Grain Trade Policy

June 15, 2004

India

Summary

India's trade policy has historically placed severe restrictions on imports, particularly agricultural imports, as a perceived means of supporting the nation's long-standing objective of self-sufficiency and food and livelihood security concerns. Although a founding party to the General Agreement on Tariffs and Trade (GATT) and a founding member of the World Trade Organization (WTO), India had effectively banned imports of most agricultural goods through the use of quantitative restrictions (QRs). Although QRs on almost all agricultural products were lifted on April 1, 2001, putting India in compliance with its WTO commitments, the GOI continues to use high tariffs and non-tariff barriers as a means of limiting imports.

Market Access

Tariffs and Tariff Rate Quotas (TRQs):

Wheat and corn are the most important grain products affected by high import duties. Access for US wheat, denied since 1997 on the basis of phytosanitary requirements, was lifted in late 1999, but the imposition of a 50 percent duty effective from December 1, 1999, makes U.S. imports infeasible.

Under the auspices of the WTO Article 28 agreement, on June 12, 2000, India established tariff rate quotas for corn and other agricultural items. The TRQ for corn is 500,000 tons (FY 2003/04), and within quota imports face a maximum tariff of 15 percent whereas above quota imports are assessed a 50 percent tariff (although the outside quota bound rate is 60 percent).

The Exim Facilitation Committee (EFC) in the Office of the Director General of Foreign Trade (DGFT) currently administers the TRQs. TRQ modalities for IFY 2004/05 were notified by the DGFT on May 12, 2004. Various government entities designated for the allocation of quotas are required to apply to the EFC before June 30, 2004 and imports are to be completed before March 31, 2005. Although the GOI notified the TRQ modalities much earlier this year, the narrow window for applying for the TRQ and late notification of TRQ procedures make implementation of the TRQ onerous and highly restrictive.

Export Subsidies:

Declining government grain stocks forced the government to discontinue the subsidized export allocation of wheat and rice in August 2003. India's subsidized wheat and rice exports appear to violate its WTO commitments, as India did not apply for a reduction commitment. However, the GOI justifies the subsidies by claiming they are WTO-compatible under Agreement of Agriculture's Article 9.1 (d) and (e), and Article 9.4. The government food subsidy bill, both for domestic and export sales, during FY 2003/04 swelled to rs. 252 billion ($5.5 billion), largely due to massive exports of wheat and rice at highly subsidized prices.

Export income is exempted from income taxes. However, starting in IFY 2000/01, the government decided to phase out these tax exemptions over a five-year period. There has been increasing pressure on the GOI to reinstate this benefit to offset the negative impact on exports due to the strong rupee. To promote exports, the government established several free-trade zones and special economic zones (SEZ). A wide range of benefits are continuing to be extended to these units: a) zero duties on imports of raw materials, b) exemption from excise duties on domestic supplies, c) income tax concessions, d) custom duties on capital goods during a bond period, and e) tax-holidays.

The government-owned Export Credit Guarantee Corporation of India Ltd. (ECGC) provides exporters a range of insurance coverage against the risk of non-realization of export proceeds due to political or commercial reasons. In addition, the ECGC liberally provides guarantees to financial institutions to facilitate the granting of credit facilities to exporters. The Government's EXIM Bank also provides export financing on concessional terms.

Other Terms and Conditions:

Although the government dismantled quantitative restrictions on April 1, 2001, imports of bulk grains (wheat, rice, and coarse cereals) are still possible only through State Trading Enterprises. To guard against a "flood" of imports, the GOI created a "war-room" for tracking, collating, and analyzing data on imports of 300 sensitive items (mostly agricultural). Apart from already existing tools (safeguard duties, anti-dumping duties, etc.), the GOI is preparing legislation that would permit the use of temporary quantitative restrictions.

Domestic Support:

Direct domestic support for agricultural products is provided through government price support programs. India presently has price supports for 24 products, including most grains, oilseeds, and cotton. Except for wheat and rice, however, the price support operation is typically not utilized, as open market prices are mostly above the support price, or a procurement mechanism simply does not exist. While minimum prices are based on the recommendation of the Commission on Agricultural Costs and Prices, and are linked to cost of production, they also are heavily influenced by political considerations. The Food Corporation of India is the implementing agency for wheat and rice procurement.

The following table shows budgetary allocations for various domestic support programs contained in the interim-budget presented on February 3, 2004. A full budget will be presented after a new government takes office after the national elections in May.

Domestic Support	**FY 2003/04**	**Interim Budget Outlay FY 2004/05**
Price Support	$5.5 billion	$6.1 billion
Fertilizer Subsidy	$2.6 billion	$2.8 billion

Electricity Subsidy to Agriculture	$5.2 billion	NA
Production Programs Cereals Pulses	 $1.6 million $7.8 million	 $0.5 million $0.1 million
Agricultural Credit Programs Crop Insurance Cooperation and Credit	 $140.6 million $24.1 million	 $76.9 million $28.1 million

Source: GOI Expenditure Budget 2004/05, Volume II
See: http://indiabudget.nic.in/ub2004-05/eb/sbe1.pdf
Exchange Rate Used: rs. 45.50 = 1 US$

Bilateral Agreements with the United States

On December 28,1999, India and the United States concluded negotiations under Article 28 of the GATT (1994) for the modification or withdrawal of concessions provided for in Schedule XII. As a result of these negotiations, India increased tariffs on selected grain products (e.g., rice, corn, sorghum, and millet), and provided compensation in the form of reduced tariffs for several non-grain products.

U.S. Non-Party Agreements

India is a signatory to several multilateral trade agreements, including the Bangkok Agreement, the South Asian Preferential Trading Agreement (SAPTA), and the Global System of Trade Preference (GSTP). Further tariff concessions to some of these countries are provided within the framework of bilateral trade agreements (Sri Lanka, Bangladesh, Nepal, Bhutan, Maldives). Details of these agreements are available at the Ministry of Commerce Website: http://commerce.nic.in. The impact of these agreements on India's trade and on market access for U.S. products is minimal.

India has begun the process of negotiating several new preferential, free trade, or regional trade agreements, although the ultimate successful conclusion of some of these is uncertain.

The PTAs India has already signed, or that are currently under negotiation, are shown in the following table:

Indian Partner	Status
Sri Lanka	PTA signed in December 1998; comprehensive economic cooperation pact under consideration
Nepal	PTA signed in 1991; renewed periodically.
Bangladesh	PTA signed in 1980; renewed periodically

ASEAN	Framework agreement on a comprehensive economic cooperation signed on October 8, 2003 (see IN3097)
Mercosur (Argentina, Brazil, Uruguay, Paraguay)	Framework agreement signed; FTA to be negotiated
BIMST-EC (Bhutan, India, Myanmar, Sri Lanka, Thailand, Nepal)	Framework Agreement signed on February 8, 2004.
SAPTA (South Asian Preferential Trade Agreement) – India, Bangladesh, Pakistan, Sri Lanka, Nepal, Maldives, Bhutan	Signed in 1993. Progress slow due to political reasons, but increase in speed likely if India-Pakistan relations continue to improve
Thailand	The framework agreement to establish a free trade area signed on October 9, 2003.
Afghanistan	PTA signed. On May 13, 2003, India notified commodity lists and concessions (see IN3040)
China	Wish lists were exchanged during Prime Minister Vajpayee's visit to China, June 2003.
Iran	PTA being negotiated. List of commodities identified. (see IN3057)
Singapore	Comprehensive economic cooperation being negotiated.
South Africa	FTA being negotiated

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