THE HILL

Will India destroy the WTO's agricultural reforms?

By Dan Pearson
October 14, 2014

President Obama and Indian Prime Minister Narendra Modi recently met in Washington. Supporters of trade liberalization had hoped that this meeting might dissuade India from seeking to roll back the World Trade Organization's agricultural disciplines. However, India appears committed to a government-driven food system that is working poorly both for India and for the rest of the world.

The Sept. 30 joint statement only notes that the leaders "discussed their concerns about the current impasse" and "directed their officials to consult . . . on the next steps." Reading between the lines, this means that India remains intent on providing market-distorting farm subsidies well in excess of its WTO commitments, while seeking concurrence from other nations to tear up the twenty-year-old Uruguay Round Agreement on Agriculture (URAA).

The URAA was a remarkable achievement. For decades countries had utilized beggar-thy-neighbor subsidies that encouraged excess production and drove down world prices. Thus, a portion of the adjustment costs of one nation's misguided policies was borne by farmers in other countries. For the first time, the URAA created rules to limit the use of trade-distorting subsidies. India and all other WTO members agreed to those provisions. Some countries subsequently adjusted their agricultural policies to bring them into conformity.

India has taken a different approach. The government has raised farm supports to make them even more market distorting. The Food Corporation of India (FCI), a government agency, purchases a substantial quantity of farmers' wheat and rice at prices set well above world levels. It then sells a portion in 500,000 "fair price" stores to some 800 million poor people at low prices. This food procurement and distribution system is widely recognized as being inefficient, wasteful and corrupt.

An estimated 40 percent of the food never reaches its intended consumers. In July it was reported that 3 million metric tons (MMT) of grain (equivalent to the annual wheat consumption of the Philippines) were being stored in sacks on the ground covered only with plastic sheeting; spoilage is widespread. Local officials sometimes appear to find it preferable to divert grain to other buyers instead of delivering it to the subsidized shops. Intended recipients of food aid have reported being required to pay bribes in order to receive ration cards. Those who can't afford bribes are forced to buy a bit of high-priced grain in the commercial market.

India's subsidy regime violates its WTO commitments by spending too much on market-distorting farm supports. The URAA was written carefully to allow unlimited subsidies to help feed underprivileged people. It is subsidies to farmers that are constrained, not subsidies to consumers. Recently India provided an update to the WTO regarding its agricultural expenditures, claiming that they still were within the allowable level. But that assertion requires accepting incorrect computations for both the price level and the quantity of production qualifying for support. An insightful (and conservative) 2011 study by DTB Associates calculated that India was then exceeding its allowed support levels by a minimum of $37 billion. The figure surely is larger now.

The URAA provides helpful guidance as to how India might restructure its agricultural policies. The WTO problem would be solved if India simply purchased its desired commodity stocks at free-market prices. Additional support then could be provided to farmers through decoupled payments (not linked to current production or price of a crop), or through any of several other specified policy options that could help to spur development in rural communities. Those measures include expenditures for research, pest and disease control, extension advisory services, marketing services, infrastructure services, and insurance programs.

India is a consequential participant in the global agricultural economy. In addition to having the world's second largest population, it also has the second largest area of tillable land. Its subsidies lead to surpluses, which move into export channels. The country usually ranks first or second in rice exports and also finds overseas customers for wheat and sugar. As a result, farmers in other countries suffer from lower prices.

It would be nice to think that some blunt but quiet conversations between senior officials of India and other WTO countries would persuade India to bring its policies into compliance. However, the new Modi government has taken a strong stand on this issue and seems unlikely to change without meaningful pressure. Other countries should apply that pressure by bringing a WTO dispute settlement case against India's agricultural subsidies.

Initiating dispute settlement would not only provide a stimulus for India to rethink its position, it would have the broader benefit of reaffirming the international community's commitment to policy restraint enshrined in WTO agreements. An unwillingness to enforce the limits on agricultural subsidies risks losing those hard-won reforms for good.

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