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G-20 PRESIDENCY FOR INDIA A GOLDEN OPPORTUNITY TO CORRECT THE LONGSTANDING ISSUES REGARDING AGRICULTURAL SUBSIDIES

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India is going to hold the G20 Presidency from 1 Dec 2022 to 30 Nov 2023. G20 economies currently account for 85% of global GDP, 75% of international trade and two-thirds of the world population, making it the premier forum for international economic cooperation. India's Presidency is a golden chance for India to correct the long standing anomalies that are heavily loaded against the developing countries in the domain of agriculture and food subsidies.

The most important pressing issue is regarding the agricultural subsidies.

Firstly, for developed countries the domestic support per farmer in US in 2016 was as much as $60,586 , while in UK it is $6762. These figures must have jumped following the pandemic. For India, even we consider the post pandemic numbers, it is hardly $600. **Thus, it is perhaps the other way around in terms of agricultural subsidies if we engage in a debate of developed and developing countries.**

Secondly, under the WTO dispensation, agricultural subsidies **creating trade distortions are not allowed. These subsidies are marked within the amber box.** Within the amber box, **WTO further specifies de minimis as the minimal amount of subsidy** that is permitted at 1986-88 prices**. The de minimis figures for developed and developing countries are at 5% and 10% of their agricultural production respectively.** After considering various subsidies given by the Government including Food, Fertiliser, Power, Irrigation, Market Intervention Scheme and Price Support Scheme (MIS-PSS), Crop Insurance, Credit Interest Subsidy as well as income support under PM Kisan we estimated agriculture subsidy for India. Subsequently, discounting the agri-output numbers at 1987 prices, using the GDP deflator **show that India will need to cut its subsidy by as much as 92% from current levels if it were to bring subsidy to 10% of agri output / WTO-mandated targeted subsidy**! **This is thus a theatrical absurdity as it will require India eliminate all support to the vulnerable segment of the rural economy.**

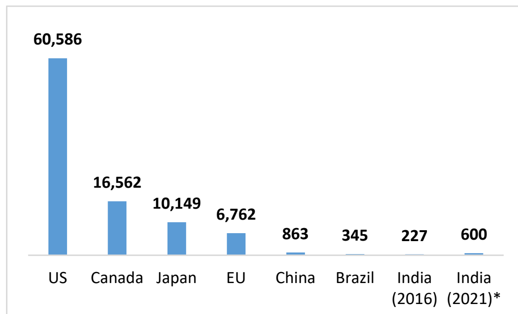
Thirdly, we thus believe that the reference year of WTO is significantly outdated and we should go by the G-33 proposal that proposes to use the discount factor as a trimmed 3-year rolling average for every year, based on the preceding five-year period excluding the highest and lowest price. **Using such a discount factor, so arrived at, we find that India will need to cut its subsidy by 31% from current levels if it were to follow the proposed WTO-mandated targeted subsidy! Interestingly, India has done remarkably well before COVID as its subsidy was even lower than the WTO mandated agricultural subsidy during FY18-20.** The Covid significantly disrupted India's quest as the free foodgrain support for 80 crore vulnerable population was a policy decision that saved the economy from many bruises during pandemic.

Fourthly, India's key procurement programmes are protected from penal provisions under the peace clause secured at the WTO's Bali ministerial in 2013. However, as part of the permanent solution, the developing countries are seeking protection against disputes on any food procurement or other support programmes that have been launched even after 2013. Additionally, at the recently concluded 12th WTO Ministerial Conference there was no agreement on government-to-government (G-to-G) arrangements for export of foodstuffs from public stock holding stocks to respond to a food security crisis. Hopefully, we must find a solution to procurement of food grains soon for countries like India that have a robust procurement policy.

AGRICULTURE SUBSIDIES

- Agriculture is one of the sectors, where developed countries enjoy significant advantages over developing ones. In many developing countries, despite agriculture being the largest source of employment, it remains characterized by small farm size, but with large number of farmers dependent on it. In contrast, in developed countries, agriculture is characterized by extremely large farm size with few farmers dependent on agriculture for their livelihood. For eg. in US, agriculture accounts for less than 2% of the total employment, while in many developing countries this was substantially higher: Turkey (20%), China (20%), Indonesia (33%), Bangladesh (42%) & India (44%). One of the critical issues in agriculture is the agriculture subsidies. High subsidies to farmers in developed countries led to huge competitive advantage of their agricultural products in international market. The domestic support per farmer in US in 2016 was 267x of India's ($227). Even the China's support was almost 4x of India.

Domestic Support per Farmer (2016, $)



Source: SBI Research; * SBI Estimate

WTO ON AGRI SUBSIDIES: CURRENT ISSUES

- Under the WTO Agreement on Agriculture (AoA), domestic agri-subsidies are classified into three categories; green, blue and amber. **Under WTO principles, "amber box" subsidies create trade distortions because they encourage excessive production through farm subsidies to fertilisers, seeds, electricity and irrigation. Within the amber box, de minimis is the minimal amount of subsidy WTO permits at 1986-88 prices.**
- **The de minimis figures for developed and developing countries are at 5% and 10% of their agricultural production respectively. However there is a “peace clause” that gave developing countries exemption from the 10% de minimis provision.**
- India’s key procurement programmes are protected from penal provisions under the peace clause secured at the WTO’s Bali ministerial in 2013. But some countries have started making fresh demands on safeguards and transparency obligations after New Delhi invoked the peace clause for its rice procurement in 2018-19 and 2019-20 and recently in 2022.
- As part of the permanent solution, the developing countries are seeking protection against disputes on any food procurement or other support programmes that have been launched after 2013 (when a peace clause for immunity was granted to them for existing programmes) and those that are going to be rolled out in future.
- Importantly, for India, any such permanent solution, if agreed upon by all WTO members, will offer protection against disputes to the flagship PM-Kisan programme, under which the government offers Rs 6,000 to every farmer annually.

INDIA’S POSITION

- We have estimated the extent of subsidy given by India as a percentage of total agriculture output. We have considered various subsidies given by the Government including food, fertiliser, power, irrigation, Market Intervention Scheme and Price Support Scheme (MIS-PSS), crop insurance, credit interest subsidy as well as income support under PM Kisan for calculating total agriculture subsidy.
- Going by the numbers, India's support to agricultural produce is currently slightly >12% of the agriculture output.
- If we discount the agri-output numbers at 1987 prices (see table), our results show that India will need to cut its subsidy by as much as 92% from current levels if it were to follow the WTO-mandated targeted subsidy! This is thus a theatrical absurdity as it will require India eliminate all support to the vulnerable segment of rural economy.

Estimated Total Subsidy Support to Agriculture at WTO reference year (Rs Crore)

	FY 18	FY 19	FY 20	FY 21	FY 22
Total Agriculture Subsidy	**265512**	**276278**	**357062**	**856700**	**632052**
Gross Agricultural Output	35,40,475	38,02,799	41,95,589	44,81,820	49,72,278
Present Subsidy as % of Agricultural GDP	**7.5%**	**7.3%**	**8.5%**	**19.1%**	**12.7%**
Discount rate *	7.0%	6.9%	6.8%	6.7%	6.8%
Agri Output at 1987 price using discount factor	4,35,936	4,50,938	4,84,518	4,89,455	4,93,987
WTO mandated subsidy **	43,594	45,094	48,452	48,946	49,399
India thus needs to cut subsidy in % from present level as per WTO 1986 base	**83.6%**	**83.7%**	**86.4%**	**94.3%**	**92.2%**
New Discount rate #	3.5%	3.5%	3.2%	3.7%	4.5%
Agri Output using new discount factor	31,93,306	34,29,907	38,17,278	40,19,002	43,57,190
New WTO mandated subsidy $	3,19,331	3,42,991	3,81,728	4,01,900	4,35,719
Gap between present level of subsidy and WTO mandated as per new base	**-20.3%**	**-24.1%**	**-6.9%**	**53.1%**	**31.1%**

Source: SBI Research, Budget Documents, OECD; *: Average rate of inflation using GDP deflator from 1986-87, the WTO reference year; **: 10% of Agri output at 1987 price using discount factor; #: Average three year rate of inflation using GDP deflator for the past 5 years leaving highest and lowest numbers; $: 10% of Agri output using new discount rate

- However, the reference year of WTO is outdated and if we go by the G-33 proposal that proposes to use the discount factor as a trimmed 3 year rolling average for every year, based on the preceding five-year period excluding the highest and lowest price, we find that India will need to cut its subsidy by 31% from current levels if it were to follow the proposed WTO-mandated targeted subsidy! Interestingly, India has done remarkably well before COVID as its subsidy was even lower than the WTO mandated agricultural subsidy during FY18-20. The Covid significantly disrupted India’s quest as the free food grain support for 80 crore vulnerable population was a policy decision that saved the economy from many bruises during pandemic.
- The recently concluded 12th WTO Ministerial Conference saw a decision on the supply of foodstuffs to the UN’s World Food Programme for humanitarian purposes, but not on government-to-government (G-to-G) arrangements for export of foodstuffs from public stock holding (PSH) stocks to respond to a food security crisis. However, an MC-12 declaration on emergency responses to food insecurity mandating accessibility and affordability of food for those who need it presents a window of opportunity to work towards the latter.
- We hope that a permanent solution on food procurement is sought soon.

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