agreed to finalise the text of the trade facilitation agreement by July 31 this year, while stickier differences over developing countries’ food stockholding programmes were to be ironed out by the end of 2017. However, Prime Minister Narendra Modi’s new administration, which took power in May, has called for talks on its subsidies, or what it calls its food security programme, to begin immediately.
New Delhi also said its support for the WTO trade facilitation agreement, which Indian industrial groups say would enhance their long-term competitiveness, was contingent on acceptable resolution of its food security concerns.

It is not easy to calculate the precise amount India spends on subsidising agricultural production. New Delhi provides discounted farm inputs, such as fertiliser and diesel fuel for running irrigation pumps, while many state governments provide free, or deeply-discounted, electricity for irrigation pumps too.

We want to move along with the world, open our economy and have open fair trade practices, but this is not the way to do it,” Nirmala Sitharaman, the commerce minister, told the Financial Times. “Our cause is never heard. If you are moving on one of the schemes faster, nothing gives us any assurance that a permanent solution to this will be found later.”

The stand-off comes at a time when the Cairns Group of agricultural producer nations says US and EU farm subsidies have declined “dramatically”, while what it calls “total trade distorting support” to farmers in developing countries such as India and China has shot up.

In the harvest season, New Delhi offers farmers “minimum support prices” for their wheat and rice, with the state-owned Food Corporation of India (FCI) obliged to procure grain from any willing seller at the set price. The MSP serves as an effective floor price, whether farmers sell to private traders or to the FCI.

Since 2007, the FCI procured about 30 per cent of the country’s annual wheat and rice harvest. Some of that grain is resold at cheap prices to the poor through the national public distribution system, while the rest is added to the buffer stock, though the FCI only has sufficient warehouse space for about half the grain it now holds.

According to US Department of Agriculture estimates, India spent $11bn-$14bn on fertiliser subsidies, and $9.6bn-$12.1bn subsidising electricity to farmers, in each of the past few years. Last year, the FCI paid farmers $15.2bn more for the wheat and rice it procured than the money it received through the public distribution. Costs could rise as New Delhi grapples with implementing a new “right-to-food” law that is supposed to make subsidised grain available to more of the population.

Yet developed countries are not alone in questioning these policies. Within India, critics say the strong incentives for cultivating cereals are distorting the entire domestic food market. Even as grain stockpiles mount, prices of fruits, vegetables, pulses and dairy products have been spiralling, as an increasingly affluent population demands more nutritious foods – but output fails to keep pace.

Mr Gokarn of Brookings argues that addressing this problem will require India to stop promising farmers that it will procure all the wheat and rice they produce at a guaranteed price.

“What we want is reasonable availability of a variety of balanced foods at predictable prices over time,” he said. “The strong incentive for producing cereals has to change.”

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